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1. Monetary Policy Developments

Overview

Monetary Policy Management

Domestic Interest Rates

Public Debt Issuance
1.1 Overview

During 2018, the Central Bank of Bahrain (“CBB”) continued to use a number of monetary policy measures aimed at maintaining the smooth functioning of financial markets in Bahrain. These measures included a range of monetary policy instruments as well as interest rate actions.

1.2 Monetary Policy Management

Monetary Policy Committee

The CBB Monetary Policy Committee (“MPC”) met on a weekly basis throughout 2018. The MPC closely evaluated economic and financial developments, monitored liquidity conditions, provided recommendations for monetary policy instruments and set interest rates on facilities offered by the CBB.

Reserve Requirements

All retail banks are required to maintain, on a monthly basis, a specific percentage of their non-bank deposits (denominated in Bahraini dinars), in a non-interest-bearing account at the CBB. During 2018, the reserve requirement percentage remained unchanged from 5%.

The total banks’ Reserve Requirement balance outstanding in December 2018 was BD 462.953 million, compared to BD 471.922 million in December 2017, with a 1.9% decrease.

1.3 Domestic Interest Rates

Key Policy Interest Rates

In 2018, the CBB raised its key policy interest rates on:

21st March 2018 from 1.75% to 2.00%. It also decided to increase the overnight deposit rate from 1.50% to 1.75% and adjust both the one-month deposit rate from 2.40% to 2.65% , and the lending rate from 3.50% to 3.75%.

13th June 2018 from 2.00% to 2.25%. It also decided to increase the overnight deposit rate from 1.75% to 2.00% and adjust both the one-month deposit rate from 2.65% to 3.00% , and the lending rate from 3.75% to 4.00%.
26th September 2018 from 2.25% to 2.50%. It also decided to increase the overnight deposit rate from 2.00% to 2.25% and adjust both the one-month deposit rate from 3.00% to 3.25% , and the lending rate from 4.00% to 4.25%.

13th December 2018 from 2.50% to 2.75%. It has also decided to increase the overnight deposit rate from 2.25% to 2.50% and adjust the lending rate from 4.25% to 4.50%, with the one-month deposit rate remaining unchanged at 3.25%.

**Standing Facility**

The standing facilities are a set of deposit and lending instruments the CBB offers to all retail banks.

The total outstanding convetional retail banks’ deposits with the CBB as in December 2018 was BD 416.440 million, compared to BD 566 million in December 2017, with a 26% decrease.

**Wakalah**

Is a Shariah-compliant liquidity management tool for Islamic retail banks that was approved by the Shariah Board of the CBB. It is considered to be the first of its kind in the region and aims to absorb excess liquidity of the local Islamic retail banks by placing it with the CBB.

The total outstanding balance of Wakalah deposited by Islamic Banks was BD 114.1 million in December 2018, compared to BD 70.9 million in December 2017, with a 61% increase.

**Inter-bank Repo**

As part of the ongoing efforts towards the development of the banking sector and promoting liquidity management for conventional retail banks, the CBB launched a new liquidity management tool ‘Interbank Repurchase’ (Inter-bank Repo) for the Government of Bahrain conventional securities denominated in Bahraini Dinars.

Through an Inter-bank Repo transaction; the bank which requires liquidity can sell its government of Bahrain securities to the bank which provides liquidity for a pre-defined period and an agreed price. On the Repo closing date, the system will automatically execute the closing leg to return securities to the original Deliverer and funds to the original Receiver (Payee). The transfer and settlement of securities and the transfer and settlement of funds occurs through the Scripless Securities Settlement (SSS) System and the Real Time Gross Settlement System (RTGS) operated by the CBB.
Interbank Rates

As at end 2018, the 3-month BHIBOR rate was 3.95%, compared to 2.725% at end 2017. The 6 month BHIBOR rate was 4.08%, compared to 2.90% at end 2017.

1.4 Public Debt Issuance

In accordance with the Central Bank of Bahrain (CBB) Law, the CBB issues, on behalf of the Government of Bahrain, short and long-term debt instruments, which include Treasury Bills, Government Bonds, Sukuk AlSalam and Ijara Sukuk. The issuance of all government debt securities is executed in coordination with the Ministry of Finance and National Economy (MOFNE).

During 2018 the CBB issued conventional 3-month Treasury Bills, denominated in Bahraini dinars, on a weekly basis, with an issue amount of BD 70 million. Six (6)-month Treasury Bills were also issued, on a monthly basis, with an issue amount of BD 35 million and 12-month Treasury Bills with an issue amount of BD 100 million.

The CBB also issued, on a monthly basis, three-month Sukuk AlSalam for BD 43 million and six-month Ijara Sukuk for BD 26 million.

During 2018, the CBB, at the request of the MOFNE, issued domestic and international government development bonds and Sukuks for different maturities, as follows:

- Local development bond with an issue amount of BD 300 million on May 3rd, 2018, with a maturity of 2 years, and a fixed-rate of 5.50%.
- Local development bond with an issue amount BD 150 million on August 5th, 2018, with a maturity of 3 years, at a fixed rate of 6.55%.
- Local Ijara Sukuk with an issue amount of BD 100 million on January 8th, 2018, with a maturity of 3 years, and a fixed-return of 4.80%.
- On April 5th, 2018, the Kingdom of Bahrain raised $1bn in a 7.5 year Islamic Ijara Murabaha Sukuk priced at 6.875%.
- Also, CBB arranged to issue Private Placements as follows:
- On 23rd April, 2018, USD $ 500 Million Private Placement for a period of 5 years.

- On 10th September, 2018, USD $ 500 Million Private Placement in the form of Ijara Murabaha Sukuk for a period of 3 years.

- The total BHD local issuances for 2018 reached BD 5.798 billion compared to BD 5.723 billion in 2017 with a 1.31% increase.

- The total international issuances for 2018 reached USD 2 billion equivalent to BD 752 million compared to USD 3.5 billion equivalent to BD 1.316 billion in 2017 with a 42.86% decrease.
2. Banking Developments

The Aggregate Balance Sheet of the Banking System

Retail Banks

Wholesale Banks
2.1 The Aggregate Balance Sheet of the Banking System

Total aggregate balance sheet for the banking system (retail and wholesale banks) increased to USD 192.6 billion by the end of 2018, compared to USD 187.4 billion at the end of 2017, an increase of 2.8%. Wholesale banks represented 55.0% of total assets, whilst retail banks accounted for 45.0%.

Domestic banking assets amounted to USD 62.4 billion at the end of 2018 compared to USD 57.8 billion at the end of 2018, representing an increase of USD 4.6 billion (8.0%). Foreign assets amounted to USD 130.2 billion, compared to USD 129.7 billion at the end of 2017, an increase of USD 0.5 billion (0.4%).

Domestic liabilities increased to USD 57.9 billion at the end of 2018 compared to USD 55.9 billion at the end of 2017, an increase of USD 2.0 billion (3.6%). Total foreign liabilities increased by USD 3.3 billion (2.5%) to reach USD 134.8 billion against USD 131.5 billion at the end of 2017.

2.2 Retail Banks

The aggregate balance sheet of retail banks increased to BD 32.6 billion at the end of 2018, compared to BD 31.4 billion at the end of 2017.

Total domestic assets grew by BD 0.9 billion (5.0%) to reach BD 18.9 billion, with claims on private non-banks sector increasing by BD 0.9 billion (10.0%) and claims on general government securities growing by 0.2 billion (10.5%).

Foreign assets recorded a decrease of BD 0.2 billion (1.5%), reaching a total of BD 13.6 billion at the end of 2018 compared to BD 13.4 billion at the end of 2017. Claims on foreign non-banks increased by BD 0.3 billion (3.4%) from BD 8.8 billion at the end of 2017 to BD 9.1 billion at the end of 2017, while claims on foreign banks decreased by BD 0.1 billion (2.2%), reaching a total of BD 4.5 billion at the end of 2017.

Total domestic liabilities of retail banks increased by BD 0.7 billion (4.1%) to BD 17.8 billion at the end of 2018 from BD 17.1 billion at the end of 2017. This was due to an increase in liabilities to banks by BD 0.4 billion (36.4%) and liabilities to private non-banks by BD 0.2 billion (2.0%).

Total foreign liabilities decreased to reach BD 14.7 billion at the end of 2018. Liabilities to foreign non-banks increased by BD 0.7 (10.9%) billion and liabilities to foreign banks decreased by BD 0.3 billion (3.8%).

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1 This includes conventional and Islamic retail banks.
**Loans and Credit Facilities**

Outstanding loans and credit facilities of retail banks stood at BD 9.5 billion at the end of 2018, a 9.2% increase compared to the BD 8.7 billion at the end of 2017. The business sector accounted for 53.7% of total loans and credit facilities, while individuals and the government sector represented 44.2% and 3.2% respectively.

**Deposits**

Retail banks’ total domestic deposits increased to BD 12.1 billion at the end of 2018 compared to BD 12.0 billion at the end of 2017, an increase of BD 0.1 billion (0.8%). This was due to higher private sector deposits which increased by BD 0.2 billion (2.0%).

Domestic deposits in Bahraini Dinar decreased by BD 0.2 billion (2.2%) to BD 9.0 billion at the end of 2018. Domestic foreign currency deposits increased BD 0.3 billion (10.7%) to BD 3.1 billion. Bahraini Dinar deposits and foreign currency deposits constituted 74.4% and 25.6% of total domestic deposits respectively.

**Geographical and Currency Distribution of Assets**

The share of total assets accounted for by the member countries of the Gulf Cooperation Council (GCC) (excluding Bahrain) reached a total of 24.4% while Asia accounted for 5.6%, Western Europe accounted for 4.2%, North and South America for 3.6%, and other Arab countries for 3.0%.

In terms of currency, the share of US dollar denominated assets was 42.3%, while the GCC currencies (excluding Bahraini dinar) accounted for 7.9% of total assets. The Euro represented 2.5% of total assets.

**2.3 Wholesale Banks**

The aggregate balance sheet of wholesale banks grew by USD 2.0 billion or 1.9% to USD 106.0 billion at the end of 2018, compared with USD 104.0 billion at the end of 2017.

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2. This includes conventional and Islamic wholesale banks.
3. The balance sheets of wholesale banks are usually denominated in USD.
Total domestic assets grew to USD 12.1 billion at 2018, compared with USD 9.8 billion at the end of 2017 due to increases in non-bank, government and bank assets by 43.5%, 38.5%, and 10.2% respectively.

Foreign assets decreased by USD 0.1 billion (0.1%) to USD 94.0 billion at the end of 2018. This was due to decreases in bank assets by USD 6.0 billion (45.1%).

Total domestic liabilities of wholesale banks increased by USD 0.1 billion (1.0%) to USD 10.5 billion at the end of 2018 compared with USD 10.4 billion at the end of 2017.

Foreign liabilities increased by 2.0% to reach USD 95.6 billion at the end of 2018. This increase was mainly due to an increase in liabilities on H.O. and affiliates which increased by USD 2.3 billion (8.7%).

**Geographical and Currency Distribution of Assets**

The share of total assets accounted for by the GCC (excluding Bahrain) reached a total of 29.8%, while Western Europe accounted for 34.3%, North and South America for 9.9%, Asia for 8.4%, and other Arab countries for 4.5%.

As for currency, the share of GCC currencies (excluding Bahraini dinar) of total assets was 9.6% with the dollar accounting for 68.8% of total assets and the Euro comprising 11.0% of total assets.
3. Regulatory and Supervisory Developments

Regulatory Developments

Supervisory Developments
3.1 Regulatory Developments

As part of CBB’s continuing development of the regulatory framework for the financial system, work was carried out during the year 2018 to strengthen regulatory policies and to develop appropriate prudential regulations, in order to maintain financial stability and market integrity.

3.1.1 Updates to CBB Rulebook

1. Basel III adoption:

   - **Liquidity Risk Management Requirements:**

     As part of CBB’s objective in enhancing its regulatory framework, the CBB requested all banks in July 2018 to provide the LCR and NSFR computations as of 31st March 2018 based on the draft rules. The comments received were studied and the final requirements were issued in August 2018.

   - **Basel III Leverage Requirements:**

     The CBB has issued in July 2018 a second consultation paper on Basel III leverage requirements based on the changes introduced by the Basel Committee which was finalized in December 2017. The CBB studied the comments received and issued the requirements in its final form in November 2018.

2. Consultation paper on the Draft Insolvency Law

   In January 2018, the CBB, in cooperation with the Economic Development Board and the Legislation and Legal Opinion Commission, issued a consultation paper to all licensees regarding the Draft Insolvency Law, which supersedes Bankruptcy and Safeguards Law promulgated by Decree No. 11 of 1987. The CBB has taken this step to obtain the comments of the industry on the draft law before issuing it in its final form.

3. Proposed Short Selling and Giving Securities on Loan Regulation

   As part of the CBB’s efforts to develop the capital market, the CBB issued in January 2018 a draft regulation on Short Selling and Giving Securities on Loan. The objective of the proposed regulation is to improve efficiency of the capital market and facilitate a variety of transactions in the market, which shall result in better price discovery and enhanced liquidity.
The CBB has completed its study and discussion of the comments of the financial sector and relevant parties and it is currently under review by the Legislation and Legal Opinion Commission.

4. Consultation paper on Brokerage Fees in Bahrain

As part of the CBB’s ongoing efforts to develop the regulatory requirements of money brokerage activities in Bahrain, the CBB issued in February 2018 a consultation paper regarding the scale of Brokerage Fees in Bahrain where the licensees and interested parties were requested to provide their comments on the current scale of brokerage rates and transactions classification. The CBB received the industry feedback. It is expected to issue the revised brokerage fees in January 2019.

5. Proposed new directives for Ancillary Service Providers

The CBB is currently studying the comments received on the consultation paper “new High Level Controls Module (Corporate Governance)” for Ancillary Service Providers. The CBB is also currently reviewing the draft Risk Management Module, in order to be issued as a consultation paper to the ancillary service providers in 2019.

6. Proposed amendments to the Takeovers, Mergers and Acquisitions Module

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

7. New directives on Caps on Fees and Charges for Standard Services/Products Provided to Customers of Retail Banks and Financing Companies

The CBB issued new directives on caps on fees and charges based on studying and discussing the comments of Bahrain Association of Banks on the consultation paper issued earlier in this regard. The new directives were included in the Business and Market Conduct Module where banks and financing companies must comply with by 1st May 2018.

8. New directives on internal audit requirements for all banks
In April 2018, the CBB issued new requirements on Internal Audit function in banks as part of the High Level Controls Module of Volumes 1 and 2 for conventional and Islamic banks respectively after the completion of the consultation period and studying the feedback received on the consultation paper issued in July 2017.

9. **New directives - Methodology for calculating financial penalties imposed upon licensees**

In April 2018, the CBB issued directives on a new methodology to be used by the CBB in calculating the financial penalties to be imposed upon licensees based on the comments received on the consultation paper from the financial sector and the concerned parties.

The new directives are based on assessing the violations in a number of ways and calculating the amount of fines depending on the level of risks that these violations cause to customers of financial institutions, the financial sector and the Kingdom.

10. **New Risk Management related Modules**

As part of the CBB’s objective in enhancing its regulatory framework and keeping pace with the standards set by the Basel Committee on Banking Supervision and Financial Stability Board the CBB issued in August 2018 new Modules that include qualitative measures on risk management in the following Modules:

1. Domestic Systematically Important Banks Module (Module DS);
2. Reputational Risk Management Module (Module RR);
3. Internal Capital Adequacy Assessment Process Module (Module ICAAP);

The CBB also added general requirements on risk management in the High Level Controls Module in accordance with the Basel Committee’s Paper “Corporate Governance Principles for banks”.

