BANK OF UGANDA

ANNUAL SUPERVISION REPORT

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ABBREVIATIONS

ASR	Annual Supervision Report
AML/CFT	Anti-Money Laundering/Countering the Financing of Terrorism
BOU	Bank of Uganda
CBs	Commercial Banks
CBR	Central Bank Rate
CIs	Credit Institutions
CRB	Credit Reference Bureau
CRM	Credit Relief Measures
DSIB	Domestic Systematically Important Banks
EAC	East African Community
FCS	Financial Card System
GAR	Gross Annual Revenue
ICAAP	Internal Capital Adequacy Assessment Process
ICT	Information and Communication Technology
HQLA	High Quality Liquid Assets
KYC	Know Your Customer
LCR	Liquidity Coverage Ratio
MAC	Monetary Affairs Committee
MDIs	Microfinance deposit-taking institutions
MoFPED	Ministry of Finance, Planning and Economic Development
NIRA	National Identification and Registration Authority
NPAT	Net Profit After Tax
NPLs	Non-performing loans
PIs	Participating Institutions
ROA	Return on average Assets
ROE	Return on average Equity
RTGS	Real Time Gross Settlement
RWA	Risk-Weighted Assets
SACCOs	Savings and Credit Cooperatives
SFI	Supervised Financial Institution
Shs.	Ugandan Shilling
SIPS	Systemically Important Payment Systems

FOREWORD

Deputy Governor, Bank of Uganda
Micheal Atingi-Ego

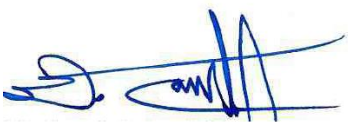
Bank of Uganda (BOU) publishes the Annual Supervision Report (ASR) to keep the public abreast of salient issues relating to prudential regulation and supervision of Supervised Financial Institutions (SFIs) and developments in the financial sector.

Most of the financial year 2021 was characterized by heightened uncertainty about the economic outlook largely in part to the additional waves of the COVID pandemic. However, as the year 2021 came to a close, the pandemic gradually abated supported in part by the rollout of the COVID-19 vaccination across the country. This resulted in a phased re-opening of the economy that facilitated an economic rebound in most sectors except the education and hospitality sectors, which remained under prolonged lockdown.

In July 2021, BOU commenced the transition from Basel I to the Basel II Accord by issuing guidelines to SFIs. As a part of this transition, BOU introduced minimum regulatory requirements for credit and operational risks and directed the implementation of Internal Capital Adequacy Assessment Processes (ICAAP) for SFIs. The next steps shall involve the development of a framework and issuance of Guidelines for Pillar 3 under BASEL II that ensures market discipline through mandatory disclosure of relevant market information by SFIs. Full compliance with the BASEL II capital framework is expected by 30th June 2024. In addition, as part of the convergence amongst EAC member states, BOU revised the annual license and license application fees with effect from 1st January 2022. Further, BOU has established a unit to conduct focused risk-based supervision of SFIs for their compliance and management of Anti Money Laundering / Countering the Financing of Terrorism (AML/CFT) risks.

Year on year, commercial Banks' profitability increased by 26.9 percent to Shs.1,073.9 billion as at end of 2021. The ratio of non-performing loans was largely unchanged between 2020 and 2021 at 5.27 percent versus 5.26 percent respectively. Overall, near term risk to financial stability remains elevated from the macro side given the general tightening of monetary policy, supply-side shocks and rising commodity prices. These in combination could have spillover adverse effects on Uganda's financial system. However, the banking sector in Uganda remains resilient to these potential shocks given its enhanced loss absorbency capacity reflected in existing liquidity and capital buffers.

This report, in five chapters, provides specific information about the Bank of Uganda's supervisory activities during the year, the performance of Supervised Financial Institutions, and developments in the financial sector during the review period.



Michael Atingi-Ego
Deputy Governor

PART I: SUPERVISION OF FINANCIAL INSTITUTIONS

Chapter 1: Supervision of Financial Institutions

1.1 Introduction

This chapter reports on the activities undertaken by the Bank of Uganda in the supervision of Financial Institutions conducted through on-site inspections and off-site surveillance. Supervised Financial Institutions (SFIs) are comprised of commercial banks, credit institutions, microfinance deposit-taking institutions, foreign exchange bureaus, and money remitters.

1.2 On-site Inspection

BOU continues to employ the Risk-Based Supervision (RBS) methodology in the conduct of on-site inspections of SFIs. The key objectives of on-site inspections are to independently evaluate: the adequacy of risk management systems put in place relative to the risks assumed, the financial condition of SFIs and compliance with the applicable legislation, guidelines, circulars, and corrective actions issued by BOU. The inspections were mainly hybrid entailing both virtual and in-person engagements with the SFIs as the authorities continued to ease the COVID-19 Pandemic restrictions.

Commercial Banks

(BOU) conducted on-site inspections of twelve (12) commercial banks over the 12 months ended December 2021.

The examinations emphasized areas deemed to pose significant risks to banks' operations and specific time-bound Corrective Actions were issued to address identified supervisory concerns. In addition, BOU conducts follow-up examinations to ascertain the extent of SFIs' compliance with directives issued in the on-site examinations.

The key findings from the on-site examinations from banks are summarized below:

1. Corporate Governance

i) Delays in the implementation of the recommendations arising from the Board self-assessments.

ii) Failure to subject the Internal Audit function to an independent assessment by an external body.

2. Strategic risk

i) Adverse impact of the Covid-19 pandemic on the Small and Medium Enterprises niche, which is a key market segment for some banks.

ii) Gaps in the monitoring of the performance of products and lapses in project management.

iii) High levels of dormant accounts

3. Credit risk

i) Highly concentrated loan books that in the event of loan quality deterioration, can negatively impact capital and earnings.

ii) Gaps in the implementation of the International Financial Reporting Standard, 9.

iii) Lapses in security/ collateral documentation and perfection thereof.

4. Operational risk

i) Heightened risk of cyber fraud from the increased reliance on digital channels for financial service delivery.

ii) Several cases where the risk management function was assigned operational roles, undermined the independence of the latter.

iii) Misalignment of staff remuneration and their assigned roles and responsibilities.

iv) Lapses in the conduct of Risk and Control Self Assessments, and the management of incident reporting.

v) Lapses in AML/CFT risk management systems and processes, coupled with deficiencies and Know Your Customer (KYC) processes.

vi) Lapses in financial reporting

5. Compliance risk

i) Instances of non-compliance with prudential requirements, for which banks were penalized.

In recognition of the importance of Information and Communications Technology (ICT) as a key business enabler for the financial system and the need for the Bank of Uganda to obtain additional independent assurance on financial institutions' management of Information Technology risks, BOU directed SFIs to engage External Auditors to audit ICT systems at least once every two (2) years. Accordingly, SFIs undertook ICT Audits as at 31 December 2021 and the reports were submitted to BOU. The corrective measures issued by the ICT auditors formed part of the SFIs' internal control enhancement frameworks.

Credit Institutions

During the year, the Bank of Uganda conducted one (1) Full-scope On-site examination, two (2) targeted inspections and one (1) Follow-up examination of Credit Institutions. Key governance supervisory concerns identified during the examinations included weak Board and senior management oversight on the institutions' affairs, inadequate succession planning at Board and senior management levels, cases of domineering shareholders and directors that interfere in operational matters, lack of cohesion between shareholders and directors and high staff turnover of senior managers.

In addition, significant lapses were identified in credit policies and procedures, management of insider loans and compliance with regulatory and statutory requirements. The examinations further revealed gaps in human resource management, procurement, AML/CFT as well as management information systems. Specific and time-bound corrective actions were issued to address identified supervisory weaknesses. Compliance with the issued corrective actions is regularly monitored.

Microfinance Deposit-taking Institutions

Targeted on-site examinations were conducted at two (2) Microfinance Deposit-taking Institutions during the review period. Key supervisory concerns included: weaknesses in corporate governance, delays in implementing key strategic initiatives because of COVID pandemic containment related disruptions, lapses in credit risk management, shortcomings related to Information and Communications Technology (ICT) and AML/CFT processes and non-compliance with regulatory requirements.

Foreign Exchange Bureaus and Money Remittance Companies

During the year sixty-seven (67) on-site inspections of foreign exchange bureaus and money remittance companies were conducted. These comprised forty-six (46) full-scope inspections and twenty-one (21) follow-up inspections.

The key findings pertained to weaknesses in the operations. For example, some forex bureaus and money remittance companies were engaging in business activities forbidden by their license terms and conditions; there were cases of non-compliance with legal and regulatory requirements such as the Anti-Money Laundering Act, the Income Tax Act, and the National Social Security Fund Act; limited understanding of regulations, and weak capacity to properly manage forex bureaus and money remittance businesses. Considering this, the Central Bank issued corrective actions to remedy the identified weaknesses. In addition, BOU carried out public awareness campaigns to deter the public from conducting business with unauthorized Forex Bureaus and Money remittance Companies.

1.3 Off-site surveillance of Supervised Financial Institutions

Off-site surveillance entails the analysis of financial and other regulatory information submitted to BOU by SFIs. It facilitates the regular assessment and monitoring of SFIs' financial condition and compliance with prudential requirements. It feeds into the BOU Early Warning system and informs the on-site investigation of identified red flags.

