



مَصْرِفُ الْبَحْرَيْنِ الْمَلِكِيّ

Central Bank of Bahrain

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## Preface

A key objective of the The Central Bank of Bahrain (CBB) is to ensure the continued soundness and stability of financial institutions and markets. As the single regulator for the Bahraini financial system, CBB attaches utmost importance in fostering the soundness and stability of the financial system. CBB recognizes that financial stability is critical to maintaining Bahrain's position as a regional financial centre and ensuring that the sector continues to contribute significantly to growth, employment and development in Bahrain.

*Financial stability can be defined as a situation where the financial system is able to function prudently, efficiently and uninterrupted, even in the face of adverse shocks.*

This objective is the primary responsibility of CBB's Financial Stability Directorate (FSD), which conducts regular surveillance of the financial system to identify areas of concern and undertakes research and analysis on issues relating to financial stability. In pursuit of its objective of promoting financial stability, the CBB conducts regular financial sector surveillance, keeping a close watch on developments in individual institutions as well as in the system as a whole.

The Financial Stability Report (FSR) is one of the key components of CBB's financial sector surveillance framework. Produced semi-annually by the FSD, its principal purpose is macro-prudential surveillance, assessing the safety and soundness of the financial system as a whole (intermediaries, markets and payments/settlement systems) to identify potential risks and mitigate them before they develop into systemic financial turbulence. The FSR is prepared for the CBB management, reviewing recent trends and identifying areas of concern which require supervisory and policy attention. Financial Soundness Indicators (FSIs) are used to monitor the financial sector on a continuous basis.

This edition of the FSR has seven chapters divided into three parts as follows:

- Part I: looks at developments in the International and Domestic Financial Markets:
  - Chapter 1 reviews recent international financial developments.
  - Chapter 2 Examines recent developments in Bahrain's financial sector and the household sector.
- Part II: looks at the developments in the banking sector:
  - Chapter 3 evaluates the performance of the entire banking sector of the Kingdom.
  - Chapter 4 evaluates the performance of conventional banks
  - Chapter 5 evaluates the performance of Islamic banks.
- Part III: looks at the developments in equity market and payment and settlement systems.
  - Chapter 6 reviews recent trends on the equity market.
  - Chapter 7 focuses on stability issues relating to the payment and settlement systems.

Unless indicated otherwise, Chapter 3, 4 and 5 of the report analyzes data covering the period between end-September 2016 and end-March 2017.

## Executive Summary

### ***Global Macro Financial Environment Overview***

During the first half of 2017, the global economy showed signs of continued recovery. Across major advanced economies, The US economic growth increased to 2.1% in Q1/2017 higher than the 1.7% recorded in the fourth quarter of 2016. The recovery in Europe is underway despite increased uncertainty following the Brexit vote, which amplified volatility and raised new concerns in the global financial markets.

The UK recorded the worst economic conditions as GDP growth declined from 2.2% in the fourth quarter of 2016 to 2.0% in the first quarter of 2017. The BRICS countries' (Brazil, India, Indonesia, China, and South Africa) growth is underway as it reached the level of 3.7% in Q1/2017.

### ***Financial and Non-Financial Sector Overview***

Bahrain's banking sector represented 5.9 times GDP by the end of the first quarter of 2017. Retail banking total assets reached BD 31.1 billion in May 2017. The share of GCC assets of total of total retail banking assets was 22.1% while the level of Europe and American contribution in retail banking was 8.4%. The wholesale banking sector assets declined to USD 100.8 billion by end of May 2017.

The total amount of credit extended by the retail sector witnessed a slight increase since last November moving from BD 8,077 million to BD 8,199 million in May 2017. Total deposits reached BD 16,505.5 million in May 2017, where 56.8% of them are domestic deposits. Money supply continued to grow. M2 stood at BD 10,476.1 million in end-May 2017, 0.81% higher than its level in May 2016. M3 was BD 12392.7 million in end-May 2017, 1.3% higher than in May 2016. Personal loans as a percentage of GDP remained stable reaching 31.0% in May 2017 (BD 3,709.2 million).

### ***Banking Sector***

The Capital adequacy ratio (CAR) for the banking sector stood at 18.7% in March 2017. The ratio has decreased from 19.2% in September 2016. Non-performing loans (NPL) ratio increased from 5.5% in September 2016 to 5.9% in March 2017.

As at end-March 2017, return-on-assets (ROA) decreased to 0.6% from 0.7% in March 2016. Return-on-equity (ROE) decreased from 4.2% in March 2016 to 2.1% in March 2017. Between September 2016 and March 2017, the overall loan-deposit ratio decreased from 67.9% in September 2016 to 65.2% in March 2017. Liquid assets as a proportion of total assets increased to reach 24.3%, over the same period.

### ***Conventional Banks***

The CAR for locally incorporated conventional retail banks increased from 19.6% in September 2016 to 20.3% in March 2017. NPL ratio increased from 4.7% to 5.7% over the



period. The specific provisions as a proportion of NPLs showed a slight increase to 50.0% in March 2017 from 49.9% in September 2016. For *local retail banks*, the NPLs increased to 4.2% in March 2017. For *overseas retail banks*, the NPLs also increased to 8.8% in March 2017.

ROA for conventional retail banks reached 0.2%. ROA for *locally incorporated conventional banks* remained at 0.5%. For *overseas conventional banks*, ROA decreased from 0.3% in March 2016 to -0.3% in March 2017. Return-on-equity (ROE) for *locally incorporated conventional banks* remained unchanged at 3.8% in March 2017.

The overall loan-deposit ratio for the segment increased to 71.7% in March 2017. Liquid assets as a proportion of total assets increased over the period of September 2016 to March 2017 to reach 24.6%, respectively.

As for Wholesale banks, CAR for locally incorporated wholesale banks was 18.1%, a decrease from the 19.8% registered in September 2016. NPL ratio increased slightly by 0.1 to 5.6% of total loans. The NPL ratio of *Locally-incorporated wholesale banks* remained at 4.2%. Similarly, *overseas wholesale banks* witnessed an increase in its NPL ratio from 6.9% to 7.4% over the same period. Specific provisions as a proportion of NPLs also witnessed an increase to 67.9% in March 2017.

ROA for the conventional wholesale banks was at 0.3% in March 2017. The ROA for *local wholesale banks* decreased from 0.4% to 0.3% between March 2016 and March 2017. ROA for overseas wholesale banks also decreased from 0.9% to 0.4% over the same period. ROE for *local wholesale banks* decreased from 3.6% to 1.9%

The overall loan-deposit ratio for conventional wholesale banks stood at 60.2%. Liquid assets for wholesale banks as a proportion of total assets increased to 27.4% in March 2017 from 24.6% in September 2016.

### **Islamic Banks**

The CAR of Islamic retail banks remained at 17.1% in March 2017 compared with September 2016. Non-performing facilities (NPF) ratio had a noticeable decrease from 12.1% in September 2016 to 10.1% in March 2017. Specific Provisioning also showed a jump from 34.1% to 39.9% over the same period.

The return on assets (ROA) for Islamic retail banks decreased to reach 0.1% in March 2017 compared to 0.4% in March 2016. Return on equity (ROE) decreased from 6.1% to 1.1% for the same period. The volume of liquid assets available to Islamic retail banks slightly increased from 12.3% of total assets in September 2016 to 12.4% in March 2017. The ratio of total facilities to deposits increased from 82.0% in September 2016 to 86.3% in March 2017. As at end-March 2017, the CAR for Islamic wholesale banks decreased from 19.3% in September 2016 to 18.5% in March 2017. NPF ratio for Islamic wholesale banks continued its decreasing trend to 2.6%. Specific provisioning for NPF's increased significantly from 82.4% to 93.8% over the same period.



ROA for Islamic wholesale banks increased from 0.1% in March 2016 to 0.2% in March 2017. ROE increased as well from 1.0% to 2.4% over the same period. Liquid assets of Islamic wholesale banks represented 21.6% of total assets, 2.7% higher than the 18.9% registered in September 2016. Additionally, the facilities deposit ratio decreased from 61.6% in September 2016 to 61.3% in March 2017.

### ***Performance of Capital Markets***

The Bahrain All-Share index reached 1310.04 points in June 2017, an increase from the 1,118.37 points recorded on June 2016. As at Jun 2017, the market capitalization of the Bahrain Bourse stood at BD 7.7 billion. The price-earnings ratio (P-E ratio) for the stock market stood at 9.46, an increase from the 8.9 attained in Dec 2016 and the 8.42 in Jun 2016.

### ***Payments and Settlement System***

The RTGS System provides for Payment and Settlement of Customer transactions as a value addition. The daily average volume of Bank transfers from 1<sup>st</sup> January, 2017 to 30<sup>th</sup> June, 2017 have decreased by 16.3% to 190 transfers compared to 227 transfers for the period from 1<sup>st</sup> July, 2016 to 31<sup>st</sup> December, 2016.

The daily average volume of ATM transactions for the 1<sup>st</sup> January, 2017 to 30<sup>th</sup> June, 2017, increased by 12.1% to 44,668 transactions per day compared to 39,242 transactions per day for 1<sup>st</sup> July, 2016 to 31<sup>st</sup> December, 2016. The daily average value of ATM transactions for the first half of 2017 increased by 13.7% from BD3.8 million in the second half of 2016 to 4.4 million.

The daily average volume of cheques for the first half of 2017 slightly decreased by 0.8% when compared to the second half of 2016 from 13,432 cheques to 13,326 cheques. The value of those cheques have increased in the first half of 2017 by 2.8% when compared to the second half of 2016 from BD40.0 million to BD41.1 million.

On 28<sup>th</sup> May, 2017, the Central Bank of Bahrain (CBB) announced the issuance of the Regulatory Sandbox Framework that aims to provide a safe space where business from the Kingdom of Bahrain or abroad can test FinTech innovative products and services without the heavy burden of regulation and licencing.

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# Part I:

## Developments in the International and Domestic Financial Markets

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# 1. Developments in the International Financial Markets

## Chapter

# 1

### Key Points

- The global economy faced new political and geopolitical challenges but global growth is expected to improve in the rest of 2017.
- Stock markets indices reached new record levels in the weeks and months following the presidential election and Equity markets in Europe rebounded strongly.

Global economic activity showed signs of recovery with improvement in consumer confidence and investor sentiments supported by growth in emerging markets and advanced economies. Despite the increase of interest rates by the Federal Reserve Board, monetary policy remained accommodative in the US and other advanced economies with the aim is to support economic growth. Despite the anticipated exit of the UK from the Euro Area followed by the US election that have added uncertainty to the global financial markets, overall environment showed some signs of resilience in the beginning of the year. In the following section, we highlight recent trends in the global economy and look at major financial and economic indicators during the previous six months.

## 1.2 Global Macro-financial Environment

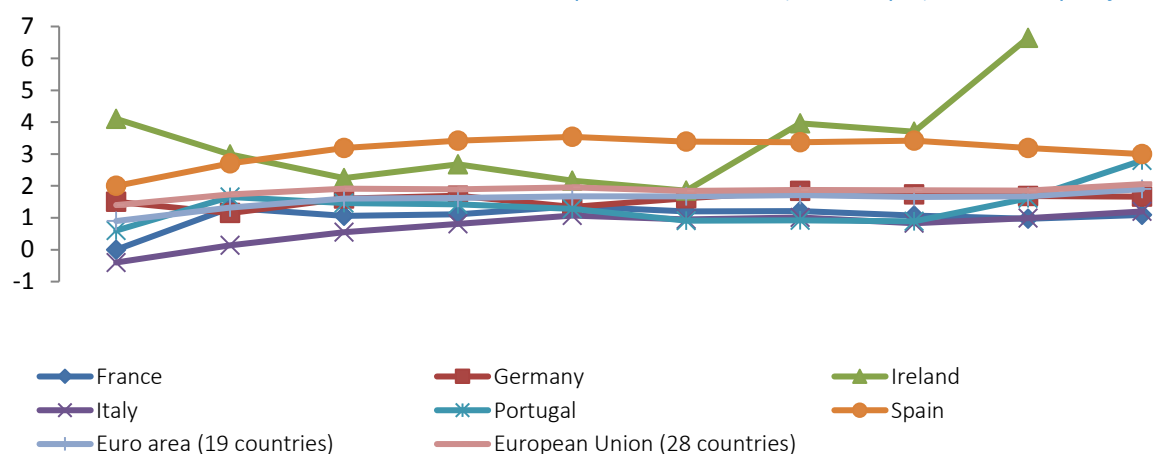
Despite political and geopolitical risks that have added some risk to financial market, the global economic and financial conditions improved slightly and risks associated to this environment eased in the first quarter of 2017. In its Global Economic Outlook, the IMF is forecasting 3.5 % growth in 2017 compared with the 3.1% seen last year.

### A. Economic Performance

Across major advanced economies, the recovery was stronger in the US as economic growth increased to 2.1% in Q1/2017 from 1.7% in Q4/2016. The US economy was boosted after the US election in which consumer confidence and investor sentiments picked up. At its last monetary policy meeting in March 2017, the FED raised interest rates for the second consecutive time. The recovery in Europe improved despite increased uncertainty following

the Brexit, which amplified volatility and raised new concerns in the global financial markets. In Q1/2017, Euro Area (19 countries) achieved a growth of 1.7%. Similarly, the Eurozone (28 countries) had achieved 1.9% of growth in the same period a slightly higher than the previous quarter where the growth rate was 1.7%. Spain has achieved the highest economic performance as GDP growth reached 3.0% for Q1/2017 although it was lower than its level in the Q4/2016 (3.2%). In Q1/2017, Portugal registered a growth rate of 2.8%. Italy had a positive economic performance for 2016 and in the first half of 2017 achieved a growth of 1.2%. France's growth rate was 1.1% and Germany, the largest economy in the Eurozone, experienced positive economic activities in the first half of 2017 with GDP growth reach 1.7%.

**Chart 1-1: Real GDP Growth in Selected Europeans countries (Quarterly%) Seasonally adjusted\***

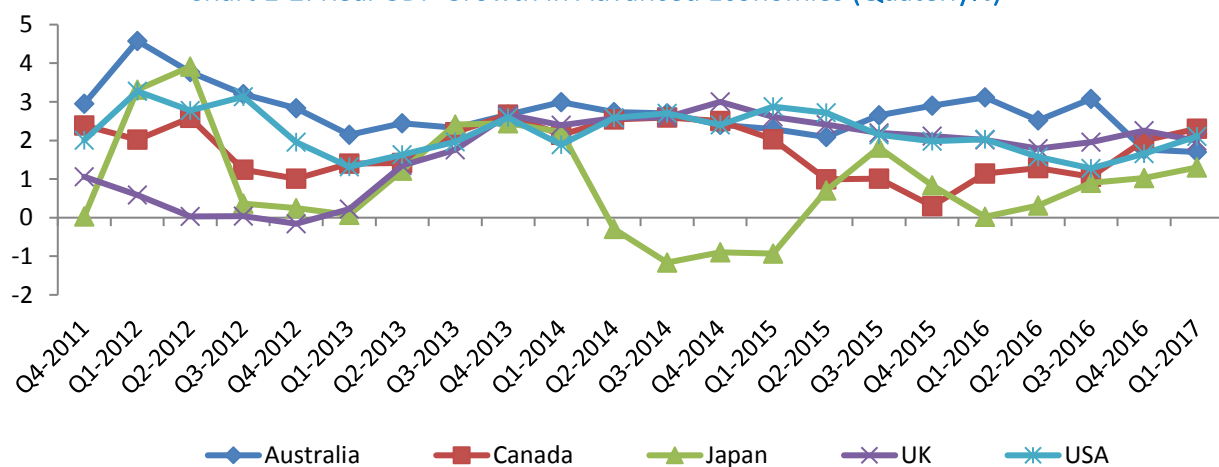


Growth rate compared to the same quarter of previous year, seasonally adjusted

Source: OECD Quarterly National Accounts

The UK's GDP growth decreased from 2.2% in the Q4/2016 to 2.0% in Q1/2017. The Brexit vote and its spill over effects had negative impact on the economic activities of the UK economy. Australia's economic performance continued its downward trend as GDP growth was 1.7% in Q1/2017 from 1.8% in Q4/2016 and 3.1% in Q3/2016. For Japan, economic growth improved from 1.0% in Q4/2016 to 1.3% in Q1-2017.

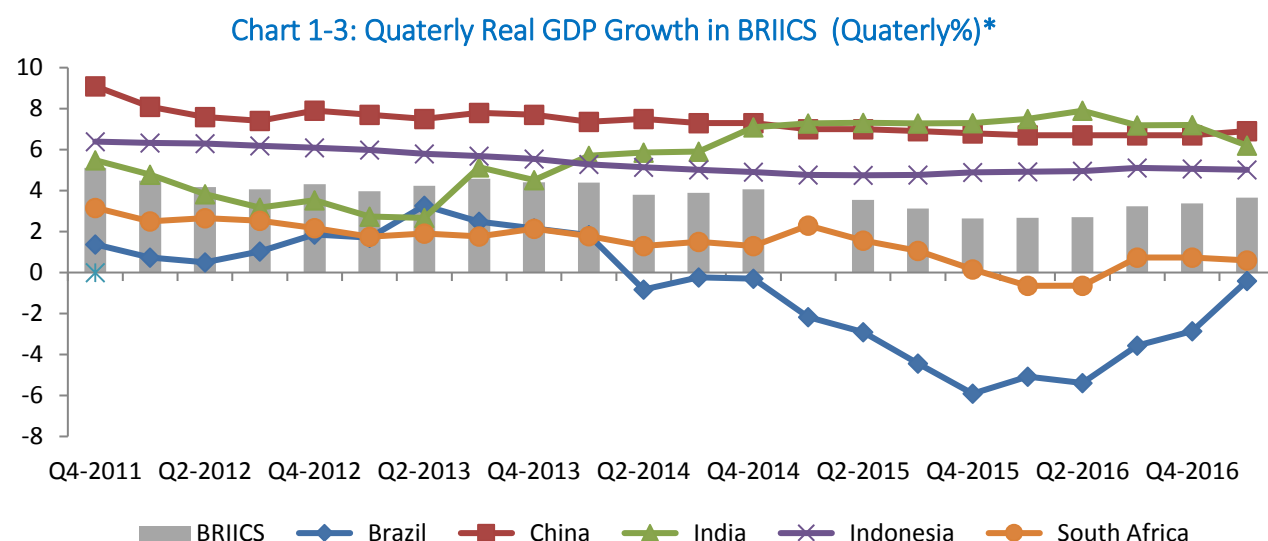
**Chart 1-2: Real GDP Growth in Advanced Economies (Quarterly%)\***



\* Growth rate compared to the same quarter of previous year, seasonally adjusted

Source: OECD Quarterly National Accounts

As for emerging economies (Chart 1-3), the BRIICS countries' growth was strong as it reached the level of 3.7% in Q1/2017. In China, despite the highly indebted local governments, and the financial sector that continues to pose a significant downside risk, economic growth continued to perform well as it realized as growth rate of 6.9%, higher than its level of Q4/2016. Brazil's economic performance has been slowing since the second quarter of 2014 and the country fell into recession for the twelfth consecutive quarter.

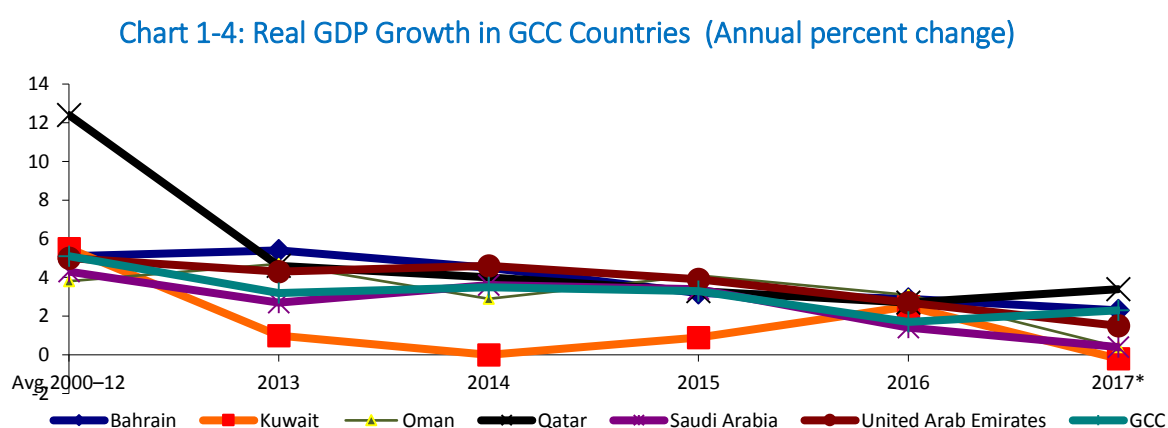


\*Growth rate compared to the same quarter of previous year, seasonally adjusted.

\*Data on Russia is not available since the 4<sup>th</sup> quarter of 2015.

Source: OECD Quarterly National Accounts.

Regionally, the drop of energy prices followed by the continuing uncertainty in the global economy have affected the growth of GCC economies in 2016 as the growth rate reached its lowest level since the financial crisis (1.8% in 2016). Projections for 2017 show that the economic condition will improve and the regional economy will grow at a moderate rate of growth of 2.3%.



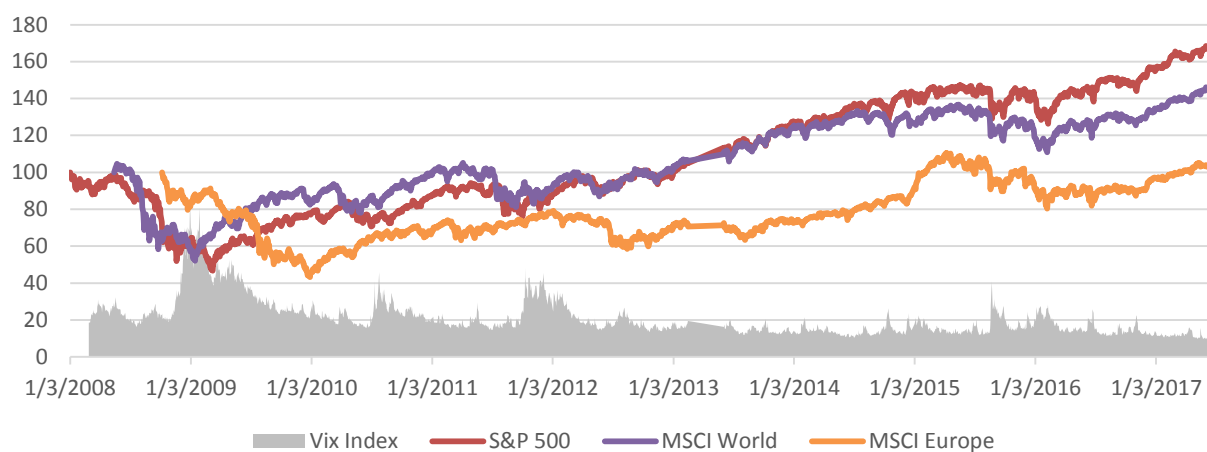
\*Denotes forecast.

Source: IMF World Economic Outlook, April 2017

## B. Financial Markets

Equity prices have risen across a range of advanced economies. Indices reached new record levels following the presidential election in the US, France and Austria. Equity prices in the Euro Area recovered strongly, supported by signs of economic activities, improving business and consumer confidence. Similarly, the S&P 500 has risen by around 30% since early 2016, reaching a high record since 2007.

Chart 1-5: Global Equity Market Indices (Re-indexed to January 2008)



Source: Bloomberg

## 2. Developments in Bahrain's Financial and non-Financial Sector

### Chapter

# 2

#### Key Points

- The retail banking sector assets increased to 31.1 billion USD and wholesale banking sector assets declined to 100.8 billion USD as of end May 2017.
- The credit declined to 8,199.3 million in May 2017.
- Household debt ratio increased.
- Business debt ratio stable.
- Construction permits increased and commercial licenses declined.

### 2.1 Overview

This chapter assesses the recent developments of the Bahraini financial and non-financial sectors. The assessment also requires an evaluation of the financial condition and performance of non-financial entities: households, business enterprises, as well as the construction and real estate sector.

### 2.2 Bahrain's Banking sector

Bahrain has emerged as a regional financial center which has been essential to the development of its economy and the financial sector has played a significant role in economic activity and employment creation. In May 2017, the banking sector in Bahrain was made up of 101 banks, categorized as follows:

- 28 retail banks (including 6 Islamic retail banks); 13 locally incorporated and 15 branches of foreign banks
- 73 wholesale banks (including 18 Islamic wholesale banks)

There are also 301 non-banking financial institutions operating in Bahrain, including investment business firms, insurance companies (including Takaful and Re-Takaful firms), and specialized licenses. The insurance industry has progressed well during the past few years. Insurance sector contribution increased to 5.3% of GDP by end of 2016. Particularly strong growth over the last five years has been in medical insurance (which now accounts for 20% of total premiums). The insurance market in Bahrain now comprises 25 locally-incorporated firms and 11 overseas firms carrying out insurance, reinsurance, takaful and retakaful. These institutions offer all basic and modern insurance services such as medical and health



insurance, long-term insurance (life and savings products). The expansion in the takaful sector (Sharia compliant insurance) has been particularly strong, with gross contributions rising from \$5 million in 2001 to more \$168 million in 2015.

## 2.2.1 The banking sector

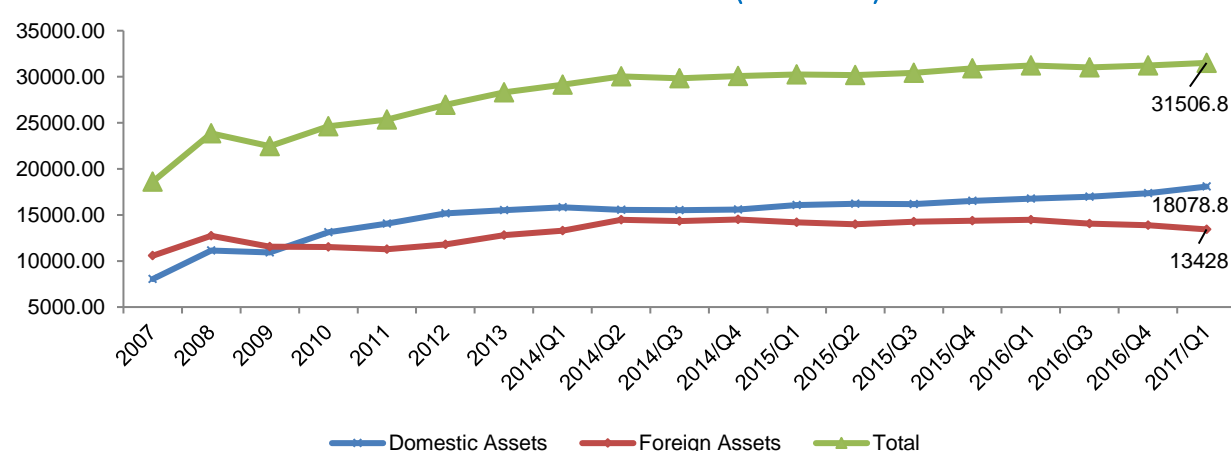
The size of Bahrain's banking sector is 5.9 times the GDP by the end of the first quarter of 2017. The size of the retail banking sector is at 2.6 times the GDP as of the first quarter of 2017 which is at the same level in comparison to the same period of the previous year.

