BANK OF UGANDA

Launch of the Annual Supervision Report 2021

08 June 2022

Golden Tulip Hotel, Kampala

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Outline

1. Supervision of Financial Institutions

2. Key Sector Developments

3. Financial Stability Assessment

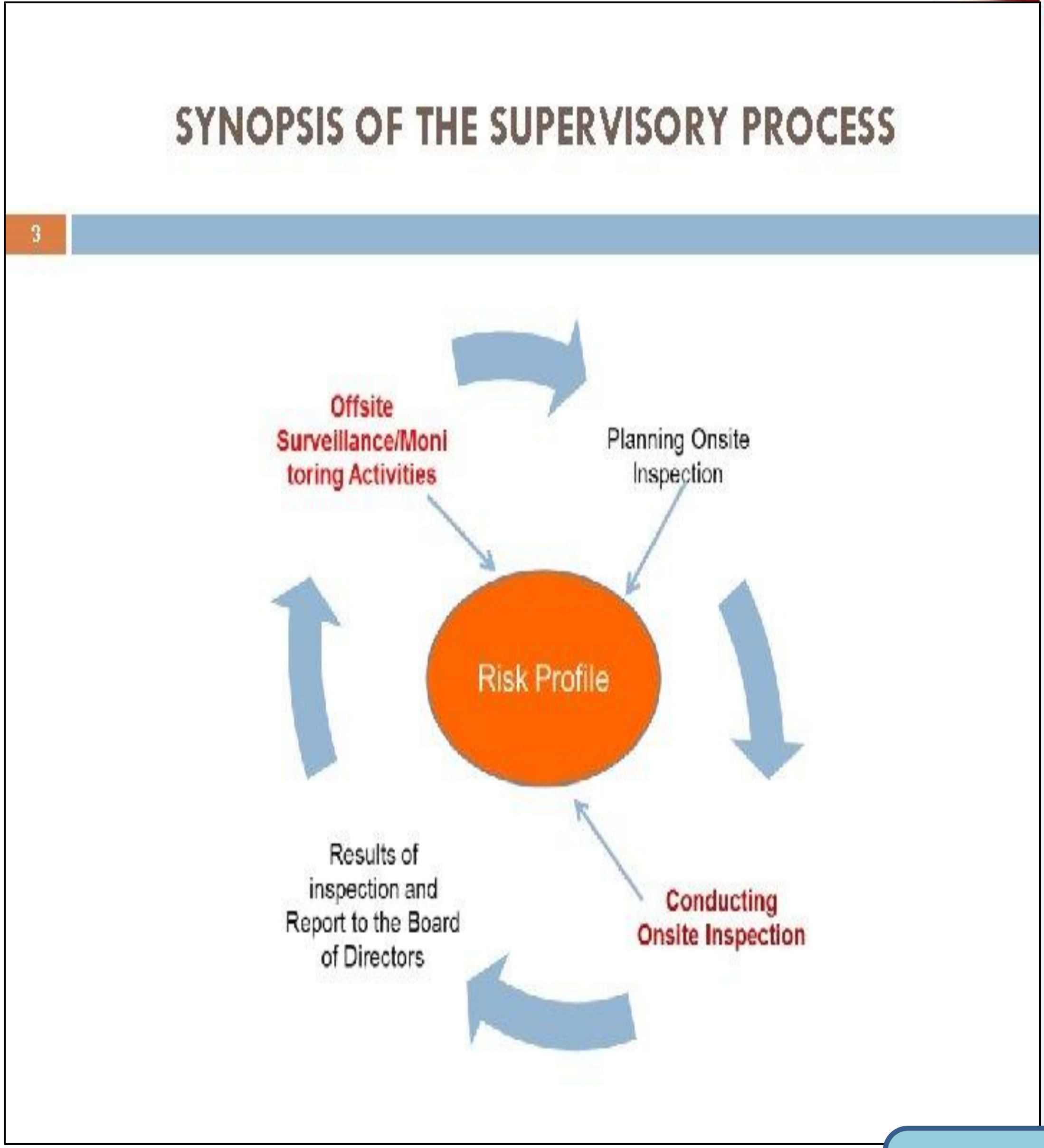
4. Progress on BASEL II

Who do we Supervise?

- Commercial Banks
- Credit Institutions & MDIs
- Forex Bureaus & Money Remittance Companies
- Payment Service Providers
- Payment System Operators
- eMoney Issuers

Conduct of Supervision?

