



مَصْرَفُ الْبَحْرَيْنِ الْمَرْكَزِي  
Central Bank of Bahrain

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# Annual Report

2012

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Chapter  
**1**

# 1. Monetary Policy Developments

*Overview*

*Monetary Policy Management*

*Domestic Interest Rates*

*Public Debt Issuance*

## Overview

During 2012, the Central Bank of Bahrain (“CBB”) continued to use a number of monetary policy measures aimed at maintaining the smooth functioning of financial markets in Bahrain. These measures included a range of monetary policy instruments as well as interest rate actions.

## Monetary Policy Management

### *Monetary Policy Committee*

The CBB Monetary Policy Committee (“MPC”) met on a weekly basis throughout 2012. The MPC closely evaluated economic and financial developments, monitored liquidity conditions, provided recommendations for monetary policy instruments and set interest rates on facilities offered by the CBB.

### *Reserve Requirements*

All retail banks are required to maintain, on a monthly basis, a specific percentage of their non-bank deposits (denominated in Bahraini dinars), in a non-interest-bearing account at the CBB. During 2012, the reserve percentage has remained unchanged at 5%.

### *Money Market Forum*

During 2012, the CBB conducted a meeting with all retail banks to discuss global, regional and local developments and their potential impact on financial institutions operating in Bahrain. The Forum proved to be an effective and fruitful channel to connect market participants to the CBB and in discussing various important financial market issues.

The Forum, established in 2007, comprises representatives of conventional and Islamic retail banks operating in Bahrain, in addition to members of the CBB’s MPC.

## Domestic Interest Rates

### *Key Policy Interest Rates*

During 2012, there was no change in the interest rates on facilities provided by the Central Bank of Bahrain to retail banks, where the overnight BD Deposit rate remained at 0.25% and 0.5% for the one week maturity. There was also no change to the 2.25% lending rate offered by the CBB to retail banks for the one-day maturity secured against Treasury Bills and BD Deposit.

### *Interbank Rates*

The Bahrain Interbank Offered Rate ("BHIBOR") was developed in 2006 by the CBB in collaboration with a number of active banks in Bahrain and Reuters. BHIBOR indicates the BD interbank offered rates between banks from overnight to 12 month maturities.

As at end-2012, the 3 month BHIBOR rate was 1.18 %, compared to 1.26% at end-2011. The 6 month BHIBOR rate was 1.52 % at end-2012, compared to 1.57% at end-2011.

### *Loan and Deposit Rates*

At the end of 2011, the weighted average BD time deposit rate (3-12 months) stood at 1.00%, compared to 1.11% at the end of 2011. The weighted average rate on saving accounts decreased from 0.24% to 0.22%. The weighted average interest rate on business loans increased from 5.58% at end-2011 to 5.67% at end-2012, while interest rate on personal loans decreased from 6.28% to 5.96% for the same period.

## Public Debt Issuance

In accordance with the CBB Law, the CBB issues, on behalf of the Government of Bahrain, short and long-term debt instruments, including Treasury Bills, Sukuk AlSalam and Ijarah Sukuk. The issuance of all government debt securities is executed in coordination with the Ministry of Finance (MOF).

During 2012, the CBB issued conventional 3-month treasury bills, denominated in Bahraini dinars, on a weekly basis, with an issue amount of

BD 35 million. Six (6)-month Treasury Bills were also issued, on a monthly basis, with an issue amount of BD 30 million. In addition, the CBB issued 12-month Treasury Bills on a quarterly basis, with an issue amount of BD 100 million.

On 5<sup>th</sup> July 2012, under the advice of the MOF, the CBB issued a 10 year, International Government Development Bond for USD 1,500 million with a fixed return of 6.125%. Moreover, on 8th November, 2012, there was a local issue for BD 185 million with a 7 year maturity and a fixed return of 4.3%.

The CBB also issued, on a monthly basis, three-month AlSalam Sukuk (BD) for BD 18 million.

In addition, the CBB issued, on a monthly basis, six-month Ijara Sukuk for BD 20 million.

On 17<sup>th</sup> July, 2012, under advice of the MOF, there was a local issue for BD 160 million with a 5 year maturity and a fixed return of 4.3%.

Chapter

2

## 2. Banking Developments

*The Aggregate Balance Sheet of the Banking System*

*Retail Banks*

*Wholesale Banks*

## The Aggregate Balance Sheet of the Banking System

Total aggregate balance sheet for the banking system (retail and wholesale banks) decreased to USD 186.4 billion by the end of 2012, compared to USD 197.1 billion at the end of 2011, a decrease of 5.4%. Wholesale banks represented 61.5% of total assets, whilst retail banks accounted for 38.5%.

Domestic banking assets amounted to USD 48.3 billion at the end of 2012 compared to USD 47.4 billion at the end of 2011, representing an increase of USD 0.9 billion (1.9%). Foreign assets amounted to USD 138.1 billion, compared to USD 149.7 billion at the end of 2011, a decrease of USD 11.6 billion (7.7%).

Domestic liabilities increased to USD 51.3 billion at the end of 2012 compared to USD 50.2 billion at the end of 2011, an increase of USD 1.1 billion (2.2%). Total foreign liabilities decreased by USD 11.8 billion (8.0%) to reach USD 135.1 billion against USD 146.9 billion at the end of 2011.

### Retail Banks<sup>1</sup>

The aggregate balance sheet of retail banks increased by 6.7% to BD 27.0 billion at the end of 2012, compared to BD 25.3 billion at the end of 2011.

Total domestic assets grew by BD 1.2 billion (8.6%) to reach BD 15.2 billion, with claims on private non-banks increasing by BD 0.5 billion (6.7%), claims on CBB increasing by BD 0.3 billion (30.0%) and claims on general government (securities) growing by BD 0.3 billion (15.8%).

Foreign assets recorded an increase of BD 0.5 billion (4.4%), reaching a total of BD 11.8 billion at the end of 2012 compared to BD 11.3 billion at the end of 2011. Claims on foreign non-banks increased by BD 0.4 billion (7.1%) from BD 5.6 billion at the end of 2011 to BD 6.0 billion at the end of 2012, as well as claims on foreign banks which increased by BD 0.1 billion (1.8%), reaching a total of BD 5.8 billion at the end of 2012.

Total domestic liabilities of retail banks increased by BD 1.0 billion (7.1%) from BD 14.0 billion at the end of 2011 to BD 15.0 billion at the end of 2012. This was due to an increase in liabilities to private non-banks by BD 0.3 billion

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<sup>1</sup> This includes conventional and Islamic retail banks.



(3.9%) and liabilities to general government by BD 0.3 billion (15.8%). Liabilities to banks also increased by BD 0.2 billion (10.0%).

Total foreign liabilities increased to reach BD 12.0 billion at the end of 2012. Liabilities to banks increased by BD 1.2 billion (21.1%) while liabilities to non-banks decreased by BD 0.5 billion (8.9%).

### *Loans and Credit Facilities*

Outstanding loans and credit facilities of retail banks stood at BD 6.8 billion at the end of 2012, a 6.3% increase compared to the BD 6.4 billion at the end of 2011. The business sector accounted for 62.5% of total loans and credit facilities, while individuals and the government sector represented 34.6% and 2.9% respectively.

### *Deposits*

Retail banks' total domestic deposits increased to BD 9.9 billion at the end of 2012 compared to BD 9.4 billion at the end of 2011, an increase of BD 0.5 billion (5.3%). This was due to higher private sector deposits which increased by BD 0.4 billion (5.3%) and general government deposits which increased by BD 0.2 billion (11.1%).

Domestic deposits in Bahraini Dinar increased by BD 0.6 billion (8.2%) to BD 7.9 billion at the end of 2012. Domestic foreign currency deposits decreased by 4.8% or BD 0.1 billion to reach BD 2.0 billion. Bahraini Dinar deposits and foreign currency deposits constituted 79.8% and 20.2% of total domestic deposits respectively.

### *Geographical and Currency Distribution of Assets*

The share of total assets accounted for by the member countries of the Gulf Cooperation Council ("GCC") (excluding Bahrain) reached a total of 18.9%, while Asia accounted for 8.1%, Western Europe accounted for 7.0%, North and South America for 5.2%, and other Arab countries for 3.0%.

In terms of currency, the share of US dollar denominated assets was 43.0%, while the GCC currencies (excluding Bahraini dinar) accounted for 6.3% of total assets. The Euro represented 3.0% of total assets.

## Wholesale Banks<sup>2</sup>

The aggregate balance sheet of wholesale banks fell by USD 15.1 billion or 11.6% to USD 114.6 billion at the end of 2012, compared with USD 129.7 billion at the end of 2011.

Total domestic assets declined to USD 7.9 billion at 2012, compared with USD 10.1 billion at the end of 2011.

Foreign assets decreased by USD 12.9 billion (10.8%) to USD 106.7 billion at the end of 2012. This was mainly due to a decrease in claims on non-banks by USD 16.5 billion (36.2%).

Total domestic liabilities of wholesale banks declined by USD 1.5 billion (11.7%) to USD 11.3 billion at the end of 2012 compared with USD 12.8 billion at the end of 2011.

Foreign liabilities decreased by USD 13.6 billion (11.6%) to reach USD 103.3 billion at the end of 2012, compared with USD 116.9 billion at the end of 2011. This decrease was mainly due to a drop in liabilities to head office and affiliates which decreased by USD 12.3 billion (28.7%) and liabilities to banks by USD 4.3 billion (12.8%).

### *Geographical and Currency Distribution of Assets*

The share of total assets accounted for by the GCC (excluding Bahrain) reached a total of 26.9%, while Western Europe accounted for 40.0%, North and South America for 14.6%, Asia for 7.4%, and other Arab countries for 3.2%.

As for currency, the share of GCC currencies (excluding Bahraini dinar) of total assets was 11.9% with the dollar accounting for 65.5% of total assets and the Euro comprising 10.0% of total assets.

