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Quarterly Financial Stability Review

March 2022

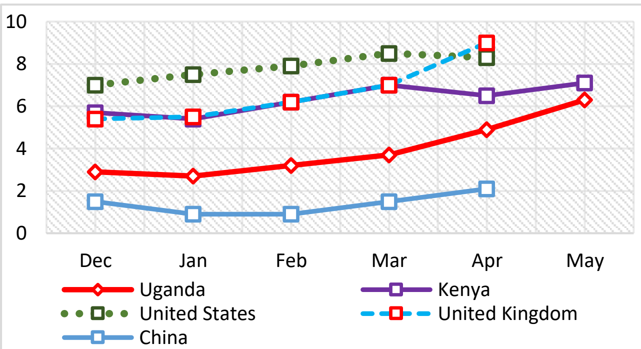
Systemic risks to financial stability remained moderate and the performance of supervised financial institutions (SFIs) improved during the quarter ended March 2022. The improvement came on the back of the full reopening of the economy and improvement in SFIs' capital and liquidity buffers that cushion against potential shocks. However, several emerging macro-financial risks will result in a more challenging operating environment for SFIs during 2022. These risks include the slowdown in economic growth and rising global and domestic prices. Bank of Uganda (BOU) is implementing several policy measures for the financial system, but the prudential restriction on payment of discretionary distributions and the Covid-19 Liquidity Assistance Program (CLAP) shall end effective 31st May 2022.

1. The Macro-Financial Environment

Global economic conditions have been disrupted by the ongoing global supply chain challenges, geopolitical tensions, and rising commodity prices. These factors are weighing on global growth and according to the International Monetary Fund (IMF), growth will slow down from an estimated 6.1 percent in 2021 to 3.6 percent in 2022, which is 0.8 percent lower than was projected in January 2022.[1]

The adverse global economic developments have had spill-over effects to Uganda's economy. **Domestic economic growth remains soft** and the high-frequency indicators of economic activity show that economic recovery slowed down over the quarter ended March 2022. BOU now projects domestic growth in the range of 4.5-5.0 percent for 2022, which is lower than the earlier (April 2022) projection of 5.5-6.0 percent.[2] Furthermore, domestic inflationary pressures have increased, largely driven by elevated commodity and energy prices, and consequently annual core inflation rose from 3.1 percent in February 2022 to 5.1 percent in May 2022, which is above the target of 5.0 percent. To curb the rise in prices and ensure that inflationary expectations do not get entrenched, BOU increased the Central Bank Rate (CBR) from 6.5 percent to 7.5 percent in June 2022, and announced that the CBR will be increased until inflation is contained.

Figure 1: Annual inflation for selected countries, December 2021 to March 2022 (Percent)



Source: *BOU/IMF*

The gradual but necessary tightening of monetary policy will impact financial stability in several ways. First, it is likely to increase the cost of borrowing and servicing of loans for households and enterprises. Second, it could increase non-performing loans and

[1] IMF World Economic Outlook report, April 2022
[2] Bank of Uganda Monetary Policy Statement, June 2022

heighten credit risk. While these factors may affect the profitability of the banking system, most SFIs[3] are resilient to these risks.

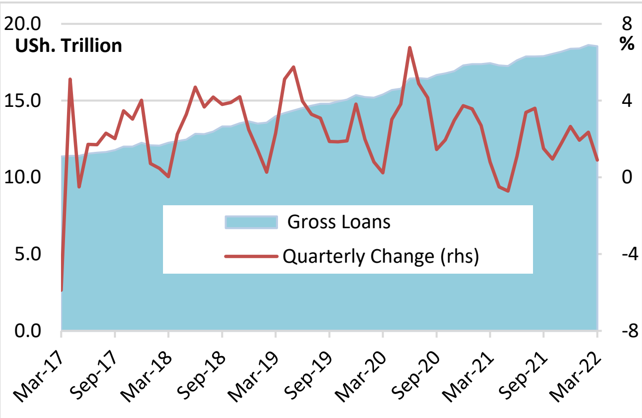
The outlook for 2022 is clouded by the emerging macro-financial risks, particularly inflation and the slowdown in economic growth. The evolution of the said risks, and the pace and depth of their pass through to the financial performance of households and enterprises, will influence the impact on financial system stability.

