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The Financial Stability Report (FSR) is a semi-annual report prepared by the Central Bank of Bahrain's (CBB) Financial Stability Directorate (FSD). The FSR is available online in PDF format under the Publications and Data section on the CBB's website at http://www.cbb.gov.bh.

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Preface

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

> *A situation where the financial system is able to function prudently, efficiently and uninterrupted, through providing financial services continuously even in the face of adverse shocks.*

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

The Financial Stability Report (FSR) is one of the key components of CBB's financial sector surveillance framework. Produced semi-annually by the CBB's FSD, its principal purpose is macro-prudential surveillance, assessing the safety and soundness of the financial system as a whole (intermediaries, markets and payments/settlement systems). The ultimate objective of such macro-prudential analysis is to identify potential risks to financial stability and mitigate them before they develop into systemic financial turbulence.

Financial Soundness Indicators (FSIs) are used to monitor the banking financial sector on a continuous basis. The data appearing in report is compiled by CBB staff. Revisions and corrections of data can be made and incorporated in an updated electronic version of the report.

The FSR is prepared for the CBB management, reviewing recent trends and identifying areas of concern which require supervisory and policy attention. The FSR is also a tool aimed at informing the public.

This edition of the FSR contains 11 chapters divided into four parts as follows:

- Part I: National and international developments:
  - Chapter 1: International financial developments.
  - Chapter 2: Developments in Bahrain's financial sector and household sector.
- Part II: Developments in the banking sector:
  - Chapter 3: Performance of the banking sector.
  - Chapter 4: Performance of conventional banks.
  - Chapter 5: Performance of Islamic banks.
- Part III: Developments in the non-banking financial sector:
  - Chapter 6: Performance of the insurance sector.
  - Chapter 7: Performance of the non-banking financial sector
  - Chapter 8: Performance of capital markets.
- Part IV: Developments in the Payments and Settlements System , FinTech, and Cyber Security:

- Chapter 9: Performance of payment and settlement systems.
- Chapter 10: FinTech and Financial Inclusion.
- Chapter 11: Cyber Security.

In its continued effort to ensure financial stability and developing a financial stability mandate, the CBB has created The Financial Stability Committee (FSC) on 20th of July 2017 by Resolution number 49 for year 2017. The committee is chaired by H.E the Governor and has seven members from various directorates within the organization.

The main functions/Goals of the Committee are:

1- To create a Macroprudential Policy Framework
2- Look at Macroprudential Policy Tools to be considered for Macro financial risks
3- Discuss the risks that can affect the soundness of the financial sector.
4- Improve Banking Supervision tools on banking and financial services on a periodic basis to ensure best practices especially DSISBs /DSIFISs.
5- Strengthening relations on international level with other regulating entities to prevent cross-border leakages.

Executive Summary

Global Macro Financial Environment Overview

The global economic and financial conditions improved slightly and risks associated to this environment eased in the first half of 2018. In its World Economic Outlook, the International Monetary Fund (MF) is forecasting 3.7% growth for the second half of 2018 similar to last year.

Across major advanced economies, US economic growth increased to 3.0% in Q3/2018 from 2.8% in Q1/2018. The economic performance in Europe decelerated slightly during the first half of the year due to increased uncertainty following the Brexit. In Q3/2018, Euro Area (19 countries) and the European Union (EU) (28 countries) achieved a growth of 2.5% and 2.4% respectively. The UK's GDP growth increased to 1.5% in Q3 2018 from in Q1/2018, despite the Brexit vote. The BRIICS countries' growth was strong as it reached the level of 4.2% in Q3/2018 and in China economic growth continued to perform well as it achieved a growth rate of 6.5%.

Financial Sector Overview

The size of the banking sector assets in Bahrain was USD 192.6 billion as of December 2018 representing 5.4 times GDP in Q4 2018. Retail banking total assets continued growing to reach BD 32.5 billion (USD 86.6 billion) in December 2018 with GCC assets at 24.4% and Europe and American assets at 7.8%. The wholesale banking sector assets increased to USD 106.0 billion with concentrations in GCC (29.8%) and Europe (34.4%).

The total amount of credit extended by the retail sector increased by 10.7% from BD 8, 365.9 million in December 2018 to BD 9,258.8 million in June 2018. Total deposits, increased to BD 17,853.7 million in December 2018, where 67.7% of them were domestic deposits. Money supply continued to grow with M2 standing at BD 10,845.4 million in end-December 2018 and M3 was at BD 12,622.1 million. Personal loans as a percentage of GDP was at 29.3% in December 2018 reaching BD 4,162.4 million. Business loans increased to 5,096.4 million in December 2018 reaching 35.9% a percentage of GDP.

Banking Sector

The Capital adequacy ratio (CAR) for the banking sector stood at 19.0% in December 2018. The ratio has decreased from 19.2% in June 2018. Non-performing loans (NPL) ratio has remained at 5.6% between June and December 2018.

As at December 2018, return-on-assets (ROA) remained nearly constant at 1.0% from 1.1% that it registered in December 2017. Return-on-equity (ROE) decreased from 7.1% in December 2017 to 6.7% in December 2018. Between June 2018 and December 2018, the overall loan-deposit ratio decreased from 73.2% to 72.6%. Liquid assets as a proportion of total assets slightly increased to 24.5% in December 2018 from 24.1% in June 2018.

Conventional Banks

The CAR for conventional retail banks increased to 20.9% in December 2018. The NPL ratio dropped from 5.8% to 5.5% between June 2018 and December 2018. Specific provisions as a proportion of NPLs showed an increase from 54.3% to 63.7% over the same period. For local retail banks, the NPLs remained at the same level of 4.3% in December 2018. For overseas retail banks, the NPLs decreased to 7.9% in December 2018.

ROA for conventional retail banks remained at 1.5% in December 2018. ROE for locally incorporated conventional banks increased to 14.3%. The overall loan-deposit ratio for the segment remained at 69.6% between June 2018 and December 2018. Liquid assets as a proportion of total assets decreased by 1.0% over the period of June 2018 to December 2018 to reach 32.9%.

As for Wholesale banks, CAR for locally incorporated wholesale banks was 18.1% in December 2018, a decrease from the 18.4% registered in June 2018. NPL ratio increased to 5.7% of total loans. The NPL ratio of locally-incorporated wholesale banks increased to 6.3% in December 2018 from 5.1% in June 2018. Overseas wholesale banks witnessed a decrease in its NPL ratio from 5.5 % to 5.2% over the same period. Specific provisions as a proportion of NPLs witnessed an increase to 67.9% over the same period.

ROA for the conventional wholesale banks was at 0.7% in December 2018. ROE for *local wholesale banks* was 1.3%. The overall loan-deposit ratio for conventional wholesale banks stood at 64.2%. Liquid assets for wholesale banks as a proportion of total assets increased by 0.8% to reach 22.7% in December 2018.

Islamic Banks

The CAR of Islamic retail banks decreased from 18.1% in June 2018 to 17.6% in December 2018. Non-performing Facilities (NPF) ratio decreased from 10.4% to 9.5% and specific provisioning decreased from 43.5% to 38.6% over the same period.

The ROA for Islamic retail banks remained at 0.6% in December 2018 to December 2017. Return on equity (ROE) increased from 6.1% to 6.8% for the same period. The volume of liquid assets available to Islamic retail banks decreased from 14.5% of total assets in June 2018 to 14.1% in December 2018. The ratio of total facilities to deposits increased from 92.1% in June 2018 to 94.8% in December 2018.

As at end-December 2018, the CAR for Islamic wholesale banks decreased from 20.2% in June 2018 to 18.1% in December 2018. The NPF ratio for Islamic wholesale banks decreased to 1.3%. Specific provisioning for NPFs decreased from 85.3% to 79.6% over the same period.

ROA for Islamic wholesale banks increased from 0.9% in December 2017 to 1.0% in December 2018. ROE increased as well from 6.2% to 6.8% over the same period. Liquid assets of Islamic wholesale banks represented 12.6% of total assets. Additionally, the facilities deposit ratio decreased from 80.4% in June 2018 to 75.2% in December 2018.

Insurance Sector

The Insurance sector in Bahrain is made up of two main segments: Conventional and Takaful. Total gross premiums registered at BD 209.5 million. The conventional local firms accounted for the largest segment of total gross premiums (58.6%), followed by Takaful (29.1%) and conventional overseas branches (19.0%).

As of September 2018, total assets of conventional insurance firms were BD 2,206.9 million (year-on-year decline of 0.3%). Takaful firms' assets at March 2018 experienced an annual growth by 20.5% reaching BD 191.6 million.

Viewing the concertation of the overall insurance industry, motor records the highest concentration in Gross Premiums (29.5%), Net Premiums Written (41.9%), Gross Claims (26.2%), and Net Claims (50.0%). Similarly for conventional insurance, motor insurance has the highest concentration for Gross Premiums (28.6%), Net Premiums Written (41.2%) and Net Claims (43.8%).

Takaful insurance companies have very high concentration on the Medical and Motor Insurance business lines. Gross Premiums for both sectors represented (73.9%), Net Premiums Written (89.9%), Gross Claims (82.5%), and Net Claims (95.4%).

Non-Bank Financial Institutions

The two main segments of the non-Bank Financial Institutions sector are investment businesses and money changers. Total assets of investment business reached BD 342.6 million in Q3 2018 with more than 85% of those assets coming from Category 1 investment firms. Investment firms' profit increased by 1.0% to reach BD 4.1 million in September 2018. Profits of Category 1 firms decreased by 10.4%, while Category 2 firms' profits soared by 236.9%.

In 2018, money changers' purchase of foreign currencies amounted to BD 8,269.0 million, while the sale of foreign currencies was recorded at BD 9,271.7 million for the year. As of Q3 2018, "GCC" currency group recorded the highest year-on-year increase in sales with 19.5%, and 70% of all purchase and sale of currencies were in GCC currencies.

Capital markets

As at December 2018, Bahrain Bourse recorded a total listing of 44 Companies, 17 Mutual funds and 15 Bonds and Sukuk. The Bahrain All-Share index reached 1,337.3 points in December 2018, while the Bahrain Islamic Index reached 823.1 points. Market capitalization of the Bahrain Bourse stood at BD 8.2 billion, and the price-earnings ratio (P-E ratio) stood at 9.7, an increase from the 9.4 attained in December 2017.

The majority of the value and the volume of shares traded in December 2018 was in the "Commercial Bank" sector whose traded shares by value represented 53.1% of total shares and by volume of shares represented 57.3%. The majority of the number of transactions in December 2018 (1,744 transactions) was attained by the "Commercial Banks" representing 59.8% of total transactions. As of December 2018, no major mergers & acquisitions were announced, and 77 public and private offerings occurred with a total value of USD 5.6 billion.

Payments and Settlement System

The RTGS System provides for Payment and Settlement of Customer transactions as a value addition. The daily average volume of Bank transfers for the second half of 2018 (from 1st July to 31st December, 2018) increased by 3.4% to 182 transfers compared to 176 transfers for the first half of 2018.

The daily average volume of ATM transactions for the second half of 2018 increased by 2.8% to 53,416 transactions per day compared to 51,948 transactions per day for the first half of 2017. The daily average value of ATM transactions for the second half of 2018 remained unchanged at around 5.0 million.

The daily average volume of cheques for the second half of 2018 decreased by 0.9% compared to the first half of 2018 from 12,827 cheques to 12,712 cheques. The value of those cheques similarly decreased by 4.1% over the same period from BD 39.0 million to BD 37.4 million.

FinTech, Innovation, and Financial Inclusion

Bahrain is repositioning itself to be a Financial Technology (FinTech) hub in the region combining conventional and Shari'ah compliant FinTech solutions. The CBB has established a dedicated Fintech Unit on the 22nd of October 2017 to ensure best services provided to individual and corporate customers in the financial sector. On 28th May, 2017, the CBB announced the issuance of the Regulatory Sandbox Framework that aims to provide a safe space where business can test FinTech innovative products and services. The sandbox includes 29 companies to date. In April 2017 the CBB issued guidelines for Financing Based Crowdfunding Regulations for both conventional and Islamic lending. In February 2018, Bahrain FinTech Bay (BFB) was launched providing an ecosystem dedicated to further develop and accelerate FinTech firms and drive innovation in Bahrain. A number of digital wallets in the Kingdom allow users to make instant payments via smart phones and also facilitate the collection of payments electronically.

Cyber Security

Cyber risk is steadily evolving into a main threat to all industries. Its impact however on the financial services industry is growing into an individually recognised risk by all financial institutions. The CBB addresses these risks through the Cyber Security Survey conducted for the wholesale banking system. The survey response rate was at 100% and based on the survey, 70% of banks reported that their cyber-security strategy has been approved by their Board of Directors, 64% of banks measure the effectiveness of the implementation of risk management practices, and 71% of banks reported that they conduct cyber security training to their staff.

Part I:

Developments in the International and Domestic Financial Markets

Chapter 1 Developments in the International Financial Markets

Key Highlights

Global Growth	USA Growth	Euro Area Growth	EU Growth	UK Growth	BRIIC'S Growth
3.7%	3.0%	1.6%	1.8%	1.5%	4.2%

- The global economic conditions deteriorated and many challenges such as Inflation risks and fears of a global slowdown remained.
- Financial conditions in the advanced economies remain accommodative.
- Stock markets indices drop in the second half of the year and Equity markets in Europe have endured a volatile couple of months.

1.1 Overview

Global economic activity has tightened after growing trade tensions between the US and China and rising political risk in Europe over Brexit. In the face of the anticipated exit of the UK from the Euro Area, overall environment showed some uncertainty in the end of 2018. Global economic growth is expected to slow down across almost all major economies next year.

Despite the increase of interest rates by the Federal Reserve Board, monetary policy remained accommodative in the US and other advanced economies with the aim to support economic growth. In the following section, recent trends in the global economy are highlighted and the major financial and economic indicators during the previous six months are looked at.

1.2 Global Macro-financial Environment

The political and geopolitical risks have added some risk to financial market. The global economic and financial conditions deteriorated slightly and risks associated to this environment increased in the second half of 2018. In its recent World Economic Outlook, the International Monetary Fund (IMF) is forecasting 3.7% growth in 2018 similar to the one realized last year.

1.2.1 Economic Performance

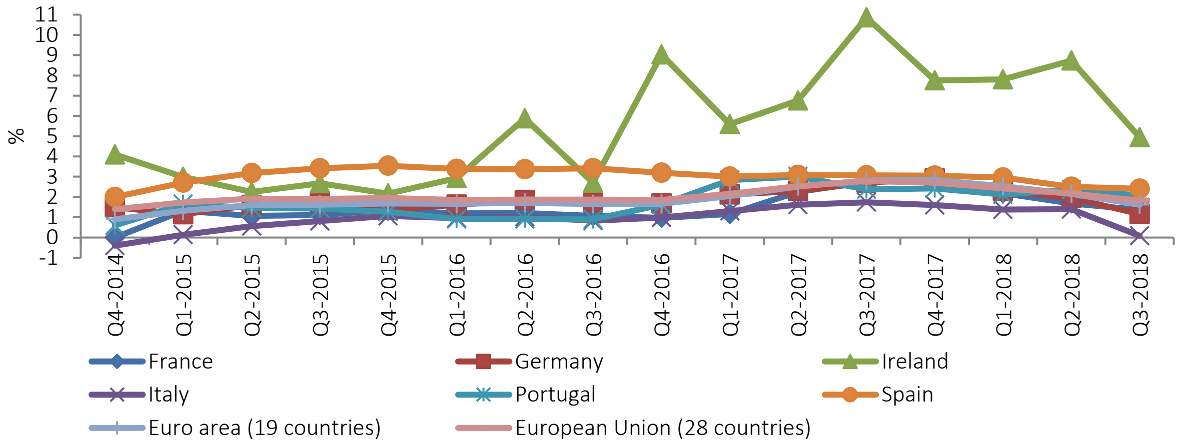
The economic performance in Europe decelerated slightly during the second half of the year due to increased uncertainty following the Brexit, which amplified volatility and raised new concerns in the global financial markets. Political risk in Italy and never-ending debt problem in many European countries, notably Greece and Italy, have added more pressure to the Market. As Chart1-1 below shows, most European countries have witnessed a slowdown of their economic growth in the second half of 2018. For example, growth rate of Ireland moved from 8.7% in the second quarter of 2018 to

5% in the third quarter of the year. Similarly, Spain has achieved a restrained economic performance as GDP growth moved from 3.0% for Q1/2018 to 2.4% in Q3/2018 which was a lowest since Q2/2015. Since Q1/2018, Portugal registered a stable growth rate of 2.1% while Italy has experienced a slowdown in its economic performance as its growth rate moved from 1.4% in Q1/2018 to 0.1% Q3/2018.

Regarding the two largest economies in the Eurozone, their performances have also slowed in the third quarter of 2018 as compared to the first quarter of the same year. Germany experienced weak economic activities in the third quarter of 2018 with GDP growth reach 1.2% the lowest growth since Q1/2015 and France also achieved growth rate of 1.4% in the same period, the lowest since Q1/2017.

Turning to the Euro Area (19 countries) and the European Union (EU) (28 countries) their growth has also experienced a slowdown as it moved from of 2.5% and 2.4% respectively in Q1/2018 to 1.6% and 1.8% in Q3/2018 respectively.

Chart 1-1: Real GDP Growth in Selected Europeans Countries (Quaterly%) Seasonally Adjusted*

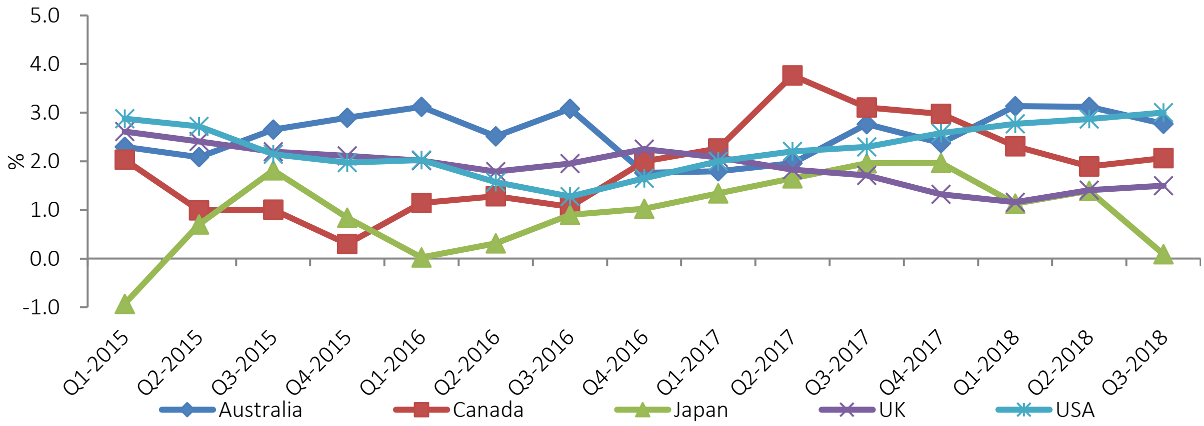


**Growth rate compared to the same quarter of previous year, seasonally adjusted*

Source: OECD Quarterly National Accounts

In the US as economic growth increased to 3.0% in Q3/2018 from 2.8% in Q1/2018. The US economy was boosted by the restore of confidence and the improvement of consumer sentiments. Despite the Brexit vote problem, the UK's GDP growth increased from 1.2% in Q1/2018 to 1.5% in Q3/2018.

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

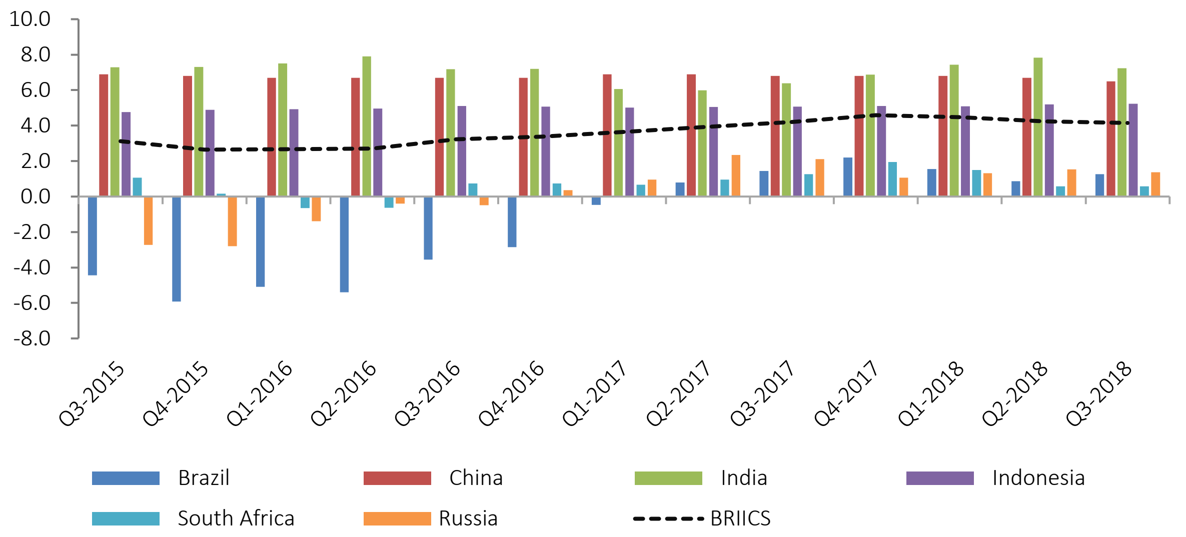


** Growth rate compared to the same quarter of previous year, seasonally adjusted*

Source: OECD Quarterly National Accounts

As for emerging economies (Chart 1-3), the BRIICS countries' growth was strong as it reached the level of 4.2% in Q3/2018. In China, despite the highly indebted local governments and the financial sector that continues to pose a significant downside risk, economic growth continued to perform well as it achieved a growth rate of 6.5% in Q3/2018, slightly lower than the previous two quarters. However, the IMF recently warned about the growing debt-dependency of the world's second biggest economy with China's debt levels posing a stability risk. The Brazilian growth stands at 1.6% at Q1/2018 and slowed progressively to reach 1.3% in Q3/2018. However, Russia shifted from a long period of recession to a positive growth since the first quarter of 2018 as it achieved a growth of 1.4% in Q3/2018.

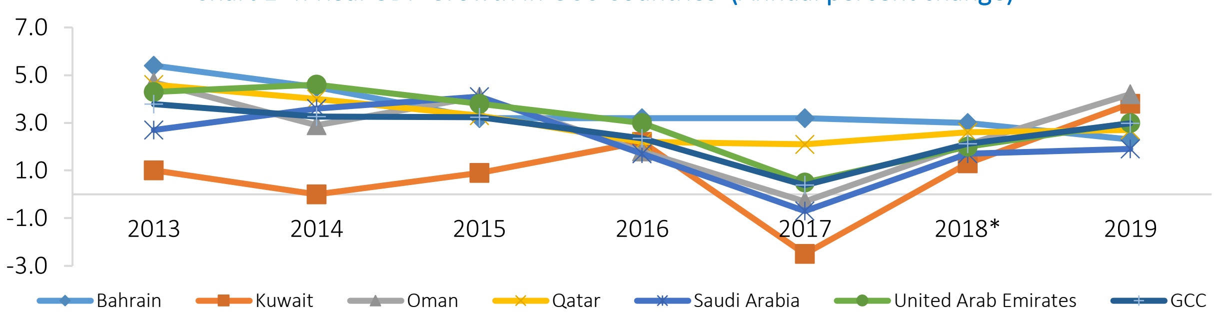
Chart 1-3: Quaterly Real GDP Growth in BRIICS (Quaterly %)*



*Growth rate compared to the same quarter of previous year, seasonally adjusted.
*Data on Russia is not available since the 4th quarter of 2015.
Source: OECD Quarterly National Accounts.

Regionally, the drop of energy prices followed by the continuing uncertainty in the global economy have affected the growth of Gulf Cooperation Council (GCC) economies. However, the recent policy actions taken by the governments were fruitful as the growth rate was expected to be around 2.12%, the highest since 2016. Projections for 2019 show that the economic condition will improve and the regional economy will grow at a moderate rate of growth of 2.98%.

Chart 1-4: Real GDP Growth in GCC Countries (Annual percent change)

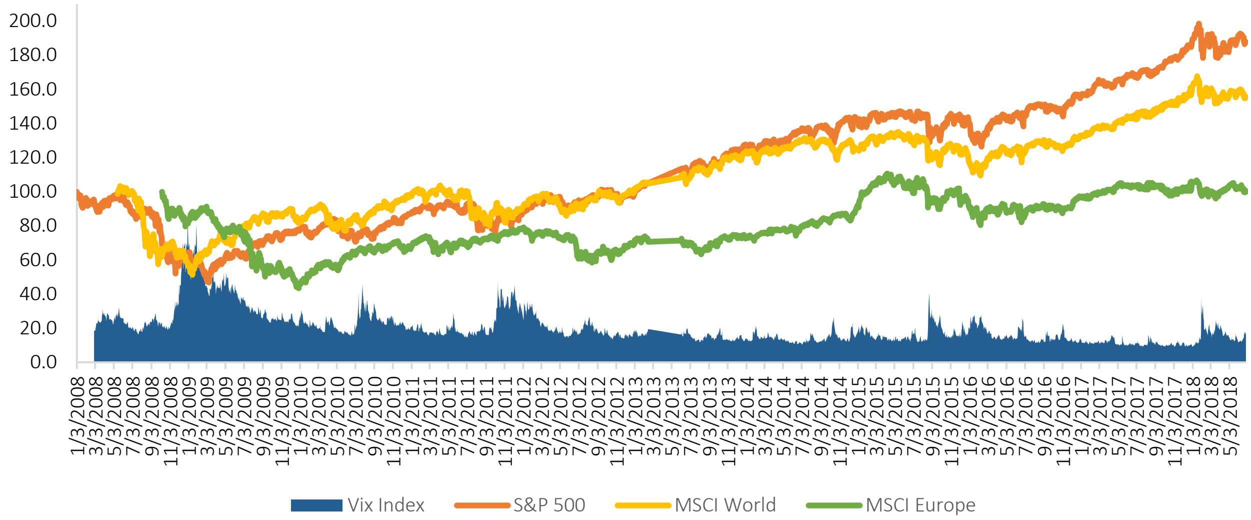


*Forecasts.
Source: IMF Regional Economic Outlook, October 2017.

1.2.2 Financial Markets

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

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



Source: Bloomberg.

Chapter 2 Developments in Bahrain's Financial and non-Financial Sector

Key Highlights

% of GDP	Licences	Banking Assets	Retail Assets	Wholesale Assets	Islamic Assets	M2
16.7%	382	USD 192.6 bn	USD 86.6 bn	USD 106.0 bn	USD 27.2 bn	USD 10.8 bn

- The retail banking sector assets showed an increase to 86.6 billion USD and wholesale banking sector assets decreased to 106 billion USD as of end December 2018.
- The volume of credit showed an increase to 9,519.9 million in December 2018.
- Household debt and business debt ratio increased.
- Construction permits increased and commercial licenses dropped.

2.1 Overview

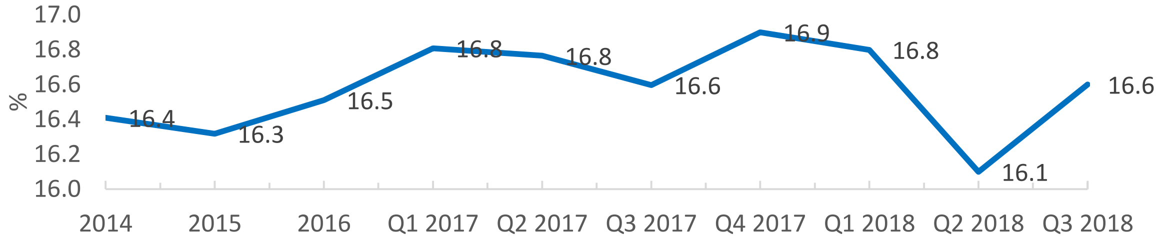
This chapter assesses the recent developments of the Bahraini financial and non-financial sectors and the resilience of the local banking sectors since the last FSR. The financial condition and performance of financial institutions depend to a large extent on the financial condition of their customers (households and enterprises) and their vulnerabilities to changes in the economic environment.

The assessment requires an evaluation of the financial condition and performance of non-financial entities: households, business enterprises, as well as the construction and real estate sector. Households and business enterprises are the major customers of financial institutions. Not only are they sources of deposits, they represent major sources of demand for financial sector products and services.

2.2 The Financial Sector

Bahrain position as a regional financial center has been essential to the development of its economy where the financial sector has come to play a significant role in economic activity and employment creation. The banking sector is currently the largest non-oil contributor to GDP representing 16.7% of real GDP as of 2017. By the end of Q3 2018, the banking sector represented 16.6% of real GDP showing a slight decrease of (0.1) since 2017.

Chart 2-1: Size of the Banking Sector to GDP (%)



Source: Information and e-Government Authority (IGA).

As of December 2018, 382 banks and financial instititions were licneded by the CBB. The banking sector in Bahrain was made up of 105 banks, categorized as follows:

- 30 retail banks (including 6 Islamic retail banks); 14 locally incorporated and 16 branches of foreign banks
- 68 wholesale banks (including 15 Islamic wholesale banks); 28 locally incorporated and 40 branches of foreign banks

As of December 2018, there are 277 non-banking financial institutions operating in Bahrain, including investment business firms, insurance companies (including Takaful and Re-Takaful firms), Representative Offices for conventional banks and specialized licenses.

The insurance industry continued to grow during the past few years. Insurance contribution increased to 5.4% of GDP by end of 2017 and 5.5% by Q3 2018. As of December 2018, the insurance market in Bahrain now comprises of 23 locally-incorporated firms and 12 overseas firms carrying out insurance, reinsurance, takaful and retakaful. These institutions offer all basic and modern insurance services such as medical and health insurance and long-term insurance (life and savings products).

Bahrain's first Islamic commercial Bank, Bahrain Islamic Bank, was established in 1979 and since that, Bahrain has become the home to the Accounting and Auditing Organization for Islamic Financial Institutions, International Islamic Financial Market, and Islamic International Rating Agency, and the Bahrain Institute of Banking and Finance. In 2014, the Global Islamic Finance Report (GIFR) reveals that Bahrain was ranked fourth over 40 countries by Islamic Finance Country Index (IFCI).

2.2.1 The Size of the Banking Sector

The size of the assets of the banking sector in Bahrain was USD 192.6 billion as of December 2018. The banking sector started as 11.3 times GDP in 2007 and by December 2018, the banking sector was 5.4 times of GDP. The change of the size of the banking sector times GDP is attributed to a decrease in the wholesale banking sector along an increase in GDP. Table 2-1 below shows the change of the size of wholesale banking sector to GDP.

As for the retail banking sector, it remained between 2.3 to 2.6 times of GDP over the same period. The retail banking sector has continued to grow over the years (USD 49.5 billion in 2007 to USD 86.6 billion in December 2018) along with the growth in GDP.

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

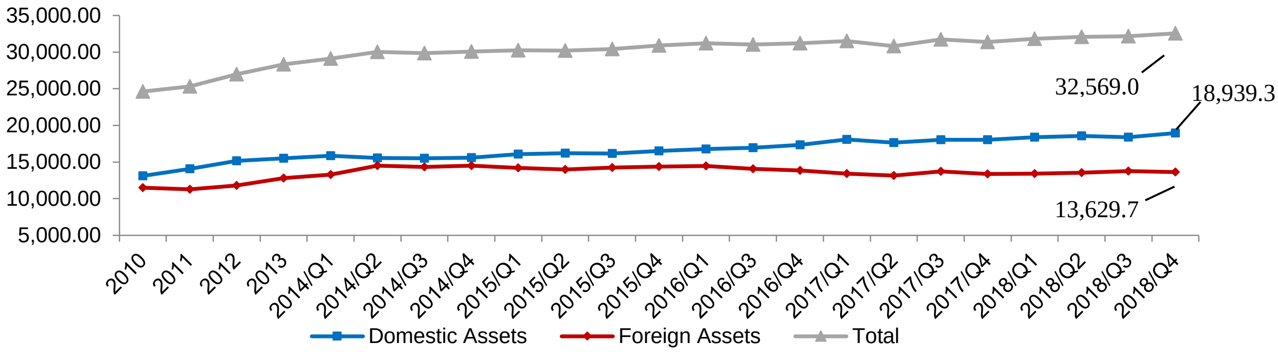
Indicator	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018*
Banking Sector (USD billion)	252.4	221.8	222.2	197.1	186.3	192.0	189.3	191.0	186.1	187.4	192.6
times GDP	9.8	9.7	8.6	6.8	6.1	5.9	5.7	6.1	5.8	5.3	5.4
Retail Sector (USD billion)	63.5	59.7	65.5	67.4	71.7	75.3	80.0	82.2	83.0	83.5	86.6
times of GDP	2.5	2.6	2.5	2.3	2.3	2.3	2.4	2.6	2.6	2.4	2.4
Wholesale Sector (USD billion)	188.9	162.0	156.7	129.7	114.6	116.7	109.3	108.8	103.0	104.0	106.0
times of GDP	7.3	7.1	6.1	4.5	3.7	3.6	3.3	3.5	3.2	2.9	3.0

** Using current GDP estimates.*

Source: CBB Monthly Statistical Bulletin.

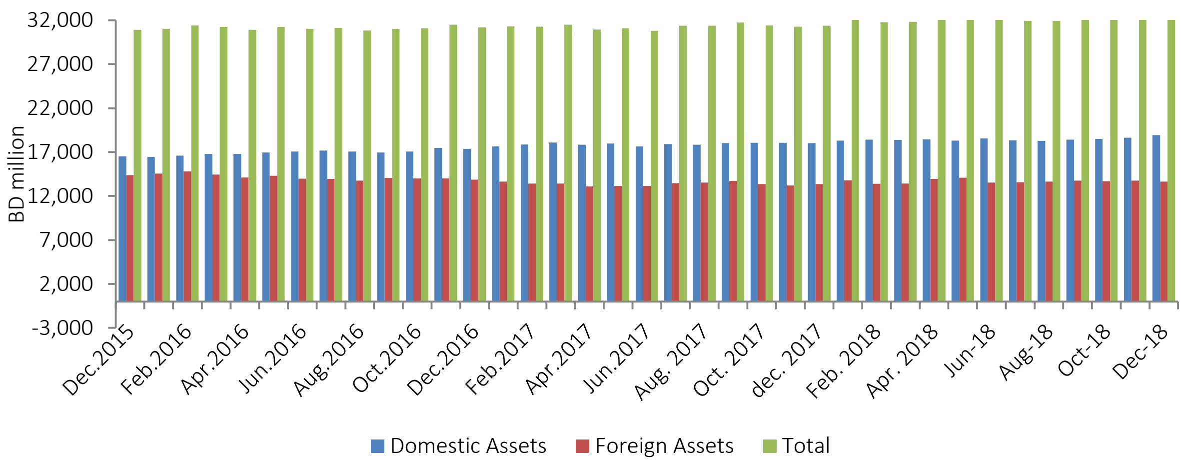
Despite the global uncertainty and the troubles in MENA region, retail banking total assets continued growing since December 2007 to reach BD 32.5 billion (USD 86.4 million) in December 2018 (see Chart 2-2).

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



Source: CBB Monthly Statistical Bulletin.

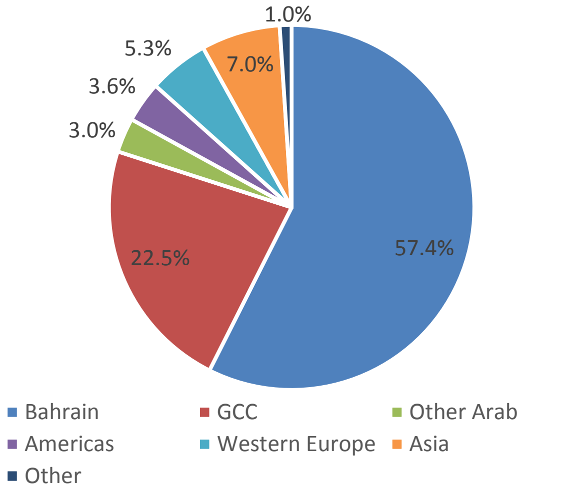
Chart 2-3: Categorization of Retail Banks' Assets (BD million)



Source: CBB Monthly Statistical Bulletin.

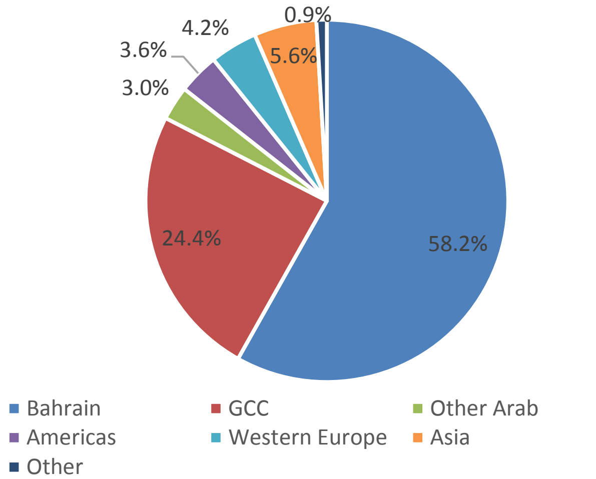
The share of GCC assets of total retail banking assets was 24.4%. The level of Europe and American contribution is 7.8%. This shows that the retail-banking sector in Bahrain is relatively exposed to foreign risk from GCC countries and lightly exposed to foreign risk from Europe and U.S.

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



** For conventional and Islamic retail banks.*
Source: CBB Monthly Statistical Bulletin.

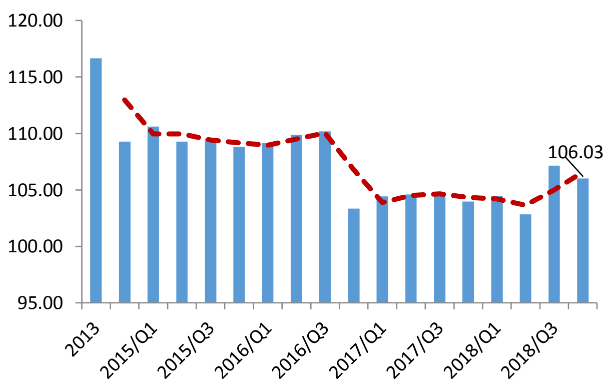
Chart 2-5: Retail Banks' Assets (%) by Geographical Classification (Dec. 2018)*



** For conventional and Islamic retail banks.*
Source: CBB Monthly Statistical Bulletin.

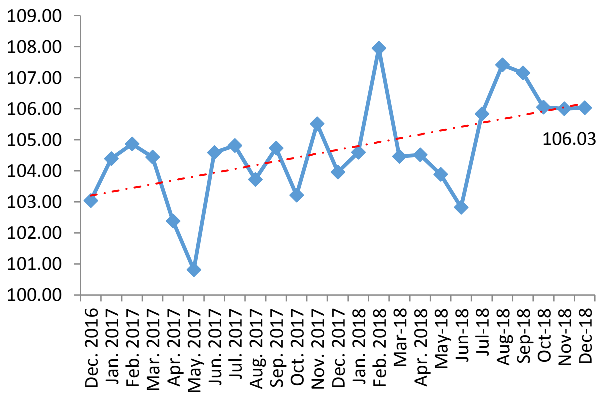
The wholesale banking sector showed an increase from USD 104.0 billion by end of December 2017 to USD 106.0 in December 2018 (See Charts 2-6 and 2-7).

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



--- Moving average trendline
** For conventional and Islamic wholesale banks. .*
Source: CBB Monthly Statistical Bulletin.

Chart 2-7: Wholsale Banks' Assets (USD Billion)*



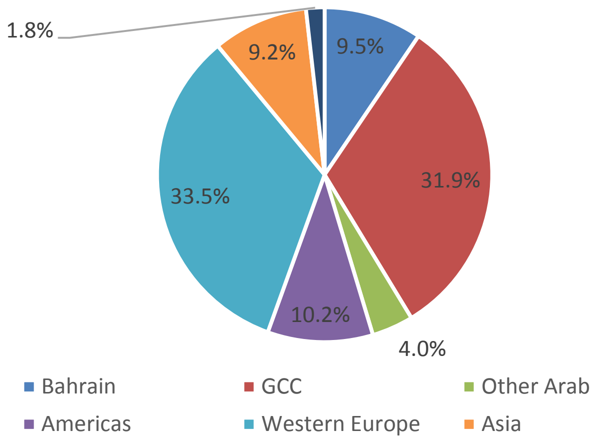
--- Linear Trendline
** For conventional and Islamic wholesale banks.*
Source: CBB Monthly Statistical Bulletin.

According to the geographical classification of wholesale banks' assets, wholesale banks are exposed to foreign risk from Western Europe and the GCC countries:

- The share of America's total assets decreased from 10.2% in December 2017 to 9.9% in December 2018.
- The share of Europe's total assets increased to 34.3%.
- Asian assets decreased from 9.2% to 8.4% in December 2018.

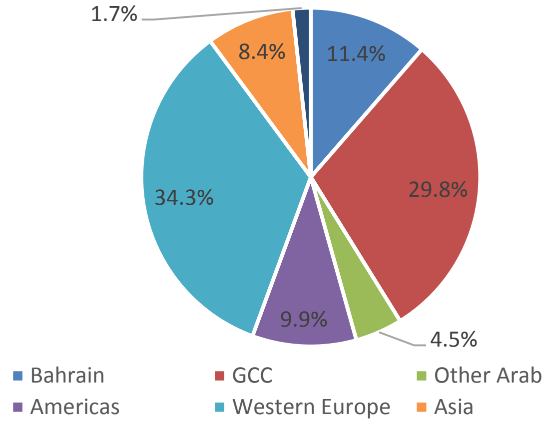
- GCC total assets continued to decrease to a low of 29.8% in December 2018, they represent a smaller portion of Wholesale bank assets now compared to Europe.

