BANKIGA DHEXE EE SOOMAALIYA

البنك المركزي الصومالي

CENTRAL BANK OF SOMALIA

Licensing and Supervision Department

Qaybta Shati-siinta iyo Kormeerka

REGULATION ON CAPITAL ADEQUACY, 2015
CBS/BS/REG/02

1. INTRODUCTION

1.1. Authority

This regulation is made by the Central Bank pursuant to its authority set forth in Sections 14(1)-(2), 15(1), and 34 of the Financial Institution Law, 2012 ("FIL"), and Sections 38(1) and 52(1) of the Central Bank of Somalia Law, 2011, for the purpose of implementing Sections 14 (Minimum Capital Requirements), 15 (Minimum Ongoing Capital Requirements), and 18 (Submission of Forms for Capital Adequacy Computation) of the FIL.

1.2. Applicability

This regulation applies to all persons licensed by the Central Bank to engage in banking business in Somalia. The requirements of this regulation apply to each bank individually, and on a fully consolidated basis to each bank, its holding company, and members of its group, if applicable.

2. CAPITAL REQUIREMENTS

2.1. Minimum Amount of Capital

Unless the Central Bank notifies a bank in writing of a higher capital requirement pursuant to Sections 14(6) and 15(2) of the FIL, banks shall at all times maintain in Somalia unimpaired paid-up capital, or assigned capital in the case of a branch of a foreign bank, in an amount which exceeds USD 5,000,000.

2.2. Minimum Capital Ratios

2.2.1. Capital Adequacy Ratio

(Total Capital / Total Net Assets) x 100

Each bank shall at all times maintain a Capital Adequacy Ratio which equals or exceeds twelve percent (12%).

2.2.2. Core Capital Ratio

(Core Capital / Total Net Assets) x 100

Each bank shall at all times maintain a Core Capital Ratio which equals or exceeds eight percent (8%).

3. CALCULATIONS

3.1. Total Capital

Total Capital = Core Capital + Supplemental Capital.

3.2. Core Capital

Core Capital = The sum of the qualifying capital accounts listed in 3.2.1
– */minus/less* the accounts listed in 3.2.2.

3.2.1. Elements of Core Capital

(i) Unimpaired ordinary paid-up share capital or assigned capital in the case of a foreign bank;

(ii) Unimpaired paid-up non-cumulative perpetual preference shares;

(iii) Share premium; and

(iv) Accumulated retained earnings in the amount reported in the most recent audited accounts approved by the Central Bank, less any accumulated losses in the current year.

3.2.2. Deductions

(i) Goodwill;

(ii) Investments in the capital of other banks, financial institutions and insurance companies;

(iii) Investment in the bank's own shares (treasury stock); and

(iv) Financial exposures to related persons of the bank which are not authorized by or which exceed the limitations of Section 103 of the FIL or the Central Bank's *Regulation on Transactions with Related Persons*.

3.3. Supplemental Capital

Supplemental Capital = The sum of the following listed qualifying accounts.

(i) Current year-to-date net profit after tax, unaudited;

(ii) Financial market instruments that are unsecured and subordinate to the interests of shareholders and creditors and that have been deemed satisfactory by the Central Bank.

4. CAPITAL PLANNING POLICY

The board of directors of each bank will ensure that executive officers develop, implement, maintain, and regularly update a Capital Planning Policy. To be considered adequate, the Capital Planning Policy must meet the following minimum requirements:

4.1. Be in writing;

4.2. Be reviewed, updated, and approved by the board of directors at least annually;

4.3. Identify the material risks to which the bank is subject;

4.4. Account for the bank's material risks in its targeted capital levels and ratios;

4.5. Explain the process by which the board of directors expects management to establish capital targets, capital levels and ratios that exceed the minimum requirements of this regulation.

4.6. Include measures to ensure that the capital targets will support the bank's current operations and future capital needs based on its business plan;

4.7. Specify the principles that management is to follow when making decisions about how to deploy the bank's capital;

4.8. Require effective coordination and clear communication between those persons who are responsible for capital and liquidity monitoring and management; and

4.9. Establish protocols for management to follow to preserve capital during economic downturns and other events which threaten the bank's capital.

5. RESTRICTIONS ON CAPITAL DISTRIBUTIONS

5.1. No bank shall make a voluntary capital distribution unless the bank exceeds, and will continue to exceed after making the distribution, the minimum required amount of capital and the minimum Capital Adequacy Ratios.

5.2. A bank that holds capital in excess of the minimum required amount and exceeding the minimum Capital Adequacy Ratios, may make voluntary capital distributions in accordance with the following guidelines:

Core Capital Ratio	**Maximum Annual Earnings Payout Ratio Permitted**
8.0 – 10.0%	25%
10.1 – 12.0%	50%
12.1 – 14.0 %	75%
14.1% +	100%

6. REPORTING

No later than the close of business on the last day of the month following a calendar-quarter-end and in the format prescribed by the Central Bank, each bank shall submit to the Central Bank a report showing the calculation of Total Capital, Core Capital, Supplemental Capital, Total Net Assets, the Capital Adequacy Ratio, and the Core Capital Ratio in accordance with this regulation.

CENTRAL BANK OF SOMALIA

Report on Capital Adequacy

Line No.	Description	Amount
	Elements of Core Capital	
10	Unimpaired paid-up ordinary share capital and premium (or assigned capital in the case of a foreign bank)	
20	Unimpaired paid-up non-cumulative perpetual preference shares and premium	
30	Accumulated retained earnings – Audited	
	Deductions	
40	Current year loss, if applicable	
50	Goodwill	
60	Investments in other banks, financial institutions and insurance companies	
70	Treasury stock	
80	Unauthorized financial exposures to related persons	
90	**CORE CAPITAL** (10 + 20 + 30) – (40 + 50 + 60 + 70 + 80)	
	Elements of Supplemental Capital	
100	Current year net profit after tax - Unaudited	
110	Eligible subordinated debt	
120	**SUPPLEMENTAL CAPITAL** (100 + 110)	
130	**TOTAL CAPITAL** (90 + 120)	
140	**TOTAL NET ASSETS** (from balance sheet of same reporting date)	
Line No.	**Ratio**	**%**
150	**Capital Adequacy Ratio** (130 / 140) x 100	
160	**Core Capital Ratio** (90 / 140) x 100	