SUPERVISION FUNCTION

ANNUAL REPORT

DECEMBER 2006

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1.0.0 GOVERNOR'S REVIEW

The year 2006 has been one of mixed blessings. The Ugandan economy was affected by a severe drought which led to increases in the prices of food and energy. The increased cost of doing business also drove up the prices of domestically produced goods. In spite of these factors which threatened to undermine macroeconomic stability, the financial sector remained safe and sound and registered remarkable growth.

Total assets of the financial sector grew by shs825.6bn (or 21%) from shs3986.6bn as at the end December 2005 to shs4812.2bn as at end December 2006. Likewise total private sector credit grew by shs482.4bn (or 34%) from shs1433.7bn to shs19216.1bn and net profit after tax increased by shs13.4bn (or 10.2%) from shs131bn to shs144.4bn over the same period. 20 new branches of financial institutions were opened up during the year as follows: 12 by Commercial Banks, 5 by Microfinance Deposit-taking Institutions and 3 by Credit Institutions bringing the total number of branches to 273. There was a merger of one commercial bank with a credit institution.

The financial sector witnessed a successful Initial Public Offering (IPO) by Stanbic Bank Uganda Limited. The bank issued an IPO in which 1 billion shares or 20% of its share capital was offered for sale to the public. The offer was over subscribed by 200%. There were 37,449 applications (of whom 15,488 were Ugandan individuals and 407 Ugandan institutions.) for 3 billion shares worth shs211 billion. Preference for allotment of the shares was given to Ugandan individual investors in line with an agreement between Government of Uganda and the bank. The results of this IPO illustrate the confidence which investors have in the financial sector.

In order to strengthen the regulation and supervision of institutions within the financial sector, the division of Forex Bureaus and Money Remittance business was transferred from the Trade and External Debt Department under the Research Function to the Non-Banking Financial Institutions under the Supervision Function. Following the gazetting of the Foreign Exchange Regulation 2006, fourteen money remittance institutions were licensed.

To facilitate the implementation of the Financial Institutions Act (FIA) 2004, three additional regulations have been drafted (External Auditors, Foreign Exchange business and anti Money Laundering) and circulated to stakeholders for their comments. The Supervision Function also carried out a survey to review the preparedness of financial institutions to implement Basel II. Two of the big banks have made reasonable preparations towards implementation of Basel II but the level of awareness of Basel II among the medium sized banks, small banks and credit institutions is still low. In line with the Monetary Affairs Committee (MAC) resolution for the three East African countries, Bank of Uganda will prioritise compliance with the revised Basel Core Principals(BCP) for Effective Supervision, subsequently consider the implementation of Pillars 2 and 3 and progressively move to Pillar I under Basel II.

The guidelines issued to financial institutions as derived from the FIA 2004 in the area of Classification and Loan Loss provisioning are not consistent with the requirements of International Accounting Standards (IAS) 39. In line with the convergence of Accounting Standards to a Single International Standard, financial institutions have been advised to disclose the levels of loan loss provisions as derived from a strict application of the IAS 39 and the Bank of Uganda guidelines for their audited financial statements.

With regard to closed banks, Bank of Uganda continues with the process of liquidation of the banks that were closed in 1998/1999, (The Cooperative Bank Ltd., Greenland Bank Ltd. and International Credit Bank Ltd.). In an effort to move out of the liquidation process, Bank of Uganda awarded a consultancy firm to implement the exit strategy.

In pursuit of its mandate to establish a Credit Reference Bureau (CRB) Bank of Uganda selected a South African Company, Compuscan Information Technologies to implement the project. Bank of Uganda is facilitating negotiations between Compuscan and the users to agree on a fee and cost structure that will ensure sustainability of the CRB project.

In line with global trends, Bank of Uganda has taken initiatives towards improving the National Payments System. Electronic data transmission to improve the efficiency of the clearing system and payment of School Fees /tuition using Electronic Funds Transfer system have been introduced. There has also been increased coverage and usage of the Interbank Switch, Personal Computer Banking and Telephone Banking.

The vital role played by the financial sector in facilitating the growth of the economy cannot be over emphasized. Bank of Uganda is challenged to promote the growth of a financial sector that is efficient and responsive to the changing economic and technological environment. The dynamism of the sector calls for on-going re-assessment of financial sector risk profiles, the institution of appropriate risk management frameworks and sound corporate governance practices. Consequently Bank of Uganda has regularly to revise the regulatory framework and supervisory procedures to keep pace with industry changes and international best practices. Bank of Uganda continues to equip its staff with appropriate technical skills and to enhance harmonization of Bank supervision among the three East African Central Banks.

Finally, I would like to acknowledge the support and commitment of all the various stakeholders which has enabled us to maintain a safe, sound and stable financial sector.

E. Tumusime Mutebile

GOVERNOR

2.0.0 ACCOMPLISHMENTS FOR THE YEAR 2006

2.1.0 COMMERCIAL BANKING DEPARTMENT

On-Site examinations

In accordance with the departmental work plan, the Commercial Banking department inspected all the fifteen (15) Commercial Banks in the sector to ascertain their financial condition as well as the effectiveness of their risk management framework. Under the CAMELS rating model two (2) banks scored a satisfactory composite rating, nine (9) banks were rated fair while four (4) banks were considered marginal. On the risk management side, ten (10) banks' composite risk rating was considered high with the remaining five (5) banks scoring a moderate composite risk rating.

Off-site surveillance

The department continues to review daily, weekly, monthly, quarterly and annual returns to analyse quantitative indicators and using ratio analysis, evaluate the performance of each commercial bank.

A well functioning off-site surveillance system provides for early identification of potential problems and emerging risks in financial institutions particularly in the intervals between on-site inspections. Such early detections may then trigger closer monitoring and supervision by the Central Bank thereby minimizing overall risk in the banking system. Offsite surveillance is considered a core component in the implementation of risk-based supervision.

Financial Markets Intelligence Regulation and Resolution

Bank of Uganda continued the process of drafting regulations to implement the Financial Institutions Act, 2004 (FIA 2004). Following the gazetting of nine regulations in 2005, three additional draft regulations (External Auditors, Foreign Exchange Business and Anti Money Laundering) were prepared and circulated to stakeholders for their comments. Once the comments are received and reviewed, the regulations will be sent to the gazette, a process expected to be completed in 2007.

In the area of Corporate Governance, the Central Bank vetted all new Directors and senior managers under the fit and proper test. Names of all senior managers that had not been vetted before were submitted and those who were suitable were approved.

The division carried out eight follow-up examinations in 2006 to determine the extent of compliance with examination recommendations.

2.2.0 NON BANKING FINANCIAL INSTITUTIONS DEPARTMENT

On-site Examination

i) Credit Institutions

The department conducted risk based on-site examinations of the five credit institutions to establish their financial soundness and their compliance with the provisions of the Financial Institutions Act 2004 and other regulations, guidelines, circulars and directives. Under the CAMELS rating system, three credit institutions were rated satisfactory and two were rated fair. The composite risk rating of four institutions was high while one institution registered a moderate composite risk rating. Follow-up examinations were carried out for two institutions to assess compliance with examination recommendations.

ii) Microfinance Deposit-taking Institutions (MDIs)

The department conducted the first risk based on-site examinations of the four newly licensed MDIs. The composite risk rating for all the MDIs was high. Under the CAMELS rating system, three MDIs were rated fair and one MDI was rated unsatisfactory. Prompt corrective measures based on the onsite examination findings were prescribed to the respective institutions. The division subsequently conducted follow-up examinations of two MDIs to asses the level of compliance with the examination recommendations. Two more follow-ups have been planned for early 2007.

Sensitization of the public on the legal provisions in the MDI Act 2003 was conducted and ad-hoc inspections on those suspected to be illegally taking deposits from the public were done as and when information was obtained. One institution was found to be carrying out micro finance business in violation of the MDI Act 2003. The matter was handed over to CID for further investigations.

Plans are in advanced stage for the electronic submission of returns by the MDIs. This will be accomplished in the first quarter of the year 2007.

Delegations from Ethiopia, Namibia, Mozambique and Cameroon were hosted to share experiences on the regulation and supervision of the microfinance sector.

iii) National Social Security Fund (NSSF)

Bank of Uganda was appointed the interim supervisor of the NSSF on behalf of the Minister of Finance Planning and Economic Development with effect from 1st January 2005 pending the establishment of a Social Security and Pension Sector Regulator. The department conducted a follow-up on-site examination of NSSF as at 30th September 2005 to review compliance with previous recommendations. NSSF was operating without a board of directors from November 2004 to January 2006. This significantly impacted on the level of compliance on strategic related issues which required board consideration.

Off-site Surveillance of Credit Institutions and MDIs

Analysis of all statutory reports was accomplished to evaluate the trend of performance for each institution and follow ups were conducted where emerging risks were detected. Off-site surveillance focuses on the analysis of statutory and regulatory returns submitted to Bank of Uganda. This provides indictors of the performance of each institution, its performance in relation to its peers and the performance of the sub-sectors as a whole.

Supervision of Forex Bureaus and Money Remittance

Early in 2006 Bank of Uganda management transferred the monitoring and supervision of Forex Bureaus and Money Remittance businesses from the Trade and External Debt Department under the Research Function to the Non-Banking Financial Institutions Department under the Supervision Function. This move was intended to consolidate Bank of Uganda's regulatory role in licensing, monitoring and supervision of institutions within the financial sector in Uganda and tap on the Supervision Function experience in oversight and supervision over the sector.

i) On-site examination

The Forex Bureau and Money Remitters Division conducted scheduled on-site examinations of eighty two (82) operational forex bureaus (includes branches) for purposes of checking on compliance with the new Foreign Exchange Act 2004 (FEA 2004) and Foreign Exchange (Forex Bureau and Money Remitters) Regulation 2006 (FER 2006) before renewal of operational licences. Follow up examinations were conducted for the Forex bureaus which had issues regarding compliance to examination recommendations.

i) Off-site Surveillance

Off-site surveillance over the Forex Bureau and Money Remittance operations continues to be done through analysis of daily, weekly and monthly returns.

The department continues to educate the Forex Bureau and Money Remitters Association on the requirements of the FEA 2004 and the FER 2006 and Anti- Money laundering Guidelines issued in 2003.

3.0 A REVIEW OF PERFORMANCE OF FINANCIAL INSTITUTIONS

3.1.0 PERFORMANCE OF COMMERCIAL BANKS

i) Overview

During the year under review, the commercial banking sector remained sound and registered remarkable growth more especially in the level of intermediation as evidenced by the expansion in the total volume of credit, which rose by 35.4%. Overall, the key financial performance indicators were satisfactory. The commercial banking sector continued to expand. In 2006, twelve new branches were opened by eight banks.

ii) Balance Sheet Structure

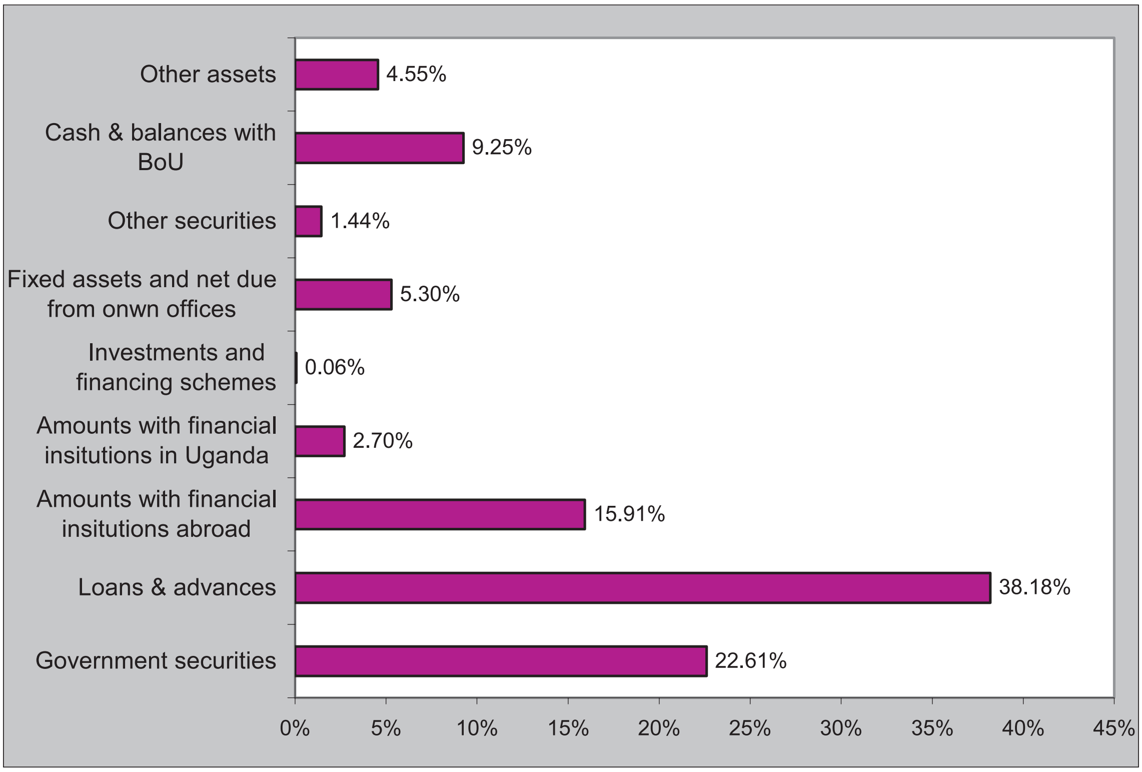
The sector's total assets edged up by Shs.770bn (or 20.9%) during the year under review from Shs.3,689bn at the end of December 2005 to Shs.4,459bn at the end of December 2006. This is much higher than the increase of Shs.374bn (or 11.3%) registered in the preceding year.

The sector's total credit portfolio grew by Shs.445bn (or 35.4%) from Shs.1,258bn as at 31st December 2005 to Shs.1,703bn by 31st December 2006, indicating an accelerated increase compared to a growth of Shs.281bn (or 28.8%) registered in the previous year.
In terms of proportion, the volume of total credit portfolio as a percentage of total assets rose from 34.1% in 2005 to 38.2% indicating a significant change in the balance sheet structure and; more importantly growing intermediation by banks.

While the banking sector's total investments in government securities as a percentage of total assets reduced from 26.1% of the previous year to 22.6% during the year under review, volume-wise it registered an increase of 2.0%. In terms of composition, the volume of treasury bills contracted by 2.8% indicating subdued demand for short-term securities. Investments in bonds increased by 16.5% during the same period, which is indicative of increased demand and preference for longer dated securities. The total amounts with banks outside Uganda, comprised 15.91% of total assets and rose by Shs.171bn (or 31.7%) from Shs.539bn as at the end of December 2005 to

Shs.710 at the end of December 2006.(Figure 3.0 shows the structure of commercial banking sectors' assets)

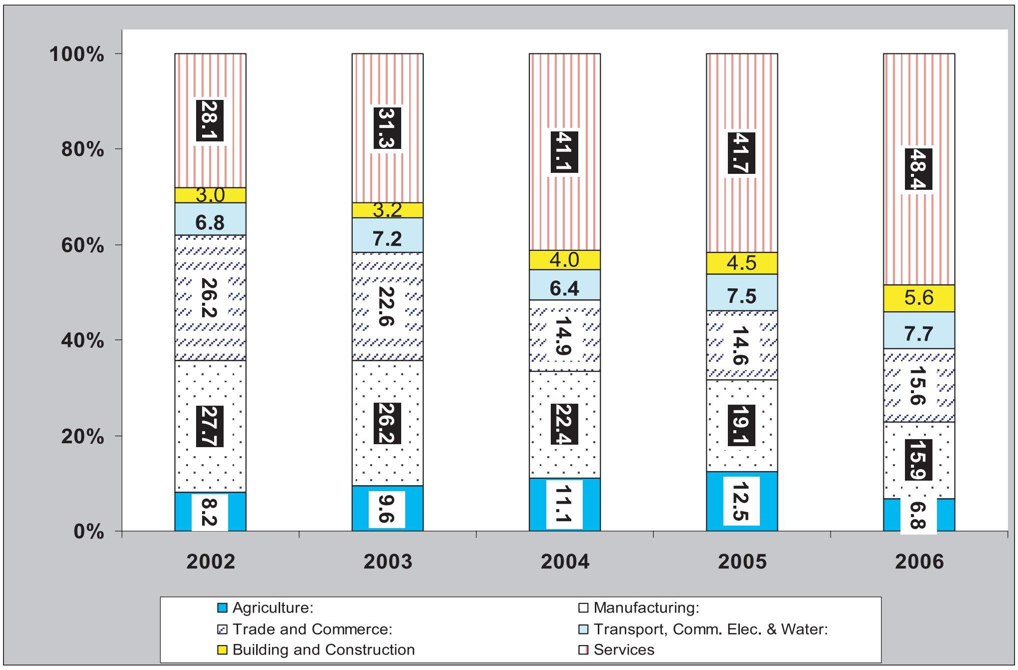
Fig 3.0: Structure of banking sectors' assets (percentage of total in year 2006l)



iii) Distribution of credit by sector

Figure 3.1, shows the total credit extensions outstanding over the last five years as a percentage of total credit extended by the banking sector. Close to one half of the credit extensions amounting Shs.823bn (or 48.4%) of the total loan portfolio comprised lending to the service sector, up from Shs.524.6bn (or 41.7%) recorded during the previous year. The share of credit to the agriculture and transport sectors at the end of December 2006 stood at 6.8% and 7.7% down from the previous year's levels of at 12.5% and 7.5% respectively. On the converse, the share of extensions to building and construction sector rose from 4.5% for the previous year to 5.6% during the year under review.

Figure 3.1: Distribution of credit by sector (percentage of total) [1]

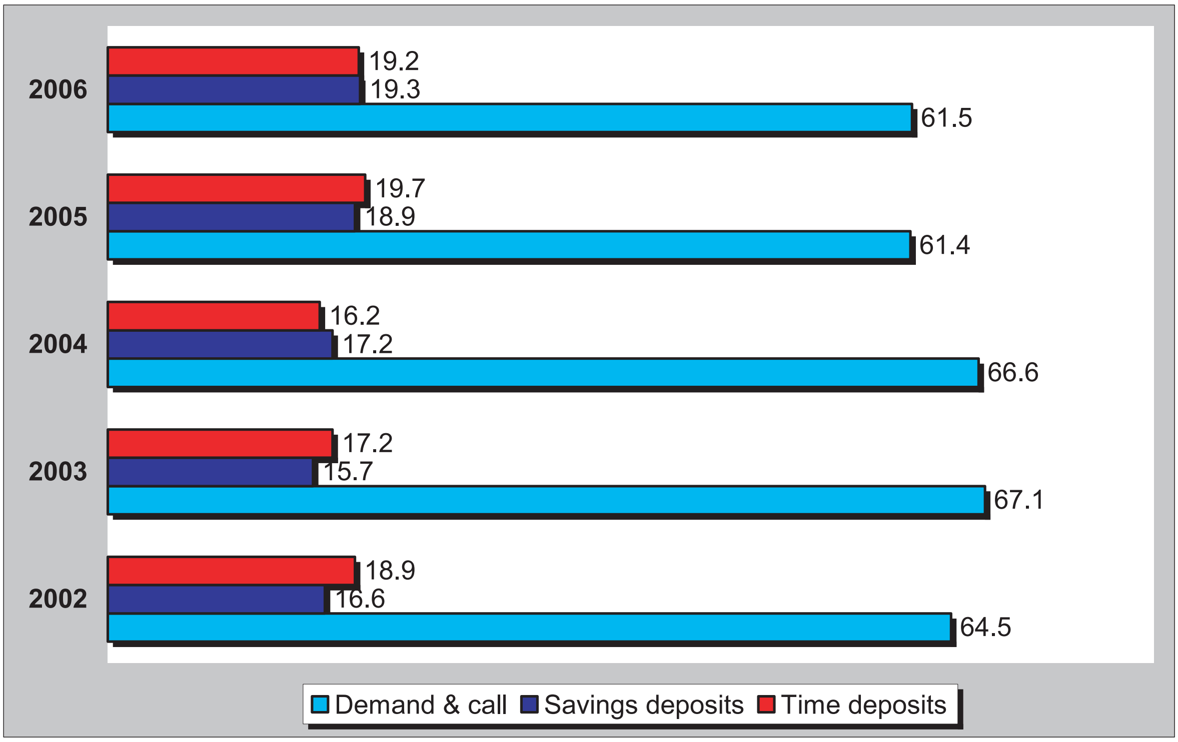


iv) Deposits

The commercial banking sector's total deposit base grew by Shs.366.1bn (or 14.1%) during the year under review from Shs.2,595.1bn at the end of December 2005 to Shs.2,961.2bn as at end December 2006. The structure of deposits remained stable with Demand and call deposits accounting for 61.5% of total deposits, marginally up from 61.4% registered in the previous year. Meanwhile the percentage of Time and Savings deposits represented 19.2% and 19.3% from levels of 19.7% and 18.9% respectively for the previous year. Figure 3.2 below, shows the structure of deposits covering the period 2002 to 2006.

