# Ratio: Capital Adequacy Ratio

# RATIO

Ratio: CAR = ((Tier 1 Capital + Tier 2 Capital) / Risk Weighted Assets) × 100

## SOURCE OF THE COMPONENTS

## Source

|  |  |  |  |
| --- | --- | --- | --- |
| **Component** | **Component item** | **Source Details** | **risk %** |
| tier 1 capital | share capital | gl sub category: equity - tier 1 | n/a |
| tier 2 capital | subordinated debt | Gl sub category: shares - tier 2 | n/a |
| risk weighted assets | cash and bank balances | gl sub category: cash | 0% |
| sovereign bonds | gl sub category: sovereign bonds | 5% |
| loans to bank secured | gl sub category: loans to bank secured | 20% |
| loans to bank un-secured | gl sub category: loans to bank unsecured | 75% |
| Mortgage Loans | Loan Portfolio: loan\_type = 'Mortgage Loan' | 35% |
| Unsecured Personal Loan | Loan Portfolio: loan\_type = 'Unsecured Personal Loan' | 70% |
| Loans to Corporate | Loan Portfolio: loan\_type = 'Loans to Corporate' | 100% |
| High Risk Loans | Risk Class NOT IN ('Performing', 'Special Mention') | 150% |

## Trend

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Trend** | **Currency** | **Period** | **Capital** | **Risk Weighted** | **CAR** |
|  | EUR | Apr-25 | 21426864 | 387476543 | 5.53 |
|  | EUR | Feb-25 | 74092979 | 395156537 | 18.75 |
|  | EUR | Jan-25 | 28149278 | 398927741 | 7.06 |
|  | EUR | Mar-25 | 26142308 | 391167388 | 6.68 |
|  | EUR | May-25 | 44193019 | 383724323 | 11.52 |
|  | INR | Apr-25 | 119643279 | 536833990 | 22.29 |
|  | INR | Feb-25 | 84269 | 547942802 | 0.02 |
|  | INR | Mar-25 | 34510328 | 542445524 | 6.36 |
|  | INR | May-25 | 76011 | 531571954 | 0.01 |
|  | USD | Apr-25 | 49806812 | 374233225 | 13.31 |
|  | USD | Feb-25 | 201169 | 381933820 | 0.05 |
|  | USD | Jan-25 | 33448329 | 385993212 | 8.67 |
|  | USD | Mar-25 | 260397792 | 378102340 | 68.87 |
|  | USD | May-25 | 177215 | 370373479 | 0.05 |

## Key Trend Observations

### CAR Ratio Growth Analysis

**EUR (Most Stable)**

* **Range: 5.53% - 18.75%**
* **Shows moderate volatility with a significant spike in February (18.75%)**
* **Generally declining trend from Feb peak: Feb→Mar (-12.07pp), Mar→Apr (-1.15pp), Apr→May (+5.84pp)**
* **Average CAR: ~9.91%**

**USD (Highest Volatility)**

* **Range: 0.05% - 68.87%**
* **Extreme volatility with massive March spike (68.87%)**
* **Sharp decline pattern: Jan→Feb (-8.62pp), Feb→Mar (+68.82pp), Mar→Apr (-55.56pp), Apr→May (-13.26pp)**
* **Average CAR: ~18.19%**

**INR (Most Concerning)**

* **Range: 0.01% - 22.29%**
* **Highly erratic with two periods of critically low ratios (Feb: 0.02%, May: 0.01%)**
* **April shows strong performance (22.29%) but unsustainable**
* **Average CAR: ~7.17%**

**Key Observations**

**Volatility Ranking (High to Low):**

1. **USD - Coefficient of variation ~134%**
2. **INR - Extreme swings from near-zero to 22%+**
3. **EUR - Most consistent performance**

**Critical Risk Flags:**

* **INR in Feb/May and USD in Feb/May showing CAR ratios below 1% (regulatory concern)**
* **USD's March anomaly (68.87%) suggests possible data quality issues or extraordinary capital injection**

**Best Performing Currency: EUR - maintains regulatory compliance with reasonable stability Worst Performing Currency: INR - frequent drops to critically low levels, indicating potential capital adequacy issues**

## Forecasting Assumptions

* Loan growth: 8-15% annually
* Profit retention: 60-80%
* Credit provisions: 1-3% of loan portfolio
* Capital injection: varies by strategic needs

## REGULATORY REQUIREMENTS

**7.1 Basel III Requirements**

**Minimum Capital Requirements:**

* **Common Equity Tier 1 (CET1):** 4.5% of RWA
* **Tier 1 Capital:** 6.0% of RWA
* **Total Capital:** 8.0% of RWA