Chapter 2: Developments in the Financial Sector

2.1 Licensing, License Fees, approvals and expansion

Licensing

During the period PostBank Uganda Ltd, formerly a Tier II Credit Institution, applied for and fulfilled the requisite conditions for the issuance of a Tier 1 Commercial Banking License that was granted with effect from 02 December 2021. Accordingly, the total number of licensed commercial banks (Tier 1) as at 31 December 2021 stood at 26 (twenty-six).

During the same period, Orient Bank Uganda Limited sought and was granted BOU approval to transfer 90% of its shareholding to I&M Holdings Plc., a publicly listed company domiciled in Nairobi, Kenya. The bank has since rebranded into I&M Bank (Uganda) Limited.

License fees

In November 2021, the Bank of Uganda revised the annual licence fees with the changes taking effect from January 2022. The rationale was to harmonize the license fees with other East African Community (EAC) member states and to complement other sources of funding for the Bank of Uganda. The changes were as follows;

a) Commercial Banks or Tier I financial institutions are required to pay the higher of **0.05%** of their Gross Annual Revenue (GAR) or ***UGX 50 million***

b) Credit Institutions or Tier II financial institutions are required to pay the higher of **0.05%** of their GAR or ***UGX 20 million.***

c) Microfinance deposit-taking institutions or Tier III financial institutions are required to pay the higher of **0.05%** of their GAR or ***UGX 10 million.***

In addition, the license application fees were also revised as indicated in the table below. It was also recommended that the initial license fee for new SFIs, were to apply to mergers, acquisitions and amalgamations where there is a change in controlling interest of the SFI that leads to the creation of a new corporate entity. In accordance with the relevant Tier, license application fees were revised as below:

Table 1: License Application Fees

A	**Licence application fees**	**Old fees UGX**	**New fees UGX**
1	New Commercial Banks	2,000,000	50,000,000
2	New Credit Institutions	2,000,000	30,000,000
3	New Microfinance Deposit-Taking Institutions	2,000,000	20,000,000

Source: ***BOU***

Bank branches and automated teller machines

The total number of bank branches increased by 46 from 566 in 2020 to 614 in 2021, along with an increase of 46 automated teller machines (ATMs) operated by commercial banks from 837 in 2020 to 886 in 2021. Table 2 below provides branch/outlet detail over the last four years. This increase is largely attributed to the Postbank Uganda Limited's transformation from a Tier II to a Tier I financial institution: replete with its 56 branches and 55 ATMs during the period under review.

Table 2: SFI branches/outlets

	2018	2019	2020	2021
CB branches	549	580	566	614
ATMs	839	851	837	886
FXBs	275	291	316	328
MRs	258	208	156	268
MDIs	80	97	98	98
CIs	66	66	228	131

Source: ***BOU***

2.2Regulatory Developments

Regulation of Savings and Credit Cooperatives

BOU is working with the Ministry of Finance, Planning and Economic Development and Ministry of Justice and Constitutional Affairs to put in place the Microfinance Deposit-taking Institutions (Registered Societies) Regulations, 2021. Once finalized, these Regulations shall operationalize the amendments to the Tier IV Microfinance and Money Lenders Act 2016 and pave the way for the supervision of select registered societies (SACCOs) by BOU.

Microfinance Deposit-taking Institutions Act, 2003

Bank of Uganda is concluding the amendment of the Microfinance Deposit-taking Institutions Act, 2003. The proposed amendments enable the provision of Islamic banking, Agent banking, and bancassurance services by Microfinance Deposit-taking institutions. The amendments also allow for access to the Credit Reference Bureaus (CRBs).

Foreign exchange bureaus and money remittance companies

A Regulatory Impact Assessment for the proposed amendments to the Foreign Exchange Act, 2004 was carried out during the reporting period. Once finalized, it shall be considered by Cabinet and approved. Thereafter the Bill shall be presented to Parliament for discussion and enactment.

2.3Supervisory Changes

AML/CFT Supervision Framework

In order to enhance the supervision, monitoring and regulation of SFIs for compliance with AML/CFT requirements, BOU established an AML/CFT Team in June 2021 within the Supervision Directorate. The Team's focus is on conducting on-site and off-site Risk-Based AML/CFT examinations. There is ongoing technical assistance from the International Monetary Fund (IMF) to build staff capacity and develop relevant tools to strengthen Risk-Based AML/CFT supervision. At the same time, BOU has commenced the updating of the Banking Sector Risk Assessment as at December 2021 to identify emerging AML/CFT typologies, risks and trends.

Supervisory Colleges

Sound banking practices require participation in supervisory colleges with home regulators of banking groups with subsidiaries in Uganda. The objective of these supervisory colleges is to enable the consolidated supervision of banking groups and devise appropriate and coordinated interventions. During 2021, BOU participated in supervisory colleges organized by the Central Bank of Kenya, West African Monetary Union, and Central African Banking Commission.

2.4Credit Reference Services

The cumulative number of financial cards issued to borrowers as of December 31, 2021, stood at 2,157,828 which was an increase of 189,208 from 1,968,620 as of December 31, 2020, while the number of branches of Participating Institutions with access to the Credit Reference Bureau system increased from 598 to 603. The number of credit enquiries made to the Credit Reference Bureaus increased by 64,456 from 810,782 in the year ended December 31, 2020, to 975,238 in the year ended December 31, 2021.

PART II: ASSESSMENT OF FINANCIAL STABILITY

Chapter 3: Performance of SFIs

3.1 Introduction

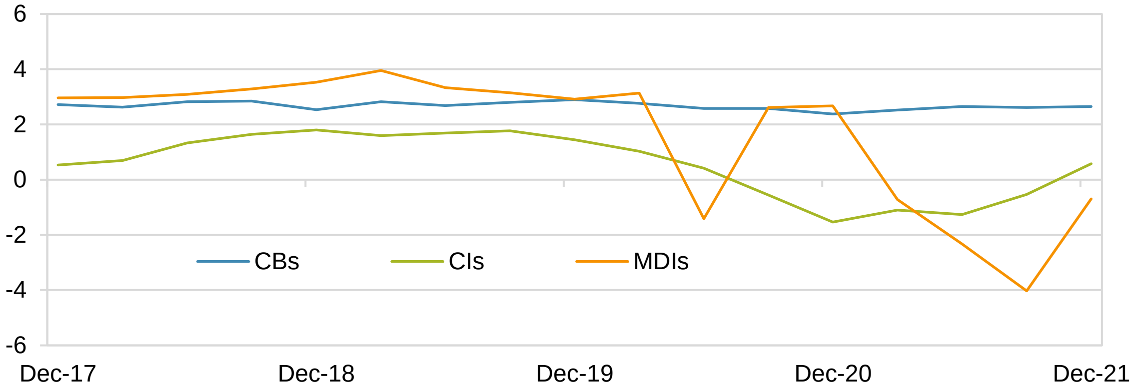
Uganda's banking sector resilience continued to improve during the year ended December 2021, supported by the gradual recovery in economic activity, strong capital and liquidity buffers held by the supervised financial institutions[1] (SFIs), and the effective policy measures implemented by the BOU. However, downside risks to financial sector performance and stability remain, including weaker-than-expected domestic and global economic growth, the potential reversal of foreign capital flows as interest rates rise in advanced economies, inflationary pressures, geopolitical tensions, and resurgence of the COVID-19 pandemic. Nonetheless, BOU will continue to buttress the financial sector with decisive policy measures to mitigate emerging risks. Notably, effective 1st January 2022, commercial banks and credit institutions (CIs) are required to comply with the Financial Institutions (Capital Buffers and Leverage Ratio) Regulations 2020 that aim to strengthen their capital resilience and solvency and, consequently, financial system stability.

3.2 Profitability and Capital Adequacy

The banking industry remained profitable during the year to December 2021. The aggregate net profits after tax (NPAT) for commercial banks increased by 26.9 percent to UGX 1,073.9 billion from UGX 846.2 billion in the previous year. The growth in earnings was largely driven by increases of 24.4 percent and 7.9 percent in interest income from Government securities and loans respectively. Similarly, CIs' NPAT improved from a loss of UGX 14.7 billion in the year to December 2020 to a profit of UGX 4.3 billion in the year to December 2021. On the other hand, the microfinance deposit-taking institutions (MDIs)' NPAT reduced from UGX 33.9 billion to a loss of UGX 36.8 billion over the same period following a 71.5 percent increase in MDIs' provisions for bad loans, mainly due to the impact of the COVID-19 pandemic on micro borrowers. Going forward, the main risk to SFIs' profitability remains the potential increase of non-performing loans (NPLs) and provisions as SFIs' loans may become permanently impaired as a result of the effect of the pandemic on economic activity.

[1] SFIs include commercial banks, credit institutions and microfinance deposit-taking institutions, all of which are supervised by Bank of Uganda.

