

# THE REVIEW



مصرف البحرين المركزي

Central Bank of Bahrain



Published by the Central Bank of Bahrain (CBB)



September 2014 Issue 40

## Bahrain insurance market posts 8% growth in 2013

The Bahrain insurance market continued to post strong growth last year, with gross premiums underwritten by the domestic industry totaling BD258.4 million (US\$685.4 million), an increase of 8 percent over the previous year.

“The insurance industry has shown steady progress in 2013 as evidenced by the growth in gross premiums of 8 percent compared to 2012,” says Mr. Rasheed Al Maraj, Governor of the Central Bank of Bahrain (CBB), in a message in the Insurance Market Review 2013, issued by the CBB.

Last year’s growth was largely driven by a surge in motor insurance, which generated gross premiums worth BD68.1 million, an increase of 10 percent over premiums worth BD62 million in 2012. Motor insurance is the largest business class in terms of gross premiums, representing 26 percent of the total premiums written in 2013.

Medical insurance also posted a 10 percent increase, with gross premiums amounting to BD40.8 million in 2013, from BD37.2 million the previous year.

Long-term (life and savings products) insurance generated gross premiums of BD62.7 million in 2013, an increase of 4 percent over the previous year, while the fire, property and liability business class saw gross premiums grow by 13 percent to BD47.2 million.

The takaful (Islamic insurance) industry also saw strong growth of 7 percent, with gross contributions (i.e. premiums) totaling BD57.2 million in 2013, compared with BD53.7 million in 2012.

Gross premiums of the reinsurance sector grew 8 percent to BD336.6 million in 2013, from BD312.1 million in 2012.

The total assets of insurance and takaful firms grew 5 percent to BD1.7 billion in 2013 compared with BD1.6 billion the previous year, while the paid-up capital of insurance firms increased slightly to BD178.4 million in 2013, from BD173.9 in 2012.

Bahrain’s domestic insurance market, at 2013-end, comprised 25 locally incorporated and 11 overseas insurance firms (i.e. branches of foreign companies) carrying out insurance, reinsurance, takaful, retakaful and captives business. The locally incorporated firms consisted of 14 conventional insurance firms, 6 takaful firms, 2 reinsurance firms, 2 retakaful firms and 1 captive insurance company, while overseas firms comprised 8 conventional and 3 reinsurance firms. In addition, there are a number of firms restricted to carrying out business outside Bahrain and providing insurance ancillary services.

The insurance sector, in 2013, employed a total of 1,663 people of whom 66 percent were Bahrainis.

“Growth of human capital is essential for the advancement of any industry and the CBB believes that managements of insurance companies must continue to encourage their employees to possess the most recognised international academic and professional qualifications,” said Mr. Al Maraj.

In this regard, the CBB has been working on enhancing its Training and Competency regime. Updated rules would cover requirements for insurance licensees and staff performing controlled functions and those involved in dealing with potential policyholders (customers).

In addition to this, the CBB is working on enhancing rules related to Market Conduct, initially for long-term insurance business. This is to ensure that customers are treated fairly and that insurance entities are diligent when dealing with customers.

“The insurance sector in Bahrain holds tremendous promise for growth, as demonstrated by the industry’s strong performance not only during 2013 but also during the past five years,” said Mr. Abdul Rahman Al Baker, Executive Director, Financial Institutions Supervision, at the CBB.

“We expect the insurance sector to continue its growth in the coming years, mainly due

to the increase in public awareness about the importance of insurance, as well as due to the surge in the economic growth of the Kingdom and the soundness of the regulatory and supervisory framework of the insurance sector in Bahrain.”

Mr. Fouad A. Wahid Abdulla, Director, Insurance Supervision, at the CBB, said that due to the well-established regulatory regime, a number of leading international insurance companies have established insurance and reinsurance operations in Bahrain, which has further consolidated Bahrain’s global profile as a financial centre. The increase of insurance ancillary services provides an important source of synergy to the market.

See also ‘Good growth in premiums’ – Page 2

### INSIDE

Page 2

*Good growth in insurance premiums*

Page 3

*Updated remuneration rules for banks*

Page 4

*CBB finalises Basel III rules on capital*

Page 5

*Risk management rules for microfinance*

Page 6

*Bahrain is top Islamic finance centre*

Page 7

*Retail banks assets grow strongly*

Page 8

*BHB launches new trading platform*

Page 9

*Electronic reporting system introduced*

Page 10

*Non-oil sector to drive growth*

Page 11

*AAOIFI-World Bank forum*

Page 12

*Financial Sector Fact Sheet*

# Good growth in premiums for Bahrain's insurers

General insurance business (including medical insurance) represented almost 76 percent of the gross premiums generated in the Bahrain insurance market during 2013. And, almost 80 percent of the gross premiums of general insurance business were contributed by motor, medical, fire, property and liability business.

Total gross premiums underwritten by the domestic industry in 2013 amounted to BD258.4 million (US\$685.4 million), an increase of 8 percent over BD239.1 million worth of gross premiums in 2012.

Following are highlights of the performance of the different classes of business, as provided in the Bahrain Insurance Market Review 2013, which is available on the CBB website at [www.cbb.gov.bh](http://www.cbb.gov.bh):

## Motor insurance

Motor insurance business was the largest class of insurance business, representing 26 percent of the total gross premiums written in 2013.

Motor premiums grew by 10 percent during 2013 to BD68 million, from BD62 million in 2012. Insurance firms continued to retain a high level of motor insurance premiums, with a retention ratio of 90 percent last year.

The number of motor insurance policies issued by Bahrain's insurance companies grew to 3.3 million in 2013, from 2.9 million the previous year.

Gross claims grew modestly by 6 percent to BD57.8 million last year, from BD54.4 million in 2012, with a loss ratio of 70 percent in 2013.

## Long term insurance

Coverage under this class of business includes group life assurance; group credit life assurance; level and decreasing term assurance; unit-linked assurance; participating with profit policies; and children's education policies. This is in addition to the ancillary benefits that are normally attached to such types of life assurance.

During 2013, long term insurance premiums increased by 4 percent to BD62.8 million, compared with BD60.2 million the previous year. Long-term insurance

premiums represented 24 percent of total premiums written by the insurance market in 2013, with a 93 percent retention ratio for the year.

Gross claims surged by 55 percent to BD33.9 million in 2013, from BD21.9 million in 2012. The loss ratio for this class of business expanded to 77 percent last year, from 52 percent the previous year.

## Fire, property & liability

Gross premiums generated by this class of business represented around 18 percent of the insurance market in 2012. Fire, property & liability insurance premiums grew by 13 percent to BD47.2 million last year, compared with BD41.8 million in 2012. The retention ratio of this insurance class was 18 percent in 2013.

Gross claims, however, grew by 135 percent to BD24 million, from BD10.2 million in 2012. The loss ratio for this class of business was 32 percent in 2013.

## Engineering

Gross premiums generated by this class of business grew by 17 percent to BD17.7 million in 2013, from BD15.2 million the previous year. Engineering insurance premiums represented 7 percent of total premiums written by the insurance market in 2013, with a retention ratio of 36 percent for the year.

## Marine and aviation insurance

Marine and Aviation saw gross premiums decline by 13 percent to BD6.1 million in 2013, from BD7 million in 2012. The retention ratio was 27 percent last year.

