



مصرف البحرين المركزي
Central Bank of Bahrain

Annual Report

2020

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1. Monetary Policy Developments

Overview

Monetary Policy Management

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Public Debt Issuance

Monetary Policy Management

Monetary Policy Committee

The CBB Monetary Policy Committee (“MPC”) met on a weekly basis throughout 2020. The MPC closely evaluated economic and financial developments, monitored liquidity conditions, provided recommendations for monetary policy instruments and set interest rates on facilities offered by the CBB.

Reserve Requirements

All retail banks are required to maintain, on a monthly basis, a fixed percentage of their non-bank deposits (denominated in Bahraini dinars), in a non-interest-bearing account at the CBB. During 2020, the reserve percentage has been reduced from 5% to 3% in March 2020 as per the regulatory measures to contain the financial repercussions of the Covid-19 introduced by the CBB.

The total banks' Reserve Requirement balance outstanding in December 2020 was BD 322.857 million, compared to BD 489.789 million in December 2019, with a 34% decrease.

Domestic Interest Rates

Key Policy Interest Rates

In 2020, the CBB have changed its interest rates as follows:

- **On 5th February 2020**, the one-month deposit rate was cut from 2.60% to 2.45%.
- **On 3rd March 2020**, the one-week deposit facility rate was cut from 2.25% to 1.75%, the overnight deposit rate from 2.00% to 1.50% and the one-month deposit rate from 2.45% to 2.20%.
- **On 12th March 2020**, the overnight lending rate was cut from 4.00% to 2.45%.

- **On 16th March 2020**, the BHD deposit and lending rates were cut by 75 bps. The one-week deposit facility rate was cut from 1.75% to 1.00%, the overnight deposit rate from 1.50% to 0.75%, the one-month deposit rate from 2.20% to 1.45% and the CBB lending rate from 2.45% to 1.70%.
- **On 30th April 2020**, the one month BHD deposit rate was increased from 1.45% to 2.00% and the overnight lending rate was increased from 1.70% to 2.25%.

Interbank Rates

As at end 2020, the 3-month BHIBOR rate was 2.25%, compared to 2.67% at end 2019. The 6-month BHIBOR rate was 2.53%, compared to 2.70% at end 2019.

Standing Facility

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

The total outstanding conventional retail banks' deposits with the CBB as of December 2020 was BD 874.330 million, compared to BD 856.486 million in December 2019, with a 2.08% increase.

Wakalah

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

The total outstanding balance of Wakalah deposited by Islamic Banks was BD 163.800 million in December 2020, compared to BD 116.363 million in December 2019, with a 40.8% increase.

Murabaha Sukuk service

As part of the ongoing efforts towards the development of Islamic banking and promoting Capital Market in the Kingdom of Bahrain, the Central Bank of Bahrain (CBB) in collaboration with Bahrain Bourse has developed a

Murabaha Sukuk Service for clients and Banks, which is a Shari'ah compliant liquidity and borrowing tool.

Under this service and through an electronic platform provided by Bahrain Bourse, the lending party purchases the sukuk from the Central Bank of Bahrain, and after having ownership of the sukuk sells it to the borrowing party as a deferred sale.

This service was launched on June 1st, 2020. A total of 410 Murabaha Sukuk transactions were executed with a total value of BD 993.461 million during the year 2020.

Public Debt Issuance

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

During 2020, the CBB issued conventional 3-month Treasury Bills, denominated in Bahraini dinars, on a weekly basis, with an issue amount of BD 70 million. Six (6)-month Treasury Bills were also issued, on a monthly basis, with an issue amount of BD 35 million and 12-month Treasury Bills with an issue amount of BD 100 million.

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

During 2020, the CBB, at the request of the MOFNE, issued domestic and international government development bonds and Sukuks for different maturities, as follows:

- Local Government Development Bond with an issue amount of BD 300 million on May 3rd, 2020, with a maturity of 3 years, and a fixed-rate of 6.00%.
- Local Islamic Leasing Sukuk with an issue amount of BD 125 million on July 19th, 2020, with a maturity of 6 years, and a fixed-rate of 4.50%.

- Local Government Development Bond with an issue amount of BD 150 million on July 30th, 2020, with a maturity of 5 years, and a fixed-rate of 4.50%.

The CBB completed two International Government Development Bond and two Ijarah Murabaha Sukuk issuances under the Global Medium Term Note Programme “GMTN Programme” and Trust Certificate Issuance Programme “Sukuk Programme” as per the following:

- **On May 14th, 2020, the CBB appointed JP MORGAN, HSBC, NBB, ABC, SCHB and GIB as Joint Lead Managers (JLMs) to:**
 - Raise \$1bn in a 4.5-year Islamic Ijara Murabaha Sukuk under the Sukuk Programme (with a structure of 51% Ijarah & 49% Murabaha) priced at 6.25% and maturing on 14th November 2024.
 - Raise \$1bn in a 10-year Government Development Bond under the GMTN Programme priced at 7.4% and maturing on 14th May 2030.
- **On September 16th, 2020, the CBB appointed CITI, HSBC, NBB, ABC, SCHB and GIB as Joint Lead Managers (JLMs) to:**
 - Raise \$1bn in a 7-year Islamic Ijara Murabaha Sukuk under the Sukuk Programme (with a structure of 51% Ijarah & 49% Murabaha) priced at 3.9% and maturing on 16th September 2027.
 - Raise \$1bn in a 12-year Government Development Bond under the GMTN Programme priced at 5.5% and maturing on 16th September, 2032.



2. Regulatory and Supervisory Developments

Regulatory Developments

Supervisory Developments

Regulatory Developments

As part of CBB's continuing development of the regulatory framework for the financial system, work was carried out during the year 2020 to strengthen regulatory policies and to develop appropriate prudential regulations, in order to maintain financial stability and market integrity.

Updates to CBB Rulebook

1. Basel III adoption:

Liquidity Risk Management Requirements:

The CBB issued in January 2020 a circular to conventional banks that include the template for which locally incorporated banks must use for reporting of Net Stable Funding Ratio (NSFR) on a quarterly basis within 14 calendar days of the end of the quarter.

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

The CBB is currently studying the feedback and comments received from the banking sector on the consultation paper, taking into account such comments and making additional amendments accordingly in order to issue the requirements in its final form.

2. Caps on Fees for Credit Facilities Provided to Individuals

The CBB issued in February 2020 new directives to all retail banks and financing companies on proposed caps on fees for credit facilities provided to individuals as part of phase 2 of the caps on fees on standard services provided to individuals. This phase includes the introduction of caps on administration fees for consumer loans, auto loans and mortgage loans.

3. Amendments on "Crypto-Asset Module"

The CBB issued in January 2020 new amendments to Crypto-Asset (CRA) Module and Anti Money Laundering Module (AML) of Rulebook Volume 6 in accordance with the recent paper issued by the Financial Action Task Force (FATF) in this regard.

4. Proposed amendments to Operational Risk Management Module

The CBB received the industry's comments and feedback on the consultation paper "Cyber-security requirements" issued in December 2019. The CBB studied and made further amendments and the draft is currently under review.

The CBB received the industry's comments and feedback on the consultation paper "Cyber-security requirements" issued in December 2019 in this regard, and has studied and made amendments to it, which is currently under review.

The CBB introduced additional amendments to the Operational Risk Management Module in May 2020 regarding outsourcing operation to cloud service providers. Cloud service providers are external companies (third parties) that provide a set of software, systems and infrastructure over the Internet for storage and database services. These amendments require cloud service providers to comply with all laws and regulatory requirements in the Kingdom. The outsourcing contract must also clearly specify the procedures to be followed when outsourcing.

The CBB also introduced in May 2020 other amendments to Operational Risk Management Module regarding the Local Tokenisation Project. The CBB took this step in order to allow banks (issuers and acquirers) to conduct mobile initiated Near Field Communications (NFC) payments without entering a PIN. With this amendment, there will be no need to use the Consumer Device Cardholder Verification Method for payment Authentication and limit (CDCVM), for transactions exceeding BD 20 because the customer has already been authenticated by his device using a PIN, biometric, or other authentication methods. This is only applicable where debit/credit card of the customer has already been tokenised in the payment application.

5. Draft Directives on Blocking Requirements on Clients' Assets

The CBB is currently studying the comments of the banking industry on the consultation paper on draft directives on the requirements for blocking clients' assets and discussing them with the Ministry of Justice and Islamic Affairs. The consultation paper aims to enhance and integrate all the requirements that must be met by licensees in one Module titled 'Blocking Requirements Module'. These directives aim to ensure that licensees deal

efficiently with court orders and the Public Prosecution with regards to blocking of accounts and/or requests for information.

6. Wage Protection Scheme (WPS)

The CBB issued a circular in February 2020 to retail banks and payment service providers instructing them to create bank accounts based on the certificate issued by the Information and e-Government Authority for the units (Fishermen, Churches, Law firms, Commercial Buildings, Private Schools etc.) instead of the license number. The relevant licensees must take all appropriate measures to accelerate the process of completion and compliance of the project by 31st March 2020.

7. Proposed draft Regulation Governing Control in Bank licensees

The CBB studied the comments received from the banking industry and discussed them with the Legislation and Legal Opinion Commission. The CBB will soon issue another consultation paper in this regard that includes a new provision proposed to be added to the draft regulation.

8. Removal of Prior Approval Requirement in Business and Market Conduct Module (Module BC) for Advertisements on Financial Products and Services

The CBB issued a circular to conventional and Islamic banks, finance companies and microfinance institutions, stating that licensees are no longer required to seek the CBB's prior approval before publishing any advertisements for financial products and services through newspapers, public places, the Internet, or through the use of any other media. However, licensees must ensure that any advertisement and sales promotion irrespective of the means used is clear, understandable, true, not misleading and does not include hidden messages or deceives the public in any way. These are interim measures until CBB develops detailed guidelines on marketing and promotions.

9. Proposal to Reduce the Retention Period of Non-Performing Facilities Data in the Credit Reference Bureau Report

The CBB issued a consultation paper to conventional and Islamic banks, financing companies and microfinance institutions regarding a proposal to reduce the retention period of non-performing facilities data of retail

customers to 3 years and 5 years for corporate customers in the Bahrain Credit Reference Bureau reports, due to the concerns raised by customers who were denied services based on old non-performing financing facilities. The CBB received the industry's comments on the consultation paper in this regard, and it was decided not to implement the proposal in line with the banks' opinion/wish.

10. Draft Unified GCC Law on Commercial Security

As part of the efforts to further strengthen the economic integration of the GCC countries, the CBB issued in February 2020 in cooperation with the Secretariat General of the GCC a consultation paper on draft unified GCC Law on Commercial Security. The CBB received the comments and feedback on this consultation paper which was planned to be discussed at the next GCC meeting but got postponed due to the pandemic.

11. Monthly Escrow Account Data

The CBB issued a circular to all retail banks regarding Escrow Accounts of Off-Plan Sale Projects. The circular refers to Article (19)(b) of Resolution No. (3) of 2018, that states "The Escrow Account Manager shall provide the developer and the Real Estate Regulatory Authority (RERA) with monthly data and statements on all matters relating to the Escrow Account ,i.e. all licensees who act as Escrow Account Manager must submit, on a monthly basis, all Escrow Account Data pertaining to licensed projects by RERA, including the deposits in and payments from the Escrow Account to date within 5 days of the end of each month.

Later on, with reference Resolution No. 3 of 2018 (mentioned above) and Resolution No. 19 of 2018, the CBB issued another circular to all retail banks who are acting as Escrow Account Manager or intend to offer such service must require their compliance function to carry out an annual review of their compliance with the aforesaid Resolutions. Moreover, the CBB informed retail banks that it will initiate, through appointing experts, a detailed review of relevant banks' practices on the subject area. This is attributed to RERA notifying the CBB of the non-compliance of retail banks with the above-mentioned Resolutions.

12. Certificate of Capital Deposits for Companies

The CBB issued in January 2020 a circular to all retail banks instructing them to accept the "Article of Incorporation/Article of Association" for issuing the

“Certificate of Deposit” in case of transfer of ownership, i.e. before the application is completed, without having to provide the CR number.

13. Amendments to the Financial Crime (FC) and High Level Controls (HC) Modules

The CBB issued in May 2020 new amendments to the Financial Crime and High Level Controls Modules to ensure compliance with all anti-money laundering and combating terrorist financing requirements. Accordingly, licensees must include compliance with anti-money laundering and combating terrorist financing requirements within the employees' Key Performance Indicators, and the extent of this compliance must be reflected – sufficiently - in evaluating the annual performance of employees and their bonuses. The performance evaluation and remuneration of senior management and staff of the licensee must be based on the achievement of the Key Performance Indicators relevant to ensuring compliance with anti-money laundering and terrorist financing requirements.

14. Second Consultation Paper – Draft Secured Transactions Law

The CBB is working in coordination with the Economic Development Board (EDB) on developing a revised draft of the Secured Transactions Law in the Kingdom of Bahrain. Therefore, the CBB issued a second consultation paper in this regard. The CBB received the comments and feedback of the financial sector and related parties and sent them to the EDB in April 2020 for their review and feedback.

15. Prohibiting the practice of Blocking Accounts upon Loss of Employment

The CBB issued in March 2020 a circular to all retail banks prohibiting them from blocking customer accounts if they come to know that the customer has lost his or her employment or who have retired regardless of whether or not contractually the bank has the right to take such action.

This practice has resulted in customers, who are already in a difficult situation facing further hardship by losing access to their funds.

16. Access to Data of Bahrain Credit Reference Bureau (BCRB)

The CBB issued a circular in June 2020 to all members of the Bahrain Credit Reference Bureau (“BCRB”) instructing them to incorporate into their

relevant policies, procedures and processes a number of requirements as follows:

1. The establishment of an electronic monitoring system to detect, monitor and maintain records and a log of all access to BCRB data by the BCRB member's employees;
2. The conduct of a monthly internal audit on the access logs to identify unauthorized access to BCRB data by any employee without securing customer consent and that any observed violation of the Law must be reported to the CBB.
3. The sign off of a BCRB member's designated employee on their legal obligations concerning the confidentiality of BCRB data and that any violation of the Law would subject the member and employee to enforcement action in accordance with the CBB law. Such employees' performance appraisal must cover their compliance accordingly.

17. Resolution No. (12) of 2020 amending some provisions of Regulation No. (1) of 2007

The CBB issued Resolution No. (12) of 2020 regarding amending some of the provisions of Regulated Services Regulations, which states that the text of sub-category (e) of Clause (5) of the table in Article (1) of the Regulation will be replaced with a new definition.

The amendment includes the new definition of financial sector support institutions: managing clearing rooms, settling payments, checks and securities, providing credit information services, providing negotiable electronic instruments services and training services in the financial field, in addition to providing other support services related to the financial services industry.

18. Transition from LIBOR

The CBB issued in January 2020 a circular to all banks and financing companies regarding the replacement of the London Interbank Offered Rate (LIBOR) used to price US Dollar denominated financial instruments with the Secured Overnight Financing Rate (SOFR) or other recognized benchmark rate internationally.

The CBB instructed licensees to submit a report of their analysis of the impact of such transition together with a summary of the approach and plan to address any risks arising. The plan should describe the process, timelines and any appropriate legal solutions to deal with the transition. CBB

will also coordinate with the Bahrain Association of Banks to analyse and explore issues and solutions that have a system wide impact.

The CBB then, received the reports from banks and financing companies, reviewed them and issued another circular in July 2020 that additionally required them to establish a dedicated team to develop a comprehensive plan and oversee the implementation of the plan such that the transition does not lead to any disputes, operational or business disruptions and / or other avoidable events or surprises. The licensees must also take into consideration all relevant risks and legal, technological, accounting, regulatory implications among other issues.

Licensees were required to confirm in writing to CBB that the above measures have been established by the end of September 2020 and submit monthly progress reports within 10 days of each month end commencing in September 2020.

19. Provision of Financial Services on a Non-discriminatory Basis

The CBB issued in August 2020 a circular to all licensees requiring them to ensure that all regulated financial services are provided without any discrimination based on sex, nationality, origin, language, faith, religion, physical disability or marital status. Failure to comply with the above may subject the licensee and the approved person(s) involved to enforcement measures.

20. Issuance of Contactless Payment Cards

The CBB issued in September 2020 a circular to retail banks, financing companies and payment service providers regarding the issuance of contactless payment cards, whereby all licensees are required to take the necessary measures to finalise the issuance and distribution of contactless debit, credit, prepaid and charge cards to their customers no later than December 31, 2020 without charging any fees on clients.

21. Fraudulent Phishing Attempts

As part of the CBB's objectives and efforts on consumer protection and the financial sector in the Kingdom, the CBB issued a circular in September 2020 to all retail banks regarding retail banks' customers being targeted by way of phishing through fraudulent telephone/ WhatsApp calls, 'SMS'/WhatsApp messages, and emails or other media, requesting them to update their expired CPR, Mobile number, or other personal security credentials. In such

fraudulent communication, customers are advised to access websites given in the SMS/WhatsApp message/email or open documents/attachments which may lead to frauds.