[1] Lending to the service sector includes advances amounting Shs.5.9bn to the mining sector and government

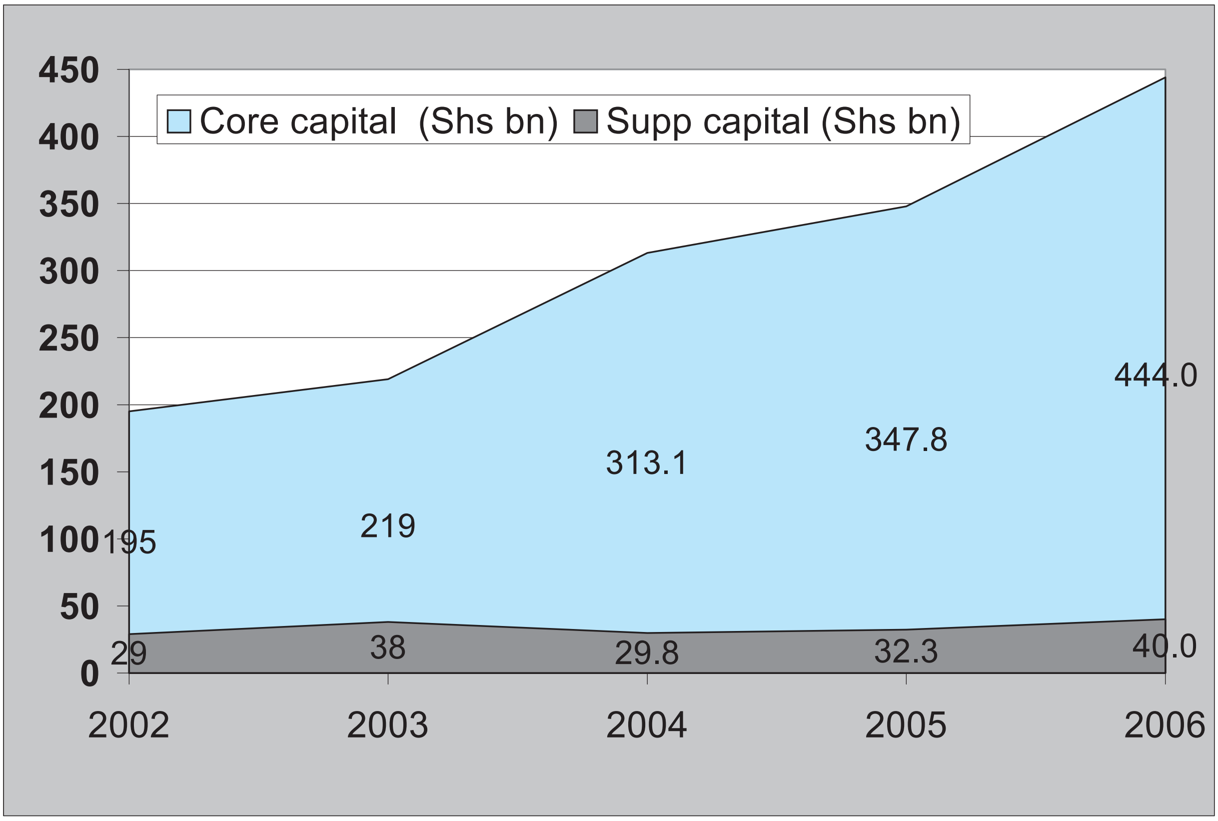
Figure 3.2: Structure of banks deposits (percentage of total)



v) *Capital Adequacy*

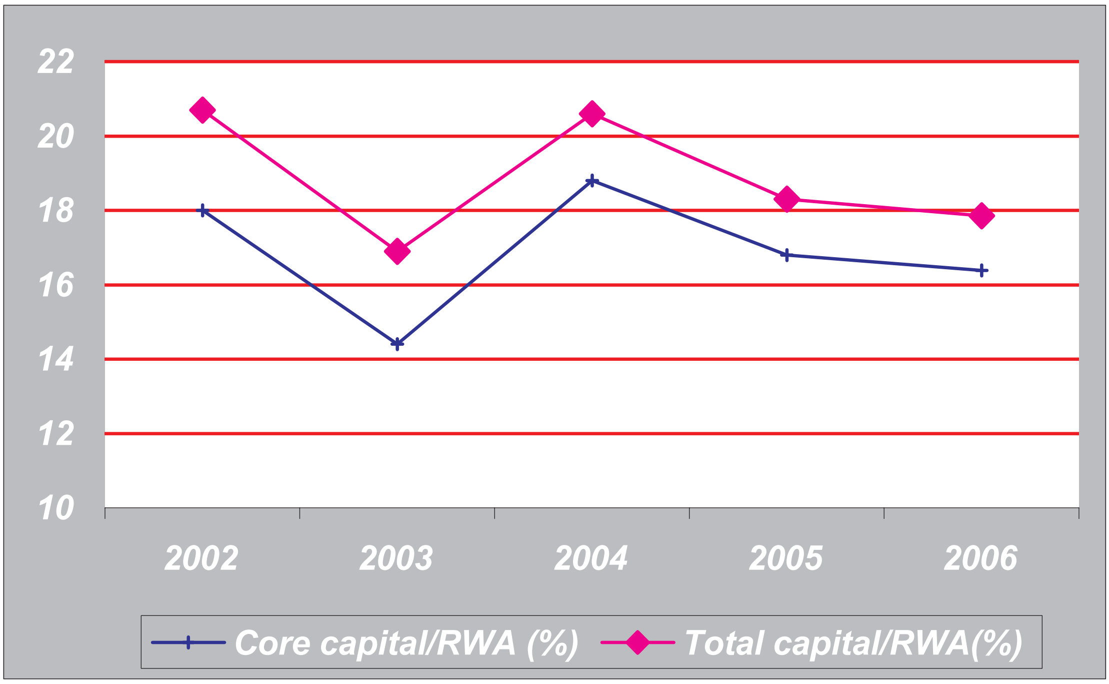
The commercial banking sector's total capital grew by Shs.103.9bn (or 27.3%) up from a level of Shs.380.1bn at the end of December 2005 to Shs.484.0bn at the end of December 2006. This increase surpasses a growth of Shs.37.2bn (or 10.8%) registered for the previous year. The core component of capital amounted to Shs.444bn up from the previous year's total of Shs.347.8bn indicating an increase of Shs.96.2bn (or 27.6%) over the review period. Similarly, supplementary capital posted an increase of Shs.7.7bn (or 23.8%) from Shs.32.3bn in the previous year to Shs40.0bn during the year under review. The rise in capital was largely a result of profits made during the year 2006 totaling to Shs.136.2bn a portion of which is included in capital computation. Fig 3.3a clearly shows that the growth in total capital during the period covered (2002-2006) was largely a result of build up in the core capital component.

Figure 3.3a: Components of capital



All commercial banks continued to maintain capital in excess of the regulatory core and total capital adequacy ratios of 8% and 12%. Similarly, their unimpaired capital levels remained above the minimum requirement of shs.4.0bn. As at end December 2006, the ratio of core capital to risk weighted assets (RWA) averaged 16.4%, which was marginally below a level of 16.8% registered at the end of December 2005. The slight decline was primarily attributed to a significant increase in total risk weighted assets during the year 2006. Fig 3.3b below shows the movement in key capital adequacy ratios covering the period 2002 to 2006.

Figure 3.3b: Capital adequacy ratios

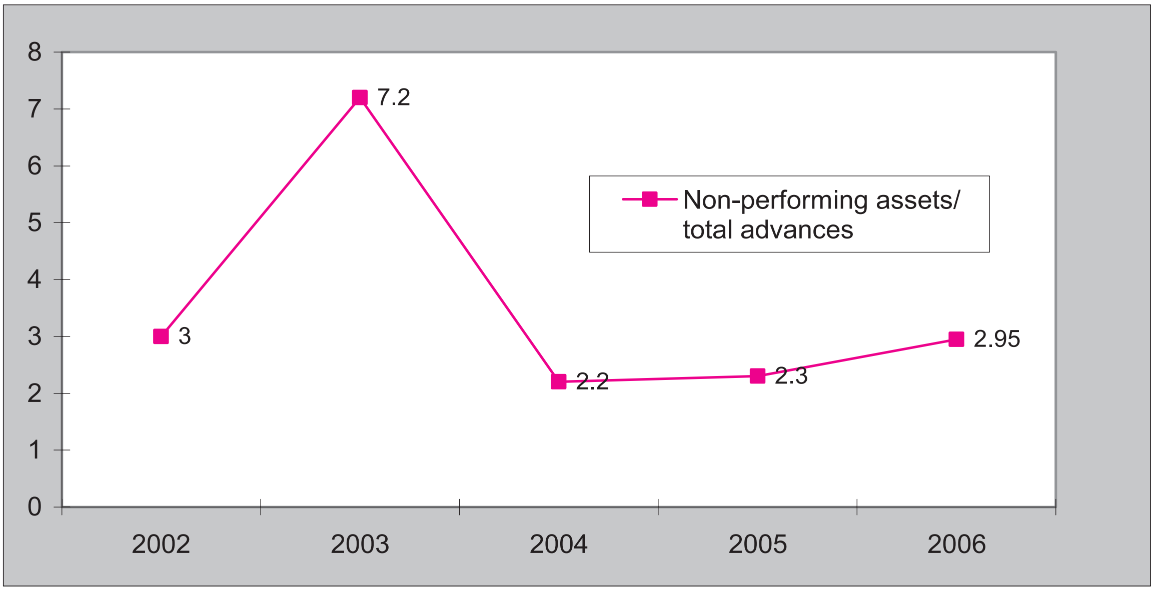


vi) Asset quality

Over the years, Bank of Uganda has continued to reinforce the supervision of credit risk in banks by putting in place a strong risk-based regulatory framework. These efforts together with the implementation of strong risk management practices by banks have resulted into a drastic decline in the level of non-performing assets to total advances ratio from 9.8% in 2000 to levels below 5% except in year 2003 when it shot up to 7.2% but subsequently remained subdued under 4% to-date. It's however worth noting that the ratio of non-performing assets to total advances slightly increased from 2.3% in the previous year to 3.0% at the end of December 2006 mainly on account of a rise in the volume of non-performing assets by 21.1bn or (72.5%) from Shs.29.1bn in the previous year to Shs.50.2bn at the end of December 2006. This as compared to a percentage increase of 35.4% in total advances during the same period of review.

Fig 3.4 shows the trend of non-performing assets to total advances ratio covering the period 2002-2006.

Figure 3.4: Trend of Non-performing assets total advances ratio (%)

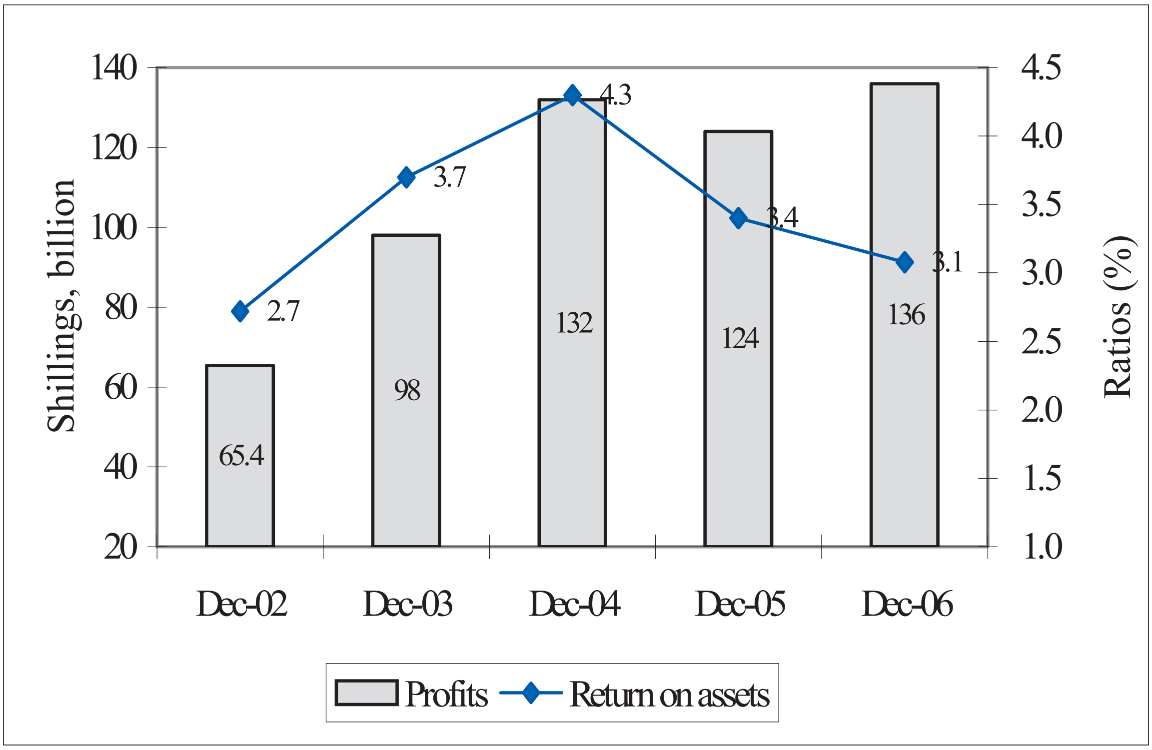


vii) Earnings

The ability of banks to generate adequate earnings is critical for their long term viability, expansion and soundness. The ploughing back of earnings builds up the banks capital base, which consequently increase their opportunities to expand and increase the volume of business. Very high earning indicators may however be an indication that the bank is taking very high risk.

For the year ended December 2006, the banking sector recorded return on assets (ROA) ratio of 3.1%, which was slightly lower than a level of 3.4% registered during the previous year. It should however be noted that although there was decline in ROA on account of increase in total adjusted assets, net after tax profits grew. As illustrated in Fig 3.5, net income earned during the year 2006 amounted to Shs.136bn compared to Shs.124bn for the previous year.

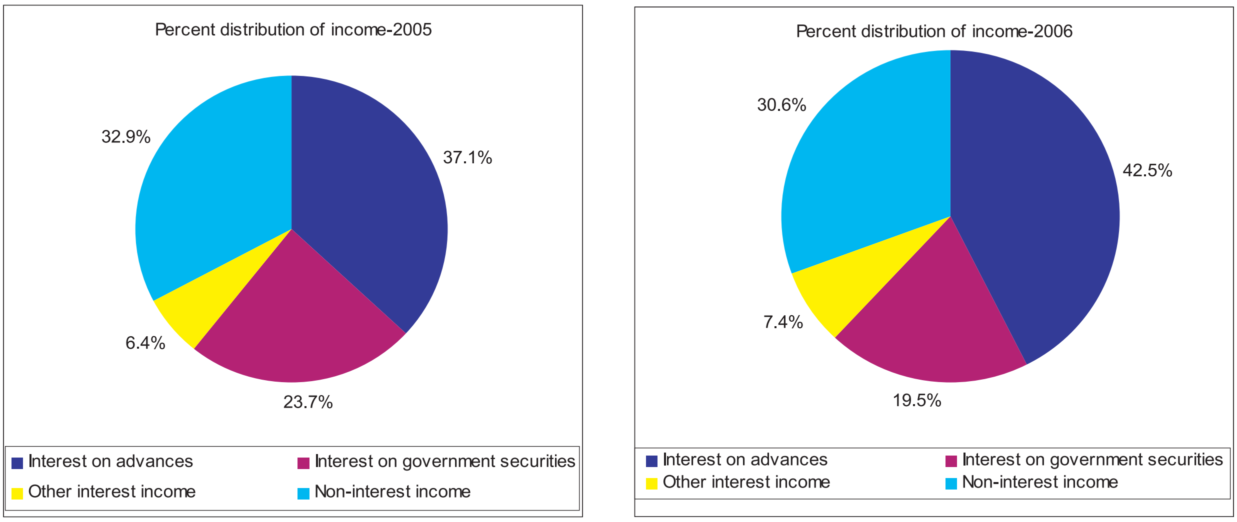
Figure 3.5: Return on Assets and Earnings



Overall, total gross income grew by Shs.73.6bn (or 14.4%) from Shs.510.2bn for the year 2005 to Shs.583.8bn in the year 2006. In terms of structure, interest income accounted for 69.4%, which was above the level of 67.1% for the previous year. The percentage contribution to income from loans and advances shot up from a level of 37.1% for the year 2005 to 42.5% registered in year 2006, which is consistent with the growth in the credit portfolio in the banking sector.

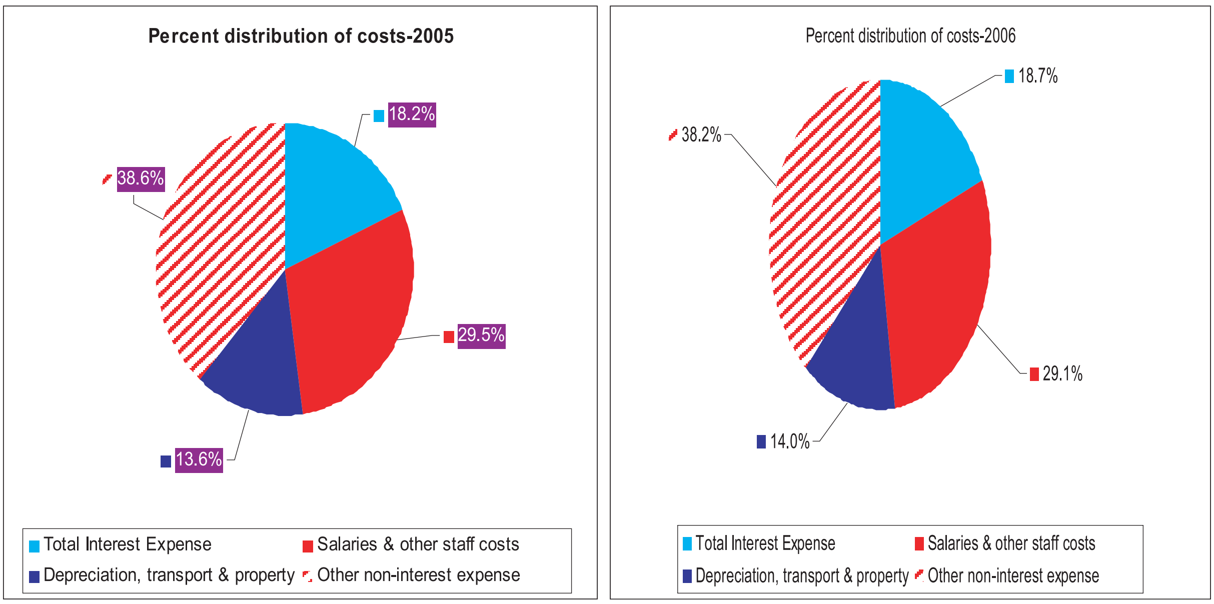
On the contrary, the proportion of income from government securities shrunk from 23.7% to 19.5% over the same review period. The decline was attributed to relatively lower rates on government securities during the year 2006. Figure 3.6 shows income earned from the various sources in relation to total income.

Figure 3.6: Commercial banks' sources of income (percentage of total)



While total expenses of commercial banks grew by Shs.64.2bn (or 19.2%) during the year under review, there was relative stability in the structure and composition of costs for the years 2005 and 2006. Interest expenses expressed as a percentage of total expenses rose marginally from 18.2% in year 2005 to 18.7% in year 2006. Similarly, the proportion of other non-interest costs declined marginally from 38.6% to 38.2% during the same period. However, the staff costs expressed as a percentage of total costs rose from 25.5% in 2005 to 29.1% in the year 2006. Figure 3.7 illustrates the movement in expenditure categories (% of total) for the period 2005 and 2006.

Figure 3.7: Commercial banks' expenditure categories (percentage of total)

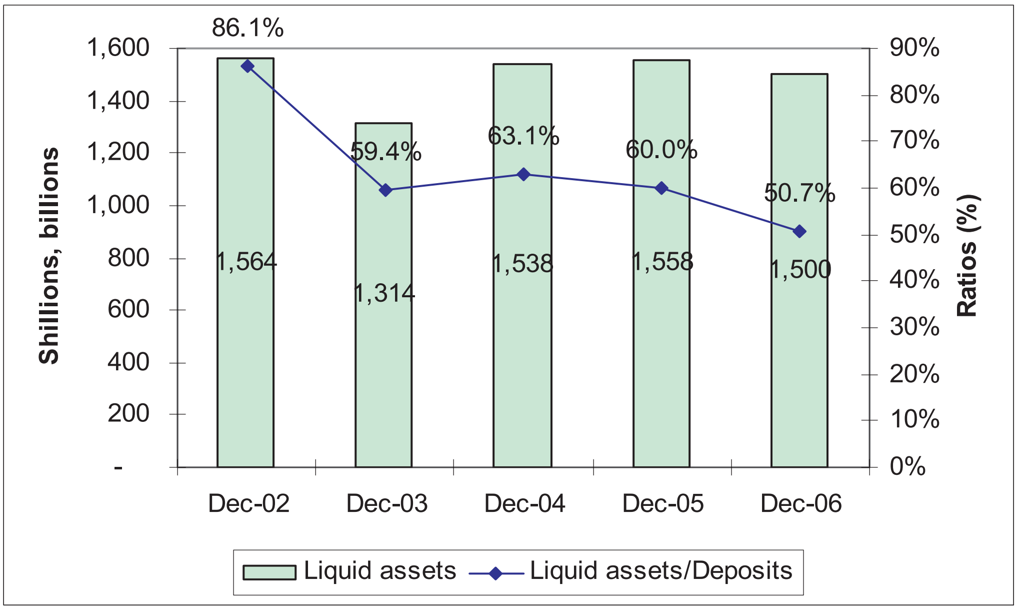


viii) Liquidity

In a bid to foster stability of the financial system, Bank of Uganda closely monitors liquidity levels in banks to ensure that they comply with the minimum liquidity requirements. Liquidity is critical for the smooth conduct of banking operations and central to building confidence in the financial sector.

