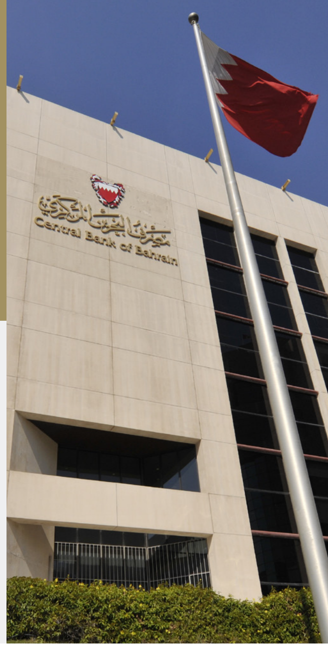
THE REVIEW

Central Bank of Bahrain

Published by the Central Bank of Bahrain (CBB)

March 2015 Issue 42



Insurance rules prioritise consumer protection

Bahrain's comprehensive regulatory infrastructure for the insurance industry ensures full protection for consumers, a major insurance conference heard.

As the Kingdom's insurance regulator, the Central Bank of Bahrain (CBB) has taken various steps to ensure that a stable insurance market continues to thrive and prosper in Bahrain, said Mr. Abdul Rahman Al Baker, Executive Director, Financial Institutions Supervision, at the CBB.

"One of the main regulatory priorities that a regulator should address is adequate protection of policyholders. This objective has been clearly outlined in the CBB Law," he said.

Mr. Al Baker was speaking during the opening plenary session at the 11th annual Middle East Insurance Forum, held in Bahrain on 3 and 4 February 2015. It was attended by nearly 500 international industry leaders and decision-makers representing over 150 international and regional organisations.

Highlighting CBB's priorities, Mr. Al Baker stressed on consumer protection, which has most recently been included in the rules governing "tied agents".

"These rules require a minimum level of qualifications for those dealing with potential policyholders and recognise that the offering of insurance products must be made in a professional and proper manner," he said.

A trained workforce is also very important for profitable growth of a company. It is necessary that insurance licensees continue to improve the level of expertise and professionalism of their workforce.

"The CBB is keen to see that all insurance licensees do their utmost to provide adequate training and development opportunities for their staff. The CBB has been working on enhancing its training and competency regime and the rules are expected to be finalised in due course," said Mr. Al Baker.

He also highlighted the importance of maintaining adequate solvency levels, improving corporate governance, and enhancing public awareness about the importance of insurance.

"Maintaining an adequate level of solvency that is in line with the best regulatory standards is another priority for the CBB and regulators in the Middle East," he said.

"Such solvency requirements should be helpful in providing early warning to regulators so that they could take the necessary measures should the capital of an insurance firm fall below the required level.

"Adequate solvency requirements enhance confidence in the financial stability of the insurance industry and further improve the financial standing of insurance firms."

Another area that regulators in the region need to focus more on is improving corporate governance.

"Regulators must ensure that their respective rules and regulations on corporate governance are robust and in line with the best international practices. Regulators should require market players to establish and implement a corporate governance framework which provides for sound and prudent management and oversight of the insurer's business and adequately recognises and protects the interests of policyholders," said Mr. A Baker.

Furthermore, regulatory authorities should enhance public awareness on the basics of insurance and the importance of such financial services to the general public.

"As far as consumer education is concerned, the CBB, in collaboration with the Bahrain Insurance Association (BIA), has been holding 'Insurance Week' on a yearly basis, the purpose of which is to educate the public about the importance of insurance products and services. The 'Insurance Week' has so far been successful in enhancing insurance awareness amongst people. This is expected to further increase the penetration rate of insurance in Bahrain," said Mr. Al Baker.

For sustainable business growth, it is vital that the proper line of business is chosen for expansion. Bahrain has the highest life insurance penetration in the GCC, he said. Although the penetration is still much below global levels, there is tremendous potential for growth. Due to the huge potential for long-term insurance business in both Bahrain and the GCC, it would be sensible to invest in this line of business.

Another line of business with tremendous growth potential across the Middle East and North Africa region is medical insurance. Mandatory health insurance, coupled with growing populations and increased government spending, is expected to lead to a sharp rise in business for medical insurers.

See also 'Call for harmonised rules' – Page 2

INSIDE

Call for harmonised rules for insurance industry

The Central Bank of Bahrain (CBB) is continually enhancing regulations governing the insurance sector, for the growth and betterment of the industry, said Mr. Abdul Rahman Al Baker, Executive Director, Financial Institutions Supervision, at the CBB.

He called for standardisation of insurance regulations and market practices across the GCC region, to enable the insurance industry to capitalise on the region's growth opportunities.

Mr. Al Baker was speaking while delivering his keynote speech at the 11th annual Middle East Insurance Forum, held in Bahrain on 3 and 4 February 2015. The event was attended by nearly 500 international industry leaders and decision-makers representing over 150 international and regional organisations.

Addressing the theme of 'Regulatory Perspectives – Advancing and Evolving the Regulatory Framework to Strengthen the Middle East Insurance Industry', Mr. Al Baker said the theme is important and timely as the insurance industry in the Middle East and North Africa (MENA) region was undergoing transformation and there was tremendous potential for the regional insurance market to grow and thrive.

He pointed to the important role that the insurance industry plays globally, contributing more than US$4 trillion in worldwide revenue. Furthermore, the macroeconomic trends of emerging markets in Asia, Latin America, Africa, as well as the Middle East will continue to grow.

"As a result, the current demand for sound conduct of business and transparency, as well as enhancement of policyholders and shareholders confidence, create the need for strong and sound regulatory infrastructure for the insurance industry in the MENA region and globally," said Mr. Al Baker.

The global financial system is undergoing an important regulatory overhaul, he said. The Solvency II, Corporate Governance and other financial regulations are global initiatives that are trying to reformulate the future landscape for finance.

"The global insurance industry is experiencing dramatic change as reserve and capital regulations transition from the traditional, prescriptive approach to a principles-based approach. This fundamental change most likely signifies the gradual global convergence of regulations across countries and insurance products," said Mr. Al Baker.

As the insurance industry expands, the need to standardise regulations for insurance in the GCC countries, in terms of regulatory and market conduct requirements, is of paramount importance, he said.

"Regulators all over the world, and especially in the MENA region, need to work closely to strengthen their regulatory framework in order to create greater harmony amongst the different jurisdictions so that the industry could capitalise on the growth opportunities. The financial crisis has been a reminder that markets need effective regulation if they are to operate properly," said Mr. Al Baker.

"As a regulator, the CBB always believes in continual enhancement and improvement of its regulatory framework for the growth and betterment of the industry."

The CBB has always played an important role in launching new initiatives to develop the insurance industry both locally and regionally. The work towards revision of the existing takaful model is one of these initiatives in reaffirming Bahrain as the jurisdiction of choice for takaful/retakaful companies globally.

The objective of modifying the existing takaful rules is to facilitate faster growth of takaful business in Bahrain, while protecting the interests of all stakeholders, vis-à-vis participants, shareholders, and takaful operators, he said.

It is also expected that the changes to the model, which came into effect from the beginning of 2015, will attract new entrants to the market and will foster competition for the betterment of the consumers.

