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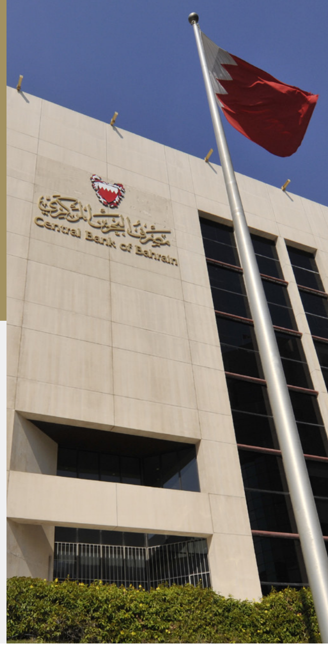

Bahrain-China strengthens ties in financial services

A high-level business delegation visited the People's Republic of China to showcase the Kingdom's business environment during the China International Fair for Investment and Trade (CIFIT), one of the largest global exhibitions held in Xiamen, China. Bahrain was participating as the Guest Country of Honour at the event, the first Middle Eastern country to be awarded that title.

The landmark visit was the culmination of the successful official visit of His Majesty King Hamad bin Isa Al Khalifa in September 2013 followed by a business delegation visit, led by H.E. Kamal bin Ahmed, Minister of Transportation in October 2014.

With its status as a leading financial centre in the Middle East, Bahrain remained a focal area of interest for large number of visitors at CIFIT, who expressed a specific interest in banking and finance, and Islamic banking. Bahrain hosts over 400 international financial institutions, including the Bank of China, which opened its first representative office in the region in Bahrain.

The Bahrain Pavilion presented to visitors the numerous opportunities available in the Kingdom, and introduced potential Chinese and international investors to the investment potential in high growth sectors, such as the financial services, tourism, ICT, manufacturing and logistics sectors.

CIFIT provided Bahraini businesses and government officials an opportunity to engage in high-level talks and meetings with Chinese officials, private sector leaders and Chinese businesses looking to access the Gulf market.

"Bahrain is keen on continuing its bilateral cooperation with China and strongly supports China's vision of 'One Belt One Road,' which aims to build a community of shared interests between the Arab World and China. This roadshow emerged as the perfect opportunity to further strengthen our commercial ties and we look forward to helping many more Chinese businesses to take advantage of investment opportunities that the fast-growing GCC market presents, by using Bahrain as a base for their GCC operations," said His Excellency Zayed R. Alzayani, Minister of Industry and Commerce.

"China and Bahrain have been trading partners for thousands of years and Bahrain was an important maritime hub along the first Silk Road. That relationship has continued to evolve, and today China is one of Bahrain's most important trading partners. In fact, non-oil trade has grown from US$890 million in 2009 to more than US$1.98 billion in 2014," commented Mr. Khalid Al Rumaihi, Chief Executive of the EDB.

Today, Bahrain is one of the leading global centres for Islamic finance and is considered a knowledge hub for the industry. The Kingdom is home to the largest concentration of Islamic financial institutions in the world and is at the heart of the industry's international development. In China, the Ningxia region aims to develop an Islamic financial centre, which highlights the potential opportunities which exist for further cooperation between Ningxia and Bahrain in that field.

"As Bahrain's leading provider of retail and commercial banking services we are excited to be here in China to showcase Bahrain's long history as an established financial centre for the Middle East. Bahrain's more than 400 financial institutions and world-class regulation stand ready to assist Chinese businesses as they look to access new business opportunities in the Gulf," Mr. Abdul Razak Al Qassim, Chief Executive Officer and Director of National Bank of Bahrain (NBB), said.

Two forums were also held during the delegation's visit to China, in Xiamen to coincide with the members' participation at CIFIT, and in Beijing, in cooperation with the China Council for the Promotion of International Trade (CCPIT). The forums included a panel discussion on the Kingdom's business environment.

The visit resulted in the signing of a total of 15 agreements, including three letters of intent signed between the Bahrain EDB and Chinese companies; the Bahrain EDB also signed four MoUs during the visit, which aim to establish even stronger trade ties and bilateral cooperation between Bahrain and China.

An agreement was signed between the Bahrain Chamber of Commerce and Industry (BCCI) and the China Council for the Promotion of International Trade – Fujian (CCPIT-Fujian), to enhance bilateral cooperation.

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New alternative liquidity management tools on the way

Liquidity management is one of the most essential requirements of the financial system and is critical to the growth and stability of Islamic financial institutions (IFIs). Considering the rapid growth of the Islamic finance industry, efforts are being made to develop and introduce alternative liquidity management tools.

During the last few years, inter-bank unrestricted Wakalah, and of late Collateralised liquidity management products, are gaining a higher degree of acceptance based on the need for alternative liquidity management tools for an efficient, liquid and risk averse Islamic financial market based on Shari'a principles.

Unrestricted Wakalah product, specific to Islamic finance, is well understood by the market and carries wider Shari'a acceptance as evidenced from its use by Islamic banks in various jurisdictions. It also provides an introduction as an investment/liquidity management tool which can be used by central banks.

Collateralised liquidity management tools are now being used by Islamic banks as an alternative to conventional repos (sale and buy-back). However, more clarification and understanding is needed on these collateralised transactions as when taking or giving collateral, the credit of the institution will not be decreased. Rather, it functions as a liquidity management tool which also provides risk management capability. Banks are using this product either for active liquidity management or keeping it as an approved product for contingency planning.

This repo-like collateralisation product is the best alternative to repo in Islamic finance. It is based on a Murabahah contract as the product cannot be structured on Mudarabah or Wakalah (which are trust based contracts) since the very definition of Rahn requires a debt-tied contract such as Murabahah.

The other alternative product which the market as well as the International Islamic Financial Market (IIFM) is researching is a product closer to conventional repo. However, there is still a need for further research and Shari'a deliberation to assess whether that objective can be achieved.

As a standard-setting body, the IIFM is playing its role in the unification and orderly development of the Islamic finance industry and in the last couple of years it has published two liquidity management standards; namely the Inter-Bank Unrestricted Master Investment Wakalah Agreement, and the Master Collateralised Murabahah Agreement.

The IIFM is aware of the industry need to come up with other alternative liquidity management products and is working closely with the industry on the development of such products through discussion notes and market consultative meetings.

AAOIFI seeks candidates for its technical boards

Bahrain-based Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) announced invitations for qualified candidates to serve on its technical boards that are tasked to carry out development and revision of its international Islamic finance standards.

As a leading standard-setter for the international Islamic finance industry, AAOIFI has issued a total of 94 standards – comprising 54 Shari'a standards, 26 accounting standards, 5 auditing standards, two codes of ethics and seven governance standards – for the international Islamic finance industry. The development and revision programmes for those standards are overseen by the technical boards in AAOIFI, which currently consist of Shari'a Board as well as Accounting and Auditing Standards Board.

In order to better serve the international Islamic finance industry, it is has been proposed that AAOIFI Accounting and Auditing Standards Board will be split into two new technical boards, namely AAOIFI Accounting Board and AAOIFI Governance and Ethics Board. These two boards will be responsible for AAOIFI standards on accounting, auditing, ethics and governance. Meanwhile, the AAOIFI Shari'a Board will continue to be responsible for AAOIFI Shari'a standards.

