

مَصْرَفُ الْبَحْرَيْنِ الْمُرْكَبِي
Central Bank of Bahrain

Annual Report

2017

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Chapter

1

1. Monetary Policy Developments

Overview

Monetary Policy Management

Domestic Interest Rates

Public Debt Issuance

1.1 Overview

During 2017, the Central Bank of Bahrain (“CBB”) continued to use a number of monetary policy measures aimed at maintaining the smooth functioning of financial markets in Bahrain. These measures included a range of monetary policy instruments as well as interest rate actions.

1.2 Monetary Policy Management

Monetary Policy Committee

The CBB Monetary Policy Committee (“MPC”) met on a weekly basis throughout 2017. The MPC closely evaluated economic and financial developments, monitored liquidity conditions, provided recommendations for monetary policy instruments and set interest rates on facilities offered by the CBB.

Reserve Requirements

All retail banks are required to maintain, on a monthly basis, a specific percentage of their non-bank deposits (denominated in Bahraini dinars), in a non-interest-bearing account at the CBB. During 2017, the reserve requirement percentage remained unchanged from 5%.

The total banks’ Reserve Requirement balance outstanding in December 2017 was BD 471,922 compared to BD 459,968 in December 2016 with a 2.6% increase.

1.3 Domestic Interest Rates

Key Policy Interest Rates

In 2017 the Central Bank of Bahrain raised its key policy interest rates on:

15 March 2017 from 1.00% to 1.25%. It has also decided to increase the overnight deposit rate from 0.75% to 1.00% and adjust both the one-month deposit rate from 1.50% to 1.75% , and the lending rate from 2.75% to 3.00%.

14 June 2017 from 1.25% to 1.50%. It has also decided to increase the overnight deposit rate from 1.00% to 1.25% and adjust both the one-month deposit rate from 1.75% to 2.15% , and the lending rate from 3.00% to 3.25%.

13 December 2017 from 1.50% to 1.75%. It has also decided to increase the overnight deposit rate from 1.25% to 1.50% and adjust both the one-month deposit rate from 2.15% to 2.40%, and the lending rate from 3.25% to 3.50%.

Wakalah

As part of the ongoing efforts towards the development of Islamic banking, the Central Bank of Bahrain introduced a new overnight Shariah-compliant Wakalah liquidity management tool for Islamic retail banks in May 2017. This tool, which was approved by the Shariah Board of the CBB, is considered to be the first of its kind in the region and aims to absorb excess liquidity of the local Islamic retail banks by placing it overnight with the Central Bank.

In March 2015, the Central Bank launched the Wakalah liquidity management tool for a one-week period, which was highly accepted by Islamic retail banks. The agreement has been developed, based on a standard contract of the International Islamic Financial Market (IIFM).

This service is a new product in Islamic banking and proves Kingdom of Bahrain's ability to develop Shariah-compliant tools according to market needs.

The total outstanding balance of Wakalah deposited by Islamic Banks was BD 70.9 million in December 2017 compared to BD 32.5 million in December 2016 with a 118% increase.

Interbank Rates

As at end-2017, the 3 month BHIBOR rate was 2.725 %, compared to 2.1% at end-2016. The 6 month BHIBOR rate 2.9% compared to 2.2 % at end-2016.

1.4 Public Debt Issuance

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

During 2017 the CBB issued conventional 3-month treasury bills, denominated in Bahraini dinars, on a weekly basis, with an issue amount of BHD 70 million. Six (6)-month Treasury Bills were also issued, on a monthly basis, with an issue amount of BHD 35 million. In addition, the CBB issued 12-month Treasury Bills on a quarterly basis, with an issue amount of BHD 225 million. Upon a request from the MOF, on 26th June, 2017, the CBB changed the frequency of the 12 month treasury bills, to be issued on a monthly basis with an issue amount of BHD 100 million.

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

During 2017, the CBB, at the request of the Ministry of Finance, issued domestic and international government development bonds and Sukuks for different maturities, as follows:

- Local development bond, with an issue amount of BD 200 million on July 16, 2017, with a maturity of 5 years, and a fixed-rate of 5.35%.
- Local development bond, with an issue amount BD 200 million on December 27, 2017, with a maturity of 5.5 years, at a fixed rate of 5.50%.
- In September 2017, the Kingdom of Bahrain raised \$3bn in a three-tranche international bond issue which was met with strong market appetite with order books in excess of \$15bn. The deal, the Kingdom's largest ever bond which was arranged by the CBB, consisted of a 7.5-year \$850mn Islamic, Ijara Murabaha sukuk priced at 5.25%; a 12-year \$1.25bn conventional bond priced at 6.75%; and a 30-year \$900mn conventional bond priced at 7.50%.
- Local Ijara Sukuk with an issue amount of BD 125 million on July 17, 2017, with a maturity of 3 years, fixed-return of 4.20%.

Chapter

2

2. Banking Developments

The Aggregate Balance Sheet of the Banking System

Retail Banks

Wholesale Banks

2.1 The Aggregate Balance Sheet of the Banking System

Total aggregate balance sheet for the banking system (retail and wholesale banks) increased to USD 187.4 billion by the end of 2017, compared to USD 186.1 billion at the end of 2016, an increase of 0.8%. Wholesale banks represented 55.5% of total assets, whilst retail banks accounted for 44.5%.

Domestic banking assets amounted to USD 57.8 billion at the end of 2017 compared to USD 55.8 billion at the end of 2016, representing an increase of USD 2 billion (3.6%). Foreign assets amounted to USD 129.7 billion, compared to USD 130.3 billion at the end of 2016, a decrease of USD 0.6 billion (0.5%).

Domestic liabilities increased to USD 55.9 billion at the end of 2017 compared to USD 54.8 billion at the end of 2016, an increase of USD 1.1 billion (2.0%). Total foreign liabilities increased by USD 0.3 billion (0.2%) to reach USD 131.5 billion against USD 131.2 billion at the end of 2016.

2.2 Retail Banks¹

The aggregate balance sheet of retail banks increased to BD 31.4 billion at the end of 2017, compared to BD 31.2 billion at the end of 2016.

Total domestic assets grew by BD 0.7 billion (3.9%) to reach BD 18.0 billion, with claims on private non-banks sector increasing by BD 0.2 billion (2.7%) and claims on general government securities growing by 0.4 billion (9.1%).

Foreign assets recorded a decrease of BD 0.5 billion (2.2%), reaching a total of BD 13.4 billion at the end of 2017 compared to BD 13.9 billion at the end of 2016. Claims on foreign non-banks decreased by BD 0.3 billion (3.3%) from BD 9.1 billion at the end of 2016 to BD 8.8 billion at the end of 2016, while claims on foreign banks decreased by BD 0.1 billion (4.2%), reaching a total of BD 4.6 billion at the end of 2016.

Total domestic liabilities of retail banks increased by BD 0.3 billion (1.8%) to BD 17.1 billion at the end of 2017 from BD 16.8 billion at the end of 2016. This was due to an increase in liabilities to private non-banks by BD 0.4 billion (4.1%) and liabilities to capital and reserves by BD 0.1 billion (3.5%).

Total foreign liabilities decreased to reach BD 14.3 billion at the end of 2017. Liabilities to foreign non-banks stayed at BD 6.4 billion and liabilities to foreign banks decreased by BD 0.1 billion (1.3%).

¹ This includes conventional and Islamic retail banks.

Loans and Credit Facilities

Outstanding loans and credit facilities of retail banks stood at BD 8.7 billion at the end of 2017, a 7.4% increase compared to the BD 8.1 billion at the end of 2016. The business sector accounted for 53.3% of total loans and credit facilities, while individuals and the government sector represented 42.9% and 3.8% respectively.

Deposits

Retail banks' total domestic deposits increased to BD 17.0 billion at the end of 2017 compared to BD 16.6 billion at the end of 2016, an increase of BD 0.4 billion (2.4%). This was due to higher private sector deposits which increased by BD 0.5 billion (5.0%) while general government deposits decreased by BD 0.1 billion (5.9%)

Domestic deposits in Bahraini Dinar decreased by BD 0.2 billion (2.2%) to BD 9.3 billion at the end of 2017. Domestic foreign currency deposits increased BD 0.3 billion (10.7%) to BD 2.8 billion. Bahraini Dinar deposits and foreign currency deposits constituted 55% and 45% of total domestic deposits respectively.

Geographical and Currency Distribution of Assets

The share of total assets accounted for by the member countries of the Gulf Cooperation Council (GCC) (excluding Bahrain) reached a total of 22.4% while Asia accounted for 7.0%, Western Europe accounted for 5.4%, North and South America for 3.6%, and other Arab countries for 3.0%.

In terms of currency, the share of US dollar denominated assets was 40.8%, while the GCC currencies (excluding Bahraini dinar) accounted for 9.3% of total assets. The Euro represented 2.7% of total assets.

2.3 Wholesale Banks^{2 3}

The aggregate balance sheet of wholesale banks grew by USD 1.0 billion or 1.0% to USD 104.0 billion at the end of 2017, compared with USD 103.0 billion at the end of 2016.

Total domestic assets grew to USD 9.8 billion at 2017, compared with USD 9.6 billion at the end of 2016.

Foreign assets increased by USD 0.7 billion (0.7%) to USD 94.1 billion at the end of 2017. This was due to increases in non-bank assets by USD 3.0 billion (9.6%).

Total domestic liabilities of wholesale banks increased by USD 0.1 billion (1.0%) to USD 10.4 billion at the end of 2017 compared with USD 10.3 billion at the end of 2016.

² This includes conventional and Islamic wholesale banks.

³ The balance sheets of wholesale banks are usually denominated in USD.

Foreign liabilities increased by 0.9% to reach USD 93.6 billion at the end of 2017. This increase was mainly due to an increase in liabilities on H.O. and affiliates which increased by USD 3.2 billion (13.8%)

Geographical and Currency Distribution of Assets

The share of total assets accounted for by the GCC (excluding Bahrain) reached a total of 31.9%, while Western Europe accounted for 33.5%, North and South America for 10.2%, Asia for 9.2%, and other Arab countries for 4.0%.

As for currency, the share of GCC currencies (excluding Bahraini dinar) of total assets was 9.4% with the dollar accounting for 69.9% of total assets and the Euro comprising 10.3% of total assets.

Chapter

3

3. Regulatory and Supervisory Developments

Regulatory Developments

Supervisory Developments

3.1 Regulatory Developments

As part of CBB's continuing development of the regulatory framework for the financial system, work was carried out during the year 2017 to strengthen regulatory policies and to develop appropriate prudential regulations, in order to maintain financial stability and market integrity.

3.1.1 Updates to CBB Rulebook

Basel III adoption

Basel III Leverage Requirements:

The CBB has issued a consultation paper on Basel III leverage requirements. The comments received were studied and discussed. The CBB intends to issue the final paper in 2018.

Proposed new directives for Ancillary Service Providers

In September 2017, the CBB has issued a consultation paper on a new High Level Controls Module (Corporate Governance) for ancillary service providers for which it received their comments and is currently studying them.

The CBB has also drafted a Risk Management Module, which is currently under review, in order to be issued as a consultation paper to the ancillary service providers.

New amendments to the Authorization Module - Volume 5 for Ancillary Service Providers

In February 2017, the CBB has issued new directives as part of the Authorization Module of Volume 5 that allows Payment Service Providers to issue multi-purpose prepaid cards, electronic or otherwise, which can be used on POS and ATMs as well as for online purchases and remittances.

Issuance of a New Shari'a Governance Module for Islamic banks

The CBB has issued a new Shari'a Governance Module (Module SG) for Islamic banks as part of Volume 2 after extensive consultations with the sector and with the Central Shari'a Supervisory Board of the CBB. The new directives are effective from June 30, 2018, for all retail and wholesale Islamic banks in Bahrain.

Regulation No. (29) of the year 2017 in respect of issuing a Regulation on the Procedure for Processing Applications by Investment Firms for transferring their business in the Kingdom of Bahrain

At the end of May 2017, the CBB has issued a Regulation on the Procedures for Processing Applications by Investment Firms for transferring their business in the Kingdom of Bahrain by virtue of Resolution No. (29) of the year 2017 similar to what was issued to banks and insurance firms, after completion of the consultation period,

receipt of investment firms' comments and meeting with Legislation and Legal Opinion Commission in this regard.

Regulation on "Netting Law" under Market Contract

As part of CBB's objective in enhancing its regulatory framework, the CBB has issued in January 2017 a draft "Netting Law" that shall replace and supersede Resolution No. (44) of 2014, with respect to Promulgating a "Regulation for Close-Out Netting under a Market Contract" issued by the CBB.

The CBB received and studied the comments of the financial sector on this consultation paper. In addition, the CBB contacted the International Swaps and Derivatives Association for its feedback for which the draft was amended to reflect the comments of the Association. The draft was then translated into Arabic and sent to the Legislation and Legal Opinion Commission in order to be issued in the Official Gazette.

Proposed amendments to the Takeovers, Mergers and Acquisitions Module

In February 2017, The CBB has issued a consultation paper on proposed amendments to the Takeovers, Mergers and Acquisitions Module of Volume 6 - Capital Markets. The CBB has received the comments of the financial sector, listed companies and other interested parties on this consultation and it is currently under study.

Directives on Financing Based Crowdfunding (conventional and Islamic Financing)

In August 2017, the CBB has issued new directives on conventional and Islamic Financing Based Crowdfunding, as part of the Authorization Module (AU) and General Requirements Module (GR) of Volume 5 of the CBB's Rulebook for Ancillary Service Providers.

Directives on Equity Based Crowdfunding

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

Consultation Paper - Proposed Methodology for calculating financial penalties imposed upon licensees

In April 2017, the CBB issued a consultation paper to all licensees regarding a proposed methodology to be used by the CBB in calculating the financial penalties to be imposed upon licensees. The CBB received the comments of the financial sector and the concerned parties. The CBB also met with retail banks and financing companies to discuss their comments on this consultation paper and the CBB plans to issue the methodology in the form of a Resolution in the first quarter of 2018.

The proposed Methodology in this consultation paper is considered an addition to the Enforcement measures set out in the Enforcement Module of the CBB Rulebook and is based on assessing the violations in a number of ways and calculating the amount of

finances depending on the level of risks that these violations cause to customers of financial institutions, the financial sector and the Kingdom.