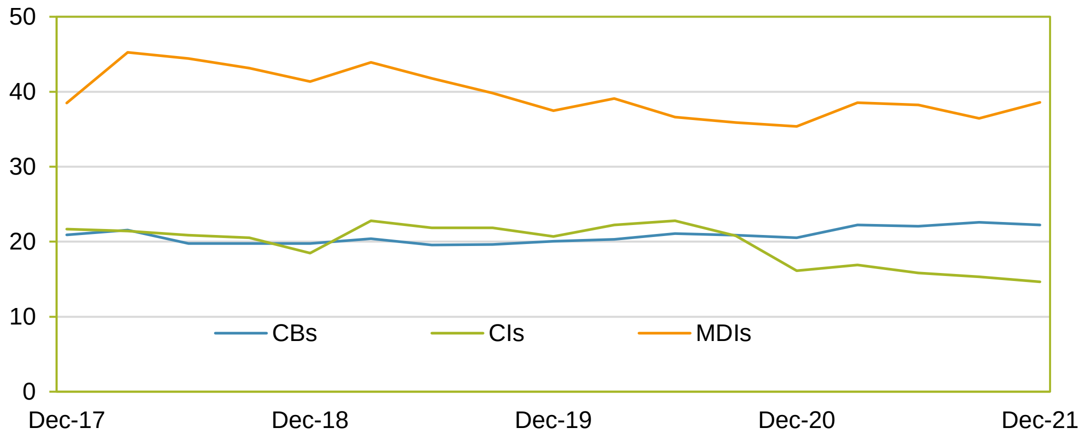
Figure 1: SFIs' aggregate average return on assets (percent)



Source: *BOU*

On aggregate, the banking sector held strong capital buffers as at end-December 2021, enhancing resilience to potential shocks. BOU's continued prudential policy restriction on the payment of dividends by SFIs has enabled them to retain more of their earnings towards organically building capital buffers. Except for one bank, all other commercial banks and MDIs met their respective paid-up capital, core capital-to-risk-weighted assets (RWA) (core capital adequacy ratio) and total capital-to-RWA (total capital adequacy ratio) minimum requirements of Shs.25bn, 10 percent and 12 percent respectively for commercial banks and Shs.0.5bn, 15 percent and 20 percent for MDIs. Further, all domestically systemic important banks (DSIBs) held sufficient capital buffers to meet their respective systemic risk buffer requirements, pursuant to the Financial Institutions (Capital Buffers and Leverage Ratio) Regulations, 2020. However, two CIs did not meet the minimum capital requirements as at end-2021. These CIs along with one commercial bank have been subjected to enhanced supervisory actions aimed at restoring capital adequacy.

Figure 2: SFIs' aggregate core capital ratios (percent)



Source: *BOU*

Box 1: The Financial Institutions (Capital Buffers and Leverage Ratio) Regulations 2020

Following the expiry of the one-year transition period on 31st December 2021, BOU has embarked on ensuring compliance with these Regulations. All commercial banks and credit institutions are required to maintain a capital conservation buffer of 2.5 percent to RWA over and above the minimum core and total capital adequacy ratio, as well as a prudential leverage ratio of 6.0 percent. In addition, the DSIBs are required to maintain a higher regulatory capital buffer in the range of 0.0–3.5 percent of RWA, over and above the regulatory ongoing core capital adequacy ratio requirement and shall also be subjected to more stringent supervision. These regulatory requirements are in line with the Basel III framework and shall enhance the banking institutions' solvency and resilience against potential shocks and thus minimize the likelihood of their impairment or failure. Based on the December 2021 capital positions, all the DSIBs held sufficient capital buffers to meet their respective systemic risk buffer requirements, and all commercial banks and CIs, with a few exceptions, maintained adequate capital buffers to comply with the capital conservation buffer and leverage ratio.

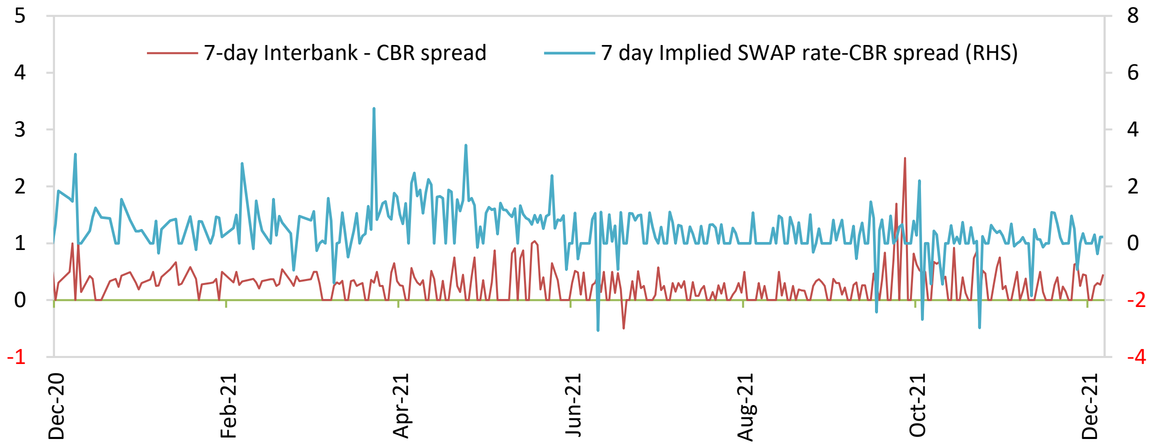
3.3 Funding and Liquidity

Funding and liquidity conditions remained stable, supported by improved deposit mobilization, SFIs' holding of strong liquidity buffers, and BOU policy measures, through the year ended December 2021.

Total customer deposits, which remain the main source of stable funding for commercial banks and constitute about 84 percent of total liabilities, grew by 6.8 percent from UGX 26.8 trillion to UGX 28.6 trillion. The aggregate cost of deposits reduced to 2.3 percent during the year under review, from 2.4 percent in the prior year. Notably, also, the proportion of foreign currency-denominated deposits to total deposits continued to decline, from 37.2 percent in December 2019 to 35.7 percent in December 2020 and to 35.2 percent in December 2021, reducing commercial banks' exposure to foreign exchange risk.

Similarly, customer deposits for MDIs increased from UGX 355.9 billion as at end-December 2020 to UGX 383.2 billion as at end-December 2021 while customer deposits for CIs reduced from UGX 593.7 billion as at end-December 2020 to UGX 226.3 billion as at end December 2021, largely due to the upgrade of Post Bank to commercial bank status.

Figure 3: Spreads between interbank market rates and the central bank rate (percent)

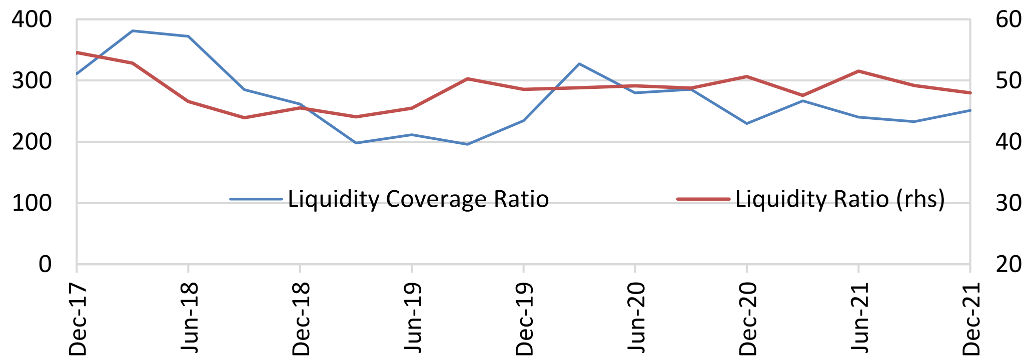


Source: *BOU*

In the domestic wholesale funding markets, through 2021, the cost of funds continued to trend well below the historically high levels experienced in 2020. For instance, the average spread between the 7-day interbank rate and the central bank rate (CBR) reduced from 0.48 percent in 2020 to 0.39 percent in 2021.

SFIs continued to hold strong liquidity buffers, supported by growth in deposits and holdings of Government Treasury securities. The banks' aggregate liquidity coverage ratio (LCR), which measures the ability of banks to withstand a 30-day liquidity stress period, increased from 229.6 percent in December 2020 to 251.2 percent in December 2021, well above the 100 percent benchmark, underlining strong resilience. All banks held sufficient high-quality liquid assets (HQLA) to meet their short-term liquidity obligations.

Figure 4: Banks' aggregate liquidity indicators (percent)



Source: *BOU*

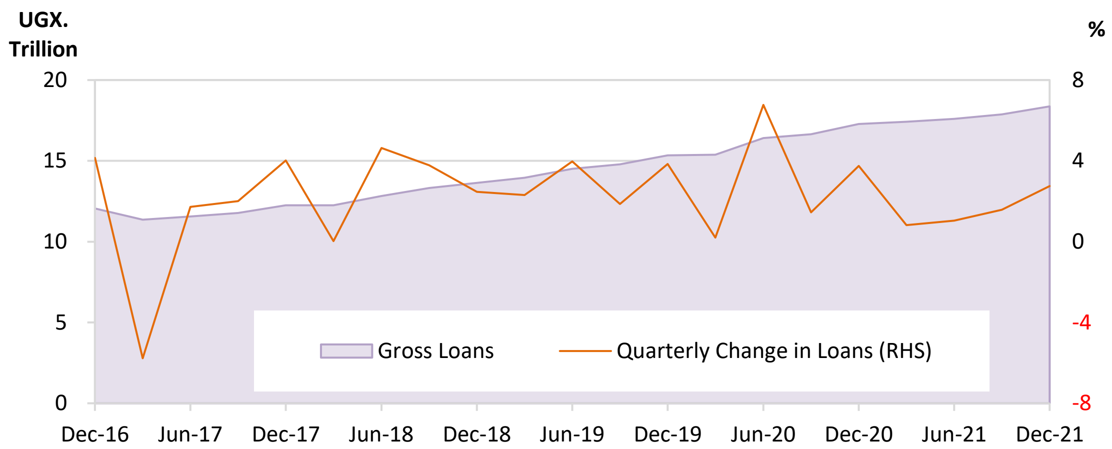
The aggregate commercial banks' ratio of liquid assets–to–deposits (liquidity ratio) stood at 48.0 percent in December 2021, with all banks individually meeting the minimum requirement of 20.0 percent. Relatedly, all CIs and MDIs met their respective regulatory minimum liquidity ratio requirements of 20.0 percent and 15.0

percent, with aggregate ratios of 51.8 percent and 68.9 percent, respectively in the period under review.