11. **Interest / profit charges on credit cards**

In August 2018, the CBB issued a circular to retail banks and financing companies requiring them to stop charging interest / profit on the full billed and due instead of the amount payable (unpaid) on the invoice date.
The CBB instructed all licensees to verify the method of calculating the interest / profit to be imposed on customers in the event of any unpaid fees and ensure that the interest/profit charged is on the unpaid billed and due by the due date.

All retail banks and finance companies must ensure that their systems are updated accordingly and that card processors and relevant personnel concerned are made aware of these requirements.

12. Bahraini dinar against the US dollar exchange rate on cards:

In August 2018, the CBB issued a circular to retail banks and financing companies obligating them to comply with the official exchange rate of the Bahraini Dinar against the US Dollar. Licensees must amend their existing systems, procedures and current arrangements with international payment operators to be fully compliant with the CBB’s exchange rate requirements.

This was attributed to the CBB’s observation that cards issuing licensees used higher BD-USD Dollar exchange rates, i.e. above the official exchange rate cap which is 0.378 (set by the CBB earlier) when billing customers on card transactions conducted in foreign currencies and routed through international payment network operators.

13. Early repayment of installment Financing Facilities

In August 2018, the CBB issued a circular to all conventional and Islamic retail banks and financing companies requiring them to discontinue the use of the sum-of-the-digits method, also known as Rule of 78, for calculation of the interest and principal with regards to installment financing facilities. Under the said calculation method, the customers who choose to settle, partially, or in full, their loans prematurely are treated unfairly due to disproportionate interest allocation on installments if the prepayment occurs during the initial repayment period.

In addition, this practice is not in accordance with the CBB requirements, in particular, the Annual Percentage Rate (APR) as calculated using the APR methodology in the Business and Market Conduct Module (Module BC).

Licensees must fully comply with the relevant disclosure requirements, specifically, disclosing to their customers the basis on which interest is charged and applied to the account together with an illustration of the calculation method.
14. ATM alert about global fraud:

As part of CBB’s objective and efforts to protect the customers and the financial sector in the Kingdom, the CBB, in August 2018 issued a circular to retail banks, financing companies and ancillary service providers that includes the following instructions:

a) Notify customers to be vigilant about the authenticity of short messages (SMS) received regarding withdrawals from bank accounts through ATMs or other electronic means and the use of credit, charge or prepaid cards; and
b) Alerting customers not to respond to phishing messages whether verbal or electronic seeking details of account/card.

This was attributed to the CBB receiving a press alert about a possible global cash-out operation by cybercriminals preparing to carry out a global fraud involving hacking a financial institution or card processor to withdraw cash within a few hours. Other precautions against cyber-attacks and necessary controls arising from such attacks must also be revisited.

15. Proposed new Directives on Compliance Function in Banks:

As part of the CBB’s objective in enhancing its regulatory framework, the CBB issued in August 2018 a consultation paper on compliance function roles and responsibilities in banks as part of the High Level Controls Module in accordance with the requirements issued by Basel Committee in this regard. The comments received were studied and it is expected to issue the requirements in its final form in January 2019.

16. Drive Thru-Automated teller machines (ATMs):

In September 2018, the CBB issued new directives in the Operational Risk Management Module requiring retail banks to carefully choose the location of camera installation in drive-thru ATMs to ensure that the images of the vehicle number plates are clearly captured at both daytime and nighttime. Banks must also ensure that adequate and effective lighting is operational within drive-thru ATMs to enable the CCTV cameras to capture the vehicle number plates at both daytime and nighttime.

This is attributed to the CBB’s observation that CCTV cameras installed for some ATMs at retail banks are unable to record day and night car number plates.
Retail banks were required to comply with these requirements by 30th October 2018, and to notify the CBB accordingly.

17. Fees on issuance of letter certifying the receipt of capital amount for companies under formation

In September 2018, the CBB issued a circular to all retail banks obliging them not to impose a setup fee to open bank accounts for companies under formation. The banks may charge, regardless of the capital deposited and maintained, a maximum of BD 10 for the issuance of letter of confirmation of capital maintained with the bank. This is because banks charge unreasonable fees for issuing such letters.
All retail banks must comply with these requirements immediately and to ensure that their systems are updated accordingly, and the relevant personnel concerned are made aware of this requirement.

18. Enabling PSPs to participate in EFTS

For efficient functioning of the Electronic Funds Transfer System (EFTS) services and further to BENEFIT allowing PSPs’ customers to carry out the transactions using EFTS, the CBB issued a circular in September 2018 to all payment service providers (PSPs) instructing them as follows:

1. PSPs must ensure they have a robust internal technological infrastructure and direct technical access to the EFTS, on an uninterrupted basis (24 x 7 days and 365 days in the year), to send, authorise and receive Fawri+/ Fawateer direct credits on a real-time basis; and
2. PSPs must maintain a daily value limit of BD1,000 for the total Fawri + and Fawateer transactions (with assured immediate finality, i.e. within 30 seconds) for each STV card/IBAN account per day.

All payment service providers must comply with these requirements at all times and ensure that their systems and processes are updated accordingly, and the relevant personnel concerned are made aware of this requirement.

19. Failed ATM/POS terminal Transactions Resulting in Un-Claimed Cash Resting with Licensees

As part of CBB’s objective to protect consumers, the CBB met and issued a number of circulars to retail banks and financing companies requiring them to address the issue of treating cash resting with them deducted from customers’ accounts without their knowledge (or un-claimed) as a result of withdrawals.
using debit/credit cards through ATMs, (owned by another bank failed to
disburse the required cash) or point of sale machines/online purchases that
were not electronically completed due to malfunction/failure/error in
connection or exhaustion of the time available for the financial transfer.

The CBB therefore, requested all licensees to submit a report detailing the total
number of affected customers, the total amount outstanding for these
transactions over the years, and the accounting treatment used for such
transactions. The CBB disagreed on the calculation of these amounts as income
and instructed licensees to reclassify such amounts as liabilities. The CBB also
required retail banks and financing companies to compensate customers and
educate them on their right to claim such amounts in accordance with local and
international practices.

Retail banks and financing companies must comply with the above
requirements to avoid financial penalties or any penalty.

20. New Directives on “Client Money” - Volume 1

The CBB is currently incorporating these directives into Business and Market
Conduct Module after the completion of the consultation period and studying
and discussing the comments of banks and relevant parties on the consultation
paper issued in this regard.

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

21. Proposed Requirements for Press Releases on Financial Results of
Public Listed Shareholding Companies

As part of the CBB’s ongoing objective to enhance its regulatory framework,
the CBB issued a consultation paper on the required information for press
releases on financial results of public listed shareholding companies.

The objective of the proposed requirements is to improve the disclosure and
transparency of the public listed shareholding companies when publishing
press releases on the financial results and to provide protection for
shareholders and investors by disclosing comprehensive and accurate press
releases, so that shareholders and investors can determine the financial
performance of the public listed shareholding company in a correct and
comprehensive manner, and to avoid any potential misleading statements in the press release.

The CBB received the comments of the listed companies and banks and were discussed in the Regulatory Policy Committee and is currently under further study.

22. Proposed amendments to Markets and Exchanges Module and Market Intermediaries and Representatives Module

As part of the CBB’s objective to further enhance the regulatory framework for market making activities, the CBB issued a consultation paper on proposed amendments to Markets and Exchanges Module and Market Intermediaries and Representatives Module where it received the comments of the industry. It is expected to issue the amendments in January 2019.

23. Agreed Upon Procedures for Financial Crime Module

In November 2018, the CBB issued a consultation paper on Agreed Upon Procedures Report of the External Auditor on the quality of the Anti-money laundering Procedures, systems and controls. The CBB studied the comments received on this consultation paper and will issue the requirements in January 2019.

24. Proposed additions to the requirements for Payment Service Providers (“PSP”)

In November 2018, the CBB issued a consultation paper regarding adding new requirements for payment service providers to accommodate for general issues and security measures for PSPs that will have their own cash dispensing machines or kiosks to enable cash withdrawal as part of the wage protection system. The CBB received the feedback on this consultation paper and is currently under study.

25. Credit Card Rounding off Transactions

In November 2018, the CBB issued a circular to retail banks and financing companies requiring licensees to reflect the credit card transaction without rounding off the amounts in Fils when billing their customers. Retail bank licensees must collaborate with acquirers and Visa/MasterCard network schemes to ensure that there is no rounding off in any transaction irrespective of the currency of the transaction.
26. Amendments to the Crowdfunding Requirements for equity and financing based

In November 2018, as part of the CBB’s continuous initiatives in enhancing its regulatory framework, specifically in areas related to the rapid technological developments in the financial services, the CBB expanded the scope of the services covered under the existing rules on “crowdfunding”. The revisions made to the existing crowdfunding rules include: reduction in minimum capital given the nature of the risk profile of the crowdfunding platform operator, removing the prohibition on business to business lending or investing through platforms, raising the limits for lending, the removal of certain restrictive conditions for lending /investing and the introduction of a consumer protection mechanism whereby, the lender or investor has the right to withdraw the commitment made within 48 hours from the time he /she makes a commitment to lend or invest.

27. Consultation Paper on “Crypto-asset Platform Operators”

As part of the CBB’s efforts to support innovation and develop the financial services sector and enhance its efficiency through enhancing the regulatory infrastructure, the CBB issued in December 2018 a consultation paper on directives for services provided by “Crypto-asset Platform Operators” that includes the licensing requirements and the regulatory framework. The CBB received the industry feedback and is currently under study.

28. Disclosure of information in credit card statements

In December 2018, the CBB issued a circular to retail banks and financing companies requiring them to comply with the following disclosure requirements:

1. For foreign exchange transactions, licensees must include the following data in credit cards statements:
   a) Transaction amount in foreign currency, USD equivalent and BHD equivalent;
   b) USD/BHD exchange rate used; and
   c) Markup amount and percentage.
2. For interest/profit charges, licensees must include interest/profit amount charged for the period of the statement and the cumulative amount in credit card statements.
3. Any fees or charges due must not be subject to interest/profit charges.
29. Amendments to Payment Service Provider (PSP) requirements

In December 2018, the CBB issued amendments to the requirements of Payment Service Providers. The amendments require Payment Service Providers when issuing any multi-purpose, electronic or otherwise, pre-paid cards to adhere to the following limits: The maximum balance limit for each natural person pre-paid account must not exceed BD 1,000 and the maximum single transaction value limit must not exceed BD 500. Furthermore, the maximum balance limit for each legal person must not exceed BD 10,000 (Loading and transaction size);

30. New Directives on Open banking services

In December 2018, the CBB issued the final rules on “open banking” services, which will facilitate the provision of a variety of innovative services for bank customers.

Open banking services entail the provision of two broad categories of services. The first is “account information service” which provides customers with access to all bank account information in an aggregated manner through a single platform, whereas the second category is “payment initiation service” which allows licensed third parties to initiate payments on behalf of customers while allowing seamless transfers between different customer accounts through a mobile based application.

Banking Supervision Directorates

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

The CBB continued with its policy of proactive supervision to achieve its objective of ensuring stability and soundness of the banking system, protecting the interests of consumers of banking services and promoting market innovation. The supervisory approach encompassed risk based supervision, proactive monitoring of banks and financial institutions. These measures facilitated enhanced transparency and disclosures and provided adequate assurance to consumers of banking services.

Accordingly, the following measures were continued by the CBB during the year 2018:

1. Domestic-Systematically Important Banks (D-SIBs):- The CBB issued a separate Rulebook Module on D-SIBs disclosing the assessment methodology and criteria for identifying D-SIBs and the requirement to carry an additional capital buffer as High Loss Absorbency (HLA) was also introduced in the Module. Besides, D-SIBs were required to prepare
recovery plans and resolution plans in line with rules highlighted in the D-SIB Module. The D-SIB methodology follows the principles detailed in the BCBS papers, tailored to the specific requirements of the financial industry in Bahrain.

2. Enhancing Compliance Effectiveness: The CBB with the aim of enhancing compliance effectiveness among banks issued proposed rules for compliance function in banks for consultation, as part of the High Level Controls Module (HC). The rules envisaged strengthening the compliance function in accordance with the size and complexity of banks and ensuring its independence in reporting and functioning. Moreover, the supervision directorates in the CBB closely monitor the compliance track record of licensees under their supervision and regularly advise those licensees with unsatisfactory track record to enhance their compliance.

3. Monitoring the Level of Real Estate Exposures: The CBB continued with its monitoring of the banks’ exposure to the real estate sector on a quarterly basis with the objective of controlling risk concentration to this sector.

4. Sound Remuneration Practices: As part of its supervisory practice the CBB continued with its monitoring of remuneration practices by banks and that the disbursement of bonuses by banks is in line with the CBB’s Rules on Sound Remuneration Practices under HC Module, which promote long term relationship between the bank and the employees while incentivizing employees with their risks taking capability.

5. Related Party Exposures: The related party exposures of locally incorporated banks were continued to be monitored on a monthly basis with the objective of ensuring full compliance with the Central Bank’s rules and limiting any concentration risk thereon.

6. Monitoring Implementation of IFRS 9: The CBB, continued its monitoring of the implementation of IFRS 9 by banks and during the year approved the ECL policies and the methodologies for ECL calculation. The provisioning levels of all banks from beginning of 2018 are based on ECL calculation.
7. Monitoring of Impaired Loans Portfolio: The CBB on a quarterly basis continued to monitor the impaired loans portfolio of banks with the objective of keeping a track of any abnormal trend in the portfolio. As part of proactive monitoring and to ensure consistency in provisioning by banks, the supervision directorates prepared a template giving a snapshot of the NPLs of the whole banking sector. The banks were accordingly advised to take preemptory measures to check the growth in impaired loans portfolio.

8. Prudential Meetings: The conventional banking supervision directorates at the CBB conducted 56 prudential meetings with the licensees during the year, which discussed the previous years performance, strategy for the ensuing year, and other supervisory issues of concern for the CBB.

9. Meeting on Financial Statements: The CBB conducted annual meetings with locally incorporated and overseas bank branches along with their external auditors, to discuss year-end financial statements for 2017, before such statements were submitted to the respective bank’s Board of Directors/head offices for approval. The discussions encompassed; basis of recognition of income, valuation practices, impaired assets, breakdown and adequacy of provisions, proposed dividends and staff bonuses.

10. Implementation of New Initiatives: As part of its efforts toward continuous improvement in the financial sector, the CBB allowed Ancillary Service Providers (ASPs) to have cash dispensing machines and be a part of EFTS, to enable them to participate in Wage Protection System (WPS). The Payment Service Provider Licensees (PSPs) providing mobile wallet payments were allowed to have additional features to promote wider acceptance and increased usage. Another PSP, a biometric payment solution provider went live during the year.

11. Studies/Surveys: The supervision directorates continue to undertake special studies/surveys with the objective of protecting customers interest as well as enhancing the quality of banking services in Bahrain. During the year, a number of studies/surveys were undertaken to analyze unclaimed balances resting with banks due to failed ATM/POS transactions, balances due to dormant deposit accounts and unclaimed
dividends, USD/BD parity rate, interest rate calculation on credit cards, Rule 78 on calculation of interest on loans and others.

12. **Supervisory College Meetings:** - The CBB with the objective of enhancing cross-border supervision of overseas bank licensees attended supervisory college meetings organized by home regulators, in UK, Jordan and India during the year.

