

PART A OVERVIEW1

- 1. Introduction.....1
- 2. Applicability1
- 3. Interpretation1

PART B LEGAL PROVISIONS2

- 4. Legal provision (Please refer to the BAFIA for the full version of the law).....2

PART C POLICY REQUIREMENTS3

- 5. Minimum capital requirements3
- 6. Increase in capital funds3
- 7. Other specific capital requirements imposed.....4

PART A OVERVIEW

1. Introduction

- 1.1. Minimum capital requirements are put in place to ensure banking institutions have sufficient capacity to undertake the intermediation function necessary for the development of the economy.
- 1.2. Well capitalised banking institutions are able to undertake greater business expansion and allocate resources in order to develop capacity to compete more effectively in a more liberalised environment.

2. Applicability

- 2.1. The capital requirement is applicable to all banking institutions licensed under the Banking and Financial Institutions Act 1989 (BAFIA), namely commercial banks, finance companies and investment banks/merchant banks.

3. Interpretation

In these guidelines, the term:

Capital funds unimpaired by losses	refers to paid up capital and reserves, as defined in Section 2 of the BAFIA. For the purpose of capital requirement calculations, it is defined as the sum of <ul style="list-style-type: none">- Paid-up Ordinary Shares- Paid-up Non-cumulative Perpetual Preference Shares- Share Premium- Statutory Reserve Fund- General Reserve Fund- Retained Profits/Accumulated Losses- Revaluation Reserves
------------------------------------	--

PART B LEGAL PROVISIONS**4. Legal provision (Please refer to the BAFIA for the full version of the law)**

- 4.1. Section 14 of the BAFIA requires all banking institutions to maintain a certain amount of capital funds unimpaired by losses as a condition for granting and continuing a licence.

PART C POLICY REQUIREMENTS**5. Minimum capital requirements**

5.1. The minimum capital funds for commercial banks and investment banks are as follows:

	Minimum amount of capital funds unimpaired by losses
Domestic Banking Groups	RM2 billion ¹
Locally-incorporated Foreign Banks	RM300 million ²
Stand-alone Investment Banks	RM500 million ³

5.2. Capital funds for domestic banking groups are calculated based on the aggregate capital funds of the commercial bank and investment bank in each group. These banking groups are given the flexibility to determine the relative size of each entity within their groups as long as the aggregate capital funds of all the entities amounts to at least RM2 billion.

5.3. In addition to this minimum capital requirement, each banking institution within the banking group must also comply with the minimum regulatory capital requirement set under the circular entitled "Capital Adequacy Requirement Risk-Weighted Capital Ratio" issued by Bank Negara Malaysia on 4 August 1989.

6. Increase in capital funds

6.1. Any increase in the authorized and paid up capital of banking institutions is subject to prior written approval from Bank Negara Malaysia⁴.

6.2. Capital injections by controlling shareholders of banking institutions should come from non-obligatory sources of financing such as⁵:

- equity (including irredeemable convertible unsecured loan stock (ICULS));
- retained profits of shareholders; or
- very long-term debt (preferably by way of bond issues) of at least 10 years maturity

¹ With effect from 31 December 2001.

² With effect from 31 December 2001.

³ With effect from 1 July 2005.

⁴ With effect from 12 August 1997.

⁵ With effect from 14 April 1999.

BNM/RH/GL 001-8	Prudential Financial Policy Department	CAPITAL REQUIREMENT	Page 4 / 4
-----------------	---	------------------------	---------------

6.3. ICULS issued by banking institutions to their shareholders can be calculated as part of capital funds as long as the total value of ICULS does not exceed 25% of the existing capital funds⁶.

7. Other specific capital requirements imposed

7.1. For universal brokers, a necessary condition to be eligible for access to the interbank market is that minimum shareholders' funds⁷ of RM100 million needs to be maintained⁸.

⁶ With effect from 14 March 1997.

⁷ Effective shareholders' funds as defined in Rule 1105.1 of Rules of Bursa Malaysia Securities Berhad: in relation to a Participating Organisation, means its last audited shareholders' funds less unaudited losses.

⁸ With effect from 19 July 2005.