

مَصْرَفُ الْبَحْرَيْنِ الْمُرْكَبِي  
Central Bank of Bahrain

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# Annual Report

## 2016

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Chapter

1

## 1. Monetary Policy Developments

*Overview*

*Monetary Policy Management*

*Domestic Interest Rates*

*Public Debt Issuance*

## 1.1 Overview

During 2016, 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.

## 1.2 Monetary Policy Management

### *Monetary Policy Committee*

The CBB Monetary Policy Committee (“MPC”) met on a weekly basis throughout 2016. 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 2016, the reserve requirement did not change from 5%.

## 1.3 Domestic Interest Rates

### *Key Policy Interest Rates*

Based on the US Federal Reserve Bank's decision to raise interest rates on December 14, 2016, the Central Bank of Bahrain, on the same date, raised interest rates for the facilities provided by the CBB for retail banks by 0.25%, as follows:

The interest rate for the overnight deposit facility was raised to 0.75% and for the one-week maturity to 1.0%, and for the one month maturity to 1.25%. Also, There has been change in the overnight lending rate offered by the CBB for borrowing against government treasury bills, deposits of retail banks and the return against Islamic Ijara Sukuk was 2.75% during the same period.

### *Wakalah*

As part of the ongoing efforts towards the development of Islamic banking and promoting investment opportunities for Islamic retail banks, the Central Bank of Bahrain (CBB) launched a new Sharia compliant Wakalah investment tool. This tool, which was approved by the Shariah Board of the CBB, is aimed at absorbing excess liquidity of the local Islamic retail banking through the Wakalah agreement. The agreement has been developed, based on a standard contract of the International Islamic Financial Market (IIFM), that is currently used by all Islamic banks in Bahrain.

The Wakalah is an investment opportunity for Islamic retail banks who wish to deposit excess liquidity with the CBB. Islamic retail banks need to sign a Wakalah agreement which appoints the CBB as an agent (Wakil) to invest cash on behalf of the bank (Muwakkil). Accordingly, the Wakil will invest these funds in the investment portfolio allocated in advance, and contains international Islamic Sukuks in US dollars and cash in Bahraini dinars. The duration of the Wakalah is one week and is available for retail Islamic banks every Tuesday.

### Interbank Rates

As at end-2016, the 3 month BHIBOR rate was 2.1 %, compared to 1.62% at end-2015. The 6 month BHIBOR rate 2.2% at end-2015 compared to 1.77 % at end-2015.

## 1.4 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, Government Bond, Sukuk AlSalam and Ijarah Sukuk. The issuance of all government debt securities is executed in coordination with the Ministry of Finance (MOF).

During 2016, the CBB issued conventional 3-month treasury bills, denominated in Bahraini dinars, on a weekly basis, with an issue amount of BHD 70 million. Six (6)-month Treasury Bills were also issued, on a monthly basis, with an issue amount of BHD 35 million. In addition, the CBB issued 12-month Treasury Bills on a quarterly basis, with an issue amount of BHD 225 million.

The CBB also issued, on a monthly basis, three-month Sukuk AlSalam for BHD 43 million. In addition, the CBB issued, on a monthly basis, six-month Ijara Sukuk for BHD 26 million.

In addition, the CBB issued long-term Ijarah Sukuk in various denominations and for different maturities, upon the request of the Kingdom of Bahrain's government, represented by the Ministry of Finance.

The Central Bank of Bahrain, during 2016, at the request of the Ministry of Finance, issued domestic and international government development bonds of different periods, as follows:

- Local development bonds with an issue amount of BD 200 million on May 05, 2016, with a maturity of 5 years, fixed-rate of 5.875%.
- Local development bonds with an issue amount BD 300 million on July 21, 2016, with a maturity of 3 years, at a fixed rate of 4.45%.
- Local development bonds with an issue amount of BD 285 million on November 10, 2016, with a maturity of 3 years, at a fixed rate of 5.875%.

- International development bonds with an issue amount of US \$ 800 million on November 24, 2015, with a maturity of 10 years and two months, at an interest rate of 7%.
- International development bonds with issue amount of US \$ 1 billion on October 12, 2016, with a maturity of 12 years months, at a fixed rate of 7.0%.

The CBB also issued long-term Ijara Sukuks with different amounts and maturities, according to the needs of the Government of the Kingdom of Bahrain, represented by the Ministry of Finance, in coordination with the CBB from within and outside Bahrain. The CBB issued three Islamic issuances which were as follows:

- On 12<sup>th</sup> February 2016, CBB, Issued Ijara Sukuk and Murabaha with an issue amount of USD \$ 1 billion 100 million for a period of 7 years and 4 Months, maturities on 12 February 2024 fixed return of 5.624%.
- Also, on 16<sup>th</sup> May 2016, CBB issued with some banks **Private placement** for USD \$ 435 Million for a period of 3 years at fixed return of 5.624%.

Chapter

2

## 2. Banking Developments

*The Aggregate Balance Sheet of the Banking System*

*Retail Banks*

*Wholesale Banks*

## 2.1 The Aggregate Balance Sheet of the Banking System

Total aggregate balance sheet for the banking system (retail and wholesale banks) decreased to USD 186.1 billion by the end of 2016, compared to USD 191.0 billion at the end of 2015 of 2.6%. Wholesale banks represented 55.4% of total assets, whilst retail banks ac, a decrease counted for 44.6%.

Domestic banking assets amounted to USD 55.8 billion at the end of 2016 compared to USD 52.6 billion at the end of 2015, representing an increase of USD 3.2 billion (6.1%). Foreign assets amounted to USD 130.3 billion, compared to USD 138.4 billion at the end of 2015, a decrease of USD 8.1 billion (5.9%).

Domestic liabilities increased to USD 54.9 billion at the end of 2016 compared to USD 52.6 billion at the end of 2015, an increase of USD 2.3 billion (4.3%). Total foreign liabilities decreased by USD 7.2 billion (5.2%) to reach USD 131.2 billion against USD 138.4 billion at the end of 2015.

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

The aggregate balance sheet of retail banks increased to BD 31.2 billion at the end of 2016, compared to BD 30.9 billion at the end of 2015.

Total domestic assets grew by BD 0.8 billion (5%) to reach BD 17.3 billion, with claims on private non-banks sector increasing by BD 0.1 billion (1.4%) and claims on general government securities growing by 0.7 billion (20.5%).

Foreign assets recorded a decrease of BD 0.5 billion (3.4%), reaching a total of BD 13.9 billion at the end of 2016 compared to BD 14.4 billion at the end of 2015. Claims on foreign non-banks increased by BD 0.1 billion (1.1%) from BD 9.0 billion at the end of 2015 to BD 9.1 billion at the end of 2016, while claims on foreign banks decreased by BD 0.6 billion (6.3%), reaching a total of BD 5.7 billion at the end of 2016.

Total domestic liabilities of retail banks increased by BD 0.6 billion (3.8%) from BD 16.2 billion at the end of 2015 to BD 16.8 billion at the end of 2016. This was due to an increase in liabilities to private non-banks by BD 0.1 billion (1.2%) and liabilities to capital and reserves by BD 0.2 billion (9.0%).

Total foreign liabilities decreased to reach BD 14.5 billion at the end of 2016. Liabilities to foreign banks increased by BD 0.1 billion (1.9%) and liabilities to foreign non-banks decreased by BD 0.2 billion (2.1%).

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



### *Loans and Credit Facilities*

Outstanding loans and credit facilities of retail banks stood at BD 8.1 billion at the end of 2016, a 2.8% increase compared to the BD 7.8 billion at the end of 2015. The business sector accounted for 51.6% of total loans and credit facilities, while individuals and the government sector represented 44.8% and 3.6% respectively.

### *Deposits*

Retail banks' total domestic deposits increased to BD 11.5 billion at the end of 2016 compared to BD 11.4 billion at the end of 2015, an increase of BD 0.1 billion (1%). This was due to higher private sector deposits which increased by BD 0.1 billion (1.2%) while general government deposits decreased by BD 0.03 billion (1.6%)

Domestic deposits in Bahraini Dinar decreased by BD 1.7 billion (1.9%) to BD 9.1 billion at the end of 2016. Domestic foreign currency deposits increased BD 2.8 billion (12.7%) to BD 2.5 billion. Bahraini Dinar deposits and foreign currency deposits constituted 55% and 45% 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 22.6% while Asia accounted for 8.6%, Western Europe accounted for 5.1%, North and South America for 3.9%, and other Arab countries for 3.0%.

In terms of currency, the share of US dollar denominated assets was 41.8%, while the GCC currencies (excluding Bahraini dinar) accounted for 8.3% of total assets. The Euro represented 1.9% of total assets.

## **2.3 Wholesale Banks<sup>2 3</sup>**

The aggregate balance sheet of wholesale banks fell by USD 5.7 billion or 5.3% to USD 103.1 billion at the end of 2016, compared with USD 108.8 billion at the end of 2015.

Total domestic assets grew to USD 9.6 billion at 2016, compared with USD 8.6 billion at the end of 2015.

Foreign assets decreased by USD 6.7 billion (6.7%) to USD 93.5 billion at the end of 2016. This was due to decreases in claims on Securities by USD 1.1 billion (7.4%), and in claims on banks by USD 0.4 billion (2%).

Total domestic liabilities of wholesale banks increased by USD 0.6 billion (6.8%) to USD 10.3 billion at the end of 2016 compared with USD 9.6 billion at the end of 2015.

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<sup>2</sup> This includes conventional and Islamic wholesale banks.

<sup>3</sup> The balance sheets of wholesale banks are usually denominated in USD.

Foreign liabilities decreased by USD 6.4 billion to reach USD 92.8 billion at the end of 2016. This increase was mainly due to an increase in liabilities on banks which increased by USD 4.9 billion (14.3%)

### *Geographical and Currency Distribution of Assets*

The share of total assets accounted for by the GCC (excluding Bahrain) reached a total of 34.6%, while Western Europe accounted for 31.3%, North and South America for 10.4%, Asia for 9.0%, and other Arab countries for 3.7%.

As for currency, the share of GCC currencies (excluding Bahraini dinar) of total assets was 11.5% with the dollar accounting for 69.4% of total assets and the Euro comprising 7.3% of total assets.

Chapter

3

## **3. Regulatory and Supervisory Developments**

*Regulatory Developments*

*Supervisory Developments*

### 3.1 Regulatory Developments

As part of CBB's continuing development of the regulatory framework for the financial system, work was carried out during the year 2016 to strengthen regulatory policies and to develop appropriate prudential regulations, in order to maintain financial stability and market integrity.

#### *3.1.1 Updates to CBB Rulebook*

##### Basel III adoption

##### Public Disclosure requirements

The CBB has issued in May 2016 Public Disclosure requirements in its final form for Islamic banks in accordance with IFSB requirements and it will start receiving the financial reports according to these requirements from December 2016.

In May 2016, the CBB has issued new amendments to the Public Disclosure requirements Module and started receiving half yearly financial reports according to these requirements from conventional banks in June 2016.

##### Basel III Leverage Requirements:

The CBB has issued a consultation paper on Basel III leverage requirements. Comments received were studied and discussed and currently the CBB is updating its requirements in accordance with the recently revised Basel Paper issued in April 2016.

##### Proposed new directives for Ancillary Service Providers

The CBB issued in March 2016 new directives for Ancillary Service Providers as part of Rulebook Volume 5 for Specialized Licensees following the consultation conducted with the financial sector and the concerned parties in this regard. These new directives cover the Authorization, General Requirements and the CBB Reporting Modules.

Two additional Modules are under development which are High Level Controls Module and Risk Management Module which will be issued for consultation later.

The CBB has also issued in December 2016 a consultation paper regarding new amendments to the Authorisation Module that will allow payment service providers to issue multi-purpose prepaid cards, electronic or otherwise, which can be used on POS and ATMs as well as for online purchases and remittances.

##### New directives related to outsourcing services which contains customer information

The CBB has issued in July 2016 new directives for retail banks and financing companies that includes rules regarding outsourcing of services which contains customers' information.

Such directives prohibit retail banks and financing companies from outsourcing any services that include private customer information to non-licensee service providers or to service providers operating outside Bahrain.

Starting from 31st July 2016 banks and financing companies must submit progress reports on a quarterly basis, to the concerned directorate in the CBB regarding the steps and actions taken to implement these directives.

#### **New directives on ATM Physical Security for retail banks**

As part of the CBB's objectives to protect the depositors and customers of financial institutions, the CBB has issued in May 2016 new directives to retail banks with regards to ATMs physical security measures which are in-line with international best practices as part of the security measures for retail banks after the completion of the consultation in this regard.

The new rules require that banks ensure that all deployed ATMs are compliant with the Payment Card Industry Data Security Standards (PCI-DSS). The banks are therefore required to maintain up-to-date PCI-DSS certification.

The main purpose of the issuance of these directives is to oblige banks to apply additional protection measures to customer data when they use the ATM through providing additional protection for devices and software related to the ATM machine to prevent any security breaches of important client data (data-skimming) like the data stored in the magnetic-stripe such as the secret code for the ATM card.