Gross claims grew by 33 percent to BD1.1 million last year, from

BD853,000 the previous year, with a loss ratio of 27 percent in 2013.

## Medical insurance

Gross premiums from medical insurance policies grew by 10 percent to BD40.8 million in 2013, from BD37.2 million in 2012. Medical insurance premiums represented 16 percent of total premiums underwritten in the Bahrain market in 2013. The retention ratio of this class of business was 65 percent in 2013.

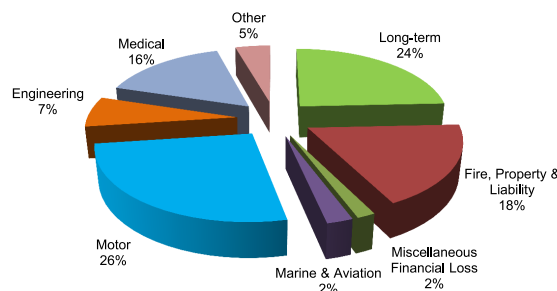
Gross claims grew modestly by 5 percent to BD30.8 million in 2013, from BD29.3 million the previous year. The loss ratio declined to 72 percent in 2013.

## Reinsurance

Gross premiums of reinsurance and retakaful firms increased by 8 percent to BD336.6 million in 2013, from BD312.1 million in 2012. Retakaful business constituted 17 percent of the total reinsurance and retakaful premiums/contributions in 2013. Reinsurance and retakaful firms retained around 80 percent of the gross premiums in 2013, compared to 83 percent in 2012.

Gross claims of reinsurance and retakaful firms decreased to BD 204.3 million in 2013, compared to BD 220.3 million in 2012, a decrease of around 7 percent.

Gross premiums by business class (2013)



## Main Highlights

BD'000	Gross Premiums			Gross Claims		
	2013	2012	%Δ	2013	2012	%Δ
Long-term	62,767	60,159	4%	33,883	21,892	55%
Fire, Property & Liability	47,201	41,748	13%	24,013	10,236	135%
Miscellaneous Financial loss	4,280	4,464	- 4%	6,770	1,700	298%
Marine & aviation	6,079	7,013	-13%	1,135	853	33%
Motor	68,047	61,994	10%	57,731	54,409	6%
Engineering	17,743	15,188	17%	12,255	3,467	253%
Medical	40,833	37,165	10%	30,817	29,321	5%
Other	11,455	11,320	1%	8,800	3,246	171%
Total	258,405	239,051	8%	175,404	125,124	40%

Note: Certain items have been restated, reclassified or recalculated and have been retrospectively adjusted in 2013.

# Updated remuneration rules for banks

*The Central Bank of Bahrain (CBB) officially launched its rules dealing with remuneration for banks in November 2013, following a period of consultation and discussions with the industry. Part of the implementation process and additional feedback received has resulted in clarifying and updating the rules. Ms. Johanne Prevost, Adviser, Regulatory Policy, at the CBB, explains some of the relevant amendments that were issued in the July 2014 update of Volume 1 (Conventional Banks) and Volume 2 (Islamic Banks) of the CBB Rulebook.*



Following an extensive consultation period and follow up discussions with banks, the Central Bank of Bahrain (CBB) issued its rules dealing with the remuneration provided by banks in Bahrain. The rules in place before the amended rules were issued in November 2013, did contain requirements dealing with the need for all locally incorporated banks to have a remuneration committee and remuneration policy in place.

The new rules have added considerable details on the standards for remuneration and follow the international standards issued by the Financial Stability Board and endorsed by the Basel Committee on Banking Supervision (BCBS) and dictated specific practices to be followed in how remuneration packages are put together and relate these to the risk management practices of the bank. Part of the research involved in putting such rules in place considered how other banking supervisors chose to implement these international standards.

While the remuneration rules do not involve the complexity of calculations involved in the implementation of Basel III definition of capital rules for banks, nonetheless the various requirements necessitate a careful study of what needs to be put in place in order to comply with these international standards. The July 2014 update to the CBB Rulebook did include some policy changes in the implementation of the remuneration rules, but for the most part, the amendments mainly aimed at clarifying areas where a number of inquiries have arisen.

## Who the Rules Apply to

Much confusion continues to persist on whether the remuneration rules apply to all banks licensed in Bahrain. Module HC (High-Level Controls) – where the bulk of the remuneration rules can be found – clearly states in the scope of application that unless otherwise stated the rules apply to all bank licensees.

For overseas bank licensees, the Module specifies that these banks must satisfy the

CBB that equivalent arrangements are in place at the parent entity level, and that these arrangements provide for effective high-level controls over activities conducted under the Bahrain license. Therefore, the remuneration rules do apply as well to the overseas bank licensees in Bahrain. Further clarification is provided to overseas banks with respect to remuneration, in instances where the remuneration rules imposed on the home supervisor and head office differ with those imposed in Bahrain. The bottom line is that in such instances, the stricter set of rules – those from the CBB or the home supervisor – must apply.

In addition, the rules apply to all employees of the bank unless specifically mentioned. Many of the remuneration rules issued by the BCBS and endorsed by the CBB are sound rules for all employees of the bank, regardless of the position they occupy within the bank. As an example, remuneration must be adjusted for all types of risk (ref.: HC-5.4.10); this is simply common sense and the days are gone where the risk-takers would get paid considerable amounts, regardless of the losses they may have caused the bank.

## Employee Remuneration

While the above paragraph clarifies that, in general, the rules apply to all employees of the bank, certain provisions dealing with the proportion of fixed and variable remuneration as well as rules dealing with the deferral of variable remuneration and the obligation to have part of the variable remuneration in shares are specifically aimed at the bank's approved persons and material risk-takers (as defined in the CBB Glossary), whose total remuneration is in excess of BD100,000. This is one area that was clarified with the release of the July 2014 update.

Furthermore, the CBB has clarified that the rules dealing with the proportion of fixed and variable remuneration differ for those employees involved in risk management, internal audit, operations, financial controls, internal Shari'a review/

audit, anti-money laundering (AML) and compliance functions. For these employees, remuneration must be weighted in favour of fixed remuneration. In addition, non-executive directors are not entitled to receive any variable remuneration.

## Share Retention Period

One area where the CBB's further research led to a significant change in its remuneration rules deals with the minimum share retention period, where shares are awarded as part of the remuneration package. The original three-year minimum share retention period was reduced to a six-month period, to be aligned with requirements in other jurisdictions. Of course, the bank has the option to require a longer share retention period as the six-month period is simply a minimum requirement.

## External Auditors

Another area where the CBB has lightened its requirements is by limiting the requirement for the external auditor's remuneration agreed-upon procedures, only to those banks that have individual approved persons and/or material risk-takers whose total individual annual remuneration is in excess of BD100,000.

For some of the smaller banks operating in Bahrain, this will reduce the regulatory burden being introduced. Similarly, some of the disclosure requirements have also been alleviated for those banks falling in the same category.

## Updated Remuneration Policy

Banks must now ensure that before 31 December 2014, their updated CBB-approved remuneration policy is approved by their shareholders. So the next few months will no doubt be busy for banks' remuneration committees as they finalise the updated board-approved remuneration policy, submit the policy to the CBB for approval and then hold an extraordinary general meeting (EGM) to have the CBB-approved remuneration policy endorsed by shareholders. A busy Fall ahead for all!



