UGANDA BANKING SECTOR

Consolidated Financial Performance Analysis, 2021–2025, with Quarterly Update to March 2026

Industry-Level Study – UBA members (Tier 1, 2 and 3)

AT A GLANCE (Tier 1 Banks, 2021–2025)

+12.4% p.a. **Total Income CAGR** Shs 5.18tn → 8.26tn	**+13.6% p.a.** **Net Profit CAGR** Shs 1.30tn → 2.17tn
7.0% → 3.4% **Industry NPL Ratio, 2025** Marked improvement	**25.7%** **Total Qualifying Capital / RWA, 2025** vs. 12% minimum

Office of the Chief Economist, Uganda Bankers' Association

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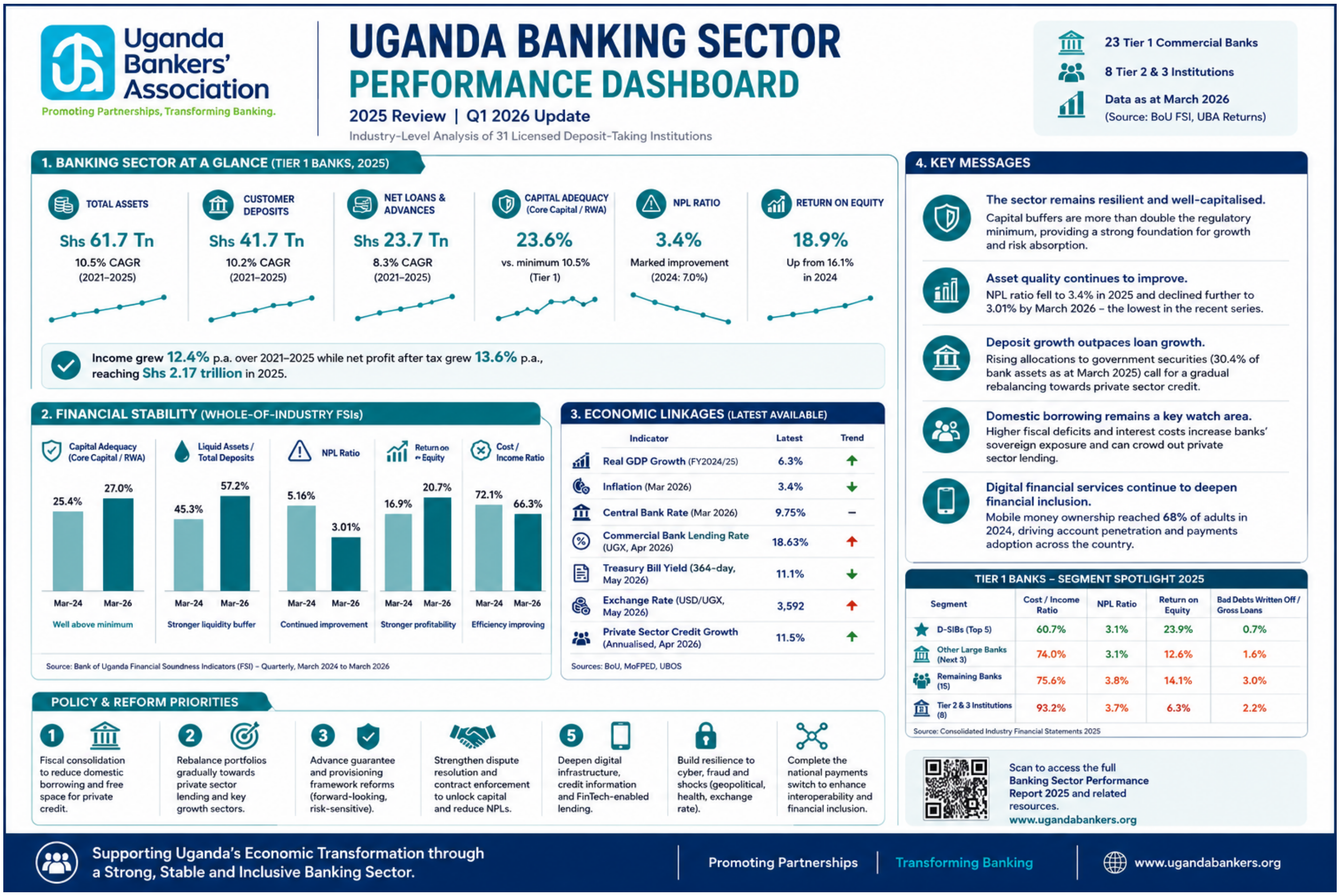
Executive Infographic Summary

The infographic below provides an at-a-glance visual summary of the report's headline findings, updated to reflect the sector's Q1 2026 performance.



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Executive Summary

Uganda's Tier 1 banking industry (23 commercial banks and 8 Tier 2/3 financial institutions reporting in the consolidated return) closed 2025 on a materially stronger footing than at any point since 2021. Total industry income grew at a compound annual rate of approximately 12.4% over the period, while net profit after tax grew faster still, at roughly 13.6% per annum, reaching Shs 2.17 trillion in 2025 (Figure 1). Asset quality improved sharply, with the sector-wide non-performing loan (NPL) ratio falling from 7.0% in 2024 to 3.4% in 2025 — a trend Bank of Uganda's own March 2026 Financial Stability Review independently confirms, reporting the industry NPL ratio at 3.2% in December 2025 and 3.01% in March 2026, with the annual figure cited here reflecting this study's own consolidated year-end measure. This improvement in the ratio was accompanied by a sharp decline in absolute write-offs, which had peaked at Shs 683.7 billion in 2024 before falling to Shs 351.8 billion in 2025.

> *CAGR is computed on reported nominal Uganda-shilling industry totals for 2021–2025; unless otherwise stated, figures are presented as reported and are not inflation-restated. This distinction matters because the report is diagnostic of sector performance in reported financial terms rather than a real-terms purchasing-power analysis.*

Balance sheets expanded broadly in line with income: total assets grew at roughly 10.5% per annum over the five years to reach Shs 61.7 trillion, funded predominantly by a fast-growing deposit base. The composition of that balance sheet is, however, shifting: a growing share of assets is held in government securities and other liquid investments rather than customer loans, a trend examined in detail, alongside Uganda's sovereign-bank exposure relative to regional peers, in Section 4. Profitability ratios improved in tandem – return on equity rose to 18.9% in 2025 from 15.1%–17.3% in the preceding three years – while the cost-to-income ratio, though still above regional comparator norms, improved from 71–74% in 2022–2024 to 66.9% in 2025.

Tier 2 & 3 institutions (8 credit institutions and microfinance deposit-taking institutions) grew their combined balance sheet faster than Tier 1 banks over 2022–2025, but from a much smaller base (Figure 9), and continue to run loan/deposit ratios above 100% – implying reliance on borrowed funds rather than customer deposits to fund lending, a structural feature relevant to the collateral, guarantee, and provisioning treatment of this segment, which remains a key area for policy reform discourse between the industry and Bank of Uganda.

The industry remains only moderately concentrated on standard measures (Section 9): the five largest institutions hold approximately 55.5% of industry assets and the Herfindahl–Hirschman Index sits at approximately 890 on a 0–10,000 scale, below the 1,500 threshold conventionally used to denote an unconcentrated market – though no institution-level figures are disclosed in this report, consistent with the industry-level scope of this study.

This update also cross-validates the 2021–2025 industry trend against independent external sources and extends it into 2026. Bank of Uganda's own quarterly Financial Soundness Indicators, released to March 2026, show the improvement in asset quality, profitability and capital adequacy continuing beyond 2025 rather than reversing. The IMF's 2026 Post-Financing Assessment confirms the sector's resilience while quantifying its sovereign dimension: government securities represented approximately 30.4% of banking-sector assets as of March 2025, placing Uganda 4th among Sub-Saharan African countries on this measure of sovereign-bank exposure. The World Bank's Public Finance Review (June 2026) corroborates the wider fiscal backdrop of widening deficits and rising public debt against which this sovereign exposure should be read.

> *IMF debt-sustainability analysis notes that banks' holdings of government debt rose from 21% of total assets in 2019 to about 30% by March 2025, characterising the trend as a strengthening sovereign-bank nexus that can keep interest rates elevated and dampen private-sector credit growth.*

Two further Bank of Uganda publications released in July 2026 extend this cross-validation closer to the present. The Bank's State of the Economy Report (June 2026) shows whole-of-industry asset quality and credit growth continuing to improve into April 2026 — the non-performing loan ratio easing to 3.04% and annualised private sector credit growth rising to 11.5% — even as the Bank flags a more uncertain policy environment stemming from the Middle East conflict, a weaker shilling, and an emerging domestic Ebola outbreak (Bank of Uganda, 2026d). Set against this, the Bank's Quarter

Four FY2025/26 Bank Lending Survey points to a more cautious posture ahead: banks expect to tighten credit standards to enterprises further while continuing to ease standards to households in the quarter to September 2026, alongside a marked rise in expected default rates on both segments (Bank of Uganda, 2026a) — a forward-looking signal that qualifies, without reversing, the improving trend documented in this report. This favourable run has come alongside renewed exchange-rate pressure since the Middle East conflict broke out in March 2026.

The harder story sits on the fiscal side. Higher public spending, limited access to concessional financing, and growing reliance on costlier domestic borrowing have pushed the fiscal deficit toward 6.9% of GDP in FY2025/26, with debt-service costs now absorbing more than a third of government revenue – a dynamic that has made banks an increasingly important source of deficit financing.

The industry itself comprises 23 Tier 1 institutions and 8 Tier 2/3 institutions (Section 1.0). Section 1.0 below sets out the macroeconomic and regulatory backdrop against which this diagnostic is presented.

1.0 Background/Introduction

Uganda's banking industry enters the second half of the 2020s against a macroeconomic backdrop of post-pandemic recovery, persistent inflationary pressure, and a widening fiscal deficit that has drawn increasingly on domestic bank financing. Real GDP growth has held up relative to regional peers, but the financing of that growth has shifted: government borrowing needs have grown faster than the domestic revenue base, pushing the fiscal deficit toward 6.9% of GDP in FY2025/26 and debt-service costs to more than a third of government revenue (Ministry of Finance, Planning and Economic Development, 2026). Because commercial banks are among the largest holders of government securities, this fiscal trajectory is not only a public-finance question: it bears directly on private-sector credit supply, balance-sheet composition and the pace of financial deepening documented throughout this report, particularly in Section 4.

The regulatory environment has evolved alongside this fiscal backdrop. Bank of Uganda's prudential supervision has anchored the asset-quality and capital-adequacy performance reported in Sections 5 and 7, while a parallel policy discourse between the industry and the regulator on credit guarantees and loan-loss provisioning has gathered momentum, motivated in part by the procyclicality concerns associated with expected-credit-loss accounting under IFRS 9 (Section 5) and by the funding structure of smaller institutions (Section 8). This discourse underpins several of the reform pathways set out in Section 11.

The industry itself comprises 23 Tier 1 commercial banks and 8 Tier 2 and 3 credit institutions and microfinance deposit-taking institutions reporting into the consolidated industry return underlying this analysis. Consistent with the industry-level, anonymised basis of this study, findings are presented in aggregate or by segment rather than by institution, except where a designation, such as Domestic Systemically Important Bank status, is already a matter of public regulatory record.

Against this backdrop — a resilient but fiscally exposed macroeconomy, an active regulatory reform agenda, and a 31-institution industry at varying stages of scale and digital maturity — this report sets out an evidence-based diagnostic of the sector's financial performance and the structural shifts under way between 2021 and 2025, cross-validated where possible against Bank of Uganda, IMF and World Bank data extending into 2026.

