

FINANCIAL STABILITY REPORT



MARCH 2021
ISSUE NO. 30



مَصْرَفُ الْبَحْرَيْنِ الْمَرْكَزِيّ

Central Bank of Bahrain

Financial Stability Report | March 2021 | Issue no. 30

Production: Financial Stability Directorate
Central Bank of Bahrain
P.O. Box 27, Manama, Kingdom of Bahrain
Tel: (+973) 1754 7777 | Fax: (+973) 1753 0399
www.cbb.gov.bh

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

Table of Contents

Table of Contents	i
Tables	iii
Charts	iv
Preface	1
The COVID-19 Crisis- Update	2
CBB Initiatives	2
CBB Circulars	4
CBB Loan Deferments	6
Other Government Initiatives	7
Be-Aware Campaign and App	7
Executive Summary	8
 Part I: Developments in the International and Domestic Financial Markets	 10
1. Developments in the International Financial Markets	11
1.1 Overview	11
1.2 Global Macro-financial Environment	11
1.2.1 Economic Performance	11
1.2.2 Financial Markets	14
2. Developments in Bahrain's Financial and non-Financial Sector	15
2.1 Overview	15
2.2 The Financial Sector	15
2.2.1 The Retail Banking Sector	16
2.2.2 The Wholesale Banking Sector	17
2.2.3 The Islamic Banking Sector	18
2.2.4 Islamic Windows	19
2.2.5 Credit Developments	19
2.2.6 Net Foreign Assets	20
2.3 Monetary Indicators	22
2.4 Inflation	23
2.5 The Households/Personal Sector	23
2.6 The Bahraini Corporate/Business Sector	25
 Part II: Developments in the Banking Sector	 27
3. Performance of the Overall Banking Sector	28
3.1 Overview	28
3.2 Overall Banking Sector Performance	28
3.2.1 Capital Adequacy	28
3.2.2 Asset Quality	28
3.2.3 Profitability	31
3.2.4 Liquidity	32
4. Performance of Conventional Banks	33
4.1 Overview	33
4.2 Capital Adequacy	33
4.3 Asset Quality	33
4.3.1 Non-Performing Loans	33
4.3.2 Loan Concentrations	35
4.4 Profitability	38
4.5 Liquidity	39
5. Performance of Islamic Banks	40
5.1 Overview	40
5.2 Capital Adequacy	40
5.3 Asset Quality	40
5.3.1 Non-Performing Facilities	40
5.3.2 Facilities Concentration	42

5.4	Profitability	44
5.5	Liquidity.	44
Part III: Developments in the Non-Bank Financial Sector		45
6.	Performance of the Insurance Sector	46
6.1	Overview	46
6.2	Performance of the Insurance Sector	47
6.3	Financial Position and Profitability of Insurance Sector	47
6.3.1	<i>Conventional Insurance Firms</i>	48
6.3.2	<i>Takaful Insurance Firms</i>	48
6.4	Insurance Premiums and Claims Analysis by Class	48
6.4.1	<i>Overall Insurance</i>	48
6.4.2	<i>Conventional Insurance</i>	50
6.4.3	<i>Takaful</i>	51
6.4.4	<i>Retention Ratio and Loss Ratio (By Class)</i>	52
7.	Performance of Non-Bank Financial Institutions	54
7.1	Overview	54
7.2	Investment Businesses	54
7.2.1	<i>Assets Under Management</i>	55
7.2.2	<i>Profitability</i>	55
7.3	Money changers	56
7.4	Challenges & Risks in Non-Banking Financial Institutions	57
7.5	Developments in Regulation and Initiatives	58
8.	Performance of Capital Markets	59
8.1	Overview	59
8.2	Bahrain Bourse	59
8.2.1	<i>All Share Index and Islamic Index Overview</i>	59
8.2.2	<i>Bahrain Bourse Trading Statistics</i>	61
8.3	Market Resilience	65
8.3.1	<i>Bahrain Bourse Adoption of GICS for Listed Companies</i>	66
8.4	Capital Market Activities	66
8.4.1	<i>Offering of Securities</i>	66
8.4.2	<i>KFH offer to acquire 100% of AUB issued and paid-up capital</i>	67
8.5	Risks & Challenges in Capital Markets	67
8.6	Developments in Regulation and Initiatives	69
8.6.1	<i>Policy and Regulatory Developments</i>	69
8.6.2	<i>The Capital Markets Supervision Directorate's Upcoming Initiatives</i>	71
8.6.3	<i>Investor Protection Initiatives</i>	72
Part IV: Developments in the Payment Systems, Point of Sale, FinTech, and Cyber Security		73
9.	FMI, Payment and Settlement Systems, Point of Sale, and Digital Wallets	74
9.1	Overview	74
9.2	Real Time Gross Settlement System (RTGS)	75
9.3	Scripless Securities Settlement System (SSSS)	76
9.4	ATM Clearing System (ATM)	76
9.5	Bahrain Cheque Truncation System (BCTS)	77
9.6	EFTS including EBPP System	79
9.7	Point of Sale (POS)	81
9.8	Digital Wallets	85
10.	Fintech, Innovation and Financial Inclusion	86
10.1	Overview	86
10.2	FinTech Developments	86
10.2.1	<i>Regulatory Sandbox</i>	87
10.2.2	<i>FinHub 973: CBB Digital Lab</i>	87
10.2.3	<i>Open Banking</i>	87

10.2.4	National e-KYC	88
10.2.5	Tokenization for Contactless Payments	88
10.2.6	BENEFIT	89
10.2.7	E-Wallet Developments	89
10.2.8	Crypto Assets	90
10.2.9	Crowdfunding	90
10.2.10	Digital Financial Advice	90
10.2.11	FinTech Bay	91
10.2.12	Other Regulatory Framework Developments and Projects	91
10.3	Financial Inclusion	91
11.	Cyber Security	93
11.1	Cybersecurity Framework in Bahrain	93
11.2	The National Cybersecurity Strategy	93
11.2.1	Vision and Objectives	94
11.2.2	Establishing a National Cybersecurity Committee	94
11.2.3	SafeSurf Bahrain	94
11.2.4	Cloud-First Policy	94
11.2.5	Personal data protection	95
11.2.6	Projects and Programs	95
11.3	CBB Cyber Security Initiatives and Regulatory Developments	95
Annex: Financial Soundness Indicators and Selected Graphs		97
List of Abbreviations		104

Tables

Table 2.1: Evolution of the size of the Banking sector in Bahrain	16
Table 2.2: Net Foreign Assets Position by Banking Segment (December 2020)	20
Table 2.3: Money Supply Composition	22
Table 2.4: Personal Loans Breakdown	24
Table 2.5: Business Loans by Sector	26
Table 3.1: Capital Provision Ratios	28
Table 3.2: NPL Ratios	28
Table 3.3: NPL Ratios and Specific Provisions by Time Period (Q4 2020)	29
Table 3.4: NPL Ratios by Sector (%)	30
Table 3.5: Lending Distribution (% Total Loans)	30
Table 3.6: SME Lending	31
Table 3.7: Profitability	32
Table 3.8: Liquidity	32
Table 4.1: Conventional Banks' Capital Provisions Ratios	33
Table 4.2: CR Banks' NPL Ratios	34
Table 4.3: CR Banks' NPL Ratios by Sector (%)	35
Table 4.4: CR Banks' Lending Distribution by Sector (% Total Loans)	35
Table 4.5: Local and Overseas CR Banks' Lending Distribution by Sector (% Total Loans)	36
Table 4.6: Local and Overseas CW Bank's Lending Distribution by Sector (% Total Loans)	37
Table 4.7: Conventional Banks' Profitability	38
Table 4.8: Conventional Bank's Liquidity	39
Table 5.1: Islamic Banks' Banks' Capital Provisions Ratios	40
Table 5.2: Islamic Banks' NPF Ratios	40
Table 5.3: Islamic Banks' NPF Ratios by Sector (%)	41
Table 5.4: Islamic Banks' Lending Distribution by Sector (% Total Facilities)	42
Table 5.5: Islamic Banks' Lending Distribution by Islamic Instrument (% of Total Facilities)	43
Table 5.6: Islamic Banks' Profitability (%)	44
Table 5.7: Islamic Banks' Liquidity (%)	44
Table 6.1: Total Assets, Liabilities, Capital, and Profitability of Insurance Sector by Segment	48

Table 6.2: Gross Premiums and Claims for all Insurance Firms by Class– Bahrain Operations	49
Table 6.3: Gross Premiums and Claims for Conv. Insurance by Class – Bahrain Operations	50
Table 6.4: Gross Premiums and Claims for Conv. Local and Overseas Insurance by Class – Bahrain Operations	51
Table 6.5: Gross Premiums and Claims for Takaful Insurance Firms by Class – Bahrain Operations	52
Table 6.6: Retention and Loss Ratios of Overall Insurance Sector	53
Table 7.1: IB Total Assets by Category	54
Table 7.2: Assets under Management	55
Table 7.3: IB Profitability by Category	55
Table 7.4: MC Turnover by Currency Group	57
Table 8.1: Key Indicators of Bahrain Bourse	59
Table 8.2: Bahrain All Share Index by Sector	60
Table 8.3: Market Capitalization on the Bahrain Bourse	61
Table 8.4: Largest 5 Companies by Market Capitalization (2020)	62
Table 8.5: Value of Shares Traded by Sector (% of Value of all shares traded)	62
Table 8.6: Volume of Shares Traded by Sector (% of Volume of all shares traded)	63
Table 8.7: Number of Transactions by Sector	63
Table 8.8: Value of Transactions by Nationality (BD)	64
Table 8.9: Stock Market Indices in GCC counties	65
Table 8.10: Price-Earnings Multiples	65
Table 9.1: RTGS Bank Transfers Daily Average Volume and Value	75
Table 9.2: SSSS Aggregate Volume and Value	76
Table 9.3: ATM Transactions Daily Average and Volume	77
Table 9.4: BCTS Daily Average Volume and Value	78
Table 9.5: EFTS (Fawri+, Fawri) Daily Average Volume and Value	80
Table 9.6: EBPP Fawateer Daily Average Volume and Value	81
Table 9.7: Point of Sale (POS) Transactions in Bahrain	81
Table 9.8: Volume and Value of Transactions through e-Wallet and Mobile Payments	85
Table 10.1: Digital Wallets and Features in the Kingdom	89
Table 10.2: Financial Inclusion Figures for the Kingdom of Bahrain	92

Charts

Chart 1.1: Real GDP Growth in Selected Europeans Countries (Quarterly %) Seasonally Adjusted	12
Chart 1.2: Real GDP Growth in Advanced Economies (Quarterly %)	13
Chart 1.3: Quarterly Real GDP Growth in BRIICS (Quarterly %)	13
Chart 1.4: Real GDP Growth in GCC Countries (Annual percent change)	14
Chart 1.5: Global Equity Market Indices (Re-indexed to January 2020)	14
Chart 2.1: Size of the Financial Sector to Real GDP	15
Chart 2.2: Banking Sector Asset Composition	16
Chart 2.3: Retail Banks' Assets	16
Chart 2.4: Categorization of Retail Banks' Assets	16
Chart 2.5: Retail Banks' Assets (%) by Geographical Classification (December 2019)	17
Chart 2.6: Retail Banks' Assets (%) by Geographical Classification (December 2020)	17
Chart 2.7: Wholesale Banks' Assets	17
Chart 2.8: Categorization of Wholesale Banks' Assets	17
Chart 2.9: Wholesale Banks' Assets by Geographical Classification (Dec 2019)	18
Chart 2.10: Wholesale Banks' Assets by Geographical Classification (Dec 2020)	18
Chart 2.11: Islamic Banks' Assets	18
Chart 2.12: Categorization of Islamic Banks' Assets	18
Chart 2.13: Islamic Banks' Assets by Geographical Classification (Dec 2019)	19
Chart 2.14: Islamic Banks' Assets by Geographical Classification (Dec 2020)	19
Chart 2.15: Islamic Windows' Assets	19
Chart 2.16: Categorization of Islamic Windows' Assets	19

Chart 2.17: Loans to the Private Sector	20
Chart 2.18: Loans to General Government	20
Chart 2.19: Total Deposits and Total Domestic Credit (BD Million)	20
Chart 2.20: Net Foreign Assets Position by Banking Segment	21
Chart 2.21: Net Foreign Assets of the Overall Banking Sector	21
Chart 2.22: Money Supply (BD million) from Jan. 2018 to Dec. 2020	22
Chart 2.23: CPI Change (Jan. 2014 – Dec. 2020)	23
Chart 2.24: Monthly Inflation Rate (Dec. 2019 – Dec. 2020)	23
Chart 2.25: Personal Loans and Advances (Volume and % of GDP)	24
Chart 2.26: Growth Rates of Total Personal Loans and Advances (%)	24
Chart 2.27: Personal Loans Breakdown (December 2020)	25
Chart 2.28: Retail Banks- Average Interest Rates on Personal Loans and Interest rates on Deposits (%)	25
Chart 2.29: Business Loans and Advances (Volume and % of GDP)	25
Chart 2.30: Growth Rates of Total Business Loans and Advances (%)	26
Chart 2.31: Business Loans by Sector (December 2020)	26
Chart 2.32: Retail Banks' Average Interest Rates on Business Loans	26
Chart 3.1: NPLs by Time Period (Q4 2020)	29
Chart 3.2: NPLs Concentration by Sector (Q4 2020)	29
Chart 3.3: NPL Ratios by Sectors (%)	30
Chart 3.4: Lending Distribution (% Total Loans)	31
Chart 3.5: SME Lending by Banking Segment (Q2 2020)	31
Chart 4.1: CR Banks' NPLs Concentration by Sector (December 2020)	34
Chart 4.2: CW Banks' NPLs Concentration by Sector (December 2020)	34
Chart 4.3: CR Banks' Lending Distribution by Sector (% Total Loans)	36
Chart 4.4: CW Banks' Lending Distribution by Sector (% Total Loans)	36
Chart 4.5: Local CR Banks' Lending Distribution by Sector (% Total Loans)	37
Chart 4.6: Overseas CR Banks' Lending Distribution by Sector (% Total Loans)	37
Chart 4.7: Local CW Banks' Lending Distribution by Sector (% Total Loans)	38
Chart 4.8: Overseas CW Banks' Lending Distribution by Sector (% Total Loans)	38
Chart 5.1: IR Banks' NPLs Concentration by Sector (December 2020)	41
Chart 5.2: IW Banks' NPLs Concentration by Sector (December 2020)	41
Chart 5.3: IR Banks' Lending Distribution by Sector (% of Total Facilities)	43
Chart 5.4: IW Banks' Lending Distribution by Sector (% of Total Facilities)	43
Chart 5.5: IR Banks' Lending Distribution by Islamic Instrument (% of Total Facilities)	43
Chart 5.6: IW Banks' Lending Distribution by Islamic Instrument (% of Total Facilities)	43
Chart 6.1: Insurance Sector Contribution and Quarterly Growth to GDP (%)	47
Chart 6.2: Gross Premiums of Insurance Sector by Segment (%)	47
Chart 6.3: Market Share of Gross Premiums by Class (%)	47
Chart 6.4: Concentrations of Gross Premiums and Claims for all Insurance Firms by Class	49
Chart 6.5: Concentrations of Gross Premiums and Claims for Conv. Insurance by Class	50
Chart 6.6: Concentrations of Gross Premiums and Claims for Conv. Local Insurance by Class	51
Chart 6.7: Concentrations of Gross Premiums and Claims for Conv. Overseas Insurance by Class	51
Chart 6.8: Concentrations of Gross Premiums and Claims for Takaful Insurance Firms by Class	52
Chart 6.9: Retention Ratios of Insurance Sector	53
Chart 7.1: IB Total Assets by Time Period	55
Chart 7.2: IB Profitability (Q4 2010 – Q4 2020)	56
Chart 7.3: Money Changers Currency Group Purchase & Sale, Q4 2020 (% of Total)	57
Chart 7.4: Money Changers Total Turnover by Currency Group	57
Chart 8.1: Bahrain All-Share Index, Dec. 2013 – Dec. 2020	60
Chart 8.2: Sector Indices Levels & Returns, Dec. 2013 – Dec. 2020	60
Chart 8.3: Bahrain Islamic Index, Dec. 2015 – Dec 2020	60
Chart 8.4: Bahrain All-Share Index and Oil price fluctuations	61
Chart 8.5: Market Capitalization by Sector (2020)	61

Chart 8.6: Largest 5 companies by Market Capitalization (2020)	61
Chart 8.7: Value of Shares Traded by Sector (% of Value of all shares traded) (2020)	62
Chart 8.8: Value of Shares Traded YoY Comparison	62
Chart 8.9: Volume of Shares traded by Sector (% of Volume of all shares traded) (2020)	63
Chart 8.10: Volume of Shares Traded YoY Comparison	63
Chart 8.11: Number of Transactions (% of all transactions) (2020)	64
Chart 8.12: Number of Transactions YoY Comparison	64
Chart 8.13: Share of Trading Value of Buy transactions by nationality (2020)	64
Chart 8.14: Share of Trading Value of Sell transactions by nationality (2020)	64
Chart 8.15: Stock Market Net Income	65
Chart 8.16: Total Market Price-Earnings Multiples	65
Chart 8.17: Shareholder Equity to Total Assets (%)	66
Chart 8.18: Shareholder Equity/Total Assets by Sector (2019)	66
Chart 8.19: Number of Capital Market Activities	66
Chart 8.20: Total Issuance Value	67
Chart 9.1: RTGS Bank Transfers Daily Average Volume and Value	75
Chart 9.2: SSSS Aggregate Volume and Value	76
Chart 9.3: ATM Transactions Daily Average and Value	77
Chart 9.4: Number and Value of ATM Transactions, December 2019 – December 2020	77
Chart 9.5: Number and Value of ATM Transactions	77
Chart 9.6: BCTS Daily Average Volume and Value	78
Chart 9.7: Volume of Issued Cheques and % of Returned Cheques	78
Chart 9.8: Value of Issued Cheques and % of Returned Cheques (BD million)	78
Chart 9.9: Returned Cheques by Volume (% of Technical vs. Financial)	79
Chart 9.10: Returned Cheques by Value (% of Technical vs. Financial)	79
Chart 9.11: EFTS Fawri, Fawri+, and Fawateer Value (BD million)	79
Chart 9.12: EFTS Fawri+ Daily Average Volume and Value	80
Chart 9.13: EFTS Fawri Daily Average Volume and Value	80
Chart 9.14: EBPP Fawateer Daily Average Volume and Value	81
Chart 9.15: Monthly POS Transactions (Volume and Value)	82
Chart 9.16: Volume of POS Transactions (% of Cards Issued Inside vs. Outside Bahrain)	82
Chart 9.17: Value of POS Transactions (% of Cards Issued Inside vs. Outside Bahrain)	82
Chart 9.18: Volume of Transactions (% of Debit Cards vs. Credit Cards)	83
Chart 9.19: Value of Transaction (% of Debit Cards vs. Credit Cards)	83
Chart 9.20: Top 5 Sectors by Volume of Transactions- 2020	83
Chart 9.21: Top 5 Sectors by Value of Transactions (BD million)- 2020	84
Chart 9.22: Monthly Value of POS Transactions of Selected Indicators-2020 (BD million)	84
Chart 9.23: Monthly Value of POS Transactions of Selected Indicators-2020 (BD million)	84
Chart 9.24: Percentage of Contactless POS Transactions - 2020	84
Chart 9.25: Volume and Value of Transactions through e-Wallets and Mobile Payments	85
Chart 10.1: Number of Bank Accounts	92

Preface

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

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

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

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

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

- Part I: International and national developments:
 - Chapter 1: International financial developments.
 - Chapter 2: Developments in Bahrain's financial sector and household sector.
- Part II: Developments in the banking sector:
 - Chapter 3: Performance of the banking sector.
 - Chapter 4: Performance of conventional banks.
 - Chapter 5: Performance of Islamic banks.
- Part III: Developments in the non-banking financial sector:
 - Chapter 6: Performance of the insurance sector.
 - Chapter 7: Performance of the non-banking financial sector.
 - Chapter 8: Performance of capital markets.
- Part IV: Developments in the payments and settlement systems, fintech, and cyber security:
 - Chapter 9: Performance of payment and settlement systems, point of sale, and digital wallets.
 - Chapter 10: FinTech developments and financial inclusion.
 - Chapter 11: Cyber Security.

The COVID-19 Crisis- Update

It has been over a year since the World Health Organization (WHO) declared COVID-19 as a pandemic. The pandemic brought substantial human suffering and major economic disruption around the world. After a severe collapse in 2020, projected recovery is seen for 2021. The strength of the recovery will vary across countries, depending on access to medical interventions, vaccine deployment, effectiveness of policy support, and exposure to cross-country spill overs.

Speedy policy responses have been key to limiting the economic fallout with large scale fiscal and monetary stimulus that provided support to households and corporates, stabilize markets and restore confidence in the financial system. Policy measures should evolve further as the focus has shifted into re-evaluating and maintaining effective policy measures, while maintaining health care spending as a priority. Central banks have provided loan deferral schemes, enabling customers to defer interest or principal payments for a period of time, with the deferral period reassessed periodically.

For many support measures, a careful decision has to be made on whether to extend, amend or exit them re-assessing the impact of the pandemic on individuals and economies. Early withdrawal of support measures could be associated with significant immediate risks to financial stability as it may lead to negative spillovers such as a deterioration in asset quality, liquidity, and business activity within the financial system. Authorities have to therefore ensure that measures are fine-tuned and targeted. The aim must remain to preserve financial stability and the soundness of the financial systems while sustaining economic activity.

CBB Initiatives

CBB issued a number of directives to preserve the health and safety of citizens, residents, and workers in the financial sector since the beginning of the global outbreak of COVID-19 as part of the preventative measures taken by the Government of the Kingdom of Bahrain to contain the virus. A number of key policy responses (including fiscal, monetary, and macro-financial) were also issued to mitigate any implications on customers of financial services, financial institutions, and merchants affected by COVID-19, in addition to protecting the stability of the financial sector in the Kingdom of Bahrain.

CBB's Regulatory Measures as Part of Precautionary Efforts to Contain COVID-19

Date	Measures
16 th March 2020	<ul style="list-style-type: none"> CBB cut key policy interest rate. CBB's key policy interest rate on the one-week deposit facility was cut from 1.75% to 1.00%. CBB also decided to cut the overnight deposit rate from 1.50% to 0.75%, the one-month deposit rate from 2.20% to 1.45%, and CBB lending rate from 2.45% to 1.70%.
18 th March 2020	<ul style="list-style-type: none"> CBB urged providers of POS devices to communicate with merchants to sterilize such devices regularly and to require customers to directly enter and remove their cards from the POS devices. CBB urged all licensees to follow and implement sterilization instructions issued by the Ministry of Health and submit a report on this. CBB also instructed licensees to communicate with the public by covering the measures taken to ensure the safety of their employees and customers in the press or through social media. The volume limit of contactless (NFC) transactions on POS devices has been increased to BD50/- without the need to use a PIN code. CBB also instructed its licensees to adhere to the requirements of continuation of operations and services. A cap of 0.8% has also been set on merchant fees imposed by local banks and finance companies on debit card transactions to reduce merchant and company costs (0.35% to the acquirer, 0.25% to the issuer, 0.2% to the benefit company). CBB issued several regulatory measures for a period of six months to contain any financial repercussions on customers of the banking sector, which will be reviewed by CBB at the end of the period in consultation with the banking sector. These measures aim to provide more liquidity and flexibility to enable banks to continue providing financing to their customers.

	<ul style="list-style-type: none"> • CBB required retail banks, financing companies and microfinance institutions to postpone instalments for any borrower or credit card holder affected by the economic repercussions of the Coronavirus without fees or interest on interest or increase in the percentage of profit / interest for a period of 6 months, unless the borrower agrees to pay within a shorter period. • CBB provided retail banks concessionary repo arrangements with up to 6 months at zero percent on a case-by-case basis. • CBB reduced cash reserve ratio for retail banks from 5% to 3%. • CBB requested to relax the LTV for new residential mortgages or Bahrainis except Mazaya loans.
20 th March 2020	<ul style="list-style-type: none"> • In light of the current situation faced by the Kingdom of Bahrain and to preserve the health and safety of citizens and residents, CBB Bahrain urged consumers to communicate through the National Suggestion & Complaint System “Tawasul” or through CBB website https://www.cbb.gov.bh/complaint-form/ or by calling 17547789/17547360, instead of personally visiting the Consumer Protection Office at CBB.
23 rd March 2020	<ul style="list-style-type: none"> • CBB instructed Money Changers to disinfect all incoming currency notes and wholesale imported notes to limit the risk of exposure to the Coronavirus (COVID-19). • Under the instructions, Money Changers are required to disinfect incoming currency and wholesale imported notes with Ultraviolet Germicidal Irradiation (UVGI) or by isolating notes for 72 hours. • Money Changers Licensees are also required to equip employees with Personal Protective Equipment (PPE) as per recommendations outlined by the Ministry of Health.
20 th September 2020	<ul style="list-style-type: none"> • CBB announced that banks will defer loan payments to their customers until the end of the current year in a manner that does not affect the banks’ liquidity and financial solvency, provided that interest rates and fees prescribed by banks on these loans are calculated during the deferral period. • CBB’s announcement followed directives by the Cabinet in its weekly session to help offset the negative impact of Covid-19, without affecting banks’ liquidity and financial solvency to contribute in providing liquidity in supporting citizens and various economic sectors to alleviate the economic effects of the pandemic.
22 nd September 2020	<ul style="list-style-type: none"> • CBB has clarified that no fees, except insurance, can be charged by lenders on the four-month loan deferral for Bahrainis and local companies. • No fees must be charged to customers for providing loan deferment option, except for additional insurance fees resulting from extension of the loan tenor.
29 th December 2020	<ul style="list-style-type: none"> • CBB directed banks and financing companies to offer their customers six-month installments deferment option, starting from 1st January 2021. The option must entail extending the tenor to take into account the additional profit/interest, while keeping the installment amount unchanged. Moreover, licensees must not increase profit/interest rates; • The following exposures are excluded from the deferment option: <ul style="list-style-type: none"> ○ Credit card exposures; ○ Financing instalments received through court unless arranged through court; ○ Credit syndication facilities to resident corporates involving non-resident participating lenders; and ○ Pre-export financing under letters of credit without recourse to the resident corporate (exporter). • CBB will reassess the need to continue with such concessionary measures during June 2021 and advise licensees accordingly.

Source: CBB.

CBB Circulars

In the light of the current situation concerning the potential impact of COVID-19, CBB directives were based on a number of circulars that are available on CBB Rulebook on CBB website.

CBB Circulars as Part of Precautionary Efforts to Contain COVID-19

Date/ Circular	Licenses	Subject
5 th March 2020 EDBS/KH/C/21/2020	All Banks All Financing Companies All Micro-Finance Companies	Concessionary Measures to Mitigate the Impact of Coronavirus
8 th March 2020 EDBS/KH/C/24/2020	Selected Retail Banks/Specialized Licenses/Ancillary Service Providers	Measures to Mitigate the Impact of Coronavirus
11 th March 2020 EDBS/KH/C/25/2020	All Banks All Financing Companies All Micro-Finance Institutions All Ancillary Services All Representative Offices	Disinfection Instructions
11 th March 2020 EDFIS/C/024/2020	Self-Regulatory Organizations (SRO) SRO Members Crypto-asset Licensees All listed Companies	Disinfection Instructions
12 th March 2020 EDBS/KH/C/26/2020	All Retail Banks	Services Continuity Measures
16 th March 2020 EDBS/KH/C/28/2020	All Banks All Financing Companies All Micro-Finance Institutions All Ancillary Services All Representative Offices	Disinfection Instructions
17 th March 2020 OG/106/2020	All Banks All Financing Companies All Microfinance Companies All Ancillary Services Providers	Regulatory Measures to Contain the Financial Repercussions of the Covid-19
19 th March 2020 OG/108/2020	All CBB Licensees All Listed Companies	Upcoming General Meetings
23 rd March 2020 EDBS/KH/C/30/2020	All Retail Banks All Financing Companies All Microfinance Companies	Implementation Guidelines Regarding the 6 th Months Deferral
24 th March 2020 EDBS/KH/C/32/2020	All Retail Banks All Financing Companies All Microfinance Companies	Implementation Guidelines Regarding the 6 th Months Deferral
24 th March 2020 EDFIS/C/030/2020	All Insurance Licensees	Sub: Services Continuity Measures
26 th March 2020 EDFIS/C/032/2020	Self-Regulatory Organizations (SRO) SRO Members Crypto-asset Licensees	Services Continuity Measures
30 th March 2020 EDBS/KH/C/33/2020	All Banks	Deferral of Implementation of Announced Regulator Policy Requirements
30 th March 2020 OG/124/2020	All listed Companies All locally incorporated banks	Exemption for First Quarter Financial Results Preparation and Publication
30 th March 2020 CMS/C/010/20	SRO Members	Market Intermediaries responsibility Amid COVID-19
1 st April 2020 EDBS/KH/C/34/2020	Ancillary Service Providers Financing Companies Microfinance Institutions	Agreed Upon Procedures for Financial Crime (FC) Module
1 st April 2020 EDBS/KH/C/35/2020	All Banks	Agreed Upon Procedures for Financial Crime (FC) Module
1 st April 2020 EDFIS/C/034/2020	All Insurance Licensees	Agreed Upon Procedures for Financial Crime (FC) Module
1 st April 2020 EDFIS/C/035/2020	All Investment Firms	Agreed Upon Procedures for Financial Crime (FC) Module

1st April 2020 EDFIS/C/036/2020	All Money Changers All Non-Bank Representative Offices All Administrators/Registrars All Trust Services Providers Ancillary Services Providers- Third Party Administrators	Agreed Upon Procedures for Financial Crime (FC) Module
1st April 2020 EDFIS/C/037/2020	Self-Regulatory Organizations (SRO) SRO Members Crypto-asset Licensees	Agreed Upon Procedures for Anti-Money laundering and Combating of Financial Crimes (AML) Module
1st April 2020 CMS/C/011/2020	All Listed Companies	Market Fairness and Integrity Amid COVID-10 Developments
2nd April 2020 EDBS/KH/C/36/2020	All Banks	Date Sensitive Reporting Requirements Extensions/Exemptions Under Rulebooks (Volume 1 and 2)
2nd April 2020 EDBS/KH/C/37/2020	All Financing Companies All Microfinancing Companies	Date Sensitive Reporting Requirements Extensions/Exemptions Under Rulebooks (Volume5)
2nd April 2020 EDBS/KH/C/38/2020	All Banks	Date Sensitive Reporting Requirements Extensions/Exemptions Under Rulebooks (Volume 5)
8th April 2020 OG/148/2020	All Licensees	Additional COVID-19 Precautionary Measures
12th April 2020 OG/152/2020	All Retail Banks	Directive on Use of Salary Transfers to Bahrainis by the Government
26th April 2020 EDBS/C/41/2020	All Bank Licensees All Financing Companies All Microfinance Companies	Financial Impact Assessment of the Six Months Instalment Deferral
27th May 2020 EDFIS/C/052/2020	All Licensees	Money Laundering & Terrorist Financing Risks & Practices during COVID-19
21st June 2020 OG/226/2020	All Bahraini Bank Licensees All Financing Companies All Microfinance Institutions	Regulatory Concessionary Measures
1st July 2020 OG/249/2020	All Branches of Foreign Banks	Regulatory Concessionary Measures
14th July 2020 OG/259/2020	All Listed companies All Licensees	Reporting of Financial Impact of COVID-19
24th August 2020 EDBS/KH/C/54/2020	All Banks All Financing Companies ALL Microfinance Companies	Exemptions from Submission of Agreed Upon Procedures on PIR/PIRI/PIRFM (Volumes 1, 2, and 5)
26th August 2020 OG/296/2020	All Banks All Financing Companies ALL Microfinance Companies All Payment Services Providers All Cards Processing Services Providers	Status Update on COVID-19 Policy Measures
21st September 2020 OG/318/2020	All Retail Banks Financing Companies Micro-Finance Companies	Further Deferment of Loan Instalments
22nd September 2020 OG/321/2020	All Retail Banks Financing Companies Micro-Finance Companies	Further Deferment of Loan Instalments
8th November 2020 EDBS/C/67/2020	All Retail Banks All Financing Companies All Micro-Finance Companies	Non-Charging of Interest/Profit on Deferral Period
29th December 2020 OG/431/2020	All Banks All Financing Companies All Micro-Finance Companies All Payment Service Providers	Update on COVID-19 Policies Measures

Source: CBB.

CBB Loan Deferments

One concessionary measure taken was loan deferment options announced in a number of CBB circulars issued to licensees. This policy measure was taken by many regulators allowing businesses and households to defer their loan instalments.

CBB circulars specified in detail the licensees that will offer the deferment options, the customers that the option will be extended to, the length of the deferment, and what the extension of the tenor will take into account (i.e., what type of accounts will it cover, whether additional profit/interest will be charged). CBB issued three loan deferral options since the beginning of the pandemic:

- The first deferral was announced in end of March 2020 for six months (March 2020 until August 2020).
- The second deferral was in end of September 2020 for four months (September 2020 until December 2020) unless the borrower agrees to pay within a shorter period.
- The third deferral was announced in end of December 2020 for six months (January 2021 until June 2021) unless the borrower agrees to pay within a shorter period.

Number of Customers that Applied Instalment Deferral

	3 rd Instalment deferral	2 nd Instalment Deferral
Retail	72,217	70,857
Corporate	2,057	1,828
Total	74,274	72,685
% of Total Customers	23.3%	24.5%

Source: CBB.

Total Outstanding Loans for Customers who applied for deferment (BD' 000)

	3 rd Instalment deferral	2 nd Instalment deferral	1 st Instalment deferral*
Retail	1,646,134	1,507,829	4,233,565
Corporate	1,233,781	1,249,100	1,999,861
Total	2,879,915	2,756,930	6,233,426
% of Total Loan portfolio	27.0%	26.1%	-

*Includes Financing and Micro-Financing Companies.

Source: CBB.

Deferred Installments Amounts (BD' 000)

	3 rd Instalment deferral	2 nd Instalment deferral	1 st Instalment deferral*
Retail	110,660	62,227	525,888
Corporate	232,922	193,374	553,501
Total	343,582	255,601	1,079,388
% of total loans for customers that applied for deferment	11.9%	9.3%	17.3%

*Includes Financing and Micro-Financing Companies.

Source: CBB.

Instalment Deferrals (Retail vs. Corporate)



Source: CBB.

Other Government Initiatives

Other Measures were taken by the Ministry of Finance and National Economy, Ministry of Labour and Social Development, Ministry of Industry, Minister of Electricity and Water Affairs. A financial and economic package of BD 4.3 billion was announced through a press conference with continuation of the government's efforts to maintain sustainable growth, stressing that the health and safety of citizens and residents is a top priority that all government efforts are directed to.

Other Government Measures as Part of Precautionary Efforts to Contain COVID-19

Date	Measures
17 th March 2020	<ul style="list-style-type: none"> • In accordance with article (87) of the constitution and the social insurance law, the government will introduce a bill that will allocate 215 BD million from the unemployment fund in order to finance the private sector's payroll for the second quarter of this year. • The government will allocate 150 BD million to sponsor electricity and water bills for all individual and corporate subscribers for each of the months "April, May and June" of the current year, not to exceed the bills for the same period of last year for each subscriber. • Exemption of businesses from municipal fees for the second quarter of this year, which amounts a total value of 25 BD million. • Exemption of industrial and commercial enterprises from rent fees of government industrial land for the second quarter of this year • Tourist facilities and facilities are exempt from tourism fees for April, May and June this year. • Doubling the size of the liquidity fund by 100 million Bahraini dinars to 200 million Bahraini dinars. • A package of decisions from the Central Bank of Bahrain to raise the lending capacity of banks by the equivalent of BD 3.7 billion, to give them the flexibility to deal with customer requests to postpone instalments or additional financing. • Redirecting the Labour Fund's "Tamkeen" programs for companies affected by the current conditions with restructuring of loans in cooperation with banks, with a total value of BD 60 million.
29 th June 2020	<ul style="list-style-type: none"> • Bahrain's Minister of Finance and National Economy announced the extension of stimulus measures to support private sector jobs and citizens. In line with Royal Directives, the Government has decided to take additional stimulus measures following consultation with the Legislative Authority and the Bahrain Chamber of Commerce & Industry. • Over a three-month period starting from July 2020, the Government will support 50% of salaries for insured citizens employed in the private sector working for companies most affected by the coronavirus (COVID-19), under a scheme administrated by the Ministry of Labour and in cooperation with relevant entities. • For the same three-month period the Government will meet citizens' domestic electricity costs for primary residences, up to the full cost of the same period the preceding year. Economic sectors most adversely affected by the repercussions of COVID-19 will be further supported by the Labour Fund (Tamkeen) according to the controls and conditions approved by its Board of Directors.

Source: Ministry of Finance and National Economy (MOFNE).

Be-Aware Campaign and App

Bahrain set up a National Taskforce for Combating the Coronavirus to handle the spread of the virus and to take measures to guarantee that proper testing and safety measures are taken. With one of the highest testing rates per capita the aim is to be prepared to initiate further actions to avoid the spreading of the virus. The Information & eGovernment Authority (iGA), in collaboration with the National Taskforce, launched the "Be-Aware Bahrain" application with the goal to assist efforts to contain the spread of COVID-19 virus.

The Kingdom of Bahrain also adopted at an early-stage allowing all citizens and residents nationwide to schedule vaccine appointments for their free vaccination via the mobile app. During booking, users can choose between a number of available vaccinations. As of April 30th 2021, Bahrain has vaccinated around 47.1% of its population with the first dose and 36.8% of the population were fully vaccinated (based on 2020 population from Information and E-Government Authority).

Executive Summary

Global Macro Financial Environment Overview

In its recent World Economic Outlook, the International Monetary Fund (IMF) forecasted -3.3% growth in 2020 compared to the 2.9% growth realized last year with a gradual recovery achieved in 2021 with a growth rate of 6.0%. Monetary policy remains accommodative in the US other advanced economies to support economic where central banks have committed to keep rates low along with providing unprecedented fiscal stimulus.

Across major advanced economies, the US economic growth was -2.8% and -2.4% in Q3 and Q4 2020 respectively. The economic performance in Europe decelerated slightly during second half of the year due to increased geopolitical risk and uncertainty following the Brexit, which amplified volatility.

Financial Sector Overview

The size of the assets of the banking sector in Bahrain was USD 207.4 billion as of December 2020 (5.4 times of GDP). Retail banking total assets continued growing to reach BD 35.4 billion. The wholesale banking sector showed an increase to USD 113.1 and the Islamic banking sector assets (which represent 15.2% of the total banking sector assets) increased to USD 31.6 billion in 2020.

The total amount of credit given to the private sector (business and personal) by retail banks witnessed growth since 2019 moving from BD 9,434.8 million to BD 10,044.2 million in 2020. Total deposits decreased to BD 16,908.3 million in 2020, where 80.2% of them were domestic deposits.

Banking Sector

Banks in Bahrain are well capitalized, non-performing loans continue to be in low manageable levels, and funding and liquidity buffers are well above minimum required standards despite the COVID-19 pandemic.

The capital adequacy ratio (CAR) for the banking sector stood at 18.6% in Q4 2020. The NPL ratio decreased to 4.3% in Q4 2020 from 4.2% in Q2 2020.

Return-on-assets (ROA) decreased from 1.1% in Q4 2019 to 0.4% in Q4 2020, return-on-equity (ROE) decreased to 2.8% from 8.5% over the same period. The overall loan-deposit increased to 70.9% and liquid assets remained unchanged at 24.6%, over the same period.

Conventional Banks

The CAR for conventional retail increased from 18.8% in June 2020 to 20.0% in December 2020. The NPL ratio slightly increased to 4.7% in December 2020 while specific provisions increased to 69.9%.

As at end-December 2020, ROA decreased to 1.0%. ROE for locally incorporated banks decreased to 9.6%. The overall loan-deposit ratio for the segment remained at the same level of 66.3% in December 2020 and liquid assets increased to 34.4%.

As for wholesale banks the CAR was 17.8% in December 2020. The NPL ratio dropped to 4.1% and specific provisions as a proportion of NPLs also witnessed an increase to 74.3% in December 2020.

ROA for the conventional wholesale banking sector decreased slightly to 0.8% in December 2020 and ROE for local wholesale banks dropped to -5.3%. The overall loan-deposit ratio stood at 71.1% and liquid assets decreased to 21.6% in December 2020.

Islamic Banks

The CAR of Islamic retail banks decreased from 20.6% in June 2020 to 20.3% in December 2020. Non-performing facilities (NPF) ratio decreased to 6.5% in December 2020 while specific provisioning increased to 42.9%.

ROA for Islamic retail banks decreased from 0.4% in Q4 2019 to 0.2% in Q4 2020 and ROE also decreased from 4.7% to 2.1% for the same period. The ratio of total facilities to deposits increased to 79.7% and Liquid assets available to 17.8% in December 2020.

The CAR for Islamic wholesale banks decreased to 16.4% in December 2020. The NPF ratio increased to 1.6%. Provisioning for NPFs also increased from 78.6% to 87.6% between Q2 2020 and Q4 2020.

ROA decreased from 0.7% in Q4 2019 to 0.3% in Q4 2020 and ROE similarly decreased from 6.4% to 3.1% over the same period. As of end-December 2020, the facilities deposit ratio decreased from 65.6% in June 2020 to 63.2% in December 2020. Liquid assets of Islamic wholesale banks represented 14.6% of total assets.

Insurance Sector

The Insurance sector in Bahrain is made up of two main segments: conventional and takaful. Total gross premiums registered BD 202.9 million as of September 2020. The conventional local firms accounted for the largest segment of total gross

premiums (55.2%), followed by Takaful (29.9%) and conventional overseas branches (14.9%).

As of September 2020, total assets of conventional insurance firms were BD 2,168.2 million, a YoY decrease of 6.2%. Takaful firms' assets experienced an annual growth by 3.9% reaching BD 204.1 million.

Viewing the concentration of the overall insurance industry, motor records the highest concentration in Gross Premiums (26.8%), Net Premiums Written (38.0%), and Net Claims (47.3%). Whereas, the highest exposure in Gross Claims was Medical representing (35.3%).

Non-Bank Financial Institutions

The two main segments of the non-Bank Financial Institutions sector are investment businesses and money changers. In December 2020, total assets of investment businesses increased by 9.9% to BD 453 million. This significant increase is due to a few wholesale banks changing their licenses to Category 1 investment firms. Investment business firms' recorded profits of BD 9.0 million in Q4 2020. Profits of Category 2 firms increased by 84%.

During 2020, money changers' purchase of foreign currencies amounted to 6.3 billion, while the sale of foreign currencies was recorded at 7.6 billion for the year. The "Asia" currency group recorded the highest YoY percentage increase in sales while the largest decline in sales was the "GCC". As for purchases, the top YoY increase was also "Asia" with and the highest decline for purchases was the "European" currencies.

Capital markets

As end- 2020, Bahrain Bourse recorded a total listing of 43 Companies, 9 Mutual funds and 14 Bonds and Sukuk. During 2020, there were 15 companies that closed higher and 22 closed lower and 6 remained unchanged. Bahrain All Share Index decreased by 7.5% (120.4 points) for the year reaching 1,489.8 points, while the Bahrain Islamic Index reached 650.2 points. As of end-2020, market capitalization of the Bahrain Bourse stood at BD 9.28 billion.

The majority of the value and the volume of shares traded in 2020 was in the commercial bank sector whose traded shares by value represented 44.1% and by volume represented 36.2% of total shares. The majority of the number of transactions in 2020 was attained by the commercial banks sector representing 38.5% of total transactions.

Payments and Settlement Systems

The RTGS System provides for Payment and Settlement of Customer transactions as a value

addition. The daily average volume of Bank transfers for the second half of 2020 (from 1st July to 31st December 2020) decreased to 138 transfers compared to 153 transfers for the first half of 2020.

The daily average volume of ATM transactions for the second half of 2020 decreased by 5.0% to 51,315 transactions per day compared to 54,022 transactions per day for the first half of 2020. The daily average value of ATM transactions for the second half of 2020 reached 4.3 million.

As of end-2020, Point of Sale (POS) transactions reached 83.8 million in terms of volume and BD 2,341.9 million in terms of value with a 13.7% increase and 3.8% decrease respectively. As of 2020, 92.3% of the volume of transactions and 90.7% of the value of transactions came from cards issued inside Bahrain compared to 79.3% and 77.1% in 2019 respectively.

FinTech, Innovation, and Financial Inclusion

Bahrain is repositioning itself to be a Financial Technology (FinTech) hub in the region combining conventional and Shariah compliant FinTech solutions. CBB has established a dedicated Fintech Unit on the 22nd of October 2017 to ensure best services provided to individual and corporate customers in the financial sector. On 28th of May 2017, CBB announced the issuance of the Regulatory Sandbox Framework that aims to provide a safe space where business can test FinTech innovative products and services. The sandbox includes 24 companies as of end of March 2021.

Cyber Security

The Kingdom of Bahrain is transforming into a digitalized economy that creates new dependencies. The government, organizations, and the delivery of essential services rely heavily on the integrity of cyberspace, infrastructure, systems, and data that underpin it. The National Cybersecurity National Cybersecurity Strategy was formed to address rising cyber threats and reduce the associated risks to protect the Kingdom's interests in cyberspace.

Objectives include protecting organizations that provide essential services to the nation (such as oil, electricity and water, governmental, and financial services) and develop a cyber law that follows international standards.

Part I:

Developments in the International and Domestic Financial Markets



Chapter
1

Developments in the International Financial Markets

Key Highlights

Global Growth	USA Growth	Euro Area Growth	EU Growth	Advanced Economies	Emerging Market Growth
-3.3%	-4.3%	-8.3%	-4.6%	-5.8%	-3.3%

- ▶ The COVID-19 pandemic has led to sharp declines in economic activity across the globe in 2020 with expected gradual recovery in 2021.
- ▶ The global economic conditions deteriorated and the risks to the global outlook have increased during the year.
- ▶ The Pandemic has put downward pressure on financial sector in Europe and Asia leading to significant deceleration in growth.
- ▶ Central banks have committed to keep rates low, enabling an unprecedented fiscal stimulus.
- ▶ Stock markets indices slightly recovered in the second half of the year and Equity markets in Europe have endured a volatility.

1.1 Overview

Since the last FSR, global economic activity has experienced unprecedented weak performance due to the spillover impacts of the COVID-19 pandemic. Governments across countries have responded unprecedentedly to mitigate its impact.

Even, with the UK exit from the Euro Area, the overall environment still shows some uncertainty in the beginning of the second half of 2020. Global economic growth slowed down to a record level across almost all major economies in 2020.

Monetary policy remains accommodative in the US and other advanced economies to support economic growth where central banks have committed to keep rates low along with providing unprecedented fiscal stimulus through fiscal policy as crucial tool during the ongoing crisis.

In the following sections, recent trends in the global economy are highlighted and the major financial and economic indicators during the second half of 2020.

1.2 Global Macro-financial Environment

The global economic and financial conditions deteriorated considerably, and risks associated to this environment increased in the second half of 2020. The emergence of COVID-19 has added new risks and tension to the global economy and has already led to significant volatility in financial markets. Central banks have committed to keep rates low which will keep bond yields low.

In its recent World Economic Outlook update, the International Monetary Fund (IMF) forecasted a recession with global growth of -3.3% in 2020 (1.1 percentage point higher than the October 2020 World Economic Outlook) with and the gradual recovery will be achieved in 2021 where growth rate will reach 6.0% and 4.2% in 2022.

