THE REVIEW

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CBB welcomes innovation by financial firms

The Central Bank of Bahrain (CBB) is open to innovation by the financial services industry and promotes the development of new products by providing an enabling environment.

The comprehensive regulatory framework for the conventional and Islamic funds industry, developed and refined in recent years, is an example of the CBB's commitment to support the industry it regulates, said Mr. Abdul Rahman Al Baker, Executive Director, Financial Institutions Supervision, at the CBB.

He was speaking at the opening of the 9th Annual World Islamic Funds and Financial Markets Conference (WIFFMC), held in Bahrain on 27 and 28 May 2013. The event, supported by the CBB, was held under the theme 'Creating a Platform for Stable Growth: Strengthening the Global Architecture for the Islamic Investments Industry'.

"In Bahrain, the mutual funds industry is one of the fastest growing segments of the financial sector," said Mr. Al Baker.

With around $8 billion in assets under management, through more than 2,800 funds, the industry has been growing at a good pace in recent years. Overall, there are 96 Islamic funds incorporated and registered in Bahrain with total assets of $1.8 billion, as of March 2013.

"The CBB, through its enabling legislation, promotes the development of new products for investors in both Islamic and conventional finance, while at the same time providing credible regulation in both types of finance," said Mr. Al Baker.

The existing regulatory framework for Collective Investment Undertakings (CIUs) provides for a full range of investment funds catering to various categories of investors, from retail to high net worth individuals and institutional investors. In order to further enhance the existing CIU framework, the CBB has issued Volume 7 of the CBB Rulebook, which provides comprehensive rules and regulations pertaining to the authorisation and supervision of CIUs domiciled in or offered for sale in Bahrain.

The new regulation recognizes the importance of expanding key areas, such as corporate governance, and the role and responsibilities of each party of a scheme.

It also expands the variety of funds that can be established in Bahrain, by introducing rules governing Real Estate Investment Trusts (REITs) and Private Investment Undertakings (PIUs). PIUs are a new breed of mutual funds with a high degree of flexibility in structuring, aimed at facilitating private investments, such as family held investments, single investor or a single investment type. Due to their investment risk characteristics, such schemes can only be offered to high net worth individuals or institutional investors.

In keeping with Bahrain's leadership in Islamic finance, the CIU rules also provide a solid foundation for the establishment and management of Islamic funds.

"Furthermore, the CBB is in the process of finalizing the Securities Offering Module of the Capital Market Rulebook, which contains detailed rules and regulations governing the issuance of sukuk," said Mr. Al Baker.

On its part, the CBB, having pioneered the development of sukuk, remains active in the sovereign sukuk market through the issuance of medium to long term sukuk, complemented by a regular program of short term issuance.

"It is the CBB's hope that such initiatives will go a long way in harmonising market practices and creating a vibrant Islamic capital market," said Mr. Al Baker.

He pointed to the revival of the global sukuk markets this year, following the financial crisis. Sukuk issuance in the first quarter of 2013 had exceeded expectations, reaching a record $35 billion globally, of which sovereign issuance accounted for 62 percent, corporates 23 percent and quasi-sovereign or government-related entities 15 percent.

"Prospects for growth in Islamic securities markets are positive and this trend can be attributed to the rapid expansion and increasing sophistication of the GCC financial markets, as well as the geographical spread of Islamic securities products and services that recorded outstanding growth in Europe, Asia Pacific countries, North Africa as well as Central Asian countries," said Mr. Al Baker.

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Depth needed in Islamic investment industry

The Islamic investment industry needs to mature into a comprehensive financial system, if it is to be able to facilitate the efficient flow of capital across borders and regions, said Mr. Abdul Rahman Al Baker, Executive Director, Financial Institutions Supervision, at the Central Bank of Bahrain (CBB).

Key ingredients for this include a diverse range of financial institutions and products, as well as an enabling Shari'a framework, he told delegates attending the World Islamic Funds and Financial Markets Conference (WIFFMC), held in Bahrain on 27 and 28 May 2013.

The event, supported by the CBB, was held under the theme 'Creating a Platform for Stable Growth: Strengthening the Global Architecture for the Islamic Investments Industry'.

Speaking as he opened the event, Mr. Al Baker pointed to the global growth of Islamic financial assets, worth $1.6 trillion at the end of 2012, and expected to exceed $2 trillion by 2015.

"In order to further enhance growth and strengthen the Islamic investment industry, there are several factors that need to be taken into consideration," said Mr. Al Baker.

First, there is a need to build a financial system that would be able to facilitate effective and efficient capital and trading flows. This requires further development of an Islamic financial system which has the required infrastructure that includes: (i) Islamic financial institutions ranging from banking, takaful, capital market, funds and wealth management entities, (ii) creating a conducive legal and Shari'a framework, and (iii) a financial system that has a comprehensive range of Islamic financial products and services.

Having an active Islamic financial market is a key factor in the growth of the Islamic investment industry, he said. A vibrant Islamic financial market will facilitate fund raising and investment activities and enhance the creation of primary and secondary markets for Islamic financial instruments.

"Some progress has been achieved in this direction. We have seen the primary issuance of globally accepted Islamic financial instruments, such as sukuk. In turn, this global issuance of sukuk has played its role in building the linkages between financial market players, such as issuers and investors, and this has paved the way for the creation of a supply of Islamic financial instruments," said Mr. Al Baker.

"However, it has not yet resulted in active secondary markets. Therefore, a greater focus is needed in this aspect."

It is also important to adopt proper corporate governance practices in the Islamic investment industry in order to enhance investor confidence and to ensure that markets are fair, efficient and transparent. This includes having proper disclosure requirements, adequate disclosure of all terms and conditions of Islamic investment products, as well as transparency in disclosing financial information and indicators.

Creating an adequate regulatory framework for Islamic investment products is another factor to further strengthen the foundations of Islamic investment markets. Such regulation should create the necessary framework for investment products targeting small, medium size, as well as accredited investors, who wish to invest their funds in accordance with Shari'a principles. This regulatory framework should also cater for a wide range of Shari'a-compliant investment products that include equity, sukuk, and various types of Islamic funds.

Mr. Al Baker also stressed the need for sufficient availability of professionals, who are well versed in both capital market matters and knowledge of Shari'a to further develop the Islamic investment industry. This, in turn, will further enhance product development and improve services to investors in the Islamic capital market.

Another critical issue that needs to be addressed is the development of robust national and international liquidity infrastructure, which is currently still underdeveloped in most jurisdictions where Islamic financial services are offered. The development of such framework is necessary not only to reduce the cost of intermediation, but also to enhance the availability of liquid Islamic financial market instruments.

"Finally, it is important to promote innovation of new Islamic instruments and encourage more spending in research and development in order to further enhance the contribution of the Islamic financial industry in the global market," concluded Mr. Al Baker.

Islamic funds industry needs product diversity

The Islamic funds and investments industry is becoming an increasingly important component of global financial markets.

The global issuance of Islamic instruments, especially sukuk, has played a key role in building cross-border linkages between issuers and international investors and has paved the way for the creation of a supply of Islamic financial instruments, said Dr. Khaled Al Fakih, Secretary General of the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI).