2. Data Scope and Methodology

This analysis is based on the Consolidated Industry Financial Statements 2025 submitted to the Uganda Bankers' Association. The dataset covers two distinct tiers of the financial sector/UBA membership: a five-year (2021–2025) series for 23 Tier 1 commercial banks, and a four-year (2022–2025) series for 8 Tier 2 and 3 credit institutions and microfinance deposit-takers. All figures are in Million Uganda Shillings as reported.

This is an industry-level study: all figures, charts and commentary in this report are presented on a consolidated or anonymised industry basis, with market structure and asset concentration (Section 9) referenced by rank rather than by name. Year-on-year percentage changes and five-year compound annual growth rates (CAGR) presented throughout this report are derived from the reported figures rather than restated or adjusted.

The analysis is descriptive and diagnostic in nature. Where the industry's own trend is checked against or contrasted with external empirical or regulatory sources, in-text citations are provided, with full references listed in the References section at the end of this report.

3. Income Statement Performance

Total industry income for Tier 1 banks rose from Shs 5.18 trillion in 2021 to Shs 8.26 trillion in 2025, an increase of roughly 60% over the period, or 12.4% per annum on a compound basis, as illustrated in Figure 1. Growth was broad-based across income lines, but the fastest-growing components were interest income on marketable/trading securities

(16.2% CAGR) and foreign exchange income (22.6% CAGR), reflecting both a larger securities book and more active treasury operations across the industry. Interest income on loans and advances, the largest single income line, grew more moderately at 10.0% CAGR, broadly tracking loan-book growth.

Total expenses grew more slowly than income (11.5% CAGR), aided by a marked decline in loan-impairment provisions – down from Shs 574 billion in 2021 to Shs 172 billion in 2025 – consistent with the improving asset-quality trend discussed in Section 5. The combined effect, visible in Figure 1, was a net profit after tax that more than tripled the growth rate of total expenses, rising from Shs 1.30 trillion in 2021 to Shs 2.17 trillion in 2025.

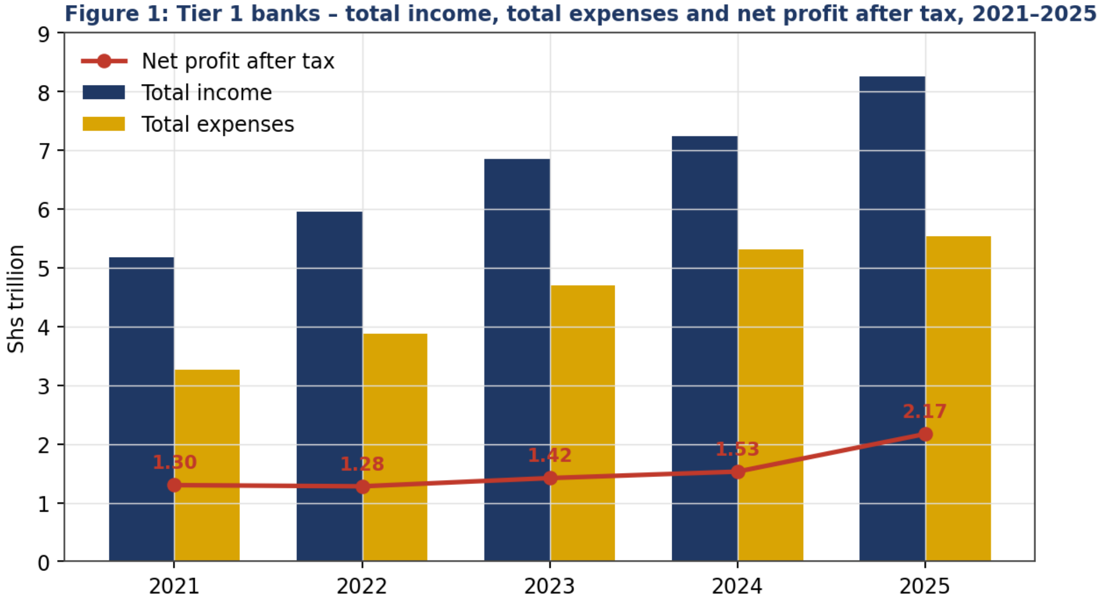

Figure 1: Tier 1 banks – total income, total expenses and net profit after tax, 2021–2025

4. Balance Sheet Growth, Asset Composition and Sovereign Exposure

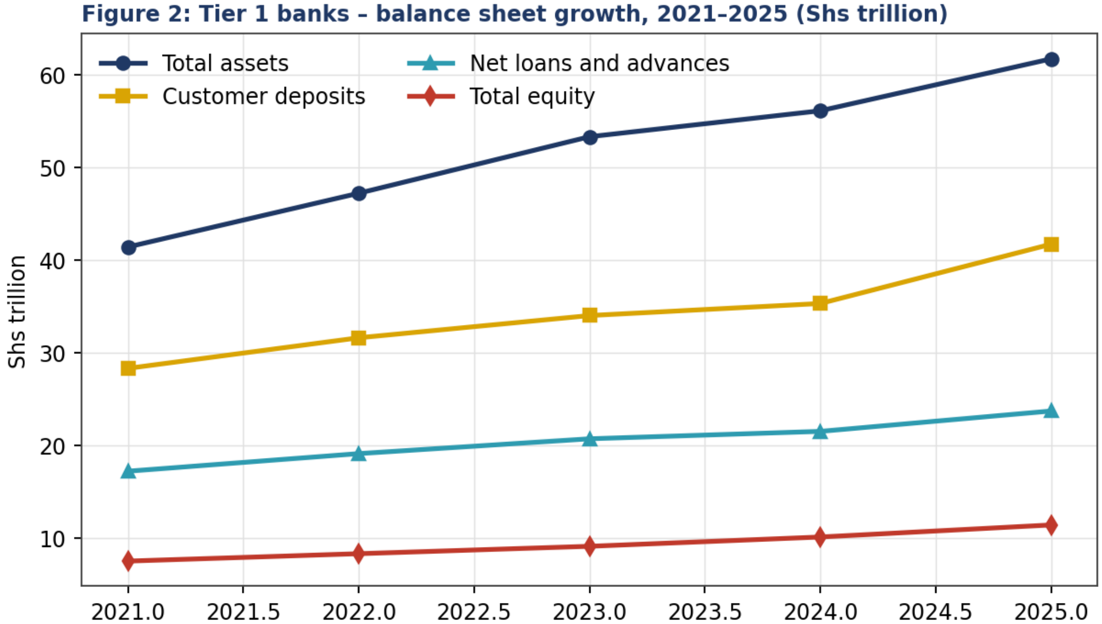

Figure 2: Tier 1 banks – balance sheet growth, 2021–2025 (Shs trillion)

Tier 1 bank balance sheets grew from Shs 41.4 trillion in 2021 to Shs 61.7 trillion in 2025 (10.5% CAGR), as shown in Figure 2. Net loans and advances to customers grew more slowly than total assets (8.3% CAGR based on the 2021–2025 range), while customer deposits grew somewhat faster (10.2% CAGR), pointing to an industry that is accumulating liquidity – including a marked build-up in cash and balances with Bank of Uganda and in financial investments – at a faster pace than it is deploying it into new lending. This pattern is broadly consistent with commentary on the 2025 sector, which describes Ugandan banks pursuing disciplined lending and diversifying earnings toward government securities and transaction income rather than credit expansion alone (Kasi Insight, 2026).

Total equity grew at 11.0% CAGR over the period, slightly ahead of total assets as also seen in Figure 2, which is consistent with the profitability improvements discussed in Section 6 and supportive of the sector's capital buffers (Section 7).

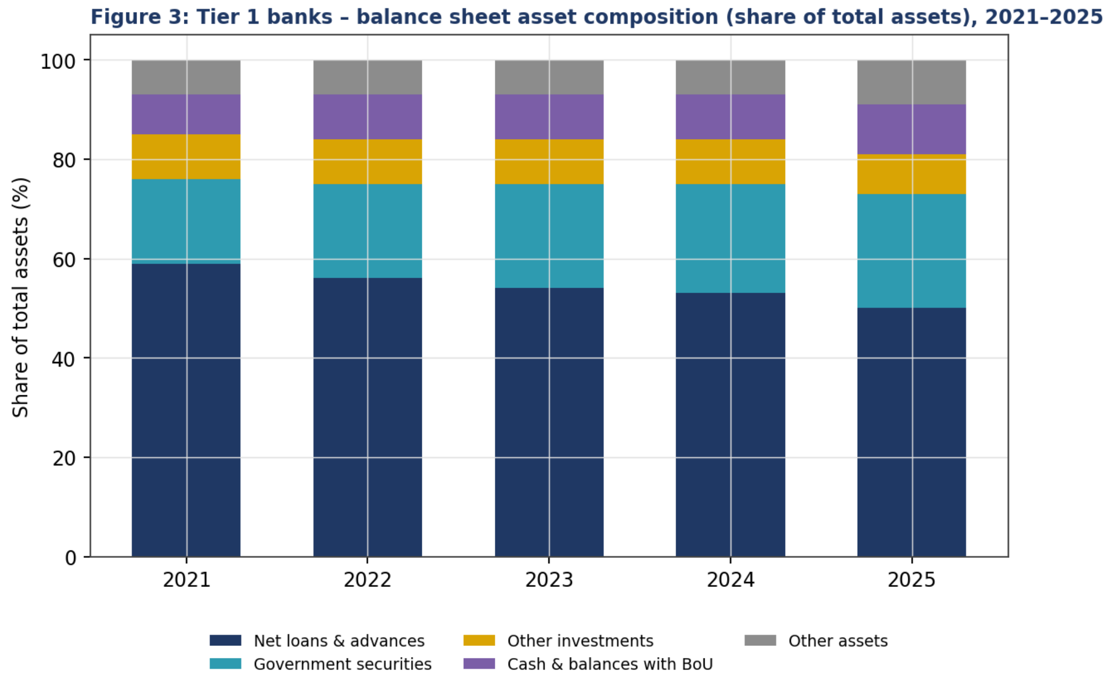

Figure 3: Tier 1 banks – balance sheet asset composition, 2021–2025 (share of total assets)

Figure 3 sets out this shift in asset composition directly. Net loans and advances remain the largest single asset class, but their share of the balance sheet has declined as marketable/trading securities and financial investments have grown faster: together, government securities and other investments rose from an estimated 26% of total assets in 2021 to around 31% in 2025, while cash and balances with Bank of Uganda also increased. Bank of Uganda's own quarterly Financial Soundness Indicators confirm this from the whole-of-industry side: the ratio of total loans to total assets across all licensed deposit-taking institutions fell from 41.2% in March 2024 to 37.3% in March 2026, while customer deposits held broadly steady at 66–69% of total assets over the same period, and liquid assets to total assets rose from 30.7% to 37.9% (Bank of Uganda, 2026b). This is consistent with the income-statement finding in Section 3 that interest income on marketable/trading securities grew faster (16.2% CAGR) than interest income on loans and advances (10.0% CAGR).

The IMF's 2026 Post-Financing Assessment for Uganda provides an external, independent validation of this asset-composition trend and quantifies its sovereign dimension. As of March 2025, government securities represented approximately 30.4% of banking-sector assets, with exposures particularly concentrated among a few mid-tier banks, where sovereign holdings reach 50–60% of total assets. By this measure, Uganda ranked fourth regionally in 2024 - above the Sub-Saharan African average — and the ratio of banks' government claims to their private-sector claims has been trending upwards since 2020 (International Monetary Fund, 2026). The IMF characterises this deepening sovereign-bank nexus as not yet an immediate financial-stability risk, given that a recent stress test found all banks remain well-capitalised under an adverse interest-rate shock, but flags it as warranting continued monitoring and a gradual rebalancing of bank portfolios to reduce vulnerabilities and limit further crowding-out of private credit.

