



LICENSING REQUIREMENTS MODULE



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| CHAPTER | LR-A: Introduction |

LR-A.1 Purpose

LR-A.1.1 The Licensing Requirements Module sets out the BMA’s approach to licensing conventional bank licensees.

LR-A.1.2 The Module builds on the legal requirements contained in Decree Law No. (23) of 1973 (the BMA Law 1973). The Module is issued under legal powers granted to the BMA under the BMA Law 1973, notably Articles 56 to 69.

Licensing Requirement

LR-A.1.3 Persons wishing to undertake regulated banking services are required to be licensed by BMA as a conventional bank licensee. Regulated banking services consist of two determinant activities undertaken in combination – deposit-taking and providing credit. In addition, various supplementary regulated activities may also be undertaken. These activities are defined in Rule LR-1.3.1.

LR-A.1.4 In other words, persons wishing to undertake deposit taking must also undertake the activity of providing credit. In addition, they may undertake any of the other activities falling within the definition of regulated banking services. Deposit taking may not be undertaken on its own, without the activity of providing credit also being undertaken. Persons wishing to provide credit without undertaking deposit taking may qualify as a finance company, a category of specialised licensee (see separate regulations regarding these: they will fall under Volume 5 of the BMA Rulebook, when issued in 2007).

License Categories

LR-A.1.5 Conventional bank licensees are divided into two sub-categories: conventional retail banks and conventional wholesale banks. Certain specific regulatory requirements may differ between these two sub-categories, where appropriate to address their different risk profiles.

LR-A.1.6 Conventional retail banks may undertake transactions in any currency, with both Bahraini residents and non-residents. To qualify as a conventional retail bank, the activity of providing credit must account for a significant portion of the institution’s business (defined, broadly, as accounting for over 20% of an institution’s assets).

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LR-A.1 Purpose (continued)

LR-A.1.7 Conventional wholesale banks may also undertake transactions without restriction, when dealing with the Government of Bahrain and its agencies; BMA bank licensees; and non-residents. However, they may only undertake transactions denominated in Bahraini Dinar and/or with a resident of the Kingdom of Bahrain, if these are wholesale in nature. Wholesale transactions are defined in terms of transaction size (broadly, BD 7 million or more for a credit or deposit transaction, and US\$ 250,000 or more for an investment transaction).

LR-A.1.8 Collectively, licensed providers of regulated banking services are called conventional bank licensees. Bahrain-incorporated conventional bank licensees are called Bahraini conventional bank licensees. Conventional bank licensees that are incorporated in an overseas jurisdiction and operate via a branch presence in the Kingdom of Bahrain are called overseas conventional bank licensees. The same naming convention applies to the two sub-categories of conventional bank license: thus, Bahraini conventional retail banks and Bahraini conventional wholesale banks are those incorporated in Bahrain, whilst overseas conventional retail banks and overseas conventional wholesale banks are those incorporated in an overseas jurisdiction and operating in Bahrain via a branch presence.

Islamic transactions

LR-A.1.9 Conventional bank licensees may not hold themselves out as an Islamic bank. They may nonetheless enter into Shari'a compliant transactions, subject to certain restrictions. Thus, conventional bank licensees may only undertake transactions that are based on Shari'a compliant contracts, when dealing with governments, public sector entities and other licensed financial institutions. Shari'a compliant contracts may not be undertaken with resident corporates or individuals. (See Paragraphs LR-1.2.27 to LR-1.2.30.)

Licensing Conditions

LR-A.1.10 Conventional bank licensees are subject to 8 licensing conditions, mostly specified at a high level in Module LR, and further expanded in underlying subject Modules (such as Module CA). These licensing conditions are broadly equivalent to the standards applied in other Volumes of the BMA Rulebook, to other license categories, and are consistent with international good practice, such as relevant Basel Committee standards.

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LR-A.1 Purpose (continued)

Retaining Licensed Status

LR-A.1.11

The requirements contained in Chapter LR-2 represent the minimum conditions that have to be met in each case, both at the point of licensing and on an on-going basis thereafter, in order for licensed status to be retained.

Information Requirements and Processes

LR-A.1.12 Chapter LR-3 specifies the processes and information requirements that have to be followed for applicants seeking a conventional bank license, as well as existing licensees seeking to vary the scope of their license, by adding new regulated activities. It also covers the voluntary surrender of a license, or its cancellation by BMA.

Representative Offices and Ancillary Services Providers

LR-A.1.13 Representative offices of overseas conventional banks are not covered in Volume 1 (Conventional Banks) of the Rulebook. Requirements covering Representative Offices (for all financial services firms) will instead be included in Volume 5, to be issued in 2007.

LR-A.1.14

Until such time as Volume 5 (Specialised Activities) of the BMA Rulebook is issued, representative offices of overseas conventional banks remain subject to the requirements contained in the BMA's "Standard Conditions and Licensing Criteria" applicable to representative offices of foreign banks, and relevant existing Circulars.

LR-A.1.15 Providers of ancillary services to the financial sector are not covered in Volume 1 (Conventional Banks) of the Rulebook. Requirements covering ancillary services providers will instead be included in Volume 5, to be issued in 2007.

LR-A.1.16

Until such time as Volume 5 (Specialised Activities) of the BMA Rulebook is issued, ancillary service providers remain subject to the requirements contained in the BMA's "Standard Conditions and Licensing Criteria" applicable to providers of ancillary services to the financial sector, and relevant existing Circulars.

Updating the BMA Rulebook

LR-A.1.17 Unless the context suggests otherwise, references elsewhere in Volume 1 to Full Commercial Bank should be taken as referring to retail conventional banks, and references to Offshore Banking Units and Investment Bank Licensees should be taken as referring to wholesale conventional banks. References to the previous bank license categories that applied prior to 1 July 2006 will be gradually updated over time, across the rest of Volume 1.

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LR-A.2 Module History

Evolution of Module

LR-A.2.1 This Module (Module LR – “Licensing and Authorisation Requirements”) was first issued in July 2004, as part of the initial release of Volume 1 of the BMA Rulebook. It was subsequently reissued in full in July 2006 (and renamed “Licensing Requirements”).

LR-A.2.2 The reissued Module was one of several Modules modified to reflect the introduction of the BMA’s new integrated license framework. Module LR was amended to reflect the new conventional bank licenses introduced by the framework, and to more closely align its presentation with that found in other BMA Rulebook volumes.

LR-A.2.3 The reissued Module is dated July 2006. All subsequent changes are dated with the month and year when the change was made, at the base of the relevant page and in the Table of Contents. Chapter 3 of Module UG provides further details on Rulebook maintenance and control.