Chart 2-8: Wholesale Banks Assets by Geographical Classification (Dec. 2017)*



** For conventional and Islamic retail banks.*
Source: CBB Monthly Statistical Bulletin.

Chart 2-9: Wholesale Banks Assets by Geographical Classification (Dec. 2018)*

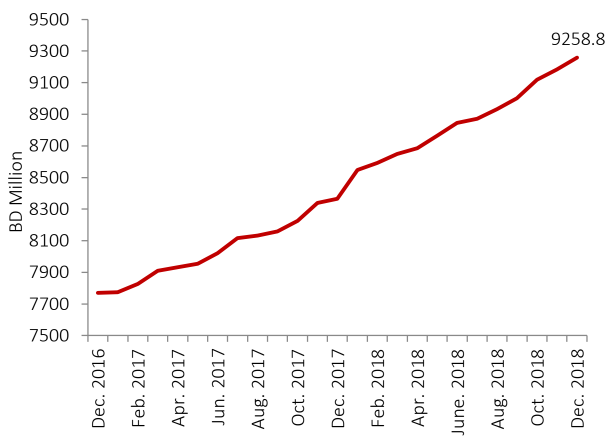


** For conventional and Islamic retail banks.*
Source: CBB Monthly Statistical Bulletin.

2.2.2 Credit Developments

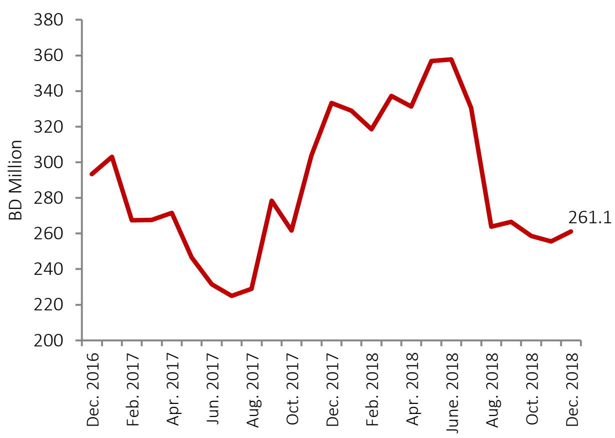
The total amount of credit given to the private sector (business and personal) by retail sector witnessed a considerable increase since December 2017 moving from BD 8,365.9 million to BD 9,258.8 million in December 2018 (Chart 2-10). The high credit growth reveals the growth of the economic activities and the restore of confidence in the Kingdom of Bahrain. Regarding retail banks' lending to the general government, there was a decrease to BD 261.1 million at end-December 2018, from BD 333.2 million at end-December 2017 (Chart 2-11).

Chart 2-10: Loans to the Private Sector (BD Million)*



Source: CBB Monthly Statistical Bulletin.
**Excluding securities.*

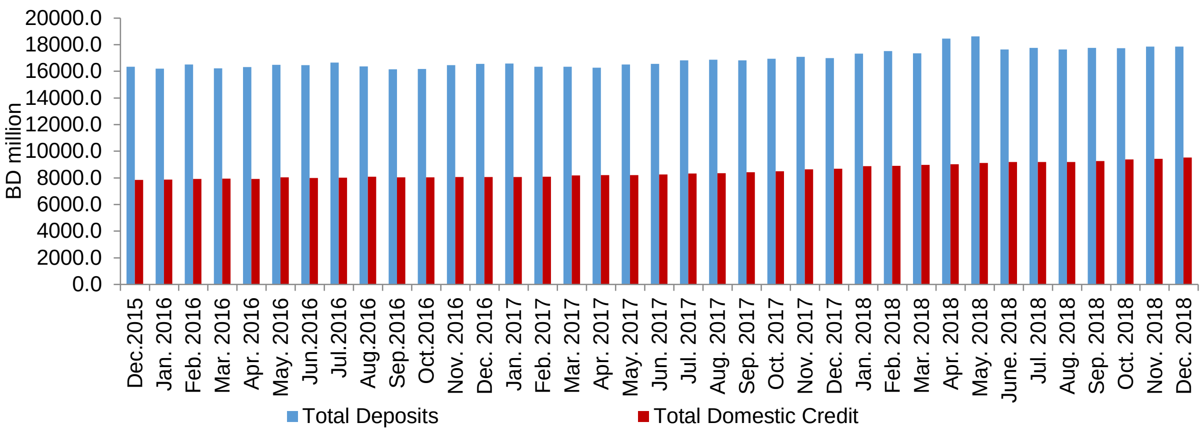
Chart 2-11: Loans to General Government (BD Million) *



Source: CBB Monthly Statistical Bulletin.
**Excluding securities.*

As for total deposits, they increased to BD 17,853.7 million in December 2018, where 67.7% of them were domestic deposits. This was parallel to the total domestic credits, which moved from BD 8,876.2 million at end-January 2018 to 9,519.9 in December 2018 (Chart 2-12).

Chart 2-12: Total Deposits and total Domestic Credit (BD Million)



Source: CBB Monthly Statistical Bulletin.

2.2.3 Net Foreign Assets

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

Looking at the NFA position by banking segment we will see that, as of December 2018, the position is negative for retail banks, both conventional and Islamic, and conventional wholesale banks (net borrowers), while it is positive for Islamic wholesale banks (net lenders). As of December 2018, the NFA position for retail banks was *negative* USD 2,994.0 million. For wholesale banks, the NFA position was also *negative* USD 1,505.9 million.

Table 2-2: Net Foreign Assets Postion by Banking Segment (Dec. 2018)

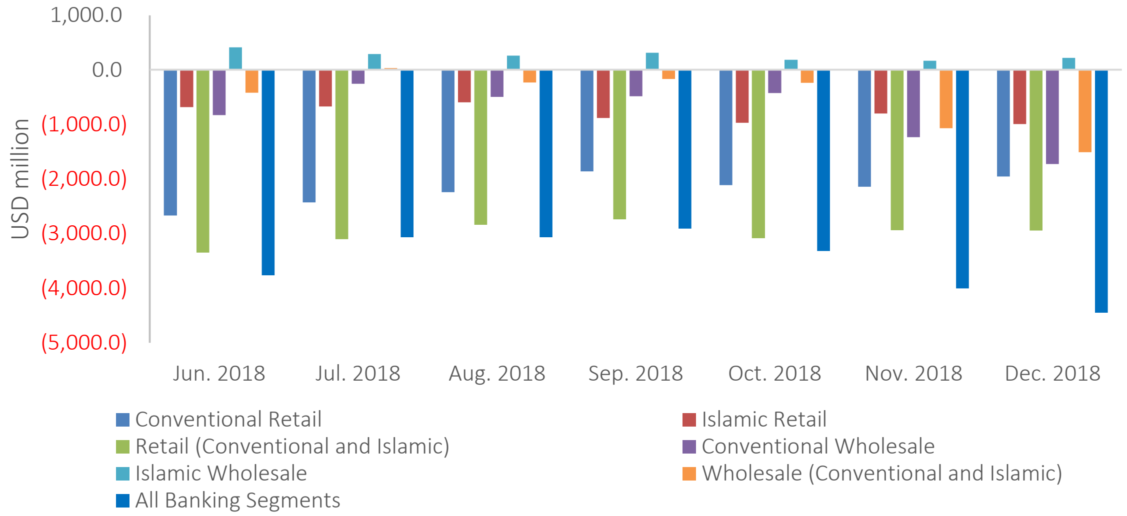
Banking Segment (USD million)	Foreign Assets	Foreign Liabilities	Net Foreign Assets
Conventional Retail	33,718.6	35,672.2	(1,953.6)
Islamic Retail	2,530.7	3,521.0	(990.3)
Retail (Conventional and Islamic)	**36,249.2**	**39,193.2**	**(2,944.0)**
Conventional Wholesale	88,570.8	90,293.7	(1,722.9)
Islamic Wholesale	5,004.4	4,787.5	217.0
Wholesale (Conventional and Islamic)	**93,575.2**	**95,081.1**	**(1,505.9)**
Total Banking Segments	**129,824.5**	**134,274.4**	**(4,449.9)**

Source: CBB.

While the foreign assets for some banking segments have been increasing steadily with an upward trend, there is also an increase in foreign liabilities which leads to the increasing negative NFA position. The NFA for conventional wholesale banks (Conventional and Islamic) decreased significantly in

November 2018. Islamic Wholesale remains the only banking segment with positive NFA, yet the amount is decreasing.

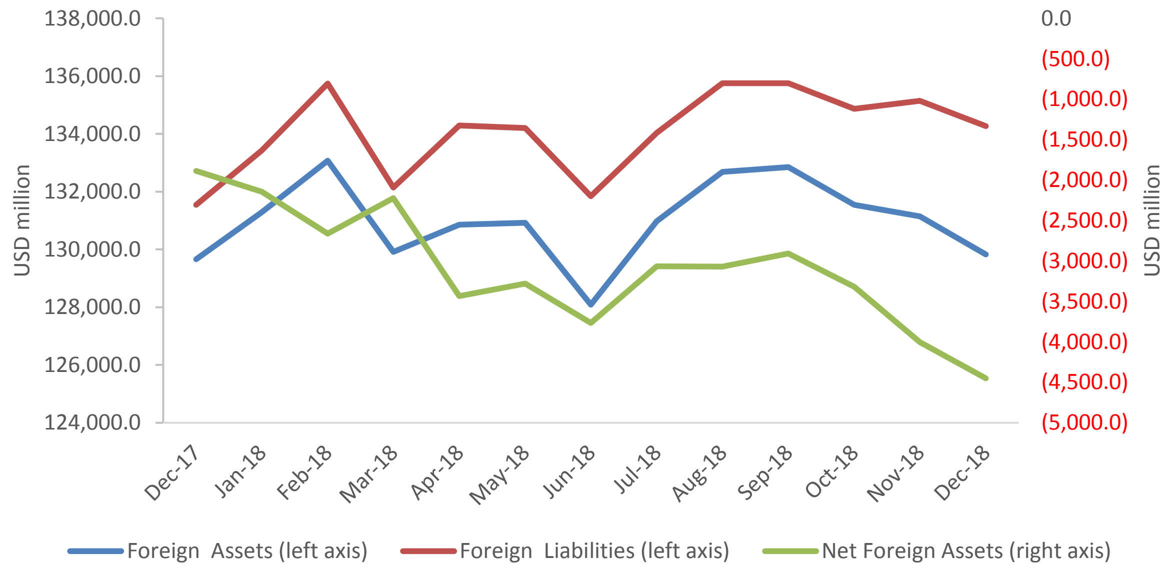
Chart 2-13: Net Foreign Assets Position by Banking Segment



Source: CBB.

Looking at the NFA position for the overall banking sector, data shows that there is a continuous downward trend as seen in the graph below. The NFA position of every banking segment is seen in the Box below.

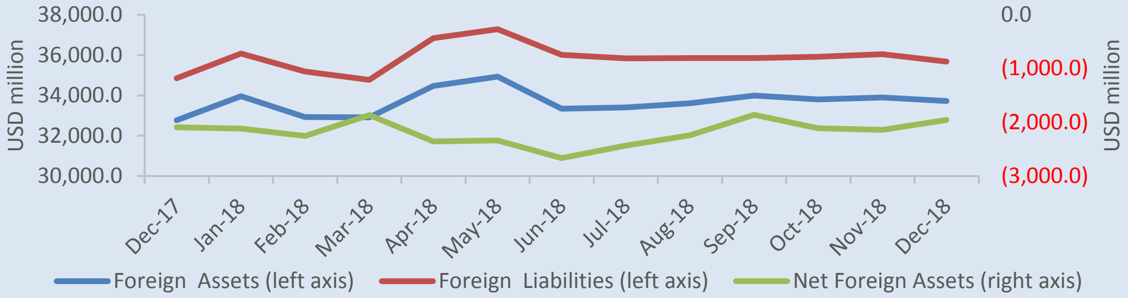
Chart 2-14: Net Foreign Assets of the Overall Banking Sector



Source: CBB.

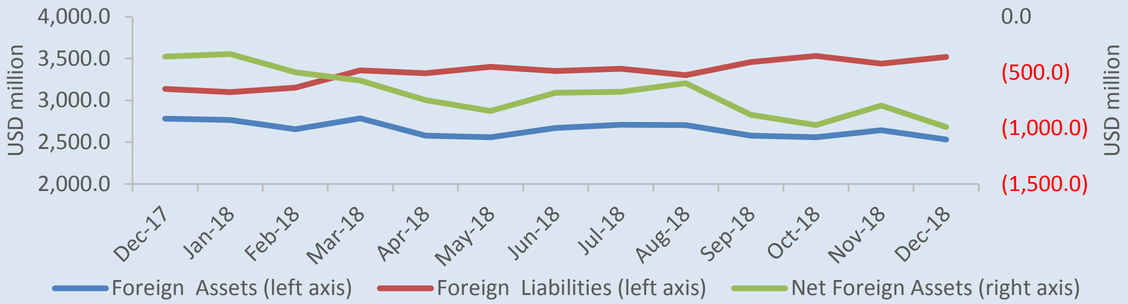
Box 1: Net Foreign Asset Charts by Banking Segment

Box 1 Cart 1: Conventional Retail's Net Foreign Assets



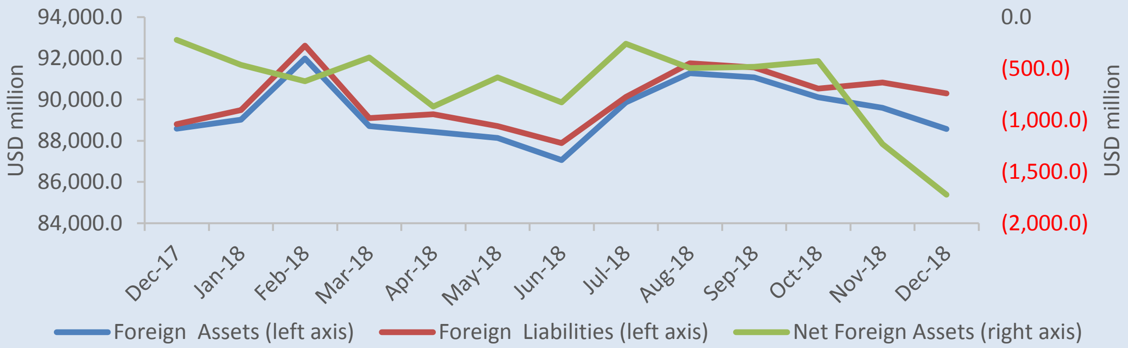
Source: CBB.

Box 1 Cart 2: Islamic Retail's Net Foreign Assets



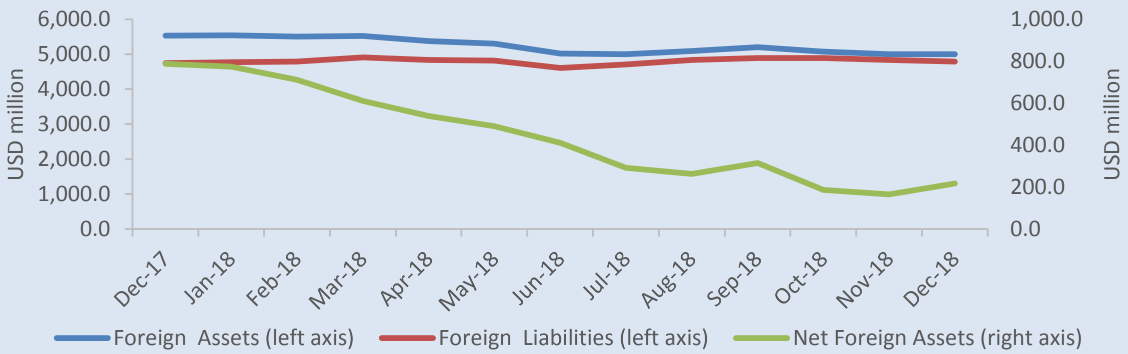
Source: CBB.

Box 1 Cart 3: Conventional Wholesale's Net Foreign Assets



Source: CBB.

Box 1 Cart 4: Islamic Wholesale's Net Foreign Assets

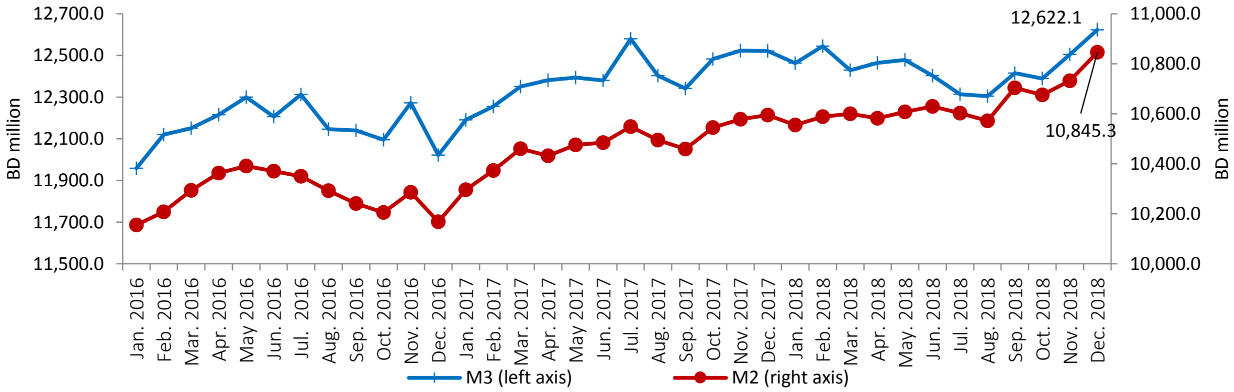


Source: CBB.

2.3 Monetary Indictors

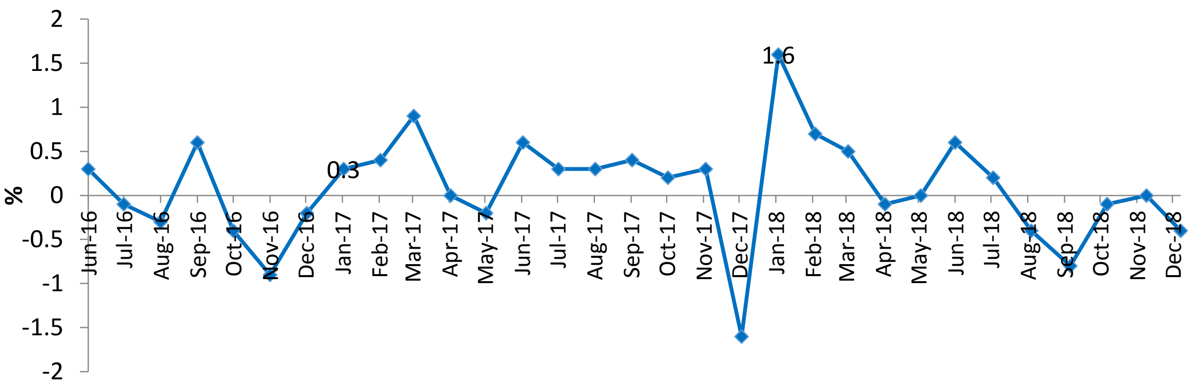
Money supply continued to grow. M2 stood at BD 10,845.4 million in end-December 2018, 2.0% higher than its value of June 2018 (year-on-year increase was 2.4%). M3 was at BD 12,622.1 million in end-December 2018, 1.8% higher than in June 2018 (year on year increase was 0.8%) (Chart 2-15).

Chart 2-15: Money Supply (BD million) from Jan. 2016 to Dec. 2018



Source: CBB Monthly Statistical Bulletin.

Chart 2-16: Monthly Inflation - Jul. 2016– Dec. 2018 (CPI %)*



**Growth rate compared to the same month of previous year, seasonally adjusted.*
Source: IGA.

The inflation rate in consumer prices has always been relatively stable in Bahrain, with yearly not exceeding 4.0%. According to Information and E-Government Authority (IGA), monthly inflation fluctuated between -0.8% and 1.6% between January 2018 and December 2018. The largest increases came from the "food and non-alcoholic beverages", and the "transportation" sectors.

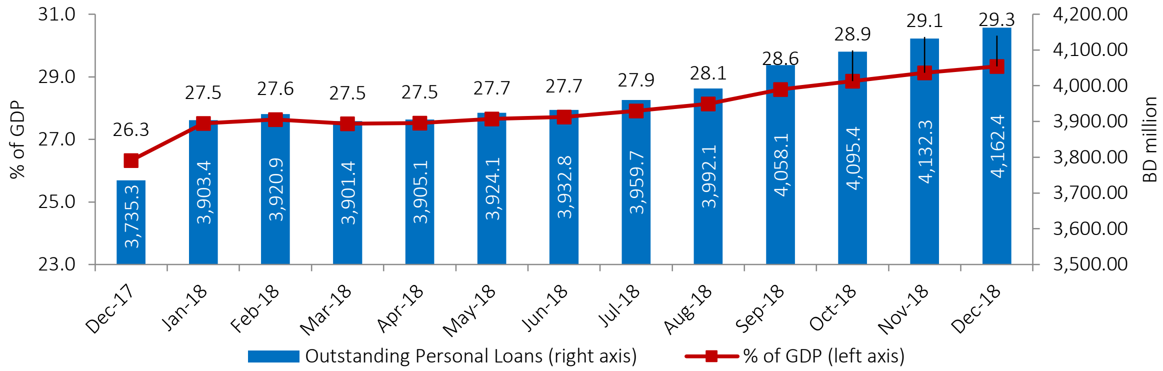
2.4 The Households Sector

The household sector in Bahrain plays an important role in financial stability and the overall economy. The household sector can allocate funds to financial assets through bank deposits and securities, and to non-financial assets from land and other fixed assets. It can also receive funds from financial and non-financial institutions. The construction and real estate sector plays a huge importance on economic developments and is a good indicator of macroeconomic conditions in the country.

2.4.1 Household Debt Ratio

Outstanding personal loans, used as a proxy for household borrowing, for the period shows that the household debt saw an increase throughout the period between June 2018 andDecember 2018 (Chart 2-17).

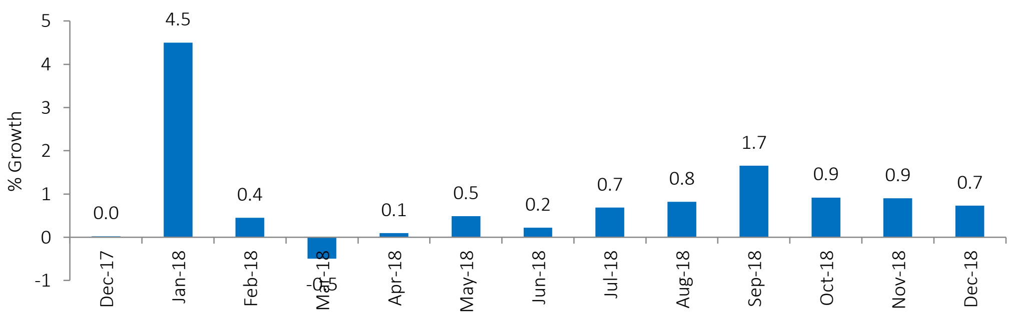
Chart 2-17: Personal Loans and Advances (Volume and % of GDP)



**Using 2018 GDP estimates.*
Source: CBB Monthly Statistical Bulletin.

Personal loans as a percentage of GDP increased to 29.3% by December 2018 (BD 4,162.4 millIon). There was a 5.8% increase in outstanding personal loans between June 2018 and December 2018 (year-on-year increase was 11.4%).

Chart 2-18: Growth Rate of Total Personal Loans and Advances (%)



Source: CBB Monthly Statistical Bulletin.

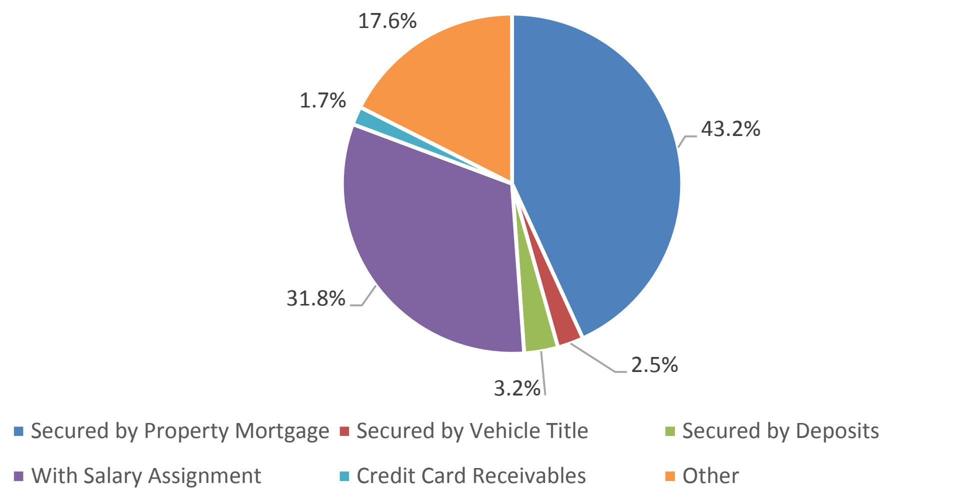
The growth rate in total personal loans saw an increase from June 2018 to December 2018. Rising from 0.2% to 0.7% respectively. The highest growth rate in personal loans of 4.5% was in Janaury 2018. The noteable increase was due to the increase in personal loans secured by mortgages. The two main contributors to personal loans as seen in chart 2-19 were personal loans secured by property mortgages which made up 43.2% of the total personal loans followed by personal loans secured with salary assignments at 31.8% of total personal loans as of end of December 2018.

Table 2-3: Personal Loans Breakdown

BD million	Jun. 2018	Jul. 2018	Aug. 2018	Sep. 2018	Oct. 2018	Nov. 2018	Dec. 2018
Total	3,932.8	3,959.7	3,992.1	4,058.1	4,095.14	4,132.3	4,162.4
Secured by Property Mortgage	1,764.9	1,765.1	1,780.1	1,792.1	1,805.2	1,817.3	1,796.7
Secured by Vehicle Title	105.7	106.2	104.8	103.8	103.0	102.6	103.0
Secured by Deposits	54.5	52.6	64.2	70.2	83.8	97.9	134.1
With Salary Assignment	1,295.6	1,304.9	1,309.2	1,316.5	1,323.3	1,320.2	1,325.1
Credit Card Receivables	67.8	66.3	69.0	68.6	71.4	74.2	72.5
Other	644.3	664.6	664.8	706.9	708.7	720.1	731.0

Source: CBB Monthly Statistical Bulletin.

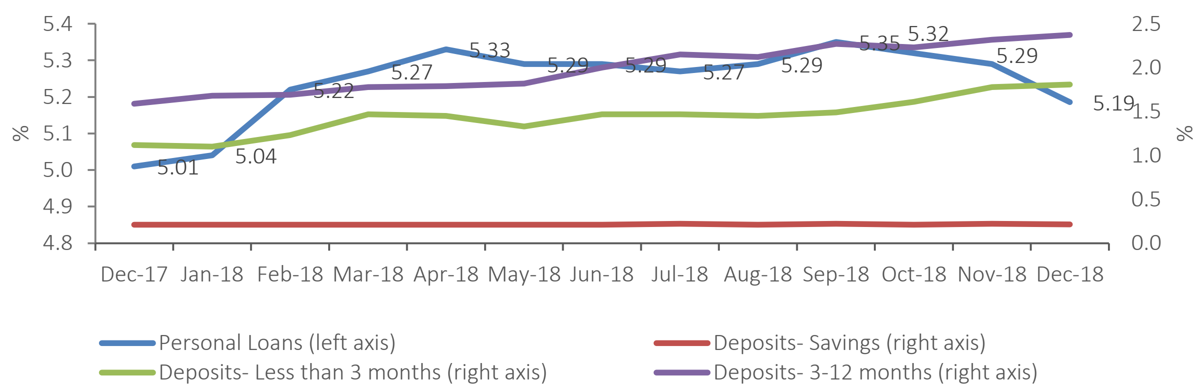
Chart 2-19: Personal Loans Breakdown (Dec. 2018)



Source: CBB Monthly Statistical Bulletin.

Interest rates on personal loans started off at 5.04% in January 2018 and increased to 5.19% in December 2018 (Chart 2-20). The chart also shows the retail deposit rate for: Saving deposits, time deposits less than 3 months, and time deposits 3 months to 12 months over the same period.

Chart 2-20: Retail Banks- Average Interest Rates on Personal Loans and Interest rates on Deposits (%)

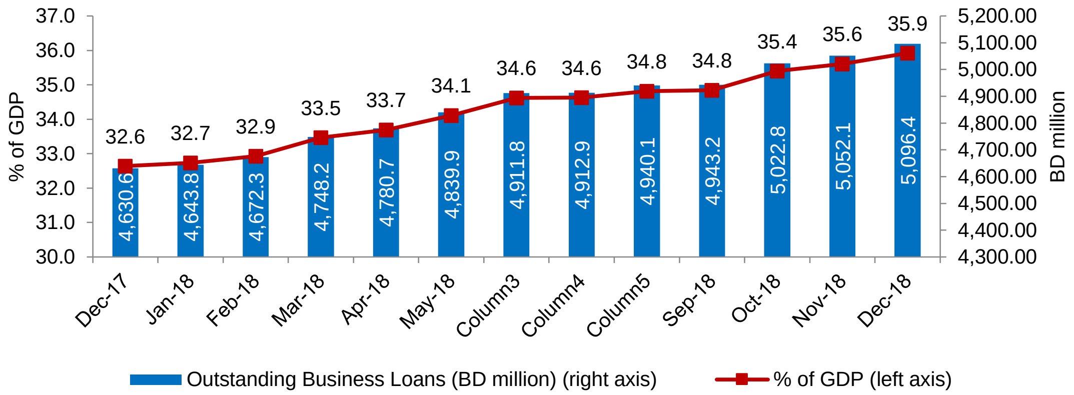


Source: CBB Monthly Statistical Bulletin.

2.4.2 The Bahraini Corporate Sector

Business loans and advances grew between June 2018 and December 2018 from BD 4,911.8 million in June 2018 to BD 5,096.4 million in December 2018 (Chart 2-21). Outstanding business loans as a percentage of GDP increased to 35.9% in December 2018.

Chart 2-21: Business Loans and Advances (Volume and % of GDP)



Source: CBB Monthly Statistical Bulletin.

For the past six months, the main contributor to the increase in business loans was the loans to the construction and real estate sector. The biggest contributors to business loans in November 2018 were the 'construction and real estate sector' (36.6%) followed by 'trade' (22.2%), 'manufacturing' (18.0%) and then 'other sectors' (16.6%) (Chart 2-22).

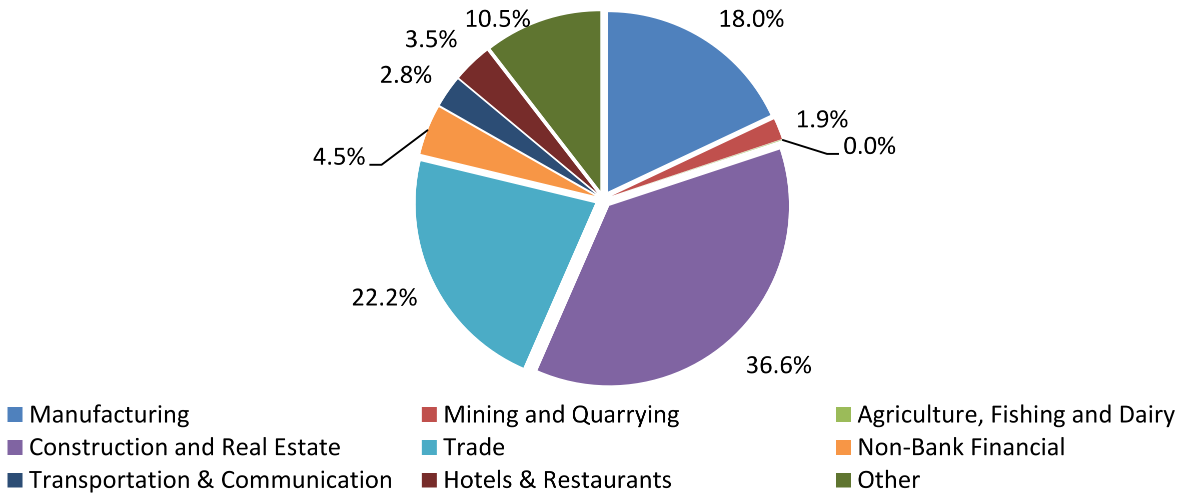
Table 2-4: Business Loans by Sector

Sectors	Jun. 2018	Jul. 2018	Aug. 2018	Sep. 2018	Oct. 2018	Nov. 2018	Dec. 2018
Total	4,911.8	4,912.9	4,940.1	4,943.2	5,022.8	5,052.1	5,096.4
Manufacturing	790.1	841.9	890.1	870.2	905.3	912.9	916.3
Mining and Quarrying	85.3	79.4	80.5	84.1	81.1	81.5	96.5
Agriculture, Fishing and Dairy	5.3	3.7	2.1	2.1	2.2	2.0	2.3
Construction and Real Estate	1,777.0	1,762.5	1,709.0	1,814.2	1,839.6	1,850.7	1,866.8
Trade	1,148.1	1,130.0	1,144.4	1,144.5	1,150.5	1,155.3	1,132.1
Non-Bank Financial	241.2	240.9	223.3	214.2	215.2	212.0	228.1
Other Sectors	864.8	854.5	890.7	813.9	828.9	837.7	854.3
of which:							
Transportation & Communication	103.4	104.9	103.9	104.2	121.4	116.5	143.4
Hotels & Restaurants	167.8	183.7	182.0	186.4	187.6	179.0	177.3

Source: CBB Monthly Statistical Bulletin.

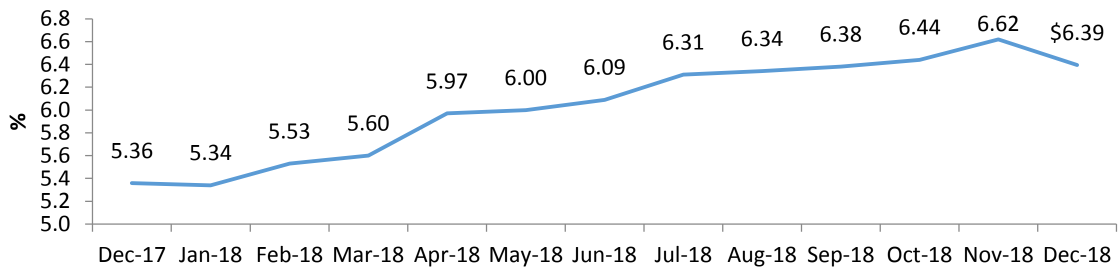
Average interest rates on business loans fluctuated throughout the period from June 2018 to December 2018. It was at its peak in November 2018 at 6.62% compared to 5.36% in December 2017 (Chart 2-22).

Chart 2-22: Business Loans by Sector (Dec. 2018)



Source: CBB Monthly Statistical Bulletin.

Chart 2-23: Retail Banks' Average Interest Rates on Business Loans



Source: CBB Monthly Statistical Bulletin.

2.4.3 Construction and Real Estate

The total number of construction permits issued by the Ministry of Municipality & Agricultural Affairs has seen a decrease from Q3 2017 to Q4 2018, with a total of 1,360 and 1,485 permits issues respectively.

Table 2-5: Selected Construction Permits by Type

Type	2016	2017	2018:Q1	2018:Q2	2018:Q3	2018:Q4	2019:Q1*
Renovation	674	509	162	169	148	163	117
Reclamation	18	18	1	7	1	8	1
New Construction	3,420	2,656	613	730	596	675	371
Demolition and New Construction	37	25	10	7	8	13	6
Demolition	519	433	118	95	88	67	56
Addition	2,599	2,314	567	525	434	605	541
Total	**7,267**	**5,955**	**1,471**	**1,533**	**1,275**	**1,531**	**1,092**

Sources: Ministry of Works, Municipalities Affairs and Urban Planning.
**2019:Q1 is up until March 1, 2019*

2.5 Overall assessment of the Bahraini Financial sector and non-Financial Sector.

Bahrain's financial sector was influential in fostering economic growth and creating employment opportunities. Bank loans continued their growth with mortgage loans growing steadily. Overall funding conditions have improved and demand for loans has accelerated in Bahrain. Banks operating in Bahrain are well capitalized, funding and liquidity buffers are well above minimum required standards, and non-performing loans continue to drop. Regulatory changes in recent years have helped to improve prudential standards for retail and wholesale banks (conventional and Islamic). All these changes have been beneficial for financial stability and will further strengthen the position of Bahrain as a financial center.

Part II:

Performance of the Banking Sector

Chapter 3 Overall Banking Sector

Key Highlights

CAR	NPL	Provisioning	ROA	ROE	Liquidity	Loan/Deposit
18.9% ↓	5.5% ↓	61.2% ↑	1.0% ↓	6.7% ↓	24.1% ↔	72.1% ↓

- An increase in capital positions.
- Non-performing loans (NPLs) decreased slightly.
- Loan portfolios remain concentrated in some sectors despite the decrease in some sectors, but no significant change from previous quarter.
- Stable earnings for banks.
- Liquidity position remains stable.

3.1 Overview

This chapter offers an assessment of the banking sector in Bahrain. Macro prudential analysis of the entire banking sector is performed based on a set of selected Financial Soundness Indicators (FSIs). The banking sector in Bahrain is divided into four segments: conventional retail (CR), conventional wholesale (CW), Islamic Retail (IR), and Islamic wholesale (IW). The performance of each of the four banking segments will be analysed in Chapters 4 and 5.[1] Annex 1 presents selected FSIs for the different banking segments. Annex 2 presents selected graphs showing the development of selected indicators over time.

Unless indicated otherwise, Chapters 3, 4, and 5 of the report analyzes data covering the period between end-June 2018 and end-December 2018.

3.2 Overall Banking Sector Performance

3.2.1 Capital Adequacy

Decrease in Capital Adequacy Ratio

The capital adequacy ratio[2] (CAR) for the banking sector stood at 18.9% in December 2018. The ratio has decreased from 19.2% in June 2018. The core capital ratio (ratio of Tier 1 capital to risk-weighted

[1] Chapters 3, 4, and 5 do not contain any sections on stress testing. Stress testing exercises are performed separately in an internal report to obtain information on the potential quantitative impact of hypothetical scenarios on selected Bahraini Domestically Systemically-Important Banks (DSIB's).

[2] The capital adequacy ratio relates total capital to risk-weighted assets (RWA). The discussion excludes overseas retail banks, which do not have prescribed capital levels or ratios.

assets) showed a decrease from 17.8% in June 2018 to 17.7% in December 2018. Whereas the leverage ratio (ratio of assets over capital) increased to 7.2% during the same period.

Table 3-1: Capital Provision Ratios *

Indicator	Jun. 2018	Dec. 2018
CAR (%)	19.2	18.9
Tier 1 CAR (%)	17.8	17.6
Leverage (Assets/Capital) (Times)	7.1	7.2

** For Locally Incorporated Banks only.*
Source: CBB.

3.2.2 Asset Quality

NPL levels stabilize

The non-performing loans (NPLs) ratio has been flat remaining within the same range. The NPL ratio was at 5.5% in December 2018. The specific provisions as a proportion of NPLs showed increase to 61.2% in December 2018 from 57.9% in June 2018.

Table 3-2: NPL Ratios *

Indicator	Jun. 2018	Dec. 2018
NPLs (% Total Loans)	5.6	5.5
Specific provisions (% of NPLs) *	57.9	61.2

** Specific provisions as a percentage of NPLs are calculated as specific provisions divided by gross impaired loans.*
Source: CBB.

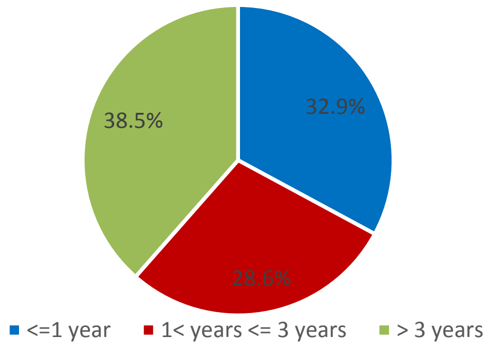
Data on NPLs by time segment (up to 1 year, 1 year to 3 years, and over 3 years) show that the majority of NPLs in the banking sector are for over 3 years (38.5% of total of total NPLs). NPLs for over 3 years represented 2.1% of total gross loans. NPLs for up to 3 years represented 61.5% of total of total NPLs. Specific provisioning for NPLs increases as they are non-performing for longer periods of time. As seen in Table 3-3, NPLs for a period for more than 3 years are provisioned by 74.3%.

Table 3-3: NPL Ratios and Specific Provisions by Time Period (Dec. 2018)

Indicator	Up to 1 year	1 up to 3 years	Over 3 years	Total
NPLs (% Total Loans)	1.8	1.6	2.1	5.5
Specific Provisions (% of NPLs)	44.6	62.4	74.4	61.2

Source: CBB.

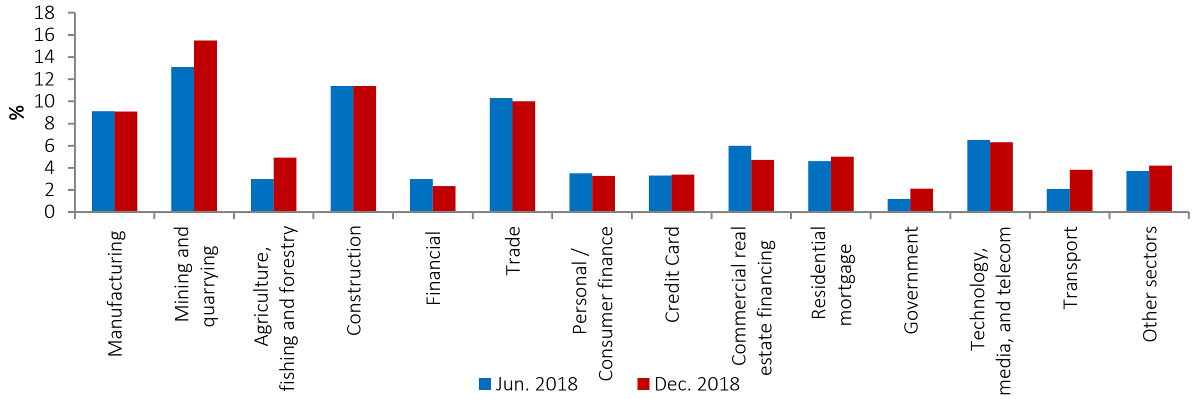
Chart 3-1: NPLs by Time Period (Dec. 2018)



Source: CBB.

Data on the sectoral breakdown of NPLs as a percentage loans in each sector shows some sectors experiencing an increase in impairment, while some experience a decrease and others remaining unchanged (Table 3-4 and Chart 3-2). The overall changes though have been minimal. The highest increase was in "Mining and Quarrying" by 2.4% followed by "Agriculture, Fishing, and Forestry" by 1.9%. The highest decrease was in "Commercial real estate financing" by 1.3%.

Chart 3-2: NPL Ratios by Sectors (%)



Source: CBB.

Table 3-4: NPL Ratios by Sector (%)

Sector	Jun. 2018	Dec. 2018	Change
Manufacturing	9.1	9.1	0.0
Mining and quarrying	13.1	15.5	2.4
Agriculture, fishing and forestry	3.0	4.9	1.9
Construction	11.4	11.4	0.0
Financial	3.0	2.4	(0.6)
Trade	10.3	10.0	(0.3)
Personal / Consumer finance	3.5	3.3	(0.2)
Credit Card	3.3	3.4	0.1
Commercial real estate financing	6.0	4.7	(1.3)
Residential mortgage	4.6	5.0	0.4
Government	1.2	2.1	0.9
Technology, media and telecommunications	6.5	6.3	(0.2)
Transport	2.1	3.8	1.7
Other sectors	3.7	4.2	0.5

Source: CBB.

Loan portfolios faces slight fluctuations and concentrated in some sectors

The loan portfolio of *the banking system* remains concentrated in four sectors with no major change in the exposure to the sectors with no sector exceeding a 20% exposure. "Other sectors"[3] represented the maximum exposure with 14.7% of total loans in December 2018. "Manufacturing" was close behind, with 14.6% exposure in December 2018. "Construction" increased slightly from 11.0% in June 2018 to 11.9% in December 2018.