#### **New directives on offering banking and financial services to the customers with special needs**

The CBB issued in May 2016 new directives on offering banking services to customers with special needs in the CBB Rulebook Volumes 1 and 2 for conventional and Islamic banks respectively.

The new directives include special measures and procedures to deal with such customers to safeguard their rights of accessing banking services on an equal basis with others, using appropriate methods of communication, and by creating the appropriate environment according to their needs.

The new directives include providing a number of services and privileges to persons with special needs, such as fast track and/or priority services to address their banking needs through a special priority desk clearly designated with a special logo and provide parking facilities and easy access entrances in addition to special door step financial services. Furthermore, the guidelines include the use of forms and documents for transactions specially designed for people with special needs by using Braille or voice records or screen readers or any other advanced and secured means. These directives also exempt such customers from the monthly fees and charges on the minimum balance for savings and current accounts, as well as withdrawals, done through bank counters.

All Bahraini retail banks that operate 10 or more branches in the Kingdom of Bahrain must provide at least one branch for serving such customers in addition to the normal branch activities. At least one ATM machine must be provided in the branch and equipped with the necessary technologies commensurate with wheelchair users and with Braille alphabet and voice software technology (talking ATM) for the visually impaired customers.

The CBB has communicated with Bahrain Association of Banks in order to coordinate with the banks to develop a specialized banking dictionary that includes banking vocabulary by way of sign language to facilitate the communication with people with hearing impairments.

The CBB has also coordinated with the Bahrain Institute of Banking and Finance and the Ministry of Labour and Social Development to prepare specialised training courses for the staff of banks to be trained on how to deal with such customers.

#### **New directives in Credit Risk Management Module (CM) concerning the CBB's prior approval requirements on writing-off exposures**

The CBB has issued in October 2016 new changes to Credit Risk Management Module (CM) which include widening the scope of obtaining the CBB's prior written approval before writing-off any exposure that is more than BD100,000 or equivalent in foreign currency to include all branches of foreign banks operating in the Kingdom, which was previously applied only to locally incorporated banks.

The new changes also include the requirement of obtaining the CBB's prior written approval for approved persons' exposures within the licensees.

#### **New directives concerning hiring relatives of employees occupying controlled functions in banks**

The CBB has issued new directives in July 2016 on hiring relatives of approved persons in banks. These directives require the CBB's prior approval for members of the board of directors and others who occupy controlled functions.

The new rules require that banks must have in place a board approved policy on the employment of relatives of approved persons and a summary of such policy must be disclosed in the annual report of the bank. The Chief Executive/ General Manager must disclose to the board of directors on an annual basis those individuals who are occupying controlled functions and who are relatives of any approved persons within the conventional bank licensee, while overseas conventional bank licensees must disclose to a designated officer at its head office or regional manager on an annual basis those individuals who are occupying controlled functions and are relatives of any approved persons.

The implementation of such directives aim in promoting compliance with sound corporate governance, especially in matters relating to conflict of interest.

### Resolution No. (20) of the year 2016 with respect to the administration of Real Estate Development Escrow account Agents

Resolution No. (20) of the year 2016 relating to the administration of Real Estate Development Escrow account Agent was issued on 23rd June 2016 in the Official Gazette. The Resolution sets controls for the management of real estate development projects by retail banks in accordance with the Law of Real Estate Development No. (28) of 2014 and its implementing regulation.

### New directives in the Business and Market Conduct Module dealing with Notifying the CBB on the introduction of new or making changes to customer products and facilities

The CBB has made new amendments in October 2016 to the Business and Market Conduct Module as part of the quarterly updates that include notifying the CBB when new products or changes are introduced later that will add an additional financial cost to customers.

### Proposal for New Shari'a Governance Module for Islamic banks

As part of the CBB's objective to establish industry leading Shari'a governance principles and practices in in Bahrain and protecting investors and other Islamic bank licensee's stakeholders, the CBB in September 2016 issued for consultation a new Shari'a Governance Module (Module SG) for Islamic banks. The CBB received the comments of the Islamic Industry in this regard and it is currently under study in order to be presented and discussed in the Regulatory Policy Committee.

Islamic banks are required to have a Shari'a Supervisory Board, an Internal Shari'a Advisory Function, Internal Shari'a Audit Function, and Independent External Shari'a Compliance Audit and it includes the roles and responsibilities of each.

Islamic banks in accordance with these guidelines must develop and have a mandate that defines its scope of work and the terms of its appointment and competence, assessment and ways of professional development and management duties towards it. The proposal explains the disclosure requirements related to the Sharia Supervisory Board and the relevant part of the annual report.

### Draft Regulation on the Procedure for Processing Applications by Investment Firms for transferring their business in the Kingdom of Bahrain

The CBB issued in December 2016 a consultation paper on draft regulation "Procedure for Processing Applications by Investment Firms for transferring their business in the Kingdom of Bahrain" similar to what was issued to banks and insurance firms. This initiative comes as part of the CBB's objectives to protect customers of financial institutions and enhance the confidence in the Kingdom of Bahrain.

## Legal Unit

In light of the CBB efforts to develop the financial sector in Bahrain a legislative decrees has been issued as follow:

**Legislative Decree No. (21) of 2016 with Respect to Amending Certain Provisions of the Central Bank of Bahrain and Financial Institutions Law Promulgated by Law No. (64) of 2006**

This law has been issued for the purpose of making important amendments related to the powers and functions of the Administrator of the financial institution “under administration” for the reasons described below. The CBB has also made amendments to the articles related to the provision of services to the licensees and the fees due for such services.

### **Amending Article 140 and 142**

The CBB considered the need to amend the provision of Article 140 by adding a new power to the Administrator to enable him to sell certain assets in accordance with the controls contained in the amended provisions. These amendments came as a result of the CBB experience during the past years with regard to the powers prescribed in the law of the Administrator, where the CBB found some legal obstacles that limit the ability of the Administrator to administrate the licensee. Such obstacles are related to the lack of authority of the Administrator to conduct some legal actions such as sale and mortgage, for example.

Article 142 has been amended in light of the Constitutional Court ruling of case No. d/3/2014 of the judicial year 12 which ruled that the article was unconstitutional, putting the rights of the creditors and clients of the licensees at risk, as well as the whole financial sector in the Kingdom of Bahrain, if such article was not amended.

### **Amending Articles 4 and 180**

The CBB had been facing some difficulty with the legal scope of Article 180 of the CBB Law which relates to the imposition of CBB fees. This amendment aims at widening the scope of the powers to impose fees on all the provided services. Article 4, consequently, also needed to be widened in scope by adding new functions to the CBB that would enable it to allow for the continuous diversification of services provided by the financial sector.

### **Amending Article 179**

In light of the cancellation of the Councils of Quality for Training, it became imperative that legal status of the Bahrain Institute of Banking and Finance (“BIBF”) is maintained and that was achieved by placing it under the legal umbrella of CBB. This will help the BIBF to continue its progress in providing appropriate training and educational programs needed for the development of the financial sector. The CBB deemed it is necessary to stipulate a new article in the CBB law that covers these aspects, namely Article 179 (bis).



### Legislative Decree No. 23 of 2016 on Trusts

In light of the CBB efforts to develop the financial sector in Bahrain, particularly the Financial Trusts Services Providers, a legislative decree has been issued on the Trusts repealing the Financial Trusts Law No. 23 of 2006 in order to develop the Trusts system so that the financial sector in the Kingdom can keep abreast of the global development and enhance the competitiveness of the financial services sector in Bahrain. In preparing this law, the CBB has taken into account the requirements of the local and regional financial sector, as well as applying the best international standards adopted for Trusts Financial services in the leading financial centers worldwide.

It is worth mentioning that the Trusts Law will contribute to the creation and development of new financial products in the field of investment such as real estate investment funds, asset and wealth management for individuals, institutions and pension funds of local and regional institutions and companies, as well as the development of conventional and Islamic investment products.

This law contains a number of amendments that deal with developing the requirements and conditions related to the Trusts, which will enhance the protection of the rights and interests of the founder and beneficiaries of the Trust, including articles relating to the term of the Trust, its registration, powers assigned to the Trustee as well as other related provisions in terms of administering the Trust in accordance with the conditions stipulated in the Trust Contract.

The draft law consists of seventy-three articles dealing with the establishment of the custody and conditions relating to the validity of the custody, the powers of the parties to the custody, the functions and powers of the custodian, the period of custody and the cases under which the custody can be terminated in addition to the jurisdiction of the court. The law stipulated that the custodian should register them in the Trusts Register established at the Central Bank of Bahrain.

It is worth mentioning also that the issuance of this law will strengthen the Kingdom of Bahrain's position as a leading international financial center in the region and will contribute to the development of new and innovative financial products.

### Legislative Decree No. 22 of 2016 on Protected Cells Companies

In order to create an attractive investment environment for foreign companies, a legislative decree has been issued on Protected Cells Companies.

Protected Cells Companies are considered as one of the legal frameworks that represent a new form of commercial companies, consisting of one or more cell depending on the type and nature of the investment, where each cell has separate assets and liabilities.

The draft law introduces a new legal framework that is universally recognized to cope with the needs of banks and financial institutions, particularly the foreign financial institutions that are familiar with its provisions, in addition to the local and regional financial institutions that have recently used such type to securitize Islamic and conventional assets.

Protected-fund companies help banks and financial institutions establish various types of private and collective investment funds, and facilitate the task of insurance managers in establishing insurance companies belonging to owners of commercial, industrial and aviation companies.

It's also worth mentioning that when drafting this law, the laws of various countries with established Trusts legislation were taken into account, including the Jersey and Guernsey Law, Cayman Islands, Singaporean and Malaysian laws, the Bahamas law, and the laws of other regional financial services centers.

Due to the diversity and multiplicity of investments within the Protected Cell Company, the Law took into account the protection of the cellular assets of the Company's creditors separately in order to enhance investors' confidence and guarantee their rights legally and transparently.

This Law provides the necessary legal framework for the development of new conventional and Islamic financial products and encourages investment activities. It also helps to enhance the competitiveness and position of the Kingdom as a prominent financial center in the region.

#### **Law No. 18 of 2016 on the Limited Investment Partnerships**

As part of the CBB's efforts to strengthen the Kingdom of Bahrain position as a regional financial center, and to improve the financial services legislations to enhance the competitiveness of the sector, a law on limited investment partnerships has been issued.

The Law introduces a new type of legal entities namely, "Partnerships", which is used to run some of the financial activities, such as Collective Investment Undertakings and Private Investment Funds. The Kingdom of Bahrain is now one of the leading countries in the region in the field of investment funds, and this law provides the opportunity for further growth in this sector.

The law was drafted independently of the rest of the Kingdom's laws, specifically the Commercial Companies Law, because the nature of the partnerships and their operations are different from that of companies. It is, however, an agreement between partners and not a capital contribution by shareholders. Furthermore, partnerships are established by virtue an independent law in the countries that adopt this type of legal structure in order to facilitate its use by banking sector stakeholders.

Unlike other legal structures, Partnerships are characterized with the following:

- Partnerships as a legal structure exist worldwide in countries that are considered global financial centers, such as Malaysia, Singapore, Jersey and

Guernsey, the Cayman Islands and the UK, as well as some neighboring countries such as the United Arab Emirates. Its issuance in the Kingdom is deemed necessary to enhance competitiveness in the region.

- Partnerships as a legal structure are familiar to foreign investors and therefore would attract foreign investment to the Kingdom.
- Partnerships facilitate the work of financial service providers by creating appropriate legal structures so that they have more options when structuring financial products, especially for foreign financial institutions that are accustomed to use such structures, and that are familiar with its conditions.
- Partnerships provide stronger protection to the investor by having a legal framework that legally preserves rights as well as clearly setting out duties, partners' liabilities, payment of partners' shares, and dividend payments. The new law addresses the current gap where there are no clear provisions in the current laws in relation to the rights and obligations of the investor, as he or she is not a partner in the legal structure, and his legal relationship is covered merely by a participation contract with the concerned financial institution.
- Partnerships are considered to be particularly useful in the structuring of alternative forms of investments, such as private equity investments and infrastructure projects. They will further be a preferred option for investment funds founders that aim invest in the region, where such partnerships be considered to be GCC legal entities that will be able to benefit from reduced government fees and taxes when buying and selling their investments, and thus ensuring better returns for investors.

Financial institutions commended the efforts invested in this initiative which is expected to facilitate the work of those institutions.

## 3.2 Supervisory Developments

### *Compliance Directorate*

During 2016, the Central Bank of Bahrain continues to improve the systematic AML/CFT framework in the Kingdom of Bahrain by carrying out onsite examinations. Such examinations focuses on evaluating the institution's level of compliance with the AML Law, CBB's Law and Financial Crime Module of all volumes. Primarily, the onsite examinations focuses on reviewing the licensees AML/CFT procedures, systems and internal controls and subsequently assist in the prevention, detection, monitoring and reporting of suspicious transactions.