LR-A.2.4 A list of recent changes made to this Module is provided below:

| Module Reference | Change Date | Description of Changes |
|------------------|-------------|--|
| LR-6 | 01/2005 | New guidance on record keeping. |
| Whole Module | 07/2006 | Whole Module reissued to reflect integrated license framework; new license categories and updated licensing conditions introduced. |

Superseded Requirements

LR-A.2.5 The initial July 2004 version of this Module superseded various circulars and other requirements relating to licensing. Some of these circulars were combined in 1997 into a licensing folder (“Part 1: Licensing”, which formed part of the three volume information pack, “The Establishment, regulations and supervision of banks and other financial institutions in Bahrain”). The requirements contained in these circulars were transposed into the initial July 2004 version of this Module unchanged, as follows:

| Circular Reference | Date of Issue | Module Ref. (July 2004 version) | Circular Subject |
|--------------------|---------------|---------------------------------|--|
| 5/77 | 08/03/77 | LR-B-1.1, LR-3.3 | Permitted Business Transactions with residents |
| OG/16/90 | 10/01/90 | LR-2.3, LR-3.3 | Dealing with Residents |
| OG/192/98 | 16/06/98 | LR-4 | Financial Trust Regulation |
| No reference | 04/81 | LR-5 | Precious Metals and Commodities |

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| MODULE | LR: Licensing Requirements |
| CHAPTER | LR-B: Scope of Application |

LR-B.1 General Prohibitions

LR-B.1.1 The licensing requirements in Chapter LR-1 have general applicability, in that they prevent any person from providing (or seeking to provide) regulated banking services within or from the Kingdom of Bahrain, unless they have been licensed as a conventional bank licensee by the BMA (see Rule LR-1.1.1).

LR-B.1.2 In addition, no one may use the term ‘bank’ in their trading or corporate name, or otherwise hold themselves out to be a bank in Bahrain, unless they hold the appropriate license from BMA (see Rule LR-1.1.2).

LR-B.1.3 The Rules referred to above are supported by statutory restrictions contained in the BMA Law 1973 (cf. Articles 60 and 61).

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| CHAPTER | LR-B: Scope of Application |

LR-B.2 Licensed Persons

LR-B.2.1 The remaining requirements in Chapters LR-1 to LR-3 (besides those mentioned in Section LR-B.1 above) apply to all those licensed by BMA as a conventional bank licensee, or which are in the process of seeking such a license. They apply regardless of whether the person concerned is incorporated in the Kingdom of Bahrain, or in an overseas jurisdiction, unless otherwise specified.

LR-B.2.2 These remaining requirements prescribe the types of license offered; their associated operating conditions; the licensing conditions that have to be satisfied in order to secure and retain a license; and the processes to be followed when applying or varying a license, or when a license is withdrawn.

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| MODULE | LR: Licensing Requirements |
| CHAPTER | LR-1: Requirement to Hold a License |

LR-1.1 Conventional Bank Licensees

General Prohibitions

LR-1.1.1 No person may:

- (a) undertake (or hold themselves out to undertake) regulated banking services within or from the Kingdom of Bahrain unless duly licensed by the BMA; or
- (b) hold themselves out to be licensed by the BMA unless they have as a matter of fact been so licensed.

LR-1.1.2 Only persons licensed to undertake regulated banking services (or regulated Islamic banking services), may use the term ‘bank’ in their corporate or trading names, or otherwise hold themselves out to be a bank.

LR-1.1.3 Licensees are not obliged to include the word ‘bank’ in their corporate or trading names; however, they may be required to make clear their regulatory status in their letter heads, customer communications, website and so on.

LR-1.1.4 For the purposes of Rule LR-1.1.2, persons will be considered in breach of this requirement if they attempt to operate as, or incorporate a bank in Bahrain with a name containing the word “bank” (or the equivalents in any language), without holding the appropriate BMA license or obtaining the prior approval of the BMA.

Licensing

LR-1.1.5 Persons wishing to be licensed to undertake regulated banking services within or from the Kingdom of Bahrain must apply in writing to the BMA.

LR-1.1.6 An application for a license must be in the form prescribed by the BMA and must contain:

- (a) a business plan specifying the type of business to be conducted;
- (b) application forms for all controllers; and
- (c) application forms for all controlled functions.

LR-1.1.7 The BMA will review the application and duly advise the applicant in writing when it has:

- (a) granted the application without conditions;
- (b) granted the application subject to conditions specified by the BMA; or
- (c) refused the application, stating the grounds on which the application has been refused and the process for appealing against that decision.

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LR-1.1 Conventional Bank Licensees (continued)

LR-1.1.8 Detailed rules and guidance regarding information requirements and processes for license applications can be found in Section LR-3.1. As specified in Paragraph LR-3.1.14, BMA will provide a formal decision on a Phase 1 license application within 60 calendar days of all required documentation having been submitted in a form acceptable to BMA.

LR-1.1.9 In granting new licenses, BMA will specify the specific types of regulated banking service for which a license has been granted, and on what basis (i.e. conventional retail bank or conventional wholesale bank).

LR-1.1.10 **All applicants for conventional bank licenses must satisfy the BMA that they meet, by the date of their license, the minimum conditions for licensing, as specified in Chapter LR-2. Once licensed, conventional bank licensees must maintain these criteria on an ongoing basis.**

LR-1.1.11 **Conventional bank licensees must not carry on any commercial business in the Kingdom of Bahrain or elsewhere other than banking business and activities directly arising from or incidental to that business.**

LR-1.1.12 Rule LR-1.1.11 is intended to restrict bank licensees from undertaking any material non-financial business activities. The Rule does not prevent a bank undertaking commercial activities if these directly arise from their financial business: for instance, in the context of Islamic contracts, such as murabaha, ijara and musharaka, where the bank may hold the physical assets being financed or leased. Nor does it restrict a bank from undertaking commercial activities if, in the judgment of the BMA, they are incidental and do not detract from the financial nature of the bank's operations: for example, a bank may rent out spare office space in its own office building, and provide services associated with the rental (e.g. office security or cleaning).

LR-1.1.13 Rule LR-1.1.11 applies to the legal entity holding the bank license. A bank may thus own subsidiaries that undertake non-financial activities, although the BMA generally does not support the development of significant commercial activities within a banking group. Capital invested in such subsidiaries by a bank would be deducted from the bank's capital base under the BMA's capital rules (see Module CA). In addition, the BMA may impose restrictions – such as dealings between the bank and its commercial subsidiaries – if it was felt necessary to limit the bank's exposure to non-financial risks.

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LR-1.2 License Sub-Categories

Retail vs. Wholesale

LR-1.2.1 Depending on the nature of activities undertaken, conventional bank licensees must be licensed either as a conventional retail bank or as a conventional wholesale bank. The same legal entity may not hold both types of license.

LR-1.2.2 The nature of activities allowed under each license sub-category is specified below (cf. Rule LR-1.2.4ff). The conventional retail bank category replaces the Full Commercial Bank (conventional principles) category that existed prior to July 2006; the conventional wholesale bank category replaces the Offshore Banking Unit and Investment Bank License (conventional principles) categories.

LR-1.2.3 Banks licensed prior to the introduction of these new license categories in July 2006 are not required to reapply for their license. Rather, their new license category is to be confirmed by an exchange of letters with BMA, and the issuance of a new license certificate. Where (prior to July 2006), the same legal entity holds multiple licenses, BMA will agree transitional measures aimed at rationalizing the number of licenses held.

