



# **CAPITAL ADEQUACY MODULE**



<b>MODULE:</b>	<b>CA</b>	<b>Capital Adequacy</b>
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MODULE	CA: Capital Adequacy
CHAPTER	CA-A: Introduction

## CA-A.1 Purpose

### *Executive Summary*

CA-A.1.1 The purpose of this module is to set out the CBB's regulations for minimum capital requirements. This requirement is supported by Article 44(c) of the Central Bank of Bahrain and Financial Institutions Law (Decree No. 64 of 2006).

CA-A.1.2 Principle 9 of the Principles of Business requires that financing company licensees maintain adequate human, financial and other resources, sufficient to run their business in an orderly manner (see Section PB-1.9). In addition, Condition 5 of CBB's Authorised Conditions (Section AU-2.5) requires financing company licensees to maintain financial resources in excess of the minimum requirements specified in this Module.

CA-A.1.3 This Module sets out the minimum capital requirements which financing company licensees must meet as a condition of their licensing.

CA-A.1.4 The purpose of these requirements is to ensure that financing company licensees hold sufficient financial resources to provide some protection against unexpected losses.

**CA-A.1.5** **The CBB requires in particular that the relevant financing company maintain adequate capital in accordance with the requirements of this Module, against their risks.**

CA-A.1.6 This module provides support for certain other parts of the Rulebook, mainly:

- (a) Prudential Consolidation and Deduction Requirements;
- (b) Licensing and Authorisation Requirements;
- (c) CBB Reporting Requirements;
- (d) Credit Risk Management;
- (e) Operational Risk Management;
- (f) High Level Controls;
- (g) Relationship with Audit Firms; and
- (i) Penalties and Fines.

### *Legal Basis*

**CA-A.1.7** **This Module contains the CBB's Directive relating to the capital requirements and gearing of financing company licensees, and is issued under the powers available to the CBB under Article 38 of the CBB Law. The Directive in this Module is applicable to all financing company licensees.**



<b>MODULE</b>	<b>CA:</b>	<b>Capital Requirements</b>
<b>CHAPTER</b>	<b>CA-A:</b>	<b>Introduction</b>

## CA-A.2 Module History

### *Evolution of Module*

CA-A.2.1 This Module was first issued in January 2013 by the CBB. Any material changes that have subsequently been made to this Module are annotated with the calendar quarter date in which the change was made: Chapter UG-3 provides further details on Rulebook maintenance and version control.

CA-A.2.2 A list of recent changes made to this Module is provided below:

Module Ref.	Change Date	Description of Changes

CA-A.2.3 Guidance on the implementation and transition to Volume 5 (Specialised Licensees) is given in Module ES (Executive Summary).



MODULE	CA:	Capital Requirements
CHAPTER	CA-B:	Scope of Application

## CA-B.1 Scope of Application

### CA-B.1.1

This Module is applicable to all financing company licensees (authorised in the Kingdom, thereafter referred to in this Module as licensees).



MODULE	CA:	Capital Requirements
CHAPTER	CA-1:	Regulatory Capital

## CA-1.1 General Requirements

### *Minimum Capital Requirement*

**CA-1.1.1** A licensee must maintain a minimum paid-up capital of BD5,000,000 (or an equivalent amount in a currency acceptable to the CBB). A greater amount of capital may be required by the CBB on a case-by-case basis.

**CA-1.1.2** In addition to the requirements of Paragraph CA-1.1.1, the CBB may require that an acceptably worded letter of guarantee be provided in support of the application for a license. Where the application for the license is for an incorporated entity, the CBB may seek a letter of guarantee from the major shareholder in control of the licensee.

**CA-1.1.3** All licensees must implement the requirements of Paragraphs CA-1.1.1 and CA-1.1.2, effective January 2013.

### *Gearing Ratio*

**CA-1.1.4** In addition to the requirements outlined in Paragraphs CA-1.1.1 and CA-1.2.1., all licensees must maintain a minimum gearing ratio of 20%.

**CA-1.1.5** For purposes of Paragraph CA-1.1.4, the gearing ratio is defined as the core capital divided by the total liabilities.

### *Core Capital*

**CA-1.1.6** Core capital shall consist of the sum of items (a) to (e) below, less the sum of items (f) to (i) below:

- (a) Issued and fully paid ordinary shares (net of treasury shares);
- (b) Share premium reserve;
- (c) Perpetual non-cumulative preference shares;
- (d) All disclosed reserves brought forward, that are audited and approved by the shareholders, in the form of legal, general and other reserves created by appropriations of retained earnings, excluding fair value reserve<sup>1</sup>; and
- (e) Retained profit brought forward;

<sup>1</sup> This refers to unrealised fair value gains reported directly in equity



MODULE	CA: Capital Requirements
CHAPTER	CA-1: Regulatory Capital

## CA-1.1 General Requirements (continued)

### LESS:

- (f) Goodwill;
- (g) Current interim cumulative net losses;
- (h) Unrealised gross losses arising from fair valuing securities<sup>2</sup>; and
- (i) Other deductions, as specified by the CBB.

#### CA-1.1.7

Interim profits which have been reviewed as per IAS 34 may be included as core capital.

### *Liabilities*

#### CA-1.1.8

For purposes of Paragraph CA-1.1.5, liabilities are defined as the total amount of liabilities reported in the PIRF or PIRCC.

#### CA-1.1.9

Licensees must ensure that at all times they maintain the minimum gearing ratio outlined in Paragraph CA-1.1.4. In the event that the licensee does not comply with the minimum gearing ratio, it must notify the CBB by no later than the following business day of the actual level of the gearing ratio. When providing such notification, the licensee must:

- (a) Provide to the CBB, within one week of the non-compliance, a written action plan setting out how the licensee proposes to restore its gearing ratio to the required minimum level and describe the systems and controls that have been put in place to prevent any future non-compliance of the minimum gearing ratio; and
- (b) Report to the CBB on a monthly basis or on another timely basis as required by the CBB, the licensee's gearing ratio until such time as the gearing ratio has reached 22% or other target level as specified by the CBB.

#### CA-1.1.10

Licensees must note that the CBB considers the breach of the gearing ratio to be a very serious matter. Consequently, the CBB may (at its discretion) subject a licensee which breaches its gearing ratio to a formal licensing reappraisal. Such reappraisal may be effected either through the CBB's own inspection function or through the use of Reporting Accountants, as appropriate. Following such reappraisal, the CBB will provide a written notification to the licensee concerned outlining the CBB's conclusions with regard to the continued licensing.

<sup>2</sup> This refers to both 'net losses taken through P&L' and 'gross losses reported directly in equity'.



MODULE	CA:	Capital Requirements
CHAPTER	CA-2:	Regulatory Capital

## CA-1.1 General Requirements (continued)

### *Compliance Officer*

CA-1.1.11

The CBB requires that the licensee's compliance officer supports and cooperates with the CBB in the monitoring and reporting of the capital level and the gearing ratio and other regulatory reporting matters.

CA-1.1.12

Compliance officers should ensure that the licensee has adequate internal systems and controls to comply with this Module.

### *Reporting Requirements*

CA-1.1.13

The licensee must report its capital level and gearing ratio to the CBB in accordance with the requirements outlined in Chapter BR-3.