

Uganda

Financial Institutions Act Chapter 54

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Uganda

Financial Institutions Act

Chapter 54

Commenced on 14 May 1993

[This is the version of this document at 31 December 2000.]

[Note: The version of the Act as at 31 December 2000 was revised and consolidated by the Law Reform Commission of Uganda. All subsequent amendments have been researched and applied by Laws.Africa for ULII.]

[Repealed by [Financial Institutions Act, 2004 \(Act 2 of 2004\)](#) on 26 March 2004]

An Act to amend and consolidate the law relating to the regulation and control of financial institutions and to provide for related matters.

Part I – Preliminary

1. Interpretation

In this Act, unless the context otherwise requires—

- (a) “**bank**” means any company licensed to carry on banking business as its principal business and includes all branches and offices of that company in Uganda;
- (b) “**banking business**” means the business carried on as a principal business of—
 - (i) accepting deposits of money from the public repayable on demand or at the expiry of a fixed period or after notice;
 - (ii) employing such deposits wholly or partly by lending or any other means for the account and at the risk of the person accepting such deposits; and
 - (iii) presenting to another bank, for payment, cheques, drafts or orders received from customers in the capacity of a banker;
- (c) “**board**” means the board of the central bank;
- (d) “**building society**” means a society formed for the purpose of raising by the subscriptions of members a stock or fund from which to make advances to members and registered in accordance with the Building Societies Act;
- (e) “**central bank**” means the Bank of Uganda established under the Bank of Uganda Act;
- (f) “**company**” means a company incorporated or registered under the Companies Act and includes —
 - (i) the Uganda Commercial Bank established by the Uganda Commercial Bank Act;
 - (ii) the Cooperative Bank Limited registered under the Cooperative Societies Act;
 - (iii) the Uganda Development Bank established under the Uganda Development Bank Act;
 - (iv) a building society duly incorporated under the Building Societies Act; and
 - (v) any institution classified as a financial institution under this Act;
- (g) “**core capital**” means permanent shareholders’ equity in the form of issued and fully paid-up shares plus all disclosed reserves, less good will or any other intangible assets;

- (h) “**credit institution**” means any company licensed to carry on credit institution business as its principal business and any other body specified by the central bank to be a credit institution for the purposes of this Act, and includes all branches and offices of that company or body in Uganda;
- (i) “**credit institution business**” means the business of accepting deposits of money from the public repayable after a fixed period or after notice and of employing those deposits wholly or partly by lending or any other means for the account and at the risk of the person accepting the deposits;
- (j) “**demand deposits**” means deposits which are repayable on demand and are withdrawable by cheque, draft, order or by other means;
- (k) “**demand liabilities**” means the total deposit liabilities of a bank or credit institution which are denominated in any currency and payable upon demand;
- (l) “**disclosed reserves**” includes all reserves created or increased through share premiums, retained profits (after deducting all expenses, provisions, taxation and dividends) and general reserves if those disclosed reserves are permanent and unencumbered and thus able to absorb losses;
- (m) “**draft**” means a banker’s draft payable on demand drawn by or on behalf of a bank upon itself, whether payable at the head office or some other office of the bank;
- (n) “**financial institution**” includes a bank, a credit institution, a building society and any institution which by statutory instrument is classified as a financial institution by the central bank;
- (o) “**foreign company**” means a company not being a local company;
- (p) “**licence**” means a licence issued under [section 6](#);
- (q) “**licensed**” means licensed under this Act;
- (r) “**local company**” means a company registered or incorporated under the Companies Act in which the majority shares and actual controlling interest are held by citizens of Uganda;
- (s) “**Minister**” means the Minister responsible for finance;
- (t) “**off balance sheet items**” means all items not shown on the balance sheet but which constitute credit risk; and such risks include guarantees, acceptances, performance bonds, letters of credit and other off balance sheet items deemed to constitute credit risk by the central bank;
- (u) “**officer**” includes a person who carries out or is empowered to carry out functions relating to the direction of a financial institution;
- (v) “**order**”, when used in conjunction with the word “cheque” or “draft”, means an unconditional order in writing constituting a bill of exchange as defined in the Bills of Exchange Act;
- (w) “**supplementary capital**” 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 banking premises which arise periodically from independent valuation of those premises, and any other form of capital as may be determined from time to time by the central bank;
- (x) “**time deposits**” means deposits repayable after a fixed period or after notice and includes saving deposits;
- (y) “**time liabilities**” means deposit liabilities other than demand liabilities of a financial institution which are denominated in any currency and are subject to payment after a fixed period of time or after notice;
- (z) “**total capital**” means the sum of core capital and supplementary capital;
- (aa) “**unsecured advances**” or “unsecured credit facilities” means advances or credit facilities made without security or, in respect of any advance or credit facility made with security or any part of it which at any time exceeds the market value of the assets constituting that security, or where

the central bank is satisfied that there is no established market value, on the basis of a valuation approved by the central bank.

