



مصرف البحرين المركزي

Central Bank of Bahrain

Islamic Finance Review



July 2008

Issue 22

Published by the Central Bank of Bahrain (CBB)

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Investor confidence in Bahraini economy and institutions on the rise

It is widely accepted within the international investment community that the hallmark of a healthy economy is when investors show interest in that economy's government issued securities – both conventional and Islamic. Bahrain has increasingly been eyed by both external and internal investors who are tapping into its potential and helping to create and maintain a buoyant economic outlook, assisted by the local financial services sector in which Islamic finance is playing an increasingly important role.

Government securities are seen by the investor community as a low-risk investment with a virtually guaranteed return, particularly when they are issued by governments with a long track record of robust economic growth and a strong history of prudent fiscal policy.

The Central Bank of Bahrain's (CBB) recent successful monthly issue of Sukuk Al-Salam Securities saw them oversubscribed by 216.6 per cent in late July, not in itself unusual, but just one of the strong indications of the dynamism of the Bahraini economy.

The positive news for the CBB and

Bahrain is widely seen as a pioneer in the burgeoning area of Islamic finance, a sector that has seen some of the strongest growth of any financial sector in the recent years.



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Islamic Finance Review

Bahrain's economy has not been limited to the issuance of the Sukuk Al-Salam Securities. Weekly issuances of millions of dinars worth of Government Treasury Bills have seen them, in recent weeks, oversubscribed by 200 and 300 per cent. Investor demand in both security types



While there is little doubt investors are flocking to Bahrain and its institutions, the question remains as to the outlook of the country's economy. Can it maintain the strong growth it has experienced in recent years? If the predicted future price of oil is any indicator, then the answer is a resounding yes.



largely confirms Bahrain's status as a country with a strong business climate, that securities brokers from around the world are taking notice of.

"The economic growth and financial sector development has placed Bahrain in the enviable position of a country that investors feel has a bright future ahead of it. Investors in government-backed securities are looking for a government that has a stable outlook and a comprehensive understanding of the complexities of fiscal policy. Our reputation as the key financial hub of the Middle East, combined with

our strong economic growth in recent years makes us an obvious choice for investment from both internal and external sources." said Mr. Abdul Rahman Al Baker, Executive Director, Financial Institutions Supervision of the CBB.

Another significant draw for the investor community is Bahrain's status as the financial centre of the Gulf region and its commitment to being at the forefront of the trends shaping the region's financial sector. Bahrain is widely seen as a pioneer in the burgeoning area of Islamic finance, a sector that has seen some of the strongest growth of any financial sector in the recent years.

According to the CBB's registry, the expansion of the Islamic financial sector in Bahrain over the past decade has been considerable. The first Islamic bank opened in Bahrain in 1979, and today there are 26 separate banks in the Kingdom that practice Shari'a-compliant banking, and a further 10 investment firms that follow Shari'a law. Within the last 10 years, Islamic banks based in Bahrain have seen their assets under management increase by 1800 per cent. It is worth noting that the total assets of Islamic banks reached US\$28 billion as of the end of 2007.

In addition to Islamic banking, the CBB have also witnessed the dramatic expansion of the Islamic Takaful and reTakaful (insurance and reinsurance) industry in the country. Ten different Takaful and reTakaful companies are based in Bahrain or have a subsidiary in Bahrain that is regulated by the CBB. In the other fields that the CBB regulates, a further nine companies involved in various ancillary and finance sectors also practice according to the tenets of Shari'a law within the Bahraini market.

"As a central bank, we have made every effort to create a business environment that promotes a stable foundation for Islamic finance to flourish," said Mr. Hussain Sharaf, Director, Islamic Financial Institutions Supervision of the CBB. "Bahrain is recognized as a leader in Islamic finance. Investors from the Muslim world have long sought investment vehicles that offer returns in an Islamically acceptable manner. We feel we have created a regulatory climate in Bahrain that is

conducive to fostering success within this industry."

