



مصرف البحرين المركزي
Central Bank of Bahrain

Annual Report

2014

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1. Monetary Policy Developments

Overview

Monetary Policy Management

Domestic Interest Rates

Public Debt Issuance

1.1 Overview

During 2014, the Central Bank of Bahrain (“CBB”) continued to use a number of monetary policy measures aimed at maintaining the smooth functioning of financial markets in Bahrain. These measures included a range of monetary policy instruments as well as interest rate actions.

1.2 Monetary Policy Management

Monetary Policy Committee

The CBB Monetary Policy Committee (“MPC”) met on a weekly basis throughout 2014. The MPC closely evaluated economic and financial developments, monitored liquidity conditions, provided recommendations for monetary policy instruments and set interest rates on facilities offered by the CBB.

Reserve Requirements

All retail banks are required to maintain, on a monthly basis, a specific percentage of their non-bank deposits (denominated in Bahraini dinars), in a non-interest-bearing account at the CBB. During 2014, the reserve requirement did not change from 5%.

1.3 Domestic Interest Rates

Key Policy Interest Rates

During 2014, there was no change in the facility interest rates provided by the Central Bank of Bahrain to retail banks, where the one-day BD Deposit rate remained at 0.25% and 0.5% for the one week maturity. There was also no change to the 2.25% lending rate offered by the CBB to retail banks for the one-day maturity against Treasury Bills (REPO) and BD Deposit (BD Secured) and Ijara Sukuk (ISLI).

Interbank Rates

As at end-2014, the 3 month BHIBOR rate was 1.00 %, compared to 1.15% at end-2013. The 6 month BHIBOR rate was 1.25 % at end-2014, compared to 1.51% at end-2013.

Loan and Deposit Rates

At the end of 2014, the weighted average BD time deposit rate (3-12 months) stood at 0.95%, compared to 1.08 % at the end of 2013. The weighted average rate on saving accounts remained unchanged at 0.25%. The weighted average interest rate on business loans (excluding overdrafts) decreased from 5.08% at end-2013 to 5.02% at end-2014, also interest rate on personal loans decreased from 5.90% to 5.39% for the same period.

1.4 Public Debt Issuance

In accordance with the CBB Law, the CBB issues, on behalf of the Government of Bahrain, short and long-term debt instruments, including Treasury Bills, Government Bond, Sukuk AlSalam, and Ijarah Sukuk. The issuance of all government debt securities is executed in coordination with the Ministry of Finance (MOF).

During 2014, the CBB issued conventional 3-month treasury bills, denominated in Bahraini dinars, on a weekly basis, with an issue amount of BHD 45 million. Six (6)-month Treasury Bills were also issued, on a monthly basis, with an issue amount of BHD 30 million. In addition, the CBB issued 12-month Treasury Bills on a quarterly basis, with an issue amount of BHD 150 million.

The CBB also issued, on a monthly basis, three-month AlSalam Sukuk (BHD) for BHD 36 million, In addition, the CBB issued, on a monthly basis, six-month Ijara Sukuk for BHD 20 million.

On 17th September 2014, the CBB, under the advice of the Ministry of Finance, issued a USD 1.25 billion international development bond with a maturity period of thirty (30) years at a fixed rate of 6%.

The CBB issues, as well, long-term Ijarah Sukuk in varying denominations and for different maturities upon the request of the Kingdom of Bahrain's government, represented by the Ministry of Finance.

Chapter

2

2. Banking Developments

The Aggregate Balance Sheet of the Banking System

Retail Banks

Wholesale Banks

2.1 The Aggregate Balance Sheet of the Banking System

Total aggregate balance sheet for the banking system (retail and wholesale banks) decreased to USD 189.3 billion by the end of 2014, compared to USD 192.0 billion at the end of 2013, a decrease of 1.4%. Wholesale banks represented 57.7% of total assets, whilst retail banks accounted for 42.3%.

Domestic banking assets amounted to USD 49.3 billion at the end of 2014 compared to USD 48.7 billion at the end of 2013, representing an increase of USD 0.6 billion (1.2%). Foreign assets amounted to USD 140.0 billion, compared to USD 143.3 billion at the end of 2013, a decrease of USD 3.3 billion (2.3%).

Domestic liabilities increased to USD 51.9 billion at the end of 2014 compared to USD 50.5 billion at the end of 2013, an increase of USD 1.4 billion (2.8%). Total foreign liabilities decreased by USD 4.1 billion (2.9%) to reach USD 137.4 billion against USD 141.5 billion at the end of 2013.

2.2 Retail Banks¹

The aggregate balance sheet of retail banks increased by 6.4% to BD 30.1 billion at the end of 2014, compared to BD 28.3 billion at the end of 2013.

Total domestic assets grew slightly by BD 0.1 billion (0.6%) to reach BD 15.6 billion, with claims on CBB increasing by BD 0.3 billion (23.1%) and claims on general government securities growing by 0.3 billion (10.0%).

Foreign assets recorded an increase of BD 1.7 billion (13.3%), reaching a total of BD 14.5 billion at the end of 2014 compared to BD 12.8 billion at the end of 2013. Claims on foreign non-banks increased by BD 0.7 billion (8.8%) from BD 8.0 billion at the end of 2013 to BD 8.7 billion at the end of 2014, as well as claims on foreign banks which increased by BD 1.0 billion (20.8%), reaching a total of BD 5.8 billion at the end of 2014.

Total domestic liabilities of retail banks increased by BD 0.6 billion (4.0%) from BD 15.1 billion at the end of 2013 to BD 15.7 billion at the end of 2014. This was due to an increase in liabilities to private non-banks by BD 0.6 billion (6.9%) and liabilities to capital and reserves by BD 0.2 billion (9.1%).

Total foreign liabilities increased to reach BD 14.4 billion at the end of 2014. Liabilities to foreign banks increased by BD 1.0 billion (13.7%) and liabilities to foreign non-banks increased by BD 0.2 billion (3.4%).

¹ This includes conventional and Islamic retail banks.

Loans and Credit Facilities

Outstanding loans and credit facilities of retail banks stood at BD 7.1 billion at the end of 2014, a 1.4% decrease compared to the BD 7.2 billion at the end of 2013. The business sector accounted for 55.8% of total loans and credit facilities, while individuals and the government sector represented 41.6% and 2.6% respectively.

Deposits

Retail banks' total domestic deposits increased to BD 11.1 billion at the end of 2014 compared to BD 10.7 billion at the end of 2013, an increase of BD 0.4 billion (3.7%). This was due to higher private sector deposits which increased by BD 0.6 billion (6.9%) while general government deposits decreased by BD 0.1 billion (5.0%).

Domestic deposits in Bahraini Dinar increased by BD 0.4 billion (4.7%) to BD 9.0 billion at the end of 2014. Domestic foreign currency deposits remained unchanged at BD 2.1 billion. Bahraini Dinar deposits and foreign currency deposits constituted 81.1% and 18.9% of total domestic deposits respectively.

Geographical and Currency Distribution of Assets

The share of total assets accounted for by the member countries of the Gulf Cooperation Council (GCC) (excluding Bahrain) reached a total of 22.6%, while Asia accounted for 10.6%, Western Europe accounted for 6.1%, North and South America for 4.6%, and other Arab countries for 2.8%.

In terms of currency, the share of US dollar denominated assets was 44.0%, while the GCC currencies (excluding Bahraini dinar) accounted for 7.4% of total assets. The Euro represented 2.3% of total assets.

2.3 Wholesale Banks^{2 3}

The aggregate balance sheet of wholesale banks fell by USD 7.4 billion or 6.3% to USD 109.3 billion at the end of 2014, compared with USD 116.7 billion at the end of 2013.

Total domestic assets grew to USD 7.8 billion at 2014, compared with USD 7.5 billion at the end of 2013.

Foreign assets decreased by USD 7.7 billion (7.1%) to USD 101.5 billion at the end of 2014. This was due to decreases in claims on Securities by USD 6.1 billion (23.3%), and in claims on head office and affiliates by USD 6.4 billion (20.8%).

² This includes conventional and Islamic wholesale banks.

³ The balance sheets of wholesale banks are usually denominated in USD.

Total domestic liabilities of wholesale banks declined by USD 0.1 billion (1.0%) to USD 10.1 billion at the end of 2014 compared with USD 10.2 billion at the end of 2013.

Foreign liabilities decreased by USD 7.3 billion (6.9%) to reach USD 99.2 billion at the end of 2014, compared with USD 106.5 billion at the end of 2013. This decrease was mainly due to a drop in liabilities to head office and affiliates which decreased by USD 6.9 billion (24.5%) and liabilities to non-banks by USD 2.3 billion (8.3%).

Geographical and Currency Distribution of Assets

The share of total assets accounted for by the GCC (excluding Bahrain) reached a total of 32.1%, while Western Europe accounted for 36.8%, North and South America for 8.0%, Asia for 10.3%, and other Arab countries for 3.9%.

As for currency, the share of GCC currencies (excluding Bahraini dinar) of total assets was 13.1% with the dollar accounting for 66.2% of total assets and the Euro comprising 7.2% of total assets.

Chapter

3

3. Regulatory and Supervisory Developments

Regulatory Developments

Supervisory Developments

3.1 Regulatory Developments

As part of CBB's continuing development of the regulatory framework for the financial system, work was carried out during the year 2014 to strengthen regulatory policies and to develop appropriate prudential regulations, in order to maintain financial stability and market integrity.

3.1.1 Updates to CBB Rulebook

Basel III adoption

As part of its continuous endeavours to enhance the regulatory framework by adopting the Basel committee's standards, the CBB issued its final rules in August 2014 in amendments to Module CA (Capital Adequacy) of the CBB Rulebook Volume 1, which includes the new definition of Regulatory Capital according to Basel III requirements. Similar rules have been issued to Islamic banks including the new definition of Regulatory Capital according to Basel III requirements & the Islamic Financial Service Board (IFSB). The implementation of these new rules will start in January 2015.

Moreover, the CBB has issued revised Prudential Information Returns (PIR) as per Basel III requirements on a trial basis in November 2014, and as per the IFSB requirements for Islamic banks in December 2014. The updated returns will be submitted formally by banks for the first quarter ending 31st March 2015.

The CBB has also issued a consultation paper in December 2014 on Basel III public disclosure requirements.

Proposed Directives on Credit Grading/Classification System

The CBB has reviewed the feedback received from banks on the second consultation paper concerning credit grading system and the proposed rules will be amended accordingly to reflect the banks' comments. The banks will be consulted as well on transitional arrangements for smooth implementation of this new system.

Moreover, the CBB in cooperation with audit firms is currently studying the effect of the Implementation of International Financial Reporting Standard no.9 "IFRS 9" which introduces a single-forward looking "expected loss" impairment model. This new model varies from the incurred loss model which is currently in use in many other jurisdictions and is the basis for the CBB's proposed credit grading system.

