



NOTICE TO ISLAMIC BANKS

NOTICE NO. BU/N-4/2017/39

MAINTENANCE OF CAPITAL ADEQUACY RATIO

1. INTRODUCTION

- 1.1. Capital is important to an Islamic bank as it provides a buffer to absorb losses apart from being a permanent source of funding for business operations and growth. Capital not only reduces the risk of insolvency of an Islamic bank but can also enable the Islamic bank to continue to conduct its credit intermediation activities in times of stress, thereby reducing any propensity for the Islamic banking sector to amplify the effects of a financial and economic downturn.
- 1.2. Regulatory capital requirements therefore seek to ensure that Islamic banks hold sufficient capital (and reserves) against the inherent risks in their business. It also seeks to ensure that the capital recognised is readily available for the depositors.
- 1.3. This Notice is issued pursuant to section 11(1) of the Islamic Banking Order, 2008 and applies to all Islamic Banks in Brunei Darussalam.
- 1.4. This Notice aims to establish the minimum Capital Adequacy Ratios for an Islamic bank and the methodology an Islamic bank shall use for calculating these ratios ("Pillar 1").
- 1.5. This Notice shall take immediate effect.

2. DEFINITIONS

- 2.1. For the purposes of this Notice –

"banking group entity" means any subsidiary or any other entity which is treated as part of the reporting bank's group of entities according to Accounting Standards;



3. CAPITAL ADEQUACY RATIO

- 3.1. An Islamic bank shall, at any time, maintain the minimum Capital Adequacy Ratio (CAR) in relation to its total Risk Weighted Assets (RWA) as follows:-

	Minimum Ratios
Minimum Tier-1 CAR	5%
Minimum Total CAR	10%

- 3.2. An Islamic bank shall compute the respective CAR in accordance with the Capital Adequacy Framework **[ANNEX 1]** and reported in the Capital Adequacy Ratio reporting template.
- 3.3. An Islamic bank shall comply with the minimum CAR requirements in this Notice at two levels:
- 3.3.1. the Islamic bank standalone (“Solo”) level capital adequacy ratio requirements, which measure the capital adequacy of an Islamic bank based on its standalone capital strength and risk profile; and
- 3.3.2. the consolidated (“Group”) level capital adequacy ratio requirements, which measure the capital adequacy of an Islamic bank based on its capital strength and risk profile after consolidating the assets and liabilities of its banking group entities as specified by the Authority.
- 3.4. For the avoidance of doubt, the level of CAR requirements for Islamic banks registered in Brunei Darussalam shall be based on its related assets, liabilities and transactions of its operation in Brunei Darussalam.
- 3.5. The Authority may vary the minimum Tier 1 CAR and minimum Total CAR applicable to an Islamic bank. In exercising this discretion, the Authority may take into account, inter alia, any relevant risk factor, the *Internal Capital Adequacy Assessment Process* (ICAAP) of an Islamic bank and whether the Tier 1 CAR or Total CAR is commensurate with the overall risk profile of the Islamic bank and any other factor as the Authority may determine.
- 3.6. The minimum capital requirements specified above may not be sufficient to absorb all unexpected losses. The Authority, therefore may impose more stringent capital requirements than those stated on certain Islamic banks taking into account the riskiness of the activities conducted by the concerned Islamic bank.



4. CAPITAL ADEQUACY FRAMEWORK

- 4.1. The Capital Adequacy Framework sets out the approach for computing regulatory CAR, which has been developed based on internationally-agreed standards on capital adequacy promulgated by the Basel Committee on Banking Supervision (BCBS).
- 4.2. Where necessary, the Authority may opt to exercise national discretion in areas provided and applicable by the BCBS to individual national supervisory authority.
- 4.3. Upon amendments to the Capital Adequacy Framework, the Banking Unit, AMBD shall give at least one-month notice of the changes to the Islamic banks, prior to its effect.

5. CAPITAL ADEQUACY REPORTING

- 5.1. An Islamic bank shall complete and submit the capital adequacy ratio reporting template both on a Solo and Group level according to the following schedule: -
 - 5.1.1. Solo reporting on a monthly basis, no later than 15 days after the month-end reporting date; and
 - 5.1.2. Group reporting on a quarterly basis, no later than 30 days after the quarter-end reporting date.
- 5.2. The Authority places significant emphasis on the quality of information submitted for the purpose of Capital Adequacy Framework. In this regard, the chief financial officer of the Islamic bank is responsible and shall be held accountable for the quality of the information submitted in all reporting templates to the Authority under the Capital Adequacy Framework.

6. PROVISIONS REPEALED

- 6.1. The provisions of any notices, directives and other policy documents issued prior to this Notice and which are inconsistent with it are hereby repealed.

MANAGING DIRECTOR

AUTORITI MONETARI BRUNEI DARUSSALAM

Date: 16 Jamadilakhir 1438 / 15 March 2017