1.2.1 Economic Performance

The economic performance in Europe has witnessed a deep and uneven recession during the first half of the year due COVID-19 pandemic that has dramatically affected Europe' economic activity. Uncertainty and geopolitical tensions have put additional downward pressure on financial sector in

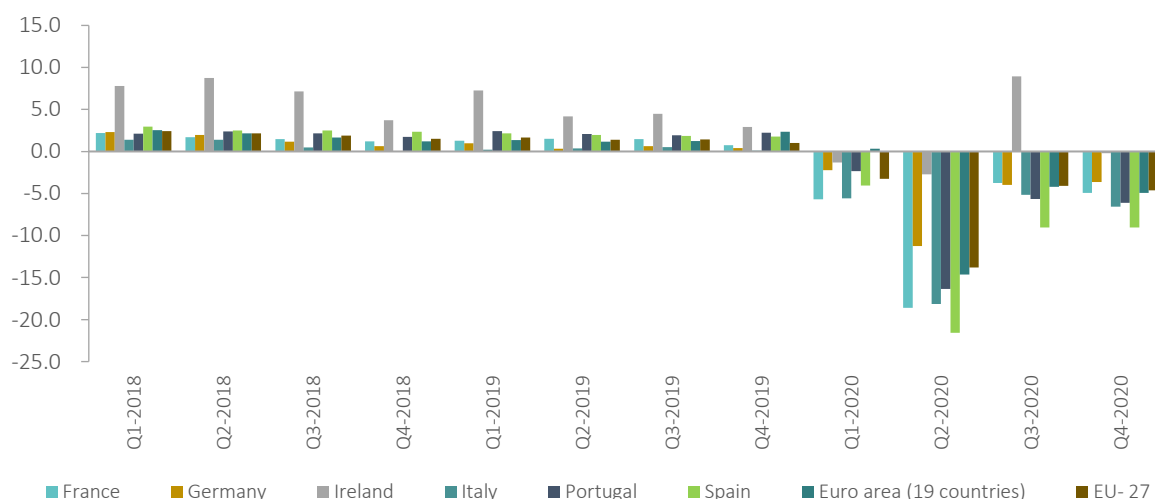
Europe which in turn amplified volatility and raised new concerns in the global financial markets. As chart 1.1 shows, most European countries have witnessed negative growth in the first half of 2020 impacted by lockdowns and business closures in the national economies.

In the second half of the year, the COVID-19 crisis raised significant challenges for Spain and Italy as they were the two countries that were affected the most by the pandemic. In fact, both countries have placed restrictions on travel and public transport, and prolonged closures of many work places. As a result, economic activity decelerated drastically, and unemployment rates surged to an unprecedented levels. Since mid-August Financial market sentiment has deteriorated in both countries as concerns about the global spread of COVID-19 and its economic fallout have grown. In the third quarter of 2020, Spain economy has witnessed a recession by 9% and the situation worsened in the fourth quarter as the recession hit 9.1%. Similarly, for Italy, contraction in GDP was 5.2% in Q3/2020 and growth reached -6.6% in Q4/2020. According to the OECD, there were strict rules around increasing fiscal deficits, and high-debt countries like Italy were at risk of a re-run of the 2012 debt crisis. As for Portugal, growth rate continued to be negative as it moved from -5.7% in Q3/2020 to -6.1% in Q4/2020.

Regarding the two largest economies in the Eurozone, their performances was also hugely affected by the Pandemic crisis. Germany experienced weak economic activity in the second half of 2020 with a recession of 4% in Q3/2020 and 3.6% in Q4/2020. France also was hit severely by the pandemic crisis where the French economy recorded a recession of 3.7% in Q3/2020 and 4.9% in Q4/2020. In early 2020, the two neighboring countries have decided to implement urgent policies to cope with the pandemic crisis. They agreed to launch a recovery fund by a €750 billion (6% of GDP) that would be financed by the issuance of bonds jointly guaranteed by all 27 members of the European Union.

Turning to the Euro Area (19 countries) and the European Union (EU) (27 countries) their growth has also experienced a recession of 4.2% and 4.1% in Q3/2020 to 4.9% and 4.6% in Q4/2020, respectively.

Chart 1.1: Real GDP Growth in Selected Europeans Countries (Quarterly %) Seasonally Adjusted*



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

Source: OECD Quarterly National Accounts.

Following the Brexit, the UK's GDP growth decreased to a negative growth of 8.7% in Q3/2020 and -7.8% in Q4/2020. In the US, economic activity was also affected by the pandemic crisis as growth was negative and reached -2.8% and -2.4% in Q3 and Q4 of 2020 respectively.

Chart 1.2: Real GDP Growth in Advanced Economies (Quarterly %) *

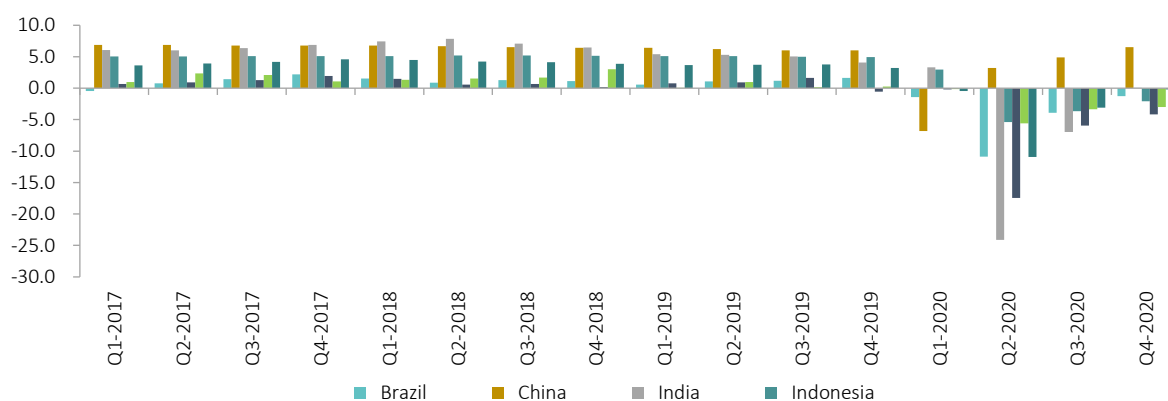


* Growth rate compared to the same quarter of previous year, seasonally adjusted

Source: OECD Quarterly National Accounts.

As for emerging economies (Chart 1.3), the BRIICS countries' growth was also decelerating as it reached the level of -3.1% in Q3/2020 and -0.2% in Q4/2020. Recent data shows that China is the only BRICS economy predicted to expand this year, according to the IMF. The world's second largest economy will end the year with a growth of 2.3% after recovering from a contraction in the first quarter, as IMF projections show. That compares with an 8.0% contraction for India, -5.8% for Brazil, -3.1% for Russia and -7.0% for South Africa. The IMF recently warned about the growing debt-dependency of the world's second biggest economy with China's debt levels posing a stability risk.

Chart 1.3: Quarterly Real GDP Growth in BRIICS (Quarterly %) *

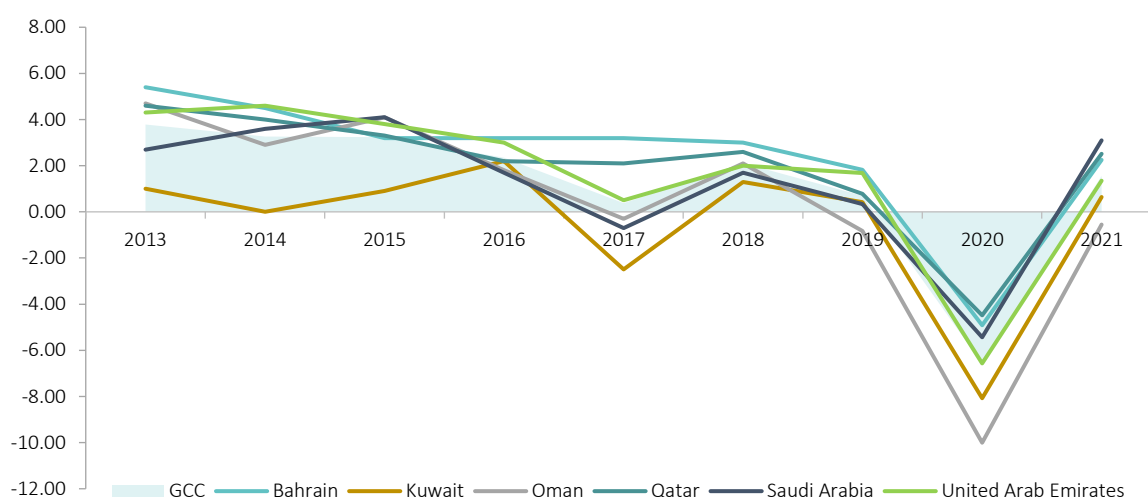


*Growth rate compared to the same quarter of previous year, seasonally adjusted.

Source: OECD Quarterly National Accounts.

Regionally, the COVID-19 pandemic hits the economic activities of all GCC countries. Moreover, the drop of oil prices since the beginning of 2020 have added pressure on GCC public finance condition and caused a sharp deterioration of external and fiscal balances. As a response, GCC authorities have implemented multiple measures to mitigate the economic damage, including fiscal packages, relaxation of monetary and macroprudential rules, and the injection of liquidity into the banking system, and there are recent signs of improvement. According to the IMF World Economic Outlook, the GCC countries are expected to achieve a negative growth rate of 6.0% in 2020 and a recovery is likely to happen in 2021 with a positive growth rate of 2.0%.

Chart 1.4: Real GDP Growth in GCC Countries (Annual percent change)

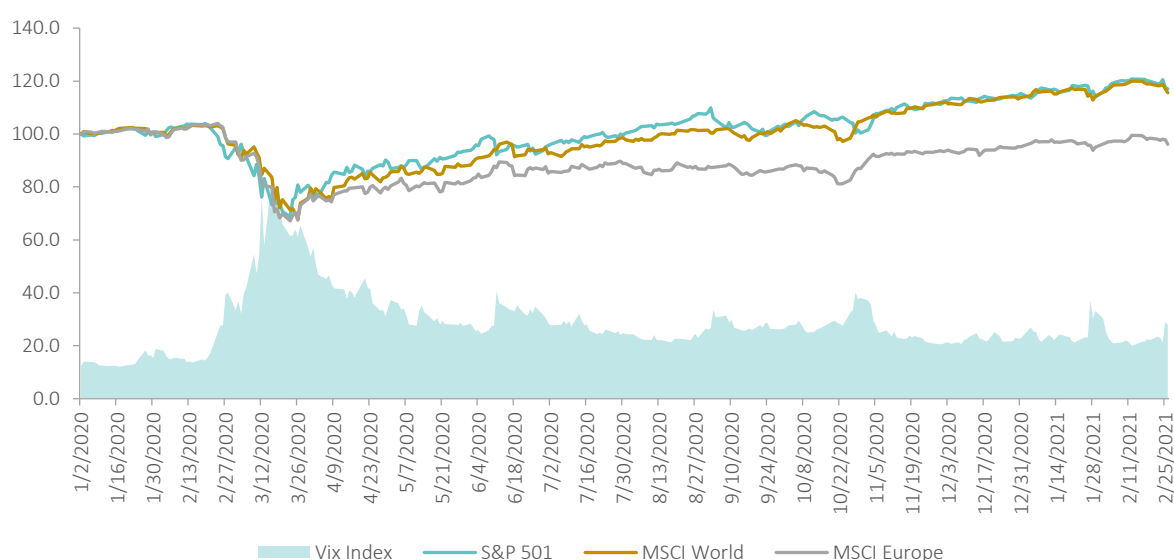


*Forecasts. Source: IMF World Economic Outlook, October 2020.

1.2.2 Financial Markets

Equity prices across a range of advanced economies was stable during the first two months of 2020. In the beginning of March, all indices plumped significantly to new record levels which can be attributed to a dramatic concern of the COVID-19 pandemic. Equity prices in the Euro Area recovered progressively, supported by fiscal stimulus and Central Banks supports. It is worth mentioning that in the beginning of 2020 the ECB has increased its asset-purchase program by more than 12% of GDP and rules on fiscal deficits have been temporarily relaxed, and on 10 December 2020 the Governing Council recalibrated its monetary policy instruments to preserve favorable financing conditions over the pandemic period, ultimately supporting economic activity. Similarly, after a sharp decrease, the S&P 500 has risen by around 15% since September 2020, reaching the pre-pandemic level.

Chart 1.5: Global Equity Market Indices (Re-indexed to January 2020)



Source: Bloomberg.

Chapter 2

Developments in Bahrain's Financial and non-Financial Sector

Key Highlights

% of GDP	Licenses	Banking Assets	Retail Assets	Wholesale Assets	Islamic Assets	M2
17.1%	370	USD 207.4 bn	USD 94.3 bn	USD 113.1 bn	USD 31.6 bn	USD 12.8 bn

- ▶ The size of the assets of the banking sector in Bahrain was USD 207.4 billion as of December 2020.
- ▶ The retail banking sector assets increased to USD 94.3 billion and wholesale banking sector assets increased to USD 113.1 billion as of end-December 2020 representing 45.5% and 55.5% respectively.
- ▶ The volume of credit increased by 6.5% to BD 10,044.2 million in December 2020.
- ▶ Household debt ratio had a slight increase and business debt ratio decreased.

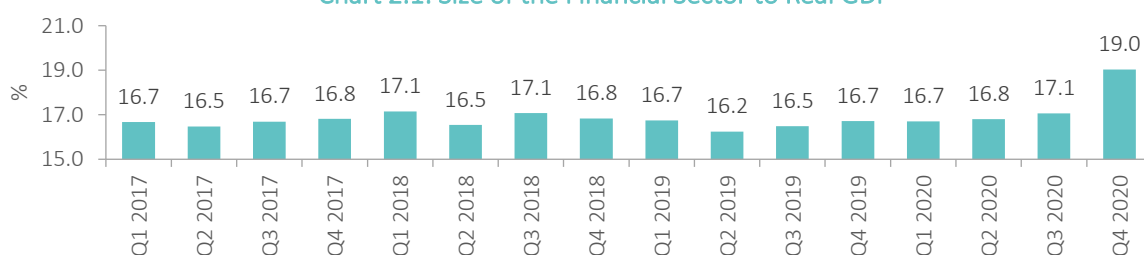
2.1 Overview

This chapter assesses the recent developments of the Bahraini financial and non-financial sectors. The financial condition and performance of financial institutions depend to a large extent on the financial condition of their customers (households and enterprises) and their vulnerabilities to changes in the economic environment. Households and business enterprises are the major customers of financial institutions. Not only are they sources of deposits, they represent major sources of demand for financial sector products and services.

2.2 The Financial Sector

Bahrain's position as a regional financial center has been essential to the development of its economy where the financial sector has come to play a significant role in economic activity and employment creation. The financial sector is currently the largest non-oil contributor to GDP representing 17.3% of real GDP in 2020 showing an increase from the 16.1% in 2019 and 16.9% in 2018. In Q3 and Q4 of 2020 the, the financial sector represented 17.1% and 19.0% of real GDP respectively.

Chart 2.1: Size of the Financial Sector to Real GDP



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

As of end of December 2020, there were 370 licenses issued by CBB (bank and non-bank financial institutions). The banking sector in Bahrain was made up of 91 banks, categorized as follows:

- Retail banks: 30 retail banks (including 6 Islamic retail banks); 7 conventional locally incorporated and 17 conventional branches of foreign banks.
- Wholesale banks: 61 wholesale banks (including 10 Islamic wholesale banks); 13 conventional locally incorporated and 36 conventional branches of foreign banks.

The 271 non-banking financial institutions operating in Bahrain includes investment business firms, insurance companies (including Takaful and Re-Takaful firms), representative offices and specialized licenses.

The size of the assets of the banking sector in Bahrain was USD 207.4 billion as of December 2020. Table 2.1 shows the change of the size of the various banking segments to GDP. Retail banking continued to grow over the years (from USD 80.0 billion in 2014 to USD 94.3 billion by Q4 2020) along with the growth of size to GDP. The size of the wholesale banking sector started declining from USD 109.3 billion in 2014 to USD 104.0 billion in 2017. It started to increase afterwards with an annual increase of 2.0% in 2018, 4.5% in 2019 and 2.0% in 2020 to reach USD 113.1 billion. As for the Islamic banking sector, it grew steadily over the same period from USD 24.9 billion in 2014 to USD 31.6 billion in December 2020 representing 15.2% of the size of the banking sector.

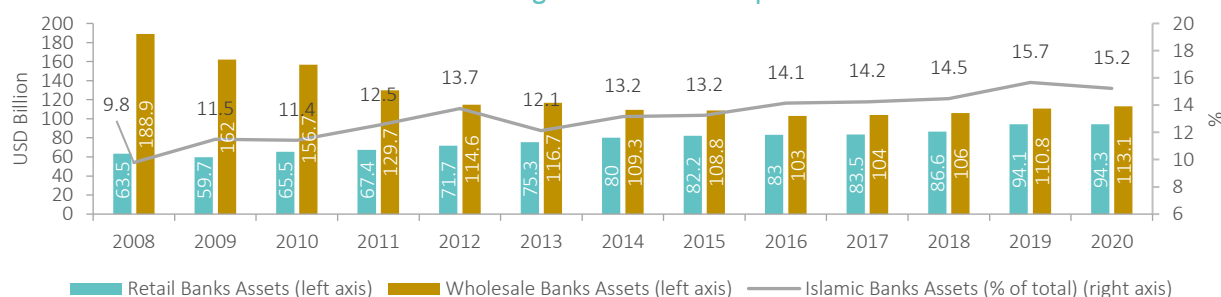
Table 2.1: Evolution of the size of the Banking sector in Bahrain

Indicator	2014	2015	2016	2017	2018	2019	2020*
Banking Sector (USD billion)	189.3	191.0	186.1	187.4	192.6	204.9	207.4
<i>times GDP</i>	5.7	6.1	5.8	5.3	5.1	5.3	5.4
Retail Sector (USD billion)	80.0	82.2	83.0	83.5	86.6	94.1	94.3
<i>times of GDP</i>	2.4	2.6	2.6	2.4	2.3	2.4	2.5
Wholesale Sector (USD billion)	109.3	108.8	103.0	104.0	106.0	110.8	113.1
<i>times of GDP</i>	3.3	3.5	3.2	2.9	2.8	2.9	2.9
Islamic Sector (USD billion)	24.9	25.3	26.3	26.7	27.9	32.1	31.6
<i>times of GDP</i>	0.7	0.8	0.8	0.8	0.7	0.8	0.8

* Using provisional current GDP data.

Source: CBB Monthly Statistical Bulletin.

Chart 2.2: Banking Sector Asset Composition

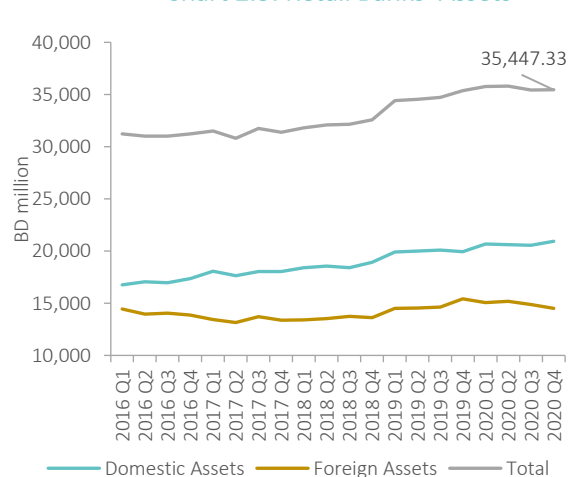


Source: CBB Monthly Statistical Bulletin.

2.2.1 The Retail Banking Sector

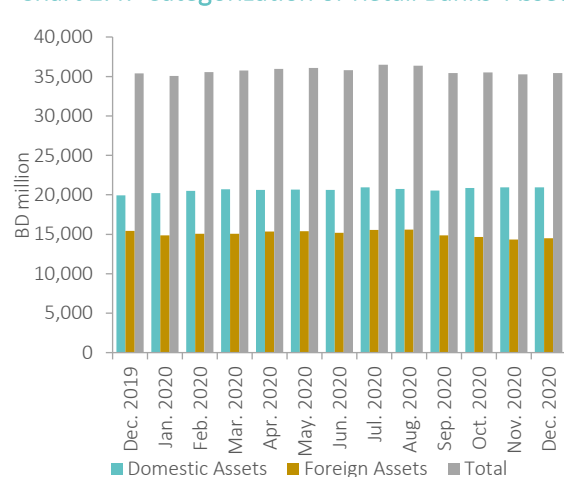
Retail banking total assets continued growing to reach BD 35.4 billion (USD 94.3 billion) in December 2020 with a 0.2% year-on-year (YoY) increase (see Chart 2.3). As of December 2020, domestic assets comprised 59.1% of total assets with YoY growth of 5.0% while foreign assets comprised 40.1% of total assets with a YoY contraction of -5.9%.

Chart 2.3: Retail Banks' Assets



Source: CBB Monthly Statistical Bulletin.

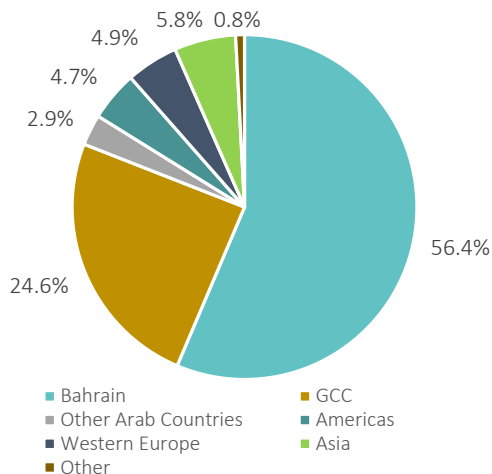
Chart 2.4: Categorization of Retail Banks' Assets



Source: CBB Monthly Statistical Bulletin.

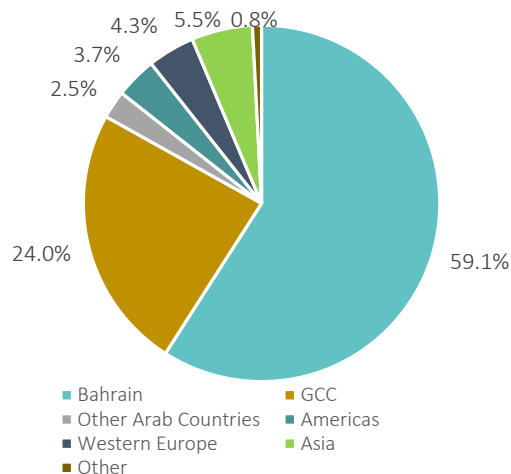
The share of GCC assets of total retail banking assets was 24.0%. The level of Europe and American contribution was 8.0%. This shows that the retail-banking sector in Bahrain is relatively exposed to foreign risk regionally from GCC countries and lightly exposed to foreign risk from Europe and U.S.

Chart 2.5: Retail Banks' Assets (%) by Geographical Classification (December 2019)*



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

Chart 2.6: Retail Banks' Assets (%) by Geographical Classification (December 2020)*

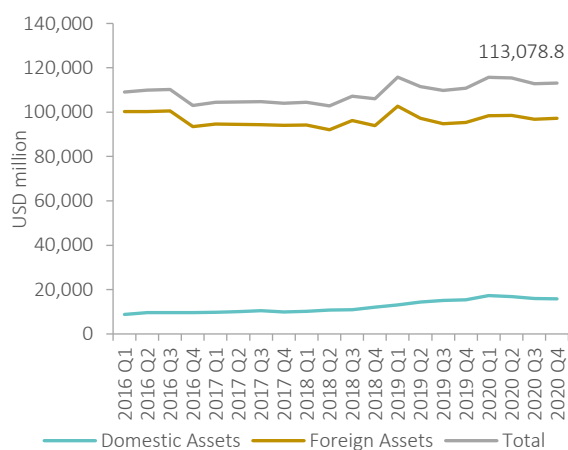


* For conventional and Islamic retail banks.
Source: CBB Monthly Statistical Bulletin.

2.2.2 The Wholesale Banking Sector

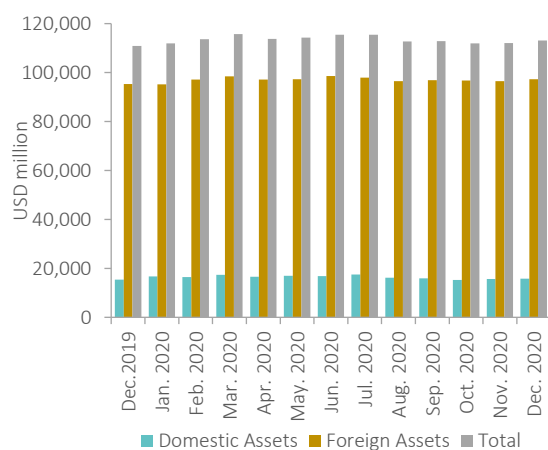
The wholesale banking sector increased to USD 113.1 billion in December 2020 with a YoY growth of 2.1%. As of December 2020, domestic assets, which represented 14.0% of total assets, witnessed a YoY growth of 2.3% while foreign assets made 86.0% of total assets and rose by 2.0% on a yearly basis (See Charts 2.7 and 2.8).

Chart 2.7: Wholesale Banks' Assets



Source: CBB Monthly Statistical Bulletin.

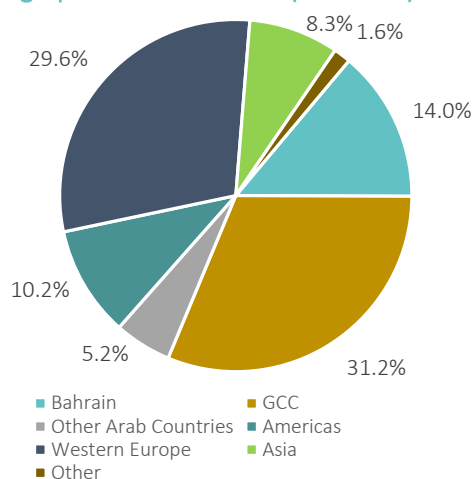
Chart 2.8: Categorization of Wholesale Banks' Assets



Source: CBB Monthly Statistical Bulletin.

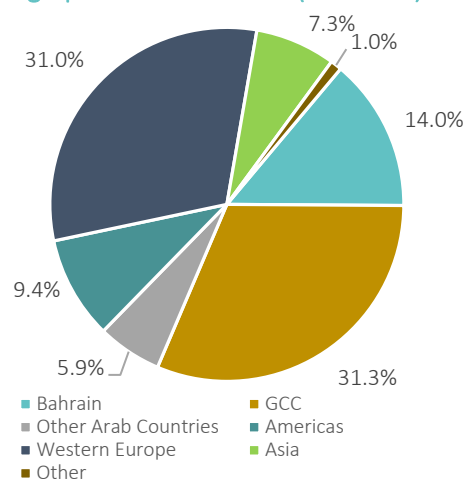
According to the geographical classification of wholesale banks' assets, wholesale banks are exposed to foreign risk from Western Europe and GCC countries. The share of GCC assets increased to 31.3% in December 2020, representing the larger portion of wholesale bank assets now compared to Europe. The share of Europe's total assets increased to 31.0%. The share of America's total assets decreased from 10.2% in December 2019 to 9.4% in December 2020. Asian assets slightly decreased from 8.3% to 7.3% in December 2020.

Chart 2.9: Wholesale Banks' Assets by Geographical Classification (Dec 2019) *



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

Chart 2.10: Wholesale Banks' Assets by Geographical Classification (Dec 2020) *

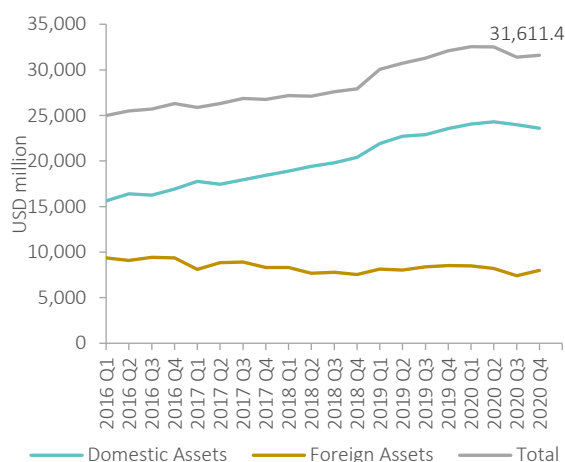


* For conventional and Islamic wholesale banks.
Source: CBB Monthly Statistical Bulletin.

2.2.3 The Islamic Banking Sector

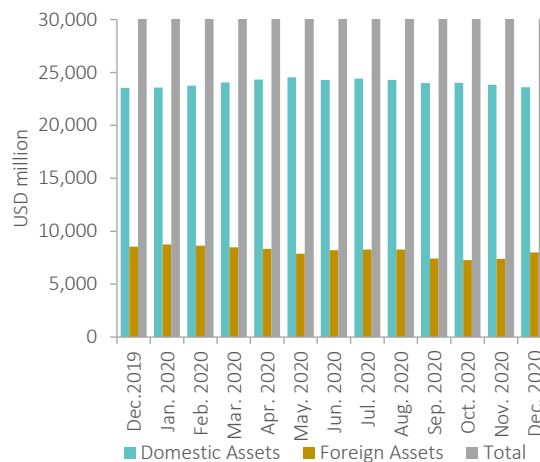
The Islamic banking sector increased from USD 24.2 billion in 2014 to USD 31.6 billion as of December 2020 indicating a 1.5% YoY decrease. Domestic assets represented 74.7% of total Islamic banking assets in the sector (0.2% YoY increase) while foreign assets represented 25.3% of total Islamic banking assets (6.1% YoY decrease).

Chart 2.11: Islamic Banks' Assets



Source: CBB Monthly Statistical Bulletin.

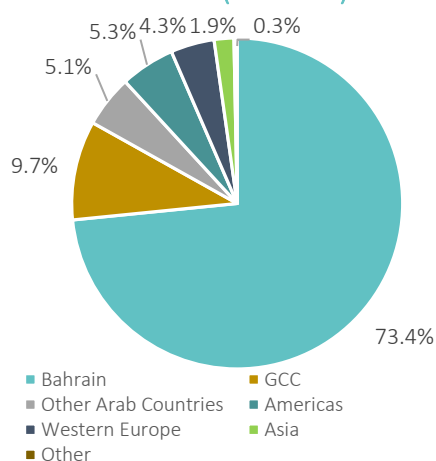
Chart 2.12: Categorization of Islamic Banks' Assets



Source: CBB Monthly Statistical Bulletin.

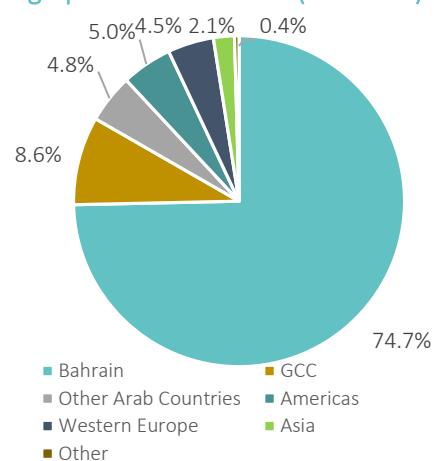
Islamic banks continue to be majorly exposed to domestic risks as the share of Bahrain's total assets increased slightly from 73.4% in Dec. 2019 to 74.7% in Dec. 2020. GCC total assets decreased from 9.7% to 7.5% over the same period.

Chart 2.13: Islamic Banks' Assets by Geographical Classification (Dec 2019)



Source: CBB Monthly Statistical Bulletin.

Chart 2.14: Islamic Banks' Assets by Geographical Classification (Dec 2020)

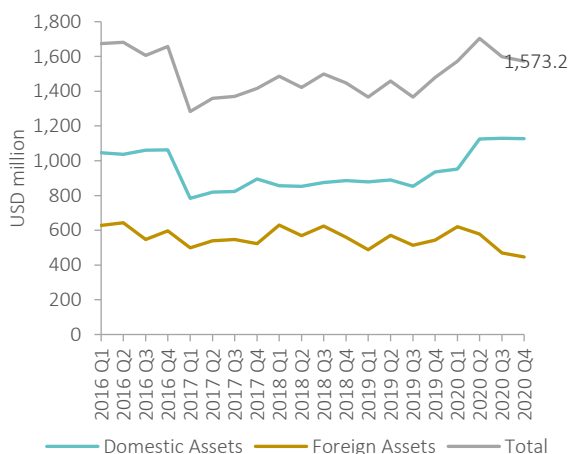


Source: CBB Monthly Statistical Bulletin.

2.2.4 Islamic Windows

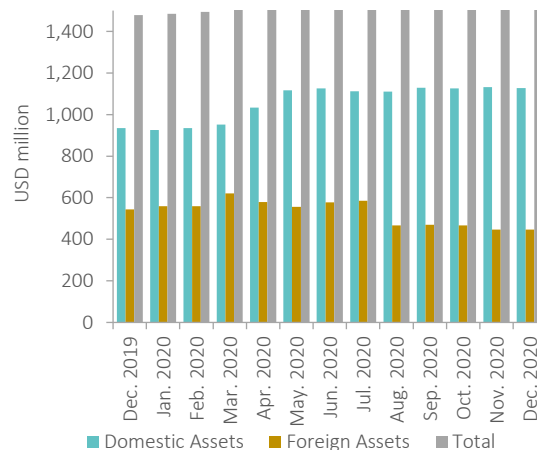
There are a number of conventional retail banks in Bahrain that maintain Islamic windows offering Islamic banking services/products to clients who are interested in completing their banking transactions in a Sharia-compliant system. As of December 2020, there were 5 Islamic windows operating by conventional retail licenses in Bahrain with total assets of BHD 1.6 billion (4.5% of retail banking assets). As of December 2020, 71.6% of total assets were domestic (20.5% YoY increase) while 28.4% were foreign (17.8% YoY decrease).

Chart 2.15: Islamic Windows' Assets



Source: CBB Monthly Statistical Bulletin.

Chart 2.16: Categorization of Islamic Windows' Assets

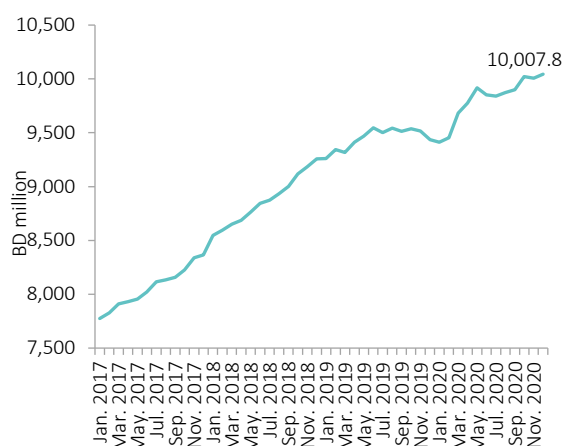


Source: CBB Monthly Statistical Bulletin.

2.2.5 Credit Developments

The total amount of credit given to the private sector (business and personal) by retail banks witnessed a YoY increase of 6.5% moving from BD 9,434.7 million in December 2019 to BD 10,044.2 million in December 2020 (Chart 2.17). Regarding retail banks' lending to the general government, there was an increase to BD 369.6 million at end-December 2020, from BD 301.6 million at end-December 2019 (Chart 2.18).

Chart 2.17: Loans to the Private Sector *



Source: CBB Monthly Statistical Bulletin.

* Excluding securities.

Chart 2.18: Loans to General Government *

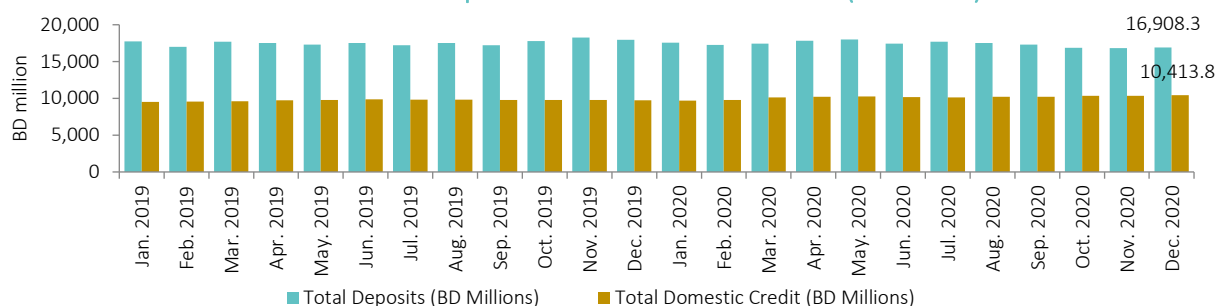


Source: CBB Monthly Statistical Bulletin.

* Excluding securities.

Total deposits reached BD 16,908.3 million in December 2020 with a -5.9% YoY change (where domestic deposits represent 80.2% of total deposits and had a YoY increase of 3.2%). Domestic credits increased from BD 9,736.3 in December 2019 to 10,413.8 in December 2020 with a 7.0% YoY increase (Chart 2.19).

Chart 2.19: Total Deposits and Total Domestic Credit (BD Million)



Source: CBB Monthly Statistical Bulletin.

2.2.6 Net Foreign Assets

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

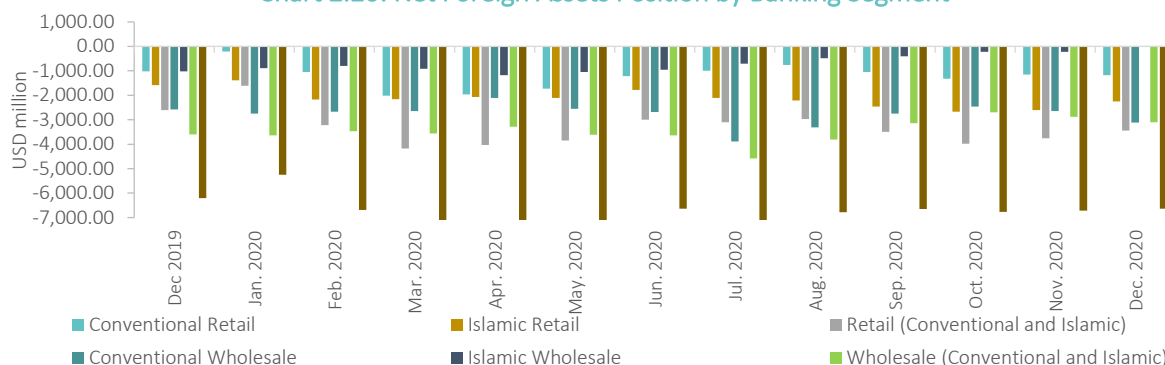
The NFA position by banking segment, as of December 2020, is negative (net borrowers) for retail banks, both conventional and Islamic, and conventional wholesale banks. As of December 2020, the NFA position for retail banks was *negative* USD 3,534.9 million and for wholesale banks, the NFA position was *negative* USD 3,099.9 million.

Table 2.2: Net Foreign Assets Position by Banking Segment (December 2020)

Banking Segment (USD million)	Foreign Assets	Foreign Liabilities	Net Foreign Assets
Conventional Retail	35,871.6	37,053.9	-1,182.3
Islamic Retail	2,712.4	4,970.4	-2,257.4
Retail (Conventional and Islamic)	38,584.0	42,119.9	-3,534.9
Conventional Wholesale	91,959.7	95,069.2	-3,109.5
Islamic Wholesale	5,297.9	5,288.3	9.6
Wholesale (Conventional and Islamic)	97,257.7	100,357.6	-3,099.9
Total Banking Segments	135,841.7	142,476.4	-6,634.8

Source: CBB.

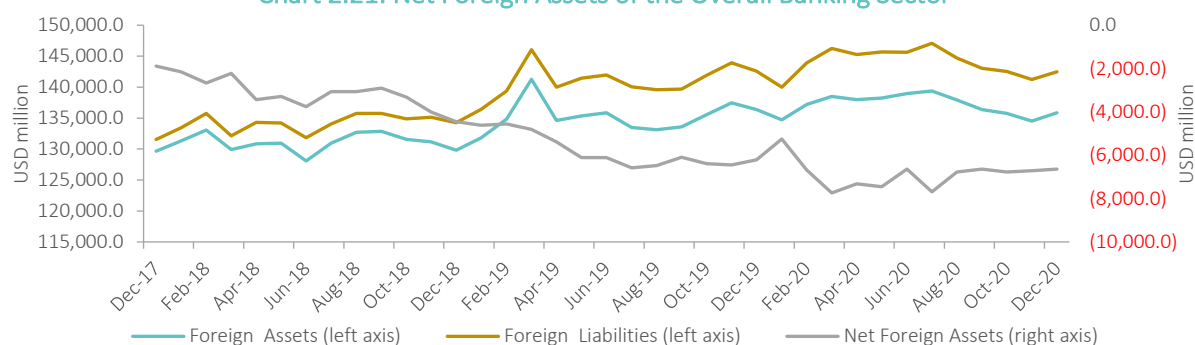
Chart 2.20: Net Foreign Assets Position by Banking Segment



Source: CBB.

While the foreign assets for some banking segments have been increasing steadily with an upward trend, there is also an increase in foreign liabilities which leads to the increasing negative NFA position. The NFA for conventional wholesale banks decreased significantly over the course of 2020. Looking at the NFA position for the overall banking sector, data shows that there was a continuous downward trend as seen in the chart below. The NFA position of every banking segment is seen in the Box below.

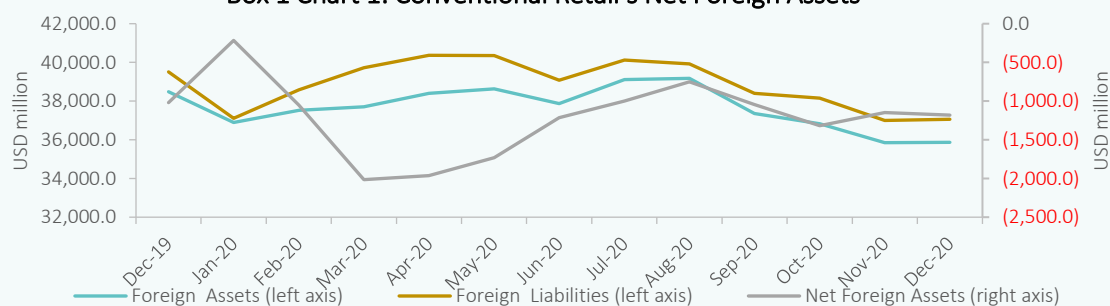
Chart 2.21: Net Foreign Assets of the Overall Banking Sector



Source: CBB.

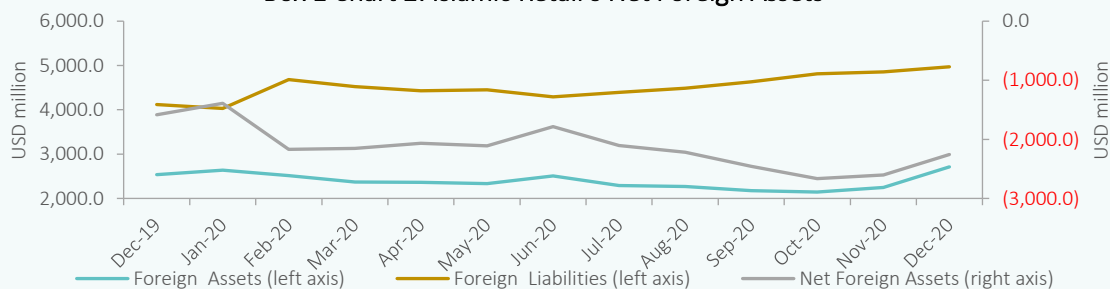
Box 1: Net Foreign Asset by Banking Segment

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



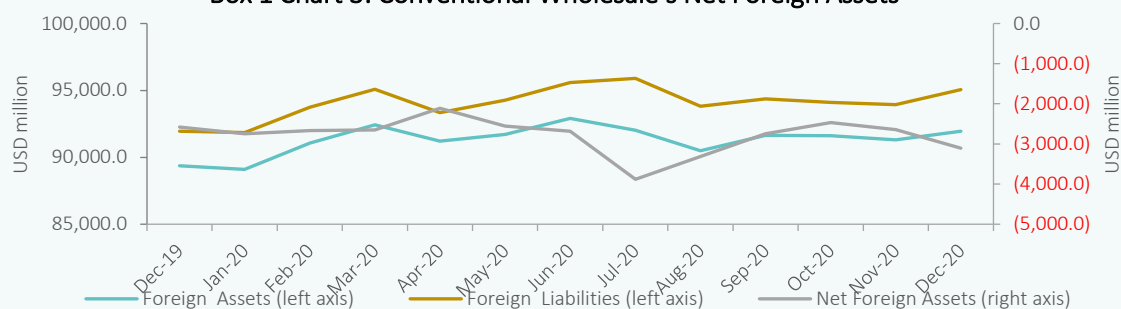
Source: CBB.

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

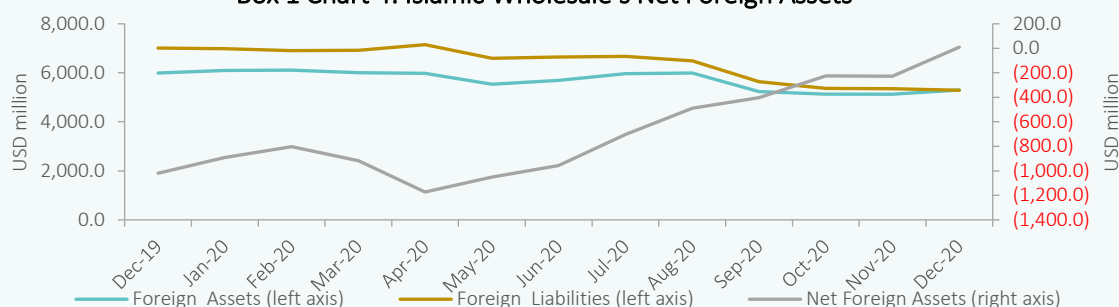


Source: CBB.

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



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



2.3 Monetary Indicators

Money supply continued to grow. M2 stood at BD 12,840.3 million in December 2020, 9.0% higher than its value of December 2019. M3 was at BD 14,151.3 million in end-December 2020, 4.7% higher than in December 2019 (Chart 2-22).

Chart 2.22: Money Supply (BD million) from Jan. 2018 to Dec. 2020

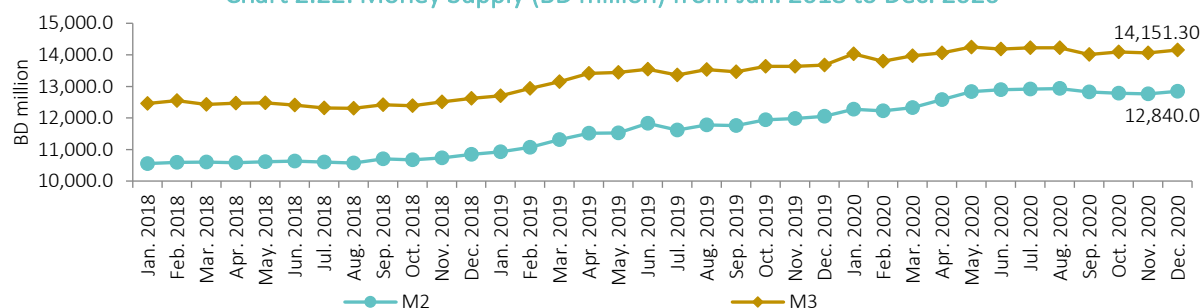


Table 2.3 sets out an analysis of Bahrain's M1, M2 and M3 money supply as at the dates indicated.