The Central Bank of Bahrain mandated the World Bank to assist in conducting the National Risk Assessment. As the revised FATF 40 recommendations require a systematic, risk-based AML/CFT assessment at both the country level and institutional level. Ministries and government authorities are responsible for thoroughly analysing and addressing the applicable recommendations respectively. The Kingdom of Bahrain's mutual evaluation will commence in 2017 in coordination with the FATF and MENFATF. The mutual evaluation report is scheduled to be discussed in FATF plenary of June 2018.

The Kingdom of Bahrain has signed the agreement with the United States of America relating to the Foreign Account Tax Compliance Act (“FATCA”) Intergovernmental Agreement (“IGA”). The Central Bank of Bahrain’s Compliance Directorate has been coordinating with the licensees to ensure their readiness for FATCA reporting.

In addition, the CBB in coordination with the Ministry of Finance are in the process of reviewing the administrative and legal agreements to commence Automatic Exchange Of Information (“AEOI”) with regards to tax matters. In this regard, CBB licensees will be instructed to take necessary measures to ensure that all systems and procedures are in place and ready to meet the Common Reporting Standard (“CRS”) requirements.

### *Banking Supervision Directorates*

#### *Objective 1: Promoting Stability and Soundness in the Banking System*

The CBB continued to pursue a forward looking supervisory approach with the objective of ensuring financial stability and sound banking system as well as protection of interests of banking sector consumers and promotion of market innovation. The supervisory approach encompassed risk based supervision as well as proactive monitoring of banks and financial institutions. These measures resulted in enhanced transparency and disclosures and provided adequate assurance to consumers.

Accordingly, the following measures were continued by the Banking Supervision Directorate during the year:

1. **Related Party Exposures:-** The CBB in its endeavor to limiting any risk concentration as also ensure compliance with Central Bank’s rules continued to monitor on a monthly basis the related party exposures of locally incorporated banks.
2. **Sound Remuneration Practices:-** The CBB’s rules on sound remuneration practices align the bonuses of the senior management and incentivized employees with their risks taking and encourages long term relationship between the employee and the banks. The CBB monitored the implementation of such rules by banks during the disbursement of bonuses in 2016 for the 2015 financial year.
3. **Monitoring the Level of Exposures to Real Estate:-** The CBB continued with its monitoring of banks’ real estate exposures on a quarterly basis with the intention of Controlling risk concentration to volatile sectors.
4. **Monitoring of Impaired Loans Portfolios:-** The CBB closely monitored the impaired loans portfolio of banks on a quarterly basis; keeping track of any abnormal changes in the portfolio. The banks were accordingly advised to take pre-emptory measures to closely monitor the growth in impaired loans portfolio.
5. **Prudential Meetings:-** The Conventional Banking Supervision Directorates at CBB continued conducting prudential meetings with the licensees and during the year conducted 62 prudential meetings. These meeting with licensees discussed

the previous year performance, their strategy for the ensuing year, and other supervisory issues of concern, if any.

6. **Meeting on Financial Statements:-** Annual trilateral meetings with locally incorporated banks and financing companies with presence of their external auditors were conducted by banking supervision directorates to discuss the year-end financial statements for 2015 prior to being submitted for approval to the respective licensees' Board of Directors. These discussions covered, among other issues, the basis of recognition of income, valuation practices, impaired assets assessment, breakdown and adequacy of provisions, proposed dividends and staff bonuses. Besides the annual meetings, the directorates also held quarterly meetings with locally incorporated banks and financing companies to review their quarterly financial statements for the respective quarters during financial year 2016.
7. **Bahrain Credit Reference Bureau (BCRB):-** Pursuant to the Legislative Decree (34) of 2015 to the Central Bank of Bahrain and Financial Institutions ("CBB&FI") Law No. 64 of 2006 to add a new chapter to the CBB&FI Law under Credit Information Centers, the CBB endorsed the Bahrain Credit Reference Bureau ("BCRB") Code of Practice in June 2016, a document governing the working relationship between the BCRB and its members, including the government entities. The existing members went compliant with the Code on 1<sup>st</sup> November, 2016.

Subsequent to the issuance of the Cabinet of Minister Resolution No. 2389 – 3 issued on 5<sup>th</sup> December, 2016 on the approval of adding the government bodies to the membership of the BCRB and commissioning the CBB to take the necessary measures to accomplish the mentioned linking thereto. The CBB, in coordination with The Benefit Company, have set an action plan to accomplish this objective.

Work is in progress to set up a mechanism to link the existing credit reference bureaus (or their equivalent) that are operating in the GCC States with the objective to exchange credit information on corporates amongst the bureaus in these countries.

8. **Domestic - Systematically Important Banks (D-SIBs):-** The CBB reviewed updated Recovery and Resolution Plans (RRPs) of D-SIBs in line with the Financial Stability Board guidelines and specific requirements of the financial sector in Bahrain.
9. **Appointed Expert Assignments:-** The CBB also appointed qualified "Appointed Experts" to undertake Agreed Upon Procedures and onsite Examination of its licensees to augment its efforts towards enhancing the effectiveness of its supervisory practices. As such these "Appointed Experts" handled 2 assignments during the 2016 covering conventional licensees.
10. **Monitoring of Banks' BoD and Organizational Structures:-** The Supervision Directorates also reviewed annual corporate governance reports of licensees

highlighting the performance of the Board of Directors with the objective to evaluate the performance of the Directors in the banks' board. Such an evaluation included reviewing the attendance of the Directors and the role played by them in BOD meetings, appointment of independent directors as also the structure of BOD committees among others. Organization structure of some licensees was also reviewed to ensure that these institutions are implementing effective corporate governance practices including having a succession plan and avoiding any conflict of interest in the reporting lines of management. Furthermore, as part of its monitoring of corporate governance the CBB also sent its representatives to the AGM/EAGM of licensees.

- 11. Electronic Submission of Returns and Analysis of Data (ESRAD):-** The CBB continued to monitor and facilitate electronic submission with the objective of improving efficiency in submission of information by licensees to the CBB. During the year the Prudential Information Returns and other management information data submitted by banks were aligned to Basel 3 so as to facilitate generation of MIS in line with requirements under Basel 3.

*Objective 2: Providing Appropriate Degree of Protection to Users of the Financial System*

**Compliance with the “Code of Best Practice on Consumer Credit and Charging”:-**

The CBB's Supervision Directorates continued to monitor retail banks and financing companies' compliance of with the provisions of the Code. The objective is to ensure that these institutions act fairly, responsibly, reasonably and transparently in their dealings with customers.

*Objective 3: Promoting Transparency and Market Discipline*

With the objective of promoting transparency and market discipline, the CBB continued to monitor the licensees' disclosures and ensure their compliance with the CBB's disclosure requirements under Pillar 3 of Basel 2 & 3.

**Public Disclosure by Banks:-** The CBB continued monitoring of public disclosures by banks including their disclosures to various stakeholders as well as their compliance with the CBB's Rules on public disclosures. Accordingly, the banks were required to submit their public disclosures report duly reviewed by their respective external auditors. The CBB used this mechanism as a supervisory tool to assess the extent of transparency and disclosure made by licensees to their stakeholders. In this regard, any non-compliance by licensees with the CBB's rules or breach of the CBB's deadlines/timelines for submission of such reports attracted enforcement actions including imposition of financial penalty on banks. Such penalties were required to be disclosed by the licensees in their respective annual reports.

**Enforcement Actions:-** The CBB believes that effective supervision can also be achieved through effective enforcement actions. Therefore, it encourages high standard of compliance by licensees, thereby reducing the risks to the financial system and the consumers of financial services. Towards achieving this objective and in accordance with Article (38) of the CBB&FI Law, the Conventional Banking Supervision



Directorates, during the year 2016, have taken 42 enforcement actions against their licensees including imposition of Financial Penalties and Formal Warnings

### *Islamic Financial Institutions Supervision*

The Directorate is responsible for the supervision of the Islamic Financial Institutions that provide regulated banking services. These include 14 Wholesale Banks, 6 Retail Banks, 1 Financing Companies, 3 Branch of a Foreign Bank and 1 Microfinance Institution .

The following are the key milestones achieved during the year 2016:

1. Conducted IFRS9 awareness training program by EY for all Supervision staff
2. Conducted extensive discussion meeting with the External Auditors on the implementation challenges of IFRS9 and the news Audit Report.
3. Received and respond to IMF team queries who visited Bahrain to conduct an assessment under the Financial Sector Assessment Program (FSAP) and issue a Technical Note on Islamic Banking in Bahrain
4. Introduced a newly enhanced Prudential Information Returns for Islamic Banks (“PIRI”) incorporating Basel III requirements
5. Launched new electronic Management Information System (“MIS”) for analyzing the data collected from Islamic Banks and Islamic Financial Institutions
6. Shared the experience of the Kingdom of Bahrain in the Islamic Banking sector with delegates from Central Bank of Ghana and a high-level delegation from Russia
7. Assigned some IFISD’s new staff members to go through on the job training at different departments of Islamic Banks in Bahrain.
8. In-house training and presentations conducted by junior staff of all Supervision Directorates in relation to recent issues in the industry.
9. Attended IFSB’s annual meeting in Cairo

### *Inspection Directorate*

The Inspection Directorate completed its planned programmed 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 continued its effort to develop** an enhanced risk profiling methodology to assess the business, control failure and systemic risks of the licensees. The updated risk profiling methodology **shall enable enhanced** assessment of probability of default and systemic risk of CBB licensees, **in alignment with** international best practices.

In response to the greater focus towards the assessment of risk within the financial sector, the Directorate identified and implemented training and development programmes 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 2016, the Directorate participated in the discussions hosted in Riyadh and workshop hosted in Abu Dhabi by GCC Payment Committee, which focused on promoting enhanced networking and communication solutions.

### *Capital Markets Supervision*

The CBB worked during 2016, to complete the implementation of its plan for the development and updating of the legislative, regulatory and supervisory framework for the capital market sector, in line with international standards and best practices in consultation with the stakeholders and interested parties in this sector and all other financial sector components in Bahrain. In the form in which the CBB and these institutions and bodies, are able to create a suitable environment for the development of the business and activities of the capital market, through the licensing of more market institutions and the encouragement of the diversification of listing and trading of new and innovative securities and financial instruments, along to enhancing the standards, the regulations and the mechanisms of supervision of all the businesses and activities of capital market institutions and licensed financial markets.

This being on the basis of the need for precise and essential treatment, and to the protection of the sector of potential risks associated with the their operations and instruments first hand, through the use of efficient mechanisms and systems in order to ensure the adherence and fulfilment of obligations by all parties involved in investing in traded securities or financial instruments and the protection of their rights, and to enhance the confidence of investors and traders in these markets.

### *Developments & Achievements*

#### **Development of the Rules and Regulations**

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:



- **Unifying CBB Powers related to Listed Companies**

As a continuation of the consolidation and simplification of the procedures relating to the supervision of the listed companies, and after CBB's completion of the regulatory and legal framework relating to the capital market in the Kingdom of Bahrain, the CBB has started since 2015 to follow up with listed companies regarding amending their memorandums and articles of association in accordance with Resolution (50) for 2014 with respect to amending the Commercial Companies Law.

- **Amendments to Volume 6 of the CBB Rulebook relating to the Capital Markets**

The Capital Markets Supervision Directorate has updated Volume 6 of CBB's Rulebook in relating the Capital Markets through:

- a. The CBB issued circular EDFIS/C/032/16 dated 3<sup>rd</sup> May 2016 to the listed companies regarding the amendments to the modules of Volume 6 of the CBB Rulebook related to the Capital Market Institutions, as per Resolution No. (23) of 2015, on the conditions and procedures for obtaining CBB's approval of candidates for membership of the Board of Directors or fill any of the executive functions. In addition, the Offering of Securities Module pertaining to offering of securities to include Series 79 as one of the requirements of experience, qualifications, and training required for providers of capital market service.
- b. The CBB issued circular EDFIS/C/049/16 on 28<sup>th</sup> of September 2016 to all listed companies, brokers and other parties within the capital market as a consultation paper pertaining to amendments to Offering of Securities Module within Volume 6 of capital markets of the CBB Rulebook with regards to changes on time table of the offering of securities and employee stock option plan, in order to simplify and speed up the offering of securities procedures and protect the rights of the employees. The CMSD is currently studying the abovementioned comments to be discussed further and reach to a final decision.

- **Development of Disclosure Standards**

- a. The CMSD issued two circulars on 17<sup>th</sup> of January 2016 and 21<sup>st</sup> January 2016, in order to introduce the listed companies to the requirements stipulated in CBB's Resolution No. (54) of 2015 in respect of Dissemination of Listed Companies' Financial Statements and Board of Directors' Meeting which was issued in the Official Gazette on 31<sup>st</sup> December 2015, which repeals and/or replaces Resolution No. (49) of 2007. The first circular highlighted the fundamental changes in terms of allowing the listed companies' board of directors to hold their meeting during the trading session of Bahrain Bourse and using the relevant specimen prescribed in the resolution in declaring their financial results. While the second circular clarified that the listed companies shall submit the prescribed specimen 1.A or 1.B to the BHB immediately after the said trading session and publish the financial statements no later than 24 hours after declaring the above specimen.

- b. The CBB has issued its in principal approval to Bahrain Bourse for adoption of electronic disclosure using XBRL, and its encouragement and support to BHB for supporting disclosure and market transparency.