13. **Wage Protection System:** The CBB worked with First Deputy Prime Minister’s office, EDB, LMRA and the private sector participants to develop a comprehensive legal and technical framework for the implementation of wage protection system (WPS) in the Kingdom of Bahrain. The objective of WPS is to ensure an efficient, fair and timely delivery of salary payments to all Bahraini and non-Bahraini workers in Bahrain. During the year a number of institutions were given approvals to provide WPS.

14. **Bahrain Credit Reference Bureau (BCRB):** The CBB continued to provide necessary support to BCRB and continued with its measures to facilitate participation of Government entities in the credit reference system (under BCRB) in Bahrain which were allowed to go live during the year. These government entities will be able to access the credit data of the clients of BCRB members using their services, thereby helping them to take proactive measures to avoid defaults by their clients and facilitate an efficient collection process.

15. **Appointed Experts Assignments:** - The banking supervision directorates at the CBB appointed qualified “Appointed Experts” to undertake Agreed Upon Procedures and onsite Examination of a number of licensees so as to augment the effectiveness of its supervisory practices. Accordingly, 13 assignments were conducted during 2018 covering issues which included inter alia compliance with the Code of Practice for Consumer Credit and Charges, risk management including credit and operational risk management framework as well as control framework for fraud detection among others.

16. **Monitoring of Banks BOD and Organization Structures:** - The banking supervision directorates with the objective of evaluating the performance of the Board of Directors in bank’s boards reviewed the corporate
governance reports submitted by banks on an annual basis. The review included attendance of the Directors, the role played by them in meetings, the structure of Board level committees and the appointment of independent directors. The CBB also reviewed the organization structure of banks to ensure that there were no conflict of interest in the reporting lines of management and the banks have adequate succession planning in place. As part of its monitoring of banks corporate governance the CBB also sent its staff to the AGM/EAGM of banks as representatives.

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

17. Compliance with the “Code of Best Practice on Consumer Credit and Charging”: The banking supervision directorates continued to monitor the adherence of retail banks and financing companies with the provisions of the Code. The aim was to ensure that licensees act fairly, responsibly and reasonably in their dealings with consumers and are transparent in their dealings.

**Objective 3: Promoting Transparency and Market Discipline:**

The CBB with the aim of promoting transparency and market discipline monitored the disclosures made by its licensees to ensure their compliance with the CBB’s requirements in line with standards prescribed by Pillar 3 of Basel 3.

18. **Public Disclosure by Banks:** The supervision directorates used this mechanism as one of the tools to assess the extent of transparency and disclosures to various stakeholders by banks. As part of the monitoring, banks were required to submit their public disclosures report duly reviewed by their external auditor. These submissions were reviewed by the CBB to ensure that they are in compliance with the CBB’s requirement. Any breach by licensees with the CBB’s Rules and/or deadlines for submission of date sensitive reports attracted enforcement actions including imposition of financial penalties which was required to be disclosed in their respective annual reports.

19. **Enforcement Actions**: The CBB with the aim of ensuring high standard of compliance by its licensees so as to reduce the risk to customers and the financial system, implemented effective enforcement actions. Accordingly and as enshrined in Article 38 of the CBB Law, the
conventional banking supervision directorates at the CBB have taken 35 enforcement actions against their licensees including imposition of penalties, during the year 2018.

**Islamic Financial Institutions Supervision**

The Islamic Financial Institutions Supervision Directorate ("IFISD") continuously enriches staff’s knowledge with the latest developments in the Banking Industry by participation in conferences, seminars, workshops and public hearing events inside and outside Bahrain, and BIBF technical and soft skills courses. In addition, it enrolls new joiners in a three-week internship programs with Islamic Banks and sign them up for the Advanced Diploma in Islamic Finance (ADIF), a post-graduate diploma level qualification offered by BIBF. During 2018, a member of IFISD team has been designated as Chartered Financial Analyst by the CFA Institute and another member has obtained the ADIF qualification.

Senior staff also participated in high-level forums. This year, IFISD participated in the membership of IFSB Working Group for the Revised Capital Adequacy Standard for the Islamic Banking Sector and attended the first 2 meetings of the Working Group to revise the current IFSB’s standard on capital adequacy (IFSB-15) taking into account various developments in capital adequacy rules that have taken place in the global regulatory landscape.

The Executive Director of Banking Supervision has also represented the CBB in Bahrain Islamic Bank’s Legal Forum, titled “Shari’a Compliance and Applicable Laws in Islamic Banking” which discussed the latest and most critical issues concerning Islamic banking.

As part of the international co-operation between host and home supervisory authorities for consolidated supervision, IFISD conducted a supervisory visits to overseas subsidiaries of locally incorporated Banking Groups and met their relevant officials, including the host supervisor and the external auditors, to enhance its consolidated supervisory role, and improve the exchange of information between supervisors.

Moreover, the IFISD receives, annually, delegates from different countries around the world to share the experience of Bahrain in the Islamic Banking sector. This year, IFISD received delegates from the Centralized Shari’a Board of Central Bank of Morocco and arranged for a three-week customized on-job training for delegates from the Central Bank of Sudan.

**Inspection Directorate**

*Chapter 3: Regulatory and Supervisory Developments*
The Inspection Directorate completed more than 44 inspection visits during 2018 to various types of licensees, including banks, insurance firms, and other specialized licensees. The visits centered on a risk based supervisory approach basis designed to fulfill supervisory objectives and ensure the robustness of the control framework at licensees. The Directorate employed a risk focused examination approach using the CMORTALE methodology focused on the following assessment elements- capital adequacy, management quality, operational risk, risk management, transparency and disclosure, asset quality, liquidity and earnings. This methodology assesses the risk profile of the CBB’s licensees with the ultimate objective of promoting the safety and soundness of financial institutions through onsite procedures aimed at identifying regulatory action required to reduce the risk of insolvency, the potential loss of market confidence, and losses to depositors or investors. The Directorate strengthened its cybersecurity assessment framework and conducted detailed vulnerability assessment reviews of licensees alongside regular inspection visits.

Moreover, with a view to protect the interests of customers of financial institutions, 45 thematic inspections covering issues related to consumer protection were conducted across a wide range of financial institutions. Expanding its on-site review horizon, the Directorate also carried out inspection of overseas branches of CBB licensees.

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

In response to the greater regulatory emphasis on risk management within the financial sector, the Directorate identified and implemented training and development programmes designed to provide inspection staff with the skills and experience necessary to effectively assess a wide range of risk management practices used by the CBB licensees.

**Capital Markets Supervision**

The CBB endeavoured during 2018, to complete the implementation of its plan for the development and updating of the legislative, regulatory and
supervisory framework for the capital market sector, in line with international standards and best practices in consultation with the stakeholders and interested parties in this sector and all other financial sector components in Bahrain. In the form in which the CBB and these institutions and bodies, are able to create a suitable environment for the development of the business and activities of the capital market, through the licensing of more market institutions and the encouragement of the diversification of listing and trading of new and innovative securities and financial instruments, along to enhancing the standards, the regulations and the mechanisms of supervision of all the businesses and activities of capital market institutions and licensed financial markets.

This being on the basis of the need for precise action, and for the protection of the sector from potential risks associated with their operations and instruments first hand, through the use of efficient mechanisms and systems in order to ensure the adherence and fulfilment of obligations by all parties involved in investing in traded securities or financial instruments, the protection of their rights, and the enhancement of investors’ and trader’s confidence.

**Developments & Achievements**

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

  a) The CBB issued circular EDFIS/C/060/2018 dated 6th September 2018 along with the draft rules on market making for industry consultation and feedback to all Listed Companies, Self-Regulatory Organizations (“SRO”), SRO Members and other parties within the capital markets, pertaining to amendments to Markets & Exchanges (“MAE”) and Market Intermediaries and Representatives (“MIR”) modules within Volume 6 of the CBB Rulebook, with the objective to further enhance the regulatory framework for market making activities.


  c) In line with its initiative to continuously enhance its regulatory framework to be able to meet the financial sector’s developments, the CBB issued the draft regulation on Crypto-asset Platform Operators (“CPO”) Module under Volume 6 of the CBB Rulebook. The aforementioned draft module has been released for industry consultation on 13th December 2018 vide CBB circular EDBS/KH/C/84/2018.
Introducing Short Selling and Giving Securities on Loan

Complementing the legislative and regulatory framework for the capital markets sector and in accordance with the requirements of the CBB Law in general and Article (92) in particular, the CBB 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.

**Supervision of Exchanges, Clearing, Settlement and Central Depositories and their Members**

- **Bahrain Bourse B.S.C. (“BHB”)**

  a) HM the King issued Royal Decree no. (62) for 2018 approving the amendment of BHB’s Memorandum and Articles of Association which emphasizes the scope of BHB’s operation as a Self-Regulated Organisation (“SRO”).

  b) BHB has submitted to the CMSD the revised draft of the Listing Rules after incorporating the industry comments. Accordingly, the Rules are currently being reviewed by the CMSD and the CMSD shall provide its feedback to BHB shortly.

  c) BHB submitted a plan to revamp its fees structure effective 2019. In this regard, the CBB issued its guidance to BHB to ensure that the proposed new fees structure shall not result in any negative consequences on the market and its participants.

  d) In order to enhance compliance within the industry, the CMSD collaborated with the Inspection and Compliance Directorates to carry on examinations and on-site inspections for several licensees in 2018.

- **Bahrain Clear B.S.C. © (“BHC”)**

  a) BHC has confirmed that it is currently in the final stages of finalizing the Clearing, Settlement and Central Depository and Central Registry (“CSD”) Rules, which will be sent shortly to the CBB for approval.

  b) The CBB, on 28th February 2018, granted its no-object to BHC regarding the proposed agreement between BHC and AlSalam Bank- Bahrain to facilitate cash dividend distribution through a card issued by AlSalam Bank-Bahrain (“myShare card”).
c) The CBB, on 27th September 2018, granted its conditional no-objection for BHC to distribute dividends as a paying agent. The no-objection was conditioned to submission and finalization of rules related to the function of paying agent.

- BHB and BHC Members


b) As part of the CMSD’s strategic plan to strengthen collaboration with the Capital Markets Service Providers and CMSD licensees, periodic meetings have been introduced. Effective meetings have taken course in 2018 between the CMSD, Licensed Exchange, Licensed Clearing, Settlement and Central Depository and Licensed Members and are set to continue in the forthcoming years.

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

In 2018, the CBB released its decisions to cancel the licenses of Bahrain Financial Exchange B.S.C. (c), BFX Clearing and Depository Corporation B.S.C. (c) and all of their members following their submission of requests for surrender of the CBB licenses.

Offering and Listing of Securities

- Offering of Securities

a) During the year 2018, the CMSD issued its no objection on the use of a total of seventy-seven (77) public and private offering documents (compared to 72 offering documents in 2017) after ensuring compliance with the relevant requirements under the CBB Law and the Offering of Securities (OFS) Module of CBB Rulebook Volume 6, as follows:

<table>
<thead>
<tr>
<th>Type of Security</th>
<th>Type of Offering</th>
<th>Issues Value (in US$)</th>
<th>No. of issues</th>
<th>Type of approval</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ordinary Shares</td>
<td>Public Offering*</td>
<td>31,595,744</td>
<td>1</td>
<td>Registration - Article (81)</td>
</tr>
<tr>
<td></td>
<td>Rights Issue</td>
<td>5,959,476</td>
<td>1</td>
<td>Registration - Article (81)</td>
</tr>
</tbody>
</table>
### Chapter 3: Regulatory and Supervisory Developments

#### 30 Private Placement

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Offering* - Ordinary Shares</td>
<td>1,256,335,874</td>
<td>22,489,453</td>
<td>1</td>
<td>Registration – Article (81)</td>
<td>Filing - Exempt from Article (81)</td>
<td>Article (81)</td>
<td>17</td>
</tr>
<tr>
<td>Rights Issue - Ordinary shares</td>
<td>750,000,000</td>
<td>-</td>
<td>1</td>
<td>Filing - Exempt from Article (81)</td>
<td>Article (81)</td>
<td>54</td>
<td>1</td>
</tr>
<tr>
<td>Governmental</td>
<td>-</td>
<td>-</td>
<td>1</td>
<td>Filing - Exempt from Article (81)</td>
<td>Article (81)</td>
<td>54</td>
<td>1</td>
</tr>
<tr>
<td>Governmental</td>
<td>1,000,000,000</td>
<td>-</td>
<td>1</td>
<td>Filing - Exempt from Article (81)</td>
<td>Article (81)</td>
<td>54</td>
<td>1</td>
</tr>
<tr>
<td>Marketing</td>
<td>2,558,932,187</td>
<td>-</td>
<td>1</td>
<td>Filing - Exempt from Article (81)</td>
<td>Article (81)</td>
<td>54</td>
<td>1</td>
</tr>
<tr>
<td>Total</td>
<td>5,625,312,734</td>
<td>-</td>
<td>1</td>
<td>Filing - Exempt from Article (81)</td>
<td>Article (81)</td>
<td>54</td>
<td>1</td>
</tr>
</tbody>
</table>

b) Offers of securities in comparison to last year (variance analysis):

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Offering* - Ordinary Shares</td>
<td>32</td>
<td>-</td>
<td>32</td>
<td>100%</td>
<td>1</td>
<td>-</td>
<td>1</td>
</tr>
<tr>
<td>Rights Issue - Ordinary shares</td>
<td>6</td>
<td>61</td>
<td>(55)</td>
<td>(90%)</td>
<td>1</td>
<td>1</td>
<td>-</td>
</tr>
<tr>
<td>Private Placement - Ordinary Shares</td>
<td>1,256</td>
<td>2,653</td>
<td>(1,397)</td>
<td>(53%)</td>
<td>17</td>
<td>22</td>
<td>(5)</td>
</tr>
<tr>
<td>Private Placement - Marketing Ordinary Shares</td>
<td>22</td>
<td>-</td>
<td>22</td>
<td>100%</td>
<td>1</td>
<td>-</td>
<td>1</td>
</tr>
<tr>
<td>Private Placement - Conventional Bond</td>
<td>750</td>
<td>5,500</td>
<td>(4,750)</td>
<td>(86%)</td>
<td>1</td>
<td>2</td>
<td>(1)</td>
</tr>
<tr>
<td>Governmental - Conventional Bond</td>
<td>-</td>
<td>2,750</td>
<td>(2,750)</td>
<td>(100%)</td>
<td>1</td>
<td>2</td>
<td>(1)</td>
</tr>
<tr>
<td>Governmental Islamic Sukuk</td>
<td>1,000</td>
<td>850</td>
<td>150</td>
<td>18%</td>
<td>1</td>
<td>1</td>
<td>-</td>
</tr>
<tr>
<td>Private Placement - Islamic Sukuk</td>
<td>-</td>
<td>400</td>
<td>(400)</td>
<td>(100%)</td>
<td>-</td>
<td>1</td>
<td>(1)</td>
</tr>
<tr>
<td>Marketing - Structured Products</td>
<td>2,559</td>
<td>1,964</td>
<td>595</td>
<td>30%</td>
<td>54</td>
<td>43</td>
<td>11</td>
</tr>
<tr>
<td>Total</td>
<td>5,625</td>
<td>14,178</td>
<td>(8,553)</td>
<td>(60%)</td>
<td>77</td>
<td>72</td>
<td>5</td>
</tr>
</tbody>
</table>

c) APM Terminals Bahrain B.S.C. Initial Public Offering:
The CMSD issued a no objection letter on APM Terminals Bahrain B.S.C’s (“APM Terminals”) Initial Public Offering (“IPO”) and the registration of the above-mentioned prospectus in relation to the offering and listing of the shares of APM Terminals pursuant to the Article (81) of the CBB Law, the OFS Module and the CBB’s Resolution No. (11) of the year 2018 in respect of the implementation of the Self-Regulatory Organization model for the Exchanges licensed by the CBB in relation to listing securities and financial instruments post initial public offerings.

