



مَصْرَفُ الْبَحْرَيْنِ الْمُرْكَبِي
Central Bank of Bahrain

Annual Report

2019

Table of Contents

1. Monetary Policy Developments.....	1
1.1 Monetary Policy Management.....	2
1.2 Domestic Interest Rates	2
1.3 Public Debt Issuance.....	4
2. Banking Developments.....	6
2.1 The Aggregate Balance Sheet of the Banking System	7
2.2 Retail Banks	7
2.3 Wholesale Banks	8
3. Regulatory and Supervisory Developments.....	10
3.1 Regulatory Developments.....	11
3.2 Supervisory developments.....	19
4. Other CBB Projects and Activities	53
4.1 New Licenses	54
4.2 Fintech & Innovations Unit.....	55
4.3 Cheque clearing.....	58
4.4 ATM Network.....	58
4.5 Electronic Fund Transfer System (EFTS) and Electronic Bill Presentment and Payment (EBPP) System.....	58
4.6 Currency Issue	59
4.7 CBB Training Programs	60
4.8 IT Projects.....	60
4.9 External Communications Unit	64
5. FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019	1
BALANCE SHEET (As at 31 December 2019)	1
PROFIT AND LOSS ACCOUNT AND APPROPRIATION (For the year ended 31 December 2019).....	1

Chapter

1

1. Monetary Policy Developments

Overview

Monetary Policy Management

Domestic Interest Rates

Public Debt Issuance

1.1 Monetary Policy Management

Monetary Policy Committee

The CBB Monetary Policy Committee ("MPC") met on a weekly basis throughout 2019. 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 2019, the reserve percentage remained unchanged at 5%.

The total banks' Reserve Requirement balance outstanding in December 2019 was BD 489.789 million, compared to BD 462.953 million in December 2018, with a 5.8% increase.

1.2 Domestic Interest Rates

Key Policy Interest Rates

In 2019, the CBB cuts its key policy interest rates on:

- **21st March 2019**, It decided to cut the one-month deposit rate from 3.25% to 3.10%.
- **1st August 2019** from 2.75% to 2.50%. It also decided to cut the overnight deposit rate from 2.50% to 2.25% and adjust both the one-month deposit rate from 3.10% to 2.85% , and the lending rate from 4.50% to 4.25%.
- **31st October 2019** from 2.50% to 2.25%. It also decided to cut the overnight deposit rate from 2.25% to 2.00% and adjust both the one-month deposit rate from 2.85% to 2.60% , and the lending rate from 4.25% to 4.00%.

Interbank Rates

As at end 2019, the 3-month BHIBOR rate was 2.67 %, compared to 3.95 % at end 2018. The 6 month BHIBOR rate was 2.70%, compared to 4.08% at end 2018.

Standing Facility

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

The total outstanding conventional retail banks' deposits with the CBB as in December 2019 was BD 856.486 million, compared to BD 416.440 million in December 2018, with a 106% increase.

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 116.363 million in December 2019, compared to BD 114.100 million in December 2018, with a 1.98% increase.

Single binding Wa'ad for the Islamic retail banks

The Central Bank of Bahrain (CBB) has launched a new Sharia Compliant Foreign Exchange Forward as a Single binding Wa'ad based structure Facility. This tool, which was approved by the Shariah Board of the CBB, promotes Islamic finance in the Kingdom and enhances the Islamic banking sector's capacity by supporting them in managing their liquidity.

In Single binding Wa'ad, the CBB will be the promisor and promises to buy the Bahraini Dinar from the participating Islamic retail bank. In the event the Wa'ad is exercised, the execution and settlement will be on the future value date and at the exchange rate promised in advance. The current available tenors are one-week, one-month, three-months, six-months and twelve-months. The facility procedure involves two steps: the first step is a spot currency sale, where the CBB sells to the Islamic retail bank Bahraini

Dinars against US Dollars on spot basis at 0.376. In the second step, CBB gives a Wa'ad (promise) to the Islamic retail bank to buy the Bahraini Dinars in a future date and at an agreed exchange rate. Finally, two working days prior to the Wa'ad Settlement Date (Exercise Date), the Islamic retail bank may exercise the Wa'ad by providing an "Exercise Notice Offering" to purchase the US Dollars from the CBB against the Bahraini Dinars.

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

1.3 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 2019, 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 2019, 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 July 21st, 2019, with a maturity of 3 years, and a fixed-rate of 4.20%.
- Local development bond with an issue amount BD 185 million on November 10th, 2019, with a maturity of 5 years, at a fixed rate of 4.00%.
- The Central Bank of Bahrain acting through the Ministry of Finance and National Economy established a Global Medium Term Note Programme "GMTN Programme" and Trust Certificate Issuance

Programme “Sukuk Programme” for the purpose of issuing International Bonds and Sukuk Instruments. The CBB with the collaboration of JP MORGAN, GIB, NBB, BNP Paribas, Citibank and SCB completed an International Government Development Bond and an Ijarah Murabaha Sukuk issuances under these Programmes as per the following:

- On September 30th, 2019, the Kingdom of Bahrain raised \$1bn in a 7.5 year Islamic Ijara Murabaha Sukuk under the Sukuk Programme (with a structure of 51% Ijarah & 49% Murabaha) priced at 4.50% and maturing on 30th March, 2027.
- On September 30th, 2019, the Kingdom of Bahrain raised \$1bn in a 12-year Government Development Bond under the GMTN Programme priced at 5.625% and maturing on 30th September, 2031.

Chapter

2

2. Banking Developments

The Aggregate Balance Sheet of the Banking System

Retail Banks

Wholesale Banks

2.1 The Aggregate Balance Sheet of the Banking System

Total aggregate balance sheet for the banking system (retail and wholesale banks) increased to USD 204.9 billion by the end of 2019, compared to USD 192.6 billion at the end of 2018, an increase of 6.4%. Wholesale banks represented 54.1% of total assets, whilst retail banks accounted for 45.9%.

Domestic banking assets amounted to USD 68.5 billion at the end of 2019 compared to USD 62.4 billion at the end of 2018, representing an increase of USD 6.1 billion (9.8%). Foreign assets amounted to USD 136.4 billion, compared to USD 130.2 billion at the end of 2018, an increase of USD 6.2 billion (4.8%).

Domestic liabilities increased to USD 62.3 billion at the end of 2019 compared to USD 57.9 billion at the end of 2018, an increase of USD 4.4 billion (7.6%). Total foreign liabilities increased by USD 7.8 billion (5.8%) to reach USD 142.6 billion against USD 134.7 billion at the end of 2018.

2.2 Retail Banks¹

The aggregate balance sheet of retail banks increased to BD 35.4 billion at the end of 2019, compared to BD 32.6 billion at the end of 2018.

Total domestic assets grew by BD 1.0 billion (5.3%) to reach BD 20.0 billion, with claims on CBB increasing by BD 0.6 billion (62.4%) and claims on general government securities and loans growing by 0.5 billion (9.6%).

Foreign assets recorded an increase of BD 1.8 billion (13.2%), reaching a total of BD 15.4 billion at the end of 2019 compared to BD 13.6 billion at the end of 2018. Claims on foreign non-banks increased by BD 0.7 billion (7.1%) from BD 9.1 billion at the end of 2018 to BD 9.8 billion at the end of 2019, as while as claims on foreign banks which increased by BD 1.2 billion (26.7%), reaching a total of BD 5.7 billion at the end of 2019.

Total domestic liabilities of retail banks increased by BD 1.2 billion (6.7%) to BD 19.0 billion at the end of 2019 from BD 17.8 billion at the end of 2018. This was due to an increase in liabilities to non-banks by BD 1.3 billion (12.6%) and liabilities to CBB by BD 0.1 billion to reach BD 0.2 billion.

¹ This includes conventional and Islamic retail banks.

Total foreign liabilities increased to reach BD 16.4 billion at the end of 2019. Liabilities to foreign banks increased by BD 2.6 billion (34.2%) billion, while liabilities to foreign non-banks decreased by BD 0.9 billion (12.7%).

Loans and Credit Facilities

Outstanding loans and credit facilities of retail banks stood at BD 9.7 billion at the end of 2019, a 2.1% increase compared to the BD 9.57 billion at the end of 2018. The business sector accounted for 52.8% of total loans and credit facilities, while individuals and the government sector represented 44.1% and 3.1% respectively.

Deposits

Retail banks' total domestic deposits increased to BD 13.1 billion at the end of 2019 compared to BD 12.1 billion at the end of 2018, an increase of BD 1.0 billion (8.3%). This was due to higher private sector deposits which increased by BD 1.2 billion (11.7%).

Domestic deposits in Bahraini Dinar increased by BD 0.7 billion (7.8%) to BD 9.7 billion at the end of 2019. Domestic foreign currency deposits increased BD 0.3 billion (9.7%) to BD 3.4 billion. Bahraini Dinar deposits and foreign currency deposits constituted 73.9% and 26.1% 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 24.6% while Asia accounted for 5.8%, Western Europe accounted for 4.9%, North and South America for 4.7%, and other Arab countries for 2.9%.

In terms of currency, the share of US dollar denominated assets was 43.9%, while the GCC currencies (excluding Bahraini dinar) accounted for 7.5% of total assets. The Euro represented 2.6% of total assets.

2.3 Wholesale Banks^{2 3}

The aggregate balance sheet of wholesale banks grew by USD 4.8 billion or 4.5% to USD 110.8 billion at the end of 2019, compared with USD 106.0 billion at the end of 2018.

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 15.4 billion at 2019, compared with USD 12.1 billion at the end of 2018 due to increases in government, non-bank and bank assets by 43.6%, 29.5%, and 10.9% respectively.

Foreign assets increased by USD 1.4 billion (1.5%) to USD 95.4 billion at the end of 2019. This was due to increases in non-bank assets by USD 4.8 billion (12.9%).

Total domestic liabilities of wholesale banks increased by USD 1.4 billion (13.3%) to USD 11.8 billion at the end of 2019 compared with USD 10.5 billion at the end of 2018.

Foreign liabilities also increased by 3.6% to reach USD 99.0 billion at the end of 2019. This increase was mainly due to an increase in liabilities on securities by USD 0.5 billion and H.O. and affiliates and liabilities on banks by 7.6% and 7.8% respectively.

Geographical and Currency Distribution of Assets

The share of total assets accounted for by the GCC (excluding Bahrain) reached a total of 31.2%, while Western Europe accounted for 29.6%, North and South America for 10.2%, Asia for 8.3%, and other Arab countries for 5.2%.

As for currency, the share of GCC currencies (excluding Bahraini dinar) of total assets was 10.2% with the dollar accounting for 69.0% of total assets and the Euro comprising 11.2% of total assets.

Chapter

3

3. Regulatory and Supervisory Developments

Regulatory Developments

Supervisory Developments

3.1 Regulatory Developments

As part of CBB's continuing development of the regulatory framework for the financial system, work was carried out during the year 2019 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:

The CBB issued in July 2019 a circular to banks that include the template for which conventional and Islamic banks must use for reporting of Liquidity Coverage Ratio (LCR) on a consolidated and solo basis.

Proposed amendments on Credit Risk Management Module according to Basel 3:

As part of the CBB's ongoing efforts to enhance the regulatory framework, the CBB issued in January 2019 a consultation paper on the proposed revised amendment to the Credit Risk Management Module for conventional and Islamic banks that include impairment provisioning requirements of IFRS 9 as well as Basel 3 requirements and management of non-performing assets. The CBB received feedback from the banking sector, which are currently under study.

2. Regulation on Short Selling and Giving Securities on Loan

The CBB issued in March 2019, as part of its efforts to develop the capital markets, a regulation on Short Selling and Giving Securities on Loan.

The objective of the proposed regulation is to improve efficiency of the capital markets and facilitate a variety of transactions in the market, which shall result in better price discovery and enhanced liquidity.

3. Revised 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 January 2019 a revised scale of Brokerage Fees in Bahrain.

4. New Directives for Ancillary Service Providers

The CBB issued in October 2019 new “High Level Controls Module” (Corporate Governance) as part of Volume 5 of the CBB Rulebook for Ancillary Service Providers.

5. Amendments to the Takeovers, Mergers and Acquisitions Module

The CBB issued in October 2019 new amendments to the Takeovers, Mergers and Acquisitions Module (Module TMA) of Volume 6 - Capital Markets.

6. Proposed Caps on Fees for Credit Facilities Provided to Individuals

The CBB issued in December 2019 a consultation paper to all retail banks and financing companies on proposed caps on fees for credit facilities provided to individuals as part of phase 2 of the caps on fees on standard services provided to individuals. This phase includes the introduction of caps on administration fees for consumer loans, auto loans and mortgage loans.

7. New Directives on Compliance Function in Banks

The CBB issued in January 2019 new directives on the 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.