> *IMF debt-sustainability analysis notes that banks' holdings of government debt rose from 21% of total assets in 2019 to about 30% by March 2025, characterising the trend as a strengthening sovereign-bank nexus that can keep interest rates elevated and dampen private-sector credit growth.*

This cross-validated finding is directly relevant to two observations made elsewhere in this report:

- First, it offers an external explanation for the widening gap between deposit growth (10.2% CAGR) and loan growth (8.3% CAGR) documented above: a growing share of industry funding is being channelled into sovereign paper rather than private credit.
- Second, it adds context to the Tier 2 & 3 funding structure discussed in Section 8 – institutions whose loan/deposit ratios already exceed 100% are operating in an industry-wide environment where the largest, most systemically important banks are themselves absorbing a growing share of government financing needs, reinforcing the case (Section 11) for continued attention to guarantee and provisioning frameworks that support credit to the real economy alongside sovereign financing.

Because bank asset composition and the sovereign-bank nexus described above are shaped by the wider fiscal environment, this trend should be read against supporting fiscal evidence. The IMF's 2026 Post-Financing Assessment reports Uganda's public debt reaching 52.4% of GDP and an overall fiscal deficit of 6.0% of GDP in 2025, with interest payments absorbing 26.2% of domestic revenue and projected to rise to 32.0% in 2026 – a widening domestic financing need that helps explain banks' rising government-securities holdings. The World Bank's Public Finance Review, launched in Kampala on 29 June 2026, bears this out closely: interest payments now consume roughly one-third of all tax revenue and public debt has crossed the government's own ceiling at 52.3% of GDP. Both institutions recommend fiscal consolidation – through broader tax collection and more efficient public spending – as the primary lever for easing this pressure on the banking sector's balance sheet, rather than relying on prudential policy alone (World Bank, 2026).

Uganda's own FY2026/27 Budget Speech bears out this trajectory with the Government's own figures. Total interest payments (including commitment fees) are budgeted at Shs 14.11 trillion for FY2026/27, of which Shs 12.35 trillion is domestic interest, against projected domestic revenue of Shs 45.96 trillion – implying that interest payments alone will absorb approximately 30.7% of domestic revenue in FY2026/27, closely tracking the IMF's 32.0% projection for 2026. On the Ministry's own medium-term fiscal framework this ratio eases only gradually, from an estimated 30.7% in FY2026/27 to approximately 22% by FY2030/31, remaining above 20% of revenue throughout the projection period – a multi-year, government-sourced confirmation of the sovereign financing pressure, and a useful annual benchmark against which the industry can track the sovereign-bank nexus discussed here (Ministry of Finance, Planning and Economic Development, 2026).

The differential growth rates underlying the asset-composition shift documented above can also be stated directly. Applying the reported 26%-to-31% shift in government securities' and other investments' share of total assets to the balance-sheet growth shown in Figure 2 implies an estimated CAGR for this asset class of approximately 15–16% over 2021–2025, materially faster than the 8.3% CAGR recorded for net loans and advances and closely in line with the 16.2% CAGR already reported for interest income on marketable/trading securities (Section 3) – a consistency check that reinforces, rather than duplicates, the balance-sheet and income-statement findings presented separately above.

Figure 4 illustrates the practical consequence of this asset-composition shift for the real economy: of every Shs 61.7 trillion of industry assets in 2025, Shs 41.7 trillion sat in customer deposits, of which only Shs 23.7 trillion – and Shs 22.9 trillion once the 3.4% NPL ratio is netted out – was converted into loans and advances to customers, with the remainder deployed into government securities, financial investments and liquid balances.

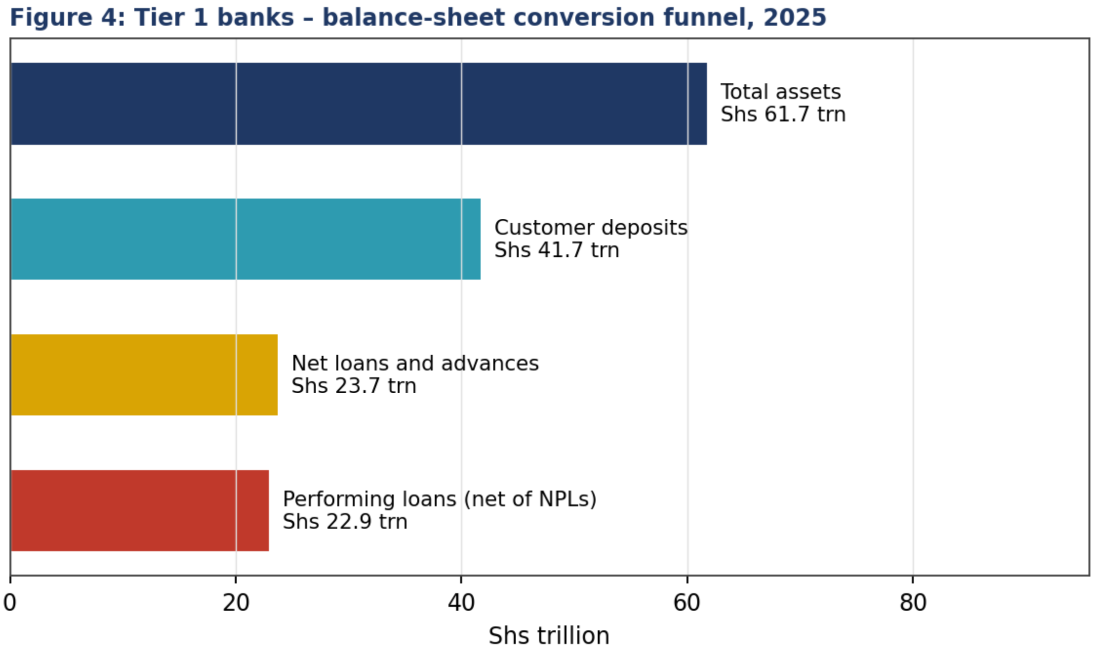

Figure 4: Tier 1 banks – balance-sheet conversion funnel, 2025

4.1 Quarterly Update to March 2026

Bank of Uganda's Financial Soundness Indicators, released quarterly and updated to March 2026, on 3 July 2026, provide industry-wide data that confirms and extends the 2021–2025 Tier 1 trend covered in Sections 3–7. Table 1 summarises the nine most recent quarters.

Indicator	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26
NPLs to total gross loans (%)	5.16	4.95	4.85	3.98	4.13	3.68	3.61	3.21	3.01
Regulatory capital to RWA (%)	25.44	25.24	24.60	24.64	26.68	25.74	25.68	25.38	27.03
Return on assets (%)	3.18	2.97	3.07	3.12	3.20	3.36	3.60	3.78	3.88
Return on equity (%)	16.87	16.00	16.56	16.50	16.76	18.20	19.30	20.07	20.71
Cost to income (%)	72.13	72.29	71.81	71.06	70.23	68.92	68.36	67.15	66.28
Liquid assets to total deposits (%)	45.28	46.89	42.87	50.50	51.02	55.71	54.28	56.57	57.16

Table 1: Financial Soundness Indicators, quarterly, March 2024–March 2026

The FSI series shows the 2025 improvement in asset quality has continued into 2026 rather than reversing: the whole-of-industry NPL ratio fell a further 39 basis points beyond the 2025 (June) level to 3.01% by March 2026 – the lowest reading in the series – while regulatory capital to risk-weighted assets strengthened to 27.03%, comfortably above both the regulatory minimum and the 2021–2025 range reported in Section 7. Profitability has likewise continued to improve beyond the 2025 figures in Section 6: return on equity reached 20.71% and return on assets 3.88% by March 2026, while the cost-to-income ratio fell a further 0.9 percentage points to 66.28%. Liquidity continued to build, with liquid assets to total deposits rising to 57.16% by March 2026 from 45.28% two years earlier – the same liquidity build-up identified structurally above. Read together, this nine-quarter run confirms that the 2025 improvement documented throughout this report reflects a sustained, multi-quarter trend rather than a one-off or cyclical spike, addressing directly the durability question raised in Section 5 in relation to the empirical NPL literature.

This lending-rate and credit-demand picture is borne out by two further Bank of Uganda sources for the quarter to April–June 2026. The June released State of the Economy Report notes that the weighted average lending rate on Uganda-shilling-denominated loans rose marginally to 18.63% (from 18.26%), partly reflecting the increase in the Cash Reserve Requirement from 9.5% to 11.0%, while the average foreign-currency lending rate eased to 7.02% (from 7.62%); annualised private sector credit growth strengthened to 11.5% (from 11.3%), supported by improving asset quality and a higher credit-approval rate of 60.4% (Bank of Uganda, 2026d). This approval rate is, however, highly volatile month to month: the Ministry of Finance's Performance of the Economy monthly reports show the share of loan applications approved for disbursement swinging from a five-year low of 39.2% in January 2026 to 76.7% in October 2025, and as low as 50.4% in April 2026, reflecting banks' sensitivity to sector-specific risk rather than a smooth, steadily improving trend (Ministry of Finance, Planning and Economic Development, 2026b). Looking ahead, however, the Bank's Q4 FY2025/26 Bank Lending Survey finds banks expect a net tightening of credit standards to enterprises (32.0% expected net tightening for the quarter to September 2026) alongside continued net easing to households (38.7%), with demand for credit expected to keep growing for both segments, albeit at a slower pace than in the prior survey round; 29.1% of banks expect lending rates to rise further, against 68.1% expecting no change (Bank of Uganda, 2026a). Both surveys attribute the more cautious tone chiefly to the Middle East conflict and its pass-through to fuel and input costs, alongside domestic factors such as urban demolitions and the resurgence of Ebola.

4.2 Financial Deepening in Regional Context

The loan-growth and asset-composition findings in 4.1 should be read against Uganda's financial depth relative to regional peers. Despite the industry's balance-sheet growth documented in this section, Uganda's domestic credit to the private sector stood at approximately 14.4% of GDP in 2024 on World Bank data – modestly below Tanzania's 16.4% (2023), materially below Rwanda's 22.5% (2024), and less than half Kenya's 31.6% (2023) (World Bank, 2024a). The FinScope Uganda 2023 Survey reinforces this picture, showing that while formal financial inclusion has reached 81% of adults, the use of formal credit products remains shallow, particularly among women and rural populations (Financial Sector Deepening Uganda, 2023). On this standard cross-country measure, Uganda's private-sector credit market remains comparatively shallow even as it expands in absolute terms, underscoring that the net-loans CAGR reported above (8.3%) reflects growth from a low base rather than an already-deep credit market.

> *World Bank World Development Indicators report Uganda's domestic credit to the private sector at 14.3% of GDP for 2024; the 14.4% figure in the text is therefore best understood as a rounded approximation for comparative discussion.*

A similar picture emerges from total banking-sector assets relative to GDP. Tier 1 banks' Shs 61.7 trillion in total assets in 2025 represented approximately 24.6% of Uganda's estimated nominal GDP for FY2025/26 (Shs 250.4 trillion), on the Government's own Budget Speech estimate (Ministry of Finance, Planning and Economic Development, 2026) – broadly comparable to Tanzania's banking-assets-to-GDP ratio of approximately 26%, but only around half of Kenya's approximately 48% (World Bank, 2021b; Statista, 2022). Financial deepening in Uganda therefore continues to lag the region's more developed banking systems on both credit and balance-sheet measures, even as the sector's own five-year growth and asset-quality trends, documented throughout this report, are unambiguously positive.

