



# **Glossary of Defined Terms**



## Glossary History

Version Date	Description of Changes
July 2004	Initial Launch Version.
July 2006	Updated version, including new defined terms of retail bank and wholesale bank license sub-categories, and definitions of regulated banking services.
April 2010	Updated Definition of Deposit in accordance with Resolution No. (23) of 2009 in respect of Definition of Deposit.
October 2010	Amended definition for Chief Executive Officer; added definition of Executive director, Independent director; Non-executive director; Remuneration, and; senior manager/management.
January 2011	Minor corrections and amendments for consistency purposes; Amended definition for approved person(s), collective investment undertaking, exposure(s), security(ies); Added definition for accredited investor(s), acquisition(s), bond(s); capital instrument(s), close links, connected person(s), future(s), investment(s), investment analyst, investment research, licensed exchange(s); market, option(s), participant(s), personal account transaction, public offering(s), qualifying holding(s), real time promotion, retail customer(s), self-regulatory organisation(s) or SROs, soft dollar agreement, swap(s), warrants; Deleted definition of independent non-executive director.



## A

### Accepting Shari'a money placements

The acceptance of sums of money for safe-keeping ('al-wadia') in a Shari'a compliant framework, under which it will be repaid, either on demand or in circumstances agreed by the parties involved, and which is not referable to the giving of security.

### Accredited investor(s)

Defined in Rule BC-8.4.6, an accredited investor includes:

- (a) Individuals holding financial assets (either singly or jointly with their spouse) of USD 1,000,000 or more;
- (b) Companies, partnerships, trusts or other commercial undertakings, which have financial assets available for investment of not less than USD 1,000,000; or
- (c) Governments, supranational organisations, central banks or other national monetary authorities, and state organisations whose main activity is to invest in financial instruments (such as state pension funds).

### Acquisition(s) (as referred to in Module CM)

The acquiring by a bank of beneficial or legal ownership of capital instruments issued by another entity. This would not include securities underwriting until the expiry of the underwriting period (where separate arrangements apply elsewhere in Module CM). Acquisition may also be in the form of exercising of rights to take control of capital instruments pledged as collateral. The pledging of capital instruments by a customer to a bank as collateral (e.g. for the purpose of obtaining credit) does not in itself mean that an "acquisition" has taken place. Acquisition also does not include the establishment of new subsidiaries by the bank. Regulatory requirements for the establishment of SPVs and subsidiaries are contained in Chapter PCD-4.

### Administrators

Persons who administer financial instruments and related services such as cash/collateral management. Such persons need to be registered by the CBB (cf. Volume 4, AU-1.3.2).

### Agency based contract for investments

Holders of investment accounts appoint the Islamic bank to invest their funds on the basis of an agency contract in return for a specified fee or a specified fee and share of the profit if the realised profit exceeds a certain level, the latter being an incentive for the Islamic bank to achieve a return higher than expected.

### AML

Anti-Money Laundering

### Ancillary service provider

A person who is licensed by the CBB in relation to the carrying on of one or more ancillary services, such as providing compliance services, data-processing services, or a local service or management office, with respect to other CBB licensees. Such persons are separately licensed and subject to the requirements contained in the relevant CBB's "Standard Conditions and Licensing Criteria".



### **Approved person(s)**

As defined in LR-1A.1.

### **Articles of association**

Legal document establishing a corporation, outlining its structure and purpose.

### **Asset revaluation reserves**

An asset revaluation reserve is an accounting concept and represents a reassessment of the value of a capital asset as at a particular date.

### **Associate(d)**

A company or other enterprise, which is not a subsidiary or joint venture, over which the bank licensee has significant influence. Significant influence means the power to participate in financial and operating policy decisions. Such influence is presumed to exist if the bank licensee owns more than 20 percent of the associate.

### **Auditor**

The firm/partnership charged with carrying out the audit of a licensee and its partners, directors and managers (see Module AU).

### **Authorised Money Transferor**

Any Bank or other licensee (such as a money changer) specifically authorised to effect money transfers.



## B

### **Bahraini Conventional bank licensee(s)**

As defined in LR-A.1.8.

### **Base rate**

The interest rate that underpins lending to bank customers. Banks lend to their customers at basis points over base rates. Not to be confused with prime rate which is the rate at which a bank will lend to its most creditworthy customers.

### **Basel Capital Accord**

Issued initially in July 1988 by the Basel Committee on Banking Supervision, the Basel Capital Adequacy Accord is a risk based capital adequacy methodology that defines the components of capital and applies a series of risk weights and capital charges to banks' assets and holdings of financial instruments. The Accord aims to increase the stability of the international financial system through having a single internationally acknowledged measurement of a bank's capital expressed as a percentage of its financial risks. It also serves to put internationally active banks on an equal competitive footing in respect of the measurement of their capital adequacy.

