# SWAZILAND GOVERNMENT GAZETTE EXTRAORDINARY

VOL. XXXI] MBABANE, Wednesday, June 30th, 1993 [No. 960

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PUBLISHED BY AUTHORITY

# SUPPLEMENT TO

# THE

# SWAZILAND GOVERNMENT

# GAZETTE

# EXTRAORDINARY

VOL. XXXI] MBABANE, Wednesday, June 30th, 1993 [No. 960

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LEGAL NOTICE NO. 107 OF 1993

SWAZILAND BUILDING SOCIETY ACT, 1962

(Act No. 1 of 1962)

# THE COMPUTATION OF RISK ASSETS AND THE PRESCRIPTION OF THE CAPITAL REQUIREMENT RATIO NOTICE, 1993

(Under Section 41 (1) bis)

In exercise of the powers conferred by Section 41 (1) bis of the Building Societies Act, 1962, I hereby issue the following notice:

1. *Citation.*

This notice may be cited as the Computation of Risk Assets and Prescription of the Capital Ratio Requirement Notice, 1993 and shall come into force on 30th June, 1993.

2. For the purpose of computing that a Building Society's permanent share capital and that portion of its fixed share capital which consists of shares which are not due for redemption within the ensuing three months and the amount of its statutory funds does not at any time amount not less than the percentage capital ratio prescribed in paragraph 3 of this Notice, the following percentage risk weights for on balance sheet and off balance sheet items, as the case may be, shall be used:

(a) On Balance Sheet Items

Assets disclosed on balance sheet shall be accorded the percentage risk weights as set out in Schedule I hereto.

(b) Off Balance Sheet items

The percentage risk weights on claims in respect of contingent liabilities not included in the balance sheet shall be calculated as set out in Schedule II hereto.

3. *Percentage Capital Ratio Requirement.*

The prescribed percentage capital ratio requirement shall not at any time amount to less than 8 percent of the sum of amounts calculated by multiplying all balance sheet and off balance sheet amounts by the risk weights prescribed herein.

JAMES NXUMALO
*Governor of the Central Bank of Swaziland*

## SCHEDULE I

(Paragraph 2 (a))

On Balance Sheet Items

(i) Money:

| Risk Weight | | Item |
|---|---|---|
| 0% | | Notes and Coin |
| 20% | | Cash at Bank and on Call |

(ii) Advances:

| Risk Weight | | Item |
|---|---|---|
| 50% | (a) | Secured by Mortgages: Residential Property |
| 100% | (b) | Secured by Mortgages: Non residential Property |
| 0% | (c) | Secured by pledge on shares and Fixed Deposits |
| 100% | (d) | Transmission Accounts |
| 100% | (e) | Bridging Loans |

(iii) Investments:

| Risk Weight | | Item |
|---|---|---|
| 0% | (a) | Swaziland Government Stock |
| 10% | (b) | Other Government Stock |
| 10% | (c) | Public Sector Securities (municipalities, local authorities and other public sector bodies) . |
| 100% | (d) | Other |

(iv) Other Assets

| Risk Weight | | Item |
|---|---|---|
| 100% | (e) | Sundry Debtors |
| 100% | (f) | Fixed Assets |
| 100% | (g) | Other Assets |

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## SCHEDULE II

(Paragraph 2 (b))

Off Balance Sheet items

Risk weights on claims in respect of off balance sheet engagements, instruments or transactions, not included in the main balance sheet, shall be calculated by applying credit conversion factors to the nominal principal amount of the different types of off balance sheet engagements; and the resulting credit equivalent amounts shall then be multiplied by the risk weight percentage ratio applicable to that category or instrument of the counterparty as set out in Schedule 1 hereto.

(i) Commitments to extent credit:

| Conversion Factor | | Instrument |
|---|---|---|
| 50% | (a) | Mortgage Advances |
| 0% | (b) | Swaziland Government |
| 10% | (c) | Public Sector |
| 100% | (d) | Other |

(ii) Other items

| Conversion Factor | | Instrument |
|---|---|---|
| 50% | (e) | Underwriting exposures |
| 20% | (f) | Committed Capital Expenditure |
| 100% | (g) | Other Contingent Liabilities |

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LEGAL NOTICE NO. 108 OF 1993

SWAZILAND BUILDING SOCIETY ACT, 1962

(Act No. 1 of 1962)

THE PRESCRIPTION OF MINIMUM LOCAL ASSETS

TO BE MAINTAINED NOTICE, 1993

(Under Section 42 bis)

*(Commencement 30th June,1993)*

In exercise of the powers conferred by Section 42 bis of the Building Societies Act, 1962, I hereby prescribe that a building society shall maintain minimum local assets amounting to not less than ninety five per cent of the aggregate value of its total capital and reserves and liabilities to the public in Swaziland as stated in the most recent report submitted in the prescribed form.