Consultation Paper - Proposed Fees and Charges for Standard Services/Products Provided to Customers of Retail Banks and Financing Companies

As part of the CBB's objective of consumer protection, the CBB conducted a comprehensive survey covering all types of fees imposed by conventional and Islamic retail banks and financing companies. Based on the above the CBB considered conducting a new study to set a cap on certain types of fees on financial services of a standard nature which are not justified by their disparity between banks and financing companies.

Therefore in April 2017, the CBB issued a consultation paper proposing new caps. Then, after receiving and studying the comments on this consultation paper, the CBB agreed with Bahrain Association of Banks to form a committee with banks and financing companies to study the subject and submit a proposal to the CBB on the cap on fees for financial services of a standard nature for customers of retail banks and financing companies. The CBB have received the proposal, and is currently under study.

Consultation Paper - Proposed Directions on "Client Money" - Volume 1

In March 2017, the CBB issued a second Consultation paper on a proposed new directive in Volume 1 of the CBB Rulebook on Client Money. The CBB received comments from banks and concerned parties.

These directives aim at ensuring the proper protection of customers' money by prohibiting the mixing of their money with the funds of the bank. These directives exclude the possession of securities and do not apply to deposits of all types.

The comments of banks and concerned parties on the second consultation paper were discussed and it was agreed that these guidelines would be included as part of Business and Market Conduct Module rather than being in a separate Module, in which is currently being drafted.

Directives on Offering of Securities

In September 2017, the CBB has issued directives to listed companies which were included as part of the Offering of Securities Module of the CBB's Rulebook Volume 6 as part of the October 2017 Quarterly Updates. These directives aim at reducing the initial public offering cycle and to introduce the trust arrangements for employee participation programs in company's shares.

Consultation paper with reference to Law No. (37) for the year 2017 on the Notarization Law:

In November 2017, the CBB issued a Consultation paper with reference to Law No. (37) for the year 2017 amending some of the provisions of Law No. 14 of 1971 regarding Notarization, and specifically Article 2 of the said amendment which amends Article 5 of the 1971 Law. The amendment states that the Minister of Justice and

Islamic Affairs shall issue a resolution specifying the documents that may be notarized in English.

The CBB has taken this step to get the industry and concerned parties' feedback with respect to documents that are preferred to be notarized in English.

Impact assessment of recent trends in termination of foreign correspondent banking relationships

In order to identify and monitor developments in this area, the CBB has requested all banks that are clients of correspondent banking products/services provided by foreign financial institutions or those that are providers of those services to assess the impact of foreign correspondent banking relationships (CBRs) which is known as de-risking and the extent of the negative impact they have suffered on their business.

Special directives on Country and Transfer Risks

In June 2017, the CBB has issued directives to deal with Country and Transfer risks as part of Credit Risk Management Module of Volumes 1 and 2 of the CBB's Rulebook, in accordance with Basel Committee requirements of September 2012 on the Core Principles for Effective Banking Supervision.

Consultation paper - Proposed internal audit requirements for all banks

In July 2017, the CBB issued a consultation paper on Internal Audit function in banks as part of its efforts to enhance the internal audit function in banks and to comply with international best practices and standards. The consultation paper is based on the requirements of the Basel Committee on the "Internal Audit function in banks".

The CBB received banks' comments and it is expected to issue the requirements in its final form in the first quarter of 2018.

Directives on cloud computing

In September 2017, the CBB issued directives on the use of financial institutions for so-called cloud computing as part of the October 2017 Quarterly Updates. These directives allow all CBB licensees to utilize cloud computing services within certain security measures.

Consultation Paper - draft "Secured Transactions Law"

In July 2017, the CBB, in cooperation with the Economic Development Board (EDB), issued a consultation paper on draft "Secured Transactions Law". The CBB received the comments of the financial sector and concerned parties. These comments were sent along with CBB's comments to the EDB for their study and review.

Directives for companies under formation

In September 2017, the CBB issued directives to retail banks on know your customer and customer due diligence for companies under formation. These directives were

added in the Financial Crime Module of the CBB's Rulebook - Volumes 1 and 2 as part of the October 2017 quarterly updates.

Directives on "Regulatory Sandbox"

In May 2017, the CBB issued a final paper on "Regulatory Sandbox" in the CBB's website, which includes a framework and process that facilitates the development of the financial technology (FinTech) industry in a calculated way.

Regulatory Sandbox is defined as "a safe space in which businesses can test innovative products, services, business models and delivery mechanisms without immediately incurring all the normal regulatory and financial consequences of engaging in the activity in question."

In September 2017, the CBB also issued directives on the "Regulatory Sandbox" for simplified customer due diligence for entities operating under Regulatory Sandbox which were included in the Financial Crime Module of the CBB's Rulebook Volumes 1 and 2 as part of the October 2017 quarterly updates. These directives aim at facilitating the opening of accounts for companies that are established within the Regulatory Sandbox.

3.2 Supervisory Developments

Compliance Directorate

During 2017, the Central Bank of Bahrain and other relevant AML/CFT governmental and institutional stakeholders carried out the country's first formal and comprehensive AML/CFT National Risk Assessment ("NRA"). The assessment was conducted in conjunction with the World Bank. The objective of the risk assessment was to comprehensively assess the Kingdom's exposure to money laundering and terrorist financing threats and vulnerabilities and to identify, assess and understand associated risks. The NRA served as a mechanism to detect existing knowledge, awareness, and informational gaps of ML/TF risks at a national level and to formulate a risk-based action plan to address them.

Simultaneously, an evaluation team from FATF/MENAFATF conducted a mutual evaluation on the Kingdom of Bahrain to assess the country's AML/CFT legal framework and effectiveness of its systems and controls. The FATF/MENAFATF team visited the Kingdom of Bahrain during 7-22 November 2017 for an on-site evaluation. The team consisted of financial, legal, and law enforcement experts. The Central Bank dedicated resources and efforts to efficiently and effectively complete the mutual evaluation process. The final draft of the mutual evaluation report is scheduled to be discussed at the FATF plenary meeting in June 2018.

During the year, the Central Bank of Bahrain's compliance directorate conducted regulatory onsite examinations on various licensees to assess their compliance with the AML Law, CBB Law, and Financial Crime Module of all volumes. The onsite examinations contributed to the ongoing efforts of improving the systematic AML/CFT framework of the country through exhaustive reviews of the effectiveness of the

controls. The onsite examinations focuses on reviewing the licensees AML/CFT procedures, systems and internal controls and subsequently assist in the prevention, detection, monitoring and reporting of suspicious transactions.

In compliance with the Foreign Account Tax Compliance Act (“FATCA”) Intergovernmental Agreement (“IGA”) signed between the Government of the Kingdom of Bahrain and the Government of the United States of America, the Central Bank of Bahrain (“CBB”) issued several Directives and Circulars to ensure financial institutions’ readiness for FATCA reporting. Accordingly, financial institutions were requested to provide the CBB with a detailed action plan outlining the steps that have been taken to ensure that all systems and procedures are in place and ready to meet the FATCA requirements. On September 2017, the CBB electronically obtained tax information – as per the FATCA IGA - with respect to U.S. reportable accounts. This information was then exchanged with the Internal Revenue Service (IRS) for the first time.

In compliance with the Organisation for Economic Co-operation and Development (“OECD”)’s Common Reporting Standard (“CRS”). The Government of the Kingdom of Bahrain represented by the Ministry of Finance (“MOF”) signed both the Multilateral Convention on Mutual Administrative Assistance in Tax Matters (“MAC”) and Multilateral Competent Authority Agreement for the Common Reporting Standard (“CRS MCAA”), which enables the CBB to obtain information from financial institutions and automatically exchange that information with other participating jurisdictions on an annual basis. Accordingly, the CBB had issued several Directives and Circulars in order to ensure financial institutions’ readiness for CRS reporting including the request to provide the CBB with a detailed action plan outlining the steps that have been taken to ensure that all systems and procedures are in place and ready to meet the CRS requirements. The Kingdom of Bahrain is to undertake the first CRS automatic exchange of information on September 2018.

Banking Supervision Directorates

Objective 1: Promoting Stability and Soundness in the Banking System

The CBB in line with its objective of promoting financial stability and soundness of the banking system along with protecting the interests of consumers of banking services, continued with its proactive monitoring of banks and financial institutions. It continued to formulate regulations which facilitate enhanced transparency and disclosures and implemented measures that provided adequate assurance to the market for supporting market innovation as well as its growth and development.

Towards achieving the aforesaid the following measures were continued by the Banking Supervision Directorates during the year 2017:

1. Enhancing Compliance Effectiveness: With the objective of enhancing the compliance effectiveness within licensees, the CBB issued a Directive directing licensees to ensure that any application/request submitted for CBB’s approval is accompanied by a compliance assessment report confirming that the request is in line with CBB’s rules. If the request has any potential financial impact on the licensee, it will have inputs from the financial control function on the same and in case of any legal

ramifications of the request, an opinion from the legal department of the licensee will also be provided.

2. Sound Remuneration Practices: The CBB continued to monitor the remuneration practices by banks and that the disbursement of bonuses during 2017 are in line with the CBB's Rules on Sound Remuneration Practices under HC Module; as these rules encourage long term relationship between the employees and the banks and align bonuses of senior management and incentivized employees with their risks taking capability.

3. Monitoring the Implementation of IFRS 9:- The CBB issued a Directive in December 2016 asking financial institution licensees to be IFRS 9 compliant by January 2018. Based on the Directive, it started closely monitoring the implementation of IFRS 9 during 2017. Accordingly, the CBB asked the financial institutions in February 2017 to submit an action plan on measures initiated/to be taken to implement IFRS 9 and thereafter submit a bi-monthly progress report on the implementation progress.

4. Monitoring of Impaired Loans Portfolio: As part of its endeavour to proactively monitor the assets quality of banks, the CBB on a quarterly basis monitored the impaired loans portfolio of banks so as to keep track of any abnormal changes in portfolios. Banks were accordingly advised to take pre-emptory measures to check the growth in impaired loans portfolios.

5. Related Party Exposures: The related party exposures of locally incorporated banks were continued to be monitored on a monthly basis with the objective of limiting any risk concentration as also ensure compliance with Central Bank's rules continued to monitor on a monthly basis the related party exposures.

6. Monitoring the Level of Real Estate Exposures: With the objective of controlling risk concentration to volatile sector specifically the real estate sector, the CBB continued to monitor banks' exposures to real estate on a quarterly basis.

7. Meeting on Financial Statements: The banking supervision directorates conducted annual meetings with locally incorporated banks and financing companies, in the presence of their external auditors to discuss year-end financial results before such statements are submitted to the respective Board of Directors for approval. From 2017 onwards the CBB started meetings with retail branches of foreign banks to discuss their interim financial results as well as their annual financial statements. The meetings covered issues pertaining to recognition of income, valuation practices, impaired assets, breakdown and adequacy of provisions including Collective Impairment Provisioning, valuation of collateral, proposed dividends and staff bonuses.

8. Prudential Meetings: The CBB's Conventional Banking Supervision Directorates conducted 41 prudential meetings with the licensees during the year which discussed the previous year's performance, licensees' future strategic plans, and other supervisory issues.

9. Domestic-Systematically Important Banks (D-SIBs):- As part of its supervision of D-SIBs, the CBB conducted prudential meetings with these institutions twice during the year and discussed various supervisory issues including their performance during the year and their strategic plans among others. The CBB also reviewed their Recovery and Resolution Plans (RRPs) that is submitted on an annual basis, in line with the Financial Stability Board, SIFI guidelines and specific requirements of the financial sector in Bahrain.

10. Monitoring of Banks BOD and Organization Structure:- With the objective of evaluating the performance of banks' board, the CBB reviewed the annual corporate governance reports submitted by licensees. The review encompassed the role played by members in BOD meetings, their attendance in board meetings, the structure of BOD committees and the appointment of independent directors among others. Furthermore, as part of its corporate governance review the CBB also reviewed the organization structure of licensees including their succession plan and conflict of interest avoidance in the reporting lines of management. The CBB also sent its representatives to the AGM/EAGM of licensees to monitor the proceedings of these meetings.

11. Appointed Experts Assignments: The CBB with the objective of augmenting its efforts towards enhancing the effectiveness of its supervisory practices, appointed qualified "Appointed Experts" to undertake specific onsite examination on its licensees and Agreed-Upon-Procedures of conventional banks and as such handled 8 assignments during 2017.

12. Wage Protection System: The CBB worked with EDB, LMRA and the private sector participants to prepare the Bahrain financial sector for the implementation of wage protection system. Under the WPS the blue collar workers will be provided their salary through convenient channels other than cash that are easier and safer for the users. This initiative is likely to step up further in the current year.

13. Implementation of New Initiatives: In addition to the implementation of IFRS 9, the Banking Supervision Directorates continued with its monitoring of implementation of cyber security risks management Rules including controls on outsourcing of customer information to cloud service providers as well as implementation of ATM security Rules by banks. Similarly, implementation of the CBB's rules on Country and Transfer Risk were also monitored.

14. Bahrain Credit Reference Bureau (BCRB): In accordance with the Article (68bis1) of the provisions of Decree-Law No.(34), 2015, and subsequent Council of Ministers Resolution Number 2389-03 issued on 5th December, 2016, the CBB took necessary measures to facilitate participation of the Government entities listed therein, in the credit reference system (under BCRB) in Bahrain. As members of the BCRB these government entities are able to access the credit data of the users of their services or clients, thereby facilitating enhancing their capability to assess the credit worthiness

of their clients and help them to take proactive measures to avoid defaults by their clients.

The aforesaid measure has resulted in enhancing the coverage of the financial infrastructure in Bahrain and is expected to facilitate enhanced credit quality in the economy as a whole.

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

15. Compliance with the “Code of Best Practice on Consumer Credit and Charging”: The CBB with the objective of ensuring that licensees act fairly, responsibly, reasonably, and in transparent manner in their dealings with consumers of financial services continued to monitor retail banks and financing companies compliance with the Code. Accordingly, it Appointed “Appointed Experts” for conducting few assignment reviews on the compliance of specific licensees with the “Code of Best practice on Consumer Credit and Charging” during the year.