2. Application of the Act

- (1) This Act shall apply to a financial institution defined in [section 1](#).
- (2) Notwithstanding the general effect of subsection (1), Parts II, IV, V, VI and sections [11](#), [12](#), [14](#), [33](#), [34](#), [35](#), [37](#), [40](#), [41](#) and [49](#) are the provisions of this Act which shall apply to a building society.
- (3) This Act shall not apply to a cooperative society registered under the Cooperative Societies Act except a cooperative society established for the purpose of deposits from the public.

Part II – Licensing

3. Licensing of financial institutions

- (1) A person shall not transact banking business, credit institution business or building societies business without a valid licence granted for that purpose under this Act.
- (2) No person shall be granted a licence unless it is a company within the meaning of this Act.

4. Application for a licence

- (1) A company proposing to transact banking, building societies or credit institution business shall apply, in writing, to the central bank for a licence under this Act, and that application shall be considered by the board.
- (2) The application referred to in subsection (1) shall contain the following information—
 - (a) the name and address of —
 - (i) the proposed financial institution;
 - (ii) the directors;
 - (iii) the shareholders;
 - (b) the nationality of directors;
 - (c) the nationality and shareholding of any shareholder;
 - (d) the proposed location the financial institution is going to operate from;
 - (e) the estimated number of persons to be employed;
 - (f) the qualifications, experience, nationality and other relevant particulars of the proposed management and staff;
 - (g) the capital structure and earning prospects of the financial institution;
 - (h) business plans, financial plans and earnings forecasts for at least three years;
 - (i) any other information relating to the viability of the financial institution or other matters as the applicant considers relevant to his or her application.
- (3) An application under subsection (1) shall be accompanied by a memorandum and articles of association or rules, and a certificate of incorporation.
- (4) Where an application under subsection (1) does not provide all the relevant information or if clarification is necessary, the applicant may be called upon to provide that information or clarification to complete the application.

5. Factors to be considered when granting a licence

The central bank shall, in considering an application for a licence under [section 4](#), require to be satisfied to —

- (a) the financial condition and history of the applicant;
- (b) the nature of the business of the applicant;
- (c) the competence and integrity of the proposed management;
- (d) the adequacy of the applicant's capital structure, earning prospects, business plans and financial plans;
- (e) the convenience and needs of the community to be served;
- (f) whether the public interest will be served by the granting of the licence.

6. Processing of applications

- (1) The central bank shall, within six months after receipt of an application or of the additional information or clarification referred to in [section 4\(3\)](#), investigate and prepare a detailed report in respect of each application.
- (2) The central bank shall, for the purpose of considering and making a report on the application under this section, appoint a committee of three or more members of the board who shall report, in writing, their recommendations to the board.
- (3) The central bank shall, within fourteen days after the period referred to in subsection (1), consider the application and the report, and it shall grant the licence if it is satisfied that the application is in accordance with this Act.
- (4) The central bank shall, within seven days after its decision under subsection (3) —
 - (a) inform the applicant of its decision in writing; and
 - (b) in the event of refusal to grant a licence, the aggrieved applicant may appeal to the Minister who shall deal with the appeal in consultation with the central bank.
- (5) Where the central bank grants the licence, it may grant it upon such conditions as are necessary.

7. Licence fee

The applicant shall, upon being granted a licence under this Act, pay a fee to be prescribed by the central bank; and the holder of the licence shall thereafter pay a fee to be prescribed by the central bank on or before each anniversary of the granting of the licence.

8. Duration of licence, etc.

- (1) A licence granted under [section 6](#) shall remain in force until revoked.
- (2) A licence granted under [section 6](#) shall be kept displayed in a conspicuous place in the premises in which the financial institution carries on its lawful business, and copies of it shall be similarly displayed in each of its branch offices.

9. Failure to commence operations

A licensed financial institution which fails to commence operations within twelve months from the date of issue of the licence shall have its licence revoked.

10. Revocation of licence

The central bank may, at any time, in consultation with the Minister, revoke a licence of a financial institution if it is satisfied that the financial institution –

- (a) has ceased to carry on business;
- (b) has been declared insolvent;
- (c) has gone into liquidation;
- (d) has been wound up;
- (e) has been dissolved;
- (f) is carrying on business in a manner detrimental to the interests of depositors;
- (g) has failed to comply with any condition stipulated by the central bank under [section 6\(5\)](#).

Part III – Capital requirements

11. Minimum capital requirements for financial institutions

- (1) A local person proposing to transact banking business in Uganda shall have a minimum paid-up capital of not less than five hundred million shillings invested in such assets in Uganda as the central bank may approve.
- (2) A foreign person proposing to transact banking business in Uganda shall have a minimum paid-up capital of not less than one billion shillings invested in such assets in Uganda as the central bank may approve.
- (3) A person proposing to transact credit institution business shall, in the case of—
 - (a) a local person, have a minimum paid-up capital of not less than three hundred million shillings; and
 - (b) a foreign person, have a minimum paid-up capital of not less than five hundred million shillings,invested in such assets in Uganda as the central bank may approve.
- (4) A person proposing to transact building societies business shall have a minimum paid-up capital of not less than three hundred million shillings invested in such assets in Uganda as the central bank may approve.
- (5) A financial institution in existence immediately before the commencement of this Act shall be given three years in which to build up its capital to the minimum level stipulated in this section.

