



PUBLIC DISCLOSURE MODULE



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MODULE	PD:	Public Disclosure
CHAPTER	PD-A:	Introduction

PD-A.1 Purpose

PD-A.1.1 The purpose of this Module is to set out the detailed qualitative and quantitative public disclosure requirements and disclosure to shareholders that the banks should adhere to in order to enhance corporate governance and financial transparency through better public disclosure. Such disclosures also help to protect customers and facilitate market discipline.

PD-A.1.2 This Module provides support for certain other parts of the Rulebook, namely:
Principles of Business;
High-level Controls;
Audit Firms;
CBB Reporting Requirements;
Capital Adequacy;
Business and Market Conduct; and
Risk Management (i.e. market, credit, liquidity and operational).

PD-A.1.3 This Module also provides support for certain aspects relating to disclosure requirements stipulated in the Central Bank of Bahrain and Financial Institutions Law (Decree No. 64 of 2006) and the Bahrain Commercial Companies Law (as amended).

PD-A.1.4 The Central Bank of Bahrain's (CBB') disclosure requirements (in this Module) vary according to whether the concerned bank is locally incorporated (PD-1 and PD-3) or a branch of a foreign bank (PD-2).

Legal Basis

PD-A.1.5 This Module contains the CBB's Directive (as amended from time to time) relating to public disclosure and disclosure to shareholders and is issued pursuant to the powers available to the CBB under Article 38 of the Central Bank of Bahrain and Financial Institutions Law 2006 ('CBB Law'). It also incorporates the requirements of Article 62 of the CBB law with respect to the publication of financial statements. The Directive in this Module is applicable to all locally incorporated conventional bank licensees (and branches of foreign banks where applicable).

PD-A.1.6 For an explanation of the CBB's rule-making powers and different regulatory instruments, see Section UG-1.1.



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CHAPTER	PD-A:	Introduction

PD-A.2 General Requirements

PD-A.2.1 All locally incorporated conventional banks must have a formal disclosure policy as part of their overall communications strategy approved by the Board of Directors (and supported by documented procedures) that addresses the disclosures that the bank makes and the internal controls over the disclosure process. In addition, all locally incorporated conventional banks must carry out a regular review of the validity of their disclosures (in terms of scope and accuracy) as outlined in Sections BR-5.2 and AU-3.2.

PD-A.2.2 All locally incorporated conventional banks are required to publish their annual audited, and reviewed quarterly financial statements per the rules set out in this Module and the CBB Law, Bahrain Commercial Companies Law (as amended), the Rulebook of the licensed exchange and Volume 6 (Capital Markets), where applicable. Such financial statements must always be prepared in accordance with International Financial Reporting Standards (IFRS). Listed banks must refer to Paragraph PD-A.2.6.

PD-A.2.3 The CBB requires that each bank maintain an up-to-date checklist of all applicable IFRS and also the disclosure requirements set out in this Module for full compliance purposes. Such checklists should be part of the bank's public disclosure procedures.

PD-A.2.4 The disclosure requirements specified in Chapters 1, 3 and 6 of this Module, which are in addition to those required by applicable accounting standards, must be reviewed by the bank's external auditor based upon agreed upon procedures (unless IFRS require that the concerned disclosures are audited). See also BR-1.1, BR-2.2 and AU-3.2 for more details.

PD-A.2.4A The disclosure requirements in this Module may be presented as an accompanying document or appendices to the Annual Report or in the Notes to the Financial Statements at the discretion of the concerned bank.

PD-A.2.5 The external auditor must also review other statements in the Annual Report such as the Chairman's report to ensure that such statements are consistent with the audited financial statements and the disclosures required by this Module. All qualitative or descriptive disclosures in the Annual Report must be based upon and reflective of facts and actual practice by the bank (and be subject to the above review by the bank's external auditor).



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CHAPTER	PD-A:	Introduction

PD-A.2 General Requirements (continued)

PD-A.2.6

If situations arise where disclosures required in this Module are in conflict with those required under IFRS and/or any listing requirements issued by the CBB or a licensed exchange, listed banks should first follow the CBB's requirements as contained in Volume 6 (Capital Markets). In such situations, banks should explain any material differences between the accounting or other disclosures and the disclosure required in this Module. This explanation does not have to take the form of a line by line reconciliation, but should provide stakeholders with sufficient detail to make an objective assessment of the bank's financial and operational health. Moreover, a formal notification to the CBB is required in such a situation.

PD-A.2.7

A bank should decide which disclosures are relevant for it based on the materiality concept and subject to the concurrence of the bank's external auditor. For the bank's guidance, information would be regarded as material if its omission or misstatement could change or influence the assessment or decision of a user relying on that information for the purpose of making economic decisions.

PD-A.2.8

Non-compliance with these disclosure requirements is likely to lead to an additional capital requirement such as not allowing the subject bank to apply a lower weighting for a particular portfolio or increasing a particular risk weight for a specific portfolio(s), and/or a fine imposed by the CBB.

PD-A.2.9

The disclosures referred to in this Module must be made at the top consolidated level of a banking group (i.e. at the level of the parent bank in Bahrain). Disclosures related to individual banks within a banking group will be required where listing requirements or differing accounting requirements necessitate such separate disclosure.



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CHAPTER	PD-A:	Introduction

PD-A.3 Proprietary and Confidential Information

PD-A.3.1 Proprietary information encompasses information (for example on products or systems), that if shared with competitors would render a licensed bank's investment in these products/systems less valuable, and hence would undermine its competitive position. Information about customers is often confidential, in that it is provided under the terms of a legal agreement or counterparty relationship. This has an impact on what banks should reveal in terms of information about their customer base, as well as details on their internal arrangements, for instance methodologies used, parameter estimates, data etc.

PD-A.3.2

If a bank considers that disclosure of certain information required in Section PD-1.3 may prejudice seriously its position by making public information that is either proprietary or confidential in nature, it may not disclose those specific items, subject to the prior approval of the CBB. In such situations, the CBB may require the disclosure of more general information about the subject matter of the requirement, together with the fact that, and the reason why, the specific items of information have not been disclosed. This limited exemption is not intended to conflict with the disclosure requirements under IFRS.



MODULE	PD: Public Disclosure
CHAPTER	PD-A: Introduction

PD-A.4 Module History

PD-A.4.1 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.

PD-A.4.2 The most recent changes made to this Module are detailed in the table below:

Module Ref.	Change Date	Description of Changes
PD-5	Jan 2005	New Internet Disclosure rules.
PD-4.1	Jul 2005	Small definition change to consumer loans.
PD-2.1, PD-3.1	Jan 2006	Revised notification requirements for disclosures.
PD-3.1	April 2006	Specific requirements to disclose changes in shareholders' equity.
PD-1 & PD-3	Jan 2008	New Disclosures required by Basel II
PD-A.2.1, 2.6, 2.9, PD-1.2.3, PD-1.3.4(b)	Apr 2008	Small guidance changes to assist in disclosures
PD	10/2010	Various minor amendments to ensure consistency in CBB Rulebook.
PD-1.3.8	10/2010	Additional items for disclosure added to be in line with Corporate Governance Code.
PD-6	10/2010	New Chapter added to deal with corporate governance disclosure to shareholders.
PD-A.1.5	01/2011	Clarified legal basis.
PD-A.2.2, PD-A.2.6, PD-1.3.36 and PD-1.4.1	01/2011	Changes made to reflect new reference to licensed exchange.
PD-A.4.3	04/2011	Corrected cross reference.
PD-1.1.1	04/2011	Corrected reference to the Rulebook of the licensed exchange.
PD-1.2, PD-2.1.4, PD-2.1.5, PD-3.1.4, PD-3.1.5 and PD-5.1.1	04/2011	Clarified requirements for due date.
PD-A.2.2, PD-A.2.6 and PD-1.3.36 (c).	10/2011	Reference added to Volume 6 (Capital Markets).
PD-A.2.4	10/2011	Clarification of existing requirement for the Agreed Upon Procedures Report and setting a deadline for the submission of the report.
PD-1.5	10/2011	Added a new Section on Press Release of Annual Results.
PD-3.1.3	10/2011	Amended Subparagraph to be consistent with other Volumes of the Rulebook.
PD-1.3	01/2012	Changes in respect of July 2009 and February 2011 amendments to Basel II.
PD-1.3.8	01/2012	Amended corporate governance disclosure in annual report.
PD-3.1.4	01/2012	Added requirement to include statement of comprehensive income.
PD-6.1.1	01/2012	Amended disclosure requirements to shareholders.
PD-1.1.1	04/2012	Expanded the scope of this Chapter to also apply to retail branches of foreign banks.
PD-1.2.3	04/2012	Clarified financial statements that must be disclosed by locally incorporated banks.
PD-1.2A	04/2012	Added requirements for annual audited financial statements of retail branches of foreign banks.
PD-1.3.8 (x)	04/2012	Clarified nature of disclosure in relation to Module HC.
PD-2.1.2	04/2012	Clarified what interim semi-annual statements are to be disclosed by retail branches of foreign banks.
PD-3.1.4	04/2012	Clarified quarterly disclosure requirements.
PD-3.1.6	04/2012	Clarified deadline for disclosing additional semi-annual disclosures.
PD-5.1.1	04/2012	Paragraph deleted as it repeats contents of Paragraph PD-3.1.4.