- Virtual & In-Person engagements
- Probability & Impact Rating System (PAIRS)
- Targeted Reviews
- Adhoc Meetings



PAIRS based Examinations

Class of Financial Institution	On-site inspections conducted as at Dec 2021
26 Commercial Banks	Twelve (12) on-site inspections
4 Credit Institutions	Three (03) on-site inspections
4 Microfinance Deposit-taking Institutions	Two (02) on-site examinations
219 Forex Bureaus and Money Remittance Companies	Forty-six (46) on-site inspections

Key Sector Developments - 1

a) Minimum paid up Capital increase

b) Implementation of Capital Buffers & Leverage ratios by December 2021

c) Establishment of dedicated Units @ BOU for AML/CFT supervision & SFI Resolution

d) Review of Credit Bureau & Mortgage Refinance Regulations

e) Change in License fees – Annual & Application

Key Sector Developments - 2

f) PostBank (U) Ltd – Became Tier I Commercial Bank in December 2021

g) Expiry of broader Credit Relief Measures

h) I&M Bank acquisition of 90% equity stake in Orient Bank

i) BASEL II implementation begun with ECD June 2024

j) Review of Legal framework: *FIA 2004, BOU Act 2000, Foreign Exchange Act 2004 & MDI Act 2003*

Financial Stability Assessment - 1

Banking sector resilience continued to improve during the year ended December 2021, supported by:

i. Gradual recovery in economic activity

ii. Significant capital and liquidity buffers held by the supervised financial institutions (SFIs), and

iii. Efficacy of policy responses implemented by Bank of Uganda (BOU) in 2021

iv. Accommodative monetary policy stance

Financial Stability Assessment - 2

However, downside risks to financial sector performance and stability remain:

v. Weaker-than-expected Domestic & Global economic growth;

vi. High risk of capital flow reversals as interest rates rise in Advanced Economies;

vii. Inflationary pressure from structural impediments in global supply chains; and

viii. Geo-political tensions

Systemic Risk Assessment as at Dec 2021

Risk category	Risk direction
Overall risk	↑
Macro risk	→
Credit risk	↑
Liquidity risk	→
Market risk	→
Operational risk	↑
Profitability and solvency	→
Structural/concentration risk	→

↑	→	↓
Increased risk	Marginal risk / No change	Reduced risk

Source: *BOU*

Progress on BASEL II

i. July 2021 – Guidelines issued for minimum regulatory capital for credit, market and operational Risks using the Standardized Approach.

ii. Guidance issued mandating conduct of Internal Capital Adequacy Assessment Process (ICAAP);

iii. Internal review of submitted ICAAP reports is ongoing.

iv. Ongoing development of a documented Supervisory Review and Evaluation Process (SREP) to govern ICAAPs reviews & assignment of capital add-ons