### **Basel Committee**

The Basel Committee was founded in 1974 by the Bank for International Settlements (BIS). The Committee is made up of representatives of the central banks and banking supervisory authorities of the Group of Ten (G-10) countries plus Luxembourg and Spain. The resolutions and recommendations of the Basel Committee are accepted as the basis of banking supervision methodology in more than 130 countries. They are not binding, however, as the Committee does not exercise a supranational banking supervisory function.

### **Bonds**

An instrument creating or acknowledging a present or future indebtedness (i.e. debentures, debenture stock, loan stock, bonds, certificates of deposit and any other instruments creating or acknowledging a present or future indebtedness), but excluding:

- (a) An instrument creating or acknowledging indebtedness for, or for money borrowed to defray, the consideration payable under a contract for the supply of goods and services;
- (b) A cheque or other bill of exchange, a bankers draft or a letter of credit (but not a bill of exchange accepted by a banker);
- (c) A banknote, a statement showing a balance on a bank account, or a lease or other disposition of property; and
- (d) A contract of insurance.

### **Branch**

A place of business which forms a legally dependent part of a bank and which carries out directly all or some of the transactions inherent in the business of the relevant bank.

Conventional bank licensees operating as a branch are called overseas conventional bank licensees for the purposes of Volume 1 (see LR-A.1.8).



**C**

### **Capital adequacy**

A measure of the financial strength of a bank or securities firm, usually expressed as a percentage ratio of its capital to its assets.

### **Capital instrument(s)**

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

### **Capital redemption reserves**

Where shares of a company are redeemed or purchased wholly out of the company’s profits, or by a fresh issue, the amount by which the company’s issued share capital is diminished on cancellation of the shares shall be transferred to this reserve.

### **Certificate of commercial registration**

Certificate issued by Ministry of Commerce to businesses for carrying out specified activities as legal entities in the Kingdom of Bahrain.

### **Certificate of deposits**

This is a certificate issued by a bank or thrift that indicates a specified sum of money has been deposited with it for a specified period at a defined rate. A CD shows a maturity date and a specified interest rate, and can be issued in any denomination. The duration can be up to five years.

### **Certificate of incorporation**

A document granted by the Ministry of Commerce giving an entity its legal existence and right to function as an entity.

### **Certificates representing certain securities**

Certificates or other instruments which confer contractual or property rights:

- (a) In respect of any investment held by someone other than the person on whom the rights are conferred by the certificate or other instrument; and
- (b) The transfer of which may be effected without requiring the consent of that person.

### **CFT**

Combating the financing of terrorism.



### **Chief Executive, Chief Executive Officer or CEO**

Chief executive, chief executive officer or CEO. The board shall determine that person's actual title, which may be 'CEO', 'Chief Executive Officer', 'President', 'Managing Director', or another title.

### **Close links**

A bank is defined as "closely linked" with:

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

### **Collateral**

Any form of property, security, guarantee or indemnity provided as security for a borrower.

### **Collective Investment Undertaking**

As defined in LR-1.3.34.

### **Commodity**

Raw materials or primary products, usually sold in bulk on an exchange (other than a financial instrument or cash) which are capable of delivery. Gold is therefore a commodity, but a gold ring or a gold future is not.

### **Compliance Directorate**

The unit within the Central Bank responsible for verifying licensees' compliance with the requirements of the CBB Law, the AML Law, this Module and other CBB Regulations relating to terrorist financing and money laundering, and for collating and monitoring suspicious transactions reports from licensees.

### **Conflict of interest**

A situation when a person or an entity has competing professional or personal obligations to other parties in a financial transaction (e.g. underwriting a securities transaction and simultaneously advising clients whether to buy the security or not) or in ongoing financial relationships (e.g. when a bank has a director or one of its major borrowers on its board), or personal or financial interests that would make it difficult to fulfil his duties fairly.



### Connected person(s) (as referred to in Paragraph HC-2.3.2)

- (a) The individual's spouse and his/her son, adopted son, stepson, daughter, adopted daughter, step-daughter, father, step-father, mother, step-mother, brother, step-brother, sister or step-sister, under his/her guardianship or control; or
- (b) A firm or corporation in which the individual or any persons mentioned in (a) has control of not less than 10% of the voting power in the firm or corporation, whether such control is exercised individually or jointly; or
- (c) Connected persons in relation to a firm or corporation means another firm or corporation in which the first-mentioned firm or corporation has control of not less than 10% of the voting power in that other firm or corporation.

### Contingency plans

A plan maintained to ensure the availability of critical resources and to facilitate the continuity of operations in an emergency situation.

### Contingent liabilities

In context of liabilities, those liabilities that do not yet appear on the balance sheet (ie. guarantees, supports, lawsuit settlements). For support or recourse, the trigger may occur at any time in the future, and the loss or expenditure is highly uncertain. Once timing and the quantification of expenditure becomes clearer, provisions should be raised in respect of the contingent liability. When the amount or the timing of the contingent item becomes certain, then it ceases to be a contingent item and should be entered into the balance sheet.

