BANK OF UGANDA

INSTRUCTIONS FOR THE COMPLETION OF THE MONTHLY REPORT ON CREDIT RISK

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1. General Instructions

a. This form provides Bank of Uganda (BOU) with information on the performance of supervised financial institutions (SFIs)' loan books.

b. This information is to be used to analyse loan performance in terms of impairment classification, provisioning, and concentration as reported under both the FIA (2004) regulations and the IFRS 9 standard.

c. The form is to be completed monthly, with blank forms issued prior to each month-end by BOU.

d. This monthly return is to be submitted not later than 11 days after the end date of the reporting month.

e. Unless stated otherwise, amounts reported must be in thousands of Uganda shillings.

f. All entries are to be reported in the local currency, the local currency equivalent of foreign currency-denominated amounts, and the consolidated currency position.

g. Institutions are advised to consult their external auditor should any accounting questions arise as to proper preparation of this return. External auditors will be requested to verify the accuracy of this return as part of the scope of their external audits. SFIs may also contact Bank Supervision, Bank of Uganda, with any questions concerning these instructions for completion of this return.

2. Schedule 1: Report on Non-Performing Loans

The report on non-performing loans (NPLs) should be completed for all advances as they are reported in Schedule 2 of the BS100. SFIs are required to provide a breakdown of the NPLs by the economic sectors and borrower types listed in the return. Note that NPLs represent advances that are not generating income. According to the FIA (2004), loans are considered to be non-performing when:

a. For loans with pre-established repayment schedules:

   i. Principal or interest is due and unpaid for 90 days or more <u>or,</u>

   ii. Interest payments equal to 90 days interest or more have been capitalized, refinanced, renegotiated, restructured, or rolled over.

b. For overdrafts or any other form of advance without pre-established repayment programs, non-performing status exists when <u>anyone</u> of the following conditions exists:

   i. Advances exceed the customer's established borrowing limit for 90 consecutive days or more,

   ii. Customer's borrowing line has expired for 90 days or more,

   iii. Interest is due and unpaid for 90 days or more,

   iv. The account is inactive meaning that deposits are insufficient to cover the interest capitalized, or otherwise charged, over a 90-day period.

Overdrafts that meet condition b(iv) above through insufficient credits to cover capitalized interest over a 90-day period must be reported as non-performing. Also, it should be noted that advances that have been capitalized, refinanced, or rolled over when interest is 90 days in arrears must be shown as non-performing in this return. For the purposes of this definition, the balance outstanding, meaning the principal plus all capitalized interest, and not the value of delinquent payments, is used in calculating the aggregate amount of non-performing obligations.

3. Schedule 2: Report on Credit Classification and Provisioning

The report on credit classification and provisioning seeks information in the areas of provisioning, interest in suspense, and advances written off. For both FIA and IFRS 9 reporting, SFIs are required to provide data on the classification and provisioning of their loan portfolios, complete provision statements for the reporting period and year-to-date, and report on charges and recoveries on NPLs by economic sector.

3.1. Definitions

a. **General provisions**: A provision established against future, and as yet unidentified, losses. When subsequently identified, such losses are charged off against the provision, and any recoveries eventually made on the asset charged off are credited back to the provision. General provisions are unencumbered in that they are not identified with any known or potential loss.

b. **Specific provisions**: A provision established against a presently identified loss or probable loss. When all or a portion of an advance is so deemed, a specific provision is established against the amount judged, not collectible. Should the advance improve in status, its provision may be eliminated or reduced. Specific provisions do not provide a cushion for any future losses as all amounts are set against presently identified problem assets. When all efforts of recovery have been exhausted, the balance of the advance should be written off against the specific provision.

c. **Interest in suspense**: Interest in suspense is defined as interest on a non-performing asset (normally an advance) that has been earned but not yet collected and such collection is uncertain. When such interest is accrued or is capitalized, the offsetting credit entry is placed in a valuation reserved called "interest in suspense" rather than taken into income. Thus, in effect, interest in suspense is a provision for interest earned but not yet collected. Establishment of an interest in suspense account prevents overstatement of bank profits by precluding interest income being inflated by amounts that may never be actually collected.