Conventional Retail Banks

LR-1.2.4 Conventional retail banks are allowed to transact with both residents and non-residents of the Kingdom of Bahrain, and in both Bahraini Dinar and foreign currencies.

LR-1.2.5 To qualify as a conventional retail bank, the person concerned must undertake (as a minimum), the activity of deposit-taking and providing credit (as defined in Rules LR-1.3.16 and LR-1.3.18). The activity of providing credit must be a significant part of the bank's business, relative to other activities.

LR-1.2.6 When assessing the significance of credit-related activities, in the context of Rule LR-1.2.5, the BMA would normally expect to see loans and other credit-related activity (such as overdraft facilities, loan commitments, letters of credit, guarantees and other activities falling under the definition of providing credit), to constitute at least 20% of the total assets of the institution. Other activities and criteria may also be taken into account, if the BMA believes they are of a credit-related nature, and that such activities constitute a significant share of the bank's overall business.

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LR-1.2 License Sub-Categories (continued)

Conventional Retail Banks (continued)

LR-1.2.7 In the case of new applicants, the above assessment is made based on the financial projections and business plan provided as part of the license application. Where existing licensees fail to satisfy the condition contained in Rule LR-1.2.5, the BMA will initiate discussion with the licensee as to the appropriateness of their license category: this may result in the licensee being required to change its license category. A branch of an overseas bank may nonetheless be allowed to hold a bank license in Bahrain, even if it fails to undertake the activities specified in Rule LR-1.2.5, providing that it undertakes other regulated banking services in Bahrain and its head office is licensed as a bank in its home country.

LR-1.2.8 The purpose of Rule LR-1.2.5 is to ensure that, besides deposit-taking, the core banking activity of providing credit forms part of the definition of conventional retail banks, and accounts for a significant share of their business, in keeping with their intermediation function.

Conventional Wholesale Banks

LR-1.2.9 Conventional wholesale banks are allowed to transact with residents of the Kingdom of Bahrain (irrespective of currency), and in Bahraini Dinar (irrespective of the location of the counterparty), subject to the conditions and exemptions specified in Rules LR-1.2.13, LR-1.2.16 and LR-1.2.18. Foreign currency transactions with non-residents are not subject to these conditions.

LR-1.2.10 The effect of Rule LR-1.2.9 is to limit the on-shore/Bahraini Dinar customer business of conventional wholesale banks to larger transactions. By definition, their on-shore client base is therefore wholesale in nature (i.e. other banks, large corporates and high net-worth individuals).

LR-1.2.11 To qualify as a conventional wholesale bank, the person concerned must undertake (as a minimum), the activity of deposit-taking and providing credit (as defined in Rules LR-1.3.16 and LR-1.3.18).

LR-1.2.12 The purpose of Rule LR-1.2.11 is to ensure that the core banking activities of deposit taking and providing credit form part of the definition of conventional wholesale banks. However, unlike conventional retail banks, there is no requirement that the activity of providing credit must be a significant part of the bank's business, relative to other activities. This is to allow conventional wholesale banks greater flexibility as to the nature of their activities; it also recognises that, because of the wholesale nature of their client base, there is less need to limit the scale of non-credit related risks to which their depositors may be exposed. Rule LR-1.2.11 does not in any way prevent conventional wholesale banks from developing the provision of credit as a major activity, should they wish to. The Guidance provided in Paragraph LR-1.2.7 with regards to overseas banks is also applicable to Rule LR-1.2.11.

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LR-1.2 License Sub-Categories (continued)

Conventional Wholesale Banks (continued)

LR-1.2.13 Conventional wholesale banks may transact with residents of Bahrain and/or in Bahrain Dinar, with respect to the activities (a) to (e) listed in Rule LR-1.3.1, only where the individual transaction is BD 7 million or above (or its foreign currency equivalent).

LR-1.2.14 To comply with Rule LR-1.2.13, the initial amount taken as a deposit must be BD 7 million or above (or its equivalent in foreign currency); however, subsequent additions and withdrawals from that deposit account may be for any amount. The initial amount taken as deposit may be split between different types of accounts (e.g. call, 3-month and 6-month accounts) – providing at least BD 7 million is taken from the customer on the same day and the bank’s records can demonstrate this. Where subsequent withdrawals lead to a zero balance on an account (or the aggregate of accounts where more than one was originally opened), then a further BD 7 million must be deposited to re-start the ‘wholesale’ relationship, before additional deposits for smaller amounts may be made.

LR-1.2.15 Similarly, with respect to credit-related transactions, the initial facility amount advised must be for BD 7 million or above (or its equivalent); but drawdowns (and repayments) under the facility may be for any amount, as may any subsequent changes to the facility amount. If the facility is fully repaid, then a further BD 7 million transaction must be agreed in order to re-start the ‘wholesale’ relationship.

LR-1.2.16 Conventional wholesale banks may transact with residents of Bahrain and/or in Bahrain Dinar, with respect to the activities (f) to (l) listed in Rule LR-1.3.1, only where the individual transaction is US\$ 250,000 or above (or its foreign currency equivalent).

LR-1.2.17 With respect to activities (f) and (g) (dealing in financial instruments as principal / agent), the threshold refers to the individual transaction size. With respect to activities (h) and (i) (managing / safeguarding financial instruments), the threshold refers to the initial investment amount. With respect to activity (j) (operating a collective investment scheme), the threshold refers to the minimum investment required for participation in the scheme. With respect to activities (k) and (l) (arranging deals in / advising on financial instruments), the threshold refers to the size of the deal arranged or of the investment on which advice is being given.

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LR-1.2 License Sub-Categories (continued)

Conventional Wholesale Banks (continued)

LR-1.2.18 Note that the threshold with respect to activities (h) and (i) applies to the initial investment amount: where a subsequent distribution to a client, or a reduction in the mark to market value of the investment, reduces the initial investment amount below US\$ 250,000, it is still considered a wholesale transaction. The threshold in Rule LR-1.2.16 applies to a client even if the same client satisfies the BD 7m threshold in Rule LR-1.2.13, with respect to deposit/credit activities. Finally, the initial amount taken as an investment may be split between two or more investment products - providing at least US\$ 250,000 is taken from the customer on the same day and the bank's records can demonstrate this.

LR-1.2.19 Conventional wholesale bank licensees may only undertake activities (m) and (n) listed in Rule LR-1.3.1, on behalf of residents of Bahrain and/or in Bahrain Dinar, where the customer concerned meets either of the thresholds specified in LR-1.2.13 or LR-1.2.16 (in which case, activities (m) and (n) may be undertaken for any amount).

LR-1.2.20 Notwithstanding Rules LR-1.2.13, LR-1.2.16 and LR-1.2.19, conventional wholesale banks are allowed to transact in Bahraini Dinar (or any other currency) for any amount with the Government of Bahrain, Bahrain public sector entities (as defined in the Guidelines for completion of the Prudential Information Reports), and BMA bank licensees. Conventional wholesale banks may also transact in Bahraini Dinar for any amount, where required to fund their normal operating expenses; when investing for their own account in securities listed on the Bahrain Stock Exchange.