"In addition to this, the CBB has issued rules on client money, which aim at enhancing the regulatory framework in relation to appointed representatives and insurance brokers. The market response to these rules has so far been quite positive," said Mr. Al Baker.

"The CBB is firmly of the view that in order to overcome competitive pressures and capture profitable growth, insurance companies should ensure that the risk is assessed and priced properly.

"Hence, the businesses should be underwritten and priced in a way that all the inherent risks are considered. Generally, it has been observed that companies charge premium rates based on the competition and without regard to the proper assessment of risk."

In addition, it is important for insurance companies to ensure that their investments are highly diversified and are not concentrated in a particular sector or high risk assets. Employing Asset Liability Management methodology ensures that the asset portfolio matches the liability profile of a company.

Implementing a risk management policy and strategy whereby underwriting, pricing, investment and operational risks are managed effectively, is vital for achieving profitable growth.

"Regulators should ensure that adequate legislation is in place to develop, promote, and strengthen the enterprise-wide risk management concept in the insurance industry across the region," said Mr. Al Baker.

To overcome competitive pressures and capture profitable growth, it is important to enhance the quality of services provided to the customers. It might be easy to compete on prices, but difficult to compete on quality services. Superior services create loyalty, which is vital for a company to maintain profitability in the long-run. In order to be profitable, an insurance company must distinguish itself from its competitors and in order to be distinguished it must offer superior services compared to its competitors.

"Product innovation is another area which can add significant value to the profitability and the financial soundness of insurance companies," said Mr. Al Baker.

"Looking ahead, we see great new and untapped potential for the insurance industry in the coming years. There is an expectation of increased investment in the GCC on construction, infrastructure, and petroleum industry related projects."

According to estimates, the GCC is set to invest more than US$900 billion in about 1,600 new projects over the next decade. All of this is expected to result in a surge in insurance activity and a growth in gross premiums.

"With such outstanding growth prospects for the Middle East insurance industry, it is important that regulators work together at the local, regional and international level to effectively deal with the risks that can have a systemic impact," said Mr. Al Baker.

"Furthermore, regulators need to work more closely with insurance companies, service providers and other industry stakeholders to ensure a close oversight of their activities and a healthy financial sector."

CBB issues rules on close-out netting

Following consultation with the financial services industry, the Regulation for Close-out Netting under a Market Contract was published in the Official Gazette on 18 December 2014. The Regulation is being issued in accordance with Article 108 of the Central Bank of Bahrain and Financial Institutions Law (CBB Law). Ms. Johanne Prevost, Adviser, Regulatory Policy, at the CBB, explains some of the relevant aspects of this new Regulation.

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 for banks. Moreover, the enactment of the Netting Regulation creates legal certainty as to the enforceability of close-out netting in the case of insolvency.

The Regulation follows a model promoted by the International Swaps and Derivatives Association (ISDA). The issuance of this Regulation will eliminate uncertainty in netting contracts by imposing a model to be followed by the courts.

Close-out netting is a legal mechanism that reduces exposures and, therefore, risks between two counterparties. The Regulation addresses transactions between a defaulting firm and a non-defaulting firm and refers to a process involving the termination of obligations under a contract with a defaulting party and subsequent combining of positive and negative values into a single net payable or receivable. The result of close-out netting, therefore, reduces a gross exposure to a net exposure which can lead to a lower level of capital required under a risk-based approach to capital adequacy rules, such as in the case of the capital adequacy rules issued by the Basel Committee on Banking Supervision.

The Regulation sets out the basic principles necessary to ensure the enforceability of bilateral close-out netting, including bilateral close-out netting on a multibranch basis, as well as the enforceability of related financial collateral arrangements.

The Regulation is all-encompassing and deals with 'qualified financial contracts', which are defined as any financial agreement, contract or transaction, including any terms and conditions incorporated by reference in any such financial agreement, contract or transaction, pursuant to which payment or delivery obligations are due to be performed at a certain time or within a certain period of time and whether or not subject to any condition or contingency.

The Regulation also provides a list, without limitation, of what these financial contracts may be and also contains a provision whereby the CBB may designate any agreement, contract or transaction to be included under the definition; this approach allows the application of the Regulation for newly developed products.

In certain common law jurisdictions, such as in the UK, the established legal framework supports the rights of creditors to pursue the close-out netting process following the insolvency of a counterparty. However, in many civil law jurisdictions, including Bahrain, bankruptcy laws and other statutes place restrictions on the creditor's ability to implement the netting process.

The Regulation that has been issued will now eliminate such restrictions and any uncertainty faced by creditors wishing to follow a close-out netting process where a counterparty becomes insolvent and ensure the statutory recognition of the netting process.

The Central Bank of Bahrain (CBB) is at the forefront of financial regulation by the issuance of this important Regulation in both English and Arabic. This was another first for the CBB as the Official Gazette contains both the English and Arabic versions of this technical Regulation in recognition of the importance of this regulation for international business.

The regulation is available on the CBB website under Regulations and Resolutions (www.cbb.gov.bh/regulatory functions/Laws & Regulations/Laws/Regulations and Resolutions).

CBB grants licence to Turkiye Finans

The Central Bank of Bahrain (CBB) has granted a license to Turkiye Finans Katilim Bankasi A.S., to open a branch in Bahrain.

The license allows the bank to expand its activities as a Wholesale Bank (Islamic Principles) from Kingdom of Bahrain.

The proposed branch is expected to contribute in strengthening its customer base in the GCC region. It will serve existing and potential investors, with a special focus on financial institutions (local and international), government agencies, corporate customers and high net worth individuals.

Turkiye Finans is one of four Islamic banks in Turkey, providing consumer and corporate banking services in the country. It is regulated by the Banking Regulation and Supervision Agency (BRSA) of Turkey.

The Bahrain office will be the bank's first branch outside Turkey.

Mr. Ahmed Al-Bassam, Director of Licensing and Policy at the CBB said: "We welcome Turkiye Finans Katilim Bankasi's decision to choose Bahrain as a hub for reaching the Middle East market."

He pointed to the historical trading and financial relationship between the Arabian Gulf and Turkey and the economic growth prospects of the countries. The presence of Turkish banks in Bahrain will support bilateral trade and investments between the GCC and Turkey, he said.

Turkiye Finans was founded in 1991. Its current majority shareholder is Saudi Arabia's National Commercial Bank, the largest capital holding bank in the Middle East. Minority shareholders are Turkey's Boydak Holding and the Ulker Group.

The bank posted a net profit of TRY 255 million (US$113 million) for the first nine months of 2014. For 2013, the bank reported a net profit of TRY 329 million, which was an increase of 16 percent over the previous year. In its 2013 annual report, Turkiye Finans said it was the "most profit-generating participation bank" for the last three consecutive years.

The Bank enjoys a BBB rating from international rating agency, Fitch, with a stable outlook.

Islamic finance has vital job-creation role

Islamic finance, with its core grounded in the real economy, is well-positioned to create jobs for the Muslim world's youth, said Mr. Rasheed Mohammed Al Maraj, Governor of the Central Bank of Bahrain (CBB).

