BANK OF UGANDA

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ABBREVIATIONS

BCBS	Basel Committee on Banking Supervision
BSA	Banking Supervision Application
BOU	Bank of Uganda
CBR	Central bank rate
CRB	Credit Reference Bureau
CRS	Credit Reference System
EAC	East African Community
EAMU	East African Monetary Union
EU	European Union
EUR	The Euro currency
FEA	Foreign Exchange Act
FER	Foreign Exchange Bureau and Money Remittance Regulations
FIA	Financial Institutions Act
FSR	Financial Stability Report
IMF	International Monetary Fund
IRA	Insurance Regulatory Authority
IT	Information Technology
KfW	German Kreditanstalt fur Wiederaufbau
LCR	Liquidity Coverage Ratio
MDIs	Microfinance deposit-taking institutions
MFIs	Microfinance Institutions
MFPED	Ministry of Finance, Planning and Economic Development
MNO	Mobile network operator
MOU	Memorandum of understanding
NFC	Near Field Communication
NGO	Non-government organisation
NPLs	Non-performing loans
NSSF	National Social Security Fund
PIs	Participating institutions
ROA	Return on average assets
ROE	Return on average equity
SACCO	Savings and credit cooperative
SFI	Supervised Financial Institution
UCC	Uganda Communications Commission
USD	United States Dollar
Ushs	Uganda Shillings

FOREWORD

GOVERNOR, BANK OF UGANDA
Prof. Emmanuel Tumusiime Mutebile

The prudential regulation and supervision of financial institutions is a statutory responsibility of the Bank of Uganda (BOU). The Annual Supervision Report is published by Bank of Uganda to provide information on its supervisory activities during the year and the reforms to the regulatory framework, along with the performance of the financial system and potential risks to its stability.

The banking industry registered strong growth and remained financially sound in 2012. It was very profitable and well capitalised, with a core capital adequacy ratio (regulatory tier 1 capital to risk-weighted assets) of 18.8 percent at the end of the year, which is well above the regulatory minimum of 8.0 percent. To further bolster banks' capital positions, the minimum unimpaired paid-up capital requirement for banks was raised from Ushs.10 billion to Ushs.25 billion, and all commercial banks were able to comply with this requirement by the deadline of 1st March 2013.

There were divergent trends in bank credit growth in 2012. Whereas shilling denominated loans stagnated, foreign currency denominated loans rose very rapidly. There are also indications of heightened credit risk, with the ratio of non-performing loans to total gross loans rising from 2.2 percent in December 2011 to 4.2 percent in December 2012. Credit risk could be further exacerbated by the expansion in the banks' foreign currency loan portfolios, particularly to the real estate sector, because some borrowers may be adversely affected by real exchange rate movements. Nevertheless, the banking system holds substantial capital buffers to absorb future loan losses and hence, its vulnerability to credit risk is low.

Mobile banking continued to expand at a rapid pace in 2012, with the number of registered customers increased from 2.9 million to 8.9 million, further bringing payment services within the reach of previously unbanked customers. The BOU has started to implement the National Strategy for Financial Inclusion, and the measures being undertaken, which include the promotion of financial literacy and the introduction of guidelines for consumer protection, are described in Chapter 5 of this report.

Prof. E. Tumusiime-Mutebile

GOVERNOR

PART I: SUPERVISION OF FINANCIAL INSTITUTIONS

Chapter 1: Supervision of Financial Institutions

1.1 Supervision

The Bank of Uganda (BOU) undertook both on-site inspections and off-site surveillance of supervised financial institutions (SFIs) during 2012. BOU uses a risk-based supervision methodology to guide the bank examinations, which focuses the evaluation on the main risks faced by the SFIs and includes an assessment of the robustness of each financial institution's risk management system.

1.2 On-site inspection

Commercial banks

During 2012, BOU conducted risk-based on-site examinations of 20 commercial banks and follow-up examinations of 13 banks. Overall, the on-site examinations revealed that the banking sector is stable and sound, although some deterioration was noted in the quality of the loan portfolio due to a rise in credit defaults attributed partly to the high interest rates that prevailed in 2012, and the slowdown in economic activities during the period. Nonetheless the industry's non-performing assets ratio, at 4.2 percent, remained satisfactory. A gradual decline in interest rates and better growth prospects is expected to lead to an improvement in asset quality.

Credit institutions

BOU carried out full scope on-site examination of Opportunity Bank (U) Limited and Mercantile Credit Bank during 2012, while Postbank (U) Limited Bank was scheduled to be inspected in the first half of 2013. The three institutions in the sub-sector demonstrated resilience, and their performance was rated satisfactory given the prevailing economic conditions during 2012. Examination findings revealed that the institutions faced high strategic, credit and operational risks, and they needed to realign their risk management systems to fit their business models and counter the risks they face. The institutions were placed under strict off-site surveillance and monitoring by BOU to ensure that they comply with all the statutory requirements.

Microfinance deposit-taking institutions

On-site inspections of four microfinance deposit-taking institutions (MDIs) and one follow-up examination were undertaken in 2012. The main issues noted during the inspections related to reinforcing corporate governance and strengthening risk management and internal controls.

Foreign exchange bureaus and money remittance companies

Currently there are 205 foreign exchange bureaus and 205 money remitters' outlets in the country being supervised by BOU.

On-site inspection of 66 foreign exchange bureaus and money remitters was conducted during 2012. The objective was to assess the level of compliance with the provisions of the Foreign Exchange Act (FEA) 2004 and the Foreign Exchange Bureau and Money Remittance Regulations (FER) of 2006, as well as the guidelines and circulars issued by the regulator. Overall, the level of compliance was found to be satisfactory. The major supervisory concern remained the same as that of 2011, the failure by a number of operators to capture comprehensively the details of customers who conducted large transactions, which is an essential measure to combat money laundering.

The off-site monitoring of the foreign exchange bureau and money remittance business continued throughout 2012. The bureaus and money remitters continued to submit daily, weekly, monthly, quarterly and annual statutory returns to Bank of Uganda.

National Social Security Fund (NSSF)

Bank of Uganda, as the interim regulator of NSSF pending the establishment of a substantive social security pension sector regulator, also conducted a full scope on-site examination of the fund in 2012. The main objectives of the examination, among others, were to review the fund's corporate governance practices, and assess the adequacy of its risk management framework with particular emphasis on investment activities, operations and Fund's management. The report was finalised and submitted to the Minister of Finance Planning and Economic Development (MFPED) for further action.

1.3 Off-site analysis of banks

Bank of Uganda continued to conduct off-site surveillance of SFIs through the collection and analysis of high frequency financial data submitted by the SFIs. Off-site analysis plays a critical role in the implementation of the risk-based supervision methodology and helps in the planning of scheduled on-site examination of SFIs.

Stress testing

Stress tests were conducted to estimate the magnitude of losses which banks would incur in the event that they encounter specific shocks, and the impact of these losses on their capital. The shocks included in the stress tests were:

a) Decline in net interest margin,
b) Decrease in interest income on government securities,
c) Depreciation of the Uganda shilling against the US dollar,
d) Increase in non-performing loans and,
e) A 100 percent loan loss of each bank's largest borrowers.

The particular shocks chosen were considered to be plausible and realistic, and some are pegged to experiences from the crisis of 1999 to 2001. The stress tests were conducted at the end of each quarter in 2012. The results of the tests conducted on the banks' financial positions at the end of December 2012 are shown in Table 1.

A decrease in net interest income, reduction in interest income on government securities, depreciation of the shilling against US dollar and increase in non-performing loans (NPLs) all have minimal impact on the capital position of the banking system. For each of the shocks, the capital adequacy of a few individual banks would fall below the statutory minimum, with the overall capital shortfall ranging from Ushs.100 million to Ushs.123.8 billion. This capital shortfall is small in relation to the banking system's aggregate total capital of Ushs.2.3 trillion as at end-December 2012.

Table 1: Stress test shock for quarter ended 31st December 2012

Stress Test Variable	Number of banks a)	Aggregate additional capital (Ushs. billion) b)
Decline in net interest margin		
Decrease in net interest income by 20 percent	1	0.4
Decrease in net interest income by 50 percent	2	1.3
Decrease in interest income from government securities		
Decrease in income from government securities by 20 percent	1	0.1
Decrease in income from government securities by 50 percent	1	0.3
Depreciation of Shilling against US dollar		
Depreciation of Ushs. against US Dollar by 20 percent	1	0.1
Depreciation of Ushs. against US Dollar by 30 percent	1	0.1
Increase in non-performing loans		
Increase in NPLs by 100 percent	6	40.0
Increase in NPLs by 200 percent	8	123.8
Loan loss of each bank's largest borrowers		
Default by single largest borrower	6	22.2
Default by 3 largest borrowers	14	328.3

Source: Bank of Uganda

Notes:

a) *The number of banks which fail the stress test in each category.*

b) *This is the amount of additional capital that would be required to bring the affected institutions' capital back to the minimum statutory levels.*

The analysis of default by the banks' largest borrowers reveals much larger potential losses. If each bank's single largest borrower were to default, with a loan loss of 100 percent, six banks would become under-capitalised with an aggregate capital shortfall of Ushs.22.2 billion. If the largest three borrowers of each bank were to default with 100 percent loan loss, 14 banks would be under-capitalised with an aggregate capital shortfall of Ushs.328.3 billion.

The stress testing results indicate that if the three largest borrowers of each bank were to default this would severely affect capital adequacy in the majority of the banks. However, default involving the largest borrowers is likely to happen only in individual banks with poor credit risk management frameworks. For all other risks, the results show that the majority of banks are resilient and have adequate capital to mitigate their impact.

Bank Supervision Application (BSA)

Bank of Uganda rolled out a new system used by supervised financial institutions to submit electronic returns to the central bank. The new system, the BSA, replaced the old e-mail system (BRMS or b-returns) that was previously used by SFIs. Full deployment of the new system was implemented on 28th January 2013.

Chapter 2: Regulatory Reforms and New Developments to Strengthen the Financial Sector

2.1 Licensing and approvals

New institutions and branches

Two banks, Bank of India Uganda and NC Bank, received licenses to commence commercial banking business and subsequently opened for business in June 2012. National Bank of Commerce Limited was closed on 27th September 2012. At end-December 2012, there were 24 operating commercial banks.