**Table 2-1: Evolution of the size of the Banking sector in Bahrain since 2007**

	2007	2010	2013/Q4	2014/Q4	2015/Q3	2016/Q1	2016/Q3	2016/Q4	2017/Q1
Size of the Banking sector (times GDP)	13.4	11.5	5.9	5.6	6.1	6	6.1	5.8	5.9
Consolidated Balance Sheet of Retail Sector (USD billion)	49.5	65.4	75.3	80	80.9	83	82.5	83	83.8
<i>times of GDP</i>	2.7	3.4	2.3	2.4	2.6	2.6	2.6	2.6	2.6
Consolidated Balance Sheet of Wholesale Sector(USD billion)	196.3	157.7	116.7	109.3	109.5	109.1	110.2	103	104.4
<i>times of GDP</i>	10.7	8.1	3.6	3.2	3.5	3.5	3.5	3.2	3.3

Source: CBB Statistical Bulletin

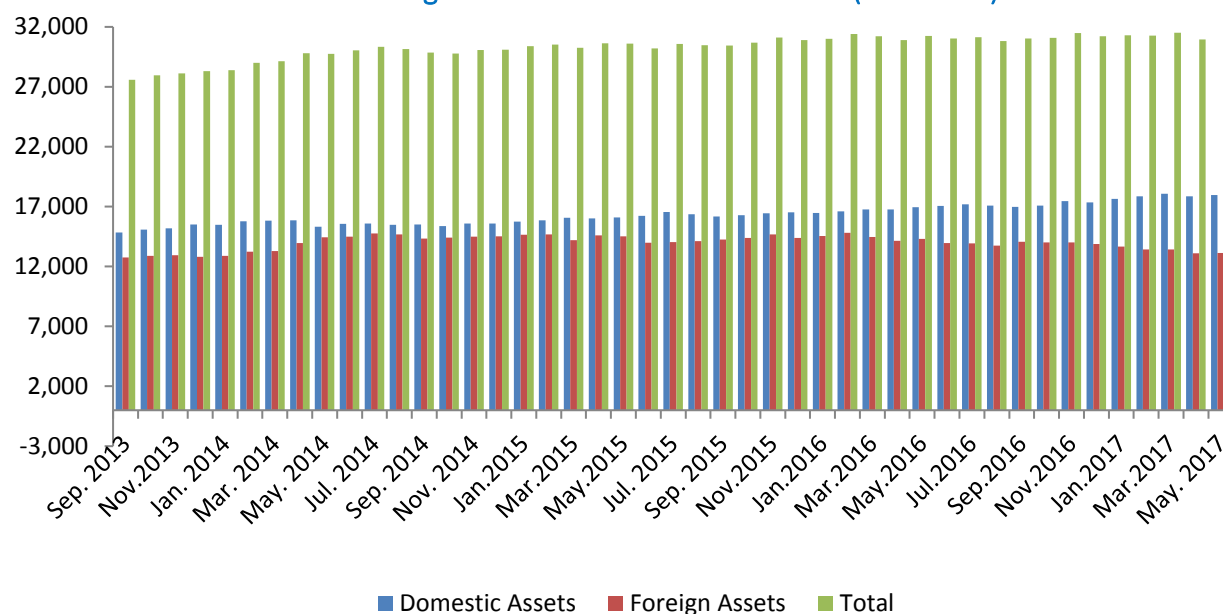
**Chart 2-1: Retail Banks' Assets (BD million)**



Source: Central Bank of Bahrain

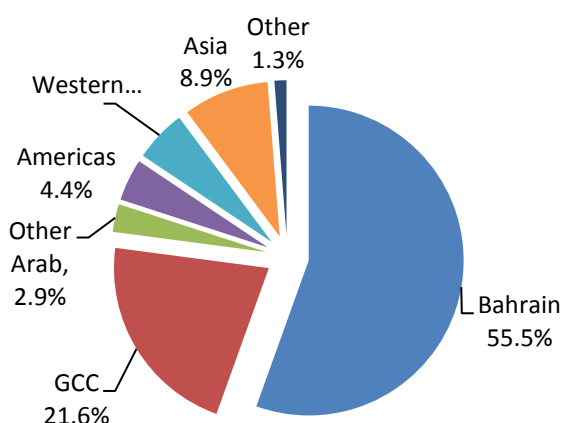
Retail banking total assets continued growing to reach BD 31.1 billion in May 2017 (see Chart 2-2) with 22.2% located in the GCC and 8.4% located in Europe and Americas.

Chart 2-2: Categorization of Retail Banks' Assets (BD million)



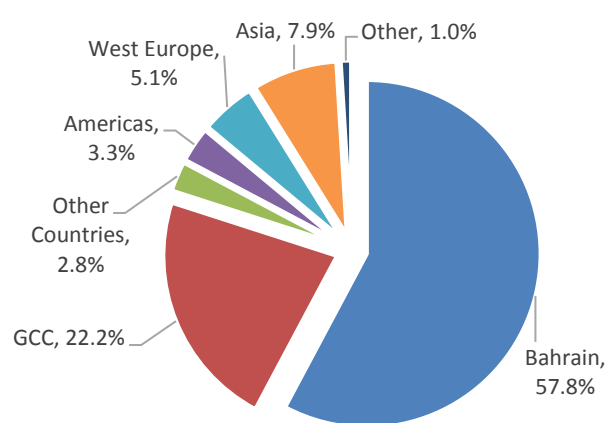
Source: Central Bank of Bahrain.

Chart 2-3: Retail Banks' Assets (%) by Geographical Classification (Nov2016)\*



\* For conventional and Islamic retail banks  
Source: Central Bank of Bahrain

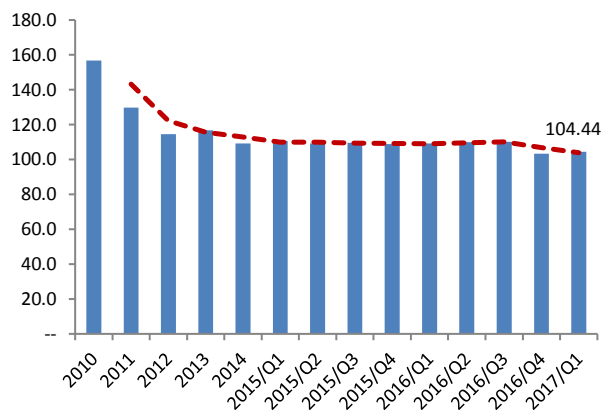
Chart 2-4: Retail Banks' Assets (%) by Geographical Classification (May 2017)\*



\* For conventional and Islamic retail banks  
Source: Central Bank of Bahrain

On the other hand, the wholesale banking sector declined to USD 100.80 billion by end of May 2017 (See Charts 2-6 and 2-7).

**Chart 2-5: Wholesale Banks' Assets (USD Billion)\***

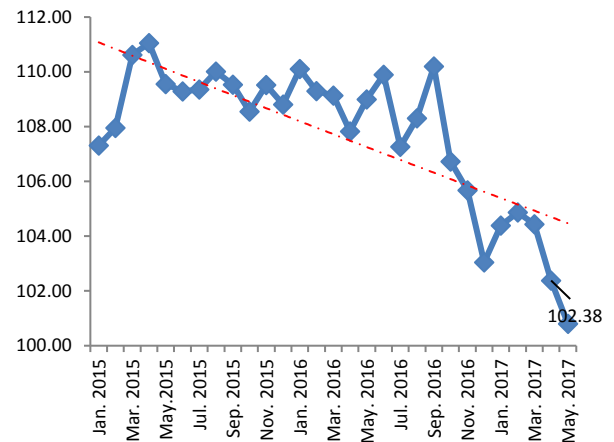


---. Moving average trendline

\* For conventional and Islamic wholesale banks

Source: Central Bank of Bahrain

**Chart 2-6: Wholesale Banks' Assets (USD Billion)\***



--- Linear Trendline

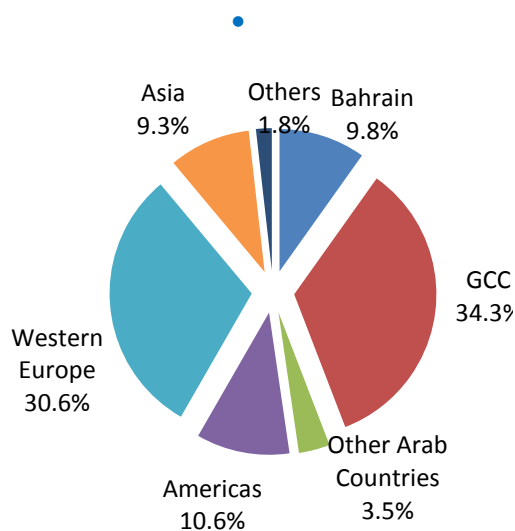
\* For conventional and Islamic wholesale banks

Source: Central Bank of Bahrain

According to the geographical classification of wholesale banks' assets:

- The share of America's total assets was 11.0% in May 2017 from 10.6 in November 2016.
- The share of Europe's total assets slightly increased to 33.6% in May 2017 from 30.6% in November 2016.
- Asian assets reached 9.5% in May 2017.
- GCC total assets dropped during the past few years, but they still represent almost the third of the wholesale banking sector at 32.2% in May 2017.

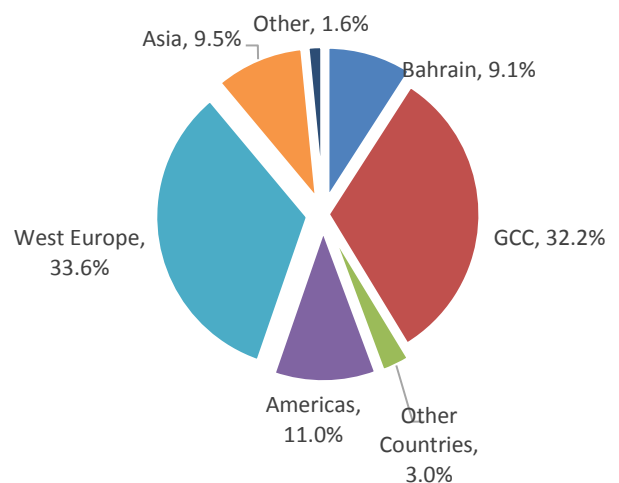
**Chart 2-7: Wholesale Banks Assets by: Geographical Classification (Nov.2016)\***



\* For conventional and Islamic retail banks

Source: Central Bank of Bahrain

**Chart 2-8: Wholesale Banks Assets by Geographical Classification (May 2017)\***



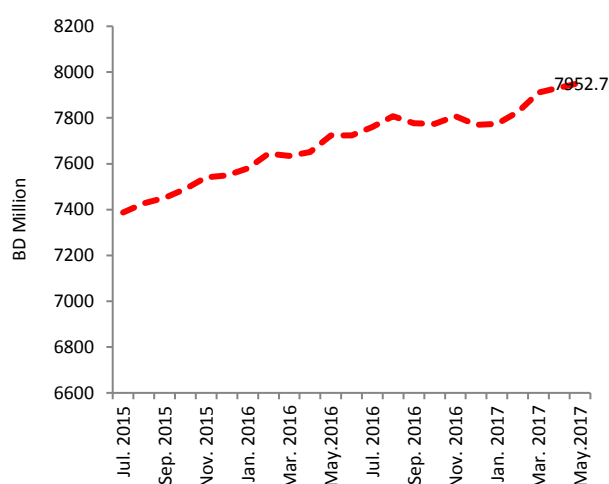
\* For conventional and Islamic retail banks

Source: Central Bank of Bahrain

## 2.2.2 Credit Developments

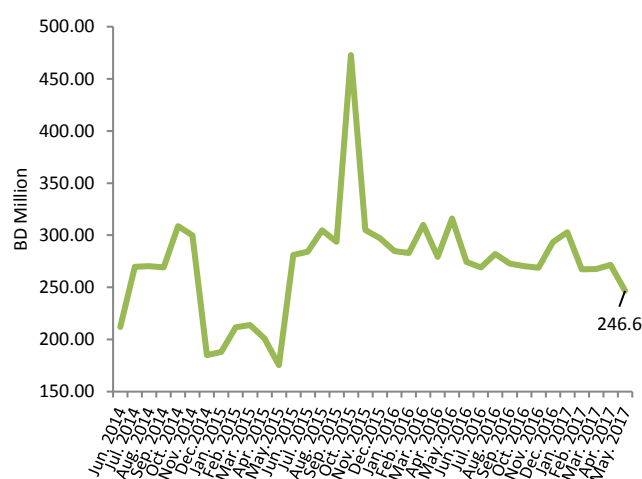
The total credit by retail banks increased slightly from BD 8,077 million in November 2016 to BD 8,204 million in May 2017 (Chart 2-11). Lending to the general government showed a slight decrease to BD 246.6 million at end-May 2017 from BD 268.7 million at end-November 2016.

Chart 2-9: Loans to the Private Sector  
(BD Million)\*



Source: Central Bank of Bahrain

Chart 2-10: Loans to General Government  
(BD Million)\*

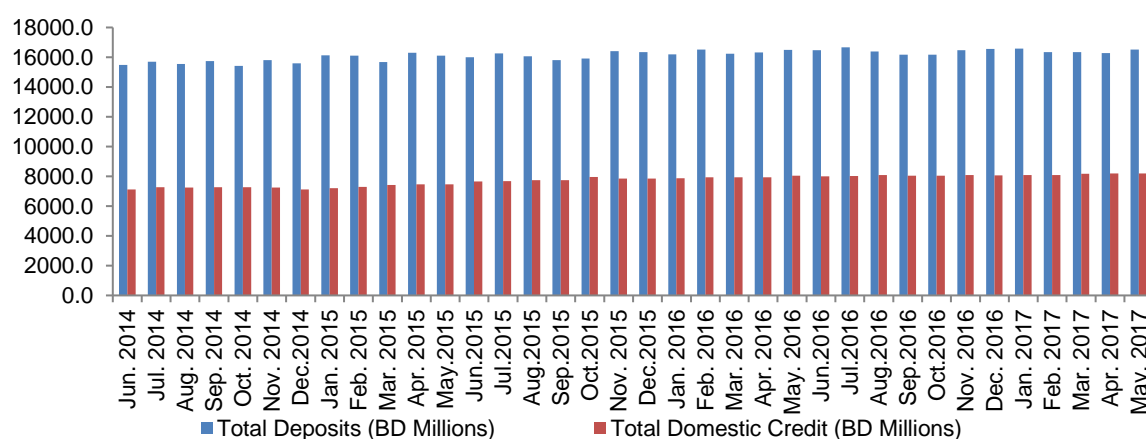


Source: Central Bank of Bahrain

\*Excluding securities

Total deposits reached BD 16,505.5 million in May 2017, where 56.8% of them are domestic deposits.

Chart 2-11: Total Deposits and total Domestic Credit (BD Million)



Source: Central Bank of Bahrain

### 2.2.3 Net Foreign Assets

The net foreign asset (NFA) position of the banking system is the value of the assets that banking system owns abroad, minus the value of the domestic assets owned by foreigners (Foreign Liabilities). A positive NFA balance means that it is a net lender, while a negative NFA balance shows that it is a net borrower.

Looking at the net foreign asset position by banking segment, the position is negative for conventional and Islamic retail banks (net borrowers), while it is positive for conventional and Islamic wholesale banks (net lenders). As of May 2017, foreign liabilities of Retail banks outweighed their foreign assets by USD 2.1 billion. For wholesale banks the Foreign Asset Position was USD 1.4 billion.

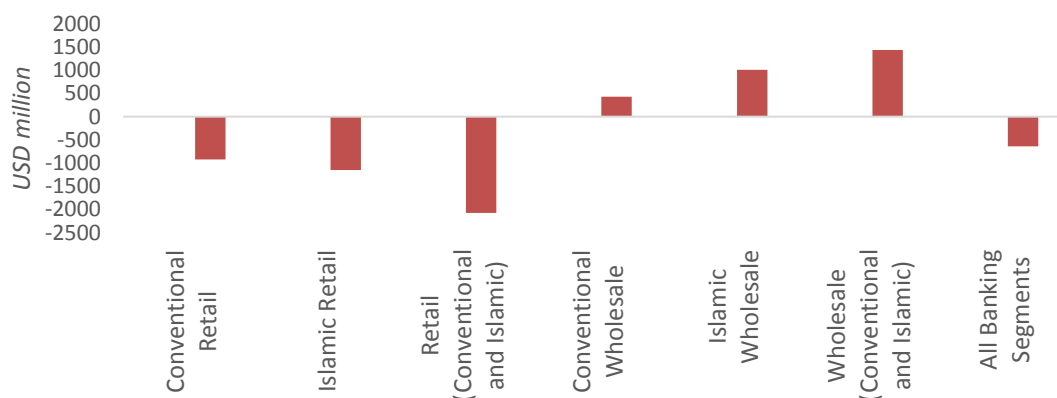
Table 2-2: Net Foreign Assets Position by Banking Segment (May 2017)

*USD million*

Banking Segment	Foreign Assets	Foreign Liabilities	Net Foreign Assets
Conventional Retail	31,816.2	32,741.6	(925.4)
Islamic Retail	3,083.8	4,237.6	(1,153.8)
<b>Retail (Conventional and Islamic)</b>	<b>34,900.0</b>	<b>36,979.2</b>	<b>(2,079.2)</b>
Conventional Wholesale	85,932.1	85,502.8	429.3
Islamic Wholesale	5,699.1	4692.1	1,007.0
<b>Wholesale (Conventional and Islamic)</b>	<b>91,631.3</b>	<b>90,195.0</b>	<b>1,436.3</b>
<b>Total Banking Segments</b>	<b>126,531.2</b>	<b>127,174.1</b>	<b>(642.9)</b>

Source: Central Bank of Bahrain

Chart 2-12: Net Foreign Assets Position by Banking Segment



Source: Central Bank of Bahrain

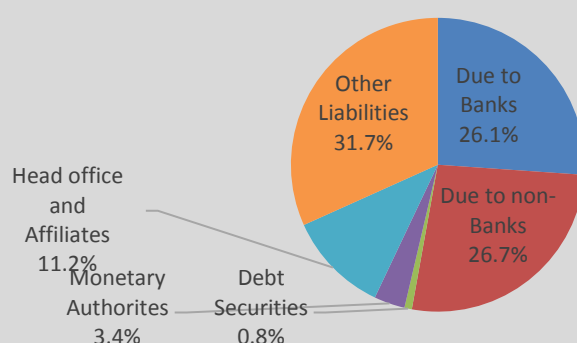
### Box1: The Composition of External (Non-Resident) Funding of Bahraini Banking System

Looking at the composition of the external (non-resident) funding of the banking system in Bahrain (instruments, geographic allocation, and currency of liabilities) allows to identify any visible concentrations/exposures and identify potential risk. By understanding the composition of the liabilities of the banking system one is able to understand the movement in external funding if any risk arises. This allows to know if banks have the capacity to withstand outflow of funds or would it require external support.

#### I. What Type of Instruments Make the Bahraini Banking System External Funding?

The Bank's external (non-resident) funding structure in Bahrain is dominated by liabilities to non-banks and banks which comprise of 26.7% and 26.1% respectively as shown in Chart 1. Liabilities to non-banks reached USD 34.0 billion as of May 2017 with 98.3% being denominated in foreign currency.

Chart 1: Bahraini Banks's Composition of External Funding\*



\*As of May 2017

Source: Central Bank of Bahrain

Table 1 and Chart 2 shows the structure of external (non-resident) funding by banking segment. Liabilities to non-banks and banks make up over 50% of external funding for conventional retail and wholesale banks. For Islamic Wholesale, Head Office and Affiliates make up 67.5% of the external liabilities.

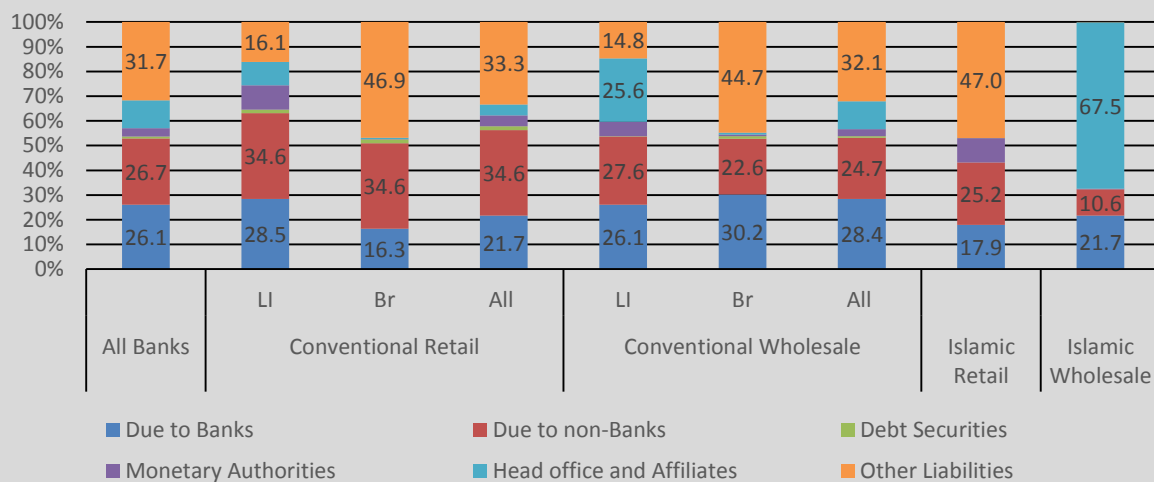
Table 1: Composition of External Funding by Banking Segment (%)\*

	All Banks	Conventional Retail			Conventional Wholesale			Islamic Retail	Islamic Wholesale
		LI	Br	All	LI	Br	All		
Due to Banks	26.1	28.5	16.3	21.7	26.1	30.2	28.4	17.9	21.7
Due to non-Banks	26.7	34.6	34.6	34.6	27.6	22.6	24.7	25.2	10.6
Debt Securities	0.8	1.5	1.6	1.5	0.0	1.1	0.6	0.0	0.0
Monetary Authorities	3.4	9.9	0.1	4.4	5.8	0.7	2.9	9.8	0.3
Head office and Affiliates	11.2	9.5	0.5	4.4	25.6	0.8	11.2	0.0	67.5
Other Liabilities	31.7	16.1	46.9	33.3	14.8	44.7	32.1	47.0	0.0

\*As of May 2017

Source: Central Bank of Bahrain

Chart 2: Composition of External Funding by Banking Segment \*

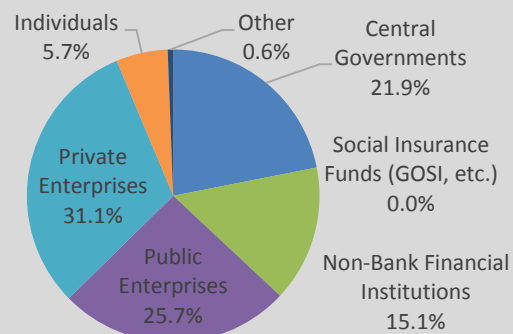


\*As of May 2017

Source: Central Bank of Bahrain

The private enterprises make up the biggest share at 31.1% with around 99% of it in foreign currency. Public enterprises comes next with 25.7% of external liabilities to non-banks.

Chart 3: Bahraini Banks's Composition of External Liabilities to non-Banks\*



\*As of May 2017

Source: Central Bank of Bahrain

Table 2 and Chart 4 shows the structure of external (non-resident) non-bank funding by banking segment. For Local Conventional Retail Banks 73.9% of the external non-bank funding came from non-Bank financial institutions. On the other hand, for Conventional Retail Branches, 92.6% of the external non-bank funding came from Public enterprises. For Local Conventional Wholesale, Central Government made 65.6% of the total non-bank external funding while for Conventional Wholesale Branches the majority of non-bank funding was from Private Enterprises with 69.4%. Private Enterprises and Individuals made up the majority of external non-bank funding for Islamic Retail banks at 48.4% and 35.4%. As for Islamic Wholesale banks, Private Enterprises made up 62.9% of total non-bank external funding.



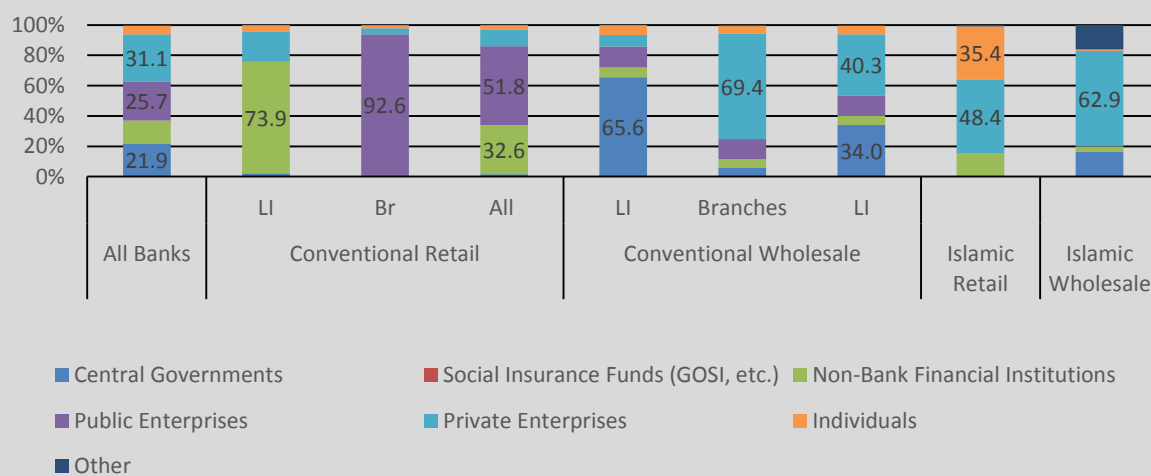
Table 2: Composition of External Liabilities to non-Banks by Banking Segment (%)\*

	All Banks	Conventional Retail			Conventional Wholesale			Islamic Retail	Islamic Wholesale
		LI	Br	All	LI	Branches	All		
Central Governments	21.9	2.1	1.1	1.5	65.6	6.0	34.0	0.7	16.6
Social Insurance Funds (GOSI, etc.)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-Bank Financial Institutions	15.1	73.9	0.1	32.6	6.4	5.5	5.9	14.7	3.2
Public Enterprises	25.7	0.0	92.6	51.8	13.7	13.4	13.5	0.0	0.4
Private Enterprises	31.1	19.6	4.0	10.8	7.6	69.4	40.3	48.4	62.9
Individuals	5.7	4.4	2.1	3.1	6.5	5.0	5.7	35.4	0.8
Other	0.6	0.0	0.1	0.1	0.2	0.8	0.5	0.9	16.1

\*As of May 2017

Source: Central Bank of Bahrain

Chart 4: Composition of External Liabilities to non-Banks by Banking Segment\*



\*As of May 2017

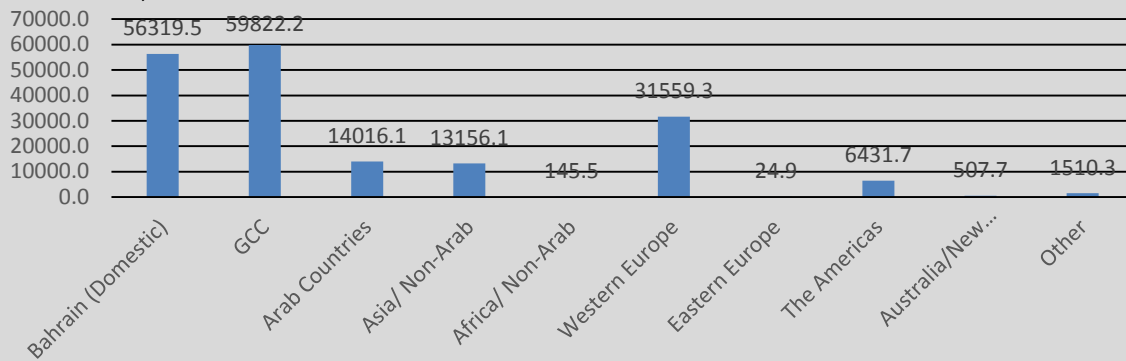
Source: Central Bank of Bahrain

## II. How Much External Funding Comes From The GCC and Other Areas?

The geographic breakdown of liabilities shows that the largest contribution of liabilities, USD59.8 billion, comes from GCC countries, followed by Western Europe with USD 31.6 billion. Around 32.6% of total liabilities and 47.0% of total foreign liabilities are from the GCC (mostly from Kuwait and Saudi Arabia).