Table 2.3: Money Supply Composition

	2017		2018		2019		2020	
	BD million	% Change	BD million	% Change	BD million	% Change	BD million	% Change
Currency Outside Banks	526.8	-1.6	528.1	0.2	535.1	1.3	593.0	10.8
Demand Deposits	2,828.1	1.7	2,893.9	2.3	2,978.5	2.9	3,288.0	10.4
M1	3,354.9	1.2	3,422.0	2.0	3,513.6	2.7	3,880.9	10.5
Time and savings deposits	7,239.6	5.7	7,423.3	2.5	8,538.6	15.0	8,959.0	4.9
M2	10,594.5	4.2	10,845.3	2.4	12,052.2	11.1	12,840.0	6.5
General Government Deposits	1,926.8	3.9	1,776.8	-7.8	1,619.7	-8.8	1,311.3	-10.0
M3	12,521.3	1.2	12,622.1	2.0	13,671.9	8.3	14,151.3	3.5

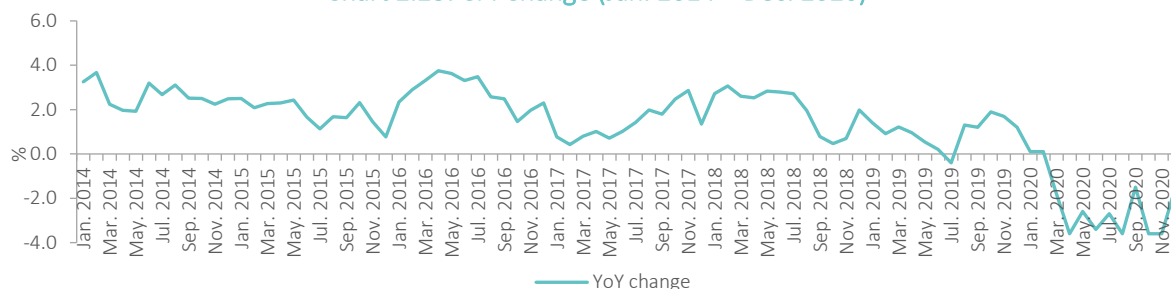
Source: CBB Monthly Statistical Bulletin.

As of December 2020, growth in money supply was stimulated by a growth in domestic deposits. In particular, demand deposits increased by 10.4% from BD 2,978.5 million in December 2019 to BD 3,288.0 million in December 2020, while time and savings deposits increased by 4.9%.

2.4 Inflation

CBB maintains the Bahraini Dinar's peg against the U.S. Dollar, which has provided price stability over the years and as a result managed to keep inflation relatively stable. Bahrain's inflation is measured by its Consumer Price Index (CPI) and includes 12 broad categories of consumer goods that are representative of consumption patterns in the economy.¹ Since 2014, there was a reversal of the deflationary trend seen over the preceding three years and consumer prices increased moderately.

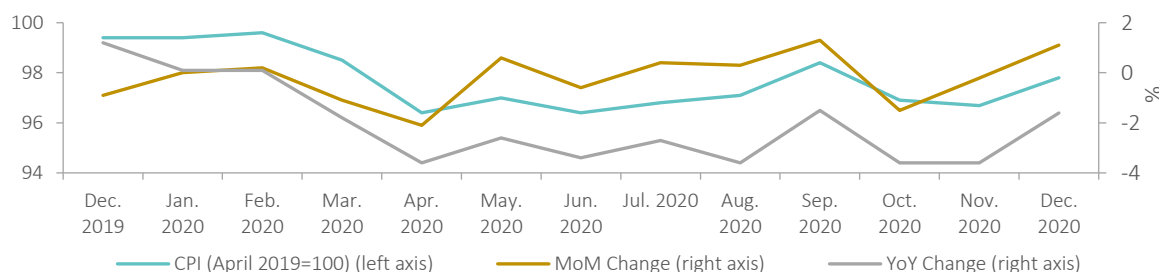
Chart 2.23: CPI Change (Jan. 2014 – Dec. 2020)



Source: IGA.

As of December 2020, the Consumer Price Index (CPI) stood at 97.6 points. Monthly inflation increased by 1.1%. The divisions which caused the largest downward contribution to the CPI in the year were recreation and culture (-1.3%), restaurants and hotels (-0.4%), and clothing and footwear (-0.3%). On an annual basis, inflation decreased by 2.3%.

Chart 2.24: Monthly Inflation Rate (Dec. 2019 – Dec. 2020)



Source: IGA.

Contrary to expectations of an inflationary spike following the introduction of VAT, the CPI in Bahrain continued broadly in line with the trend observed over the past year. The CPI in December 2020 was 1.6% lower than a year earlier due to the effects of the COVID-19 pandemic in addition to the economic stimulus package released by the government to support households and businesses.

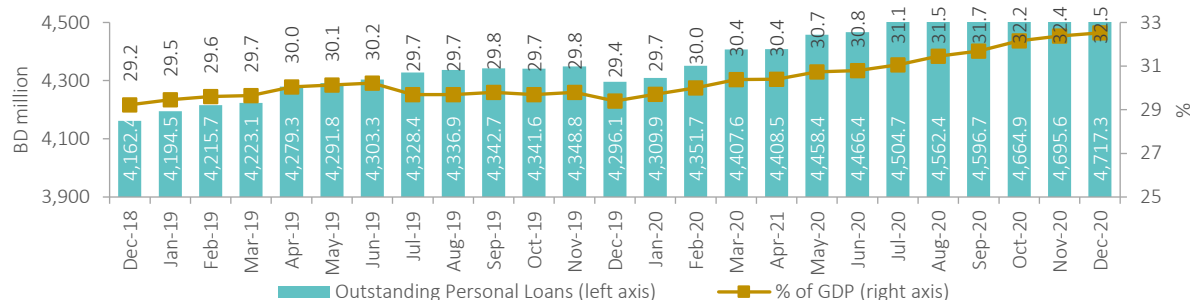
2.5 The Households/Personal Sector

The household sector in Bahrain plays an important role in financial stability and the overall economy. The household sector can allocate funds to financial assets through bank deposits and securities, and to non-financial assets from land and other fixed assets. It can also receive funds from financial and non-financial institutions.

¹ The index has been rebased to April 2019=100, with effect from May 2019, which resulted in certain methodological changes which include updating the expenditure weight, revising the sample of goods and services and improving the methods of price collection. Components are: food and non-alcoholic beverages; alcoholic beverages, tobacco and narcotics; clothing and footwear; housing, water, electricity, gas and other fuels; furnishing, household equipment and routine household maintenance; health; transport; communication; recreation and culture; education; restaurants and hotels; and miscellaneous goods and services.

Outstanding personal loans, used as a proxy for household borrowing, shows an increase in personal credit between December 2019 and December 2020 (Chart 2.25).

Chart 2.25: Personal Loans and Advances (Volume and % of GDP)



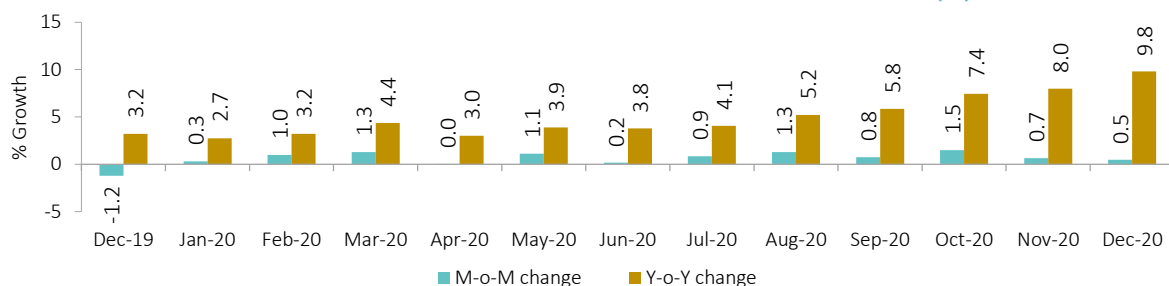
*Using 2019 GDP.

Source: CBB Monthly Statistical Bulletin.

Personal loans as a percentage of GDP increased to 32.5% by December 2020 (BD 4,717.3 million). There was a 5.6% increase in outstanding personal loans between June 2020 and December 2020 (YoY increase was 9.8%).

The monthly growth rate in total personal loans and advances fluctuated between December 2019 to June 2020. Initially at 0.3% in December 2019, it rose to reach its highest level for the year of 1.5% in October 2020 and later fell to reach 0.5% in December 2020. On a yearly basis, the biggest YoY increase was in December 2020 where the personal loans and advances were at 9.8%.

Chart 2.26: Growth Rates of Total Personal Loans and Advances (%)



Source: CBB Monthly Statistical Bulletin.

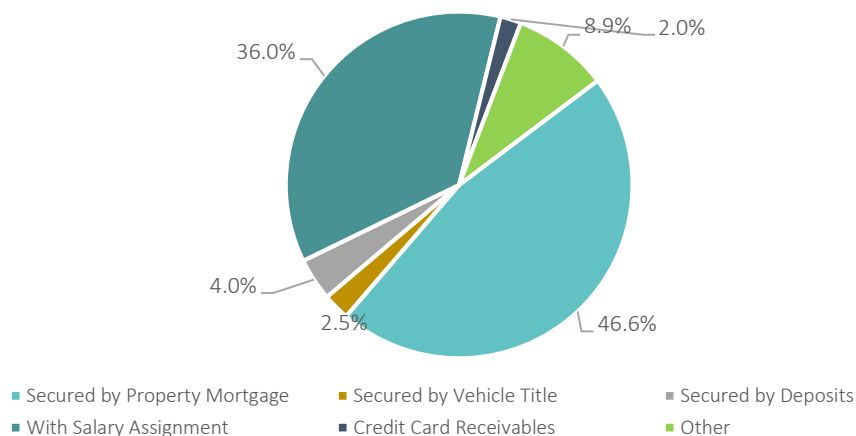
As of end of December 2020, the two main contributors to personal loans as seen in chart 2.27 were personal loans secured by property mortgages which made up 46.6% of the total personal loans followed by personal loans secured with salary assignments at 36.0% of total personal loans.

Table 2.4: Personal Loans Breakdown

BD million	Jun. 2020	Jul. 2020	Aug. 2020	Sep. 2020	Oct. 2020	Nov. 2020	Dec. 2020
Total	4,466.4	4,504.7	4,562.4	4,596.7	4,664.9	4,695.6	4,717.3
Secured by Property Mortgage	2,058.2	2,071.5	2,098.9	2,121.9	2,152.2	2,177.5	2,197.9
Secured by Vehicle Title	121.2	122.2	121.9	120.0	120.5	119.7	118.1
Secured by Deposits	155.2	158.9	167.3	209.6	210.1	187.2	187.6
With Salary Assignment	1,657.3	1,678.0	1,693.5	1,661.2	1,684.6	1,699.9	1,700.4
Credit Card Receivables	95.5	94.7	97.8	95.9	91.4	91.7	92.2
Other	379.0	379.4	383.0	388.1	406.1	419.6	421.1

Source: CBB Monthly Statistical Bulletin.

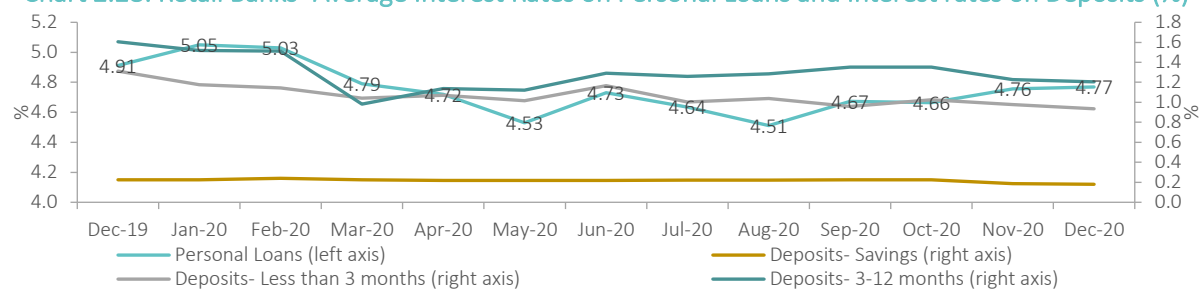
Chart 2.27: Personal Loans Breakdown (December 2020)



Source: CBB Monthly Statistical Bulletin.

Interest rates on personal loans started off at 4.91% in December 2019 and decreased to 4.77% in December 2020 (Chart 2.28). The chart also shows the retail deposit rate for: Saving deposits, time deposits less than 3 months, and time deposits 3 months to 12 months over the same period.

Chart 2.28: Retail Banks- Average Interest Rates on Personal Loans and Interest rates on Deposits (%)

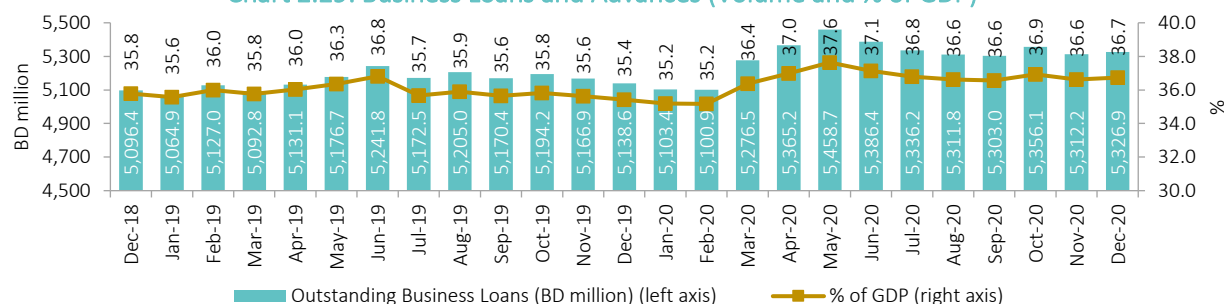


Source: CBB Monthly Statistical Bulletin.

2.6 The Bahraini Corporate/Business Sector

Business loans and advances contracted by 1.1% between June 2020 and December from BD million 5,386.9 in June 2020 to BD million 5,326.9 in December 2020 (Chart 2.29). As of December 2020, YoY growth for business loans was 3.7%. Outstanding business loans as a percentage of GDP increased to 36.7% in December 2020 compared to Dec 2019.

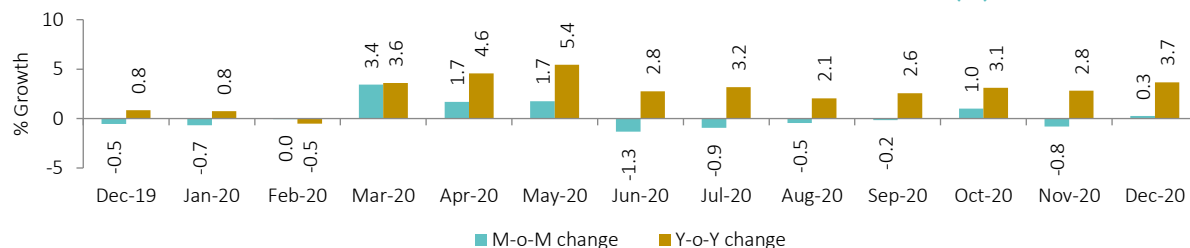
Chart 2.29: Business Loans and Advances (Volume and % of GDP)



Source: CBB Monthly Statistical Bulletin.

The monthly growth rate in total personal loans and advances fluctuated between June 2020 and December 2020. Initially at -1.3% in June 2020, it rose to reach its highest level for the year of 1.0% in October 2020. The highest YoY growth was in December 2020 (3.7%).

Chart 2.30: Growth Rates of Total Business Loans and Advances (%)



Source: CBB Monthly Statistical Bulletin.

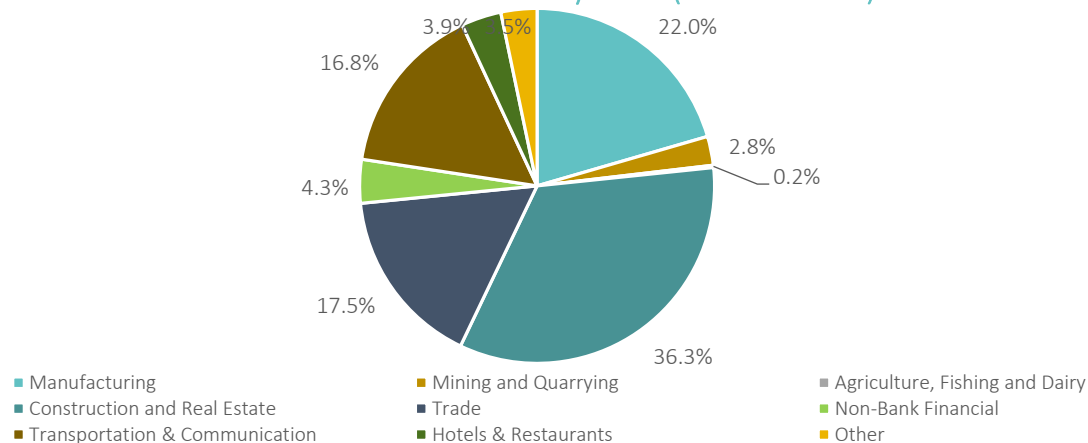
For the past six months, the main contributor to the business loans was the loans to the construction and real estate sector. The biggest contributors to business loans in December 2020 were the construction and real estate sector (36.3%) followed by manufacturing (22.0%), trade (17.5%), and then transportation and communication (16.8%) (Chart 2.31).

Table 2.5: Business Loans by Sector

	Jun. 2020	Jul. 2020	Aug. 2020	Sep. 2020	Oct. 2020	Nov. 2020	Dec. 2020
Total	5,386.4	5,336.2	5,311.8	5,303.0	5,356.1	5,312.2	5,326.9
Manufacturing	1,264.6	1,213.4	1,200.2	1,171.9	1,215.0	1,168.8	1,173.8
Mining and Quarrying	105.3	128.2	128.5	156.8	136.2	120.9	150.8
Agriculture, Fishing and Dairy	7.4	7.1	6.3	6.5	11.9	11.8	12.1
Construction and Real Estate	1,889.0	1,893.5	1,904.6	1,892.9	1,913.4	1,920.5	1,932.0
Trade	1,019.0	991.5	984.7	972.8	948.3	950.9	934.4
Non-Bank Financial	241.2	240.9	237.9	227.6	226.7	235.2	227.5
Transportation & Communication	158.2	861.6	849.6	874.5	904.6	904.1	896.3
Hotels & Restaurants	167.8	169.7	178.1	195.0	208.2	211.9	209.0
Other Sectors	859.9	168.7	175.4	177.2	186.3	186.8	188.1

Source: CBB Monthly Statistical Bulletin.

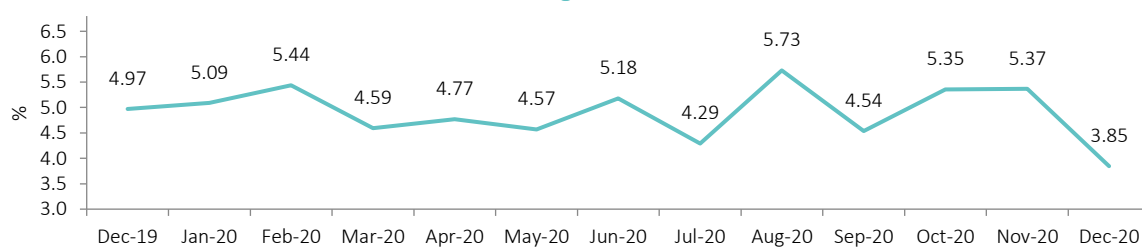
Chart 2.31: Business Loans by Sector (December 2020)



Source: CBB Monthly Statistical Bulletin.

Average interest rates on business loans fluctuated throughout the period from December 2019 to December 2020. It was at its peak in August 2020 at 5.73% (Chart 2.32).

Chart 2.32: Retail Banks' Average Interest Rates on Business Loans



Source: CBB Monthly Statistical Bulletin.

Part II:

Developments in the Banking Sector



Chapter

3

Performance of the Overall Banking Sector

Key Highlights

CAR	NPL	Provisioning	ROA	ROE	Liquidity	Loan/Deposit
18.6% ↑	4.3% ↓	68.0% ↑	0.7 ↑	2.8% ↑	24.6% ↓	70.9% ↑

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

3.1 Overview

This chapter offers an assessment of the banking sector in Bahrain. Macro-prudential analysis of the entire banking sector is performed based on a set of selected Financial Soundness Indicators (FSIs). The banking sector in Bahrain is divided into four segments: conventional retail (CR), conventional wholesale (CW), Islamic Retail (IR), and Islamic wholesale (IW). The performance of the four banking segments is analyzed in Chapters 4 and 5.² Annex 1 presents selected FSIs for the different banking segments. Annex 2 presents selected graphs showing the development of selected FSIs over time.

Chapters 3, 4, and 5 cover the period between Q2 2020 and Q4 2020, unless otherwise indicated.

3.2 Overall Banking Sector Performance

3.2.1 Capital Adequacy

Slight increase in capital adequacy

The capital adequacy ratio³ (CAR) for the banking sector stood at 18.5% in June 2020 increasing to 18.6% in December 2020. The core capital ratio (ratio of Tier 1 capital to risk-weighted assets) showed an increase from 17.1% in June 2020 to 17.3% in December 2020. Whereas the leverage ratio (ratio of assets over capital) remained at 8.2% during the same period.

Table 3.1: Capital Provision Ratios

Indicator*	Q2 2020	Q4 2020	Change
CAR (%)	18.5	18.6	0.1
Tier 1 CAR (%)	17.1	17.3	0.2
Leverage (Assets/Capital) (Times)	8.2	8.2	0.0

* For Locally Incorporated Banks only.

Source: CBB.

3.2.2 Asset Quality

Decrease in NPLs

The non-performing loans (NPLs) ratio decreased to 4.3% in December 2020 from 4.5% in June 2020. The specific provisions as a proportion of NPLs showed an increase to 68.0% in December 2020 from 64.8% in June 2020.

Data on NPLs by time segment (up to 1 year, 1 year to 3 years, and over 3 years) show that the majority of NPLs in the banking sector are for a period of over 3 years (41.8% of total NPLs). NPLs for over 3 years

² Chapters 3, 4, and 5 do not contain any sections on stress testing. Stress testing exercises are performed separately in an internal report on selected Bahraini banks including Domestically Systemically-Important Banks (DSIB's).

³ The capital adequacy ratio relates total capital to risk-weighted assets (RWA). The indicator excludes overseas retail banks, which do not have prescribed capital levels or ratios.

represented 1.8% of total gross loans. Specific provisioning for NPLs increases as they are non-performing for longer periods of time. As seen in Table 3.3, NPLs for a period for more than 3 years are provisioned by 79.7%.

Table 3.2: NPL Ratios

Indicator	Q2 2020	Q4 2020	Change
NPLs (% Total Loans)	4.5	4.3	-0.2
Specific provisions (% of NPLs) *	64.8	68.0	3.2

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

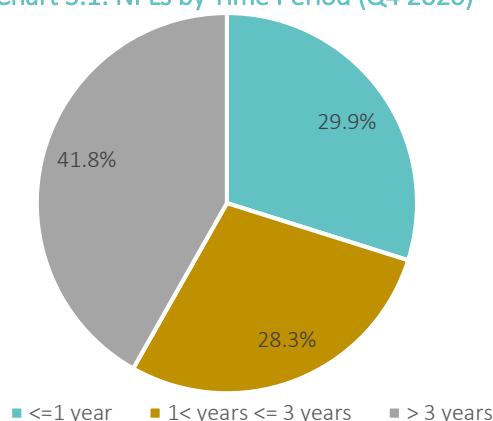
Source: CBB.

Table 3.3: NPL Ratios and Specific Provisions by Time Period (Q4 2020)

Indicator	Up to 1 year	1 up to 3 years	Over 3 years	Total
NPLs (% Total Loans)	1.3	1.2	1.8	4.3
Specific Provisions (% of NPLs)	52.3	67.4	79.7	68.0

Source: CBB.

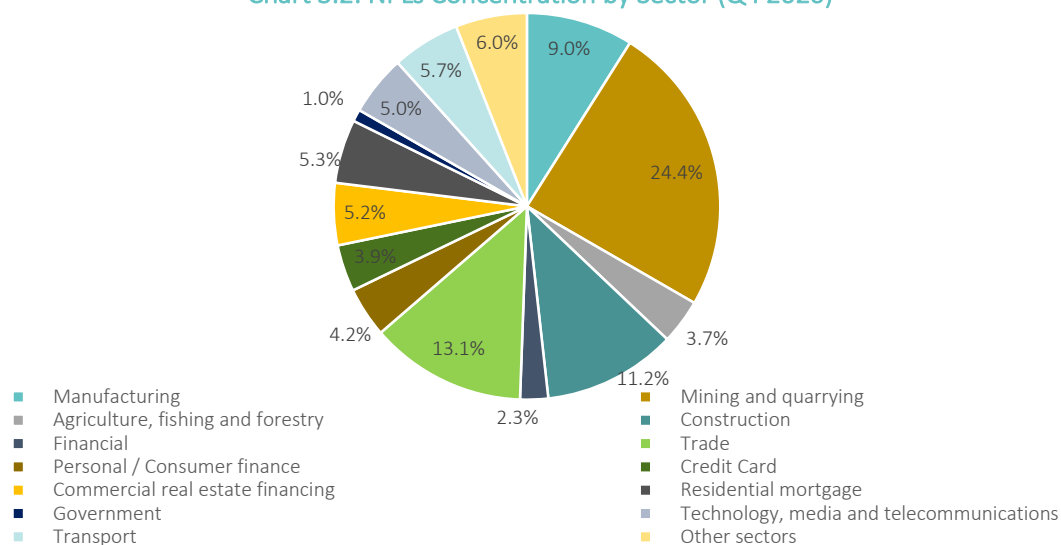
Chart 3.1: NPLs by Time Period (Q4 2020)



Source: CBB.

Data on the concentration of NPLs by sector shows that the majority of NPLs come from the Mining and quarrying (24.4%), construction (11.2%), and trade (13.1%) as indicated in chart 3.2.⁴

Chart 3.2: NPLs Concentration by Sector (Q4 2020)



Source: CBB.

Data on the sectoral breakdown of NPLs ratios (NPLs per sector as a percentage gross loans in each sector) shows increase in impairment in some sectors, while some experience a decrease and others

⁴ The other sectors category includes sectors such as private banking, services, tourism, and utilities.

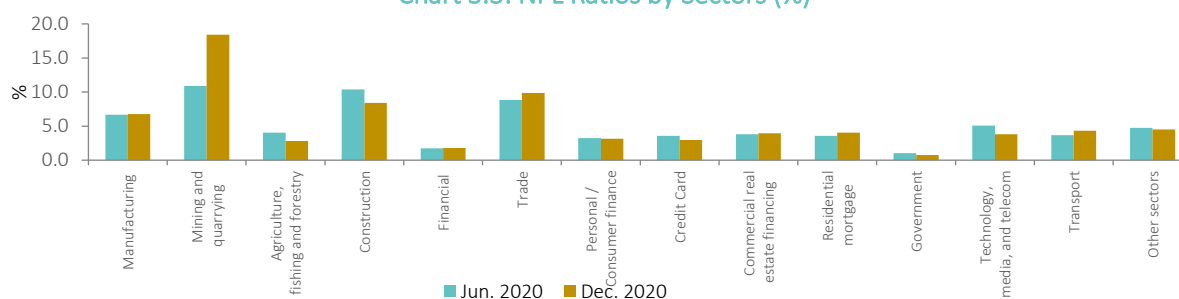
remaining unchanged (Table 3.4). The highest increase was in mining and quarrying by 7.5%. The highest decrease was in the construction sector which was 2.0%.

Table 3.4: NPL Ratios by Sector (%)

Sector	Q2 2020	Q4 2020	Change
Manufacturing	6.7	6.8	0.1
Mining and quarrying	10.9	18.4	7.5
Agriculture, fishing and forestry	4.0	2.8	-1.2
Construction	10.4	8.4	-2.0
Financial	1.7	1.8	0.1
Trade	8.8	9.9	1.1
Personal / Consumer finance	3.3	3.2	-0.1
Credit Card	3.5	3.0	-0.5
Commercial real estate financing	3.8	3.9	0.1
Residential mortgage	3.6	4.0	0.4
Government	1.0	0.8	-0.2
Technology, media and telecommunications	5.1	3.8	-1.3
Transport	3.6	4.3	0.7
Other sectors	4.8	4.5	-0.3

Source: CBB.

Chart 3.3: NPL Ratios by Sectors (%)



Source: CBB.

Loan portfolios faces slight fluctuations and concentrated in some sectors

The loan portfolio of the banking system remains concentrated with no sector exceeding 20% of total loans. Manufacturing represented the highest exposure with 14.0% of total loans in December 2020. Financial and Construction followed with 13.4% and 10.5% respectively. Personal/consumer finance stood at 9.4% of total loans. The sector with the largest decline was financial dropping 1.8%.

Table 3.5: Lending Distribution (% Total Loans)

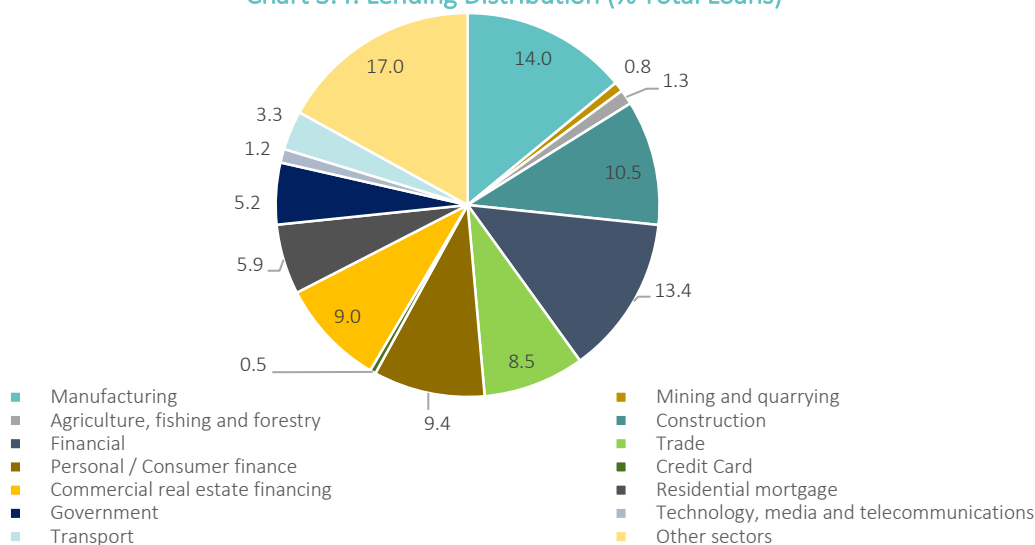
Sector	Q2 2020 *	Q4 2020*	Change
Manufacturing	14.9	14.0	-0.9
Mining and quarrying	1.4	0.8	-0.6
Agriculture, fishing and forestry	1.1	1.3	0.2
Construction	10.7	10.5	-0.2
Financial	15.2	13.4	-1.8
Trade	9.1	8.5	-0.6
Personal / Consumer finance	8.9	9.4	0.5
Credit Card	0.4	0.5	0.1
Commercial real estate financing	8.8	9.0	0.2
Residential mortgage	5.7	5.9	0.2
Government	4.4	5.2	0.8
Technology, media and telecommunications	1.3	1.2	-0.1
Transport	3.1	3.3	0.2
Other sectors	14.7	17.0	2.3
Top Two Sectors (%)	30.2	31.0	0.8
Real Estate/ Construction Exposure (%) **	25.2	25.4	0.20

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

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

Source: CBB.

Chart 3.4: Lending Distribution (% Total Loans)



Source: CBB.

The top two recipient sectors manufacturing and other sectors jointly represented 31.0% of loans in December 2020, increasing from 29.6% in June 2020. Exposure to real estate/construction was 25.4% of total lending in December 2020, a slight increase from 25.2% registered in June 2020.

SME lending remains low

Credit extension to Small and Medium Enterprises (SMEs) remained unchanged between June 2020 and December 2020. SME loans (as a % of total loans) stood at 1.9% in December 2020. SME NPLs decreased slightly between the same periods from 12.6% to 11.0%. Provisioning levels recorded a decrease from 35.1% in June 2020 to 43.1% in December 2020.

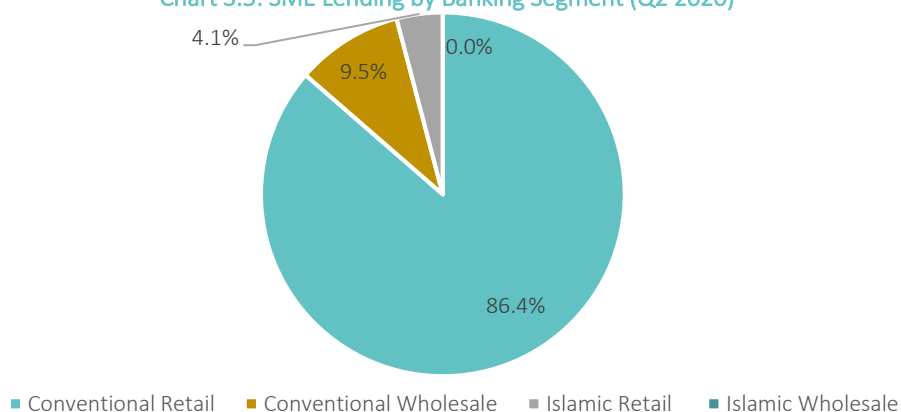
Table 3.6: SME Lending *

Indicator	Q2 2020	Q4 2020	Change
SME Loans (% of total Loans)	1.9	1.9	0.0
SME NPLs (% of total SME Loans)	12.6	11.0	-1.6
SME Provisioning (% of total SME NPLs)	35.1	43.1	8.0

*For Bahrain Operations Only

Source: CBB.

Chart 3.5: SME Lending by Banking Segment (Q2 2020)



Source: CBB.

3.2.3 Profitability

Profitability remains positive despite decrease

The overall banking sector's profitability indicators have been stable between June 2019 to June 2020 and remain robust. Return-on-assets (ROA) decreased slightly from 0.6% in June 2019 to 0.4% in June 2020. As of end-June 2020, return-on-equity (ROE) decreased to 1.5% from 4.8% in June 2019.

Table 3.7: Profitability

Indicator	Q2 2020	Q4 2020	Change
ROA (%) *	1.1	0.7	0.3
ROE (%) **	8.5	2.8	1.3
Net Interest Income (% Total Income) ***	70.9	69.7	-1.2
Operating Expenses (% Total Income)	54.6	70.7	0.5

* ROA = ratio of net income to assets.

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

*** Net interest income only for Conventional Banks.

Source: CBB.

Net interest income (as a % of total income) stood at 70.7% in December 2020. In addition, operating expenses as a proportion of total income was 70.7% in December 2020, an increase from the 70.2% registered in June 2020.

3.2.4 Liquidity

Liquidity position stays resilient

Between June 2020 and December 2020, the overall loan-deposit ratio increased from 69.5% to 70.9%. Liquid assets as a proportion of total assets remained at 24.6%, over the same period.

Table 3.8: Liquidity

	Q2 2020	Q4 2020	Change
Liquid Asset Ratio (%)	24.6	24.6	0.0
Loan-Deposit Ratio (%)	69.5	70.9	1.4

Source: CBB.

Chapter

4

Performance of Conventional Banks

Key Highlights

CR CAR 20.0% ↑	CR NPL 4.7% ↑	CR Provisions 69.9% ↑	CR ROA 1.0% ↓	CR ROE 9.6% ↓	CR Liquidity 34.4% ↑	CR Loan/Deposit 66.3% ↓
CW CAR 17.8% ↓	CW NPL 4.1% ↓	CW Provisions 74.3% ↑	CW ROA 0.8% ↓	CW ROE -5.3% ↓	CW Liquidity 21.6% ↓	CW Loan/Deposit 71.1% ↑

- ▶ Increase in capital position of conventional retail and decrease in position of wholesale banks.
- ▶ NPLs slightly increased for conventional retail banks decreased for conventional wholesale banks.
- ▶ Loan portfolios in conventional retail and wholesale banks remain concentrated despite the decrease in some sectors.
- ▶ Decrease in earnings for conventional retail banks and conventional wholesale banks.
- ▶ Liquidity improved for conventional retail banks.

4.1 Overview

Chapter 4 offers macro-prudential analysis of the conventional banking sector based on a set of selected FSIs. The Chapter analyses the following conventional banking segments (retail and wholesale): capital adequacy (section 4.2), asset quality (section 4.3), profitability (section 4.4), and liquidity (section 4.5). Unless specified otherwise, the analysis in this chapter is based on consolidated financial data (Bahraini and non-Bahraini operations).

4.2 Capital Adequacy

Increase in capital adequacy for conventional retail and unchanged for wholesale

The CAR for conventional retail increased from 18.8% in June 2020 to 20.0% in December 2020. The core capital ratio (ratio of Tier 1 capital to risk-weighted assets) showed an increase from 17.5% in June 2020 to 18.7% in December 2020. The leverage ratio (ratio of assets over capital) decreased to 7.0% during the same period. The NPLs net provisions to capital decreased to 5.0% in December 2020 from 5.1% in June 2020.

As for wholesale banks, CAR decreased to 17.8% in December 2020 from the level of 17.9% it registered in June 2020. Tier 1 capital remained at 17.0% recorded in December 2020. Furthermore, the leverage ratio (ratio of assets over capital) increased to 8.4% in December 2020. Finally, the ratio of NPLs net of provisions to capital decreased to 4.9% over the same period.

Table 4.1: Conventional Banks' Capital Provisions Ratios

Indicator *	Retail			Wholesale		
	Q2 2020	Q4 2020	Change	Q2 2020	Q4 2020	Change
CAR (%)	18.8	20.0	1.2	17.9	17.8	-0.1
Tier 1 CAR (%)	17.5	18.7	1.2	17.0	17.0	0.0
Leverage (Assets/Capital) (times)	7.5	7.0	-0.5	8.2	8.4	0.2
NPLs net of Provisions to Capital (%)	5.1	5.0	-0.1	6.2	4.9	-1.3

* For Locally Incorporated Banks only.

Source: CBB.

4.3 Asset Quality

4.3.1 Non-Performing Loans

Alight increase in NPLs for conventional retail and decrease for conventional wholesale

The NPL ratio increased slightly to 4.7% in December 2020 from 4.6% in June 2020 for conventional retail banks. For local retail banks, the NPL ratio increased to 4.1% in December 2020. For overseas

retail banks, the NPL ratio decreased from 6.6% in June 2020 to 6.2% in December 2020. Specific provisions as a proportion of NPLs increased slightly to 69.9% in June 2020.

As for conventional wholesale banks, The NPL ratio decreased from 4.7% in June 2020 to 4.1% in December 2020. The NPL ratio of locally-incorporated wholesale banks decreased from 6.3% in June 2020 to 5.5% in December 2020. Additionally, overseas wholesale banks witnessed a decrease in its NPL ratio from 3.5% to 3.0% over the same period. Specific provisions witnessed an increase of 2.0% from 72.3% in December 2019 to 74.3% in December 2020.

Table 4.2: CR Banks' NPL Ratios

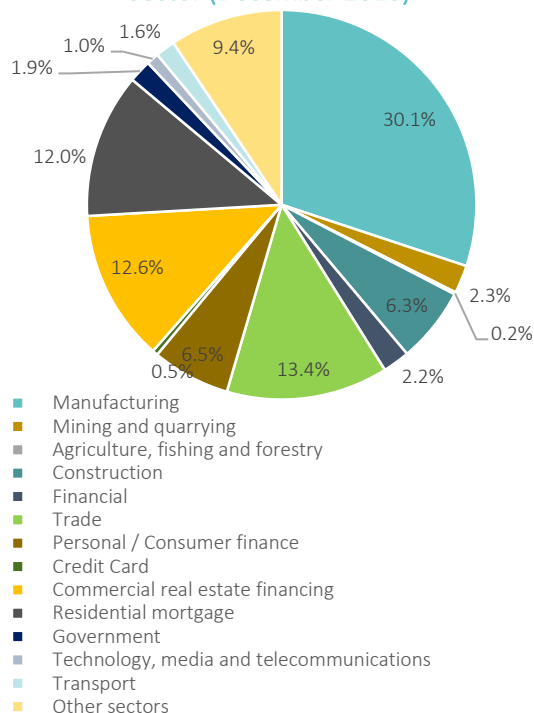
Indicator *	Retail			Wholesale		
	Q2 2020	Q4 2020	Change	Q2 2020	Q4 2020	Change
NPLs (% Total Loans)	4.6	4.7	0.1	4.7	4.1	-0.6
NPLs Local Banks (%)	3.8	4.1	0.3	6.3	5.5	-0.8
NPLs Overseas Banks (%)	6.6	6.2	-0.4	3.5	3.0	-0.5
Specific Provisions (% of NPLs) *	66.2	69.9	3.7	72.3	74.3	2.0

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

Source: CBB.

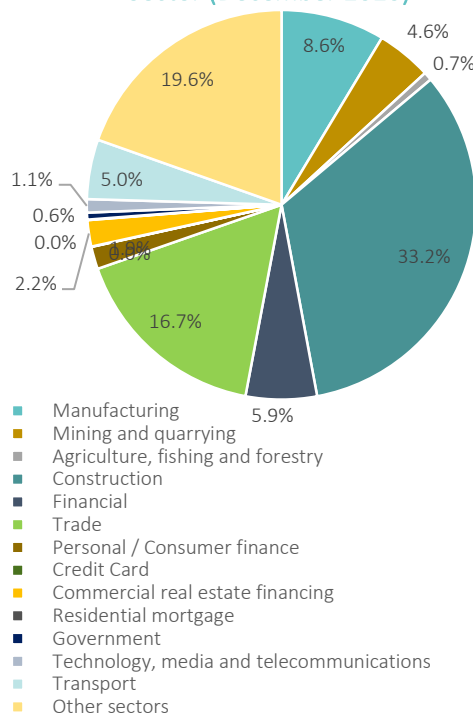
Data on the concentration of NPLs by sector for conventional retail banks shows that the majority of NPLs come from the manufacturing sector (30.1%), commercial real estate sector (12.6%), trade (13.4%) and construction (6.3%). On the other hand, the data on the concentration of NPLs by sector for wholesale banks indicates that the majority of NPLs are concentrated and come from the construction sector (33.2%), trade (16.7%), and others (19.6%).

Chart 4.1: CR Banks' NPLs Concentration by Sector (December 2020)



Source: CBB.

Chart 4.2: CW Banks' NPLs Concentration by Sector (December 2020)



Source: CBB.

Available data on the sectoral breakdown of NPLs shows some sectors experiencing an increase in impairment, while some experience a decrease (Table 4.3). For conventional retail banks, the highest increase was in construction by 2.1% while the highest decrease was in mining and quarrying by 6.4%.

As for wholesale banks, sectoral breakdown of impaired loans demonstrates that impairment in mining and quarrying was the highest between all sectors at 15.8%, followed by the trade with an impairment

of 11.8%. The biggest increase was seen in the mining and quarrying sector which increased by 9.9%. The biggest decrease in impairment was found in the technology, media and telecommunications sector with a decrease of 2.7%.

Table 4.3: CR Banks' NPL Ratios by Sector (%)

Sector	Retail			Wholesale		
	Q2 2020	Q4 2020	Change	Q2 2020	Q4 2020	Change
Manufacturing	9.6	9.8	0.2	2.1	2.6	0.5
Mining and quarrying	34.4	28.0	-6.4	5.9	15.8	9.9
Agriculture, fishing and forestry	2.6	2.3	-0.3	2.0	1.3	-0.7
Construction	6.1	8.2	2.1	10.4	7.5	-2.9
Financial	1.8	1.6	-0.2	1.1	1.3	0.2
Trade	5.1	6.0	0.9	10.4	11.8	1.4
Personal / Consumer finance	2.5	1.9	-0.4	5.2	4.2	-1.0
Credit Card	2.8	2.8	0.0	2.3	5.5	3.3
Commercial real estate financing	3.2	3.1	-0.1	3.6	3.5	-0.1
Residential mortgage	4.8	5.6	0.8	1.1	1.3	0.2
Government	3.7	4.5	0.8	0.9	0.4	-0.5
Technology, media and telecommunications	3.0	2.6	-0.4	6.9	4.2	-2.7
Transport	7.2	7.0	-0.2	2.6	3.4	0.8
Other sectors	2.9	3.5	0.6	4.0	3.5	-0.5

Source: CBB.

4.3.2 Loan Concentrations

Loan portfolios remain concentrated

The loan portfolio of retail banks remains concentrated with minimal changes in the composition of the loans. The top recipient of loans remains to be the commercial real estate financing sector accounting for 19.3% of total loans in December 2020, compared with 18.4% in June 2020. The manufacturing sector represented 14.5% of total loans and the personal/consumer finance sector represented 16.1%. The top two recipient sectors, commercial real estate financing and personal/consumer finance, jointly represented 35.4% of loans in December 2020. Exposure to real estate/construction increased to 33.1% of total lending in December 2020.

Table 4.4: CR Banks' Lending Distribution by Sector (% Total Loans)

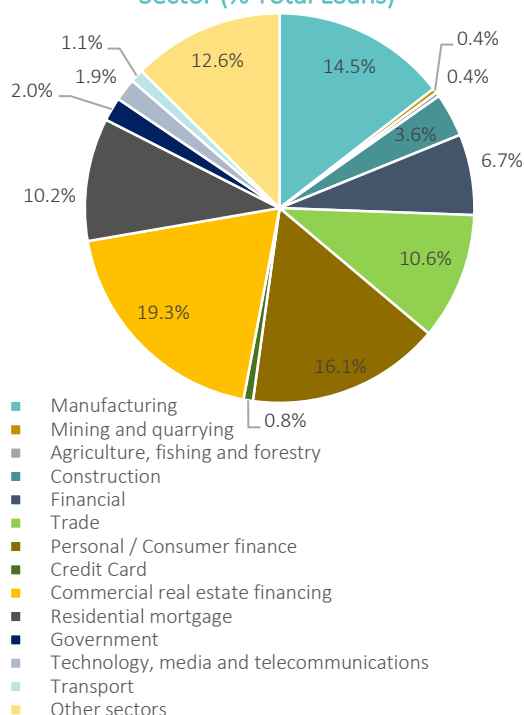
Sector	Retail			Wholesale		
	Q2 2020	Q4 2020	Change	Q2 2020	Q4 2020	Change
Manufacturing	15.0	14.5	-0.5	13.2	13.6	0.4
Mining and quarrying	0.6	0.4	-0.2	2.4	1.2	-1.2
Agriculture, fishing and forestry	0.3	0.4	0.1	2.1	2.2	0.1
Construction	4.0	3.6	-0.4	18.3	18.2	-0.1
Financial	7.2	6.7	-0.5	21.1	19.0	-2.0
Trade	11.0	10.6	-0.4	8.0	5.8	-2.2
Personal / Consumer finance	14.6	16.1	1.5	1.4	1.8	0.4
Credit Card	0.7	0.8	0.1	0.0	0.0	0.0
Commercial real estate financing	18.4	19.3	0.9	2.5	2.6	0.1
Residential mortgage	9.5	10.2	0.7	0.3	0.2	-0.1
Government	2.4	2.0	-0.4	4.1	5.4	1.3
Technology, media and telecommunications	1.8	1.9	0.1	1.5	1.1	-0.4
Transport	1.2	1.1	-0.1	5.8	6.0	0.2
Other sectors	13.3	12.6	-0.7	19.3	22.9	3.6
Top Two Sectors (%)	33.4	35.4	2.0	40.4	41.9	1.5
Real Estate/ Construction Exposure (%) **	31.9	33.1	1.2	21.1	20.9	-0.2

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

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

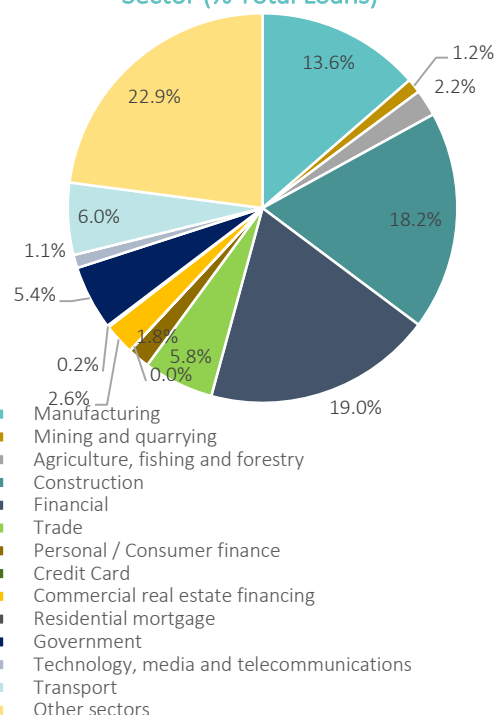
Source: CBB.