The CBB also attached in the circular common indicators of such suspicious phishing messages such as:

- Receipt of telephone and WhatsApp calls from unknown numbers;
- Receipt of SMS/WhatsApp, emails or other messages, with or without attachments from unknown or new sources and not received through banks' usual communication/channels/numbers;
- Website links that appear to be unsecured (example, sites with 'http' and not 'https' URLs);
- Link does not match the bank's official website address; and
- Incorrect English used in the text message and so on.

In view of the above, and given the potential of high financial losses / suffering to customers. CBB urged all retail banks to take appropriate measures to counter these fraudulent attempts and enhance customers' awareness about such fraudulent messages by launching extensive customer alert campaigns through media and social media channels. Customers must be warned of such attempts and advised to only use the bank's official website/telephone or other channels for communication with their banks. In addition, banks should enhance their surveillance and monitoring systems with a view to detecting suspicious account activity caused by these fraudulent persons on a timely basis.

22. Resolution No. (123) with respect to the Regulations and Implementing Procedures for Selling Mortgaged Properties in Public Auction

The CBB issued in September 2020 a circular to all retail banks and financing companies directing them to comply with the regulations and procedures under the above mentioned Resolution, in particular, in relation to accelerating the process of selling mortgaged properties and the fulfillment of debts and accumulated expenses within the specified period in line with the approved legal framework within the judicial system.

23. Fund Transfers by Customers of Payment Service Providers

The CBB issued a circular to the licensees who act as acquirers and provide payment gateways, requiring them to charge 100 fils only on each transaction, in line with the Electronic Funds Transfer System (EFTS), as long as the

transaction is a normal fund transfer, and that such charge should be borne by the customer instead of PSP.

24. Audit of Client Money and Compliance with Authorisation Module

The CBB issued a circular to all payment service providers requiring them to ensure that independent auditors are appointed to perform an in-depth audit of the client money received and its usage, accounting records, internal controls, etc. every six months and submit the report to CBB, as required under the Authorisation Module of the CBB Rulebook, Volume 5.

25. Measures to Combat Electronic Frauds on Customer Accounts

In light of the recent alarming increase in the number of electronic fraud attempts targeting customers' accounts and in the interest of protecting the integrity of, and the trust in, the local banking and payment systems, the CBB issued a circular to all retail banks, financing companies and payment service providers to remind them of their right to reject (i.e., reverse) any payment transaction, where it has come to their knowledge that the relevant customer did not actually initiate the transaction instruction. The fund-transmitting licensees are also required to file a Suspicious Transaction Report for such cases.

Licensees must also:

1. Implement enhanced fraud monitoring of movements in customers' accounts to guard against electronic frauds using various tools and measures, such as limits on value, volume and velocity. Such enhancements must be introduced as soon as possible, but no later than 28th February 2021, and notify the CBB;
2. Not onboard natural persons resident in countries outside the Gulf Cooperation Council through digital onboarding process. Moreover, onboarding of customers residing outside Bahrain must be subject to CBB's enhanced due diligence requirements. These requirements must be complied with immediately; and
3. Increase customer awareness communications, pre and post onboarding process, using video calls, short videos or pop-up messages, to alert and warn natural persons applying to open current or saving accounts, credit, debit or prepaid cards or digital wallets about the risk of electronic frauds, and emphasise the need to secure their personal account details and not share them with anyone, online or offline. These requirements must be complied with immediately.

26. Regulatory and Concessionary Measures to Mitigate the Impact of Coronavirus

In light of the recent global outbreak of Coronavirus (COVID-19) and the preventative measures taken by the Government of Bahrain, the CBB issued to the licensees a number of circulars to mitigate the impact of the virus on the financial sector and maintain the health and safety of citizens and residents working in the financial sector and consumers as follows:

- The CBB urged retail banks and financing companies to consider granting concessions such as re-scheduling of or granting temporary deferrals on, credit installments, reducing profit/interest rate or fees and commissions or other measures for affected customers. Such licensees must report details of borrowers to whom concessions were provided.
- The CBB required licensees to instruct merchants to regularly sanitize the screens/keypads of Point of Sale (POS) machines used by customers, and avoid handling customer cards and to ask customers to insert and pull out their cards from the POS machines themselves. This must be the practice going forward.
- The CBB urged all licensees to follow and implement the disinfection instructions issued by the Ministry of Health and report back to the CBB on such implementation. In addition, licensees are also encouraged to engage with the public by covering the measures taken to ensure the safety of their staff and customers in the press or on social media.
- In order to ensure uninterrupted financial services in the Kingdom of Bahrain, Licensees are required to adhere to the following services continuity requirements:
 1. Business continuity and disaster recovery plans must be ready for activation at any time;
 2. International and local funds transfers systems must operate effectively and normally;
 3. All ATMs must be regularly and adequately loaded with cash, and CBB is ready to provide the required quantity of cash;
 4. All trade finance transactions must be effected as per terms and conditions agreed with the relevant customers; and
 5. Customers must have access to banking services through designated branches and electronic channels.

- The CBB introduced the following regulatory measures and relaxations for a period of six months - which will be subject to review by CBB at the end of this period - to contain the financial repercussions of the Covid-19 requiring all retail banks, financing companies and microfinance institutions to offer all Bahraini citizens and resident financial and non-financial companies in the Kingdom of Bahrain, six months deferral of instalments without any fees, no interest on interest and no increase in rate, unless the borrower agrees for a shorter period or does not wish to avail any deferral. These requirements also apply to the balance due on credit cards on March 19, 2020.
- The deferral option will cover all on and off-balance sheet credit exposures as of 19th March 2020 except the following:
 - A. Exposures classified in Stage 3 which are not serving the reduced cooling off period;
 - B. Financing instalments received through the court;
 - C. Credit syndication facilities to resident corporates involving non-resident participating lenders;
 - D. Pre-export financing under letters of credit without recourse to the resident corporate (exporter);
 - E. Overdraft facilities, and
 - F. Leveraged investments/ margin call facilities
 - Applying the instalment deferral to the following cases is subject to the discretion of the licensee:
 - A. Financing to expatriates; and
 - B. A borrower who first declines the deferral option in March but comes back in April or thereafter and requires it.
 - For credit cards, the required minimum monthly payment must be set to zero from March until August 2020.
 - Discounted cheque facilities are included subject to receiving new cheques, if required. Progress payment discounting facilities are included if payment is not received.
 - The cost of life insurance policy extension covering the extended tenor and age requirement, if any, shall be borne by the borrower.
 - For Stage 1 ECL, the number of days past due, excluding the deferrals mentioned above, must be increased up to 74 days with effect from 1st February 2020.
 - Cooling off period for reclassifying restructured credit facilities from Stage 3 to Stage 2 is reduced from twelve months to three

- months. The cooling off period is applicable to any eligible Stage 3 credit exposure, whether restructured or not.
- No new legal action in case of default must be taken, with effect from the date of this circular until 30th September 2020, on the following:
 - A. Personal and corporate guarantees supporting credit facilities;
 - B. Collateral foreclosure; and
 - C. Post-dated cheques.
 - LCR and NSFR limits for all locally incorporated banks are reduced from 100% to 80%.
 - Risk weight for capital adequacy purposes for Bahrain based SMEs is reduced from 75% to 25%.
 - Retail banks and financing companies must relax their LTV ratio for new residential mortgages for Bahrainis.
 - Near field communication (“NFC”) ie. contactless without PIN transaction limit must be increased to BD50/-.
 - Merchant fees imposed by local acquirers on debit card transactions must be capped at 0.8%. Such fees must be distributed as follows:
 - A. 0.35% to the acquirer,
 - B. 0.25% to the issuer, and
 - C. 0.2% to the Benefit Company.
 - CBB will provide retail banks concessionary repo arrangement up to 6 months at zero percent on a case by case basis. Any licensee requiring the CBB's concessionary repo arrangement stated in the previous circular is required to submit their cash flow projection until 2020-year end for CBB's assessment and consideration.
 - Cash reserve ratio for retail banks is reduced from 5% to 3%.
- The CBB issued the following safety guidelines regarding the upcoming general meetings to discuss the financial results for the year ended 31st December 2019:
1. All CBB licensees and companies whose shares are listed on Bahrain Bourse (“listed companies”) shall comply with the decisions of the Government specifically in relation to the instruction to limit all public gatherings to 20 people or fewer.
 2. All licensees and listed companies, whose general meetings will be unfeasible to comply with the above instruction, are instructed to

convene the general meeting via electronic or teleconferencing means. The CBB also allowed licensees to re-schedule the general meetings no later than 30th April, 2020.

3. Listed companies may liaise with Bahrain Clear to facilitate their general meetings, as Bahrain Clear has developed and set up appropriate teleconferencing measures.
 4. The CBB licensees and listed companies that intend to hold board elections in their upcoming general meetings shall postpone the election until a subsequent general meeting is convened. The board of the concerned licensee/listed company shall request an extension of their appointment for a period of no longer than 6 months from CBB or Ministry of Industry, Commerce and Tourism, as the case may be, as stipulated in Article (172) of the Commercial Companies Law.
 5. The representatives of the CBB shall attend the general meetings via the arranged teleconferencing means. Accordingly, licensees and listed companies are required to facilitate the necessary arrangements to effect the same.
- Postpone, until further notice, all of those announced regulatory policy initiatives except the E-KYC rules in the Financial Crime Module.
 - Extend the deadline for compliance with the revised Operational Risk Management Modules to 30th June 2021.
 - All locally incorporated banks, listed and unlisted companies are exempted from the preparation and publication of their quarterly reviewed (by external auditors) financial results for the first quarter of 2020. Accordingly, the first reviewed financial statements that must be prepared and published in 2020 would be the June 2020 six months' period statements.
 - Exempt the licensees from the requirement of submitting the Agreed Upon Procedures report on the quality of Anti-Money Laundering procedures, systems and controls in relation to the requirements of the FC Module. Hence licensees must submit this report by 30th June 2020.
 - Exempt all banks from certain date sensitive reporting requirements and to extend the submission deadlines for others which are due in the period from March to June 2020. Moreover, the CBB has also decided

to defer the requirements for the independent review by third party consultants as stipulated in the Rulebook.

- Licensees must implement work from home approach as extensively as possible. The number of employees working at various offices/branches must be reduced as much as possible and must ensure adherence to health and safety guidelines issued recently by CBB as well as social distancing measures. The number of employees using corporate means of transportation, such as company buses, must be reduced.
- Defer the requirements for independent review by consulting firms on some risk management policies and systems.
- All retail banks were strictly directed not to utilise any of the funds transferred by the Social Insurance Organization to cover the salaries of Bahraini employees - according to the government's initiative - towards the settlement of any financial obligations due from the subject companies to banks or other entities. Such funds must not be subject to any legal freeze orders.
- The CBB requested all banks, financing companies and microfinance institutions to carry out a detailed financial impact assessment of the applied six-months deferral through calculating the Net Present Value of their Bahrain based credit portfolio in accordance with the applicable IFRS/AAOIFI Standards. This assessment should be conducted for first half and full year of 2020, in consultation with licensees' external auditors, and should be submitted to the CBB by 21st May 2020. When carrying out the said assessment, licensees should take into account the expected benefits received/receivable due to various regulatory and government initiatives, including payment of salaries for Bahraini staff, waiver from paying electricity and water bills for three months, zero cost repo received from CBB, etc.

Moreover, Bahraini banks with subsidiaries and branches outside Bahrain must also conduct a high-level financial impact assessment on a consolidated level based on the regulatory measures taken by their host regulators for the same periods stated above and should submit the results of the above assessment by 31st May 2020.

- The CBB issued in June 2020 a circular to banks, financing companies and microfinance institutions after having studied the accounting policy implications of the COVID-19 crisis and the installment deferral

for a period of 6 months, together with the external audit firms, which included the following:

1. Accounting treatment of “Modification Loss”

Licensees are required to quantify the net present value of the credit exposures and treat the difference between the carrying amounts and net present value as loss at the date of such modification (i.e. with effect from 1st March 2020), hereafter referred to as “modification loss”. For financial reporting purposes, however, all Bahraini licensees must adopt the following policies:

- a. The full “modification loss” amount attributable to credit exposures, net of the effect of any related financial support received from governments and/ or regulators, must be computed on the related deferred credit exposures and taken to shareholders’ equity and a corresponding reduction in credit portfolio must be made on a portfolio basis or on an individual credit exposure basis, whichever is convenient. Income recognition on all deferred credit exposures should continue during the deferral period, provided no additional interest/ profit is charged to customers as per CBB circulars mentioned above. Except for the treatment of modification loss as noted in this circular, licensees are required to continue to follow IFRS/AAOIFI as prescribed by CBB Rulebook.
- b. Necessary quantitative and qualitative disclosures must be made to describe the basis of computation and the assumptions used in the said computation.

2. ECL provisions

Licensees are required to make a detailed assessment for accurate classification of credit exposures under the three ECL stages and compute ECL based on such staging assessments as per IFRS 9/FAS30 for the purposes of income statement reporting. As such, licensees should be more prudent in determining the additional provision required for the period from 1st April to 31st December 2020 considering the economic and financial impact of COVID-19 on customers.

In this regard, the licensees are encouraged to proactively commence the process of identification of deterioration in credit

by ensuring that there are well established processes, keeping also in view the guidance related to practices recommended by the Basel Committee on Banking Supervision to identify non-performing exposures and exposures that display Significant Increase in Credit Risk (SICR) to avoid any surprises at a later stage.

Considering that updating macroeconomic scenarios in ECL computation models is subject to high level of uncertainties in the current environment, licensees must consider the changes in economic environment in the calculation of their ECL numbers. While estimating ECL, licensees should not apply the standards mechanistically and should use the flexibility inherent in IFRS 9/ FAS 30, for example to give due weight to long-term economic trends.

3. Regulatory capital treatment

1. For the purposes of capital adequacy computations and for prudential reporting to CBB, Bahraini Bank licensees must adopt the following requirements:
 - a. The modification loss and the aggregate ECL provision amount relating to exposures classified as stage 1 and stage 2 computed in accordance with II above for the period from 31st March till 31st December 2020, must be added back to Common Equity Tier 1 (CET1) capital for the two financial years ending 31st December 2020 and 31st December 2021; and
 - b. The aggregate amount of “modification loss” computed in accordance with I above and the aggregate ECL provision amount added back to CET1 referred to in III 1(a) above must be deducted on an annual basis from CET 1 for capital adequacy computation in equal proportions over the three-year period from 1st January 2022 to 31st December 2024.
2. For the purposes of gearing ratios and capital adequacy computations, as applicable, and for prudential reporting to CBB, Financing Companies and Microfinance Institutions must adopt the following requirements:
 - a. The modification loss and the aggregate ECL provision amount relating to exposures classified as stage 1 and stage 2 computed in accordance with II above for the period from 31st March till 31st December 2020, must be added back to Core capital for the two

financial years ending 31st December 2020 and 31st December 2021; and

- b. The modification loss computed in accordance with I above and the aggregate ECL provision amount added back to Core capital referred to in III 2(a) above must be deducted on an annual basis from Core capital in equal proportions over the three-year period from 1st January 2022 to 31st December 2024.

4. ECL Model External Validation

Considering the COVID-19 impact and to allow licensees to focus on activities to recover from its impacts, CBB is hereby exempting the licensees from external validation of the ECL models for 2020. Licensees are nonetheless, required to subject their models to an internal validation and ensure model integrity through sound model governance policies.

5. Action Required After the deferral period

By the end of the six-month deferral period, licensees should assess the financial situation, burden and needs of customers affected by COVID-19 crisis and should proactively develop and adopt the best possible credit recovery strategies to reduce any possible financial difficulties to both retail and corporate customers.

Licensees must ensure that their financial reporting process as well as their prudential reporting processes are accordingly modified in consultation with their external auditors to ensure a high degree of accuracy in computations and reporting.

- The CBB issued in July 2020 a circular to branches of foreign banks after having studied the accounting policy implications of the COVID-19 crisis and the installment deferral for a period of 6 months, together with the external audit firms, which included the following:

1. ECL provisions

Licensees are required to make a detailed assessment for accurate classification of credit exposures under the three ECL stages and compute ECL based on such staging assessments as

per IFRS 9 for the purposes of income statement reporting. As such, licensees should be more prudent in determining the additional provision required for the period from 1st April to 31st December 2020 considering the economic and financial impact of COVID-19 on customers.

In this regard, the licensees are encouraged to proactively commence the process of identification of deterioration in credit by ensuring that there are well established processes, keeping also in view the guidance related to practices recommended by the Basel Committee on Banking Supervision to identify non-performing exposures and exposures that display Significant Increase in Credit Risk (SICR) to avoid any surprises at a later stage.

Considering that updating macroeconomic scenarios in ECL computation models is subject to high level of uncertainties in the current environment, licensees must consider the changes in economic environment in the calculation of their ECL numbers. While estimating ECL, licensees should not apply the standards mechanistically and should use the flexibility inherent in IFRS 9, for example to give due weight to long-term economic trends.

