

**STATUTORY INSTRUMENTS
SUPPLEMENT No. 34**

15th October, 2004



STATUTORY INSTRUMENTS SUPPLEMENT

to The Uganda Gazette No. 53 Volume XCVII dated 15th October, 2004

Printed by UPPC, Entebbe, by Order of the Government.

S T A T U T O R Y I N S T R U M E N T S

2004 No. 63.

**MICRO FINANCE DEPOSIT-TAKING INSTITUTIONS
(CAPITAL ADEQUACY) REGULATIONS, 2004**

ARRANGEMENT OF REGULATIONS

PART I—PRELIMINARY

Regulation.

1. Citation.
2. Application.
3. Interpretation.
4. Objectives.
5. Purpose.

LAW DEVELOPMENT CENTRE
REFERENCE LIBRARY

PART II—REGULATORY REQUIREMENTS.

6. Capital requirements for micro finance deposit-taking institutions.
7. Computation of capital adequacy.

PART III—REMEDIAL MEASURES AND ADMINISTRATIVE SANCTIONS.

8. Remedial measures.
9. Offences and penalties.
10. Administrative sanctions.

SCHEDULES

SCHEDULE 1—MONTHLY COMPUTATION OF CAPITAL
ADEQUACY: FORM MDI 100A

SCHEDULE 2—MONTHLY STATEMENT OF ASSETS AND
LIABILITIES: FORM MDI 100

STATUTORY INSTRUMENTS

2004 No. 63.

The Micro Finance Deposit-Taking Institutions (Capital Adequacy) Regulations, 2004.

(Under section 89(3)(d) of the Micro Finance Deposit-Taking Institutions Act, 2003, Act No. 5 of 2003)

IN EXERCISE of the powers conferred on the Central Bank by section 89 (3)(d) of the Micro Finance Deposit-Taking Act, 2003, these Regulations are made this 12th day of May, 2004.

PART I—PRELIMINARY.

1. These Regulations may be cited as the Micro Finance Deposit-Taking Institutions (Capital Adequacy) Regulations, 2004. Citation.

2. These Regulations apply to all micro finance deposit-taking institutions in Uganda. Application.

3. (1) In these Regulations, unless the context otherwise requires— Interpretation.

“Act” means the Micro Finance Deposit-Taking Institutions Act, 2003;

“Board” means the Board of Directors of an institution; “capital adequacy” refers to the maintenance of minimum capital requirements as required by section 15 of the Act and the on-going capital adequacy requirements required by section 16 of the Act;

“capital deficiency” means the failure by an institution to meet all the capital requirements prescribed by the Act and these Regulations;

- "capital impairment" means a capital deficiency to the extent of potential insolvency or endangering the funds of depositors or other creditors;
- "capital requirement basis" refers to the total upon which core capital and supplementary capital is measured to determine capital adequacy;
- "contingent claims" also known as "off balance sheet items" include direct credit substitutes, such as guarantees, acceptances and endorsements; transaction related items such as performance bonds; formal commitments such as standby facilities, credit lines and unused facilities;
- "core capital" means shareholders equity in the form of issued and fully paid-up shares, including retained reserves approved by the Central Bank;
- "general provisions" means loan loss reserves held against future, presently unidentified losses and which are freely available to meet losses, which subsequently materialise;
- "institution" or "MDI" means a micro finance deposit-taking institution;
- "specific provisions" means loan loss reserves held against presently identified losses or potential losses and which are not available to meet other losses, which subsequently materialise;
- "subordinated debt" means a debt that ranks lower in priority to other debts of the financial institution;
- "supplementary capital (Tier 2)" means general provisions which are held against future and presently unidentified losses that are freely

available to meet losses which subsequently materialise and revaluation reserves on the premises of a micro finance deposit-taking institution which arise periodically from the independent valuation of those premises, and any other form of capital as may be determined from time to time by the Central Bank;

“total assets” means the amount reported under the monthly statement of assets and liabilities submitted by an institution to the Central Bank;

“total capital” means the sum of the core capital and supplementary capital.

