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BANK OF ZAMBIA

P.O. Box 30080 Lusaka
10101

21 February 1996

C B Circular No.3/96

To All Commercial Banks

Dear Sirs

CAPITAL ADEQUACY REQUIREMENT

Following several queries made regarding the nature of capital qualifying for the June 30 and December 31 1996 requirements, and the method of calculating this capital, I wish to make the following clarifications and comments.

For new banks commencing operations, an unimpaired minimum primary (tier 1) paid-up capital of K2 billion is required before a licence can be issued by Bank of Zambia.

For existing banks, the minimum capital requirement of K 1,250 billion by June 30 and K 2.0 billion by December 31 of this year, as specified in the Bank's letter of 3 October 1995, is on the basis of the calculation made using the second schedule of the Capital Adequacy Regulations (item (o) of the tier 1 calculation). The Regulations provide that these minimums are subject to periodic revision and may be increased by the Bank of Zambia as need arise.

Also, adequate provisions on non-performing loans should be deducted from gross capital in this calculation if these are not already booked in order to reflect the realistic values of the bank's loans portfolio. As the supervisory authority, the Bank will in its evaluation of any calculation of tier 1 capital, adjust existing provisions to a level which it considers sufficient and reasonable under current circumstances.

Banks are also advised that they are required to maintain this minimum level of capitalization at all times and should not, under any circumstances, fall below that level.

In cases where a bank fails to meet or maintain the minimum capital requirement, including the minimum 10 percent of total capital and 5 percent core (tier 1) capital ratios, it will be required to immediately inject additional capital to make good on the deficiency.

Yours faithfully

A handwritten signature in dark ink, appearing to be 'S Musokotwane', with a long, sweeping horizontal stroke extending to the right.

S Musokotwane (Dr)
ACTING DEPUTY GOVERNOR