5. Asset Quality

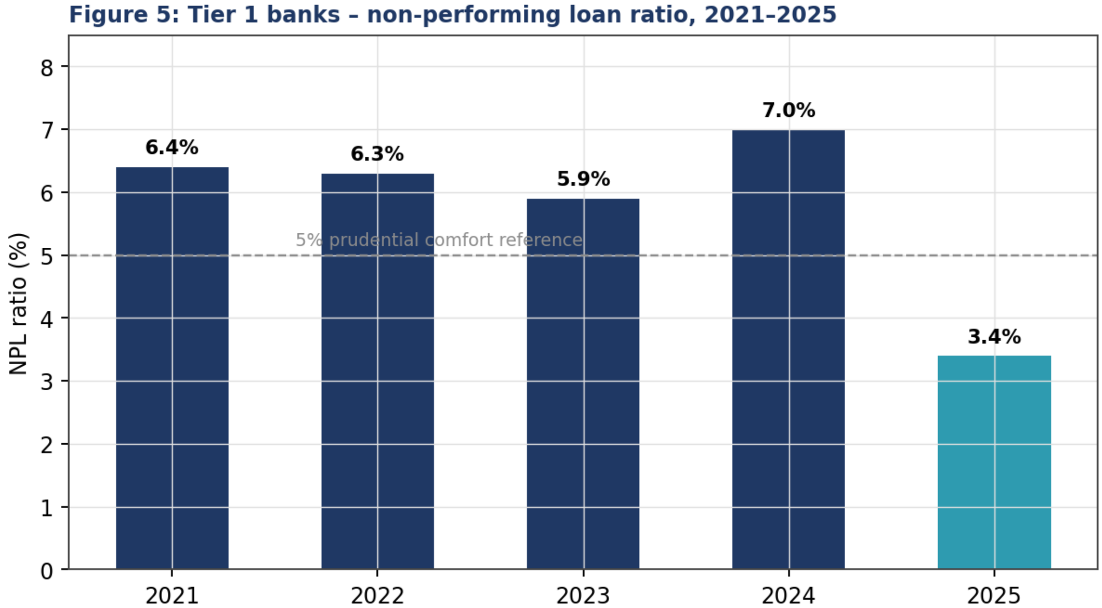

Figure 5: Tier 1 banks – non-performing loan ratio, 2021–2025

The industry-wide NPL ratio for Tier 1 banks improved markedly over the period under review, falling from 6.4% in 2021 to 3.4% in 2025, with the largest single-year improvement occurring between 2024 (7.0%) and 2025 (3.4%), as shown in Figure 5. This is directionally consistent with Bank of Uganda's own reporting of a declining NPL ratio over the same period, driven by improved macroeconomic conditions and tighter credit risk management across the sector (Bank of Uganda, 2025; Uganda Investment Authority, 2025).

The empirical literature on East African and broader African banking systems is consistent with this pattern: NPL ratios are found to move inversely with GDP growth and returns on assets, and positively with lending rates and unemployment, so an environment of resilient GDP growth and moderating interest rates – as prevailed in Uganda through 2025 – would be expected to support exactly this kind of improvement in reported asset quality (Nagawooya, 2025). More broadly, panel studies across African lower-middle-income countries identify lagged NPLs, capital adequacy, credit growth and the cost-income ratio as the strongest predictors of future NPL levels, which is a useful lens for monitoring whether the 2025 improvement shown in Figure 5 is durable or cyclical (Olarewaju, 2020).

Uganda's own history provides a directly relevant illustration of what typically drives an NPL spike, and is a useful benchmark against which to read the 2021–2025 improvement documented above. In the mid-2010s the industry-wide NPL ratio rose sharply, from approximately 4% of gross loans in June 2015 to 8.3% in June 2016 (peaking still higher, at over 10%, later in the cycle). Bank of Uganda's Financial Stability Report for the year to June 2016 attributed this deterioration principally to a March 2016 survey of banks, which found that delayed government payments to suppliers and contractors, insufficient borrower cash flows, and diversion of borrowed funds accounted for 24.0%, 22.7% and 14.9% of non-performing loans respectively (Bank of Uganda, 2017). The IMF's contemporaneous review of Uganda's Policy Support Instrument affirmed this reading, linking the NPL build-up explicitly to the accumulation of domestic government arrears over the same period (International Monetary Fund, 2017). This episode is a useful complement to the sovereign-bank nexus discussed in Section 4: it shows that, beyond the balance-sheet crowding-out channel, a build-up in domestic arrears can also transmit directly onto bank asset quality through payment delays to government suppliers and contractors who are themselves bank borrowers. The sharp reduction budgeted for domestic-arrears clearance in FY2026/27 – down to Shs 317 billion from Shs 1,400.78 billion budgeted the previous year – is a favourable signal specifically for this arrears-related channel of NPL risk, even as the broader government-securities exposure documented in Section 4 continues to build (Ministry of Finance, Planning and Economic Development, 2026).

Realised credit losses track the NPL trend directly. Tier 1 banks wrote off Shs 317.1 billion in bad debts in 2021, rising to Shs 512.5 billion in 2022, Shs 529.5 billion in 2023 and a peak of Shs 683.7 billion in 2024, before falling sharply to Shs 351.8 billion in 2025 (Consolidated Industry Financial Statements, 2025). Expressed as a share of gross loans and advances, this represents a rise from approximately 1.8% in 2021 to a peak of 3.2% in 2024, followed by a decline to 1.5% in 2025 – a peak-and-decline pattern that tracks the NPL ratio's own 2024 peak (7.0%) and 2025 improvement (3.4%) almost exactly. Because write-offs reflect realised, Board-approved credit losses rather than a reported stock that can be more easily reclassified, this convergence is a useful corroboration that the 2025 improvement in reported asset quality reflects a genuine turn in credit performance rather than a change in NPL recognition or reporting practice alone.

The decline in provisioning expense that accompanied the improvement in NPLs is worth flagging for prudential attention. The literature on expected-credit-loss (ECL) accounting under IFRS 9 cautions that provisioning can behave procyclically – falling quickly in good years and then rising sharply when conditions turn, because expected-credit-loss standards require earlier recognition of projected losses than incurred-loss models; the net effect on procyclicality nonetheless depends on implementation quality, bank behaviour and supervisory overlays, so falling provisions should not be read mechanically as a permanent de-risking of the credit cycle. This is precisely the dynamic that a forward-looking, more risk-sensitive provisioning framework, a matter that remains a key area for policy reform discourse between the industry and Bank of Uganda, is intended to dampen (World Bank, 2021; Basel Committee on Banking Supervision, n.d.).

This durability question is given an early empirical test by the Bank's Q4 FY2025/26 Bank Lending Survey, in which commercial banks reported a net 48.0% expected increase in the enterprise default rate and a net 37.8% expected increase in the household default rate for the quarter to June 2026, attributing this chiefly to rising fuel and input costs compressing margins, delayed salary payments and job losses, and broader geopolitical uncertainty (Bank of Uganda, 2026a). These are survey-based expectations rather than realised outturns, but, consistent with the procyclicality concern raised above, they are a useful forward indicator to monitor against the realised NPL trend reported in Section 4.1.

6. Profitability

Return on equity (ROE) for the Tier 1 industry rose to 18.9% in 2025, up from a range of 15.1%–17.3% in 2021–2023 and 16.1% in 2024. Return on assets (ROA) followed a similar path, reaching 3.5% in 2025 from 2.8%–3.1% in the prior four years, as illustrated in Figure 6. The improvement in both measures was driven jointly by income growth, the moderation in provisioning expense described in Section 5, and a modest improvement in cost efficiency (Section 6.1, Figure 7).

Margin pressure bears watching over the near term: the Bank Lending Survey found that 29.1% of banks expect lending rates to rise further in the quarter to September 2026, mainly on account of a higher cost of funds and the possibility of tighter monetary policy, while the State of the Economy Report notes that Uganda-shilling lending rates had already edged up to 18.63% in the three months to April 2026 following the increase in the Cash Reserve Requirement (Bank of Uganda, 2026a, 2026d).

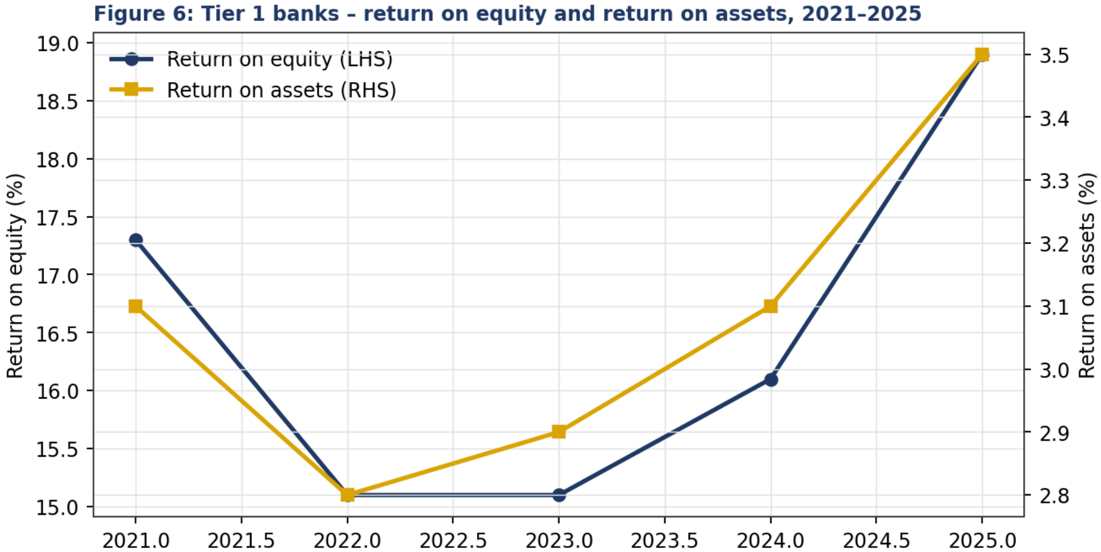

Figure 6: Tier 1 banks – return on equity and return on assets, 2021–2025

6.1 Cost Efficiency

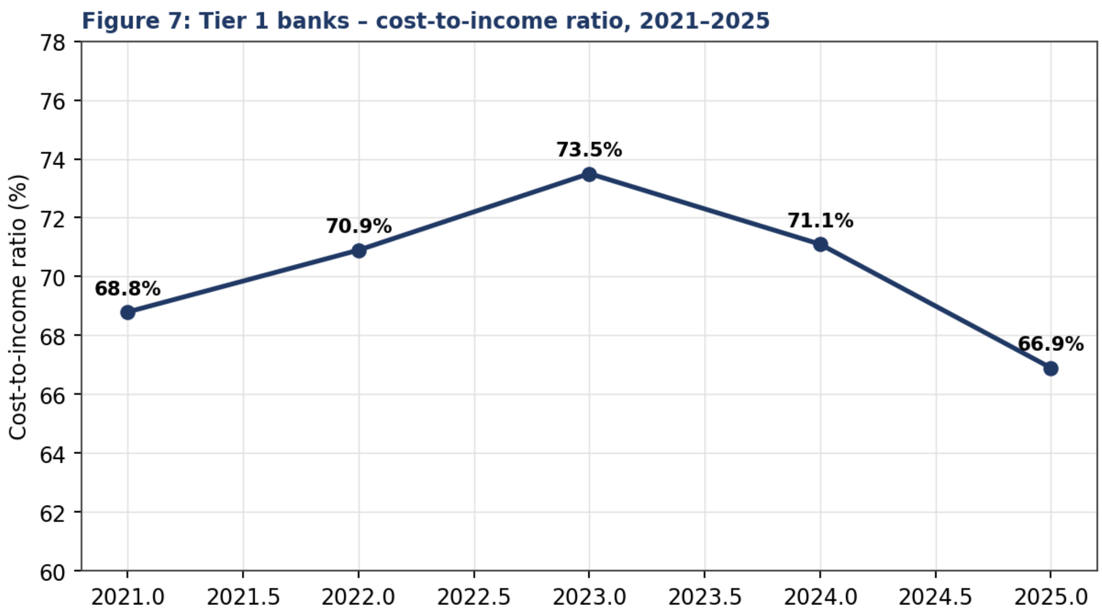

Figure 7: Tier 1 banks – cost-to-income ratio, 2021–2025

The industry cost-to-income ratio (including impairment charges) rose from 68.8% in 2021 to a peak of 73.5% in 2023 before improving to 66.9% by 2025, as shown in Figure 7. Excluding impairment charges, the ratio has been comparatively stable in the high-fifties to mid-sixties percent range throughout the period, indicating that the swings in the inclusive ratio are driven primarily by the impairment cycle discussed in Section 5 rather than by core operating efficiency. The contribution of digital and ICT-enabled channels to this efficiency picture is examined separately in Section 6.2.