# CBB finalises Basel III rules on capital

On 17 August 2014, the Central Bank of Bahrain (CBB) posted its final version of Module CA for Volumes 1 and 2 of the CBB Rulebook. These Modules are due to come into effect on 1 January 2015, subject to putting in place new reporting forms so that the new capital adequacy ratios may be accurately and consistently measured.

The new capital adequacy framework is the result of two industry-wide consultations in late 2013 and spring 2014, followed by further consultation with the Bahrain Association of Banks in July this year.

The key objective of Basel III is to strengthen global capital and liquidity rules for banks so that banks may absorb shocks arising from periods of financial stress without causing damage to the real economy.

Unfortunately, from 2007 to 2009 many banks in many different countries had leveraged themselves to the hilt and were operating at capital adequacy levels that maximised returns for shareholders but left no room to absorb losses. To compound this, banks were also tending to hold too few high quality liquid instruments.

We are all familiar with what happened next. Many major banks in the G-20 countries became insolvent and required rescuing by their governments while central banks were obliged to pump unprecedented amounts of liquidity into the financial markets just to keep them functioning.

It is to avoid this widespread economic damage happening again that Basel III has been introduced. The publication of the final draft of the capital adequacy module of the CBB Rulebook is the first step in the package of Basel III measures. The key features of the new module are as follows:

1. Introduction of a new minimum "Common Equity Tier 1" (CET1) ratio of 6.5 percent. CET1 is basically voting shares plus retained earnings. This is an explicitly higher ratio than under Basel II to ensure that the majority of a bank's regulatory capital is permanent equity.

2. Introduction of a Tier 1 minimum ratio of 8 percent. There is a new category of Additional Tier 1 Capital (AT1). This must be permanent but may be called after a minimum period of five years. There are restrictions on the payment of dividend/coupon if the bank fails to meet its minimum capital ratio. Finally, it must have principal loss absorption through

a write-down mechanism or conversion to common shares at an objective pre-specified trigger point. Note that AT1 can only contribute 1.5 percent to the Tier 1 ratio.

3. A minimum total capital ratio of 10 percent. This is lower than the CBB's present minimum trigger ratio of 12 percent, but if a bank is in the 10-12.5 percent range for its capital adequacy ratio, then it is unable to pay out a dividend. Tier 2 includes general provisions (up to 1.25 percent of credit risk-weighted assets) and subordinated debt instruments that meet tougher conditions than under Basel II. Like Basel II T2 instruments, they must have a minimum maturity of at least five years, and must not be secured on assets or be guaranteed. Like AT1, T2 instruments must have a conversion or write-down feature.

4. A completely new feature is the need for banks to maintain a capital conservation buffer of at least 2.5 percent above the minimum CET1 ratio of 6.5 percent. This means if banks wish to pay dividends on their equity, they must maintain CET1 ratios of at least 9 percent on a consolidated basis. The capital conservation buffer must be composed of only CET1 so this has the effect of improving the overall quality of capital.

5. There are also new deductions from CET1 which are tougher and more prescriptive than under Basel II. These include certain non-permanent reserves (e.g. deferred tax assets and pension fund related matters). The big effects are in the deductions in respect of investments in the capital of banks and other financial entities which are not consolidated into the parent bank. In short, all such investments must be deducted from capital. These deductions will be phased in over a five-year period to avoid excessive shock to the banking system. Banks are permitted to hold a small amount of such investments (of up to 10 percent of their capital base) on a risk-weighted basis instead of a full deduction from capital.

Interested parties should go to the CBB website and refer to the 'closed consultations' section of the 'regulatory

functions' dropdown, if they require more in-depth information.

There are also some changes to risk weighting as a result of Basel III. Significant investment in commercial entities and large exposures over the 15 percent of Total Capital limit are risk-weighted at 800 percent whilst some high-risk securities and failed trades are weighted at 1,250 percent. A new credit value adjustment (CVA) change has been added to cover the risk of mark-to-market losses on the expected counterparty risk for derivatives such as interest rate swaps.

The CBB has paid attention to concerns raised by the banks and now 100 percent of unrealised fair value gains are allowed into CET1. The CBB has also removed the 15 percent cap that was previously placed on 'innovative' Tier 1 capital instruments.

There are several parts of Basel III that will be implemented at a later stage. These include leverage and liquidity. The required public disclosure measures for the changes to Module CA will be under consultation later this year so they may apply from March 2015.

At present, the CBB is not intending to add any CET1 capital requirements for domestic systemically important banks (DSIBs), or in respect of the countercyclical buffer. Extra Pillar 2 requirements (e.g. an individual risk-based minimum capital ratio) will be consulted in due course, whilst the Internal Ratings-Based (IRB) approach to capital adequacy will not be used due to the fact that default and credit history data need to be aggregated across the region before the IRB approach can be used with a sufficient degree of confidence in the underlying default data.

So the first stage of Basel III is complete. There is much to do over the next three or four years until all the stages of Basel III are implemented, but the major foundation stone (capital) is in place.



There are several parts of Basel III that will be implemented at a later stage. These include leverage and liquidity.

# Risk management rules for microfinance institutions

*The Central Bank of Bahrain (CBB) recognises that its rules need to be tailor-made according to the business and nature of the financial institutions it regulates. Ms. Johanne Prevost, Adviser, Regulatory Policy, at the CBB, provides an overview on how the CBB has issued tailor-made rules on risk management for microfinance institutions.*

As part of its July 2014 update to Volume 5 of the CBB Rulebook, the CBB released Module RM (Risk Management), specifically tailored for microfinance institutions. The business model of microfinance institutions is quite unique and different from the risks to which other credit granting institutions are exposed to. Therefore, the risk management Module needed to address the unique risks faced by microfinance institutions and also take into account the need to reduce the regulatory burden to cater to the smaller level of operations undertaken by these entities.

## Role of Board and Management

Many of the decisions involving risk management require the much-needed input of the institution's board of directors and senior management. Both the board of directors and senior management must take an active role in recognising the risks faced by the institution and putting in place the necessary framework ensuring that all risks are identified, monitored and managed. Such responsibilities are at the core of every enterprise and are no different for microfinance institutions. Directors and senior management must have the necessary background and experience to meet their responsibilities that come along with the role they play as members of the microfinance institution.

## Credit Risk

Risk recognition must take place and, quite clearly, one of the greatest risks faced by microfinance institutions deals with credit risk. While the rules restrict the lending activities of these entities in terms of loan size (maximum BD5,000), maturity of the credit facility (maximum three years) and eligible beneficiaries, the need for a proper credit analysis of the potential borrower is essential.

This is one of the more challenging functions for microfinance institutions as borrowers may be faced with external factors that limit the potential revenues that they may generate as source of repayment for the facilities received. As an example, fishermen and farmers are subject to weather and seasonal changes having a considerable impact on the products generated from their activities.

A further credit risk related area deals with the need for a proper credit grading system, including the amount and timing of credit provisions where the repayments of facilities become past due.

A realistic assessment must be made on whether the borrower will be able to recover from a financial setback and resume the agreed upon repayment schedule. Being a borrower with limited resources to start with, and limited access to funding, may necessitate having provisions put in place much earlier than may otherwise be the case for a bank dealing with a significantly different profile of borrowers. Once again, because of the unique nature of the credit facilities offered by microfinance institutions, one would expect a different credit grading system than may typically be found in a bank.