- **Amendments to the Annual Licensing Fees**

The CBB issued Resolution No. (1) for the year 2016, on the amendment of Resolution No. (1) for the year 2007 in respect of determination of the licensing fees and services provided by the CBB in the Official Gazette No. 3247 on Thursday 4<sup>th</sup> February 2016, regarding the method of calculating the total annual license fees for various categories of market intermediaries operating in the capital markets based on the total volume of transactions undertaken during a year on a pro-rata basis rather than on a predetermined fixed amount.

- **Diversification of Financial Products and Instruments**

1. In order to create depth and diversity in the nature of the financial instruments and products offered by the capital markets industry in the Kingdom of Bahrain, the CBB CMSD issued letter on 7<sup>th</sup> September 2016 its final approval to the Bahrain Bourse (“BHB”) to organize and run a market for listing and trading of securities issued by closed, small and medium businesses Bahrain Investment Market (“BIM”) Rules as an independent market from the main market, with an objective to attract companies and dealers, whether inside or outside the Kingdom of Bahrain.
2. Following the CBB's approval of Real Estate Investment Trust (“REIT”) listing rules on 16th April 2015, and the BHB's launch of the REITs Market on 7th March 2016, the BHB listed its first REIT after obtaining CBB's approval on 29th December 2016.
3. Furthermore, the CBB approved the BHB's request for provision of Murabaha through Equities service in accordance with the principles and requirements of Islamic Shariah and after coordinating with the concerned financial institutions. This service will hopefully be announced and implemented in the next phase.

- **Introducing Short Selling And Giving Securities on Loan**

Complementing the legislative and regulatory framework for the capital markets sector and in accordance with the requirements of the CBB Law in general and Article (92) in particular, the CBB has prepared the initial draft of the requirements and criteria of short selling and giving securities on loan. It is expected to be released soon.

- **Exchanges, Clearing, Settlement and Central Depositories**

- a) On 13<sup>th</sup> June 2016, Bahrain Liquidity Fund (“BLF”) was launched with a capital of \$100 million, as a result of the cooperation and coordination between the CBB, BHB

and Securities & Investment Company (“SICO”), along with a number of institutional investors in order to promote the trading activity and enhance liquidity in the BHB.

- b) The CBB, on 8<sup>th</sup> January 2017, granted its in-principle confirmation to establish “Bahrain Clear B.S.C. (c)”, Independent Corporation which shall undertake the clearing, settlement and depository functions for the Bahrain Bourse. Currently, BHB is in the process to furnish the CBB with the required documents in order to obtain its final approval at the earliest given opportunity.
- c) The CBB is in continuous follow-up with the Bahrain Bourse, by holding several meetings in order to complete BHB’s outstanding regulatory requirements to operate as an effective Self-Regulatory Organization (“SRO”). In this context:
  - The CMSD issued a letter on 17<sup>th</sup> October 2016 addressed to Bahrain Bourse (“BHB”), following BHB’s suggestion on a proposal to streamline the arrangements for its dealings with the various Directorates of the CBB; in order to enhance the efficiency of BHB as an effective and responsible Self-Regulatory Organization (“SRO”). Accordingly, the CMSD’s Capital Market Institutions Supervision (“CMI”) Department has been designated as the single point – of – contact and facilitator for BHB’s dealings between the BHB and CBB.
  - The CMSD issued its approval regarding BHB’s Market Making Guidelines on 15<sup>th</sup> January 2017.
  - The BHB is currently working on the completion of its rulebook, specifically the draft Listing Rules, CSD Rules, and Investment Funds Listing Rules, as part of the business rules.
  - **Bahrain Financial Exchange B.S.C. © (“BFX”)**

The Central Bank of Bahrain (“CBB”) issued a no – objection letter to extend the date of the recommencement of operations of both Bahrain Financial Exchange B.S.C. © (“BFX”) and BFX Clearing and Depository Corporation B.S.C. © (“BCDC”) until 30<sup>th</sup> June 2017. Meanwhile, the BFX and BCDC are required to take necessary measures to complete all the outstanding requirements so as to recommence their business operations no later than the stipulated deadline above.

- **Primary Market:**

In 2016, the CMSD issued its no objection to the use of 62 public and private offering documents (comparing to 57 offering documents in 2015) after ensuring the completeness of all the information and details as per the CBB Law, Offering of Securities Module of CBB Rulebook Volume 6, as follows:

Type of CBB Approval	Issues Value \$	No. of Issues	Offering Method	Type of Security
Registration – Article (81)	\$228,982,742	1	Rights Issue	Ordinary Shares
Registration – Article (81)	\$1,686,137,093	24	Private Placement	

Registration – Article (81)	\$1,600,000,000	2	Governmental	Conventional Bond
Filing - Exempt from Article (81)	\$2,500,000,000	1	Private Placement	
Registration – Article (81)	\$1,000,000,000	1	Governmental	Islamic Sukuk
Exempt from Article (81)	\$481,339,937	33	Private Placement	Structured Products
	<b>\$7,496,459,772</b>	<b>62</b>		<b>Total</b>

The gross total value of these issues amounted to USD 7.5 billion (comparing to USD 8.9 billion in 2015), which includes, two issues of Kingdom of Bahrain Government bonds with a total value of USD 1.6 billion (comparing to one issue with a value of USD 1.5 billion in 2015), one issue of private placement in conventional bonds with a total value of USD 2.5 billion (comparing to USD 5.29 billion in 2015), one Rights Issue with a total value of USD 229 million (comparing to USD 53 million in 2015), 24 issues of private placements in ordinary shares with a total value of USD 1.69 billion (comparing to USD 1.27 billion in 2015), one issue of Kingdom of Bahrain Government sukuk with a total value of USD 1 billion, and 33 private issues of structured financial instruments with a total value of USD 481 million (comparing to USD 243 million in 2015). For avoidance of doubt, these structured financial instruments are marketed only to accredited investors who are exiting account holders and cannot be listed or traded in the market.

- **Listing:**

1. The CMSD issued its no objection on 27<sup>th</sup> January 2016 to the listing of:
  - a. 47 Government 3M treasury Bills on the Bahrain Bourse, with a total value of BHD 3.3 billion.
  - b. 17 Government 6M treasury Bills on the Bahrain Bourse, with a total value of BHD 595 million.
  - c. 8 Government 12M treasury Bills on the Bahrain Bourse, with a total value of BHD 1.6 billion.
  - d. 17 Government 6M Short Term Islamic Lease (Ijarah) Sukuk on the Bahrain Bourse, with a total value of BHD 412 million.
2. The CMSD issued its no objection to the listing of three Government Development Bonds Issues on 10<sup>th</sup> May 2016, 21<sup>st</sup> July 2016 and 14<sup>th</sup> November 2016 on the Bahrain Bourse, with a total value of BHD 785 million.
3. The CMSD issued its no objection to the listing of Eskin Bank Realty Income Trust on 28<sup>th</sup> December 2016 on Bahrain Bourse, with a value of BHD 198 million. The listing is considered to be the first of its kind to the real estate investment trusts on Bahrain Bourse.

- **Disclosure Standards:**

1. All listed companies complied with the requirement of notifying the Bahrain Bourse for the boards of directors' meetings for discussing and approving Interim financial statements for 2016, five days before the end of each quarter

or the end of financial year as per Resolution no. (54) of 2015, in respect of dissemination of listed companies financial statements and board of directors' meetings, with the exception of Taib Bank, since their shares are suspended from trading.

2. All listed companies complied with dissemination and publishing of their audited financial statement for year 2015, on Bahrain Bourse's website, and published the required four primary financial statements extracts in two local newspapers at a minimum in accordance with the requirements of Resolution No. (54) For the year 2015, within a period not exceeding 60 days after the end of the financial year.

All listed companies complied to convene the Annual General Meetings within 90 days of the end of the financial year 2015, with the exception of Taib Bank.

3. All listed companies complied with publishing their 2015 quarterly financial results within the prescribed deadline of (45) days following the end of the first, second and third quarter of the same year, on Bahrain Bourse's website and in two local newspapers and included the required four primary financial statements extracts at a minimum, in accordance with resolution no. (54) for the year 2015, with the exception of Taib Bank

- **Compliance and Enforcement:**

1. **Accuracy & Completion of Submissions to CMSD's Supervisory Queries**

The CMSD issued a Reminder Letter on 27th October 2016 to one of the licensed exchanges subsequent to a series of correspondences between the CMSD and the licensed exchange, wherein the CMSD had observed notable shortcomings in the level of completeness and accuracy of the exchange's responses. The observed deficiencies, were not in line with the guidance provided in the Markets and Exchanges Module and Market Surveillance, Investigation & Enforcement Module in Volume 6 of the CBB Rulebook which specifies that every report, return or statement submitted to the CBB must be complete and accurate.

2. **Supervision of Licensed Exchanges' Electronic Websites**

The CMSD issued a Reminder Letter on 6<sup>th</sup> December, 2016 to one of the licenced exchanges as they have failed to disseminate a material piece of news on its website on the date it received the news article (17<sup>th</sup> November, 2016) by the listed company, which itself was accordingly published in local newspapers on 5<sup>th</sup> December, 2016. As such, the CMSD issued a letter to the exchange as a notice to duly disseminate disclosures that have been submitted to the exchange by listed companies on a timely manner.

3. **Outstanding Annual Licensing Fee for the Year 2017**

The CMSD issued three Reminder Letters on 20th December 2016 in relation to recipients' delay in complying with the requirement stipulated in Volume 6 of the CBB Rulebook, to pay to the CBB the applicable annual licensing fee for the year 2017 on 1st December, 2016.

#### 4. Notification of Non-compliance to the Monthly Statement of the Register of Interest Requirements

In accordance with the requirement to disclose of ownership interests by shareholders owning 5% or more in shares of listed companies within 5 business days from the end of the month, a number of listed companies have been notified for failing to deliver the report during the required timeframe and/or via ESRAD and e-mail.

Number of Non-compliance Cases Related to the Submission of Monthly Statement of the Register of Interest for Year:		Percentage Change
2016	2015	
21	10	110%

Additionally, the CMSD issued a Reminder Letter to one of the listed companies regarding the content of the company's submitted Register of Interest which specified incorrect shareholder interests.

#### 5. Notification of Non-Compliance to Disclosure Standards and Related Resolutions

In accordance with the requirement to publicize financial statements, both in English and Arabic, and submit the same to the BHB for the period in question (i.e. quarterly reviewed/ annually audited) with the comparative disclosure for each period separately through the dissemination in press releases for companies, the Directorate issued non-compliance letters to 13 listed companies.

Additionally, the CMSD issued a Reminder Letter to one of the listed companies regarding its non-compliance to the requirement to obtain CBB's prior approval on any Annual General Meeting agenda before it is published.

#### 6. Notification of Non-Compliance to Submission of Annual Verification of the Insiders' and the Key Persons' Data Register

The Directorate issued non-compliance letters to two listed companies in response to their non-compliance to the requirement stipulated in the Prohibition of Market Abuse and Manipulation Module of Volume 6 of the CBB Rulebook pertaining to the annual verification of the insiders' and the key persons' data register, which is to be reviewed by the company's Internal Auditor, to be submitted no later than 10 days after the company's Annual General Meeting date.

#### 7. Notification of Non-Compliance with Requirements Regarding the Announcement of Dividend Declaration

In accordance with the CBB's Disclosure Standards requirements, pertaining to requirements relating to dividend declaration announcements, the Directorate issued a Reminder Letter to one of the listed companies regarding the publication of their cash dividend announcement that is not in line with the required standard, and a Notice Letter to another listed company for not publishing the cash dividends recommendation



announcement and served to further highlight the necessity of this announcement and to ensure that such non-compliance is not repeated.

#### **8. Notification of Non-Compliance to Major Shareholder Approvals (5% and more)**

The CMSD issued a non-compliance letter to a listed company for its non-compliance with the requirements stipulated in Volume 6 of the CBB Rulebook pertaining to the fact that where ownership amounts to 5% or more of any listed security, all transactions on such security must be concluded on the Bahrain Bourse.

The CMSD further issued a non-compliance letter to the same listed company for contravention of another stipulation in Volume 6 of the CBB Rulebook which explains that CBB's prior approval is required to execute any order that brings ownership of an investor to 10% or more in any listed company or any further increase of 1% or more from this point.

#### **9. Notification of Non-Compliance with regards to Discretionary Portfolio Management Agreement**

The Directorate issued a non-compliance letter to one of the listed companies for not abiding by CMSD's stipulated requirement as it pertains to the deposit of all shares purchased (Treasury Shares) in other markets into Bahrain Bourse's Central Security Depository.