Speaking during the opening session of WIFFMC 2013, Dr. Al Fakih said that the increasing issuance of sukuk had not, however, led to the promotion of active and efficient secondary markets.

"While there is real potential for further growth, there are also challenges that the industry needs to address," he added.

Mr. Hasan Aljabri, Chief Executive of SEDCO Capital, said equity still dominates the overall allocation in the Islamic finance industry, representing around 39 per cent of assets under management.

"The industry needs new asset classes like private equity, infrastructure and liquidity products," he said.

Mr. Aljabri pointed out that in 2012, Muslims represented around 25.7 percent of the world population and by 2050 this figure is expected to grow to 30 percent, representing an ever-growing global market with various financial needs for innovative Shari'a-compliant products to meet the demand.

"Investor appetite for Shari'a-compliant investment options is pushing the Islamic funds and investments industry into the mainstream and the increasing demand for quality sukuk has played a key role in this," said Mr. David McLean, organizer of the WIFFMC.

He pointed to recent reports and industry estimates that estimate that sukuk issuance worldwide is set to cross $100 billion again this year.

Record sukuk issuances in 2011-12, says report

The sukuk market has rebounded strongly from the global financial crisis, with sukuk issuances reaching record levels in the last two years, says a study by the Bahrain-based International Islamic Financial Market (IIFM).

Globally, sovereign, quasi sovereign and corporate sukuk issuances totalled $92.4 billion in 2011 and $137.5 billion in 2012, says the 3rd Edition of the IIFM Sukuk Report, released during the World Islamic Funds and Financial Markets Conference (WIFFMC). The event, held in Bahrain on 27 and 28 May 2013, was supported by the Central Bank of Bahrain (CBB).

"The last two years were a record for sukuk issuances and 2013 has also started on a positive note, with sukuk issuances worth $11 billion in January alone," said Mr. Ijlal Alvi, Chief Executive, IIFM.

Growth has been particularly strong in the Far East, with Malaysia continuing to lead the market, while Indonesia was now becoming a major player, he said.

The year 2012 was also a record year in terms of international sukuk issuances. A total of $20 billion worth of international sukuk were issued last year, compared with the pre-crisis record of $13.8 billion. The value of outstanding international sukuk, at the end of March 2013, is estimated at $50 billion.

However, since 2011, the appetite for corporate risk, especially in the GCC region, has been subdued and sovereign issuers have been the main drivers of growth in the sukuk market. As a result, the share of sovereign sukuk has increased to 54 percent, compared with 34 percent during the 2001-2010 period, while the share of corporate sukuk has dropped to 38 percent, from 63 percent.

The Ijara sukuk structure has been the most popular and widely used for both international and domestic sukuk issuance, although in terms of volume Murabaha share in the domestic market is higher than Ijara.

The US Dollar continues to be the favored currency for attracting international investors. Local currency denominated sukuk issuances are likely to see further development in the coming years as more Islamic jurisdictions develop their sukuk markets.

According to the IIFM report, the sukuk market has recovered from its "relatively large dip" from mid-2008 to 2009, when the global financial crisis hit the sukuk market. However, with the restructuring of several defaulting sukuk and establishment of legal certainty for sukuk-holders, investor confidence had returned and the sukuk market looks poised to continue its growth trend in the years ahead.

Continuous innovation, together with more debut sukuk issuances and refinancing of maturing sukuk is likely to maintain a strong pipeline in 2013 and beyond, as countries and corporates look to take advantage of extremely attractive low yields. In addition, the trend of sukuk issuances on fixed profit rate is continuing which is also helping the development of the secondary market for sukuk.

The report also highlights the different sukuk structures used by international issuers as well as sukuk structures used at the domestic level by various jurisdictions active in issuing them.

"Another interesting trend or innovation is sukuk issuance in non-local currency, i.e. an issuer based in the UAE floating a Malaysian Ringgit sukuk or a Malaysian issuer issuing sukuk in Chinese Yuan or Bahrain's Mumtalakat issuing in Malaysian Ringgit," says the report.

"This is also a positive development and will further contribute to the development of the sukuk market."

These issuances have also highlighted the need for currency hedging which is one of the key contributions of the IIFM to the Islamic financial services industry, says the report. Hence, standards developed by IIFM will be extremely beneficial in risk mitigation arising from such sukuk issuances.

"The risk arising from currency or rate of return mismatches can be managed by Islamic hedging documentation and product standards being published by the IIFM and the International Swaps and Derivatives Association (ISDA) and will provide further confidence to investors in sukuk," says the report.

It also finds that the appetite for short term sukuk is far greater than longer tenor sukuk. The trend towards issuing shorter tenor sukuk is increasing and is driven by sovereign issuers through central banks, although Malaysian and some GCC corporate issuers are getting into this segment of the sukuk market and are providing diversity and depth to the local markets, which is essential for the development of a money market.

Bahrain has kept its leading role in short term sukuk issuance and its regular issuances are always oversubscribed. The outlook for short term sukuk is encouraging and it is expected that this segment will continue its growth trend, says the report.

It notes that Bahrain is the first jurisdiction which started the regular issuance of short term sukuk, mostly denominated in Bahraini Dinar, and it continues to improve on its sukuk issuance plan while Indonesia, Pakistan and Turkey are recent entrants in this sukuk market segment.

Asia will continue to dominate sukuk issuance in the short term, due to its deep local currency fixed income market, with Malaysia and Indonesia being the driving force in that region. However, the GCC and broader Middle East pie is expected to get larger with heavy future funding needs due to a healthy pipeline of infrastructure projects coupled with greater participation from corporates in issuing sukuk, says the report.

"Also, in spite of all the significant progress in sukuk issuance, we still believe that the sukuk market is in need of more action and long term plan for sustainable growth and progress which will satisfy investor demand, because it will be difficult for the limited amount of sukuk issuers based in Islamic countries to achieve that satisfaction," concludes the report.

Global Sukuk Issuances (2001- Jan 2013)

Issuer Status	No. of Issues	Value (USD Millions)	% of Total Value
Sovereign	1034	255,506	54%
Corporate	2,743	179,416	38%
Quasi-Sovereign	98	37,762	8%
Total	3,875	472,683	100%

Islamic banks must grow bigger, to compete

Bahrain's Islamic banks must consolidate and become bigger in size if they are to compete effectively with their conventional counterparts, says Mr. Rasheed Mohammed Al Maraj, Governor of the Central Bank of Bahrain (CBB).

Several banks in Bahrain have already merged or are in the process of doing so and the CBB is encouraging this trend, he told the Annual Shari'a Conference of the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI).

The event, held on 15 and 16 April 2013, brought together leading Shari'a scholars and Islamic finance industry practitioners from across the globe. It was held under the patronage of the CBB.

"Most Islamic banks tend to be small-sized and this puts them at a disadvantage in the face of crisis or to compete for business with mega conventional banks," said Mr. Al Maraj. The CBB has so far overseen the mergers of eight banks and work is continuing to bring about more and larger sized entities.

In order to achieve better growth results in the future, the CBB also sees the importance of bringing about more convergence and harmonisation of Islamic finance practices, he said.