3.4 Lending activity and credit risk

Credit growth continued to recover during the year but remained moderate. Annually, total loans by all SFIs grew by 6.3 percent to UGX 18.4 trillion in the year to end-December 2021, compared to the 12.6 percent growth over the period ended December 2020.

Figure 5: SFIs' lending activity

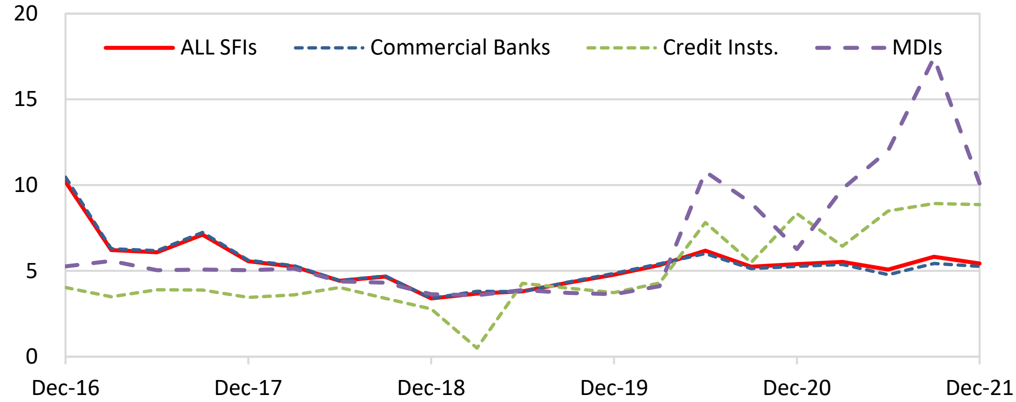


Source: *BOU*

Commercial banks registered the strongest growth in credit during the year at a rate of 8.8 percent, to UGX 17.7 trillion. Loans by MDIs increased by 2.3 percent while those by CIs contracted by 58.4 percent, reflecting the upgrade of Post Bank from a credit institution to a commercial bank. By sector, loans to all sectors increased, except to the business and social services sectors where credit contracted by 6.2 percent and 11.7 percent respectively. The reopening of the economy is expected to support recovery in credit intermediation, with improving demand for credit by borrowers and easing risk aversion by SFIs. This will further boost economic recovery and improve SFIs' performance going forward.

Credit risk remains elevated, but more adverse effects have been relatively moderated by the BOU credit relief measures program. Total SFIs' NPLs increased by 6.7 percent from UGX 933.3 billion as at end-December 2020 to UGX 995.9 billion as at end-December 2021. The increase in total SFIs' NPLs was mainly from MDIs and commercial banks, with increases of 64.8 percent and 8.5 percent respectively. In this regard, the aggregate NPL ratios for CIs and MDIs worsened from 8.3 percent to 8.9 percent and from 6.3 percent to 10.1 percent respectively, while the aggregate banks' NPL ratio remained unchanged at 5.3 percent.

Figure 6: SFIs' NPL ratios (percent)



Source: *BOU*

The increase in NPLs in the year was mainly from the transport and communication, social services and real estate sectors, whose NPLs increased by 155.2 percent, 118.2 percent and 109.4 percent, respectively. Furthermore, residential real estate property prices in Greater Kampala Metropolitan Area reduced by 4.5 percent during the year, from an increase of 5.2 percent in December 2020[2]. Therefore, recovery and stability in the valuation of real estate property, which collateralizes most of the SFIs' lending will minimize credit risk and support credit intermediation going forward. Additionally, to further minimize excessive leverage and potential risks from adverse movements in real estate prices, BOU shall maintain the prudential policy on loan-to-value ratio limit of 85.0 percent on residential mortgages and loans for land purchases.

3.5 Performance of restructured loans under the BOU Credit Relief Measures (CRM) program

The performance of loans restructured under the BOU CRM program points to a continued reduction in credit risk, enabled by the reopening of the economy and the ensuing recovery in economic activity.

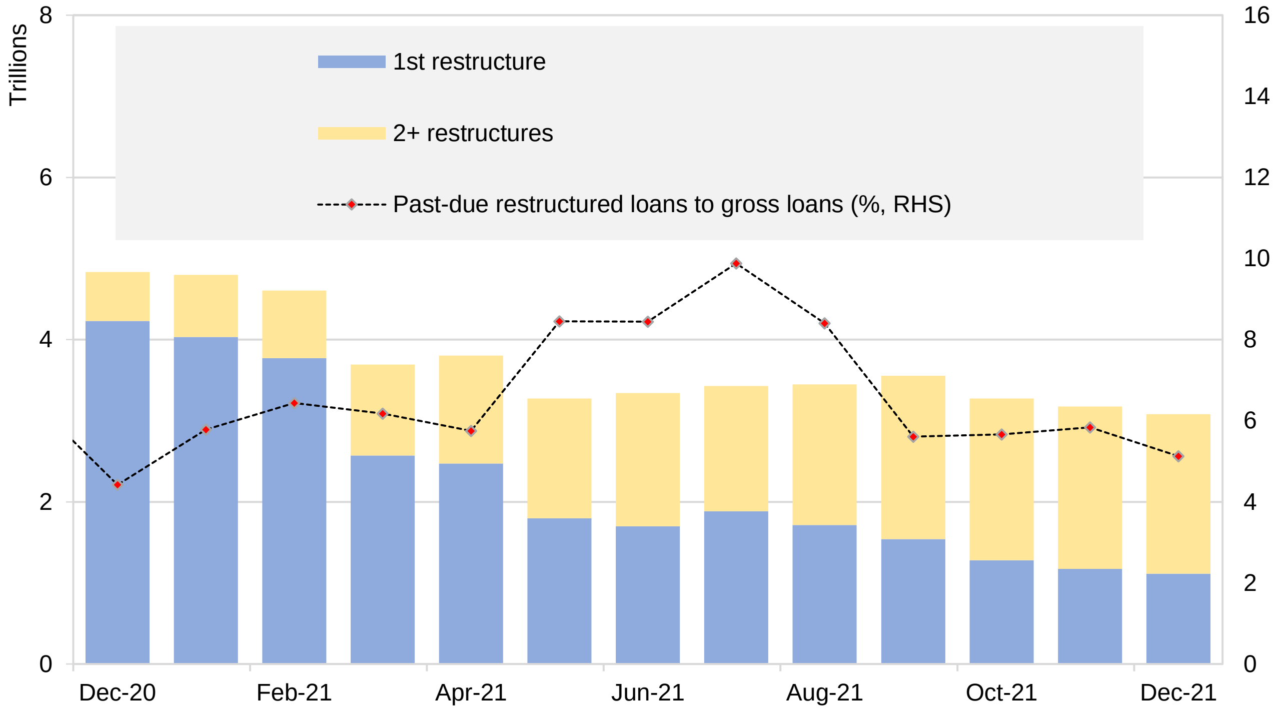
A cumulative total of UGX 7.2 trillion of credit relief has been issued, including the extension for the education and hospitality sectors. For the period April 2020 to December 2021, the stock of loans that remained under the CRM program was UGX 3.1 trillion. This represents a 35.4 percent reduction from the UGX 4.8 trillion stock of loans still under CRM as at end-December 2020. Consequently, the share of restructured loans to total loans in the industry reduced to 16.7 percent over the period to December 2021. However, underscoring the deterioration in asset quality during the period of review, the value of restructured loans under the CRM program that were in arrears by at least one instalment increased, from UGX 764.5 billion as

[2] Uganda Bureau of Statistics: ***Residential Property Price Index report***, December 2021.

at end-December 2020 to UGX 941.5 billion as at end-December 2021.

Nonetheless, stronger and sustained economic recovery should minimize credit risk and support credit intermediation, by improving borrowers' repayment capacity, and consequently, the SFIs' profitability and soundness.

Figure 7: Performance of loans restructured under the CRM program (UGX trillions)



Source: *BOU*

Box 2: Extension of the CRM Program for the education and hospitality sectors

On 1st November 2021, BOU extended targeted CRM for borrowers in the education and hospitality sectors for 12 months ending 30th September 2022, cognizant of the impact of the prolonged lockdown measures on both sectors.

Under the program, BOU gave all SFIs under its jurisdiction exceptional permission to provide credit relief at their discretion to borrowers in the education and hospitality sectors, that continue to be negatively affected by the COVID-19 pandemic.