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CHAPTER	PD-A:	Introduction

PD-A.4 Module History (continued)

PD-A.4.2 (cont'd)

Module Ref.	Change Date	Description of Changes
PD-A.1.5	07/2012	Added reference to Article 62 of the CBB Law.
PD-A.2.6	07/2012	Clarified priority of Rule to follow where there is a conflict.
PD-1.3.8	07/2012	Clarified content of disclosure on corporate governance.
PD-4.4	07/2012	New Section added on press release concerning financial statements
PD-1.3.8	10/2012	Amended the requirement for banks to maintain a website under (bb).
PD-4.1	10/2012	This Section was deleted and requirements are now included in Section BC-4.3.
PD-4.2	10/2012	Clarified title of this Section.
PD-1.3.21	07/2013	Corrected typo.
PD-1.3.36	07/2013	Added reference to Volume 6 (Capital Markets).

Effective Date

PD-A.4.3

The contents in this Module are effective from July 2004 or from the effective date of the summary of changes as shown in the table in paragraph PD-A 4.2. Changes to Chapter PD-6 are effective 1st January 2011.



MODULE	PD:	Public Disclosure
CHAPTER	PD-B:	General Guidance and Best Practice

PD-B.1 Guidance Provided by International Bodies

Basel Committee on Banking Supervision: Various papers

- PD-B.1.1 This Chapter provides general guidance on public disclosure requirements.
- PD-B.1.2 The papers below set best practice standards and are to be taken as guidance by licensees to improve public disclosure practices:
- ‘Enhancing Bank Transparency’ – September 1998 (see www.bis.org/publ/bcbs41.pdf)
 - ‘Sound Practices for Loan Accounting and Disclosure’ – July 1999 (see www.bis.org/publ/bcbs55.pdf)
 - ‘Best Practices for Credit Risk Disclosure’ – September 2000 (see www.bis.org/publ/bcbs74.pdf)
 - Basel II The Third Pillar – Market Discipline – June 2006.
- PD-B.1.3 In addition, the Basel Committee, in conjunction with the International Organisation of Securities Commissions (IOSCO) has issued the following papers that relate to the subject matter of this Module:
- ‘Recommendations for Public Disclosure of Trading and Derivatives Activities of Banks and Securities Firms’ – October 1999 (see www.bis.org/publ/bcbs48.pdf)
 - ‘Intra-group Transactions and Exposure Principles’ – December 1999 (see www.bis.org/publ/bcbs62.pdf)
 - ‘Risk Concentrations Principles’ – December 1999 (see www.bis.org/publ/bcbs43.pdf)



MODULE	PD:	Public Disclosure
CHAPTER	PD-1:	Annual Disclosure Requirements

PD-1.1 Introduction

PD-1.1.1 The purpose of this Chapter is to set out the CBB's requirements relating to the disclosure of information in the annual audited financial statements and the Annual Report of all locally incorporated conventional banks as well as for retail branches of foreign banks. This Chapter also refers to the Bahrain Commercial Companies Law (as amended) and the Rulebook of the licensed exchange relating to public disclosure and reporting requirements.

PD-1.1.2

For the purpose of this Module, the following definitions apply:

- (a) 'Director' includes any person who occupies the position of a Director and any person who appears to the CBB to be a Director (howsoever called) of the applicant/licensed locally incorporated bank and its subsidiaries;
- (b) 'Chief Executive/General Manager' means a person who is responsible under the immediate authority of the Directors for the conduct of the applicant/licensed locally incorporated bank, including its subsidiaries and overseas branches, or Bahrain branches of foreign banks;
- (c) 'Manager' means a person who, under the immediate authority of a Director or the chief executive/general manager, exercises major managerial functions or is responsible for maintaining accounts or other records of the applicant/licensed bank;
- (d) 'Interest in the shares' shall include, but not be limited to, direct and/or indirect ownership of such shares, the right of voting associated with such shares, the right to receive dividends payable on such shares, and/or any right, regardless of the form thereof, to purchase (or otherwise acquire an interest in) such shares at any time;
- (e) 'Audited financial statements' refers to the financial statements required under International Financial Reporting Standards; and
- (f) 'Annual Report' refers to the document which contains the full audited financial statements and accompanying notes as well as any accompanying commentary by the senior officials of the bank.



MODULE	PD:	Public Disclosure
CHAPTER	PD-1:	Annual Disclosure Requirements

PD-1.2 Requirements for Annual Audited Financial Statements and Annual Report for Locally Incorporated Banks

Submission of Annual Audited Financial Statements

PD-1.2.1

All locally incorporated conventional banks must submit their annual audited financial statements to the CBB within 3 months of the end of the bank's financial year (as required by Article 62 of the CBB Law). Banks' annual audited financial statements must be audited by their external auditor.

PD-1.2.2

Banks are also required to place the annual audited financial statements on their website (see also PD-1.3.8(h)) within one week of submission to the CBB.

Publication of Annual Audited Financial Statements

PD-1.2.3

Banks must publish extracts from their audited annual financial statements in one Arabic and one English daily newspaper within 2 months of the end of the financial year. The newspaper disclosures may be edited, but must include at a minimum the statement of financial position (balance sheet), the statements of income, cash flow and changes in equity and where applicable, the statement of comprehensive income. The newspaper disclosures must also be placed on the bank's website within one week of publication.

PD-1.2.4

The newspaper disclosures should include a reference to the fact that the published figures "have been extracted from financial statements audited by XYZ auditors, who expressed an unqualified opinion on (dated report)". Banks must disclose in full any audit qualifications or matter of emphasis paragraphs contained within the auditor's opinion. The auditor's opinion must be made in accordance with the International Standards on Auditing as established by the International Federation of Accountants.

PD-1.2.5

Banks must submit a copy of the newspaper extracts from their annual audited financial statements to the CBB within two business days of publication in the concerned newspapers. The copy must be accompanied by a letter clearly showing on which date and in which publications the statements were published.



MODULE	PD:	Public Disclosure
CHAPTER	PD-1:	Annual Disclosure Requirements

PD-1.2 Requirements for Annual Audited Financial Statements and Annual Report for Locally Incorporated Banks (continued)

Submission of Annual Report

PD-1.2.6

All locally incorporated conventional banks must submit their full printed annual report to the CBB, including the full disclosures prescribed in this Chapter within 4 months of the end of the bank's financial year.

PD-1.2.7

Banks are also required to place the annual report on their website (see also PD-1.3.8(h)) within one week of submission to the CBB.



MODULE	PD:	Public Disclosure
CHAPTER	PD-1:	Annual Disclosure Requirements

PD-1.2A Requirements for Annual Audited Financial Statements Retail Branches of Foreign Banks

Submission of Annual Audited Financial Statements

PD-1.2A.1

All retail branches of foreign conventional banks must submit their annual audited financial statements to the CBB within 3 months of the end of the bank's financial year (as required by Article 62 of the CBB Law).

Publication of Annual Audited Financial Statements

PD-1.2A.2

Banks must publish extracts from their audited annual financial statements in one Arabic and one English daily newspaper within 2 months of the end of the financial year. The newspaper disclosures may be edited, but must include at a minimum the statement of financial position (balance sheet), the statements of income, cash flow, and where applicable, of comprehensive income.



MODULE	PD:	Public Disclosure
CHAPTER	PD-1:	Annual Disclosure Requirements

PD-1.3 Disclosures in the Annual Report for Locally Incorporated Banks

Introduction

PD-1.3.1

Banks (referred to under Paragraph PD-1.2.1 – hereafter referred to as “banks”) should provide timely information which facilitates market participants’ assessment of them. The disclosure requirements set out in this Section must be included in the Annual Report either as an Appendix or in the Notes to the Audited Financial Statements at the discretion of the concerned bank. The disclosures should be addressed in clear terms and with appropriate details to help achieve a satisfactory level of bank transparency.