Shari'a Consensus

In this regard, the CBB is studying the possibility of establishing a national Shari'a Supervisory Board in order to achieve greater Shari'a consensus among registered Islamic banks in Bahrain.

Mr. Al Maraj urged banks to achieve growth through diversification of business lines and products, expansion of customer bases and utilisation of the best risk management practices in banks' financing and investment undertakings.

He said Islamic banks should undertake measures to restore the confidence that has been shaken because of some wrong practices that led to the financial crisis. However, customer confidence will be restored only through better services and increased transparency.

On its part, the CBB has introduced several new measures to ensure greater disclosure of financial results of banks and returns on investment products. Banks are also being required to establish mechanisms to deal with customer complaints.

More recently, the CBB has examined the fees that banks charge for various customer services and established maximum limits for such fees.

Also speaking at the conference, Shaikh Ibrahim bin Khalifa Al Khalifa, Chairman of the AAOIFI Board of Trustees, said AAOIFI is the international body responsible for developing and issuing standards on Shari'a, accounting, auditing, ethics, and governance for the global Islamic finance industry. The discussions at the Annual Shari'a Conference help AAOIFI in its standard setting work and ensure that AAOIFI's standards remain relevant and continue to support the Islamic finance industry.

"AAOIFI seeks to highlight and debate important issues relating to the application of the Shari'a to Islamic finance products, services and practices, with a view of introducing greater harmonisation and standardisation in the international Islamic finance industry," he said.

Bahrain continues to be the intellectual hub of Islamic finance powered by its deep-rooted institutions.

"With institutions like AAOIFI and a regionally respected regulator like the Central Bank of Bahrain (CBB), the Kingdom will continue to provide guidance to the industry as it grows," said Shaikh Ibrahim.

Although Bahrain lacks size and scale, the Kingdom has qualified manpower with in-depth experience honed over many years, he said.

"With a significant increase in the market share of Islamic banks in the GCC region and given the increasing appetite for Shari'a-compliant financing and investment alternatives, the industry is yet to fully realise its full potential in the region," said Shaikh Ibrahim.

"The recent increased international attention on Islamic finance, in the aftermath of the global financial crisis, presents a unique opportunity for the industry to further strengthen its appeal by attracting investors who are now turning to more ethical products that are based on risk participation."

Shari'a-inspired Finance

Conference participants were of the opinion that Islamic financial institutions now need to reorient themselves so that their products and services are 'Shari'a-inspired' and not just 'Shari'a-compliant'.

The convergence and integration of key components of a holistic Islamic economic system, will set a new growth wave for the Islamic banking and finance industry not only locally, but globally, they said.

According to Kuwait Finance House-Bahrain managing director and chief executive Mr. Abdulhakeem Alkhayyat, the AAOIFI conference is an essential forum to meet and discuss various key issues among participants and specialists.

"AAOIFI continues to lead the way by bringing together the major financial institutions and setting new standards and best practices for Islamic financial institutions," said Mr. Alkhayyat.

The valuable discussions held during the sessions will help steer the Islamic finance industry towards growth and this influence will be felt worldwide as the concept of ethical banking continues to develop and expand, he added.

Discussions at the conference focused on issues relating to the role of Maqassed Al Shari'a (Intents of Shari'a) in directing Islamic contracts, sukuk and products; differences between assets-backed and assets-based securities; relationship between assets and their inherent risks, special purpose vehicle and its role in sukuk structures; effects of non-registration of leased assets in lessor's books from Shari'a, legal and accounting perspectives; stipulations of lenders' benefits from loans; and effect of bankruptcy on restricted investment account holders.

The conference was followed by training courses for AAOIFI's Certified Shari'a Adviser and Auditor (CSAA) and Certified Islamic Professional Accountant (CIPA) programmes. CSAA and CIPA are designed for Islamic finance professionals to gain technical understanding and assist application of AAOIFI standards for Islamic finance operations.

To date, AAOIFI has issued a total of 88 standards for the international Islamic finance industry in the areas of Shari'a, accounting, auditing, ethics and governance. The standards are followed by leading Islamic financial institutions throughout the world and have introduced a progressive degree of harmonisation and standardisation of global Islamic finance practices.

IIFM issues standardised Wakalah Agreement

The International Islamic Financial Market (IIFM) has taken another important positive step by introducing a new standard master agreement for the global Islamic interbank financial market, namely, the Interbank Unrestricted Master Investment Wakalah Agreement.

This global standard document is supplemented with an Operational Guidance Memorandum in order to assist the market potential users in the application process.

IIFM's primary objective of producing this document is to minimize the over reliance on commodity Murabaha in Islamic interbank market transactions and enable Islamic financial institutions (IFIs) to better manage their liquidity requirements, said a statement from the IIFM.

The IIFM Interbank Unrestricted Master Investment Wakalah Agreement is a framework agreement which sets out the terms upon which the Muwakkil (principal) will transfer certain funds to the Wakil as its agent to invest such funds in a Shari'a-compliant manner. Entering into the Master Agreement does not in itself give rise to any transactions. After the Parties have entered into the Master Agreement, they may subsequently enter into Wakalah Investment Transactions which will be subject to and governed by the Master Agreement.

The IIFM agreement is unique from others being used in the market. The distinct features are as follows:

The Agreement

The Agreement is a Master agreement to be used for interbank transactions only between two Islamic financial institutions.

Parties

Under the Agreement, the Muwakkil appoints an IFI as its agent or delegates the Wakil to invest its funds in a Shari'a-compliant manner in exchange for a fee or a fee and a profit share.

Transaction

Once the Muwakkil and the Wakil have entered into the Master Wakalah Agreement, they can enter into a series of Wakalah Investment Transactions under which a deposit in an agreed and specific amount (the Investment Amount) is invested in a pre-determined pool of assets (the Wakalah Pool) for an agreed and specific amount of time (the Investment Period) in relation to which there is an anticipated return (the Anticipated Profit Rate).

Wakalah Pool

The Wakalah Pool may consist of a general treasury pool comprising Shari'a-compliant assets or, at the Wakil's discretion, a segregated pool of assets both of which must be described under the Wakalah Investment Transaction. The Wakalah Pool can then either be managed on a segregated or co-mingled basis.

Profit Sharing

The Anticipated Profit Rate is the rate of profit the Wakil projects that it will earn on the Muwakkil's Investment Amount by investing it in the pre-designated Wakalah Pool. If the actual rate of return exceeds the Anticipated Profit Rate, the Wakil may retain the excess as an incentive payment. If, however, the Anticipated Profit Rate is not met, the Wakil shall only be obliged to return the Actual Profit Rate. Where the Wakil determines that the Actual Profit Rate may be lower than the Anticipated Profit Rate, it is obliged to notify the Muwakkil of the Revised Anticipated Profit Rate.

Wakil Fee

The Wakil is entitled to a fee which is to be fixed and not linked to the Actual/Anticipated Profit Rate. The Wakil Fee will be deducted from the Muwakkil's Maturity Proceeds (i.e. the return of the Investment Amount and the Actual/Anticipated Profit Rate).

