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Circular to all Chief Executives of Commercial Banks,

Introduction of an Interest Rate Risk Repricing Gap Return

Bank of Uganda (BOU) is in the process of conducting a pilot test on the Interest Rate Risk Repricing Gap Return, to facilitate collection of data and monitoring of the interest rate risk exposure of Commercial Banks. The return will be submitted to BOU on a quarterly basis and banks will be expected to compute the repricing gap of assets and liabilities in each of the major currencies.

Benefits of the Return:

The data obtained from the return will enable BOU to:

- Compute the level of re-pricing risk exposure of banks, as measured by the size of the gap between assets and liabilities.
- Evaluate the effect of changes in interest rates on a bank's net interest income over a one year period.
- Evaluate the effect of changes in interest rates on a bank's economic value by applying sensitivity weights, based on estimates of the duration of the assets and liabilities, to each time band.
- Develop comprehensive stress test scenarios for interest rate risk exposure.
- Develop appropriate limits for interest rate risk exposure so as to facilitate the assessment of the adequacy of risk management systems for interest rate risk during on-site examinations.

In order to ensure the utmost accuracy of the data obtained and the effectiveness of the analysis conducted by BOU, the BOU will, therefore, conduct a pilot test during the month of October to December 2017 on the Interest Rate Risk Repricing Gap Return starting with data as at September 30, 2017. All Commercial Banks are required to complete and submit the return via email through breturns@bou.or.ug together with their **comments** on how the return can be improved. The first return can be submitted at any time but not later than **October 15, 2017** and the subsequent ones in the same timeline.

Please find attached the Interest Rate Risk Repricing Gap Return together with its Compilation Notes.

Charles A Abuka
Ag Executive Director Supervision

COMPILATION NOTES FOR THE INTEREST RATE RISK REPRICING GAP RETURN

1. Items to be entered in various time bands on the Re-pricing Gap Schedule are assets, liabilities and off-balance-sheet items which are interest rate-sensitive i.e. interest rate bearing items as well as non-interest bearing items that are rate sensitive e.g. financial instruments sold at a discount such as zero coupon bonds, etc. Non-interest rate sensitive assets, liabilities and off-balance-sheet items are to be input in "Non-interest rate sensitive" column.

2. On-balance-sheet items are to be input in the Re-pricing Gap Schedule using their book values in UGX as at month end.

3. Financial Institutions (FI) having positions related to foreign interest rates are to prepare re-pricing gap Schedule separated by currency and record the equivalent amounts in UGX using the contractual FX rates or if not specified, using the FX rates on the reporting date.

4. Interest bearing assets and liabilities shall be entered in the Re-pricing gap Return categorized into two groups according to the type of interest rates as follows:

4.1 *Fixed rate items* shall mean assets and liabilities with fixed interest rates. Items with constant fixed rate until maturity such as fixed rate bonds, fixed deposits, etc. shall be entered in the time band according to the remaining time until maturity. For cases where rates are fixed for a period and float in the next period, the entry shall be in the time bands according to the duration before changing to floating rates e.g. mortgage loans with constant interest rate for the first 3 years and after that are floating rate shall be entered in the 2-3 year time band.

4.2 *Floating rate items* shall mean assets, liabilities whose interest rates may fluctuate. Such can be categorized into 2 types, which are:

i. *Variable rate items* - assets and liabilities whose interest rates change at the discretion of the counterparty or with reference rates such as CBR, LIBOR etc. Examples are floating rate notes whose rates change with LIBOR, borrowings at rates based on LIBOR, etc. These shall be recorded in the time bands according to the time remaining until next re-pricing. The assumption is that the reference interest rate will be adjusted immediately after the reporting date. If remaining periods to maturity of the assets or liabilities are less than periods till the next re-pricing, they are to be entered according to the remaining periods to maturity.

ii. *Managed rate items* shall mean assets and liabilities with floating interest rates and no definite re-pricing dates but rates are adjusted at the discretion and strategy of each FI. These are loans with interest rates of 91-day TBill + spread, etc. Such shall be entered in the time band according to the remaining time until the next projected re-pricing date after market rates or reference rates having changed. **The FI must be able to justify its assumptions related to the re-pricing period to Bank of Uganda examiners**. For instance, if the FI historically adjusts its interest rates every 3 months, then the entry shall be made in the 1-3 month time band.

