BANK OF UGANDA

OFFICE OF
THE EXECUTIVE DIRECTOR
SUPERVISION

37/43 KAMPALA ROAD,
P.O. BOX 7120,
KAMPALA

DIRECT LINE	256-414-230051
GENERAL LINE	256-414-258441 Ext 2403
FAX LINE	256-414-258515
TELEX	256-414-61059
CABLES	UGABANK
Web site	www.bou.or.ug

EDS.306.2

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Circular to all Commercial Banks and Credit Institutions

Reporting of Loan Impairment Losses in the BoU Statutory Returns and the Computation and Treatment of the Credit Risk Reserve

I refer to the BoU circular dated February 19, 2007 referenced COB/15 on application of the International Financial Reporting Standards vis-à-vis the Bank of Uganda Prudential Regulations, a copy of which is here-on attached for your ease of reference.

Bank of Uganda during the recent tripartite meetings with the commercial banks and the external auditors convened to review the annual accounts for the year 2013 noted variations in the treatment of the Credit Risk Reserve (CRR) when computing capital adequacy requirements. Accordingly, Bank of Uganda wishes to make the following clarifications with regards to the computation and reporting of loan impairment losses in the BoU statutory returns and the treatment of the CRR;

1. The statutory returns submitted to Bank of Uganda should be prepared in accordance with the FIA 2004 and its implementing regulations. Accordingly, banks should assess the impairment losses of their credit exposures in accordance with the FIA 2004 and report accordingly in the statutory returns. In this regard, no CRR should be reported in the statutory returns submitted to BoU.

2. The final accounts should be prepared in accordance with the International Financial Reporting Standards. However, in order to attain convergence on the differences between the IFRS and FIA 2004 requirements, banks will continue to compute the CRR which shall be appropriated from retained earnings. The CRR shall be the difference between FIA 2004 loan loss provisions (specific + general) and the IFRS provisions (individual + collective).

3. The CRR shall not form part of Tier II Capital.

4. The general provisions shall continue to form part of Tier II capital both in the annual accounts and BoU returns and shall be computed in accordance with the FIA implementing regulations. Accordingly, general provisions should amount to at least one percent (1%) of the total performing portfolio net of specific provisions and interest in suspense but not more than 1.25% of the total Risk Weighted Assets.

The clarification takes immediate effect. For any further information, please contact Ms. Lydia Semogerere at lsemogerere@bou.or.ug or 0414258441 EXT. 3314.

Yours faithfully,

Benedict Ssekabira
Ag. Executive Director Supervision