Chart 4.3: CR Banks' Lending Distribution by Sector (% Total Loans)



Source: CBB.

Chart 4.4: CW Banks' Lending Distribution by Sector (% Total Loans)



Source: CBB.

The loan portfolio of locally incorporated retail banks remains concentrated with the top recipient of loans being the commercial real estate financing sector (19.0%). The top two recipient sectors commercial real estate financing and personal/consumer finance jointly represented 35.8% of loans in December 2020, a decrease from the 33.8% in June 2020. Exposure to real estate/construction increased to 36.7% of total lending in December 2020.

Table 4.5: Local and Overseas CR Banks' Lending Distribution by Sector (% Total Loans)

Sector	Locally Incorporated CR Banks *			Overseas CR Banks *		
	Q2 2020	Q4 2020	Change	Q2 2020	Q4 2020	Change
Manufacturing	15.0	14.8	-0.2	14.8	13.8	-1.0
Mining and quarrying	0.3	0.2	0.1	1.4	1.0	-0.4
Agriculture, fishing and forestry	0.5	0.5	0.0	0.0	0.0	0.0
Construction	4.7	4.0	-0.7	2.4	2.5	0.1
Financial	4.9	4.2	-0.7	12.7	13.0	0.3
Trade	11.0	10.3	-0.7	10.8	11.3	0.5
Personal / Consumer finance	15.8	16.8	1.0	11.7	14.3	2.6
Credit Card	0.6	0.7	0.1	1.0	1.0	0.0
Commercial real estate financing	17.9	19.0	1.1	19.7	20.0	0.3
Residential mortgage	12.9	13.7	0.8	1.3	1.4	0.1
Government	1.7	2.1	0.4	3.8	1.6	-2.2
Technology, media and telecommunications	1.9	1.8	-0.1	1.5	2.2	0.7
Transport	1.2	1.1	-0.1	1.2	1.2	0.0
Other sectors	11.5	10.9	-0.6	17.6	16.7	-0.9
Top Two Sectors (%)	33.8	35.8	2.0	37.2	36.7	-0.5
Real Estate/ Construction Exposure (%) **	35.5	36.7	1.2	23.4	23.9	0.5

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

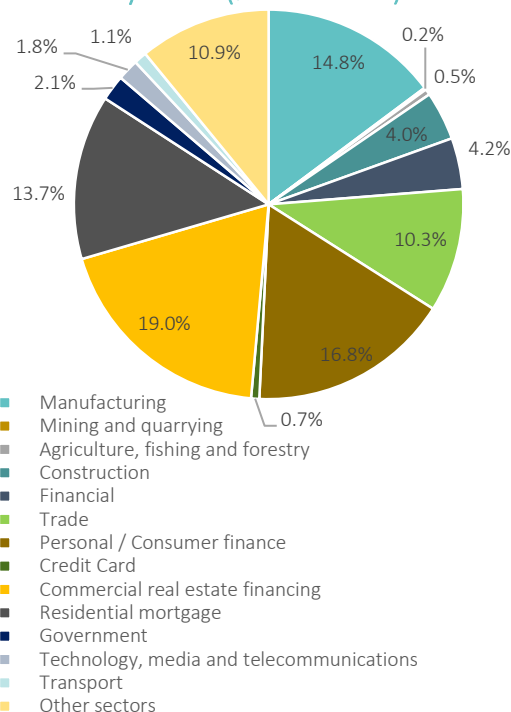
** Real Estate/Construction exposure is calculated as the share of the construction, commercial real estate financing, and residential mortgages sectors of total lending.

Source: CBB.

Similarly, the numbers as of end-December 2020 continue to show high concentration for overseas retail banks. The top recipient of loans, excluding the others sector, was the commercial real estate

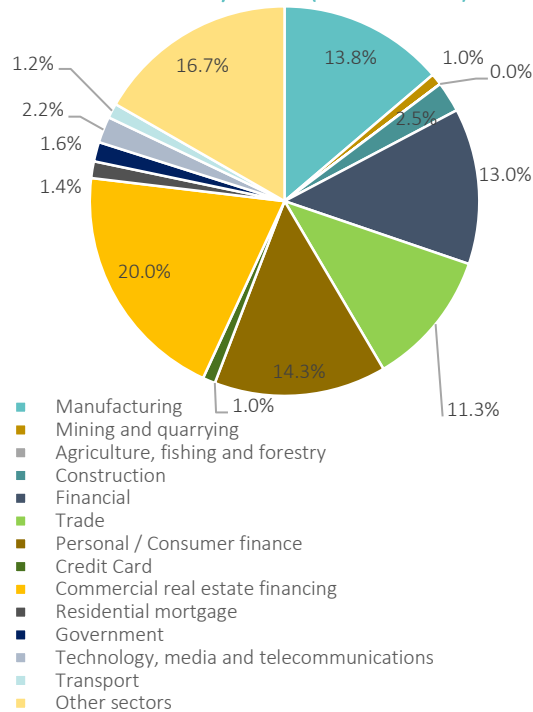
financing sector (20.0%). The top two recipients of loans (commercial real estate financing and other sectors) jointly accounted for 36.7% of total loans. Exposure to real estate/ construction was 23.9% of total lending in December 2020, increasing from 23.4% in June 2020.

Chart 4.5: Local CR Banks' Lending Distribution by Sector (% Total Loans)



Source: CBB.

Chart 4.6: Overseas CR Banks' Lending Distribution by Sector (% Total Loans)



Source: CBB.

For locally-incorporated wholesale banks, the top recipient of loans is the manufacturing sector (18.9%). The highest two sectors continue to be the manufacturing and financial accounting for 37.6% of total lending in December 2020, a decrease of 2.4% from the June 2020 level. The real estate/ construction exposure was 12.3% for the same period.

Table 4.6: Local and Overseas CW Bank's Lending Distribution by Sector (% Total Loans)

Sector	Locally Incorporated CR Banks*			Overseas CR Banks*		
	Q2 2020	Q4 2020	Change	Q2 2020	Q4 2020	Change
Manufacturing	20.6	18.9	-1.7	7.6	9.4	1.8
Mining and quarrying	1.3	0.4	-0.9	3.1	1.8	-1.3
Agriculture, fishing and forestry	4.9	5.0	0.1	0.0	0.0	0.0
Construction	6.8	6.6	-0.2	26.8	27.5	0.7
Financial	19.3	18.6	-0.7	22.5	19.3	-3.2
Trade	12.6	8.4	-2.2	4.5	3.8	-0.7
Personal / Consumer finance	3.2	4.1	0.9	0.0	0.1	0.1
Credit Card	0.1	0.0	-0.1	0.0	0.0	0.0
Commercial real estate financing	5.5	5.4	-0.1	0.3	0.3	0.0
Residential mortgage	0.6	0.3	-0.3	0.0	0.0	0.0
Government	1.6	4.2	2.6	6.0	6.3	0.3
Technology, media and telecommunications	3.1	1.8	-1.3	0.3	0.5	0.2
Transport	8.4	8.8	0.4	3.9	3.7	-0.2
Other sectors	11.9	17.4	5.5	24.8	27.2	2.4
Top Two Sectors (%)	40.0	37.6	-2.4	51.7	54.7	3.0
Real Estate/ Construction Exposure (%) **	12.9	12.3	-0.6	27.2	27.8	0.6

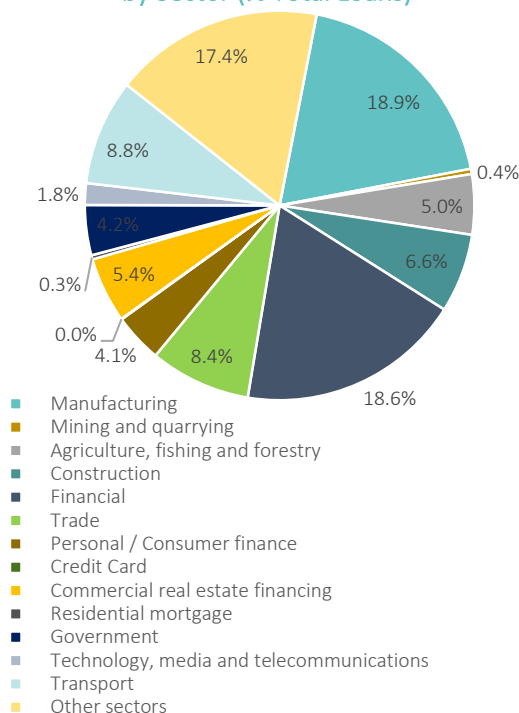
* Figures may not add to a hundred due to rounding.

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

Source: CBB.

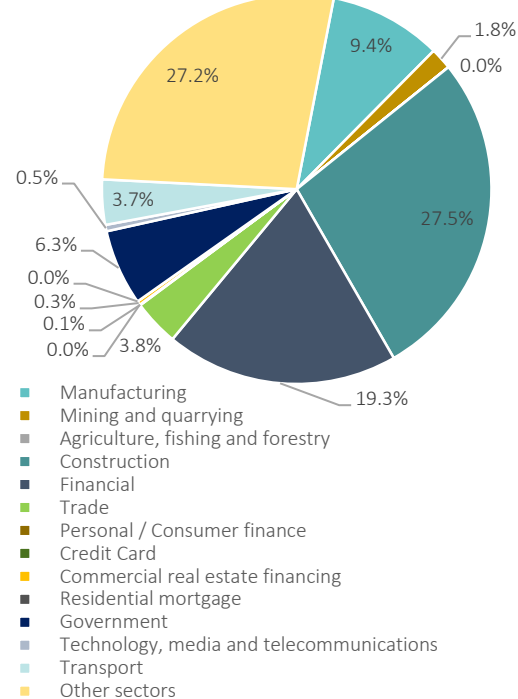
As for overseas wholesale banks, the top recipient of loans in December 2020 was the construction sector (27.5%). The top 2 sectors (Construction and Other) jointly represented 54.7% in December 2020, a decrease of 3.0% from June 2020. Real estate/construction exposure increased from 27.2% in June 2020 to 27.8% in December 2020.

Chart 4.7: Local CW Banks' Lending Distribution by Sector (% Total Loans)



Source: CBB.

Chart 4.8: Overseas CW Banks' Lending Distribution by Sector (% Total Loans)



Source: CBB.

4.4 Profitability

Banks' profitability decreases

Profitability for conventional retail banks was positive, and, as at end-December 2020, ROA decreased to 1.0%. ROA for locally incorporated banks decreased to 1.3% in December 2020. For overseas banks, ROA decreased from 1.3% in December 2019 to 0.3% in December 2020. ROE for locally incorporated banks decreased to 9.6% from 14.2% during the same period. Net interest income (as a % of total income) decreased from 77.3% to 76.1% during the same period as well. Operating expenses as a proportion of total income increased from 39.4% in December 2019 to 61.6% in December 2020.

Table 4.7: Conventional Banks' Profitability

Indicator	Retail			Wholesale		
	Q4 2019	Q4 2020	Change	Q4 2019	Q4 2020	Change
ROA (%) *	1.8	1.0	-0.8	0.9	0.8	-0.1
ROA Locally Incorporated Banks (%)	2.0	1.3	-0.7	0.6	-0.6	-1.2
ROA Overseas Banks (%)	1.3	0.3	-1.0	1.2	2.1	0.9
ROE (%) **	14.2	9.6	-4.6	4.8	-5.3	-10.1
Net Interest Income (% Total Income)	77.3	76.1	-1.2	63.2	63.6	0.4
Operating Expenses (% Total Income)	39.4	61.6	22.2	54.7	68.6	13.9

* ROA = ratio of net income to assets.

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

Source: CBB.

As for conventional wholesale banking sector, ROA decreased to 0.8% in December 2020 from 0.9% in December 2019. The ROA for local wholesale banks decreased from 0.6% to -0.6%, while overseas wholesale banks increased from 1.2% to 2.1%. ROE for local wholesale banks decreased from 4.8% to -

5.3%. Net interest income as a proportion of total income increased from 63.2% in December 2019 to 63.3% in December 2020. Operating expenses as a proportion of total income showed an increase from 54.7% in December 2019 to 68.6% in December 2020.

4.5 Liquidity

Liquidity position improves for conventional retail and slightly decreases for conventional wholesale

Between June 2020 and December 2020, bank deposits and non-bank deposits remained at similar level for conventional retail banks. The overall loan-deposit ratio for the segment decreased to 66.3% in December 2020 from 66.4% in June 2020. Liquid assets as a proportion of total assets increased from 32.8% in June 2020 to 34.4% in December 2020. Liquid assets as a proportion of the short-term liabilities presented an increase from 41.2% to 43.4% over this period.

As at end-December 2020, the overall loan-deposit ratio for conventional wholesale banks stood at 71.1%, an increase from the 67.1% recorded in June 2020. Liquid assets for wholesale banks as a proportion of total assets decreased to 21.6% in December 2020 from 22.2% in June 2020. The liquid assets as a proportion of short-term liabilities decreased by 0.7% to be 26.5% in June 2020. Non-bank deposits as a proportion of total deposits stood at 46.8%, a decrease from the 48.1% level achieved in June 2020, while bank deposits increased from 51.9% in June 2020 to 53.2% in December 2020.

Table 4.8: Conventional Bank's Liquidity

Indicator	Retail			Wholesale		
	Q2 2020	Q4 2020	Change	Q2 2020	Q4 2020	Change
Liquid Asset Ratio (%)	32.8	34.4	1.6	22.2	21.6	-0.6
Loan-Deposit Ratio (%)	66.4	66.3	-0.1	67.1	71.1	4.0
Non-Bank Deposits (% of Total Deposits)	73.3	72.1	-1.3	48.1	46.8	-1.3

Source: CBB.

Chapter

5

Performance of Islamic Banks

Key Highlights

IR CAR	IR NPF	IR Provisions	IR ROA	IR ROE	IR Liquidity	IR Loan/Deposit
20.3% ↓	6.5% ↓	42.9% ↑	0.2% ↓	2.1% ↓	17.8% ↑	79.7% ↑
IW CAR	IW NPF	IW Provisions	IW ROA	IW ROE	IW Liquidity	IW Loan/Deposit
16.4% ↓	1.6% ↑	87.6% ↑	0.3% ↓	3.1% ↓	14.6% ↓	63.2% ↓

- ▶ Capital positions for Islamic banks decreased.
- ▶ Non-performing facilities (NPFs) decreased for Islamic retail banks but increased for wholesale.
- ▶ Concentration of facilities for Islamic banks continues in specific sectors.
- ▶ Earnings declined for Islamic banks but remained positive.
- ▶ Liquidity positions improved for Islamic retail banks but decreased for Islamic wholesale banks.

5.1 Overview

Chapter 5 offers macro-prudential analysis of the Islamic banking sector based on a set of selected FSIs. The Chapter analyses the following conventional banking segments (retail and wholesale): capital adequacy (section 5.2), asset quality (section 5.3), profitability (section 5.4), and liquidity (section 5.5). Unless specified otherwise, the analysis in this chapter is based on consolidated financial data (Bahraini and non-Bahraini operations).

5.2 Capital Adequacy

Decline in capital positions for Islamic retail and Islamic wholesale

The CAR of Islamic retail banks slightly decreased from 20.6% in June 2020 to 20.3% in December 2020. Tier 1 capital remained at the same level of 17.9% during this period. As at end-December 2020, the CAR for Islamic wholesale banks decreased from 17.6% from 16.4% in December 2020. Tier 1 capital also decreased from 16.2% to 15.0% over the same period. The ratio of NPFs net of provisions to capital decreased to 0.9% in December 2020.

Table 5.1: Islamic Banks' Banks' Capital Provisions Ratios

Indicator *	Retail			Wholesale		
	Q2 2020	Q4 2020	Change	Q2 2020	Q4 2020	Change
CAR (%)	20.6	20.3	-0.3	17.6	16.4	-1.2
Tier 1 CAR (%)	17.8	17.9	0.1	16.2	15.0	-1.2
NPLs net of Provisions to Capital (%)	25.7	22.2	-3.5	1.3	0.9	-0.4

Source: CBB.

5.3 Asset Quality

5.3.1 Non-Performing Facilities

Decrease in retail NPFs for Islamic retail and slight increase for Islamic wholesale

Non-performing facilities (NPF) ratio for Islamic retail banks decreased to 6.5% in December 2020. Specific provisioning increased to 42.9% in December 2020 from 40.7% in June 2020. As of end-December 2020, NPF ratio for Islamic wholesale banks rose to 1.6%. Provisioning for NPFs increased from 78.6% to 87.6% over the same period.

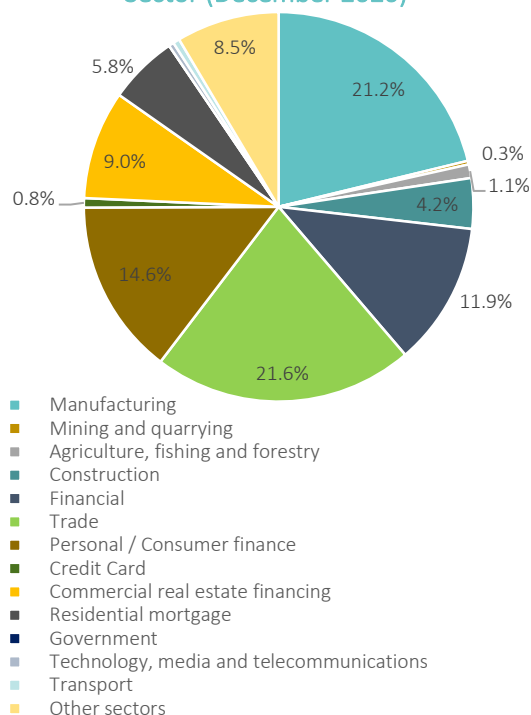
Table 5.2: Islamic Banks' NPF Ratios

Indicator *	Retail			Wholesale		
	Q2 2020	Q4 2020	Change	Q2 2020	Q4 2020	Change
NPFs (% Gross Facilities)	7.5	6.5	-1.0	1.4	1.6	0.2
Specific Provisions (% of NPFs)	40.7	42.9	2.2	78.6	87.6	9.0

Source: CBB.

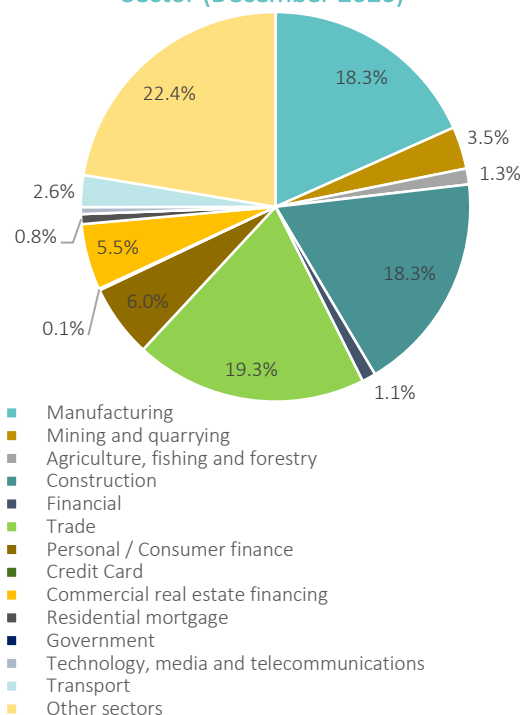
Looking at the data on the concentration of NPFs for Islamic retail banks by sector indicates that the majority of NPLs are concentrated and come from the manufacturing sector (21.2%), Trade (21.6%), personal/consumer finance (14.6%) as indicated in chart 5.1. As for Islamic wholesale banks, the majority of NPFs are concentrated and come from manufacturing (18.3%), trade (19.3%), and other sectors (22.4%) as indicated in chart 5.2.

Chart 5.1: IR Banks' NPLs Concentration by Sector (December 2020)



Source: CBB.

Chart 5.2: IW Banks' NPLs Concentration by Sector (December 2020)



Source: CBB.

A look at the non-performing facilities by sector for Islamic retail banks indicates that the agriculture, fishing and forestry sector had the highest impairment (30%) in December 2020 followed by construction and manufacturing with 19.7% and 15.2% respectively. The biggest declines in NPFs by sector was in the transport sector which went down by 11.1%. The biggest increase in NPFs was in the agriculture, fishing and forestry sector with an increase of 10.4% as indicated in table 5.3.

Table 5.3: Islamic Banks' NPF Ratios by Sector (%)

Sector	Retail			Wholesale		
	Q2 2020	Q4 2020	Change	Q2 2020	Q4 2020	Change
Manufacturing	14.1	15.2	1.1	7.3	7.2	-0.1
Mining and quarrying	3.3	4.1	0.8	16.0	25.0	9.0
Agriculture, fishing and forestry	19.6	30.0	10.4	16.1	7.5	-8.6
Construction	18.2	8.5	-9.7	12.4	14.6	2.2
Financial	6.8	6.4	-0.4	1.2	0.7	-0.5
Trade	16.2	19.7	3.5	10.5	10.4	-0.1
Personal / Consumer finance	5.6	5.0	-0.6	2.1	4.8	2.7
Credit Card	5.8	5.5	-0.3	3.4	1.0	-2.4
Commercial real estate financing	6.2	5.5	-0.7	8.8	16.3	7.5
Residential mortgage	2.1	2.1	0.0	1.8	1.5	-0.3
Government	0.0	0.0	0.0	0.0	0.0	0.0
Technology, media and telecommunications	5.7	5.2	-0.5	6.8	58.0	51.2
Transport	17.2	6.1	-11.1	6.0	8.2	2.2
Other sectors	9.0	6.6	-2.4	14.5	10.1	-4.4

Source: CBB.

On the other hand, the sector with the highest impairment for Islamic wholesale banks was the technology, media and telecommunications sector with 58.0% in December 2020, up from the 6.8% recorded in June 2020. This was followed by the mining and quarrying and commercial real estate financing with 25.0% and 16.3% respectively. Available data on the sectoral breakdown of non-performing facilities shows that the biggest increase was in the technology, media and telecommunications sector with an increase of 51.2%. The biggest drop was in agriculture, fishing and forestry sector with a decrease of 8.6% from 16.1% in June 2020 to 7.5% in December 2020.

5.3.2 Facilities Concentration

Loan portfolios remain concentrated

There has been some diversification in the asset concentration among most of the sectors in Islamic retail banks. At the end of December 2020, the top recipient of financing was personal/consumer finance (19.1%), an increase from 17.7% recorded in June 2020. The top two recipients of financing (personal/consumer finance and residential mortgage) accounted for 36.7% of total facilities extended, compared to 32.3% for the top two sectors in June 2020. Real estate/construction exposure increased to 31.4% in December 2020.

Table 5.4: Islamic Banks' Lending Distribution by Sector (% Total Facilities)

Sector	Retail			Wholesale		
	Q2 2020	Q4 2020	Change	Q2 2020	Q4 2020	Change
Manufacturing	10.4	9.1	-1.3	24.3	18.4	-5.9
Mining and quarrying	0.7	0.5	-0.2	1.0	1.0	0.0
Agriculture, fishing and forestry	0.4	0.2	-0.2	0.8	1.3	0.5
Construction	3.7	3.2	-0.5	9.8	9.1	-0.7
Financial	12.4	12.2	-0.2	19.7	12.8	-6.9
Trade	9.0	7.2	-1.8	7.8	13.5	5.7
Personal / Consumer finance	17.7	19.1	1.4	10.9	9.2	-1.7
Credit Card	0.9	0.9	0.0	0.3	1.0	0.7
Commercial real estate financing	11.1	10.6	-0.5	2.1	2.4	0.3
Residential mortgage	14.6	17.6	3.0	6.3	4.0	-2.3
Government	9.1	9.8	0.7	6.9	8.9	2.0
Technology, media and telecommunications	0.4	0.5	0.1	0.4	0.1	-0.3
Transport	0.5	0.6	0.1	1.6	2.3	0.7
Other sectors	9.2	8.5	-0.7	8.1	16.0	7.9
Top two recipient sectors	32.3	36.7	4.4	44.0	34.4	-9.6
Real Estate/ Construction Exposure**	29.3	31.4	2.1	18.1	15.5	-2.6

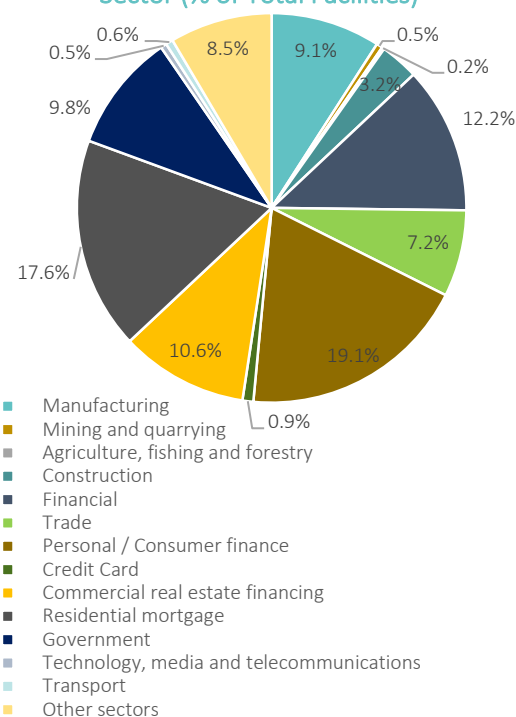
Source: CBB.

*Figures may not add to a hundred due to rounding

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

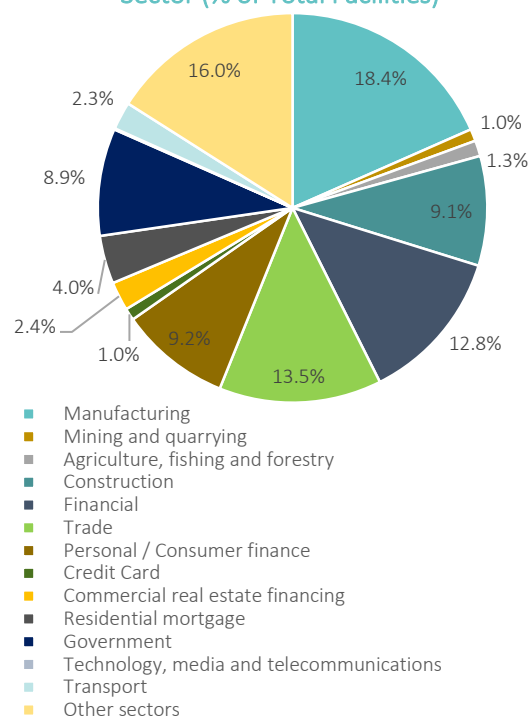
At End-December 2020, the manufacturing sector was the top recipient of financing from Islamic wholesale banks, at 18.4%, decreasing by 5.9% from June 2020. The financial sector saw the largest decrease from 19.7% in June 2020 to 12.8 in December 2020. The top two recipient sectors in December 2020 (manufacturing and others) jointly represented 34.4% of total financing. Real estate/construction exposure decreased from 18.1% in June 2020 to 15.5% in December 2020.

Chart 5.3: IR Banks' Lending Distribution by Sector (% of Total Facilities)



Source: CBB.

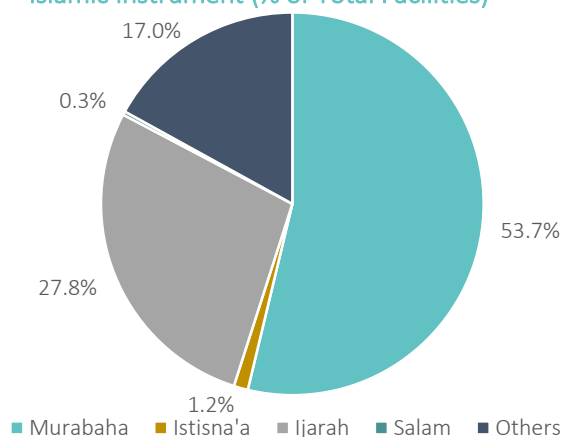
Chart 5.4: IW Banks' Lending Distribution by Sector (% of Total Facilities)



Source: CBB.

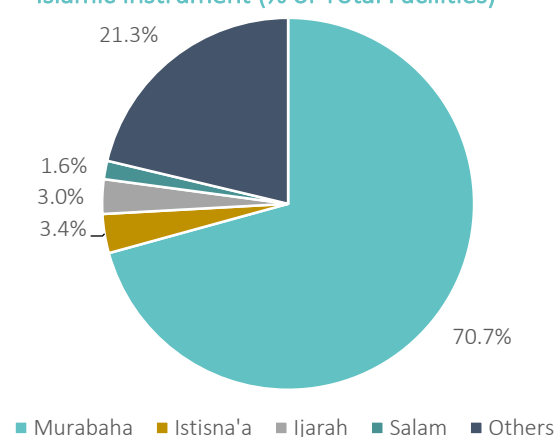
The concentration of lending distribution by Islamic instrument remained the same over the past. At the end of December 2020, the top recipient of finance for Islamic retail banks was Murabaha at 53.4% followed by Ijarah (27.8%). As for wholesale banks, the top recipient of finance was Murabaha at 70.8%.

Chart 5.5: IR Banks' Lending Distribution by Islamic Instrument (% of Total Facilities)



Source: CBB.

Chart 5.6: IW Banks' Lending Distribution by Islamic Instrument (% of Total Facilities)



Source: CBB.

Table 5.5: Islamic Banks' Lending Distribution by Islamic Instrument (% of Total Facilities)

Instrument	Retail			Wholesale		
	Q2 2020*	Q4 2020*	Change	Q2 2020*	Q4 2020*	Change
Murabaha	51.3	53.8	2.5	69.4	70.8	1.4
Istisna'a	0.0	1.2	1.2	3.0	3.4	0.4
Ijarah	32.5	27.8	-4.7	1.8	3.0	1.2
Salam	0.0	0.3	0.3	1.3	1.6	0.3
Others	16.1	17.0	0.9	24.5	21.3	-3.2

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

Source: CBB.

5.4 Profitability

Decline in earnings for Islamic retail and wholesale banks

ROA for Islamic retail banks decreased to 0.2% in December 2020 compared to 0.4% in December 2019. ROE also decreased from 4.7% to 2.1% for the same period. Furthermore, operating expenses increased from 82.0% in December 2019 to 89.2% in December 2020. As for Islamic wholesale banks, ROA decreased from 0.7% in December 2019 to 0.3% in December 2020. ROE also decreased from 6.4% to 3.1% in the same period. Furthermore, operating expenses (as % of total income) increased from 71.9% in December 2019 to 83.2% in December 2020.

Table 5.6: Islamic Banks' Profitability (%)

Indicator	Retail			Wholesale		
	Q4 2019*	Q4 2020*	Change	Q4 2019*	Q4 2020*	Change
ROA*	0.4	0.2	-0.2	0.7	0.3	-0.4
ROE**	4.7	2.1	-2.6	6.4	3.1	-3.3
Operating expenses (% total operating income)	82.0	89.2	7.2	71.9	83.2	11.3

Source: CBB.

* ROA = ratio of net income to assets.

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

5.5 Liquidity

Liquidity remains remain stable for Islamic retail and wholesale banks

The volume of liquid assets available to Islamic retail banks increased from 17.3% of total assets in June 2020 to 17.8% in December 2020. The ratio of total facilities to deposits increased from 79.1% in June 2020 to 79.7% in December 2020.

As of end-December 2020, liquid assets of Islamic wholesale banks represented 14.6% of total assets, 1.9% lower than the 16.5% registered in June 2020. Additionally, the facilities deposit ratio decreased from 65.6% in June 2020 to 63.2% in December 2020.

Table 5.7: Islamic Banks' Liquidity (%)

Indicator	Retail			Wholesale		
	Q2 2020*	Q4 2020*	Change	Q2 2020*	Q4 2020*	Change
Liquid Assets (% of total assets)	17.3	17.8	0.5	16.5	14.6	-1.9
Facilities – deposits ratio (%)	79.1	79.7	0.6	65.6	63.2	-2.4

Source: CBB.

Part III:

Developments in the Non-Bank Financial Sector



Chapter 6

Performance of the Insurance Sector

Key Highlights

Insurance Licenses	Contribution to GDP	Contribution to Financial	Assets of Conv. Insurance	Assets of Takaful Insurance	Gross Premiums
136	5.9%	34.5%	BD 2,168.2 mn	BD 204.1 mn	BD 202.9 mn

- ▶ Conventional firms account for 70.1% of total insurance industry with BD 142.3 million in total gross premiums as of September 2020.
- ▶ General insurance contributes for 76.8% of total gross premiums.
- ▶ Local Conventional insurance firms' performance is concentrated on Motor business line, and Takaful is concentrated in Long-term (Life) and Motor business lines.
- ▶ Overseas insurance firms' performance is concentrated on Long-term (Life) and Motor business lines.

6.1 Overview

This chapter highlights the overall performance of the insurance industry in Bahrain by looking at two main insurance segments: conventional and takaful, their different business lines, and classes.⁵ The conventional sector is further divided into local and overseas/branch firms. The insurance industry has been growing steadily in recent years, mirroring the growth of Bahrain's financial sector, the increased access to financial services and products has led to demand for insurance services. A notable development in recent years has been international insurers developing their regional operations, many of whom have chosen Bahrain as their regional base.

Chapter 6 covers the period between Q3 2019 and Q3 2020, unless otherwise indicated.

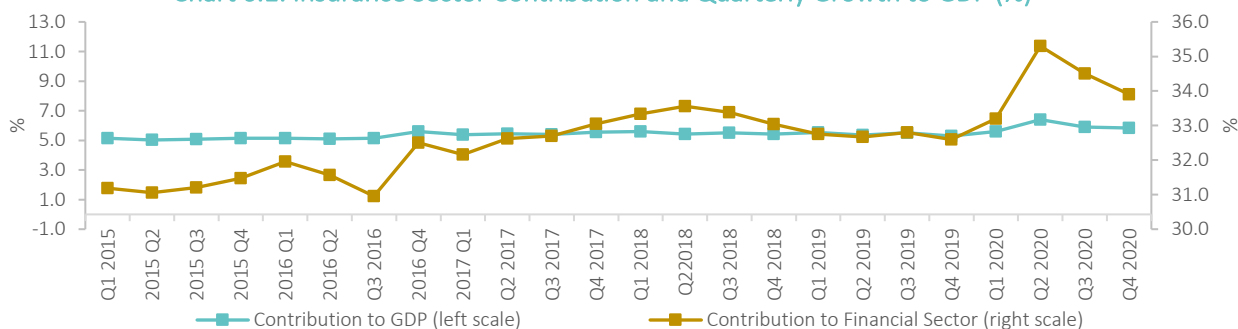
A significant number of insurance companies and organizations have established their presence in Bahrain. As of December 2020, there are a total of 136 insurance organizations licensed and registered in the Kingdom. There are 34 insurance companies: 16 conventional local, 11 conventional overseas/foreign branches, and 6 takaful. From these companies, 2 companies are conventional re-insurance firms and 2 re-takaful firms. These institutions offer all basic and modern insurance services such as medical and health insurance and long-term insurance (life and savings products). The remaining 102 other registered insurance licenses include:

- 35 Insurance Brokers,
- 4 Insurance Managers,
- 3 Insurance Consultants,
- 17 Insurance Firms, brokers and consultants restricted to business outside Bahrain,
- 30 Registered Actuaries,
- 12 Registered loss Adjusters, and
- 2 Insurance Pools and Syndicates.

The insurance industry continued to grow during the past few years. Insurance contribution increased to 5.4% of GDP by end of 2017, 5.5% by end of 2018, 5.4% by end of 2019, and 5.8 by end of 2020. For Q4 2020, the insurance sector represented 5.5% of the real GDP and the contribution of the Insurance sector to the overall financial sector has increased representing 33.9%. Chart 6.1 shows the quarterly contribution of the Insurance sector to GDP along with the contribution of the insurance sector to the financial sector

⁵ Takaful companies are companies conducting takaful business in line with Islamic principles. Overseas insurance companies are branches of foreign companies.

Chart 6.1: Insurance Sector Contribution and Quarterly Growth to GDP (%)



Source: IGA.

6.2 Performance of the Insurance Sector

As of September 2020, conventional insurance represented 70.1% of total gross premiums accounting for BD 142.3 million. Local conventional and branches represented 55.2% and 14.9% of total gross premiums accounting for BD 112.1 million and BD 30.2 million respectively (Chart 6.2). Takaful firms accounted for 29.9% of gross premiums (BD 60.6 million) in the industry for the same period.

The Insurance products and services in the Kingdom are delivered via two main insurance classes: Life and non-life insurance.⁶ As of September 2020, life insurance represented 23.2% of gross premiums while non-life/general insurance represented 76.8% covering the various classes (Graph 6.3).

Chart 6.2: Gross Premiums of Insurance Sector by Segment (%)

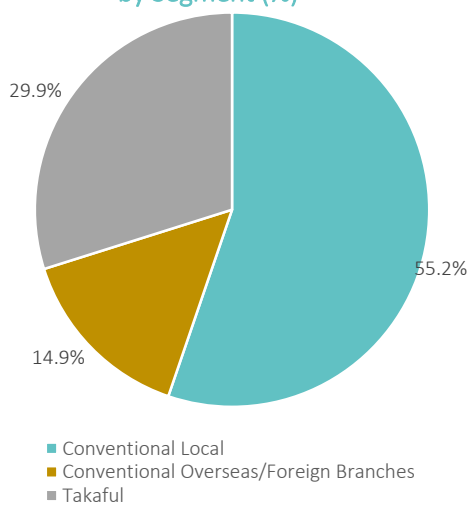
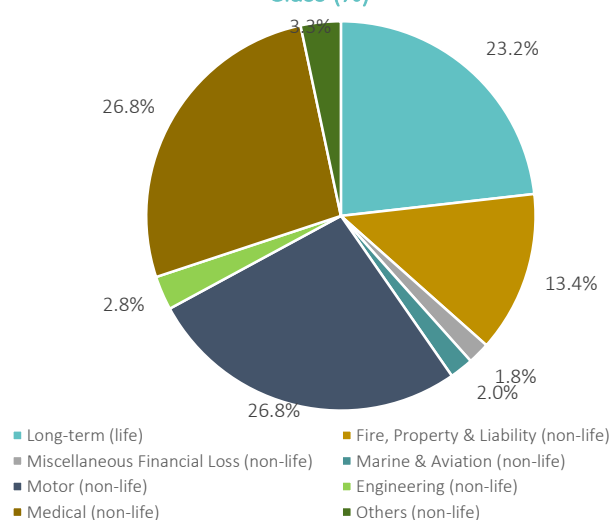


Chart 6.3: Market Share of Gross Premiums by Class (%)



Source: CBB.

Source: CBB.

For non-life insurance, medical and motor insurance had the largest share in terms of their contribution to gross premiums accounting for 26.8% each. Fire, property, and liability made 13.4% of gross premiums. The top 3 business lines sectors represented 67.0% of total gross premiums. High concentration within these sectors can be explained by banks imposing an obligatory requirement on customers to have a life insurance prior to getting specific loans, third party motor insurance being mandatory, and many institutions providing their employees with health insurance.

6.3 Financial Position and Profitability of Insurance Sector

As of September 2020, total assets of the Insurance sector reached BD 2,372.3 million with a decrease of 5.4% compared to BD 2,507.8 million in September 2019. Total liabilities had a decrease of 8.8% over the same period reaching BD 1,735.6 million.

⁶ Non-life or general insurance includes: Fire, Property & Liability, Miscellaneous Financial Loss, Marine & Aviation, Motor, Engineering, Medical and Others.

Table 6.1: Total Assets, Liabilities, Capital, and Profitability of Insurance Sector by Segment

BD'000	Total Assets*		Total Liabilities*		Capital Available*		Net Profit*	
	Q3 2019	Q3 2020	Q3 2019	Q3 2020	Q3 2019	Q3 2020	Q3 2019	Q3 2020
Conventional	2,311,280	2,168,245	1,781,563	1,611,286	307,674	291,224	30,453	47,827
Local	2,052,662	1,921,885	1,555,904	1,402,257	281,760	256,595	25,539	39,927
Overseas	258,618	246,359	225,659	209,029	25,914	34,629	4,915	7,899
Takaful	196,505	204,105	121,789	124,313	56,791	60,377	3,181	3,313
All Insurance	2,507,784	2,372,349	1,903,351	1,735,599	364,465	351,601	33,634	51,140

*For takaful it only includes Shareholder figures.

Source: CBB.

Total capital decreased from 364.5 BD million in September 2019 to 351.6 BD million in September 2020. Profitability on the other hand, increased between September 2019 and September 2020 reaching BD 51.1 million.

6.3.1 Conventional Insurance Firms

- a. Assets: As of September 2020, total assets of the conventional insurance sector stood at BD 2,168.2 million decreasing by 6.2% compared to the BD 2,311.3 million registered in September 2019.
 - i. Total assets of local insurance Firms were BD 1,921.9 million (88.6% of total assets) with a growth rate of 6.4% since September 2019.
 - ii. Total assets of overseas foreign branches were BD 246.4 million (11.4% of total assets) recording a decline of 4.7%.
- b. Liabilities: As of September 2020, the liabilities of the conventional insurance sector registered at BD 1,611.3 million with a 9.5% decrease from the BD 1,781.6 million in September 2019.
 - i. Liabilities for local insurance firms registered at BD 1,402.3 million decreasing by 9.8%.
 - ii. Liabilities of overseas foreign branches were BD 209.0 million in September 2020 with a decrease of 7.4%.
- c. Available Capital⁷: Total capital as of September 2020 was at BD 291.2 million decreasing by 5.3% from the BD 307.7 million in the equivalent period of the previous year.
 - i. Total available capital for local insurance was BD 256.6 with a YoY decrease of 8.9%.
 - ii. Total available capital for overseas foreign branches increased by 33.6% from BD 25.9 million in September 2019 to BD 34.6 million in September 2020.
- d. Profitability: Net profit increased for conventional insurance firms from BD 30.5 million in September 2019 to a profit of BD 47.8 million in September 2020.
 - i. Net profit for local insurance was BD 39.9 million with a YoY decrease of 56.5%.
 - ii. Net profit for overseas insurance was BD 7.9 with a year-to-year increase of 61.2%.

6.3.2 Takaful Insurance Firms

- a. Assets: Total assets in Takaful firms in September 2020 experienced an annual growth of 3.9% reaching BD 204.1 million compared to BD 196.5 million in September 2019.
- b. Liabilities: The liabilities increased by 2.1% from BD 121.8 million in September 2019 to BD 124.3 million in September 2020.
- c. Available Capital: Total regulatory capital experienced an annual increase of 6.3% from BD 56.8 million in September 2019 to BD 60.4 million in September 2020.
- d. Profitability: Takaful companies showed a 3.1% increase in profits between September 2019 and September 2020 reaching BD 3.3 million.

6.4 Insurance Premiums and Claims Analysis by Class

6.4.1 Overall Insurance

As of September 2020, the Gross Premiums for the overall insurance sector stood at BD 202.9 million, decreasing by 4.7% YoY. Looking at the performance by class, Marine and Aviation category

⁷ As per CBB Rulebook, equity is a regulatory equity, which means encompasses Tier 1 Capital, Tier 2 Capital and deduction.

experienced the greatest decline within the rest of the insurance business line, with an annual decrease of 25.4%, followed by Other and Motor, decreasing by 17.2% and 9.8% respectively. On the other hand, Miscellaneous and Financial Loss and Engineering insurance experienced an annual increase by 19.9% and 19.8% during the same period.

As of September 2020, Net Premiums Written remained at similar level compared to the previous period registering a value of BD 137.4 million. The Engineering class showed the biggest increase over the period increasing by 49.6%, from BD 693 million in September 2019 to BD 1,037 million in September 2020. On the other hand, the biggest decline was derived from Other class, decreasing from BD 3,868 million in September 2019 to BD 1,872 million in September 2020.

However, Gross Claims for the overall insurance industry recorded a YoY increase of 2.2% from BD 100.3 million in September 2019 to BD 102.5 million in September 2020. The increase was mainly due to an increase in medical by BD 2,679 million from BD 33,521 million in September 2019 to BD 36,200 million in September 2020.

Net Claims for the overall insurance industry show a decrease of 12.0%, which was derived from an annual decrease in other by BD 1,084 million (107.0%), followed by Engineering by BD 388 million (103.2%) over the same period. The greatest increase was recorded in Medical by BD 73 million (158.7%).

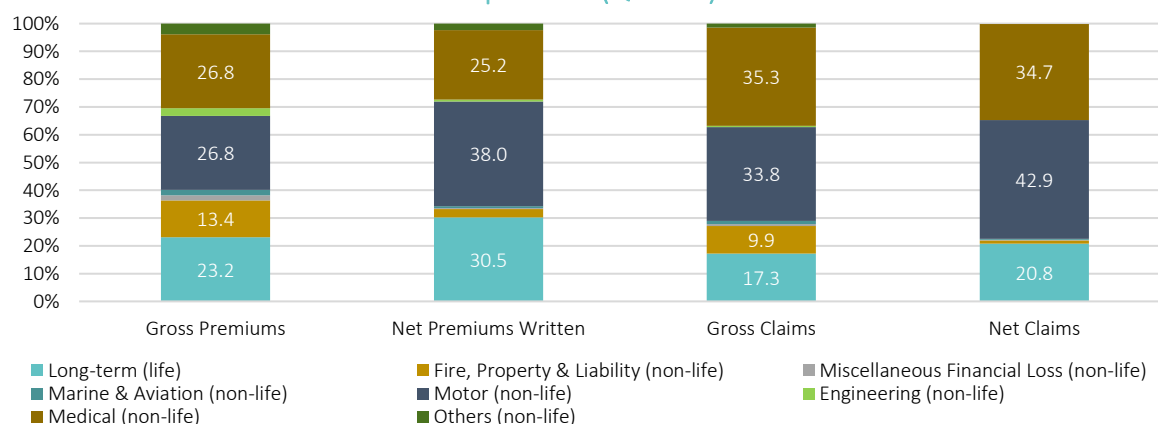
Table 6.2: Gross Premiums and Claims for all Insurance Firms by Class– Bahrain Operations

BD '000	Gross Premiums		Net Premiums Written		Gross Claims		Net Claims	
	Q3 2019	Q3 2020	Q3 2019	Q3 2020	Q3 2019	Q3 2020	Q3 2019	Q3 2020
Long-term (Life)	50,355	47,069	45,875	41,957	19,330	17,700	16,633	15,277
Fire, Property & Liability	24,147	27,112	4,355	4,199	-1,427	10,171	581	892
Miscellaneous Financial Loss	3,087	3,700	383	356	693	676	46	119
Marine & Aviation	5,330	3,978	1,141	1,052	1,225	1,146	221	264
Motor	60,190	54,271	58,055	52,215	47,888	34,653	40,075	31,513
Engineering	4,777	5,722	693	1,037	-3,696	479	376	-12
Medical	57,096	54,281	37,721	34,676	33,521	36,200	24,469	25,455
Others	8,149	6,748	3,868	1,872	2,749	1,501	1,013	-71
Total	213,130	202,880	152,091	137,364	100,283	102,526	83,414	73,436

Source: CBB.