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<sup>2</sup> This includes conventional and Islamic wholesale banks. The balance sheet of Wholesale banks are usually denominated in USD

Chapter

3

## 3. Regulatory and Supervisory Developments

*Regulatory Developments*

*Supervisory Developments*

## Regulatory Developments

As part of CBB's continuing development of the regulatory framework for the financial system, work was carried out during the year 2012 to strengthen regulatory policies and to develop appropriate prudential regulations, in order to maintain financial stability and market integrity.

### *Updates to CBB Rulebook*

#### *Credit Risk Management Module*

- A new directive was issued in January 2012 in the Rulebook Capital Adequacy and Public Disclosure Modules to implement the changes to the Basel II framework. These changes included amendments to the Internal Ratings-Based (IRB) and standardised approaches for securitisation and re-securitisation. It also included changes to the standardised and internal models approaches to market risk capital charges and methodology and a new capital charge for incremental risk in the trading book. The papers also contained new disclosure requirements, stress testing guidance and some other minor adjustments to the market risk framework.

#### *Business and Market Conduct Module*

- The CBB has updated Rulebook Volumes 1 & 2 for conventional and Islamic banks in October 2012 in an attempt to achieve the CBB's objective of protecting consumer interest and to enhance the Kingdom's reputation as international financial centre. The Rulebook has been updated to include new public disclosure requirements regarding credit facilities as well as those disclosures that must be made by credit institutions to individual borrower(s), whether these be during the course of the initial negotiation of the credit facility or during the term of the facility being offered. These new requirements also outline by what means such disclosures should be made.
- In October 2012, the CBB updated Rulebook Volumes 3 and 4 (for insurance and investment business firms) to include new rules regarding the imposition of fines on such companies which are non-compliant with reporting deadlines in accordance with the CBB Rulebook. These rules improve the submission of the required

reports on time to allow the CBB to monitor the performance of such companies effectively.

### Operational Risk Management Module

The CBB updated the Operational Risk Management Module of Volumes 1 and 2 for conventional and Islamic banks respectively in October 2012 in accordance with the Basel paper which was issued in June 2011 “Principles for the Sound Management of Operational Risk” following a consultation process with the banking sector. The new amendments include eleven principles compared to the ten principles currently applied. The amendments cover three basic topics: (1) governance, (2) risk management environment and (3) the role of disclosure. The new directive requires that the review functions must be independent of the risk generating business lines or the process or system under review and that the internal audit, compliance and risk management functions must be separate from one another.

### Trade Finance in the Capital Adequacy Modules

The CBB has incorporated new changes in the Capital Adequacy Module in April 2012 to reflect the new requirements in a Basel paper issued in October 2011 regarding “Treatment of trade finance under the Basel capital framework”.

The Basel Committee on Banking Supervision has evaluated the impact of Basel II and III on trade finance in the context of low income countries. As a result of this evaluation, the committee has adopted some relaxation of capital charges in respect of trade finance in the Basel II and III capital adequacy framework which serve to promote trade with low-income countries.

### Collective Investment Undertaking (CIU) Module

As part of CBB’s objective and efforts to continue the development of rules and regulations governing the financial services industry in Bahrain given latest market developments and international best practices, the CBB released Volume 7 (Collective Investment Undertakings) in May 2012, a new Volume forming part of CBB Rulebook, and superseding Module CIU of CBB Rulebook Volume 6.

Volume 7 revamped the regulations previously contained within Module CIU of Volume 6 and now contains authorization/registration requirements and corporate governance requirements that are aimed at providing an

appropriate level of protection to investors in such CIUs. It also expands the regulatory scope of the previous CIU Module to include new rules detailing the responsibilities of relevant persons towards CIUs and their participants, Bahrain Real Estate Investment Trusts (B-REITs) and Private Investment Undertakings (PIUs).

In brief, the Corporate Governance Module lays down the set of rules that must be complied with in order to maintain an adequate framework for the governance and operation of the CIU to ensure that the CIU is governed effectively and in the best interests of the CIU's participants.

Furthermore, the B-REITs Module governs the operations of Bahrain domiciled CIUs with the objective of dealing in income generating local and foreign real estate properties, either directly or indirectly.

Moreover, in order to facilitate certain types of private investments of high net worth individuals and institutional investors, the PIUs chapter was introduced to cater for the needs of such segment.

### Money Changers

All Modules pertaining to Money Changer licensees had been issued at the end of 2010, and Financial Institution Supervision Directorate (FISD) ensured that all Money Changers are fully compliant with their requirements in relation to their operations, capital adequacy and reporting.

In February 2012, a circular was sent to all Money Changers reiterating that the offering of regulated money changer activities to customers from locations other than their head office and branches is prohibited and contravenes the licensing conditions and security measures requirements. It also highlighted the fact that such action exposes them to risks, in light of the fact that security measures cannot be applied when conducting business out of the premises.

Subsequently, regular updates to the Money Changers Specific Modules had been issued in April and October of 2012. The first was to ensure consistency between all Volumes of the Rulebook. The latter update covered the activity of importing and exporting of various currency banknotes. It also addressed financial penalties for date sensitive compliance issues which will be enforced for any past due requirements after 1<sup>st</sup> of January 2013.

### *Administrators*

The specific modules for Administrator / Registrar Licensees were finalized and issued in May 2011 and have been implemented since then.

Following the introduction of the Modules, two updates had been issued, one in April and the other in October of 2012, as part of an exercise to ensure consistency between all Volumes of the Rulebook.

Additionally, a circular was issued in May 2012 informing Fund Administrator / Registrar Licensees of the formal launch of CBB Rulebook Volume 7 (CIU) as it relates directly to their line of business, being relevant parties to CIUs.

### *Basel III adoption*

As part of its continuous endeavours to enhance the regulatory framework by adopting Basel committee's standards, the CBB formed working groups in conjunction with banks to discuss and study key issues in order to lay down a roadmap for implementation of Basel 3. A number of meetings took place during the second half 2012.

The CBB has also issued a directive to all banks in December 2012 stating that with effect from March 2013 all locally incorporated banks should start reporting pro-forma Basel 3 ratios on a quarterly basis.

These ratios are requested in order for the CBB and bank licensees to have an idea of the likely impact of Basel 3 on their capital adequacy ratios and the extent to which the liquidity requirements may lead to a change in the structure of their balance sheets.

### *Proposed Regulations*

- In an attempt to develop the CBB rules on compensation practices for banks and in order to work towards compliance with developing international standards on compensation, a consultation paper was issued in November 2012 in line with the paper issued by Basel on the Compensation Principles and Standards Assessment Methodology and in line also with the Financial Stability Board (FSB) Principles for Sound Compensation Practices

recommendations. The consultation paper also takes into account practices in other major financial centres.

- The CBB will soon issue a consultation paper on a draft regulation which outlines the terms and conditions for approval from the CBB for licensees' membership on the Board of Directors and for any executive post as required under Article 65(a) of the CBB Law. Moreover, a consultation paper will be issued as well on a new "Training and Competency" Module which specifies a set of qualifications, experience and training requirements required under Article 65(b) for persons occupying controlled functions.

### *Under Consultation*

- As part of CBB's continuous initiatives to strengthen the regulatory framework for the Islamic finance industry, a new consultation paper has been issued proposing new requirements regarding the issuance of restricted Shari'a profit sharing investment accounts (RIAs). The requirement will prohibit the issuance and opening of any new profit sharing investment arrangements in the form of 'restricted investment accounts' where the bank acts as mudarib or trustee. Any new restricted Shari'a profit sharing investment relationships may only be opened in the form of units or shares in a collective investment undertaking and will be subject to the rules and guidance contained in Module CIU (Volume 7). The comments received on the consultation paper were studied and the directive was issued in its final form in January 2013 for Islamic banks.
- In June 2012, the CBB issued a consultation paper on a draft new Risk Management Module for Islamic Banks. The CBB Rulebook Volume-2 for Islamic Banks was updated in January 2013 to include these requirements taking into consideration comments received from Islamic banks. The proposed Module incorporates the Guiding Principles included in the Islamic Financial Services Board (IFSB) "Risk Management Standard issued on December 2005" and Risk Management Principles issued by the Basel Committee. The proposed RM Module sets out fifteen principles of risk management that give practical effect to managing the risks underlying the business that Islamic bank licensees may adopt. Apart from a general prudent risk management requirement (Principle 1), the principles are grouped into six categories of risks,



and these must be used as the basis for Islamic banks' risk management processes.

### *Proposed Rules and Guidance on Internal Audit Function in Banks*

In order to promote a strong internal audit function within banks, the CBB will soon issue a consultation paper based on the Basel Committee's final paper issued in June 2012 'The Internal Audit Function in Banks'. The new rules encourage banks' internal auditors to comply with and to contribute to the development of national and international professional standards and promote due consideration of prudential issues in the development of internal audit standards and practices.

### *Activation of the Deposit and Unrestricted Investment Accounts Protection Scheme*

A further attempt to achieve the CBB's objective of consumer protection is the activation of the Deposit Protection Scheme effective from October 2012 following the first meeting held by the Deposit Protection Board. The CBB has taken the initiative and identified the need to replace the current post-funded scheme with a new prefunded scheme to bring deposit protection more closely in line with international best practices, as most of those schemes have turned to a prefunded scheme where funds being collected are paid in advance to compensate depositors.

The new scheme overcomes the disadvantages of the previous scheme, most importantly to have funds available in its own capacity instead of depending on retrospective cash commitments over a short time period which may cause adverse effects on the banking system. The new scheme requires the establishment of two separate funds (Conventional and Islamic funds) which shall be maintained and administered by one board. The funds will be accumulated separately in advance based on regular contributions by the member banks. The two funds cover eligible accounts which include all types of deposits in conventional and Islamic retail banks in addition to the unrestricted investment accounts in Islamic banks which were not covered in the previous scheme.

The new scheme covers eligible individual account holders (as defined in the Resolution) up to BD 20,000 from the total amount of their eligible accounts.

CBB Rulebooks Volume 1 and 2 for Conventional and Islamic Banks respectively have been updated in October 2012 to include the requirements of this regulation.