During the year under review, banks held adequate liquidity registering on average a 'liquid assets' to deposits ratio of 50.7%, which far exceeds the minimum prudential benchmark of 20%. However, the ratio declined from the previous year's level of 60.0%. The trend of liquid assets and liquid assets to deposits ratio covering the period 2002 to 2006 are shown in Figure 3.8.

Figure 3.8 Liquidity Indicators



3.2.0 PERFORMANCE OF CREDIT INSTITUTIONS

i) Overview

Based on the off-site analysis of credit institutions as at 31st December 2006, the overall financial condition was satisfactory. Five institutions were rated satisfactory maintaining the same satisfactory rating as at December 2005. One institution was rated fair and is in the process of voluntarily winding up its business.

Two Credit Institutions exited the sub-sector during the financial year. The assets and liabilities of one institution were taken over by a Commercial Bank while another is in the process of voluntarily winding up in order to concentrate on other core businesses of the holding company. Three new branches were opened by three credit institutions during the financial year.

ii) Balance sheet structure

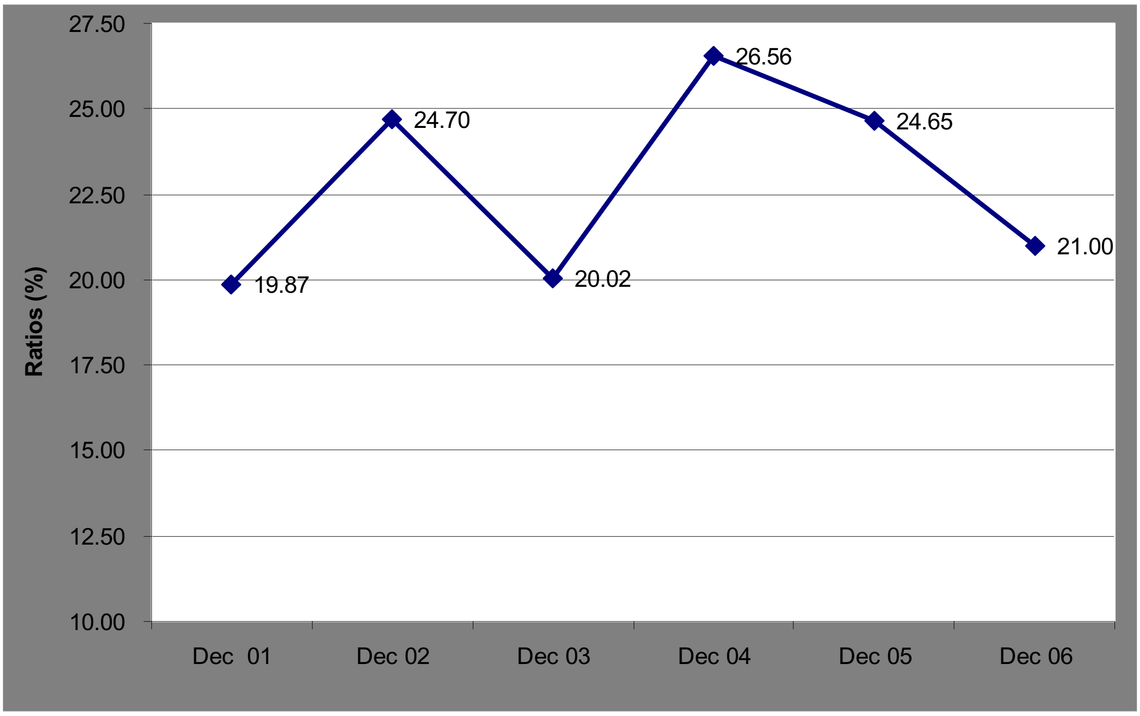
Total assets (excluding administered loans) of credit institutions increased by Shs. 30.7 bn from Shs.193.9bn (or 15.8%) at the end of December 2005, to Shs.224.6bn at the end of December 2006. This compares to a growth of 22.1% as at the end of December 2005. The decelerated growth is explained by the exit of one credit institutions from the sub-sector while another is in the process of voluntarily winding up its business.

The sub-sector deposits increased by Shs.9.6bn (or 7.31%) from shs131.28bn to Shs. 140.88bn. Credit Institutions continue to serve a market niche and the increase in deposits reflects public confidence in the sub-sector. The structure of deposits has remained relatively stable over the years. As at end December 2006, saving deposits, agency funds and time deposits constituted 57.5%, 24.2% and 18.1% of total deposits in the sub-sector. There was a decline in Treasury Bill Holdings by Shs7.4bn (or 36%) from Shs20.4bn as at end of 2005 to Shs.13bn as at end of 2006. On the other hand loans(excluding administered loans) increased by Shs.23.7bn (or 21.5%) from Shs.110bn to Shs.133.7bn over the same period reflecting a move away from investment in securities to the core lending business. Balances with Commercial Banks in Uganda increased by Shs5.5bn (or 17%) from Shs32.4bn to Shs.37.9bn over the same period.

iii) Capital Adequacy

The paid-up capital of the credit institutions decreased from Shs 21.3 billion (or 9.4%) in December 2005, to Shs 19.3 billion by December 2006. All the credit institutions maintained core capital to risk weighted assets ratios above the minimum requirement of 8%. However the overall ratio of core capital to risk weighted assets (RWA) declined from 24.6% in 2005, to 21.00% during the year under review due to an increase in RWA's. These developments are depicted in figure 3.9.

Figure 3.9 : Ratio of Core Capital to Risk Weighted Assets (%)

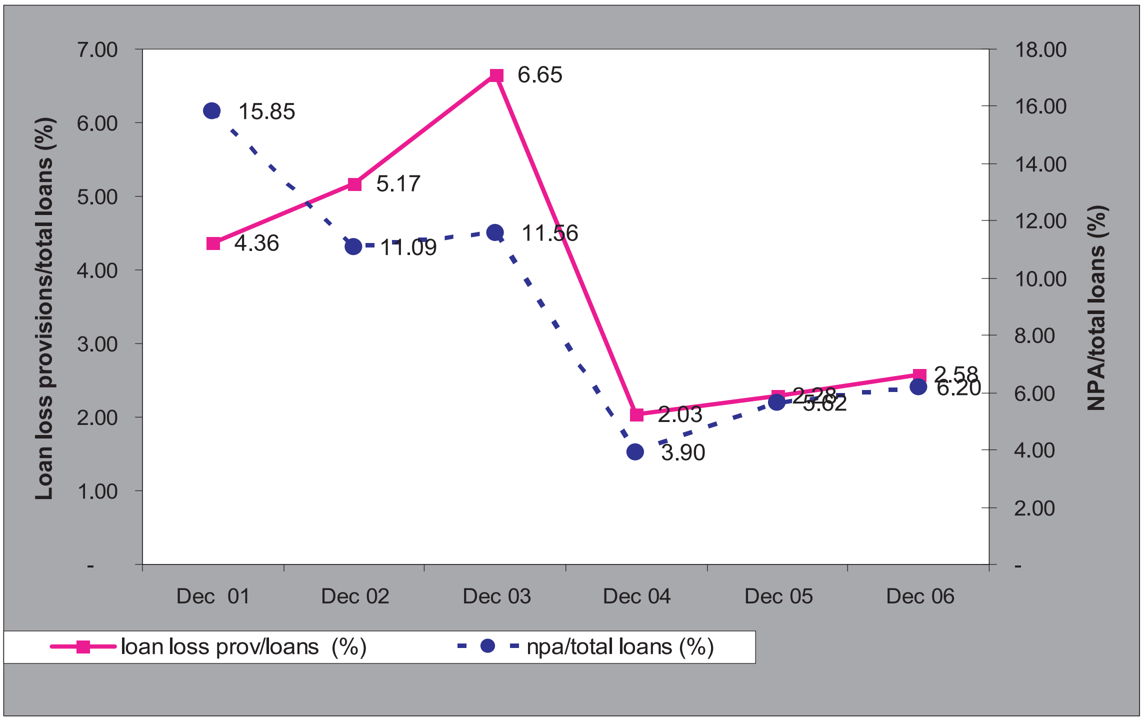


iv) Asset Quality

The asset quality of credit institutions remained satisfactory. The total credit portfolio of the credit institutions (excluding administered loans) increased by Shs23.7bn (or 21.5%) from Shs.110bn as at the end of December 2005, to Shs.133.7bn during the year under review. Housing Finance Company of Uganda Ltd manages an administered loan portfolio for mortgage businesses i.e. purchase of residential houses, and construction or completion of existing structures. The administered loans increased marginally by shs0.3bn (or 1.5%) from Shs.19.8bnto Shs.20.1bn between 2005 and 2006. One credit institution continues to dominate the sub-sector taking up 74% of total loans.

The ratio of non-performing advances to total advances in the credit institutions' sub-sector increased from 5.6% in 2005, to 6.2% in 2006. The increase is partly due to increase in level of NPAs from Shs.6.2bn, to Shs.8.7bn. Two credit institutions largely contribute to the rise in the ratio of NPAs to total advances in the sub-sector. The loan loss provisions as a percentage of total loans also increased from 2.28% to 2.58% between December 2005 and December 2006. These ratios are depicted in figure 3.10.

Figure 3.10: Asset Quality Indicators



v) Sectoral Distribution of Loans

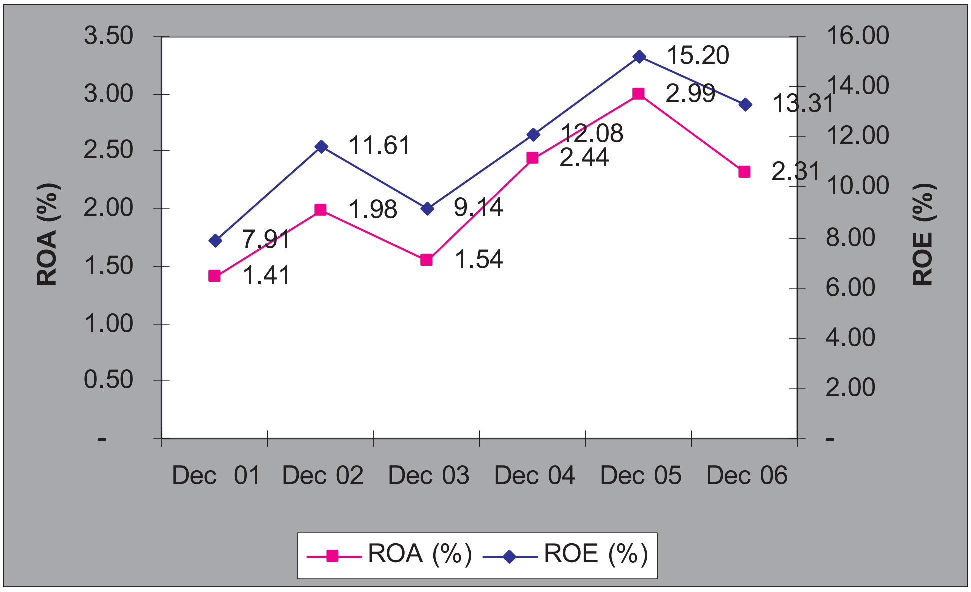
Lending to the building and construction sector continues to make up the bulk of the loans of credit institutions. The share in total loans excluding administered loans, increased marginally from 69.1% in 2005, to 69.4% in 2006. The trade and commerce, and other services sectors accounted for 20.4% and 6.6% of total loans respectively, during the period under review. (See Table 3 in Appendix 5).

vi) Earnings

During the year ended December 2006, four Credit institutions made profits, while two credit institutions incurred an operating loss of Shs.116.1m. This was mainly due to exchange loss brought about by appreciation of the Uganda shilling visa-a-vis the United States dollar.

The overall credit institutions' profitability declined by Shs0.60 billion (or 11.6%) from Shs 5.79 billion as at end December 2005 to Shs.5.19bn at the end of 2006. This was mainly due to increased non interest expenses from Shs.8.5bn as at end December 2005 to Shs.10bn as at end December 2006. Interest income from intermediation constituted the main source of earnings for the credit institutions. Total interest income increased by Shs 2.4 bn (or 10%) from Shs.23.97bn as at end of December 2005, to Shs.26.37bn as at end of December 2006. Interest expenses increased from Shs.6.87bn in 2005, to Shs.6.90bn indicating a growth rate of 0.44%. Return on Assets (ROA) and Return on Equity (ROE) ratios both declined from 2.99% to 2.31% and 15.20% to 13.31% respectively. Trends in ROA and ROE are depicted in Figure 3.12.

Figure 3.11: Return on Assets and on Equity (%)



vii) Liquidity

All the credit institutions complied with the statutory liquidity requirements during the period under review. As at 31 December 2006, liquid assets held amounted to

Shs.58.2bn, exceeding the required level by Shs.37.1bn. However, the overall liquid assets to deposits ratio declined from 45.64% at the end of 2005, to 41.34% during the period under review largely explained by the rise in deposits. Liquid assets declined by Shs.1.7bn (or 2.80%) between the year 2005 and 2006.

The lending ratio increased from 69.16% to 71.06% over the same period. This was mainly due to the more than proportionate increase of 21.5% in loans as compared to a 7.3% increase in deposits. Trends in the liquidity ratio, the level of liquid assets and the lending ratio are depicted in figures 3.12, 3.13 and 3.14 respectively.

Figure 3.12: Liquidity ratio

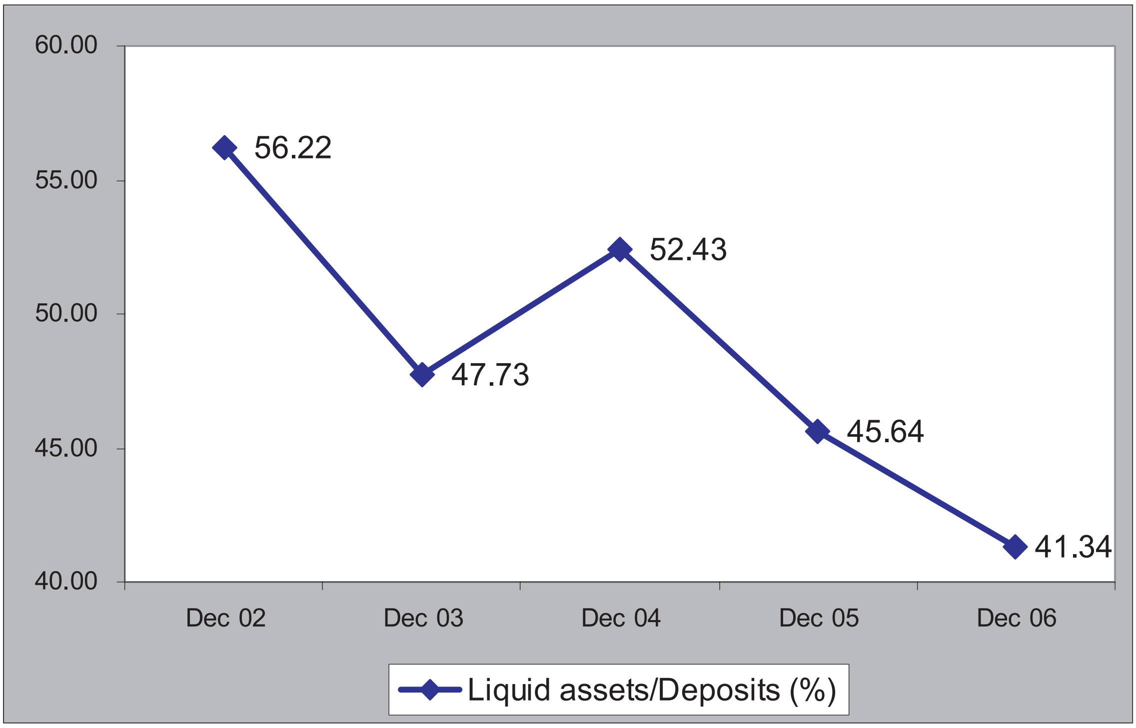


Figure 3.13: The Liquid assets

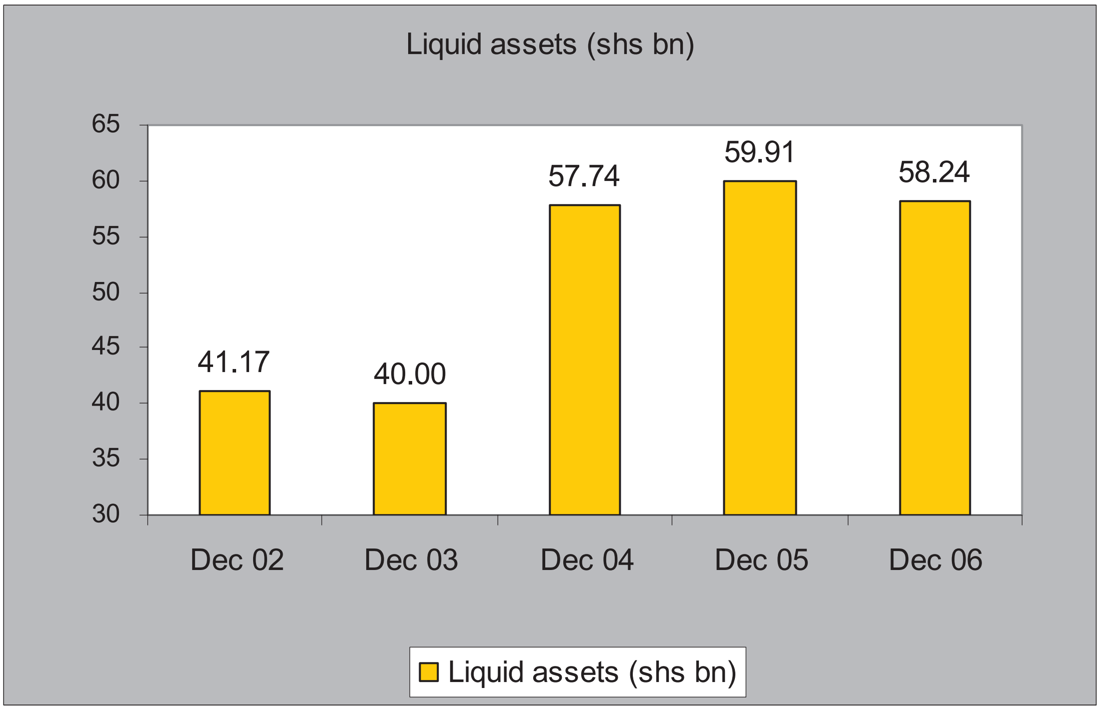
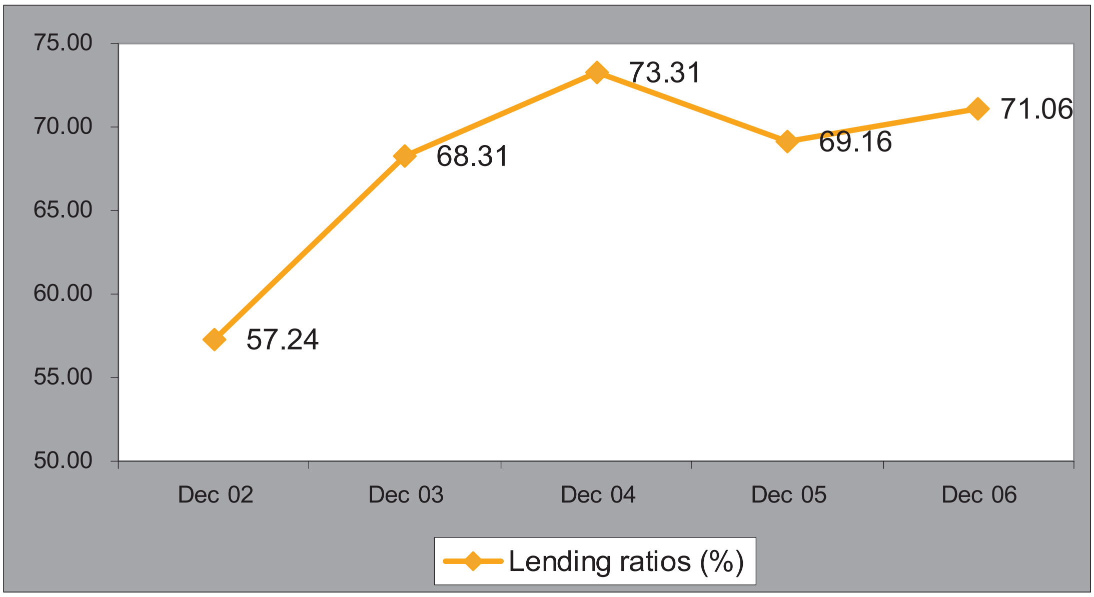


Figure 3.14: The lending ratio



3.3.0 PERFORMANCE OF MICROFINANCE DEPOSIT TAKING INSTITUTIONS

i) Balance sheet structure

Total assets of MDIs grew by shs24.9bn (or 24%) from Shs.103.7bn as at end December 2005 to Shs.128.6bn as at end December 2006. Deposits grew by shs7.7bn (or 50%) from shs15.5bn at end of December 2005 to shs23.2bn at end of December 2005 while total loans grew by Shs.13.7bn (or 20.8%) from Shs.65.7bn as at end December 2005 to Shs79.4bn as at end December 2006. The growth is attributed to aggressive marketing strategies and increased confidence in the sub-sector. 5 new branches were opened by two MDIs during the year.

ii) Capital adequacy

Total core capital of MDIs stood at shs21.1bn up from shs17.3bn as at 31st December 2005. Core capital to risk weighted assets ratio stood at 21.74%, which was above the legal minimum core capital requirement of 15%. The total capital to risk weighted assets ratio of 33.82% was also above the required ratio of 20%.

iii) Asset Quality

The MDIs year end Portfolio in Arrears (PIA) was at 2.4bn at end of December 2006 as compared to Shs3.6bn as at end of December 2005. Portfolio at risk (PAR) improved from 5.51% of the previous year to 3% during the period under review. This was on account of improved risk Management systems, Know Your Customer and corporate governance practices after compliance with examination recommendations.

iv) Profitability

Year to date net profit after tax stood at Shs3.2bn as at end December 2006 as compared to shs1.1bn of the previous year. Return on Assets (ROA) rose from 1.08% to 1.44% as at end December 2005 and end 2006 respectively. Likewise Return on Equity (ROE) rose from 6.05% to 8.16% over the same period. This was attributed to increased volume of business coupled with expenditure control during the period under review.