The concentrations of premiums and claims by class are viewed in Graph 6.4. For the overall insurance industry, the exposure in Motor was the highest in Gross Premiums (26.8%), Net Premiums Written (38.0%), and Net Claims (42.9%). Whereas, the highest exposure in Gross Claims was Medical representing (35.3%).

Chart 6.4: Concentrations of Gross Premiums and Claims for all Insurance Firms by Class – Bahrain Operations (Q3 2020)



Source: CBB.

6.4.2 Conventional Insurance

The Gross Premiums recorded for conventional insurance showed a YOY decrease by BD 2.8 million (2.0%), where total gross premiums increased from BD 145.2 million in September 2019 to BD 142.3 million in September 2020 (Table 6.3). The greatest increases were from Engineering by around BD 1.0 million (30.5%) and Fire, Property & Liability by BD 2.8 million (15.2%). The largest YoY decline was by Marine & Aviation with BD 1.5 million (32.9%). In terms of concentration, Long-term (life) and Motor business classes represented 29.3% and 24.9% respectively of the total gross premiums.

Net Premiums Written reflected an annual decrease by 6.7% compared to September 2019. The greatest increase was from Engineering by around BD 0.3 million. Long term (life) insurance remained the largest in terms of Net Premiums Written concentration as well, accounting for 39.6%, increasing by 3.3% from BD 37.5 million in September 2019 to BD 38.7 million in September 2020.

Gross Claims increased by 9.5% YoY in September 2020 due to an increase in Medical from BD 19.1 million in September 2019 to BD 21.8 million by September 2020. The highest share in gross claims was Motor 32.3%, followed by Fire, property, and Liability at 29.7%.

Net Claims on the other hand, experienced an annual decrease of 16.7% from BD 55.8 million in September 2019, reaching BD 46.5 million in September 2020. Engineering business line decreased by 143.6%. Nonetheless, the concentration falls heavily within the Motor insurance class, accounting for 43.0% of the total net claims.

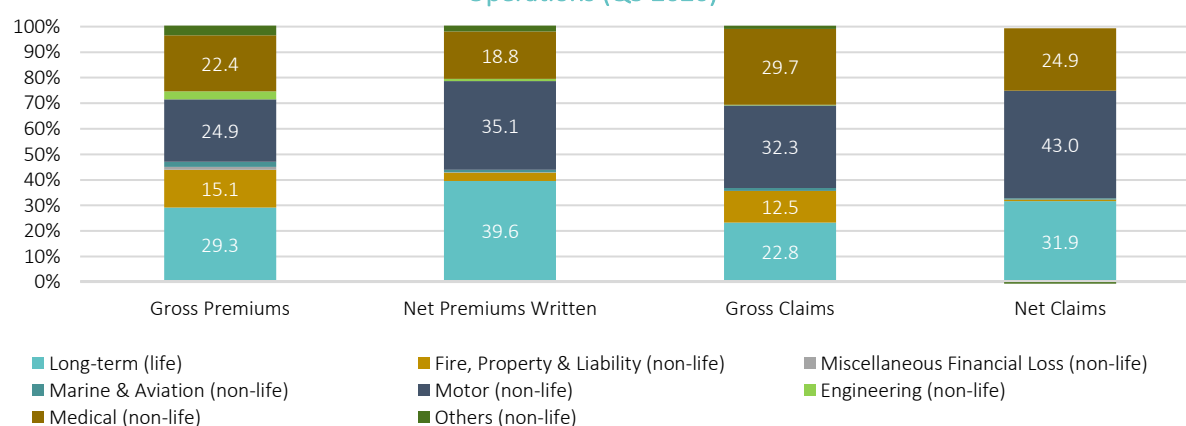
Table 6.3: Gross Premiums and Claims for Conventional Insurance by Class – Bahrain Operations

BD '000	Gross Premiums		Net Premiums Written		Gross Claims		Net Claims	
	Q3 2019	Q3 2020	Q3 2019	Q3 2020	Q3 2019	Q3 2020	Q3 2019	Q3 2020
Long-term (Life)	40,147	41,685	37,460	38,685	18,075	16,765	16,155	14,848
Fire, Property & Liability	18,624	21,458	3,628	3,280	-2,311	9,183	443	320
Miscellaneous Financial Loss	1,419	1,602	195	157	615	-7	22	18
Marine & Aviation	4,459	2,992	1,026	912	1,183	823	196	211
Motor	41,109	35,461	39,781	34,311	32,710	23,726	26,997	20,024
Engineering	3,355	4,377	520	847	-3,855	221	463	(202)
Medical	31,027	31,896	18,836	18,340	19,138	21,780	10,859	11,600
Others	5,027	2,825	3,247	1,184	1,502	956	714	(291)
Total	145,167	142,297	104,694	97,715	67,057	73,447	55,849	46,529

Source: CBB.

Motor insurance had the highest exposure in Gross Claims (32.3%) and Net Claims (43.0%), whereas Long-term (life) was the highest in Gross Premiums (29.3%) and Net Premiums Written (39.6%).

Chart 6.5: Concentrations of Gross Premiums and Claims for Conventional Insurance by Class - Bahrain Operations (Q3 2020)



Source: CBB.

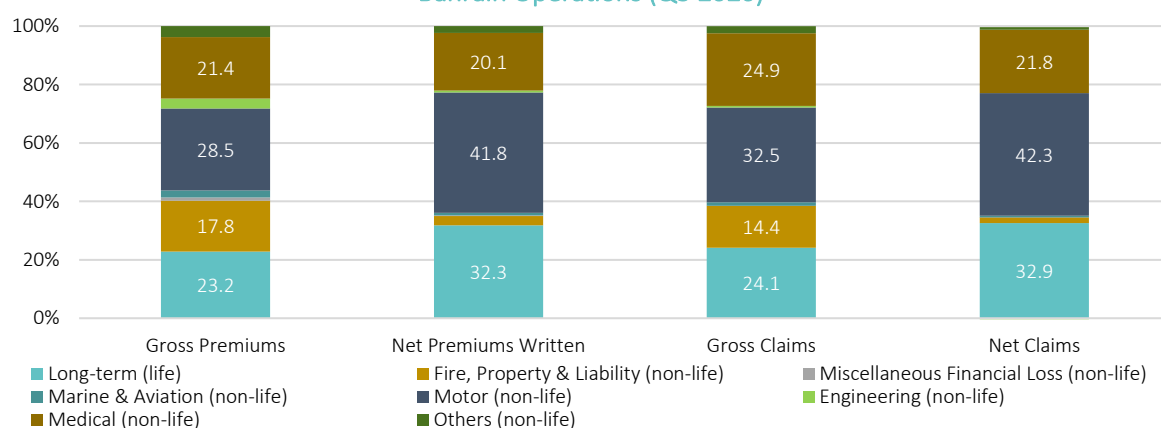
Table 6.4 below and Charts 6.6 and 6.7 shows a further division of the premiums and claims by class between Local and Overseas firms within the conventional insurance industry for September 2020. For local conventional insurance, Motor insurance has the highest concentration for Gross Premiums (28.5), Net Premiums Written (41.8%), Gross Claims (32.5%), and Net Claims (42.3%).

Table 6.4: Gross Premiums and Claims for Conventional Local and Overseas Insurance by Class – Bahrain Operations (Q3 2020)

BD '000	Gross Premiums			Net Premiums Written			Gross Claims			Net Claims		
	Local	Overseas	Total	Local	Overseas	Total	Local	Overseas	Total	Local	Overseas	Total
Long-term (Life)	26,043	15,643	41,685	23,877	14,808	38,685	16,163	602	16,765	14,237	612	14,848
Fire, Property & Liability	19,922	1,536	21,458	2,352	928	3,280	9,634	-451	9,183	837	(517)	320
Miscellaneous Financial Loss	1,277	325	1,602	137	20	157	-6	-1	-7	19	-1	18
Marine & Aviation	2,748	245	2,992	709	202	912	820	3	823	209	2	211
Motor	31,970	3,491	35,461	30,914	3,397	34,311	21,802	1,924	23,726	18,339	1,686	20,024
Engineering	3,865	512	4,377	455	392	847	327	-106	221	(160)	-42	(202)
Medical	23,994	7,902	31,896	14,824	3,515	18,340	16,688	5,093	21,780	9,448	2,152	11,600
Others	2,259	566	2,825	657	526	1,184	1,655	-699	956	404	(695)	(291)
Total	112,078	30,219	142,297	73,926	23,789	97,715	67,083	6,364	73,447	43,333	3,196	46,529

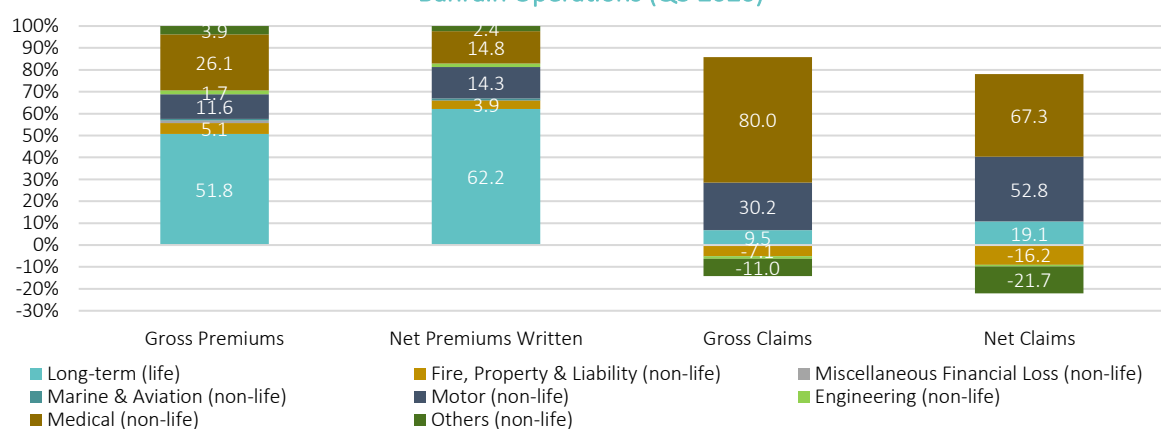
Source: CBB.

Chart 6.6: Concentrations of Gross Premiums and Claims for Conventional Local Insurance by Class - Bahrain Operations (Q3 2020)



Source: CBB.

Chart 6.7: Concentrations of Gross Premiums and Claims for Conventional Overseas Insurance by Class - Bahrain Operations (Q3 2020)



Source: CBB.

6.4.3 Takaful

The Gross Premiums for Takaful companies decreased on a YoY basis by 10.9%, from BD 27.6 million at September 2019 reaching BD 26.9 million in September 2020. The largest decrease was attributed to Long-term (Life) decreasing by BD 4.8 million (47.3%). Miscellaneous Financial Loss Insurance line recorded the highest contributor towards total Takaful gross premiums, accounting for 41.5% of the total.

Net Premiums Written decreased by 16.3% from September 2019 to September 2020, reaching BD - 7.7 million. Long-term (life) and Motor insurance accounted for the largest components in terms of gross claims, representing 48.8% and 36.5% of the total net premiums written.

Gross Claims decreased by 12.5% compared from September 2019 to September 2020, with Others registering the largest decrease (56.3%) within the same period. Long-term (life) and Motor insurance accounted for the largest components in terms of gross claims, representing 50.8% and 37.7% of the total gross claims.

Net Claims recorded an annual decrease of 2.4% at September 2020, with Miscellaneous Financial Loss having the highest increase of 320.8% respectively. Furthermore, Medical and Motor representing the largest components of net claims, accounting for 52.8% and 44.1% from the total respectively.

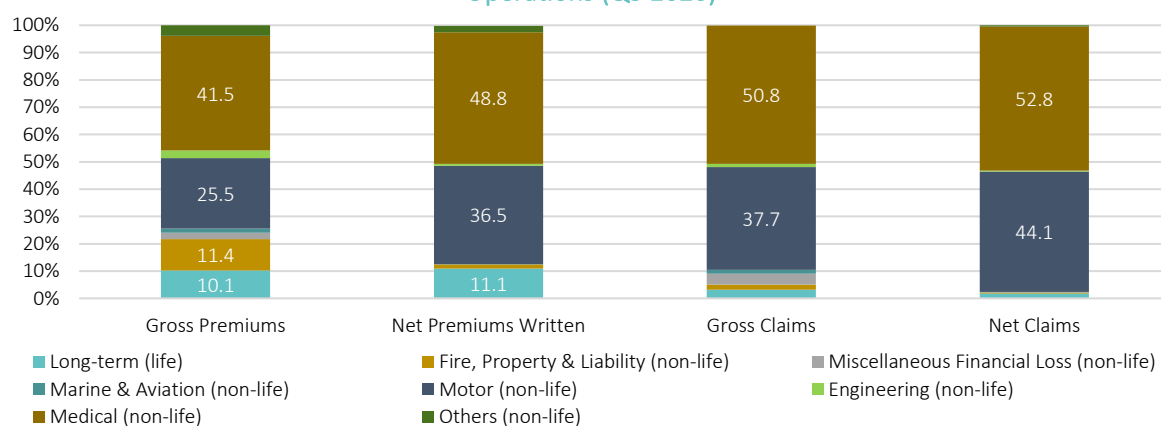
Table 6.5: Gross Premiums and Claims for Takaful Insurance Firms by Class – Bahrain Operations

BD '000	Gross Premiums		Net Premiums Written		Gross Claims		Net Claims	
	Q3 2019	Q3 2020	Q3 2019	Q3 2020	Q3 2019	Q3 2020	Q3 2019	Q3 2020
Long-term (Life)	10,207	5,384	8,416	3,272	1,255	935	478	429
Fire, Property & Liability	5,524	5,654	726	919	885	989	138	571
Miscellaneous Financial Loss	1,668	2,098	188	199	78	683	24	101
Marine & Aviation	871	985	114	140	42	323	25	53
Motor	19,081	18,810	18,273	17,903	15,178	10,927	13,078	11,489
Engineering	1,422	1,344	173	190	159	258	(87)	190
Medical	26,069	22,385	18,886	16,337	14,383	14,419	13,609	13,855
Others	3,122	3,923	622	689	1,246	545	299	220
Total	67,963	60,583	47,397	39,649	33,227	29,079	27,565	26,908

Source: CBB.

Takaful insurance companies have very high concentration on the Medical and Motor Insurance business lines. Gross Premiums for both sectors combined represents (67.0%), Net Premiums Written (85.3%), Gross Claims (88.5%), and Net Claims (96.9%).

Chart 6.8: Concentrations of Gross Premiums and Claims for Takaful Insurance Firms by Class -Bahrain Operations (Q3 2020)



Source: CBB.

6.4.4 Retention Ratio and Loss Ratio (By Class)

Life insurance business line registered a retention ratio of 91.1% in September 2020. Observing the non-life insurance, Motor and Medical, that accounted for 26.8% each of the total Gross Premiums in September 2020 respectively, registered retention ratios of 96.5% for Motor and 66.1% for Medical. Nevertheless, retention ratios were significantly lower for other business lines such as Miscellaneous Financial Loss and Engineering, registering 12.4% and 14.5% respectively.

Table 6.6: Retention and Loss Ratios of Overall Insurance Sector

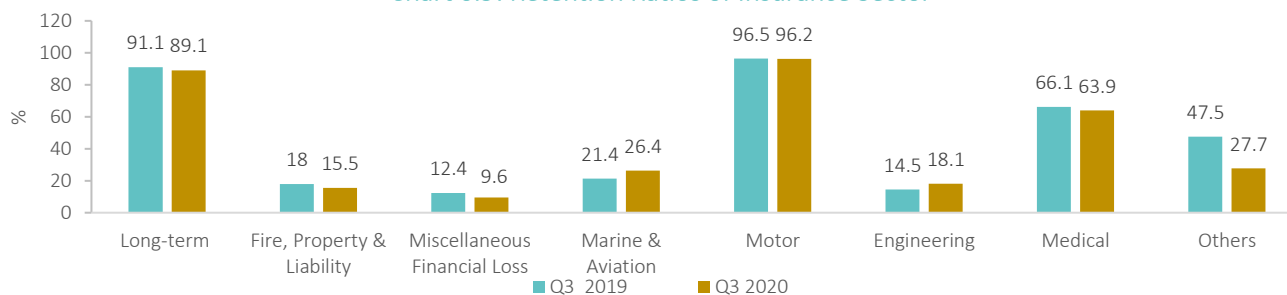
%	Retention Ratio ¹		Loss Ratio ²	
	Q3 2019	Q3 2020	Q3 2019	Q3 2020
Long-term	91.1	89.1	35.9	38.0
Fire, Property & Liability	18.0	15.5	12.7	23.4
Miscellaneous Financial Loss	12.4	9.6	13.6	42.8
Marine & Aviation	21.4	26.4	20.7	25.8
Motor	96.5	96.2	68.6	59.1
Engineering	14.5	18.1	25.8	-1.6
Medical	66.1	63.9	74.4	74.9
Others	47.5	27.7	47.4	-4.0

1. Net Premiums Written / Gross Premiums

2. Net Claims Incurred / Net Premiums Earned

Source: CBB.

Chart 6.9: Retention Ratios of Insurance Sector



Source: CBB.

Chapter 7

Performance of Non-Bank Financial Institutions

Key Highlights

# of Investment Businesses	# of Money Changers	Investment Businesses Assets	Money Changers Purchase	Money Changers Sale
51	18	BD 453 mn	BD 6,293 mn	BD 7,648 mn

- ▶ Total assets of Investment Businesses increased by 9.9%.
- ▶ Category 1 Investment Business recorded huge profits after recovering from major losses.
- ▶ 57% of all currency transactions of money changers were in Asian currencies for Q4 2020.

7.1 Overview

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

Chapter 7 covers the period between Q2 2020 and Q4 2020, unless otherwise indicated.

A significant number of investment businesses and money changers have established their presence in Bahrain. As of December 2020, there are a total of 51 investment business firms and 18 money changer organizations licensed and registered in the Kingdom.

Investment firms can be further broken-down into:

- 23 Category 1 firms,
- 14 Category 2 firms, and
- 14 Category 3 firms.⁸

7.2 Investment Businesses

Total assets for investment businesses peaked in June 2015 reaching BD 628.8 million, but since the beginning of 2016 have stabilized around BD 330 million (Chart 7.1). In December 2020, total assets of investment businesses increased by 9.9% to BD 453.2 million from BD 412.4 million in June 2020. During the same period, total liabilities increased by BD 6.4 million (6.3%) and total equity increased by BD 41.5 million (13.7%). These growths are mainly due to the conversion of a few wholesale banks to investment businesses.

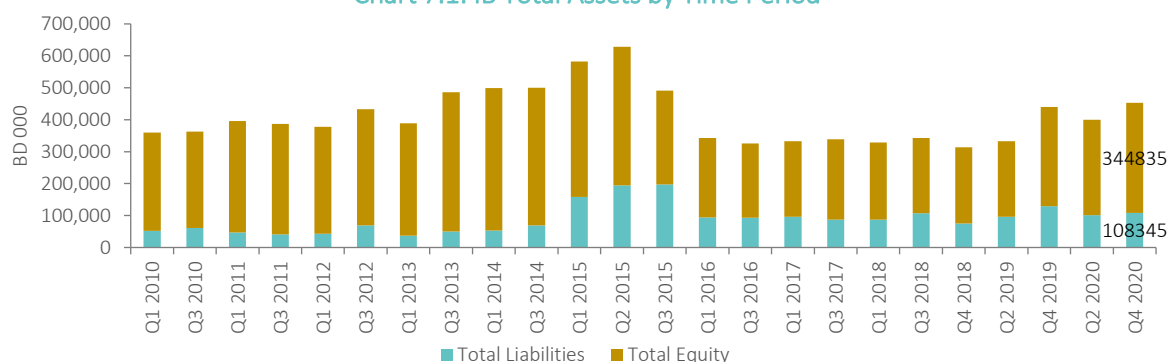
Table 7.1: IB Total Assets by Category

BD '000	Total Assets		Total Liabilities		Total Equity	
	Q2 2020	Q4 2020	Q2 2020	Q4 2020	Q2 2020	Q4 2020
Category 1	364,431.0	405,820.0	92,535.8	99,538.2	266,972.7	306,281.8
Category 2	35,710.5	39,165.8	7,211.2	6,764.5	30,448.8	32,401.3
Category 3	12,297.2	8,194.1	2,195.9	2,042.0	5,892.7	6,152.1
Total	412,438.6	453,179.9	101,942.8	108,344.7	303,314.2	344,835.2

Source: CBB.

⁸ Category 1 firms may undertake any regulated investment service, as listed below: a) Dealing in financial instruments as principal; b) Dealing in financial instruments as agent; c) Arranging deals in financial instruments; d) Managing financial instruments; e) Safeguarding financial instruments (i.e. a custodian); f) Advising on financial instruments g) Operating a collective investment undertaking (i.e. an operator). Category 2 firms may undertake the same regulated services except "a)". Category 3 firms may only undertake "c)" and "f)".

Chart 7.1: IB Total Assets by Time Period



Source: CBB.

7.2.1 Assets Under Management

Between June 2020 and December 2020, total assets under management increased by 12.5% from BD 9,832.4 million to BD 11,062.5 million. Assets under management of residents increased by 7.6% from BD 6,693.0 million in June 2020 to 7,203.4 million in December 2020. Non-residents' assets under management recorded a 22.9% increase from December 2019 reaching BD 3,859.1 million.

Table 7.2: Assets under Management

BD '000	Q2 2020	Q4 2020	% Change
AUM - Residents	6,692,967.9	7,203,350.6	7.6
AUM - Non-Residents	3,139,465.0	3,859,126.9	22.9
Total AUM	9,832,432.9	11,062,477.4	12.5

Source: CBB.

7.2.2 Profitability

Profits of category 1 investment businesses recovered in the fourth quarter of 2020 after recording a major loss during the second quarter. The major growth in profits is mainly due to an individual firm that has recently changed its operating license from a wholesale bank to an investment business. Category 2 firms' profits increased by 84% from BD 0.45 million in June 2020 to BD 0.83 million in December 2020. Category 3 firms also recorded a boost in profitability for the fourth quarter of 2020 with a 24% increase (Table 7.3).

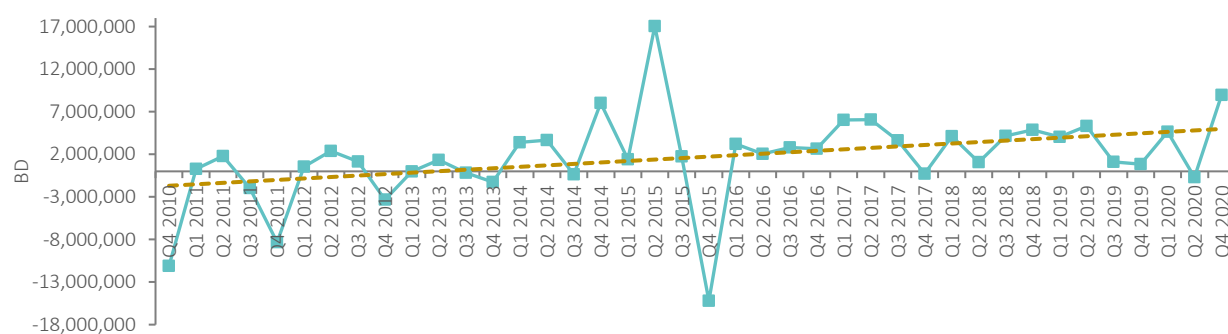
Table 7.3: IB Profitability by Category

BD '000	Q2 2020	Q4 2020	% Change
Category 1	-1,653.3	7,638.5	-
Category 2	453.7	834.8	84
Category 3	392.2	486.3	24
Total	-807.4	8,959.7	-

Source: CBB.

Between December 2010 and December 2015, profitability of overall investment businesses was very volatile between profits and losses. Since December 2016, investment businesses' profitability has always been positive with more stability than previous years, with the exception of December 2017 and, more recently, June 2020. Chart 7.2 displays that overall profitability of investment business has been on a positive trend since December 2010. The fourth quarter of 2020 has been the most profitable quarter for investment businesses over the last four years (Chart 7.2).

Chart 7.2: IB Profitability (Q4 2010 – Q4 2020)



Source: CBB.

7.3 Money changers

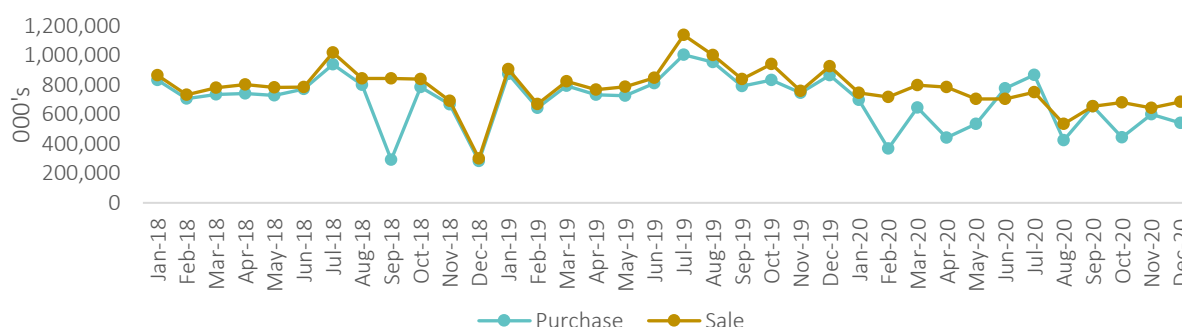
During 2020, money changers' purchase of foreign currencies amounted to 6,292.8 billion, while the sale of foreign currencies was recorded at 7,647.9 billion for the year. The month with the highest sale of currencies was March 2020, and the lowest month for sale of currencies was August 2020 (Table 7.3).

Table 7-3: Money Changers Total Turnover (Jan. – Dec. 2020)

000's	Purchase	Sale
Jan. 2020	697,699.3	744,924.8
Feb. 2020	367,262.5	715,987.9
Mar. 2020	646,079.1	796,727.9
Apr. 2020	441,459.7	784,798.5
May 2020	534,265.6	703,513.5
Jun. 2020	775,031.4	703,013.3
Jul. 2020	865,987.7	748,487.7
Aug. 2020	423,749.6	534,866.9
Sep. 2020	653,640.2	653,751.6
Oct. 2020	444,341.7	680,768.3
Nov. 2020	600,372.3	642,589.1
Dec. 2020	540,596.8	683,431.3
Total	6,292,786.6	7,647,936.0

Source: CBB.

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



Source: CBB.

For the fourth quarter of 2020, money changers' purchase and sale of currencies stood at BD 1.59 billion and BD 2.01 billion, respectively. A breakdown of Money Changers turnover indicates that "Asian" currency group recorded the highest YoY percentage increase in sales with 4000%. The largest decline in sales was the "GCC" currency group recording a drop of more than one billion BD. As for purchases, the top YoY increase is also "Asia" with 4500%, followed by "Other Arab" with 120%. All the other currency groups had an 85%+ drop in purchases.

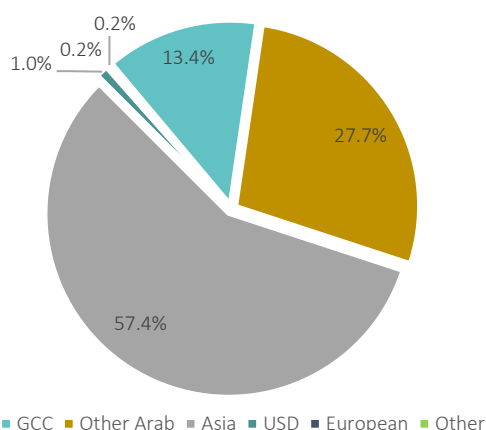
Table 7.4: MC Turnover by Currency Group

000's	Purchase			Sale		
	Q4 2019	Q2 2020	Q4 2020	Q4 2019	Q2 2020	Q4 2020
GCC	1,704,965.7	66,046.0	239,491.6	1,711,356.7	267,056.0	243,040.5
Other Arab	178,046.0	1,054,669.9	388,840.6	285,531.6	1,069,674.8	606,916.9
Asia	20,012.4	615,223.1	938,889.2	27,139.5	827,094.3	1,124,581.6
USD	476,746.3	14,424.8	17,701.2	517,088.9	14,371.3	17,925.4
European	59,908.9	103.9	144.1	79,212.3	7,594.0	8,646.2
Other	417.4	288.9	244.2	651.6	5,534.9	5,678.3
Total	2,440,096.6	1,750,756.7	1,585,310.7	2,620,980.6	2,191,325.3	2,006,788.8

Source: CBB.

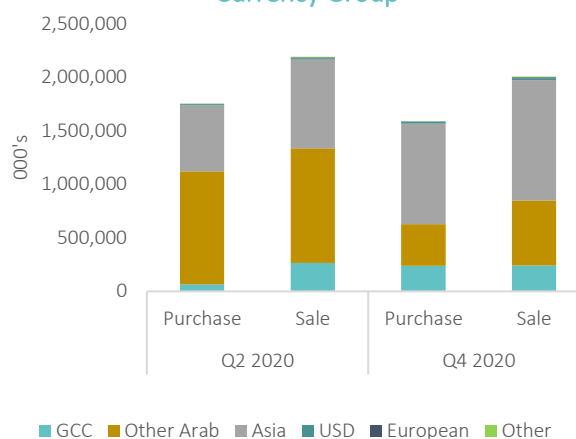
For the fourth quarter of 2020, only 13% of all purchase and sale of currencies were in GCC currencies, a significant decline from the 68% recorded in Q4 2019. Asian currency group was the most exchanged with 57% of total purchase and sale of currencies in Q2 2020.

Chart 7.3: Money Changers Currency Group Purchase & Sale, Q4 2020 (% of Total)



Source: CBB.

Chart 7.4: Money Changers Total Turnover by Currency Group



Source: CBB.

7.4 Challenges & Risks in Non-Banking Financial Institutions

Like all other financial institutions within the financial sector, many of Investment business firms and money changers have suffered from the impact of COVID-19 pandemic. Declining business and trying to operate safely and protect clients as well as staff members were main challenges. While many of the licensees have been investing in technology prior to the pandemic, smaller scale licensees, like some of the money changers, have been considering increasing their investments in technology, and building up client interface platforms where clients can avail the services online. Funding technology and coping with the rapid changes in technology solutions was a huge burden for companies recently.

Having said that, some of the licensees have invested sometime back in technology and were able to act swiftly and move to their processed to online platforms, enabling them to continue business as usual during the pandemic.

As for CBB, and to ensure the sector operates in a manner that protects the interest of staff and clients, CBB issued several circulars regarding maintaining safety at the workplace, reminding licensees to follow the disinfection instructions issued by the Ministry of Health and encouraging them to work remotely. Given that money changers deal with retail walk in retail clients extensively, and use physical cash very often, they were issued specific instructions in relation to maintaining social distancing measures for customers and the measures to be taken to ensure the disinfection of currency notes before circulation to customers.

With regards to supervision over licensees, CBB has extended the deadline for certain reporting requirements and has been flexible with licensees considering the exceptional circumstances of the

pandemic. Discussions and meetings continued, though not in a physical form. Moreover, requests to distribute dividends were looked at very carefully, taking into consideration the unpredicted effect of the pandemic, and ensuring the licensees have the required liquidity to continue operating.

7.5 Developments in Regulation and Initiatives

One of the major regulatory developments during 2020 is the addition of the activity of “Arranging Credit and Advising on Credit” to the list of permissible activities of investment business firms. The new activity was introduced after discussions with a few licensees that have shown interest in providing the activity in Bahrain. The activity will provide an opportunity to licensees to expand the range of activities they can offer to clients and thereby improving their income. The activity will also help SMEs and similar institutions that find it difficult to obtain financing from banks to seek the help of investment firms to arrange and advice on obtaining financing facility from banks.

CBB is considering the below regulatory development initiatives, and is expecting to issue the same for industry consultation during 2021:

1. Introduction of new rules on Investment business specialised in Venture Capital investments.
2. Introduction of new rules on Venture Capital Funds.
3. Reviewing the QPR for IB firms for solo versus consolidation requirements.
4. Revision to large exposure rules and introduction of related party transaction limits.
5. Introduction of remuneration claw back rules under the High-Level Controls Module of CBB Rulebook Volume 4.
6. Enhancement to the rules pertaining to custodians in CBB Rulebook Volume 4.

Chapter

8

Performance of Capital Markets

Key Highlights

# of Companies	All Share Index	Islamic Index	Market Capitalization	Total Value	Total Volume	PE Ratio
43	1,489.78	650.19	BHD 9.28bn	BD 212.8 mn	1.21bn	11.29

- Decrease in both the Bahrain All Share & Bahrain Islamic Index.
- Bahrain Bourse's market capitalization stood at BHD 9.28 bn by the end of the year, decreasing from BHD 10.1 bn in 2019, with a decrease of 8.5%.
- Commercial Banks dominated the market trading activity as it had the highest value traded and number of transactions.
- Bahrainis represented 76% of the value of shares bought and 74% of value of shares sold during 2020.

8.1 Overview

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

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

As of end of 2020, Bahrain Bourse recorded a total listing of 43 Companies, 9 Mutual Funds and 14 Bonds and Sukuk. During 2020, there were 15 companies that closed higher and 22 closed lower and 6 remained unchanged. Commercial Banks sector remains the dominant sector in Bahrain Bourse in terms of market capitalization and trading activity accounting for 44.1% of total value traded during 2020 and making up 53.0% of the total market capitalization. Bahrain Bourse remains a highly concentrated market in terms of market capitalization as the largest 5 companies in terms of market capitalization are AUB, NBB, BATELCO, ALBH and BBK represent 67.4% of the total market.

8.2 Bahrain Bourse

8.2.1 All Share Index and Islamic Index Overview

Decline in market index

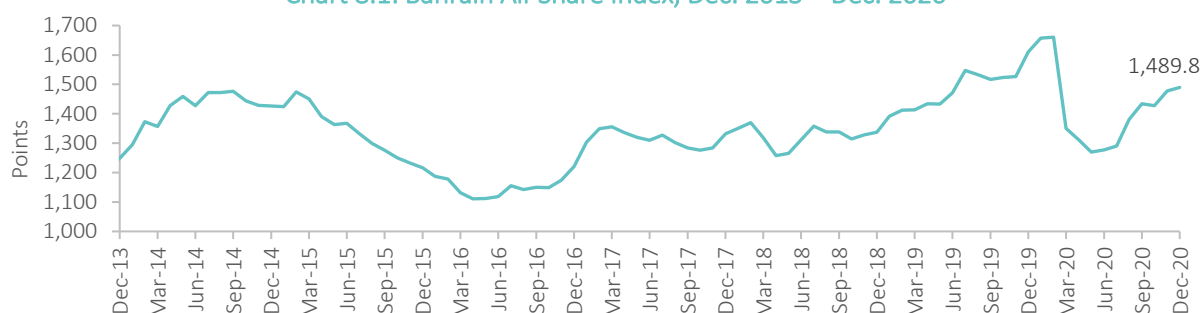
Bahrain All Share Index decreased by 7.5% for the year 2020. During 2020, the index was generally decreasing for the first half and increasing during the second half as the lowest month-end close level was recorded in May at 1,232 points, and the highest month end close was recorded on February at 1,668 points.

Table 8.1: Key Indicators of Bahrain Bourse

Indicator	2013	2014	2015	2016	2017	2018	2019	2020
All Share Index	1,248.9	1,426.6	1,215.9	1,220.5	1,331.7	1,337.3	1,610.2	1,489.8
Highest	1,248.9	1,476.0	1,474.8	1,220.5	1,356.0	1,369.9	1,610.2	1,668.7
Lowest	1,085.9	1,294.3	1,215.9	1,110.5	1,276.7	1,257.9	1,391.4	1,232.4
Market Cap (BD,	6,963.0	8,327.1	7,199.9	7,248.2	8,146.3	8,198.5	10,134.6	9,277.3
Total Value (BD million)	225.9	269.1	110.0	124.5	211.3	323.8	286.4	212.8
Total Volume (million)	1,867.8	1,126.1	515.6	734.4	1,129.8	1,441.1	1,157.3	1,209.3
No. of Transactions	14,197	16,211	11,248	10,592	19,440	19,225	20,712	19,309
No. of Companies	47	47	46	44	43	44	44	43

Source: Bahrain Bourse.

Chart 8.1: Bahrain All-Share Index, Dec. 2013 – Dec. 2020



Source: Bahrain Bourse.

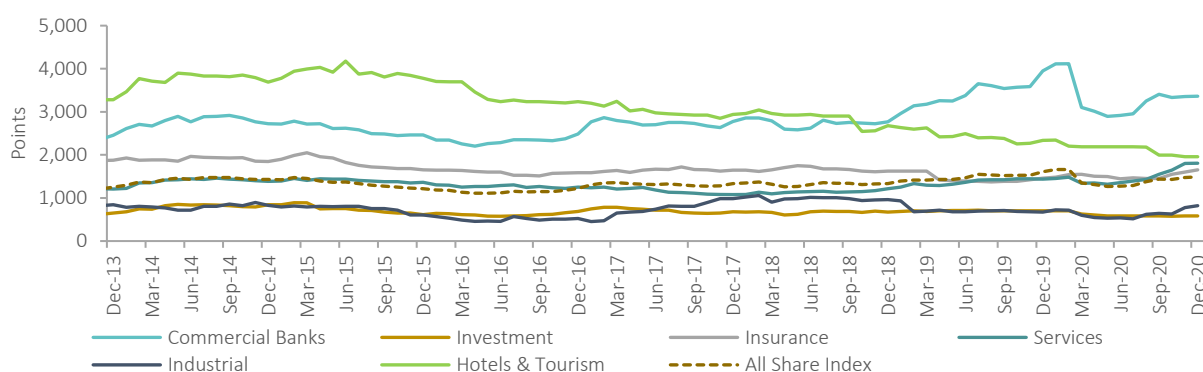
As for the sector indices, 3 sectors closed lower and 3 sectors closed higher in 2020 compared to the end of 2019. The Investment sector recorded the highest decrease of 16.8% followed by the Hotels & Tourism sector with a decrease of 16.2%.

Table 8.2: Bahrain All Share Index by Sector

	2013	2014	2015	2016	2017	2018	2019	2020
Commercial Banks	2,456.4	2,721.2	2,461.8	2,481.8	2,772.6	2,769.8	3,947.6	3,363.0
Investment	650.7	842.1	613.8	686.2	680.2	669.9	703.6	585.2
Insurance	1,876.3	1,844.7	1,653.6	1,585.6	1,645.8	1,619.9	1,458.3	1,654.5
Services	1,206.8	1,386.0	1,361.7	1,248.9	1,078.6	1,216.3	1,439.6	1,806.8
Industrial	842.5	830.9	606.1	524.3	986.5	960.8	674.1	823.1
Hotels & Tourism	3,279.9	3,687.6	3,779.2	3,237.5	2,940.3	2,677.7	2,336.1	1,958.1

Source: Bahrain Bourse.

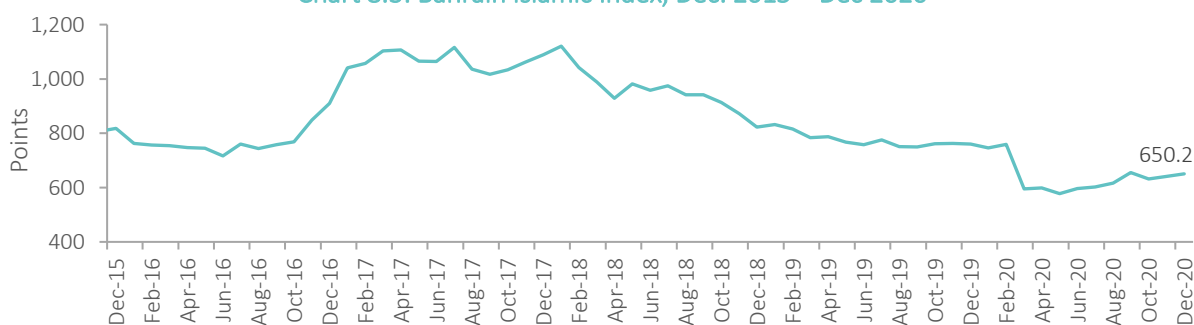
Chart 8.2: Sector Indices Levels & Returns, Dec. 2013 – Dec. 2020



Source: Bahrain Bourse.

In September 2015, Bahrain Bourse launched the Bahrain Islamic Index. It was the first Islamic finance index in the region, and 13 Shariah compliant companies are included within the index as of 2020. YoY data demonstrates that the Bahrain Islamic Index decreased by 14.5% between December 2019 and December 2020 reaching 650.2 points.

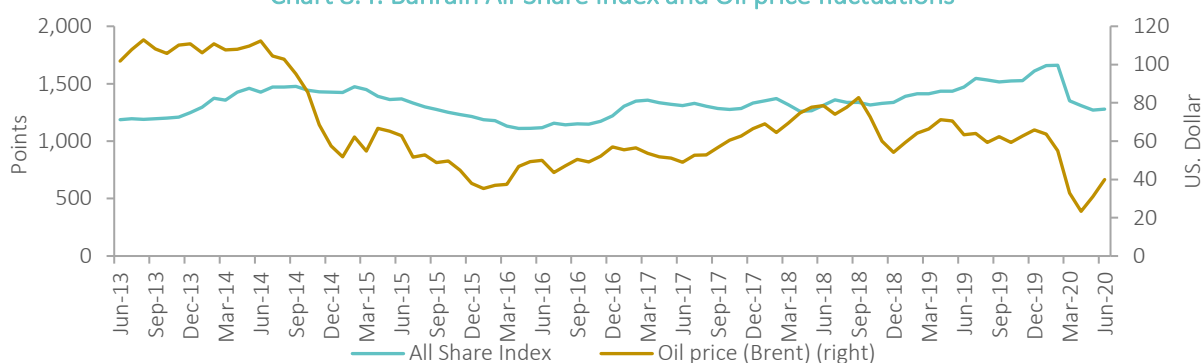
Chart 8.3: Bahrain Islamic Index, Dec. 2015 – Dec 2020



Source: Bahrain Bourse.

With Bahrain being an oil exporting country, it is significant to analyze the relationship between oil prices and the stock prices. Bahrain All-Share Index and the oil prices had a moderate, positive correlation at 0.42 and is evident from the movements of the prices in the chart below.

Chart 8.4: Bahrain All-Share Index and Oil price fluctuations



Source: Bahrain Bourse and the World Bank.

8.2.2 Bahrain Bourse Trading Statistics

Decrease in market capitalization

As of end of 2020, market capitalization of the Bahrain Bourse stood at BD 9.3 billion. This level of market capitalization is 8.5% lower for the year.

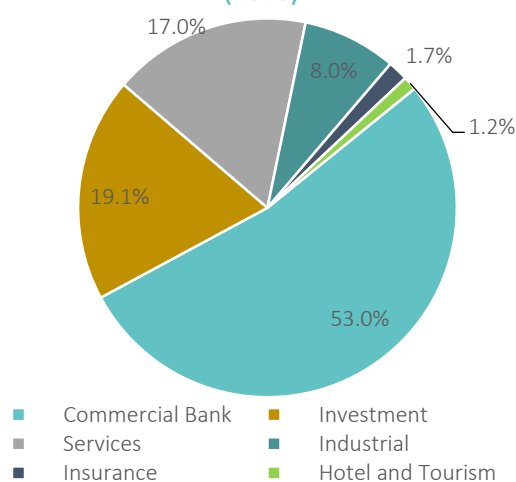
Table 8.3: Market Capitalization on the Bahrain Bourse

Sector (BD)	2019	2020	2019 –2020 (% Change)
Commercial Banks	5,764,393,689	4,914,224,491	-14.75
Investment	2,235,172,282	1,775,634,066	-20.56
Insurance	141,073,950	160,053,150	13.45
Services	1,253,854,054	1,573,633,654	25.50
Industrial	609,308,719	744,070,454	22.12
Hotel and Tourism	130,822,268	109,638,898	-16.19
Total	10,134,624,962	9,277,254,712	-8.46

Source: Bahrain Bourse.

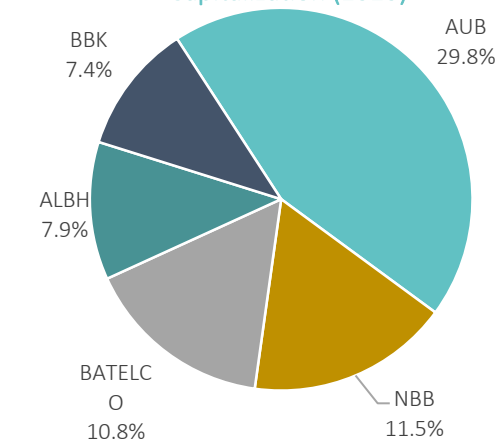
A breakdown of market capitalization by sector indicates that the Investments sector recorded the highest year-on-year decrease in market capitalization (-20.6%) followed by Hotels & Tourism (-16.2%). The Services sector scored the highest increase in market capitalization with a 25.5% increase.

Chart 8.5: Market Capitalization by Sector (2020)



Source: Bahrain Bourse.

Chart 8.6: Largest 5 companies by Market Capitalization (2020)



Source: Bahrain Bourse.

Ahli United Bank is the largest company in terms of Market Capitalization and contributes to 29.8% of the total market capitalization as of 2020. National Bank of Bahrain has the second largest share of Market Capitalization of 11.5% and it is followed by Bahrain Telecommunication Company (BATELCO) with 10.8% and Aluminum Bahrain (ALBH) with 7.9% and Bank of Bahrain and Kuwait (BBK) with 7.4%.

Table 8.4: Largest 5 Companies by Market Capitalization (2020)

Company	Market Capitalization (BHD)	% from Total Market
Ahli United Bank (AUB)	2,765,459,153	29.81
National Bank of Bahrain (NBB)	1,070,894,975	11.54
Bahrain Telecommunication Company (BATELCO)	997,920,000	10.76
Aluminum Bahrain (ALBH)	728,460,000	7.85
Bank of Bahrain and Kuwait (BBK)	687,676,848	7.41
Total	6,250,410,976	67.37

Source: Bahrain Bourse.

Most of the value of shares traded during 2020 was in the Commercial Banks sector whose traded shares (by value) represented 44.1% of total value.

