

# BANK OF UGANDA

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## ***Circular to all Chief Executives of Commercial Banks, Credit Institutions and Microfinance Deposit-Taking Institutions***

### **Credit-Related Frauds in the Financial Sector**

During the periodic onsite examinations of supervised financial institutions, Bank of Uganda has noted with a lot of concern the increase in credit-related frauds, which continue to adversely impact the quality of the credit portfolio in the financial sector. Financial institutions are increasingly granting ghost or fictitious loans and recording such loans in their books. Additionally, some members of staff, especially credit officers, are increasingly suppressing deposits and therefore understating loan repayments from borrowers. There are also cases where loan agreements are altered without proper approvals of concerned managers and consent of borrowers.

Furthermore, some members of staff collude with fraudsters to issue multiple financial cards to borrowers, which are used to access credit facilities in different financial institutions. Some of these loans are eventually not repaid. These fraudulent cases, among others, reflect weaknesses in the internal control environment within the credit cycle and overall credit risk management frameworks. They have also contributed to the increase in non-performing advances and losses to financial institutions.

In particular, fictitious loans pose a significant systemic risk as they create fictitious assets and are often used to record fictitious repayments and thus hide the actual level of delinquencies.

In this connection, Bank of Uganda wishes to underscore the importance of strong internal controls including adequate segregation of duties in the credit cycle as part of a sound credit risk management system in supervised financial institutions. Senior management must enhance the Know-Your-Employee procedures and provide closer supervision of the sanctioning and disbursement of loans, among other remedial measures. Secondly, all credit facilities must be subjected to periodic individual risk review to assess accuracy of evolving borrower profiles, adequacy of the credit administration procedures and overall performance of the credit portfolio.

J Bagyenda (Mrs)

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