The largest source of income amounting to Shs.34.3bn (or 82%) of Total Income came from the core business of lending. This was a 21% increase as compared to Shs.28.4bn earned in 2005.

Salaries and benefits constituted the major expenditure item and increased by 33% from Shs13.2bn. to Shs.17.5bn as at December 2005 and 2006 respectively.

v) Liquidity

The MDI sector was highly liquid and held surplus liquid assets of Shs.21.01bn as at December 2006 compared to Shs.11.4bn as at December 2005. Liquid assets increased by Shs.10.7bn (or 77.5%) from Shs.13.8bn to Shs24.5bn over the same period. The ratio of liquid assets to total deposits increased from 88.9% to 105.5%. The lending ratio was 60.37% as at end December 2006.

3.4.0 PERFORMANCE OF FOREX BUREAUS AND MONEY REMITTERS

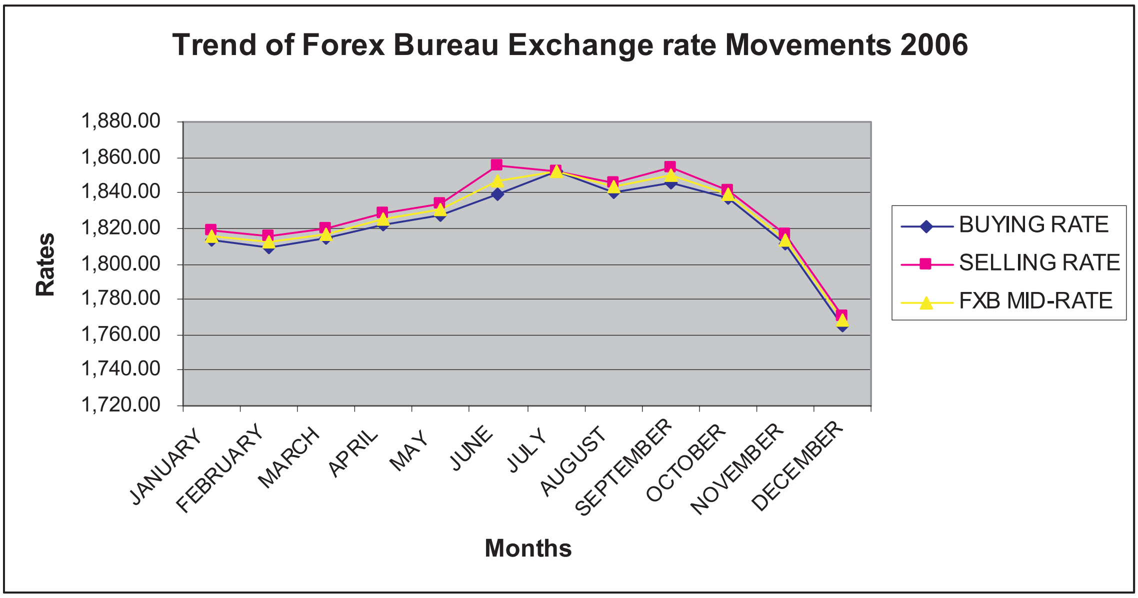
i) Volumes of Foreign Exchange transactions in US Dollars

Cumulative Forex Bureau transactions amounted to the equivalent of US$ 1.06bn for purchases and US$ 1.1bn for sales for the year 2006, compared to US$ 0.92bn and US$ 1.03bn for purchases and sales respectively for the year 2005. This was an increase of 15 % and 7% for purchases and sales respectively. (See APPENDIX 6 Table 1)

ii) Trends of Forex Bureau Exchange Rate movements

The foreign exchange rate generally depreciated in the first half of the year. However, in the second half of the year the rate started appreciating. This trend is influenced by supply and demand forces. The appreciation trend in the last half of the year is mainly due to increased forex inflows from remittances by Ugandans in the Diaspora and increased flow of tourists around that time of the year. (See Figure 3.15)

Figure 3.15:



iii) Licensing Of Money Remittance Businesses

The FER 2006 provides for licensing of Money Remittance businesses categorized in four classes;

Class A – International Money Transfer Agency Licence

Class B – Forex Bureau and Money Remittance Licence

Class C – Direct Entrant's Licence

Class D – Sub-Agency Licence.

Following the gazetting of the FER 2006, fourteen (14) money remittance institutions were licenced. The licenced institutions were forex bureaus that had earlier been appointed as agents or sub-agents of Western Union and Money Gram International, and others that applied for and obtained Class B licences. Micro finance Deposit-taking Institutions and Credit Institutions engaged in money remittance business and have been operating as sub-agents of banks for the afore-said international money transfer companies are in the process of applying for licences.

Returns submitted in the months of the last quarter of the year indicated total inflows of the equivalent of US $ 16.3mn and outflows of US $ 4.1mn. The initial data confirms that a lot more money is flowing in through the forex bureaus than is flowing out by way of money remittance.

4.0.0 DEVELOPMENTS IN THE FINANCIAL SECTOR

4.1.0 ISSUANCE OF AN IPO BY STANBIC BANK UGANDA LIMITED

In November 2006, Stanbic Bank Uganda Limited issued an IPO to float 20% of its share capital to the public. The floating of the shares was a big boost to the nascent Capital Market in Uganda which has since experienced increased trading activity. The IPO that was offered for sale was a result of an agreement between the Government of Uganda and the Standard Bank Group of South Africa. The Agreement was that the Government would sell its 10% shareholding in the Bank and the Standard Bank Group would also sell 10% of the bank to the public. The objective was to give Ugandans an opportunity to invest in the financial sector.

The IPO was open for a period of four weeks from November 24 to December 22, 2006. The process got off to a slow start with only a few applications received in the first three weeks. In the final week however, there was frenzy as people rushed to beat the deadline. The response was phenomenal with 37,449 applications for 3billion shares totalling Shs. 211bn. The IPO had therefore been oversubscribed by 200%.

There was a good mix of applicants from within and outside the country. In all, there were 15,488 Ugandan individuals who applied for Shs41.1bn worth of shares; 407 Ugandan institutions which applied for Shs30.7bn worth of shares; 20,091 non-Ugandan Individuals who applied for Shs56.9bn and 1,463 non-Ugandan institutions which applied for shares worth. Shs82.3bn.

The allotment policy in the prospectus stated clearly that preference would be given to individual Ugandans. As a result it was decided to allocate to all Ugandan individual investors who applied, up to 2,150,000 shares (worth Shs150.5mn), their allotment in full. The 36 Ugandan individuals who applied for more than shs150.5mn worth of shares had them scaled down.

All the other non-Ugandan applicants were grouped together and the remaining shares allocated to them. This allotment resulted in applicants who applied for up to 109,500 shares (Shs7.6mn) being allotted the full amount applied for. All non-Ugandan applicants who applied for more shares were scaled down to 109,500 shares.

4.2.0 LIQUIDATION OF CLOSED BANKS

The liquidation of banks that were closed in 1998/99, (The Co-operative Bank Ltd, Greenland Bank Ltd, and International Credit Bank Ltd) has notably recorded success in the recoveries of bad debts through court action and foreclosure on collaterals or securities. Other institutions under liquidation include Teefe Trust Bank Ltd and Interstate Finance Company Ltd.

While Bank of Uganda continues to execute the liquidation process as a measure of minimizing costs, an exit strategy that will lead to Bank of Uganda pulling out of the liquidation completely has been designed. The strategy intends to conduct a bulk sale of the assets, obtain the purchase price and distribute the proceeds to claimants.

As part of implementation of the exit strategy, Bank of Uganda tendered and awarded a consultant the job to implement the exit strategy. The job of evaluation of assets started on 29th January 2007. Advertisement and sale is expected to take four months after which period Bank of Uganda will move out of the liquidation process. This is expected to happen by mid 2007.

During the year 2006, external audit of the liquidations were conducted by the firms of; KPMG, PWC and Jasper Semu Associates on the Statements of Affairs of Greenland Bank, Cooperative Bank, and International Credit Bank respectively. The audits were completed and below is the audited status of liquidation proceeds as at 31st December 2005.

Table 4.1 Summary of collections and expenses as at 31/12/2005 (shillings in millions)

Bank	Total Loan & O/Ds at Closure	Total Recoveries	Other Cash Assets Realized	Total Expenses	Net Proceeds
Greenland Bank	40,942	24,867	2,422	8,219	**19,070**
Co-operative Bank	56,755	30,499	18,053	6,961	**41,591**
International Credit Bank	13,103	6,275	1,958	1,913	**6,220**
Total	**110,800**	**61,641**	**22,333**	**17,093**	**66,881**

A distribution of liquidation proceeds to creditors of the closed banks will start early 2007 with Cooperative Bank creditors recording 72.64% payment on their claims.

Payment of claimants in Greenland and International Credit bank will be done soon after the completion of verification of claims.

4.3.0 CREDIT REFERENCE BUREAU (CRB)

i) Rationale for the establishment of a CRB in Uganda

The need to establish CRB services in any financial system arises because of the problem of asymmetric information between lenders and borrowers. The CRB supports robust growth of the financial sector through the following:

- Timely and accurate information on borrowers' debt profile and repayment history reduces the problem of asymmetric information between borrowers and lenders that leads to adverse selection of borrowers. Experience suggests that when financial institutions compete with each other for customers, multiple borrowing and over-indebtedness increases loan default unless the financial institutions have access to databases that capture relevant aspects of clients' borrowing behaviour. The CRB contributes significantly to reduction in the costs of screening loan applications by enabling the lender to sort out prospective borrowers who have defaulted with other lenders. A CRB therefore improves lenders' ability to predict default.

- An improved pool of borrowers - more and more unbanked consumers will be eligible for financial services. Recent research based on information from many countries (Singapore, Iraq, China, Romania, Vietnam, Cambodia, Brazil, Hong Kong etc.) show that the existence of credit registries is associated with increased lending volume, growth of consumer lending, improved access to financing and a more stable banking sector.

- Reduced default rates as borrowers seek to protect their "reputation collateral" by meeting their obligations in a timely manner. With the presence of a CRB, there is strong motivation for clients to repay their loans. Credit reports that include both positive and negative information help build "reputation collateral" in much the same way as a pledge of physical collateral, which may improve credit access for the poorest borrowers.

- In the long run, a bigger credit market and lower default rates lead to lower interest rates, improved profitability and increased competitiveness.

ii) Progress of implementation of the CRB project

In July 2006, after a transparent tendering process, Compuscan Information Technologies Proprietary Limited (Compuscan), a South African Company was selected to implement the CRB in Uganda. After intensive negotiations, a licensing agreement was signed in October 2006 between Bank of Uganda and Compuscan. The negotiations focused on the scope of services, the roles and responsibilities of each party in project implementation, the project implementation plan, review of the licensing agreement between BOU and Compuscan, the code of conduct, and Service Level Agreement to be signed between Compuscan and the users as well as the fee and cost structure.

According to the CRB regulations, "a CRB may charge fees for its services, which shall be agreed upon between the financial institutions and MDIs". Bank of Uganda's role is to facilitate consensus on the fee structure between the users and the CRB Provider. Lack of agreement on the fee structure has delayed the introduction of the CRB in Uganda.

The establishment of a CRB in Uganda is complicated by the absence of a National Identification System. The CRB provider was in this case required to set up a Financial Card System to uniquely identify borrowers using biometrics and merge records accurately. This has implications for start up costs to the users. Donors are willing to bridge the high start up costs and fees during the initial period, thereby reducing the burden for the users. Final agreement on the fee structure will pave way for the roll out of the project implementation plan.

4.4.0 PROGRESS IN IMPLEMENTATION OF BASEL II

During the period October-November 2006, the Supervision Function conducted a validation exercise to review responses to the capacity assessment questionnaire that was sent to commercial banks and credit institutions. Generally, the level of awareness of Basel II among the four big banks is considered moderate while the level of awareness among the medium sized banks, small banks and credit institutions is still low. The four big banks which are subsidiaries of the internationally active banks confirmed their planned Basel II implementation dates, 2007 for one bank and 2008 for the other three. Three of the four big banks confirmed availability of adequate resources for implementation of Basel II. Two of the big banks have made reasonable preparations towards the implementation of Basel II and the banks intend to initially perform parallel runs between Basel II and Basel I.

In view of the above, the implementation of Basle II will depend on Bank of Uganda's level of preparedness vis-à-vis the banks. Bank of Uganda considers compliance with the revised Basel Core Principles (BCP) for Effective Supervision and Basel I as its first priority and will subsequently consider the implementation of Pillar 2 and 3 and progressively move to Pillar 1 under Basel II. Bank of Uganda's Basel II proposed activity plan is projected up to 2010.

The Bank of Uganda recognizes the existing challenges and constraints for implementation of Basel II in developing countries, which has constrained early preparations by both the Supervised Banks and the Central Banks. Notwithstanding this, it is important for Bank of Uganda to keep abreast with the development in the banking sector so as to avoid stifling initiatives by banks to comply with the provisions in Basel II. This is also in line with the MAC resolution for the three East African Countries to continue studying Basel II, to comply with the revised BCP, to implement Risk Based Supervision and to identify the various aspects of Basel II (Pillar 2 and 3) that can be implemented to modernize the banking system, pending full implementation of Basel II. The Activity plan will be reviewed during the financial year 2008/2009 to gauge the level of preparedness and record accomplishments as per the stipulated target dates.

5.0 DEVELOPMENTS IN THE LEGAL AND REGULATORY FRAMEWORK

5.1.0 *Gazetting of Forex Bureau and Money Remittance Regulations*

The Foreign Exchange Regulations 2006 (FER 2006) was gazetted on 10th February 2006. The FER 2006 offers a new legal framework for licencing and supervision of forex bureaus and money remitters. The new legal framework introduced new opportunities for licencing and regulating money remittance businesses. The new law amended and consolidated the law relating to foreign exchange business in Uganda and provides for licensing of persons:

- Dealing in foreign currencies.(spot transactions)
- Making international payments and transfers.
- Other related and incidental matters.

In a bid to sensitise the operators and create general awareness of the law and regulations, the Supervision Function organized a workshop to explain the provisions of the FEA 2004 and FER 2006. The majority of Forex Bureau and Money Remittance business operators and other stakeholders attended the workshop.

5.2.0 *Convergence of Accounting Standards to a Single International Standard and what it means to the financial sector*

Global trends in the accounting sphere have recognized that users of financial statements come from wide diasporas thus the need to standardize financial reporting to ensure common understanding of financial statements. There is, therefore, convergence of accounting standards and principles in order to arrive at an international set of standards that are common to all and are understood by all.

The Financial Institutions Act 2004 (FIA 2004) provides that financial institutions' final accounts must comply with the international accounting standards and the provisions of the FIA 2004. The set of BOU guidelines issued to banks in the area of Asset Classifications and Loan-loss provisioning as derived from the FIA 2004 may not be consistent with the requirements of the International Accounting Standard 39 (IAS 39), thus a conflict in the legal requirement.

The IAS 39 was introduced and its major application became effective in 2005. The objective of the IAS 39 is to establish principles for recognizing, de-recognizing and measuring financial assets and liabilities.

These new developments may, in future, require the revision of the BOU regulations in order to take care of the new developments and best practices in the accounting and financial world. For the time-being, banks are advised to disclose the levels of loan-loss provisions as derived from a strict application of the IAS 39 and the BOU guidelines for the audited annual financial statements.

6.0.0 NATIONAL PAYMENTS SYSTEM DEVELOPMENTS

6.1.0 *Electronic Funds Transfer (EFT) Account Upgrade*

The EFT system was upgraded to enable banks to make straight-through-processing (STP) in September 2006. The banks are now capable of processing EFT's much faster and this should lead to more efficiency.

6.2.0 *Electronic Data Transmission*

A system that enables banks to send clearing data over the SWIFT telecommunications network was put in place in December 2006. This system is expected to improve data transmission efficiency, which could lead to reduction in clearing time, strengthen risk management and free bank staff who physically deliver data to the Clearing House.

6.3.0 *Capping Cheque Amounts*

In May 2006, the Governors of the Central Banks of Kenya, Uganda and Tanzania resolved that a limit should be put on the maximum amounts written on cheques (cheque capping) in the East African region. This was intended to improve the efficiency and safety in the transfer of monetary value in the respective countries.

After consultation with commercial banks, it was agreed that a limit of Shs.20mn be implemented in Uganda. The limits will come into effect in July 2007.

6.4.0 *Streamlining School fees payment process*

The Ministry of Education, Uganda Bankers Association and Bank of Uganda embarked on a project to streamline the fees/tuition payment process using the EFT system. In the proposed system, parents shall formally authorise a school to collect school fees/tuition from their bank accounts. Having been authorised by the parents, a school would prepare a list of the parents, along with their account numbers and banks and send those details to their bankers. Upon receipt of the parents' bank details from the school and the amount of school fees to be paid by each parent, the school's bankers would then use those details to collect school fees from the accounts of the parents in the different banks.

The system is expected to start in 50 pilot schools in and around Kampala in the first term of the academic year 2007. It will then roll out, in a phased manner, to the rest of the country in subsequent terms.

6.5.0 *The National Interbank Switch*

The Interbank Switch, which was implemented in 2005, continued to grow in terms of coverage and usage. At its inception, only 2 two banks were members of the Switch. By the end of the year, two more banks had joined the Switch, making the total number of ATM's connected well over 40.

6.6.0 *Personal Computer (PC) Banking*

As at the end of 2005, only 5 banks were utilising telephone banking. In 2006, 5 more banks connected their customers to PC banking. There are now close to 3000 customers transacting their banking operations from their Personal Computers.

6.7.0 *Telephone Banking*

The usage of the telephone as a banking channel is also growing in Uganda. By the end of 2006, five banks had this facility operational in their banks. The main uses were balance inquiry, mini-statement requests, and transfer of funds between customer's accounts, chequebook requisition and stop cheque instructions.

7.0.0 UGANDA BANKERS' ASSOCIATION

During the year, the Governor continued to hold monthly meetings with the Uganda Bankers' Association (UBA) to discuss matters relating to the banking industry in particular and the performance of the economy in general. The monthly meetings provide a platform for promoting high ethical standards and professionalism in the banking industry and encouraging harmonious banking practices and healthy competition in the increasingly dynamic and competitive banking environment.

The discussion points during the year focused on the following issues:

- The monthly Economic and Monetary Developments Reports.
- Methods to address the increasing levels of frauds and forgeries in the banking sector.
- Progress reports regarding the implementation of a Credit Reference Bureau in Uganda.
- Implementation of the National Inter-Bank Settlement (UNIS) System.
- The need to publish bank charges in the print media.
- Discrepancies between the Internal Financial Reporting System (IFRS), FIA 2004 and the Implementing Regulations.

8.0.0 CAPACITY BUILDING

Bank of Uganda places profound emphasis on enhancing the human capital through enabling access to training opportunities. During the year, thirty (30) officers attended various short term courses and workshops in the areas of risk based supervision, New Capital Accord, anti-money Laundering, microfinance, Credit Reference Bureaus and Consolidated Supervision. 16 officers participated in the joint cross border onsite examinations under an arrangement between the three East African Central Banks intended to facilitate the harmonization of bank supervision across the region.