12. Ongoing capital adequacy requirements

- (1) A financial institution shall at all times maintain—
 - (a) a core capital of not less than 4 percent of total risk adjusted assets plus risk adjusted off balance sheet items as may be determined by the central bank by statutory instrument;
 - (b) a total capital of not less than 8 percent of its total risk adjusted assets plus risk adjusted off balance sheet items as may be determined by the central bank by statutory instrument.
- (2) A financial institution in existence immediately before the commencement of this Act shall be given three years in which to build up its capital to the level stipulated under this section.

13. Review of minimum capital requirements

The central bank may, with the approval of the Minister, from time to time, review the minimum capital requirements by statutory instrument as circumstances warrant.

14. Minimum holdings of liquid assets

- (1) A financial institution shall maintain a minimum holding of liquid assets, as determined by the central bank in accordance with subsection (2).
- (2) A minimum holding of liquid assets under this section shall be expressed as a proportion of the demand and time liabilities of a financial institution not exceeding 30 percent of those demand and time liabilities, but—
 - (a) different proportions may be determined for demand liabilities and time liabilities and for various types of financial institutions; and
 - (b) demand or time liabilities due by a financial institution to its head office or to any bank situated outside Uganda may, at the discretion of the central bank, be included wholly or in part.
- (3) The central bank shall allow reasonable time after a minimum holding is prescribed or increased under subsection (1) to enable the financial institutions to comply with the requirement.
- (4) A financial institution which contravenes this section is liable to pay, on being called upon to do so by the central bank, a fine not exceeding one-tenth of 1 percent of the amount of the deficiency for every day on which the deficiency continues.
- (5) For the purposes of this section “liquid assets” means all or any of the following—
 - (a) notes and coins which are legal tender in Uganda and any other currency prescribed by the central bank;
 - (b) balances held at the central bank, including any balances in accordance with the Bank of Uganda Act;
 - (c) balances at banks in Uganda other than the central bank and other monies at call;
 - (d) Uganda treasury bills maturing within a period not exceeding ninety-one days;
 - (e) Uganda Government stock maturing within a period not exceeding five years;
 - (f) balances at banks abroad withdrawable on demand and money at call abroad, provided that balances and money at call are in currencies which are freely negotiable and transferable in international exchange markets consistent with the articles of agreement of the International Monetary Fund;
 - (g) commercial bills and promissory notes which are eligible for discount by the central bank under the Bank of Uganda Act;
 - (h) any other asset approved by the central bank.

15. Computation of minimum amount of liquid assets

- (1) The central bank shall prescribe the minimum amount of liquid assets to be held by financial institutions, including the offsetting of general or specified liquid assets against demand and time liabilities.
- (2) In computing the minimum amount of liquid assets to be held by a financial institution operating in Uganda and elsewhere, all offices or branches of that financial institution in Uganda shall be deemed to constitute one financial institution.

16. Control of the foreign exchange holdings

The central bank may fix or prescribe the manner of determination of the maximum working balances which financial institutions may respectively hold in foreign currencies generally or in any specified foreign currency and may, at any time, require any financial institution to sell to the central bank all or any specified part of the surplus in excess of that maximum amount.

Part IV – Restrictions and prohibitions on financial institutions

17. Advances, credits and guarantees

- (1) A financial institution shall not, without the prior approval of the central bank—
 - (a) grant any advance or credit facility against security of its own shares or those of a company affiliated to it;
 - (b) grant or permit to be outstanding advances or credit facilities which in the aggregate exceed 25 percent of its core capital to any of its directors or their immediate families or business enterprises in which they have substantial interests whether such advances or facilities are obtained by its directors jointly or severally;
 - (c) grant or permit to be outstanding in respect of any one of its officers or employees, unsecured advances or unsecured credit facilities which in the aggregate exceed one year's emolument of that officer or employee;
 - (d) grant to a single person any advance or credit facility which is more than 25 percent of its core capital.
- (2) For the purposes of this section, advances or credit facilities made to several persons sharing a common interest shall be deemed by the central bank to be a single advance or credit facility for purposes of applying this provision.

