



# LICENSING REQUIREMENTS MODULE

CONSULTATION

<b>MODULE</b>	<b>LR:</b>	<b>Licensing Requirements</b>
<b>CHAPTER</b>	<b>LR-2:</b>	<b>Licensing Conditions</b>

## 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 CBB, 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

This paragraph was deleted in April 2017.

#### LR-2.5.2A

All Bahraini conventional retail banks licensees must maintain a minimum total shareholders equity of BD 100 million.

#### LR-2.5.2B

All Bahraini conventional wholesale banks licensees must maintain a minimum total shareholders equity of US\$ 100 million.

#### LR-2.5.2C

The initial capital required for Bahraini conventional bank licensees (i.e. Bahrain incorporated conventional retail bank licensees and conventional wholesale bank licensees) is BD 2 million.

#### 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

Foreign bank 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. Foreign bank 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 conventional retail bank licensees, deposit liabilities must not exceed 20 times their capital and reserves.

<b>MODULE</b>	<b>LR:</b>	<b>Licensing Requirements</b>
<b>CHAPTER</b>	<b>LR-3:</b>	<b>Information Requirements and Processes</b>

## LR-3.1 Licensing (continued)

LR-3.1.5A The CBB, in its complete discretion may ask for a guarantee from the applicant's controlling or major shareholders on a case by case basis as it deems appropriate/necessary as part of the required documents to be submitted as mentioned in Paragraph LR-3.1.5 above.

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

**LR-3.1.6** The business plan submitted in support of an application should include:

- (a) An outline of the history of the applicant and its shareholders;
- (b) Explanation of the reasons for applying for a license, including the applicant's strategy and market objectives;
- (c) A description of the proposed type of activities, products and services together with their distribution channels, partnerships, revenue and pricing models specifying any Banking as a Service (BaaS) or other third-party arrangements;
- (d) The proposed Board and senior management of the applicant and the proposed organisational structure of the applicant with:
  - (a) A visual mapping of the skills of the current Board against the bank's strategy (e.g., banking experience, risk, IT/cyber etc.) to identify how any experience and knowledge gaps are filled;
  - (b) A specific assessment of the Board's collective ability to "challenge" the senior management team;
  - (c) A detailed document for each member of C-suite senior management in relation to their specific roles detailing their competency for this specific bank's model and associated risks;

## LR-3.1 Licensing (continued)

1. A detailed map showing exactly where accountability lies for every business area;
- (e) A Risk Appetite Statement (RAS) with Metrics quantifying risk limits (e.g., "Max 10% capital in Sector X") linked directly to triggers and limit breaches;
- (f) Capital allocation plan and internal capital adequacy assessment in accordance with the Internal Capital Adequacy Assessment Process (ICAAP) Module, demonstrating how the bank plans to address any shortfalls should they arise with an analysis that considers the specific event(s) that would result in its failure and works backward to prove controls are in place to prevent it;
- (g) Policies detailing how loan loss provisions (IFRS 9) will be calculated and how concentration risk will be addressed.
- (h) Policies detailing how liquidity will be managed and a breakdown of the funding diversification strategy, funding stability, explaining techniques to measure the behaviour of assets and liabilities;
- (i) Financial projections covering 5 years under three scenarios: (1) Base, (2) Moderate Stress, and (3) Severe but Plausible Stress together with key assumptions independently reviewed by an audit firm;
- (j) 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;
- (k) "Four Eyes" mapping documenting exactly which transactions and processes require dual authorisation vs. single authorisation;
- (l) A technical document validating that the core banking system can handle the projected 5-year volume proving scalability;
- (m) A register of all vendors detailing: (1) Rationale for selection, (2) Due Diligence performed, and (3) Exit Strategy (service continuity if vendor fails);
- (n) A compliance matrix to demonstrate how the bank will ensure full compliance with CBB Law, Rulebook and other applicable laws and regulations and a 12-month calendar showing exactly what the Compliance Officer will test, when, and how.
- (o) A formal mechanism for staff to report concerns anonymously and a register for managing personal/business conflicts of interest; and
- (p) A document listing Recovery Options to restore capital in a crisis (e.g., cancelling dividends, asset sales) without regulator intervention.