### Control

(in relation to the acquisition, increase or reduction of control of a bank) the relationship between a person and the bank or other undertaking of which the person is a controller.

### Control environment

The control environment means the overall attitude, awareness and actions of directors and management regarding the internal control system and its importance in the entity.

### Controlled function

A function carried on by an approved person in relation to a conventional bank licensee, that requires prior CBB approval: [LR-1A.1.2](#).

### Controller

A controller is a natural or legal person who:

- (a) Holds 10% or more of the shares in the licensee ("L"), or is able to exercise (or control the exercise) of more than 10% of the voting power in L; or
- (b) Holds 10% or more of the shares in a parent undertaking ("P") of L, or is able to exercise (or control the exercise) of more than 10% of the voting power in P; or
- (c) Is able to exercise significant influence over the management of L or P.

### Conventional bank licensee

A bank licensed by CBB under Volume 1 of the CBB Rulebook, and generally operating according to conventional finance principals (as opposed to operating in accordance with Islamic finance principles).



### **Correspondent Bank**

A bank which offers another bank (the respondent bank) an account through which the respondent bank may make payments for its own account and that of its clients. In brief, the correspondent bank acts as agent for the respondent bank. Correspondent relationships do not include transactions between banks as principals (e.g. in the wholesale market).

### **Counterparty**

A counterparty is the other person in a contract. Therefore, if bank A buys a security issued by company B from broker C, bank A has counterparty risk to broker C and Issuer Risk in respect of company B. A counterparty may include any legal person or arrangement, but generally would mean the following:

- (a) Any individual;
- (b) Any unincorporated body of persons;
- (c) Any company which is not a member of a group;
- (d) Any group of companies; or
- (e) Any government of a State or any public bodies, local authorities or nationalised industries of a State.

### **Credit derivatives**

The OTC derivatives instruments for the transfer of credit risk.

### **Custody**

In relation to clients' assets, this refers to the safeguarding and administering of a client's investments.

### **Customer**

A customer is:

Groups or individuals who have a business relationship with the organization--those who receive and use or are directly affected by the products and services of the organization.



## D

### **Dealing in financial instruments as agent**

Dealing in financial instruments as agent means buying, selling, subscribing for or underwriting any financial instrument on behalf of a client (see LR-1.3.25 ff).

### **Dealing in financial instruments as principal**

Dealing in financial instruments as principal means buying, selling, subscribing for or underwriting any financial instrument on one's own account (see LR-1.3.22 ff).

### **Default**

Failure to service a credit in accordance with agreed terms, e.g. late or incomplete payments of principal or interest, or infringement of any other material provision of the credit documentation.

### **Deposit**

For the purposes of the CBB Law, refer to Resolution No. (23) of 2009 in respect of Definition of Deposit (see Appendix CP-2).

For the purposes of Compensation Module (CP), Deposit shall have the same meaning as stated in Resolution No 3 dated 1<sup>st</sup> November 1993, signed by His Highness The Prime Minister.

### **Deposit-taking**

The activity of accepting deposits (see LR-3.1.16).

### **Derivative**

A generic term for a financial instrument whose value is dependent on, or derived from, the changes in the absolute or relative value of some underlying asset or market index or rate. Often used for futures, options and swaps.

### **Derivative contracts relating to commodities settled in cash**

Options, futures, swaps, forward rate agreements and any other derivative contracts relating to commodities that must be settled in cash at the option of one of the parties (otherwise than by reason of a default or other termination event).



### **Derivative contracts relating to commodities that can be physically settled**

Options, futures, swaps, and any other derivative contract relating to commodities that can be physically settled provided that they are traded on a regulated market and/or an MTF.

### **Designated market**

Any of the following investment exchanges:

- American Stock Exchange
- Australian Stock Exchange
- Bolsa Mexicana de Valores
- Bourse de Montreal Inc
- Channel Islands Stock Exchange
- Chicago Board of Trade
- Chicago Board Options Exchange
- Chicago Stock Exchange
- Coffee, Sugar and Cocoa Exchange, Inc
- Euronext Amsterdam Commodities Market
- Hong Kong Exchanges and Clearing Limited
- International Securities Market Association
- Johannesburg Stock Exchange
- Kansas City Board of Trade
- Korea Stock Exchange
- MidAmerica Commodity Exchange
- Minneapolis Grain Exchange
- New York Cotton Exchange
- New York Futures Exchange
- New York Stock Exchange
- New Zealand Stock Exchange
- Osaka Securities Exchange
- Pacific Exchange
- Philadelphia Stock Exchange
- Singapore Exchange
- South African Futures Exchange
- Tokyo International Financial Futures Exchange
- Tokyo Stock Exchange
- Toronto Stock Exchange

### **Director**

A person who acts in the capacity of director of a firm (whether appointed or not, or whether titled director or not). In the case of a sole trader, unincorporated body or partnership, a person directing its affairs, or a partner (of a partnership). Directors are a controlled function (cf. HC-2).



## E

### Effective interest rates

The annual rate at which an investment grows in value when interest is credited more often than once a year.