[3] The "other sectors" category includes sectors such as "private banking", "services", "tourism", and "utilities".

Table 3-5: Lending Distribution (% Total Loans)*

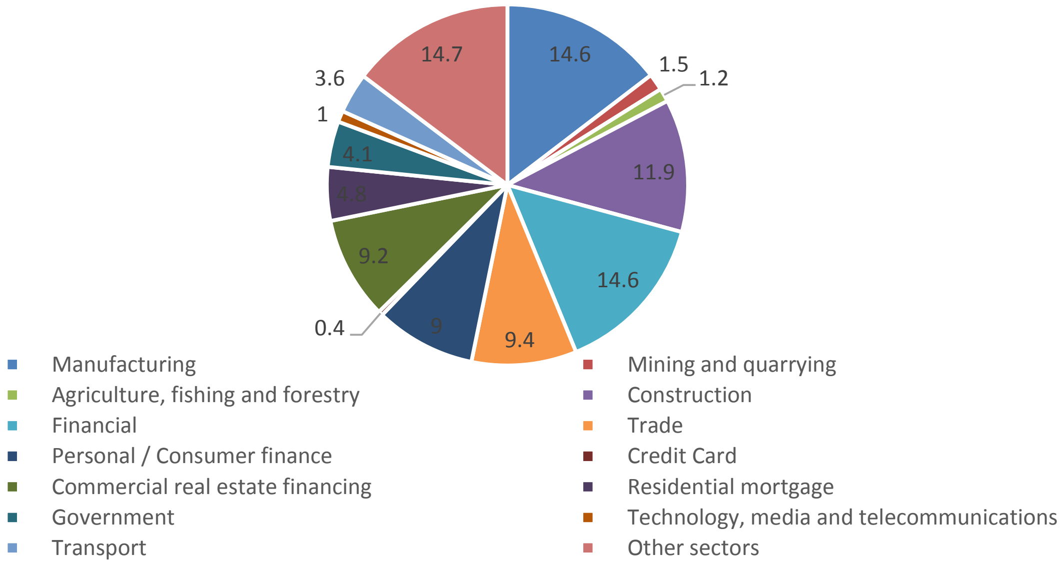
Sector	Jun. 2018	Dec. 2018	Change
Manufacturing	14.8	14.6	(0.2)
Mining and quarrying	1.7	1.5	(0.2)
Agriculture, fishing and forestry	1.4	1.2	(0.2)
Construction	11.0	11.9	0.9
Financial	14.5	14.6	0.1
Trade	9.5	9.4	(0.1)
Personal / Consumer finance	7.8	9	1.2
Credit Card	0.4	0.4	0.0
Commercial real estate financing	8.9	9.2	0.3
Residential mortgage	5.3	4.8	(0.5)
Government	5.4	4.1	(1.3)
Technology, media and telecommunications	1.1	1	(0.1)
Transport	3.2	3.6	0.4
Other sectors	14.9	14.7	(0.2)
Top Two Sectors (%)	**29.7**	**29.3**	**(0.4)**
Real Estate/ Construction Exposure (%) **	**25.2**	**25.8**	**0.6**

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

*** Real Estate/Construction exposure is calculated as the share of the construction, commercial real estate financing, and* residential mortgages sectors of total lending.

Source: CBB.

Chart 3-3: Lending Distribution (% Total loans)



Source: CBB.

The top two recipient sectors “Manufacturing” and “Other” jointly represented 29.3% of loans in December 2018, decreasing from 29.7 % in June 2018. Exposure to real estate/construction was 25.3% of total lending in September 2018, an increase from 29.7% registered in June 2018.

SME lending

Credit extension to Small and Medium Enterprises (SMEs) showed increases between June and December of 2018. SME loans (as a % of total loans) were at 2.0% in December 2018 compared to 1.7 in June 2018. SME Non-performing loans dropped slightly between the same periods to 9.7%, down from 9.9%. Provisioning levels recorded a decrease from 56.2% in June to 48.6% in December.

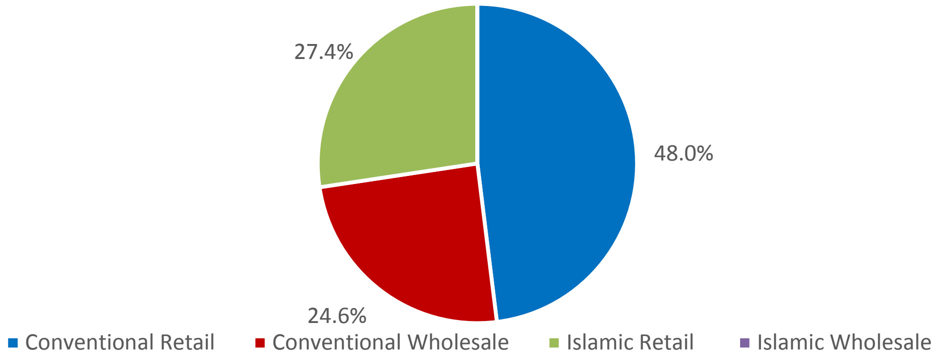
Table 3-6: SME Lending *

Indicator	Jun. 2018	Dec. 2018
SME Loans (% of total Loans)	1.7	2.0
SME NPLs (% of total SME Loans)	9.9	9.7
SME Provisioning (% of total SME NPLs)	56.2	48.6

**For Bahrain Operations Only*

Source: CBB.

Chart 3-4: SME Lending by Banking Segment (December 2018)



Source: CBB.

3.2.3 Profitability

Profitability decreases slightly

The overall banking sector's profitability indicators have been stable from December 2017 to December 2018 and remain robust. As of end-December 2018, return-on-assets (ROA) decreased slightly to 1.0 from 1.1% in December 2017. Return-on-equity (ROE) decreased to 6.7% in December 2018 from 7.1% in December 2017.

Table 3-7: Profitability

Indicator	Dec. 2017	Dec. 2018
ROA (%)*	1.1	1.0
ROE (%) **	7.1	6.7
Net Interest Income (% Total Income)***	67.2	67.3
Operating Expenses (% Total Income)	57.7	63.5

** ROA = ratio of net income to assets.*

*** ROE = ratio of net profit to tier 1 capital (for Locally Incorporated Banks only).*

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

Source: CBB.

Net interest income (as a % of total income) stood at 67.3% in December 2018. In addition, operating expenses as a proportion of total income was 63.5% in December 2018, an increase from the 57.7% registered in December 2017.

3.2.4 Liquidity

Liquidity position stays resilient

Between June 2018 and December 2018, the overall loan-deposit ratio decreased from 73.2% in June 2018 to 72.1% in December 2018. Liquid assets as a proportion of total assets remained at 24.1%, over the same period.

Table 3-8: Liquidity

	Jun. 2018	Dec. 2018
Liquid Asset Ratio (%)	24.1	24.1
Loan-Deposit Ratio (%)	73.2	72.1

Source: CBB.

3.3 Overall Assessment of the Banking Sector

The financial soundness indicators show that the Banking Sector witnessed a decrease in capital adequacy ratio. Capital adequacy ratios for the banking sector decreased to 18.9% in December 2018 from 19.2% in June 2018. NPLs have remained stable within the same range between the periods of June 2018 to December 2018, at 5.5%. Profitability has remained stable with ROA being at 1.0% and ROE at 6.7%. Liquidity remains at a stable level between June 2018 and December 2018.

In the following two chapters (chapters 4 and 5) of the FSR, the FSIs of the four banking sectors (Conventional Retail, Conventional Wholesale, Islamic Retail, and Islamic Wholesale) are analysed to assess the performance of the sectors in the banking system in Bahrain.

Chapter 4 Conventional Banks

Key Highlights

CR CAR	CR NPL	CR Provisions	CR ROA	CR ROE	CR Liquidity	CR Loan/Deposit
20.9% ↑	5.5% ↓	63.8% ↑	1.5% ↔	14.3% ↑	32.9% ↓	69.6% ↔
CW CAR	**CW NPL**	**CW Provisions**	**CW ROA**	**CW ROE**	**CW Liquidity**	**CW Loan/Deposit**
18.1% ↓	5.7% ↑	67.9% ↑	0.7% ↓	0.8% ↓	23.0% ↑	64.2% ↑

- An increase in capital positions of conventional retail banks.
- Non-performing loans (NPLs) for conventional retails banks decreased slightly, while NPLs for conventional wholesale banks increased.
- Loan portfolios in conventional retail and wholesale banks remain concentrated despite the decrease in some sectors.
- Decline in earnings for conventional banks
- No major changes in liquidity for conventional banks.

4.1 Overview

Chapter 4 offers macroprudential analysis of the conventional banking sector based on a set of selected FSIs. The Chapter analyses the following conventional banking segments: conventional retail (CR) banks (section 4.2), conventional wholesale (CW) banks (section 4.3). Section 4.4 provides an overall assessment of the conventional banking industry. Unless specified otherwise, the analysis in this chapter is based on consolidated financial data (Bahraini and non-Bahraini operations).

4.2 Conventional Retail Banks

4.2.1 Capital Adequacy

Increase in capital adequacy

The CAR for conventional retail increased from 20.0% in June 2018 to 20.9% in December 2018. The core capital ratio (ratio of Tier 1 capital to risk-weighted assets) showed an increase from 18.4% in June 2018 to 19.4% in December 2018, whereas the leverage ratio (ratio of assets over capital) decreased to 6.4% during the same period. The ratio of non-performing loans (NPLs) net provisions to capital decreased to reach 5.8% in December 2018 from 6.6% in June 2018.

Table 4-1: CR Banks' Capital Provisions Ratios *

Indicator	Jun. 2018	Dec. 2018
CAR (%)	20.0	20.9
Tier 1 CAR (%)	18.4	19.4
Leverage (Assets/Capital) (Times)	6.7	6.4
NPLs net of Provisions to Capital (%)	6.6	5.8

** For Locally Incorporated Banks only.*
Source: CBB.

4.2.2 Asset Quality

Decline in conventional retail NPLs due to decline in overseas NPLs

The NPL ratio showed a decrease from 5.8% in June 2018 to 5.5% in December 2018. The specific provisions as a proportion of NPLs showed an increase to 63.7% in December 2018 from 54.3% in June 2018. For *local retail banks*, the NPLs slightly increased to 4.3% in December 2018. For *overseas retail banks*, the NPLs decreased from 9.1% in June 2018 to 7.9% in December 2018.

Table 4-2: CR Banks' NPL Ratios

Indicator	Jun. 2018	Dec. 2018
NPLs (% Total Loans)	5.8	5.5
NPLs Local Banks (%)	4.2	4.3
NPLs Overseas Banks (%)	9.1	7.9
Specific Provisions (% of NPLs) *	54.3	63.8

** Specific provisions as a percentage of NPLs are calculated as specific provisions divided by gross impaired loans.*
Source: CBB.

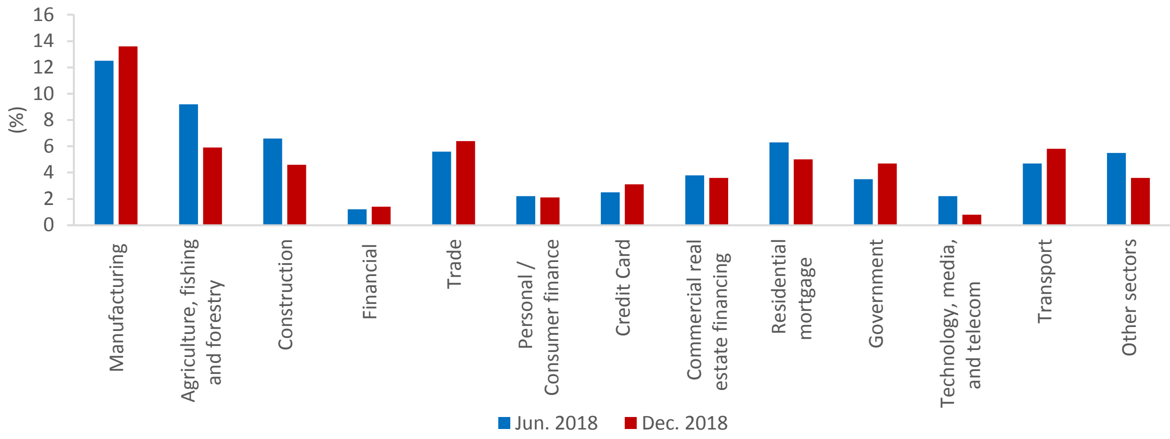
Available data on the sectoral breakdown of NPLs shows some sectors experiencing an increase in impairment, while some experience a decrease (Table 4-3 and Chart 4-1). The highest increase was in "Mining and quarrying" by 10.7%, and the highest decrease was in "Agriculture, fishing and forestry" by 3.3%.

Table 4-3: CR Banks' NPL Ratios by Sector (%)

Sector	Jun. 2018	Dec. 2018	Change
Manufacturing	12.5	13.6	1.1
Mining and quarrying	51.5	62.2	10.7
Agriculture, fishing and forestry	9.2	5.9	(3.3)
Construction	6.6	4.6	(2.0)
Financial	1.2	1.4	0.2
Trade	5.6	6.4	0.8
Personal / Consumer finance	2.2	2.1	(0.1)
Credit Card	2.5	3.1	0.6
Commercial real estate financing	3.8	3.6	(0.2)
Residential mortgage	6.3	5.0	(1.3)
Government	3.5	4.7	1.2
Technology, media and telecommunications	2.2	0.8	(1.4)
Transport	4.7	5.8	1.1
Other sectors	5.5	3.6	(1.9)

Source: CBB.

Chart 4-1: CR Banks' NPL Ratios by Sector (%)



Source: CBB.

Loan portfolios remain concentrated

The loan portfolio of *retail banks* remains concentrated with fairly small, if any, changes in the composition of the loans. The top recipient of loans remains to be the "Commercial real estate financing" sector accounting for 18.1% of total loans in December 2018, compared with 18.4% in June 2018. The "Manufacturing" sector represented 13.8% of total loans and the "Personal/Consumer finance" sector represented 14.7%.

The top two recipient sectors, "Commercial real estate financing" and "Other sectors," jointly represented 33.1% of loans in December 2018. Exposure to real estate/construction remained at 30.7% of total lending in December 2018.

Table 4-4: CR Banks' Lending Distribution by Sector (% Total Loans)*

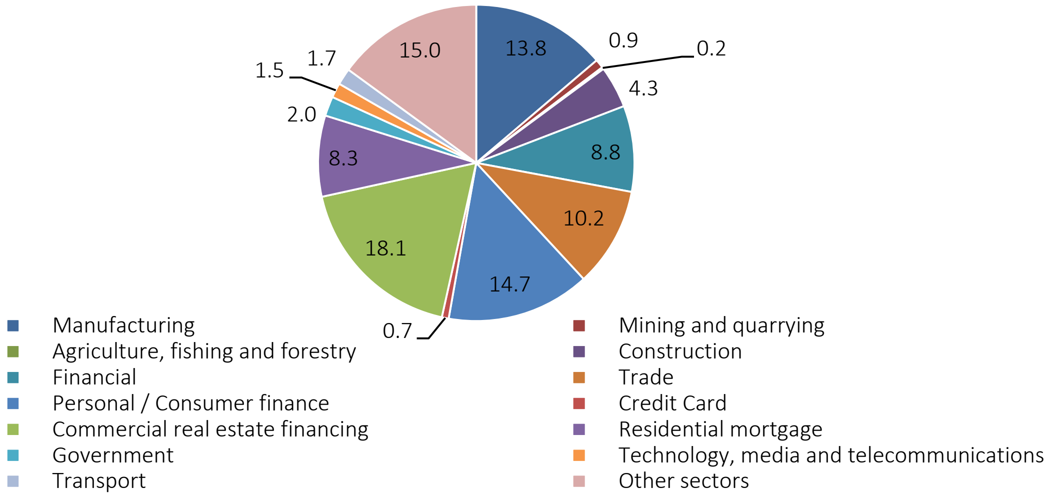
Sector	Jun. 2018	Dec. 2018	Change
Manufacturing	13.2	13.8	0.6
Mining and quarrying	1.1	0.9	(0.2)
Agriculture, fishing and forestry	0.2	0.2	0.0
Construction	4.2	4.3	0.1
Financial	9.0	8.8	(0.2)
Trade	10.6	10.2	(0.4)
Personal / Consumer finance	12.9	14.7	1.8
Credit Card	0.7	0.7	0.0
Commercial real estate financing	18.4	18.1	(0.3)
Residential mortgage	8.1	8.3	0.2
Government	2.7	2.0	(0.7)
Technology, media and telecommunications	1.7	1.5	(0.2)
Transport	1.7	1.7	0.0
Other sectors	15.5	15.0	(0.5)
Top Two Sectors (%)	33.9	33.1	(0.8)
Real Estate/ Construction Exposure (%) **	30.7	30.7	0.0

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

*** Real Estate/Construction exposure is calculated as the share of the construction, commercial real estate financing, and residential mortgages sectors of total lending.*

Source: CBB.

Chart 4-2: CR Banks' Lending Distribution by Sector (% Total Loans)



Source: CBB.

The loan portfolio of *locally incorporated retail banks* remains concentrated with the top recipient of loans being the "Commercial real estate financing" sector accounting for 18.5% of total loans in December 2018.

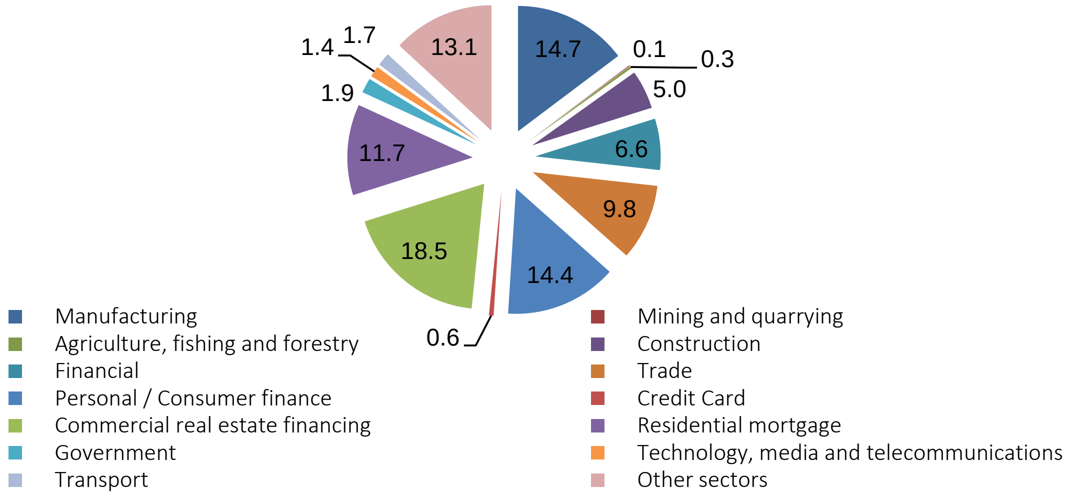
Table 4-5: Local CR Banks' Lending Distribution by Sector (% Total Loans)

Sector	Jun. 2018	Dec. 2018	Change
Manufacturing	14.0	14.7	0.7
Mining and quarrying	0.4	0.1	(0.3)
Agriculture, fishing and forestry	0.3	0.3	0.0
Construction	4.7	5.0	0.3
Financial	6.7	6.6	(0.1)
Trade	9.7	9.8	0.1
Personal / Consumer finance	13.8	14.4	0.4
Credit Card	0.5	0.6	0.1
Commercial real estate financing	18.6	18.5	(0.1)
Residential mortgage	11.3	11.7	0.4
Government	2.7	1.9	(0.8)
Technology, media and telecommunications	1.7	1.4	(0.3)
Transport	1.8	1.7	(0.1)
Other sectors	13.7	13.1	(0.6)
Top Two Sectors (%)	**32.6**	**33.2**	**0.6**
Real Estate/ Construction Exposure (%) **	**34.7**	**35.3**	**0.6**

** Figures may not add to a hundred due to rounding.*
*** Real Estate/Construction exposure is calculated as the share of the construction, commercial real estate financing, and residential mortgages sectors of total lending.*
Source: CBB.

The "Manufacturing" sector represented 14.7% of total loans over the same period, an increase from 14.0%. The "Others" sector decreased to 13.1% of total loans. The top two recipient sectors "Commercial real estate financing" and "Manufacturing" jointly represented 33.2% of loans in December 2018, an increase from the 32.6% in June 2018. Exposure to real estate/construction increased to 35.3% of total lending in December 2018.

Chart 4-3: Local CR Banks' Lending Distribution by Sector (% Total Loans)



Source: CBB.

The numbers as of end-December 2018 continue to show high concentration of risk for *overseas retail banks* (Table 4-6 and Chart 4-4). The top recipient of loans, excluding the "Others" sector, was the "Commercial Real Estate Financing" sector with 17.3% of total loans in December 2018, a decrease from the 17.9% in June 2018.

The top two recipients of loans ("Commercial Real Estate Financing" and "Other Sectors") jointly accounted for 36.0% of total loans. Exposure to real estate/ construction was 21.5% of total lending in December 2018, decreasing from 22.3% in June 2018.

Table 4-6: Overseas CR Banks' Lending Distribution by Sector (% Total Loans)

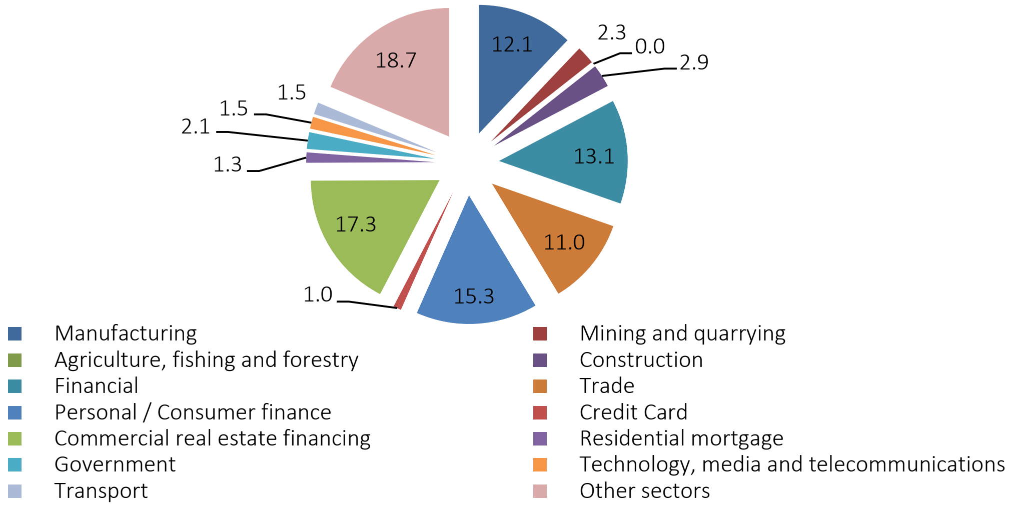
Sector	Jun. 2018	Dec. 2018	Change
Manufacturing	11.6	12.1	0.5
Mining and quarrying	2.4	2.3	(0.1)
Agriculture, fishing and forestry	0.0	0.0	0.0
Construction	3.1	2.9	(0.2)
Financial	13.9	13.1	(0.8)
Trade	12.6	11.0	(1.6)
Personal / Consumer finance	10.9	15.3	4.4
Credit Card	1.0	1.0	0.0
Commercial real estate financing	17.9	17.3	(0.6)
Residential mortgage	1.4	1.3	(0.1)
Government	2.5	2.1	(0.4)
Technology, media and telecommunications	1.7	1.5	(0.2)
Transport	1.6	1.5	(0.1)
Other sectors	19.4	18.7	(0.7)
Top Two Sectors (%)	**37.2**	**36.0**	**(1.2)**
Real Estate/ Construction Exposure (%) **	**22.3**	**21.5**	**(0.8)**

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

*** Real Estate/Construction exposure is calculated as the share of the construction, commercial real estate financing, and residential mortgages sectors of total lending.*

Source: CBB.

Chart 4-4: Overseas CR Banks' Lending Distribution by Sector (% Total Loans)



Source: CBB.

4.2.3 Profitability

Stability in locally incorporated banks' profitability

Profitability of the banks was positive, and, as at end-December 2018, ROA remained at 1.5%. ROA for *locally incorporated banks* slightly increased by 0.2% to 2.1% in December 2018 from 1.9% in December 2017. For *overseas banks*, ROA decreased from 0.9% in December 2017 to 0.4% in December 2018. ROE for *locally incorporated banks* increased from 13.0% to 14.3% over the same period. Net interest income (as a % of total income) increased from 75.8% in December 2017 to 77.3% in December 2018. Operating expenses as a proportion of total income increased from 47.8% in December 2017 to 51.6% in December 2018.

Table 4-7: CR Banks' Profitability

Indicator	Dec. 2017	Dec. 2018
ROA (%) *	1.5	1.5
ROA Locally Incorporated Banks (%)	1.9	2.1
ROA Overseas Banks (%)	0.9	0.4
ROE (%) **	13.0	14.3
Net Interest Income (% Total Income)	75.8	77.3
Operating Expenses (% Total Income)	47.8	51.6

** ROA = ratio of net income to assets.*
*** ROE = ratio of net income to tier 1 capital (for Locally Incorporated Banks only).*
Source: CBB.

4.2.4 Liquidity

Liquidity position remains stable

Between June 2018 and December 2018, bank deposits and non-bank deposits remained at similar level for retail banks. Similarly, the overall loan-deposit ratio for the segment remained at 69.6% over the same period. Liquid assets as a proportion of total assets decreased from 33.9% in June 2018 to 32.9% in December 2018. Liquid assets as a proportion of the short-term liabilities presented a decrease from 42.7% to 41.3% over this period.

Table 4-8: CR Bank's Liquidity

Indicator	Jun. 2018	Dec. 2018
Liquid Asset Ratio (%)	33.9	32.9
Loan-Deposit Ratio (%)	69.6	69.6
Non-Bank Deposits (% of Total Deposits)	80.2	80.3

Source: CBB.

4.3 Conventional Wholesale Banks

4.3.1 Capital Adequacy

Stability in capital adequacy

As at end-December 2018, the CAR for locally-incorporated wholesale banks decreased to 18.1% from the level of 18.4% it registered in June 2018. The core capital ratio (ratio of Tier 1 capital to risk-weighted assets) slightly decreased by 0.2% from 17.4% in June 2018 to 17.3% recorded in December 2018. Furthermore, the leverage ratio (ratio of assets over capital) also witnessed an increase from 7.1% in June 2018 to 7.4% in December 2018. Finally, the ratio of non-performing loans (NPLs) net of provisions to capital also increased to 6.2% over the same period.

Table 4-9: Local CW Banks' Capital Provisions Ratios *

Indicator	Jun. 2018	Dec. 2018
CAR (%)	18.4	18.1
Tier 1 CAR (%)	17.4	17.3
Leverage (Assets/Capital)(times)	7.1	7.4
NPLs Net of Provisions to Capital (%)	4.9	6.2

** For Locally Incorporated Banks only.*

Source: CBB.

4.3.2 Asset Quality

Non-performing loans increase for local banks

As at end-December 2018, loans classified as non-performing as a % of total loans increased from 5.3% in June 2018 to 5.7% in December 2018. The NPL ratio of l*ocally-incorporated wholesale banks* increased from 5.1% in June 2018 to 6.3% in December 2018. Additionally, *overseas wholesale* banks witnessed a decrease in its NPL ratio from 5.5% to 5.2% over the same period.

Table 4-10: CW Banks' NPL Ratios

Indicator	Jun. 2018	Dec. 2018
NPLs (% Total Loans)	5.3	5.7
NPLs Local Banks (%)	5.1	6.3
NPLs Overseas Banks (%)	5.5	5.2
Specific provisions (% of NPLs) *	66.6	67.9

** Specific provisions as a percentage of NPLs are calculated as specific provisions divided by gross impaired loans.*

Source: CBB.

Specific provisions as a proportion of NPLs also witnessed an increase as well from 66.6% in June 2018 to 67.9% in December 2018.

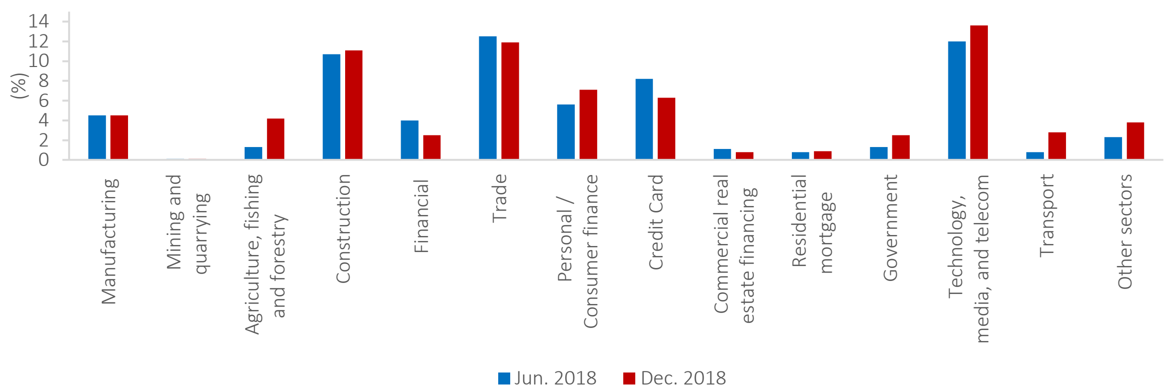
Table 4-12 depicts data on the sectoral breakdown of impaired loans, it demonstrates that impairment in "Technology, media and telecommunications" was the highest between all sectors at 13.6% followed by the "Trade" sector with an impairment of 11.9%. The biggest increase was seen in the "Agriculture, fishing and forestry" sector which increased by 2.9%. The greatest decrease in impairment was found in the "Credit Card" sector which decreased by 1.9%.

Table 4-11: CW Banks' NPL Ratios by Sector (%)

Sector	Jun. 2018	Dec. 2018	Change
Manufacturing	4.5	4.5	0.0
Mining and quarrying	0.1	0.1	0.0
Agriculture, fishing and forestry	1.3	4.2	2.9
Construction	10.7	11.1	0.4
Financial	4.0	2.5	(1.5)
Trade	12.5	11.9	(0.6)
Personal / Consumer finance	5.6	7.1	1.5
Credit Card	8.2	6.3	(1.9)
Commercial real estate financing	1.1	0.8	(0.3)
Residential mortgage	0.8	0.9	0.1
Government	1.3	2.5	1.2
Technology, media and telecommunications	12.0	13.6	1.6
Transport	0.8	2.8	2.0
Other sectors	2.3	3.8	1.5

Source: CBB.

Chart 4-5: CW Banks' NPL Ratios by Sector (%)



Source: CBB.

Loan portfolios remains concentrated despite decreases in some sectors

An examination of lending patterns as at end-December 2018 shows that, for conventional wholesale banks, the top recipient of loans was the "Financial" sector, which accounted for 20.2% of total loans representing an increase of 1.5% compared to June 2018 (Table 4-13 and Chart 4-6).

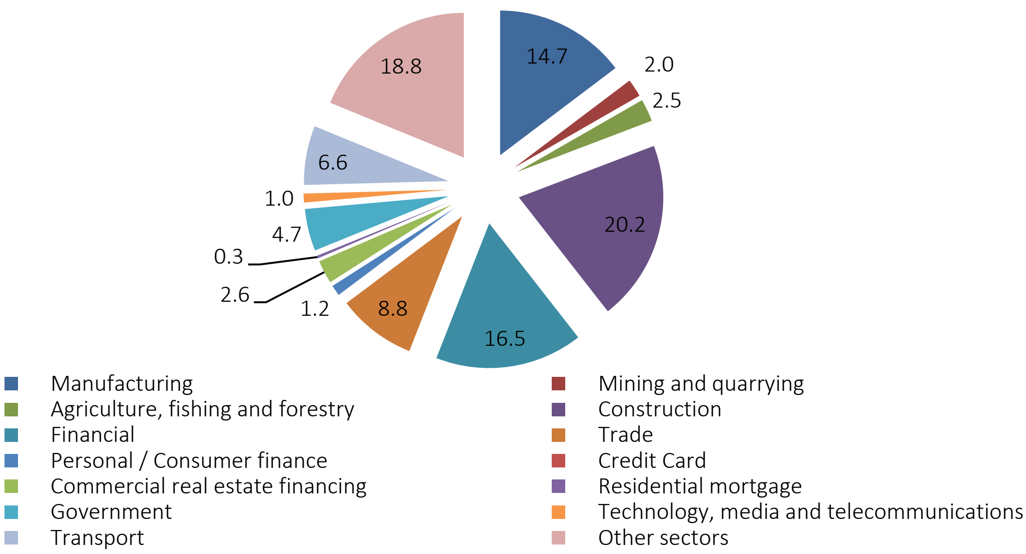
The top two sectors in Conventional Wholesale Banks' Lending as a % of total loans are the "Construction" and "Others" sectors, they jointly account for 39.0% of total lending in December 2018.

Table 4-12: CW Banks' Lending Distribution by Sector (% Total Loans)*

Sector	Jun. 2018	Dec. 2018	Change
Manufacturing	15.0	14.7	(0.3)
Mining and quarrying	2.6	2.0	(0.6)
Agriculture, fishing and forestry	2.7	2.5	(0.2)
Construction	18.7	20.2	1.5
Financial	19.0	16.5	(2.5)
Trade	8.8	8.8	0.0
Personal / Consumer finance	1.1	1.2	0.1
Credit Card	0.0	0.0	0.0
Commercial real estate financing	2.0	2.6	0.6
Residential mortgage	0.4	0.3	(0.1)
Government	5.0	4.7	(0.3)
Technology, media and telecommunications	1.1	1.0	(0.1)
Transport	5.9	6.6	0.7
Other sectors	17.6	18.8	1.2
Top Two Sectors (%)	**37.7**	**39.0**	**1.3**
Real Estate/ Construction Exposure (%) **	**21.0**	**23.2**	**2.2**

** Figures may not add to a hundred due to rounding.*
*** Real Estate/Construction exposure is calculated as the share of the construction, commercial real estate financing, and residential mortgages sectors of total lending.*
Source: CBB.

Chart 4-6: CW Banks' Lending Distribution by Sector (% Total Loans)



Source: CBB.

For *locally-incorporated wholesale banks,* the top recipient of loans is the "Manufacturing" sector, which accounted for 20.9% of total loans in December 2018, representing an increase of 0.7% from the 20.2% in June 2018 (Table 4-14 and Chart 4-7).

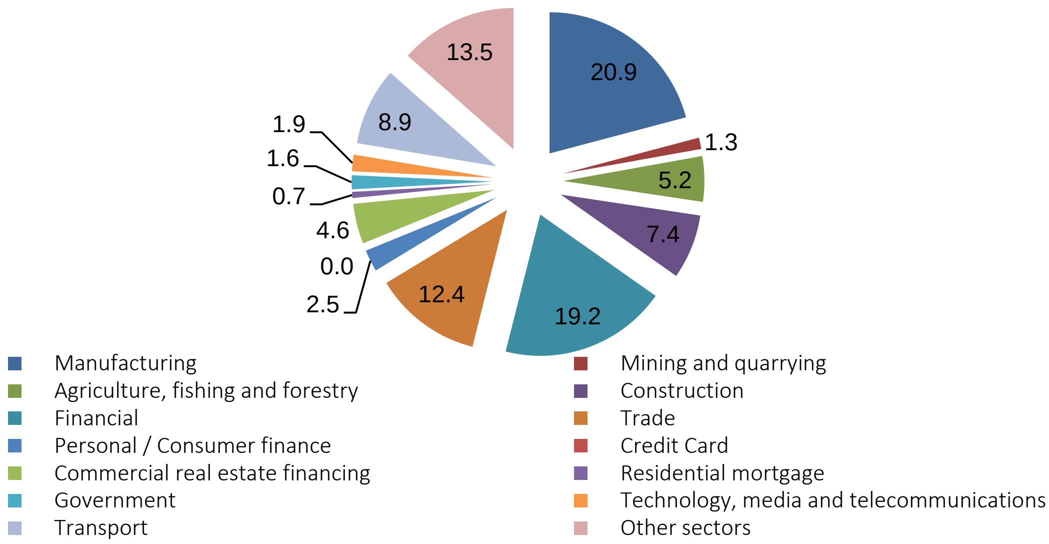
Table 4-13: Local CW Bank's Lending Distribution by Sector (% Total Loans)

Sector	Jun. 2018	Dec. 2018	Change
Manufacturing	20.2	20.9	0.7
Mining and quarrying	1.4	1.3	(0.1)
Agriculture, fishing and forestry	5.5	5.2	(0.3)
Construction	7.2	7.4	0.2
Financial	22.9	19.2	(3.7)
Trade	13.3	12.4	(0.9)
Personal / Consumer finance	2.1	2.5	0.4
Credit Card	0.0	0.0	0.0
Commercial real estate financing	3.0	4.6	1.6
Residential mortgage	0.7	0.7	0.0
Government	1.6	1.6	0.0
Technology, media and telecommunications	1.7	1.9	0.2
Transport	8.0	8.9	0.9
Other sectors	12.3	13.5	1.2
Top Two Sectors (%)	**43.1**	**40.1**	**(3.0)**
Real Estate/ Construction Exposure (%) **	**11.0**	**12.7**	**1.7**

** Figures may not add to a hundred due to rounding.*
*** Real Estate/Construction exposure is calculated as the share of the construction, commercial real estate financing, and residential mortgages sectors of total lending.*
Source: CBB.

The highest two sectors continue to be the "Manufacturing" and "Financial" accounting for 40.1% of total lending in December 2018, a decrease of 3.0% from the June 2018 level. The real estate/ construction exposure increased to 12.7% in the same period.

Chart 4-7: Local CW Banks' Lending Distribution by Sector (% Total Loans)



Source: CBB.

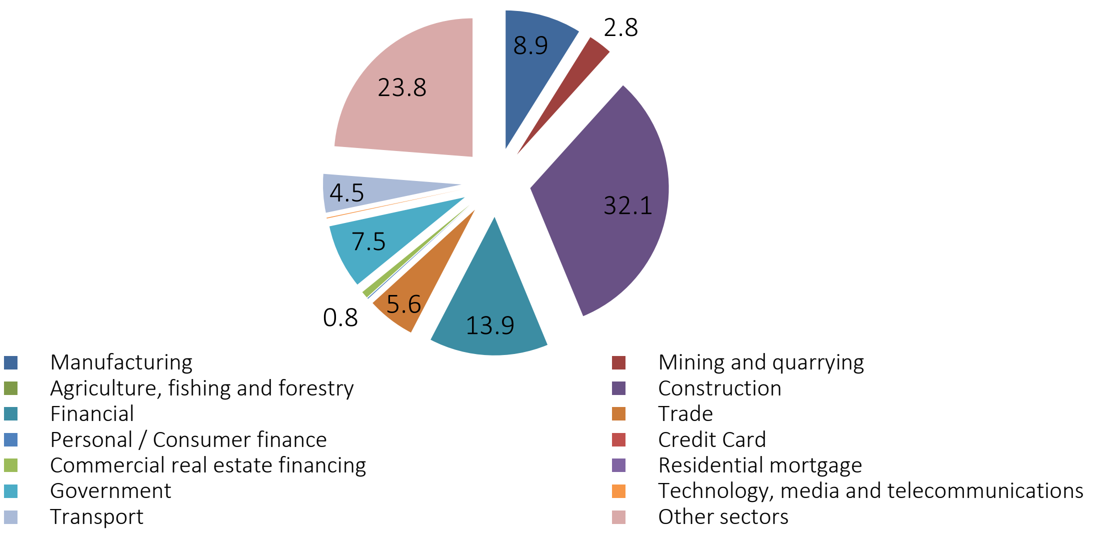
While observing *overseas wholesale banks*, the top recipient of loans in December 2018 was the "Construction" sector, with 32.1% of total loans, followed by the "Other" sector, with 23.8% of total loans, with increases of 2.0% and 0.8% respectively from their June 2018 levels (Table 4-15 and Chart 4-8). The top 2 sectors (Construction and Other) jointly represented 55.8% in December 2018, an increase of 2.7% from June 2018. Real estate/construction exposure increased from 31.0% in June 2018 to 32.8% in December 2018.

Table 4-14: Overseas CW Banks' Lending Distribution by Sector (% Total Loans)

Sector	Jun. 2018	Dec. 2018	Change
Manufacturing	9.8	8.9	(0.9)
Mining and quarrying	3.9	2.8	(1.1)
Agriculture, fishing and forestry	0.0	0.0	0.0
Construction	30.1	32.1	2.0
Financial	15.1	13.9	(1.2)
Trade	4.3	5.6	1.3
Personal / Consumer finance	0.1	0.1	0.0
Credit Card	0.0	0.0	0.0
Commercial real estate financing	0.9	0.8	(0.1)
Residential mortgage	0.0	0.0	0.0
Government	8.4	7.5	(0.9)
Technology, media and telecommunications	0.5	0.1	(0.4)
Transport	3.8	4.5	0.7
Other sectors	23.0	23.8	0.8
Top Two Sectors (%)	**53.1**	**55.8**	**2.7**
Real Estate/ Construction Exposure (%) **	**31.0**	**32.8**	**1.8**

** Figures may not add to a hundred due to rounding.*
*** Real Estate/Construction exposure is calculated as the share of the construction, commercial real estate financing, and residential mortgages sectors of total lending*
Source: CBB.

Chart 4-8: Overseas CW Banks' Lending Distribution by Sector (% Total Loans)



Source: CBB.

4.3.3 Profitability

Decline in earnings for local wholesale banks

ROA for the conventional wholesale banking sector declined to 0.7% in December 2018 from 0.9% in December 2017. The ROA for both *local wholesale banks* also decreased from 0.5% to 0.1%, while *overseas wholesale banks* slightly 1.3%. ROE for *local wholesale banks* decreased from 3.8% to 0.8%. Net interest income as a proportion of total income decreased from 58.3% in December 2017 to 56.2%

in December 2018. Operating expenses as a proportion of total income showed an increase from 54.6% in December 2017 to 68.0% in December 2018.

Table 4-15: CW Banks' Profitability

Indicator	Dec. 2017	Dec. 2018
ROA (%) *	0.9	0.7
ROA Locally Incorporated Banks (%)	0.5	0.1
ROA Overseas Banks (%)	1.4	1.3
ROE (%) **	3.8	0.8
Net Interest Income (% Total Income)	58.3	56.2
Operating Expenses (% Total Income)	54.6	68.0

** ROA = ratio of net income to assets.*
*** ROE = ratio of net income to tier 1 capital (for Locally Incorporated Banks only).*
Source: CBB.

4.3.4 Liquidity

Liquidity position remains stable

As at end-December 2018, the overall loan-deposit ratio for conventional wholesale banks stood at 64.2%, a decrease from the 65.8% recorded in June 2018. The loan deposit ratio for *local wholesale banks* also decreased to 59.7% in December 2018 from 63.0% in June 2018. Over the same period, the loan deposit ratio for *overseas wholesale* bank remained at 69.0%.