Module RM does propose minimum standards to follow for rating credit facilities and the various provisioning levels mandated. However, senior management should view these as absolute minima and should be encouraged for a more conservative approach in evaluating the true financial condition of the institution's portfolio.

## Other Risks

Module RM also deals with operational, outsourcing and liquidity risks which all financial entities need to address. But again, these have been tailored for microfinance institutions to reduce significantly any additional costs they may face.

For operational risks, the security measures imposed on microfinance institutions recognise that a limited amount of cash resources will be held at the institution's premises and, therefore, the minimum security measures have been substantially lightened when compared to other financial institutions. Despite the lower level of operational risk, sound business management necessitates that succession planning and business continuity requirements be addressed and the module does outline some guidance to follow in these areas.

Outsourcing risk for microfinance institutions can be faced with unique features as the services outsourced by such institutions may vary greatly from other financial institutions. As an example, the collection of payments due from borrowers may be outsourced to a third party. As this is a crucial component of the cash flow of the microfinance institution, there is a need to take extra precautions and recognise the risks associated with outsourcing such an activity, such as proper insurance coverage.

In recognition of the importance of outsourcing activities, the CBB requires that CBB prior approval be obtained before any outsourcing agreement is entered into. Formal arrangements in the form of service level agreements (SLA) must be put in place and the Module outlines key areas that must form part of the SLA.

Finally, liquidity risk is also covered, even though microfinance institutions are not faced with the likelihood of a 'run on the bank', since they are not allowed to take any deposits. However, any type of business needs to undertake a proper budgeting exercise which involves having systems in place to monitor cash flow requirements in order to keep operating. Such basic requirements, no matter how obvious or 'common sense' they may be, are needed and are addressed in the Module.

## Microfinance Framework

The release of Module RM is one of the final pieces to complement the overall microfinance institution framework that was launched earlier by the CBB.

Along with Modules dealing with various licensing, corporate governance, reporting, capital adequacy and public disclosure requirements, the CBB has maintained its commitment to tailor its supervisory and regulatory framework to the unique features of the various financial institutions licensed in the Kingdom. Having a clear set of rules for microfinance institutions to follow removes a great deal of uncertainty in operating in a regulated environment and can only add as a further incentive for the development of this industry to service this niche in the financial sector of the Kingdom of Bahrain.



# Bahrain is top Islamic finance centre in GCC

For the second year in a row, Bahrain has been named the GCC region's leading Islamic finance market and second out of 92 countries worldwide, according to the ICD-Thomson Reuters Islamic Finance Development Indicator (IFDI).

As well as being highly ranked in terms of the Kingdom's commitment to research and training and local awareness of the industry, Bahrain was also ranked as having the best governance in Islamic finance in the world, with the IFDI report praising the well-established regulatory framework covering all sectors, and high levels of disclosure.

The report was released on 4 September 2014 at the Global Islamic Finance Forum (GIFF 2014) in Kuala Lumpur, Malaysia. The IFDI is the only numerical measure representing the overall health and development of the Islamic finance industry worldwide. It is a measure of five key components that combine to depict the bigger picture of the state of Islamic finance in 92 countries: Quantitative Development, Governance, Corporate Social Responsibility, Knowledge and Awareness.

Mr. Rasheed Al Maraj, Governor of the Central Bank of Bahrain (CBB) said: "In 1991, the Central Bank's predecessor, the Bahrain Monetary Agency, played a leading role in the development of regulatory

regimes for the workings of Islamic financial institutions for more than two decades and contributed to the introduction of Shari'a-compliant products and became the first central bank in the world to develop and issue sukuk and Bahrain has continued to play a leading role in the introduction of these products through issuances. The ranking Bahrain has received is a testament to the role we play in the Islamic finance industry."

Mr. Kamal bin Ahmed, Minister of Transportation and Acting Chief Executive of the Bahrain Economic Development Board (EDB) commented: "We are delighted at the ranking that Bahrain has received and the recognition of the investment that the Kingdom has made in developing the industry both here and internationally.

"Islamic finance has an important role to play within the wider financial sector in Bahrain and the GCC and the growth that the sector has seen is testament to that. We are committed to helping the industry to grow in Bahrain, to working towards addressing ways of boosting international growth and also to working with countries across the world as they look to establish Islamic finance industries in their own markets."

Mr. Khalid Hamad, Executive Director, Banking Supervision, at the CBB, commented: "The Islamic finance sector

continues to expand rapidly, both regionally and internationally, and we are proud of the role we play in supporting its development. We will continue studying ways in which we can help to develop the industry – both here in Bahrain, by ensuring regulation continues to evolve and taking steps to strengthen the Kingdom's Islamic financial institutions, and internationally, by working with countries that wish to introduce Islamic banking. For example, in April this year we agreed a joint framework with the United Kingdom to enhance collaboration on Islamic finance at the UK-Bahrain Islamic Finance Summit in London."

Bahrain is home to the largest concentration of Islamic financial institutions in the world, including 32 Islamic banks and takaful and retakaful firms.

Bahrain is also host to a number of organisations dedicated to advancing Islamic finance policy and regulation, such as the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI), the International Islamic Financial Market (IIFM), the General Council for Islamic Banks and Financial Institutions, the Islamic International Rating Agency (IIRA), the Thomson Reuters Global Islamic Finance Hub and Deloitte's Islamic Finance Knowledge Center, making the Kingdom a knowledge hub for the industry.

## New initiative on Islamic finance for SMEs

The Bahrain Economic Development Board (EDB) and the Islamic Corporation for the Development of the Private Sector (ICD), the private-sector arm of the Islamic Development Bank (IDB), signed a memorandum of understanding (MoU) to promote the growth of small and medium enterprises (SMEs) in Bahrain by providing support, Shari'a-compliant products, and training.

Under the terms of the joint partnership, the ICD will establish a world class Islamic Ijara Company in Bahrain to help SMEs succeed by offering Shari'a-compliant financing products. The proposed Ijara Company will also be used as a training centre to help Bahrainis in the area of Islamic finance.

In addition, ICD plans to set up a software development centre in Bahrain to develop software solutions for Ijara, takaful (Islamic insurance), mortgage and Islamic banking, for export to the international market. Moreover, the ICD will assess the

feasibility of establishing an SME Fund, in partnership with the EDB, with the aim of supporting and investing in SMEs based in Bahrain.

Commenting on the MOU, signed on 9 July 2014, Mr. Kamal bin Ahmed, Minister of Transportation and Acting Chief Executive of the EDB, said:

"We are delighted to announce this partnership that will provide a significant boost to the Islamic finance sector, not just in Bahrain but in all ICD member countries and beyond.

"Bahrain currently plays host to one of the largest concentrations of Islamic financial institutions in the world, and the new Ijara Company will add to the wide range of Shari'a-compliant products and services on offer, particularly for SMEs."

Bahrain is also already home to a number of independent organisations committed to the development of the SME sector, he noted.

"Central to this is our education system which has enabled the Kingdom to boast one of the most highly skilled workforces in the region. The new training on offer as a result of this agreement will further reinforce Bahrain's status as a knowledge hub for the Islamic finance industry," said Mr. Ahmed.

