BANK OF UGANDA

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Your Ref:.......................................
Our Ref: BS/B1/01(A)..................

3rd August 1993

00126531

Circular to All Banks and Credit Institutions

As prescribed by Section 52 of the 1993 Financial Institutions Statute, the Bank of Uganda has prepared the attached draft regulations on Capital Adequacy Requirements and Asset Quality.

Should you wish to provide comments on any aspect of the proposed regulations, they should be in writing and delivered to the Executive Director Banks Supervision, within 30 days from the date of this circular.

Draft regulations on Credit Concentrations, Insider Lending and Licensing of financial institutions are under internal review and will be provided shortely.

Yours faithfully

C.O. Mwa
DIRECTOR COMMERCIAL BANKING

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REGULATION OF THE BANK OF UGANDA

PRUDENTIAL NORMS ON ASSET QUALITY FOR FINANCIAL INSTITUTIONS

PART I: SHORT TITLE, AUTHORIZATION, APPLICATION, AND INTERPRETATION

SEC. 1 Short Title - Prudential Guidelines

SEC. 2 Authorization - Section 47(a), Financial Institutions Statute, 1993 (hereafter known as the Statute)

SEC. 3 Application - Banks and Credit Institutions in Uganda

SEC. 4 Interpretation

1) "bank" is as defined in Section 2 of the Statute;

2) "banking business" is as defined in Section 2 of the Statute;

3) "classification" means the category of a non-performing credit facility, using either subjective or objective criteria to determine its ultimate collectibility;

4) "Central Bank" means the Bank of Uganda operating under the Bank of Uganda Statute, 1993;

5) "credit facility" means any asset or off-balance-sheet item which contains credit risk, to include: loans, overdrafts, advances, leases, acceptances, bills discounted, guarantees, and other assets or contingencies connected with credit risk;

6) "credit institution" is as defined in Section 2 of the Statute;

7) "doubtful" means a classification of a non-performing credit facility that meets the criteria given in Section 11 of this regulation;

8) "financial institution" is as defined in Section 2 of the Statute, but for the purposes of this regulation, financial institutions shall consist of banks and credit institutions;

9) "general provision" means a loss reserve held against future and presently unidentified losses and is thus freely available to meet losses which subsequently materialize;

10) "interest in suspense" means that the interest on a non-performing credit facility is accrued or capitalized but the offsetting accounting entry is placed in a valuation reserve called "interest in suspense" rather than taken into income;

11) "loss" means a classification of a non-performing credit facility that meets the criteria given in Section 11 of this regulation;

"non-performing" means a credit facility that is not generating income and meets the criteria given in Section 7 of this regulation;

13) "non-accrual" means that a credit facility has been placed on a cash basis for accounting and financial reporting purposes, thus interest earned and/or due but unpaid is not credited to interest income but instead to interest in suspense;

14) "specific provision" means a loss reserve held against presently identified losses or potential losses and thus not available to meet losses which subsequently materialize;

15) "substandard" means a classification of a non-performing credit facility that meets the criteria given in Section 11 of this regulation;

16) "well secured" means that a credit facility has sufficient collateral to protect the bank or financial institution from loss of principal and interest through its timely disposition under a forced liquidation programme. Such security consists of: 1) proper legal documentation; 2) a net realizable market value which is adequate to cover the amount of principal and interest outstanding, as well as the costs of collection; and 3) absence of prior liens on the collateral which could reduce its value or otherwise prevent obtaining clear title. Aspects such as lack of a clear market value or any difficulties in actual foreclosure or disposing of collateral negate a well secured status.

PART II: STATEMENT OF POLICY

SEC. 5 Objectives

1) To ensure that financial institutions are in proper compliance with capital adequacy requirements as called for in Sections 12, 13 and 26(2) of the Statute, and properly state: a) valuation of assets, b) depreciation of assets, and c) provision for bad and doubtful debts;

2) To ensure financial institutions are quantitatively identifying their non-performing credit facilities in order to help ensure collection efforts are undertaken;

3) To ensure financial institutions present balance sheets and income statements that properly reflect the financial impact of non-performing credit facilities.