AAOIFI has invited nominations for candidates to serve on the Shari'a Board as well as the proposed Accounting Board, and the Governance and Ethics Board, for a four-year term from 2016 to 2019, or until succeeding boards are appointed.

Nominations will be invited from AAOIFI institutional members as well as other institutional stakeholders of the international Islamic finance industry, including central banks, regulatory and supervisory authorities, stock exchanges, Islamic financial institutions, and conventional financial institutions that have an interest in Islamic finance, accounting and auditing firms, legal firms, advisory firms, universities, higher learning institutions, and other institutions or organisations.

The nominations received from the international Islamic finance industry will be submitted to the AAOIFI Nominating Committee which will then revert with its recommendations to the AAOIFI Board of Trustees for approval. After filing the nominations, discussions were held by the Nominating Committee and the Board of Trustees. Appointments of the new technical boards are expected to be finalised towards the end of 2015 subsequent to the AAOIFI General Assembly meeting along with all necessary changes in statute.

"Nomination for the technical boards would present the opportunity to contribute directly towards the development of international standards for Islamic finance that can support further growth of the international Islamic finance industry," said, Dr. Hamed Hassan Merah, Secretary General of AAOIFI.

AAOIFI affirmed that the eligibility criteria for candidates of each of the AAOIFI technical boards have been formulated in accordance with international best practices.

AAOIFI, established in 1991 and based in Bahrain, is the leading international not-for-profit organisation primarily responsible for the development and issuance of standards for the global Islamic finance industry. It is supported by its institutional members, including central banks and regulatory authorities, financial institutions, accounting and auditing firms and legal firms from over 45 countries. Its standards are currently followed by the leading Islamic financial institutions across the world and have introduced a progressive degree of harmonisation of international Islamic finance practices.

CBB-BIBF mentorship initiative kick starts

The Central Bank of Bahrain (CBB) and the Bahrain Institute for Banking and Finance (BIBF) launched a mentorship programme for university students seeking careers in the banking and finance sector.

This was announced during a press conference which took place at the CBB premises. The programme officially started in September with the participation of five local universities, namely the University of Bahrain, Bahrain Polytechnic, Bangor BIBF, Ahliya, and the Royal University for Women.

The programme comprises five training workshops to be conducted by the BIBF covering a range of topics including Communication, Banking, Islamic Finance, Insurance and Investment. It will also include three mentoring sessions per student that will be provided by a group of mentors from Bahrain's leading financial institutions.

"We are very pleased to launch the mentorship programme and to provide the students with an opportunity to link their studies with experience from the industry. We believe that the mentorship programme will put the students on the right path at a very early stage in their careers. The programme is open to students from both genders as we want equal opportunities for all. The CBB has always placed great importance and supported initiatives that develop the human capital in the industry," Dr. Huda Al-Maskati, Executive Director of Corporate Services of CBB, told the press.

"The BIBF is an integral part of the financial industry, evidenced by its commitment to the development of human capital through the quality of vocational and academic education it provides, and it is very proud to have been selected as the official sponsor and organiser of the mentoring programme, scheduled to start in September 2015", said Solveig Nicklos, BIBF Director.

"The mentoring programme is a direct result of a collaborative effort between academic institutions and the financial industry, a first for the Kingdom. Young, driven students are being given a once in a lifetime opportunity to learn first-hand from the experience of industry leaders, while exploring potential career paths in a vibrant, growing industry. We wish them every success," Ms Nicklos, added.

This mentoring programme is part of a year-long campaign which includes a series of activities including panel discussions and town hall sessions leading up to "the Women in the Financial and Banking Conference" set to take place on the 30th of November 2015 under the patronage of HRH Princess Sabeeka Bint Ebrahim Al Khalifa, Wife of HM the King, and President of the Supreme council for Women (SCW).

These events aim to raise awareness about the role of women in the Financial Sector, provide role models within the industry, as well as to help the young generation to aspire to leading positions in their careers.

JS Bank Limited to open first overseas branch in Bahrain

The Central Bank of Bahrain (CBB) has granted a wholesale banking license to JS Bank Limited, to open a branch in Bahrain. The license allows the bank to expand its activities as a wholesale bank within the Kingdom of Bahrain.

The branch is expected to contribute to strengthening the relationship with the MENA region and to engage with existing and potential investors; special focus will be given to regional corporates with commercial ties in Pakistan, Pakistani expatriates (non-resident), other Pakistani banks who do not have overseas or branch presence and Government of Pakistan entities.

The Bahrain office will be the first branch outside Pakistan. JS Bank Limited is regulated by the State Bank of Pakistan as a Commercial Bank. It was formed in 1999 under the name of Jahangir Siddiqui Investment Bank Limited when Jahangir Siddiqui & Co. Ltd. acquired Citicorp Investment Bank (Pakistan) Limited. In 2006, the bank merged its commercial banking operations with American Express Bank Ltd., Pakistan under the name of JS Bank Limited.

Mr. Ahmed Al-Bassam, Director of Licensing & Policy at the CBB welcomed JS Bank Limited's decision to open its new branch in Bahrain based on its unique position as a financial hub in the region. He further added that the bank's existence in Bahrain shall positively reflect on the bank's business and will help in strengthening the commercial and financial relationship between the MENA region and Pakistan.

The number of licensed wholesale Pakistani banks in Bahrain has reached eight, all of which serve their clients in the MENA region. "This intensive presence of Pakistani banks in Bahrain will undoubtedly reflect positively on the banking business and will enhance the historical trade relations between Bahrain and Pakistan," he added.

Mr. Khalid Imran, President of JS Bank Limited said that it is an important occasion for JS Bank to have its first overseas presence in Bahrain. He said that Bahrain has historically been a very strategic and important hub for financial institutions and JS Bank is committed to contribute substantially towards the enhancement and consolidation of financial ties between Pakistan and Bahrain.

He added that JS Bank takes pride in its commitment and professionalism and will strive to augment the historical business and trade relations between Bahrain and Pakistan.

With a strong focus on offering quality banking products and services to the Pakistani community JS Bank's key activities can be categorised into four business lines; Retail and Consumer Banking; Treasury; Corporate and Commercial Banking; and Investment Banking.

JS Bank is one of the fastest growing banks in Pakistan. With a vast online network of 238 branches in 122 cities in all provinces, we are present wherever our customers need us to be. From the biggest cities to the smallest towns, we consistently offer outstanding services along with a host of innovative and growth-oriented products.

Bahrain tops in competitiveness, FDI strategy rankings

The Kingdom of Bahrain has been ranked 1st in the Middle East and 5th in the Middle East and Africa for cost competitiveness and FDI strategy respectively, according to the findings of the fDi Middle East & African 'Countries of the Future' Rankings for 2015/16, prepared by fDi Intelligence, a division of the Financial Times. The Kingdom of Bahrain has ranked fifth overall, out of 63 countries.