During the signing ceremony, Mr. Khaled Al-Aboodi, Chief Executive Officer of ICD, said:

"As one of the leaders of the Islamic finance industry, Bahrain was an obvious partner for these exciting new projects. Not only is Bahrain the ideal location from which SMEs, both Bahraini and international, can launch new ventures to access the Gulf region's fast economic growth, but the Kingdom's strong business regulatory environment provides the support and expertise required for new and growing businesses in the Islamic finance industry."



## Retail banks' assets on strong growth path

The consolidated balance sheet of the banking system in Bahrain, comprising retail and wholesale banks, stood at a months-long high of US\$193.6 billion at the end of June 2014, according to the latest issue of the Central Bank of Bahrain's Monthly Statistical Bulletin.

This was a slight increase over the consolidated balance sheet of US\$192.6 billion at the end of the first quarter of this year.

The assets of retail banks have been steadily rising this year and totaled BD30.1 billion (US\$79.9 billion) at June-end 2014. This was an increase of 3.4 percent over a consolidated balance sheet of BD 29.1 billion at March-end 2014 and 6.4 percent over December 2013. At the half-year, retail banks represented 41.3 percent of the consolidated balance sheet of Bahrain's banking sector.

The aggregate balance sheet of wholesale banks stood at US\$113.7 billion at June-end, a decline of 1.3 percent over a balance sheet of US\$115.2 billion at March-end.

Total domestic assets of the banking system stood at US\$48.8 billion at June-end,

compared with US\$49.5 billion at March-end. Foreign assets increased marginally to US\$144.8 billion at June-end, from US\$143.1 billion at March-end.

Total domestic liabilities of the banking system stood at US\$52 billion at the half-year, compared with US\$51.1 billion at March-end, while foreign liabilities remained almost unchanged at US\$141.6 billion.

Domestic assets of retail banks stood at BD15.6 billion (US\$41.4 billion), while foreign assets amounted to BD14.5 billion at June-end. Domestic liabilities stood at BD15.7 billion, while foreign liabilities amounted to BD14.4 billion.

Total deposits at retail banks increased marginally to BD15.5 billion at June-end, from BD15.3 billion in March 2014.

Total outstanding loans and advances extended to residents by retail banks declined slightly to BD7.1 billion at June-end, from BD7.3 billion at the end of the first quarter.

Of the total loans at June-end, 57.1 percent were in the form of business lending, while the personal and government sectors

accounted for 39.9 percent and 3 percent respectively.

The distribution of the loans to business indicate that 20.4 percent were extended to the construction and real estate sector, followed by 13.5 percent to the trade sector and 11.5 percent to 'other' sectors, which include the hospitality industry and the transportation sector, while the manufacturing industry received 7.1 percent of the loans.

The aggregate balance sheet of Bahrain's Islamic banks (retail and wholesale) stood at US\$24.6 billion at June-end, compared to US\$24.2 billion at March-end. Domestic assets stood at US\$14.1 billion at the half-year, while foreign assets amounted to US\$10.5 billion.

Money supply in Bahrain's economy, represented by M2 (currency in circulation and demand, time and saving deposits) rose to BD9.6 billion at June-end, from BD9.4 billion at the end of the first quarter.

By the broader monetary measure M3 (which includes M2 as well as government deposits), stood at BD11.5 billion at June-end, compared to BD11.2 billion at March-end.

## AAOIFI appoints new chief

The Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) has announced the appointment of Dr. Hamed Hassan Merah as the new Secretary General of AAOIFI.

Shaikh Ebrahim bin Khalifa Al Khalifa, Chairman of the Board of Trustees of AAOIFI, said in a statement: "On behalf of AAOIFI and its Board of Trustees, we are very pleased to welcome Dr. Merah to his new position as AAOIFI's Secretary General.

"We are very confident that he would steer AAOIFI towards greater accomplishment and success in fulfilling its role, discharging its responsibilities, and enhancing its global positioning."

Shaikh Ebrahim added that an extensive selection process had been carried out leading to the appointment of Dr. Merah.

Dr. Merah, a Saudi national, possesses broad experience in Islamic commercial banks, investment banks, and insurance companies, through technical and Shari'a roles, including in senior management capacity. In addition, he has also been involved in academia as an assistant professor with responsibilities for post graduate studies.

Dr. Merah holds a Doctorate and Masters degree in Comparative Jurisprudence, from The Higher Judicial Institute in Riyadh, Kingdom of Saudi Arabia. His theses were on 'Sukuk al-Ijara' and 'Emerging Financing Contracts in Islamic Finance'.

He also holds a number of professional qualifications pertaining to financial markets, insurance, governance, and compliance. Dr. Merah has carried out consultancy projects for a number of private companies, governmental agencies and research centres as well as participated in drafting Islamic finance laws and by-laws for a number of jurisdictions.

In addition, he has authored and published two books and a collection of research papers. He has also delivered specialised training courses and workshops as well as key presentations at regional and international forums, symposiums and conferences.

In a statement, Dr. Merah said he was grateful for the trust that had been placed in him through his appointment as the new Secretary General of AAOIFI.

"This appointment also carries with it substantial responsibilities that I am honoured to shoulder. I seek guidance from Allah to help me carry out and discharge the

responsibilities properly and successfully.

"I also look forward to working closely with the AAOIFI Board of Trustees, Shari'a

Board, Accounting and Auditing Standards Boards, our institutional members, and all other Islamic finance industry stakeholders, in carrying out our activities to develop and issue high quality standards in line with international best practices, and to achieve global reach and adoption of the standards. These will support increasing harmonisation and standardisation of international Islamic finance practices and contribute towards further development of the industry."

AAOIFI, established in 1991 and based in Bahrain, is the leading international not-for-profit organisation primarily responsible for development and issuance of standards for the global Islamic finance industry.

It has issued a total of 88 standards in the areas of Shari'a, accounting, auditing, ethics and governance for international Islamic finance.



Dr. Merah

# Bahrain Bourse launches modern trading platform

**B**ahrain Bourse (BHB) launched its new trading platform (X-stream), one of the most developed and widely used platforms by stock exchanges worldwide.

The launch, which took place on 14 July 2014, was attended by Shaikh Ahmed bin Mohammed Al Khalifa, Minister of Finance and Minister in Charge of Oil and Gas Affairs, Mr. Yusuf Abdulla Humood, Chairman of BHB, as well as representatives of the financial sector, businessmen, brokers, and representatives of listed companies.

Shaikh Ahmed expressed his pleasure with the launch of the new trading platform and stressed the commitment of the government in supporting projects that help enhance Bahrain's status as a leading financial centre in the region and, at the same time, increase the competitiveness of the Bahraini economy to attract more investments that will increase economic growth and diversify the domestic economy.

"Bahrain Bourse is considered one of the important institutions to the national economy and it is supported by the leadership. The Bourse will play a vital role in the implementation of many key programmes relating to the privatisation of some of the governmental projects in the

future," said Shaikh Ahmed.

Mr. Humood expressed his thanks to Shaikh Ahmed for his patronage for and presence at the launch of the trading platform and his support to the Bourse.

"Replacing the trading platform is a milestone in the history of the capital market in the Kingdom of Bahrain, and is one of the key projects of the Bourse's strategy that was adopted in 2011 to develop all work aspects at Bahrain Bourse," said Mr. Humood.

"Bahrain Bourse will soon announce the launch of various initiatives and projects that aim to develop BHB, increase its liquidity, and attract more investors to invest in this sector. We hope to get positive cooperation from all related parties in order to achieve the desired outcome that will support the prosperity of the Kingdom's economy."