PD-1.3.2

The disclosure requirements listed in Paragraphs PD-1.3.4 to PD-1.3.35 below follow the requirements of Basel 2 Pillar 3 and are in addition to, or in some cases serve to clarify, the disclosure requirements of IFRS.

PD-1.3.3

If a bank is not able to achieve full compliance with the requirements stated in this Chapter, a meeting should be held with the relevant Banking Supervision Director at the CBB in the presence of the concerned external auditor to discuss the reasons for such non-compliance prior to the finalisation of the annual report. It is the responsibility of the bank to call for such meetings.

Scope of Application – Qualitative Disclosures

PD-1.3.4

The following information must be disclosed in relation to the parent bank (in Bahrain) and its banking and financial institution subsidiaries:

- (a) The full legal name of the top corporate entity in the group to which the disclosure requirements apply;
- (b) An outline of the differences in the basis of consolidation for accounting and regulatory purposes, with a brief description of the entities within the group which for regulatory purposes are:
 - Fully consolidated;
 - Pro-rata consolidated;
 - Given a deduction treatment;
 - Allowed to recognise surplus capital at the parent level;
 - Neither consolidated nor deducted (e.g. the investment is risk-weighted); and
- (c) Any restrictions on the transfer of funds or regulatory capital within the group (e.g. large exposure or exchange control regulations or covenants over the repayment of capital or the payment of dividends).



MODULE	PD:	Public Disclosure
CHAPTER	PD-1:	Annual Disclosure Requirements

PD-1.3 Disclosures in the Annual Report for Locally Incorporated Banks (continued)

Scope of Application – Quantitative Disclosures

PD-1.3.5

The following information must be disclosed in relation to the parent bank (in Bahrain) and its banking and financial institution subsidiaries:

- (a) The aggregate amount of capital deficiencies in all such subsidiaries that are not included in the consolidation (i.e. that are deducted) and the names and country of incorporation of such subsidiaries;
- (b) The aggregate amounts (current book value) of the bank's total interests in insurance entities, which are risk-weighted rather than deducted from capital or subjected to an alternate group-wide methodology, as well as their name, their country of incorporation or residence, and the proportion of voting power in these entities. In addition, banks must disclose the quantitative impact on regulatory capital of using this method versus the deduction or alternate group-wide method; and
- (c) The aggregate capital deductions, and risk-weighted asset amounts of holdings of equities listed in Subparagraph PD-1.3.5(b) above which are not consolidated into the accounts of the parent bank (in Bahrain).

PD-1.3.6

In Subparagraph PD-1.3.5(a), a capital deficiency is the amount by which the regulatory capital base is less than the regulatory capital requirement. Any deficiencies which have been deducted on a group level in addition to the investment in such subsidiaries are not to be included in the aggregate regulatory capital deficiency.

Financial Performance and Position

PD-1.3.7

The following information should be included:

- (a) Discussion of the main factors that influenced the bank's financial performance for the year, explaining any differences in performance between the current year and previous years and the reasons for such differences, and discussing factors that will have a significant influence on the bank's future financial performance;
- (b) Basic quantitative indicators of financial performance (e.g. ROAE, ROAA, NIM, cost-to-income ratios) for the past 5 years;
- (c) A discussion of the impact of acquisitions of new businesses and discontinued business and unusual items; and
- (d) A discussion of any changes in the capital structure and their possible impact on earnings and dividends.



MODULE	PD:	Public Disclosure
CHAPTER	PD-1:	Annual Disclosure Requirements

PD-1.3 Disclosures in the Annual Report for Locally Incorporated Banks (continued)

Corporate Governance and Transparency

PD-1.3.8

The following information relating to corporate governance must be disclosed in the annual report:

- (a) Information about the Board structure (e.g. the size of the Board, Board committees, function of committees and membership showing executive, non-executive and independent members), and the basic organisational structure (lines of business structure and legal entity structure);
- (b) Information about the profession, business title, and experience in years of each Board member and the qualifications and experience in years of all senior managers (see Section PD-1.1 for definitions);
- (c) Descriptive information on the managerial structure, including:
 - (i) Committees (see w) below for detailed disclosure requirements relating to various types of committees);
 - (ii) Segregation of duties;
 - (iii) Reporting lines; and
 - (iv) Responsibilities;
- (d) Descriptive information on the performance-linked incentive structure for the Chief Executive, the General Manager, Managers and the board (remuneration policies, executive compensation, stock options, etc.);
- (e) Nature and extent of transactions with related parties (as defined by IFRS – see also PD-1.3.23(d));
- (f) Approval process for related party transactions;
- (g) Information about any changes in the structures (as mentioned in Subparagraphs PD-1.3.8(a) to PD-1.3.8(c) above) from prior periods;
- (h) The communications strategy approved by the Board (including the use of the bank's website) which should undertake to perform at least the following:
 - (i) The disclosure of all relevant information to stakeholders on a timely basis in a timely manner; and
 - (ii) The provision of at least the last three years of financial data on the bank's website;
- (i) Distribution of ownership of shares by nationality;
- (j) Directors' and senior managers' trading of the bank's shares during the year, on an individual basis;
- (k) Distribution of ownership of shares by directors and senior managers, on an individual basis;
- (l) Distribution of ownership of shares by size of shareholder;



MODULE	PD:	Public Disclosure
CHAPTER	PD-1:	Annual Disclosure Requirements

PD-1.3 Disclosures in the Annual Report for Locally Incorporated Banks (continued)

- (m) Ownership of shares by government;
- (n) The Board's functions – rather than a general statement (which could be disclosed simply as the Board's legal obligations under various laws) the 'mandate' of the Board should be set out;
- (o) The types of material transactions that require Board approval;
- (p) Number and names of independent board members;
- (q) Board terms and start date for each term for each director;
- (r) What the board does to induct, educate and orient new directors;
- (s) Election system of directors and any termination arrangements;
- (t) Meeting dates (number of meetings during the year);
- (u) Attendance of directors at each meeting;
- (v) Whether the board has adopted a written code of ethical business conduct, and if so the text of that code and a statement of how the board monitors compliance;
- (w) Minimum number of Board committee meetings per year, the actual number of board meetings, attendance of committees' members and the work of committees and any significant issues arising during the period;
- (x) Reference to Module HC and any amendments subsequently made by the CBB, including explanation and nature of any non-compliance with Module HC in accordance with Paragraph HC-A.1.8;
- (y) Review of internal control processes and procedures;
- (z) Directors responsibility with regard to the preparation of financial statements;
- (aa) Board of Directors – whether or not the board, its committees and individual directors are regularly assessed with respect to their effectiveness and contribution;
- (bb) Locally incorporated banks must maintain a website. Overseas conventional bank licensees must provide a link on their website in Bahrain to the website of their parent bank;
- (cc) Aggregate remuneration paid to board members;
- (dd) Remuneration policy of the bank for board members and senior management; and
- (ee) Aggregate remuneration paid to senior management.

PD-1.3.8A With regards to corporate governance, banks are subject to additional disclosure requirements on corporate governance, whereby such disclosure are for the benefit of shareholders (See Chapter PD-6).



MODULE	PD:	Public Disclosure
CHAPTER	PD-1:	Annual Disclosure Requirements

PD-1.3 Disclosures in the Annual Report for Locally Incorporated Banks (continued)

Capital Structure – Qualitative Disclosures

PD-1.3.9 All banks must disclose summary information on the terms and conditions of the main features of all capital instruments listed below in Paragraphs PD-1.3.10 and PD-1.3.11, including innovative, complex or hybrid capital instruments.

Capital Structure – Quantitative Disclosures

PD-1.3.10 All banks must disclose the amount of Tier One Capital with separate disclosures of:

- (a) Paid-up share capital/common stock;
- (b) Breakdown of reserves and retained earnings;
- (c) Minority interests in the equity of subsidiaries;
- (d) Innovative capital instruments;
- (e) Other capital instruments such as subordinated debt or hybrid capital instruments; and
- (f) Regulatory deductions from Tier One Capital (see CA-2 for guidance).

PD-1.3.11 All banks must disclose the components of, and the total amounts of, Tier Two and Tier Three Capital, prior to and after any adjustments or deductions (e.g. amortisations).

PD-1.3.12 All banks must disclose the aggregate general deductions from Tier One, Tier Two (and Tier Three) capital (i.e. in respect of subsidiaries and material holdings of equities (see Paragraphs PD-1.3.5 and PD-1.3.6 and Module PCD in respect of deduction requirements).

