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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
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
KYC	Know-your-customer
LCR	Liquidity Coverage Ratio
MDIs	Microfinance deposit-taking institutions
MDI-DPF	Microfinance deposit-taking institutions' deposit protection fund
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
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

The prudential regulation and supervision of financial institutions is a statutory responsibility of the Bank of Uganda (BoU). In the interest of transparency and of promoting informed public debate about the financial sector and regulatory issues, the BoU publishes an Annual Supervision Report, which provides information on its supervisory activities during the year and the reforms to the regulatory framework. The Report also analyses developments in the financial sector, focussing on indicators of financial soundness and potential risks to the stability of the financial system.

Uganda's banking industry recorded strong financial indicators in 2011 and, remained financially sound, despite a difficult macroeconomic environment which included a sharp rise in inflation, a slowdown in economic growth in the second half of 2011 and substantial exchange rate volatility. Although deposit growth slowed, credit growth was very rapid in the first nine months of the year, an indication that banks intermediated a larger share of the deposits. The banking system was very profitable, recording an after tax return on assets of 4 percent. In aggregate, the banking system remained well capitalised with the tier 1 capital adequacy ratio (regulatory core capital to risk-weighted assets) increasing from 17.5 percent in December 2010 to 17.9 percent in December 2011, compared to the regulatory minimum of 8 percent. The exchange rate volatility which occurred during 2011 had very little adverse impact on the financial condition of banks because their exposure to foreign exchange risk was very small; the banks' foreign exchange denominated liabilities were closely matched by their foreign exchange denominated assets.

The BoU tightened its monetary policy stance in 2011 to curb rising inflation, raising the policy interest rate by 10 percentage points in the second half of the year. The rise in the policy rate led to increases in both the costs of wholesale funds for banks and banks' lending rates. Although the percentage share of non performing loans in total bank loans remained low in 2011, at 2.2 percent, the combination of higher bank lending rates and a slowdown in economic growth, coming on top of a very rapid expansion of banks' loan portfolios in 2010 and 2011, raises concerns about the potential consequences for future loan quality. Nevertheless, as noted above, the banking system holds substantial capital buffers to absorb future loan losses and hence its vulnerability to financial fragility is low. Stress tests conducted by the BoU indicate that the banking system's solvency is resilient to most plausible adverse shocks, with the exception of multiple loan defaults by the banks' largest borrowers, an event which in the current circumstances has a low probability of occurring.

The BoU embarked on a number of reforms during 2011 to strengthen the regulatory framework. The BoU began a pilot project to modernise liquidity regulation by introducing the Liquidity Coverage Ratio of Basel III. The BoU initiated work on the development and implementation of a National Strategy for Financial Inclusion, under which financial consumer protection guidelines were issued to financial institutions in 2011. Efforts are also underway to enhance capacities to manage a systemic financial crisis and enhance coordination of the regulatory bodies through technical assistance from the World Bank.

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 2011. The 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

During 2011, BOU carried out on-site examinations of supervised financial institutions to determine their financial condition, their resilience to internal and external shocks and their compliance with all applicable laws, regulations, prudential guidelines and supervisory recommendations.

Commercial banks

On-site examinations of 22 banks and 9 follow-up on-site examinations were completed during 2011. The on-site examinations showed that the banks' overall risk management frameworks were robust but require continuous review to cope with the emerging risks in the sector.

The main risks that emerged during the year were due to high cyber-related frauds and weaknesses at the macro-level which were largely attributed to exogenous factors arising from the fragility in the global economy and in the real sector. The amendment to the minimum capital requirements to raise the minimum paid-up capital for commercial banks to Ushs.25 billion by March 2013 should provide additional cushioning against potential risks arising from the unfavourable economic developments that were witnessed during 2011.

Credit institutions

Full scope on-site examinations of the three credit institutions were carried out during 2011. The overall performance of the three credit institutions was rated satisfactory. However, the examination findings indicated that there was a need for strengthening corporate governance and risk management practices.

Microfinance deposit-taking institutions

On-site inspections of three microfinance deposit-taking institutions (MDIs) were undertaken during 2011. The main issues noted during the inspections centred on reinforcing corporate governance and strengthening risk management and internal controls.

Foreign exchange bureaus and money remittance companies

On-site inspections of 66 foreign exchange bureaus and money remitters were conducted during 2011. 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 related to 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.

National Social Security Fund (NSSF)

Pursuant to its role as technical advisor to the Minister of Finance, Planning and Economic Development on the National Social Security Fund (NSSF), Bank of Uganda conducted a full scope on-site examination of the NSSF in 2011 that was aimed at reviewing the institution's financial condition, assessing the adequacy of its risk management framework and ascertaining its compliance with applicable laws and supervisory recommendations. The report of examination was forwarded to the Minister for further action.

1.3 Off-site analysis of banks

Bank of Uganda conducted off-site surveillance of SFIs through the collection and analysis of financial data submitted by the SFIs. Off-site analysis plays a critical role in the continuous implementation of the risk-based supervision methodology.

It also helps to generate high frequency data for further analysis and in the planning of scheduled on-site examinations of commercial banks.

Stress testing

Stress tests were conducted to estimate the magnitude of losses which banks would incur in the event of their encountering 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) 100 percent loan loss of each bank's largest borrowers.

The stress tests were conducted at the end of each quarter in 2010. The results of the tests conducted on the banks' financial positions at the end of December 2011 are shown in Table 1.

A decrease in net interest margin, decrease in interest income on government securities, depreciation of the shilling against US dollar and increase in non-performing loans (NPLs) have a small 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 being in the range of Ushs.2.7 billion to Ushs.5.6 billion. This capital shortfall is very small in relation to the banking system's aggregate total capital of Ushs.1.9 trillion, as at 31st December 2011.

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, 9 banks would become under-capitalised with an aggregate capital shortfall of Ushs.58.2 billion. If the three largest borrowers of each bank were to default with 100 percent loan loss, 18 banks would be under-capitalised with an aggregate capital shortfall of Ushs.390.2 billion.

Table 1: Stress test shock for quarter ended 31st December 2011

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	2	2.9
Decrease in net interest income by 50 percent	3	4.1
Decrease in interest income from government securities		
Decrease in income from government securities by 20 percent	1	2.8
Decrease in income from government securities by 50 percent	1	2.8
Depreciation of Shilling against US dollar		
Depreciation of Ushs. against US Dollar by 20 percent	1	2.7
Depreciation of Ushs. against US Dollar by 30 percent	1	2.7
Increase in non-performing loans		
Increase in NPLs by 30 percent	2	4.3
Increase in NPLs by 50 percent	2	5.6
Loan loss of each bank's largest borrowers		
Default by single largest borrower	9	58.2
Default by 3 largest borrowers	18	390.2

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 stress testing results indicate that if the three largest borrowers in banks 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 extreme situations such as a steep recession. For all other risks, the results show that the majority of banks are resilient and have adequate capital to mitigate their impact.

Impact of increase in central bank rate

In July 2011, the BoU reformed the conduct of monetary policy so as to use a short term interest rate in order to achieve the target of low and stable inflation. The operating target, which is called a central bank rate (CBR), would serve as a benchmark that would influence the level of longer term interest rates, including those on loans and advances by financial institutions. The CBR is set once a month to signal the stance of monetary policy. Increasing the CBR drives market interest rates up so as to raise the cost of borrowing and discourage credit expansion, thereby slowing down aggregate demand and vice versa. Lower aggregate demand slows down inflationary pressures.

Seeking to reduce inflation from double digits to low single digits, the BoU increased the CBR in the second half of 2011. Consequently, commercial banks increased their prime lending rates from an industry average of 18.6 percent as at 31st March 2011 to 25.7 percent as at 31st December 2011.

In line with the expected response, higher interest rates caused liquidity tightening. Banks reduced lending operations. In addition, banks' exposure to risks associate with credit default increased. Indeed, targeted on-site inspections by the BoU showed a rise in the overall direction of risk among banks.

To mitigate the effects of higher lending rates, some banks restructured pre-existing credit facilities. One measure that was used was the lengthening of the repayment period in order to control the burden on customers who would have been faced with larger monthly obligations for loan servicing. Nevertheless, a few banks did not raise the prevailing rates on personal loans that had been granted before the hiking of the CBR.

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

During 2011, the banking sector continued to evolve and grow, and new innovative products were introduced. In response to these developments, the Bank of Uganda initiated changes to the financial sector regulatory framework and participated in the strengthening of coordination between regulators at the regional level.

2.1 Licensing and approvals

New institutions and branches

Bank of India received regulatory approval to establish a subsidiary in Uganda which will operate as Bank of India (Uganda) Limited. NIC Bank Kenya Limited applied to establish a subsidiary in Uganda under the name NC Bank Limited. UGAFODE Microfinance Limited was licensed to operate as an MDI in September 2011 and started operations in October 2011.

