Supplementary Information
Appendix BR-4
Guidelines for Completion of PIRI
Bahraini Islamic Banks

GUIDELINES FOR COMPLETION OF THE PRUDENTIAL INFORMATION RETURNS FOR BAHRAINI ISLAMIC BANKS

GENERAL

1) All Bahraini Islamic banks complete the Form Prudential Information Returns for Islamic Banks ("PIRI"). The PIRI is 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 activities of their head office and their branches in Bahrain and abroad. If the Bank has a banking or financial subsidiary (or subsidiaries), then it should also add the subsidiary(ies) assets, liabilities, and off-balance sheet activities (does not include RIA) of their head office and its branches (see note 9 below). In this case, separate figures in respect of the head office or "Bahrain operations" are to be reported as indicated on the concerned sheets in the form. **Banks with no banking or FI subsidiaries should complete the 'capital base – consolidated' spreadsheet and do not need to complete the 'capital base – solo' spreadsheet.**

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

3) The Form PIRI is to be used for reporting on both a solo and a consolidated basis where indicated in the form. Each bank should submit only one Form. Please note the following definitions:

(a) Solo: Should include operations of the parent institution and its overseas branches and associates before consolidation. ONLY report this information where required. Please note that columns J, L and M of line 73 of the 'capital base – solo' worksheet must be input by the reporting bank. These cells do not relate to any RWAs reported separately on the form.

(b) Capital Base - Consolidated: Should include operations of the parent institution and its banking and financial entity subsidiaries. However, exclude the subsidiaries reported under aggregation when completing the credit, market, and operational risk weighted exposures sheets because such RWAs are added separately in the Capital Base Consolidated Section (line 79).

(c) Bahrain Operations: All operations of the institution booked in Bahrain.

Please refer to the relevant AAOIFI or IFRS for definitions, accounting and consolidation requirements applicable to subsidiaries, and to Sections CA-B.1 and CA-2.4 for regulatory consolidation, aggregation, and deduction thresholds and requirements, for investments in banking or financial entities.

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

5) The key purpose of this Form is to assess banks' financial condition including capital adequacy (Credit, Market, & Operational risks), asset quality, and liquidity.

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

a) Section A: Balance Sheet and Profit & Loss
b) Section B: Capital Adequacy Calculation, Credit, Market, and Operational Risk Weighted Exposures
c) Section C: Asset Quality
d) Section D: Earning Quality
e) Section E: Liquidity

7) Banks should use the supplementary schedules (Appendix CA-9) to collect data exposures and calculate the capital charges for credit and market risk. 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 record 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 controls a non-resident banking subsidiary which is filing its return with the respective supervisor under the Basel III capital adequacy rules, the investor bank should normally consolidate such entities on a line-by-line basis for regulatory capital purposes. However, where the CBB is satisfied with the quality of supervision of these banking subsidiaries and the CBB is satisfied that these banking subsidiaries are adequately capitalized on a stand-alone basis in their respective jurisdictions then aggregation of the capital and RWAs of these banking subsidiaries may be permitted and the aggregation rules outlined in Section CA-B.1 may apply instead (see also Paragraphs 16 and 19 below). The 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 III capital adequacy rules, the aggregation rules may also be applied to such branch, instead of line-by-line consolidation.

10) A Completed PIRI is required from all Bahraini Islamic bank licensees showing the financial position and the capital adequacy ratio at the end of each calendar quarter. The PIR should be filed electronically not later than 20 days after the relevant reporting date to:

Islamic Financial Institutions 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).
   i. Self financed
   ii. Financed by unrestricted investment accounts
   iii. Financed by restricted investment accounts

PROFIT & LOSS

13) The Profit and Loss sheet represent the income and expenses of the Bank. Figures provided should reconcile 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 financing facilities, investment and other assets (should include all assets other than financing facilities 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 (if the Bank is engaged in any derivative transactions)
   (i) Equity
   (ii) Foreign Exchange
   (iii) Commodities

SECTION B: CAPITAL ADEQUACY RATIO CALCULATION

TOTAL CAPITAL CONSOLIDATED

15) Total Capital is divided into three categories as follows:

Tier 1: Common Equity Tier (CET1)
High level guidance on the components of CET1 is given in Paragraph CA-2.1.2 of Module CA.

