

MINIMUM CONDITIONS AND LICENSING
CRITERIA FOR LEASING COMPANIES (ISLAMIC
PRINCIPLES)

This document sets out the minimum conditions and criteria applied by the Central Bank of Bahrain, for issuing a license to a company wishing to undertake Islamic leasing activities in Bahrain.

When granting such license, the CBB recognizes two types of Islamic lease:

1. “Ijarah” – a lease where the legal title to the asset *does not* pass to the lessee at the end of the lease.
2. “Ijarah Muntahia Bittamleek” (also known as “Ijarah wa Iqtina”) – a lease where the legal title to the asset *does* pass to the lessee at the end of the lease.

The CBB requires Islamic leasing companies to comply with Shari’a Standard No. 9, issued by the Accounting and Auditing Organization for Islamic Financial Institutions (or such other version currently issued by AAOIFI).

Before it considers an application to license an Islamic leasing company, the CBB requires a statement that the company shall, to the extent permitted by other legal systems:

- (i) conduct all its business activities in accordance with the principles of the Shari’a; and
- (ii) structure all its leases in accordance with Shari’a Standard No. 9 (or such other version currently issued by AAOIFI).

Islamic leasing companies are not allowed, at any point of time, to accept any Shari’a money placements/deposits or any type of investment accounts, whether made by residents or non-residents of Bahrain.

CBB’s further requirements are set out overleaf.

1. Corporate Form

Islamic leasing company license is normally only issued to companies incorporated in Bahrain.

The CBB will only issue an Islamic leasing company license to a branch of an overseas incorporated entity 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 Islamic 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

Islamic 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. Shari'a Supervisory Board ("SSB")

Islamic leasing company licensees must have an independent Shari'a Supervisory Board (SSB) consisting of no less than two Islamic scholars. All members must have sufficient knowledge of leasing and finance.

The terms of reference of the SSB shall be decided by the Board of directors, subject to shareholder approval at the company's annual general meeting.

The SSB shall report and be accountable only to the shareholders in general meeting. The SSB shall undertake such duties and obligations as the shareholders shall assign them. The SSB shall submit a report to the shareholders before each annual general meeting outlining their activities and the company's compliance (or otherwise) with Shari' a rules on leasing.

5. Premises & Administration

Islamic 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.

6. Provision of Information

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

7. Auditors

Islamic 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.

8. Audited Accounts

Bahraini-incorporated Islamic leasing companies must prepare audited accounts in accordance with Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and with International Accounting Standards (IAS) for areas not covered by AAOIFI standards. 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 31st December.

9. Conduct of Business

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

10. License Fees

Application Fees

Applicants seeking an Islamic 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

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

The fees due in April are those due for the same calendar year, but are normally calculated on the basis of the firm's financials for the previous calendar year.

Islamic 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, provisions, and dividends.

Islamic 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 floor 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 left in the current calendar year subject to a minimum fee of BD500.

11. General

Without prejudice to any provision of these minimum conditions, and unless otherwise indicated by the CBB, Islamic 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.