SEC. 6 Rationale

1) Financial institutions need to, in an accounting sense, recognize problem assets using a quantitative definition of non-performing and then properly treat such assets with regard to accrual of interest, classification according to ultimate collectibility, and to make adequate provisions based on such classification;

2) The recognition of such non-performing assets stimulates collection efforts and thus helps reduce the possibility of loss on such assets;

3) Supervisory authorities worldwide have recognized that their effectiveness is dependent on the integrity of balance sheets and income statements resulting from proper identification and accounting treatment of non-performing assets; failure to set such standards can lead to fictitious profits and misleading balance sheets to the supervisory authority and other interested parties;

4) In September of 1992, the Bank of Uganda issued to all banks a policy statement on "Sound Banking Practices in the Areas of Lending and Accounting." This regulation is consistent with the contents of that policy statement.

PART III: IDENTIFICATION OF NON-PERFORMING CREDIT FACILITIES

SEC. 7 Criteria for non-performing credit facilities

1) A credit facility with a pre-established repayment schedule is considered non-performing when:

a) principal or interest is due and unpaid for 180 days or more <u>or</u>

b) principal or interest payments equal to 180 days interest or more have been capitalized, refinanced, renegotiated, restructured or rolled over.

2) A credit facility without a pre-established repayment program, such as overdrafts or other forms of open-ended credit, is considered non-performing when <u>any one</u> of the following conditions exist:

a) credit facility exceeds the customer's established borrowing limit for 180 consecutive days or more;

b) the customer's borrowing line has expired for 180 days or more;

c) interest is due and unpaid for 180 days or more;

d) the overdraft or account is inactive, meaning that no deposits have been made or deposits are insufficient to cover the interest capitalized or otherwise charged, over an 180 day period.

3) The Central Bank may, at its discretion, choose to change the objective criteria for non-performing credit facilities, but to a period of not less than 90 days in the criteria given in the above subsections.

4) The criteria for non-performing credit facilities apply irregardless of what security is held on the facility.

5) Credit facilities to the Government of Uganda or unconditionally guaranteed by the Government of Uganda are exempt from non-performing status.

SEC. 8 Reporting of non-performing credit facilities to the Central Bank

1) Each financial institution is to report on a quarterly basis to the Central Bank its non-performing credit facilities based on the criteria in Section 7 of this regulation.

2) Failure to report non-performing credit facilities on a timely and accurate basis may subject a financial institution to the remedial measures and/or administrative sanctions in Part VIII of this regulation.

SEC. 9 Repayment schedules of non-performing credit facilities

1) Upon meeting the criteria of non-performing as given in Section 7 of this regulation, credit facilities without a pre-established repayment schedule are to be converted to a pre-established repayment schedule of monthly payments not to exceed 1 year;

2) Financial institutions may apply to the Central Bank for prior exemption from subsection 1) above for specific credit facilities with such application stating the reason why such non-performing facilities should not be converted to a repayment schedule.

PART IV - INCOME RECOGNITION

SEC. 10 Interest Accrual

1) All categories of non-performing credit facilities based on the criteria in Section 7 of this regulation are to be placed on a non-accrual basis, that is interest due but uncollected should not be accrued to income but instead shown as interest in suspense.

2) All interest on non-performing credit facilities previously accrued into income but uncollected is to be reversed and credited into the interest in suspense account until paid in cash by the borrower.

3) Only when all outstanding due and unpaid obligations of a non-performing credit facility have been paid up to date, may the credit facility be returned to an accrual basis.

4) The above subsections apply irregardless of security held on a credit facility.

ꞌRT V - CLASSIFICATION AND PROVISIONING

SEC. 11 Criteria for SUBSTANDARD, DOUBTFUL, & LOSS Classification

1) All non-performing credit facilities are to be classified by banks and financial institutions according to the criteria of this section, unless prior permission of the Central Bank is given under Section 13 (3) of this regulation.

2) Financial institutions are to determine if the criteria chosen is subjective or objective, with the more severe method to be the norm.

3) When a financial institution chooses a subjective classification that is milder that the objective criteria would call for, it must justify such choice in writing to the Central Bank, with the Central Bank having the authority to call for the more severe classification.