### Electronic banking

Electronic banking or 'e-banking' refers to the provision of retail and small value banking products and services through electronic channels. Such products and services can include deposit-taking, lending, account management, the provision of financial advice, electronic bill payment, and the provision of other electronic payment products and services such as electronic money.

### Electronic money

The investment, which is monetary value, as represented by a claim on the issuer, which is:

- (a) Stored on an electronic device;
- (b) Issued on receipt of funds; and
- (c) Accepted as a means of payment by persons other than the issuer.

### Executive director

Means a director who is an officer or employee, or is otherwise involved in day-to-day management, of either:

- a) The bank;
- b) Another company which is a controller of the bank;
- c) Another company of which the bank is a controller; or
- d) Another company which is controlled by a controller of the bank.

### Exposure

The components of an "Exposure" are outlined in more detail in Module CM-5.3. In summary, an exposure is the maximum loss which the firm might suffer if:

- (a) A counterparty or a group of connected counterparties fail to meet their obligations; or
- (b) It realises assets or off-balance sheet positions.



**F**

**Face value (see Murabaha)**

The amount of a Murabaha receivable based on the price agreed between the client and the Islamic bank including the latter's profit on the transaction.

**FATF Member State**

A country which is a current member of the FATF, and which is not subject to NCCT listing or to any advisories by the FATF.

**Financial Action Task Force (FATF)**

The inter-governmental body responsible for developing and promoting policies, both nationally and internationally, to combat money laundering.

**Financial contracts for differences**

Comprise rights under a contract for differences, or any other contract the purpose or pretended purpose of which is to secure a profit or avoid a loss by reference to fluctuations in:

- (a) The value or price of investment or property of any description;
- (b) Any currency;
- (c) The rate of interest in any currency or any index of such rates including interest rate options;
- (d) The level of any index which is derived for the prices of an investment or physical commodity (including index options) or;
- (e) Any combination of the above.

**Financial instruments**

Any of the following instruments:

- (a) Transferable securities;
- (b) Islamic financial instruments;
- (c) Money market instruments;
- (d) Units in collective investment undertakings;
- (e) Derivative contracts other than commodity derivatives;
- (f) Derivative contracts relating to commodities settled in cash;
- (g) Derivative contracts relating to commodities;
- (h) Credit derivatives;
- (i) Financial contracts for differences;
- (j) Other derivative contracts;
- (k) Interests in real estate property;
- (l) Certificates representing certain securities; and
- (m) Rights or Interests in Financial Instruments.

**Financial Instruments Trader**

A person who is engaged in buying or selling financial instruments. This is a controlled function (cf. LR-1A.1.2).



**Future(s)**

Rights under a contract for the sale of a commodity or property of any other description under which delivery is to be made at a future date and at a price agreed on when the contract is made.



**G**

**General Manager**

The General Manager (of a firm whether incorporated in Bahrain or not) means a person who (regardless of actual title) is responsible, alone or jointly, for the conduct of the whole of the firm, or in the case of an overseas licensee, for all the activities of the branch. Equivalent to Chief Executive in the case of firms incorporated in Bahrain (cf. HC-2).

**Going concern**

The idea that a company will continue to operate indefinitely, and will not go out of business and liquidate its assets.



## H

### **Head of function**

A person who, under the immediate authority of the chief executive or general manager, exercises one or more major managerial functions or is responsible for maintaining accounts or other records of the firm (cf. **LR-1A**).

### **Hedging**

A strategy designed to reduce investment risk using call options, put options, short-selling, or futures contracts. A hedge can help lock in profits. Its purpose is to reduce the volatility of a portfolio by reducing the risk of loss.

### **Home Supervisor**

The competent regulatory authority in which the parent of a conventional bank licensee is incorporated, or in which the head office of a branch is incorporated.

### **Homogeneous loans**

Loan facilities bearing similar attributes.

### **Host Regulator/Supervisor**

The competent authority in which a branch of a foreign bank licensee is located or in which a subsidiary or joint venture of a foreign parent bank licensee is incorporated.

### **Hybrid instruments**

A package of two or more different kinds of risk management instruments that are usually interactive.



## Independent director

**Determination by the Board.** Under Module HC an ‘independent director’ is a director whom the board has specifically determined has no material relationship which could affect his independence of judgment, taking into account all known facts. The board should consider that, although a particular director meets the formal requirements, he may not be independent owing to specific circumstances of the person or the bank, ownership structure of the bank, or for any other reason. The board’s determination should be a good faith finding after diligent review and full discussion.