2. Performance of Banking Institutions

2.1. Lending Activity and Credit Risk

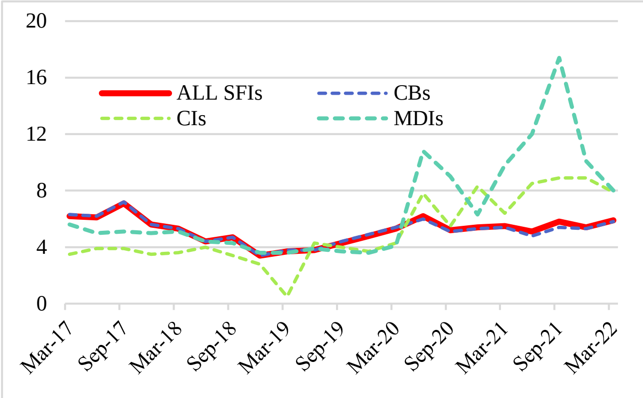
Credit growth is yet to return to pre-pandemic levels. During the quarter ended March 2022, loans by all SFIs increased by 0.9 percent to Ush.18.54 trillion, compared to growth of 2.6 percent in the prior quarter to December 2021. The trend in credit intermediation partly reflects SFIs' concerns over asset quality and uncertainty over the pace of economic recovery.

Figure 2: SFIs' gross loans



On aggregate, **credit risk as measured by the ratio of non-performing loans to gross loans and advances (NPL ratio), remains moderate.** However, non-performing loans (NPLs) started to rise, with the SFIs' aggregate stock of NPLs growing by 9.5 percent to reach UGX 1.0 trillion in the quarter ended March 2022, compared to a reduction of 4.3 percent in the previous quarter. The NPL ratio for commercial banks (CBs) increased from 5.3 percent in December 2021 to 5.8 percent in March 2022, while contemporaneously, the aggregate NPL ratios for CIs and MDIs improved from 8.5 percent to 7.7 percent, and 10.1 percent to 8.0 percent respectively. The lagged effect of loans under the credit relief program whose performance remains in arrears, is starting to materialize into higher NPLs in some banks. The increase in NPLs further reflects prudent early recognition of bad loans by SFIs and BOU supervisory actions whereby some SFIs were directed to correctly classify some facilities as NPLs.

Figure 3: SFIs' NPL ratios (Percent)



Source: *BOU*

The Covid-19 Credit Relief Measures (CRM) program, including the targeted relief for the education and hospitality sectors, has been successful, and is on schedule to expire on 30 September 2022. Cumulatively, loans totalling Ush.7.2 trillion (about 40 percent of SFIs' gross loans) have been restructured by SFIs from April 2020 to March 2022. Supported by the gradual recovery in economic activity, borrowers that benefited from the program resumed repayment of their obligations, and consequently the stock of loans that remains under CRM reduced further to Ush.2.6 trillion in March 2022, from Ush.3.1 trillion in December 2022 and a peak of Ush.5.2 trillion in September 2020.

The overall CRM program ended on September 30th 2021, but BOU extended targeted credit relief for the education and hospitality sectors to September 30th 2022. By end March 2022, the stock of loans restructured under the targeted CRM for education sector increased by 15.6 percent to Ush.385.2 billion; but for the hospitality sector reduced by 7.2 percent to Ush.198.5 billion.

[3] SFIs: commercial banks (CBs), credit institutions (CIs), microfinance deposit-taking institutions (MDIs).

However, loans under CRM that are in arrears by at least one loan instalment increased from Ush.941.5 billion in December 2021 to Ush.1.05 trillion in March 2022, which suggests that some borrowers' repayment capacity was possibly irreparably impaired by the pandemic. This trend also points to a potential rise in NPLs in the near term. On a positive note, solvency stress tests conducted by BOU indicate that most SFIs have adequate capital buffers to withstand potential losses from a further impairment of loans under CRM.