9.0.0 REGIONAL COOPERATION INITIATIVES

9.1.0 Monetary Affairs Committee

The ninth Monetary Affairs Committee (MAC) of the three East African Central Banks was held in May 2006. A representative from Bank of the Republic of Burundi attended the meeting as observer, in preparation for the integration of Rwanda and Burundi into the East African Community which will lead to them becoming full members of the MAC. The meeting highlighted the importance of an East African

Common Market which would entail greater harmonisation and co-ordination of macro-economic policies. Necessary foundations for the establishment of the EAC Monetary Union were also deliberated and December, 2008 was targeted for the conclusion and signing of the EAC Common Market Protocol. Additional proposals related to financial institutions were agreed to as follows:

- The three partner states to hasten the enactment of the Anti Money Laundering legislation.
- Bank of Tanzania and Central Bank of Kenya were urged to finalise issues related to MFI legislation.
- The three central banks to expedite the ongoing process of establishing credit reference systems.
- Bank of Tanzania was requested to share its policy paper regarding the sharing of information between various domestic financial regulators, as a step towards the establishment of a co-ordinated Financial Services Regulatory Framework.
- Continue the implementation of Risk Based Supervision, move forward to fully implement Basel I and keep abreast with developments on Basel II.
- The three partner states were to devise mechanisms which could be adopted to discourage protracted use of court injunctions in the resolution of commercial disputes.
- The meeting deliberated on emerging issues such as the divergence between prudential regulations and International Financial Reporting Standards (IFRS) and agreed to liaise closely with banks, auditors and other stakeholders in order to come to a common position on this issue. Internet Payments, E-commerce and E-banking were also considered as new areas requiring a regional regulatory framework.
- The three Central banks to review the Business Continuity Plan guidelines for supervising financial institutions, in line with Bank for International Settlement (BIS) principles. In this regard, a Regional Workshop was organized under the auspices of the Business Continuity and Risk Management Office aimed at developing guidelines on Business continuity for supervised financial institutions within the region.

9.2.0 EAST AFRICA REGIONAL TECHNICAL ASSISTANCE CENTRE (East AFRITAC)

During the year, Uganda received technical assistance from East AFRITAC in the areas of regulation and supervision of Forex Bureaus. The East AFRITAC mission assessed the current legal and regulatory framework and supervisory practices of forex bureaus and money remittance business. The Mission provided guidance in drawing up off-site returns and reports and on-site inspection procedures manual to facilitate and ensure quality supervision over forex bureaus and money remittance companies.

With technical assistance from East AFRITEC, the function hosted a regional workshop on the harmonization of reporting requirements for financial institutions under International Financial Reporting Standards (IFRS) particularly International Accounting Standard (IAS) 39 and the Regulatory laws in Kenya, Tanzania and Uganda.

East AFRITAC organized regional workshops outside Uganda attended by Bank Supervision staff on key topics namely; Bank Resolutions and Liquidations, Risk-Based Supervision, Supervision of Banking Institutions and Basel II.

Appendix 1: COMMERCIAL BANK SUB-SECTOR INDUSTRY FIGURES

INDUSTRY FIGURES

Quarter ended: 31/12/2006 **(Figures in 000's of Ug. Shs)**

BALANCE SHEET STRUCTURE	Mar-06	Jun-06	Sep-06	Dec-06
A. ASSETS				
1. Cash and Cash Assets	145,581,202	134,028,035	163,562,974	219,257,967
2. Balances with BOU	260,408,052	236,272,333	276,776,561	255,942,087
3. Due from banks in Uganda	63,262,745	88,679,080	66,002,814	115,310,666
4. Due from Banks Abroad	507,081,667	548,564,774	556,344,790	709,619,712
5. Government Securities	1,039,892,731	1,019,892,560	991,153,002	1,008,057,544
6. Investments and Other Securities	4,706,758	4,620,035	4,108,511	4,089,843
7. (a) Loans & Overdrafts (gross)	1,230,054,634	1,393,291,634	1,486,716,915	1,632,994,375
(b) Less: Provisions	(32,936,690)	(38,166,378)	(38,721,570)	(37,354,312)
c Loans & Overdrafts (Net)	1,197,117,944	1,355,125,256	1,447,995,344	1,595,640,063
8. Administered Advances	53,082,332	56,960,557	66,219,420	69,591,112
9. Fixed Assets (net)	205,311,905	214,235,388	222,692,866	232,847,324
10. Other Assets	197,489,588	182,923,584	258,249,419	211,157,021
11.Total Assets(net)	3,673,934,925	3,841,301,603	4,053,105,701	4,421,513,338
12 Total Assets (BS100)	3,706,871,615	3,879,467,981	4,091,827,271	4,458,867,650
B. LIABILITIES				
13.Due to banks in Uganda	41,137,618	54,655,391	54,248,585	70,975,184
14. Borrowings from BOU	1,166,800	4,824,800	332,800	332,800
15. Deposits	2,572,097,344	2,741,045,565	2,823,698,344	2,961,241,870
16. Due to Banks Abroad	34,953,715	22,266,893	15,141,978	45,009,740
17. Administered Funds	82,024,775	88,304,418	127,659,400	115,130,831
18. Bills Payable	33,553,359	37,072,439	32,969,791	38,135,124
19. Other Liabilities	467,041,773	453,972,765	506,077,561	660,833,170
20. Total Liabilities	3,231,975,384	3,402,142,271	3,560,128,460	3,891,658,719
C. CAPITAL				
21. Paid-up-Capital	94,690,761	94,690,761	119,728,901	119,731,762
22. Share Premium	25,223,546	25,223,546	25,252,386	25,252,386
23. Retained Reserves	268,559,960	228,832,478	224,125,421	226,480,507
24. Other Reserves/Surbodinated Debt	20,249,986	24,279,158	22,909,580	22,147,707
25. Profit – Loss (current year)	33,235,287	66,133,389	100,960,953	136,242,257
26. Total Shareholders funds	441,959,541	439,159,332	492,977,241	529,854,619
D. OFF BALANCE SHEET ITEMS				
27. Letters of Credit	120,653,914	106,094,509	104,782,119	90,496,702
28. Guarantees and Performance Bonds	163,691,896	187,586,856	278,171,475	197,048,064
29. Unused Loans/Overdrafts commitme	228,301,001	196,293,310	229,080,887	309,264,258
30. Other off balance sheet items	28,570,896	24,245,714	105,025,572	143,179,318
31. TOTAL	541,217,707	514,220,390	717,060,053	739,988,341
INCOME STATEMENT STUCTURE				
E. INCOME				
32. Interest Income – Advances	53,111,053	58,548,491	64,361,369	71,742,133
33. Interest Income – Govt Securities	27,834,730	31,866,207	26,986,347	27,053,459
34. Interest Income – Deposits Abroad	5,056,376	4,977,266	6,654,942	6,697,998
35. Interest Income - Others	4,587,069	4,911,690	5,134,302	5,701,810
36. Charges, Fees and Commissions	26,105,447	28,051,592	28,084,483	30,598,710
37. Foreign Exchange Income	9,383,874	10,614,831	11,104,403	10,153,726
38. Income – Off Balance Sheet	2,918,626	3,405,352	2,888,994	2,544,103
39. Other Income	2,765,959	2,595,053	3,086,637	4,679,493
40. Total Income	131,763,133	144,970,482	148,301,477	159,171,432
EXPENSES				
41. Interest Expense – Deposits	(13,263,568)	(14,549,936)	(15,715,640)	(17,126,160)
42. Other Interest Expenses	(2,689,257)	(3,197,806)	(4,415,686)	(4,099,934)
43. Provisions for Bad Debts	(3,284,702)	(6,681,349)	(6,665,848)	(7,075,726)
44. Salaries, Wages, staff costs	(25,069,417)	(27,183,212)	(29,952,927)	(33,893,453)
45. Premises, Depreciation, Transport	(12,537,738)	(13,573,683)	(13,709,577)	(15,583,964)
46. Other Expenses	(28,123,313)	(29,737,820)	(33,981,613)	(36,681,136)
47. Total Expenses	(84,967,996)	(94,923,806)	(104,441,291)	(114,460,373)
48. EXTRAORDINARY Credits/Charges	-	-	-	-
49. Net Profit Before Tax	46,795,137	50,046,676	43,860,186	44,711,059
50. Corporation Tax	(13,559,839)	(16,728,112)	(8,974,571)	(9,773,935)
51. Net Profit After Tax	33,235,298	33,318,564	34,885,615	34,937,124
G. OTHER INFORMATION				
52. Non-performing loans	29,029,468	40,738,204	45,854,606	50,179,407
53. Specific Provisions	19,809,359	23,437,918	22,538,449	20,795,948
54. General Provisions	13,127,331	14,728,459	16,183,121	16,558,364
55. Interest in Suspense	4,248,580	5,350,853	4,319,793	3,219,082
56. Recommended Additional Provisions	-	-	-	-
57. Core Capital	374,110,546	379,382,658	415,911,911	443,975,205
58. Supplementary Capital	31,098,341	36,448,467	39,092,701	39,980,008
59. Total Qualifying Capital	405,208,887	415,831,125	455,004,612	483,955,213
60. Total Risk Weighted Assets	2,076,538,231	2,258,234,892	2,481,063,413	2,710,037,001
61. Short Term Assets	1,985,029,964	2,046,340,618	2,009,004,911	2,428,129,646
62. Short Term Liabilities	2,713,521,896	2,863,928,917	2,910,391,185	3,187,833,897
63. Forex Assets	993,884,845	1,067,473,466	1,130,229,830	1,297,323,220
64. Forex Liabilities	980,281,996	1,010,671,672	1,125,652,811	1,184,404,410
65. Forex Loans	403,232,081	449,663,334	460,747,461	463,352,592
66. Forex Deposits	781,352,961	814,961,924	885,555,249	948,714,940
67. Earnings Assets	2,900,011,203	3,095,325,766	3,137,340,609	3,567,992,199
68. Liquid Assets	1,202,259,533	1,179,356,039	1,214,547,714	1,500,170,292
69. Insider Loans	21,699,455	9,364,163	13,687,206	11,032,177
70. Large Exposure	514,298,011	651,861,409	703,122,376	730,779,672
71. Forex exposure	(22,385,715)	(33,064,739)	(37,230,605)	(32,672,207)

PERFORMANCE INDICATORS	Mar-06	Jun-06	Sep-06	Dec-06
CAMELS RATING				
Capital Adequacy				
Asset Quality				
Management				
Earnings				
Liquidity				
Sensitivity				
OVERALL				
(KEY: 1– Strong; 2– Satisfactory; 3– Fair; 4 – Marginal; 5 – Unsatisfactory)				
RANKING - 15 Banks				
Total Assets				
Total Deposits				
Total Loans / Advances				
Core Capital / Risk Weighted Assets (RWA)				
Non Performing Loans (NPLs) / Gross Loans				
Return on Average Assets				
Return on Average Equity				
Liquid Assets Ratio				
Forex Exposure Ratio				
MARKET SHARE				
% share of Assets				
% share of Loans				
% share of Deposits				
GROWTH RATES				
Total Assets	0.49%	4.66%	5.47%	8.97%
Total loans	2.02%	13.02%	7.08%	9.64%
Deposits	-0.89%	6.57%	3.02%	4.87%
Due from banks in Uganda	-37.38%	40.18%	-25.57%	74.71%
Due from banks abroad	-5.92%	8.18%	1.42%	27.55%
Government securities	5.20%	-1.92%	-2.82%	1.71%
MEASURES OF CAPITAL ADEQUACY				
Core Capital / RWA	18.02%	16.80%	16.76%	16.38%
Total Qualifying Capital / RWA	19.51%	18.41%	18.34%	17.86%
Off Balance Sheet Items / Total Qualifying Ca	133.57%	123.66%	157.59%	152.90%
Insider Loans / Core Capital	5.80%	2.47%	3.29%	2.48%
Large Exposures / Total Capital	126.92%	156.76%	154.53%	151.00%
NPLs – Provisions / Core Capital	-1.04%	0.68%	1.72%	2.89%
MEASURES OF ASSET QUALITY				
NPLs / Gross Loans	2.26%	2.81%	2.95%	2.95%
Provisions / NPLs	113.46%	93.69%	84.44%	74.44%
Earning Assets / Total Asset	78.93%	80.58%	77.41%	80.70%
Fixed Assets / Core Capital	54.88%	56.47%	53.54%	52.45%
Large Exposures / Total Exposures	28.19%	33.18%	30.97%	29.92%
MEASURES OF EARNINGS (ANNUALISED)				
Return on Average Assets	3.63%	3.55%	3.54%	3.30%
Return on Average Equity	34.10%	30.25%	29.94%	27.33%
Net Interest Margin	10.34%	11.02%	10.65%	10.73%
Yield on Advances	16.52%	17.14%	17.14%	17.63%
Cost of Deposits	2.05%	2.19%	2.26%	2.37%
Cost to Income	64.49%	65.48%	70.42%	71.91%
Overhead to Income	49.89%	48.63%	52.36%	54.13%
MEASURES OF LIQUIDITY				
Short term Gap	-19.65%	-21.07%	-22.03%	-17.04%
Liquid Assets / Total Deposits	46.74%	43.03%	43.01%	50.66%
Interbank Borrowings / Total Deposits	1.60%	1.99%	1.92%	2.40%
Borrowings from BOU / Total Deposits	0.05%	0.18%	0.01%	0.01%
Bank funded Advances/ Total Deposits	47.82%	50.83%	52.65%	55.15%
MEASURES OF MARKET SENSITIVITY				
Forex Exposure / Core Capital	-5.98%	-8.72%	-8.95%	-7.36%
Forex Loans / Forex Deposits	51.61%	55.18%	52.03%	48.84%
Forex Assets / Forex Liabilities	101.39%	105.62%	100.41%	109.53%

Appendix 2: TABLES FOR COMMERCIAL BANKS

Table 1: COMMERCIAL BANKS' ASSETS AND LIABILITIES (Shillings, billions as at December 31)

ASSETS	**2002**	**2003**	**2004**	**2005**	**2006**
Government securities	885	914	953	988	1,008
Loans & advances	661	847	977	1,258	1,703
Amounts with financial institutions abroad	394	640	682	539	710
Amounts with financial institutions in Uganda	55	60	74	104	120
Investments and financing schemes	5	4	4	4	3
Fixed assets and net due from o wn offices	114	166	165	208	236
Other securities	12	7	7	12	64
Cash & balances with BoU[2]	218	229	346	387	412
Other assets	113	125	107	187	203
Total	**2,456**	**2,991**	**3,315**	**3,689**	**4,459**
LIABILITIES					
Deposits	1,822	2,214	2,438	2,595	2,961
Due to financial institutions	77	56	113	171	225
Provisions	50	94	87	121	154
Borrowings from BoU	2	1	22	1	0.3
Administered funds	30	65	66	88	115
Other liabilities	208	263	187	280	474
Capital (excl. year-to-date profits)1	201	199	269	309	394
Year to date profit2	65	98	132	124	136
Total Liabilities & Capital	**2,456**	**2,991**	**3,315**	**3,689**	**4,459**

Note:

1. Figures for closed banks are excluded from the data for subsequent periods.
2. From December 2002 onwards, all commercial banks financial year-ends coincide with the calendar year end.

Source: Commercial banks returns submitted periodically to BoU

[2] Investments in Repos, reported under the line item 'Bank of Uganda Bill' in the earlier years were classified into other securities.

Table 2: COMMERCIAL BANKS' COMPARATIVE INCOME STATEMENTS
(Shillings, billions)

PROFIT & LOSS	2002	2003	2004	2005	2006
Income					
Interest on advances	81	122	158	186	244
Interest on government securities	75	132	128	121	114
Other interest income	12	16	24	35	48
Total interest income	**168**	**270**	**310**	**342**	**406**
Total non-interest income	93	123	171	168	178
Total Income	**261**	**393**	**481**	**510**	**584**
Expenses					
Total Interest Expense	28	50	54	61	75
Salaries & other staff costs	64	73	86	99	116
Depreciation, transport & property	25	34	43	46	56
Other non-interest expense	55	96	114	129	152
Total Expenses[3]	**171**	**252**	**297**	**335**	**399**
Net after tax profit	**65**	**98**	**132**	**124**	**136**

Note:

1. Figures Source: Commercial banks' quarterly income statements.

[3] Total expenses is exclusive of corporation tax expenses

Table 3: SECTORAL DISTRIBUTION OF COMMERCIAL BANKS' CREDIT
(Shillings, billion)

Sector	**2002**	**2003**	**2004**	**2005**	**2006**
Agriculture	54	81	108	157	117
Manufacturing	183	222	219	241	271
Trade and Commerce	173	191	146	183	266
Transport, Comm. Elec. & Water:	45	61	63	95	130
Building and Construction	20	27	39	57	96
Other Services[2]	186	265	402	525	823
Total	**661**	**847**	**977**	**1,258**	**1,703**

Note:
1. Figures for closed banks are excluded from the data.
2. Includes bills of exchange, real estate and lending to Non-banking Financial Institutions (NBFIs), lending to government and mining & quarrying.

Source: Commercial banks end of year returns.

Table 4: STRUCTURE OF COMMERCIAL BANKS DEPOSITS (Shillings, billions)

Type of Deposits	**2002**	**2003**	**2004**	**2005**	**2006**
Demand and Call	1,175	1,486	1,624.8	1,593	1,821
Savings	302	348	418.6	492	570
Time	345	380	394.5	510	570
Total	**1,822**	**2,214**	**2,437.9**	**2,595.1**	**2,961**

Note:

1. Figures for closed banks are excluded from the data for subsequent periods.

Source: Commercial banks end of year returns submitted to BoU.

Table 5: KEY FINANCIAL INDICATORS

INDICATOR	2002	2003	2004	2005	2006
CAPITAL ADEQUACY					
Core Capital/RWAs (%)	18.0	14.4	18.8	16.8	16.4
Owner's funds – Equity (Shs bn)	214	301	403	432	530
Core capital (Shs bn)	195	219	313	348	444
Paid-up Capital (Shs bn)	86	86	95	95	120
EARNINGS RATIOS					
ROA (%)	2.7	3.7	4.3	3.4	3.1
ROE (%)	24.4	38.1	37.6	28.6	25.7
LIQUIDITY					
Liquid assets/Total deposits (%)	86.08	59.4	63.1	60.0	50.7
Bank funded advances/Total deposits (%)	36.39	35.3	37.4	46.3	55.2
Liquid assets (Shs bn)	1,564	1,314	1,538	1,558	1500
ASSET QUALITY					
Loans and Advances (Shs bn)	661	847	977	1,258	1,703
Non Performing Advances-NPA (Shs bn)	20	61	21	29	50
General and Specific Provisions for NPA (Shs bn)	16	47	21	30	37
Specific Provisions (Shs bn)	10	39	10	19	21
NPA/Total Advances (%)	3.0	7.2	2.2	2.3	3.0
Specific Provisions/NPA (%)	53.2	62.9	45.1	66.8	41.4

Note:

ROA - Return on Assets
ROE - Return on Equity
NPA - Non Performing Assets (primarily loans and advances)
RWA - Risk Weighted Assets
Source: Monthly returns of Commercial banks

Appendix 3: CREDIT INSTITUTIONS INDUSTRY FIGURES

CONSOLIDATED

QUARTERLY FINANCIAL PERFORMANCE ANALYSIS FOR CREDIT INSTITUTIONS AS AT 31ST DECEMBER 2006 (Amounts in millions)

