Banks benefited heavily from higher interest income, particularly from government debt, loans, and placements. As interest rates remained elevated, lenders were able to widen margins. PHOTO / FILE

Banking profits rise as capital rules shift

Banks posted record profits and strong capital buffers in 2025, supported by tougher capital rules that have quietly reshaped the industry over two years.

BANKING
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The banking sector is enjoying one of its strongest periods in recent history, delivering record profits, thick capital buffers, and rising public confidence.

Yet, the regulatory environment has quietly reshaped the structure of the industry, trimming the number of top-tier banks.

The Bank of Uganda Annual Supervision Report 2025 paints a picture of a sector that has emerged resilient from a challenging global environment marked by tightening financial conditions, elevated interest rates, and persistent geopolitical uncertainty.

Instead of belt-tightening, the bank sector expanded earnings, strengthened balance sheets, and continued lending. This underscores what the central bank describes as a stable and sound financial system.

Profits surge

At the centre of the strong performance was a 36 percent jump in net after-tax profits, which surged to Shs1.9 trillion in the year ended June 2025. The profit surge represents one of the fastest growth rates recorded by the sector in recent years, reflecting both favourable market conditions and improved internal risk management.

Banks benefited significantly from higher interest income, particularly from government securities (debt), loans, and placements.

As interest rates remained elevated, lenders were able to widen margins while carefully managing funding costs.

At the same time, provisions for bad debts declined by more than 20 percent, signalling improved loan performance and stronger credit underwriting standards.

These trends fed directly into profitability metrics, while the industry's return on average assets, which evaluates how well assets are used to produce profits rose to 3.3 percent, up from 2.9 percent the previous year.

Returns on equity, a measure of the sector's ability to generate profits from every shilling of shareholders' investments, also strengthened.

These numbers suggest that banks are not merely expanding balance sheets but are doing so with greater efficiency and discipline.

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Bank of Uganda is moving ahead with further reforms, including digital supervision systems, enhanced risk-based oversight, and alignment with global prudential standards. PHOTO /FILE

Capital and liquidity

Beyond profitability, Bank of Uganda highlights what it considers the sector's greatest strength: capital resilience.

By June 2025, the banking system's core capital to risk-weighted assets ratio, which measures the sector's financial stability, stood at 25 percent, comfortably above the statutory minimum of 12.5 percent.

All supervised financial institutions complied with leverage ratio requirements and systemic risk buffers, providing a robust shield against unexpected shocks.

Such capital levels, the central bank argues, give banks the capacity not only to absorb losses but also to attract additional investment and continue supporting economic growth.

In a region where banking crises have historically imposed high monetary costs, this resilience carries particular significance.

Liquidity conditions were equally strong, with customer deposits rising sharply to Shs41.6 trillion, up from Shs36.4 trillion a year earlier.

Deposits accounted for more than 83 percent of total bank funding, confirming their role as the sector's primary and most stable source of finance.

Bank of Uganda notes that the growth in deposits reflects sustained public confidence in the banking system, supported by a relatively favourable macroeconomic environment and the absence of major bank failures.

Credit position

Despite global tightening, banks continued to lend, with total loans, according to Bank of Uganda, growing by 9.2 percent, reaching Shs23.9 trillion, an acceleration from the previous year's growth rate.

The expansion was complemented by alternative lending channels, including government programmes such as the Parish Development Model (PDM) and Emyooga, which have broadened access to credit for households, small businesses, and targeted sectors.

When these programmes are included, private sector credit growth remained in double digits, rising to 13.3 percent. This combination of formal bank lending and state-backed financing has helped cushion the economy against external shocks while advancing financial inclusion goals.

Tougher rules

Yet, while the overall picture is one of strength, the report also documents a quiet but consequential shift in the banking sector's structure.

Following the increase in the minimum capital requirement for commercial banks from Shs25b to Shs150b, three tier one lenders, including ABC Capital Bank, Guaranty Trust Bank and Opportunity Bank, were downgraded to tier two credit institutions.

The decision reduced the number of licensed commercial banks from 25 to 22, effective July 2024.

Tier two credit institutions operate under a different regulatory framework, focusing primarily on savings and time deposits and facing lower capital thresholds than full commercial banks.

Bank of Uganda, however, noted that the downgrades were not driven by financial distress, but strategic choices by shareholders to align their business models with regulatory expectations and capital realities.

Consolidation without crisis

Unlike past episodes of banking sector contraction, often marked by failures, forced mergers, or depositor losses, the adjustment unfolded without disruption, with no depositor losses, while the system remained stable throughout the transition.

This validated the central bank's policy approach that emphasises preventive strength over reactive rescue.

By raising capital requirements early, Bank of Uganda sought to ensure that only institutions with sufficient scale, governance capacity, and risk-management sophistication operate at the highest tier.

This approach mirrors trends across emerging and developed markets, where regulators increasingly favour fewer but stronger banks capable of withstanding volatility, technological disruption, and climate-related risks.

However, consolidation carries trade-offs, where fewer commercial banks could mean reduced competition in some market segments, potentially affecting pricing and access to services.

Bank of Uganda acknowledges these concerns but argues that the long-term benefits; financial stability, depositor protection, and reduced systemic risk, outweigh the costs such as the likelihood of taxpayer-funded bailouts and economic disruption.

Reduced

'... shareholders of ABC Capital, Guaranty Trust Bank and Opportunity Bank took a strategic decision to transition to tier 2 license class. This reduced the number of licensed commercial banks from 25 to 22.'

A sector entering a new phase

Details in the Bank of Uganda report suggest that the banking sector has entered a new phase of maturity. Profitability is strong, capital buffers are deep, and public confidence remains high. At the same time, regulation is becoming more demanding, pushing banks to make strategic choices about scale, scope, and sustainability.

For investors, the numbers signal stability and opportunity, while for smaller players, however, the regulatory environment suggests that the era of low entry barriers and light capital requirements is firmly over.

Bank of Uganda is moving ahead with further reforms, including digital supervision systems, enhanced risk-based oversight, and alignment with global prudential standards. The sector is likely to become leaner, more disciplined, and more resilient.

This is highlighted throughout the report, emphasizing that the banking story in 2025 was no longer about survival, but about strength, structure, and the hard choices that come with progress.