As shown in Table 2, the number of bank branches increased from 455 to 496 in 2012, while the number of ATMs rose from 637 to 714.

Table 2: Number of licensed branches / outlets for supervised financial institutions

	2010	2011	2012
Commercial banks	393	455	496
Bank ATMs	598	637	714
Foreign exchange bureaus	158	184	205*
Money remitters	149	173	205**
MDIs	83	98	99
Credit institutions	42	44	42

Source: Bank of Uganda

* *This total includes both foreign exchange bureaus and money remitters, excluding credit institutions and microfinance deposit-taking institutions engaged in money remittance.*

** *This total includes money remitters, credit institutions and microfinance deposit-taking institutions engaged in money remittance excluding entities engaged strictly in foreign exchange bureau business.*

During 2012, 14 foreign exchange bureaus and one money remitter were licensed. The money remittance market comprised 69 foreign exchange bureau outlets, 8 direct entrants, three MDIs with a total of 78 outlets and three credit institutions with a total of 50 outlets. The total number of branches for licensed foreign exchange bureaus and money remitters was 410, compared to 357 as at the end of December 2011.

Developments in product innovation

Following the expiry of the exclusivity clauses from the contracts between commercial banks and money transfer companies in November 2011, commercial banks have exploited this freedom of choice to partner with more than one money transfer service provider. This freedom of choice allows banks to expand the range of retail products available to customers, increase competition, as well as provide a wider revenue base. Several banks, MDIs and credit institutions are also partnering with mobile money service providers to keep the funds supporting the value created in the mobile money platforms in an escrow account. They have also taken on the role of mobile money agents.

More banks introduced e-banking solutions such as internet banking to augment their service delivery channels as a cheaper alternative to setting up branches. Bank of Uganda also approved the introduction of custodial and trustee services in accordance with the Uganda Retirement Benefits Regulatory Act 2011. Custody services include the safe-keeping of assets of pension and other investment schemes, as well as settlement of transactions in accordance with the instructions of the schemes' investment managers.

2.2 Regulatory reforms

The Bank of Uganda developed a comprehensive action matrix to address the issues raised by the Financial Sector Assessment Program (FSAP) in 2011. Actions taken include; review of the Supervision Manual, enhancements to the memoranda of understanding with the Central Bank of Nigeria and the Reserve Bank of South Africa, and drafting of a memorandum of understanding with the Reserve Bank of India. The Bank of Uganda also participated in the Supervisory College for Kenya Commercial Bank in Nairobi which was organised to deepen the understanding of the risks, financial condition and performance of the Kenya Commercial Bank Group and subsidiaries.

2.3 Mobile money services

During 2012, mobile money transfer services continued to register strong growth. The number of registered customers increased from 2.9 million in 2011 to 8.9 million in 2012, while the amount transferred by customers rose from Ushs.3.7 trillion to Ushs.11.7 trillion over the same period.

In addition to mobile money transfer services offered by MTN Uganda, Uganda Telecom (UTL), Airtel and Warid Telecom, another mobile money transfer product, M-cash (formerly Mobicash) offered by Housing Finance Bank, was introduced into the market. Approval for the introduction of other mobile money transfer services namely Orange Money and EzeeMoney was also granted.

Table 3: Performance of mobile money services

	Number of transactions ('000s)	Value of transactions (Ushs. billion)	Number of registered customers
Dec-10	28,816	962.7	1,683,713
Dec-11	87,481	3,752.9	2,879,968
Dec-12	241,728	11,662.7	8,870,873

Source: Bank of Uganda

To strengthen regulatory oversight over mobile money transfer services, BOU and Uganda Communications Commission (UCC) formed a joint working group to deal with matters related to mobile financial services. The working group is in the process of drafting interim guidelines for the mobile money transfer business.

2.4 Credit reference bureau services

The year 2012 marked the end of the third phase of the Credit Reference Bureau (CRB) Project. Effective 1st October 2012, the CompuScan[1] exclusivity period came to an end, and the project entered a transition phase from a monopoly CRB service provider to a competitive CRB market.

During the transition period, Bank of Uganda is implementing the various reforms required for a competitive CRB market in Uganda. The reforms include; reviewing the legal framework including the Credit Reference System (CRS) regulations and guidelines, broadening the CRB market to include accredited credit providers (ACPs), making the Financial Card System (FCS) accessible to all CRB providers and preparing a standard framework for data sharing within a competitive environment.

Monitoring of data quality and usage of the CRB

There was a remarkable improvement in the quality of data submitted to the CRB due to the data cleanup carried out by participating institutions (PIs) in 2012. Additional data submission requirements have enriched the bureau database to generate a more comprehensive credit report on the borrower's credit profile.

Ongoing activities

Following the approval of the CRB policy paper, BOU, with various stakeholders, is undertaking a number of initiatives to address the requirements for operating a competitive CRB market. The policy initiatives address among others; managing the CRB transition period, the CRB legal framework, supervision of a competitive CRB market and, expansion of the credit reference services to the ACPs.

a) Review of the legal framework

Bank of Uganda is reviewing the CRB legal and regulatory framework to permit broader access to credit information within the economy. The proposed amendment to the FIA (2004) and the principles behind the proposed amendments will be submitted to the First Parliamentary committee for approval.

b) Data standardization

The framework for data submission in a competitive sector was reviewed to enable PIs to submit uniform and comparable information to the CRBs. In addition, guidelines to PIs on credit data standardization and the use of CRB services will be put in place.

c) Implementation challenges

Notwithstanding the above, the implementation of the CRB and FCS still faces some challenges which call for continued attention from all stakeholders, particularly the PIs and CompuScan.

- The quality and integrity of data submitted by PIs to the CRB remains low. The data clean-up process has been very slow. It has also been difficult to get borrowers with running facilities to update their

[1] Following an evaluation process, the BOU approved M/s CompuScan Information Technologies (PTY) Limited of South Africa (CompuScan) as the sole CRB provider in June 2006. Given the small size of the market, the license was awarded for an exclusive period of three years.

records and to register for financial cards. Therefore, there is still need for PI intervention to reach out to their clientele and update the CRB data.

- The other challenge relates to the size of the regulated credit market. A number of borrowers in Uganda secure credit from non-regulated financial institutions. Expansion of the credit reference services to ACPs would ultimately yield economies of scale to the CRB market.

2.5 Strengthening capacity for supervision

During 2012, the following measures to strengthen capacity in the BOU's supervision function were undertaken;

a) During 2012, BOU completed a successful pilot phase of the liquidity coverage ratio (LCR), one of the Basel III measures, covering six systemically important banks. The LCR aims to enhance banks resilience to liquidity risk by ensuring that they have sufficient high quality liquid resources to survive a liquidity stress scenario lasting for one month. The LCR is to be rolled out to all banks in 2013.

b) The BOU, in collaboration with the Uganda Bureau of Statistics (UBOS), developed a House Price Index and Land Price Index, to strengthen BOU's surveillance and analysis of systemic risks to the financial sector.

c) At the request of BOU, the World Bank and the FIRST Initiative Financial Sector Trust Fund provided technical assistance to the Ugandan financial sector authorities to enhance capacity and preparedness to handle a systemic financial crisis. A detailed description of the steps BOU is taking to enhance crisis preparedness is presented in Box A.

d) Several members of staff received overseas and regional training in the areas of systemic risk identification and monitoring, economic policies for financial stability, anti-money laundering, payments and settlements, financial soundness indicators, macro stress testing, central banking operations, Islamic banking, applied risk management, financial stability and effective supervision and regulation under Basel II and III implementation. Other staff members attended cross-border attachments at the Central Bank of Kenya and Bank of Tanzania.

e) The Bank received technical assistance from the Deutsche Bundesbank on two occasions; on 3rd – 5th July 2012, the Bundesbank conducted a seminar on 'Financial Stability - Restructuring and Resolution of Financial Institutions' and another seminar on 'Advanced Banking Supervision' was conducted on 3rd– 5th October 2012. Participants at both seminars included staff of BOU, the Insurance Regulatory Authority (IRA), Capital Markets Authority (CMA) and MFPED as part of interagency coordination and capacity building.

Box A: Enhancing the Financial Crisis Management Framework at Bank of Uganda

Introduction

One of the lessons learned from the global financial crisis was that crisis management frameworks in many countries are inadequate for dealing with systemic financial crises, and that financial regulators need proper tools to resolve failing banks and other systemic financial institutions in an orderly manner, without unnecessarily exposing taxpayers to risk of loss and causing wider economic damage. As such, the BOU is working with the other financial sector regulators in Uganda and the Ministry of Finance, Planning and Economic Development to put in place a crisis resolution framework.

Key activities undertaken

To help design an effective crisis resolution framework, two World Bank missions provided technical assistance (TA) to the BOU and other government agencies in 2012. The TA included crisis simulation exercises which were designed to test the adequacy of existing laws, regulations policies and procedures and thus identify gaps and weaknesses.

Principal elements of the crisis management framework

Following the lessons learnt from the financial crisis resolution exercises, BOU is taking measures to enhance its financial sector crisis management framework, in six key areas:

a) *Exceptional liquidity assistance (ELA) policies and procedures*

ELA entails lending to banks during periods of financial stress, in a manner which goes beyond the normal central bank discount window operations (either in terms of volume or the type of lending undertaken). BOU is reviewing key aspects of its ELA policies and procedures including: institutions eligible for ELA, additional collateral acceptable to BOU for lending to distressed institutions, and the haircut on the acceptable collateral.

b) *Enforcement and corrective actions*

Enforcement and corrective actions cover legal powers by BOU and other financial sector regulators to act in a speedy manner to rectify unsafe and unsound activities of regulated financial institutions. The review by the World Bank revealed that the Financial Institutions Act (2004) gives the BOU sufficient legal powers such as: prompt corrective action and the ability of BOU to appoint a statutory manager.

c) *Robust bank resolution*

A robust regime allows for the quick resolution of a bank in a manner that is least disruptive to depositors and other creditors of the bank. The BOU's resolution powers for banks include the ability to place a bank under receivership, and to liquidate a bank.

d) *Deposit protection scheme*

Deposit insurance schemes are intended to protect small depositors and to avert bank runs. Uganda's deposit protection scheme, managed by BOU, covers depositors up to Ushs.3.0 million per depositor per bank. A deposit protection scheme for MFIs has also been established.

e) *Interagency coordination*

There is need for effective coordination among key government officials for timely decision-making during a financial crisis. There is also a need for coordinated supervisory actions when financial firms are part of a consolidated group so as to avoid the different regulatory authorities working at cross purposes and for the sharing of information among the authorities. Uganda has established a Financial Sector Surveillance Committee (FSSC) to facilitate interagency coordination with membership from the BOU, other financial supervisors, and MFPED, and with terms of reference for both "peacetime" and "crisis functions".