Liquid assets for wholesale banks as a proportion of total assets increased to 23.0% in December 2018 from 21.9% in June 2018. Liquidity for *local wholesale banks* also increased over this period where their liquid asset ratio increased to 28.2% from 27.4%. *Overseas wholesale banks'* liquid assets ratio increased from 15.8% in June 2018 to 17.2% in December 2018.

The liquid assets as a proportion of short-term liabilities increased to 29.0%, 0.9% higher than the level it registered in June 2018. Finally, non-bank deposits as a proportion of total deposits stood at 49.1%, a decrease from the 50.3% level achieved in June 2018, while bank deposits increased from 49.7% in June 2018 to 50.9% in December 2018.

Table 4-16: CW Banks' Liquidity

Indicator	Jun. 2018	Dec. 2018
Liquid Asset Ratio (%)	21.9	23.0
Loan-Deposit Ratio (%)	65.8	64.2
Non-Bank Deposits (% of Total Deposits)	50.3	49.1

Source: CBB.

4.4 Overall Assessment of the Conventional Banking Sector

The financial soundness indicators show that conventional banks witnessed a slight increase in capital adequacy ratios. Capital adequacy ratios for conventional retail banks increased to 20.9% in December 2018. Capital adequacy ratio for conventional wholesale banks declined to 18.1% over the same period. Non-performing loans have shown a slight decrease between the periods of June 2018 to December 2018 from 5.8% to 5.5%, for conventional retail banks. As for conventional wholesale banks, loans classified as non-performing increased from 5.3% in June 2018 to 5.7% in December 2018. Loan concentration remains high for conventional retail and for wholesale banks.

As at end-December 2018, return-on-assets (ROA) remained at 1.5% for conventional retail banks and decreased to 0.7% for conventional wholesale banks. Return-on-equity (ROE) for *local retail banks* increased from 13.0% in June 2018 to 14.3% in June 2018. ROE for *local wholesale banks* decreased from 3.8% to 0.8% over the same period. For conventional retail banks, liquid assets as a proportion of total assets slightly decreased over the period of June 2018 to December 2018 to reach 32.9%. Liquid assets for wholesale banks as a proportion of total assets slightly increased from 21.9% in June 2018 to 23.0% in December 2018.

Chapter 5 Islamic Banks

Key Highlights

IR CAR	IR NPL	IR Provisions	IR ROA	IR ROE	IR Liquidity	IR Loan/Deposit
17.6% ↓	9.5% ↓	38.6% ↓	0.6% ↔	6.8% ↑	14.1% ↓	94.8% ↑
IW CAR	**IW NPL**	**IW Provisions**	**IW ROA**	**IW ROE**	**IW Liquidity**	**IW Loan/Deposit**
18.1% ↓	1.3% ↓	79.6% ↓	1.0% ↑	6.8% ↑	12.6% ↓	75.2% ↓

- Capital positions for Islamic retail and wholesale banks decreased.
- Decrease in non-performing facilities (NPFs) for Islamic retail banks and increase in Islamic wholesale banks.
- Concentration of facilities for both Islamic retail banks and Islamic wholesale Banks continues.
- Earnings remained positive for Islamic retail and Islamic wholesale banks.
- Liquidity positions decreased for both Islamic retail banks and Islamic wholesale banks.

5.1 Overview

Chapter 5 offers macroprudential analysis of the Islamic banking sector based on a set of selected FSIs. The chapter analyzes the banking sector under the following segments: Islamic retail (IR) banks (section 5.2) and Islamic wholesale (IW) banks (section 5.3). Section 5.4 provides an overall assessment of the Islamic banking industry. Unless specified otherwise, the analysis in this chapter is based on consolidated financial data (Bahraini and non-Bahraini operations)..

5.2 Islamic Retail Banks

5.2.1 Capital Adequacy

Decrease in capital positions

The CAR of Islamic retail banks decreased from 18.1% in June 2018 to 17.6% in December 2018. Tier 1 capital also decreased from 15.1% in June 2018 from 14.6% in December 2018.The decrease in capital positions is due to an isolated case from one bank. The CAR for all other Islamic retail banks remained stable between June and December 2018. The ratio of non-performing facilities (NPFs) net of provisions to capital increased from 32.5% to 34.8% for the same period.

Table 5-1: IR Banks' Capital Provisions Ratios

Indicator	Jun. 2018	Dec. 2018
CAR (%)	18.1	17.6
Tier 1 CAR (%)	15.1	14.6
NPFs net of provisions to capital (%)	32.5	34.8

Source: CBB.

5.2.2 Asset Quality

Decrease in non-performing facilities

Non-performing facilities (NPF) ratio decreased from 10.4% in June 2018 to 9.5% in December 2018. Specific Provisoining decreased to 38.6% in December 2018 from 43.5% in June 2018.

Table 5-2: IR Banks' NPF Ratios

Indicator	Jun. 2018	Dec. 2018
NPFs (% Gross Facilities)	10.4	9.5
Specific Provisions (% of NPFs)	43.5	38.6

Source: CBB.

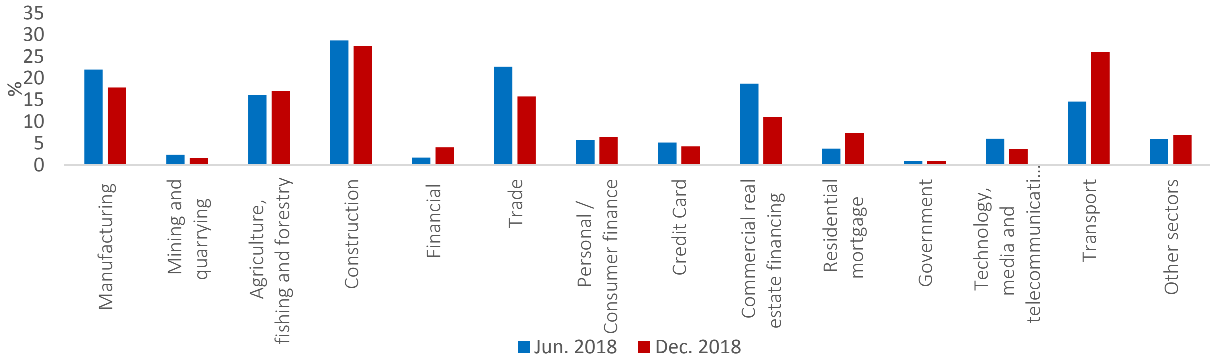
A look at the non-performing facilities by sector indicates that the "Construction" sector had the highest impairment of 27.4% in December 2018 followed by "Transport" and "Manufacturing" with 26.1% and 17.9% respectively. The biggest declines in NPFs by sector was in the "Commercial real estate financing" Sector with a 7.7% decrease in NPFs from June 2018 to December 2018. The biggest increase in NPFs was the "Transport" sector with an increase of 11.5%.

Table 5-3: IR Banks' NPF Ratios by Sector (%)

Sector	Jun. 18	Dec. 2018	Change
Manufacturing	22.0	17.9	(4.1)
Mining and quarrying	2.4	1.6	(0.8)
Agriculture, fishing and forestry	16.1	17.1	1.0
Construction	28.7	27.4	(1.3)
Financial	1.7	4.1	2.4
Trade	22.7	15.8	(6.9)
Personal / Consumer finance	5.8	6.5	0.7
Credit Card	5.2	4.3	(0.9)
Commercial real estate financing	18.8	11.1	(7.7)
Residential mortgage	3.8	7.3	3.5
Government	0.9	0.9	0.0
Technology, media and telecommunications	6.1	3.6	(2.5)
Transport	14.6	26.1	11.5
Other sectors	6.0	6.9	0.9

Source: CBB.

Chart 5-1: IR Banks' NPF Ratios by Sector (%)



Source: CBB.

Diversification in asset concentration (loan portfolio)

There has been a diversification in the asset concentration among most of the sectors. At the end of December 2018, the top recipient of financing was "Personal / Consumer finance" at 17.2%, down from 17.7% in June 2018. The top two recipients of financing ("Personal / Consumer finance" and "Financial") accounted for 31.9% of total facilities extended, compared to 32.8% for the top two sectors in June 2018.

Table 5-4: IR Banks' Lending Distribution by Sector (% Total Facilities)

Sector	Jun. 2018	Dec. 2018	Change
Manufacturing	11.8	10.3	(1.5)
Mining and quarrying	0.9	1.3	0.4
Agriculture, fishing and forestry	0.6	0.5	(0.1)
Construction	3.8	4.1	0.3
Financial	15.0	14.7	(0.3)
Trade	8.3	10.1	1.8
Personal / Consumer finance	17.7	17.2	(0.5)
Credit Card	0.9	1.0	0.1
Commercial real estate financing	12.2	14.3	2.1
Residential mortgage	12.7	9.6	(3.1)
Government	8.2	7.8	(0.4)
Technology, media and telecommunications	0.9	0.8	(0.1)
Transport	0.4	0.4	0.0
Other sectors	6.6	8.1	1.5
Top two recipient sectors	**32.8**	**31.9**	(0.9)
Real Estate/ Construction Exposure**	**28.7**	**28.0**	(0.7)

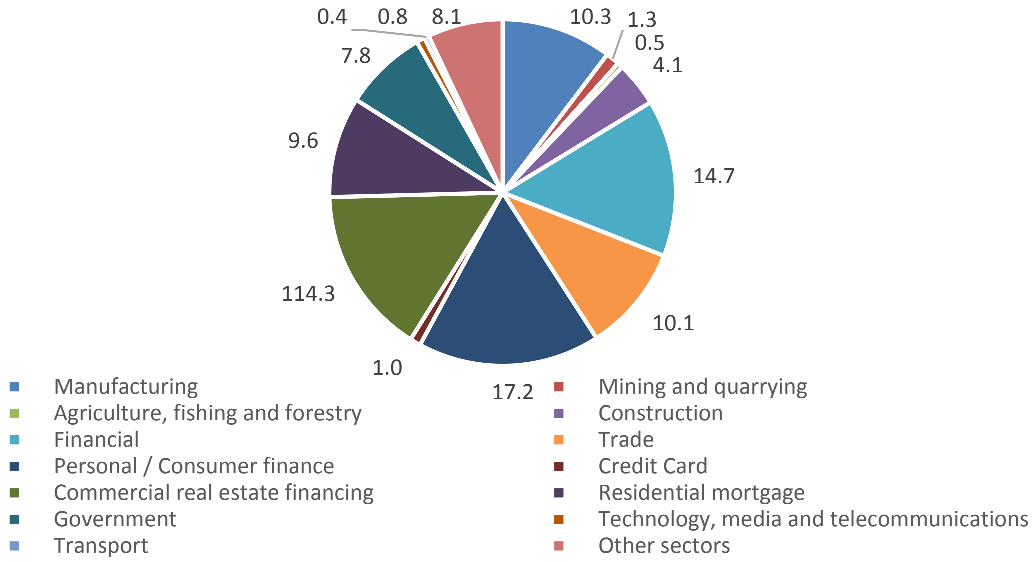
Source: CBB.

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

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

Moreover, the share of the "Manufacturing" sector declined from 11.8% in June 2018 to 10.3% in December 2018. "Real Estate/ Construction" exposure decreased from 28.7% in June 2018 to 28.0% in December 2019.

Chart 5-2: IR Banks' Lending Distribution by Sector (%Total Facilities)



Source: CBB.

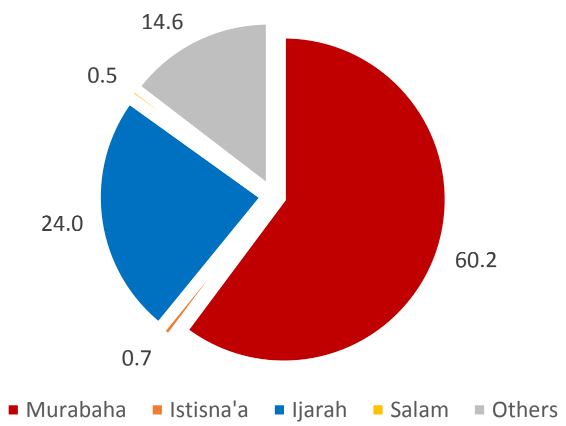
Lending distribution by Islamic instrument remained nearly unchanged over the past quarter in aggregate. At the end of December 2018, the top recipient of finance was "Murabaha" at 60.2% down from 62.9% in June 2018. This was followed by "Ijarah", which increased from 22.0% to 24.0% for the same period.

Table 5-5: IR Banks' Lending Distribution by Islamic Instrument (%Total Facilities)*

Instrument	Jun. 2018	Dec. 2018	Change
Murabaha	62.9	60.2	(2.7)
Istisna'a	0.5	0.7	0.2
Ijarah	22.0	24.0	2.0
Salam	0.7	0.5	(0.2)
Others	13.9	14.6	0.7

**Figures may not add to a hundred due to rounding.*
Source: CBB.

Chart 5-3: IR Banks' Lending Distribution by Islamic Instrument (%Total Facilities)



Source: CBB.

5.2.3 Profitability

Stability in earnings

The return on assets (ROA) for Islamic retail banks remained at 0.6% in December 2018 compared to December 2017. Return on equity (ROE) increased from 6.1% to 6.8% for the same period. Furthermore, operating expenses slightly increased from 78.2% in December 2017 to 78.5% in December 2018.

Table 5-6: IR Banks' Profitability (%)

Indicator	Dec. 2017	Dec. 2018
ROA*	0.6	0.6
ROE**	6.1	6.8
Operating expenses (% total operating income)	78.2	78.5

Source: CBB.

** ROA = ratio of net income to assets.*

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

5.2.4 Liquidity

Decrease in liquidity

The volume of liquid assets available to Islamic retail banks decreased from 14.5% of total assets in June 2018 to 14.1% in December 2018. The ratio of total facilities to deposits increased from 92.1% in June 2018 to 94.8% in December 2018.

Table 5-7: IR Banks' Liquidity (%)

Indicator	Jun. 2018	Dec. 2018
Liquid Assets (% of total assets)	14.5	14.1
Facilities – deposits ratio (%)	92.1	94.8

Source: CBB.

5.3 Islamic Wholesale Banks

5.3.1 Capital Adequacy

Decline in capital positions

As at end-December 2018, the CAR for Islamic wholesale banks decreased to 18.1% from 20.2% in June 2018. Tier1 capital also decreased from 19.0% to 17.0% over the same period. The ratio of NPFs net of provisions to capital remained at 1.0%. The decrease in capital positions is due to an isolated case from one bank. The CAR for all other Islamic wholesale banks remained stable between June and December 2018.

Table 5-8: IW Banks' Capital Provisions Ratios

Indicator	Jun. 2018	Dec.2018
CAR (%)	20.2	18.1
Tier 1 CAR (%)	19.0	17.0
NPFs net of provisions to capital	1.0	1.0

Source: CBB.

5.3.2 Asset Quality

Decrease in non-performing facilities (NPFs)

As of end-December 2018, NPF ratio for Islamic wholesale banks decreased to 1.3% from 1.8% in June 2018. Provisioning for NPFs also decreased from 85.3% to 79.6% over the same period.

Table 5-9: IW Banks' NPF Ratios

Indicator	Jun. 2018	Dec. 2018
NPFs (% Gross Facilities)	1.8	1.3
Specific Provisioning (% of NPFs)	85.3	79.6

Source: CBB.

The sector with the highest impairment was the "Mining and quarrying" sector with 21.8% in December 2018, up from the 17.8% in June 2018. This was followed by the "Construction" and "Technology, media and telecommunications" sectors.

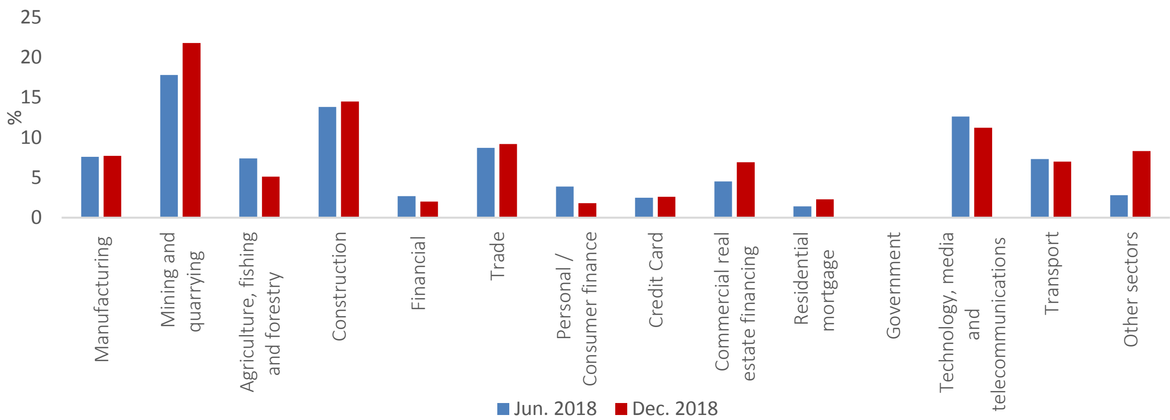
Table 5-10: IW Banks' NPF Ratios by Sector (%)

Sector	Jun. 2018	Dec. 2018	Change
Manufacturing	7.6	7.7	0.1
Mining and quarrying	17.8	21.8	4.0
Agriculture, fishing and forestry	7.4	5.1	(2.3)
Construction	13.8	14.5	0.7
Financial	2.7	2.0	(0.7)
Trade	8.7	9.2	0.5
Personal / Consumer finance	3.9	1.8	(2.1)
Credit Card	2.5	2.6	0.1
Commercial real estate financing	4.5	6.9	2.4
Residential mortgage	1.4	2.3	0.9
Government	0.0	0.0	0.0
Technology, media and telecommunications	12.6	11.2	(1.4)
Transport	7.3	7.0	(0.3)
Other sectors	2.8	8.3	5.5

Source: CBB.

Available data on the sectoral breakdown of non-performing facilities shows that the biggest increase, excluding "Others", was in the "Mining and quarrying" sector with an increase of 4.0%. The biggest drop was in the "Agriculture, fishing and forestry" with a decrease of 2.3% from 7.4% in June 2018 to 5.1% in December 2018.

Chart 5-4: IW Banks' NPF Ratios by Sector (%)



Source: CBB.

Diversification in asset concentration (loan portfolio)

At end-December 2018, the “Financial” sector was the top recipient of financing from Islamic wholesale banks, at 23.8%. The “Government” sector saw the largest decrease from 10.8% in June 2018 to 5.3% in December 2018. The ‘Financial’ sector saw the largest increase, rising by 9.5%.

Table 5-11: IW Banks’ Lending Distribution by Sector (%Total Facilities)*

Sector	Jun. 2018	Dec. 2018	Change
Manufacturing	20.5	20.0	(0.5)
Mining and quarrying	1.2	1.4	0.2
Agriculture, fishing and forestry	0.9	0.7	(0.2)
Construction	11.3	12.1	0.8
Financial	14.3	23.8	9.5
Trade	10.1	8.8	(1.3)
Personal / Consumer finance	6.8	11.5	4.7
Credit Card	0.3	0.4	0.1
Commercial real estate financing	3.2	2.3	(0.9)
Residential mortgage	6.8	5.3	(1.5)
Government	10.8	5.0	(5.8)
Technology, media and telecommunications	0.1	0.1	0.0
Transport	1.4	1.6	0.2
Other sectors	12.2	7.0	(5.2)
Top two recipient sectors	**34.9**	**43.7**	8.8
Real Estate/ Construction Exposure**	**21.3**	**19.8**	(1.5)

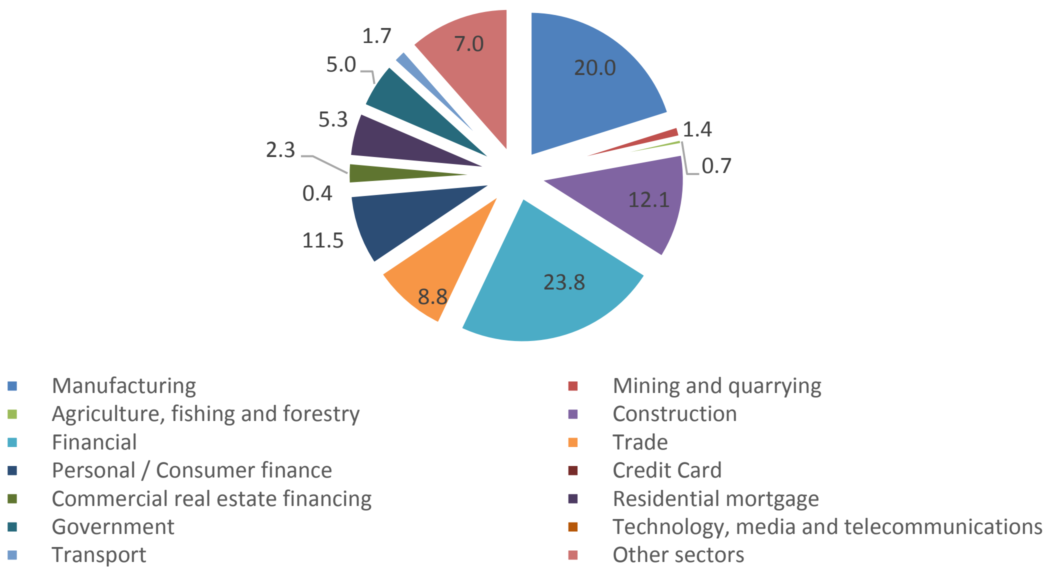
Source: CBB.

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

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

The top two recipient sectors in December 2018 (“Financial” and “Manufacturing”) jointly represented 43.7% of total financing, up from 34.9% in June 2018. Real estate/ construction exposure decreased to 19.8% in December 2018 from 21.3% in June 2018.

Chart 5-5: IW Banks’ Lending Distribution by Sector (%Total Facilities)



Source: CBB

Lending distribution by Islamic instrument shows that at the end of December 2018, the top recipient of finance was “Murabaha” at 66.8%, down from 69.0% in June 2018.

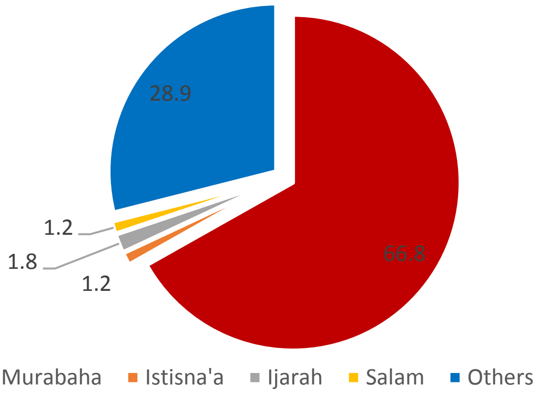
Table 5-12: IW Banks’ Lending Distribution by Islamic Instrument (%Total Facilities)

Indicator	Jun. 2018	Dec. 2018	Change
Murabaha	69.0	66.8	(2.2)
Istisna'a	0.8	1.2	0.4
Ijarah	1.8	1.8	0.0
Salam	1.2	1.2	0.0
Others	27.2	28.9	1.7

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

Source: CBB.

Chart 5-6: IW Banks’ Lending Distribution by Islamic Instrument (%Total Facilities)



Source: CBB.

5.3.3 Profitability

Slight growth in earnings

The earnings performance of Islamic wholesale banks improved over the period from December 2017 to December 2018. Return on assets (ROA) slightly increased from 0.9% in December 2017 to 1.0% in December 2018. Return on equity (ROE) also increased from 6.2% to 6.8% in the same period. Furthermore, operating expenses (as % of total income) slightly increased from 70.0% in December 2017 to 70.9% in December 2018.

Table 5-13: IW Banks’ Profitability (%)

Indicator	Dec. 2017	Dec. 2018
ROA*	0.9	1.0
ROE**	6.2	6.8
Operating expenses (% total operating income)	70.0	70.9

Source: CBB.

** ROA = ratio of net income to assets.*

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

5.3.4 Liquidity

Decrease in Liquidity

As of end-December 2018, liquid assets of Islamic wholesale banks represented 12.6% of total assets, 0.8% lower than the 13.4% registered in June 2018. Additionally, the facilities deposit ratio decreased from 80.4% to 75.2% in December 2018.

Table 5-14: IW Banks' liquidity (%)

Indicator	Jun. 2018	Dec. 2018
Liquid assets (% of total)	13.4	12.6
Facilities-deposit ratio	80.4	75.2

Source: CBB.

5.4 Overall Assessment of the Islamic Banking Sector

The financial soundness indicators show that Islamic retail banks and wholesale banks capital positions decreased to 17.6% and 18.1% respectively during the period between June 2018 and December 2018. Non-performing facilities decreased for Islamic retail and increased for Islamic wholesale to reach 9.5% and 1.3% respectively. Facilities concentration has decreased in some sectors while increasing in others in retail Islamic banks and wholesale Islamic banks.

Earnings slightly fluctuated around the same level for Islamic banks. Islamic retail banks' liquidity positions showed a decrease in liquid assets and an increase in its facilities to deposit ratio. Islamic wholesale experienced a decrease in both its liquid assets and its facilities to deposits ratio.

Part III:

Developments in the Non-Bank Financial Sector

Chapter 6 Performance of the Insurance Sector

Key Highlights

Insurance Licenses	Contribution to GDP	Contribution to Financial	Assets of Conv. Insurance	Assets of Takaful Insurance	Gross Premiums
139	5.5%	33.4%	BD 2,206.9 mn	BD 191.6 mn	BD 209.5 mn

- Conventional firms account for 87.7% of total insurance industry with BD 148.5 million in total gross premiums as of September 2018.
- General insurance contributes for 70.9% of total gross premiums.
- Takaful and Local Conventional insurance firms' performance is concentrated on Motor business line.
- Overseas insurance firms' performance is concentrated on Long-term (Life) and Engineering business line.

6.1 Overview

This chapter highlights the overall performance of the insurance industry in Bahrain by looking at two main insurance segments: conventional and takaful, their different business lines, and classes.[4] The insurance industry has been growing steadily in recent years, mirroring the growth of Bahrain's financial sector, the increased access to financial services and products has led to demand for insurance services. A notable development in recent years has been international insurers developing their regional operations, many of whom have chosen Bahrain as their regional base.

Chapter 6 covers the period between end-September 2017 and end-September 2018, unless otherwise indicated.

A significant number of insurance companies and organizations have established their presence in Bahrain. As of December 2018, there are a total of 139 insurance organizations licensed and registered in the Kingdom. There are 35 insurance companies: 16 conventional local, 12 conventional overseas/foreign branches, and 7 takaful. From these companies, 2 companies are conventional re-insurance firms and 2 re-takaful firms. The remaining 104 other registered insurance licenses include:

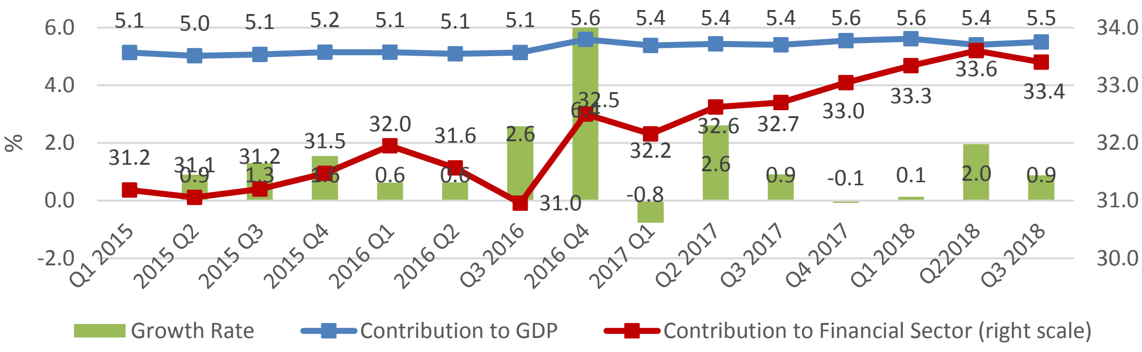
- 32 Insurance Brokers,
- 4 Insurance Managers,
- 4 Insurance Consultants,
- 20 Insurance Firms, brokers and consultants restricted to business outside Bahrain,

[4] Takaful companies are companies conducting takaful business in line with Islamic principles. Overseas insurance companies are branches of foreign companies.

- 29 Registered Actuaries,
- 13 Registered loss Adjusters, and
- 2 Insurance Pools and Syndicates.

As of September 2018, the insurance sector represented 5.5% of the real GDP, with an annual increase of 2.9% compared to same period of September 2017. The contribution of the Insurance sector to the overall financial sector has increased representing 33.4% as of September 2018. Chart 6-1 shows the contribution of the Insurance sector to GDP since 2015, along with the quarterly growth rates, and the contribution of the insurance sector to the financial sector.

Chart 6-1: Insurance sector Contribution and Quarterly Growth to GDP (%)

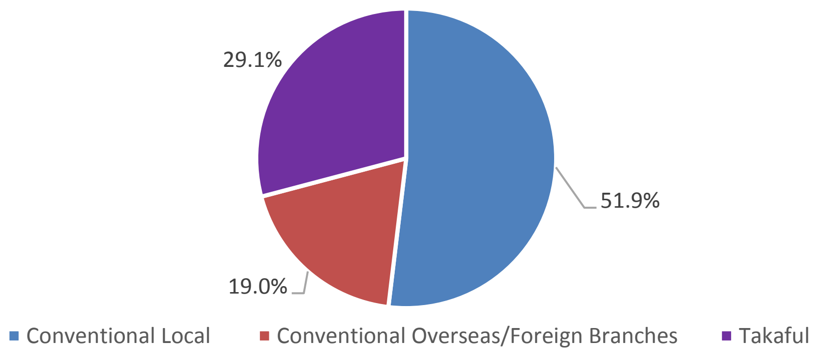


Source: IGA.

6.2 Performance of the Insurance Sector

The insurance sector in Bahrain is made up of two main segments: conventional and Takaful. The conventional sector is further divided into local and overseas/branches firms. As of September 2018, conventional insurance represented 70.9% of the total gross premiums accounting for BD 148.5 million. Local conventional and branches represented 51.9% and 19.0% of total gross premiums accounting for BD 108.7 million and BD 39.8 million respectively (Chart 6-2). Takaful firms accounted for BD 61.0 million which is 29.1% of gross premiums in the industry for the same period.

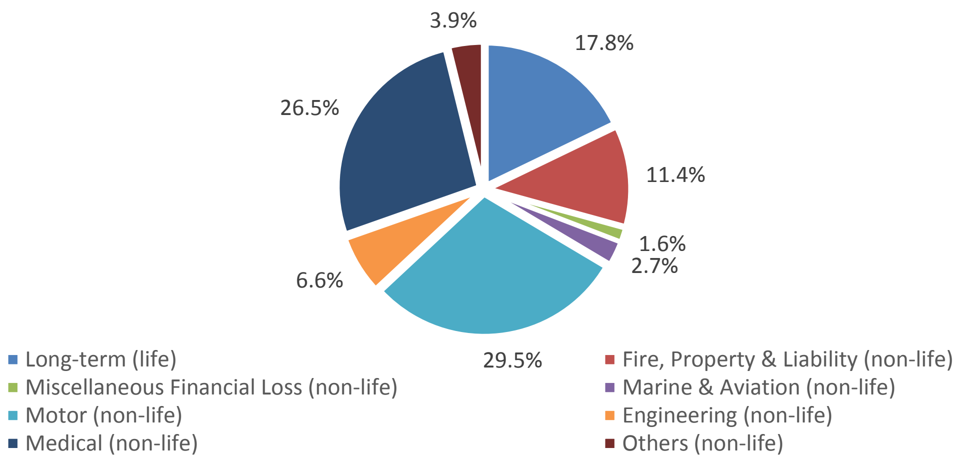
Chart 6-2: Gross Premiums of Insurance Sector by Segment (%)*



**Provisional Data*
Source: CBB.

The Insurance products and services in the Kingdom are delivered via two main insurance classes: Life and non-life insurance.[5] As of September 2018, life insurance represented 17.8% of gross premiums while non-life/general insurance represented 82.1% covering the various classes (Graph 6-3).

Chart 6-3: Market Share of Gross Premiums by Class (%)*



**Provisional Data*
Source: CBB.

For non-life insurance, motor and medical insurance had the largest share in terms of their contribution to gross premiums accounting for 29.6% and 26.6% respectively. Fire, property, and liability made 11.4% of gross premiums. The top 3 business lines sectors represented 74.0% of total gross premiums. The high concentration within these sectors can be explained by:

- Banks imposing an obligatory requirement on the customers to have a life insurance prior to getting specific loans.
- Third party motor insurance being a mandatory requirement.
- Many institutions providing their employees with health insurance.

6.3 Financial Position and Profitability of Insurance Sector

As of September 2018, Total Assets of the Insurance sector reached BD 2,398.5 million with an increase of 1.1% compared to 3,371.8 in September 2017. Total Liabilities had an increase of 0.9% over the same period reaching BD 1,809.7 million.

Table 6-1: Total Assets, Liabilities, Capital, and Profitability of Insurance Sector by Segment

BD'000	Total Assets*		Total Liabilities*		Capital Available *		Net Profit*	
	Q3 2017	Q3 2018	Q3 2017	Q3 2018	Q3 2017	Q3 2018	Q3 2017	Q3 2018
Conventional	2,212,767.8	2,206,917.1	1,687,327.0	1,686,283.2	331,452.2	323,193.0	**10,205.6**	**6,066.9**
Local	1,930,516.9	1,907,206.6	1,436,988.9	1,415,865.9	303,794.8	298,438.1	**5,412.7**	**2,423.9**
Overseas	282,250.9	299,710.5	250,338.2	270,417.3	27,657.4	24,754.9	4,792.9	3,643.0
Takaful	159,049.2	191,592.7	106,505.2	123,431.6	46,517.8	54,679.2	1,765.4	2,222.5
All Insurance	2,371,817.1	2,398,509.8	1,793,832.2	1,809,714.8	377,969.9	377,872.2	11,971.0	8,289.4

**Provisional Data*
Source: CBB.

[5] Non-life or general insurance includes: Fire, Property & Liability, Miscellaneous Financial Loss, Marine & Aviation, Motor, Engineering, Medical and Others.

Total capital on the other hand, remained almost unchanged at 377.9 BD million. Profitability saw a decrease of 30.8% between September 2017 and September 2018 reaching BD 8.3 million.

6.3.1 Conventional Insurance Firms

a. Assets: As of September 2018, total assets of the conventional insurance sector stood at BD 2,206.9 million decreasing by 0.3% compared to the BD 2,212.8 million registered in the same quarter of 2017.
    i. Total assets of local insurance Firms were BD 1,907.2 million (86.4% of total assets) with a growth rate of -1.2% since September2017.
    ii. Total assets of overseas foreign branches were BD 299.7 million (13.6% of total assets) recording a growth of 6.2%
b. Liabilities: As of September 2018, the liabilities of the conventional insurance sector registered at BD 1,686.3 million with a 0.1% decrease from the BD 1,687.3 million in September 2017.
    i. The liabilities for local insurance firms registered at BD 1,415.9 million with a decrease of 1.5%.
    ii. The liabilities of overseas foreign branches was BD 270.4 million in September 2018 with an increase of 8.0%.
c. Available Capital[6]: Total capital as of September 2018 was at BD 323.3 million decreasing by 2.5% from the BD 331.5 million in the equivalent period of the preceding year.
    i. Total available capital for local insurance was BD 298.4 with a year to year decrease of 1.8%.
    ii. Total available capital for overseas foreign branches insurance dropped by 10.5%. The amount fell from BD 26.7 million in March 2017 to BD 24.8 million in September 2018.
d. Profitability: Net income decreased for conventional insurance firms' from BD 10.2 million in September 2017 to BD 6.1 million in September 2018.
    i. Net income for local insurance was BD 2.4 million with a year to year decrease of 55.2%.
    ii. Net income for overseas insurance was BD 3.6 with a year to year decrease of 24.0%.

6.3.2 Takaful Insurance Firms

a. Assets: Total assets in Takaful firms in September 2018 experienced an annual growth of 20.5% reaching BD 191.6 million compared to BD 159.0 million in September 2017.
b. Liabilities: The liabilities increased by 15.9% from BD 106.5 million in September 2017 to BD 123.4 million in September 2018.
c. Available Capital: Total regulatory capital experienced an annual increase of 17.5% from BD 54.7 million in September 2017 to BD 46.5 million in September 2018.
d. Profitability: Takaful companies showed a 25.9% increase in profits between September 2017 and September 2018 reaching BD 2.2 million.

[6] As per the CBB Rulebook, equity is a regulatory equity, which means encompasses Tier 1 Capital, Tier 2 Capital and deduction.

6.4 Insurance Premiums and Claims Analysis by Class

6.4.1 Overall Insurance

As of September 2018, the Gross Premiums for the overall insurance sector stood at BD 209.5 million, increasing by 2.6%. Looking at the performance by class, Marine & Aviation category experienced the greatest increase within the rest of the insurance business line, with an annual increase of 28.3%, followed by Miscellaneous Financial Loss and Engineering, both increasing by 20.0% and 16.7% respectively. On the other hand, Long-term insurance experienced an annual decline by 0.2% during the same period.

As of September 2018 Net Premiums Written increased compared to the previous period registering a value of BD 140.9 million, which is a 4.0% year-on-year increase from the BD 135.5 million in September 2017. The Others class showed the biggest increase in terms of growth over the period increasing by 33.7%, from BD 2.5 million in September 2017 to BD 3.3 million in September 2018. On the other hand, the biggest decline was derived Engineering class, decreasing from BD 2.3 million in September 2017 to BD 1.4 million in September 2018.

However, Gross Claims for the overall insurance industry recorded a year-on-year decrease of 9.9% from BD 205.9 million in September 2017 to BD 185.5 million in September 2018. The decline was mainly due to a decrease of Fire, Property & Liability business line by 35.2% from BD 65.4 million in September 2017 to BD 42.4 million in September 2018, followed by Motor class, showing an annual decrease of 11.2% recording BD 48.7 million in September 2018.

Net Claims for the overall insurance industry show an increase of 5.2%, which was derived from an annual increase in Long-term (Life) business line by 26.6%. The greatest decline was experienced in Others, dropping by 55.7%.

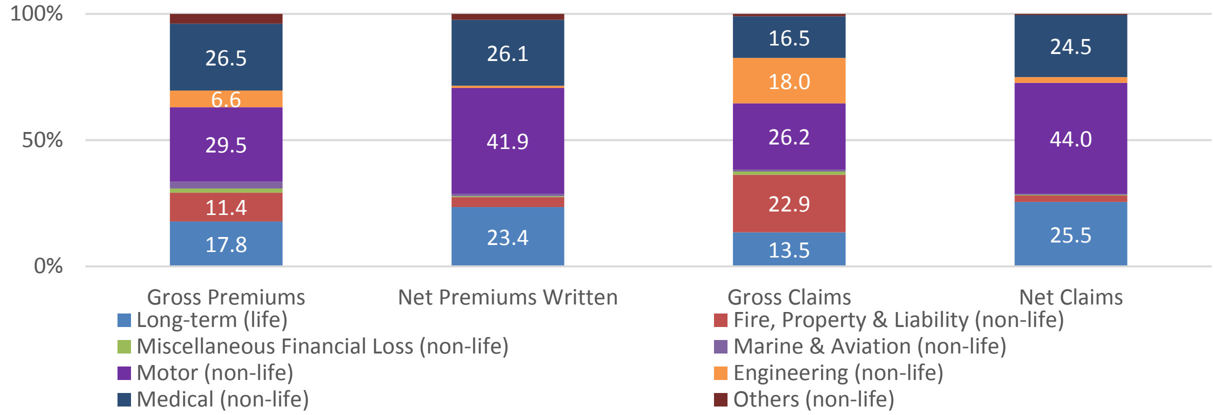
Table 6-2: Gross Premiums and Claims for all Insurance Firms by Class– Bahrain Operations *

BD '000	Gross Premiums		Net Premiums Written		Gross Claims		Net Claims	
	Q3 2017	Q3 2018	Q3 2017	Q3 2018	Q3 2017	Q3 2018	Q3 2017	Q3 2018
Long-term (Life)	37,433	37,365	33,591	33,039	20,152	24,983	17,888	22,654
Fire, Property & Liability	24,447	23,929	7,075	5,577	65,391	42,405	2,455	2,249
Miscellaneous Financial Loss	2,733	3,279	488	599	1,762	2,285	266	213
Marine & Aviation	4,420	5,672	1,129	1,196	805	1,390	257	361
Motor	60,794	61,897	58,449	59,054	54,863	48,693	42,376	39,123
Engineering	11,771	13,736	2,272	1,352	28,296	33,363	1,550	1,996
Medical	55,148	55,570	29,995	36,752	30,797	30,580	18,625	21,781
Others	7,339	8,071	2,487	3,325	3,798	1,828	993	440
Total	**204,085**	**209,519**	**135,487**	**140,894**	**205,864**	**185,526**	**84,410**	**88,816**

**Provisional Data.*
Source: CBB.

The concentrations of premuims and claims by class are viewed in Graph 6-4. For the overall insurance indusry, the exposure in Motor was the highest in Gross Premiums (29.5%), Net Premiums Written (41.9%), Gross Claims (26.2), and Net Claims (44.0%).

Chart 6-4: Concentrations of Gross Premiums and Claims for all Insurance Firms by Class – Bahrain Operations (Q3 2018)*



**Provisional Data*

Source: CBB.

6.4.2 Conventional Insurance

The Gross Premiums recorded for conventional insurance (Bahraini operations only) exhibited a decrease by 6.2% based on a year-on-year comparison, where total gross premiums decreased from BD 158.4 million in September 2017 to BD 148.5 million in September 2018 (Table 6-2). Where the greatest decline arrived from Medical business class by 19.2%. While the greatest annual increase was contributed by Marine & Aviation business line at 25.2%. In terms of concentration, Motor and Long-term (Life) business classes represented 28.6% and 22.3% respectively of the total gross premiums.

Net Premiums Written reflected an annual decrease by 5.0% compared to September 2017. Motor insurance remained the largest in terms of Net Premiums Written concentration as well, accounting for 41.2%, decreasing from BD 45.8 million in September 2017 to BD 40.8 million in September 2017.

Gross Claims decreased at an annual rate of 12.1% in September 2018 due to a substantial decrease in Fire, Property & Liability, from BD 64.7 million in September 2017 declining to BD 41.2 million by September 2018, however it still accounted for the highest share in gross claims (26.4%), followed by Motor at 23.1%.

Net Claims on the other hand, experienced a modest annual increase of 2.2% from BD 64.4 million in September 2017, reaching BD 65.8 million in September 2018. Long-term (Life) business line increased by 25.7%. Nonetheless, the concentration falls heavily within the Motor insurance class, accounting for 43.8% of the total net claims.