Objective 3: Promoting Transparency and Market Discipline

The CBB continued with its efforts towards achieving enhanced transparency and market discipline through monitoring and oversight of disclosures made by its licensees in line with Basel3 and international best practices.

16. Public Disclosure by Banks: As part of CBB’s efforts to assess transparency and disclosures made by licensees to their stakeholders, the CBB continued to review public disclosures report submitted by banks after being duly reviewed by external auditors to ensure licensees’ compliance with the CBB’s rules on public disclosures. Any breach of the CBB’s deadlines for submission of date sensitive reports or non-compliance by licensees with the CBB’s Rules attracted enforcement actions including imposition of financial penalty on licensees. Such penalties was required to be disclosed by the licensees in their respective annual reports.

17. Enforcement Actions: The CBB continued to ensure high standards of compliance by its licensees through effective supervision and enforcement of its rules resulting in reducing the risks to the financial system and to the consumers of the financial services. As part of its enforcement and in line with Article 38 of the CBB Law, the Conventional Banking Supervision Directorates have taken 11 enforcement actions against their licensees including imposition of Financial Penalties and Formal Warnings during the year 2017.

Islamic Financial Institutions Supervision

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

The following are the key milestones achieved during the year 2017:

1. The enrollment of three staff members in internship programs with Audit Firms in Bahrain to enrich their familiarity with international best practices in the audit field, another member was enrolled in Monetary Authority of Singapore Banking Supervisors' Training Programme, and one obtained the Certified Shari'a Adviser and Auditor ("CSAA") professional certification from Accounting and Auditing Organization for Islamic Financial Institutions ("AAOIFI"). This is in addition to participation in conferences, seminars workshops and public hearing events related to Islamic Finance.
2. Shared the experience of the Kingdom of Bahrain in the Islamic Banking sector with delegates from University of Dauphine-Morocco, Dar Al Hikma University-KSA, State Bank of Pakistan, and Bangladesh Bank.
3. Updated the Directorate's procedure manual to reflect the changes in the local regulations, rulebook updates, and cope with the international developments in the Islamic Finance sector.
4. Released a new Shari'ah Governance (SG) module after consultation with the industry and with the CBB's Centralized Shari'a Supervisory Board (CSSB), for the purpose of improving the Shari'a compliance and governance standards among Islamic banks in Bahrain and setting proper benchmarks for global Shari'a governance practices.
5. Engaged with an external consultant on updating existing, and introducing new risk management modules for Islamic Banks.
6. Participated in several Islamic Financial Service Board ("IFSB") Surveys, specifically, IFSB Survey on the implementation of the IFSB standards 2016, and IFSB Survey on IFRS 9 and its Implications to Islamic Finance, in addition to participating in the Annual meeting of IFSB's Council.
7. Conducted a Supervisory visits to overseas subsidiaries of locally incorporated Banks and met their relevant officials, including the Central Bank and the External Auditors, to enhance the CBB's consolidated supervisory roles, and improve the exchange of information between the Central Banks

Inspection Directorate

The Inspection Directorate completed more than 50 visits during 2017 to various types of licensees, including insurance firms, banks, and other specialized licensees. The visits were scheduled on a risk basis and had a varied scope to fulfill supervisory objectives and ensure the robustness of the control framework at licensees.

The Directorate employed a risk focused examination approach using the CMORTALE methodology focused on the following assessment elements- capital adequacy, management quality, operational risk, risk management, transparency and disclosure, asset quality, liquidity and earnings. This methodology assesses the risk profile of the CBB's licensees with the ultimate objective of promoting the safety and soundness of financial institutions through onsite procedures aimed at identifying regulatory action

required to reduce the risk of insolvency, the potential loss of market confidence, and losses to depositors or investors. During the year, the Directorate continued its effort to develop an enhanced risk profiling methodology to assess the business, control failure and systemic risks of the licensees. The updated risk profiling methodology shall enable enhanced assessment of probability of default and systemic risk of CBB licensees, in alignment with international best practices. The methodology incorporates the International Financial Reporting Standard 9 (IFRS 9) standard of the International Accounting Standards Board for recognizing and measuring risks of financial assets.

In response to the greater focus towards the assessment of risk within the financial sector, the Directorate identified and implemented training and development programmes designed to provide inspection staff with the skills and experience necessary to assess the extent to which best practice risk management had been effectively embedded in the financial sector.

Capital Markets Supervision

The CBB worked during 2017, to complete the implementation of its plan for the development and updating of the legislative, regulatory and supervisory framework for the capital market sector, in line with international standards and best practices in consultation with the stakeholders and interested parties in this sector and all other financial sector components in Bahrain. In the form in which the CBB and these institutions and bodies, are able to create a suitable environment for the development of the business and activities of the capital market, through the licensing of more market institutions and the encouragement of the diversification of listing and trading of new and innovative securities and financial instruments, along to enhancing the standards, the regulations and the mechanisms of supervision of all the businesses and activities of capital market institutions and licensed financial markets.

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

Developments & Achievements

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

Equity Crowdfunding Rules:

- a. The CBB issued circular EDFIS/C/045/2017 dated 16th November 2017 to all Listed Companies, Self-Regulatory Organizations (“SRO”), SRO Members and other parties within the capital markets pertaining to amendments to Markets & Exchanges (“MAE”) module within Volume 6 of capital markets of the CBB Rulebook with regards to introducing new rules for licensed equity crowdfunding platform operators.

- b. The CBB issued circular EDFIS/C/039/17 dated 11th September 2017 to the listed companies regarding the amendments to Offering of Securities Module within Volume 6 of capital markets of the CBB Rulebook pertaining to amendments on the time table of the offering of securities and employee stock option plan, in order to simplify and speed up the offering of securities procedures and protect the rights of the employees.
- c. The CMSD issued circular CMS/L373/17 dated 4th December 2017 that mandated all listed companies to comply with Paragraph OFS-2.6.7 of the Offering of Securities ("OFS") Module of CBB Rulebook Volume 6 pertaining to the Employee Stock Option Plan ("ESOP") which stipulates that all listed companies securities held on behalf of the employees under an employee stock option plan or employee share benefit plan, must be held in trust by a trustee subject to the prior written approval of the CBB. The requirement shall take effect as of 31st March 2018.

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

Complementing the legislative and regulatory framework for the capital markets sector and in accordance with the requirements of the CBB Law in general and Article (92) in particular, the CBB has prepared the initial draft of the requirements and criteria of short selling and giving securities on loan. Which will be under consultation in the first quarter of 2018.

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

- **Bahrain Bourse B.S.C. ("BHB")**

- a) The CBB, on 20th June 2017, granted its no-objection to the BHB regarding the proposed clearing and settlement function to be undertaken by authorized external trading members. As a temporary solution, and until the appointment of one or more General Clearing Members on the BHB, the CBB's CMSD has given its approval to the BHB's proposal to allow external trading members to undertake clearing and settlement within the proposed exposure limit set out for such external trading members.
- b) The CBB's CMSD has agreed with BHB following the conclusions and recommendations submitted by the Bourse regarding the Self-Regulatory Organization ("SRO") Model on a mechanism to ensure prompt processing of Initial Public Offering ("IPO") applications, Accordingly, the Bourse shall issue its Listing Rules after obtaining the CBB's approval and shall serve as the main point of contact during the offering and listing of securities. In this regard, the BHB is currently engaged in the preparation of a detailed procedure for the offering and listing of securities, which is to be in accordance with the agreed scope of work.
- c) The CBB has granted its approval to the BHB concerning the adoption and application of the ("Market Making Guidelines in Bahrain Bourse") on 15th January 2017.

- **Bahrain Clear B.S.C. © (“BC”)**

On 23rd May 2017, the CBB granted its final approval to Bahrain Clear B.S.C © (“BC”) to be licensed under the category of (“Licensed Clearing, Settlement and Central Depository Systems”).

- **Bahrain Financial Exchange B.S.C. © (“BFX”) and BFX Clearing and Depository Corporation B.S.C. © (“BCDC”)**

The CBB has granted its final approval on 20th September 2017 to appoint Grant Thornton-Abdulaal as the official liquidator of both BFX and BCDC. The shareholders of both companies agreed at the Extraordinary General Assembly Meeting held on 25th October 2017 to initiate the voluntary liquidation process and to approve the appointment of the liquidator. On 26th October 2017, the two companies made public announcements in two local newspapers regarding the cessation of operations, surrender of CBB license and voluntary liquidation.

- **BFX and BCDC Members**

Due to the cessation of operations and commencement of voluntary liquidation of “BFX and BCDC, the members of the above-mentioned Self-Regulatory Organizations (“SROs”) were subject to the cancellation of their memberships, along with several members surrendering their CBB licenses.

- **Primary Market**

In 2017, the CMSD issued its no objection to the use of 72 public and private offering documents (compared to 62 offering documents in 2016) after ensuring the completeness of all the information and details as per the CBB Law, the Offering of Securities Module of CBB Rulebook Volume 6, as follows:

Type of CBB Approval	Issues Value\$	No. of Issues	Offering Method	Type of Security
Registration – Article (81)	\$ 60,500,831.5	1	Rights Issue	Ordinary Shares
Registration – Article (81)	\$ 2,652,916,688.83	22	Private Placement	
Filing - Exempt from Article (81)	\$ 2,750,000,000	2	Governmental	Conventional Bond
Filing - Exempt from Article (81)	\$ 5,500,000,000	2	Private Placement	
Filing - Exempt from Article (81)	\$ 850,000,000.00	1	Governmental	Islamic Sukuk
Filing - Exempt from Article (81)	\$ 400,000,000	1	Private Placement	
Exempt from Article (81)	\$ 1,963,569,734	43	Private Placement	Structured Products
	\$ 14,176,987,253.88	72		Total

The gross total value of these issues amounted to USD 14.2 billion (compared to USD 7.5 billion in 2016), which includes, two issues of Kingdom of Bahrain Government bonds with a total value of USD 2.75 billion (compared to two issues with a value of USD 1.6 billion in 2016), two issues of private placement in conventional bonds with a total value of USD 5.5 billion (compared to USD 2.5 billion in 2016), one Rights Issue with a total value of USD 60.5 million (compared to USD 229 million in 2016), 22 issues of private placements in ordinary shares with a total value of USD 2.7 billion (compared to USD 1.69 billion in 2016), one issue of Kingdom of Bahrain Government sukuk with a total value of USD 850 million, and 43 private issues of structured financial instruments with a total value of USD 1.9 billion (compared to USD 481 million in 2016). For avoidance of doubt, these structured financial instruments are marketed only to accredited investors who are existing account holders and cannot be listed or traded in the market.

- **Listing:**

1. The CMSD issued its no objection on 10th January 2017 to the listing of:
 - a. 40 Government 3M treasury Bills on the Bahrain Bourse, with a total value of BHD 2.8 billion.
 - b. 12 Government 6M treasury Bills on the Bahrain Bourse, with a total value of BHD 420 million.
 - c. 4 Government 12M treasury Bills on the Bahrain Bourse, with a total value of BHD 900 million.
 - d. 12 Government 6M Short Term Islamic Lease (Ijarah) Sukuk on the Bahrain Bourse, with a total value of BHD 312 million.
2. The CMSD issued its no objection to the listing of one Government Development Bond Issue (Issue 14) on 13th July 2017 on the Bahrain Bourse, with a total value of BHD 200 million.
3. The CMSD issued its no objection to the listing of one Government Islamic Lease (Ijara) securities (Sukuk) Issue (Issue 24) on 16th July 2017 on the Bahrain Bourse, with a total value of BHD 125 million.
4. The CMSD issued its no objection to the listing of United Gulf Holding B.S.C dated 27 September 2017.

- **Disclosure, Governance & investor protection**

1. Listed companies' board of director meetings & disclosure of financial statements as per resolution no. (54) for the year 2015
 - a. All Publicly Listed Companies have complied with the requirement of publishing the Annual and Interim Financial Reports for the year ended 31st December 2016, and the year 2017 respectively, during the appropriate time frame. In addition, all publicly listed companies have also complied with publishing the aforementioned reports and disclosing them in at least two local

newspapers (at least one being in Arabic local newspaper), along with publishing the five main financial statements.

- b. All Publicly Listed Companies have disclosed and published their full set of the Annual and Interim Audited Financial Results for the year 2016 and 2017 respectively on the Bahrain Bourse.
- c. Non-compliance by Taib Bank B.S.C. (suspended from trading since 2013) due to the fact that the Bank is under voluntary liquidation.

- **Disclosure Standards**

- a. **Disclosure of Material Information**

The CMSD ensures that all Publicly Listed Companies are committed to disclose material information that may affect stakeholders that deal in securities as per the rules and requirements of the CBB's Disclosure Standards (particularly with regards to the content, timing and disclosure of information on the Bahrain Bourse website).

Throughout 2017, the number of the announcements made by the listed companies pertaining to the disclosure of material information were approximately 427 announcements..

- b. **General Meetings**

The CMSD has approved the agendas for all listed companies for the Annual General Meeting. In addition, other general meetings applications, outlined below, were also approved.

COMPANY	TYPE OF GENERAL MEETING	REASON
Al Ahlia Insurance Company	Extra-Ordinary	Merging with Solidarity; Election of new Board Members
Inovest	Ordinary	Election of new Board Members
Bank Investcorp	Ordinary & Extra-Ordinary	In order to approve the Annual Financial Statements; Amending certain provisions of the M&AoA
Bahrain Cinema Company	Extra-Ordinary	Amending certain provisions of the M&AoA
United Gulf Holding Company	Extra-Ordinary	Capital Restructuring of the Company
Ahli United Bank	Extra-Ordinary	Establishing a Wholly-Owned Bahrain Closed Shareholding Company for the purposes of handling the Banking Operations of the Bank, along with converting the Bank into a

		Bank with a traditional Wholesale license
Bahrain Telecommunications Company	Extra-Ordinary	Amending certain provisions of the M&AoA
Bahrain Middle East Bank	Ordinary & Extra-Ordinary	Election of new Board Members; Amending certain provisions of the M&AoA; Increasing the amount of Issued and Paid-Up Capital.

c. Treasury Shares

The CMSD issued a No Objection letter to the following Listed Companies, consenting them to trade in Treasury Shares:

COMPANY	NO. OF APPLICATIONS	REASONS
Bank of Bahrain & Kuwait	3	Employee Share Option Program; Supporting the Share Price
Khaleeji Commercial Bank	3	Supporting the Share Price
Al Salam Bank	3	Supporting the Share Price
Delmon Poultry Company	1	Supporting Liquidity position in the Market
Bahrain Cinema Company	4	Employee Share Option Program; Supporting the Liquidity & Share Price
Trafco Group	3	Supporting the Liquidity & Share Price
Inovest	2	Supporting the Liquidity & Share Price
GFH Financial Group	2	Supporting the Share Price (Through a Market Maker)
Ahli United Bank	4	Employee Share Option Program; Supporting the Liquidity & Share Price.

d. Share Transfers

- Qualification Shares

The CMSD received applications for the Release of Qualification Shares of Listed Companies' Board of Directors pursuant to Law No. (50) Of 2014, amending certain provisions of the Commercial Companies' Law, whereby the provision that used to mandate Board Members to hold certain number of shares in the Company is no longer applicable, as long as the same is omitted from the Company's M&AoA.