BOU continues to monitor credit risk related to developments in the real estate property market. The residential property price index (RPPI), for Greater Kampala Metropolitan Area (GKMA) reduced by 1.4 percent during the quarter ended March 2022, following a 3.4 percent rise registered during the previous quarter.[4] The trend of the RPPI over the last 12 months suggests that the market dynamics for residential properties are yet to establish a stable trend in the post pandemic period.

Regarding the outlook, BOU projections indicate that systemic NPLs will increase gradually through 2022, largely driven by the effect of inflationary pressures on households and business enterprises, rising potential losses on loans under the CRM program, and the disruption to economic activity arising from adverse global developments.

Box 1: Measures implemented by BOU to address/mitigate credit risk

a) BOU continues to conduct public awareness campaigns and to engage SFIs in order to promote the effective implementation of the **targeted credit relief measures for the education and hospitality sectors**, before the measure is phased out on 30th September 2022.

b) BOU maintained the **prudential loan-to-value (LTV) ratio limit of 85.0 percent** on residential mortgages and loans for land purchase. This measure is designed to mitigate potential excessive leverage and risks from adverse movements in real estate prices.

c) BOU is working with the Institute of Surveyors of Uganda and the Uganda Bankers Association (UBA) to address risks related to **miss-valuation of the real estate collateral that underlies most loans**, in order to ensure that SFIs' exposure is correctly measured. This is crucial given that a significant share of SFIs' loans is collateralized by real estate.

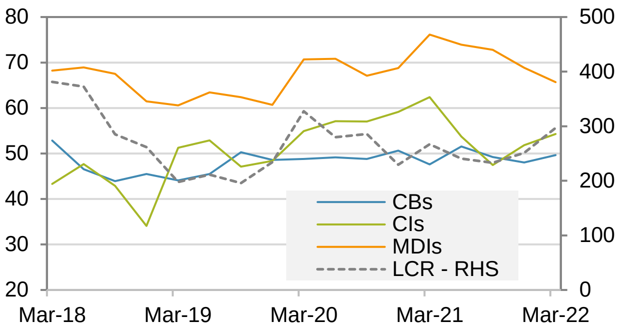
d) In 2020, BOU, in conjunction with the Uganda Bankers' Association (UBA), embarked on facilitating the operationalization of an **Asset Reconstruction Company (ARC)** as a longer-term solution to mitigate elevated credit losses in the post pandemic period. The ARC has since become operational and will take on distressed loans from SFIs thereby releasing bank capital and supporting credit growth. By 30th April 2022, the ARC had taken on US$17 million from one SFI and is in advanced stages of taking over a portfolio of US$70 million from a second SFI by June 2022.

2.2. Funding and Liquidity Conditions

On aggregate, liquidity risk remains low, as SFIs hold strong liquidity buffers against potential shocks, underpinned by increased investment in government securities, improved deposit mobilisation and BOU policy measures. As at end March 2022, the aggregate ratio of liquid assets-to-deposits (liquidity ratio) for banks, CIs and MDIs stood at 49.6 percent, 54.3 percent and 65.7 percent respectively, well above the minimum requirement of 20 percent for banks and CIs and 15 percent for MDIs. All SFIs individually met the minimum requirements. Relatedly, banks' aggregate liquidity coverage ratio (LCR) stood at 297.1 percent, well above the minimum requirement of 100 percent, indicating that banks held sufficient high-quality liquid assets (HQLA) to meet their short-term (30-day) liquidity obligations.