Additional Tier 1 Capital (AT1)
High level guidance on the components of AT1 is given in Paragraph CA-2.1.4 of Module CA.

Tier 2 Capital (T2)
High level guidance on the components of T2 is given in Paragraph CA-2.1.8 of Module CA.

REGULATORY ADJUSTMENTS

16) **Regulatory adjustments to be applied to Regulatory Capital are explained in Section CA-2.4 of Module CA.**

There are four stages of adjustments for CET1. The first set of adjustments is applied in Paragraphs CA-2.4.2 to CA-2.4.15. A subtotal for CET1 is obtained (this is referred to as CET1a). A second regulatory adjustment described in Paragraphs CA-2.4.16 to CA-2.4.19 is then applied to CET1a (this adjustment results in CET1b). A third regulatory adjustment described in Paragraphs CA-2.4.20 to CA-2.4.21 is then applied to CET1b (this adjustment results in CET1c). Then a final regulatory adjustment described in Paragraph CA-2.4.23 is applied to CET1c (this adjustment results in CET1d). This is the amount of CET1 that can be used for the calculation of the CAR and determining all other applicable caps on T1 and T2. An example of the effects of the regulatory deductions is given in Appendix CA-11.

Goodwill
Any deferred tax liability (in any countries which would place a deferred tax liability on goodwill) must always be deducted in full. It is not subject to any transitional arrangements.

Investments in own shares (i.1.1.2, i.1.12 & i.2.7)
A short position in own shares can only be netted against a long position when the two positions are with the same counterparty and a legally valid netting agreement is in place (see CA-4 on collateral and netting).

Indirect investments in own shares refers to holdings of index securities in which the bank is a constituent, net of short positions; or where shares are held as collateral against exposures to customers.

Positive or negative adjustments due to aggregation (CET1, AT1, T2, i.2.13 & ii.3)
If a bank invests BD10mn in the capital of a subsidiary, it is possible that the host regulator may not allow all of the concerned capital to be used in the subsidiary's CAR calculation (e.g. amortisation of T2 in last five years to maturity). Therefore if there is a difference between the amount invested by the parent bank (e.g. BD10mn) and the 'eligible capital' amount allowed by the host regulator (e.g. BD8mn) the then difference (BD2mn) must be deducted here so that only the eligible regulatory capital of the subsidiary is included in the consolidated CAR calculation.

General financing loss provisions (i.6.1 (Regulatory Adjustment sheet) and i.2.5 (Capital Base Consolidated sheet))
These would include collective impairment provisions under IFRS.

Investments in financial entities (i.1.18, i.1.20 & i.1.22) (Capital Base Consolidated sheet)
There are investments < 10% of the issued share capital and investments > 10% of the issued capital of the entities concerned and therefore two sets of deductions from capital once the respective thresholds of CET1 are reached. The transitional effect of such deductions is achieved by adjusting the reporting year (2015 – 2018) in the top right corner of the Regulatory Adjustments sheet.

To take into account transitional arrangements, banks must include amount of common equity not deducted (cell i.9.16 – Regulatory Adjustments sheet) in cell 12.1.1 or cell 12.1.2 in the credit risk weighted assets section of the form. Holdings of AT1 and T2 capital of other FIs not deducted (cells i.9.17 and i.9.18) should be included in cells 12.1.1 and 12.1.2 in the risk-weighted assets section of the form.

PER/IRR (Section B – CR - URIA) Volume 2 only
According to paragraph CA-2.1.11 of Volume 2, Profit-sharing investment accounts (PSIAs) of an Islamic bank licensee are not classified as part of the Islamic bank licensee's capital because they do not meet the criteria of T1 or T2 Capital. Furthermore, all the investment risk reserve (IRR) and a portion of the profit equalisation reserve (PER) belong to the equity of investment account holders (IAH), and thus are not part of the capital of the Islamic bank licensee. As the purpose of a PER is to smooth the profit payouts and not to cover losses, any portion of a PER that belongs to IAH should also not be treated as part of the regulatory capital of the Islamic bank licensee. This means that the concerned PER and the IRR should be deducted from the concerned assets that the PSIAs are funding as shown in paragraph CA-1.1.12. For the purpose of this form, any PER/IRR deductions from the concerned assets should be made in Column A of the Section B – CR – URIA spreadsheet in the same way as specific provisions are deducted from the concerned receivable (see CA-4.1.3 in particular). The PER/IRR will generally apply to a pool of assets and so the deduction should be applied to the 100% risk-weighted assets. In the case of funding receivables from corporates, the PER/IRR adjustment would take place in column A of line 7.2.5 of the form in the Section B – CR – URIA spreadsheet.