**Formal Requirements.** ‘Independent director’ means a director of the bank who, or whose family shareholders either separately or together with him or each other, does not have any material pecuniary relationships or transactions with the bank (not counting director’s remuneration for this purpose) and in particular who, during the one year preceding the time in question met all the following conditions:

- (a) Was not an employee of the company;
- (b) Did not:
  - (i) Make to, or receive from, the bank payments of more than 31,000 BD or equivalent (not counting director’s remuneration);
  - (ii) Own more than a 10% share or other ownership interest, directly or indirectly, in an entity that made to or received from the bank payments of more than such amount;
  - (iii) Act as a general partner, manager, director or officer of a partnership or company that made to or received from the bank payments of more than such amount;
  - (iv) Have any significant contractual or business relationship with the bank which could be seen to materially interfere with the person’s capacity to act in an independent manner;
- (c) Did not own directly or indirectly (including for this purpose ownership by any family member or related person) 5% or more of the shares of any type or class of the bank;
- (d) Was not engaged directly or indirectly as an auditor or professional advisor for the bank; and
- (e) Was not an associate of a Director or a member of senior management of the bank.



## Independent non-executive director

[deleted 01/2011]

## Insider trading

The activity which is in summary:

- (a) The offence of which an individual is guilty if he has information as an insider and:
- (i) In the circumstances described in (b), he deals in securities that are price-affected securities in relation to the information; or
  - (ii) (A) he encourages another person to deal in securities that are (whether or not that other knows it) price affected securities in relation to the information, knowing or having reasonable cause to believe that the dealing would take place in the circumstances mentioned in (b); or (B) he discloses the information, otherwise than in the proper performance of the functions of his employment, office or profession, to another person; and
- (b) The circumstances referred to in (a) are that the acquisition or disposal in question occurs on a regulated market, or that the person dealing relies on a professional intermediary or is himself acting as a professional intermediary.

## Insurance licensee

A person licensed under Volume 3 of the CBB Rulebook.

## Interests in real estate property

Any financial instrument giving right to or interests in real estate property other than owner occupied properties.

## Intermediary

A person who in the course of any business or profession invites other persons to make offers or proposals or to take other steps with a view to entering into contracts of insurance, but not a person who publishes such invitations only on behalf of, or to the order of, some other person.

## Intra-group outsourcing

Intra-group outsourcing is an arrangement in which one company within a group of companies provides services for another company within the same group that could also be or usually have been provided in-house.

## Investment(s) (as referred to in Module CM)

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



**Investment analyst (as referred to in Module BC)**

An employee of a conventional bank licensee who prepares investment research.

**Investment firm licensee**

A person licensed under Volume 4 of the CBB Rulebook.

**Investment fund managers**

A commercial organisation that manages investors' money for a fee.

**Investment research (as referred to in Module BC)**

A document (other than a recommendation made to an individual customer), distributed outside a conventional bank licensee, which contains one or more of the following:

- (a) The results of research into an individual financial instrument;
- (b) Analysis of factors likely to influence the future performance of an individual financial instrument or its issuer; and
- (c) Advice or recommendations based on those results or that analysis.

**Investment risk reserve**

Investment risk reserve is the amount appropriated by the Islamic bank out of the income of investment account holders, after allocating the mudarib share, in order to cater against future losses for investment account holders.

**Islamic bank licensee**

A person licensed under Volume 2 of the CBB Rulebook.

**Issued share capital**

Total amount of shares that have been issued.



**J**

**Joint accounts**

An agreement between two or more firms to share risk and financing responsibility in purchasing or underwriting securities, or an account owned jointly by two or more persons at a bank or brokerage house.



### **Licensees**

Any person licensed by the CBB under any of the Volumes of the CBB Rulebook.

### **Licensed exchange(s)**

“Licensed exchange” means an exchange licensed in respect of the operation of its market in and from the Kingdom of Bahrain.

### **Liquidation**

The process of terminating a bank’s activities whereby all creditors are discharged either in full (a solvent liquidation), or in part (an insolvent liquidation) and any remaining funds are returned to the shareholders. This process normally takes place in accordance with the requirements of specific legislation in the country of incorporation. In Bahrain this includes the Bankruptcy and Preventative Settlements Act.



## M

### **Managing financial instruments**

Managing financial instruments means managing on a discretionary basis financial instruments on behalf of another person (see LR-1.3.27).

### **Managing Shari'a profit/loss sharing investment accounts**

Managing a Shari'a profit sharing investment account means managing an account, portfolio or fund, whereby a sum of money is placed with the service provider on terms that a return will be made according to an agreed Shari'a compliant profit-sharing arrangement, based either on a mudaraba or musharaka partnership (see LR-1.3.21).

### **Market (as referred to in the definition of licensed exchange)**

“Market” means a place at which, or a facility (whether electronic or otherwise) by means of which, offers or invitations to sell, purchase or exchange securities or futures contracts (including options and derivatives) regularly made on a centralised basis, being offers or invitations that are intended or may reasonably be expected to result, whether directly or indirectly, in the acceptance or making, respectively, of offers to sell, purchase or exchange securities or futures contracts (whether through that place or facility or otherwise).

### **Memorandum of association**

The Memorandum of Association is the first constitutional document of a company containing fundamentals such as the name, the company's objects and powers, and its original share capital.

