GUIDELINES FOR COMPLETION OF
THE PRUDENTIAL INFORMATION REPORT FOR CONVENTIONAL BANKS INCORPORATED IN THE KINGDOM OF BAHRAIN

GENERAL

1) All banks incorporated in Bahrain must complete the Form Prudential Information Report ("PIR"). This Form is intended to be a report of the bank's regulatory balance sheet and risk positions relative to regulatory limits. Banks should therefore include all assets and liabilities and off-balance sheet items of their head office and their branches in Bahrain and abroad. If the bank has subsidiary(ies), then it should also add the subsidiary(ies) assets, liabilities and off-balance sheet items to that of the head office and its branches. In this case, separate figures in respect of the head office or "Bahrain operations" are to be reported.

2) These guidelines should be read in conjunction with the Capital Adequacy Module for Conventional Banks, Volume 1 and any other directives in this regard issued by the Central Bank of Bahrain ("CBB").

3) The same Form PIR is to be used for reporting on either solo or consolidated basis. Each bank should submit only one Form. Please note the following definitions:
   (a) Solo Basis: Should include operations of the parent institution and its overseas branches and associates before consolidation. ONLY report this information where required.
   (b) Consolidation Basis: Should include operations of the parent institution, its overseas branches and associates and its subsidiaries. Report such information where there is no specific reporting requirement. However, exclude the subsidiaries reported under aggregation when completing the credit, market, and operational risk weighted exposures sheets.
   (c) Bahrain Operations: All operations of the institution booked in Bahrain.

   Please refer to IFRS 5 and IAS 27 for definitions, accounting and consolidation requirements applicable to subsidiaries, and to Module PCD for regulatory consolidation, aggregation, and deduction thresholds and requirements.

4) Banks should complete the Form in the currency in which their share capital is denominated. Amounts should be reported to the nearest one thousand.

5) A major purpose of this Form is to assess the banks' financial performance including their capital adequacy (Credit, Market, & Operational risks), asset quality, liquidity and other assets and earnings in accordance with international practices.

6) The PIR Form is divided into the following sections:

   a) Section A: Balance Sheet and Profit & Loss
   b) Section B: Capital Adequacy Calculation
   c) Section C: Asset Quality
   d) Section D: Liquidity and Other Assets

7) Banks using the Standardized Approach have the option to use the supplementary schedules (appendix attached to these guidelines) to collect data exposures and calculate the capital charges for credit and market risk or to use its own schedules/systems. Any kind of support schedules/systems used are subject to the CBB inspection and review at the CBB discretion and are subject to CBB's requirements on records keeping.

8) Please note that only the yellow cells are the input cells. The remaining cells are either informative or automatic cells.

9) If a parent bank either controls or holds a significant investment (20% - 50%) in a non-resident banking, securities or other financial entity which is filing its return with the respective supervisor under the Basel II capital adequacy rules, the investor bank will not automatically be required to consolidate or pro-rata consolidate on a line by line basis respectively for regulatory capital purposes. Under such circumstances, the aggregation rules outlined in paragraph PCD-3.1.2 will be applicable. However, a bank may opt to consolidate or pro-rata consolidate such entities instead of aggregation or pro-rata aggregation provided that it satisfies CBB that these entities are otherwise adequately capitalized on a stand-alone basis in their respective jurisdictions. CBB will liaise with the concerned host supervisors in this regard. In addition, if a foreign branch of a Bahraini bank is filing its return with the respective supervisor under the Basel II capital adequacy rules, the aggregation rules may also be applied to such branch.

10) Completed PIR is required from all banks showing the financial position and the capital adequacy ratio at the end of each calendar quarter. It should be sent not later than 20 days after the relevant reporting date to:

The Retail Banking Supervision Directorate or
The Wholesale Banking Supervision Directorate
Central Bank of Bahrain
P.O. Box 27
Manama
Kingdom of Bahrain

SECTION A: BALANCE SHEET AND PROFIT & LOSS

11) Section A provides the CBB with financial information about the Bank. Figures provided should reconcile with the financial statements as of the end of each quarter. This section is not intended to form any part of the capital adequacy ratio and calculation. It is intended for reporting purposes only.

BALANCE SHEET

12) The Balance Sheet is presented in three sections as follows:

    (a) Capital liabilities: Represent the shareholders' equity in the balance sheet.
    (b) Non-capital liabilities: Represent all liabilities in the balance sheet.
    (c) Assets: Represent all assets (monetary and non-monetary assets).

PROFIT & LOSS

13) The Profit and Loss sheet represents the income and expenses of the Bank. Figures provided should tally with the financial statements of that quarter.

TRADING BOOK VS BANKING BOOK

14) This sheet is used as a control sheet for the purpose of classifying exposures as trading or banking book. The sheet is broken down into two sections representing on- and off balance sheet items. The on- balance sheet items should be classified as loans, investment and other assets (should include all assets other than loans and investments) .The off- balance sheet items should be classified as follows (notional value of contract should be reported, i.e. before applying the CCF):

    (a) Contingents
    (b) Commitments
    (c) Derivatives
        (i) Interest Rate
        (ii) Equity
        (iii) Foreign Exchange
        (iv) Commodities

SECTION B: CAPITAL ADEQUACY RATIO CALCULATION

CAPITAL BASE

15) The capital is divided into three categories as follows:

Tier 1: Core capital

16) Tier 1 capital shall consist of the sum of items (a) to (f) below, less the sum of items (g) to (k) below:

(a) Issued and fully paid ordinary shares and perpetual non-cumulative preference shares, but excluding cumulative preference shares);

(b) Certain innovative capital instruments such as instruments with step-ups, subject to the fulfillment of criteria given in paragraph CA-2.1.2 to CA-2.1.4 and the limit given in paragraph CA-2.2.2 of the Capital Adequacy Module for Conventional Bank;

(c) Disclosed reserves, including:
   a. General reserves
   b. Legal / statutory reserves
   c. Capital redemption reserves
   d. Excluding fair value reserves

(d) Retained profit brought forward;

(e) Unrealized gains from fair valuing equities as described in note (c) below under Tier 2 capital; and

(f) Minority interest in subsidiaries Tier 1 equity arising on consolidation, in the equity of subsidiaries which are less than wholly owned. Further, guidance on minority interests is provided in paragraphs PCD-A.2.11, PCD-1.1.3 and PCD-1.1.4 of the Prudential Consolidation and Deduction Requirements Module.

Less:

(g) Goodwill;

(h) Current interim cumulative net losses ;

(i) Unrealized gross losses arising from fair valuing equity securities;

(j) Other deductions made on pro-rata basis between Tier 1 and Tier 2. However, a section is provided under the Total Tiered Capital for deduction purposes; and

(k) Reciprocal cross-holdings of banks' capital artificially designed to inflate the capital position of banks must be deducted for regulatory capital purposes from the tier in which the reciprocal cross-holding exists.

Tier 2: Supplementary capital

17) Tier 2 capital shall consist of the following items (a) to (g) below, less item (h):

(a) Current interim profits which have been reviewed as per the IAS by the external auditors;

(b) Asset revaluation reserves which arise from the revaluation of fixed assets from time to time in

line with the change in market values, and are reflected on the face of the balance sheet as a revaluation reserve. Similarly, gains may also arise from revaluation of Investment Properties (real estate). These reserves (including the net gains on investment properties) may be included in Tier 2 capital, with the concurrence of the external auditors, provided that the assets are prudently valued, fully reflecting the possibility of price fluctuation and forced sale. A discount of 55% must be applied to the difference between the historical cost book value and the market value to reflect the potential volatility of this form of unrealized capital.

(c) Unrealized gains arising from fair valuing equities:

i. For unrealized gross gains reported directly in equity, a discount factor of 55% will be applied before inclusion in Tier 2 capital. Note for gross losses, the whole amount of such loss should be deducted from the Tier 1 capital.

ii. For unrealized net gains reported in income, a discount factor of 55% will apply on any such unrealized net gains from unlisted equity instruments before inclusion in Tier 1 capital (for audited gains) or Tier 2 capital (for reviewed gains) as appropriate. This discount factor will be applied to the incremental net gains related to unlisted equities arising on or after January 1, 2008.

Recognition of such unrealized gains for capital adequacy purposes is subject to the fulfillment of the conditions outlined in paragraph CA-2.1.5 (c). Banks should note that the Central Bank will discuss the applicability of the discount factor under paragraph (c) above with individual banks. This discount factor relating to CA-2.1.5(c)ii may be removed by the CBB if the bank arranges an independent review (which has been performed for the bank's systems and controls relating to FV gains on financial instruments) and meets all the requirements of the paper 'Supervisory guidance on the use of the fair value option for financial instruments by banks' issued by Basel Committee on Banking Supervision in June 2006.

(d) Under the standardized approach to credit risk provisions as explained in paragraphs CA-5.7.8 to CA-5.7.10 held against future, presently unidentified losses which are freely available to meet losses that subsequently materialize qualify for inclusion within supplementary elements of capital, subject to a maximum of 1.25% of risk-weighted assets. Provisions ascribed to impairment of particular assets or known liabilities should be excluded. The provisions in excess of 1.25% of risk-weighted assets will be deducted from the risk-weighted assets of the related portfolio.

(e) Banks applying the IRB approach for securitization exposures or the PD/LGD approach for equity exposures must first deduct the expected loss (EL) amounts subject to the corresponding conditions in paragraphs CA-6.4.4 and CA-5.7.13, respectively. Banks applying the IRB approach for other asset classes must compare (i) the amount of total eligible provisions, as defined in paragraph CA-5.7.7, with (ii) the total expected losses amount as calculated within the IRB approach and defined in paragraph CA-5.7.2. Where the total expected loss amount exceeds total eligible provisions, banks must deduct the difference. Deduction must be on the basis of 50% from Tier 1 and 50% from Tier 2. Where the total expected loss amount is less than total eligible provisions, as explained in paragraphs CA-5.7.7 to CA-5.7.10, banks may recognise the difference in Tier 2 capital up to a maximum of 0.6% of credit risk-weighted assets. The provisions in excess of 0.6% of credit risk-weighted assets will be deducted from the risk-weighted assets of the related portfolio to which these provisions relate.