## Supervisory Developments

### *Compliance Directorate*

During the year 2012, the Central Bank of Bahrain continued playing a key role in developing the AML/CFT framework in the Kingdom of Bahrain. The Policy Committee, which is a national committee chaired by the CBB and is responsible for formulating AML/CFT policies, procedures and coordinating with relevant internal and external bodies, was restructured in 2012 to include representatives of all competent ministries in their professional capacities. Members of the Committee have been selected at the levels of Undersecretary and above. The Committee continued its regular quarterly meetings in 2012, in order to follow-up the work plan on the existing issues and to decide on a strategy to implement the amended FATF recommendations. The Committee has revised the existing AML Law in an effort to synchronize all AML/CFT related issues as well as be in line with the latest developments in the Financial Action Task Force ("FATF") recommendations. The proposed amendments to the AML/CFT Law have been approved by the Cabinet and forwarded to the Parliament and Shura Council for final approval in preparation for its issuance by **His Majesty the King Hamad bin Isa Al Khalifa**.

The CBB continued to perform on-site examinations on banks, moneychangers, insurance firms and capital market licensees, in order to monitor compliance with AML/CFT regulatory requirements and strengthen the on-site AML/CFT supervision of these sectors by assisting the licensees to improve their AML/CFT internal control systems and enhance awareness and knowledge within each sector.

At a regional level, the Middle East and North Africa Financial Action Task Force ("MENAFATF") 16<sup>th</sup> plenary meeting was held in November 2012 in Morocco. During the MENAFATF plenary meeting, the CBB submitted the Kingdom's 4<sup>th</sup> follow-up report, which highlighted Bahrain's AML/CFT developments during the period of 2006-2012, following the 2005 Financial Sector Assessment Program ("FSAP") evaluation conducted by the International Monetary Fund ("IMF") and the World Bank.

In recognition of the Kingdom's achievements towards streamlining its regulatory framework in line with the recognized international standards and the continuous efforts to rectify issues raised in the FSAP evaluation, the MENAFATF plenary meeting has decided to approve the Kingdom's exit from the annual follow-up process to a two year review process.

### *Banking Supervision Directorates*

The CBB, with the objective of protecting the interest of consumers of banking services, as well as ensuring financial stability, continued with its proactive monitoring of banks and financial institutions while taking measures that facilitate enhanced transparency and disclosures as well as provide adequate assurance to consumers. Overall, the CBB's efforts resulted in the development of the financial market in the Kingdom of Bahrain.

During the year under review, the following measures were taken by the Banking Supervision Directorate as part of its CBB's aforementioned endeavour:

- **Liquidity Monitoring:** The regular monitoring of the liquidity position of banks' continued in this year. The Retail Banking Supervision Directorate scrutinized liquidity reports highlighting maturity gaps between assets and liabilities under different time buckets on a weekly basis. This apart, the assessment of banks' /financial institutions' liquidity positions was done on a quarterly basis. Additionally, the CBB also undertook the liquidity risk assessment of banks taking into account bank specific risks including external events affecting both individually and convectively banks and used both quantitative and qualitative indicators in its assessment.
- **Monitoring of Real Estate Exposures:** With the objective of controlling risk concentration in volatile sectors, specifically the real estate sector, the Retail Banking Supervision Directorate continued to monitor banks' exposures to real estate on a quarterly basis.
- **Related Party Exposures:** As part of its efforts towards limiting any risk concentration and ensuring compliance with the Central Bank's rules, banks' related party exposures were monitored on a monthly basis.
- **Monitoring of Impaired Loans Portfolio:** The CBB on a quarterly basis continued to monitor banks' impaired loans portfolios. The banks were

advised based on its assessment, to take preemptive measures to check any growth in their impaired loans portfolios.

- **Prudential Meetings:** As part of their proactive supervision efforts, the Conventional Banking Supervision Directorates conducted 63 (31 Retail Banking + 32 Wholesale Banking) prudential meetings with the licensees under their supervision.
- **Meetings on Financial Statements:** The banking supervision directorates conducted annual meetings with locally incorporated banks under their respective supervision, in the presence of their external auditors to discuss the year-end financial results for 2011, before such statements are submitted to the respective bank's Board of Directors for approval. The meetings deliberated issues pertaining to recognition of income, valuation practices, impaired assets, breakdown and adequacy of provisions including Collective Impairment Provisioning, evaluation of collaterals value, proposed dividends and staff bonuses. Banks were urged to maintain a Collective Impairment Provision equivalent to 1% of their loan portfolios.
- **Studies/Surveys:** As part of its proactive supervisory practice, the Retail Banking Supervision Directorate (RBSD) undertook special studies/surveys on a number of issues relevant to the banking sector including protecting customers' interests and supporting the SME sector. The studies/surveys encompassed, survey on fees and charges, SME sector exposure, credit card frauds, outsourcing by banks and related party transactions by foreign bank branches.
- **SME Sector:** The CBB continued to monitor the SME sector exposure of banks. Accordingly, a survey on SME financing by banks was conducted for the year under review. The survey covered, among others restructured facilities and NPLs. Moreover, banks were urged not impose any additional charges to restructure their loans to SMEs.
- **Basel III Implementation:** The CBB, with the objective of assessing the banks preparedness for implementation of Basel III and obtain their feedback on the timelines for implementation, formed Basel III working groups consisting of members from the CBB and the banks. As part of the exercise it also conducted a Quantitative Impact Study for capital adequacy and liquidity. Based on the feedback from the banks the CBB is developing a timetable and the transitional period for the implementation of Basel 3 in the Kingdom of Bahrain.

- **Monitoring of Banks BOD and Organization Structure:** The CBB reviewed the corporate governance reports submitted by banks on an annual basis with the objective of evaluating the performance of the Board of Directors in bank's boards. Such review emphasized on the attendance of the Directors and the role played by them in BOD meetings as also the structure of BOD committees, the appointment of independent directors' et al. The organization structure of banks was reviewed to ensure that there is no conflict of interest in the reporting lines of management and the banks had succession planning in place besides, it also assessed the compliance with Code of Corporate Governance issued in 2011 by the MOIC. As part of its monitoring of banks corporate governance it also sent its representatives to the AGM/EAGM of banks' shareholders.

Other activities undertaken by the Supervision Directorates include:

- **Protecting Customers' Interests:** The CBB, with the objective of ensuring that consumers of financial services are not overcharged by the banks for the services rendered, undertook a survey on fees and charges being charged by the banks and financial institutions and encouraged the banks/financial institutions to impose only justifiable charges on their services rendered.
- **Bahrain Credit Reference Bureau (BCRB):** The CBB continued its efforts towards data cleansing and facilitating greater availability of accurate customer information. Accordingly, it worked with retail banks and financing companies to bring down the open errors accounts with the BCRB to very low levels. This helped in reducing the hardship caused to customers due to misreporting.
- **EMV Compliance:** Although most of the retail banks and financing companies had become EMV compliant, the CBB continued to work with remaining retail banks and financing companies in the Kingdom to successfully replace the old magnetic stripe cards with new EMV compliant chip and pin cards.

- **Compliance with the “Code of Best Practice on Consumer Credit and Charging”:** Towards the achievement of its objective of protecting the interest of consumers of banking services, the CBB continued with its strict monitoring of banks/financing companies adherence to the provisions of the Code. The aim was to ensure that licensees act fairly, responsibly and reasonably in their dealings with consumers and are transparent in their dealings.

Towards promoting greater transparency and market discipline in the financial sector, the CBB continued its efforts of stringent monitoring of the disclosures made by its licensees and ensured that they are completely compliant with the CBB’s requirements which are aligned to Basel Pillar 3 guidelines.

- **Public Disclosure by Banks:** The banks’ compliance with the public disclosure requirements of the CBB was continuously monitored. As such, the banks were required to submit their public disclosures report duly reviewed by their external auditors. Additionally, the CBB issued directives to banks to take its prior approval before issuing any press release regarding interim or annual financial statements as well as before placing any advertisements in newspapers, websites or any other media. The Supervision Directorates used this mechanism as one of the supervisory tools to assess the extent of transparency and disclosures made by banks to its stakeholders. Any non-compliance by banks was not accepted by the CBB and banks were asked to rectify the anomaly.
- **Enforcement Actions:** The CBB has encouraged high standards of compliance by its licensees, thus reducing the risks to their customers and the financial system. It believes that effective enforcement facilitates effective supervision. Accordingly, and as enshrined in Article 38 of the CBB Law, the CBB has taken 27 enforcement measures against retail licensees including imposition of penalties, during the year 2012 in respect of market discipline matters.

### *Islamic Financial Institutions Supervision*

The Directorate is responsible for the supervision of the Islamic Financial Institutions that provide regulated banking services. These include ٢٠ Wholesale Banks, ٦ Retail Banks, 2 Financing Companies, 1 Branch of a Foreign Bank and 1 Microfinance Institution .

The following are the key milestones achieved during the year 2012:

- Receiving, compiling, and analysing monthly, quarterly, and annual supervisory reports/returns; to produce the analytical reports that are used as supervisory tools to diagnose the administrative and financial condition of the banks and financial institutions. Accordingly, the CBB conducts/holds regular supervisory meetings with the banks and financial institutions, as per the agreed schedule of meetings.
- Following-up and discussing the annual financial statements of the banks and financial institutions and holding meetings with them in the presence of their external auditors.
- The Directorate successfully completed all the necessary supervisory and legal procedures to facilitate the merge of three wholesale Islamic banks by the end of the year 2012.
- During the past year, the Directorate reviewed all press releases, publications of financial statements, extracts and advertisements placed by licensees aimed promoting their products and services in order to remove any ambiguity and facilitate greater transparency. As such, the CBB required all licensees to seek prior written approval of the CBB before issuing any press release regarding interim or annual financial statements and before placing advertisements in newspapers, public places, and websites or through any other media.
- To emphasize the role of the CBB in the development of international rules and regulations of the Islamic Banking industry, the Directorate appointed a number of its staff as members in the GCC Technical Committee for Islamic Financial Services and in the Islamic Financial Services Board working groups.
- In line with the new developments of international standards such as the Basel Committee for Banking Supervision and the Islamic Financial Services Board, the CBB introduced a number of consultation papers for Islamic Banks in order to assess the impact of applying such standards in addition to receiving the feedback of the Islamic Banks.
- The Directorate continued monitoring the progress made with respect to the quarterly Risk Assessment Reports which were mandated in 2011. These reports constitute a thorough investigation into the high level controls, procedures and processes within banks in The Kingdom of Bahrain in relation to the treatment of Credit risk, Market risk,



Operational risk, Liquidity risk, Reputational risk, Strategic risks, as well as the procedures in relation to Corporate Governance, Human Resources, Compliance , Financial Control, Accounting and Investors Relations.

