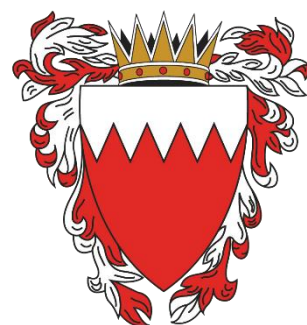


FINANCIAL STABILITY REPORT

SEP. 2021
ISSUE NO. 31



مَصْرَفُ الْبَحْرَيْنِ الْمُرْكُزِيِّ

Central Bank of Bahrain

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



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PREFACE

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

CBB defines financial stability as follows:

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

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

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

This edition of the FSR contains 10 chapters divided into four parts as follows:

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

CENTRAL BANK OF BAHRAIN'S RESPONSE TO THE COVID-19 PANDEMIC

The COVID-19 pandemic brought substantial human suffering and major economic disruption around the world. After a severe collapse in 2020, recovery was seen in 2021 as the global financial system weathered the pandemic with swift international policy response and a wide set of monetary, fiscal, regulatory, and supervisory measures. Speedy policy responses limited the economic fallout with large scale fiscal and monetary stimulus to support to households and corporates, stabilize markets, and restore confidence in the financial system. Focus has been shifted on re-evaluating and maintaining effective policy measures, while maintaining health care spending as a priority.

The strength of the recovery varied across countries, depending on access to medical interventions, vaccine deployment, effectiveness of policy support, and exposure to cross-country spill overs. Steady recovery cannot be assured as many regions are still susceptible to the virus and its variants leading to increases in infections for some regions. Targeted support measures need to continue with decisions on whether to extend, amend or exit them while considering any associated risk of early withdrawal on financial stability and deterioration in asset quality, liquidity, and business activity within the financial system. Identifying systemic vulnerabilities early on remains a priority with the aim to preserve financial stability and the soundness of the financial systems while sustaining economic activity.

CBB Initiatives

The Bahraini financial system remained resilient through the challenges posed by the repercussions of the COVID-19 pandemic. CBB actively monitored the situation and implemented a series of policy decisions that have succeeded in mitigating any risks to capital, liquidity, and credit quality of the banking system. Key policy responses (including fiscal, monetary, and macro-financial) were issued to mitigate any implications on customers of financial services, financial institutions, and merchants affected by COVID-19, in addition to protecting the stability of the financial sector in the Kingdom. Measures were also taken to preserve the health and safety of customers and workers in the sector.

The evolving nature of the pandemic and the associated economic uncertainty led to a variety of policies by the CBB that fall under one of the categories as seen in figure 1. Looking ahead, CBB will continue to closely monitor economic and market developments in order to ensure financial stability.

Figure 1: Classification of Policy Measures Taken by the CBB During the COVID-19 Pandemic

Health, Security and Working Arrangements

- Hygiene protocols
- Safety measures
- Working arrangements

Lending and Funding Support

- Supporting access to credit for firms and households
- Increasing banks' lending capacity