The IPO consisted of an offer for the sale of eighteen million (18,000,000) existing shares equivalent to twenty per cent (20%) of APM Terminals issued share capital, at an offer price of BHD 0.660. of which 12.6m offer shares (70% of offer shares) were allocated to institutional investors and 5.4m offer shares (30% of offer shares) were allocated to retail investors, with an issue value BHD 11.9m (USD 31.6m).

Pursuant to the CBB’s Resolution No. (11) of the year 2018 in respect of the implementation of the Self-Regulatory Organization model for the Exchanges licensed by the CBB in relation to listing securities and financial instruments post initial public offerings, Bahrain Bourse issued its approval on the listing of APM Terminals Bahrain simultaneously with the issuance of the CMSD’s no objection letter on the initial public offering and the registration of the prospectus in relation to the offering and listing of the shares of APM Terminals.

The offering commenced on 8th November 2018 and closed on 24th November 2018. The IPO resulted with an oversubscription on both the retail and institutional tranches of approximately 5.4 times the offer size. The CMSD issued its no objection on the final allotment on 29th November 2018, and the shares commenced trading on 9th December 2018.

APM Terminals has appointed SICO B.S.C.(c) to act as the Market Maker to provide price stabilization and market making activities for a minimum period of six (6) months. The price stabilization period took place from 9th December 2018 to 7th January 2019, followed by the market making period which commenced on 8th January 2019 and shall continue for a minimum period of five (5) months.

- Listing of Securities

a) The CMSD issued its no objection on the listing of the following securities/financial instruments on Bahrain Bourse:
### Security/Financial Instrument

<table>
<thead>
<tr>
<th>Security/Financial Instrument</th>
<th>No. of securities/ instruments</th>
<th>Value (in BHD millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government 3M Treasury Bills</td>
<td>40</td>
<td>2,800</td>
</tr>
<tr>
<td>Government 6M Treasury Bills</td>
<td>12</td>
<td>420</td>
</tr>
<tr>
<td>Government 12M Treasury Bills</td>
<td>12</td>
<td>1,200</td>
</tr>
<tr>
<td>Government 6M Short Term Islamic Lease (Ijarah) Sukuk</td>
<td>12</td>
<td>312</td>
</tr>
<tr>
<td>Government Development Bond (Issues 15, 16 and 17)</td>
<td>3</td>
<td>650</td>
</tr>
<tr>
<td>Government Islamic Lease (Ijarah) securities (Sukuk) issue (Issue 25)</td>
<td>1</td>
<td>100</td>
</tr>
</tbody>
</table>

### 1. Delisting

a) The following securities/financial instruments were delisted from Bahrain Bourse:

<table>
<thead>
<tr>
<th>Security/Financial Instrument</th>
<th>No. of securities/ instruments</th>
<th>Reason</th>
</tr>
</thead>
<tbody>
<tr>
<td>3 Months Treasury Bills issues</td>
<td>24</td>
<td>Due to maturity</td>
</tr>
<tr>
<td>6 Months Treasury Bills issues</td>
<td>7</td>
<td>Due to maturity</td>
</tr>
<tr>
<td>6 Months Ijarah Sukuk issue</td>
<td>7</td>
<td>Due to maturity</td>
</tr>
<tr>
<td>12 Months Treasury Bills issues</td>
<td>2</td>
<td>Due to maturity</td>
</tr>
<tr>
<td>Government Islamic Leasing Securities Issue No.21</td>
<td>1</td>
<td>Due to maturity</td>
</tr>
<tr>
<td>Government Development Bond Issue No. 10</td>
<td>1</td>
<td>Due to maturity</td>
</tr>
</tbody>
</table>

b) The CMSD issued its no objection to delist the following from Bahrain Bourse:

<table>
<thead>
<tr>
<th>Security/Financial Instrument</th>
<th>Reason</th>
<th>Date of CM5D NOL</th>
</tr>
</thead>
<tbody>
<tr>
<td>SICO Selected Securities Fund</td>
<td>Liquidation of the fund</td>
<td>4th April 2018</td>
</tr>
</tbody>
</table>
IDB Unit Investment Fund (UNITINVEST) | Dissolution of the fund | 25th July 2018

**Disclosure, Governance & Investor Protection**

- Listed companies’ board of director meetings & disclosure of financial statements as per resolution no. (54) for the year 2015

  a. All Publicly Listed Companies have complied with the requirement of notifying the Bahrain Bourse regarding the dates of their Board of Directors meetings, 5 days before the end of the relevant quarter. This is in accordance with Resolution No. 54 of 2015 pertaining to disclosure and publication of annual and quarterly financial statements, and the notification of the Board of Directors meetings for the discussion of financial statements.

  b. All Publicly Listed Companies have complied with the requirement of publishing the Annual and Interim Financial Reports for the year ended 31st December 2017, and the year 2018 respectively, within the appropriate timeframe. In addition, all Publicly Listed Companies have complied with publishing the aforementioned reports and disclosing them in at least two local newspapers (at least one being in Arabic local newspaper). With the exception of Bahrain Middle East Bank B.S.C. (“BMB”), which has not complied with the publication of its financial statements in the third quarter of 2018.

  c. All Publicly Listed Companies have published their Announcements of Annual and Interim Financial Results for the year 2017 and 2018 respectively on the Bahrain Bourse. With the exception of BMB, which has not complied with the publication of its financial statements in the third quarter of 2018.

  d. All Publicly Listed Companies have disclosed and published their full set of the Annual and Interim Audited Financial Results for the year 2017 and 2018 respectively on the Bahrain Bourse. With the exception of BMB, which has not complied with the publication of its financial statements in the third quarter of 2018.

  e. Taib Bank B.S.C. (suspended from trading since 2013) has failed to comply with all the abovementioned requirements.

- Disclosure Standards

  a. Disclosure of Material Information:
The CMSD ensures that all Publicly Listed Companies are committed to disclose material information that may affect stakeholders that deal in securities as per the rules and requirements of the CBB’s Disclosure Standards.
(particularly with regards to the content, timing and disclosure of information on the Bahrain Bourse website). Throughout 2018, the number of the announcements made by the listed companies pertaining to the disclosure of material information were approximately 1071 announcements.

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

<table>
<thead>
<tr>
<th>Company</th>
<th>General Meeting</th>
<th>Purpose</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bahrain Telecommunications Company, Arab Insurance Group, United Gulf Holding Company, Bahrain Flour Mills Company, United Gulf Investment Company, Bahrain Commercial Facilities Company, BBK, Bahrain Middle East Bank, Esterad Investment Company, Delmon Poultry Company, Bahrain Car Parks Company, Khaleeji Commercial Bank, Al Salam Bank - Bahrain, Gulf Hotels Group and Inovest</td>
<td>Extra-Ordinary</td>
<td>Approval to amend the M&amp;AoA, pursuant to latest the amendments of the Commercial Companies Law.</td>
</tr>
<tr>
<td>Bahrain National Holding Company, Solidarity Bahrain, Bahrain Islamic Bank, Bahrain Ship Repairing and Engineering Company, Al Baraka Banking Group, Bahrain and Kuwait Insurance Company and National Bank of Bahrain</td>
<td>Extra-Ordinary</td>
<td>Approval to amend the M&amp;AoA, pursuant to latest the amendments of the Commercial Companies Law. Approval to increase issued and paid up capital due to the distribution of bonus shares</td>
</tr>
<tr>
<td>Takaful Insurance Company</td>
<td>Extra-Ordinary</td>
<td>Approval to increase issued and paid up capital in order to exercise priority rights</td>
</tr>
<tr>
<td>Ahli United Bank</td>
<td>Extra-Ordinary</td>
<td>Approval to issue bonds Approval to issue ordinary shares and allocate them for the employee incentive scheme Approval to amend the M&amp;AoA, pursuant to latest the amendments of the Commercial Companies Law.</td>
</tr>
</tbody>
</table>
Taib Bank | Ordinary & Extra-Ordinary | Approve to delist the Bank’s shares from Bahrain Bourse, and approve the Bank’s liquidation.

APM Terminals Bahrain | Constituent General Meeting | - Election of new board members.
- Approve the company’s corporate governance charters and policies and establish the related committees
- Approve the appointment of the external auditor.

Bahrain Middle East Bank | Ordinary | Election of new Board Members, after the resignation of the previous under the CBB’s request.

- **Treasury Shares and Share Transfer**

  a) The CMSD issued its no objection letter to the following listed companies, allowing them to trade in treasury shares:

<table>
<thead>
<tr>
<th>Company</th>
<th>Purpose</th>
</tr>
</thead>
<tbody>
<tr>
<td>BBK</td>
<td>BBK Employee Share Option Plan, and to support market share price.</td>
</tr>
<tr>
<td>Bahrain Cinema Company</td>
<td>Supports share price and liquidity in the market.</td>
</tr>
<tr>
<td>Trafco Group</td>
<td>Support share price and liquidity in the market.</td>
</tr>
<tr>
<td>Ahli United Bank</td>
<td>AUB Employee Share Option Plan, and to support stock price and liquidity in the market.</td>
</tr>
<tr>
<td>Inovest</td>
<td>Support share price and liquidity in the market.</td>
</tr>
<tr>
<td>GFH Financial Group</td>
<td>Support share price and liquidity in the market.</td>
</tr>
<tr>
<td>Al Salam Bank</td>
<td>Support share price in the market.</td>
</tr>
<tr>
<td>Khaleeji Commercial Bank</td>
<td>Support share price in the market.</td>
</tr>
</tbody>
</table>

  b) **Qualification Shares**

- The CMSD received applications for the release of qualification shares of listed Companies’ Board of Directors pursuant to Resolution No. (50) of 2014 in relation to the amendments of certain provisions of the Commercial Companies’ Law, whereby the provision that used to mandate Board Members to hold certain number of shares in the Company is no longer applicable.

- The CMSD issued its no objection letter to 13 listed companies’ applications pertaining to the release of qualification Shares.
c) Employee Share Option Plan (“ESOP”)
The rules governing ESOP of the Offering of Securities Module of Volume 6 of the CBB Rulebook were amended in 2017. The aforementioned amendments stipulate that all listed companies must hold the securities held on behalf of their employees under an ESOP in a trust held by a trustee.

Pursuant to the above, the CMSD issued its no objection on the amendments to the ESOP and documents of five listed companies to comply with the OFS Module.

In this regard, the CMSD has approved 16 share transfer requests from and to the trustees’ accounts for the benefit of the employees of the listed companies.

- Listed Companies’ Memorandum & Articles of Association
During the year 2018, the CMSD has received 8 applications from listed companies, requesting CBB’s approval to amend certain provisions of the Memorandum & Articles of Association (“M&AOA”). In this regard, The CMSD has issued its no objection letter to 6 applications and the CMSD is currently reviewing the remaining two applications with the concerned listed companies in order to meet all the necessary conditions for approval.

- Market Making

a) On 28th May 2018, the CMSD issued its no objection letter to Bank ABC to appoint SICO as a designated market maker for ABC’s shares in Bahrain Bourse using approximately 1% of Bank ABC’s issued share capital for a renewable period of 6 months. The market making activity’s validity period was extended after CMSD’s approval issued on 27th November 2018.

b) The CMSD issued its no objection letter on 28th May 2018 to GFH Financial Group to extend the period of market activity provided by SICO in Bahrain Bourse and to the liquidity provision agreement provided by Al Ramz Capital in the Dubai Financial Market, for a renewable 6 months period. This approval was subject to utilizing no more than 7% of GFH Financial Group’s issued share capital.

In this regard, the validity period for GFH’s market making activity with SICO in Bahrain Bourse was extended following CMSD’s approval on 27th November 2018. As for the liquidity provision agreement with Al Ramz in the Dubai Financial Market, the CMSD has issued its no objection to terminate the said agreement on 18th October 2018 pursuant to GFH Financial Group’s request.
c) On 26th December 2018, the CMSD approved Bahrain Telecommunication Company’s request to appoint SICO as its designated market maker in Bahrain Bourse.

- Cross Listing

  a) On 8th January 2018, the CMSD issued its final approval to Ithmaar Holding B.S.C to list its shares on Dubai Financial Market, subject to its compliance with the restrictions stipulated in the no objection letter. Consequently, Ithmaar Holding B.S.C’s shares were listed on Dubai Financial Market on 29th January 2018.

**Market Surveillance**

- Suspicious Cases

During 2018, the Market Surveillance Department has identified 14 suspected cases. The preliminary examination results were as follows:

  a. 11 cases failed to have sufficient evidence to qualify as a suspected case;
  b. One suspected case has been transferred to the Investigation and Enforcement Department to take the necessary actions as per the relevant rules the regulations; and
  c. 2 cases have been dealt with in the form of soft enforcement through giving notifications to the suspected parties.

In addition, 7 cases have been transferred from Bahrain Bourse to the Market Surveillance for further analysis.

- Developments in Market Surveillance

  a) In cooperation with the CBB’s Information Technology Department, the CMSD has installed Bahrain Bourse’s monitoring system (x-stream) of the Bahrain Bourse in order to activate the role of the Department to monitor the market immediately and optimally.

**Compliance and Enforcement**

- Non-Compliance by Licensed Brokers

The CMSD issued a Non-Compliance Letter, dated 5th April 2018, to one of its licensed brokers in relation to the execution of a major shareholder transaction.
without seeking the Directorate’s approval which is in contravention of AML-7.1.3 of the Anti-Money Laundering and Combating of Financial Crime Module of Volume 6 of the CBB Rulebook. The Non-Compliance Letter additionally stressed the importance of adherence to the CBB’s rules and regulations as it pertains to executing major shareholder transactions and particularly those in relation to its clients obtaining the necessary regulatory approvals prior to executing any order that brings ownership of an investor to 10% or more in any listed company or any further increase of 1%.

- Non-Compliance by Licensed Exchanges

  a) The CMSD issued a Non-Compliance Letter, dated 10th April 2018, to one of its licensed exchanges, for its failure to conduct the necessary due diligence prior to the execution of the major shareholder transaction by not verifying the mandatory regulatory approvals and therefore failing to comply with the CBB’s Disclosure Standards, particularly Article 32 (Immediate Announcement) and Article 42.5.1 (Changes in Ownership).

  b) The CMSD issued a Non-Compliance Letter, dated 3rd June 2018, to one of its licensed exchanges for its failure to submit the reviewed quarterly financial results and the regulatory reporting through (ESRAD) within the stipulated deadline and therefore contravening MAE-2.4.1(b) of the Markets and Exchanges Module of Volume 6 of the CBB Rulebook.

  c) The CMSD issued a Reminder, dated 21st June 2018, to one of its licensed exchanges, for its failure to obtain the CBB’s prior approval in relation to the authorisation of approved persons and therefore contravening Article (65) of the CBB Law and MAE-5.3.1 and MAE-5.3.2 of the Markets and Exchanges Module of Volume 6 of the CBB Rulebook.

  d) The CMSD also issued a Non-Compliance Letter, dated 9th September 2018, to one of its licensed exchanges, for its failure to comply with AML-7.1.1 of the Anti-Money Laundering and Combating of Financial Crime Module in Volume 6 of CBB Rulebook which requires the exchange to notify the CMSD of changes in ownership of major shareholders of listed companies.