LR-1.2.21 Any transactions entered into prior to 1 July 2006, which may be in breach of the conditions specified in Rules LR-1.2.13, LR-1.2.16 and LR-1.2.19 must be notified to the BMA. These transactions will be allowed to mature.

LR-1.2.22 Since the conventional wholesale bank regime represents an easing of the restrictions on on-shore business that previously applied to offshore bank licensees (i.e. OBUs and IBLs), there should be few transactions of the type specified in Rule LR-1.2.21 – they are likely to exist only where individual ad-hoc exemptions may have been previously granted by BMA, and these exemptions went further than those now being applied across the board to all conventional wholesale bank licensees.

LR-1.2.23 Conventional wholesale banks wishing to undertake transactions of the type specified in Rules LR-1.2.13, LR-1.2.16 and LR-1.2.19 must seek prior written BMA approval.

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LR-1.2 License Sub-Categories (continued)

Conventional Wholesale Banks (continued)

LR-1.2.24 The approval requirement in Rule LR-1.2.23 only has to be made once, prior to the licensee starting to undertake such transactions. Its purpose is to allow BMA to monitor the initiation of such business by conventional wholesale bank licensees, and to check that adequate systems and controls have been in place, so that such transactions are likely to be well managed. In addition, it is to allow, where relevant, for the necessary arrangements to be made to ensure that conventional wholesale banks comply with the BMA's reserve requirements (which apply to deposit liabilities denominated in Bahraini Dinars - see LR-2.5.10).

LR-1.2.25 Conventional wholesale banks unclear about the interpretation of the conditions specified in Rules LR-1.2.13, LR-1.2.16 or LR-1.2.19 must consult the BMA, prior to undertaking the transaction concerned.

LR-1.2.26 BMA may publish additional interpretative guidance on the above conditions, in response to licensees' queries. The minimum thresholds specified under Rules LR-1.2.13 and LR-1.2.16 will be kept under review by BMA and may be amended in response to market developments.

Shari'a compliant transactions

LR-1.2.27 Conventional bank licensees may not hold themselves out as an Islamic bank. Conventional bank licensees may only enter into activities (c) to (e) listed in Rule LR-1.3.1, when dealing with governments, public sector entities and other licensed financial institutions. Conventional bank licensees may not undertake these activities with individual or corporate clients (whether resident or non-resident).

LR-1.2.28 As an exception to the restriction in Rule LR-1.2.27, conventional bank licensees may invest for their own account in sukuks.

LR-1.2.29 Conventional bank licensees may also freely deal in financial instruments or operate a collective investment scheme that happens to be Shari'a compliant (because of the nature of the financial instruments concerned).

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LR-1.3 Definition of Regulated Banking Services

LR-1.3.1 Regulated banking services are any of the following activities, carried on by way of business:

- (a) Deposit-taking
- (b) Providing Credit
- (c) Accepting Shari'a money placements/deposits
- (d) Managing Shari'a profit/loss sharing investment accounts
- (e) Offering Shari'a Financing Contracts
- (f) Dealing in financial instruments as principal
- (g) Dealing in financial instruments as agent
- (h) Managing financial instruments
- (i) Safeguarding financial instruments
- (j) Operating a Collective Investment Undertaking
- (k) Arranging deals in financial instruments
- (l) Advising on financial instruments
- (m) Providing money exchange/remittance services
- (n) Issuing/ administering means of payment.

LR-1.3.2 Upon application, the BMA may exclude specific transactions from the definition of regulated banking services.

LR-1.3.3 The BMA will normally only consider granting such an exemption when a Bahrain resident is unable to obtain a specific product in Bahrain and it would be unreasonable to require the overseas provider of that product to be licensed for that specific transaction, and the provider has no intention of regularly soliciting such business in Bahrain.

LR-1.3.4 For the purposes of Rule LR-1.3.1, carrying on a regulated banking service by way of business means:

- (a) undertaking the regulated banking service of (a), plus any of the activities (b) to (n), as defined in Section LR-1.3, for commercial gain;
- (b) holding oneself out as willing and able to engage in such activities; or
- (c) regularly soliciting other persons to engage in transactions constituting such activities.

LR-1.3.5 Licensees should note that they may still undertake activities falling outside the definition of regulated banking services, such as investing in physical commodities – subject to Rule LR-1.1.11. The fact that an activity is not included in the definition of regulated banking services does not mean that it is prohibited. In transitioning to the new licensing framework, BMA will be closely liaising with licensees to ensure that no disruption occurs to their legitimate business activities.

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LR-1.3 Definition of Regulated Banking Services (continued)

LR-1.3.6 Licensees should note that the same legal entity cannot combine regulated banking services with other regulated services, such as regulated insurance services. However, different legal entities within the same group may of course each hold a different license (e.g. banking and insurance).

General exclusions

LR-1.3.7 A person does not carry on an activity constituting a regulated banking service if the activity:

- (a) is carried on in the course of a business which does not ordinarily constitute the carrying on of financial services;
- (b) may reasonably be regarded as a necessary part of any other services provided in the course of that business; and
- (c) is not remunerated separately from the other services.

LR-1.3.8 For example, the taking of a deposit in connection with the rental of a property would not be considered a regulated banking service, since it satisfies the criteria in Rule LR-1.3.7.

LR-1.3.9 A person does not carry on an activity constituting a regulated banking service if the person is a body corporate and carries on that activity solely with or for other bodies corporate that are members of the same group.

LR-1.3.10 A person does not carry on an activity constituting a regulated banking service if such person carries on an activity with or for another person, and they are both members of the same family.

LR-1.3.11 A person does not carry on an activity constituting a regulated banking service if the sole or main purpose for which the person enters into the transaction is to limit any identifiable risks arising in the conduct of his business, providing the business conducted does not itself constitute a regulated activity.

LR-1.3.12 For example, an industrial company entering into an interest rate swap to switch floating-rate borrowings for fixed rate borrowings, in order to manage interest rate risk, would not be considered to be dealing in financial instruments as principal, and would not therefore require to be licensed as an investment firm.

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LR-1.3 Definition of Regulated Banking Services (continued)

LR-1.3.13 A person does not carry on an activity constituting a regulated banking service if that person enters into that transaction solely as a nominee for another person, and acts under instruction from that other person.

LR-1.3.14 A person does not carry on an activity constituting a regulated banking service if that person is a government body charged with the management of financial instruments on behalf of a government or public body.

LR-1.3.15 A person does not carry on an activity constituting a regulated banking service if that person is an exempt person, as specified by Royal decree.

Deposit-taking

LR-1.3.16 Deposit-taking is defined as receiving a sum of money paid on terms under which it will be repaid in full, with or without interest or a premium, and either on demand or in circumstances agreed by the parties involved. It excludes sums referable to the giving of security or as a fee paid in advance for a good or a service. It also excludes money received by a person in consideration for debt instruments issued by the same person, or money received by a person entering into a loan or other financing agreement.

LR-1.3.17 The above definition, therefore, includes savings, current, notice, fixed and time deposits.

