



CREDIT RISK MANAGEMENT MODULE



MODULE: CM (Credit Risk Management)

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MODULE	CM:	Credit Risk Management
CHAPTER	CM-A:	Introduction

CM-A.1 Purpose

CM-A.1.1 The purpose of this Module is to provide a checklist of the key elements of a sound credit risk management system which supervisors can expect their banks to observe. This requirement is supported by Article 44(c) of the Central Bank of Bahrain and Financial Institutions Law (Decree No. 64 of 2006).

CM-A.1.2 This Module provides support for certain other parts of the Rulebook, mainly:

- (a) Principles of Business;
- (b) The CBB Reporting Requirements;
- (c) Audit Firms;
- (d) High-level Controls; and
- (e) Capital Adequacy.

Legal Basis

CM-A.1.3 This Module contains the Central Bank of Bahrain's (CBB's) Directive (as amended from time to time) relating to the credit risk management of conventional bank licensees, and is issued under the powers available to the CBB under Article 38 of the CBB Law. The Directive in this Module is applicable to all conventional bank licensees.

CM-A.1.4 For an explanation of the CBB's rule-making powers and different regulatory instruments, see Section UG-1.1.



MODULE	CM: Credit Risk Management
CHAPTER	CM-A: Introduction

CM-A.2 Key Requirements

CM-A.2.1 Overseas conventional bank licensees are expected to maintain provisions against potential loan losses on their books in Bahrain. Head offices of banks that do not wish to maintain provisions on books of their branch(es) in Bahrain must advise the CBB, on an annual basis and in writing, of the amount of provisions set aside for the bad debts of Bahrain branch(es) (see Section CM-4.3).

CM-A.2.2. The CBB requires all Bahraini conventional bank licensees to set out their policy on large exposures, including limits for differing types of exposures to individual customers, banks, corporates, countries and economic and market sectors, in a policy statement which must be formally approved by the Board of Directors (see Section CM-5.8).

CM-A.2.3 The aggregate of large exposures may not exceed 800% of the bank's consolidated Total Capital (see Paragraph CM-5.5.3). A bank may not incur an exposure to an individual counterparty or group of closely related counterparties which exceeds 15% of the reporting bank's consolidated Total Capital (see Paragraph CM-5.5.4).

CM-A.2.4 Exposures to all connected counterparties when taken together, may not exceed 25% of consolidated Total Capital. Controllers and subsidiaries of controllers are not allowed to borrow from the bank (i.e. a 0% limit), however smaller shareholders will be subject to a 15% limit on an individual basis (see Paragraph CM-5.5.4). Directors who are also controllers are subject to the 0% limit (see Paragraphs CM-5.5.11 and CM-5.5.12).

CM-A.2.5 All Bahraini conventional bank licensees are required to report (for the attention of the Director of Banking Supervision Directorate) all large exposures, (whether exempt or not) on a quarterly basis using the Form PIR provided in Appendix BR-5 (see Section CM-5.7).

CM-A.2.6 The CBB's prior written consent must be obtained for any loan to an employee where the amount of such loan, either singly or when added to an existing loan(s) outstanding to that employee at that date, would be equal to or in excess of BD 100,000 (or its equivalent)(see Section CM-6.1).



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CM-A.2 Key Requirements (continued)

CM-A.2.7

The CBB requires that banks only provide a new consumer facility (or renew, extend or otherwise modify an existing consumer facility) for an amount such that the borrower's total monthly repayments on all his consumer finance commitments do not exceed 50% of his monthly gross income (see Section CM-8.4).

CM-A.2.8

[This Paragraph was deleted in April 2014 as this requirement has been moved to Module BC].

CM-A.2.9

The CBB's prior written consent must be obtained before writing off any loan to a senior employee/officer/Director of the reporting bank or other bank(s) who fails to discharge his/her repayment obligations to the reporting bank (see Section CM-7.1 for details).

CM-A.2.10

All Bahraini conventional bank licensees must notify the CBB of any write-off of a credit facility, (i.e., loan, overdraft and any other credit facility) of an amount in excess of BD 100,000 (or its equivalent). Chapter CM-7 contains Rules relating to the write-off of credit facilities.

CM-A.2.11

All banks which provide credit to resident natural persons in Bahrain must become members of the Credit Reference Bureau and follow the CRB Code of Practice (see Paragraph CM-1.2.4).

CM-A.2.12

All banks are required to follow the CBB's requirements concerning refund of insurance on loan prepayments and top-ups and early repayment fees/charges as outlined in Section CM-8.6.



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CHAPTER	CM-A:	Introduction

CM-A.3 Module History

CM-A.3.1 This Module was first issued in July 2004 as part of the conventional principles volume. Any material changes that have subsequently been made to this Module are annotated with the calendar quarter date in which the change was made: Chapter UG 3 provides further details on Rulebook maintenance and version control.

CM-A.3.2 The most recent changes made to this Module are detailed in the table below:

Summary of Changes

Module Ref.	Change Date	Description of Changes
CM 8	1/1/2005	Revised Consumer Finance Limits
CMA-2	1/1/2005	Revised Key Requirements to reflect CM 8 above
CM 8.3	1/7/2005	Revised definition of 'consumer loan'
CM 3.2	1/10/2005	Role of internal audit becomes a rule
CM 8.4	1/10/2005	Clarifications re non-compliant facilities
CM-A.1	10/2007	New Rule CM-A.1.3 introduced, categorising this Module as a Directive.
CM-8	10/2007	New Requirement to follow the "Code of Best practice on Consumer Credit and Charging".
CM-1.2	10/2007	Membership of CRB
CM-7.1	04/2008	Guidance concerning material interest as shareholder for write-offs
CM-8.6	04/2008	New Refund and prepayment requirements
CM-5.7	10/2009	New reporting arrangements for <u>exposures</u> of connected counterparties.
CM-5.7	01/2010	Revised reference for LE reporting
CM-A.1.3	01/2011	Clarified legal basis.
CM-5	01/2011	Changes made to incorporate Basel Core Principle 5 and new large <u>exposure</u> requirements along with a consistency alignment of Volume One and Volume Two.
CM-A.1.1, CM-A.2.4	04/2011	Corrected typo.
CM-5.3.1(c), CM-5.6.1	04/2011	Corrected cross reference.
CM	07/2011	Various minor amendments to clarify Rules and have consistent language.
CM-5.5.9	07/2011	Amended the definition of connected counterparties.
CM-8.5.9 and CM-8.5.10	10/2011	Corrected elements of APR formula.
CM-8.5.12	10/2011	Paragraph deleted as it does not reflect current practice on residual interest.
CM-5.5.1.E	01/2012	Amended definition of qualifying holdings
CM-5.6	01/2012	Clarified and amended the Rules on temporary exposures.
CM-5.10.3	01/2012	Clarified the Rule on future increases in qualifying holdings.
CM-8.4.9	01/2012	Changed Rule to Guidance.
CM-5.6.2	04/2012	Clarified Rules on temporary exposures.
CM-A.2.8	07/2012	Updated reference to Bahrain Association of Banks.
CM-5.5.6	07/2012	Clarified the definition of 'controlling interest'.
CM-5.5.7A	07/2011	CBB prior approval required for excess over limits to connected counterparties.
CM-5.5.9	07/2012	Minor correction.
CM-5.10.3	07/2012	Amendment made to be in line with updated definition of qualifying holdings.
CM-8.5.4	07/2012	Minor typo corrected.
CM-8.5	10/2012	This Section was deleted and requirements are now included in Section BC-4.3.
CM-A.2.10	01/2013	Clarified Rule related to the write-off of a credit facility.



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CHAPTER	CM-A:	Introduction

CM-A.3 Module History

CM-A.3.2 (continued)

Summary of Changes

Module Ref.	Change Date	Description of Changes
CM-5.5.11	07/2013	Clarified Rule on the amount that must be deducted from the capital base where exposure exceeds the limit stipulated.
CM-8.6.2	07/2013	Clarified the type of mortgages on which the CBB imposes a ceiling on early repayment fees and/or charges.
CM-1.2.4	10/2013	Amended to reflect the expanded scope of activities of the Credit Reference Bureau and the membership requirements.
CM-8.4.4	10/2013	Updated reference to Eskan Bank to reflect new name.
CM-1.2.4	01/2014	Clarified Rule to apply to credit facilities to residents in Bahrain.
CM-A.2, CM-4.3 and CM-5	04/2014	Added cross references and corrected terminology to link to Glossary terms.
CM-6.1	04/2014	Clarified Rules on staff loans.
CM-8.2.4	04/2014	Reference updated for the code of best practice on consumer credit and charging.
CM-5.10.2A	07/2014	Added a guidance Paragraph to clarify the treatment of investments in commercial entities which are otherwise not connected to the bank.
CM-A.2 and CM-5	01/2015	Corrected to be aligned with updated requirements under Module CA.
CM-5.3.2	01/2015	Added reference to transactions subject to the Regulation on close-out netting under a market contract.
CM-5.5.1B	01/2015	Corrected cross reference.
CM-5.5.1E	04/2015	Deleted cross reference as not applicable.
CM-5.6.2B and CM-5.10.10	04/2015	Corrected reference to consolidated Total Capital to be in line with Module CA.
CM-5.7.1	04/2015	Added reference to Appendix BR-19 for reporting the financial details of each large exposure.
CM-5.10.3	04/2015	Clarified language on the treatment of significant investments over the thresholds outlined in Paragraph CA-2.4.25.
CM-5.7.1, CM-5.7.1A and CM-5.7.1B	07/2015	Clarified the reporting requirements of exposures.
CM-5.5.11	10/2015	Clarified limits on large exposures.
CM-7.1	10/2015	Amended Rules on write-offs.