(f) Hybrid instruments, which include a range of instruments that combine characteristics of equity capital and debt, and which meet the following requirements:

i. They are unsecured, subordinated and fully paid-up;

ii. They are not redeemable at the initiative of the holder or without the prior consent of the CBB;

iii. They are available to participate in losses without the bank being obliged to cease trading (unlike conventional subordinated debt); and

iv. Although the capital instrument may carry an obligation to pay interest that cannot permanently be reduced or waived (unlike dividends on ordinary shareholders' equity), it

should allow service obligations to be deferred (as with cumulative preference shares) where the profitability of the bank would not support payment. Cumulative preference shares, having the above characteristics, would be eligible for inclusion in Tier 2 capital. Debt capital instruments which do not meet the above criteria may be eligible for inclusion in item.

(g) Subordinated term debt, which comprises all conventional unsecured borrowing subordinated (with respect to both interest and principal) to all other liabilities of the bank except the share capital and limited life redeemable preference shares. To be eligible for inclusion in Tier 2 capital, subordinated debt capital instruments should have a minimum original fixed term to maturity of over five years. During the last five years to maturity, a cumulative discount (or amortization) factor of 20% per year will be applied to reflect the diminishing value of these instruments as a continuing source of strength. Unlike instruments included in item (f) above, these instruments are not normally available to participate in the losses of a bank which continues trading. For this reason, these instruments will be limited to a maximum of 50% of Tier 1 capital. Subordinated debt instruments must also satisfy the conditions outlined in paragraphs CA-2.1.2 (a), (f), (h), (i), (j), CA-2.1.3 and CA-2.1.4. Further, the subordinated debt is only callable before maturity by the issuer with CBB approval, and there must be a clear statement to this effect in the documentation.

Less:

(h) Reciprocal cross-holdings of banks' capital artificially designed to inflate the capital position of banks must be deducted for regulatory capital purposes from the tier in which the reciprocal cross-holding exists.

Deductions from Tiers 1 and 2 capital

18) Deduction other than mentioned above should be must be made 50% from Tier 1 and 50% from Tier 2 capital. Please refer to PCD-1.1, 1.2, 2.1, 2.2, 2.3, & 2.4 and appendices to Module PCD for complete description of the applicable deductions.

19) To arrive at Total Eligible Capital Base at solo level, investments in subsidiaries should be reported as a deduction in item 4.1 under the capital components section of the PIR.

Tier 3: Market risk ancillary capital

20) Tier 3 capital will consist of short-term subordinated debt which, if circumstances demand, needs to be capable of becoming part of the bank's permanent capital and thus be available to absorb losses in the event of insolvency. It must, therefore, at a minimum meet the following conditions:

(a) Be unsecured, subordinated and fully paid-up;

(b) Have an original maturity of at least two years;

(c) Not be repayable before the agreed repayment date;

(d) Be subject to a lock-in clause which stipulates that neither interest nor principal may be paid (even at maturity) if such payment means that the bank falls below or remains below its minimum capital requirement.

Limits on the use of different forms of capital

21) Tier 1 capital must represent at least half of the total eligible capital, i.e., the sum total of Tier 2 plus Tier 3 eligible capital must not exceed total Tier 1 eligible capital after all deductions.

22) Tier 2 elements may be substituted for Tier 3 (up to the Tier 3 limit of 250% of Tier 1 capital as below) in so far as eligible Tier 2 capital does not exceed total Tier 1 capital, and long-term subordinated debt does not exceed 50% of Tier 1 capital after deduction of goodwill.

23) Tier 3 capital is limited to 250% of a bank's Tier 1 capital that is required to support market risks. This means that a minimum of about 28.57% of market risks needs to be supported by Tier 1 capital that is not required to support risks in the remainder of the book.

CAPITAL ADEQUACY RATIO CALCULATION ("CAR")

24) In this sheet, the Bank has to enter the Risk Weighted Exposures ("RWE") for credit, market, and operational risks. It also provides for the calculation of CAR under the aggregation rules set out in PCD-3.1.1 and PCD-3.1.2. In a nutshell, the aggregation rules may apply to subsidiaries in countries where Basel II is officially adopted. Where aggregation rules are applied, exclude all figures related to entities subject to aggregation from Section B.

25) Also, in this sheet, the Bank has to enter the trigger minimum capital charge for the calculation of the minimum capital requirements for the different types of risk. Please note that the Bank has to maintain the limits imposed on the use of tiered capital as per the rules set out in CA-2.2 of the Capital Adequacy Module, Volume 1.

26) In case of reporting on a consolidated basis, the Bank has to fill the section titled "Solo Basis – Bahrain Operations Only Plus Overseas Branches".

CREDIT RISK WEIGHTED EXPOSURES CALCULATION

The Standardized Approach

27) This sheet calculates the on- and off-balance sheet exposures risk weighted assets for credit risk by applying appropriate risk weights based on the type of claim and the external rating (by a credit rating agency approved by the CBB) of the counterparty.

The claims are divided into the following types:

(a) Cash items
  (i) Notes and coins;
  (ii) Gold bullions held and backed by gold bullion liabilities;
  (iii) Cash items in the process of collection; and
  (iv) Delivery-versus-payment transactions.

(b) Claims on sovereigns
  (i) Claims on Bahrain & GCC sovereigns & respective central banks;
  (ii) Claims on other sovereigns & respective central banks in their relevant domestic currency; and
  (iii) Claims on other sovereigns & respective central banks not in their relevant domestic currency.

Entities classified as a sovereign in Bahrain which are entitled for zero risk weight, include the following:

(i) Central Bank of Bahrain;

(ii) All the ministries; and

(iii) The government entities, including:

1. National Oil & Gas Authority
2. Civil Service Bureau
3. General Organisation for Youth & Sports
4. Bahrain Centre for Studies & Research
5. Central Informatics Organisation
6. Civil Aviation Affairs
7. Shura Council
8. Council of Representatives
9. Directorate of Legal Affairs
10. Public Commission for the Protection of Marine Resources, Environment and Wildlife
11. Survey and Land Registration Bureau
12. Equestrian and Horse Racing Club.
13. Bahrain Royal Equestrian & Endurance Federation
14. Economic Development Board
15. National Audit Court
16. Bahrain Tender Board
17. The Constitutional Court
18. Public Prosecution
19. Prime Minister's Court

20. National Guard
21. Constitutional Court
22. Radio & TV Corporation
23. Sunni Awqaf
24. Ja'afari Awqaf
25. Bahrain University
26. High Council for Vocational Training
27. Royal Charity Organisation
28. Political Societies Support
29. Bahrain Institute for Political Development
30. Labour Market Regulatory Authority
31. The General Organisation of Port
32. Social Welfare Programme

(c) Claims on international organizations (Bank for International Settlements, the International Monetary Fund and the European Central Bank)

(d) Claims on non-central government public sectors entities ("PSEs"). Please refer to paragraphs CA-3.2.4, 3.4.5, & 3.2.6.

Entities classified as Public Sector Entities in Bahrain include:

(i) The Pension Fund Commission;
(ii) Bahrain Stock Exchange; and
(iii) General Organisation for Social Insurance.

Please note that banks have to check with other Central banks about their respective PSEs that are treated as sovereign.

(e) Claims on multilateral development banks ("MDBs"): Comprises of the World Bank Group. For members of the group, please refer to the paragraph CA-3.2.8.

(f) Claims on banks: Classified into long/short term exposures with preferential treatment for claims on Bahraini incorporated banks where the claim is denominated in BD or USD and the original maturity of the claim is three months or less. The following scenarios may apply for risk weighting:

(i) Claims on banks incorporated in Bahrain denominated in BD or USD of original maturity of three months or less will be risk weighted at 20%.

(ii) Short-term claims on banks incorporated in Bahrain but denominated in a foreign currency i.e a currency other than BD or USD must be risk weighted using the standard risk weights. For instance, if National Bank of Bahrain (NBB) makes a placement with BBK maturing in one month and is denominated in Euro, NBB should risk weight the claim on BBK using the standard risk weights of BBK.

(iii) Both long/short term claims on branches of foreign banks licensed in Bahrain will be assigned the standard risk weights. For instance, if NBB makes a placement with Citibank, Bahrain, in USD, NBB will risk weight the claim on Citibank using the standard risk weights corresponding to the external rating of the head office.

(iv) Short term claims on banks incorporated outside Bahrain in their domestic currency in the

country where the bank is incorporated will be assigned the standard risk weights or the short-term risk weights where allowed by the Home Regulator. For instance, If NBB makes a placement with HSBC in London denominated in GBP, NBB should risk weight the claim on HSBC using the short-term risk weights if allowed by the home regulator. However, if the GBP placement is made with HSBC in Bahrain, the standard risk weights will be applied as in the previous paragraph.

(v) Banks should always be risk weighted as banks even if the bank is wholly owned by a sovereign.

(vi) According to paragraph CA-3.2.10 of CBB Capital Adequacy Module, no claim on an unrated bank may receive a risk weight lower than that applied to claims on its sovereign of incorporation. In such cases, claims on unrated banks should be reported under the respective risk weights applied to its sovereign of incorporation.

(g) Claims on investment firms: Represents claims on investment firms which are subject to the supervision of the CBB (category 1 & 2).

(h) Claims on corporates, including insurance companies:

(i) Corporates owned by the government of Bahrain (50% or more and are incorporated in Bahrain) may be risk weighted at zero percent. The corporate listed below are entitled for such treatment:

1. The Bahrain Petroleum Company (BAPCO)
2. Bahrain National Gas Company (BANAGAS)
3. Bahrain Mumtalakat Holdings and its associates:
    a) General Poultry Company
    b) Bahrain International Circuit Company
    c) Aluminum Bahrain Company – ALBA
    d) Bahrain Flour Mills Company
    e) Gulf Air Company
    f) Durrat Khaleej Al Bahrain Company
    g) Lulu Tourism Company
    h) Bahrain Real Estate Company
    i) Howar Island Development Company
    j) Al Awali Real Estate Company

(ii) Other corporates comprise of corporates incorporated inside and outside Bahrain including category 3 investment firms.

