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

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: Asset Quality.
   c) Section C: 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 3.8.
   b) Section A – Cumulative Profit and Loss Account: items number 31, 32, and 34.
   c) Section B – Investments: item number C.2.
   d) Section C – Liquidity: item number iii.7.
   e) Section C – Exposures to connected counterparties and large exposures

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 filed electronically 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.

(d) Under 3.4, loans and advances to banks and non banks will exclude interest accrued but not yet due on the reporting date and interest in suspense.

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 31, 32, and 34 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):

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

SECTION B: ASSET QUALITY
CLASSIFICATION OF LOANS AND ADVANCES

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

14) Interest accrued on non-performing loans may not be recognized once they are 90 days past due. Therefore loans outstanding must not include interest on loans that are more than 90 days past due. Also, it will be excluding interest accrued but not yet due on the reporting date.

15) Type of loans:

(a) (i.1) Stage 1: This stage will include those performing loans which require calculation of ECL for a 12 month period only.

(b) (i.2) Stage 2: This stage will include those loans which have experienced significant increase in credit risk and require calculation of lifetime ECL.

(c) (i.3) Stage 3: This stage will include those loans which have become non–performing as defined under non-performing loans below and/or have specific provisions against them.

(d) (i.6) Past due but not impaired : Loans which are past due between 1-89 days, but not impaired

(e) (i.7) Watch List: Those Loans which are currently protected from loss as these are not impaired but are assessed as potentially weak. They constitute a risk, but the risk is not such that it justifies a rating of NPL.

(f) 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.

(g) (i.5) Restructured loans: Restructured loans refers to loans, where the bank for economic and legal reasons related to the customer's financial difficulties grants concessions that it would have not otherwise considered. Concessions are special contractual terms and conditions that a lender would not extend or consider under normal market conditions.

(h) Rescheduled loans: Rescheduled loans are loans where, in response to changes in market conditions no concessions have been granted to a performing customer provided that at the time of rescheduling, the loans have been serviced normally; the ability of the borrower to service is not in doubt and where there is reasonable assurance that the borrower will be able to service all future principal and interest payments on the loans in accordance with the revised repayment terms. Rescheduled loans must be reported in restructured loans.

16) Default, or impairment is considered to have occurred when either or both of the two following events have taken place:

a. Where the obligor is unlikely to pay its credit obligations in full i.e. principal, interest, fees or any other amount
b. The credit facility is past due for 90 days or more.

17) Non-performing exposures will include all exposures that are 'defaulted' or "impaired" as defined above and All other exposures where there is evidence that full repayment based on the contractual terms, original or, when applicable, modified (e.g. repayment of principal and interest) is unlikely without the bank's realisation of collateral.

18) Non-performing exposures must always be categorised for the whole exposure, including when non-performance relates to only a part of the exposure ex. unpaid interest. For off-balance sheet exposures, such as loan commitments or financial guarantees, the whole exposure is the entire uncancellable nominal amount. All non-performing exposures will be classified as Stage 3 for the purpose of ECL calculations.

19) Re-categorisation of Non-performing Exposures as Performing can be done only when all the following criteria are met simultaneously:

i. The counterparty does not have any exposures that are past due for 90 days or more;

ii. Repayments have been made when due over a continuous repayment period of at least:

a. Six months or six instalments, whichever is longer, for retail facilities; or
b. Six months or two instalments, whichever is longer, for all other facilities.
c. In cases where a non-retail non-performing exposure has been restructured and the revised terms allow for longer repayment intervals, re-categorisation can be made after a 12-month period provided at least two instalments have been paid under the revised terms.;
d. The counterparty's financial situation has improved so that the full repayment of the exposure is likely, according to the original or, when applicable, modified conditions.
e. The exposure is not considered to be in 'default' or 'impaired'.

20) 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.

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

22) 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. A separate table for SME loans only that have already been included in the analysis by sector table should also be submitted under Section C1.

23) 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.

24) 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.

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

INVESTMENTS

26) 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.

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

28) 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.

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

30) Investment Analysis: These should be based under IFRS 9 classifications. Under Section C2, line D1.1.2, Equity will also include value of listed and unlisted equity securities and mutual funds and in managed funds.

PROVISIONS FOR LOSSES

31) The below staging classification must be used for providing for expected credit losses and loan loss provision represent migration in credit quality and will dictate the level of ECL to be recognised:

Staging	Description	ECL measure
Stage 1	Performing assets with no significant deterioration in credit risk since origination or with very low credit risk.	12-month ECL
Stage 2	Performing assets that have exhibited significant increase in credit risk since origination.	Life-time ECL
Stage 3	Non-performing assets, that are considered credit impaired.	Life-time ECL

MOVEMENT IN FAIR VALUE OF FINANCIAL INSTRUMENTS

32) 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 Financial Instruments at FVOCI in the retained earnings for the period.

33) 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)

34) 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.

35) 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.

36) 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 C: LIQUIDITY AND OTHER ASSETS

LIQUIDITY

37) 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

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

39) 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.

40) 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.

41) 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

42) 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) Core capital (Endowment capital + general reserves + R/E (losses) brought forward + net profit(loss) for the period – from the Sec A balance sheet: lines 1.1+1.4+1.5+1.6+1.7))
(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

43) 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.

44) 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.

45) 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.

46) 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.

47) 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.

48) 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:

49) 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.

50) 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.

51) 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.

52) 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

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

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

RELATED PARTIES TRANSACTIONS, LARGE EXPOSURES AND OTHER ITEMS

Related Parties Transactions

55) 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.

56) For overseas banks, under related parties transactions, item i.1.1 should be read as Claims on head office or other branches and offices and for itemi.1.2 reference should be made to subsidiaries and associated companies of the parent. The same would apply to liabilities under lines i.2.1 and i.2.2.