2.6 Regional cooperation

Regulatory harmonisation in the East African Community

In April 2012, the Monetary Affairs Committee (MAC) of the East African Community (EAC) discussed implementing the proposed reforms to financial regulation of the G20 and Basel Committee on Banking Supervision;

(i) EAC central banks are to harmonise the definition of Tier 1 and Tier 2 capital with that of Basel III, and also to adopt and implement a standardised approach for calculating the capital charge for market risk as well as incorporate the computation of the leverage ratio into their regulations.

(ii) They are also to harmonise their definitions and metric (components and time horizon) of identifying and measuring the liquidity of institutions. The member states are to adopt the two proposed liquidity ratios, the net stable funding ratio (NSFR) and liquidity coverage ratio (LCR).

(iii) The member states are to put in place prudential requirements for identifying systemically important financial institutions (SIFIs).

(iv) Efforts to establish a framework on cross-border resolution of SIFIs with a regional presence are to be intensified as well as the formulation and implementation of crisis management frameworks.

(v) EAC central banks are to make regional institutional arrangements for coordinating macroprudential oversight.

2.7 Activities planned for 2013

Review of examination procedures and processes

BOU will continue to enhance the regulatory framework to keep pace with innovations in the banking sector such as mobile financial services. Similarly, the existing supervisory procedures will be upgraded in accordance with the amendments to the Core Principles on Banking Supervision (CPBS) made in 2012.

A consultant has already been contracted to draft regulations and guidelines on Islamic banking and anti-money laundering pending the enactment of the respective laws.

Financial inclusion

During 2012, the BOU embarked on the implementation of a National Strategy for Financial Inclusion built on four pillars; *financial literacy*, *financial consumer protection*, *financial innovations* (mobile money and agent banking) and *financial services data and measurement*. The details on the activities undertaken so far are provided in Chapter 4 of this Report. The financial inclusion project team is also working with FINSCOPE to undertake the 2013 *Survey on Access to Financial Services*.

Mobile money services

A memorandum of understanding between BOU and UCC will be finalised to provide the mechanisms for co-operation between the two regulators on mobile money financial services. The working group formed between BOU and UCC will issue interim guidelines for the mobile money transfer business during 2013.

Bank Supervision Application (BSA) system

The Bank Supervision System (BSS) is scheduled to be tested and rolled out during the year. The BSS will enable tracking and expeditious handling of a number of supervision related activities which include processing of the following; licensing applications, branch inspection reports, follow-up examination reports, regulatory, resolution and enforcement actions.

In addition, the BSS will enhance work flow processes relating to the reporting, pre-examination planning and allocation of supervisory resources. The system will also be a central repository of critical information pertinent to supervised financial institutions such as information on the shareholding structure, management and directorships.

Housing and land indices

With the preliminary data collected, UBOS and BOU will embark on the development of the housing and land price indices. Public release of the real estate price indices is planned for mid-2013.

Enhancing macro stress testing and risk modelling

BOU will strengthen its capacity for macro stress testing, which is crucial for assessing systemic risk. This is especially in two aspects, network modelling and forecasting of bank balance sheets. The BOU plans to develop a network model that identifies the linkages that exist between banks which carry the risk of contagion. This model will examine the potential for financial contagion in the banking system and seek to obtain indicative estimates of the magnitude of aggregate losses for the financial system. As a way forward, BOU will host an expert from the Bundesbank in April 2013 to develop network modelling and TA from the IMF is expected in early May 2013 to improve forecasting.

Crisis management framework

To enhance the capacity of the authorities to manage a systemic financial crisis, BOU plans to develop crisis management procedures to improve the crisis management arrangements including a framework for the speedy resolution of distressed financial institutions.

PART II: ASSESSMENT OF FINANCIAL STABILITY

Chapter 3: Banking Sector Performance

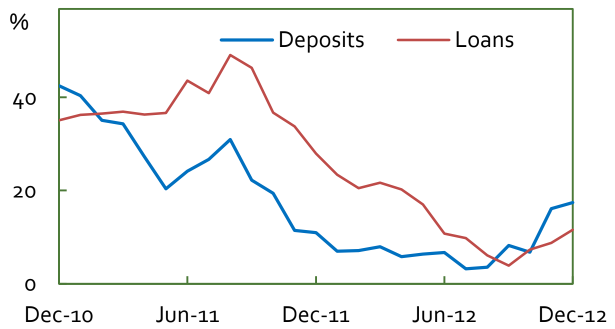
The banking system in Uganda was well capitalised in 2012. Although the sector was very profitable, asset quality declined as shown by an increasing NPL ratio. Moving forward, the main concerns pertain to the growth of foreign currency loans and overall loan quality.

Table 4: Annual developments in banks' assets and deposits

	Dec-10	Dec-11	Dec-12
Assets			
Volumes (Ushs. trillion)	11.3	13.0	15.5
Annual growth (%)	29.4	14.9	19.1
Deposits			
Volumes (Ushs. trillion)	8.0	8.9	10.5
Annual growth (%)	42.5	11.0	17.5
Loans			
Volumes (Ushs. trillion)	5.5	7.0	7.8
Annual growth (%)	35.1	27.9	11.6
Off-Balance Sheet Items			
Volumes (Ushs. trillion)	1.7	3.0	3.2
Annual growth (%)	-9.6	71.4	6.8

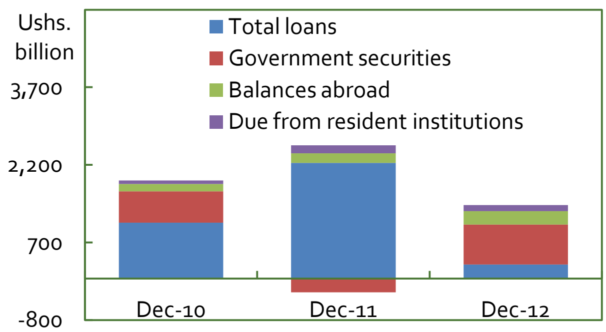
Source: Bank of Uganda

Chart 1: Annual growth rates of banks' loans and deposits



Source: Bank of Uganda

Chart 2: Annual changes in banks' major assets



Source: Bank of Uganda

3.1 Changes in banks' assets and liabilities

The banking sector's total assets increased by Ushs.2.5 trillion between December 2011 and December 2012 to reach Ushs.15.5 trillion, representing an annual growth rate of 19.1 percent. Annual growth of bank loans and advances, the strongest driver of banks' assets, declined to 11.6 percent during 2012 from 27.9 percent in 2011. On the other hand, there was an increase in the value of government securities held by banks to Ushs.3.1 trillion in December 2012 from Ushs.2.1 trillion in 2011.

The growth of off-balance sheet items declined significantly during 2012, to 6.8 percent from 71.4 percent in 2011. The slower growth of these items reflected a drop in the use of foreign exchange swaps and credit guarantees. Banks in Uganda enter into foreign exchange swaps primarily because these instruments facilitate access to liquidity using their foreign currency balances held with non-resident financial institutions, while limiting the risks and losses associated with permanent sale of foreign currency.

The foreign currency denominated components of the industry's balance sheet grew strongly during 2012. Table 5 shows that there was an increase in the share of foreign currency denominated assets and liabilities. The most notable change was that of foreign currency loans whose share of total loans increased from 29.1 percent in 2011 to 40.7 percent in 2012. Growth in foreign currency loans of 56.3 percent was much higher than the negative 6.8 percent growth in local currency loans.

3.2 Earnings and profitability

Bank profitability increased in nominal terms during 2012, despite the rise in operating costs in the same period. In 2012, banks' after-tax earnings were Ushs.544.5 billion, compared to Ushs.488.3 billion in 2011.

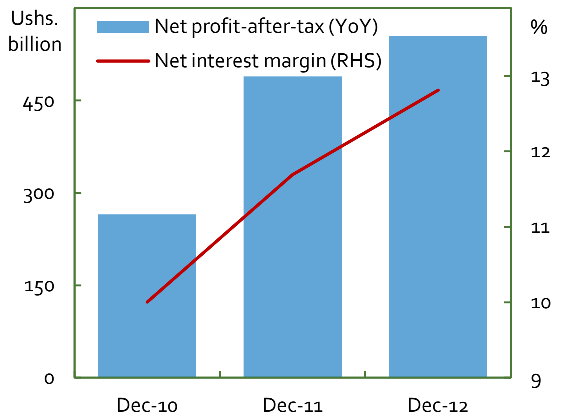
As a share of total income, income from loans and advances dropped from 62.0 percent in 2011 to 54.0 percent in 2012. Charges and fees on loans and deposits amounted to 12.6 percent of total income, which was up from 12.3 percent in 2011. Growth in earnings on government securities grew by 40.8 percent in 2012 compared to 14.7 percent during 2011,

Table 5: Foreign currency denominated assets and liabilities (percentage ratios)

	Dec-10	Dec-11	Dec-12
Foreign exchange assets to total assets	24.9	27.9	31.7
Foreign exchange liabilities to total liabilities	29.3	32.9	36.2
Foreign exchange loans to total loans	27.1	29.1	40.7
Foreign exchange deposits to total deposits	28.2	33.6	34.9

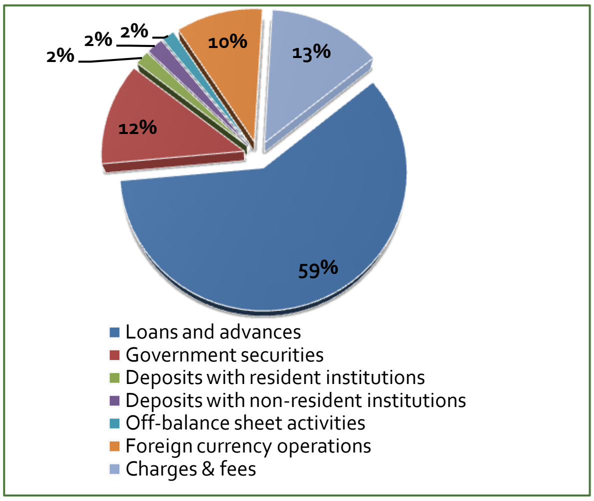
Source: Bank of Uganda

Chart 3: Banks' net profit-after-tax and interest margin



Source: Bank of Uganda

Chart 4: Banks' financial income for the year ending December 2012



Source: Bank of Uganda

which resulted in an increase in the share of these earnings to total income, from 10.5 percent in 2011 to 11.4 percent in 2012.