18. Trade, investments and immovable property

- (1) A financial institution shall not—
 - (a) engage on its own account, alone or with others, in wholesale or retail trade, including import or export trade, except in the course of the satisfaction of debts due to it, in which case all interests in the trade shall be disposed of at the earliest moment suitable to that financial institution;
 - (b) acquire or hold any part of the share capital of, or make any other capital investment or otherwise have a direct interest in, any commercial, agricultural, industrial or other undertaking exceeding 25 percent of its core capital, except such shareholding, capital investment or interest as the financial institution may acquire in the course of the satisfaction of debts due to it, which shall be disposed of at the earliest moment suitable to that financial institution; but any shareholding approved by the central bank in any corporation set up for the purpose of promoting development in Uganda shall not be included in any of that percentage;
 - (c) purchase or acquire any immovable property or any right in it except as may be reasonably necessary for the purpose of conducting its business or of housing or providing amenities for its staff, but this paragraph shall not prevent a financial institution —
 - (i) from letting part of any building which is used for the purpose of conducting its business; or

- (ii) from securing a debt on any immovable property and in the event of default in payment of such debt, from holding such immovable property for realisation at the earliest moment suitable to that financial institution.
- (2) Notwithstanding subsection (1), the central bank may permit a financial institution to engage in a commercial, agricultural, industrial or other undertaking upon such conditions as it may deem fit, provided that the undertaking is not likely to impair the viability and efficiency of the financial institution.

19. Dividends

- (1) A financial institution shall not at any time pay any dividend or make any transfer from profits or capital if the payment results in the financial institution not meeting the requirements of [section 12](#).
- (2) A financial institution in existence before the commencement of this Act which fails to meet the requirements of [section 12](#) shall not pay any dividend in excess of 20 percent of its net profit until such time as that financial institution complies with [section 12](#).
- (3) A financial institution which contravenes this section commits an offence and is liable on conviction to a fine of 10 percent of the dividends paid out contrary to this section.

Part V – Supervision

20. Accounts

- (1) A financial institution shall keep accounts and records which—
 - (a) show a clear and correct state of its affairs;
 - (b) explain its transactions and financial position to enable the central bank to determine whether the financial institution has complied with this Act.
- (2) A financial institution shall preserve the accounts and records referred to in this section for not less than ten years.

21. Books and accounts to be kept in English

All entries in any books and all accounts to be kept by a financial institution shall be kept and recorded in the English language using the system of numerals employed in Government accounts.

22. Appointment of an auditor by a financial institution

- (1) A financial institution shall appoint annually a person qualified as an auditor under the Companies Act and approved by the central bank whose duty shall be to make a report upon the annual balance sheet and accounts of the financial institution.
- (2) A financial institution shall ensure that a report made under this section is submitted to the central bank within four months after the close of its financial year.
- (3) A financial institution which contravenes subsection (2) commits an offence and is liable to a fine prescribed by the central bank under [section 47](#).

23. Appointment of an auditor by the central bank

Where a financial institution fails to appoint an auditor under [section 22](#) or fails to fill a vacancy for the auditor, or where the central bank is not satisfied with the audit report in respect of a financial institution, the central bank may appoint an auditor for, and shall fix the remuneration to be paid to the auditor by, that financial institution.

24. Accessibility to books, etc.

An auditor appointed under section 22 or 23 shall have a right of access at all times to such books, accounts, vouchers and securities of the financial institution and shall be entitled to receive from the officers and staff of the financial institution such information and explanations as he or she may require to perform his or her duties.

25. Responsibilities of the auditor to the central bank

- (1) The central bank if dissatisfied with the results of the audit may reject it and call for a new audit at the expense of the financial institution concerned.
- (2) Before annual accounts are finalised, dividends paid and the capital requirements of sections 11 and 12 are met, the central bank must be satisfied that—
 - (a) provisions for bad debts are sufficient; and
 - (b) a proper policy of nonaccrual is in place and being enforced.
- (3) External audits are to be prepared in accordance with generally accepted accounting standards and such other regulations, directives, policies or guidelines as the central bank may issue.
- (4) The central bank may impose any or all of the following duties on an external auditor—
 - (a) a duty to submit such additional information in relation to his or her audit as the central bank considers necessary;
 - (b) a duty to carry out any other investigation or establish any procedure in any particular case;
 - (c) a duty to verify the accuracy of returns and other reports submitted to the central bank;
 - (d) a duty to submit a report to the central bank on the matters referred to in paragraphs (a), (b) and (c), and

the financial institution concerned shall remunerate the auditor in respect of his or her discharge of all or any of these additional duties.

- (5) The central bank, if it considers it necessary, may arrange from time to time trilateral meetings with each financial institution and its auditors to discuss matters relevant to the central bank's supervisory responsibilities which have arisen in the course of the statutory audit of that financial institution, including relevant aspects of its business, its accounting and internal control systems, and its annual balance sheet and profit and loss accounts.
- (6) The central bank may, if it considers it desirable or necessary in the interest of depositors, arrange from time to time bilateral meetings with the auditors of financial institutions.
- (7) No duty or confidentiality to which an auditor may be subject shall be regarded as contravened by reason of the auditor's communication in good faith with the central bank, whether in response to a request by it or not, and this includes any information or opinion which is relevant to the central bank's functions under this Act.

26. Information to be furnished by financial institutions

- (1) A financial institution shall furnish to the central bank at such times and in such form as the central bank may prescribe all information and data of its operations in Uganda, including periodic returns called for by the central bank and the audited balance sheet and profit and loss account and those of any company or body affiliated to it which the central bank may require for the proper discharge of its functions under this Act.
- (2) A financial institution shall prepare and cause to be submitted to the central bank an audited balance sheet within four months after the end of its financial year.