While the Islamic finance industry, as an integral part of the private sector, has done quite well in creating incremental jobs, many more will be needed to harness the energy and talent of the growing number of young people, he said.

Mr. Al Maraj made the remarks during his keynote speech at the Global Islamic Investment Gateway conference, held in Bahrain on 3 March 2015. The event was organised by Thomson-Reuters with the support of the Economic Development Board and the Islamic Development Bank.

The event, which was attended by over 700 delegates, brought together some of the largest investors in the region to examine potential opportunities within Organisation of Islamic Conference (OIC) markets.

"After the global financial crisis of 2007-8, the world is looking for sustainable, ethical and inclusive economic growth. Islamic economics and finance, if practised in the right spirit, provides an ideal alternative," said Mr. Al Maraj.

In a rapidly changing world, the center of gravity is shifting from the West to Asia and emerging markets, where most of the Muslim countries belong. The financial landscape has changed significantly after the crisis, which was at least partly caused by excessive dependence on debt and speculation.

Youth Bulge

"Demographics are also changing. People under age 30 make up about 60 percent of the total population of Muslim-majority countries. By contrast, only about a third of all people living in the world's more developed regions, such as Europe and North America, are under 30," said Mr. Al Maraj.

"This youth bulge in Muslim countries can be a big asset, and equally, a liability. If we are able to invest in our people they can help usher an era of accelerated growth and prosperity. On the other hand, if we fail to harness our youth and provide economic and employment opportunities to them, then on the extreme end of the spectrum lies the potential of political instability, social disharmony and economic deceleration."

This calls for greater participation of the private sector in economic activity, which should also create an increasingly larger chunk of jobs for the youth, he said.

In particular, most of the jobs in the new-economy sectors such as IT, telecommunications, digital media, technology, etc. are being generated globally not by governments but by the private sector.

Real Economy

"What is the role of Islamic finance in this scenario? In my opinion, Islamic finance can play a central role in creating an alternative, more resilient economic and financial system," said Mr. Al Maraj.

"The core of Islamic finance is based on real economy transactions, rather than on speculative financial transactions or financial engineering. Due to the asset-backed nature of these transactions there is a one-to-one correlation between the real and the financial economy.

"This means that there are less chances of creation of asset bubbles and more opportunities to create jobs in the real economy."

Additionally, the risk sharing nature of Islamic finance contracts, as opposed to risk transfer in conventional finance, leads to a more equitable, fair and balanced outcome for the stakeholders. As a result, a system based on Islamic finance values and principles is likely to be inherently more resilient in times of crisis.

The Islamic finance industry has done quite well in terms of employment generation and a significant number of incremental jobs in the financial sector across the GCC over the last decade has been from the Islamic banking and finance sector. If the industry continues to grow at the current 15 percent annual rate over the next decade, many new jobs will be needed to sustain this growth.

"As a global Islamic finance hub, Bahrain has been preparing itself to take advantage of these opportunities," said Mr. Al Maraj.

Bahrain is home to Islamic finance bodies such as the Waqf Fund, Accounting and Auditing Organisation for Islamic Financial Institutions, International Islamic Financial Market, General Council for Islamic Banks and Financial Institutions and International Islamic Rating Agency.

"Bahrain has a legal and regulatory framework which is being constantly updated to match the pace of global regulatory changes such as Basel III. We have taken several steps to improve corporate governance of the financial sector in Bahrain. Given the importance of Shari'a governance for Islamic banks we are in the process of issuing a comprehensive Shari'a governance module which will further strengthen the governance of the Islamic finance industry," said Mr. Al Maraj.

"We have been investing in Islamic finance training, education and research through the platforms of the Waqf Fund, Bahrain Institute of Banking and Finance and the University of Bahrain."

As a pioneer regulator of Islamic finance, the CBB welcomes opportunities of sharing its experience with its peers.

"We are always open to sharing our experience in Islamic finance with up and coming markets in the Middle East, Africa, CIS and elsewhere," said Mr. Al Maraj.

Dr. Jarmo Kotilaine, Chief Economist at the Economic Development Board, said the Global Islamic Investment Gateway (GIIG) conference helped consolidate Bahrain's standing as a leading innovator in Islamic finance, always open to exploring new ideas.

Investment Monitor

A new online tracker was unveiled at the event. The new Investment Monitor is an innovative way to link viable projects that need investment with senior level investors who have significant capital looking for opportunities that are at an advanced stage. The Investment Monitor has already been the catalyst for creating a pipeline of around 100 potential new deals.

"The global investment portal is yet another example of new thinking in Islamic finance and it is appropriate that it is being launched in Bahrain, which has been at the forefront of innovation in Islamic finance for decades," said Dr. Kotilaine.

"Bahrain is the longest established hub for Islamic finance and we are proud to welcome this pioneering event."

He said OIC economies are expected to see annual growth at an average rate of 5.4 percent in the next five years, significantly higher than the global average. OIC markets offer significant investment opportunities in a range of areas.

"However, we know that for many investors, the challenge will be in finding ways to access these markets, many of which will be relatively early in their development," said Dr. Kotilaine.

New banking watchdog to bolster Shari'a governance

Bahrain is moving forward in providing a comprehensive model of Shari'a governance for Islamic financial institutions (IFIs), says Mr. Rasheed Al Maraj, Governor of the Central Bank of Bahrain (CBB).

The pioneering model will include a national Shari'a Board, which will help harmonise Shari'a practices of IFIs operating in Bahrain.

Inconsistent Shari'a practices by banks could pose an existential threat to the industry, if consumers should lose confidence in IFIs' commitment to Shari'a principles, warned Mr. Al Maraj.

He was speaking at the opening of the 14th Annual Shari'a Conference of the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI), held in Bahrain on 22 and 23 March 2015

Mr. Al Maraj noted the growth and expansion of Islamic finance beyond its traditional Arab markets into Europe, Asia and Africa.

"This widespread expansion of Islamic finance necessitates the provision of a comprehensive regulatory infrastructure that is on par with the best international practices, to ensure the sound growth of the industry," he said.

Standards and regulations applicable to Islamic finance must include corporate governance systems and a commitment to Shari'a compliance.

"As we all know, the reason for the emergence of Islamic financial institutions is a commitment to the principles of Islamic law. If the confidence of clients is shaken, regarding the extent of the commitment of these institutions to Shari'a principles, it would pose an existential threat to the sector as a whole," said Mr. Al Maraj.

"The best way to reduce this risk is the best application of Shari'a governance through appropriate regulations and controls."

Since the emergence of the modern-day Islamic finance industry 40 years ago, the Shari'a compliance structure has been developed and improved, to keep up with the challenges faced by the industry.

Today, the framework for Shari'a compliance mainly comprises the following elements:

- Shari'a Supervisory Board;
- Internal Shari'a Review; and
- Internal Shari'a Audit.

In addition, the role of the board and management is very important, as the onus is ultimately theirs in ensuring Shari'a compliance.

"Bahrain is moving further forward in providing a comprehensive model of Shari'a governance and compliance, which we hope will be an example to other nations," said Mr. Al Maraj.

The CBB will add an external element to the current Shari'a governance and compliance structure, by establishing a national Shari'a Supervisory Board, which will oversee Shari'a compliance by IFIs.