Operations Risk and Business Continuity Measures

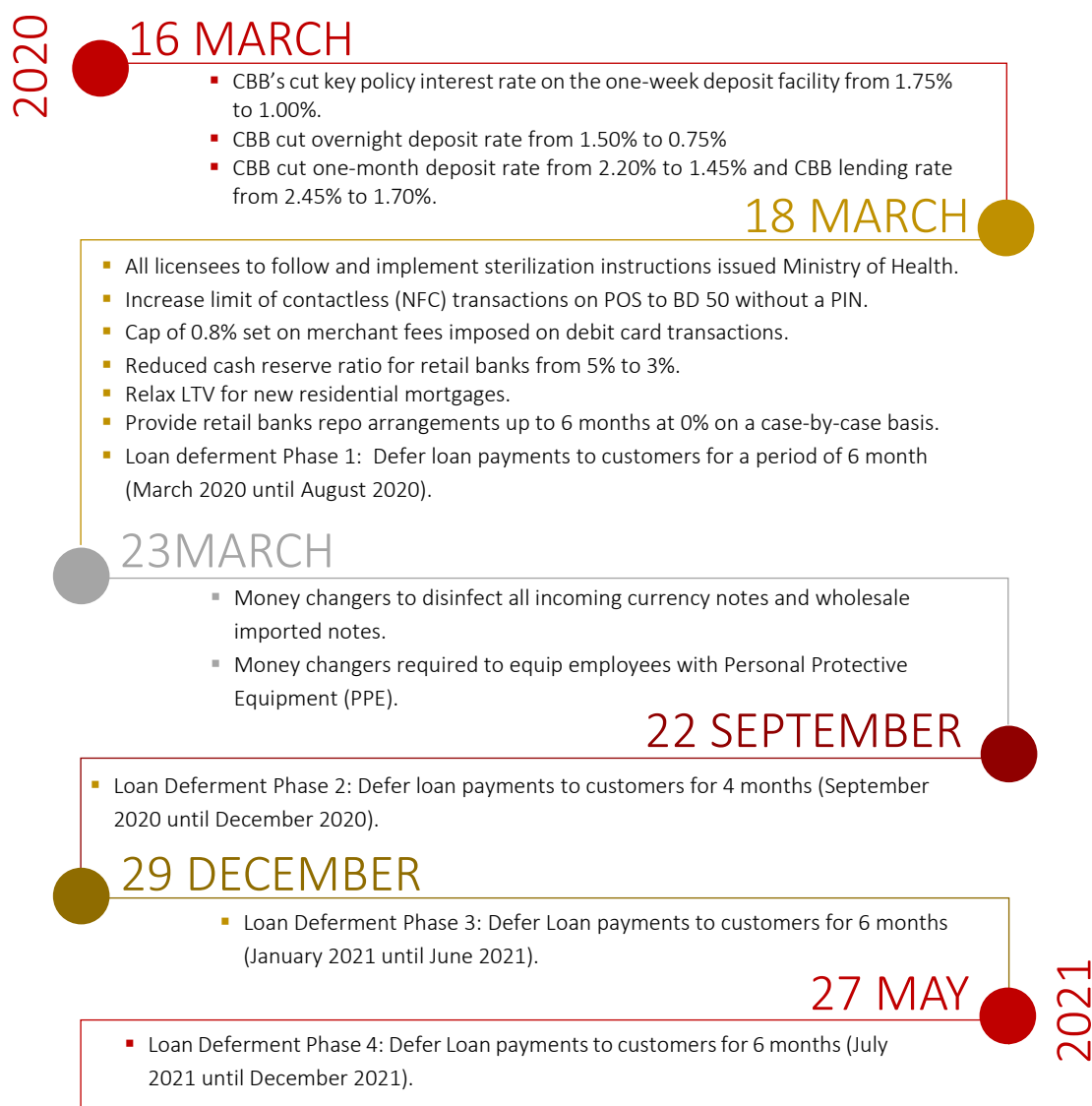
- Decision-making arrangements
- Internal and External Communication

Prudential Regulation and Reporting Requirements

- Efficient monitoring
- Date sensitive reporting requirements

Since the beginning of the global outbreak of COVID-19, CBB issued directives as part of the preventative measures to contain the virus. The figure below highlights some of the main directives introduced by CBB. A detailed list of the CBB directives, CBB circulars, and other government related measures in chronological order is available in Annex 3.

Figure 2: Timeline of Main CBB Policy Measures During the COVID-19 Pandemic



CBB Loan Deferrals

Many central banks provided loan deferral schemes, enabling customers (business and households) to defer interest or principal payments for a period of time, with the deferral period reassessed periodically. One concessionary measure taken by the CBB was recurring loan deferment options announced in a number of CBB circulars issued to licensees.

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

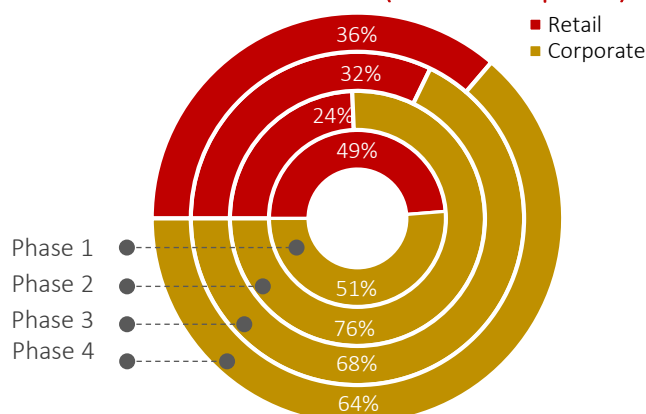
- Phase 1: Announced in end of March 2020 for six months (March 2020 until August 2020).
- Phase 2: Announced in end of September 2020 for four months (September 2020 until December 2020) unless the borrower agrees to pay within a shorter period.
- Phase 3: Announced in end of December 2020 for six months (January 2021 until June 2021) unless the borrower agrees to pay within a shorter period.
- Phase 4: Announced in end of May 2021 for six months (July 2021 until December 2021) unless the borrower agrees to pay within a shorter period.