PD-1.3.13 All banks must disclose total eligible capital after all deductions and adjustments, and after observing all ceilings on Tier 2 or 3 capital.

Capital Adequacy

PD-1.3.14 All banks must present a summary discussion of the bank's approach to assessing the adequacy of capital to support current and future activities.



MODULE	PD:	Public Disclosure
CHAPTER	PD-1:	Annual Disclosure Requirements

PD-1.3 Disclosures in the Annual Report for Locally Incorporated Banks (continued)

PD-1.3.15 All banks must disclose the regulatory capital requirements for credit risk by the following categories:

- (a) Standard portfolios subject to the standardised approach, disclosed separately for each standard portfolio (see Paragraph PD-1.3.20);
- (b) Standard portfolios subject to the FIRB approach, disclosed separately for each portfolio (see Paragraph PD-1.3.25); and
- (c) Securitisation exposures.

PD-1.3.16 All banks must separately disclose their capital requirements for any equity exposures under the FIRB approach subject to the market-based approaches as below:

- (a) Equity portfolios subject to the simple risk-weight method;
- (b) Equity portfolios in the banking book under the internal models approach (as applicable); and
- (c) Equity portfolios subject to the PD/LGD approaches.

PD-1.3.17 All banks must disclose their capital requirements for market risk under:

- (a) The standardised approach; or
- (b) The internal models approach (trading book) as applicable.

PD-1.3.18 All banks must disclose their capital requirements for operational risk under:

- (a) The basic indicator approach; or
- (b) The standardised approach (as applicable).

PD-1.3.19 All banks must disclose their total and Tier One Capital Ratios on the following basis:

- (a) For the top consolidated group in Bahrain; and
- (b) For all significant bank subsidiaries (i.e. whose regulatory capital amounts to over 5% of group consolidated regulatory capital whether on a stand-alone or sub-consolidated basis).



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PD-1.3 Disclosures in the Annual Report for Locally Incorporated Banks (continued)

PD-1.3.20

In Paragraphs PD-1.3.15 and PD-1.3.26, the expression “standard portfolio” refers to the major categories of credit portfolios (a to g below) identified in Sections CA-3.2, CA-3.3 and CA-5.2 (standardised approach only):

- (a) Sovereign portfolio (including claims on international organisations and claims on multilateral development banks (MDBs));
- (b) Public Sector Entities (PSEs) Portfolio;
- (c) Banks Portfolio (including claims on securities/investment business firms eligible for treatment as banks – such firms are not eligible for the concessionary risk weighting treatment for certain claims under 3 months maturity);
- (d) Corporate Portfolio;
- (e) Regulatory retail portfolio (including claims on small business eligible for 75% risk weight);
- (f) Residential Retail Portfolio (qualifying for 35% risk weight only); and
- (g) Equity portfolio (contains all equities held in the banking book. Portfolios a – f must not contain any holdings of equities. The equity portfolio contains all holdings of equities which are risk-weighted at 100% or 150% and which are not consolidated in or deducted from the Tier One and Two capital of the bank).

Risk: General Qualitative Disclosure Requirements

PD-1.3.21

All banks must describe their risk management objectives and policies for each separate risk area below and provide information on whether or not strategies used have been effective throughout the reporting period. The strategies, processes and internal controls (including internal audit) must be described for each area below including the structure and organisation of the relevant risk management function, and the scope and nature of risk reporting systems and policies for hedging/mitigating risk and strategies for monitoring the continuing effectiveness of hedges/mitigants. There are also certain specific disclosures for each of these areas in addition to the general qualitative disclosures required by this Paragraph:

- (a) Credit Risk (see also PD-1.3.22 – PD-1.3.27);
- (b) **Securitisation** (see also PD-1.3.28 – PD-1.3.29);
- (c) Market Risk (see also PD-1.3.30 – PD-1.3.31);
- (d) Operational Risk (see also PD-1.3.32 – PD-1.3.33);
- (e) Equity Risk in the Banking Book (see also PD-1.3.34); and
- (f) Banking Book interest rate risk (see also PD-1.3.35).



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PD-1.3 Disclosures in the Annual Report for Locally Incorporated Banks (continued)

Credit Risk – Qualitative Disclosures

PD-1.3.22

All banks must make the general qualitative disclosures outlined in PD-1.3.21 above, as well as those below:

- (a) Definition of past due and impaired credit facilities (for accounting purposes);
- (b) Description of the approaches for specific and collective impairment provisions and statistical methods used (where applicable);
- (c) The names of External Credit Assessment Institutions (ECAIs) used for the purpose of assigning risk weights to assets;
- (d) The types of exposure for which each ECAI is used; and
- (e) The process used to transfer ECAI public issue ratings onto comparable (loan) assets in the banking book.

Credit Risk – Quantitative Disclosures

PD-1.3.23

All banks must disclose the following:

- (a) Total gross credit exposures (gross outstanding before any risk mitigation) plus average gross exposures over the period broken down by major types of credit exposure (as outlined under IFRS) into funded and unfunded exposures. Where the period end position is representative of the risk positions of the bank during the period, average gross exposures need not be disclosed. Banks must state that average gross exposures have not been disclosed for this reason. Where average amounts are disclosed in accordance with an accounting standard or other requirement which specifies the calculation method to be used, that method should be followed. Otherwise, the average exposures should be calculated using the most frequent interval that an entity's systems generate for management, regulatory or other reasons, provided that the resulting averages are representative of the licensed bank's operations. The basis used for calculating averages needs to be stated;
- (b) Geographic distribution of exposures, broken down into significant areas by major types of credit exposure. Geographical areas may be individual countries, or groups of countries. Banks may define the geographical area according to how they manage the concerned areas internally. The criteria used to allocate exposures to particular geographical areas should be specified;



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PD-1.3 Disclosures in the Annual Report for Locally Incorporated Banks (continued)

- (c) Distribution of exposures by industry or counterparty type, broken down by major types of credit exposure, broken down by funded and unfunded exposure;
- (d) Intra-group transactions including exposures to related parties, and whether such transactions have been made on an arm's length basis.
- (e) Lending to highly leveraged and other high risk counterparties (as defined in PD-1.3.24) must be separately disclosed as an individual category;
- (f) Banks must disclose concentrations of risk to individual counterparties where the exposure is in excess of the 15% individual obligor limit. These disclosures do not require the disclosure of the name of the counterparty;
- (g) Residual contractual maturity breakdown (see PD-1.3.24(a)) of the whole credit portfolio, broken down by major types of credit exposure;
- (h) By major industry or counterparty type:
 - Amount of impaired loans/facilities and past due loans/facilities (see PD-1.3.24);
 - Specific and collective impairment provisions (see PD-1.3.24);
 - Charges for specific impairment provisions and charge-offs (write-offs) during the period; and
 - Reconciliation of changes in provisions for loan impairment.
- (i) Amount of past due loans, separately broken down by significant geographic areas, including the amounts of specific and collective impairment provisions related to each geographical area (see PD-1.3.23(b) for definition of geographical area);
- (j) Aggregate quantitative information about all outstanding credit facilities at year end not included in h) above that have been restructured (according to the definition in the PIR instructions) during the period including:
 - The balance of any restructured credit facilities;
 - The magnitude of any restructuring activity;
 - The impact of restructured credit facilities on provisions and present and future earnings; and
 - The basic nature of concessions on all credit relationships that are restructured, including loans, derivatives and other on- and off-balance sheet activities.

If full repayment is expected, the restructured credit need not be disclosed in this section after satisfactory performance for a period of six months in accordance with the modified terms; and



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PD-1.3 Disclosures in the Annual Report for Locally Incorporated Banks (continued)

PD-1.3.23 (cont'd)

- (k) Quantitative information concerning obligations with respect to recourse transactions (i.e. where the asset has been sold, but the bank retains responsibility for repayment if the original counterparty defaults or fails to fulfil their obligations). Information must include the amount of assets sold and any expected losses.

PD-1.3.24

For Paragraph PD-1.3.23, the following notes are provided for interpretative guidance:

- (a) Banks must follow the residual maturity groupings currently followed under IFRS 7 (Guidance application B11), but they must also extend the periods to include 5-10 years, 10-20 years, and 20 years and over (where the banks have exposures or liabilities of such maturity);
- (b) In PD-1.3.23(h), banks must provide an ageing of past due loans on the following basis:
- Ageing schedule (over 3 months, over 1 year and over 3 years) of past due loans and other assets; and
 - Breakdown by relevant counterparty type and geographic area;
- (c) For specific, collective and other impairment provisions, the portion of collective impairment provisions not allocated to specific geographical areas should be shown separately;
- (d) The reconciliation of changes in provisions should show specific and collective impairment provisions separately; and
- (e) “Highly leveraged and other high risk counterparties” follow the categorisation given in the Basel Committee Paper of March 2001, entitled “Review of issues relating to Highly Leveraged Institutions (HLIs)” which described HLIs as having the following characteristics:
- They are subject to little or no regulatory oversight;
 - They are generally subject to very limited disclosure requirements and are not subject to rating by credit reference agencies; or
 - HLIs often take on significant leverage, where leverage is the ratio between risk, expressed in some common denominator, and capital.