While there is little doubt investors are flocking to Bahrain and its institutions, the question remains as to the outlook of the country's economy. Can it maintain the strong growth it has experienced in recent years? If the predicted future price of oil is any indicator, then the answer is a resounding yes. According to a recently released economic research report on the GCC region by Gulf Finance House, oil prices are expected to remain in triple digits for the remainder of 2008 and oil revenues are expected to be more than US\$600 billion annually in both 2008 and 2009. Such enormous revenues will fill the coffers of GCC government treasuries, and the banks of the region will undoubtedly benefit. Strong economic growth will need vast amounts of corporate financing, and most of that will come from local banks, and increasingly from Islamic banks.

"The downturns in the markets of the United States and Europe will probably not have a substantial effect on the economies of the GCC and Bahrain," said Mr. Abdul Rahman Al Baker, Executive Director, Financial Institutions Supervision of the CBB. "The excess liquidity of the region, and the strong demand for oil from emerging economies such as India and China will continue for the foreseeable future."



The excess liquidity of the region, and the strong demand for oil from emerging economies such as India and China will continue for the foreseeable future.



Such predictions will be welcome news to the world's investment community that is looking for bullish sentiment amid a bearish global climate. Savvy investment firms have already discovered the potential of the Bahraini market, and that means that more investment flows should continue.





Waqf Fund creating new wave of experts in Islamic finance

In a bid to create a new generation of Islamic finance experts, the pioneering Waqf Fund, in association with the Bahrain Institute for Banking and Finance, is set to launch the Graduate Sponsorship Program, a groundbreaking initiative offering intensive education and training in Islamic finance.

It is widely accepted that one of the crucial issues facing the world of Islamic finance is the lack of suitably qualified and experienced human resources. One of the Waqf Fund's primary objectives is to attract talent and thereby ensure a steady stream of expertise to meet growing demands of the industry.

The Waqf Fund's Graduate Sponsorship Program is a scholarship

which will fulfill this objective by attracting the best banking and finance graduates from the University of Bahrain to enroll in a 6 month course which combines academic studies and practical experience. Plans are in place for the initiative to commence during 2008, offering places to around approximately 50-60 Bahraini graduates every year.

The sponsored graduates will be studying for the Advanced Diploma in Islamic Finance at the Bahrain Institute for Banking and Finance (BIBF), at the expense of the Waqf Fund, to equip the graduates with a thorough understanding of the fundamental principles underpinning the subject. The graduates will concurrently be placed for a six-month internship with an Islamic financial institution (also sponsored by the Waqf Fund) where they will be encouraged and expected to put their new-found skills into practice, and gain a deeper appreciation of the fundamentals of Islamic finance from a practical point of view. This project is under the overall guidance of the CBB's Executive Director of Banking Supervision, Mr. Khalid Hamad, who is working in close cooperation with the BIBF.

Waqf Fund spokesperson, Mr Haseeb Siddiqui, of Ernst & Young Bahrain, said: "The initiative is part of the Waqf Fund's long term strategy to address the needs of the Islamic Finance sector by continuously building a substantial pool of well-qualified and experienced human resource. When the graduates complete the course and the internship, they will be well prepared to make a valuable contribution to the industry."

To ensure that the graduates have access to the latest and most in-depth information, the Waqf Fund has also sponsored a revision and upgrade of the diploma's entire range of training materials. Ernst & Young have been commissioned to develop the revised materials. The enhanced diploma will come on-stream this year.



Mr. Khalid Hamad A. Rahman
Executive Director, Banking
Supervision



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THE WAQF FUND

The Waqf Fund was established in 2006 by the Central Bank of Bahrain, with contributions from the Central Bank and eight leading Islamic banks in Bahrain. Its members now include 18 leading Islamic financial institutions, in addition to the CBB, with the aim of advancing Islamic finance training, education and research. Its capital contributions, which stand at approximately US\$7 million, allow the fund to pursue these goals through a broad range of initiatives.

In addition to its work in training and research, the fund also acts as an industry incubator by hosting roundtable discussions on development issues where leading figures focus on key issues and recommend the best way forward for the industry.