Providing credit

LR-1.3.18 Providing credit is defined as the provision of credit to a person in his capacity as borrower or potential borrower. This includes consumer and mortgage credit; and providing credit by way of finance leases, factoring, forfeiting, and reverse repo transactions. It also includes the issuance or endorsement of letters of credit; the issuance of letters of guarantee and other contingent credit activities (such as the underwriting of loans); the purchase on the secondary market of loans and other contracts of credit (that do not otherwise fall under the definition of financial instruments); and the provision of ancillary credit-related activities, such as advising on or arranging loans. It excludes money advanced to a person in consideration for debt instruments issued by the same person.

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LR-1.3 Definition of Regulated Banking Services (continued)

Accepting Shari'a money placements/deposits

LR-1.3.19 Accepting Shari'a money placements is defined as the acceptance of sums of money for safe-keeping ('al-wadia', 'q'ard')) in a Shar'ia compliant framework, under which it will be repaid, either on demand or in circumstances agreed by the parties involved, and which is not referable to the giving of security.

Offering Shari'a Financing Contracts

LR-1.3.20 Offering Shari'a financing contracts is defined as entering into, or making arrangement for another person to enter into, a contract to provide finance in accordance with Shari'a principles, such as murabaha, bay muajjal, bay salam, ijara wa iktina and istisna'a contracts.

Managing Shari'a profit sharing investment accounts

LR-1.3.21 Managing a Shari'a profit sharing investment account is defined as managing an account, portfolio or fund, whereby a sum of money is placed with the service provider on terms that a return will be made according to an agreed Shari'a compliant profit-sharing arrangement, based either on a mudaraba or musharaka partnership.

Dealing in financial instruments as principal

LR-1.3.22 Dealing in financial instruments as principal means buying, selling, subscribing for or underwriting any financial instrument on own account.

LR-1.3.23 Rule LR-1.3.22 includes the underwriting of equity and other financial instruments. The underwriting of loans comes under the activity of providing credit (see Rule LR-1.3.18). It also includes the temporary sale of a financial instrument through a repo transaction.

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LR-1.3 Definition of Regulated Banking Services (continued)

LR-1.3.24 A person does not carry on an activity specified in Rule LR-1.3.22 if the activity relates to the person issuing his own shares/debentures, warrants or bonds.

Dealing in financial instruments as agent

LR-1.3.25 Dealing in financial instruments as agent means buying, selling, subscribing for or underwriting financial instruments on behalf of a client.

LR-1.3.26 A licensee that carries on an activity of the kind specified by Rule LR-1.3.25 does not determine the terms of the transaction and does not use its own financial resources for the purpose of funding the transaction. Such a licensee may however receive or hold assets in connection with the transaction, in its capacity as agent of its client.

Managing Financial Instruments

LR-1.3.27 Managing financial instruments means managing on a discretionary basis financial instruments on behalf of another person.

LR-1.3.28 The activities included under the definition of Rule LR-1.3.27 include activities such as asset management.

Safeguarding Financial Instruments (i.e. Custodian)

LR-1.3.29 Safeguarding financial instruments means the safeguarding of financial instruments for the account of clients.

LR-1.3.30 A person does not carry on an activity specified in Rule LR-1.3.29 if the person receives documents relating to a financial instrument for the purpose of onward transmission to, from or at the direction of the person to whom the financial instrument belongs; or else is simply providing a physical safekeeping service such as a deed box.

LR-1.3.31 A person does not carry on an activity specified in Rule LR-1.3.29 if a third person, namely a qualifying custodian, accepts responsibility with regard to the financial instrument.

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LR-1.3 Definition of Regulated Banking Services (continued)

LR-1.3.32 A “qualifying custodian” means a person who is:

- (a) a licensee who has permission to carry on an activity of the kind specified in Rule LR-1.3.29; or
- (b) an exempt person in relation to activities of that kind.

LR-1.3.33 A person does not carry on an activity specified in Rule LR-1.3.29 if they are managing a central depository, which is part of an exchange recognised by BMA.

LR-1.3.34 The following are examples of activities, when taken in isolation, are unlikely to be regarded an activity of the kind specified under Rule LR-1.3.29:

- (a) providing information as to the number of units or the value of any assets safeguarded; and
- (b) converting currency.

LR-1.3.35 A person undertaking an activity of the kind specified under Rule LR-1.3.29 may also be engaged in the administration of the financial instruments, including related services such as cash/ collateral management.

Operating a collective investment undertaking

LR-1.3.36 Operating a collective investment undertaking means operating, establishing or winding up a collective investment undertaking.

LR-1.3.37 For the purposes of LR-1.3.36, a collective investment undertaking means any arrangements, authorised by or registered with the BMA, with respect to property of any description, including money, the purpose or effect of which is to enable persons taking part in the arrangements to participate in or receive profits or income arising from the acquisition, holding or disposal of the property or sums paid out of such profits or income.

LR-1.3.38 A person does not carry on an activity specified in Rule LR-1.3.36, if, the activity relates to the person establishing or winding up a collective investment undertaking, and that activity may be reasonably regarded as necessary in the course of providing legal services or providing accounting services.

LR-1.3.39 Collective investment undertakings of the kind specified in Rule LR-1.3.36 may be open-ended (i.e. with shares continuously issued and redeemed to meet investor demand) or closed-ended (where there is a single issue of shares and investors can only realise their investments on the winding-up of the fund).

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LR-1.3 Definition of Regulated Banking Services (continued)

Arranging deals in financial instruments

LR-1.3.40 Arranging deals in financial instruments means making arrangements with a view to another person, whether as principal or agent, buying, selling, subscribing for or underwriting deals in financial instruments.

LR-1.3.41 A person does not carry on an activity specified in Rule LR-1.3.40 if the arrangement does not bring about the transaction to which the arrangement relates.

LR-1.3.42 A person does not carry on an activity specified in Rule LR-1.3.40 if a person's activities are limited solely to introducing clients to licensees.

LR-1.3.43 The exclusion in Rule LR-1.3.42 does not apply if the agent receives from any person, other than the client, any pecuniary reward or other advantage, for which he does not account to the client, arising out of his entering into the transaction. Thus, if A receives a commission from B for arranging credit or deals in investment for C, the exclusion in Rule LR-1.3.42 does not apply.

LR-1.3.44 A person does not carry on an activity specified in Rule LR-1.3.40 merely by providing the means of communication between two parties to a transaction.

LR-1.3.45 A person does not carry on an activity specified in Rule LR-1.3.40 if they operate an exchange, duly recognised and authorised by the BMA.

LR-1.3.46 Negotiating terms for an investment on behalf of a client is an example of an activity which maybe regarded as activities of the kind specified in Rule LR-1.3.40.

LR-1.3.47 The following are examples of activities, when taken in isolation, are unlikely to be regarded as an activity of the kind specified in Rule LR-1.3.40:

- (a) appointing professional advisers;
- (b) preparing a prospectus/business plan;
- (c) identifying potential sources of funding;
- (d) assisting investors/subscribers/borrowers to complete and submit application forms; or
- (e) receiving application forms for processing/checking and/or onward transmission.