    Alternatively, if the FI adjusts its rates 1 month following the market interest rate movement, then it shall make the entry in the 0-1 month time band. It is assumed that the market interest rate changes immediately after the reporting date.

5. Non-interest bearing assets and liabilities such as zero coupon bonds shall be entered in the time bands according to the time remaining until maturity.

6. Assets and liabilities with installment payments as opposed to single payments at maturity should be entered separately for each amount in the appropriate time bands according to the period before next re-pricing of each amount. For example, a loan with book value of UGX 2 million re-pricing in the next 2 months with a repayment of UGX 100,000 in the next 10 days will be entered as UGX 100,000 in the 0-1 month time band and UGX 1,900,000 in the 1-2 month time band.

7. Internal deals are not reported in the Re-pricing Gap Schedule.

Details for Inputting Asset and Liabilities

<u>**Assets**</u>

1. Cash and Balances from BoU are to be entered in the "Non-interest rate sensitive" column.

2. Due from Banks and Non-banks in Uganda and Abroad are to be entered in the time bands according to the time remaining until the next re-pricing for floating rate items and time remaining until maturities for fixed rate items.

3. Marketable Securities shall be entered in the time bands according to the time remaining until contractual maturities since they have fixed interest rates.

4. Investment securities with floating rates are to be entered in the time bands according to the time remaining until the next re-pricing and Investment securities with fixed interest rates are to be entered in the time bands according to time remaining until contractual maturities.

5. Loans and Advances

5.1 The gross outstanding balance is to be entered.

5.2 Generally loans and advances to be entered in the time bands according to the time remaining until contractual maturities for fixed rate loans and in the time bands according to the time remaining until the next re-pricing for floating rate loans.

5.3 Loans and advances with uncertain re-pricing dates but interest rate changes depend on the strategy of each FI such as interest rates based on CBR, Treasury Bill rates etc shall be entered in the time bands according to the remaining time which the FI next expects to adjust the interest rates or after the changes in market rates or reference rates.

5.4 Loans with repayments in the interim between the reporting date and the next re-pricing date shall be entered in the appropriate columns splitting the repayment amounts and the residual amounts. The residual amounts (the total loan amounts minus the repayment amounts) are to be entered in the time bands according to the next re-pricing. The repayment amounts shall be entered in the time bands according to the contractual due dates.

5.5 Credit card loans are to be divided into 2 time bands i.e. “Non-rate sensitive” for outstanding balance which the customers shall pay in full, and the time bands according to the next re-pricing for the outstanding balance. The proportion of the outstanding balance in each part depends on the historical behavior of the portfolio.

6. Other assets such as prepayments, land and premises other non-rate sensitive items shall be entered in the "Non-rate sensitive" column.

Liabilities and Shareholders' Equity

7. Deposits

7.1 Current account balances shall be entered in the time bands according to the time remaining to the next re-pricing.
7.2 Savings account balances shall be entered in the time bands according to the time remaining until re-pricing.
7.3 Fixed deposits shall be entered in the time bands according to the time remaining until maturities.

8. Due to banks and Non banks in Uganda and Abroad shall be entered in the time bands according to periods until the next re-pricing for floating rate items and until maturity for fixed rate items.

9. Borrowings from BoU shall be entered in the time bands according to the contractual maturities since they are at fixed interest rates.

10. Bills payable, Inter office accounts and Other liabilities shall be entered in the time bands according to the periods until the next re-pricing or time remaining until maturity or if they are not sensitive to interest rate changes, they are to be entered in the "Non-rate sensitive" column.