Effective Date

CM-A.3.3

The contents of this Module are effective from July 2004 or the dates given in the summary of changes above.



MODULE	CM:	Credit Risk Management
CHAPTER	CM-B:	General Guidance and Best Practice

CM-B.1 Guidance Provided by International Bodies

Basel Committee: Principles for the Management of Credit Risk

CM-B.1.1 The paper (see www.bis.org/publ/bcbs75.pdf) which contains 17 principles, encourages banking supervisors globally to promote sound practices for managing credit risks in banking activities.

CM-B.1.2 Throughout the Module, references have been made to this paper and it is recommended that the regulations in this Module be followed in conjunction with the guidelines presented in this paper.

Counterparty Risk Management Policy Group (CRMPG): Improving Counterparty Risk Management

CM-B.1.3 The objective of this report (see www.isda.org/educat/pdf/CRMPG-report6-99.pdf), which was developed by a committee of market practitioners in the wake of the 1998 market disruptions, discusses counterparty credit risk and market risk management practices and how they can be enhanced.

CM-B.1.4 The report covers four subject areas: transparency and counterparty credit assessments; risk measurement, management, and reporting; market practices and conventions; and regulatory reporting.

CM-B.1.5 Of particular interest to risk managers is guidance provided in two areas, one on liquidity risk and leverage, and the other on counterparty credit exposure estimation.

Basel Committee: Framework for Internal Control Systems in Banking Organisations

CM-B.1.6 The paper (see www.bis.org/publ/bcbs40.pdf) issued in September 1998 presents the first internationally accepted framework for supervisors to use in evaluating the effectiveness of the internal controls over all on- and off-balance-sheet activities of banking organisations.

CM-B.1.7 The paper describes elements that are essential to a sound internal control system, recommends principles that supervisors can apply in evaluating such systems, and discusses the role of bank supervisors and external auditors in this assessment process.



MODULE	CM:	Credit Risk Management
CHAPTER	CM-1:	General Procedures

CM-1 Overview

- CM-1.1.1 Credit risk is the likelihood that a counterparty of the bank will not meet its obligations in accordance with the agreed terms. The magnitude of the credit risk depends on the likelihood of default by the counterparty, and on the potential value of the bank's contracts with the customer at the time of default. Credit risk largely arises in assets shown on the balance sheet, but it can also show up off the balance sheet in a variety of contingent obligations.
- CM-1.1.2 Exposure to credit risk, notably in the form of traditional bank lending, has historically been the most frequent source of bank problems. The assessment of credit risk is a challenging task where bankers are often faced with making decisions based on outdated or partial information.
- CM-1.1.3 The lack of continuous loan supervision and effective internal controls, or the failure to identify abuse and fraud are also sources of risk. The overall lending policy of the bank should be monitored by a Credit Committee composed of officers with adequate seniority and experience.



MODULE	CM:	Credit Risk Management
CHAPTER	CM-1:	General Procedures

CM-1.2 Credit Analysis

CM-1.2.1 Proper credit risk management will help banks to discipline their lending activities and ensure that credit facilities are granted on a sound basis, and that bank funds are invested in a profitable manner. The process of managing credit risk starts at the origination of the credit facility. Standards for credit analysis should stress the borrower's ability to meet his future financial needs through analysis of his cash-flow generation capacity.

CM-1.2.2 Measurement of credit risk is complicated by the fact that both credit exposures and the likelihood of default can vary over time and may be interdependent. The creditworthiness of customers shifts, as reflected in credit rating upgrades and downgrades. Customers that originally are highly rated are more likely to default later in a loan's life than earlier.

CM-1.2.3 Banks should properly assess the inherent risk factor of each credit facility; monitor the risks arising from any portfolio concentration; and ensure that appropriate precautions against losses have been taken in the form of collateral and/or provisioning as described in Chapter CM-2.

CM-1.2.4 Banks which provide credit facilities to residents in Bahrain must become members of the Credit Reference Bureau (CRB). All requests for new credit facilities in Bahrain must be submitted to the CRB.

CM-1.2.5 All CRB members must fully abide by the agreed Code of Practice of the CRB (see Appendix CM-3), in matters such as the protection of confidential customer data and payment of enquiry fees. Any such breaches will be viewed as calling into question the “fit and proper status” of persons involved, potentially making the licensee and the person liable to enforcement action by the CBB.



MODULE	CM:	Credit Risk Management
CHAPTER	CM-1:	General Procedures

CM-1.3 Credit Policy

CM-1.3.1 A properly documented credit policy is an essential element of and prerequisite for the credit risk management process. Consistent with the Board's objectives, it assists bank management in the maintenance of proper credit standards and the avoidance of unnecessary risks.

CM-1.3.2 It is prudent to review the credit policy regularly to ensure that once it is established, it remains flexible enough to be current and continues to accomplish its original purpose taking into consideration market developments.

CM-1.3.3 Explicit guidelines in credit policy provide the basis for effective credit portfolio management. A sound credit policy should consider which types of credit products and borrowers the bank is looking for and the underwriting standards the bank will utilize.

CM-1.3.4 A bank's credit policy should address all credit matters of significance including:

- (a) Objectives of credit monitoring;
- (b) Organisation and reporting structure of the credit department;
- (c) Designated markets and products;
- (d) Establishment of a credit limit framework;
- (e) Guidelines for assessment of concentration;
- (f) Authorisation procedures for the advancement of credit;
- (g) Establishment of credit committees;
- (h) Establishment of desirable pricing levels and criteria; and
- (i) Problem credit identification and administration.

CM-1.3.5 After the credit facility has been granted, its performance should be monitored at regular intervals. This includes an appropriate periodic review of financial statements, a reassessment of collateral and update of appraisals, and attentive monitoring of conditions in the borrower's industry. Credit supervision constitutes the first line of detection of difficulties and provides the bank with an opportunity to address problems before losses are sustained.



MODULE	CM:	Credit Risk Management
CHAPTER	CM-2:	Assessment of Credit Quality

CM-2.1 Overview

- CM-2.1.1 A realistic assessment of credit quality is an essential feature of effective credit risk management. The starting point for a systematic review of credit quality is a comprehensive review of the bank's written credit policies and practices. These include, but are not limited to:
- (a) Credit approval procedures;
 - (b) Credit underwriting criteria; and
 - (c) Credit administration processes.
- CM-2.1.2 Credit quality is a relative concept based on performance prospects and external variables. Trends in the economy and changes in markets and prices of goods affect the evaluation of loan repayment value. Assessing credit risk is a dynamic concept which needs to take into account the business cycle and the economic environment.
- CM-2.1.3 The objectives of the credit assessment are to determine:
- (a) Whether the applicant/customer will have sufficient future liquid resources to honour credit obligations according to the agreed terms;
 - (b) Whether the applicant's/customer's present and future prospects indicate that they will continue as a going concern in the foreseeable future;
 - (c) Is the applicant / customer of sufficient integrity; and
 - (d) To what extent does any security offered affect the risk inherent in the facility.



MODULE	CM:	Credit Risk Management
CHAPTER	CM-2:	Assessment of Credit Quality

CM-2.2 Credit Ratings

CM-2.2.1

Credit officers should assign credit ratings to the loans they originate. This will help the Credit Committee to assess the credit judgement in assigning credit ratings and pricing for credits. The ratings should have several categories with additional breakdowns in each Category:

- (a) *'Standard credits'* are those which are performing as the contract requires. There is no reason to suspect that the creditor's financial condition or collateral adequacy has depreciated in any way. The bank is very likely to extend additional funds to this borrower if requested (subject to internal or legal credit restrictions);
- (b) *'Watch credits'* are currently protected from loss but are potentially weak; they constitute a risk, but the risk is not such that it justifies a rating of Substandard;
- (c) *'Substandard credits'* are inadequately protected by the paying capacity of the obligor or by the collateral pledged. They are characterized by the distinct possibility that the bank will sustain some loss if the deficiencies are not corrected. Loss potential, while existing in the aggregate amount of Substandard assets does not have to exist in individual assets classified Substandard;
- (d) *'Doubtful credits'* have all the weaknesses inherent in a credit classified as Substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable or improbable. The possibility of Loss is extremely high, but because of certain important and reasonably specific pending factors which may work to the advantage and strengthening of the asset, its rating as an estimated Loss is deferred until its more exact status may be determined;
- (e) *'Loss credits'* are considered uncollectable and of such little value that their continuance as assets is not warranted. The rating does not mean that the asset has absolutely no recovery or salvage value, but rather that it is not practical or desirable to defer writing off this basically worthless asset even though partial recovery may be effected in the future.



MODULE	CM:	Credit Risk Management
CHAPTER	CM-2:	Assessment of Credit Quality

CM-2.2 Credit Ratings (continued)

CM-2.2.2 The classification should normally apply to the entire balance of an outstanding facility because if a problem exists with the one credit, it normally applies to the whole facility and not just the payment or individual credit, which may be overdue. This is a conservative approach, which will alert bank management and the Board to the full extent of a potential problem.