Figure 3: Summary of CBB's Loan Deferments

	Phase 1	Phase 2	Phase 3	Phase 4
Number of Customers that Applied Instalment Deferral				
Total	-	72,685	74,274	75,237
Retail	-	70,857	72,217	73,131
Corporate	-	1,828	2,057	2,106
% of Total Customers	-	24.5%	23.3%	24.4%
Total Outstanding Loans for Customers who applied for deferment (BD' 000)				
Total	6,233,426	2,756,930	2,879,915	2,821,604
Retail	4,233,565	1,507,829	1,646,134	1,612,237
Corporate	1,999,861	1,249,100	1,233,781	1,209,367
% of Total Loan Portfolio	-	26.1%	27.0%	25.0%
Deferred Installments Amounts (BD' 000)				
Total	1,079,388	255,601	343,582	382,771
Retail	525,888	62,227	110,660	138,906
Corporate	553,501	193,374	232,922	243,865
% of Total Deferred Loans	17.3%	9.3%	11.9%	13.6%

Source: CBB

Chart 1: Installment Deferrals (Retail vs. Corporate)



Source: CBB.

Other Government Initiatives

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

Be-Aware Campaign and App

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

The Kingdom of Bahrain also adopted at an early-stage allowing all citizens and residents nationwide to schedule vaccine appointments for their free vaccination via the mobile app. During booking, users can choose between a number of available vaccinations. As of September 30th, 2021, Bahrain has vaccinated around 79.1% of its population with the first dose and 76.0% of the population were fully vaccinated (based on 2020 population from iGA).

EXECUTIVE SUMMARY

Global Macro Financial Environment Overview

Global economic activity is regaining momentum despite the differences in pandemic developments and policy actions. In its recent World Economic Outlook, the International Monetary Fund (IMF) forecasted 6.0% growth in 2021 compared to the -5.4% growth realized last year. Monetary policy remains accommodative in the US other advanced economies to support economic growth following the Federal Reserve cuts in interest rates amid growing concerns of a potential global slowdown.

Across major advanced economies, the US economic growth increased to 1.6% in Q2/2021. The Euro Area (19 countries) and the European Union (EU) (27 countries) experienced growths of 2.0% and 1.9%. The UK's GDP growth increased from negative 1.6% in Q1/2021 to 4.8% in Q2/2021. BRIICS countries' growth was also decelerating as it reached the level of 0.83% in Q1/2021.

Financial Sector Overview

The size of the assets of the banking sector in Bahrain was USD 213.2 billion as of June 2021 (6.5 times of GDP). Retail banking total assets continued growing to reach BD 36.6 billion (USD 97.3 billion) in June 2021, wholesale banking sector showed an increase to USD 115.9 billion, and Islamic banking sector assets (which represent 15.3% of the total banking sector assets) increased to USD 32.6 billion.

The total amount of credit given to the private sector (business and personal) by retail banks witnessed a boost with a 4.3% YoY increase moving from BD 9.9 billion to 10.3. The deposit base also witnessed growth to BD 17,801.4 million in June 2021 with 79.4% being domestic deposits that had a 5.3% YoY increase. Personal loans and business loans a 7.3% and 2.5% YoY growth respectively.

Banking Sector

The banking sector was able to weather challenges brought in by the COVID-19 pandemic with CBB policy and government support which helped maintain the stability in the sector. The capital adequacy ratio (CAR) for the banking sector stood at 18.8% in June 2021. The NPL ratio decreased to 3.8% in June 2021.

Return-on-assets (ROA) increased to 0.6% from June 2020 to June 2021, return-on-equity (ROE) increased to 4.0% from 1.6% over the same period. Liquidity positions remained strong as liquid assets as a proportion of total assets stood at 26.5%.

Conventional Banks

The CAR for conventional retail increased from 18.8% in June 2020 to 20.5% in June 2021. Asset quality improved as NPL ratio decreased to 4.3% in June 2021 while specific provisions increased to 69.6%. Profitability of retail banks remained positive with ROA increased to 0.7% and ROE at 5.8%. Liquidity position improved as liquid assets increased from 32.8% in June 2020 to 34.1% in June 2021.

As for wholesale banks the CAR stood at to 17.6% in June 2021. The NPL ratio increased slightly to 3.6% in June 2021 while specific provisions witnessed an increase to 73.9%. Profitability was positive as ROA for the conventional wholesale banking sector increased to 0.6% in June 2021 and ROE increased to 1.7%. Liquid assets for wholesale banks as a proportion of total assets increased to 24.7% in June 2021.

Islamic Banks

The CAR of Islamic retail banks stood at to 21.6% in June 2021. Asset quality improved as non-performing facilities (NPF) ratio decreased by 2.0% to 5.5% in June 2021 while specific provisioning increased to 51.8%. ROA for Islamic retail banks increased to 0.3% in June 2021 and ROE to 3.6%. Liquidity position to Islamic retail banks improved as liquid assets available to Islamic retail banks increased from 17.3% of total assets in June 2020 to 19.2% in June 2021.