4) Criteria for SUBSTANDARD classifications are as follows:

a) SUBJECTIVE CRITERIA: Credit facilities which display well defined credit weaknesses that jeopardize the liquidation of the debt. Substandard credit facilities are not protected by the current sound worth and paying capacity of the borrower. Weaknesses may include: inadequate cash flow to service the debt; undercapitalization or insufficient working capital; absence of adequate financial information or security documentation; irregular payment of principal and/or interest; and inactive overdrafts/other accounts where credit entries (deposits) fail to cover interest charges;

b) OBJECTIVE CRITERIA: Non-performing credit facilities, as defined, on which principal and/or interest remain outstanding (unpaid) for 180 days or more, but less than 1 year.

c) The Central Bank may, at its discretion, change the objective criteria in subsection b) but to a period not less than 90 days.

6) Criteria for DOUBTFUL classifications are as follows:

a) SUBJECTIVE CRITERIA: Credit facilities which in addition to the weaknesses existing in substandard credits, have deteriorated to the extent that full repayment is unlikely or that realizable security values will be insufficient to cover the bank's exposure.

b) OBJECTIVE CRITERIA: Non-performing credit facilities, as defined, on which principal and/or interest remain outstanding (unpaid) for 1 year or more, but less than 2 years unless such assets are well secured by irrevocable guarantees of the Government of Uganda or first class international banks approved by the Central Bank, and the collection in full by drawing on these guarantees is assured.

c) The Central Bank may, at its discretion, change the objective criteria in subsection b) but to a period not less than 180 days.

7) Criteria for LOSS classifications are as follows:

a) SUBJECTIVE CRITERIA: Credit facilities that are considered uncollectible and of such little value that their continuation as bankable assets is not warranted. Such classification does not mean the asset has absolutely no recovery value, but rather that it is neither practical nor desirable to defer writing off this basically worthless assets, even though partial recovery may be effected in the future. Banks and financial institutions should not retain assets on their books while attempting long-term recoveries. Losses should be taken in the quarter in which they are identified as uncollectible.

b) OBJECTIVE CRITERIA: Non-performing credit facilities, as defined, on which principal and/or interest remain outstanding (unpaid) for 2 years or more, unless such assets are well secured by the Government of Uganda or irrevocable guarantees of first class international banks approved by the Central Bank, and collection in full by drawing on these guarantees is assured.

c) The Central Bank may, at its discretion, change the criteria in subsection b) but to a period not less than 1 year.

SEC. 12 Provisions on Classified Credit Facilities

1) Financial institutions are to establish specific provisions for non-performing credit facilities as defined, with such provisions to be reviewed <u>quarterly</u> with such reporting of changes to the provisions to be made to the Central Bank on a quarterly basis.

2) All classified credit facilities are to be subject to specific provisions, irregardless of whether the subjective or objective criteria were used in determining classification.

3) Specific provisions for substandard assets are to be maintained at not less than 20% of the outstanding balance.

4) Specific provisions for doubtful assets are to be maintained at not less than 50% of the outstanding balance.

5) Specific provisions for loss assets are to be maintained by 100% of the outstanding balance. Such assets to be written off the books within 3 months of being identified as loss, unless prior permission of the Central Bank has been obtained.

6) The outstanding balance is to consist of principal, interest which has been capitalized, and all other charges, fees, and other amounts which have been capitalized to the outstanding balance.

7) In addition to specific provisions, banks and financial institutions are to maintain a general provision of at least 1% of the total outstanding of credit facilities, net of specific provisions and unearned interest, unless prior permission of the Central Bank has been given to exempt such bank or financial institution from maintaining a general provision.

SEC. 13 Security with Regard to Classification and Provisioning.

1) All banks and credit institutions are to evaluate the status of security on any credit facility once payment of principal and/or interest falls into arrears or is irregular.

2) Banks and credit institutions are to initiate procedures to realize security once a credit facility is in non-performing status.

3) When a bank or credit institution regards a non-performing credit facility as well secured, as defined, it may apply to the Central Bank for exemption from the classification and provisioning guidelines of this regulation, stating its reasons for such exemption. In determining whether or not to grant such exemption, the Central Bank may call for additional information. Well secured credit facilities shall NOT, however, be exempt from non-performing status and non-accrual status as given in Parts III and IV of this regulation.