- (3) A financial institution shall exhibit throughout the year, in a conspicuous place in each of its offices and branches, a copy of its last audited balance sheet with the full and correct names of all persons who are directors of the financial institution; and a copy of the balance sheet shall be published in a local newspaper of general circulation.
- (4) The central bank may publish in whole or in part, at such time as it may determine, any information or data furnished under subsection (1), except that no information or data shall be published which might disclose the affairs of a financial institution or of a customer of a financial institution unless the consent of that financial institution or customer has been obtained.
- (5) A financial institution which fails to comply with subsection (1) is liable to a fine of 0.5 percent of the total deposit liabilities of the financial institution for each month in default.

27. Inspection of financial institutions

- (1) The central bank may, periodically or at any time at its discretion, cause an inspection to be made, by an officer of the central bank or other person appointed by the central bank, of any financial institution and of its books and accounts on the premises of that financial institution and shall supply to that financial institution a copy of the report on the inspection.
- (2) A financial institution shall produce to the officer making an inspection under subsection (1) all such books, accounts and other documents, as well as assets including cash, notes, and securities held by the financial institution in its custody or power and furnish that officer with such statements or information relating to the affairs of the financial institution as that officer may require of it within such reasonable time as that officer may specify.
- (3) Any officer of a financial institution who fails to furnish any document in his or her custody or power as may be required under subsection (2) commits an offence and is liable to a penalty fixed by the central bank, from time to time, by statutory instrument.

28. Powers of the central bank to issue orders after inspection

- (1) If the central bank finds upon an inspection under [section 27](#) that the affairs of a financial institution are conducted in a manner detrimental to the interests of the depositors or prejudicial to the interests of the financial institution or in contravention of this Act or any other written law, the central bank may, without prejudice to any other course of action—
 - (a) require that financial institution to take the necessary measures to rectify the situation, which may include signing an agreement between the directors and management of the financial institution and the central bank;
 - (b) appoint a competent person to advise the financial institution on the measures to be taken to rectify its situation and shall fix his or her remuneration which shall be paid by the financial institution;
 - (c) prohibit the declaration of dividends until the situation is rectified;
 - (d) withhold approvals on the establishment of new branches or other expansion of operations;
 - (e) initiate a legally binding cease and desist order, of either temporary or indefinite duration, requiring the financial institution and its management to stop the unacceptable practice or take affirmative action to rectify the undesirable situation;
 - (f) initiate the legal removal or suspension of a person from the management of the affairs of the financial institution;
 - (g) impose fines on a member of the management for contravention of this Act.
- (2) The central bank may, upon representation made to it or on its own motion, modify or cancel any order issued under this section, and in so modifying or cancelling any order, may impose such conditions as are necessary, subject to which the modification or cancellation shall have effect.

Part VI – Liquidation, seizure and reorganisation

29. Liquidation

- (1) A financial institution may, with the approval of the central bank, voluntarily liquidate its operations.
- (2) Subject to subsection (1), a financial institution shall immediately cease all activities except those which are incidental to the orderly realisation, conservation and preservation of its assets and the settlement of its obligations.
- (3) In case of a liquidation under this section—
 - (a) the liability of the shareholders for uncalled subscriptions to the capital stock of the financial institution shall continue until the end of the liquidation process;
 - (b) the depositors shall be entitled to first claim, and thereafter all other creditors shall be ranked in accordance with the law relating to insolvent companies under the Companies Act;
 - (c) the board of directors of the financial institution shall, before paying creditors holding direct claims and with the approval of the central bank, make arrangements as are necessary to ensure a pro rata distribution among holders of claims that are likely to be reduced to judgment in a court.
- (4) Where the central bank is satisfied that the assets of a financial institution which has voluntarily liquidated its operations under this section are not sufficient to discharge its obligations or that the completion of the liquidation of its operation is unduly delayed, the central bank may, if it deems it fit, take possession of the financial institution and take proceedings leading to compulsory liquidation in conformity with this Act.

30. Seizure

- (1) The central bank may take possession of a financial institution—
 - (a) which is insolvent;
 - (b) which is conducting its business in a manner contrary to this Act;
 - (c) when the continuation of its activities is detrimental to the interests of depositors;
 - (d) that refuses to submit itself to inspection by the central bank as required by this Act; or
 - (e) whose licence has been revoked under [section 10](#).
- (2) Where a financial institution is seized under this section, the following shall apply —
 - (a) any term, whether statutory, contractual or otherwise, on the expiration of which a claim of right of the financial institution would expire or be extinguished shall be extended six months from the date of seizure;
 - (b) any attachment or lien existing six months prior to seizure of the institution shall be vacated, and no attachment or lien except a lien created by the central bank shall attach any property or assets of the financial institution as long as the central bank continues to possess the financial institution; and
 - (c) any transfer of any asset of the financial institution made six months before the insolvency or seizure of the institution with intent to effect a preference shall be void.