Limits and Minima on the Use of Different Forms of Capital
These limits are automatically generated in the PIR under the Capital Base Consolidated and Capital Base Solo sheets.

17) **For Consolidated T1 Capital and Total Capital please refer to CA-2.2.1.**
18) **For Solo T1 Capital and Total Capital please refer to CA-2.2.1A**

CAPITAL ADEQUACY RATIO CALCULATION ("CAR")

19) For the Capital Base Solo sheet, when applicable, the Bank has to enter the Risk Weighted Assets ("RWA") for credit, market, and operational risks. For the Capital Base Consolidated sheet, the RWA assets(from own money or financed by URIA) are automatically generated from the credit risk, market risk and operational risk sheets, subject to any adjustment due to the aggregation rules set out in CA-B.1. The aggregation rules may apply to subsidiaries in countries where Basel III is officially adopted. Where aggregation rules are applied, include capital components (i.2.13) and RWAs (ii.2) where indicated on the form. The aggregation of risk-weighted assets (ii.2) from foreign subsidiaries may be used as an alternative to line-by-line consolidation using CBB rules. Paragraph CA-B.1.4 onward explains 'aggregation' as a means of consolidating the risk assets of subsidiaries in foreign jurisdictions as distinct from applying CBB rules to such positions (line-by-line consolidation). As a general rule, the capital instruments and credit risk, market risk and operational risk weighted assets of subsidiaries should be consolidated using CBB rules wherever possible. However it may not always be practical to do so within the PIRI reporting deadlines and so aggregation of the risk assets from the regulatory returns of the host regulator may be an alternative that can be used in such cases.

20)

21) The minimum capital charges for the calculation of the minimum capital requirements for the different types of risk are automatically generated. Please note that the Bank has to maintain the limits imposed on the use of tiered capital as per the rules as set out in CA-B.2 and CA-2.2 of the Capital Adequacy Module, Volume 2. These are automatically generated in the PIRI.

In case where the bank has banking or FI subsidiaries, it must complete the Capital Base Consolidated sheet as well as the Capital Base Solo sheet.

CREDIT RISK WEIGHTED ASSETS CALCULATION

The Standardized Approach

22) The credit risk weighted asset 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 categories described in Section CA-4.2.
Entities classified as Bahrain sovereign and public sector eligible for 0% risk weighting are identified in Appendix CA-8.

Off-balance sheet items: Please refer to Section CA-4.5 for details on off-balance sheet items.

23) The credit risk weighted asset 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 sheets exposures (does not include RIA) 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 CA-4.5 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 CA-4.7 for detailed overview of the eligible types of collateral for the purpose of CAR.

(c) Column C – Unsecured Portion of the Credit Risk *(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.

(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".

24) There are two CAR sheets to capture the "Self Financed Exposure" and another to capture the "URIA Financed Exposures". Please report the exposures accordingly. Note that RIA Financed Exposures do not form any part of the capital adequacy ratio calculation.

MARKET RISK WEIGHTED EXPOSURES CALCULATION (Chapter CA-5 and Chapter CA-8 for Sukuks)

25) Banks should refer to the detailed instructions under Chapters CA-5 and CA-8 (for Sukuks) of Volume 2 of the CBB Rulebook for market risk capital requirements.

26) The market risk capital charges under the Standardized Approach arising from Bank's own money exposures and URIA exposures are aggregated and converted to a market risk weighted exposure by multiplying by 12.5.

27) Market risk capital charges from standardized approaches will be calculated in supplementary schedules (Appendix CA-9) and figures will be transferred to Sec C.1 MR - Market Risk sheet.