Shaikh Khalifa bin Ebrahim Al Khalifa, Chief Executive Officer of Bahrain Bourse, said: "We, at the Bourse, are proud that we successfully completed this huge project according to the action plan that was set. I extend my thanks to the Bourse's Board of Directors for their tremendous support and facilities they have provided to the executive management in order to implement this project."

He revealed that BHB in cooperation with a team of Nasdaq OMX, the company providing the platform, successfully completed several tests and virtual trading sessions during recent months in order to test the effectiveness of the platform and its capability under various possible circumstances.

"The new platform will enable the Bourse to provide more services to its clients, including issuers and investors, according to internationally approved standards," said Shaikh Khalifa.

The platform will also enable rapid execution and settlement of transactions at the Bourse and enhance transparency. It will also enhance the Bourse's capability to open up a new trading market for investors to trade in more investment instruments besides shares, bonds and sukuk. The technology of the new platform will enable investors to trade in derivatives, options, future options, and other instruments.

Earlier, Bahrain Bourse and Nasdaq OMX signed an agreement in July 2013 to replace the 'Horizon' trading platform with 'X-stream', which was designed by Nasdaq OMX and is widely used by stock exchanges throughout the world.

## BHB appoints Shaikh Osama as Shari'a advisor

**B**ahrain Bourse (BHB) has appointed Shaikh Dr. Osama Mohammed Bahar as Shari'a advisor for the proposed Shari'a-based products, services, and financial solutions that the Bourse intends to launch in the future. This will include the 'Murabaha through Equities Program' for the Islamic banking sector.

Shaikh Khalifa bin Ebrahim Al Khalifa, Chief Executive Officer, at the BHB, said that the launch of Islamic services is in line with the implementation of the strategy adopted by BHB to develop all aspects of operations, including enhancing liquidity in the market by providing a wider range of products and creative solutions. Islamic financial products will provide an array of investment alternatives for both issuers and investors.

Shaikh Osama's scope of work will include the review and approval of all Shari'a-compliant securities, funds, and other investment instruments. He will also be responsible for reviewing all Shari'a-based products to ensure their compliance with underlying Shari'a principles. In addition, he will be responsible for the issuance of Shari'a

Statements (Fatwa) with regards to Shari'a-compliant securities listed on the Bourse, and supervising their operations to ensure compliance with Shari'a principles.

Shaikh Osama is a prominent Shari'a expert. He has served at several major Islamic financial institutions, including Al Salam Bank, ABC Islamic Bank, Shamil Bank, First Energy Bank, Sakana, and Tharawat Investment House. He began his Islamic finance career in 1994 when he was a Shari'a Advisor at Faisal Islamic Bank. Since then, he has developed an expertise in structuring Islamic finance products, preparing Shari'a contracts and writing research papers on Islamic banking and finance. He is also a prominent issuer of Islamic financial Fatwa.

### Market Rules

Meanwhile, BHB began implementing, from 1 September 2014, new Market Rules which govern the three areas of trading, clearing and settlement, and membership at BHB.

Shaikh Khalifa clarified that the new rules set the trading mechanisms and procedures

of the new investment instruments that the Bourse intends to license, such as margin trading, derivatives, future options, and Real Estate Investment Trusts (REITs). In addition, the new rules clarify the procedures of online trading as well as the procedures of selling shares through auctions and the trading of newly listed shares in the IPO Market.

With regards to clearing and settlement, the rules set the procedures of electronic book entry that allows investors to verify ownership in shares without the need of presenting a paper certificate. The Market Rules also ensure the use of international standards related to the procedures of delivery versus payment (DVP) regarding the clearing and settlement of transactions at BHB. The new rules also set requirements to enhance the relationship between brokers and their clients in a way that will secure the rights and obligations of all parties.

The new rules allow licensed brokers from capital market regulatory institutions in GCC countries to trade at BHB without having a representative office in Bahrain, as long as they have an authorised clearing member to settle transactions executed at the BHB.



# Electronic reporting system launched by CBB

*The Central Bank of Bahrain (CBB) officially launched the electronic submission of returns and analysis of data (ESRAD) project over the course of the last few months. This project will affect all licensees of the CBB and is a move towards a consistent approach to a reporting system that will facilitate the formal reporting requirements in place as well as allow for a more timely analysis of the various financial sectors in the Kingdom of Bahrain.*

One of the most crucial aspects of a sound regulatory and supervisory framework is the availability of reliable and timely data needed to assess the financial condition of the various financial institutions from both a microeconomic and macroeconomic perspective. As the Central Bank of Bahrain (CBB) was formed by assuming the supervisory responsibilities of a number of different regulatory bodies, it has for a number of years had to cope with a fragmented approach to the reporting mechanisms in place. As an integrated regulator, having a uniform reporting mechanism has been an aspiration of the CBB and this is now coming closer to reality with the deployment of the electronic submission of returns and analysis of data (ESRAD) project.

The ESRAD project has involved all supervision and financial stability staff of the CBB as well as some key resources from the information technology area. It comes under the purview of a senior level steering committee, under the direct authority of the Governor of the CBB. Such high level prominence is further evidence of the commitment from senior management of the importance of the successful implementation of this new reporting mechanism. Because of the significant impact on both the supervised entities and the supervision staff of the CBB, a significant amount of effort has been extended in making this project a success.

For the CBB, it was crucial that all supervision and financial stability staff be directly involved in this exercise as they

all have a vested interest in working with tools that will ensure a greater degree of overall efficiency in the accomplishment of their day-to-day duties. While a consultant with the technical knowhow is a crucial component of the development and implementation process, the CBB needed its staff to work closely with the consultant to truly take ownership of this project and create a reporting mechanism that they can truly call their own.

The tricky part, of course, for the implementation means that in addition to their day-to-day duties, all affected staff had to dedicate a significant portion of their time to work with the consultant in various user acceptance testing sessions, to facilitate the eventual 'go live' phase. Consideration was also given to the fact that the variety of different licensees of the CBB would require a phased approach to the deployment of the system.

Over the course of the last few months, the system has been deployed to all conventional banks. Other financial institutions, including Islamic banks, financing companies, insurance licensees, investment firm licensees, money changers, capital market licensees and other CBB licensees will follow with the aim that all licensees will be using the new reporting mechanisms by year-end.

As part of its ownership of the system, it was clear to the CBB that any training being required for licensees, had to be offered in part by the CBB supervision staff. Designated super users or administration

staff within each supervisory area have ensured that licensees have a direct contact at the CBB ready to deal with any enquiries that they may have.

Furthermore, the CBB is well aware of the dynamic nature of the financial services industry and the constant evolution of international standards which may necessitate the need for future reporting mechanisms to be updated in a timely fashion in order to comply with such international standards. Such capability will be within the CBB and will ensure the future viability of this initiative. As an example, the CBB has started work on the updated forms that will be required with the introduction to the Basel III changes affecting all locally incorporated banks in the Kingdom.

Part of the successful migration to the new reporting mechanism requires the all-important feedback from the industry so that any impediments can quickly be rectified. The transition period between the current and new reporting system will necessitate a period where there will be a parallel reporting requirement, whereby licensees will be requested to report under both the current and new system. The timing of the full implementation of the ESRAD project will rest on the successful implementation during the transition period.