Amendments to the Financial Crime Module (FC) for all Bank and Investment Firm Licensees:

As part of CBB's objective to meet the revised FATF Recommendations on combating money laundering and the financing of terrorism and proliferation issued in February 2012 by the Financial Action Task Force (FATF), the CBB issued in October 2014 amendments to Module FC (Financial Crime) for CBB Rulebook

Volumes 1, 2 and 4 for conventional banks, Islamic banks & investment firms respectively to reflect the revised recommendations.

Draft Resolution in respect of the establishment of a Centralized Shari'a Supervisory Board

The CBB has drafted a proposed resolution in respect of the establishment of a Centralized Shari'a Supervisory Board which has been forwarded to the Legislation and Legal Opinion Commission for review in June 2014.

The objectives of the draft resolution is to broaden the scope of authorities of the current Shari'a Supervisory Board in order to develop the Islamic financial industry and to coordinate the efforts and implement unified Islamic Shari'a standards and practices across the Islamic financial industry.

Amendments to Module PCD (Prudential Consolidation)

The CBB has issued in April 2014 some amendments to the Module PCD for Islamic banks.

The above-stated amendments require the continuous monitoring of Islamic banks Special Purpose Vehicles (SPVs) by their Shari'a Supervisory board which provides comfort to the bank's stakeholders. The new rules aim at enhancing Shari'a compliance in all Islamic banking activities and their related entities.

The new rules apply to activities of both the existing and new SPVs.

New Directives on prior Approval Required for Dismissal of Persons in a Control Function

The CBB issued a new directive in 2014 regarding obtaining approval before suspending or dismissing a person in a control function. Staff occupying a position in internal audit, risk management, AML/Compliance, and internal Shari'a review of the bank or financing company is subject to this directive; whereby, if a licensed institution wishes to suspend or dismiss the person, they must notify the CBB before the proposed dismissal or suspension takes place and communicated to the person involved. This new directives have been issued in recognition of the importance of these positions as part of a good corporate governance framework and the need for the CBB to be fully aware of the status of any staff involved in such positions.

Consultation on the Proposed Securitisation Law in Bahrain

As part of the CBB's efforts to further develop the financial sector in the Kingdom of Bahrain, the CBB has issued a consultation in March 2014 on a draft Securitisation Law for the financial sector and related parties such as Audit and Law firms among others.

The draft law includes the following:

- Definition of Securitisation and Securitisation Undertakings;

- Specific Requirements for Liquidation of Securitisation Undertakings;
- Specific Requirements for Securitised Risks;
- Rights of Investors and Creditors;
- Sanctions; and
- Amending and Transitory Provisions

The CBB received comments from the financial sector and related parties such as Audit and Law firms. The CBB also received comments from the Economic Development Board (EDB) on the consultation paper and is currently studying them.

Consultation on Special Murabaha Financing Contracts

The CBB issued in March 2014 a consultation Paper that deals with Special Murabaha Financing Contracts provided by Islamic banks due to the unique features attached to such contracts. The proposed directives define these products as Restricted Investment Accounts (RIA) opened on a Wakala basis for funding specific financing. The proposed directives incorporate as well minimum terms and conditions in relation to such products and their disclosure to the investors and other stakeholders in order to ensure transparency on disclosing such important information.

Consultation on a proposed Client Assets Module for Banks

The CBB issued a consultation in August 2014 on a new Client Assets Module for CBB Rulebook Volume 1 and 2. The proposed Module aims at ensuring proper protection of client assets to restrict the comingling of clients assets with those of the bank.

New directives related to Microfinance Institutions

The CBB issued in January 2014 several new Modules that include new directives for Microfinance Institutions including the following Modules:

- Authorisation Module;
- High Level Controls Module;
- General Requirements Module;
- Capital Adequacy and Liquidity Requirements Module;
- Business Conduct Module;
- CBB Reporting Requirements Module; and
- Public Disclosure Module.

The new directives are flexible in order to accommodate the unique nature of microfinance activities for retail sector in conventional and Islamic Banking. These directions intend to apply a balanced and orderly working framework that does not impose a burden or additional costs on micro finance institutions.

New directives related to Financing Companies – Conventional and Islamic

The CBB issued in January 2014 new directives for financing companies as part of its initiatives to develop a regulatory framework for specialised companies falling under

Rulebook Volume 5. These Modules are: the Public Disclosure Module, the Training & Competency, the Business Conduct Module & the Operational Risk Modules.

Consultation papers on proposed directives for Ancillary Service Providers

The CBB issued in 2014 for consultation proposed directives for ancillary service providers (Authorisation Module, General Requirements and the CBB Reporting Modules) as part of its continuous work on improving its regulatory framework. The CBB is currently studying the industry comments received.

The different categories of ancillary service providers are as follows:

- Third party administrators (TPA);
- Card processing;
- Credit reference bureau;
- Payment service provider (PSP);
- Shari'a advisory/review services; and
- Services, other than those included in subparagraphs (a) to (e) that are carrying out services in accordance with the CBB Law.

Proposed Regulation on Close-Out Netting

Following the consultation with the financial Institutions, the CBB has issued on the 18th December 2014, a new regulation governing “close-out netting” in the Kingdom of Bahrain in accordance with Article (108) of the CBB Law.

The new regulation includes rules and conditions that must be met in the market contract and procedures that must be followed to implement the netting in accordance with the contract, including the identification of any of the agreements it applies to (termed “market contracts”). The new regulation has been based predominantly on a template developed by International Swaps and Derivative Association (ISDA).

The introduction of close-out netting in Bahrain has significant benefits for the local financial community. It lays down an efficient streamlined procedure for settling financial transactions which will lead to greater consistency in dealings between counterparties and will create greater certainty in the financial sector. This in turn could lead to lower borrowing costs for financial institutions and a potential reduction in capital adequacy charges. Moreover, the enactment of the Netting Regulation creates legal certainty as to the enforceability of close-out netting in the case of insolvency.

3.2 Supervisory Developments

Compliance Directorate

During the year 2014, the Central Bank of Bahrain continued its efforts with particular emphasis on upgrading the Kingdom's regulatory framework specific to AML/CFT through the Policy Committee, which is a national committee chaired by

the CBB and is responsible for formulating AML/CFT policies, procedures and coordinating with relevant ministries and external organizations.

In light of the new FATF recommendations introduced in 2012, the Policy Committee has decided to work with ministries and government authorities on a unified strategic plan with regards to anti money laundering and terrorist financing. The national plan aims to implement the new FATF recommendations within the specified time frame based on country's risk assessment. As the revised FATF 40 recommendations require a systematic, risk-based AML/CFT assessment.

According to Resolution No. (2) Of His Royal Highness Prince Khalifa bin Salman Al Khalifa, Prime Minister, on the establishment of the National Committee for Coordination and Consultation on the financial oversight over Non-Governmental Organizations (NGOs). The Committee held five meetings during 2014 under the chairmanship of the CBB where the following was agreed upon: consolidate the NGOs supervised and controlled by government Ministries and Authorities, the role of government Ministries and Authorities in the financial control over NGOs and the proposal of a new financial system for the financial control over NGOs.

As part of its systematic program to improve the AML/CFT framework in Bahrain, the CBB has continued to carry out examinations on relevant licensees to ensure compliance with the CBB's regulations, to further enhance the on-site AML/CFT supervision and to help the licensees improve their systems of internal controls with respect to the prevention, detection, monitoring and reporting of suspicious transactions. Such examination visits help upgrade the level of AML/CFT awareness within banks, moneychangers, insurance firms and the capital market sector.

The Kingdom of Bahrain has reached an agreement in substance with the United States of America relating to the Foreign Account Tax Compliance Act (FATCA) Intergovernmental Agreement "IGA" and has consented to be included on the Treasury and US Internal Revenue Service "IRS" list. The Compliance Directorate has been coordinating with the licensees to ensure their readiness for FATCA. The licensees were requested to provide detailed implementation plans outlining the steps that have been taken to ensure that all systems and procedures are in place to meet FATCA requirements by the proposed deadline.

Banking Supervision Directorates

The CBB with the aim of promoting financial stability and soundness of the banking industry and protecting the interests of banking service users continued with its proactive monitoring of banks and financial institutions and persisted with regulations which facilitate enhanced transparency and disclosures. Also, the CBB continued to take measures that provided adequate assurance to the market for supporting market innovation as well as its growth and development. To achieve the objectives the CBB used tools such as risk based supervision, and implemented rules based on international best practices while proactively monitoring banks and financial institutions.

Accordingly, the following measures were taken by the CBB during the year:

- **Sound Remuneration Practices:** With the objective of implementing sound practices for variable remuneration the CBB issued its rules for ‘Remuneration of Approved Persons and Material Risk Takers’ at the end of 2013 which aligned the bonuses with risks taken by the employee and encouraged long term relationships between the bank and the employee. All the banks were required to implement the said rules for the bonuses accruing for 2014. The CBB reviewed the gap report highlighting gaps between the existing remuneration practices of banks and the CBB rules in order to understand the readiness of banks to implement the aforementioned rules.
- **Monitoring of impaired loans portfolio:** The CBB continued with its monitoring of the impaired loans portfolio of banks on a quarterly basis with the objective of observing any abnormal changes in the portfolio and, accordingly, advise the banks to take pre-emptive measures to restrain the growth in impaired loans portfolio.
- **Related Party Exposures:** In its endeavour to control risk concentration and ensure compliance with the Central Bank’s rules, the CBB continued with its monitoring of the related party exposures of locally incorporated banks on a monthly basis.
- **Monitoring the Level of Real Estate Exposures:** The monitoring of the banks’ exposure to the real estate sector was continued by the CBB on a quarterly basis with the objective of controlling risk concentration to an important sector.
- **Prudential Meetings:** The Banking Supervision Directorates conducted 57 prudential meetings with the conventional banking licensees during the year. The meetings discussed the banks’ previous years’ financial performance, strategic direction for the future and other supervisory issues of relevance to the CBB.
- **Meeting on Financial Statements:** The CBB held annual trilateral meetings with banks and financing companies along with their external auditors to discuss the year-end financial results for 2013, before these are submitted to the respective bank’s Board of Directors for approval. The meetings also deliberated on the issues pertaining to impaired assets, adequacy of provisions, recognition of income, valuation practices, and proposed dividends etc. Additionally, the CBB conducted quarterly meetings with banks and financing companies to review their financial performance for the quarter.
- **Monitoring of Banks BOD and Organization Structure:** With the objective of evaluating the Board of Directors performance in bank’s boards, the CBB reviewed the corporate governance reports submitted annually by the banks.