Early Termination

Early Termination can be caused by the occurrence of an Event of Default on the part of the Wakil. An Early Termination Date is designated and all Wakalah Investment Transactions are terminated and the Maturity Proceeds are paid in relation to each Wakalah Investment Transaction. A single Wakalah Investment Transaction may be terminated (a) at the request of the Muwakkil with the agreement of the Wakil, (b) at the discretion of the Muwakkil after the receipt of a notice of a Revised Anticipated Profit Rate or (c) on an illegality.

An Early Termination Date is designated for the relevant Wakalah Investment Transaction and the Maturity Proceeds are paid, provided that where the Early Termination Date has occurred at the request of the Muwakkil, the Wakil is entitled to retain an amount from the Maturity Proceeds for actual administrative costs and expenses including opportunity or funding costs.

Indemnity

The Wakil is not bound to indemnify the Muwakkil in case the Investment Amount is lost or where the Anticipated Profit Rate is not reached unless there have been genuine actual losses arising as a result of the Wakil's wilful misconduct, negligence, misrepresentation or breach of the terms and conditions of the Master Wakalah Agreement.

Shari'a Review

The IIFM Shari'a Advisory Panel has approved the Unrestricted Master Wakalah Agreement. The Advisory Panel has not considered or reviewed any individual Wakalah Investment Transactions, nor any amendments or additions to the Master Agreement.

Operational Guidance

The Operational Guidance Memorandum for this Wakalah agreement is one of the unique features of IIFM's efforts to enhance the development of the Islamic finance industry. The industry will find this Memorandum very useful as it explains how the standard is to be used and because it provides very comprehensive recommendations. This much-awaited documentation is considered by many market observers as another milestone in in the standardisation and harmonisation of Islamic finance across the globe with the hope that this welcome achievement by IIFM will catalyze the use of Unrestricted Wakalah in the Islamic interbank market and will encourage all jurisdictions to implement this IIFM standard as well as address any accounting or regulatory requirements in their respective jurisdictions.

IIFM's primary objective of producing this document is to minimize the over reliance on commodity Murabaha in Islamic interbank market transactions and enable Islamic financial institutions (IFIs) to better manage their liquidity requirements, said a statement from the IIFM.

Spotlight on ethical issues in Islamic banks

The Waqf Fund held its 6th Roundtable Discussion on 'Ethical Checks and Balances in an Islamic Bank'. The Roundtable, held on 26 May 2013, was attended by a select group including C-suite executives from Waqf Fund member institutions, prominent Shari'a scholars, Waqf Fund board members, representatives of professional firms and Central Bank of Bahrain (CBB) officials. About 30 people attended the event, which discussed the ethical issues facing Islamic banks and measures to ensure conformity with high ethical standards.

Mr. Khalid Hamad, Executive Director, Banking Supervision, at the CBB and Chairman of the Waqf Fund, welcomed the participants and outlined the agenda for discussion. The Roundtable started with a comprehensive presentation from Dr. Fuad Al Omar, Chairman of Khaleeji Commercial Bank. It was followed by open discussion among the participants.

Dr. Al Omar explained that ethics and ethical conduct have a special place in Islam. Islamic banks are, therefore, expected to demonstrate superior ethical conduct in their everyday affairs. The trust of the general public in Islamic banks can be shattered if they see unethical business practices. The Islamic banking industry globally needs to improve in this area. He narrated research studies showing that it pays to be ethical. Ethical institutions typically attract better and more committed employees, have better brand recognition with customers and suppliers and, as a result, enhance shareholder value in the long-term. Integrity, honesty and transparency are the most important components of ethics in Islamic banking. Islam also emphasizes self-regulation, self-evaluation and continuous monitoring and review of one's own acts.

The following are some of the key recommendations and ideas that were discussed at the Roundtable:

- A sense of accountability before Allah should be infused at all levels in an Islamic financial institution in order to introduce a moral dimension for ethical compliance.
- Financial incentives for bank managements should be holistic and structured in such a way that they do not create ethical issues, e.g. accrual system for out of the ordinary and large bonuses or claw-back provisions would reduce the temptation to show short-term performance at the cost of long-term value enhancement.
- There should be ethical standards for the Board and top management of an Islamic bank; a code of conduct should be adopted by the bank and ethics training should be made mandatory for the senior leadership.
- The primary responsibility of creating an ethical culture in the bank rests with the leadership which should lead by example, by selecting the right people at the time of recruitment and by creating an ethics-conscious system that filters out the wrong-doers.
- An appropriate governance structure which does not leave excessive power in the CEO's hands is an important factor in creating ethical checks and balances in an Islamic bank.
- An annual ethics training programme should be introduced, especially for high risk profile employees.
- The profitability of Islamic banks should not be measured only on the basis of their financial returns but their economic and social returns should also be taken into consideration (the concept of triple bottom line), and should be published in their annual reports.
- Conflict of interest situations should be avoided while keeping in mind the social and political structures prevalent in the GCC countries.
- A market survey of actual ethical practices of Islamic banks should be undertaken to have a better understanding of the current situation.
- A real life case study from this region (GCC/Middle East) should be conducted in order to identify what happened, how it happened, who was responsible, etc.
- Islamic banks should have more disclosures for the sake of greater transparency.
- The Shari'a board may be given additional responsibility to help infuse an ethical culture in the institution.

Mr. Hamad informed the audience that the conclusions reached and recommendations provided by the Roundtable Discussion will be compiled and submitted to the CBB for its consideration.

Corporate governance a major challenge for takaful

Corporate governance continues to be a challenge for the takaful (Islamic insurance) industry, says a senior Central Bank of Bahrain (CBB) official.

Highlighting the many challenges facing the industry, as it grows both in the region and across the Islamic world and further afield, Mr. Abdul Rahman Al Baker, Executive Director, Financial Institutions Supervision, at the CBB, pointed to corporate governance as a major challenge.

"In contrast to policyholders in a conventional mutual insurance company who are owners of the company, participants in general meetings and have the right to remove the management, takaful policyholders have no such governance structures or rights although they are exposed to similar risks," he said at the opening session of the Deloitte executive roundtable on the global takaful market, held on 12 June 2013.

"They must rely on market competition to get a fair deal and good value for money in their dealings with the takaful operator."

He said that standardisation of takaful accounting standards and disclosure, especially those related to capital adequacy and solvency disclosures, was a challenge as was the lack of human resources with the necessary experience in takaful business.

"One of the most critical challenges facing the takaful industry is the limited availability of Islamic investment instruments, such as sukuk, which are the most suitable types of investment for takaful companies," said Mr. Al Baker.

Another challenge is with respect to offering micro-takaful to address the needs of lower income individuals in society as well as finding the appropriate distribution channels to offer takaful assurance services through banks, he said.

"The future prospects of the takaful industry will largely depend on the combined efforts of all relevant parties, including regulators, market players and the community at large, to chart a strategic direction for the industry," said Mr. Al Baker.

Global takaful contributions amounted to around $13.7 billion in 2010, which was an increase of 23 per cent over the previous year, he said. Of this, the GCC market contributed $5.7 billion, or 41 percent, of global takaful contributions in 2010.