	Mar - 06	Jun - 06	Sept - 06	Dec - 06
CASH :				
(a) Uganda Currency	4,076	3,564	4,530	3,900
(b) Other Currency	6	6	6	6
BALANCE WITH:			-	-
(a) Commercial banks in Uganda	33,963	33,552	36,068	37,920
(b) Commercial banks outside Uganda	2,443	3,747	4,942	3,400
(c) Associated companies	-	-	-	-
TOTAL:	**40,488**	**40,870**	**45,546**	**45,226**
			-	-
INVESTMENTS:	-	-	-	-
(a) In govt. securities	16,075	15,255	12,809	13,009
(b) In other stocks & shares	70	70	70	70
(c) Term Deposits with	-	-	-	-
affiliated companies	-	-	-	-
(d) Others	1,028	3,083	1,103	-
Total Investments	**17,173**	**18,408**	**13,982**	**13,079**
BANK OF UGANDA SCHEMES:	-	-	-	-
(a) Develop. Fin. Fund	-	-	-	-
(b) Crop Fin. Support Fund	-	-	-	-
(c) Others	-	-	-	-
	-	-	-	-
	-	-	-	-
ADVANCES:	-	-	-	-
(a) Loans	-	-	-	-
(i) Secured	22,054	23,828	23,462	33,079
(ii) Unsecured	7,865	6,117	8,613	15,063
(b) Mortgage Loans	79,846	83,389	86,949	91,691
(c) Administered Loans	19,111	18,594	19,401	14,018
Total Advances	**135,033**	**138,907**	**148,155**	**153,850**
PREMISES AND OTHER FIXED ASSETS:	**15,186**	**16,009**	**16,545**	**16,501**
(a) Credit Inst. Premises	4,707	4,683	4,660	4,680
(b) Lease Hold Improvements	1,221	1,226	1,271	1,277
(C) Staff Houses	79	65	51	-
(d) Furniture & Equipment	3,261	3,511	3,439	2,717
(e) Mot.Veh. & Other Fix. Assets	5,918	6,524	7,125	7,827
Net Due From Own Offices In Uganda For	-	-	-	-
Items In Transit	-	5	14	3
Other Assets	7,631	8,061	7,827	9,965
TOTAL ASSETS.	**215,512**	**222,260**	**232,068**	**238,625**
LESS:	-	-	-	-
DEPOSIT LIABILITIES:	-	-	-	-
(a) Dep. payable after notice	-	-	-	-
(b) Savings	67,663	72,913	76,012	80,952
(c) Time	30,897	30,438	29,816	25,468
(d) Accrued Interest	1,233	1,777	2,289	435
(e) Agency Funds	33,580	33,241	34,230	34,028
Total Deposit Liabilities	**133,372**	**138,369**	**142,347**	**140,884**
BALANCES DUE TO COMMER. BANKS	-	-	-	-
ASSOCIATED COMPANIES IN UGANDA	11,864	13,082	16,257	24,097
(a) Short-Term Borrowings	6,157	6,978	9,730	12,288
(b) Long-Term Borrowings	5,707	6,104	6,528	11,809
ADMINISTERED FUNDS:	**19,111**	**18,594**	**19,401**	**20,135**
(a) Local Sources	19,111	18,594	19,401	20,135
(b) External Sources	-	-	-	-
BORROWING AT BANK OF UGANDA	-	-	-	-
(a) Crop Finance	-	-	-	-
(b) Others	-	-	-	-
NET DUE TO OWN OFFICES IN UGANDA	-	-	-	-
FOR ITEMS IN TRANSIT	6	-	-	-
Other Liabilities	4,141	4,668	5,115	6,250
PROVISIONS:	**8,682**	**7,841**	**8,289**	**8,283**
(a) Bad Debts	3,720	2,911	3,577	3,612
(b) Depreciation	3,880	4,151	4,367	4,352
(c) Others	1,083	780	344	320
TOTAL LIABILITIES	177,176	182,555	191,409	199,649
NET ASSETS	**38,335**	**39,706**	**40,660**	**38,976**
FINANCED BY:	-	-	-	-
CAPITAL	**37,458**	**37,152**	**37,179**	**33,789**
(a) Paid up Capital	21,282	21,281	21,281	19,281
(b) Profits/ Retained Reserves	15,583	15,290	15,279	13,814
(c) Accumulated Losses	(392)	(392)	(392)	(392)
(d) Revaluation Reserves	342	342	342	342
(e) Other Reserves	643	630	633	635
(f) Balance Disposable	-	-	36	108
PROFIT AND (LOSS)	-	-	-	-
(a) Revenue for Current Year	9,288	19,785	29,515	39,401
(b) Expend. for Current Year	8,411	17,231	26,035	34,214
(c) Year to Date Profit/Loss	877	2,554	3,481	5,187
	-	-	-	-
NETWORTH	**38,335**	**39,706**	**40,660**	**38,976**

CONSOLIDATED INCOME STATEMENT	-	-	-	-
	Mar - 06	**Jun - 06**	**Sep - 06**	**Dec - 06**
Interest Income	-	-	-	-
Interest on advance and discount	5,259	5,851	5,906	6,675
Fee Income from advance and discount	38	28	43	37
Interest on BOU schemes	-	-	-	-
Interest on amounts due from banks:	160	140	213	161
(da) Banks in Uganda	139	123	173	111
(db) Banks outside Uganda	20	18	40	50
Interest on Uganda Govt securities	523	380	300	320
Interest on investment	326	290	392	575
Other interest income	157	113	191	145
TOTAL INTEREST INCOME	**6,463**	**6,802**	**7,045**	**7,913**
Interest expense	-	-	-	-
Interest on deposit from public:	-	-	-	-
(aa) Demand deposits	-	-	-	-
(ab) Savings deposits	306	317	385	363
(ac) Time deposits	976	934	878	311
Interest on authorised BOU borrowing	-	-	-	-
interest on overdraft at the BOU	-	-	-	-
Other BOU penalty fees	-	-	-	-
Interest on amounts due to banks:	-	-	-	-
(ea) Banks in Uganda	220	217	312	426
(eb) Banks outside Uganda	-	-	-	-
Other interest expense	508	538	526	676
TOTAL INTEREST EXPENSE	**2,009**	**2,006**	**2,102**	**1,775**
NET INTEREST INCOME	**4,453**	**4,796**	**4,944**	**6,138**
PROVISION FOR BAD DEBTS	786	(568)	804	736
NON - INTEREST INCOME	-	-	-	-
Income from off-balance sheet items	-	-	-	-
Income from foreign exchange operations	8	38	12	(86)
Charges & fees on deposits	747	634	682	783
Other non interest income	503	919	466	704
Other charges, commissions& fees	562	413	856	1,124
TOTAL NON - INTEREST INCOME	**1,819**	**2,004**	**2,015**	**2,524**
NON - INTEREST EXPENSE	-	-	-	-
Salaries and wages	1,558	1,665	1,677	1,980
All other staff costs	469	492	686	586
Premises and fixed assets	304	330	330	364
Depreciation	497	465	536	563
Motor vehicle costs	132	202	211	283
Other non interest expense	1,238	1,638	1,506	1,957
Pre - Operative expenses	203	-	-	-
TOTAL NON - INTEREST EXPENSE	**4,401**	**4,792**	**4,946**	**5,732**
Extra ordinary credits/charges	-	-	-	-
Taxation	208	891	353	646
NET LOSS/INCOME	**877**	**1,685**	**856**	**1,549**

	PERFORMANCE INDICATOR	Mar - 06	Jun - 06	Sept - 06	Dec - 06
A	*2-Satisfactory; 3-Fair; 4-Marginal; 5-Unsatisfactory*				
1	Capital Adequacy	2	2	2	2
2	Asset Quality	2	2	2	2
3	Management	2	2	2	2
4	Earnings	2	3	3	3
5	Liquidity	2	2	2	2
6	**OVERALL**	2	2	2	2
B	**MEASURES OF CAPITAL ADEQUACY**				
	Core Capital/RWA	26%	25%	24%	21%
	Total Capital /RWA	27%	26%	25%	22%
	Fixed Assets/Total Capital	29%	31%	31%	33%
	NPL-Provisions/Core Capital	17%	11%	16%	18%
	Fixed Assets/Core Capital	31%	32%	32%	35%
C	**MEASURES OF ASSET QUALITY**				
	NPA/Total Advances	8%	5%	6%	7%
	Specific Provisions/ NPA	29.0%	29.2%	28.1%	29.4%
	Total Provisions/Total Advanc	3%	2%	3%	3%
D	**MEASURES OF EARNINGS**				
	Return on Assets	0.45%	0.83%	0.40%	0.69%
	Non-Interest Exp/Total Assets	2%	2%	2%	3%
	Net-Interest Margin(NI/Earning	2%	2%	2%	3%
	Non-Interest Income/Total Inc	22%	23%	22%	24%
	Operating Exp(Non-int)/Net Ir	502%	284%	578%	370%
	Earning assets/Total assets	88%	88%	88%	87%
	Return on Equity	2.4%	4.5%	2.3%	4.4%
	Yield on Advances(int. on Adv	5%	5%	5%	5%
	Cost of Deposits(Int. on depos	1%	1%	1%	0%
	Cost to Income (total exp+tax	89%	81%	91%	85%
	Interest Income/ Interest Expe	322%	339%	335%	446%
	Overheads/ Total Income	63%	48%	63%	62%
E	**MEASURES OF LIQUIDITY**				
	Liquid Assets/ Total Public De	42.4%	40.6%	41.0%	41.3%
	Total Loans/ Total Public Depo	70.9%	71.5%	72.4%	75.4%
	Fixed Deposits/ Total Public D	23.2%	22.0%	20.9%	18.1%
	Savings Deposits/ Total Public	50.7%	52.7%	53.4%	57.5%

Appendix 4 Tables for credit institutions

Table 1: STATEMENT OF ASSETS AND LIABILITIES FOR CREDIT INSTITUTIONS (Shillings, millions)

	Dec-03	Dec -04	Dec-05	Dec-06
ASSETS				
Cash	2,900	2,299	3,606	3,906
Balances with commercial banks and associated companies in Uganda	16,454	22,386	32,387	37,920
Balances with commercial banks outside Uganda	2,028	2,874	3,499	3,400
Investments	22,462	31,635	20,551	13,079
of which Government securities	11,571	22,172	20,424	13,009
Loans and advances	82,928	103,711	129,810	153,850
of which Administered Loans	25,672	22,978	19,801	20,134
Premises and fixed assets	12,254	12,978	15,123	16,501
Other Assets	5,522	5,860	8,707	9,968
Total assets	144,548	181,743	213,683	238,625
LIABILITIES				
Total deposit liabilities to depositors	83,815	110,131	131,281	140,884
Balances due to commercial banks/associated companies	4,000	5,947	9,709	24,097
Administered funds [1]	25,672	22,978	19,801	20,135
Other Liabilities	4,877	6,024	7,595	6,250
Provisions	6,150	4,626	7,184	8,283
Capital	18,203	28,169	32,320	33,789
of which paid up capital	10,182	20,282	21,282	19,281
Profit for current year	1,832	3,869	5,793	5,187
Total liabilities	144,548	181,743	213,683	238,625

Note:

1. Administered Mortgage funds are managed by Housing Finance Company of Uganda under an agreement with the Government of Uganda. Source: Monthly returns of Credit Institutions.

Table 2: COMPARATIVE INCOME STATEMENT FOR CREDIT INSTITUTIONS.
(Shillings, million)

	Dec -03	Dec - 04	Dec -05	Dec - 06
Income				
Interest on loans and advances	9,109.36	13,524.26	19,413.38	22,200.80
Interest on government securities	1,467.35	1,911.70	2,257.15	1,522.60
Other interest income	2,031.42	1,977.54	2,301.49	2,651.14
Total interest income	12,608.13	17,413.51	23,972.03	26,374.53
Total non-interest income	4,794.28	7,516.69	8,452.74	8,211.57
Total Income	17,402.41	24,930.19	32,424.77	34,586.10
Expenses				
Total Interest Expense	3,096.37	4,093.55	6,870.26	6,903.78
Provisions for bad debts	779.71	846.45	1,095.03	1,581.16
Salaries & other staff costs	4,865.87	6,782.16	8,116.87	8,799.55
Other non-interest expense	5,696.45	7,404.31	8,540.84	10,043.92
Total Expenses	14,438.40	19,126.46	24,623.00	27,328.42
Taxation	1,131.90	1,934.54	2,009.08.	2,070.70.
Net Income	**1,832.11**	**3,869.19**	**5,792.69**	**5,186.98**

Source: Quarterly returns of Credit Institutions.

Table 3: SECTORAL DISTRIBUTION OF LOANS AND ADVANCES OF CREDIT INSTITUTIONS **(In percentage of the total)**

	Dec 02	Dec 03	Dec 04	Dec 05	Dec 06
Agriculture	0.3	0.1	0.0	0.5	0.9
Manufacturing	1.4	4.1	0.4	2.0	1.2
Trade and Commerce	16.8	15.5	18.8	22.8	20.4
Transport and communication	1.8	1.2	2.5	0.6	1.5
Building and construction	78.9	76.8	73.2	69.1	69.4
Other services	0.8	2.3	5.2	5.0	6.6
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: Monthly returns of Credit Institutions.

Table 4: LIQUID ASSETS OF CREDIT INSTITUTIONS
(Shillings, millions)

	Dec 02	Dec 03	Dec 04	Dec 05	Dec 06
Cash in vaults	2,665.49	2,900.28	2,299.01	3,606.11	3,906.19
Treasury bills holdings	9,046.69	11,570.84	22,171.90	20,423.59	13,008.96
Balances at commercial banks in Uganda	20,669.10	16,454.27	29,085.69	32,386.65	37,920.08
Balances at commercial bank outside Uganda	1,332.50	2,027.82	2,874.20	3,498.91	3,400.19
Postbank (U) Ltd investment in shares and UK Government bonds	7,460.20	7,051.00	1,312.67	-	-
TOTAL	41,173.98	40,004.21	57,743.47	59,915.26	58,235.41

Source: Monthly returns of Credit Institutions

Table 5: Structure of deposits of credit institutions
(Shillings, millions)

Type of deposit	Dec - 02	Dec - 03	Dec - 04	Dec - 05	Dec - 06
Savings Deposits	43,005.2	48,104.1	61,987.3	66,394.73	80,952.13
Time Deposits	9,699.0	10,550.4	19,298.0	30,953.61	25,467.96
Other Deposits (Agency funds) 1	19,914.3	24,127.5	28,302.9	32,883.56	34,028.37
Accrued Interest	622.2	1,033.2	542.5	1,048.95	435.281
Total Liabilities to Depositors	73,240.7	83,815.2	110,130.7	131,280.85	140,883.74

Note:
1. "Agency funds" represent amount collected so far from the beneficiaries of the government pool house sale scheme and interest charged thereon, by the Housing Finance Company Ltd.

Source: Monthly statement of assets and liabilities from the Credit Institutions.

Table 6: KEY FINANCIAL INDICATORS.

Indicator	**Dec 02**	**Dec 03**	**Dec 04**	**Dec 05**	**'Dec 06**
CAPITAL ADEQUACY					
Core Capital/RWAs (%)	24.70	20.02	26.56	24.65	21.00
Owner's funds (Equity)	16,682.50	20,035.19	32,038.07	38,113.17	38,975.81
EARNINGS RATIOS					
ROA (%)	1.60	1.32	2.44	2.99	2.31
ROE (%)	11.61	9.14	12.08	15.20	13.31
LIQUIDITY					
Liquid assets/Total deposits (%)	56.22	47.73	52.43	45.64	41.34
Total advances/Total deposits (%)	57.24	68.31	73.31	69.16	75.41
Liquid assets (Shs m)	41,173.95	40,004.2	57,743.47	59,915.25	58,235.40
ASSET QUALITY					
Loans and Advances (Shs m) 1	41,925.3	57,255.64	80,733.75	110,009	139,832
Non Performing Advances-NPA (Shs m)	4,650.17	6,620.83	3,149.0	6,177	8,674.12
Total Provisions for NPA (Shs m)	2,168.02	3,807.06	2,300.0	3,250	3,611.51
NPA/Total Advances (%)	11.09	11.56	3.90	5.62	6.20
Total Provisions/NPA (%)	46.6	57.5	73.04	52.61	41.63

Note:

1. Loans and advances exclude administered loans.

Source: Quarterly returns of Credit Institutions

APPENDIX 5: TABLES FOR MICROFINANCE DEPOSIT TAKING INSTITUTIONS

Table 1: STATEMENT OF ASSETS AND LIABILITIES FOR MICRODEPOSIT TAKING INSTITUTIONS (Shillings, Millions)

	Dec-04	Dec-05	Dec-2006
Assets			
Notes and Coins		2,292.79	3,596.75
Balances with Financial Institutions in Uganda		12,922.73	14,612.28
Investments in Government Securities		11,448.34	16,195.78
Net loans outstanding		63,158.02	78,866.42
Inter branch / Due from own offices		171.86	46.03
Net Fixed Assets		8,008.34	9,625
Long term investments		408.65	1,069.36
Other Assets		5,274.73	6,558.25
Total assets		**103,685.46**	**128,570.72**
Liabilities			
Total deposit liabilities to depositors		15,482.30	23,230.33
Loan Insurance Funds		15,168.59	15,271.78
Borrowings		32,710.43	41,275.18
Other Liabilities		4,598.63	6,636.48
Grants / Deferred Income		1,009.90	1,274.12
Inter-branch / Due to own offices		0.31	23.38
Other Long-term liabilities		3,456.32	481.81
Total liabilities		**72,426.46**	**88,193.08**
FINANCED BY			
Capital		18,571.79	22,698.40
Subordinated Debts		9,787.21	13,879.22
Preference Shares		2,900.00	3,800.00
Total Liabilities		**103,685.46**	**128,570.72**

Table 2: INCOME STATEMENT FOR MICROFINANCE DEPOSIT TAKING INSTITUTIONS
(Shillings, Million)

	Dec - 02	Dec - 03	Dec - 04	Dec - 05	Dec- 06
Income					
Total Credit income				32,743.00	41,744.68
Total Other Income				2,419.87	3,312.91
Gross Financial income				35,162.87	45,057.59
Total Financial expenses				6,087.39	6,818.72
Provision for bad debts				2,918.68	2,420.48
Net Financial Income				26,156.80	35,818.39
Total Operating Expenses on Financial services				25,167.99	32,910.79
Net Income from operations				**988.81**	**2,907.60**
Total Grant Income for Financial Services				255.54	688.43
Total Grant Income for Non-Financial Services				22.10	0.00
Income from Non- Financial services				35.51	520.59
Total Operating Expenses for non-financial services				73.85	6.94
Net operating profit from Non –Financial services				(38.34)	513.65
Net Profit				**1,228.08**	**4,109.67**
Corporation Tax				105.39	934.94
Net Profit after Tax				1,122.69	3,174.73
Retained Earnings				1,122.69	3,174.73

Source: Quarterly returns of MDIs.

Table 3: KEY FINANCIAL INDICATORS. MICROFINANCE DEPOSIT TAKING INSTITUTIONS (SHILLINGS IN MILLIONS)

Indicator	Dec 01	Dec 02	Dec 03	Dec 04	Dec 05	Dec 06
CAPITAL ADEQUACY						
Core Capital					17,299.08	21,111.08
Total Capital					23,988.16	32,833.04
Core Capital/RWAs					21.73%	21.74%
Total Capital /RWA					30.13%	33.82%
EARNINGS RATIOS						
Profits/Loss					1,122.69	3,174.73
ROA					1.08%	1.44%
ROE					6.05%	8.16%
LIQUIDITY						
Liquid assets* (Shs m)					13,760.52	24,497.59
Liquid assets/Total deposits					88.90	105.46
Total loans/Total deposits**					76.19	60.37
ASSET QUALITY						
Total Loans					65,736.54	79,458.67
Portfolio in Arrears (PIA)					3,622.65	2,383.90
Portfolio at Risk ratio					5.51%	3.00%
Specific Provisions/ for PIA					57.09%	57.95%

* Liquid assets exclude encumbered fixed deposits
** Lending ratio excludes loans financed by other sources

Appendix 6: TABLES FOR FOREX BUREAUS

Table 1

ACTUAL VOLUME OF BUREAU TRANSACTIONS IN US DOLLARS 2005-2006

	2005		2006	
PERIOD	**PURCHASES**	**SALES**	**PURCHASES**	**SALES**
JANUARY	62,619,484.24	65,250,886.24	96,993,910.06	95,190,446.99
FEBRUARY	52,980,702.95	70,631,059.14	68,718,594.54	86,076,765.07
MARCH	62,076,087.66	74,543,278.35	81,474,736.29	92,168,631.84
APRIL	68,727,105.64	75,292,833.59	80,565,059.89	80,565,059.89
MAY	70,056,621.34	81,397,363.50	94,643,567.52	100,641,996.35
JUNE	67,525,959.72	78,514,793.90	83,146,024.47	97,239,072.71
1ST H TOTAL	**383,985,961.55**	**445,630,214.72**	**505,541,892.77**	**551,881,972.85**
JULY	84,118,785.61	86,363,936.98	91,721,763.90	94,967,302.30
AUGUST	89,291,382.47	99,557,616.00	98,208,514.67	96,435,024.52
SEPTEMBER	89,715,069.65	100,897,943.65	92,942,940.03	92,298,216.63
OCTOBER	86,155,189.66	94,211,268.32	87,866,804.17	79,199,172.16
NOVEMBER	85,732,513.21	95,884,044.48	93,764,637.95	98,231,234.29
DECEMBER	104,869,821.66	110,428,868.19	92,406,340.99	92,225,457.77
2ND H TOTAL	**539,882,762.26**	**587,343,677.62**	**556,911,001.71**	**553,356,407.67**
TOTAL	**923,868,723.81**	**1,032,973,892.34**	**1,062,452,894.48**	**1,105,238,380.52**

Appendix 7: REGISTERED COMMERCIAL BANKS AS AT 31 DECEMBER 2006

Name of Bank	Physical Address	Telephone and Fax Numbers	E-mail Address
Allied Bank International (U) Ltd.	Plot 24 Jinja Rd. P.O. Box 2750 Kampala	256-041-36535/6 256-041-233980 256-041-230436 Fax;256-041-230439 256-041-230669	allied@starcom.co.ug
Bank of Baroda (U) Ltd.	Plot 18, Kampala Rd. P.O. Box 7197 Kampala	256-014-33680/4 256-041-232783 Fax: 256-041-230781 256-041-258263	Bob10@calva.com bobho@spacenetuganda.com
Barclays Bank (U) Ltd.	Plot 16 Kampala Rd. P.O. Box 2971 Kampala	256-041-30972/6 256-041-232594 Fax:256-041- 341329 256-041-259467	Barclays@infocom.co.ug
Cairo International Bank Ltd	Plot 30 Kampala Rd. P.O .Box 7052 Kampala	256-041-235666 256-041-30136/9 256-041-30140/1 256-041-230135 Fax: 256-041-230130 256-041-230135	cib@spacenetuganda.com
Centenary Rural Development Bank	Plot 7 Entebbe Rd P.O. Box 1892 Kampala	256-041-51276/7 256-041-234872 256-041-346856 256-041-232393 Fax:256-041-51273/4	crdb@imul.com
Citibank (U) Ltd.	Plot 4 Ternan Avenue, Centre Court	256-041-40945/9 Fax:256-041-340624	