28) 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.

29) 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 minimize capital charges occurs and to prevent "gains trading" in respect of securities which are not marked-to-market.

30) 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.

OPERATIONAL RISK CAPITAL CHARGES (Chapter CA-6)

31) Banks should refer to the detailed instructions under Chapter CA-6 of Volume 2 of the CBB Rulebook for the operational risk capital requirements..

32) The operational risk-weighted exposures of the Bank is calculated by multiplying the operational risk charge by 12.5.

MEASUREMENT METHODOLOGIES

33) The Central Bank of Bahrain Capital Adequacy guidelines outline two methodologies for calculation of a Bank's operational risk charge. These are outlined in Section CA-6.2.

THE BASIC INDICATOR APPROACH ("BIA")

34) Banks should report information relating to Gross Income for the last three audited financial years to arrive at the operational risk capital charge. The gross income is equal to item number 1.13 in the P&L sheet of the PIRI forms.

35) 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.

36) 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.

37) **SECTION D: ASSET QUALITY**

CLASSIFICATION OF FINANCING FACILITIES / RECEIVABLES

38) Financing facilities and advances are the amounts due from customers.

39) Profit accrued on non-performing financing facilities and advances may not be recognised without the agreement of the Bank's external auditor.

40) Types of receivables and advances:

(a) Standard: are performing receivables.
(b) Substandard: are those non-performing receivables 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 financing facilities must have a definite weakness which jeopardizes the liquidation of the facility.
(c) Doubtful: are similar to substandard with the added characteristic that the weakness in question makes liquidation in full, on the basis of currently known facts, highly improbable.
(d) Loss: 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 receivables: 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 receivables: 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 not otherwise considered.

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

42) Collateral Market Value represents the market value of any kind of collateral against the facilities granted to the customer. This sheet does not form any part of the capital adequacy calculation.

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

44) Consumer Finance is defined in CA-4.2.17 to CA-4.2.19.

45) 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, contrasting a building for a customer) it should be classified a construction financing facilities.
(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.

46) Residential Mortgages: Include all financing facilities secured by a charge on residential property.

INVESTMENTS

47) 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.

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

49) 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

50) Report in this sheet the movement of the provisions for receivable/financing facilities, 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.

51) 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-BANKS EXPOSURE (INCLUDING OFF-BALANCE SHEET ITEMS)

(a) See Chapter CM-4 for Definitions.

SECTION D: EARNING QUALITY

AGING OF INCOME

52) In Section (i) of the Income sheet report income earned on funds jointly employed through jointly financed accounts. Income from the bank's own funds, independent of the funds provided for the jointly financed accounts should not be included.

53) In Section (ii) of the Income sheet report income earned on the bank's own funds, independent of the funds provided in the jointly financed accounts.

54) Total income should equal total operating income reported in the P&L.

INCOME FROM TEN LARGEST CUSTOMERS

55) In Section (i) of the Income sheet report income earned on funds jointly employed through jointly financed accounts. Income from the bank's own funds, independent of the funds provided for the jointly financed accounts should not be included.

56) In Section (ii) of the Income sheet report income earned on the bank's own funds, independent of the funds provided in the jointly financed accounts.

SECTION E: LIQUIDITY

LIQUIDITY INFLOWS

57) There are six sheets for the liquidity reporting covering the Self Finance (inflows / outflow), URIA (inflows / outflow), and RIA (inflows / outflow).

58) Please refer user to the Rulebook for more information on the use of Behavioral adjustments to data provided under section F of PIRI, please refer to the Rulebook section BR-5.2.4.

59) Inflows (on assets) are generally included in the maturity ladder according to their latest contractual maturity. Where the item falls within the maturity analysis of assets, the bank should only include any of the associated profit/gain or other receipts that fall due within the cash flow reporting period.

60) Assets known to be of doubtful value are excluded from the maturity ladder and treated on a case by case basis. Assets which have been pledged as collateral and are therefore no longer available to a bank to meet its obligations, should be excluded from the maturity ladder as they are no longer available to provide the bank with liquidity.