A complementary lens on revenue quality is the industry's reliance on net interest income. In 2025, Tier 1 banks derived approximately 78.7% of total income from net interest revenue (interest on loans and advances, deposits and placements, and marketable and investment securities combined), with the remaining c.21% from fees, commissions, foreign exchange and other non-interest income — a revenue mix consistent with the still-elevated cost-to-income ratio discussed above, since a narrower, interest-margin-dependent income base typically leaves less room to spread fixed costs than a more diversified fee and transaction-income base. This figure reflects the most recent (2025) reporting year, for which bank-level income-line detail is available.

6.2 Digital Transformation and Channel Shift

A growing share of the cost and revenue picture reflects in part the industry's continued shift toward digital and agent-based channels rather than physical branch expansion. Bank of Uganda's own supervisory data illustrates the scale of this shift at the whole-of-industry level: mobile banking transaction values rose by close to 40% even as active internet banking users declined by 6.6% (from 960,000 to 900,000) between June 2024 and June 2025, a divergence the Bank attributes to customers migrating toward channels perceived as more secure and convenient, chiefly mobile and agent banking (Bank of Uganda, 2025b). Uganda's mobile money platforms processed Shs 326.3 trillion in transaction value in the year to June 2025, a 28.6% increase on the prior year (Bank of Uganda, 2025b).

Individual bank disclosures point in the same direction: one UBA member bank, for example, reports an agent network of close to 9,000 outlets, already exceeding its branch footprint, through which customers transact alongside its own proprietary digital wallet platform (AllAfrica, 2025). This pattern — a levelling-off in branch network growth alongside sustained expansion of agent and electronic channels — has direct balance-sheet and cost implications: it helps explain both the resilience of non-interest income (fees, commissions and transaction income; Section 3) and the moderation in the underlying cost-to-income ratio once impairment effects are stripped out (Section 6.1), since a lower-cost distribution network allows a growing transaction base to be served without proportionate growth in fixed operating and capital expenditure. It also has a bearing on capital deployment decisions more broadly, as industry investment shifts from physical branch build-out toward technology, agent-network management and digital-channel security — the last of these examined further in Section 9.2.

Beyond individual bank agent networks, shared industry infrastructure reinforces this channel shift. The Uganda Bankers' Association's Agent Banking Company, established following the 2016 Financial Institutions (Amendment) Act as a common platform for the sector, now connects the large majority of Tier 1 banks alongside several Tier 2 and payment-service-provider participants through a single interoperable agent network of well over 15,000 outlets nationwide (Devex, 2024; FSD Uganda, 2022) – a further illustration of the industry favouring shared, lower-cost infrastructure over bank-by-bank branch expansion, and a key piece of the last-mile delivery infrastructure referenced throughout this section.

The most recent platform-wide data confirm that this shift accelerated through 2025. Bank of Uganda's Integrated Annual Report 2024/25 records transaction values on the shared agent banking platform rising 76.1%, from Shs 16.7 trillion in 2024 to Shs 29.4 trillion in 2025, with transaction volumes up 50.5% to 12.5 million transactions and the average transaction value up 17% to Shs 2.35 million, pointing to both deeper usage and a shift toward higher-value transactions on agent channels (Bank of Uganda, 2025b). The number of agents on the shared platform grew 49.1% over the same period, from 15,288 in June 2024 to 22,793 in June 2025, connecting 24 institutions — 23 commercial banks and one microfinance deposit-taking institution; the active-agent ratio eased from 58% to 48%, consistent with rapid onboarding of new agents whose transaction activity is still ramping up (CEO East Africa Magazine, 2026c). The Agent Banking Company itself, the shared platform operator, posted total income of Shs 7.32 billion in 2025, up 53% on 2024, with profit before tax more than tripling to Shs 3.85 billion, an indicator of the underlying commercial momentum behind the industry's shared digital infrastructure (CEO East Africa Magazine, 2026c).

Bank-led mobile wallets have extended this reach further into Government's own priority programmes. One UBA member bank's mobile wallet, launched in late 2023, has been used to disburse approximately UGX 520 billion in Parish Development Model (PDM) funds to 10,589 SACCOs across more than 150 districts cumulatively since the wallet's late-2023 launch through to March 2026 – consistent with the parish-level PDM disbursement documented in the FY2026/27 Budget Speech – alongside emergency relief payments to landslide-affected households in eastern Uganda, cutting disbursement times from weeks to minutes (The Independent, 2025). A second UBA member bank has used its own digital and agent network to channel cash transfers to more than 132,699 refugee households, worth over Shs 301.7 billion, in partnership with humanitarian agencies (The Observer, 2026) – a relevant contribution given that Uganda hosts one of Africa's largest refugee populations and that refugees are explicitly identified, alongside women, youth and rural populations, as a priority segment under the National Financial Inclusion Strategy 2023–2028. The shared agent-banking infrastructure above, these examples illustrate how bank-led digital channels are increasingly being used to extend the reach of both public social programmes and humanitarian financing beyond what branch-based delivery could achieve alone.

7. Capital Adequacy

Reported Core Capital to Risk-Weighted Assets (RWA) for Tier 1 banks was 23.8% in 2021, 24.7% in 2022, 25.6% in 2023, 25.7% in 2024 and 23.6% in 2025 (Figure 8) — remaining more than double the regulatory minimum Tier 1 capital requirement of 10.5% (11.5% for Domestic Systemically Important Banks), and comfortably above prudential thresholds throughout the period, with no material year-on-year volatility. This is consistent with the Bank of Uganda's assessment that capital and liquidity buffers across the banking sector remained well above regulatory minima during 2024/25 (Uganda Investment Authority, 2025). This resilience partly reflects recapitalisation and de-risking measures undertaken industry-wide in the aftermath of the 2020–2021 COVID-19 shock, which left core capital positions comfortably placed before risk-weighted assets grew back in line with balance-sheet expansion from 2022 onward; the whole-of-industry Financial Soundness Indicators reviewed in Section 4.1 show this buffer holding, and strengthening further, through March 2026, confirming that the pattern is structural rather than a residual, one-off effect of the pandemic period.

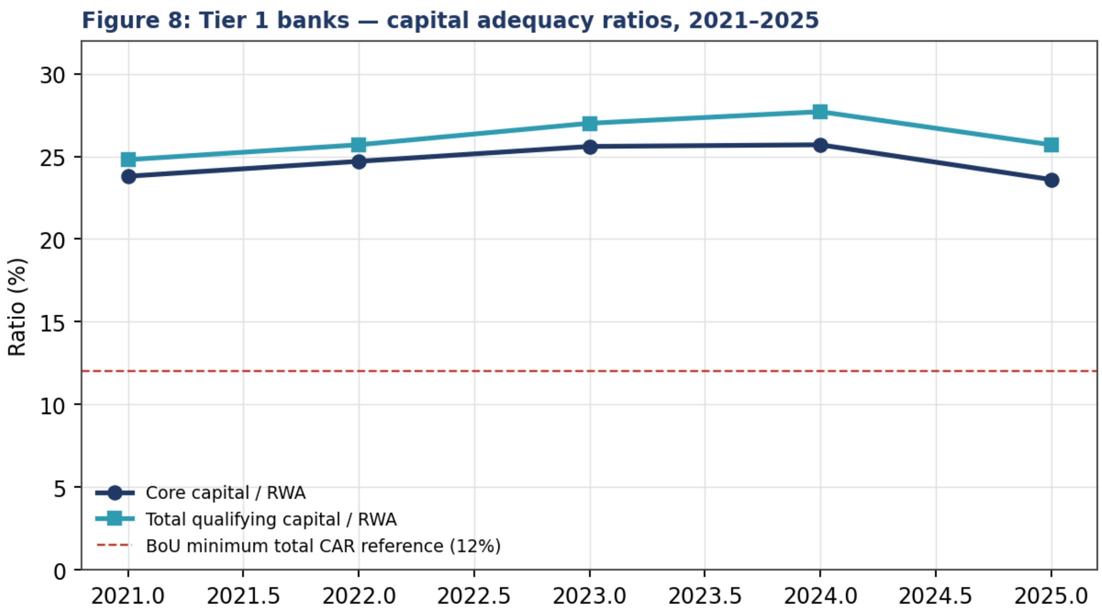

Figure 8: Tier 1 banks — capital adequacy ratios, 2021–2025

The empirical literature finds that better-capitalised banking systems, operating under more rigorous regulatory oversight, translate capital strength into faster loan-portfolio growth (Hor, 2025) – an argument for treating well-structured guarantees and risk-sensitive provisioning as complements to, rather than substitutes for, capital discipline.

8. Tier 2 & 3 Institutions

Tier 2 & 3 institutions grew total assets from Shs 1.25 trillion in 2022 to Shs 1.89 trillion in 2025, a faster proportional expansion than Tier 1 banks achieved over the same four years, though from a base equivalent to roughly 3% of Tier 1 assets, as shown in the indexed comparison in Figure 9. Net profit after tax for this segment, however, was more volatile, falling from Shs 26.9 billion in 2024 to Shs 23.4 billion in 2025 even as total income continued to grow, pointing to margin or cost pressure worth further diagnostic attention.

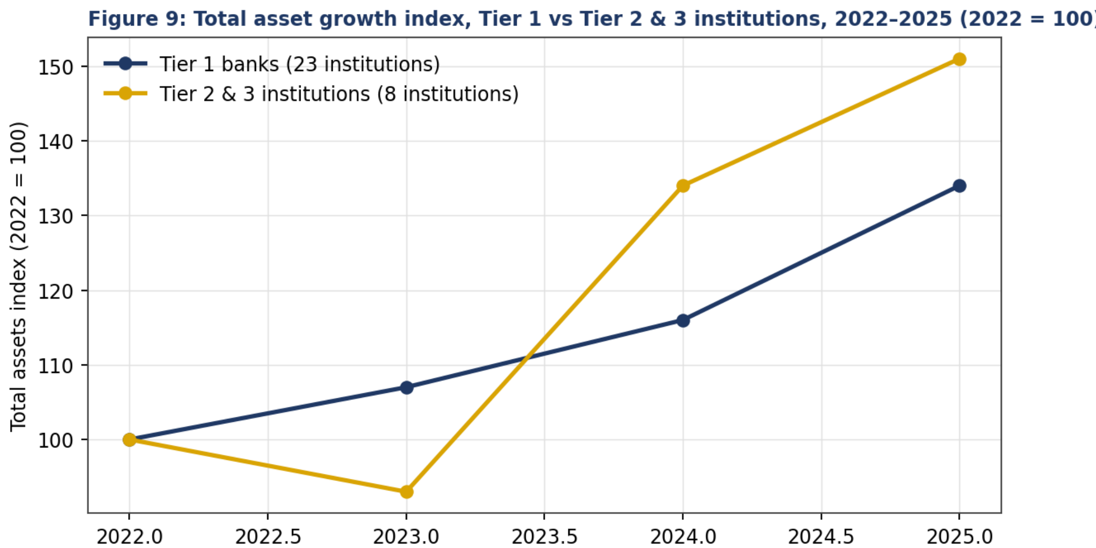

Figure 9: Total asset growth index, Tier 1 vs Tier 2 & 3 institutions, 2022–2025 (2022 = 100)

This margin and cost pressure is directly quantifiable in the segment's 2025 income and expense structure: Tier 2 & 3 institutions ran a cost-to-income ratio of approximately 93.2%, materially higher than the 66.9% recorded industry-wide by Tier 1 banks (Section 6.1), and derived a larger share of income from net interest revenue (85.1%, against 78.7% for Tier 1) — a combination consistent with smaller operating scale, thinner fee and transaction-income lines, and less capacity to spread fixed costs across a smaller balance sheet. This reinforces the case, developed further in Section 11, for guarantee and provisioning reforms that are sensitive to the structurally different cost and funding position of this segment. A direct, like-for-like comparison of asset quality is now possible using the underlying institution-level return. On a net-loans basis, the Tier 2 & 3 NPL ratio was approximately 5.0% in 2022, easing to 4.2% in 2023 and 3.4% in 2024, before ticking up slightly to 3.7% in 2025 (Consolidated Industry Financial Statements, 2025) – a broadly similar improving trend to the Tier 1 trend, and by 2025 only modestly above the 3.4% Tier 1 NPL ratio reported in Section 5, notwithstanding the segment's materially higher cost-to-income ratio. While still modest in absolute terms, this tick-up in the Tier 2 & 3 NPL ratio — the first increase after three consecutive years of improvement — is worth monitoring as an early-warning indicator given the segment's thinner capital base and higher cost-to-income ratio. However, it remains below 5%. Bad debts written off tell a complementary story: the Tier 2 & 3 segment wrote off approximately 4.5% of net loans in 2022, easing to 3.2% in 2023, 2.2% in 2024 and 2.2% in 2025 – a decline that is directionally consistent with, though structurally higher than, the Tier 1 bad-debt ratios reported in Section 5 (Consolidated Industry Financial Statements, 2025).