	P.O. Box 7505 Kampala		
Crane Bank (U) Ltd.	Plot 38 Kampala Rd Crane Chambers P.O. Box 22572 Kampala	256-041-345345 256-041-231337 256-041-341400 256-041-341410 256-75-2743500 256-75-2743502 Fax:256-041-231578 256-041-232958 256-041-254956	cranebank@cranebankltd.com cranebank@imul.com
Diamond Trust Bank (U) Ltd.	Diamond Trust Building Plot 17/19 Kampala Rd	256-041-331/2/3 Fax:256-041-342286	dtbu@spacenetuganda.com
DFCU Bank Ltd.	Plot 13 Kimathi Avenue P.O. Box 70 Kampala.	256-041-256891 256-041-232212 256-041-256125 Fax:256-041-344260 256-041-231687 256-041-259435	dfcubank@dfcugroup.com
National Bank of Commerce Ltd.	Plot 13A Parliament Avenue Cargen House P.O. Box 23232 Kampala	256-041-47700/2 256-041-347699 Fax:256-041-347701	nbc@swiftuganda.com
Nile Bank Ltd.	Plot 22 Jinja Road Spear House P.O. Box 2834 Kampala	256-75-2778867 256-78-2226110 256-041-346904 256-041-349108 256-041-349116 Fax:256-041-257779	nilebkug@imul.com nilebku@imul.com

Orient Bank Ltd.	Plot 10 Kampala Road Uganda House P.O. Box 3072 Kampala	256-041-36012/5 Fax:256-041-236066 256-041-348039	orient@starcom.co.ug
Stanbic Bank (U) Ltd.	Plot 45 Kampala Rd P.O .Box 7131 Kampala	256-78-2224111 256-041-231152 256-041-230811 256-041-231151 Fax:256-041-231116 256-041-230608	stanbic@starcom.co.ug
Standard Chartered Bank (U) Ltd.	Plot 5 Speke Rd P.O. Box 7111 Kampala	256-041-58211/7 256-041-49505/9 Fax:256-041-342875 256-041-231473	scb.uganda@ug.standardchartered.com
Tropical Africa Bank Ltd.	Plot 27 Kampala Rd P.O .Box 7292/9485 Kampala	256-041-31990/5 Fax:256-041-232296	Tabu10@calva.com

Appendix 8: REGISTERED CREDIT INSTITUTIONS AS AT 31 DECEMBER 2006

Name of Credit Institution	Physical Address	Telephone and Fax Numbers	E-mail Address
Capital Finance Corporation Ltd	Plot 4 Pilkington Road (Colline House) P.O. Box 21091 Kampala	Tel-256-041-345200 Fax-256-041-258310	cfc@starcom.co.ug
Commercial Microfinance Ltd	Plot 19 Nakivubo Place P.O. Box 24594 Kampala	Tel- 256-041-343134 256-041-348717 256-041-231081 Fax: 256-041-341003	ho@cmf.co.ug
Housing Finance Company of Uganda Ltd.	Plot 25, Kampala Road P.O. Box 1529 Kampala	Tel- 256-041-341227 256-041-259651 256-041-231509 256-041-255618 Fax: 256-041- 341429	hfcu.@hfcultd.co.ug
Mercantile Credit Bank Ltd.	Plot 10, Old Port Bell Road P.O .Box 620 Kampala	Tel- 256-041-235967 Fax: 256-041-345637	Info@mcb.co.ug
PostBank Uganda Ltd.	Plot 11/13 Nkrumah Road. P.O. Box 7189 Kampala	Tel- 256-041-258551/3 Fax: 256-041-347107	postbank@imul.com

Appendix 9: REGISTERED MICRO FINANCE DEPOSIT - TAKING INSTITUTIONS AS AT 31st DECEMBER 2006

INSTITUTION	Physical Address	Telephone number and Fax	E-mail
FINCA Uganda Ltd (MDI).	Plot 22,Ben Kiwanuka Street Kampala P.O. Box 24450, Kampala	Tel: 256 041- 231134 Fax: 256 041- 340078	finca@finca.or.ug
PRIDE Microfinance Ltd (MDI)	Plot 8 - 10 Entebbe Road. P.O. Box 7566, Kampala	Tel: 256- 041- 346297 256- 041- 346930 Fax:256 41- 346147	pml@pridemicrofinance.co.ug
Uganda Finance Trust Ltd (MDI)	Plot 59, Buganda Rd Kampala P.O.Box 6972 Kampala	Tel: 256- 041- 342275 256-041-255146 Fax:256-041-255144	u-trust@utlonline.co.ug
Uganda Microfinance Ltd.(MDI)	Plot 49/51 Bukoto Street, Kamwokya Kampala P.O. Box 129 Kampala	Tel: 256-041- 262437 Fax:256-041- 262436	ugandaumu@umu.co.ug

APPENDIX 10: REGISTERED FOREX BUREAUS AND MONEY REMITTERS AS AT 31st DECEMBER 2006

	NAME	ADDRESS	TELEPHONE	FAX	EMAIL	DATE ESTABLISHED
1.	ACCESS FXB LTD	P O Box 27632, Kampala Plot No. 1744 Muyenga Road in Kabalagala Trading Centre, Kampala				29-11-2006
2.	ALREADY FXB LTD	P.O. Box 9917 Kampala Plot No. 15 Luwum St., Kampala				12-10-95
3.	ARROW FXB LTD	P.O. Box 7353 Kampala Plot 6 Bombo Road, Kampala				01-08-93
4.	BIASHARA FXB LTD	P.O. Box 3011 Kampala Plot 12 Johnstone Street, Kampala				22-10-01
5.	BICCO FXB LTD	P.O. Box 3307, Kampala Plot 1 Colville Street /Portal Avenue, Kampala	041 256 233104	340540	Bicco@Utl.Co.Ug	02-11-99
6.	BM FXB LTD	P.O. Box 22139 Kampala Plot 8/10,Uganda House Kampala Road, Kampala***	041 256 259359	343260		15-01-98
7.	CACH MART FXB LTD	P O Box 2879, Kampala Plot 17 Hannington Road Crested Towers, Kampala				09-07-2006
8.	CFC FXB LTD (PILKINGTON ROAD)	P.O. Box 21091 Kampala Plot No4 Pilkington Rd Kampala***	041 256 345200	288310		21-03-95
9.	CFC FXB LTD (LUWUM ST. BRANCH)	P O Box 21091 Kampala Plot 30 Luwum St. Avemar Shopping Centre Kampala***	041 256 340356	258310	cfc@Hstar.Com.Co.Ug	04-03-99

APPENDIX 10: REGISTERED FOREX BUREAUS AND MONEY REMITTERS AS AT 31st DECEMBER 2006

	NAME	ADDRESS	TELEPHONE	FAX	EMAIL	DATE ESTABLISHED
10.	CITY FXB LTD	P. O. Box 3841, Kampala Plot 22 Luwum St., Kampala	257025 075-703703		Cityfxb@Mail.Com	02-11-01
11.	CRANE FXB LTD	P.O. Box 6775 Kampala Plot 7/9 Nile Avenue, Speke Hotel, Kampala.	041 256 343700	235345		09-03-90
12.	CRANE FXB LTD (BRANCH)	P.O. Box 6775 Kampala Plot 20 Kampala Road, Kampala	041 256 341401		Cranefxb@Mail.Com	15-03-01
13.	CROWN FXB LTD	P.O. Box 12047 Kampala Plot 1 Entebbe Road, Kampala	041 256 252500			15-04-02
14.	DAKAR FXB LTD	P.O. Box 5480 Kampala Plot 14/16 Dastur Street, **Kampala**	041 256 341857			30-09-2006
15.	DEMO FXB LTD	P.O. Box 331 Fortportal Plot 19 Lugard Rd, Kampala	22984			03-01-2000
16.	DOLLAR HOUSE FXB LTD LTD	P.O Box 23404 Kampala Plot 52 Kampala Road King Fahd Plaza, Kampala	041 256 252918 /9	252918/ 9		04-12-02
17.	DOMINION BUREAU DE CHANGE LTD	P.O. Box 30814 Kampala Plot 10 Nakivubo Mews, Kampala	041 256 231465	220384	Mega@Imul.Com	10-09-91
18.	DOWN TOWN FXB LTD	P.O. Box 2801 Kampala Plot 54/5 Kampala Road, Kampala	041 256 255954		Downtown@Swiftuganda. Com	15-04-92
19.	EXECUTIVE BUREAU DE CHANGE LTD	Plot 22 P.O. Box 54 Jinja	20522/21318	043- 30174		25-07-96

APPENDIX 10: REGISTERED FOREX BUREAUS AND MONEY REMITTERS AS AT 31st DECEMBER 2006

	NAME	ADDRESS	TELEPHONE	FAX	EMAIL	DATE ESTABLISHED
		C/o Mweya Safari Lodge Lake Katwe, Kasese				
20.	EXECUTIVE FXB PAARA LTD	Plot 22 P.O. Box 54 Jinja C /O Paraa Safari Lodge Gulu	221318	30174		06-07-01
21.	EXPRESS FXB (BRANCH)	P.O. Box 1946 Kampala Plot 50/54 Kampala Road, Kampala	041 256 234684	251538	Damanico@Spacenetuganda.Com	15-01-99
22.	EXPRESS FXB LTD	P.O. Box 1946 Kampala Plot 40 Kampala Road, Kampala	041 256 234684	251538		18-12-91
23.	FANG FANG INTERNATIONAL FXB LTD	P. O. Box 6323, Kampala Plot No.9, Ssezibwa Road, Nakasero, Kampala	0772 200188/ 041 344806/ 041 233115	041 233620/ 041 250422		05-02-2007
24.	FOREX BUREAU 2000 LTD	P.O. Box 9823 Plot 1 Mackay Road, Kampala	041 256 341546	343801		06-12-2000
25.	GOLD FINGER FXB LTD	P.O. Box 23788 Plot 3 Kimathi Avenue Pan Africa Insurance House, Kampala	041 256 349849	349849		17-01-98
26.	HARE KRISHNA FX B LTD	P.O. Box 34114, Kampala Plot No.15 Nabugabo Road, Kampala				14-10-2006
27.	HIGHLAND HOTEL FXB LTD	P.O. Box 95 Kabale Plot 1 Kazooba Road, Kabale	0486- 23741	23742	Highland@Imul.Com	17-05-96
28.	HJS FXB LTD	P. O Box 22213 Kampala Plot 7 Burton Street,	507086	507085		17-10-02

APPENDIX 10: REGISTERED FOREX BUREAUS AND MONEY REMITTERS AS AT 31st DECEMBER 2006

	NAME	ADDRESS	TELEPHONE	FAX	EMAIL	DATE ESTABLISHED
		Kampala				
29.	HONEST FXB LTD	P. O. Box 33913 Kampala Plot No. 3 Shop No.2 Luwum St., Kampala	077 492867			23-05-05
30.	HOTEL AFRICANA FXB LTD (WAMPEWO RD)	P O Box 10218 Kampala Plot 2/4 Wampewo Avenue , Kampala	348080/6	348090	Africanafxb@Africaonline.Co.Ug	15-12-98
31.	HOTEL AFRICANA FXB LTD (WILLIAM ST)	P. O. Box 10218 , Kampala Plot 16/18 William Street, Kalungi Plaza, Kampala	041 256 254115	254116		02-02-01
32.	HYDERY FXB LTD (JOHNSTONE STREET)	P.O. Box 3707 Kampala Plot N0. 8/2 Johnstone Street, Kampala***	041 256 233984	235002	Hydery@Imul.Com	13-12-91
33.	HYDERY FXB LTD (BRANCH) BEN KIWANUKA ST	P.O. Box 3707 Kampala Plot 48/50 Ben Kiwanuka St. Kampala***	041 256 233984			17-05-2000
34.	HYDERY FXB LTD-(WILLIAM STREET)	P.O. Box 3707 Kampala Plot 32, William Street Kampala***	041 256 255780			13-12-05
35.	JAFFERY FXB LTD	P.O. Box 3707 Kampala Plot No. 68 Ben Kiwanuka St., Kampala***	041 256 347090	347089	Jaffery@Imul.Com	16-01-98
36.	JET SET FXB LTD (ENTEBBE)	P O Box 30961 Kampala Arrival Lounge, Entebbe Int Airport	077- 453605			12-12-93
37.	JET SET FXB LTD (KIMATHI)	P O Box 30961 Kampala Plot 2744 Kimathi Road, Kampala	077- 508019			28-07-98

APPENDIX 10: REGISTERED FOREX BUREAUS AND MONEY REMITTERS AS AT 31st DECEMBER 2006

	NAME	ADDRESS	TELEPHONE	FAX	EMAIL	DATE ESTABLISHED
38.	KARIBU FXB LTD	P.O. Box 7389 Kampala Plot. 52/54 Ben Kiwanuka St., t Kampala	041 256 235701/6			16-02-97
39.	KLYN CASH FXB LTD	P O Box 26076, Kampala Plot No. 7 Sikh Road, Shoppers' Stop Plaza				14-02-05
40.	KRISTAL FXB LTD	P.O. Box 3877 Kampala Plot 2/2B Kampala Road, Kampala	041 256 231047	231047		26-08-96
41.	LA CEDRI FXB LTD	P.O Box 28618 Kampala Plot 6/6A Nile Avenue Grand Imperial Hotel, Kampala	041 256 253720 077- 500071			06-12-96
42.	LLOYDS FXB LTD	P.O. Box 6724 Kampala Plot 1 Entebbe Road, Kampala	041 256 343448	041 256 340646	Lloyds@Africaonline.Co. Ug	08-09-97
43.	LLOYDS FXB LTD (BRANCH)	P.O. Box 6724 Kampala Plot No. Nabugabo Road	041 256 343448	041 256 343448		02-02-2001
44.	LLOYDS FXB LTD-LUWUM STREET	P O Box 6587, Kampala Plot 15 Luwum Street, Kampala	041 256 343448			13-11-06
45.	MATRIX FXB LTD	P.O. Box 28329 Kampala Plot No 2 Entebbe Road, Kampala	078 637563			13-09-04
46.	METROPOLITAN FXB	P.O. Box 8166, Kampala Plot 8/10 Entebbe Road, Kampala***	041 256 232620	041 256 258969	Metforex@Sanyu.Com	05-07-90

APPENDIX 10: REGISTERED FOREX BUREAUS AND MONEY REMITTERS AS AT 31st DECEMBER 2006

	NAME	ADDRESS	TELEPHONE	FAX	EMAIL	DATE ESTABLISHED
47.	METROPOLITAN FXB LTD-CHAM TOWERS	P.O. Box 8166, Kampala Garden City Mall. Yusuf Lule Road, Kampala***	041 256 232773	041 256 258969	Metforex@Infocom.Com. Ug	26-12-05
48.	METROPOLITAN FXB-(GARDEN CITY)	P O Box 8166 Kampala Plot 12 Kampala Road, Cham Towers Branch), Kampala***	041 256 232620			07-11-02
49.	MIDLAND FXB LTD	P.O. Box 24584 Kampala Plot 30 Ben Kiwanuka St., Kampala	041 256 349061/2	041 256 349063	Kodsadfredof.Starcom	18-03-98
50.	MIDSOC FXB LTD	P.O. Box 2367 Kampala Plot 18 Nkrumah Road, Kampala	041 256 345251 077- 495016			25-06-02
51.	MIDWEST FXB LTD	P.O. Box 30480 Kampala Plot 76 Ben Kiwanuka St. Kampala	041 256 255642	041 256 255643		03-07-01
52.	MONEY POINT FXB	P.O. Box 2235 Kampala Plot No. 35 Kampala Road	041 256 250418			30-07-97
53.	NORFRAX FXB (ENTEBBE)	Lounge P O Box 5050 Kampala Entebbe Int. Airport, Departure	077-426890, 506197075-760360; 041 320700	041 256 321779		17-05-99
54.	NORFRAX FXB (WILLIAM ST)	P. O. Box 5050, Kampala Plot 35 William Street, Kampala	041 256 278548 077- 506197			02-02-01
55.	NOVO FXB LTD	P. O. Box 178, Tororo Plot 3/5 Bazaar Street, Tororo	043 45070			21-06-04

APPENDIX 10: REGISTERED FOREX BUREAUS AND MONEY REMITTERS AS AT 31st DECEMBER 2006

	NAME	ADDRESS	TELEPHONE	FAX	EMAIL	DATE ESTABLISHED
56.	OMNI FXB LTD	P O Box 20041, Kampala Plot 22 William St. Majestic Plaza, Kampala	078 466126			21-11-05
57.	P. M. FXB LTD	P O Box 1765 Kla Plot No. 13, Rashid Khamis Road, Kampala	041 256 567653, 235929	347037	Paulmukasa@Aol.Com	15-01-99
58.	PRIME FXB LTD	P O Box 28401, Kampala. Orient Plaza, No. 6/6a Kampala Road, Kampala***	041256 234378	041256 235073	Primefxb@Infocom.Co.Ug	03-08-97
59.	PRIME FXB LTD (MARKET ST)	P O Box 28401, Kampala. Plot No.17 Market Street, Kampala***		041256 235073	Primefxb@Infocom.Co.Ug	01-09-03
60.	RAFIKI FXB	P.O. Box 7874 Kampala Plot No. 10 Kampala Road, Kampala	041 256 258836	041 256 232716	New_Era@Africaonline.Co.Ug	13-02-92
61.	RED FOX FXB	P.O. Box 2397 Kampala Plot 54 Kampala Road, Kampala	041 256 250954	041 256 234328		12-05-92
62.	RELIANCE FXB LTD	P.O. Box 7874 Kampala Plot No 17 Ben Kiwanuka Street, People's Plaza, Kampala	041 256 254909			26-12-05
63.	ROLLTEX FXB LTD	P. O Box 5972 Kampala Plot 12 Luwum St. City Complex, Kampala	041 256 348567			15-04-02
64.	ROYAL CASH POINT FXB LTD	P O Box 3644 Kampala Plot 16a Mkt St, Kampala	041 256 255332	041 256 230664		15-03-04

APPENDIX 10: REGISTERED FOREX BUREAUS AND MONEY REMITTERS AS AT 31st DECEMBER 2006

	NAME	ADDRESS	TELEPHONE	FAX	EMAIL	DATE ESTABLISHED
65.	S & A FXB LTD	P O Box7364, Kampala Mukwano Centre, Ben Kiwanuka Street, Kampala	041 256 257142			09-08-02
66.	SALABED LTD +++++	P. O Box 22995 Kampala Plot 48 William Street, Kampala	041 256 341206	041 256 341206		09-08-02
67.	SHALOM FXB LTD	P.O. Box 7392 Kampala Plot No. 11 Portal Avenue, Kampala	041 256 252124			01-04-04
68.	SHILA FXB LTD	P O Box 1038 Kampala Plot 17 Ben Kiwanuka St. Kampala	071 427080			15-06-06
69.	SHUMUK FXB LTD (IMPERIAL)	P.O. Box 5545 Kampala Grand Imperial Hotel, Kampala	041 256 342834			21-06-01
70.	SHUMUK FXB LTD (JOHNSTONE)	P.O. Box 5545 Kampala Plot 2 Johnstone Street	041 256 342834	041 256 251145	Krsna@Swiftuganda.Com	03-08-92
71.	SIMBA FXB LTD	P.O. Box 9421 Kampala Plot 50 Kampala Road	041 256 341935			30-11-99
72.	SKY FXB LTD	P O Box 3011 Kampala Plot 12 Johnstone St, Kampala	041 256 232983			15-01-98
73.	SPEEDBIRD FXB LTD	P.O. Box 75007 Kampala, Sheraton Hotel Shopping Arcade, Kampala	041 256 254521/ 349871/ 344590	041 256 344445	Speedbird@Ntpi.Com	10-09-90
74.	SSEMANDA FXB LTD	P. O. Box 1152, Kampala. Plot 7 Nakivubo Lane	041 256 236508			02-11-99

APPENDIX 10: REGISTERED FOREX BUREAUS AND MONEY REMITTERS AS AT 31st DECEMBER 2006

	NAME	ADDRESS	TELEPHONE	FAX	EMAIL	DATE ESTABLISHED
75.	STANHOPE FXB (NAKIVUBO BRANCH)	P.O.Box 7846 Kampala Plot 18 Nakivubo Road, Kampala***	041 256 236386	041 256 341098	Stanhope@Infocom.Com.Co.Ug	30-01-98
76.	STANHOPE FXB LTD KAPMPALA ROAD	P.O. Box 24559 Kampala Plot No.10 Uganda House, Kampala***	041 256 347297	041 256 346823	Stanhope@Infocom.Com.Co.Ug	05-05-97
77.	TICK FOREX BUREAU LTD	P.O. Box 132 Kampala Plot 17 Mkt St, Central Plaza, Shop D73, Kampala	041 256 251929			01-09-03
78.	TREND FXB LTD	P.O. Box 1545 Jinja Plot No. 32/34 Main Street Jinja	043 - 121081			17-03-90
79.	UAE FXB LTD***	P.O. Box 32268, Kampala Lugogo Shopping Mall, Shop No.17, Kampala ***				09-07-2006
80.	VICTORIA FXB LTD	P O Box 9100 Kampala Plot 16/18 Luwum St., Kampala	041 256 347725/ 24	041 256 347724		10-11-95
81.	WALK-IN FXB LTD	P.O. Box 30036 Kampala Plot No. 27 Luwum St., Kampala	041 256 343004	041 256 343004		02-12-96
82.	WESTLINK FXB LTD	P. O Box 34000 Kampala Plot 22 Luwum St., Kampala				01-11-02

Note: *** Forex Bureaus which have been licenced by Bank of Uganda to conduct Money Remittance business.