MODULE	CM:	Credit Risk Management
CHAPTER	CM-2:	Assessment of Credit Quality

CM-2.3 Collateral

- CM-2.3.1 The extension of credit is often supported by collateral provided by the customer or third parties. When the loan decision is based on collateral value, independent timely appraisals of the collateral should be obligatory, including provision for sufficient security margins.
- CM-2.3.2 In principle, collateral can improve the credit rating of a customer, but experience suggests that over-reliance on collateral is unsound because very often when a loan goes sour the collateral turns out to have less value than estimated or is, at worst, illusory.
- CM-2.3.3 Misjudgements about collectability are frequently the cause; collateral is often illiquid, difficult to value during periods of financial distress and costly to realise through foreclosure or other legal means. Particular concern may be appropriate in the case of collateral in the form of real estate, as it involves additional uncertainties and the costs of maintaining the property.
- CM-2.3.4 As a matter of principle, collateral should not replace a careful assessment of the borrower's ability to repay.



MODULE	CM: Credit Risk Management
CHAPTER	CM-3: Developing a Sound Credit Culture

CM-3.1 Overview

CM-3.1.1 Credit culture is defined as the sum total of a bank's approach to managing credit risk, including business strategy, credit policy, shared assumptions about credit, the effectiveness of communications, and the composition and quality of the resulting loan portfolio.

CM-3.1.2 As a matter of best practice, all banks should periodically review their credit cultures in order to reduce future credit losses and also to minimise reputational risk and damage to their credit ratings.

CM-3.1.3 The CBB draws all licensed banks' attention to the September 2000 document issued by the Basel Committee entitled 'Principles for the Management of Credit Risk'. This document contains 17 principles which all banks should ensure are covered in their credit culture (i.e. policies, procedures, systems and controls) (see www.bis.org/publ/bcbs75.pdf).

CM-3.1.4 Effective from the date of the original circular (see Section CM-A.3), the CBB will use the Basel document mentioned above as a guideline in its evaluation of the credit cultures of banks operating in Bahrain. Evaluation will be implemented through prudential meetings, inspection and reporting accountants' reviews.



MODULE	CM:	Credit Risk Management
CHAPTER	CM-3:	Developing a Sound Credit Culture

CM-3.2 Elements of a Strong Credit Culture

CM-3.2.1 First, the regulation in this Section is recommendatory in nature (except for the requirement in Paragraphs CM-3.2.2 (a) & (e) below), and the guidelines below under the five headings are indicative of best practice. Some of the guidelines may not be appropriate to all relevant licensees. However, if a bank is not following these guidelines, it should consider why it is not doing so.

CM-3.2.2 Secondly, the regulation in this Section is intended as a complement to the September 2000 Paper by the Basel Committee entitled 'Principles for the Management of Credit Risk' (see Section CM-B.2). This Section does not summarise the Basel Paper, but is intended to be read in conjunction with the above Paper.

(a) The Role of the Board of Directors

The Board of Directors must approve all the operating policies of a bank (see principle 1 of Basel Committee paper, 'Framework for Internal Control Systems in Banking Organisations' – Section CM-B.2).

Given that credit risk is still the major risk that banks are exposed to in their business, particular scrutiny must be paid to credit policies, in terms of various limits as well as in terms of risk strategy. An essential function of the Board is to review and reassess the credit policies of the bank (including collateral, provisioning policies and concentration policies) on a periodic basis. The Board should also regularly review overdue and large facilities both in terms of performance, and also in relation to the capital (base) of the bank. The Board should insist upon periodic review/evaluation of internal systems and control weaknesses identified by external/internal auditors and management. Principle 1 of the Basel Committee paper 'Principles for the Management of Credit Risk' (see Section CM-B.2) also gives greater detail on the role of the Board in developing a sound credit culture.



MODULE	CM:	Credit Risk Management
CHAPTER	CM 3:	Developing a Sound Credit Culture

CM-3.2 Elements of a Strong Credit Culture (continued)

(b) The Role of the senior management

Senior Management should be involved in regular reviews of outstanding facilities and overdue accounts as well as reviewing changes in activity, turnover or balances in clients' accounts. The role of senior management is covered in depth in Principle 2 of Basel Committee paper 'Principles for the Management of Credit Risk' – Section CM-B.2 (see also Principle 3 of Basel Committee paper 'Framework for Internal Controls Systems in Banking Organisations' – Section CM-B.2). However, Senior Management should be involved in the credit review process of (larger) existing facilities, visiting clients, requesting up to date financial statements and verifying collateral. Too often, a lack of direct contact by senior management with a problem client has been an identified factor in significant credit losses by banks, whether by way of fraud, or corporate failure.

(c) Role of an Independent Risk Management Function

Perhaps the key point to emphasise in Risk Management is that the function must be independent of the senior management and operational functions which are related to business acquisition. The Risk Management function should report to the Board or to senior management related to control functions. The Risk Management function must not only monitor risk, but also control it (i.e. review limits, excesses etc). It must also ensure that risk monitoring systems accurately measure risk in the first place, and that all risks where they occur are correctly identified (see also Principle 6 of Basel Committee paper, 'Framework for Internal Controls Systems in Banking Organisations' – Section CM-B.2).

(d) Effective Internal Systems and Controls

Well implemented sound policies and procedures maintain credit standards, enable monitoring and control of credit risk, and identify problem credits in a timely manner (see Principle 2 of Basel Committee paper 'Principles for the Management of Credit Risk' – Section CM-B.2 for more detail). Sound policy and administrative requirements also apply equally strongly to existing facilities as well as new ones (see Principle 8 of Basel Committee paper 'Principles for the Management of Credit Risk' – Section CM-B.2). Policies and procedures should allow a thorough understanding of the counterparty, the purpose of the credit facility and the source of repayment (Principle 4 of Basel Committee paper 'Principles for the Management of Credit Risk' – Section CM-B.2) to be gained by the Risk Management function in its assessment of the counterparty for risk profiling purposes, (see also Principle 6 of Basel Committee paper 'Framework for Internal Controls Systems in Banking Organisations' – Section CM-B.2 and Section E of the paper issued by the Counterparty Risk Management Policy Group - 'Improving Counterparty Risk Management' – see Section CM-B.2). Banks should seek to utilise internal rating systems to manage credit risk and to set adequate provisions on a timely basis (see Principle 10 of Basel Committee paper 'Framework for Internal Controls Systems in Banking Organisations' – Section CM-B.2 and also the Credit Ratings in Section CM-2.2).



MODULE	CM:	Credit Risk Management
CHAPTER	CM-3:	Developing a Sound Credit Culture

CM-3.2 Elements of a Strong Credit Culture (continued)

(e) The Role of Internal Audit

The internal audit function must, on an on-going basis, monitor the system of internal controls because it provides an independent assessment of the adequacy of, and compliance with, the established policies and procedures. The internal audit function must report directly to the highest levels of the banking organisation, typically the Board of Directors or its audit committee, and to senior management. This allows for the proper functioning of corporate governance by giving the Board information that is not biased in any way by the levels of management that the reports cover.



MODULE	CM:	Credit Risk Management
CHAPTER	CM-3:	Developing a Sound Credit Culture

CM-3.3 Name-lending

CM-3.3.1 Banks are exposed to credit risk when they provide large credit facilities on a 'clean' basis (i.e. without collateral or security). This risk is amplified, specifically, when such clean lending is made without adequate (up to date) financial information.

CM-3.3.2 In many banks there is a tendency to indulge in 'name-lending' without any credit analysis or understanding of the concerned counterparty's current borrowings from other banks. The CBB strongly discourages the banks to engage in such activities in order to minimise their credit risk and reputational risk.



MODULE	CM:	Credit Risk Management
CHAPTER	CM-4:	Provisioning

CM-4.1 Overview

CM-4.1.1 Credit rating (see Section CM-2.2) provides a basis for determining an adequate level of provisions for possible loan losses. The loss potential within specific credits will have to be determined on a case by case basis after all credit and collateral factors have been evaluated. Such potential losses, together with a general provision for the remainder of the portfolio where specific risks have not been identified, form the basis for establishing an adequate level of provisions.

CM-4.1.2 For the purpose of this Chapter, 'Non-performing loans' are those on which payments of interest or repayments of principal are 90 days or more past due.



MODULE	CM: Credit Risk Management
CHAPTER	CM-4: Provisioning

CM-4.2 Implications of IAS 39

Interest in Suspense

CM-4.2.1

Banks must suspend interest on loans and advances which are 90 days or more past due.

IAS 39 Transitional Adjustments for Provisions

CM-4.2.2

All IAS 39 transitional provisions must be routed through the retained earnings account with the exception of provisions.

CM-4.2.3

Under the IAS 39, as of 31 December 2000, the banks will have two options for the treatment of general provisions after considering the pooled general and specific provisions and interest in suspense balances in comparison to the estimated provisions resulting from the discounting of future cash flows. These options are:

- (a) Any excess general provisions balance brought forward over and above the newly estimated figure may be transferred directly to general reserves, or
- (b) Where provisions (or impairment allowances) relate to a portfolio of homogeneous loans (e.g. consumer loans) then such excess provisions may continue to be treated as a general provision for capital adequacy purposes (see Module CA).



MODULE	CM: Credit Risk Management
CHAPTER	CM-4: Provisioning

CM-4.3 Provisioning Policies of Overseas Conventional Bank Licensees

CM-4.3.1 The CBB has, for some time, been monitoring the practices adopted by branches of foreign banks in Bahrain with regard to the making and maintaining of provisions against bad and doubtful debts in their books in Bahrain. The CBB is aware that it is the policy of some foreign banks in Bahrain to maintain provisions at their head offices, and not in their books in Bahrain. In the interests of prudence, the CBB has reviewed this matter and issues this Regulation to reflect its requirements in this area.