(i) Claims included in the regulatory retail portfolios: Retail claims representing more than 0.2% of the bank's capital base or in excess of BD 250,000 shall be reported under Other Assets for capital adequacy calculation purposes.

(j) Mortgage:
(i) Claims secured by residential property
(ii) Claims secured by commercial real estate

(k) Past due loans (90 days or more).

(l) Investment in Securities (banking book)
(i) Equity investments (listed / unlisted)
a. Investments in instruments (e.g. sub-ordinated debt) of a banking, securities and

financial entities, other than equity, which are allowed as regulatory capital for the investee must be risk weighted at a minimum risk-weight of 100% for listed entities or 150% for unlisted entities unless such investments (including any other equity investment in that entity) exceed 20% of the eligible capital of investee entity, in which case the investments in other regulatory capital instruments of that investee entity must be deducted from the bank's capital for capital adequacy purposes.

(ii) Mutual Funds (rated / unrated)

CBB may enforce the bank to adopt one of the IRB treatments (simple risk weight method) for investments in equities/unrated funds if the CBB considers that bank's equity/fund portfolio is significant. For the risk weight to appear, please select the approach applicable for risk weighting the investment in securities / unrated funds from the drop down box.

(m) Holding of real estate

All holdings of real estate by banks (i.e. owned directly or by way of subsidiaries or associate companies or other arrangements) must be risk-weighted at 200%. Premises occupied by the bank may be weighted at 100%.

(n) Underwriting of non-trading book items

Where a bank has acquired assets on its balance sheet in the banking book which it is intending to place with third parties under a formal arrangement and is underwriting the placement, the following risk weightings apply during the underwriting period (which may not last for more than 90 days). Once the underwriting period has expired, the usual risk weights should apply:

(i) For holdings of private equity, a risk weighting of 100% will apply instead of the usual 150% (see paragraph CA-3.2.26)

(ii) For holdings of Real Estate, a risk weight of 100% will apply instead of the usual 200% risk weight (see paragraph CA-3.2.28).

(o) Other assets and holding of securitization tranches.

(p) Off-balance sheet items: Please refer to section CA-3.3 for details on off-balance sheet items.

28) The sheet is divided into 6 columns which are explained as follows:

(a) Column A – Credit Exposure Before CRM *(input cells)*

Report in this column on- and off-balance sheet exposures for all different type of claims. Exposures entered in this column should be reported without consideration of Credit Risk Mitigation ("CRM").

Please note that off-balance sheet items must be converted into on-balance sheet items by applying the appropriate Credit Conversion Factors ("CCF"). Please refer to section CA-3.3 for details on the different types of off-balance sheets items and the respective CCFs.

(b) Column B – Credit Risk Mitigation ("CRM") *(input cells)*

CBB allows different techniques for credit risk mitigation which contribute to the reduction in the credit exposure. Some techniques apply a direct reduction to the exposure such as cash margin and some replace the risk weight of the counterparty with that of a third party (i.e. guarantor) if the third party is better rated than the counterparty. Please refer to section CA-4.3 for detailed overview of the eligible types of collateral for the purpose of CAR.

(c) Column C – Unsecured Portion of the Credit Exposure *(automatic cells)*

In this column, the CRM is deducted from the credit exposure to arrive at the unsecured portion of the credit exposure, which is later multiplied by the respective risk weights.

(d) Column D – Risk Weighted Assets CRM *(input cells)*

The Bank has to calculate the risk weighted assets of the collateral for each exposure if the risk weight of the third party (collateral) is lower than that of the counterparty.

(e) Column E – Risk Weights *(given information)*
Represents all risk weights for each claim category. Please refer to sectionCA-3.2 for details on the application of the different risk weights.

(f) Column F – Credit Risk Weighted Assets *(automatic cells)*
This column automatically calculates the credit risk weighted assets by multiplying column "C" by column "E" and then adding column "D".

Foundation Internal Ratings-Based Approach

Only those banks which have obtained the CBB's written approval to apply their internal FIRB model to calculate their credit risk capital charges are required to complete this form.

29) Banks adopting an IRB approach are expected to continue to employ an IRB approach. A voluntary return to the standardized approach is permitted only in extraordinary circumstances, such as divestiture of a large fraction of the bank's credit- related business, and approval must be obtained from the CBB.

30) For banks applying the IRB approach for credit risk, there will be a capital floor following implementation of the IRB approach. The bank has to follow the transitional arrangement set out in the section CA-A.4 of the capital adequacy module. Please note that the adjustment factors are only to be applied in the years specified in paragraph CA-A.4.2. Banks adopting an IRB approach in the year 2011 and onwards, will not be subject to the adjustment factors.

31) Once a bank adopts an IRB approach for part of its holdings, it is expected to extend it across the entire banking group. The CBB recognizes however, that, for many banks, it may not be practicable for various reasons to implement the IRB approach across all material asset classes and business units at the same time. Furthermore, once on IRB, data limitations may mean that banks can meet the standards for the use of own estimates of LGD and EAD for some but not all of their business units at the same time. CBB will expect banks to define their business units in line with asset classes given in the Capital Adequacy Module. However, banks can apply to CBB for exemption from this rule. Please refer to section CA-5 for details on the requirements and regulations for the use of an FIRB approach.

32) Report in this sheet the calculated risk weighted exposures for asset classes where the Bank uses the FIRB for capital adequacy purposes.

MARKET RISK WEIGHTED EXPOSURES CALCULATION

33) The market risk capital charges arising from the Standardized Approach and Internal Models Approach are aggregated and converted to a market risk weighted exposure by multiplying by 12.5.

Internal Models Approach

Only those banks which have obtained the CBB's written approval to adopt their internal Value-at-Risk models to calculate their market risk capital charges are required to report in this part.

34) Report in this part the Value-at-Risk results (VaR) as at the last business day of the reporting quarter in column A and the average VaR over the most recent 60 business days of the reporting quarter in column B, both for each individual market risk category and for the aggregate of all risk categories.

35) Report in this part the number of backtesting exceptions for the past 250 business days (from the reporting quarter-end and going backwards), based on:

(a) Actual daily changes in portfolio value.

(b) Hypothetical changes in portfolio value that would occur were end-of-day positions to remain unchanged during the 1 day holding period.

36) The multiplication factor will be set by the CBB, separately for each bank, on the basis of the CBB's assessment of the quality of the bank's risk management system, subject to an absolute minimum of 3. Banks will be required to add to the multiplication factor set by the CBB, a "plus factor" directly related to the ex-post performance of the model, thereby introducing a built-in positive incentive to maintain the predictive quality of the model. The plus will range from 0 to 1 based on the outcome of the bank's back testing. If the back testing results are satisfactory and the bank meets all the qualitative standards as set out in the Market Risk Capital Adequacy Regulations, the plus factor could be zero. The Basel Committee's document titled "Supervisory framework for the use of back testing in conjunction with the internal models approach to market risk capital requirements," presents in detail the approach to be followed for back testing and the plus factor. Banks are expected to strictly comply with this approach.

37) The capital charge for general market risk will be the higher of (a) and (b) below, multiplied by the multiplication factor:

(a) Its previous day's VaR number; and

(b) An average of the daily VaR measures on each of the preceding sixty business days.

Largest daily losses over the quarter

38) Report in this part, in descending order, the five largest daily losses in the reporting quarter and their respective VaR, for the risk exposures which are measured by the internal models approach. If the number of daily losses during the quarter is less than five, report all such daily losses.

GENERAL GUIDELINES

39) Each bank should agree on a written policy statement with the CBB on which activities are normally considered as trading and constitute part of the trading book.

40) The CBB intends to carefully monitor the way in which banks allocate financial instruments and will seek, in particular, to ensure that no abusive switching designed to minimise capital charges occurs and to prevent "gains trading" in respect of securities which are not marked-to-market.

41) Banks are required to have, and discuss with the CBB, a written policy statement on the subject of valuing trading book positions, which in particular should address the valuation process for those items where market prices are not readily available.

42) In general, banks following the standardised approach as set out in chapters 8 to 13 of the Capital Adequacy Regulations are only required to complete Section Market Risk Capital Charges of the return. Banks which have obtained the CBB's approval to adopt their internal Value-at-Risk models to calculate their market risk capital charge (in all or individual risk categories) should complete Section Market Risk – Internal Models Approach. Where the internal model is used to calculate only selected risk categories, the capital charge for the risk categories measured under the Internal Models approach should be reported in Section Market Risk – Internal Models Approach, while that for the other risk categories measured under the Standardised approach should be reported in the relevant parts of Section Market Risk Capital Charges sheet. This combination of the Standardised approach and the Internal Models approach is allowed on a transitional basis. Banks which adopt the Internal Models approach will not be permitted, save in exceptional circumstances, to revert to the Standardised approach.

Definitions

43) Market risk is defined as the risk of losses in on or off-balance sheet positions arising from movements in market prices. Banks incorporated in Bahrain are required to measure and apply capital charges in respect of their market risks in addition to the existing credit risk capital requirements. The risks subject to this capital requirement are:

(a) The risks pertaining to **interest rate related instruments** and **equities** in the trading book;
(b) Foreign exchange risk and commodities risk throughout the bank.

44) For the purpose of market risk, the trading book of a bank means:

(a) The bank's proprietary positions in financial instruments (including positions in derivative products and off-balance sheet instruments) which are:
  (i) Intentionally held for short term resale; and/or
  (ii) Taken on by the bank with the intention of benefiting in the short term from actual and/or expected differences between their buying and selling prices or from other price or interest rate variations.
(b) Positions in financial instruments arising from matched principal brokering and market making.
(c) Positions taken in order to hedge other elements of the trading book.