PART VI - INSPECTIONS BY THE CENTRAL BANK AND EXTERNAL AUDITS

SEC. 14 Inspections and/or External Audits to Determine Accuracy of Reporting and Compliance

1) As authorized in Section 28 of the Statute, the Central Bank may undertake inspections of financial institutions, and such inspections may include reviews to determine if reporting of non-performing credit facilities, interest accrual for such facilities, and the classification and provisioning for such facilities, has been accurately reported to the Central Bank and is in compliance with this regulation.

2) When such reporting is determined to be inaccurate, the Central Bank may call for revisions to such returns to reflect an accurate position.

3) The Central Bank may impose any of all of the remedial measures and/or administrative sanctions in Part VIII of this regulation with regard to inaccurate or untimely reporting and/or non-compliance to the sections of this regulation.

4) The Central Bank may call upon external auditors to determine if a bank or financial institution is reporting accurately and/or is in compliance with this regulation, as part of the external audit.

15 Determination of Classification and Provisioning

1) If in the course of an inspection, the Central Bank determines that a non-performing credit facility has not been properly classified by management of a financial institution, it may call for such classification and subsequent provisioning, provided, in the judgement of Central Bank inspectors, the classification it calls for fits within the subjective or objective criteria of this regulation.

PART VII - COMPLIANCE TO CAPITAL ADEQUACY REQUIREMENTS

SEC. 16 Central Bank Regulation on Capital Adequacy

1) No financial institution can be determined by the Central Bank to be in compliance with its regulation on Capital Adequacy Requirements unless it is in full compliance with this regulation.

2) When the Central Bank determines that a bank or financial institution is not in compliance with this regulation, it may call for adjustments to balance sheets, income statements and the capital adequacy computation return with regard to non-accrual of interest and adequate provisions as it sees fit.

PART VIII: REMEDIAL MEASURES AND ADMINISTRATIVE SANCTIONS

SEC. 17 Remedial Measures

1) When the Central Bank determines through an inspection that a financial institution is not in compliance with this regulation, it may impose any or all of its enforcement powers under Section 29 of the Statute.

2) When the Central Bank determines that by applying the sections and criteria given in this regulation, a financial institution's condition is so serious that it falls under one or more of the subsections of Section 31(1) of the Statute, it may take the appropriate action as called for under Section 31.

SEC. 18 Administrative Sanctions

In addition to the remedial measures available to it as given above in Section 17 of this regulation, the Central Bank may impose any or all of the following administrative sanctions with regards to a financial institution that is not in compliance with this regulation or its compliance with this regulation indicates the financial institution in unsound condition:

1) Prohibition from declaring and/or paying dividends;

2) Suspension of the establishment of new branches and/or expansion into new banking or financial activities;

3) Suspension of access to credit facilities of the Central Bank;

4) Suspension of lending operations;

5) Suspension of the opening of letters of credit;

6) Suspension of the acceptance of new deposits;

7) Suspension of the acquisition of fixed assets.

PART IX: EFFECTIVE DATE

This regulation shall come into effect as at 30 September, 1993.

REGULATION OF THE BANK OF UGANDA

CAPITAL ADEQUACY REQUIREMENTS FOR FINANCIAL INSTITUTIONS

PART 1: SHORT TITLE, AUTHORIZATION, APPLICATION, AND INTERPRETATION

SEC. 1 Short Title - Capital Adequacy Requirements

SEC. 2 Authorization - Section 47 (c) and (d) of the Financial Institutions Statute, 1993 (hereafter known as the Statute)

SEC. 3 Application - Financial Institutions in Uganda - banks, credit institutions, and building societies as defined

SEC. 4 Interpretation

In this directive, unless the context otherwise requires-

1) "bank" is as defined in Section 2 of the Statute;

2) "banking business" is as defined in Section 2 of the Statute;

3) "building society" is as defined in Section 2 of the Statute;

4) "capital adequacy" means the maintaining minimum capital requirements as called for in Section 12 of the Statute and the on-going capital adequacy requirements as called for in Section 13 of the Statute, and as specified in the requirements of this regulation;

5) "capital deficiency" is defined as a failure to meet all the capital requirements of the Statute and this regulation by a financial institution;

6) "capital requirement basis" means the total upon which core and supplementary capital is measured to determine the capital requirement calculation for capital adequacy, consisting of risk adjusted assets and risk adjusted contingent claims based on a risk weighting of assets and off-balance-sheet items as reported on monthly form, for banks, B.S.100.