The CMSD issued a No Objection Letter to 17 Listed Companies' applications pertaining to the Release of Qualification Shares.

- Employee Share Option Program

The CMSD has approved several requests for transfer of shares from the Listed Companies to their respected Employees during the year, as per the Central Bank of Bahrain's

Corporate Governance (HC–Module) related to the system of bonuses for the employees of Listed Companies.

e. Other Applications

- Listed Companies' Memorandum & Articles of Association

During 2017 the CMSD received 10 applications from listed companies, requesting CBB's consent to amend certain provisions of the Memorandum & Articles of Association of the company, to which the CMSD approved 6 of the Applications. The CMSD is currently processing other pending applications that are incomplete and do not meet the necessary conditions and controls.

- Market Making

On the 12th of November 2017, the CMSD issued a No Objection Letter to GFH Financial Group B.S.C. with regards to its request for approval for the UAE based brokerage firm "Al Ramz Capital L.L.C." to provide market making services for GFH Financial Group in Dubai with Securities & Investments Company (SICO) shall continuing as a market maker for GFH Financial Group in Bahrain.

- Cross Listing

On 21st of November 2017, the CMSD issued its final No Objection Letter to Khaleeji Commercial Bank, approving the listing of its shares on the Dubai Financial Market, and ensuring its adherence to the terms and conditions stipulated in the approval letter. KHC's shares were listed on the Dubai Financial Market on 19th December 2017.

Moreover, on 8th January 2018, the CMSD granted Ithmaar Holding Company No Objection to list its shares on the Dubai Financial Market, ensuring the compliance with the terms and conditions stipulated in the aforementioned letter.

• Market Surveillance:

During 2017, the Market Surveillance Department has identified a total of 35 suspected cases the preliminary examination results were as follows:

- a. Three cases were handled by the Market Surveillance Department to remedy the issue.
- b. Four cases still under scrutiny
- c. Eight suspected cases that have been transferred to Investigation and Enforcement Department.
- d. Two cases have been transferred to Research and Investor Protection Department.
- e. Three cases that failed to have sufficient evidence to qualify as a suspected case.
- f. Four cases have been dealt with as a form of soft enforcement.
- g. Eleven cases have been transferred to Bahrain Bourse.

• Compliance and Enforcement:

1. Non-Compliance by Licensed Brokers

- a. Following CMSD's investigation into a suspicious transaction and its subsequent preparation of a preliminary investigation report, the Directorate issued a Reminder Letter, dated 5th April 2017, to one of its licensed brokers due to its failure to comply with MIE-A.4.9 and MIE-A.4.10 of the Market Surveillance, Investigation and Enforcement Module of Volume 6 of the CBB Rulebook and the related Article 4.1.1 of the BHB's Market Rules with regards to maintaining records of telephone conversations and electronic communications by failing to provide an actual copy of the form of communication between the licensed broker and its client. The Reminder Letter further advised the broker of its obligation to abide by MIR-A.4.4 (a) of the Market Intermediaries and Representatives Module of Volume 6 of the CBB Rulebook, which entails the adherence to BHB's and the CBB's rules and regulations in executing client orders.
- b. Following CMSD's investigation into a suspicious transaction and its preparation of a preliminary investigation report which was subsequently forwarded to the Enforcement Decisions Review Committee ("EDRC") for review of the proposed enforcement action, the Directorate issued a Formal Warning, dated 3rd July 2017, to one of its licensed brokers due to its contravention of MAM-3.10.19 of the Prohibition of Market Abuse and Manipulation Module of Volume 6 of the CBB Rulebook as well as MIR-A.4.4 (a) and MIR-4.1.1 (k) of the Market Intermediaries and Representatives Module of Volume 6 of the CBB Rulebook, wherein a member shall ensure that there are sufficient records, books and systems in place to record all transactions executed, cleared and settled through its system and accordingly maintain an audit trail in accordance with the CBB's and BHB's rules and regulations.
- c. The CMSD issued a Reminder Letter, dated 2nd August 2017, to one of its licensed brokers in relation to the execution of a major shareholder transaction without seeking the Directorate's approval which is in contravention of AML-7.1.3 of the Anti-Money Laundering and Combating of Financial Crime Module in Volume 6 of the CBB Rulebook. The Reminder Letter additionally stressed the importance of displaying the highest standards of professionalism and adherence to the CBB's rules and regulations.

2. Non-Compliance by Licensed Exchanges

- a. The Directorate issued a Non-Compliance Letter, dated 6th September 2017, to one of its licensed exchanges, for its failure to comply with AML-7.1.1 of the Anti-Money Laundering and Combating of Financial Crime Module in Volume 6 of CBB Rulebook which requires the exchange to notify the CMSD of changes in ownership of major shareholders of listed companies.
- b. The CMSD additionally issued a Notice, dated 25th October 2017, to one of its licensed exchanges in relation to its associated depository's transfer of one of the listed companies' major shareholders' shares to a secondary exchange outside of Bahrain. This transfer contravenes AML-7.1.2 of the Anti-Money Laundering and Combating of Financial Crime Module in Volume 6 of the CBB Rulebook which stipulates that all major shareholders whose ownership amounts to 5% or more in a

listed company must conclude all transactions on such security on a licensed exchange in Bahrain.

3. Non-Compliance by Listed Companies

a. Notification of Non-Compliance to the Monthly Statement of the Register of Interest Requirements

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

Number of Non-Compliance Cases Related to the Submission of Monthly Statement of the Register of Interest for Year:		Percentage Change
2016	2017	
21	6	-71%

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

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

Number of Non-Compliance Cases Related to the Submission of Annual Verification of the Insiders' and the Key Persons' Data Register for Year:		Percentage Change
2016	2017	
2	9	350%

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

The Directorate issued Non-Compliance Letters to 7 listed companies for not meeting the requirements to publicize material information, financial statements - both in English and Arabic, and submit the same to the BHB for the period in question (i.e. quarterly reviewed/ annually audited) with the comparative disclosure for each period separately through the dissemination in press releases. 3 of the abovementioned listed companies were also temporarily suspended from trading for:

- Delay in publication of the press release relating to the listed company's dividend distribution upon receiving the CBB's approval, and the presentation of inaccurate and incomplete information.
- Dissemination of the listed company's financial results on the website of a secondary exchange in one of the Gulf Cooperation Council ("GCC") States

(where the company is cross-listed) prior to holding the prescheduled Board of Directors' meeting to approve of the same and without the simultaneous publication on the primary market's webpage in Bahrain. Also, based on the EDRC's recommendation, a Formal Warning was issued to the same company.

- Non-publication of an announcement to shareholders to clarify or confirm rumours concerning potential acquisition of majority stake in a listed company.

Additionally, the CMSD issued Non-Compliance Letters to 9 listed companies for non-adherence to Article (199) of the Commercial Companies Law which stipulates that the Ordinary General Meeting agenda shall be published in at least two daily newspapers; with one of them, at least, being local.

d. Notification of Non-Compliance to Corporate Governance Requirements

The Directorate issued a Notice, dated 23rd March 2017, to a listed company for its non-compliance with:

- Article (195) of the Commercial Companies Law and Article (58) of its Articles of Association since its financial statements, Board of Directors' report and the Annual General Meeting's agenda were all not signed by the Chairman.
- CBB's Disclosure Standards by failing to promptly notify the CMSD, Bahrain Bourse and the shareholders about the resignations of two Board Members and the General Manager.
- HC-3.2.1 of the High-Level Controls Module of Volume 6 of the CBB's Rulebook, which requires the majority of the members in the Audit Committee to be independent including the Chairman.
- The requirement for the Nomination, Remuneration and Governance Committee to meet during 2016 contrary to what was reflected in the company's submitted Corporate Governance Report ("CGR") for the year ended 2016. In addition, the content of the CGR for the year ended 2016 is not in compliance with HC-A.1.12 and HC-8.2.1 (c), HC-1.4 and HC-8.3 of the High-Level Controls Module of Volume 6 of the CBB's Rulebook.

e. Trade Cancellation Due to Non-Adherence with CMSD's Instructions Relating to Listed Company Share Transfer

The CBB issued a letter dated 31st January 2017, to one of its licensed exchanges with an order to cancel one of the listed companies' trades for not abiding by the Directorate's instructions to transfer all the shares from its market making account to the brokerage account directly rather than executing a trade in the market to achieve the same. The CMSD further highlighted the importance of clarifying the reasons behind this trade cancellation in a public announcement to ensure a fair, transparent and organized market in the Kingdom of Bahrain.

f. Notification of Non-Compliance to Major Shareholder Requirements

The CMSD issued Non-Compliance letters to 6 listed companies in relation to 10 cases of non-adherence to the requirements stipulated in Volume 6 of the CBB Rulebook pertaining to:

- The fact that where ownership amounts to 5% or more of any listed security, the CMSD must be notified of any changes in ownership of major shareholders of listed companies and all transactions on such security must be concluded on a licensed exchange in Bahrain.
- The fact that CBB's prior approval is required to execute any order that brings ownership of an investor to 10% or more in any listed company or any further increase of 1% or more from this point.

The CMSD further issued a Notice, dated 16th February 2017, to another listed company for its non-compliance with Article 2.7 of Resolution No. (5) Of 2015 which states that an issuer must issue and maintain a free float of at least 10% of the total issued outstanding shares to those who are not employees of the issuer, or associated persons.

g. Imposition of Penalty for Non-Adherence to Treasury Share Repurchase Requirements

Based on the EDRC's recommendation, a Notice, dated 12th September 2017, was issued to a listed company in relation to the imposition of a financial penalty due to its failure to comply with treasury share repurchase requirements by executing a transaction to purchase treasury shares from a secondary exchange in one of the Gulf Cooperation Council ("GCC") States (where the company is cross-listed) well beyond the validity period of the CBB's approval. As such, the company was penalized within the range stipulated in the CBB Law.

In line with this, the company duly submitted its appeal on 10th October 2017 which was forwarded to and subsequently rejected by the Appeal Committee hence re-enforcing the listed company's duty to pay the stipulated financial penalty.

h. Temporary Suspension of Trading

The following listed companies were temporarily suspended:

- The Directorate issued a Non-Compliance Letter to Al Salam Bank – Bahrain B.S.C. ("Al Salam") dated 15th February 2017 as a result of its non-adherence to Article (3) from Resolution No. (54) Of 2015 in respect of The Disclosure of Listed Companies' Financial Statements & Board of Directors' Meetings particularly as it pertains to requiring listed companies to provide the Bahrain Bourse with the audited financial statements for the year-end immediately after approval. Al Salam has also failed to comply with the High-Level Controls Module of Volume 6 of the CBB's Rulebook and the Disclosure Standards by publishing its financial results on Dubai Financial Market's website prior to holding the prescheduled Board of Directors' meeting to approve of the same and without the simultaneous publication on the Bahrain Bourse's webpage. Accordingly and as per the CMSD's instructions, the Bahrain Bourse issued a Notice of Suspension to Al Salam on the same day pending its clarification regarding the issue at hand and the publication of its Board-approved financial results. Trading resumed on 16th February 2017.
- Trading on the shares of GFH Financial Group was suspended on 24th August 2017 due to non-adherence to CBB's Disclosure Standards pertaining to the

half-yearly distribution of dividends which were not approved by the CBB prior to publication.

Trading on GFH Financial Group's shares resumed on 27th August 2017.

- With reference to a published news article outlining the potential acquisition of a majority stake in Ahli United Bank B.S.C ("AUB") by Kuwait Finance House, AUB was suspended on 18th September 2017 due to non-compliance with Article (54) and (55) of CBB's Disclosure Standards pertaining to clarification or confirmation of rumours and TMA-2.3.11 of the Takeovers, Mergers & Acquisitions Module of Volume 6 of the CBB's Rulebook relating to announcement of offer or possible offer. Trading on AUB resumed on 20th September 2017.
- Trading on the shares of Inovent B.S.C. was suspended on 10th December 2017 due to perceived unusual trading. Trading on Inovent B.S.C.'s shares resumed on 11th December 2017 subsequent to publication of a clarification of the same.

- **Delisting**

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

1. Twenty Four 3-Months Treasury Bills issues were delisted due to maturity.
2. Seven 6-Months Treasury Bills issues were delisted due to maturity.
3. Six 6-Months Ijarah Sukuk issue were delisted due to maturity.
4. Two 12 Months Treasury Bills issues were delisted due to maturity.
5. On 16th July 2017, Government development Bond Issue No. 8 was delisted due to maturity.
6. On 17th July 2017, Government Islamic Leasing Securities Issue No.19 was delisted due to maturity.
7. On 27th December 2017, Government development Bond Issue No. 4 was delisted due to maturity.
8. 27th September 2017, United Gulf Bank B.S.C was delisted, as part of the restructuring process.

- **Takeovers, Mergers and Acquisitions (TMA)**

- a. **Solidarity Group Holding B.S.C(c) and Al Ahlia Insurance Company B.S.C**

The CMSD supervised the merger between Al Ahlia and Solidarity via transfer of business, assets and liabilities from Solidarity to Al Ahlia against issuance of ordinary shares in Al Ahlia in line with the EGM Resolutions held on 3rd August 2017 at the Swap Ratio of 2.5:1, where 2.5 paid up ordinary shares of Al Ahlia was issued for every 1 issued and paid up ordinary share of Solidarity.