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LR-1.3 Definition of Regulated Banking Services (continued)

Advising on deals in financial instruments

LR-1.3.48 Advising on financial instruments means giving advice to an investor or potential investor (or a person in his capacity as an agent for an investor or potential investor) on the merits of buying, selling, subscribing for or underwriting a particular financial instrument or exercising any right conferred by such a financial instrument.

LR-1.3.49 The following are examples of activities, which may be regarded as an activity as defined by Rule LR-1.3.48:

- (a) a person may offer to tell a client when shares reach a certain value on the basis that when the price reaches that value it would be a good time to buy or sell them;
- (b) recommendation on the size or timing of transactions; and
- (c) advice on the suitability of the financial instrument, or on the characteristics or performance of the financial instrument concerned.

LR-1.3.50 A person does not carry on an activity specified in Rule LR-1.3.48 by giving advice in any newspaper, journal, magazine, broadcast services or similar service in any medium if the principal purpose of the publication or service, taken as a whole, is neither:

- (a) that of giving advice of the kind mentioned in Rule LR-1.3.48; nor
- (b) that of leading or enabling persons to buy, sell, subscribe for or underwrite a financial instrument.

LR-1.3.51 The following are examples of activities, when taken in isolation, are unlikely to be regarded as an activity as defined by Rule LR-1.3.48:

- (a) explaining the structure, or the terms and conditions of a financial instrument;
- (b) valuing financial instruments for which there is no ready market;
- (c) circulating company news or announcements;
- (d) comparing the benefits and risks of one financial instrument to another; and
- (e) advising on the likely meaning of uncertain provisions in an agreement relating to, or the terms of, a financial instrument or on the effect of contractual terms and their commercial consequences or on terms that are commonly accepted in the market.

Providing money exchange / remittance services

LR-1.3.52 Means providing exchange facilities between currencies, and the provision of wire transfer or other remittance services.

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LR-1.3 Definition of Regulated Banking Services (continued)

Issuing/ administering means of payment

LR-1.3.53

Means the selling or issuing of payment instruments, or the selling or issuing of stored value (e.g. credit cards, travellers' cheques, electronic purses).

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| MODULE | LR: Licensing Requirements |
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LR-2.1 Condition 1: Legal Status

LR-2.1.1

The legal status of a conventional bank licensee must be:

- (i) a Bahraini joint stock company (BSC); or
- (ii) a branch resident in Bahrain of a conventional bank incorporated under the laws of its territory of incorporation and authorized as a bank in that territory.

LR-2.1.2

Where the conventional bank licensee is a branch of an overseas bank, in deciding whether to grant a license, the BMA will pay close regard to its activities elsewhere and how these activities are regulated. If the conventional bank licensee is not regulated elsewhere or in a jurisdiction not substantially compliant with Basel Core Principles or FATF standards, then an application for licensing can only be considered after exhaustive enquiries into the bank's shareholders, management structure and financial position.

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LR-2.2 Condition 2: Mind and Management

LR-2.2.1

Conventional bank licensees with their Registered Office in the Kingdom of Bahrain must maintain their Head Office in the Kingdom. Overseas conventional bank licensees must maintain a local management presence and premises in the Kingdom appropriate to the nature and scale of their activities.

LR-2.2.2

In assessing the location of a conventional bank licensee's Head Office, the BMA will take into account the residency of its directors and senior management. The BMA requires the majority of key decision makers in executive management – including the Chief Executive Officer - to be resident in Bahrain. In the case of overseas licensees, the BMA requires the branch or subsidiary of a foreign owned company to have a substantive presence, demonstrated by a level of staff and other resources sufficient to ensure adequate local scrutiny and control over business booked in the Bahrain branch or subsidiary.

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LR-2.3 Condition 3: Controllers

LR-2.3.1

Conventional bank licensees must satisfy the BMA that their controllers are suitable and pose no undue risks to the licensee. Conventional banks must also satisfy the BMA that their group structures do not prevent the effective supervision of the conventional bank licensee by the BMA and otherwise pose no undue risks to the licensee.

LR-2.3.2 Chapter GR-5 contains the BMA’s requirements and definitions regarding controllers.

LR-2.3.3 In summary, controllers are persons who directly or indirectly are significant shareholders in a conventional bank licensee, or who are otherwise able to exert significant influence on the conventional bank licensee. The BMA seeks to ensure that controllers pose no significant risks to the licensee. In general terms, controllers are assessed in terms of their financial standing, their judicial and regulatory record, and standards of business and (where relevant) personal probity.

LR-2.3.4 As regards group structures, the BMA seeks to ensure that these do not prevent adequate consolidated supervision being applied to financial entities within the group, and that other group entities do not pose any material financial, reputational or other risks to the licensee.

LR-2.3.5 In all cases, when judging applications from existing groups, the BMA will have regard to the reputation and financial standing of the group as a whole. Where relevant, the BMA will also take into account the extent and quality of supervision applied to overseas members of the group and take into account any information provided by other supervisors in relation to any member of the group.

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LR-2.4 Condition 4: Board and Employees

LR-2.4.1 Those nominated to carry out controlled functions must satisfy BMA's approved persons requirements.

LR-2.4.2 The definition of controlled functions is contained in HC-2.1, whilst HC-2.2 sets out BMA's approved persons requirements.

LR-2.4.3 The conventional bank licensee's staff, taken together, must collectively provide a sufficient range of skills and experience to manage the affairs of the licensee in a sound and prudent manner. Conventional bank licensees must ensure their employees meet any training and competency requirements specified by the BMA.

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LR-2.5 Condition 5: Financial Resources

Capital Adequacy

LR-2.5.1

Conventional bank licensees must maintain a level of financial resources, as agreed with the BMA, adequate for the level of business proposed. The level of financial resources held must at all times meet the minimum risk-based requirements contained in Module CA (Capital Adequacy), as specified for the category of banking license held.

LR-2.5.2

Conventional bank licensees must maintain a minimum level of paid-up capital of BD 20,000,000 (or its equivalent in foreign currency, where legally permitted and agreed with BMA).

LR-2.5.3

Persons seeking a license as a conventional bank licensee must submit a 3-year business plan, with financial projections. Their proposed level of paid-up capital must be sufficient to cover expected regulatory capital requirements over that period, based on projected activities.

LR-2.5.4

In practice, applicants seeking a conventional bank license are likely to be required to hold significantly more capital than the minimum paid-up capital specified in Rule LR-2.5.2.

LR-2.5.5

Overseas banking applicants are required to provide written confirmation from their head office that the head office will provide financial support to the branch sufficient to enable it to meet its obligations as and when they fall due. Overseas banking applicants must also demonstrate that the bank as a whole is adequately resourced for the amount of risks underwritten, and that it and its group meet capital adequacy standards applied by its home supervisor.

LR-2.5.6

For Bahraini conventional bank licensees, deposit liabilities must not exceed 20 times their capital and reserves. For overseas conventional wholesale bank licensees, endowment capital may be required.

LR-2.5.7

Factors taken into account in setting endowment capital for branches includes the financial strength of the parent company, the quality of its risk management, and the nature and scale of the Bahrain operations of the branch.