Chart 7: Geographic breakdown of liabilities of Bahraini Banks\*

(U.S.\$ millions)



\*As of May 2017

Source: Central Bank of Bahrain

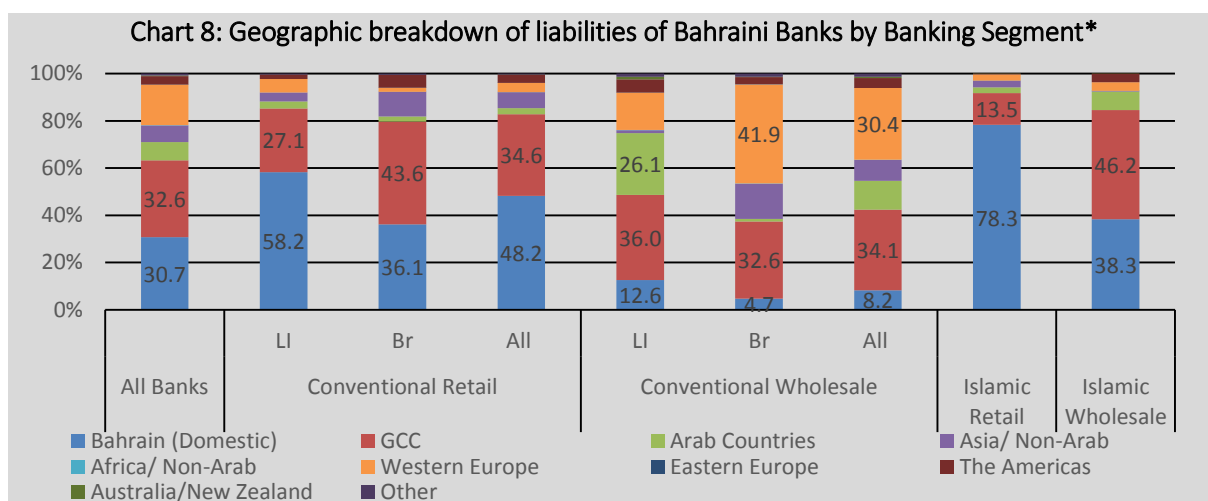
Table 3 and Chart 8 shows geographic breakdown of liabilities by banking segment. The geographic breakdown of liabilities shows that the GCC make up for the majority of liabilities for Local Conventional Retail banks, Local Conventional Wholesale Banks and Islamic Wholesale Banks. It is noticeable that for Local Conventional Wholesale Other Arab Countries make up 26.1% of total liabilities and that for Conventional Wholesale Branches 41.9% are from Western Europe.

Table 3: Geographic breakdown of liabilities of Bahraini Banks by Banking Segment\*

	All Banks	Conventional Retail			Conventional Wholesale			Islamic Retail	Islamic Wholesale
		Local	Branches	All	Local	Branches	All		
Bahrain (Domestic)	30.7	58.2	36.1	48.2	12.6	4.7	8.2	78.3	38.3
GCC	32.6	27.1	43.6	34.6	36.0	32.6	34.1	13.5	46.2
Arab Countries	7.6	2.9	2.1	2.6	26.1	1.1	12.2	2.4	8.0
Asia/ Non-Arab	7.2	3.9	10.4	6.8	1.3	14.9	8.9	2.9	0.2
Africa/ Non-Arab	0.1	0.0	0.0	0.0	0.1	0.2	0.1	0.0	0.0
Western Europe	17.2	5.7	1.8	3.9	15.9	41.9	30.4	2.6	3.7
Eastern Europe	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
The Americas	3.5	1.9	5.4	3.5	5.5	3.1	4.2	0.3	3.7
Australia/New Zealand	0.3	0.0	0.0	0.0	1.1	0.1	0.5	0.0	0.0
Other	0.8	0.4	0.5	0.4	1.3	1.3	1.3	0.0	0.0

\*As of May 2017

Source: Central Bank of Bahrain



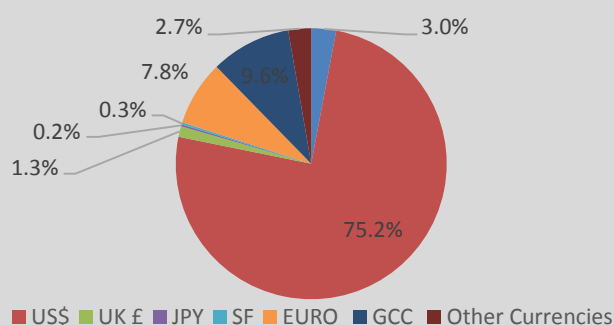
\*As of May 2017

Source: Central Bank of Bahrain

### III. What is The Currency Composition of the External Liabilities?

The majority of the external liabilities of the banking system are in US dollars, making around 75.2% of total liabilities. Other GCC currencies only make up 9.6 % of total liabilities (Chart 11). Looking at the currency of the liabilities by region, we will see that most of the external liabilities are mainly in US dollars ranging from around 60% to a 100 % of the external liabilities (Chart 12).

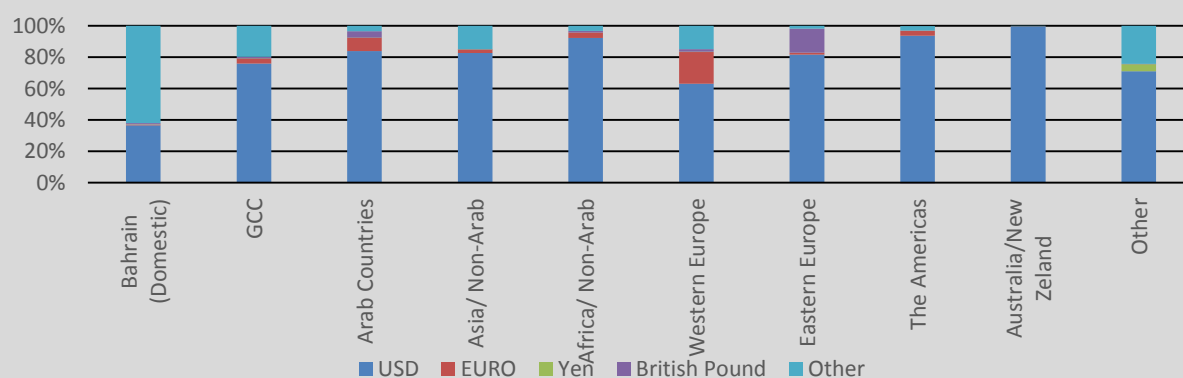
**Chart 11: Currency Composition of External Liabilities\***



\*As of May 2017

Source: Central Bank of Bahrain

**Chart 12: Currency Composition of Liabilities by Region\***



\*As of May 2017

Source: Central Bank of Bahrain

Table 4 and Chart 13 shows the Currency Composition of External Liabilities by Banking Segment. The majority of external liabilities for all banking segments were in US dollars ranging from 71.6% for Islamic Retail Banks to 83.2% for Conventional Wholesale branches. GCC currencies come in second place but at a much lower contribution ranging from 6.4% of external liabilities for Islamic Retail banks to 18.1% for Conventional Retail branches.

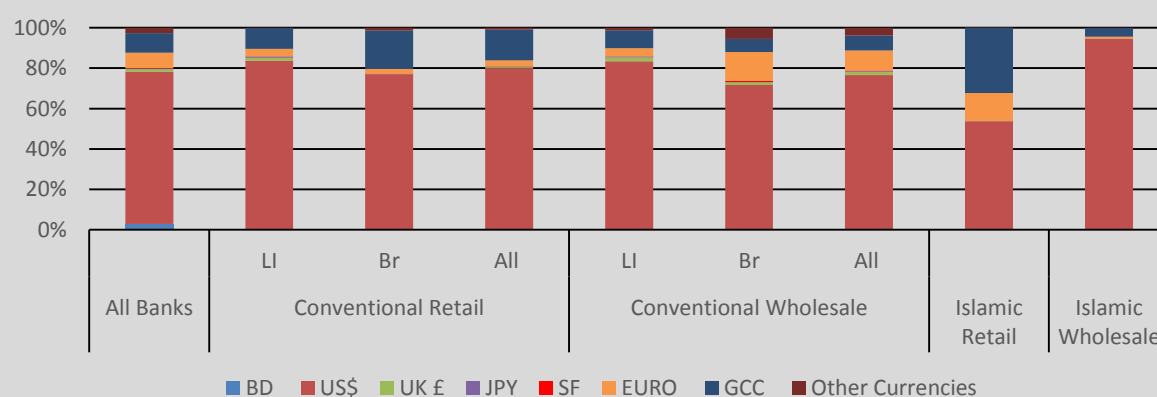
**Table 4: Currency Composition of External Liabilities by Banking Segment (%)\***

	All Banks	Conventional Retail Conventional Wholesale			Islamic Retail Islamic Wholesale			All Banks	Conventional Retail
		Local	Branches	All	Local	Branches	All		
BD	3.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
US\$	75.2	75.4	73.6	74.4	83.2	71.6	76.5	36.9	92.5
UK £	1.3	1.4	0.1	0.7	2.0	1.4	1.6	0.1	0.0
JPY	0.2	0.4	0.0	0.2	0.5	0.1	0.2	0.0	0.0
SF	0.3	0.0	0.0	0.0	0.0	0.6	0.4	0.0	0.0
EURO	7.8	3.4	2.4	2.8	4.0	14.3	9.9	9.4	0.9
GCC	9.6	9.3	18.1	14.3	9.0	6.4	7.5	22.2	4.1
Other Currencies	2.7	0.1	1.4	0.8	1.2	5.6	3.7	0.0	0.2

\*As of May 2017

Source: Central Bank of Bahrain

**Chart 13: Currency Composition of External Liabilities by Banking Segment\***



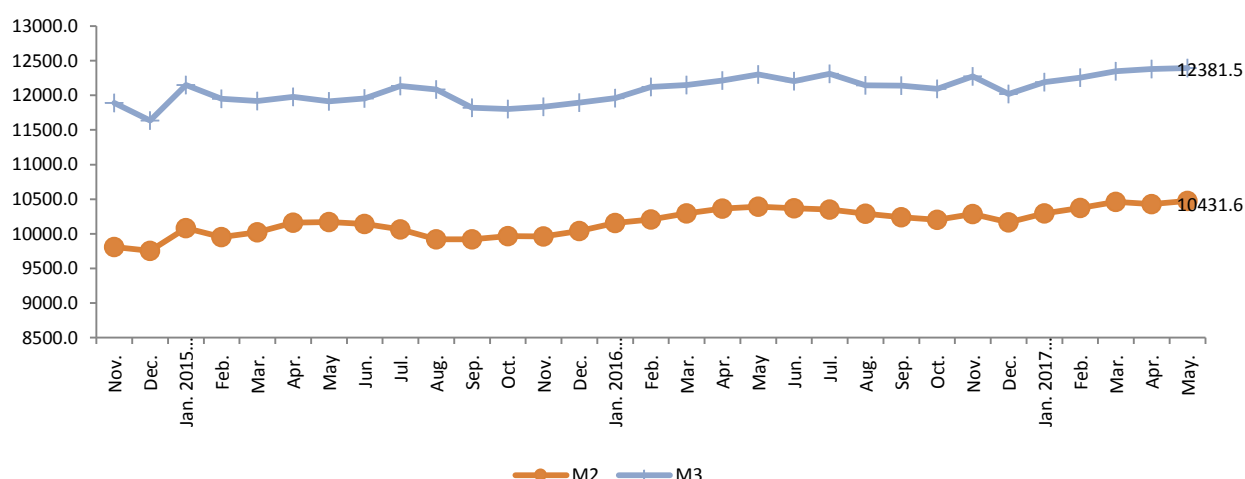
\*As of May 2017

Source: Central Bank of Bahrain

## 2.3 Monetary indicators

Money supply remained stable as M2 stood at BD 10,476.1 million in end-May 2017, 0.81% higher than its value of May 2016. M3 was BD 12,392.7 million in end-May 2017, 1.3% higher than in May 2016 (Chart 2-15).

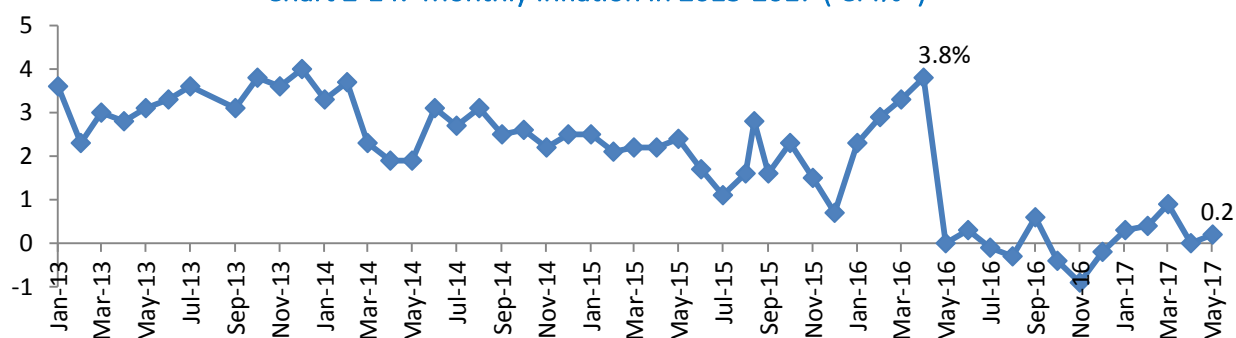
Chart 2-13: Money Supply (BD Billion) from July 2015 to May 2017



Source: Central Bank of Bahrain

The inflation rate has always been stable in Bahrain. According to CIO (2017), inflation declined from 3.8% in April 2016 to 0.2% in May 2017. The most important decreases come from the “food and beverage”, “transport”, and “miscellaneous goods and services”.

Chart 2-14: Monthly Inflation in 2013-2017 (CPI%\*)



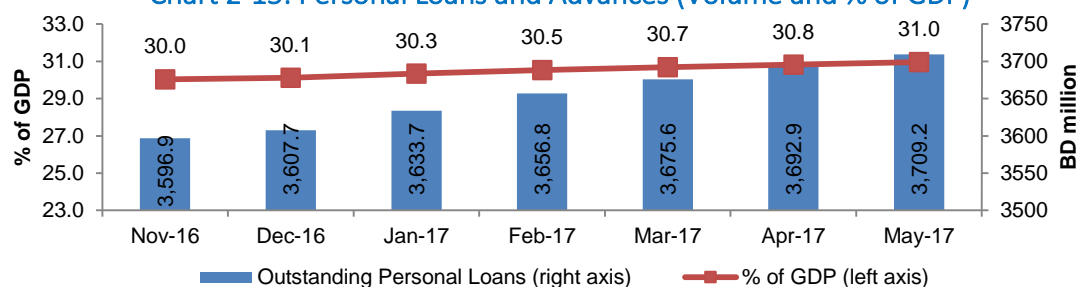
\*Growth rate compared to the same month of previous year, seasonally adjusted  
Source CIO Bahrain.

## 2.4 The Households Sector

### 2.4.1 Household Debt Ratio

Outstanding personal loans, used as a proxy for household borrowing, for the period show that the household debt saw an increase throughout the period between November 2016 and May 2017 (Chart 2-17).

Chart 2-15: Personal Loans and Advances (Volume and % of GDP)

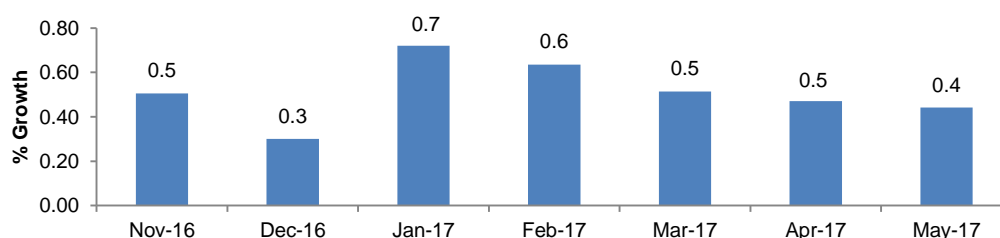


\*Using 2016 GDP

Source: Central Bank of Bahrain

Personal loans as a percentage of GDP remained stable from November 2016 to May 2017. Starting at 30.0% (BD 3,596.9 million) in November 2016 and capping at 31.0% in May 2017 (BD 3,709.2 million). There was a 3.1% increase in outstanding personal loans during the same period.

Chart 2-16: Growth Rate of Total Personal Loans and Advances (%)



\*Using 2016 GDP

Source: Central Bank of Bahrain

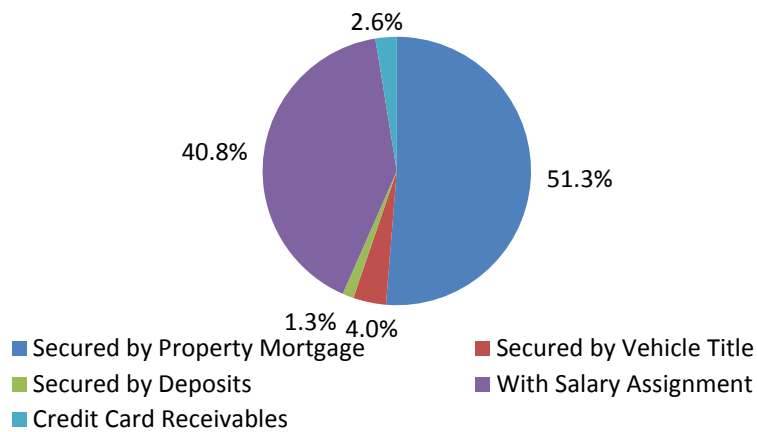
The two main contributors to personal loans as seen in chart 2-19 were personal loans secured by property mortgages which makes up 51.3% of the total personal loans followed by personal loans secured with salary assignments at 40.8% of total personal loans as of end of May 2017.

Table 2-3: Personal Loans Breakdown

BD million	2016-2017						
	Nov	Dec	Jan	Feb	Mar	Apr	May
<b>Total</b>	<b>3,596.9</b>	<b>3,539.9</b>	<b>3,633.7</b>	<b>3,656.8</b>	<b>3,675.6</b>	<b>3,692.9</b>	<b>3,709.2</b>
Secured by Property Mortgage	1,509.2	1,512.4	1,526.8	1,534.1	1,549.8	1,555.4	1,566.6
Secured by Vehicle Title	126.3	124.9	124.6	123.0	122.5	121.3	121.0
Secured by Deposits	38.9	47.5	40.1	45.5	45.4	42.7	41.2
With Salary Assignment	1,209.2	1,211.6	1,218.7	1,220.1	1,232.3	1,244.9	1,247.1
Credit Card Receivables	75.4	80.6	76.9	76.9	76.3	77.7	78.4

Source: Central Bank of Bahrain

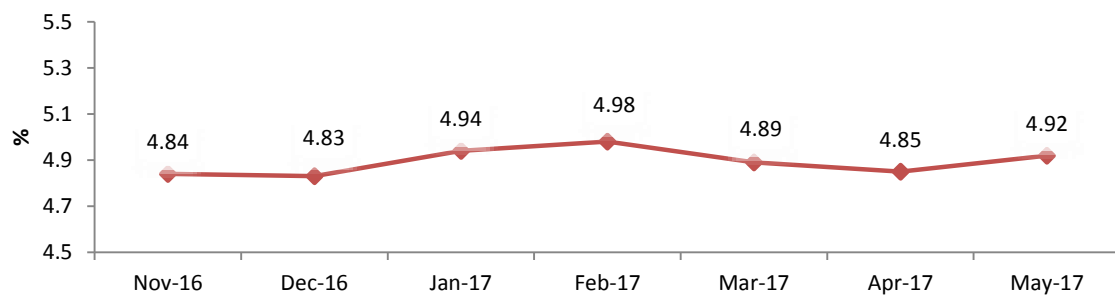
Chart 2-17: Personal Loans Breakdown (May 2017)



Source: Central Bank of Bahrain

Interest rates on personal loans started off at 4.84% in November 2016 and then increased to 4.98% in January 2017 before ending at 4.92% in May 2017 (Chart 2-20). Interest rates on secured and unsecured loans were constant during this period.

Chart 2-18: Retail Banks- Average Interest Rates on Personal Loans (%)



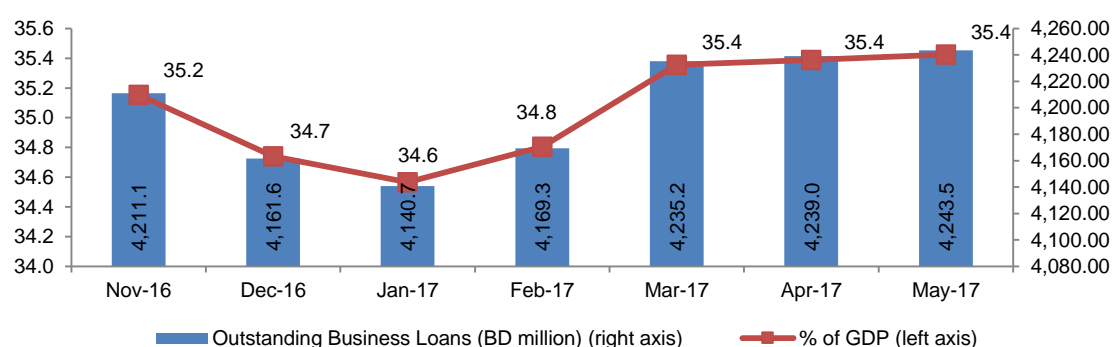
Source: Central Bank of Bahrain

## 2.4.2 The Corporate Sector

Business loans and advances were flat from November 2016 to May 2017, reaching its peak at BD 4,243.5 million in May 2017 (Chart 2-21). Outstanding business loans as a percentage of GDP remained steady ending at 35.4% in May 2017.



Chart 2-19: Business Loans and Advances (Volume and % of GDP)



Source: Central Bank of Bahrain

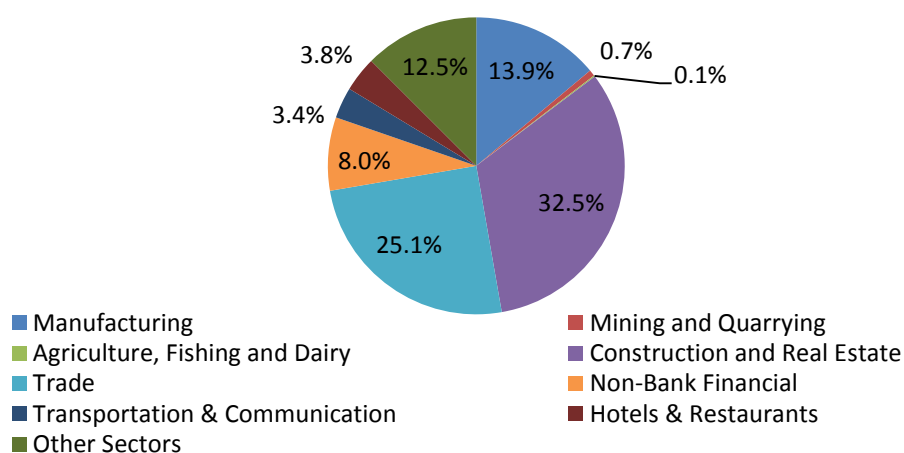
Table 2-4: Business Loans By Sector

Sectors	2016-2017						
	Nov	Dec	Jan	Feb	Mar	Apr	May
<b>Total</b>	<b>4,211.1</b>	<b>4,161.6</b>	<b>4,140.7</b>	<b>4,169.3</b>	<b>4,235.2</b>	<b>4,239.0</b>	<b>4,243.5</b>
Manufacturing	565.9	553.3	567.1	585.9	585.3	599.4	590.2
Mining and Quarrying	12.5	13.2	12.9	13.3	29.7	24.6	28.7
Agriculture, Fishing and Dairy	5.8	6.1	6.8	6.6	5.9	4.8	5.6
Construction and Real Estate	1,359.6	1,372.9	1,379.3	1,392.5	1,433.7	1,427.9	1,380.5
Trade	1,107.2	1,106.3	1,088.1	1,092.8	1,109.5	1,083.9	1,063.5
Non-Bank Financial	309.8	309.7	313.3	315.9	322.7	325.6	338.8
Transportation & Communication	190.5	178.5	161.9	141.4	140.9	143.3	143.4
Hotels & Restaurants	151.3	163.8	148.2	163.2	165.4	163.1	161.9
Other Sectors	508.5	457.8	463.1	457.7	456.1	466.4	530.9

Source: Central Bank of Bahrain

For the past seven months, the main contributor to the increase in business loans was loans to the construction and real estate sector (Table 2-3). The biggest contributors to business loans are the construction and real estate sector (32.5%) followed by trade (25.1%) and then manufacturing (13.9%) (Chart 2-22).

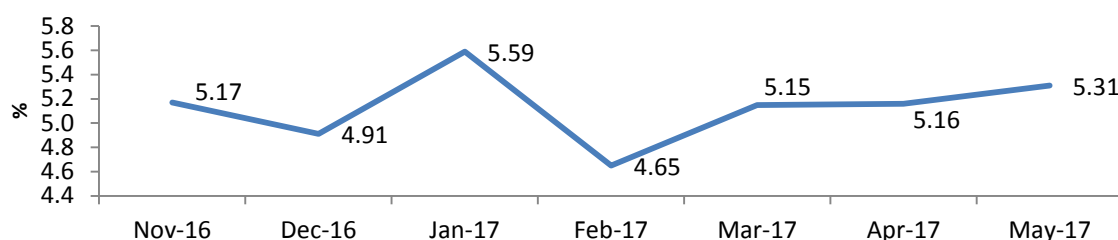
Chart 2-20: Business Loans by Sector May 2017



Source: Central Bank of Bahrain

Average interest rates on business loans fluctuated throughout the period. It was at its peak in January 2017 at 5.59%, and at its lowest in February 2017 at 4.65% (Chart 2-23).

**Chart 2-21: Retail Banks- Average Interest Rates on Business Loans (%)**



Source: Central Bank of Bahrain

### 2.4.3 Construction and Real Estate

The total number of construction permits issued by the Ministry of Municipality & Agricultural Affairs has seen a decrease from Q2 2016 to Q2 2017, with a total of 2,016 and 1,580 permits issued respectively.

**Table 2-5: Selected Construction Permits by Type**

	2016:Q2	2016:Q3	2016:Q4	2017:Q1	2017:Q2
Renovation	178	168	148	168	121
Reclamation	4	2	6	8	3
New Construction	922	849	899	898	703
Demolition and New Construction	11	6	7	9	5
Demolition	146	110	123	136	128
Addition	755	569	652	748	620
<b>Total</b>	<b>2,016</b>	<b>1,704</b>	<b>1,835</b>	<b>1,967</b>	<b>1,580</b>

Sources: Ministry of Municipality Affairs and Agriculture.

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# Part II:

## Performance of the Banking Sector

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## 3. Overall Banking Sector

### Chapter

# 3

#### Key Points

- Slight decrease in capital adequacy positions for the period.
- Non-performing loans (NPLs) increased slightly.
- Loan portfolios remain concentrated in some sectors, but no significant change from previous quarter
- Stable positive earnings for banks.
- Increase in liquidity position.

### 3.1 Overview

This chapter offers macroprudential analysis of the entire banking sector based on a set of selected Financial Soundness Indicators (FSIs).<sup>1</sup> Annex 1 presents selected *Financial Soundness Indicators* (FSIs) for the different banking segments. Annex 2 presents selected graphs showing the development of selected indicators over time.

### 3.2 Overall Banking Sector Performance

#### *Decrease in Capital Adequacy Ratio <sup>2</sup>*

The Capital adequacy ratio (CAR) for the banking sector stood at 18.7% in March 2017. The ratio has decreased from 19.2% in September 2016. The core capital ratio (ratio of Tier 1 capital to risk-weighted assets) showed a decrease from 17.6% in September 2016 to 17.4% in March 2017, whereas the leverage ratio (ratio of assets over capital) decreased from 7.8% to 6.8% during the same period.

<sup>1</sup> This chapter does not contain a section on stress testing. Stress Testing exercises are performed separately in an internal report to obtain information on the potential quantitative impact of hypothetical scenarios on selected Bahraini Systemically-Important Banks (SIB's).

<sup>2</sup> The capital adequacy ratio relates total capital to risk-weighted assets. The discussion excludes overseas retail banks, which do not have prescribed capital levels or ratios.

Table 3-1 Capital Provisions Ratios

Indicator	Sep. 2016	March 2017
Capital Adequacy Ratio	19.2	18.7
Tier 1 Capital Adequacy Ratio	17.6	17.4
Leverage (assets/capital)(times)	7.8	6.8

Source: Central Bank of Bahrain

### Increase in NPL's

Non-performing loans (NPL) ratio increased from 5.5% in September 2016 to 5.9% in March 2017. The specific provisions as a proportion of NPLs showed an increase reaching 57.3% in March 2017 from 54.1% in September 2016.