Net interest income[2] increased from Ushs.1.1 trillion in 2011 to Ushs.1.3 trillion in 2012, while the net interest margin rose from 11.7 percent to 12.8 percent during the same period. Average return on assets (ROA) and average return on equity (ROE) figures declined slightly from 4.0 percent and 27.3 percent respectively in 2011 to 3.9 percent and 24.2 percent in 2012. The increase in interest rates offered on deposits by banks increased the sector's cost of deposits from 3.2 percent to 4.2 percent.

Banks' operating costs rose during the year, with an annual growth rate of 18.0 percent compared to 12.5 percent in 2011; the cost-to-income ratio increased from 68.2 percent to 70.9 percent as the growth of total income was less than that of operating costs.

3.3 Adequacy of banks' capital

The banking sector remained adequately capitalised during 2012. Shareholders' funds increased from Ushs.2.0 trillion to Ushs.2.6 trillion, mostly in the form of paid-up capital and retained reserves (Chart 5). At an aggregate level, the capital adequacy ratio (regulatory tier 1 capital to risk-weighted assets) for banks increased to 18.8 percent at the end of December 2012, 0.9 percentage points more than in December 2011, and was far above the regulatory minimum of 8 percent. All banks were able to meet the minimum capital adequacy ratio requirement.

The leverage ratio (regulatory tier 1 capital to total assets plus off-balance sheet items) which is another indicator of banks' capital adequacy, increased slightly from 10.4 percent to 10.6 percent.

3.4 Performance of credit

Lending activity

There was a marked difference in the growth of shilling denominated and foreign currency loans during 2012. Foreign currency denominated loans recorded an annual growth rate of 56.3 percent, while shilling loans dropped by 6.8 percent. Total gross loans grew by 11.6 percent in 2012, 16.4 percentage points less than in 2011.

There was a rise in credit growth to certain sectors of the

[2] Net interest income is the difference between interest income and interest expenses.

Table 6: Profitability indicators for banking sector and new banks (percentage ratios)

	2010	2011	2012
ROA	2.7	4.0	3.9
ROE	18.0	27.3	24.2
Cost to income	75.7	68.1	70.9

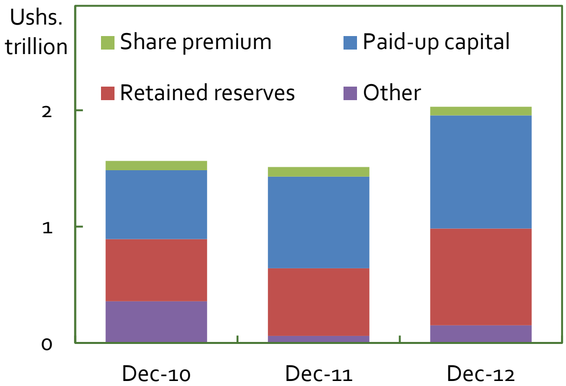
Source: Bank of Uganda

Table 7: Indicators of banks' capital adequacy (percentage ratios)

	Dec-10	Dec-11	Dec-12
Tier 1 capital adequacy ratio	17.5	17.9	18.8
Leverage ratio	9.8	10.4	10.6

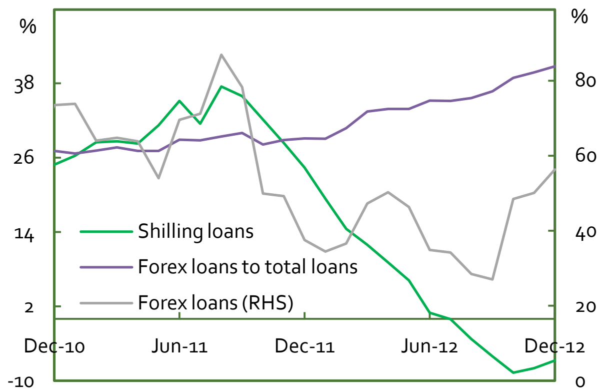
Source: Bank of Uganda

Chart 5: Composition of banks' shareholders funds



Source: Bank of Uganda

Chart 6: Annual percentage growth of loans



Source: Bank of Uganda

private sector except for trade, households and individuals, and the building and construction sectors. Lending to manufacturing grew by 37.0 percent in 2012, from 22 percent in 2011 while the growth in loans for the transport sector rose from 6.0 percent in 2011 to 14.0 percent in 2012. The growth in lending to household and individuals dropped from 40.4 percent in 2011 to negative 14.0 percent in 2012 while growth in lending to building and construction dropped from 37.6 percent to 26.1 percent. The growth of loans to the trade sector dropped from 16.0 percent to 4.0 percent in 2012.

Non-performing loans

Credit quality declined during 2012 as the ratio of NPLs to total gross loans increased from 2.2 percent in December 2011 to 4.2 percent in December 2012. In addition, the nominal value of NPLs rose by Ushs.174.7 billion (or 113.1 percent). There was also a decline in the NPL coverage ratio[3] from 55 percent to 33.0 percent despite the rise in loan loss reserves by 27.8 percent.

All business sectors registered a rise in impaired loans. NPLs for the trade and commerce sector grew by Ushs.78.2 billion which caused a rise in the NPL ratio for the sector from 2.2 percent to 6.8 percent. Similarly, the building and construction sector's NPLs grew by Ushs.60.5 billion which increased the sector's NPLs-to-total loans ratio from 1.9 percent to 4.8 percent. The transport and communication sector realised the smallest increase in NPLs of Ushs.3.7 billion, resulting in an NPL ratio of 1.5 percent.

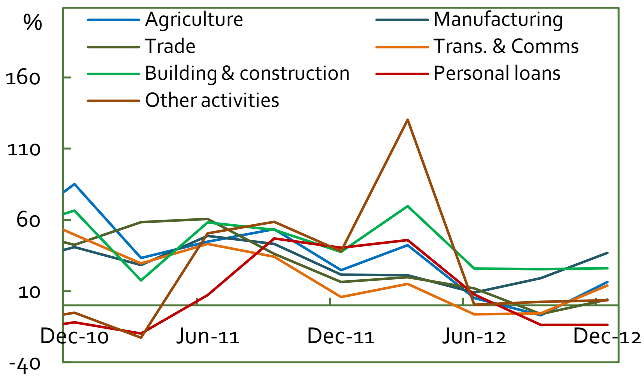
3.5 Funding and liquidity

The banking sector continued to rely mainly on customer deposits for funding. On average, deposits accounted for 81.0 percent of total liabilities in 2012. In addition to deposits, funding sources included interbank loans and deposits held for non-resident financial institutions. Growth of deposits improved in 2012 as shown by the increase in year-on-year growth rate for total deposits to 17.5 percent, up from 11.0 percent in 2011. In contrast, loans grew by 11.6 percent in 2012. As a result, the ratio of total loans to total deposits decreased by 4 percentage points to reach 74.5 percent.

Growth of time deposits fell from 27.5 percent in 2011 to 12.8 percent in 2012, while demand deposits registered a growth rate for the year of 24.8 percent in 2012 which was much higher than the 3.4 percent growth in 2011. Outstanding amounts due to non-resident financial institutions increased

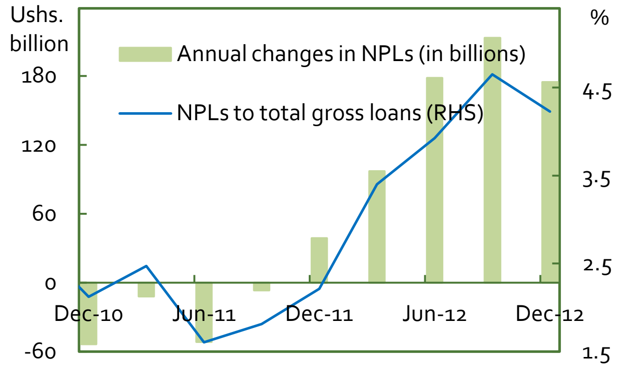
[3] The NPL coverage ratio is calculated as the ratio of loan loss reserves to total NPLs.

Chart 7: Annual growth of bank loans by sector (percentage)



Source: Bank of Uganda

Chart 8: Changes in banks' non-performing loans



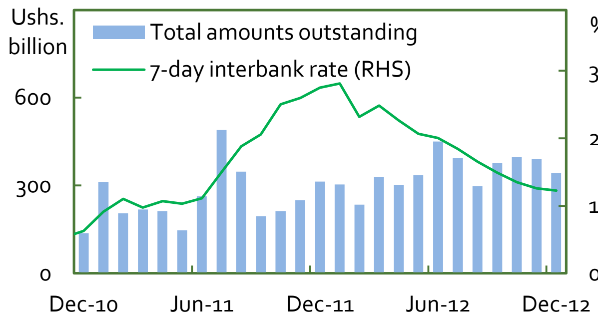
Source: Bank of Uganda

Table 8: Indicators of banks' liquidity

	Dec-10	Dec-11	Dec-12
Liquid assets to total deposits	39.8	37.6	42.0
Liquid assets to total assets	28.3	25.8	28.4
Total loans to total deposits	68.0	78.4	74.5

Source: Bank of Uganda

Chart 9: Monthly interbank activity and weighted average 7-day rate



Source: Bank of Uganda

from Ushs.136.1 billion at end of December 2011 to Ushs.333.5 billion as at end of December 2012, while resident interbank deposits increased from Ushs.313.2 billion in 2011 to Ushs.342.7 billion in 2012.