8. New Requirements for Press Releases on Financial Results of Public Listed Shareholding Companies

As part of the CBB’s 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. The final requirements are to be issued in January 2020 for listed companies as well as all CBB licensees.

9. Amendments to Markets and Exchanges Module and Market Intermediaries and Representatives Module

The CBB issued in January 2019 amendments to the Markets and Exchanges Module and Market Intermediaries and Representatives Module.

10. Agreed Upon Procedures for Compliance with the Financial Crime Module

The CBB issued in the first quarter of 2019, the agreed upon procedures for compliance with the Financial Crime Module to be conducted by external audit firms.

11. New Requirements for Payment Service Providers (“PSP”)

The CBB issued in April 2019 new requirements for payment service providers under CBB Rulebook - Volume 5 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.

12. New directives on “Crypto-asset Platform Operators”

As part of the CBB’s efforts to support innovation and develop the financial services sector and to enhance its efficiency through the regulatory infrastructure, the CBB issued in January 2019 a new “Crypto-Asset” Module that includes the licensing requirements and the regulatory framework for this type of service.

The CBB has subsequently issued a consultation paper in October 2019 that includes updating the AML Module and Crypto-Asset (CRA) Module in accordance with the recent paper issued by the Financial Action Task Force (FATF). The update is to be issued in January 2020.

13. New Directives for Digital Financial Advisory Services

The CBB issued in April 2019 a new Digital Financial Advice Module, which would enable licensees to offer digital financial advice to their clients using technology.

These directives cover the basic requirements applied to licensees wishing to use the digital financial advice tools in addition to the relevant safeguards and controls that would protect customers. The requirements also allow Fintech companies to apply for a Digital Financial Advice license by the Central Bank of Bahrain.

14. Amendment to the capital adequacy module and liquidity requirement for Microfinance institution

The CBB issued in January 2019 amendments to the Capital Adequacy Module and liquidity requirements for Microfinance Institutions under the CBB Rulebook Volume 5. These amendments include changing the leverage ratio requirements and replacing them with capital adequacy ratio requirements.

15. Revised Operational Risk Management Module

As part of the CBB's efforts to enhance the requirements for managing various risks and keeping abreast with the latest principles and standards of the Basel Committee for Banking Supervision, the CBB issued in December 2019 a revised Operational Risk Management Module for banks that reflects a number of quantitative improvements in a number of areas related to operational risk management.

In addition, the CBB issued in December 2019 a consultation on Cyber-security requirements within the Operational Risk Management Module for banks to keep pace with developments in financial technology.

16. New Directives for Insurance Aggregators

As part of the CBB's efforts to develop insurance technology 'Insure-Tech', the CBB issued in August 2019 new directives on "Insurance Aggregators".

Insurance aggregators are intermediaries licensed by the Central Bank of Bahrain who operate an online platform, whether hosted on an Internet website or available as a smart device application ("app") which provides price comparisons and facilitates the purchase of insurance policies from several insurance licensees.

With the introduction of the insurance aggregators' requirements, a customer can find and choose insurance quotes from several insurance companies under a single electronic platform or mobile device application, instead of obtaining quotes individually, and purchase an insurance policy online from an insurance company.

17. Amendments on the Financial Crime Module on Account Opening, Acceptance and Deposit of funds for Clubs and Youth Centres

The CBB issued circulars in May and September 2019 to all retail banks, money changers and payment service providers that include amendments to the requirements for clubs and youth centres.

The circulars required that such licensees must not accept or process any incoming or outgoing funds transfers in any form (wire transfer, cheques, drafts, etc.) from or to any foreign person or foreign association on behalf of societies and clubs licensed by the Ministry of Labour and Social Development or the Ministry of Youth and Sport Affairs without the prior approval of the relevant Ministry in accordance with Article (20) of the Associations, Social and Cultural Clubs of Decree No. (21) of the year 1989 and its amendments, and Articles (47) and (62) of the Model Regulations issued by Decree No. 1 of 1990.

Furthermore, banks must not change or open additional bank accounts for societies and clubs without obtaining the prior approval of the Ministry, in accordance with the provisions of Article (20) of the Consolidated Financial Regulations for Sports Clubs issued in 2005.

18. Draft Directives on Blocking Requirements on Clients' Assets

The CBB issued in July 2019, a consultation paper that includes draft directives on the requirements for blocking clients' assets in order to enhance and integrate all the requirements that must be met by licensees in one Module titled 'Blocking Requirements Module'. These directives aim to ensure that licensees deal efficiently with court orders and the Public Prosecution with regards to blocking of accounts and/or requests for information. The CBB received the industry feedback, which is currently under study.

19. Unclaimed Customer Account/Dormant Account Balances With Banks

The CBB issued in July 2019, a circular to banks that require them to exert extra efforts to regularise the status of unclaimed/dormant funds in order to resolve the issue completely (i.e. reactivate the account or close the account and pay the customer or any other procedure to be taken) by the end of December 2019. Banks must also submit on a monthly basis a progress report to the CBB on the status of such funds starting from August 2019.

Unclaimed accounts/dormant accounts are inactive customer accounts with banks on which no withdrawals, transfers, or deposits have been made by clients or by their authorized agents during a certain period.

This was as a result of many banks keeping unclaimed/dormant funds held for a very long time with no action being taken.

20. Wage Protection Scheme

As part of the Wage Protection Scheme and in cooperation with the Ministry of Labor and Social Development and to accelerate financial inclusion, the CBB issued a circular in July 2019 to retail banks and payment service providers to initiate all necessary measures to ensure readiness to disclose information related to the wage protection system to the Labor Market Regulatory Authority through the Benefit Company upon depositing the salary amount in the concerned employee's bank account/prepaid account/e-wallet or any other payment mode. Such information must include: the full name of the worker, CPR number, salary amount transferred, payment date, and other information.

The licensees concerned are not allowed to impose any additional fees and charges (other than those stipulated in Volumes 1 and 2) on employees subject to this scheme as a result of performing the main functions of the Scheme i.e. collection, clearance, and disbursement of salaries.

21. Contactless Payment Transactions

As part of the CBB's efforts to keep abreast of the latest developments in the financial sector, the CBB issued, in August 2019, a circular to retail banks, financing companies and payment service providers regarding contactless payment transactions. This is attributed to MasterCard and Visa announcement of their new technology standards for communication. The circular requires relevant licensees to take the necessary measures to ensure that all of their infrastructure and related systems are capable of supporting Near Field Communications (NFC) payments using debit cards, credit cards, prepaid cards, charge cards and e-wallets on POS and ATMs according to specific timelines.

22. Interest/ profit charge computation on credit cards

The CBB issued in August 2019, a circular to retail banks, financing companies and payment service providers on the calculation of interest / profit fees on credit cards, in order to provide detailed clarifications and an example to ensure proper implementation of the CBB's requirement regarding proper calculation of interest/ profit on credit card outstanding balances by all licensees.

23. Requirements on Point of Sale Infrastructure (POS)

The CBB issued in August 2019 a circular to retail banks, financing companies and payment service providers regarding the various terminals and devices (POS Infrastructure) for payment transactions under different payment schemes with the aim of enhancing customer experience, ensuring accessibility across all payments devices and increasing the adoption of cashless modes of payment.

The circular introduces special requirements for standardization of the POS infrastructure that licensees must comply with from January 2020.

24. Use of Monthly Flat Rate of Interest/Profit For Credit Facilities

The CBB issued in September 2019 a circular to all retail banks and financing companies requiring them to discontinue charging interest/profit based on a monthly flat rate and to agree with the CBB the plan to effect the changes required and to disclose to their customers the effective interest/profit rate both before entering into transactions and on an ongoing basis in the customer statements of account.

This was as a result of certain banks/financing companies charging a 'monthly flat rate of interest/profit' for the purposes of computing interest/profit on credit facilities rather than an effective interest / profit rate derived based on a reducing balance method.

25. SMS on failed ATM/ Point of Sale (POS) Transactions

The CBB issued a circular in September 2019 to retail banks, financing companies and payment service providers requiring them to address the issue of withholding amounts deducted from customer accounts without their knowledge (or claiming them), as a result of withdrawals made using debit / credit cards from either the ATMs or POS machines, which was not

completed electronically due to malfunction/failure/communication error or the exhaustion of time available for conducting the financial transfer process.

All licensees were required to ensure that such anomalies were rectified and amounts, which were wrongly debited, were reversed immediately, and the affected customers are informed accordingly through SMS.

26. Proposed draft Regulation Governing Control in Bank licensees

The CBB issued in October 2019 a consultation paper on draft Regulation Governing Control in Bank licensees that would replace Resolution No. 13 of 2008. This step was taken to enhance the regulations to be in line with the developments in the financial sector.

This Regulation does not apply to the existing controllers regarding their level of control but applies to the increase in the level of control and other aspects when the Regulation comes into effect.

The Regulation also requires foreign banks to notify the CBB in the event that a person owns more than 50% of its capital, and to ensure that a copy of the approval of the foreign jurisdiction authority is attached to the notification.

27. Amendments to Article (32.5) under CBB Disclosure Standards

As part of the CBB's efforts to develop the capital markets, the CBB issued in December 2019 an update to Article 32.5 of the CBB's Disclosure Standards, which includes modifications to the timeline and mechanism for the declaration and payment of dividends.

The amendments aim to improve transparency and enhance the current practices adopted by public listed companies regarding declaring dividends and allow the investors to take sound decisions.

28. Draft directives on Training & Competency Requirements for Insurance Firms

The CBB issued in December 2019 a consultation paper on "Training and Competency" Module that include standards and guidelines to ensure that satisfactory levels of competence, in terms of an individual's knowledge, skills, experience and professional qualifications are available for

persons occupying controlled functions within insurance firms licensed by the CBB as well as other requirements such as continuous professional development. These directives are in accordance with Article 65(b) of the CBB and Financial Institutions Law.

29. New Requirements in the High-level Controls Module

The CBB issued in December 2019 a circular to the conventional and Islamic banks as part of its objective in enhancing its regulatory framework on Corporate Governance. These requirements include dis-allowing the resigned CEO, who is also a board member, to remain on the board of the bank from which his/her service has been terminated, whether due to resignation, retirement or termination. In addition, an independent director loses his/her independence after serving for 3 consecutive terms on the board of directors and must not be classified as an independent director if reappointed.

3.2 Supervisory developments

Compliance Directorate: Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT)

During 2019, the Central Bank of Bahrain and other relevant AML/CFT governmental and institutional stakeholders prepared Bahrain's First Mutual Evaluation Follow up Report. The final draft report was discussed and adopted in the MENAFATF Plenary Meeting that took place in Cairo, Egypt during the period of 26-28 November 2019. Bahrain's follow up report highlighted the major initiatives undertaken by the various authorities in the Kingdom reflecting the progress in addressing the major deficiencies identified during the Mutual Evaluation report adopted by FATF in the joint FATF/MENAFATF Plenary Meeting that took place in Paris in June 2018.

During the year, the Compliance Directorate's organizational structure was extended to include a new unit "AML/CFT Unit". The primary role of the Unit is ensuring the adoption of relevant international AML/CFT standards, assessing the financial sector's need for guidance on specific AML/CFT matters, developing sufficient outreach plans, and operationally leading the CBB-relevant aspects of the Mutual Evaluation and National Risk Assessment. As part of their outreach plan, the Unit issued a guidance paper for financial institutions on the topic of Countering Proliferation Financing to increase the sector's awareness.

The Compliance Directorate continued enhancing the AML/CFT supervisory tools by developing a comprehensive institutional profiling form, allocating a team for offsite supervision, and developing a systematic statistics database. In addition, during the year, Compliance Directorate conducted regulatory onsite examinations on various licensees to assess their compliance with the AML Law, CBB Law, and Financial Crime Module of all volumes. The onsite examinations contributed to the ongoing efforts of improving the systematic AML/CFT framework of the country through exhaustive reviews of the effectiveness of the controls. The onsite examinations focuses on reviewing the licensees AML/CFT procedures, systems and internal controls and subsequently support CBB's ML/TF prevention efforts through detection, monitoring and reporting of suspicious transactions.

By being a member of the Inclusive Framework on Base Erosion and Profit Shifting ("IF-BEPS"), Kingdom of Bahrain has, in the immediate to short term, committed to implementing the four BEPS minimum standard Actions. Accordingly, the Kingdom's legislative framework in relation to the Economic Substance ("ES") requirements was assessed during the first half of 2019.

The aforementioned review aims to identify features, within a jurisdiction, that can facilitate base erosion and profit shifting, and therefore have the potential to unfairly impact the tax base of other jurisdictions. Accordingly, in cooperation with the related governmental authorities, the Central Bank of Bahrain ("CBB") dedicated resources and efforts to complete the peer review process and participated in the review meeting that took place in Paris in June 2019. The aforementioned assessment concluded the following: *"Bahrain's legislative framework meets the Standard"*.