45) The following list includes financial instruments in the trading book, including forward positions, to which equity position risk capital requirements apply:

(a) Common stocks, whether voting or non-voting;

(b) Depository receipts (which should be included in the measurement framework in terms of the underlying shares);

(c) Convertible preference securities (non-convertible preference securities are treated as bonds);

(d) Convertible debt securities which convert into equity instruments and are, therefore, treated as equities;

(e) Commitments to buy or sell equity securities;

(f) Derivatives based on the above instruments. Convertible debt securities must be treated as equities where:

(i) The first date at which the conversion may take place is less than three months ahead, or the next such date (where the first date has passed) is less than a year ahead; and

(ii) The convertible is trading at a premium of less than 10%, where the premium is defined as the current mark-to-market value of the convertible less the mark-to-market value of the underlying equity, expressed as a percentage of the latter.

46) A commodity is defined as a physical product which is, or can be, traded on a secondary market, e.g., agricultural products, mineral (including oil) and precious metals.

INTEREST RATE EXPOSURES

47) Should include interest rate exposures in banks' trading books arising from interest bearing and discounted financial instruments, derivatives which are based on the movement of interest rates, as well as foreign exchange forwards and interest rate exposures embedded in derivatives which are based on non-interest rate related instruments.

Specific risk

48) Banks may net, by value, long and short positions (including positions in derivatives) in the same debt instrument to generate the individual net position in that instrument. Instruments will be considered to be the same where the issuer is the same, they have an equivalent ranking at the time of liquidation and the currency, the coupon and the maturity are the same.

49) Central "government" debt instruments will include all forms of government paper, including bonds, treasury bills and other short-term instruments but the CBB reserves the right to apply a specific risk weight to securities issued by certain foreign governments, especially to securities denominated in a currency other than that of the issuing government.

50) The "qualifying" category includes securities issued by or fully guaranteed by public sector entities and multilateral development banks, plus other securities that are:

    (a) Rated investment grade by at least two internationally recognised credit rating agencies (to be agreed with the CBB); or

    (b) Deemed to be of comparable investment quality by the reporting bank, provided that the issuer is rated investment grade by at least two internationally recognised credit rating agencies (to be agreed with the CBB); or

    (c) Rated investment grade by one credit rating agency and not less than investment grade by any internationally recognised credit rating agencies (to be agreed with the CBB); or

    (d) Subject to the approval of the CBB, unrated, but deemed to be of comparable investment quality by the reporting bank and where the issuer has securities listed on a recognised stock exchange, may also be included.

Specific risk rules for unrated debt securities

51) Unrated securities may be included in the "qualifying" category when they are (subject to CBB's approval) unrated, but deemed to be of comparable investment quality by the reporting bank, and the issuer has securities listed on a recognised stock exchange. This will remain unchanged for banks applying the standardised approach. For banks applying the IRB approach for a portfolio, unrated securities can be included in the "qualifying" category if both of the following conditions are met:

    (a) The securities are rated equivalent to investment grade under the reporting bank's internal rating system, which the CBB has confirmed complies with the requirements for an IRB approach; and

    (b) The issuer has securities listed on a recognised stock exchange.

Specific risk rules for non-qualifying issuers

52) Instruments issued by a non-qualifying issuer will receive the same specific risk charge as a non-investment grade corporate borrower under the standardised approach for credit risk under chapter CA-9.

53) However, since this may in certain cases considerably underestimate the specific risk for debt instruments which have a high yield to redemption relative to government debt securities, CBB will have the discretion, on a case by case basis:

(a) To apply a higher specific risk charge to such instruments; and/or

(b) To disallow offsetting for the purposes of defining the extent of general market risk between such instruments and any other debt instruments.

54) In that respect, securitisation exposures that would be subject to a deduction treatment under the securitisation framework set forth in chapter CA-6 of the CA module (e.g. equity tranches that absorb first loss), as well as securitisation exposures that are unrated liquidity lines or letters of credit must be subject to a capital charge that is no less than the charge set forth in the securitisation framework.

Specific risk capital charges for positions hedged by credit derivatives

55) Full allowance will be recognised when the values of two legs (i.e. long and short) always move in the opposite direction and broadly to the same extent. This would be the case in the following situations:

(a) The two legs consist of completely identical instruments, or

(b) A long cash position is hedged by a total rate of return swap (or vice versa) and there is an exact match between the reference obligation and the underlying exposure (i.e. the cash position).

In these cases, no specific risk capital requirement applies to both sides of the position.

56) An 80% offset will be recognised when the value of two legs (i.e. long and short) always move in the opposite direction but not broadly to the same extent. This would be the case when a long cash position is hedged by a credit default swap or a credit linked note (or vice versa) and there is an exact match in terms of the reference obligation, the maturity of both the reference obligation and the credit derivative, and the currency to the underlying exposure. In addition, key features of the credit derivative contract (e.g. credit event definitions, settlement mechanisms) should not cause the price movement of the credit derivative to materially deviate from the price movements of the cash position. To the extent that the transaction transfers risk (i.e. taking account of restrictive payout provisions such as fixed payouts and materiality thresholds), an 80% specific risk offset will be applied to the side of the transaction with the higher capital charge, while the specific risk requirement on the other side will be zero.

57) Partial allowance will be recognised when the value of the two legs (i.e. long and short) usually move in the opposite direction. This would be the case in the following situations:

(a) The position is captured in paragraph 55 under (b) above, but there is an asset mismatch between the reference obligation and the underlying exposure. Nonetheless, the position meets the requirements in paragraph CA-4.5.3 (g) of CA module.

(b) The position is captured in paragraph 55 under (a) or paragraph 56 above, but there is a currency or maturity mismatch between the credit protection and the underlying asset.

(c) The position is captured in paragraph 56 above, but there is an asset mismatch between the cash

position and the credit derivative. However, the underlying asset is included in the (deliverable) obligations in the credit derivative documentation.

58) In each of these cases in paragraphs 55 to 57, the following rule applies. Rather than adding the specific risk capital requirements for each side of the transaction (i.e. the credit protection and the underlying asset) only the higher of the two capital requirements will apply.

59) In cases not captured in paragraphs 55 to 57, a specific risk capital charge will be assessed against both sides of the position.

60) With regard to banks' first-to-default and second-to-default products in the trading book, the basic concepts developed for the banking book will also apply. Banks holding long positions in these products (e.g. buyers of basket credit linked notes) would be treated as if they were protection sellers and would be required to add the specific risk charges or use the external rating if available. Issuers of these notes would be treated as if they were protection buyers and are therefore allowed to off-set specific risk for one of the underlying, i.e. the asset with the lowest specific risk charge.

General market risk

61) The capital requirements for general market risk are designed to capture the risk of loss arising from changes in market rates, i.e., the risk of parallel and non-parallel shifts in the yield curve. Banks are allowed to use either the Maturity method or the Duration method to calculate the general market risk.

62) Positions should be reported separately for each currency, i.e., banks should use separate sheets to report positions of different currencies. The market risk capital charge is then calculated for each currency with no offsetting between positions of opposite sign.

Maturity Method

63) Under the Maturity method, positions are slotted into the time bands of the maturity ladder by the residual term to maturity if fixed rate, and by the residual term to the next repricing date if floating rate.

64) The steps in the calculation of the general market risk for interest rate positions are set out below:

(a) The market values of the individual long and short net positions in each maturity band are multiplied by the respective risk weighting factors given in the table below:

Maturity method: Time bands and Risk weights

Coupon =/> 3%	Coupon < 3%	Risk weight
Zone 1:		
1 month or less	1 month or less	0.00%
1 to 3 months	1 to 3 months	0.20%
3 to 6 months	3 to 6 months	0.40%
6 to 12 months	6 to 12 months	0.70%
Zone 2:		
1 to 2 years	1 to 1.9 years	1.25%
2 to 3 years	1.9 to 2.8 years	1.75%
3 to 4 years	2.8 to 3.6 years	2.25%
Zone 3:		
4 to 5 years	3.6 to 4.3 years	2.75%
5 to 7 years	4.3 to 5.7 years	3.25%
7 to 10 years	5.7 to 7.3 years	3.75%
10 to 15 years	7.3 to 9.3 years	4.50%
15 to 20 years	9.3 to 10.6 years	5.25%
> 20 years	10.6 to 12 years	6.00%
	12 to 20 years	8.00%
	> 20 years	12.50%

(b) Matching of positions within each maturity band (i.e., vertical matching) is done as follows:

Where a maturity band has both weighted long and short positions, the extent to which the one offsets the other is called the matched weighted position. The remainder (i.e., the excess of the weighted long positions over the weighted short positions, or vice versa, within a band) is called the unmatched weighted position for that band.

(c) Matching of positions across maturity bands, within each zone (i.e., horizontal matching - level 1), is done as follows:

Where a zone has both unmatched weighted long and short positions for various bands, the extent to which the one offsets the other is called the matched weighted position for that zone. The remainder (i.e., the excess of the weighted long positions over the weighted short positions, or vice versa, within a zone) is called the unmatched weighted position for that zone.

(d) Matching of positions across zones (i.e., horizontal matching - level 2) is done as follows:

(i) The unmatched weighted long or short position in zone 1 may be offset against the unmatched weighted short or long position in zone 2. The extent to which the unmatched weighted positions in zones 1 and 2 are offsetting is described as the matched weighted position between zones 1 and 2.

(ii) After step (i) above, any residual unmatched weighted long or short position in zone 2 may be matched by offsetting the unmatched weighted short or long position in zone 3. The extent to which the unmatched positions in zones 2 and 3 are offsetting is described as the matched weighted position between zones 2 and 3.
The calculations in steps (i) and (ii) above may be carried out in reverse order (i.e., zones 2 and 3, followed by zones 1 and 2).

(iii) Any residual unmatched weighted positions, following the matching within and between maturity bands and zones as described above will be summed.