Interbank activity

Activity in Uganda's interbank market increased as total trading turnover rose from Ushs.11.6 trillion in 2011 to Ushs.16.0 trillion in 2012, of which Ushs.7.4 trillion had a maturity of seven days. Both the seven-day and overnight weighted average interbank interest rates dropped from 27.5 percent and 26.0 percent respectively in December 2011 to 12.7 percent and 8.1 percent in December 2012. Interbank rates declined as a result of the reduction in the CBR from 23.0 percent in December 2011 to 12.0 percent in December 2012.

3.6 Sensitivity to market risk

The proportion of the banks' foreign currency assets to total assets increased from 27.9 percent to 31.7 percent between December 2011 and December 2012. Banks still maintained low exposure to foreign exchange risk with the ratio of foreign currency exposure to regulatory tier 1 (core) capital being at -0.6 percent at the end of December 2012 (Table 9).

The banks also maintained a fairly steady ratio of foreign currency assets to liabilities recorded at 105 percent at December 2012, implying only a small risk of currency mismatches. However, the level of dollarization of the banking sector, measured as the share of foreign currency assets to total assets increased from 27.9 percent to 31.7 percent during 2012 and share of foreign currency deposits to total deposits increased from 33.6 percent to 34.9 percent.

3.7 Conclusion

Banking sector performance improved in 2012 compared to the previous year; the sector remained financially sound, following a better macroeconomic environment which included a fall in inflation and reduced exchange rate volatility. Deposit growth increased, and the banking system was profitable and well capitalised. However, concerns regarding growth of foreign currency loans and loan quality remain.

Table 9: Banks' foreign currency exposure (percent)

	Forex exposure to core capital	Forex assets to forex liabilities	Forex loans to forex deposits	Forex assets to total assets
Dec-10	-1.6	98.00	65.3	24.7
Dec-11	-3.6	100.2	67.9	27.9
Dec-12	-0.6	105.0	86.0	31.7

Source: Bank of Uganda

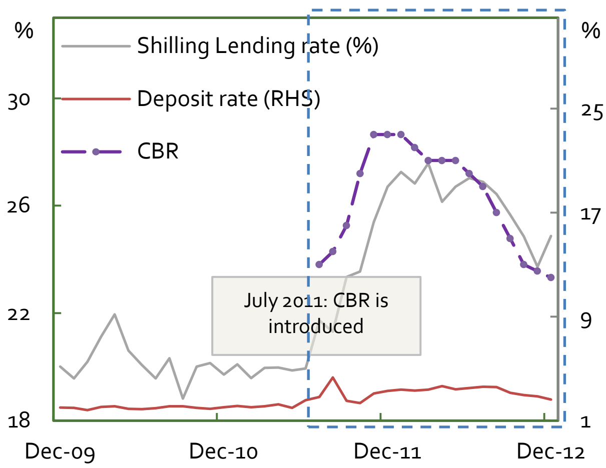
Chapter 4: Macroprudential Assessment and Outlook

This chapter of the report provides Bank of Uganda's view of systemic risk in the banking sector. The main issues discussed are the credit quality of banks' loan portfolio and the rise in foreign currency lending. Our assessment shows that threats to the systemic stability of the banking sector in Uganda are currently mild. Although there was an increase in non-performing loans in 2012, banks remain strongly capitalised.

4.1. Impact from macro economy

The inflationary pressures that characterised the second half of 2011 also affected the performance of the banking sector. In order to manage the inflationary pressures, the central bank rate (CBR) was raised from 13 percent in July 2011 to 23 percent in December 2011, but then reduced to 12 percent by December 2012 as inflation pressures abated with annual headline inflation falling from 27 percent in December 2011 to 5.5 percent in December 2012. Shilling lending rates rose from 26.5 percent in December 2011 to peak at 27.6 percent in March 2012 before dropping slightly by end December 2012. The year 2012 was generally characterised by high lending interest rates in the banking sector.

Chart 10: Weighted average lending rates for commercial banks (percentage rates)



Source: Bank of Uganda

Chart 10 shows that shilling lending rates have been increasing in tandem with the rise in CBR since July 2011. Inflationary pressures have been forecasted to remain subdued over the most part of 2013[4]. This should lead to a drop in the CBR and consequent decline in shilling lending rates. The reduction in lending rates should improve borrowers' ability to repay their loans, thereby improving the banking industry's credit quality.

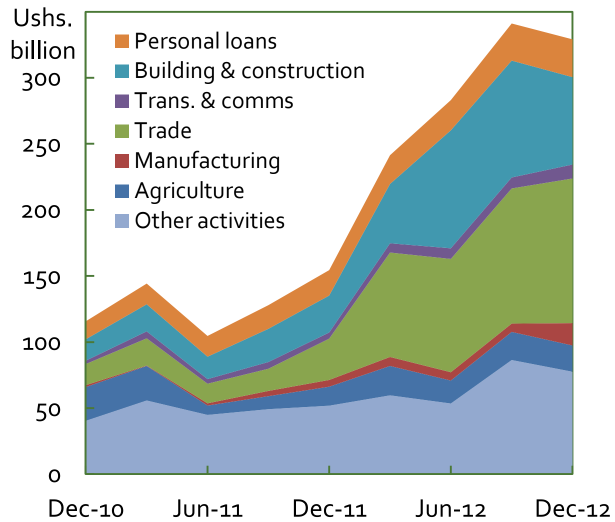
In addition, there are signs of economic recovery as shown by the quarterly GDP data[5]. The recent trends point towards better macroeconomic environment for business to operate in 2013.

4.2. Credit quality

Banks' asset quality dropped as shown by the rise in non-performing loans to total gross loans ratio from 2.2 percent in December 2011 to 4.3 percent in 2012. Chart 11 shows that the growth in NPLs was across all sectors, and this was attributed to higher bank lending rates on new shilling loans and the ability of banks to re-price already existing loans at higher interest rates, which increased the repayment burden of bank borrowers.

However the NPL ratio is still small compared to the level that it reached during other systemic crises. The ratio of NPLs to total gross loans was in the region of 20- 30 percent during the Chilean banking crisis of 1986 and Algeria banking crisis of 1990 (Laeven and Valencia, 2008).

Chart 11: Sectoral distribution of NPLs

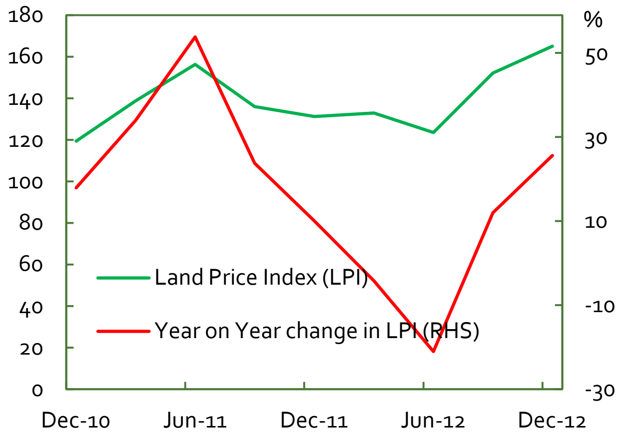


Source: Bank of Uganda

[4] BOU Monetary Policy Statement April 2013

[5] Uganda Bureau of Statistics, Quarterly GDP data Quarter 2 2012/2013

Chart 12: The Greater Kampala Area Land Price Index



Source: Uganda Bureau of Statistics

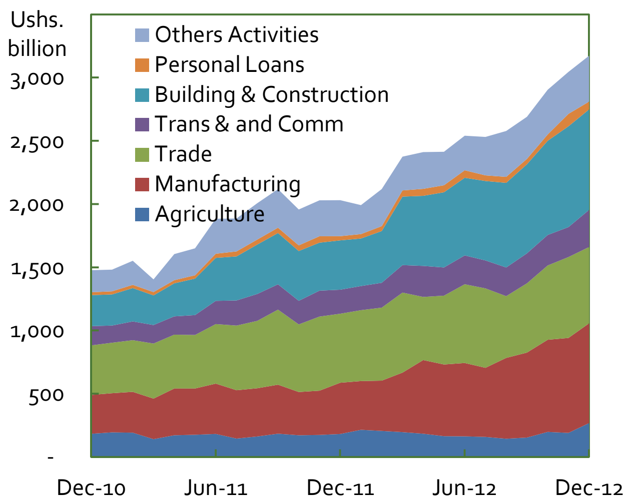
Chart 12 shows the preliminary Land Price Index[6] that is extracted from data compiled by Uganda Bureau of Statistics. It shows that the price of land has been relatively volatile over the last two years. Since Land is often used as collateral for loans in financial institutions, movements in this index have important implications for financial stability. The Index shows that land prices increased by about 25.6 percent from October 2010 to June 2011. However, there was a subsequent decline in land prices from June 2011 to June 2012 of 21 percent. Although the preliminary index indicates that land prices recovered in the last half of 2012, it is important to closely monitor the pattern of this index in 2013 for any early warning information regarding future credit quality.

4.3. Increased lending in foreign currency

Lending in foreign currency is associated with three main risks. First, it may lead to excessive credit growth and contribute to asset booms in the economy. Lessons from Central and Eastern Europe[7] show that most of foreign currency lending was channelled through the real estate sector, thus pushing up property prices. Second, unhedged foreign currency borrowers may become more exposed to exchange rate fluctuations, thus making it difficult for them to honour their obligations in case of shilling depreciation. Third, funding for these types of loans may require international markets or intra group financing in case the foreign currency deposit base in Uganda is insufficient to fund the foreign currency lending. This may increase the risk of cross-border spillovers as banks become even more reliant on parent groups and exposed to uncertainty in foreign currency markets.

The volume of foreign currency loans rose by 56.3 percent from Ushs.2.0 trillion in December 2011 to Ushs.3.1 trillion at end-December 2012. Foreign currency loans as a ratio of foreign currency deposits increased from 67.9 percent to 87.0 percent over the last year, which is above the 80 percent regulatory guideline[8].