The CBB believes in working closely with the industry and appreciates all licensees' cooperation in working towards the successful implementation of the ESRAD project.

## BIBF, University of Bolton to offer MBA in Islamic finance

The Bahrain Institute of Banking and Finance (BIBF) has signed a memorandum of understanding (MoU) with UK's University of Bolton to develop an MBA in Islamic banking.

Under the agreement, BIBF will act as lead content provider for Islamic finance subjects and will supervise all dissertations, while University of Bolton faculty will deliver the core MBA subjects.

Graduates of BIBF's Islamic finance

programmes will be eligible for exemptions from some of the subjects, providing them with a shortened pathway to obtain an MBA with a specialisation in Islamic finance.

"The initiative further bolsters our position as the global content provider of choice for Islamic finance," said Ms. Solveig Nicklos, Director of BIBF.

"We expect the new programme to become an attractive means for students globally to develop expertise in Islamic finance, and for

our graduates to further their studies in the UK."

According to a recent BIBF research paper, the Islamic financial sector, which in 2012 had an overall asset valuation of more than \$1.3 trillion globally, is expected to create more than 250,000 professional Islamic finance jobs worldwide by 2020.

The programme will be delivered in Bolton and in Bahrain.

# Non-oil sector to drive economic growth in 2014

The pattern of growth of Bahrain's economy is likely to prove significantly different in 2014 from last year's oil-led rebound, even though oil sector growth in Q1 outpaced non-oil growth, according to the June 2014 issue of the Bahrain Economic Quarterly (BEQ), published by the Economic Development Board (EDB).

Indications are that the oil sector will post minimal growth this year, despite a brisk 4.1 percent YoY pace of expansion in Q1. The offshore Abu Sa'afah oil field is expected to produce at capacity apart from scheduled maintenance. The output of the onshore Bahrain field should also remain broadly flat as various new production techniques are being reviewed and evaluated. The main new activity in the sector will involve drilling for deep gas in the Khuff reservoir as well as a number of downstream capital investment projects described in the March quarterly.

By contrast, in spite of a fairly slow start to the year with a 2.9 percent YoY gain in Q1, the non-oil sector is expected to post a much stronger year than was the case in 2013, with activity likely to pick up especially in the second half of the year. There are a number of indications of increased activity, for instance in the commercial real estate space which is seeing new developers and higher occupancy.

However, the main growth impetus is likely to come from a number of infrastructure projects covering a range of areas from housing to transportation. Several projects will be financed by the GCC Development Fund, which will provide the financing for US\$10 billion worth of projects over a 10-year period. The initial focus looks likely to be primarily on housing projects which represent one of the main priorities of the GCC funding.

To date, an estimated US\$3.4 billion worth of projects in housing, utilities, and education are scheduled for completion by 2017. Thus far, US\$1.2 billion has been dedicated from the fund to housing projects which have an aggregate target of 5,282 new housing units. These projects are part of a larger ambition by the Ministry of Housing to build over 15,000 housing units between 2014 and 2017, and a total of 40,000 housing units over the next 10 years.

Key developments in the housing area include East Hidd and the Northern City. The first stage of the Northern City development, composed of 530 housing units worth US\$10 million, is nearing completion. Work on the second stage of the Northern Town is

due to start following the signing of a BD10 million (US\$26.5 million) deal for 316 units in June. Agreements have been signed with the private sector to provide another 1,618 units. An agreement for the first stage of East Hidd, for 483 units worth BD18 million has been signed.

The Northern Town is eventually projected to have 15,161 units while the Eastern Hidd Town will accommodate 4,526 families. Other key planned housing developments include the Eastern Sitra Town, the Southern Town, and the Salmabad Town, with a combined projected capacity of 14,000 units.

The second main priority is energy and water as power demand in the Kingdom has almost doubled over the decade to 2012, from 1,540 MW in 2003 to 2,967 MW in 2012. Current capacity stands at 4,000 MW and two 400-kW transmission stations are expected to be tendered soon.

Efforts are also underway to further improve Bahrain's connectivity with the rest of the region. The project of modernizing and expanding the Bahrain International Airport, which should increase the airport's capacity from 9 million to 13.5 million passengers, is expected to start towards the end of this year.

The King Fahad Causeway Authority (KFCA) is reportedly planning to complete the Saudi-Bahrain rail study by September 2014. The project, which is expected to be completed within 7-10 years, is part of a larger GCC rail network anticipated to cost US\$15.4 billion.

Economic activity should further benefit from recently adopted reforms of the Commercial Company Law. Among other things, the amendments approved by the Shura Council on 16 June will:

- Abolish the minimum capital requirements for different company types, including limited liability companies
- Allow 100 percent foreign ownership

of simple commandite companies

- Permit the establishment of a joint stock company by a minimum of two persons
- Strengthen minority shareholder rights, including representation on the company board

## Positive FDI trends continue

Bahrain has continued to see strong growth in inward foreign direct investment (FDI) flows even though the West Asia region more generally has seen some erosion from US\$48 billion in 2012 to US\$44 billion last year.

In total, Bahrain attracted US\$989 million in FDI in 2013, which represented an increase of 11 percent over 2012. This was entirely due to greenfield investment. The FDI inflows account for 15.7 percent of fixed capital formation in the Kingdom.

The recent trends highlight the critical importance of FDI for Bahrain. The overall stock of inward FDI in Bahrain rose to US\$17.8 billion last year – a figure that was 17.6 percent higher than the US\$15.2 billion total recorded in 2010. The value of Bahrain's inward FDI stock is equivalent to 55.3 percent of the Kingdom's GDP.

## Increased capital market activity

The performance of Bahrain Bourse has continued to improve in recent months with the All-Share index up 16.9 percent YTD as of the end of May. This made it the strongest performer in the region after the UAE and Qatar stock exchanges which have benefited from their inclusion in the MSCI Emerging Markets index. The best performers of Bahrain Bourse since the beginning of 2014 were financial service companies, led by the Commercial Banks sector index and followed by Investment and Insurance. While the Industrial sector reached double-digit growth, the Services sector posted a small decline and the Hotels & Tourism sub-index was flat.

## Bahrain economic outlook

	2013	2014f	2015f	2016f
Real GDP growth, %	5.3%	3.5%	4.3%	4.5%
Non-hydrocarbons sector	3.0%	4.4%	5.1%	4.5%
Hydrocarbons sector	15.3%	0.1%	1.0%	4.4%
Nominal GDP growth, %	8.0%	4.5%	6.5%	6.9%
Inflation (CPI %)	3.3%	3.0%	3.0%	3.0%
Current account (% of GDP)	7.8%	6.1%	6.1%	7.3%
Fiscal balance (% of GDP)	-3.3%	-3.0%	-3.0%	-3.0%
Crude Oil Arabian Medium (USD)	106.4	105.0	105.0	105.0

Source: Bahrain Economic Development Board

# AAOIFI-World Bank event on Islamic banking

The Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) will host the AAOIFI-World Bank Annual Conference on Islamic Banking and Finance on 17 and 18 November 2014.

The event, in Bahrain, is organised in partnership with the World Bank and under the auspices of the Central Bank of Bahrain (CBB).

Discussions at the conference will be on issues relating to convergence of international accounting standards and its implication on Islamic finance, incorporation of Shari'a standards into legal documentation, key Shari'a and accounting issues relating to Islamic insurance, implications of Basel III on Islamic finance, sukuk and Islamic capital markets as avenues for long-term financing, and potential changes in accounting standards on Ijara and Mudaraba.

