BANK OF NAMIBIA

CIRCULAR BIA 2/07

TO: ALL BANKING INSTITUTIONS

DATE: 13 June 2007

TREATMENT OF PROVISIONS

1. Introduction

Prior to the introduction of the new Accounting Standard IAS 39, banking institutions were calculating and reporting provisioning for doubtful and bad debts and general provisions (unexpected losses), in accordance with the Generally Accepted Accounting Standards and the Determination on Asset Classification, Provisioning and Suspension of Interest (BID-2). The Determination is specific on how provisioning for loan and advances should be calculated and be reported by banking institutions on form BIR 500.

The introduction of IAS 39 has brought about a different approach and methodology in determining the appropriate levels and disclosure of credit impairments, consisting of specific and portfolio impairments.

The purpose of this Circular is therefore to provide guidelines on the treatment of the provisioning by all banking institutions. Any further amendments to the Determination on Asset Classification, Provisioning and Suspension of Interest (BID-2) will be assessed in line with the implementation requirements of the New Capital Adequacy Requirements (Basel II).

2. Guidelines on provisioning

In order to avoid a situation whereby impairment computed in terms of the provisions of the IAS 39 to be lower than it would be under the requirements of BID-2, and hence weaken the protection against credit risk, banking institutions are required to adhere to the following prescriptions:

Banking institutions are required to calculate their provisions (impairments) in accordance with the requirements of both the IAS 39 and BID-2.

2.1 Specific impairments computed in terms of IAS 39 should not be less than the amount of specific provisions computed in terms of BID-2. Should the former provisions amount to less than the latter, additional specific provisioning should be raised to eliminate the shortfall.

2.2 Total impairments, consisting of specific and portfolio impairments, computed in terms of IAS 39 should not be less than total regulatory provisioning (specific and general) computed in terms of BID-2.

Should the former impairments amount to less than the latter, an additional general credit-risk reserve ("GCRR"), on a pre-tax basis equal to or exceeding the shortfall, should immediately be created through an appropriation of distributable reserves to eliminate the shortfall.

2.3 In the event that, IAS 39 specific impairment and / or portfolio impairment is greater than the regulator provisions calculated in terms of BID-2 and are considered to be material, the Bank encourages all banking institutions to provide for the greater amount.

3. Disclosure (Reporting on the statutory returns)

3.1 FORM BIR 500 (Credit Risk return) – As currently required by BID-2 and BIR 500 return.

3.2 FORM BIR 100 (Balance Sheet return) – As currently required.

3.3 FORM BIR 400 (Capital Adequacy return) – For purposes of this Circular, this Office considers both the IAS 39 portfolio impairment and general credit risk reserve "GCRR" (to the extent of the shortfall between the aggregate of all IAS 39 impairments and aggregate of all required regulatory provisions), on a post-tax basis, to constitute "secondary reserve funds" and therefore, to constitute part of secondary capital.

4. Effective date

The effective date of this Circular is 01July 2007. All banking institutions are expected to comply with the provisions of this Circular.

5. Additional Copies

Two additional copies of this Circular are enclosed for the use of your banking institution's independent auditors. The attached "Acknowledgement of Receipt" duly completed and signed by both the Managing Director of the banking institution and the said auditors should be returned to this Office at your earliest convenience.

LIONEL MATTHEWS

DIRECTOR