These assessments included reviewing the attendance of the Directors in BOD meetings, their participation in the meetings, the structure of board committees and the appointment of independent directors among others. The review of organizational structure of banks was also undertaken to know whether the bank has a succession plan in place. As part of its monitoring of banks corporate governance the CBB also sent its representatives to the AGM/EAGM of banks.

- **Bahrain Credit Reference Bureau (BCRB):** The CBB as part of its objective of promoting financial soundness of the financial system through enhancing the credit quality in the banking system coordinated with the BCRB to ensure that the BCRB's credit referencing services are expanded to cover companies/corporates based in Bahrain, which went live from 1st January 2014.
- **Studies/Surveys:** The CBB as part of its proactive supervisory approach continued to undertake special studies/surveys. Accordingly, during the year it conducted a survey on the number of staff in compliance, audit and risk functions in banks with the objective of knowing whether these institutions have adequately staffed these important controlling functions.
- **Consolidated Supervision:** As part of consolidated supervision approach, the CBB conducted onsite supervisory visit to the subsidiaries of Bahrain based locally incorporated banks in Jordan and discussed issues pertaining to the bank as well as other mutually beneficial issues. The visits also facilitated cross border exchange of information between the CBB and the host country regulator.
- **Domestic-Systematically Important Banks (D-SIBs):** The CBB received Recovery and Resolution Plans (RRPs) from identified domestic systematically important banks (D-SIBs) and reviewed them in line with the Financial Stability Board guidance and specific requirements of the financial industry in Bahrain. Banks were asked to incorporate the CBB's suggestions and subsequently get their RRP's reviewed by external consultants before resubmitting the same to the CBB.
- **Appointed Experts Assignments:** The CBB with the objective of augmenting its resources for enhancing the effectiveness of its supervisory practices appointed qualified "Appointed Experts" to conduct 'Agreed Upon Procedures' through onsite examination of its licensees. In this regard 2 assignments were handled by "Appointed Experts" covering conventional bank licensees during the year.
- **Implementation of Electronic Submission of Returns and Analysis of Data (ESRAD):** The CBB implemented a electronic system called ESRAD for online submission of data by licensees which went live during the year. The system is aimed at enabling the licensees to submit prudential returns online

and bring efficiency in submission of information by licensees. The system is generating appropriate MIS reports from December 2014 onwards.

Other activities undertaken by the Supervision Directorates include:

- **Compliance with the “Code of Best Practice on Consumer Credit and Charging”:** The CBB’s continued its monitoring of retail banks and financing companies’ adherence to the provisions of the Code, with the objective that licensees act fairly, responsibly and reasonably in dealing with their customers and are transparent in their dealings.
- **ATMs and Internet Banking Security:** The CBB advised banks to implement state of the art technology in securing their ATMs as well as internet banking systems against Phishing, hacking and instances of fraud. In this regard the CBB conducted a survey to assess the level of security of the ATMs. The licensees were reminded to regularly test their systems against security breaches and verify the robustness of security controls in place.

The CBB continued with its stringent monitoring and oversight of the disclosures that are aligned to Basel 2&3 Pillar 3 guidelines, made by its licensees and their compliance with the CBB’s requirements with the objective of promoting enhanced transparency and market discipline.

- **Public Disclosure by Banks:** The CBB continued to monitor banks’ compliance with the CBB Rules on public disclosures. The banks were required to submit the report on compliance with public disclosure requirements duly reviewed by their external auditors. Any delay in submission of information to the CBB or non-compliance by banks with the CBB rules in this regard attracted enforcement actions including the imposition of penalties on the bank.
- **Enforcement actions:** The CBB continued to enforce high standards of compliance by its licensees, resulting in bringing down the risks for the financial system and the consumers of the financial services. It used enforcement as one of the tools for effective supervision. Accordingly, and as stipulated in Article 38 of the CBB Law, the Conventional Banking Supervision Directorates at the CBB implemented 31 enforcement actions against their licensees including imposition of penalties, during the year 2014.

Islamic Financial Institutions Supervision

The Directorate is responsible for the supervision of the Islamic Financial Institutions that provide regulated banking services. These include 15 Wholesale Banks, 6 Retail

Banks, 2 Financing Companies, 1 Branch of a Foreign Bank and 1 Microfinance Institution .

The following are the key milestones achieved during the year 2014:

- Participated in Sharia Scholars' sessions arranged by Waqf Fund discussing different Sharia aspects, specifically, Investment Wakala, the role of Sukuk, challenges in project finance and asset-backed versus asset-based debate, and Salam as a liquidity management tool for Islamic banks.
- Continued the work in the Technical Committee and Working Groups of Islamic Financial Services Board (IFSB) on revising and developing standards.
- As part of its efforts to monitor local Banks and their overseas subsidiaries, a visit was given to Al Baraka Bank Limited, a subsidiary of AL Baraka Banking Group (ABG) in South Africa, and meeting South African Reserve Bank, the central bank of the Republic of South Africa, to discuss mutual matters.
- The launch of Electronic Submission of Returns and Analysis of Data (ESRAD) system to allow licensees to use web-based approach to submit reporting requirements returns to the CBB.
- Hosted a number of delegations during the year from Central Banks of various countries and shared Islamic banking and Takaful experiences with them in order to help start Islamic banking in their respective markets
- Representing Bahrain in a panel discussion on the application status of Basel regulations in IFSB member countries, during IFSB 15 workshop in Malaysia.

Inspection Directorate

The Inspection Directorate completed its planned programmed of onsite inspection visits to CBB licensees including full scope and subject specific visits. During the year, the directorate also initiated the process of annual inspection of domestic systemically important banks (D-SIBs). The Directorate employed a risk focused examination approach using the CMORTALE methodology focused on the following assessment elements- capital adequacy, management quality, operational risk, risk Management, transparency and disclosure, asset quality, liquidity and earnings. This methodology assesses the risk profile of the CBB's licensees with the ultimate objective of promoting the safety and soundness of financial institutions through onsite procedures aimed at identifying regulatory action required to reduce the risk of

insolvency, the potential loss of market confidence, and losses to depositors or investors. The Directorate is currently in the process of developing an enhanced risk profiling methodology to assess the business, control failure and systemic risks of the licensees. The updated risk profiling methodology will enable enhanced assessment of probability of default and systemic risk of CBB licensees and is in alignment with international best practices.

In response to the greater focus towards the assessment of risk within the financial sector, the Directorate identified and implemented training and development programmes designed to provide inspection staff with the skills and experience necessary to assess the extent to which best practice risk management had been effectively embedded in the financial sector.

During 2014 the Directorate participated in the discussions hosted in Riyadh by GCC Task Force and Technical Payment Committee, which focused on promoting enhanced networking and communication solutions.

Capital Markets Supervision

The CBB worked during 2014, to complete the implementation of its plan for the development and updating of the legislative, regulatory and supervisory framework for the capital market sector, in line with international standards and best practices in consultation with stakeholders, interested parties and all other financial sector components in Bahrain. The CBB worked alongside these institutions and bodies to create a suitable environment for the development of business and activities of the capital market, through the licensing of more market institutions and encouragement of the diversification of listing and trading of new and innovative securities and financial instruments. Also, enhancing standards, regulations and the mechanisms of supervision of all the businesses and activities of capital market institutions and licensed financial markets.

Developments & Achievements

Development of the Rules and Regulations

During this period, the CMSD worked to complete the regulatory and legal framework, including Volume 6 of the CBB Rulebook relating to the capital market, with its main objectives being to enhance transparency and develop the capital markets, and protect investors. These included the following activities:

Unifying CBB Powers related to Listed Companies: In order to consolidate and simplify the procedures relating to the control and supervision of listed shareholding companies, and after the CBB's completion of the regulatory and legal framework relating to the capital market in the Kingdom of Bahrain, the amendments on the Commercial Companies Law under Law No. (50) for the year 2014, came to provide for the identification of CBB powers in all matters relating to the control and supervision of listed companies. In particular the text in Article (119 modified) states that: " *The dealing of the Company's shares, its registration, transfer, depository,*

pledge, mortgage and the Company's purchase of its own shares shall be undertaken in accordance with the provisions of the Central Bank of Bahrain and Financial Institutions Law promulgated by Law No. (64) And any of its regulations issued pursuant to it."

Moreover, these amendments have eliminated many obstacles that may limit the benefit of companies and private sector institutions from capital market products and services, such as listing or the conversion to public joint stock companies, or the issuance of other securities other than ordinary shares.

To activate the amendments mentioned above, the Capital Markets Supervision Directorate issued Circular No. CMS/L290 /14 dated 30th October, 2014, requesting all listed shareholding companies to ensure their compliance with the implementation of the provisions and amendments referred to in Law No. (50) of 2014 amending some provisions of the Commercial Companies Law promulgated by Legislative Decree No. (21) of 2001, which was published in the Official Gazette No. 3174 dated 18th September, 2014.

Development of Disclosure Standards

In order to ensure comprehensive disclosure of all data and information relating to the financial condition and results of listed companies, a CBB Circular Ref. CMS/L233/14 No. dated 7th August, 2014 was issued for listed public shareholding companies, requesting them to send the external auditor report containing the audited or reviewed financial statements, the auditor's report and all the data and information that must be provided in accordance with the International Financial Reporting Standards (IFRS) to the Bahrain Bourse for posting on its website, starting from the dates of dissemination of the financial results for the third quarter of 2014.

Development of Legislations and Regulations of the Securities Market

Based on the overall legislative, regulatory and supervisory framework that has been developed by the CBB in the past, the CBB issued its approval on Bahrain Bourse's Market Rules in accordance with the requirements of the CBB Law and CBB Rulebook Volume 6 on 11th May 2014. The CBB expects the Bahrain Bourse to finalize and issue its regulations and requirements related to Listing and Trading, as well as the regulations related to the Clearing, Settlement, Central Depository (CSD) during the year 2015.

Diversification of Financial Products and Instruments

In order to achieve the goal of creating depth and diversity in the nature of financial products and instruments that can be provided by the capital markets sector in the Kingdom of Bahrain, the CBB issued its in-principle approval to the Bahrain Bourse to regulate and operate a market for listing and trading of securities issued by closed, small and medium-sized companies independently from the main market, in order to attract these companies and dealers, whether inside or outside the Kingdom of Bahrain.

On 14th December 2014, the BHB circulated those rules as part of a consultation paper for all concerned parties, after obtaining the necessary approvals from the CBB and Bahrain Bourse's Board of Directors and the CBB expects final approval will be granted during the next phase.

Furthermore, the CBB approved the BHB's request for provision of Murabaha through Equities service in accordance with the principles and requirements of Islamic Shari'a and after coordinating with the concerned financial institutions. This service will hopefully be announced and implemented in the next phase.