Table 6-3: Gross Premiums and Claims for Conventional Insurance by Class – Bahrain Operations*

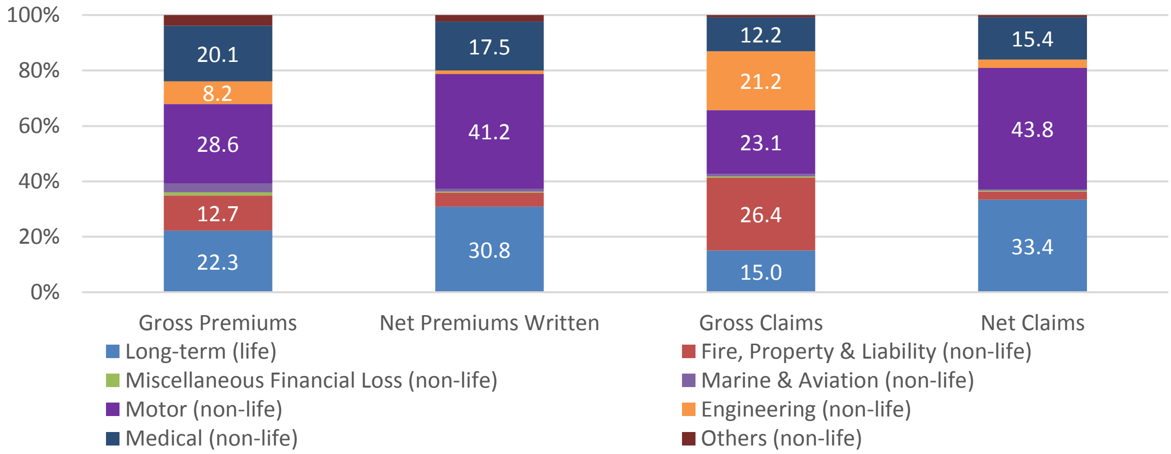
BD '000	Gross Premiums		Net Premiums Written		Gross Claims		Net Claims	
	Q3 2017	Q3 2018	Q3 2017	Q3 2018	Q3 2017	Q3 2018	Q3 2017	Q3 2018
Long-term (Life)	32,590	33,142	30,413	30,490	19,154	23,498	17,504	21,998
Fire, Property & Liability	19,855	18,789	6,329	4,930	64,726	41,245	2,301	1,934
Miscellaneous Financial Loss	2,092	1,858	461	353	690	699	240	216
Marine & Aviation	3,825	4,789	1,015	1,081	527	1,267	302	305
Motor	47,485	42,511	45,770	40,791	41,998	36,099	32,467	28,856
Engineering	10,728	12,207	2,063	1,221	28,100	33,174	1,600	1,937
Medical	36,987	29,885	16,049	17,372	20,847	19,069	9,545	10,123
Others	4,796	5,332	2,175	2,772	1,729	1,269	466	471
Total	**158,358**	**148,513**	**104,275**	**99,011**	**177,772**	**156,320**	**64,425**	**65,840**

**Provisional Data*

Source: CBB.

Motor insurance has the highest exposure in Gross Premiums (28.6%), Net Premiums Written (41.2%) and Net Claims (43.8%). In terms of Gross Claims, Fire, Property & Liability insurance line contributes by (26.4%), and Motor by (23.1%).

Chart 6-5: Concentrations of Gross Premiums and Claims for Conventional Insurance by Class - Bahrain Operations (Q3 2018)*



**Provisional Data*

Source: CBB.

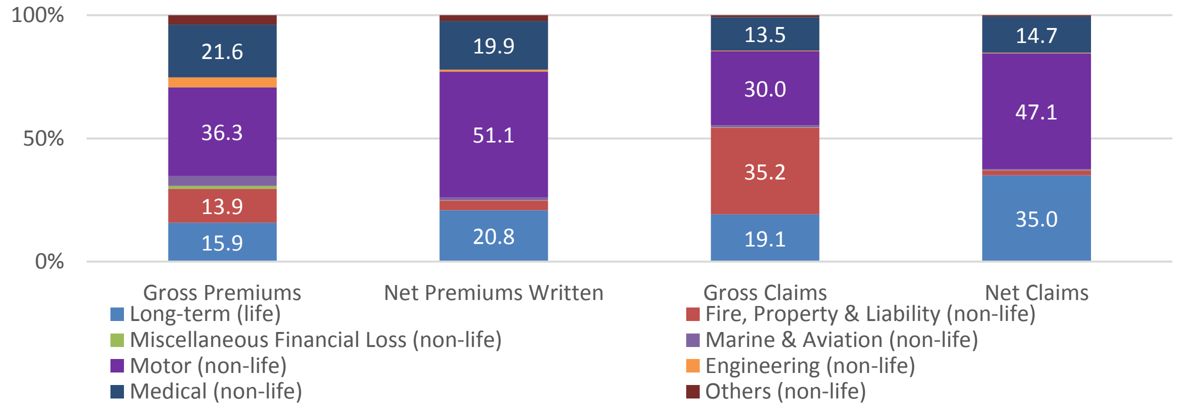
Tables 6-3 below and Charts 6-6 and 6-7 shows a further division of the premiums and claims by class between Local and Overseas firms within the conventional insurance industry for Q3 2018. For local conventional insurance, Motor insurance has the highest concentration for Gross Premiums (36.3%) and Net Premiums Written (51.1%) and Net Claims (47.1%).

Table 6-4: Gross Premiums and Claims for Conventional Local and Overseas Insurance by Class – Bahrain Operations (Q3 2018)*

BD '000	Gross Premiums			Net Premiums Written			Gross Claims			Net Claims		
	Local	Overseas	Total	Local	Overseas	Total	Local	Overseas	Total	Local	Overseas	Total
Long-term (Life)	17,309	15,833	33,142	15,448	15,042	30,490	21,571	1,927	23,498	20,078	1,920	21,998
Fire, Property & Liability	15,148	3,641	18,789	2,974	1,957	4,930	39,759	1,486	41,245	1,125	809	1,934
Miscellaneous Financial Loss	1,249	610	1,858	95	259	353	155	543	699	44	173	216
Marine & Aviation	4,425	365	4,789	844	237	1,081	1,084	182	1,267	225	80	305
Motor	39,462	3,050	42,511	37,881	2,910	40,791	33,875	2,224	36,099	26,977	1,880	28,856
Engineering	4,524	7,682	12,207	539	682	1,221	326	32,848	33,174	110	1,827	1,937
Medical	23,488	6,397	29,885	14,718	2,654	17,372	15,259	3,810	19,069	8,427	1,695	10,123
Others	3,141	2,191	5,332	1,604	1,168	2,772	887	382	1,269	330	141	471
Total	**108,746**	**39,767**	**148,513**	**74,103**	**24,908**	**99,011**	**112,917**	**43,404**	**156,320**	**57,315**	**8,525**	**65,840**

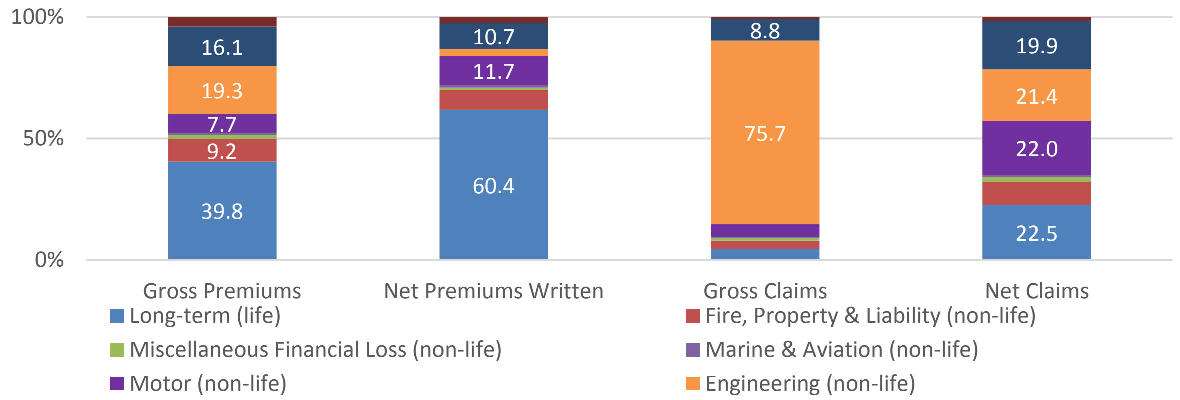
**Provisional Data*
Source: CBB.

Chart 6-6: Concentrations of Gross Premiums and Claims for Conventional Local Insurance by Class - Bahrain Operations (Q3 2018)*



**Provisional Data*
Source: CBB.

Chart 6-7: Concentrations of Gross Premiums and Claims for Conventiaonal Overseas Insurance by Class - Bahrain Operations (Q3 2018)*



**Provisional Data*
Source: CBB.

Only two foreign overseas branches operations focus more on life insurance and contribute towards the concentration in Gross Premiums (39.8%) and Net Premiums written (60.4%). As For Gross Claims, Engineering business line had the highest share (75.7%).

6.4.3 Takaful

The Gross Premiums for Takaful companies increased on a year-on-year basis by 33.4%, from BD 45.7 million at September 2017 reaching BD 61.0 million in September 2018, where the highest increase was attributed to Miscellaneous Financial Loss insurance line, followed by Marine & Aviation. Medical Insurance line however recorded the highest contributor towards total Takaful gross premiums, accounting for 42.1% of the total.

Net Premiums Written increased by 34.2% from September 2017 to September 2018, reaching BD 41.8 million. Miscellaneous Financial Loss Insurance increased on an annual basis by 811.1%, whereas Engineering decreased by 37.3%. Medical Insurance is the largest in terms of net premiums written, representing around 46.3% of the total.

Gross Claims increased by 4.0% compared to September 2017, with Life insurance registering the highest increase within the same period. Motor and Medical insurance accounted for the largest components in terms of gross claims, representing 43.1% and 39.4% of the total gross claims.

Net Claims increased at the same rate as gross claims, recording an annual increase of 4.0% at September 2018, with Fire, Property & Liability insurance increasing at the highest rate amongst the other classes. Furthermore, it equates to the gross claims in terms of having Medical and Motor representing the largest components of net claims, accounting for 50.7% and 44.7% from the total respectively.

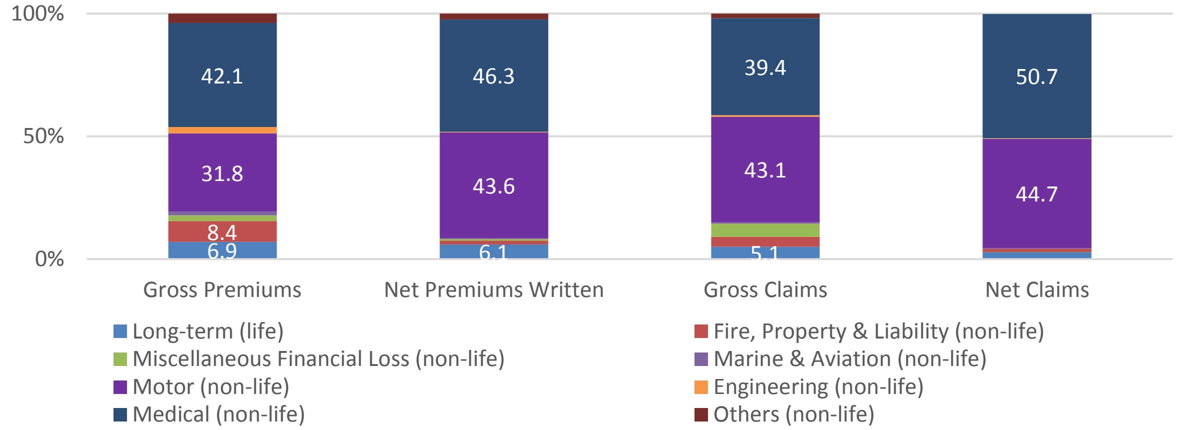
Table 6-5: Gross Premiums and Claims for Takaful Insurance Firms by Class – Bahrain Operations*

BD '000	Gross Premiums		Net Premiums Written		Gross Claims		Net Claims	
	Q3 2017	Q3 2018	Q3 2017	Q3 2018	Q3 2017	Q3 2018	Q3 2017	Q3 2018
Long-term (Life)	4,843	4,223	3,179	2,549	998	1,485	384	656
Fire, Property & Liability	4,592	5,140	746	647	665	1,160	153	314
Miscellaneous Financial Loss	641	1,421	27	246	1,072	1,586	26	-4
Marine & Aviation	595	882	114	115	278	123	-46	56
Motor	13,309	19,386	12,680	18,263	12,865	12,594	9,909	10,266
Engineering	1,043	1,530	209	131	196	188	-50	60
Medical	18,161	25,685	13,946	19,380	9,950	11,511	9,080	11,658
Others	2,543	2,740	311	553	2,069	559	527	-31
Total	**45,727**	**61,007**	**31,212**	**41,883**	**28,092**	**29,206**	**19,985**	**22,976**

**Provisional Data*
Source: CBB.

Takaful insurance companies have very high concentration on the Medical and Motor Insurance business lines. Gross Premiums for both sectors combined represents 73.9%, Net Premiums Written (89.9%), Gross Claims (82.5%), and Net Claims (95.4%).

Chart 6-8: Concentrations of Gross Premiums and Claims for Takaful Insurance Firms by Class -Bahrain Operations (Q3 2018)*



*Provisional Data

Source: CBB.

6.4.4 Retention Ratio and Loss Ratio (By Class)

Life insurance business line registered a retention ratio of 88.4 % in September 2018. Observing the non-life insurance, Motor and Medical, that accounted for 29.6% and 26.6% of the total Gross Premiums in September 2018 respectively, registered retention ratios of 96.5% for Motor 66.1% for respetively. Nevertheless, retention ratios were significantly lower for other business lines such as Miscellaneous Financial Loss and Marine & Aviation, registering 18.3% and 21.1% respectively.

Table 6-6: Retention and Loss Ratios of Overall Insurance Sector*

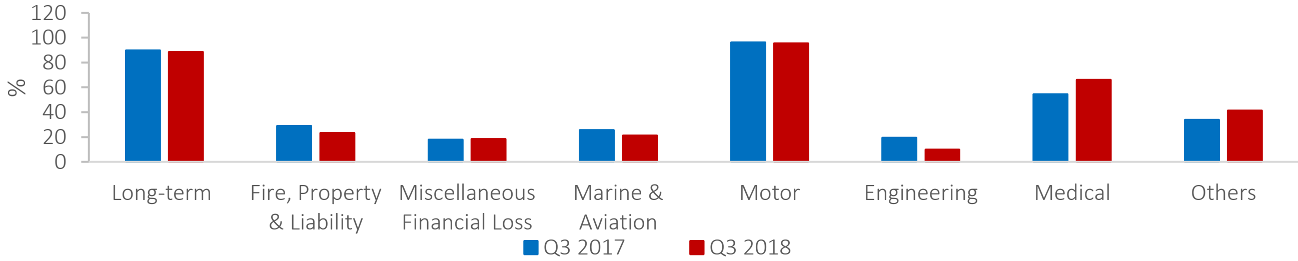
%	Retention Ratio 1		Loss Ratio 2	
	Q3 2017	Q3 2018	Q3 2017	Q3 2018
Long-term	89.7	88.4	50.8	67.0
Fire, Property & Liability	28.9	23.3	40.9	42.7
Miscellaneous Financial Loss	17.9	18.3	65.0	43.6
Marine & Aviation	25.5	21.1	24.2	30.4
Motor	96.1	95.4	75.1	70.7
Engineering	19.3	9.8	52.6	81.8
Medical	54.4	66.1	73.3	73.0
Others	33.9	41.2	43.0	18.0

1. Net Premiums Written / Gross Premiums
2. Net Claims Incurred/Net Premiums Earned

*Provisional Data.

Source: CBB.

Chart 6-9: Retention Ratios of Insurance Sector*



*Provisional Data.

Source: CBB.

6.5 Regulatory Changes, Market trends and Risks.

6.5.1 Regulatory development initiatives

As part of the CBB's ongoing policy in enhancing transparency and raising awareness on the CBB's regulatory development initiatives. The CBB has communicated via its circular dated 3rd January 2019 to all Insurance Licensees the expected proposed rules under Volume 3 that the CBB would issue for consultation during 2019:

1- Introducing "Training & Competency" Module;
2- The minimum insurance cover for the unified "Motor Comprehensive Policy";
3- Solvency Control Levels;
4- Enhancing the requirements of Appointed Representatives;
5- Enhancing the requirements of "Client Money' Module;
6- Enhancing the requirements of "Insurance Manager" Module; and
7- Introducing new regulatory framework for "Insurance Aggregator".

The CBB encourages Insurance Licensees to follow prudent practices in the conduct of their business and promptly communicate with it on relevant policy matters in the best interests of the financial stability and soundness of the sector.

6.5.2 Motor Insurance Subrogation Reconciliation

Receivables due from insurance companies arising out of motor subrogation process between insurance firms is vital to enhance the liquidity and regulatory capital of the firms when this process run efficiently.

Thus, the CBB has attempted to stimulate the process of receivables reconciliation among insurance firms and ensure all insurance receivables are valued fairly on the insurance firms' books and records.

Accordingly, through a series of efforts and through its circulars dated 6th June 2016, 27th December 2017, 1st April 2018 and 16th July 2018 along with its monitoring of the reconciliation progress, the CBB has noted considerable progress that was made by insurance companies to reconcile the outstanding balances. Furthermore, the CBB has requested insurance firms to fully set aside provisions by 30th June 2018 against any outstanding amounts that are not settled for the period of 2015 and prior for the financial statements ended 31st December 2015.

Chapter 7 Performance of non-Bank Financial Institutions

Key Highlights

# of Investment Businesses	# of Money Changers	Investment Businesses Assets	Money Changers Purchase	Money Changers Sales
53	19	BD 342.6 mn	BD 8,269.0 mn	BD 9,271.6 mn

- Total assets of Investment Businesses increased by 4.2%
- Profits of Category 2 Investment Businesses increased by 236.9%.
- 70% of all currency transactions of money changers were in GCC currencies for Q3 2018.

7.1 Overview

This chapter highlights the overall performance of the non-banking financial industry in Bahrain by looking at two main segments: Investment businesses and money changers. The non-banking financial institutions in Bahrain are less complex relative to the size and complexity of the Bahraini banking system, but it plays an important role in meeting different needs for financial intermediation.

Chapter 7 covers the period between end-September 2017 and end-September 2018, unless otherwise indicated.

A significant number of investment businesses and money changers have established their presence in Bahrain. As of December 2018, there are a total of 53 investment business firms and 19 money changer organizations licensed and registered in the Kingdom.

Investment firms can be further broken-down into:
- 20 Category 1 firms,
- 15 Category 2 firms, and
- 18 Category 3 firms.[7]

[7] Category 1 firms may undertake any regulated investment service, as listed below: a) Dealing in financial instruments as principal; b) Dealing in financial instruments as agent; c) Arranging deals in financial instruments; d) Managing financial instruments; e) Safeguarding financial instruments (i.e. a custodian); f) Advising on financial instruments.
g) Operating a collective investment undertaking (i.e. an operator).
Category 2 firms may undertake the same regulated services except “a)”.
Category 3 firms may only undertake “c)” and “f)”.

7.2 Investment Businesses

In September 2018, total assets increased by 4.2% to BD 342.6 million from BD 328.7 million in March 2018. This increase is due to an increase in total liabilities by BD 20.4 million (23.4%) over the same period. Also, total equity declined by 2.6% to BD 235.3 million in September 2018.

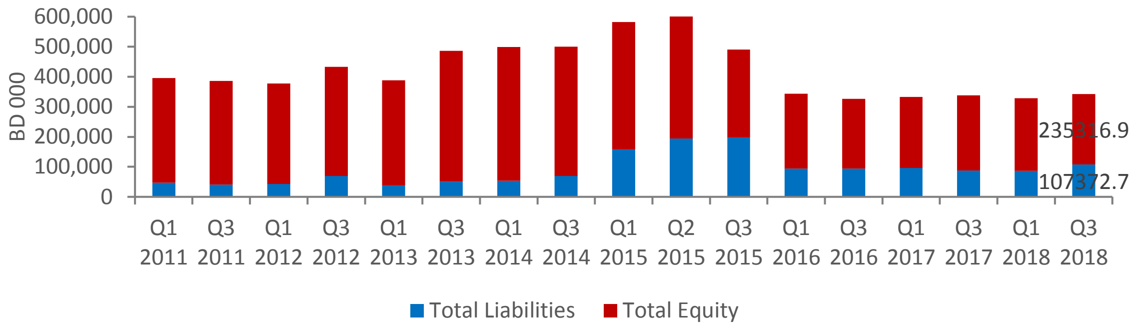
Table 7-1: IB Total Assets by Category

BD '000	Total Assets		Total Liabilities		Total Equity	
	Q1 2018	Q3 2018	Q1 2018	Q3 2018	Q1 2018	Q3 2018
Category 1	280,216.2	291,855.3	75,092.4	91,980.2	205,123.8	199,875.1
Category 2	40,009.3	43,344.2	9,525. 4	13,437.5	30,483.9	29,879.7
Category 3	8,426.2	7,413.6	2,377.1	1,955.1	6,049.1	5,562.1
Total	**328,651.7**	**342,613.0**	**86,994.9**	**107,372.7**	**241,656.7**	**235,316.9**

Source: CBB.

Total assets for investment businesses peaked in June 2015 reaching BD 628.8 million, but since the beginning of 2016 have stabilized around BD 330 million.

Chart 7-1: IB Total Assets by Time Period



Source: CBB.

7.2.1 Assets Under Management

Between March 2018 and September 2018, total assets under management increased by 1.4% from BD 7,413.1 million to BD 7,516.7 million. Assets under management of residents increased by 1.8% from BD 5,763.7 million in March 2018 to 5,867.7 in September 2018. Non-residents' asset under management recorded a slight decline of BD 0.5 million over the same period.

Table 7-2: Assets under Management

BD '000	Q1 2018	Q3 2018	% Change
AUM - Residents	5,763,687.6	5,867,728.9	1.8
AUM – Non Residents	1,649,457.3	1,648,994.8	(0.0)
Total AUM	**7,413,144.8**	**7,516,723.7**	**1.4**

Source: CBB.

7.2.2 Profitability

Profits of category 1 investment businesses decreased by 10.4% from BD 3,800.5 million in March 2018 to 3,404.9 in September 2018. While category 2 profits increased substantially by 236.9% from BD 175.9 million in March 2018 to BD 592.6 million in September 2018. Also, category 3 profits increased by 13.5% over the same period.

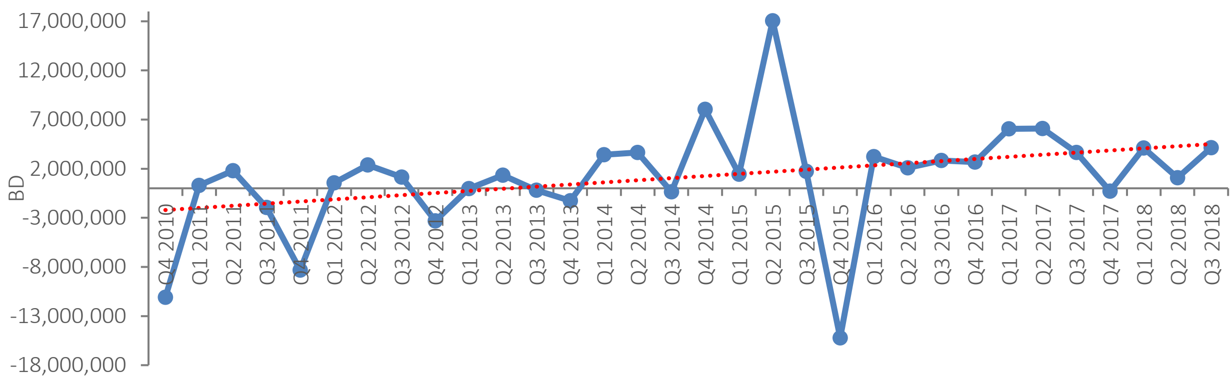
Table 7-3: IB Profitability by Category

BD '000	Q1 2018	Q3 2018	% Change
Category 1	3,800.5	3,404.9	(10.4)
Category 2	175.9	592.6	236.9
Category 3	132.4	150.3	13.5
Total	**4,108.8**	**4,147.9**	**1.0**

Source: CBB.

Between December 2010 and December 2015, profitability of overall investment businesses was very volatile between profits and losses. Since March 2016, investment businesses' profitability has always been positive with more stability than previous years, with the exception of December 2017. Chart 7-2 displays that overall profitability of investment business has been on a positive trend since December 2010.

Chart 7-2: IB Profitability (Q4 2010 – Q3 2018)



Source: CBB.

7.3 Money changers

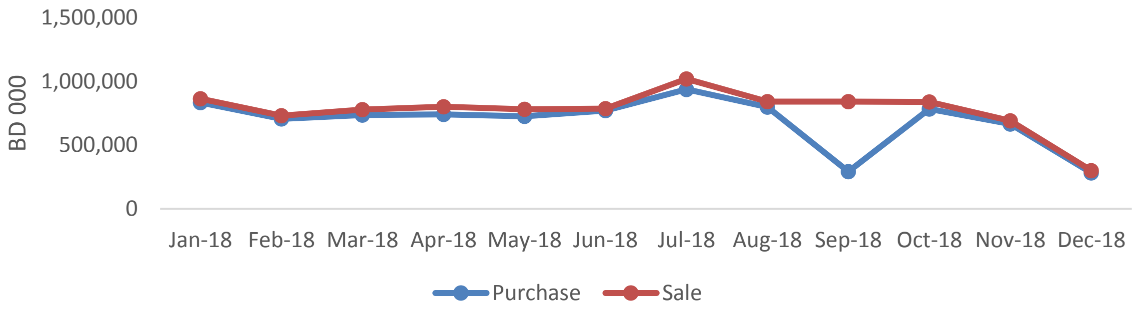
In 2018, money changers' purchase of foreign currencies amounted to BD 8,269.0 million, while the sale of foreign currencies was recorded at BD 9,271.7 million for the year. The month with the highest purchase and sale of currency was July, with sale of currencies surpassing one billion. The lowest month for purchase and sale of currencies for 2018 was December. Sale of currencies in December was BD 300 million, less than half of any other month in 2018.

Table 7-3: Money Changers Total Turnover (Jan. 2018-Dec. 2018)

BD 000	Purchase	Sale
Jan. 2018	832,252.6	864,289.5
Feb. 2018	705,118.4	731,231.0
Mar. 2018	734,865.5	779,246.5
Apr. 2018	739,706.6	800,113.8
May. 2018	726,649.3	781,636.6
Jun. 2018	771,269.8	784,502.2
Jul. 2018	936,874.1	1,018,618.3
Aug. 2018	798,652.0	841,515.6
Sep. 2018	291,338.6	841,841.1
Oct. 2018	783,579.5	837,539.5
Nov. 2018	666,110.1	690,892.8
Dec 2018	282,543.2	300,227.6
Total	**8,268,959.8**	**9,271,654.6**

Source: CBB.

Chart 7-4: Time series of Money Changers Total Turnover



Source: CBB.

For the third quarter of 2018, money changers' purchase and sale stood at BD 2,026.9 million and BD 2,702.0 million, respectively. A breakdown of Money Changers turnover indicates that the "GCC" currency group recorded the highest year-on-year increase in sales with 19.5%, followed by USD (12.9%). The largest decline in sales, excluding "Other" currencies, was the "Asian" currency group with 19.5%. As for purchases, the top two year-on-year increases are also "USD" and "GCC" with 23.7% and 19.3% respectively. The largest decline for purchases, excluding "Other" currencies, was also the "Asian" currencies with 27.3%.

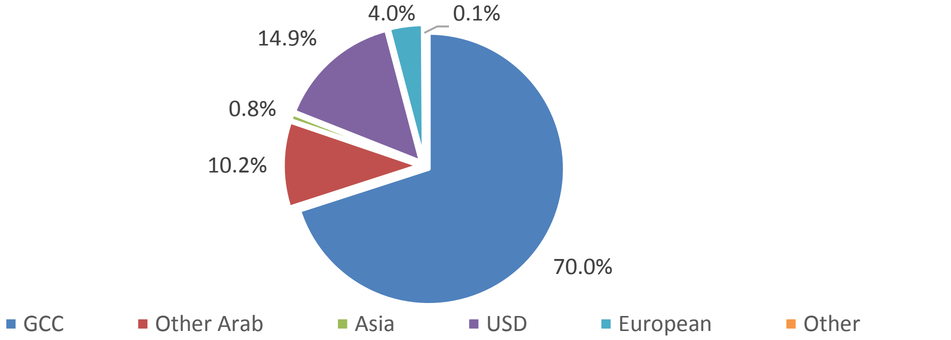
Table 7-4: MC Turnover by Currency Group

000's	Purchase			Sale		
	Q3 2017	Q1 2018	Q3 2018	Q3 2017	Q1 2018	Q3 2018
GCC	1,228,038.3	1,639,292.0	1,465,644.5	1,544,898.0	1,621,725.2	1,845,636.9
Other Arab	142,383.8	206,838.5	153,297.0	314,262.2	318,725.8	329,131.6
Asia	21,784.8	18,507.0	15,834.9	27,084.8	37,736.9	20,846.6
USD	251,354.6	308,743.4	310,837.7	348,812.9	298,151.9	393,738.0
European	100,451.7	94,702.4	79,038.3	136,682.8	94,180.0	109,983.3
Other	4,314.0	4,153.3	2,212.3	5,222.3	4,247.3	2,638.6
Total	**1,748,327.2**	**2,272,236.6**	**2,026,864.7**	**2,376,963.0**	**2,374,767.0**	**2,701,975.0**

Source: CBB.

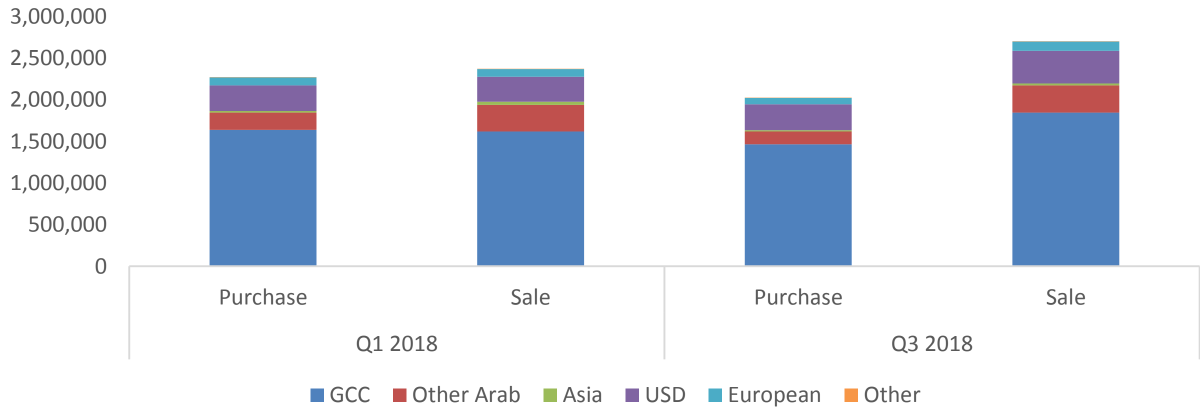
For the third quarter of 2018, 70% of all purchase and sale of currencies were in GCC currencies. The U.S. dollar is the second most exchanged currency with 14.9% of total purchase and sale of currencies.

Chart 7-3: Money Changers Currency Group Purchase & Sale, Q3 2018 (% of Total)



Source: CBB.

Chart 7-4: Money Changers Total Turnover by Currency Group (BD Thousands)



Source: CBB.

7.4 Challenges & Risks in Non-Banking Financial Institutions

The raise of artificial Intelligence and the digitization of information has encouraged Asset Managers and money changers to reconsider the conventional way of doing business. The usage of artificial intelligence in such sectors has given prominence to new forms of providing services through online platforms, examples of which is the Robo or digital advisory provided by the investment business firms and online remittance services provided by money changers.

The emergence of such services, offering cheaper services for more efficiency and less likelihood for errors and miscalculations, has increased competition and encouraged more companies to consider increasing their investments in technology. Funding technology and coping with the rapid changes in technology solutions is a challenge for companies working in both sectors.

Another side of the use of technology that needs to be considered is the increasing digitization of a wide range of sensitive client data that needs to be handled by companies. Such companies need to be more diligent in how information is handled, with the main threats being misappropriation of information and cybercrimes. The CBB's issuance of cyber security standards is a positive step that has set minimum standards for managing cyber security risk. However, the dynamic nature of cyber threats requires a high degree of proactive thinking by companies, making it important to either employ professionals with unique insights or outsource to service providers.

7.5 Developments in Regulation and Initiatives

On 28th March 2019, the CBB has issued the Digital Financial Advice Module as part of CBB Rulebook Volume 4 on Investment Business Licenses, and introduced amendments to the Risk Management Module in relation to cyber security risk.

Further, the CBB is considering the below regulatory development initiatives, and is expecting to issue the same for industry consultation during 2019:

1 Revision to large exposure rules and introduction of related party transaction limits.
2 Introduction if remuneration claw back rules under the High-Level Controls Module of CBB Rulebook Volume 4.
3 Enhancement to the rules pertaining to custodians in CBB Rulebook Volume 4.
4 Enhancement of guidance notes for filling the Quarterly Prudential Report of Investment Business Licensees.

Chapter 8 Performance of the Capital Markets

Key Highlights

# of Companies	All Share Index	Islamic Index	Market Capitalization	Total Value	Total Volume	PE Ratio
44	1,337.3	823.1	BD 8,198.5 mn	BD 323.8 mn	1,441.1 mn	9.7

- Increase in the Bahrain All Share & decrease in Islamic Indices.
- Year-on-year increase in market capitalization.
- Increase in corporate profitability and decrease in leverage.
- GCC equities remain sluggish.

8.1 Overview

This chapter provides an overview of the capital markets sector in the Kingdom of Bahrain. Furthermore, this chapter will provide statistical insights as to the performance of the mainboard market operated by Bahrain Bourse as a Self-Regulatory Organization (“SRO”) as well as relevant data on the issuance of securities and activities pertaining to takeovers, mergers and acquisitions in Bahrain.

In 2002 Bahrain expanded and centralized the scope of the financial sector regulatory supervision to encompass capital markets under the CBB’s Capital Markets Supervision Directorate (“CMSD”) supervisory umbrella. Henceforth, with the inception of the integrated regulator approach referred to as the “Single Regulatory Model”, the CBB became responsible for Bahrain’s capital markets with a combination of rule and principle based regulatory framework.

As at December 2018, Bahrain Bourse recorded a total listing of 44 Companies, 17 Mutual funds and 15 Bonds and Sukuk “Commercial Banks” sector represents the highest value in traded shares by scoring 52.0% of total shares. Nevertheless, the largest 5 companies in terms of Market Capitalization are AUB, NBB, ALBH, UGH, and BBK which account for 58.2% of the total market.

8.2 Bahrain Bourse

Increase in market index

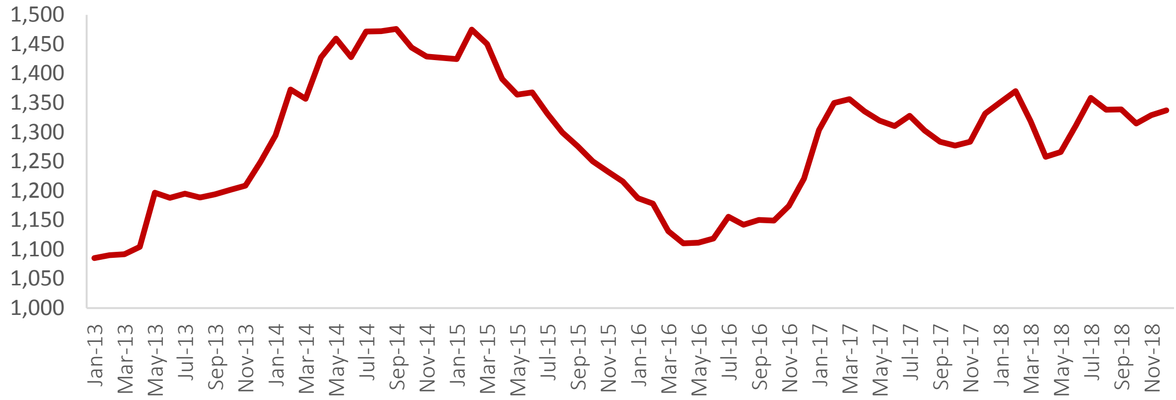
Year-on-year data demonstrates that the Bahrain All Share Index increased by 5.6 points (0.4%) between 2017 and 2018 (Table 7-1). Observing this period, the index was at its highest with 1,369.9 points in February 2018, where the index began to drop until April 2018 where the index scored the lowest point at 1,257.9. Subsequently, the index started to increase reaching 1,337.3 by December 2018 (Chart 7-1). When comparing on a month on month basis, the index increased from 1,328.8 in November 2018 to 1,337.3 in December 2018 (0.6%).

Table 8-1: Key Indicators of Bahrain Bourse

Indicator	2012	2013	2014	2015	2016	2017	2018
All Share Index	1,065.6	1,248.9	1,426.6	1,215.9	1,220.5	1,331.7	1,337.3
Highest	1,152.8	1,248.9	1,476.0	1,474.8	1,220.5	1,356.0	1,369.9
Lowest	1,048.8	1,085.9	1,294.3	1,215.9	1,110.5	1,276.7	1,257.9
Market Cap (BD, mil)	5,855.6	6,963.0	8,327.1	7,199.9	7,248.2	8,146.3	8,198.5
Total Value (BD, mil)	110.2	225.9	269.1	110.0	124.5	211.3	323.8
Total Volume (mil)	627.7	1,867.8	1,126.1	515.6	734.4	1,129.8	1,441.1
No. of Transactions	10,168	14,197	16,211	11,248	10,592	19,440	19,225
No. of Companies	47	47	47	46	44	43	44

Source: Bahrain Bourse.

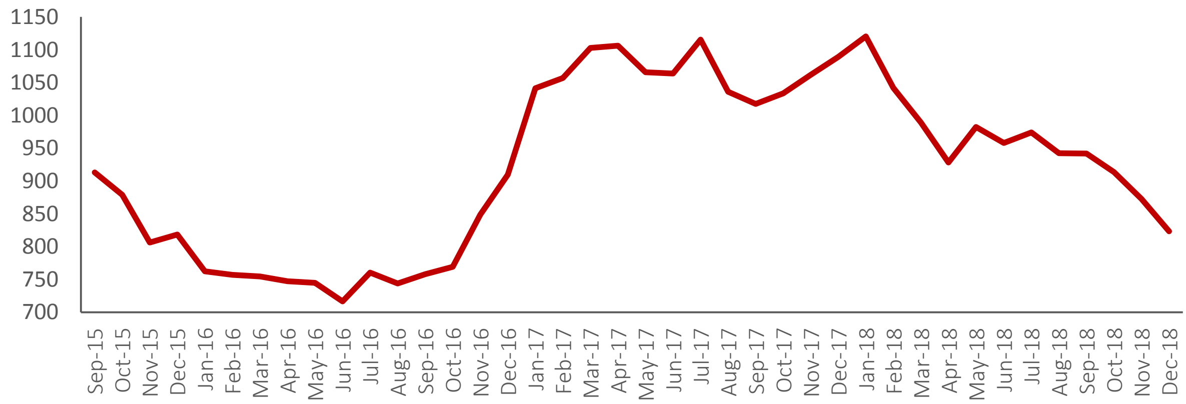
Chart 8-1: Bahrain All-Share Index, Jan 2013-December 2018



Source: Bahrain Bourse.

In September 2015, Bahrain Bourse launched the Bahrain Islamic Index. It was the first Islamic finance index in the region, and 17 Shari'ah compliant companies are included within the index. Since its inception, most movements in Bahrain Islamic Index have mirrored that of the Bahrain All-Share Index albeit with different volatilities. Year-on-year data demonstrates that the Bahrain Islamic Index decreased by 266.2 points (24.4%) between December 2017 and December 2018 reaching 823.1 points (Chart 7-2).

Chart 8-2: Bahrain Islamic Index, Sep. 2015-Dec. 2018



Source: Bahrain Bourse.

Increase in market capitalization

As at end-December 2018, market capitalization of the Bahrain Bourse stood at BD 8.2 billion (Table 7-2). This level of market capitalization is 2.5% higher than the level attained in June 2018 and 0.6% higher year-on-year.

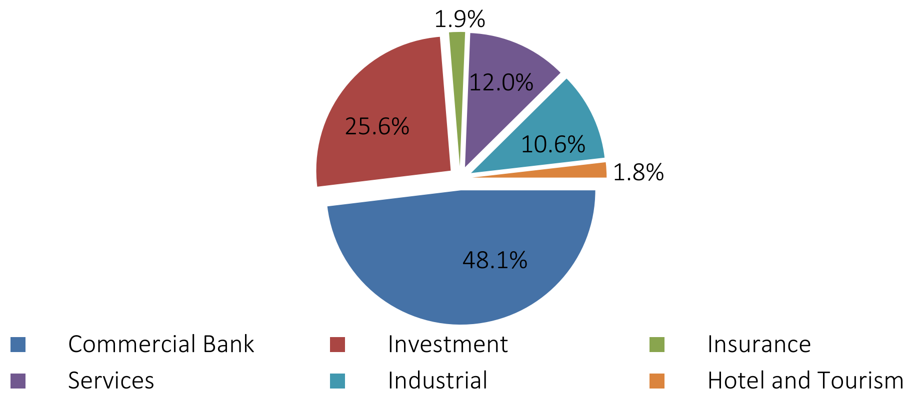
Table 8-2: Market Capitalization on the Bahrain Bourse

Sector (BD)	Dec. 2017	Jun. 2018	Dec. 2018	Jun. 2018- Dec. 2018 (% Change)	Dec. 2017-Dec. 2018 (% Change)
Commercial Banks	3,938,944,714	3,729,239,933	3,942,889,860	5.4	0.1
Investment	2,124,858,983	2,133,404,982	2,100,716,781	(1.4)	(1.1)
Insurance	157,250,245	167,672,100	156,708,100	(6.6)	(0.3)
Services	869,030,783	923,341,428	979,887,367	6.1	12.8
Industrial	891,787,040	919,378,298	868,556,113	(5.5)	(2.6)
Hotel and Tourism	164,461,880	164,461,880	149,772,214	(8.9)	(8.9)
Total	**8,146,333,645**	**8,037,498,621**	**8,198,530,435**	**2.5**	**0.6**

Source: Bahrain Bourse.

A breakdown of market capitalization by sector indicates that "Services" sector recorded the highest year-on-year increase in market capitalization (12.8%) followed by "Commercial banks" (0.1%). "hotel and tourism" scored the highest decline among other market capitalization sectors with a 8.9% decrease.

Chart 8-3: Market Capitalization by Sector, Dec. 2018



Source: Bahrain Bourse.

The bulk of the value of shares traded in December 2018 was the "Commercial banks" sector whose traded shares (by value) represented 52.0% of total shares, which is a slightly decrease to what was attained in December 2017 (Table 7-3).