11. Shareholders' equity

11.1 Common shares shall be entered in the "Non-rate sensitive" column.

11.2 Preferred shares with attributes similar to equity instruments shall be entered in the "Non-rate sensitive" column and those with attributes similar to debt instruments shall be entered in the time bands according to the periods until the next re-pricing.

11.3 Others such as paid-in capital and retained earnings, etc. shall be entered in the "Non-rate sensitive" column.

INTEREST RATE RE-PRICING GAP SCHEDULE D

<u>Items Denominated in Euros (Figures in Shs; 000s)</u>

	Interest rate Sensitive Items											Non-interest rate sensitive	
Days to Maturity/Days remaining to re-pricing	***0 – 7 days***	***8 – 30 days***	***31 – 60 days***	***61 – 90 days***	***91 – 180 days***	***6 – 12 months***	***1 - 2 years***	***>2- 3 years***	***>3 - 5 years***	***>5 - 10 years***	***> 10 years***		***Total***
I. ASSETS													
A. On Balance Sheet													
1. Cash and balances from BOU													-
2. Due from Banks and Non-Banks in Uganda													-
3. Due from Banks and Non-Banks abroad													-
4. Marketable Securities													-
5. Investment Securities													-
6. Loans and Advances													-
7. Inter-Office Accounts													-
8. Fixed assets													-
9. Other assets													-
B TOTAL ASSETS	-	-	-	-	-	-	-	-	-	-	-	-	-
II. LIABILITIES													
A. On Balance Sheet													
1. Deposits													
1.1 Demand and call													-
1.2 Savings													-
1.3 Time													-
1.4 Certificate of deposits													-
2. Balances due to Banks and Non-Banks													-
3. Borrowing from BOU													-
4. Bills payable													-
5. Inter-office accounts													-
6. Capital and reserves													-
7. Year-to-date profits													-
8. Other Liabilities													-
III. Total liabilities and reserves	-	-	-	-	-	-	-		-	-	-	-	-
IV. Re-pricing gap (I less III)	-	-	-	-	-	-	-	-	-	-	-	-	

INTEREST RATE RE-PRICING GAP SCHEDULE E

Items Denominated in Kenya Shillings (Figures in Shs; 000s)

	Interest rate Sensitive Items											Non-interest rate sensitive	
Days to Maturity/Days remaining to re-pricing	***0 – 7 days***	***8 – 30 days***	***31 – 60 days***	***61 – 90 days***	***91 – 180 days***	***6 – 12 months***	***1 - 2 years***	***>2- 3 years***	***>3 - 5 years***	***>5 - 10 years***	***> 10 years***		***Total***
I. ASSETS													
A. On Balance Sheet													
1. Cash and balances from BOU													-
2. Due from Banks and Non-Banks in Uganda													-
3. Due from Banks and Non-Banks abroad													-
4. Marketable Securities													-
5. Investment Securities													-
6. Loans and Advances													-
7. Inter-Office Accounts													-
8. Fixed assets													-
9. Other assets													-
B TOTAL ASSETS	-	-	-	-	-	-	-	-	-	-	-	-	-
II. LIABILITIES													
A. On Balance Sheet													
1. Deposits													
1.1 Demand and call													-
1.2 Savings													-
1.3 Time													-
1.4 Certificate of deposits													-
2. Balances due to Banks and Non-Banks													-
3. Borrowing from BOU													-
4. Bills payable													-
5. Inter-office accounts													-
6. Capital and reserves													-
7. Year-to-date profits													-
8. Other Liabilities													-
III. Total liabilities and reserves	-	-	-	-	-	-	-		-	-	-	-	-
IV. Re-pricing gap (I less III)	-	-	-	-	-	-	-	-	-	-	-	-	-

INTEREST RATE RE-PRICING GAP SCHEDULE F

Items Denominated in Other Foreign Currencies (Figures in Shs; 000s)