Source: Islamic Finance Review, January 2008, Issue 20





Shari'a compliance in Islamic and conventional institutions

Although a young segment of the financial industry, Islamic finance has achieved rapid growth averaging 15- 20% per annum over the last ten years. As this phenomenal expansion continues, with both Islamic banks and conventional banks offering Islamic finance, there is pressure to ensure that Shari'a compliance keeps pace. The Islamic financial industry, assisted by the Central Bank of Bahrain, has a successful track record in addressing this crucial issue.

The increase in wealth resulting from the rise in oil prices and the

banks to offer Islamic finance provided they satisfy a set of stringent conditions, as noted in the CBB Rulebook.

A conventional bank must provide dedicated counters (windows) or branches for all Islamic financing and funding. A further requirement is the avoidance of co-mingling of conventional and Islamic funds and this is assured by the maintenance of discrete sets of accounts for both books of business (Islamic and conventional).

Certain members of the bank's personnel must be dedicated to Shari'a-compliant business, including a treasurer or senior trader, and a Shari'a compliance reviewer must also be designated. To ensure adequate supervision of its Shari'a operations, the bank must establish a Shari'a supervisory board with a minimum of three board members. The board's scope of authority may be global, covering all Shari'a-compliant business, or it may be local and cover only Islamic business booked in Bahrain.

Conventional bank licensees must also have staff trained in Shari'a-compliant banking business. The bank must also disclose all quantitative and qualitative disclosures on its Shari'a-compliant business as required by Accounting and Auditing Organisation for Islamic Financial Institutions' (AAOIFI) accounting and auditing standards in the notes to the bank's annual report/financial statement.

Corporate governance is another area of differentiation. Islamic financial institutions have an additional layer of corporate governance, over and above the mechanisms in place for conventional financial institutions. In addition to a supervisory board, independent external auditors, adequate policies and procedures and other governance mechanisms, Islamic financial institutions have also to ensure compliance with Shari'a principles, which are reviewed and monitored by the bank's Shari'a supervisory board. The role of the board is to issue a fatwa or an opinion, setting out how the

bank's operations should be carried out, in order to be consistent with Shari'a rules and principles. It is also responsible for the monitoring of the institution's Shari'a compliance in applying the fatwa in practice.

"Bahrain was the first country in the world to regulate Islamic finance and the CBB Rulebook puts a comprehensive framework of compliance in place for both conventional banks employing specific distribution channels, such as Islamic windows and Islamic branches, and Islamic banks. Bahrain has also been proactive in establishing the necessary governing bodies to set industry standards," added Mrs Al Jalahma.

The CBB has another important role to play through a mixture of onsite assessment undertaken by the CBB's own examiners, as well as by experts appointed for the purpose by the CBB, and offsite supervision which includes regular prudential meetings with licensees to review performance, strategy and compliance. This is applied to both Islamic and conventional banks.

Islamic bank licensees must also arrange for their external auditors to review the bank's compliance with applicable laws and declare, in the auditors report, that no material violations of the following laws and regulations have taken place:

- The CBB Law 2006; and
- The CBB's licensing conditions, and other rules contained in Volume 2 of the CBB Rulebook.
- The Bahrain Commercial Companies Law of 2001.

Mrs Al Jalahma also added: "Ensuring adequate Shari'a compliance also depends on having adequate expertise in terms of human resources. Bahrain is doing exceptional work in terms of furnishing the industry with trained and qualified human capital, assisted by many bodies, including the Waqf Fund, the Bahrain Institute of Banking and Finance and AAOIFI."

“Islamic financial institutions add an additional layer of corporate governance, over and above the mechanisms in place for conventional financial institutions”

subsequent liquidity and investments in oil-producing countries are significant contributing factors in the expansion of Islamic finance. Coupled with the relatively high returns available, this is attracting more and more banks and investors alike to consider Islamic finance as a serious option.

Mrs Aysha Al Jalahma, Head - Wholesale Islamic Banking Supervision, at the Central Bank of Bahrain (CBB), said: "Islamic financial products and services are increasingly being offered by conventional banks employing specific distribution channels, such as Islamic windows and Islamic branches. It is interesting therefore to consider some of the main differences in the methods used by the two types of banks and how the issues of compliance are being addressed."