Banks continued to set up new branches and ATMs in a drive for wider representation and service provision. Accordingly, there was an increase in outlets, with 455 branches and 637 ATMs as at 31st December 2011, compared to 393 branches and 598 ATMs as at 31st December 2010. During the same period, the money remittance market comprised 22 foreign exchange bureau outlets, 15 direct entrants, 3 MDIs (68 outlets) and three credit institutions (42 outlets). The total number of branches for licensed foreign exchange bureaus and money remitters was 184, compared to 158 as at the end of December 2011. Details are provided in the table below:

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

	2009	2010	2011
Commercial banks	363	393	455
Bank ATMs	480	598	637
Foreign exchange bureaus	135	158	184*
Money remitters	91	149	173**
MDIs	76	83	98
Credit institutions	45	42	44

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 in foreign exchange bureau business strictly.*

Developments in product innovation

During 2011, banks focused increasingly on the development of electronic banking products as a move towards cheaper alternatives to branches for service provision. These services allow customers to use their computers and cell phones to carry out limited transactions outside the confines of a normal bank branch. There were also increased partnerships between banks and mobile network operators for the provision of mobile money transfer services. Several banks exploited their liquidity advantage over other agents and took on the role of Mobile Money Agent or Super Agent. Some banks fine-tuned the product further to introduce a mobile payment solution which is also accessible through the use of biometrics, Near Field Communications (NFC) cards, as well as the internet.

2.2 Regulatory reforms

New regulations and guidelines

Financial Consumer Protection Guidelines were issued and circulated to commercial banks and credit institutions. The guidelines aim to promote fair and equitable financial services practices, and apply to all financial services providers regulated by Bank of Uganda as well as their agents in respect of business conducted in Uganda. There are plans to draft other implementing regulations to cover reporting requirements from banks to the Central Bank, internal audit, mergers and acquisitions, and prompt corrective actions.

Consolidated supervision

Many financial institutions operating in Uganda are part of a wider banking group. Understandably, the relationship of financial institutions to other entities in a group can create risks that generally do not arise for institutions that are not part of groups. Some of the issues commonly arising in banking groups are: conflicts of interest; contagion; group exposures to particular counterparties where loans may be advanced by other members of the group to avoid regulatory limits; opaque legal and management structures that may be deliberately used to impair effective supervision and regulatory arbitrage where transactions may be booked in an unsupervised related entity to escape prudential requirements. These cases underscore the importance of *consolidated supervision*, which involves an overall evaluation, both quantitative and qualitative, of a financial institution and the group to which it belongs.

In March 2011, the Bank of Uganda issued a Consolidated Supervision Regulation to all banks. All banks are required to report under these regulations as at December 31st of every year starting December 31st 2011. Elements of consolidated supervision have been incorporated in on-site inspections such as the activities of related party transactions that could have a bearing on the banking institution.

Consolidated supervision will continue to be enhanced given the increasing number of regional institutions with presence in Uganda and subsidiaries of international banking groups whose soundness can be impacted by the poor performance of the related companies. In addition, Bank of Uganda will work to strengthen memoranda of understanding (MOUs) with regulators of parent banks to pave way for exchange of information that is crucial for effective consolidated supervision. Internally, emphasis will be placed on enhancing staff capacity to acquire the critical skills essential for detailed consolidated risk-based supervision.

Review of the MDI Act 2003

The Bank of Uganda completed the review of the MDI Act 2003 with proposals among others, to strengthen the regulatory approach and framework for large tier 4 institutions, which are comprised of savings and credit cooperatives (SACCOs), credit-only non-government organisations (NGOs), and savings and loan associates and groups. Proposals for amending the MDI Act were forwarded to the Minister of Finance, Planning and Economic Development (MFPED).

2.3 Mobile money services

During 2011, mobile money services registered significant growth compared to the previous year. The number of registered customers increased from 1,683,713 in 2010 to 2,879,968 during 2011, while the amount transferred by customers rose from Ushs.962.7 billion to Ushs.3.7 trillion over the same period. In terms of volume, the service registered a 204 percent increase in number of transactions from 28.8 million transactions in the year to December 2010 to 87.5 million transactions in December 2011.

In addition to mobile money services offered by MTN Uganda, Uganda Telecom (UTL) and Airtel, Warid Telecom Limited also began offering mobile money transfer services.

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	3,752.90	2,879,968

Source: Bank of Uganda

Approval for the introduction of a mobile money services was also granted to Housing Finance Bank which is partnering with M-Cash Uganda Limited. M-Cash is a mobile payment and m-commerce platform that supports conventional person-to-person mobile-based money transfer and transactional proximity payments. It is not attached to any mobile network and can, therefore, be accessed by subscribers on any mobile phone network.

In a bid to strengthen controls around the mobile money transfer services, a national working group was formed comprised of BoU and Uganda Communication Commission (UCC) to enhance cooperation and joint oversight of the mobile money services.

Enhancements were also issued to the "No Objection Letters" that had earlier been given to banks partnering with mobile network operators (MNOs). The enhancements were aimed at closing identified gaps including the need for back-up, replication of data and information at the partner banks, KYC requirements, transaction limits, complaint handling and liquidity management by agents. Bank of Uganda will continue to closely monitor the operations of the licensed mobile money transfer services in Uganda.

2.4 Strengthening capacity for supervision

During 2011, the following measures to strengthen capacity in the BOU's supervision function were undertaken;

a) The Supervision Function conducted weekly in-house training sessions covering various topical issues in banking and new concepts in risk-based supervision emerging from the amendments issued by the Bank for International Settlements (BIS) in the aftermath of the recent global financial crisis;

b) The Function held an annual retreat that focused on various topical issues related to financial stability, information technology audit, stress testing and mobile money services, among others;

c) SIDA sponsored training for two members of staff on risk management in finance and banking in Sweden;

d) Some members of staff received overseas and regional training programmes in the areas of Islamic banking and finance, microfinance, Anti-Money Laundering, making finance work for Africa and implementation of Basel II, financial soundness indicators, problem bank resolution and macroeconomic management and financial sector issues;

e) A joint International Monetary Fund (IMF)/World Bank mission visited Kampala from 17th to 29th August 2011 to conduct the Financial Sector Assessment Program (FSAP) for Uganda. A summary of their main findings is provided in Box A.

f) The IMF's East Africa Technical Assistance Centre (EastAfritac) conducted training on basic supervision techniques for junior members of staff.

g) The Bank received technical assistance in September 2011 from the World Bank/First Initiative aimed at strengthening the capacity of Ugandan authorities to plan for and manage a systemic financial crisis. The technical assistance will continue during 2012.

Some staff members provided services as resource persons in the regional training programmes.

Box A: Preliminary Results from the FSAP 2011

What is FSAP?

The Financial Sector Assessment Program (FSAP) is a joint IMF-World Bank initiative launched in 1999 to provide member countries that request participation with a comprehensive assessment of their financial systems. It provides in-depth examinations of countries' financial sectors and has two main components: financial stability and financial development assessments (IMF 2005).

The 2011 FSAP for Uganda

A joint International Monetary Fund (IMF)/World Bank mission visited Kampala from 17th to 29th August 2011 to conduct the Financial Sector Assessment Program (FSAP). The main focus of the mission was to update the findings of the 2005 FSAP assessment, to assist the Ugandan authorities in identifying strengths and systemic vulnerabilities of the financial sector and to identify priority measures for improving the operation and oversight of the system, and its contribution to economic growth and development. The FSAP focused on the whole financial sector and worked with various stakeholders including Bank of Uganda, Insurance Regulatory Authority (IRA), Capital Markets Authority (CMA), Uganda Securities Exchange (USE), MFPED and various financial institutions.

Main findings of the Assessment

The draft report of the Mission highlighted the following among others:

- Uganda has made commendable progress in modernizing and expanding its financial sector and has achieved a positive balance between managing risk and enabling growth and innovation in the financial system since the 2005 FSAP. Financial depth has increased and the system is intermediating deposits and financing investment more effectively. The banking system has grown while remaining relatively stable and is facing greater competitive pressure and contestability.

- The financial system remains reasonably sound, banks' portfolios have grown without a significant deterioration in quality and non-performing loans remain low. However, several banks have made losses over the past two years. The BoU has supervised this closely, and the earnings performance of these banks improved during the course of 2011. The current macroeconomic conditions have put pressure on interest rates to rise and become more volatile.

- Access to financial services has improved since 2005, and non-bank financial institutions play an important role in providing services to rural, underserved communities. Non-bank financial institutions, which include credit institutions, MDIs, other microfinance institutions, SACCOs and NGOs, have accelerated their outreach to underserved rural areas and offer an array of innovative financial products. Uganda also is among a small group of sub-Saharan countries that have witnessed extraordinarily dynamic growth in mobile payments and banking activity.