#### **10. Temporary Suspension of Trading**

- a. Trading on the shares of Inovent were suspended on February 16th, 2016 and GFH Financial Group on February 25th, 2016 due to non-adherence to CBB's Disclosure Standards particularly Article 65 "Content and Preparation of a Public Announcement" and Resolution No. (54) of 2015 in respect of The Disclosure of Listed Companies' Financial Statements & Board of Directors' Meetings, respectively. Trading on Inovent shares resumed on the same day, February 16th, 2016 and for GFH Financial Group resumed on 29th February, 2016.
- b. Trading on Bahrain Tourism Company shares was suspended on February 18th, 2016, as a result of its non-compliance with Resolution No. (54) of 2015 in respect of The Disclosure of Listed Companies' Financial Statements & Board of Directors' Meetings particularly as it pertains to requiring listed companies to provide the BHB with the audited financial statements for year-end within 24 hours of public disclosure. Trading was resumed on February 21st, 2016 after the financial statements were submitted and disseminated on the BHB's website.
- c. Trading on Al Ahlia Insurance Company was suspended August 14th, 2016 for non-adherence to the Disclosure Standards and the Takeovers, Mergers & Acquisitions Module of the CBB Rulebook's Volume 6, wherein Al Ahlia Insurance Company failed to disclose key information regarding Solidarity's intent to acquire majority stake of the company. Trading was resumed on same day, August 14th, 2016 after the company disclosed the material information.

## 11. Delisting

The CBB issued its no objection to delist the following from the BHB:

1. Gulf Monetary Group on 26<sup>th</sup> September 2016 for violating BHB's and CBB's Listing Rules and Regulations. The Ministry of Industry, Commerce & Tourism was notified and the company was accordingly removed from BHB's main board on 1<sup>st</sup> December 2016.
2. 9<sup>th</sup> March 2016, Global Investment House (K.P.S.C) was delisted at the Company's request.
3. On 7<sup>th</sup> April 2016, Government Islamic Leasing Securities Issue No.17 was delisted due to maturity.
4. On 4<sup>th</sup> July 2016, Government development Bond Issue No. 6 was delisted due to maturity,
5. Two 12 Months Treasury Bills issues outlined in the schedule below were delisted due to maturity.
6. Nine 6 Months Treasury Bills issues outlined in the schedule below were delisted due to maturity.
7. Twenty One 3 Months Treasury Bills issues outlined in the schedule below were delisted due to maturity.
8. Eight 6 Months Short Term Islamic Ijarah issues outlined in the schedule below were delisted due to maturity.

## Takeovers, Mergers and Acquisitions (TMA)

### A. Gulf Hotels Group B.S.C acquisition of Bahrain Tourism Company B.S.C

The CMSD have supervised the Gulf Hotels Group B.S.C voluntary conditional to acquire 100% of the issued and paid up ordinary shares of Bahrain Tourism Company B.S.C through securities exchange and Al Jazeera Tourism Company B.S.C (c) voluntary conditional to acquire between 51% and 100% of the issued and paid up ordinary shares of Bahrain Tourism Company B.S.C through cash in exchange for shares.

All documents approved by CMSD including the Firm Intention letters, Offer Documents of offerors, Offeree Board Circular, Acceptance and Transfer Form, and the related announcements made in relation of the offer or possible offer are in accordance with the requirements of the Central Bank of Bahrain Rulebook Volume 6, Takeovers, Mergers and Acquisition Module.

The offer has been concluded on 12<sup>th</sup> May 2016 with the acquisition of 100% of the issued and paid up ordinary shares of Bahrain Tourism Company B.S.C by Gulf Hotels Group B.S.C.

### B. Solidarity Group Holding B.S.C (c) acquisition of a controlling stake in Al Ahlia Insurance Company B.S.C

The CMSD have supervised the Solidarity Group Holding B.S.C (c) voluntary conditional to acquire up to 100% of the issued and paid up ordinary shares of



Al Ahlia Insurance Company B.S.C subject to a minimum acquisition of 51% of the issued share capital of Al Ahlia Insurance Company B.S.C in cash.

All documents approved by CMSD including the Firm Intention letter, Offer Document of offeror, Offeree Board Circular, Acceptance and Transfer Form, and the related announcements made in relation of the offer or possible offer are in accordance with the requirements of the Central Bank of Bahrain Rulebook Volume 6, Takeovers, Mergers and Acquisition Module.

The offer has been concluded on 2<sup>nd</sup> January 2017 with the acquisition of 71.46% of the issued and paid up ordinary shares of Al Ahlia Insurance Company B.S.C by Solidarity Group Holding B.S.C (c).

- **Sale and Acquisition of major stakes in listed companies**

- **Selling a major stake in Khaleeji Commercial Bank B.S.C**

The CMSD issued its no objection on 29<sup>th</sup> November 2016 for Al-Imtiaz Group to sell its whole ownership of 14.01% in Khaleeji Commercial Bank. The transaction has been done via the special order market on BHB on 25<sup>th</sup> December 2016. The buyer is Shuaa Capital (UAE).

- **Joint Work of the Gulf Cooperation Council (GCC)**

1. The CBB's Capital Markets Supervision Directorate participated during 2016 in the meetings of the Gulf Cooperation Council (GCC) Taskforces to complete the drafting and approving of uniform rules for the Capital markets in the GCC, in particular, in the 19<sup>th</sup> meeting for the Issuance and Public Offering Taskforce, the 12<sup>th</sup> meeting for the Market Surveillance and Supervision over the exchanges in the GCC, 2<sup>nd</sup> meeting for the Integration of financial markets strategy, and in the 5<sup>th</sup> meeting for the Working Group Responsible for Training Organization approaching the financial markets in the GCC countries.
2. Participated in the joint seminar in the State of Kuwait, on Sunday and Monday, October 3 to 4, 2016, were presented examples of violations of the participating countries during the two days and how difficult it is to deal with it and demonstrate behaviors violation and use of, and intentionality which, as discussed solutions and practices followed by the bodies in dealing in such irregularities and the exchange of experiences among themselves, put the difficulties and challenges faced by regulators after monitoring transactions suspected of violating laws and regulations and in proving premeditation in the commission of the offending behavior.
3. Participated in the 14<sup>th</sup> and 15<sup>th</sup> meeting of the Heads of Securities Commissions on 3<sup>rd</sup> April 2016 and 25<sup>th</sup> September 2016, respectively.
4. A delegation from the CBB headed by His Excellency, the Governor, participated in the 7<sup>th</sup> meeting of the Ministerial Committee of the Heads of Councils Regulators of Financial Markets in the GCC countries, which was held on 27<sup>th</sup> November 2016 and the main outcome of the meeting was as follows:

- a. To recommend to the Supreme Council that the ministerial committee decided to point out that the heads of the capital markets in the GCC countries, are in the process of conducting a study on the strategy and mechanisms for achieving integration of financial markets in the GCC countries, and in the light of the results that will be reached by the study, there will be clarity in the system of rules and principles that have been adopted so far as a guideline from the shrine of the Supreme Council.
5. A delegation from the CBB headed by Mr. Abdul Rahman Al Baker Executive Director, Financial Institutions Supervision, participated in the closed meeting of the Heads of Securities Commissions on Thursday 22<sup>nd</sup> December 2016.

### *Financial Institutions Supervision Directorate (“FISD”)*

#### **Overall responsibilities of FISD as part of CBB**

The Financial Institutions Supervision Directorate (FISD) supervises a number of financial institutions, namely, Investment Business Firms Categories 1, 2 and 3, Money Changers, Trust Service Providers, Ancillary Service Providers, Representative Offices of Investment Firms and Administrators/Registrars.

In carrying out its responsibilities, the FISD ensures that all of the licensees under its supervision adhere to CBB Law and their respective regulations through CBB Rulebook Volumes 4 and 5.

Additionally, FISD is responsible for the authorization and registration of Bahrain domiciled and overseas funds, as appropriate, and the supervision of Bahrain domiciled funds through the implementation of the rules within CBB Rulebook Volume 7.

#### **Routine responsibilities covered during 2016**

During the course of 2016, 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 ongoing 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 also continued to use its supervisory tools to monitor the industry and ensure adherence to the rules and regulations stipulated in CBB Rulebook Volume 7 (CIUs) and other relevant regulatory requirements.

#### **Developments achieved/or and new regulations/circulars issued during 2016.**

Being vigilant 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 such strategy, the FISD identifies certain areas for development and sets at the beginning of each year objectives which are then executed.

#### Consultations:

On 11th January 2016, a consultation paper was issued to all Investment Firm licensees (Categories 1 & 2), all Trust Service Providers, all Administrators and Registrars regarding the draft Trust Law. The purpose of the consultation was to receive the industry's comments on the proposal.

In addition, the CBB issued in December 2016 a consultation paper on draft regulation "Procedure for Processing Applications by Investment Firms for transferring their business in the Kingdom of Bahrain" similar to what was issued to banks and insurance firms. This initiative comes as part of the CBB's objectives to protect customers of financial institutions and enhance the confidence in the Kingdom of Bahrain Laws and Resolutions

#### A number of Laws and amendments to existing Laws were issued during 2016 as follows:

Decree No. (21) of the year 2016 amending some of the provision of the Central Bank and Financial Institutions Law No. (64) of the year 2006.

Law No. (18) of the year 2016 on Investment Limited Partnerships.

Decree Law No. (22) of the year 2016 with respect to Protected Cell Companies.

Decree Law No. (23) of the year 2016 with respect to Trusts.

In order for the licensees be fully compliant with the new laws, circulars dated 6th November 2016 were sent to all Investment Firm Licensees, Trust Service Providers, and Administrators/Registrars, notifying them of the issuance of the Protected Cell Companies Law, Investment Limited Partnerships Law and Trust Law. Due to the fact that Decree Law No. (23) of the year 2016 with respect to Trusts replaced the Financial Trusts Law No. (23) of 2006, under which the trustees and existing trusts operated, licensees were instructed in the circular to ensure full compliance with the new Law pertaining to their business.

In addition to the above, the CBB has the following resolutions:

Resolution No. (39) of the year 2016, dated 3rd October 2016, regarding the fees pertaining to the application to establish an Investment Limited Partnership.

Resolution No. (40) of the year 2016, dated 12th December 2016, regarding the fees pertaining to registering Trusts and licensing Trust Service Providers.

#### Circulars:

As part of FISD's supervisory role, a circular dated 13th November 2016 was sent to all CIU Operators, Trust Service Providers, Administrators/Registrars, and Law Firms, requesting the industry participants to ensure that a proper due diligence is conducted

in the process of submitting CIU application forms, as per the requirements of CBB Rulebook Volume 7.

### Regulatory and Rulebook Updates:

During 2016, FISD continued to develop the rules and regulations pertaining to its licensees, either by way of updating existing rules or introducing new rules.

A number of initiatives commenced and updates to Directives were issued throughout the course of the year, as follows:

#### CBB Rulebook Volume 4: Investment Business Developments

With respect to the area of Investment Business, the CBB undertakes regular exercises with the objective of reviewing and updating the existing rules and regulations, in light of the latest market developments in the financial sector and international best practice.

As a result, quarterly updates to the Rulebook were issued in January, April, July, and October of 2016. All updates included enhancements to the existing rules and changes made to streamline the rules with those of other CBB Rulebook Volumes to ensure consistency where applicable.

The January 2016 update addressed some requirements regarding approvals for approved persons to be in line with Resolution No. (23) of 2015 on Prior Approval Requirements for Approved Persons. This was reflected in Part A and Part B of the Rulebook.

The April 2016 update addressed the CBB's directives in relation to employing relatives of approved persons to occupy controlled functions, for which the CBB's prior approval is required.

The above directives require Investment Business firms to have in place a board approved policy on the employment of relatives of approved persons to occupy controlled functions, and the requirement to disclose the same to the board.

The update also addressed the application of administrative fines in accordance with legislative Decree no. (34) of the year 2015 amending some of the provisions of the CBB law.

The July 2016 update addressed clarifications to some of the rules and enhanced the definition of Politically Exposed Persons.

The October 2016 update included an update to the instructions of Form 2: Application for Authorization of Controller, and Form 3: Application of Approved Person Status.

#### CBB Rulebook Volume 5: Specialised Licensees Developments Money Changers Developments

Since the issuance of the Modules pertaining to Money Changer licensees at the end of 2010, the sector continued to operate in line with the CBB directives.

An update to the Rulebook was issued in January 2016. The update addressed some requirements regarding approvals for approved persons to be in line with Resolution No. (23) of 2015 on Prior Approval Requirements for Approved Persons. The same update was reflected in Parts A & B of the Rulebook.

The April 2016 update addressed amendments made to streamline the requirements under some of the Modules with those of other CBB Rulebook Volumes to ensure consistency where applicable. In addition, few amendments were made to the Glossary and the Application for a License.

The update also addressed the application of administrative fines in accordance with legislative Decree no. (34) of the year 2015 amending some of the provisions of the CBB law.

An update in July 2016 addressed instructions to the Suspicious Transaction Report and an amendment to the definition of Politically Exposed Persons in the Glossary. It also clarified applicability of certain rules to branches of overseas licensees.

In October 2016, an update was issued with regards to the cassation of business.  
Representative Offices Developments

During the course of 2016, 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.

A quarterly update to the Rulebook was issued in January 2016. The update addressed some requirements regarding approvals for approved persons to be in line with Resolution No. (23) of 2015 on Prior Approval Requirements for Approved Persons. The same update was reflected in Part B of the Rulebook.