In addition to that, the CBB, in collaboration with the National Bureau for Revenue ("NBR") and Ministry of Industry, Commerce and Tourism ("MOICT"), hosted a Technical Assistance Workshop in relation to the ES requirements. The aforementioned workshop was provided by the Organisation for Economic Co-operation and Development ("OECD") in November 2019. The aforementioned workshop, included sessions dedicated to governmental officials, CBB Licensees and MOICT Licensees in order to increase awareness and provide guidance in relation to the implementation of the ES requirements. Furthermore, the MOICT, CBB and NBR have adopted an intergovernmental procedure in order to ensure an effective implementation of the ES requirements.

Moreover, the OECD reviewed the effective implementation of the Automatic Exchange of Information ("AEOI"), more specifically the Common Reporting

Standards ("CRS"). The aforementioned review concluded that Kingdom of Bahrain's jurisdiction is in an advanced stage of developing a compliance strategy and accompanying procedures to ensure that Reporting Financial Institutions correctly implement the due diligence and reporting procedures. During 2019, the CBB electronically obtained the required financial information, as per the OECD's CRS. Such information was gathered from 269 Reporting Financial Institutions ("RFIs") and automatically exchanged with 60 reportable jurisdictions in a timely manner.

In addition to that, CBB electronically obtained the required information, as per the FATCA IGA, with respect to U.S. reportable accounts from 268 RFIs. This information was then exchanged with the Internal Revenue Service ("IRS") in a timely manner.

Banking Supervision Directorates

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

The CBB with the objective of protecting the interests of consumers as well as promoting financial stability and soundness of the banking industry continued with its proactive monitoring of banks and financial institutions by employing risk based supervisory techniques. As such, the CBB persisted with regulations which facilitate enhanced transparency and disclosures and provided adequate assurance to the market for supporting market innovation as well as its growth and development.

Accordingly, the following measures were taken by the CBB during the year 2019:

1. Domestic-Systematically Important Banks (D-SIBs): The CBB embarked on an exercise for the purpose of identification of D-SIBs for 2020 and 2021 in a two stage process based on the D-SIB assessment methodology Rules issued in 2018. As part of the first stage of the assessment process, financial information was collected from all retail banks and based on a scorecard methodology three D-SIBs were identified. In the second stage, supervisory judgment based on specified methodology was used to confirm or amend the D-SIBs list. The CBB's D-SIB methodology is based on Basel Committee of Banking Supervision guidance.

2. Enhancing Compliance Effectiveness: The CBB issued new Rules on compliance function under High Level Controls Module with the objective of enhancing compliance effectiveness among licensees. Accordingly,

supervision directorates at the CBB continued their close monitoring of the compliance framework of licensees while advising licensees with unsatisfactory track record to enhance their compliance.

3. Monitoring the Level of Real Estate Exposures: With the objective of controlling risk concentration to the volatile sector, CBB continued its monitoring of the exposures to the real estate sector on a quarterly basis.

4. Sound Remuneration Practices: The CBB continued to monitor the remuneration practices of banks to ensure that the disbursement of bonuses of the senior management and incentivized employees by banks are aligned with the CBB's Rules on Sound Remuneration Practices under HC Module. These Rules encourages long term relationship between the employee and the banks and align the bonuses their risks taking capability.

5. Related Party Exposures: The CBB with the aim of ensuring full compliance with its rules and limiting concentration risk to related party, continued with its monitoring of the related party exposures of locally incorporated banks on a monthly basis.

6. Monitoring Implementation of IFRS 9: Implementation of IFRS 9 by financial institutions was continuously monitored by CBB during the year to ensure effective compliance with the standard including the determination of ECL by these institutions.

7. Monitoring of Impaired Loans Portfolio: The CBB continued to monitor and assess the impaired loans portfolio of banks on a quarterly basis. Based on its assessment, CBB advised banks and financing companies, to take preemptive measures to limit the growth in impaired loans portfolio.

8. Prudential Meetings: During the year, the conventional banking supervision directorates conducted 68 prudential meetings with the licensees under their supervision. The meetings reviewed the previous years performance while discussing strategic direction for the future and other supervisory issues of relevance for the CBB. These meetings also included half yearly meetings with Domestic Systemically Important Banks or D-SIBs.

9. Meeting on Financial Statements: The banking supervision directorates conducted annual trilateral meetings with banks (locally incorporated and branches of foreign banks) and financing companies along with their external auditors to discuss the year-end financial results for 2018 and interim financial results for June 2019, before being submitted to the respective bank's Board of Directors for approval. The meetings deliberated on the issues

pertaining adequacy of provisions, movements in impaired assets, valuation practices, recognition of income and proposed dividends etc.

10. Implementation of New Initiatives: The CBB persisted with its efforts towards continuous improvement in the financial sector. As such new initiatives in this direction included providing guidance and issuing directives to licensees to take measures to support contactless payments, tokenization and single national QR switch as well as prepare themselves for implementing e-KYC and providing APIs for open banking platform.

11. Studies/Surveys: The CBB's supervision directorates conducted a number of surveys during the year as part of their proactive supervisory approach to enhancing the quality of banking services while ensuring adequate controls to protect customer's interest. Such surveys included calculation of interest on credit cards, unclaimed account balances with banks, open banking readiness, SMS on failed ATM/Point of sale transactions among others.

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

13. Wage Protection System: The CBB continued with its efforts towards facilitating the implementation of wage protection system (WPS) in the Kingdom of Bahrain. During the year one more institution were given approvals to provide WPS.

14. Bahrain Credit Reference Bureau (BCRB): As part of its endeavor to enhance the credit quality in the banking system and thereby promote financial soundness of institutions the CBB continued with its support to BCRB to facilitating effective credit referencing services in the kingdom of Bahrain through introducing a number of initiatives.

15. Appointed Experts Assignments: The CBB's conventional banking supervision directorates with the objective of augmenting the effectiveness of its supervisory practices, appointed qualified "Appointed Experts" to undertake Agreed upon Procedures for reviewing specific functions in a number of licensees. Accordingly, 15 assignments were conducted during 2019 covering review of functions which included inter alia risk management including credit and operational risk management, internal audit, compliance framework as well as internal control framework among others.

16. Monitoring of Banks BOD and Organization Structures: The CBB continued to review the annual corporate governance reports submitted by

banks and financing companies. The purpose was to evaluate the performance of Board of Director and the assessment included reviewing attendance and participation of Directors in Board meetings, Board sub-committees structure and the appointment of independent directors among others. The Board review was augmented by review of organization structure as well as succession plan of banks and financing companies. The CBB's representatives also attended the AGM/EAGM of licensees as observers as part of its monitoring of licensees corporate governance.

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

Compliance with the “Code of Best Practice on Consumer Credit and Charging”: The CBB continued its monitoring of effective compliance with the provisions of the Code by retail banks and financing companies to ensure that licensees are transparent in their dealings and act fairly, responsibly and reasonably in dealing with their customers.

Objective 3: Promoting Transparency and Market Discipline:

The CBB continued with its stringent monitoring and oversight of the disclosures made by its licensees under Basel 3 Pillar 3 guidelines, and their compliance with the CBB's requirements to ensure enhanced transparency and market discipline.

Public Disclosure by Banks: The supervision directorates continuously monitored banks disclosures to its stakeholders including its compliance with the CBB Rules on public disclosures. Accordingly, banks were required to submit their public disclosures report duly reviewed by their external auditors.

Any non-compliance with the CBB's rules or delayed submissions of the required information attracted appropriate 'Enforcement Action' including imposition of penalty by the CBB and banks were required to disclose such penal action in their annual reports.

Enforcement Actions: The CBB continued to enforce high standards of compliance by its licensees, thereby bringing down the risks for the financial system and the consumers. Towards achieving this objective the CBB used effective enforcement as one of the tools for effective supervision. Accordingly, and as stipulated in Article 38 of the CBB Law, the Conventional Banking Supervision Directorates at the CBB have taken 47 enforcement actions against their licensees including imposition of penalties, during the year 2019.

Islamic Financial Institutions Supervision

During 2019, the Islamic Financial Institutions Supervision Directorate (“IFISD”) continued focusing on improving the knowledge and the skills of its staff by enrolling them in BIBF training courses (technical and soft skills), FSI connect tutorials and participating in conferences, seminars and public hearing events related to Islamic Finance inside and outside the Kingdom of Bahrain. One staff has been enrolled in Cambridge FinTech and Regulatory Program and two staff members have obtained the Advanced Diploma in Islamic Finance from BIBF.

In addition, a Senior staff enrolled in Preparing New Leaderships Program “Kawader” offered by the Institute of Public Administration. The program aims at developing a creative leader who has the ability to participate in the creation of strategies.

During 2019, IFISD participated in the memberships of IFSB Working Group for the Revised Sharia Governance Standard for the Islamic Banking Sector and AAOIFI Working Group for the Revised FAS 1 “General Presentation and Disclosure FAS 1 in the Financial Statements”.

Moreover, the Director of IFISD participated in the 14th IFSB Summit as a speaker and in the 11th IFSB Public Lecture on Financial Policy and Stability as a lecturer.

In addition, IFISD conducted a supervisory visit to an overseas subsidiary of a locally incorporated Bank and met with its relevant officials, including the host supervisor and the External Auditors, to improve the CBB’s consolidated supervision role.

Moreover, IFISD continued sharing the experience of the Kingdom of Bahrain in the Islamic Banking sector with other countries. This year, IFISD received delegations from Uganda and Sudan. IFISD prepared a detailed short training plan for the said delegates at the CBB, Islamic banks and other Islamic financial relevant institutions in the Kingdom of Bahrain.

Finally, IFISD played an important role in improving the public awareness about the Islamic finance concepts and products by supporting and leading BIBF’s Islamic Finance Awareness Campaign program in collaboration with all Islamic Retail Banks.

Inspection Directorate

The Inspection Directorate completed over 65 inspection visits during 2019 spread over various types of licensees, including banks, insurance firms, and other specialized licensees and Collective Investment Undertakings (CIUs). The visits followed a well-defined risk based supervisory framework designed to fulfill the on-site supervisory objectives and to assess the robustness of the control framework at the inspected licensees. The Directorate employed a risk focused examination approach using the CMORTALE methodology, which focused on the following assessment elements - capital adequacy, management quality, operational risk, risk management, transparency and disclosure, asset quality, liquidity and earnings. The methodology assesses the risk profile of the CBB's licensees with the ultimate objective of promoting the safety and soundness of financial institutions through procedures aimed at identifying regulatory actions required to maintain the financial stability by reducing the risk of insolvency, and instances of losses to depositors or investors; thus mitigating any potential loss of market confidence.

Carrying forward from 2018 initiative, the Directorate continued to strengthen its cyber security assessment framework and conducted detailed vulnerability assessment reviews of licensees alongside regular inspection visits.

Among the on-site visits, about one-thirds were special assignment and thematic visits to investigate broad matters covering unclaimed dividends, excessive interest rates charged to customers, and foreign exchange transactions conversion issues and customer complaints.

The Directorate further expanded its cross border on-site review horizon by conducting inspection visits to overseas branches/subsidiaries of the CBB licensees, collaborating closely with the respective host regulatory authorities.

Given the ever evolving global regulatory landscape, emerging risks and various pronouncements by global standard setting bodies like Basel Committee on Banking Supervision, the Directorate, during the year, continued its effort to develop and enhance its risk profiling methodology to assess the business, control failure and systemic risks of the licensees.

Firmly believing in professional development and in response to the greater regulatory emphasis on sound risk management practices within the financial sector and challenges thrown by disruption of traditional financial models with the advent of FinTech, the Directorate continued its CPD efforts by identifying, and implementing 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 and emerging trends in the financial sector.

Capital Markets Supervision

The CBB endeavoured during 2019, 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 the CBB Rulebook - Volume 6, Capital Markets

- A. As part of its objective to establish industry leading practices, the CBB issued circular EDFIS/C/008/2019 dated 16th January 2019 to all Capital Markets Service Providers ("CMSPs") pertaining to the issuance of "Supplementary Information, Appendix AML-(vi) to the CBB Rulebook

Volume 6, Agreed Upon Procedures (“AUP”) for Testing Compliance with the Anti-Money Laundering & Combating Financial Crime (“AML”) Module. Furthermore, the CBB issued circular CMS/C/007/19 dated 2nd December 2019 to all Self-Regulatory Organizations (“SROs”) and SRO Members pertaining to amendments to the aforementioned AUP, in which the wording has been amended for better consistency with the requirements of the International Standards on Auditing and also includes the basis for sample selection.