Chart 13: Sectoral distribution of foreign currency loans (percentage share)



Source: Bank of Uganda

The sectoral breakdown of foreign currency loans shown in Chart 13 indicates that the building and construction sector has been the major recipient of foreign currency loans with 25.4 percent, followed by the manufacturing sector with 22.0 percent and trade and commerce sector having 20.0 percent. Foreign currency loans to the building and construction sector more than doubled from Ushs.390 billion in December 2011 to Ushs.795 billion in December 2012.The most significant increase in foreign currency lending to building and construction sector was to general construction contractors, and

[6] The Land price index is a weighted quarterly value index following the Laspeyers type formula with a fixed basket. Weights have been developed for Land price index with a base period 2009/10. The value used to compile the weights is a product of volume and unit price. Data covers the districts of Kampala, Mukono, Entebbe and Wakiso.

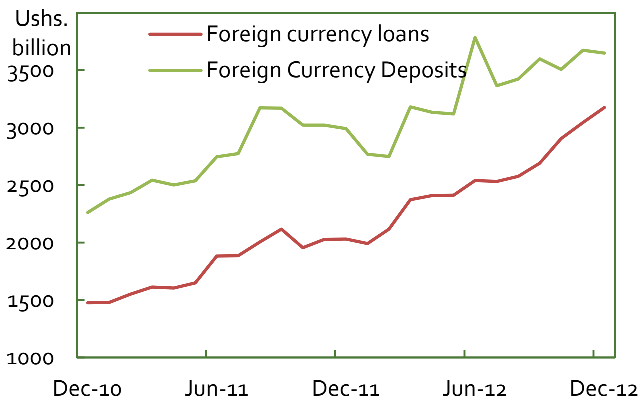
[7] Szpunar P. 2012, 'Systemic risk lessons from foreign currency loans in Europe'

[8] Section 7(b) of the Foreign Exchange Business Guidelines 2010 requires that lending in foreign currency shall not exceed 80 percent of a financial institution's total foreign currency deposits at all times.

commercial mortgages. At December 2012, general construction contractors accounted for the largest share (20.9 percent) of the foreign currency loans in the building and construction sector, followed by commercial mortgages (20.3 percent). The significant exposure to building and construction sector is a potential source of systemic risk given the long-term nature of the loans, should there be a dip in performance of the real estate sector.

The funding of the foreign currency loans was mainly from foreign currency deposits and borrowing from financial institutions outside Uganda. Foreign currency deposits increased by 22.0 percent from Ushs 3.2 trillion in December 2011 to Ushs.3.7 trillion in December 2012, which was less than the proportionate increase in foreign currency lending of 56.3 percent, necessitating banks to borrow foreign currency from external sources to fund foreign currency lending. Chart 14 indicates that borrowing from foreign institutions in both local and foreign currency increased from Ushs.2.4 trillion in December 2011 to Ushs.3.2 trillion in December 2012. Foreign currency borrowing from non-residents more than doubled from Ushs.97 billion in December 2011 to Ushs.207 billion in December 2012. Increased reliance on this source of funds may lead to cross border spillover to Uganda if risks materialise in foreign institutions.

Chart 14: Foreign currency borrowing from non-residents and foreign currency loans



Source: Bank of Uganda

4.4. Outlook and implications

Despite positive signs of increased bank profitability and capital adequacy, certain risks to the systemic stability of the financial system still require close monitoring. Firstly, credit risk as indicated by the slight decline in loan quality of commercial banks needs to be addressed. The Bank of Uganda has taken steps to ensure that banks increase their capital base to protect against future losses. By end of March 2013, commercial banks will be required to have minimum paid-up capital of Ushs.25 billion up from Ushs.4 billion. Additional policy actions to be implemented during 2013/14 include raising the tier 1 capital ratio (core capital to risk weighted assets) requirement to 10.5 percent from 8 percent and the tier 2 ratio (total capital to risk weighted assets) requirement to 14.5 percent from 12 percent.

Secondly, credit risk may be augmented by the increase of foreign currency loans advanced which could have adverse effects on asset quality and bank performance, should the shilling depreciate in the near future. Bank of Uganda will continue to enforce the foreign exchange business guidelines. This will ensure that foreign currency loans are either short-term (less than one year) or are disbursed to borrowers with foreign currency income streams[9]. Additional measures will be explored by Bank of Uganda to curb risks from foreign currency lending when necessary.

Third, BOU in conjunction with Uganda Bureau of Statistics in 2012 began collecting data on real estate that will be used for compiling real estate indices. This will help in monitoring developments in the real estate sector to strengthen financial stability analysis.

[9] Section 7(a) of the Foreign exchange business rules 2010 states that "*lending in foreign currency shall have a maximum maturity of not more than one year unless the borrower has a clearly defined income stream in the currency being borrowed that matches the longer-term maturity of the loan.*

PART III: SPECIAL TOPIC

Chapter 5: The BOU Financial Inclusion Project

5.1 Introduction

Bank of Uganda's efforts towards financial inclusion (FI) started in 2010 in response to financial innovations and gaps in financial education, consumer protection, financial deepening and access to financial services among others. Some strides were made at the onset, including the identification of stakeholders, issuance of guidelines and establishment of networks but the efforts remained fragmented. As a result, FI issues were consolidated as a project for proper coordination under the Supervision Function. The project is initially piloted for three years (2012-2015) based on four pillars:

- Pillar 1: Financial literacy (FL)
- Pillar 2: Financial consumer protection (FCP)
- Pillar 3: Financial innovations (includes: mobile financial services and agent banking)
- Pillar 4: Financial services data and measurement (supported by FINSCOPE country surveys on demand, usage and access to financial services)

The overall objective of FI project is to increase public access to financial services and empower the users of financial services to make rational decisions in their personal finances so as to contribute to economic growth.

Pillar 1: Financial literacy (FL)

FL initiatives are intended to ensure a more financially literate population, empowered and equipped to make prudent choices on their personal finances. The identified strands under this pillar are: financial education in schools, use of media for financial literacy, financial literacy rural outreach, financial literacy for the youth and financial literacy in workplaces, clubs and associations.

Pillar 2: Financial consumer protection (FCP)

The broad goal of FCP is to promote fair and equitable financial services, increase transparency, foster confidence, enhance disclosures on bank products, provide mechanisms for handling complaints and ensure privacy of consumer information.

Pillar 3: Financial innovations (FIN)

The broad goal of FIN is to promote financial system processes, products and services innovations while ensuring safety and stability. The identified strands include agent banking and mobile money financial services.

Pillar 4: Financial services data and measurement (DM)

The goal under this pillar is to monitor and measure financial inclusion indicators of access, usage, quality and welfare or impact of financial services on the lives of consumers. This entails defining key financial inclusion indicators and developing a strategy for collection and utilization of data as an integral part of the Financial Inclusion Strategy. The identified strands include; financial access indicators, usage of financial services looking both at the demand and the supply sides.

5.2 Definition of financial inclusion

The Centre for Financial Inclusion at Accion (CFI) defines full financial inclusion as a state in which all people who can use financial services have access to a full suite of quality services, provided at affordable prices, in a convenient manner, and with dignity for the clients. Financial services are delivered by a range of providers, in a stable, competitive market and reach everyone who can use them.

5.3 Justification for Bank of Uganda to prioritise financial inclusion activities

The pace of technological advancement has resulted into unprecedented proliferation of financial innovations. Despite these developments, the rural areas in Uganda and many Sub-Saharan African countries remain unbanked with limited financial services provided mainly by the informal sector in a rather fragmented manner and in an unsafe environment with limited linkages. Without stifling financial innovations the BOU aims to provide adequate responses to these challenges by creating an enabling environment for FI to thrive using the following means:

1. Strengthening consumer protection through public awareness and financial education.

2. Enhancing dialogue with financial institutions on the issues of interest rates, access to financial services and transparency.
3. Strengthening communication mechanism to sensitize the public on monetary policy choices.
4. Harnessing technological innovations to promote access and usage of financial services while ensuring safety and stability.
5. Maintaining data on access, usage and quality of financial services to enhance understanding on the gaps that need to be closed by the key stakeholders.

5.4 Activities undertaken and achievements under the Financial Inclusion Project

Following the re-launch of the FIP in December 2011, BOU conducted the following activities during the year 2012.

1. Constituted the financial literacy working groups, financial consumer protection consultative group and financial literacy advisory group (FLAG) which have held regular meetings.
2. Set preparations for the Finscope 2013 survey intended at determining status and challenges relating to access to financial services.
3. Developed and initiated the pre-testing of financial literacy core messages which is on-going. The core messages cover eight (8) key thematic areas namely: personal financial management, loans, retirement plans, savings, investment, insurance, payment system and financial service providers.
4. Panel discussions on interest rates, access to finance and transparency, financial education and sensitization workshops have been held and more are planned.
5. News paper pull out on FCP was done and the drafting of key facts documents on FCP is ongoing.
6. A joint working group was formed between BOU and UCC and drafting of interim guidelines for mobile money services covering licensing, anti-money laundering (AML), technology and cross-border issues was started and is on-going. This process will culminate into an MOU between BOU and UCC.

5.5 Future activities

BOU, together other stakeholders, will continue in their resolve to create an enabling environment to boost the level of access to financial services in the country through legislation, regulation and public education. Some of the future activities include the following:

- Collection of supply-side data from various stakeholders including financial institutions, Association of Microfinance Institutions of Uganda (AMFIU) and Uganda Bureau of Statistics (UBOS) among others. The data collected is to be mapped with the demand-side data.
- Development of concise FCP information messages in conjunction with the Communications Department for airing out in various radio stations.
- Holding stakeholder workshops involving financial institutions, the BOU and the public to discuss FCP issues.
- Conducting radio appearances and pilot financial literacy presentations with informal workers, the youth and rural outreach groups
- Incorporating financial literacy in the school curriculum and in the university and vocational institutions.
- Working with media agents to provide financial education
- Developing of a standalone financial literacy website (with the assistance of GIZ), school competitions and Financial Literacy card games.
- Issuing interim guidelines for mobile money services, covering licensing, AML, technology and cross border issues.
- Conducting sensitisation workshops to help create public awareness on mobile money financial services.
- Providing an adequate framework to support agent banking activities.
- Completing the MOU between BOU and UCC to provide the mechanism for cooperation amongst the two regulators on mobile money financial services.

5.6 Conclusion

Bank of Uganda is committed to a strategy aimed at enhancing financial inclusion and broadening access to financial services. On one hand, this strategy will enable the Bank to respond to the rapid financial innovations and enhance the quality of financial services. On the other hand, the strategy will lead to better access and use of financial services, enhanced financial education as well as consumer protection.