Short Selling, Lending and Borrowing of Securities and Margin Trading Rules

Complementing the legislative and regulatory framework for the capital markets sector in accordance with the requirements of the CBB Law in general and Articles (91) and (92) in particular, the CBB has prepared the initial draft of requirements and criteria for lending, borrowing, short selling and margin trading of securities traded, as an initial draft to be developed in coordination with Bahrain Bourse and hopefully issue it as a consultation paper in the next phase.

Updating Technical Infrastructure

In conjunction with the planning of legislative, regulatory and supervisory framework that the CBB worked to accomplish during the previous years, Bahrain Bourse succeeded in updating its Automated Trading System as well as the regulations relating to the settlement, clearing, central depository and central registry during 2014. This update is commensurate with latest technical and technological standards, and enables BHB to provide all products, tools and services relating to dealing in securities, both referred to above, or that could be introduced and offered in the market in the future.

Exchanges and Clearing, Settlement and Central Depositories

- a) The CBB granted its in-principle and conditional approval to Bahrain Bourse on 25th March 2013, for establishing an independent, Single Person Company that will offer clearing, settlement and central depository services. The main objective for setting up the new Company is to segregate the clearing, settlement and central depository operations from trading operations of Bahrain Bourse.
- b) The Capital Markets Supervision (CMS) Directorate issued its final approval to Bahrain Bourse Market Rules vide letter Ref. CMS/165/2014 dated 11th May 2014 and BHB started implementing the Rules on 1st September 2014. BHB members were given a six month transitional period from the date of implementation to meet the requirements of the new Rules.

Currently, Bahrain Bourse is working on finalizing its draft Listing Rules as well as the Clearing, Settlement and Central Depository (CSD) Rules.

Primary Market:

In 2014, the CMS Directorate issued its no objection to the use of 44 public and private offering documents (comparing to 42 offering documents in 2013) after ensuring the completeness of all the information and details as per the CBB Law, Offering of Securities Module of CBB Rulebook Volume 6, as follows:

Table 1: CBB Approvals for 2014

Type of CBB Approval	Issues Value \$	No. of Issues	Offering Method	Type of Security
Registration – Article (81)	24,188,454	1	Public Offering	Ordinary Shares
Registration – Article (81)	950,760,881	16	Private Placement	
Filing - Exempt from Article 81	517,417,282	1		
-	-	-	Public Offering	Conventional Bonds
Registration – Article (81)	53,000,000	1	Private Placement	
Filing - Exempt from Article 81	1,532,375,060	2		
Registration – Article (81)	1,250,000000	1	Governmental	Islamic Sukuk
-	-	-	Governmental	
-	-	-	Private Placement	
-	-	-	Convertible Murabaha	Preference Shares
-	-	-	Rights Issue	
-	-	-	Private Placement	
-	-	-	-	International Issues
Exempt from Article 81	124,660,469	22	Private Placement	Structured Products
	4,452,402,146	44		Total

The gross total value of these issues amounted to USD 4.45 billion (compared to USD 5.79 billion in 2013), which includes, one issue of Kingdom of Bahrain Government bonds with a total value of USD 1.25 billion, one IPO with total value of 24,188,454 , 17 issues of private placements in ordinary shares with a total value of USD 1.46 billion (compared to USD 1.34 million in 2013), 3 issues of private placements in conventional bonds with a total value of USD 1.58 billion (Compared to USD 2.85 billion in 2013), and 22 private issues of structured financial instruments with a total value of USD 124 million (compared to USD96 million in 2013).

Listing:

On 3rd December 2014, the Capital Markets Supervision Directorate issued its no objection to list Zain Bahrain B.S.C ordinary shares on Bahrain Bourse.

Disclosure Standards:

1. As per Resolution No. 49 of 2007 in respect of Dissemination of Listed Companies' Financial Statements and Board of Directors' Meetings, all listed companies notified the Bahrain Bourse of the dates of Board of Directors meetings five days before the end of each quarter for the year 2014, with the exception of Gulf Monetary Group and Taib Bank, as their shares are suspended from trading.
2. All listed companies, with the exception of Ithmaar Bank, Gulf Monetary Group and Taib Bank, published their Annual financial results for the year 2013 within the prescribed deadline of (60) days following the end of the year in two local newspapers and included the required four main financial statements extracts. Likewise, the listed companies also held their Annual General Meetings within the (90) day deadline. Ithmaar Bank published the annual audited financial statements on 3rd March 2014.
3. All listed companies published their 2014 quarterly financial results within the prescribed deadline of (45) days following the end of the first, second and third quarter of the same year, with the exception of Ithmaar Bank for the second quarter, as well as Gulf Monetary Group and Taib Bank for all the quarters. The financial results were published in two local newspapers and included the required four main financial statement extracts. Ithmaar Bank published the reviewed financial statements for the second quarter of 2014 on 17th August 2014.
4. All listed companies submitted a copy of their interim reviewed financial statements for the third quarter in its entirety as produced and submitted by the external auditor and signed by the board of directors to Bahrain Bourse for dissemination through Bahrain Bourse's website, as per CMSD's Circular Ref. CMS/L232/14 dated 7th August 2014.

Compliance and Enforcement:**1. Liquidation of Brokerage Firm:**

As a result of TAIB Securities being unable to continue to provide brokerage services, the CBB worked on the protection of the rights and assets of the customers through the transfer of these assets and money to a licensed brokerage firm licensed by the CBB, Mubasher. These measures have been fully disclosed through the announcement in the market and through direct contact with the customers concerned and through the publication in the local newspapers.

Consequently, the appointment of legal consultancy offices and attorneys was announced, as liquidators of TAIB Securities, in accordance with the decision of the Company's Extraordinary General Meeting dated May 27, 2014. Currently the necessary procedures are being taken to complete the liquidation.

2. Cancellation of license of Brokerage firm dealing in securities and financial instruments

As a result of ceasing to providing brokerage services on the BFX market, and ceasing to provide settlement and clearance services in the clearing house BCDC, and at the request of the company, the CBB issued Resolution No. 16 dated June 4, 2014, on the cancellation of the license granted to the company Grrans Commodities BSC (C), which was also published in local newspapers.

3. Notification of non-compliance to submission of the monthly statement of the Register of Interest

In accordance with the Circular CMS/L018/2007 on the provision of the monthly statement of the register of interest on the disclosure of ownership interest by shareholders owning 5% or more in shares of listed companies within 5 business days from the end of the month, the following companies have been notified for failing to deliver the report during the required timeframe: Bahrain Car Park, Bahrain Family Leisure, TAIB bank, INOVEST and Bahrain Ship Repairing and Engineering company.

4. Notification of Non-Compliance with the Disclosure Standards

- a. In accordance with the Circular CMS/L256/09 on the publication of the financial statements for the period in question with the comparative period for each period separately through the dissemination in press releases for companies, the Directorate issued non-compliance letters to Esterad Company, INOVEST, BMML, and Bahrain Flour Mills with respect to interim financial statements for the first quarter, and to Trafco and Al Ahlia Insurance with respect to the interim financial statements for the third quarter, for not abiding with the Disclosure Standards and the publication of the interim comparison of the listed company's financial statements. The companies were required to re-publish and disseminate the press release to include the results of the current quarter for the year compared with the results of the quarter of the previous financial year.
- b. In accordance with Article (34) of the Disclosure Standards with regards to the publication of financial statements to be prepared in accordance with the International Accounting Standards (IAS), the Directorate issued a non-compliance letter to Bahrain Car Park company for not adhering to the Disclosure Standards' requirements regarding the preparation and presentation of the financial statements in accordance with International Accounting Standards, with respect to presenting the Treasury Shares under Shareholders Equity of the company's balance sheet, and a correction was required.

- c. In accordance with Article (56) of the Disclosure Standards, the Directorate issued a non-compliance letter to Gulf Finance House, for not abiding with providing adequate disclosure with regards to the sale of its stake in Leeds United Football Club, and called for the need for a full disclosure on the matter.
- d. In accordance with Article (2.15.6) of the Prohibition of Market Abuse and Manipulation (MAM) Module of Volume 6, on the provision of the annual verification of the insiders' and the key persons' data register, which is to be reviewed by the company's Internal Auditor, to be submitted no later than 10 days after the company's Annual General Meeting date, the Directorate issued non-compliance letters to United Gulf investment Corporation, Bahrain Cinema Company, Al Salam Bank, and Bahrain Flour Mills for not having submitted within the required timeframe.
- e. The Directorate sent a letter notifying Bahraini Family Leisure for not following the laws and regulations concerning the distribution of profits, as the dividends to be distributed were on unrealized profits, and a correction was required.

5. Notification of Non-Adherence with the Requirements

- a. The Directorate issued a Notice letter to Ahlia Insurance Company of the Directorate's right to impose disciplinary and administrative sanctions in the future, including the suspension of trading, as a result of repeated non-compliance with regards to the company not publishing the comparative financials in the financial statements for the period in question and the total for each interim separately.
- b. A Notice was issued to the Compliance Officer of GFH, for the Bank's non-compliance to the obligation of the deployment of equivalent information, which was published in the cross listed Market, to the Bahrain Bourse. Furthermore, the CBB retained its right to reconsider the appropriateness of the Bank's Compliance Officer, in the future, due to the repeated cases of non-compliance with the requirements of the Disclosure Standards.
- c. A Notice was issued to Delmon Poultry Company, as a result of the company dealing with its treasury shares prior to the renewal of CBB's approval, in accordance with the Takeovers, Mergers and Acquisitions (TMA) Module Article (TMA.1.16) and to the CBB's Circular CMS/L101/2010 dated February 18, 2010, which provides that the duration of the CBB's approval in this regard is ninety (90) days from the date of issuance of the approval.

6. Temporary Suspension of Trading

- a. The Directorate issued a resolution to suspend the trading of the shares of Bahrain Car Park Company and Bahrain Family Leisure Company on February 18, 2014, as a result of the publication of the Agenda of Shareholders Annual General Meeting (AGM) to include the financial information relating to the allocation of annual profit not in accordance with of the financial situation of the company and the requirements of the CBB in this regard, and to not obtaining the CBB's prior approval, in accordance with Article (39) of the Disclosure Standards. Trading was resumed on the shares of Bahrain Car Parking Company on February 20, 2014, and on the shares of Bahrain Family Leisure Company on March 5, 2014, after the re-publication and dissemination of the invitation and the agenda of the AGM of each company.
- b. The Directorate issued a resolution to suspend trading of the shares of Ithmaar Bank on August 14, 2014, as a result of the Bank's not adhering to publish its interim reviewed financial statements for the second quarter of fiscal year 2014 within 45 days from the end of the second quarter, in accordance with Resolution No. (49) Of the year 2007, issued by the Central Bank of Bahrain on the disclosure and publication of annual and quarterly financial statements. Trading of the Bank's shares was resumed on August 17, 2014, after the Bank's publication of its quarterly interim financial statements.
- c. The Directorate issued a resolution to suspend trading on Bahrain Flour Mills Company on July 1, 2014, as a result of the company not adhering to the requirements of Resolution 49/2007 and to having disclosed the company's financial performance before being approved by the company's Board of Directors. Trading was resumed on July 21, 2014, after the company's board meeting and the publishing of the quarterly financial statements.