The following guidelines apply in implementing the targeted CRM:

- In the 12 months to 30th September 2022, SFIs are permitted to grant one restructuring to credit exposures in the education and hospitality sectors that were extended before 1st April 2020 and had not been classified as loss as of that date.
- The duration of any credit relief so granted shall expire on or before 30th September 2022.
- The restructuring may be in the form of a repayment moratorium, extension of tenor, reduction of principal loan repayment instalment, reduction of applicable interest rate, or a combination of the above.
- The event of any restructuring granted will not be treated as an adverse change in the credit risk profile of the borrower for reporting to the Credit Reference Bureau nor will it affect the credit classification status or lead to a downgrade of such a credit facility, for the duration of the CRMs.
- This targeted forbearance shall however strictly be subject to the SFIs stopping (not postponing) accrual and compounding of interest on the said loans for the duration that the facility is under credit relief. In addition, SFIs will be required to waive penalties for late payment and fees for early redemption for these loan facilities during the period that they are under this extended credit relief.
- Consumer protection must be prioritized and SFIs must ensure full disclosure of the terms and conditions of the restructured credit facility. SFIs are required to maintain records of such credit exposures in a format that can be verified by BOU and should also obtain the borrower's written consent.

3.6 Summary of Systemic Risks

The risk dashboard (Table 3) summarizes the key drivers of systemic risks to Uganda's banking sector as at end-December 2021. Overall, near-term risks to financial stability remain elevated on account of macro, credit and operational risks. From the macro side, downside risks include tightening of monetary policy globally, supply-side shocks, and rising commodity prices. These could have adverse spill-over effects for Uganda's financial system and affect credit, market, and liquidity risk. The operations of the significantly important payment systems (SIPS) recorded notable growth in digital payments services, mainly driven by: the recovery and gradual normalization of the economy following the easing of COVID-19 restrictions; increased business activity due to the seasonality effects of the December festivities; a favourable policy environment, and evolving consumer behaviour. BOU continues to engage with banks and payment system providers in order to enhance safeguards against operational risks arising from the use of digital platforms.

However, the banking sector remains resilient to potential shocks, supported by strong loss absorbency capacity in form of liquidity and capital buffers, as well as prudential BOU policy measures.

Table 3: Direction of systemic risk as at end December 2021

Risk category	**Risk direction from previous**
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*

3.7 Outlook for Financial Stability and Supervisory implications

The outlook is for systemic risks to Uganda's financial system to remain elevated in the near term and shall depend on trends in global and domestic economic and financial conditions. BOU continues to closely monitor trends in systemic risks and the performance of SFIs taking into account the evolving economic and financial conditions and stands ready to implement further appropriate policy and supervisory measures to safeguard financial system stability.

Notably, to support the SFIs to build more resilience, BOU started implementing the Financial Institutions (Capital Buffers) Regulations 2020 and Basle II Framework, effective 01 January 2022.

Chapter 4: Non-Bank Financial Institutions Sector

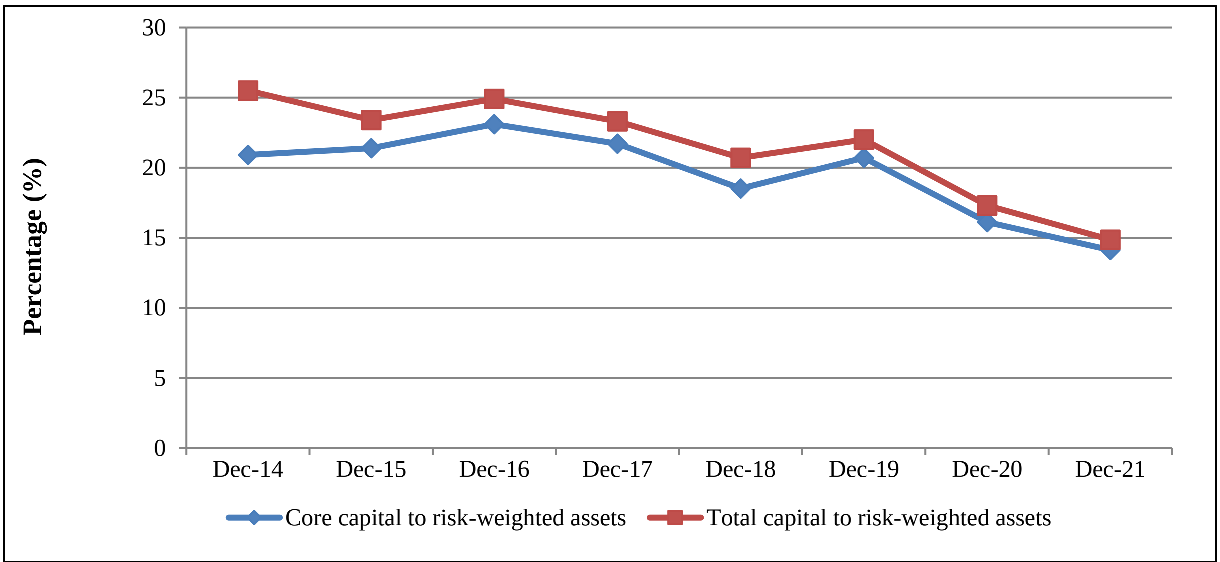
4.1 Credit Institutions

Licensed credit institutions reduced from five (5) to four (4) following the transformation of one into a commercial bank. Total assets held by the credit institutions subsector decreased by Shs.643.7 billion or 60.59 percent from Shs.1,062.5 billion in December 2020 to Shs.418.8 billion as of December 2021, largely on account of the transformation mentioned above. Net loans and advances dropped by Shs.338.8 billion or 59.0 percent to Shs.235.9 billion, while total deposits reduced by Shs.367.4 billion or 61.9 percent billion to Shs.226.3 billion over the review period.

Capital adequacy and liquidity

The core and total capital to risk-weighted assets (RWAs) ratios declined to 14.1 percent and 14.86 percent, from 16.1 percent and 17.3 percent reported as of December 31, 2020, respectively as depicted in Figure 6. Aggregate core capital stood at Shs.44.2 billion while total capital amounted to Shs.46.5 billion.

Figure 8: Capital Adequacy Indicators



***Source**: BOU*

Two credit institutions were undercapitalised and non-compliant with the statutory minimum core and total capital requirements of 10 percent and 12 percent respectively. The two institutions also failed to fulfil the capital conservation buffer requirement.

The aggregate liquid assets-to-total deposits ratio for credit institutions stood at 52.0 percent, which was above the statutory liquidity requirement of 20 percent. On the other hand, aggregate liquid assets held by the sub-sector decreased from Shs.351.3 billion to Shs.117.7 billion.

Asset Quality

The aggregate non-performing loans to total assets ratio deteriorated slightly from 8.1 percent as of December 31, 2020, to 8.6 percent as at December 31, 2021. The overall level of non-performing loans decreased from Shs.49.1 billion as of December 31, 2020, to Shs.21.7 billion.

However, the ratio of specific provisions-to-NPLs improved from 46.6 percent to 55.4 percent over the same period indicating an improvement in coverage for credit losses.

Earnings and Profitability

Credit Institutions' earnings improved over the period with a net profit of Shs.4.3 billion for the year ended December 31, 2021, compared to a net loss of Shs.14.7 billion reported for the previous period. Total income increased by Shs.23.1 billion or 11.4 percent while total expenses decreased slightly by Shs.0.96 billion or 0.5 percent over the review period. Interest income from loans and advances continued to be the major source of earnings for Credit Institutions and amounted to Shs.152.0 billion or 67.4 percent of total income.

All but one of the Credit institutions was profitable for the period ended December 31, 2021.

Microfinance Deposit-taking Institutions

There were four (4) Microfinance Deposit-taking Institutions as of December 31, 2021. Total assets held by the Microfinance Deposit-taking Institutions marginally increased by Shs.3.6 billion or 0.5 percent from Shs.743.3billion as of December 31, 2020, to Shs.746.9 billion largely due to an increase in investment in government securities of Shs.13.9 billion or 344.1 percent. Total liabilities decreased by Shs.1.3 billion or 0.2 percent from Shs.538.5 billion to Shs.537.2 billion as of 31 December 2021 mainly due to a decrease of Shs.28.6 billion or 27.4 percent in long-term borrowings.

Capital Adequacy

The aggregate core and total capital to risk-weighted assets ratios stood at 38.6 percent and 41.1 percent, compared to 35.4 percent and 38.1 percent, respectively as at end December 2020. Both ratios were above the statutory minimum requirements of 15 percent and 20 percent, respectively.

Asset Quality

The aggregate portfolio-at-risk ratio deteriorated from 6.3 percent in December 2020 to 10.1 percent in 2021 due to an increase in non-performing loans of Shs.16.7 billion or 64.8 percent. The ratio of specific provisions to non-performing loans stood at 75.6 percent, indicating adequate provisions to cover potential credit losses.

Earnings

The sub-sector registered a loss of Shs.5.1 billion during the year ended December 31, 2021, which was a deterioration from a net after-tax profit of Shs.19.8 billion recorded during the year ended December 31, 2020. The deterioration in profitability was on account of a significant increase in provisions for bad debts of Shs.22.1 billion or 163.7 percent during the period. Consequently, the return-on-assets (ROA) and return-on-equity (ROE) stood at negative 0.7 percent and negative 2.3 percent down from 2.7 percent and 10.0 percent, respectively, as of 31 December 2021.