Rules on way to develop microfinance in Bahrain

The Central Bank of Bahrain (CBB) is developing rules to govern the fledgling microfinance industry. The proposed rules have been issued for consultation, in line with CBB's established practice to consult the industry and interested parties prior to the issuance of any new rules. Mrs. Batool Al-Khaja, Senior Financial Institutions Researcher, at the CBB explains the CBB approach to microfinance and the next steps.

Customarily, individuals wishing to start a new business, need to apply for a loan. However this approach has proven to be an obstacle for people of lesser means. To overcome this issue, and with the prime objective of contributing to poverty alleviation and socio-economic empowerment of the community, two microfinance institutions (MFIs), namely, Ebdaa Bank and Family Bank, have been established in Bahrain. The two microfinance institutions provide financing to eligible customers, with the Family Bank being a Shari'a-compliant institution.

For the purpose of developing appropriate rules for the microfinance industry, the CBB held several meetings and discussions with representatives from the currently licensed MFIs, and developed relevant and practical rules for this license type. In May 2013, the CBB issued draft rules for consultation on specific modules for MFIs, as part of its framework for Specialised Licensees (Rulebook Volume 5), which includes a collection of common modules as well as specific modules tailored for each licensee type. The specific modules contain rules and guidance tailored for microfinance activities and, in combination with the 'Common Modules' issued earlier, will constitute a complete Rulebook for MFIs.

The proposed microfinance modules have been designed to encapsulate some degree of flexibility in light of the unique characteristics of microfinance vis-à-vis conventional retail banking, and to apply a balanced regulatory framework that does not add significant burden to MFIs. The proposed rules, which were issued to the industry for comments and feedback, include Authorisation, High-Level Controls, General Requirements, Capital Adequacy and Liquidity Requirements, Business Conduct, CBB Reporting, and Public Disclosure.

The Authorisation Module sets out the CBB approach to licensing providers of regulated microfinance services in the Kingdom of Bahrain. It also sets out the CBB requirements for approving persons undertaking key functions in those institutions. The microfinance activities regulated by the CBB are: providing conventional or Shari'a-compliant microfinance to eligible beneficiaries; and providing consultancy and information services to eligible beneficiaries and prospective eligible beneficiaries. Eligible beneficiaries are defined as: Low income individuals, who are not eligible to secure financing facilities through the banking system and who intend to get a credit facility to engage in small economic activities (examples: small farmers, fishermen, related activities etc.).

The High-Level Controls Module presents requirements that have to be met by microfinance licensees with respect to corporate governance principles issued by the Ministry of Industry and Commerce as the Corporate Governance Code; and international best practice corporate governance standards set by bodies such as the Basel Committee on Banking Supervision; and related high-level controls and policies.

The General Requirements Module includes general requirements on books and records, the use of corporate and trade names, the distribution of dividends, controllers, close links and cessation of business.

The Capital Adequacy and Liquidity Requirements Module sets out the minimum capital requirements which microfinance institutions must meet, as a condition of their licensing, which is BD5 million of paid-up capital. This Module also requires MFIs to maintain net liquid assets in a form acceptable to the CBB, in a minimum amount of three months' estimated expenditures including salaries, rent, general utilities and other operating costs.

The Business Conduct Module contains rules that aim to ensure that MFIs deal with their customers in a fair and open manner, and address their customers' information needs.

The CBB Reporting Requirements Module sets out requirements regarding reporting to the CBB. These include the provision of financial information to the CBB by way of prudential returns, as well as notification to the CBB of certain specified events, some of which require prior CBB approval. Tailored statutory returns have been designed specifically for MFIs.

Finally, the Public Disclosure Requirements Module sets out the detailed qualitative and quantitative public disclosure requirements that MFIs should adhere to. The requirements are aimed at enhancing corporate governance and financial transparency through better public disclosure.

UNDP Role

Prior to the issuance of the proposed rulebook modules related to MFIs to the industry, as part of the consultation process, the CBB had provided the modules to the United Nations Development Programme (UNDP) for review. UNDP officials support the initiative of developing special rules tailor-made to MFIs and provided valuable feedback aimed at identifying issues that might contradict current microfinance practices. The CBB had carefully considered all of the comments and feedback.

Consultation Process

MFIs proposed specific modules are now on the CBB website on its consultation page. The deadline for receiving industry comments is 8 July 2013. Subsequent to the consultation period, the CBB will take careful note of the comments provided by the relevant licensees and will try to ensure that the regulatory approach is firm but flexible to accommodate the unique nature of microfinance activities.

> The CBB held several meetings and discussions with representatives from the currently licensed MFIs, and developed relevant and practical rules for this license type.

Bahrain banks on solid growth path, says key report

Bahrain's banking sector is on the road to recovery, with marked improvement in some key performance indicators. Indeed, in terms of total assets, Bahrain-domiciled banks have exceeded pre-crisis levels, reveals the *Bahrain Banks Annual Review 2012*, published by the Bahrain Association of Banks (BAB) and the Bahrain Institute of Banking and Finance (BIBF).

The report offers a vital and in-depth snapshot of Bahrain's banking sector over the 2007-2011 period, covering the global financial crisis as well as the pre- and post-crisis years. It also provides critical analysis on 42 Bahrain-domiciled banks, both wholesale and retail conventional and Islamic banks.

In a Foreword in the report, Mr. Rasheed Mohammed Al Maraj, Governor of the Central Bank of Bahrain, says: "The banking industry is undergoing an era of major change, locally and globally. Bahrain's banking sector is no exception. Highlighting the role of the Central Bank of Bahrain's (CBB) model in regulation, innovation and efficiency and through the collaboration of the Bahrain Institute of Banking and Finance's (BIBF) Centre for Research and the Bahrain Association of Banks (BAB), this review is an important step in not only highlighting Bahrain's leading position as an international/regional financial centre but its strategic approach to delivering a world-class regulatory environment."

In his Foreword in the report, Mr. Abdulkarim Bucheery, Chairman of BAB and Chief Executive of the Bank of Bahrain and Kuwait (BBK), points out that this is the first time that historical banking data for all banks domiciled in Bahrain is available in a single publication which will be produced on an annual basis.

The data, spanning five years, covers all the vital areas, from the banks' asset size and net profit to more complex statistics and includes a valuable comparison with the banking sector in other Gulf Cooperation Council (GCC) countries.

Wholesale Banks Dominate

In terms of structure of the Bahrain banking industry, wholesale banks continue to dominate the sector, as their share as a proportion of total banking assets is 53 percent in 2011.

Retail banks, in contrast, have shown impressive growth, increasing their asset share from 34 percent in 2007 to 47 percent in 2011. In terms of net profit, retail banks had a very impressive year with profits increasing by 85 percent, compared with 2010. Wholesale banks also had a good run in 2011, turning their losses of $807 million in 2010 to a profit of $765 million in 2011.

Bahraini domiciled wholesale banks are 28, of which 17 were Islamic banks, in 2011. The segment had its golden period in 2007, with profits soaring to a high of $1.2 billion.