7) "Central Bank" means the Bank of Uganda operating under the Bank of Uganda, Statute 1993;

8) "contingent claims" also known as "off balance sheet items" are meant to include: direct credit substitutes, such as guarantees, acceptances, and endorsements; transaction related items, such as performance bonds; self-liquidating letters of

credit, i.e. documentary credits; and formal commitments, such as standby facilities, credit lines and unused facilities including unused overdrafts;

9) "core capital (tier 1)" is as defined in Section 2 of the Statute with disclosed reserves being defined as statutory reserves, retained profits from prior years, share premiums, and, upon prior approval of the Central Bank, 50% of after-tax profits in the current year-to-date, less any unconsolidated investment in financial companies;

10) "credit institution" is as defined in Section 2 of the Statute;

11) "general provisions" means loan loss reserves held against future, presently unidentified losses and are thus freely available to meet losses which subsequently materialize;

12) "impaired capital" means a capital deficiency to the extent of potential insolvency or endangering the funds of depositors and/or other creditors;

13) "prudential guidelines" means the regulation issued by the Central Bank authorized under Section 47(a) of the Statute with regard to: non-performing assets, income recognition of such non-performing assets, and classification & provisioning of such non-performing assets;

14) "revaluation reserve" means the increase in book value of a fixed asset based on an independent and professional appraisal as to the market value of such asset;

15) "specific provisions" means loan loss reserves held against presently identified losses or potential losses and thus <u>not</u> available to meet losses which subsequently materialize;

16) "supplementary capital (tier 2)" consists of revaluation reserves and general provisions, when such revaluation reserves and general provisions have received prior approval of the Central Bank;

17) "total assets" means the amount reported under that heading in form BS 100 submitted by banks and form __ submitted by credit institutions and form __ submitted by building societies to the Central Bank;

18) "total capital" means of the sum of core capital and supplementary capital.

[PAR]T II: STATEMENT OF POLICY

SEC. 5 Objectives

1) To help ensure financial institutions have an adequate cushion of capital to absorb losses;

2) To protect the interests of depositors, creditors, and the public interest in general;

3) To ensure financial institutions maintain capital standards recognized internationally as being prudent;

4) To promote self-discipline in the management of financial institutions.

SEC. 6 Rationale

1) Financial institutions need to maintain a specified level of capital to promote public confidence and help ensure the safety of depositors' funds.

2) As the supervisory authority, it is the responsibility of the Central Bank to ensure minimum capital requirements for financial institutions on Section 12 and the on-going capital adequacy requirements for financial institutions in Section 13 of the Statute are adhered to;

3) As banks expand their business internationally, it is of importance to demonstrate that banks in Uganda maintain a level of capital commensurate with international standards.

4) Sufficient capital adequacy enables financial institutions to have the needed cushion to absorb adverse events either within their control or due to external factors to prevent insolvency or an unsound position.

SEC. 7 Applicability of capital adequacy requirements

1) For all financial institutions licensed at the time of this regulation, the minimum capital adequacy requirements under Section 12 come into effect as of 30 September, 1993.

2) For financial institutions that do not meet the minimum capital adequacy requirement as of 30 September, 1993, the three year transition period called for in Section 12(5) of the statute shall represent three full financial year-ends from 30 September, 1993 and in no case shall be later than 31 December, 1996.

3) For financial institutions which do not meet the minimum paid-up capital requirements of section 12 but have previously injected capital funds in foreign currency and such foreign currency capital injection exceeds the minimum paid-up capital requirements using the exchange rate in effect as at the effective date of the Statute, such financial institutions may apply to the Central Bank to have such past foreign currency capital injections be applied toward meeting the requirements of section 12.

4) For all financial institutions licensed at the time of this regulation, the on-going capital adequacy requirements under Section 13 come into effect as of 30 September, 1993.

5) For all financial institutions that do not meet the on-going capital adequacy requirements of Section 13 of the statute as of 30 September, 1993, the three year transition period called for in Section 12(5) of the statute shall represent three full financial year-ends from 30 September, 1993 and in no case shall be later than 31 December, 1996.

6) For all applicants for a license to conduct business as a financial institution under the Statute, the capital adequacy requirements of Sections 12 and 13 of the Statute become applicable upon being licensed.