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PD-1.3 Disclosures in the Annual Report for Locally Incorporated Banks (continued)

Credit Risk Disclosures for Portfolios Subject to the FIRB Approach

PD-1.3.25

Banks must make the following disclosures for portfolios which are subject to the FIRB approach:

- (a) For banks that have partly, but not fully adopted the FIRB approach, a description of the nature of exposures within each portfolio that are subject to the standardised approach and of management's plans and timing for migrating exposures to full implementation of the FIRB approach;
- (b) FIRB banks must disclose the date of, and conditions relating to, acceptance by the CBB of the FIRB approach;
- (c) FIRB banks must explain and review the following items:
 - Structure of the internal rating system and the relation between any internal and external ratings;
 - The use of internal estimates other than for FIRB purposes;
 - The process for managing and recognising credit risk mitigation; and
 - Control mechanisms for the rating system including discussion of independence, accountability and rating systems review.
- (d) FIRB banks must describe the internal ratings process for each of the six distinct portfolios below. The description should include the types of exposures in each portfolio, the definitions, methods and data for the estimation of PD, and a description of any deviations from the reference definition of default, including the broad segments of the portfolio(s) affected by such deviations:
 - Corporate (including SMEs, specialised lending and purchased corporate receivables), Sovereign and Bank;
 - Equities;
 - Related Parties (e.g. shareholders, Directors, managers);
 - Residential mortgages;
 - Qualifying revolving retail (e.g. credit cards);
 - Other retail;



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- (e) For each portfolio, except retail, (as defined in (d) above) all locally incorporated banks subject to the FIRB approach must present the following information (across all applicable PD grades including default) to allow for a meaningful differentiation of credit risk:
- Total exposures (for corporate, sovereign and bank, this means outstanding loans and EAD on undrawn commitments, whereas for equities this means just the outstanding amount);
 - Exposure-weighted average risk weight; and
 - For exposures which are subject to the supervisory risk weights in FIRB (e.g. HVCRE, any SL products subject to the regulatory slotting criteria), banks must show the aggregate outstanding amount in each risk bucket;
- (f) FIRB Banks must disclose actual incurred losses (e.g. write-offs and specific impairment provisions) in the preceding period for each portfolio (as defined in (d) above) and how this differs from past experience. This should include a discussion of the factors that impacted on the loss experience in the preceding period – for example, has the bank experienced higher than average default rates, or higher than average LGDs and EADs; and
- (g) All locally incorporated FIRB banks must disclose estimates against outcomes over a longer period. At a minimum, this disclosure should include information on estimates of losses against actual losses in each portfolio (as defined in (d) above) over a period sufficient to allow for a meaningful assessment of the performance of the internal ratings processes for each portfolio. Where appropriate banks may wish to decompose this to provide analysis of PD. This requirement to disclose estimates against outcomes becomes mandatory from year-end 2010.

Credit Risk Mitigation: Disclosure Requirements

PD-1.3.26

- (a) For Credit Risk Mitigation, all banks must make the qualitative disclosures required by PD-1.3.21 and PD-1.3.22, and also the following disclosures (with regard to credit risk mitigation):
- Policies and processes for, and an indication of the extent to which, the bank makes use of on- and off-balance sheet netting;
 - Policies and processes for collateral valuation and management;
 - A description of the main types of collateral taken by the bank;
 - The main types of guarantor/credit derivative counterparty and their credit worthiness; and



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PD-1.3 Disclosures in the Annual Report for Locally Incorporated Banks (continued)

PD-1.3.26 (cont'd)

- Information about (market or credit) risk concentrations within the credit risk mitigation taken;
- (b) All locally incorporated banks must disclose for each standard portfolio described in PD-1.3.20 or PD1.3.25(g), the total exposure (after on- or off-balance sheet netting) that is covered by:
 - Eligible financial collateral;
 - Other eligible IRB collateral;after the application of haircuts;
- (c) All locally incorporated banks must disclose the total exposure (after on- or off-balance sheet netting where applicable) that is covered by eligible guarantees or credit derivatives (see CA-4) for each separately disclosed standard portfolio (Standardised approach banks see PD-1.3.20 and FIRB banks see PD-1.3.25 for definitions); and
- (d) For exposures after risk mitigation subject to the standardised approach, banks must disclose the amount of exposure (rated and unrated) in each standard portfolio after risk mitigation, as well as any exposures which are deducted.

Disclosures Related to Counterparty Credit Risk (CCR)

PD-1.3.27

All locally incorporated banks must make the following disclosures regarding counterparty credit risk:

- (a) The general qualitative disclosures (PD-1.3.21 and PD-1.3.22) with respect to derivatives and CCR, including:
 - Discussion of methodology used to assign economic capital and credit limits for counterparty credit exposures;
 - Discussion of policies for securing collateral and establishing credit reserves; and
 - Discussion of the impact of the amount of collateral the bank would have to provide if given a credit rating downgrade.
- (b) Gross positive fair value of contracts, netting benefits, netted current credit exposures, collateral held (including type: e.g. cash, government securities, etc.), and net derivatives credit exposure. Also measures for exposure at default or exposure amount under the Internal Model Method, Standard Method or Current Exposure Method, whichever is applicable, and the notional value of credit derivative hedges, and the distribution of current credit exposure by type of credit exposure (e.g. interest rate contracts, FX contracts, equity contracts, commodity contracts, etc.); and



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PD-1.3 Disclosures in the Annual Report for Locally Incorporated Banks (continued)

PD-1.3.27 (cont'd)

- (c) Credit derivative transactions which create exposures to CCR (notional value), segregated between use for the institution's own credit portfolio, as well as in its intermediation activities, including the distribution of the credit derivative products used, broken down further by protection bought and sold within each product group.

Securitisation – Qualitative Disclosure Requirement

PD-1.3.28

All locally incorporated banks must disclose the following qualitative information with respect to securitisation activities:

- (a) The general qualitative disclosure requirement (PD-1.3.21) with respect to securitisation (including synthetics), including a discussion of:
- The bank's objectives in relation to its securitisation activities, including the extent to which these activities transfer credit risk of the underlying securitised exposures away from the bank to other parties, and including the type of risks assumed and retained with re-securitisation activity. For example, where a bank is particularly active in the market of a senior tranche of re-securitisations of mezzanine tranches related to securitisations of residential mortgages, it should describe the structure of re-securitisations (e.g. senior tranche of mezzanine tranche of residential mortgage); this description should be provided for the main categories of re-securitisation products in which the bank is active;
 - The nature of other risks (e.g. liquidity risk) inherent in securitised assets;
 - The roles played by the bank in the securitisation process (for example, is the bank the originator of the underlying risks, is it an investor, is it a servicer, is it a provider of credit enhancement, is it a sponsor of an asset-backed commercial paper facility, is it a liquidity provider, or is it a swap provider?) and an indication of the bank's involvement in each of them; and
 - A description of the processes in place to monitor changes in the credit and the market risk of securitisation exposures (for example how the behaviour of the underlying assets impacts securitisation exposures) including how these processes differ for re-securitisation exposures;



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PD-1.3 Disclosures in the Annual Report for Locally Incorporated Banks (continued)

PD-1.3.28 (cont'd)

- A description of the bank's policy governing the use of credit risk mitigation to mitigate the risks retained through securitisation and re-securitisation exposures; and
 - The regulatory capital approaches (e.g. Ratings Based Approach, Internal Assessment Approach or Supervisory Formula Approach) that the bank follows in its securitisation activities, including the types of securitisation exposures to which each approach applies;
- (b) A list of:
- The types of SPVs that the bank, as a sponsor, uses to securitise third-party exposures. The bank must indicate whether it has exposure to these SPVs, either on or off-balance sheet;
 - Affiliated entities that the bank manages or advises and that invest in the securitisation exposures that the bank has securitised or in SPVs that the bank sponsors.
- (c) A summary of the bank's accounting policies for securitisation activities, including:
- Whether transactions are treated as sales or financings;
 - Recognition of gain on sale;
 - Methods and key assumptions (including inputs) applied in valuing retained interests, including any changes since the last report and the impact of such changes differentiating between securitisation and re-securitisation exposures; and
 - Changes in methods and key assumptions from the previous period and the impact of the changes;
 - Treatment of synthetic securitisations if not covered by other accounting policies (e.g. derivatives);
 - How exposures intended to be securitised (e.g. in subsidiary, associate or SPV or on balance sheet) are valued and whether they are recorded in the banking book or the trading book; and
 - Policies for recognising liabilities on the balance sheet for arrangements that could require the bank to provide financial support for securitised assets;
- (d) In the banking book, the names of ECAIs used for securitisations and the type of securitisation exposure for which each agency is used.