2. Non-Compliance by Listed Companies

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

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

<table>
<thead>
<tr>
<th>Number of Non-Compliance Cases Related to the Submission of Monthly Statement of the Register of Interest for Year:</th>
<th>Percentage Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>2018</td>
</tr>
</tbody>
</table>

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

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

<table>
<thead>
<tr>
<th>Number of Non-Compliance Cases Related to the Submission of Annual Verification of the Insiders’ and the Key Persons’ Data Register for Year:</th>
<th>Percentage Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>2018</td>
</tr>
</tbody>
</table>

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

The CMSD issued Non-Compliance Letters to 10 listed companies for not meeting the requirements in relation to the disclosure of material corporate information, publication of financial statements and the content of financial statements/ press releases. 2 of the abovementioned listed companies were also temporarily suspended from trading due to delays in the publication of the quarterly reviewed financial statements within the stipulated deadline.

d) Notification of Non-Compliance to Major Shareholder Requirements

The CMSD issued Non-Compliance letters to 4 listed companies in relation to cases of non-adherence to the requirements stipulated in Volume 6 of the CBB Rulebook pertaining to:
- The fact that where ownership amounts to 5% or more of any listed security, the CMSD must be notified of any changes in ownership of major shareholders of listed companies and all transactions on such security must be concluded on a licensed exchange in Bahrain.
- The fact that CBB’s prior approval is required to execute any order that brings ownership of an investor to 10% or more in any listed company or any further increase of 1% or more from this point.

e) Notification of Non-Compliance to Treasury Share Repurchase Requirements

The CBB issued a Non-Compliance letter dated 8th November 2018, to a listed company, due to its failure to comply with treasury share repurchase requirements by executing transactions to purchase treasury shares well beyond the validity period of the CBB’s approval.

f) Notification of Non-Compliance to Offering Timetable in Offering Documents

The CBB issued a Non-Compliance letter dated 15th August 2018, to a listed company, for its failure to adhere to OFS-1.5.2(n) of the Offering of Securities Module requirements in relation to the offering timetable included in the approved Private Placement Memorandum. Furthermore, the company failed to inform the CMSD in a timely manner, of the material changes to the terms and conditions of the offering and did not seek the CMSD’s prior approval for an extension to the offering time period.

g) Imposition of Trading Restriction

The CBB issued a Directive dated 7th November 2018, to a listed company as a result of rising suspicions following executed trades on a licensed exchange entailing potential market misconduct, particularly as it pertains to the disclosure of intent, insider information and conflict of interest. Therefore, the CMSD instructed the company to dispose the acquired shares and adhere to the CBB’s rules and regulations.

h) Imposition of Penalty for Non-Adherence to Disclosure of Material Corporate Information

Based on the Enforcement Decision Review Committee’s recommendation, a Notice, dated 12th June 2018, was issued to a listed company in relation to the imposition of a financial penalty due to its failure to comply with the CBB’s Disclosure Standards Equivalent Information requirement and OFS-5.1.19 of
the Offering of Securities Module by disclosing clarification of news article on a secondary exchange in one of the Gulf Cooperation Council (“GCC”) States (where the company is cross-listed) and not disclosing the same in the home market. As such, the company was penalized within the range stipulated in the CBB Law.

In line with this, the company duly submitted its appeal on 8th July 2018 which was forwarded to and subsequently rejected by the Appeal Committee hence re-enforcing the listed company’s duty to pay the stipulated financial

   i) Temporary Suspension of Trading

The following listed companies were temporarily suspended:

- Trading on the shares of Arab Insurance Group was suspended on 14th August 2018 pending publication of financial results. Trading on Arab Insurance Group’s shares resumed on 19th August 2018 subsequent to the submission of financial results.
- Trading on the shares of Bahrain Middle East Bank B.S.C. was suspended on 8th November 2018 pending publication of financial results.
- Trading on the shares of Ahli United Bank B.S.C. was suspended on 18th December 2018 pending clarification of material information. Trading on Ahli United Bank B.S.C.’s shares resumed on 19th December 2018 subsequent to the submission of required clarification.

3. Non-Compliance by Investor

Following CMSD’s investigation into multiple suspicious transactions executed on a licensed exchange and its subsequent preparation of a preliminary investigation report, the Directorate issued a Private Warning Letter, dated 22nd October 2018, to an investor, for failing to adhere to the Market Abuse and Manipulation Module requirements by executing transactions towards the end of the trading session and therefore engaging in suspected market manipulation and the creation of a misleading impression as to the price or value of securities.

4. Non-Compliance by Unlisted Licensees

a) The Directorate issued a Non-Compliance letter dated 19th July 2018, to a CBB Licensee, for its failure to adhere to the Offering of Securities Module requirements, particularly OFS-1.4.5 and OFS-1.4.6 by marketing products under the Base Prospectus which has not been filed with the CMSD and does not include the necessary prominent statements.
b) The CMSD imposed trading restrictions on an unlisted CBB Licensee on 16th October 2018 as a preventive surveillance measure due to developments relating to an impending transaction which caused suspicion of potential market misconduct.

Takeovers, Mergers and Acquisitions

a) Ahli United Bank B.S.C. and Kuwait Finance House K.S.C.P.

The CMSD is currently supervising and monitoring the developments in the potential merger between Ahli United Bank B.S.C (“AUB”) and Kuwait Finance House K.S.C.P. (“KFH”).

A memorandum of understanding (“MOU”) was signed on 22nd July 2018 between AUB and KFH, pursuant to which the boards of directors of both banks received the valuation reports issued by HSBC and Credit Suisse, appointed pursuant to the MOU, to recommend and determine a fair share exchange ratio in regards to the transaction.

AUB’s Board of Directors and KFH’s Board of Directors have approved the average preliminary share exchange ratio. No formal offer has been extended from KFH to merge with AUB yet.

b) National Bank of Bahrain B.S.C. and Bahrain Islamic Bank B.S.C.

The CMSD is supervising and monitoring the current developments in the potential voluntary acquisition offer from the National Bank of Bahrain B.S.C. (“NBB”) to the Bahrain Islamic Bank B.S.C. (“BisB”) for the issued share capital of BisB as NBB is considering potentially increasing its shareholding in BisB. No formal offer to acquire the issued share capital of BisB has yet been made by NBB.

c) Bahrain Car Parks Company B.S.C. and Bahrain Real Estate Investment Company (Edamah) B.S.C. (c)

The CMSD is supervising and monitoring the current developments in the deal between Bahrain Car Parks Company B.S.C. (“Car Park”) and Bahrain Real Estate Investment Company (Edamah) B.S.C (c) (“Edamah”), pursuant to the memorandum of understanding signed between Car Park and Edamah to evaluate the grant of a usufruct right (99 years) with automatic renewal in a car park building owned by Edamah to Car Park.
Joint Work of the Gulf Cooperation Council (GCC)

a) As the regulator of capital markets in the Kingdom of Bahrain and in line with the common objectives sought by the GCC capital market regulators, the CBB held a joint seminar on 17th October 2018 with related market participants and discussed initiatives and proposals for achieving integration between GCC financial markets. The seminar addressed three main areas of discussion through which the CBB envisages to achieve integration.

b) The CBB’s CMSD participated in the 17th meeting of the Heads of Securities Commission held in Kuwait on 24th October 2018, wherein the CBB was assigned with drafting a unified template for requests for information in line with the framework of cooperation and exchange of information, as part of the memorandum of understanding between the regulators of the capital markets of the GCC countries to be discussed at the next meeting.

c) A delegation from the CBB’s CMSD visited the Securities and Commodities Authority of the United Arab Emirates on 25th to 28th November 2018 for a consultative visit to examine the Authority’s regulatory experience and identify any feasible improvement mechanisms to elevate the CBB’s capital markets supervisory framework particularly as it relates to the Market Surveillance, Investigation and Enforcement functions.

d) A delegation from the CBB’s CMSD participated in the 2nd annual market surveillance workshop held in Kuwait on 5th to 6th December 2018 where GCC capital market regulators presented and discussed detected cases of violations and illegal practices.

e) A delegation from the CBB’s Research and Investor Protection Department and the Human Resources Strategy and Development Department, participated in the 6th Meeting of the Training Officers’ in the GCC Capital Markets Regulators and the workshop on the Joint Electronic Training Portal in Kuwait during the period from 26 to 27 December 2018, during which the results of the training and development programs held in 2018 were presented and the results of the workshop on the mechanism of the joint training portal for the GCC Capital Markets Regulators were discussed.

Financial Institutions Supervision Directorate (“FISD”)
Overall responsibilities of FISD as part of CBB

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

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

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

Routine responsibilities covered during 2017

During the course of 2018, FISD continued to fulfill its responsibilities by implementing rules and regulations and using various supervisory tools, including in-depth financial analysis, prudential meetings with management of licensees, formal requests for information from the sector, liaising internally with other Directorates at the CBB, in addition to the ongoing monitoring of licensees through regular communication and exchange of correspondence.

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

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

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

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

Consultations
On the 28th of February 2018, a consultation paper was issued to all Banks and all Investment Firm Licensees in relation to the brokerage fees in Bahrain, seeking the industry’s feedback on the current scale of brokerage rates and transactions classification.

Laws, Resolutions, and Directives

On 22nd of November 2018, a directive was issued for certain financial Institutions in the Kingdom of Bahrain, concerning their economic substance requirements.

Circulars:

In April 2018, the CBB issued circular no. OG/174/2018 addressed to all licensees and listed companies, notifying them about the new methodology for calculating financial penalties. The CBB will implement and the necessary amendments to the relevant Rulebook Modules regarding this matter.

In November 2018, the CBB has issued circular no. FIS/C/01/2018 addressed to all Category 3 Investment Firm Licensees. The CBB required the licensees to submit a detailed assessment report specifying the guidance paragraphs of Chapter HC-10 and the status of the licensees’ compliance, along with an explanation of the reasons of not being able to fully comply with the same.

Regulatory and Rulebook Updates:

During 2018, FISD continued to develop the rules and regulations pertaining to its licensees, either by way of updating existing rules or introducing new rules.

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

CBB Rulebook Volume 4: Investment Business Developments

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

As a result, quarterly updates to the Rulebook were issued in January, April, July and October of 2018.
An update was issued to the CBB Reporting Module (BR) and the Auditors and Accounting standards Module (AA) in January 2018 and April 2018 respectively, amending the deadline for the submission of auditor report with regards to compliance of licensees with the CL module, to be three months of the licensees’ financial year end instead of four months.

July’s update included amending the license payment method
In October 2018, a new reporting requirement has been introduced in the BR Module on Private Placement.

**CBB Rulebook Volume 5:**

**Specialized Licensees Developments**

**Money Changers Developments**

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

An update was issued in October 2018 concerning the general requirements of maintaining the books and records of the Exchange.

**Trust Service Providers Developments**

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

In June 2018, the CBB issued Resolution no. (33) of 2018 regarding the conditions and licensing procedures of undertaking trustee services and Resolution no. (1) of 2018 amending certain provisions of Resolution (40) of 2016 specifying the fees applicable for registering trusts and licensing trustees.

**Ancillary Service Providers**

On 11th February 2014, the Common Modules were formally issued to Ancillary Service Providers. The same communication letter included a consultation on the Specific Modules. The Consultation included six Modules. The Specific Modules were officially issued to licensees replacing all existing supervision circulars on 15th March 2016. The Specific Modules included Authorisation, CBB Reporting and General Requirements. In December 2018, an update was issued to expand the activities of a Regulated Ancillary Service Provider.

**CBB Rulebook Volume 7:**

**Collective Investment Undertakings Developments**
During the course of 2018, the FISD continued to ensure that Bahrain domiciled CIUs and placement agents of overseas domiciled CIUs adhere to the requirements of CBB Rulebook Volume 7 issued in April 2012.

As a result, a quarterly update to the Rulebook was issued in January of 2018, which included an enhancement to the directives related to the Bahrain Domiciled Real Estate Invest Trusts (B-REITs).

During 2018, the CBB registered 36 overseas domiciled CIUs to be marketed in Bahrain.

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

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

**Promoting stability and soundness in the financial system**

During the course of 2018, FISD continued to monitor the performance of the financial institutions under its supervision, through various supervisory tools, including the scrutinizing of financial reports submitted by licensees on a monthly or quarterly basis and through conducting regular management meetings.

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

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

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

Moreover, the Code of Practice within the Business Conduct Module of Rulebook Volume 4 comprehensively addresses the measures that Investment Business Firms are required to adhere to in addressing the public.
Additionally, the FISD ensures that all CIUs offered to the public, are either authorized or registered as required, and are marketed to the appropriate category of clients only by eligible financial institutions.

**Promoting transparency and market discipline.**

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

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

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

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

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

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

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

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

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

The Insurance Supervision Directorate released the Insurance Market Review Report of 2017. The Report presents the financial performance of the insurance industry in Bahrain for the years 2016 and 2017 (both conventional insurance & reinsurance and Takaful & Retakaful business) by class of business in the Kingdom, highlighting the origin and the historical background of the insurance market in Bahrain. The total gross premiums of the Bahrain insurance market have shown steady results in 2017 in terms of gross premiums which registered BD 268.69 million. Insurance penetration (ratio of gross premiums to GDP) stood at 2.02% in 2017.

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

- The CBB requested Insurance Firms’ management to submit their year-end financial statements and attend a meeting whenever required at the CBB with their external auditors prior to the submission of the financial statements for approval to the Board of Directors.

- The CBB continued to receive monthly investment reports and assess the performance of the investment portfolio.

- The CBB receives and reviews various prudential reports as per the requirements of the CBB Rulebook (Volume 3) in order to efficiently supervise and assess the Licensees compliance with the requirements of the CBB and Financial Institutions Law No. (64) of 2006 and the CBB Rulebook (Volume 3).

- In October 2014, Motor Insurance Compensation Fund Law No. 61 of 2014 was issued after approval by Shura Council and Council of Representatives. The Fund was an initiative of the CBB and Bahrain Insurance Association (BIA) which is designed to compensate the injured parties in the following circumstances:
  - Absence of a valid insurance policy for the vehicle that caused the accident (Uninsured vehicle);
  - The vehicle that caused the accident or the owner and/or the driver of the vehicle were not identified (Hit & Run);
  - In the event of the insurer being insolvent; and
  - In case of no other party to compensate as per relevant laws and regulations.
During 2018, the Board of Directors of the Motor Compensation Fund had several meetings and discussed various issues related to the Fund. Furthermore, the Fund received the contribution of 1% of the Gross Motor Insurance Premiums from the Insurance Firms for the year 2018.

- In July 2016, the CBB published Resolution No. (23) of 2016 in the Official Gazette regarding the unified compulsory Third Party Motor Insurance Policy along with the procedures to be followed when dealing with claims arising from compulsory third party motor policies. Such resolution was issued in order to ensure that high quality insurance services are being offered to customers and fair treatment is being maintained with all policyholders and claimants. Moreover, the CBB is closely monitoring insurance firms’ compliance in respect of customer complaints procedures to ensure effective handling of complaints is being carried out by Insurance Firms.