	Interest rate Sensitive Items											Non-interest rate sensitive	
Days to Maturity/Days remaining to re-pricing	***0 – 7 days***	***8 – 30 days***	***31 – 60 days***	***61 – 90 days***	***91 – 180 days***	***6 – 12 months***	***1 - 2 years***	***>2- 3 years***	***>3 - 5 years***	***>5 - 10 years***	***> 10 years***		***Total***
I. ASSETS													
A. On Balance Sheet													
1. Cash and balances from BOU													-
2. Due from Banks and Non-Banks in Uganda													-
3. Due from Banks and Non-Banks abroad													-
4. Marketable Securities													-
5. Investment Securities													-
6. Loans and Advances													-
7. Inter-Office Accounts													-
8. Fixed assets													-
9. Other assets													-
B TOTAL ASSETS	-	-	-	-	-	-	-	-	-	-	-	-	-
II. LIABILITIES													
A. On Balance Sheet													
1. Deposits													
1.1 Demand and call													-
1.2 Savings													-
1.3 Time													-
1.4 Certificate of deposits													-
2. Balances due to Banks and Non-Banks													-
3. Borrowing from BOU													-
4. Bills payable													-
5. Inter-office accounts													-
6. Capital and reserves													-
7. Year-to-date profits													-
8. Other Liabilities													-
III. Total liabilities and reserves	-	-	-	-	-	-	-		-	-	-	-	-
IV. Re-pricing gap (I less III)	-	-	-	-	-	-	-	-	-	-	-	-	

INTEREST RATE RE-PRICING GAP ANALYSIS SCHEDULES FOR BALANCE SHEET ITEMS DENOMINATED IN DIFFERENT CURRENCIES

INTEREST RATE RE-PRICING GAP SCHEDULE A

Total All Currencies(Figures in Shs; 000s)

	Interest rate Sensitive Items											Non-interest rate sensitive	
Days to Maturity/Days remaining to re-pricing	***0 – 7 days***	***8 – 30 days***	***31 – 60 days***	***61 – 90 days***	***91 – 180 days***	***6 – 12 months***	***1 - 2 years***	***>2- 3 years***	***>3 - 5 years***	***>5 - 10 years***	***> 10 years***		***Total***
I. ASSETS													
A. On Balance Sheet													
1. Cash and balances from BOU	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Due from Banks and Non-Banks in Uganda	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Due from Banks and Non-Banks abroad	-	-	-	-	-	-	-	-	-	-	-	-	-
4. Marketable Securities	-	-	-	-	-	-	-	-	-	-	-	-	-
5. Investment Securities	-	-	-	-	-	-	-	-	-	-	-	-	-
6. Loans and Advances	-	-	-	-	-	-	-	-	-	-	-	-	-
7. Inter-Office Accounts	-	-	-	-	-	-	-	-	-	-	-	-	-
8. Fixed assets	-	-	-	-	-	-	-	-	-	-	-	-	-
9. Other assets	-	-	-	-	-	-	-	-	-	-	-	-	-
B TOTAL ASSETS	-	-	-	-	-	-	-	-	-	-	-	-	-
II. LIABILITIES													
A. On Balance Sheet													
1. Deposits	-	-	-	-	-	-	-	-	-	-	-	-	-
1.1 Demand and call	-	-	-	-	-	-	-	-	-	-	-	-	-
1.2 Savings	-	-	-	-	-	-	-	-	-	-	-	-	-
1.3 Time	-	-	-	-	-	-	-	-	-	-	-	-	-
1.4 Certificate of deposits	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Balances due to Banks and Non-Banks	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Borrowing from BOU	-	-	-	-	-	-	-	-	-	-	-	-	-
4. Bills payable	-	-	-	-	-	-	-	-	-	-	-	-	-
5. Inter-office accounts	-	-	-	-	-	-	-	-	-	-	-	-	-
6. Capital and reserves	-	-	-	-	-	-	-	-	-	-	-	-	-
7. Year-to-date profits	-	-	-	-	-	-	-	-	-	-	-	-	-
8. Other Liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-
III. Total liabilities and reserves	-	-	-	-	-	-	-	-	-	-	-	-	-
IV. Re-pricing gap (I less III)	-	-	-	-	-	-	-	-	-	-	-	-	