Delisting:

The Capital Markets Supervision Directorate issued its no objection to the delisting on Bahrain Bourse, as follows:

1. On 10th March 2014, International Investment Group (IIG) was delisted due to non-compliance to Bahrain Bourse listing requirements.
2. On 16th March 2014, First Arabian Equity 2000 Fund (FARAB.FUND) was delisted from Bahrain Bourse due to liquidation of the fund.
3. On 21st July 2014, Ijara Government Sukuk-Issue (10th Issue) (ILS10.2014) was delisted due to the maturity of the sukuk.
4. On 11th November 2014, IFC Hilal Sukuk was delisted due to the maturity of the sukuk.

5. On 7th December 2014, United Finance Company S.A.O.G was delisted based on the company's Board of Directors decision.

Joint Work of the Gulf Cooperation Council (GCC)

1. The CBB's Capital Markets Supervision Directorate participated in meetings of the Gulf Cooperation Council (GCC) Taskforces to complete the drafting and approving of uniform rules for the Capital markets in the GCC, and that by 2 meetings (13th & 14th) for the Listing, Disclosure and Corporate Governance Taskforce, by 4 meetings (15th, 16th, 17th and 18th) for the Issuance and Public Offering Taskforce, and by 2 meetings (9th & 10th) for the Market Surveillance and Supervision over the exchanges in the GCC.
2. The CBB's Capital Markets Supervision Directorate participated in the 10th and 11th meeting of the Heads of Securities Commissions.
3. A delegation from the CBB headed by His Excellency, the Governor, participated in the 5th meeting of the Ministerial Committee of the Heads of Councils Regulators of Financial Markets in the GCC countries, which was held at the State of Kuwait on 16th October 2014.
4. The Supreme Council decided at its 35th annual meeting, which was held in Qatar on 9th December 2014, the following:

“Approve the continuation of implementing the unified Capital Markets rules and regulations which were previously approved by the Supreme Council as an advisory paper until the completion of the preparation of the full uniform rules for the integration of capital markets, to ensure that they are consistent and compatible with each other.”

The unified rules and regulations mentioned above include the following:

- Unified regulations for the Issuance and Offering of Equity in the GCC financial markets.
- Unified regulations for the Issuance and Offering of Bonds/Sukuk in the GCC financial markets.
- Unified regulations for the Issuance and Offering of Investment Funds in the GCC financial markets.
- Unified regulations for Listing (Equity, Bonds/Sukuk and Investment Funds) in the GCC financial markets.
- Unified regulations for Disclosure Standards of Securities in the GCC financial markets.
- Unified regulations for Trading and Market Surveillance in the GCC securities financial markets.

- Unified regulations for Listed companies Corporate Governance in the GCC financial markets.

Financial Institutions Supervision Directorate (“FISD”)

Overall responsibilities of FISD as part of CBB

The Financial Institutions Supervision Directorate (FISD) supervises financial institutions, other than banks, namely, Investment Business Firms Categories 1, 2 and 3, Money Changers, Trust Service Providers, Ancillary Service Providers, Representative Offices of Investment Firms and Fund Administrators/Registrars.

In carrying out its responsibilities, the FISD ensures that all of the licensees under its supervision adhere to CBB Law and their respective regulations through CBB Rulebook Volumes 4 and 5. Additionally, the FISD is responsible for the authorization and registration of Bahrain domiciled and overseas funds, as appropriate, and the supervision of Bahrain domiciled funds through the implementation of the rules within CBB Rulebook Volume 7.

Routine Responsibilities During 2014

During the course of 2014, FISD continued to fulfil its responsibilities by implementing rules and regulations and using various supervisory tools, including in-depth financial analysis, prudential meetings with management of licensees, formal requests for information from the sector, liaising internally with other Directorates at the CBB, in addition to the ongoing monitoring of licensees through regular communication and exchange of correspondence. As part of its supervisory role in monitoring the Collective Investment Undertakings (CIUs’) sector, FISD also continued to use its supervisory tools to monitor the industry and ensure adherence to the rules and regulations stipulated in CBB Rulebook Volume 7 (CIUs) and other relevant regulatory requirements.

Developments achieved/or and new regulations/circulars issued during 2014.

Being vigilant of the continuous developments in the local, regional and international financial centers, the CBB continuously enhances its existing regulations to ensure parity with best market practice, and identifies gaps based on industry demand and international developments.

As a result of such strategy, the FISD identifies certain areas for development and sets at the beginning of each year objectives which are then executed.

Several consultations were issued to FISD licensees during the course of 2014, in order to get their views on proposed regulations and incorporate them within the existing regulatory framework. Such consultations included the following:

On 16th March 2014, a consultation was issued to all investment firm licensees, regarding the proposed Securitization Law in Bahrain, which contains comprehensive

articles with respect to all requirements relating to the securitization transactions and undertaking activities for issuing securities in or from the Kingdom of Bahrain.

Another consultation was issued on 20th April 2014, to all investment firm licensees and audit and law firms, regarding the proposed amendments to the Financial Crime Module for all Banks and Investment Firm Licensees.

A final consultation was issued on 7th July 2014, and addressed to all banks and investment business firms of Category 1 and 2, administrators, registrars, trust service providers, insurance managers, auditors and law firms regarding the proposed law with respect to Protected Cell Companies.

The objective of the law is to provide an internationally recognized and accepted structure that can assist banks and other financial institutions in structuring products that consist of a number of cells, with assets and liabilities of each cell being separate and separately identifiable from those of other cells.

Insurance Sector Supervision

The Insurance Supervision Directorate released the Insurance Market Review Report of 2013. The Report presents the financial performance of the insurance industry in Bahrain for the years 2012 and 2013 (both conventional insurance & reinsurance and Takaful & Retakaful business) by class of business in the Kingdom with highlighting the origin and the historical background of the insurance market in Bahrain. Total gross premiums in Bahrain increased to BD 258 million in 2013. Insurance penetration (ratio of gross premiums to GDP) stood at 2.096% in 2013.

Furthermore, the Insurance Supervision Directorate at the CBB has applied a range of measures to enhance/endorse the stability of the Insurance sector:

- The CBB requested Insurance Firms' Management to submit their year-end financial statements and attend a meeting at the CBB with their external auditors prior to the submission of the financial statements for approval to the Board of Directors.
- The CBB continued to receive monthly investment reports and assess the performance of the investment portfolio.
- The CBB proceeded with publishing the portfolio transfer requests for one offshore company during the year which has been licensed by CBB in Bahrain and transacted insurance activities in Kingdom of Saudi Arabia after obtaining the final license from Saudi Arabian Monetary Agency as per Article (66) of CBB and Financial Institutions Law No. (64) of 2006.

- The CBB implemented the new Takaful model after consulting with the Takaful industry and other interested parties. The new model reaffirms the Kingdom of Bahrain as the jurisdiction of choice for the Takaful and Retakaful industry.

The new model enhances measuring and assessing the solvency status of Takaful and Retakaful Firms. It is expected that the new module will increase the ability of Takaful and Retakaful firms to distribute surpluses to participants and dividends to shareholders. As part of the consultation process, the CBB has been proactive in liaising with not just the Takaful industry for their views and comments on the proposed rules, but also with the Shari'a Supervisory Boards of a number of Takaful companies to ensure conformity of the revised rules and guidance with Shari'a requirements.

- In October 2014, Motor Insurance Compensation Fund Law No. 61 of 2014 was issued after approval by Shura Council and Council of Representatives. The Fund was an initiative of the CBB which is designed to compensate the injured parties in the following circumstances: absence of a valid insurance policy for the vehicle that caused the accident, uninsured vehicle, if the vehicle that caused the accident or the owner and/or the driver of the vehicle were not identified (Hit & Run) and in the event of the insurer being insolvent.

The CBB has worked closely with the Bahrain Insurance Association (BIA) in this respect.

The CBB continued to register appointed representatives during 2014. The current number of the registered appointed representatives stands as follows:

Table 2: Number of Registered Appointed Representatives

	No. of Companies	No. of Registered
Licensed Banks	13	174
Commercial Companies	4	22
Individuals	-	49
Total	17	245

Financial Stability Directorate

During 2014, the Financial Stability Directorate ("FSD") continued conducting macro prudential surveillance of the financial system to identify areas of potential concern and to undertake research and analysis on issues relating to financial stability. The FSD also continued to perform the following core functions:

- Issuing various publications such as the Financial Stability Report, (semi-annual), Financial Soundness Indicators Report (semi-annual), the Economic Report (annual), Balance of Payments Report (annual), Monetary and Financial Trends (quarterly), internal Early Warning report, Sensitivity Testing Report, along with other periodical publications that monitor domestic and international macro-financial developments.

- Undertaking general research on issues relating to financial stability in Bahrain and conducting a number of presentations on financial stability developments.
- Collecting, compiling and disseminating statistical information and releasing financial data that is published through its Monthly Statistical Bulletin and quarterly Economic Indicators.
- Conducting annual surveys such as the Manpower Survey, Coordinated Portfolio Investment (“CPIS”) Survey (annual), Coordinated Direct Investment (“CDIS”) Survey (annual), Worker’s Remittances Survey (as requested), Locational International Banking surveys (quarterly).
- Maintaining CBB’s relations with major international institutions and agencies and acting as a point of contact for other third parties, both domestic and overseas.

In 2014, the FSD focused on enhancing its publications and statistical data. For the Financial Stability and Financial Soundness Indicators Reports, there was focus on making them more effective analytical reports, ensuring their clarity and consistency, enhancing the overall assessments, and making sure they are up to date with covering current issues to financial stability. The FSD also enhanced some of its statistical returns to capture data on SME’s, investment business firms, Islamic windows and financial institutions.

The CBB also conducted its sensitivity stress testing exercises in 2014 based on the Domestic Systemically Important Banks (D-SIBs). In order to further develop its stress testing strategy, the FSD started the process of developing other model based stress tests to assess other risks and the involvement of banks in further exercises.

The FSD was also involved in the Electronic Submission of Returns and Data (ESRAD) system. The FSD worked with other CBB directorates and licensees as work on the system was progressing. FSD’s contribution was testing its returns on the new system and providing licensees with information and training with regards to the use the system and submission periodic data online.

