



BANK OF ZAMBIA

P.O. Box 30080 Lusaka
Tel: 228896/228912

10 April 1996

C B Circular No.7/96

To : All Non-Bank Financial Institutions

Dear Sirs

MINIMUM CAPITAL REQUIREMENT

Following several queries made regarding the nature of capital qualifying for purposes of complying with the capital adequacy requirements, and the method of calculating this capital, I wish to make the following clarifications and comments.

For new financial institutions commencing operations, an unimpaired minimum primary (tier 1) paid-up capital applicable to that type of institution as specified in the capital adequacy regulations of 1995 is required before a licence can be issued by Bank of Zambia.

For existing financial institutions, the applicable minimum capital requirement specified in the Regulations is calculated using the enclosed revised schedule of the Capital Adequacy Regulations (item (o) of the tier 1 calculation). Please note that the Regulations provide that these minimums are subject to periodic revision and may be increased by the Bank of Zambia as need arise.

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 institution has not booked and which Bank of Zambia believes necessary to reflect these assets at a realistic and realizable value. 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;

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.

Financial institutions 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 financial institution fails to meet or maintain the minimum capital requirement, including the minimum 10% of total capital and 5% core (tier 1) capital ratios, it will be required to immediately inject additional capital to make good on the deficiency.

Financial institutions are further reminded that section 3(2) of the Banking and Financial Services (Capital Adequacy Regulations, 1995) requires that:

" A financial institution which is operational at the coming into force of these Regulations which does not meet the applicable minimum capital requirement at the coming into force of these Regulations shall enter into negotiations with the Bank of Zambia to progressively build up its primary capital to at least the level prescribed by the Bank of Zambia by not later than 12 months after the coming into force of these Regulations."

All operating financial institutions whose minimum capital does not meet the requirements of the Capital Adequacy Regulations but have not yet commenced negotiations with the Bank of Zambia on how they intend to progressively build up their primary capital to the level prescribed are reminded to do so by 30 April 1996.

Yours faithfully



S. MUSOKOTWANE (DR)
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 (n - 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(c) + 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 4))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(c) on previous page) for all banks shall be K1.250 billion by 30 June 1996 and K2.0 billion by 31 December 1996.