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PD-1.3 Disclosures in the Annual Report for Locally Incorporated Banks (continued)

PD-1.3.28 (cont'd)

- (e) Description of the IAA process. The description should include:
- Structure of the internal assessment process and relation between internal assessment and external ratings, including information on ECAIs referenced in PD-1.3.28(d) above;
 - Use of internal assessments other than for IAA capital purposes;
 - Control mechanisms for the internal assessment process including discussion of independence, accountability, and internal assessment process review;
 - The exposure type (such as credit cards, home equity, auto and securitisation exposures detailed by underlying type and security type (e.g. RMBS, CMBS, ABS, CDOs) to which the internal assessment process is applied; and
 - Stress factors used for determining credit enhancement levels, by exposure type (see above for description of “exposure type”).
- (f) An explanation of significant changes to any of the quantitative information (e.g. amounts of assets intended to be securitised, movement of assets between banking book and trading book) since the last reporting date.

PD-1.3.28 A

Securitisation exposures include, but are not restricted to securities, liquidity facilities, protection provided to securitisation positions, other commitments and credit enhancements such as I/O strips, cash collateral accounts and other subordinated assets. A bank would generally be considered a *sponsor* if it, in fact or substance, manages or advises a securitisation programme, places securities into the market, or provides liquidity and/ or credit enhancements. The programme may include, for example, ABCP Conduit Programmes and structured investment vehicles. SPVs may include money market mutual funds, and personal and private trusts.



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PD-1.3 Disclosures in the Annual Report for Locally Incorporated Banks (continued)

Securitisation – Quantitative Disclosure Requirement for Banking Book

PD-1.3.29

All locally incorporated banks must disclose the following quantitative information with respect to securitisation activities:

- (a) The total outstanding exposures securitised by the bank and subject to the securitisation framework (broken down into traditional and synthetic), by exposure type. These should be categorised under bands such as credit cards, home equity, etc. Also banks must separately report any securitisation transactions for the year of inception where they do not retain any exposure. Banks should also clearly identify securitisations where they are acting purely as sponsors;
- (b) Securitisations broken down by exposure type showing:
 - The amount of impaired or past due assets securitised; and
 - Losses recognised by the bank during the current period by exposure type;
- (c) The total amount of outstanding exposures intended to be securitised, by exposure type. The aggregate amount of securitisation exposures retained or purchased, broken down by exposure type;
- (d) Summary of current year's securitisation activity, including the amount of exposures securitised (by exposure type) and recognised gain or loss on sale by asset type;
- (e) Aggregate amount of:
 - On- balance sheet securitisation exposures retained or purchased broken down by exposure type; and
 - Off- balance sheet securitisation exposures broken down by exposure type;
- (f) • Aggregate amount of securitisation exposures retained or purchased and the associated capital charges, broken down between securitisation and re-securitisation exposures and further broken down into a meaningful number of risk weight bands for each regulatory capital approach used (e.g. SA, RBA, IAA and SFA);
 - Exposures that have been deducted entirely from Tier 1 capital, credit enhancing I/Os deducted from total capital, and other exposures deducted from total capital should be disclosed separately by exposure type;



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PD-1.3 Disclosures in the Annual Report for Locally Incorporated Banks (continued)

PD-1.3.29 (cont'd)

- (g) For securitisations subject to the early amortisation treatment, the following items should be disclosed by underlying asset type:
- The aggregate drawn exposures attributed to the seller's and investors' interests;
 - The aggregate (IRB or standardised) capital charges incurred by the bank against its retained shares of the drawn balances and undrawn lines; and
 - The aggregate (IRB or standardised) capital charges incurred by the bank against the investors' shares of drawn balances and undrawn lines; and
- (h) Aggregate amount of re-securitisation exposures retained or purchased broken down according to:
- Exposures to which credit risk mitigation is applied and those not applied; and
 - Exposures to guarantors broken down according to guarantor credit worthiness categories or guarantor name.

Securitisation – Quantitative Disclosure for Trading Book

PD-1.3.29A

- (a) The total amount of outstanding exposures securitised by the bank and defined under the securitisation framework (broken down into traditional/synthetic) by exposure type, separately for securitisations of third-party exposures for which the bank acts only as sponsor;
- (b) The total amount of outstanding exposures intended to be securitised broken down by exposure type;
- (c) Summary of current period's securitisation activity, including the total amount of exposures securitised (by exposure type), and recognised gain or loss on sale by exposure type;
- (d) Aggregate amount of exposures securitised by the bank for which the bank has retained some exposures and which is subject to the market risk approach (broken down into traditional/synthetic), by exposure type;
- (e) Aggregate amount of:
- On-balance sheet securitisation exposures retained or purchased broken down by exposure type; and
 - Off-balance sheet securitisation exposures broken down by exposure type;



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PD-1.3 Disclosures in the Annual Report for Locally Incorporated Banks (continued)

PD-1.3.29A (cont'd)

- (f) Aggregate amount of securitisation exposures retained or purchased separately for:
- Securitisation exposures retained or purchased subject to Comprehensive Risk Measure for specific risk; and
 - Securitisation exposures subject to the securitisation framework for specific risk broken down into a meaningful number of risk weight bands for each regulatory capital approach (e.g. SA, RBA, SFA and concentration ratio approach).
- (g) Aggregate amount of:
- The capital requirements for the securitisation exposures subject to Comprehensive Risk Measure, broken down into appropriate risk classifications (e.g. default risk, migration risk and correlation risk).
 - The capital requirements for the securitisation exposures (re-securitisation or securitisation), subject to the securitisation framework broken down into a meaningful number of risk weight bands for each regulatory capital approach (e.g. SA, RBA, SFA and concentration ratio approach).
 - Securitisation exposures that are deducted entirely from Tier 1 capital, credit enhancing I/Os deducted from total capital, and other exposures deducted from total capital should be disclosed separately by exposure type.
- (h) For securitisations subject to the early amortisation treatment, the following items by exposure type for securitised facilities:
- The aggregate drawn exposures attributed to the seller's and investors' interests;
 - The aggregate capital charges incurred by the bank against its retained (i.e. the seller's) shares of the drawn balances and undrawn lines; and
 - The aggregate capital charges incurred by the bank against the investor's shares of drawn balances and undrawn lines.
- (i) Aggregate amount of re-securitisation exposures retained or purchased broken down according to:
- Exposures to which credit risk mitigation is applied and those not applied; and
 - Exposures to guarantors broken down according to guarantor credit worthiness categories or guarantor name.



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PD-1.3 Disclosures in the Annual Report for Locally Incorporated Banks (continued)

Market Risk Disclosures for Banks using the Standardised Approach

PD-1.3.30

Banks using the standardised approach must disclose the following items:

- (a) The general qualitative disclosure requirements for market risk (PD-1.3.21), identifying the portfolios covered by the standardised approach;
- (b) The capital requirements for:
 - Interest rate risk (separate disclosures are required for securitisation exposures in PD-1.3.29 and 1.3.29A);
 - Equity position risk;
 - Foreign exchange risk; and
 - Commodity risk;on an end period basis, as well as showing the maximum and minimum values during the period for each category of market risk shown above; and
- (c) The disclosures under PD-1.3.30 (b) above must be followed by detailed quantitative information about the nature and extent of interest-rate sensitive assets and liabilities and off-balance sheet exposures (e.g. breakdown of fixed and floating rate items and the net interest margin earned, and the duration and effective interest rate of assets and liabilities). These disclosures should be by each portfolio identified in 1.3.30 (a), showing their related gains and losses. Also, the effect on the value of assets, liabilities and capital for a 200bp change in interest rates should be disclosed.