To ensure Shari'a compliance is observed, the CBB allows conventional



The growing need for global risk management and Shari'a governance of Islamic finance

With Islamic finance registering phenomenal growth, both among the world's estimated 1.5 billion Muslims seeking Shari'a compliant investment products and services and international investors drawn to their relatively high yield, low-risk returns, Islamic financial institutions are setting new standards and evolving at a tremendous pace. The result is to create ever greater challenges for Shari'a boards in the definition of compliance regulations.

Although there are differences between Islamic banking and conventional banking, there are some fundamental principles that apply equally to both. In particular, rigorous risk management and sound corporate governance help to ensure the safety and soundness of the international banking system. In the light of the growing importance of Islamic banks and Shari'a-compliant financial innovation, the increasing integration of Islamic financial services into global financial markets serves to strengthen this point.

The cornerstone of corporate governance for financial institutions is the protection of the rights of residual claimants who have entrusted their financial capital to a third party in order to obtain a return on their investment. Good corporate governance encourages capital formation, creates incentives to engage in value-maximizing behaviour, lowers the cost of capital and fosters strong markets. At its heart are structures and processes that require individuals participating in corporate enterprise to exercise professional discretion in a way that demonstrates integrity, judgment and transparency.

The international capital markets value good corporate governance. The past decade or so has witnessed concerted international efforts to raise standards of corporate governance across all major markets. Emerging and sophisticated capital markets alike have sought to ensure the growth, integrity and long-term viability of their markets

Ahmed Al Khan, Head of Investment Banking, Global Banking Corporation gives his take on this compelling topic.

The views expressed in this article are not necessarily the views of the Central Bank of Bahrain



by requiring that issuers of public securities adopt and adhere to proper corporate governance practices.

In 1999, the Basel corporate governance principles set forth standards for the banking sector. Since then, a corporate governance movement has gradually been taking shape in the Gulf region. Numerous conferences have been held on the subject, but actual implementation of reform has generally been slow. Among the most promising changes was the August 2006 enactment of a new Bahrain trust law. It details the obligations of trustees and trust administration service providers and has particular significance for Sukuk issues and other securitizations using trusts.

The Basel II requirements focus on capital adequacy, supervisory review and market discipline, laying the foundation for strong regulatory norms and setting risk protection requirements for stakeholders through stronger and more effective risk management grounded in sound corporate governance and enhanced financial disclosure, the importance of which has been underscored by the recent problems that have arisen in the banking industry worldwide. The Basel II framework also improves the risk sensitivity and accuracy of the criteria for assessing banks' capital adequacy.

The guidance provided by the Islamic Financial Services Board (IFSB) is a useful contribution to the realization of these global corporate governance goals. The IFSB helps to ensure that there are resilient financial market infrastructures and robust core financial institutions operating according to safe and sound risk management practices.

In addition, the guiding principles and standards developed by the IFSB are assisting supervisors globally to better understand and supervise institutions providing Islamic financial services.

Risk management and good corporate governance for the Islamic market is similarly a prerequisite to its successful development. Good

“ Good corporate governance and risk management is central in helping Islamic finance reach its next level of development and in fulfilling its promise of providing investors all over the world with Shari'a-compliant investment opportunities. ”

corporate governance and risk management is therefore, central to helping Islamic finance reach its next level of development and to fulfil the promise of providing investors the world over with Shari'a-compliant investment opportunities.

The importance of robust risk management systems and corporate governance cannot be overstated. Many of the recent problems that have arisen in the banking industry worldwide, such as losses due to accounting improprieties, low underwriting standards and

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inappropriate valuation methodologies – particularly when applied to complex financial instruments – are due to poor corporate governance and inadequate risk management.

Primarily with respect to risk management, banks must have policies and procedures in place in compliance with Basel II requirements that enable them to identify, measure, control and report all material risks. Bank management is primarily responsible for understanding the nature and degree of the risks being undertaken by the institution. While Basel II provides a better framework for the risk management

of complex financial instruments, banks' risk management systems need to be constantly adapted to better address the effects of innovation in the financial markets and the increased complexity and opacity of financial activities in which banks are engaged.