(2) Terms and expressions used in these Regulations have the same meaning ascribed to them in the Act.

4. The objectives of these Regulations are—

Objectives.

- (a) to require institutions to have an adequate amount of capital to absorb losses;
- (b) to protect the interests of depositors, creditors and the public in general; and
- (c) to ensure that institutions maintain recognised capital standards.

5. The purpose of these Regulations is—

Purpose.

- (a) to ensure that institutions maintain a specified level of capital to promote public confidence;
- (b) to help ensure the safety of depositors' funds in order to absorb adverse events, either within their control or due to external factors; and

Capital requirements for micro finance deposit-taking institutions.

- (c) to prevent insolvency or unsound financial position of the institution.

PART II—REGULATORY REQUIREMENTS.

6. (1) Every institution shall maintain, at all times, core capital, equal to the minimum paid-up capital requirements of Uganda Shillings five hundred million as specified in section 15 of the Act.

(2) An institution shall maintain, at all times, core capital of not less than 15% of the Risk Weighted Assets (RWA), as reported to the Central Bank in the forms set out in Schedules 1 and 2 to these Regulations.

(3) An institution shall maintain, at all times, total capital of not less than 20% of the Risk Weighted Assets (RWA), as reported to the Central Bank in Form MDI 100A set out in Schedule 1 to these Regulations, on a monthly basis.

Computation of capital adequacy.

7. (1) An institution shall maintain, at all times, adequate records including balance sheets and periodic statements of income and expenditure to enable proper computation of the institution's capital adequacy.

(2) An institution shall prepare and submit, on a monthly basis, to the Central Bank a Monthly Computation of Capital Adequacy in Form MDI 100A set out in Schedule 1 to these Regulations, along with a monthly statement of assets and liabilities in Form MDI 100 set out in Schedule 2 to these Regulations as at the same date, on the 10th day of the following month.

(3) The Central Bank shall determine whether an institution is in compliance with the capital adequacy requirements of the Act and these Regulations, on the basis of Form MDI 100A referred to in subregulation (2).

(4) The Central Bank shall determine whether the institution has made adequate provision for bad debts, whether specific provisions or general provisions; and followed proper guidelines with regard to income recognition, specifically to accrual of interest.

(5) The Central Bank may call for adjustments to capital calculations with respect to increased provisions or interest accrual if an institution is not in compliance with the Micro Finance Deposit-Taking Institutions (Asset Quality) Regulations, 2004.

(6) The Central Bank may, in the exercise of its powers of inspection under section 56 of the Act, verify the accuracy of the information specified in Form MDI 100 and direct the institution to adjust or amend the information, based on the findings of the inspection.

(7) Every institution shall require its external auditor, appointed under section 30 of the Act, to verify to the Central Bank the accuracy of the Monthly Computation for Capital Adequacy on a quarterly basis, and to alert the Central Bank of any errors or adjustments to this information as at any month during the financial year under review.

(8) The Central Bank may also, at its discretion, call upon the external auditor at any time to verify the accuracy of any monthly reporting data in Form MDI 100.

PART III—REMEDIAL MEASURES AND ADMINISTRATIVE SANCTIONS.

8. (1) Where the Board determines that an institution has not met the capital adequacy requirements and has a capital deficiency, the Board shall communicate to the Central Bank the approved necessary remedial measures as approved by the

Remedial
measures.

Board, including a recapitalisation program within a specific timeframe for compliance, not exceeding twelve months.

(2) Where the Central Bank determines that an institution has not met the capital adequacy requirements and has a capital deficiency, it may impose any of its corrective actions prescribed in section 58 of the Act.

(3) Where the Central Bank determines that an institution has a capital deficiency and that as a result, capital impairment is detrimental to the interests of depositors, it may act in accordance with its powers under section 60 of the Act to take over the management of the institution for a period as, in the opinion of the Central Bank, will permit the institutions condition to be remedied or resolved.

9. A financial institution which submits late reports under regulation 7(2) commits an offence and is liable, on conviction, to—

- (a) a fine not exceeding two currency points for each of the first five days of delay; and
- (b) a fine not exceeding four currency points for each day after the first five days of delay.

