

## **MINIMUM CONDITIONS AND LICENSING CRITERIA FOR LEASING COMPANIES (CONVENTIONAL PRINCIPLES)**

This document sets out the minimum conditions and criteria applied by the Central Bank of Bahrain ('the CBB'), for issuing licenses to companies wishing to undertake conventional leasing activities in Bahrain.

In the context of conventional leasing, the CBB only regulates financial leasing activities. Companies that solely undertake operating leasing activities based on conventional principles do not require a license from the CBB. Where a financial leasing company also undertakes operating leasing activities, the company's non-regulated activities will be monitored by the CBB only to the extent that they may have a material impact on the company as a whole and its regulated activities.

The definition of a financial lease is as per International Accounting Standards: a financial (or capital) lease exists if the agreement transfers substantially all the risks and rewards associated with ownership of the asset to the lessee.

Conventional leasing company licensees are not allowed, at any point of time, to accept any type of deposit or retail funds, whether made by residents or non-residents of Bahrain.

The further requirements of the CBB are set out overleaf.

### **1. Corporate Form**

Conventional leasing company licenses are normally only issued to companies incorporated in Bahrain.

The CBB will only issue a conventional leasing company license to a branch when the applicant, at the whole-company level, has a good track record and reputation and effectively meets CBB's own minimum licensing conditions (as specified here). Where the applicant is regulated in its country of incorporation, confirmation of the home regulator's non-objection to the branch application is also required.

### **2. Minimum Capital**

A Bahrain-incorporated conventional leasing company licensee must maintain a minimum paid-up capital of US\$5,000,000 (or an equivalent

amount in a currency acceptable to the CBB). A greater amount of capital may be required by the CBB 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.

In the case of branches, endowment capital is required to meet projected start-up costs. The amount is normally equivalent to the first year's projected operating costs. A formal statement is also required from the applicant's Board, confirming that it stands unconditionally behind all the branch's liabilities.

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

Conventional leasing company licensees must be headed by a Board of Directors and managed by a Senior Management team who are, in CBB's opinion, "fit & proper" in accordance with CBB's requirements.

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

### **4. Premises & Administration**

Conventional leasing 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 reflect the activities of the licensee.

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

### **5. Provision of Information**

Conventional leasing company licensees shall submit to the CBB such information concerning its business at such time and in such format as CBB may require.

### **6. Auditors**

Conventional leasing 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.

## **7. Audited Accounts**

Bahraini-incorporated conventional leasing company licensees must prepare audited accounts in accordance with International Accounting Standards (IAS). The audited accounts 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 licensee shall end on 31<sup>st</sup> December.

## **8. Conduct of Business**

Conventional leasing company licensees shall conduct their business professionally, properly and in an orderly manner. The documentation used by conventional leasing licensees in their dealings with customers and clients must be full and complete in all respects.

## **9. License Fees**

### *Application Fees*

Applicants seeking a Conventional leasing 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*

Conventional leasing 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 licensee's financial statement for the previous calendar year.

Conventional leasing 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, interest expenses and dividends.

Conventional leasing 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.

#### **10. General**

Without prejudice to any provision of these minimum conditions, and unless otherwise indicated by the CBB, conventional leasing 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 (a) that there should be no change to the activities being carried on by the licensee without the prior written consent of the CBB, and (b) that the CBB may apply such subsequent conditions as it considers appropriate.

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

- (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.