Table 8-3: Sectoral Distribution of Shares Traded by Value (% of all shares traded)

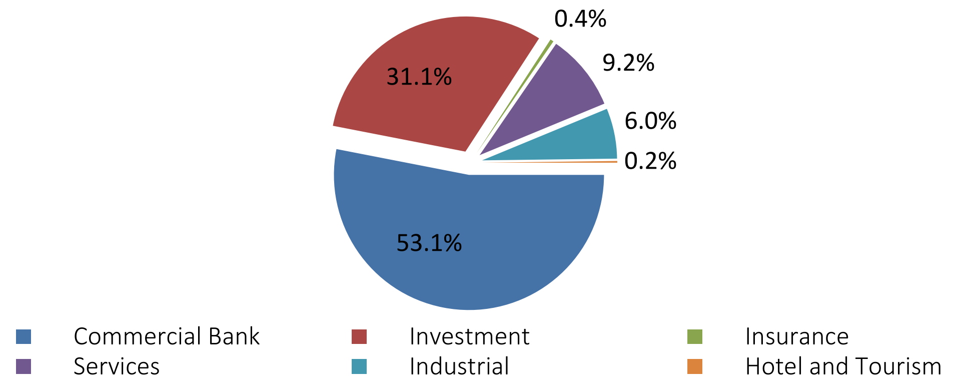
Sector	Dec. 2017	Jun. 2018	Dec. 2018
Commercial banks	54.8	31.7	52.0
Investment	15.3	31.9	30.5
Insurance	0.1	0.1	0.4
Services	16.0	8.6	9.0
Industrial	13.7	27.6	5.9
Hotel and Tourism	0.1	0.1	0.2

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

Source: Bahrain Bourse.

The "investment" sector represents the second greatest level at 30.5% of the total value of shares traded in December 2018, which is significant increase to the levels recorded in December 2017. Investors interest in "Hotel and Tourism" and "Insurance" sectors were the least during December 2018 whose traded shares by value represented only 0.2% and 0.4% respectively of total traded shares.

Chart 8-4: Sectoral Distribution of Shares Traded by Value (% of all shares traded) - Dec. 2018



Source: Bahrain Bourse.

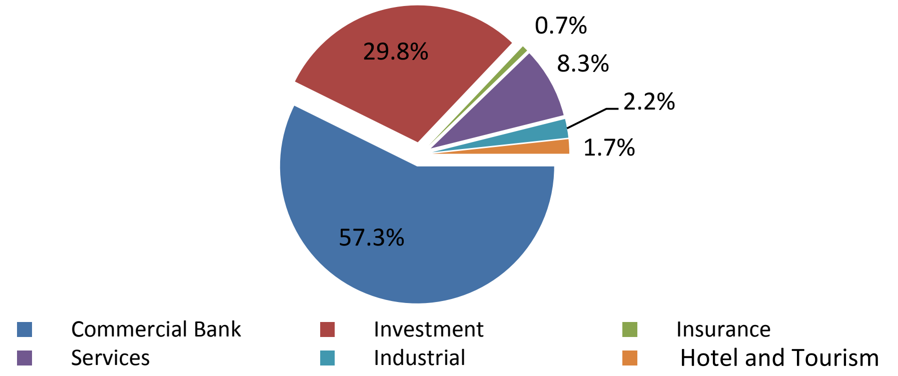
The bulk of the volume of shares traded in December 2018 was the "Commercial banks" sector representing 57.2% of the total volume of shares traded, followed by the "investment" sector at 29.7%. The lowest level was attained by the "insurance" sectors at 0.7% (Table 7-4).

Table 8-4: Sectoral Distribution of Shares Traded by Volume (% of all shares traded)

Sector	Dec. 2017	Jun. 2018	Dec. 2018
Commercial banks	71.4	31.9	57.2
Investment	15.7	50.0	29.7
Insurance	0.1	0.1	0.7
Services	9.1	8.2	8.3
Industrial	3.7	9.8	2.2
Hotel and Tourism	0.1	0.1	1.7

**Figures may not add to a hundred due to rounding.*
Source: Bahrain Bourse.

Chart 8-5: Sectoral Distribution of Shares Traded by Volume (% of all shares traded) - Dec. 2018



Source: Bahrain Bourse.

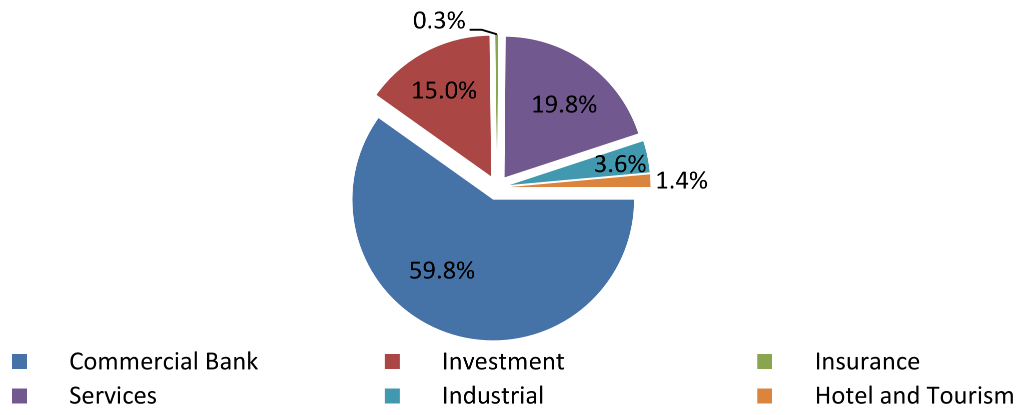
The majority of the number of transactions in December 2018 (1,744 transactions) was attained by the "Commercial Banks" sector at 912 transactions (52.3% of all transactions), followed by the "Services" sector at 302 transactions (17.3%), and the "Investment" sector at 228 transactions (13.1%) (Table 7-5).

Table 8-5: Number of Transactions by Sector

Sector	Dec. 2017	Jun. 2018	Dec. 2018
Commercial banks	931	356	912
Investment	231	338	228
Insurance	12	6	5
Services	507	243	302
Industrial	99	153	55
Hotel and Tourism	6	8	22
Total Market	1,786	1,104	1,744

Source: Bahrain Bourse.

Chart 8-6: Sectoral Distribution of Number of Transactions Traded (% of all transactions traded) -Dec. 2018



Source: Bahrain Bourse.

GCC Indices remain sluggish

The GCC equity markets was sluggish during 2018 due to a combination of geopolitical factors and some unforeseen events. As a result, some GCC indices recorded negative rates compared to December 2017. Despite this, the highest increase was recorded by the Qatar stock exchange All Share Index (20.0%) when compared to December 2017, followed by the Abu Dhabi exchange general Index with an increase of 11.7%.

Table 8-6: Stock Market Indices in GCC counties

Index	Dec. 2017	Jun. 2018	Dec.2018	Dec. 2017 - Jun 2018 (%)	Dec. 2017 – Dec. 2018 (%)
Bahrain All Share Index	1,331.7	1,311.0	1,337.3	(1.6)	0.4
Tadawul All Share Index	7,226.3	8,314.2	7,826.7	15.1	8.3
Kuwait Market Index	5,244.3	5,438.7	5,079.6	3.7	(3.1)
Qatar Exchange Index	8,523.4	9,024.0	10,229.0	5.9	20.0
Dubai Financial Market Index	3,370.1	2,821.0	2,529.6	(16.3)	(24.9)
Abu Dhabi Exchange General Index	4,398.4	4,560.0	4,915.1	3.7	11.7
Muscat Securities Market Index 30	5,099.3	4,571.8	4,323.7	(10.4)	(15.2)

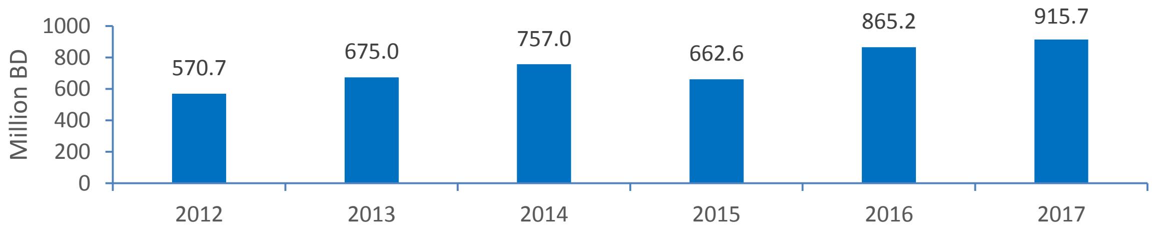
Sources: Bahrain Bourse, Saudi Stock Exchange (Tadawul), Boursa Kuwait, Qatar Stock Exchange, Dubai Financial Market, Abu Dhabi Exchange, and Muscat Securities Market.

8.3 Market Resilience

Increase in corporate profitability

The overall profitability of the Bahraini stock market increased by 5.8% to BD 915.7 million in 2017 from BD 865.2 million in 2016. Return on assets increased to 1.6% in 2017 compared to 1.5% in 2016, while return on equity rose to 9.5% in 2017 compared to 9.1% in 2016.

Chart 8-7: Stock Market Net Income



Source: Bahrain Bourse.

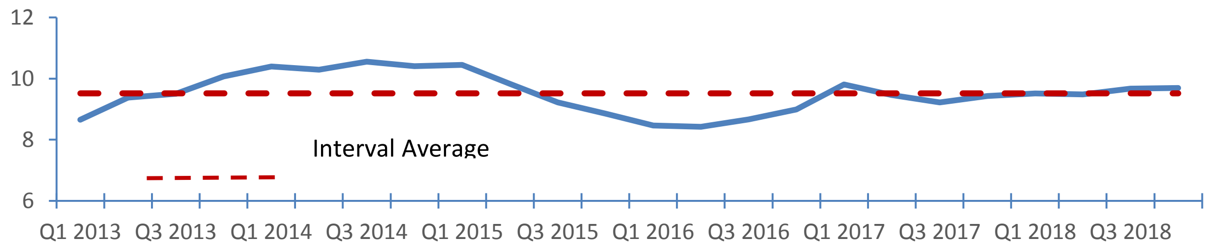
As at December 2018, all sectors experienced progress in their P/E ratio compared to December 2017 except for the Commercial Banks and Industrial sectors that dropped by 7.4% and 50.6% respectively. The total market P/E ratio in the fourth quarter of 2018 was at 9.7, a bit higher than the 6 year average (Chart 7-8) (Table 7-7).

Table 8-7: Price-Earnings Multiples

Sector	Dec. 2017	Jun. 2018	Dec. 2018
Commercial banks	10.8	9.4	10.0
Investment	5.6	8.5	8.3
Insurance	14.2	21.5	20.0
Services	10.4	11.7	12.4
Industrial	17.8	9.3	8.8
Hotel and Tourism	7.7	10.7	9.7
Total Market	9.4	9.5	9.7

Source: Bahrain Bourse.

Chart 8-8: Total Market Price-Earnings Multiples

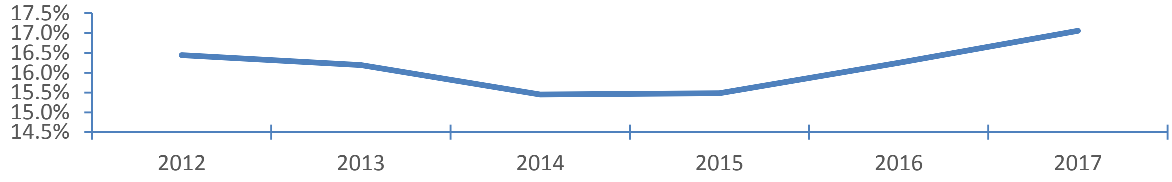


Source: Bahrain Bourse.

Corporate leverage decreased

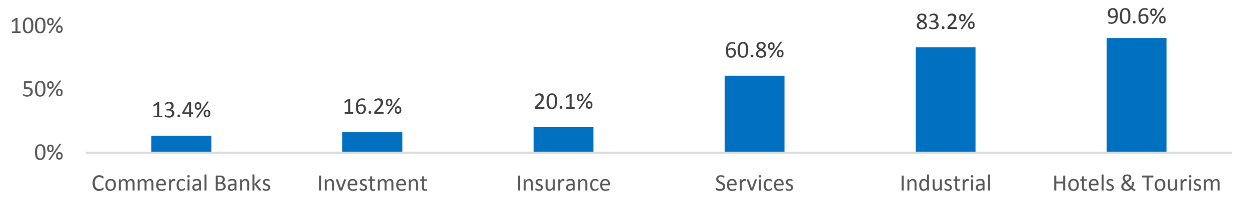
The overall equity-to-assets ratio increased by 3.6% to 17.1% in 2017. Most sectors contributed to the increase with the Hotel and Tourism sector having the highest increase (10%). The Commercial Banks and Investment sectors have the lowest equity/assets ratio due to the high leverage nature of the sectors (Chart 7-9 & 7-10).

Chart 8-9: Total Equity to Total Assets (%)



Source: Bahrain Bourse.

Chart 8-10: Total Equity/Total Assets by Sector



Source: Bahrain Bourse.

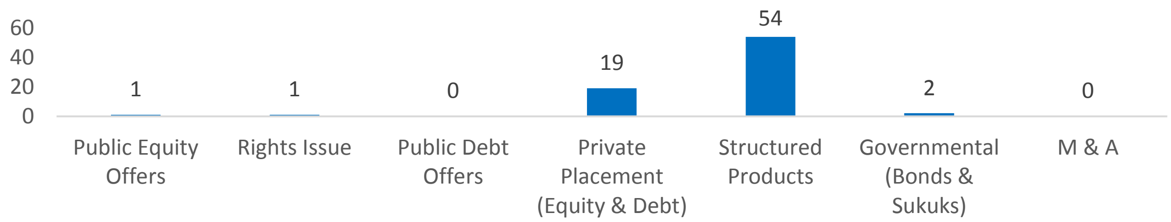
8.4 Capital Market Activities

During 2018, the Bahrain All Share Index closed the year higher by 0.42% at 1,337.26 with a market capitalization of BHD 8.2 billion, while the Bahrain Islamic Index fell by a 24%. Total annual dividends paid by listed companies on Bahrain Bourse was BHD 477 million. The Services Sector was the highest gaining sector recording an annual gain of 13% driven mainly by a rise of 37% on Bahrain Telecommunication Company (BATELCO) shares, which is the largest listed company by market capitalization in the Services Sector. The value traded on Bahrain Bourse was BHD 323 million higher by 53% compared to 2017. Ahli United Bank, the largest listed company representing 25% of the Bahrain Bourse market capitalization, continued to be the most traded company for the fourth consecutive year capturing 38% of the total value traded. Foreign investors compromised 37% of the value bought, and made up 52% of the value sold, both selling and buying value from foreigners was higher compared to last year.

8.4.1 Offering of Securities

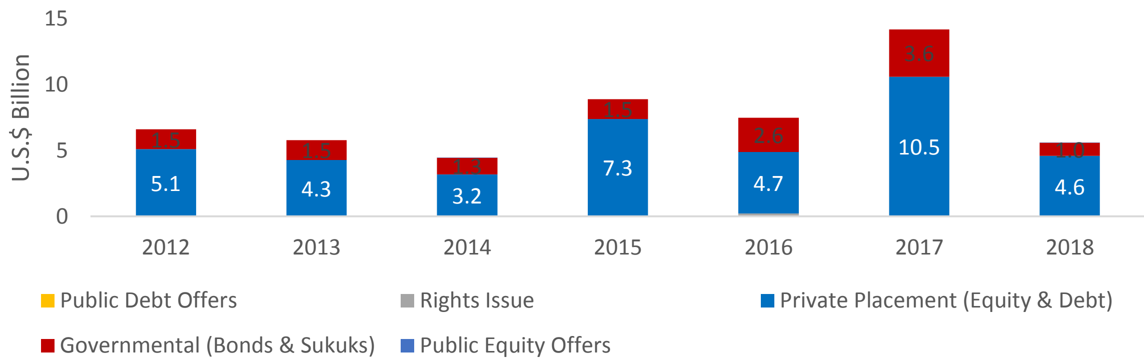
As of December 2018, the CBB issued its no objection to the issuance of 77 public and private offering documents after ensuring the completeness of all the information and details as per the CBB Law, Rules and Regulations. The total value of issuances reached USD 5.6 billion. (Chart 7-11 & 7-12).

Chart 8-11: Number of Capital Market Activities



Source: CBB.

Chart 8-12: Total Issuance Value



Source: CBB.

8.4.2 Initial Public Offering ("IPO") of APM Terminals Bahrain B.S.C. ("APM Terminals")

APM Terminals launched its IPO on Thursday, 8th November 2018 (opening date of the Offering) and closed on Saturday, 24th November 2018, offering 18 million shares of APM Terminals' issued share capital to the public at an offering price of BHD 0.600 per share.

The offer was open to corporate and individual Bahraini and non-Bahraini applicants, and the shares were allocated on a retail and institutional basis. Applicants were deemed institutional if they subscribed to a minimum of 100,001 shares, and were deemed retail if they subscribed to 100,000 shares or less.

The IPO of APM Terminals generated a total demand of 97.4 million shares (BHD 64.3 million) between both the institutional and retail tranches resulting in an oversubscription from funded applications 5.4 times (441%) the offer size.

APM Terminals is currently listed on the IPO market in Bahrain Bourse and will be moved to Bahrain Bourse's regular market after the lapse of six months from entering the IPO market. This will result in the total number of listed companies on the regular market of Bahrain Bourse to increase to 44 listed companies.

8.5 Risks & Challenges in Capital Markets

The significance of cybersecurity risk on capital markets cannot be overlooked, given the developing landscape of the global markets, which decrees that regulators and capital market service providers must remain prudent, progressive, and vigilant to minimize such risks. In this regard, the CBB; through the requirements stipulated under Module of CBB Rulebook Volume 6 requires Licensees to have in place a well-designed Disaster Recovery Plan. It must also maintain at all times a plan of action (referred to as a business continuity plan) that sets out the procedures and establishes the systems necessary to restore fair, orderly and transparent operations, in the event of any disruption to the operations of the market.

Moreover, the regulatory framework for capital markets recognizes the significance of cybersecurity in the area of operating an equity crowdfunding platform and requires such operators to ensure that cyber-security includes the conduct of an IT security penetration test semi-annually by an independent consultant (discussed in part III of the report). In addition, Capital markets licensees are mandated to maintain relevant systems in place for mitigating and managing operational and other risks.

The FinTech solution are increasingly affecting the Capital Markets, these changes are being reflected on different areas including: the core infrastructure that connects investors/clients with the intermediaries through block chain technologies, post-trade and settlement digitization and innovative technology driven business models. These FinTech driven changes will lead to reduction in overall risks due to further transparency and reduction of systematic risk. In order to effectively reduce risks related to use of FinTech solutions, the CBB is working towards further entertaining the regulatory framework pertaining to data security, legal framework of data usage, creating robust compliance and regulatory reporting and increasing partnership between financial institutions, FinTech services providers and the regulator. Another key area of focus for the CBB is Regulatory Technology (RegTech) which could be used to regulate the FinTech in the Capital Markets. Currently, the CBB is in the process of implementing its rules on Crypto-Asset Exchanges and other crypto-asset services, which is later described in the report.

Among the shared goals of the CBB and the Bahrain Bourse at the moment is to increase liquidity and the number of investors in the market. Such an increase would mean a greater amount of due diligence and responsibility for the CBB as it aims to ensure that all stakeholders involved are aware and adhering to the rules and regulations. Meanwhile, listed companies are also aiming to increase liquidity and trading in their own shares by cross listing in multiple exchanges. Consequently, such initiatives bring about their own set of regulatory risks that the CBB tackles.

As of 2018, 10 of the 44 listed companies on Bahrain Bourse were cross-listed outside of Bahrain, leading to challenges faced by the CBB in maintaining the cross-listed companies' compliance with the capital market regulations of Bahrain. The CBB is utilizing the IOSCO MMoU and the MoU between regulators of the financial markets in the Gulf Cooperation Council States in requesting assistance in relation to cross-listed companies. Concurrently, Bahrain Bourse is in the process of issuing its new listing rules and listing guidelines which will tackle aspects of the cross-listing rules.

Due to the limited number of capital market service providers, conflict of interest issues arises when certain capital market service providers offer multiple services to a single client. As such, the CBB requires the capital market service providers to act with a high level of due diligence, provide comprehensive disclosures and detailed declarations.

It is important that the Buy-and-Hold/Passive Investment investor mentality is tackled, through the provision of tools which gives the investors a clear view of market activity. Bahrain Bourse is in collaboration with market information companies, such as Bloomberg, Thompson Reuters etc., to distribute data packages which include facilities relating to real-time market coverage, historical and end-of-day data, etc. In November 2018, Bahrain Bourse signed an agreement with the Middle East Investor Relations Association (MEIRA) to promote the development of the Investor Relations function and corporate governance best practice.

8.6 Developments in Regulation and Initiatives

In addition to the participation in joint work meetings of the GCC that aim to harmonize the rules and regulations for the Capital markets in the GCC. During the year 2018, the CBB's CMSD endeavoured to develop and complete the capital markets regulatory and legal frameworks, including Volume 6 of the CBB Rulebook, its main objectives being to enhance transparency, develop the capital markets, and protect investors. The following section will shed light on the activities that took place in the areas of policy, regulation and market infrastructure in 2018:

8.6.1 Policy and Regulatory Developments

- **Bahrain Bourse ("BHB") Listing Rules:** The BHB has completed the final draft of Listing Rules in consultation with the CBB and the industry. Along with the Listing Rules, BHB in consultation with the CBB will release the Listing Guidelines which sets further guidelines for listing.
- **Clearing, Settlement and Central Depository Rules:** Bahrain Clear (BHC) Clearing, Settlement and Central Depository Rules are being finalised in cooperation with consultants and the CBB. Upon finalization, the draft rules shall be submitted to the CBB for approval.
- **Financial and Administrative Sanctions:** The CMSD's regulatory mandate is to set and enforce high quality capital market industry standards, protect investors and strengthen market integrity while supporting a stimulating capital markets' ecosystem. The Investigation and Enforcement ("IE") team within the CMSD assumes responsibility to ensure effective enforcement of the CBB regulatory requirements with an objective to achieve fairness, transparency, investor protection and safeguard public interests in the Kingdom of Bahrain. In line with the CMSD's objective to develop a transparent regulatory environment, the CMSD produced the third issue of its Compliance & Enforcement Annual Report covering the year 2018; which provides a comparative overview of CMSD's efforts in 2016-2018 to identify and address non-compliances, negligence or misconduct, by accounting for all market participants in order to enact the word of the law, safeguard the interests of all stakeholders and ensure a stimulating environment within which the needs of members, investors and the regulator are met.
- **AUP for Testing Compliance with AML Module:** As part of the CBB's objective to establish industry leading practices, the CBB introduced a template for the preparation of the report on the quality of the licensees' anti-money laundering procedures, systems and controls, and compliance with AML/CFT procedures to be performed annually by the licensee's external auditor or a consultancy firm approved by the CBB. The CBB issued the Agreed Upon Procedures ("AUP") for testing compliance with the Anti-Money Laundering and Combating Financial Crime ("AML") Module of CBB Rulebook Volume 6 on 16th January 2019.
- **Market Making Rules:** The market maker, in general, adds to the stability, liquidity and transparency of the capital markets and is therefore a desirable participant. They also are participants in quote-driven financial instruments trading environment that fulfil the function of generating bids and offers. Accordingly, the CMSD has introduced new rules for market makers within the CBB Rulebook Volume 6, Markets and Exchanges ("MAE") Module, and Market Intermediaries and Representatives ("MIR") Module, to ensure these participants operate with higher efficiency, fairness and transparency, and to strengthen the regulatory framework over market making for liquidity enhancement. Following the consultation with the industry, the amended MAE and MIR Modules were issued on 22nd January 2019.

- **Crypto-Assets Module:** In line with its initiative to continuously enhance its regulatory framework to be able to fit the financial sector's developments, the CBB issued the Crypto-Assets ("CRA") Module under Volume 6 of the CBB Rulebook on 21st February 2019. This regulatory framework covers rules for the licensing and supervision of crypto-asset exchanges and other crypto-asset services including trading, dealing, advisory and portfolio management in accepted crypto-assets as principal, agent or custodian.

8.6.2 The Capital Markets Supervision Directorate's Upcoming Initiatives

- **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 issued a draft of the requirements and criteria of short selling and giving securities on loan for industry consultation on 21st January 2018. Feedback received has been accordingly reviewed and reflected in the draft regulation, where necessary. The final regulation is anticipated to be issued within the first quarter of 2019.
- **Press Release Pertaining to Financial Statements of listed companies:** The CMSD has proposed new requirements for the publication of press releases that cover financial results of public listed shareholding companies. A template was drafted to standardize the content of press releases amongst listed companies, and ensure that companies report to their shareholders in an objective and unbiased perspective. The template requirements include material information that reflect the main outcomes of the financial statement. The proposed requirements were open for consultation, as the template was shared with the listed shareholding companies for their feedback. The remarks have been collected and replied to. The CMSD is currently finalizing the said requirements to cater for the industry's comments.
- **Tick Size:** A letter has been issued to the Bahrain Bourse approving the implementation of new tick sizes for a trial period starting on the 2nd September 2018 to 2nd December 2018. During the period, the effects of the changes in tick sizes will be studied and analysed to measure its effect on the stock exchange (whether positive or negative)
- **Islamic Securities Resolution** The objective of the CMSD is to continue to ensure investor protection and to further enhance the regulatory framework for the capital markets sector in the Kingdom of Bahrain. Therefore, the CMSD is in the process of drafting a resolution outlining the necessary requirements for the offering and issuance of Islamic securities, including ongoing reporting and disclosure obligations.
- **Treasury Shares Resolution:** Further to Article (93) of the Central Bank of Bahrain and Financial Institutions Law, the CMSD is currently in the process of introducing a resolution to regulate the purchase and sale of listed companies' treasury shares and the permitted uses for these shares.
- **Training and Competency Module:** The CMSD is developing a new Training and Competency ("TC") Module as part of the CBB Rulebook Volume 6. The Module aims at presenting requirements that have to be met by capital markets licensees with respect to training and competency of individuals undertaking controlled functions.

Part IV:

Developments in the Payment Systems, FinTech, and Cyber Security

Chapter 9 Payment and Settlement Systems

Key Highlights

RTGS Daily avg. (Vol.)	RTGS Daily avg. (Val.)	SSSS Aggregate (Vol.)	SSSS Aggregate (Val.)	ATM Daily avg. (Vol.)	ATM Daily avg. (Val.)
182 mn	BD 302.1 mn	45	BD 2.77 bn	53,416	BD 5.0 mn

BCTS Daily avg. (Vol.)	BCTS Daily avg. (Val.)	Fawri+ Daily avg. (Vol.)	Fawri+ Daily avg. (Val.)	Fawri Daily avg. (Vol.)	Fawri vDaily avg. (Val.)
12,712	BD 37.4 mn	5,007	BD 839,723	15,484	BD 30 mn

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

9.1 Overview

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

FMIs, Payment and Settlement Systems are a crucial part of the financial infrastructure of a country. Bahrain’s FMIs, Payment and Settlement Systems Framework continues to function safely, securely and efficiently.

The current Financial Market Infrastructure in the Kingdom of Bahrain comprises of five main components: i) the Real Time Gross Settlement System (RTGS); ii) the Scripless Securities Settlement System (SSSS); iii) the ATM Clearing System (ATM); iv) the Bahrain Cheque Truncation System (BCTS) and v) the Electronic Fund Transfer System (EFTS) including the Electronic Bill Presentment and Payment (EBPP) System.

Since the launch of the EFTS in 2015 by the Benefit Company, which has been overseen by the CBB, there has been increasing numbers of EFTS service providers reaching a total of twenty-five (25) participants as of 2018. The CBB assess the EFTS in terms of compliance with the requirements set by the Principles for Financial Market Infrastructures (PFMI) and CBB’s Directives.

Bahrain's position in the financial services sector will enable it to become a strategic leader in international financial technology as it provides many of the features that will support the development of a supportive environment for financial technology, including a CBB regulator, innovative human capital, and an advanced ICT infrastructure. The CBB operates and manages the national payment and settlement systems in the Kingdom of Bahrain.

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

9.2 Real Time Gross Settlement System (RTGS)

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

The RTGS System enables the Banks to have real time information on, for example, account balances, used and available intra-day credit, queue status, transaction status etc. The RTGS System is multi-currency capable and based on Straight Through Processing (STP). The number of direct participants in the RTGS are twenty-nine (29) participants including the CBB (CBB).

The daily average volume of Bank transfers from 1st July, 2018 to 31st December, 2018 (second half of 2018) have increased by 3.4% to 182 transfers compared to 176 transfers for the period from 1st January, 2018 to 30th June, 2018 (first half of 2018). Furthermore, the daily average volume of Bank transfers for 1st July, 2018 to 31st December, 2018 increased by 4.6% from 174 transfers to 182 transfers when compared to 1st July, 2017 to 31st December 2017 (second half of 2017).

As the daily average volume of Bank transfers through the RTGS are increasing. However, the value of those transfers have decreased in the second half of 2018 by 5.1% when compared to the first half of 2018 from BD318.4 million to BD302.1 million. Moreover, the daily average value of Bank transfers for the second half of 2018 has also decreased by 5.2% from BD318.7 million to BD302.1 million when compared to the second half of 2017.

Table 9-1: RTGS Bank Transfers Daily Average Volume and Value

RTGS	Daily Average Volume	Daily Average Value (BD million)
1st Jul. 2015 - 31st Dec. 2015	408	202.2
1st Jan. 2016 - 30th Jun. 2016	288	226.2
1st Jul. 2016 - 31st Dec. 2016	227	259.3
1st Jan. 2017 - 30th Jun. 2017	190	268.9
1st Jul. 2018 - 31st Dec. 2018	174	318.7
1st Jan. 2018 - 30th Jun. 2018	176	318.4
1st Jul. 2018 - 31st Dec. 2018	182	302.1

Source: CBB.

9.3 Scripless Securities Settlement System (SSSS)

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

The number of direct participants are twenty-nine (29) participants and indirect participants are thirty-four (34) members in the SSSS.

The volume of issues for 1st July, 2018 to 31st December, 2018 decreased compared to 1st January, 2018 to 30th June, 2018 by 2.2% from 46 issues to 45 issues. Moreover, the volume of issues has decreased in the second half of 2018 by 11.8% compared to the second half of 2017 from 51 issues to 45 issues.

The aggregate value of issues for the second half of 2018 decreased by 8.3% from BD3.02 billion in first half of 2018 to BD2.77 billion. Additionally, the aggregate value of issues for the second half of 2018 decreased when compared to the second half of 2017 by 37.5% from BD4.43 billion to BD2.77 billion.

Table 9-2: SSSS Aggregate Volume and Value

SSSS	Aggregate Volume	Aggregate Value (BD billion)
1st Jan. 2016 - 30th Jun. 2016	41	2.65
1st Jul. 2016 - 31st Dec. 2016	43	3.06
1st Jan. 2017 - 30th Jun. 2017	38	2.44
1st Jul. 2017 - 31st Dec. 2017	51	4.43
1st Jan. 2018 - 30th Jun. 2018	46	3.02
1st Jul. 2018 - 31st Dec. 2018	45	2.77

Source: CBB.

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

The SSSS continued to operate smoothly and efficiently for the period from 1st July, 2018 to 31st December, 2018.

9.4 ATM Clearing System (ATM)

ATM clearing is based on a Deferred Net Settlement (DNS) system. The Benefit Company (BENEFIT) in Bahrain receives and processes all the ATM transactions. The GCC net, a leased line network across the GCC countries, provides for the communication backbone for the transmission of all the ATM transactions and settlement related electronic messages (source: BENEFIT website).

The daily average volume of ATM transactions for the period between July 1st, 2018 and December 31st, 2018 was 53,416 transactions per day recording an increase of by 2.8% when compared to the 51,948 daily average volume for the period between January 1st, 2018 to June 30th, 2018. In addition, the daily average volume of ATM transaction increased by 15.3% when compared with the period between July 1st 2017 to Dec 31st 2017.

The daily average value of ATM transactions for the second half of 2018 remained unchanged at BD 5.0 million compared to the first half of 2018. Furthermore, the daily average value of ATM transactions for the second half of 2018 also increased by 13.0% when compared to the second half of 2017.

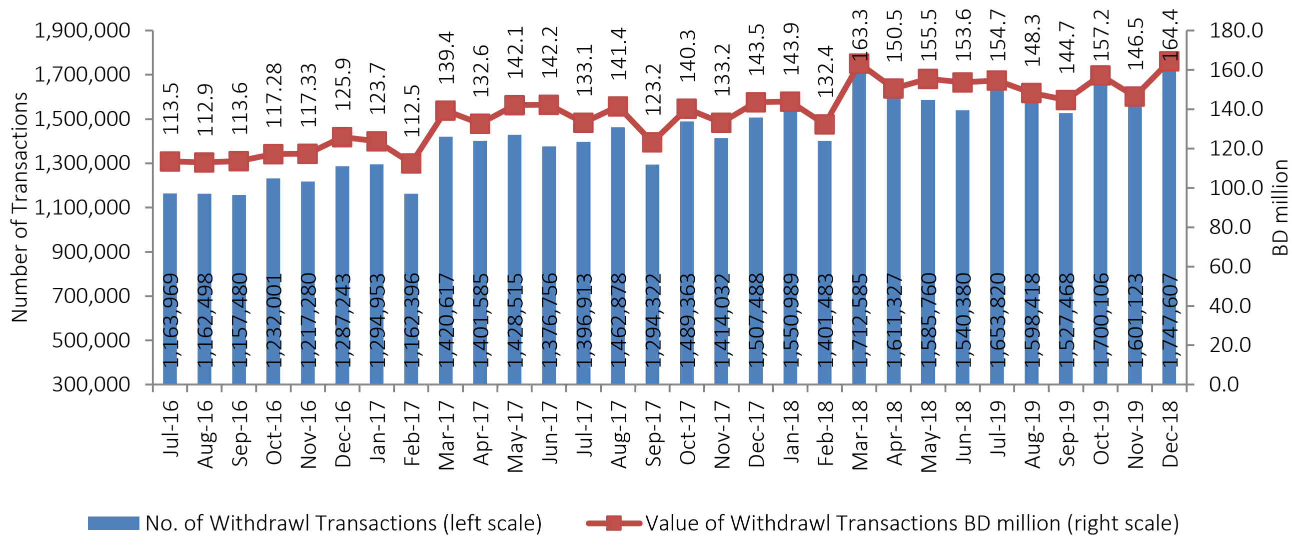
Table 9-3: ATM Transactions Daily Average and Volume

ATM Transitions	Daily Average Volume	Daily Average Value (BD million)
1st July, 2016 to 31st December, 2016	39,242	3.8
1st January, 2017 to 30th June, 2017	44,951	4.4
1st July, 2017 to 31st December, 2017	46,549	4.4
1st Jan. , 2018 to 30th Jun., 2018	51,948	5.0
1st Jul. 2018 – 31st Dec. 2018	53,416	5.0

Source: BENEFIT.

Overall, there is an upward trend in both the value and the volume between July and December 2018 despite a number of decreases. For the second half of 2018, the highest value of withdrawals was witnessed in December 2018 at BD 164.4 million and the lowest value of withdrawals was in September 2018 at BD 144.7 million. The highest volume of transactions over the past six months was also in December with 1,747,607 transactions. September 2018 also had the lowest volume of transactions over the past six months with 1,517468 transactions.

Chart 9-1: Number and Value of ATM Transactions, Jul. 2016- Dec. 2018



Source: BENEFIT.

9.5 Bahrain Cheque Truncation System (BCTS)

Cheques are seen as one of the most popular instruments in use among Retail Customers and Corporate Customers. As part of the CBB vision to replace the paper based Automated Cheque Clearing System operated by the CBB, the Bahrain Cheque Truncation System (BCTS) commenced its operations in co-operation with the BENEFIT Company (BENEFIT) on the 13th May, 2012. The launch of the BCTS was a milestone to the Bahraini financial sector which raised efficiency and Customer satisfaction. Under the BCTS, cheques presented for payment will be scanned at the Bank where the Customer deposits his/her cheque(s) and the electronic images and payment information, instead of the physical cheque, will be transmitted to the BCTS Clearing House.

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

The number of participants in the BCTS are twenty-seven (27) participants. The daily average volume of cheques for the second half of 2018 decreased by 0.9% when compared to the first half of 2018 from 12,827 cheques to 12,712 cheques. In addition, the daily average volume of cheques decreased by 4.4% from 13,294 cheques to 12,712 cheques compared to the second half of 2017.

Furthermore, the daily average value of cheques decreased in the second half of 2018 by 4.1% when compared to the first half of 2018 from BD 39.0 million to BD 37.4 million. Moreover, the daily average value of cheques for the second half of 2018 decreased by 6.5% from BD 40.0 million to BD 37.4 million compared to the second half of 2017.

Table 9-4: BCTS Daily Average Volume and Value

BCTS	Daily Average Volume	Daily Average Value (BD million)
1st Jul. 2015 - 31st Dec. 2015	13,162	40.4
1st Jan. 2016 - 30th Jun. 2016	13,320	41.6
1st Jul. 2016 - 31st Dec. 2016	13,432	40.0
1st Jan. 2017 - 30th Jun. 2017	13,326	41.1
1st Jul. 2017 - 31st Dec. 2017	13,294	40.0
1st Jan. 2018 - 30th Jun. 2018	12,827	39.0
1st Jul. 2018 - 31st Dec. 2018	12,712	37.4

Source: BENEFIT.

The BCTS continued to operate smoothly and efficiently for the period from 1st July, 2018 to 31st December, 2018.

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

With the introduction of International Bank Account Number (IBAN) in January, 2012, transfers were easier and less time consuming for both Customers and Banks nevertheless, secured and more convenient. It was perceived that further uses of the IBAN can be utilised. Therefore, the Electronic Fund Transfer System (EFTS) was launched on the 5th of November, 2015, whereas Electronic Bill Presentment and Payment (EBPP) System was launched on the 3rd of October, 2016, operated by the Benefit Company (BENEFIT) and overseen by the CBB.

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

The Kingdom of Bahrain took a step forward in line with the global trend of going cashless by introducing the EFTS that enabled electronic fund transfers within Bahrain with three options: Fawri+ Fawri, and Fawateer. Fawri+, Fawri and Fawateer provide fund transfers and real-time bill payments offering the public easier access, faster processes and virtually no mistakes. The number of participants offering outward EFTS Services has reached twenty-five (25) participants.

The daily average volume of Fawri+ transfers for the second half of 2018 increased significantly by 162.1% when compared to the first half of 2018 from 1,910 transfers to 5,007 transfers. Furthermore, the daily average volume of Fawri+ transfers for 1st July, 2018 to 31st December, 2018 further increased by 321.8% from 1,187 transfers to 5,007 transfers when compared to 1st July, 2017 to 31st December, 2017 (second half of 2017).

In addition, the daily average value of Fawri+ transfers increased by 111.6% from BD396,930 to BD839,723 for this period when compared to 1st January, 2018 to 30th June, 2018. Moreover, the daily average value of Fawri+ transfers for 1st July, 2018 to 31st December, 2018 increased by 211.8% from BD269,330 to BD839,723 when compared to 1st July, 2017 to 31st December, 2017.

Table 9-5: EFTS Fawri+ Daily Average Volume and Value

EFTS: Fawri+	Daily Average Volume	Daily Average Value (BD)
1st Jan. 2016 - 30th Jun. 2016	229	67,100
1st Jul. 2016 - 31st Dec. 2016	476	121,400
1st Jan. 2017 - 30th Jun. 2017	843	209,600
1st Jul. 2017 - 31st Dec. 2017	1,187	269,330
1st Jan. 2018 - 30th Jun. 2018	1,910	396,930
1st Jul. 2018 - 31st Dec. 2018	5,007	839,723

Source: BENEFIT.

The daily average volume of Fawri transfers for the second half of 2018 increased by 60.2% when compared to the first half of 2018 from 15,484 transfers to 24,807 transfers. Moreover, the daily average volume of Fawri transfers for 1st July, 2018 to 31st December, 2018 increased by 18.4% from 20,960 transfers to 24,807 transfers when compared to 1st July, 2017 to 31st December, 2017.

In addition, the daily average value of Fawri transfers increased by 56.7% from BD30.0 million to BD47.0 when compared to 1st January, 2018 to 30th June, 2018. Furthermore, the daily average value of Fawri transfers for 1st July, 2018 to 31st December, 2018 decreased by 15.2% from BD40.8 million to BD47.0 million when compared to 1st July, 2017 to 31st December, 2017 (second half of 2017).

Table 9-6: EFTS Fawri Daily Average Volume and Value

EFTS: Fawri	Daily Average Volume	Daily Average Value (BD million)
1st Jan. 2016 - 30th Jun. 2016	8,590	25.1
1st Jul. 2016 - 31st Dec. 2016	12,540	33.2
1st Jan. 2017 - 30th Jun. 2017	17,925	36.2
1st Jul. 2017 - 31st Dec. 2017	20,960	40.8
1st Jan. 2018 - 30th Jun. 2018	15,484	30.0
1st Jul. 2018 - 31st Dec. 2018	24,807	47.0

Source: BENEFIT.

The daily average volume of Fawateer transfers for the second half of 2018 increased by 59.3% when compared to the first half of 2018 from 4,427 transfers to 7,053 transfers. Moreover, the daily average volume of Fawateer transfers for 1st July, 2018 to 31st December, 2018 increased by 31.1% from 5,379 transfers to 7,053 transfers when compared to 1st July, 2017 to 31st December, 2017.

In addition, the daily average value of Fawateer transfers increased by 75.0% from BD339,000 to BD593,000 when compared to 1st January, 2018 to 30th June, 2018. Furthermore, the daily average value of Fawateer transfers for 1st July, 2018 to 31st December, 2018 increased significantly by 127.3% from BD261,000 to BD593,000 when compared to 1st July, 2017 to 31st December, 2017 (second half of 2017).

Table 9-7: EBPP Fawateer Daily Average Volume and Value

EBPP: Fawateer	Daily Average Volume	Daily Average Value (BD)
1st July, 2016 to 31st December, 2016[8]	358	38,000
1st January, 2017 to 30th June, 2017	4,460	164,000
1st July, 2017 to 31st December, 2017	5,379	261,000
1st January, 2018 to 30th June, 2018	4,427	339,000
1st July, 2018 to 31st December, 2018	7,053	593,000

Source: BENEFIT.

The EFTS including EBPP continued to operate smoothly and efficiently from 1st July, 2018 to 31st December, 2018. The CBB (CBB) continued to assess the EFTS including EBPP in terms of compliance with the requirements set by the Principles for Financial Market Infrastructures (PFMI) and CBB's Directives.

[8] Fawateer went live on 6th October, 2016.

Chapter

10 Fintech, Innovation and Financial Inclusion

Key Highlights						
Regulatory Sandbox	Digital Wallets	Branches	ATMs	Debit Cards	Credit Cards	POS
29 Companies	4	171	476	1,128.5 K	329.7 K	22,939

- Bahrain's established financial services industry, its role as a leading Islamic finance hub, and the national drive for financial inclusion are supporting the growth of FinTech.
- CBB's FinTech is responsible for the approval process to participate in the Regulatory Sandbox and monitoring technical and regulatory developments in the FinTech field.
- Continues Fintech developments and within the Kingdom and the launch of a number of digital wallets were over the last year.
- The FSD conducted a financial Inclusion Survey was conducted to analyze customer appetite for retail deposit accounts in Bahrain along with payments statistics.