CM-4.3.2 Specific provisions for the bad and doubtful debts (as well as any other non-performing assets) of overseas conventional bank licensees must be maintained in the books of the Bahrain branch(es).

CM-4.3.3 If the bank is not able to meet the requirement in Paragraph CM-4.3.2, the bank's head office must advise the CBB, on an annual basis and in writing, of the amount of provisions set aside for the Bahrain branch(es)'s bad debts (and any other non-performing assets).

CM-4.3.4 In addition, the CBB may contact the bank's home supervisor, on a regular or ad hoc basis, in order to obtain information about the adequacy of the provisioning for such assets.



MODULE	CM:	Credit Risk Management
CHAPTER	CM-4:	Provisioning

CM-4.4 Provisions against Sovereign Debt

CM-4.4.1 The CBB has consistently encouraged banks to maintain adequate provisions against loans to borrowers experiencing difficulties and against loans for countries with current or potential debt servicing difficulties.

CM-4.4.2 In all cases the assessment of loans – and decisions regarding adequate provisions – are assisted by the categorization of loans as defined by the CBB in Section CM-2.2. In addition, with regard to ‘sovereign debt’ it is particularly important that the size of the provisions made should be based on the identification and objective assessment of the nature and extent of difficulties being experienced by particular countries and reflect as near as possible deterioration in the prospects for recovering debts. With these objectives in mind, the Sovereign Debt Provisioning Matrix (see Appendix CM-1) contains a list of measurements which have been designed to help identify those borrowers and countries with payment difficulties and to decide what would constitute adequate provisions.

CM-4.4.3 It is emphasized that this Section and the Sovereign Debt Provisioning Matrix (see Appendix CM-1) are merely a general framework for assessing degrees of provisions. They should not be regarded as an exhaustive or definitive framework. Nevertheless, the CBB does intend to include the results of banks’ calculations in its discussions with them, and to establish that adequate provisions are being made.

Implications of International Accounting Standard (IAS) no. 39 on the Provisions Assessed through Sovereign Debt Provisioning Matrix

CM-4.4.4 The banks must continue to apply the Sovereign Debt Provisioning Matrix (see Appendix CM-1) as a benchmark for estimating future recoverable cash receipts. However, if a lower provisioning amount is determined, i.e. lower than the amount identified through the matrix, and the bank intends to book the lower amount, then a meeting must be arranged with the CBB to discuss the issues before booking such provisions.



MODULE	CM: Credit Risk Management
CHAPTER	CM-5: The Monitoring and Control of Large Exposures of Banks Licensed by the CBB

CM-5.1 Overview

CM-5.1.1 The CBB's directives on large exposures for banks in Bahrain are issued as part of the CBB's measures to encourage banks to mitigate risk concentrations.

CM-5.1.2 The contents of this Chapter apply in full to all Bahraini conventional bank licensees on a consolidated basis.

CM-5.1.3 Banks, through the PIR forms (see Module CA), must notify the CBB of the subsidiaries to be consolidated for reporting purposes.



MODULE	CM:	Credit Risk Management
CHAPTER	CM-5:	The Monitoring and Control of Large Exposures of Banks Licensed by the CBB

CM-5.2 Exposures undertaken by Overseas Conventional Bank Licensees

CM-5.2.1 The CBB's policy towards large exposures on the books of overseas conventional bank licensees is to ensure that such exposures are within the policy statement of the parent bank, as agreed by the parent regulatory authority.

CM-5.2.2 All overseas conventional bank licensees must report their 25 largest exposures to the CBB.

CM-5.2.3 The CBB may, if circumstances so require and on a case-by-case basis, apply the full requirements of this Chapter to overseas conventional bank licensees.



MODULE	CM:	Credit Risk Management
CHAPTER	CM-5:	The Monitoring and Control of Large Exposures of Banks Licensed by the CBB

CM-5.3 The Measure of Exposure

CM-5.3.1

For large exposure(s) purposes, the measure of exposure reflects the maximum loss that will arise should a counterparty fail or the loss that may arise due to the realisation of any lending assets, shareholdings or other exposures or off-balance sheet positions, or losses experienced due to non-repayment of facilities granted. In certain cases (particularly derivatives), the measure of a large exposure may be larger than that used in published financial statements. Consistent with this, an exposure encompasses the amount at risk arising from a bank's:

- (a) Claims on a counterparty including actual and potential claims which would arise from the drawing down in full of undrawn advised facilities (whether revocable/irrevocable, conditional or unconditional) which the bank has committed itself to provide, and claims which the bank has committed itself to purchase or guarantee/ underwrite. In the case of undrawn facilities (including overdrafts), the advised limit must be included in the measure of exposure (after deduction of any provisions). In the case of loans, the net outstanding balance to be repaid as shown in the books of the bank must be included in the measure of exposure after deduction of any provisions. Such claims would include but are not limited to:
 - (i) Loans and other credit facilities (including overdrafts) whether or not drawn;
 - (ii) Exposures arising through lease agreements;
 - (iii) Margin held with exchanges or counterparties;
 - (iv) Claims under derivative contracts such as futures, forwards, options, swaps and similar contracts on interest rates, foreign currencies, equities, securities, commodities or indexes;
 - (v) Claims arising in the course of settlement of securities transactions;
 - (vi) Receivables such as fees or commissions;
 - (vii) Claims arising in the case of forward sales and purchases of financial instruments in the trading or banking books;
 - (viii) Amounts outstanding under sale and repurchase agreements, forward asset purchase agreements, buyback agreements, stock borrowing/lending or similar transactions;
 - (ix) Bonds, bills or other non-equity financial instruments; and
 - (x) Underwriting exposures for bonds, bills, or other non-equity financial instruments.



MODULE	CM:	Credit Risk Management
CHAPTER	CM-5:	The Monitoring and Control of Large Exposures of Banks Licensed by the CBB

CM-5.3 The Measure of Exposure (continued)

- (b) Contingent liabilities arising in the normal course of business, and those contingent liabilities which would arise from the drawing down in full of undrawn advised facilities (whether revocable or irrevocable, conditional or unconditional) which the bank has committed itself to provide. In the case of an undrawn overdraft, L/C or similar facility, the advised limit must be included in the measure of exposure. Such liabilities may include:
- (i) Direct credit substitutes (including guarantees, standby letters of credit, bills accepted but not held by the reporting bank, and endorsements creating payable obligations);
 - (ii) Claims sold with recourse (i.e. where the credit risk remains with the reporting bank);
 - (iii) Transaction related contingents not having the character of direct credit substitutes (e.g. performance bonds, bid bonds, transaction-related L/Cs etc);
 - (iv) Undrawn documentary letters of credit issued or confirmed; and
 - (v) Credit derivatives sold (where the bank is providing credit protection);
- (c) Any other assets or transactions whose value depends wholly or mainly on a counterparty performing its obligations, or whose value depends upon that counterparty's financial soundness but which do not represent a claim on the counterparty. Such assets or transactions include:
- (i) Equities and other capital instruments (including significant investments in commercial entities –see CM-5.5.1.E for definition);
 - (ii) Equity warrants, options, or equity derivatives where the reporting bank is obtaining credit protection; and
 - (iii) Underwriting or purchase commitments for equities; and



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CHAPTER	CM-5:	The Monitoring and Control of Large Exposures of Banks Licensed by the CBB

CM-5.3 The Measure of Exposure (continued)

- (d) Any other assets, receivables or transactions which constitute a claim for the bank which are not included in (a), (b) or (c) above. Such items could include funds or assets provided to a fund/asset manager. Banks must regard assets placed with third parties under management as exposures. Under no circumstances may a bank place funds with fund managers (or mudaribs or trustees) that also act as custodian.

CM-5.3.2

As a general rule, exposures must be reported on a gross basis (i.e. no offset). However, debit balances on accounts may be offset against credit balances on other accounts with the bank if:

- (a) A legally enforceable right of set off exists in all cases (as confirmed by an independent legal opinion addressed to the bank) in respect of the recognised amounts;
- (b) The debit and credit balances relate to the same customer or to customers in the same group (for a group facility, a full cross guarantee structure must also exist before debit balances on accounts may be offset against credit balances i.e. full multilateral guarantees must be in place between all the companies within the group);
- (c) The bank intends either to settle on a net basis, or to realise the debit balances and settle the credit balances simultaneously; and
- (d) The transactions are subject to the regulation in respect of close-out netting under market contract (see Appendix CM-4).

CM-5.3.3

Large exposures are calculated using the sum of the nominal amounts before the application of risk weighting and credit conversion factors for:

- (a) On-balance sheet claims;
- (b) Guarantees and other contingent claims; and
- (c) Potential claims in the case of undrawn facilities.

The amount at risk from derivative contracts is taken to be the credit equivalent amount calculated based on the guidelines for the prudential returns (see Module CA). In the case of equity exposures, the current fair value as shown in the books of the bank must be taken as the measure of exposure.



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CHAPTER	CM-5:	The Monitoring and Control of Large Exposures of Banks Licensed by the CBB

CM-5.3 The Measure of Exposure (continued)

CM-5.3.4

In case of syndicated facilities, the nominal amount would include only the bank's share of the syndication and any amounts for which binding commitments from other financial institutions are not available. Where a binding commitment is available, that amount would be excluded in calculation of the large exposures. See Section CM-5.6 for exemptions.

CM-5.3.5

A bank's exposure arising from securities' trading operations is calculated as its net long position in a particular security (a short position in one security issue may not be offset against a long position in another issue made by the same issuer). A bank's 'net long position' in a security refers to its commitment to buy that security together with its current holdings of the same security, less its commitment to sell such securities.