10. The Central Bank may impose any or all of the following administrative sanctions on an institution for inaccurate reporting or non-compliance with these Regulations—

- (a) prohibition from declaring or paying dividends;
- (b) suspension of establishment of new branches or expansion into new financial activities;
- (c) suspension of acquisition of fixed assets;
- (d) suspension of acceptance of new deposits; and
- (e) suspension of lending facilities.

SCHEDULE 1

BANK OF UGANDA FORM MDI 100A

MONTHLY COMPUTATION OF CAPITAL ADEQUACY

(To be submitted with Form MDI. 100 as at same reporting date)

NAME OF MDI.....

MONTH ENDING.....

1.0	CORE CAPITAL (Tier 1)	Ushs
1.1	+ Paid-up share capital
1.2	+ Share premium
1.3	+ Retained earnings
1.4	+ Net after-tax, current year-to-date (50% only)/(Loss 100%)
1.5	(-) Less, investment in financial companies, not consolidated
1.6	(-) Less, accumulated losses
1.7	Core Capital	_____ (A)
2.0	SUPPLEMENTARY CAPITAL (Tier 2)	
2.1	General provisions up to 1.0 per cent of loan portfolio (Limited to a maximum of 1.25% of gross risk-weighted assets).
2.2	Subordinated debt (Not to exceed 50% of core capital, subject to discount factor).
2.3	Other reserves
2.4	Total supplementary capital (Not to exceed 100% of tier 1 capital)	_____ (B)
3.0	TOTAL CAPITAL (Core + Supplementary)	===== (C)

FORM MDI 100A (continued)

CAPITAL REQUIREMENT BASIS

(Amounts to agree to MDI 100)	Amount	Risk Weighting	Capital Requirement
1. Notes and coins		0%	Nil
2. Balance with banks in Uganda	20%
3. Balance with banks outside Uganda	20%
4. Balance with other financial institutions in Uganda	20%
5. Balance with other financial institutions outside Uganda	20%
6. Investments in Government Securities	0%	Nil
7. Loans net of provisions	100%
8. Long term investments	100%
9. Premises and other fixed assets		100%
10. Inter branch/due from own office (own offices)	100%
11. Other assets	100%
Total Risk weighted Assets*	=====	=====	=====
	=====	=====	=====

*Amount column for sum of items 1 through 11 must equal to the amount of total assets of the balance sheet.

CONTINGENT CLAIMS: ** (If applicable)

12. Contingent claims secured by cash collateral	0%	Nil
13. Direct credit substitutes (guarantees and acceptances)	100%
14. Transaction related (performance bonds)	50%

** Amount column for sum of items 12 through 14 must equal to off-balance sheet items shown on MDI 100

CAPITAL REQUIREMENT BASIS

(Risk weighted sum of items 1 through 14) ===== (D)

Core capital required: 15 % of (D) ===== (E)

Total capital required: 20% of (D) ===== (F)

CAPITAL REQUIREMENT CALCULATIONS:

Minimum capital requirement

(Section 15 Micro Finance Deposit-Taking Institutions Act No 5 of 2003 U Shs 500 million)

Paid Up Share Capital = line 1.1 (Under core capital) =====

Core capital requirement

(Section 16(2)) a minimum ratio of 15% = line
1.7 /Risk Weighted Assets

===== %

Surplus or (deficiency) of Core capital =====

Total capital requirement

(Section 16(3)) (Minimum ratio of 20%) =
line 3.0 /Risk Weighted Assets

===== %

Surplus or (deficiency) of Total Capital =====

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

CHIEF EXECUTIVE OFFICER

Date: _____

SCHEDULE 2

Regulation 6 (2), 7(2)

FORM MDI 100

BANK OF UGANDA

MONTHLY STATEMENT OF ASSETS AND LIABILITIES FOR MICRO FINANCE DEPOSIT-TAKING INSTITUTIONS (MDI's) IN UGANDA

NAME OF MDI

MONTH ENDING.....