On the other hand, the CAR for Islamic wholesale banks decreased to 16.4% in June 2021. While the NPF ratio for Islamic wholesale banks increased, it remains at a low position with provisioning for NPFs remaining high at 78.6%. Islamic wholesale banks registered positive profitability ROA has reached 0.4% in June 2021 and ROE similarly increased from -0.5% to 4.7%. Liquidity assets remained stable for Islamic wholesale at 18.8% of total assets.

Insurance Sector

The Insurance sector in Bahrain is made up of two main segments: conventional and takaful. Total gross premiums registered BD 80.7 million as of March 2021. As of March 2021, total assets of conventional insurance firms were BD 2,201.7 million, a YoY decrease of 0.8%. Takaful firms' assets was stable at BD 207.8 million.

Viewing the concertation of the overall insurance industry, medical records the highest concentration in Gross Premiums (39.9%), Net Premiums Written (38.5%), Gross Claims (31.9%), and Net Claims (34.0%). Conventional local firms accounted for the largest segment of total gross premiums (50.2%), followed by Takaful (32.8%) and conventional overseas branches (17.0%).

For conventional insurance, medical insurance has the highest concentration for Gross Premiums (36.4%), while long-term (life) has the highest concentration in Net Premiums Written (34.4%), Gross Claims (28.2%) and Net Claims (40.5%). Takaful insurance companies have very high concentration on the medical and motor Insurance business lines as gross Premiums for both sectors represented (69.9%), Net Premiums Written (89.5%), Gross Claims (86.0%), and Net Claims (93.7%).

Non-Bank Financial Institutions

The two main segments of the non-Bank Financial Institutions sector are investment businesses and money changers. In June 2021, total assets of investment businesses increased by 9.7% to BD 452.5 million. Investment business firms' profit increased reaching BD (6,506) million in Q2 2021. Profits of Category 1 firms increased reaching 4,560.8 BD million.

During 2019, money changers' purchase of foreign currencies amounted to BD 7.0 billion, while the sale of foreign currencies was recorded at BD 8.0 billion for the year. A breakdown of Money Changers turnover indicates that "Asia" currency group recorded the highest YoY percentage increase in sales with 8.8%. As for purchases, the top YoY increase is also "GCC" with 306%.

Capital markets

As of 31st June 2021, Bahrain Bourse recorded a total listing of 43 Companies, 5 Mutual funds and 16 Bonds and Sukuk. During the first half of 2021, there were 11 companies that closed higher and 21 closed lower and 11 remained unchanged. Bahrain All Share Index increased by 6.6% for the year reaching

1,587 points, while the Bahrain Islamic Index increased by 11.7% reaching 666.4 points. As of end of June 2021, market capitalization of the Bahrain Bourse stood at BD 9.9 billion.

The majority of the value and the volume of shares traded in June 2021 was in the commercial bank representing 36.1% and 33.8% respectively. The majority of the number of transactions in June 2021 (7,442 transactions) was attained by the services sector representing 33.4% of total transactions. As of June 2021, there was 34 private offerings with a total value of USD 3.557 billion.

Payments and Settlement Systems

The RTGS System provides for Payment and Settlement of Customer transactions as a value addition. The daily average volume of Bank transfers for the H1 2021 increased to 174 transfers compared to 138 transfers for H2 2020.

The daily average volume of cheques for H1 2021 decreased compared to H2 2020 from 9,147 cheques to 8,679 cheques. The daily average value of cheques increased in the first half of 2021 by 0.4% when compared to the second half of 2020 from BD28.5 million to BD28.6 million. The daily average volume of ATM transactions for the H1 2021 decreased by 11.6% compared to H2 2020 to 45,367 per day while the daily average value of ATM transactions decreased by 4.2% to reach 4.1 million.

Point of Sale (POS) transactions reached 53.5 million in terms of volume and BD 1,367 million in terms of value with a 15.0% and 8.9% increase respectively for H1 2021 compared to H2 2020. There is growing trend in using contactless cards during 2020 and 2021 as contactless transactions reached 64.5% of volume and 33.6% of value in June 2021.

FinTech, Innovation, and Financial Inclusion

Bahrain is repositioning itself to be a Financial Technology (FinTech) hub in the region combining conventional and Shariah compliant FinTech solutions. CBB has established a dedicated Fintech Unit on the 22nd of October 2017 to ensure best services provided to individual and corporate customers in the financial sector. CBB continues its Fintech initiatives as part of its digital transformation strategy to further facilitate a more efficient provision of banking services to customers. As of September 2021, CBB's regulatory sandbox includes 22 companies.