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The Licensees must ensure that their financial reporting process as well as their prudential reporting processes are accordingly

modified in consultation with their external auditors to ensure a high degree of accuracy in computations and reporting.

- **Reporting of Financial Impact of COVID-19:** The CBB in July 2020 requested all licensees and listed companies to disclose the financial impact of COVID-19 in their interim and/or annual financial statements (as required/applicable) starting for statements ending 30th June 2020. For listed companies, such disclosures must be made through a supplementary public disclosure published on Bahrain Bourse website in addition to the inclusion of such disclosure in the financial statements. To assist the companies in determining the financial impact, the financial values should be derived based on any reduction in the values of any specific asset(s), sales and revenues, liquidity, etc. or increase in expenses, commitments, etc. as a direct impact from COVID-19 and bearing in mind any financial benefits gained from related government support schemes. Such exercise must be made in cooperation with the external auditors.
- **Exemption from submission of Agreed Upon Procedures reports:** The CBB in August 2020, decided to exempt all banks, financing companies and microfinance institutions from submission requirements pertaining to Agreed Upon Procedures ('AUP') on the prudential reports for the quarters ended on 30th June and 30th September 2020. The submission of the said AUPs must be resumed starting from the quarter ended 31st December 2020.
- **Status update on COVID-19 Policy Measures:** The CBB reassessed the economic situation and the various policy measures that were designed to encounter the impacts of the pandemic given that it still remains an on-going concern across the globe and in Bahrain. Accordingly, the CBB decided to retain some of the existing measures in order to ensure that systemic vulnerabilities are addressed within the financial sector. Therefore, the CBB issued in August 2020 a circular to all banks, financing companies, microfinance institutions, payment service providers and card processing service providers that states licensees must abide with the measures issued in 17th March 2020 and provides details of the policy measures, relative period of compliance with the requirements and categories of licensees to whom these measures are applicable.
- **Additional deferment of loan installments:** On 21st and 22nd September, 2020, the CBB issued two circulars to all banks regarding deferment of installments to 31st December 2020 subsequent to the

discussion with Bahrain Association of Banks which included the following regulatory requirements:

1. Licensees must offer their customers four-months installments deferment option, starting from 1st September 2020. The said 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;
 2. For customers who wish to avail such installments deferment option, licensees must refund the said customers any installment already deducted for September 2020;
 3. The deferment option must be offered to all Bahraini residents including individuals and corporates, except for items stipulated under point 2 of the circular issued on 23rd March 2020;
 4. All fees and charges on the deferment must be as per caps on fees and charges stipulated in CBB's Rulebook. Any additional insurance fees resulting from tenor extension may be charged to customers, however, must be collected starting from the end of the said deferment period;
 5. The existing regulatory concessionary measures, i.e. the reduced levels of LCR, NSFR, SMEs risk weight, and cash reserve ratio, cooling off period for transferring exposures from stage 3 to stage 2 and the relaxation concerning the days past due for ECL staging criteria from stage 1 to stage 2 of 74 days, have already been extended until 31st December 2020. CBB will reassess the need to continue with such concessionary measures during December 2020;
 6. Licensees must ensure that all deferral announcements to the public and its customers, whether through press or other media channels, must be transparent and clear; and
 7. Licensees must also inform its customers about the resulting changes in tenor and aggregate outstanding, and the additional profit/interest amount that he/she will be charged.
 8. No late payment fees must be charged on credit cards' outstanding balances due for payment in September 2020; and
 9. Licensees' communication with their customers must be in accordance with the guidelines provided by Bahrain Association of Banks in their email dated 21st September 2020.
- The CBB issued a circular in September 2020 to all licensees regarding proof of residency permit, whereby the CBB informed the licensees that the Nationality, Passports and Residence Affairs Directorate at the Ministry of Interior will not be issuing the residency permit sticker for

expatriates anymore due to the Coronavirus pandemic. Therefore, the permit issued by the Labor Market Regulatory Authority will substitute the residency permit sticker during the current situation and should be considered sufficient for KYC purposes.

- The CBB issued in November 2020 a circular to all retail banks, financing companies and microfinance institutions with reference to the requirement to provide customers a 6-months deferral of loan installments for the period between March and September 2020. The circular states that the calculation of any interest/profit and charges on early settlement by customers, post 30th September 2020, must be strictly in accordance with CBB's rules on early settlement fees stipulated under caps on fees and charges in CBB Rulebook. Additionally, licensees must ensure that any interest / profit pertaining to the above deferral period is not included in the outstanding balance calculated for the purpose of early settlement by customers.

Supervisory developments

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

During 2020, the Central Bank of Bahrain and other relevant AML/CFT governmental and institutional stakeholders prepared Bahrain's Second Mutual Evaluation Follow up Report. The final draft report will be discussed and adopted in the MENAFATF Plenary Meeting in May 2021. Bahrain's follow up report highlights the major initiatives undertaken by the various authorities in the Kingdom demonstrating the progress in addressing the major deficiencies identified during the Mutual Evaluation report adopted by FATF in the joint FATF/MENAFATF Plenary Meeting that took place in Paris in June 2018. Such initiatives also reflect the Kingdom's continuous commitment to AML/CFT international standards.

During the year, the Compliance Directorate's organizational structure was extended to segregate the examination function to two specialized examination units, Examination for Banks, and Examination for Financial Institutions. In addition, the Compliance Directorate conducted regulatory onsite examinations on various licensees to assess their compliance with the AML Law, CBB Law, and Financial Crime Module of all volumes. The onsite examinations contributed to the ongoing efforts of improving compliance with the Kingdom's overall AML/CFT framework through exhaustive reviews

of the effectiveness of the controls implemented. The onsite examinations focuses on reviewing the licensees AML/CFT procedures, systems and internal controls and subsequently support CBB's ML/TF prevention efforts.

The Compliance Directorate continued enhancing the AML/CFT supervisory tools by generating monthly exposure reports to monitor such exposures closely. In addition, a system is being developed in coordination with Information Technology Directorate to automate the submission process of the monthly exposures.

As part of the outreach plan, the CBB issued a guidance paper for all Financial Institutions in relation to "Combating the Financing of Terrorism". The paper provides guidance on the private sector's obligations under the United Nations Security Councils (UNSCR) and other elements of countering terrorist financing. In addition, the paper addresses the different threats, scenarios, and indicators of potential terrorism financing activities. In addition, in light of the current Covid-19 pandemic, the CBB also issued a guidance paper on "Covid-19 related Money laundering and terrorist Financing Risks and Policy responses" providing a summary of the vulnerabilities, threats, challenges, good practices, and policy responses to emerging ML/TF risks arising from the pandemic. Lastly, the CBB issued another guidance paper, "Virtual Assets – Red Flags and Indicators" during the year on monitoring and reporting suspicious activities with respect to misuse of virtual assets for money laundering and terrorist financing.

Being a member of the Inclusive Framework on Base Erosion and Profit Shifting ("IF-BEPS"), Kingdom of Bahrain has, in the immediate to short term, committed to implementing the four BEPS minimum standard Actions.

Therefore, CBB participates, to the extent relevant to the financial sector, in the various peer reviews conducted by the Organisation for Economic Co-operation and Development ("OECD") in relation to the assessment of both the legislative framework and effective implementation of each of the aforementioned standards.

During 2020, Kingdom of Bahrain was subject to the optional review in relation to the Economic Substance ("ES") requirements, namely the Fully Equipped Monitoring Mechanism ("FEMM"). The aforementioned review aims to define the scope of Spontaneous Exchange of Information ("SEOI") in relation to the ES requirements.

Accordingly, in cooperation with the relevant governmental authorities, CBB dedicated resources and efforts to complete the FEMM peer review process and participated in the OECD peer review meeting that took place over Zoom online platform in October 2020.

During 2020, CBB electronically obtained the CRS and FATCA annual reports from the relevant licensees and exchanged them with the relevant reportable jurisdictions in a timely manner.

Banking Supervision Directorates

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

CBB, with the objective of protecting the interests of consumers as well as promoting financial stability and soundness of the banking industry, continued with its proactive monitoring of banks and financial institutions by employing risk based supervisory techniques. Since the outbreak of the COVID-19 pandemic CBB had introduced various policy measures that were designed to prepare for or counter the impacts of the outbreak and ensure any systemic vulnerability are addressed within the financial sector.

Accordingly, the following measures were taken by CBB during the year 2020:

- 1. COVID-19 Policy Measures:** Throughout the year, CBB had issued and continuously reviewed numerous measures to combat the financial repercussions of the pandemic. Such measures ranged from loan deferrals and concessions for all resident individuals and companies in the Kingdom of Bahrain, liquidity support for all licensees in the form of favorable rates and reduced LCR, NSFR, and Cash reserves ratio requirements, easing of ECL requirements and staging, exemption and postponement of regulatory reporting requirements, reduction in eligible capital risk weights, and the promotion of near field communication technology (NFC), among others.
- 2. Domestic-Systematically Important Banks (D-SIBs):** CBB embarked on an exercise for the purpose of identification of D-SIBs for 2021 in a two stage process based on the D-SIB assessment methodology Rules issued in 2018. As part of the first stage of the assessment process, financial information was collected from all retail banks and based on a scorecard methodology certain banks will be identified as D-SIBs. In the second stage, supervisory judgement based on specified methodology will be used to confirm or amend the D-SIBs list. CBB's D-SIB methodology is based on Basel Committee of Banking Supervision guidance.

3. **Open Banking Framework:** CBB issued new Rules on open banking requirements under the General Requirements Module with the objective of supporting Bahrain's role as a global fintech hub. Accordingly, the Banking Supervision Directorates in cooperation with the Fintech Unit at CBB continued their close monitoring of the industry's adoption and application of open banking practices, while advising licensees with unsatisfactory track record to enhance their compliance with the same.
4. **Sound Remuneration Practices:** CBB continued to monitor the remuneration practices of banks to ensure that the disbursement of bonuses of the senior management and incentivized employees by banks are aligned with CBB's Rules on Sound Remuneration Practices under HC Module. These Rules encourages long term relationship between the employee and the banks and align the bonuses to their risks taking capability.
5. **Related Party Exposures:** CBB with the aim of ensuring full compliance with its rules and limiting concentration risk to related party, continued with its monitoring of the related party exposures of locally incorporated banks on a monthly basis.
6. **Monitoring of Impaired Loans Portfolio:** CBB continued to monitor and assess the impaired loans portfolio of banks on a quarterly basis. Based on its assessment, CBB advised banks and financing companies, to take preemptive measures to limit the growth in impaired loans portfolio especially in light of the COVID-19 pandemic.
7. **Meeting on Financial Statements:** The banking supervision directorates conducted annual trilateral meetings with banks (locally incorporated and branches of foreign banks) and financing companies along with their external auditors to discuss the year-end financial results for 2019 and interim financial results for June 2020, before being submitted to the respective bank's Board of Directors for approval. The meetings deliberated on the issues pertaining adequacy of provisions, movements in impaired assets, valuation practices, recognition of income and proposed dividends etc.

8. **Implementation of New Initiatives:** CBB continued with its efforts towards continuous improvement in the financial sector. As such new initiatives in this direction included providing guidance and issuing directives to licensees to take measures to support contactless payments, tokenization and single national QR switch as well as prepare themselves for implementing e-KYC and providing APIs for open banking platform.
9. **Studies/Surveys:** CBB's supervision directorates conducted a number of surveys during the year as part of their proactive supervisory approach to enhancing the quality of banking services while ensuring adequate controls to protect customers' interests. Such surveys included number of contactless cards issued, unclaimed account balances with banks, open banking readiness, SMS on failed ATM/Point of sale transactions among others.
10. **Supervisory College Meetings:** CBB during the year attended supervisory college meetings organized by home regulators in the UK, the UAE and India, with the objective of enhancing cross border supervision of branches of foreign bank licensees.
11. **Bahrain Credit Reference Bureau (BCRB):** As part of its endeavor to enhance the credit quality in the banking system and thereby promote financial soundness of institutions CBB continued with its support to BCRB to facilitating effective credit referencing services in the kingdom of Bahrain through introducing a number of initiatives.
12. **Appointed Experts Assignments:** CBB's Banking Supervision Directorates with the objective of augmenting the effectiveness of its supervisory practices, appointed qualified "Appointed Experts" to undertake Agreed Upon Procedures for reviewing specific functions in a number of licensees. Accordingly, a number of assignments were conducted during 2020 covering review of functions which included inter alia risk management, internal audit, compliance framework as well as internal control framework among others.
13. **Monitoring of Banks BOD and Organization Structures:** CBB continued to review the annual corporate governance reports submitted by banks and financing companies. The purpose was to evaluate the

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

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

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

Combatting Electronic Fraud: In the interest of protecting the integrity of and the trust in the local banking and payment systems, CBB had conducted numerous meetings with relevant stakeholders in an effort to combat the prevalence of electronic fraud within the Kingdom. CBB had also issued a circular to all relevant licensees requiring them to increase customer awareness when it comes to combatting fraud, including the need for licensees to increase its customer communication in this regard.

Objective 3: Promoting Transparency and Market Discipline:

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

Public Disclosure by Banks: The Banking Supervision Directorates continuously monitored banks disclosures to its stakeholders including its compliance with CBB Rules on public disclosures. Accordingly, banks were required to submit their **public** disclosures report duly reviewed by their external auditors. Any non-compliance with CBB's rules or delayed

submissions of the required information attracted appropriate 'Enforcement Action' including imposition of penalty by CBB and banks were required to disclose such penal action in their annual reports.

Enforcement Actions: CBB continued to enforce high standards of compliance by its licensees, thereby bringing down the risks for the financial system and the consumers. Towards achieving this objective, CBB used effective enforcement as one of the tools for effective supervision. Accordingly, and as stipulated in Article 38 of CBB Law, the Banking Supervision Directorates at CBB have taken a number enforcement action against their licensees including imposition of penalties, during the year 2020.

Islamic Financial Institutions Supervision

During 2020, the Islamic Financial Institutions Supervision Directorate ("IFISD") continued focusing on improving the knowledge and the skills of its staff despite COVID-19 situation by enrolling them in BIBF virtual training courses (technical and soft skills) as well as participating in virtual conferences, seminars and IFISB online executive program. Two staff members have obtained a professional certificate in risk management area.

During 2020, IFISD participated in reviewing IFSB's draft working papers pertaining to risk-based supervision in Islamic banking, stability of the Islamic Banking industry during COVID-19 pandemic and operational and regulatory implication of digital banking.

The Directorate also participated in drafting CBB's Cloud Policy in collaboration with IT Directorate.

Moreover, the Directorate participated in the automation of Form 3 "Application for Approved Person Status" submission through CBB Portal and licenses fees collection, specifically in developing the Annual Licensee Form (ALF) in the ESRAD system.

Finally, as the CBB introduced during 2017 its Sharia Governance Module, the Kingdom of Bahrain achieved a high rating in the Islamic Finance Development Index in 2020, especially in the governance area.

Inspection Directorate

The Inspection Directorate completed 50 inspection visits during 2020 spread over various types of licensees, including banks, insurance firms, and other specialized licensees and Collective Investment Undertakings (CIUs). The visits followed a well-defined risk based supervisory framework designed to fulfill the on-site supervisory objectives and to assess the robustness of the control framework at the inspected licensees. The Directorate employed a risk focused examination approach using the CMORTALE methodology, which focused on the following assessment elements - capital adequacy, management quality, operational risk, risk management, transparency and disclosure, asset quality, liquidity and earnings. The methodology assesses the risk profile of CBB's licensees with the ultimate objective of promoting the safety and soundness of financial institutions through procedures aimed at identifying regulatory actions required to maintain the financial stability by reducing the risk of insolvency, and instances of losses to depositors or investors; thus, mitigating any potential loss of market confidence.

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

Among the on-site visits, 42% were thematic visits to investigate and assess matters line consumer protection aspects, corporate governance, investments' valuation, foreign currency reserve, business and market conduct, and customer complaints.

Given the ever evolving global regulatory landscape, emerging risks and various pronouncements by global standard setting bodies like Basel committee on banking supervision, the Inspection Directorate continued its effort during the year to develop and enhance its risk profiling methodology to assess the business, control failure and systemic risks of the licensees, and assess the emergent risks from the innovative financial products.

Firmly believing in professional development and in response to the greater regulatory emphasis on sound risk management practices within the financial sector and challenges thrown by disruption of traditional financial models with the advent of FinTech, the Inspection Directorate continued its CPD efforts by identifying, and implementing training and development programs designed to provide inspection staff with the skills and experience necessary to effectively assess risk management practices and emerging trends in the financial sector

Capital Markets Supervision

The CBB endeavoured during 2020, to complete the implementation of its plan for the development and updating of the legislative, regulatory and supervisory framework for the capital market sector, in line with international standards and best practices in consultation with the stakeholders and interested parties in this sector and all other financial sector components in Bahrain. In the form in which the CBB and these institutions and bodies, are able to create a suitable environment for the development of the business and activities of the capital market, through the licensing of more market institutions and the encouragement of the diversification of listing and trading of new and innovative securities and financial instruments, along to enhancing the standards, the regulations and the mechanisms of supervision of all the businesses and activities of capital market institutions and licensed financial markets.