[4] Uganda Bureau of Statistics, ***Residential Property Price Index report***, March 2022

Figure 4: Banks' aggregate liquidity indicators (Percent)

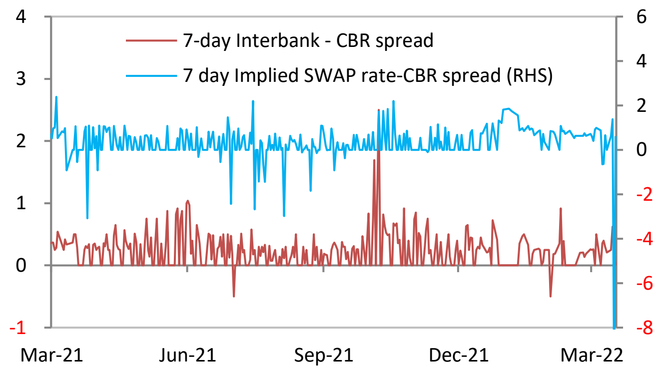


***Source*: BOU**

Funding conditions remained stable. Total deposits grew by 3.3 percent from USh.29.2 trillion to Ush.30.1 trillion over the quarter ended March 2022, faster than the 1.6 percent growth in the prior quarter. The aggregate cost of deposits reduced to 2.23 percent in the quarter ended March 2022, from 2.28 percent in the prior quarter. In addition, the proportion of foreign currency denominated deposits in the aggregate SFIs' total deposits has gradually decreased from 38.82 percent (March 2017) to 35.07 percent (March 2022), reducing the SFIs' exposure to foreign exchange risk.

The cost of wholesale funds reduced with the average spread between the 7-day interbank rate and the central bank rate (CBR) falling from 0.5 percent in the quarter ended December 2021 to 0.3 percent in the quarter ended March 2022.

Figure 5: Spreads between interbank market rates and the central bank rate (percent)



***Source:* BOU**

Going forward, the key risks to liquidity include; first the potential rise in non-performing loans, secondly, there is a heightened likelihood of an increase in offshore capital outflows as developed economies continue tightening monetary policy, which may lead to a rise in the market risk and liquidity risk of banks. The ample liquidity buffers held by SFIs indicate that they are largely resilient to the said plausible liquidity stress.

Box 2: BOU policy measures to address potential liquidity stress for banks

a) The **Covid-19 Liquidity Assistance Program (CLAP)** ended on 31st May 2022. The CLAP achieved its objective, by effectively mitigating liquidity risk and providing a back stop for SFIs through the pandemic.

b) BOU shall implement the **Emergency Liquidity Assistance (ELA)** Facility effective 1st June 2022, for any SFI that faces liquidity stress. ELA is the Lender of Last Resort (LoLR) function for eligible financial institutions as defined by the BOU Act 2000. However, MDIs are not eligible for ELA due to limitations in the legal framework. As a mitigation, BOU has proposed amendments to the BOU Act 2000 to rectify the said limitation, and will in the interim explore alternative avenues for providing liquidity assistance to MDIs.

c) BOU continues to follow up with the First Parliamentary Counsel to fast-track the gazetting of the **draft Financial Institutions (Liquidity) Regulations 2021,** which will enhance liquidity risk management by SFIs.

2.3. Profitability and Capital Adequacy

The aggregate banking sector profitability improved during the quarter ended March 2022. The net profit after-tax (NPAT) for banks increased by 29 percent from USh.238.6 billion (quarter end-December 2021) to USh.307.8 billion (quarter end-March 2022), mainly boosted by an increase in non-interest income of 22.6 percent during the quarter, and a reduction in expenses of 4.4 percent. Provisions for bad debts reduced by 14.0 percent, continuing the trend observed in the previous quarter. Aggregate MDIs' profitability also improved, from a loss of USh.5.1 billion for the quarter ended December 2021 to a profit of USh.8.4 billion in March 2022. In contrast, the NPAT for CIs declined from USh.1.3 billion to USh.771.3 million.

A key potential impact of the tightening of monetary policy, is the potential pass through effect from rising policy rates to valuation losses from SFIs' held-for-trading fixed income assets, due to the inverse relationship between the two. However, stress tests by BOU indicate that under a hypothetical scenario where the Central Bank Rate (CBR) is increased by several points over a six-month horizon, most SFIs are adequately capitalized to absorb the potential valuation losses from repricing of holdings of treasury securities.