PART I:

DEVELOPMENTS IN THE INTERNATIONAL AND DOMESTIC FINANCIAL MARKETS





DEVELOPMENTS IN INTERNATIONAL FINANCIAL MARKET

HIGHLIGHTS

Global Growth 6.0%	USA Growth 7.0%	Euro Area Growth 4.6%
MENA Growth 4.1%	Advanced Economies Growth 5.6%	Emerging Market Growth 6.3%

- COVID-19 pandemic led to uneven economic recovery across the globe in first and second quarters of 2021. Global economic conditions improved slightly with downside risks dominating in the near term.
- In emerging economies, multiple infection waves and slower pace of vaccination are causing a strain on economic activity.
- The pandemic has put downward pressure on financial sector in Asia leading to significant deceleration in growth. Governments and central banks have launched unprecedented financial support to restore pre-pandemic normalcy.
- Stock markets indices recovered remarkably since June 2021 and Equity markets in Europe have been less volatile.

1.1 Overview

Since the last FSR, global economic activity is regaining momentum despite the differences in pandemic developments and policy shift. Governments across countries have responded unprecedentedly to mitigate the impacts of the Covid-19 crisis. According to the recent update of the IMF' World economic outlook, the global economy is gradually recovering from the consequences of the pandemic crisis and it is projected to grow 6.0 percent in 2021. However, the pace of recovery is still uneven across country due to pace of vaccination and the persistence of the virus and the appearance of its variants in some countries.

For advanced economies, governments set a goal to vaccinate large part of their population by end of the summer 2021. They also launched an extraordinary measure to mitigate the impact of the pandemic and to normalize the economic activity by injecting trillions of dollars into the economy in COVID-19 relief spending. As a result, the pandemic became under control and the recovery was faster than expected. In the US for example, second quarter data indicates that the recovery is widening beyond manufacturing to services and the International Monetary Fund (IMF) forecast the US growth to reach 7% in 2021. Likewise, the UK economy is regaining momentum despite the delay of its economic reopening.

As for developing countries, many Asian countries such as Thailand, Indonesia and Malaysia are still under lockdown because of the spread of the new Delta variant with a slowdown in their economic activity. China rebound continued with its best performance and India economy has started gaining

momentum in the second quarter of 2021. Despite all these challenges, the IMF forecast Emerging market Asia growth to be 7.5% in 2021 from a recession 0.9% recorded in 2020. Overall, monetary policy remains accommodative in most advanced economies to support economic growth where central banks have committed to keep rates low along with providing unprecedented fiscal stimulus through fiscal policy as crucial tool during the ongoing crisis.

In the following sections, recent trends in the global economy are highlighted and the major financial and economic indicators during the first half of 2021.

1.2 Global Macro-financial Environment

The global economic and financial conditions deteriorated considerably in the beginning of 2021, and risks associated to this environment increased significantly. The emergence of COVID-19 added new risks and tension to the global economy and led to significant volatility in financial markets. Central banks have committed to keep rates low which will keep bond yields low. In its recent World Economic Outlook update, the IMF forecasted the global economy to growth by 6% in 2021 and 4.2% in 2022.

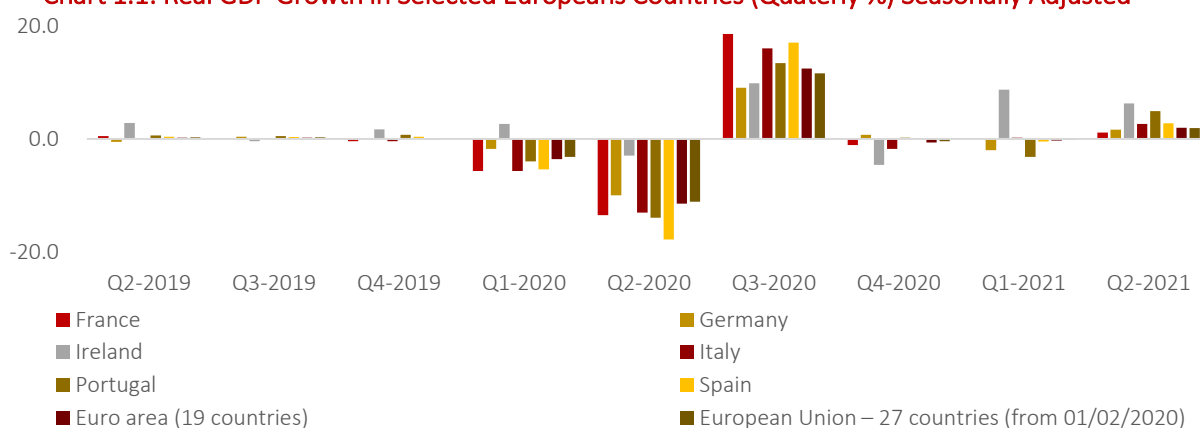
1.2.1 Economic Performance

The economic performance in Europe has witnessed a deep recession during the first quarter of the year due COVID-19 pandemic that has dramatically affected Europe's economic activity. Uncertainty and geopolitical tensions have put additional downward pressure on financial sector in Europe which in turn amplified volatility and raised new concerns in the global financial markets. As chart 1.1 shows, most European countries have witnessed negative growth in the first quarter of 2020 impacted by lockdowns and business closures in the national economies.