- B. The CBB issued circular EDFIS/C/010/2019 dated 22nd January 2019 to all Listed Companies, Self-Regulatory Organizations (“SRO”), SRO Members, and other parties within the capital markets pertaining to amendments made to the Markets & Exchanges (“MAE”) and Market Intermediaries & Representatives (“MIR”) Modules within Volume 6 of the CBB Rulebook following the consultation with the industry. With regards to the MAE Module, amendments have been made to the sections relating to obligations of crowd funding platform operators and equity crowd funding offer, while a new section relating to registering market makers has been added. Furthermore, and in reference the MIR Module, a new section relating to market making practice for liquidity enhancement has been added.
- C. In line with its initiative to continuously enhance its regulatory framework to be able to meet the financial sectors developments, the CBB issued circular EDFIS/C/017/2019 dated 24th February 2019 to all Listed Companies, SROs, SRO Members, and other parties within the capital markets pertaining to the issuance of the Crypto-Assets (“CRA”) Module under Volume 6 of the CBB Rulebook.
- D. The CBB issued circular EDFIS/C/74/2019 dated 29th August 2019 to all CMSPs pertaining to amendments to the requirements under Module AML of Volume 6. The amendment is related to the deletion of Paragraph AML-7.1.2, which previously stated the requirements for persons holding 5% ownership or more of any listed security.
- E. The CBB issued circular EDFIS/C/082/2019 dated 2nd October 2019 to all Crypto-asset Licensees, Legal, and Auditing firms pertaining to issuing proposed amendments to the CRA Module for industry consultation. In order to be in line with the Financial Action Task Force (FATF) Recommendations and to follow best practices, changes have been made to the sections relating to maintenance and development systems, security measures and procedure, and cyber security, amongst other areas.

- F. The CBB issued circular EDFIS/C/083/2019 dated 2nd October 2019 pertaining to the amendment of the Takeovers, Mergers and Acquisitions (TMA) Module, Volume 6 of the CBB Rulebook.
- G. The CBB issued circular EDFIS/C/084/2019 dated 2nd October 2019 to the SROs, SRO Members, Crypto-asset Licensees and other parties within the capital markets pertaining to issuing proposed amendments to the AML Module for industry consultation. In order to be in line with the Financial Action Task Force (FATF) Recommendations and to follow best practices, sections have been added regarding money transfer and accepted crypto-assets, enhanced due diligence for correspondent relationships, and an introduction pertaining to the CBB's risk based approach.
- H. On 22nd December 2019, the CBB has issued a circular (Ref: EDFIS/C/094/2019) in relation to the amendments of the Disclosure Standards of Volume 6 of the CBB Rulebook. The amendments were specifically made to Article (32.5) in relation to the corporate action timeline followed by listed companies when declaring and paying dividends. The said amendments were made to improve the existing practice and to be in line with the best international practices.
- I. In line with its initiative to continuously enhance its regulatory framework, the CBB has been working on finalizing the Training and Competency (TC) Module under the CBB Rulebook Volume 6 before issuance for industry consultation.

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

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

- A. Effective 2nd January 2019, BHB has adopted a new set of service-related fees for investors, issuers, and members.
- B. The CBB, on 28th March 2019, granted its no-objection to BHB to its proposed amendments of the BHB Market Rules regarding serving investors in opening trading accounts.
- C. Following the CMSD's initial approval, on 24th November 2019, the Bahrain Bourse issued a consultation paper on the proposed administrative fines to be imposed on issuers of securities. The proposed framework is being introduced in

accordance with the Bahrain Bourse's Listing Rules which relates to the powers of Bahrain Bourse to impose administrative fines on issuers in the event of non-compliance with the Listing Rules and any other applicable BHB rules, regulations and directives, as deemed appropriate.

D. The CBB, on 5th January 2020, granted its no-objection to BHB regarding the issuance of the final version of the Listing Rules.

- **Bahrain Clear B.S.C. (c) ("BHC")**

A. Effective 2nd January 2019, BHC has adopted a new set of service-related fees for investors, issuers, custodians and members.

B. In line with BHC's request to distribute cash dividends and act as paying agent, the CBB is working with BHC to ensure that BHC has in place the necessary systems, processes and control measure to undertake the activity of paying agent.

C. The CBB, on 2nd July 2019, has provided its comments on the draft Clearing, Settlement and Central Depository and Central Registry ("CSD") Rules submitted by BHC. BHC shall provide the CBB with an amended draft of the same during the first quarter of 2020.

D. BHC, on 21st July 2019, has issued a consultation paper on the proposed Delivery Versus Payment ("DVP") Model Framework. BHC is currently in the process of reviewing industry comments and amending the framework.

E. During a cabinet meeting held on 10th December 2019, chaired by His Royal Highness Prince Salman bin Hamad Al Khalifa, Crown Prince, Deputy Supreme Commander, and First Deputy Prime Minister, it has been agreed to transfer the services of the central registry of closed joint-stock companies from the Ministry of Industry, Commerce, and Tourism to BHC with the aim of increasing transparency and flexibility in managing closed joint-stock companies and providing additional services without prejudice to the privacy of the company, and the Council decided to refer the memorandum submitted for this purpose by the Minister of Industry Trade and Tourism to the Ministerial Committee for Legal and Legislative

- **BHB and BHC Members**

- A. The CBB, on 10th June 2019, in reply Global Investment House B.S.C (c)'s ("GIH") request for approval for the termination of brokerage business and closure of the brokerage office, has requested GIH to comply with certain requirements. GIH are currently in the process of completing the CBB's requirements.
- B. The CBB, on 10th July 2019, has cancelled the CBB license of "Al Jesr Financial Office" – Licensed Securities Broker and its records have been removed from the CBB's register according to CBB's resolution No.41 of 2019.
- C. 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 2019.

- **Crypto-asset Licensees**

- A. On 28th July 2019, Rain Management W.L.L. has been granted the first CBB license under the CRA Module of the CBB Rulebook Volume 6 to carry out crypto-asset services as Category 3.
- B. The CBB is anticipating to granting licenses to crypto-asset service providers currently operating in the CBB's Regulatory Sandbox subsequent to official graduation from the sandbox.
- C. The CMSD, the off-site supervisor of licensed crypto-assets service providers in Bahrain, is working collaboratively with other Directorates and Units of the CBB in order to supervise and regulate the licensees in line with best international practices.

➤ **Disclosure, Governance & Investor Protection**

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

- A. Most of the 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 the company's financial statements. The above was not complied with during the third quarter of 2019 by Bahrain Middle East Bank B.S.C. ("BMB"), Investcorp Holding B.S.C. ("Investcorp"), Banader Hotels Company B.S.C ("Banader"), APM Terminals Bahrain B.S.C. ("APMT"), and Seef Properties B.S.C ("Seef"). Moreover, during the fourth quarter of 2019, Al Baraka Banking Group B.S.C., BMMI

B.S.C., Investcorp, and APMT, did not disclose their Board of Directors meeting dates and consequently non-compliance letters were issued to them, to which they responded by announcing their dates.

- B. All publicly listed companies, except BMB, have complied with the requirement of publishing the annual and interim financial statements for the year ended 31 December 2018, and the year 2019 respectively, within the appropriate timeframe. In addition, all listed companies have complied with publishing the aforementioned statements and disclosing them in at least two local newspapers (one Arabic and one English).
- C. All publicly listed companies, except BMB, have published the specimen of the annual and interim financial results for the year 2018 and 2019 respectively on Bahrain Bourse's website.
- D. All publicly listed companies, except BMB, have disclosed and published their full set of the annual and interim financial results for the year 2018 and 2019 respectively on the Bahrain Bourse's website.
- E. Although BMB is suspended from trading due to its incompliance with the above, BMB has published its financial results for the third quarter of annual results of 2018 on 21 November 2019. Yet, BMB remains suspended due to its non-compliance of the above during all periods of 2019.
- F. Taib Bank B.S.C. (suspended from trading since 2013) has failed to comply with all the above-mentioned requirements, and is currently undergoing voluntary liquidation.

➤ **Disclosure Standards**

A. Disclosure of Material Information:

The CMSD ensures that all publicly listed companies are committed to disclose material information that may affect stakeholders that deal in securities as per the rules and requirements of the CBB's Disclosure Standards (particularly with regards to the content, timing and disclosure of information on the Bahrain Bourse website). Throughout 2019, the number of the announcements made by the listed companies pertaining to the disclosure of material information were approximately 1273 announcements.

B. General Meetings:

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

Company	General Meeting	Purpose
Batelco, Duty Free, Trafco, Cinema, Baraka, Nass, BMMI, Takaful, Zain, Alba	Extra-Ordinary	Approval to amend the M&AoA, pursuant to latest the amendments of the Commercial Companies Law.
Salam, National Hotels, BCFC,	Extra-Ordinary	<ul style="list-style-type: none"> Approval to amend the M&AoA, pursuant to latest the amendments of the Commercial Companies Law. Approval to increase issued capital due to the distribution of bonus shares.
NBB	Extra-Ordinary	<ul style="list-style-type: none"> Approval to increase issued and paid up capital. Approval to amend the M&AoA.
Ahli United Bank	Extra-Ordinary	<ul style="list-style-type: none"> Approval to issue bonds. Approval to amend the M&AoA, pursuant to latest the amendments of the Commercial Companies Law.
BBK	Extra-Ordinary	<ul style="list-style-type: none"> Approval to convert capital securities to ordinary shares. Approval to amend the M&AoA.
BMB	Extra-Ordinary	<ul style="list-style-type: none"> Approval to maintain bank's continuity.
GFH	Extra-Ordinary	<ul style="list-style-type: none"> Approval to cancel treasury shares Approval to amend the M&AoA.
Investcorp	Extra-Ordinary	<ul style="list-style-type: none"> Approval to transfer regulated business in Bahrain. Approval to change the company's commercial name. Approval to amend the company's objectives as stated in the company's M&AoA. Approval to amend the M&AoA.
GFH	Ordinary	<ul style="list-style-type: none"> Approved the recommendation of the Board to issue Sukuk amounting up to USD 500 million Authorized the Board of Directors to appoint a market maker for the Bank and to utilize up to 3% of GFH's total issued shares for market making Approve and authorize the board of

		directors to utilize 140,000,000 shares, representing 3.8% of total issued shares of GFH, for the purpose of a strategic share acquisition in financial institutions.
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➤ **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:

Company	Purpose
BBK	Employees trust
Esterad Investment Company B.S.C	Supports share price and liquidity in the market.
Bahrain Cinema Company B.S.C.	Supports share price and liquidity in the market.
Trafco Group B.S.C	Support share price and liquidity in the market.
Delmon Poultry Company	Share Price stabilization
Bahrain & Kuwait Insurance Company	Support share price and liquidity in the market.
Ahli United Bank	AUB Employee Share Option Plan, and to support stock price and liquidity in the market.
Al Salam Bank - Bahrain B.S.C.	Support share price in the market.
Khaleeji Commercial Bank B.S.C	Support share price in the market.

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 11 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 7 share transfer requests from and to the trustees' accounts for the benefit of the employees of the listed companies in 2019.

Listed Companies' Memorandum & Articles of Association

During the year 2018, the CMSD has approved 6 applications from listed companies, requesting CBB's approval to amend certain provisions of the Memorandum & Articles of Association ("M&AOA").

Market Making

- A. The CMSD issued its no objection letters on 28th May 2019 and 28th November 2019 to Bank ABC to extend SICO's market making activity for ABC's shares in Bahrain Bourse using approximately 1% of Bank ABC's issued share capital for a renewable period of 6 months.
- B. The CMSD issued its no objection letter on 5th February 2019 to GFH Financial Group to appoint SICO to provide market making activity for GFH's shares in the Dubai Financial Market. 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 and Dubai Financial Market was extended on 29th May 2019 and 28th November 2019.

- C. The CMSD issued its no objection letter on 26th June 2019 to Bahrain Telecommunication Company's to extend SICO's market making activity for Batelco's shares in Bahrain Bourse using approximately 3% of Batelco's issued share capital for a renewable period of 12 months.

Market Surveillance

During 2019, the Market Surveillance Department has identified a total of 39 suspected cases the preliminary examination results were as follows:

1. 12 closed cases because they failed to have sufficient evidence to qualify for further action.
2. One suspected case that have been transferred to Investigation and Enforcement Department.
3. 2 cases have been transferred from Bahrain Bourse to the Market Surveillance for further analysis and both failed to have sufficient evidence to violate both BHB and CBB rules.
4. 24 cases are still open for further analysis where they are currently under surveillance for future action to be taken.

The CMSD in cooperation with the Information Technology Department, has successfully transmitted the project of CBB's Insider Forms and the disclosure of ownership of securities of companies licensed by the Central Bank of Bahrain to the production environment (Live), which will be electronically filled by the CBB's staff in 2020.