31. Management of a seized financial institution

- (1) The central bank shall, upon possessing a financial institution under [section 30](#), be vested with exclusive powers of management and control of the affairs of the financial institution.
- (2) The powers referred to in subsection (1) shall include power to—
 - (a) continue or discontinue its operations as a financial institution (notwithstanding the revocation of its licence);
 - (b) stop or limit the payment of its obligations;
 - (c) employ any necessary staff;
 - (d) execute any instrument in the name of the financial institution;
 - (e) initiate, defend and conduct in its name any action or proceeding to which the financial institution may be a party;
 - (f) reorganise or liquidate the financial institution in accordance with this Act; and
 - (g) do any other act which is necessary to enable the central bank to carry out its obligations under this section.
- (3) The central bank shall, as soon as possible after taking possession of a financial institution, make an inventory of the assets of the financial institution and shall transmit a copy of it to the Minister.
- (4) Where, as a result of its inventory under this section, the central bank determines that a financial institution is insolvent, the central bank may, in consultation with the Minister, close the financial institution on account of its inability to meet its obligations to its depositors and other creditors.

32. Receiver

- (1) The central bank or an appointee of the central bank, upon a financial institution becoming insolvent, shall be the receiver of the financial institution.
- (2) The central bank may, in carrying out its duties as receiver, either arrange a merger with another financial institution, in which case the acquiring financial institution will assume all recorded deposit liabilities of the insolvent financial institution, or proceed with liquidation of the insolvent financial institution.
- (3) The central bank, in making a decision under subsection (2), shall take into consideration—
 - (a) the estimated cost of the central bank with regard to shortfalls to be covered through acquisition of all deposit liabilities by the acquiring financial institution;
 - (b) the impact on and loss to depositors as a result of liquidation; and
 - (c) the overall impact on public confidence in and the stability of the financial sector in general as a result of acquisition or liquidation.
- (4) Where the central bank arranges an acquisition under subsection (2), it shall negotiate with the acquiring financial institution the terms and conditions of acquisition.
- (5) Where the central bank decides to liquidate a financial institution, it shall —
 - (a) realise the assets of the insolvent financial institution;
 - (b) enforce the individual liability of the shareholders and directors of the financial institution;
 - (c) wind up the affairs of the insolvent financial institution;
 - (d) and in winding up the affairs of the insolvent financial institution, eliminate the interests of shareholders and may purchase, sell or transfer assets in order to recover the maximum

amount of a pro rata distribution to depositors and creditors of an insolvent financial institution.

Part VII – The Deposit Insurance Fund

33. Establishment of the fund

- (1) There is established a fund in the central bank to be known as the Deposit Insurance Fund.
- (2) The fund shall be managed and controlled by the central bank into which shall be paid all contributions and other payments required by this Part to be paid into the fund and out of which shall be made the payments required by this Part to be made out of the fund.
- (3) The Minister may, from time to time, in consultation with the central bank and by notice in the *Gazette*, fix the size of the fund sufficient to protect the interests of depositors to be made up by the contributions under [section 34](#) and may authorise the central bank to borrow any such amount as it may require for temporary purposes of making up a deficiency in the fund pending collection of contributions.
- (4) The fund shall consist of—
 - (a) monies contributed to the fund by financial institutions under [section 34](#);
 - (b) income credited to the fund under subsection (5);
 - (c) money borrowed for purposes of the fund under subsection (3).
- (5) The money constituting the fund shall be placed in an account with the central bank to be invested in such manner as the central bank shall deem appropriate, and any income from the investment shall be credited to the fund.
- (6) There shall be chargeable to the fund the administrative expenses of the central bank, repayment of money borrowed by the fund and payments made in respect of protected deposits.

34. Contributors and contributions to the fund

- (1) Every financial institution shall be a contributor to the fund and shall pay into the fund such annual amount, and at such times, as the central bank may determine.
- (2) The central bank shall serve on a financial institution a notice specifying the amount and the period, which shall not be later than twenty-one days after the date of service of the notice, within which the amount shall be paid into the fund by the financial institution.
- (3) The amount of a contribution to the fund under this section shall not be less than 1 percent of the average of the financial institution's total deposit liabilities during the twelve months prior to the date of the notice served under subsection (2), but the Minister may, after consultation with the central bank, by order, amend the minimum and maximum amounts of contributions prescribed by this subsection.
- (4) A financial institution which for any reason fails to pay its contribution to the fund within the periods specified in a notice issued under subsection (2) shall be liable to pay to the fund a penalty interest charge not exceeding 0.5 percent of the unpaid amount for every day outside the notice period on which the amount remains unpaid.
- (5) If it appears to the central bank that the affairs of a financial institution are being conducted in a manner detrimental to its own interests or to the interests of the depositors, the central bank may increase the contributions of that financial institution beyond the maximum set out under subsection (4) or terminate the protection of the deposits of that financial institution.