The rankings, compiled every two years using a detailed methodology, were based upon five categories: economic potential, business friendliness, human capital and lifestyle, cost effectiveness, and connectivity. A sixth category, FDI strategy, was based on additional qualitative research and analysis.

Bahrain was ranked in the top eight for all the categories, and ranked first overall for cost effectiveness and third overall for business friendliness. Bahrain also ranked first for FDI strategy, with the report recognising that since its creation, the Bahrain Economic Development Board (EDB) has "operated to attract investment, help investors realise projects and ensure they are assisted once established." According to fDi Intelligence data, the EDB helped attract 190 FDI projects to Bahrain between 2009 and 2014.

"We are pleased that Bahrain has once again been recognised as the most cost-effective destination in the region. With a well-educated domestic workforce, minimal restrictions on foreign investment and ownership in most sectors, and a highly competitive taxation system, it is a reputation that is well deserved," said Mr. Khalid Al Rumaihi, Chief Executive of the Bahrain EDB.

"Bahrain's strong economic growth has been built on a tradition of openness which comes from the Kingdom's long history as a regional commercial hub. Many leading international companies continue to choose Bahrain and we strive to create the supportive, low-cost environment that will allow those businesses to thrive."

According to the UNCTAD World Investment Report 2015, the total FDI to Bahrain last year reached $957 million. Bahrain's inward FDI stocks as a percentage of GDP (55.4%) remained the highest in the GCC and well above the global average, emphasising Bahrain's position as one of the region's most open economies.

International Islamic capital markets in focus

The Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) will host the AAOIFI-World Bank (WB) Annual Conference on Islamic Banking and Finance on 6th and 7th December 2015 in Manama, Kingdom of Bahrain. The conference is being organised in partnership with the World Bank, and will be held under the auspices of the Central Bank of Bahrain (CBB).

Discussions at the conference will cover the issues relating to continuing development of international Islamic capital markets, and the further evolution of standardisation and harmonisation of international Islamic finance practices. Specific topics that will be deliberated include the standardisation and harmonisation of Sukuk markets, the continuing development of sovereign and retail Sukuk, the development of Islamic private equity, venture capital and "crowdfunding", and rating on Shari'a compliance and potential rating mechanisms.

The conference is also part of AAOIFI's on-going consultative process with the international Islamic finance industry on the development and review of its standards on Shari'a, accounting, auditing, ethics and governance.

> "Development of Islamic capital markets is a vital to deepen Islamic financial system"

Leading the discussions will be eminent Shari'a scholars as well as leading Islamic finance practitioners and academicians. Participants at the conference comprise Shari'a scholars and senior representatives from central banks, regulatory authorities, financial institutions, accounting and auditing firms, legal firms, universities and higher learning institutions, and other Islamic finance industry stakeholders from the across the world.

"Development of Islamic capital markets is vital to deepen the Islamic financial system and support overall economic activities, hence AAOIFI must ensure that our standards can contribute positively towards the growth of the international Islamic capital market, and this is what AAOIFI strives to accomplish. Furthermore, this conference will also discuss AAOIFI's ongoing effort on standardization and harmonization of international Islamic finance practices," said Dr. Hamed Hassan Merah, Secretary General AAOIFI.

A Gala Dinner for the conference will be held on the evening of 6th December 2015. The new AAOIFI standards publications including digital versions of AAOIFI standards will be launched at the Gala Dinner.

Following the conference, AAOIFI will hold training sessions for its Certified Shari'a Adviser and Auditor (CSAA) and Certified Islamic Professional Accountant (CIPA) qualification programs from 8 to 11 December 2015. CSAA and CIPA are designed for Islamic finance professionals to gain technical understanding and assist application of AAOIFI standards in Islamic finance operations.

Bahrain pioneers IFIs regulatory architecture

The Kingdom of Bahrain has emerged as a leader for developing the regulatory architecture for the Islamic financial institutions (IFIs) globally.

"Bahrain has been nurturing Islamic finance since 1970's and provided strong support to this rapidly growing segment of the global economy," Dr. Sayd Farook, Middle East Global Advisors Vice-Chairman and CEO told the pre-event Press conference held at the Central Bank of Bahrain (CBB).

"The World Islamic Banking Conference (WIBC) 2015 is set at an opportune time for us to assess what the modern Islamic commercial banking industry has achieved in its 40 years of existence, and set the path for the industry going forward," said Khalid Hamad Abdul-Rahman Hamad, Executive Director of Banking Supervision at the CBB.

"Through its global presence and footprint, and the rapid growth of assets under management, Islamic finance has achieved a lot in its short existence. Yet many issues remain outstanding including the shortage of available liquid assets, the gap between the underlying principles of Islamic finance and its current practice, its outreach to unbanked communities and its ability to universally appeal to a wider range of customers," he added.

The conveners of the much-coveted WIBC announced the various features that promise to make WIBC 2015 the best edition in its 22-year history. Middle East Global Advisors, an intelligence platform serving markets in the Middle East North Africa Southeast Asia (MENASEA) region.

Dr. Sayd Farook also formally announced the launch of WIBC Leaderboard, one of the innovative new features of the 22-year platform.

"The WIBC Leaderboard is a groundbreaking performance assessment aimed at helping the Islamic finance industry to critically appraise the challenges and growth opportunities that lie ahead. It will provide high visibility rankings of Islamic banks and financial institutions at the global, regional and national levels, in terms of various robust financial and governance metrics."

Dr. Farook emphasised the importance of promoting transparency across and critical dialogue within the Islamic finance industry, emphasising that WIBC, with the pivotal support of the CBB, remains the undisputed platform-shaping industry dialogue.

Mr. Hamad honed in on the Leaderboard's importance as a benchmark for the global Islamic finance industry.

Mr Hamad reiterated the importance of understanding and assessing where the industry's veterans and leaders believe the Islamic finance industry needs to head and what needs to happen to get the industry there. "I am also looking forward to hearing the results of WIBC Leaderboard and Performance Awards, which will give the institutions in the industry a much-needed objective measure of their performance across a diverse set of benchmarks, including those the industry should ideally be measured against," he said.

The WIBC 2015 programme has been refreshed to really galvanise the industry at this critical juncture. Dr. Farook advised that the conference will run along two parallel tracks serving the banking and asset management sectors. Further, he said, the WIBC will serve as a platform for no less than 8 unique intelligence reports; panel sessions focused on financial services innovations such as Mpesa, Bitcoin and Crowdfunding; and a session on woman leaders in Islamic finance - among other features.

The emphasis on technology is another new feature of WIBC 2015. Sessions will explore how to take Islamic finance forward in a digitally connected world with insights from pioneers and innovators in the financial technology space. Key players from mobile banking, crowdfunding, crypto-currencies and other 'disruptive' forces will lead the innovation agenda at the conference. On a related note, the conversations at WIBC will be powered by an exclusive WIBC App to maximise connectivity between speakers and audience, as well as between participants and the virtual conversation on key issues.