A no objection letter has been issued on 31st December 2019 to Bahrain Bourse regarding the implementation of the "New Tick Size" to be applied on a permanent basis

Compliance and Enforcement

Non-Compliance by Licensed Brokers: In June 2019, certain violations were flagged by the CBB's Inspection Directorate in their Examination Report which followed an on-site examination conducted on one of its licensed brokers during the period from 24th December 2018 to 6th January 2019. Following a referral made by the CMSD to the Enforcement Decision Review Committee ("EDRC"), the said licensed broker was issued a Formal Warning, dated 3rd November 2019, to address the contraventions of CBB's rules and guidelines which were identified by the examination.

Non-Compliance by Self-Regulatory Organizations

- A. The CMSD issued a Non-Compliance Letter, dated 12th June 2019, 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 MAE Module of Volume 6 of the CBB Rulebook.

- B. Following a referral made by the CMSD to the EDRC and subsequently the Appeals Committee, the CMSD issued a Formal Warning, dated 24th November 2019, to one of its licensed clearing, settlement and central depository system for its non-compliance with the CMSD's instructions.
- C. Following a referral made by the CMSD to the EDRC, the CMSD issued a Formal Warning, dated 5th December 2019, to one of its licensed exchanges for 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 MAE Module of Volume 6 of the CBB Rulebook.
- D. Following a referral made by the CMSD to the EDRC, the CMSD issued a Formal Warning, dated 5th December 2019, to one of its licensed clearing, settlement and central depository systems for the submission of incomplete reviewed quarterly financial results and therefore contravening CSD 3.1.8(b) of the CSD Module of Volume 6 of the CBB Rulebook.
- E. The CMSD issued a Non-Compliance Letter, dated 19th December 2019, to a licensed exchange due to its failure to pay the outstanding annual licensing fees in a timely manner as stipulated under MAE-1.9 of the Markets & Exchanges ("MAE") Module of Volume 6 of the CBB Rulebook.
- F. The CMSD issued a Non-Compliance Letter, dated 19th December 2019, to a licensed clearing, settlement and central depository system due to its failure to pay the outstanding annual licensing fees in a timely manner as stipulated under CSD-1.4 of the Clearing, Settlement and Central Depository ("CSD") Module of Volume 6 of the CBB Rulebook.

Non-Compliance by Listed Companies

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

In accordance with the requirement to disclose ownership interests by shareholders owning 5% or more in shares of listed companies within 5

business days from the end of the month, a number of listed companies have been notified for failing to deliver the report during the required timeframe and/or via ESRAD and e-mail.

Number of Non-Compliance Cases Related to the Submission of Monthly Statement of the Register of :Interest for Year		Percentage Change
2018	2019	
4	7	+75%

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.

Number of Non-Compliance Cases Related to the Submission of Annual Verification of the Insiders' and the Key Persons' Data Register for Year:		Percentage Change
2018	2019	
3	11	%267+

Notification of Non-Compliance to Disclosure Standards and Related Resolutions

The CMSD issued Non-Compliance Letters/Notices to **10 listed companies** for not meeting the requirements in relation to the publication of financial statements, content of financial statements/ press releases, declaration of annual dividend and the disclosure of Board of Directors meeting date or any change to the date to the market.

Notification of Non-Compliance to Treasury Share Transactions' Requirements

- The CBB issued a Non-Compliance letter dated 2nd July 2019, 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.

- The CBB also issued a Notice to a listed company on 9th October 2019 for failing to obtain CBB's prior approval when dealing in the company's treasury shares.

Notification of Non-Compliance/Imposition of Financial Penalty in Relation to Offering of Securities' Requirements

- The CBB issued a Non-Compliance letter dated 22nd October 2019, 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("PPM").
- The CBB issued a Non-Compliance letter dated 1st December 2019, to a listed company, for its failure to adhere to OFS-2.4.6 of the Offering of Securities Module by making available information related to a private placement offer to the public prior to the closing of the offering period.
- Following a Non-Compliance Letter and stop-order, dated 19th September 2019, the CMSD issued a Financial Penalty Notice, dated 5th December 2019, to a listed company, in line with the EDRC's recommendation. This is due to its failure to comply with provisions of the Offering of Securities Module ("OFS") of Volume 6 of the CBB Rulebook, wherein it accepted commitments by way of subscription forms from investors prior to securing the necessary private placement memorandum approval granted by the CMSD.

Notification of Non-Compliance for Non-Adherence to Market Making Requirements

The CBB issued a Non-Compliance letter dated 11th November 2019, to a listed company, for its failure to comply with MIR-4.19.30 of the Market Intermediaries and Representatives Module in relation to adhering to timely market making reporting requirements detailing its market making activity for the month.

Issuance of Formal Warning for Unacceptable Conduct when Dealing with the CBB

Following a referral made by the CMSD to the EDRC, the CMSD issued a Formal Warning, dated 10th December 2019, to a listed company, for its lack of judgement and unprofessionalism when dealing with the CBB's requests in

relation to an acquisition and therefore failing to comply with the CBB Law, rules and regulations.

Temporary Suspension of Trading

The CBB temporarily suspended the following listed companies pending disclosure of material corporate information:

Listed Company	Date of	
	Suspension	Resumption
Arab Insurance Group	May-19-14	Oct-2019-7
	Apr-19-21	Apr-19-22
Holding B.S.C Ithmaar	Mar-19-17	Mar-19-17
.Al Salam Bank – Bahrain B.S.C	Aug-19-15	Aug-19-15
Bahrain Islamic Bank B.S.C	Nov-19-4	Nov-19-5

Joint Work of the Gulf Cooperation Council (GCC)

1. The CBB's CMSD participated in the 3rd meeting of the Gulf Cooperation Council ("GCC") Financial Integration Strategy Working Group, held in the Kingdom of Saudi Arabia on 10th April 2019, wherein a number of initiatives and priorities aiming to work towards a degree of integration between the financial markets in the GCC countries were discussed and the same was raised to the Heads of GCC Capital Markets Authorities Committee (or their equivalent) in the meeting, which was held on 2nd May 2019.
2. The CBB's CMSD participated in the 18th meeting of the Heads of GCC Capital Markets Authorities Committee (or their equivalent), held in Oman on 2nd May 2019, wherein it was agreed:
 - a. To adopt the unified template for requests for information in line with the framework of cooperation and exchange of information as a guidance, provided that the General Secretariat, in coordination with the CBB, shall grammatically review the template, in accordance with the observations raised by member states.
 - b. Upon examination of the recommendations set forth by the GCC Financial Integration Strategy Working Group, it was agreed to focus on the proposed passporting initiative during the current period.
3. The CBB's CMSD participated in a joint meeting between the CBB and the Capital Market Authority of the Kingdom of Saudi Arabia on 18th June

2019, wherein the CBB's delegation headed by HE the Governor, included employees of the CBB's CMSD along with the Chief Executive Officer of Bahrain Bourse. During the meeting, new possibilities and prospects between Bahrain Bourse and the Saudi Stock Exchange (Tadawul) were discussed for the purpose of developing and enhancing the cooperation between the two markets.

4. The CBB's CMSD participated in the 4th meeting of the GCC Financial Integration Strategy Working Group, held in the Kingdom of Saudi Arabia on 1st August 2019, wherein the meeting discussed a consultation paper in relation to the possibility of introducing investment funds' passporting schemes as prime eligible channels by which the GCC could venture into a financial passporting regime. This was raised to the Heads of GCC Capital Markets Authorities Committee (or their equivalent) for their next meeting, which was held on 27th October 2019.
5. The CBB's CMSD participated in the 19th meeting of the Heads of GCC Capital Markets Authorities Committee (or their equivalent), held in Oman on 27th October 2019, wherein the meeting discussed several initiatives including assigning the GCC Financial Integration Strategy Working Group, in coordination with their respective legal professionals, to prepare an action plan for the implementation of investment funds' passporting. The meeting further discussed the progress of the GCC MoU and also assigned the Capital Market Authority of Kuwait to create a platform from which legal professionals within the capital market regulators may coordinate to exchange information and expertise with the aim of enhancing current legislation facilitating GCC financial market integration.
6. The CBB's CMSD participated in the 2nd joint meeting between the Heads of GCC Capital Markets Authorities Committee (or their equivalent) and the Heads of Stock Exchanges in the GCC, held in Oman on 27th October 2019, wherein it was agreed to initiate a passporting scheme within GCC's exchanges, and further, a centralized clearing mechanism for GCC capital markets was discussed along with a unified KYC mechanism.
7. The CBB's CMSD along with HE the Governor participated in the 8th GCC Ministerial Committee of the Financial Markets Regulators, held in Oman on 28th October 2019, wherein the meeting included the inauguration of the of the shared electronic training portal and it was agreed to commence the implementation of the investment funds and related products' passporting proposal. The Committee also agreed to

continue adopting the unified rules and regulations for the integration of GCC's capital markets as a guidance and further, the importance of coordination between the central banks and the capital markets' regulators in this regard was emphasized.

8. A delegation from the CBB's CMSD visited the Capital Market Authority of the Kingdom of Saudi Arabia and the Saudi Stock Exchange (Tadawul) during the period of 17th-19th November 2019 for a consultative visit to examine their 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.
9. The CBB's CMSD participated in the 5th meeting of the GCC Financial Integration Strategy Working Group, held in the Kingdom of Saudi Arabia on 11th-12th December 2019, wherein the meeting discussed the action plan of implementing the proposed investment funds' passporting scheme.
10. A delegation from the CBB's Research and Investor Protection participated in the "Supervision and Inspection of Listed Companies" workshop held by the Capital Market Authority Oman (CMA) during the period of 6th and 7th November 2019. The workshop was organized by the Inspection and Examination Department of the CMA, as a result of the initiative established during the meeting held between the Heads of GCC's Capital Markets Authorities Committee (or their equivalents). The workshop introduced the neighbouring GCC authorities to the supervision and inspection methods held on listed companies by the CMA.

Financial Institutions Supervision Directorate ("FISD")

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 Categories A and B, 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.

During the course of 2019, 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.

Consultations

On 26th June 2019, a consultation paper was issued for all CBB licensees in relation to the draft Electronic Commerce Law, seeking the licensees' feedback on the content of the draft Law.

The CBB has also issued a consultation paper on 21st July 2019, in relation to blocking of clients' accounts and assets, wherein the CBB has requested all licensees to provide their feedback regarding the blocking of clients' accounts and assets and providing information regarding the same.

In addition, the CBB has issued a consultation paper on 30th December 2019, seeking the feedback of Investment Business Firms in relation to adding the activity of "Arranging Credit and Advising on Credit", and the related Rules.

Circulars:

In January 2019, the CBB issued circular no. EDFIS/C/009/2019 addressed to all Investment Firm Licensees, in relation the draft rules pertaining to Digital Financial Advice and Cyber Security Risk Measures, in which the CBB has requested their feedback on the same.

In March 2019, the CBB issued circular no. EDBS/KH/C/19/2019, addressed to all CBB Licensees, notifying them that all licensees dealing with retail and local corporate customers are required to participate in the national e-KYC project.

In March 2019, the CBB issued circular no. EDFIS/C/031/2019, addressed to all Investment Business Firms, Money Changers, Trust Service Providers and Fund Administrators/Registrars, prohibiting them from having any form of exposure to their controllers, and in case they have any exposures, they must submit to the CBB the list of all such exposures together with an action plan to address the same.

Regulatory and Rulebook Updates:

During 2019, 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:

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 2019.

- In January 2019, the CBB issued an update to the Business Conduct Module, requiring all licensees acting as money brokers in Bahrain to comply with the scale of brokerage fees set in the Rulebook.
- In April 2019, the CBB issued a new Module " Digital Financial Advice Module" under CBB Rulebook Volume 4, spelling out the requirements for providing Digital Financial Advice, along with related amendments to Authorization Module (AU), Risk Management Module (RM) in

relation to Cyber Security measures, and the Glossary, following the industry consultation and feedback process.

- In addition to the above, and as part of April's update, the CBB has issued rules prohibiting licensees from having any form of exposure to their controllers and requesting them to put in place an action plan to address any existing exposure.
- As for July's update, the definition of Director has been replaced with a more comprehensive definition. Further, the CBB has added the requirement to submit Form 1: Application for a license online, along with all required documents. Lastly, the CBB added a requirement that all Category 3 Investment Business Firms must seek the CBB's prior approval before distributing dividends.
- In October, the CBB has added the requirement that all investment firm licensees must disclose in their audited financial statements the amount of any financial penalties paid to the CBB, together with a factual description of the reason(s) given by the CBB for the penalty.
- In addition, the CBB has amended the requirements relating to the maintenance of adequate capital, and the capital adequacy requirements in relation to claims on sovereigns, public sector entities, international organizations, Central Banks and multilateral development banks.

CBB Rulebook Volume 5:
Specialized Licensees Developments
Money Changers Developments

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

In April 2019, the CBB has issued rules prohibiting licensees from having any form of exposure to their controllers and requesting them to put in place an action plan to address any existing exposure.

As for July's update, the requirement to submit Form 1: Application for a license online, along with all required documents was added to the Rulebook.