Accordingly, the CMSD issued its approval on all relevant documents and the related announcements made in connection with the offer.

Furthermore, during the EGM held on 3rd August 2017; shareholders representing 77.87% of Al Ahlia shares resolved to approve the merger of Al Ahlia and Solidarity according to the abovementioned swap ratio.

The transaction settlement was scheduled to take effect after 90 days from the date of announcing the amendment to the license of Ahlia Insurance B.S.C and in the case where no objection is received by any related party.

b. United Gulf Bank B.S.C (“UGB”) and United Gulf Holding Company B.S.C (“UGH”)

The CMSD supervised the voluntary conditional Offer from United Gulf Holding Company B.S.C. (“UGHC”) to acquire 100% of the issued and paid up ordinary shares of UGB (Net of Treasury Shares) subject to receipt acceptances in respect of UGB shares representing at least 95% of the total issued and paid up ordinary shares of UGB (Net of Treasury Shares) representing the entire share capital of UGB in consideration for newly issued shares of UGHC at an exchange ratio of 2 shares of UGB against 1 newly issued share of UGHC as Resolved during UGB’s EGM dated 25th September 2017. As a result, the CMSD issued its no objection on the allotment of the new UGH shares in line with the Resolutions of both of UGB and UGH EGMs and reflect the same in Bahrain Clear records.

Subsequently, the CMSD issued two letters affirming it’s no objection to delist UGB from Bahrain Bourse’s main board and to proceed with listing UGH (Under ticker UGH) as of Thursday 28th September 2017.

c. Bahrain Kuwait Insurance Company (“BKIC”) and Takaful International Company

- The CMSD supervised BKIC’s unconditional mandatory cash offer to acquire up to 36.31% of the issued and paid-up ordinary shares of Takaful, representing all the total outstanding shares of Takaful not currently held by BKIC at an offer price of 95 fils for every share in Takaful.
- Accordingly the CMSD issued its no objection on all documents related to the offer including the letter of intent, BKIC’s offer document, offeree board circular and acceptance forms as well as related offeror and offeree announcements which were prepared according to the requirements stipulated under the Takeovers, Mergers & Acquisitions Module of CBB Rulebook Volume 6.

- The offer opened on 6th June 2017 and closed on 20th June 2017 where 22,44,956 Takaful shares were surrendered representing 3.59% from the ordinary issued and paid-up shares of Takaful.
 - BKIC deposited the cash consideration (95 fils per share) for the settlement of the number of shares surrendered in an escrow account held with SICO. Accordingly, on 29th June 2017, Bahrain Clear executed the share transfer and updated Takaful's share register to reflect the change in ownership.
- **Joint Work of the Gulf Cooperation Council (GCC)**
1. The CBB's Capital Markets Supervision Directorate participated in the first meeting on 27th -28th February 2017 and the second meeting on 29th March 2017 of the Integration of Financial markets Strategy in Riyadh.
 2. The CBB's Capital Markets Supervision Directorate participated in the 13th meeting on 8th March 2017 of the Gulf Cooperation Council (GCC) Taskforce for the Market Surveillance and Supervision over the exchanges in the GCC,
 3. Participated in the joint seminar in the United Arab Emirates, March 6-7 2017, where examples of violations of the participating countries were presented during the two days and expressing how difficult it is to deal with them and demonstrate behavioural violations and use of, and intentionality which, as discussed solutions and practices followed by the bodies in dealing in such irregularities and the exchange of experiences among themselves, put the difficulties and challenges faced by regulators after monitoring transactions suspected of violating laws and regulations and in proving premeditation in the commission of the offending behaviour.
 4. The CBB hosted the 16th meeting of the Heads of Securities Commission on Thursday, 27 April 2017 in the Kingdom of Bahrain. The meeting was chaired by his Excellency, the Governor, to discuss the topics related to the Integration of Financial Markets Strategy, precisely the project of Strategy and mechanisms for the integration of GCC financial markets, and the recommendations of the Market Surveillance and Supervision over the exchanges Taskforce. The Committee also discussed the establishment of a website for the GCC financial market regulators.

On the side-lines of the 16th meeting of the Committee of the Heads of Securities Commission in the GCC States, the first joint meeting with the Heads of the stock exchanges to discuss the memorandum of the Secretariat General of the Gulf Cooperation Council concerning the unification of the opening time in the GCC stock markets in the Gulf Cooperation Council States and to emphasize the importance of consultation with the heads of markets (stock exchanges) to submit their proposals and their views on the integration of the GCC financial markets.

Financial Institutions Supervision Directorate ("FISD")

Overall responsibilities of FISD as part of CBB

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

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

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

Routine responsibilities covered during 2017

During the course of 2017, FISD continued to fulfill its responsibilities by implementing rules and regulations and using various supervisory tools, including in-depth financial analysis, prudential meetings with management of licensees, formal requests for information from the sector, liaising internally with other Directorates at the CBB, in addition to the ongoing monitoring of licensees through regular communication and exchange of correspondence.

As part of its supervisory role in monitoring the Collective Investment Undertakings (CIUs') sector, FISD also continued to use its supervisory tools to monitor the industry and ensure adherence to the rules and regulations stipulated in CBB Rulebook Volume 7 (CIUs) and other relevant regulatory requirements.

Developments achieved/or and new regulations/circulars issued during 2017.

Being vigilant of the continuous developments in the local, regional and international financial centers, the CBB continuously enhances its existing regulations to ensure parity with best market practice, and identifies gaps based on industry demand and international developments.

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

Consultations:

On 18th July 2017, a consultation paper was issued to all Investment Firm licensees, all Trust Service Providers, all Administrators and Registrars, in relation to the draft Secured Transactions Law.

In addition, the CB has issued another consultation paper on 7th November 2017 to all Investment Firm licensees, all Trust Service Providers, all Administrators and Registrars in relation to Decree Law No. 37 of 2017 amending some of the provisions

of Law No. 14 of 1971 regarding notarization, seeking the industry's feedback regarding the documents that is suggested/preferred to be notarized in English.

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

In order for the licensees be fully compliant with the new laws including the Protected Cell Companies Law, Investment Limited Partnerships Law and Trust Law, the CBB has issued the following resolutions:

- Resolution no. (1) of 2017, specifying the fees applicable on a request to establish a Protected Cell Company or the conversion of an existing company to a Protected Cell Company.
- Resolution no. (12) of 2017, with respect to the conditions that must exist in the General Partner in Investment Limited Partnerships.
- Resolution no. (13) of 2017, with respect to the conditions of obtaining CBB approval for the establishment of Investment Limited Partnerships.
- Resolution no. (30) of 2017, regarding the conditions and licensing procedures for undertaking Trustee services.
- Resolution no. (31) of 2017, regarding the documents and information required to register the Trust or any subsequent amendments to the Trust.
- Resolution no. (32) of 2017, regarding the conditions and procedure for establishing a Protected Cell Company and its cells or converting an existing company to a Protected Cell Company.
- Resolution no. (33) of 2017, regarding the paid up capital and shares of the core and cells of a Protected Cell Company.

In addition to the above, the CBB has issued Resolution no. (29) of 2017 issuing a Regulation on the procedures to consider requests by Investment Business firms to transfer their business in the Kingdom of Bahrain.

Circulars:

In June 2017, the CBB has issued circular no. EDFIS/C/024/2017 addressed to all Investment Firm Licensees, Trust Service Providers, and Administrators/Registrars, notifying them that in light of Law No. (18) for the year 2016 with respect to Investment Limited Partnerships, and Resolution No. 12 of 2017, the CBB has issued Form LP 1: LP Application Form pertaining to the establishment of Investment Limited Partnership, and Form LP 2: GP Application Form, which is an application for approval to become a General Partner in an Investment Limited Partnership.

Another circular issued in the same month was circular no. EDFIS/C/025/2017, which was sent to all Investment Firm Licensees, Trust Service Providers, and Administrators/Registrars, notifying them that in light of Decree Law No. (22) for the year 2016 with respect to Protected Cell Companies, and Resolution (32) for the year 2017, the CBB has issued Form PCC 1: PCC Application Form pertaining to the establishment of Protected Cell Companies, and Form PCC 2: Conversion to PCC Application Form, for the conversion of an existing company to a Protected Cell Company.

Regulatory and Rulebook Updates:

During 2017, FISD continued to develop the rules and regulations pertaining to its licensees, either by way of updating existing rules or introducing new rules.

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

CBB Rulebook Volume 4: Investment Business Developments

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

As a result, quarterly updates to the Rulebook were issued in January, April, July, and October of 2017, which included the following:

In January 2017, an update was issued amending the reporting requirement in relation to obtaining control over a licensee resulting from circumstances outside the licensee's knowledge/control.

April's update included amending the financial penalty amount for date sensitive reporting requirements, in addition to listing the mandatory documents required to be submitted along with Form 3: Application for Approved Person Status. Moreover, the update included a section on onsite inspection reporting requirements.

An update in July 2017 addressed amendments relating to transaction records, in accordance with legislative Decree no. (28) of the year 2002 with respect to Electronic Transactions "The Electronic Transaction Law". July's update has also included a section with regards to the publication of the decisions to grant, cancel or amends a license by the CBB.

As for October, the update included the requirement for inviting the CBB's representative to attend shareholders' meetings.

It also included the addition of a section relating to the utilization of "Cloud Services" and listing the required security measures to be in place while utilizing such services.

October's update has also included a requirement that licensees must provide a liquidity position assessment along with a request to distribute dividends. In addition, it included a requirement that all investment business firms which do not hold or control clients' assets to confirm the same annually.

CBB Rulebook Volume 5:

Specialized Licensees Developments

Money Changers Developments

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

In January 2017, an update was issued amending the reporting requirement in relation to obtaining control over a licensee resulting from circumstances outside the licensee's knowledge/control.

April's update included amending the financial penalty amount for date sensitive reporting requirements, in addition to listing the mandatory documents required to be submitted along with Form 3: Application for Approved Person Status. Moreover, the update included a section on onsite inspection reporting requirements.

An update in July 2017 addressed amendments relating to transaction records, in accordance with legislative Decree no. (28) of the year 2002 with respect to Electronic Transactions "The Electronic Transaction Law". July's update has also included a section with regards to the publication of the decisions to grant, cancel or amends a license by the CBB.

As for October, the update included the addition of a section relating to the utilization of "Cloud Services" and listing the required security measures to be in place while utilizing such services.

October's update has also included a requirement that licensees must provide a liquidity position assessment along with a request to distribute dividends, and the effect of such distribution on the licensee's capital adequacy.

Representative Offices Developments

During the course of 2017, the FISD continued to ensure that the Representative Office licensees adhere to the requirements of the Modules introduced at the end of 2010 as part of CBB Rulebook Volume 5.

In April 2017, an update was issued amending the financial penalty amount for date sensitive reporting requirements, in addition to listing the mandatory documents required to be submitted along with Form 3: Application for Approved Person Status.

An update in July 2017 was issued regarding adding a section with regards to the publication of the decisions to grant, cancel or amends a license by the CBB.

Administrators/ Registrars Developments

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

In April 2017, an update was issued amending the financial penalty amount for date sensitive reporting requirements, in addition to listing the mandatory documents required to be submitted along with Form 3: Application for Approved Person Status.

An update in July 2017 addressed amendments relating to transaction records, in accordance with legislative Decree no. (28) of the year 2002 with respect to Electronic Transactions “The Electronic Transaction Law”. July’s update has also included a section with regards to the publication of the decisions to grant, cancel or amends a license by the CBB.

As for October, the update included the addition of a section relating to the utilization of “Cloud Services” and listing the required security measures to be in place while utilizing such services.

Trust Service Providers Developments

The Common Modules were issued and applied to Trust Service Providers on 30th April 2013. The Specific Modules which are currently being drafted will be issued to the sector for consultation, before formal application.

In April 2017, an update was issued amending the financial penalty amount for date sensitive reporting requirements, in addition to listing the mandatory documents required to be submitted along with Form 3: Application for Approved Person Status.

Ancillary Service Providers

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

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

In April 2017, an update was issued amending the financial penalty amount for date sensitive reporting requirements, in addition to listing the mandatory documents required to be submitted along with Form 3: Application for Approved Person Status. Moreover, the update included a section on onsite inspection reporting requirements. An update in July 2017 addressed amendments relating to transaction records, in accordance with legislative Decree no. (28) of the year 2002 with respect to Electronic Transactions “The Electronic Transaction Law”. July’s update has also included a

section with regards to the publication of the decisions to grant, cancel or amends a license by the CBB.

October's update has included a requirement that licensees must provide a liquidity position assessment along with a request to distribute dividends, and the effect of such distribution on the licensee's capital adequacy.

CBB Rulebook Volume 7: Collective Investment Undertakings Developments

During the course of 2017, the FISD continued to ensure that Bahrain domiciled CIUs and placement agents of overseas domiciled CIUs adhere to the requirements of CBB Rulebook Volume 7 issued in April 2012.

As a result, quarterly updates to the Rulebook were issued in July and October of 2017, which included the following:

In July 2017, an update was issued addressing amendments to the timeline of an application validity of Bahrain Domiciled CIUs.

The same update also included amendments to the offering of CIU holdings to include all investors subscribing through placement agents in Bahrain.

In addition to the above, the following directives were issued in the update of October 2017, with regards to offshore and locally domiciled Exchange Traded Funds (ETFs), in addition to enhancing the directives related to the Bahrain Domiciled Real Estate Invest Trusts (B-REITs).

During 2017, the CBB registered 3 Bahrain domiciled CIUs; in addition to 122 overseas domiciled CIUs to be marketed in Bahrain. In total, 125 funds have been authorized / registered during the year.

What FISD did to promote stability and soundness in the financial system?

Degree of protection to users of the financial system, promote transparency and market discipline, reduce the likelihood of licenses being used for financial crime including money laundering activities.

Promoting stability and soundness in the financial system

During the course of 2017, FISD continued to monitor the performance of the financial institutions under its supervision, through various supervisory tools, including the scrutinizing of financial reports submitted by licensees on a monthly or quarterly basis and through conducting regular management meetings.

The Directorate also continued to monitor capital adequacy levels of all licensees and the performance of Collective Investment Undertakings under its supervision.

Providing an appropriate degree of protection to users of the financial system.