JAMES NXUMALO
*Governor of the Central Bank of Swaziland*

Mbabane
April, 1993

LEGAL NOTICE NO. 109 OF 1993

THE FINANCIAL INSTITUTIONS (CONSOLIDATION) ORDER 1975

(Order No. 19 of 1975)

THE COMPUTATION OF RISK ASSETS NOTICE, 1993

(Under Section 18)

In exercise of the powers conferred by Section 18 of the Financial Institutions (Consolidation) Order 1975, I hereby issue the following notice:-

1. *Citation.*

This notice may be cited as the Computation of Risk Assets Notice 1993 and shall come into force on 30th June, 1993.

2. *Interpretation.*

In this Notice, unless the context otherwise requires:

"approved banks" means those banks approved by the Central Bank for the purposes of this Notice.

"capital and reserve accounts" means tier one and tier two capital after adjustments for capital impairments and excludes, unless already charged against profit, the following -

(a) Depreciation of assets;

(b) Bad and doubtful debts;

(c) Operating and accumulated losses; including accumulated depreciation and bad debts not yet written off;

(d) Establishment costs;

(e) Costs in respect of organisation and extension of business;

(f) Excess of purchase price arising on the purchase of a business or goodwill; or

(g) Underwriting commission.

"capital impairments," in respect of the capital and reserves of a financial institution, are where -

(a) the value of assets lodged or pledged to secure liabilities where such liabilities are not included in the calculation and where the effect of lodging or pledging is that such assets are not available for the purposes of meeting the liabilities of the financial institution;

(b) the book value of shares held by a financial institution in any other financial institution; and

(c) the amount by which the required capital holding of a foreign subsidiary exceeds issued primary and secondary share capital and unimpaired reserve funds of that foreign subsidiary, i.e. capital shortages of a subsidiary financial institutions.

"General provisions," "general loan loss reserves provisions" or "loan loss reserves held against future," means presently unidentified losses which are freely available to meet losses which subsequently materialise and therefore qualify for inclusion within supplementary elements but excludes provisions ascribed to impairment of particular assets or known liabilities.

"Hybrid (debt/equity) capital instruments" include a range of instruments which combine characteristics of equity capital and of debt all of which meet the following requirements-

(a) they must be unsecured, subordinated and fully paid;

(b) they must not be redeemable at the initiative of the holder or without the prior consent of the Central Bank of Swaziland;

(d) they must be available to participate in losses without the bank being obliged to cease trading; and

(e) although the instruments may carry an obligation to pay interest that cannot permanently be reduced or waived (unlike dividends or ordinary shareholders equity), they should allow service obligations to be deferred (as with cumulative preference shares) where the profitability of the bank would not support payment.

"OECD" means the Organisation for Economic Cooperation and Development;

"OECD Countries" comprises countries which are full members of the OECD or which have concluded special lending arrangements with the IMF associated with the Fund's General Arrangements to Borrow. These are Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Italy, USA, Japan, Luxembourg, Netherlands, New Zealand, Norway, Portugal, Saudi Arabia, Spain, Sweden, Switzerland, Turkey and the United Kingdom:

Provided that the Central Bank may, by notice to the principal place of business of each financial institution, amend the list from time to time.

"Revaluation reserves" means,

(a) in the case of a bank's own premises, the revaluation thereof from time to time in line with the fixed assets change in market values reflected on the face of the balance sheet as a revaluation reserve; and

(b) in the case of long-term holdings of equity securities, the hidden or "latent" revaluation reserves present as a result of a revaluation in the balance sheet on the basis of the historic cost of acquisition;

"Subordinated term debt" includes conventional unsecured subordinated debt capital instruments with a minimum original fixed term to maturity of over five years and limited life redeemable preference shares;

"tier one capital" includes only permanent shareholders equity (issued and fully paid ordinary shares/common stock and perpetual non-cumulative preference shares) and disclosed reserves (created or increased by appropriations of retained earnings or other surplus, e.g. share premiums, retained profit, general reserves and statutory reserves) but excludes revaluation reserves and cumulative preference shares.

"tier two capital" means undisclosed reserves, asset revaluations, general provisions or general loan loss reserves, hybrid capital instruments approved by the Central Bank, and surbodinated term debt;

"Undisclosed Reserves" refer to reserves which are not identified in the published balance sheet but have the same high quality and character as a disclosed capital reserve; and, as such, are not encumbered by any provision or other known liability but are freely and immediately available to meet unforeseen future losses. This excludes hidden values arising from holdings of securities in the balance sheet at below current market prices, Cumulative preference shares, having these characteristics, are eligible for inclusion in this category.

