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BANK OF ZAMBIA

P.O. Box 30080 Lusaka
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5 March 1996

C B Circular No. 5/96

To all Commercial Banks

Dear Sirs

SUBJECT: CAPITAL ADEQUACY REQUIREMENTS

Following the Acting Deputy Governor's letter of 21 February 1996 on Bank of Zambia's new capital requirements, in which clarifications are made concerning the method of calculating Tier 1 and Tier 2 capital levels, we have revised the Schedule (which accompanies the Capital Adequacy Regulations) for computing banks' capital positions to more clearly reflect the major adjustments which are necessary to arrive at the minimum Tier 1 capital level of K1.250 billion by June 30, 1996 and K2 billion by 31 December.

The revised schedule can be used as a work sheet to complete the adequacy of capital calculation and should facilitate the task of your accounting staff who will have the responsibility of preparing these returns.

Essentially, the adjustments we have made to the Schedule are to provide, in the Primary (Tier 1) calculation, for deductions from gross capital, of

- . provisions on loans and advances and/or investments such as shares which the bank has not booked and which Bank of Zambia believes necessary to reflect these assets at a realistic and realizable value;
- . assets of little or no realizable value, such as prepaids of all types and inventories of materials which would normally be consumed within the year;
- . outstanding and unreconciled or uncleared suspense and inter-branch accounts, including all unreconciled amounts and balances of two months or more, unrealized gains included in profits, and any other amount for which full or partial receipt or collectibility is in doubt; and any assets carried at values for which a bank cannot reasonably justify.

We have also used the opportunity of this revised form to effect minor changes in the Schedule, including typing errors which have unfortunately slipped in concerning references to Regulation numbers in the Tier 2 section. Should this become necessary, we will resubmit the amendments to the Minister of Finance for ratification.

Please do not hesitate to contact the undersigned for any queries concerning the above.

Yours sincerely,



JONATHAN M. MUKE

Director, Financial System Supervision

enclosure

cc Governor
Acting Deputy Governor

COMPUTATION OF CAPITAL POSITION

As at

Bank/Financial Institution: _____

I PRIMARY (TIER 1) CAPITAL	(K Millions)
(a) Paid-up common shares	_____
(b) Eligible preferred shares	_____
(c) Contributed surplus	_____
(d) Retained earnings (note 1)	_____
(e) General reserves	_____
(f) Statutory reserves	_____
(g) Minority interests (common shareholders' equity)	_____
(h) Sub-total	_____
LESS:	
(i) Goodwill and other intangible assets	_____
(j) Investments in unconsolidated subsidiaries and associates	_____
(k) Lending of a capital nature to subsidiaries and associates	_____
(l) Holding of other banks' or financial institutions' capital instruments	_____
(m) Assets pledged to secure liabilities	_____
Sub-total (A) (items i to m)	_____
OTHER ADJUSTMENTS:	
Provisions (note 2)	_____
Assets of little or no realizable value (note 3) - specify details or use separate list if necessary	_____
_____	_____
Other adjustments (specify)	_____
_____	_____
(n) Sub-total (B) (Sub-total A above + Other adjustments)	_____
(o) Total primary capital (h - n)	_____

II SECONDARY (TIER 2) CAPITAL

- (a) Eligible preferred shares
(regulations 13 and 17) _____
- (b) Eligible subordinated term debt
(regulation 17(b)) _____
- (c) Eligible loan stock/capital
(regulation 17(b)) _____
- (d) Revaluation reserves
(regulation 17(a)) (Max. is 40% of rr) _____
- (e) Other (regulation 17(c))
Specify _____
- (f) Total secondary capital _____

III ELIGIBLE SECONDARY CAPITAL (the maximum amount of secondary capital is limited to 100% of primary capital)

IV ELIGIBLE TOTAL CAPITAL (I(o) + III) (Regulatory capital)

V MINIMUM TOTAL CAPITAL REQUIREMENT: (10% of total on and off balance sheet risk-weighted assets as established in the First schedule (note 1))

VI EXCESS (DEFICIENCY) (IV minus V)

- (1) including loss as at date of reporting, or profits net of a reasonable tax provision if accounts are not adjusted or closed.
- (2) these are for unbooked provisions which are deemed necessary to reflect loans and advances and/or other investments such as shares at realistic and realizable values.
- (3) these include prepaids of all types, including inventories of materials which would normally be consumed within the year, outstanding and unreconciled or uncleared suspense and inter-branch accounts, including all unreconciled amounts and balances of two months or more, unrealized gains included in profits, and any other amount for which full or partial receipt or collectibility is in doubt.
- (4) minimum Primary (Tier 1) capital (item I(o) on previous page) for all banks shall be K1.250 billion by 30 June 1996 and K2.0 billion by 31 December 1996.