Table 3-2: NPL Figures

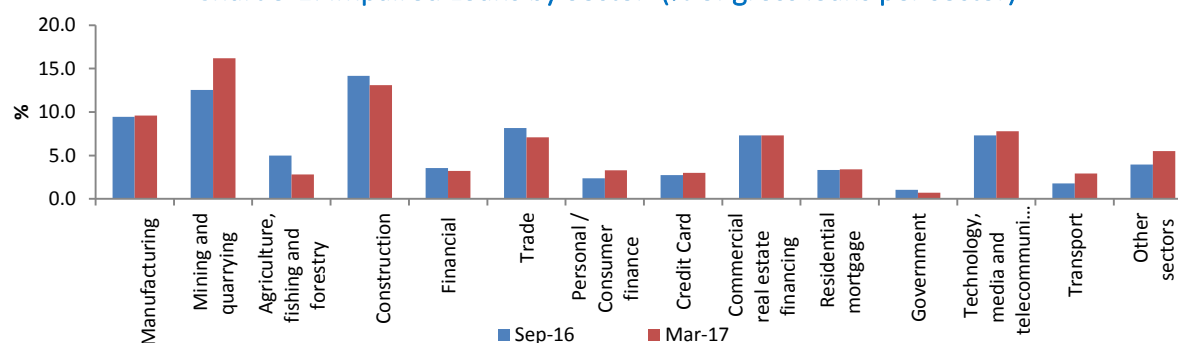
Indicator	Sep. 2016	March 2017
NPL's (% Gross)	5.5	5.9
Specific provisions (% of NPLs) *	54.1	57.3

Source: Central Bank of Bahrain

\* Specific provisions as a percentage of NPL's are calculated as specific provisions divided by gross impaired loans minus interest in suspense.

Data on the sectoral breakdown of impaired loans<sup>3</sup> as a percentage loans in each sector shows some sectors experiencing an increase in impairment (Table 3-3 and Chart 3-1). The highest increase was in "Mining and Quarrying" by 3.6% followed by "Other Sectors" by 1.5% and the highest decrease was in "Agriculture, fishing and forestry" by 2.2% followed by "Construction" by 1.1% and "Trade" by 1.0%.

Chart 3-1: Impaired Loans by Sector (% of gross loans per sector)



Source: Central Bank of Bahrain

<sup>3</sup> Impaired loans include NPLs on which payments of interest or repayments of principal are 90 or more days past due and all loans and advances on which specific provisions have been made.

**Table 3-3: Impaired Loan Ratios by Sector**  
(% of gross loans per sector)

	Sep. 2016	March 2017	Change
Manufacturing	9.5	9.6	0.1
Mining and quarrying	12.6	16.2	3.6
Agriculture, fishing and forestry	5.0	2.8	(2.2)
Construction	14.2	13.1	(1.1)
Financial	3.5	3.2	(0.3)
Trade	8.1	7.1	(1.0)
Personal / Consumer finance	2.4	3.3	0.9
Credit Card	2.8	3.0	0.2
Commercial real estate financing	7.3	7.3	0.0
Residential mortgage	3.3	3.4	0.1
Government	1.0	0.7	(0.3)
Technology, media and telecommunications	7.3	7.8	0.5
Transport	1.8	3.0	1.2
Other sectors	4.0	5.5	1.5

Source: Central Bank of Bahrain

### Loan portfolios concentrated in some sectors

The loan portfolio of the banking system shows concentrations in four sectors. “Manufacturing” represented 15.8% of total loans in March 2017, an increase from the 15.5% in September 2016. The “Financial” sector represented 14.3% of total loans up from 13.8% over the same period. The “Other”<sup>4</sup> sector decreased to 12.4% of total loans down from 13.6% over the same period. “Personal/Consumer Finance as percentage of total finance” decreased from 11.1% in September 2016 to 8.2% in March 2017.

**Table 3-4: Distribution Lending (% total loans)\***

	Sep. 2016	March 2017	Change
Manufacturing	15.5	15.8	0.3
Mining and quarrying	1.9	1.6	(0.3)
Agriculture, fishing and forestry	0.8	1.7	0.9
Construction	8.5	9.6	1.1
Financial	13.8	14.3	0.5
Trade	9.6	11.1	1.5
Personal / Consumer finance	11.1	8.2	(2.8)
Credit Card	0.3	0.3	0.0
Commercial real estate financing	8.7	9.2	0.5
Residential mortgage	5.0	4.2	(0.8)
Government	5.2	5.0	(0.2)
Technology, media and telecommunications	1.8	1.8	0.0
Transport	4.1	4.9	0.8
Other sectors	13.6	12.4	(1.2)
Top two recipient sectors	29.3	30.1	0.8
Real Estate/ Construction Exposure**	22.2	23.0	0.8

Source: Central Bank of Bahrain

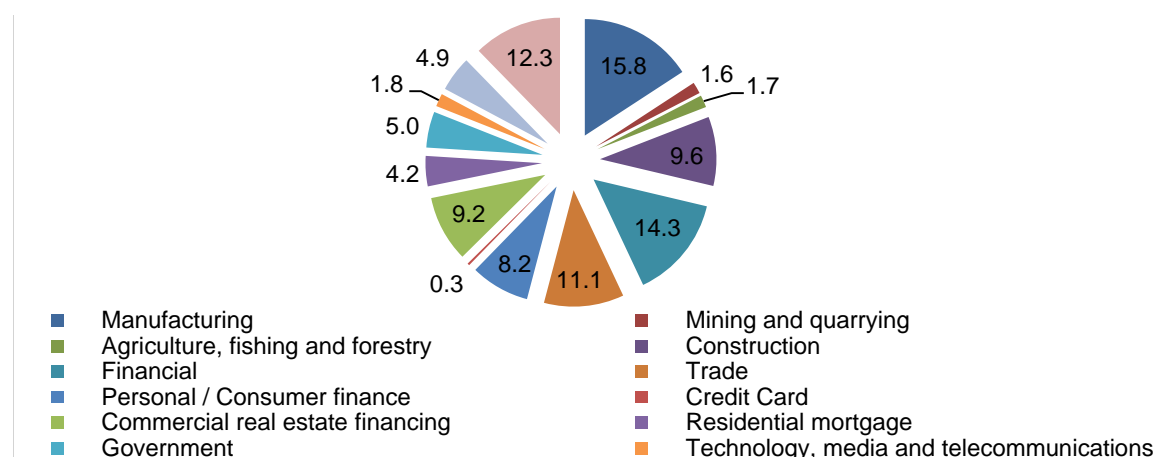
\*Figures may not add to a hundred due to rounding

\*\* Real Estate/ Construction exposure is calculated as the share of the Construction, Commercial real estate financing and Residential Mortgages sectors of total lending.

<sup>4</sup> The “other sectors” category includes sectors such as “private banking”, “services”, “tourism”, and “utilities”.

The top two recipient sectors “Manufacturing” and “Financial” jointly represented 30.1% of loans in March 2017, increasing from 29.3% in September 2016. Exposure to real estate/construction was 23.0% of total lending in March 2017, a slight increase from 22.2% registered in September 2016.

Chart 3-2: Distribution Lending (% of total loans)



Source: Central Bank of Bahrain

### Decrease in profitability

As at end-March 2017, return-on-assets (ROA) decreased to reach 0.6% from 0.7% in March 2016. Return-on-equity (ROE)<sup>5</sup> decreased from 4.2% in March 2016 to 2.1% in March 2017. Net interest income (as a % of total income) stood at 58.5% in March 2017 an increase from 56.9% in March 2016. In addition, operating expenses as a proportion of total income was 65.0% in March 2017 an increase from the 55.8% registered in March 2016.

Table 3-5: Profitability of Retail Banks (%)

	March 2016	March 2017
ROA *	0.7	0.6
ROE**	4.2	2.1
Net interest income (% total income)***	56.9	58.5
Operating expenses (% total income)	55.8	65.0

Source: Central Bank of Bahrain

\*ROA = ratio of net income to assets

\*\*ROE = ratio of net profit to tier 1 capital (for locally incorporated banks only)

\*\*\* Net interest income only for Conventional Banks

### Liquidity position stays resilient

The overall loan-deposit ratio decreased from 67.9% in September 2016 to 65.2% in March 2017. Liquid assets as a proportion of total assets increased to reach 24.3%, over the same period.

<sup>5</sup> We define equity in ROE as net profit over Tier 1 Capital.



Table 3-6: Retail Banks' Liquidity Profile (%)

	Sep. 2016	March 2017
Liquid Asset Ratio	22.8	24.3
Loan-Deposit Ratio	67.9	65.2

Source: Central Bank of Bahrain.

### 3.4 Overall Assessment of the Banking Sector

The financial soundness indicators show that the Banking Sector witnessed a decrease in capital adequacy ratio. Capital adequacy ratios for the banking sector decreased from 19.2% in September 2016 to 18.6% in March 2017. Non-performing loans have shown a slight increase from periods of September 2016 to March 2017 from 5.5% to 5.9%. Profitability has decreased with ROA being at 0.6% and ROE at 2.1%. Liquidity has increased between September 2016 and March 2017.

In the following two chapters (chapters 4 and 5) of the Financial Stability Report, the FSI's of the four banking sectors (Conventional Retail, Conventional Wholesale, Islamic Retail, and Islamic Wholesale) are analysed to assess the performance of the sectors in the banking system in Bahrain.

## 4. Conventional Banks

### Chapter

# 4

#### Key Points

- An increase in capital adequacy positions of conventional retail banks and a decrease in capital positions of conventional wholesale banks.
- Non-performing loans (NPLs) for conventional banks increased.
- Loan portfolios in conventional retail and wholesale banks remain concentrated.
- Decline in earnings for conventional retail banks and stability in earnings for conventional wholesale banks.
- Slight increase in liquidity for conventional retail banks and for conventional wholesale banks.

### 4.1 Overview

This chapter analyses the banking sector under the following categories: conventional retail banks (section 4.2), conventional wholesale banks (section 4.3). Section 4.4 provides an overall assessment of the conventional banking industry. Unless specified otherwise, the analysis in this chapter is based on consolidated financial data (Bahraini and non-Bahraini operations), as at end-September 2016 and compared with end-March 2017.

This chapter offers macroprudential analysis of the conventional banking sector based on a set of selected Financial Soundness Indicators (FSIs).<sup>6</sup> Annex 1 presents selected *Financial Soundness Indicators* (FSIs) for the different banking segments. Annex 2 presents selected graphs showing the development of selected indicators over time.

### 4.2 Conventional Retail Banks

#### *Increase in capital adequacy*<sup>7</sup>

The CAR for conventional retail banks increased from 19.6% in September 2016 to 20.3% in March 2017. The core capital ratio (ratio of Tier 1 capital to risk-weighted assets) showed an

<sup>6</sup> This chapter does not contain a section on stress testing. Stress Testing exercises are performed separately in an internal report to obtain information on the potential quantitative impact of hypothetical scenarios on selected Bahraini Systemically-Important Banks (SIB's).

<sup>7</sup> The capital adequacy ratio relates total capital to risk-weighted assets. The discussion excludes overseas retail banks, which do not have prescribed capital levels or ratios.

increase from 17.8% in September 2016 to 18.6% in March 2017, whereas the leverage ratio (ratio of assets over capital) decreased to 6.6 during the same period. The ratio of non-performing loans (NPLs) net provisions to capital decreased slightly to reach 6.0% in March 2017 from 6.1% in September 2016.

**Table 4-1 Capital Provisions Ratios for Local Conventional Retail Banks**

Indicator	Sep. 2016	March 2017
Capital Adequacy Ratio	19.6	20.3
Tier 1 Capital Adequacy Ratio	17.8	18.6
Leverage (assets/capital)(times)	7.7	6.6
NPLs net of provisions to capital	6.1	6.0

Source: Central Bank of Bahrain

### **Increases in non-performing loans**

NPL ratio increased from 4.7% in September 2016 to 5.7% in March 2017. The specific provisions as a proportion of NPLs showed a slight increase to 50.0% in March 2017 from 49.9% in September 2016. The net NPLs of net loans increased from 2.4% in September 2016 to 3.0% in March 2017. For *local retail banks*, the NPLs increased to 4.2% in March 2017. For *overseas retail banks*, the NPLs also increased to 8.8% in March 2017.

The increase in the NPL ratio for conventional retail banks, for the fourth consecutive quarter, is not seen as major concern for the banking segment. The increase continues to remain due to an isolated case of the increase in the NPL of one foreign branch. Excluding the foreign branch from the NPL ratio of conventional retail banks will result in an NPL ratio of 3.7% in March 2016 compared to a 3.9% in December 2016.

**Table 4-2: NPL Figures for Conventional Retail Banks**

Indicator	Sep. 2016	March 2017
NPL's (% Gross)	4.7	5.7
<i>NPL's Local Banks (% Gross)</i>	3.9	4.2
<i>NPL's Overseas Banks (% Gross)</i>	6.3	8.8
Specific provisions (% of NPLs) *	49.9	50.0
Net NPL's (% of net loans)	2.4	3.0

Source: Central Bank of Bahrain

\* Specific provisions as a percentage of NPL's are calculated as specific provisions divided by gross impaired loans minus interest in suspense.

Available data on the sectoral breakdown of impaired loans <sup>8</sup> shows some sectors experiencing an increase in impairment, while some experience a decrease (Table 4-3 and Chart 4-1). The highest increase was in "transport" by 11.0%, and the highest decrease was in "Technology, media and telecommunication" by 1.9%.

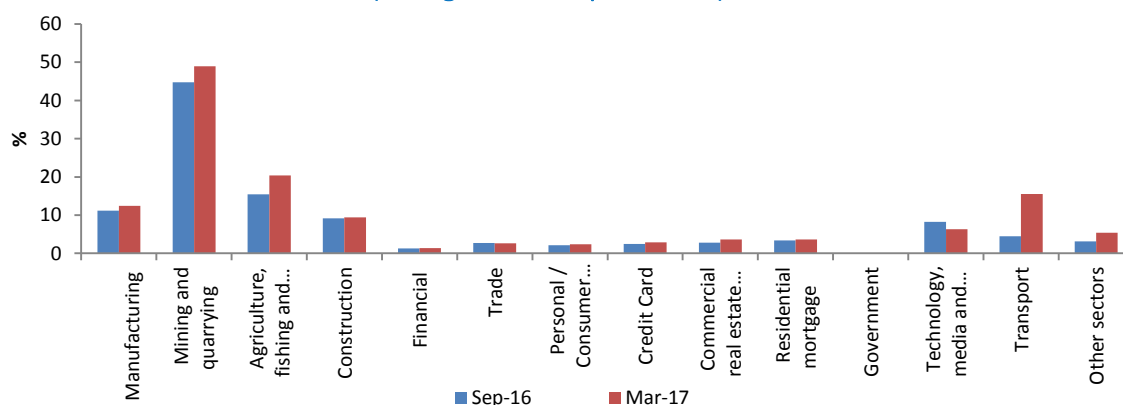
<sup>8</sup> Impaired loans include NPLs on which payments of interest or repayments of principal are 90 or more days past due and all loans and advances on which specific provisions have been made.

Table 4-3: Conventional Retail Banks' Impaired Loan Ratios by Sector  
(% of gross loans per sector)

	Sep. 2016	March 2017	Change
Manufacturing	11.2	12.4	1.2
Mining and quarrying	44.7	48.9	4.2
Agriculture, fishing and forestry	15.4	20.4	5.0
Construction	9.2	9.4	0.2
Financial	1.3	1.4	0.1
Trade	2.7	2.6	(0.1)
Personal / Consumer finance	2.1	2.4	0.3
Credit Card	2.5	2.9	0.4
Commercial real estate financing	2.8	3.6	0.8
Residential mortgage	3.4	3.6	0.2
Government	0.0	0.0	0.0
Technology, media and telecommunications	8.2	6.3	(1.9)
Transport	4.5	15.5	11.0
Other sectors	3.1	5.4	2.3

Source: Central Bank of Bahrain

Chart 4-1: Conventinoal Retail Banks' Impaired Loans by Sector  
(% of gross loans per sector)



Source: Central Bank of Bahrain

### Loan portfolios remain concentrated

The loan portfolio of *retail banks* remains concentrated with the top recipient of loans being the “Commercial real estate financing” sector accounting for 18.8% of total loans in March 2017, compared with 17.9% in September 2016. The “Manufacturing” sector represented 14.3% of total loans followed by the “Personal/Consumer finance” and “Other” sectors at 12.3% and 15.9% respectively of total loans over the same period. The top two recipient sectors “Commercial real estate financing” and “Manufacturing” jointly represented 34.7% of loans in March 2017. Exposure to real estate/ construction was 30.7% of total lending in March 2017, an increase from the 29.8% registered in September 2016.

Table 4-4: Distribution of Conventional Retail Banks' Lending (% total loans)\*

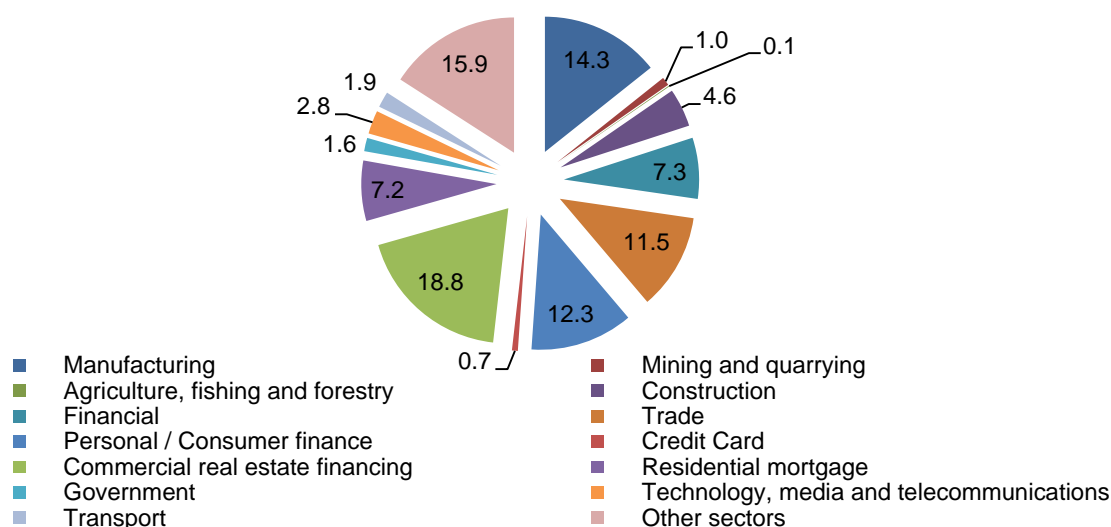
	Sep. 2016	March 2017	Change
Manufacturing	13.9	14.3	0.4
Mining and quarrying	1.1	1.0	(0.1)
Agriculture, fishing and forestry	0.2	0.1	(0.1)
Construction	4.7	4.6	(0.1)
Financial	8.6	7.3	(1.3)
Trade	10.2	11.5	1.3
Personal / Consumer finance	13.7	12.3	(1.4)
Credit Card	0.6	0.7	0.1
Commercial real estate financing	17.9	18.8	0.9
Residential mortgage	7.2	7.2	0.0
Government	3.5	1.6	(1.9)
Technology, media and telecommunications	3.0	2.8	(0.2)
Transport	1.7	1.9	0.2
Other sectors	13.7	15.9	2.2
<b>Top two recipient sectors</b>	<b>31.7</b>	<b>34.7</b>	<b>3.0</b>
<b>Real Estate/ Construction Exposure**</b>	<b>29.8</b>	<b>30.7</b>	<b>0.9</b>

Source: Central Bank of Bahrain

\*Figures may not add to a hundred due to rounding

\*\* Real Estate/ Construction exposure is calculated as the share of the Construction, Commercial real estate financing and Residential Mortgages sectors of total lending.

Chart 4-2: Distribution of Conventional Retail Banks' Lending (% of total loans)



Source: Central Bank of Bahrain

The loan portfolio of *locally incorporated retail banks* remains concentrated with the top recipient of loans being the “Commercial real estate financing” sector accounting for 20.3% of total loans in March 2017, an increase from the 20.1% in September 2016. The “Other sectors” represented 14.4% of total loans up from 15.1% followed by the “Personal/Consumer Finance” sector at 13.3% of total loans over the same period. The top two recipient sectors “Commercial real estate financing” and “Others”<sup>9</sup> jointly represented 34.8% of loans in March 2017, a decrease from the 35.2% in September 2016. Exposure to

<sup>9</sup> The “others sectors” category includes sectors such as “private banking”, “services”, “tourism”, and “utilities”.

real estate/construction was 35.6% of total lending in March 2017, a slight increase from the 35.2% registered in September 2016.

**Table 4-5: Distribution of Local Conventional Retail Banks' Lending (% total loans)\***

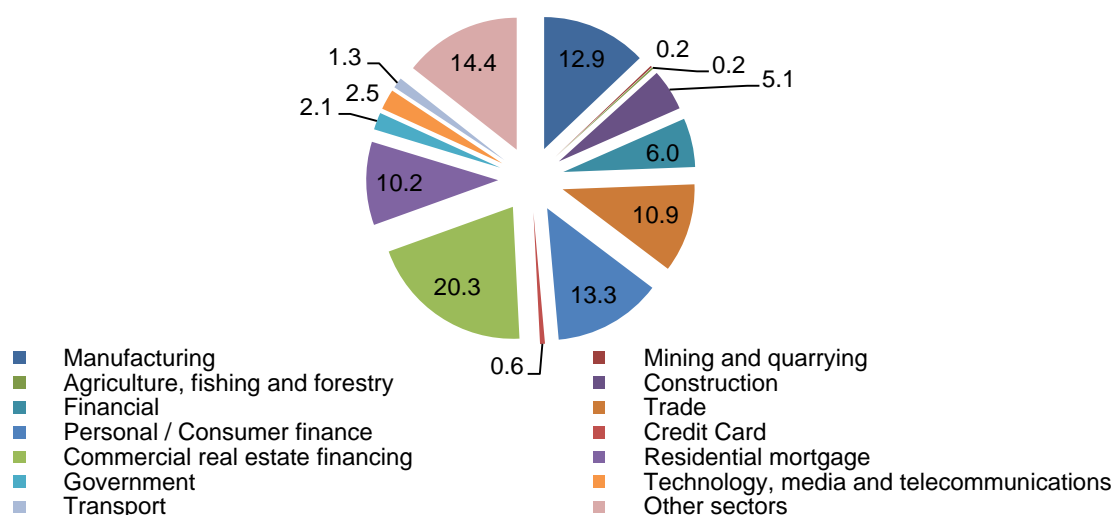
	Sep. 2016	March 2017	Change
Manufacturing	12.3	12.9	0.6
Mining and quarrying	0.3	0.2	(0.1)
Agriculture, fishing and forestry	0.2	0.2	0.0
Construction	4.7	5.1	0.4
Financial	6.6	6.0	(0.6)
Trade	10.6	10.9	0.3
Personal / Consumer finance	12.9	13.3	0.4
Credit Card	0.6	0.6	0.0
Commercial real estate financing	20.1	20.3	0.2
Residential mortgage	10.3	10.2	(0.1)
Government	2.5	2.1	(0.4)
Technology, media and telecommunications	2.5	2.5	0.0
Transport	1.1	1.3	0.2
Other sectors	15.1	14.4	(0.7)
<b>Top two recipient sectors</b>	<b>35.2</b>	<b>34.8</b>	<b>(0.4)</b>
<b>Real Estate/ Construction Exposure**</b>	<b>35.2</b>	<b>35.6</b>	<b>0.4</b>

Source: Central Bank of Bahrain

\*Figures may not add to a hundred due to rounding

\*\* Real Estate/ Construction exposure is calculated as the share of the Construction, Commercial real estate financing and Residential Mortgages sectors of total lending.

**Chart 4-3: Distribution of Conventional Local Retail Banks' Lending (% of total loans)**



Source: Central Bank of Bahrain

The numbers as of end-March 2017 continue to show high concentration of risk for *overseas retail banks* (Table 4-6 and Chart 4-4). The top recipient of loans was the “Manufacturing” sector with 17.0% of total loans in March 2017, an increase from the 16.9% in September 2016.

Table 4-6: Distribution of Overseas Conventional Retail Banks' Lending (% total loans)\*

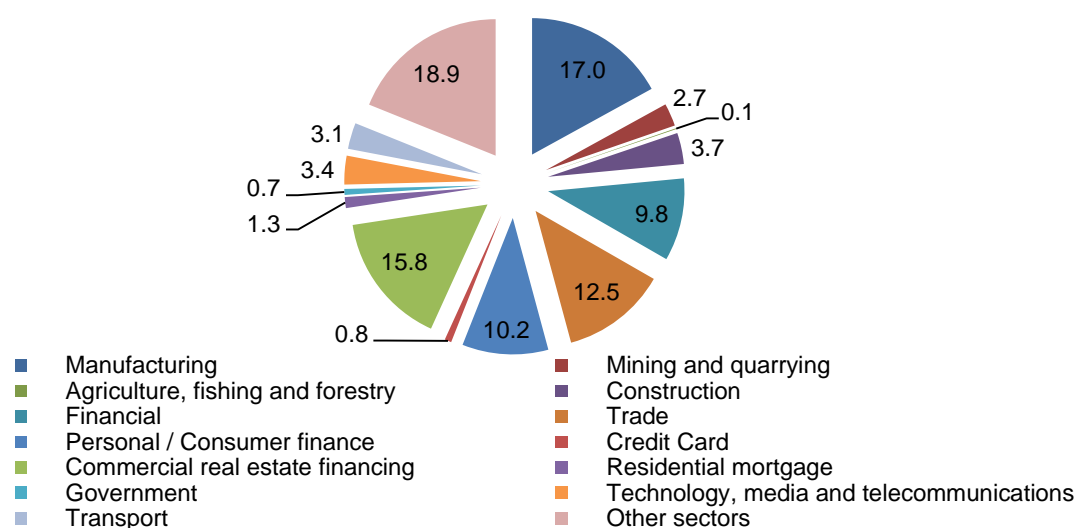
	Sep. 2016	March 2017	Change
Manufacturing	16.9	17.0	0.1
Mining and quarrying	2.6	2.7	0.1
Agriculture, fishing and forestry	0.1	0.1	0.0
Construction	4.8	3.7	(1.1)
Financial	12.5	9.8	(2.7)
Trade	9.5	12.5	3.0
Personal / Consumer finance	15.2	10.2	(5.0)
Credit Card	0.8	0.8	0.0
Commercial real estate financing	13.4	15.8	2.4
Residential mortgage	1.2	1.3	0.1
Government	5.5	0.7	(4.8)
Technology, media and telecommunications	3.9	3.4	(0.5)
Transport	2.7	3.1	0.4
Other sectors	11.1	18.9	7.8
<b>Top two recipient sectors</b>	<b>32.1</b>	<b>35.9</b>	<b>3.8</b>
<b>Real Estate/ Construction Exposure**</b>	<b>19.3</b>	<b>20.8</b>	<b>1.5</b>

Source: Central Bank of Bahrain

\*Figures may not add to a hundred due to rounding

\*\* Real Estate/ Construction exposure is the share of the Construction, Commercial real estate financing and Residential Mortgages sectors of total lending.

Chart 4-4: Distribution of Conventional Overseas Retail Bank's Lending (% of total loans)



Source: Central Bank of Bahrain

The top two recipients of loans ("Manufacturing" and "commercial real estate financing") jointly accounted for 35.9% of total loans. Exposure to real estate/ construction was 20.8% of total lending in March 2017, increasing from 19.3% in September 2016.

### Stability in local retail bank profitability

As at end-March 2017, return-on-assets (ROA) decreased to reach 0.2%. ROA for *locally incorporated banks* remained at 0.5% from March 2016 to March 2017. For *overseas banks*, ROA decreased from 0.3% in March 2016 to -0.3% in March 2017. Return-on-equity (ROE)<sup>10</sup> for *locally incorporated banks* remained unchanged at 3.8% in March 2017. Net interest income (as a % of total income) decreased from 73.4% in March 2016 to 72.4% in March 2017. In addition, operating expenses as a proportion of total income increased from 52.2% in March 2016 to 72.6% in March 2017.

**Table 4-7: Profitability of Retail Banks (%)**

	March 2016	March 2017
ROA *	0.4	0.2
ROA Locally Incorporated Banks	0.5	0.5
ROA Overseas Banks	0.3	-0.3
ROE**	3.8	3.8
Net interest income (% total income)	73.4	72.4
Operating expenses (% total income)	52.2	72.6

Source: Central Bank of Bahrain

\*ROA = ratio of net income to assets

\*\*ROE = ratio of net income to tier 1 capital (for locally incorporated banks only)

### Liquidity position slightly increased

Between September 2016 and March 2017, bank deposits increased while non-bank deposits decreased for retail banks. Bank deposits increased to 22.4% in September 2016. Non-bank deposits decreased to 77.6% over the same period. The overall loan-deposit ratio for the segment increased from 70.0% in September 2016 to 71.7% in March 2017. Liquid assets as a proportion of total assets increased over the period of September 2016 to March 2017 to reach 24.6%, respectively. Similarly, liquid assets as a proportion of the short-term liabilities presented an increase from 37.1% to 39.1% over this period.