(iv) The general interest rate risk capital requirement is the sum of:

a)	Matched weighted positions in all time-bands	x	10%
b)	Matched weighted positions in zone 1	x	40%
c)	Matched weighted positions in zone 2	x	30%
d)	Matched weighted positions in zone 3	x	30%
e)	Matched weighted positions between zones 1 and 2	x	40%
f)	Matched weighted positions between zones 2 and 3	x	40%
g)	Matched weighted positions between zones 1 and 3	x	100%
h)	Residual unmatched weighted positions	x	100%

Duration Method

65) The duration method is an alternative approach to measuring the exposure to parallel and non-parallel shifts in the yield curve, and recognise the use of duration as an indicator of the sensitivity of individual positions to changes in market yields.

66) Under this method, banks may use a duration based system for determining their general interest rate risk capital requirements for traded debt instruments and other sources of interest rate exposures including derivatives.

67) Banks should notify the CBB of the circumstances in which they elect to use this method. Once chosen, the duration method must be consistently applied. Where a bank has chosen to use the duration method, it is possible that it will not be suitable for certain instruments. In such cases, the bank should seek the advice of the CBB or obtain approval for application of the maturity method to the specific category (ies) of instruments.

68) The steps in the calculation of the general market risk for interest rate positions, under this method, are set out below:

(a) The bank will determine the Yield-to-Maturity (YTM) for each individual net position in fixed rate and floating rate instruments, based on the current market value. The YTM for fixed rate instruments is determined without any regard to whether the instrument is coupon bearing, or whether the instrument has any embedded options. In all cases, YTM for fixed rate instruments is calculated with reference to the final maturity date and, for floating rate instruments, with reference to the next repricing date.

(b) The bank will calculate, for each debt instrument, the modified duration (M) on the basis of the following formula:

$$M = \frac{D}{1 + r}$$

where,

$$D\ (\text{Duration}) = \frac{\sum_{t=1}^{m} \frac{t \times C_t}{(1+r)^t}}{\sum_{t=1}^{m} \frac{C_t}{(1+r)^t}}$$

r = YTM % per annum expressed as a decimal
C = Cash flow at time t
t = time at which cash flows occur, in years
m = time to maturity, in years

(c) Individual net positions, at current market value, are allocated to the time-bands illustrated in the table below, based on their modified duration.

Duration method: Time-bands and assumed changes in yield

Time-band	Assumed change in yield
Zone 1:	
1 month or less	1.00
1 to 3 months	1.00
3 to 6 months	1.00
6 to 12 months	1.00
Zone 2:	
1 to 1.9 years	0.90
1.9 to 2.8 years	0.80
2.8 to 3.6 years	0.75
Zone 3:	
3.6 to 4.3 years	0.75
4.3 to 5.7 years	0.70
5.7 to 7.3 years	0.65
7.3 to 9.3 years	0.60
9.3 to 10.6 years	0.60
10.6 to 12 years	0.60
12 to 20 years	0.60
> 20 years	0.60

(d) The modified duration-weighted position for each individual net position is arrived at by multiplying its current market value by the modified duration and the assumed change in yield.

(e) Matching of positions within each time-band (i.e., vertical matching) is done as follows:

Where a time-band has both weighted long and short positions, the extent to which the one offsets the other is called the matched weighted position. The remainder (i.e., the excess of the weighted long positions over the weighted short positions, or vice versa, within a band) is called the unmatched weighted position for that band.

(f) Matching of positions across time-bands, within each zone (i.e., horizontal matching - level 1), is done as follows:

Where a zone has both unmatched weighted long and short positions for various bands, the extent to which the one offsets the other is called the matched weighted position for that zone. The remainder (i.e., the excess of the weighted long positions over the weighted short positions, or vice versa, within a zone) is called the unmatched weighted position for that zone.

(g) Matching of positions across zones (i.e., horizontal matching - level 2) is done as follows:

(i) The unmatched weighted long or short position in zone 1 may be offset against the unmatched weighted short or long position in zone 2. The extent to which the unmatched weighted positions in zones 1 and 2 are offsetting is described as the matched weighted position between zones 1 and 2.

(ii) After step (i) above, any residual unmatched weighted long or short position in zone 2 may be matched by offsetting the unmatched weighted short or long position in zone The extent to which the unmatched positions in zones 2 and 3 are offsetting is described as the matched weighted position between zones 2 and 3.

The calculations in steps (i) and (ii) above may be carried out in reverse order (i.e., zones 2 and 3, followed by zones 1 and 2).

(iii) After steps (i) and (ii), any residual unmatched weighted long or short position in zone 1 may be matched by offsetting the unmatched weighted short or long position in zone 3. The extent to which the unmatched positions in zones 1 and 3 are offsetting is described as the matched weighted position between zones 1 and 3.

(iv) Any residual unmatched weighted positions, following the matching within and between maturity bands and zones as described above, will be summed.

(v) The general interest rate risk capital requirement is the sum of:

a)	Matched weighted positions in all time-bands	x	5%
b)	Matched weighted positions in zone 1	x	40%
c)	Matched weighted positions in zone 2	x	30%
d)	Matched weighted positions in zone 3	x	30%
e)	Matched weighted positions between zones 1 and 2	x	40%
f)	Matched weighted positions between zones 2 and 3	x	40%
g)	Matched weighted positions between zones 1 and 3	x	100%
h)	Residual unmatched weighted positions	x	100%

Treatment of Derivative positions

69) Derivative positions will attract specific risk only when they are based on an underlying instrument or security. For instance, where the underlying exposure is an interest rate exposure, as in a swap based upon inter-bank rates, there will be no specific risk, but only counterparty risk. Positions in derivatives and all positions in repos, reverse repos and similar products are decomposed into their components within each time band. The amounts reported are the market values of the principal amounts of the underlying or of the notional underlying. For instruments where the apparent notional amount differs from the effective notional amount, banks should use the latter.

70) A forward foreign exchange position is decomposed into legs representing the paying and receiving currencies. Each of the legs is treated as a zero coupon bond, with zero specific risk, in the relevant currency and included in the measurement framework at the notional amount and with the same maturity as the forward contract.

71) Deposit futures and FRAs and other instruments where the underlying is a money market exposure will be split into two legs as follows:

(a) The first leg will represent the time to expiry of the futures contract, or the settlement date of the FRA, as the case may be.

(b) The second leg will represent the time to expiry of the underlying instrument.

(c) Each leg will be treated as a zero coupon bond with zero specific risk.

(d) For deposit futures, the size of each leg is the notional amount of the underlying money market exposure. For FRAs the size of each leg is the notional amount of the underlying money market exposure discounted to present value, although in the maturity method, the

notional amount may be used without discounting.

72) Bond futures, forward bond transactions and the forward leg of repos, reverse repos and other similar transactions will be split into two legs as follows. A forward bond transaction is one where the settlement is for a period other than the prevailing norm for the market.

(a) The first leg is a zero coupon bond with zero specific risk. Its maturity is the time to expiry of the futures or the forward contract. Its size is the cash flow on maturity discounted to present value, although, in the maturity method, the cash flow on maturity may be used without discounting.

(b) The second leg is the underlying bond. Its maturity is that of the underlying bond for fixed rate bonds, or the time to the next reset for floating rate bonds. Its size is as set out in (c) and (d) below.

(c) For forward bond transactions, the underlying bond and amount is used at the present spot price.

(d) For bond futures, the principal amount for each of the two legs is reckoned as the futures price times the notional underlying bond amount.

(e) Where a range of deliverable instruments are to be delivered to fulfill a futures contract (at the option of the "short"), then the following rules are used to determine the principal amount, taking account of any conversion factors defined by the exchange:

(i) The "long" may use one of the deliverable bonds, or the notional bond on which the contract is based, as the underlying instrument, but this notional long leg may not be offset against a short cash position in the same bond.

(ii) The "short" may treat the notional underlying bond as if it were one of the deliverable bonds, and it may be offset against a long cash position in the same bond.

(f) For futures contract based on a corporate bond index, the positions will be included at the market value of the notional underlying portfolio of securities.

(g) A repo (or sell-buy or stock lending) involving exchange of a security for cash should be represented as a cash borrowing, i.e., a short position in a government bond with maturity equal to the repo and coupon equal to the repo rate. A reverse repo (or buy-sell or stock borrowing) should be represented as a cash loan, i.e., a long position in a government bond with maturity equal to the reverse repo and coupon equal to the repo rate. These positions are referred to as "cash legs."

(h) It should be noted that where a security owned by the bank (and included in its calculation of market risk) is repo'd, it continues to contribute to the bank's interest rate or equity position risk calculation.

73) Swaps are treated as two notional positions in government securities with the relevant maturities. The following guidelines apply:

(a) Interest rate swaps will be decomposed into two legs, and each leg will be allocated to the maturity band equating to the time remaining to repricing or maturity. For example, an interest rate swap in which a bank is receiving floating rate interest and paying fixed is treated as a long position in a floating rate instrument of maturity equivalent to the period until the next interest fixing and a short position in a fixed rate instrument of maturity equivalent to the residual life of the swap.

(b) For swaps that pay or receive a fixed or floating interest rate against some other reference price, e.g. a stock index, the interest rate component should be slotted into the appropriate repricing or maturity category, with the equity component being included in the equity risk measurement framework.

(c) For cross currency swaps, the separate legs are included in the interest rate risk measurement for the currencies concerned, as having a fixed/floating leg in each currency. Alternatively, the two parts of a currency swap transaction are split into forward foreign exchange contracts and treated accordingly.

(d) Where a swap has a deferred start, and one or both legs have been fixed, then the fixed legs will be sub-divided into the time to the commencement of the leg and the actual swap leg with fixed or floating rate.

74) Banks may offset long and short positions (both actual and notional) in identical instruments with exactly the same issuer, coupon, currency and maturity. A matched position in a future or a forward and its corresponding underlying may also be fully offset, albeit the leg representing the time to expiry of the future is included in the calculation. When the future or the forward comprises a range of deliverable instruments, offsetting of positions in the future or forward contract and its underlying is only permitted in cases where there is a readily identifiable underlying security which is most profitable for the trader with a short position to deliver. The price of this security and the price of the future or forward contract should, in such cases, move in close alignment. No offsetting will be allowed between positions in different currencies.