3.2. Credit classification and provisioning

3.2.1. Schedule 2A: Classification and Provisioning – FIA Reporting

SFIs are required to provide ageing analysis and classification of their loan portfolio and the provisions total held for the total loan book. In addition, the required provisions based on the are computed automatically and compared with the reported provisions as per the books in order to determine any shortfalls. The reported provisions as per the books must equal to the sum of the general and specific provisions' ending balances in the year-to-date provision statements. The ageing analysis, classification, and computation of required provisions are based on the Financial Institutions (Credit Classification) Regulations of 2005. The total portfolio values derived from both the ageing analysis and classification must respectively be equal to the total outstanding value of loans and advances reported in the BS100.

3.2.2. Schedule 2B: Classification and Provisioning – IFRS 9 Reporting

SFIs are required to provided details about the classification of their total loan books and the associated expected credit losses according to the requirements of the IFRS 9 and the respective guidelines issued by BOU. The total portfolio value derived from the loan classification must be equal to the total outstanding value of loans and advances reported in the BS100.

3.3. Provision statements

The provision statements are contained in schedules 2C and 2D of the report.

a. Statement of general provisions

i. **Beginning balance:** Represents the balance in the provision at the start of the reporting period. For example, a bank with financial year-end 31 December, the beginning balance for the year 2021 would be at the close of business 31 December 2020.

ii. **Transfers to the provision:** Represents credit entries to the provision that are normally offset by a debit (expense) to the income statement. Thus, this item is in the "current quarter" column on the statement of income and expense (BS110). If transfers to the provision come from another source (outside the income statement), such as a direct charge to capital, these should be so described separately.

iii. **Gross charge-offs:** Represents entries that reflect amounts of advances on a gross basis that were charged off during the quarter.

iv. **Recoveries on prior charge-offs:** Represents credit entries that reflect amounts recovered on advances that were previously charged off, also shown on a gross basis. The amount charged off above, less recoveries on previous charge-offs, represents net loan losses.

v. **Other entries:** Represents any other entry to the provision and should be described in full in an attachment to the return.

vi. **Ending balance**: Represents beginning balance plus transfers to the account less gross charge-offs, plus recoveries and then adjusted for any other entries. The ending balance should agree with the amount on the BS100 for the same date.

b. Statement of specific provisions

i. **Beginning balance:** See instructions above for beginning balance on general provisions.

ii. **Provisions established in the year:** Represents the total, on a gross basis, of all specific provisions made for advances or portions of advances deemed non-collectible in the period called for. This is a credit entry, with the offsetting debit entry normally being an expense to the income statement. It should be noted that when a specific provision is established, the book value of the advance is not reduced; instead, a specific provision serves as an offset to an asset deemed non-collectible at present.

iii. **Reductions regarding improved status:** Represents the total, on a gross basis, of reductions to specific provisions for all advances which, due to improved status, have been deemed to need a smaller provision (or no provision at all). This is a debit entry with offsetting credit entries normally going to the income statement. Note that the net value of provisions established, less reductions regarding improved status, represents the <u>net</u> addition to specific provisions. This amount <u>should</u> agree (if not, it should be described separately) with the value reported in the statement of income and expense (BS110).

iv. **Write-offs against the provision**: Represents the total of actual write-offs that take place when all collection efforts have been exhausted. The write-off removes the advance from the books of the bank (a credit entry to the advance), unlike the specific provision that allows the book balance to remain. When a credit entry is made on the advance, an offsetting debit entry is made to specific provisions. However, for reporting purposes, write-offs should be shown separately on this line to show the total of debit entries offsetting the credit entries made to write off advances (though their ultimate impact is to reduce the balance of specific provisions as well as to write down or write-off the book value of the asset).

v. **Other entries:** Represents any other entry to the provision and should be described in full in an attachment to the return.

vi. **Ending balance:** Represents the beginning balance plus specific provisions established in the financial year, less recoveries due to improved status and less write-offs to the provision and then adjusted for any other entries. The ending balance in the "year-to-date" statement must agree with the amount on the BS100 as of the same date.

vii. **Interest in suspense:** If a method of non-accrual of interest is used and such non-accrual is held in a memoranda account, show that amount in interest in suspense and so indicate.