A structural feature of this segment, visible throughout 2022–2025, is a loan/deposit ratio consistently above 100% (peaking at approximately 135% in 2023), meaning these institutions fund a portion of their loan books from borrowings and other non-deposit sources rather than customer deposits alone — a funding-structure observation that is distinct from, but a relevant backdrop to, the credit-risk-focused guarantee and provisioning reforms discussed in Section 11. The supervisory and guarantee-design implications of this funding structure are drawn together with the sector's other reform priorities in Section 11.

9. Market Structure and Asset Concentration

Consistent with the industry-level scope of this study, market structure is presented here only in terms of size distribution and concentration. This section draws on the institution-level total-asset data underlying the industry return to provide a fuller concentration analysis than asset-size bands alone: a ranked view of relative bank size (Figure 10), the statistical distribution of bank asset sizes (Figure 11), and a cumulative concentration curve together with the Herfindahl–Hirschman Index, a standard antitrust measure of market concentration (Figure 12).

Figure 10 ranks all 23 reporting Tier 1 banks by total assets, coloured by the three size segments used throughout this section: the five Domestic Systemically Important Banks (D-SIBs) designated by Bank of Uganda, the next three largest banks by assets ('Other Large Banks'), and the remaining fifteen smaller banks. The D-SIB segment alone accounts for 55.1% of industry assets, the Other Large Banks segment for 16.4%, and the Remaining Banks segment for the remaining 28.5%, illustrating how sharply the size distribution falls away beyond the largest institutions.

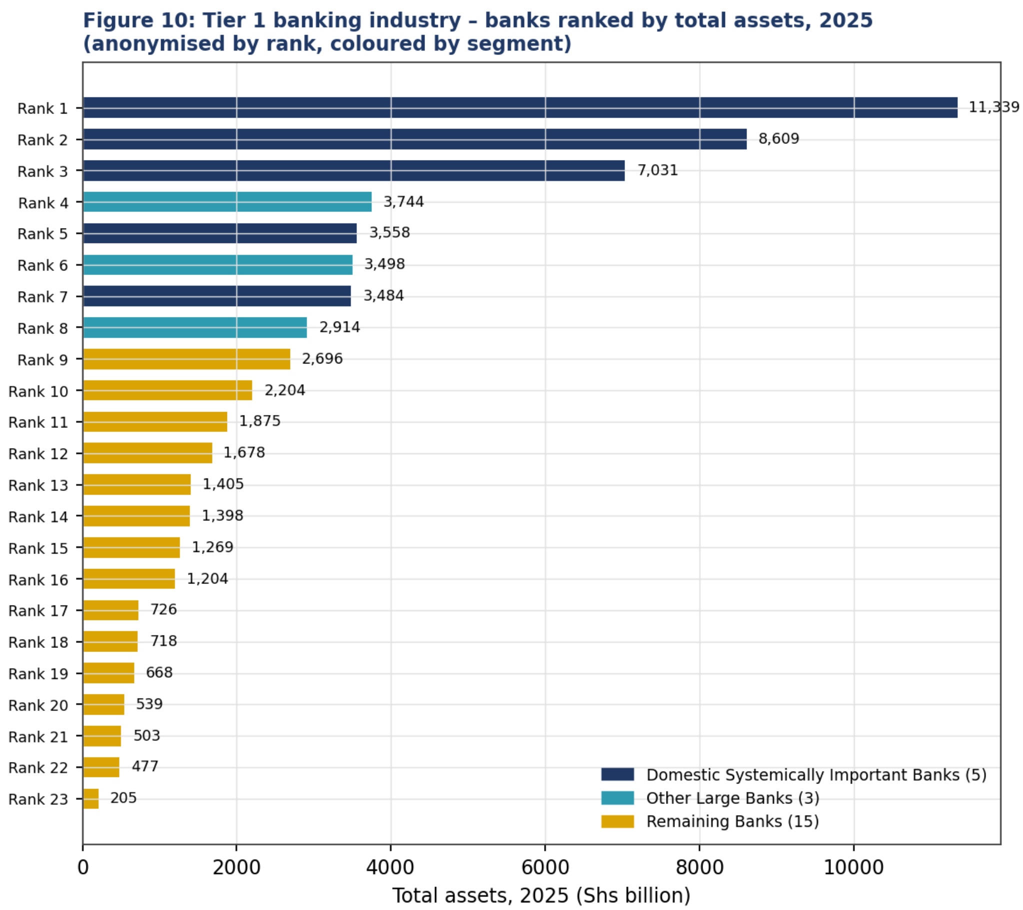

Figure 10: Tier 1 banking industry – banks ranked by total assets, 2025 (anonymised by rank, coloured by segment)

Figure 11 presents the same 23 banks as a box-and-whisker distribution. The median bank held approximately Shs 1,678 billion in total assets in 2025, but the distribution is heavily right-skewed: the interquartile range spans roughly Shs 718 billion to Shs 3,498 billion, while the three largest institutions – shown as the upper outliers – each held above Shs 7,000 billion, illustrating that industry-average figures quoted elsewhere in this report can mask considerable dispersion at the institution level. This dispersion is also large in relative terms: the upper quartile threshold is almost five times the lower quartile threshold, reinforcing how widely institution size varies around the median.

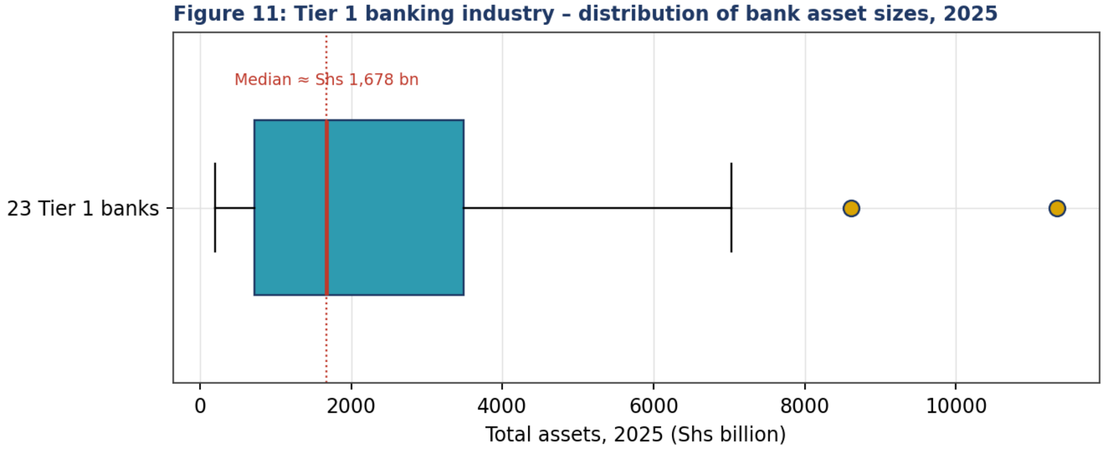

Figure 11: Tier 1 banking industry – distribution of bank asset sizes, 2025

Figure 12 traces the cumulative share of industry assets as institutions are added, ranked from largest to smallest by 2025 total assets. On this basis, the five largest institutions account for approximately 55.5% of industry assets, and the ten largest for approximately 79.5%, leaving the remaining thirteen smaller institutions to share the balance of roughly one-fifth of industry assets. The Herfindahl–Hirschman Index for the industry is approximately 890 on a 0–10,000 scale, which sits below the 1,500 threshold conventionally used by antitrust authorities (e.g., the US DOJ/FTC Horizontal Merger Guidelines) to denote an unconcentrated market, even though the top three institutions alone hold close to 44% of industry assets. This is a reminder that a single headline index can understate how size is distributed at the very top of the market, and is best read alongside the size-distribution detail in Figures 10 and 11 rather than in isolation.

> *The HHI is calculated by summing the squared market shares of competing firms; values below roughly 1,500 are commonly treated as unconcentrated or only lightly concentrated markets. BoU's March 2026 stability review reported an asset HHI of 897, likewise below the 1,500 threshold.*

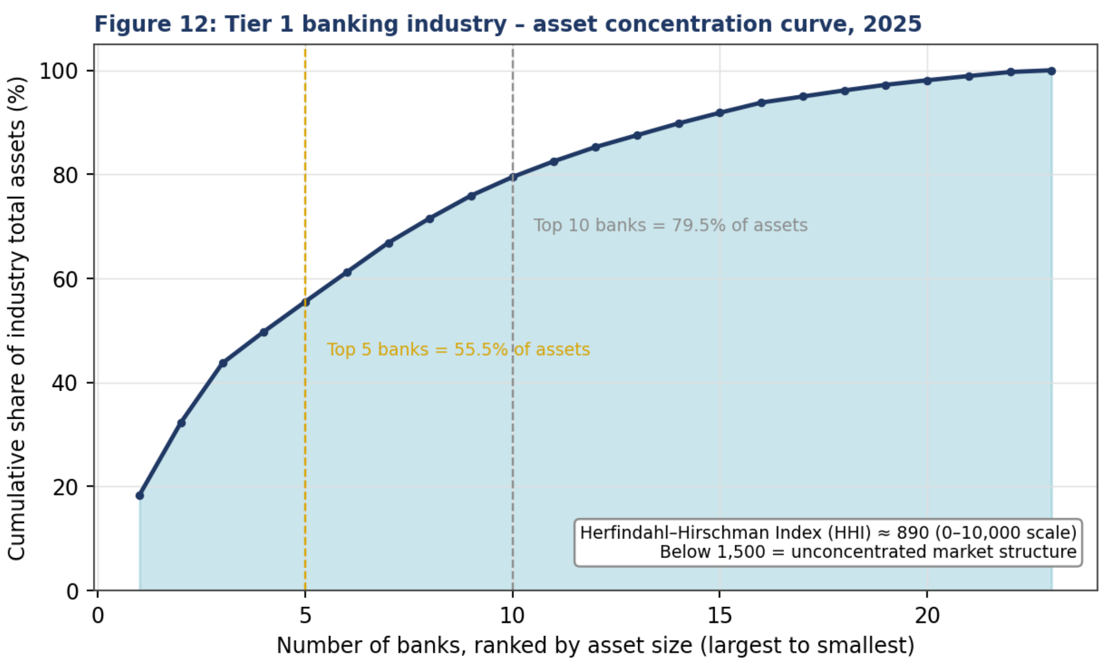

Figure 12: Tier 1 banking industry – asset concentration curve, 2025

9.1 Performance by Bank-Size Segment

Because industry averages can mask meaningful differences by scale, this sub-section decomposes three key performance ratios – already discussed at the industry level in Sections 5–7 – across the same three segments used in Figure 10: the five Bank of Uganda-designated D-SIBs, the next three largest banks by assets, and the remaining fifteen smaller banks.

