FRA Issues Landmark Solvency Standards for Non-Banking Financial Institutions

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Introduction

The Egyptian Financial Regulatory Authority ("**FRA**") has long emphasized the importance of strengthening the resilience of Egypt's non-banking financial sector. Non-banking financial institutions ("**NBFIs"**), including leasing, factoring, consumer finance, microfinance, and mortgage companies, play an increasingly vital role in financing the economy. However, their rapid growth has underscored the need for a standardized framework to ensure stability, comparability, and investor confidence.

In this context, the FRA issued Decree No. 137 of 2025 (the "**Decree**") on 7 August 2025, introducing Egypt's first comprehensive solvency regime for NBFIs. The Decree aligns Basel III principles, while addressing domestic market needs. Its main objective is to ensure that institutions maintain sufficient capital, liquidity, and risk provisions to withstand financial shocks and continue supporting the economy.

Technical aspects of the Decree

Prior to the issuance of the Decree, solvency requirements for NBFIs were minimal, with no unified liquidity standards, buffers, or risk-based capital rules. By contrast, the banking sector has been Basel III–compliant since 2016.

The Decree closes this gap, making Egypt's financial framework more robust and reducing the risk of regulatory arbitrage between banks and non-banks. It also signals to investors and international partners that Egypt is committed to global best practices.

Key Highlights of the Legislation

Implementation Timeline and Regulatory Transition

The Decree introduces a one-year trial period running from 1 January 2026 to 31 December 2026. During this stage, all NBFIs must apply the new solvency standards on a pilot basis and submit quarterly reports on compliance to the FRA.

Following this transitional period, the Decree will become fully binding as of 1 January 2027. At that point, the Decree will replace all existing solvency standards that previously applied separately to activities including, *inter alia* mortgage finance, factoring, leasing, and consumer finance. The Decree will thereby establish one unified prudential framework for the entire non-bank financial sector.

Capital Adequacy Requirements

A cornerstone of the Decree is its capital adequacy framework, which obliges NBFIs to maintain a minimum capital adequacy ratio of 12%, covering credit, operational, and market risks. Capital is divided into Tier 1 (core) and Tier 2 (supplementary) capital. In addition, institutions must maintain a Capital Conservation Buffer (2.5%) and may be required to hold a Countercyclical Buffer (0–2.5%) depending on market conditions.

Liquidity Standards

The Decree introduced two liquidity ratios. First, the Liquidity Coverage Ratio (LCR) requires that high-quality liquid assets cover at least 100% of expected 30-day cash outflows. Second, the Net

Stable Funding Ratio (NSFR) requires NBFIs to maintain stable long-term funding equal to at least 100 percent of their long-term assets.

Leverage Ratio

The Decree further introduces a strict leverage ceiling. Total borrowings and financing, excluding subordinated loans may not exceed nine times the capital base. This safeguard prevents over-leveraging and protects against systemic risk.

Provisioning and Debt Write-Offs

The Decree updates debt write-offs rules, eliminating the previous 18-month waiting period once specified conditions are met. Companies must create specific provisions for doubtful debts depending on delinquency levels and asset type (real estate, leasing, factoring, consumer finance, SMEs, microfinance). Debt write-offs require board approval, full provisioning, and auditor confirmation.

Concentration Risk Controls

To prevent over-exposure to single borrowers or sectors, the Decree sets new concentration limits. For example, housing loans are capped at 15% of capital per client, non-housing finance are capped at 25%, and factoring or leasing are capped at 30%. Excess exposures trigger additional capital requirements.

Reporting and Trial Implementation

Starting in January 2026, all NBFIs must submit quarterly trial compliance reports to the FRA. This ensures institutions test their systems, adjust policies, and prepare for the binding phase beginning January 2027. Early application of some provisions (e.g., debt write-offs) is permitted.

Market Reaction

The FRA hailed the Decree as a “milestone for financial stability”, stressing that it brings Egypt’s non-banking finance closer to international benchmarks.

The Decree is not just a regulatory update; it is a structural reform. By embedding Basel III–style solvency rules into the non-bank financial sector, Egypt is reinforcing resilience, credibility, and competitiveness across its financial markets.