- The supervisory authorities have been broadly effective in managing the risks involved in the growth of and development of the financial sector. In particular, the BOU has played a leading role in using regulatory oversight to maintain stability and foster innovation. It has made significant progress in implementing risk-based supervision processes, exercises strong off and on-site supervisory practices, and the Basel Core Principles (BCPs) assessment shows the sector to be more than adequately regulated and supervised. The BOU has been proactive in fostering outreach of financial services by licensing new banks with an explicit retail strategy and enabling development of innovative mobile payments products.

- The mission conducted an independent assessment of Uganda's compliance with the BCPs for Effective Banking Supervision. According to the draft report, Uganda was fully compliant with 3 Principles; largely compliant with 19 Principles; materially non-compliant with 7 principles and non-complaint with 1 Principle. A final report on this assessment will be finalised in early 2012.

Main recommendations

An implementation plan of the recommendations under the purview of BOU was approved by the Financial Stability Committee in December 2011 and is being put into action. When completed, these actions will further enhance the efficiency and development of the financial sector:

- With respect to banking supervision, the BCPs assessment recommended specific actions for strengthening licensing, improving both off and on-site supervisory actions, and enhancing follow- up to on-site inspections.
- Also, given the growing importance of cross-border banking and related risks, renewed effort is required to strengthen cross border collaboration with regulators/supervisors of banks in other jurisdictions.
- The liquidity management framework will be strengthened and the financial crisis management processes fully operationalised.
- Financial outreach will be enhanced and placed under stronger regulatory oversight through amendments of the MDI Act 2003 and FIA 2004 and the implementation of broader regulatory mechanism for SACCOs.
- In the case of the fast growing mobile payments industry, the preparation and adoption of a national payments systems law, encompassing mobile payments, will be priotised.

2.5 Regional cooperation

Regulatory harmonisation in the East African Community

During 2011, the Monetary Affairs Committee (MAC) of the EAC implemented the following activities aimed at achieving the establishment of the East African Monetary Union (EAMU);

(i) Identified areas of convergence and divergence in financial sector legal and regulatory frameworks in the East African region and held a workshop in May 2011 to initiate the process of harmonising these frameworks. A follow-up workshop is planned in the second quarter of 2012.

(ii) Held another workshop in May 2011 to review the existing financial stability assessment frameworks at the regional level. Similarities and differences in the conduct of the financial stability function by Central Banks in the region were identified and a tentative roadmap to start the harmonization process was developed. The main areas of focus will be on financial stability assessment frameworks, stress testing and cross border financial crisis coordination arrangements.

2.6 Activities Planned for 2012

Strategy for financial inclusion

Bank of Uganda also embarked on the development and 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*. A working team was formed to spearhead these activities and the initial report is expected in mid-2012.

Agent banking

In line with its broader strategic objective of promoting financial inclusion, the Bank of Uganda is considering allowing financial institutions to engage in agent banking. Bank of Uganda requested all supervised financial institutions wishing to engage in agent banking to submit their proposals for review and further consultations. Six financial institutions have responded with proposals.

Agent banking will facilitate the delivery of financial services to the unbanked population with greater convenience and at a cheaper cost through outlets countrywide. The major impediment is that both FIA 2004 and MDI Act 2003 impose restrictions on the conduct of financial institutions' business outside the institutions' premises. Changes to FIA 2004 and MDI Act 2003 are being proposed to allow for agent banking.

Mobile money services

Bank of Uganda plans to execute a memorandum of understanding with UCC which will spell out their respective areas of responsibilities. BoU will also prepare a guidance note on mobile money aimed at strengthening the existing risk management framework regarding the mobile money services.

Consolidated supervision and supervisory colleges

Bank of Uganda will participate in strengthening memoranda of understanding with various regulators to pave way for exchange of information that is crucial for effective consolidated supervision. Furthermore, emphasis will be placed on enhancement of staff capacity to acquire the critical skills essential for detailed consolidated risk based supervision.

Financial crisis preparedness

To enhance the capacity of the authorities to manage a systemic financial crisis, Bank of Uganda will host a financial crisis simulation exercise in early 2012. The exercise, which will be facilitated by the World Bank, will test the efficacy of current regulatory arrangements, adequacy of coordination arrangements as well as the current bank resolution regulations. In addition to BOU, the high level exercise will involve all the financial sector regulators: IRA, CMA and the MFPED. A public workshop to be conducted in mid-2012 will assess the results, identify key areas that require enhancement and lay a strategy for enhancing preparedness.

Liquidity Coverage Ratio

In a bid to improve the way banks manage and monitor their liquidity, Bank of Uganda is accelerating the introduction of the Liquidity Coverage Ratio (LCR) proposed by the Basle Committee on Banking Supervision (BCBS) in December 2010. The LCR aims to promote short-term resilience of a bank's liquidity risk profile by ensuring that it has sufficient high quality liquid resources to survive a liquidity stress scenario lasting for one month.

PART II: ASSESSMENT OF FINANCIAL STABILITY

Chapter 3: Banking Sector Performance

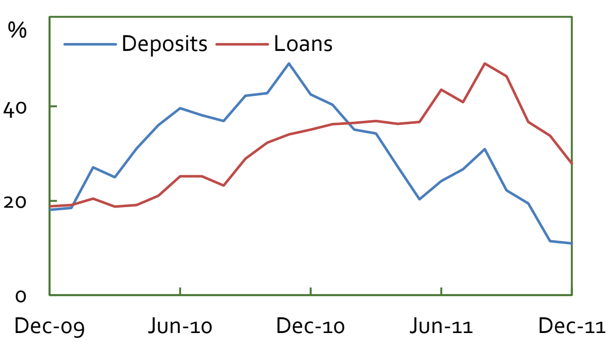
Commercial banks in Uganda remained resilient in 2011 despite the challenging macroeconomic environment. The sector's profitability improved and banks remained adequately capitalised. The increase in the Central Bank rate intended to curb inflation slowdown growth of deposits and credit, and raised concerns about the potential adverse impact of higher interest rates on loan quality.

Table 4: Annual developments in banks' assets and deposits

	Dec-09	Dec-10	Dec-11
Assets			
Volumes (Ushs. trillion)	8.7	11.3	13.0
Annual growth (%)	15.1	29.4	14.9
Deposits			
Volumes (Ushs. trillion)	5.6	8.0	8.9
Annual growth (%)	18.1	42.5	11.0
Loans			
Volumes (Ushs. trillion)	4.0	5.5	7.0
Annual growth (%)	18.8	35.1	27.9
Off-Balance Sheet Items			
Volumes (Ushs. trillion)	1.9	1.7	3.0
Annual growth (%)	22.1	-9.6	71.4

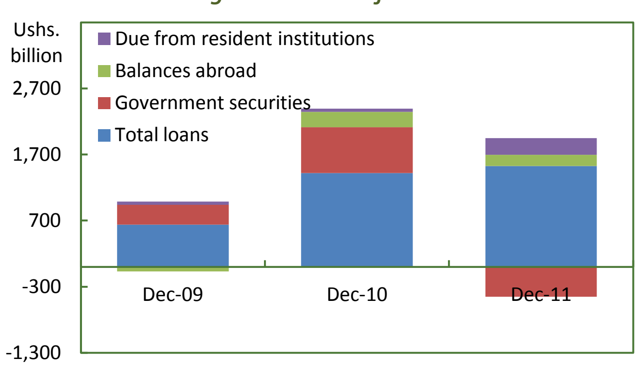
Source: Bank of Uganda

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' key assets and liabilities

The banking sector's total assets increased by Ushs.1.7 trillion between December 2010 and December 2011 to reach Ushs.13 trillion, representing an annual growth rate of 14.9 percent. Annual growth of bank loans and advances, the strongest driver of banks' assets, declined to 27.9 percent during 2011 from 35.1 percent in 2010. There was also a decline in the value of government securities held by banks as these amounts dropped to Ushs.2.1 trillion in December 2011 from Ushs.2.5 trillion in 2010.

The rate of growth of off-balance sheet items rose significantly during the period under review, rising by 71.4 percent in 2011 from a decline of 9.6 percent in 2010. The growth in these items reflected a rise 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 continued to grow during 2011. Table 5 shows that, overall, there was an increase in the share of foreign currency denominated assets and liabilities. The most notable change was that of foreign currency deposits whose share of total deposits increased from 28.2 percent to 33.6 percent as growth in foreign currency deposits of 32.1 percent was much higher than the 2.4 percent growth in local currency deposits.

3.2 Earnings and profitability

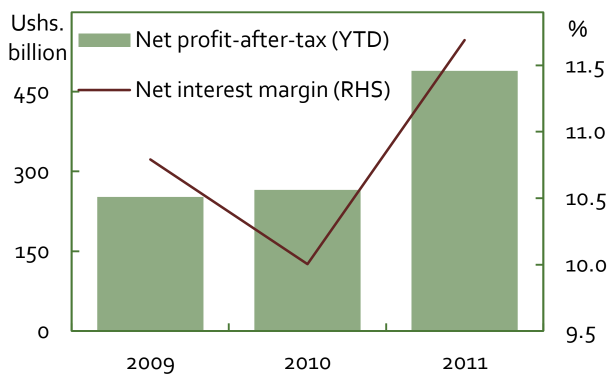
Bank profitability rose in nominal terms during 2011, mainly driven by bank lending and the rise in lending rates during the second half of 2011. In 2011, banks' after tax earnings were Ushs.488.3 billion, compared to Ushs.268.7 billion in 2010.