The Kingdom of Bahrain is an established financial hub in the Gulf Cooperation Council (GCC) and Middle East region. The Kingdom is repositioning itself to be a Financial Technology (FinTech) hub of the region combining conventional and Shari'ah compliant FinTech solutions. Offering low cost, convenient and instant payments, FinTech has been of great interest to the regulators that were posed with the challenges of regulating, overseeing and ensuring safety and efficiency of those new payment methods.

The Kingdom is repositioning itself to be a FinTech hub of the region by embracing and encouraging digital transformation and the adoption of innovative technology, ultimately adding value and creating a more efficient financial services sector and achieving higher financial inclusion. The higher degree of financial inclusion enabled through FinTech provides countless benefits to the economy and plays a crucial role in the country's economic and social development. The CBB seeks to make the Kingdom of Bahrain a key player in FinTech through the availability of (1) innovative financial solutions, (2) highly qualified national talent in finance and banking, and (3) access to supportive policies.

The aim of the chapter is to show the recent trends and developments in the FinTech Industry and Financial Inclusion within the Kingdom and highlight initiatives taken Central Bank and other industry players in in this field.

10.1 FinTech Developments

The CBB has issued a series of measures to strengthen its position as a regional financial centre; including guidelines on the regulatory environment to ease the implementation of FinTech's solutions.

Innovation and regulatory sandboxes play a vital role in harnessing the advancement of financial technology solutions to support financial inclusion. The CBB has announced a series of measures towards consolidating its position as a regional financial hub and facilitating a number of FinTech initiatives.

The Kingdom of Bahrain achieved remarkable progress towards financial inclusion by putting in place a facilitating regulatory and policy environment through its financial regulator. Additionally it stimulated competition in the financial sector by allowing banks and non-banks to innovate and expand access to financial services, which created an advanced and competitive space that has been accompanied with regulations to ensure responsible provision of financial services.

As part of the CBB's ongoing initiatives towards financial digital transformation and developments in digital financial services, the CBB announced the establishment of a dedicated FinTech & Innovation Unit in October 2016 to ensure an adequate regulatory framework is in place to adapt FinTech, which in turn will enhance the services provided to individual and corporate customers in the financial sector.

The proposed FinTech Unit will be responsible for the approval process to participate in the Regulatory Sandbox, supervision of the activities and operations of the authorized Regulatory Sandbox companies' and monitoring technical and regulatory developments in the FinTech field which will allow industry players to apply innovative products while maintaining the overall safety and soundness of the financial system. This step in the development of the current ecosystem in place is to encourage growth in the FinTech industry and to attract more local, regional, and international FinTech firms to the Kingdom.

The sections below cover the latest FinTech developments and initiatives within the Kingdom.

10.1.1 Regulatory Sandbox

The CBB has launched a regulatory sandbox in June 2017 that enables both local and international emerging businesses, financial technology companies as well as existing CBB licensees, to test their innovative ideas and create pioneering solutions for the financial services sector.[9] This initiative aims to attract FinTech companies from around the world to develop and expand their business in the Arabian Gulf and MENA Region, which will strengthen Bahrain's position as a centre of FinTech and financial innovation in the region.

The sandbox, which includes 29 companies to date, will provide such authorized companies with the opportunity to test and experiment their innovative financial solutions freely. Additionally, the sandbox is also open to CBB licensed companies to help develop ideas until they are commercially viable. The period allowed for this arrangement will be nine months and may be extended if need be by an additional three months. The Sandbox focuses on three criteria items that include:

1. Innovation: The solution should be truly innovative or significantly different from existing offerings, or offer a new use for existing technologies.

[9] A Regulatory Sandbox (Sandbox) is a framework and process that facilitates the development of the FinTech industry in a calculated way. It 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.

2. Customer benefit: The solution should offer identifiable direct or indirect benefits to customers.
3. Technical testing for existing solutions: In case of existing solutions, results of the technical testing must be made available to the CBB.

To date, the CBB has 29companies testing their solutions within the Regulatory Sandbox, and 2 have graduated: one applying for an open-banking license and the second for the Crypto-Asset Platform Operator license. The solutions being tested out in the sandbox range from digital banks, crypto platforms, crypto ATMs, open-banking solutions, payment services providers, and many more.

The Regulatory Sandbox framework was revised in August 2018, to replace the requirement to maintain an escrow account with having a segregated client money account.

10.1.2 Crowdfunding

The CBB has also issued regulations for both equity and financing based crowdfunding activities, whereby the regulations accommodate for conventional as well as Shariah compliant crowdfunding transactions. For the first time, small and medium-sized companies in Bahrain and the region will be able to raise conventional financing or Shariah-compliant financing through crowdfunding platforms. Companies operating an electronic equity/financing based crowdfunding platform must be licensed in Bahrain under the instructions depicted in Volume V of the CBB Rulebook. CBB anticipates that entrepreneurs will benefit from the global trend in crowdfunding, which provides a feasible alternative to bank financing. The CBB is particularly keen to ensure that the Kingdom has a leading spot in the crowdfunding market.

It is expected that Bahraini entrepreneurs will benefit from the global crowdfunding trend, which provides a viable alternative to bank financing. In particular, the CBB is keen to see Bahrain dominate the Shariah compliant financing-based crowdfunding market in the region. The demand for Shari'a compliant financing is already high and is expected to see it reflected in the crowdfunding market.
Some of the key highlights of the crowdfunding regulations by CBB are as follows:

- Minimum capital requirement for crowdfunding platform operators is BD 50,000.
- Only Person to Business (P2B) lending / financing is permitted.
- SMEs with paid up capital not exceeding BD 250,000 can raise funds through crowdfunding platforms.
- These SMEs may be based in Bahrain or outside; however, in case of foreign SMEs the platform operators have to clearly mention the cross-border and jurisdictional risk financiers have to take.
- It is the responsibility of the lenders/financiers to perform their own creditworthiness assessment on borrowers/fundraisers.
- Crowdfunding platform operators have to comply with the CBB rules on Anti Money Laundering, Combating Financing of Terrorism (AML/CFT), and consumer protection.

The Crowdfunding regulations were refined and enhanced in November 2018 to make them more enabling including reduction in minimum capital, including business-to-business and peer-to-business lending, and removal of certain restrictive conditions.

10.1.3 Benefit

The Bahrain Credit Reference Bureau (known as BENEFIT) stores, analyzes and categorizes credit information. It also provides innovative payment capabilities, information management solutions, and business process outsourcing services that add value to the financial sector and other stakeholders to manage their business effectively. The BENEFIT Company positions itself in being at the forefront of developing powerful tools for the banking and financial services sector to increase productivity, profitability and customer satisfaction.

The Central Bank also uses BENEFIT's credit data for statistical purposes and performs studies related to financial inclusion to support policy development. The Central Bank is also examining ways to further develop indicators related to financial inclusion, and strongly urges the strengthening of public-private cooperation to create a reinforcing environment for financial inclusion. The services that Benefit offers include:

- Automated Teller Machine (ATM)
- Point of Sale (POS):
- Bahrain Credit Reference Bureau
- Bahrain Cheque Truncation System
- Electronic Fund Transfer System (EFTS)
- Payment Gateway
- Internet Banking Shared Platform
- GCCNet Dispute Management System
- Direct Debit
- Tele Bill Payment through Mobile Phones
- Benefit FinTech Lab

10.1.4 Small and Medium Enterprises Support

In addition to the microfinance institutions, the government continues to support micro, small and medium enterprise financing options through its support initiatives; Bahrain Development Bank, and Tamkeen, which constantly develops ways SMEs can obtain formal financing options suitable to the nature of the enterprises, in addition to providing various means of support. Formalizing SME funding through suitable funding channels in the financial system enables higher financial inclusion, and facilitates higher financial coverage. The crowdfunding initiatives taking place in the Kingdom will help SMEs and start-ups fill gaps in lending and move ahead with developing products and solution which is seen as a vital way both to encourage innovation and support our thriving ecosystem.

10.1.5 FinTech Bay

Bahrain FinTech Bay (BFB) is a FinTech ecosystem launched in February 2018 by The Bahrain Economic Development Board (EDB) and Singapore-based FinTech Consortium (FTC). BFB is dedicated to further develop and accelerate FinTech firms and drive innovation in Bahrain by bringing industry leaders and new entrants to (1) drive innovation, (2) create opportunities for growth and (3) foster the interaction between players in the financial sector, investors, entrepreneurs, and government bodies. BFB provides co-working spaces and other shared infrastructure to attract FinTech start-ups to base themselves within the Kingdom.

10.1.6 E-Wallets

Bahrain's appetite for digital wallets is growing where significant steps have been made in realizing the nation's vision to become a technology pioneer. A number of digital wallets were launched in the Kingdom that allows users to make instant payments via smart phones and also facilitate the collection of payments electronically through debit and credit cards.

Table 10-1: Digital Wallets and Features in the Kingdom

Wallet	Launch	Description	Features
b-wallet	January 2018	Bahrain's digital services provider, Batelco partnered with Arab Financial Services (AFS), to introduce a digital mobile wallet and payment solution for customers in the Kingdom. The digital mobile wallet app enables quick and secure payments through a smartphone app. The user can scan the QR Code available at different merchants to make payment.	• Add money into a user's account using any debit card issued in Bahrain • Send and receive money between b-wallet accounts • Request money from another b-wallet account, and • Make payments to merchants • Pay with your smartphone using QR code. • Available Offers
BenefitPay	May 2017	BenefitPay is an app that works using QR code scanning Technology by allowing users to make safe and secure payments. The service provides a one-time step to add a card and/or bank account and then enables the customer to scan a QR code from the merchant app and enters proper authentication to complete the transaction. BenefitPay also allows for peer-to-peer transactions.	• Make Payments to Merchants • Payments using Credit cards • Through the mobile App payments or websites • P2P transfers through Fawri+ • Bill payments through Fawateer • Pay with your smartphone using QR code. • Available Offers
Max Wallet	July 2017	MaxWallet is a virtual wallet allowing customers to pay for their purchases using their mobile device without presenting their physical credit cards and paying with a smartphone using QR code. The payment solutions have been launched via a collaboration between BBK and CrediMax to focus on providing more services and payment options.	• Transferring money and sharing payments with friends and family. • Make purchase payments to merchants • Pay with your smartphone using QR code. • Available Offers
Viva Cash	March 2018	Viva Bahrain launched Viva Cash, a new application offering consumers secure and convenient a digital mobile wallet for payments. Viva partnered with Sadad Bahrain, licensed and regulated by the CBB. VIVA Cash is a mobile wallet that can be used to pay your day to day expenses.	• Add money to VIVA Cash account • Send Money to friends and Family • Pay post-paid bills & recharge prepaid Lines • Send money internationally • Shop at participating merchants • Pay with your smartphone using QR code • Make purchase payments to merchants • Available Offers

Source: www.batelco.com, www.credimax.com, www.benefit.bh, and https://www.viva.com.bh.

10.1.7 Other Initiatives and Remarks

The financial services sector provides services to various categories of the Bahraini population. All payments made by the government, whether in the form of salaries, wages, social benefits or payments to service providers to government agencies, are through formal bank accounts. Women and young adults face no obstacles or any form of barrier preventing access from the financial sector. The government is also currently working on the development of a system that will formalize the wage distribution of foreign workers employed in the private sector. All private institutions will be obliged to pay salaries to their foreign employees through banks, with control of the payment mechanism to ensure that there is no breach of the obligations of companies towards workers.

Efforts have been made by the CBB to prioritize financial inclusion in terms of adopting and implementing a viable national strategy, improving women's, SME, and young people's access to financial services, promoting the protection of consumers of financial services, improving and providing financial coverage data and statistics to support policy development, and promoting awareness and financial education.

The CBB is also currently undertaking efforts to enhance financial coverage and provide financial services through:

1. Conducting a study within the CBB to examine the Wage Protection System.
2. Granting licenses to two microfinance institutions, namely the Ebdaa Bank and the Family Bank (Microfinance Institutions).

10.1.8 Other Regulatory Framework Developments and Projects

As part of CBB's continuing development of the regulatory framework for the financial system, work was carried out during the year 2018 to strengthen regulatory policies and to develop appropriate regulations to foster innovation within the financial services sector.

- Open Banking regulations were finalized in December 2018. Banks that offer online services must comply by June 2019
- Crypto-asset Platform Operator (CPO): regulations for crypto-assets have been finalized in February 2019 after receiving industry feedback from the consultation period.
- Digital Financial Advice regulations have been issued in January 2019 for consultation, and will be finalized in March 2019.

As part of the Central Bank of Bahrain's ongoing initiatives towards financial digital transformation in the Kingdom and developments in digital financial services, the CBB has started pursuing the following projects:

- E-Dinar Project: The FinTech & Innovation Unit participated in the early stages of the CBB's e-Dinar project working group meetings
- National eKYC Project: FinTech & Innovation Unit working closely alongside Benefit, the iGA and other stakeholders on the national eKYC Utility project
- National Digital Transformation Strategy – National Economic Strategy: The FinTech & Innovation Unit is involved in supporting the national digital transformation strategy and national economic strategy in cooperation with the EDB

The CBB has also joined a number International Agreements and Recognitions:

- The CBB has joined the Global Financial Innovation Network (GFIN) network as part of the coordination group, which is the highest tier of membership
- Abu Dhabi Global Market (ADGM) and CBB signed a MOU to promote and facilitate innovation in financial services in November 2018
- CBB and MAS signed a MOU to foster innovation in financial services between the two countries in November 2018.'
- The CBB is also part of the GCC Secretariat Fintech Working Group, which aims at strengthening and collaborating on FinTech initiatives amongst the GCC.

10.2 Financial Inclusion

Financial inclusion refers to individuals, irrespective of income level, and businesses having access to useful and affordable financial products and services to meet their needs (through transactions, payments, savings, credit and insurance). These products and services have to be delivered in a responsible and sustainable way.

In the recent years, policy-makers and regulators around the world have shown a strong interest in Financial Inclusion. The interest arises from the substantial importance of Financial Inclusion in facilitating access to financial services, creating jobs, and improving the standards of living and economic growth.

Financial inclusion efforts in Bahrain aim to ensure that all businesses and households, have access to and can efficiently use the suitable financial services they need to engage in day-to-day transactions. The CBB closely monitors developments in the areas of financial inclusion and their impact on domestic, regional and global levels and gathers relevant financial inclusion data. The CBB is taking a number of initiatives to further develop indicators related to financial inclusion by expanding (1) the scope of the data and (2) its frequency. The figures in Table 9-2 confirm Bahrain's continued efforts to achieve a higher level of financial inclusion within its financial sector by providing easy access to financial services.

From 2011 to 2017, figures shows that access to finance measured by the number of Branches and ATM machines per 100,000 people within the Kingdom is large. In terms of bank branches per 100,000 people, Bahrain stands at 11.4 for 2017. As for the number of ATM machines per 100,000, Bahrain records 31.7 ATMs per 100,000 in population for 2017.

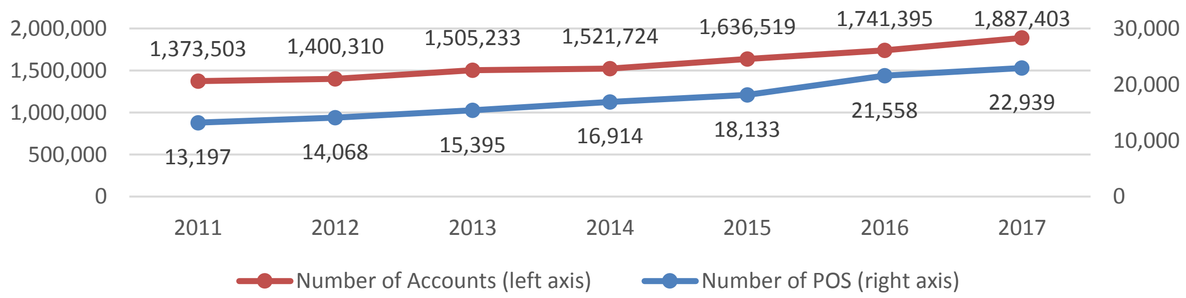
Table 10-2: Financial Inclusion Figures for the Kingdom of Bahrain*

	2011	2012	2013	2014	2015	2016	2017
Number of Banks	29	28	27	27	27	27	26
Number of Branches	136	147	163	167	171	172	171
Number of Branches per 100,000 in population	*11.4*	*12.2*	*13.0*	*12.7*	*12.5*	*12.1*	*11.4*
Number of ATMs	450	462	471	452	458	*461*	*476*
Number of ATMs per 100,000 in population	*37.7*	*38.2*	*37.6*	*34.4*	*33.4*	*32.4*	*31.7*
Number of POS	13,197	14,068	15,395	16,914	18,133	*21,558*	*22,939*
Number of POS per 100,000 in population	*1,104.3*	*1,163.6*	*1,228.5*	*1,286.7*	*1,323.3*	*1,514.2*	*1,528.1*
Number of Accounts **	1,373,503	1,400,310	1,505,233	1,521,724	1,636,519	1,741,395	1,887,403
Number of Accounts per 1,000 in population	*1,149*	*1,158*	*1,201*	*1,158*	*1,194*	*1,223*	*1,257*
Number of internet/PC linked accounts	286,188	313,783	352,982	471,535	468,746	544,111	534,033
ATM Cards (thousands)	1,082.6	1,157.2	1,199.7	1,229.6	1,352.6	1,407.7	1,481.8
Debit Cards (thousands)	898.1	976.4	1,002.2	1,010.0	1,097.2	1,111.2	1,128.5
Credit Cards (thousands)	189.6	187.7	202.3	222	253.3	290.3	329.7
Population	1,195,020	1,208,964	1,253,191	1,314,562	1,370,322	1,423,726	1,501,116

**Retail Banks only (Conventional and Islamic).*
***Includes saving deposits as they are used for payments in Bahrain.*
Source: CBB and IGA.

The number of bank accounts within retail banks increased over the last 6 years from 1,373,503 in 2011 to 1,887,403 in 2017 demonstrating an increase of 34.7% (The 2017 increase in the number of retail bank accounts was 10.6%). The number of POS's over the last 6 years also increased from 13,197 in 2011 to 22,939 in 2017, demonstrating a significant increase of 73.9% (The 2017 increase in POS's was 6.4%).

Chart 10-1: Number Accounts and POS



Source: CBB.

Chapter 11 Cyber Security

Key Highlights

Governance: Approved cyber security strategy?	Identification: Risk management practices in place?	Protection: Cyber security training?	Detection: Perform regular vulnerability scanning?	Response: Have Cyber insurance?
70% Wholesale 76% Retail	70% Wholesale 84% Retail	71% wholesale 92% Retail	57% Wholesale 76% Retail	45% Wholesale 56% Retail

- Cyber risk is a threat to financial stability with increase attacks on financial institution and central banks.
- Cyber risk is ranks the highest of the top 5 risks to the broader economy in 2018.
- The FSD issued a survey in January 2019 to all Wholesale Banks in Bahrain which served both microprudential and macroprudential objectives.
- The survey's scope covered: Governance & Leadership, Identification, Protection, Detection and Response & Recovery.

11.1 Overview

Cyber risk is steadily evolving into a main threat to all industries. Its impact however on the financial services industry is growing into an individually recognised risk by all financial institutions. Given the innovations in information technology (IT) and financial institutions' increased reliance on IT channels, cyber security is no longer regarded as a technical issue but a main threat to the industry.

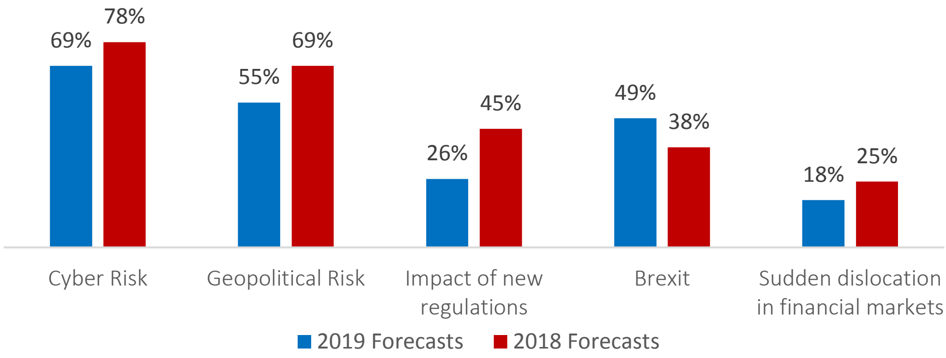
The CBB will therefore be addressing developments in cyber risk as a recurrent chapter in its Financial Stability Report. The aim of the chapter is to Highlight the different initiatives of the Central Bank and actively spread awareness about Cyber Risk by warning the financial industry of the large operational, financial and security risks involved with cyber security.

11.2 Global Overview of Cyber Threats and Disruptions to the Financial Sector

Cyber risk has become a serious threat to financial stability over the past five years, which has resulted in recent attacks on financial institutions and central banks. An IMF working paper published in June 2018 presented cyber risk threats around the world for financial institutions by analysing the different types of cyber incidents (data breaches, fraud and business disruption) and identifying patterns.

Chart 11- 1 below presents the top systemic risks to the broader economy as per DTCC Survey results. The statistics show that cyber risks remain the most threatening risk where 69% of respondents raked it within the top 5 risks, which represents a decrease from the 2018 forecast of 78%. Cyber risk was also cited by 37% of respondents as the 'single' biggest risk to the global economy.

Chart 11-1: Risk to Broader Economy



Source: ORX News; IMF staff calculations.

New technologies and disruptions to the financial system are becoming highly exposed to the cyber-attacks. According to the IMF's recent working paper, the "greater use of technology could also expand the range and numbers of entry points into the financial system, which hackers could target" (*IMF Working Paper WP/18/143*). Numbers show that at least USD 1,450 million in losses were due to fraud since 2013.

As per recent FSB recommendations regarding the growing financial stability implications of FinTech, the FSB has advised that a strong framework to protect financial stability could be achieved by means of e.g. ex-ante contingency plans for cyber-attacks, information sharing, monitoring, and a focus on incorporating cyber-security in the early design of systems (FSB, 2017).

11.3 CBB Cybersecurity Initiatives

11.3.1 TRMST Committee Updates

The TRMST (Technology Risk Management Security Team) is currently working on the "Development of a single Information Technology Module for all CBB licensees". This project is in now being studied by the Regulatory Policy Unit, and a best and most efficient solution for compiling the IT related Rulebook requirements will be decided upon.

The team has also participated in reviewing the "Open Banking" initiative studied by the FinTech and Innovation Unit.

11.3.2 CBB Cyber Security Survey

As part of the CBB's continuous effort to track and assess the resilience of Bahrain's Financial Sector to cyber threats, the FSD issued a cyber-security related survey to all Wholesale Banks in Bahrain (57 Banks) in order to fully evaluate and compare the resiliency and preparedness of Bahrain's banking system to cyber related threats.

I- Survey Scope & Objectives:

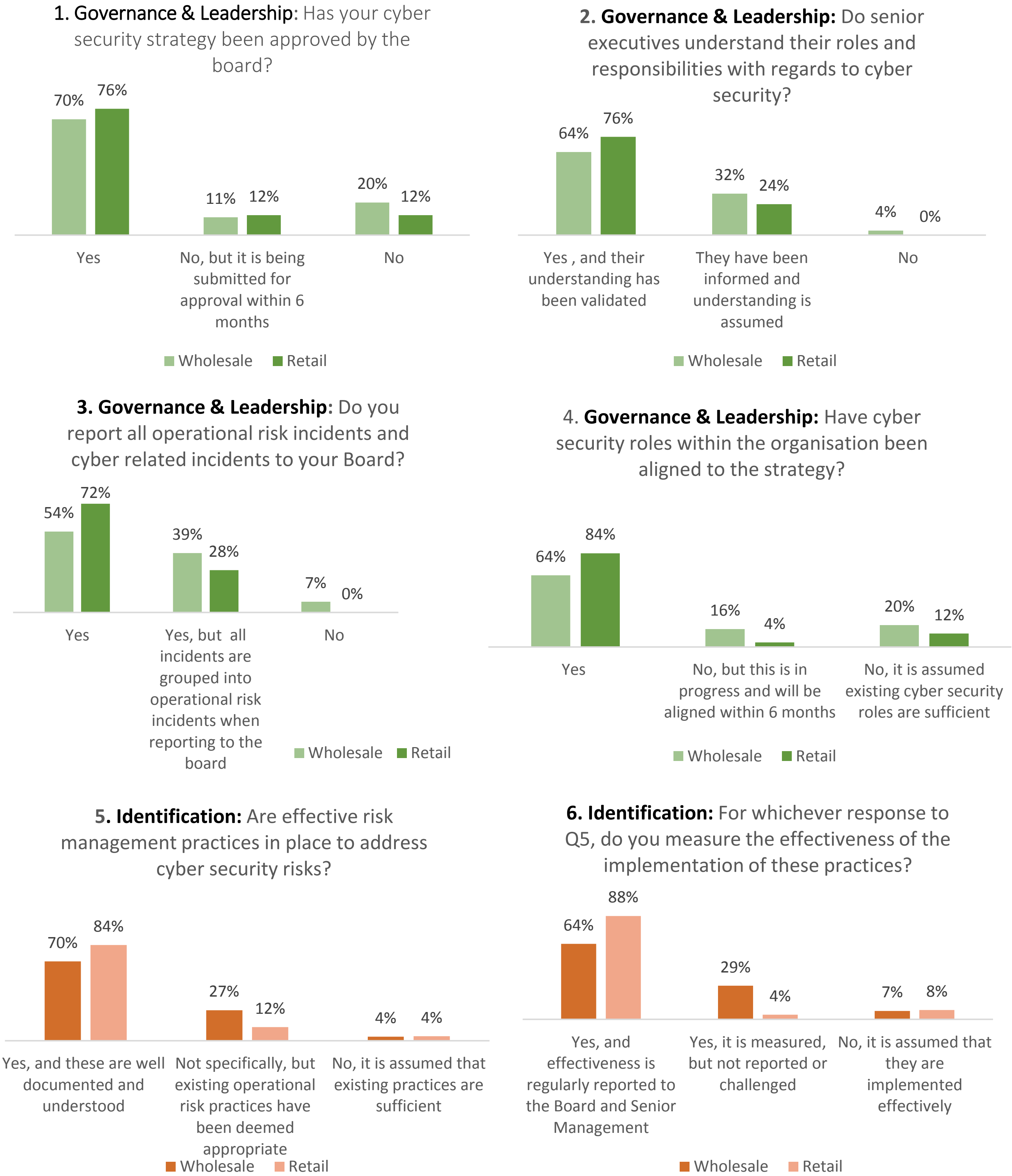
The same survey was distributed to all Retail Banks in Bahrain in July 2018 which served both micro prudential and macro prudential objectives. The initial survey was replicated from the Bank of England's Cyber Resilience Questionnaire with the aim of establishing a good practice and serving as a self-assessment process for supervisors and executive management at banks to evaluate their readiness to cyber related risks. The questionnaire compares how well banks' risk management policies and procedures are aligned to their capabilities and whether or not they are adequate for the types of operational risk incidents and threats that they face. The survey was divided into five parts: Governance & Leadership, Identification, Protection, Detection and Response & Recovery.

II- Key Survey Findings:

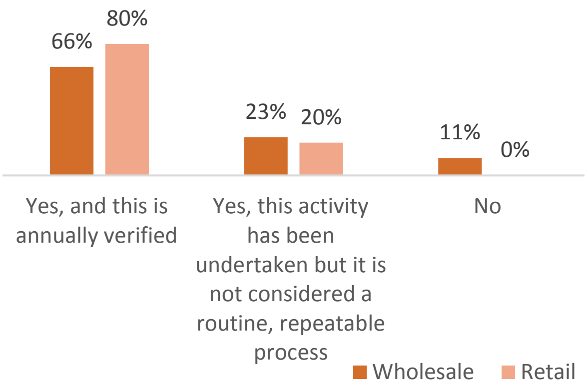
The survey response rate was at 100% and the survey results drew upon some major findings which included the following:

1- 70% of banks reported that their cyber-security strategy has been approved by their Board of Directors and 20% reported that their strategy is not board-approved.
2- 54% of banks report all cyber threats to their Board of Directors while 39% group cyber security incidents into total operational risk incidents.
3- 64% of banks reported that cyber security roles within the organization are aligned with the strategy.
4- 64% of banks measure the effectiveness of the implementation of risk management practices while only 7% do not.
5- 66% of banks have a process to identify critical internal functions, which are annually verified, while 23% of banks do not undertake this exercise on a repeatable basis.
6- 71% of banks reported that they conduct cyber security training to their staff and information which this regard is collected, while 13% of banks only conduct training on an ad-hoc basis.
7- 36% of banks provide additional cyber security training to higher risk staff while 57% of banks do not.
8- Regarding data loss prevention strategy, 55% of banks have a full and documented process and strategy while 39% of banks have a partial data loss prevention strategy which is only aligned to critical systems and data.
9- Only 18% of banks protect and store encrypted 'All' data at rest while 63% of banks only encrypt and store 'critical information/data' at rest.
10- 61% of banks back-up all data in multiple formats while 38% of banks only back-up critical data.
11- 45% of banks purchase cyber-specific insurance, while for 16% of banks this is included in their general property and liability insurance.

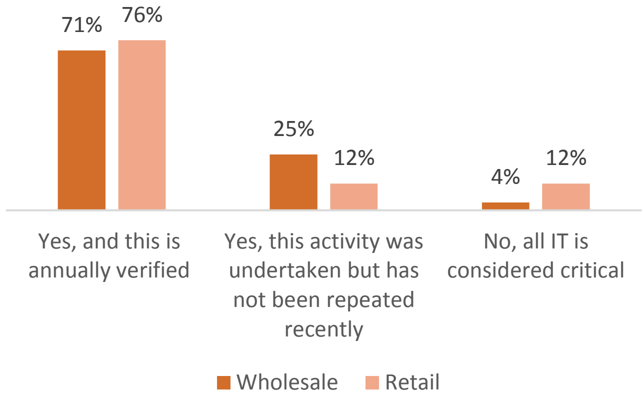
Chart 11-2: CBB Cyber Security Survey Results - Jan. 2019



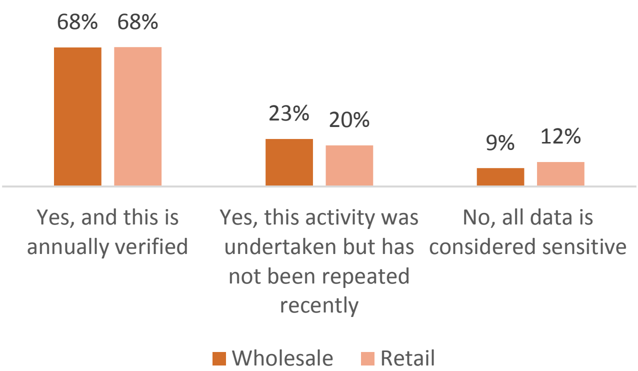
7. Identification: Do you have a process to identify your critical internal functions?



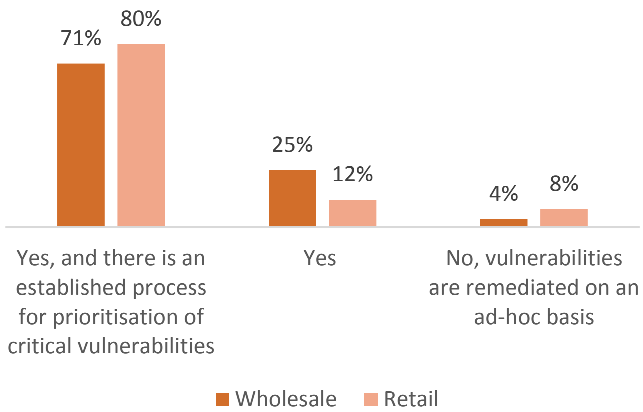
8. Identification: Has all IT supporting the delivery of critical internal functions and processes been identified?



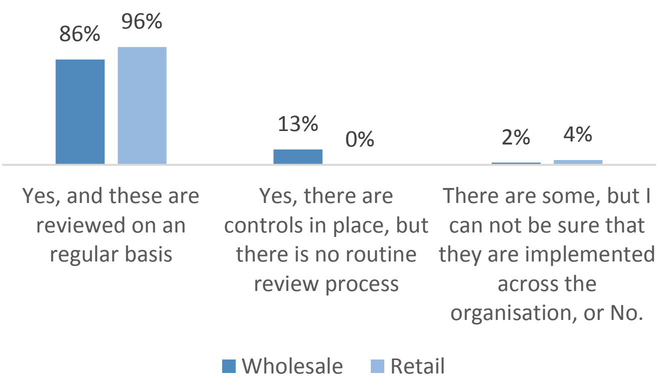
9. Identification: Has the sensitivity and integrity of your data security controls, required for the delivery of critical internal functions, been assessed?



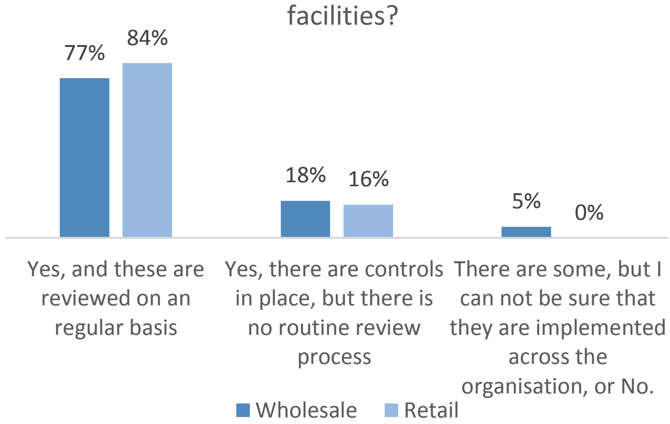
10.Identification: Are hardware and software vulnerabilities identified, documented and remediated?



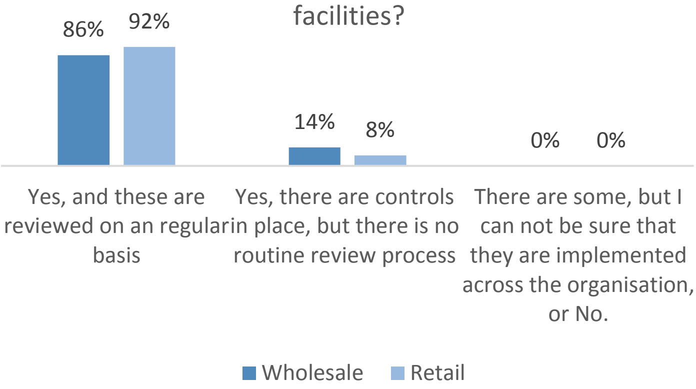
11. Protection: Are effective physical access controls implemented, maintained and monitored across your organisation's facilities?



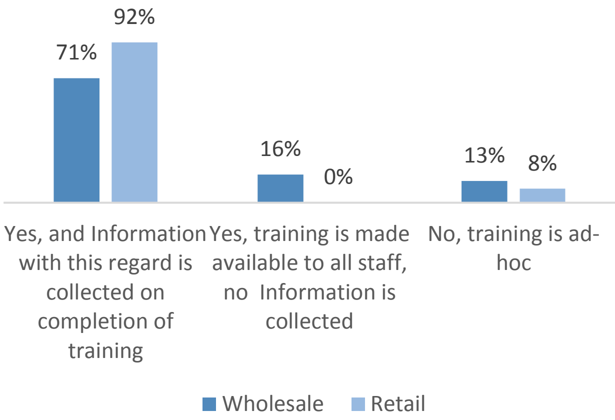
12. Protection: Are effective remote access controls implemented, maintained and monitored across your organisation's facilities?



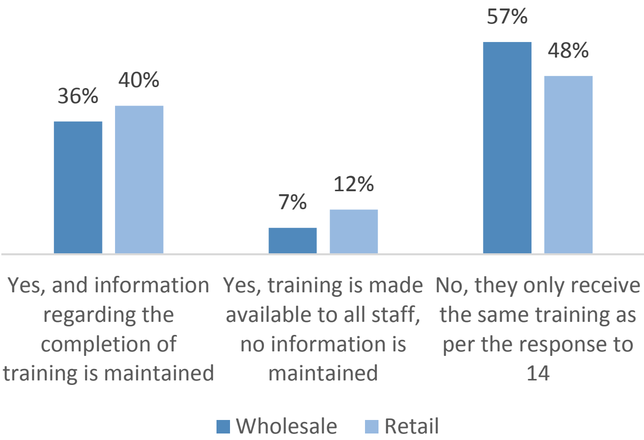
13. Protection: Are effective privileged user access rights implemented, maintained and monitored across your organisation's facilities?



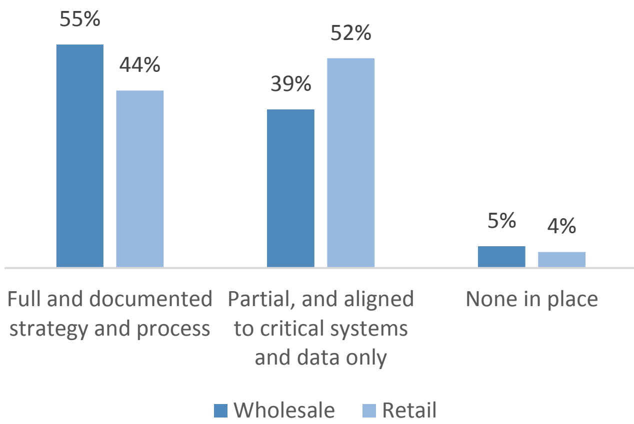
14. Protection: Are all staff provided with cyber security training?



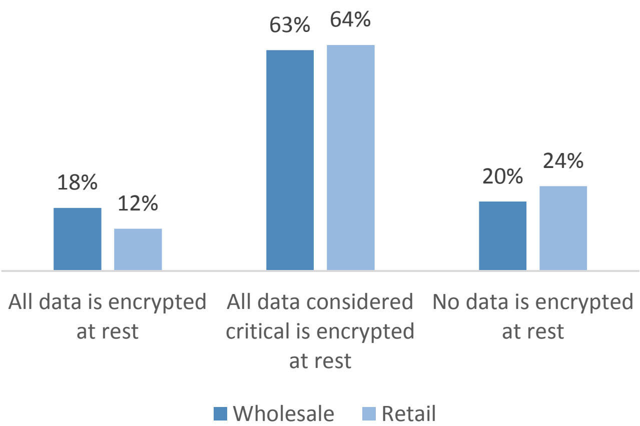
15. Protection: Is additional training provided to higher risk staff?



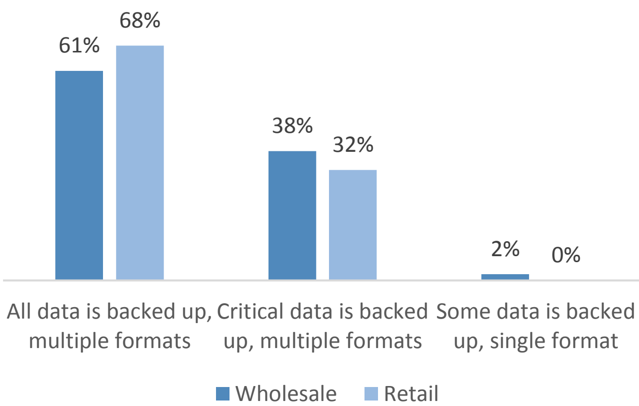
16. Protection: Which option best describes your data loss prevention strategy?



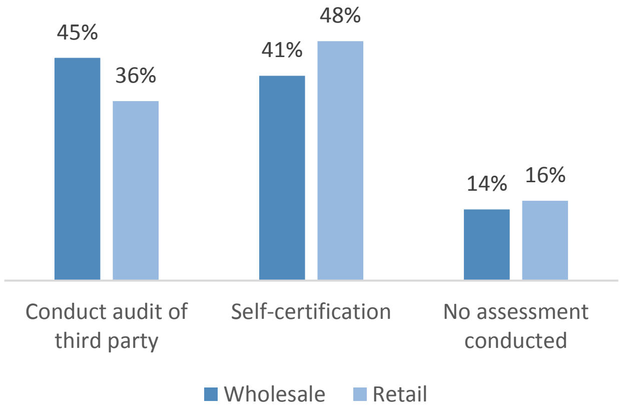
17. Protection: Which option best describes how data is stored?



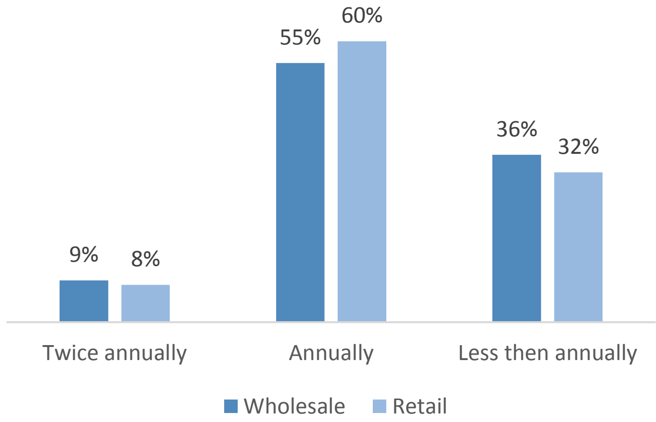
18. Protection: Which option best describes your data back-up process?



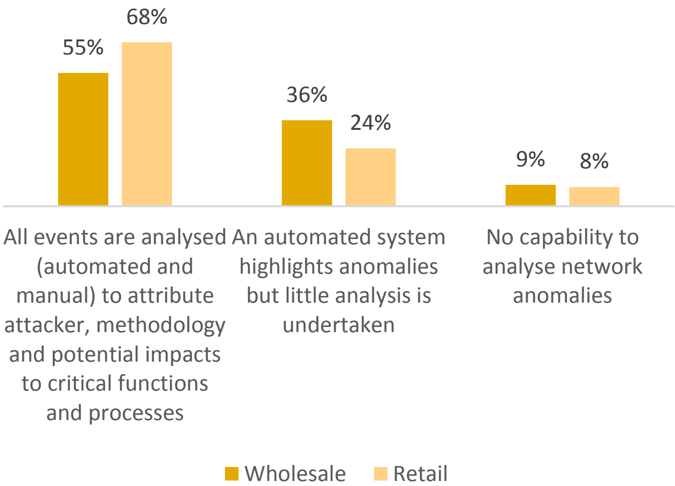
19. Protection: How do you assess third-party providers' security capabilities?