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

Developments & Achievements

➤ *Amendments to the CBB Rulebook - Volume 6, Capital Markets*

a. The CBB issued circular EDFIS/C/003/2020 dated 16th January 2020 to all listed Companies, Self-Regulatory Organizations ("SRO"), SRO Members, Crypto-asset Licensees and other parties within the capital markets pertaining to amendments made to the Anti-Money Laundering & Combating Financial Crime ("AML") and the Crypto-Asset ("CRA") Modules within Volume 6 of the 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.

b. The CBB issued circular EDFIS/C/046/2020 dated 7th May 2020 to all SROs, SRO Members, Crypto-asset Licensees pertaining to the requirements contained in the AML Module and the High-Level Controls (“HC”) Module within Volume 6 of the CBB Rulebook. The amendments made requires 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.

c. In line with its initiative to continuously enhance its regulatory framework and in an effort of standardization across the CBB, the CBB has updated its authorization Forms relating to the Markets and Exchanges (“MAE) Module, Clearing, Settlement and Depository (CSD) Module, Market Intermediaries and Representatives (MIR) Module via circular EDFIS/C/069/2020 dated 14 July 2020. Furthermore, authorization forms related to the CRA Module have been newly issued, along with the Direct Debit Authorization (DDA) Form and the Professional Indemnity Insurance Return (PIIR) Form.

d. In line with its initiative to continuously enhance its regulatory framework, the CBB has been working on finalizing the Training and Competency (TC) Module under the CBB Rulebook Volume 6 before issuance for industry consultation.

e. Given that the Central Bank of Bahrain 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 (“DRA”) Module of Volume 6 of the CBB Rulebook via circular (Ref. EDFIS/C/031/2020) dated 25th March 2020 addressed to Self-Regulatory Organizations (“SRO”), their members and other Capital Market Service Providers (“CMSPs”).

f. Following the aforementioned March 2020 revision of the DRA Module, the CMSD is in the process of proposing additional amendments to

ensure that regulatory responsibilities are discharged in an effective manner and in line with international best practices.

g. The CMSD is further suggesting updates and amendments to the Market Surveillance, Investigation & Enforcement (“MIE”) Module of Volume 6 of the CBB Rulebook, to be in line with international best practices in various areas of investigation and enforcement.

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

- **Bahrain Bourse B.S.C. (“BHB”)**

a. On 31st May 2020, BHB launched the Murabaha service for companies and banks, after the signing of the Murabaha through Sukuk Fatwa by the CBB’s Central Sharia Supervisory Board. This service aims to meet the growing requirements of banks, institutions and individual customers.

d. Following Bahrain Bourse’s issuance of its consultation paper on the proposed administrative fines applicable to issuers during the last quarter of 2019, on 27th August 2020, the CMSD approved the Industry Consultation Feedback Statement and the Issuers’ Violations framework which will accordingly empower 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. In view of Bahrain Bourse’s Board of Directors’ resolution (5/3/2020) pertaining to the formation of the Bahrain Bourse Violations Committee, on 5th August 2020, 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.

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

a. The CBB, on 9th April 2020, has provided its initial approval for BHC to act as paying agent and distribute cash dividends on behalf of listed

companies. The CBB is currently working with BHC to fulfil all the necessary requirements.

b. 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 on 29 April 2020 pertaining to the establishment of the Unclaimed Cash Dividends Fund and the Annual Cash Dividends Fund. The CBB is cooperating with BHC to ensure that all proper procedures are in place.

c. The CBB has been cooperating with BHC with regards to its proposed Delivery Versus Payment (DVP) framework, after publication for consultation to the market. BHC is currently working on amending the framework in line with the CBB's comments and feedback.

- **BHB and BHC Members**

a. During 2020, Global Investment House B.S.C (c) has been in the process of completing the CBB's requirements concerning the termination of brokerage business and closure of the brokerage office.

b. The CBB, on 27 July 2020, has cancelled the CBB license of "Al Nawras Money Broker (Mr. Nasser. Abbas Hasan Khisro)" Office – Licensed Securities Broker and its record have been removed from the CBB's register according to CBB' resolution No. 19 of 2020.

- **Crypto-asset Licensees**

a. After receiving its CBB crypto-asset license in 2019, the CBB has been working with the Rain Management W.L.L. to complete the necessary requirements, including but not limited to appointment of approved persons.

b. On 19 November 2020, the CBB has granted CNMENA B.S.C (c) the license under the CRA Module of the CBB Rulebook to carry out crypto-asset services as Category 2.

d. The CMSD, the off-site supervisor of licensed crypto-assets service providers in Bahrain, is working collaboratively with other Directorates and Units of the CBB in order to supervise and regulate the licensees in line with best international practices.

➤ *Measures Taken by the CBB during the COVID-19 Pandemic*

Considering the impact of the COVID-19 pandemic, the CBB has taken several measures to limit its impact on the financial markets:

a. The CBB issued a circular on 19th March 2020 to all listed and licensed companies stating that the decisions of the Government of Bahrain must be abided by when holding annual general assemblies, and to avoid holding gatherings of more than 20 people. The circular guided all listed and licensed companies to hold the annual general assemblies via electronic or telephonic means to discuss and approve the matters of the year ending on 31st December 2019, except for the item related to the election of members of the Board of Directors, which requires secret balloting according to the law.

b. With regard to companies that intended to conduct election of Board members at the general assembly meeting, the existing Board of Directors of the company concerned have been instructed to submit an application to extend their membership for a period not exceeding 6 months, in accordance with the Commercial Companies Law.

c. The CBB has taken into consideration the current conditions and the impact thereof on the market and the price movement of the shares of listed companies when responding to requests to purchase treasury shares.

d. The CBB has cooperated with Bahrain Bourse (“BHB”), the Licensed Exchange, by monitoring share price movements in order to ensure the adjustments of price limits (up and down) according to the needs of the market. In addition, taking into consideration the current volatility imposed on the market due to the pandemic, the CBB also ensures the activation of BHB circuit breakers when necessary.

e. Through the CBB circular issued on 26th March 2020, the CBB has communicated with all market participants in Bahrain to confirm their readiness to implement their plans for business continuity in light of the global situation, in order to ensure that electronic systems and services are not interrupted.

f. In order to ensure the investor's safety in relation to the market and its volatility, the CBB has communicated with the Licensed Exchange and its Members through a circular issued on 30th March 2020 on the importance of spreading awareness among investors and highlighting the risks associated with trading due to the global situation.

g. On 30th March 2020, the CBB has issued another circular to all listed companies, regarding their exemption from disclosing their interim financial statements for the period ending 31st March 2020, and contenting themselves with preparing and publishing the semi-annual interim financial statements for the period ending on 30th June 2020.

h. In light of the events and developments related to the COVID-19 pandemic and its impact on the conduct of business, the CBB has issued a circular on 1st April 2020, urging and directing listed companies on the necessity to immediately disclose any material effects on the company's business.

i. On 2nd April 2020, the CBB issued a letter addressed to the Licensed Exchange and the Licensed Clearing House confirming the CBBs continued support in light of the unprecedented circumstances imposed by the pandemic. The CBB also called on the licensees Exchange to maintain close lines of communication and to continue updating it with regards to any important developments to ensure the CBB's ability to provide assistance when necessary, due to the responsibility that falls on both the CBB (as a regulator) and the licensees (as self-regulating organizations) towards the market during these times.

- j. The CBB carefully monitors all news and updates related to the COVID-19 pandemic in the markets, in order to ensure investor protection in relation to any investment fraud attempt or the publication of false news.
- k. The CBB closely monitors the progress of business in the market and communicates with all market participants, including the Licensed Exchange, the Licensed Clearing House, and their Members to ensure that market fluctuations do not affect the market's course of transactions, trading, and settlement.
- l. On 8th April 2020, the CBB issued a circular to all licensed companies in relation to adopting the work from home system on the largest possible scale and reducing the number of employees working in offices as much as possible with the necessity to follow the preventive measures announced by the Ministry of Health.
- m. The CBB is following up with the Licensed Exchange regarding the progress of business to ensure that it is not interrupted, whether through traditional means or digital channels, after it has taken precautionary measures by temporarily closing the trading floor.
- n. Through the CBB circular issued on 27th May 2020 to all licensed companies, the CBB issued the a consultation paper of the Financial Action Task Force (FATF) related to the risks of the COVID-19 pandemic related to money laundering and terrorist financing, through which the CBB guided all licensed companies to develop additional measures for its own internal processes and systems.
- o. The CBB decided to exempt Capital Markets Service Providers from the annual "money laundering report" requirement. The CBB also extended the submission deadline of some periodic reports to licensees upon request.

➤ *Offering and Listing of Securities*

Offering of Securities

During the year 2020, the CMSD issued its no objection on the use of a total of forty-six (46) offering documents (compared to 98 offering documents in 2019) after ensuring compliance with the relevant requirements under the CBB Law and the Offering of Securities (OFS) Module of CBB Rulebook Volume 6.

Listing of Securities

- a. The CMSD issued its no objection on the listing of the following securities/financial instruments on Bahrain Bourse:

| Security/Financial Instrument | No. of Issues | Value (in BHD millions) |
|--|---------------|-------------------------|
| Government 3M Treasury Bills | 41 | 2,870 |
| Government 6M Treasury Bills | 12 | 420 |
| Government 12M Treasury Bills | 12 | 1,200 |
| Government 6M Short Term Islamic Lease (Ijarah) Sukuk | 12 | 312 |
| Government Development Bond (Issues 20 and 21) | 2 | 450 |
| Government Islamic Leasing Securities (Ijara Sukuk) (Issue 26) | 1 | 125 |

Delisting

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

| Security/Financial Instrument | No. of Issues | Reason |
|--|---------------|-----------------|
| 3 Months Treasury Bills issues | 41 | Due to maturity |
| 6 Months Treasury Bills issues | 12 | Due to maturity |
| 6 Months Ijarah Sukuk issue | 12 | Due to maturity |
| 12 Months Treasury Bills issues | 12 | Due to maturity |
| Government Development Bond (Issues 9 and No.16) | 2 | Due to maturity |
| Government Islamic Leasing Securities (Ijara Sukuk) (Issue 24) | 1 | Due to maturity |

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

| Security/Financial Instrument | Reason | Date of CMSD NOL |
|-------------------------------|--------------------------|------------------|
| TAIB Bank B.S.C. (c) shares | Liquidation of the bank. | 13 April 2020 |

Disclosure, Governance & Investor Protection

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

- Most of the publicly listed companies have complied with the requirement of notifying the Bahrain Bourse regarding the dates of their Board of Directors meetings, 5 days before the end of the relevant quarter. This is in accordance with Resolution No. 54 of 2015 pertaining to disclosure and publication of annual and quarterly financial statements, and the notification of the Board of Directors' meetings for the discussion of the company's financial statements. The above was not complied with during the third quarter of 2020 by Bahrain Middle East Bank B.S.C. ("BMB"), Bank of Bahrain & Kuwait B.S.C. ("BBK"), Bahrain & Kuwait Insurance Company B.S.C and Bahrain Car Parks Company B.S.C. ("Car Parks"). Moreover, during the fourth quarter of 2020, Al Baraka Banking Group B.S.C. ("Al Baraka"), Bahrain Ship Repairing & Engineering Company B.S.C. ("BASREC"), Bahrain Telecommunication Company B.S.C. ("Batelco"), Esterad Investment Company B.S.C. and United Gulf Investment Corporation B.S.C, did not disclose their Board of Directors meeting dates and consequently non-compliance letters were issued to them, to which they responded by announcing their dates.
- All publicly listed companies, except BMB, have complied with the requirement of publishing the annual and interim financial statements for the year ended 31 December 2019, within the appropriate timeframe. In addition, all listed companies have complied with publishing the aforementioned statements and disclosing them in at least two local newspapers (one Arabic and one English), with the

exception of BMB, which did not commit to publishing the interim financial statements for all periods of 2020.

- All publicly listed companies, except BMB, have published the specimen of the annual and interim financial results for the year 2019 and 2020 respectively on Bahrain Bourse's website.
- All publicly listed companies, except BMB, have disclosed and published their full set of the annual and interim financial results for the year 2019 and 2020 respectively on the Bahrain Bourse's website.
- Although BMB is suspended from trading due to its incompliance with the above, BMB has published on February 25, 2020, the financial results for the first, second and third quarters of 2019 and the end of the year for the same year were published. Yet, BMB remains suspended due to its non-compliance of the above during all periods of 2020.

➤ *Disclosure Standards*

Disclosure of Material Information:

The CMSD ensures that all publicly listed companies are committed to disclose material information that may affect stakeholders that deal in securities as per the rules and requirements of the CBB's Disclosure Standards (particularly with regards to the content, timing and disclosure of information on the Bahrain Bourse website). Throughout 2020, the number of the announcements made by the listed companies pertaining to the disclosure of material information were approximately 1686 announcements.

General Meetings:

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

| Company | General Meeting | Purpose |
|--|-----------------|---|
| Zain Bahrain B.S.C, Nass Corporation B.S.C, Car Parks, Bahrain Islamic Bank B.S.C, BASREC, Aluminium Bahrain B.S.C. ("Alba") | Extra-Ordinary | Approval to amend the M&AoA, pursuant to latest the amendments of the Commercial Companies Law. |
| Al Salam Bank - Bahrain B.S.C., INOVEST B.S.C., BBK | Extra-Ordinary | <ul style="list-style-type: none"> Approval to amend the M&AoA, pursuant to latest the amendments of the Commercial Companies Law. Approval to increase issued capital due to the distribution of bonus shares. |
| National Bank of Bahrain B.S.C ("NBB") | Extra-Ordinary | <ul style="list-style-type: none"> Approval to increase issued and paid up capital. |
| Ahli United Bank | Extra-Ordinary | <ul style="list-style-type: none"> Approval to issue bonds. Approval to amend the M&AoA, pursuant to latest the amendments of the Commercial Companies Law. Approval to increase issued capital due to the distribution of bonus shares. |
| Khaleeji Commercial Bank B.S.C. | Extra-Ordinary | <ul style="list-style-type: none"> Approval of reducing the issued and paid up capital to amort the accumulated losses. Approval of the issuance of sukuk amounting to 200 million dollars. |
| BMB | Extra-Ordinary | <ul style="list-style-type: none"> Approval to maintain bank's continuity. |
| Investcorp Holdings B.S.C. | Extra-Ordinary | <ul style="list-style-type: none"> Approval of the issuance of preferred shares. Approval of increasing the issued and paid-up capital of the company. Approval of the amendment |

| | | |
|------------------------------------|----------------|---|
| | | of the M&AoA. |
| United Gulf Holding Company B.S.C. | Extra-Ordinary | <ul style="list-style-type: none"> • Approval of the initial rights offering after obtaining all the necessary regulatory approvals related to the issue of the rights issue. • Approving the proposal of the company's board of directors to increase the issued and paid-up capital of the company. • Approval of the amendment of the articles of association and the amended and reformulated articles of association for the company. |
| Arab Insurance Group B.S.C. | Extra-Ordinary | <ul style="list-style-type: none"> • Discussing the most important remarks raised by the Central Bank of Bahrain in the inspection report. • Discontinuation of the underwriting of the reinsurance business • Examine the possibility of finding a buyer during the liquidation of the company, to acquire the company. |
| Banader Hotels Company B.S.C. | Extra-Ordinary | <ul style="list-style-type: none"> • Discussing and approving the proposal to reduce the paid-up capital to write off the accumulated losses. • Discussing and approving the conversion of a subordinated loan into ordinary shares. • Approving the granting of the assignment of pre-emption rights from shareholders on the issue of ordinary shares. |

Treasury Shares and Share Transfer

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

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

Qualification Shares

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

The CMSD issued its no objection letter to 5 listed companies' applications pertaining to the release of qualification Shares.

Employee Share Option Plan ("ESOP")

The rules governing ESOP of the Offering of Securities Module of Volume 6 of the CBB Rulebook were amended in 2017. The aforementioned amendments stipulate that all listed companies must hold the securities held on behalf of their employees under an ESOP in a trust held by a trustee.

Pursuant to the above, the CMSD issued its no objection on the amendments to the ESOP and documents of Batelco, GFH Financial Group B.S.C. ("GFH") and SICO B.S.C. to comply with the OFS Module.

In this regard, the CMSD has approved 39 share transfer requests from and to the trustees' accounts for the benefit of the employees of the listed companies in 2020.

Listed Companies' Memorandum & Articles of Association

During the year 2020, the CMSD has approved an application from NBB, requesting CBB's approval to amend certain provisions of the Memorandum & Articles of Association ("M&AOA").

Market Making

The CMSD issued its no objection letters on 10th May 2020 to Alba to extend SICO's market making activity for Alba's shares in Bahrain Bourse using approximately 3% of Alba's issued share capital for a renewable period of 12 months.