**Table 4-8: Retail Banks' Liquidity Profile (%)**

	Sep. 2016	March 2017
Liquid Asset Ratio	24.4	24.6
Loan-Deposit Ratio	70.0	71.7
Non-Bank Deposits as a % of total deposits	79.9	77.6

Source: Central Bank of Bahrain.

<sup>10</sup> We define equity in ROE as net profit over Tier 1 Capital.



### 4.3 Conventional Wholesale Banks

#### Decrease in capital adequacy<sup>11</sup>

As at end-March 2017, the regulatory capital adequacy ratio for locally-incorporated wholesale banks was 18.1%, a decrease from the 19.8% registered in September 2016. The core capital ratio (ratio of Tier 1 capital to risk-weighted assets) also decreased by 1.4 to 17.0% in March 2017 from the 18.4% recorded in September 2016. Furthermore, the leverage ratio (ratio of assets over capital) also witnessed a decrease from the 9.4% in September 2016 to 6.8% in March 2017. Finally, the ratio of non-performing loans (NPLs) net of provisions to capital also decreased from 7.2% in September 2016 to 4.7% in March 2017.

Table 4-9: Capital Provisions Ratios for Local Conventional Wholesale Banks

Indicator	Sep. 2016	Mar. 2017
Capital Adequacy Ratio (%)	19.8	18.1
Tier 1 Capital Adequacy Ratio (%)	18.4	17.0
Leverage (assets/capital)(times)	9.4	6.8
NPLs net of provisions to capital (%)	7.2	4.7

Source: Central Bank of Bahrain

#### Increase in non-performing loans of overseas wholesale banks

As at end-March 2017, loans classified as non-performing increased by 0.1 to 5.6% of total loans. The NPL ratio of *Locally-incorporated wholesale banks* remained at 4.2%. Similarly, *overseas wholesale banks* witnessed an increase in its NPL ratio from 6.9% to 7.4% over the same period. Specific provisions as a proportion of NPLs also witnessed an increase from 63.0% in September 2016 to 67.9% in March 2017. The net NPLs as a % of total loans decreased from 2.1% in September 2016 to 1.9% in March 2017.

Table 4-10: NPL Figures for Conventional Wholesale Banks

Indicator	Sep. 2016	Mar. 2017
NPL's (% Gross)	5.5	5.6
NPL's Local Banks	4.2	4.2
NPL's Overseas Banks	6.9	7.4
Specific provisions (% of NPLs) *	63.0	67.9
Net NPLs (% of net loans)	2.1	1.9

Source: Central Bank of Bahrain

\* Specific provisions as a percentage of NPL's are calculated as specific provisions divided by gross impaired loans minus interest in suspense.

Table 4-12 shows data on the sectoral breakdown of impaired loans, it demonstrates that impairment in the "Commercial real estate financing" was the highest between all sectors at

<sup>11</sup> The capital adequacy ratio relates total capital to risk-weighted assets. The discussion excludes overseas wholesale banks, which do not have prescribed capital levels or ratios.

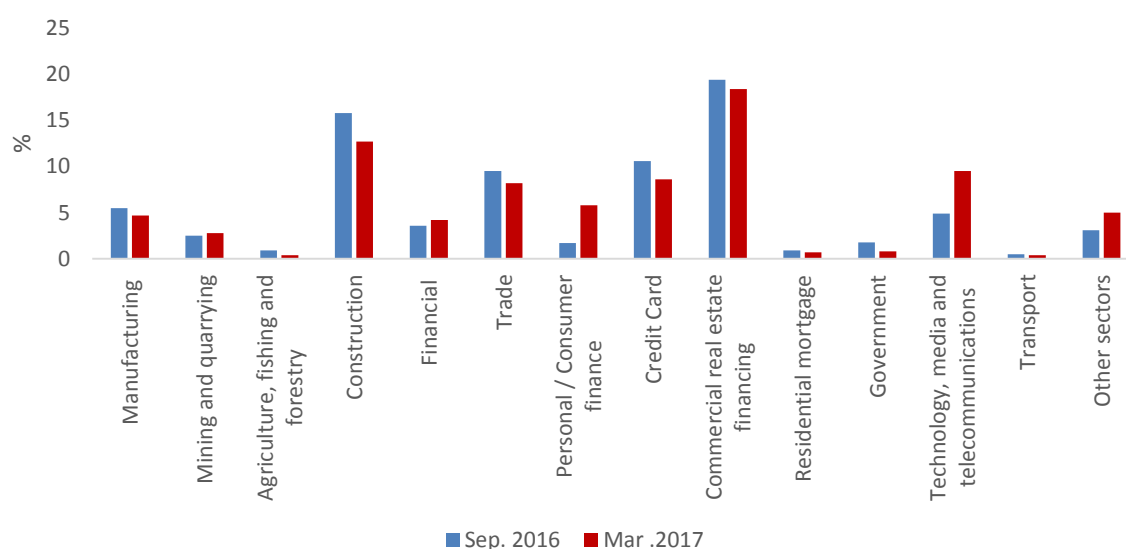
18.4% followed by the “Construction” sector with an impairment of 12.7%. The biggest increases were in the “Technology, media and telecommunications” sector which increased by 4.6% followed by “Personal / Consumer finance” which increased by 4.1%. The greatest decrease in impairment was found in the “Construction” sector which decreased by 3.1%.

**Table 4-11: Conventional Wholesale Banks’ Impaired Loan Ratios by Sector**  
(% of gross loans to sector)

	Sep. 2016	Mar. 2017	Change
Manufacturing	5.5	4.7	(0.8)
Mining and quarrying	2.5	2.8	0.3
Agriculture, fishing and forestry	0.9	0.4	(0.5)
Construction	15.8	12.7	(3.1)
Financial	3.6	4.2	0.6
Trade	9.5	8.2	(1.3)
Personal / Consumer finance	1.7	5.8	4.1
Credit Card	10.6	8.6	(2.0)
Commercial real estate financing	19.4	18.4	(1.0)
Residential mortgage	0.9	0.7	(0.2)
Government	1.8	0.8	(1.0)
Technology, media and telecommunications	4.9	9.5	4.6
Transport	0.5	0.4	(0.1)
Other sectors	3.1	5.0	1.9

Source: Central Bank of Bahrain

**Chart 4-5: Conventional Wholesale Banks’ Impaired Loans by Sector**  
(% of gross loans to sector)



Source: Central Bank of Bahrain

#### Loan portfolios remains concentrated despite decreases in some sectors

An examination of lending patterns as at end-March 2017 shows that, for conventional wholesale banks, the top recipient of loans remains to be the “Financial” sector, which accounted for 21.1% of total loans in March 2017 representing a slight increase of 0.1% compared to September 2016 (Table 4-13 and Chart 4-6).

Table 4-12: Distribution of Conventional Wholesale Banks' Lending (% total Loans)\*

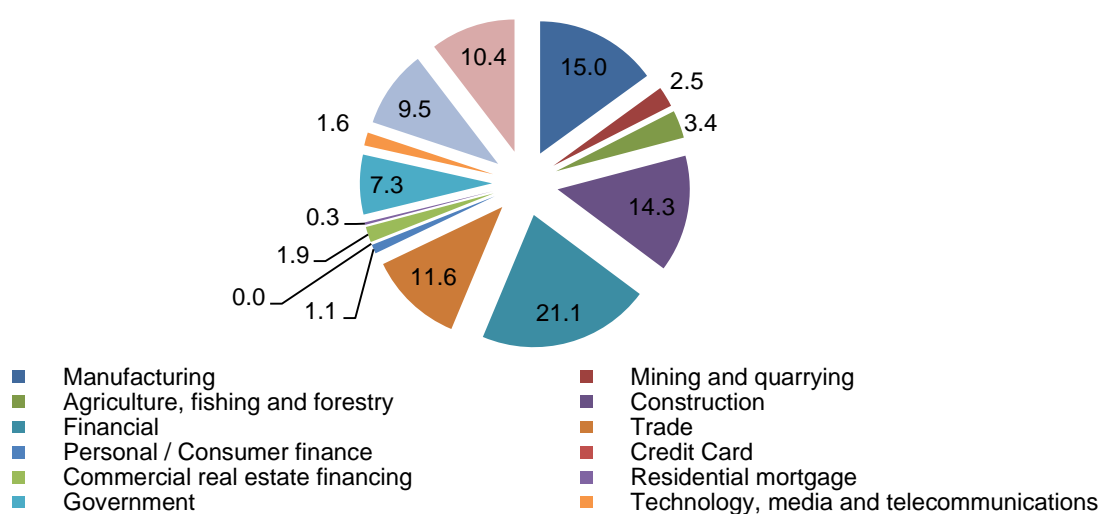
	Sep. 2016	Mar.2017	Change
Manufacturing	16.5	15.0	(1.5)
Mining and quarrying	3.1	2.5	(0.6)
Agriculture, fishing and forestry	1.4	3.4	2.0
Construction	10.7	14.3	0.4
Financial	21.0	21.1	0.1
Trade	9.6	11.6	2.0
Personal / Consumer finance	3.4	1.1	(2.3)
Credit Card	0.0	0.0	0.0
Commercial real estate financing	1.7	1.9	0.2
Residential mortgage	0.3	0.3	0.0
Government	5.8	7.3	1.5
Technology, media and telecommunications	1.6	1.6	0.0
Transport	7.6	9.5	1.9
Other sectors	17.2	10.4	(6.8)
<b>Top two recipient sectors</b>	<b>38.2</b>	<b>36.1</b>	<b>(2.1)</b>
<b>Real Estate/ Construction Exposure**</b>	<b>12.7</b>	<b>16.5</b>	<b>3.8</b>

Source: Central Bank of Bahrain

\*Figures may not add to a hundred due to rounding

\*\* Real Estate/ Construction exposure is the share of the Construction, Commercial real estate financing and Residential Mortgages sectors of total lending.

Chart 4-6: Distribution of Conventional Wholesale Banks' Lending (% of total loans)



Source: Central Bank of Bahrain

The top two sectors in Conventional Wholesale Banks' Lending as a % of total loans are the "Financial" and "Manufacturing" sectors, they jointly account for 36.1% of total lending in March 2017.

For *locally-incorporated wholesale banks*, the top recipient of loans is the "Financial" sector, which accounted for 23.2% of total loans in March 2017, representing a decrease from the 24.8% in September 2016 (Table 4-14 and Chart 4-7).

Table 4-13: Distribution of Conventional Local Wholesale Banks' Lending (% total Loans)\*

	Sep. 2016	Mar. 2017	Change
Manufacturing	25.0	21.3	(3.7)
Mining and quarrying	2.2	1.0	(1.2)
Agriculture, fishing and forestry	2.4	6.2	3.8
Construction	6.5	6.7	0.2
Financial	24.8	23.2	(1.6)
Trade	12.1	14.8	2.7
Personal / Consumer finance	2.0	1.8	(0.2)
Credit Card	0.1	0.0	(0.1)
Commercial real estate financing	2.0	2.1	0.1
Residential mortgage	0.7	0.6	(0.1)
Government	2.3	3.5	1.2
Technology, media and telecommunications	2.0	1.4	(0.6)
Transport	7.6	8.8	1.2
Other sectors	10.3	8.6	(1.7)
<b>Top two recipient sectors</b>	<b>49.9</b>	<b>44.5</b>	<b>(5.4)</b>
<b>Real Estate/ Construction Exposure**</b>	<b>9.2</b>	<b>9.5</b>	<b>0.3</b>

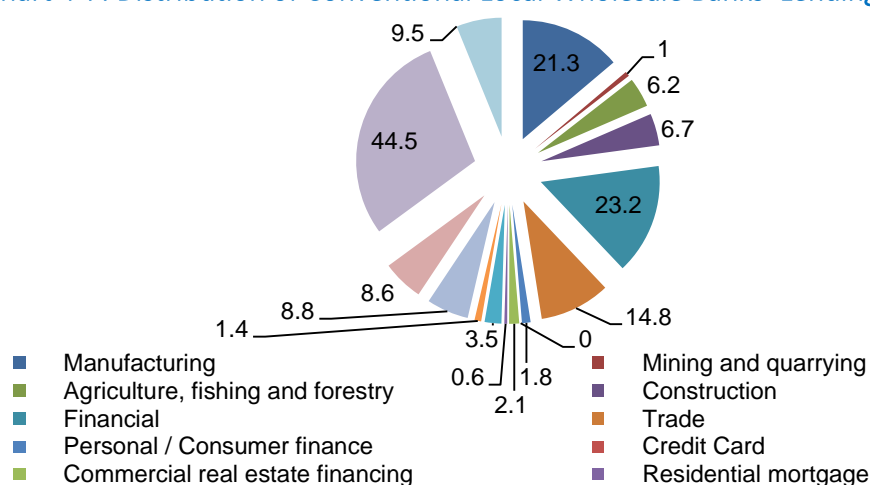
Source: Central Bank of Bahrain

\*Figures may not add to a hundred due to rounding

\*\* Real Estate/ Construction exposure is the share of the Construction, Commercial real estate financing and Residential Mortgages sectors of total lending.

The highest two sectors continue to be the ("Financial" and "Manufacturing") accounting for 44.5% of total lending in March 2017 while real estate/ construction exposure increased to 9.5% from 9.2%.

Chart 4-7: Distribution of Conventional Local Wholesale Banks' Lending (% of total loans)



Source: Central Bank of Bahrain

While observing *overseas wholesale banks*, the top recipient of loans in March 2017 was the "Construction" sector, with 23.5% of total loans, followed by the "Financial" sector, with 18.7%. The "Other" sector dropped from 24.3% to 12.6% (Table 3-14 and Chart 3-8). The top 2 sectors (financial and other) jointly represented 42.2% in March 2017, an increase of 0.8 from September 2016. Real estate/construction exposure increased from 16.3% in September 2016 to 25.1% in March 2017.

**Table 4-14: Distribution of Conventional Overseas Wholesale Banks' Lending  
(% total Loans)\***

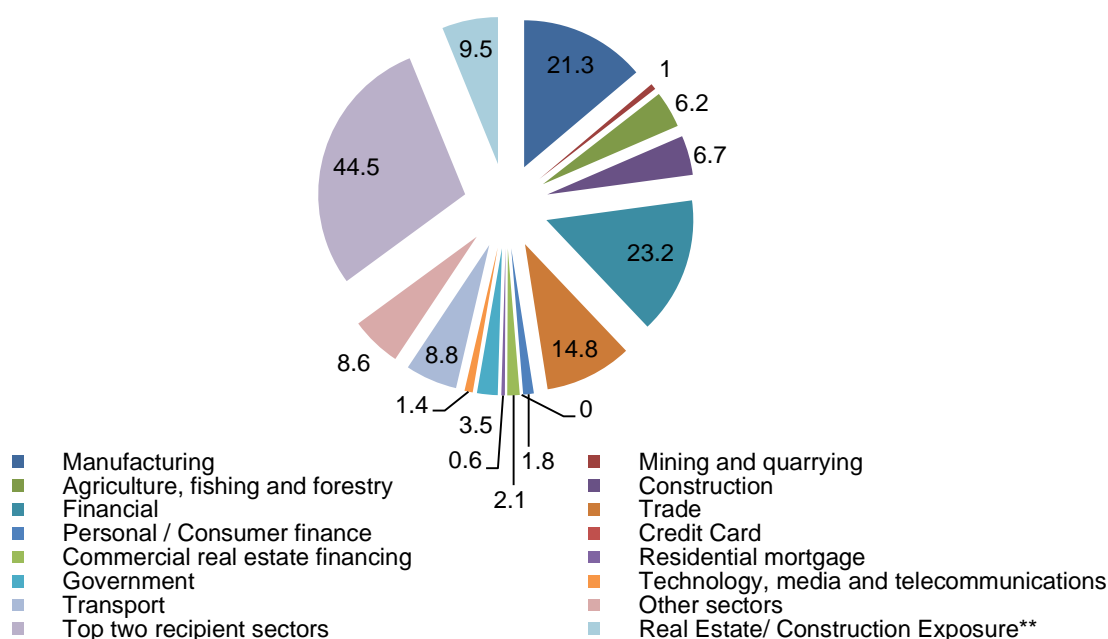
	Sep. 2016	Mar. 2017	Change
Manufacturing	7.9	7.3	(0.6)
Mining and quarrying	3.9	4.3	0.4
Agriculture, fishing and forestry	0.5	0.1	(0.4)
Construction	15.0	23.5	8.5
Financial	17.1	18.7	1.6
Trade	7.1	7.8	0.7
Personal / Consumer finance	4.7	0.3	(4.4)
Credit Card	0.0	0.0	0.0
Commercial real estate financing	1.4	1.6	0.2
Residential mortgage	0.0	0.0	0.0
Government	9.4	11.8	2.4
Technology, media and telecommunications	1.1	1.8	0.7
Transport	7.7	10.3	2.6
Other sectors	24.3	12.6	(11.7)
<b>Top two recipient sectors</b>	<b>41.4</b>	<b>42.2</b>	<b>0.8</b>
<b>Real Estate/ Construction Exposure**</b>	<b>16.3</b>	<b>25.1</b>	<b>8.8</b>

Source: Central Bank of Bahrain

\*Figures may not add to a hundred due to rounding

\*\* Real Estate/ Construction exposure is the share of the Construction, Commercial real estate financing and Residential Mortgages sectors of total lending.

**Chart 4-8: Distribution of Overseas Wholesale Banks' Lending (%)**



Source: Central Bank of Bahrain

### Stability in earnings for wholesale banks

ROA for the conventional wholesale banking sector remained at 0.3% between March 2016 and March 2017. The ROA for *local wholesale banks* increased from 0.2% to 0.3% over the same period. ROA for overseas wholesale banks also decreased from 0.5% to 0.4% over the same period.

ROE for *local wholesale banks* increased from 1.1% to 1.9%. Net interest income as a proportion of total income increased from 42.2% to 46.1% in March 2017. Operating expenses as a proportion of total income slightly increased from 52.0% to 52.2%.

**Table 4-15: Profitability of Wholesale Banks (%)**

	Mar. 2016	Mar. 2017
ROA *	0.3	0.3
ROA Locally Incorporated Banks	0.2	0.3
ROA Overseas Banks	0.5	0.4
ROE**	1.1	1.9
Net interest income (% total income)	42.2	46.1
Operating expenses (% total income)	52.0	52.2

Source: Central Bank of Bahrain

\*ROA = ratio of net income to assets

\*\*ROE = ratio of net income to tier 1 capital (for locally incorporated banks only)

### Liquidity position increases

As at end-March 2017, the overall loan-deposit ratio for conventional wholesale banks stood at 60.2%, a decrease from the 66.7% in September 2016. The loan deposit ratio for *local wholesale banks* increased to 68.1% in March 2017 from 66.8% in September 2016. Over the same period, the loan deposit ratio for *overseas wholesale* bank stood at 52.6% decreasing from 66.6%. Liquid assets for wholesale banks as a proportion of total assets increased to 27.4% in March 2017 from 24.6% in September 2016. *Locally incorporated wholesale banks* had a liquid asset ratio of 36.7% in March 2017 a decrease from the 37.0% in September 2016. *Overseas wholesale banks* had a ratio of 16.7%, an increase from 10.5% registered in September 2016. Liquid assets as a proportion of short-term liabilities increased to 37.6% in March 2017 from 35.4% in September 2016. Lastly, the deposits from non-bank sources as a proportion of total deposits stood at 46.2%, an increase from the 43.1% level achieved in September 2016, bank deposits decreased from 56.9% in September 2016 to 53.8% in March 2017.

**Table 4-16: Wholesale Banks' Liquidity Profile (%)**

	Sep. 2016	Mar. 2017
Liquid Asset Ratio	24.6	27.4
Loan-Deposit Ratio	66.7	60.2
Non-Bank Deposits as a % of total deposits	43.1	46.2

Source: Central Bank of Bahrain.

## 4.4 Overall Assessment of the Conventional Banking Sector

Capital adequacy ratios for conventional retail banks increased to 20.3% in March 2017. Capital adequacy ratio for conventional wholesale banks decreased to 18.1% at the same period. Non-performing loans have shown an increase between periods of September 2016 to March 2017 from 4.7% to 5.7%, for conventional retail banks. As for conventional

wholesale banks, loans classified as non-performing were at 5.6% in March 2017 compared to 5.5% in September 2016. Loan concentration remains high for conventional retail and decreased for wholesale banks from 40.1% to 36.1%.

As at end-March 2017, return-on-assets (ROA) decreased to 0.2% for conventional retail banks and remained at 0.3% for conventional wholesale banks. Return-on-equity (ROE) for *local retail banks* remained unchanged at 3.8% in March 2017. ROE for *local wholesale banks* increased from 1.1% to 1.9% over the same period. For conventional retail banks, liquid assets as a proportion of total assets slightly increased over the period of September 2016 to March 2017 to reach 24.6%. Liquid assets for wholesale banks as a proportion of total assets increased from 24.6% in September 2016 to 27.4% in March 2017.

## 5. Islamic Banks

### Chapter

# 5

#### Key Points

- Stable capital positions for Islamic retail and a decline for wholesale banks.
- Decrease in non-performing facilities (NPFs) for Islamic retail and wholesale banks.
- Concentration of facilities for Islamic retail Banks continues.
- Earnings dropped for Islamic retail and increased for Islamic wholesale banks.
- Liquidity positions deteriorated for Islamic retail banks while it improves for Islamic wholesale banks.

### 5.1 Overview

This chapter analyzes the banking sector under the following categories: Islamic retail banks (section 5.2) and Islamic wholesale banks (section 5.3). Section 5.4 provides an overall assessment of the Islamic banking industry. Unless specified otherwise, the analysis in this chapter is based on consolidated financial data (Bahraini and non-Bahraini operations), as at end-March 2016 and compared with end-September 2016.

This chapter offers macroprudential analysis of the Islamic banking sector based on a set of selected Financial Soundness Indicators (FSIs).<sup>12</sup> Annex1 presents selected *Financial Soundness Indicators* (FSIs) for the different banking segments. Annex 2 presents selected graphs showing the development of selected indicators over time.

<sup>12</sup>This chapter does not contain a section on stress testing. Stress Testing exercises are performed separately in an internal report to obtain information on the potential quantitative impact of hypothetical scenarios on selected Bahraini Systemically-Important Banks (SIB's).



## 5.2 Islamic Retail Banks

### *Stable capital positions*

The CAR of Islamic retail remained stable at 17.1% in March 2017. Tier 1 capital also increased from 14.9% in September 2016 to 15.3% in March 2017.

**Table 5-1: Capital Provisions Ratios for Islamic Retail Banks**

Indicator	Sep. 2016	Mar. 2017
Capital Adequacy Ratio	17.1	17.1
Tier 1 Capital Adequacy Ratio	14.9	15.3
NPFs net of provisions to capital	28.3	25.3

Source: Central Bank of Bahrain

The ratio of non-performing facilities (NPFs) net of provisions to capital decreased from 28.3% to 25.3% for the same period.

### *Significant decrease in non-performing facilities*

Non-performing facilities (NPF) ratio had a noticeable decrease from 12.1% in September 2016 to 10.1% in March 2017. Specific Provisoining also showed a jump from 34.1% to 39.9% over the same period.

**Table5-2: NPF Figures for Islamic Retail Banks**

Indicator	Sep. 2016	Mar. 2017
NPFs (% Gross)	12.1	10.1
Specific Provisions (% of NPFs)	34.1	39.9

Source: Central Bank of Bahrain

A look at the non-performing facilities by sector indicates that the “Agriculture, fishing and forestry” sector had the highest impairment of 26.2% in March 2017 followed by “Construction” and “Manufacturing” with 24.5% and 23.2% respectively.

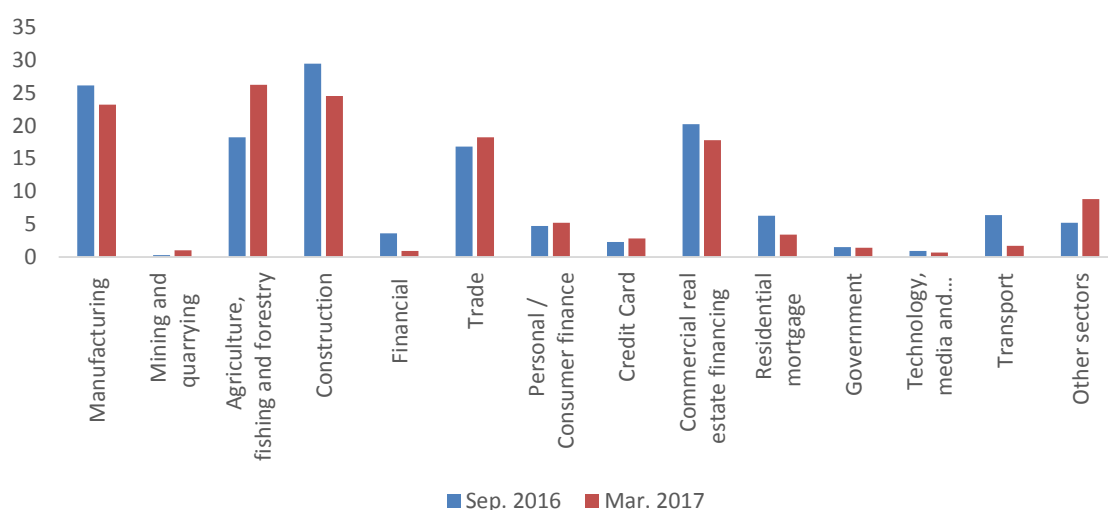
Most of the sectors showed a decrease in thir NPF’s between September 2016 and March 2017. The biggest declines in NPF’s by sector was in the “Constuction” Sector with a 4.9% decrease followed by “Trasport” with a 4.7% decrease. The biggest noteable increase in NPF’s was the “Agriculture, fishing and forestry” sector with an increase of 8.0%.

Table 5-3: Islamic Retail Banks' NPF Ratios by Sector (% of gross facilities per sector)

	Sep. 2016	Mar. 2017	Change
Manufacturing	26.1	23.2	(2.9)
Mining and quarrying	0.3	1.0	0.7
Agriculture, fishing and forestry	18.2	26.2	8.0
Construction	29.4	24.5	(4.9)
Financial	3.6	0.9	(2.7)
Trade	16.8	18.2	1.4
Personal / Consumer finance	4.7	5.2	0.5
Credit Card	2.3	2.8	0.5
Commercial real estate financing	20.2	17.8	(2.4)
Residential mortgage	6.3	3.4	(2.9)
Government	1.5	1.4	(0.1)
Technology, media and telecommunications	0.9	0.7	(0.2)
Transport	6.4	1.7	(4.7)
Other sectors	5.2	8.8	3.6

Source: Central Bank of Bahrain

Chart 5-1: Islamic Retail Bank's NPF's by Sector (% of gross facilities per sector)



Source: Central Bank of Bahrain

### Increases in asset concentration (loan portfolio)

There has been an increase in the asset concentration among most of the sectors. At the end of March 2017, the top recipient of financing was "Personal / Consumer finance" at 20.8% down from 23.6% in September 2016. The top two recipients of financing ("Personal / Consumer finance" and "Financial") accounted for 37.1% of total facilities extended compared to 38.9% for the top two sectors in September 2016. Moreover, the share of "Financial" sector increased from 6.5% in September 2016 to 16.3% in March 2017.

"Real Estate/ Construction" exposure declined from 29.4% in September 2016 to 25.6% in March 2017.