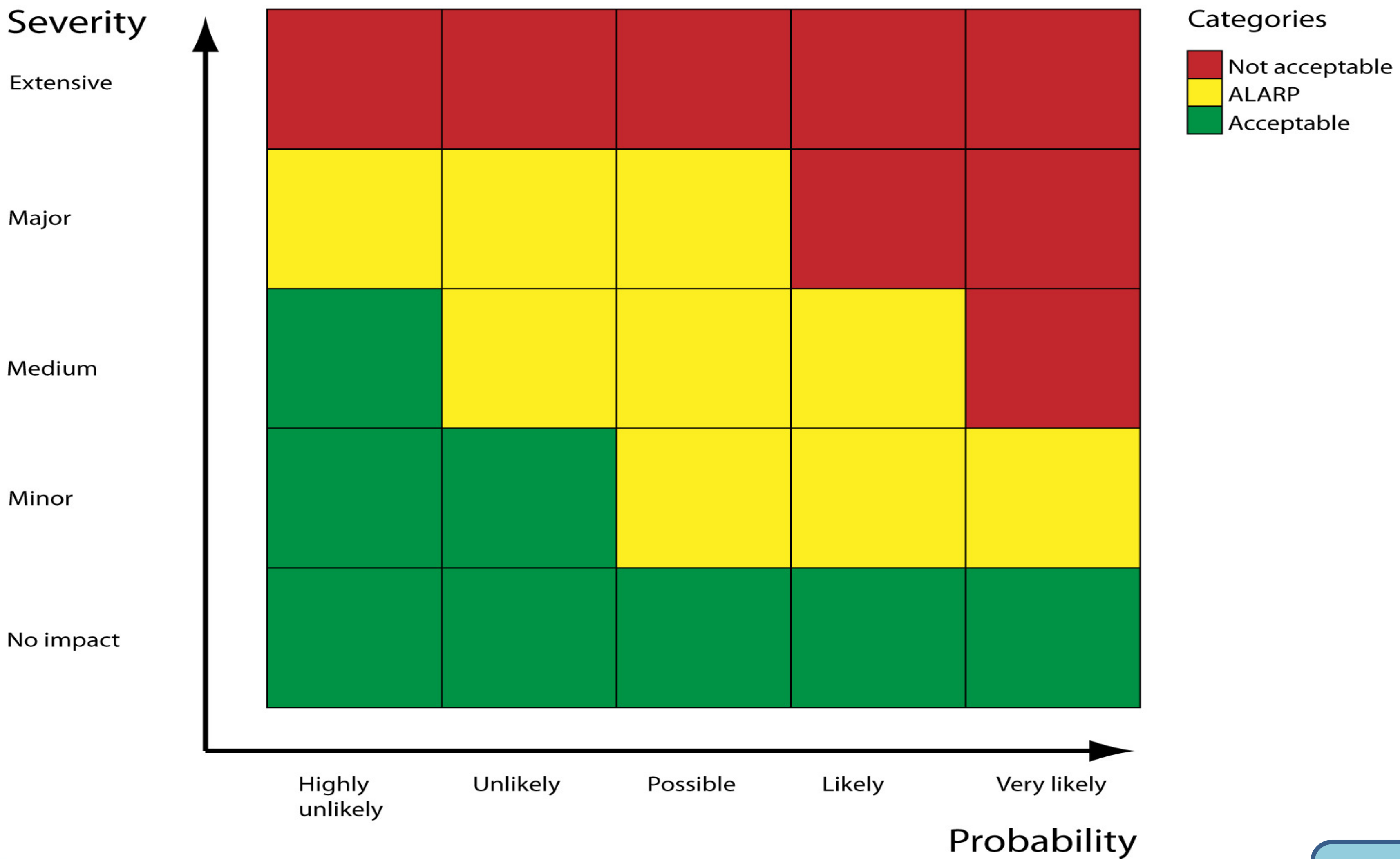
v. Next steps – Guideline for Pillar 3 on Market Discipline, & updating of Capital Adequacy Regulations of 2018

- Bank of Uganda SHALL continue & remains COMMITTED, to ACT with TIMELY & DECISIVE policy responses to emerging risks affecting financial system stability.

Thank you

Annual Supervision Report 2021 is now available at www.bou.or.ug

Probability And Impact Rating System – *Appendix A*



Direction of Systemic Risk as at March 2022

Risk category	Risk direction, Dec-2021	Risk direction, Mar-2022	Risk drivers and contributing factors
Overall risk	↑	→	▪ Systemic risk in the banking sector remained moderate, supported by the re-opening of the economy and strong capital and liquidity buffers, to cushion against shocks. Outlook clouded by emerging macro-financial risks whose evolution and impact remains uncertain.
Macro risk	→	→	▪ Inflation is rising. Economic recovery has slowed down. Effect of rising inflation, tightening of monetary policy and increase in commodity prices likely to pass through and affect the financial performance of households and enterprises, and banks.
Credit risk	↑	↑	▪ Overall, credit risk remained moderate. Lagged effect of credit relief loans in arrears is starting to materialize into higher NPLs in some banks.. Outlook is for systemic NPLs to rise further in the near term.
Liquidity risk	→	↓	▪ Liquidity conditions improved, supported by increased deposit mobilization and higher liquid assets. However, anticipated rise in NPLs and potential higher offshore outflows, may tighten liquidity conditions.
Operational risk	→	→	▪ All systemically important payment systems performed without significant disruption. Usage of digital financial services continued to grow, but inherent risks, including fraud and cyber threats, remain.
Market risk	↑	→	▪ Stress tests show that the direct impact of interest rate and foreign exchange risk remains relatively low. ▪ BOU continues to monitor the impact on bank profitability, of the evolution in real estate prices, and interest rate spreads on government securities.
Profitability & solvency	→	↓	▪ Aggregate capital and profitability continued to improve, enhancing resilience to shocks.
Structural risk	→	↑	▪ Banking sector concentration moderated during the quarter; share of five DSIBs' in total assets reduced from 60.3% to 57.9%. However, bank's exposure to the five largest systemic borrowers relative to core capital increased from 20.9% to 25.7%.