Supplementary Information
Appendix BR-3
Guidelines for Completion of PIR
Overseas Conventional Bank

GUIDELINES FOR COMPLETION OF
THE PRUDENTIAL INFORMATION REPORT FOR OVERSEAS CONVENTIONAL BANKS

GENERAL

1) All overseas conventional banks 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 operations in Bahrain.

2) Overseas conventional retail banks should complete the Form PIR in BD while overseas conventional wholesale banks should report in US$. Amounts should be reported to the nearest one thousand.

3) The Form PIR should be used for reporting all operations of the institution booked in Bahrain (i.e. Bahrain operations). As such, whenever the term "Consolidated" is mentioned, it should be ignored. However, both columns should be filled out.

4) A major purpose of this Form is to assess the banks' financial performance including their capital, asset quality, liquidity and other assets and earnings in accordance with international practices.

5) The Form PIR 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 Items.

6) Please take note that some items in the Form PIR are not applicable to overseas conventional banks, including the following:

   a) Section A – Balance Sheet: items number 1.2, 1.3, 1.9 and 3.7.
   b) Section A – Cumulative Profit and Loss Account: items number 30, 31, 34 and 35.
   c) Section B – Capital Adequacy Calculation: the entire section.
   d) Section C – Investments: item number C.2.
   e) Section D – Liquidity: item number iii.7.
   f) Section D – Large Exposures: items number a. and b.

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

8) Completed Form PIR is required from all banks showing the financial position at the end of each calendar quarter. It should be sent by no 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

9) 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 for reporting purposes only.

BALANCE SHEET

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

(a) Capital liabilities: Represent the capital provided to the Branch by the Head Office.

- Capital/Endowment capital should be reported under item number 1.1.
- Items number 1.2, 1.3, and 1.9 are not applicable and should therefore be left blank.

(b) Non-capital liabilities: Represent all liabilities in the balance sheet.

(c) Assets: Represent all assets (monetary and non-monetary assets).

- Item number 3.7 is not applicable and should therefore be left blank.

PROFIT & LOSS

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

- Items number 30, 31, 34 and 35 are not applicable and should therefore be left blank.

TRADING BOOK VS BANKING BOOK

12) 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 BASE

13) The entire section is not applicable to overseas conventional banks and should therefore be left blank.

SECTION C: ASSET QUALITY

CLASSIFICATION OF LOANS AND ADVANCES

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

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

16) 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, where applicable.

    (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.

17) 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.

18) Collateral Market Value represents the market value of any kind of collateral against the facilities granted to the customer.

19) 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.

20) 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.

21) 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.

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

INVESTMENTS

23) 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.

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

25) 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.

26) Item number C.2 of section C is not applicable and should therefore be left blank.

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

27) 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 (applicable) unrealized gains/losses on AFS in the retained earnings for the period, where AFS FV gains and losses are reported through P&L statement.

28) 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)

29) Banks should list their 25 largest individual exposures to banks and non-banks (Please disregard the note marked with an asterisk (*) at the bottom of the table in the Form PIR.

30) 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 (a) or (b) above. In particular, exposures where the bank itself is not exposed, but is committing client funds.

31) 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).

SECTION D: LIQUIDITY AND OTHER ASSETS

LIQUIDITY

32) 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

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

34) 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 7% cash reserve maintained with the CBB.

35) 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.

36) 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

37) 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 capital (Please disregard the phrase "Tier 1" in the Form PIR when reporting this item)
(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

– Item number iii.7 is not applicable and should therefore be left blank.

MATURITY PROFILE

Assets

38) 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.

39) 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.

40) 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.

41) 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.

42) 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.

43) 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:

44) 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.

45) 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.

46) 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.

47) 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

48) Banks should list their 25 largest bank and non-bank depositors.

49) All deposits to the same counterparty should be aggregated.

RELATED PARTIES TRANSACTIONS, LARGE EXPOSURES AND OTHER ITEMS

Related Parties Transactions

50) 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.