Chapter

4

4. Other CBB Projects and Activities

New Licenses

Payment System (“SSS” & “RTGS”)

Cheque Clearing

ATM Network (“BENEFIT”)

Currency Issue

CBB Training Programs

IT Projects

External Communications Unit

CBB’s Organisational Chart

4.1 New Licenses

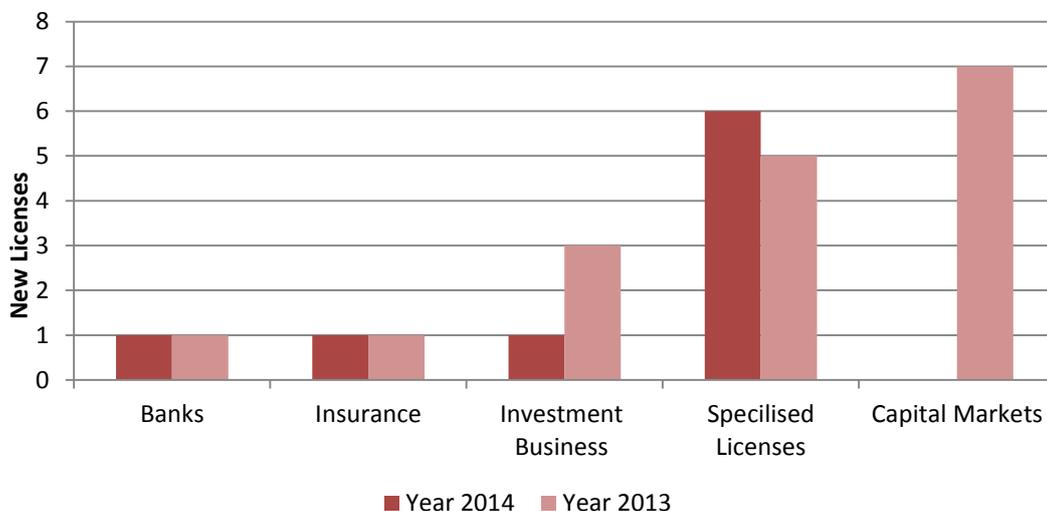
The Central Bank of Bahrain (“CBB”) has issued 9 new licenses in 2014 compared to 17 new licenses issued in 2013, reaching to a total of 404 licensees to provide financial services as of 31st December 2013 compared to a total of 415 licensees as of 31st December 2013.

Those new licenses were issued for different financial sectors, as shown in the list below:

- 1- Cairo Amman Bank - Conventional Wholesale Bank, Branch
- 2- Mr. Saqib Jamil - Registered Actuary
- 3- United Markets B.S.C. (c) - Investment Business Firm Category 2
- 4- Modern Exchange B.S.C. (c) – Money Changer
- 5- Payment International Enterprise B.S.C. (c) - Ancillary Services Provider, Card Processing
- 6- Sadad Electronic Payment System B.S.C. (c) - Ancillary Services Provider, Payment Service Provider
- 7- NEC Payments B.S.C. (c) - Ancillary Services Provider, Card Processing
- 8- ISYS Smart Payment Services Co. W.L.L. - Ancillary Services Provider, Payment Service Provider
- 9- S2M Transactions GCC B.S.C. (c) - Ancillary Services Provider, Card Processing

The main growth of new licenses issued was in the Specialised Licenses sector as shown in the graph below:

Chart 1: New Licensees Growth by Sector



4.2 Payment System (“SSS” & “RTGS”)

Bank transfers through the Real Time Gross Settlement System (“RTGS”) numbered 589,738 in 2014, for a total amount of BD 56.4 billion broken down as follows:

- The volume of bank transfers among retail banks through RTGS was 103,401 for a value of BD 47.4 billion.
- The volume of customer transfers through the RTGS numbered 4,867,337 for a value of BD 9.00 billion during 2014.
- Banking operations carried out through Securities Settlement System (“SSS”) totalled 1443 in 2014 for a value of BD 7.0 billion.

4.3 Cheque Clearing

The number of cheques cleared in 2014 was 3,298,766 with a total amount BHD 9.9 billion.

4.4 ATM Network (“BENEFIT”)

The number of withdrawals processed through the local ATM network system (BENEFIT) during 2014 was 9,243,717 with a total amount BHD 934.1 million with a daily average of 25,395 transactions for BHD 2,567 million.

4.5 Currency Issue

During 2013, major accomplishments of the Currency Issue Directorate included:

- The Central Bank of Bahrain (CBB) has issued a coin and silver medal on the occasion of the 10th anniversary of the start of the first race (Formula 1) in the Kingdom of Bahrain, which was held on April 4, 2004, during a Formula 1 race for the 2014 year.
- All gold medals and currencies, silver and bronze commemorative issued by the Central Bank of Bahrain are now available for sale to the public on a daily basis on the CBB website.
- CIS Directorate was in collaboration with the Information Technology Directorate developed an automated system for calculating the fee deposited amounts by retail banks in the Kingdom of Bahrain in the CBB vault to organize deposits amounts processed and raising the standard of neatness of banknotes in circulation received from retail banks in Bahrain.
- The CIS continued its operations accounting, sorting of currency notes and shredding of unfit currency notes using the machine which was directly linked to

records of the CIS. The value of shredded unfit currency notes amounted to BD95,765,380/500 in 2014.

- The daily value of currency withdrawals amounted to BD1,436,120,485/- in 2014, while that of the currency deposits stood at BD1,403,530,250/- , the value of currency in circulation recorded BD611,302,670/- on 31st December 2014, of which currency notes and coins amounted to BD17,518,040/- and BD593,784,630/- respectively. The fourth issue of the new series of currency notes reached a level of BD583,767,549/500 and amounted to 98.313% of the total value of currency in circulation. The value of the third issue of the new series of currency notes stood at BD10,017,080/500 or 1.678% of the total value of currency in circulation.

4.6 CBB Training Programs

During 2014, the Central Bank of Bahrain continued to focus on ensuring that CBB's staff have the right skills and capabilities to enable the discharge of their responsibilities at the high level expected of them.

To meet these commitments, the CBB has undertaken the following capacity-building activities:

- Developing employees' skills and knowledge through the use of the BIBF to provide 171 employees with training in 132 training courses covering areas including finance; Islamic banking; insurance; management; and computer skills.
- Enhancing technical competencies through enrolling 146 employees in 95 external training programs, workshops and conferences, organized by specialized institutes, international organizations and other central banks.
- Enhancing soft competencies through enrolling 12 employees in 6 Soft Skills workshops, seminars and conferences, organized by specialized institutes.
- Sponsoring 5 employees for different professional qualifications in accounting, finance, and information technology.
- Providing internships for 15 university students, designed to prepare them to enter the workplace.
- Making use of technology through providing access to 140 employees to internet-based e-learning covering principally technical subjects.

4.7 IT Projects

During the course of 2014, a number of projects were completed within the IT department. They included the following:

- **Upgrade of the Document Management System:** The current Document Management System has been upgraded to the latest version supported by the vendor to ensure receiving adequate support when needed. The new version is enriched with many enhancements related to performance and content management.
- **Institutional Information System:** The Institutional Information System (IIS) provides non-financial information of all the Institutions licensed by the CBB. The licensees are provided with the capability to update their respective information.
- **In-House Penetration Test:** An In-house Penetration Tests of ITD infrastructure was conducted and the observations thereof were addressed in order to strengthen the security of the CBB ITD infrastructure.
- **Migration of in-house developed applications:** The ITD successfully migrated applications developed in-house to the latest version of Oracle Developer. The project was undertaken as the previous version of the Oracle product had reached end-of-life and would no longer be supported by Oracle. Furthermore, the new version is enriched with many enhancements related to performance and security.
- **Upgrade of Database and replacement of Hardware:** The ITD had successfully upgraded the existing Oracle database to the latest version, in order to continue to be supported by the vendor and to enhance the security of data along with enhancing the replication to the disaster recovery site. The hardware used for running the applications and the database is also being replaced and the architecture will use virtualization and consolidation of servers. This project will reduce the operating expenses in terms of annual maintenance while at the same time providing sufficient capacity and efficiency required by the mission critical applications in use at the CBB.
- **Business Continuity Management:** The CBB, as part of its continuous improvement process, strengthened the existing Business Continuity Management framework. This was done by enhancing the various procedures and infrastructure, both business and IT, required to ensure continuity of business and regular testing.
- **Electronic Submission of Returns and Analysis of Data (ESRAD):** The CBB has implemented a solution to provide its licensees with the ability to submit their periodic returns online. Once the data is submitted on-line, the concerned Supervision Directorates' users are able to generate MIS reports and to produce Dashboards that allow Senior Management the ability to view all Licensees and the various financial ratios to determine the financial health of the Licensee. Also, the concerned users will be alerted, if any of the Licensees' financial ratios are not within a defined range.
- **Wakala:** The IT successfully implemented "Wakala" in the BKS system. Wakala is a Sharia's compliant liquidity management instrument for Islamic banks as a standing facility. Wakala similar to the deposit facility offered by the CBB to

conventional retail banks, however it is sharia-compliant and offered for the Islamic Banks.

- **Blocking System for all Wholesale Banks:** In addition to the retail banks using the Blocking System, the IT upgraded the Blocking system to include all the Wholesale Banks to cater for all the blocking requests received from the Ministry of Justice.

4.8 External Communications Unit

External Communication Unit's Objectives:

In order to maintain the journalists' confidence and enhance the relationships, we recommend assign a face-to-face interview for each local newspaper on a monthly basis to be held with the CBB Executives. The ECU ensures the follow-up of all issues in local the press. They are contacted immediately to obtain the necessary information on the person complaining. In addition, the Unit is responsible for providing the interested participants of the conferences with the needed information. The CBB support a number of events throughout the year, with financial support, hosting of guests, speakers, Governors, moderators as well as ensuring relevant and timely topics for the audience to discuss.

Periodic reports produced by the ECU:

- Daily report on all the CBB news that as published in the local, regional and international newspapers.
- Monthly report on all the CBB news that was published in the local, regional and international newspapers.
- Semi-annual report of the unit's activities and an annual report on the achievements of the year along with what have been published during the year.
- Monthly report on complaints published in the local newspapers which have been redirected to the concerned directorates while ensuring appropriate follow-up, and responding to such complaints if necessary.
- This report is a means of recording any complaint or observation mentioned in the local newspapers. The ECU dealt with 110 articles/ letters complaints. However, the some articles were observations and all they are being followed-up by the CBB.
- Tawasel - The CBB support e-Government's new initiative 'Tawasel' which is a system where the public can put forward complaints/concerns to the financial sector through a web-page which directs the enquirer to the concerned authority. The ECU sends the enquiry to the relevant department and updates the system with the feedback and response until the case is closed.