**Conservation Buffer:**

* **Additional Requirement:** 2.5% of RWA
* **Total Minimum with Buffer:** 10.5% of RWA

**Countercyclical Buffer:**

* **Range:** 0% - 2.5% of RWA (jurisdiction specific)

**7.2 European Union Requirements (if applicable)**

**CRD IV/CRR Framework:**

* **Minimum CET1:** 4.5%
* **Minimum Tier 1:** 6.0%
* **Minimum Total Capital:** 8.0%
* **Capital Conservation Buffer:** 2.5%
* **Systemic Risk Buffer:** Up to 5% (country specific)

**7.3 Local Regulatory Requirements**

**MFI Regulations:**

* **NBFC-MFI Guidelines: 15% of aggregate risk-weighted assets for NBFC-MFI operations** [**Gent Sejko: Albania's economic and financial developments in 2023**](https://www.bis.org/review/r240528f.htm)
* **Minimum Capital: USD 1.2 million minimum capital requirement for MFI licensing in Albania** [**Regulation "On Capital Adequacy Ratio"**](https://www.bankofalbania.org/Supervision/Regulatory_Framework/Supervision_regulations/Regulation_On_Capital_Adequacy_Ratio.html)
* **Priority Sector Lending: 75% minimum requirement of microfinance loans for NBFC-MFIs**

**9. STRESS TESTING AND SCENARIO ANALYSIS**

**9.1 Stress Testing Framework**

**Base Case Scenario:**

* Normal business conditions
* Historical default rates

**Adverse Scenario:**

* Economic downturn
* 2x historical default rates
* 20% reduction in profitability

**Severely Adverse Scenario:**

* Severe recession
* 3x historical default rates
* 40% reduction in profitability

## Stress Test Results

### Stress Test Scenarios

|  |  |  |  |
| --- | --- | --- | --- |
| Scenario | CAR Impact | Minimum CAR | Capital Shortfall |
| Base Case | 11.5% (EUR), 8.7% (USD), 6.4% (INR) | 15.0% | EUR: €13.8MUSD: $23.7MINR: ₹458.2MTotal: $42.3M equiv. |
| Adverse | 8.2% (EUR), 4.1% (USD), 2.8% (INR) | 17.0% | EUR: €34.1MUSD: $48.5MINR: ₹769.8MTotal: $89.7M equiv. |
| Severely Adverse | 4.8% (EUR), 1.2% (USD), 0.9% (INR) | 20.0% | EUR: €58.9MUSD: $69.6MINR: ₹1,015.4MTotal: $145.2M equiv. |

## BREACH MANAGEMENT

**10.1 Early Warning Indicators**

* CAR falling below 150% of minimum requirement
* Tier 1 ratio declining for two consecutive months
* RWA growth exceeding capital generation capacity

**10.2 Corrective Actions**

1. **Immediate Actions (CAR < 120% of minimum):**
   * Restrict new lending
   * Accelerate collection efforts
   * Review dividend policy
2. **Medium-term Actions (CAR < 110% of minimum):**
   * Capital injection planning
   * Asset quality improvement programs
   * Cost optimization initiatives
3. **Emergency Actions (CAR < 100% of minimum):**
   * Suspend all non-essential activities
   * Implement emergency capital raising
   * Regulatory notification and consultation

**11. REPORTING AND DOCUMENTATION**

**11.1 Internal Reporting**

* **Monthly CAR Report:** Due by 15th of following month
* **Quarterly Board Report:** Comprehensive analysis
* **Annual Capital Plan:** Strategic planning document

**11.2 Regulatory Reporting**

* **Monthly Returns:** As per regulatory format
* **Quarterly Statements:** Audited/reviewed financials
* **Annual Compliance Certificate:** External audit confirmation

**12. POLICY REVIEW AND UPDATES**

**12.1 Review Schedule**

* **Annual Review:** Complete policy assessment
* **Regulatory Updates:** Immediate incorporation
* **Business Changes:** As required basis

**12.2 Version Control**

* Document all changes with approval dates
* Communicate updates to stakeholders

## APPENDICES

## Reporting Formats

Monthly CAR report template

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Period** | **EUR** | **USD** | **INR** | **Consolidated** |
| [Current Month] | [XX.XX]% | [XX.XX]% | [XX.XX]% | **[XX.XX]%** |
| [Previous Month] | [XX.XX]% | [XX.XX]% | [XX.XX]% | **[XX.XX]%** |
| [Month -2] | [XX.XX]% | [XX.XX]% | [XX.XX]% | **[XX.XX]%** |
| [Month -3] | [XX.XX]% | [XX.XX]% | [XX.XX]% | **[XX.XX]%** |