++++ Forex Bureau whose operational Licence was suspended by Bank of Uganda for engaging in unlicenced Money Remittance business.

Appendix 11: CIRCULARS ISSUED TO FINANCIAL INSTITUTIONS IN 2006

BANK OF UGANDA

OFFICE OF
THE EXECUTIVE DIRECTOR
SUPERVISION

37/43 KAMPALA ROAD
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Dir Tel: 230051
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Cables: UGABANK
Fax: 258515

EDS.B.66

January 31, 2006

Circular to All Commercial Banks, Credit Institutions and Micro Deposit Taking Institutions

Penalties for Non-Compliance with Statutory and Regulatory Requirements, Prudential Guidelines, Supervisory Recommendations and Directives

Bank of Uganda has noted with concern that some financial institutions do not comply with the on-site examination recommendations, statutory and regulatory requirements, prudential guidelines and supervisory requirements and directives within the time frame stipulated by Bank of Uganda. Furthermore, despite our constant reminders, a number of financial institutions have often failed to submit statutory returns to Bank of Uganda in an accurate and timely manner.

In the circumstances, Bank of Uganda would like to inform all financial institutions that pursuant to Section 128 (1) of the Financial Institutions Act, 2004, any future non-compliance with the legal, regulatory, prudential and supervisory recommendations and directives and any inaccurate compilation and late submission of statutory returns to Bank of Uganda will immediately attract penalties without any further warning to the affected financial institution.

Please take note and ensure compliance with all statutory requirements at all times.

J. Bagyenda (Mrs.)
Executive Director Supervision

Copy: Governor
Deputy Governor

BANK OF UGANDA

OFFICE OF
THE EXECUTIVE DIRECTOR
SUPERVISION

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EDS.B.66

21st March 2006

To: All Commercial Banks, Credit Institutions and Micro finance Deposit Taking Institutions

Staff Who Have Left The Services Of Financial Institutions

Further to my earlier circular Ref. EDS.B.66 dated 10th February 2006 on the above subject, this is to clarify the following:

1. The data should be submitted to Bank of Uganda on a half yearly updated basis effective 2006.
2. For the previous years of 2004/5, we request that the information should be as at end December.

Once again, thank you for your continued co-operation.

J. Bagyenda (Mrs)
Executive Director Supervision

Copy: Director Commercial Banking
Director Non-Banking Financial Institutions

BANK OF UGANDA

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EDS.B.66

18th May 2006

To: All Commercial Banks and Credit Institutions

External Auditors

All commercial banks and credit institutions are advised that Section 67 of the Financial Institutions Act 2004, which prohibits an audit firm or an individual auditor from serving the same financial institution as external auditors for a "continuous period exceeding four years", took effect on March 26, 2004 when the said law came into force.

In addition, please find attached a list of audit firms approved by Bank of Uganda for the purposes of conducting audits of financial institutions.

J. Bagyenda (Mrs)
Executive Director Supervision

Attach.

Copy: Governor
Deputy Governor

BANK OF UGANDA

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Ref: EDS.B.66

14th July 2006

Circular to All Commercial Banks, Credit Institutions and Micro Finance Deposit Taking Institutions.

Bank of Uganda Anti-Money Laundering Guidelines, 2002 - Reporting of Suspicious Transactions

Bank of Uganda has noted with concern that some supervised financial institutions do not report suspicious transactions as required by the Bank of Uganda Anti-Money Laundering Guidelines, 2002. Consequently, this has made it difficult for Bank of Uganda to gather information on these transactions and explore avenues of guarding against the use of the financial system for suspicious transactions, money laundering and other types of fraudulent activities.

Section 18 (1) of the Bank of Uganda Anti-Money Laundering Guidelines, 2002 require all financial institutions to report any suspicion of money laundering or knowledge of suspicious transactions related to a specific customer to the Central Bank forthwith by using the Suspicious Transactions Report as set out in Schedule II of these guidelines.

The same guidelines define a "suspicious transaction" as a transaction which is inconsistent with a customer's known legitimate business or personal activities or with the normal business for that type of account, or a complex and unusual transaction or complex or unusual pattern of transaction that has no apparent or visible economic purpose.

In the circumstances, Bank of Uganda hereby informs all supervised financial institutions that any non-compliance with the above prudential guidelines will immediately attract penalties in accordance with section 128 (1) of FIA 2004, without further warning to the affected supervised financial institutions.

Please take note and ensure compliance with all prudential guidelines at all times.

J. Bagyenda (Mrs.)
Executive Director Supervision
n.o.o.

Copy: Governor
Deputy Governor
Director Commercial Banking
Director Non Banking Financial Institutions

BANK OF UGANDA

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EDS.B.66

18th July 2006

To: All Commercial Banks and Credit Institutions

Basel II Capital Accord – Capacity Assessment Questionnaire

We acknowledge with thanks receipt of your responses to the Basel II Capacity Assessment Questionnaire and we commend your institution for taking part in this survey.

As a follow up exercise, our examiners shall be visiting all supervised financial institutions to review the level of preparedness, staff exposure/training and the budgets/ resources/constraints as responded to in the questionnaire.

Please accord them the necessary assistance to enable them accomplish their assignment.

Yours faithfully,

J. Bagyenda (Mrs)
Executive Director Supervision

n.o.o.
Copy: Director Commercial Banking
Director NBFI

BANK OF UGANDA

OFFICE OF
THE EXECUTIVE DIRECTOR
OPERATIONS

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CABLES: UGABANK

BANK OF UGANDA
CONFIRMATION OF RECEIPT
OF DOCUMENT
- 1 DEC 2006
SIGN........................
OFFICE OF EXECUTIVE
DIRECTOR SUPERVISION

Ref: **EDO.1.11**

November 30, 2006.

All Chief Executives of Commercial Banks

<u>A Break in Coins Withdrawal</u>

The Bank of Uganda will allow a one-month break on the requirement that Commercial Banks take at least 2% of each cash withdrawal from the Central Bank in coins. This is to allow smooth cash operations during the month of December and enable the banks issue out the stock of coins in their vaults.

The break is effective 1st December to 31st December 2006 and does not apply to any Commercial Bank that may need coins in the course of the month.

Please be reminded that it is important to acquire Coin-Processing equipment and to encourage the public to use coins.

Naomi Nasasira
<u>Ag Executive Director Operations</u>

c.c. Governor
Deputy Governor
Executive Directors

BANK OF UGANDA

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TELEX	256-41-61059
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Website	www.bou.or.ug

CB/15

November 14, 2006

Circular to All Commercial Banks

Application of International Financial Reporting Standards vis-à-vis Bank of Uganda Prudential Guidelines

1.0 Preamble

Bank of Uganda and commercial banks held a series of discussions in the months of September and October 2006 to formulate a common approach to attaining possible convergence on the apparent disparities between International Financial Reporting Standards (IFRS) and the Bank of Uganda Prudential Regulations. Below is a draft proposal of the outcome of the deliberations, which is now submitted to each commercial bank that participated for review and comments. The comments should be submitted to Bank of Uganda on later than *November 30, 2006*.

2.0 Introduction

2.1 In accordance with section 46 (4), the financial ledgers and other financial records to which this section applies shall be kept in Uganda and shall comply with the requirements of:

(a) the Companies Act,

(b) International Accounting Standards;

Category	Defining Characteristics	Prescribed Accounting Treatment
Financial assets at fair value through profit or loss (includes financial assets that are held-for-trading and those that are designated at inception).	Held-for-trading-purchased with the intention of making a profit from short-term market fluctuations; part of a portfolio of identified financial assets that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; non-hedging derivative asset. Designated includes any financial asset that is designated as at "Fair Value through profit and loss" on initial recognition.	Fair value. Gains and losses on revaluation recognized in profit and loss (income statement).
Held-to-maturity	Fixed or determinable payments; fixed maturity with positive intent and ability to hold to maturity.	Amortized cost
Loans & Receivables	Fixed or determinable payments; not quoted in an active market.	Amortized cost
Available-for-sale	All other non-derivative financial assets.	Fair value. Unrealized gains or losses recognized in a separate category of equity. Realized changes reported in profit or loss.

3

4.2 General provisions should not be considered as an operating expense and deducted from the profit or loss account but rather should be accounted for as appropriations of retained earnings. These provisions should at least form one percent (1%) but not more than 1.25% of the performing credit portfolio.

4.3 The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through use of an allowance account and the amount of the loss is recognized in the profit and loss account *(IAS 39.63)*.

4.4 The estimated recoverable amount is the net present value of the future cash flows expected from the asset, discounted using the original effective interest rate of the instrument. The fair value of the collateral is taken into account when determining an asset's expected future cash flows *(IAS 39, E.4.8)*.

Bank of Uganda Prudential Approach

4.5 The existing procedures in the Financial Institutions (Credit Classification and Provisioning) Regulations, 2005 will continue to apply in the transition period. However, Bank of Uganda will undertake to initiate prospects for amendment of this regulation in view of the need to comply with International Accounting Standards as required by section 46 (4) of the Financial Institutions Act 2004.

4.6 During the transition period, financial institutions should compute loan impairment losses using both IFRS rules and Bank of Uganda regulations in order for a trend to be established on the behaviours of the loan losses arrived at using the different methodologies. The trend generated can serve as empirical evidence to support whatever position Bank of Uganda will eventually take regarding omputation of loan impairment losses.

5.3 Bank of Uganda will continue to apply the Financial Institutions (Credit Classification and Provisioning) Regulation, 2005 section 9, which requires that when a loan is placed in "non-accrual" status all previously accrued but uncollected interest taken in as income is reversed.

6.0 Conclusion

6.1 Bank of Uganda recognizes that evolving business practices require that the recognition, measurement, presentation and disclosure of financial assets and liabilities are also up-to-date. In view of this, Bank of Uganda is committed to reviewing the regulatory requirements to take into account the developments in the International Accounting Standards.

Apollo Obbo

Director Commercial Banking

Copy: Governor

Deputy Governor

Executive Director Supervision

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Ref. EDO.E1.11.1

13 OCT 2006

12 October 2006

Chief Executives of Commercial Banks

INTEREST PAYABLE ON SECURITIES HELD IN THE FAILURE TO SETTLE POOL

During the UBA meeting held on 20th September 2006, Bank of Uganda was requested to provide further clarification on the subject in caption.

This is therefore to clarify as follows:

(i) Securities held in the failure to settle pool will earn interest at the 91 days WAR treasury bill rate of the most recent auction prior to re-set of the individual clearing house member's contribution.

(ii) In accordance with Clause 4.3.2.6 of the failure to settle rules, in the event that there is utilization/encroachment on members' securities on account of a member's failure to settle, the defaulting member shall be charged interest at the ruling rediscount rate. The proceeds shall be credited to the survivor members' accounts.

This communication supersedes all earlier communication on this subject.

E. B. Kasozi
EXECUTIVE DIRECTOR OPERATIONS

Copy: Governor
Deputy Governor
Executive Directors

4.3 Failure to Settle Rules

4.3.1 Failure to Settle in a Clearing Session

In the event of failure to settle in a clearing session:

4.3.1.1 The Manager of the Clearing House shall give the concerned bank a provisional statement including all the latest transactions that have passed through the account.

4.3.1.2 The Clearing House shall adjourn for one hour (e.g. from 11.00 am to 12.00) to give the bank a chance to raise the shortfall from the money market.

4.3.1.3 If the bank fails to raise funds from the money market, it may contact Bank of Uganda as the lender of last resort, if it has sufficient eligible collateral.

4.3.1.4 Bank of Uganda will evaluate the request basing on the collateral provided by the applicant. Bank of Uganda will only lend up to 75% of the value of the collateral provided.

4.3.1.5 The bank will be required to call the Clearing House manager to inform him/her on whether they have raised the required funds or not.

4.3.1.6 If they have raised the required funds then the netting and settlement will be concluded thereafter.

4.3.1.7 If the bank, after all the above steps, still has insufficient funds, then the survivors pay rule will be invoked.

4.3.1.8 A bank that causes the invocation of "Survivors Pay Rules" will automatically be suspended from the subsequent clearing sessions.

4.3.1.9 The suspension shall be effective until the settlement agent advises the Clearing House management that the said bank has reinstated its collateral and paid back the portion of collateral and interest of the other members that was used up.

4.3.2 Survivors' Pay Rules

4.3.2.1 All member banks shall be obliged to contribute to a collateral pool.

4.3.2.2 The criteria for contribution to the pool shall be:

Each participating bank, other than the Bank of Uganda shall contribute equally to 75% of the highest single net debit position of a participant other than the Bank of Uganda over the last three-months. (The Bank of Uganda is excluded because it does not pause any risk to the payment system)

AND

Additionally, participating banks with net debit positions over the last three-months, other than the Bank of Uganda shall contribute to another 75% of the highest single net debit position on pro-rata basis (i.e. calculated as a ratio of their highest net debit position over the same period).

The minimum contributions shall be advised on a fortnightly basis, using data for the last 3 months. The minimum contribution shall be held constant for two weeks.

If the collateral requirements increase, the member bank shall either transfer money from its treasury bills holding account or enter into the secondary market to top up its collateral position. If on the other hand the collateral requirements reduce, the excess amount shall be credited to the member banks' CDS holding account.

4.3.2.3 In the event that a member bank is unable to clear and part of the collateral is used for settlement:

The used-up collateral shall be allocated to the participant that was unable to settle up to 100% of its contribution; and

The rest of the outstanding balance shall be allocated to the other participants on the basis of their contributions. For example a bank that has contributed 15% of the collateral will also pay 15% of the collateral used for settlement when a member is unable to settle.

4.3.2.4 The banks shall reinstate their collateral requirements the next business day by pledging the amount of collateral that was used for settlement.

4.3.2.5 Before a member who was unable to settle is readmitted to the Clearing House, that bank will be required to fulfil condition 4.3.1.9

4.3.2.6 The interest accrued shall be calculated using the ruling rediscount rate of the Treasury bill.

4.3.2.7 The collateral and interest refunded shall be credited to the accounts of the members who had contributed.

4.3.2.8 The collateral put forward shall be interest-bearing securities. All interest accruing thereof shall be due to the bank.

4.3.3 Collateral Management

4.3.3.1 The eligibility collateral shall be Treasury Bills of any maturity period

4.3.3.2 The collateral pool shall be kept at the Bank of Uganda Central Depository System (CDS) and Bank of Uganda shall be responsible for the management of the CDS.

4.3.3.3 Bank of Uganda shall open a separate account for the collateral pool for ease of management and monitoring

4.3.3.4 The collateral value shall be 75% of the amount that can be realized on the security on rediscounting it (i.e. the margin of safety shall be 25% of the face value of the security).

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Ref. EDO.E1.11.1

September 12, 2006

All Chief Executives of Commercial Banks

WITHHOLDING TAX ON REDISCOUNTED GOVERNMENT SECURITIES

During the budget speech by the Minister of Finance, Planning and Economic Development for the financial year 2006/2007, withholding tax was extended to all investors in Uganda Government securities with effect from July 1, 2006.

The Minister of Finance, Planning and Economic Development has further advised that interest earned from rediscounted Uganda Government securities be subjected to the 15% withholding tax.

The purpose of this circular is to formally advise you that Bank of Uganda will, effective 1 July 2006, be withholding tax on all interest earned from rediscounted Uganda Government Securities.

E. B. Kasozi
EXECUTIVE DIRECTOR OPERATIONS

Copy: Governor
Deputy Governor
Executive Directors

BANK OF UGANDA
CONFIRMATION OF RECEIPT OF DOCUMENT
13 SEP 2006

BANK OF UGANDA

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Ref. EDO.E1.11.1

11 September 2006

All Chief Executives of Commercial Banks

BORROWING WINDOW FROM BANK OF UGANDA

Please refer to Circular ref.EDO.E1.11 dated 2nd August 2006 informing you of the revision of the limit to access the Bank of Uganda Standing facility.

Please find attached operational guidelines governing the facility of borrowing from Bank of Uganda for your information.

E. B. Kasozi
EXECUTIVE DIRECTOR OPERATIONS

Attach:

Copy: Governor
Deputy Governor
Executive Directors

13 SEP 2006

1.0 Borrowing from Central Bank

1.1 All the applications for borrowing or rediscounting of Treasury securities will be addressed to the Executive Director Operations (EDO). The applications will be secured by Treasury Securities i.e. Treasury Bills and Bonds.

1.2 Where the application is for borrowing, the EDO will determine, by quick reference to the report containing the daily position of commercial banks, that the requirement of the borrowing commercial bank is not more than 25% of the required reserves of the day on which the application is received. If the 25% rule is not violated the EDO will then instruct Director Banking to credit the applicant with the amount requested for.

1.3 If the amount required is above the 25% limit, the EDO will consult appropriately and give a definite instruction to the Director Banking of the amount of borrowing and the period allowed to the applicant. If the request is rejected, the EDO shall inform the bank, initially by telephone and confirm in writing. Requests for loans in excess of the 25% rule will be granted only at the discretion of Bank of Uganda.

1.4 The Bank of Uganda extends funds to the customer against Treasury bills with less than 91 days to maturity or up to 75% of the face value of the collateral with maturity not exceeding twenty-five years. The term of the loan shall not exceed three months.

1.5.1 Where specific amounts are approved, the Director Banking will cause the account of the borrowing bank to be credited immediately.

1.6 The EDO will instruct the Director, Domestic Markets to transfer ownership of eligible Treasury Securities on the Central Depository System (CDS) to Bank of Uganda as security for the loan..

1.7 The borrower will be responsible for effecting payment using RTGS after the expiry of the loan.

(By putting the responsibility of effecting payment on the borrower, Bank of Uganda will reserve for itself the right to continue to charge interest when payment is not effected on the due date. Bank of Uganda also has authority to punish banks that do not effect payment on due date by for example rejecting their future requests).

1.8 Once a commercial bank loan has been repaid, the Director Banking will advise the Director Financial Markets to return the collateralised securities to the CDS account of the borrowing commercial bank.

1.9 These procedures are meant to ensure that all requests from commercial banks are handled in a timely manner by crediting the accounts with the amounts approved or communicating rejection of the request quickly.

2.0 Rediscount Window

2.1 This facility is available to all holders of Government securities who have Treasury securities with less than 91 days to maturity. The Bank of Uganda shall apply the Rediscount rate.

2.2 All the operations relating to rediscounting of Treasury securities are handled by the Director Financial Markets Department. The procedure is as follows:-

- The request to rediscount Treasury Securities is addressed to EDO
- DFM verifies securities and rediscount rate
- Rediscount effected on CDS
- Payment automatically done on RTGS Rediscounting
- Securities removed from Bank account to BOU account on CDS
- Withholding tax of 15% charged on interest earned on Rediscounted Bills.

BANK OF UGANDA

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EDS.B.66

2nd October 2006

Circular to all Commercial Banks and Credit Institutions

Guidance Note on Mortgage Banking Class

Following requests from some commercial banks regarding the provision of mortgage banking, Bank of Uganda wishes to make the following clarifications:

1. According to the second schedule of the Financial Institutions Act 2004, the main financial services that are provided by mortgage banks are:
   - Receiving deposits of participation in mortgage loans and in special accounts;
   - Granting of loans for the acquisition, construction, enlargement repair, improvement and maintenance of urban or rural real estate, and for the substitution of mortgages taken out for that purpose;
   - Giving of guarantees, bonds or other forms of collateral connected with the operations in which they may take part;
   - Obtaining of foreign loans and acting as intermediary in loans extended in local and foreign currency, having the previous authorization of the Central Bank for such loans exceeding a specified limit as prescribed by the Central Bank.

2. Commercial banks which would like to carry out some activities in the mortgage banking class should specifically state which activities they would seek to draw from that class. In this case, no separate licence will be required. Instead, a bank will be required to apply to Bank of Uganda for an amendment to the current commercial banking licence to include those activities of mortgage banking. Bank of Uganda will then conduct an assessment of that commercial bank, especially, with regard to source of funding risk management processes and capacity to carry out such activities.

3 The source of funding is very crucial if a commercial bank is to carry out mortgage banking because prudent management of the balance sheet is by matching assets with liabilities. The current balance sheet structures of commercial banks are composed mainly of short term assets and short term liabilities.

4. Statutory Instrument No. 46 (Financial Institutions (Liquidity) Regulations 2005) requires banks to bucket their deposits liabilities under various maturity ladders using both **contractual** and **anticipated** approach. The purpose of this two tier reporting system is to capture such core deposits that can be lent over a short to medium term as stipulated under the main financial services conducted by commercial banks (***Provision of overdrafts and short to medium term loans***). Any commercial bank that intends to carry out some activities under a mortgage banking class will have to prove with certainty to Bank of Uganda what constitutes the core deposits.

5. On the other hand, if a commercial bank intends to do full blown mortgage banking, i.e. to do everything that a mortgage bank can do, such a bank will be required to set up another entity or subsidiary whose business will be assessed and licenced by Bank of Uganda as a standalone mortgage banking business.

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