5.7 References

1. Asli Demirguc-Kunt et al (2012), *Financial Inclusion in Africa: An Overview*. Washington. World Bank Publications
2. Centre for Financial Inclusion at Accion (CFI) (2011), *Road Map for the Microfinance Industry: Focusing on Responsible and Client-Cantered Microfinance.* The Microfinance CEO Working Group.

PART IV: STATISTICAL APPENDICES

APPENDIX 1: FINANCIAL SOUNDNESS INDICATORS FOR SUPERVISED FINANCIAL INSTITUTIONS

Table 1A: Financial soundness indicators for commercial banks (*percent*)

	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10	Dec-11	Dec-12
Capital Adequacy							
Regulatory capital to risk-weighted assets	17.9	19.3	20.7	20.9	20.2	20.3	21.9
Regulatory tier 1 capital to risk-weighted assets	16.4	17.7	18.7	18.7	17.5	17.9	18.8
Total qualifying capital to total assets	11.0	10.4	13.2	13.6	13.0	14.6	
Asset quality							
NPLs to total gross loans	2.9	4.1	2.2	4.2	2.1	2.2	4.2
NPLs to total deposits	1.7	2.5	1.6	3.0	1.4	1.7	3.1
Specific provisions to NPLs	41.4	52.5	78.0	57.2	65.0	50.9	45.9
Earning assets to total assets	80.0	79.9	75.6	78.0	77.1	74.0	71.3
Large exposures to gross loans	42.9	43.8	31.0	32.2	35.7	34.6	34.6
Large exposures to total capital	137.9	136.8	92.1	94.3	124.4	120.9	104.7
Earnings & profitability							
Return on assets	3.4	3.8	3.5	3.0	2.7	4.0	3.9
Return on equity	28.3	30.7	24.8	18.8	18.0	27.3	24.2
Net interest margin	10.3	10.1	10.5	10.8	10.0	11.7	12.8
Cost of deposits	2.2	2.9	2.9	3.7	2.9	3.2	4.1
Cost to income	68.3	68.0	69.7	75.4	75.7	68.1	70.9
Overhead to income	51.4	47.1	48.6	52.3	53.1	44.3	40.1
Liquidity							
Liquid assets to total deposits	50.7	46.7	48.1	44.7	39.8	37.6	42.0
Total loans to total deposits	57.5	60.2	72.5	71.7	68.0	78.4	74.5
Market Sensitivity							
Foreign currency exposure to regulatory tier 1 capital	-7.4	-8.4	-1.4	-0.7	-1.6	-3.6	-0.6
Foreign currency loans to foreign currency deposits	48.8	56.6	65.5	57.9	65.2	67.9	87.0
Foreign currency assets to foreign currency liabilities	109.5	97.4	102.7	107.0	98.0	100.2	105.0

Source: Bank of Uganda

Table 1B: Financial soundness indicators for microfinance deposit-taking institutions (*percent*)

	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10	Dec-11	Dec-12
Capital Adequacy							
Core capital (Ushs. billion)	21.1	27.3	22.3	26.1	29.8	48.1	58.0
Total capital (Ushs. billion)	32.8	40.4	31.6	35.3	45.9	63.6	73.7
Risk-weighted assets (Ushs. billion)					143.6	197.9	227.5
Core capital to risk-weighted assets (% ratio)	21.7	21.1	22.9	22.0	20.8	24.3	25.4
Total capital to risk-weighted assets (% ratio)	33.8	31.2	32.4	29.8	32.0	32.1	32.4
Asset Quality							
Total loans (Ushs. billion)	79.5	107.7	83.4	83.4	120.3	171.4	190.3
Non-performing loans (Ushs. billion)	2.4	3.1	2.3	2.3	2.4	3.2	5.3
Total provisions (Ushs. billion)			2.7		2.8	3.7	5.6
Portfolio at risk (% ratio)	3.0	2.8	64.5	2.4	2.0	1.9	2.7
Profitability							
Year-to-date profit/loss (Ushs. billion)	3.2	8.2	4.1	4.6	4.3	10.1	11.6
Year-to-date return on assets (% ratio)	1.4	5.0	4.4	3.4	2.6	4.3	4.2
Year-to-date return on equity (% ratio)	8.2	15.0	13.1	10.2	8.6	17.2	17.2
Liquidity							
Liquid assets to deposits (% ratio)	105.5	-	86.6	62.4	49.3	51.6	58.5
Loans to deposits (% ratio)	60.4	-	72.8	77.4	75.1	77.0	69.9

Source: Bank of Uganda

Table 1C: Financial soundness indicators for credit institutions (*percent*)

	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10	Dec-11	Dec-12
Capital Adequacy							
Core capital (Ushs. billion)	35.1	88.4	14.9	27.5	26.2	31.6	44.2
Total capital (Ushs. billion)	36.7	94.1	17.7	28.3	31.6	39.3	53.0
Risk-weighted assets (Ushs. billion)	161.5	202.4	64.0	87.0	114.6	141.4	157.6
Core capital to risk-weighted assets (% ratio)	21.7	43.7	23.3	31.6	22.9	22.3	28.1
Total capital to risk-weighted assets (% ratio)	22.7	46.5	27.6	32.5	27.5	27.7	33.6
Provisions to core capital (% ratio)	10.3	5.7	11.6	4.8	4.8	3.1	5.7
Asset Quality							
Total loans and advances (Ushs. billion)	133.7	166.3	38.7	63.5	79.7	107.2	115.9
Total provisions (Ushs. billion)	3.6	0.5	1.7	1.3	1.3	1.0	2.5
Non-performing loans (Ushs. billion)	9.1	10.7	3.0	2.1	3.3	1.7	4.9
Non-performing loans to total loans (% ratio)	6.8	6.4	7.9	3.3	4.1	1.6	4.2
Profitability							
Year-to-date profit/loss (Ushs. billion)	5.2	6.3	-0.8	1.0	0.3	2.9	5.2
Quarterly net profits (Ushs. billion)	1.5	1.6	0.0	0.5	0.4	1.2	0.9
Quarterly return on assets (% ratio)	0.6	0.5	0.0	0.4	0.2	0.6	0.4
Year-to-date return on assets (% ratio)	2.1	2.2	-0.7	0.8	0.1	1.5	2.4
Liquidity							
Total public deposits (Ushs. billion)	140.9	131.9	75.6	74.4	107.7	121.6	133.0
Liquid assets (Ushs. billion)	58.2	70.6	42.6	38.9	54.3	58.3	76.8
Liquid assets to deposits (% ratio)	41.3	53.5	56.4	52.3	50.4	47.9	57.8
Loans to deposits (% ratio)	71.1	64.7	48.9	65.9	56.1	62.6	58.5

Source: Bank of Uganda

APPENDIX 2: AGGREGATED BALANCE SHEETS FOR SUPERVISED FINANCIAL INSTITUTIONS

Table 2A: Commercial banks' aggregated balance sheet

	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10	Dec-11	Dec-12
ASSETS (Ushs. Billion)							
Cash & cash assets	219.3	232.4	337.4	401.5	472.9	583.0	667.4
Balances with BOU	255.9	296.8	462.7	623.6	802.7	835.8	1,341.6
Due from financial institutions	830.1	962.1	1,050.5	1,032.9	1,317.8	1,736.5	1,622.1
Government securities	1,008.1	1,400.1	1,532.4	1,832.3	2,532.5	2,073.5	3,053.2
Total gross loans & advances	1,702.6	2,174.0	3,404.8	4,038.9	5,461.1	6,981.0	7,789.7
LESS: Provisions	-20.8	-46.9	-58.3	-96.9	-88.0	-89.5	-187.9
Net loans & advances	1,681.8	2,127.1	3,346.4	3,942.0	5,373.1	6,891.5	7,601.8
Net fixed assets	232.8	248.5	376.1	472.9	401.7	429.5	519.3
Other assets	210.1	296.7	390.9	327.9	409.9	432.6	472.6
TOTAL ASSETS	**4,438.1**	**5,563.7**	**7,496.4**	**8,633.0**	**11,310.5**	**12,982.4**	**15,465.9**
LIABILITIES (Ushs. Billion)							
Deposits	2,961.2	3,613.1	4,695.6	5,630.5	8,041.7	8,903.7	10,457.7
Due to financial institutions	225.1	567.2	682.3	603.3	529.1	730.2	513.7
Administered funds	115.1	122.9	323.7	279.2	309.6	339.9	359.1
Other liabilities	590.2	558.6	687.4	773.5	864.8	1,007.0	1,558.3
TOTAL LIABILITIES	**3,891.7**	**4,861.8**	**6,389.0**	**7,286.6**	**9,745.2**	**10,980.8**	**12,888.8**
SHAREHOLDERS' FUNDS (Ushs. Billion)							
Paid-up capital	119.7	180.4	426.5	485.8	591.9	789.6	973.6
Share premium	25.3	25.3	53.6	55.1	80.3	81.5	75.7
Retained reserves	226.5	256.8	352.5	456.7	534.1	581.2	830.6
Other reserves	38.7	46.8	44.4	112.8	90.3	61.0	152.7
Profit – Loss (current year)	136.2	192.6	230.4	236.1	268.7	488.3	544.5
TOTAL SHAREHOLDERS' FUNDS	**546.4**	**701.9**	**1,107.5**	**1,346.5**	**1,565.3**	**2,001.6**	**2,577.0**
OFF BALANCE SHEET ITEMS (Ushs. Billion)							
Letters of Credit	90.5	195.0	212.8	201.9	335.6	392.4	352.0
Guarantees & performance bonds	197.0	285.3	380.5	520.5	608.5	786.6	1,046.3
Unused loans/overdrafts commitment	309.3	233.8	234.6	318.1	678.4	802.2	1,023.3
Other off balance sheet items	143.2	51.7	79.3	147.2	334.9	1,000.2	765.1
TOTAL OFF BALANCE SHEET ITEMS	**740.0**	**765.8**	**907.2**	**1,187.8**	**1,957.4**	**2,981.4**	**3,186.7**