In the second quarter of 2021, most European countries moved toward normalization of economic activities as vaccine rollout proceeds and governments additional fiscal support reflecting tighter restrictions in the first quarter of the year. As a result, European countries recovered faster than expected in the second quarter of 2021. For example, after a long a deep recession Spain economy has witnessed a positive growth by 2.8% and similarly, for Italy, GDP reached 2.7% in Q2/2021. As for Portugal, growth rate moved from -3.2% in Q1/2021 to 4.9% in Q2/2021.

Regarding the two largest economies in the Eurozone, their performances was also hugely affected by the Pandemic crisis. Germany experienced weak economic activity in the first quarter of 2021 with a recession of 2.2%. France also was hit severely by the pandemic crisis where the French economy recorded a recession of 0.4% in Q1/2021. In second quarter of 2021, the two neighboring countries have decided to implement urgent policies to cope with the pandemic crisis. They agreed to launch a recovery fund by a €750 billion (6% of GDP) that would be financed by the issuance of bonds jointly guaranteed by all 27 members of the European Union.

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



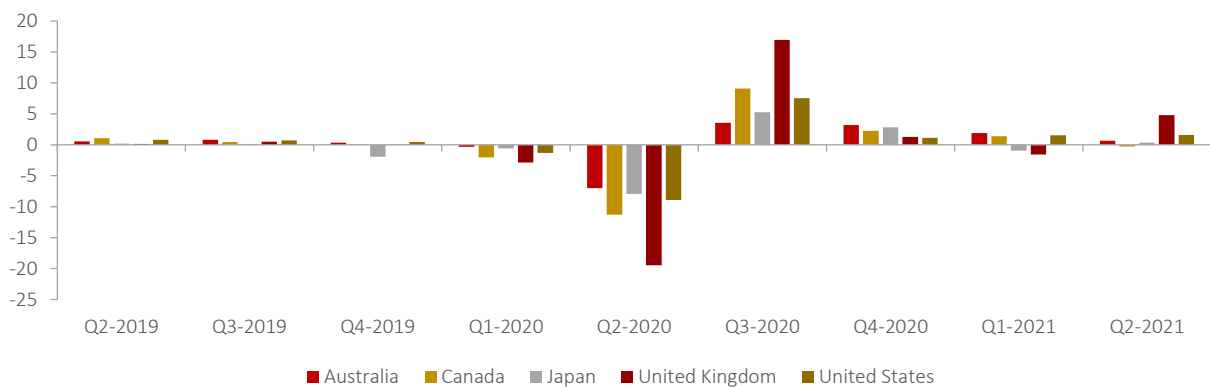
*Growth rate compared to the same quarter of previous year, seasonally adjusted.

Source: OECD Quarterly National Accounts.

Turning to the Euro Area (19 countries) and the European Union (EU) (27 countries) their growth has also experienced a recession of 0.3% and 0.1% in Q1/2021. However, the gradual normalization of economic activity of many European countries supported the recovery as growth rates reached 2% and 1.9% in Q2/2021, respectively. In the United Kingdom, the government delayed the final step of its economic reopening because of the spread of the new Covid-19 delta variant. As a result, the UK's GDP growth decreased to a negative growth of 1.6% in Q1/2021. After an effort to normalize the economic activity, the UK growth has witnessed a rebound in the second quarter of the year to reach a growth of 4.8%.

In the US, financial conditions have eased further driven by rising equity valuations, tighter credit spreads, and rapidly climbing house prices. The US continues achieving positive growth since Q3/2020 and the latest data shows that the US economic growth was 1.6% in Q2/2021. According to the IMF's world Economic Outlook, Japan is anticipated to see a stronger rebound in the second half of 2021, as vaccination proceeds and the economy fully reopens, improving its growth forecast for 2022.