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

	Dec-09	Dec-10	Dec-11
Foreign exchange assets to total assets	22.6	24.9	27.9
Foreign exchange liabilities to total liabilities	25.6	29.3	32.9
Foreign exchange loans to total loans	21.1	27.1	29.1
Foreign exchange deposits to total deposits	26.1	28.2	33.6

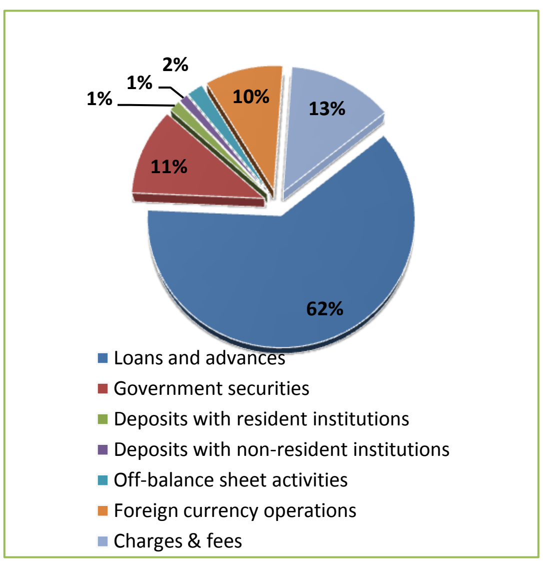
Source: Bank of Uganda

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



Source: Bank of Uganda

Chart 4: Banks' financial income for the year ending December 2011



Source: Bank of Uganda

As a share of total financial income, income from loans and advances rose from 53.7 percent in 2010 to 62 percent in 2011.

Charges and fees on loans and deposits amounted to 13 percent of total income, although this was down from 14.6 percent in 2010. Growth in earnings on government securities continued to slow down, rising by 3.1 percent in 2011 compared to 10.2 percent during 2010. This change resulted in a reduction in the share of these earnings to total income, from 12.4 percent to 10.5 percent.

Indicators of banks' profitability registered positive trends throughout the year. Net interest income[1] increased from Ushs.776.5 billion in 2010 to Ushs.1.1 trillion in 2011, while the net interest margin rose from 10 percent to 11.7 percent during the same period. Average return on assets (ROA) and average return on equity (ROE) figures increased significantly from 2.7 percent and 18 percent respectively in 2010 to 4 percent and 27.3 percent in 2011. The increase in interest rates offered on deposits by banks increased the sector's cost of deposits from 2.9 percent to 3.2 percent.

Although banks' operating costs rose during the year, with an annual growth rate of 13.2 percent compared to 12.3 percent in 2010, the cost-to-income ratio reduced from 75.7 percent to 68.1 percent as the growth of total income was greater than that of operating costs.

3.3 Adequacy of banks' capital

The banking sector remained adequately capitalised during 2011. Shareholders' funds increased from Ushs.1.6 trillion to Ushs.2.0 trillion, mostly in the form of paid-up capital and profits for the year 2011 (Chart 5). At an aggregate level, the capital adequacy ratio (regulatory tier 1 capital to risk-weighted assets) for banks increased to 17.9 percent at the end of December 2011, 0.4 percentage points more than in December 2010, and was far above the regulatory minimum of 8 percent. All banks were able to meet the minimum capital adequacy ratio requirement.

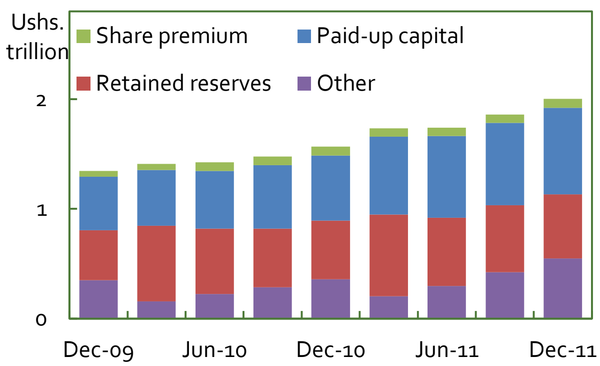
[1] Net interest income is the difference between interest income and interest expenses.

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

	2009	2010	2011
ROA	3.0	2.7	4.0
ROE	18.8	18.0	27.3
Cost to income	75.4	75.7	68.1

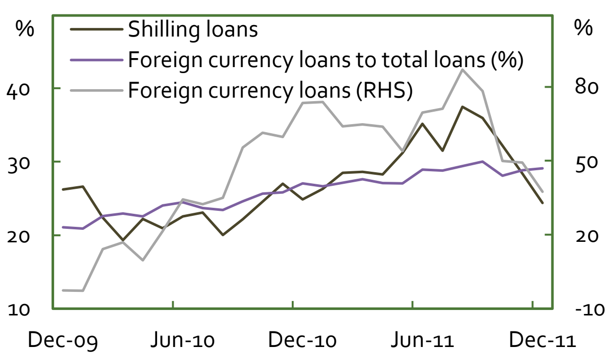
Source: Bank of Uganda

Chart 5: Composition of banks' shareholders funds



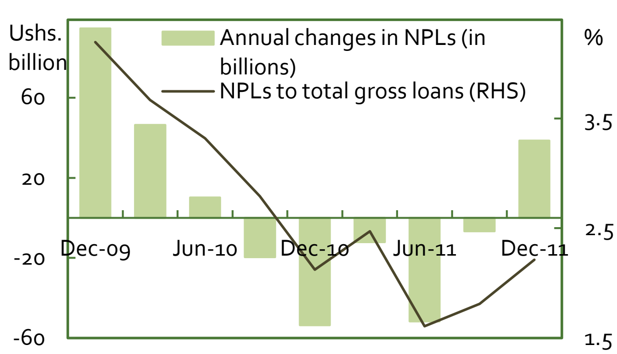
Source: Bank of Uganda

Chart 6: Annual percentage growth of loans



Source: Bank of Uganda

Chart 7: Changes in banks' non-performing loans



Source: Bank of Uganda

3.4 Performance of credit

Lending activity

Banks' lending remained robust throughout 2011, although total outstanding loans fell during the last quarter of the year. Total gross loans grew by 27.9 percent in the year to December 2011, 7.2 percentage points less than in the same period to December 2010. Foreign currency denominated loans recorded an annual growth rate of 37.5 percent as shilling loans grew by 24.4 percent in the year to December 2011.

The slowdown in credit growth to the private sector was across all key sectors of economic activity except households and individuals. Lending to households and individuals grew by 40.4 percent in 2011, reversing the decline of 11.8 percent that was recorded in 2010. The building and construction sector's annual growth rate in loans dropped from 66.6 percent in 2010 to 37.6 percent in 2011, while growth in lending to trade and commerce dropped from 42.4 percent in 2010 to 16.4 percent in 2011.

Non-performing loans

Credit quality was largely unchanged during 2011 as the ratio of NPLs to total gross loans increased only slightly from 2.1 percent in December 2010 to 2.2 percent in December 2011. However, the nominal value of NPLs rose by Ushs.38.7 billion (or 33.4 percent). There was also a decline in the NPL coverage ratio[2] from 76.0 percent to 55.0 percent which was as a result of a fall in loan loss reserves by 3.5 percent.

All business sectors, except agriculture, registered a rise in impaired loans. NPLs for the trade and commerce sector grew by Ushs.15.3 billion which increased the NPLs to loans in the sector ratio from 1.2 percent to 2.2 percent. Similarly, the building and construction sector NPLs grew by Ushs.11.8 billion which increased the NPLs to loans ratio in the sector from 1.5 percent to 1.9 percent. Although the agricultural sector realised the biggest drop in non-performing loans of Ushs.11.2 billion, it was the sector with the highest NPLs to loans ratio of 4.1 percent.

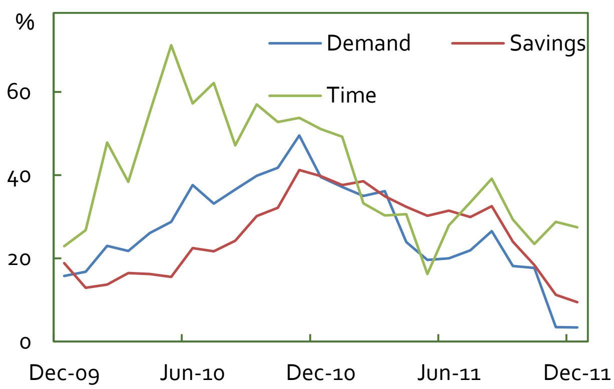
[2] The NPL coverage ratio is calculated as the ratio of loan loss reserves to total NPLs.