75) For the purpose of calculation of the general market risk, in addition to the permissible offsetting of fully matched positions as described in paragraph 74 above, opposite positions giving rise to interest rate exposure can be offset if they relate to the same underlying instruments, are of the same nominal value and are denominated in the same currency and, in addition, fulfill the following conditions:

(a) For Futures

Offsetting positions in the notional or underlying instruments to which the futures contract relates should be for identical products and mature within seven days of each other.

(b) For Swaps and FRAs

The reference rate (for floating rate positions) must be identical and the coupons must be within 15 basis points of each other.

(c) For Swaps, FRAs and forwards

The next interest fixing date or, for fixed coupon positions or forwards, the residual maturity must correspond within the following limits:

-	less then one month hence	:	same day
-	between one month and one year hence	:	within seven days
-	over one year hence	:	within thirty days

EQUITY EXPOSURES

76) Report in this part the gross and net positions in equities and equity derivatives in the trading book. Long and short positions in the same equity instrument, arising either directly or through derivatives, may be reported on a net basis. For example, a future in a given equity may be offset against an opposite cash position in the same equity, but the interest rate exposure arising out of the future should be reported in interest rate section. Banks may also net long and short positions in one tranche of an equity instrument against another tranche only where the relevant tranches rank pari passu in all respects and become fungible within 180 days and thereafter the equity instruments of one tranche can be delivered in settlement of the other tranche.

77) The equity positions are to be reported by the country in which the equity is listed. Where equity is listed in more than one country, the bank should discuss the appropriate country allocation with the CBB.

78) Equity derivatives should be converted into notional underlying equity positions, whether long or short. Futures and forward contracts relating to an individual equity should be reported at current market values. Futures relating to stock indices should be included in the calculation at the marked-to-market value of the notional underlying equity portfolio, i.e., as a single position based on the sum of the current market values of the underlying instruments.

79) Equity swaps are treated as two notional positions. For example, an equity swap in which a bank is receiving an amount based on the change in value of one particular equity or stock index and paying an amount based on the change in value of a different equity or stock index is treated as a long position in the former and short position in the latter. Where one of the swap legs involves receiving/paying a fixed or floating interest rate, that exposure should be slotted into the appropriate time-band as set out in interest rate section.

80) Equity options and stock index options are either "carved out" together with the associated underlying instruments or are incorporated in the general market risk measurement framework, described in this part, based on the delta-plus method as explained under options risk section

81) The capital charge is levied on two aspects to cover both the specific risk and the general market risk. Specific risk is calculated for each country or equity market based on the bank's gross equity positions in that country or market. For each national market in which the bank holds equities, it should sum the market values of its individual net positions, irrespective of whether they are long or short positions, to produce the overall gross equity position for that market. The capital charge for specific risk will be 8% on the gross position, unless the portfolio is both liquid and well diversified, in which case the capital charge will be 4%. To qualify for the reduced 4% capital charge, the following requirements need to be met:

(a) The portfolio should be listed on a recognised stock exchange;

(b) No individual equity position shall comprise more than 10% of the gross value of the country/market portfolio; and

(c) The total value of the equity positions which individually comprise between 5% and 10% of the gross value of the country portfolio shall not exceed 50% of the gross value of the country portfolio.

82) The general market risk charge will be 8% of the net position (i.e. the difference between the sum of all the long positions and the sum of all the short positions) in each national equity market. The sum of the specific risk charge and the general risk charge will be the total capital charge for equity exposures in the trading book.

83) Positions in highly liquid equity indices, whether they arise directly or through derivatives, attract a 2% capital charge in addition to the general market risk. For positions in equity indices not regarded as highly liquid, the specific risk capital charge will be the highest specific risk charge that would apply to any of its components as set out in paragraph 80 above.

FOREIGN EXCHANGE EXPOSURES

84) Report in this part the amount of net long/short positions in each currency and gold. The net open positions may be either trading positions or, simply, exposures caused by the bank's overall assets and liabilities. The open positions are calculated with reference to the bank's base currency, which will be either Bahraini Dinars or United States Dollars. The net delta based equivalent of foreign currency options should also be reported for each currency, subject to the specific instructions in options risk section.

85) A bank doing negligible business in foreign currencies and which does not take foreign exchange positions for its own account may, at the discretion of the CBB evidenced by the CBB's prior written approval, be exempted from calculating the capital requirements on these positions. The CBB is likely to be guided by the following criteria in deciding to grant exemption to any bank:

(a) The bank's holding or taking of positions in foreign currencies, including gold, defined as the greater of the sum of the gross long positions and the sum of the gross short positions

(b) In all foreign currencies and gold, does not exceed 100% of its eligible capital; and

(c) The bank's overall net open position, as defined in paragraph 86) below, does not exceed 2% of its eligible capital.

86) Structural positions taken deliberately to hedge against the effects of exchange rate movements on the capital adequacy of the reporting institution may be excluded from the calculation of the net open position. Similarly, positions related to items that are deducted from the bank's capital when calculating its capital base in accordance with the rules and guidelines issued by the CBB, such as investments in non-consolidated subsidiaries, are also excluded.

87) A bank's exposure to foreign exchange risk in any currency is its net open position in that currency, which is calculated by summing the following items:

(a) The net open position in the currency (i.e., all asset items less all liability items, including accrued interest, other income and expenses, denominated in the currency in question; assets are included gross of provisions for bad and doubtful debts, except in cases where the provisions are maintained in the same currency as the underlying assets);

(b) The net forward position in the currency (i.e., all amounts to be received less all amounts to be paid under forward foreign exchange contracts, in the concerned currency, including currency futures and the principal on currency swaps not included in the spot position);

(c) Guarantees and similar off-balance sheet contingent items that are certain to be called and are likely to be irrecoverable, where the provisions, if any, are not maintained in the same currency;

(d) Net future income/expenses not yet accrued but already fully hedged by forward foreign exchange contracts may be included provided that such anticipatory hedging is part of the bank's formal written policy and the items are included on a consistent basis;

(e) Profits (i.e., the net value of income and expense accounts) held in the currency in question;

(f) Specific provisions held in the currency in question where the underlying asset is in a different currency, net of assets held in the currency in question where a specific provision is held in a different currency; and

(g) The net delta-based equivalent of the total book of foreign currency options (subject to a separately calculated capital charge for gamma and vega as described in options risk

section; alternatively, options and their associated underlying positions are dealt with by one of the other methods described in options risk section.

88) All assets and liabilities used to arrive at the net open position should be included at closing mid-market spot exchange rates. Mark-to-market items should be included on the basis of the current market value of the positions. Net open positions in composite currencies, such as the ECU and the SDR, may either be broken down into the component currencies according to the quotas in force and included in the net open position calculations for the individual currencies, or treated as a separate currency.

89) For calculating the net open position in gold, the bank will first express the net position (spot plus forward) in terms of the standard unit of measurement (i.e., ounces or grams) and then, convert it at the current spot rate into the base currency. Forward currency and gold positions should be valued at current spot market exchange rates.

90) The net long or short position in each currency is converted, at the spot rate, into the reporting currency. The overall net open position is measured by aggregating the following:

    (a) The sum of the net short positions or the sum of the net long positions, whichever is greater.

    (b) The net position (short or long) in gold, regardless of sign.

91) The capital charge will be 8% of the overall net open position.

COMMODITY EXPOSURES

92) Report in this part the holding or taking of positions in commodities, including precious metals but excluding gold. Long and short positions in each commodity are reported on a net basis for the purpose of calculating the net open position in that commodity. However, offsetting is not allowed for positions in different types of commodities. The net position in each commodity is then converted at spot rates into the bank's reporting currency.

93) All commodity derivatives and off-balance sheet positions which are affected by changes in commodity prices should be included in the measurement framework for commodities risks. This includes commodity futures, forwards, swaps and options. Options should be reported subject to the specific instructions in options risk section.

94) Futures and forward contracts relating to individual commodities should be reported as notional amounts of barrels, kilograms etc., and then converted at current spot rates into the base currency. Where a commodity is part of a forward contract (i.e., commodities to be received or delivered) any interest rate exposure from the other leg of the contract should be reported in interest rate section.

95) Commodity swaps where one leg is a fixed price and the other is the current market price should be incorporated as a series of positions equal to the notional amount of the contract, with one position corresponding to each payment on the swap. The positions would be long if the bank is paying fixed and receiving floating, and short if the bank is receiving fixed and paying floating. If one of the legs involves receiving/paying a fixed or floating interest rate, that exposure should be reported in interest rate section. Commodity swaps where the legs are in different commodities should be incorporated in the measurement framework of the respective commodities separately, without any offsetting.

96) Capital charge is calculated using either the simplified approach or the maturity ladder approach. By the simplified approach, the capital charge will be 15% of the net position, long or short, in each commodity to capture directional risk, plus an additional capital charge of 3% of the bank's gross positions, long plus short, in each commodity to protect the bank against basis risk, interest rate risk and forward gap risk.

97) By the maturity ladder approach, for each commodity, the long and short positions expressed in terms of the standard unit of measurement, are multiplied by the spot price of the commodity and then slotted into the following maturity ladder. Physical stocks are allocated to the first time-band.

Time-bands
0-1 month
1-3 months
3-6 months
6-12 months
1-2 years
2-3 years
over 3 years

Long and short positions in each time-band are matched. The sum of the matched long and short positions in each time-band is multiplied by a spread rate of 1.5%. This represents the capital charge for the matched positions.

The residual (unmatched) positions from nearer time-bands are then carried forward to offset opposite positions (i.e., long against short and vice versa) in time-bands that are further out. However, a surcharge of 0.6% of the position carried forward is added in respect of each time-band carried forward. This surcharge is in addition to the capital charge for each matched position. This procedure is repeated till the last time-band, when there will be either a long or a short position which will be unmatched to which a capital charge of 15% will apply.