The CMSD issued its no objection letters on 19th May 2020 to GFH to extend SICO's market making activity for GFH's shares in Bahrain Bourse using approximately 3% of GFH's issued share capital for a renewable period of 12 months.

The CMSD issued its no objection letters on 28th May 2020 to Bank ABC to extend SICO's market making activity for ABC's shares in Bahrain Bourse using approximately 3% of Bank ABC's issued share capital for a renewable period of 12 months.

The CMSD issued its no objection letters on 15th June 2020 to Batelco to extend SICO's market making activity for Batelco's shares in Bahrain Bourse using approximately 3% of Batelco's issued share capital for a renewable period of 12 months.

The CMSD issued its no objection letters on 27th August 2020 to Al Baraka to extend SICO's market making activity for Al Baraka's shares in Bahrain Bourse using approximately 3% of Al Baraka's issued share capital for a renewable period of 12 months.

Market Surveillance

During 2020, the Market Surveillance Department has identified a total of 15 suspected cases the preliminary examination results were as follows:

1. 11 closed cases because they failed to have sufficient evidence to qualify for further action.
2. 4 suspected cases have been transferred to Investigation and Enforcement Department.

Compliance and Enforcement

- **Non-Compliance by Licensed Brokers**

A licensed broker was issued a Formal Warning, dated 18th November 2020, to mainly address the contravention of the MAM-3.10.19 of the Prohibition of Market Abuse and Manipulation (“MAM”) Module of Volume 6 of the CBB Rulebook, which pertains to Improper Matched Orders wherein both buy and sell orders are usually entered at the same time with same price and quantity by different but colluding parties.

- **Non-Compliance by Crypto-Asset Licensees**

The CMSD issued a Non-Compliance Letter, dated 27th April 2020 to one of its crypto-asset licensees mainly for its failure to comply with Article (61) of the CBB Law and CRA-10.3.23 of the Crypto-Asset (“CRA”) Module by appointing an external auditor prior to obtaining CBB's approval.

The CMSD issued a Non-Compliance Letter, dated 9th July 2020, to one of its crypto-asset licensees following its non-adherence to CRA-14.6.22 of the CRA Module. The CMSD additionally issued a Formal Warning to the licensee, dated 18th November 2020, for its contravention of the above-mentioned CRA-14.6.22 of the CRA Module as well as its inability to confirm full compliance with the Enhanced Due Diligence (“EDD”) measures, as stipulated in the

CRA Module and the Anti-Money Laundering and Combating of Financial Crime (“AML”) Module of Volume 6 of the CBB Rulebook.

The CMSD further imposed a per diem financial penalty on 18th November 2020 on a crypto-asset licensee for its contravention of CRA-4.2.3 of the CRA Module exemplified in its late filing of its Annual Audited Financial Statements.

Non-Compliance by Listed Companies

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

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

| Number of Non-Compliance Cases Related to the Submission of Monthly Statement of the Register of Interest for Year | | Percentage Change |
|--|------|-------------------|
| 2019 | 2020 | |
| 7 | 4 | -43% |

Notification of Non-Compliance to Disclosure Standards and Related Resolutions

The CMSD issued Non-Compliance Letters to **28 listed companies** for not meeting the requirements of the Disclosure Standards and the related resolutions in the following manner:

| Disclosure Standards/Related Resolutions | Number of Contraventions |
|--|--------------------------|
| Publication of financial statements, content of financial statements/ press releases | 5 |
| Declaration of annual dividend | 2 |

| | |
|---|----|
| Disclosure of Board of Directors meeting date or any change to the date | 14 |
| Failure to notify the CMSD of change in Board of Directors/senior management and disclosure of the same to the market | 7 |

Notification of Non-Compliance in Relation to Offering of Securities' Requirements

The CMSD issued a Non-Compliance Letter, dated 18th March 2020 to a listed company for its non-adherence to OFS-5.1.11 of the Offering of Securities Module ("OFS") of Volume 6 of the CBB Rulebook by failing to submit a supplementary or replacement Private Placement Memorandum ("PPM").

Non-adherence to Insider Policy Trading Requirements & BHB's Market Rules

A listed company was issued a Formal Warning, dated 2nd September 2020 for non-adherence to Key Persons Dealing Policy, in line with the requirements outlined in the Bahrain Bourse's Market Rules, and as it relates to the discharge of its supervisory duties particularly as it pertains to its review of employees' and key persons' trading.

Temporary Suspension of Trading

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

| Listed Company | Date of | |
|-----------------------------------|-------------|-------------|
| | Suspension | Resumption |
| Esterad Investment Company B.S.C. | Jan-2020-29 | Jan-2020-29 |
| APM Terminals Bahrain B.S.C. | Feb-2020-25 | Feb-2020-26 |
| GFH Financial Group B.S.C. | Aug-2020-16 | Aug-2020-18 |
| Holding B.S.C Ithmaar | Aug-2020-16 | Sept-2020-2 |

➤ *Takeovers, Mergers and Acquisitions*

- **Ahli United Bank B.S.C. and Kuwait Finance House K.S.C.P.**

The CMSD is currently supervising and monitoring the developments in the potential acquisition offer from Kuwait Finance House K.S.C.P. ("KFH") to Ahli United Bank B.S.C ("AUB").

The due diligence and valuation reports prepared by the professional advisors appointed by AUB have been presented to the AUB Board which, on 12th September 2019, has accepted the conclusions contained in the reports and approved the share exchange ratio of 2.325581 AUB shares for each KFH share.

The CBB has 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 the 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. The CBB issued its no objection to the abovementioned extension on 31st December 2020.

➤ *Joint Work of the Gulf Cooperation Council (GCC)*

1. Exceptional Meeting of Heads of Gulf Cooperation Council (“GCC”) Capital Markets Authorities Committee (or their equivalent)

The CMSD’s Director participated in an exceptional meeting of the Heads of GCC Capital Markets Authorities Committee (or their equivalent) held virtually on 5th April 2020, mainly to discuss the regulators’ efforts expended to support the capital markets in response to the COVID-19 pandemic with the aim of ensuring financial stability, diversification, financial inclusion and investor protection, among other things.

2. 1st Meeting of Capital Markets Supervision & Control Working Group

Pursuant to the decisions reached in the Exceptional Meeting of Heads of GCC Capital Markets Authorities Committee (or their equivalent) held virtually on 5th April 2020, the CBB’s CMSD participated in the 1st Meeting of Capital Markets Supervision & Control Working Group on 14th April 2020 wherein the latest steps and measures undertaken by the GCC’s capital market regulators to better manage the implications of the Covid-19 pandemic were discussed.

3. 20th Meeting of Heads of GCC Capital Markets Authorities Committee (or their equivalent)

The CMSD’s Director participated in the 20th meeting of the Heads of GCC Capital Markets Authorities Committee (or their equivalent) held virtually on 29th June 2020 to discuss a plethora of matters including the passporting of investment funds’ action plan and the implementation plan for the agreed initiatives and priorities for integration between the financial markets in the GCC countries. The meeting also examined a working paper submitted by the Capital Markets Authority of the State of Kuwait regarding the procedures for developing a unified KYC model and a unified database for GCC citizens.

4. 6th Meeting of the GCC Financial Integration Strategy Working Group

Pursuant to the decisions reached in the 20th meeting of the Heads of GCC Capital Markets Authorities Committee (or their equivalent) held on 29th June 2020, the CBB’s CMSD participated in the 6th meeting of the GCC Financial Integration Strategy Working Group, held virtually on 20th July 2020, wherein it was agreed to undertake the task of preparing a

draft agreement for the implementation of the proposed investment funds' passporting scheme.

5. 7th Meeting of the GCC Financial Integration Strategy Working Group

The CBB's CMSD participated in the 7th meeting of the GCC Financial Integration Strategy Working Group, held virtually on 27th August 2020, wherein the agreement drafted for the implementation of the proposed investment funds' passporting scheme was examined.

6. 21st Meeting of Heads of GCC Capital Markets Authorities Committee (or their equivalent)

The CMSD participated in the 21st meeting of the Heads of GCC Capital Markets Authorities Committee (or their equivalent) held virtually on 21st September 2020 to discuss a number of matters including the passporting of investment funds' action plan and the implementation plan for the agreed initiatives and priorities for integration between the financial markets in the GCC countries. The meeting also discussed the joint investment awareness campaigns carried out by the GCC capital markets' regulators, the project relating to developing a unified KYC model as well as other matters including exchanging the latest developments from within the GCC's capital markets.

7. 9th GCC Ministerial Committee of the Financial Markets Regulators

The 9th GCC Ministerial Committee of the Financial Markets Regulators was held virtually on 22nd September 2020, wherein the meeting focused on a number of areas including the prospective road map for the adoption of the initiative and priorities anticipated to contribute to deepening the coordination between the capital markets authorities in the GCC member states, the vision of the General Secretariat on promoting the Gulf states' joint work in the capital markets (including investment fund passporting, KYC unification, promoting cross-listing...etc.).

8. 8th Meeting of the GCC Financial Integration Strategy Working Group

The CBB's CMSD participated in the 8th meeting of the GCC Financial Integration Strategy Working Group, held virtually on 1st November 2020, wherein the following was agreed:

a. to undertake the task of drafting a general regulatory framework for the passporting of investment funds.

d. to undertake the task of preparing an action plan to be adopted for the initiatives and priorities discussed for integration between the financial markets in the GCC countries.

9. 45th Annual Conference of the International Organization of Securities Commissions (“IOSCO”)

The CMSD on behalf of the CBB as a member of the International Organization of Securities Commissions participated virtually due to COVID-19 at the organization’s 45th Annual Conference to discuss and address issues facing securities market regulators and supervisors. The meetings were held on the 9-18 November 2020.

10. 9th Meeting of the GCC Financial Integration Strategy Working Group

The CBB’s CMSD participated in the 9th meeting of the GCC Financial Integration Strategy Working Group, held virtually on 9th December 2020, wherein it was agreed that a series of extensive meetings will be organized and held in the period prior to the end of February 2021 between the investment fund specialists and the legal representatives from the respective GCC capital market regulators to review the draft agreement for the proposed passporting scheme as an appendix to the drafted general regulatory framework.

11. GCC’s Investor awareness Working Group

Pursuant to the decisions reached in the Heads of GCC Capital Markets Authorities Committee, a delegation from the CBB’s Research and Investor Protection participated in the working group set for the purpose of establishing investor awareness campaigns in order to raise more awareness among investors. The working group has met three times virtually in 2020 and has released its first campaign in November 2020.

Financial Institutions Supervision Directorate (“FISD”)

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

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

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

During the course of 2020, FISD continued to fulfill its responsibilities by implementing rules and regulations and using various supervisory tools, including in-depth financial analysis, prudential meetings with management of licensees, formal requests for information from the sector, liaising internally with other Directorates at the CBB, in addition to the ongoing monitoring of licensees through regular communication and exchange of correspondence.

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

Circulars:

On 11th March 2020, the CBB issued circular no. EDFIS/C/022/2020 addressed to all Licensees, requesting them to follow the disinfection instructions issued by Ministry of Health to combat the coronavirus (Covid-19).

In addition, on 18th March 2020, the CBB issued circular no. EDFIS/C/025/2020 to all Investment Firm licensees, Trust Service Providers, Administrators, Money Changers and Representatives offices of Investment firms requesting them to ensure the readiness and reliability of their Business Continuity Plan, and provide the CBB with a brief of the same, and the measures taken to ensure uninterrupted operations during the Covid-19 pandemic.

Further, on 19th March 2020, the CBB issued circular no. EDFIS/C/026/2020, requesting all Money Changers to implement currency notes disinfection measures, in order to preserve the health and safety of citizens and residents.

On 24th March 2020, the CBB issued circular no. EDFIS/C/028/2020, addressed to all Investment Business Firms (categories 1 and 2), and Trust Service Providers, regarding Resolution No. (2) of 2019, issued by the Real Estate Regulatory Authority "RERA" with respect to real estate valuation requirements. In the Circular, the CBB requested licensees to only deal RERA Licensed Valuers only.

On 8th April 2020, the CBB issued circular no. OG/148/2020, addressed to all Licensees, providing them with guidelines with regard to implementing working from home policy, and reducing the number of staff attending office and using the corporate transport during the pandemic.

On 13th April 2020, the CBB issued circular no. EDFIS/C/042/2020, addressed to all Investment Business Firms and Trust Service Providers, informing them about the webinar on "Principles and Practices of Real Estate Valuation in the Financial Service Sector, organized by the Real Estate Regulatory Authority and held in the BIBF.

Regulatory and Rulebook Updates:

During 2020, FISD continued to develop the rules and regulations pertaining to its licensees, either by way of updating existing rules or introducing new rules.

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

CBB Rulebook Volume 5:

Specialized Licensees Developments

In January 2020, the CBB has issued a new Appendix in relation to the Instructions for Publication of Press Releases Concerning Financial Results for Public Shareholding Companies.

In April 2020, minor amendments were made to the Form 2 – Application for Authorization of Controller and Form 3 – Application for Approved Person Status, mainly regarding declaring any related party connections, and undertaking to abide by the CBB Laws and regulations.

In July 2020, the CBB amended the definition of “Independent Director” in CBB Rulebook Volume 4 Glossary. Another amendment to the same was introduced in October 2020.

Moreover, the Glossary included an amendment to the definition of Accredited Investor and Independent Director.

Money Changers Developments

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

In January 2020, the General requirements (GR) Module was amended to change the Law reference in the section pertaining to transaction records to Legislative Decree No. (54) of 2018 with respect to Electronic Transactions “The Electronic Communications and Transactions Law” and its amendments

In addition, and in October 2020, the Business Conduct (BC) Module was updated in to include a new chapter on the Provision of Financial Services on a Non-discriminatory Basis.

CBB Rulebook Volume 7:

Collective Investment Undertakings Developments

During the course of 2020, the FISD continued to ensure that Bahrain domiciled CIUs and placement agents of overseas domiciled CIUs adhere to the requirements of CBB Rulebook Volume 7 issued in April 2012.

During 2020, the CBB registered 114 overseas domiciled CIUs to be marketed in Bahrain, in addition to 2 locally domiciled CIUs.

Promoting stability and soundness in the financial system

During the course of 2020, FISD continued to monitor the performance of the financial institutions under its supervision, through various supervisory tools, including the scrutinizing of financial reports submitted by licensees on a monthly or quarterly basis and through conducting regular management meetings.

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

Furthermore, and during the current pandemic of COVID-19, the CBB has taken a number of measures to ensure continuity of the financial services to customers while observing customer safety and wellbeing. This includes the disinfection of premises and currency notes, social distancing, and encouraging digitalization of certain processes. The CBB has also monitored the performance of financial institutions and the impact of the pandemic on their profitability, reporting and continuity in business.

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

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

Insurance Supervision Directorate

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

- The CBB requested insurance licensees to submit their year-end financial statements and attend a virtual meeting with the CBB whenever required and with their external auditors prior to the submission of the financial statements for approval to the Board of Directors.
- The CBB continued to receive monthly investment reports and assess the performance of the investment portfolio.
- The CBB receives and reviews various prudential reports as per the requirements of the CBB Rulebook (Volume 3) in order to efficiently supervise and assess the Licensees compliance with the requirements of the CBB and Financial Institutions Law No. (64) of 2006 and the CBB Rulebook (Volume 3).

Regulatory and Rulebook Updates

- **Issuance of new “Training & Competency (TC)” Module under the CBB Rulebook (Volume 3):** The new TC module along with relevant amendments to the “Authorization (AU)” and “High-Level Controls (HC)” modules, were issued by the CBB in August 2020 following review of the feedback received from insurance licensees on the consultation paper in that regard.
- **International Financial Reporting Standard (IFRS 17):** In light of the International Accounting Standards Board’s (IASB) decision to postpone the effective implementation date of IFRs 17 “Insurance Contracts” from 1st January 2022 to 1st January 2023, the CBB issued a directive to that effect, extending the timeline for all insurance firms to prepare a gap analysis until 31st December 2020, provide a Board approved action plan by 31st May 2021 and initiate the implementation of the new standard on a semi-annual basis starting end of December 2021.

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

In January 2020, the CBB issued a Resolution standardizing the minimum cover policy for own damage (comprehensive cover) and setting provisions in place to protect the rights and obligations of both the insured and the insurer.

The resolution permits insurance firms to add other provisions as long as it enhances and increases the benefits of the insurance coverage mentioned in the resolution, subject to proper endorsement.

In March 2020, the CBB issued a circular instructing all insurance firms to deal with valuers licensed by the “Real Estate Regulatory Authority (RERA)” only in order to protect the rights of both the insured and the insurer and ensure compliance with Bahrain Valuation Standards (BVS).

Promote transparency

During 2020, the Insurance Supervision Directorate released the Insurance Market Review Report of 2019. The Report presents the financial performance of the insurance industry in Kingdom of Bahrain for the years 2018 and 2019 (for both conventional insurance & reinsurance, and Takaful & Retakaful business) by class of business in the Kingdom. The total gross premiums of the Bahrain insurance market have increased to BD 287.36 million in 2019 (2018: BD 284.02 million).