3.4. Charge-offs, write-offs, and recoveries

Gross amounts charged off, written off, and gross recoveries on such charge-offs by sector for the year-to-date in the current financial year are reported in schedules 2E.

If a general provision is used, the total must agree with charge-offs in the year-to-date statement of general provisions. The total of recoveries for the all the economic sectors must also agree with the recoveries in the year-to-date statement of general provisions. If specific provisions are used, the charge-offs represent the gross provisions established in the year-to-date statement of specific provisions (not write-offs to the provision). In turn, the recoveries represent reductions due to improved status in the year-to-date statement of specific provisions. The total of write-offs on all economic sectors must agree with the write-offs against provisions in the year-to-date statement of specific provisions.

4. Schedule 3: Analysis of Asset Exposure and Expected Credit Losses under IFRS 9

SFIs are required to report on the status of their assets (Schedules 3A-3D) and their associated expected credit losses (Schedules 3E-3H) as at the end of the reporting period according to the requirements of IFRS 9 and the relevant guidelines that were issued by BOU. SFIs will be required to show – by asset type, borrower type, economic sector, and time to maturity – the outstanding values that are categorised as being in Stages 1 to 3. Note that:

- The value of total on- and off-balance sheet assets in Schedule 3A must equal to the value of total on- and off-balance sheet assets as reported in the BS100.
- The value of total assets by institutional counterparty in Schedule 3B must equal to the value of total assets as reported in the BS100.
- The value of total assets by economic sector in Schedule 3C must equal to the value of total assets as reported in the BS100.
- The value of total assets by time-to-maturity in Schedule 3D must equal to the value of total assets as reported in the BS100.
- The total outstanding loans and advances for each stage must equal to the values reported in the classification section of Schedule 2B, and the value in the "TOTAL" column must equal the total portfolio value in Schedule 2B as well.

5. Schedule 4: Analysis of Expected Credit Loss Components under IFRS 9

SFIs are required to provide a breakdown of the computation of their expected credit losses (ECLs) by asset type (Schedule 4A), borrower type (Schedule 4B), economic sector (Schedule 4C), and time-to-maturity (Schedule 4D). Note that the ECLs reported are on all assets, where applicable, and not just the loan book. SFIs are to report positions as at the end of the reporting period according to the requirements of IFRS 9 and the relevant guidelines that were issued by BOU. In each sub-schedule, SFIs are to provide the summed value of exposure at default and loss value, while the loss given default and probability of default should be the average values derived at each level of aggregation. Note the value of total ECLs must equal to the total values reported in schedules 3E to 3H.

6. Schedule 5: Report on the Flow of Loans and Provisions

The purpose of this schedule is to monitor the transition of SFIs' aggregate loan portfolios and provisions across different classifications during the reporting period. Schedules 5A to 5D are for currency values, while schedules 5E and 5F are for number of loans.

The tables should show movements that occurred during the reporting month. Table 1 below is an illustration of a transition table for an SFIs' total loan book reported according to FIA, and it can be interpreted as follows. Looking at how loans in the normal category moved, UGX 25 billion remained in normal status, UGX 2 billion moved from normal to watch status, UGX 9 billion to doubtful status, and UGX 1 billion to loss status. Similarly, for loss loans, UGX 2 billion reverted to normal status during the month.

Table 1: Illustration of flow of loans during a reporting month (UGX billions)

	Flow during month to:				
	Normal	**Watch**	**Substandard**	**Doubtful**	**Loss**
Normal	25	2	9	1	0
Watch	3	14	2	0	1
Substandard	7	0	15	3	0
Doubtful	0	0	0	4	6
Loss	2	0	0	0	10

7. Schedule 6: Monthly Report on Top 20 Borrowers

SFIs are required to report on their top 20 borrowers on the basis of the value of their on- and off-balance sheet loan exposures as at the end of the reporting month, along with the loan status, the associated collateral value and type, and the economic sector/activity for which the loan was borrowed. Note that the information in this schedule is to be reported according to the FIA regulations.