Highly Liquid / Marketable Assets

61) <u>Marketable Assets:</u> Assets considered to be readily marketable are included in the maturity ladder in the sight 8-day time band, generally at a discount to their reported value. The 8-day timeband is considered to be a reasonable period for settlement. However, in specific situations such assets may be included in the 8-days to 1-month time band in the light of the settlement period.

62) For assets to qualify as marketable, the following criteria must be met:
   (a) Prices are regularly quoted for the item by a range of counterparties;
   (b) The item is regularly traded;
   (c) The item may be sold either on an exchange or in a deep and liquid market, for payment in cash; and
   (d) Settlement is according to a prescribed timetable rather than a negotiated timetable.

63) The discount factors applied to marketable securities issued by various countries in the CBB's mismatch calculations are given in the below. The discount factors account for lower settlement values that may result based on the tenor of the assets or other risks attributable to the nature of the assets.

64) However, on occasions, the CBB may announce special discount factors to be used for marketable assets denominated in the currency of or originating from countries that may be faced with liquidity difficulties. In these cases the discount factors will be determined at the CBB's own discretion.

Marketable Central Government Securities (Assets)	Discount Factor
Central government marketable securities (such as Sukooks) with 0-12 months residual maturity.	0%
Central government marketable securities with 12 months-5 years residual maturity.	5%
Central government marketable securities with over 5 years residual maturity.	10%
Non-government marketable securities, which are either issued by a credit institution or an investment firm with 0-6 months residual maturity.	5%
Non-government marketable securities, which are either issued by a credit institution or an investment firm with 6 months-5 years residual maturity.	10%
Non-government marketable securities, which are either issued by a credit institution or an investment firm with over 5 years residual maturity.	15%
Highly liquid securities (i.e. listed on a recognised exchange or deep market).	20%

65) The CBB reserves the right to announce special discount factors for marketable assets denominated in the currency of or originating from countries that may be faced with liquidity difficulties. This can be discussed with the CBB on a case by case basis.

66) <u>Cash:</u> Include the amount comprising of notes, coins and balances with the CBB. This amount need not be discounted.

67) Central Government Securities: Report in these items the amount of inflows (either known or potential) from central government marketable securities (such as Sukuk) or other such Islamic marketable securities issued by the central governments of various countries. Include only marketable securities that are currently in the reporting bank's ownership with a residual maturity as specified under each item head in the return forms. These amounts should be discounted using the discount table above.

68) Non-Government Securities: Report in these items the amount of inflows (either known or potential) from non-government marketable securities or other such Islamic marketable securities issued by credit institutions or investment firms in various countries. Include only marketable securities that are currently in the reporting bank's ownership with a residual maturity as specified under each item head in the return forms. These amounts should be discounted using the discount factor table above.

69) Others: On occasions, the CBB may announce special discount factors for marketable assets denominated in the currency of or originating from countries that may be faced with liquidity difficulties. Include these items with respective discount factors under this head. Also include in this section any other marketable assets not covered by other sections and specify details.

70) Highly Liquid Equities: Amount in this item should represent inflows from highly liquid equities that are traded on a recognized exchange and could be liquidated easily within 8 days. Equities that are not liquid (i.e. not traded on a recognized exchange) should not be included.

RETAIL

71) For liquidity monitoring purposes only, a bank should classify its cash flows as being either retail or wholesale. Each bank will have its own means of classifying cash flows as either retail or wholesale. Following are few considerations that may lead the banks to make such classification:
   (a) *Size*. Both in absolute terms and in relation to the business as a whole; larger amounts are more likely to be classified as wholesale; small amounts will probably be retail.
   (b) *Volatility*. Wholesale cash flows are likely to be highly volatile whereas retail cash flows have a low volatility.
   (c) *Type of business relationship*. Retail customers tend to develop long-term relationships with their bank and use one bank for all their banking needs. Wholesale counterparties will generally tend to work on a transactional basis with a number of banks.

72) The details on the bank's qualification of the cash flows (whether retail or wholesale) should be entered into the bank's liquidity policy statement. This classification should be disclosed within the liquidity policy statement.

73) Murabaha Receivables: This amount should include inflows of installments and the related profit accruing from it. The amount should be reported as installment inflows at the latest possible repayment date or as assets maturing at the latest possible repayment date.