Liquidity

The aggregate liquid assets-to-total deposits ratio stood at 68.9 percent, well above the statutory liquidity requirement of 15 percent. Total liquid assets held by the sub-sector increased by Shs.19.1 billion or 7.8 percent from Shs.244.8 billion as of December 31, 2020, to Shs.263.9 billion mainly due to an increase in investment in government securities. The ratio of total loans to total deposits stood at 73.3 percent, well within the 85 percent prudential limit.

4.2 Foreign Exchange Bureaus and Money Remittance Companies

As of December 31, 2021, the Forex Bureau and Money Remittance sub-sector comprised of 219 licensed Foreign Exchange Bureaus (326 outlets) inclusive of one Microfinance Deposit-Taking Institution licensed to do foreign exchange business and 89 Money Remitters (268 outlets) inclusive of three (3) Microfinance Deposit-taking Institutions licensed under the Foreign Exchange Act, 2004 to engage in money remittance business. During the year, BoU issued sixteen (16) foreign exchange bureaus and ten (10) money remittance licences.

Solvency of the sub-sector

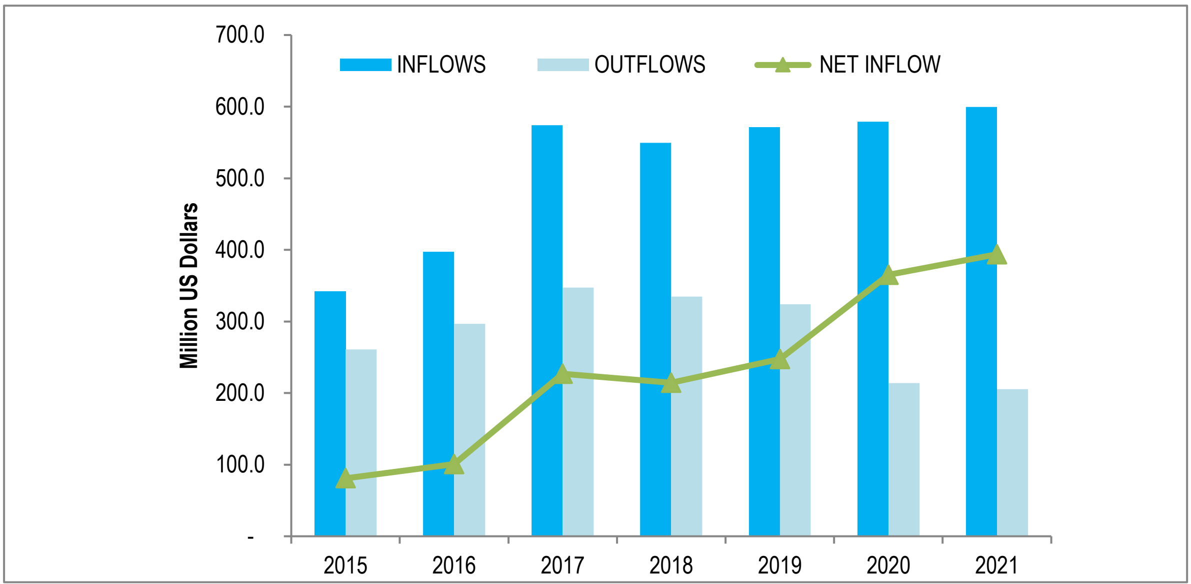
As of December 31, 2021, total capital and reserves held by the sub-sector stood at Shs.87.04 billion reflecting a growth of Shs.2.10 billion or 2.47 percent from Shs.84.94 billion as of December 31, 2020.

Profit before tax was Shs.9.85 billion, an increase of Shs.3.05 billion or 44.85 percent compared to Shs.6.80 billion in 2020. The increase in profitability was in part attributed to the opening of the business environment in 2021.

4.3 Money remittances

Money remittance inflows increased by 3.52 percent from USD 579.0 million for the year ended December 2020 to USD 599.37 million for the period ending December 2021. Outflows on the other hand decreased by 3.85 percent from USD 213.82 million to USD 205.59 million, as depicted in Figure 7.

Figure 9: Money remittances



***Source**: BOU*

Chapter 5: Implementation of the Basel II Capital Adequacy Framework

a) Introduction

Bank of Uganda (BOU) completed the implementation of the Basel I Capital Accord in September 2018 with the gazetting of the Financial Institutions (Capital Adequacy Requirements) Regulations, 2018.

On 11 November 2020, the Financial Stability Committee approved the roadmap for the transition from Basel I to the Basel II Capital Accord. Basel II comprises three Pillars namely, minimum regulatory capital requirements (Pillar 1), supervisory review process (Pillar 2) and market discipline (Pillar 3).

b) Progress of Implementation

i) Pillar 1 – Minimum Capital Requirements

The implementation process commenced with the issuance of guidelines to the Supervised Financial Institutions (SFIs) in July 2021 introducing the Pillar 1 minimum regulatory capital requirements covering credit, market and operational Risks using the Standardized Approach.

Under credit risk, SFIs will now be expected to assign risk weights ranging from 0%-150% to different asset classes in accordance with the external credit ratings of the counterparties. Under operational risk, the SFIs will compute the capital charge based on the business indicator component and the internal loss multiplier. SFIs are further expected to compile a database of historical operational losses for a period of ten years to facilitate the computation of the internal loss multiplier.

However, BOU had introduced the Market risk capital requirements in the Financial Institutions (Capital Adequacy Requirements) Regulations 2018. The Regulations incorporated the Basel II aspects contained in the Market Risk amendment issued by Basel in 2016. No further adjustments to market risk were thus required in the 2021 guidelines.

ii) Pillar 2 – Supervisory Review Process

Pillar 2 comprises two aspects namely the Internal Capital Adequacy Assessment Process (ICAAP) and the Supervisory Review Process (SREP). In July 2021, BOU issued guidelines for SFIs to implement the ICAAP, under which they will be expected to assess their capital adequacy in relation to their risk profile and develop a strategy for maintaining capital above the required needs.

There are three main areas which may be particularly suited for treatment under Pillar 2 in the ICAAP: i) risks considered under Pillar 1 but which are not fully captured by the Pillar 1 process such as credit concentration risk, ii) risks which are not considered in the Pillar 1 process such as interest rate risk in the banking book, business/strategic risk and iii) risks which are external to the bank such as business cycle effects. Pillar 2 also requires the Supervised Financial Institutions to implement a stress testing framework, the outcome of which should inform the need for additional capital.

Subsequently, the SFIs submitted their ICAAP reports to BoU on 31 October 2021 based on data as at 30 June 2021 and on 30 April 2022 based on data as at 31 December 2021.

BoU has now embarked on drafting the Guidelines for the Supervisory Review and Evaluation Process (SREP), to enable the assessment of the SFIs' ICAAPs as well as assigning capital add-ons to cater for the risk profile of each SFI. Under the SREP, BoU will evaluate the SFIs' internal capital adequacy assessments and strategies, as well as their ability to monitor and ensure their compliance with regulatory capital ratios. Appropriate supervisory action will be taken where BoU is not satisfied with the results of this process.

c) Next Steps

The next stage of the process involves the development of a framework and issuance of Guidelines for Pillar 3: Market Discipline. Once this is concluded, BOU will embark on an intensive training program to build internal capacity for the assessment of capital adequacy under Basel II. Training programs will also be conducted for the SFIs covering both board and executive management to ensure a proper understanding and implementation of the Basel framework.

Additionally, the Financial Institutions (Capital Adequacy Requirements) Regulations 2018 will be updated to incorporate the Basel II capital requirements. Bank of Uganda expects the banking sector to be fully compliant with the Basel II Capital Framework by 30 June 2024.

Conclusion

Following the re-opening of the economy, as the spread of the pandemic abated, the banking industry has experienced heightened operational and liquidity risks. This is on account of increased demand for digital products and the potential for deterioration in the quality of banks' assets, as the full impact of the pandemic may only materialize once all the CRMs put in place to support the real economy have been withdrawn. In view of these emerging trends, BOU shall continue to obtain additional independent assurance from external auditors on the effectiveness of cyber risk management frameworks to complement the ongoing on-site surveillance measures. Cognisant of the heightened credit risk, BOU as part of its supervisory work has highlighted to SFIs the need for a strong focus on robust credit risk management practices.

In line with its mandate, the recently established AML/CFT supervision unit at BOU shall ensure that SFIs have effective and functional mechanisms to address the Money Laundering and Terrorism Financing risks inherent to their conduct and operational context. And as a complement to the digitalization agenda within the banking industry, BOU is in the conceptualization phase for the application of Supervision Technology in the execution of its supervisory and regulatory mandate.

In tune with global standards, the ongoing implementation of Basle II will enable SFIs to assess the unique risks posed by their significant business activities in order to hold capital that is commensurate to their risk profiles.

As the global economic conditions evolve on account of the shocks emanating from the war in Ukraine that has led to commodity price increases and supply chain disruptions, BOU stands ready to take necessary policy measures to ensure that SFIs maintain a high loss absorbency capacity and minimize the impact of such adverse developments on the safety of the financial sector.