The improvement in profitability, as well as BOU's restriction on payment of dividends, boosted SFI's capital buffers thereby enhancing their resilience to potential shocks. The commercial banks' aggregate core capital-to-risk-weighted assets (CC/RWA) ratio increased from 22.2 percent in December 2021 to 24.2 percent in March 2022, and for MDIs from 38.6 percent to 39.3 percent. However, the CIs' CC/RWA ratio reduced from 17.4 percent to 16.6 percent. Four smaller SFIs did not meet the capital conservation buffer (CCB) requirement of 2.5 percent of risk weighted assets (RWA), which took effect on 31st December 2021, and is an additional capital requirement on top of the core and total capital ratios. Notably though, all the Domestic Systemically Important Banks (DSIBs) met the regulatory capital adequacy requirements, including the CCB and their respective systemic risk buffers. BOU continues to engage the undercapitalized SFIs with a view to restoring their capital positions to adequacy and ensure their ability to weather known and evolving risks.

Going forward, **the main risk to SFIs' profitability, and by extension capital buffers,** remains the potential increase in provisions for Expected Credit Losses (ECLs) which are expected to rise with the trend in macroeconomic developments.

Box 3: BOU regulatory and policy measures regarding capital position of SFIs

a) **BOU continues to engage banks to ensure that they prudently recognize and provide for ECLs, in line with emerging economic risks.**

b) **BOU ended the Covid-19 market-wide restriction on payment of dividends and other discretionary payments by SFIs, on 31st May 2022**

- The policy which was introduced in April 2020 achieved its objectives. It enabled SFIs to grow their capital buffers to a level that is more than double the minimum requirements as seen in *Section 2.3*, thereby strengthening their loss absorbency capacity and resilience through the pandemic, and strengthened capacity to support the economy.
- Furthermore, BOU has since implemented two (2) regulatory reforms that have entrenched the requirement for SFIs to build up capital buffers and resilience to potential risks as a precondition to payment of dividends i.e. implementation of Basel II that took effect in January 2022 and the Financial Institutions (Capital Buffers and Leverage Ratio) Regulations effective 31st December 2021.
- **Going forward, the payment of dividends will remain subject to BOU approval, and every SFI that applies should;** be compliant with the requirements of the Financial Institutions Act 2004 and MDI Act 2003; comply with the Basel II capital requirements and demonstrate that it has adequate capital buffers to absorb potential shocks by submitting a satisfactory forward looking ICAAP assessment report that takes into account ability to withstand a range of macro-economic risks; and comply with the Financial Institutions (Capital Buffers and Leverage Ratio) Regulations, 2020. BOU's approval will also take into consideration the prevailing macroeconomic conditions and outlook.

c) **BOU remains on course in implementing the inaugural bottom-up stress test (BUST) for DSIBs**

All the participating banks submitted their stress test reports/results in May 2022, based on the common scenarios that were provided by BOU.

The exercise will enable BOU to assess the resilience of systemically important banks to potential risks from the evolving macro-economic shocks, measures to enhance bank's risk management framework and provide important lessons for enhancing the design and effectiveness of subsequent BUST events. BOU will issue the final public report in due course.

d) **The Countercyclical Capital Buffer (CCyB) was maintained at the current level of 0%/RWA, as indicators do not point to the need to vary the measure.**

e) **The phase-in of the Basel II took effect from 1st January 2022, and full compliance is expected by 30th June 2024.** Basel II shall enhance SFIs' risk management, improve market discipline, and augment BOU's regulatory and supervisory framework.

- BOU started conducting the Supervisory Review and Evaluation Process (SREP) effective 30th April 2022, following receipt of SFIs' annual Internal Capital Adequacy Assessment Process (ICAAP) reports.
- The next stage of the process involves the development of a framework and issuance of Guidelines for Basel II Pillar 3: Market Discipline. In addition, the Financial Institutions (Capital Adequacy Requirements) Regulations 2018 will be updated to incorporate the Basel II capital requirements.

2.4. Structural Risk

Structural risk, as measured by level of concentration in the banking sector, remains high even though it moderated by end-March 2022. The Herfindahl–Hirschman Index (HHI) of commercial banks' assets reduced to 955.9 in March 2022 from 1,004.5 in March 2021. The results of the HHI are supported by the indicators which show that the market share of the five largest banks reduced to 57.9 percent in March 2022, down from 58.3 percent as at end-December 2021.