### **Mind and Management**

The presence of persons with executive authority to act on behalf of the bank and who have knowledge of the customers of the bank and their business, and the business of the bank where it acts as principal.

### **MLRO**

Money Laundering Reporting Officer of each bank as more particularly described in Chapter FC 4.

### **Money Laundering**

Means the activity constituting a criminal offence pursuant to Article 2 of the AML Decree Law No. 4 dated 29<sup>th</sup> January 2001 (see Appendix FC 1). More generally, money laundering refers to the process of hiding or disguising the true origin or ownership of the proceeds of criminal activities.

### **Money-market instruments**

Those classes of instruments which are normally dealt in on the money market, such as treasury bills, certificates of deposit and commercial papers and excluding instruments of payment.



**N**

**NIM**

Net Interest Margin.

**Name lending**

Lending on the basis of personal relationships rather than financial fundamentals

**Non-executive director**

Means any director who is not an executive director.



### **Offering Shari'a Financing Contracts**

Entering into, or making arrangement for another person to enter into, a contract to provide finance in accordance with Shari'a principles, such as murabaha, bay muajjal, bay salam, ijara wa iktina and istisna'a contracts.

### **Off-site ATM**

Automated Teller Machine. An unattended electronic machine in a public place (other than the premises of the owning bank), connected to a data system and related equipment and activated by a bank customer to obtain cash withdrawals and other banking services.

### **Operating a collective investment undertaking**

Operating a collective investment undertaking means operating, establishing or winding up a Shari'a compliant CIU.

### **Option(s)**

An option is a contract giving the buyer the right, but not the obligation, to buy or sell any of the following at a specific price on or before a certain date:

- (a) Currency of the Kingdom of Bahrain or any other country or territory;
- (b) Palladium, platinum, gold or silver; or other commodity;
- (c) Option to acquire or dispose of a financial instrument of the kind specified by this definition by virtue of the above.

### **Other derivative contracts**

Options, futures, swaps, forward rate agreements and any other derivative contracts relating to climatic variables, freight rates, emission allowances or inflation rates or other official economic statistics that must be settled in cash or may be settled in cash at the option of one of the parties (otherwise than by reason of a default or other termination event), as well as any other derivative contracts relating to assets, rights, obligations, indices and measures not otherwise mentioned in this Section, which have the characteristics of other derivative financial instruments, having regard to whether, inter alia, they are traded on a regulated market or an MTF, are cleared and settled through recognised clearing houses or are subject to regular margin calls.

### **Outsourcing**

The use of a person to provide customised services to a licensee other than (a) a member of a licensee's board acting in his capacity as such (b) an individual employed by a licensee under a contract of service or (c) a licensed insurance manager providing services to a captive insurance firm.

### **Outsourcing Provider**

The person providing the customised services as described in the definition of "outsourcing"



### **Overseas conventional bank licensees**

Conventional bank licensees that are incorporated in an overseas jurisdiction and operate via a branch presence in the Kingdom of Bahrain (see LR-A.1.8).

### **Over the counter (OTC)**

A decentralised market (as opposed to an exchange market) where geographically dispersed dealers are linked by telephones and computer screens. OTC trades are more often than not, denominated in non-standard amounts and on non-standard terms (e.g. maturity outside IMM dates). The term may also refer to trading in securities not listed on a stock or bond exchange.

### **Over-the-Counter Option**

An option traded off-exchange, as opposed to a listed stock option. The OTC option has a direct link between buyer and seller, has no secondary market, and has no standardization of striking prices and expiration dates.



**P**

### **Parent or Parent Undertaking**

An undertaking or individual ("P"), which has the following relationship to another undertaking ("S"):

- (i) P holds (alone or, under an agreement with other shareholders) a majority of the voting rights in S;
- (ii) P (alone or in conjunction with its other subsidiary undertakings), has the right to appoint or remove a majority of its board of directors;
- (iii) P has the right to exercise a dominant influence over S, either through provisions contained in S's memorandum or articles, or a control contract; or
- (iv) P is a parent undertaking of a parent undertaking of S.

### **Participant(s)**

A (CIU) participant is a person with one or more holdings in a CIU.

### **Person**

Unless the context requires otherwise, a natural or corporate person.

### **Personal account transaction**

A transaction undertaken by an employee of a conventional bank licensee in a financial instrument, for his own account.

### **Politically Exposed Persons or 'PEPs'**

As defined in Paragraph FC-1.5.4.

### **Pooled funds**

In investments, the combination of funds for the benefit of a common project, or a group of investors who use their combined influence to manipulate prices.

### **Price risk**

The risk that the value of a security (or a portfolio) will decline in the future.

### **Profit equalization reserve**

Profit equalisation reserve is the amount appropriated by the Islamic bank out of the mudaraba income, before allocating the mudarib share, in order to maintain a certain return level of return on investment for investment account holders and increase owners' equity.