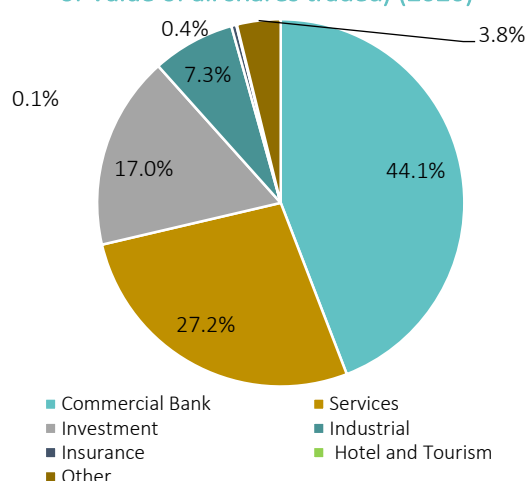
Table 8.5: Value of Shares Traded by Sector (% of Value of all shares traded)

Sector	2019	2020
Commercial Banks	66.8	44.1
Investment	12.5	17.0
Insurance	1.0	0.4
Services	16.3	27.2
Industrial	2.6	7.3
Hotel and Tourism	0.4	0.1

Source: Bahrain Bourse.

The services sector represents the second largest level at 27.2% of the total value of shares traded in 2020. Investors interest in Hotel and Tourism and Insurance sectors were the least during 2020 whose traded shares by value represented only 0.1% and 0.4% respectively of total value of traded shares. During 2020, the value of shares traded was highest in March and the lowest was in July, and the average value of shares traded during the year for a month was BD 17.7 million.

Chart 8.7: Value of Shares Traded by Sector (% of Value of all shares traded) (2020) *



* Other sector includes Closed companies, Non-Bahraini and IPOs.
Source: Bahrain Bourse.

Chart 8.8: Value of Shares Traded YoY Comparison



Source: Bahrain Bourse.

The bulk of the volume of shares traded in 2020 was also in the Investment sector representing 44.0% of the total volume of shares traded, followed by the Commercial Banks sector at 36.2%. The lowest level was attained by the Hotel and Tourism sector at 0.01%.

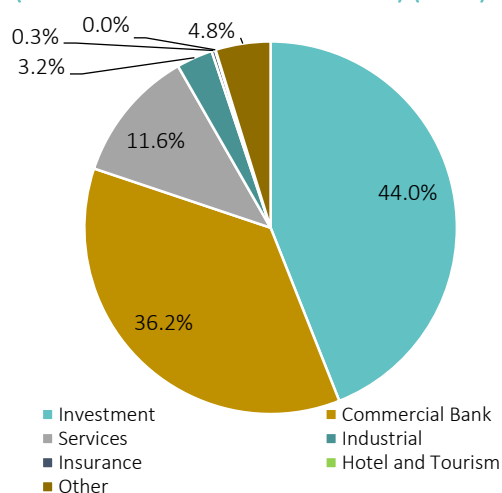
Table 8.6: Volume of Shares Traded by Sector (% of Volume of all shares traded)

Sector	2019	2020
Commercial Banks	59.9	36.2
Investment	24.6	44.0
Insurance	1.2	0.3
Services	11.9	11.6
Industrial	1.2	3.2
Hotel and Tourism	0.5	0.01

Source: Bahrain Bourse.

During 2020, the volume traded was highest in March and the lowest was in January, and the average volume traded during the year for a month was 100.8 million shares.

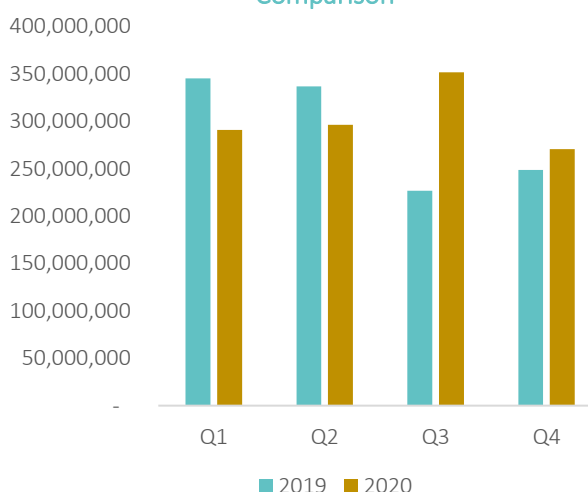
Chart 8.9: Volume of Shares traded by Sector (% of Volume of all shares traded) (2020) *



* Other sector includes Closed companies, Non-Bahraini and IPOs.

Source: Bahrain Bourse.

Chart 8.10: Volume of Shares Traded YoY Comparison



Source: Bahrain Bourse.

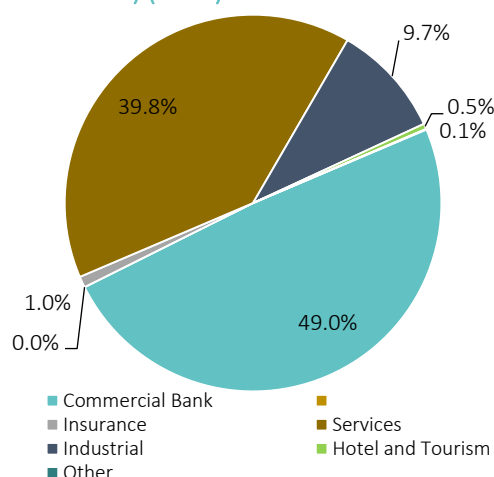
Most of the transactions were executed by the Commercial Banks sector at 7,442 transactions (38.5% of all transactions), followed by the Services Sector at 6,039 transactions (31.3%), and the Investment sector at 4,128 transactions (21.4%). During 2020, the market executed 19,309 transactions.

Table 8.7: Number of Transactions by Sector

Sector	2019	2020
Commercial Banks	9,776	7,442
Investment	3,082	4,128
Insurance	373	145
Services	6,337	6,039
Industrial	897	1,477
Hotel and Tourism	244	70
Closed	3	8
IPO	0	0
Total Market	20,712	19,309

Source: Bahrain Bourse.

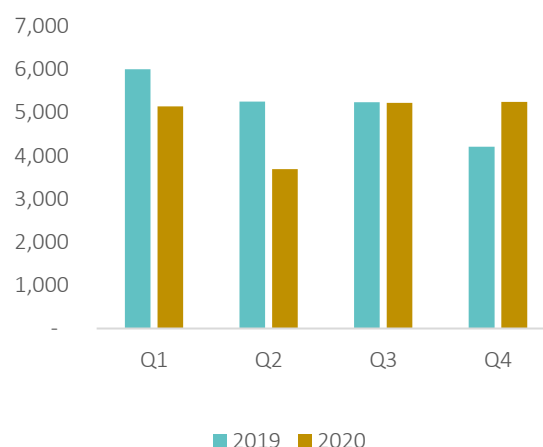
Chart 8.11: Number of Transactions (% of all transactions) (2020) *



*Other sector includes Closed companies and IPOs.

Source: Bahrain Bourse.

Chart 8.12: Number of Transactions YoY Comparison



Source: Bahrain Bourse.

Trading by Nationality

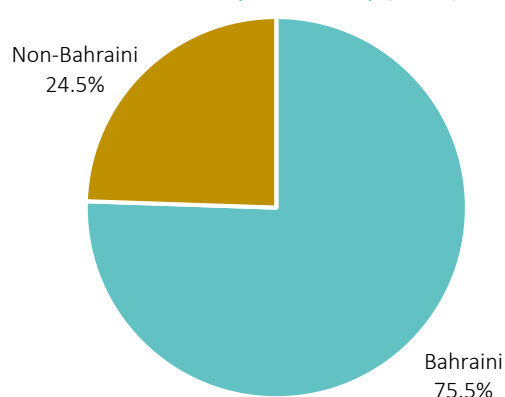
As of 2020, Non-Bahraini nationals contributed to 24.47% of the value of shares bought while Bahraini nationals contributed the remaining 75.53% of the value of shares bought. As for sell-side of the transactions, Non-Bahraini nationals contributed to 25.96% of the value of shares sold while Bahraini nationals contributed to 74.04% of the remaining value of shares sold.

Table 8.8: Value of Transactions by Nationality (BD)

	2019		2020	
	Bahraini	Non-Bahraini	Bahraini	Non-Bahraini
Buy	151,227,541	135,178,545	160,732,933	52,066,674
Sell	151,227,541	135,178,545	157,556,986	55,242,620

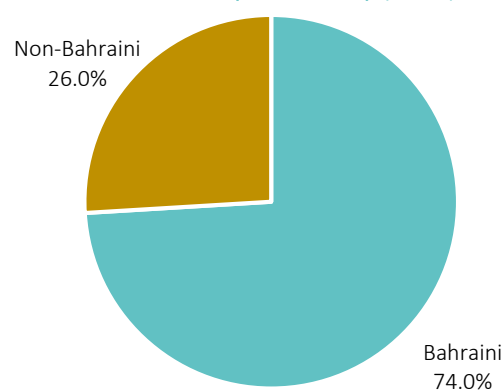
Source: Bahrain Bourse.

Chart 8.13: Share of Trading Value of Buy transactions by nationality (2020)



Source: Bahrain Bourse.

Chart 8.14: Share of Trading Value of Sell transactions by nationality (2020)



Source: Bahrain Bourse.

GCC Indices recover

Apart from Muscat Securities Market Index 30, the GCC major equity markets indices recorded positive returns during 2019 compared to end of year 2018. The highest increase was recorded by Kuwait All-Share Index at 23.7%, followed by Bahrain All Share Index with an increase of 20.4%.

Table 8.9: Stock Market Indices in GCC counties

Index	2018	2019	2018 - 2019 (% Change)
Bahrain All Share Index	1,337	1,610	20.4
Kuwait All Share Index	5,079	6,282	23.7
Dubai Financial Market General Index	2,529	2,764	9.3
Tadawul All Share Index	7,826	8,389	7.2
Abu Dhabi Exchange General Index	4,915	5,075	3.3
Qatar Exchange Index	10,352	10,425	0.7
Muscat Securities Market Index 30	4,323	3,981	-7.9

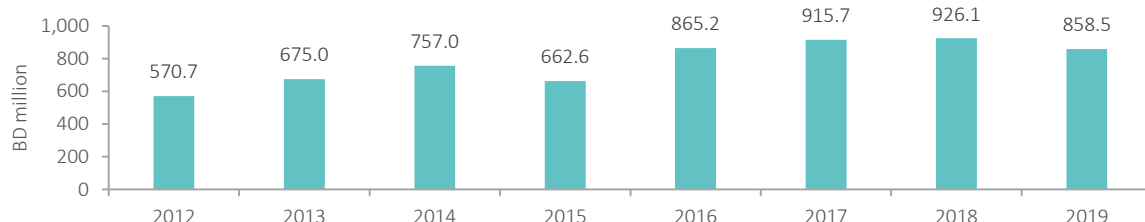
Sources: Bahrain Bourse, Saudi Stock Exchange (Tadawul), Boursa Kuwait, Qatar Stock Exchange, Dubai Financial Market, Abu Dhabi Securities Exchange and Muscat Securities Market.

8.3 Market Resilience

Decline in corporate profitability

The overall profitability of the Bahraini Bourse slightly increased by 1.1% to BD 926.1 million in 2018 from BD 915.7 million in 2017. Return on assets remained stable at 1.6% in 2018, while return on equity slightly decreased to 9.2% in 2018 compared to 9.5% in 2017.

Chart 8.15: Stock Market Net Income



Source: Bahrain Bourse.

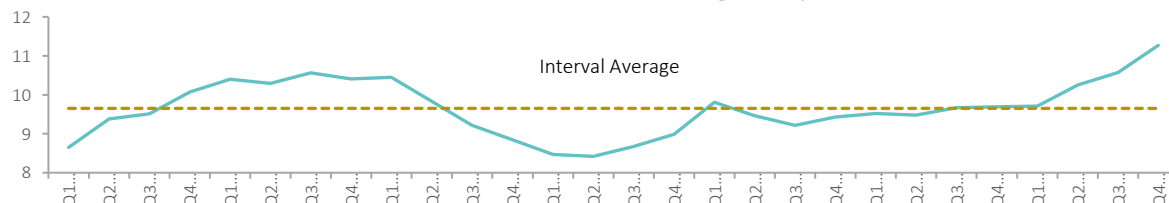
As at December 2019, more than half of the sectors valuation in terms of P-E ratio increased compared to December 2018. Commercial Banks, Investment, Services, and Industrial sectors increased by 43.6%, 23.7%, 22.2%, and 500% respectively while Insurance and Hotel and Tourism sectors dropped by 17.2% and 5.0% respectively. The total market P/E ratio in 2019 increased from 9.69 to 11.54.

Table 8.10: Price-Earnings Multiples

Sector	2018	2019
Commercial Banks	9.08	13.04
Investment	5.69	7.04
Insurance	10.87	9.00
Services	10.04	12.27
Industrial	14.10	85.95
Hotel and Tourism	16.71	15.87
Total Market	9.69	11.54

Source: Bahrain Bourse.

Chart 8.16: Total Market Price-Earnings Multiples



Source: Bahrain Bourse.

The overall equity-to-assets ratio decreased to 17.0% in 2019. Most sectors contributed to the increase with the hotel and tourism sector having the highest increase. The Commercial Banks and Investment

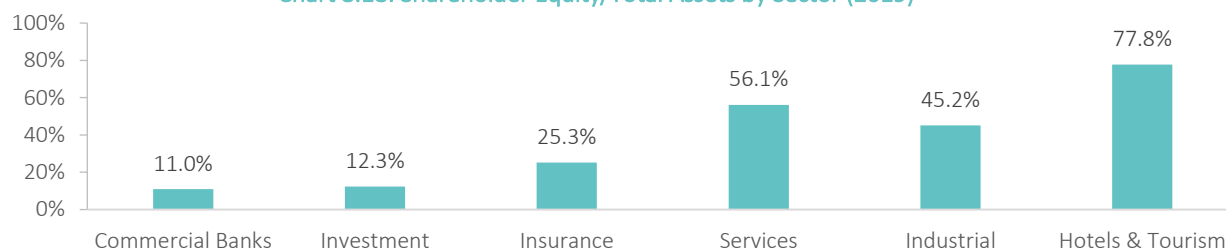
sectors have the lowest equity/assets ratio due to the high leverage nature of the sectors (Chart 8.17 & 8.18).

Chart 8.17: Shareholder Equity to Total Assets (%)



Source: Bahrain Bourse.

Chart 8.18: Shareholder Equity/Total Assets by Sector (2019)



Source: Bahrain Bourse.

8.3.1 Bahrain Bourse Adoption of Global Industrial Classification Standard (GICS) for Listed Companies

Bahrain Bourse plans to adopt the Global Industry Classification Standard (GICS) for listed companies effective 11th July 2021.

The GICS is a global hierarchical industry classification standard developed by index providers MSCI and S&P Dow Jones Indices and it covers 11 sectors representing first level of GICS. Of the 11 industrial sector groups, companies currently listed on Bahrain Bourse will be reclassified into seven industrial sector groups based on their principal business activity (Level 1): materials (will include 1 company), industrials, covering Capital Goods, and Commercial & Professional Services and Transportation (will include 3 companies), consumer discretionary, covering Consumer Services, Retailing, Automobiles & Components, and Consumer Durables & Apparel (will include 5 companies), consumer staples, covering Food & Staples Retailing, and Food, Beverage & Tobacco, and Household & Personal Products (will include 4 companies), financials, covering Banks, Insurance, and Diversified Financials (will include 22 companies), communication services, covering Telecommunication Services, and Media & Entertainment (will include 3 companies), and real estate, covering REITs, and Real Estate Management & Development (will include 3 companies).

The remaining four industrial sector groups (Energy, Healthcare, Information Technology, and Utilities) will remain inactive as there are currently no companies listed on Bahrain Bourse that can be classified under those groups. However, these four industrial sector groups will be activated with immediate effect when relevant companies to those industry groups are listed.

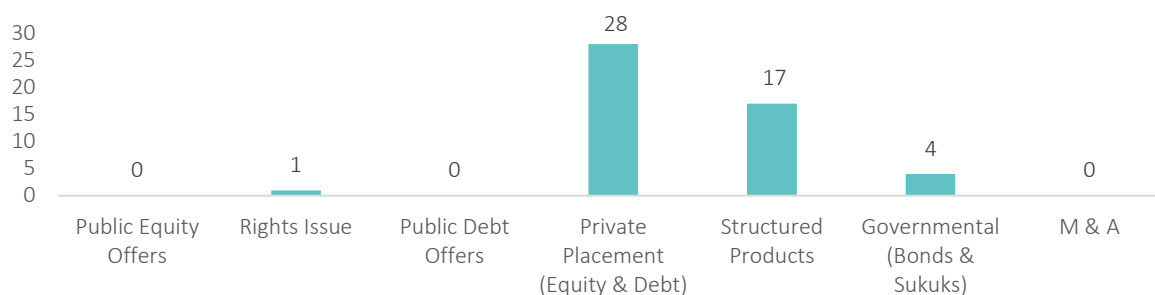
It is worth noting that Bahrain Bourse's earlier sector classification had been in place since the establishment of Bahrain Bourse in 1987.

8.4 Capital Market Activities

8.4.1 Offering of Securities

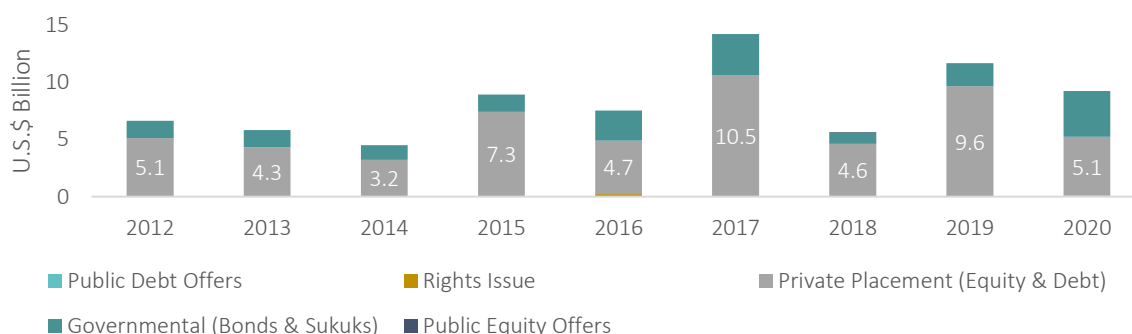
As at December 2020, CBB issued its no objection to the issuance of 50 private offering documents after ensuring the completeness of all the information and details as per CBB Law, Rules and Regulations. The total value of issuances reached USD 9.27 billion. (Chart 8.19 & 8.20).

Chart 8.19: Number of Capital Market Activities



Source: CBB.

Chart 8.20: Total Issuance Value



Source: CBB.

8.4.2 Kuwait Finance House (“KFH”) offer to acquire 100% of Ahli United Bank B.S.C.’s (“AUB”) issued and paid-up capital

CBB issued a conditional approval to KFH in relation to the proposed acquisition transaction, subject to adherence to the requirements of the Takeovers, Mergers and Acquisitions (“TMA”) Module of Volume 6 of CBB Rulebook.

The following documents were issued pursuant to the requirements of the TMA Module, upon receipt of the CMSD’s respective no objection letters:

- Notice of firm intention to make a voluntary conditional offer to acquire 100% of the issued and paid-up ordinary shares of AUB by way of a share swap (“Offer”) from the Board of Directors (“Board”) of KFH to the Board of AUB on 5th February 2020;
- Offer Document from the Board of KFH to the Board of AUB on 24th February 2020; and
- Offeree Board Circular, Offer Document and the Acceptance and Transfer Forms on 16th March 2020 to the shareholders of AUB.

In light of the circumstances arising due to the COVID-19 pandemic, the Board of AUB approved the suspension of the acquisition procedures in both the State of Kuwait and the Kingdom of Bahrain until December 2020 in consultation with KFH, after having obtained the Central Bank of Bahrain’s approval on the postponement of the acquisition procedures until December 2020.

AUB announced the extension of the suspension period for the resumption of the acquisition of AUB by KFH on 29th December 2020, until the completion of KFH’s updated assessments to be completed by the international advisor appointed by KFH in that respect, subject to regulatory approvals. CBB issued its no objection to the abovementioned extension on 31st December 2020.

8.5 Risks & Challenges in Capital Markets

The significance of cybersecurity risk on capital markets cannot be overlooked, given the developing landscape of the global markets, which decrees that regulators and capital market service providers must remain prudent, progressive, and vigilant to minimize such risks. In this regard, CBB; through the requirements stipulated under Module of CBB Rulebook Volume 6 requires Licensees to have in place

a well-designed Disaster Recovery Plan. It must also maintain at all times a plan of action (referred to as a business continuity plan) that sets out the procedures and establishes the systems necessary to restore fair, orderly and transparent operations, in the event of any disruption to the operations of the market.

Moreover, the regulatory framework for capital markets recognizes the significance of cybersecurity in the area of operating an equity crowdfunding platform as well as providing crypto-asset services. Equity crowdfunding platform operators are required to ensure that cyber-security includes the conduct of an IT security penetration test semi-annually by an independent consultant while crypto-asset service providers must have an annual audit of their IT infrastructures and core systems including penetration testing undertaken by reputable third-party cyber security consultants. In addition, Capital Markets licensees are mandated to maintain relevant systems in place for mitigating and managing operational and other risks.

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

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

As of December 2020, 9 of the 43 listed companies on Bahrain Bourse were cross-listed outside of Bahrain, leading to challenges faced by CBB in maintaining the cross-listed companies' compliance with the capital market regulations of Bahrain. CBB is utilizing the IOSCO MMoU and the MoU between regulators of the financial markets in the Gulf Cooperation Council States in requesting assistance in relation to cross-listed companies. Concurrently, Bahrain Bourse is in the process of issuing its new listing rules and listing guidelines which will tackle aspects of the cross-listing rules.

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

It is important that the Buy-and-Hold/Passive Investment investor mentality is tackled, through the provision of tools which gives the investors a clear view of market activity. Bahrain Bourse is in collaboration with market information companies, such as Bloomberg, Thompson Reuters etc., to distribute data packages which include facilities relating to real-time market coverage, historical and end-of-day data, etc.

Risks and challenges have also risen under the impact of the global pandemic, Coronavirus (COVID-19). The evolving situation has led to an increase in volatility and risk levels in the capital markets, affecting both the trading activity and investors. Furthermore, it creates opportunities for fraudulent actors and scammers to inject inaccurate information into the market. As such, CBB has issued a number of circulars to guide market participants to be mindful towards the market amid the pandemic, such as disclaiming current market risks, monitoring and reporting fraudulent and suspicious activity, and

strengthening lines of communication with all market institutions, participants, and CBB. CBB has also emphasized on the importance of listed companies' compliance with its requirements and has implemented various relief measures including the exemption from the preparation and publication of the quarterly reviewed financial results.

8.6 Developments in Regulation and Initiatives

In addition to the participation in joint work meetings of the GCC that aim to harmonize the rules and regulations for the Capital markets in the GCC. During the year 2020, CBB's CMSD endeavored to develop and complete the capital markets regulatory and legal frameworks, including Volume 6 of CBB Rulebook, its main objectives being to enhance transparency, develop the capital markets, and protect investors. The following section will shed light on the activities that took place in the areas of policy, regulation and market infrastructure in 2020:

8.6.1 Policy and Regulatory Developments

- Amendments to the Schedule of Fees in relation to the fees charged for applications under the Offering of Securities Module of Volume 6 of CBB Rulebook:** CBB issued Resolution No. (2) for the year 2020, on the amendment of Resolution No. (1) for the year 2007 in respect of the determination of the licensing fees and services provided by CBB, which was published in the Official Gazette on 28th October 2020. The resolution was issued to set out and impose such fees, in accordance with article (180) paragraph (b) which requires a consideration for the services provided by CBB. The schedule of fees in relation to the fees charged for the services provided by CBB regarding applications made for the offering and issuance of securities stipulated under the Offering of Securities Module of Volume 6 of CBB Rulebook has been amended and incorporated in the abovementioned resolution.
- Amendment of CBB Law:** The King of Bahrain issued CBB Law Amendment No. (14) of 2020 amending some provisions of the Central Bank of Bahrain and Financial Institutions Law promulgated by Decree No. (64) of 2006 ("the Law"), whereby a new article was added to the Law giving CBB the authority to regulate mergers and acquisitions of listed companies. The amendment states the following:
 Article (93 bis): CBB shall issue a resolution of the rules and procedures for the acquisition of shares of listed companies. It is prohibited for any listed company to merge with any other entity without obtaining a written approval from the Central Bank, subject to the provisions stipulated in the Commercial Companies Law promulgated by Decree No. (21) of 2001. The Central Bank shall issue a resolution of the rules and procedures for the merger process.
- Financial and Administrative Sanctions:** The CMSD's regulatory mandate is to set and enforce high quality capital market industry standards, protect investors and strengthen market integrity while supporting a stimulating capital markets' ecosystem. The Investigation and Enforcement ("IE") team within the CMSD assumes responsibility to ensure effective enforcement of CBB regulatory requirements with an objective to achieve fairness, transparency, investor protection and safeguard public interests in the Kingdom of Bahrain. In line with the CMSD's objective to develop a transparent regulatory environment, the CMSD prepared the fifth issue of its Compliance & Enforcement Annual Report covering the year 2020; which provides a comparative overview of CMSD's efforts in 2019-2020 to identify and address non-compliances, negligence or misconduct, in order to enact the word of the law, safeguard the interests of all stakeholders and ensure a stimulating environment within which the needs of members, investors and the regulator are met.
- Bahrain Bourse ("BHB") Issuers' Violations Proposal:** Following Bahrain Bourse's issuance of its consultation paper on the proposed administrative fines applicable to issuers during the last quarter of 2019, in August 2020, the CMSD approved the Industry Consultation Feedback Statement and the Issuers' Violations framework which will accordingly relate to powers of the Bahrain Bourse to impose administrative fines on issuers in the event of non-compliance with

the Listing Rules and any other Bahrain Bourse applicable rules, regulations and directives as deemed appropriate. To that effect, in view of Bahrain Bourse's Board of Directors' resolution (5/3/2020) pertaining to the formation of the Bahrain Bourse Violations Committee, the CMSD also issued its no-objection in this regard, wherein the said committee will be responsible for reviewing and evaluating high-frequency violations of the Bahrain Bourse's rules and regulations and determining penalties to be imposed on issuers and ultimately also members in a timely and cost-effective manner.

- **Dispute Resolution, Arbitration & Disciplinary Proceedings ("DRA") Module:** Given that CBB strives to continuously better address issues pertaining to on-going regulation and supervision of licensees and the overall financial and capital markets, the CMSD issued its first update to the Dispute Resolution, Arbitration and Disciplinary Proceedings Module of Volume 6 of CBB Rulebook in March 2020 (after it had first been issued on 29th June 2010). The Module sets out CBB's regulatory framework governing dispute resolution, complaints handling and arbitration mechanism in the capital markets, as well as the disciplinary mechanism at Self-Regulatory Organizations ("SRO"). The March 2020 amendment mainly related to stipulations on the Disciplinary Committee and the Disciplinary Appeals Committee established at the SRO-level.
- **Clearing, Settlement and Central Depository Rules:** Bahrain Clear ("BHC") Clearing, Settlement and Central Depository Rules are being finalized and shall be submitted to the CMSD shortly.
- **AUP for Testing Compliance with AML Module:** As part of CBB's objective to establish industry leading practices, CBB issued the Agreed Upon Procedures ("AUP") for testing compliance with the Anti-Money Laundering and Combating Financial Crime ("AML") Module of CBB Rulebook Volume 6 on 16th January 2019, with further amendments issued on 2nd December 2019. The CMSD is currently working on updating the AUP to ensure its applicability on licensees regulated under the Market Intermediaries and Representatives (MIR) Module as well as the Crypto-asset (CRA) Module. The update will also ensure standardization of processes and report formats across CBB and will consider the best international practices from the Financial Action Task Force (FATF) regarding AML.
- **Safety Guidelines for Listed Companies General Meetings:** Pursuant to the preventive measures implemented by the Government of Bahrain to combat the outbreak of the coronavirus (COVID-19), CBB issued through its circular (Ref: OG/108/2020) dated 19 March 2020 a set of guidelines for companies that will have Annual General Meetings to discuss and approve the financial results for the year ended 31 December 2019.
- **Exemption for First Quarter Financial Results Preparation and Publication:** Due to the development with regards to the outbreak of the novel coronavirus (COVID-19), the Central Bank of Bahrain exempted all public shareholding companies from the preparation and publication of their quarterly reviewed financial results for the first quarter of 2020, and accordingly the first reviewed financial statements that must be prepared and published in 2020 would be the June 2020 six months period statements.
- **Market Fairness and Integrity Amid COVID-19 Developments:** The Capital Markets Supervision Directorate issued a circular (Ref: CMS/C/011/2020) dated 1 April 2020 addressed to all listed companies to emphasize the importance of compliance with the requirements of Corporate Governance and Controls, Disclosure Standards, and the Prohibition of Market Abuse and Manipulation ("MAM") Module of CBB Rulebook.
- **Reporting of Financial Impact of COVID-19:** As part of CBB's objective to maintain transparency amidst the current implications of coronavirus (COVID-19) and given that businesses have increasingly become vulnerable to financial losses, it has become important for CBB and other stakeholders to understand and assess the financial impact of the COVID-19 pandemic on listed companies and CBB licensees. A circular was issued (Ref: OG/259/2020) dated 14 July 2020 for all listed companies and licensees to disclose the financial impact of COVID-19 in their interim

and annual financial statements. For listed companies, such disclosures must be made through a supplementary disclosure that must be published on Bahrain Bourse website in addition to the inclusion of such disclosure in the financial statements.

- Bahrain Clear's Share Register at General Meetings:** The Capital Markets Supervision Directorate issued a circular (Ref: CMS/L441/2020) dated 5 October 2020 to Bahrain Clear to emphasize on the importance of ensuring an updated share register is provided as of the date of the general meeting. Being the share registrar of listed companies, the CMSD highlighted to Bahrain Clear the importance of their role in relation to administering and keeping the updated record of the shareholding of listed companies. The circular was issued, as the current procedure at the time harms the rights of the shareholders as the rightful shareowners recorded in the company's register on the date of the general meeting will not exercise their present rights in the said meeting.
- BHC Protection Guarantee Fund and Cash Dividend Distribution:** As part of CBB's objective to enhance existing practices and increase investor protection, CBB has provided its initial approval for BHC to act as paying agent and distribute cash dividends on behalf of listed companies. CBB is currently working with BHC to fulfil all the necessary requirements. Following the issuance of Resolution 48-2/2020 by the Government's Ministerial Committee for Financial and Economic Affairs and Fiscal Balance, BHB have issued Resolution 3/2020 pertaining to the establishment of the Unclaimed Cash Dividends Fund and the Annual Cash Dividends Fund.
- Listed Companies with Accumulated Losses:** Following the CMSD's approval, BHB have issued procedures related to listed companies with accumulated losses of 20% or more of their share capital. The procedures include public disclosures and suspension of trading, subject to the percentage of accumulated losses.
- Amendments to AML and CRA Modules:** CBB issued circular EDFIS/C/003/2020 dated 16th January 2020 pertaining to amendments made to the Anti-Money Laundering & Combating Financial Crime ("AML") and the Crypto-Asset ("CRA") Modules within Volume 6 of CBB Rulebook following the consultation with the industry. Pertaining to the AML Module, amendments made are in relation to customer due diligence, money transfer and accepted crypto-asset transfers, acceptance of cash, amongst other areas. Furthermore, and in reference the CRA Module, amendments made are in relation to technology governance and cyber security, amongst other areas.
- Amendments to HC Module:** CBB issued circular EDFIS/C/046/2020 dated 7th May 2020 pertaining to the requirements contained in the AML Module and the High-Level Controls ("HC") Module within Volume 6 of CBB Rulebook. The amendments require Capital Markets Service Providers to work on integrating key performance indicators ("KPIs") to ensure that it complies with AML / CFT requirements by all employees. The performance against the KPIs shall also be assessed during their annual performance evaluation/appraisal, as well as when calculating their remuneration.

8.6.2 The Capital Markets Supervision Directorate's Upcoming Initiatives

- Offering of Securities ("OFS") Module Updates and Amendments:** The CMSD is currently drafting updates and amendments to the OFS Module of Volume 6 of CBB Rulebook, to be in line with international best practice regarding the offering and issuing of securities in and from the Kingdom of Bahrain. As a result of the witnessed growth and development in several capital market products including the wide range of Structured Products, the CMSD is currently studying the international best practices regarding appropriate regulatory tools concerning the behavior of issuers and intermediaries within the capital market and the extent of the regulator's involvement in pre-approving the products and setting products standards and disclosure requirements, in addition to the significant ramifications associated with the offering and marketing the products.

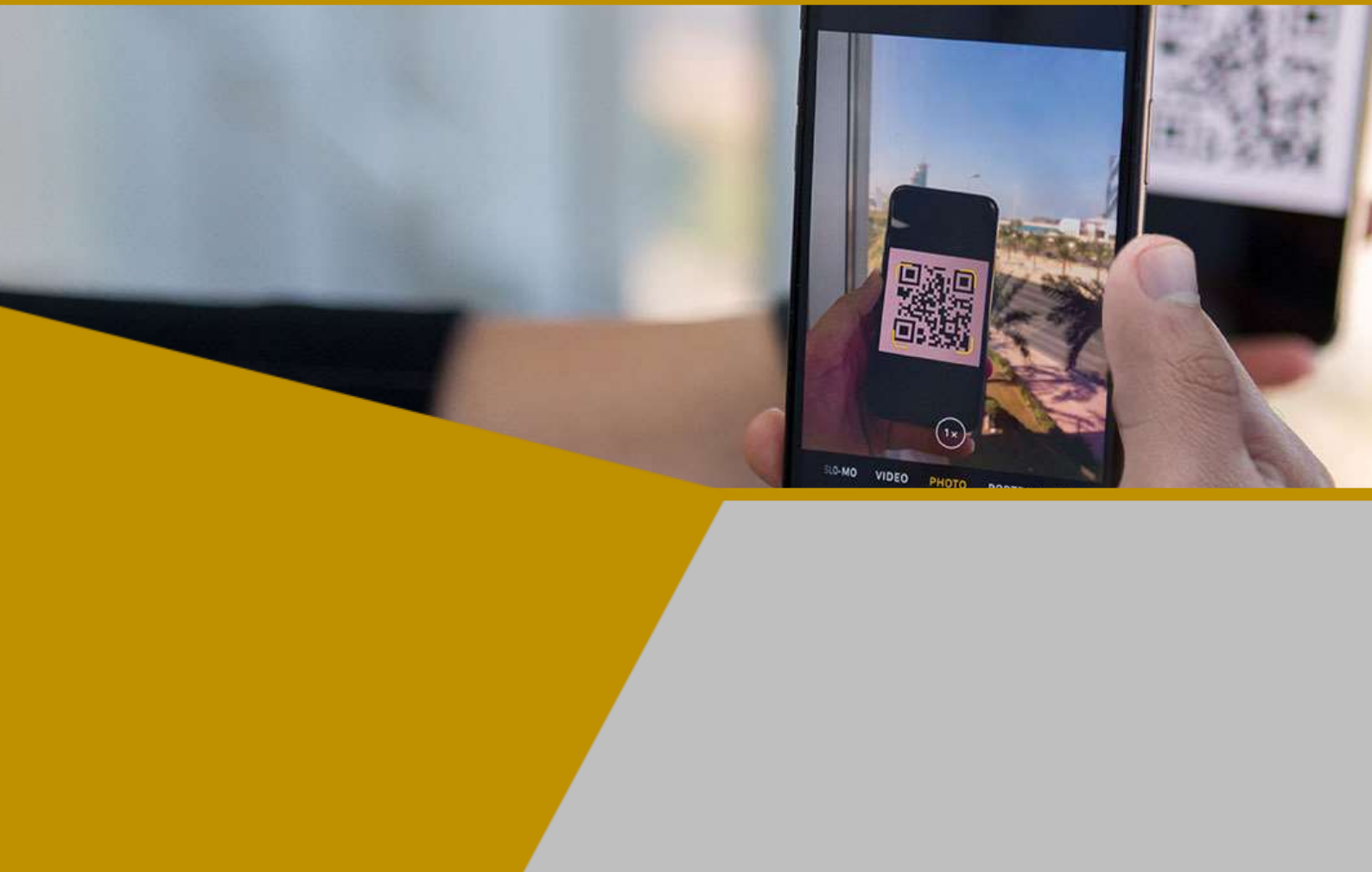
- **Treasury Shares Resolution:** Further to Article (93) of the Central Bank of Bahrain and Financial Institutions Law, the CMSD is currently in the process of introducing a resolution to regulate the purchase and sale of listed companies' treasury shares and the permitted uses for these shares.
- **Takeovers, Mergers and Acquisition Resolution:** Further to Article (93 bis) of CBB Law Amendment No. (14) of 2020, the CMSD is currently in the process of introducing a resolution to regulate the process and procedures of mergers and acquisitions of listed companies.
- **Training and Competency Module:** The CMSD in cooperation with CBB's Regulatory Policy Unit is finalizing a new Training and Competency ("TC") Module as part of CBB Rulebook Volume 6. The Module aims at presenting requirements that have to be met by capital markets licensees with respect to training and competency of individuals undertaking controlled functions.
- **Market Surveillance, Investigation & Enforcement ("MIE") Module Updates and Amendments:** The CMSD has initiated a review to the MIE Module of Volume 6 of CBB Rulebook, generally to be in line with international best practices in various areas of investigation and enforcement. The amendments will further include a new chapter for Financial Penalties, and also reflect the June 2020 CBB Law amendments, among other things.
- **Further Updates and Amendments to the Dispute Resolution, Arbitration & Disciplinary Proceedings Module:** Following the aforementioned March 2020 revision of the DRA Module, the CMSD has currently proposed additional amendments mainly in relation to the structure and functioning of an SRO's Arbitration Committee, to ensure that regulatory responsibilities are discharged in an effective manner and in line with international best practices.
- **Prohibition of Market Abuse and Manipulation ("MAM") Module Updates and Amendments:** The CMSD is currently reviewing suggested updates and amendments to the MAM Module of Volume 6 of CBB Rulebook, generally to be in line with international best practices in various areas of investigation and enforcement.
- **Liquidity Enhancement:** The CMSD is cooperating with BHB on its initiatives to increase market liquidity, with the objective of increasing the trading activity and attracting new market participants.
- **BHC Delivery Versus Payment ("DVP") Model Framework:** The CMSD has been cooperating with BHC with regards to its proposed DVP framework, after publication for consultation to the market. BHC is currently working on amending the framework in line with the CMSD's comments and feedback.

8.6.3 Investor Protection Initiatives

- **Alert posted on CBB's Website:** As part of CBB's objective to maintain a transparent, fair and efficient capital market for ensuring investor protection, CBB's CMSD published one alert on CBB's website during the 2020, warning consumers against dealing with unlicensed financial institutions particularly as they were also flagged by other overseas authorities for engaging in unlicensed capital market activity. Such warning is a result of CBB's complaint-handling process and the issuance of such aims to further enhance investor protection and safeguard public interests.

Part IV:

Developments in the
Payment Systems, Point of
Sale, FinTech, and Cyber
Security



Chapter

9

FMI, Payment and Settlement Systems,
Point of Sale, and Digital Wallets

Key Highlights

RTGS Daily Avg. Volume	RTGS Daily Avg. Value	SSSS Aggregate Volume	SSSS Aggregate Value	ATM Daily Avg. Volume	ATM Daily Avg. Value
138	BD 219.3 mn	47	BD 3.0 bn	51,315	BD 4.3 mn
BCTS Daily Avg. Volume	BCTS Daily Avg. Value	Fawri+ Daily Avg. Volume	Fawri+ Daily Avg. Value	Fawri Daily Avg. Volume	Fawri Daily Avg. Value
9,147	BD 28.5 mn	183,088	BD 7.8 mn	35,946	BD 53.5 mn
Fawateer Daily Avg. Volume	Fawateer Daily Avg. Value	POS Volume	POS Value	Digital Wallets Volume	Digital Wallets Value
23,886	BD 1.98 mn	83.8 mn	BD 2.3 bn	51.7 mn	BD 2.4 bn

- ▶ Daily average (volume and value) of Bank Transfers, ATM Transactions and cheques declined in H2 2020 compared to H1 2020.
- ▶ Daily average of volume and value of Fawri+ Transactions increased by 145.8% and 606.58% respectively in H2 2020 compared to H1 2020. Daily average of volume and value of Fawri transactions increased by 4.95% and 19.35% in H2 2020 compared to H1 2020.
- ▶ Daily average of volume and value of Fawateer Transactions increased by 244.48% and 317.30% respectively in H2 2020 compared to H1 2020.
- ▶ POS Transactions volume increased by 13.7% and value decreased by 3.8% in 2020. As of Q4 2020, volume and value of transactions increased by 17.3% and 13.5% in Q4 2020 compared to Q1.
- ▶ Transactions through e-wallets continue to increase with 51.7 million transactions worth BD 2.4 billion in 2020.

9.1 Overview

FMI, Payment and Settlement Systems are central to the smooth operations of the financial sector and the efficient functioning of the overall economy. Therefore, the Oversight of FMIs and Payments improve the stability of Payments, markets and the wider financial system in addition to providing a valuable measure to evaluate risks to financial stability. FMIs, Payment and Settlement Systems are a crucial part of the financial infrastructure in the country.

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

CBB operates, manages and oversees the national Payment and Settlement Systems in the Kingdom of Bahrain⁹. In addition, CBB assess the all FMIs, Payment and Settlement Systems in terms of compliance with the requirements set by the Principles for Financial Market Infrastructures (PFMI), CBB Law, CBB's Directives, etc. Bahrain's position in the financial services sector has enable it to become a strategic leader in international financial technology as it provides many of the features that will support the development of a supportive environment for financial technology, along with CBB as a Regulator, innovative human capital, and an advanced ICT infrastructure.

⁹ CBB operates the Real Time Gross Settlement System (RTGS) and the Scripless Securities Settlement System (SSSS), whereas BENEFIT operates the ATM Clearing System (ATM), the Bahrain Cheque Truncation System (BCTS) and the Electronic Fund Transfer System (EFTS) including the Electronic Bill Presentment and Payment (EBPP) System on behalf of CBB.

The FMIs, Payment and Settlement Systems Framework continues to operate smoothly and function safely, efficiently, resiliently and reliably, maintaining the financial stability during the second half of 2020 (from 1st July, 2020 to 31st December, 2020).

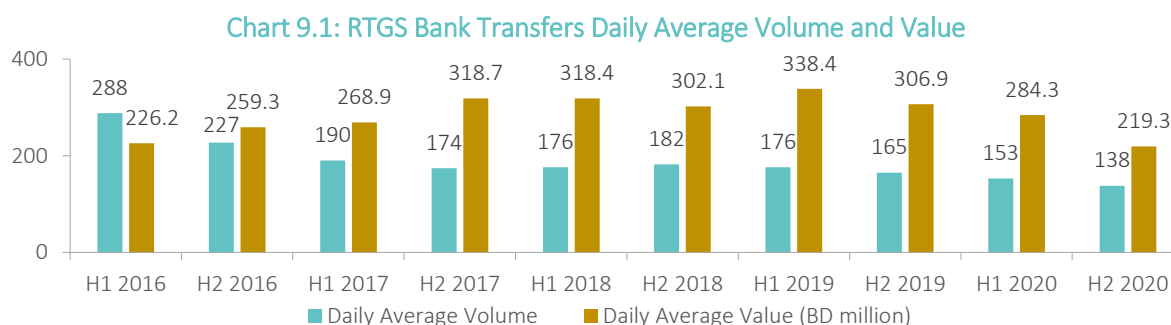
Point of Sale (POS) terminals and digital payments are other methods that enhance a customer's shopping experience by acknowledging their spending habits and preferences, in line with the Bank's efforts to remain closer to the needs of its customers. The POS system in Bahrain provides payment solutions that support international and domestic payment schemes and fintech payment options such as contactless cards. Several Digital Wallets were established in Bahrain's fintech ecosystem that offer various payment solutions that come with value-added benefits such as acceptance of all major card schemes, easy payments to be made digitally without the use of cash or cards. While cash and card payments are still seen as dominant payment method, seamless contactless and digital payments transactions are projected to be the prominent payment methods in the future.

This chapter describes recent trends in the FMIs, Payment and Settlement Systems, POS, and digital wallet transactions.

9.2 Real Time Gross Settlement System (RTGS)

CBB operates and oversees the Real Time Gross Settlement (RTGS) System where all Inter-Bank payments are processed and settled in real time on-line mode which went live on the 14th of June, 2007. The RTGS System provides for Payment and Settlement of Customer transactions as a value addition. The RTGS System enables the Banks to have real time information on, for example, account balances, used and available intra-day credit, queue status, transaction status, etc. The RTGS System is multi-currency capable and based on Straight Through Processing (STP). The number of direct participants in the RTGS are thirty (30) participants including CBB.

The daily average volume of Bank Transfers for H2 2020 (second half of 2020) decreased marginally by 9.8% to 138 transfers compared to 153 transfers for H1 2020 (first half of 2020).¹⁰ Furthermore, the daily average volume of Bank Transfers for H2 2020 has slightly decreased by 16.4% from 165 to 138 transfers when compared to H2 2019.



Source: CBB.

As the daily average volume of Bank Transfers through the RTGS have decreased, the value of those transfers has also decreased in H2 2020 by 22.9% when compared to H1 2020 from BD 284.3 million to BD 219.3 million. Nevertheless, the daily average value of Bank Transfers for H2 2020 decreased by 28.5% from BD 306.9 million to BD 219.3 million when compared H2 2019.

Table 9.1: RTGS Bank Transfers Daily Average Volume and Value

RTGS	Daily Average Volume	Daily Average Value (BD million)
H2 2019	165	306.9
H1 2020	153	284.3
H2 2020	138	219.3

Source: CBB.

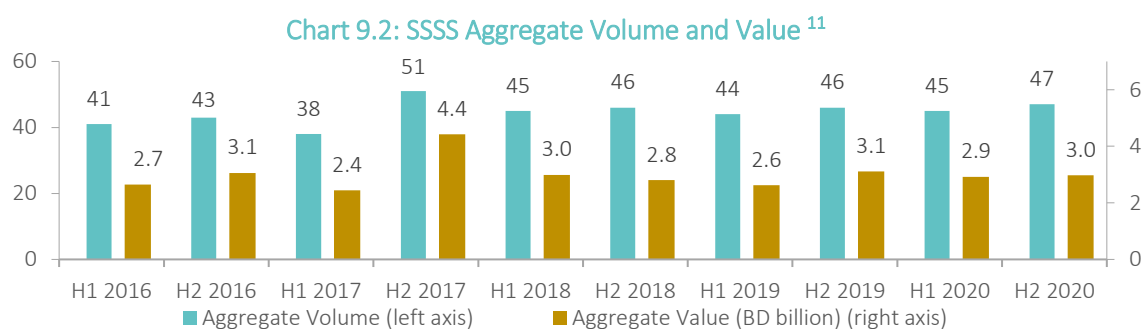
¹⁰ H1 data is from 1st January until 30th June; H2 data is from 1st July to 31st December.

9.3 Scripless Securities Settlement System (SSSS)

CBB operates and oversees Scripless Securities Settlement System (SSSS) that provides the Depository and Settlement Services for holdings and transactions in Government Securities including Treasury Bills (T-Bills), Governments Bonds and Islamic Securities (Sukuk). Moreover, the SSSS went live on the 14th of June, 2007 along with the RTGS System. The number of direct participants is twenty-nine (29) participants and indirect participants are thirty-two (32) members in the SSSS.

The volume of issues H2 2020 increased slightly compared to H1 2020 by 4.4% from 45 issues to 47 issues. Moreover, the volume of issues increased marginally in H2 2020 compared H2 2019 by 2.2% from 46 issues to 47 issues.