- To ensure the efficiency and effectiveness of banks' Board of Directors members, the Directorate continued monitoring member's attendance and participation in Board meetings. During 2012, the Directorate continued to pay special attention to the composition of the Board of Directors and concerned sub-committees, requiring banks to avoid any potential conflicts of interest and mandating the appointment of independent Board members.
- The Directorate contributed to a number of international conferences by preparing and introducing papers and proposals to improve the Islamic Banking industry in addition to sharing the experience of the CBB in the supervision of Islamic financial institutions.

### *Inspection Directorate*

The Inspection Directorate completed its planned program of onsite inspection visits to CBB licensees including full scope and subject specific visits. The Directorate employed a risk-focused examination approach using the CMORTALE methodology focused on the following assessment elements- capital adequacy, management quality, operational risk, risk management, transparency and disclosure, asset quality, liquidity and earnings. This methodology assesses the risk profile of the CBB's licensees with the ultimate objective of promoting the safety and soundness of financial institutions through onsite procedures aimed at identifying regulatory action required to reduce the risk of insolvency, the potential loss of market confidence, and losses to depositors or investors. During the year, the Directorate developed an enhanced risk profiling methodology (CMOLOGIC) to assess the business, control failure and systemic risks of the licensees. The project will enable enhanced assessment of probability of default and systemic risk of CBB licensees and will be in alignment with international best practices. The new risk profiling methodology is expected to be implemented on a pilot basis in 2013.



In response to the greater focus towards the assessment of risk within the financial sector, the Directorate identified and implemented training and development programs designed to provide inspection staff with the skills and experience necessary to assess the extent to which best practice risk management had been effectively embedded in the financial sector. During the year, selected examiners attached to the Directorate received short term on the job training with licensees to improve their knowledge of the operations of a variety of licensees.

During 2012 the Directorate participated in the discussions hosted in Riyadh by GCC Task Force and Technical Payment Committee, which focused on promoting enhanced networking and communication solutions.

### *Capital Markets Supervision Directorate (“CMSD”)*

During this period, the CMSD worked to complete the regulatory and legal framework, including Volume 6 of the CBB Rulebook relating to the capital market, with its main objectives being to enhance transparency and develop the capital markets, and protect investors. These included the following activities:

#### **Developments:**

- Issuance of Resolution No. 59 of the year 2011 in respect of: “Specifying the Procedures to be followed for the Registration of Pledges and Liens on Securities and the Discharge and Lifting of such Pledges and Liens”. This Resolution was published in the Official Gazette No. 3032, issued on 29<sup>th</sup> December 2011. This Resolution had been circulated to all parties involved in the implementation of such Resolution via the CMSD circular Ref. CMS/010/2012 dated 9<sup>th</sup> January 2012.
- Issuance of Resolution No. 17 of the year 2012 in respect of: “Rules and Procedures for the Listing and Trading of Securities and Financial Instruments on CBB Regulated Exchanges”, which was published in the Official Gazette No. 3057 issued on 21<sup>st</sup> June 2012. This Resolution had been circulated to all parties involved in the implementation of such Resolution via the CMSD circular Ref. CMS/333/2012 dated 28<sup>th</sup> June 2012.

- Issuance of a new Module of Volume 6 which is the Offering of Securities (OFS) Module as a consultation paper on 29<sup>th</sup> November 2012 and requested the Industry participants including listed companies, brokers and other involved parties to provide the CBB with their comments by 15<sup>th</sup> January 2013. The consultation period has been extended upon the request of some involved parties.
- The CMSD continued to work on other Modules of Volume 6, including the Module on Disclosure Standards (“DIS”), which will shortly be sent out as Consultation Papers to the industry.
- The CMSD made its comments and observations on the new draft Commercial Companies Law prepared by the Ministry of Industry & Commerce, with the CBB focusing on the removal of any obstacles that might hinder the development of the capital market and eliminate any conflicts or overlap with regards to the duties and responsibilities of the CBB and Ministry of Industry & Commerce in the capital market sector.

### *Licensing of Exchanges and Clearing, Settlement and Central Depositories*

- **Bahrain Bourse (BHB):**

- a) The issuance of Resolution No. (02) of 2012 on 9<sup>th</sup> January 2012, with regards to granting Bahrain Bourse Co. B.S.C(c) final license approval by the CBB, subject to meeting the conditions and requirements stipulated in the CBB’s letter Ref. OG/481/2011 dated 29<sup>th</sup> December 2011.

- **The Bahrain Financial Exchange (BFX):**

The Bahrain Financial Exchange (BFX) commenced operation of its conventional division on 23rd November 2011 and currently offers trading in 5 derivative products:

1. BFX Gold Futures
2. BFX Natural Gas Futures
3. BFX EUR-USD Futures
4. BFX USD-INR Index Futures
5. BFX USD-INR Index (Mini) Futures

### *Primary Market:*

In 2012, the CMS Directorate issued its no objection to the use of 30 public and private offering documents (comparing to 35 offering documents in 2011) after ensuring the completeness of all the information and details as per the CBB Law, CBB's Disclosure Standards and the Guidelines on the Issuing and Offering of Debt Securities, as follows:

The gross total value of these issues amounted to USD 6.61 billion (comparing to USD 2.22 billion in 2011), which includes, one issue of Kingdom of Bahrain Government bonds with a total value of USD 1.5 billion (comparing to USD 1.28 billion in 2011), 15 issues of private placements in ordinary shares with a total value of USD 740 million (comparing to USD 639 million in 2011), 2 issues of private placements in conventional bonds with a total value of USD 4.25 billion, one priority rights issue with a total value of USD 15.25 million (comparing to USD 64 million in 2011), and 11 private issues of structured financial instruments with a total value of USD 106 million (comparing to USD 145 million in 2011).

Also, the CMSD reviewed and provided comments and observations on 1 private offering document, as per CBB's Disclosure Standards. However, this document has not been approved, pending being updated and rectified with CMSD's comments by the lead manager of this offering. The gross total value of this issue is USD 200 million.

### *Market Surveillance System*

During the year 2012, and after having completed the evaluation of the proposals made to the Central Bank of Bahrain, for the purchase and implementation of a Market Surveillance Systems for the secondary market, one of the proposals put forward by an international company has been selected. Furthermore, commencement on the procedures towards finalizing and signing of the contract is expected to take place shortly, in order to begin implementing and operating the system during the year 2013.

### *Enforcement*

1. Non-compliance letters were issued to 31 companies (compared with 43 companies during the year 2011) for not disclosing ownership of 5% and above in shares of listed companies on a timely basis, as required by the CBB.

2. A non-compliance letter was issued Bahrain Bourse for delaying the issuance of its Resolution regarding the suspension of a company's shares, which was not in line with CBB's Disclosure Standards requirements in respect of 'Immediate Announcement'.

### *Listing*

1. The Capital Markets Supervision Directorate issued its no objection to the listing of the Government Islamic Leasing Securities on 8<sup>th</sup> August 2012 on the Bahrain Bourse.
2. The CMSD reviewed and provided comments and observations on the profile listing documents pertaining to three listing applications for closed Bahraini shareholding companies, to list on Bahrain Bourse. However, these profile listing documents have not been approved by the CMSD until December 2012, pending being updated and rectified with CMSD's comments by the applicants until the date of issuing this report.
3. The CMSD issued its conditional in principle no objection to the listing of one Company on Bahrain Bourse as Closed Bahraini Shareholding Company, subject to meeting some conditions, before the CMSD issued its final no objection to the listing. However, the listing has not been approved by the CMSD until December 2012, because the Company did not meet some of the CMSD conditions stipulated in the abovementioned letter until the date of issuing this report.

### *Compliance with Disclosure Standards*

As per Resolution No. 49 of 2007 in respect of Dissemination of Listed Companies' Financial Statements and Board of Directors' Meetings, all listed companies notified the Bahrain Bourse on the dates of the Board of Directors meetings before five days from the end of each quarter for the year 2012, with the exception of two companies, as they notified the Bourse four days before the end of the fourth quarter.

All listed companies, with the exception of Gulf Monetary Group, published their audited Annual financial results for the year 2011 in two local newspapers within the prescribed deadline of (60) days following the end of the year, being from 1<sup>st</sup> January to 1<sup>st</sup> March. Likewise, the listed companies also held their Annual General Meetings within the (90) days deadline, being from 1<sup>st</sup> January to 31<sup>st</sup> March 2012.

Moreover, all listed companies, with the exception of Gulf Monetary Group, published their 2012 reviewed quarterly financial results within the prescribed deadline of (45) days following the end of quarter one, two and three of the same year. The financial results were published in two local newspapers and included the required four main financial statement extracts.

### *Financial Institutions Supervision Directorate ("FISD")*

During the course of 2012, FISD continued to fulfil its responsibilities by implementing rules and regulations and using various supervisory tools, including in-depth financial analysis, prudential meetings with management of licensees, formal requests for information from the sector, liaising internally with other Directorates at the CBB, in addition to the on-going monitoring of licensees through regular communication and exchange of correspondence.

As part of its supervisory role in monitoring the Collective Investment Undertakings (CIUs') sector, FISD continued to use its supervisory tools to observe the industry and ensure adherence to the rules and regulations stipulated in the CIU Rulebook, the CBB Law, and other relevant regulatory requirements.

Additionally, FISD continued its supervisory role in monitoring the CIU sector, using its supervisory and regulatory tools to monitor the sector and ensure adherence to CBB Rulebook Volume 7 (Collective Investment Undertakings) and other relevant regulatory requirements.

During 2012, the CBB authorized / registered 5 Bahrain domiciled CIUs. It also authorized / registered 96 overseas domiciled CIUs to be marketed to residents in Bahrain. In total, 101 CIUs have been authorized / registered during the year.