The April 2016 update addressed amendments made to streamline the requirements under some of the Modules with those of other CBB Rulebook Volumes to ensure consistency where applicable. In addition, few amendments were made to the Glossary and the Application for a License.

The update also addressed the application of administrative fines in accordance with legislative Decree no. (34) of the year 2015 amending some of the provisions of the CBB law.

In October 2016, an update was issued with regards to the cassation of business.

#### **Administrators/ Registrars Developments**

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

A quarterly update to the Rulebook was issued in January 2016. The update addressed some requirements regarding approvals for approved persons to be in line with Resolution No. (23) of 2015 on Prior Approval Requirements for Approved Persons. The same update was reflected in Part B.

The April 2016 update addressed amendments made to streamline the requirements under some of the Modules with those of other CBB Rulebook Volumes to ensure consistency where applicable. In addition, few amendments were made to the Glossary and the Application for a License.

The update also addressed the application of administrative fines in accordance with legislative Decree no. (34) of the year 2015 amending some of the provisions of the CBB law.

In October 2016, an update was issued with regards to the cassation of business.

Trust Service Providers Developments

The Common Modules were issued and applied to Trust Service Providers on 30th April 2013.

The Specific Modules which are currently being drafted will be issued to the sector for consultation, before formal application.

An update to the common modules was issued in April 2016, which addressed amendments made to streamline the requirements under some of the Modules with those of other CBB Rulebook Volumes to ensure consistency where applicable. In addition, few amendments were made to the Glossary and the Application for a License.

The update also addressed the application of administrative fines in accordance with legislative Decree no. (34) of the year 2015 amending some of the provisions of the CBB law.

### Ancillary Service Providers

On 11th February 2014, the Common Modules were formally issued to Ancillary Service Providers. The same communication letter included a consultation on the Specific Modules. The Consultation included six Modules.

The Specific Modules were officially issued to licensees replacing all existing supervision circulars on 15th March 2016. The Specific Modules included Authorisation, CBB Reporting and General Requirements.

An update to the common modules was issued in April 2016, which addressed amendments made to streamline the requirements under some of the Modules with those of other CBB Rulebook Volumes to ensure consistency where applicable. In addition, few amendments were made to the Glossary and the Application for a License.

The update also addressed the application of administrative fines in accordance with legislative Decree no. (34) of the year 2015 amending some of the provisions of the CBB law.



In October 2016, an update was issued with regards to the cassation of business.

### *Insurance Sector Supervision*

The Insurance Supervision Directorate released the Insurance Market Review Report of 2015. The Report presents the financial performance of the insurance industry in Bahrain for the years 2014 and 2015 (both ,conventional insurance & reinsurance and Takaful & Retakaful business) by class of business in the Kingdom, highlighting the origin and the historical background of the insurance market in Bahrain. The total gross premiums of the Bahrain insurance market has shown steady results in 2015 in terms of gross premiums which registered BD 272.09 million. Insurance penetration (ratio of gross premiums to GDP) stood at 2.32% in 2015.

Furthermore, the Insurance Supervision Directorate at the CBB has applied a range of measures to enhance/endorse the stability of the Insurance sector:

- The CBB requested Insurance Firms' management to submit their year-end financial statements and attend a meeting whenever required at the CBB with their external auditors prior to the submission of the financial statements for approval to the Board of Directors.
- The CBB receives and reviews various prudential reports as per the requirement of the CBB Rulebook (Volume 3) in order to efficiently supervise and assess the Licensees compliance with the CBB and Financial Institutions Law No. (64) of 2006 and the CBB Rulebook (Volume 3).
- The CBB continued to receive monthly investment reports and assess the performance of the investment portfolio.
- Ad-hoc reporting is implemented when needed in order to implement risk based supervision on Licensee(s) and/or to handle specific market concern.
- The CBB has implemented the new Takaful model after consulting with the Takaful industry and other interested parties. The new model reaffirms the Kingdom of Bahrain as the jurisdiction of choice for the Takaful and Retakaful industry.

The new model enhances measuring and assessing the solvency status of Takaful and Retakaful Firms. It is expected that the new module will increase the ability of Takaful and Retakaful firms to distribute surpluses to participants and dividends to shareholders. 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 and guidance with Shariah requirements.

- In October 2014, Motor Insurance Compensation Fund Law No. 61 of 2014 was issued after approval by Shura Council and Council of Representatives. The Fund was an initiative of the CBB and Bahrain Insurance Association (BIA) which is designed to compensate the injured parties in the following circumstances:

- Absence of a valid insurance policy for the vehicle that caused the accident (Uninsured vehicle);
- The vehicle that caused the accident or the owner and/or the driver of the vehicle were not identified (Hit & Run);
- In the event of the insurer being insolvent; and
- In case of no other party to compensate as per relevant laws and regulations.

The CBB has worked closely with the Bahrain Insurance Association (BIA) in this respect.

During 2016, the Board of Directors of the Motor Compensation Fund had several meetings and discussed various issues related to the Fund. Furthermore, the Fund received the contribution of 1% of the Gross Motor Insurance Premiums from the Insurance Firms for the year 2016.

- In July 2016, Resolution No. (23) of 2016 was published in Official Gazette regarding the unified compulsory Third Party Motor Insurance Policy and the procedures on dealing with claims arising from the compulsory third party motor policy. Such resolution issued in order to ensure that high quality insurance services and fair treatments are offered to the policyholders and claimants.
- The CBB in collaboration with Bahrain Insurance Association (BIA) has prepared a study related to the implementation of compulsory medical insurance for Bahrainis travelling abroad, this was based on a resolution by ministerial committee formed by the Deputy Prime Minister commissioning the CBB to prepare such study and in collaboration with the insurance companies. It is worth to mention that a committee was formed by Deputy Prime Minister in 2016, in order to study the compulsory medical insurance for Bahrainis travelling abroad and non-Bahraini visiting Bahrain in which two representatives from the CBB has participated in this committee.

The CBB has continued to register appointed representatives during 2016. The total number of the registered appointed representatives as of the end of 2016 were as follows:

	No. of Companies	No. of Registered
Licensed Banks	10	140
Commercial Companies	7	26
Individuals	-	58
Total	17	224

### *Financial Stability Directorate*

During 2016, the Financial Stability Directorate ("FSD") continued conducting 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), Financial Soundness Indicators Report (semi-annual), the Economic Report (annual), Sensitivity Testing Report, along with other periodical publications that monitor domestic and international macro-financial developments.
- 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, Locational International Banking surveys (quarterly).
- Maintaining CBB’s relations with major international institutions and agencies (IMF, World Bank, and rating agencies) and acting as a point of contact for other third parties, both domestic and overseas.

In 2016, the FSD focused on enhancing its publications and statistical data. For the Financial Stability and Financial Soundness Indicators Reports, there was focus on making them more effective analytical reports, ensuring their clarity and consistency, enhancing the overall assessments, and making sure they are up to date with covering current issues to financial stability. The FSD also enhanced some of its statistical returns to capture data on SME’s, investment business firms, Islamic windows and financial institutions.

The FSD continues to be involved in the Electronic Submission of Returns and Data (ESRAD) system and is working with other CBB directorates and licensee as since the launch of the system.

In cooperation with the International Monetary Fund, the CBB also conducted the (Financial Sector Assessment Program-FSAP) to adopt international best practices and to ensure that international standards are applied in all operations and activities in the financial sector. The Financial Stability Directorate coordinated with the IMF mission and worked with other Bank directorates to follow up all the requirements and requests related to the program through the formation of a special working group. The CBB previously conducted this program with the Fund in 2006, where several recommendations were reached which contributed to the development of the approved banking systems and standards. The IMF mission conducted a number of surveys and reports, covering the following topics: (Basel Core Principles), (Insurance Core Principles), (Interconnectedness), (Anti-Money Laundering), (Stress Testing and Contingency Planning), (Islamic Banking Services), (Financial Stability Issues). At the end of the mission, a number of recommendations were reached which will contribute to the development of the regulatory and supervisory systems adopted by the Bank.

In order to follow the best regulatory and supervisory standards, the payment oversight unit has been transferred under the financial stability directorate in 2016.

## 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 Organisational Chart*

## 4.1 New Licenses

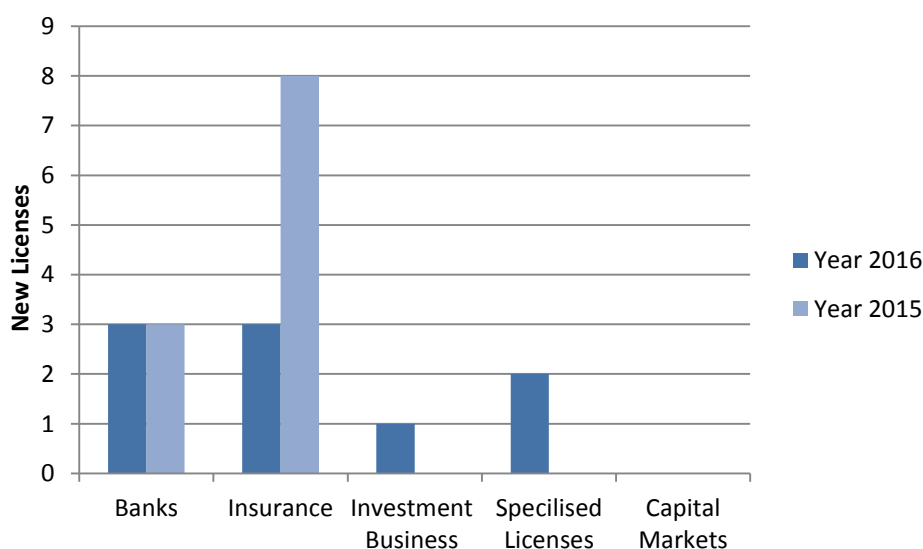
### New Licenses

The Central Bank of Bahrain (“CBB”) has issued 9 new licenses in 2016 compared to 11 new licenses issued in 2015, reaching to a total of 406 licensees providing financial services as of 31<sup>st</sup> December 2016 compared to a total of 403 licensees as of 31<sup>st</sup> December 2015.

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

- 1- T.C. Ziraat Bankasi A.S. - Conventional Wholesale Bank, Branch
- 2- Palestine Investment Bank, Conventional Wholesale Bank, Branch
- 3- IB Bank B.S.C. ( c ), Retail Bank (Islamic Principles)
- 4- IB Capital B.S.C. ( c ), Investment Business Firm – Category 1 (Islamic Principles)
- 5- Eazy Pay B.S.C. , Ancillary Service Provider
- 6- Almoayyed Cash Processing Centre B.S.C. ( c ), Ancillary Service Provider
- 7- Mr. Malcolm Jewell - Registered Actuary
- 8- Mr. Varun Gawarikar – Registered Loss Adjuster
- 9- Mr. Yogesh Phadnis – Registered Loss Adjuster

The main growth of new licenses issued in 2016 was in the banking and insurance sector as shown in the graph below:



### New Licensees Growth by Sector

## 4.2 Payment System (“SSS” & “RTGS”)

Transfers through the Real Time Gross Settlement System (RTGS) were 312,377 transfers in 2016, for a total amount of BD65.3 billion with a daily average of 1,265 transfers and BD264.4 million, categorised into the following:

- The volume of inter-bank transfer through RTGS was 63,926 transfers for a value of BD59.8 billion.
- The volume of customer transfers through the RTGS totalled 248,451 transfers with a value of BD5.5 billion during 2016.
- Total fees received from RTGS and SSS member banks (transaction fees and annual membership fees) amounted to BD362,641 in 2016.
- There were 84 issues carried out through the Scripless Securities Settlement System (SSSS) in 2016, the value of which was BD5.7 billion.

### 4.3 Bahrain Cheque Truncation System (BCTS)

The number of cheques cleared through the BCTS for 2016 was 3,303,295 cheques with a total amount BD10 billion. The daily average number of cheques was 13,374 cheques and the daily average value was BD40.8 million.

### 4.4 Electronic Fund Transfer System (EFTS)

Transfers through the Electronic Fund Transfer System (EFTS) were 2.7 million transfers in 2016, for a total amount of BD7.2 billion, categorised into the following:

- The volume of Fawri+ transfers through the EFTS was 129,276 transfers for a value of BD34.5 million. The daily average number of Fawri+ transfers was 355 and the daily average value was BD94,655.
- The volume of Fawri transfers through the EFTS was 2,592,414 transfers for a value of BD7.1 billion. The daily average number of Fawri transfers was 10,496 and the daily average value was BD29 million.

#### What are the services offered by the EFTS?

The EFTS offers three services to all customers of retail banks in Bahrain:

1. **Fawri+:** is a unique service that allows customers of retail banks to transfer any amount up to BD 1,000 per day, within 30 seconds and is available 24x7x365. All that is required from the customer to transfer funds in 30 seconds is the beneficiary's IBAN and the amount to be sent.

2. **Fawri:** is a service that allows customers of retail banks to transfer any amount in a matter of hours during official working days. This service offers the possibility of transfer

of funds to one beneficiary or many beneficiaries, such as salaries and other payments in a secure and smooth manner.