The pattern is striking: the D-SIB segment operates at a materially lower cost-to-income ratio (60.7%) than either the Other Large Banks (74.0%) or the Remaining Banks segment (75.6%), consistent with scale economies in a banking system where the industry-wide average sits at 66.9% (Section 6.1). The D-SIB segment also earns a substantially higher return on equity (23.9%, against 12.6% and 14.1% for the other two segments respectively), while NPL ratios are more similar across segments (3.1% for both the D-SIB and Other Large Banks segments, against 3.8% for the Remaining Banks segment) — suggesting that the industry-wide asset-quality improvement documented in Section 5 is broadly shared across the size distribution, even though the profitability and efficiency gains are concentrated among the largest institutions. This is a relevant consideration for the guarantee and provisioning reforms discussed in Section 11: smaller and mid-sized banks operate at a structural cost-efficiency disadvantage that well-designed guarantee frameworks could help offset, without needing to relax asset-quality standards that are, on this evidence, already comparable across segments.

Figure 13: Tier 1 banks – cost-to-income ratio, NPL ratio and return on equity by size segment, 2025

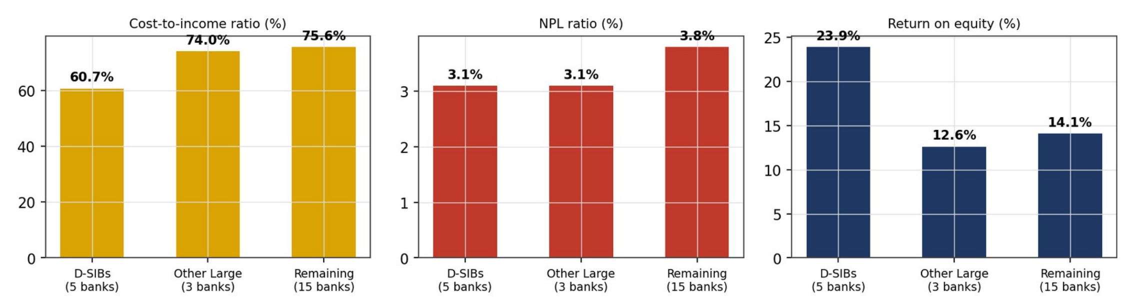

Figure 13: Tier 1 banks – cost-to-income ratio, NPL ratio and return on equity by size segment, 2025

Realised bad debts written off in 2025, expressed as a share of each segment's gross loans, tell a sharper story than the NPL ratio alone: approximately 0.7% for the D-SIB segment, 1.6% for the Other Large Banks segment, and 3.0% for the Remaining Banks segment (Consolidated Industry Financial Statements, 2025). The gap between D-SIBs and smaller banks is therefore considerably wider on realised write-offs than on the reported NPL ratio, consistent with larger banks' greater capacity to absorb, restructure or work out problem loans before they are written off, and a further evidence point for the scale-sensitive guarantee and provisioning reforms discussed in Section 11.

Table 2 extends this segment decomposition with a further dimension: reliance on net interest income.

Segment	D-SIB	Other Large Banks	Remaining Banks
Net Interest Income share of Total Income (2025)	75.0%	84.7%	82.8%

Table 2: Tier 1 banks — net interest income share of total income by size segment, 2025

The D-SIB segment derives a visibly smaller share of its income from net interest revenue (75.0%) than either the Other Large Banks (84.7%) or Remaining Banks (82.8%) segments — indicating that part of the D-SIBs' cost-efficiency and profitability advantage documented above reflects a more diversified revenue base (fees, commissions, foreign exchange and transaction income) rather than net interest margin alone. This is a structural, not cyclical, distinction: it points to a difference in business model and product mix across the size distribution, rather than a temporary difference in the interest-rate cycle each segment happens to be exposed to.

Figure 14 places these Tier 1 segments alongside the Tier 2 & 3 institutions discussed in Section 8, plotting net interest income share against cost-to-income ratio for all 31 licensed institutions covered by this report, coloured by category (D-SIB, other Tier 1 banks, and Tier 2 & 3) with each institution shown as an unlabelled point, consistent with the industry-level, anonymised scope of this study. Reference lines mark the Tier 1 and Tier 2 & 3 group averages for each measure, rather than a single industry-wide average, so the two supervisory tiers can be compared directly.

The chart makes visible, at the level of individual institutions, the pattern already established at the segment level: Tier 2 & 3 institutions cluster toward higher net interest income dependence and higher cost-to-income ratios than Tier 1 banks, while the D-SIB banks sit consistently toward the lower end of both measures within the Tier 1 population — a further, single-year illustration of the scale-economies and revenue-diversification pattern documented in Table 2 and Section 6.1.

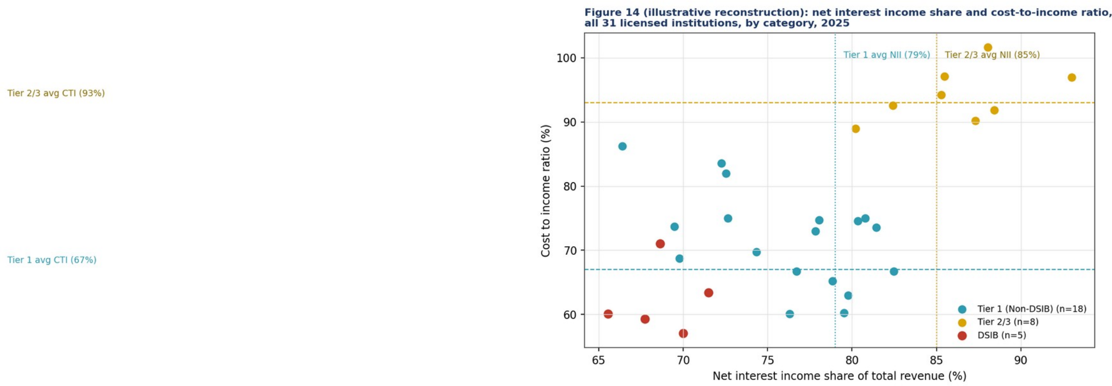

Figure 14: Net interest income share and cost-to-income ratio, all 31 licensed institutions, by category, 2025

9.2 Emerging Trends and Risks

Beyond the balance-sheet and profitability trends documented above, three emerging themes are increasingly shaping the operating environment for Uganda's banking sector and warrant closer monitoring alongside the core financial indicators covered elsewhere in this report.

Cyber and fraud risk

As the industry's digital and agent-channel footprint has expanded (Section 6.2), operational risk has increasingly migrated from traditional credit-related losses toward cyber and electronic-fraud losses. Bank of Uganda's regulatory requirements on cybersecurity and technology risk management, effective 1 December 2024, made robust cyber-risk frameworks mandatory for all supervised financial institutions, with enforceable penalties for non-compliance (The Observer, 2026). Sector-wide, cyber-enabled financial crime has been flagged as a growing concern by both the Uganda Police Force's Annual Crime Report, which has recorded a rise in reported cybercrime cases and losses in recent years, and by Bank of Uganda, whose own regulatory requirements on cybersecurity and technology risk management acknowledge the scale of the shift in institutional risk exposure; and regional survey evidence points to the scale of the shift in institutional risk priorities: 74% of East African organisations now rank cyber risk among their top concerns (PwC Eastern Africa Banking Survey 2025). This reinforces the case for continued industry investment in cyber-risk management capacity alongside the credit-risk-focused reforms discussed in Section 11.

Competition from non-traditional lenders

Banks are also increasingly competing with a fast-growing set of non-bank credit providers, including mobile-network-operator digital lenders, fintech platforms and impact-oriented funders. Bank of Uganda's 2024/25 Integrated Annual Report shows mobile-money-based digital credit disbursements reaching approximately Shs 3.5 trillion, delivered through more than 150 million individual mobile lending transactions (Bank of Uganda, 2025b), with around 30 licensed institutions — both bank and non-bank — now offering digital credit products in the market. While this expands access to short-term credit for previously underserved segments, it also represents a structural, non-cyclical competitive pressure on banks' traditional retail and Agri-SME lending franchises, alongside the continued role of impact funders and development finance institutions in agricultural and SME lending — a dynamic relevant to the Agri-SME-focused reforms discussed in Section 11. In the 12 months to June 2025 alone, this Shs 3.5 trillion flow underscores that non-bank digital lenders are now operating at system-relevant scale while also raising consumer-protection, pricing-transparency and data-privacy concerns that warrant close regulatory attention.

Mobile money vs. bank account ownership

Demand-side survey evidence corroborates the supply-side digital-channel and non-bank-lending trends documented above. The World Bank's Global Findex Database 2025 shows that overall financial account ownership among Ugandan adults rose from 20% in 2011 to 73% in 2024, but this growth has been driven overwhelmingly by mobile money rather than bank accounts: mobile money account ownership climbed from 35% of adults in 2014 to 51% in 2017 and 68% in 2024, consistently and substantially above the Sub-Saharan Africa average over the same years (12%, 21% and 40% respectively) (World Bank, 2025). Bank account ownership, by contrast, rose only modestly through 2021 (to 37% of adults, roughly in line with the regional average of 40%) before falling back to 26% in 2024 – now noticeably below the Sub-Saharan Africa average of 38% (World Bank, 2025), as shown in Figure 15.

National payments infrastructure

A further structural theme is the continued absence of a national payments switch – a shared platform connecting banks, mobile money operators and fintechs so that transfers move seamlessly across the ecosystem regardless of provider. Uganda has pursued this since 2022, but a 2023 procurement was subsequently cancelled amid unresolved stakeholder and security concerns, and no revised timeline has been published (CEO East Africa Magazine, 2026a). This leaves Uganda trailing its immediate regional peers: Kenya's bank-led PesaLink switch has operated since 2017 and now links more than 80 institutions, Tanzania's central-bank-run Instant Payment System has operated since 2020 and processed roughly Tsh 55 trillion in 2025, and Rwanda's eKash platform went fully live in July 2026, linking 22 banks and mobile money operators (CEO East Africa Magazine, 2026b). For the banking industry, the absence of a switch means continued reliance on bilateral arrangements and existing agent and mobile money rails (Section 6.2) rather than a single interoperable platform, with Bank of Uganda itself acknowledging that the intended public-utility model would lower interoperability costs and broaden access for smaller institutions and fintechs alike (CEO East Africa Magazine, 2026a). Completing this infrastructure, in line with regional peers, is accordingly included among the priorities set out in Section 11.