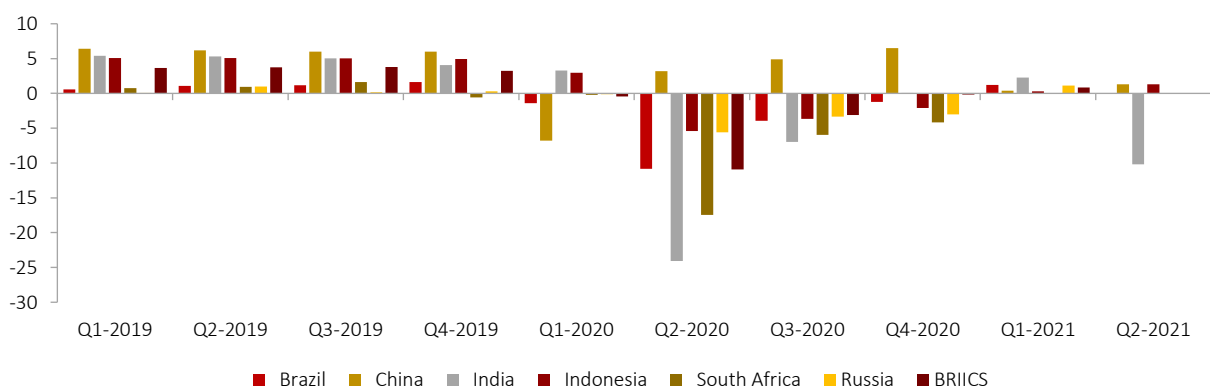
Chart 1.2: Real GDP Growth in Advanced Economies (Quarterly %) *



* Growth rate compared to the same quarter of previous year, seasonally adjusted
Source: OECD Quarterly National Accounts.

As for emerging economies (Chart 1.3), the BRIICS countries' growth was weaker than expected as it reached the level of 0.83% in Q1/2021. Recent data shows that China is the only BRICS economy predicted to expand this year, according to the IMF. The world's second largest economy ended the second quarter with a growth of 1.3% from 0.4% in the first quarter, as IMF projections show. That compares with an -10.1% contraction for India, and -0.1% for Brazil achieved in the second quarter of 2021. The slow rollout of vaccines and the multiple waves of the Covid-19 virus are the main factor weighing on the recovery. Brazil and Russia are looking to rebuild fiscal buffers and have also begun normalizing monetary policy to head off upward price pressures.

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

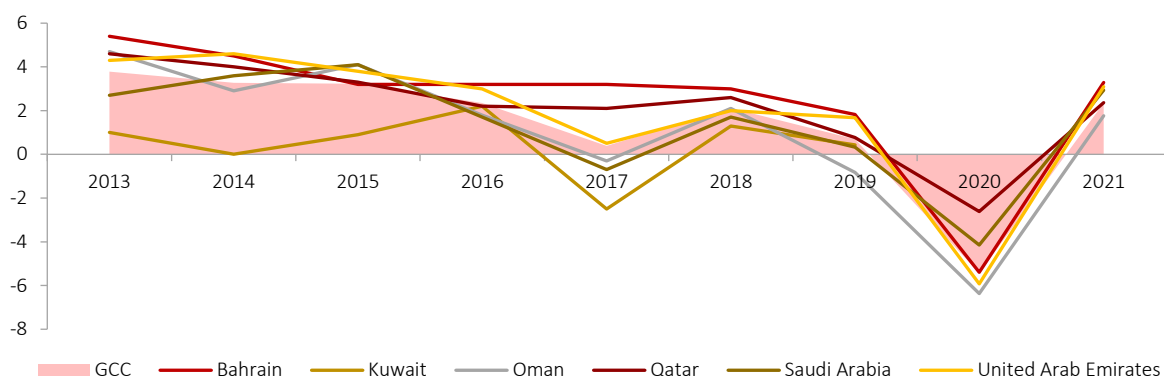


*Growth rate compared to the same quarter of previous year, seasonally adjusted.

Source: OECD Quarterly National Accounts.

Regionally, the COVID-19 pandemic hit the economic activities of all GCC countries. Moreover, the drop of oil prices since the beginning of 2021 have added pressure on GCC public finance condition and caused a sharp deterioration of external and fiscal balances. As a response, GCC authorities have implemented multiple measures to mitigate the economic damage, including fiscal packages, relaxation of monetary and macroprudential rules, and the injection of liquidity into the banking system, and there are recent signs of improvement. According to the IMF Regional Economic Outlook, the GCC countries are expected to achieve a growth rate of 2.35% in 2021.