Table 7: Indicators of banks' liquidity

	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11
Liquid assets to total deposits	39.8	40.5	35.6	36.2	37.6
Liquid assets to total assets	28.3	28.9	25.9	25.6	25.8
Total loans to total deposits	68.0	69.1	71.5	76.4	78.4

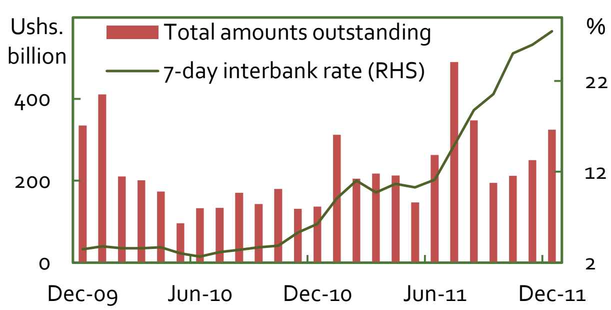
Source: Bank of Uganda

Chart 8: Annual growth rates of banks' deposits



Source: Bank of Uganda

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



Source: Bank of Uganda

3.5 Funding and liquidity

The banking sector continued to rely mainly on customer deposits for funding. On average, deposits accounted for 83.0 percent of total liabilities in 2011. In addition to deposits, funding sources included interbank loans and amounts held with non-resident financial institutions.

Deposits, registered anaemic growth in 2011. The year-on-year growth rate for total deposits held by commercial banks declined significantly to 11 percent, down from 42.5 percent in 2010. In contrast, loans grew by 27.9 percent in 2011. As a result, the ratio of total loans to total deposits increased by 10.4 percentage points to reach 78.4 percent.

Growth of time deposits fell by nearly half, from 51.1 percent in 2010 to 27.5 percent in 2011 while, demand deposits registered a growth rate for the year of only 3.4 percent in 2011 which was also significantly lower than the 39.5 percent growth in 2012. Outstanding amounts due to non-resident financial institutions decreased from Ushs.551 billion in December 2010 to Ushs.331 billion as at end of December 2011, while deposits held for resident banking institutions increased from Ushs.136.6 billion in 2010 to Ushs.313.2 billion in 2011.

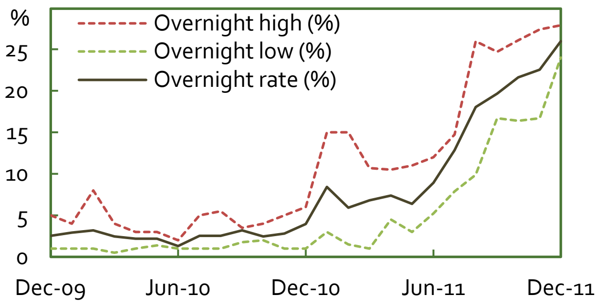
Interbank activity

Activity in Uganda's interbank market increased as total trading turnover rose from Ushs.8.2 trillion in 2010 to Ushs.12.9 trillion in 2011. Of the Ushs.12.9 trillion that was traded on the interbank market during the year, Ushs.7.8 trillion had a maturity of seven days. Both seven-day and overnight weighted average rates rose from 6.3 percent and 4 percent in December 2010 to 27.5 percent and 26 percent in December 2011. Interbank rates rose as a result of the adjustments in the CBR in the second half of 2011.

3.6 Sensitivity to market risk

The proportion of the banks' foreign currency assets to total assets increased from 24.7 percent to 27.9 percent between December 2010 and December 2011.

Chart 10: Monthly weighted average overnight interbank rates



Source: Bank of Uganda

Banks still maintained low exposure to foreign exchange risk with the ratio of foreign currency exposure to regulatory tier 1 (core) capital being at -3.6 percent at the end of December 2011 (Table 8).

Table 8: 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-09	-0.7	108.8	57.9	22.6
Dec-10	-1.6	98.00	65.3	24.7
Dec-11	-3.6	100.2	67.9	27.9

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 issue discussed in the chapter is the impact of recent macroeconomic challenges on the performance of, and risks facing the banking sector.

4.1 Overview

Our assessment shows that there are no major threats to the systemic stability of the banking sector in Uganda. This is because there are no major links between banks operating in Uganda and financial institutions overseas. Also, banks remain adequately capitalised and NPLs remain low. However, concerns remain related mainly to liquidity risk especially for the smaller banks.

4.2 Global financial conditions

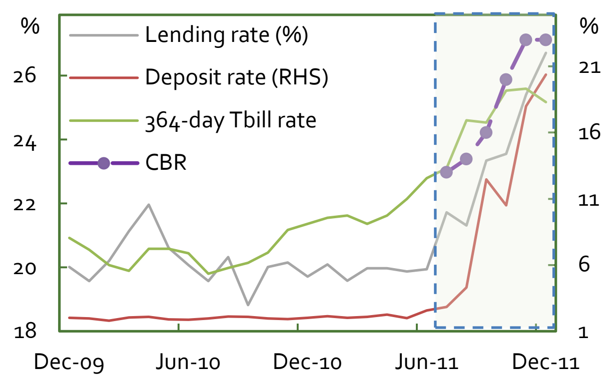
The euro area sovereign debt crisis and banking problems continue to cause concerns, and while European policymakers have outlined significant policy measures to address the medium-term issues arising from the crisis, sovereign financing remains challenging.

Uganda however has no major links with financial institutions operating outside the country. Total non resident funding dropped from Ushs.551 billion in December 2010 to Ushs.331 billion as at end of December 2011. Overall reliance on non resident funding fell from 5.7 percent of total funding in December 2010 to 2.9 percent of total funding in December 2011. Funding from non resident financial institutions including parent banks abroad was mainly in form of currency swaps. The amounts payable in currency swaps to non resident financial institutions increased from Ushs 190 billion in December 2010 to Ushs. 252 billion in December 2011.

4.3 Impact from macro economy

During the period under review, interest rates rose markedly especially in the second half of 2011. The CBR was raised from 13 percent in July 2011 to 23 percent in November 2011. The rise in the CBR mainly affected the lending rates and funding costs of banks. Firstly, banks raised their lending rates for new and existing loan with variable rates thereby increasing the repayment burden of customers. Industry average prime lending rates increased from 18.6 percent in March 2011 to 25.7 percent in

Chart 11: Monthly average interest rates



Source: Bank of Uganda

December 2011. The increase in average lending rate followed a period of high annual credit growth which was recorded at 35 percent in 2010. The expansion in lending activity coupled with the higher repayment burden of bank customers could increase the future rates of credit default. However, stress tests conducted at the end of December 2011 showed that an increase in NPLs had only a small impact on the overall position of the banking system due to the substantial capital levels held by banks.

Secondly, following the increase in the CBR, commercial banks faced tight liquidity conditions. Funding costs rose on the interbank market. Both the overnight and the seven day weighted interbank average rates rose from 4.0 percent and 6.3 percent in December 2010 to 26.0 percent and 27.5 percent in December 2011. In addition, banks raised term deposit rates to attract more funding, with the weighted average rate on term deposits increasing from 5 percent in January 2011 to 24 percent in December 2011. The higher funding costs invariably resulted into higher lending rates leading to concerns regarding the possible adverse effects on future loan quality.

4.4 Outlook and implications

Looking forward, 2012 is likely to be more challenging for banks. Banks may struggle to maintain the high returns on equity attained during 2011, particularly in a tight monetary policy environment.

What should be done to enhance the resilience of the Ugandan financial sector in the face of these challenges?
For now, the banking system remains sound and resilient.

Nevertheless, BOU will implement three key measures to reduce the effects of the present challenges. First, banks will hold higher paid up capital of Ushs.25 billion from March 2013 to provide additional capital buffer. Second, the central bank will introduce a liquidity coverage ratio[3] (LCR) in 2012. The LCR is one of the Basel III measures which is meant to ensure that banks hold sufficient high quality assets to meet their projected cash outflows over a 30-day period.

Third, BoU intends to adopt in the medium term some of the Basel III international standards for banking regulation. These standards are aimed among other things at reducing the pro-cyclicality of bank capital by strengthening capital requirements for banks through the introduction of macroprudential measures such as a capital conservation buffer, a countercyclical buffer and higher on going capital for systemically important financial institutions, over and above the current minimum capital requirements.

[3] The standard requires that the value of the ratio be no lower than 100% i.e. the stock of high-quality liquid assets should at least equal total net cash outflows.

PART III: SPECIAL TOPIC

Chapter 5: Credit Reference Bureau Services in Uganda

5.1 Genesis of the credit reference bureau in Uganda

Following the bank failures of 1998-1999 which resulted into the closure of five commercial banks, BOU embarked on a comprehensive review of the legal, regulatory and supervisory framework in order to enhance its capacity to fulfil the statutory mandate of fostering a sound financial system that guarantees safety of depositors' funds.