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

Dr. Hamed Hassan Merah, Secretary General of AAOIFI, said: "In carrying

out our ongoing work on standards development and review, we need to take into consideration prevailing market practices as well as challenges facing the industry.

"The conference is a platform for us to discuss these with our institutional members and other industry stakeholders. We also hope to debate and gather feedback from industry on pertinent issues relating to the overall standardisation and harmonisation of international Islamic finance industry practices and financial reporting."

A number of research papers will be presented and discussed at the conference by eminent Shari'a scholars, senior representatives from the World Bank, central banks and regulatory authorities, members of AAOIFI's Shari'a Board as well as AAOIFI Accounting and Auditing Standards Board, and leading Islamic finance practitioners.

The event will be attended by senior representatives of Islamic financial institutions, accounting and auditing firms, legal firms, universities and higher learning institutions, and media, from across the world.

Following the conference, AAOIFI will also be holding training courses for

its Certified Shari'a Adviser and Auditor (CSAA) and Certified Islamic Professional Accountant (CIPA) professional development programmes. The training courses will be held from 19 to 22 November 2014.

CSAA and CIPA are designed for Islamic finance professionals to gain technical understanding and assist application of AAOIFI standards in Islamic finance operations.

## Leading speakers at takaful forum in Bahrain

More than 250 key players and thought leaders from the Middle East insurance and reinsurance industry are expected to attend the third annual Middle East Takaful Forum in Bahrain.

The theme of the event, being held on 13 and 14 October 2014, is 'Building Scale: Adapting to a Changing Market for Islamic Co-operative Insurance in the Middle East'.

The inaugural keynote speaker is Mr. Abdul Rahman Al Baker, Executive Director, Financial Institutions Supervision, at the Central Bank of Bahrain (CBB), which is supporting the event.

International keynote speakers include Dr. Eddy Chong Siong Choy, Accreditation Director, at the Malaysia-based Finance Accreditation Agency, an international and independent quality assurance and accreditation body for the financial services industry. Also featured will be Mr. Sohail Jaffer, Deputy Chief Executive, FWU Global Takaful Solutions. They will discuss major lessons from international takaful markets.

A key highlight of METF 2014 will be the high profile power debate session led by internationally respected CEOs and industry leaders. The debate will address the main topic of 'How the Takaful Industry in the Middle East can Build Critical Mass and Move to the Next Level of Development'.

A critical factor that will determine success in taking the industry to the next level of development will be the readiness of industry players to formulate and execute successful strategies in response to new market conditions and opportunities that will reignite growth levels.

## World Islamic Banking Conference

More than 1,300 high-level industry professionals from over 50 countries will take part in a major Islamic banking conference in Bahrain.

The participants will join more than 60 market-leading partners and sponsors at the 21st annual edition of the World Islamic Banking Conference (WIBC) 2014.

The event will be held under the patronage of His Royal Highness Prime Minister Prince Khalifa bin Salman Al Khalifa from 1 to 3 December 2014.

The proceedings will commence with a series of pragmatically focused pre-conference summits led by experienced and internationally renowned market leaders and experts.

The main WIBC 2014 conference, which will open on 2 December, will be inaugurated by Mr. Rasheed Mohammed Al Maraj, Governor of the Central Bank of Bahrain (CBB).

According to the organisers, MEGA Events, industry supporters have also

lauded how successfully Islamic banking has largely weathered the global economic crisis that engulfed the conventional banking industry.

However, notwithstanding these achievements, much still needs to be done if the industry is to move beyond its niche status, truly come of age and play its part on the world stage.

The theme of WIBC 2014 is 'Islamic Finance: Towards the New Paradigm Shift in Global Financial Markets', and will tackle key areas of the Islamic finance sector.

This will include regulatory, strategic, Shari'a, operational and risk transformation to ensure that the industry is able to build critical mass, expand its geographic reach and depth, and participate in large-scale deals seamlessly across jurisdictions and, ultimately and most importantly, to successfully meet the needs of an ever-growing base of investors, customers and end-users.



# Financial Sector Fact Sheet

**Regulator: Central Bank of Bahrain**  
**Financial Institutions: 404 (September 2014)**  
**Financial Sector Workforce: 14,009 (2012)**  
Bahraini nationals 9,253 (66%)  
Foreign nationals 4,756 (34 %)

## Key Economic Indicators

GDP (Current) US\$32.8 billion (2013)	Financial Sector contribution to GDP 16.7%
Growth 6.8% (2013)	Sovereign Rating
GDP (Constant) US\$28.6 billion (2013)	BBB (S&P December 2013) with stable outlook
Growth 5.5% (2013)	BBB (Fitch December 2013) with stable outlook
	Population 1,195,020 (2011)

## Banking Sector

Assets US\$193.3 billion (July 2014)	
No. of institutions 116 (Sep 2014)	
Retail banks 28	
Locally incorporated 13	Islamic Banks (included in left):
Branches of foreign banks 15	No. of banks 23 (Sep 2014)
Wholesale Banks 76	Assets US\$24.6 billion (July 2014)
Representative Offices 11	
Bank Society 1	

## Insurance Sector

Total No. of Insurance Companies & Organisations	Representative Offices 5
Authorised in Bahrain 151 (Sept 2014) * excluding	Loss Adjusters 11
Appointed Representative	Registered Actuaries 23
Domestic market	Insurance Ancillary Services 6
Gross premiums US\$685 million (December 2013)	Insurance Pools & Syndicates 2
No. of insurance firms 36	Insurance Society 1
Locally incorporated insurance firms 25	Insurance Licensees Restricted: 29
Takaful & Retakaful Firms (included above) 7	Insurance Firms restricted: 23
Captives (locally incorporated, included above) 1	Insurance Brokers restricted: 4
Overseas insurance firms 11	Insurance Consultants restricted: 2
Insurance Brokers 31	Insurance Appointed Representative 17
Insurance Consultants 4	Corporate 11
Insurance Managers 3	Individual 6

## Investment Business Firms

No. of firms 62 (Sept 2014)	Representative Offices 8
No. of Investment Business firms 53 (Sept 2014)	Bahrain Asset Manager Association 1

## Specialised Licensees

Total no. of institutions 49 (Sept 2014)	Microfinance Institution 2
Money Changers 18	Trust Service Providers 3
Fund Administrators License 3	Ancillary services 13
Registered Administrators 1	Registered Professional Body 1
Financing Companies 8	

## Capital Markets

Market Capitalisation US\$21.5 billion (Sept 2014)	Licensed Securities Brokers 4
No. of firms 26 (Sep 2014)	Licensed Securities Clearing Member 6
Licensed Exchanges 2	Licensed Securities Broker Dealers 13
Licensed Clearing, Settlement and Central Depository	
Systems 1	

## Funds Industry

Authorised Funds 2,847 (Sep 2014)	Local Funds (CIUs) 91 (Sep 2014)
NAV US\$7 billion (June 2014)	NAV US\$4 billion (June 2014)
	Conventional-Local 50 (Sep 2014)
	Islamic-Local 41 (Sep 2014)
	Locally Incorporated (PIUs) 4 (Sep 2014)
	Foreign Funds-Offshore 2,752 (Sep 2014)