PART III: CAPITAL REQUIREMENTS FOR BANKS, CREDIT INSTITUTIONS, AND BUILDING SOCIETIES

SEC. 8 - Capital Requirements for Banks

1) Banks shall maintain at all times a minimum core capital, as defined in this regulation, equal to the minimum paid-up capital requirements of Section 12 of the Act. "At all times" shall be monitored by the Central Bank on a quarterly basis using form BS100A to be submitted, along with monthly form BS100, as at the close of business for the month-end dates of March, June, September, and December. Such minimum core capital for licensed banks may be raised from time to time by the Central Bank as circumstances warrant.

2) Each bank shall maintain core capital of 4% or more of the capital requirement basis for banks as reported to the Central Bank on form BS100A on a quarterly basis.

3) In meeting the 4% or more requirement of core capital, banks which wish to include 50% of their year-to-date net profits may apply to the Central Bank for inclusion of this amount. In considering such applications, the Central Bank will take into account if the bank has: made quarterly provisions for bad debts and the bank has a past history of

adequate provisioning; has made reasonable quarterly provisions for depreciation and taxation; has either made quarterly provisions for dividends and/or such dividends as per past history will not exceed 50% of audited after-tax net profits.

4) Each bank shall maintain total capital of 8% or more of the capital requirement basis for banks as reported to the Central Bank on form BS100A on a quarterly basis.

5) In meeting the total capital requirement of 8% or more of the capital requirement basis, banks wishing to include the elements of supplementary capital, as defined, must apply to the Central Bank for inclusion as to revaluation reserves on fixed assets and general provisions for bad debts. In considering such applications, the Central Bank will take into account the following: 1) with regard to revaluation reserves on fixed assets, the independence of the source of such revaluation, the reasonableness of the revaluation amount and if such revaluation reserves have been either excessive in total or in frequency; 2) with regard to general provision for bad debts, the unencumbered nature of the provision, that being that such general provision represents a provision for future and as yet unidentified losses or probable losses and not for presently identified bad debts.

6) In determining the capital requirement basis, as defined, the Central Bank shall follow, in general, the concepts of risk weighting for assets and off-balance-sheet items as given in the 1988 International Capital Convergence Agreement made by bank supervisors (Basle Agreement) but shall simplify or modify as it deems necessary for Uganda and may from time to time adjust such risk weightings as circumstances call for. The capital requirement basis shall be that as shown on form BS100A.

7) For a bank to have met the capital requirements of the Statute and this regulation, it must be in full compliance with the Central Bank's regulation on prudential guidelines as authorized in Section 47(a) of the Statute.

8) The requirements of this Section go into effect as at 30 September, 1993.

SEC. 9 - Capital Requirements for Credit Institutions

1) Credit institutions shall maintain at all times core capital, as defined in this regulation, equal to the minimum paid-up capital requirements of Section 12 of the Statute. "At all times" shall be monitored by the Central Bank on a quarterly basis using form ___ to be submitted as at the close

of business for the month-end dates of March, June, September, and December. Such minimum core capital for licensed credit institutions may be raised from time to time by the Central Bank as circumstances warrant.

2) Each credit institution shall maintain core capital of 4% or more of the capital requirement basis for credit institutions as reported to the Central Bank on form ___ on a quarterly basis.

3) Each credit institution shall maintain total capital of 8% or more of the capital requirement basis for credit institutions as reported to the Central Bank on form ___ on a quarterly basis.

4) Credit institutions which wish to include year-to-date net profits in their core capital are to apply to the Central Bank under the same circumstances as exist for banks as given under Section 8(3) of this regulation, and credit institutions which wish to have supplementary capital included as part of their total capital are to apply to the Central Bank under the same circumstances as exist for banks as given under Section 8(5) of this regulation.

5) For a credit institution to have met the capital requirements of the Act and this regulation, it must be in full compliance with the Central Bank's regulation on prudential guidelines as authorized in Section 47(a) of the Statute.

6) The requirements of this Section go into effect as at 30 September, 1993.

SEC. 10 - Capital Requirements for Building Societies

1) Building societies shall maintain at all times core capital, as defined in this regulation, equal to the minimum paid-up capital requirements of Section 12 of the Statute. "At all times" shall be monitored by the Central Bank on a quarterly basis using form ___ to be submitted as at the close of business for the month-end dates of March, June, September, and December. Such minimum core capital for building societies may be raised from time to time by the Central Bank as circumstances warrant.