Box 4: BOU measures to address structural risk

- To mitigate the potential systemic risks posed by the systemically large banks, BOU continues to implement higher regulatory capital and supervisory requirements for DSIBs, as stipulated by the DSIB framework and Financial Institutions (Capital Buffers and Leverage Ratio) Regulations 2020.
- BOU also continues to monitor SFIs' credit concentration. All SFIs met the regulatory limits as at end-March 2022.

2.5. Systemically important payment systems

The systemically important payment systems (SIPS) operated without significant disruption during the quarter ended March 2022. SIPs include the Uganda National Interbank Settlement System (UNISS, the RTGS system), the Central Securities Depository (CSD) and the Automated Clearing House (ACH).

However, on 2nd April 2022, the RTGS experienced a major shutdown lasting half a day, with the implication that payments and a treasury bill auction were not settled during the period. The system was restored by the next day. BOU has taken measures to enhance the resilience of the system.

2.6. Digital Channels and Operational Risk

The use of digital payment systems continued to grow strongly, both for mobile money and in commercial banks, as detailed in Table 1. Demand for digital payment services was mainly driven by a favorable policy environment, evolving consumer behavior/needs, and recovery in economic activity.

The value of debit card transactions increased by 23.9 percent to USh.1.2 trillion during the year ended March 2022. The value of internet and mobile banking fund transfers rose significantly by 82.8 percent and 146.1 percent respectively over the same period. The value of mobile money transactions also increased, growing by 46.5 percent to USh.145.6 trillion for the year ended March 2022.

Table 1: Activity on Digital payment platforms

	Year ended	Mar-2021	Mar-2022	% Change
Debit cards	Active number of cards (millions)	2.59	2.91	12.42
	Volume of payments (millions)	4.44	5.68	28.01
	Value of payments (USh. billion)	961.9	1,191.6	23.88
Credit cards	Active number of cards	10,481	9,183.0	-12.38
	Volume of payments(000's)	142.35	230.91	62.22
	Value of payments (UGX. billion)	34.1	59.7	74.89
Point-of-sale	Volume (million)	2.9	3.7	25.55
	Value (UGX. billion)	719.15	711.58	-1.05
Internet banking	Active number of users	848,691	997,287	17.51
	Volume of fund transfers (million)	1.72	2.77	60.66
	Value of fund transfers (UGX. trillion)	34.97	63.92	82.78
Mobile banking	Active number of users (million)	1.13	1.53	34.8
	Volume fund transfers(million)	1.74	2.71	55.57
	Value of fund transfers (UGX. trillion)	2.11	5.20	146.09
Mobile money	Number of transactions (billions)	3.7	4.5	23.1
	Value (UGX. trillions)	101.5	145.6	46.5
	Escrow account balances (trillion)	1.42	1.43	0.57

BOU remains supportive of the uptake in digital financial channels, which is key to enhancing financial inclusion. However, there is need for providers of digital payment/financial services to remain mindful of and vigilant of the potential for cyber thefts, especially in light of the increased interconnectedness of systems. Indeed, two banks reported incidents of cyber-attacks that involved losses estimated at USh.4.0 billion during the quarter, in addition to reported cases of fraud over mobile money platforms.

BOU continues to engage SFIs and payment system providers to enhance safeguards against the potential risks.

3. Summary of Systemic Risks

The risk dashboard shown in Table 2 summarizes the key drivers of systemic risks to Uganda's banking sector as at end-March 2022.

Table 2: Direction of Risk in the quarter ended March 2022

Risk category	Risk direction
Overall risk	⇨
Macro risk	⇧
Credit risk	⇧
Liquidity risk	⇩
Market risk	⇨
Operational risk	⇨
Profitability and solvency	⇨
Structural/concentration risk	⇨

Risk key:

Severity	High	Moderate	Low
Direction	⇧ Increasing	⇨ Stable	⇩ Decreasing

Source: *BOU*

4. Policy Stance and Outlook for Financial Stability

Overall, systemic risks to financial stability continued to be moderate, supported by the reopening of the economy, strong loss absorbency capacity (capital buffers) and liquidity buffers, as well as BOU's on-going prudential policy measures. However, the slowdown of the economic recovery and the emerging global macro-financial shocks whose evolution and impact remains uncertain, cloud the outlook for systemic risks.