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LR-2.5 Condition 5: Financial Resources (continued)

Liquidity

LR-2.5.8

Conventional bank licensees must maintain sufficient liquid assets to meet their obligations as they fall due in the normal course of their business. Conventional bank licensees must agree a liquidity management policy with the BMA.

LR-2.5.9

The BMA would normally expect the mark-to-market value of assets that could be readily realized at short-notice, to exceed 25% of deposit liabilities at all times. Liquidity arrangements may vary, however, particularly for overseas conventional banks, as agreed with BMA and documented in the liquidity management policy.

Reserve Requirements

LR-2.5.10

Conventional bank licensees must maintain a minimum daily cash reserve balance with the BMA, equivalent to 5% of its total non-bank Bahraini Dinar deposits and Bahraini Dinar denominated Certificates of Deposit.

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LR-2.6 Condition 6: Systems and Controls

LR-2.6.1

Conventional bank licensees must maintain systems and controls that are, in the opinion of the BMA, adequate for the scale and complexity of their activities. These systems and controls must meet the minimum requirements contained in Modules HC and OM.

LR-2.6.2

Conventional bank licensees must maintain systems and controls that are, in the opinion of the BMA, adequate to address the risks of financial crime occurring in the licensee. These systems and controls must meet the minimum requirements contained in Module FC, as specified for the category of license held.

LR-2.6.3

Applicants will be required to demonstrate in their business plan (together with any supporting documentation) what risks their business would be subject to and how they would manage those risks. Applicants may be asked to provide an independent assessment of the appropriateness of their systems and controls to the BMA, as part of the license approval process.

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LR-2.7 Condition 7: External Auditors

LR-2.7.1

Conventional bank licensees must appoint external auditors, subject to BMA's prior approval. The minimum requirements regarding auditors contained in Module AU (Auditors and Accounting Standards) must be met.

LR-2.7.2

Applicants must submit details of their proposed external auditors to the BMA as part of their license application.

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LR-2.8 Condition 8: Other Requirements

Books and Records

LR-2.8.1

Conventional bank licensees must maintain comprehensive books of accounts and other records, and satisfy the minimum record keeping requirements contained in Module GR. Books of accounts must comply with IAS. Audited accounts must be submitted to the BMA within 3 months of the licensee's financial year-end.

Provision of Information

LR-2.8.2

Conventional bank licensees must act in an open and cooperative manner with the BMA. Conventional bank licensees must meet the regulatory reporting and public disclosure requirements contained in Modules BR and PD respectively.

General Conduct

LR-2.8.3

Conventional bank licensees must conduct their activities in a professional and orderly manner, in keeping with good market practice. Conventional bank licensees must comply with the general standards of business conduct contained in Module PB, as well as the standards relating to treatment of customers contained in Modules BC and CM.

License fees

LR-2.8.4

Conventional bank licensees must comply with any license fee requirements applied by the BMA.

LR-2.8.5

The BMA's license fees are set out in Chapter GR-8.

Additional Conditions

LR-2.8.6

Conventional bank licensees must comply with any other specific requirements or restrictions imposed by the BMA on the scope of their license.

LR-2.8.7

Bank licensees are subject to the provisions of the BMA Law 1973. These include the right of the BMA to impose such terms and conditions, as it may deem necessary when issuing a license. Thus, when granting a license, the BMA specifies the regulated banking services that the licensee may undertake. Licensees must respect the scope of their license. LR-3.2 sets out the process for varying the scope of an authorisation, should a licensee wish to undertake new activities.

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LR-2.8 Condition 8: Other Requirements (continued)

Additional Conditions (continued)

LR-2.8.8 In addition, the BMA may impose additional restrictions or requirements, beyond those already specified in Volume 1, to address specific risks. For instance, a license may be granted subject to strict limitations on intra-group transactions.

LR-2.8.9

Conventional retail bank licensees are subject to the deposit protection scheme of eligible deposits held with the Bahrain offices of the licensee (see Chapter CP-2).

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| MODULE | LR: Licensing Requirements |
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LR-3.1 Licensing

LR-3.1.1 The application process for a conventional bank license consists of two parts: Phase 1 and Phase 2. For Phase 1, applicants for a license must submit a duly completed Form 1 (Phase 1) (Application for a License), under cover of a letter signed by an authorized signatory of the applicant marked for the attention of the Director, Licensing and Policy Directorate. The application must be accompanied by the documents listed in Paragraph LR-3.1.5, unless otherwise directed by the BMA.

LR-3.1.2 If, after submission of a duly completed Form 1 (Phase 1) and associated documents, an applicant is granted a conditional (in principle) approval for a license, the applicant must submit Form 1 (Phase 2), together with the documents referred to in Paragraph LR-3.1.10.

LR-3.1.3 When referring to the applicant, reference is made to the proposed licensee seeking a conventional bank license. An “in principle” approval granted in Phase 1 by the BMA for a specific license would not necessarily commit the BMA to grant its final decision for a specific license. The final decision to grant a license would be granted based on the BMA’s satisfaction with the overall application, subject to the fulfilment of both Phase 1 as well as Phase 2 requirements by the applicant.

LR-3.1.4 Conventional bank licensees who were licensed prior to the publication of the new LR Module of Volume 1 Rulebook do not need to resubmit an application for a license. Their license category, and the scope of their authorization, will be confirmed in an exchange of letters, and by re-issuing their license certificate.

LR-3.1.5 Unless otherwise directed by the BMA, the following documents must be provided as Part of Phase 1 in support of a license application:

- (a) a duly completed Form 2 (Application for Authorisation of Controller) for each controller of the proposed licensee;
- (b) a duly completed Form 3 (Application for Approved Person status), for each proposed director of the proposed licensee;
- (c) a comprehensive business plan for the application, addressing the matters described in LR-3.1.6;
- (d) for overseas banks, a copy of the bank’s current commercial registration or equivalent documentation;
- (e) where the applicant is a registered institution, a copy of the applicant’s commercial registration;

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LR-3.1 Licensing (continued)

- (f) where the applicant is a corporate body, a certified copy of a board resolution of the applicant, confirming its decision to seek a BMA conventional bank license;
- (g) in the case of applicants that are part of a regulated group, a letter of non-objection to the proposed license application from the applicant's home supervisor, together with confirmation that the group is in good regulatory standing and is in compliance with applicable supervisory requirements, including those relating to capital adequacy and solvency requirements;
- (h) in the case of overseas branch applicants, a letter of non-objection to the proposed license application from the applicant's home supervisor, together with confirmation that the applicant is in good regulatory standing and is in compliance with applicable supervisory requirements, including those relating to capital adequacy requirements;
- (i) in the case of branch applicants, copies of the audited financial statements of the applicant (head office) for the three years immediately prior to the date of application; and
- (j) in the case of other applicants, copies of the audited financial statements of the applicant's major shareholder and/or group (as directed by the BMA), for the three years immediately prior to the date of application.