OPTIONS RISK

Report in this part positions of option contracts which are related to the risk categories reported in Sec B CMR - Market Risk, using either the Simplified approach or the Delta Plus approach.

For banks that purchase options only - Simplified (Carve-out) approach

98) In the simplified approach, positions in the options and the associated underlying, cash or forward, are entirely omitted from the calculation of capital charges by the standardised methodology and are instead, carved out and subject to separately calculated capital charges that incorporate both general market risk and specific risk.

99) The capital charge should be calculated separately for each individual option as detailed in the table below:

Position	Treatment
Long cash and Long put or Short cash and Long call (i.e. hedged positions)	The capital charge is: (Market value of the underlying instrument x sum of specific and general market risk charges for the underlying) minus (Amount, if any, the option is in the money *). The capital charge calculated as above is bounded at zero, i.e.,, it cannot be a negative number.
Long call or Long put (i.e. naked option positions)	The capital charge is the lesser of: (i) Market value of the underlying instrument x sum of specific and general market risk charges for the underlying; and (ii) Market value of the option **

* For options with a residual maturity of more than six months, the strike price should be compared with the forward price and not the current price. A bank unable to do so should take the "in the money" amount to be zero.

** Where the position does not fall within the trading book (i.e., options on certain foreign exchange and commodities positions not belonging to the trading book), it is acceptable to use the book value instead of the market value.

100) The market risk capital charges to be applied for the purpose of the above paragraph are indicated in the Table below:

Underlying	Specific risk charge	General market risk charge
Interest rate instruments *: Eligible Central Government Qualifying (with residual maturity) - 6 months or less - Over 6 months to 24 months - Over 24 months Others	 0.00% 0.25% 1.00% 1.60% 8.00%	As per the risk weights according to time bands in chapter CA-9 of the CA module
Equity	8.00%	8.00%
Foreign exchange	0.00%	8.00%
Commodity	0.00%	15.00%

* Issuer classifications as per interest rate section.

101) In some cases such as foreign exchange where it may be unclear which side is the underlying of the option, this should be taken to be the asset which would be received if the option were exercised. In addition, the nominal value should be used for items where the market value of the underlying instrument could be zero, e.g.., caps and floors, swaptions etc.

For banks that write options - Delta Plus approach

102) Banks which write options are allowed to include delta-weighted option positions within the standardised methodology. Each option should be reported as a position equal to the market value of the underlying multiplied by the delta. The relevant negative gamma and vega sensitivities of these options should also be reported in order to capture the delta sensitivity and volatility risk of these options.

103) The treatment of the delta-weighted positions for the calculation of the capital charges arising from delta risk is summarised below:

(a) Where the underlying is a debt security or an interest rate

104) The delta-weighted option positions are slotted into the interest rate time-bands as set out in chapter CA-9 of the CA module. A two-legged approach should be used as for other derivatives, requiring one entry at the time the underlying contract takes effect and a second at the time the underlying contract matures. A few examples to elucidate the two- legged treatment are set out below:

(a) A bought call option on a June three month interest rate future will, in April, be considered on the basis of its delta-equivalent value to be a long position with a maturity of five months and a short position with a maturity of two months.

(b) A written option with the same underlying as in (a) above, will be included as a long position with a maturity of two months and a short position with a maturity of five months.

(c) A two months purchased call option on a bond future where delivery of the bond takes place in September will be considered, in April, as being long the deliverable bond and short a five months deposit, both positions being delta-weighted.

(d) Floating rate instruments with caps or floors are treated as a combination of floating rate

securities and a series of European-style options. For example, the holder of a three-year floating rate bond indexed to six month LIBOR with a cap of 10% will treat it as:

(i) A debt security that reprices in six months; and

(ii) A series of five written call options on a FRA with a reference rate of 10%, each with a negative sign at the time the underlying FRA takes effect and a positive sign at the time the underlying FRA matures.

(b) Where the underlying is an equity instrument

105) The delta-weighted positions are incorporated in the measure of market risk in equity risk section of the return. For purposes of this calculation, each national market is treated as a separate underlying.

(c) Options on foreign exchange and gold positions

106) The net delta-based equivalent of the foreign currency and gold options will be incorporated into the measurement of the exposure for the respective currency (or gold) position. These delta positions will be reported in foreign exchange risk section.

(d) Options on commodities

107) The delta-weighted positions are incorporated in the measurement of the commodities risk by the simplified approach or the maturity ladder approach.

108) In addition to the above capital charges to cover delta risk, banks are required to calculate additional capital charges to cover the gamma and vega risks which are explained below:

Gamma

109) For each individual option position (including hedge positions), a gamma impact is calculated according to the following formula:

Gamma impact = 0.5 x Gamma x VU^2

where VU = variation of the underlying of the option.

110) VU will be calculated as follows:

(a) For interest rate options, where the underlying is a bond, the market value of the underlying is multiplied by the risk weights set out in chapter CA-9 of the CA module. An equivalent calculation is carried out where the underlying is an interest rate, based on the assumed changes in yield as set out in chapter CA-9 of the CA module;

(b) For options on equities and equity indices, the market value of the underlying is multiplied by 8%;

(c) For foreign exchange and gold options, the market value of the underlying is multiplied by 8%;

(d) For commodities options, the market value of the underlying is multiplied by 15%.

111) For the purpose of this calculation the following positions should be treated as the same underlying:

(a) For interest rates, each time-band as set out in chapter CA-9 of the CA module. Positions should be slotted into separate maturity ladders by currency. Banks using the duration method should use the time-bands as set out in chapter CA-9 of the CA module;

(b) For equities and stock indices, each national market;

(c) For foreign currencies and gold, each currency pair and gold;

(d) For commodities, each individual commodity.

112) Each option on the same underlying will have a gamma impact that is either positive or negative. These individual gamma impacts are summed resulting in a net gamma impact for each underlying that is either positive or negative. Only those net gamma impacts that are negative should be reported.

Vega

113) The vega positions should represent the risk in a proportional shift in volatility of ±25% for the underlying. For example, an increase in volatility carries a risk of loss for a short option of which the assumed current (implied) volatility is 20%. With a proportional shift of 25%, the vega position has to be calculated on the basis of an increase in volatility of 5 percentage points from 20% to 25%. Suppose the vega is calculated as 1.68, i.e., a 1% increase in volatility increases the value of the option by 1.68, then the above change in volatility of 5% will increase the value of the option by 5 x 1.68 = 8.4 which represents the vega position to be reported.

OPERATIONAL RISK CAPITAL CHARGES

114) Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk but excludes strategic and reputational risk.

115) For the purpose of operational risk capital charges calculation, Gross Income is defined as net interest income plus net non-interest income. This measure should:

(a) Be gross of any provisions (e.g. unpaid interest);
(b) Be gross of operating expenses, including fees paid to outsourcing service providers; in contrast to fees paid for services that are outsourced, fees received by banks that provide outsourcing services shall be included.
(c) Exclude realized profits/losses from the sale of securities in the banking book.
(d) Exclude realized profits/losses from securities classified as "held to maturity" and "available for sale.
(e) Exclude extraordinary or irregular items as well as income derived from insurance.

MEASUREMENT METHODOLOGIES

116) The Central Bank of Bahrain Capital Adequacy Module outlines two methodologies for calculation of a Bank's operational risk charge:

(a) The Basic Indicator approach; and
(b) The Standardized Approach.

THE BASIC INDICATOR APPROACH ("BIA")

117) Banks using the Basic Indicator Approach must hold capital for operational risk equal to the average over the previous three years of a fixed percentage (denoted alpha) of positive annual gross income. Figures for any year in which annual gross income is negative or zero should be excluded from both the numerator and denominator when calculating the average.

118) Banks should report information relating to Gross Income for the last three audited financial years to arrive at the operational risk capital charge. Please refer to paragraph 115 for the definition of Gross Income. This includes:

(a) Net interest income,
(b) Net-non interest income

119) Banks should note that only those years with positive gross income will be counted for the calculation of capital charge. Alpha which is fixed at 15% relates the industry-wide level of required capital to the industry-wide level of the indicator.

120) The operational risk-weighted exposures of the Bank is calculated by multiplying the operational risk capital charge by 12.5 as specified in paragraph CA-A.3.6 of the CBB Capital Adequacy Rulebook.

STANDARDISED APPROACH

121) Banks using the Standardized Approach are required to classify their activities into eight business lines:

(a) Corporate finance,
(b) Trading & sales,
(c) Retail banking,
(d) Commercial banking,
(e) Payment & settlement,
(f) Agency services,
(g) Asset management
(h) Retail brokerage.

A detailed mapping of the business lines are provided below:

Mapping of Business Lines

Level 1	Level 2	Activity Groups
Corporate Finance	Corporate Finance	Mergers and acquisitions, underwriting, privatisations, securitisation, research, debt (government, high yield), equity, syndications, IPOs, secondary private placements
	Municipal/Government Finance	
	Merchant Banking	
	Advisory Services	
Trading & Sales	Sales	Fixed income, equity, foreign exchanges, commodities, credit, funding, own position securities, lending and repos, brokerage, debt, prime brokerage
	Market Making	
	Proprietary Positions	
	Treasury	
Retail Banking	Retail Banking	Retail lending and deposits, banking services, trust and estates
	Private Banking	Private lending and deposits, banking services, trust and estates, investment advice
	Card Services	Merchant/commercial/corporate cards, private labels and retail
Commercial Banking	Commercial Banking	Project finance, real estate, export finance, trade finance, factoring, leasing, lending, guarantees, bills of exchange
Payment and Settlement	External Clients	Payments and collections, funds transfer, clearing and settlement
Agency Services	Custody	Escrow, depository receipts, securities lending (customers) corporate actions
	Corporate Agency	Issuer and paying agents
	Corporate Trust	
Asset	Discretionary Fund Management	Pooled, segregated, retail, institutional, closed, open, private equity

Level 1	Level 2	Activity Groups
	Non-Discretionary Fund Management	Pooled, segregated, retail, institutional, closed, open
Retail Brokerage	Retail Brokerage	Execution and full service

122) Banks should enter information relating to the gross income for each business line for the last three audited financial years. The definition of Gross Income is the same as used under the BIA.

