



**MICROFINANCE INSTITUTIONS
CAPITAL ADEQUACY AND
LIQUIDITY REQUIREMENTS
MODULE**



MODULE:	CA	Capital Adequacy and Liquidity Requirements
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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 2006 (CBB Law).

CA-A.1.2 Principle 9 of the Principles of Business requires that microfinance institution 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 the CBB's Authorised Conditions (Section AU-2.5) requires microfinance institution 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 microfinance institution licensees must meet as a condition of their licensing.

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

CA-A.1.5 The CBB requires that microfinance institution licensees maintain adequate capital in accordance with the requirements of this Module, against their risks.

Legal Basis

CA-A.1.6 This Module contains the CBB's Directive relating to the capital requirements and gearing of microfinance institution 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 microfinance institution licensees.



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CA-A.2 Module History

Evolution of Module

CA-A.2.1 This Module was first issued in January 2014 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-1.1.4 and CA-1.1.5	10/2014	Updated capital requirements to be aligned with the term and definition of 'core capital'.
CA-1.1.3	01/2019	Amended minimum Capital Adequacy ratio.
CA-1.1.4	01/2019	Amended Paragraph defining Capital Adequacy ratio.
CA-1.1.5A	01/2019	Added a new Paragraph on risk weighted asset items.
CB-1.1.5B	01/2019	Added a new Paragraph on claims on banks.
CB-1.1.5C	01/2019	Added a new Paragraph on short-term claims.
CA-1.1.6	01/2019	Amended Paragraph on maintaining minimum CAR.
CA-1.1.7	01/2019	Amended Paragraph.
CA-1.1.8	01/2019	Amended guidance and changed to Rule.
CA-1.1.9	01/2019	Amended Paragraph.
CA-1.1.1	04/2019	Amended the minimum capital required.



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CA-B.1 Scope of Application

CA-B.1.1

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



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CA-1.1 Capital Requirements

Minimum Capital Requirement

CA-1.1.1

A licensee must maintain at all times a minimum paid-up capital of **BD 2** million provided by the shareholders/promoters and/or through grants and donations. 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. The CBB may seek a letter of guarantee from controllers.

Capital Adequacy Ratio (CAR)

CA-1.1.3

In addition to the requirements outlined in Paragraphs CA-1.1.1 and CA-1.2.1, all licensees must maintain a minimum capital adequacy ratio of 12%.

CA-1.1.4

For purposes of Paragraph CA-1.1.3, the capital adequacy ratio is defined as the total core capital divided by the risk weighted assets.

CA-1.1.5

For purposes of Paragraph CA-1.1.4, total core capital refers to:

- (a) Issued and fully paid ordinary shares (net of treasury shares);
- (b) Retained earnings (losses) brought forward, including interim profits/losses; and
- (c) 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;

LESS:

- (d) Other deductions, as specified by the CBB.

CA-1.1.5A

For the purpose of Paragraph CA-1.1.4, the asset items must be risk weighted as follows:

- (a) Cash and treasury bills in BD or in US\$: 0%;
- (b) Claims on banks (See CA-1.1.5B);
- (c) Microfinance credit facilities: 75%;
- (d) Investments: 100%; and
- (e) Other assets: 100%.



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CA-1.1 Capital Requirements (continued)

Claims on Banks

CA-1.1.5B

Claims on banks must be risk weighted as given in the following table. No claim on an unrated bank may receive a risk weight lower than that applied to claims on its sovereign of incorporation.

Banks Credit Quality Grades	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Below B-	Un-rated
	ECAI 1	ECAI 2	ECAI 3	ECAI 4	ECAI 5	-
Standard risk weights	20%	50%	50%	100%	150%	50%

CA-1.1.5C

Short-term claims on locally incorporated banks may be assigned a risk weighting of 20% where such claims on the banks are of an original maturity of 3 months or less denominated and funded in either BD or US dollar.

CA-1.1.6

Licensees must ensure that at all times they maintain the minimum CAR outlined in Paragraph CA-1.1.3. In the event that the licensee does not comply with the minimum CAR requirement, it must notify the CBB by no later than the following business day of the actual level of the CAR. 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 CAR 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 CAR; and
- (b) Report to the CBB on a monthly basis, the licensee's CAR until such time as the CAR has reached 12.5% or other target level as specified by the CBB.

CA-1.1.7

Licensees should note that the CBB considers the breach of the minimum CAR requirement to be a very serious matter. Consequently, the CBB may (at its discretion) subject a licensee which breaches its minimum CAR requirement to a formal enforcement action.



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CA-1.1 Capital Requirements (continued)

Compliance Officer

CA-1.1.8

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

Reporting Requirements

CA-1.1.9

The licensee must report its capital level and CAR to the CBB in accordance with the requirements outlined in Chapter BR-1.



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CA-1.2 Liquidity Requirements

CA-1.2.1

A licensee's net liquid assets must be held in a form acceptable to the CBB, in a minimum amount of three months estimated expenditures including salaries, rent, general utilities and other operating costs.

CA-1.2.2

For purposes of Paragraph CA-1.2.1, net liquid assets comprise of unencumbered cash, cash equivalents, treasury bills, and placements and balances with banks maturing within 30 days less any liabilities due within 30 days.