WIBC 2015 will be the first in over two decades to fully harness technology, social media and cutting edge research. Indeed, this December's gathering promises to shift the bar even higher by connecting participants from the Middle East, Africa, East Asia, Central Asia and Europe with one another through technology, and to the promising opportunities for values-based financial services

The high profile nature of WIBC speakers has been one of its core strengths. WIBC 2015 will be inaugurated by H.E. Rasheed Mohammed Al Maraj, Governor of the Central Bank of Bahrain. He will be followed by His Excellency Hamood Sangour Al-Zadjali, Executive President of the Central Bank of Oman. Other distinguished speakers include Professor Datuk Rifaat Karim, CEO of International Islamic Liquidity Management Corporation, Noor Abid (Board Member at Kuwait Finance House), Tirad Al-Mahmoud CEO of Abu Dhabi Islamic Bank and Osman Celik Board Member & CEO of Turkiye Finans.

Licensees' information available at the CBB website

For a number of years, all Central Bank of Bahrain (CBB) licensees have been required to provide to the CBB non-financial information regarding their activities, controllers and approved persons. Licensees have been providing this information on line by using the CBB's institutional information system, also referred to as the IIS. Licensees must update the information provided at least on a quarterly basis or when a significant change occurs.

Based on the information provided by its licensees, the CBB is now making this information publicly available on the CBB website under the CBB Register. The information will provide greater transparency on the CBB licensees and activities. It also features a search engine that facilitates identifying approved persons and controllers of CBB licensees.

As the CBB information licensee is provided directly by the licensees, the CBB is not responsible for errors, omissions or inaccuracies in the information available on the CBB Website. It is therefore up to each licensee to ensure that the information provided on the CBB website is accurate and up to date.

The CBB is a firm proponent in transparency of all its licensees and believes that the enhanced facility provided on its website will be a valuable tool for the public.

Bahrain's leading role in Islamic finance in spotlight

With the experts calling for making Islamic finance relevant not only for Muslims but for a wider global community, the Kingdom of Bahrain once again gets recognition for its pioneering role in this rapidly growing segment of the global economy.

The fifth Global Islamic Finance Awards (GIFA) gala dinner and ceremony was held at the Gulf Hotel's Gulf Convention Centre, Manama, Bahrain on 28th September 2015, and like previous years, the awards ceremony was attended by a large number of Islamic banking and finance professionals from around the world.

"Bahrain has been the hub for Islamic banking and finance for a very long time and hosts some of the most important institutions like the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI), International Islamic Financial Markets (IIFM), International Islamic Rating Agency (IIRA)," said Mr Rizwan Malik, head of business development and strategy at Edbiz Consulting.

"In addition, with strong support from the government and the Central Bank of Bahrain (CBB), the local market is making steady progress. It is due to these reasons we have selected Bahrain as a host for the Global Islamic Finance Awards 2015 ceremony," added, Mr Malik.

"We are so glad that the fifth GIFA ceremony proved to be a huge success," said Mr Malik, who was also the convenor of the awards ceremony. He thanked the Bahraini government for extending all the necessary help for holding the event in Bahrain.

"We aim to engage the political leadership in the OIC countries to create awareness of Islamic banking and finance within the government sectors," said Professor Humayon Dar, founder and Chairman of GIFA.

"Our GIFA Laureates have championed the cause of Islamic banking and finance in their respective countries and globally, and we hope that this year's GIFA Laureate Emir Sanusi will continue to lead the global Islamic financial services industry with enthusiasm and the commitment he has shown in the last decade."

Among the Bahrain-based institutions, Abdulhakeem Alkhayyat, CEO and Managing Director of KFH-Bahrain, received the Pioneering Islamic Bank award for Kuwait Finance House-Bahrain.

HRH Muhammadu Sanusi II, Emir of Kano, Nigeria, was the guest of honour, and he was presented with the prestigious top award – Global Islamic Finance Leadership Awards – for his advocacy for Islamic banking in Nigeria and his leadership role in promoting ethics and social responsibility in Islamic banking and finance.

Emir Sanusi emphasised the importance of social responsibility in making Islamic banking and finance relevant to not only for Muslims but also the wider global community. "By committing itself to a well-defined regime of social responsibility, Islamic banking and finance can develop an all-inclusive new model of financial intermediation," he said while addressing an attentive audience of more than 250.

Ambassadors of the UK, Malaysia and Pakistan were among the high-profiled dignitaries. "It was pleasing to be part of this celebration of success of Islamic banking and finance," said HE Simon Martin, the UK ambassador in Bahrain. "I was already aware of the leadership role that Bahrain has been playing in Islamic finance and involvement of my own country in this niche market, and meeting the leadership of Islamic banking and finance from all over the world was indeed pleasing."

Mr Khaled Al-Aboodi, CEO of ICD, a member of the IDB Group was bestowed with the prestigious Islamic Finance Personality of the Year award. "The GIFA is the perfect celebration for the commendable role that industry leaders and stakeholders play in order to drive Islamic finance growth in the global sphere. I can assure you that ICD remains dedicated in its pursuit for the adoption of Islamic Finance within the mainstream global financial system," said, Mr Al-Aboodi.

"The industry and academia both respect GIFA for its all-inclusive approach as it has always promoted best research in Islamic banking and finance and the industry appreciate this approach."

Bahraini Islamic banks top the GCC FDI ranking

The organisers of the 22nd annual World Islamic Banking Conference (WIBC) revealed the rankings of the top five GCC Islamic banks rated according to their financial disclosure, subsequent to the announcement of the launch of the WIBC Leaderboard.

As per the rankings, Al Baraka Banking Group and Venture Capital Bank, both based in Bahrain, topped the Islamic financial institutions in the GCC with a score of 69 and 68 respectively.

Middle East Global Advisors, the organisers of the WIBC over the past 22 years, utilises the Financial Disclosure Index as one of the sub-indicators of the WIBC Leaderboard, an industry benchmark that will form the basis of the WIBC Performance Awards 2015. The Awards Ceremony will be held at the Gala Dinner of the 22nd Annual World Islamic Banking Conference which is taking place on the 1st, 2nd and 3rd December at Gulf Hotel, Bahrain.

The financial disclosure rating measures the extent to which customers and stakeholders are protected through disclosure of ownership and financial information. The index ranges from 0 to 100, with higher values indicating more disclosure.

First in the series of the WIBC Leaderboard performance indicators, the Financial Disclosure Index chart shows the bank's name (horizontal axis) and Financial Disclosure Index score (vertical axis) of the top five Islamic banks in the GCC ranked on the basis of the financial disclosure score.

"It is important to understand that increased globalisation has been the basis of a highly interrelated economic and financial system. In such a scenario the risks of the unknown and unexpected are fairly high and the only way to downplay such risks is through appropriate disclosure of important information," said Mr Adnan Ahmed Yousif, Al Baraka Banking Group's President and the Chief Executive.

"Islamic banks are doing well to downplay such risks by disclosing financial information consistently," added, Mr Yousif.

In a period of high information asymmetry, where the customers interests are not wholly protected from spillovers and systemic risks, the financial disclosure index serves as an essential governance metric that can help regulators ensure that a stable and an efficient banking system is in place.