Market Risk Disclosures for Banks Using the Internal Models Approach (IMA) for Trading Portfolios

PD-1.3.31

All banks using internal models for their trading portfolios must disclose the following:

- (a) The general qualitative disclosure requirement (PD-1.3.21) for market risk identifying the portfolios covered by the IMA. In addition, a discussion of the extent of, and methodologies for, compliance with the “Prudent valuation guidance” for positions held in the trading book (see Section CA-8.2);



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PD-1.3 Disclosures in the Annual Report for Locally Incorporated Banks (continued)

PD-1.3.31 (cont'd)

- (b) An explanation and articulation of the internal criteria on which the bank’s internal capital adequacy assessment is based. It should include a description of the methodologies used to achieve a capital adequacy assessment that is consistent with the soundness standards;
- (c)
 - A description of the models used for each portfolio covered by the IMA, including assumptions used in calculating (e.g. confidence level, holding period, etc.);
 - A description of stress testing applied to each IMA portfolio; and
 - A description of the approach used for back-testing/validating the accuracy and consistency of the internal models and modelling processes;
- (d) A disclosure of the scope of model acceptance by the CBB;
- (e) For the incremental risk capital charge and the comprehensive risk capital charge the methodologies used and the risks measured through the use of internal models. Included in the qualitative description should be:
 - The approach used by the bank to determine liquidity horizons;
 - The methodologies used to achieve a capital assessment that is consistent with the required soundness standard; and
 - The approaches used in the validation of the models;
- (f) Summarised quantitative information about price-related market risk to equity and commodity markets where banks use the IMA. These disclosures should include the magnitude of the exposure on a weekly or monthly basis (during the reporting period);
- (g) For trading portfolios under the IMA:
 - The high, mean and low VaR values over the reporting period and period-end;
 - The high, mean and low stressed VaR values over the reporting period and period-end;
 - The high, mean and low incremental and comprehensive risk capital charges over the reporting period and period-end; and
 - A comparison of VaR estimates with actual gains/losses experienced by the bank, with analysis of important “outliers” in back-test results;
- (h) A presentation of the overall daily profits or exposures for aggregate market risk over the reporting period. At an absolute minimum, summarised aggregate quantitative information relating to monthly VaR results should be presented, giving an overview of the extent of market risk-related activities;



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PD-1.3 Disclosures in the Annual Report for Locally Incorporated Banks (continued)

PD-1.3.31 (cont'd)

- (i) Information showing the actual performance of the VaR models for the period, giving the number of times actual losses exceeded VaR estimates; and
- (j) Summarised quantitative information for significant concentrations of foreign exchange exposure by currency, broken down by hedged and unhedged exposures.

Operational Risk Disclosures

PD-1.3.32

All banks must disclose the general qualitative disclosures (PD-1.3.21) and also the approach(es) for operational risk which the bank employs to control such risk, and disclosures of any issues considered to be individually significant.

PD-1.3.33

All banks must disclose quantitative information on any material legal contingencies including pending legal actions, and a discussion and estimate of the potential liabilities, in addition to qualitative statements about how banks manage and control such risks.

Disclosure Requirements for Equity Positions in the Banking Book

PD-1.3.34

All banks must make the following disclosures for any equities held in the Banking Book:

- (a) The general qualitative disclosure requirement (PD-1.3.21) with respect to equity risk, including:
 - Differentiation between holdings on which capital gains are expected and those taken under other objectives including for relationship and strategic reasons; and
 - Discussion of important policies covering the valuation and accounting of equity holdings in the banking book. This includes the accounting policies and valuation methodologies used, including key assumptions and practices affecting valuation as well as significant changes in these practices;
- (b) The types and nature of investments, including the amount that can be classified as quoted on an active market or privately held;
- (c) The cumulative realised gains (or losses) arising from sales or liquidations in the reporting period;
- (d) Total unrealised gains and losses recognised in the balance sheet but not through the P&L;
- (e) Any unrealised gains and losses included in Tier One and Tier Two capital; and



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CHAPTER	PD-1:	Annual Disclosure Requirements

PD-1.3 Disclosures in the Annual Report for Locally Incorporated Banks (continued)

PD-1.3.34 (cont'd)

- (f) Capital requirements broken down by appropriate equity groupings, consistent with the methodology, as well as the aggregate amounts and type of equity investments subject to any supervisory transition or grandfathering provisions regarding regulatory capital requirement.

Disclosures Concerning Interest Rate Risk in the Banking Book (IRRBB)

PD-1.3.35

All banks must make the following disclosures concerning interest rate risk in the banking book:

- (a) The general qualitative disclosure requirement (PD-1.3.21), outlining the nature of IRRBB and key assumptions, including assumptions concerning loan prepayments and the behaviour of deposits without a fixed maturity, and the frequency of IRRBB measurement; and
- (b) The increase (or decline) in earnings or economic value (or relevant measure used by management) for upward and downward rate shocks according to management's method for measuring IRRBB, broken down by currency (where applicable).

Compliance

PD-1.3.36

The Annual Report must include a declaration by the external auditor that it did not come across any violations of the requirements below during the course of its audit work that would have any material negative impact on the financial position of the bank:

- (a) The Bahrain Commercial Companies Law (as amended);
- (b) The CBB Law where a violation might have had a material negative effect on the business of the bank or on its financial position;
- (c) The Regulations and Directives issued by the CBB, including Volume 6 (Capital Markets); and
- (d) The Rulebook of the licensed exchange and associated Resolutions, Rules and Procedures.



MODULE	PD:	Public Disclosure
CHAPTER	PD-1:	Annual Disclosure Requirements

PD-1.3 Disclosures in the Annual Report for Locally Incorporated Banks (continued)

PD-1.3.37

The Annual Report must disclose the amount of any penalties paid to the CBB during the period of the report together with a factual description of the reason(s) given by the CBB for the penalty (see Section EN-1.3). Failure to comply with this requirement will mean that the concerned bank will be required to make the disclosure in the subsequent quarterly financial statement and in the subsequent annual financial statement. A financial penalty for non-disclosure will also be levied upon the concerned bank.



MODULE	PD:	Public Disclosure
CHAPTER	PD-1:	Annual Disclosure Requirements

PD-1.4 Additional Disclosure in the Annual Audited Financial Statements of Banks Listed on a Licensed Exchange

PD-1.4.1

The content of this Section is applicable only to locally incorporated banks listed on a licensed exchange.

PD-1.4.2

The disclosure requirements set out in this Section for banks referred to under Paragraph PD-1.4.1 are in addition to those set out in Section PD-1.3.

Interests of Directors, Chief Executive Officers and Managers

PD-1.4.3

Without prejudice to any other requirement of Bahrain law (or any other direction of the CBB), the Directors' Report Section of the annual audited financial statements of banks should contain details of the interests of Directors, chief executive officers and managers (persons as defined under Section PD-1.1, respectively) in the shares of such banks. Such details should include:

- (a) Total interests in the shares of such banks by individual persons mentioned above; and
- (b) Changes in such interests from the previous financial year to the current financial year.

PD-1.4.4

For the purpose of the disclosure required under Paragraph PD-1.4.3, any interests in the shares of a bank held by the spouse(s) or children of a Director, or any other person the control of whose interests in such shares lies ultimately with the Director, shall be deemed to be the interests of the relevant Director. For a definition of 'interest in the shares', see Paragraph PD-1.1.2(d).



MODULE	PD:	Public Disclosure
CHAPTER	PD-1:	Annual Disclosure Requirements

PD-1.5 Press Release on Annual Results

PD-1.5.1

Where a bank chooses to issue a narrative press release in conjunction with or in relation to the publication of its audited annual financial statements as required under Paragraph PD-1.2.3, the press release must indicate the net income for the last quarter.



MODULE	PD:	Public Disclosure
CHAPTER	PD-2:	Semi-Annual (Interim) Disclosure Requirements

PD-2.1 Disclosure by Retail Branches of Foreign Banks

PD-2.1.1 The content of this Section is applicable only to retail bank branches (licensed by the CBB) of foreign banks.

PD-2.1.2 Banks (referred to under Paragraph PD-2.1.1) are required by the CBB to prepare and disclose to the public the following reviewed information (in the same format as their Annual Audited Accounts) for their Bahrain operations on a semi-annual (interim) basis:

- (a) A statement of financial position (balance sheet),
- (b) A statement of income;
- (c) A statement of cash flow; and
- (d) Where applicable, a statement of comprehensive income.

PD-2.1.3 The statements referred to under Paragraph PD-2.1.2 must be reviewed by the bank's external auditor, in accordance with the International Standards on Auditing (ISA) applicable to Review Engagements.

PD-2.1.4 The statements referred to under Paragraph PD-2.1.2 must be published in one local newspaper within 2 months from the statements' date.