CM-5.3.6

"Underwriting" is defined as "A binding commitment by the reporting bank to purchase securities issued by, or provide syndicated loans/credit facilities to (as the case may be) an unconnected party ("the issuer" or "the borrower") at a mutually agreed price. Underwriting does not take place if a bank commits to purchase its own securities or securities issued by a party connected to it as there is no transfer of risk; therefore banks may not utilise the limits concerned with these definitions in connection with any commitments to any connected counterparties." Temporary exposure limits for "underwriting" and other investment business related exposures are covered in more detail in paragraphs CM-5.6.2A-F.



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CHAPTER	CM-5:	The Monitoring and Control of Large Exposures of Banks Licensed by the CBB

CM-5.4 Identity of Counterparty

CM-5.4.1

For the purposes of measuring exposures, the counterparty will generally be: the person from whom the concerned funds are receivable (in the case of fees and commissions etc.); the borrower (customer) in the case of credit facilities; the person guaranteed; the issuer of a security in the case of a security held; or the party with whom a contract was made in the case of a derivative contract.

CM-5.4.2

Where a third party has provided an eligible guarantee, and subject to the guaranteed bank's policy statement not stating otherwise, the guaranteed bank may be permitted to report the exposure as being to the third party guarantor, rather than the person guaranteed (see Chapter CA-4 for full conditions relating to the recognition of guarantees for regulatory purposes).



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CM-5.5 Limits for Large Exposures

Definitions and Aggregate Limit on Large Exposures

CM-5.5.1

A ‘large exposure’ is any exposure to counterparty or a group of closely related counterparties which is greater than, or equal to, 10% of the reporting bank’s consolidated Total Capital.

CM-5.5.1A

‘Capital instrument’ includes all components of equity capital including ordinary equity, both voting and non-voting, and preference shares. It also includes convertible or hybrid financial instruments which are debt – like in character and which may be converted into equity (such as convertible murabaha). Also for financial institutions and insurance companies, any other financial instruments (such as subordinated debt) which are eligible as regulatory capital should also be included as capital instruments. Sukuk or senior debt instruments would not normally be regarded as “capital instruments” unless they have convertibility features. Equity-like contracts such as joint venture musharaka contracts (investments but not financing) are also included in this definition. The musharaka stake is classified as a capital instrument at onset.

CM-5.5.1B

‘Acquisition’ means the acquiring by a bank of beneficial or legal ownership of capital instruments issued by another entity. This would not include securities underwriting until the expiry of the underwriting period (where separate arrangements apply elsewhere in this Module). Acquisition may also be in the form of exercising of rights to take control of capital instruments pledged as collateral. The pledging of capital instruments by a customer to a bank as collateral (e.g. for the purpose of obtaining credit) does not in itself mean that an “acquisition” has taken place. Acquisition also does not include the establishment of new subsidiaries by the bank. Regulatory requirements for the establishment of SPVs and subsidiaries are contained in Section BR-5.2.



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CM-5.5 Limits for Large Exposures (continued)

CM-5.5.1C

'Investment' is any holding by a bank of capital instruments issued by a third party that is not a subsidiary of the bank. Therefore holdings of subordinated debt eligible as regulatory capital issued by another financial institution would be regarded as an "investment". In this case 'holding' means legal or beneficial ownership of capital instruments.

CM-5.5.1D

A bank is defined as "closely linked" with:

- (a) Any person/entity which qualifies as a controller of the concerned bank as defined in Chapter GR-5;
- (b) Any entity which is a subsidiary of the bank; and
- (c) Any entity which is an associate of the bank.

CM-5.5.1E

A "significant investment" in a commercial entity is defined as any investment in the capital instruments of a commercial entity by a Bahraini conventional bank licensee which is equivalent to or more than 10% of the issued common share capital of the issuing commercial entity.

CM-5.5.1F

[This Paragraph was deleted in January 2015].

CM-5.5.2

Total Capital has the same meaning as when used in Section CA-1.1.

CM-5.5.3

The aggregate of large exposures may not exceed 800% of the bank's consolidated Total Capital (there are separate sub-limits for "significant investments" in Section CM-5.10), whether funded or not funded, i.e. contingent commitments.



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CM-5.5 Limits for Large Exposures (continued)

Single Exposure Limit to Unconnected Counterparties – 15%

CM-5.5.4

A bank may not incur an exposure to an individual counterparty or group of closely related counterparties (not connected to the reporting bank) which exceeds 15% of the reporting bank's consolidated Total Capital without the prior written approval of the CBB. Where such limit has been exceeded whether with or without the prior approval of the CBB, the excess amount must be risk-weighted at 800%.

Closely Related Counterparties – Definitions

CM-5.5.4

'Closely related counterparties' are two or more counterparties who constitute a single risk because one of them has, directly or indirectly, a controlling interest in the other(s) (i.e. 20% or more voting rights), or counterparties connected in such a way that the financial soundness of any one of them may affect the financial soundness of the other(s), or the same factors may affect the financial soundness of both or all of them.

CM-5.5.6

'Controlling interest' means either significant ownership (i.e. 20% or more of the voting rights) or any other interests (including, but not limited to, the ability to exercise or control the exercising of voting power in the other party) which enable the holder, or which would enable a proposed transferee thereof, to exercise significant influence over the management and business of the other party.



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CM-5.5 Limits for Large Exposures (continued)

Limit on Exposures to Connected Counterparties – 25% Aggregate

CM-5.5.7

Exposures to connected counterparties may be justified only when undertaken for the clear commercial advantage of the bank, when negotiated and agreed on an arm's length basis, and when included in the large exposures policy statement agreed with the CBB.

CM-5.5.7A

A bank may not exceed the individual or aggregate connected counterparty limits shown in Paragraph CM-5.5.11 without the prior written approval of the CBB.

CM-5.5.8

A bank may not undertake exposures to its own external auditors. In this context, 'external auditors' refers to the firm/partnership, the partners, the directors and managers of the audit firm.

CM-5.5.9

For the purpose of this Module, 'Connected counterparties' includes companies or persons connected with the bank, including, in particular; controllers of the bank,(and their appointed board representatives) as defined in Chapter GR-5, subsidiaries, associates and related parties of the bank as defined by IFRS; holders of controlled functions in the bank as defined by Module LR-1A and their close family members(as defined by IFRS – IAS 24); members of the Shari'a Supervisory Board.

CM-5.5.9A

Equity participations in and credit exposures to consolidated banking and financial subsidiaries (see CM-5.3.1(c)) need not be included in exposures to connected counterparties for the sake of the table in CM-5.5.11. Equity participations in and credit or financing exposures to unconsolidated subsidiaries are included in the definition of exposure in order to understand the degree of support the parent is supplying to its unconsolidated subsidiaries on a day-to-day basis.

CM-5.5.10

Lending to senior management is covered under Chapter CM-6. All credit facilities to senior management are included under the limits given in the table under Paragraph CM-5.5.11.



MODULE	CM: Credit Risk Management
CHAPTER	CM-5: The Monitoring and Control of Large Exposures of Banks Licensed by the CBB

CM-5.5 Limits for Large Exposures (continued)

CM-5.5.11

Exposure limits for connected counterparties have been set as listed below. Exposures (both on and off-balance sheet) to all connected counterparties listed below, when taken together, may not exceed 25% of consolidated Total Capital. Where any of these limits have been exceeded whether with or without the prior approval of the CBB (see Paragraph CM-5.5.7A), the excess amount must be risk-weighted at 800%.

Connected Counterparties	Individual Limit	Aggregate Limit
Controllers and their <u>subsidiaries</u>	0%	0%
<u>Approved persons</u> (and their close family members) and Shari'a Board Members	10%	25%
Associates, other related parties not mentioned above, and unconsolidated <u>subsidiaries</u>	15%	
Total (including senior management and others)		25%

0% Limit on Exposure to Controllers

CM-5.5.12

Banks must not undertake exposures to their controllers as defined in Chapter GR-5 or to subsidiaries of such controllers (i.e. there is a 0% limit for such exposures), however smaller shareholders will be subject to the normal exposure limits outlined in CM-5.5.4. Directors who are also controllers (or the appointed board representatives of such controllers) are subject to the 0% limit.



MODULE	CM:	Credit Risk Management
CHAPTER	CM-5:	The Monitoring and Control of Large Exposures of Banks Licensed by the CBB

CM-5.5 Limits for Large Exposures (continued)

Deductions from Total Capital

CM-5.5.13

The CBB will closely examine all exposures to “connected counterparties” and will deduct them from the bank's consolidated Total Capital if they are, in the CBB's opinion, of the nature of a capital investment, or provision of long-term working capital, or are made on particularly concessionary terms.

CM-5.5.14

Reciprocal cross-holdings of capital between a bank and its controllers (see GR-5) which artificially inflate the capital of licensee concerned are not permitted. Any cross-holdings that occur due to acquisitions or takeovers must be deducted from the concerned bank's Total Capital (see also CA-2).

CM-5.5.15

Any other form of connected lending outside the scope of the above will be dealt with by the CBB on a case-by-case basis.



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CHAPTER	CM-5:	The Monitoring and Control of Large Exposures of Banks Licensed by the CBB

CM-5.6 Exempt or Temporary Exposures

Exempt Exposures to Parties not Connected to the Bank

CM-5.6.1

Certain types of exposure are exempt from the 15% exposure limit set out in CM-5.5.4, but prior notification of commitment to such exposures must be made to the CBB and then retrospectively on a quarterly basis using the Form PIR provided in Appendix BR-5.