Islamic banks need to tap into a $13b SMEs segment

The Islamic banking industry needs to tap into an existing $13billion small and medium enterprises (SMEs) financing potential, an area which has remained untapped over the past many years, according to a senior Bahrain banker.

Mr Adnan A Yousif, President and CEO of Al Baraka Banking Group (ABG) Bahrain says the unexplored area of medium to long-term financing for SMEs funding will help the Islamic banking industry to embark on a new era of development, growth and excellence.

He believes given the nature of the business model, SMEs continue to serve as the backbone of the economy and to provide a substantial contribution towards bolstering sustainable GDP and the export market. They also provide significant employment opportunities in many countries.

Highlighting the demand for Islamic finance, Mr. Yousif says this depends on the potential penetration of Islamic banks within the SME sector, the preference of SMEs for Islamic financial products, and, the extent to which there is an environment which facilitates these activities.

"For many years, the financing of SMEs by banks has been gradually increasing in most of the countries where Islamic banks operate," he says.

"The International Finance Corporation (IFC) of World Bank reveals a growing demand from the SMEs for Shari'a-compliant products which are seen as a strong growth driver behind the SME finance. There is an estimated potential gap of $8.63 billion to $13.20 billion for Islamic SME financing within un-served and underserved SMEs categories, with a corresponding depository potential of $9.71 billion to $15.05 billion across nine MENA countries. Despite the promising growth, SMEs overall seem to remain underfunded in these Muslim countries, with an average SME financing of 8.75%, as a percentage to total private sector lending. Thus, fueling the growth over the long term requires an effective means to overcome the demand- and supply-side obstacles.

"We at ABG are working out how to collaborate with many international agencies and financial institutions such as the on-going liaison with the World Bank currently in Egypt, and also our efforts to establish a global SME fund. So far our total financing to this sector slightly exceeds US$ 3 billion."

"Islamic banks have already focused on SME finance, as shown by the recent CIBAFI Global Islamic Bankers Survey. This shows that SME finance serves as the second key driver of sustainable growth for Islamic banks. Nonetheless, expanding this business line solely depends on the development of the external factors of this market segment, as well as how Islamic banks can enhance their technical infrastructures in serving SMEs. The CIBAFI survey revealed that a lack of transparency is a common theme. While SMEs often lack of quality in business process and suitable collateral for loans, they are also over-leveraged and unable to provide adequate guarantees. SMEs are also more sensitive to economic slumps or sudden changes in monetary conditions, due both to their small size and the fact that they are often only recently established. While there is a lack in many jurisdictions of supporting infrastructures for SME finance, i.e. SME credit scoring, secured transaction laws, a secondary equity market for SMEs, and a securitisation framework for SMEs, Islamic banks need to further enhance their technical infrastructures such as in-house expertise through a dedicated SME unit and the variety of Islamic products."

Referring to a global focus on SMEs he said in 2015, the B-20 group, a platform for business leaders from G-20 economies, has established with the B-20 Turkey Financing Growth Taskforce which is co-chaired by AGB. This organisation provides recommendations to the G20. One of the key aims is to increase and diversify the access to equity for SMEs.

Although this is work-in-progress, the SME sector offers significant opportunities for the Islamic finance industry.

GCC continues to invest in infrastructure projects

The Gulf Co-operation Council (GCC) governments continue to invest in large public sector infrastructure projects, says Standard & Poor's (S&P) in its report published on 21st September.

"However, the longer the oil price remains near current low levels, the higher the likelihood of seeing more infrastructure projects postponed or dropped. We nevertheless see various factors that could propel existing and new issuers to tap the capital markets over the coming year," says Karim Nassif, a credit analyst at S&P.

"These include the gradually declining availability of liquidity at the local banks, the opening up of markets to foreign investment (such as the Tadawul in Saudi Arabia, along with the Iranian market following the nuclear deal with the P5+1), and the refinancing by government-related entities (GREs) in 2016."

Standard & Poor's Ratings Services expects that some corporates and infrastructure issuers in the GCC will likely feel the weight of lower oil prices while most of its rated entities show resilient financials for now.

Ratings on some companies, the report continues, with exposure to commodity markets have come under pressure due to the lower oil prices. Similarly, ratings have been constrained on key GREs with ratings connected to sovereigns.

The Dubai real estate market is also suffering with residential prices expected to decline by about 10%-20% during 2015. However, S&P thinks its ratings on property developers and property investment companies in the United Arab Emirates (UAE) are cushioned enough to withstand the current correction.

"Despite our expectation of a tougher pricing environment ahead, we believe a potential U.S. Federal Reserve interest rate hike, even if it were to lead to a 150 bps-200 bps increase for Gulf corporates (based on our stress assumption), would not rock the creditworthiness of the entities we rate in the short term."

S&P believes the energy subsidy cuts by some GCC governments could increase financial pressures on downstream corporates in the region. "Governments are currently protecting large public sector investment budgets to support economic growth. Yet, the longer the oil price remains at current lows, the more likely these could be postponed or cut."

The drop in oil and gas prices triggered a 58% reduction in corporate and infrastructure bond and sukuk issuances over the 12 months ended Aug. 31, 2015, compared with the previous 12 months. This declining issuance was partly because of the tightening of budgets at key GREs that carry out important roles in infrastructure projects on behalf of their respective governments. In some cases, limited government budgets prompted the cancellation of infrastructure projects. With regard to entities exposed to the oil and gas industry, a sharp reduction in capital expenditures is also leading to lower issuance.

Bahrain Bourse launches Bahrain Islamic Index

Bahrain Bourse (BHB) on Monday, 14th September 2015 during an opening ceremony announced the launch of the Bahrain Islamic Index. The Bahrain Islamic Index includes stocks of listed Shari'a compliant companies.

The ceremony was held in the presence of BHB Chairman Mr. Yousuf Abdullah Humood, members of BHB board of directors and Mr. Khalid Hamad, Executive Director of Banking Supervision at the Central Bank of Bahrain (CBB) in addition to CEOs, General Managers of listed companies that are computed within the index, and a number of Bahrain Bourse officials.

The Bahrain Bourse Chairman expressed his delight for the launch of the Bahrain Islamic Index, which comes as part of the Bourse efforts towards developing and enhancing the Kingdom of Bahrain's position as a leading regional and international hub by providing Financial Islamic Services, which the Kingdom has achieved with the guidance of the wise leadership's policies, and the officials concerned with the planning and execution of the Kingdom's economic and financial policies.

Mr. Khalid Hamad said that the CBB encouraged and supported this added value initiative and that it will encourage Islamic banks and various types of companies to take new initiatives in the capital market, through mutual funds and securities that comply with the Islamic Shari`a, in addition to the trust that investors will have in this vital sector.

Chief Executive Officer of the BHB Shaikh Khalifa Bin Ebrahim Al Khalifa said that launching of the Bahrain Islamic Index comes in line with the strategic position of the Kingdom of Bahrain as an international Islamic Financial hub, guaranteeing the provision of more investment products and instruments to equity issuers and investors of all types, classes and investment goals in the market.