Table 5-4: Distribution of Islamic Retail Banks' Lending by Economic Activity (% of total facilities)\*

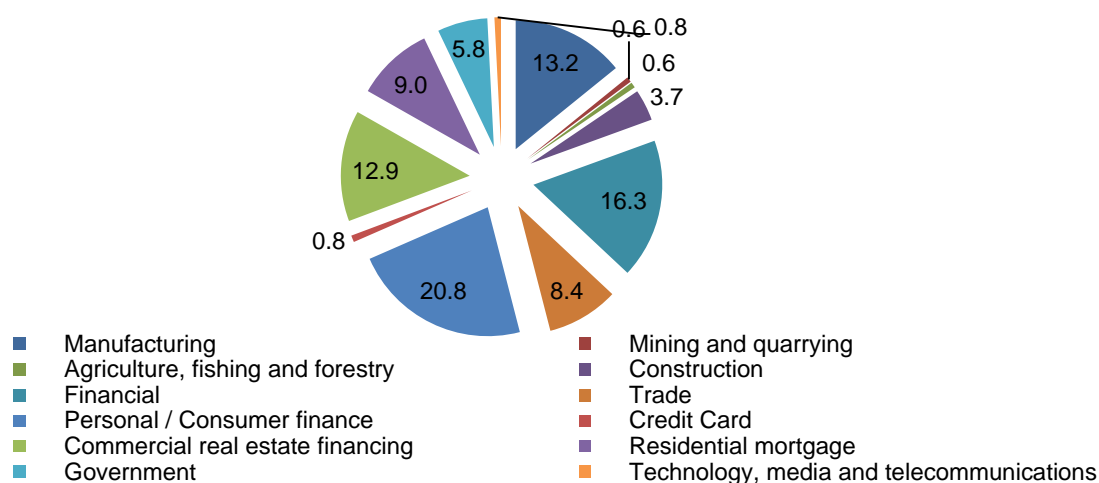
	Sep. 2016	Mar. 2017	Change
Manufacturing	12.9	13.2	0.3
Mining and quarrying	0.4	0.6	0.2
Agriculture, fishing and forestry	0.9	0.6	(0.3)
Construction	3.9	3.7	(0.2)
Financial	6.5	16.3	9.8
Trade	10.1	8.4	(1.7)
Personal / Consumer finance	23.6	20.8	(2.8)
Credit Card	1.0	0.8	(0.2)
Commercial real estate financing	15.3	12.9	(2.4)
Residential mortgage	10.3	9.0	(1.3)
Government	6.5	5.8	(0.7)
Technology, media and telecommunications	0.7	0.8	0.1
Transport	1.1	0.9	(0.2)
Other sectors	7.0	6.3	(0.7)
<b>Top two recipient sectors</b>	<b>38.9</b>	<b>37.1</b>	<b>(1.8)</b>
<b>Real Estate/ Construction Exposure**</b>	<b>29.4</b>	<b>25.6</b>	<b>(3.8)</b>

Source: Central Bank of Bahrain

\*Figures may not add to a hundred due to rounding

\*\* Real Estate/ Construction exposure is calculated as the share of the Construction, Commercial real estate financing and Residential Mortgages sectors of total lending.

Chart 5-2: Distribution of Islamic Retail Bank's Lending by Economic Activity (% of total facilities)



Source: Central Bank of Bahrain

Lending distribution by Islamic instrument remained nearly unchanged over the past quarter. At the end of March 2017, the top recipient of finance was "Murabaha" at 65.3% up from 64.2% in September 2016. This was followed by "Ijarah" which decreased from 22.8% to 21.0% for the same period.

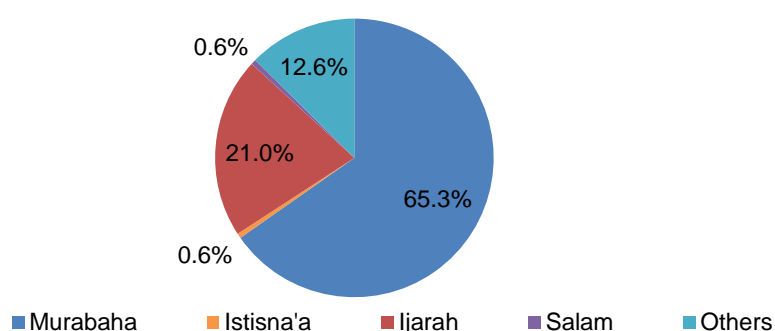
Table 5-5: Distribution of Islamic Retail Banks' Lending by Islamic Instrument (% of total facilities)\*

	Sep. 2016	Mar. 2017	Change
Murabaha	64.2	65.3	1.1
Istisna'a	0.4	0.6	0.2
Ijarah	22.8	21.0	(1.8)
Salam	0.4	0.6	0.2
Others	12.3	12.6	0.3

Source: Central Bank of Bahrain

\*Figures may not add to a hundred due to rounding

Chart 5-3: Distribution of Islamic Retail Bank's Lending by Islamic Instrument (% of total facilities)



Source: Central Bank of Bahrain

### Decline in earnings

The return on assets (ROA) for Islamic retail banks decreased to 0.1% in March 2017 compared to 0.4% in March 2016. Return on equity (ROE) decreased from 6.1% to 1.1% for the same period. Similarly, operating expenses decreased from 84.4% in March 2016 to 77.8% in March 2017.

Table 5-6: Profitability of Islamic Retail Banks (%)

	Mar. 2016	Mar. 2017
ROA*	0.4	0.1
ROE**	6.1	1.1
Operating expenses (% total operating income)	84.4	77.8

Source: Central Bank of Bahrain

\* ROA = ratio of net income to assets

\*\*ROE = ratio of net income to tier 1 capital

### Stable liquid assets

The volume of liquid assets available to Islamic retail banks slightly increased from 12.3% of total assets in September 2016 to 12.4% in March 2017. The ratio of total facilities to deposits increased from 82.0% in September 2016 to 86.3% in March 2017.

Table 5-7: Liquidity Measures for Islamic Retail Banks

Indicator	Sep. 2016	Mar. 2017
Liquid Assets (% of total assets)	12.3	12.4
Facilities – deposits ratio (%)	82.0	86.3

Source: Central Bank of Bahrain

### 5.3 Islamic Wholesale Banks

#### Decline in capital positions

As at end-March 2017, the CAR for Islamic wholesale banks decreased from 19.3% in September 2016 to 18.5% in March 2017. Tier1 capital decreased from 18.5% to 17.8% over the same period. Similarly, the ratio of NPFs net of provisions to capital decreased from 1.5% to 0.5%.

Table 5-8: Capital Provisions Ratios for Islamic Wholesale Banks

Indicator	Sep. 2016	Mar. 2017
Capital Adequacy Ratio	19.3	18.5
Tier 1 Capital Adequacy Ratio	18.5	17.8
NPFs net of provisions to capital	1.5	0.5

Source: Central Bank of Bahrain

#### Decreasing non-performing facilities (NPFs)

As of end-March 2017, NPF ratio for Islamic wholesale banks decreased to 2.6%. Provisioning for NPF's increased from 82.4% to 93.8% over the same period.

Table 5-9: NPF Figures for Islamic Wholesale Banks

Indicator	Sep. 2016	Mar. 2017
NPFs (% Gross)	2.9	2.6
Specific Provisioning (% of NPFs)	82.4	93.8

Source: Central Bank of Bahrain

The sector with the highest impairment was the "Technology, media and telecommunications" sector with 44.4% in March 2017, down from the 53.2% in September 2016. This was followed by the "Mining and quarrying" and "Construction" sectors.

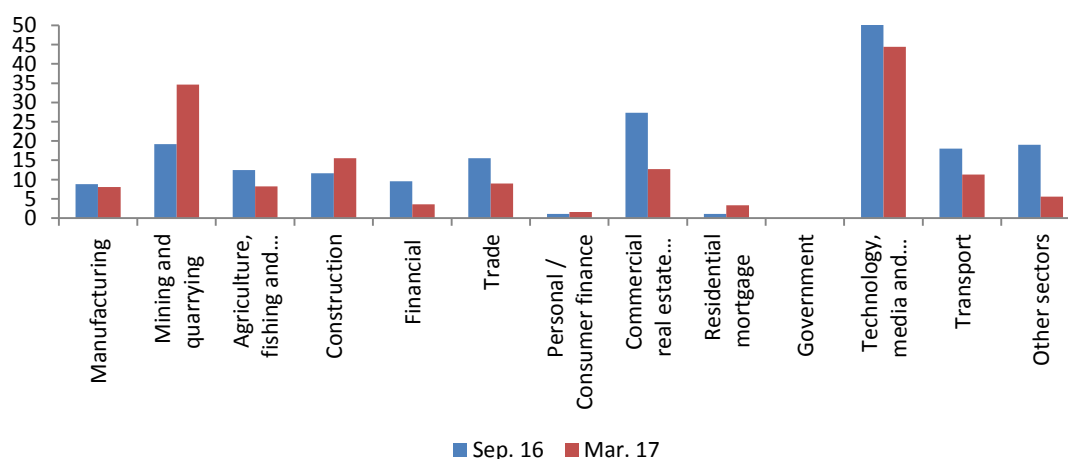
Available data on the sectoral breakdown of non-performing facilities shows that the biggest drop was in the "Commercial real estate financing" with a decrease of 14.6% from 27.3% in September 2016 to 12.7% in March 2017. The biggest increase was in the "Mining and quarrying" sector with an increase of 15.4%.

Table 5-10: Islamic Wholesale Banks' NPF Ratios by Sector  
(% of gross facilities per sector)

	Sep. 2016	Mar. 2017	Change
Manufacturing	8.8	8.1	(0.7)
Mining and quarrying	19.2	34.6	15.4
Agriculture, fishing and forestry	12.5	8.2	(4.3)
Construction	11.6	15.5	3.9
Financial	9.6	3.6	(6.0)
Trade	15.5	9.0	(6.5)
Personal / Consumer finance	1.1	1.6	0.5
Commercial real estate financing	27.3	12.7	(14.6)
Residential mortgage	1.1	3.3	2.2
Government	0.0	0.0	0.0
Technology, media and telecommunications	53.2	44.4	(8.8)
Transport	18.0	11.3	(6.7)
Other sectors	19.0	5.6	(13.4)

Source: Central Bank of Bahrain

Chart 5-4: Islamic Wholesale Bank's NPF's by Sector  
(% of gross facilities per sector)



Source: Central Bank of Bahrain

#### Decreases in asset concentration (loan portfolio)

At end-March 2017, the "Manufacturing" sector was the top recipient of financing from Islamic wholesale banks, at 25.9%, surpassing "Personal / Consumer finance" which had a 13.0% drop. The Financial Sector increased from 9.3% in September 2016 to 9.9% in March 2017.

The top two recipient sectors in March 2017 ("Manufacturing" and "Construction") jointly represented 40.5% of total financing, down from 40.6% in September 2016. Real estate/construction exposure decreased to 19.9% in March 2017 from 27.4% in September 2016.

Table 5-11: Distribution of Islamic Wholesale Banks' Lending by Economic Activity (% total facilities)\*

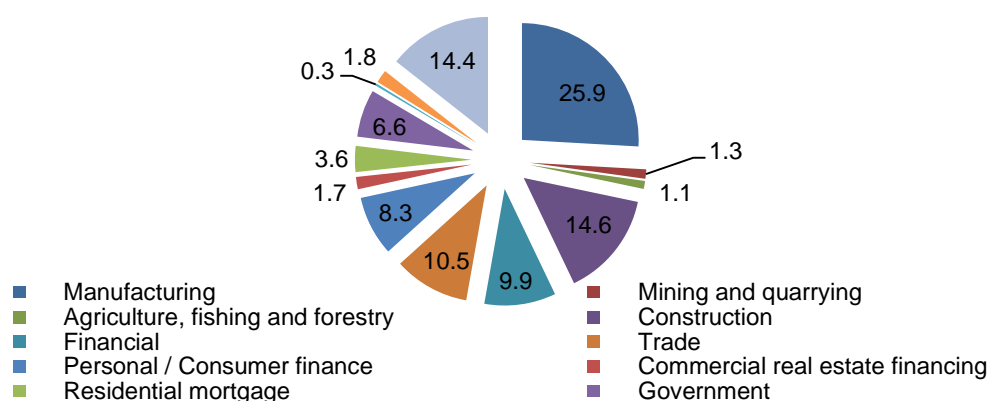
	Sep. 2016	Mar. 2017	Change
Manufacturing	19.2	25.9	6.7
Mining and quarrying	1.1	1.3	0.2
Agriculture, fishing and forestry	0.7	1.1	0.4
Construction	16.0	14.6	(1.4)
Financial	9.3	9.9	0.6
Trade	7.3	10.5	3.2
Personal / Consumer finance	21.3	8.3	(13.0)
Commercial real estate financing	0.5	1.7	1.2
Residential mortgage	10.9	3.6	(7.3)
Government	6.6	6.6	0.0
Technology, media and telecommunications	0.2	0.3	0.1
Transport	1.1	1.8	0.7
Other sectors	5.7	14.4	8.7
<b>Top two recipient sectors</b>	<b>40.6</b>	<b>40.5</b>	<b>(0.1)</b>
<b>Real Estate/ Construction Exposure**</b>	<b>27.4</b>	<b>19.9</b>	<b>(7.5)</b>

Source: Central Bank of Bahrain

\*Figures may not add to a hundred due to rounding

\*\* Real Estate/ Construction exposure is calculated as the share of the Construction, Commercial real estate financing and Residential Mortgages sectors of total lending.

Chart 5-5: Distribution of Islamic Wholesale Banks's Lending (% of total facilities)



Source: Central Bank of Bahrain

Lending distribution by Islamic instrument shows that at the end of March 2017, the top recipient of finance was "Murabaha" at 90.3%.

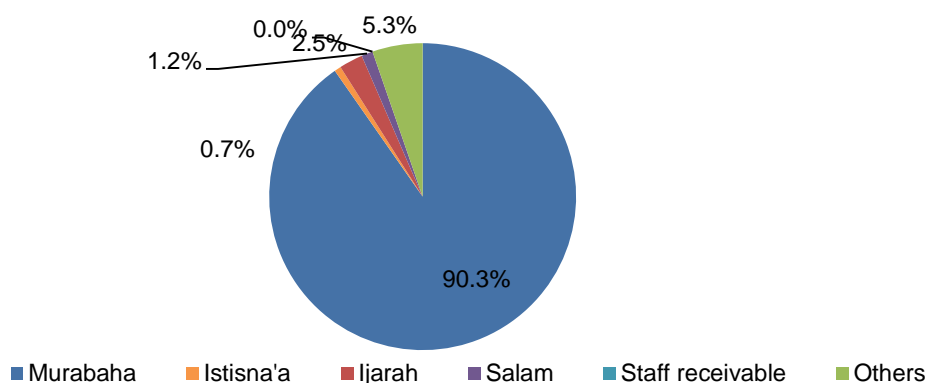
Table 5-12: Distribution of Islamic Wholesale Banks' Lending by Islamic Instrument (% of total facilities)\*

	Sep. 2016	Mar. 2017	Change
Murabaha	91.9	90.3	(1.6)
Istisna'a	0.4	0.7	0.3
Ijarah	0.8	2.5	1.7
Salam	0.9	1.2	0.3
Staff receivable	0.0	0.0	0.0
Others	5.9	5.3	(0.6)

Source: Central Bank of Bahrain

\*Figures may not add to a hundred due to rounding

Chart 5-6: Distribution of Islamic Wholesale Bank's Lending by Islamic Instrument (% of total facilities)



Source: Central Bank of Bahrain

### Increase in earnings

The earnings performance of Islamic wholesale banks increased over the period from March 2016 to March 2017. Return on assets (ROA) increased from 0.1% in March 2016 to 0.2% in March 2017. Return on equity (ROE) increased as well from 1.0% to 2.4% in March 2017. Also, operating expenses (as % of total income) increased from 62.8% in March 2016 to 73.0% in March 2017.

Table 5-13: Profitability of Islamic Wholesale Banks (%)

	March 2016	March 2017
ROA*	0.1	0.2
ROE**	1.0	2.4
Operating expenses (% total operating income)	62.8	73.0

Source: Central Bank of Bahrain

\* ROA = ratio of net income to assets

\*\*ROE = ratio of net income to tier 1 capital

### Liquidity position improves

As of end-March 2017, liquid assets of Islamic wholesale banks represented 21.6% of total assets, 2.7% higher than the 18.9% registered in September 2016. Additionally, the facilities deposit ratio decreased from 61.6% to 61.3% in March 2017.

Table 5-14: Liquidity Measures for Islamic Wholesale Banks

Indicator	Sep. 2016	Mar. 2017
Liquid assets (% of total)	18.9	21.6
Facilities-deposit ratio	61.6	61.3

Source: Central Bank of Bahrain



## 5.4 Overall Assessment of the Islamic Banking Sector

The financial soundness indicators show that Islamic retail banks capital positions remained the same at 17.1%, while wholesale banks decreased during the period between September 2016 and March 2017 to 18.5%.

Non-performing facilities decreased for Islamic retail and Islamic wholesale to reach 10.1% and 2.6% respectively. Facilities concentration has decreased in some sectors while increasing in others in retail Islamic banks and wholesale Islamic banks. Earnings declined for Islamic retail banks while ROE and ROA increased for Islamic wholesale banks.

Islamic retail banks experienced slight changes in its liquidity position as the facilities to deposits ratio increased while the liquid asset ratio remained at the same level. Islamic wholesale's liquidity positions showed an increase in liquid assets and a decline in facilities to deposit ratio.

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# Part III:

## Developments in the Capital Market and Payment Systems

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## 6. Performance of Capital Market

### Chapter

# 6

#### Key Points

- Increase in the Bahrain All Share index.
- Year-on-year increase in market capitalization.
- Year-on-year increase in price-earnings ratio.

### 6.1 Overview

Bahrain Stock Exchange (BSE) was established in June 1989, it started by having 29 Bahraini shareholding companies listed. In 2010, in order to comply with Law No. (57) The Bahrain Stock Exchange got restructured into a closed shareholding company hence Bahrain Bourse. The latest highlights include the Launch of first tradable Sukuks in the Middle East in addition to the Launch of REIT listing rules in 2015. Additionally, in November 2016, Bahrain Bourse accounted that all listed companies have transferred their shares to the electronic registry and deposited them in the Bourse's Central Depository System.

Bahrain Bourse launched the Treasury Bills Market on 31st January 2016 with the intention of enhancing cash liquidity in the institutions dealing with this market. Accordingly, it was announced on Thursday 8th of June 2017 the listing of 11 issues in the Treasury Bills Market worth a total of BD767 million, issued by the Central Bank of Bahrain with discount rates ranging between 2.17% and 2.98% for 3-12 months.

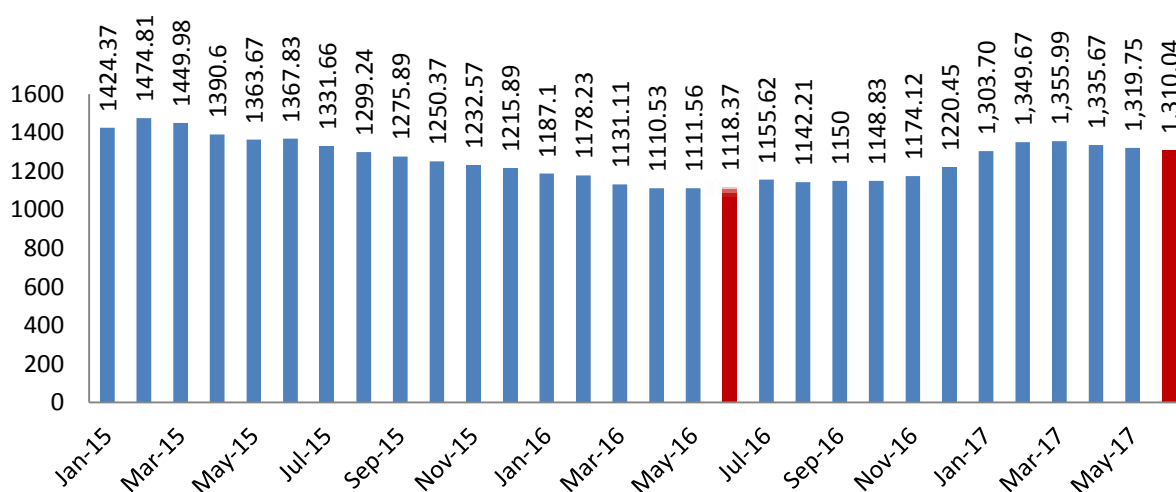
An overview of the entire market shows that the "Commercial Banks" sector witnessed BD 3.068 million of trading value as at 30 June 2017, which represents the highest value in traded shares (31.59% of total shares). Nevertheless, the most active companies in terms of value are ALBA, AUB, ABC, BATELCO and NBB. Whereas the largest 5 companies in terms of Market Capitalization are UAB, NBB, ALBA, GFH and BBK which account for 56.98% of the total market.

## 6.2 Market Trends

### Increase in market index

Year-on-year data demonstrates that the Bahrain All Share Index increased by 191.67 points (17.14%) between June 2016 and June 2017 (Chart 6-1). Observing this period, the index started with 1303.70 points in Jan 2017, and then the index reached its peak in March 2017 with 1355.99 before it decreased gradually to reach its second lowest value in this semi-annual analysis with 1310.04 points in June 2017. Month on month basis, the index decreased from 1319.75 in May 2017 to 1310.04 in June 2017 (0.07%).

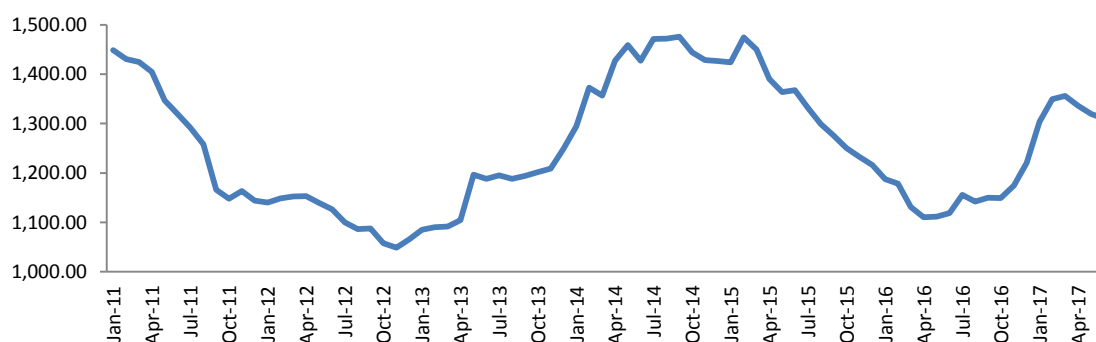
Chart 6-1: Recent Trends in the Bahrain All-Share Index, Jan 2015-Jun 2017.



Source of Data: Bahrain Bourse

Chart 6-2 below portrays a comprehensive illustration of the Bahrain All Share Index performance over the past 6 years. The index experienced a fluctuated trend, where it decreased steadily from January 2011 and reached the lowest point in October 2012. Subsequently, the index began to rise sharply in 2014 and 2015 before it falls back in April 2016 where the Index remained at around 1200 points. After that -by the end of 2016- the index started to increase more rapidly.

Chart 6-2: Bahrain All-Share Index, Jan 2011-Jun 2017



Source of Data: Bahrain Bourse

### Increase in market capitalization

As at June 2017, the market capitalization of the Bahrain Bourse stood at BD 7.7 billion (Table 6-1). This level of market capitalization is 108.1% higher than the level attained in December 2016 and 16.9% higher *year-on-year*.

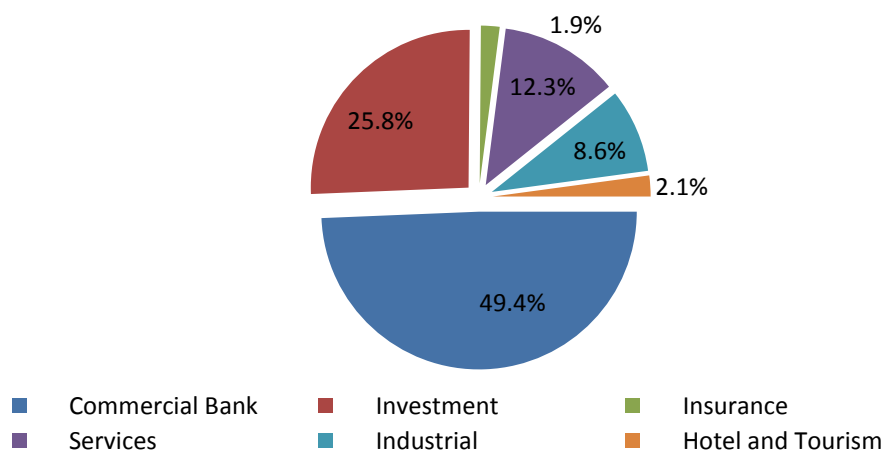
Table 6-1: Market Capitalization on the Bahrain Bourse

Sector	Jun. 2016	Dec. 2016	Jun. 2017	(BD)	
				Dec. 2016- Jun 2017 (% Change)	Jun. 2016- Jun. 2017 (% Change)
Commercial banks	3,230,784,925	3,514,830,525	3,838,055,221	9.2	18.8
Investment	1,626,074,000	1,914,779,013	2,004,042,161	4.7	23.2
Insurance	142,019,918	140,862,578	148,489,778	5.4	4.6
Services	1,039,701,020	1,005,531,994	952,755,246	-5.2	-8.4
Industrial	414,431,644	473,972,314	667,092,314	40.7	61.0
Hotel and Tourism	198,561,019	198,468,527	166,504,926	-16.1	-16.1
<b>Total</b>	<b>6,651,572,525</b>	<b>3,737,129,256.53</b>	<b>7,776,939,646</b>	<b>108.1</b>	<b>16.9</b>

Source: Bahrain Bourse

A breakdown of market capitalization by sector indicates that Hotel and Tourism recorded the highest *year-on-year* decline in market capitalization (16.1%) followed by Services (8.4%). Whereas Industrial recorded the highest increase (61.0%) followed by Investment (23.2%) then Commercial Banks (18.8%).

Chart 6-3: Market Capitalisation by Sector, June 2017



Source: Bahrain Bourse

### Increase in price-earnings ratios

As at June 2017, the price-earnings ratio (P-E ratio) for the stock market stood at 9.5, an increase from the 8.9 attained in December 2016 and the 8.4 in June 2016. All sectors experienced progress in their P/E ratio compared to Jun 2016 except Hotel and Tourism, which declined from 11.8 to 7.6.

Table 6-2: Price-Earnings Multiples

Sector	Jun. 2016	Dec. 2016	Jun. 2017
Commercial banks	9.0	9.8	10.5
Investment	6.4	6.9	6.8
Insurance	13.0	13.0	13.4
Services	10.7	10.3	11.4
Industrial	6.7	7.7	13.3
Hotel and Tourism	11.8	11.8	7.6
Total Market	8.4	8.9	9.5

Source: Bahrain Bourse

The bulk of the value of shares traded in June 2017 was the “Commercial Banks” sector whose traded shares (by value) represented 31.6% of total shares, which is higher than what was attained in June 2016. The “Industrial” sector represents the second greatest level being at 30.6% of the total value of shares traded in June 2017, which experienced a dramatic increase after being merely 0.4% in December 2016 and 3.1% in June 2016. The “Hotel and Tourism” sector were the lowest traded shares in June 2017 whose traded shares by value represented only 0.4% of total traded shares. (Table 6-3)

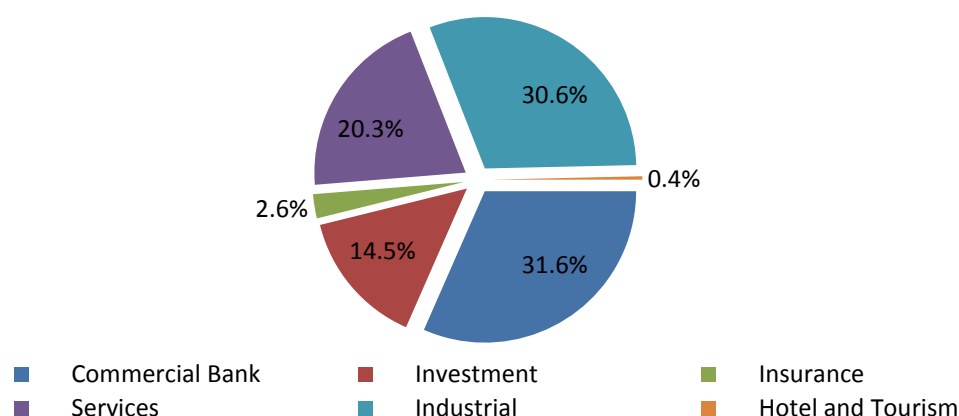
Table 6-3: Sectoral Distribution of Shares Traded by Value (% of all shares traded)

Sector	Jun. 2016	Dec. 2016	Jun. 2017
Commercial banks	24.3	54.9	31.6
Investment	15.8	4.1	14.5
Insurance	1.6	35.9	2.6
Services	44.7	4.6	20.3
Industrial	3.1	0.4	30.6
Hotel and Tourism	10.6	0.2	0.4

\*Figures may not add to a hundred due to rounding

Source: Bahrain Bourse

Chart 6-4: Sectoral Distribution of Shares Traded by Value (% of all shares traded) in Jun 2017



Source: Bahrain Bourse

The bulk of the volume of shares traded in June 2017 was the “Commercial banks” sector representing 41.0% of the total volume of shares traded, followed by the “Investment” sector

at 24.2%. The lowest level attained was by the “Hotel and Tourism” sector at 0.2%, after it was 0.04% in December 2016. The volume of shares traded of the commercial banks was at 79.1% in December 2016 while the Investment sector was at 1.1%, as represented at Table 6-4 and Chart 6-5.