The aggregate value of issues in H2 2020 had a modest increase by 1.7% to BD 2.97 billion from the BD 2.92 billion in H1 2020 and decreased slightly by 4.5% from the BD 3.11 billion in H2 2019.



Source: CBB.

Table 9.2: SSSS Aggregate Volume and Value

SSSS	Aggregate Volume	Aggregate Value (BD billion)
H2 2019	46	3.11
H1 2020	45	2.92
H2 2020	47	2.97

Source: CBB.

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

The SSSS continued to operate smoothly and efficiently for the period from 1st July 2020 to 31st December 2020.

9.4 ATM Clearing System (ATM)

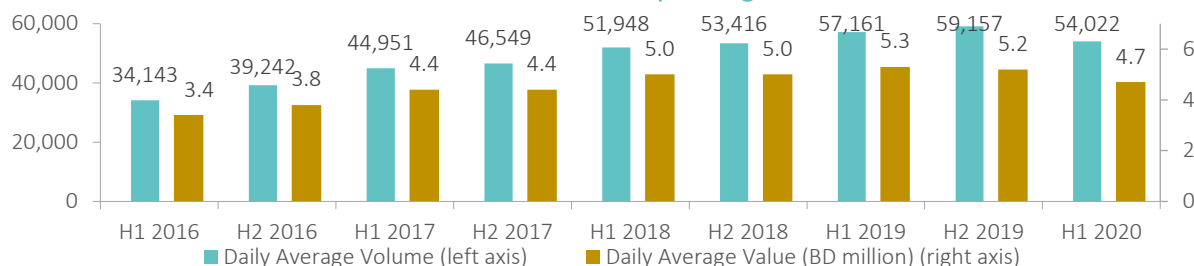
ATM clearing is based on a Deferred Net Settlement (DNS) system. The Benefit Company (BENEFIT) in Bahrain receives and processes all the ATM transactions. The GCC net, a leased line network across the GCC countries, provides for the communication backbone for the transmission of all the ATM Transactions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

The daily average volume of ATM Transactions for H2 2020 decreased by 5.1% to 51,315 per day compared to 54,022 transactions per day for H1 2020. In addition, the daily average volume of ATM transaction decreased by 13.3% in H2 2020 compared to H2 2019 (59,157 transactions per day).

The daily average value of ATM Transactions for the H2 2020 decreased by 8.5% to reach BD 4.3 million when compared to the BD 4.7 million in H1 2020 and decreased by 17.3% when compared H2 2019 (BD 5.2 million).

¹¹ Revised Figures as per the latest Report received from the Banking Services Directorate (BKS).

Chart 9.3: ATM Transactions Daily Average and Volume



Source: BENEFIT.

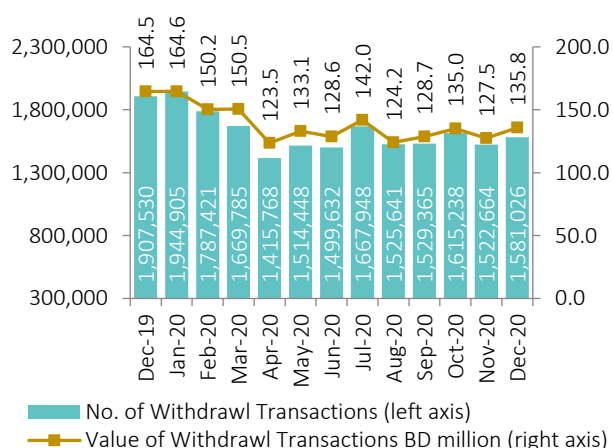
Table 9.3: ATM Transactions Daily Average and Volume

ATM Transitions	Daily Average Volume	Daily Average Value (BD million)
H2 2019	59,157	5.2
H1 2020	54,022	4.7
H2 2020	51,315	4.3

Source: BENEFIT.

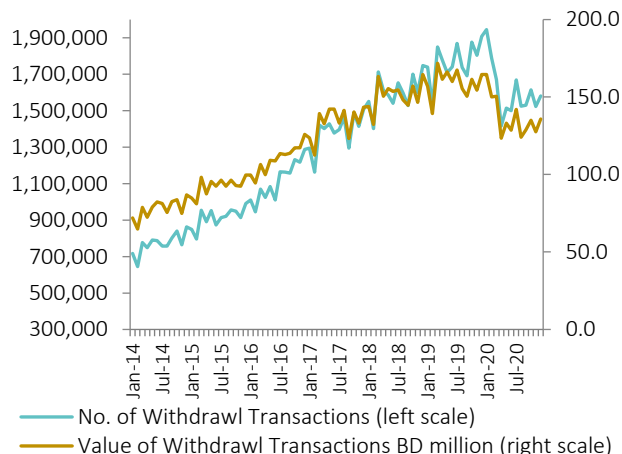
Overall, there was a downward trend in both the value and the volume of ATM Transactions (Chart 9.4). H2 2020, the lowest value of withdrawals was witnessed in August 2020 at BD 124.2 million (12.5% decrease from previous month and 20.1% YoY). The lowest volume of transactions was in November 2020 with 1,522,664 transactions (5.7% decrease from previous month and 15.6% YoY).

Chart 9.4: Number and Value of ATM Transactions, December 2019 – December 2020



Source: BENEFIT.

Chart 9.5: Number and Value of ATM Transactions



Source: BENEFIT.

9.5 Bahrain Cheque Truncation System (BCTS)

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

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

The number of participants in the BCTS are thirty (30) participants. The daily average volume of cheques for H2 2020 decreased by 5.2% when compared to the H1 2020 from 9,651 cheques to 9,147 cheques. In addition, the daily average volume of cheques in H2 2020 decreased by 22.9% from 11,870 cheques in H2 2019.

Furthermore, the daily average value of cheques decreased in the second half of 2020 by 5.3% when compared to the first half of 2020 from BD 30.1 million to BD 28.5 million. Moreover, the daily average value of cheques for the second half of 2020 decreased by 17.4% from BD 34.5 million for the second half of 2019 to BD 28.5 million.

Chart 9.6: BCTS Daily Average Volume and Value

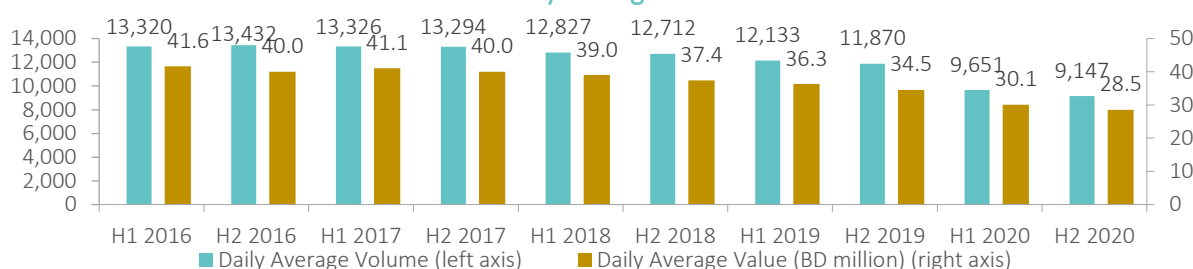


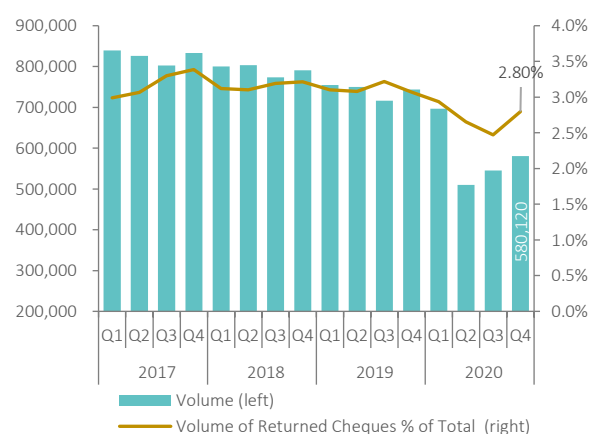
Table 9.4: BCTS Daily Average Volume and Value

BCTS	Daily Average Volume	Daily Average Value (BD million)
H2 2019	11,870	34.5
H1 2020	9,651	30.1
H2 2020	9,147	28.5

Source: BENEFIT.

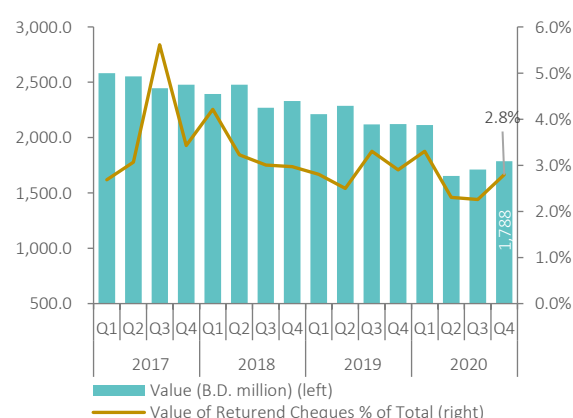
The BCTS continued to operate smoothly and efficiently for the period from 1st July, 2020 to 31st December, 2020. Charts 9.7 and 9.8 show the volume and value of cheques and the percentage returned cheques to the total volume and value. Between Q1 2017 and Q4 2020, returned cheques ranged between 2.5% to 3.4% as a percentage of total volume and 2.3% to 5.6% as a percentage of total value.

Chart 9.7: Volume of Issued Cheques and % of Returned Cheques



Source: BENEFIT.

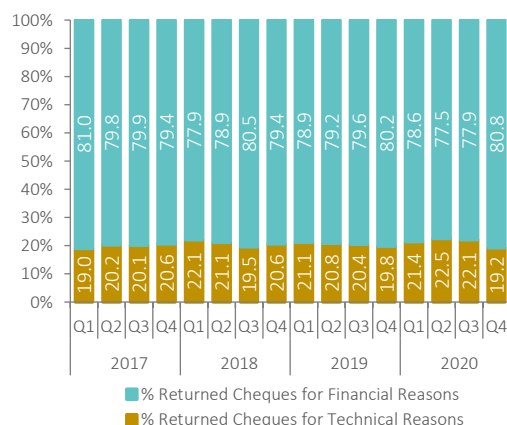
Chart 9.8: Value of Issued Cheques and % of Returned Cheques (BD million)



Source: BENEFIT.

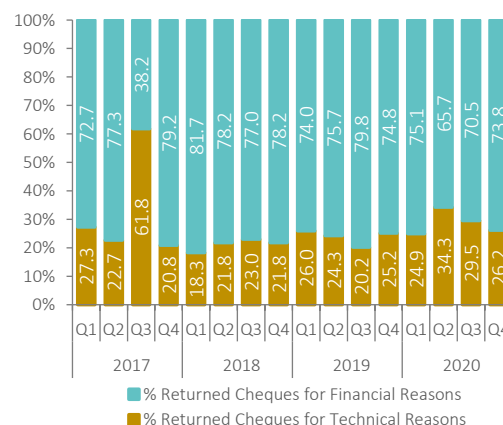
The majority of the cheques returned in terms of volume and value are returned due to financial reasons reaching 80.8% of the total volume of cheques and 73.8% of the total value of cheques in Q4 2020. Cheques returned due to technical reasons comprised 19.2% of total volume and 26.2% of total value in Q4 2020 (Charts 9.9 and 9.10).

Chart 9.9: Returned Cheques by Volume (% of Technical vs. Financial)



Source: BENEFIT.

Chart 9.10: Returned Cheques by Value (% of Technical vs. Financial)



Source: BENEFIT.

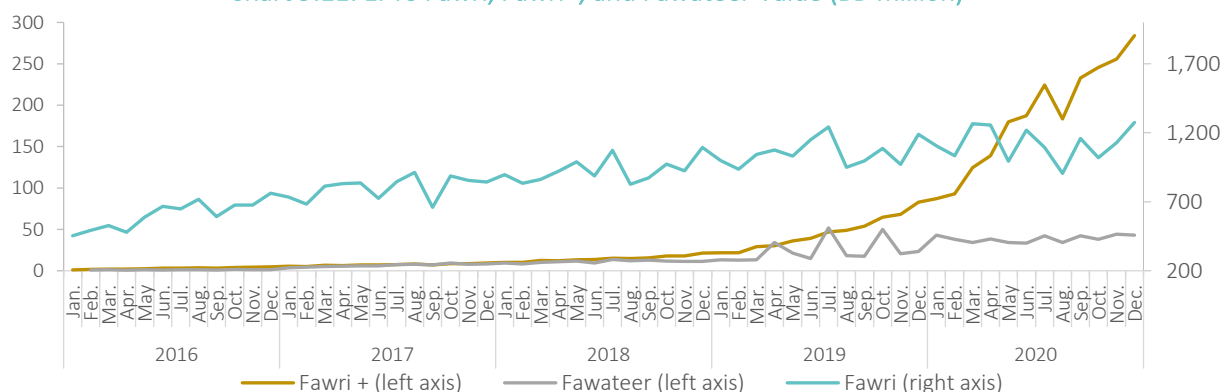
9.6 Electronic Fund Transfer System (EFTS) including Electronic Bill Presentment and Payment (EBPP) System

With the introduction of International Bank Account Number (IBAN) in January 2012, transfers were easier and less time consuming for both Customers and Banks nevertheless, secured and more convenient. It was perceived that further uses of the IBAN can be utilized. Therefore, the Electronic Fund Transfer System (EFTS) was launched on the 5th November, 2015, whereas Electronic Bill Presentment and Payment (EBPP) System was launched on the 3rd October, 2016, operated by the Benefit Company (BENEFIT) and overseen by CBB. The EFTS including EBPP is an electronic system that interconnects all Retail Banks in Bahrain with each other and major billers in the Kingdom of Bahrain in order to enhance the efficiency of fund transfers and bill payments promoting a more proactive and forward-thinking Banking sector.

The Kingdom of Bahrain took a step forward in line with the global trend of going cashless by introducing the EFTS that enabled electronic fund transfers within Bahrain with three services: Fawri+ Fawri, and Fawateer. Fawri+ and Fawri provide fund transfers service to individuals and corporates, where Fawateer provides real-time bill payments offering the public easier access, faster processes and virtually no errors. The number of participants offering outward EFTS Services has reached twenty-six (26) participants.

Chart 9.11 shows an overall increasing trend in the monthly transfers in Fawri+ and Fawateer, as it shows a fluctuation in Fawri with a slight decrease in value. The total value of Fawri transfers for H2 2020, decreased slightly from BD 6,876.0 million for H1 2020 to BD 6,582.5 million for H2 2020. The value of Fawri+ transfers increased from BD 811.1 million in H1 2020 to BD 1,426.8 million for H2 2020.

Chart 9.11: EFTS Fawri, Fawri+, and Fawateer Value (BD million)



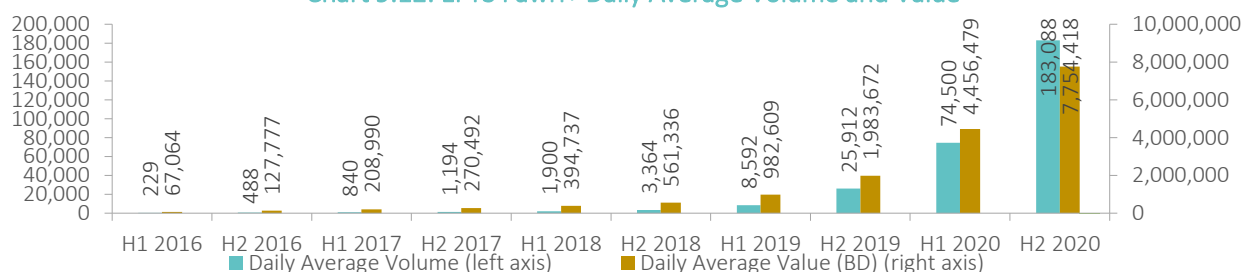
Source: BENEFIT.

In addition, the value of Fawateer payments increased from BD 221.0 million in H1 2020 to BD 244.0 million in H2 2020. The Fawri+ transfers in all electronic channels including internet banking, mobile banking and BenefitPay surged during 2020 is due to the increasing popularity and convenience in going cashless during the COVID-19 pandemic.

The daily average volume of Fawri+ transfers for H2 2020 increased significantly by 145.8% when compared to H1 2020 from 74,500 transfers to 183,088 transfers. Furthermore, the daily average volume of Fawri+ transfers for H2 2020 increased by 606.6% from 25,912 transfers in H2 2019. The daily average value of Fawri+ transfers increased by 74.0% from BD 4,456,479 in H1 2020 to BD 7,754,418 in H2 2020. The daily average value also increased by 290.9% in H2 2020 when compared to the from BD 1,983,672 in H2 2019.

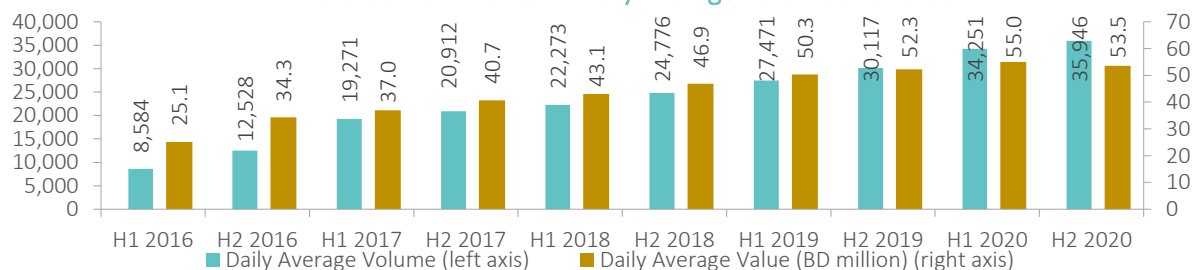
The daily average volume of Fawri transfers in H2 2020 increased by 5.0% when compared H1 2020 from 34,251 transfers to 35,946 transfers. Moreover, the daily average volume of Fawri transfers in H2 2020 increased by 19.4% from the 30,117 transfers in H2 2019. In addition, the daily average value of Fawri transfers decreased by 2.7% from BD 55.0 million in H1 2020 to BD 53.5 million in H2 2020. Furthermore, the daily average value of Fawri transfers increased by 2.3% from BD 52.3 million in H2 2019.

Chart 9.12: EFTS Fawri+ Daily Average Volume and Value



Source: BENEFIT.

Chart 9.13: EFTS Fawri Daily Average Volume and Value



Source: BENEFIT.

Table 9.5: EFTS (Fawri+, Fawri) Daily Average Volume and Value¹²

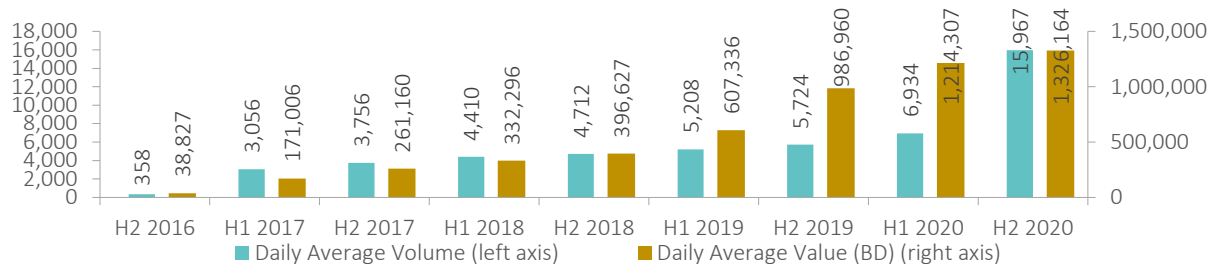
EFTS	Fawri +		Fawri	
	Daily Average Volume	Daily Average Value (BD)	Daily Average Volume	Daily Average Value (BD million)
H2 2019	25,912	1,983,672	30,117	52.3
H1 2020	74,500	4,456,479	34,251	55.0
H2 2020	183,088	7,754,418	35,946	53.5

Source: BENEFIT.

The daily average volume of Fawateer Payments for the second half of 2020 increased by 130.3% when compared to H1 2020 from 6,934 payments to 15,967 payments and increased by 179.0% from the 5,724 payments in H2 2019. In addition, the daily average value of Fawateer reached BD 1,326,164 in H2 2020 increasing by 9.2% when compared to H1 2020 (BD 1,214,307) and by 34.4% compared to H2 2019 (BD 986,960).

¹² Settled Transactions only as per Report received from BENEFIT.

Chart 9.14: EBPP Fawateer Daily Average Volume and Value



Source: BENEFIT.

Table 9.6: EBPP Fawateer Daily Average Volume and Value¹³

EBPP	Daily Average Volume	Daily Average Value (BD)
H2 2019	5,724	986,960
H1 2020	6,934	1,214,307
H2 2020	15,967	1,326,164

Source: BENEFIT.

The EFTS including EBPP continued to operate in a safe, efficient, resilient and reliable manner from 1st July, 2020 to 31st December, 2020. CBB continues to assess the EFTS including EBPP in terms of compliance with the requirements set by the Principles for Financial Market Infrastructures (PFMI), CBB Law and CBB's Directives, etc.

9.7 Point of Sale (POS)

POS machines accept different financial instruments, primarily debit and credit cards. POS terminals are an essential part of financial inclusion. The increase in POS terminals and their utilities, combined with mobile POS and new age payment mechanisms helps in achieving higher financial inclusion. As of Q4 2020, there were 24,702 POS terminals (Table 9.7).

Table 9.7: Point of Sale (POS) Transactions in Bahrain

	Volume of transactions			Value of transactions (BD)			No. of POS terminals
	Cards issued in Bahrain	Cards issued outside Bahrain	Total	Cards issued in Bahrain	Cards issued outside Bahrain	Total	
2018	49,048,695	15,425,030	64,473,725	1,524,054,553	453,159,703	1,977,214,256	35,010
2019	58,433,552	15,246,093	73,679,645	1,877,177,353	557,218,330	2,434,395,682	40,262
2020	77,347,515	6,438,295	83,785,810	2,124,921,776	216,993,593	2,341,915,369	24,702
2018 Q1	11,186,551	2,745,008	13,931,559	372,647,643	113,457,337	486,104,980	30,693
Q2	12,617,936	6,188,449	18,806,385	292,813,040	83,433,455	376,246,495	33,716
Q3	12,284,552	3,264,135	15,548,687	411,937,304	125,461,871	537,399,175	33,716
Q4	12,959,656	3,227,438	16,187,094	446,656,567	130,807,040	577,463,606	35,010
2019 Q1	12,796,302	3,510,080	16,306,382	422,230,368	131,552,841	553,783,209	36,574
Q2	14,033,347	3,522,845	17,556,192	473,318,809	133,581,456	606,900,264	39,808
Q3	14,686,997	4,185,241	18,872,238	472,353,247	144,655,936	617,009,183	40,506
Q4	16,916,906	4,027,927	20,944,833	509,274,929	147,428,096	656,703,025	40,262
2020 Q1	17,208,015	3,403,237	20,611,252	502,314,582	111,827,796	614,142,378	42,768
Q2	15,874,738	772,294	16,647,032	447,251,147	25,008,665	472,259,812	43,538
Q3	20,504,199	907,432	21,411,631	554,864,878	33,249,383	588,114,260	22,587
Q4	23,760,563	1,355,332	25,115,895	620,491,169	46,907,750	667,398,919	24,702

Source: CBB.

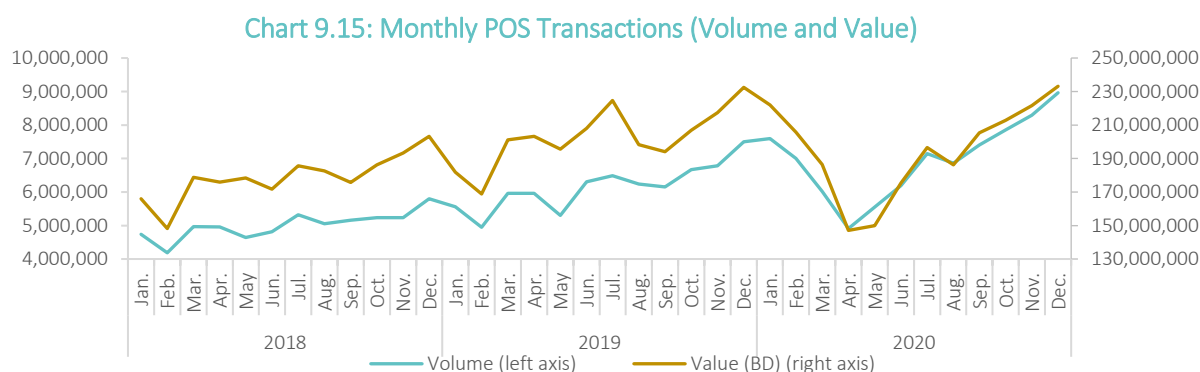
POS Transactions in Bahrain have shown a steady increase in both in volume and value. The total number of transactions for 2020 increased by 13.7% to reach 83.8 million transactions from the 73.7 million transaction in 2019. The total value of transactions decreased by 3.8% from BD 2,434.4 million to 2,341.9 million over the same period. The volume and value of cards issues in Bahrain has increased in 2020 by 32.4% and 13.1% respectively. On the other hand, the volume and value of transactions by cards issued outside Bahrain had a significant decrease in 2020 by 57.8% and 61.1% respectively as a result of travel restrictions due to COVID-19 pandemic.

¹³ Settled Transactions only as per Report received from BENEFIT.

As of Q4 2020, the total number of transactions performed using POS machines in Bahrain was 25.1 million which is a 17.3% increase from Q3 2020, and 19.9% YoY increase from Q4 2019. As for the total value of transactions, the total value of transactions performed using POS machines in Bahrain in Q4 2020 was BD 667.4 million which is 13.5% increase from Q3 2020, and 1.6% YoY increase from Q4 2019. The increase in spending in volume and value of POS Transactions in Q4 2020 reflects the increase in consumer spending compared Q2 and Q3 2020 where there was a significant impact of the COVID-19 pandemic on consumer spending.

Chart 9.15 shows the monthly of POS Transactions in terms of volume and value which can help identify any cyclicity in behavior over the long run. The overall trend in increase in POS Transactions in the second half of 2020 compared to the first half shows that people prefer making direct payments to merchants through POS terminals instead of ATM/Cash withdrawals.

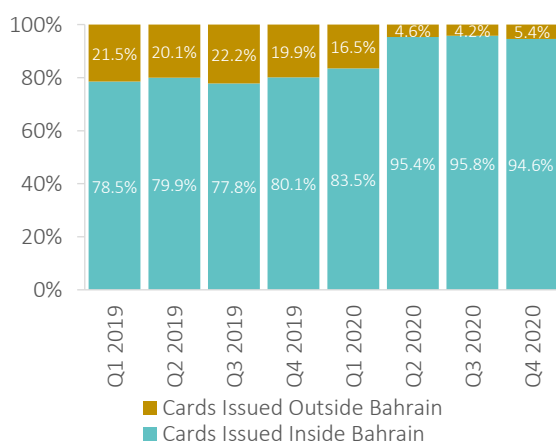
The COVID-19 health crisis impacted the nature of POS Transactions shifting towards contactless as consumers are developing new habits. Although contactless adoption is accelerating, POS transaction values are expected to take time to reach the pre-COVID levels. The longer lockdown/precautionary measures period the more the pandemic will have a lasting impact on consumer behavior. POS Transactions are expected to be driven by contact payments; however, contactless transactions will continue to grow faster than before the pandemic.



Source: CBB.

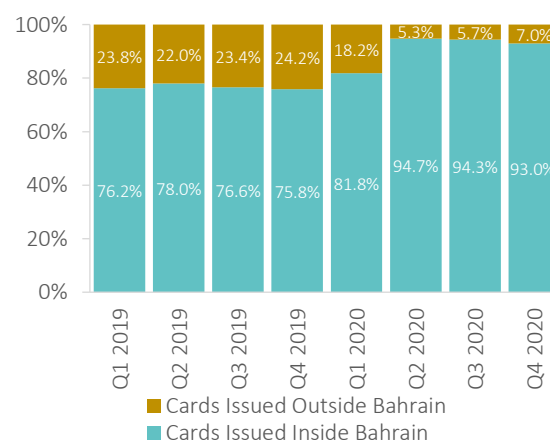
As of Q4 2020, 94.6% of the volume of transactions and 93.0% of the value of transactions came from cards issued inside Bahrain compared to 95.8% and 94.7% in Q2 2020 respectively (Chart 9.16 and Chart 9.17). The decrease in share of cards issued outside Bahrain is due to the decrease in number of foreigners visiting Bahrain due to travel restrictions during the COVID-19 pandemic. The share of cards issued outside Bahrain is expected to increase in the upcoming quarters as travel restrictions are eased.

Chart 9.16: Volume of POS Transactions (% of Cards Issued Inside vs. Outside Bahrain)



Source: CBB.

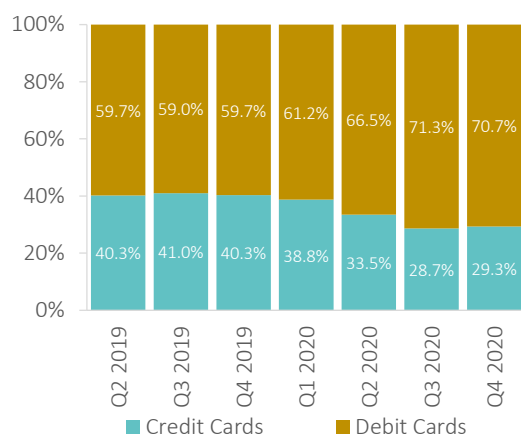
Chart 9.17: Value of POS Transactions (% of Cards Issued Inside vs. Outside Bahrain)



Source: CBB.

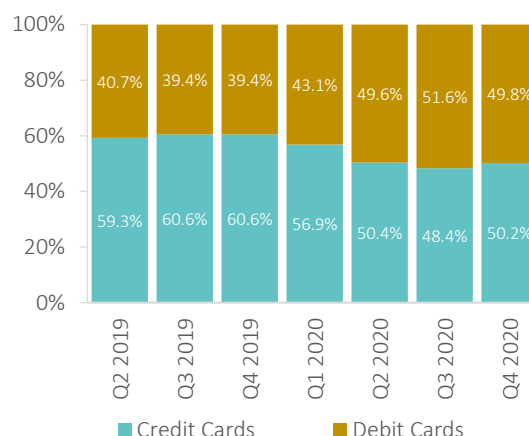
For Q4 2020, 70.7% of the volume of transactions and 49.8% of the value of transactions came from debit cards (Chart 9.18 and Chart 9.19). The share of debit cards increased for both volume and value in Q4 2020 due to a change in consumer spending habits.

Chart 9.18: Volume of Transactions (% of Debit Cards vs. Credit Cards)



Source: CBB

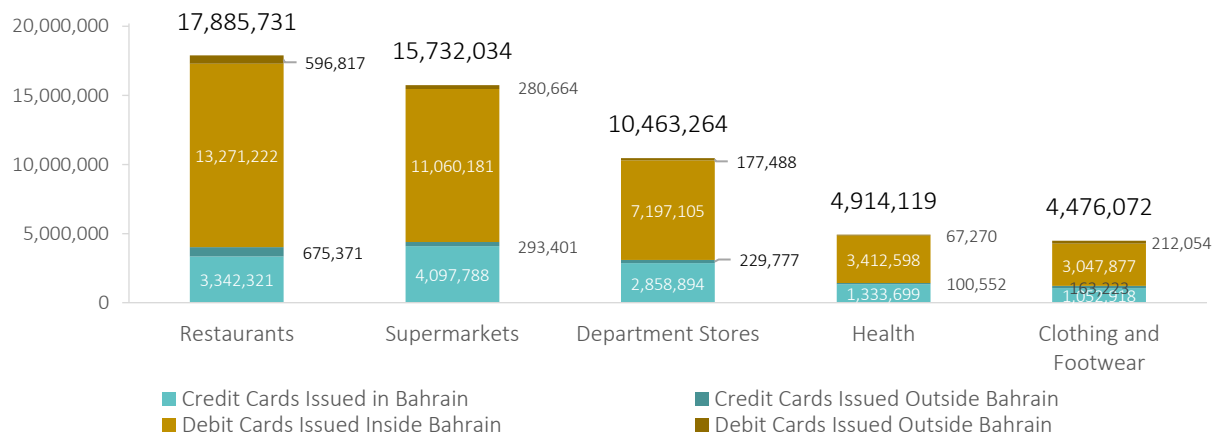
Chart 9.19: Value of Transaction (% of Debit Cards vs. Credit Cards)



Source: CBB.

Charts 9.20 and 9.21 show the top 5 sectors in terms of volume and value of transactions for the first half of 2020. In terms of volume the top 5 sectors were restaurants (17,885,731 transactions), supermarkets (15,732,034 transactions), department stores (10,463,264 transactions), clothing and health (4,914,119 transactions), and clothing and footwear (4,476,072 transactions). The majority of the number of transactions for the supermarket, restaurants, department stores, clothing and footwear, and government services sectors were done using debit cards issued inside Bahrain making 74.2%, 70.3%, 68.8%, 69.4%, and 68.1% of the transactions respectively.

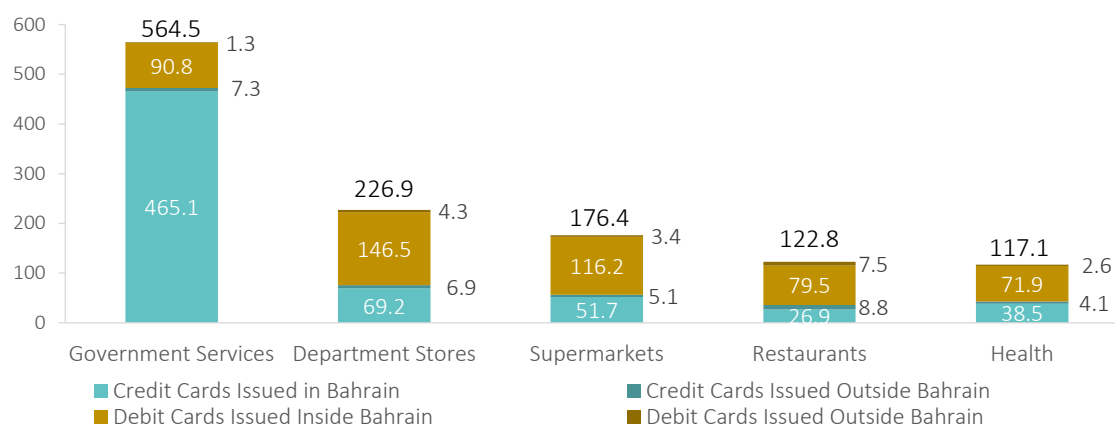
Chart 9.20: Top 5 Sectors by Volume of Transactions- 2020



Source: CBB.

In terms of value, the top 5 sectors were Government Services (BD 564.5 million), Department Stores (BD 226.9 million), supermarkets (BD 176.4 million), restaurants (BD 122.8 million), and health (BD 117.1 million). For government services, 82.4% of the value of transactions were made by credit cards issued inside Bahrain. As for department stores, supermarkets, restaurants, and health sectors, 64.6%, 65.9%, 64.8%, and 61.3% of the value of transactions respectively were made by debit cards issued inside Bahrain.

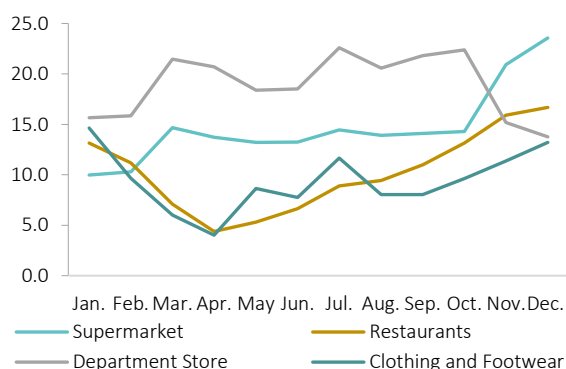
Chart 9.21: Top 5 Sectors by Value of Transactions (BD million)- 2020



Source: CBB.

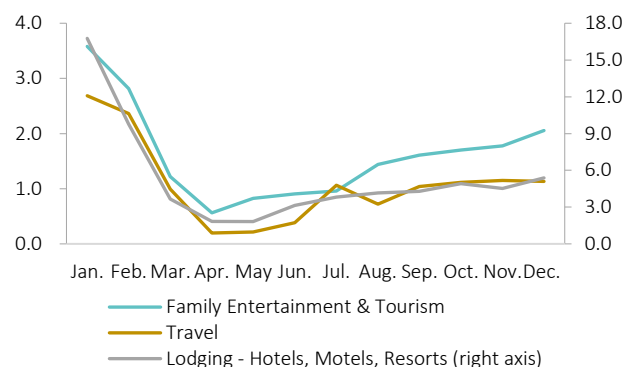
Charts 9.22 and 9.23 shows the monthly value of POS transactions for 2020 in selected sectors that have witnessed a change in consumer spending in 2020 during the pandemic.

Chart 9.22: Monthly Value of POS Transactions of Selected Indicators-2020 (BD million)



Source: CBB.

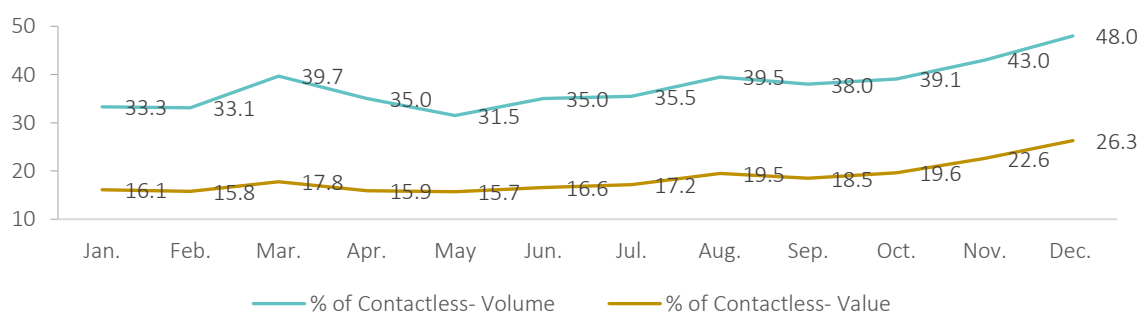
Chart 9.23: Monthly Value of POS Transactions of Selected Indicators-2020 (BD million)



Source: CBB.

In March 2020, as part of CBB's precautionary efforts to contain COVID-19, CBB increased the limit on contactless transactions without PIN transaction to BD 50. In September 2020 CBB requested that necessary measures are taken to finalize the issuance and distribution of contactless debit, credit, and prepaid and charge cards to customers by the end of 2020 at no charge to the customers. Chart 9.24 shows the increasing trend in using contactless cards during 2020. The percentage of contactless transactions in terms of volume increased from 33.3% in January 2020 to 48.0% in December 2020. Similarly, in terms of value, the percentage of contactless transactions increased from 16.1% in January 2020 to 26.3% in December 2020.

Chart 9.24: Percentage of Contactless POS Transactions - 2020



Source: CBB.

9.8 Digital Wallets

Bahrain's appetite for digital wallets is growing where significant steps have been made in realizing the nation's vision to become a technology pioneer. The Kingdom has been working towards a successful digital economy by building a proper ecosystem provides a network of connected entities from CBB to banks, to telecommunication companies, to merchants and consumers. The growth in digital wallet usage is a global trend due to 1) simplicity by having one destination to makes transactions that are 2) quicker and easier.

The volume and value of transactions through digital wallets has been increasing significantly over the past year, as provided in Table 9.8, with an increasing trend in both the volume and value of transactions, indicating the success of adoption of these digital solutions. The total volume and value of transactions in 2020 increased to 51.7 million transactions (552.2%) and BD 2.4 billion transactions (479.2%) respectively compared to 2019.

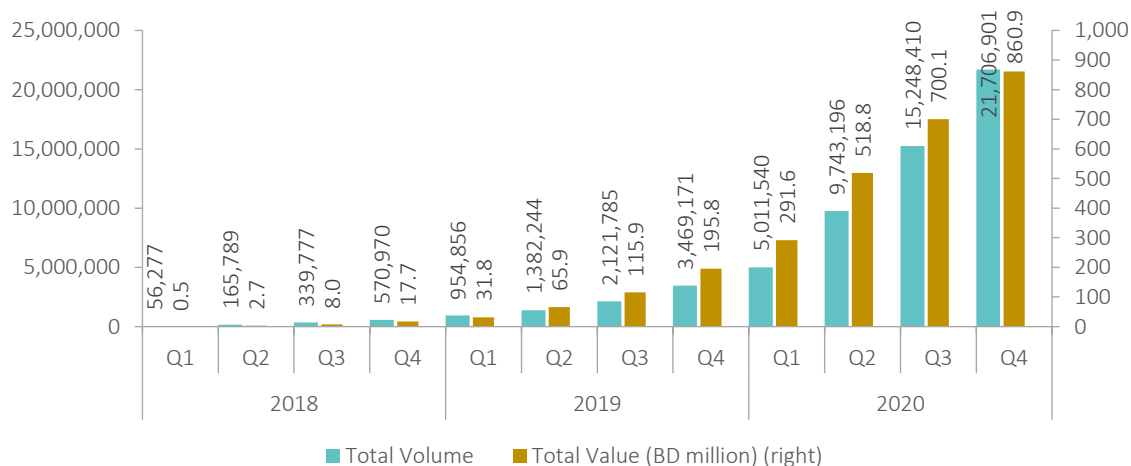
Table 9.8: Volume and Value of Transactions through e-Wallet and Mobile Payments

Period		Volume	Value (BD)
2018		1,132,813	28,879,008.7
2019		7,928,056	409,412,558.9
2020		51,710,047	2,371,383,946.3
2018	Q1	56,277	460,546.5
	Q2	165,789	2,739,701.3
	Q3	339,777	7,954,752.0
	Q4	570,970	17,724,008.9
2019	Q1	954,856	31,825,858.7
	Q2	1,382,244	65,891,371.6
	Q3	2,121,785	115,907,755.0
	Q4	3,469,171	195,787,573.7
2020	Q1	5,011,540	291,554,820.0
	Q2	9,743,196	518,836,255.1
	Q3	15,248,410	700,067,628.4
	Q4	21,706,901	860,925,242.8

Source: CBB.

The total volume in Q4 2020 was 21.7 million transactions, a 42.4% increase from the 15.2 million transactions in Q2 2020 and 525.7% YoY increase from the 3.7 million in Q4 2019. The value of transactions in Q4 2020 was BD 860.9 million, a 23.0% increase from Q2 (BD 700.1 million) and 339.7% YoY increase from Q4 2019 (BD 195.8 million).

Chart 9.25: Volume and Value of Transactions through e-Wallets and Mobile Payments



Source: CBB.

Chapter

10

Fintech, Innovation and Financial Inclusion

Key Highlights

Regulatory Sandbox	Bank Branches	ATMs	ATM Cards	Debit Cards	Credit Cards
24 Companies	204	515	1,664.1 K	1,210.3 K	306.6 K

- ▶ Bahrain's established financial services industry, its role as a leading Islamic finance hub, and the national drive for financial inclusion are supporting the growth of FinTech.
- ▶ CBB's FinTech is responsible for making recommendations on the necessary regulatory reforms to encourage innovation within the financial services sector via the use of FinTech solutions, supervising and overseeing the progress of companies participating in the Regulatory Sandbox and monitoring technical and regulatory developments within the FinTech field.
- ▶ Continued FinTech developments within the Kingdom in Open Banking, e-KYC, and contactless payments.

10.1 Overview

Bahrain is repositioning itself to be a Financial Technology (FinTech) hub of the region combining conventional and Shariah compliant FinTech solutions. Offering low cost, convenient and instant payments, FinTech has been of great interest to the regulators that were posed with the challenges of regulating, overseeing and ensuring safety and efficiency of those new payment methods.

The Kingdom is embracing and encouraging digital transformation and the adoption of innovative technology, ultimately adding value and creating a more efficient financial services sector and achieving higher financial inclusion. CBB seeks to make the Kingdom of Bahrain a key player in FinTech through the availability of (1) innovative financial solutions, (2) highly qualified national talent in finance and banking, and (3) access to supportive policies.

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

10.2 FinTech Developments

CBB has announced a series of measures towards consolidating its position as a regional financial hub and facilitating a number of FinTech initiatives. As part of CBB's ongoing initiatives towards financial digital transformation and developments in digital financial services, CBB announced the establishment of a dedicated FinTech & Innovation Unit in October 2017 to ensure an adequate regulatory framework is in place to adapt FinTech, which in turn will enhance the services provided to individual and corporate customers in the financial sector.

The FinTech Unit is responsible for 1) the approval process to participate in the Regulatory Sandbox 2) supervision of the activities and operations of the authorized Regulatory Sandbox companies' and 3) monitoring technical and regulatory developments in the FinTech field which will allow industry players to apply innovative products while maintaining the overall safety and soundness of the financial system. The FinTech Unit helps the development of a conducive ecosystem to encourage growth in the FinTech industry and to attract more local, regional, and international FinTech firms to the Kingdom.

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

10.2.1 Regulatory Sandbox

CBB launched a regulatory sandbox in June 2017 that enables both local and international emerging businesses, financial technology companies as well as existing CBB licensees, to test their innovative ideas and create pioneering solutions for the financial services sector.¹⁴ This initiative aims to attract FinTech companies from around the world to develop and expand their business in the Arabian Gulf and MENA Region, which will strengthen Bahrain's position as a center of FinTech and financial innovation in the region.

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

1. Innovation: The solution should be truly innovative or significantly different from existing offerings or offer a new use for existing technologies.
2. Customer benefit: The solution should offer identifiable direct or indirect benefits to customers.
3. Technical testing for existing solutions: In case of existing solutions, results of the technical testing must be made available to CBB.

As of March 31st, 2020, CBB had 24 companies testing their solutions within the Regulatory Sandbox, 8 have graduated of which two have received a license: one receiving a license as a capital market- crypto asset service –category 3 and one as a specialized license- ancillary service provider. The solutions being tested out in the sandbox range from digital banks, crypto platforms, crypto ATMs, open-banking solutions, payment services providers, and many more.

10.2.2 FinHub 973: CBB Digital Lab

In October 2020, CBB introduced FinHub 973, which aims to serve as a virtual FinTech platform for the MENA region. The platform has been launched with the help of the Economic Development Board, Bank ABC, ila Bank, BENEFIT, National Bank of Bahrain, and the Bahrain Islamic Bank.

FinHub 973 offers a virtual environment that includes an API for banking services, and it will also provide a way for Fintech firms to work cooperatively with new business partners. The platform also helps with create a collaborative environment for FinTechs based in the MENA region.

The goal is to connect FinTech entrepreneurs to financial institutions, consultants, tech companies, mentors and investors and develop an open innovation platform for the Kingdom of Bahrain to test and build products that solve real consumer problems.

10.2.3 Open Banking

In October 2020, CBB launched the Bahrain Open Banking Framework (BOBF) to ensure holistic implementation of Open Banking services by the industry. This framework includes detailed operational guidelines, security and related standards and guidelines for adoption, customer experience guidelines, technical open Application Programming Interface (API) specifications and the overall governance framework needed to protect customer data. The framework was developed in collaboration with Deloitte and in consultation with retail banks and other financial institutions in Bahrain. Open Banking services entail the provision of two broad categories of services:

¹⁴ A Regulatory Sandbox (Sandbox) is a framework and process that facilitates the development of the FinTech industry in a calculated way. It is defined as a safe space in which businesses can test innovative products, services, business models and delivery mechanisms without immediately incurring all the normal regulatory and financial consequences of engaging in the activity in question.