CM-5.6.2

These exemptions fall into the following categories and are subject, in each case, to the policy statement as agreed with the CBB:

- (a) Short term (i.e. up to three months original maturity) interbank exposures to parties not connected to the reporting bank;
- (b) Exposures to GCC governments, and their public sector entities that do not operate on a commercial basis, as set out in the guidelines to the PIR (see Module CA) where such bodies are not connected to the reporting bank;
- (c) Exposures to OECD central governments or exposures secured by OECD central government securities / guarantees;
- (d) Exposures secured by cash or GCC government securities/guarantees;
- (e) Specific connected short-term exposures agreed with and approved in advance by the CBB, in particular those arising from a group Treasury function (see Paragraph CM-5.6.5);
- (f) Pre-notified exposures which are covered by a guarantee from the bank's parent (see Paragraphs CM-5.6.7 to CM-5.6.10); and
- (g) Sukuk or other securities issued or guaranteed by the Islamic Development Bank or any of its subsidiaries.



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CHAPTER	CM-5:	The Monitoring and Control of Large Exposures of Banks Licensed by the CBB

CM-5.6 Exempt or Temporary Exposures (continued)

Temporary Exposure Limits to Commercial Entities not Connected to the Bank

CM-5.6.2A In certain circumstances outlined below, banks may apply on a case-by-case basis to the CBB for approval of certain underwriting or investment business related exposures above the 15% single exposure limit (in CM-5.5.4) for periods of up to 3 months where the entity is a commercial entity.

CM-5.6.2B

A bank may not incur an exposure which arises when a bank enters into a legally binding commitment to underwrite a securities issue or to provide a syndicated loan for another commercial entity not connected to the bank, which exceeds 15% of the bank's consolidated Total Capital without the prior written approval of the CBB. The maximum level of such exposures per counterparty that the CBB may approve must not exceed 30% of the concerned bank's consolidated Total Capital during the three-month period.

CM-5.6.2C

Such securities underwriting exposures must be included in the trading book policy statement of a bank wishing to use this higher temporary limit. Any residual holdings of securities or syndicated loan commitments held for more than three months from the commitment date of underwriting must be risk-weighted at 800% where there are any excesses above the materiality thresholds outlined in Paragraph CA-2.4.25. Where the lead bank has obtained legally binding irrevocable (i.e. full) commitments from other institutions to participate in the concerned securities issue or to participate in providing the syndicated loan facilities, the lead underwriter or syndicate manager may show participations to the concerned sub-underwriting/ participating institution rather than to the issuer of the security or the loan obligor. The CBB will not allow any bank to include syndicated credit facilities to, or holdings of securities issued by any of the concerned bank or its connected counterparties (including SPVs connected through ownership, control or establishment) to be included in this temporary 30% limit.



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CM-5.6 Exempt or Temporary Exposures (continued)

CM-5.6.2D

A bank may not incur any temporary large exposures arising from investment business (where the intention by the concerned bank is to securitize such assets or place them with investors), which exceeds 15% of the bank's consolidated total capital without the prior written approval of the CBB. The maximum level of such temporary exposures that the CBB may approve per individual exposure must not exceed 25% of the concerned bank's consolidated total capital for a maximum six-month period. Any such exposures held for more than six months from the originating date of the exposure must be risk-weighted at 800% where there is any excess above the materiality thresholds mentioned in Paragraph CA-2.4.25. In order for a bank to be allowed such exposures, it must have in place a written detailed due diligence policy and procedures for such business which must be approved by the bank's board of directors.

CM-5.6.2E

In order to qualify for these temporary limits, banks must submit a request for each individual exposure to the CBB and the CBB shall respond within two weeks from the date of receiving a complete set of all required documents. The CBB will take into account any existing exposures to the concerned counterparties in its consideration of any application for such temporary large exposures limits.

CM-5.6.2F

In the case of any subsequent proposed increment in the amount of exposure (for example where a limit of 20% has been approved), the CBB's prior approval must be obtained (as outlined above). CBB approval for fair value changes to holdings/ underwritings of securities during the temporary approval period will not be required.

CM-5.6.2G

Temporary large exposures arising from investment business (where the intention by the concerned bank is to securitize such assets or place them with investors) referred to in Paragraph CM-5.6.2D are not subject to the 'connected counterparty' and significant investments in commercial entities limits and treatments during the six-month period. After the expiry of this period, the limits and treatments relating to significant investments in commercial entities and 'connected counterparties' apply.



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CM-5.6 Exempt or Temporary Exposures (continued)

Exempt Exposures to Connected Counterparties

CM-5.6.3

Exposures to subsidiaries which are always fully consolidated on a line-by-line basis for supervisory purposes are exempt from the limits in this Module on a consolidated basis, however banks must observe the CBB's solo capital adequacy requirements in Module CA.

CM-5.6.4

Exposures to unconsolidated subsidiaries (normally non-financial and outside the scope of regulatory consolidation) are not exempt from the limits in this Module and are included under the limits for exposures to associates, related parties and unconsolidated subsidiaries.

CM-5.6.5

Banks may apply to the CBB to take on a treasury role on behalf of the group as a whole (provided that the group is subject to consolidated supervision by its home supervisor). The CBB's policy regarding the taking on of a treasury role includes exposures arising from a central risk management function. Such exposures must be approved by the CBB before they may be exempted.

CM-5.6.6

In the above scenario (Paragraph CM-5.6.5), for example, exposures of more than 15% of the Total Capital to a parent bank from a subsidiary bank may be permitted where they constitute short term lending of excess liquid funds.

Exposures Undertaken by a Subsidiary Bank

CM-5.6.7

Where exposures undertaken by a Bahrain subsidiary of an overseas bank are guaranteed by its parent bank, the Bahrain subsidiary bank may be deemed to have an exposure to its parent bank.



MODULE	CM:	Credit Risk Management
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CM-5.6 Exempt or Temporary Exposures (continued)

CM-5.6.8

Under the terms of this Module (see Paragraph CM-5.6.2 (f)), such indirect exposures to a parent bank may be exempted from the limits on large exposures if the CBB is satisfied that:

- (a) Such exposures have been pre-notified to the CBB for the CBB's approval and are entered into within the terms of a policy agreed by the parent bank;
- (b) There are guarantees in place from the parent bank to protect the subsidiary should the exposure become impaired or require to be written off; and
- (c) In the case of banks, which are the Bahrain subsidiaries of overseas banks, the supervisory authority of the parent bank has approved the exposures that can be undertaken by the Bahrain subsidiary.

CM-5.6.9

In the case of a Bahrain incorporated bank's subsidiary inside Bahrain, in order for an exposure exceeding 15% of Total Capital to be acceptable in the subsidiary, the Bahrain parent bank must at all times have the capacity to take on the exposure to the third party, without itself exceeding the limit of 15% of its own Total Capital. Also, the total exposure of the banking group to the customer must be within 15% of the parent bank's consolidated Total Capital.

CM-5.6.10

The CBB will need to be satisfied that adequate control systems are in place to ensure that risks taken in the group as a whole are properly monitored and controlled.



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CM-5.7 Reporting of Exposures

CM-5.7.1

All conventional bank licensees are required to report their 25 largest exposures to banks as well as their 25 largest exposures to non-banks to the CBB on a quarterly basis using the Form PIR provided in Appendix BR-5.

CM-5.7.1A

All Bahraini conventional bank licensees must report the financial details of each large exposure, as defined under Paragraph CM-5.5.1, in Appendix BR-19, as required under Paragraph BR-3.1.10.

CM-5.7.1B

All Bahraini conventional bank licensees must report all their exposures to connected parties on a monthly basis using the form provided in Appendix BR-11, as required under Paragraph BR-4.3.4.

CM-5.7.2

Banks are required to adopt policies and set internal limits, which will not lead to the exposure limit(s) referred to above being exceeded as a matter of course.

CM-5.7.3

For some banks, the CBB may determine it prudent to set lower exposure limits than the ones given in this Module.

CM-5.7.4

Should any bank incur, or may incur an exposure to an individual counterparty (other than an exempt exposure) which results in or may result in it exceeding any of the limits set out above, this must be reported immediately to the CBB for its consideration. Where the exposure or counterparty is not exempt, action must be taken to immediately bring the exposure back within applicable limits as soon as possible.



MODULE	CM: Credit Risk Management
CHAPTER	CM-5: The Monitoring and Control of Large Exposures of Banks Licensed by the CBB

CM-5.8 Policy Statements

CM-5.8.1

The CBB requires each Bahraini conventional bank licensee to set out its policy and internal limits on large exposures, including limits for differing types of exposures to individual customers, banks, corporates, countries and economic and market sectors, in a policy statement which must be formally approved by the Board of Directors and then submitted to the CBB. The Policy Statement must be part of the Risk management Policy of the bank. Furthermore, banks must not implement significant changes to these policies without prior discussion with the CBB.

CM-5.8.2

The policy statement must identify ‘connected counterparties’ and the bank’s policies towards lending to and investing in these counterparties.

CM-5.8.3

The bank must explain and justify any requests for exemptions for lending to/investments in connected counterparties.

CM-5.8.4

Each bank will be expected to justify to the CBB in the policy document its policy on exposures to individual counterparties, including the maximum size of an exposure contemplated.

CM-5.8.5

Exposures to counterparties connected with the bank will continue to be particularly closely examined.

CM-5.8.6

The necessary control systems to give effect to a bank’s policy on large exposures must be clearly specified and monitored by its Board.