"We at the bourse hope that the launch of this index contributes in attracting more investors to invest in the Bourse, and to utilise the available investment opportunities in the different economic sectors, in addition to the investment instruments at the Bourse, especially products and instruments that are Shari`a complaint," added Shaikh Khalifa.

The CEO of the BHB revealed that 17 companies will be computed within the index, all of which have activities that comply with Shari`a standards and the regulations set by the Bourse's Shari`a committee, adding that starting from today, investors and parties concerned with the Bourse's activity will be able to follow up the Index's performance on the BHB's website, and in the trading bulletins issued by the BHB.

"This index will act as a standardised tool, adopted by investors in order to measure the fluctuations of their investment portfolios in the companies computed within the Islamic Index, which will assist them in taking the right decisions regarding these investments in the right time."

Shaikh Khalifa added that the BHB has set a number of technical and financial standards to determine the companies that are computed and will be computed within this index, through a specialised committee which periodically reviews the companies' information, to take the appropriate decisions regarding the inclusion or exclusion of these companies from the index computing process.

Value of bonds listed on Bahrain Bourse reaches $4.861b

Following the listing of a BD150 million issue, the number of conventional bonds and sukuk issues listed on Bahrain Bourse (BHB) reached 11, with an approximate total value of US$ 4.861 billion.

The BHB announced the listing of the Government Development Bond that has been issued by the Central Bank of Bahrain (CBB) on behalf of the Government of Bahrain through registered brokers at the BHB as of on Wednesday, 5th August 2015. The Bond will be traded under the symbol GDEV9.BND.

The BD150 million securities was issued at a par value of BD1 each on 30th July 2015 for a period of 5 years ending on 30th July 2020. The returns on these securities will be paid every six months on 30th January and 30th July every year throughout the period of this issue, in which the first coupon payment will be paid on 30th January 2016 and the last coupon payment on 30th July 2020. The annual fixed interest rate on these securities is 4.00%.

As of Thursday 6th August 2015, investors were able to sell and buy the bonds by placing their orders through the brokers who will feed them into the trading system. The system will automatically match the orders in accordance to the price priority then time priority, with a minimum of BD 400 per transaction in the primary market.

Moreover the BHB issued on Sunday, 1st February 2015 the Guidelines on Trading Debt Instruments on the BHB. The Guidelines organise the trading of debt instruments in the secondary market at the BHB during trading sessions that operate daily from 9:30 am until 1:00 pm from Sunday to Thursday. The guidelines clarify the types of orders, board lots and the tick size applied in the debt market. The guidelines also present the pricing mechanism in the debt market which states that the seller investor will receive the full amount of the transaction which includes the bond value plus the coupon which will be automatically calculated by the system.

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

Bahrain's mutual fund fetches $6.5b investments

The total size of investments in mutual funds has reached $6.46billion at end of the first quarter of 2015, according to the Central Bank of Bahrain's June statistics.

There were 2885 mutual funds registered in Bahrain which attracted over $4.5 billion investments from institutions and close to $2 billion US dollars ($1.92b) invested by individuals as of 31st March 2015. The number of mutual funds grew from 2850 at end Q1 to 2885 at end of Q2 of 2015. During Q2 58 new mutual funds were issued, statistics show.

The aggregated balance sheet of the Islamic banks in Bahrain, including wholesale and retail banks, surged to $25.5 billion at end 30th June 2015 up from $25.2 billion at end of first quarter 31st March 2015.

The total size of outstanding investments in various sectors in Bahrain were up from BD39.8 billion at end of 2013 to BD43.3 billion at end of 2014, showing a sustained pattern of growth in this segment of the national economy over the past four years, the statistics show.

According to the CBB statistics, the aggregated balance sheet of the banking system in Bahrain, including wholesale and retail banks and excluding the CBB, stood at $189.5billion, 559.8% of GDP as of 30th June 2015. The GDP at current prices reached BD12, 734.7 at end of the Q2.

The total assets of the CBB stood at BD2.56billion at end of June 2015 compared to BD2.44 billion at end of 31st march 2015.

The wholesale banks aggregated balance sheet of total assets reached $109 billion at the end of Q2 of 2015 while the retail banks aggregated total assets balance sheet was BD30.1 billion at end June 2015.

The total size of the public debt instruments surpassed BD6billion, 47.2% of GDP, at end of 30th June 2015 compared to BD5.8 billion at end of 31st March 2015. The debt instruments comprised Government Development Bonds worth BD3.1billion, Treasury Bonds of BD1.6billion.

The Bahrain Bourse market capitalisation stood at $21.4 billion at end of 2nd quarter of 2015 with Bahrain All Share Index reaching 1,363.8 points at end of 30th June 2015. During the same period the Bahrain Bourse reported a price earnings ratio or P/E of 9.83 and dividend yield of 4.62%.

The Hotels and Tourism Sector was the top performer with 4,176.89 points at the end of June 2015 followed by the Commercial Banking Sector 2,617.01, Insurance sector 1,822.25, Services Sector 1,436.38, Industrial Sector 808.40, and Investment Sector 756.57 points.

In terms of value of shares traded on the Bahrain Bourse, the Services Sector topped the chart with BD3.36million of shares traded in June followed by Commercial Banking Sector BD3.30 million, Industrial Sector BD485,000, Hotels & Tourism Sector BD23,000 and Investment Sector BD 96,000 taking the total value of shares traded BD7.33 million as of 30th June 2015.

According to the statistics a total of 46 listed companies' 27.56million shares were traded on the Bourse by the end of June, with the total value of shares reaching BD7.33million, and the number of transactions being 866, The Bahrain All Shares Index was at 1,367.83 points and market capitalisation over BD8billion.

M&A appetite on the rise in Middle East

Global mergers and acquisitions appetite are on the rise, but Middle East market remains cautious, experts say.

The world's largest businesses to show an increasing appetite for M&A transactions over the next 12 months, while at the same time enjoying more capacity to fund deals, according to the latest edition of the KPMG International Global M&A Predictor published on 13, September 2015.

Between June 2015 and June 2016, global forward price earning (P/E) ratios are forecast to increase by 11 percent, while net debt to earnings before interest, taxes, depreciation and amortization (EDITDA) is predicted to rise by 7 percent over the same period.

Generally, expectations are bright for Africa and the Middle East, Latin America and Asia Pacific, which are all expected to see above-average increases in M&A appetite.

"Despite this outlook, the Middle East is expected to adopt a cautious approach given the new low in oil prices that is forcing a number of countries in the region to run budget deficits, says Ramachandran Narayanan, Partner and Head of Advisory in KPMG Middle East and South Asia (MESA).

"The oil price drop, coupled with short-term volatility in global markets, on the back of a feared slowdown in the Chinese economy and continued uncertainty in Europe, will force investors to review their priorities. Governments in the region are expected to take a hard look at unplanned expenditure and streamline spending that will further limit money supply in the local economies."

"The GCC market will continue with its defined spending programme on domestic infrastructure and opportunistic acquisitions in select markets and asset classes," adds Mr Ramachandran.

"The encouraging global data does not yet appear to be reflected in actual transaction levels. Both completed deal volumes and completed deal values fell significantly over the six-month period between January and June 2015."