PART III: STATISTICAL APPENDICES

Appendix 1:Financial soundness indicators for commercial banks (*percentage*)

	2016	2017	2018	2019	2020	2021
Capital adequacy						
Regulatory capital to risk-weighted assets	19.8	23.2	21.6	21.0	22.3	23.7
Regulatory tier 1 capital to risk-weighted assets	17.3	20.9	19.8	19.3	20.7	22.2
Total qualifying capital to total assets	13.4	17.6	17.6	14.8	14.5	18.5
Asset quality						
NPLs to total gross loans	10.7	5.6	3.4	4.9	5.3	5.3
NPLs to total deposits	7.4	3.6	2.3	3.1	3.2	
Specific provisions to NPLs	60.4	54.6	54.1	43.7	45.0	42.7
Earning assets to total assets	67.3	71.9	69.1	69.7	69.2	68.7
Large exposures to gross loans	42.4	38.0	42.9	26.3	28.1	36.8
Large exposures to total capital	153.6	94.8	112.5	126.9	124.8	86.8
Earnings & profitability						
Return on assets	1.3	2.7	2.5	2.5	1.8	2.7
Return on equity	8.3	16.4	14.4	13.8	10.3	15.6
Net interest margin	12.9	11.6	11.1	11.3	10.0	10.4
Cost of deposits	3.5	2.8	2.3	2.6	2.4	2.3
Cost to income	84.9	74.0	73.9	76.5	79.8	71.8
Overhead to income	49.6	48.9	53.7	54.7	55.1	47.6
Liquidity						
Liquid assets to total deposits	51.5	54.6	45.5	48.6	50.8	48.0
Total loans to total deposits	70.8	64.1	66.0	63.2	60.8	61.9
Market sensitivity						
Foreign currency exposure to regulatory tier 1 capital *	8.5	-5.4	-7.5	7.9	-4.1	5.8
Foreign currency loans to foreign currency deposits	79.3	71.5	63.0	51.4	50.6	60.4
Foreign currency assets to foreign currency liabilities	99.2	92.4	94.1	91.6	99.1	98.9

**Net short open position if negative. Net long open position if positive.*
Source: Bank of Uganda

Appendix 2: Financial soundness indicators for CIs (*percentage*)

	2016	2017	2018	2019	2020	2021
Capital adequacy						
Core capital to risk-weighted assets	23.1	21.7	18.5	20.7	16.1	14.1
Total capital to risk-weighted assets	24.9	23.3	20.7	22.0	17.3	14.9
Provisions to core capital	11.9	9.9	9.4	9.5	23.5	27.1
Asset quality						
NPLs to total gross loans	4.0	3.5	2.7	3.6	8.1	8.6
Specific provisions to NPLs	60.0	50.0	45.0	41.5	46.6	55.4
Earnings & profitability						
Return on assets	0.1	0.5	1.7	1.1	-1.6	0.7
Return on equity	0.6	2.7	8.7	5.6	-9.0	4.3
Net interest margin	4.8	4.6	17.1	20.3	14.6	12.6
Cost of deposits	5.5	5.0	3.3	2.9	3.6	1.8
Cost to income	101.1	90.2	86.9	88.8	109.5	97.0
Liquidity						
Liquid assets to total deposits	52.3	45.2	34.1	48.4	59.2	52.0
Loans to deposits	76.3	83.2	84.6	118.7	96.8	104.2

Source: Bank of Uganda

Appendix 3: Financial soundness indicators for MDIs (percentage)

	2016	2017	2018	2019	2020	2021
Capital adequacy						
Core capital to risk-weighted assets	34.8	38.5	41.4	37.5	35.3	38.6
Total capital to risk-weighted assets	37.81	41.9	44.8	40.1	38.0	41.1
Provisions to core capital	10.4	8.5	6.5	7.0	10.9	15.7
Asset quality						
NPLs to total gross loans	5.3	5.0	3.6	3.6	6.2	10.1
Specific provisions to NPLs	68.3	64.1	67.5	67.9	66.2	84.2
Earnings & profitability						
Return on assets	3.09	2.9	3.5	3.1	2.6	-0.7
Return on equity	10.5	9.4	10.6	10.0	10.0	-2.3
Cost to income	86.8	87.8	85.7	87.5	87.9	101.2
Liquidity						
Liquid assets to total deposits	55.75	59.3	61.5	60.7	68.7	68.9
Loans to deposits	79.17	80.1	79.9	79.3	74.8	35.3

Source: Bank of Uganda

Appendix 4: Aggregated Statement of Financial position for Commercial banks

Shs. Billion, as at year end	2016	2017	2018	2019	2020	2021
ASSETS						
Cash & cash assets	810.8	1,109.0	1,293.4	1,318.3	1,623.2	1,553.2
Balances with BOU	2,858.7	2,544.5	2,784.0	3,331.4	3,599.32	3,952.1
Bank of Uganda securities	51.0	1,988.8	438.8	1,249.7	406.4	315.2
Due from financial institutions	2,594.3	2,049.0	2,958.4	3,203.9	4,162.2	4,620.1
Government securities	5,105.3	5,570.0	6,032.9	7,215.0	10,095.0	10,822.9
Total gross loans & advances	11,493.3	11,661.6	12,935.7	14,459.5	16,281.2	17,706.6
LESS: Provisions	820.2	410.5	273.8	347.9	465.2	510.6
Net loans & advances	10,673.0	11,251.1	12,661.9	14,111.6	15,816.0	17,196.0
Net fixed assets	838.3	819.0	854.4	1,161.0	1,139.3	1,143.7
Other assets	757.7	1,196.7	1,097.0	1,237.3	1,492.9	1,968.4
TOTAL ASSETS	**23,689.1**	**26,528.1**	**28,120.8**	**32,828.2**	**32,828.2**	**41,571.8**
LIABILITIES						
Deposits	16,235.7	18,181.1	19,595.7	22,870.6	26,775.8	28,604.5
Due to financial institutions	595.5	499.4	574.1	683.9	1,222.8	739.0
Administered funds	1,063.3	1,283.9	1,023.5	941.4	1,150.5	1,020.4
Other liabilities	2,132.9	1,890.3	2,403.7	2,712.2	2,679.8	3,710.3
TOTAL LIABILITIES	**20,027.4**	**21,854.7**	**23,597.0**	**27,208.1**	**31,828.8**	**34,074.2**
SHAREHOLDERS' FUNDS						
Paid-up capital	1,414.6	1,326.5	1,332.8	1,400.4	1,481.1	1,775.5
Share premium	145.9	347.8	347.8	1,177.7	1,763.0	1,847.6
Retained reserves	1,578.5	2,053.5	2,358.8	1,926.8	1,923.6	2,457.6
Other reserves	218.9	272.7	209.1	307.8	484.4	373.7
Profit – Loss (current year)	303.9	672.8	688.5	807.5	853.5	1,043.3
TOTAL SHAREHOLDERS' FUNDS	**3,661.8**	**4,673.3**	**4,937.0**	**5,620.2**	**6,505.5**	**7,497.6**
OFF BALANCE SHEET ITEMS						
Letters of Credit	337.2	348.6	383.4	417.7	596.3	692.9
Guarantees & performance bonds	2,548.1	3,176.4	3,561.0	3,913.7	3,545.9	3,785.3
Unused loans/overdrafts commitment	2,079.0	2,407.2	2,687.4	3,521.4	3,915.6	3,812.7
Other off balance sheet items	148.4	362.9	461.7	1,199.4	352.4	624.3
TOTAL OFF BALANCE SHEET ITEMS	**5,112.7**	**1,109.0**	**7,048.5**	**9,052.2**	**8,410.3**	**8,915.2**

Source: Bank of Uganda

Appendix 5: Aggregated Statement of Financial Position for CIs

Shs. Billion, as at year end	2016	2017	2018	2019	2020	2021
ASSETS						
Cash	18.6	23.5	22.9	25.9	31.4	3.3
Balances with institutions in Uganda	117.3	123.9	101.0	162.9	264.4	97.4
Balances with commercial banks outside Uganda	1.5	3.1	0.5	1.1	1.6	-
Investments	20.2	19.1	20.7	21.5	53.9	16.9
of which Government securities	20.2	19.1	20.7	21.5	53.9	16.9
Loans and advances (Net)	251.0	305.6	401.2	518.5	574.8	235.9
of which administered funds	-	0.4	14.6	14.1	21.3	8.3
Premises and fixed assets (Net)	35.7	41.3	60.2	93.3	92.2	32.2
Other assets	18.8	26.3	32.0	29.1	44.2	32.9
Total assets	**463.1**	**542.8**	**638.4**	**852.2**	**1,062.5**	**418.8**
LIABILITIES						
Total deposit liabilities to depositors	303.9	375.3	425.6	436.9	593.7	226.3
Loan Insurance Fund	4.8	5.1	6.5	35.6	34.6	31.1
Balances due to commercial banks/associated companies/residents/non-residents	30.0	24.5	36.2	116.3	173.1	56.4
Borrowings at Bank of Uganda	0.2					-
Administered funds	-	4.6	8.2	10.5	17.9	8.3
Other liabilities	25.6	26.3	33.7	86.6	72.8	24.6
Provisions	2.7	3.2	3.9	5.1	5.5	2.3
Capital	87.4	100.4	122.5	163.7	161.4	67.8
of which paid up capital	66.6	84.1	96.6	139.8	150.4	85.7
Profit for current year	(0.17)	2.7	10.6	9.1	(17.8)	1.5
Total liabilities and capital	**463.1**	**542.8**	**638.4**	**852.2**	**1,062.5**	**418.8**