Being aware of the continuous developments in the local, regional and international financial centers, the CBB continuously enhances its existing regulations to ensure parity with best market practice, and identifies gaps based on industry demand and international developments. As a result of this strategy, the FISD identifies certain areas for development and sets at the beginning of each year objectives which are then executed.

During 2012, FISD continued, in accordance with its objectives, to develop the rules and regulations pertaining to its licensees, either by way of updating or

introducing new rules. A number of initiatives commenced and updates to Regulations were issued throughout the course of the year.

During the course of 2012, the FISD continued to ensure that the Representative Office licensees adhere to the requirements of the Modules introduced at the end of 2010 as part of CBB Rulebook Volume 5.

During the course of 2012, FISD continued to monitor the performance of the financial institutions under its supervision, through various supervisory tools, including the scrutinizing of financial reports submitted by licensees on a monthly or quarterly basis and through conducting regular management meetings.

### *Insurance Sector Supervision*

The Insurance Supervision Directorate released the Insurance Market Review in August 2012. The report highlights the performance of the insurance industry in Bahrain for year 2010 and 2011 and analyses the insurance (both ,conventional insurance & reinsurance and ,Takaful & Retakaful business) by class of business in the Kingdom while touching upon the origin and the historical background of the insurance market in Bahrain. Total gross premiums in Bahrain increased to BD 215 million and insurance penetration (ratio of gross premiums to GDP) stood at 2.51% in 2011. Furthermore, the Insurance Supervision Directorate at the CBB has applied a range of measures to promote stability of the Insurance sector:

- The CBB requested company management to submit their year-end financial statements and attend a meeting at the CBB with their external auditors prior to the submission of the financial statements for approval to the Board of Directors.
- The CBB has continued to monitor closely the impact of the global financial crisis on the financial status of insurance firms. Meetings were conducted with some of the locally incorporated insurance companies to ascertain the impact of the financial crisis on the company's investments and their measures to mitigate the impact. A monthly investment report is submitted to the CBB.
- The CBB has proceeded with publishing the portfolio transfer requests for four offshore companies which have been licensed by CBB in Bahrain and

transacted insurance activities in Kingdom of Saudi Arabia after obtaining the final license from Saudi Arabian Monetary Agency as per Article (66) of CBB and Financial Institutions Law No. (64) of 2006.

- The CBB worked towards revising the existing Takaful model as one such step in reaffirming Bahrain as the jurisdiction of choice for all the Takaful and Retakaful companies globally. The objective of modifying the existing Takaful rules was to facilitate a faster growth of the Takaful business in Bahrain while protecting the interest of all stakeholders, vis-à-vis participants, shareholders and Takaful operators. As part of the consultation process, the CBB has been proactive in liaising with not just the Takaful industry for their views and comments on the proposed rules, but also with the Shariah Supervisory Boards of a number of Takaful companies to ensure conformity of the revised rules with Shariah requirements. The CBB has concluded phase one of the two-phase process. The next phase is to roll out draft rules to enhance the operational model for the Takaful industry.
- The CBB has continued to register appointed representatives during 2012; the current number of registered appointed representatives stands as follows:

	No. of Companies	No. of Registered
Local and Foreign Banks	11	134
Commercial Companies	2	20
Individuals	-	41
Total	13	195

- The CBB along with the Bahrain Institute of Banking and Finance (BIBF) and members of Arab Forum of Insurance Regulatory Commissions (AFIRC) has introduced, Certified Insurance Supervisor (CIS) Program in 2012, which is the first certificate for insurance regulators in the Middle East. This certificate is considered as minimum qualification by many jurisdictions for Insurance Compliance Officers.
- The CBB has taken an initiative to establish Motor Insurance Compensation Fund. This Fund is designed to compensate the injured parties in the following circumstances: absence of a valid insurance policy



for the vehicle that cause the accident, uninsured vehicle, if the vehicle that caused the accident or the owner and/or the driver of the vehicle were not identified (Hit & Run) and in the event of the insurer being insolvent.

- The CBB issued a new legislation on client money in April 2012 after successfully undergoing a public consultation process. The rules present requirements that have to be met by insurance brokers and appointed representatives with regard to holding client money for which they are responsible. The rules are aimed at ensuring proper protection of client money to minimize the risk of client money being used by insurance brokers and appointed representatives and to prevent the commingling of client money with the insurance brokers' and appointed representatives' assets. The rules became effective from 1st July 2012.
- Due to the role of intermediaries and TPAs being critical for the well-being of the insurer and for safeguarding the interest of the consumers, the CBB has successfully curbed the practice of insurance firms dealing with non-licensed/non-registered Third Party Administrators (TPAs) and intermediaries. This was done after giving appropriate notice to insurance firms to bring their respective businesses in order.

### *Financial Stability Directorate*

During 2012, the Financial Stability Directorate ("FSD") continued conducting macro prudential surveillance of the financial system to identify areas of potential concern and to undertake research and analysis on issues relating to financial stability. The FSD also continued to perform the following core functions:

- Issuing various publications such as the Financial Stability Report, (semi-annual for internal use), the Economic Report (annual), Balance of Payments Report (annual), Monetary and Financial Trends (quarterly), internal Early Warning report (semi-annual), Sensitivity Stress Testing Report (semi-annual), Financial Soundness Indicators Report (semi-annual) along with other periodical publications that monitor domestic and international macro-financial developments.
- Undertaking general research on issues relating to financial stability in Bahrain.



- Collecting, compiling and disseminating statistical information and releasing financial data that is published through its Monthly Statistical Bulletin and quarterly Economic Indicators.
- Conducting annual surveys such as the Manpower Survey, Coordinated Portfolio Investment (“CPIS”) Survey (annual) and Locational International Banking surveys (quarterly).
- Maintaining CBB’s relations with major international institutions and agencies and acting as a point of contact for other third parties, both domestic and overseas.

## Chapter

## 4

## 4. Other CBB Projects and Activities

*New Licenses*

*Payment System (“SSS” & “RTGS”)*

*Cheque Clearing*

*ATM Network (Benefit)*

*Currency Issue*

*CBB Training Programs*

*IT Projects*

*External Communications Unit*

*CBB’s Organizational Chart*

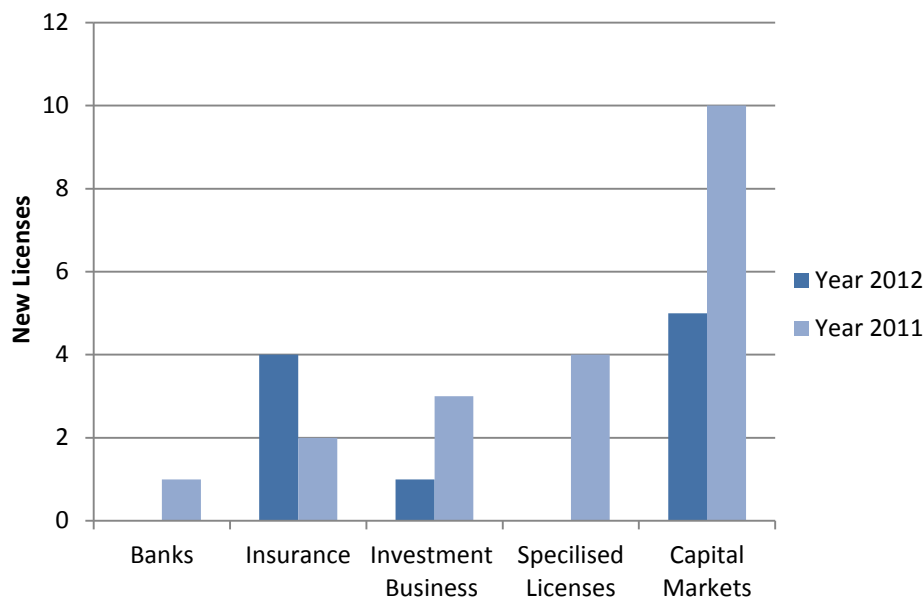
## New Licenses

The Central Bank of Bahrain (“CBB”) has issued 10 new licenses in 2012 compared to 21 new licenses issued in 2011, reaching a total of 405 licensees to provide financial services as of 31<sup>st</sup> December 2012 compared to a total of 415 licensees as of 31<sup>st</sup> December 2011.

Those new licenses were issued for different sectors, as shown in the list below:

- 1- HDI - Gerling Bahrain - Overseas Insurance Firms (Foreign Branches)
- 2- PineBridge Investments Middle East B.S.C. ( c ) - Investment Business Firm Category 1
- 3- Globe Comex International DMCC - Licensed Securities Broker – Dealer
- 4- Globe Comex International DMCC - Licensed Securities Clearing Member
- 5- Multiplex Global Resources W.L.L. - Licensed Securities Broker – Dealer
- 6- Edge Universal B.S.C. ( c ) - Licensed Securities Broker – Dealer
- 7- Edge Universal B.S.C. ( c ) - Licensed Securities Clearing Member
- 8- Mr. R.Srinivasan - Registered Actuary
- 9- Mr. Safder Jaffer - Registered Actuary
- 10- Mr. Sami Sharif - Registered Actuary

The main growth of new licenses issued was in the Capital Market sector and then in the Insurance sector as shown in the graph below:

*New Licensees Growth by Sector***Payment System (“SSS” & “RTGS”)**

Bank transfers through the Real Time Gross Settlement System (“RTGS”) numbered 426,197 in 2012, for a total amount of BD 43.7 billion broken down as follows:

- The volume of bank transfers among retail banks through RTGS was 103,787 for a value of BD 36.8 billion.
- The volume of customer transfers through the RTGS numbered 321,710 for a value of BD 6.98 billion during 2012.
- Banking operations carried out though Securities Settlement System (“SSS”) totalled 1,183 in 2012 for a value of BD 5.9 billion.

**Cheque Clearing**

The number of cheques cleared in 2012 was 3,093,635 with a total amount of BD 6.8 billion.

## ATM network (Benefit)

The number of withdrawals processed through the local ATM network system (BENEFIT) during 2012 was 6,612,619 with a total amount BD 650.6 million with a daily average of 18,117 transactions for BD 1,782 million.