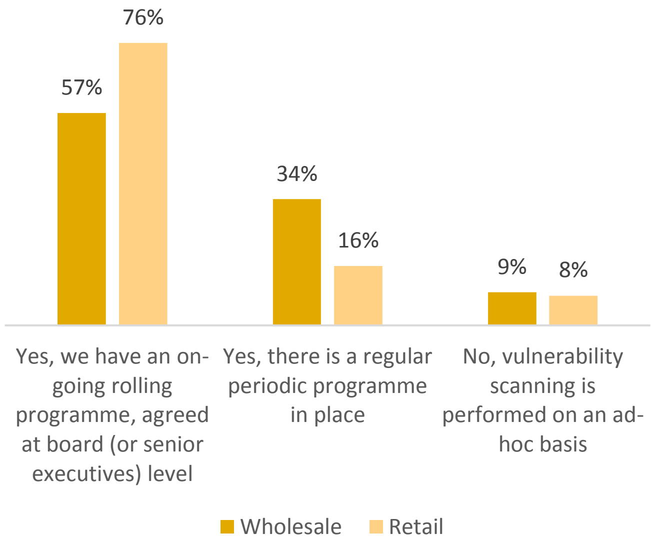
20. Protection: How often are these assessments carried out?



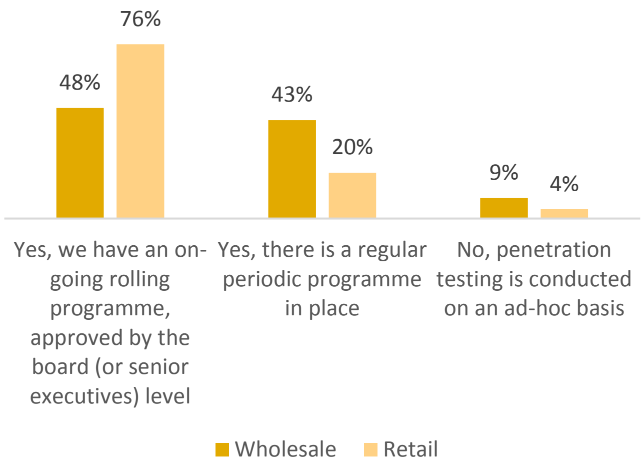
21. Detection: Which option best describes your network detection and monitoring processes and controls?



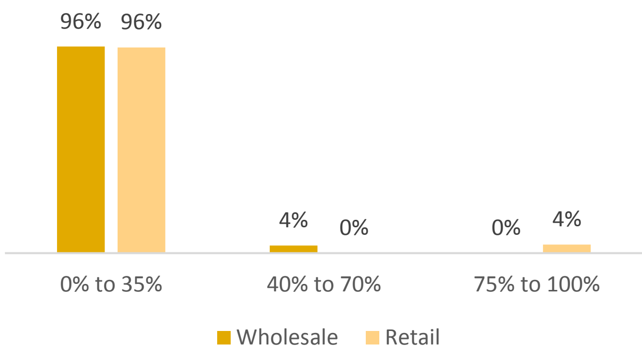
22. Detection: Do you perform regular vulnerability scanning?



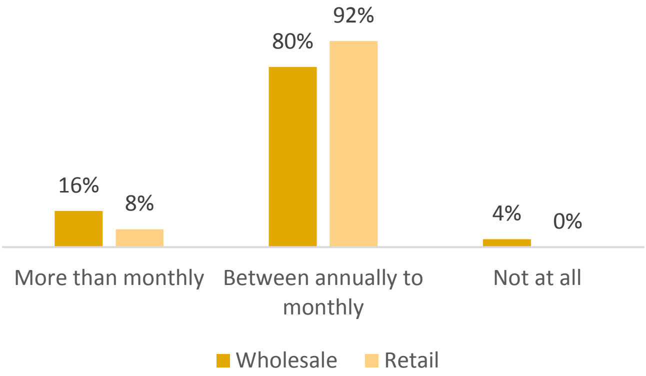
23. Detection: Do you perform regular penetration testing?



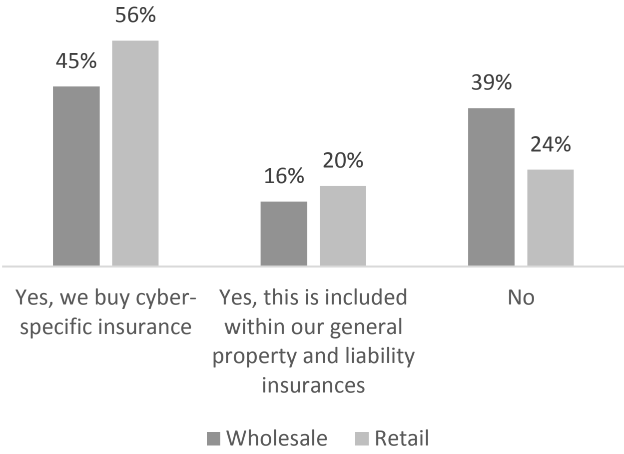
24. Detection: Approximately what proportion of your organisation's operational risk incidents were cyber security related over the past 6 months?



25. Detection: Describe how frequently you undertake vulnerability scanning and penetration testing and ensure that both are effective.

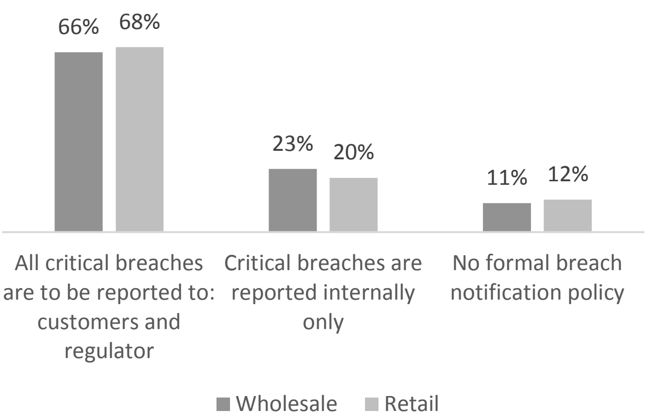


26. Response & Recovery: Do you buy cyber insurance?



27. Response & Recovery : Do you have a documented and regularly tested response plan (business continuity, disaster recovery and/or cyber incident response)?

28. Response & Recovery: Describe your data breach notification policy?



Annex:

Financial Soundness Indicators and Selected Graphs

Annex 1: Financial Soundness Indicators

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

(End of period)

Indicator	Dec-17	Jun-18	Dec-18
Capital Adequacy			
CAR (%) *	19.5	19.2	18.9
Tier 1 CAR (%) *	18.2	17.8	17.6
Leverage (Assets/Capital) (Times) *	6.8	7.1	7.2
Asset Quality			
NPLs (% of Total Loans)	5.6	5.6	5.5
Specific Provisions (% of NPLs)	52.8	57.9	61.2
Loan Concentration (Share of Top Two Sectors) (%)	30.0	29.7	29.3
Real Estate/ Construction Exposure (%) **	24.1	25.2	25.8
Earnings			
ROA (%)	1.1	0.6	1.0
ROE (%) ***	7.1	4.0	6.7
Net Interest Income (% of Total Income) ****	67.2	59.6	67.3
Net Fees & Commissions (% of Total Income) ****	16.9	20.8	16.1
Operating Expenses (% of Total Income)	57.7	62.4	63.5
Liquidity			
Liquid Assets (% of Total Assets)	24.0	24.1	24.1
Loan-Deposit Ratio (%)	71.0	73.2	72.1

** Locally-Incorporated Banks only.*
*** Real Estate/ Construction exposure is calculated as the share of the construction, commercial real estate financing, and residential mortgages sectors of total lending.*
****ROE is defined as net profit over Tier 1 Capital.*
***** Conventional Banks only.*
Source: CBB.

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

(End of period)

Indicator	Dec-17	Jun-18	Dec-18
Capital Adequacy			
CAR (%) *	21.0	20.0	20.9
Tier 1 CAR (%) *	19.4	18.4	19.4
Leverage (assets/capital) (Times) *	6.4	6.7	6.4
Non-Performing Loans Net Provisions to Capital (%) *	6.0	6.6	5.8
Asset Quality			
NPLs (% of Total Loans)	5.5	5.8	5.5
Specific Provisions (% of NPLs)	50.6	54.3	63.8
Net NPL' (% of Net Loans)	2.8	2.8	2.1
Loan Concentration (Share of Top Two Sectors) (%)	34.2	33.9	33.1
Real Estate/ Construction Exposure (%) **	30.8	30.7	30.7
Earnings			
ROA (%)	1.5	0.8	1.5
ROA Local Banks (%)	1.9	1.1	2.1
ROA Overseas Banks (%)	0.9	0.2	0.4
ROE (%) ***	13.0	8.0	14.3
Net Interest Income (% of Total Income)	75.8	75.3	77.2
Net Fees & Commissions (% of Total Income)	13.8	11.7	11.7
Operating Expenses (% of Total Income)	47.8	50.7	51.6
Liquidity			
Liquid Assets (% of Total Assets)	34.1	33.9	32.9
Liquid Assets (% of Short-Term Liabilities)	43.4	42.7	41.3
Loan-Deposit Ratio (%)	71.3	69.6	69.6
Non-Bank Deposits (% of Total Deposits)	80.1	80.2	80.3

** Locally-Incorporated Banks only.*
*** Real Estate/ Construction exposure is calculated as the share of the construction, commercial real estate financing, and residential mortgages sectors of total lending.*
**** ROE is defined as net profit over Tier 1 Capital (Locally-Incorporated Banks only).*
Source: CBB.

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

(End of period)

Indicator	Dec-17	Jun-18	Dec-18
Capital Adequacy			
CAR (%) *	19.2	18.4	18.1
Tier 1 CAR (%) *	18.3	17.4	17.3
Leverage (assets/capital) (Times) *	6.7	7.1	7.4
NPLs Net Provisions to Capital (%) *	4.5	4.9	6.2
Asset Quality			
NPLs (% of Total Loans)	5.4	5.3	5.7
Specific Provisions (% of NPLs)	59.0	66.6	67.9
Net NPL' (% of Net Loans)	2.3	1.9	1.9
Loan Concentration (Share of Top Two Sectors) (%)	36.4	37.7	39.0
Real Estate/ Construction Exposure (%) **	18.9	21.0	23.2
Earnings			
ROA (%)	0.9	0.4	0.7
ROA Local Banks (%)	0.5	0.2	0.1
ROA Overseas Banks (%)	1.4	0.7	1.3
ROE (%) ***	3.8	1.7	0.8
Net Interest Income (% of Total Income)	58.3	45.4	56.2
Net Fees & Commissions (% of Total Income)	23.1	34.2	22.5
Operating Expenses (% of Total Income)	54.6	67.5	68.0
Liquidity			
Liquid Assets (% of Total Assets)	19.6	21.9	23.0
Liquid Assets (% of Short-Term Liabilities)	28.9	27.7	29.0
Loan-Deposit Ratio (%)	66.4	65.8	64.2
Non-Bank Deposits (% of Total Deposits)	49.6	50.3	49.1

** Locally-Incorporated Banks only.*
*** Real Estate/ Construction exposure is calculated as the share of the construction, commercial real estate financing, and residential mortgages sectors of total lending.*
**** ROE is defined as net profit over Tier 1 Capital (Locally-Incorporated Banks only).*
Source: CBB.

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

(End of period)

Indicator	Dec-17	Jun-18	Dec-18
Capital Adequacy			
CAR (%)	18.6	18.1	17.6
Tier 1 CAR (%)	15.5	15.1	14.6
Leverage (Assets/Capital) (Times)	8.5	8.8	9.7
NPFs Net Provisions to Capital (%)	33.6	32.5	34.8
Asset Quality			
NPFs (% of Total Facilities)	10.0	10.4	9.5
Specific Provisions (% of NPFs)	35.9	43.5	38.6
Net NPFs (% of Net Facilities)	6.7	6.3	6.1
Facilities Concentration (Share of Top Two Sectors) (%)	35.7	32.8	31.9
Real Estate/ Construction Exposure (%) *	27.0	28.7	28.0
Earnings			
ROA (%)	0.6	0.3	0.6
ROE (%) **	6.1	2.5	6.8
Net Income from Own Funds, Current Accounts and Other Banking Activities (% of Operating Income)	61.8	56.0	59.7
Net income from Jointly Financed Accounts and Mudarib Fees (% of Operating Income)	37.3	42.2	39.2
Operating Expenses (% of Total Income)	78.2	77.5	78.5
Liquidity			
Liquid Assets (% of Total Assets)	12.0	14.5	14.1
Facility-Deposit Ratio (%)	89.8	92.1	94.8
Current Accounts from Non-Banks (% of Non-Capital Liabilities, excl. URIA)	30.2	26.9	23.4

** Real Estate/ Construction exposure is calculated as the share of the construction, commercial real estate financing, and residential mortgages sectors of total lending.*
*** ROE is defined as net profit over Tier 1 Capital.*
Source: CBB.

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

(End of period)

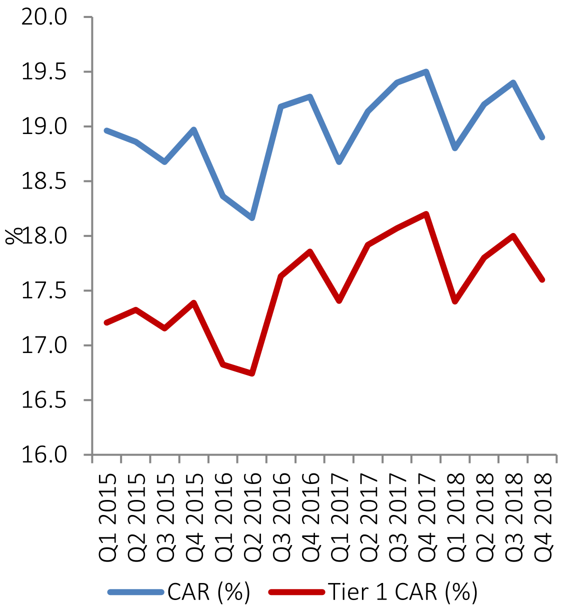
Indicator	Dec-17	Jun-18	Dec-18
Capital Adequacy			
CAR (%)	18.3	20.2	18.1
Tier 1 CAR (%)	17.7	19.0	17.0
Leverage (Assets/Capital) (Times)	6.7	6.6	7.0
NPFs Net Provisions to Capital (%)	1.0	1.0	1.0
Asset Quality			
NPFs (% of Total Facilities)	2.6	1.8	1.3
Specific Provisions (% of NPFs)	86.5	85.3	79.6
Net NPFs (% of Net Facilities)	0.4	0.3	0.3
Facilities Concentration (Share of Top Two Sectors) (%)	40.4	34.9	43.7
Real Estate/ Construction Exposure (%) **	19.6	21.3	19.8
Earnings			
ROA (%)	0.9	0.6	1.0
ROE (%) ***	6.2	3.9	6.8
Net income from own funds, current accounts and other banking activities (% of operating income)	57.7	60.7	58.4
Net income from jointly financed accounts and Mudarib fees (% of operating income)	41.2	37.9	40.4
Operating expenses (% of total income)	70.0	66.2	70.9
Liquidity			
Liquid Assets (% of Total Assets)	22.4	13.4	12.6
Facility-Deposit Ratio (%)	60.4	80.4	75.2
Current Accounts from Non-Banks (% of Non-Capital Liabilities, excl. URIA)	44.5	42.5	40.5

** Real Estate/ Construction exposure is calculated as the share of the construction, commercial real estate financing, and residential mortgages sectors of total lending.*
*** ROE is defined as net profit over Tier 1 Capital.*
Source: CBB.

Annex 2: Selected Graphs

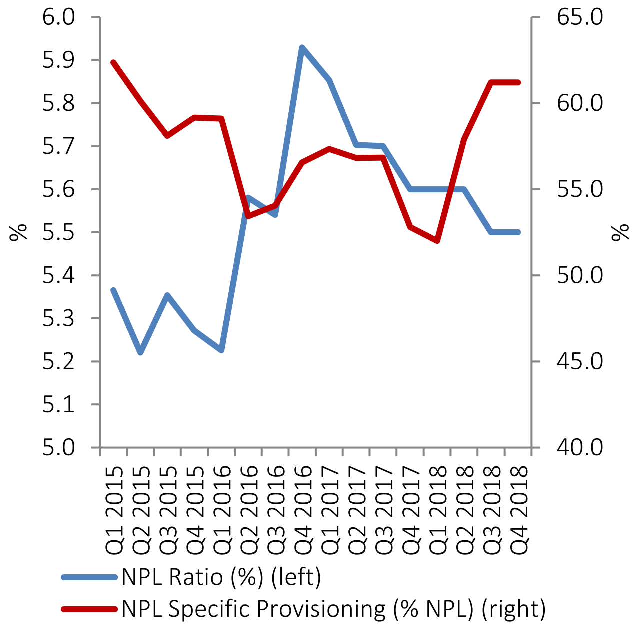
A. Overall Banking Sector

Annex 2 Graph 1: CAR



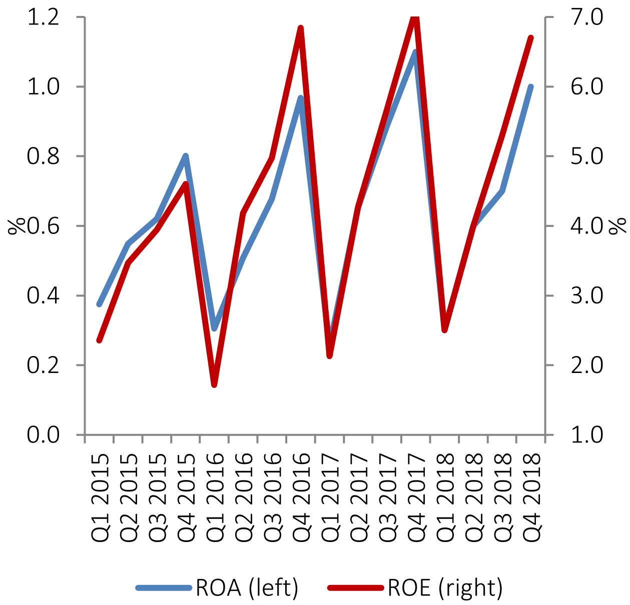
Source: CBB.

Annex 2 Graph 2: NPLs and Provisioning



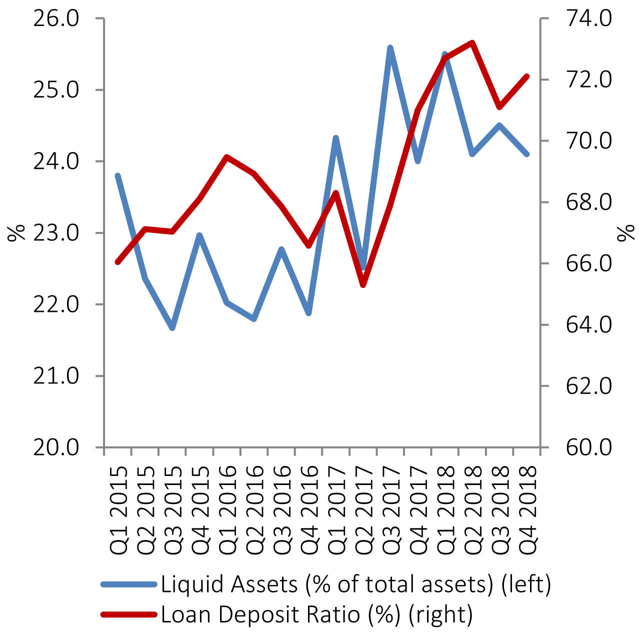
Source: CBB.

Annex 2 Graph 3: Profitability



Source: CBB.

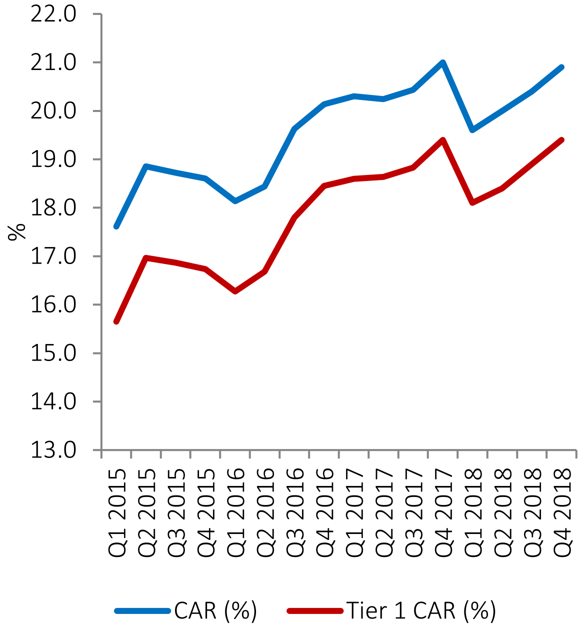
Annex 2 Graph 4: Liquidity



Source: CBB.

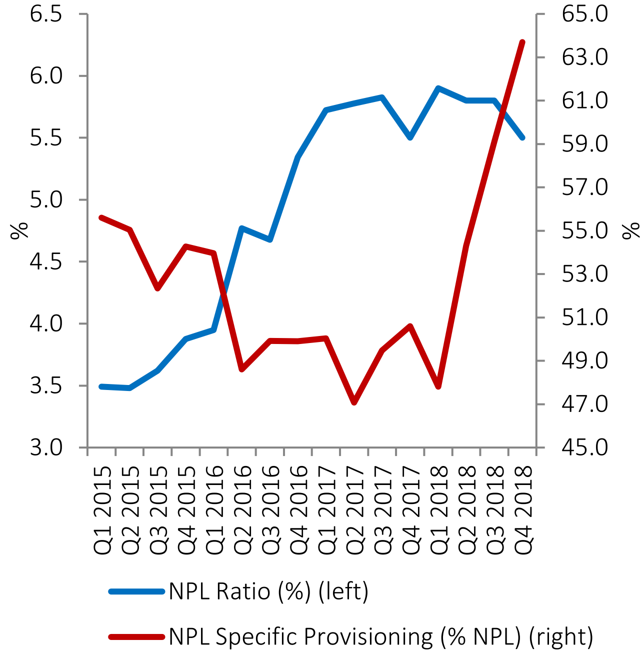
B. Conventional Retail

Annex 2 Graph 5: CR Banks' CAR



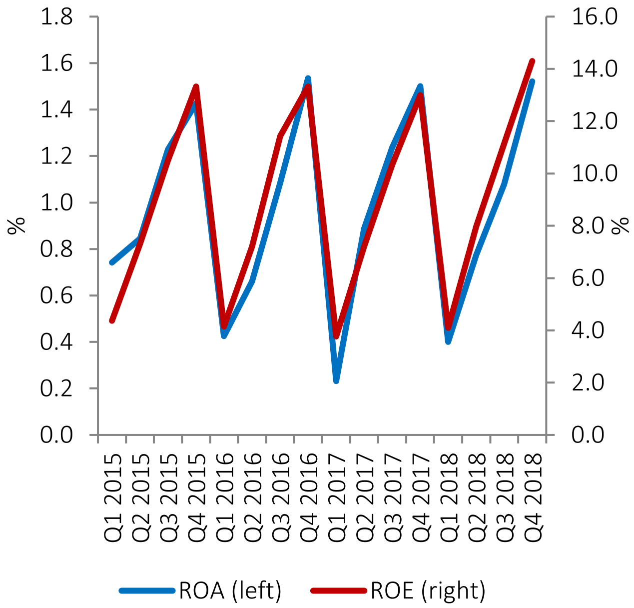
Source: CBB.

Annex 2 Graph 6: CR Banks' NPLs and Provisioning



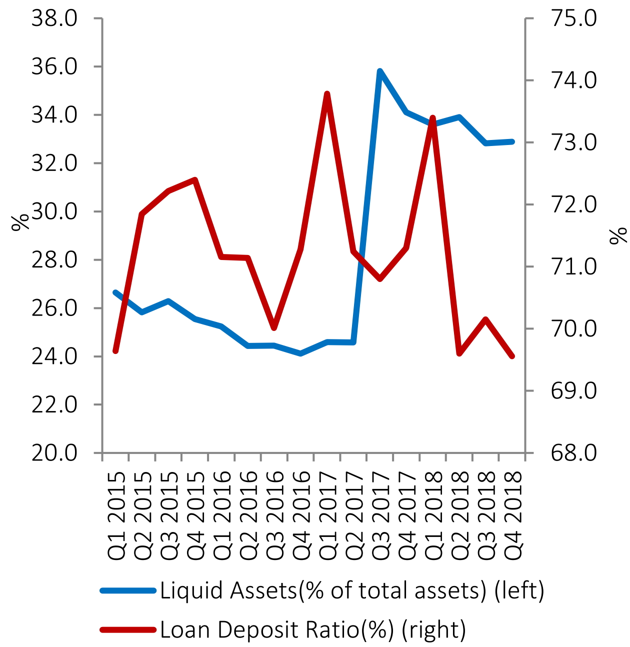
Source: CBB.

Annex 2 Graph 7: CR **Banks'** Profitability



Source: CBB.

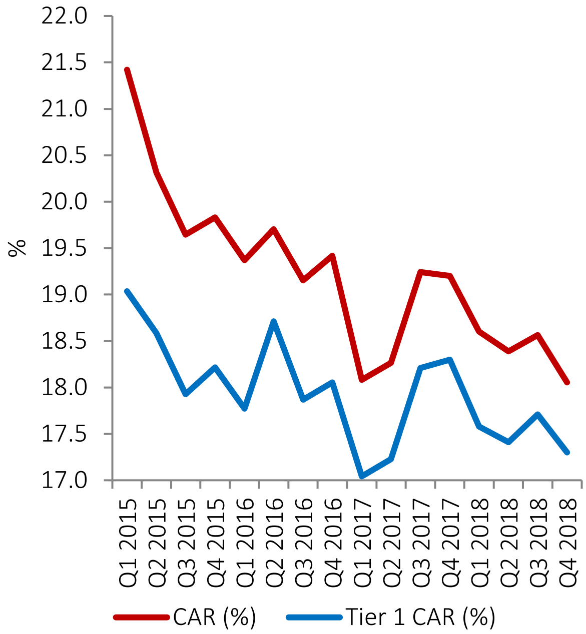
Annex 2 Graph 8: CR Bank's Liquidity



Source: CBB.

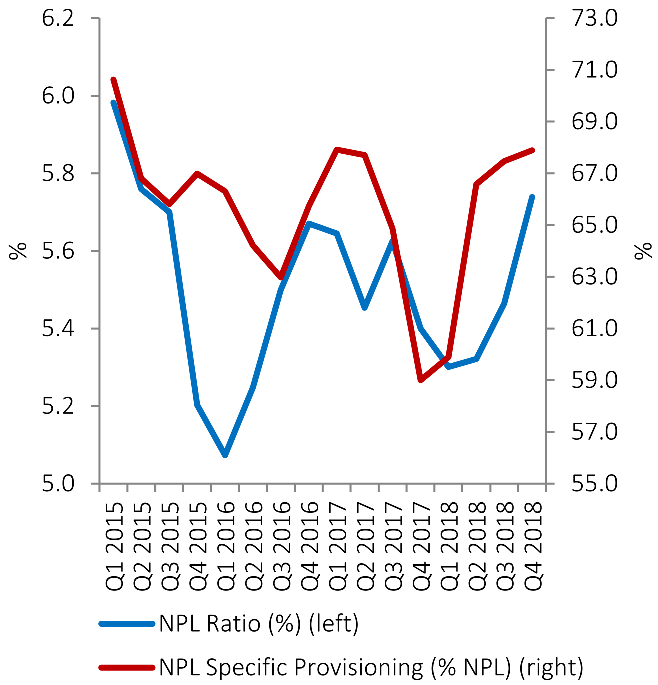
C. Conventional Wholesale

Annex 2 Graph 9: CW Banks' CAR



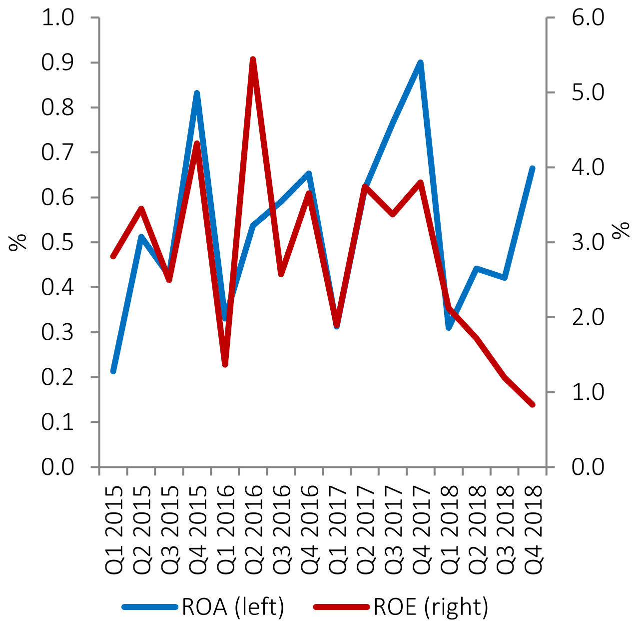
Source: CBB.

Annex 2 Graph 10: CW Banks' NPLs and Provisioning



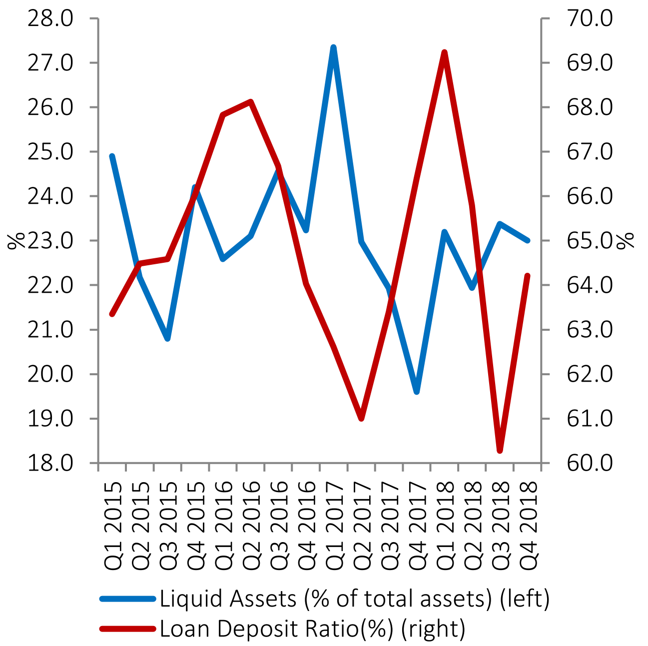
Source: CBB.

Annex 2 Graph 11: CW Banks' Profitability



Source: CBB.

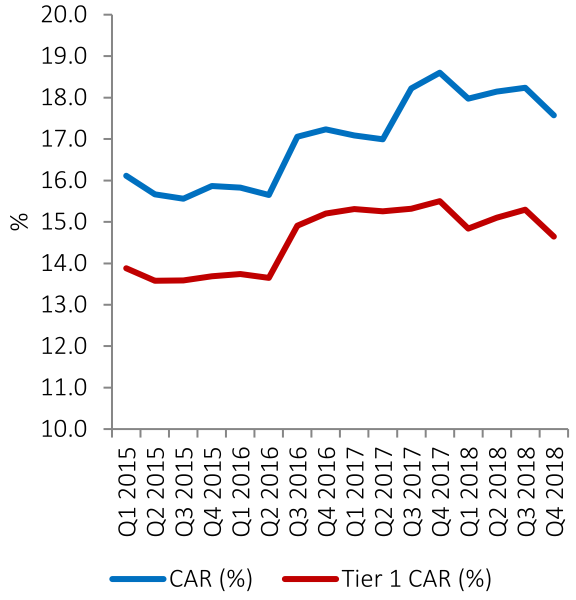
Annex 2 Graph 12: CW Banks' Liquidity



Source: CBB.

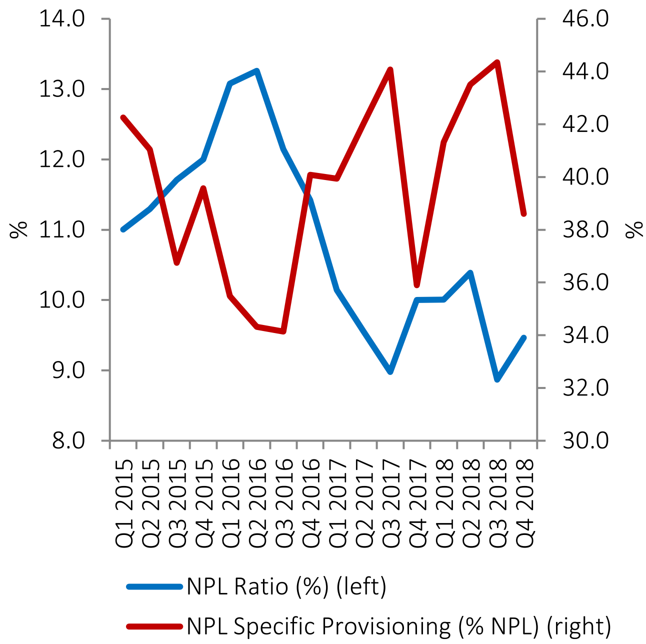
D. Islamic Retail

Annex 2 Graph 13: IR Bank's CAR



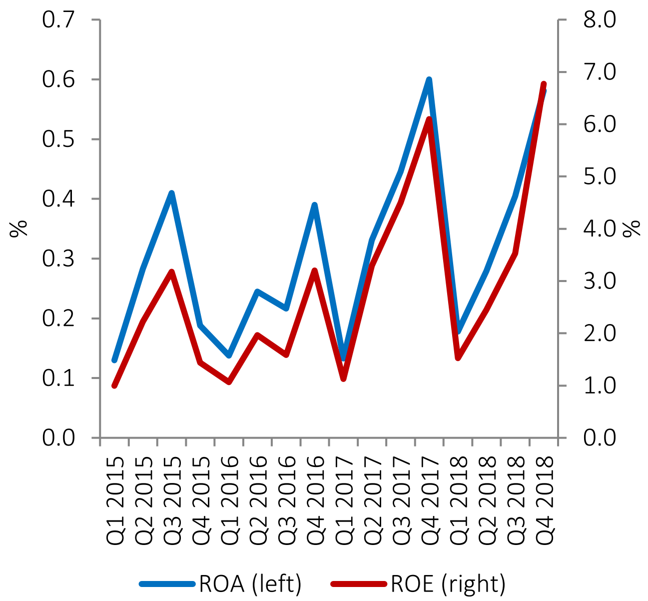
Source: CBB.

Annex 2 Graph 14: IR Banks' NPFs and Provisioning



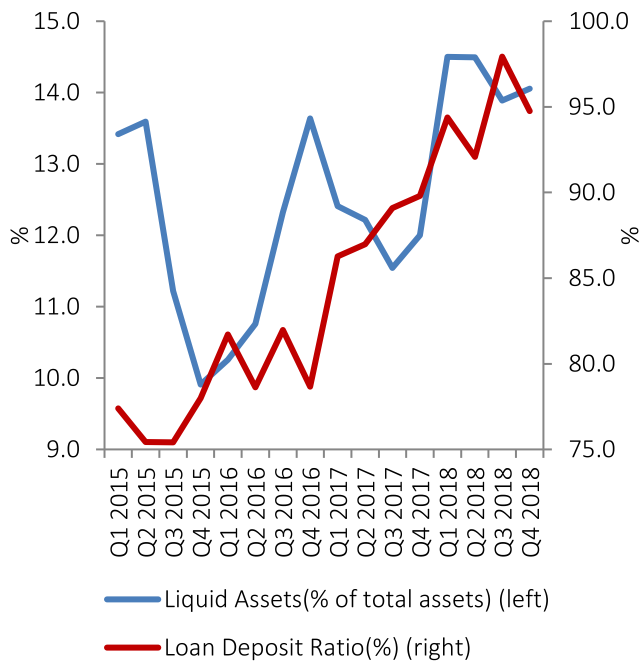
Source: CBB.

Annex 2 Graph 15: IR Bank's Profitability



Source: CBB.

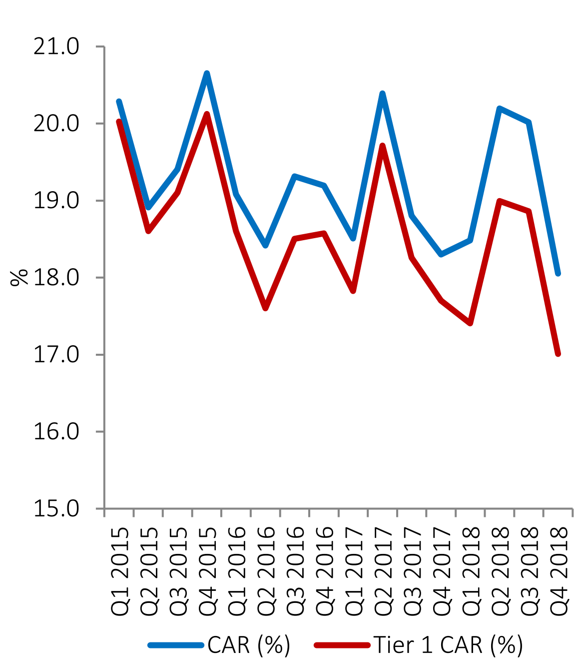
Annex 2 Graph 16: IR Banks' Liquidity



Source: CBB.

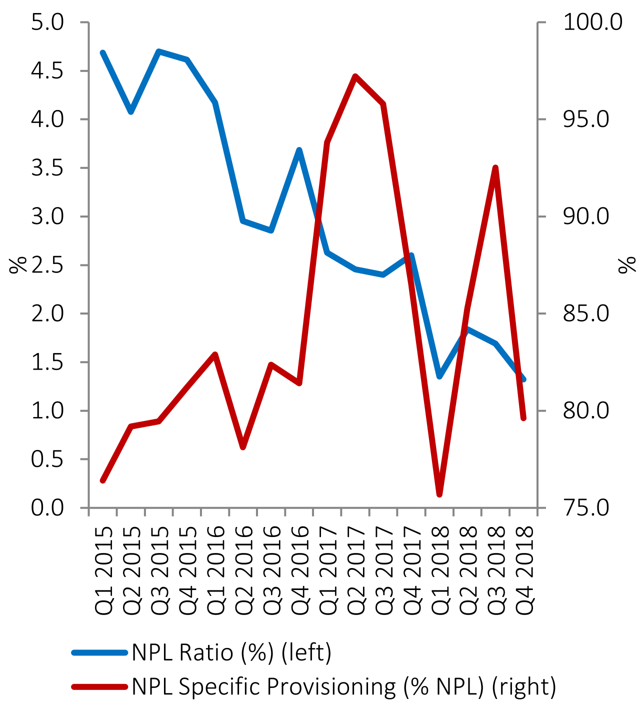
E. Islamic Wholesale

Annex 2 Graph 17: IW Banks' CAR



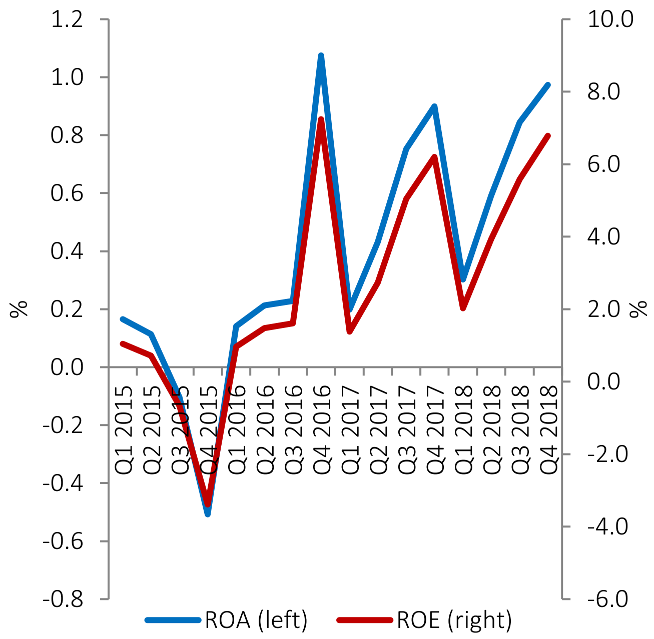
Source: CBB.

Annex 2 Graph 18: IW Banks' NPFs and Provisioning



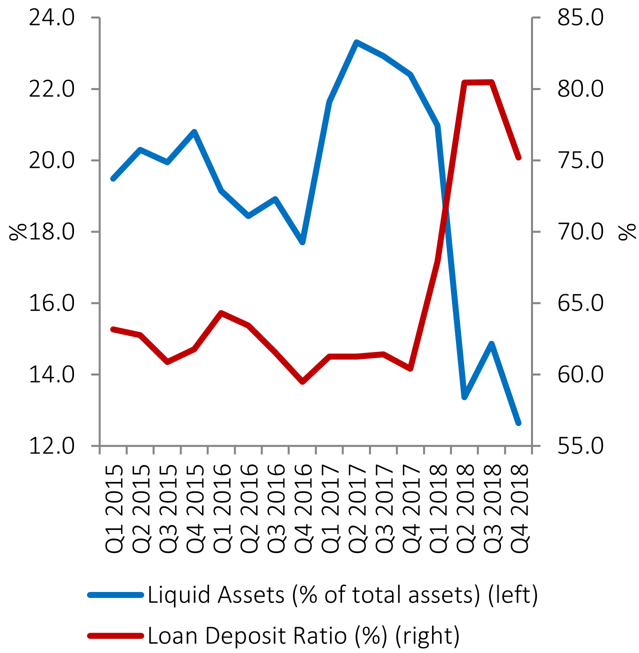
Source: CBB.

Annex 2 Graph 19: IW Banks' Profitability



Source: CBB.

Annex 2 Graph 20: IW Banks' Liquidity



Source: CBB.

List of Acronyms

Acronym	Description
ATM	ATM Clearing System
BCTS	Bahrain Cheque Truncation System
BENEFIT	The Benefit Company
BFB	Bahrain Fintech Bay
BSE	Bahrain Stock Exchange
CAR	Capital Adequacy Ratio
CBB	Central Bank of Bahrain
CMSD	Capital Markets Supervision Directorate
CRB	Conventional Retail
CW	Conventional Wholesale
DSIBs	Domestically Systemically Important Banks
EBPP	Electronic Bill Presentment and Payment System
EFTS	Electronic Fund Transfer System
EU	European Union
FinTech	Financial Technology
FSC	Financial Stability Committee
FSD	Financial Stability Directorate
FSIs	Financial Soundness Indicators
FSR	Financial Stability Report
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
GP	Gross Premiums
IBAN	International Bank Account Number
IGA	Information and E-Government Authority
IMF	International Monetary Fund
IR	Islamic Retail
IW	Islamic Wholesale
JYP	Japanese Yen
LCR	Liquidity Coverage Ratio
NFA	Net Foreign Assets
NPW	Net Premiums Written
NPF	Non-performing Facilities
NPL	Non-performing Loans
NSFR	Net Stable Funding Ratio
P/E ratio	Price Earnings Ratio
PFMI	Principles for Financial Market Infrastructures
POS	Point of Sale
ROA	Return on Assets
ROE	Return on Equity
RTGS	Real Time Gross Settlement
RWA	Risk Weighted Assets
SMEs	Small Medium Enterprises
SSSS	Scripless Securities Settlement System
TRMST	Technology Risk Management Security Team