CM-5.8.7

Banks are required to implement appropriate internal systems and controls to monitor the size of their Total Capital on a daily basis to ensure that the limits detailed in this Module are not exceeded.



MODULE	CM:	Credit Risk Management
CHAPTER	CM-5:	The Monitoring and Control of Large Exposures of Banks Licensed by the CBB

CM-5.9 Concentrations in Geographic, Economic and Market Sectors

CM-5.9.1 The extent to which a bank may be prudently exposed to a particular geographic, economic and market sector will vary considerably depending upon the characteristics and strategy of the bank, and the sector concerned.

CM-5.9.2 Concentrations should also be recognised in not just geographic and economic sectors, but also in markets (e.g. individual stock exchanges). The CBB will not apply common maximum percentages to banks' sectoral or market exposures but, instead, will continue to monitor such exposures on an individual and general basis.

CM-5.9.3 Banks must specify in their policy statements how they define geographic, economic and market sectors, and what limits apply to differing sectors.

CM-5.9.4 Exposures and limits for sectors must be reviewed at least quarterly by the Board of Directors.

CM-5.9.5 Banks which have over 10% of their risk-adjusted assets in market risk (i.e. the trading book) must also set market risk concentration limits.



MODULE	CM:	Credit Risk Management
CHAPTER	CM-5:	The Monitoring and Control of Large Exposures of Banks Licensed by the CBB

CM-5.10 Major Acquisitions

Credit Risk and Investment Risk

- CM-5.10.1 Where a bank acquires a holding of the capital instruments of another entity, the concerned bank acquires risk in that entity. The risk exposure to a bank through the acquisition of capital is arguably greater than that acquired by providing a loan or other credit facilities in four ways:
- The rights of a shareholder are subordinated to those of ordinary creditors in the event of liquidation of the concerned entity.
 - Loans and other shorter-term credit facilities have an explicit obligation on the borrower to repay the sum advanced or committed. Share capital has no such commitment (with the exception of some subordinated debt). Investments in the capital of an entity can only be realized by the sale of the concerned capital instruments to a third party, or by winding up the concerned entity.
 - A capital investment in a third party entity (particularly where the investment is significant in size) is a pledge of capital to the concerned entity to fund its longer-term activities. The funds concerned are no longer available to be used by the investor bank to fund its activities.
 - There may be reputational and legal risk to the investing bank, particularly if the bank has a “control relationship” with the concerned entity.
- CM-5.10.2 In view of the above, the supervisory treatment of acquisitions and investments requires special consideration which goes further than the monitoring of large exposures of banks as outlined earlier in Chapter CM-5.
- CM-5.10.2A This section refers to the treatment of investments in entities which are otherwise not connected to the concerned bank (i.e. the bank’s connection to the entity is by way of shareholding or holding of other capital instruments). If a bank is investing in a company where there is a connection by way of mutual directors or mutual parent, or some other relationship that makes the investee a ‘related party’ as defined by IFRS, then the ‘significant investment’ must be treated as an exposure to a connected counterparty and the concerned limits and rules for exposures to connected counterparties apply.



MODULE	CM:	Credit Risk Management
CHAPTER	CM-5:	The Monitoring and Control of Large Exposures of Banks Licensed by the CBB

CM-5.10 Major Acquisitions (continued)

Initial Approval Requirement for “Significant Investments in Commercial Entities” (Significant Investments)

CM-5.10.3

All Bahraini conventional bank licensees must obtain the CBB’s approval prior to taking a “significant investment” (as described in CM-5.5.1E) in another commercial entity (whether incorporated inside or outside of Bahrain) and any future increases in the bank’s ownership of any of the existing significant investments, which is equivalent to or more than 5% of such exposure. Banks must notify the CBB for any increase in the value of such ownership where it is due to reasons such as revaluation or change in the capital of the bank where the 800% risk weight rule will apply immediately on such increments. Any bank wishing to acquire a “significant investment” in another commercial entity must address the points outlined in Paragraph CM-5.10.10 of this Section so that the CBB may make an informed review of the request. Banks must submit such request to the CBB and the CBB shall respond within 2 weeks from the date of receiving a complete set of all the required documents. If the investment or aggregate of such investments exceeds the “significant investment” thresholds as outlined in Paragraph CA-2.4.25, then the excess amount over the threshold must be risk-weighted at 800%.

CM-5.10.4

Any investments by a Bahraini conventional bank licensee in the capital instruments of another commercial entity must be included in the measure of an “exposure” for the purposes of Module CM, i.e. such investments must be aggregated with all other facilities to a client for the purpose of calculating the level of “large exposures”.

CM-5.10.5

The CBB reserves the right to require Bahraini conventional bank licensees to dispose of any significant investments acquired without its prior approval. Where a “significant investment” is acquired without approval of the CBB, then the entire value of the holding must be deducted from the consolidated Total Capital of the concerned bank. Approval will not be given for “significant investments” in entities incorporated in jurisdictions where secrecy constraints exist or there are restrictions on the passage of information to the bank (other than customer confidentiality requirements imposed by financial regulators).



MODULE	CM:	Credit Risk Management
CHAPTER	CM-5:	The Monitoring and Control of Large Exposures of Banks Licensed by the CBB

CM-5.10 Major Acquisitions (continued)

Limits on 'Significant Investments'

CM-5.10.6 No Bahraini conventional bank licensee may have a significant investment in the capital instruments of a commercial entity where the significant investment amount and any other exposure to the subject entity is more than 15% of the concerned bank's consolidated Total Capital.

CM-5.10.7 The total amount of a bank's significant investments in unconnected commercial entities may not exceed 60% of the concerned bank's consolidated Total Capital.

CM-5.10.8 The CBB may allow the limits in Paragraphs CM-5.10.6 and CM-5.10.7 above to be exceeded, provided that the concerned bank has addressed the points outlined in Paragraph CM-5.10.10 to the satisfaction of the CBB. Any excesses above the limits in Paragraphs CM-5.10.6 and CM-5.10.7 must be risk-weighted at 800% according to Paragraph CA-2.4.25.

Other Requirements

CM-5.10.9 If a bank's close links with another entity prevent effective supervision of the bank (or bank group), the CBB may refuse or revoke a license or require a bank to sell or otherwise dispose of entities within its corporate group, or to restructure the banking group.

CBB Criteria for Assessment of Investments and Acquisitions by Bahraini Conventional Bank Licensees

CM-5.10.10 In assessing any proposed investments or acquisitions mentioned above, the CBB will take into account the following points:

- The amount of the proposed investment relative to the existing consolidated Total Capital of the bank;
- Existing capital adequacy ratios on a consolidated basis and forecast ratios after the investment or acquisition has gone ahead;
- The adequacy of information flows from the investee company to the concerned bank;
- Experience and fit and proper matters relating to the senior personnel associated with the proposed investment or acquisition;
- Risks associated with the proposed acquisition or investment;



MODULE	CM:	Credit Risk Management
CHAPTER	CM-5:	The Monitoring and Control of Large Exposures of Banks Licensed by the CBB

CM-5.10 Major Acquisitions (continued)

- (f) Disclosure and exchange of (supervisory) information (in the case of a foreign investment or acquisition);
- (g) Adequacy of host supervision (in the case of a foreign investment or acquisition);
- (h) Current investments and concentrations in exposures of the concerned bank.
- (i) The compliance of the concerned bank with the CBB's rules and regulations (e.g. reporting issues), and the adequacy of internal systems and controls;
- (j) The extent of holdings by any other shareholders (holding 5% or more of the capital of the concerned entity) or controllers of the concerned entity;
- (k) Whether the proposed activities are in line with the Memorandum & Articles of Association of the bank;
- (l) The accounting treatment of the proposed investment;
- (m) Whether the investment or acquisition relates to a closely-linked party, connected party, or controller in any way;
- n) The existence of secrecy laws or constraints over supervisory access to the premises, assets, books and records of the concerned entity in which a "significant investment" is being acquired;
- (o) The impact and extent of goodwill and intangibles upon the capital adequacy and balance sheet of the bank on a consolidated basis; and
- (p) The bank's existing and forecast liquidity position (as a result of the acquisition) and how the acquisition is to be funded (e.g. by the issuance of new capital or sale of other investments).



MODULE	CM:	Credit Risk Management
CHAPTER	CM-6:	Staff Loans

CM-6.1 Reporting and Compliance

CM-6.1.1

The CBB's prior written consent must be obtained for any loan to an employee where the amount of such loan, either singly or when added to an existing loan(s) outstanding to that employee at that date, would be equal to or in excess of BD 100,000, or its equivalent in foreign currency. Banks must notify the CBB in writing of any senior employee who fails to discharge his repayment obligations.

CM-6.1.1A

Where a bank seeks the CBB's prior approval as required under Paragraph CM-6.1.1, in its request, the bank must confirm that the employee loan is in line with the bank's board approved policy. The request must also confirm that the bank has made an internal assessment and evaluation when reaching the decision to grant the employee loan and that all necessary internal approvals have been obtained.

CM-6.1.2

Banks must ensure that the provisions of relevant laws (including, specifically, the Bahrain Labour Law) are observed at all times in this area.



MODULE	CM:	Credit Risk Management
CHAPTER	CM-7:	Write-off – Credit Facility

CM-7.1 Write-offs

CM-7.1.1 All Bahraini conventional bank licensees must notify the CBB of any write-off of a credit facility, (i.e., loan, overdraft and any other credit facility) of an amount in excess of BD 100,000, or its equivalent in foreign currency.