Promote better users experience

Directive to all Insurance Firms and Third Party Administrators (TPAs): As part of the CBB’s ongoing initiatives towards financial digitalization in the Kingdom of Bahrain and developments in digital financial services in addition to promoting better clients’ experience, the CBB issued a directive to all insurance firms and TPAs to digitalize their medical clients’ records by implementing a paperless process/workflow during client visits to healthcare providers.

Financial Digital Transformation:

- **Prudential Reporting Submissions:** As part of the CBB’s ongoing initiatives towards financial digitalization in the Kingdom of Bahrain and developments in digital financial services, the CBB issued a new directive in January 2020 instructing all insurance firms and insurance brokers to submit CBB Reporting Forms in soft copy format and through the ESRAD system only.
- **Electronic submission of Form 3:** The CBB completed the formation of the new system for electronic submission of Form 3 related to board members and controlled functions as per the requirements of CBB Rulebook

(Volume 3), and in September 2020, all insurance licensees were notified to use the new electronic submission system for Form 3 going forward.

Covid-19:

- **Service Continuity Measures:** The CBB issued a circular in March 2020 to all insurance licensees to ensure the readiness and reliability of their Business Continuity and Disaster Recovery Plans, and to submit briefings to the CBB on their plans to that effect.
- **Effects of the Pandemic:** In July 2020, the CBB obtained statistical data from all insurance licensees in order to measure the effects of the pandemic on the insurance sector's operations (mainly premiums and claims).

Financial Stability Directorate

During 2020, the Financial Stability Directorate ("FSD") continued conducting research and analysis on issues related to financial stability. The FSD continued to perform the following core functions:

- Conducting research that focuses on the effects of the COVID-19 pandemic on the economy, the financial sector (banking and non-banking), and the importance of addressing:
 - Implications on the banking sector and financial stability.
 - Macro-Prudential policies and supervisory and regulatory measures taken by the CBB to mitigate the effects on the consumers of financial services.
 - Regulatory and supervisory requirements, risk management system, stress testing, business continuity plans, recovery plans, FinTech and Financial Inclusion, to enhance financial stability during the pandemic.
 - Strategies to support economic recovery and economic growth in the post-pandemic phase.
- Issuing various publications such as the Financial Stability Report

(semi-annual) and the Economic Report (annual), along with other periodical publications that monitor domestic and international macro financial developments that include the Financial Soundness Indicators (Quarterly).

- Collecting, compiling and disseminating statistical information and releasing financial data that is published through the Monthly Statistical Bulletin.
- Monitoring major global economic developments in the internal Weekly International Bulletin.
- The FSD has worked to improve the quality of statistical data to include data related to small and medium-sized companies, investment business companies, and Islamic financial institutions.
- Conducting annual surveys such as the Manpower Survey, Coordinated Portfolio Investment (“CPIS”) Survey, and Coordinated Direct Investment (“CDIS”) Survey, Locational International Banking surveys.
- Maintaining CBB’s relations with major international institutions and agencies (IMF, World Bank, and rating agencies) and acting as a point of contact for other third parties, both domestic and overseas.
- The FSD has developed the economic report for the Kingdom of Bahrain, to include new chapters on foreign direct investment and workers’ remittances, in addition to further developing the current chapters that focus on the financial sector.
- Developing weekly and monthly POS data statistics.
- Further developing the semi-annual financial stability report, which is published in March and September of each year, to be more comprehensive through:
 - Covering developments in the non-banking financial sector, such as the insurance sector and capital markets.

- Developing chapters on FinTech, Financial Inclusion, and Cyber security.
- Focusing on the repercussions of the COVID-19 pandemic on the banking sector and financial stability.
- Continuing to develop stress tests for various banking segments and Domestic Systemically Important Banks (DSIBs) to enhance risk management and assess potential risks for the banking sector.
- The FSD continued to implement the recommendations of the Financial Sector Assessment Program (FSAP), which was held in 2016 and 2017. The FSD continued to coordinate with the IMF mission and worked with other CBB's directorates to follow up on all the requirements related to the program. The FSD has worked on:
 - Developing the Macro-Prudential Policy Framework for the CBB through the Financial Stability Committee.
 - Continuing to develop early warning systems on a micro and macro level.
- The Financial Market Infrastructure (FMI) and Payments Oversight Division under the Financial Stability Directorate ensure efficiency and safety of FMIs and Payments to promote better allocation of resources in the economy.
- The Division ensures application of the Principles for Financial Market Infrastructures (PFMI) to the current FMIs, Payment and Settlement Systems to manage and mitigate risk.

The FMIs and Payments Oversight Division oversees the market through the following instruments:

1. Conducting Off-site and On-site Monitoring.
2. Periodic and continuous updating of the database of information developed and prepared by the oversight division.
3. Prepare Critical Analysis Reports through data or information collected from various methods and sources, combined, collated and interpreted in multiple perspectives and illustrations in order understand, anticipate,

detect, resolve and enhance the FMIs and Payment Systems based on market insights and feedback considering the given Risks involved.

4. Study the anomalies pattern.
5. Verifying and using information obtained through monitoring data to understand the FMIs and Payments eco-system in the economy. Moreover, the information obtained through monitoring is used to assess whether they meet the relevant policy requirements and standards, identify critical observations of differences in self-assessments by the FMIs, operators of the FMIs and the Payment eco-system's Participants.
6. Developing and enhancing a number of mechanisms to ensure accurate and comprehensive monitoring for various stages and components of FMIs and Payments Systems.
7. Collaborating with other Directorates, Units and Divisions within the CBB, regulatory authorities within the Kingdom of Bahrain and others throughout the world to fulfil the needs of the public and the economy for a harmonised FMI and Payments eco-system.
8. Encourage and induce technological and institutional developments necessary to fulfil the FMIs and payment needs in Kingdom of Bahrain through Fintech and Innovative upcoming projects such as: Open Banking Services and electronic cheques (e-cheques), etc., as the FMIs and Payments Oversight Division has a fundamental role in monitoring and overseeing these systems, especially when new financial entities and institutions join the FMIs and Payments eco-system, such as Payment Service Providers, Third Party Payment Providers, Ancillary Services and Ancillary Service Providers.
9. Constant follow-up for regional and global developments in the field of FMIs and Payment Systems to stay up to date with the global evolution.

Chapter

3

3. Other CBB Projects and Activities

New Licenses

Fintech & Innovation

Payment System (“SSS” & “RTGS”)

Currency Issue

CBB Training Programs

IT Projects

External Communications Unit

CBB’s Organisational Chart

New Licenses

The Central Bank of Bahrain (“CBB”) has issued 4 new licensed institutions and registered 2 persons as Individual Actuaries in 2020 compared to 12 new licensed institutions and 2 person registered as Loss Adjuster issued in 2019, reaching to a total of 370 Licensed Institutions and registered persons providing financial services from Kingdom of Bahrain as of 31st December 2020 compared to a total of 381 licensees and registered persons as of 31st December 2019.

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

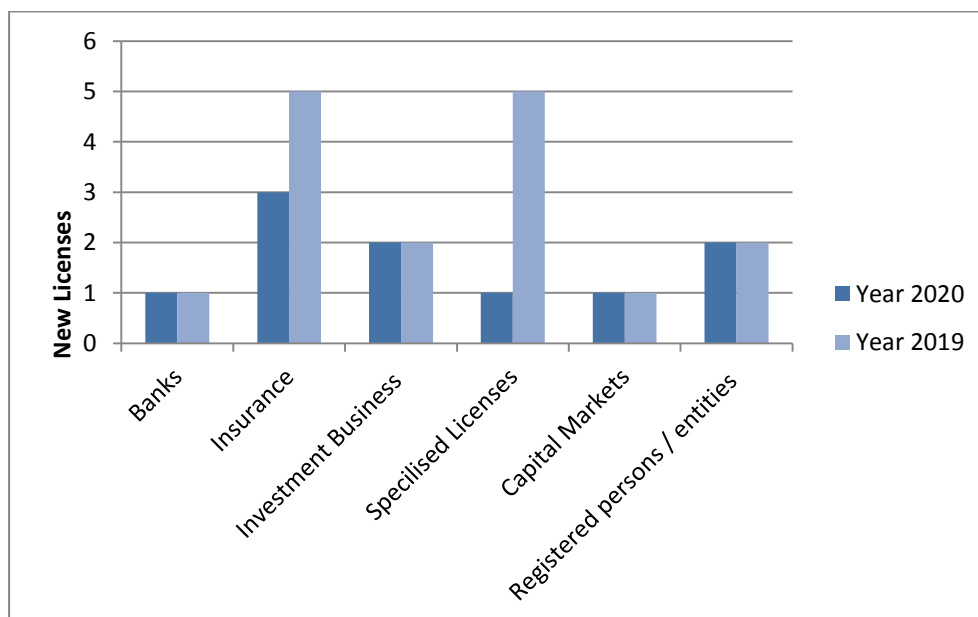
- 1) KPT Fiduciary Services W.L.L. – Trust Service Provider – Category B.
- 2) Al Dar Capital Company B.S.C. (c) – Investment Business Firm – Cat. 1 (Islamic Principles - Locally).
- 3) Mada Insurance & Reinsurance Broker W.L.L. – Insurance aggregator.
- 4) CNMENA B.S.C. (c) – Crypto Asset Services – Cat. 2.

Registered Persons:

- 1) Mr. Chandra Khasnobis – (Registered Actuary).
- 2) Mr. Kulin Patel – (Registered Actuary).

The main growth of new licenses issued in 2020 was in the Insurance sector as shown in the graph below:

New Licensees Growth by Sector



Fintech & Innovations Unit

CBB's Regulatory Sandbox

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

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

To date, the CBB has received 101 applications to join the Regulatory Sandbox

During 2020:

- 11 applications were authorized to join the Regulatory Sandbox, whereby 5 applications are currently under study.
- 6 applications were refused entry to the Regulatory Sandbox because their activities did not meet the eligibility criteria as set out in the Regulatory Sandbox Framework.
- 3 applications withdrew from the Regulatory Sandbox at the request of applicants.

Since the launch of the Regulatory Sandbox, 7 companies successfully exited the Sandbox. These include:

1. Tarabut Gateway W.L.L
2. Rain Financial
3. Belfrics Middle East W.L.L.
4. Sprinklexchange
5. Basket FZE
6. Arabianchain
7. Braxtone

As part of CBB's continuing development of the regulatory framework for the financial system, the FinTech & Innovation Unit has embarked on a number of

initiatives during the year 2020 to encourage use of FinTech and to foster innovation within the financial services sector, as follows:

Open Banking Regulations

On October 28, 2020, the CBB's Open Banking Committee launched the "Bahrain Open Banking Framework". This marked the launch of Bahrain-specific API standards for open banking and clarifications leading up to developing the current open banking framework.

The Head of the Fintech and Innovation Unit is a member of the Open Banking Committee.

FinHub 973: CBB Digital Lab

The FinTech & Innovation Unit, in partnership with Fintech Galaxy, launched a beta version of FinHub 973 in October 2020, which will operate as Bahrain's central digital lab, overseen by the CBB. The digital lab will enable financial institutions to connect with fintechs from all over the world through open APIs. Companies will be able to test innovative solution through a centralized marketplace. The unit continues to work closely with Fintech Galaxy, as well as key strategic partners from the ecosystem (including the Economic Development Board, National Bank of Bahrain, Bank ABC, ila Bank, BisB, and Benefit) to develop FinHub 973. FinHub973 CBB digital lab will roadmap delivers major enhancements against an accelerated timeline. By the end of 2020 the FinTech marketplace went live on FinHub973, whereby the platform will be fully operational in the first quarter of 2021.

Digital Workshop for the Insurance Sector

The Fintech & Innovation Unit formed a COVID-19 working group which includes members from the Economic Development Board (EDB) and the FIU, to study the opportunities for Bahrain in the area of financial technology brought about by COVID-19, which has resulted in drastic changes in customer behaviors and demands as well as changes in the way the financial sector operates. In light of this initiative, the Fintech & Innovation Unit, alongside the EDB, held meetings with a number of key insurance companies licensed by the CBB to assess the current situation of the local insurance sector and to highlight the sector's strengths, weaknesses, opportunities, and the challenges faced. As a result of those meetings, the CBB in partnership with the EDB, launched a digital

workshop with representatives of the insurance sector on December 6, 2020 to highlight key InsurTech opportunities for Bahrain. Following this workshop, the FinTech & Innovation Unit will be working closely with the EDB to put in place an action plan during 2021, to drive the insurance sector towards innovation and digital transformation.

Global Financial Innovation Network: Cross-Border Sandbox Testing

The Fintech & Innovation Unit, representing the CBB, has joined the second cohort of the cross-border sandbox testing working stream through the Global Financial Innovation Network (GFIN). The cross-border sandbox testing working stream allows companies to test innovative products and business models across two or more jurisdictions, who are members of GFIN, simultaneously. The CBB's participation comes along with 23 other regulators from across 5 continents. The application window was opened on October 28, 2020 up to December 31, 2020.

Mechanisms for Developing Regulatory Processes through RegTech and SupTech

The Fintech & Innovation Unit continues to study the mechanisms to promote the adoption of RegTech and SupTech in the ecosystem. The unit has also prepared a report highlighting RegTech and SupTech initiatives being undertaken in a number of jurisdictions in an effort to benefit from the experiences of those jurisdictions to further enhance the regulatory process at the CBB.

Additionally, the FinTech & Innovation Unit has also joined the GFIN RegTech & SupTech Working Stream, to actively participate alongside other regulators in studying opportunities in these areas.

Guidance on Token Asset Trading Platforms (Tokenized Assets)

The Fintech & Innovation Unit is working alongside the Capital Markets Supervision Directorate to prepare a preliminary study to issue draft guidelines for licensing operators of tokenized asset trading platforms.

Digital Bank Regulations

The Fintech & Innovation Unit prepared and presented a preliminary study to draft guidelines for licensing digital banks. Based on the study, the unit coordinated with the Policy Unit in drafting directives for licensing digital banks.

Projects Pipeline

The unit prepared and presented a study on stable coins including assessing the extent of its potential impacts on the financial sector.

- The unit is continually assessing its regulatory sandbox processes to further improve it including updating the current framework.
- The unit, along with Fintech Galaxy, is preparing to launch the full version of FinHub 973. The unit is continually working on ways to improve the platform, including integrating the CBB's regulations onto the platform and allowing regulatory sandbox processes to be automated and to flow through the digital lab.
- The unit continually researches new initiatives in the field of financial technology to keep regulations updated.
- The unit works alongside the Financial Stability Directorate to collect statistics relevant to fintech for the Kingdom.

Memberships in local and International Committees/Working Groups

- FinTech Working Group - Secretariat General of the GCC.
- Global Financial Innovation Network ("GFIN"):
 - The FinTech & Innovation Unit representing the CBB, in collaboration with the Financial Conduct Authority ("FCA") and 11 financial regulators and related organizations from around the world, in forming GFIN, building on the FCA's initiative to create a 'global sandbox'. GFIN is a collaborative knowledge sharing initiative aimed at advancing areas including financial integrity, consumer wellbeing and protection, financial inclusion, competition and financial stability through innovation in financial services, by sharing experiences, working jointly on lessons learnt and facilitating responsible cross-border experimentation of new ideas.
 - The FinTech & Innovation Unit, representing the CBB, is a member of the 'Co-ordination Group' of GFIN, which is the highest tier of membership in GFIN. This will entail actively participating in GFIN's

work streams, cross-border Sandbox trials, and attending in-person meetings of the network.

- Arab Monetary Fund (AMF) Fintech Working Group.
- The Head of the FinTech & Innovation Unit has been nominated by the Supreme Council for Women (“SCW”) to be a member of the Bahrain Women in FinTech Committee, which is being led by SCW. The Bahrain Women in FinTech Committee will be responsible for promoting gender equality within the FinTech Sector and encouraging upskilling Bahraini women within ICT and STEM related fields.
- The Unit is also involved in the working group to drive the CBB’s internal digital transformation strategy

Participations in Local & International Conferences and Workshops

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

Payment System (“SSS” & “RTGS”)

Bank transfers through the Real Time Gross Settlement System (“RTGS”) were 278,212 in 2020, for a total amount of BD 67.7 billion with a daily average of 1,122 transfers and an average daily value of BD 273.1 million, broken down as follows:

- The volume of bank transfers among retail banks through RTGS was 36,096 for a value of BD 62.512 billion.
- The volume of customer transfers through the RTGS totalled 242,116 with a value of BD 5.23 billion.
- Total fees received from RTGS and SSS member banks (transaction fees and annual membership fees) amounted to BD 357,385 in 2020.

There were 2,667 transactions carried out through the Scripless Securities Settlement (“SSS”) System in 2020, the value of which was BD 14.735 billion, the daily average number of transactions was 11 and the average daily value was BD 59.417 million.

Cheque clearing

The number of cheques cleared in 2020 was 2,331,423 with a total amount BD 7.266 billion. The daily average number of cheques was 9,401 and the average daily value was BD 29.3 million.