"There is a need for an independent third party to verify the implementation of internal Shari'a controls and we hope that this additional arrangement will help strengthen and supplement the system of governance within Islamic financial institutions," said Mr. Al Maraj.

Such a country-level approach could also help to limit differences between products, speed up the design of new products and boost investor confidence.

Mr. Al Maraj also stressed the need to strengthen human capital at IFIs by identifying, training and preparing people to assume leadership positions.

"With the spread of Islamic finance, there is a need for a new generation of leaders who have the vision and commitment to strategic thinking, leadership skills and ethical orientation to make a real difference," he said.

"This is the challenge. There is no way to sustain Islamic banking only by boosting systems and good practices while ignoring the Shari'a value proposition."

AAOIFI standards available on online platforms

In an unprecedented move in the development of the Islamic finance industry, standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) have been made available online through Thomson Reuters' range of digital information platforms, including Zawya Islamic.

AAOIFI Shari'a standards are approved and developed under the guidance of its Shari'a Board, which comprises the world's leading Shari'a scholars on Islamic finance and internationally regarded as the ultimate authority on Shari'a for Islamic finance.

The standards on accounting, auditing, ethics and governance are approved and developed by AAOIFI's Accounting and Auditing Standards Board comprising senior representatives from major Islamic financial institutions, central banks and regulatory authorities, and international accounting and auditing firms. The standards represent the broadest consensus of rules that govern the Islamic finance industry and cover Shari'a, accounting, auditing, governance and ethics.

Adopting AAOIFI standards facilitates harmonisation of Islamic finance practices and assists in enhancing the confidence of users of Islamic financial products and services, and ultimately, leads to further growth of the industry.

Dr Hamed Hassan Merah, Secretary General of AAOIFI, said that the intricacies and uniqueness of Islamic finance practices are an important reason for the industry's own standards. There also exists the need for unifying international standards, to bring about homogeneity in Islamic finance practices across markets.

By making the standards available online, accessibility to the standards will be greatly improved. AAOIFI firmly believes that this will in turn promote wider adoption of the standards by the international Islamic finance industry, he added.

The standards consist of:

- 48 Shari'a standards which prescribe the Shari'a requirement that has to be followed in developing specific Islamic financial products and services.
- 26 accounting standards which give guidance on the presentation of financial accounts for Islamic financial institutions (IFIs) as well as accounting treatment on specific products;
- 5 auditing standards which give guidance on auditing of IFIs;
- 7 governance standards which focus on Shari'a compliance and supervision; and
- 2 codes of ethics, for employees as well as accountants and auditors of IFIs.

CBB allows debt sales through Bahrain Bourse

In a pioneering move, investors can now purchase Bahrain Government bonds and sukuk in the primary market through registered brokers at the Bahrain Bourse (BHB).

The move to enable Bahraini and non-Bahraini investors, both individuals and institutions, to buy government bonds and sukuk from the primary market via licenced brokers at BHB is a regional first.

Previously, government debt was sold to retail banks which could then give the benefit of the interest to other investors in over-the-counter transactions.

The new system is part of efforts by the Central Bank of Bahrain, which issues Government of Bahrain debt, and the BHB to develop Bahrain's capital market and increase its contribution to economic development.

The new mechanism was launched on 11 January 2015 for a sale of BD250 million of 10-year Sukuk Al Ijara securities, with an annual return of 5.50 percent.

To encourage retail investors, BHB set a minimum subscription of BD500.

Shaikh Khalifa bin Ebrahim Al Khalifa, Chief Executive Officer of Bahrain Bourse, said the launch comes in line with the joint efforts of CBB and BHB to develop the capital markets sector and increase its contribution to Bahrain's economic development.

In a statement, BHB said one of the main advantages of subscribing through registered brokers at the Bahrain Bourse is the ability to own sukuk directly (beneficiary ownership).

Upon listing of the sukuk, investors will be able to trade them in the secondary market through a registered broker at BHB during the daily trading session.

Following the listing of this issue, the number of conventional bonds and sukuk issues listed on BHB reached 10, with an approximate total value of US$5.039 billion.

Meanwhile, BHB issued on 1 February 2015, the Guidelines on Trading Debt Instruments on Bahrain Bourse. The Guidelines organise trading of debt instruments in the secondary market in the Bourse during trading sessions. The guidelines also clarify the types of orders, board lots and the tick size applied in the debt market. The guidelines also present the pricing mechanism in the debt market which shows the seller investor will receive the full amount of the transaction which includes the sukuk value plus the coupon which will be automatically calculated by the system.

All transactions on Sukuk will be settled within two business days of the completion of the deal (T+2).

Direct subscription in CBB sukuk

The Central Bank of Bahrain (CBB) issues on behalf of the Government of Bahrain short and long term Islamic securities, Al Salam sukuk and Islamic leasing sukuk of 3 to 6 months maturities. It also issues long term Islamic leasing sukuk (Ijara sukuk), local or international, of 2 to 10 years maturities.

The Ijara sukuk are instruments representing assets owned by the Government of Bahrain. The Ministry of Finance chooses the asset which is to be used for a new issue.

The short term Ijara sukuk is issued for BD26 million on monthly basis. Either local or international long term Ijara sukuk is issued according to the government need.

A prospectus is processed which gives details on the issue amount, currency, rental return, issue date and maturity date and distributed to all the participants.

Al Salam sukuk sales and purchase contracts are issued on a monthly basis for BD43 million collateralised by an asset which is raw aluminum that is owned by the Bahrain Aluminum Company, which is partly owned by the Government of Bahrain.

Islamic sukuk are issued through a fixed or variable-rate tender procedure set by the CBB through the Monetary Policy Committee and issued normally two business days after the tender date.

Invitation letters, including details on the forthcoming issue, are circulated to the institutions entitled to participate through the alerts sent through the Scripless Securities Settlement system (SSS system).

Institutions submit a tender bid to the CBB indicating the quantity they would like to acquire by logging into the SSS system. Tenders are then allotted to interested institutions according to their quantity contributions.

The eligible participating organisations or investor in the short and long term Islamic leasing sukuk are categorised as follows:-

- Direct Participant: Local retail banks, direct SSS and RTGS system members, Bahrain Bourse.
- Indirect Participant: Indirect SSS system members, investment companies, insurance companies, pension funds.
- Retail Investor & Individuals: All others entities and individuals who have accounts with the local retail banks or Bahrain Bourse.

The CBB's Shari'a Committee which reviews the procedures undertaken with the issuance of the Islamic leasing securities in the form of a Fatwa.

All the long term Government securities are listed in the secondary market. However, starting this year, Bahrain Bourse has taken the responsibility to create an opportunity for the general public by participating on behalf of their customers, in order to create an active secondary market.

Due to this step that has been taken in coordination with Bahrain Bourse and the CBB, there has been an unexpected interest and participation from all sectors and local and international entities. This will encourage both primary, secondary, local and international issuance as any entity that is willing to hold the Government of Bahrain Islamic sukuk can easily fulfill their needs by participating directly through registered brokers at the Bahrain Bourse or buying and selling through the secondary market.

In January 2015, the CBB issued two medium and long term Islamic leasing sukuk of BD100 million and BD250 million for 3 years and 10 years maturities respectively.