35. Protection of deposits and payments out of the fund

- (1) The amount being the aggregate credit balance of any accounts maintained by a customer at a financial institution less any liability of the customer to the financial institution shall be a protected deposit to the extent determined by the Minister, from time to time, by order published in the *Gazette*.
- (2) A customer of a financial institution may, upon the financial institution becoming insolvent, lodge a claim with the central bank in such form as the central bank may approve for payment to him or her out of the fund of any protected deposit which he or she would but for the insolvency have been paid had he or she demanded payment from the insolvent financial institution.
- (3) The central bank may, before paying any claim lodged under subsection (2), require the claimant to furnish it with such documentary proof as may be proper to show that he or she is entitled to payment out of the fund, and the central bank may decline to make any payment under this section to a person who, in the opinion of the central bank, had any responsibility for or may have profited directly or indirectly from the circumstances leading up to the financial institution becoming insolvent.
- (4) Notwithstanding subsection (3), the central bank may carry out inspections under [section 27](#) and ascertain the type, number and values of the protected deposits which, but for the insolvency, would be payable by an insolvent financial institution.
- (5) Upon payment of a protected deposit, the fund shall be entitled to receive from the financial institution or liquidator, as the case may be, an amount equal to the insolvency payment paid by the fund on account of its subrogation to the claims of any customer or depositor.
- (6) For the purposes of this section, “customer” includes persons entitled to a deposit as trustees or persons holding any deposits jointly.

36. Power of the central bank to lend

If the central bank considers it desirable to reduce risk or avert threatened loss to the fund, the central bank may, on such terms and conditions as it may prescribe, lend, place a deposit or issue a guarantee or purchase the assets of a financial institution.

37. Annual report of the central bank’s activities

- (1) The central bank shall, within three months after the close of each financial year, submit an annual report of its operations to the Minister.
- (2) The financial year of the fund shall be the same as the central bank’s financial year.

Part VIII – Miscellaneous

38. Branches, etc.

- (1) A financial institution shall not open a new place of business or change the location of an existing place of business or change its hours of business without the approval of the central bank.
- (2) Before granting any approval under this section in respect of opening a new place of business or change of location of an existing place of business, the central bank may require to be satisfied by an inspection of the financial institution or otherwise as to—
 - (a) the history and financial condition of the financial institution;
 - (b) the general character of its management;
 - (c) the adequacy of its capital structure and earning prospects;

- (d) the convenience and needs of the community to be served; and
 - (e) whether public interest will be served by the opening of a new place of business or changing the location of the place or hours of business, as the case may be.
- (3) A financial institution shall not close an existing place of business unless it has given six months' notice to the central bank, or such shorter period of notice as the central bank may consider reasonable, of its intention to close the place of business.
- (4) A financial institution which contravenes this section commits an offence and is liable to a fine fixed by the central bank, from time to time, by statutory instrument.

39. Mergers

- (1) A financial institution operating in Uganda shall not be merged or consolidated with or taken over by any other institution or individual, and no interest in the capital of any financial institution with a voting share exceeding 10 percent shall be acquired by any other financial institution without the approval of the central bank.
- (2) In considering any application for approval under this section, the central bank shall have power to call for the relevant information.
- (3) A financial institution which contravenes subsection (1) commits an offence and is liable to a fine of one million shillings for every day during which the offence continues; and any officer who contravenes this section commits an offence and is liable on conviction to a fine of one hundred thousand shillings for every day during which the offence continues and in default of payment to imprisonment for a term of one year.

40. Restriction on transfer of shares

- (1) A person shall not transfer shares in a financial institution representing more than 15 percent of either capital stock or voting rights without the prior approval of the central bank.
- (2) Where the central bank refuses to allow a person to transfer shares under this section, an appeal shall lie to the court.
- (3) A financial institution shall, as may be required by the central bank, make periodic returns in respect of persons holding more than 15 percent of the total shares of the financial institution.

41. Mortgages, liens

For the avoidance of doubt, a financial institution may accept a lien on crops, animals or other chattels as collateral security for loans and overdrafts.

42. Unclaimed balances

- (1) Whenever any current or savings account has not been operated for two years or a time or savings deposit account has not been operated for two years after the date of maturity of the deposit, no withdrawals shall be allowed on the account except with the permission of two officers of the financial institution out of a number of signatories authorised to grant such permission.
- (2) An account referred to in subsection (1) shall be transferred to a separate register of dormant accounts in the books of the financial institution, and a notice in writing of that action shall be given to the depositor at his or her last known address.
- (3) Where any account which is transferable under subsection (2) is subject to a service charge, the charge may continue to be levied up to the date on which the account has been transferred to the separate ledger of dormant accounts except that no charge shall be levied beyond two years.

- (4) Where an account is transferred to a register of dormant accounts, an advertisement shall be published after ten years of such an account having been on the register of dormant accounts and thereafter after ten years; and the cost of advertisement shall be charged on the respective accounts on a pro rata basis.
- (5) Any account may be transferred out of the register of dormant accounts if the depositor, or if he or she is dead his or her legal representative, makes such a request.
- (6) Unclaimed balances shall after twenty years be employed by the central bank to offset costs of supervising financial institutions or as may be prescribed.