Protecting the public clients of financial institutions is a main objective of the FISD, observed in both supervising financial institutions and collective investment undertakings (CIUs). As part of the process of supervising financial institutions, the FISD ensures that any staff who offers financial products to the public are satisfactorily qualified in terms of education and required years of experience, in line with the Training and Competency Module, to undertake this activity, thus reducing the risk of mis-selling to the public.

Moreover, the Code of Practice within the Business Conduct Module of Rulebook Volume 4 comprehensively addresses the measures that Investment Business Firms are required to adhere to in addressing the public.

Additionally, the FISD ensures that all CIUs offered to the public, are either authorized or registered as required, and are marketed to the appropriate category of clients only by eligible financial institutions.

Promoting transparency and market discipline.

Transparency and market discipline are observed at all times in the process of supervising licensees. As a result, FISD ensures that any information that should be disclosed to the public, is done so in a transparent and timely manner. Additionally, the FISD ensures that the sector as a whole, adheres to reporting requirements prudently.

Additionally, the review of rules and regulations that enhance the level of transparency and market discipline is an ongoing process.

On the other hand, all CIUs are scrutinized to include minimum information to be contained in a prospectus in order to achieve a prudent standard level of transparency.

Additionally, CIUs are required by virtue of the rules that regulate such products, to disclose any amendments to the prospectus to the unit holders, on a timely basis.

FISD ensures that any related information is made available to unit holders at all times. Additionally, unit holders are informed of certain information with regards to their investments in the funds, on regular intervals.

Reducing the likelihood of licensees being used for financial crime including money laundering activities.

With regards to observing Anti-money Laundering requirements for CIUs, the FISD ensures that any eligible CIU is authorized or registered prior to being marketed in the Kingdom of Bahrain. Such authorization/registration is subject to the CIU observing the Anti Money Laundering Law of the Kingdom of Bahrain at all times.

The Financial Crime Module of CBB Rulebook Volumes 4 and 5 addresses this crucial area and is being monitored by the Compliance Directorate.

The FISD liaises with the Compliance Directorate on such matters and ensures that every financial institution under its supervision has a qualified MLRO appointed at all times.

Insurance Sector Supervision

The Insurance Supervision Directorate released the Insurance Market Review Report of 2016. The Report presents the financial performance of the insurance industry in Bahrain for the years 2015 and 2016 (both conventional insurance & reinsurance and Takaful & Retakaful business) by class of business in the Kingdom, highlighting the origin and the historical background of the insurance market in Bahrain. The total gross premiums of the Bahrain insurance market has shown steady results in 2016 in terms of gross premiums which registered BD 272.04 million. Insurance penetration (ratio of gross premiums to GDP) stood at 2.27% in 2016.

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

- The CBB requested Insurance Firms' management to submit their year-end financial statements and attend a meeting whenever required at the CBB with their external auditors prior to the submission of the financial statements for approval to the Board of Directors.
- The CBB continued to receive monthly investment reports and assess the performance of the investment portfolio.
- The CBB receives and reviews various prudential reports as per the requirements of the CBB Rulebook (Volume 3) in order to efficiently supervise and assess the Licensees compliance with the CBB and Financial Institutions Law No. (64) of 2006 and the CBB Rulebook (Volume 3).
- In October 2014, Motor Insurance Compensation Fund Law No. 61 of 2014 was issued after approval by Shura Council and Council of Representatives. The Fund was an initiative of the CBB and Bahrain Insurance Association (BIA) which is designed to compensate the injured parties in the following circumstances:
 - Absence of a valid insurance policy for the vehicle that caused the accident (Uninsured vehicle);
 - The vehicle that caused the accident or the owner and/or the driver of the vehicle were not identified (Hit & Run);
 - In the event of the insurer being insolvent; and
 - In case of no other party to compensate as per relevant laws and regulations.

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

During 2017, the Board of Directors of the Motor Compensation Fund had several meetings and discussed various issues related to the Fund. Furthermore, the Fund received the contribution of 1% of the Gross Motor Insurance Premiums from the Insurance Firms for the year 2017. It is worth to mentioning that during 2017 the Fund has compensated the family of a Bahraini victim of an accident caused by uninsured vehicle. The Fund decided to compensate the victim's family after reviewing the

submitted documents and followed the necessary legal procedures to compensate the victim's family in this respect.

- In July 2016, Resolution No. (23) of 2016 was published in Official Gazette regarding the unified compulsory Third Party Motor Insurance Policy and the procedures on dealing with claims arising from the compulsory third party motor policy. Such resolution issued in order to ensure that high quality insurance services and fair treatments are offered to the policyholders and claimants. Moreover, the CBB is following up in respect of all types insurance policies of complaints of and ensure that the insurance companies are in compliance with the rules and procedures in place in this respect.

Financial Stability Directorate

During 2017, the Financial Stability Directorate ("FSD") continued conducting macro prudential surveillance of the financial system to identify areas of potential concern and to undertake research and analysis on issues relating to financial stability. The FSD also continued to perform the following core functions:

- Issuing various publications such as the Financial Stability Report (semi-annual) and the Economic Report (annual), along with other periodical publications that monitor domestic and international macro-financial developments that include the Financial Soundness Indicators (Quarterly).
- Undertaking general research on issues relating to financial stability in Bahrain and conducting a number of presentations on financial stability developments.
- Collecting, compiling and disseminating statistical information and releasing financial data that is published through its Monthly Statistical Bulletin and quarterly Economic Indicators.
- Monitoring major global economic developments in the internal Weekly International Bulletin.
- Conducting annual surveys such as the Manpower Survey, Coordinated Portfolio Investment ("CPIS") Survey (annual), Coordinated Direct Investment ("CDIS") Survey (annual), Locational International Banking surveys (quarterly).
- Maintaining CBB's relations with major international institutions and agencies (IMF, World Bank, and rating agencies) and acting as a point of contact for other third parties, both domestic and overseas.
- During 2017, the FSD decided to provide research and analysis services to all directorates of the Bank. The FSD has received various requests for the preparation of research and studies related to the directorates of Banking Supervision and Capital Markets Supervision.

- Preparing the following scientific papers:
 - Performance of the Banking Sector in 2017
 - Non-oil foreign trade in Bahrain
 - Risk trends in deposits and loans of retail banks in Bahrain
 - Risks related to the current account deficit

The Payment Systems Oversight (PSO) Division oversees the Financial Market Infrastructures (FMI) and Payment and Settlement Systems (PSS) which are either operated by the Banking Services (BKS) Directorate i.e. within the Central Bank of Bahrain (CBB) or by The Benefit Company (BENEFIT) through continuous monitoring, policy dialogue, evaluating data from participants, on-site inspection and ensuring adherence to regulations. Statistical and periodic reports are formulated to ensure safety and efficiency of the below:

- Systematically Important Payment Systems (such as the RTGS and SSS);
- Major Retail Payment Systems (such as the Cheque Truncation System (CTS) branded as Bahrain Cheque Truncation System (BCTS)); and
- Other Low-Value Payment Systems (such as the Electronic Fund Transfer System (EFTS) which includes the Electronic Bill Presentment and Payment (EBPP) branded as Fawri+, Fawri and Fawateer).

The FSD implemented the recommendations of the Financial Sector Assessment Program (FSAP), which was held in 2016 and 2017. The FSD coordinated with the IMF mission and worked with CBB's other directorates to follow up on all the requirements related to the program. The FSD follows up on updates on the recommendations related to the banking and insurance sector, banking services, stress tests for the banking system and financial stability issues, which will contribute to the development of the supervisory and regulatory systems adopted by the CBB. One of the most important recommendations implemented in 2017 is the formation of the Financial Stability Committee through Resolution No. 49 of 2017. The Committee aims to promote the concept of financial stability in the Central Bank of Bahrain. The Committee consists of seven members and a rapporteur. The purpose of the Committee is to:

- Develop a general Macro Prudential Policy Framework
- Evaluate the tools related to the macro prudential policy and precautionary measures within the bank's jurisdiction to address Macro Financial Risks
- Generally discuss systemic risks that may affect the stability of the financial sector
- Strengthen and periodically review the regulatory instruments currently applied to banking and financial institutions to ensure the application of the best international standards and practices, particularly with regard to domestic systemically important banks/financial institutions (DISBs/DSIFIs)
- Discuss strengthening international cooperation with other regulators to ensure that risks are not transferred cross-borders

In addition to that, the IMF provided Technical Assistance to the CBB in developing the External Sector Statistics. The delegation provided recommendations to improve

the methodology used in the preparation of the balance of payments to enhance the consistency, coverage and comprehensiveness of balance of payments data.

In 2017, the FSD focused on enhancing its publications and statistical data. For the Financial Stability Report, there was focus on making it more comprehensive by covering developments in the insurance and capital markets sectors, and including new chapters on Fintech and Cyber Risk. The Economic Report includes new chapters such as foreign direct investment and workers remittances, and current chapters focus more specifically on the financial sector of Bahrain. The FSD also enhanced some of its statistical returns to capture data on SME's, investment business firms, Islamic windows and financial institutions.

The CBB also conducted its sensitivity stress testing exercises in 2017 based on the Locally incorporated and Systemically Important Banks (D-SIBs). In order to further develop its stress testing strategy, the FSD started the process of developing other model based stress tests to assess other risks and the involvement of banks in further exercises.

The FSD continues to be involved in the Electronic Submission of Returns and Data (ESRAD) system and is working with other CBB directorates and licensee as since the launch of the system. FSD was able to publish a number of returns in 2017 and started receiving submissions from various licenses. The FSD continues to provide licensees with information and training with regards to the use of the system and submission of period data.

Chapter

4

4. Other CBB Projects and Activities

New Licenses

Payment System (“SSS” & “RTGS”)

Currency Issue

CBB Training Programs

IT Projects

External Communications Unit

CBB’s Organisational Chart

4.1 New Licenses

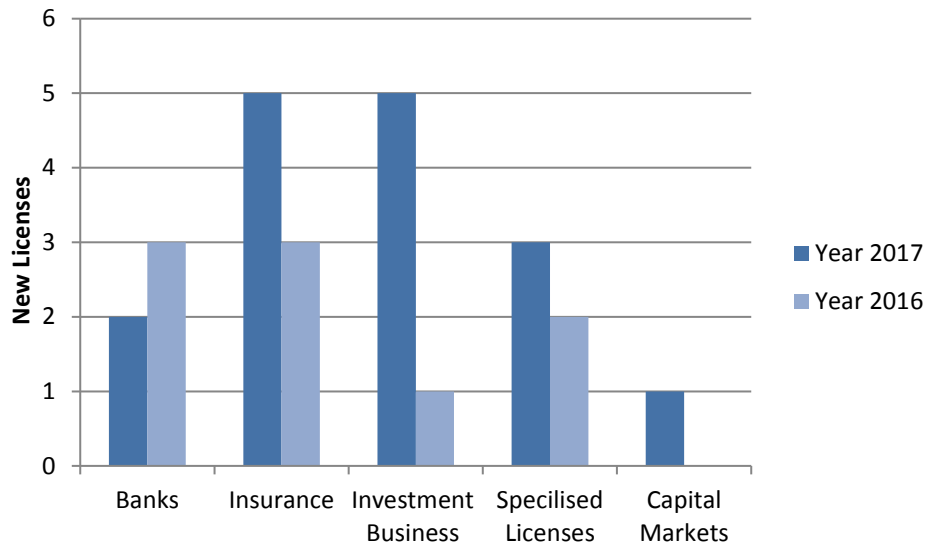
New Licenses

The Central Bank of Bahrain ("CBB") has issued 16 new licenses in 2017 compared to 9 new licenses issued in 2016, reaching to a total of 393 licensees providing financial services form Kingdom of Bahrain as of 31st December 2017 compared to a total of 406 licensees as of 31st December 2016.

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

1. Gulf International Bank B.S.C., Retail Bank-Branch.
2. Mashreqbank P.S.C., Wholesale Bank-Branch.
3. SBI Life Insurance Company Limited, Overseas Insurance Firms.
4. Bridge Insurance & Reinsurance Broker W.L.L., Insurance Broker
5. OLT Investment International Company B.S.C. (c), Investment Business Firm - Category 1.
6. Ithmaar Holding B.S.C., Investment Business Firm - Category 1 (Islamic Principles).
7. Seera Investment Company B.S.C. (c), Investment Business Firm - Category 1 (Islamic Principles).
8. BGC Brokers L.P., Investment Business Firm - Category 2 – Branch.
9. Deloitte Corporate Finance Advisory Limited, Investment Business Firm - Category 3 – Branch.
10. Nomura International plc, UK - Representative Office.
11. International Payment Services B.S.C. (c), Ancillary Service Provider - Card Processing.
12. Invita Claims Management Company B.S.C. (c) - Ancillary Service Provider, Third Party Administrator.
13. Bahrain Clear B.S.C. (c), Licensed Clearing, Settlement and Central Depository Systems.
14. Transocean Marine General Surveyors & Loss Adjusters W.L.L., Registered Loss Adjusters.
15. Mr. Venkatasubramanian Achaiyer, Registered Actuary.
16. Mr. Chye Pang Hsiang, Registered Actuary.

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



New Licensees Growth by Sector

4.2 Payment System (SSSS & RTGS)

Transfers through the Real Time Gross Settlement System (RTGS) were 248,656 transfers in 2017, for a total amount of BD76.7 billion with a daily average of 1,003 transfers and BD309.6 million, categorised into the following:

- The volume of inter-bank transfer through RTGS was 45,153 transfers for a value of BD72.8 billion.
- The volume of customer transfers through the RTGS totalled 203,503 transfers with a value of BD3.9 billion during 2017.
- Total fees received from RTGS and SSS member banks (transaction fees and annual membership fees) amounted to BD226,016 in 2017.
- There were 93 issues carried out through the Scripless Securities Settlement System (SSSS) in 2017, the value of which was BD7.1 billion.

4.3 Bahrain Cheque Truncation System (BCTS)

The number of cheques cleared through the BCTS for 2017 was 3,300,941 cheques with a total amount BD10.1 billion. The daily average number of cheques was 13,310 cheques and the daily average value was BD40.6 million.