Bahrain stock market surged 14% in 2014

The Bahrain All Share Index surged 14 percent in 2014, compared with a negative return of -2 percent by the S&P GCC Index.

Growth was driven by buoyant market conditions for the first nine months of the year, and supported by new initiatives from the Bahrain Bourse, said Ms. Najla Al Shirawi, Chief Executive of the Securities and Investment Company (SICO).

As a result, Bahrain's stock market was the 2nd best performing market in the GCC region, after Qatar, which grew by 18 percent during 2014.

Ms. Al Shirawi was speaking at the 9th annual Forecast Dinner and Charter Award Ceremony of the Chartered Financial Analyst (CFA) Society Bahrain. The event was held on 7 February 2015.

"Bahrain, along with most other regional markets, has witnessed a rocky start to 2015, due in part to the decline in oil prices and a continuing volatile global economic environment," she said.

The main challenges to future growth and competitiveness of the Bahrain Bourse are illiquidity and low free float.

"One of the key reasons is the low free float in blue chip companies. Nine out of the top 15 stocks have a free float lower than 25 percent. While it is widely reported that Batelco and Alba have a free float of 23 percent and 10 percent respectively, actual trading volumes imply a reality of just 2 to 3 percent," said Ms. Al Shirawi.

"A low free float makes it almost impossible to execute large orders without significant market impact."

Sector Diversity

Another major reason is that Bahrain's stock index is skewed towards the financial sector, which represents 73 percent of the total index weight. Lack of sector diversity is discouraging some regional and international investors from investing in the Bahrain market since most funds' mandates have sector caps.

"Equally discouraging is Bahrain's mixed initial public offering (IPO) history. The Kingdom has had only eight IPOs during the last decade, the most recent being Zain in 2014, preceded by Alba in 2010. With the share price of most IPOs subsequently trading well below their offer price, there is, not surprisingly, a degree of cynicism among investors," said Ms. Al Shirawi.

The annual traded value of the Bahrain Bourse is only 3 percent of its market capitalisation of US$22 billion, which is the lowest in the GCC region. Its annual average daily traded value stands at US$2.4 million, which is one-tenth of the smallest market in the GCC after Bahrain, the Muscat Securities Market.

Bahrain's benchmark index is one of the most attractive in the GCC on relative valuations, with price-to-earnings and market-to-book multiples at a discount of 29 percent and 47 percent respectively, to the current median for GCC markets.

"This is despite a dividend yield of 4.7 percent, which is the highest in the region. Low liquidity, free float and trading volumes are responsible for the discount in Bahrain's market," said Ms. Al Shirawi.

"Additionally, the majority shareholding in the 10 major companies on the Bahrain Bourse is held either directly or indirectly by the Government, or by prominent family businesses that hold shares on a 'buy and hold' basis."

On the positive side, the enhancement of securities legislation has resulted in IPOs in Bahrain being better regulated than in many GCC countries. However, the drawback of increasing regulatory oversight is that IPOs have become more time-consuming and costly for local privately-owned companies.

"Initiatives need to be taken to encourage listed companies to divest additional shares in the market through secondary issues on a regular basis, not just as a one-off event," said Ms. Al Shirawi.

Privatisation of public and private assets also has an important role to play. These need to be offered at an attractive discount, potentially with a substantial portion being allocated to Bahraini investors, together with special incentives for retail investors. Seef IPO is a good example of a successful privatisation.

Another initiative would be mandatory listing requirements for companies either subsidised by the government or awarded public sector contracts, or those licensed by regulatory authorities.

"Encouragingly, we have recently seen the Bahrain Bourse undertaking measures to enhance liquidity, such as the recent set-up of margin trading and market-making rules," said Ms. Al Shirawi.

It has also approved the trading of options, exchange-traded funds (ETFs), and real estate investment trusts (REITs); as well as investing in a new trading engine which enhances options for investors. The Bourse helps in launching new products in line with demand. The listing of the recent Bahrain Government 10 years BHD Bonds issue, demonstrates the seriousness of the bourse in diversifying the investment instruments offered to investors.

"These are all steps in the right direction. However, boosting liquidity will require more concrete actions. This process will take time, but will eventually benefit the Bahrain economy," said Ms. Al Shirawi.

She praised the CFA Society Bahrain for its enduring commitment to promoting the highest standards of professional excellence and integrity, and contributing to the development of local capital markets.

Apprentice Programme

SICO is a long-standing supporter of the CFA Society Bahrain, and has recently signed an agreement to provide six-month internships for winning students of the Mutamahin (Apprentice) Graduate Development Programme, concluded Ms. Al Shirawi.

The programme aims to develop and nurture university graduates, with the long-term vision of contributing to a new generation of ethical, dedicated and seasoned investment professionals.

Currently, the programme has 45 candidates and has partnered with top Bahraini institutions to secure 12 six-month internships for these candidates to participate in. SICO, Bahrain Bourse, Bahrain National Holding, Bahrain Credit, and Bank of Bahrain and Kuwait will provide internships for the top candidates.

The first training sessions on ethics, project management, and assertiveness have been held, with the majority of the training provided by Fitch Learning, the global leader in financial education, offering specialised technical training at all levels to the financial community.

"Promoting and maintaining the highest standards of professional excellence and integrity and contributing to the development of local capital market and professional skills are at the heart of our mission at CFA Society Bahrain," said the society's president, Mr. Mahmoud Nawar.

Retail banks' assets continue to grow

The consolidated balance sheet of the banking system in Bahrain, comprising retail and wholesale banks, stood at US$189.1 billion at the end of November 2014, according to the latest issue of the Central Bank of Bahrain's Monthly Statistical Bulletin.

This was a slight increase over the consolidated balance sheet of US$189.0 billion at the end of October 2014, and a 1.4 percent decline over the September-end (Q3) balance sheet of US$191.8 billion.

The assets of retail banks, however, rose to BD30.1 billion (US$80 billion) at November-end 2014. This was an increase of nearly 1 percent over the previous month and an increase of 0.7 percent over the Q3 balance sheet of BD 29.8 billion. At the start of 2014, retail banks' consolidated balance sheet stood at BD28.4 billion.

At November-end 2014, retail banks represented 42.3 percent of the consolidated balance sheet of Bahrain's banking sector.

The assets of the wholesale banking sector continued to moderate, totaling US$109.2 billion at November-end, a decline of 0.6 percent over a consolidated balance sheet of US$109.8 billion at October-end and a decline of 2.9 percent from September-end. Wholesale banks began the year with a consolidated balance sheet of US$115.9 billion.

Growth in assets of retail banks helped raise the total domestic assets of Bahrain's banking system to US$49.5 billion at November-end, from US$48.6 billion from a month earlier and US$49.1 billion at Q3 2014. Foreign assets of Bahrain's banking system continued their downward trend, totaling US$139.6 billion at November-end, from US$140.4 billion at October-end and US$142.7 billion at the start of 2014.

Total domestic liabilities of the banking system stood at US$52.8 billion at November-end, compared with US$51.8 billion a month earlier, while foreign liabilities also declined to US$136.3 billion at November-end, from US$137.2 billion a month earlier.