LR-3.1.6

The business plan submitted in support of an application should explain:

- (a) an outline of the history of the applicant and its shareholders;
- (b) the reasons for applying for a license, including the applicant's strategy and market objectives;
- (c) the proposed type of activities to be carried on by the applicant in/from the Kingdom of Bahrain;
- (d) the proposed board and senior management of the applicant and the proposed organisational structure of the applicant;
- (e) an assessment of the risks that may be faced by the applicant, together with the proposed systems and controls framework to be put in place for addressing those risks and to be used for the main business functions; and
- (f) an opening balance sheet for the applicant, together with a three-year financial projection, with all assumptions clearly outlined, demonstrating that the applicant will be able to meet applicable capital adequacy and liquidity requirements.



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LR-3.1 Licensing (continued)

LR-3.1.7

The applicant's (and where applicable, its parent's) memorandum and articles of association must explicitly provide for it to undertake the activities proposed in the licensed application, and must preclude the applicant from undertaking other commercial activities, unless these arise out of its banking activities or are incidental to those.

LR-3.1.8

In the case of a new bank's capital being financed by a private placement, the Private Placement Memorandum must also be submitted to BMA for its approval as part of the Phase 1 documentation.

LR-3.1.9

The purpose of Rule LR-3.1.8 is to allow BMA to verify that the contents of the Private Placement Memorandum are consistent with other information supplied to BMA, notably in the business plan, and otherwise meets any applicable regulatory requirements with respect to PPM documents. The BMA's review of the PPM does not in any way constitute an approval or endorsement as to any claims it may contain as to the future value of the proposed bank.

LR-3.1.10

As part of Phase 2 of the licensing application process, unless otherwise directed by the BMA, the following documents and information must be provided:

- (a) a duly completed Form 3 (Application for Approved Person status), for each individual, (other than for directors, submitted as part of Phase 1) applying to undertake controlled functions in the applicant;
- (b) a draft copy of the applicant's (and parent's where applicable) memorandum and articles of association, addressing the matters described in LR-3.1.7;
- (c) a letter of guarantee from the applicant's major shareholder, confirming its willingness to support the proposed licensee in case of need; and
- (d) in the case of overseas branch applicants, a letter of guarantee from the applicant's head office, confirming responsibility for all of the liabilities of the proposed branch, together with evidence of the power to give such a guarantee.

LR-3.1.11

All documentation provided to the BMA as part of an application for a license must be in either the Arabic or English languages. Any documentation in a language other than English or Arabic must be accompanied by a certified English or Arabic translation thereof.

LR-3.1.12

Any material changes or proposed changes to the information provided to the BMA in support of an authorisation application that occurs prior to authorisation must be reported to the BMA.

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LR-3.1 Licensing (continued)

LR-3.1.13 Failure to inform BMA of the changes specified in LR-3.1.12 is likely to be viewed as a failure to provide full and open disclosure of information, and thus a failure to meet licensing condition LR-2.8.2.

LR-3.1.14 As part of the Phase 1 review of application process, the BMA will provide a formal decision on a license application within 60 calendar days of all required documentation having been submitted in a form acceptable to the BMA. Once an “in principal” approval has been granted for Phase 1, the applicant must submit within 6 months of the “in principal” approval, all requirements for Phase 2 as outlined in Paragraph LR-3.1.10. The BMA will provide a final decision within 30 calendar days of all Phase 2 documentation having been submitted in a form acceptable to the BMA. Applicants are encouraged to approach the BMA to discuss their application at an early stage, so that any specific questions can be dealt with prior to the finalisation of the application.

LR-3.1.15

Within 6 months of the license being issued, the new licensee must provide to the BMA:

- (a) a detailed action plan for establishing the operations and supporting infrastructure of the bank, such as the completion of written policies and procedures, and recruitment of remaining employees (having regard to the time limit set by Article 66 of the BMA Law 1973);
- (b) the registered office address and details of premises to be used to carry out the business of the proposed licensee;
- (c) the address in the Kingdom of Bahrain where full business records will be kept;
- (d) the licensee’s contact details including telephone and fax number, e-mail address and website;
- (e) a description of the business continuity plan;
- (f) a description of the IT system that will be used, including details of how IT systems and other records will be backed up;
- (g) a copy of the auditor’s acceptance to act as auditor for the applicant;
- (h) a copy of the Ministry of Industry & Commerce commercial registration certificate; and
- (i) other information as may be specified by the BMA.

LR-3.1.16 Applicants issued new licenses by the BMA must start operations within 6 months of the license being issued, as per Article 66 of the BMA Law 1973.

LR-3.1.17 Applicants who are refused a license have a right of appeal under the provisions contained in Article 68 of the BMA Law 1973.

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LR-3.2 Variations to a License

LR-3.2.1 Conventional bank licensees must seek prior BMA approval before undertaking new regulated banking services.

LR-3.2.2 Failure to secure BMA approval prior to undertaking a new regulated activity may lead to enforcement action being taken against the licensee concerned.

LR-3.2.3 In addition to any other information requested by the BMA, and unless otherwise directed by the BMA, a conventional bank licensee requesting BMA approval to undertake a new regulated banking service must provide the following information:

- (a) a summary of the rationale for undertaking the proposed new activities;
- (b) a description of how the new business will be managed and controlled;
- (c) an analysis of the financial impact of the new activities; and
- (d) a summary of the due diligence undertaken by the board and management of the conventional bank licensee on the proposed new activities.

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LR-3.3 Withdrawal of a License

Voluntary Surrender

LR-3.3.1 All requests for the voluntary surrender of a license are subject to BMA approval. Such requests must be made in writing to the Executive Director of Banking Supervision, setting out in full the reasons for the request and how the voluntary surrender is to be carried out.

LR-3.3.2 Conventional bank licensees must satisfy BMA that their customers' interests are to be safeguarded during and after the proposed voluntary surrender.

LR-3.3.3 The BMA will only approve a voluntary surrender where it has no outstanding regulatory concerns and any relevant customers' interests would not be prejudiced. A voluntary surrender will not be accepted where it is aimed at pre-empting supervisory actions by the BMA. Also, a voluntary surrender will only take effect once the licensee, in the opinion of the BMA, has discharged all its regulatory responsibilities to customers.

Cancellation

LR-3.3.4 Cancellation of a license requires BMA to issue a formal notice of cancellation to the person concerned. The notice of cancellation must describe the BMA's rationale for the proposed cancellation.

LR-3.3.5 Failure to meet the relevant conditions contained in Chapter LR-2 can lead to cancellation of a license. The BMA generally views cancellation of a license as appropriate only in the most serious of circumstances, and generally tries to address supervisory concerns through other means beforehand. Further guidance is contained in Module EN (Enforcement), regarding BMA's approach to enforcement and on the process for issuing a notice of cancellation and the recipient's right to appeal the notice.

LR-3.3.6 Normally, where cancellation of a license has been confirmed by BMA, BMA will only effect the cancellation once a licensee has discharged all its regulatory responsibilities to customers. Until such time, BMA will retain all its regulatory powers with regards to the licensee, and will direct the licensee such that no new regulated banking activity may be undertaken whilst the licensee discharges its obligations to customers.