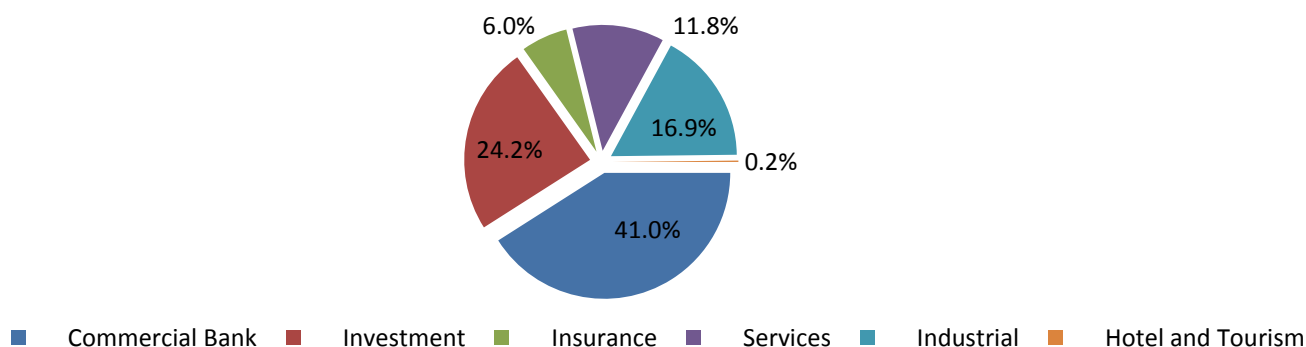
**Table 6-4: Sectoral Distribution of Shares Traded by Volume (% of all shares traded)**

Sector	Jun. 2016	Dec. 2016	Jun. 2017
Commercial banks	40.7	79.1	41.0
Investment	12.4	1.1	24.2
Insurance	0.9	17.5	6.0
Services	40.0	2.1	11.8
Industrial	2.4	0.1	16.9
Hotel and Tourism	3.6	0.04	0.2

*\*Figures may not add to a hundred due to rounding*

*Source: Bahrain Bourse*

**Chart 6-5: Sectoral Distribution of Shares Traded by Volume (% of all shares traded) in Jun 2017**



*Source: Bahrain Bourse*

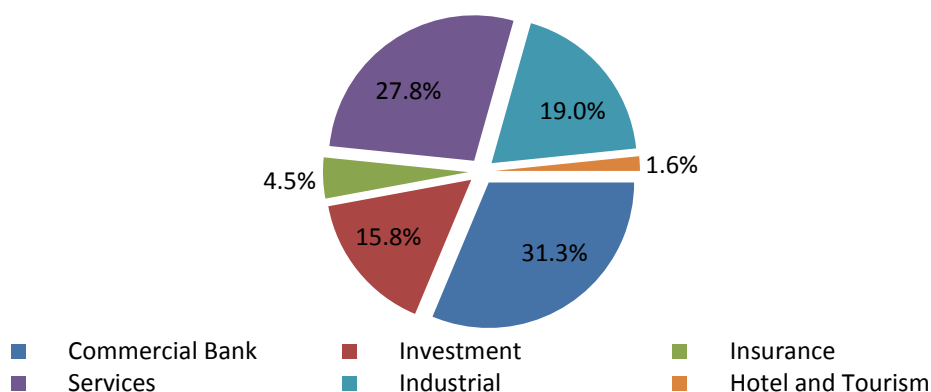
The majority of the number of transactions in June 2017 (926 transactions and a 20.4% decrease compared to December 2016) was attained by the “Commercial Banks” sector at 290 transactions (31.3% of all transactions), followed by the “Services” sector at 257 transactions (27.7%), and the “Industrial” sector at 176 transactions (19%). Moreover, in December 2016, the highest number of transactions recorded was by the Commercial Banks sector at 690 transactions, followed by the Services sector at 272 transactions and the Investment sector at 127 transactions (Table 6-5).

**Table 6-5: Number of Transactions by Sector**

	Jun. 2016	Dec. 2016	Jun. 2017
Commercial Banks	286	690	290
Investment	137	127	146
Insurance	13	17	42
Services	361	272	257
Industrial	58	42	176
Hotels and Tourism	18	15	15
Total	873	1,163	926

*Source: Bahrain Bourse*

Chart 6-6: Sectoral Distribution of Number of Transactions Traded (% of all transactions traded) in Jun 2017



Source: Bahrain Bourse

### 6.3 Overall assessment of the equity market

The overall performance by the Bahrain equity market shows a slight-negative trend compared to the previous period. Bahrain All Share Index declined by 8.4% compared to December 2016. The market capitalization increased by 108.1%, and the P/E ratio improved from 8.9 to 9.5 during the same period.



## 7. Payments and Settlements Systems

### Chapter

# 7

#### Key Points

- The Payment and Settlement Systems in the Kingdom of Bahrain continue to function safely and efficiently.
- Oversight on Payment and Settlement Systems is of the primal tools that ensures stability of the financial system and efficiency of payment transactions.
- Payment and Settlement Systems have undergone crucial changes from the standpoint of products complexity and a range of payment products offered in recent years.
- FinTech challenges to Payment and Settlement Systems.

### 7.1 Overview

Payment and Settlement Systems are central to the smooth operations of the financial sector and the efficient functioning of the overall economy. Therefore, the safety and soundness of Payment and Settlement Systems is important for the evaluation of risks to financial stability.

Payment and settlement systems are a crucial part of the financial infrastructure of a country. Bahrain's Payment and Settlement Framework continues to function safely, securely and efficiently. The current Payments and Settlement infrastructure in the Kingdom of Bahrain comprises of five main components: i) the Real Time Gross Settlement System (RTGS); ii) the Scripless Securities Settlement System (SSSS); iii) the ATM Clearing System (ATM); iv) the Bahrain Cheque Truncation System (BCTS) and v) the Electronic Fund Transfer System (EFTS).

The launch of the Bahrain Cheque Truncation System (BCTS) was a milestone to the Bahraini financial sector which raised efficiency and Customer satisfaction. Furthermore, the Kingdom of Bahrain took a step forward in line with the global trend of going cashless by introducing the Electronic Fund Transfer System (EFTS) that enabled electronic fund transfers within Bahrain with three options Fawri+ (Near Real-time (NRT)), Fawri (Deferred Net Settlement (DNS)) and Fawateer (Electronic Bill Presentment and Payment (EBPP)).

This chapter describes recent trends in the Payment and Settlement Systems.

## 7.2 Real Time Gross Settlement System (RTGS)

The CBB operates a Real Time Gross Settlement (RTGS) System where all inter-Bank payments are processed and settled in real time on-line mode which went live on the 14<sup>th</sup> of June, 2007. The RTGS System provides for Payment and Settlement of Customer transactions as a value addition.

The RTGS System enables the Banks to have real time information on, for example, account balances, used and available intra-day credit, queue status, transaction status etc. The RTGS System is multi-currency capable and based on Straight Through Processing (STP).

The number of direct participants in the RTGS are twenty eight (28) participants including the Central Bank of Bahrain (CBB).

The daily average volume of Bank transfers from 1<sup>st</sup> January, 2017 to 30<sup>th</sup> June, 2017 (first half of 2017) have decreased by 16.3% to 190 transfers compared to 227 transfers for the period from 1<sup>st</sup> July, 2016 to 31<sup>st</sup> December, 2016 (second half of 2016). Furthermore, the daily average volume of Bank transfers for 1<sup>st</sup> January, 2017 to 30<sup>th</sup> June, 2017 decreased by 34.0% from 288 transfers to 190 transfers when compared to 1<sup>st</sup> January, 2016 to 30<sup>th</sup> June, 2016 (first half of 2016).

Although the daily average volume of Bank transfers through the RTGS are decreasing, the value of those transfers have increased in the first half of 2017 by 3.7% when compared to the second half of 2016 from BD259.3 million to BD268.9 million. Moreover, the daily average value of Bank transfers for the first half of 2017 increased by 18.9% from BD226.2 million to BD268.9 million when compared to the first half of 2016.

**Table 7-1: RTGS Bank Transfers Daily Average Volume and Value**

RTGS	Daily Average Volume	Daily Average Value (BD million)
1 <sup>st</sup> July, 2015 to 31 <sup>st</sup> December, 2015	408	202.2
1 <sup>st</sup> January, 2016 to 30 <sup>th</sup> June, 2016	288	226.2
1 <sup>st</sup> July, 2016 to 31 <sup>st</sup> December, 2016	227	259.3
1 <sup>st</sup> January, 2017 to 30 <sup>th</sup> June, 2017	190	268.9

Source: Central Bank of Bahrain (CBB)

## 7.3 Scripless Securities Settlement System (SSSS)

The CBB operates and oversees Scripless Securities Settlement System (SSSS) that provides the Depository and Settlement Services for holdings and transactions in Government Securities including Treasury Bills (T-Bills), Governments Bonds and Islamic Securities (Sukuk). Moreover, the SSSS went live on the 14<sup>th</sup> of June, 2007 along with the RTGS System.

The number of direct participants are twenty nine (29) participants and indirect participants are thirty two (32) members in the SSSS.

The volume of issues for 1<sup>st</sup> January, 2017 to 30<sup>th</sup> June, 2017 decreased compared to 1<sup>st</sup> July, 2016 to 31<sup>st</sup> December, 2016 by 11.6% from 43 issues to 38 issues. Moreover, the volume of issues has decreased in the first half of 2017 by 7.3% compared to the first half of 2016 from 41 issues to 38 issues.

The aggregate value of issues for the first half of 2017 decreased by 20.3% from BD3.06 billion in second half of 2016 to BD2.44 billion. Additionally, the aggregate value of issues for the first half of 2017 slightly decreased when compared to the first half of 2016 by 7.9% from BD2.65 billion to BD2.44 billion.

**Table 7-2: SSSS Aggregate Volume and Value**

SSSS	Aggregate Volume	Aggregate Value (BD billion)
1 <sup>st</sup> July, 2015 to 31 <sup>st</sup> December, 2015	45	3.04
1 <sup>st</sup> January, 2016 to 30 <sup>th</sup> June, 2016	41	2.65
1 <sup>st</sup> July, 2016 to 31 <sup>st</sup> December, 2016	43	3.06
1 <sup>st</sup> January, 2017 to 30 <sup>th</sup> June, 2017	38	2.44

*Source: Central Bank of Bahrain (CBB)*

The volume of issues did not pose problems to the System's processing capacity and the risk of significant participant's failure is minimised due to executing and settling in Real Time Gross Settlement System (RTGS).

The SSSS continued to operate smoothly and efficiently for the period from 1<sup>st</sup> January, 2017 to 30<sup>th</sup> June, 2017.

## 7.4 ATM Clearing System (ATM)

ATM clearing is based on a Deferred Net Settlement (DNS) system. The Benefit Company (BENEFIT) in Bahrain receives and processes all the ATM transactions. The GCC net, a leased line network across the GCC countries, provides for the communication backbone for the transmission of all the ATM transactions and settlement related electronic messages (source: [BENEFIT website](#)). The daily average volume of ATM transactions for the 1<sup>st</sup> January, 2017 to 30<sup>th</sup> June, 2017, increased by 12.1% to 44,668 transactions per day compared to 39,242 transactions per day for 1<sup>st</sup> July, 2016 to 31<sup>st</sup> December, 2016. In addition, the daily average volume of ATM transaction increased by 23.6 when comparing the two periods 1st January, 2017 to 30th June, 2017 with 1st January, 2016 to 30th June, 2016.

The daily average value of ATM transactions for the first half of 2017 increased by 13.7% from BD3.8 million in the second half of 2016 to 4.4 million. Furthermore, the daily average

value of ATM transactions for the first half of 2017 increased by 22.4% compared to the first half of 2016.

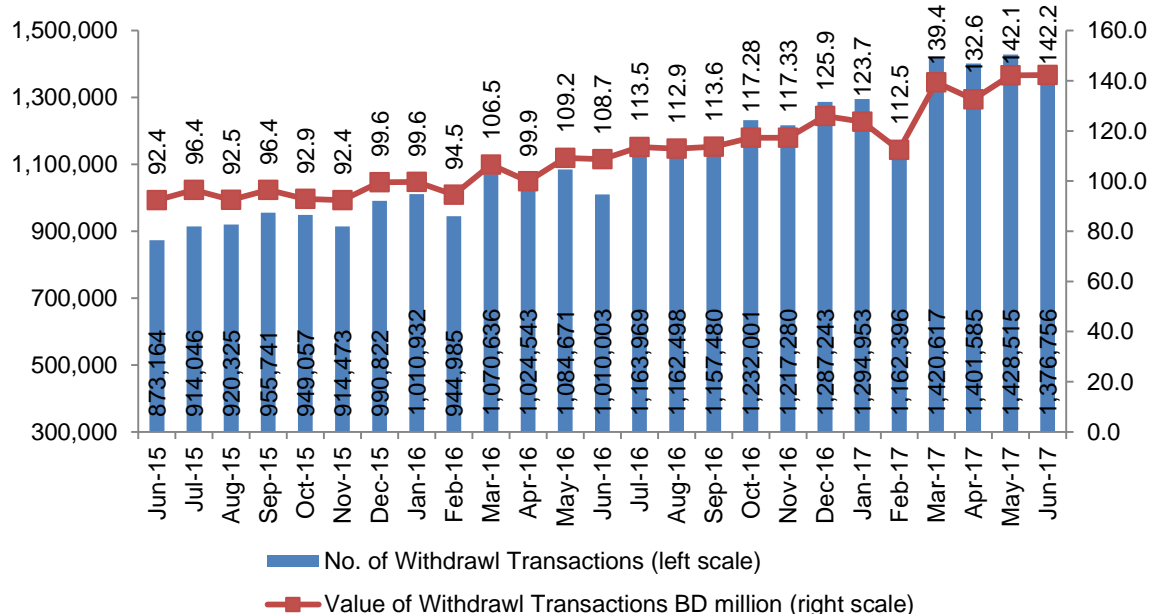
**Table 7-3: ATM Transactions Daily Average and Volume**

ATM Transitions	Daily Average Volume	Daily Average Value (BD million)
1st January, 2016 to 30 <sup>th</sup> June, 2016	34,143	3.4
1st July, 2016 to 31st December, 2016	39,242	3.8
1st January, 2017 to 30th June, 2017	44,668	4.4

Source: BENEFIT

Overall, there is an upward trend in both the value and the volume between June 2016 and June 2017 despite a number of decreases. Since December 2016, the highest value of withdrawals was witnessed in June 2017 at BD 142.2 million and the lowest value of withdrawals was in February 2017 at BD 112.5 million which showed the biggest decline in the value of transactions for that month. The highest volume of transactions over the past six months was in May 2017 with 1,428,515 transaction. February also had the lowest volume of transactions over the past six months with 1,162,396.

**Chart 7-1: Number and Value of ATM Transactions, June 2015- June 2017**



Source: BENEFIT

## 7.5 Bahrain Cheque Truncation System (BCTS)

Cheques are seen as one of the most popular instruments in use among Retail Customers and Corporate Customers.

As part of the Central Bank of Bahrain vision to replace the paper based Automated Cheque Clearing System operated by the CBB, the Bahrain Cheque Truncation System (BCTS)

commenced its operations in co-operation with the BENEFIT Company (BENEFIT) on the 13<sup>th</sup> May, 2012. Under the BCTS, cheques presented for payment will be scanned at the Bank where the Customer deposits his/her cheque(s) and the electronic images and payment information, instead of the physical cheque, will be transmitted to the BCTS Clearing House.

The main feature of the BCTS is the increasing efficiency and speed of the cheque clearing as it facilitates Bank Customers to have their cheques cleared and obtain their funds on the same day or maximum by the next working day in addition to providing Customers with a more secure and convenient service. The BCTS is operated by BENEFIT and overseen by Central Bank of Bahrain (CBB).

The number of participants in the BCTS are twenty nine (29) participants. The daily average volume of cheques for the first half of 2017 slightly decreased by 0.8% when compared to the second half of 2016 from 13,432 cheques to 13,326 cheques. In addition, the daily average volume of cheques increased by 6 cheques only from 13,320 cheques to 13,326 cheques compared to the first half of 2016.

Although the daily average volume of cheques decreased, the value of those cheques have increased in the first half of 2017 by 2.8% when compared to the second half of 2016 from BD40.0 million to BD41.1 million. Moreover, the daily average value of cheques for the first half of 2017 decreased by 1.2% from BD41.6 million to BD41.1 million when compared to the first half of 2016.

**Table 7-4: BCTS Daily Average Volume and Value**

BCTS	Daily Average Volume	Daily Average Value (BD million)
1 <sup>st</sup> July, 2015 to 31 <sup>st</sup> December, 2015	13,162	40.4
1 <sup>st</sup> January, 2016 to 30 <sup>th</sup> June, 2016	13,320	41.6
1 <sup>st</sup> July, 2016 to 31 <sup>st</sup> December, 2016	13,432	40.0
1 <sup>st</sup> January, 2017 to 30 <sup>th</sup> June, 2017	13,326	41.1

*Source: Benefit*

The BCTS continued to operate smoothly and efficiently for the period from 1<sup>st</sup> January, 2017 to 30<sup>th</sup> June, 2017.

## 7.6 Electronic Fund Transfer System (EFTS)

With the introduction of International Bank Account Number (IBAN) in January, 2012, transfers were easier and less time consuming for both Customers and Banks nevertheless, secured and more convenient. It was perceived that further uses of the IBAN can be utilised. Therefore, the Electronic Fund Transfer System (EFTS) was launched on the 5<sup>th</sup> of November, 2015, operated by the Benefit Company (BENEFIT) and overseen by the Central Bank of Bahrain (CBB).

The EFTS is an electronic system that interconnects all Retail Banks in Bahrain with each other and major billers in the Kingdom of Bahrain in order to enhance the efficiency of fund transfers and bill payments promoting a more proactive and forward-thinking Banking sector.

Fawri+ and Fawri provide fund transfers and real-time bill payments offering the public easier access, faster processes and virtually no mistakes. The number of participants offering outward EFTS Services has reached twenty five (25) participants.

The daily average volume of Fawri+ transfers for the first half of 2017 increased significantly by 77.1% when compared to the second half of 2016 from 476 transfers to 843 transfer. Furthermore, the daily average volume of Fawri+ transfers for 1<sup>st</sup> January, 2017 to 30<sup>th</sup> June, 2017 increased by 268.1% from 229 transfers to 843 transfers when compared to 1<sup>st</sup> January, 2016 to 30<sup>th</sup> June, 2016 (first half of 2016).

In addition, the daily average value of Fawri+ transfers increased by 72.7% from BD121,400 to BD209,600 when compared to 1<sup>st</sup> July, 2016 to 31<sup>st</sup> December, 2016. Moreover, the daily average value of Fawri+ transfers for 1<sup>st</sup> January, 2017 to 30<sup>th</sup> June, 2017 increased by 212.4% from BD67,100 to BD209,600 when compared to 1<sup>st</sup> January, 2016 to 30<sup>th</sup> June, 2016.

**Table 7-5: EFTS Fawri+ Daily Average Volume and Value**

EFTS: Fawri+	Daily Average Volume	Daily Average Value (BD)
1 <sup>st</sup> January, 2016 to 30 <sup>th</sup> June, 2016	229	67,100
1 <sup>st</sup> July, 2016 to 31 <sup>st</sup> December, 2016	476	121,400
1 <sup>st</sup> January, 2017 to 30 <sup>th</sup> June, 2017	843	209,600

Source: BENEFIT

The daily average volume of Fawri transfers for the first half of 2017 increased by 42.9% when compared to the second half of 2016 from 12,540 transfers to 17,925 transfer. Moreover, the daily average value of Fawri transfers for 1<sup>st</sup> January, 2017 to 30<sup>th</sup> June, 2017 increased by 108.7% from 8,590 transfers to 17,925 transfers when compared to 1<sup>st</sup> January, 2016 to 30<sup>th</sup> June, 2016.

**Table 7-6: EFTS Fawri Daily Average Volume and Value**

EFTS: Fawri	Daily Average Volume	Daily Average Value (BD million)
1 <sup>st</sup> January, 2016 to 30 <sup>th</sup> June, 2016	8,590	25.1
1 <sup>st</sup> July, 2016 to 31 <sup>st</sup> December, 2016	12,540	33.2
1 <sup>st</sup> January, 2017 to 30 <sup>th</sup> June, 2017	17,925	36.2

Source: BENEFIT

In addition, the daily average value of Fawri transfers increased by 9.0% from BD33.2 million to BD36.2 when compared to 1<sup>st</sup> July, 2016 to 31<sup>st</sup> December, 2016. Furthermore, the daily average value of Fawri transfers for 1<sup>st</sup> January, 2017 to 30<sup>th</sup> June, 2017 increased by 44.2% from BD25.1 million to BD36.2 million when compared to 1<sup>st</sup> January, 2016 to 30<sup>th</sup> June, 2016 (first half of 2016).

The EFTS continued to operate smoothly and efficiently from 1<sup>st</sup> January, 2017 to 30<sup>th</sup> June, 2017.

The Central Bank of Bahrain (CBB) continued to assess the EFTS in terms of compliance with the requirements set by the Principles for Financial Market Infrastructures (PFMI) and CBB's Directives.

## 7.7 Opportunities and challenges of the rise of FinTech

Offering low cost, convenient and instant payments, Financial Technology (FinTech) has been of great interest to the regulators that were posed with the challenges of regulating, overseeing and ensuring safety and efficiency of those new payment methods.

The Kingdom of Bahrain is an established financial hub in the Gulf Cooperation Council (GCC) and Middle East region. Consequently, the Kingdom is repositioning itself to be the FinTech hub of the region combining conventional and Shari'ah compliant FinTech solutions. During April, 2017, the CBB proposed Financing Based Crowdfunding Regulations.

Moreover, on 28<sup>th</sup> May, 2017, the Central Bank of Bahrain (CBB) announced the issuance of the Regulatory Sandbox Framework that aims to provide a safe space where business from the Kingdom of Bahrain or abroad can test FinTech innovative products and services without the heavy burden of regulation and licencing.

The Payment Systems Oversight of the Central Bank of Bahrain (CBB) is closely monitoring and observing the developments of this field and its implications globally and locally.

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# Annex:

## Financial Soundness Indicators And Selected Graphs

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## Annex 1: Financial Soundness Indicators

Annex1 Table 1:  
Selected Financial Soundness Indicators—Overall Banking System

	(End of period)		
	Mar-16	Sep-16	Mar-17
<b>Capital Adequacy</b>			
Total capital adequacy ratio (%) *	18.4	19.2	18.7
Tier 1 capital adequacy ratio (%) *	16.8	17.6	17.4
Leverage (assets/capital)(times)*	6.9	7.8	6.8
<b>Asset Quality</b>			
Non-performing loans (% of gross loans)	5.2	5.5	5.9
Specific provisions (% of NPLs)	59.1	54.1	57.3
Loan concentration (share of top-2 sectors) (%)	30.8	29.3	30.1
Real Estate/ Construction exposure (%) **	21.6	22.2	23.0
<b>Earnings</b>			
ROA Retail banks (%)	0.5	1.0	0.6
ROE Local Retail banks (%) ***	1.7	5.0	2.1
Net interest income (% of gross income) ****	57.8	67.8	58.5
Net fees & commissions (% of gross income) ****	24.3	16.9	23.6
Operating expenses (% of gross income)	55.6	55.8	65.0
<b>Liquidity</b>			
Liquid assets (% of total assets)	22.0	22.8	24.3
Loan-deposit ratio (%)	69.5	67.9	65.2

\* Locally-incorporated banks only

\*\* Real Estate/ Construction exposure is calculated as the share of the Construction, Commercial real estate financing and Residential Mortgages sectors of total lending.

\*\*\*ROE is defined as net profit over Tier 1 Capital.

\*\*\*\* Conventional Banks only

Source: Central Bank of Bahrain

**Annex1 Table 2:**  
**Selected Financial Soundness Indicators—Conventional Retail Banks**

	<b>(End of period)</b>		
	<b>Mar-16</b>	<b>Sep-16</b>	<b>Mar-17</b>
<b>Capital Adequacy</b>			
Total capital adequacy ratio (%) *	18.1	19.6	20.3
Tier 1 capital adequacy ratio (%) *	16.2	17.8	18.6
Leverage (assets/capital)(times)*	7.6	7.7	6.6
Non-performing loans net provisions to capital ratio (%)*	5.7	6.1	6.0
<b>Asset Quality</b>			
Non-performing loans (% of gross loans)	3.6	4.7	5.7
Specific provisions (% of NPLs)	55.5	49.9	50.0
Net non-performing loans (% of net loans)	1.6	2.4	3.0
Loan concentration (share of top-2 sectors) (%)	31.7	31.7	34.7
Real Estate/ Construction exposure (%) **	29.9	29.8	30.7
<b>Earnings</b>			
ROA Retail banks (%)	0.4	1.1	0.2
ROA Local Retail banks (%)	0.5	1.3	0.5
ROA Overseas Retail banks (%)	0.3	0.6	-0.3
ROE Local Retail banks (%)***	3.8	11.4	3.8
Net interest income (% of gross income)	73.4	73.9	72.4
Net fees & commissions (% of gross income)	14.9	13.2	15.6
Operating expenses (% of gross income)	52.2	47.5	72.6
<b>Liquidity</b>			
Liquid assets (% of total assets)	25.3	24.4	24.6
Liquid assets (% of short-term liabilities)	38.1	37.1	39.1
Loan-deposit ratio (%)	70.8	70.0	71.7
Deposits from non-bank sources (% of total deposits)	79.1	79.9	77.6

\* Locally-incorporated banks only

\*\* Real Estate/ Construction exposure is calculated as the share of the Construction, Commercial real estate financing and Residential Mortgages sectors of total lending.

\*\*\* ROE is defined as net profit over Tier 1 Capital.

Source: Central Bank of Bahrain

**Annex1 Table 3:**  
**Selected Financial Soundness Indicators—Conventional Wholesale Banks**

	(End of period)		
	Mar-16	Sep-16	Mar-17
<b>Capital Adequacy</b>			
Total capital adequacy ratio (%) *	19.4	19.8	18.1
Tier 1 capital adequacy ratio (%) *	17.8	18.4	17.0
Leverage (assets/capital)(times)*	6.6	9.4	6.8
Non-performing loans net provisions to capital ratio (%)*	3.8	7.2	4.7
<b>Asset Quality</b>			
Non-performing loans (% of gross loans)	5.1	5.5	5.6
Specific provisions (% of NPLs)	66.3	63.0	67.9
Net non-performing loans (% of net loans)	1.8	2.1	1.9
Loan concentration (share of top-2 sectors) (%)	39.2	38.2	36.1
Real Estate/ Construction exposure (%) **	12.6	12.7	16.5
<b>Earnings</b>			
ROA Wholesale banks (%)	0.3	0.6	0.3
ROA Local Wholesale banks (%)	0.2	0.4	0.3
ROA Overseas Wholesale banks (%)	0.5	0.9	0.4
ROE Local Wholesale banks (%)***	1.1	3.6	1.9
Net interest income (% of gross income)	42.2	61.0	46.1
Net fees & commissions (% of gross income)	39.1	23.2	36.5
Operating expenses (% of gross income)	52.0	53.2	52.2
<b>Liquidity</b>			
Liquid assets (% of total assets)	22.7	24.6	27.4
Liquid assets (% of short-term liabilities)	33.3	35.4	37.6
Loan-deposit ratio (%)	67.8	66.7	60.2
Deposits from non-bank sources (% of total deposits)	44.8	43.1	46.2

\* Locally-incorporated banks only

\*\*Real Estate/ Construction exposure is calculated as the share of the Construction, Commercial real estate financing and Residential Mortgages sectors of total lending.

\*\*\* ROE is defined as net profit over Tier 1 Capital.