Domestic assets of retail banks stood at BD15.6 billion (US$41.5 billion) at November-end, while foreign assets amounted to BD14.5 billion. Domestic liabilities rose to BD16.1 billion, while foreign liabilities amounted to BD14 billion at November-end.

Total deposits at retail banks increased to BD15.8 billion at November-end, from BD15.4 billion a month earlier.

Total outstanding loans and advances extended to residents by retail banks were almost flat at BD7.3 billion.

Of the total loans at November-end, 55.3 percent were in the form of business lending, while the personal and government sectors accounted for 40.6 percent and 4.1 percent respectively.

The distribution of loans to business indicate that 20 percent were extended to the construction and real estate sector, followed by 13 percent to the trade sector and 10.6 percent to 'other' sectors, which include the hospitality industry and the transportation sector, while the manufacturing industry received 7.2 percent of the loans.

The aggregate balance sheet of Bahrain's Islamic banks (retail and wholesale) stood at US$25.1 billion at November-end, almost unchanged from a month earlier. Domestic assets stood at US$14.4 billion, while foreign assets amounted to US$10.7 billion.

Money supply in Bahrain's economy, represented by M2 (currency in circulation and demand, time and saving deposits) rose to BD9.8 billion at November-end, from BD9.6 billion a month earlier.

By the broader monetary measure M3 (which includes M2 as well as government deposits), stood at BD11.9 billion at November-end, compared to BD11.6 billion a month earlier.

AFE equities summit being held in Bahrain

The Bahrain Bourse (BHB) will host the Arab Federation of Exchanges (AFE) Annual Conference 2015 in partnership with Thomson Reuters.

The conference, entitled 'AFE Equities Summit 2015', is set to take place in Bahrain on 22 and 23 April 2015.

The AFE Board Meeting and General Assembly will be held in parallel to the event, attracting more than 18 Arab Stock Exchanges, four Clearing, Settlement and Depository Companies and several financial institutions.

The conference will serve as a platform for the exchange of knowledge and experience in a dynamic environment, and will encourage the transfer of best practices within the region by providing the best networking opportunities possible.

The AFE Equities Summit 2015 aims to help in developing the Arab financial markets, and improve the integration and liquidity of those markets. The conference also aims to develop the IPO process within the Arab financial markets and increase the awareness of technological advancements in the equities field.

Discussions will cover many current topics, including relevant global trends, opening of the Saudi market and the challenges faced, as well as current trends and challenges for Arab exchanges. The conference will also cover topics on direct market access, new technologies and market protection, ETFs, tracker funds, and market making in the Arab region and how to attract new IPOs.

Bahrain Bourse becomes IOSCO member

Bahrain Bourse (BHB) has become an affiliate member of the International Organisation of Securities Commission (IOSCO), an international body that brings together the world's securities regulators and is recognised as the global standard setter for the securities sector.

Mr. Yusuf Humood, Chairman of BHB, said the achievement reflected the development of legislative infrastructure of the capital markets sector in the Kingdom and BHB's compliance with international standards and the internationally adopted regulatory frameworks in the sector.

Shaikh Khalifa bin Ebrahim Al Khalifa, Chief Executive of BHB, said the approval of Bahrain Bourse's application for affiliate membership of IOSCO is a demonstration of the commission's appreciation and support for BHB's efforts to develop and improve the capital markets sector in a way that will enhance the investment environment.

"We will work to benefit from our IOSCO membership, and in cooperation with the Central Bank of Bahrain, to make the capital markets sector more competitive and attractive for regional and international investors," said Shaikh Khalifa.

Established in 1983, IOSCO develops, implements and promotes adherence to internationally recognised and consistent standards of regulation, oversight and enforcement in order to protect investors, maintain fair, efficient and transparent markets, and seek to address systemic risks.

Bahrain economy gathers momentum in 2014

The Economic Development Board (EDB) said that Bahrain's Q3 2014 GDP growth reached 5.1 percent year-on-year (YoY), which continues the momentum from earlier in 2014 and reflects the positive impact of the initiation of a number of significant infrastructure projects.

Overall, growth for 2014 is estimated to have exceeded 4 percent.

The December 2014 edition of Bahrain Economic Quarterly (BEQ), a publication of the EDB, highlights the broad-based forward momentum of the Bahraini economy during 2014.

After a relatively slow start to the year, all sectors of the non-oil economy saw a pronounced pick-up in growth. This was particularly obvious in the case of the Construction sector, which experienced an acceleration from 3.6 percent annual pace of growth in Q2 to 12.3 percent in Q3, making it the fastest growing sector of the economy. This was largely reflective of the ongoing activation of the large infrastructure project pipeline worth more than US$22 billion.

The Hotels and Restaurants sector, which has consistently been the fastest-growing sector of the economy in recent quarters, saw a slight loss of momentum but nonetheless posted robust YoY growth of 7.4 percent. The only other sector to grow significantly faster than the non-oil economy taken as a whole in Q3 was Social and Personal Services, which is largely composed of private health care and education. This continues an established pattern, which has seen the sector emerge in recent years as one of the most dynamic in the country.

Several sectors advanced more or less in line with the average growth rate of the non-oil economy. These included Real Estate and Business activities, which expanded by 4.6 percent, Retail trade (4.4 percent), and Manufacturing (4.1 percent).

By contrast, growth of the Government Services sector remained moderate in line with the pattern established in recent quarters as well as the strategic aspirations to put the private sector at the forefront of growth.

Oil Sector

The hydrocarbons sector of the economy, having experienced an unusual cycle in 2012-2013 continued to perform strongly in 2014. Both the onshore Bahrain (Awali) field and the offshore Abu Sa'afah saw sustained output gains last year. Having peaked at 9.3 percent YoY growth in Q2, the oil and gas sector posted a 4.7 percent gain in Q3. Production from the Bahrain field rose from 48,758 b/d in Q2 to 49,187 b/d in Q3.

Bahrain's share of Abu Sa'afah's output was 158,278 b/d in Q2 and 160,385 b/d in Q3. Both figures are clearly above the standard capacity production of 150,000. Some loss of momentum in the oil sector was expected in Q4, although the year as a whole was likely very strong from a historical perspective.

Inflation Steady

Inflation dynamics in Bahrain have remained fairly constant and in line with broader regional trends in recent months. Headline consumer price inflation stood at 2.3 percent YoY in November 2014, having averaged 2.9 percent since the beginning of the year.

Housing, water, electricity, gas and other fuels continued to be the sectors experiencing the highest growth in prices at 6.1 percent. At the opposite end, transport was the sector with the smallest inflation increase, growing at an annual rate of 0.9 percent. In general, price increases across the different sub-indices converged during 2014.

Robust Outlook

Looking forward, the BEQ posits that the performance of the Bahraini economy in the near term is likely to benefit from a number of positive drivers, which should translate into robust near-term growth figures.

Above all, the build-up in infrastructure spending will continue. Spending from the US$10 billion Gulf Development Fund will be the main driver in this regard, but initiatives are underway also to activate a number of significant priority projects that will draw on a range of funding sources, including private investment. The blueprint for the new government appointed in December includes a number of important initiatives ranging from the manufacturing sector to transportation and social infrastructure.

