

MINIMUM CONDITIONS AND LICENSING CRITERIA
FOR
A CONVENTIONAL FINANCING COMPANY LICENCE

A conventional financing company may carry out all instalment loan facility activities to local consumers such as automobile loans, housing loans, personal loans, and retail leasing.

Conventional financing companies are not allowed, at any point of time, to accept any type of deposits.

Standard Conditions

1. Corporate Form

A conventional 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 conventional 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. Borrowings may not exceed five times the capital and reserves (shareholders equity) of the Company.

3. Liquidity

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

4. Asset Mix

Management must maintain an asset mix that ensure diversification of risk. Personal loan assets (unsecured) must not exceed 25% of total assets.

5. Board, Management and Staffing

Conventional 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

Conventional 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

Conventional 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, and quarterly consolidated returns if applicable.

8. Auditors

Conventional 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 conventional 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 conventional financing company licensees must prepare audited accounts in accordance with International Financial Reporting Standards (IFRS). 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 conventional financing company licensees shall end on 31st December of each year.

10. Conduct of Business

Conventional financing company licensees shall conduct their business professionally, properly and in an orderly manner. The documentation used by the 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 a conventional 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

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

Conventional 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, interest expenses, and dividends.

Conventional 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, Conventional 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.