BRANCH NETWORK

Number of branches;

Number of agencies:

To be submitted not later than the 10th day of the month following
that to which it refers.

To:

The Director,
Supervision Function,
Non-Banking Financial Institutions Department,
Bank of Uganda,
P.O. Box 7120,
Kampala.

And copies to:

The Director,
Research and Policy Function,
Research Department, Bank of Uganda,
P.O. Box 7120,
Kampala.

FORM MDI 100

Regulation 6(2), 7(2)

MONTHLY STATEMENT OF ASSETS AND LIABILITIES

NAME OF MICRO FINANCE DEPOSIT-TAKING INSTITUTION
.....

MONTH ENDING.....

ASSETS		Sub-Total Amount Shs. '000'
1 Notes and coins		
2 Balance with financial institutions in Uganda		
3 Balance with financial institutions outside Uganda		
4 Investment in Securities (Line items 5 and 6)		
5 Treasury Bills		
6 Others e.g. Government Bonds, etc (Specify)		
7 Loans (Line items 8,9 and 10)		
8 Current		
9 Past Due		
10 Restructured		
11 Allowance for loan losses: general & specific		
12 Net loans outstanding (Line item 7 less 11)		
13 Inter Branch/Due from own offices		
14 Fixed Assets (Gross) (Line items 16 to 17)		
15 Land		
16 Buildings		
17 Equipment		
18 (Accumulated depreciation)		
19 Net fixed Assets (Line items 14 less 18)		
20 Long term investments		
21 Other assets (specify)		
22 Total Assets (line items 1 to 4, 12 to 13 and 19, 20 to 21		

		Sub-Total Amount Shs. '000'
23	LIABILITIES	
24	Deposits: (Line items 25, 26 and 27)	
25	Savings	
26	Time deposits	
27	Accrued interest	
28	Loan insurance funds/compulsory savings	
29	Borrowings-short term (Market rate)	
30	Other liabilities (specify)	
31	Borrowings-long term debt (Concessional rate)	
32	Borrowings-long term debt (Market rate)	
33	Borrowings-long term debit (Concessional rate)	
34	Grants/Deferred income	
35	Inter Branch	
36	Other long-term liabilities (specify)	
37	Total liabilities (Line Items 24,28 to 36)	
38	EQUITY	
39	Paid up capital	
40	Share Premium	
41	Retained Earnings prior years	
42	Current year Net Profit/loss (line item 43 less 44 should agree with line item 45 from the income statement)	
43	Revenue	
44	Expenditure	
45	Other Reserves (specify)	
46	Total equity (Line items 39 to 42 and 45)	
47	Subordinated debt	
48	TOTAL LIABILITIES AND EQUITY (LINE ITEMS, 37, 46 AND 47)	

ASSETS		Sub-Total Amount Shs. '000'
OFF BALANCE SHEET ITEMS		
49 Contingent claims secured by cash collateral		
50 Direct credit substitutes (guarantees and acceptances)		
51 Transaction related (performance bonds)		
52 Total (line assets 49 and 51)		

Date.....

Date

Title

Title

Signature

Signature

A. Other Assets

No.	Item	Amount
1		
2		
3		
4		
5		
	Total	

B. Other Assets

No.	Item	Amount
1		
2		
3		
4		
5		
	Total	

C. Minimum and Maximum Interest Rates on Savings and Time Deposits

	<i>Minimum</i>	<i>Maximum</i>
Savings		
Time		

D. Lending Rates

Sector	3-6.9%	7-10.9%	11-14.9%	15-18.9%	19-29.9%	Ovcr 30%
Agriculture						
Trade and Commerce						
Transport and Communications						
Electricity and Water						
Building and Construction.						
Other Services						
Total						

Key: Interest rates should refer to the reporting period only.

E. TUMUSIIME-MUTEBILE
Governor, Bank of Uganda

Enquiries on any aspect of these Regulations should be referred to-

*The Executive Director
Supervision Function
Bank of Uganda
P.O. Box 7120
KAMPALA.*