Oil price volatility, along with the expected tightening by the US Federal Reserve, pose some risks in terms of business confidence and cost of capital. However, the main near-term growth drivers are very resilient, and the low loan-to-deposit ratios of retail banks suggest that the cost of capital is unlikely to be the main constraint on lending activity for now.

According to the BEQ, GDP growth in 2014 was expected to be 4.2 percent. The growth estimate was for 4.6 percent non-oil growth along with a 2.9 percent gain in the oil sector.

Following region-wide trends, growth in 2015 is likely to be somewhat lower at 3.6 percent, primarily due to flat oil production. By contrast, non-oil growth is likely to remain robust at 4.5 percent. Growth in 2016 is projected to be comparable with a headline rate of 3.3 percent. Some deceleration is projected in non-oil growth to 3.9 percent along with a small 0.5 percent gain in the hydrocarbons sector.

"In spite of increased volatility in the global oil markets, economic growth in Bahrain has remained robust with clear indications that infrastructure spending is significantly boosting the momentum in the non-oil sector, and serving as an important platform for continued resilience," said Dr. Jarmo Kotilaine, Chief Economist at the EDB.

Globally, the structural growth drivers have not yet recovered to the point of strong, broad-based momentum, and the pattern of growth across various countries remains uneven.

The BEQ shows that growth dynamics across the GCC region continue to be characterised by strong structural drivers in the non-oil economy alongside modest growth in the oil economy. The resilience of the non-oil economy is further supported by healthy financial sectors along with a firm commitment by GCC governments to support economic activity and priority projects.

Bahrain economic outlook

	2013	2014f	2015f	2016f
Real GDP growth, %	5.3%	4.2%	3.6%	3.3%
Non-hydrocarbons sector	3.0%	4.6%	4.5%	3.9%
Hydrocarbons sector	15.3%	2.9%	0.0%	0.5%
Nominal GDP growth, %	8.3%	3.1%	2.1%	5.8%
Inflation (CPI %)	3.3%	3.0%	3.0%	3.0%
Current account (% of GDP)	7.8%	5.7%	2.9%	2.0%
Fiscal balance (% of GDP)	-3.3%	-3.9%	-4.0%	-1.5%
Crude Oil Arabian Medium (USD)	106.4	96.0	80.0	80.0

Source: Bahrain Economic Development Board

Bahrain banks post solid gains since global crisis

Total assets of Bahrain-domiciled banks have steadily increased during 2009 and 2013, with a significant jump seen in 2013.

Banks' assets have increased despite a decline in the number of institutions during the 2009-2013 period, says the Bahrain Banks Annual Review 2014, published by the Bahrain Association of Banks (BAB) and the Bahrain Institute of Banking and Finance (BIBF).

The latest edition of the annual publication again offers a vital snapshot of Bahrain's banking sector over a five-year period, 2009-2013, since the lows seen during the global financial crisis of 2007-08. The report finds year-on-year improvement in a majority of key indicators included in the research.

The 2014 Review now covers 34 institutions, compared with 42 in the 2012 edition. The reduced number of financial institutions reflects the efforts of the Central Bank of Bahrain (CBB) to encourage banks to consolidate their activities, switch license categories and in some cases to cease operations.

The newly-listed Ibdar Bank, for instance, is the result of the merger of three Islamic wholesale banks into one larger, more focused institution. Other examples include Capinnova Investment Bank, which was absorbed into its parent company, Bank of Bahrain and Kuwait (BBK), while Ithmaar Bank acquired First Leasing Bank. Oasis Capital Bank, on the other hand, changed its license to that of an investment company to better reflect its activities while Taib Bank took the decision to cease operations in what is a very competitive market. The 2014 Review does not include Arcapita Bank, which now operates under a Category 1 Investment License.

The benchmark indicator which measures total assets shows how the 34 Bahrain domiciled banks have recovered from the low of US$125.9 billion recorded in 2009 to post total assets of US$153.5 billion in 2013. By the end of the first half of 2014, total assets had grown to US$154 billion, indicating a consistent upward trend.

In fact, total assets have grown by 22 percent since 2009 and are higher than before the global financial crisis when Bahrain's banks had US$142.9 billion worth of assets. The US$12.3 billion increase in total assets between 2012 and 2013 is the biggest year-on-year improvement since the global financial crisis – an impressive 8 percent – and shows that the recovery is very real and is gaining traction. This is borne out by the other key statistics which are detailed in the report.

The outlook for the banking sector in the region as a whole is quite strong given the unique geographic and fiscal position of the countries that comprise the Gulf Cooperation Council (GCC). The emergence of a growing market for Islamic financial products and the potential for optimisation in the business models of GCC banks are a case in point.

Banks in this region have now entered a new phase of development with a more sustainable growth trend and increased profitability. Rather than lagging behind western banks in terms of customer service and technology such as mobile banking and flexible investment 'passports' they are very much ahead of the curve.

While the banking sector in Bahrain lags behind its larger regional peers, it is showing signs that its recovery is gaining momentum as revealed by the marked improvement in key areas. This is likely to continue as banking consolidation takes place and fiscal disciplines, such as increased Tier One Capital, are adopted by banks as a result of Basel III.

On a bright note, Bahrain has more banking assets per head of population than any other country in the GCC as well as a greater reliance on financial services to provide jobs for Bahrainis. As such, it is a key industry and it is clearly a major priority for the Government to ensure that it continues to flourish.

Key Indicators of Bahrain's banking sector

	2009	2010	2011	2012	2013
Total Assets (US$ billion)	125.937	133.386	135.247	141.158	153.478
Net Income ('US$ billion)	-1.284	0.129	1.222	1.322	1.826
Net Interest Margin	1.90	1.91	2.04	1.97	2.02
Return On Avg Assets (ROAA)	-0.84	0.16	0.93	0.96	1.24
Return On Avg Equity (ROAE)	-5.74	1.04	5.91	5.98	7.84
Cost To Income Ratio	77.33	58.66	54.56	52.50	51.11
Net Loans/Tot Assets	48.20	47.22	45.78	48.00	47.17
Liquid Assets/Dep & ST Funding	34.56	36.19	36.72	31.24	30.20
Impaired Loans/Gross Loans	4.23	5.14	4.58	5.63	5.10
Total Equity (US$ billion)	19.051	20.258	20.669	21.945	23.322
Tier 1 Ratio	29.64	30.04	34.91	33.27	23.87
Total Capital Ratio	31.76	31.83	38.47	36.16	33.15

5 players dominate Bahrain's banking sector

The banking sector in Bahrain is heavily weighted towards the 'big players' with the top five banks – Ahli United Bank, Arab Banking Corporation (ABC), Gulf International Bank (GIB), Al Baraka Banking Group (ABG) and Bank of Bahrain and Kuwait (BBK) – accounting for 72 percent of total assets of US$153.5 billion in 2013, says the Bahrain Banks Annual Review 2014.

The annual publication offers a vital snapshot of Bahrain's banking sector. The latest edition covers 34 Bahrain-domiciled banks and analyses their performance over a five-year period from 2009 to 2013.