- The CBB issued several directives to Insurance Firms to expedite and coordinate among themselves to settle the outstanding receivable balances in respect of Motor Insurance Subrogation Reconciliation for the year 2015 and the years earlier. The CBB is monitoring the reconciliation process by requesting Insurance Firms to submit periodic progress reports to the CBB. Moreover, the CBB has issued a directive to Insurance Firms to settle the outstanding balances from 2015 and the years earlier and to ensure settling them by mid-2018 or to provide for the amounts in full as provisions in the event of failure to settle them on time.

- The CBB has played a cooperation role between the Real Estate Regulatory Authority (RERA) and Bahrain Insurance Association (BIA) to introduce an Insurance Bond of escrow accounts for real estate projects, which is considered the first of its kind in the GCC region. This Insurance Bond brings on solider buyer and investor protection, improved cash flow management for developers, increased availability of finance for developers and investors as well as greater efficiencies in the real estate market.

Financial Stability Directorate

During 2018, the Financial Stability Directorate ("FSD") continued conducting macro prudential surveillance of the financial system to identify areas of potential concern and to undertake research and analysis on issues relating to financial stability. The FSD also continued to perform the following core functions:
• Issuing various publications such as the Financial Stability Report (semi-annual) and the Economic Report (annual), along with other periodical publications that monitor domestic and international macro-financial developments that include the Financial Soundness Indicators (Quarterly).

• Undertaking general research on issues relating to financial stability in Bahrain and conducting a number of presentations on financial stability developments.

• Collecting, compiling and disseminating statistical information and releasing financial data that is published through its Monthly Statistical Bulletin and quarterly Economic Indicators.

• Monitoring major global economic developments in the internal Weekly International Bulletin.

• Conducting annual surveys such as the Manpower Survey, Coordinated Portfolio Investment (“CPIS”) Survey (annual), and Coordinated Direct Investment (“CDIS”) Survey (annual), Locational International Banking surveys (quarterly).

• Maintaining CBB’s relations with major international institutions and agencies (IMF, World Bank, and rating agencies) and acting as a point of contact for other third parties, both domestic and overseas.

• During 2018, the FSD continued to provide research and analysis assistance to all directorates of the Bank. The FSD has received various requests for the preparation of research and studies.

• Preparing research papers on the following topics:
  
  o Bank’s Exposure to Real Estate Inside Bahrain
  o Non-oil foreign trade in Bahrain
  o Risk trends in deposits and loans of retail banks in Bahrain
  o Net Foreign Assets of Retail Banks

The FSD continued to implement the recommendations of the Financial Sector Assessment Program (FSAP), which was held in 2016 and 2017. The FSD continued to coordinate with the IMF mission and worked with CBB’s other directorates to follow up on all the requirements related to the program. The FSD follows up on updates on the recommendations related to the banking and insurance sector, banking services, and stress tests for the banking system and
financial stability issues, which contribute to the development of the supervisory and regulatory systems adopted by the CBB.

In 2018, the FSD focused on enhancing its publications and statistical data. For the Financial Stability Report, there was focus on making it more comprehensive by covering developments in the insurance and capital markets sectors, and including new chapters on Fintech, Financial Inclusion, and Cyber Risk. The Economic Report includes new chapters such as foreign direct investment and workers remittances, and current chapters focus more specifically on the financial sector of Bahrain. The FSD also enhanced some of its statistical returns to capture data on SME’s, investment business firms, Islamic windows, financial institutions, and Point of Sale (POS) data.

The CBB also conducted its sensitivity stress testing exercises in 2018 based on locally incorporated Systemically Important Banks (D-SIBs).

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

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

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

New Licenses

Fintech & Innovation

Payment System (“SSS” & “RTGS”)

Currency Issue

CBB Training Programs

IT Projects

External Communications Unit

CBB’s Organisational Chart
4.1 New Licenses

New Licenses

The Central Bank of Bahrain (“CBB”) has issued 10 new licenses in 2018 compared to 16 new licenses issued in 2017, reaching to a total of 382 licensees providing financial services from Kingdom of Bahrain as of 31st December 2018 compared to a total of 393 licensees as of 31st December 2017.

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

2. Ahli United Bank (Bahrain) B.S.C. (c), Retail Bank-Locally.
4. Intesa Sanpaolo Private Bank (Suisse) S.A. – Banking Representative Office.
5. BFC Payments B.S.C. (c) - Ancillary Service Provider – Card Processing & Payment Services Provider (PSP) License.
6. Finzo Co. B.S.C. (c) – Ancillary Service Provider – Card Processing & Payment Services Provider (PSP) License.
7. Basma for Cash Services B.S.C. (c) – Ancillary Service Provider License - Others.
8. NAFEX Payment W.L.L. – Ancillary Services Provider – Payment Services Provider (PSP) License.

The main growth of new licenses issued in 2018 was in the Specialized Licenses sector as shown in the graph below:

New Licensees Growth by Sector
4.2 Fintech & Innovations Unit

Unit Mandate

In October 2017, the FinTech & Innovation Unit was set up at the Central Bank of Bahrain with the following mandate:

- Conduct market research and develop strategic initiatives on FinTech.
- Lead the drafting of and the development of regulatory policy initiatives in relation to FinTech.
- Participate in the assessment of Regulatory Sandbox applicants, and monitor approved applicants.
- Participate in the screening and reviewing of new FinTech products by licensees and proposed licensees.
- Liaising with other Directorates within the CBB on FinTech related issues.
- Communicating and coordinating with FinTech Units in other jurisdictions to exchange ideas and information (this can also include entering into MOU’s).
- Coordinate with the EDB and Bahrain FinTech Bay (BFB) to work on growing the FinTech Sector in the Kingdom.

CBB’s Regulatory Sandbox

The Regulatory Sandbox Framework, first issued in May 2017, sets out the Central Bank of Bahrain’s (CBB) approach to authorizing Regulatory Sandbox participants in the Kingdom of Bahrain. The Regulatory Sandbox is a virtual space for both
CBB-licensed financial institutions and other firms to test their technology-based innovative solutions relevant to FinTech or the financial sector in general.

An internal Regulatory Sandbox Applications Assessment Committee has been set up in June 2017 to examine incoming applications and assess them for admission to the Regulatory Sandbox.

To date, the CBB has received 48 applications to join the Regulatory Sandbox, of which consists of the following:

- Following application discussions within the committee, 26 applications were approved
- 1 application is under study
- 6 applications were transferred to the Licensing Department because they did not meet the requirements and standards of the Regulatory Sandbox Framework
- 4 applications were refused entry to the Regulatory Sandbox because their activities did not meet the requirements and standards of the Regulatory Sandbox Framework
- 5 applications were canceled at the request of applicants
- 6 applications are on hold because of incomplete applications
- 1 company successfully exited the Sandbox – The first Regulatory Sandbox graduate, Tarabut Gateway W.L.L., was granted an in-principle confirmation for an Open-Banking License on 11 December 2018.

1(a) - Number of Applications Received

![Diagram showing the composition of applications received]

1(b) – Composition of Regulatory Sandbox Companies
Chapter 4: CBB Projects and Activities

Completed Projects/Unit Accomplishments

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.

Regulatory Sandbox Framework

The Regulatory Sandbox Framework was revised in August 2018.

Crowdfunding Regulations

The scope of the activities under the previously issued Crowdfunding Regulations were refined and enhanced in November 2018, to make them more enabling and increase the adoption rate. The revisions made to the existing rules include amongst others:

- Reduction in minimum capital given the nature of the risk profile of the crowdfunding operator
- Removing the prohibition on business to business lending or investing through platforms
- Raising the limits for lending through crowdfunding platforms
- Removal of certain restrictive conditions for lending/investing through crowdfunding platforms
- Consumer protection mechanism implemented whereby, the lender or investor has the right to withdraw the commitment made within 48 hours from the time he/she makes a commitment to lend or invest

Open Banking Regulations
The FinTech & Innovation Unit prepared a study on Open Banking for the CBB on June 2018. This study led to the issuance of Open Banking regulations on 6\textsuperscript{th} December 2018 after circulating the draft regulations early November and collating feedback from the industry. The rules are targeted at ensuring that the CBB helps foster innovation, competition, and enhanced efficiency within the financial system keeping in view changing consumer trends. Open banking services will entail the provision of two broad categories of services: “Account information service platforms (AISP)” and “payment initiation service platforms (PISP)”, which fall under “Ancillary Service Providers” of CBB Rulebook Volume 5.

**Crypto-Asset Platform Operator Regulations**

The FinTech & Innovation Unit worked alongside the Policy Unit and Capital Markets Supervision Directorate to draft Crypto-asset regulations for the CBB. Draft rules for Crypto-asset Platform Operator (CPO) were released for consultation on 13\textsuperscript{th} December 2018, which provide a regulatory framework for licensing and supervision of crypto-asset services to fall under CBB Rulebook Volume 6. The CBB is seeking feedback on the consultation by 13\textsuperscript{th} January 2019.

**Project Pipeline**

**Updating Regulations**
- Working groups comprised of the FinTech & Innovation Unit along with the necessary teams have been set up to draft regulations on “Rob-advisory” and “Insurance Aggregators”.
- Feedback from the industry to be received and implemented within the Crypto-Asset Platform Operators regulations to be finalized by the end of January 2019.
- To continue researching jurisdictions and new initiatives within the FinTech sphere to further develop regulations, in particular licensing Virtual Banks.
- The Unit is leading on a working group set up to explore how the CBB can support the use of technology for regulatory reporting purposes (RegTech) and on how the CBB could make use of technology for its supervisory & oversight processes (SupTech).

**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**

The FinTech & Innovation Unit has been working closely alongside Benefit, the iGA and other stakeholders on the national eKYC Utility project, whereby, the Unit is represented on the projects Steering Committee and has actively participated in a number of workshops and meetings.

**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 – as part of an on-going working group, which covers the whole financial services sector, including insurance.

The Unit is also involved in the working group to drive the CBB’s internal digital transformation strategy.

Women in FinTech Bahrain Initiative

The Women in FinTech Bahrain initiative (“WIFBH”) is an ongoing non-for-profit network of professional women with a mission to raise awareness and opportunities within FinTech for women. The committee is represented by women from the EBD, FinTech & Innovation Unit at the CBB, Bahrain FinTech Bay, banks and other relevant organizations (both public and private).

International Agreements & Recognitions

- Team Bahrain, comprised of a team of representatives from the CBB, EDB, and Bahrain FinTech Bay, won the “MENA FinTech Hub of the Year” Award for Bahrain that was presented by FinTech Galaxy, a digital crowdfunding platform, in association with Entrepreneur Middle East, a flagship regional business magazine, during FinX 2018 held on 31 October 2018.
- Abu Dhabi Global Market (ADGM) and the CBB signed a Memorandum of Understanding (MOU) to promote and facilitate innovation in financial services across the United Arab Emirates and the Kingdom of Bahrain on 11th November 2018.
- The CBB and the Monetary Authority of Singapore (MAS) signed a MOU to foster innovation in financial services between the two countries on 13th November 2018 during the CBB’s visit to the Singapore FinTech Festival.
- In August 2018, the CBB became a member in the Global Financial Innovation Network (“GFIN”), which is an initiative led by the Financial Conduct Authority (“FCA”). This will entail being an active member in the networks works reams and participating in cross-border Sandbox trials.

Memberships in International Committees/Working Groups

- FinTech Working Group - Secretariat General of the GCC
  o Provided the CBB’s input on the group’s objectives & responsibilities, which was approved by the GCC Committee of Governors of Monetary Institutions & Central Banks
  o Provided the CBB’s input on the group’s proposed working plan and short-term goals
- Global Financial Innovation Network (“GFIN”)
The FinTech & Innovation Unit representing the CBB, in collaboration with the Financial Conduct Authority (“FCA”) and 11 financial regulators and related organizations from around the world, in forming GFIN, building on the FCA’s initiative to create a ‘global sandbox’. GFIN is a collaborative knowledge sharing initiative aimed at advancing areas including financial integrity, consumer wellbeing and protection, financial inclusion, competition and financial stability through innovation in financial services, by sharing experiences, working jointly on lessons learnt and facilitating responsible cross-border experimentation of new ideas.

The FinTech & Innovation Unit, representing the CBB, is a member of the ‘Co-ordination Group’ of GFIN, which is the highest tier of membership in GFIN. This will entail actively participating in GFIN’s work streams, cross-border Sandbox trials, and attending in-person meetings of the network.

International Participation

In an effort towards developing financial technology within the Kingdom of Bahrain, the FinTech team has participated in a number of initiatives and conferences both within the Kingdom and abroad to spread awareness of its mandate and the Regulatory Sandbox whilst also meeting with potential and interested companies, as well as for learning and sharing experiences with other regulators.

Following is a list of the FinTech & Innovations Unit participation in international conferences and forums, in an effort to represent the Central Bank of Bahrain abroad and promote the Kingdom as a FinTech hub:

- January 2018: The FinTech & Innovation Unit joined a delegation from the EDB at the Paris FinTech Forum
- January 2018: The FinTech & Innovation Unit represented the CBB in a panel session at Unlock Blockchain Forum Dubai
- March 2018: The FinTech & Innovation Unit joined a delegation from the EDB to attend the Innovate Finance Global Summit and the Bahrain FinTech roadshow in the UK
- April 2018: The FinTech & Innovation Unit attended the First IMF FinTech Roundtable Program took place in Washington DC
- April 2018: Participated in the working group’s first meeting held in Kuwait
- May 2018: A delegation from the CBB visited Visa’s Dubai Innovation Center in Dubai to learn more about technological advancements in payments
May 2018: The FinTech & Innovation Unit along with a delegation from the EDB visited the Saudi Arabian Monetary Authority to discuss possible future cooperation within FinTech

September 2018: The FinTech & Innovation Unit along with the EDB visited the UK to meet with the Financial Conduct Authority (FCA) and several entities related to FinTech and to prepare for the Bahrain roadshow expected to take place in April 2019 in London

September 2018: The FinTech & Innovation Unit participated in second FinTech Abu Dhabi Summit & Regional Regulators Roundtable in Abu Dhabi, hosted by ADGM

September 2018: The FinTech & Innovation Unit joined a delegation from the EDB on a trip to China in promoting the Kingdom’s FinTech initiatives and to meet several entities related to FinTech

November 2018: A delegation from the CBB attended the Singapore FinTech Festival, hosted by MAS

December 2018: A delegation from the CBB attended the First Arab Fintex Symposium on Blockchain and Financial Inclusion, hosted by AMF in Abu Dhabi

4.3 Payment System (“SSS” & “RTGS”)

Transfers through the Real Time Gross Settlement System (RTGS) were 252,273 transfers in 2018, for a total amount of BD81.2 billion with a daily average of 1,017 transfers and BD327.5 million, categorised into the following:

- The volume of inter-bank transfer through RTGS was 44,423 transfers for a value of BD77.0 billion.

- The volume of customer transfers through the RTGS totalled 207,850 transfers with a value of BD4.3 billion during 2018.

- Total fees received from RTGS and SSS member banks (transaction fees and annual membership fees) amounted to BD342,121 in 2018.

- There were 91 issues carried out through the Scripless Securities Settlement System (SSSS) in 2018, the value of which was BD5.8 billion.

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*Business Days only (248 days).*
4.3 Bahrain Cheque Truncation System (BCTS)

The number of cheques cleared through the BCTS for 2018 was 3,166,987 cheques with a total amount BD9.5 billion. The daily average\(^5\) number of cheques was 12,770 cheques and the daily average value was BD38.2 million.

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

Transfers through the Electronic Fund Transfer System (EFTS) including Electronic Bill Presentment and Payment (EBPP) System were 8.5 million transfers in 2018, for a total amount of BD11.5 billion, categorised into the following:

- The volume of Fawri+ transfers through the EFTS was 959,689 transfers for a value of BD174.7 million. The daily average number of Fawri+ transfers was 2,629 and the daily average value was BD478,721.