Basel II and the IFSB's exposure drafts on transparency both seek to raise the bar on the quality of financial disclosures by providing clearer industry benchmarks. Enhanced financial disclosure that improves the operational transparency of banks, and complex structured products, valuation, and the measurement of risk exposure can

certainly help to improve overall risk management. In addition, requiring enhanced qualitative disclosures will permit all banks to put their quantitative disclosures into better context and assist them in explaining their approach to risk management.

Today Islamic banking is reaching out beyond regional boundaries and gaining acceptance in new global markets. Strong regulatory norms in risk management and corporate governance have helped Islamic banks to continuously evolve and to set new standards in international Islamic banking.

Fostering growth: The Centre for Islamic Finance

The Centre for Islamic Finance, a key unit of the Bahrain Institute of Banking and Finance, has embarked on a massive expansion strategy to ensure that professional development and education in Islamic finance meet



The Centre for Islamic Finance, a key unit of the Bahrain Institute of Banking and Finance (BIBF), has embarked on a massive expansion strategy, including the recruitment of four new professionals, to ensure that professional development and education in Islamic finance meet the substantial and increasing human resource requirements of the industry.



the substantial and increasing human resource requirements of the industry

With an ambitious agenda which will continue throughout 2008 and into 2009, and a number of new courses either underway or planned, the Centre for

Islamic Finance at the Bahrain Institute of Banking and Finance (BIBF) has been making preparations for the increased activity, including the recruitment of four new professionals.

Mr. Mahmood Al-Shehabi, Head of the Centre for Islamic Finance, said: "It is important that we stay abreast of the industry trends and are able to tailor our offerings according to what the market wants and needs, as well as provide the impetus for research and development in the various specialities of Islamic finance professional development and education."

With this goal in mind, the centre has recently introduced new initiatives, and has several more in the pipeline.

In May 2008, in conjunction with the Association of International Accountants (AIA), the centre launched a Diploma in Islamic Accounting and Compliance, a generalist diploma for those wishing to master the issues relating to Islamic compliance from Shari'a, accounting and operational perspectives. (Source: <http://www.bibf.com/cfif/index.htm>)

The Masters of Science in Islamic Finance (MSIF) will be launched in August 2008, with classes starting in March 2009. The unique programme will provide participants with a strong background in both the science of conventional finance and the dynamics of Islamic finance as it is practiced

today. DePaul University and the highly reputed Kellstadt Graduate School of Business are responsible for the finance specialist stream, while the BIBF's Centre for Islamic Finance is responsible for compiling and delivering the Islamic finance specialist stream. (Source: <http://www.bibf.com/cfif/index.htm>)

As of September 2008, the Advanced Diploma in Islamic Finance will be substantially enhanced with core books covering each topic. Developed by Ernst & Young and sponsored by the Waqf Fund, these books will provide the foundation for professional certification. The Waqf Fund has given around US\$ 300,000 towards the development of these materials, according to a centre spokesperson.

"The centre is also currently involved in assisting the global Islamic finance standards setting body, the Accounting and Audit Organization for Islamic Financial Institutions (AAOIFI), to enhance their professional qualifications and to develop new qualifications that meet the needs of this growing sector of the industry," added Mr Al-Shehabi.

The centre receives substantial contributions from the Waqf Fund, chaired by Mr. Khalid Hamad, Executive Director of Banking Supervision, of the Central Bank of Bahrain, as well as being sponsored by many of Bahrain's Islamic banks.



Master agreements for treasury placement – Managing liquidity better

Expected to be launched after the summer, The Master Agreement Treasury Placement project initiated by the International Islamic Financial Market will offer the industry's first ever benchmark document for managing liquidity through commodity Murabaha.

Since last year, the International Islamic Financial Market (IIFM), with the support of over 40 institutions from eight member jurisdictions, has been developing a Master Agreement Treasury Placement project. The Central Bank of Bahrain, the financial services regulator of IIFM's host country, has been the driving force behind this, as well as other IIFM development initiatives.

The current focus of the IIFM, the Islamic finance industry's capital and money market infrastructure institution, is the development of benchmark documents and wider market products.

Mr Ijlal Alvi, Chief Executive Officer of the IIFM, said: "Compared to conventional industry's standardisation efforts, which have sometimes taken years, the IIFM has made substantial progress in achieving its current

objectives in a relatively short period of 18 months."