In this regard, the Parliament of Uganda rescinded the Financial Institutions Statute 1993 and replaced it with the Financial Institutions Act, 2004 (FIA 2004) with provisions aimed at, among others, the establishment of a credit reference bureau (CRB) to address some of the identified deficiencies in the proper functioning of the financial sector.

5.2 The initial process of establishing the CRB

The process of establishing the CRB was complex, primarily due to the lack of a national identification system, which is a key requirement for matching data on the bureau. In order to develop an effective working partnership between the stakeholders, the BOU adopted a consultative approach with the participating institutions (PIs) namely: the commercial banks, credit institutions and microfinance deposit-taking institutions, CRB provider and development partners.

BOU further developed a policy framework under which the CRB would operate and the parameters for information sharing to enable the development of a strong reporting system in Uganda. This culminated into the formulation of the Financial Institutions Credit Reference Bureau Regulations for licensing and operation of the CRB which were gazetted in 2005.

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

Owing to the absence of a national identification system, it was considered necessary for the CRB provider to develop a smart card system to uniquely identify borrowers using biometrics. Each borrower was required to register on the Financial Card System (FCS) and carry a financial card containing his/her photo, name, unique number and biometric information when applying for loan or making a credit enquiry on the CRB.

Standardisation of data was undertaken to enable the PIs provide uniform and comparable information to the CRB. In this regard, a data standardisation manual (DSM), which is reviewed annually, was developed and issued to all PIs. In addition, guidelines to PIs on credit data standardisation and the use of CRB services were put in place.

Service level agreements (SLA) were signed between CompuScan CRB Ltd. and each individual PI spelling out the obligations/services of the CRB provider to the PIs. Guidelines in respect of the operations of the CRB were also developed with consultations between PIs, BOU and CompuScan. In developing these guidelines, borrowers' rights to confidentiality were taken into consideration.

Due to the high costs involved in implementing the CRB, external subsidy funding was sought from KfW, GIZ/Sida, and World Bank to defray initial costs of establishing the CRB system and facilitate agreement on price for services. The business plan which was negotiated between the BOU, the donors and CompuScan CRB Ltd. provided for subsidies in order to encourage the PIs to use the CRB. The support accorded was directed towards subsidies on the charge for financial cards to borrowers for the first four years of the project, subsidisation of the credit enquiries, contribution towards the public awareness campaign (PAC) managed by Bank of Uganda, branch installation and training of PI staff on both the CRB and the FCS.

5.3 Pre-implementation phase

Bank of Uganda officially launched the CRB and FCS on 3rd December 2008. In an effort to ensure compatibility with the CRB system software, feasibility assessment was conducted countrywide at the PI branches to determine network connection speeds, memory availability on computers and minimum specifications of internet connections, and IT systems compatibility to supply data aligned to the data standardisation manual.

In February and March 2009, CompuScan CRB Limited conducted the controlled roll out (pilot test) of the FCS in a live environment in 43 PI branches in Kampala and upcountry locations in preparation for the full national roll out. The findings of the pilot test informed the necessary changes to the CRB infrastructure and helped in planning the full roll out.

5.4 Public awareness campaign

The introduction of the CRB necessitated a countrywide public awareness campaign to educate the public and deepen their understanding of the benefits of the CRB in the financial sector. The awareness campaigns are on-going and have assisted the PIs in updating critical identification information and sensitizing the public about the operations of the CRB.

5.5 Status of the Credit Reference Bureau

The CRB Project has registered remarkable growth in terms of branch installations and registrations on the FCS. The number of credit enquiries made on new credit applications processed averaged 40,000 per month during 2011. As at December 31, 2011, a total of 532 outlets were live on the Financial Card and the CRB systems. In addition, 1,311 users had received training in key CRB operations. The total number of Financial Cards issued to PI clients and the number of credit searches on the bureau stood at 669,114 and 685,610 respectively.

5.6 Phase Two of establishing the CRB

Effective 1st October 2010, the CRB project entered the second phase where PIs are charged fees for every credit enquiry made. However, micro loans of value up to Ushs.1 million were eligible to a 70 percent subsidy on enquiry fees incurred for the period up to 30th September 2011. This subsidy declined to 50 percent in the current year (year 3 of the project) that started on 1st October 2011. In addition, PIs are now required to pay 100 percent of the monthly biometric software license, maintenance and support fee per branch based on the number of PI branches connected to both systems.

5.7 Phase Three

The third phase of the Credit Reference Bureau (CRB) Project will mark the end of CompuScan exclusivity period commenced on 1st October 2011. With effect from 1st October 2012, credit reference services will be broadened beyond the BOU regulated sector to facilitate greater information sharing between different providers of credit, such as utility companies, in order to generate a complete and comprehensive credit report on the borrower's credit profile.

5.7 Benefits

The CRB and FCS are fully functional and PIs are able to conduct enquiries on the system. So far, the key benefits are as follows:

- PIs are able to share information on borrowers using the financial card identification tool thereby reducing information asymmetry between lenders and borrowers. This will help increase trust between lenders and customers;
- Through the financial card, PIs are able to validate identities of applicants and thereby reduce frauds;
- Some of the PIs are making data quality a strategic priority, which could boost their efforts of repositioning themselves in the market and delivering superior customer service;
- Through the CRB, lenders are able to identify clients who have excessive indebtedness which could result in loan default. Therefore, PIs can easily advise borrowers to take on loans they are able to service.

- The CRB is increasingly strengthening the country's credit culture, thereby improving opportunities for credit extension in support of economic growth;
-

5.8 Implementation challenges

Notwithstanding the above, the implementation of the CRB and FCS is still faced with several challenges which need the continued attention of all stakeholders, particularly the PIs and CompuScan.

- The greatest challenge remains the quality of data submitted by PIs to the CRB. The data clean-up process has been very slow in some PIs mainly because of the weak KYC procedures.
- Other major challenges relate to finger print overrides during the registration process, which have resulted in multiple enrolments of clients; failure of scanners; instability of the internet connectivity at PI branches and the steep and often interrupted learning curve.
- It has also been difficult to get borrowers with running facilities to update their records and to register for financial cards.

5.9 Ongoing activities

There are two main ongoing activities. The first involves the drafting of a policy paper on the future structure of the Credit Reference Bureau

A new credit reference system policy paper highlighting the long-term structure of the CRB when CompuScan CRB exclusivity period ends on 30th September 2012 is currently being discussed with stakeholders. The policy concerns include regulation of a competitive market starting 1st October 2012 and expansion of the credit reference services to non-banking entities which provide credit to the public. BOU is reviewing the responses received from the stakeholders on the said policy paper before implementation of the policy changes. In addition, BoU has to review the market status after the three year exclusivity period is over and develop a mechanism of opening up the market to competition.

The second involves a review of the legal framework. The Bank of Uganda is currently reviewing the CRB legal and regulatory framework. The legal and regulatory framework of the CRB needed further development and strengthening before extending the credit reference services to non-regulated PIs.

The proposed amendment to the FIA 2004 and the principles behind the proposed amendments to permit access to credit information held by non-regulated PIs were submitted to the First Parliamentary counsel for consideration.

PART IV: STATISTICAL APPENDICES

5.10 APPENDIX 1: FINANCIAL SOUNDNESS INDICATORS FOR SUPERVISED FINANCIAL INSTITUTIONS

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

	Dec-05	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10	Dec-11
Capital Adequacy							
Regulatory capital to risk-weighted assets	18.3	17.9	19.3	20.7	20.9	20.2	20.3
Regulatory tier 1 capital to risk-weighted assets	16.8	16.4	17.7	18.7	18.7	17.5	17.9
Total qualifying capital to total assets	10.4	11.0	10.4	13.2	13.6	13.0	14.6
Asset quality							
NPLs to total gross loans	2.3	2.9	4.1	2.2	4.2	2.1	2.2
NPLs to total deposits	1.1	1.7	2.5	1.6	3.0	1.4	1.7
Specific provisions to NPLs	66.8	41.4	52.5	78.0	57.2	65.0	50.9
Earning assets to total assets	77.6	80.0	79.9	75.6	78.0	77.1	74.0
Large exposures to gross loans	40.1	42.9	43.8	31.0	32.2	35.7	34.6
Large exposures to total capital	116.8	137.9	136.8	92.1	94.3	124.4	120.9
Earnings & profitability							
Return on assets	3.4	3.4	3.8	3.5	3.0	2.7	4.0
Return on equity	28.3	28.3	30.7	24.8	18.8	18.0	27.3
Net interest margin	10.1	10.3	10.1	10.5	10.8	10.0	11.7
Cost of deposits	2.0	2.2	2.9	2.9	3.7	2.9	3.2
Cost to income	66.7	68.3	68.0	69.7	75.4	75.7	68.1
Overhead to income	51.6	51.4	47.1	48.6	52.3	53.1	44.3
Liquidity							
Liquid assets to total deposits	60.0	50.7	46.7	48.1	44.7	39.8	37.6
Total loans to total deposits	48.5	57.5	60.2	72.5	71.7	68.0	78.4
Market Sensitivity							
Foreign currency exposure to regulatory tier 1 capital	-2.7	-7.4	-8.4	-1.4	-0.7	-1.6	-3.6
Foreign currency loans to foreign currency deposits	48.8	48.8	56.6	65.5	57.9	65.2	67.9
Foreign currency assets to foreign currency liabilities	102.0	109.5	97.4	102.7	107.0	98.0	100.2