### **Providing credit**

Providing credit is defined as the provision of credit to a person in his capacity as borrower or potential borrower. This includes consumer and mortgage credit; and providing credit by way of finance leases, factoring, and forfaiting. It also includes the issuance or endorsement of letters of credit, the issuance of letters of guarantee, and other contingent credit activities. It excludes money advanced to a person in consideration for debt instruments issued by the same person. It also excludes the purchase of such instruments on the secondary market (see LR-1.3.18).

### **Public Offering(s)**

An offer of securities to the public, as defined in Circular ODG/407/03 of 3 December 2003, 'Disclosure Standards'. See Rule BC-8.5.9.



**Q**

**Qualifying Holding(s) (as referred to in Module CM)**

A “qualifying holding” is defined as:

- (a) Any investment in the capital instruments of another entity by a locally incorporated bank which is equivalent to or more than 10% of the locally incorporated bank’s capital base (as reported in the most recent PIR submitted to the CBB); or
- (b) Any investment by a locally incorporated bank of 20% or more of the capital instruments of the concerned entity.



## R

### Real time promotion

A real time promotion is a promotion made in the course of a personal visit, telephone conversation or other interactive dialogue.

### Regulated banking services

Any of the regulated activities permitted to be undertaken by a conventional bank licensee (see LR-1.3).

### Relevant Authorities

For the purposes of Module FC, relevant authority refers to the authorities listed in Rule FC-5.3.1.

### Remuneration

Means all types of compensation including but not limited to salary, fee and non-cash benefits such as grants of stock, stock options or pension benefits.

### Representative office

A person who is licensed by the CBB as per Volume 5 (Specialised Licensee/Representative Office) Module AU to undertake only representative office functions:

- (i) Gather financial, economic and commercial information;
- (ii) Carry out general promotional activities; and/or
- (iii) Provide general assistance of a non specific nature to resident and non resident customers of the overseas entity/group the office is representing.

### ROAA

Return on Average Assets.

### ROAE

Return on Average Equity.

### Repo

- (a) an agreement between a seller and buyer for the sale of securities, under which the seller agrees to repurchase the securities, or equivalent securities, at an agreed date and, usually, at a stated price;
- (b) an agreement between a buyer and seller for the purchase of securities, under which the buyer agrees to resell the securities, or equivalent securities, at an agreed date and, usually, at a stated price.



### Reputational risk

Reputational risk is the potential that negative publicity regarding an institution's business practices, whether true or not, will cause a decline in the customer base, costly litigation, or revenue reductions.

### Resident

This term includes:

- (a) Persons of whatever nationality whose normal place of residence or business is in Bahrain at the relevant time or whose main source of income is earned from Bahrain.
- (b) Persons who have been granted permanent resident permits in Bahrain.
- (c) Corporate and other institutions who have a permanent registered address in Bahrain and/or a commercial registration number including branches or subsidiaries located in Bahrain of overseas registered corporate or other institutions (excluding offshore companies). However, dealings with the offices of such corporations outside Bahrain in respect of non-Bahrain business is permitted.
- (d) Staff of Bahrain Embassies and Consulates living outside Bahrain.
- (e) Agents or Agencies located abroad but acting on behalf of or for the account of Bahrain residents.

### Restricted Investment Accounts

With this type of account, the investment account holder imposes certain restrictions as to where, how and for what purpose his funds are to be invested. Further, the Islamic bank may be restricted from commingling its own funds with the restricted investment account funds for purposes of investment. In addition, there may be other restrictions which investment account holders may impose. For example, investment account holders may require the Islamic bank not to invest their funds in instalment sales transactions or without guarantor or collateral or require that the Islamic bank itself should carry out the investment itself rather than through a third party. Restricted participating investment bonds and restricted participating investment units (investment funds) and any other accounts of similar nature are equivalent to the restricted investment accounts.

### Retail customer(s)

Defined in Rule BC-8.4.10. A retail customer means a customer who is not classified as an accredited investor under Rules BC-8.4.6.

### Rights or interests in Financial instruments

Rights to or interests in all financial instruments.



## S

### Safeguarding financial instruments

Safeguarding financial instruments means the safeguarding and administration of financial instruments belonging to another person (see LR-1.3.29 ff).

### Securitised assets

Creating a financial product such as a mortgage pass-through security, by pooling assets to back the instrument. Also refers to the replacement of loans and/or cash flows of financial intermediaries with negotiable securities issued in the capital markets.

### Security(ies) (as referred to in Chapter BC-7 and in the definition of market)

“Securities” means shares or bonds issued by shareholding companies, government debt instruments and the following financial instruments:

- (a) Shares in companies and other securities equivalent to shares in companies or other entities, and depositary receipts in respect of shares;
- (b) Bonds or other forms of debt, including depositary receipts in respect of such securities;
- (c) Warrants;
- (d) Units, rights or interests (however described) of the participants in a collective investment scheme;
- (e) Options, futures and any other derivative contracts relating to commodities that must be settled in cash or may be settled in cash at the option of one of the parties (otherwise than by reason of a default or other termination event);
- (f) Options, futures and any other derivative contract relating to commodities that can be physically settled;
- (g) Units to Real Estate Investment Trusts (REITs);
- (h) Index tracking products including Islamic indices;
- (i) Any other financial instrument approved as a financial instrument by the CBB for the purpose of trading such instrument on an exchange; and
- (j) Islamic securities, being those financial instruments that are Shari’a compliant.