He added: "At present, Islamic financial institutions have limited instruments available for the purpose of managing their liquidity. Treasury placement through Shari'a-compliant commodity trades is one of the main products available. Liquidity management through commodity-linked trades has also recently been introduced in other regions, for example in Malaysia, with the Palm Oil Commodity Murabaha Programme, and most recently in Pakistan. The GCC and the UK remain the most active jurisdictions. According to some estimates, the commodity Murabaha market is worth in excess of US\$100 billion."

Through its global working groups the IIFM brings the regulatory bodies, financial institutions and other market participants together on one common platform. In order to enhance cost, time and operational efficiencies, the IIFM's Documentary Convergence Committee has identified the need for standardised documentation for Shari'a-compliant deposit arrangements.

"The market comments exercise was completed on 15th April 2008 and the initiative is currently under final Shari'a guidance. Based on the number of enquiries received by the IIFM, the industry is eagerly awaiting the launch of this groundbreaking initiative and the IIFM is striving to bring the first ever benchmark document to the market after the summer holiday season," said Mr. Alvi.

The project is driven by a number of major financial institutions and the IIFM's Shari'a Panel, which consists of several leading scholars and external legal council, Clifford Chance. The initiative will cater to the broader over the counter (OTC) market, which represents, in some cases, 90% of commodity Murabaha transactions and the arrangements will cover principal to principal, as well as agency.

According to the IIFM, it is also working on other more flexible and widely acceptable liquidity management products and it is hoped that once this is developed, the commodity Murabaha will take a supplemental role in Islamic finance.

Granting of licence allows First Energy Bank to gear up for full scale operations

The Central Bank of Bahrain (CBB) has approved the creation of the world's first bank solely devoted to the energy sector. Bahrain-based First Energy Bank (FEB) has been granted a wholesale operating licence, enabling them to put investor funds to immediate use in energy projects across the MENA region.

"The CBB has long been instrumental in encouraging Bahrain's banking sector to grow and diversify, and the FEB is a prime example of the innovation that exists in the Islamic banking sector today," said Mr Ahmed Al Bassam, Director, Licensing & Policy, at the CBB.

According to the International Energy Agency, world oil demand will grow from 83.6 million barrels per day (mb/d) in 2005 to 116.3 mb/d in 2030, and an estimated US\$8.2 trillion of investment will be required globally in the oil and gas sector through 2030. FEB is therefore committed to investing in projects designed to enhance and increase energy production, and has been created when oil prices are at a record highs.

Esam Janahi, FEB's chairman, was quoted as saying: "There is obviously momentum behind this kind of bank. The over subscription to the capital

raising was impressive. We ended up capping it at US\$1 billion from the initial US\$750 million, despite the fact it was several times oversubscribed."

FEB has an authorised capital of two billion shares at a par value of US\$1 each, of which US\$1 billion is issued and subscribed. FEB's shareholders include a diverse group of organisations and individuals from Bahrain, Saudi Arabia, the UAE, Libya (the primary North African investor is the Libyan Investment Authority), and other countries in the Middle East and North Africa. No single shareholder holds more than 10 per cent of the bank's stock.



Bahrain shares insight into recent advances in banking and finance with Japan

In a series of recent high-level meetings with Japanese delegations, the Governor of the Central Bank of Bahrain, discussed the ongoing economic ties between the two countries, as well as highlighting the crucial role that Bahrain's financial services sector is playing in the advancement of the kingdom's economy, and in particular, the contribution of Islamic finance.

Since opening diplomatic relations in 1988, Japan and Bahrain have maintained a fruitful dialogue. Economic ties between the two countries have continued to improve, especially after the signing of several multi-million dollar contracts between Japanese firms and Bapco, Alba and the Electricity and Water Ministry in Bahrain in 2005 (Source: Japanese Embassy to Bahrain - <http://www.bh.emb-japan.go.jp/japanPushes.htm>).

Trade with Japan accounts for approximately 33.5 per cent of Bahrain's world trade, with the volume increasing steadily in recent years (Source: Ministry for Foreign Affairs of Japan - http://www.mofa.go.jp/region/middle_e/bahrain/index.html).