ATM Network

The number of withdrawals processing through the local ATM network system (BENEFIT) during 2020 was 19,273,841 with a total amount BD 1.644 billion with a daily average of 52,661 transactions and an average daily value of BD 4.491 million.

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

- The number of Fawri+ transactions in 2020 was 47,468,505 with a total amount of BD 2.245 billion. The daily average number of Fawri+ transactions was 191,405 and the average daily value was BD 9.053 million.
- The number of Fawri transactions in 2020 was 8,704,680 with a total amount of BD 13.401 billion. The daily average number of Fawri transactions was 35,100 and the average daily value was BD 54.035 million.
- The number of Fawateer transactions in 2020 was 13,400,786,645 with a total amount of BD 463.366 billion. The daily average number of Fawateer transactions was 54,035,430 and the average daily value was BD 1.868 million.

AFAQ System

The Arabian Gulf System for Financial Automated Quick Payment Transfer (AFAQ) is the Real Time Gross Settlement system for cross-currency cross-border payments between the GCC countries. The first phase of AFAQ operational model will include several transferring services for the GCC member states currencies. The second phase will include other currencies like USD and EUR which will enable processing cross border payments in addition to same-day

settlement for the balances of central and retail bank's funds and financial centres.

The system involves multiple stakeholders, including the Gulf Payments Company as an operator of the service, National Central Banks (NCBs) as the account holding and customer service providing institutions as well as monetary authoritative figures. Finally, certified retail banks as direct participants of the system.

The AFAQ service will contribute to tremendous economic benefits in the region. As it will support the growth of trade and flow of investments between the GCC member states which accomplishes economic diversification. It will enhance and strengthen the trust in economic cooperation and development arenas among the GCC member states. Moreover, it will support the integration of financial policies and monetary strategies between the GCC member states.

The Service was launched on 10th December 2020, with the Central Bank of Bahrain and Saudi Central Bank being its first participants. The Central Bank of Bahrain has been the first to successfully initiate a payment in the AFAQ system

Currency Issue

- The CIS continued its operations accounting, sorting of currency notes and shredding of unfit currency notes using the machine which was directly linked to records of the CIS. The value of shredded unfit currency notes amounted to BD 124,588,055/- during 2020.
- The total value of currency deposits during 2020 amounted to BD 1,117,025,500/-, while that of the currency withdrawals stood at BD 1,175,069,540/-.
- The value of currency in circulation recorded BD 745,826,940/- on 31st December 2020, of which currency coins and notes amounted to BD 22,986,350/- and BD 722,840,590/- respectively. The fourth issue of currency notes reached a level of BD 74,780,480/- and amounted to 10.35% of the total value of currency notes in circulation. The value of the third issue of currency notes stood at BD 8,626,635/- or 1.19% of the total value of currency notes in circulation.

- The upgraded issue of the BD 20, BD 10 and BD5 new series of currency notes reached a level of BD 639,433,475/- and amounted to 88.46% of the total value of currency notes in circulation.
- The Central Bank of Bahrain (CBB) implement a new system to register all the requests of cash withdraw and deposit by retail banks through CBB extranet. The new system will replace the existing manual process that required receiving all requests via the phone.

CBB Training Programs

During 2020, the Central Bank of Bahrain continued to focus on ensuring that CBB's employees have the right skills and competencies to enable them to perform their responsibilities at a high level. However, the current circumstances related to Coronavirus (Covid-19) have necessitated the cancellation of most internal and external courses and programs, and training was limited to virtual training programs provided remotely, which a number of local and international institutions and organizations have initiated during this period

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

- Developing employees' skills and knowledge through enrolling 110 employees in 88 training courses at BIBF; covering different areas including finance, Islamic banking, compliance, insurance, Fintech, management and information technology.
- Enhancing technical competencies through enrolling 168 employees in 54 external training programs, workshops and conferences, organized by local, regional and international organizations such as the Economic Policy Institute of AMF, IMF, IFSB and other Central Banks and specialized institutes. These programs and conferences covered various areas including banking supervision, compliance, economics, investment, insurance, HR, procurement, Fintech and IT.
- Providing internships for 19 university students, in order to enhance their professional skills and prepare them for the workplace.

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

IT Projects

During the course of 2020, a number of projects were completed as part of IT Projects Roadmap. They include the following:

Perform External Penetration Tests to check for security vulnerabilities:

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

The company submitted the test results to CBB Information Security Section, which included a list of security vulnerabilities of low, medium, and high severities. Accordingly, these vulnerabilities have been remediated and solutions have been found to strengthen the security controls against breaches, and the company stated in its report that the CBB has an excellent maturity level to protect information security.

Following the highest Information Security standards for conducting this exercise. The CBB conducted several Penetration Tests during the year 2020.

Open Banking

The Information Technology Directorate managed the “Bahrain Open Banking Framework” (Bahrain OBF) project implementation and worked in collaboration with CBB’s relevant departments and the Open Banking Committee. The CBB launched the Bahrain OBF to ensure holistic implementation of Open Banking services by the industry and it has been made accessible via CBB Website in October 2020. This framework includes detailed operational guidelines, security standards and guidelines, customer experience guidelines, technical open Application Programming Interface (API) specifications and the overall governance framework needed to protect customer data. These standards follow the comprehensive rules on Open Banking which were previously issued in December 2018.

The framework was developed in collaboration with Deloitte and in consultation with retail banks and other financial institutions in Bahrain. The framework was developed and customized specifically for Bahrain, based on other jurisdictions' experiences and in line with the strategic vision of the CBB, with the ultimate objective of facilitating better services at lower costs with better choices for banking customers.

Digital Strategic Study

With regard to the CBB's "Digital Strategic Study Project", which has been implemented with KPMG Fakhro Consultancy, a comprehensive study was prepared and presented to the Central Bank of Bahrain including study finding of emerging business models that are anticipated to disrupt the financial industry along with recommendations relevant to those business models, as well as paramount cross cutting themes identified after studying, analyzing and benchmarking with the leading financial centers, and conducting numerous interviews with representatives of the financial sector from various categories.

The report also including suggested licensing guiding principles and regulatory frameworks to accommodate the new business models and emerging technologies. An Implementation roadmap has been prepared including all outcomes and recommendations according to priority and importance.

GCC Real Time Gross Settlement System (AFAQ) Project

The CBB has successfully completed the implementation of the CBB Domestic RTGS components integration with the GCC RTGS (AFAQ) System Central Component at Gulf Payment Company (GPC), this system is part of a regional infrastructure that GPC is developing based on the common regional payment systems among the countries of the GCC Cooperation Council by providing a real-time settlement system between GCC Central Banks. The system supports dealing in local currencies of the GCC Countries, and facilitates clearing and financial settlement, and strengthening the requirements for integration between financial markets, ensuring the speedy completion of cash transfers, reducing the cost of transfer for customers, standardizing their coordination and ensuring their protection with a high degree of security to avoid cyber risks and information security risks. Therefore, the system will contribute to enhancing financial stability in the GCC countries.

The Integration testing has been successfully completed during December 2020 with active participation of the Central Bank of Bahrain, the Saudi Central

Bank, GPC, and a number of retail banks operating in Kingdom of Bahrain and in the Kingdom of Saudi Arabia.

According, the GPC had successfully launched the first phase of the operation of the GCC Payments System (AFAQ) on 10th December 2020. The exchange of financial transfers between the Central Bank of Bahrain and the Saudi Central Bank through the payments system (AFAQ) was successful. The rest of the GCC Central Banks will soon join the system according to the schedule and agreed stages of work.

Accounting System (Dynamic 365)

The existing accounting system (ACCPAC) has been completely replaced with the new system (Dynamic 365) in order to keep pace with the latest technical versions of the accounting systems. The project was handled by (Global ITS) and started since mid-January 2020. The project requirements for the relevant Directorates were gathered and studied. Subsequently, the system has been customized as per CBB's requirements and extensive workshops were organized for users' training and users' acceptance testing.

The ITD team developed the requirements for integrating the new system with the internal systems and tested their readiness during December 2020. The actual use and operation of the new system started at the beginning of January 2021.

Upgrade CBB employees' email services to the Microsoft 365 platform

In keeping with the Government of Bahrain's cloud initiative to use Microsoft's Office 365 platform, CBB's IT team successfully transitioned all its employees' email services to Office 365 and is gradually adding other tools and features like Microsoft Teams, OneDrive and SharePoint that potentially enhance the CBB employees' work experience.

Moreover, the InfoSec Team has updated the cloud security policies and continues to strengthen it, in order to accommodate this cloud transition.

CBB COVID-19 Pandemic Response

In response to the COVID-19 Pandemic that mandated a "Work from Home" policy, the CBB IT team ensured that the staff's work process did not get affected by preparing multiple assistance measures. These included:

- Procurement of Laptops for staff who did not have one at home.
- Provisioning of VPN solution to enable those working remotely to access CBB internal applications securely.
- Providing advanced protection mechanism (IPsec technology-based) for the Inspection Directorate to access their on-premise data securely.
- Introducing Microsoft Teams video-conferencing facility for virtual meetings and thereby, enhancing employee collaboration.
- Usage of Microsoft's OneDrive and SharePoint tools for document access and sharing.

Moreover, CBB's InfoSec Team used virtual awareness sessions to educate staff on the best practices working remotely and reviewed CBB policies to ensure it covers safety and security of such situations.

Migration to AWS Cloud Infrastructure

As per Government of Bahrain's cloud initiative, CBB continued to expand its AWS cloud infrastructure. Further as mandate by Information & eGovernment Authority (iGA), all CBB systems hosted earlier in AWS Ireland, have been successfully migrated to the AWS Bahrain data-centre.

CBB Rulebook

The CBB implemented an enhanced version of its Rulebook site, which is hosted by Thomson Reuters for all licensed financial institutions and available via CBB website. The new site for the Rulebook was launched in March 2020 after successfully passing all the pilot tests by the CBB Regulatory Policy Unit's Users.

SWIFT Scope

The SWIFT Scope service to facilitate monitoring, analysis of cross-border SWIFT transactions has been provisioned. SWIFT together with the ITD team has completed the installation of SWIFT components during November 2020. The Central Bank of Bahrain issued a circular to the licensees informing them about the joining process. Some of the Licensees have started subscribing to the service, the other licensees should subscribe to the service by end of March 2021.

Currency Issue Cash withdrawals & Deposits Portal for Retail Banks

In order to enhance the Currency Issue Directorate processes with regard to the withdrawal and deposit services for the cash denominations by Retail Banks that take place on a daily basis, the CBB has developed and implemented an integrated electronic system. The system allows the Retail Banks to communicate with the cash issuance directorate and to submit the requests online for the withdrawal and deposit services. This will help the Currency Issue Directorate to review the requests in advance and to facilitate the provision of the services to the retail banks.

The Currency Issue Directorate issued a circular to all the Retail Banks to start the actual use of the system at the beginning of November 2020.

Form for approved person to be employed by the licensed financial institutions

In continuation of the enhancement of the Banking Supervision processes and to facilitate the financial institutions with better electronic services, the CBB has developed and implemented an electronic form for the submission of the approved person details who will be employed by the licensed financial institutions (Form for approved person). This service allows the financial institutions to submit an application for accreditation electronically by attaching all the supporting documents as needed.

Thus, the concerned supervisory directorate in the CBB receives the form electronically and they can browse the applications, view the attachments, and review the information that is entered by the financial institutions in the system. As of September 2020, all the supervision directorates have announced to all financial institutions to use the system.

Helpdesk Solution

As a part of the ITD's ongoing efforts at enhancing internal services and thereby facilitating the CBB staff's operational activities, an Helpdesk solution has been launched that allows them to report computer-related problems and requirements applying networks connection, Application service, printers, etc., which in turn are assigned to specialized technical support team.

The solution provides for a "Service Catalog" feature, through which the services of the ITD are presented in an easily accessible way. Thus, the previous work pattern based on paper requests has been replaced with an "online" and

convenient facility. The solution now requires the support requests to electronically pass through the same previous workflow of submitting the application through an approval process, until the problem or request status reaches completion.

In order to facilitate the use of this service by the CBB staff, the requests or tickets can be opened via a Helpdesk Portal or also via emails. Additionally, a mobile app is available for iPhone and Android platforms.

External Communications Unit

Press Releases from CBB

- Total Number of Press Releases (114 Press Release)
- Total Number of Government Securities and Sukuk Press Releases (87 Press Release)
- Total Number of Press Releases related to CBB announcements and events (27 Press Release)

Press releases

| No. | Date | Subject |
|-----|------------|---|
| 1 | 12.01.2020 | The Central Bank of Bahrain issues Instructions for Press Releases Concerning Financial Results for Public Shareholding Companies |
| 2 | 13.01.2020 | CBB presents plan for digital transformation to financial institutions |
| 3 | 19.01.2020 | CBB Monthly Statistical Bulletin November 2019 |
| 4 | 28.01.2020 | CBB warns consumers against dealing with unlicensed institution – bahrain.bitcoin |
| 5 | 09.03.2020 | Head of Fintech & Innovation Unit at CBB named in Women in FinTech Powerlist 2019 |
| 6 | 12.03.2020 | CBB Cuts Lending Interest Rate |
| 7 | 12.03.2020 | مصرف البحرين المركزي يعقد اجتماع مع مجلس ادارة جمعية مصارف البحرين |

| | | |
|----|------------|--|
| 8 | 12.03.2020 | مصرف البحرين المركزي: استمرار تقديم الخدمات في كافة فروع البنوك والمؤسسات المالية |
| 9 | 16.03.2020 | CBB Cuts Key Interest Rate |
| 10 | 18.03.2020 | Central Bank of Bahrain's regulatory measures as part of precautionary efforts to contain COVID-19 |
| 11 | 19.03.2020 | محافظ مصرف البحرين المركزي: تأجيل ديون جميع المواطنين لمدة 6 أشهر بدون رسوم، وبدون فوائد على الفائدة، ولا زيادة في سعر الربح/الفائدة |
| 12 | 23.03.2020 | CBB instructs Money Changers to disinfect currency notes and wholesale imported notes to curb the spread of the Coronavirus (COVID-19) |
| 13 | 24.03.2020 | وفقاً للتوجيهات الملكية السامية المصرف المركزي: لا فوائد أو أرباح أو رسوم على الأقساط المؤجلة |
| 14 | 29.03.2020 | مجلس إدارة مصرف البحرين المركزي يعقد اجتماعه الأول لعام 2020 |
| 15 | 16.05.2020 | مجلس إدارة مصرف البحرين المركزي يعقد اجتماعه الثاني لعام 2020 |
| 16 | 07.06.2020 | The Central Bank of Bahrain and Bahrain Bourse launch Murabaha Sukuk Service |
| 17 | 28.07.2020 | مصرف البحرين المركزي يُعقب على ما تم تداوله بشأن احتساب رسوم على عمليات فوري وفوري+ |
| 18 | 06.08.2020 | Green Knight Financial Services و Bridge Capital Advisors – CBB warns consumers against dealing with unlicensed financial institutions – Bridge Capital Advisors & Green Knight Financial Services |
| 19 | 31.08.2020 | إطلاق خدمة الترميز للدفع اللا تلامسي (Tokenization) في مملكة البحرين |
| 20 | 20.09.2020 | استمراراً للالتزام المالية والاقتصادية مصرف البحرين المركزي: استجابة المصارف بتأجيل القروض حتى نهاية العام الجاري بما لا يؤثر على سيولة المصارف وملائتها المالية |
| 21 | 22.09.2020 | مصرف البحرين المركزي: لا رسوم إدارية على طلب تأجيل قسط القرض وتوجيه المصارف على تطبيق الاحكام والشروط القائمة للقروض |
| 22 | 11.10.2020 | CBB holds 4th Board meeting for 2020 |
| 23 | 20.10.2020 | Central Bank of Bahrain launches a first of its kind fintech platform to drive innovation in the region |
| 24 | 28.10.2020 | CBB launches the Bahrain Open Banking Framework |

| | | |
|----|------------|---|
| 25 | 05.11.2020 | CBB warns banks' customers when dealing with personal and banking information |
| 26 | 13.12.2020 | CBB holds fifth Board meeting for 2020 |
| 27 | 14.12.2020 | CBB participates in WEF Publication |

Conferences and Forums

| No. | Date | Event |
|-----|---------------------|---|
| 1 | 14 January 2020 | Bahrain Businessmen's Association Forum on Banking Sector |
| 2 | 14-15 January 2020 | BBK Digital Economy Forum and Expo 2020 |
| 3 | 13 January 2020 | CBB and KPMG Digital Transformation in the financial sector |
| 4 | 20th October 2020 | Finhub 973 CBB Digital Lab launch |
| 5 | 25-26 October 2020 | AAOIFI 18th Annual Shariah Boards Conference |
| 6 | 27 October 2020 | 100 Years of Banking in Bahrain Celebration |
| 7 | 28 October 2020 | Launch of Bahrain Open Banking Framework (Bahrain OBF) |
| 8 | 24-25 November 2020 | The 4th Middle East & Africa FinTech Forum |
| 9 | 2-3 December 2020 | E-Payment and Internet Banking Summit 2020 |
| 10 | 3 December 2020 | International Banks Day Celebration 2020 |
| 11 | 14-15 December 2020 | AAOIFI IsDB 15th Annual Conference |
| 12 | 22 December 2020 | Digital Transformation in Insurance 2020 |