### Self-Regulatory Organisation(s) or (SROs)

“Self-Regulatory Organizations (SROs)” means any organisation licensed by the CBB under Volume 6 of the Markets and Exchanges (MAE) Module, or the Clearing, Settlement and Central Depository (CSD) Module, or any other organisation recognised as an SRO by the CBB.

### Senior Manager/Management

Refers to individuals occupying the position of CEO or head of function.



### Service level agreement

An agreement forming part of the Outsourcing Agreement between the outsourcing service provider and the bank that outlines the standards of service to be provided by the outsourcing service provider.

### Shares

A share or stock in the share capital of an enterprise, whether incorporated or unincorporated, but excluding units in collective investment undertakings.

### Shareholders

a) In relation to a share which is represented by a bearer certificate, the person who holds the certificate; b) in relation to a share that is not represented by a bearer certificate, the person whose name is entered on the register in relation to the share.

### Shari'a board or shari'a supervisory board

An independent body of specialized jurists who, collectively, are entrusted with the duty of directing, reviewing and supervising the activities of an Islamic financial institution in order to ensure that they are in compliance with Islamic Shari'a rules and principles.

### Soft dollar agreement (as referred to in Chapter BC-8)

An agreement in any form under which a conventional bank licensee receives goods or services in return for investment business put through or in the way of another person.

### Sovereign debt

A debt instrument issued by central government.

### Spot transactions

A foreign exchange transaction in which each party promises to settle the transaction two days after the transaction date.

### Subsidiary undertaking

A company or other enterprise controlled by another company or enterprise (the parent or the holding company).

### Succession plan

A plan developed by a bank that would lay down the bank's strategy with respect to succession of various senior management or board positions within the bank.

### Suspicious Transaction

Any transaction or dealing which raises in the mind of a person involved, any concerns or indicators that such a transaction or dealing may be related to money laundering or terrorist financing or other unlawful activity. Examples of suspicious transactions are set out in Appendix FC 3.

### Swap(s)

A financial contractual agreement between two parties to exchange (swap) a set of payments that one party owns for a set of payments owned by the other party.



**T**

**Tranche**

One of several related securities offered at the same time. Tranches from the same issuer usually have different risk, reward, and/or maturity characteristics.

**Transferable securities**

Those classes of securities which are negotiable, with the exception of instruments of payment. Transferable securities include:

- (a) shares in companies and other securities equivalent to shares in companies, partnerships or other entities, and depositary receipts in respect of shares;
- (b) bonds or other forms of securitized debt, including depositary receipts in respect of such securities;
- (c) warrants;
- (d) any other securities giving the right to acquire or sell any such transferable securities or giving rise to a cash settlement determined by reference to transferable securities, currencies, interest rates or yields, commodities or other indices or measures.

**Trilateral meeting**

A meeting between a bank, an audit firm and the Central Bank.



## U

### **Units in collective investment undertakings**

Rights or interests (however described) of the participants in a collective investment scheme.

### **Unrestricted Investment Accounts**

With this type of account, the investment account holder authorizes the Islamic bank to invest the account holder's funds in a manner which the Islamic bank deems appropriate without laying down any restrictions as to where, how and for what purpose the funds should be invested. Under this arrangement the Islamic bank can commingle the investment account holder's funds with its own funds or with other funds the Islamic bank has the right to use (e.g., current accounts). The investment account holders and the Islamic bank generally participate in the returns on the invested funds. Unrestricted participating investment bonds and any other accounts that are of similar nature are equivalent to unrestricted investment accounts.



## **VaR**

An estimate expressed as a monetary value of the probability of losses on a portfolio of financial instruments based on a statistical analysis of historical market price trends, correlations, and volatilities.



**W**

**Warrants**

Warrants are instruments that confer an entitlement to subscribe for shares, debenture and government and public securities. The rights conferred must be rights to ‘subscribe’ for the relevant investments. This means that they are rights to acquire the investments directly from the issuer of the investments and by way of the issue of new investments.

**Wholesale banks**

Wholesale banks are defined as banks who undertake the regulated banking service of (a) and (b) plus any activity from (c) to (o) of the listed in AU-A.1.4 with restrictions as defined under section AU-1.1.17.



### **Yield curve**

The graphic depiction of the relationship between the yield on bonds of the same credit quality but over different maturities.

### **Yield to maturity**

The percentage rate of return paid on a bond, note, or other fixed income security if the investor buys and holds it to its maturity date. The calculation for YTM is based on the coupon rate, length of time to maturity, and market price. It assumes that coupon interest paid over the life of the bond will be reinvested at the same rate.