This year saw the establishment of the Japan-Bahrain Parliamentary Friendship League and the Bahrain-Japan Inter-Parliamentary Friendship Group, both initiatives which will further develop bilateral relations. At that time, the Ministry for Foreign Affairs of Japan confirmed that talks are underway to establish a Japan-GCC free trade agreement, and that both the Japanese and Bahraini governments share the intention to promote cooperative relationship between their respective private sectors, including the financial and tourism industries (Source: Ministry for Foreign Affairs of Japan - http://www.mofa.go.jp/region/middle_e/



H. E. Rasheed Mohammed Al Maraj
Governor of the CBB

bahrain/joint0802.html).

It was within this wider context that Mr. Rasheed M. Al Maraj, Governor of the Central Bank of Bahrain (CBB), met H.E. Hiroshi Okuda, Special Advisor to the Prime Minister of Japan and his accompanying delegation. The two sides discussed the development and growth of the banking and financial sectors in Bahrain and Japan. Areas of particular interest for Mr. Okuda included the CBB's experience in and knowledge of Islamic finance.

Mr. Al Maraj talked about Bahrain's pioneering role in Islamic Finance and the emphasis placed upon setting up the necessary foundation for its development.

He explained: "As a well-established financial centre, Bahrain has played a key role in innovation and development of Islamic banking, which is one of the fastest growing segments of Bahrain's financial services industry."

Mr. Al Maraj also met a high-profile Japanese parliamentary delegation led by H.E. Mr. Rytaro Tanose, currently a Member of the Budget Committee.

FACTFILE

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| Regulator: | Central Bank of Bahrain |
| Financial Institutions: | 409 (July 2008) |
| Financial Sector Workforce: | 11,960 (2007) |
| Bahraini nationals | 8,248 (69%) |
| Foreign nationals | 3,712 (31%) |
| Key Economic Indicators: | |
| GDP (Current) | US\$15.8 billion (2006) |
| Growth | 17% |
| GDP (Constant) | US\$10.9 billion (2006) |
| Growth | 6.9% |
| Financial Sector contribution to GDP | 25.5% |
| Sovereign rating | A (S&P 2007) |
| | A (Fitch 2007) |
| Population | 742,500 (2006) |
| Banking Sector: | |
| Assets | US\$259 billion (May 2008) |
| No. of institutions | 125 (July 2008) |
| Retail banks | 24 |
| Locally incorporated | 9 |
| Branches of foreign banks | 15 |
| Wholesale banks | 65 |
| Representative offices | 36 |
| Islamic Banks (included in above): | |
| No. of banks | 26 |
| Assets | US\$18.9 billion (May 2008) |
| Insurance Industry: | |
| No. of firms | 168 (July 2008) |
| Domestic market | |
| Gross premiums | US\$308 million (2006) |
| No. of firms | 35 |
| Locally incorporated insurance firms | 24 |
| Overseas insurance firms (foreign branches) | 11 |
| Brokers restricted to business inside Bahrain | 32 |
| Insurance firms restricted to business outside Bahrain | 38 |
| Brokers restricted to business outside Bahrain | 10 |
| Captives (locally incorporated) | 1 |
| Managers | 1 |
| Representative offices | 6 |
| Loss adjusters | 12 |
| Actuaries | 20 |
| Others | 12 |
| Takaful (Islamic insurance) Firms (included in above) | |
| Takaful firms | 18 |
| ReTakaful firms | 1 |
| Investment Business Firms: | |
| No. of firms | 44 |
| Capital Market: | |
| Market capitalization | US\$30.87 (July 2008) |
| Brokers | 14 |
| Listings Companies | 52 |
| Mutual funds | 42 |
| Bonds | 15 |
| Specialised Licensees: | |
| No. of firms | 15 |
| Money changers | 19 |
| Funds Industry: | |
| Authorised funds | 2,731 (July 2008) |
| NAV | US\$20.23 billion (June 2008) |
| Local funds | 135 |
| NAV | US\$6.79 billion (Mar 2008) |
| Conventional | 78 |
| Islamic | 57 |
| Foreign funds | 2,596 |