4.4 Electronic Fund Transfer System (EFTS) and Electronic Bill Presentment and Payment (EBPP) System

Transfers through the Electronic Fund Transfer System (EFTS) including Electronic Bill Presentment and Payment (EBPP) System were 7 million transfers in 2017, for a total amount of BD9.8 billion, categorised into the following:

- The volume of Fawri+ transfers through the EFTS was 370,889 transfers for a value of BD87.5 million. The daily average number of Fawri+ transfers was 1,016 and the daily average value was BD239,710.
- The volume of Fawri transfers through the EFTS was 4,872,446 transfers for a value of BD9.7 billion. The daily average number of Fawri transfers was 13,349 and the daily average value was BD26.5 million.
- The volume of Fawateer transfers through the EBPP was 1,797,003 transfers for a value of BD77.7 million. The daily average number of Fawateer transfers was 4,923 and the daily average value was BD213,072.

4.5 Currency Issue

- The CIS continued its operations accounting, sorting of currency notes and shredding of unfit currency notes using the machine which was directly linked to records of the CIS. The value of shredded unfit currency notes amounted to BD 216,672,132/- in 2017.
- The daily value of currency withdrawals amounted to BD 1,519,040,970/- in 2017, while that of the currency deposits stood at BD 1,526,927,500/-, the value of currency in circulation recorded BD 663,443,970/- on 31st December 2017, of which currency notes and coins amounted to 20,650,940/- and BD 642,793,030/- respectively. The fourth issue of the new series of currency notes reached a level of BD 141,523,203/- and amounted to 22.02% of the total value of currency in circulation. The value of the third issue of the new series of currency notes stood at BD 9,075,287/- or 1.41% of the total value of currency in circulation.
- The upgraded issue of the BD 20 and BD 10 new series of currency notes reached a level of BD 492,194,540/- and amounted to 76.57% of the total value of currency in circulation.
- The process of upgraded the Bahraini banknotes are continued, Currency Issue Directorate started upgraded banknote BD5 by adding a new security feature “Spark Live Truspin” instead the old security feature “Hologram”. This upgraded process will go along with similar upgraded the banknotes BD10 and BD. 20

4.6 CBB Training Programs

During 2017, the Central Bank of Bahrain continued to focus on ensuring that CBB's employees have the right skills and competencies to enable them to perform their responsibilities at a high level.

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

- Developing employees' skills and knowledge through enrolling 163 employees in 147 training courses at BIBF; covering different areas including finance, Islamic banking, insurance, management, IT security and other computer skills.
- Enhancing technical competencies through enrolling 81 employees in 60 external training programs, workshops and conferences, organized by specialized institutes and regional and international organizations. These programs and conferences covered various areas including supervision, insurance, IT and economics.
- Conducting a tailored program in cooperation with the Bahrain Institute of Banking and Finance (BIBF) for 21 new employees; in order to develop their skills in communication, time management and work ethic.
- Conducting a tailored Executive Leadership Development Program, accredited by Chartered Management Institute, UK in cooperation with the Bahrain Institute of Banking and Finance (BIBF). The aim of the program –which has been completed by 18 CBB Heads-, was to enhance the participants' soft skills in the areas of leadership, self-development and strategic performance management.
- Providing internships for 18 university students, in order to enhance their professional skills and prepare them for the workplace.

Making use of technology through providing access to 100 employees to an e-learning platform, which covers a variety of Banking and Finance subjects.

4.7 IT Projects

During the course of 2017, a number of projects were completed within the IT department. They included the following:

- **Reserve Management Treasury System (TCS BaNCS)**

The TCS BaNCS Treasury Application for Reserve Management Directorate has been successfully implemented to replace the earlier treasury application (SunGard). The application provides straight through processing of transactions in multiple currencies and multiple investment instruments, powerful risk management and reporting functions, in addition to integration with external systems like Reuters, Bloomberg, SWIFT and external fund managers.

- **The Foreign Account Tax Compliance Act (FATCA)**

CBB implemented FATCA system for Compliance Directorate to facilitate the agreement between the Government of the United States of America and the Government of the Kingdom of Bahrain to facilitate international tax compliance of US residents to the Foreign Account Tax Compliance Act (FATCA) of the US. The System enables the exchange of certain information with respect to U.S. “Reportable Accounts” on an automatic basis under the supervision of Compliance Directorate.

- **Information Security Assessment and Improvement**

As part of its continuous efforts to ensure optimal protection for CBB’s information assets, ITD had performed the scheduled Information Security System Assessment (External Penetration Testing) to identify vulnerabilities and remediate it. Furthermore, ITD had initiated Cyber Threat Intelligence (CTI) Services for CBB to monitor external threats and take down those threats. Additionally, the existing Vulnerability Management tool was used to identify security loopholes / weaknesses in servers, network devices, etc. and thereby facilitate the required and application-supported patches to be deployed as a means of safeguarding them further.

- **Implementation of IT Policies and Procedures**

Information Technology Directorate updated its policies and procedures and aligned them further with globally accepted standards (e.g. ISO 27001, ITIL, and COBIT). The objective of this approach is to facilitate the implementation of an Integrated Management System (IMS), which would integrate the principles of best practices into one coherent system and thereby enable the achievement of its purpose and mission.

- **Enterprise Dashboards for Banking Operations and Monetary Policy**

As part of CBB’s IT Strategy to contribute to business success, ITD initiated the implementation of new Enterprise Dashboards for Banking Operations in addition to Monetary Policy Statistics. The dashboards provides real time visual statistics for RTGS, Standing Facilities, Currency in Circulation, etc.

4.8 External Communications Unit

External Communication Unit's Objectives:

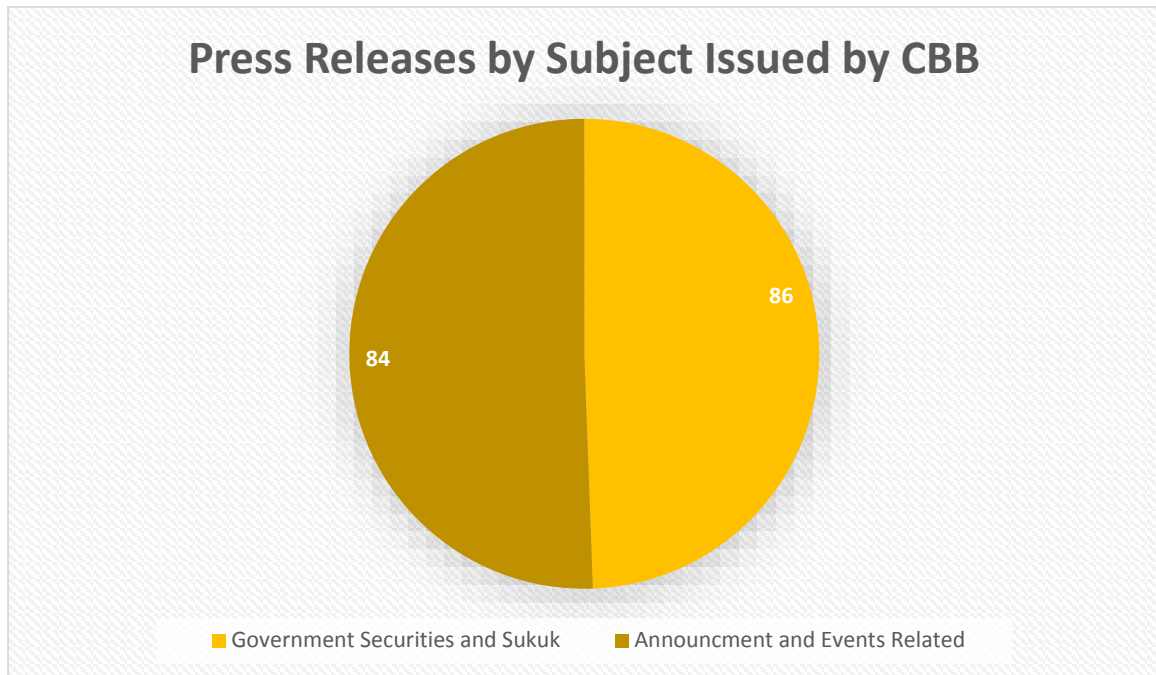
- The CBB supports of a number of events throughout the year, with financial support, hosting of guests, speakers, Governors, moderators as well as ensuring relevant and timely topics for the event agenda. The ECU ensures timely planning and execution of the same.
- The ECU ensures timely follow-up on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

Periodic reports produced by the ECU:

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

Press Releases from CBB

- 170 Total Number of Press Releases.
- 84 Total Number of Government Securities and Sukuk Press Releases.
- 86 Total Number of Press Releases related to CBB announcements and events.



Date	Subject
11.01.2017	One of the BIBF's international partners Strathclyde named top UK University at Times Higher Education awards
11.01.2017	CBB introduces new features to banknotes
16.01.2017	CBB announces new uncut currency sheets
16.01.2017	Waqf Fund organizes second session of Distinguished Leader Series with BBK Chairman
17.01.2017	Motor Compensation Fund holds Board meeting
31.01.2017	AAOIFI 15th Annual Shari'ah Conference set to be held on 12 and 13 April 2017

31.01.2017	Economic development board ce to address 13th annual middle east insurance forum
01.02.2017	Waqf Fund Board approves new projects for 2017
19.02.2017	The middle east insurance forum set to gather industry leaders in kingdom of Bahrain
20.02.2017	The 13th Annual Middle East Insurance Summit highlights issues of innovation and development in the sector
15.03.2017	CBB Raises Key Interest Rate
30.03.2017	SWIFT workshop on mandatory core security controls
03.04.2017	CBB's push for Financial Digital Transformation in Bahrain
12.04.2017	The 2nd Annual Middle East Asset Management Forum (MEAMF) set to take place May 15th in the Kingdom of Bahrain
12.04.2017	First Annual Cyber Security Forum and Expo 2017
23.04.2017	Waqf fund organizes sixth corporate governance workshop
25.04.2017	The BIBF and DePaul University hold the Graduation Ceremony of their 11th Master's Degree Cohort
10.05.2017	The Central Bank of Bahrain announces the launch of the national electronic wallet by BENEFIT at the end of June this year
11.05.2017	Sponsors announced for 2nd Middle East Asset Management Forum

14.05.2017	2nd Middle East Asset Management Forum commences tomorrow
17.05.2017	The Central Bank of Bahrain CBB & The BIBF Celebrate the completion of the 2nd Annual Mentorship Programme
28.05.2017	Double-Swiping of Payment Cards to be discontinued from 15th June 2017
11.06.2017	Press release from the Central Bank of Bahrain to freeze and reserve accounts, balances, deposits, investment accounts, insurance policies and any financial transactions for individuals and entities classified as terrorist.
14.06.2017	Central Bank of Bahrain Announces Landmark Regulatory Sandbox for Fintech Startups
14.06.2017	CBB Raises Key Interest Rate
10.07.2017	Women continue to advance in the Financial Sector
25.07.2017	The Waqf Fund meeting of the Board of Trustees and the annual meeting of the members was held
10.08.2017	Bahrain issues financing-based crowdfunding regulations for conventional and Shari'a compliant markets
22.08.2017	Bahrain insurance sector continues to show positive results in the year 2016
09.09.2017	Bahrain issues landmark regulations on Shari'a governance
10.09.2017	CBB and SWIFT hold joint workshop on Customer Security Programme

20.09.2017	A noticeable increase in the usage of the Electronic Fund Transfer System
12.10.2017	CBB Supports the Breast Cancer Awareness Campaign in October 2017
22.10.2017	CBB announces Fintech Unit
25.10.2017	Waqf fund discusses shareholder activism in its seventh corporate governance workshop
02.11.2017	Selected Group of Bahraini Islamic Bankers attend Prestigious Waqf Fund Leadership Grooming Program
18.11.2017	Bahrain further develops its Bahrain Domiciled Real Estate Investment Trusts (B-REITs) Directives
02.12.2017	Bahrain's Economy continued to outperform expectations in 2017
04.12.2017	Mashreqbank PSC receives a License from the Central Bank of Bahrain
10.12.2017	Bahrain issues Exchange-Traded Funds' (ETFs) regulations ETFs
11.12.2017	Board of Directors of the Central Bank of Bahrain holds its fourth meeting for 2017
13.12.2017	Central Bank of Bahrain announces partnership endorsing Bahrain Fintech Bay

Conferences and Forums

Date	Event
20 - 21 Feb 2017	Middle East Insurance Forum
26 Feb 2017	Investment Limited Partnership Law Workshop
27 - 28 Feb 2017	Euromoney The GCC Financial Forum
7 - 9 Mar 2017	Ministry of Finance AEOI Workshop
23 Mar 2017	GCC Governors meeting 1
29 Mar 2017	The 1 st Middle East & Africa FinTech Forum
12 - 13 Apr 2017	AAOIFI Shariah Conference
27 Apr 2017	GCC Capital Markets technical meeting 1
15 May 2017	Middle East Asset Management Forum
17 - 18 Sep 2017	Seminar on Credit Ratings: Focus on Islamic Banks and Sukuk Ratings Methodology
9 - 11 Oct 2017	FAIR 25th Conference
5 - 6 Nov 2017	AAOIFI World Bank Conference
28 Nov 2017	MENA Pensions Conference
4 - 6 Dec 2017	World Islamic Banking Conference
14 – 17 Dec 2017	BIC National Day