Board presentation format

|  |  |  |  |
| --- | --- | --- | --- |
| **Metric** | **Current** | **Target** | **Variance** |
| CAR Ratio | [XX.XX]% | 18.0% | [±X.XX]% |
| Tier 1 Ratio | [XX.XX]% | 12.0% | [±X.XX]% |
| Capital Growth Rate | [XX.XX]% | 10.0% | [±X.XX]% |
| RWA Growth Rate | [XX.XX]% | 8.0% | [±X.XX]% |

Regulatory return formats

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Requirement** | **Minimum** | **Current** | **Buffer** | **Status** |
| CAR (MFI) | 15.0% | [XX.XX]% | [±X.XX]% | [Status] |
| Tier 1 Ratio | 6.0% | [XX.XX]% | [±X.XX]% | [Status] |
| Capital Conservation Buffer | 2.5% | [XX.XX]% | [±X.XX]% | [Status] |
| Minimum Capital | $1.2M | $[X.X]M | $[X.X]M | [Status] |

**Document Control:**

* **Created By:** [Risk Management Team]
* **Reviewed By:** [Chief Risk Officer]
* **Approved By:** [Board of Directors]
* **Next Review Date:** [Date]
* **Distribution:** Board, Senior Management, Risk Team, Compliance

# Ratio : Liquidity Ratio

# RATIO

Liquidity Ratio = High-Quality Liquid Assets (HQLA) / Total Net Cash Outflows over the Next 30 Days

# Source

Source details of the Liquidity Ratio components:

|  |  |  |
| --- | --- | --- |
| Component | Source | Logic to Get Data |
| High-Quality Liquid Assets (HQLA) | Treasury System / Core Banking / GL | Extract balances of Level 1 and Level 2 assets. Use GL Codes: GL\_101, GL\_102, GL\_103 for Cash, Govt. Bonds, and Marketable Securities respectively. |
| Total Net Cash Outflows | ALM System / Liquidity Risk Engine | Calculate expected cash outflows minus inflows over 30 days. GL Codes for major outflows: GL\_201 (Deposits), GL\_202 (Unsecured Funding); Inflows: GL\_301 (Loan Repayments), GL\_302 (Interbank Lending). Apply run-off and inflow factors per Basel III. |

# Trend (Last 6 Months)

|  |  |  |  |
| --- | --- | --- | --- |
| Month | INR (%) | USD (%) | EUR (%) |
| Apr 2025 | 135.2 | 128.7 | 130.4 |
| May 2025 | 132.8 | 127.1 | 129.8 |
| Jun 2025 | 134.5 | 129.9 | 131.0 |
| Jul 2025 | 136.9 | 131.5 | 133.2 |
| Aug 2025 | 138.1 | 134.0 | 134.9 |
| Current (Forecasted) | 139.3 | 135.7 | 136.5 |

Observation: Liquidity position is consistently improving, exceeding the 100% LCR requirement in all currencies.

# Forecast Method

- Approach: ARIMA Time Series Forecasting + Scenario Overlay

- Data Used: Last 12 months HQLA and Net Outflows by currency

- Assumptions:

• Stable economic conditions  
 • No sudden withdrawal spikes  
 • Interest rate variation within +/- 50 bps

- Output: Projected monthly LCR values for next 3 months across INR, USD, EUR

# Stress Testing

Objectives:  
- Assess ability to maintain LCR > 100% under adverse conditions

Scenarios:  
- Mild Stress: 10% deposit outflow, 5% inflow haircut  
- Severe Stress: 25% deposit outflow, 20% inflow haircut, market illiquidity

Frequency:  
- Quarterly (Regulatory)  
- Monthly (Internal)

Outcome Metrics:  
- Minimum LCR during stress  
- Days to liquidity exhaustion  
- Coverage gap in each currency

# Regulatory Requirements

|  |  |  |
| --- | --- | --- |
| Requirement Type | Threshold | Reference |
| Global (Basel III) | LCR ≥ 100% | Basel III Liquidity Framework |
| Local Regulatory (e.g., RBI, ECB, FED) | LCR ≥ 100% (may vary slightly by regulator) | RBI Master Direction, ECB CRR, FED Reg YY |
| Internal Bank Policy | LCR ≥ 110% (INR), 105% (USD, EUR) | Liquidity Risk Appetite Statement |

# Document Control

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