

**MINIMUM CONDITIONS AND LICENSING CRITERIA**  
**FOR**  
**AN ISLAMIC FINANCING COMPANY LICENCE**

An Islamic financing company may carry out all Islamic Financing facility activities to local consumers such as automobile financing, housing financing and retail leasing.

A financing company carrying out its activities in accordance with Islamic principles must be in the form of a separate legal entity and the company in this case shall appoint a Shari'a Board (Religious Supervisory Board). This Shari'a Board shall carry out such activities as proposed by the Board of Directors of the Company in line with best practices. The Shari'a Board shall be subject to such duties and obligations, as the shareholders shall impose thereon from time to time. The Shari'a Board shall report, and be accountable, to the shareholders. In this context, the Shari'a Board shall prepare, and submit to the shareholders for their approval, an annual report on its activities and the company's compliance (or otherwise) with Islamic principles.

Financing companies are not allowed, at any point of time, to accept any Shari'a money placements/deposits or any type of investment accounts.

**Standard Conditions**

**1. Corporate Form**

An Islamic financing company license is normally only issued to companies incorporated in Bahrain in a form of a public shareholding company.

**2. Capital Funds**

A Bahrain-incorporated Islamic financing company licensee must maintain a minimum paid-up capital of BD5,000,000 (or an equivalent amount in a currency acceptable to the CBB). A greater amount of capital may be required by the Central Bank of Bahrain on a case-by-case basis. In addition, the CBB may require a letter of comfort from the licensee's main shareholders in respect of the licensee's obligations. Furthermore, at all times an adequate level of capital funds must be maintained and measured on a risk-weighted basis to be agreed with the CBB. Debts may not exceed five times the capital and reserves (shareholders equity) of the Company.

### **3. Liquidity**

Unless otherwise determined by the Central Bank of Bahrain, liquid assets must be held in a form acceptable to the CBB.

### **4. Asset Mix**

Management must maintain an asset mix that ensures diversification of risk.

### **5. Board, Management and Staffing**

Islamic financing company licensees must be managed by a Board of Directors and a Senior Management team who are, in CBB's opinion, "fit & proper" in accordance with CBB's requirements. The Board of Directors should consist of executive and non-executive directors. An internal auditor must be appointed by the board and shall report directly to the Audit Committee, which should consist of non-executive Board members.

Employees must have sufficient knowledge, experience, skills and regular training in relation to their particular areas of responsibility.

### **6. Premises & Administration**

Islamic financing company licensees must operate from suitable premises in the Kingdom of Bahrain.

All accounting statements and records of the business must be maintained at those premises and be available for examination by the CBB, or persons appointed by the CBB, at any time. They must accurately and truly reflect the activities of the licensee.

Effective policies, procedures, and controls must be in place and implemented. These must include an effective risk management function.

### **7. Information and Returns**

Islamic financing company licensees shall submit to the CBB such information and returns concerning its business at such time and in such format as the CBB may require. The current requirements are quarterly prudential information returns, quarterly large exposures returns, on line data to the Central Risk Unit at the CBB, quarterly consolidated returns if applicable and other information deemed necessary.

## **8. Auditors**

Islamic financing company licensees must appoint independent auditors – to be approved by the CBB annually - and may not change such auditors without the prior written consent of the CBB. The locally incorporated Islamic financing company licensees must change the engagement partner of the audit firm responsible for the audit of the company every five years.

## **9. Audited Accounts**

Bahraini-incorporated Islamic financing company licensees must prepare audited accounts in accordance with AAOIFI's Standards (Accounting and Auditing Organization for Islamic Financial Institutions) and with International Accounting Standards (IAS) for areas not covered by AAOIFI standards. The audited accounts along with the auditor's Management Letter together with the response thereto shall be submitted within a period not exceeding three months from the end of the licensee's financial year.

Unless otherwise agreed by the CBB, the financial year of the Islamic financing company licensee shall end on 31<sup>st</sup> December of each year.

## **10. Conduct of Business**

Islamic financing company licensees shall conduct their business professionally, properly and in an orderly manner. The documentation used by Islamic financing company licensees in their dealings with customers and clients must be full and complete in all respects and in full compliance with applicable credit facilities.

## **11. License Fees**

### *Application Fees*

Applicants seeking an Islamic financing company license from the CBB must pay a non-refundable license application fee of BD100 at the time of submitting their formal application to the CBB.

### *Annual License Fees*

Islamic financing company licensees must pay the relevant annual license fee to the CBB, in April each year.

The fees due in April are for the period of that calendar year in which payment is made, but are normally calculated on the basis of the licensees financial statements for the previous calendar year.

Islamic financing companies shall pay 0.25% of their relevant operating expenses, subject to a minimum ('floor') of BD6,000 and a maximum ('cap') of BD24,000.

“Relevant operating expenses” are defined as the total operating expenses of the licensee concerned, as recorded in the most recent audited financial statements available, subject to adjustments. The adjustments to be made to relevant operating expenses are the exclusion of the following items from total operating expenses:

- (a) Training costs;
- (b) Charitable donations;
- (c) CBB fees paid; and
- (d) Non-executive directors' remuneration.

For the avoidance of doubt, operating expenses for the purposes of this section, do not include items such as depreciation, provisioning, and dividends.

Islamic financing company licensees must complete and submit Form ALF (Annual License Fee) to the CBB, no later than 30 April each year, together with the payment due.

For new licensees, their first annual license fee is payable when their license is issued by the CBB. The amount payable is the minimum amount specified for their category of license, reduced on a pro-rata basis such that they are charged only for the number of complete months remaining in the current calendar year subject to a minimum fee of BD500.

## **12. General**

Without prejudice to any provision of the above minimum conditions, and unless otherwise indicated by the CBB, Islamic financing company licensees shall be subject to the provisions of the Central Bank of Bahrain and Financial Institutions Law 2006 at all times.

The CBB may at any time apply such conditions to, and impose such additional requirements on, a licensee as it considers appropriate in the particular case, including that there should be no change to the activities being carried out by the licensee without the prior written consent of the CBB.

### **Additional Licensing Criteria:**

In considering an application, the CBB shall also take into consideration (amongst other factors) the following:

- (i) the reputation and standing of the applicant and of any parent, subsidiary, or associate company,
- (ii) the supervisory arrangements for any such parent, subsidiary, or associate company and the opinion of the relevant supervisory authority therefore,
- (iii) the financial standing of the shareholders and their intent and ability to support the business; and
- (iv) the previous track-record of the applicant, shareholders and management, both as regards probity and in relation to the activities to be undertaken.