Figure 15: Uganda – bank account vs. mobile money account ownership, and Sub-Saharan Africa averages, 2011–2024

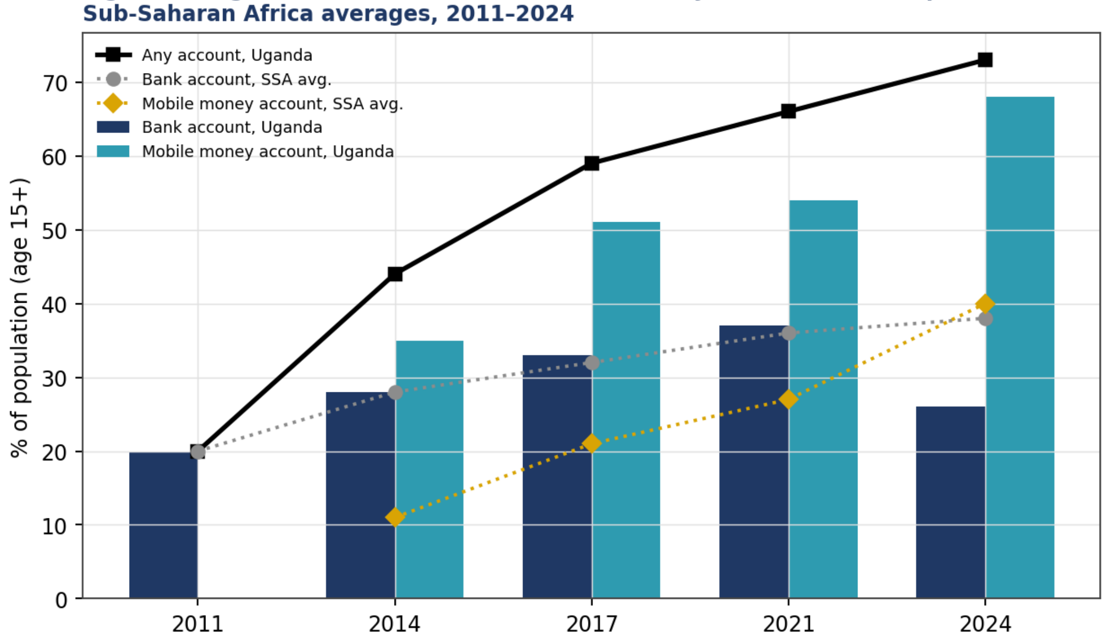

Figure 15: Uganda – bank account vs. mobile money account ownership, and Sub-Saharan Africa averages, 2011–2024

Box: ESG Adoption in Uganda's Banking Sector

Environmental, Social and Governance (ESG) considerations continue to gain prominence within Uganda's banking sector, reflecting both evolving regulatory expectations and the industry's commitment to sustainable finance. The Uganda Bankers' Association (UBA) ESG Banking Sector Framework, now in its second year of implementation, provides a common sector-wide approach for integrating ESG considerations across four pillars: ESG Governance, ESG Reporting and Disclosure, ESG Risk Management, and Sustainable Finance.

Participating financial institutions continue to submit periodic implementation reports under the framework, with consolidated sector progress reports shared with the Bank of Uganda. This reporting process marks an important transition from the initial adoption of ESG principles towards their integration into governance arrangements, risk management systems, sustainability reporting, and lending and investment decisions.

A notable regulatory milestone during the period was the Bank of Uganda's issuance of guidance in 2025 on the adoption of the IFRS S1 and IFRS S2 Sustainability Disclosure Standards. The guidance strengthens the foundation for consistent sustainability-related financial disclosures and reinforces the integration of climate-related financial risk considerations into the banking sector's regulatory and supervisory framework.

To support implementation, the UBA, working with sector partners, is rolling out a programme of capacity development initiatives for member institutions. These include training for bank executives and technical officers on ESG governance, sustainability reporting, climate-related financial risks and sustainable finance, complemented by practical handholding sessions to support the integration of ESG requirements into institutional policies, governance frameworks, risk management systems and business operations.

Collectively, these developments signal the increasing institutionalisation of ESG within Uganda's banking sector and underscore the growing importance of sustainability considerations in financial sector governance, risk management and long-term value creation.

10. Conclusion

The 2021–2025 trend reveals a Ugandan Tier 1 banking industry that has grown its balance sheet and earnings at a healthy pace, materially improved asset quality, lifted profitability, and maintained capital buffers comfortably above regulatory minima — a picture broadly consistent with Bank of Uganda's own supervisory assessment of the sector (Bank of Uganda, 2025; Uganda Investment Authority, 2025). The main areas warranting management attention are: (i) the still-elevated cost-to-income ratio relative to regional peers; (ii) the growing gap between deposit growth and loan growth, and the corresponding shift of assets toward government securities documented in Section 4, which if sustained could compress net interest margins and crowd out private credit over time; (iii) profitability pressure emerging within the smaller Tier 2 & 3 segment; and (iv) a moderate concentration of industry assets among the largest institutions (Section 9).

This analysis, and in particular the findings on asset quality, capital adequacy, sovereign exposure and the funding structure of Tier 2 & 3 institutions, directly reinforces the case for continued industry engagement with Bank of Uganda across several fronts — most immediately the treatment of credit guarantees and the reform of the prudential loan provisioning framework, but, reflecting the growing contribution of treasury and foreign-exchange activity to industry income documented in Section 3, also the modernisation of treasury-related prudential guidance. These are among the key areas for policy reform discourse set out more fully in Section 11: an industry that is well-capitalised and improving in asset quality is well placed to absorb a more risk-sensitive, forward-looking approach across each of them.

This overall assessment is consistent with the Bank of Uganda's own June 2026 State of the Economy Report, which describes Uganda's macroeconomic conditions as broadly stable but operating in a more uncertain policy environment, citing the Middle East conflict, exchange-rate pressure, and an emerging Ebola outbreak as key near-term risks (Bank of Uganda, 2026d); the Bank's companion Q4 FY2025/26 Bank Lending Survey similarly points to a more cautious credit outlook ahead even as the 2021–2025 improvement in industry fundamentals holds (Bank of Uganda, 2026a). The implication is that the 2021–2025 improvement should be read as real but not self-sustaining: the forward-looking survey signals and external shocks flagged in Sections 4.1 and 5 warrant continued vigilance in underwriting, provisioning and stress-testing.

Section 9.2 also introduced demand-side evidence, from the World Bank's Global Findex Database 2025, that Uganda's financial-inclusion gains since 2011 have been driven overwhelmingly by mobile money rather than bank accounts, with reported bank account ownership among adults falling back after 2021 even as mobile money and overall account ownership continued to rise (Figure 15). This report presents that trend descriptively rather than draws firm conclusions from it: the precise magnitude of the post-2021 bank-account decline, and the extent to which it reflects a genuine shift away from banks rather than a change in how bank-linked mobile products are reported or classified, both warrant closer scrutiny before being relied upon. A fuller assessment of how much of Uganda's mobile money growth is complementary to, rather than competitive with, banks' own account and deposit franchises – including cross-checking against Bank of Uganda's own supervisory deposit-account data – is accordingly left to a future edition of this report.

11. Key Policy and Reform Pathways

Drawing together the 2021–2025 trend, its 2026 continuation (Section 4.1), and the supporting sovereign-exposure and fiscal evidence reviewed in Section 4, the following pathways emerge as the priorities most likely to sustain and broaden the improvement documented in this report. Several of them align with industry strategy to support the Government's Agro-Industrialisation, Tourism, Minerals Development and Science, Technology and Innovation (ATMS) strategy (Uganda Bankers' Association, 2026c):

- Contain the sovereign-bank nexus through fiscal consolidation. The IMF, the World Bank Public Finance Review and this report's own asset-composition findings (Section 4) all point to the same lever: durable revenue mobilisation and expenditure rationalisation would reduce government's reliance on domestic bank financing and ease the crowding-out pressure on private credit growth documented in Section 4.

- Encourage a gradual, planned rebalancing of bank portfolios. With government securities at approximately 30.4% of banking-sector assets and considerably higher at several mid-tier banks, supervisors and industry should monitor concentration limits and encourage diversification back toward private-sector lending as fiscal space widens with oil revenues from 2027. Plausible levers include differentiated capital or risk-weighting treatment that favours qualifying private-sector credit over sovereign paper, targeted tax or guarantee-backed incentives for lending to underserved sectors such as agriculture, and continued development of blended-finance and credit-guarantee instruments as wholesale, bank-delivered vehicles for de-risking lending to these sectors.

- Advance credit guarantee and provisioning framework reform. The treatment of collateral, funded guarantees and forward-looking, risk-sensitive provisioning – particularly relevant to the funding structure of Tier 2 & 3 institutions – remains a key area for continuing policy discourse between the industry and Bank of Uganda, with a joint UBA–Bank of Uganda technical working group the logical next step, and should proceed in a manner that treats guarantees as complements to, rather than substitutes for, capital discipline. This is especially relevant for Tier 2 & 3 institutions, whose loan/deposit ratios have persistently exceeded 100% since 2022, peaking at approximately 135% in 2023 (Section 8): Bank of Uganda's prudential framework places a premium on stable funding and liquidity resilience, particularly for smaller institutions with limited capacity to absorb funding shocks, and institutions with a thinner deposit base and proportionally higher funding costs stand to gain most from credit-risk mitigants — such as well-structured guarantees — that reduce loss-given-default on individual facilities, distinct from and complementary to any funding or liquidity consideration. Statutory recognition of Land Inventory Protocols and Certificates of Occupancy as enforceable collateral, also proposed in UBA's ATMS submission, would extend this same logic to agricultural and SME borrowers who currently lack bankable title.

- Strengthen commercial dispute resolution and contract enforcement. Faster, more predictable resolution of commercial disputes – including through Alternative Dispute Resolution mechanisms – is a complementary, non-prudential lever for unlocking capital tied up in legacy non-performing assets and sustaining the 2025–2026 improvement in asset quality documented in Section 5 and Section 4.1.
- Continue financial deepening and FinTech-enabled lending. Deeper credit infrastructure — including credit reference bureaus and digital lending guidelines — would help narrow the deposit–loan growth gap documented in Section 4 without compromising the liquidity buffers built up since 2021.
- Build in resilience to near-term external and health shocks. The Bank of Uganda's own June 2026 State of the Economy Report and its Q4 FY2025/26 Bank Lending Survey both flag the Middle East conflict, a weaker shilling, and an emerging Ebola outbreak as sources of near-term uncertainty for credit conditions and default rates (Section 5); industry stress-testing and provisioning practices should continue to be calibrated against these evolving risks alongside the historical 2021–2025 trend (Bank of Uganda, 2026a, 2026d).
- Complete the national payments switch. As set out in Section 9.2, Uganda remains the outlier among its immediate EAC peers – Kenya (2017), Tanzania (2020) and now Rwanda (2026) – in having yet to complete a national interoperable payments switch. Industry and Bank of Uganda should prioritise resolving the stalled procurement, given the platform's potential to lower interoperability costs, broaden access for smaller banks and fintechs, and complement the agent-banking and mobile-wallet channels documented in Section 6.2. This should be pursued alongside the cross-border settlement and PAPSS-integration proposals in UBA's ATMS submission and the establishment of a National Cyber Security Agency to coordinate the cyber-resilience agenda flagged in Section 9.2. International experience in Kenya, Tanzania and Rwanda suggests that a completed national switch can reduce interoperability frictions, support smaller institutions and accelerate digital-payment adoption when governance, settlement rules and participant incentives are aligned.

None of these pathways requires a reversal of the 2021–2025 trend; rather, they are extensions of it – designed to convert a well-capitalised, improving-quality banking industry into one that is also more resilient to sovereign risk concentration and better able to channel its strengthened balance sheet into private-sector credit growth as Uganda enters its oil decade.

A parting perspective on this last point comes from the industry's own regulator. Speaking at the Judicial Officers' Colloquium on Alternative Dispute Resolution in 2026, the Bank of Uganda Governor, Michael Atingi-Ego, set out precisely why the reforms above cannot be prudential measures alone:

"From the perspective of the Bank of Uganda and the financial sector as a whole, the stability of the financial system is inextricably linked to the effectiveness of the judicial system."

— Michael Atingi-Ego, Governor, Bank of Uganda (Bank of Uganda, 2026c)

Prolonged litigation, as the Governor noted, ties up bank capital in non-performing assets and constrains the sector's capacity to support economic activity – a framing that aligns with this report's own finding (Section 5) that NPL resolution and provisioning behaviour are sensitive to the wider institutional environment in which banks operate, not only to macroeconomic conditions. It is a fitting close to this update: a well-capitalised, improving-quality banking industry is a necessary condition for Uganda's next phase of credit-led growth, but not a sufficient one – the judicial and institutional environment in which that capital is deployed matters just as much.

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