Interviews

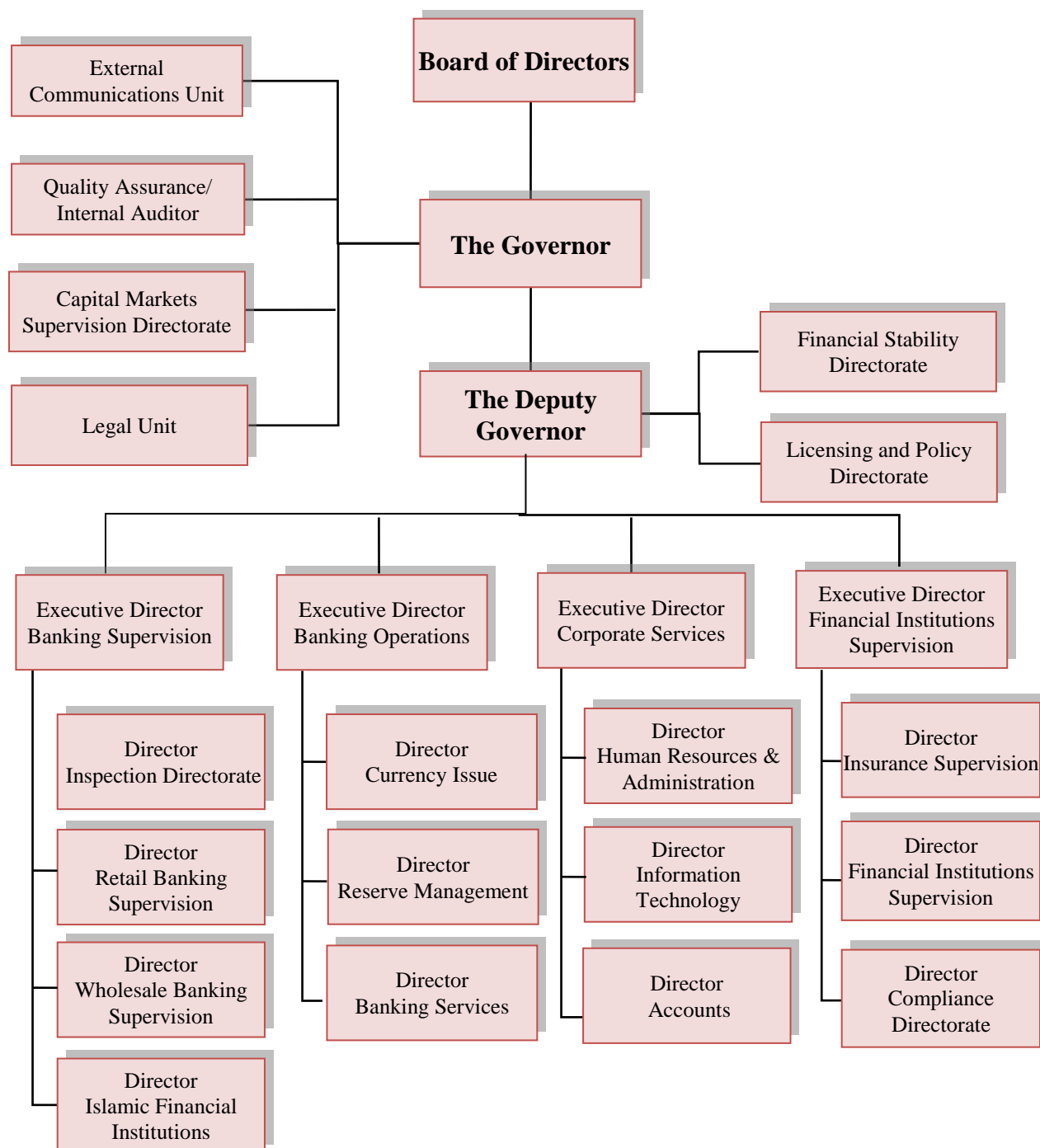
Date	Name	Topic and Event
27 February 2017	HE Rasheed Al Maraj, Governor, CBB	The GCC Financial Forum (Euromoney) Town Hall Discussion
14 June 2017	HE Rasheed Al Maraj, Governor, CBB	BTV Interview – The Regulatory Sandbox
27 November 2017	HE Rasheed Al Maraj, Governor, CBB	Gulf Daily News - Tribute to Bahrain Special Issue
29 August 2017	Mr. Khalid Hamad Executive Director - Banking Supervision	BTV Interview – The Regulatory Sandbox
4 December 2017	Mr. Khalid Hamad Executive Director - Banking Supervision	Turkish Journalists Group – WIBC
5 December 2017	Mr. Khalid Hamad Executive Director - Banking Supervision	The National Magazine – WIBC
5 December 2017	Mr. Khalid Hamad Executive Director - Banking Supervision	Sky News Arabia – WIBC
6 December 2017	Mr. Khalid Hamad Executive Director - Banking Supervision	CNN Arabic – WIBC
28 February 2017	Mr. Abdul Rahman Al Baker - Executive Director - Financial Institutions Supervision	CNN - Media Group for the Middle East Insurance Forum

15 May 2017	Mr. Abdul Rahman Al Baker - Executive Director - Financial Institutions Supervision السيد عبدالرحمن الباكر مدير تنفيذي – الرقابة على المؤسسات المالية	BTV Interview- Middle East Asset Management Forum مقابلة تلفزيون البحرين حول ملتقى الشرق الاوسط لادارة الاصول
4 December 2017	Mr. Abdul Rahman Al Baker - Executive Director - Financial Institutions Supervision	English Media Group for the WIBC

Press conferences

Date	Subject	Attendees
16 th February, 2017	MEIF Press Conference, The Capital Club Led by: A. Rahman AlBaker, Executive Director - Financial Institutions Supervision	Local Press and media
26 th February, 2017	AOFI launches e-learning sharia compliant medium in partnership with BIBF Led by: Khalid Hamad, Executive Director - Banking Supervision/Chairman, The Waqf Fund	Local Press and media
14 th June, 2017	Regulatory Sandbox Press Conference Led by: HE Rasheed Mohammed Al Maraj, Governor, Central Bank of Bahrain	Local Press and media

4.9 CBB's Organisational Chart



Chapter

5

5. FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

INDEPENDENT AUDITORS' REPORT TO THE BOARD OF DIRECTORS

BALANCE SHEET (As at 31 December 2017)

*PROFIT AND LOSS ACCOUNT AND APPROPRIATION (For the year ended 31
December 2017)*

Notes to the financial statements for the year ended 31 December 2017

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

31 DECEMBER 2017

CENTRAL BANK OF BAHRAIN
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

	Page
Independent auditor's report	1 - 2
Balance sheet	3
Profit and loss account and appropriation	4
Notes to the financial statements	5 - 10

CENTRAL BANK OF BAHRAIN

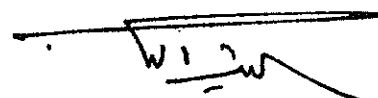
BALANCE SHEET

AS AT 31 DECEMBER 2017

	Note	2017 BD'000	2016 BD'000
ASSETS			
Gold	3	2,500	2,500
Foreign reserves	4	1,039,284	1,090,774
Due from Ministry of Finance	5	1,099,384	1,066,030
Cash, due from Bahraini banks and treasury bills	6	551,495	484,711
Other assets	7	14,505	13,085
Total assets		2,707,168	2,657,100
LIABILITIES			
Notes and coins in circulation	3	662,720	670,603
Bahraini Dinar deposits		1,229,432	1,091,880
Other deposits		300,561	395,927
Due to other central banks		571	471
Profit payable to the Government of the Kingdom of Bahrain		2,500	2,500
Provision for currency withdrawn		6,191	6,194
Other liabilities	8	9,270	8,147
Total liabilities		2,211,245	2,175,722
CAPITAL FUNDS			
Capital	9	200,000	200,000
General reserve	10	210,716	208,216
Contingency reserve	11	66,069	55,384
Revaluation reserve	12	19,138	17,778
Total capital funds		495,923	481,378
Total liabilities and capital funds		2,707,168	2,657,100



Mohammed Hussain Yateem
Chairman



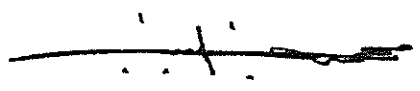
Rasheed Mohammad Al Maraj
Governor

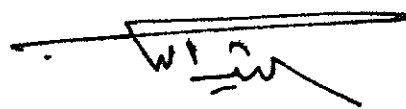
The attached notes 1 to 13 form part of these financial statements.

CENTRAL BANK OF BAHRAIN

PROFIT AND LOSS ACCOUNT AND APPROPRIATION FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	2017 BD'000	2016 BD'000
Income			
Interest income		37,976	25,480
Interest expense		(17,280)	(8,018)
Net interest income		<u>20,696</u>	<u>17,462</u>
Registration and licensing fees		5,353	5,256
Exchange gain on sale of US dollars		8,039	8,195
Net realised investment gain		3,300	12,372
Other income		1,439	1,453
Total income		<u>38,827</u>	<u>44,738</u>
Expenses			
Staff costs		(11,139)	(11,480)
General and administration expenses		(3,894)	(3,600)
Notes issue expenses		(1,475)	(2,870)
Managed funds and advisory fees		(467)	(887)
Total operating expenses		<u>(16,975)</u>	<u>(18,837)</u>
Profit for the year before impairment provision		<u>21,852</u>	<u>25,901</u>
Provision for impairment		<u>(167)</u>	<u>(250)</u>
Profit for the year		<u>21,685</u>	<u>25,651</u>
Transfer to contingency reserve	11	(16,685)	(20,651)
Transfer to general reserve	10	(2,500)	(2,500)
Balance payable to the Kingdom of Bahrain		<u>2,500</u>	<u>2,500</u>


Mohammed Hussain Yateem
Chairman


Rasheed Mohammad Al Maraj
Governor

CENTRAL BANK OF BAHRAIN

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2017

1 ACTIVITY

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

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

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

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

The financial statements of the Central Bank, comprise the balance sheet as at 31 December 2017, the related profit and loss account and appropriation for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information and were authorised for issue by the Board of Directors on 25 March 2018.

2 SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Accounting convention

The financial statements are prepared under the historical cost convention.

2.2 Gold

Gold is carried at cost.

2.3 Foreign reserves

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

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

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

2.4 Cash, due from Bahraini banks and treasury bills

These balances comprise cash in hand, deposits/placements held with banks that are denominated in Bahraini Dinars and highly liquid treasury bills.

2.5 Equipment

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

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

CENTRAL BANK OF BAHRAIN
NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2017

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Notes and coins in circulation

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

2.7 Foreign currencies

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

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

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

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

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

2.8 Provision for impairment

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

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

2.9 Revenue recognition

Interest income

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

Registration and licensing fees

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

Net realised investment gains and losses

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

2.10 Interest expense

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

CENTRAL BANK OF BAHRAIN
NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2017

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 Notes issue expenses

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

2.12 Provision

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

3 EXCESS OF AUTHORISED BACKING OVER CURRENCY IN CIRCULATION

	2017 BD'000	2016 BD'000
Authorised backing		
Gold	2,500	2,500
Foreign reserves – note 4	1,039,284	1,090,774
	1,041,784	1,093,274
Notes and coins in circulation	(662,720)	(670,603)
Excess of authorised backing over currency in circulation	379,064	422,671

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

The fair value of gold as at 31 December 2017 was BD 73,160 thousand (2016: BD 64,938 thousand).

4 FOREIGN RESERVES

	2017 BD'000	2016 BD'000
Bank deposits	793,249	771,942
Bonds portfolio, including managed funds	243,478	310,343
Other securities	86,888	87,211
	1,123,615	1,169,496
Less: provision for impairment	(84,331)	(78,722)
	1,039,284	1,090,774

All bonds are quoted in active markets with 79% being of investment grade BBB or higher (2016: 81%). All the deposits (2016: 100%) and 69% of bonds (2016: 66%) are in US dollars. For other foreign currencies, these are substantially hedged into US dollars. The bond portfolios include BD 1,025 thousand net unrealised losses on non-US denominated bonds and related forward foreign exchange contracts used to hedge such bonds (2016: net unrealised losses of BD 7,678 thousand).

The market value of the bond portfolios (including cash and accrued interest held within these portfolios) at 31 December 2017 was BD 237,687 thousand (2016: BD 303,125 thousand).

CENTRAL BANK OF BAHRAIN
NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2017

4 FOREIGN RESERVES (continued)

The Central Bank has recognized an impairment provision amounting to BD 6,000 thousand during the year ended 31 December 2017 (2016: nil) which has been charged to the contingency reserve (refer note 11).

5 DUE FROM MINISTRY OF FINANCE

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

6 CASH, DUE FROM BAHRAINI BANKS AND TREASURY BILLS

	2017 BD'000	2016 BD'000
Cash	22	341
Due from Bahraini banks	11,515	9,549
Ijara Sukuk / Treasury bills issued by the Government of Bahrain	539,958	474,821
	551,495	484,711

Cash includes US dollars held by the Central Bank amounting to Nil (2016: US\$ 844 thousand (equivalent BD 318 thousand)).

7 OTHER ASSETS

	2017 BD'000	2016 BD'000
Interest receivable	6,362	5,050
Staff loans	4,598	4,818
Equipment	1,633	1,219
Others	1,912	1,998
	14,505	13,085

8 OTHER LIABILITIES

	2017 BD'000	2016 BD'000
Deferred license fee received	4,706	4,533
Other payables	2,291	1,923
Interest payable	2,143	1,638
Accrued expenses	130	53
	9,270	8,147

9 CAPITAL

	2017 BD'000	2016 BD'000
Authorised	500,000	500,000
Issued and fully paid up	200,000	200,000

CENTRAL BANK OF BAHRAIN
NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2017

10 GENERAL RESERVE

	2017	2016
	BD'000	BD'000
Balance at beginning of the year	208,216	205,716
Transfer from profit and loss account and appropriation	2,500	2,500
Balance at end of the year	210,716	208,216

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

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

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

11 CONTINGENCY RESERVE

	2017	2016
	BD'000	BD'000
Balance at beginning of the year	55,384	34,733
Transfer during the year	16,685	20,651
Utilised during the year	(6,000)	-
Balance at end of the year	66,069	55,384

In accordance with Article 21 of the Central Bank of Bahrain and Financial Institution Law, the Board has approved a transfer of BD 16,685 thousand (2016: BD 20,651 thousand) of the current year's net profit to the contingency reserve and utilisation of BD 6,000 thousand for impairment provision (refer note 4).

12 REVALUATION RESERVE

	2017	2016
	BD'000	BD'000
Balance at beginning of the year	17,778	16,752
Movement during the year	1,360	1,026
Balance at end of the year	19,138	17,778

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

CENTRAL BANK OF BAHRAIN
NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2017

13 CONTINGENT LIABILITIES AND COMMITMENTS

Contingent liabilities and commitments, some of which are offset by corresponding obligations of third parties, arise in the normal course of business, including contingent liabilities in respect of guarantees and indemnities in connection with liquidity support operations. As at 31 December 2017, there were no outstanding contingent liabilities or commitments (2016: Nil) with the exception of outstanding foreign exchange contracts with a notional value of BD 94,089 thousand (2016: BD 167,922 thousand).