74) Ijarah / Ijarah Muntahia Bittamleek: Include in this item, the amount of inflows related to Ijarah/ Ijarah Muntahia Bittamleek rentals reported as inflows on the latest possible payment date. Where the lessee has the option to purchase the asset for a fixed consideration either during the duration of the asset or at the end of the contract, the consideration should be taken as an inflow at the latest possible exercise date.

75) <u>Other Retail Inflows:</u> Include in this item any other retail inflows from the bank's operations (e.g. inflows from Islamic credit card operations, etc.).

WHOLESALE

76) The ability to obtain funds in the wholesale markets is an important source of liquidity. The bank should be able to estimate their "normal" borrowing capacity in wholesale markets and to establish a policy regarding dealing in markets against that capacity.

77) All inflows should be taken as occurring at the last possible contractual date or in case of an asset at the last possible contractual repayment date. Following are the treatments of inflows for some of the Islamic contracts.

78) <u>Non-Marketable Securities:</u> Include here any securities which the reporting bank holds or will receive, but which it cannot classify as marketable. A bank should report non-marketable assets according to the redemption value of the assets or alternatively, where the redemption value is unavailable or not applicable (eg. in the case of equities), at the fair value, if determinable (as per IAS 39). This reflects the potential inflow of cash when the asset matures.

79) <u>Inter-bank:</u> Interbank (excluding intergroup/ related party). Report inflows arising from placements with other banks. Exclude from this item inflows from other bank entities within the group or related party which should be reported in "Intra-group / related party".

80) <u>Intra-group/ Related Party:</u> Report any cash flows from counterparties connected to the reporting bank. Also include inflows from intergroup / related party (including affiliates and sister companies) arising from some of the Islamic financial contracts.

81) <u>Corporate:</u> Report inflows from non-bank, non-connected corporate counterparties.

82) <u>Government / Public Sector – Bahrain:</u> Report inflows from the Government of Bahrain and Bahrain public sector entities.

83) For a list of ministries (and their directorates) included in the Government of Bahrain and a list of entities included in the Bahrain public sector, refer back to Appendix CA-8.

84) <u>Government / Public Sector – Other Countries:</u> Report inflows from the central governments and public sector entities of various countries. Also include central governments and public sector entities of GCC countries excluding Bahrain.

85) <u>Government / Public Sector – Classified Countries:</u> On occasions, the CBB may classify countries as having liquidity difficulties. Report inflows from the central government and the public sector entities of such classified countries under this section.

86) <u>Forward Foreign Exchange:</u> Enter any cash flows relating to forward purchases of foreign currency. The amount received should be entered in the appropriate maturity band.

87) <u>Forward Sales and Purchases:</u> Enter inflows from forward sales in the time band corresponding to the date of the forward sale. For forward purchases, where the asset purchased is a marketable asset, the bank should report the discounted value (amount) of the security purchased at the maturity of the contract. Where the asset purchased is non-marketable, the bank should enter the discounted value (amount) of the security at the maturity of the asset.

88) Commodities: Enter any inflows from sale of commodities held by the bank. This amount may or may not be a part of the amount reported as inflows from Parallel Salam contracts.

89) Trade Related Letters of Credit: Report here any inflows arising from trade related letters of credit.

90) Fees (including Mudarib Fees): Enter any inflow in the form of fees receivable by the bank. Also include Mudarib fees that the bank is entitled to for being a Mudarib of investor's funds.

91) Other Funding Sources: Include inflows from all other funding sources not reported elsewhere according to their timing of cash flows.

LIQUIDITY OUTFLOWS

92) Please refer to the description of the items under the liquidity inflows.

MATURITY PROFILE

93) Banks should monitor compliance with their liquidity mismatch guidelines each business day and should report in this section the mismatch on the reporting date.

94) Banks are expected to stay within their liquidity mismatch guidelines. Where a bank exceeds its guideline during the reporting period, it should contact the CBB to inform them of any exception as soon as it occurs.

95) Please refer to Module LM (Liquidity Risk Management) in Volume 2 of the CBB Rulebook for guidance on permitted mismatch.