Source: Bank of Uganda

Table 2B: Aggregated balance sheet for microfinance deposit-taking institutions

	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10	Dec-11	Dec-12
ASSETS (Ushs. billion)							
Notes and coins	3.6	5.0	3.1	4.0	4.9	6.9	9.0
Balances with institutions in Uganda	14.6	20.1	7.9	14.5	23.7	25.8	48.7
Government securities	16.9	11.9	16.9	4.5	2.4	7.4	0.9
Net loans outstanding	76.9	104.8	81.1	94.8	118.7	169.3	186.5
Inter branch/ due from own offices	46.0	183.0	-	-	35.0	374.0	0.0
Net fixed assets	9.6	10.3	8.3	9.9	11.1	12.0	13.6
Long-term investments	1.1	1.8	-	-	-	-	-
Other assets	6.6	8.3	6.3	8.2	9.0	11.1	17.6
Total assets	**128.6**	**162.4**	**123.6**	**135.8**	**169.9**	**232.9**	**276.3**
LIABILITIES (Ushs. billion)							
Deposit liabilities	23.2	39.1	31.5	36.6	62.9	76.8	99.9
Loan insurance fund	15.3	16.0	13.4	14.2	12.1	13.5	14.0
Borrowings	41.3	46.6	28.5	29.2	28.5	52.4	57.2
Other liabilities	6.6	7.3	8.1	9.2	10.0	15.6	18.3
Grants/deferred income	1.3	1.3	0.9	1.7	1.8	6.0	7.4
Inter branch/ Due to own Offices	0.0	0.0	-	10.0	-	-	-
Other long-term Liabilities	0.5	0.1	0.0	-	-	0.1	0.1
Total liabilities	**88.2**	**110.5**	**82.3**	**90.9**	**115.3**	**164.2**	**196.7**
FINANCED BY: (Ushs. billion)							
Capital	22.7	31.6	24.8	28.4	33.2	56.4	66.8
Subordinated debt	13.9	16.5	16.5	16.5	21.4	12.2	12.7
Preference shares	3.8	3.8	-	-	-	-	-
Total liabilities & equity	**128.6**	**162.4**	**123.6**	**135.8**	**169.9**	**232.9**	**276.3**

Source: Bank of Uganda

Table 2C: Aggregated balance sheet for credit institutions

	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10	Dec-11	Dec-12
ASSETS (Ushs. billion)							
Cash	3.9	5.2	5.4	5.4	6.1	6.7	7.7
Balances with institutions in Uganda	37.9	48.9	24.6	23.1	41.7	41.0	55.9
Balances with commercial banks outside Uganda	3.4	2.3	0.0	0.0	0.8	0.2	0.7
Investments	13.1	14.3	12.8	10.6	5.7	10.5	
of which Government securities	13.0	14.2	12.6	10.4	5.7	10.4	12.5
Loans and advances	153.8	184.3	38.7	63.5	79.7	107.2	115.9
of which Administered funds*	20.1	18.0	-	-	-	-	-
Premises and fixed assets	16.5	21.7	14.6	15.3	16.3	19.2	20.2
Other Assets	10.0	10.6	10.6	6.0	8.6	8.9	8.1
Total assets	**238.6**	**287.3**	**106.6**	**123.9**	**158.9**	**193.7**	**221.1**
LIABILITIES (Ushs. billion)							
Total deposit liabilities to depositors	140.9	131.9	75.6	74.4	107.7	121.6	133.0
Loan Insurance Fund	-	-	-	4.0	3.4	3.6	4.3
Balances due to commercial banks/associated companies/residents/non-residents	24.1	20.4	1.8	11.1	7.5	13.2	17.2
Borrowings at Bank of Uganda	-	-	-	0.8	0.8	0.7	0.6
Administered funds	20.1	18.0	-	-	-	-	-
Other Liabilities	6.3	9.8	5.5	2.6	10.7	16.0	14.5
Provisions	8.3	10.4	5.3	2.8	0.5	0.7	2.0
Capital	33.8	90.4	19.2	27.2	28.0	35.0	44.3
of which paid up capital	19.3	70.7	14.0	18.6	16.9	17.9	21.9
Profit for current year	5.2	6.3	-0.8	1.0	0.3	2.9	5.2
Total liabilities	**238.6**	**287.3**	**106.6**	**123.9**	**158.9**	**193.7**	**221.1**

Source: Bank of Uganda

APPENDIX 3: INCOME STATEMENTS FOR SUPERVISED FINANCIAL INSTITUTIONS

Table 3A: Commercial banks' aggregated income statement (*annual*)

	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10	Dec-11	Dec-12
INCOME (Ushs. Billion)							
Interest income							
Advances	247.8	315.8	495.6	690.4	789.7	1,178.1	1,465.3
Government securities	113.7	126.2	141.8	166.4	182.9	210.7	296.5
Deposits abroad	23.4	31.1	27.9	12.4	10.7	22.2	49.3
Other	20.3	36.3	62.1	58.1	44.2	70.0	23.6
Charges, fees & commissions	112.8	149.8	175.2	218.0	214.7	252.6	326.9
Foreign exchange income	41.3	70.9	128.9	130.3	132.9	186.4	250.6
Other income	24.9	28.1	36.2	55.8	100.7	94.9	183.3
TOTAL INCOME	**584.2**	**758.3**	**1,067.7**	**1,331.3**	**1,475.8**	**2,014.7**	**2,595.5**
EXPENSES (Ushs. Billion)							
Interest expense on deposits	60.7	95.5	122.4	188.5	196.8	267.0	401.4
Other interest expenses	14.4	11.6	57.6	64.5	57.3	145.2	193.3
Provisions for bad debts	23.7	43.3	45.5	56.3	79.0	77.8	205.9
Salaries, wages, staff costs	116.1	144.3	219.5	284.8	330.3	381.4	437.8
Premises, depreciation, transport	55.4	69.4	110.5	144.3	153.8	178.5	198.1
Other expenses	128.5	138.6	189.9	266.9	296.2	322.9	405.2
TOTAL EXPENSES	**398.8**	**502.8**	**745.4**	**1,005.4**	**1,113.4**	**1,372.8**	**1,841.7**
ADD: Extraordinary credits/charges	0.0	2.5	0.0	0.0	-0.4	-0.7	0.9
Net profit before tax	185.4	257.9	322.3	325.9	362.0	641.3	754.7
LESS: Corporation tax	49.0	59.4	92.0	89.8	93.3	153.0	199.9
NET PROFIT AFTER TAX	**136.4**	**198.6**	**230.4**	**236.1**	**268.7**	**488.3**	**544.8**

Source: Bank of Uganda

Table 3B: Aggregated income statement for microfinance deposit-taking institutions (*annual*)

	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10	Dec-11	Dec-12
INCOME (Ushs. Billion)							
Total credit income	41.7	54.3	43.1	51.2	57.0	79.1	99.0
Total other income	3.3	4.6	5.2	7.3	4.3	7.3	10.6
GROSS FINANCIAL INCOME	**45.1**	**58.9**	**48.3**	**58.5**	**61.3**	**86.3**	**109.6**
EXPENSES (Ushs. Billion)							
Total financial expenses of lending funds	6.8	8.3	6.0	6.2	5.6	9.4	15.7
Provision for bad debts	2.4	3.2	2.6	2.5	2.4	3.0	5.0
Net financial income	35.8	47.4	39.6	49.8	53.3	74.0	88.9
Total operating expenses on financial services	32.9	37.8	34.6	44.5	48.2	63.6	75.5
NET INCOME FROM OPERATIONS	**2.9**	**9.6**	**5.1**	**5.3**	**5.1**	**10.4**	**13.4**
Total grant income for financial services	0.7	0.3	0.2	0.4	0.3	1.1	1.1
Total grant income for non-financial services	-	0.4	-	-	-	-	-
Income from non-financial services	0.5	0.6	0.0	0.0	0.1	0.2	0.01
Total operating expenses on non-financial services	0.0	0.0	0.0	0.0	0.0	0.1	0.09
Net operating profit/loss from non-financial services	0.5	0.6	0.0	0.0	0.0	0.1	-0.1
NET PROFIT FOR THE PERIOD	**4.1**	**11.0**	**5.3**	**5.7**	**5.4**	**11.6**	**14.4**
Corporation tax	0.9	2.8	1.3	1.1	1.1	1.5	2.7
NET PROFIT AFTER TAX	**3.2**	**8.2**	**4.1**	**4.6**	**4.3**	**10.1**	**11.6**
RETAINED EARNINGS	**3.2**	**8.2**	**4.1**	**4.6**	**4.3**	**10.1**	**11.6**

Source: Bank of Uganda

Table 3C: Aggregated income statement for credit institutions (*annual*)

	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10	Dec-11	Dec-12
INCOME (Ushs. Billion)							
Interest on loans and advances	22.2	31.0	13.1	16.2	21.0	27.3	31.7
Interest on government securities	1.5	1.7	1.4	1.1	0.5	0.8	2.2
Other interest income	2.7	3.5	1.8	1.7	3.1	4.1	0.3
Total interest income	**26.4**	**36.2**	**16.2**	**19.0**	**24.5**	**32.1**	**41.0**
Total non-interest income	8.2	10.9	12.2	10.6	9.8	13.5	15.4
TOTAL INCOME	**34.6**	**47.1**	**28.4**	**29.6**	**34.3**	**45.6**	**56.4**
EXPENSES (Ushs. Billion)							
Total interest expense	6.9	9.7	2.6	2.1	2.3	3.8	4.6
Provisions for bad debts	1.6	2.7	3.6	0.5	1.1	1.6	2.8
Salaries & other staff costs	8.8	11.8	10.3	12.6	14.3	17.4	19.9
Other non-interest expense	10.0	13.6	12.3	13.4	16.2	19.5	21.9
TOTAL EXPENSES	**27.3**	**27.3**	**29.0**	**28.6**	**33.9**	**42.3**	**49.2**
Taxation	2.1	3.0	0.3	-	0.1	0.4	1.9
NET INCOME	**5.2**	**6.3**	**-0.8**	**1.0**	**0.3**	**2.9**	**5.2**

Source: Bank of Uganda

APPENDIX 4: CREDIT REFERENCE BUREAU ACTIVITIES (YEARLY ACTIVITY)

Quarter	Dec-2010	Dec-2011	Dec-2012
Branches on FCS	505	528	547
Branches on CRB	503	525	542
Financial cards issued	478,568	667,412	802,906
Number of enquiries	146,435	682,459	1,154,690

Source: Bank of Uganda