2) Each building society shall maintain core capital of 4% or more of the capital requirement basis for building societies as reported to the Central Bank on form __ on a quarterly basis.

3) Each building society shall maintain total capital of 8% or more of the capital requirement basis for building societies

as reported to the Central Bank on form __ on a quarterly basis.

4) Building societies which wish to include year-to-date net profits in their core capital are to apply to the Central Bank under the same circumstances as exist for banks as given under Section 8(3) of this regulation, and building societies which wish to have supplementary capital included as part of their total capital are to apply to the Central Bank under the same circumstances as exist for banks as given under Section 8(5) of this regulation.

5) For a building society to have met the capital requirements of the Act and this regulation, it must be in full compliance with the Central Bank's regulation on prudential guidelines as authorized in Section 47(a) of the Statute.

6) The requirements of this Section go into effect as at 30 September, 1993.

SEC. 11 - Computation of Capital Adequacy

1) Financial institutions shall at all times maintain adequate records, including daily balance sheets and periodic statements of income and expense to enable proper computation of their capital adequacy.

2) Each bank, credit institution, and building society shall submit on a quarterly basis to the Central Bank a form titled "Capital Adequacy Computation" (for banks form BS 100A) to be prepared as at the close of business at the end of the months of March, June, September, and December and submitted along with form BS 100 (for banks) as at the same date.

3) The capital requirement basis, as defined in this regulation and shown on the quarterly form for banks BS 100A described in subsection (2) above, is to be primarily based on the 1988 International Agreement on Capital Convergence (Basle Agreement), except in such areas where modification is deemed to be applicable to the financial sector of Uganda, as determined by the Central Bank.

4) The Central Bank shall determine if a financial institution is in compliance with the capital adequacy requirements of the Act and this regulation from the form described in subsection (2) above.

5) The Central Bank may use its powers to inspect under Section 28 of the Act to verify the accuracy of this form and direct financial institution to adjust or correct this form based on the findings of such inspection.

6) Each financial institution shall require its external auditor, as appointed under Section 23 of the Statute, to verify to the Central Bank the accuracy of the "Quarterly Computation for Capital Adequacy" as at the financial year-end date and to so alert the Central Bank of any errors or adjustments to this form as at any other quarter end period during the financial year under review. The Central Bank may also, at its discretion, call upon the external auditor at any time to verify the accuracy of any quarterly reporting data for this form.

7) As to compliance with capital adequacy requirements, the Central Bank shall determine if the financial institution is in compliance with its regulation on prudential guidelines, and as such, it shall determine if the financial institution has made adequate provisions for bad debts, specific and/or general, and followed proper guidelines with regard to income recognition, specifically accrual of interest. The Central Bank may call for adjustments to capital calculations with respect to increased provisions and/or interest accrual if a financial institution is found not to be in compliance with its regulation on prudential guidelines.

SEC. 12 - Transitional Period

1) As stated under Sections 12(5) and 13(2) of the Statute, financial institutions are given a period of three years in which to build up its capital to meet the requirements of those respective sections. Sections 7(2) and 7(5) of this regulation define the transitional period for financial institutions with regard to capital requirements.

2) During the transitional period, financial institutions which have capital below the requirements of Sections 12 and 13 of the Statute and as given in this regulation shall be monitored for progress, on a quarterly basis, by the Central Bank with regard to full compliance at the end of the transitional period.

3) Where the Central Bank determines through its quarterly monitoring that no progress or very limited progress is being made toward full compliance to capital adequacy requirements at the end of the transitional period, it may undertake an inspection under Section 28 of the Statute.

4) If as a result of this inspection it is found that the lack of progress toward full compliance with capital adequacy requirements at the end of the transitional period is in a manner detrimental to the interests of depositors, the Central Bank may chose to put in place any of the enforcement powers given under Section 29 of the Statute.

PART IV: REMEDIAL MEASURES AND ADMINISTRATIVE SANCTIONS

SEC. 13 - Remedial Measures

1) When the Central Bank determines that a financial institution has not met the capital adequacy requirements of this regulation and is not under the transition provisions of Sections 12(5) and/or Section 13(2) of the Statute and thus has a capital deficiency, it may impose any of its enforcement powers as specified under Section 29 of the Banking Act.