## Currency Issue

During 2012, the major accomplishments of the Currency Issue Directorate included:

- At the beginning of January 2012 the installation of counting, sorting and shredding machine on an experimental basis. By February 20, 2012 the machine started the actual work of counting and sorting for all denominations of banknotes.
- The CIS has melted BD 657,000/- of 500 fils coins with the British Royal Mint, where the company is listed to buy metal currency and credited the value of the metal to the CBB account.
- On August 27, 2012 CIS issued uncut sheets of one dinar and half dinar notes. Each sheet contained 40 banknotes and were sold to collectors of Bahrain currency.
- On the occasion of Eid al-Fitr the CIS issued new banknotes and coins amounting to BD 13,563,650/-. Also for the Eid al-Adha the CIS issued new banknotes and coins amounting to BD 8,209,900/-.

The CIS continued its operations of sorting of currency notes and shredding of unfit currency notes using the machine which was directly linked to records of the CIS. The value of shredded unfit currency notes amounted to BD71,520,354/500 in 2012, out of which unfit currency notes worth of BD69,556,354/500 were shredded online. The value of unfit currency notes shredded off-line amounted to BD 1,964,000/- .

The daily value of currency withdrawals amounted to BD1,216,871,735/- in 2012, while that of the currency deposits stood at BD1,203,369,535/- , the value of currency in circulation recorded BD523,260,590/- on 31<sup>st</sup> December 2012, of which currency notes and coins amounted to BD15,129,870/- and BD508,130,720/- respectively. The fourth issue of the new series of currency notes reached a level of BD 496,857,745/- and amounted to 97.784% of the total value of currency in

circulation. The value of the third issue of the new series of currency notes stood at BD 11,272,975/- OR 2.219% of the total value of currency in circulation.

## CBB Training Programs

During 2012, the CBB continued to focus on ensuring that its staff has the right skills and capabilities to discharge their responsibilities.

To meet these commitments, the CBB has undertaken the following capacity-building activities:

- Developing employees' skills and knowledge through the extensive use of the BIBF to provide 104 employees with training in 116 training courses covering areas including finance; Islamic banking; insurance; management; and computer skills.
- Enhancing soft and technical competencies through enrolling 93 employees in 53 external training programs, workshops and conferences, organized by specialized institutes, international organizations and other central banks.
- Sponsoring 15 employees for different professional qualifications in accounting, finance, compliance, insurance and information technology.
- Introducing a newly-developed induction programme for new employees.
- Providing internships for 17 university students, designed to prepare them to enter the workplace.
- Making use of technology through providing access to 136 employees to internet-based e-learning covering principally technical subjects.

## IT Projects

During the course of 2012, a number of projects were completed within the IT department. They included the following:

- **Enhancement of internal systems to be IBAN compliant:** the internal systems of the Central Bank of Bahrain (CBB) were enhanced to comply with the IBAN (International Bank Account Number) - an international standard for the numbering of bank customer accounts in the Kingdom of

Bahrain and accredited by the ISO (International Organization for Standardization).

- **New Historical Documents System:** in order to facilitate the museum at the CBB to maintain proper records of historical documents, the CBB implemented a new system.
- **Enhancement to the Human Resources application:** a new module was added to the existing Human Resources application to facilitate the human resource function to enter and approve employee appraisals and promotions. The new module is integrated with the payroll.
- **Business Continuity Management:** the CBB, as part of its continuous improvement process, strengthened the existing Business Continuity Management framework. This was done by enhancing the various procedures and infrastructure, both business and IT, required to ensure continuity of business and regular testing.
- **SWIFT migration from version 6.0 to 7.0:** the CBB has successfully completed the upgrade of SWIFT Alliance from the then version of 6.0 to 7.0 according to the SWIFT recommended guidelines and deadlines for version upgrade.
- **Security Information and Event management solution:** the ITD has implemented a new solution that provides real-time analysis of security alerts generated by network hardware and applications.
- **Web Application Firewall:** the ITD has introduced a new web application firewall as additional protection for web servers.
- **IT Policies and Procedures:** the CBB has completed a project to align its internal policies and procedures with internationally recognized best practices. These policies and procedures have been approved by senior management and ITD is in the process of implementing the same.
- **Intranet/Extranet:** the ITD has migrated the old Intranet/Extranet to a newer version on new infrastructure to enhance the functionality and security of the Intranet/Extranet.

## External Communications Unit

### Summary of the biggest projects of the ECU:

- The CBB participated in the World Islamic Banking Summit, Asia that was held in Singapore, with representation by the Director of Licensing and Policy and the Head of the External Communication Unit. At the event, the CBB introduced its role and its activities in addition to other relevant information on the country's Banking sector, as well as promoting the 19th World Islamic Banking Conference in December.
- The 19<sup>th</sup> World Islamic Banking Conference 2012 took place from 9-10 December 2012 under the patronage of HRH Prince Khalifa Bin Salman Al Khalifa the Prime Minister. The event was set apart by a remarkable number of participants, exceeding 1,200 delegates from 52 countries representing more than 260 international and regional organizations. Moreover, the topics of this conference were diversified and reflected the changing economic situation and the latest updates in the field.
- The Arabic version of the website of the CBB was successfully launched and the Twitter feature added to the website management system in February 2012. The ECU publishes Tweets on a daily basis daily based on press releases, speeches, consultations, figure updates, publications and more. In addition, the website underwent some modifications to enhance its mandate as the news of the CBB.
- The ECU is currently looking into software called 'Magnet Data Migration Services' which will organize and maintain the unit's complete database of contacts. This will significantly help the unit to ensure the maintenance of key contacts for events and media related projects.

### Periodic reports produced by the ECU:

- Daily reports on all the CBB news that is published in the local, regional and international press.
- Monthly reports on all the CBB news that is published in the local, regional and international press.



- Bi-annual report of the unit's activities and an annual report on the achievements of the unit through the year, along with what has been published during the year.
- Monthly reports on complaints published in the local press, which are redirected to the concerned directorates. The ECU carries out the appropriate follow-up and response to such complaints as required and as necessary. This report is a means of recording complaints and/or comments from the local press. In 2012, the ECU dealt with 29 articles out of which 7 articles were complaints. The remaining articles were comments published by some interested persons and they are being followed-up by the CBB.

**Events that Central Bank of Bahrain organized and/or participated in:**

Date	Conferences	Country
11-12 Jan	UNCTAD Workshop 'The Global Financial and Economic Crisis – what next?'	Bahrain
25-29 Jan	World Economic Forum Annual Meeting 2012 'Davos-Klosters, Switzerland 25-29 January, The Great Transformation: Shaping New Models'	Davos
7-8 Feb	Middle East Insurance Forum 2012	Bahrain
7-Mar	Euromoney Private Banking Conference	Bahrain
21-Mar	BIA Insurance Day Launch	Bahrain
28-Mar	IIFM Seminar (alongside IFSB Council Meetings)	Bahrain
29-Mar	IFSB Council Meeting	Bahrain
10-Apr	BASEL II / III Seminar organised by BAB and Norton Rose	Bahrain
7-8 May	AAOIFI Annual Shari'a Conference 2012	Bahrain
9-May	BIBF University of Wales Students Visit	Bahrain
14-15 May	Seminar on Indonesia-Bahrain Exploring Smart Partnership in Islamic Banking and Finance	Bahrain
20-22 May	Union of Arab Banks Workshop	Bahrain
20-21 May	8th Annual World Islamic Funds & Financial Markets Conference 2012	Bahrain
22-24 May	V Astana Economic Forums	Astana
29-May	Bahrain Chapter of the Institute of Chartered Accountants of India (BCICAI) Seminar on "Credit Rating"	Bahrain
30-May	GCC Board Directors Institute Roadshow	Bahrain
30-May	APICORP 2012 Symposium	Bahrain

5-6 Jun	WIBC Asia 2012	Singapore
11-12 June	IFSB 27th Technical Committee Meeting	Malaysia
17-Sep	Visiting Bank Negara Malaysia (Central Bank of Malaysia)	Malaysia
18-20 Sep	Global Islamic Finance Forum (GIFF)	Malaysia
12-14 Oct	2012 IMF Annual Meetings	Tokyo/Japan
16-17 Oct	ME Takaful Summit 2012	Bahrain
3-4 December	Annual AAOIF Conference on Islamic Banking and Finance 2012	Bahrain
9-11 December	19 <sup>th</sup> World Islamic Banking Conference 2012	Bahrain