Source: Bank of Uganda

Appendix 6: Aggregated Statement of Financial Position for MDIs Shs. Billion, as at year end

	2016	2017	2018	2019	2020	2021
ASSETS						
Notes and coins	10.2	11	14.1	15.4	16.8	17.7
Balances with institutions in Uganda	106.8	116	134.2	159.6	230.9	228.3
Government securities	2.8	1.5	2.7	0.08	4.0	17.9
Net loans outstanding	**286.7**	**273.8**	**304.7**	**362.2**	**392.7**	387.3
Inter branch/ due from own offices	-	-	-	0.007	0.007	
Net fixed assets	34.4	36.9	44.6	68.6	70.7	69.4
Long-term investments	-	0.1	0.1	0.1	0.1	0.2
Other assets	28.6	30.5	21.2	24.9	27.7	26.1
Total assets	**469.5**	**469.8**	**521.5**	**631.2**	**743.2**	**746.9**
LIABILITIES						
Deposit liabilities	204.1	214.7	234.8	284.5	355.9	383.2
Loan insurance fund	7.3	7.9	7.9	7.8	7.0	4.4
Borrowings	70.6	53.8	58.2	72.3	104.5	76.0
Other liabilities	31.2	24.7	22	48.5	52.9	55.7
Grants/deferred income	6.3	6.9	10.5	12.6	8.3	9.2
Inter branch/ Due to own Offices	-	-	-	-	-	-
Other long-term Liabilities	-	-	-	0.8	-	-
Total liabilities	**319.5**	**308**	**333.4**	**435.1**	**538.4**	**528.5**
FINANCED BY:						
Capital	142.5	153.3	179.3	196.1	204.7	209.7
Subordinated debt	7.7	8.5	8.5	8.5	9.6	8.7
Preference shares	-	-	-	-	-	
Total liabilities & equity	**469.7**	**469.8**	**521.5**	**639.7**	**639.7**	**746.9**

Source: Bank of Uganda

Appendix 7: Aggregated Statement of Comprehensive and other income for Commercial banks

Shs. billion; *annualised*	2016	2017	2018	2019	2020	2021
INCOME						
Interest income						
Advances	1,868.8	1,808.0	1,903.0	2,157.0	2,232.7	2,412.8
Government securities	689.3	681.9	609.0	729.2	856.1	1,065.3
Deposits abroad	17.3	22.3	34.9	65.2	42.7	28.3
Other interest income	117.7	151.5	161.4	125.2	152.6	161.0
Charges, fees & commissions	429.9	533.8	518.0	581.1	586.9	253.6
Foreign exchange income	219.7	170.6	252.9	243.3	302.1	355.5
Other income	261.1	323.7	264.3	357.4	350.7	882.8
TOTAL INCOME	**3,603.8**	**3,691.9**	**3,743.6**	**4,258.5**	**4,523.8**	**5,159.2**
EXPENSES						
Interest expense on deposits	539.9	480.3	426.2	529.2	597.5	631.6
Other interest expenses	169.3	157.7	144.5	157.7	157.8	154.2
Provisions for bad debts	638.2	295.4	186.6	176.8	327.8	451.9
Salaries, wages, staff costs	723.9	773.9	834.4	912.0	929.1	973.9
Premises, depreciation, transport	322.2	328.9	349.6	371.8	411.1	420.9
Other expenses	664.6	704.2	824.0	914.1	966.5	611.6
TOTAL EXPENSES	**3,057.8**	**2,740.3**	**2,765.3**	**3,061.7**	**3,389.8**	**3,244.0**
Extraordinary credits (charges)	0.0	0.0	0.0	0.0	0.0	0.0
Net profit before tax	546.0	951.6	976.1	1,196.8	1,133.8	1,442.6
LESS: Corporation tax	243.9	278.7	284.3	309.4	285.3	368.7
NET PROFIT AFTER TAX	**302.1**	**672.9**	**691.8**	**887.5**	**848.5**	**1,073.9**

Source: Bank of Uganda

Appendix 8: Aggregated Statement of Comprehensive and other income for CIs

Shs. billion; *annualised*	2016	2017	2018	2019	2020	2021
INCOME						
Interest on loans and advances	67.6	73.5	89.8	155.3	133.9	152.0
Interest on government securities	3.6	2.9	2.1	2.0	3.6	7.3
Other interest income	10.9	2.1	1.8	17.5	24.6	26.2
Total interest income	82.0	90.3	107.2	174.9	162.2	185.5
Total non-interest income	28.4	34.5	42.2	38.7	40.1	39.84
TOTAL INCOME	**110.5**	**124.8**	**149.4**	**213.6**	**202.3**	**225.38**
EXPENSES						
Total interest expense	15.8	16.9	17.8	32.1	45.8	45.71
Provisions for bad debts	6.4	8.4	6.4	10.5	23.8	22.08
Salaries & other staff costs	39.3	33.9	39.0	84.1	83.7	77.73
Other non-interest expense	47.4	38.3	44.3	73.5	68.3	76.11
TOTAL EXPENSES	108.9	120.7	134.5	200.18	221.6	221.62
Taxation	3.7	2.3	4.3	5.6	4.5	6.53
NET INCOME	**(2.1)**	**1.8**	**10.6**	**9.1**	**(14.7)**	**4.31**

Source: Bank of Uganda

Appendix 9: Aggregated Statement of Comprehensive and other income for MDIs

Shs. billion; *annualised*	2016	2017	2018	2019	2020	2021
INCOME						
Total credit income	139	141	145	160	160	153.3
Total other income	22.8	24.3	23.1	29.8	33.8	41.7
GROSS FINANCIAL INCOME	161	166	168	190	194	**195.0**
EXPENSES						
Total financial expenses of lending funds	31.4	29.9	24.6	29.9	41	45.2
Provision for bad debts	12.3	11.5	8.4	9.9	13.5	35.6
Net financial income	118	124	135	150	139	**114.2**
Total operating expenses on financial services	100	105	112	128	115	120.7
NET INCOME FROM OPERATIONS	17.6	19.2	23	23	24	**(6.5)**
Total grant income for financial services	1.3	0.6	0.2	0.7	1.3	2.3
Total grant income for non-financial services	-	0.2	-	-	-	
Income from non-financial services	0.9	-	0.9	0.5	0.01	2.0
Total operating expenses on non-financial services	-	0.2	0.6	-	-	-
Net operating profit/loss from non-financial services	0.9	0.2	0.3	0.5	0.01	**2.0**
NET PROFIT FOR THE PERIOD	21.8	20.3	24.2	23.9	25.2	(2.3)

Corporation tax	7.6	6.5	6.2	6.1	5.5	2.8
NET PROFIT AFTER TAX	14.1	13.8	17.9	17.8	19.7	5.1
RETAINED EARNINGS	53.7	61.1	72.5	87.7	99.1	117.3

Source: Bank of Uganda

Appendix 10: Credit Reference Bureau Statistics

	2017	2018	2019	2020	2021
Branches on FCS	593	606	639	641	630
Branches on CRB	559	551	591	598	603
Cumulative Financial Cards	1,503,324	1,639,235	1,785,512	1,968,620	2,157,828
Number of Enquiries (During year)	596,406	1,034,706	1,236,126	810,782	975,238

Appendix 11: Risks faced by Supervised Financial Institutions

Supervised financial institutions face a number of risks, which require effective risk management. BOU, through risk-based on-site inspection, monitors risk management practices at SFIs. Some of the risks faced by SFIs include, but are not limited to the following:

Strategic risk emanates from the current and prospective impact on an SFI's earnings and capital arising from poor business decisions, improper implementation of decisions or lack of responses to industry, economic or technological changes.

Credit risk is the likelihood that payments may be delayed or not paid at all, which can cause cash flow problems and impact a supervised financial institution's liquidity. It may arise when a debtor is unable to pay interest or principal according to the terms of a credit agreement.

Liquidity risk arises when an SFI is unable to fulfil its obligations to creditors or depositors as and when they fall due without undue cost. It usually arises from a mismatch in the asset-liability maturity structure of a supervised financial institution.

Operational risk arises from inadequate or failed internal processes, people and systems or external events. The evaluation of operational risk involves an assessment of both Board and Senior Management oversight on operational risk, policies and procedural manuals, internal control environment and management information systems.

Market risk arises from changes in market prices. Market prices include interest rates, exchange rates, equity prices or any other market price. Specific labels often attach to risk arising from movement in such prices as interest rate risk, and exchange rate risk, among others. A supervised financial institution may experience loss when the change in a market price is unfavourable to its position.

Compliance risk is the likelihood of legal or regulatory sanctions, material financial loss, or loss to reputation an SFI may suffer as a result of its failure t comply with laws, regulations, prudential guidelines, supervisory recommendations and directives, rules, internal policies and procedural guidelines and codes of conduct applicable to its banking or non-banking activities.

The task of supervision by BOU is to monitor and assess the appropriateness of risk management at supervised financial institutions, and where necessary recommend corrective action to enhance risk management practices. However, BOU is not ultimately responsible for risk management at SFIs