



**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



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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 BD5 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.

Leverage Ratio

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 leverage ratio of 50%.

CA-1.1.4

For purposes of Paragraph CA-1.1.3, the leverage ratio is defined as the total equity divided by the total assets.

CA-1.1.5

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

- (a) Issued and paid up share capital (net of treasury shares);
- (b) Retained earnings; 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.

CA-1.1.6

Licensees must ensure that at all times they maintain the minimum leverage ratio outlined in Paragraph CA-1.1.3. In the event that the licensee does not comply with the minimum leverage ratio, it must notify the CBB by no later than the following business day of the actual level of the leverage 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 leverage 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 leverage ratio; and
- (b) Report to the CBB on a monthly basis or on another timely basis as required by the CBB, the licensee's leverage ratio until such time as the leverage ratio has reached 55% or other target level as specified by the CBB.



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CA-1.1 Capital Requirements (continued)

CA-1.1.7 Licensees must note that the CBB considers the breach of the leverage ratio to be a very serious matter. Consequently, the CBB may (at its discretion) subject a licensee which breaches its leverage ratio to a formal licensing reappraisal. Such reappraisal may be effected either through the CBB's own inspection function or through the use of appointed experts, 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.

Compliance Officer

CA-1.1.8 Compliance officers should 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 leverage ratio 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.