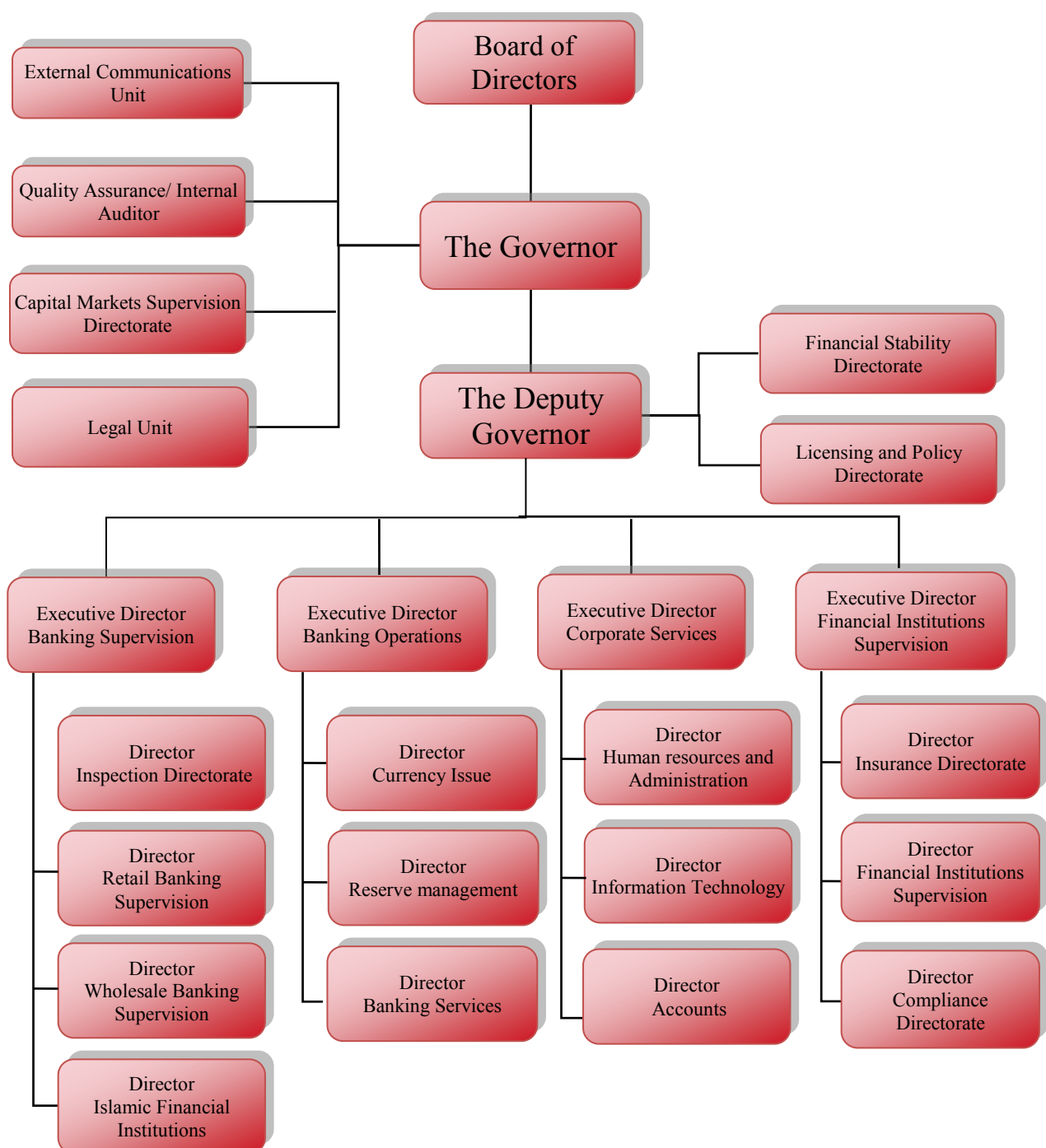
### Press Conference held at the Central Bank of Bahrain

Press Conference Name	Date
International banking Account Number (IBAN)	30 January 2012
ISDA and IIFM signed agreement	1 <sup>st</sup> March 2012
Bahrain Cheque Transaction System (BCTS)	8 May 2012

### Number of Press Release issued by CBB

123 Press Release	47 Press Release about Events & New Rules and regulations	Published in Local/Regional News Papers  Uploaded in CBB website in both language English/Arabic
	76 Press Release for Treasury Bills & Sukuk	

## CBB's Organizational Chart



Chapter

5

## 5. FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

*AUDITORS REPORT TO THE BOARD OF DIRECTORS OF THE CENTRAL BANK  
OF BAHRAIN*

*BALANCE SHEET*

*PROFIT AND LOSS ACCOUNT AND APPROPRIATION For the year ended 31  
December 2012*

*Notes to the balance sheet and profit and loss account and appropriation for the year  
ended 31 December 2012*

**CENTRAL BANK OF BAHRAIN**  
**FINANCIAL STATEMENTS**  
**for the year ended 31 December 2012**

**CENTRAL BANK OF BAHRAIN**

**FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2012**

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Balance sheet	2
Profit and loss account and appropriation	3
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## **INDEPENDENT AUDITORS' REPORT TO THE BOARD OF DIRECTORS**

**CENTRAL BANK OF BAHRAIN**  
Manama  
Kingdom of Bahrain

### **Report on the financial statements**

We have audited the accompanying financial statements of the Central Bank of Bahrain (the "Central Bank"), which comprise the balance sheet as at 31 December 2012, and the related profit and loss account and appropriation for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

#### *Responsibility of the management for the financial statements*

The management of the Central Bank is responsible for the preparation and fair presentation of these financial statements in accordance with the basis of accounting described in Note 2 and Royal Decree No. 64 of 2006, and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditors' responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether these financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about amounts and disclosures in these financial statements. The procedures selected depend on our judgment, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Central Bank as at 31 December 2012, and its financial performance for the year then ended in accordance with the accounting policies described in Note 2 of these financial statements and in compliance with the Royal Decree No. 64 of 2006.

KPMG Fakhro  
Partner Registration No. 83  
6 June 2015

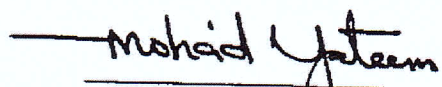
# CENTRAL BANK OF BAHRAIN

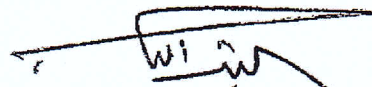
## BALANCE SHEET

(Expressed in thousands of Bahraini Dinars)

		As at 31 December	
	Note	2012	2011
<b>ASSETS</b>			
Gold			
Foreign reserves	3	2,500	2,500
Due from Ministry of Finance	4	2,289,840	2,175,067
Cash, due from Bahraini banks and treasury bills	5	75,445	-
Other assets	6	28,503	48,933
	7	11,356	10,858
<b>Total assets</b>		<b>2,407,644</b>	<b>2,237,358</b>
<b>LIABILITIES</b>			
Notes and coins in circulation			
Bahraini Dinar deposits	3	522,511	508,998
Other deposits		1,300,540	1,037,946
Due to other central banks		138,568	180,244
Due to Ministry of Finance		785	250
Profit payable to the Government of Kingdom of Bahrain	5	-	501
Provision for currency withdrawn		4,500	5,500
Other liabilities		6,234	6,245
	8	5,598	4,641
<b>Total liabilities</b>		<b>1,978,736</b>	<b>1,744,325</b>
<b>Capital funds</b>			
Capital			
General reserve	9	200,000	200,000
Contingency reserve	10	198,216	193,716
Revaluation reserve	11	15,037	83,976
	12	15,655	15,341
<b>Total capital funds</b>		<b>428,908</b>	<b>493,033</b>
<b>Total liabilities and capital funds</b>		<b>2,407,644</b>	<b>2,237,358</b>

The financial statements on pages 2 to 10 were approved by the Board of Directors on 6 June 2015 and signed on its behalf by:

  
 Mohammed Hussain Yateem  
 Chairman

  
 Rasheed Al Maraj  
 Governor

The notes on pages 4 to 10 are an integral part of the balance sheet and profit and loss account and appropriation.



# **CENTRAL BANK OF BAHRAIN**

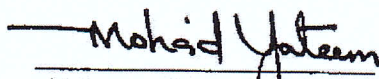
## **PROFIT AND LOSS ACCOUNT AND APPROPRIATION**

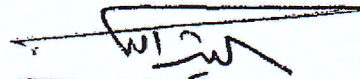
For the year ended 31 December 2012

(Expressed in thousands of Bahraini Dinars)

	Note	Year ended 31 December 2012	Year ended 31 December 2011
<b>Income</b>			
Interest income		16,261	22,067
Interest expense		(3,636)	(4,339)
Net interest income		12,625	17,728
Registration and licensing fees		5,468	5,564
Exchange gain on sale of US dollars		7,610	5,783
Net realised investment gain		5,507	4,883
Other income		1,157	961
<b>Total income</b>		<b>32,367</b>	<b>34,919</b>
<b>Expenses</b>			
Staff costs		(12,162)	(10,717)
General and administration expenses		(5,873)	(6,937)
Managed funds and advisory fees		(1,053)	(999)
Notes issue expenses		(1,588)	(2,205)
<b>Total operating expenses</b>		<b>(20,676)</b>	<b>(20,858)</b>
<b>Profit for the year before impairment provision</b>		<b>11,691</b>	<b>14,061</b>
Provision for impairment	4	-	-
<b>Profit for the year</b>		<b>11,691</b>	<b>14,061</b>
Transfer to contingency reserve	11	(2,691)	(3,061)
Transfer to general reserve	10	(4,500)	(5,500)
<b>Balance payable to Kingdom of Bahrain</b>		<b>4,500</b>	<b>5,500</b>

The financial statements on pages 2 to 10 were approved by the Board of Directors on 6 June 2015 and signed on its behalf by:

  
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The notes on pages 4 to 10 are an integral part of the balance sheet and profit and loss account and appropriation.

## **CENTRAL BANK OF BAHRAIN**

### **Notes to the financial statements for the year ended 31 December 2012** (Expressed in thousands of Bahraini Dinars)

#### **1. Activity**

The Central Bank of Bahrain (the "Central Bank") is a public corporate entity established by the Central Bank of Bahrain and Financial Institutions Law 2006 on 7th September 2006. It operates under the Royal Decree No. 64 of 2006 issued by His Majesty King Hamad bin Isa Al Khalifa, King of the Kingdom of Bahrain (the "Royal Decree").

The Central Bank is responsible for maintaining the monetary and financial stability in the Kingdom of Bahrain.

The Central Bank implements the Kingdom's monetary and foreign exchange rate policies, manages the government's reserves and debt issuance, issues the national currency and oversees the country's payments and settlement systems. It is also the sole regulator of Bahrain's financial sector, covering the full range of banking, insurance, investment business and capital markets activities. The Central Bank has no branches or operations abroad.

The Central Bank's registered address is P.O. Box 27 and is located at the Central Bank Building, Diplomatic Area, Kingdom of Bahrain.

The financial statements of the Central Bank, comprise the balance sheet as at 31 December 2012, and the related profit and loss account and appropriation for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

#### **2. Significant accounting policies**

The financial statements have been prepared in accordance with the requirements of the Royal Decree No. 64 of 2006 using the following significant accounting policies. These policies have been consistently applied to all the years presented, unless otherwise stated.

##### **2.1 Accounting convention**

The financial statements are prepared under the historical cost convention on the accrual basis of accounting.

##### **2.2 Gold**

Gold is carried at cost.

##### **2.3 Foreign reserves**

Foreign reserves comprise deposits placed and investments denominated in foreign currencies. All investments and deposits are carried at cost less provision for impairment.