2) When the Central Bank determines that a financial institution's capital deficiency is severe enough to have resulted in impaired capital and such capital impairment is judged to be detrimental to the interests of depositors, it may act under its seizure powers contained in Section 31 of the Act.

SEC. 14 - Administrative Sanctions

In addition to the remedial measures available to it as given above in Section 13, the Central Bank may impose any or all of the following administrative sanctions with regards to a bank or financial institution that has a capital deficiency by failing to meet the capital requirements of this directive:

1) Prohibition from declaring and/or paying dividends;

2) Suspension of the establishment of new branches and/or expansion into new banking or financial activities;

3) Suspension of access to credit facilities of the Central Bank;

4) Suspension of lending operations;

5) Suspension of the opening of letters of credit;

6) Suspension of the acceptance of new deposits;

7) Suspension of acquisition of fixed assets.

PART V: EFFECTIVE DATE

This regulation shall come into effect as at 30 September, 1993, with full reporting called for under this regulation to begin as at that date.

FORM B.S. 100A

QUARTERLY COMPUTATION OF CAPITAL ADEQUACY
FOR COMMERCIAL BANKS IN UGANDA

be submitted with form B.S. 100 as at same reporting date)

QUARTER ENDING____________________, 19__

NAME OF BANK ______________________________

Reference for computation: International Convergence of Capital Measurement and Capital Standards (Committee on Banking Regulation and Supervisory Practice, Basle, 1988)

All Amounts in Shs. 000s

		Shs
.0	CORE CAPITAL (Tier 1)	
1.	Share capital paid-up	
1.2	Prior years retained profits	
1.3	Share premium	
1.4	Net after-tax profit, current year-to-date (50% only) *	
1.5	Less, investment in financial companies, not consolidated	( )
1.6	Total Core Capital	________
2.0	SUPPLEMENTARY CAPITAL (Tier 2)	
2.1	Revaluation reserves on fixed assets *	
2.2	Unencumbered general provisions for bad debts *	
3	Total Supplementary Capital **	________
3.	TOTAL CAPITAL (Core + Supplementary)	=============

See following sheet for capital requirement basis

* To be shown only with prior approval of the Bank of Uganda

** Total supplementary capital cannot exceed total core capital as shown in line 1.7, i.e. line 2.3 cannot exceed 50% of the total shown in line 3.0.

FORM B.S. 100A (continued)

AL REQUIREMENT BASIS
unts to agree to BS100)

	Amount	Risk Weighting	Capital Requir. Basis
Notes, coins, & other cash assets		0%	Nil
2. Balances with BOU		0%	Nil
3. Due from other comm. banks in Uganda		20%	
4. Due from banks outside Uganda		20%	
5. Uganda Government Securities		0%	Nil
6. Bank of Uganda Schemes		100%	
7. Advances and Discounts		100%	
8. Investments		100%	
9. Bank premises and other fixed assets		100%	
10. Items in transit, own offices		100%	
11. Other assets		100%	
CONTINGENT CLAIMS: **			
. Contingents guar. by Govt. or cash coll. secured		0%	Nil
13. Direct credit substitutes (guarantees & acceptances)		100%	
14. Transaction related (performance bonds & standbys)		50%	
15. Documentary credits (trade related & self-liquidating)		20%	
16. Other commitments (unused formal facilities)		50%	
CAPITAL REQUIREMENT BASIS (risk weighted sum of items 1 through 16)	XXXXXXXXX	XXXXX	==============

** Amount column for sum of items 12 through 16 must equal sum of: letters of credit, acceptances, guarantees, and used overdrafts shown on B.S. 100.

PITAL REQUIREMENTS CALCULATIONS:

Minimum capital requirement per Section 12, Financial Institutions Statute (Shs. 500 million, local banks; Shs. 1 billion, foreign banks) = line 1.7 first page ______________

Core capital requirement per Section 13(1)a (Minimum ratio of 4%) = line 1.7/capital requirement basis __________%

Total capital requirement per Section 13(1)b (Minimum ratio of 8%) = line 3.0/capital requirement basis __________%

The amounts shown on this form have been verified to be accurate as at the reporting date.

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Chief Executive Officer

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Chief Accountant or Controller