Source: Bank of Uganda

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

	Dec-05	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10	Dec-11
Capital Adequacy							
Core capital (Ushs. billion)	17.3	21.1	27.3	22.3	26.1	29.8	48.1
Total capital (Ushs. billion)	23.9	32.8	40.4	31.6	35.3	45.9	63.6
Risk-weighted assets (Ushs. billion)						143.6	197.9
Core capital to risk-weighted assets (% ratio)	21.7	21.7	21.1	22.9	22.0	20.8	24.3
Total capital to risk-weighted assets (% ratio)	30.1	33.8	31.2	32.4	29.8	32.0	32.1
Asset Quality							
Total loans (Ushs. billion)	65.6	79.5	107.7	83.4	83.4	120.3	171.4
Non-performing loans (Ushs. billion)	3.6	2.4	3.1	2.3	2.3	2.4	3.2
Total provisions (Ushs. billion)				2.7		2.8	3.7
Portfolio at risk (% ratio)	5.5	3.0	2.8	64.5	2.4	2.0	1.9
Profitability							
Year-to-date profit/loss (Ushs. billion)	1.1	3.2	8.2	4.1	4.6	4.3	10.1
Year-to-date return on assets (% ratio)	1.1	1.4	5.0	4.4	3.4	2.6	4.3
Year-to-date return on equity (% ratio)	6.1	8.2	15.0	13.1	10.2	8.6	17.2
Liquidity							
Liquid assets to deposits (% ratio)	88.9	105.5	-	86.6	62.4	49.3	51.6
Loans to deposits (% ratio)	76.2	60.4	-	72.8	77.4	75.1	77.0

Source: Bank of Uganda

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

	Dec-05	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10	Dec-11
Capital Adequacy							
Core capital (Ushs. billion)	34.1	35.1	88.4	14.9	27.5	26.2	31.6
Total capital (Ushs. billion)	36.9	36.7	94.1	17.7	28.3	31.6	39.3
Risk-weighted assets (Ushs. billion)	138.2	161.5	202.4	64.0	87.0	114.6	141.4
Core capital to risk-weighted assets (% ratio)	24.7	21.7	43.7	23.3	31.6	22.9	22.3
Total capital to risk-weighted assets (% ratio)	26.7	22.7	46.5	27.6	32.5	27.5	27.7
Provisions to core capital (% ratio)	7.4	10.3	5.7	11.6	4.8	4.8	3.1
Asset Quality							
Total loans and advances (Ushs. billion)	110.0	133.7	166.3	38.7	63.5	79.7	107.2
Total provisions (Ushs. billion)	2.5	3.6	0.5	1.7	1.3	1.3	1.0
Non-performing loans (Ushs. billion)	6.2	9.1	10.7	3.0	2.1	3.3	1.7
Non-performing loans to total loans (% ratio)	5.6	6.8	6.4	7.9	3.3	4.1	1.6
Profitability							
Year-to-date profit/loss (Ushs. billion)	5.8	5.2	6.3	-0.8	1.0	0.3	2.9
Quarterly net profits (Ushs. billion)	0.6	1.5	1.6	0.0	0.5	0.4	1.2
Quarterly return on assets (% ratio)	0.3	0.6	0.5	0.0	0.4	0.2	0.6
Year-to-date return on assets (% ratio)	2.7	2.1	2.2	-0.7	0.8	0.1	1.5
Liquidity							
Total public deposits (Ushs. billion)	131.3	140.9	131.9	75.6	74.4	107.7	121.6
Liquid assets (Ushs. billion)	59.9	58.2	70.6	42.6	38.9	54.3	58.3
Liquid assets to deposits (% ratio)	45.6	41.3	53.5	56.4	52.3	50.4	47.9
Loans to deposits (% ratio)	69.2	71.1	64.7	48.9	65.9	56.1	62.6

Source: Bank of Uganda

5.11 APPENDIX 2: AGGREGATED BALANCE SHEETS FOR SUPERVISED FINANCIAL INSTITUTIONS

Table 2A: Commercial banks' aggregated balance sheet

	Dec-05	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10	Dec-11
ASSETS (Ushs. Billion)							
Cash & cash assets	165.2	219.3	232.4	337.4	401.5	472.9	583.0
Balances with BOU	232.9	255.9	296.8	462.7	623.6	802.7	835.8
Due from financial institutions	643.0	830.1	962.1	1,050.5	1,032.9	1,317.8	1,736.5
Government securities	988.5	1,008.1	1,400.1	1,532.4	1,832.3	2,532.5	2,073.5
Total gross loans & advances	1,257.7	1,702.6	2,174.0	3,404.8	4,038.9	5,461.1	6,981.0
LESS: Provisions	-19.5	-20.8	-46.9	-58.3	-96.9	-88.0	-89.5
Net loans & advances	1,238.3	1,681.8	2,127.1	3,346.4	3,942.0	5,373.1	6,891.5
Net fixed assets	203.6	232.8	248.5	376.1	472.9	401.7	429.5
Other assets	198.1	210.1	296.7	390.9	327.9	409.9	432.6
TOTAL ASSETS	**3,669.5**	**4,438.1**	**5,563.7**	**7,496.4**	**8,633.0**	**11,310.5**	**12,982.4**
LIABILITIES (Ushs. Billion)							
Deposits	2,595.1	2,961.2	3,613.1	4,695.6	5,630.5	8,041.7	8,903.7
Due to financial institutions	172.0	225.1	567.2	682.3	603.3	529.1	730.2
Administered funds	88.3	115.1	122.9	323.7	279.2	309.6	339.9
Other liabilities	370.9	590.2	558.6	687.4	773.5	864.8	1,007.0
TOTAL LIABILITIES	**3,226.3**	**3,891.7**	**4,861.8**	**6,389.0**	**7,286.6**	**9,745.2**	**10,980.8**
SHAREHOLDERS' FUNDS (Ushs. Billion)							
Paid-up capital	94.7	119.7	180.4	426.5	485.8	591.9	789.6
Share premium	25.2	25.3	25.3	53.6	55.1	80.3	81.5
Retained reserves	167.4	226.5	256.8	352.5	456.7	534.1	581.2
Other reserves	32.3	38.7	46.8	44.4	112.8	90.3	61.0
Profit – Loss (current year)	123.6	136.2	192.6	230.4	236.1	268.7	488.3
TOTAL SHAREHOLDERS' FUNDS	**443.2**	**546.4**	**701.9**	**1,107.5**	**1,346.5**	**1,565.3**	**2,001.6**
OFF BALANCE SHEET ITEMS (Ushs. Billion)							
Letters of Credit	114.7	90.5	195.0	212.8	201.9	335.6	392.4
Guarantees & performance bonds	153.4	197.0	285.3	380.5	520.5	608.5	786.6
Unused loans/overdrafts commitment	309.4	309.3	233.8	234.6	318.1	678.4	802.2
Other off balance sheet items	16.9	143.2	51.7	79.3	147.2	334.9	1,000.2
TOTAL OFF BALANCE SHEET ITEMS	**594.4**	**740.0**	765.8	907.2	1,187.8	1,957.4	2,981.4

Source: Bank of Uganda

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

	Dec-05	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10	Dec-11
ASSETS (Ushs. billion)							
Notes and coins	2.3	3.6	5.0	3.1	4.0	4.9	6.9
Balances with institutions in Uganda	12.9	14.6	20.1	7.9	14.5	23.7	25.8
Government securities	11.4	16.9	11.9	16.9	4.5	2.4	7.4
Net loans outstanding	65.2	76.9	104.8	81.1	94.8	118.7	169.3
Inter branch/ due from own offices	0.2	46.0	183.0	-	-	35.0	374.0
Net fixed assets	8.0	9.6	10.3	8.3	9.9	11.1	12.0
Long-term investments	0.4	1.1	1.8	-	-	-	-
Other assets	5.3	6.6	8.3	6.3	8.2	9.0	11.1
Total assets	**103.7**	**128.6**	**162.4**	**123.6**	**135.8**	**169.9**	**232.9**
LIABILITIES (Ushs. billion)							
Deposit liabilities	15.5	23.2	39.1	31.5	36.6	62.9	76.8
Loan insurance fund	15.2	15.3	16.0	13.4	14.2	12.1	13.5
Borrowings	32.7	41.3	46.6	28.5	29.2	28.5	52.4
Other liabilities	4.6	6.6	7.3	8.1	9.2	10.0	15.6
Grants/deferred income	1.0	1.3	1.3	0.9	1.7	1.8	6.0
Inter branch/ Due to own Offices	-	0.0	0.0	-	10.0	-	-
Other long-term Liabilities	3.5	0.5	0.1	0.0	-	-	0.1
Total liabilities	**72.4**	**88.2**	**110.5**	**82.3**	**90.9**	**115.3**	**164.2**
FINANCED BY: (Ushs. billion)							
Capital	18.6	22.7	31.6	24.8	28.4	33.2	56.4
Subordinated debt	9.8	13.9	16.5	16.5	16.5	21.4	12.2
Preference shares	2.9	3.8	3.8	-	-	-	-
Total liabilities & equity	**103.7**	**128.6**	**162.4**	**123.6**	**135.8**	**169.9**	**232.9**