Islamic Finance

Bahrain is globally recognised as a leading Islamic finance hub and the country hosted the largest number of Islamic banks in the GCC region. As of December 2011, there were six Islamic retail banks and 17 Islamic wholesale banks incorporated in Bahrain. In 2011, Islamic banks accounted for around 35 percent of Bahrain's banking sector assets.

Islamic banks have been increasing their share in total banking assets, from 21 percent in 2007 to 35 percent in 2011. The sector has also been growing at a much faster rate, posting a 4 percent increase in assets in 2011, compared with the overall banking assets growth of 1 percent that year. In terms of net income, after two consecutive years of losses of $1.4 billion in 2010 and $1.0 billion in 2009, Islamic banks showed signs of recovery in 2011 with a net profit of $159 million.

The *Bahrain Banks Annual Review 2012* also highlights another area which is moving in the right direction. Non-Performing Loans (NPLs) peaked at 6.16 percent in 2010, declining to 5.79 percent in 2011 but well off the 1.92 percent low of pre-crisis 2007.

Loans and advances accounted for more than 60 percent of the asset base of Bahrain's banks in 2011. This is followed by derivatives and investment securities and loans to other financial institutions as the top three sources of assets. In fact, there has been little change over the past five years in the asset structure of Bahrain's banks. However, in 2011, Bahrain banks have been cautious with the main increase coming via portfolios of cash and non-earning assets.

For the period under review, banking sector assets showed a Compound Annual Growth Rate (CAGR) of 0.15 percent. Although there is a decline in the growth rate of the asset book of Bahrain's banks in 2011, compared with 2010 when the asset book increased by 5 percent, it seems that a new phase of development for Bahrain banks has started which is marked by sustainable growth and increasing profitability.

Like other GCC markets, the Bahrain banking sector is marked by a concentration of assets with the leading banks accounting for the lion's share of the market. The top five banks in Bahrain account for 70 percent of total assets.

Bahrain's largest bank by assets, Ahli United Bank (AUB), grew by 7 percent in 2011 to $28.3 billion. Arab Banking Corporation (ABC) fell to second place with assets of $25.1 billion, from $28.1 billion in 2010. Al Baraka Banking Corporation saw its assets rise by 8 percent to $7.2 billion in 2011. It was followed by Gulf International Bank (GIB) which also recorded an 8 percent jump in assets to $16.8 billion. BBK was fifth placed after recording a 13 percent jump in assets to $7.4 billion. Ithmaar Bank, National Bank of Bahrain (NBB), Kuwait Finance House (Bahrain), Arcapita and Investcorp made up the remaining banks in the top ten.

According to the report, the outlook for banking in the GCC region is quite strong, given the unique geographic and fiscal position of the region, the emergence of a growing market for Islamic financial products and the potential for optimisation in the business models of GCC banks.

The report notes that the GCC is one of the fastest growing regions in the world. The six nations of the GCC had a combined nominal GDP of $1.4 trillion in 2011. Since then, GDP of the GCC has almost quadrupled, growing at a compound annual growth rate (CAGR) of 14.2 percent.

Banks in the region have robust fundamentals, with very strong liquidity and capital adequacy ratios. GCC banks are funded by a high amount of short-term deposits which are cheaper compared to long-term funding sources. GCC banks also have low exposure to distressed assets and, as a result, have now entered a new phase of development with more sustainable growth and increased profitability.

Bahrain banks rebound strongly in Q1 2013

The combined net profits of Bahrain's banks nearly doubled to \$1.1 billion in the first three months of this year, compared with \$427 million in cumulative profits during the same period in 2012.

According to data compiled by the Central Bank of Bahrain (CBB), the rebound in profits was across all sectors of the banking industry, i.e. conventional wholesale and retail banks, as well as Islamic wholesale and retail banks.

The CBB revealed that the rebound in profits is a reflection of the recovery in Bahrain’s banking sector. Despite a relatively weak global economic environment, banks have been able to capitalize on a strengthening domestic and regional environment.

The consolidated balance sheet of Bahrain's banking system rose to \$195.3 billion at March-end 2013, its highest level in nearly one year and up nearly 5 percent over the December 2012 figure of \$186.3 billion.

Bahrain's retail banking industry continued to post steady growth, both in its loan portfolio as well as assets, reflecting the recovery of the domestic economy.

Conventional retail banks saw net profits more than doubled to BD191.9 million (\$509 million) during the first quarter of this year, compared to BD94 million during the same time last year. Retail banks' cumulative loan portfolio (to non-bank customers) grew to BD7 billion at March-end 2013. Of this, loans to the business sector grew to BD4.4 billion, from BD4.2 billion at March-end 2012, while personal loans grew to BD2.4 billion, from BD2.1 billion at the end of March 2012.

Bahrain's conventional wholesale banking industry saw net profits soar by 365 percent to \$515 million during the first quarter of 2013, compared to \$110 million at the same time last year.

The Islamic banking industry, both wholesale and retail banks, also posted a healthy increase in profits to \$85.5 million for the first quarter of 2013, compared with \$67.1 million during the corresponding period last year.

The CBB has made concerted efforts to strengthen Bahrain's regulatory environment and in doing so, the CBB has worked to improve regulations, particularly those related to risk management, and encouraging banking consolidation.

The CBB is committed to ensuring the soundness of banks as well as the banking system and work closely with the banking industry to maintain a robust financial sector that will continue to make a significant contribution to Bahrain’s economy.

The CBB stresses that adhering to banking standards and best practices will lead to the strengthening of the business environment and will enhance the status of the financial sector and its ability to cope with risks resulting from fluctuations in the economic cycle. The CBB will also continue with its policy to encourage mergers in the banking sector which will lead to the creation of large entities capable of dealing with the developments in the local and international markets.

Healthy return to profitability by Bahrain banks

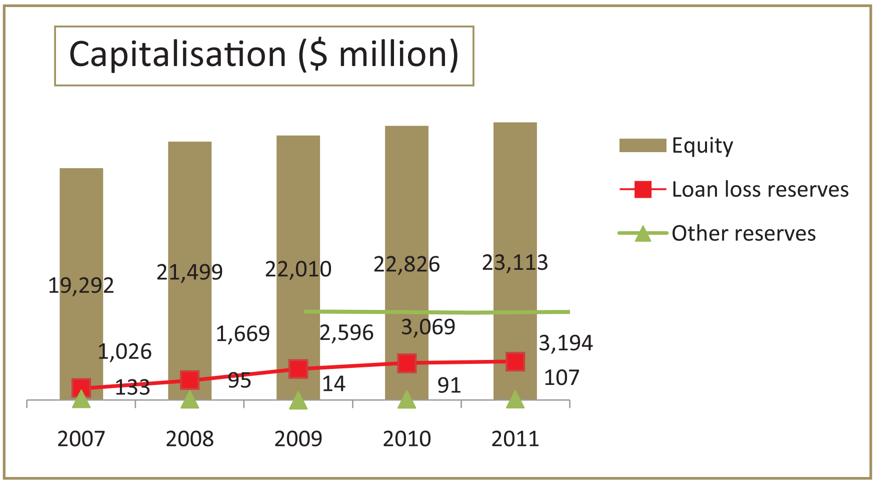
After two difficult years of negative profits, banks in Bahrain registered impressive growth in 2011, in terms of net profit, the most closely watched indicator in banking. The profits of the banks reviewed increased by \$1.8 billion (after losses of \$538 million in 2010) to reach \$1.26 billion in 2011. Though the banks are nowhere close to the pre-crisis level of 2007, this is the highest growth registered during the 2007-2011 period, says the *Bahrain Banks Annual Review 2012*.