43. Disqualification of officers

- (1) A person—
 - (a) who has been a director or officer of, or directly responsible for the mismanagement of, a financial institution leading to its being compulsorily wound up by a court;
 - (b) who has been convicted of an offence under [section 47](#); or
 - (c) who is a bankrupt or suspends payment or compounds with his or her creditors,shall not, without the express authorisation of the central bank, act or continue to act as a director or officer or be directly or indirectly involved in the management of a financial institution.
- (2) A person who has been convicted of an offence involving dishonesty or fraud shall not act or continue to act in any way in the management of a financial institution.

44. Officers deemed public officers

An officer or servant of a financial institution shall be deemed to be a person employed in the public service for the purposes of sections 87, 89 and 93 of the Penal Code Act.

45. Obligations under the Companies Act, etc.

Nothing in this Act shall be deemed to relieve a financial institution from any of its obligations under the Companies Act or the Building Societies Act.

46. Use of the word “bank”

- (1) No person except a person licensed under this Act shall, without the consent of the central bank —
 - (a) use the word “bank” or any of its derivatives in any language or any other word indicating the transaction of banking business in the name or description of title under which that person is transacting business;
 - (b) make or continue to make any representation indicating the transaction of banking business in any billhead, letter paper, notice, advertising or in any manner whatsoever.
- (2) No company shall carry on the business of banking unless it uses as part of its name the word “bank” or one of its derivatives.
- (3) A person who contravenes this section commits an offence and is liable on conviction to a fine of not less than fifty thousand shillings for every day during which the offence continues.

47. Examination of persons suspected of doing banking business, etc.

Whenever the central bank has reasonable grounds leading it to believe that any person is transacting banking or credit institution or building society business without a licence, it shall have the power to examine the books of account and records of that person in order to ascertain whether or not that person has violated or is violating any provisions of this Act; and any refusal to submit the books, accounts and

records shall be *prima facie* evidence of the fact of operation of banking or, as the case may be, credit institution business or building society business, without a licence.

48. Protection of the central bank, etc.

No suit or other legal proceedings shall lie against the central bank or any officer of the central bank for anything which is done or is intended to be done in good faith pursuant to the provisions of this Act.

49. Declaration of bank holidays

- (1) The Minister may, at any time, by statutory instrument, declare any day to be a bank holiday.
- (2) A financial institution shall not transact any business with the public on a bank holiday.
- (3) A bank holiday declared under subsection (1) shall not necessarily be a public holiday, and nothing in this section shall be deemed to affect any law in force relating to public holidays.

50. Nonapplication of the Interpretation Act

Sections 37 and 38 of the Interpretation Act shall not apply to this Act.

51. Regulations

The central bank may, in consultation with the Minister responsible for finance, make regulations —

- (a) prescribing prudential norms on asset quality, including bad debt provisions and write-offs;
- (b) providing for the licensing of financial institutions;
- (c) providing for the minimum level of capital for financial institutions;
- (d) providing for the computation of ongoing capital adequacy requirements for financial institutions;
- (e) providing for lending limits on credit extended to insiders;
- (f) providing for the limitations for advances or credit facilities to a single borrower;
- (g) providing for reporting requirements by financial institutions to the central bank;
- (h) generally for giving effect to the provisions of this Act.

52. Offences and penalties

- (1) A person who carries on or is privy to the carrying on of the business of a financial institution which has been established contrary to this Act commits an offence and is liable on conviction to a fine of not less than two million shillings or to imprisonment for a term of two years or to both.
- (2) A person convicted of an offence under subsection (1) shall be disqualified from acquiring a licence under this Act for five years and thereafter shall not, without approval of the central bank, be issued with a licence.
- (3) A person who, being a director, manager or officer of a financial institution —
 - (a) fails to take any reasonable steps to secure compliance with the requirements of this Act;
 - (b) makes any statement or gives any information which is false in answer to any request for information made under any provisions of this Act;
 - (c) is privy to the furnishing of any false information supplied under this Act,commits an offence and is liable on conviction to a fine of not less than one million shillings or to imprisonment for a term not exceeding two years or to both.

- (4) A financial institution which fails to comply with an order issued by the central bank under this Act commits an offence and is liable to a fine fixed by the central bank by statutory instrument.
- (5) A financial institution which contravenes any provision of this Act commits an offence; and where no specific penalty is provided, the financial institution is liable on conviction to a penalty prescribed by the central bank by statutory instrument.
- (6) Where a director or officer of a financial institution authorises or commits the contravention of any provision of this Act, he or she shall be personally liable to the penalty specified in relation to the contravention.

53. Act to take precedence over other Acts that relate to banking. etc.

For purposes of banking, credit institutions and building societies business, this Act shall take precedence over any legislation relating to financial institutions, and in case of conflict this Act shall prevail.