In addition, the CBB has amended the record keeping requirements to be in line with other Rulebook Volumes.

In October, the CBB has added the requirement that all Money Changer licensees must disclose in their audited financial statements the amount of any financial penalties paid to the CBB, together with a factual description of the reason(s) given by the CBB for the penalty.

Administrators/ Registrars Developments

In April 2019, the CBB has issued rules prohibiting licensees from having any form of exposure to their controllers and requesting them to put in place an action plan to address any existing exposure.

As for July's update, the requirement to submit Form 1: Application for a license online, along with all required documents was added to the Rulebook.

In October, the CBB has added the requirement that all licensed Administrators / Registrars must disclose in their audited financial statements the amount of any financial penalties paid to the CBB, together with a factual description of the reason(s) given by the CBB for the penalty.

Representative Offices

In July 2019, the CBB has added the requirement to submit Form 1: Application for a license online, along with all required documents.

CBB Rulebook Volume 7:

Collective Investment Undertakings Developments

During the course of 2019, 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.

During 2019, the CBB registered 41 overseas domiciled CIUs to be marketed in Bahrain, in addition to 2 locally domiciled CIUs.

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

To ensure market discipline, the FISD has coordinated with the Inspection Directorate to conduct thematic inspections on certain financial institutions that are involved in the marketing and placement of mutual funds in the Kingdom of Bahrain, as well as those providing services to local funds, such as administrators, custodians, trust service provider.

The aim of this inspection plan is to assess the effectiveness of those institutions in performing their roles and responsibilities and their regulatory compliance with Volume 7 of CBB Rulebook.

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

- The CBB requested insurance licensees 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).

Exposure to Controllers

In March 2019, the CBB issued a new directive to all insurance licensees prohibiting them from having any form of direct or indirect exposure to its controllers (including subsidiaries and associated companies of controllers). The CBB instructed all insurance licensees to submit a list of all their exposures with an action plan to address such exposures within a stipulated timeline.

In September 2019, the CBB issued another directive 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 2018 and prior, or to make full provisions in the event of failure to settle the amounts on time.

Regulatory and Rulebook Updates

New module for Insurance Aggregators: The CBB issued the Insurance Aggregators (IA) Module under the CBB Rulebook (Volume 3) during August 2019 following feedback received from the industry on the consultation paper dated 22nd April 2019.

Consultation Paper on “Training & Competency Module” under the CBB Rulebook (Volume 3): The CBB issued a consultation paper to insurance licensees in December 2019 on “Training and Competency Module (TC Module)” which also included proposed relevant amendments to the “Authorization (AU)” and “High-Level Controls (HC)” Modules. The CBB will review the feedback from licensees in the first quarter of 2020 and is expected to issue the TC Module and the relevant amendments to the AU and HC Modules by the end of the first quarter of 2020.

International Financial Reporting Standard (IFRS 17): The CBB issued a new directive to all insurance and reinsurance firms to appraise and prepare themselves to adapt the changes and requirements of IFRS 17 “Insurance Contracts” when it comes into effect in January 2022.

Provide an appropriate degree of protection to users and the financial system

In July 2016, the CBB published Resolution No. (23) of 2016 in the Official Gazette regarding the Unified Compulsory Third Party Motor Insurance Policy Law 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. In September 2019, the CBB published Resolution No. (50) of 2019 in the Official Gazette regarding amendments made to the Unified Compulsory Third Party Motor Insurance Policy resolution in order to further enhance the procedures on dealing with claims arising from the compulsory third party motor policy.

Additionally, as at December 2019, the CBB was in the process of finalizing a Resolution standardizing the minimum cover policy for own damage (comprehensive cover), which is expected to be published in the first quarter of 2020.

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. On 31st July 2019, the CBB requested all insurance firms to appoint a representative to attend a meeting at the CBB in which the issue of customer complaints was discussed.

In October 2014, the Motor Insurance Compensation Fund Law No. 61 of 2014 was issued after approval by the Shura Council and the Council of Representatives. The Fund was an initiative of the CBB in collaboration with the 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 the relevant laws and regulations.

Promote transparency

During 2019, the Insurance Supervision Directorate released the Insurance Market Review Report of 2018. The Report presents the financial performance of the insurance industry in Bahrain for the years 2017 and 2018 (for both conventional insurance & reinsurance, and Takaful & Retakaful business) by class of business in the Kingdom. The total gross premiums of the Bahrain insurance market have increased to BD 284.02 million (2017: BD 268.65 million).

Promote better users experience

New Directives for Insurance Firms and Third Party Administrators (TPAs): As part of the CBB's ongoing initiatives towards financial digitalization in the Kingdom of Bahrain and developments in digital financial services in addition to promoting better clients' experience, the CBB issued new directives to all insurance firms and TPAs to digitalize medical clients' experience through implementing a paperless process and workflow during client visits to healthcare providers.

Financial Stability Directorate

During 2019, 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 2019, 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.

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.

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

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).

Chapter

4

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 12 new licensed institutions and registered 2 persons as Individual Actuaries in 2019 compared to 9 new licensed institutions and 1 person registered as Loss Adjuster issued in 2018, reaching to a total of 381 Licensed Institutions and registered persons providing financial services from Kingdom of Bahrain as of 31st December 2019 compared to a total of 382 licensees and registered persons as of 31st December 2018.

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

1. Ila – Conventional Retail Bank (Branch).
2. Cigna Life Insurance Company of Europe S.A. – N.V. – Overseas Insurance Firm - Foreign Branch.
3. Click Insurance W.L.L. – Insurance Broker.
4. Souqalmal Bahrain W.L.L. – Insurance Broker.
5. Ibdar Capital B.S.C. (c) – Investment Business Firm – Cat. 1 (Islamic Principles - Locally).
6. Gulf One Capital B.S.C. (c) – Investment Business Firm – Cat. 1 (Conventional - Locally).
7. Philippine National Bank - Banking Representative Office (Conventional).
8. Mubadarah Company W.L.L. – Trust Service Provider (Cat. B Trustee)
9. Tarabut Gateway W.L.L. – Ancillary Service Provider – Account Information Service Provider & Payment Initiation Service Provider (Conventional - Locally).
10. Beehive Bahrain Limited W.L.L. – Ancillary Service Provider – Crowdfunding Platform Operator (Locally - Conventional)
11. Tap Payments Company B.S.C. (c) – Ancillary Service Provider – Payment Service Provider (Locally - Conventional)
12. Rain Management W.L.L. – Crypto Asset Services – Cat. 3 (Locally – Conventional).

Registered Persons

- 1) Mr. Marios Schizas – (Registered Actuary).
- 2) Mr. Nauman Afzal Cheema – (Registered Actuaries).

4.2 Fintech & Innovations Unit

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 Economic Development Board (Bahrain 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 78 applications to join the Regulatory Sandbox, of which consists of the following:

- Following application discussions within the committee, 44 applications were approved. Currently we have 3 applications under study.
- 10 applications were transferred to the Licensing Directorate due to the proposed solutions falling under the existing licensing framework.

- 7 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.
- 9 applications are on hold because of incomplete applications.
- 3 companies successfully exited the Sandbox: Tarabut Gateway W.L.L, Rain Financial and Belfrics Middle East W.L.L.

Open Banking Regulations

The Fintech & Innovation Unit worked very closely with the Policy Unit to devise a constructive plan for implementation of Open Banking. In addition, the FinTech & Innovation is represented as an active member of the “Bahrain Open Banking Committee”.

Digital Financial Advice “Robo-advisory”

The Fintech & Innovation Unit worked alongside the Policy Unit to draft regulations on Digital Financial Advice (also known as Robo-advisory). Draft rules were circulated for industry consultation in January 2019. Final regulations were issued on the 25th of February 2019.

Insurance Aggregators

The Fintech & Innovation Unit worked alongside the Policy Unit and Insurance Supervision Directorate to draft Insurance Aggregator regulations for the CBB. The draft regulations were issued in March 2019 and the final regulations were issued on the 14th of August 2019.

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 13th December 2018, which provide a regulatory framework for licensing and supervision of crypto-asset platforms to fall under CBB Rulebook Volume 6. The final rules were issued on the 21st of February 2019.

Digital Banks Regulations

The Fintech & Innovation Unit prepared a study to explore the potential of drafting of Digital Bank regulations. The Unit is now collaborating with the Regulatory Policy Unit to draft the initial regulations for Digital Banks.

Projects Pipeline

The Fintech & Innovation Unit is working on a number of projects including:

Updating Regulations

- The Fintech & Innovation Unit worked on a study about “Stable Coins”, which covers its possible effects on the financial industry, Facebook’s Libra, and the potential for central banks to get involved and next potential steps in this direction.
- The Unit is working on preparing a study on Tokenized Assets to potentially prepare draft regulations.
- The Unit is studying the prospects of deploying a Digital Sandbox.
- The Unit is working on updating its Regulatory Sandbox Framework in response to feedback collected from the unit and the sandbox companies’ experiences. Those changes cover KYC procedures, advertisement, and submission of reports.
- To continue researching jurisdictions and new initiatives within the FinTech sphere to further develop regulations.
- The Unit is continuing 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).
- The Unit is working in collaboration with the Financial Stability Unit to prepare FinTech Statistics for Bahrain.

Internal Projects

- The Unit is involved in the working group to drive the CBB’s internal digital transformation strategy.
- Working on updating the Unit’s mandate, in line with regional and international developments in this sector.

National Projects

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.

4.3 Payment System ("SSS" & "RTGS")

Bank transfers through the Real Time Gross Settlement System ("RTGS") were 257,926 in 2019, for a total amount of BD 83.9 billion with a daily average of 1,044 transfer and an average daily value of BD 339.7 million, broken down as follows:

- The volume of bank transfers among retail banks through RTGS was 42,073 for a value of BD 79.71 billion.
- The volume of customer transfers through the RTGS totalled 215,853 with a value of BD 4.19 billion.
- Total fees received from RTGS and SSS member banks (transaction fees and annual membership fees) amounted to BD 344,692 in 2019.

There were 2,746 transactions carried out through the Scripless Securities Settlement ("SSS") System in 2019, the value of which was BD 12.164 billion, the daily average number of transaction was 11 and the average daily value was BD 49.246 million.

4.3 Cheque clearing

The number of cheques cleared in 2019 was 2,964,508 with a total amount BD 8.738 billion. The daily average number of cheques was 12,002 and the average daily value was BD 35.38 million.

4.4 ATM Network

The number of withdrawals processing through the local ATM network system (BENEFIT) during 2019 was 21,231,197 with a total amount BD 1.910 billion with a daily average of 58,168 transactions and an average daily value of BD 5.233 million.

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

- The number of Fawri+ transactions in 2019 was 6,351,167 with a total amount of BD 546.2 million. The daily average number of Fawri+ transactions was 17,400 and the average daily value was BD 1.5 million.

- The number of Fawri transactions in 2019 was 7,111,170 with a total amount of BD 12.687 billion. The daily average number of Fawri transactions was 28,790 and the average daily value was BD 51 million.
- The number of Fawateer transactions in 2019 was 3,086,665 with a total amount of BD 423.965 million. The daily average number of Fawateer transactions was 12,497 and the average daily value was BD 1.716 million.

4.6 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 96,237,124/- during 2019.
- The total value of currency deposits during 2019 amounted to BD 1,466,870,550/-, while that of the currency withdrawals stood at BD 1,472,187,320/-,
- The value of currency in circulation recorded BD 687,779,200/- on 31st December 2019, of which currency coins and notes amounted to BD 22,415,810/- and BD 665,363,390/- respectively. The fourth issue of currency notes reached a level of BD 89,394,680/- and amounted to 13.44% of the total value of currency notes in circulation. The value of the third issue of currency notes stood at BD 8,729,435/- or 1.31% of the total value of currency notes in circulation.
- The upgraded issue of the BD 20, BD 10 and BD5 new series of currency notes reached a level of BD 567,239,275/- and amounted to 85.25% of the total value of currency notes in circulation.
- The Central Bank of Bahrain (CBB) has issued Five Silver Commemorative Medal Set to celebrate the 100-Year anniversary of the Financial Services, Educational Services, Security Services, Health Services and Municipality Services in the Kingdom of Bahrain.

4.7 CBB Training Programs

During 2019, 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 173 employees in 131 training courses at BIBF; covering different areas including finance, Islamic banking, insurance, Fintech, management and information technology.
- Enhancing technical competencies through enrolling 225 employees in 118 external training programs, workshops and conferences, organized by local, regional and international organizations such as the Economic Policy Institute of AMF, IMF, IFSB and other Central Banks and specialized institutes. These programs and conferences covered various areas including banking supervision, economics, investment, insurance, Fintech and IT.
- Conducting two batches of the tailored program for new employees for a total of 41 employees in cooperation with the Bahrain Institute of Banking and Finance (BIBF); in order to develop their skills in communication, work ethics and presentation.
- Providing internships for 26 university students, in order to enhance their professional skills and prepare them for the workplace.
- Making use of technology through providing access to 100 employees to an e-learning platform, which covers a variety of Banking and Finance subjects.