123) Within each business line, Gross Income serves as a proxy for the scale of business operations and thus the likely scale of operational risk exposure within each of these business lines.

124) Under the Standardized Approach, the capital charge for each business line is calculated by multiplying gross income by a factor, denoted by a beta assigned to that business line. Beta serves as a proxy for the industry-wide relationship between the operational risk loss experience for a given business line and the aggregate level of gross income for that business line.

125) The values of the beta factors are detailed below:

Business Lines	Beta Factors
Corporate Finance	18%
Trading and Sales	18%
Retail Banking	12%
Commercial banking	15%
Payment and Settlement	18%
Agency Services	15%
Asset Management	12%
Retail Brokerage	12%

126) Banks should note that under the Standardized Approach, Gross Income is measured for each business line not for the whole institution, i.e in corporate finance, the indicator is the gross income generated in the corporate finance business line.

127) The total capital charge under the Standardized Approach is calculated as the three-year average of the summation of the capital charges across each of the business lines in each year.

128) Please note that in any given year negative capital charges resulting from negative Gross Income in any business line cannot off-set positive capital charges in other business lines. Where the aggregate capital charge across all business lines within a given year is negative, the input to the numerator for that year will be zero.

129) The total operational risk-weighted exposure for the Bank is calculated as the sum of the operational risk charges across each business line multiplied by *12.5* as specified in paragraph CA-A.3.6.

SECTION C: ASSET QUALITY

CLASSIFICATION OF LOANS AND ADVANCES

130) Loans and advances are the amounts due from customers.

131) Interest accrued on non-performing loans may not be recognized without the agreement of the Bank's external auditors.

132) Type of loans:

(a) Standard loans: are performing loans.

(b) Substandard loans: are those non-performing loans which are inadequately protected by the current paying capacity or net assets of the customer or by the value of the security taken by the bank. Such loans must have a definite weakness which jeopardizes the liquidation of the loan.

(c) Doubtful loans: are similar to substandard loans with the added characteristic that the weakness in question makes liquidation in full, on the basis of currently known facts, highly improbable.

(d) Loss loans: losses are where facilities are considered uncollectible within a reasonable time frame and prospects of recovery are remote, where the facility has little true value and where writing off should not be postponed.

(e) Problem country debt loans: are all receivables due from countries scoring 10 or above under the CBB's sovereign debt matrix or from countries in default should be reported here.

(f) Restructured loans: Restructured receivables refers to receivables, relating to the period, where the bank for economic and legal reasons related to the customer's financial difficulties grants concessions that it would have not otherwise considered.

133) Impaired loans and advances must include all non-performing loans and advances on which payment of interest or repayments of principal are 90 or more days past due and all loans and advances on which specific provision have been made.

134) Collateral Market Value represents the market value of any kind of collateral against the facilities granted to the customer. It may not need be Basel II compliant. This sheet does not form any part of the capital adequacy calculation.

135) In the "Analysis by Sector" section, report the amount attributable to each of the sectors identified on the sheet. Report the amount outstanding, non-performing amount and the amount of respective specific provisions.

136) 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) 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.

137) Please distinguish between real estate financing and construction financing as follows:

(a) If the credit facility is provided to a construction company for the use in its operations (working capital, constructing a building for a customer) it should be classified a construction loans.

(b) If the credit facility is provided to a construction company to construct its own building, then it will be classified as real estate financing.

138) Residential Mortgages: Include all loans secured by a charge on residential property.

INVESTMENTS

139) This sheet is to be used to classify investments based on whether they are either banking book investments or trading book investments based on the nature of the investment.

140) Available-for-sale assets are those financial assets that are neither held to maturity nor held for trading.

141) An investment property is an investment in land or building that is not occupied substantially for use by, or in the operations of, the investing enterprise or another enterprise in the same group as the investing enterprise.

PROVISIONS FOR LOSSES AND MOVEMENT OF UNREALIZED GAINS/LOSSES ON AFS INVESTMENT IN RETAINED EARNINGS

142) Report in this sheet the movement of the provisions for loans, investments, all other assets, and off-balance sheet items. Also report the movement of the unrealized gains/losses on AFS in the retained earnings for the period.

143) The specific provision is the amount that is required to write down the asset to its cash equivalent value, i.e. amount expected to be collected.

LARGEST BANK AND NON-BANK EXPOSURES (INCLUDING OFF-BALANCE SHEET ITEMS)

144) The measure of exposure reflects the maximum loss should a counterparty fail, or loss that may be experienced due to non-repayment of facilities granted. Consistent with this, an exposure encompasses the amount at risk arising from a bank's:

(a) Claims on a counterparty including actual claims, and potential claims 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, and claims which the bank has committed itself to purchase or underwrite;

(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 revocable, conditional or unconditional) which the bank has committed itself to provide; and

(c) Other assets (whether on balance sheet or off-balance sheet), which constitute a claim for the bank and its customers and which are not included in (i) or (ii) above. In particular, exposures where the bank itself is not exposed, but is committing client funds .

145) As a general rule, exposures should be reported on a gross basis (i.e. no offset). However, debit balances on accounts may be offset against credit balances where they relate to the same customer or to corporate customers in the same business group 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; and

(b) The bank intends either to settle on a net basis, or to realise the debit balances and settle the credit balances simultaneously. For a group facility, a full cross guarantee structure must also exist (i.e. full multilateral guarantees must be in place between all the companies within the group).

Large exposures

146) Large exposures are calculated using the sum of the nominal amounts before the application of the 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.

147) 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 is not available. Where a binding commitment is available, that amount would be excluded in calculation of the large exposures. For details and limits on large exposure, please refer to sections CM-5.3 & CM-5.5.

148) All exposures to the same counterparty should be aggregated.

149) Any exposure which represents 10% or more of the bank's consolidated capital base should be reported. If all exposures are below 10% of the bank's consolidated capital base, report the 25 largest exposures. Where the bank has only a few number of exposures representing 10% or more of its capital base, then the next largest exposures should be reported upto 25 counterparties.

SECTION D: LIQUIDITY AND OTHER ASSETS

LIQUIDITY

150) This section details the liquidity profile of the Bank. The sheet is classified into three main sections:
(a) Liquid Assets
(b) Qualifying Liabilities
(c) Net Stable Funds

151) Liquid Assets include cash and all assets that can be easily converted into cash.

152) Cash and balances at central banks include the amount comprising of notes, coins and balances with the Central Bank of Bahrain. Banks should be advised that this does not include the 5% cash reserve maintained with the CBB.

153) Marketable securities which are not pledged and which include all those securities that can be easily sold/liquidated should be included in this section. Assets should only be classified as marketable where the Bank can readily obtain a market value. The Bank should report these securities at the current market value.

154) Banks should report all Qualifying Liabilities within this section including

(a) Deposits from non-banks
(b) Deposits from banks
(c) Certificates of deposits issued
(d) Term borrowings

155) Banks should report the following data to calculate the Net Stable Funds:

(a) Deposits from non-banks (based on the bank's assessment)
(b) Certificate of deposits issued
(c) Adjusted Tier 1 capital
(d) Term borrowings.

The following should be deducted from the above to arrive at the Net Stable Funds amount:
(e) Fixed Assets
(f) Properties acquired as a result of debt settlements
(g) Total investment in loans to consolidated subsidiaries engaged in banking and financial activities
(h) Total deductions as specified by the CBB.

MATURITY PROFILE

Assets

156) Assets should be inserted into the appropriate maturity band according to their maturities, i.e. in terms of the period remaining to contractual maturity date. Overdrafts should be reported according to the period remaining to the next review dates.

157) Where assets have been pledged as collateral and are therefore no longer available to the bank to meet obligations, they should be excluded from the maturity ladder as they are no longer available to provide the bank with liquidity.

158) Marketable assets (marketable means that there is an active market from which a market value or some indicator that enables a market value to be calculated, is available) should be included in the "8 days but less than one month" band for the purpose of this maturity profile.

159) Assets known to be of doubtful value (non-performing assets) should normally be excluded from the maturity ladder but it could be included on a case by case basis.

160) Contractual standby facilities made available to the bank by other banks should be included in the "8 days but less than one month" band, and should also be reported as a note to the profile.

161) Items in the course of collection, if material, could be netted off (if applicable) for the purpose of this maturity profile. The balance should be reported under "8 days but less than one month" band.

Liabilities:

162) All types of deposits should be reported in terms of the period remaining to the contractual maturity date. Set off, for the purpose of this maturity profile may be allowed if an appropriate agreement exists between the parties involved.

163) Known firm commitments to make funds available on a particular date should be included at their full value, and also reported separately as a note to the profile.

164) Commitments which are not due to be met on a particular date, e.g. undrawn overdraft amount, standby facilities etc. should be reported separately as a note to the profile.

165) Contingent liabilities should not be included in the maturity profile, unless they are likely to be fulfilled.

25 LARGEST BANK DEPOSITORS & 25 LARGEST NON-BANK DEPOSITORS

166) All exposures to the same counterparty should be aggregated.

RELATED PARTIES TRANSACTIONS, LARGE EXPOSURES AND OTHER ITEMS

Related Parties Transactions

167) Related parties transactions is defined as a transfer of resources, services or obligations between related parties, regardless of whether a price is charged.

Please refer to IAS 24 for the guidance on Related Parties Transactions.

Large Exposures - Consolidated

168) For details on large exposures, please refer to sections CM-5.3 and CM-5.5.

Other Items

169) Banks should report the following in this section:

(a) Total assets pledged by the bank

(b) Client funds under management

(i) On behalf of Clients in Bahrain

(ii) On behalf of Clients outside Bahrain

(c) Back-to-Back deposits from banks and customers

(d) Shari'a compliant transactions