"There has been a pause in the market," says Leif Zierz, KPMG International's Global Head of Deal Advisory. "The continuing impact of low oil prices and political instabilities in some key regions should also not be overlooked. On an individualised basis, we continue to see relatively strong expectation despite a drop in earnings. When we look at the top line numbers, they look unexceptional. There are actually really pockets of strength and great opportunities to be found."

As well as regional split, the predictor also looks at M&A activity by sector and reveals that the challenges in the global energy market are potentially hampering M&A appetite. This is clearly evidenced by the 19 percent fall in market capitalisations of the largest corporates in the energy sector between June 2014 and June 2015. Profits are also down considerably over the same 12-month period.

"With oil prices continuing to experience new multi-year lows, we can expect many of the acquisition plans of companies in the Energy sector to be delayed or restructured. The return of some stability to oil prices could minimise the downward pressure on deal activity in the broader market, for those corporates able to increase capacity, primarily through debt reduction, this might be the year to uncover some great value in the market," comments Phil Isom, Global Head of M&A for KPMG.

REITs listing open a new era for investors

The start of listing of REITs on the Bahrain Bourse (BHB) has opened up new avenues of opportunities for developers and property managers to benefit from this alternative investment option.

"The listing of REIT on the BHB has generated huge interest from property developers, managers and also investors who benefit from investing in property as an asset without directly owning and managing the property," said, Shaikh Khalifa bin Ebrahim Al Khalifa, the Chief Executive of the BHB.

"The introduction of the REIT listing rules will facilitate investment in productive assets and benefit all involved stakeholders."

The BHB CEO was speaking as Eskan Bank appointed Securities & Investment Company (SICO) as a lead arranger for the first real estate investment trust (REIT) on the BHB and only the second Shari'a-compliant listed REIT in the Gulf region.

"The initiative of listing the REIT will be the first in Bahrain by Eskan Bank, where we offer a financial instrument that will add to the breadth of investment opportunities and position the institution as an innovative bank spearheading financial sophistication and depth. In line with our social mandate, this new REIT gives Bahrainis the opportunity to share in Eskan Bank's significant property development activities, and benefit from commercial and residential rental income across diversified assets. This has been made possible by the proactive roles of the Central Bank of Bahrain (CBB) and the BHB. Both are further developing the regulations concerning investing activities that will lead to capital market growth," said Dr. Khalid Abdulla, General Manager of Eskan Bank.

"We are pleased to work with Eskan Bank to lead and manage this historic REIT listing in Bahrain. The introduction of this new alternative investment asset class will contribute in adding depth to the Kingdom's real estate sector, while helping to improve liquidity on the BHB. Our involvement illustrates our commitment to broaden the investment products offered to investors in the local market, and reinforce SICO's status as a leading provider of corporate finance services in the GCC since 1997," said Ms. Najla M. Al Shirawi, Chief Executive Officer of SICO.

A listed REIT is a regulated investment vehicle that invests directly in real estate with its units traded like a stock on exchanges. REITs generally provide investors with access to real estate, a regular and stable income stream, diversification, and enhance the liquidity of their portfolios.

New listing rules for REITs issued by the BHB came into effect on 17 May 2015, with requirements including a minimum of two properties with a combined asset value of no less than US$ 20 million. REITs are regulated by the CBB, and must be authorised by the CBB before they can be listed.

> "We wish to encourage private sector participation in the Bank's real estate development projects that are targeting social housing and its related amenities"

According to the CBB regulations, the dividend pay-out ratio of a REIT has to be at least 90%of its net realised income.

Eskan Bank's REIT will consist of two income-generating and unleveraged properties currently owned by Bahrain Property Musharaka Trust (BPMT) which was formed in May 2011 in collaboration with reputable institutional investors and high net worth individuals. The REIT properties consist of Segaya Plaza and Danaat Al Madina. Segaya is a mixed retail and residential property located in Segaya which is currently 100% occupied.

Daanat Al Madina, located in Isa Town, is a mixed use development inclusive of residential, retail and commercial office elements. The apartments of Danaat Al Madina have been sold to Bahraini beneficiaries. The commercial components of Danaat Al Madina shall be transferred to the REIT. Eskan Bank jointly with Cluttons, are currently in the process of leasing the asset, which has received strong interest since being offered to the market.

As arranger, SICO is responsible for managing the entire process, which includes internal property valuations along with independent real estate valuers, legal structure, regulatory submissions, and the initial public offering. The Sharia-compliant REIT is expected to have a total value of BD 20 million, with a tranche that will be offered to the public through the IPO that is planned to take place later this year.

"Eskan Bank, this time wished the exit strategy of the BPMT to benefit our existing private and public investors, and equally importantly, the common Bahraini citizen. We wish to encourage private sector participation in the Bank's real estate development projects that are targeting social housing and its related amenities. With attractive returns offered to existing and new investors, Eskan Bank wishes to position itself as a partner of choice for investors seeking development opportunities to satisfy a pent-up demand (social housing) while providing tangible exits boosting investors' confidence in the Kingdom," Mr. Ahmad Tayara, Chief Business Officer and Deputy General Manager of Eskan Bank, said.

"Listed REITs provide investors with an alternative investment asset class, and access to ownership in large, high-value real estate projects at low ticket sizes. Now traded in more than 37 jurisdictions worldwide, they have consistently delivered higher returns with significantly lower fees than other major alternative asset classes, and have shown little correlation to the returns of the broader stock markets. The structure of this new REIT provides significant built-in safeguards. Trustees act as watchdogs on behalf of unit holders, and are supported by an independent trust manager, a custodian, auditors and legal counsel," Mr. Wissam Haddad, Head of Corporate Finance at SICO, said.

Technology advances change banking landscape

Technological advances have played, and continue to play, a major role in helping banks to improve margins and more effectively monitor risks to which they are exposed. These advances have also improved the customer experience by making banking easier. A recent Standard & Poor's Ratings Services' opinion on cybersecurity postulated that the introduction of new technologies such as mobile banking was at the forefront of product innovation as well as helping to create new revenue streams.

Banks, including many in Bahrain, now choose to invest more heavily in delivering products and services through technology in preference to increasing the branch network.

In line with emerging trends in the financial sector, the retail banks in Bahrain are ahead of their regional peers by introducing state-of-the-art technology solutions. The innovation of various internet banking applications, including those which can be operated on a smartphone, are indicative of the technological advancements being offered by the banks to its customers. Many banks have also recognised the huge potential of harnessing social media channels for the benefit of customers. It is now common practice for customers to access a host of services by using smart phone devices, without the need to visit the physical premises of a bank.

The introduction of these business channels has been largely positive for both the banks and their customers. However some experts have opined that if a bank does not embrace technology as it develops, the business model of that bank could be undermined due to the increasing desire of customers to embrace technology. Put simply, the increasing demand for mobile and online banking services means that if a bank does not demonstrate that it is continually technologically up to date, it runs the risk of losing customers. This requires significant investment by banks.