4.8 IT Projects

During the course of 2019, a number of projects were completed as part of IT Projects Roadmap. They include the following:

Launch of new look Central Bank of Bahrain website

In February 2019, ITD Launched the new look website of the Central Bank of Bahrain. The new website is aligned to the CBB's essential objectives, mission

and vision; providing a comprehensive gateway of information & services to the financial sector.

The CBB's working team in cooperation with a development company implemented the main requirements for electronic content including the launch of electronic forms for regulatory requests to enable financial institutions to submit licensing requests. Additionally, the websites allow financial institutions to pay fees for licensing applications and financial technology companies (FinTech) to pay fees for licensing applications for the experimental regulatory environment (Sandbox).

The Central Bank of Bahrain won the award of Excellence for e-government for the year 2019 in the category of the (Best e-government website).

It is worth noting that the Central Bank of Bahrain website has won awards in previous years. In 2005, the (formerly Bahrain Monetary Agency) website won the e-government award, and in 2007, The CBB won the e-Government Award category in the e-Content Awards. The CBB's website also won an award of excellence for the 2011 e-Government awards for the (e-Economy) category Integrated solution for Foreign Account Tax Compliance Act (FATCA) and Common Reporting Standard (CRS).

The Foreign Account Tax Compliance Act (FATCA) and Common Reporting Standard (CRS) projects have been completed and launched. The System facilitates the CBB to obtain detailed account information of US taxpayers on an annual basis and to share the same with the respective tax jurisdictions.

Enhancement of the Blocking System to include Insurance Companies

Currently Ministry of Justice (MOJ) uploads Blocking, Inquiry and Inheritance requests through the system to be being viewed and replied by both Retail and Wholesale banks.

The system has been enhanced to allow other licensees (**insurance**) to access the Blocking system and to provides them the same functionalities as the existing Retail and Wholesale banks

Perform External Penetration Tests to check for any security vulnerabilities:

As part of the ongoing work to enhance information security and protection, the ITD has contracted with a specialized company to perform Penetration Tests to check for current vulnerabilities across all IT infrastructure and applications, so that the same can be duly addressed.

The company has submitted the test results to management, which included a list of security vulnerabilities of low and medium severities only. Accordingly, these vulnerabilities have been corrected and solutions have been found to enhance the strength of the security controls against breaches, and the company stated in its report that the CBB has an excellent level in protecting information security

Credit on Sale Commemorative Coins

Commemorative coins sold on credit are recorded in the Sales Register by Currency Issue Directorate (CID).

However, the General Ledger (GL) only reflects these transactions when the cash is actually received. ITD has integrated the Currency Issue System with the General Ledger (GL).

ITD has obtained the international certification (ISO / IEC 27001)

The CBB in its efforts to enhance its leadership role as a legislative body for financial institutions in the Kingdom of Bahrain, has obtained the ISO / IEC 27001 certification for the ITD.

The ISO / IEC 27001 standard certification is an ideal framework on which to build an information security strategy, provide protection from risks, and ensure adequate IT security controls.

Privileged Access Management (PAM) system implementation

A Privileged Access Management (PAM) System has been implemented, which enhances the ability to secure safe administrator access to all IT assets such as servers and systems used in the CBB.

The system will facilitate automatic and safe control in order to reduce the risk of penetration or abuse of permitted Access to systems by officials authorized to manage those servers and systems, in addition to the ability to record and document all tasks that are performed on these assets.

CBB Staff Time and Attendance System

The project to replace the (Time and Attendance) System for employees has been completed, after completing the final acceptance tests by the Human Resources and Services Department and ensuring that the system meets all requirements.

Training workshops have been conducted for the users from the various directorates of the CBB. It had been agreed with the management of Human Resources that though the system has been run in parallel with the existing system since mid-July 2019, they would rely entirely on the new system at the beginning of January 2020.

E-Government "TRUST" program

Contact was made with the Information and e-Government Authority about the government "TRUST" program for information security, which is a government initiative adopted by the Information and e-Government Authority aimed at raising the level of information security in government and semi-government agencies by supporting and strengthening the technical aspects of the agencies to achieve regional and global leadership.

The program is a motivational platform for those willing to join in an optional way at the present time based on raising the level of information security through governance and supporting the technical and human side in order to achieve regional leadership and achieve a reliable governmental electronic environment for government agencies within the three levels (Initiative), (Advanced) and (Distinctive), each of which requires completing the necessary criteria for maturity, in order to rise to a higher level.

Two awareness workshops have been held for the CBB employees by representatives of the Information and e-Government Authority. Initial approval was taken of the requirements of the first stage that the CBB submitted to the program, which relate to the efficiency of electronic security and the policies used to preserve the cyber security system, provided that a pre-audit process is arranged in the coming period.

Upgrade CBB employees' email services to the Microsoft 365 platform

Based on CBB's policy of "cloud first" and the qualitative shift in the e-mail services pursued by the Government of the Kingdom of Bahrain to convert to Microsoft 365 services, currently the employees email is being gradually moved the Microsoft 365 platform based on Microsoft cloud (Azure). The move will provide a modern work environment that guarantees providing

the best security, privacy and protection features. The upgrade is expected to be completed for all employees by the beginning of 2020.

Other electronic services from Microsoft 365 will be added progressively in the coming phases, in line with the CBB's strategy for digital transformation.

Upgrade of the Document Management System and the development of the current Savings System

The current "Document Management System" (DMS) has been upgraded to the latest version to ensure continuity of technical support. The new version provides many performance and content management improvements.

Additionally, the current "Savings System" of the Accounts Directorate has been upgraded to the latest version of the technology besides enhancing the business functionality.

4.9 External Communications Unit

Press Releases from CBB

- Total Number of Press Releases (133 Press Release)
- Total Number of Government Securities and Sukuk Press Releases (80 Press Release)
- Total Number of Press Releases related to CBB announcements and events (53 Press Release)

Press releases

No.	Date	Subject
1	05.01.2019	CBB is committed to insuring the correct application of the VAT
2	21.01.2019	The Central Bank of Bahrain issues draft directives on Digital Financial Advice
3	28.01.2019	في تقرير لمصرف البحرين المركزي: عمليات الرفع ببطاقات الائتمان والخصم وصل للمستوي قياسي في شهر ديسمبر 2018
4	03.02.2019	Central Bank of Bahrain invites innovative firms to cross-border testing pilot
5	25.02.2019	Central Bank of Bahrain issues final rules on Crypto-asset services and Crypto-asset exchanges

6	28.02.2019	CBB BD20 note official statement
7	06.03.2019	CBB warns consumers against dealing with unlicensed financial institutions
8	10.03.2019	مصرف البحرين المركزي يحتفل باليوم الدولي للمرأة
9	20.03.2019	CBB Keeps Key Interest Rate
10	24.03.2019	CBB issues Resolution No. (23) of 2019 for the Issuance of Regulations in respect of Short Selling and Giving Securities on Loan
11	25.03.2019	Waqf Fund hosts Twelfth Shari'ah Scholar Session with Shaikh Esam Ishaq
12	25.03.2019	مجلس إدارة مصرف البحرين المركزي يعقد اجتماعه الثاني لعام 2019
13	26.03.2019	The Central Bank of Bahrain issues Directives on Digital Financial Advice
14	30.03.2019	ولي عهد الأردن يشهد توقيع مذكرة تفاهم بين مصرف البحرين المركزي ومؤسسة ولي العهد في المملكة الأردنية الهاشمية
15	31.03.2019	CBB hosts 4th annual Middle East Asset Management Forum
16	02.04.2019	مصرف البحرين المركزي يعقد اجتماع مع جمعية مصارف البحرين
17	08.04.2019	The number of Bahraini women working in the financial sector increased by 2.2% at the end of 2018 compared to the end of 2017
18	15.04.2019	Cigna Life Insurance Company of Europe S.A. – N.V. receives a License from the Central Bank of Bahrain
19	22.04.2019	Central Bank of Bahrain issues draft rules on Insurance Aggregators
20	24.04.2019	CBB and SWIFT hold joint workshop on Payments Landscape and Customer Security Programme (CSP)

21	28.04.2019	CBB wins eGovernment Excellence Award
22	20.05.2019	Waqf Fund holds its 12th Roundtable Discussion on Creating an Islamic Profit Rate Benchmark
23	21.05.2019	Waqf Fund Arranges Its 10th Corporate Governance Workshop for Chairmen, Board Members and CEOs of Bahraini Islamic Banks
24	03.06.2019	Financial sector's performance continues to improve in Q1/2019
25	18.06.2019	CBB warns consumers against dealing with unlicensed market intermediary - National Investment Bank
26	19.06.2019	CBB Governor and Al Salam Bank Group CEO discuss grooming of future banking industry leaders
27	27.06.2019	CBB warns against fraudulent scam involving the impersonation of Cyprus Securities and Exchange Commission (Cyprus Securities and Exchange Commission)
28	02.07.2019	CBB Monthly Statistical Bulletin May 2019
29	21.07.2019	CBB warns consumers against dealing with unlicensed financial institution – United Investment Bank
30	31.07.2019	CBB Cuts Key Interest Rate
31	31.07.2019	مصرف البحرين المركزي يعقد اجتماع مع شركات التأمين
32	12.08.2019	مصرف البحرين المركزي: تراجع عدد الشكايات المرتجعة وانخفاض قيمتها في النصف الأول من عام 2019
33	14.08.2019	Central Bank of Bahrain issues rules on Insurance Aggregators

34	08.09.2019	CBB Monthly Statistical Bulletin July 2019
35	02.10.2019	CBB wins key Fintech award
36	02.10.2019	The CBB concluded its visit to the Global Distribution Conference in Luxemburg
37	09.10.2019	CBB Monthly Statistical Bulletin August 2019
38	14.10.2019	CBB employee obtains key international membership
39	15.10.2019	مصرف البحرين المركزي يستقبل رؤساء النقابات البحرينية
40	19.10.2019	محافظ مصرف البحرين المركزي يهنأ سمو الشيخ ناصر بن حمد
41	29.10.2019	CBB Monthly Statistical Bulletin September 2019
42	30.10.2019	CBB Cuts Key Interest Rate
43	03.11.2019	مصرف البحرين المركزي يستقبل رئيس مجموعة البنك الإسلامي للتنمية
44	17.11.2019	Khalid Hamad appointed on IRTI Board of Trustees
45	17.11.2019	CBB participates in IIF Digital Financial Inclusion Summit
46	17.11.2019	CBB participates in GFC meeting
47	28.11.2019	CBB Monthly Statistical Bulletin October 2019
48	02.12.2019	CBB celebrates Bahraini women in higher education and future sciences
49	03.12.2019	CBB Governor receives prestigious banking award

50	05.12.2019	مجلس إدارة مصرف البحرين المركزي يعقد اجتماعه الخامس لعام 2019
51	08.12.2019	WAQF FUND HOSTS 11TH CORPORATE GOVERNANCE WORKSHOP ON WHISTLEBLOWING AND RESPONSIBILITIES TO CUSTOMERS
52	08.12.2019	The Central Bank of Bahrain launches a new liquidity management tool (Single binding Wa'ad) for the Islamic retail banks
53	29.12.2019	The Central Bank of Bahrain Issues Five Silver Commemorative Medals Set

Conferences and Forums

No.	Date	Event
1	21 February 2019	The 3rd Middle East & Africa FinTech Forum
2	25 February 2019	RegFact 2019 RegFact 2019
3	26 - 27 February 2019	Euromoney The GCC Financial Forum
4	11 – 12 March 2019	E-Payment and Internet Banking Summit 2019
5	12 – 13 March 2019	RUW Forensic Analytics & Accounting Technology Workshop
6	7 – 8 April 2019	AAOIFI Shariah Conference
7	13 April 2019	Fintech Hackathon for Sustainability Program
8	21 April 2019	BAB Open Dialogue
9	28 – 30 April 2019	UoAB Practical Implementation of the Liquidity Coverage Ratio (LCR) & the Net Stable Funding Ratio (NSFR) according to Basel III

10	29 – 30 April 2019	CIBAFI Seminar on Credit Ratings: Focus on Islamic Banks and Sukuk Ratings Methodology
11	29 April 2019	Middle East Asset Management Forum
12	29 April 2019	Financial Crime Compliance Symposium
13	12 - 13 June 2019	InsureByte Conference
14	16 – 27 June 2019	Financial Sector surveillance workshop in partnership with IMF
15	30 June 2019	EDB-CBB Workshop on Draft Secured Transactions Law
16	15 – 16 October 2019	IFSB-AAOIFI Seminar on IFRS-9
17	24 – 25 October 2019	The 44th ICA conference
18	3 - 4 November 2019	AAOIFI World Bank Conference
19	11 - 15 November 2019	Singapore Fintech Festival
20	2 - 4 December 2019	World Islamic Banking Conference
21	14 – 16 December 2019	BIC National Day