Interviews

| No. | Date | Interviewee | Media or Event |
|-----|---------------------|--|----------------|
| 1 | 21 January 2020 | HE Rasheed Al Maraj, Governor | AlArabiya |
| 2 | 24 February 2020 | Elham Taleb, Director - Insurance | Bahrain TV |
| 3 | 10 June 2020 | Hesa Al Sada, Director – Banking Services | CNBC Arabia |

Awards

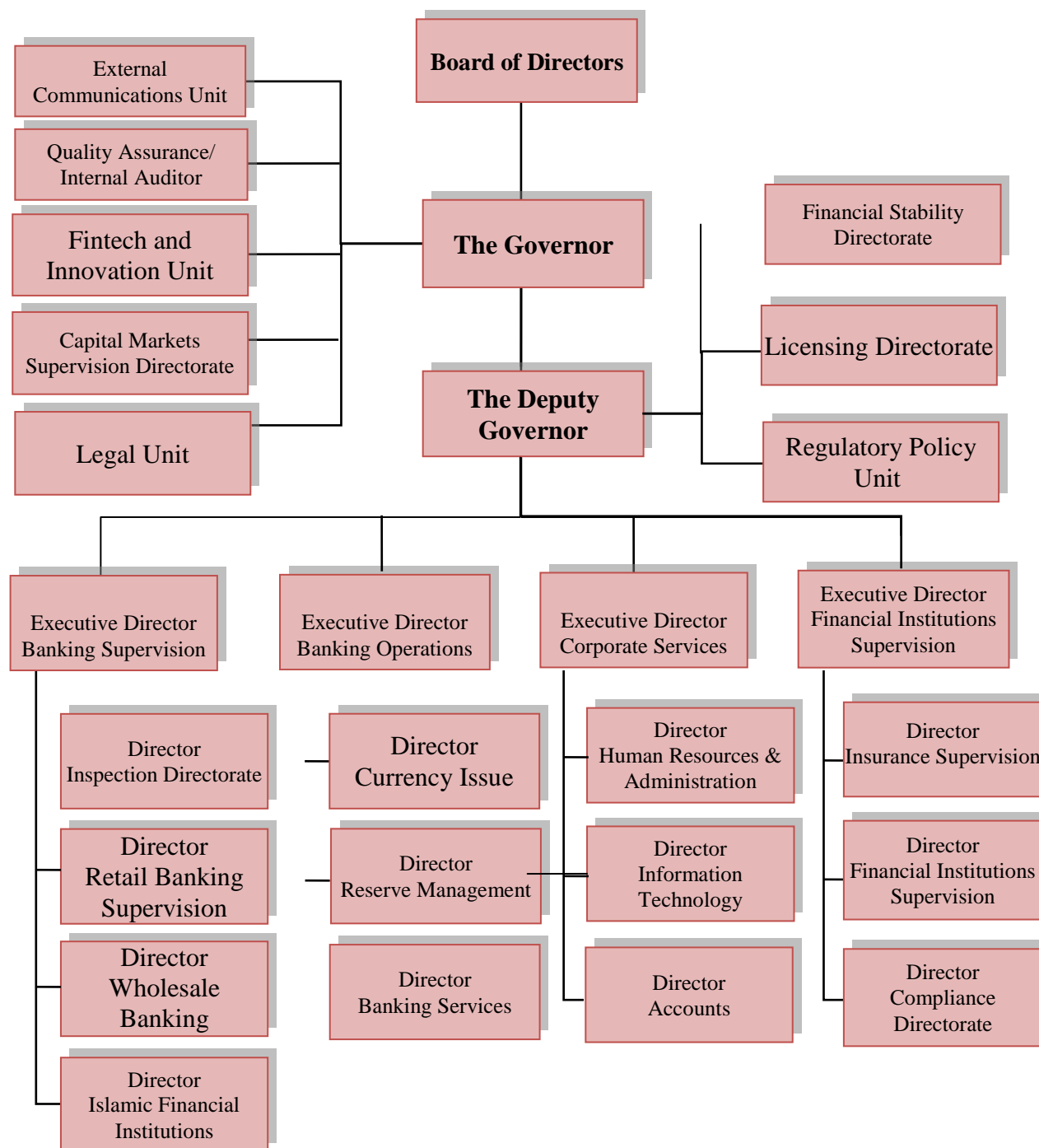
| No. | Date التاريخ | Subject | Awarding Body |
|-----|--------------------|---|---|
| 1 | 12 October 2020 | Service Excellence Award for Customer support via Tawasul | Information and eGovernment Authority |
| 2 | 20 January 2021 | 2 nd place winner the Capital Governorate competition for best decorated buildings in Manama in celebrations of National Day 2020 | The Capital Governorate |

Tawasul system

Total number of cases received in 2020 (1092):

- Total number of complaints received in 2020 (822).
- Total number of queries received in 2020 (208).
- Total number of suggestions received in 2020 (62).

CBB's Organisational Chart



Chapter

4

4. FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

INDEPENDENT AUDITORS' REPORT TO THE BOARD OF DIRECTORS

BALANCE SHEET (As at 31 December 2020)

*PROFIT AND LOSS ACCOUNT AND APPROPRIATION (For the year ended 31
December 2020)*

Notes to the financial statements for the year ended 31 December 2020

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

31 DECEMBER 2020

CENTRAL BANK OF BAHRAIN
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

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

INDEPENDENT AUDITOR'S REPORT TO THE BOARD OF DIRECTORS OF THE CENTRAL BANK OF BAHRAIN

Report on the Audit of the Financial Statements

We have audited the accompanying financial statements of the Central Bank of Bahrain (“the Central Bank”), which comprise the balance sheet as at 31 December 2020, and the profit and loss account and appropriation for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Central Bank as at 31 December 2020, and its financial performance for the year then ended in accordance with the accounting policies described in Note 2 to the financial statements and in compliance with the Royal Decree No.64 of 2006.

Basis for opinion

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

Responsibilities of the Management for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

INDEPENDENT AUDITOR'S REPORT TO THE BOARD OF DIRECTORS OF CENTRAL BANK OF BAHRAIN (continued)

Report on the Audit of the Financial Statements (continued)

Auditor's responsibilities for the audit of the financial statements (continued)

As part of an audit in accordance with ISA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Central Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Central Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Central Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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



CENTRAL BANK OF BAHRAIN

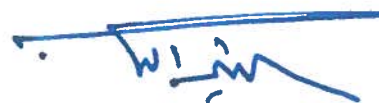
BALANCE SHEET

AS AT 31 DECEMBER 2020

| | Note | 2020 BD'000 | 2019 BD'000 |
|--|------|------------------|------------------|
| ASSETS | | | |
| Gold | 3 | 2,500 | 2,500 |
| Foreign reserves | 4 | 752,579 | 1,571,743 |
| Due from Ministry of Finance | 5 | 1,901,370 | 1,208,373 |
| Cash, due from Bahraini banks and treasury bills | 6 | 351,436 | 379,191 |
| Other assets | 7 | 13,972 | 14,534 |
| TOTAL ASSETS | | 3,021,857 | 3,176,341 |
| LIABILITIES | | | |
| Notes and coins in circulation | 3 | 745,117 | 687,067 |
| Bahraini Dinar deposits | | 1,413,385 | 1,587,897 |
| Other deposits | | 247,318 | 295,169 |
| Due to other central banks | | 4,621 | 3,172 |
| Profit payable to the Government of the Kingdom of Bahrain | | 2,500 | 2,500 |
| Provision for currency withdrawn | | 6,161 | 6,166 |
| Other liabilities | 8 | 7,143 | 8,404 |
| TOTAL LIABILITIES | | 2,426,245 | 2,590,375 |
| CAPITAL FUNDS | | | |
| Capital | 9 | 200,000 | 200,000 |
| General reserve | 10 | 265,237 | 258,162 |
| Contingency reserve | 11 | 109,195 | 105,915 |
| Revaluation reserve | 12 | 21,180 | 21,889 |
| TOTAL CAPITAL FUNDS | | 595,612 | 585,966 |
| TOTAL LIABILITIES AND CAPITAL FUNDS | | 3,021,857 | 3,176,341 |



Hassan Khalifa Al Jalahma
Chairman



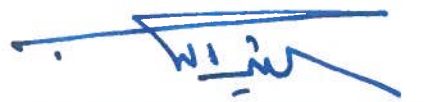
Rasheed Mohammad Al Maraj
Governor

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

CENTRAL BANK OF BAHRAIN
PROFIT AND LOSS ACCOUNT AND APPROPRIATION
FOR THE YEAR ENDED 31 DECEMBER 2020

| | Note | 2020 BD'000 | 2019 BD'000 |
|--|------|-----------------|-----------------|
| INCOME | | | |
| Interest income | | 28,656 | 73,819 |
| Interest expense | | (17,128) | (28,087) |
| Net interest income | | 11,528 | 45,732 |
| Registration and licensing fees | | 5,283 | 5,429 |
| Exchange gain on sale of US dollars | | 9,437 | 8,114 |
| Net realised investment gain | | 1,238 | 3,201 |
| Other income | | 3,562 | 1,870 |
| TOTAL INCOME | | 31,048 | 64,346 |
| EXPENSES | | | |
| Staff costs | | (12,637) | (12,063) |
| General and administration expenses | | (2,760) | (2,670) |
| Notes issue expenses | | (1,359) | (704) |
| Managed funds and advisory fees | | (91) | (290) |
| TOTAL OPERATING EXPENSES | | (16,847) | (15,727) |
| PROFIT FOR THE YEAR BEFORE PROVISION FOR IMPAIRMENT | | 14,201 | 48,619 |
| Provision for impairment | | (51) | (16) |
| PROFIT FOR THE YEAR | | 14,150 | 48,603 |
| Transfer to contingency reserve | 11 | (4,575) | (21,802) |
| Transfer to general reserve | 10 | (7,075) | (24,301) |
| BALANCE PAYABLE TO THE KINGDOM OF BAHRAIN | | 2,500 | 2,500 |


 Hassan Khalifa Al Jalahma
 Chairman


 Rasheed Mohammad Al Maraj
 Governor

CENTRAL BANK OF BAHRAIN

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2020

1 ACTIVITY

The Central Bank of Bahrain (the "Central Bank") is a public legal entity established pursuant to the Central Bank of Bahrain and Financial Institutions Law No.64 of 2006 (the "Law"). The law stipulates the Central Bank's objectives as well as its powers and functions.

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

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

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

The financial statements of the Central Bank, comprise the balance sheet as at 31 December 2020, the related profit and loss account and appropriation for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information and were authorised for issue by the Board of Directors on 28 March 2021.

2 SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Accounting convention

The financial statements are prepared under the historical cost convention.

2.2 Gold

Gold is carried at cost.

2.3 Foreign reserves

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

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

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

2.4 Cash, due from Bahraini banks and treasury bills

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

2.5 Equipment

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

CENTRAL BANK OF BAHRAIN
NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2020

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Equipment (continued)

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

2.6 Notes and coins in circulation

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

2.7 Foreign currencies

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

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

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

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

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

2.8 Provision for impairment

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

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

2.9 Revenue recognition

Interest income

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

Registration and licensing fees

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

CENTRAL BANK OF BAHRAIN
NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2020

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Revenue recognition (continued)

Net realised investment gains and losses

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

2.10 Interest expense

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

2.11 Notes issue expenses

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

2.12 Provision

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

3 EXCESS OF AUTHORISED BACKING OVER CURRENCY IN CIRCULATION

| | 2020 | 2019 |
|---|------------------|---------------|
| | BD'000 | BD'000 |
| Authorised backing | | |
| Gold | 2,500 | 2,500 |
| Foreign reserves – note 4 | 752,579 | 1,571,743 |
| | 755,079 | 1,574,243 |
| Notes and coins in circulation | (745,117) | (687,067) |
| Excess of authorised backing over currency in circulation | 9,962 | 887,176 |

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

The fair value of gold as at 31 December 2020 was BD 107,352 thousand (2019: BD 86,297 thousand).

4 FOREIGN RESERVES

| | 2020 | 2019 |
|--|-----------------|---------------|
| | BD'000 | BD'000 |
| Bank deposits | 709,619 | 1,390,119 |
| Bonds portfolio, including managed funds | 42,960 | 180,442 |
| Other securities | 86,727 | 86,727 |
| | 839,306 | 1,657,288 |
| Less: provision for impairment | (86,727) | (85,545) |
| | 752,579 | 1,571,743 |

CENTRAL BANK OF BAHRAIN
NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2020

4 FOREIGN RESERVES (continued)

All bonds are quoted in active markets with 99.74% representing bonds relating to Government of Bahrain or being of investment grade BBB or higher (2019: 97.83%) based on their market values. All the deposits (2019: 100%) and 100% of bonds (2019: 73.61%) are in US Dollars. For other foreign currencies in 2019, these were substantially hedged into US dollars and included net unrealised losses of BD 154 thousand on these non-US denominated bonds and related forward foreign exchange contracts used to hedge such bonds.

The market value of the bond portfolios (including cash and accrued interest held within these portfolios) at 31 December 2020 was BD 45,494 thousand (2019: BD 183,710 thousand).

The Central Bank has recognised an impairment provision amounting to BD 1,295 thousand during the year ended 31 December 2020 (2019: BD 2,600 thousand) which has been charged to contingency reserve (refer note 11).

5 DUE FROM MINISTRY OF FINANCE

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

6 CASH, DUE FROM BAHRAINI BANKS AND TREASURY BILLS

| | 2020 BD'000 | 2019 BD'000 |
|---|----------------|----------------|
| Cash | 22 | 28 |
| Due from Bahraini banks | 56,739 | 16,326 |
| Ijara Sukuk / Treasury bonds & bills issued by the Government of Bahrain | 294,675 | 362,837 |
| | 351,436 | 379,191 |

7 OTHER ASSETS

| | 2020 BD'000 | 2019 BD'000 |
|---------------------|----------------|----------------|
| Interest receivable | 3,470 | 5,289 |
| Staff loans | 4,753 | 4,736 |
| Equipment | 3,906 | 2,706 |
| Others | 1,843 | 1,803 |
| | 13,972 | 14,534 |

8 OTHER LIABILITIES

| | 2020 BD'000 | 2019 BD'000 |
|-------------------------------|----------------|----------------|
| Deferred license fee received | 4,629 | 4,709 |
| Other payables | 2,015 | 2,563 |
| Interest payable | 274 | 726 |
| Accrued expenses | 225 | 406 |
| | 7,143 | 8,404 |

CENTRAL BANK OF BAHRAIN
NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2020

9 CAPITAL

| | <i>2020</i> | <i>2019</i> |
|--------------------------|----------------|---------------|
| | <i>BD'000</i> | <i>BD'000</i> |
| Authorised | 500,000 | 500,000 |
| Issued and fully paid up | 200,000 | 200,000 |

10 GENERAL RESERVE

| | <i>2020</i> | <i>2019</i> |
|---|----------------|---------------|
| | <i>BD'000</i> | <i>BD'000</i> |
| Balance at beginning of the year | 258,162 | 233,861 |
| Transfer from profit and loss account and appropriation | 7,075 | 24,301 |
| Balance at end of the year | 265,237 | 258,162 |

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

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

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

11 CONTINGENCY RESERVE

| | <i>2020</i> | <i>2019</i> |
|----------------------------------|----------------|---------------|
| | <i>BD'000</i> | <i>BD'000</i> |
| Balance at beginning of the year | 105,915 | 86,713 |
| Transfer during the year | 4,575 | 21,802 |
| Utilised during the year | (1,295) | (2,600) |
| Balance at end of the year | 109,195 | 105,915 |

In accordance with Article 21 of the Central Bank of Bahrain and Financial Institution Law, the Board has approved a transfer of BD 4,575 thousand (2019: BD 21,802 thousand) of the current year's net profit to the contingency reserve and utilisation of BD 1,295 thousand (2019: BD 2,600 thousand) for impairment provision (refer to note 4).

CENTRAL BANK OF BAHRAIN
NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2020

12 REVALUATION RESERVE

| | <i>2020</i> <i>BD'000</i> | <i>2019</i> <i>BD'000</i> |
|----------------------------------|------------------------------|------------------------------|
| Balance at beginning of the year | 21,889 | 20,557 |
| Movement during the year | (709) | 1,332 |
| Balance at end of the year | 21,180 | 21,889 |

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

13 CONTINGENT LIABILITIES AND COMMITMENTS

Contingent liabilities and commitments, some of which are offset by corresponding obligations of third parties, arise in the normal course of business, including contingent liabilities in respect of guarantees and indemnities in connection with liquidity support operations. As at 31 December 2020 and 2019, there were no outstanding contingent liabilities or commitments with the exception of outstanding foreign exchange contracts in 2019 with a notional value of BD 62,692.