Technological advancement also poses major risks. Innovations are typically expensive to develop and implement, therefore success in terms of return on capital is essential. Moreover, the security of data is paramount. Any breaches of security are likely to cause reputational damage to the bank, and also financial loss to recompense customers whose accounts have been hacked. Inappropriate security has also led to regulators imposing substantial financial penalties on banks.

The seemingly never-ending amount and increasing frequency of cyberattacks and criminal intrusion into banking platforms demonstrate the challenges which banks face in their attempts to protect customers. A central function of a bank is to transfer cash at the request of a customer. This requires banks to retain a plethora of highly confidential information about each customer. These elements determine that banks are natural targets for criminals.

Without question banks strive to do everything possible to implement appropriate controls to mitigate known risks. However this is a moving feast; staying ahead of criminals is no easy or inexpensive task. A successful cyberattack invariably results in a loss of reputation, combined with legal and regulatory damage. Emerging risks pose greater challenges, therefore continued vigilance is essential. The successful security breaches to date have not been fatal, but experts agree that a platform which is vulnerable to cybersecurity attacks is an emerging and increasing threat. No technology platform is unbreakable, but a strong, well thought-out strategy, coupled with a real time capability for a bank to recognise when its systems have been maliciously penetrated; to understand the nature and depth of that penetration; and to swiftly take the necessary actions, to isolate and/or minimise the impact of the attack, is an essential ingredient of a successful cybersecurity strategy. All of this is of course built on the foundation of customers protecting their access credentials and checking their accounts frequently.

Cybersecurity which impacts the banking industry can have many underlying threads. Whilst there are some ideological reasons for cyberattacks, the most obvious reason is financial, and many banks are known not to report their losses below a defined monetary value due to insurance and/or reputational damage. Consequently banks often suffer low-level attacks (pings) as would-be attackers assess the strength of the bank's security system in preparation for a much larger attack at some future time.

Cyberdefense is a continual battle, particularly as the speed of technology is dramatically fast. It is theoretically possible, given sufficient resources, to cause so much damage that a bank ceases to operate. In these circumstances it is essential that a bank has sufficient controls to be able to react quickly to isolate and disable the attack.

Despite the challenges noted above, the implementation of state-of-the-art technology has provided banks with powerful tools which have changed much of the way in which high volume, low value services are delivered to retail banking customers which in turn has facilitated a more focused approach to the needs of customers.

Experts postulate that banks must improve the customer experience at the same rate at which customers are adopting technology. This challenges the industry to find a mechanism to maintain the balance between technology and the resources required by banks to migrate to new channels whilst protecting customer data.

There is, however, a dilemma for the management - how to balance the value of human interaction with customers with the demand for increased ease of access through technology.

The financial sector in Bahrain is acutely aware of the demands of customers, and the continual demand for technological solutions remains high on their agenda.

Bahrain's banking system remains resilient

The Kingdom of Bahrain's banking sector remains resilient in the face of challenges, thanks to strong liquidity and the capital base of the financial institutions.

This was the crux of Moody's roundtable held at the Bahrain Bourse premises on 2nd September which included presentations from analysts covering the Bahrain banking systems' outlook, and developments in Islamic capital markets.

The lower oil prices and weakened government finances will dampen operating conditions for banks, affecting banks funding and profitability, says an expert.

"The banks' strong liquidity and capital buffers continue to provide Bahraini banks with financial flexibility to adapt to these conditions," says Christos Theofilou, AVP Analysts at Moody's.

In his presentation titled 'Bahraini banks: resilient in the face of challenges' he maintains that drop in oil prices is likely to weaken government finances and economic growth prospects.

"A Banking system can be affected via two channels i.e. banks' credit quality, which is closely linked with the government's weakening fiscal position, and subdued business opportunities on the back of slower economic activity and weakened sentiment," explains Christos.

However, he believes that the impact will be partly mitigated firstly by infrastructure investments through GCC development funds, and secondly due to Bahrain's diversified non-oil economy with resilient construction and tourism sectors.

Moody's also expects a relative stable asset quality of non-performing loans (NPL) to gross loan ratio of 5.5% t-6.5%.

"A modest uptick in new NPL formation will be offset firstly by banks' ongoing initiatives to recover and write-off legacy problem loans and secondly by domestic loan growth of 4%. However, high concentrations of loans to single borrowers also pose credit risks with provisioning expenses should increase in the second half of 2015.

Moody's expect capital levels for the system to remain stable (Tier 1 of around 13%) and under current scenario analysis Bahraini banks are able to absorb projected losses without reducing their current Tier 1 ratios.

"We expect Bahraini banks to maintain solid liquidity buffers (around 32% of assets) which will allow them to manage the risks. The banking sector looks on course to maintain a stable pre-provision income, amid a moderate increase in credit and overall business growth, plus broadly stable net interest margins and operating expenses," adds expert.

Assets of Islamic finance institutions continue to grow at a faster rate than conventional banks assets, says Khalid Ferdous Howladar, Global Head Islamic Finance at Moody's.

Islamic finance enjoys strong penetration in many markets but still has room to grow, says Khalid in a presentation entitled 'Islamic banking: growing fast with. liquidity management challenges.'

"Islamic retail banks in Bahrain captured around 26% of the banking system assets at end of year 2014 vs. 21% at YE2010. Following its merger with BMI in February 2014, Al Salam Bank has become the largest Islamic retail bank in Bahrain.

Highlighting the key challenges he says the Islamic banks face liquidity management challenges in the backdrop of a lack of Shari'ah-compliant high-quality liquid assets which will pressure compliance with Basel III liquidity and funding ratios.

"High quality sukuk, both short term and long term, are needed for liquidity management as the lack of high-quality liquid assets pushes banks to rely primarily on low yielding cash and central bank placements as their main liquidity management tools.

In the current scenario, he says, Basel III compliance will be harder for Islamic banks. However, cash, reserves and customers' deposits are very safe – but are inefficient, putting the Islamic sector at a commercial disadvantage to conventional banks.

He says multilateral initiatives like the International Islamic Liquidity Management Corporation may serve as a key to moderating this problem.

The banking experts attributed Bahrain's robust regulatory regime and attractive investment climate to the sustained growth patterns over the past decade.

> "The banks' strong liquidity and capital buffers continue to provide Bahraini banks with financial flexibility to adapt to these conditions," says Christos Theofilou, AVP Analysts at Moody's"

According to 2015 Index of Economic Freedom, Bahrain's economic freedom score is 73.4, making it the 18th freest economy in the 2015 Index.

Bahrain continues to be the freest economy in the Middle East and North Africa (MENA) region, and its economic freedom score is well above the world average. Impressive long-term improvements in financial, investment, and labour freedoms have helped the Kingdom transform itself into a competitive trade and financial hub that leads the region in many areas, says Heritage Freedom Index in its 2015 rankings announced earlier this year.

Bahrain's commercial law system is relatively straightforward, but the regulatory environment lacks coordination and efficient enforcement of regulations. Following labour reforms in recent years, labor market flexibility has been relatively well maintained.

Bahrain's more than 400 banks and financial institutions account for over a quarter of GDP. Foreign and domestic investors have access to a wide range of financial services. Capitalisation of the banking system remains high, and non-performing loans are declining.