The Bahrain Banks Annual Review 2012, published by the Bahrain Institute of Banking and Finance (BIBF) and the Bahrain Association of Banks (BAB), offers a vital and in-depth snapshot of Bahrain’s banking sector over a five-year period, covering the global financial crisis as well as the pre- and post-crisis years. It also provides critical analysis on 42 Bahrain-domiciled banks, both retail and wholesale and conventional and Islamic banks.

Bahrain’s banks have always been very strong when it comes to liquidity and capitalisation. Capitalisation levels remained more or less stable with banks not deploying any excess capital given a tendency to risk aversion and a perceived lack of business growth opportunities.

According to the report, Bahrain’s banking industry is showing signs that its recovery is gaining momentum as is revealed by the marked improvement in key areas. This is likely to continue as banking consolidation takes pace and fiscal disciplines, such as increased Tier One Capital, are adopted by banks as a result of Basel III.

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.



CBB officials hold talks with bankers association

Senior officials of the Central Bank of Bahrain (CBB) held a meeting with the newly-elected Board members of the Bahrain Association of Banks (BAB).

The meeting, held on 25 June 2013, was chaired by Mr. Rasheed Mohammed Al Maraj, Governor of the CBB.

Mr. Al Maraj congratulated the new Board members, led by BAB's new Chairman, Mr. Abdul Razak Al Qassim, who is Chief Executive Officer of the National Bank of Bahrain.

"We are very happy to see this renewed interest from the banking industry; rest assured the CBB will extend its full support to promote BAB's mission in serving the banking sector," said Mr. Al Maraj.

The meeting highlighted major upcoming events such as the BAB's reception during the IMF-World Bank meetings in October 2013, the annual gala dinner hosted by BAB under the patronage of HRH the Crown Prince, and the 20th anniversary of the World Islamic Banking Conference in December 2013.

The meeting discussed several open consultations issued by the CBB which are currently under review by the banks.

CBB officials informed BAB about its recent review of banking fees and charges for services offered by banks to their customers. The review found large variations in fees, which were, in some cases, unreasonably high.

Seen at the meeting are, from left,Mr. Adnan Yousif, Mr. Adel Al Labban, Mr. Abdul RazakQassim, Mr. Al Maraj, Mr. Khalil Nuruldin, Dr.Farid Al Mulla, and Mr. Robert Ainey.

CBB officials stressed the need for a fair and adequate level of charges, which reflect the cost of providing the service.

BAB Board members expressed their concern about the involvement of the CBB, as a regulator, in setting the level of fees which, they said, is a departure from the policy of free market and open competition.

The Governor asked the banks to be more realistic and reasonable when it comes to the charges imposed on retail customers and indicated that the CBB would take appropriate action to better serve the customers in Bahrain.

"The CBB introduced a code of conduct protocol in 2007 to ensure protection of consumers' interest and adherence to best practices," said Mr. Al Maraj.

He also briefed the meeting on the recent mergers in the banking sector and indicated the support and encouragement of the CBB for further consolidation in the sector, to strengthen the locally incorporated banks in light of recent developments in the global banking industry.

Members of the BAB Board who were present at the meeting included Mr. Adel Al Labban, Mr. Adnan Yousif, Dr. Farid Al Mulla, Mr. Khalil Nuruldin. Also present were Mr. Robert Ainey, Chief Executive Officer of BAB, besides CBB officials.

BIBF gets new deputy director

Dr. Al Shaikh

Dr. Ahmed Al Shaikh has been appointed Deputy Director of the Bahrain Institute of Banking and Finance (BIBF).

Dr. Al Shaikh, whose appointment was announced in May 2013, brings a wealth of experience to the BIBF that will reinforce its strategy of being the region's foremost business and finance education and training provider.

In a statement, Dr Al Shaikh noted that BIBF is one of the best-known institutes in the region and, as a not-for-profit organisation, should focus on delivering high quality education.

"I am extremely passionate about education, and aim to focus that passion to make BIBF the institute of choice locally and internationally for developing human capital," he said.

Dr. Al Shaikh's previous roles include a number of high profile leadership positions. Most recently, he was Vice-President, Enterprise and Human Capital Development, at Tamkeen, a Government-backed initiative aimed at supporting Bahrain's private sector. As part of the original management group, Dr. Al Shaikh was responsible for executing the Human Resources Development and Private Sector Support initiatives which constituted a major element of the Labour Market Reform Project and Tamkeen's mandate.

He has spent more than 16 years in higher education, holding various positions in the College of Business Administration at the University of Bahrain. He played a major role in executing several strategies in his capacity as Chairman of the Economics and Financial Department and Director of Continuing Management Education Programme.

Dr Al Shaikh also lectured at the University of Maryland, in the United States, and the BIBF. At the University of Bahrain, he established the evening programme of the College of Business Administration and also the Bachelors of Science Programme in Banking and Finance.

Dr. Al Shaikh has held a variety of consultancy roles including initiatives such as the 'Productivity in Bahrain Manufacturing Industries', 'Privatization in Bahrain', and 'Refining and Adjusting Aspects of the Macro-Economic Forecast for Interactive Multimedia in GCC countries'.

He is currently a Board Member of the College of Health Sciences and Talal Abu-Ghazaleh University. He was a Board Member of Capinnova Investment Bank, Higher Council for Vocational Training, and was part of the BIBF Advisory Group.

Dr Al Shaikh holds a Ph.D. in Economics and a Master's degree in Economic Development from Leicester University, United Kingdom. He also holds a Post Graduate Degree in Economics from the University of East Anglia, and a B.Sc. in Business Administration from the University of Bahrain.

Call for pan-Arab banking cooperation

Bahrain called on the Arab world to step up banking cooperation in order to maintain economic stability, promote sustained development and combat the volatile global situation.

"Arab countries must wake up to the potential detrimental repercussions of the current political, economic and social upheavals," said His Royal Highness Prime Minister Prince Khalifa bin Salman Al Khalifa.

The Premier was speaking as he received board members of the Union of Arab Banks (UAB), who were in Bahrain for a major conference, held on 3 and 4 April 2013. The event was organised under the patronage of the Premier with the cooperation of the Central Bank of Bahrain (CBB). It was held under the theme 'Requirements for Sustainable Socio-Economic Development'.

More than 200 delegates, representing 103 banks from 22 countries, took part in the event, which was held in Bahrain for the first time.

Speaking at the opening of the conference, Mr. Rasheed Mohammed Al Maraj, Governor of the CBB, said the Arab banking sector was posting profitable results, despite the difficult global economic situation.

"This reflects the professional standards of the Arab banking sector and a commitment to compliance and international best practice which allows us to improve risk management," said Mr. Al Maraj.