Interviews

No.	Date	Interviewee	Media and Event
1	18 February 2019	HE Rasheed Al Maraj, Governor	The Times (UK)
2	25 February 2019		The Japan Times
3	26 February 2019		The National (UAE)
4	3 December 2019		The Banker Middle East Magazine interview

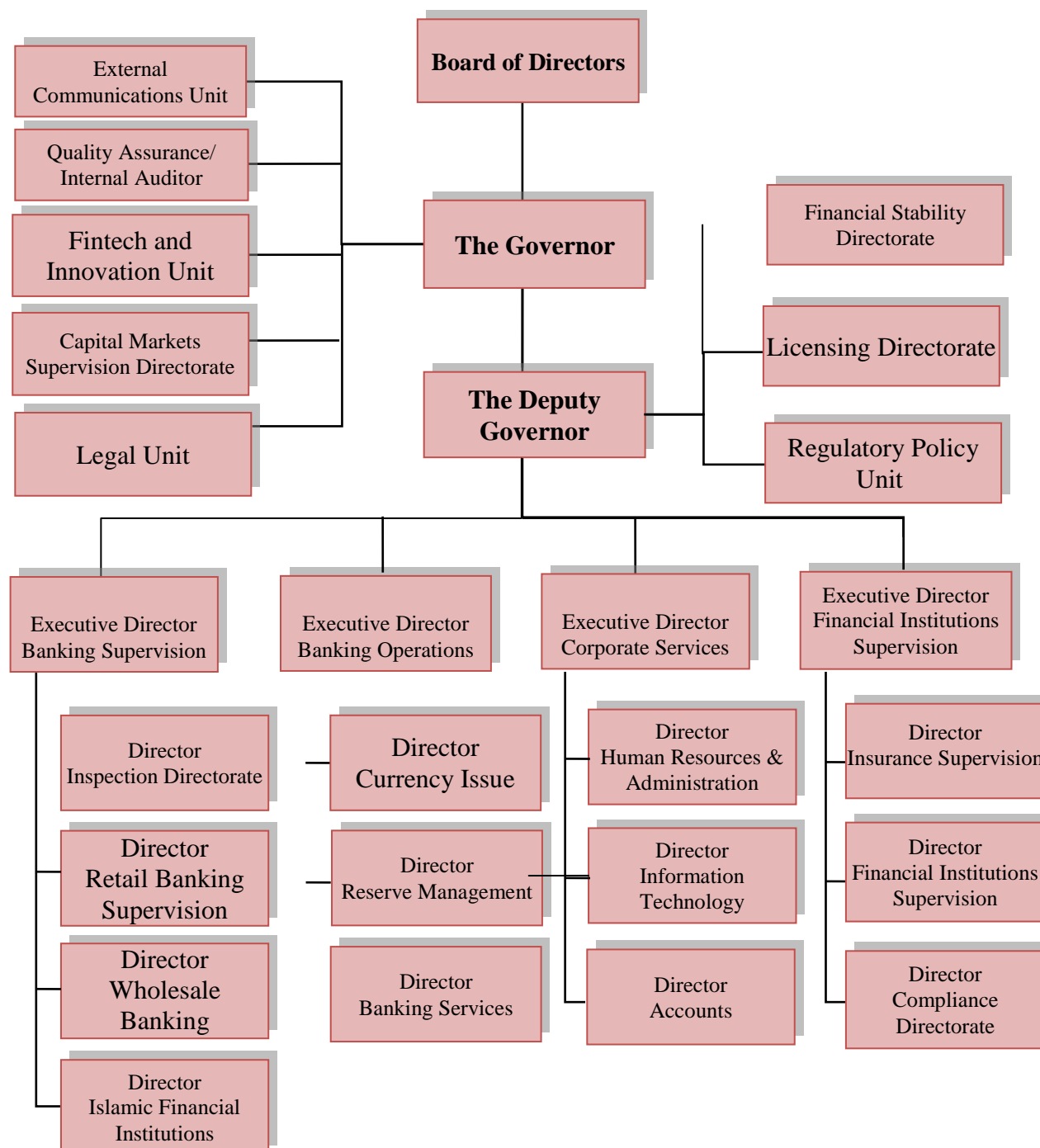
5	26 February 2019	Mr. Khalid Hamad, Executive Director – Banking Supervision	Bloomberg – Euromoney The GCC Financial Forum
6	4 December 2019		Al Iktissad Wal A'amal – World Islamic Banking Conference
7	29 April 2019	Mr. Abdul Rahman Al Baker, Executive Director – Financial Institutions Supervision	CNBC Arabic – Middle East Asset Management Forum
8	17 October 2019	Mr. Yousef Rashid Al Fadhel Executive Director – Corporate Services	Bahrain TV - Al Rai program

Press conferences

No.	Date	Subject	CBB Speaker	Media Attendees
1	27 February 2019	BENEFIT launch of the first eKYC Project	Mr. Khalid Hamad, Executive Director - Banking Supervision	Local press and media
2	8 April 2019	ISRA press conference to announce book launch: Islamic Economics: Principles & Analysis	Mr. Khalid Hamad, Executive Director - Banking Supervision	Local press and media

3	21 April 2019	100 Years of Banking celebration announcement	HE Rasheed Al Maraj, Governor, CBB	Local press and media
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4.10 CBB's Organisational Chart



Chapter

5

5. FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

INDEPENDENT AUDITORS' REPORT TO THE BOARD OF DIRECTORS

BALANCE SHEET (As at 31 December 2019)

PROFIT AND LOSS ACCOUNT AND APPROPRIATION (For the year ended 31 December 2019)

Notes to the financial statements for the year ended 31 December 2019

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

31 DECEMBER 2019

CENTRAL BANK OF BAHRAIN
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

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

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 2019, 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 2019, 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 Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code)* together with the ethical requirements that are relevant to our audit of the financial statements in the Kingdom of Bahrain, 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.



CENTRAL BANK OF BAHRAIN

BALANCE SHEET

AS AT 31 DECEMBER 2019

	Notes	2019 BD'000	2018 BD'000
ASSETS			
Gold	3	2,500	2,500
Foreign reserves	4	1,571,743	735,566
Due from Ministry of Finance	5	1,208,373	1,080,979
Cash, due from Bahraini banks and treasury bills	6	379,191	619,368
Other assets	7	14,534	16,130
TOTAL ASSETS		3,176,341	2,454,543
LIABILITIES			
Notes and coins in circulation	3	687,067	681,741
Bahraini Dinar deposits		1,587,897	1,034,564
Other deposits		295,169	178,906
Due to other central banks		3,172	1,468
Profit payable to the Government of the Kingdom of Bahrain		2,500	2,500
Provision for currency withdrawn		6,166	6,175
Other liabilities	8	8,404	8,058
TOTAL LIABILITIES		2,590,375	1,913,412
CAPITAL FUNDS			
Capital	9	200,000	200,000
General reserve	10	258,162	233,861
Contingency reserve	11	105,915	86,713
Revaluation reserve	12	21,889	20,557
TOTAL CAPITAL FUNDS		585,966	541,131
TOTAL LIABILITIES AND CAPITAL FUNDS		3,176,341	2,454,543




Mohammed Hussain Yateem
Chairman

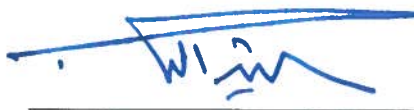


Rasheed Mohammad Al Maraj
Governor

CENTRAL BANK OF BAHRAIN
PROFIT AND LOSS ACCOUNT AND APPROPRIATION
FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 BD'000	2018 BD'000
INCOME			
Interest income		73,819	65,119
Interest expense		(28,087)	(18,961)
Net interest income		45,732	46,158
Registration and licensing fees		5,429	5,420
Exchange gain on sale of US dollars		8,114	9,731
Net realised investment gain/(loss)		3,201	(470)
Other income		1,870	1,698
TOTAL INCOME		64,346	62,537
EXPENSES			
Staff costs		(12,063)	(11,278)
General and administration expenses		(2,670)	(2,684)
Notes issue expenses		(704)	(1,881)
Managed funds and advisory fees		(290)	(341)
TOTAL OPERATING EXPENSES		(15,727)	(16,184)
PROFIT FOR THE YEAR BEFORE PROVISION FOR IMPAIRMENT		48,619	46,353
Provision for impairment		(16)	(64)
PROFIT FOR THE YEAR		48,603	46,289
Transfer to contingency reserve	11	(21,802)	(20,644)
Transfer to general reserve	10	(24,301)	(23,145)
BALANCE PAYABLE TO THE KINGDOM OF BAHRAIN		2,500	2,500


 Mohammed Hussain Yateem
 Chairman


 Rasheed Mohammad Al Maraj
 Governor

CENTRAL BANK OF BAHRAIN

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2019

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 2019, 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 29 March 2020.

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 on 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.

CENTRAL BANK OF BAHRAIN
NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2019

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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 2019

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

	2019 BD'000	2018 BD'000
Authorised backing		
Gold	2,500	2,500
Foreign reserves – note 4	1,571,743	735,566
	1,574,243	738,066
Notes and coins in circulation	(687,067)	(681,741)
Excess of authorised backing over currency in circulation	887,176	56,325

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 2019 was BD 86,297 thousand (2018: BD 72,627 thousand).

4 FOREIGN RESERVES

	2019 BD'000	2018 BD'000
Bank deposits	1,390,119	539,249
Bonds portfolio, including managed funds	180,442	192,535
Other securities	86,727	86,727
	1,657,288	818,511
Less: provision for impairment	(85,545)	(82,945)
	1,571,743	735,566

CENTRAL BANK OF BAHRAIN
NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2019

4 FOREIGN RESERVES (continued)

All bonds are quoted in active markets with 82.95% being of investment grade BBB or higher (2018: 76.51%). All the deposits (2018: 100%) and 73.61% of bonds (2018: 72.49%) are in US dollars. For other foreign currencies, these are substantially hedged into US dollars. The bond portfolios include BD 154 thousand net unrealised losses on non-US denominated bonds and related forward foreign exchange contracts used to hedge such bonds (2018: net unrealised losses of BD 1,328 thousand).

The market value of the bond portfolios (including cash and accrued interest held within these portfolios) at 31 December 2019 was BD 183,710 thousand (2018: BD 188,554 thousand).

The Central Bank has recognised an impairment provision amounting to BD 2,600 thousand during the year ended 31 December 2019 which has been charged to 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

	2019 BD'000	2018 BD'000
Cash	28	23
Due from Bahraini banks	16,326	14,216
Ijara Sukuk / Treasury bonds & bills issued by the Government of Bahrain	362,837	605,129
	<u>379,191</u>	<u>619,368</u>

7 OTHER ASSETS

	2019 BD'000	2018 BD'000
Interest receivable	5,289	7,906
Staff loans	4,736	4,618
Equipment	2,706	1,831
Others	1,803	1,775
	<u>14,534</u>	<u>16,130</u>

8 OTHER LIABILITIES

	2019 BD'000	2018 BD'000
Deferred license fee received	4,709	4,666
Other payables	2,563	2,071
Interest payable	726	1,010
Accrued expenses	406	311
	<u>8,404</u>	<u>8,058</u>

CENTRAL BANK OF BAHRAIN
NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2019

9 CAPITAL

	2019 BD'000	2018 BD'000
Authorised	500,000	500,000
Issued and fully paid up	200,000	200,000

10 GENERAL RESERVE

	2019 BD'000	2018 BD'000
Balance at beginning of the year	233,861	210,716
Transfer from profit and loss account and appropriation	24,301	23,145
Balance at end of the year	258,162	233,861

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

	2019 BD'000	2018 BD'000
Balance at beginning of the year	86,713	66,069
Transfer during the year	21,802	20,644
Utilised during the year	(2,600)	-
Balance at end of the year	105,915	86,713

In accordance with Article 21 of the Central Bank of Bahrain and Financial Institution Law, the Board has approved a transfer of BD 21,802 thousand (2018: BD 20,644 thousand) of the current year's net profit to the contingency reserve and utilisation of BD 2,600 thousand for impairment provision (refer to note 4).

CENTRAL BANK OF BAHRAIN
NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2019

12 REVALUATION RESERVE

	2019 BD'000	2018 BD'000
Balance at beginning of the year	20,557	19,138
Movement during the year	1,332	1,419
Balance at end of the year	21,889	20,557

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 2019 and 2018, there were no outstanding contingent liabilities or commitments with the exception of outstanding foreign exchange contracts with a notional value of BD 62,692 thousand (2018: BD 89,078 thousand).