CM-7.1.2 Such notification should be accompanied by documentary evidence showing, beyond reasonable doubt, that the customer does not possess the resources to fulfil the outstanding obligation.

CM-7.1.3 Banks must also obtain the CBB's written no-objection before writing off any of the following:

- (a) Exposures to any approved person of the bank;
- (b) Exposures which are guaranteed by an approved person of the bank;
- (c) Exposures to any other connected counterparties of the bank (as defined under Paragraph CM-5.5.9);
- (d) [This Subparagraph was deleted in October 2015];
- (e) Exposures to any business entity for which the bank or any of its approved persons is a related party such as a board member, a shareholder owning 5% or more, a person assuming a managerial role, a guarantor; and
- (f) Exposures to any controller of another CBB licensee (as defined in Section GR-5.2 – Definition of Controller).

CM-7.1.4 Banks must notify the CBB of any exposures outlined in Paragraph CM-7.1.3 that are classified as non-performing loans.

CM-7.1.5 In order to comply with Subparagraph CM-7.1.3(f), Bahraini conventional bank licensees should refer to the CBB register on the CBB Website which contains a list of controllers of all CBB licensees.



MODULE	CM:	Credit Risk Management
CHAPTER	CM-8:	Consumer Finance

CM-8.1 Overview

CM-8.1.1

This Chapter sets out various requirements regarding the provision of consumer finance within the Kingdom of Bahrain, by the CBB licensees. The aim of these requirements is to encourage:

- (a) Prudent lending by licensees providing consumer finance; and
- (b) The transparent disclosure of the full costs and terms on which licensees offer consumer finance.

Application Date

CM-8.1.2

The content of this Chapter is to be applied to all consumer finance facilities entered into or renewed after 1 January 2005. The application date of the “Code of Best Practice on Consumer Credit and Charging” is 1 September 2007. All conventional banks which offer consumer finance facilities to residents of Bahrain must follow the Code after 1 September 2007. Failure to observe the requirements of this Chapter or the Code may result in Enforcement Action under module EN. The Code is attached as Appendix CM-2 in Part B of the Rulebook.



MODULE	CM:	Credit Risk Management
CHAPTER	CM 8:	Consumer Finance

CM-8.2 The CBB's Approach to Consumer Finance

CM-8.2.1 The CBB favours an open, market-based approach to the operations of licensees, to the extent consistent with its regulatory objectives of ensuring a stable financial system and the fair treatment of licensees' customers.

CM-8.2.2 Bank licensees are reminded of their obligation to implement a sound internal controls framework, including an effective credit culture (see, for instance, Section CM-2.3). Bank licensees are also reminded of their obligations to display and communicate charges and APRs clearly (see, for instance, Section BC-4.3).

CM-8.2.3 The CBB has noted the growth in consumer finance as a proportion of outstanding credit facilities over the past few years. The CBB is concerned that this growth should not be at the cost of declining credit quality. Furthermore, the CBB wishes to see further improvements in licensees' transparency in their dealings with their customers, as regards the costs and terms of their lending. Strong competition in this segment of the market increases the need for licensees to be vigilant and to resist pressures to relax standards.

CM-8.2.4 The measures presented in this Chapter should be viewed as minimum standards, rather than best practice. They are aimed at encouraging prudent lending and full, frank and fair disclosures, rather than dictating comprehensively how licensees should engage in consumer finance. These measures should be read in conjunction with the "Code of Best Practice on Consumer Credit and Charging" which was agreed jointly between the CBB and the Bahrain Association of Banks (see Appendix CM-2).

CM-8.2.5 These measures will be kept under review in the light of market developments and adjusted accordingly. If the CBB assesses that credit quality and effective transparency are being significantly undermined, then additional prescriptive measures will be considered.

On-going Effort by the CBB

CM-8.2.6 These measures form part of a wider response by the CBB. The CBB recognizes that a key contributor to ensuring a sounder credit environment is the credit reference bureau.

CM-8.2.7 The CBB supervisors and examiners will also focus on banks' implementation of the "Code of Best Practice on Consumer Credit and Charging" in their on-going supervision of licensees, to monitor and encourage sound lending practices and disclosure standards.



MODULE	CM:	Credit Risk Management
CHAPTER	CM-8:	Consumer Finance

CM-8.3 Definition of Consumer Finance

CM-8.3.1

Consumer finance is the provision of any form of credit facility to an individual excluding:

- (a) Any loan secured by a first charge on residential property to an individual, where the borrower lives in, or intends to live in the property;
- (b) Any credit facility secured by cash or investments, where the security provided more than covers the principal of the credit facility; and
- (c) The provision of any form of credit to an individual for business purposes where the facility is to be repaid from the business activities of the borrower.

CM-8.3.2

For the purposes of the Rulebook, 'credit facility' includes personal overdraft facilities, credit cards, consumer loans or other financing facilities. 'Consumer loans' are defined as loans for a fixed period to individuals for non-business purposes.



MODULE	CM:	Credit Risk Management
CHAPTER	CM-8:	Consumer Finance

CM-8.4 Maximum Limits

Total Repayments Ratio

CM-8.4.1

Licensees may only provide a new consumer facility (or renew, extend or otherwise modify an existing consumer facility) for an amount such that the borrower's total monthly repayments on all his consumer finance commitments do not exceed 50% of his monthly gross income. This limit may only be exceeded in the circumstances described in Paragraphs CM-8.4.6 and CM-8.4.10.

CM-8.4.2

When reviewing an applicant for a consumer facility, licensees may only take into consideration regular income. A spouse's income may only be taken into consideration when the credit facility would be in joint names, such that the spouse would also be legally liable for the obligation incurred.

CM-8.4.3

Notwithstanding the above limit, licensees must review in detail an applicant's personal financial standing and ability to service their obligations. Where a spouse's income is being taken into consideration, then their individual circumstances must also be similarly assessed. In many cases, these reviews may require consumer finance repayments to be kept significantly below 50% of monthly gross income.

CM-8.4.4

Licensees must enquire as to applicants' sources of income, their past credit history, their regular outgoings and other financial commitments, including potential liabilities such as guarantees. Particular attention must be paid to housing costs (such as payments to Eskan Bank). A person's regular income, net of consumer finance repayments and other financial obligations, must remain sufficient for that person to support himself and any dependents. Licensees must also take into account likely future trends in income and outgoings, and the impact this may have on the 50% ratio.

CM-8.4.5

When factoring in credit cards into the repayment limit in Paragraph CM-8.4.1 above, licensees must include 5% of the total of credit limits available on these facilities. If the amounts outstanding (including profit) under such facilities exceed their limit, then this higher amount must be included in full in the repayments ratio calculation. Charge cards are not included under this definition.



MODULE	CM:	Credit Risk Management
CHAPTER	CM-8:	Consumer Finance

CM-8.4 Maximum Limits (continued)

CM-8.4.6 In the case of high earners – defined for these purposes as persons earning more than BD 3,000 month – the 50% limit may be relaxed, providing that the licensee has undertaken the review required in Paragraph CM-8.4.4 above and is satisfied that the borrower can comfortably support a higher facility service ratio.

CM-8.4.7 The review undertaken to satisfy requirements in Paragraph CM-8.4.4 above must be documented and made available to the CBB’s examiners on request. The documentation must include all relevant information used to support the decision to extend credit facilities. In the case of high earners granted a facility in excess of the 50% limit, the documentation must also include a written statement, signed by an appropriate member of management, explaining the justification for relaxing the limit.

Maximum Tenor Limit

CM-8.4.8 The maximum tenor for instalment consumer finance facilities is seven years. The tenor may not be extended more than twice during the period of the agreement.

CM-8.4.9 The CBB does not believe it prudent for licensees to encourage lending by offering long-term borrowing to fund short-term consumption. The CBB will review the development of market practices in this respect and will consider further measures if required.

Non-compliant facilities

CM-8.4.10 Where a customer’s monthly gross income falls (e.g. due to redundancy or disability or a similar event outside the control of the customer), the bank must identify such accounts as ‘technically non-compliant’. If a customer requests an extension to the tenor of the facility due to reduced income, then the bank may increase the term to assist the customer. The bank must take account of the 50% limit outlined in Paragraph CM-8.4.1. Such facilities must also be identified as ‘technically non-compliant’. Banks must report all ‘technically non-compliant facilities’ to the Director of Banking Supervision Directorate on a quarterly basis.



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CM-8.5 [This Section was deleted in October 2012 and requirements are now included in Section BC-4.3]



MODULE	CM:	Credit Risk Management
CHAPTER	CM 8:	Consumer Finance

CM-8.6 Refunds and Prepayments

Refund/Adjustment of Insurance Premium on Loan Prepayments and Top-Ups

CM-8.6.1

Banks/financing companies must refund/adjust proportionately the insurance premium charged on individual loans when the borrower either requests for a top-up or prepayment of the loan as per the prescribed formula below:

$$\text{Refund/Adjustment Amount} = \frac{\text{Remaining Period to Maturity} \times \text{Premium Paid}}{\text{Original Maturity}}$$

Early Repayment Fees/Charges

CM-8.6.2

The CBB imposes a ceiling on the early repayment charges on consumer and residential mortgage loans as follows:

- (a) For consumer loans 1% of the outstanding loan amount or BD100 whichever is lower;
- (b) For residential mortgage loans, 0.75% of the outstanding loan amount or BD200 whichever is lower; and
- (c) The ceilings on the charges have a retroactive effect i.e. covering existing and new loans.