"This has allowed the industry to improve profit levels while maintaining the integrity of deals."

He said the banking sector is passing through a delicate phase and this requires institutions to adopt strict compliance measures to maintain efficiencies in the banking sector.

"The CBB is committed to applying the best international standards, including the new Basel III framework on capital adequacy," added Mr. Al Maraj.

Mr. Adnan Ahmed Yousif, Chairman of the UAB, said 80 percent of Arab banks are in a position to meet new international regulations on the level of reserves they need to hold, while all banks in Bahrain meet these standards.

Mr. Yousif, who is also Chief Executive of the Bahrain-based Al Baraka Banking Group, said the Arab banking industry was well prepared to implement the Basel III international regulations which require banks to strengthen their reserves and liquidity. The international standards are coming into force in various jurisdictions in the next few years.

In his keynote address at the conference, Mr. Yousif said that the role of the UAB was to encourage development across the Arab world and promote investment in Arab countries and to see that the private sector works with the public sector in achieving this.

"Unemployment across the Arab world is now running at around 16 percent and it is up to the private sector to work with the public sector and the banking industry to deal with this problem," he said.

Mr. Yousif said the UAB has made steady progress with its member banks by looking at the challenges that face the Arab world, in terms of legislation requirements.

He praised Bahrain for its pioneering role in the development of Arab banking, both in terms of conventional finance and Islamic finance.

"The Kingdom has led the way in finance in the region and that is why today it has 114 banking institutions and more than 400 financial institutions, contributing 17 percent of the country's gross domestic product and employing in excess of 14,000 people of whom two-thirds are Bahraini," said Mr. Yousif.

The aim of the conference was to shed light on the significance of socio-economic development in the Arab world, boosting inter-Arab investments, creation of job opportunities for Arab youth, combating poverty and mobilising the public and the private sectors to usher in reconstruction and restoration in countries that suffered from unrest.

Discussions at the event focused on such topics as investing in human and natural resources; availability of capital; facilitating investment; boosting the private sector as a key partner in development; and benefiting from large Arab banks' potential for promoting development in Arab countries.

Julius Baer sets up Bahrain unit

The Central Bank of Bahrain (CBB) has granted an Investment Firm licence to Julius Baer Group to establish a wholly-owned subsidiary in the Kingdom.

Julius Baer is a leading Swiss private banking group with a focus on servicing and advising sophisticated private clients and it is a premium brand in global wealth management. Julius Baer's total client assets amounted to CHF 309 billion ($329.8 billion) as at 30 April 2013, with assets under management accounting for CHF 220 billion.

Bank Julius Baer & Co. Ltd., the renowned Swiss private bank with origins dating back to 1890, is the principal operating company of Julius Baer Group Ltd., whose shares are listed on the SIX Swiss Exchange (ticker symbol: BAER) and form part of the Swiss Market Index (SMI) of the 20 largest and most liquid Swiss stocks.

Mr. Ahmed Abdulaziz AlBassam, Director, Licensing & Policy, at the CBB, said: "We welcome Julius Baer's decision to expand its operations in the region by establishing a subsidiary in the Kingdom of Bahrain.

"The presence of a subsidiary of a reputable institution such as the leading Swiss private banking group Julius Baer is an added value to the leading role that Bahrain holds as a financial center in the region."

Licence for NextCare Bahrain

The Central Bank of Bahrain (CBB) has granted a license to NextCare Holding W.L.L. to establish NextCare Bahrain B.S.C. in the Kingdom of Bahrain.

NextCare Holding is incorporated in Bahrain with a paid up capital of $8 million. In 2006, it became a member of Germany's Allianz Group.

NextCare Holding has subsidiaries in the UAE, Egypt, Lebanon and Saudi Arabia. The company and its subsidiaries specialize in insurance ancillary services, such as processing medical insurance claims and customer support.

"We are pleased to license NextCare Bahrain and look forward to the company expanding its services in the Middle East and North Africa," said Mr. Ahmed Abdulaziz Al Bassam, Director, Licensing & Policy, at the CBB.

"Recent statistics shows rapid growth in health insurance which points to potential opportunities in the Middle East and North Africa region."

Financial Sector Fact Sheet

Regulator: Central Bank of Bahrain
Financial Institutions: 411 (May 2013)
Financial Sector Workforce: 14,009 (2012)
Bahraini nationals 9,253 (66%)
Foreign nationals 4,756 (34 %)

Key Economic Indicators

GDP (Current) US$30.4 billion (2012)
Growth 4.1% (2012)
GDP (Constant) US$27.1 billion (2012)
Growth 3.4% (2012)

Financial Sector contribution to GDP 16.8%
Sovereign Rating
  BBB (S&P Dec 2011) with stable outlook
  BBB (Fitch Dec 2011) with stable outlook
Population 1,195,020 (2011)

Banking Sector

Assets US$190.2 billion (May 2013)
No. of institutions 114 (May 2013)
Retail banks 28
  Locally incorporated 13
  Branches of foreign banks 15
Wholesale Banks 73
Representative Offices 12
Bank Society 1

Islamic Banks (included in left):
No. of banks 26 (May 2013)
Assets US$25.8 billion (May 2013)

Insurance Sector

Total No. of Insurance Companies & Organisations
Authorised in Bahrain 160 (May 2013) * excluding
Appointed Representative
Domestic market
Gross premiums US$615 million (December 2012)
No. of insurance firms 36
  Locally incorporated insurance firms 25
    Takaful & Retakaful Firms (included above) 8
    Captives (locally incorporated, included above) 1
  Overseas insurance firms 11
Insurance Brokers 31
Insurance Consultants 5
Insurance Managers 2

Representative Offices 5
Loss Adjusters 11
Actuaries 31
Insurance Ancillary Services 5
Insurance Pools & Syndicates 2
Insurance Society 1
Insurance Licensees Restricted: 31
  Insurance Firms restricted: 25
  Insurance Brokers restricted: 4
  Insurance Consultants restricted: 2
Insurance Appointed Representative 15
  Corporate 11
  Individual 4

Investment Business Firms

Total no. of institutions 60 (May 2013)
No. of Investment Business firms 51 (May 2013)

Representative Offices 8
Bahrain Asset Manager Association 1

Specialised Licensees

Total no. of institutions 48 (May 2013)
Money Changers 18
Fund Administrators License 1
Registrar License 1
Registered Administrators 1

Financing Companies 8
Microfinance Institution 2
Trust Service Providers 3
Ancillary services 13
Registered Professional Body 1

Capital Markets

Market Capitalisation US$17.4 billion (May 2013)
No. of firms 29 (May 2013)
Licensed Exchanges 2
Licensed Clearing, Settlement and Central Depository Systems 1

Licensed Securities Brokers 4
Licensed Securities Dealers 1
Licensed Securities Clearing Member 7
Licensed Securities Broker Dealers 14

Funds Industry

Authorised Funds 2,811 (May 2013)
  NAV US$7.33 billion (Mar 2013)

Local Funds 107
  NAV US$4.40 billion (Mar 2013)
  Conventional-Local 57
  Islamic-Local 57
Foreign Funds-Offshore 2,704 (May 2013)