Source: Bank of Uganda

Table 2C: Aggregated balance sheet for credit institutions

	Dec-05	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10	Dec-11
ASSETS (Ushs. billion)							
Cash	3.6	3.9	5.2	5.4	5.4	6.1	6.7
Balances with institutions in Uganda	32.4	37.9	48.9	24.6	23.1	41.7	41.0
Balances with commercial banks outside Uganda	3.5	3.4	2.3	0.0	0.0	0.8	0.2
Investments	20.6	13.1	14.3	12.8	10.6	5.7	10.5
of which Government securities	20.4	13.0	14.2	12.6	10.4	5.7	10.4
Loans and advances	129.8	153.8	184.3	38.7	63.5	79.7	107.2
of which Administered funds*	19.8	20.1	18.0	-	-	-	-
Premises and fixed assets	15.1	16.5	21.7	14.6	15.3	16.3	19.2
Other Assets	8.7	10.0	10.6	10.6	6.0	8.6	8.9
Total assets	**213.7**	**238.6**	**287.3**	**106.6**	**123.9**	**158.9**	**193.7**
LIABILITIES (Ushs. billion)							
Total deposit liabilities to depositors	131.3	140.9	131.9	75.6	74.4	107.7	121.6
Loan Insurance Fund	-	-	-	-	4.0	3.4	3.6
Balances due to commercial banks/associated companies/residents/non-residents	9.7	24.1	20.4	1.8	11.1	7.5	13.2
Borrowings at Bank of Uganda	-	-	-	-	0.8	0.8	0.7
Administered funds °	19.8	20.1	18.0	-	-	-	-
Other Liabilities	7.6	6.3	9.8	5.5	2.6	10.7	16.0
Provisions	7.2	8.3	10.4	5.3	2.8	0.5	0.7
Capital	32.3	33.8	90.4	19.2	27.2	28.0	35.0
of which paid up capital	21.3	19.3	70.7	14.0	18.6	16.9	17.9
Profit for current year	5.8	5.2	6.3	-0.8	1.0	0.3	2.9
Total liabilities	**213.7**	**238.6**	**287.3**	**106.6**	**123.9**	**158.9**	**193.7**

Source: Bank of Uganda

5.12 APPENDIX 3: INCOME STATEMENTS FOR SUPERVISED FINANCIAL INSTITUTIONS

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

	Dec-05	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10	Dec-11
INCOME (Ushs. Billion)							
Interest income							
Advances	189.2	247.8	315.8	495.6	690.4	789.7	1,178.1
Government securities	120.7	113.7	126.2	141.8	166.4	182.9	210.7
Deposits abroad	16.3	23.4	31.1	27.9	12.4	10.7	22.2
Other	16.2	20.3	36.3	62.1	58.1	44.2	70.0
Charges, fees & commissions	101.4	112.8	149.8	175.2	218.0	214.7	252.6
Foreign exchange income	41.7	41.3	70.9	128.9	130.3	132.9	186.4
Other income	24.7	24.9	28.1	36.2	55.8	100.7	94.9
TOTAL INCOME	**510.2**	**584.2**	**758.3**	**1,067.7**	**1,331.3**	**1,475.8**	**2,014.7**
EXPENSES (Ushs. Billion)							
Interest expense on deposits	50.6	60.7	95.5	122.4	188.5	196.8	267.0
Other interest expenses	10.4	14.4	11.6	57.6	64.5	57.3	145.2
Provisions for bad debts	15.7	23.7	43.3	45.5	56.3	79.0	77.8
Salaries, wages, staff costs	98.8	116.1	144.3	219.5	284.8	330.3	381.4
Premises, depreciation, transport	45.5	55.4	69.4	110.5	144.3	153.8	178.5
Other expenses	113.6	128.5	138.6	189.9	266.9	296.2	322.9
TOTAL EXPENSES	**334.6**	**398.8**	**502.8**	**745.4**	**1,005.4**	**1,113.4**	**1,372.8**
ADD: Extraordinary credits/charges	-0.1	0.0	2.5	0.0	0.0	-0.4	-0.7
Net profit before tax	175.5	185.4	257.9	322.3	325.9	362.0	641.3
LESS: Corporation tax	51.9	49.0	59.4	92.0	89.8	93.3	153.0
NET PROFIT AFTER TAX	**123.6**	**136.4**	**198.6**	**230.4**	**236.1**	**268.7**	**488.3**

Source: Bank of Uganda

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

	Dec-05	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10	Dec-11
INCOME (Ushs. Billion)							
Total credit income	32.7	41.7	54.3	43.1	51.2	57.0	79.1
Total other income	2.4	3.3	4.6	5.2	7.3	4.3	7.3
GROSS FINANCIAL INCOME	**35.2**	**45.1**	**58.9**	**48.3**	**58.5**	**61.3**	**86.3**
EXPENSES (Ushs. Billion)							
Total financial expenses of lending funds	6.1	6.8	8.3	6.0	6.2	5.6	9.4
Provision for bad debts	2.9	2.4	3.2	2.6	2.5	2.4	3.0
Net financial income	26.2	35.8	47.4	39.6	49.8	53.3	74.0
Total operating expenses on financial services	25.2	32.9	37.8	34.6	44.5	48.2	63.6
NET INCOME FROM OPERATIONS	**1.0**	**2.9**	**9.6**	**5.1**	**5.3**	**5.1**	**10.4**
Total grant income for financial services	0.3	0.7	0.3	0.2	0.4	0.3	1.1
Total grant income for non-financial services	0.0	-	0.4	-	-	-	-
Income from non-financial services	0.0	0.5	0.6	0.0	0.0	0.1	0.2
Total operating expenses on non-financial services	0.1	0.0	0.0	0.0	0.0	0.0	0.1
Net operating profit/loss from non-financial services	0.0	0.5	0.6	0.0	0.0	0.0	0.1
NET PROFIT FOR THE PERIOD	**1.2**	**4.1**	**11.0**	**5.3**	**5.7**	**5.4**	**11.6**
Corporation tax	0.1	0.9	2.8	1.3	1.1	1.1	1.5
NET PROFIT AFTER TAX	**1.1**	**3.2**	**8.2**	**4.1**	**4.6**	**4.3**	**10.1**
RETAINED EARNINGS	**1.1**	**3.2**	8.2	**4.1**	**4.6**	**4.3**	**10.1**

Source: Bank of Uganda

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

	Dec-05	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10	Dec-11
INCOME (Ushs. Billion)							
Interest on loans and advances	19.4	22.2	31.0	13.1	16.2	21.0	27.3
Interest on government securities	2.3	1.5	1.7	1.4	1.1	0.5	0.8
Other interest income	2.3	2.7	3.5	1.8	1.7	3.1	4.1
Total interest income	**24.0**	**26.4**	**36.2**	**16.2**	**19.0**	**24.5**	**32.1**
Total non-interest income	8.5	8.2	10.9	12.2	10.6	9.8	13.5
TOTAL INCOME	**32.4**	**34.6**	**47.1**	**28.4**	**29.6**	**34.3**	**45.6**
EXPENSES (Ushs. Billion)							
Total interest expense	6.9	6.9	9.7	2.6	2.1	2.3	3.8
Provisions for bad debts	1.1	1.6	2.7	3.6	0.5	1.1	1.6
Salaries & other staff costs	8.1	8.8	11.8	10.3	12.6	14.3	17.4
Other non-interest expense	8.5	10.0	13.6	12.3	13.4	16.2	19.5
TOTAL EXPENSES	**24.6**	**27.3**	**27.3**	**29.0**	**28.6**	**33.9**	**42.3**
Taxation	2.0	2.1	3.0	0.3	-	0.1	0.4
NET INCOME	**5.8**	**5.2**	**6.3**	**-0.8**	**1.0**	**0.3**	**2.9**

Source: Bank of Uganda

5.13 APPENDIX 4: CREDIT REFERENCE BUREAU ACTIVITIES (at end-quarter)

Table 3C: Credit Reference Bureau activities (End- quarter)

Quarter	Dec-2009	Dec-2010	Dec-2011
Branches on FCS	29	10	10
Branches on CRBS	136	12	10
Financial cards issued	86,192	68,881	36,675
Number of enquiries	0	146,435	129,615

Source: Bank of Uganda