Source: Central Bank of Bahrain

**Annex1 Table 4:**  
**Selected Financial Soundness Indicators—Islamic Retail Banks**

	(End of period)		
	Mar-16	Sep-16	Mar-17
<b>Capital Adequacy</b>			
Total capital adequacy ratio (%) *	15.8	17.1	17.1
Tier 1 capital adequacy ratio (%) *	13.7	14.9	15.3
Leverage (assets/capital)(times)*	6.7	6.4	7.6
Non-performing facilities net provisions to capital ratio (%)*	26.5	28.3	27.2
<b>Asset Quality</b>			
Non-performing facilities(% of gross facilities)	12.4	12.1	10.1
Specific provisions (% of NPFs)	40.7	34.1	39.9
Net non-performing facilities (% of net facilities)	7.1	7.8	6.4
Facilities concentration (share of top-2 sectors) (%)	35.7	38.9	37.1
Real Estate/ Construction exposure (%) **	29.5	29.4	25.6
<b>Earnings</b>			
ROA (%)	0.1	0.2	0.1
ROE (%)***	1.1	1.6	1.7
Net income from own funds, current accounts and other banking activities (% of operating income)	59.9	58.8	62.6
Net income from jointly financed accounts and Mudarib fees (% of operating income)	30.1	33.5	36.8
Operating expenses (% of gross income)	72.0	82.9	77.8
<b>Liquidity</b>			
Liquid assets (% of total assets)	10.3	12.3	12.4
Facilities-deposit ratio (%)	87.5	82.9	86.3
Current accounts from non-banks (% of non-capital liabilities, excl. URIA)	27.5	29.5	29.2

\* Locally-incorporated banks only

\*\*Real Estate/ Construction exposure is calculated as the share of the Construction, Commercial real estate financing and Residential Mortgages sectors of total financing.

\*\*\* ROE is defined as net profit over Tier 1 Capital.

Source: Central Bank of Bahrain

**Annex1 Table 5:**  
**Selected Financial Soundness Indicators—Islamic Wholesale Banks**

	(End of period)		
	Mar-16	Sep-16	Mar-17
<b>Capital Adequacy</b>			
Total capital adequacy ratio (%) *	19.1	19.3	18.5
Tier 1 capital adequacy ratio (%) *	18.6	18.5	17.8
Leverage (assets/capital)(times)*	6.7	6.7	6.7
Non-performing facilities net provisions to capital ratio (%)*	2.9	1.5	0.5
<b>Asset Quality</b>			
Non-performing facilities(% of gross facilities)	4.8	2.9	2.6
Specific provisions (% of NPFs)	80.3	82.4	93.8
Net non-performing facilities (% of net facilities)	0.9	0.5	0.2
Facilities concentration (share of top-2 sectors) (%)	41.7	40.6	40.5
Real Estate/ Construction exposure (%) **	21.2	27.4	19.9
<b>Earnings</b>			
ROA (%)	0.1	0.2	0.2
ROE (%)***	1.0	1.6	2.4
Net income from own funds, current accounts and other banking activities (% of operating income)	57.5	55.3	54.8
Net income from jointly financed accounts and Mudarib fees (% of operating income)	42.2	45.4	44.5
Operating expenses (% of gross income)	62.8	61.1	73.0
<b>Liquidity</b>			
Liquid assets (% of total assets)	19.1	18.9	21.6
Facilities-deposit ratio (%)	64.7	61.6	61.3
Current accounts from non-banks (% of non-capital liabilities, excl. URIA)	43.3	43.8	44.0

\* Locally-incorporated banks only

\*\*Real Estate/ Construction exposure is calculated as the share of the Construction, Commercial real estate financing and Residential Mortgages sectors of total financing.

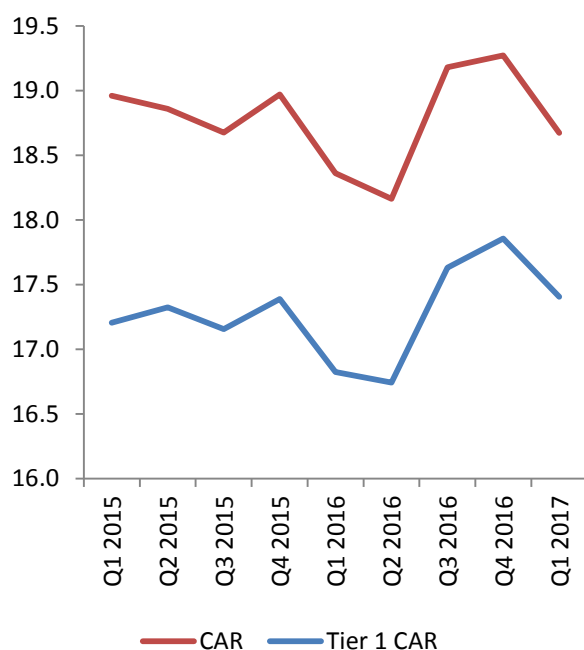
\*\*\* ROE is defined as net profit over Tier 1 Capital.

Source: Central Bank of Bahrain.

## Annex 2: Selected Graphs

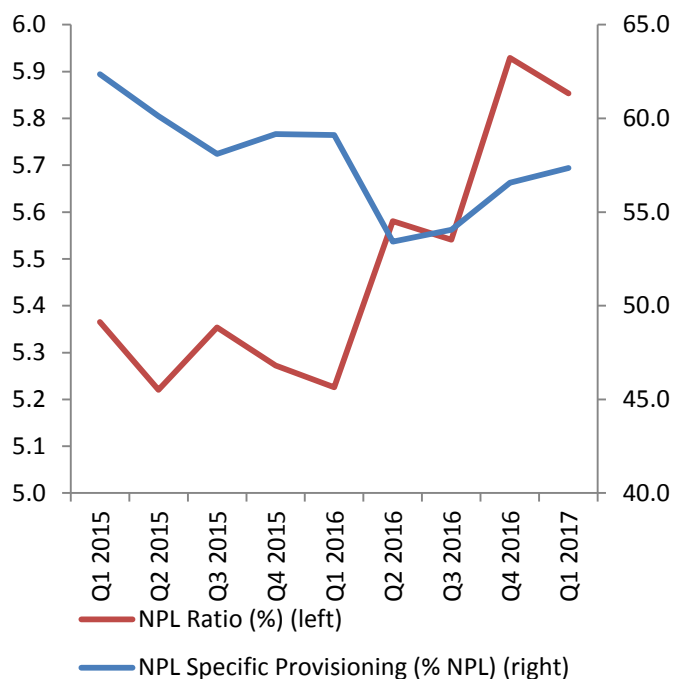
### A. Overall Banking Sector

Annex 2 Graph 1: CAR



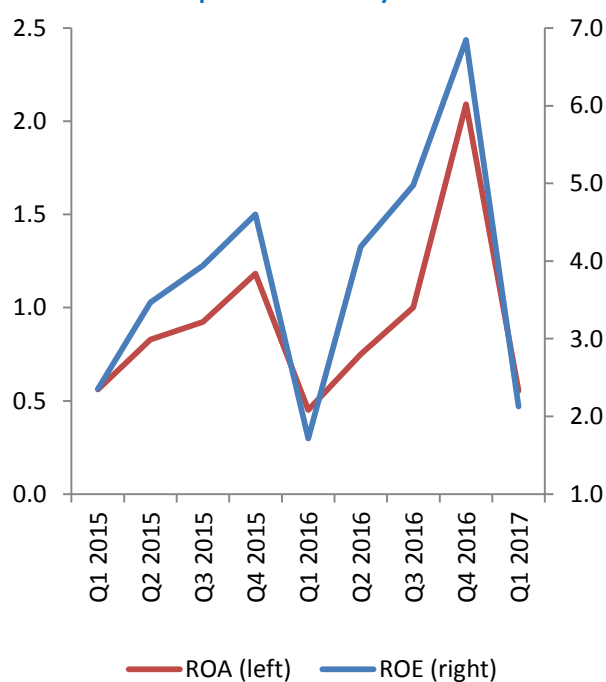
Source: Central Bank of Bahrain

Annex 2 Graph 2: NPL and Provisioning



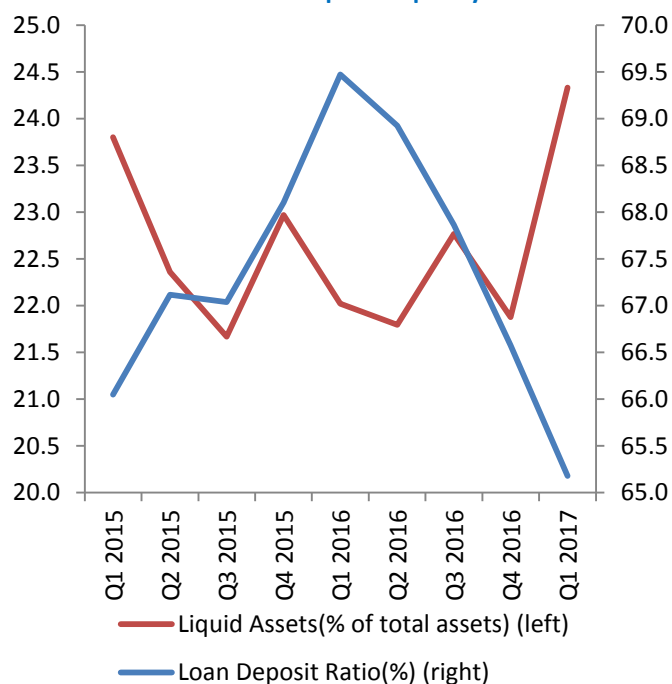
Source: Central Bank of Bahrain

Annex 2 Graph 3: Profitability



Source: Central Bank of Bahrain

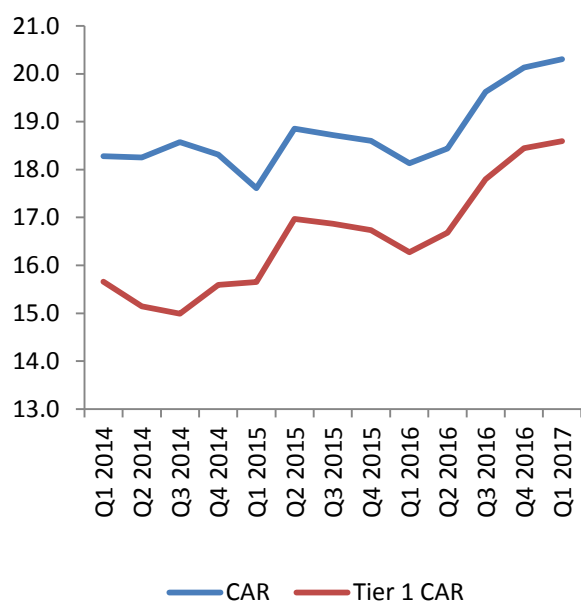
Annex 2 Graph 4: Liquidity



Source: Central Bank of Bahrain

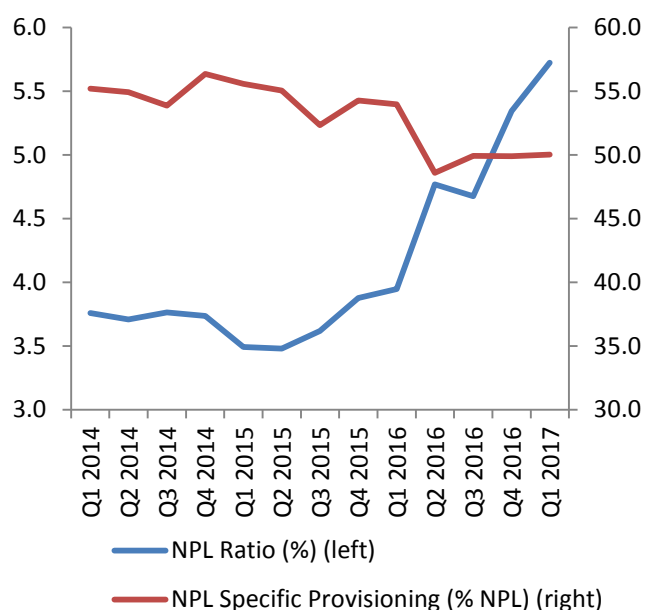
## B. Conventional Retail

Annex 2 Graph 5: CAR



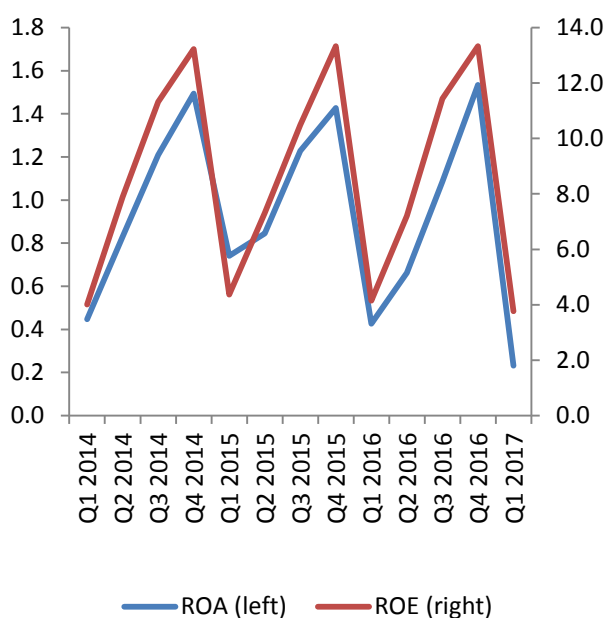
Source: Central Bank of Bahrain

Annex 2 Graph 6: NPL and Provisioning



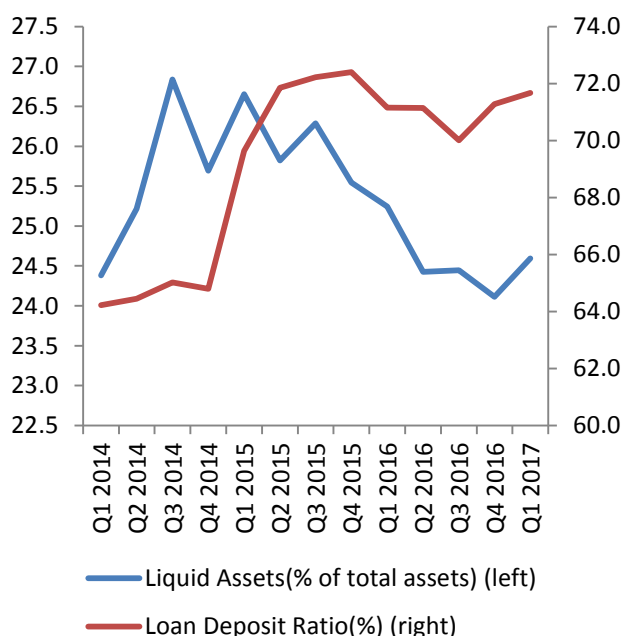
Source: Central Bank of Bahrain

Annex 2 Graph 7: Profitability



Source: Central Bank of Bahrain

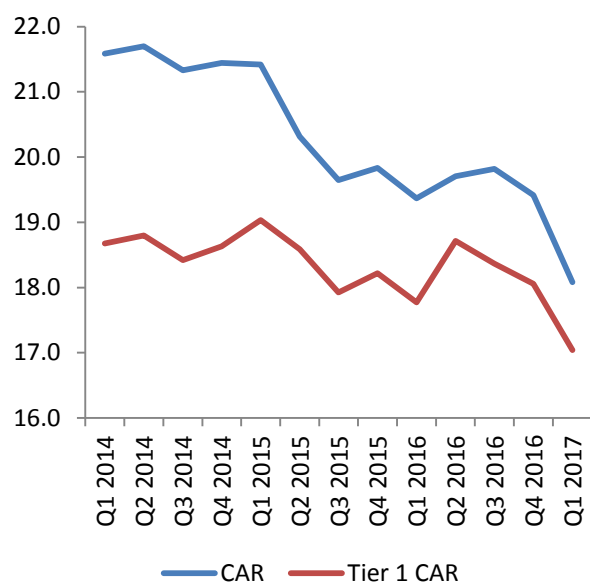
Annex 2 Graph 8: Liquidity



Source: Central Bank of Bahrain

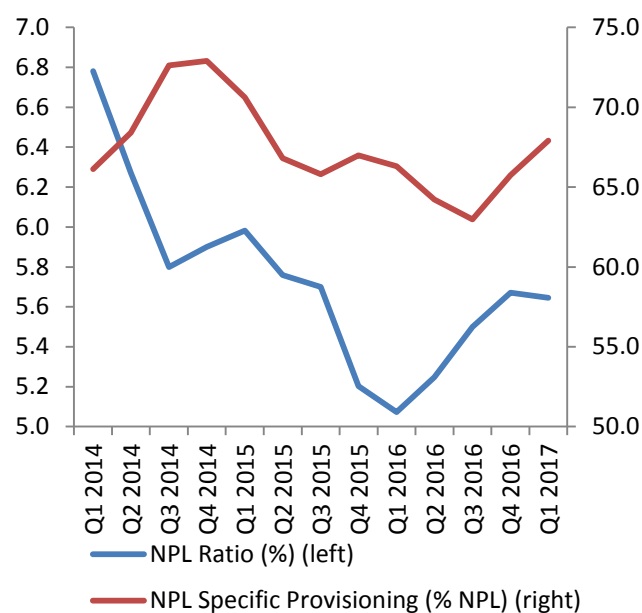
## C. Conventional Wholesale

Annex 2 Graph 9: CAR



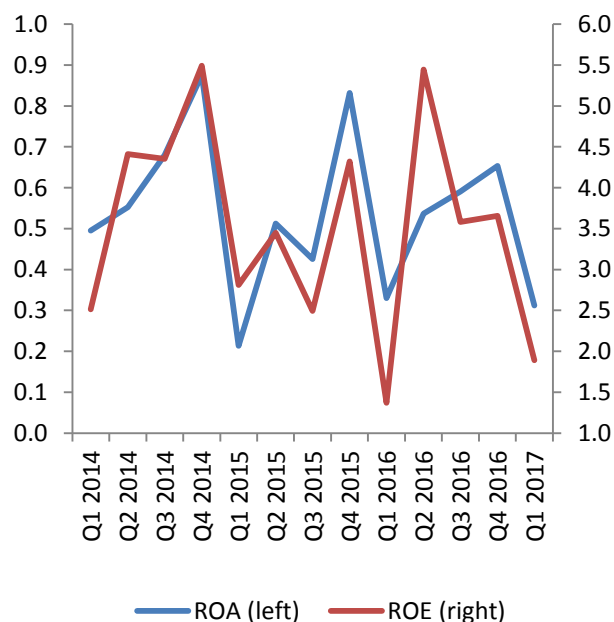
Source: Central Bank of Bahrain

Annex 2 Graph 10: NPL and Provisioning



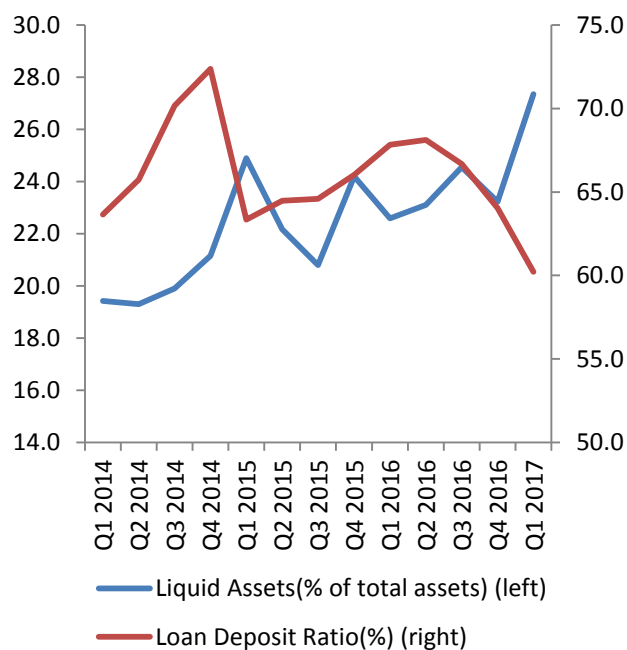
Source: Central Bank of Bahrain

Annex 2 Graph 11: Profitability



Source: Central Bank of Bahrain

Annex 2 Graph 12: Liquidity



Source: Central Bank of Bahrain



## D. Islamic Retail

Annex 2 Graph 13: CAR



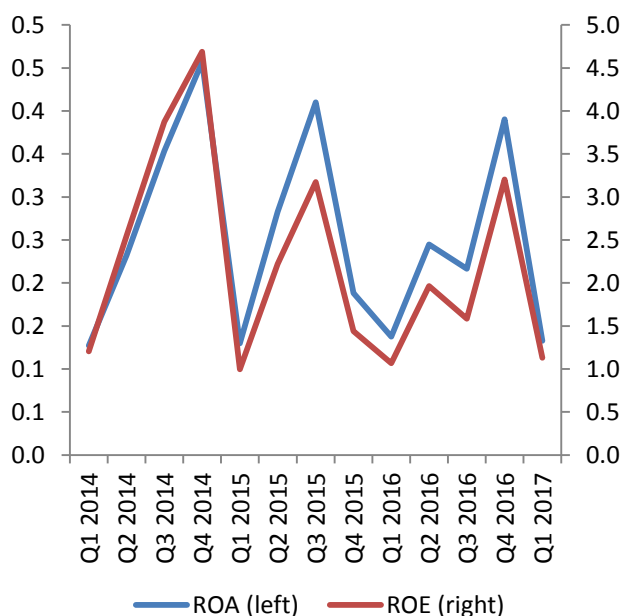
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Annex 2 Graph 5: NPL and Provisioning



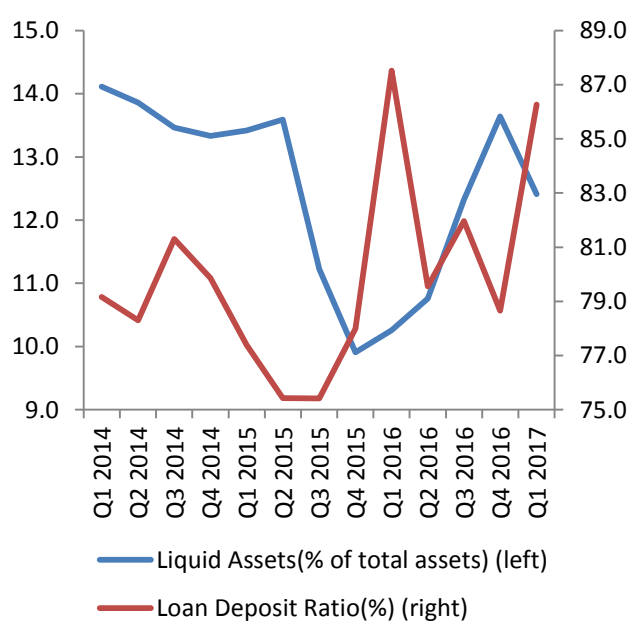
Source: Central Bank of Bahrain

Annex 2 Graph 6: Profitability



Source: Central Bank of Bahrain

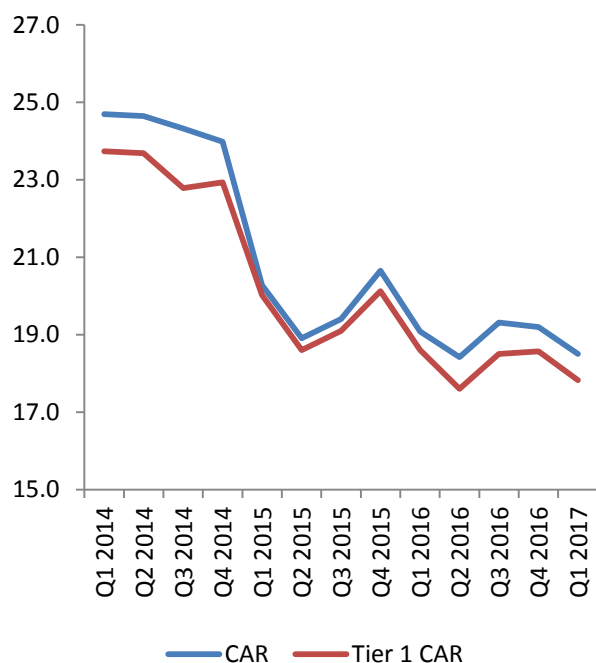
Annex 2 Graph 7: Liquidity



Source: Central Bank of Bahrain

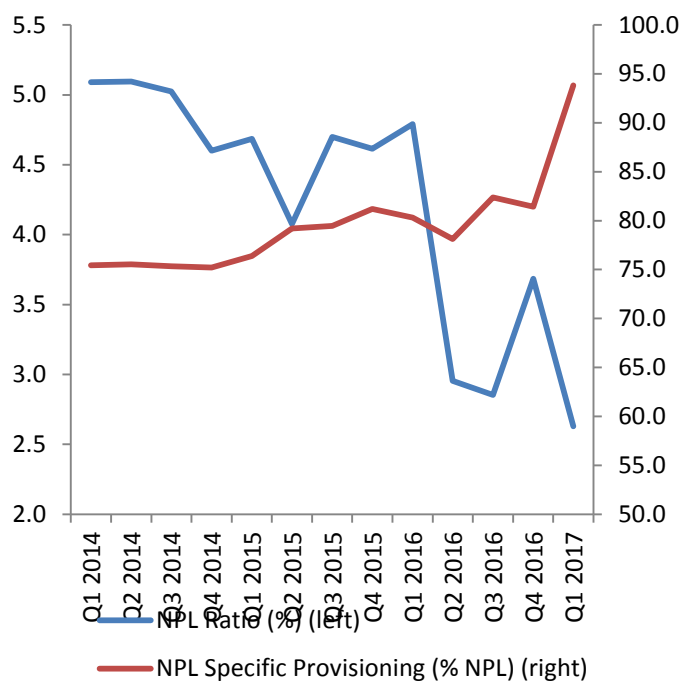
## E. Islamic Wholesale

Annex 2 Graph 8: CAR



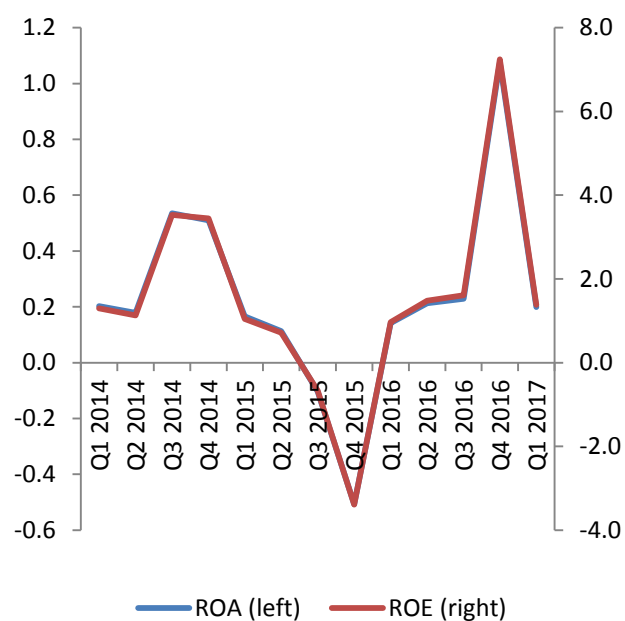
Source: Central Bank of Bahrain

Annex 2 Graph 9: NPL and Provisioning



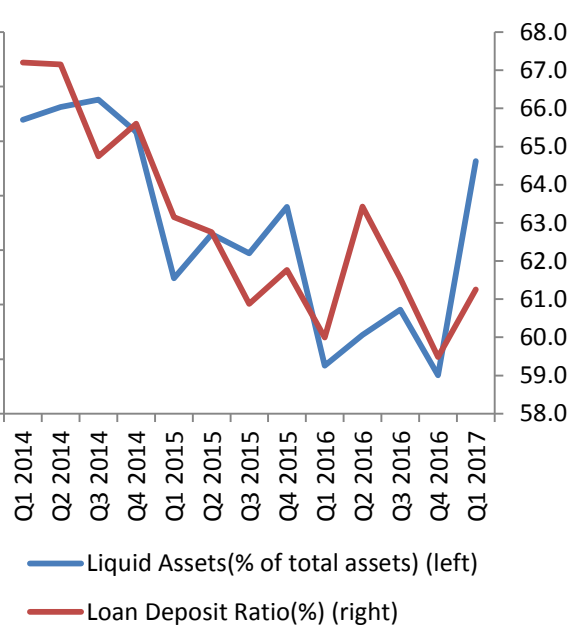
Source: Central Bank of Bahrain

Annex 2 Graph 10: Profitability



Source: Central Bank of Bahrain

Annex 2 Graph 20: Liquidity



Source: Central Bank of Bahrain