3. For the purpose of calculating capital and reserves the following rules shall apply:

(a) Total of Tier Two capital shall be limited to 100 per cent of Tier One capital.

(b) The non-cumulative perpetual preferred stock shall be limited to 25% of Tier One capital; and any excess may be included in the computation of Tier Two capital.

(c) Subordinated term debt is limited to a maximum of 50% of Tier One capital.

(d) Where general provisions include amounts reflecting lower valuations of assets or latent but identified losses present in the balance sheet, the amount of such provisions or reserves will be limited to a maximum of 1.25% or exceptionally, temporarily up to 2.0% of risk assets.

(e) Revaluation reserves may be included in Tier Two capital provided that the assets are prudently valued, fully reflecting the possibility of price fluctuation and forced sale. However, in the case of "latent" revaluation reserves, a discount of 55 per cent will be applied to the difference between historic cost book value and market value to reflect the potential volatility of this form of unrealised capital and the notional tax change on it.

(f) During the last five years to maturity of redeemable preference shares, a cumulative discount (or amortisation) factor of 20 percent per year is applied to reflect the diminishing value of the instruments as a continuing source of strength. Unlike hybrid capital instruments, these instruments are not normally available to participate in the losses of a bank which continues trading.

(g) Undisclosed Reserves are eligible for inclusion in tier two capital, subject to the approval of the Central Bank.

4. For the purpose of computing risk assets -

(1) assets disclosed on balance sheet shall be accorded risk weights as set out in Schedule I hereto; and

(2) risk weights on claims in respect of contingent liabilities not included in the main balance sheet shall be calculated by -

(a) applying the credit conversion factors to the nominal principal amount of the different types of off balance sheet engagements in the manner and form provided for in Schedule II; and

(b) multiplying the resulting credit equivalent amounts by the weight applicable to the category of the counterparty as provided for in Schedule I.

JAMES NXUMALO
*Governor of the Central Bank of Swaziland*

## SCHEDULE I

(Paragraph 4 (1))

| | | |
|---|---|---|
| Money | | |
| 0% | | Emalangeni Notes and Coin |
| | | Investment Deposits, Loans and Advances |
| 0% | (a) | Claims on Government of Swaziland denominated in Emalangeni. |
| | (b) | Claims on Central Bank of Swaziland denominated in Emalangeni. |
| | (c) | Advances secured against cash deposit |
| 20% | (a) | Claims on approved banks and banks incorporated in OECD countries and Swaziland |
| | (b) | Claims on banks other than approved banks and banks incorporated in countries is outside the OECD and Swaziland, with a residual maturity of up to twelve months. |
| | (c) | Cash items in process of collection. |
| | (d) | Inter-bank funding - domestic banks, building societies, approved banks and banks in OECD countries. |
| | (e) | Claims on Swaziland Government entities within the borrowing powers determined by the constitution of the borrowing entity. |
| 100% | (a) | Claims on banks other than approved banks and banks incorporated in countries outside the OECD and Swaziland, with a residual maturity of more than twelve months. |
| | (b) | Claims on the private sector. |
| | (c) | Claims on banks other than those specified above at 20%. |
| | (d) | Claims on commercial companies owned by the public sector. |
| | (e) | Other. |
| | | Mortgage Loans |
| 50% | | Secured residential property |
| 100% | | Secured non-residential property |
| 100% | | Redeemable Preference Shares |
| | | Investments |
| 100% | | Debentures issued by financial institutions. |
| 100% | | Other debentures and investments. |
| | | Equity |
| 100% | | Investments in non-financial institutions. |
| 100% | | Investments in financial institutions. |
| 100% | | Fixed Assets. |
| 100% | | Office Furniture and Equipment. |

| | |
|---|---|
| 100% | Other Real Estate Owned. |
| 100% | All Other Assets. |
| 50% | Remittances in Transit. |

## SCHEDULE II

(Paragraph 4 (2))

| Instruments | Credit Conversion Factors |
|---|---|
| (1) Bills endorsed and rediscounted | 100% |
| (2) Indemnities and Guarantees | |
| (a) Lending Related | 100% |
| (b) Performance Related | 50% |
| (3) Irrevocable Letters of Credit and Irrevocable Unutilised Facilities | |
| (a) Letters of Credit | 20% |
| (b) Unutilised facilities with an original maturity of up to 12 months and over. | 50% |
| (4) Underwriting exposures | 50% |
| (5) Other contingent liabilities | 100% |
| (6) Committed Capital Expenditure | 0% |

(7) Other commitments (e.g. formal stand-by facilities and credit lines) with an original maturity of up to 12 months, or which can be unconditionally cancelled at any time.) 0%

The Government Printer, Mbabane