3. **Fawateer:** is a service that collects and consolidates bills from several issuers and displays the bills in to retail bank customer's one screen. This service gives customers the option to inquire and pay their due bills within 30 seconds. The Fawateer service also offers a direct debit service which enables issuers of bills to deduct of the amount from customers by the due date by automating these payments. The issuer of the bills needs to get the customer's mandate to carry out these deductions. One advantage of this service is customers don't have to carry out the process of paying bills on a regular basis.

## 4.5 Currency Issue

Currency Issue Directorate continued the process accounting, sorting and shredding of unfit banknotes by using the new sorting machines. The total value of shredded unfit banknotes of all Bahraini Dinar Issue during 2016 was BD 496,097,159/- .

During 2016, the value of currency withdrawals from CBB was BD 1,523,672,955/- while of the value of currency deposits on CBB's vault was BD1,503,182,500/- .

The amount of currency in circulation on 31st December 2016 was BD 671,329,450/-, that the value of coins was BD 19,757,920/- and the value of banknotes was BD 651,571,530 /-respectively. The total value of banknote of fourth issue was BD 334,102,301/- which is 51,3% from the total value of banknotes in circulation and the total value of banknotes of third issue was BD 9,384,229/- which is 1.4% of the total value banknotes in circulation.

The value upgraded banknotes of the BD 20 & BD 10 in the currency circulation during 2016 was BD 308,085,000/- which is 47, 3% of the total value banknotes in circulation.

With a development of security features in banknotes, on 5th September 2016 the Directorate issued upgraded banknotes BD 20 & BD 10 by adding a new security features with changed the position of blind recognition features on the banknotes BD 20, BD10, BD5, BD1 and BD 0.5 these banknotes are easy to identify them and difficulty of fraud.

On the occasion of 50th anniversary of issue the first Bahraini Dinar in 1965, the directorate issued on 8th August 2016, 300 gold ingots to the collector's commemorative medals and coins with the following technical specifications:

Metal : gold  
Weight: 50 gram  
Size: 27×44 cm  
Shape : A rectangle

## 4.6 CBB Training Programs

During 2016, the Central Bank of Bahrain continued to focus on ensuring that CBB's employees have the right skills and competencies to enable them to perform their responsibilities at a high level.

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

- Developing employees' skills and knowledge through enrolling 168 employees in 164 training courses at BIBF; covering different areas including finance, Islamic banking, insurance, management, IT security and other computer skills.
- Enhancing technical competencies through enrolling 65 employees in 52 external training programs, workshops and conferences, organized by specialized institutes and regional and international organizations.
- Conducting the second batch of the Coaching & Mentoring Program for 20 Heads and Superintendents with the aim of enhancing their supervisory skills in order to assist their subordinates in achieving work objectives.
- Conducting a tailored program in cooperation with the Bahrain Institute of Banking and Finance (BIBF) for 21 new employees; in order to develop their skills in communication, time management and work ethic.
- Conducting a tailored program with Chapel House Institute- a UK based institute- for 25 Superintendents and Senior Officers; in order to help enhance employees' soft skills in the areas of planning, building work teams, negotiation and time management.
- Conducting three batches of First Aid and Fire-Fighting program in collaboration with the Civil Defense School –Ministry of Interior for 33 marshals and Security Officers in order to prepare them and equip them with the necessary skills required in case of contingencies.
- Providing internships for 17 university students, in order to enhance their professional skills and prepare them for the workplace.
- Making use of technology through providing access to 145 employees to an e-learning platform, which covers a variety of Banking and Finance subjects.

## 4.7 IT Projects

During the course of 2016, a number of projects were completed within the IT department. They included the following:

- **IT Strategy:** Matched with CBB's vision, the ITD has developed an IT Strategy that will ensure that IT will evolve and have the capability to meet the strategic business initiatives of all the Directorates of the CBB over the next three years.

- **New Mobile Apps:** The ITD has developed an application for smart devices that includes useful features such as Daily rates, Licensed Financial Institutions information, Press Releases, CBB Calendar, Currency Notes, and many others. This app facilitates search and maintains information in a convenient matter. In addition, an eMeeting app that facilitates the CBB Board of Directors to manage meetings was implemented. Functionalities include sharing documents, viewing documents, sending reminders, archiving previous meetings and documents, etc.
- **Enhancement of Information Security:** ITD has enhanced desktop security by allowing only CBB approved software to be installed on local desktops. Software that is not approved cannot be installed. Also, Security monitoring has been enhanced by implementing a solution that facilitates collection of all Network and Operating System logs to identify any inappropriate actions. In order to increase security awareness among its employees the CBB has implemented a continuous computer-based training for all employees covering various aspects of information security. Additionally, current obsolete network equipment (e.g. switches, network backbone, Intrusion Prevention System) has been upgraded/replaced.
- **Enhancements to the Blocking Unblocking System:** A new facility has been introduced in the Blocking system based on Ministry of Justice (MOJ) requirements. The facility replaces the manual MOJ requests entry by CBB users and enables MOJ users to upload the requests directly to Blocking system. MOJ has also been provided with a Graphical User Interface (GUI) to upload the requests into CBB. The GUI provided by CBB is used for exchanging the blocking information between MOJ & CBB.
- **Enhancements of RTGS and SSS systems:** The ITD successfully enhanced the RTGS system to facilitate automatic confirmation from the RTGS system to be sent to the Electronic Fund Transfer System on successful settlement of the net settlement batch file. The RTGS system was also enhanced to reflect accounting entries for CBB Participation in SSS and Securities Trading.
- **Upgrade of Email Infrastructure:** The email services at the CBB was upgraded from Microsoft Exchange 2010 to 2013 in addition to migrating Microsoft Windows Active Directory.
- **Enhancements to posting of entries to the General Ledger:** Posting from the Banking Services, Currency Issue, and Reserve Management Directorates to the General Ledger was enhanced to account for the appropriate cost centres.
- **Enhancements to the Electronic Submission of Returns and Analysis of Data (ESRAD) system:** The CBB has upgraded the ESRAD system based on the new Basel III requirements for banks. These upgrades include the information that is electronically submitted by banks as well the reflection of the new data in the operational and management reports.

## 4.8 External Communications Unit



**External Communication Unit's Objectives:**

- The CBB supports of a number of events throughout the year, with financial support, hosting of guests, speakers, Governors, moderators as well as ensuring relevant and timely topics for the event agenda. The ECU ensures timely planning and execution of the same.
- The ECU ensures timely follow-up on all issues in the local press. In the case of a complaint, the relevant press member is contacted immediately to obtain the necessary information on the subject complaint.
- The ECU is responsible for ensuring that CBB's Strategic Communication goals are met, amongst them acting as a point of information and assist in the efficient organization of all events in which CBB has a participation, and acting as a point of contact between the CBB and the media to support accurate representation of the CBB's activities, issues and position. This is achieved by:
  - managing all CBB's functions to reflect CBB's high profile image;
  - managing all media-related events and inquiries;
  - providing information and answering queries for all external parties;
  - managing CBB's website and maintain quality control of the same;
  - providing information to interested participants of conferences.

**Periodic reports produced by the ECU:**

- Daily report on all the CBB news and other relevant articles that is published in local, regional and international newspapers.
- Report on complaints published in the local newspapers, which have been redirected to the concerned Directorates while ensuring appropriate follow-up, and responding to such complaints if necessary. This report is a means of recording any complaint or observation mentioned in the local newspapers. The ECU deals with such articles, letters and complaints on a timely basis, and ensure proper follow up of the same as and when required.
- Tawasul - The CBB support e-Government's new initiative 'Tawasul' which is a system where the public can put forward complaints/concerns to the financial sector through a web-page which directs the enquirer to the concerned authority. The ECU forwards the enquiry to the relevant Directorate and updates the system with the feedback and response until the case is closed.

**Table1: Events that Central Bank of Bahrain organised and/or participated in**

#	Conferences	Date	Venue
1	IFSB Rountable	10 <sup>th</sup> January 2016	InterContinental
2	IFSB Seminar	13 <sup>th</sup> – 14 <sup>th</sup> January 2016	InterContinental
3	Middle East Insurance Forum	2 <sup>nd</sup> – 3 <sup>rd</sup> February 2016	Gulf Hotel
4	Euromoney GCC Financial Forum	23 <sup>rd</sup> – 24 <sup>th</sup> February 2016	Four Seasons
5	Waqf Fund Leadership Programme	8 <sup>th</sup> March 2016	Four Seasons
6	Insurance Day	10 <sup>th</sup> April 2016	-
7	Middle East Investment Conference	13 <sup>th</sup> April 2016	Ritz Carlton
8	UAB Seminar on Implication of Int. Law Enforcement on Banks (AML/CFT Compliance)	2 <sup>nd</sup> – 3 <sup>rd</sup> May 2016	Gulf Hotel
9	CIBAFI Global Forum: Rethinking Values for Sustainable Growth	3 <sup>rd</sup> – 4 <sup>th</sup> May 2016	Four Seasons
10	CBB Cyber Security Workshop	24 <sup>th</sup> May 2016	Crowne Plaza
11	Middle East Asset Management Forum	30 <sup>th</sup> – 31 <sup>st</sup> May 2016	Gulf Hotel
12	Government Forum	18 <sup>th</sup> September 2016	Isa Cultural Center
13	20 <sup>th</sup> ARDIC Conference	26 <sup>th</sup> – 29 <sup>th</sup> September 2016	Golden Tulip
14	Middle East Pensions Conference	18 <sup>th</sup> October 2016	Four Seasons
15	CBB Cybersecurity Roundtable	30 <sup>th</sup> October 2016	CBB
16	AAOIFI World Bank Conference	6 <sup>th</sup> – 7 <sup>th</sup> November 2016	Ritz Carlton
17	UAB Cybersecurity and Fintech Workshop	13 <sup>th</sup> – 15 <sup>th</sup> November 2016	Gulf Hotel
18	Annual Conference of the Islamic Insurance Association of London (IIAL)	24 <sup>th</sup> November 2016	InterContinental
19	World Islamic Banking Conference	5 <sup>th</sup> – 7 <sup>th</sup> December 2016	ART Rotana

**Table 2: Press Releases Issued by the Central Bank of Bahrain (CBB)**

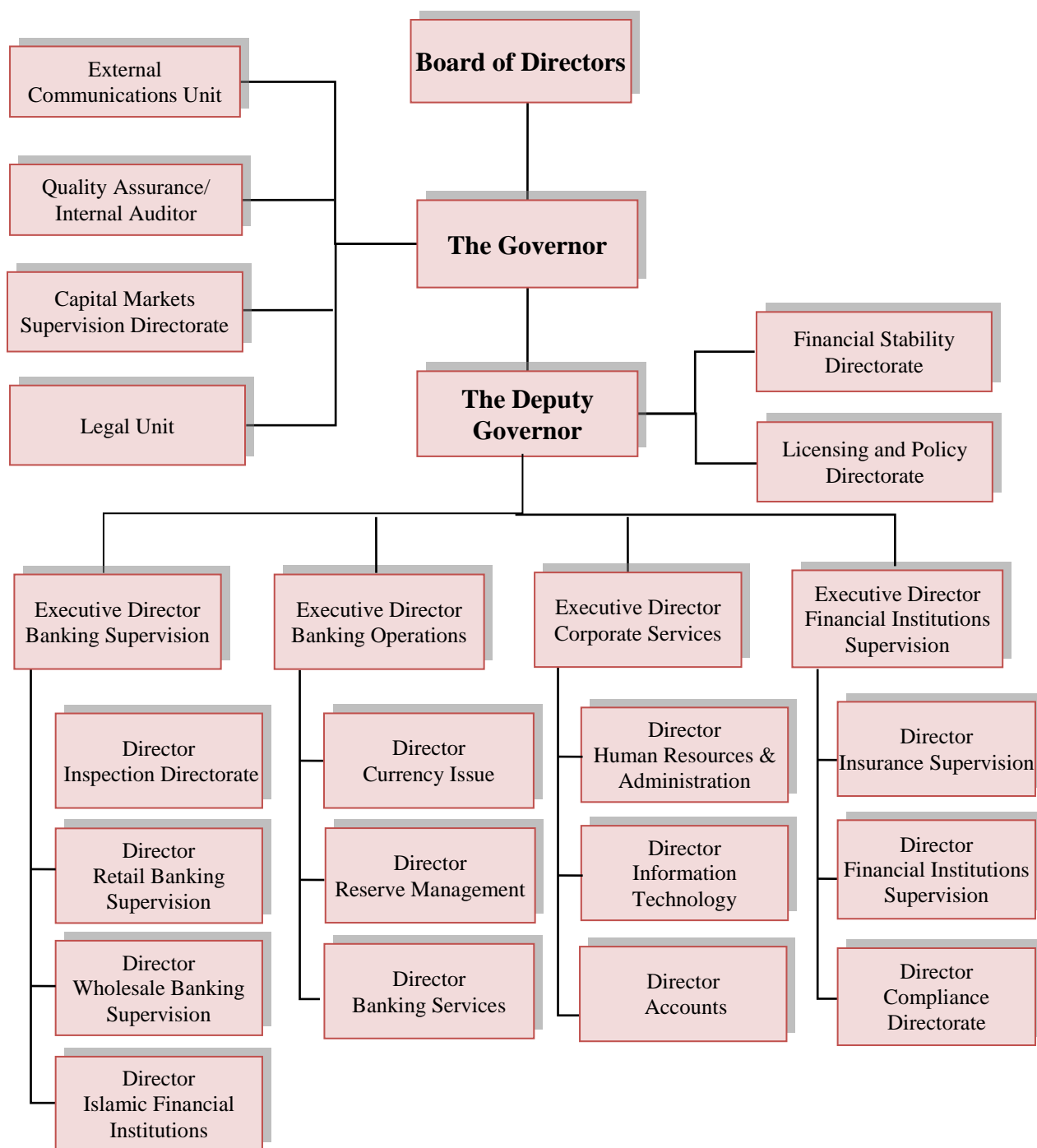
156 press releases (85 Arabic, 71 English)	48 press releases about events and CBB activities (31 Arabic, 17 English)	<ul style="list-style-type: none"> <li>Published in local, regional newspapers and some in international newspapers. Also posted on CBB's official website and Twitter account.</li> </ul>
	108 press releases about Treasury Bills and Sukuk (54 Arabic, 54 English)	