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

These standards follow the comprehensive rules on Open Banking which were previously issued in December 2018. The open banking regulations mandated the adoption of open banking by all retail banks in the Kingdom by 30 June 2019. With that, Bahrain became the first country in the Middle East to adopt open banking making access to financial information easier, faster, and tailored to the needs of customers. The entrepreneurial and FinTech start-up ecosystem found in Bahrain, that encompasses accelerators, incubators, training programs and funding schemes, can play a major part in Open Banking.

Following the launch of the BOBF, CBB issued for consultation the amended CBB Rulebook Modules to be aligned to BOBF on 28th April 2021.

10.2.4 National e-KYC

CBB announced in January 2021 the launch of eKYC by financial institutions in the Kingdom as part of its initiatives for digital transformation in the sector. The platform provides a national digital identity database for financial institutions to securely verify the identities of their customers, validate their information and share data digitally before providing products and services. The platform is operated by BENEFIT in collaboration with the Information and eGovernment Authority (IGA) and under the supervision of CBB.

The API of the platform allows for seamless integration with financial institutions core systems, digital channels and mobile apps. With the introduction of Open Banking in Bahrain, this also provides an opportunity for FinTech companies to verify customers identities through their online and mobile applications.

The IGA has started providing identity verification services to the government sector, and this project complements providing the services to the private sectors, especially the banking sector, as the project will allow the it to start providing innovative, high-quality, secure data services that keep the privacy of individuals. That will lead to enhance economic growth and expand commercial activities in the Kingdom.

Licensed financial institutions will use this service and accelerate its efforts towards automating the maintenance of its customer data and records, by implementing eKYC API integration with their core systems, digital channels and mobile apps. The project is also one of the first Projects using Block Chain technology in the Kingdom of Bahrain.

10.2.5 Tokenization for Contactless Payments

In September 2020, CBB, in cooperation with BENEFIT, retail banks and Bahrain Facilities Company, announced the launch of a coding service for operating the encryption feature for contactless payment for smartphones running the Android system. The payment tokenization service enables contactless (‘Tap&Go’) payments at POS terminals via Android smart phones.

The official launch of Tap & Go, enables users to make digital purchases at POS machines with the BenefitPay app using only their Android smartphone. This service is characterized by the ease of completing payment transactions without the need to use a plastic bank card, which strengthens the preventive measures and precautionary measures taken by CBB to contain and prevent the spread of COVID-19.

The encryption service blocks the card’s data from the other party’s visibility and prevents any party from accessing it, thus the customer is protected from the risk of misuse of the data available on the

card and those stored in it. The service does not require any additional data to be stored on the BenefitPay app, and all that is required from the customer to specify the card in the app to activate the service.

10.2.6 BENEFIT

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

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

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

10.2.7 E-Wallet Developments

With a high level of mobile penetration, service and retail industries in Bahrain are quickly embracing digital solutions to further improving customer experiences, making the future of e-wallets in Bahrain promising driving us towards cashless society. Several digital wallets were launched in the Kingdom that allows users to make instant payments via smart phones and also facilitate the collection of payments electronically through debit and credit cards. Table 10.1 shows a list of all the digital wallets in Bahrain, along with their launch date and a description of what features they provide.

Table 10.1: Digital Wallets and Features in the Kingdom

Wallet	Launch	Description	Features
b-wallet	January 2018	Bahrain's digital services provider, Batelco partnered with Arab Financial Services (AFS), to introduce a digital mobile wallet and payment solution for customers in the Kingdom. The digital mobile wallet app enables quick and secure payments through a smartphone app. The user can scan the QR Code available at different merchants to make payment.	<ul style="list-style-type: none"> • Add money into a user's account using any debit card issued in Bahrain. • Send and receive money between b-wallet accounts. • Request money from another b-wallet account. • Make payments to merchants. • Pay with your smartphone using QR code. • Available Offers.
BenefitPay	May 2017	BenefitPay is an app that works using QR code scanning Technology by allowing users to make safe and secure payments. The service provides a one-time step to add a card and/or bank account and then enables the customer to scan a QR code from the merchant app and	<ul style="list-style-type: none"> • Make Payments to Merchants. • Payments using Credit cards through the mobile App payments or websites. • P2P transfers through Fawri+. • Bill payments through Fawateer. • Pay with your smartphone using QR code.

		enters proper authentication to complete the transaction. BenefitPay also allows for peer-to-peer transactions.	<ul style="list-style-type: none"> • Available Offers.
Max Wallet	July 2017	Max Wallet is a virtual wallet allowing customers to pay for their purchases using their mobile device without presenting their physical credit cards and paying with a smartphone using QR code. The payment solutions have been launched via a collaboration between BBK and CrediMax to focus on providing more services and payment options.	<ul style="list-style-type: none"> • Transferring money and sharing payments with friends and family. • Make purchase payments to merchants. • Pay with your smartphone using QR code. • Available Offers.
Viva Cash	March 2018	Viva Bahrain launched Viva Cash, a new application offering consumers secure and convenient a digital mobile wallet for payments. Viva partnered with Sadad Bahrain, licensed and regulated by CBB. VIVA Cash is a mobile wallet that can be used to pay your day-to-day expenses.	<ul style="list-style-type: none"> • Add money to VIVA Cash account. • Send Money to friends and Family. • Pay post-paid bills & recharge prepaid Lines. • Send money internationally. • Shop at participating merchants. • Pay with your smartphone using QR code. • Make purchase payments to merchants. • Available Offers.

Source: www.batelco.com, www.credimax.com, www.benefit.bh, www.viva.com.bh.

10.2.8 Crypto Assets

On February 2019, CBB issued comprehensive regulations that covers a range of activities related to crypto-assets allowing for the licensing and regulation of trading, dealing, advisory services, portfolio management services in accepted crypto-assets as principal, as agent, as custodian and as a crypto-asset exchange. The range of activities are covered under four licensed category types. Bahrain recognizes that the market for crypto-assets is growing both in the Kingdom and globally. The regulations are part of CBB's initiative to develop its FinTech eco system and to help mitigate against the risk of financial crime and illegal use of crypto-assets within or from Bahrain.

CBB Crypto-asset rules deal with the rules for licensing, governance, minimum capital, control environment, risk management, AML/CFT, standards of business conduct, avoidance of conflicts of interest, reporting, and cyber security for crypto-asset services. They also cover supervision and enforcement standards including those provided by a platform operator as a principal, agent, portfolio manager, adviser and as a custodian within or from the Kingdom of Bahrain.

10.2.9 Crowdfunding

CBB issued regulations for both equity and financing based crowdfunding activities, whereby the regulations accommodate for conventional as well as Shariah compliant crowdfunding transactions. SMEs in Bahrain and the region are able to raise financing through crowdfunding platforms. Companies operating an electronic equity/financing based crowdfunding platform must be licensed in Bahrain under the instructions depicted in Volume V of CBB Rulebook. Bahraini entrepreneurs will benefit from crowdfunding platform, which provides a viable alternative to bank financing. In particular, CBB is keen to see Bahrain dominate the Shariah compliant financing-based crowdfunding market in the region.

10.2.10 Digital Financial Advice

CBB issued on March 2019 the Directives on “Digital Financial Advice” (also known as “Robo-advice”). For the Bahraini financial services sector, this is an important step towards digitalization by through the power of intelligent automation (financial advice) by the use of algorithms in automated tools that use the logic and methodology applied by traditional financial advisors. The Digital Financial Advice regulations rules will enable:

- Specialized Fintech firms planning to offer digital financial advice obtain a license to offer such services to investors.
- Banks and investment firms to introduce such services with approvals from CBB.

The new rules focus on providing safeguards and controls governing the use of algorithms or AI which are embedded in the software programs used in the digital advisory tools.

10.2.11 FinTech Bay

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

10.2.12 Other Regulatory Framework Developments and Projects

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

- National Digital Transformation Strategy – National Economic Strategy: The FinTech & Innovation Unit is involved in supporting the national digital transformation strategy and national economic strategy in cooperation with the EDB.
- CBB Digital Strategic Study project: CBB has engaged a consultant to assist in assessing the current and emerging business models across the financial services industry, how they will shape both the incumbent and new entrants into the market and also help to understand CBB's anticipated role in regulating these business models and to identify cross cutting themes that need to be addressed to further digital transformation.

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

- CBB has joined the Global Financial Innovation Network (GFIN) network as part of the coordination group, which is the highest tier of membership.
- Abu Dhabi Global Market (ADGM) and CBB signed a MOU to promote and facilitate innovation in financial services in November 2018.
- CBB and MAS signed a MOU to foster innovation in financial services between the two countries in November 2018.'
- CBB is also part of the GCC Secretariat Fintech Working Group, which aims at strengthening and collaborating on FinTech initiatives amongst the GCC.
- CBB has joined the AMF Fintech Working Group.
- CBB is acting as an observer on R3's CBDC Working Group.

CBB is also has made efforts to enhance financial coverage and provide financial services by:

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

10.3 Financial Inclusion

Financial inclusion refers to individuals, irrespective of income level, and businesses having access to useful and affordable financial products and services to meet their needs (through transactions, payments, savings, credit and insurance). These products and services have to be delivered in a responsible and sustainable way. The importance of financial inclusion come in facilitating access to financial services, creating jobs, and improving the standards of living and economic growth.

Financial inclusion efforts in Bahrain aim to ensure that all businesses and households, have access to and can efficiently use the suitable financial services they need to engage in day-to-day transactions. CBB closely monitors developments in the areas of financial inclusion and their impact on domestic, regional and global levels and gathers relevant financial inclusion data. CBB is taking a number of initiatives to further develop indicators related to financial inclusion by expanding (1) the scope of the data and (2) its frequency. The figures in Table 10.2 confirm Bahrain's continued efforts to achieve a higher level of financial inclusion within its financial sector by providing easy access to financial services.

The financial services sector provides services to various categories of the Bahraini population. All payments made by the government, whether in the form of salaries, wages, social benefits or payments to service providers to government agencies, are through formal bank accounts.

Efforts have been made by CBB to prioritize financial inclusion in terms of adopting and implementing a viable national strategy to 1) improving women's, SME, and young people's access to financial services 2) promoting the protection of consumers of financial services 3) improving and providing financial coverage data and statistics to support policy development, and 4) promoting awareness and financial education.

Table 10.2: Financial Inclusion Figures for the Kingdom of Bahrain

	2013	2014	2015	2016	2017	2018	2019*
Number of Banks**	27	27	27	27	26	29	29
Number of Branches	163	167	171	172	171	173	204
<i>Number of Branches per 100,000 in population</i>	13	12.7	12.5	12.1	11.4	11.5	13.7
Number of ATMs	471	452	458	461	453	479	515
<i>Number of ATMs per 100,000 in population</i>	37.6	34.4	33.4	32.4	30.2	31.9	34.7
Number of Accounts***	1,505,233	1,521,724	1,636,519	1,741,395	1,887,403	1,907,307	2,108,637
<i>Number of Accounts per 1,000 in population</i>	1,201	1,158	1,194	1,223	1,257	1,269	1,421
Number of Internet/PC linked accounts	352,982	471,535	468,746	544,111	534,033	477,894	616,960
ATM Cards (thousands)	1,199.7	1,229.6	1,352.6	1,407.7	1,481.8	1,384.6	1,644.1
Debit Cards (thousands)	1,002.2	1,010.0	1,097.2	1,111.2	1,128.5	1,171.7	1,210.3
Credit Cards (thousands)	202.3	222	253.3	290.3	329.7	322.9	306.6
Population	1,253,191	1,314,562	1,370,322	1,423,726	1,501,116	1,503,091	1,483,756

*Preliminary data.

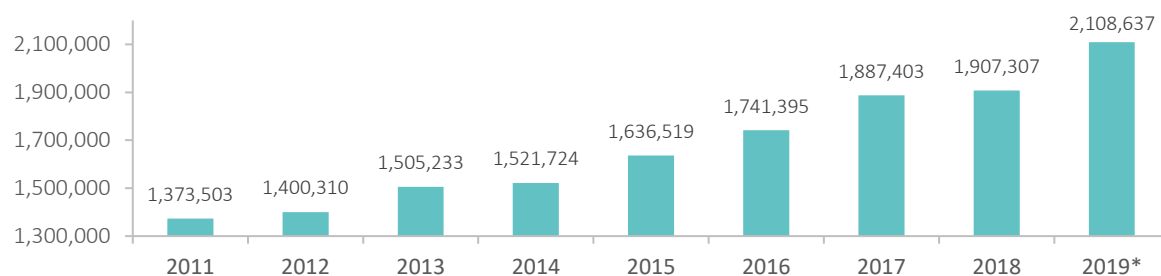
**Retail Banks only (Conventional and Islamic).

***Includes saving deposits as they are used for payments in Bahrain.

Source: CBB and IGA.

From 2013 to 2019, figures show that access to finance measured by the number of Branches and ATM machines per 100,000 people within the Kingdom is large (table 10.2). In terms of bank branches per 100,000 people, Bahrain stands at 13.7 for 2019. As for the number of ATM machines per 100,000, Bahrain records 34.7 ATMs per 100,000 in population for 2019. The number of bank accounts within retail banks increased over the last 6 years from 1,505,233 in 2013 to 2,108,637 in 2019 demonstrating an increase of 40.1% (The 2019 increase in the number of retail bank accounts was 10.6%).

Chart 10.1: Number of Bank Accounts



*Preliminary data.

Source: CBB.

Chapter 11

Cyber Security

Key Highlights

- ▶ Cyber Security is a fundamental pillar of the national ICT framework in the Kingdom of Bahrain
- ▶ the National Cybersecurity National Cybersecurity Strategy is a commitment to protect the Kingdom's interests in cyberspace.
- ▶ The National cyber security strategy aims to secure cyber-space to safeguard national interests and protect the Kingdom of Bahrain against cyber-threats to reduce risks.
- ▶ The National Cybersecurity Committee was created to addressing Cybersecurity at the highest level of the government.

11.1 Cybersecurity Framework in Bahrain

The digital revolution and emerging technologies forced many organizations, including the public sector, to re-think about the service delivery and customer experience. Digital transformation has re-shaped many services and introduced new channels. However, such developments will not come without any risk or cost.

Therefore, Cyber Security is a fundamental pillar of the national ICT framework in the Kingdom of Bahrain. The Kingdom has a well-defined national cybersecurity framework governed by the General Directorate of Anti-Corruption and Economic and Electronic Security at the Ministry of Interior (MOI) for the cybersecurity in different sectors such as energy, finance, education, health, and other sectors.

The IGA focuses on the cybersecurity of the government sector and protecting the government data network through implementing the most advanced technologies in the market, ensuring the quality of information security of all government organizations, conducting several awareness programs and workshops as well as providing instant support and response services for government organizations.

11.2 The National Cybersecurity Strategy

The Kingdom of Bahrain is transforming into a digitalized economy that creates new dependencies. The government, organizations, and the delivery of essential services rely heavily on the integrity of cyberspace, infrastructure, systems, and data that underpin it. Thus, a comprehensive national strategy is required to address the current and rising cyber-threats as well as reduce the associated risks.

In order to address the current cyber-threats and the arising cyber-risks, the National Cybersecurity National Cybersecurity Strategy is a commitment to protect the Kingdom's interests in cyberspace. Furthermore, the strategy outlines the nation's vision for Cybersecurity and identifies the objectives towards its execution. It is identified by the key principles of leadership, shared responsibility and ethical values; and influenced by mandates, other national strategies, and international best practices.

The government has taken the necessary procedures to address these risks in order to improve the readiness and information security in government entities and Bahrain in general.

The IGA launched a number of programs and initiatives related to information security. Mainly, the security awareness program to government employees launched in 2016 to increase the awareness of the importance of protecting the information, prepare different devices as well as systems with the required security and securely use the technology. The IGA organizes weekly interactive training courses offered by a qualified team from the General Directorate of Information Security & Radio Communication. The program includes theoretical, practical, and discussion sessions that are designed

to suit all specialties and functional levels of Bahrain government employees as they speak in a unified and simplified language.

11.2.1 Vision and Objectives

Vision:

Establishing a secure cyber-space to safeguard national interests and protect the Kingdom of Bahrain against cyber-threats to reduce risks.

Objectives:

- **Safeguard Critical National Infrastructure (CNI):** Protect organizations that provide essential services to the nation such as oil, electricity and water, governmental, and financial services.
- **Respond decisively to cyber-threats:** Establish a holistic approach to incidents that face both the public and the private sectors.
- **Establish a legislative and regulatory framework:** Develop a cyber-law that follows the international standards on combating cyber-criminals.
- **Develop a vibrant, Cybersecurity ecosystem:** Ensure a sustainable source of expertise and solutions to support plans for resilient infrastructure and safer cyberspace.
- **Create a safer cyber-space:** Retain citizens trust in online public systems, thus encourage public use of online services.
- **International cooperation:** Forge international collaboration to counter cyber-threats, adapt capacity building initiatives, and facilitate exchanges on cyber-laws and regulations.

11.2.2 Establishing a National Cybersecurity Committee

Committee Responsibilities:

- Provide a governmental structure for collaboratively addressing Cybersecurity at the highest level of the government.
- Monitoring and coordinating the implementation of the National Cybersecurity Strategy.
- Coordinating and developing awareness policies, risk assessments, and administrative efforts to address them.
- Lead activities associated with developing and managing national Cybersecurity efforts.
- Ensuring all public and private sector entities and stakeholders are adopting the right cyber-agenda.
- Preparing annual reports on the status of the National Cybersecurity Strategy as well as following-up and providing feedback for further development.

11.2.3 SafeSurf Bahrain

An initiative by Bahrain's The Telecommunications Regulatory Authority (TRA) dedicated to empowering the citizens and residents of Bahrain and their families with knowledge and information for safer cyber environment.

The SafeSurf website has been launched with families in mind, putting them 'one click away' from helpful resources to help safeguard every family in Bahrain.

11.2.4 Cloud-First Policy

Bahrain, with its Cloud First Policy, is committed to accelerating the transition onto the cloud. This presents a new set of opportunities in cybersecurity for computer security companies offering products that secure cloud-based software and infrastructure.

The Cloud-First approach aims to:

- Reduce the cost of government ICT by eliminating duplication of solutions and fragmentation in the technology environment
- Increase security by using accredited platforms.
- Increase productivity and agility and thus improving citizen services.

11.2.5 Personal data protection

In-line to the Kingdoms efforts towards regulating and organizing the Cyber Security framework in Bahrain, the government has issued several laws and legislation related to Cyber Security and Personal Data Protection:

- Law No. 30 of 2018 regarding Issuing the Protecting Personal Data law.
- Law No. 16 of 2014 regarding the Protection of Information and State Documents.
- Law No. 2 of 2017 for Ratifying the Arab Agreement on Combating IT Crimes.
- Law No. 60 of 2014 regarding IT Crimes.
- Decree-Law No. (54) for the year 2018 for Issuance of Letters and Electronic Transactions.
- Decree of the Prime Minister No. 36 2018 regulating the technical requirements for sending, receiving, and updating the electronic records and signatures of the public bodies.

11.2.6 Projects and Programs

- **Cyber Trust Program:** Trust program is competitive in its nature and aims towards raising the level of Information Security through governance and supporting the technical aspects to achieve regional and global leadership and the sustainability of a reliable governmental electronic environment for government agencies. It is currently optional and contains levels. The program consists of 3 maturity levels: Basic level, Advance level and Excellence level with a set of criteria required for each level to be completely achieved and moved on to the next maturity level.
- **Cyber Hawks:** The "Cyber Hawks" is an initiative that gathers a group of cybersecurity specialists from various governmental entities in Bahrain; aiming continuous communication and cooperation on cybersecurity issues and to discover & mitigate any cybersecurity threats.
- **Threat Advisory Service:** Threat advisory is a document delivered by the Bahrain Government CERT team to provide customers with details about new malware and threats with recommendations. The document is supported with infographics to clarify and summarize threat details.
- **The Security Level Assessment of eGovernment Services & Websites:** In this project, all the eGovernment websites are scanned with various security checking tools and programs. This helps raise the level of information security for these websites, maintain their confidentiality, and protect them from hacking. The projects aim to manage information security risks to mitigate the impact of security threats and identify security vulnerabilities that may pose threats to user information and fix security breaches to alleviate risks.

11.3 CBB Cyber Security Initiatives and Regulatory Developments

CBB continues to develop its regulations on cybersecurity in an effort to strengthen the cyber resilience of its financial institutions.

Inspection Directorate Initiatives:

In the interest of fulfilling its supervisory mandate, the Inspection Directorate created a cyber security framework to assess the robustness of cyber controls at various licensees, including Fintech companies. The cybersecurity rating model was enhanced with the inclusion of a Cybersecurity Maturity diagram in the on-site examination report, depicting the strengths and weaknesses of cybersecurity related controls.

Moreover, the Inspection Directorate developed supplementary procedures for on-site review of Crypto asset service providers licensed by CBB under CBB Rulebook, Volume 6, CRA Module. This supplementary examination process is designed to strengthen Inspection Directorate's cyber security examination with additional review of information security risks that comes with the use of cryptocurrencies. This examination procedure is derived from the Crypto Currency Security Standard (CCSS) that is applied as an overlay to standard cyber and information security practices. The components assessed include - Key / Seed Generation, Wallet Creation, Key Storage, Key Usage, Key

Compromise Protocol, Keyholder Grant/Revoke Policies & Procedures, Security Audits, Data Sanitization Policy, Proof of Reserve and Audit Logs.

TRMST and ITD Initiatives:

The TRMST is reviewing the 'Inspection manual' and 'Cybersecurity Operational Risk Management Module' in Rulebook. The IT Directorate (ITD) continuously enhances Cyber Security in keeping with industry best practices and considering the ever-changing business needs and technology evolution. This ensures that CBB's Information Assets are adequately protected at all times. Some of the initiatives adopted based on global best practices are:

- Constantly evaluating and applying latest techniques of secure communication that are acknowledged globally, thereby ensuring compliance to high security standards.
- Following best practices of Information Security. CBB get certified on ISO 27001 standard that acknowledges the establishment and maintenance of effective security controls and policies.
- Periodically arranging with 'domain-expert' vendors, to conduct Penetration Test on CBB's IT assets that would vouch for its operational resilience.
- Induced a culture-change among CBB staff by conducting frequent 'Information Security Awareness' Training programs, including phishing campaigns.

Annex:

Financial Soundness Indicators and
Selected Graphs

Annex 1 Table 1: Selected Financial Soundness Indicators - Overall Banking System

Indicator	Q4 2019	Q2 2020	Q4 2020
Capital Adequacy			
CAR (%) *	19.4	18.5	18.6
Tier 1 CAR (%) *	18.1	17.1	17.3
Leverage (Assets/Capital) (Times) *	7.7	8.2	8.2
Asset Quality			
NPLs (% of Total Loans)	4.8	4.5	4.3
Specific Provisions (% of NPLs)	62.0	64.8	68.0
Loan Concentration (Share of Top Two Sectors) (%)	31.1	30.2	31.0
Real Estate/ Construction Exposure (%)	25.5	25.3	25.4
Earnings			
ROA (%)	1.1	0.4	0.7
ROE (%) *	8.5	1.6	2.8
Net Interest Income (% of Total Income) **	70.9	70.9	69.7
Net Fees & Commissions (% of Total Income) **	14.5	12.3	12.4
Operating Expenses (% of Total Income)	54.6	70.2	70.3
Liquidity			
Liquid Assets (% of Total Assets)	25.5	24.6	24.6
Loan-Deposit Ratio (%)	71.5	69.5	70.9

* Locally-Incorporated Banks only.

**Conventional Banks only.

Source: CBB.

Annex 1 Table 2: Selected Financial Soundness Indicators - Conventional Banks

Indicator	Conventional Retail			Conventional Wholesale		
	Q4 2019	Q2 2020	Q4 2020	Q4 2019	Q2 2020	Q4 2020
Capital Adequacy						
CAR (%) *	21.1	18.8	20.0	18.6	17.9	17.8
Tier 1 CAR (%) *	19.7	17.5	18.7	17.7	17.0	17.0
Leverage (assets/capital) (Times) *	6.7	7.5	7.0	7.9	8.2	8.4
Non-Performing Loans Net Provisions to Capital	4.4	5.1	5.0	5.0	6.2	4.9
Asset Quality						
NPLs (% of Total Loans)	4.9	4.6	4.7	4.5	4.7	4.1
Specific Provisions (% of NPLs)	66.1	66.2	69.9	74.3	72.3	74.3
Net NPL' (% of Net Loans)	1.7	1.6	1.5	1.4	1.3	1.1
Loan Concentration (Share of Top Two Sectors)	33.3	33.4	35.4	39.8	40.4	41.9
Real Estate/ Construction Exposure (%)	32.4	31.9	33.1	21.8	21.1	20.9
Earnings						
ROA (%)	1.8	0.6	1.0	0.9	0.4	0.8
ROA Local Banks (%)	2.0	0.8	1.3	0.6	-0.3	-0.6
ROA Overseas Banks (%)	1.3	0.2	0.3	1.2	1.1	2.1
ROE (%) *	14.2	6.0	9.6	4.8	-2.3	-5.3
Net Interest Income (% of Total Income)	77.3	74.6	76.1	63.2	66.9	63.6
Net Fees & Commissions (% of Total Income)	11.3	10.4	10.1	18.1	15.7	13.7
Operating Expenses (% of Total Income)	39.4	54.9	61.6	54.7	68.5	68.6
Liquidity						
Liquid Assets (% of Total Assets)	36.0	32.8	34.4	21.3	22.2	21.6
Liquid Assets (% of Short-Term Liabilities)	45.6	41.2	43.4	26.3	27.2	26.5
Loan-Deposit Ratio (%)	65.8	66.4	66.3	68.5	67.1	71.1
Non-Bank Deposits (% of Total Deposits)	75.3	73.3	72.1	48.5	48.1	46.8

* Locally-Incorporated Banks only.

Source: CBB.

Annex 1 Table 3: Selected Financial Soundness Indicators - Islamic Banks

Indicator	Islamic Retail			Islamic Wholesale		
	Q4 2019	Q2 2020	Q4 2020	Q4 2019	Q2 2020	Q4 2020
Capital Adequacy						
CAR (%) *	18.3	20.6	20.6	18.2	17.6	16.4
Tier 1 CAR (%) *	15.7	17.8	17.8	17.1	16.2	15.0
Leverage (Assets/Capital) (Times)	9.9	9.9	9.9	8.3	8.7	9.6
NPFs Net Provisions to Capital (%)	38.8	25.7	25.7	0.3	1.3	0.9
Asset Quality						
NPFs (% of Total Facilities)	10.4	7.5	7.5	1.1	1.4	1.6
Specific Provisions (% of NPFs)	36.7	40.7	40.7	93.8	78.6	87.6
Net NPFs (% of Net Facilities)	6.9	4.8	4.8	0.1	0.3	0.2
Facilities Concentration (Share of Top Two)	30.6	32.3	32.3	46.7	44.0	34.4
Real Estate/ Construction Exposure (%)	28.4	29.3	29.3	18.3	18.1	15.5
Earnings						
ROA (%)	0.4	0.2	0.2	0.7	0.0	0.3
ROE (%) *	4.7	2.1	2.1	6.4	-0.5	3.1
Net Income from Own Funds, Current Accounts and Other Banking Activities (% of Operating Income)	54.2	53.9	53.9	55.4	46.7	42.2
Net income from Jointly Financed Accounts and Mudarib Fees (% of Operating Income)	44.6	44.3	44.3	42.2	50.6	55.6
Operating Expenses (% of Total Income)	82.0	83.7	83.7	71.9	94.3	83.2
Liquidity						
Liquid Assets (% of Total Assets)	17.5	17.3	17.3	17.9	16.5	14.6
Facility-Deposit Ratio (%)	92.5	79.1	79.1	69.9	65.6	63.2
Current Accounts from Non-Banks (% of Non-Capital Liabilities, excl. URIA)	23.3	31.6	31.6	41.7	43.9	49.1

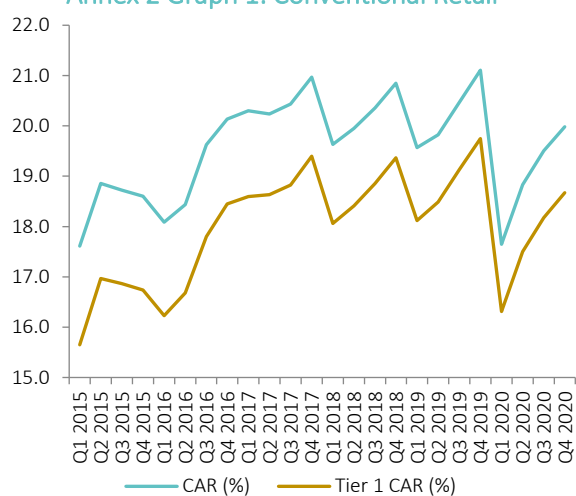
* Locally-Incorporated Banks only.

Source: CBB.

Annex 2: Selected Graphs

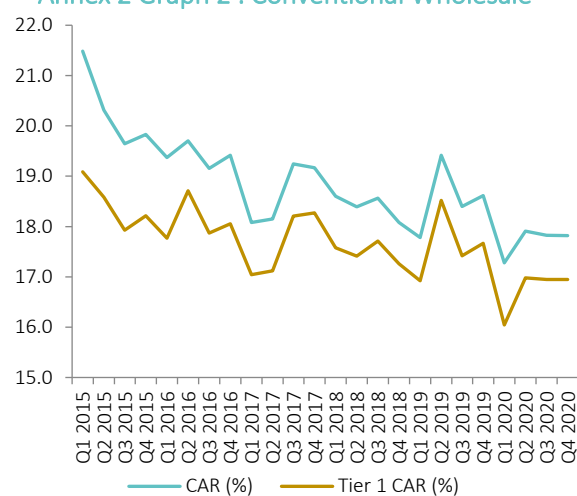
A. Capital Adequacy

Annex 2 Graph 1: Conventional Retail



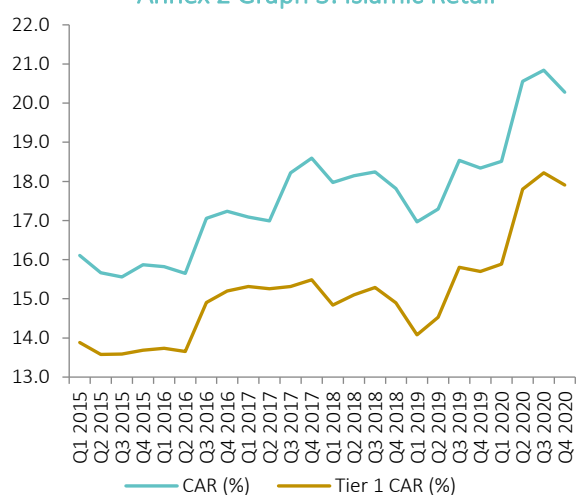
Source: CBB.

Annex 2 Graph 2 : Conventional Wholesale



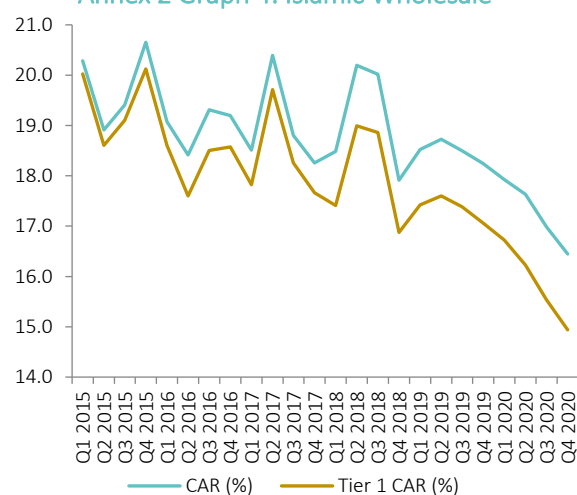
Source: CBB.

Annex 2 Graph 3: Islamic Retail



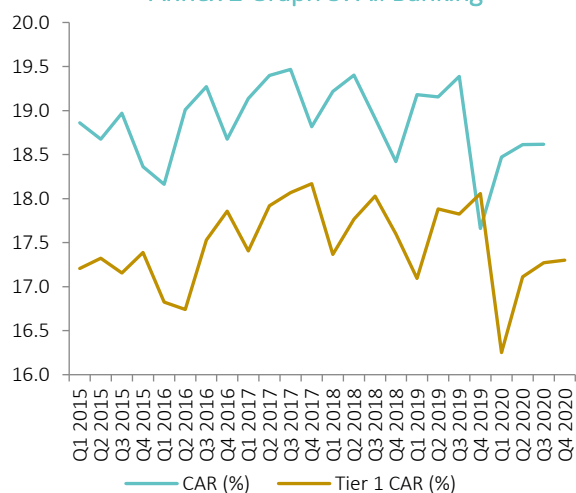
Source: CBB.

Annex 2 Graph 4: Islamic Wholesale



Source: CBB.

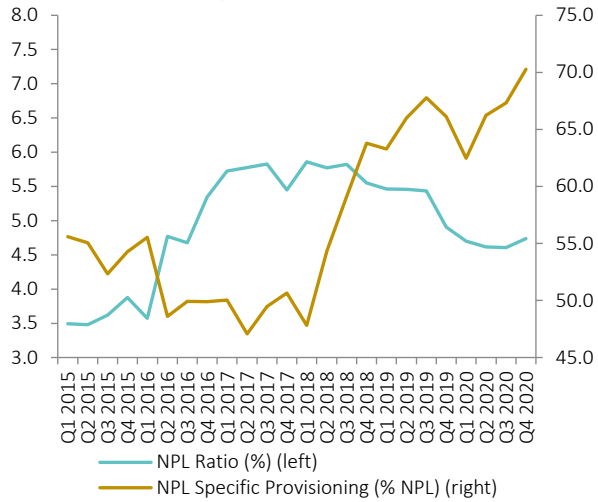
Annex 2 Graph 5: All Banking



Source: CBB.

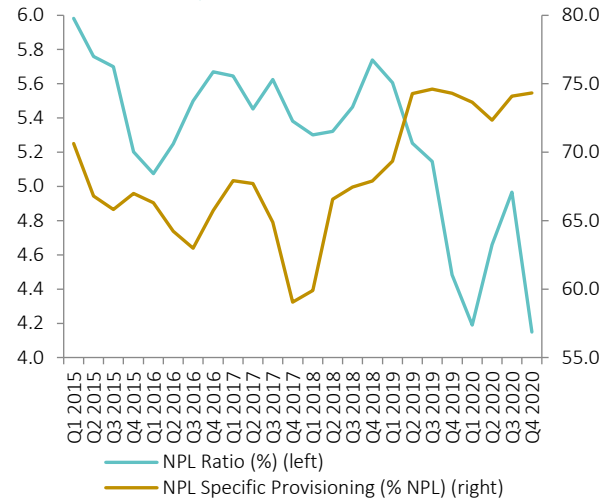
B. Asset Quality

Annex 2 Graph 6: Conventional Retail



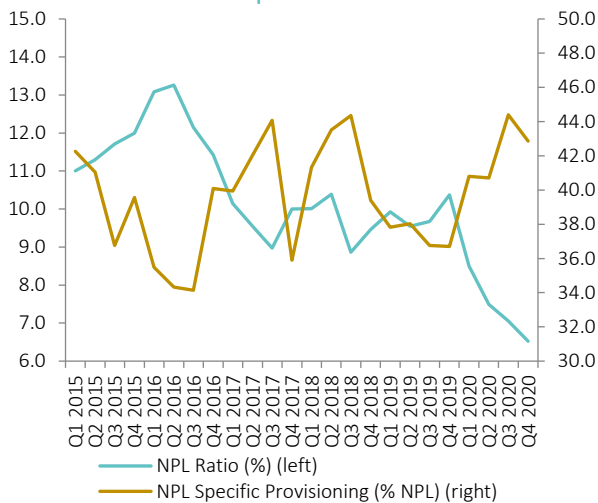
Source: CBB.

Annex 2 Graph 7: Conventional Wholesale



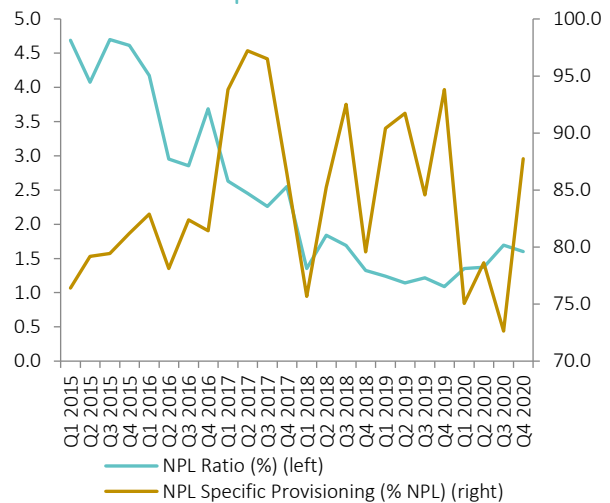
Source: CBB.

Annex 2 Graph 8: Islamic Retail



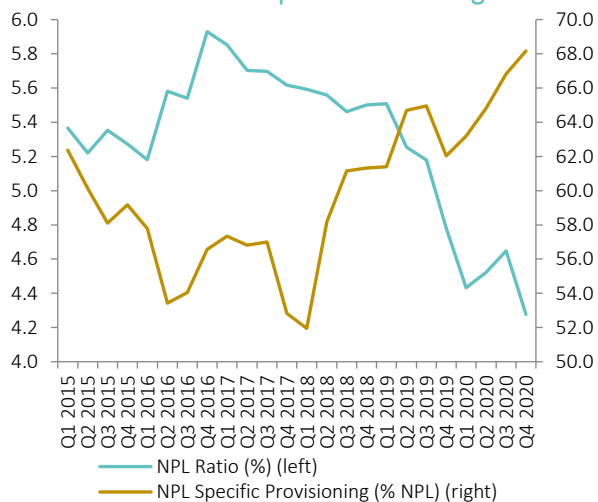
Source: CBB.

Annex 2 Graph 9: Islamic Wholesale



Source: CBB.

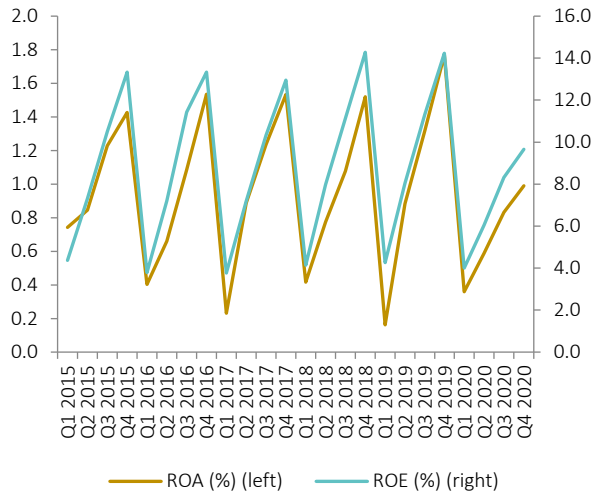
Annex 2 Graph 10: All Banking



Source: CBB.

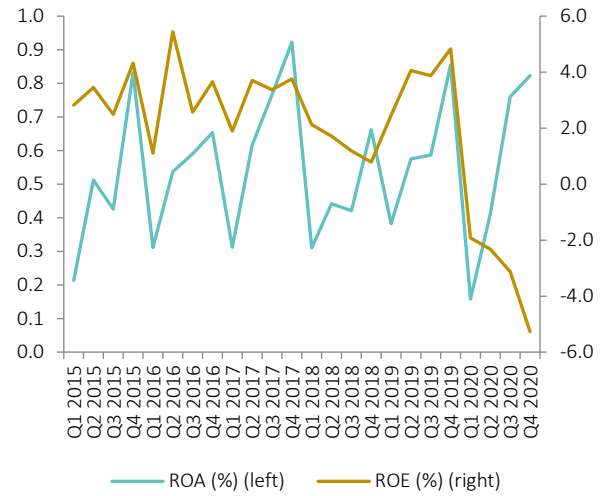
C. Profitability

Annex 2 Graph 11: Conventional Retail



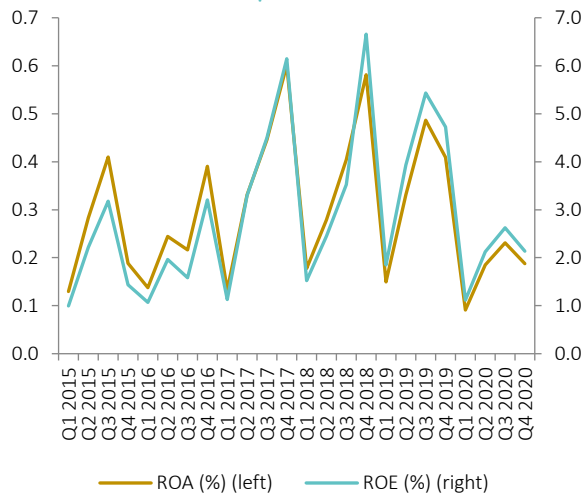
Source: CBB.

Annex 2 Graph 12: Wholesale



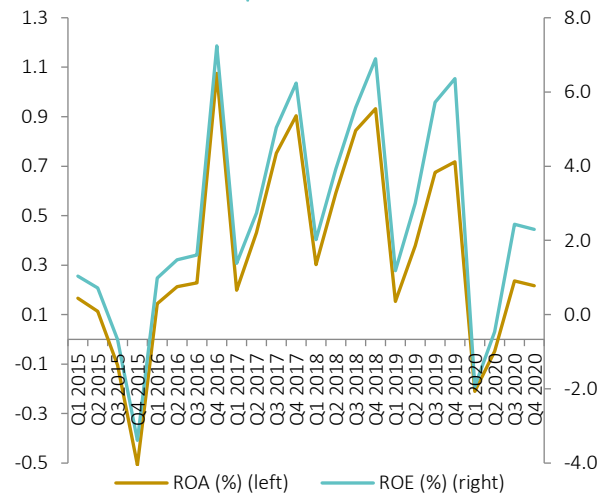
Source: CBB.

Annex 2 Graph 13: Islamic Retail



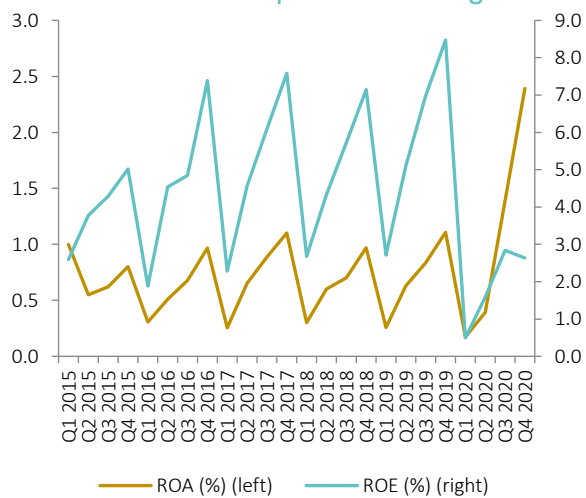
Source: CBB.

Annex 2 Graph 14: Islamic Wholesale



Source: CBB.

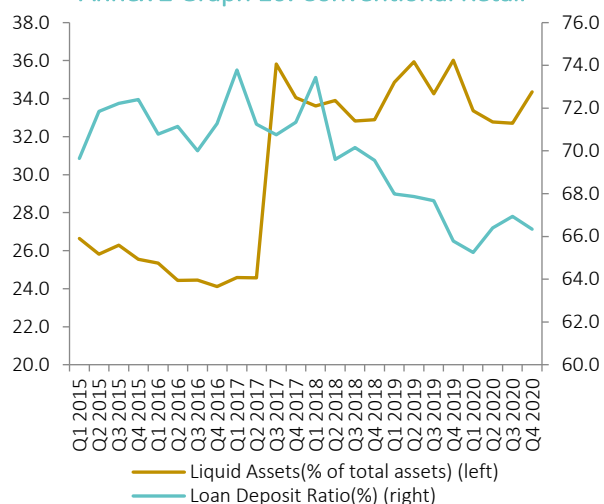
Annex 2 Graph 15: All Banking



Source: CBB.

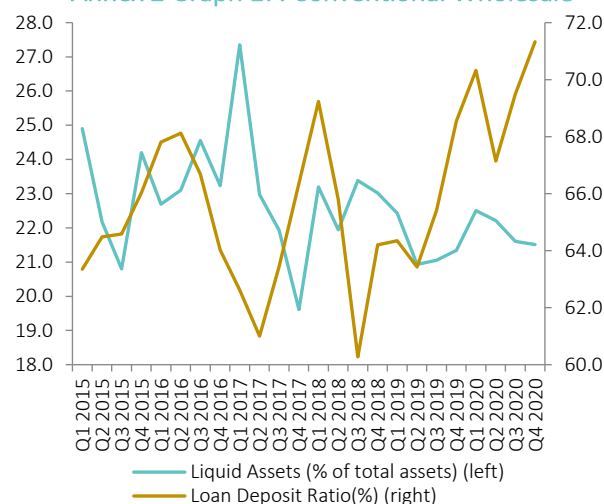
D. Liquidity

Annex 2 Graph 16: Conventional Retail



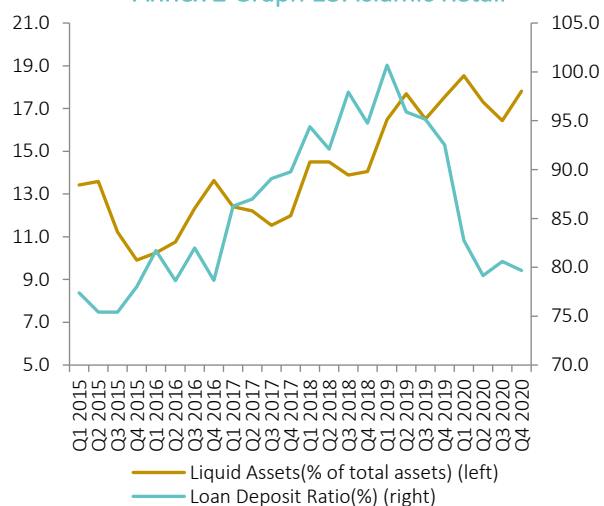
Source: CBB.

Annex 2 Graph 17: Conventional Wholesale



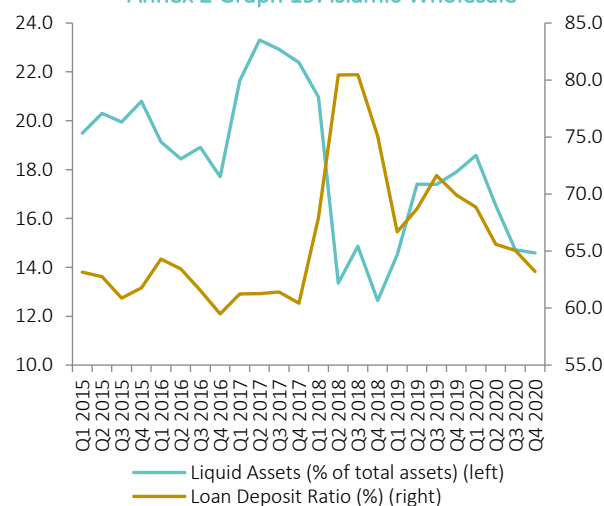
Source: CBB.

Annex 2 Graph 18: Islamic Retail



Source: CBB.

Annex 2 Graph 19: Islamic Wholesale



Source: CBB.

Annex 2 Graph 20: All Banking



Source: CBB.

List of Abbreviations

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