PD-2.1.5 Banks must submit a newspaper copy of the statements (referred to under Paragraph PD-2.1.2) to the CBB within two business days of publication. The copy should be accompanied by a letter clearly showing on which date and in which publication(s) the statements were published.



MODULE	PD:	Public Disclosure Requirements
CHAPTER	PD-3:	Quarterly Disclosure Requirements

PD-3.1 Publication of Reviewed (Unaudited) Quarterly Financial Statements for Locally Incorporated Banks

PD 3.1.1 The content of this section is only applicable to locally incorporated banks licensed by the CBB.

PD 3.1.2 Banks must prepare reviewed (unaudited) quarterly financial statements in accordance with IFRS for the first three quarters of their financial year.

PD 3.1.3 Banks' unaudited quarterly financial statements must be reviewed by their external auditor who must also make a statement regarding the results of such review. Such review and statement should be made in accordance with the applicable International Standard on Review Engagements.

PD 3.1.4 Extracts from the reviewed quarterly financial statements (including at a minimum the statement of financial position (balance sheet), the statements of income, cash flow, and changes in equity and, where applicable the statement of comprehensive income must be published in one Arabic and one English daily newspaper widely available in Bahrain and on the bank's website within 45 calendar days of the end of the quarter to which such statements relate. (See Paragraph PD-5.1.2 for non-listed locally incorporated wholesale banks).

PD 3.1.5 Banks must submit a newspaper copy of the statements (referred to under Paragraph PD 3.1.4) to the CBB within two business days of publication. The copy should be accompanied by a letter clearly showing on which date and in which publication(s) the statements were published.



MODULE	PD:	Public Disclosure Requirements
CHAPTER	PD-3:	Quarterly Disclosure Requirements

PD-3.1 Publication of Reviewed (Unaudited) Quarterly Financial Statements for Locally Incorporated Banks (continued)

Additional Requirements for Semi Annual Disclosures

PD 3.1.6

In addition to the requirements of paragraphs PD-3.1.1 to PD-3.1.5 above, banks must make all the quantitative disclosures required by section PD-1.3 with their half-yearly financial statements on their website, within 45 calendar days of the end of the half-yearly financial statements, but the qualitative disclosure requirements of the Paragraphs listed below may be dispensed with at the option of the bank in their half-yearly statements:

- (a) PD-1.3.4;
- (b) PD-1.3.7 (a) to (b);
- (c) PD-1.3.8– PD-1.3.9;
- (d) PD-1.3.14;
- (e) PD-1.3.21 – PD-1.3.22;
- (f) PD-1.3.25 (a) to (d);
- (g) PD-1.3.26 (a);
- (h) PD-1.3.27 (a);
- (i) PD-1.3.28 (a) to (c);
- (j) PD-1.3.30 (a);
- (k) PD-1.3.31 (a) to (d);
- (l) PD-1.3.34 (a); and
- (m) PD-1.3.35 (a).



MODULE	PD:	Public Disclosure Requirements
CHAPTER	PD-3:	Quarterly Disclosure Requirements

PD-3.2 Special Arrangements for Newly-Established Banks

PD 3.2.1

Newly-established banks are not required to follow the publication requirements of section PD-3.1 for the first three quarters of their operation or until the commencement of their second financial year of operation (whichever period is the longer).

PD 3.2.2

After the above period has expired, all newly-established locally incorporated banks must follow the publication requirements of Section PD-3.1. Newly-established banks must follow the requirements for annual reporting.



MODULE	PD:	Public Disclosure Requirements
CHAPTER	PD-4:	Other Public Disclosure Requirements

PD-4.1 [This Section was deleted in October 2012 and requirements are now included in Section BC-4.3]



MODULE	PD:	Public Disclosure Requirements
CHAPTER	PD-4:	Other Public Disclosure Requirements

PD-4.2 Disclosure to Commercial Customers of Base Rate of Interest on Overdrafts and Short-Term Loans

PD-4.2.1 The content of this Section is applicable to all retail banks licensed by the CBB.

PD-4.2.2 The CBB requires all retail banks to display, by a conspicuous notice, their base rate of interest on BD overdrafts and short-term revolving facilities to commercial customers. For a definition of ‘conspicuous notice’, refer to Section PD-4.1.

PD-4.2.3 Retail banks are left free to decide their own base rate and to make changes to it as they consider appropriate.

PD-4.2.4 Retail banks must display a list of current charges including any standard charges and commissions that will be applied by the bank to individual services and transactions. See Section BC-4.1 for further details.



MODULE	PD:	Public Disclosure Requirements
CHAPTER	PD-4:	Other Public Disclosure Requirements

PD-4.3 Disclosure Relating to Deposit Protection Scheme

PD-4.3.1 The content of this Section is applicable to all retail banks licensed by the CBB.

PD-4.3.2 The CBB requires all retail banks referring (directly or indirectly) to the protection of deposits in related marketing materials and in general notices featured within banking halls and in account documentation, including the annual report, to prominently disclose the following statement:

- ‘Subject to the provisions thereof, deposits held with the Bahrain office of [name of the banking firm] are covered by the Deposit Protection Scheme established by the Central Bank of Bahrain regulation concerning the establishment of a Deposit Protection Scheme and a Deposit Protection Board’.

PD-4.3.3 Retail banks must, in discussions and/or correspondence with new and prospective customers, bring the Deposit Protection Scheme and the protection afforded by it to the customer’s notice.

PD-4.3.4 The CBB welcomes the introduction by the banks, at their discretion, of other appropriate means to promote the Deposit Protection Scheme as prominently as possible.

PD-4.3.5 For detailed guidance on the Deposit Protection Scheme’s documentation requirements, see Chapter CP-2.



MODULE	PD:	Public Disclosure Requirements
CHAPTER	PD-4:	Other Public Disclosure Requirements

PD-4.4 Press Releases Concerning Financial Statements

PD-4.4.1 The content of this Section is applicable to all locally incorporated banks.

PD-4.4.2 Conventional bank licensees must obtain the CBB's prior approval before issuing any press releases regarding interim or annual financial statements. Conventional bank licensees must not publish or cause to be published, any media statements until such times as CBB approval has been granted.

PD-4.4.3 In implementing Rule PD-4.4.2, the CBB will provide the conventional bank licensee with a written decision within two business days of the receipt of request for approval.



MODULE	PD:	Public Disclosure Requirements
CHAPTER	PD-5:	Public Disclosure via the Internet

PD-5.1 Publication and Disclosure of Financial Results

Existing Requirements

PD-5.1.1

[This Paragraph was deleted in April 2012].

Criteria for Application for Disclosure via the Internet

PD-5.1.2

Non-listed locally incorporated wholesale banks may apply to the CBB to disclose their quarterly financial statements via the internet. If a bank wishes to cease disclosure of quarterly financial statements via the local press, it must satisfy the following criteria:

- (a) The bank has no shareholders resident in Bahrain;
- (b) The bank has no customers resident in Bahrain. Customers include borrowers, depositors, investment account holders or persons from whom the bank earns fees or commissions. 'Customers' in this context would not include other banks, but would include Bahraini corporations, the Government of Bahrain and its agencies, and private individuals (whether high net worth or not); and
- (c) The bank does not market itself in any way to residents of Bahrain. In particular, the bank should not market funds or other financial products to residents, even if the bank has no on balance sheet assets or liabilities arising from Bahraini residents.

PD-5.1.3

Banks meeting the requirements of Paragraph PD-5.1.2 may apply to the CBB to disclose their quarterly financial statements by way of their website instead of by way of the local press.



MODULE	PD:	Public Disclosure Requirements
CHAPTER	PD-6:	Corporate Governance Disclosure to Shareholders

PD-6.1 General Requirements

PD-6.1.1

In addition to the corporate governance disclosure required under Paragraph PD-1.3.8, banks must also disclose to their shareholders the following information:

- (a) Names of shareholders owning 5% or more and, if they act in concert, a description of the voting, shareholders' or other agreements among them relating to acting in concert, and of any other direct and indirect relationships among them or with the bank licensee or other shareholders;
- (b) Information on the directorships held by the directors on other boards;
- (c) [This Subparagraph was deleted in January 2012];
- (d) [This Subparagraph was deleted in January 2012];
- (e) [This Subparagraph was deleted in January 2012];
- (f) Audit fees charged by the external auditor;
- (g) Non-audit services provided by the external auditor and fees;
- (h) Reasons for any switching of auditors and reappointing of auditors; and
- (i) Conflict of Interest – any issues arising must be reported, in addition describe any steps the board takes to ensure directors exercise independent judgment in considering transactions and agreements in respect of which a director or executive officer has a material interest.