**Table 3: CBB Press interviews**

<b>CBB Representative</b>	<b>Media Channel/Publications</b>	<b>Date</b>
H.E. the Governor	Bahrain TV Exclusive Interview	18 <sup>th</sup> January 2016
Mr. Khalid Hamad	Aljazeera.net	23 <sup>rd</sup> – 24 <sup>th</sup> January 2016
	MENA FM	24 <sup>th</sup> February 2016
	Global Investor	
	Banking Frontiers	
	Financial Express	
	Sky News Arabia	6 <sup>th</sup> December 2016
	Dubai TV	
	Various English and Chinese media	7 <sup>th</sup> December 2016
	CNN Arabia	
Mr. A. Rahman Al Baker	Middle East Insurance Forum 2016 press conference	13 <sup>th</sup> January 2016
	MENA IR	21 <sup>st</sup> January 2016
	Unified Third Party Motor Vehicle Policy press conference	22 <sup>nd</sup> August 2016
	Bahrain Radio	4 <sup>th</sup> October 2016

	Bahrain TV	13 <sup>th</sup> October 2016
Mr. Yousif Hassan	Bahrain TV	20 <sup>th</sup> November 2016

## **4.9 CBB's Organisational Chart**



Chapter

5

## **5. FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016**

INDEPENDENT AUDITORS' REPORT TO THE BOARD OF DIRECTORS  
[BALANCE SHEET](#) (As at 31 December 2016)

PROFIT AND LOSS ACCOUNT AND APPROPRIATION (For the year ended 31  
December 2016)

Notes to the financial statements for the year ended 31 December 2016

**CENTRAL BANK OF BAHRAIN  
INDEPENDENT AUDITOR'S REPORT  
AND  
FINANCIAL STATEMENTS**

**31 DECEMBER 2016**



CENTRAL BANK OF BAHRAIN  
AUDITED FINANCIAL STATEMENTS  
For the year ended 31 December 2016

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Independent auditor's report	1 - 3
Balance sheet	4
Profit and loss account and appropriation	5
Notes to the financial statements	6 - 11

## **INDEPENDENT AUDITOR'S REPORT TO THE BOARD OF DIRECTORS OF THE CENTRAL BANK OF BAHRAIN**

### **Report on the Audit of the Financial Statements**

#### *Opinion*

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 2016, and the profit and loss account and appropriation for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Central Bank as at 31 December 2016, and its financial performance for the year then ended in accordance with the accounting policies described in Note 2 to these financial statements and in compliance with the Royal Decree No.64 of 2006.

#### *Basis for opinion*

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Central Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### *Responsibilities of the Management for the Financial Statements*

Management is responsible for the preparation and fair presentation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the Central Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management either intends to liquidate the Central Bank or to cease operations, or has no realistic alternative but to do so.

#### *Auditor's Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

## **INDEPENDENT AUDITOR'S REPORT TO THE BOARD OF DIRECTORS OF THE CENTRAL BANK OF BAHRAIN (continued)**

### **Report on the Audit of the Financial Statements (continued)**

#### *Auditor's Responsibilities for the Audit of the Financial Statements (continued)*

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Central Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Central Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Central Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



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working world

**INDEPENDENT AUDITOR'S REPORT TO THE BOARD OF DIRECTORS OF THE  
CENTRAL BANK OF BAHRAIN (continued)**

**Report on the Audit of the Financial Statements (continued)**

*Other matter*

The financial statements of the Central Bank for the year ended 31 December 2015, were audited by another auditor who expressed an unmodified opinion on those statements on 20 March 2016.

A stylized, handwritten signature of 'Ernst &amp; Young' in black ink.

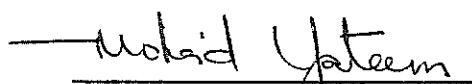
Partner's registration no: 117  
26 March 2017  
Manama, Kingdom of Bahrain


# CENTRAL BANK OF BAHRAIN

## BALANCE SHEET

As at 31 December 2016

	Note	2016 BD'000	2015 BD'000
<b>ASSETS</b>			
Gold	3	2,500	2,500
Foreign reserves	4	1,090,774	1,420,417
Due from Ministry of Finance	5	1,066,030	572,093
Cash, due from Bahraini banks and treasury bills	6	484,711	457,039
Other assets	7	13,085	11,421
<b>Total assets</b>		<b>2,657,100</b>	<b>2,463,470</b>
<b>LIABILITIES</b>			
Notes and coins in circulation	3	670,603	650,110
Bahraini Dinar deposits		1,091,880	1,242,710
Other deposits		395,927	97,239
Due to other central banks		471	425
Profit payable to the Government of the Kingdom of Bahrain		2,500	2,500
Provision for currency withdrawn		6,194	6,197
Other liabilities	8	8,147	7,088
<b>Total liabilities</b>		<b>2,175,722</b>	<b>2,006,269</b>
<b>CAPITAL FUNDS</b>			
Capital	9	200,000	200,000
General reserve	10	208,216	205,716
Contingency reserve	11	55,384	34,733
Revaluation reserve	12	17,778	16,752
<b>Total capital funds</b>		<b>481,378</b>	<b>457,201</b>
<b>Total liabilities and capital funds</b>		<b>2,657,100</b>	<b>2,463,470</b>

  
 Mohammed Hussain Yateem  
 Chairman

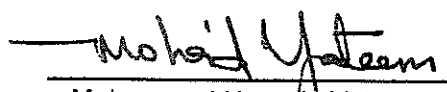
  
 Rasheed Mohammad Al Maraj  
 Governor

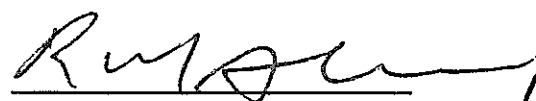
# CENTRAL BANK OF BAHRAIN

## PROFIT AND LOSS ACCOUNT AND APPROPRIATION

For the year ended 31 December 2016

	Note	2016 BD'000	2015 BD'000
<b>Income</b>			
Interest income		25,480	19,795
Interest expense		(8,018)	(3,981)
<b>Net interest income</b>		<b>17,462</b>	<b>15,814</b>
Registration and licensing fees		5,256	5,207
Exchange gain on sale of US dollars		8,195	5,670
Net realised investment gain		12,372	6,795
Other income		1,453	1,691
<b>Total income</b>		<b>44,738</b>	<b>35,177</b>
<b>Expenses</b>			
Staff costs		(11,480)	(12,105)
General and administration expenses		(3,600)	(4,571)
Notes issue expenses		(2,870)	(1,169)
Managed funds and advisory fees		(887)	(1,369)
<b>Total operating expenses</b>		<b>(18,837)</b>	<b>(19,214)</b>
<b>Profit for the year before impairment provision</b>		<b>25,901</b>	<b>15,963</b>
<b>Provision for impairment</b>		<b>(250)</b>	<b>-</b>
<b>Profit for the year</b>		<b>25,651</b>	<b>15,963</b>
Transfer to contingency reserve	11	(20,651)	(10,963)
Transfer to general reserve	10	(2,500)	(2,500)
<b>Balance payable to the Kingdom of Bahrain</b>		<b>2,500</b>	<b>2,500</b>

  
 Mohammed Hussain Yateem  
 Chairman

  
 Rasheed Mohammad Al Maraj  
 Governor

The attached notes 1 to 13 form part of these financial statements.

# CENTRAL BANK OF BAHRAIN

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## NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2016

### **1 ACTIVITY**

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 7 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 2016, 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 and were authorised for issue by the Board of Directors on 26 March 2017.

### **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.

#### **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 are 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.

#### **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 highly liquid treasury bills.



# CENTRAL BANK OF BAHRAIN

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## NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2016

### **2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **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 Institutions 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.

#### **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 and appropriation.

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 principal 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.

# CENTRAL BANK OF BAHRAIN

## NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2016

### 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 2.9 Revenue recognition (continued)

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

Net realised 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.

### 3 EXCESS OF AUTHORISED BACKING OVER CURRENCY IN CIRCULATION

	2016 BD'000	2015 BD'000
Authorised backing		
Gold	2,500	2,500
Foreign reserves – note 4	1,090,774	1,420,417
	1,093,274	1,422,917
Notes and coins in circulation	(670,603)	(650,110)
Excess of authorised backing over currency in circulation	422,671	772,807

According to Article 19 of the Central Bank of Bahrain and Financial Institutions 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 2016 was BD 64,938 thousand (2015: BD 60,379 thousand).

### 4 FOREIGN RESERVES

	2016 BD'000	2015 BD'000
Bank deposits	771,942	586,960
Bonds portfolios	310,343	821,959
Other securities	87,211	90,220
	1,169,496	1,499,139
Less: provision for impairment	(78,722)	(78,722)
	1,090,774	1,420,417

# CENTRAL BANK OF BAHRAIN

## NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2016

### 4 FOREIGN RESERVES (continued)

All bonds are quoted in active markets with 81% being of investment grade BBB or higher (2015: 89%). All the deposits (2015: 100%) and 66% of bonds (2015: 72%) are in US dollars. For other foreign currencies, these are 100% hedged into US dollars. The bond portfolios include BD 7,678 thousand net unrealised losses on non-US denominated bonds and related forward foreign exchange contracts used to hedge such bonds (2016: net unrealised losses of BD 26,338 thousand).

The market value of the bond portfolios (including cash and accrued interest held within these portfolios) at 31 December 2016 was BD 303,125 thousand (2015: BD 815,931 thousand).

No provision for impairment was recognised against these during the year ended 31 December 2016 and 2015.

### 5 DUE FROM MINISTRY OF FINANCE

The amount represents the net amount due from 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

	2016 BD'000	2015 BD'000
Cash	341	19,204
Due from Bahraini banks	9,549	7,328
Ijara Sukuk / Treasury bills issued by the Government of Bahrain	474,821	430,507
	<b>484,711</b>	<b>457,039</b>

Cash includes US dollars held by the Central Bank amounting to US\$ 844 thousand (equivalent BD 318 thousand) (2015: US\$ 50,875 thousand (equivalent BD 19,180 thousand)).

### 7 OTHER ASSETS

	2016 BD'000	2015 BD'000
Interest receivable	5,050	2,983
Staff loans	4,818	4,937
Equipment	1,219	1,147
Others	1,998	2,354
	<b>13,085</b>	<b>11,421</b>

### 8 OTHER LIABILITIES

	2016 BD'000	2015 BD'000
Deferred license fee received	4,533	4,264
Other payables	1,923	2,343
Interest payable	1,638	409
Accrued expenses	53	72
	<b>8,147</b>	<b>7,088</b>

# CENTRAL BANK OF BAHRAIN

## NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2016

### 9 CAPITAL

	2016 BD'000	2015 BD'000
Authorised	500,000	500,000
Issued and fully paid up	200,000	200,000

### 10 GENERAL RESERVE

	2016 BD'000	2015 BD'000
Balance at beginning of the year	205,716	203,216
Transfer from profit and loss account and appropriation	2,500	2,500
Balance at end of the year	208,216	205,716

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

- 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; and
- 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

	2016 BD'000	2015 BD'000
Balance at beginning of the year	34,733	23,770
Transfer during the year	20,651	10,963
Balance at end of the year	55,384	34,733

In accordance with Article 21 of the Central Bank of Bahrain and Financial Institution Law, the Board has approved a transfer of BD 20,651 thousand (2015: BD 10,963 thousand) of the current year's net profit to the contingency reserve.

### 12 REVALUATION RESERVE

	2016 BD'000	2015 BD'000
Balance at beginning of the year	16,752	15,326
Movement during the year	1,026	1,426
Balance at end of the year	17,778	16,752

# CENTRAL BANK OF BAHRAIN

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## NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2016

### **12 REVALUATION RESERVE (continued)**

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

### **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 2016, there were no outstanding contingent liabilities or commitments (2015: Nil) with the exception of outstanding foreign exchange contracts with a notional value of BD 167,922 thousand (2015: BD 246,892 thousand).