It finds that in terms of category, the largest grouping of banks is Wholesale Islamic with 12 institutions, or 35 percent of the total number of banks domiciled in Bahrain in 2013. The Wholesale Conventional banks category comes next, with nine institutions or 26 percent of total institutions. Conventional Retail and Islamic Retail categories comprise seven and six institutions, respectively, representing 20 percent and 17 percent of total institutions under review.

Numbers in themselves do not necessarily provide the full picture, however. When it comes to total assets, Conventional Retail banks had the largest share in 2013, with US$53.9 billion, closely followed by Conventional Wholesale, with US$53.1 billion in assets. In the Islamic banking sector, the Wholesale category, despite contributing the largest number of institutions, only has US$26.4 billion worth of assets, while Islamic Retail is the smallest sector with nearly US$20 billion.

This split between Conventional and Islamic is clearly evident when assessing the average size of banks in Bahrain – US$4.5 billion in assets in 2013 compared with US$3.7 billion in 2009. The mean size of a Conventional Retail bank was US$7.7 billion in 2013, followed by Conventional Wholesale, with average assets of US$5.9 billion.

Islamic Retail banks averaged US$ 3.3 billion in 2013, while Islamic Wholesale banks constituted the smallest sector, with US$2.2 billion worth of average total assets in 2013 – up from a low of US$1.7 billion in 2009 following the global financial crisis.

There has been a steady improvement in total assets of the Conventional Retail banking sector over the five years under review, with a 35 percent improvement from 2009 to 2013, while Conventional Wholesale banks had a marginal improvement of 7 percent by 2013. Total assets at Islamic banks have also shown an improvement since 2009 with Wholesale Islamic banks generating growth of 32 percent compared to 2009.

Conventional banks made up the bulk of assets and equity in 2013, with around US$108 billion which is roughly split 50/50 between Retail and Wholesale, compared to Islamic banks with assets of around US$46 billion, of which US$29 billion was in the Retail sector and US$26 billion in the Wholesale sector.

The banking industry in Bahrain does, however, fall behind its global rivals in most areas. The only statistic where Bahrain banks routinely outperform their peers is Liquidity Ratio. In other areas such as Net Interest Margin, Return on Average Assets (ROAA), Return on Average Equity (ROAE) and Cost-to-Income Ratio they lag behind the global banking average.

Net Income, the most closely-watched indicator in banking, rose from US$1.3 billion in 2012 to US$1.8 billion in 2013. Extrapolating net profits of approximately US$953 million for the first half of 2014 shows that the banking sector is on target to surpass 2013 although it will be significantly short of the US$2.2 billion recorded during the peak of the real estate boom in 2007. However, it does show a big jump from the lows of 2009 when local banks posted losses of US$1.5 billion for the year.

Other key indicators also showed a marked improvement. Net Interest Margin, which is a ratio of the net interest income expressed as a percentage of earning assets, rose from a low of 1.9 percent in 2009 to 2 percent in 2013.

ROAA, a measure which compares the efficiency and operational performance of banks as it looks at the returns generated from the assets financed by the bank, showed an increase from -0.84 percent in 2009 to 1.24 percent in 2013.

A similar jump was seen for ROAE, a measure which refers to the return on shareholder funds. The indicator rose to 7.84 percent in 2013 – up from 5.98 percent in 2012 and a low of -5.74 percent in 2009.

Cost-to-Income Ratio, another key indicator of a bank's health, is also moving in the right direction. The 2013 ratio, which shows a bank's costs including administrative and fixed costs, such as salaries and property expenses (but not bad debts that have been written off) by operating income, fell to 51.1 percent from 52.5 percent in 2010. This is higher than the 40.6 percent in 2007 but shows a major turnaround from the 77.3 percent in 2009.

Trends observed in 2013:

- Total assets have increased by 22 percent over a period of five years, from 2009 to 2013.
- Net income has more than doubled, from loss making in 2009 to a positive trend in 2013.
- Net interest margin has remained relatively stable over the five years under review.
- Market has seen a positive increase in the ROAAs and ROAEs year-on-year.
- The overall cost-to-income ratio has decreased from 2009 to 2013, reflecting cost reduction measures.
- Liquidity declined marginally during the last five years.
- Total equity rose notably in 2013.
- The market saw a downward trend in the past two years in terms of capital adequacy. Tier 1 ratio declined in 2013.

Financial Sector Fact Sheet

Regulator: Central Bank of Bahrain
Financial Institutions: 404 (March 2015)
Financial Sector Workforce: 14,009 (2012)
Bahraini nationals 9,253 (66%)
Foreign nationals 4,756 (34 %)

Key Economic Indicators

GDP (Current) US$32.8 billion (2013)
Growth 6% (2013)
GDP (Constant) US$28.6 billion (2013)
Growth 5.5% (2013)

Financial Sector contribution to GDP 16.7%
Sovereign Rating
BBB (S&P December 2013) with stable outlook
BBB (Fitch December 2013) with stable outlook
Population 1,195,020 (2011)

Banking Sector

Assets US$189 billion (October 2014)
No. of institutions 113 (February 2015)
Retail banks 28
Locally incorporated 13
Branches of foreign banks 15
Wholesale Banks 75
Representative Offices 9
Bank Society 1

Islamic Banks (included in left):
No. of banks 23 (February 2015)
Assets US$25 billion (October 2014)

Insurance Sector

Total No. of Insurance Companies & Organisations
Authorised in Bahrain 152 (March 2015) * excluding
Appointed Representative
Domestic market
Gross premiums US$685 million (December 2013)
No. of insurance firms 36
Locally incorporated insurance firms 25
Takaful & Retakaful Firms (included above) 7
Captives (locally incorporated, included above) 1
Overseas insurance firms 11
Insurance Brokers 31
Insurance Consultants 4
Insurance Managers 3

Representative Offices 5
Loss Adjusters 10
Registered Actuaries 25
Insurance Ancillary Services 6
Insurance Pools & Syndicates 2
Insurance Society 1
Insurance Licensees Restricted: 29
Insurance Firms restricted: 23
Insurance Brokers restricted: 4
Insurance Consultants restricted: 2
Insurance Appointed Representative 15
Corporate 10
Individual 5

Investment Business Firms

No. of firms 61 (February 2015)
No. of Investment Business firms 52 (February 2015)

Representative Offices 8
Bahrain Asset Manager Association 1

Specialised Licensees

Total no. of institutions 53 (February 2015)
Money Changers 19
Fund Administrators License 3
Registered Administrators 1
Financing Companies 8

Microfinance Institution 2
Trust Service Providers 3
Ancillary services 16
Registered Professional Body 1

Capital Markets

Market Capitalisation US$22,651,774,637 (March 2015)
No. of firms 26 (March 2015)
Licensed Exchanges 2
Licensed Clearing, Settlement and Central Depository Systems 1

Licensed Securities Brokers 4
Licensed Securities Clearing Member 6
Licensed Securities Broker Dealers 13

Funds Industry

Authorised Funds 2,850 (March 2015)
NAV US$6.77 billion (December 2014)

Local Funds (CIUs) 82
NAV US$3.59 billion (December 2014)
Conventional-Local 46
Islamic-Local 36
Locally Incorporated (PIUs) 7
Foreign Funds-Offshore 2,761 (March 2015)