Given the balance of risks and to mitigate the potential shocks to financial stability, BOU resolved in May 2022, to implement the prudential policy measures that are mentioned in this *Report.*

BOU will continue to closely monitor trends in systemic risk, the performance of SFIs as the cited risk evolve, and implement appropriate policy measures in order to safeguard financial system stability.

5. APPENDIX

5.1. Summary Status of BOU policy measures for financial stability

<table>
<tr><th>Type of risk</th><th>Intermediate objective</th><th>Tools/Instruments</th><th>Effective Date</th><th>Expiry/Notes</th></tr>
<tr><td rowspan="9">Time varying risk</td><td rowspan="3">Resilience against Covid-19 shock</td><td>Credit Relief Measures/Loan Restructuring</td><td>April 2020</td><td>30th September 2022</td></tr>
<tr><td>Covid-19 Liquidity Assistance Program (CLAP)</td><td>April 2020</td><td>31st May 2022</td></tr>
<tr><td>Restriction on paying dividends</td><td>April 2020</td><td>31st May 2022</td></tr>
<tr><td rowspan="4">Resilience against Credit and other risks</td><td>Capital Conservation Buffer (2.5 percent of RWA)</td><td>December 2021</td><td rowspan="4">Ongoing</td></tr>
<tr><td>Countercyclical Capital Buffer (0.0 percent of RWA)</td><td>December 2021</td></tr>
<tr><td>Leverage Ratio: 6%/Total Assets</td><td>December 2021</td></tr>
<tr><td>Loan to Value Ratio Limit: 85 percent</td><td>May 2020</td></tr>
<tr><td rowspan="2">Funding/ Liquidity risk</td><td>Liquidity Coverage Ratio: 100.0 percent</td><td>January 2014</td><td rowspan="2">Ongoing</td></tr>
<tr><td>Emergency Liquidity Assistance (ELA)</td><td>1st June 2022</td></tr>
<tr><td rowspan="3">Cross sectional risk</td><td>Resilience of market structure</td><td>Enhanced disclosure requirements for DSIBs
Framework for Regulation of Domestic Systemically Important Banks, including Systemic risk capital Buffer of 0.0 – 3.5 percent of RWA), Recovery Plans for DSIBs (published on the BOU website)</td><td>December 2021</td><td>Ongoing</td></tr>
<tr><td rowspan="2">Enhance capacity to manage a financial crisis</td><td>Crisis Management Plan (updating of the plan is underway).</td><td>June 2012</td><td rowspan="2">On-going</td></tr>
<tr><td>Recovery Plans for Banks.</td><td>June 2019</td></tr>
</table>

5.2. Selected financial soundness indicators for commercial banks (Percent)

	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Capital Adequacy (%)						
Total capital/RWA (percent)	22.15	23.79	23.53	24.09	23.61	25.57
Core capital/ RWA (percent)	20.55	22.22	22.06	22.59	22.19	24.20
NPLs less specific provisions–to–capital	9.22	8.32	7.39	8.46	8.56	8.87
Leverage ratio	10.95	11.95	11.53	11.64	12.06	12.89
Asset quality (%)						
NPLs to total gross loans	5.27	5.38	4.79	5.43	5.27	5.79
NPLs to total deposits	3.21	3.29	2.86	3.3	3.26	3.50
Specific provisions to NPLs	44.99	47.26	47.31	46.48	44.17	42.26
Earning assets to total assets	69.14	69.09	69.7	71.53	68.73	71.00
Profitability (%)						
Return on assets	2.38	2.53	2.65	2.62	2.64	2.73
Return on equity	14.25	14.72	15.48	14.94	15.33	15.39
Net interest margin	10.24	10.42	10.17	10.14	10.43	10.30
Yield on advances	14.54	14.58	14.18	14.42	14.32	14.35
Cost of deposits	2.43	2.43	2.35	2.36	2.31	2.23
Cost–to–income	75.08	73.52	71.74	72.59	72.31	72.22
Liquidity (%)						
Liquid assets–to–total deposits	50.65	47.58	51.55	49.2	48.01	49.62
Liquid assets–to–total assets	35.41	33.3	35.88	34.13	33.04	34.50
Interbank borrowings to total deposits	2.14	2.92	2.59	1.93	2.58	2.44
Market Sensitivity (%)						
Forex exposure to regulatory tier 1 capital	-5.99	5.51	-6.56	-7.61	5.77	-5.01
Forex loans–to–forex deposits	62.15	62.32	59.24	59.79	60.40	58.12
Forex assets–to–forex liabilities	99.43	94.28	93.55	86.36	98.93	92.60