- The volume of Fawri transfers through the EFTS was 5,838,333 transfers for a value of BD11.2 billion. The daily average\(^6\) number of Fawri transfers was 23,542 and the daily average value was BD45.0 million.

- The volume of Fawateer payments through the EBPP was 1,665,748 transfers for a value of BD133.1 million. The daily average number of Fawateer transfers was 4,564 and the daily average value was BD364,726.

Quick response code "QR code"

Quick response codes (“QR code”) provide a simple way for people to initiate electronic payments by using their smartphone to scan the QR code. Likewise, payment QR Codes also provide a low-cost payment acceptance channel to micro and small merchants. Having considered the potential benefits of implementing payment QR Code that supports global standards, the CBB has decided, in consultation with the banks and payment service providers, to standardise QR Code specifications used by retail payment systems in Bahrain. Retail banks, financing companies and ancillary service providers that use merchant presented QR codes in their payment systems, are required to use standard QR Codes in accordance

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\(^5\) Business Days only (248 days).
\(^6\) Business Days only (248 days).
with the EMV® QR Code Specifications for Payment Systems ("EMV QRCPS").

### 4.5 Currency Issue

- The CIS continued its operations accounting, sorting of currency notes and shredding of unfit currency notes using the machine which was directly linked to records of the CIS. The value of shredded unfit currency notes amounted to BD 170,907,487/- in 2018.

- The total value of currency withdrawals during 2018 amounted to BD 1,595,064,950/-, while that of the currency deposits stood at BD 1,614,071,260/-. 

- The value of currency in circulation recorded BD 682,457,430/- on 31st December 2018, of which currency coins and notes amounted to BD 21,556,990/- and BD 660,900,440/- respectively. The fourth issue of currency notes reached a level of BD 105,551,893/- and amounted to 15.971% of the total value of currency notes in circulation. The value of the third issue of currency notes stood at BD 8,885,582/- or 1.345% of the total value of currency in circulation.

- The upgraded issue of the BD 20, BD 10 and BD5 new series of currency notes reached a level of BD 546,462,965/- and amounted to 82.684% of the total value of currency in circulation.

- In order to upgrade the security features of the Bahraini dinar banknote, the Central Bank of Bahrain issued an upgraded BD5 by replacing the Holography layer with a new security feature “Spark Live Truspin” and other existing security features will remind on the banknote, the issue of the upgraded BD5 followed the issue of the upgraded BD10 and BD 20 were issued on 5th September 2016.

### 4.6 CBB Training Programs

During 2018, the Central Bank of Bahrain continued to focus on ensuring that CBB's employees have the right skills and competencies to enable them to perform their responsibilities at a high level.

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

- Developing employees' skills and knowledge through enrolling 179 employees in 154 training courses at BIBF; covering different areas
including finance, Islamic banking, insurance, management and Information Technology.

- Enhancing technical competencies through enrolling 75 employees in 60 external training programs, workshops and conferences, organized by regional and international organizations such as the Economic Policy Institute of AMF, IMF, IFSB and other specialized institutes. These programs and conferences covered various areas including banking supervision, economics, investment, insurance, Fintech and IT.

- Conducting a tailored program in First Aid and Fire Fighting for 8 marshals and Security Officers in order to equip them with the necessary skills for emergencies, in cooperation with the School of Civil Defense- Ministry of Interior.

- Conducting a tailored program in cooperation with the Bahrain Institute of Banking and Finance (BIBF) for 21 new employees; in order to develop their skills in communication, time management and work ethics.

- Providing internships for 21 university students, in order to enhance their professional skills and prepare them for the workplace.

- Making use of technology through providing access to 100 employees to an e-learning platform, which covers a variety of Banking and Finance subjects. Also, providing access to 35 employees to IFSB e-learning platform, which is specialized in Islamic Banking and Takaful standards.

4.7 IT Projects

During the course of 2018, a number of projects were completed within the IT department. They included the following:

*New e-service for CBB Staff in collaboration with the Retail Banks*

The CBB has launched a new electronic service, which facilitates banking transactions for its employees through a direct online banking system with retail banks in the Kingdom of Bahrain. This system allows the retail banks providing credit services to CBB employees to view – upon the concerned employee’s request- the required salary and employment service data in a timely and secure manner, which preserves the privacy of the data.
This online service is part of the CBB’s strategy to utilize technology in the development of business processes in order to enhance the work mechanism, preserve information security and privacy and better optimize the use of resources.

**CBB website migrated to the Amazon Cloud**

As part of the CBB’s Cloud Computing Strategy, the CBB has successfully migrated its official website to Amazon Web Services (“AWS”) cloud. The adoption of the AWS cloud follows Amazon’s announcement in September 2017 of the establishment of a “New Region” in Bahrain by early 2019, where Amazon provides services in three availability zones.

**Secure private network for Financial Institutions**

As part of the CBB’s efforts to boost the Kingdom’s banking sector and meet the international Payment and Settlement System standards, the CBB has launched a secure private network to connect all Retail Banks in the Kingdom of Bahrain with the CBB. This secure network will act as the primary communication hub to perform real-time inter-bank payments and fund settlement in the Real Time Gross Settlement system (“RTGS”) and preform securities settlement in the Scripless Securities Settlement System (“SSS”), while retaining the existing SWIFT network as a contingency backup.

The introduction of this new network is a conscious move towards strengthening the system resiliency further and aligning it with global Payment System best practices. This strategic move also supports the required infrastructure readiness, which can cater for the introduction of other services with these Institutions in the future. Moreover, the network will facilitate the communication between the Kingdom of Bahrain and the GCC RTGS system, which will soon enter its implementation phase.
The project of establishing the secure private network between the CBB and the financial institutions is one of the important strategic projects that the CBB has launched recently. This network provides a secure environment to complete the settlement of payments in an efficient way, while at the same time ensuring that the participants’ payment messages retain the security and confidentiality needed.

**Integrated solution for Foreign Account Tax Compliance Act (FATCA) and Common Reporting Standard (CRS)**

CBB implemented the Common Reporting Standard ("CRS") on AWS Cloud to facilitate the agreement between the Government of the Kingdom of Bahrain and other reportable jurisdictions with respect to Automatic Exchange of Information for Tax Purposes ("AEOI").

The System enables the exchange of certain information ("CRS Report") in line with the CRS and its Commentaries requirements of the CRS stipulated in the Standard for Automatic Exchange of Financial Account Information in Tax Matters, by receiving CRS Reports from domestic reporting Financial Institutions, for exchanging with other administrations under the supervision of Compliance Directorate and Ministry of Finance.

The System also facilitates CBB to obtain detailed account information for US taxpayers on an annual basis and to share the same with the US tax authorities for FATCA compliance.

**Migration of in-house developed applications**

The ITD successfully migrated applications developed in-house to the latest version of Oracle Developer. The project was undertaken as the previous version of the Oracle product had reached end-of-life and would no longer be supported by Oracle. Furthermore, the new version is enriched with many enhancements related to performance and security.
**Enhancement of Information Security**

In complement to the in-house penetration tests of ITD infrastructure and as prevention measure, an external Penetration Tests has conducted by external security vendor and the observations thereof were addressed in order to strengthen the security of the CBB ITD infrastructure.

In addition, ITD has enhanced portable devices security by implementing a solution to encrypt mobile devices provided by CBB to its staff. Email security has been enhanced, by enabling email to ensure that all emails sent is not tempered with.

**Regulatory Sandbox Application form on CBB Website**

CBB lunched an online Application Form for Regulatory Sandbox on CBB website, to enable FinTech companies to apply to CBB’s Regulatory Sandbox, the form will be accessible by registered users only via CBB Website. Also, it will enable the licensing Directorate to download and track the Sandbox Applications.

**Upgrade of the Document Management System:**

The current Document Management System has been upgraded to the latest version supported by the vendor to ensure receiving adequate support when needed. The new version is enriched with many enhancements related to performance and content management.

### 4.8 External Communications Unit

**Press Releases from CBB**

- Total Number of Press Releases (242 Press Release)
- Total Number of Government Securities and Sukuk Press Releases (168 Press Release)
- Total Number of Press Releases related to CBB announcements and events (74 Press Release)

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<td>Nomura International plc, UK receives a License from the Central Bank of Bahrain</td>
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<td>15.01.2018</td>
<td>Regulatory Sandbox application authorizations by the Central Bank of Bahrain</td>
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<td>21.01.2018</td>
<td>CBB and DFSA sign MOU</td>
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<td>29.01.2018</td>
<td>Bank of Jordan receives a License from the Central Bank of Bahrain</td>
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<td>CBB launching a new e-service for its Staff in collaboration with the Retail Banks</td>
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<td>26.02.2018</td>
<td>Central Bank of Bahrain's website migrated to the Amazon Cloud (AWS)</td>
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<td>28.02.2018</td>
<td>Central Bank of Bahrain participates in Consumer Protection Awareness Expo</td>
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<td>07.03.2018</td>
<td>CBB issues Resolution No. (11) for the implementation of the Self-Regulatory Organization (SRO) model of the Exchanges licensed by the Central Bank of Bahrain in relevance to listing securities and financial instruments post its initial public offering</td>
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<tr>
<td>07.03.2018</td>
<td>CBB launches a secure private network for Financial Institutions</td>
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<td>21.03.2018</td>
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<td>Central Bank of Bahrain denies false news on &quot;Turkiye Is Bankasi AS&quot;</td>
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<td>ISLAMIC BANKS’ BOARD MEMBERS ATTEND 8TH WAQF FUND CORPORATE GOVERNANCE WORKSHOP</td>
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<td>09.05.2018</td>
<td>Waqf Fund holds its 11th Roundtable Discussion on Pool Management &amp; Profit Distribution</td>
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<td>28.05.2018</td>
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<td>26.06.2018</td>
<td>Official Statement – BHD Currency Peg</td>
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<td>26.06.2018</td>
<td>Governor of the Central Bank of Bahrain receives the participants of the program of the First Deputy Prime Minister</td>
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<td>03.07.2018</td>
<td>Adoption of the Joint Assessment Report of the Kingdom of Bahrain</td>
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<td>08.08.2018</td>
<td>Central Bank of Bahrain confirms the importance of reviewing banks’ customers of their bank accounts</td>
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<td>09.08.2018</td>
<td>Central Bank of Bahrain collaborates on new consultation to explore the opportunities of a Global Financial Innovation Network</td>
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<td>26.09.2018</td>
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<td>23.10.2018</td>
<td>Intesa Sanpaolo Private Bank (Suisse) S.A. receives a License from the CBB</td>
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<td>29.10.2018</td>
<td>The CBB announces the approval on the IPO of APM Terminals Bahrain and the registration of the prospectus in relation to the offering and listing</td>
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<td>31.10.2018</td>
<td>Team Bahrain wins key award for Fintech initiatives</td>
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<td>07.11.2018</td>
<td>9th Waqf Fund Corporate Governance Workshop</td>
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<td>11.11.2018</td>
<td>Central Bank of Bahrain issues draft rules on open banking</td>
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<td>11.11.2018</td>
<td>ADGM Signs MOU with Central Bank of Bahrain to Promote Innovation in Financial Sector</td>
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<td>The Central Bank of Bahrain standardises merchant presented QR Code (QR Code)</td>
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<td>Bahrain and Singapore strengthen cooperation in Fintech</td>
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<td>22.11.2018</td>
<td>Central Bank of Bahrain revises crowdfunding rules</td>
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<td>04.12.2018</td>
<td>مصرف البحرين المركزي يحتفل بيوم المرأة البحرينية</td>
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<td>06.12.2018</td>
<td>Central Bank of Bahrain issues final rules on open banking</td>
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<td>CBB congratulates CFA charter holders</td>
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<td>19.12.2018</td>
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<td>25.12.2018</td>
<td>The Central Bank of Bahrain (CBB) confirms exemption of Value Added Tax for the Financial Sector and Banking Services</td>
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**Conferences and Forums**

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<tr>
<td>5 February 2018</td>
<td>12th MENA Regulatory Summit</td>
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<td>19 February 2018</td>
<td>Trusts Law Event by EDB</td>
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<td>20 - 21 February 2018</td>
<td>Euromoney The GCC Financial Forum</td>
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<td>8 March 2018</td>
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<table>
<thead>
<tr>
<th>Date</th>
<th>Event Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>27 – 28 March 2018</td>
<td>E-Payment and Internet Banking Summit 2018</td>
</tr>
<tr>
<td>8 - 9 April 2018</td>
<td>AAOIFI Shariaah Conference</td>
</tr>
<tr>
<td>14 May 2018</td>
<td>Middle East Asset Management Forum</td>
</tr>
<tr>
<td>3 – 4 October 2018</td>
<td>BBK's EMTECH SUMMIT &amp; EXPO 2018</td>
</tr>
<tr>
<td>8 October 2018</td>
<td>BAB Open Dialogue</td>
</tr>
<tr>
<td>23-24 October 2018</td>
<td>AAOIFI World Bank Conference</td>
</tr>
<tr>
<td>31 October 2018</td>
<td>BAB Annual Forum 2018</td>
</tr>
<tr>
<td>31 October 2018</td>
<td>MENA Pensions Conference</td>
</tr>
<tr>
<td>4 November 2018</td>
<td>Internal Audit in Fintech and RPA Era</td>
</tr>
<tr>
<td>27 - 28 November 2018</td>
<td>World Islamic Banking Conference</td>
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<tr>
<td>14 – 16 December 2018</td>
<td>BIC National Day</td>
</tr>
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</table>

**Interviews**

<table>
<thead>
<tr>
<th>Date</th>
<th>Interviewee Details</th>
<th>Media and Event Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>20 February 2018</td>
<td>Mr. Khalid Hamad, Executive Director - Banking Supervision</td>
<td>CNBC Arabia and MEED – Euromoney The GCC Financial Forum</td>
</tr>
<tr>
<td>20 February 2018</td>
<td>Mr. Abdul Rahman Al Baker, Executive Director – Financial Institutions Supervision</td>
<td>Sky News Arabia - Euromoney The GCC Financial Forum</td>
</tr>
</tbody>
</table>
June 2018 | Mr. Khalid Hamad, Executive Director - Banking Supervision | Banker Middle East Magazine interview “A Streak of Optimism”
---|---|---
31 October 2018 | HE Rasheed Al Maraj, Governor, CBB | CNBC Arabia - BAB Annual Forum interview
27 November 2018 | Mr. Khalid Hamad, Executive Director - Banking Supervision | Sky News Arabia – World Islamic Banking Conference
27 November 2018 | HE Rasheed Al Maraj, Governor, CBB | Sky News Arabia – World Islamic Banking Conference

**Press conferences**

<table>
<thead>
<tr>
<th>Date</th>
<th>Subject</th>
<th>Attendees</th>
</tr>
</thead>
<tbody>
<tr>
<td>11 December 2018</td>
<td>Central Bank of Bahrain announces first company to successfully complete the Regulatory Sandbox stage</td>
<td>Local press and media</td>
</tr>
</tbody>
</table>
4.9 CBB’s Organisational Chart
5. FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

INDEPENDENT AUDITORS’ REPORT TO THE BOARD OF DIRECTORS

BALANCE SHEET (As at 31 December 2018)

PROFIT AND LOSS ACCOUNT AND APPROPRIATION (For the year ended 31 December 2018)

Notes to the financial statements for the year ended 31 December 2018
CENTRAL BANK OF BAHRAIN

INDEPENDENT AUDITOR'S REPORT
AND
FINANCIAL STATEMENTS

31 DECEMBER 2018
# CENTRAL BANK OF BAHRAIN

AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Independent auditor's report</td>
<td>1-2</td>
</tr>
<tr>
<td>Balance sheet</td>
<td>3</td>
</tr>
<tr>
<td>Profit and loss account and appropriation</td>
<td>4</td>
</tr>
<tr>
<td>Notes to the financial statements</td>
<td>5-10</td>
</tr>
</tbody>
</table>
INDEPENDENT AUDITOR’S REPORT TO THE BOARD OF DIRECTORS OF THE CENTRAL BANK OF BAHRAIN

Report on the Audit of the Financial Statements

We have audited the accompanying financial statements of the Central Bank of Bahrain ("the Central Bank"), which comprise the balance sheet as at 31 December 2018, and the profit and loss account and appropriation for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Central Bank as at 31 December 2018, and its financial performance for the year then ended in accordance with the accounting policies described in Note 2 to these financial statements and in compliance with the Royal Decree No.64 of 2006.