Table3: Events that Central Bank of Bahrain organised and/or participated in

	Conferences	Date	Venue
1	4th Regional Conference by ACAMS	19-21 Jan	Crowne Plaza
2	10th Annual Middle East Insurance Forum	10-11 Feb	Gulf Hotel, Bahrain
3	UKTI - Visit of the Lord Mayor of the City of London	17-18 Feb	Bahrain
4	3rd Euromoney Bahrain Conference	4-5 Mar	Ritz Carlton, Bahrain
5	SWIFT Bahrain Business Forum	24-Mar	Gulf Hotel, Bahrain
6	Insurance Day Gala Dinner	26-Mar	Ritz, Bahrain
7	ABTECH 2014	8-9 April	BIEC, Bahrain
8	UK-Bahrain Summit	8-9 April	London
9	AAOIFI Annual Shari'a Conference	14-15 April	Bahrain
10	Students from Singapore Visit	27-Apr	CBB
11	University of Dauphine, Paris - Students Visit	28-Apr	CBB
12	Union of Arab Banks Seminar	11-13 May	Bahrain
13	9th Annual World Islamic Funds & Financial Markets Conference	19-20 May	Bahrain
14	Securities & Exchange Commission for MENA Regional Program on Securities Regulation	21-25 Sept	Movenpick Hotel, Bahrain
15	IIF MENA Economic Forum	30-Sep	Ritz Carlton, Bahrain
16	Invest in Bahrain	Wed 15 Oct 14	Bahrain exhibition and conventional center
17	3rd ME Takaful Summit	13-14 Oct	Gulf Hotel, Bahrain
18	IT Conference with BIBF	TBC	Bahrain
19	World Bank - Board Level Governance Course	November TBC	Bahrain
20	Annual AAOIFI World Bank Conference	17-18 November	Gulf Hotel, Bahrain
21	IFSB Public Hearing	30-Nov	Gulf Hotel, Bahrain
22	21st World Islamic Banking Conference	1-3 December	Gulf Hotel, Bahrain

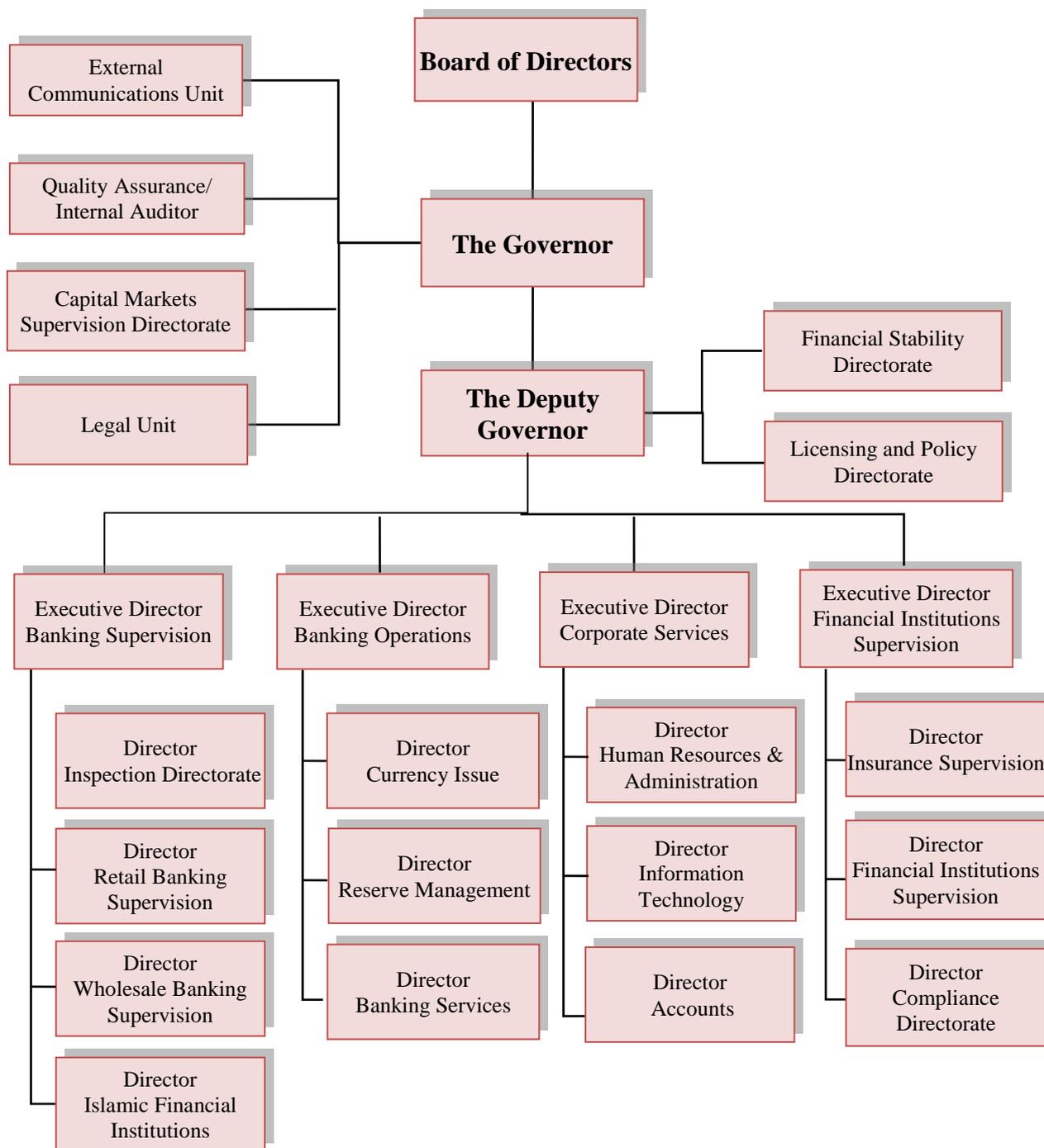
Table 4: Number of Press Releases issued by CBB

115 press releases	33 press releases about events and CBB activities	<ul style="list-style-type: none"> Published in local, regional newspapers and some of them were published in the international newspapers. Published in CBB official website in both; English and Arabic.
	82 press releases about Treasury Bills and Sukuk	

Table 5: CBB Press interviews

Manager name	Media channel	Date
HE the Governor	Middle East Newspaper	19th January
	Al Wasat Newspaper Akhbar Al Khaleej Newspaper Al Bilad Newspaper Al Watan Newspaper	May 22 May 24 June 26 June
	French Economic Counselor Head of the French Economic Services for Middle East	30 October
	CNN	9 November
Mr. Khalid Hamad	CNBC Al Arabia	25 February
	China Business Journal Economic Daily Global Entrepreneur Sina.com	25 May
	India Journalists	16 September
	Oxford Business Group	6 November
Mr. A. Rahman Al Baker	CNN Akhbar Al Khaleej, UAE MENA Insurance Reinsurance Magazine (UK) Mena Insurance Review (UK) Versicherung wirtschaf (Germany) EURO/Euro am Sonntage (Germany) CNBC Al Arabia	19 th February On the side of METF
	CNBC Al Arabia - Monte Carlo Radio	25 th February
	Monte Carlo	19 May
	Saudi Daily Newspaper	18 September
	Bahrain TV + Local newspaper	13 October On the side of the METF

4.9 CBB's Organisational Chart



Chapter

5

5. FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

INDEPENDENT AUDITORS' REPORT TO THE BOARD OF DIRECTORS

BALANCE SHEET (As at 31 December 2014)

*PROFIT AND LOSS ACCOUNT AND APPROPRIATION (For the year ended 31
December 2014)*

Notes to the financial statements for the year ended 31 December 2014

INDEPENDENT AUDITORS' REPORT TO THE BOARD OF DIRECTORS

CENTRAL BANK OF BAHRAIN

Manama

Kingdom of Bahrain

Report on the financial statements

We have audited the accompanying financial statements of the Central Bank of Bahrain (the "Central Bank"), which comprise the balance sheet as at 31 December 2014, the related profit and loss account and appropriation for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Responsibility of the management for the financial statements

The management of the Central Bank is responsible for the preparation and fair presentation of these financial statements in accordance with the basis of accounting described in Note 2 and Royal Decree No. 64 of 2006, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether these financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in these financial statements. The procedures selected depend on our judgment, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Central Bank as at 31 December 2014, and its financial performance for the year then ended in accordance with the accounting policies described in Note 2 to these financial statements and in compliance with the Royal Decree No. 64 of 2006.

KPMG Fakhro
Partner Registration No. 83
[] March 2015

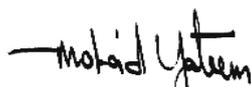
BALANCE SHEET

As at 31 December 2014

(Expressed in thousands of Bahraini Dinars)

	<i>Note</i>	2014	2013
ASSETS			
Gold	3	2,500	2,500
Foreign reserves	4	2,259,698	2,335,691
Due from Ministry of Finance	5	405,834	-
Cash, due from Bahraini banks and treasury bills	6	27,379	51,661
Other assets	7	12,259	13,051
Total assets		2,707,670	2,402,903
LIABILITIES			
Notes and coins in circulation	3	610,561	577,960
Bahraini Dinar deposits		1,543,650	1,264,089
Other deposits		94,226	98,224
Due to other central banks		429	545
Due to Ministry of Finance	5	-	5,940
Profit payable to the Government of Kingdom of Bahrain		2,500	7,000
Provision for currency withdrawn		6,214	6,224
Other liabilities	8	7,778	8,110
Total liabilities		2,265,358	1,968,092
Capital funds			
Capital	9	200,000	200,000
General reserve	10	203,216	200,716
Contingency reserve	11	23,770	17,947
Revaluation reserve	12	15,326	16,148
Total capital funds		442,312	434,811
Total liabilities and capital funds		2,707,670	2,402,903

The financial statements on pages 2 to 10 were approved by the Board of Directors on [] March 2015 and signed on its behalf by:



Mohammed Hussain Yateem
Chairman



Rasheed Al Maraj
Governor

The notes on pages 4 to 10 are an integral part of these financial statements.

PROFIT AND LOSS ACCOUNT AND APPROPRIATION

For the year ended 31 December 2014

(Expressed in thousands of Bahraini Dinars)

	<i>Note</i>	2014	2013
Income			
Interest income		16,049	16,172
Interest expense		(4,634)	(4,963)
Net interest income		11,415	11,209
Registration and licensing fees		5,277	5,380
Exchange gain on sale of US dollars		7,579	6,252
Net realised investment gain		4,629	2,386
Other income		1,323	1,441
Total income		30,223	26,668
Expenses			
Staff costs		(12,154)	(11,706)
General and administration expenses		(4,312)	(5,374)
Managed funds and advisory fees		(1,211)	(1,118)
Notes issue expenses		(1,723)	(560)
Total operating expenses		(19,400)	(18,758)
Profit for the year before impairment provision			
		10,823	7,910
Provision for impairment	4	-	-
Profit for the year			
		10,823	7,910
Transfer to contingency reserve	11	(5,823)	(2,910)
Transfer to general reserve	10	(2,500)	(2,500)
Balance payable to Kingdom of Bahrain			
		2,500	2,500

The financial statements on pages 2 to 10 were approved by the Board of Directors on [] March 2015 and signed on its behalf by:



Mohammed Hussain Yateem
Chairman



Rasheed Al Maraj
Governor

The notes on pages 4 to 10 are an integral part of these financial statements.