Source: *BOU*

5.3. Selected financial soundness indicators for credit institutions (Percent)

	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Capital Adequacy						
Core capital/RWA (percent)	16.1	16.9	15.8	15.3	14.7	13.40
Total capital/RWA (percent)	17.3	18.1	17.0	16.5	15.4	14.28
Provisions (specific) –to–core capital (percent)	18.9	17.2	18.9	23.2	27.1	23.06
Asset Quality						
Total provisions (UGX. billion)	28.4	28.6	30.8	36.3	14.3	12.4
Non-performing loans (UGX. billion)	49.1	39	54.1	61	21.7	19.5
Non-performing loans-to-total loans (percent)	8.1	6.2	8.1	8.7	8.6	7.7
Profitability						
Profit/loss (UGX. billion)	-8.7	4.8	-2.7	0.9	1.3	-0.8
Return on Assets (ROA) (percent) (annualized)	-6.7	3.4	-1	0.33	0.7	-0.8
Return on Equity (ROE) (percent) (annualized)	-21.6	11.5	-6.5	2.3	4.3	-4.7
Liquidity						
Total public deposits (UGX. billion)	593.7	671.7	687	690	226.3	226.8
Liquid assets–to–deposits (percent)	59.2	62.4	53.7	47.5	51.8	54.3
Loans–to–deposits (percent)	96.8	88.8	92.4	95.8	104.2	105.6

Source: *BOU*

Note*: The change in aggregate credit institutions' positions between September & December 2021 were partly due to the upgrade of Post Bank (U) Ltd from a credit institution to a commercial bank during the quarter ended December 2021.*

5.4. Selected financial soundness indicators for microfinance deposit-taking institutions (MDIs)

Indicator	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Capital Adequacy						
Core capital/RWA (percent)	35.4	38.5	38.2	36.4	38.6	39.3
Total capital/ RWA (percent)	38.1	41.3	41	39.2	41.1	41.8
Specific provisions–to–core capital (percent)	9	11.3	17.6	28.4	15.7	10.9
Asset Quality						
Total provisions (UGX. billion)	20.8	25.9	36.9	55.4	35.7	26.9
Non-performing loans (UGX. billion)	25.7	38.5	47.2	70.5	42.3	33.3
Non-performing loans–to–total loans (percent)	6.3	9.8	12	17.4	10.1	8.0
Provisions–to–Non-performing loans (percent)	80.9	67.4	78.1	78.6	84.2	80.8
Profitability						
Profit/loss (UGX. billion)	19.8	-1.3	-8.4	-21.9	-5.1	8.4
Return on Assets (YTD, Annualized) (percent)	2.7	-0.7	-2.3	-4	-0.7	4.5
Return on Equity (YTD, Annualized) (percent)	10	-2.3	-7.9	-13.6	-2.3	15.1
Liquidity						
Total deposits (UGX. billion)	355.9	343.6	349.2	396.6	383.2	378.6
Liquid assets–to–deposits (percent)	32.9	76.1	73.9	72.8	68.9	65.7
Liquid assets–to–total assets (percent)	68.8	35.7	36.2	39	35.3	33.6
Loans–to–deposits (percent)	74.9	76.1	72.7	71.3	73.3	67.4

Source: *BOU*