8. Schedule 7: Monthly Report on Credit Concentration and Large Exposures

SFIs are required to provide information on all their large credit exposures as per the definition in the FIA regulations including value of their loan on- and off-balance sheet exposures as at the end of the reporting month, the exposures relative to core and total regulatory capital, the status of the loans, the associated collateral value and type, and the economic sector/activity for which the loan was borrowed. Note that the information in this schedule is to be reported according to the FIA regulations.

9. Schedule 8: Monthly Report on Credit Facilities Extended to Insiders

SFIs are required to provide information on all their credit exposures to insiders as per the definition in the FIA regulations including outstanding loan value as at the end of the reporting month and the prescribed loan ceiling amount. Note that the information in this schedule is to be reported according to the FIA regulations.

10. Schedule 9: Monthly Report on Large Non-Performing and Bad Debts Written Off

SFIs are required to provide information on the credit exposures that exceed UGX 500 million that are non-performing or written off. For each exposure, you must provide the outstanding amount as at the end of the reporting month, the status of the loan, the associated provisions, and the economic sector/activity for which the loan was borrowed. Note that the information in this schedule is to be reported according to the FIA regulations.

11. Schedule 10: Monthly Report on Restructured Credit Facilities

SFIs are required to provide information on the credit exposures that were restructured during and as at the end of the reporting month. As per the Financial Institutions Credit Classification Regulations (2005), a restructured credit facility is a facility which has been refinanced, rescheduled, rolled over, or otherwise modified because of weaknesses in the borrower's financial position or the non-payment of the debt as arranged.

In schedules 10A – 10D, SFIs are to provide data on the value of applications for credit restructuring received and/or approved broken down by number of restructurings, economic sector, and restructuring type. In schedules 10E – 10H, SFIs are to report on the outstanding value of credit facilities that have been restructured as at the end of the reporting month, broken down by economic sector, the type of restructuring granted, the time to maturity of the restructuring granted, and the number of times they have been restructured. The overall sums of the breakdowns in schedules 10E – 10H MUST be equal.

In schedule 10I, SFIs are to provide the sectoral breakdown of the outstanding value of credit facilities that have been restructured up to two times as at the end of the reporting month. The total value of these loans MUST equal the outstanding value of loans that have been restructured twice as reported in schedule 10H. In schedule 10J, SFIs are required to provide the sectoral breakdown of the outstanding value of restructured credit facilities that are past due in repayment by at least one day as at the end of the reporting month. In schedule 10K, SFIs are to report on the changes in the portfolio of restructured loans during the reporting month. Note that the total outstanding value of restructured credit facilities in schedule 10K MUST equal the overall sums in schedules 10E – 10H. Schedules 10L and 10M require SFIs to provide the classification of the outstanding restructured credit facilities as at the end of the reporting month according to the FIA and MDI regulations and IFRS 9. Note that SFIs may be required to elaborate on significant variances between the FIA/MDI and IFRS 9 positions.

12. Schedule 11: Monthly Report on Unsecured Loans

According to the FIA (2004), an unsecured loan is a credit facility made without security or, a securitised credit facility which at any time exceeds the market value of the assets constituting that security. In this schedule, SFIs are to provide information on the outstanding value of unsecured loans and their performance as at the end of the reporting month, broken down by economic sector and borrower type. Note that for the "Building, Mortgage and Real Estate" sector, SFIs are not required to provide any information in the mortgage categories. In addition, the values reported for "Land Purchase" MUST not include loans extended for land purchase where the title of the land is taken as collateral by the SFI.

13. Schedule 12: Monthly Report on Digital Loans

For purposes of this return, a digital loan is a loan facility that is extended through a digital medium such as a website or a mobile phone application. These loans are typically processed more flexible terms and are expected to take less time to be disbursed as compared to conventional loans. In this schedule, SFIs are to provide information on the outstanding value AND number of digital loans extended during the reporting month, broken down by economic sector, borrower type, and time to maturity.