Notes to the financial statements for the year ended 31 December 2014

(Expressed in thousands of Bahraini Dinars)

1. Activity

The Central Bank of Bahrain (the “Central Bank”) is a public corporate entity established by the Central Bank of Bahrain and Financial Institutions Law 2006 on 7th September 2006. It operates under the Royal Decree No. 64 of 2006 issued by His Majesty King Hamad bin Isa Al Khalifa, King of the Kingdom of Bahrain (the “Royal Decree”).

The Central Bank is responsible for maintaining the monetary and financial stability in the Kingdom of Bahrain.

The Central Bank implements the Kingdom's monetary and foreign exchange rate policies, manages the government's reserves and debt issuance, issues the national currency and oversees the country's payments and settlement systems. It is also the sole regulator of Bahrain's financial sector, covering the full range of banking, insurance, investment business and capital markets activities. The Central Bank has no branches or operations abroad.

The Central Bank's registered address is P.O. Box 27 and is located at the Central Bank Building, Diplomatic Area, Kingdom of Bahrain.

The financial statements of the Central Bank, comprise the balance sheet as at 31 December 2014, the related profit and loss account and appropriation for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

2. Significant accounting policies

The financial statements have been prepared in accordance with the requirements of the Royal Decree No. 64 of 2006 using the following significant accounting policies. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Accounting convention

The financial statements are prepared under the historical cost convention on the accrual basis of accounting.

2.2 Gold

Gold is carried at cost.

2.3 Foreign reserves

Foreign reserves comprise deposits placed and investments denominated in foreign currencies. All investments and deposits are carried at cost less provision for impairment.

For the Central Bank's investments portfolio, premiums or discounts on purchase are amortised on a straight-line basis over the remaining life of the investment and included under interest income in the profit and loss account and appropriation.

Purchases or sales of financial assets are recognised on the settlement date, i.e. the date by which the executed asset trade is settled.

2.4 Cash, due from Bahraini banks and treasury bills

These balances comprise cash in hand, deposits/ placements held with banks that are denominated in Bahraini Dinars and short-term highly liquid treasury bills with original maturities of three months or less.

2.5 Equipment

All equipment used by the Central Bank is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the profit and loss account and appropriation.

2.6 Notes and coins in circulation

Notes and coins in circulation are stated net of Bahraini dinar notes and coins held in banking stock in the Central Bank.

2.7 Foreign currencies

Foreign currency transactions are recorded at rates of exchange ruling at the date of the transactions.

Monetary assets and liabilities in foreign currencies at the balance sheet date are retranslated on the basis of the official par value of the Bahraini dinar in relation to the United States dollar and the closing market rates of exchange for the other currencies.

In accordance with Article 22 (a) of the Central Bank of Bahrain and Financial Institution Law, all profits/ (losses) resulting from the revaluation of the Central Bank's assets or liabilities in foreign currencies as a result of any change in the parity-rate of the Bahraini dinar or the rate of exchange of the Central Bank's assets of such currencies, are required to be recorded in a special account to be entitled "Revaluation Reserve".

Upon disposal of the assets denominated in foreign currencies, the related gain or loss on the foreign exchange element of the disposed asset is recognised in the profit and loss account and appropriation.

Forward contracts are revalued for foreign exchange movements on a monthly basis. Gains or losses on a monthly basis are recorded in the revaluation reserve for unsettled forward contracts. Such gains or losses are reversed in the subsequent month. Gains and losses that arise upon settlement of futures contracts are calculated by comparing the foreign exchange rate at the time of purchase with the foreign exchange rate at the time of settlement and the resulting gains or losses are recorded in the revaluation reserve.

2.8 Provision for impairment

The Central Bank assesses at each balance sheet date whether there is objective evidence that an investment is impaired. Investments in bonds are assessed for impairment on a portfolio basis. Factors considered in determining objective evidence of impairment include comparison of total cost with fair market value of each portfolio to determine if there is significant and other than temporary decline in the fair market value of the portfolio and is charged to profit and loss account.

Contingency reserve is utilised by the Central Bank to provide impairment for other assets used in relation to Central Bank's objectives within the framework of the general economic policy of the Kingdom in a manner that enhances and develops the national economy as determined by the Board.

2.9 Revenue recognition

Interest income

Interest income is recognised on a time apportioned basis, taking into account the principle outstanding and the rate applicable.

Registration and licensing fees

Registration and licensing fees are accounted for based on the calendar year they relate to and are recognised on an accrual basis.

Net realised investment gains and losses

Net realized investment gains and losses arising from the sale of assets are recognised in the profit and loss account and appropriation when such assets are disposed of.

2.10 Interest expense

Interest expense on the amounts due from Bahraini Dinar and other deposits is recognised on an accrual basis using the straight line method in the profit and loss account and appropriation.

2.11 Notes issue expenses

Expenses related to issuing notes are recognised in the profit and loss account and appropriation when incurred.

2.13 Provision

Provision is recognised if, as a result of a past event, the Central Bank has a present legal or constructive obligation that can be estimated reliably, and it is probably that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

3. Excess of authorised backing over currency in circulation

	2014	2013
Authorised backing		
Gold	2,500	2,500
Foreign reserves – note 4	2,259,698	2,335,691
	<u>2,262,198</u>	<u>2,338,191</u>
Notes and coins in circulation	(610,561)	(577,960)
Excess of authorised backing over currency in circulation	<u>1,651,637</u>	<u>1,760,231</u>

According to Article 19 of the Central Bank of Bahrain and Financial Institution Law, foreign reserves permanently maintained by the Central Bank shall not be less than 100% of the value of the currency in circulation.

The fair value of gold as at 31 December 2014 was BD 67,321 thousand (2013: BD 68,401 thousand).

4. Foreign reserves

	2014	2013
Bonds portfolios	828,690	796,959
Bank deposits	1,414,293	1,522,017
Other securities	95,437	95,437
	<u>2,338,420</u>	<u>2,414,413</u>
Less: provision for impairment	(78,722)	(78,722)
	<u>2,259,698</u>	<u>2,335,691</u>

All bonds are quoted in active markets with 98% being of investment grade BBB or higher (2013: 98%). All the deposits (2013: 100%) and 70% of bonds (2013: 69%) are in US dollars. For other foreign currencies, these are 100% hedged into US dollars. The bond portfolios include BD 24,455 thousand net unrealised losses on non-US denominated bonds and related forward foreign exchange contracts used to hedge such bonds (2013: loss of BD 9,319 thousand).

The market value of the bond portfolios (including cash and accrued interest held within these portfolios) at 31 December 2014 was BD 837,956 thousand (2013: BD 793,012 thousand).

The Central Bank has recognised an impairment provision amounting to nil for the year ended 31 December 2014 (2013: nil) in the profit and loss account.

However, the Central Bank has recognised an impairment provision amounting to nil for the year ended 31 December 2014 (2013: BD 56,630) which has been charged to the contingency reserve (refer note 11).

5. Due from/ to Ministry of Finance

The amount represents the net due from/ to Ministry of Finance for payments and receipts related to the Ministry made by the Central Bank.

6. Cash, due from Bahraini banks and treasury bills

	2014	2013
Cash	19,219	19,252
Due from Bahraini banks	8,160	10,595
Ijara Sukuk / Treasury bills issued by the Government of Bahrain	-	21,814
	<u>27,379</u>	<u>51,661</u>

Cash includes US dollars held by the Central Bank amounting to US\$ 50,918 thousand (equivalent BD 19,196 thousand) (2013: US\$ 51,008 thousand (equivalent BD 19,230 thousand)).

7. Other assets

	2014	2013
Staff loans	5,226	4,987
Interest receivable	3,142	3,591
Equipment	1,745	1,865
Others	2,146	2,608
	<u>12,259</u>	<u>13,051</u>

8. Other liabilities

	2014	2013
Deferred license fee received	4,551	4,473
Other payables	2,774	3,113
Interest payable	349	363
Accrued expenses	104	161
	<u>7,778</u>	<u>8,110</u>

9. Capital

	2014	2013
Authorised	<u>500,000</u>	<u>500,000</u>
Issued and fully paid up	<u>200,000</u>	<u>200,000</u>

10. General reserve

	2014	2013
Balance at beginning of the year	200,716	198,216
Transfer from profit and loss account and appropriation	2,500	2,500
Balance at end of the year	<u>203,216</u>	<u>200,716</u>

In accordance with Article 12 of the Central Bank of Bahrain and Financial Institution Law, the Central Bank maintains a general reserve which is credited with the following percentages of its net profit:

- 100% of the net profit until the amount of the general reserve reaches 25% of the authorised capital of the Central Bank;
- 50% of the net profit until the amount of the general reserve is equal to the authorised capital of the Central Bank;
- 25% of the net profit until the amount of the general reserve is double the amount of the authorised capital of the Central Bank.

Any net profit after such allocation and allocation to the contingency reserve is to be transferred to the Kingdom of Bahrain general account within three months of the date of the approval of the Central Bank's financial statements.

11. Contingency reserve

	2014	2013
Balance at beginning of the year	17,947	71,667
Transfer during the year	5,823	2,910
Utilised during the year	-	(56,630)
Balance at end of the year	<u>23,770</u>	<u>17,947</u>

In accordance with Article 21 of the Central Bank of Bahrain and Financial Institution Law, the Board has approved a transfer of BD 5,823 thousand (2013: BD 2,910 thousand) of the current year's net profit to the contingency reserve. There has been no utilisation of contingency reserves for impairment provision in the current year (2013: BD 56,630 thousand) (refer note 4).

12. Revaluation reserve

	2014	2013
Balance at beginning of the year	16,148	15,655
Movement during the year	(822)	493
Balance at end of the year	<u>15,326</u>	<u>16,148</u>

The revaluation reserve relates to exchange gains and losses recognised in accordance with the Central Bank of Bahrain and Financial Institution Law and accounting policies of the Bank.

13. Contingent liabilities and commitments

Contingent liabilities and commitments, some of which are offset by corresponding obligations of third parties, arise in the normal course of business, including contingent liabilities in respect of guarantees and indemnities in connection with liquidity support operations. As at 31 December 2014 there were no outstanding contingent liabilities or commitments (2013: Nil) with the exception of outstanding foreign exchange contracts with a notional value of BD 348,993 thousand (2013: BD 340,801 thousand).

14. Comparatives

Certain prior year amounts have been re-grouped to conform to the current year's presentation. Such re-grouping do not affect previously reported net profit or capital funds.