For the Central Bank's investments portfolio, premiums or discounts on purchase are amortised on a straight-line basis over the remaining life of the investment and included under interest income in the profit and loss account and appropriation.

Purchases or sales of financial assets are recognised on the settlement date, i.e. the date by which the executed asset trade is settled.



## **CENTRAL BANK OF BAHRAIN**

### **Notes to the financial statements for the year ended 31 December 2012 (continued)** (Expressed in thousands of Bahraini Dinars)

#### **2. Significant accounting policies (continued)**

##### **2.4 Cash, due from Bahraini banks and treasury bills**

These balances comprise cash in hand, deposits/ placements held with banks that are denominated in Bahraini Dinars and short-term highly liquid treasury bills with original maturities of three months or less.

##### **2.5 Equipment**

All equipment used by the Central Bank is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the profit and loss account and appropriation.

##### **2.6 Notes and coins in circulation**

Notes and coins in circulation are stated net of Bahraini dinar notes and coins held in banking stock in the Central Bank.

##### **2.7 Foreign currencies**

Foreign currency transactions are recorded at rates of exchange ruling at the date of the transactions.

Monetary assets and liabilities in foreign currencies at the balance sheet date are retranslated on the basis of the official par value of the Bahraini dinar in relation to the United States dollar and the closing market rates of exchange for the other currencies.

In accordance with Article 22 (a) of the Central Bank of Bahrain and Financial Institution Law, all profits/ (losses) resulting from the revaluation of the Central Bank's assets or liabilities in foreign currencies as a result of any change in the parity-rate of the Bahraini dinar or the rate of exchange of the Central Bank's assets of such currencies, are required to be recorded in a special account to be entitled "Revaluation Reserve".

Upon disposal of the assets denominated in foreign currencies, the related gain or loss on the foreign exchange element of the disposed asset is recognised in the profit and loss account and appropriation.

Forward contracts are revalued for foreign exchange movements on a monthly basis. Gains or losses on a monthly basis are recorded in the revaluation reserve for unsettled forward contracts. Such gains or losses are reversed in the subsequent month. Gains and losses that arise upon settlement of futures contracts are calculated by comparing the foreign exchange rate at the time of purchase with the foreign exchange rate at the time of settlement and the resulting gains or losses are recorded in the revaluation reserve.

## **CENTRAL BANK OF BAHRAIN**

### **Notes to the financial statements for the year ended 31 December 2012 (continued)** (Expressed in thousands of Bahraini Dinars)

#### **2. Significant accounting policies (continued)**

##### **2.8 Provision for impairment**

The Central Bank assesses at each balance sheet date whether there is objective evidence that an investment is impaired. Investments in bonds are assessed for impairment on a portfolio basis. Factors considered in determining objective evidence of impairment include comparison of total cost with fair market value of each portfolio to determine if there is significant and other than temporary decline in the fair market value of the portfolio and is charged to profit and loss account.

Contingency reserve is utilised by the Central Bank to provide impairment for other assets used in relation to Central Bank's objectives within the framework of the general economic policy of the Kingdom in a manner that enhances and develops the national economy as determined by the Board.

##### **2.9 Revenue recognition**

###### *Interest income*

Interest income is recognised on a time apportioned basis, taking into account the principle outstanding and the rate applicable.

###### *Registration and licensing fees*

Registration and licensing fees are accounted for based on the calendar year they relate to and are recognised on an accrual basis.

###### *Net realised investment gains and losses*

Net realized investment gains and losses arising from the sale of assets are recognised in the profit and loss account and appropriation when such assets are disposed of.

##### **2.10 Interest expense**

Interest expense on the amounts due from Bahraini Dinar and other deposits is recognised on an accrual basis using the straight line method in the profit and loss account and appropriation.

##### **2.11 Notes issue expenses**

Expenses related to issuing notes are recognised in the profit and loss account and appropriation when incurred.

##### **2.12 Provision**

Provision is recognised if, as a result of a past event, the Central Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.



## CENTRAL BANK OF BAHRAIN

### Notes to the financial statements for the year ended 31 December 2012 (continued) (Expressed in thousands of Bahraini Dinars)

#### 3. Excess of authorised backing over currency in circulation

	2012	2011
Authorised backing		
Gold	2,500	2,500
Foreign reserves – note 4	2,289,840	2,175,067
	<u>2,292,340</u>	<u>2,177,567</u>
Notes and coins in circulation	(522,511)	(508,998)
Excess of authorised backing over currency in circulation	<u>1,769,829</u>	<u>1,668,569</u>

According to Article 19 of the Central Bank of Bahrain and Financial Institution Law, foreign reserves permanently maintained by the Central Bank shall not be less than 100% of the value of the currency in circulation.

The fair value of gold as at 31 December 2012 was BD 93,811 thousand (2011: BD 88,467 thousand).

#### 4. Foreign reserves

	2012	2011
Bonds portfolios	706,541	673,239
Bank deposits	1,662,021	1,508,920
	<u>2,368,562</u>	<u>2,182,159</u>
Less: provision for impairment	(78,722)	(7,092)
	<u>2,289,840</u>	<u>2,175,067</u>

All bonds are quoted in active markets with 99% being of investment grade BBB or higher (2011: 98%). All the deposits (2011: 99%) and 63% of bonds are in US dollars (2011: 73%). For other foreign currencies, these are 100% hedged into US dollars. The bond portfolios include BD 5,821 thousand net unrealised losses on non-US denominated bonds and related forward foreign exchange contracts used to hedge such bonds (2011: loss of BD 2,701 thousand).

The market value of the bond portfolios (including cash and accrued interest held within these portfolios) at 31 December 2012 was BD 717,473 thousand (2011: BD 674,957 thousand).

The Central Bank has recognised an impairment provision amounting to nil for the year ended 31 December 2012 (2011: nil) in the profit and loss account.

However, the Central Bank has recognised an impairment provision amounting to BD 71,630 thousand for the year ended 31 December 2012 (2011: nil) which is BD 56,630 thousand in addition to BD 15,000 thousand that was estimated in May 2013. This has been charged to the contingency reserve (refer note 11). The reassessment of impairment provision is as of the date of approval of these financial statements.

# **CENTRAL BANK OF BAHRAIN**

**Notes to the financial statements for the year ended 31 December 2012 (continued)**  
(Expressed in thousands of Bahraini Dinars)

## **5. Due from/ to Ministry of Finance**

The amount represents the net due from/ to the Ministry of Finance for payments and receipts related to the Ministry made by the Central Bank.

## **6. Cash, due from Bahraini banks and treasury bills**

	2012	2011
Cash	19,297	19,416
Due from Bahraini banks	706	23,017
Ijara Sukuk / Treasury bills issued by the Government of Bahrain	8,500	6,500
	<u>28,503</u>	<u>48,933</u>

Cash includes US dollars held by the Central Bank amounting to US\$ 51,123 thousand (equivalent BD 19,274 thousand) (2011: US\$ 51,438 thousand (equivalent BD 19,392 thousand)).

## **7. Other assets**

	2012	2011
Interest receivable	2,424	2,295
Staff loans	4,791	4,781
Equipment	1,883	1,708
Others	2,258	2,074
	<u>11,356</u>	<u>10,858</u>

## **8. Other liabilities**

	2012	2011
Accrued expenses	90	132
Payables	5,508	4,509
	<u>5,598</u>	<u>4,641</u>

## **9. Capital**

	2012	2011
Authorised	<u>500,000</u>	<u>500,000</u>
Issued and fully paid up	<u>200,000</u>	<u>200,000</u>

## CENTRAL BANK OF BAHRAIN

### Notes to the financial statements for the year ended 31 December 2012 (continued) (Expressed in thousands of Bahraini Dinars)

#### 10. General reserve

	2012	2011
Balance at beginning of the year	193,716	188,216
Transfer from profit and loss account and appropriation	4,500	5,500
Balance at end of the year	<u>198,216</u>	<u>193,716</u>

In accordance with Article 12 of the Central Bank of Bahrain and Financial Institution Law, the Central Bank maintains a general reserve which is credited with the following percentages of its net profit:

- 100% of the net profit until the amount of the general reserve reaches 25% of the authorised capital of the Central Bank;
- 50% of the net profit until the amount of the general reserve is equal to the authorised capital of the Central Bank;
- 25% of the net profit until the amount of the general reserve is double the amount of the authorised capital of the Central Bank.

Any net profit after such allocation and allocation to the contingency reserve is to be transferred to the Kingdom of Bahrain general account within three months of the date of the approval of the Central Bank's financial statements.

#### 11. Contingency reserve

	2012	2011
Balance at beginning of the year	83,976	80,915
Transfer during the year	2,691	3,061
Utilised during the year	(71,630)	-
Balance at end of the year	<u>15,037</u>	<u>83,976</u>

In accordance with Article 21 the Central Bank of Bahrain and Financial Institution Law, the Board has approved a transfer of BD 2,691 thousand of the current year's net profit to the contingency reserve and utilisation of BD 71,630 thousand for impairment provision (refer note 4).

#### 12. Revaluation reserve

	2012	2011
Balance at beginning of the year	15,341	15,887
Movement during the year	314	(546)
Balance at end of the year	<u>15,655</u>	<u>15,341</u>

The revaluation reserve relates to exchange gains and losses recognised in accordance with the Central Bank of Bahrain and Financial Institution Law and accounting policies of the Bank.



## **CENTRAL BANK OF BAHRAIN**

**Notes to the financial statements for the year ended 31 December 2012 (continued)**  
(Expressed in thousands of Bahraini Dinars)

### **13. Contingent liabilities and commitments**

Contingent liabilities and commitments, some of which are offset by corresponding obligations of third parties, arise in the normal course of business, including contingent liabilities in respect of guarantees and indemnities in connection with liquidity support operations. As at 31 December 2012 there were no outstanding contingent liabilities or commitments (2011: Nil) with the exception of outstanding foreign exchange contracts with a notional value of BD 356,497 thousand (2011: BD 229,613 thousand).

### **14. Comparatives**

Certain prior year amounts have been reclassified to conform to the current year's presentation. Such reclassifications do not affect previously reported net profit or capital funds.