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

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

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

Auditor’s Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
INDEPENDENT AUDITOR’S REPORT TO THE BOARD OF DIRECTORS OF
CENTRAL BANK OF BAHRAIN (continued)

Report on the Audit of the Financial Statements (continued)

Auditor’s Responsibilities for the Audit of the Financial Statements (continued)
As part of an audit in accordance with ISA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Central Bank’s internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

- Conclude on the appropriateness of Management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Central Bank’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Central Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Ernst & Young

Partner’s Registration No. 117
24 March 2019
Manama, Kingdom of Bahrain
# CENTRAL BANK OF BAHRAIN

## BALANCE SHEET

AS AT 31 DECEMBER 2018

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>2018 BD'000</th>
<th>2017 BD'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gold</td>
<td>3</td>
<td>2,500</td>
</tr>
<tr>
<td>Foreign reserves</td>
<td>4</td>
<td>735,566</td>
</tr>
<tr>
<td>Due from Ministry of Finance</td>
<td>5</td>
<td>1,080,979</td>
</tr>
<tr>
<td>Cash, due from Bahraini banks and treasury bills</td>
<td>6</td>
<td>619,368</td>
</tr>
<tr>
<td>Other assets</td>
<td>7</td>
<td>16,130</td>
</tr>
<tr>
<td><strong>TOTAL ASSETS</strong></td>
<td></td>
<td><strong>2,454,543</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>LIABILITIES</th>
<th>2018 BD'000</th>
<th>2017 BD'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Notes and coins in circulation</td>
<td>3</td>
<td>681,741</td>
</tr>
<tr>
<td>Bahraini Dinar deposits</td>
<td>1,034,564</td>
<td>1,229,432</td>
</tr>
<tr>
<td>Other deposits</td>
<td>178,906</td>
<td>300,561</td>
</tr>
<tr>
<td>Due to other central banks</td>
<td>1,468</td>
<td>571</td>
</tr>
<tr>
<td>Profit payable to the Government of the Kingdom of Bahrain</td>
<td>2,500</td>
<td>2,500</td>
</tr>
<tr>
<td>Provision for currency withdrawn</td>
<td>6,175</td>
<td>6,191</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>8</td>
<td>8,058</td>
</tr>
<tr>
<td><strong>TOTAL LIABILITIES</strong></td>
<td></td>
<td><strong>1,913,412</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CAPITAL FUNDS</th>
<th>2018 BD'000</th>
<th>2017 BD'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital</td>
<td>9</td>
<td>200,000</td>
</tr>
<tr>
<td>General reserve</td>
<td>10</td>
<td>233,861</td>
</tr>
<tr>
<td>Contingency reserve</td>
<td>11</td>
<td>86,713</td>
</tr>
<tr>
<td>Revaluation reserve</td>
<td>12</td>
<td>20,557</td>
</tr>
<tr>
<td><strong>TOTAL CAPITAL FUNDS</strong></td>
<td></td>
<td><strong>541,131</strong></td>
</tr>
</tbody>
</table>

**TOTAL LIABILITIES AND CAPITAL FUNDS**

<table>
<thead>
<tr>
<th></th>
<th>2018 BD'000</th>
<th>2017 BD'000</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td><strong>2,454,543</strong></td>
<td><strong>2,707,168</strong></td>
</tr>
</tbody>
</table>

---

Mohammed Hussain Yateem  
Chairman

Rasheed Mohammad Al Maraj  
Governor

The attached notes 1 to 14 form part of these financial statements.
# CENTRAL BANK OF BAHRAIN

## PROFIT AND LOSS ACCOUNT AND APPROPRIATION

**FOR THE YEAR ENDED 31 DECEMBER 2018**

<table>
<thead>
<tr>
<th>Note</th>
<th>2018 BD'000</th>
<th>2017 BD'000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>INCOME</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest income</td>
<td>65,119</td>
<td>40,416</td>
</tr>
<tr>
<td>Interest expense</td>
<td>(18,961)</td>
<td>(17,280)</td>
</tr>
<tr>
<td><strong>Net interest income</strong></td>
<td>46,158</td>
<td>23,136</td>
</tr>
<tr>
<td>Registration and licensing fees</td>
<td>5,420</td>
<td>5,353</td>
</tr>
<tr>
<td>Exchange gain on sale of US dollars</td>
<td>9,731</td>
<td>8,039</td>
</tr>
<tr>
<td>Net realised investment gain</td>
<td>(470)</td>
<td>860</td>
</tr>
<tr>
<td>Other income</td>
<td>1,698</td>
<td>1,439</td>
</tr>
<tr>
<td><strong>TOTAL INCOME</strong></td>
<td>62,537</td>
<td>38,827</td>
</tr>
<tr>
<td><strong>EXPENSES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Staff costs</td>
<td>(11,278)</td>
<td>(11,139)</td>
</tr>
<tr>
<td>General and administration expenses</td>
<td>(2,684)</td>
<td>(3,894)</td>
</tr>
<tr>
<td>Notes issue expenses</td>
<td>(1,881)</td>
<td>(1,475)</td>
</tr>
<tr>
<td>Managed funds and advisory fees</td>
<td>(341)</td>
<td>(467)</td>
</tr>
<tr>
<td><strong>TOTAL OPERATING EXPENSES</strong></td>
<td>(16,184)</td>
<td>(16,975)</td>
</tr>
<tr>
<td><strong>PROFIT FOR THE YEAR BEFORE PROVISION FOR IMPAIRMENT</strong></td>
<td>46,353</td>
<td>21,852</td>
</tr>
<tr>
<td>Provision for impairment</td>
<td>(64)</td>
<td>(167)</td>
</tr>
<tr>
<td><strong>PROFIT FOR THE YEAR</strong></td>
<td>46,289</td>
<td>21,685</td>
</tr>
</tbody>
</table>

| Transfer to contingency reserve | 11 | (20,644) | (16,685) |
| Transfer to general reserve | 10 | (23,145) | (2,500) |
| **BALANCE PAYABLE TO THE KINGDOM OF BAHRAIN** | 2,500 | 2,500 |

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Mohammed Hussain Yateem  
Chairman

Rasheed Mohammad Al Maraj  
Governor

---

The attached notes 1 to 14 form part of these financial statements.
CENTRAL BANK OF BAHRAIN
NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2018

1 ACTIVITY

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

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

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

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

The financial statements of the Central Bank, comprise the balance sheet as at 31 December 2018, the related profit and loss account and appropriation for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information and were authorised for issue by the Board of Directors on 24 March 2019.

2 SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Accounting convention
The financial statements are prepared under the historical cost convention.

2.2 Gold
Gold is carried at cost.

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

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

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

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

2.5 Equipment
All equipment used by the Central Bank is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.
2.5 Equipment (continued)
Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the profit and loss account and appropriation.

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

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

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

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

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

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

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

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

2.9 Revenue recognition

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

Registration and licensing fees
Registration and licensing fees are accounted for based on the calendar year they relate to and are recognised on an accrual basis.
CENTRAL BANK OF BAHRAIN
NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2018

2  SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9  Revenue recognition (continued)
Net realised investment gains and losses
Net realised investment gains and losses arising from the sale of assets are recognised in the profit and loss account and appropriation when such assets are disposed of.

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

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

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

3  EXCESS OF AUTHORISED BACKING OVER CURRENCY IN CIRCULATION

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>BD'000</td>
<td>BD'000</td>
</tr>
<tr>
<td>Authorised backing</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gold</td>
<td>2,500</td>
<td>2,500</td>
</tr>
<tr>
<td>Foreign reserves – note 4</td>
<td>735,566</td>
<td>1,039,284</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>738,066</td>
<td>1,041,784</td>
</tr>
<tr>
<td>Notes and coins in circulation</td>
<td>(681,741)</td>
<td>(662,720)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Excess of authorised backing over currency in circulation</td>
<td>56,325</td>
<td>379,064</td>
</tr>
</tbody>
</table>

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

The fair value of gold as at 31 December 2018 was BD 72,627 thousand (2017: BD 73,160 thousand).

4  FOREIGN RESERVES

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>BD'000</td>
<td>BD'000</td>
</tr>
<tr>
<td>Bank deposits</td>
<td>539,249</td>
<td>793,249</td>
</tr>
<tr>
<td>Bonds portfolio, including managed funds</td>
<td>192,535</td>
<td>243,478</td>
</tr>
<tr>
<td>Other securities</td>
<td>86,727</td>
<td>86,888</td>
</tr>
<tr>
<td></td>
<td>818,511</td>
<td>1,123,615</td>
</tr>
<tr>
<td>Less: provision for impairment</td>
<td>(82,945)</td>
<td>(84,331)</td>
</tr>
<tr>
<td></td>
<td>735,566</td>
<td>1,039,284</td>
</tr>
</tbody>
</table>
CENTRAL BANK OF BAHRAIN

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2018

4 FOREIGN RESERVES (continued)

All bonds are quoted in active markets with 76.51% being of investment grade BBB or higher (2017: 79%). All the deposits (2017: 100%) and 72.49% of bonds (2017: 69%) are in US dollars. For other foreign currencies, these are substantially hedged into US dollars. The bond portfolios include BD 1,328 thousand net unrealised losses on non-US denominated bonds and related forward foreign exchange contracts used to hedge such bonds (2017: net unrealised losses of BD 1,025 thousand).

The market value of the bond portfolios (including cash and accrued interest held within these portfolios) at 31 December 2018 was BD 188,554 thousand (2017: BD 237,687 thousand).

The Central Bank has written off impairment provision amounting to BD 1,386 thousand (2017: Nil) during the year and no additional provision was recognised against the foreign reserves (2017: BD 6,000 thousand charged against contingency reserve (refer note 11)).

5 DUE FROM MINISTRY OF FINANCE

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

6 CASH, DUE FROM BAHRAINI BANKS AND TREASURY BILLS

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>BD'000</td>
<td>BD'000</td>
</tr>
<tr>
<td>Cash</td>
<td>23</td>
<td>22</td>
</tr>
<tr>
<td>Due from Bahraini banks</td>
<td>14,216</td>
<td>11,515</td>
</tr>
<tr>
<td>Ijara Sukuk / Treasury bonds &amp; bills issued by the Government of Bahrain</td>
<td>605,129</td>
<td>539,958</td>
</tr>
<tr>
<td></td>
<td>619,368</td>
<td>551,495</td>
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</table>

7 OTHER ASSETS

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>BD'000</td>
<td>BD'000</td>
</tr>
<tr>
<td>Interest receivable</td>
<td>7,906</td>
<td>6,362</td>
</tr>
<tr>
<td>Staff loans</td>
<td>4,618</td>
<td>4,598</td>
</tr>
<tr>
<td>Equipment</td>
<td>1,831</td>
<td>1,633</td>
</tr>
<tr>
<td>Others</td>
<td>1,775</td>
<td>1,912</td>
</tr>
<tr>
<td></td>
<td>16,130</td>
<td>14,505</td>
</tr>
</tbody>
</table>

8 OTHER LIABILITIES

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>BD'000</td>
<td>BD'000</td>
</tr>
<tr>
<td>Deferred license fee received</td>
<td>4,666</td>
<td>4,706</td>
</tr>
<tr>
<td>Other payables</td>
<td>2,071</td>
<td>2,291</td>
</tr>
<tr>
<td>Interest payable</td>
<td>1,010</td>
<td>2,143</td>
</tr>
<tr>
<td>Accrued expenses</td>
<td>311</td>
<td>130</td>
</tr>
<tr>
<td></td>
<td>8,058</td>
<td>9,270</td>
</tr>
</tbody>
</table>
CENTRAL BANK OF BAHRAIN
NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2018

9  CAPITAL

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>BD'000</td>
<td>BD'000</td>
</tr>
<tr>
<td>Authorised</td>
<td>500,000</td>
<td>500,000</td>
</tr>
<tr>
<td>Issued and fully paid up</td>
<td>200,000</td>
<td>200,000</td>
</tr>
</tbody>
</table>

10  GENERAL RESERVE

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>BD'000</td>
<td>BD'000</td>
</tr>
<tr>
<td>Balance at beginning of the year</td>
<td>210,716</td>
<td>208,216</td>
</tr>
<tr>
<td>Transfer from profit and loss account and appropriation</td>
<td>23,145</td>
<td>2,500</td>
</tr>
<tr>
<td>Balance at end of the year</td>
<td>233,861</td>
<td>210,716</td>
</tr>
</tbody>
</table>

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

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

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

11  CONTINGENCY RESERVE

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>BD'000</td>
<td>BD'000</td>
</tr>
<tr>
<td>Balance at beginning of the year</td>
<td>66,069</td>
<td>55,384</td>
</tr>
<tr>
<td>Transfer during the year</td>
<td>20,644</td>
<td>16,685</td>
</tr>
<tr>
<td>Utilised during the year</td>
<td>-</td>
<td>(6,000)</td>
</tr>
<tr>
<td>Balance at end of the year</td>
<td>86,713</td>
<td>66,069</td>
</tr>
</tbody>
</table>

In accordance with Article 21 of the Central Bank of Bahrain and Financial Institution Law, the Board has approved a transfer of BD 20,644 thousand (2017: BD 16,685 thousand) of the current year’s net profit to the contingency reserve.
CENTRAL BANK OF BAHRAIN
NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2018

12 REVALUATION RESERVE

<table>
<thead>
<tr>
<th></th>
<th>2018 BD'000</th>
<th>2017 BD'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at beginning of the year</td>
<td>19,138</td>
<td>17,778</td>
</tr>
<tr>
<td>Movement during the year</td>
<td>1,419</td>
<td>1,360</td>
</tr>
<tr>
<td>Balance at end of the year</td>
<td>20,557</td>
<td>19,138</td>
</tr>
</tbody>
</table>

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

13 CONTINGENT LIABILITIES AND COMMITMENTS

Contingent liabilities and commitments, some of which are offset by corresponding obligations of third parties, arise in the normal course of business, including contingent liabilities in respect of guarantees and indemnities in connection with liquidity support operations. As at 31 December 2018, there were no outstanding contingent liabilities or commitments (2017: Nil) with the exception of outstanding foreign exchange contracts with a notional value of BD 89,078 thousand (2017: BD 94,089 thousand).

14 COMPARATIVE INFORMATION

Certain prior year figures have been reclassified to conform to the presentation adopted in the current year. Such reclassification did not affect the previously reported profit for the year or the total capital funds of the Central Bank.