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

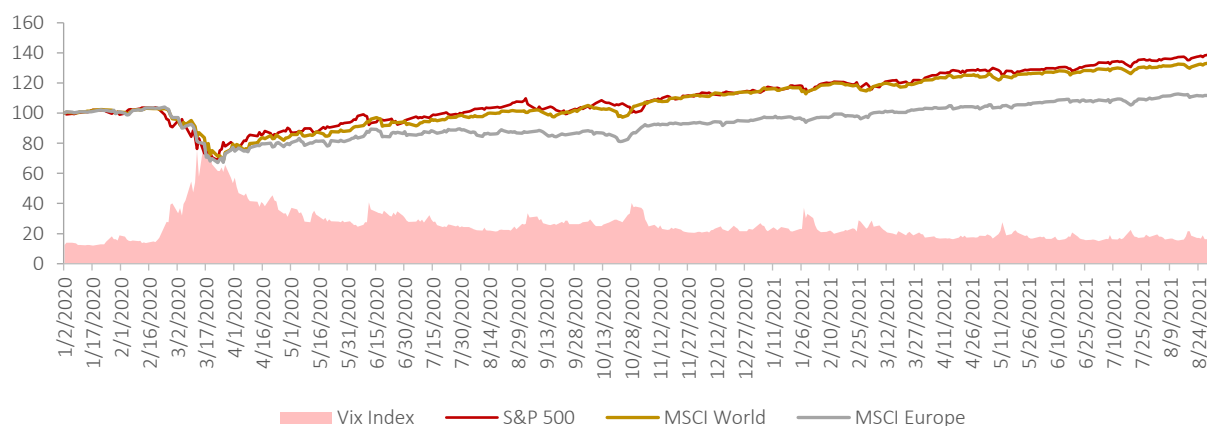


*Forecasts. Source: IMF Regional Economic Outlook, April 2021.

1.2.2 Financial Markets

Despite all the pandemic challenges, financial conditions have remained supportive in the first and second quarter of 2021. Financial market sentiment has remained positive on balance given the expected global recovery. In fact, after a sharp decrease in equity prices across a range of advanced economies in 2020. Equity prices in the Euro Area recovered progressively since the beginning of the year, supported by fiscal stimulus and Central Banks supports. It is worth mentioning that in 2020 the ECB has increased its asset-purchase program by more than 12% of GDP and rules on fiscal deficits have been temporarily relaxed, and on 10 December 2020 the Governing Council recalibrated its monetary policy instruments to preserve favorable financing conditions over the pandemic period, ultimately supporting economic activity. Similarly, after a sharp decrease, the S&P 500 has risen by around 20% since February 2021, reaching the pre-pandemic level.

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



Source: Bloomberg.



DEVELOPMENTS IN THE FINANCIAL AND NON- FINANCIAL SECTOR

HIGHLIGHTS

Financial Sector % of GDP 17.8% Q2 2021	Number of Licenses 366 June 2021	Banking Sector Assets USD 213.2 bn ▲ 1.1% YoY
Retail Banking Assets USD 97.3 bn ▲ 2.1% YoY	Wholesale Banking Assets USD 115.9 bn ▲ 0.4% YoY	Islamic Banking Assets USD 24.2 bn ▲ 0.4% YoY
M2 BD 13.5bn ▲ 4.5% YoY	Personal Credit BD 4.8 bn ▲ 7.8% YoY	Business Credit BD 5.6 bn ▲ 1.4% YoY

- The size of the assets of the banking sector in Bahrain was USD 213.2 billion as of June 2021.
- The retail banking sector assets increased to USD 96.3 billion and wholesale banking sector assets increased to USD 115.9 billion as of end-June 2020 representing 45.6% and 54.4% respectively.
- The volume of credit increased by 5.3% to BD 10,723.5 million in June 2021.
- Household debt ratio and business debt both witness increase.

2.1 Overview

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

2.2 Financial Sector Developments

Bahrain's position as a regional financial center has been essential to the development of its economy where the financial sector has come to play a significant role in economic activity and employment creation. The financial sector is currently the largest non-oil contributor to GDP representing 17.3% of real GDP in 2020 showing an increase from the 16.1% in 2019 and 16.9% in 2018. In Q2 of 2021, the financial sector represented 17.8% of real GDP.

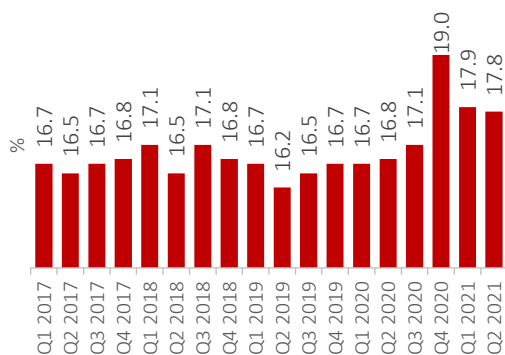
As of end of June 2021, there were 366 licenses issued by CBB (bank and non-bank financial institutions). The banking sector in Bahrain was made up of 90 banks, categorized as follows:

- Retail banks: 30 retail banks that include 24 conventional (7 locally incorporated and 17 branches) and 6 Islamic retail banks.
- Wholesale banks: 60 wholesale banks that include 49 conventional (13 locally incorporated and 36 branches) and 11 Islamic wholesale banks.

The 267 non-banking financial institutions operating in Bahrain includes investment business firms, insurance companies (including Takaful and Re-Takaful firms), representative offices and specialized licenses.

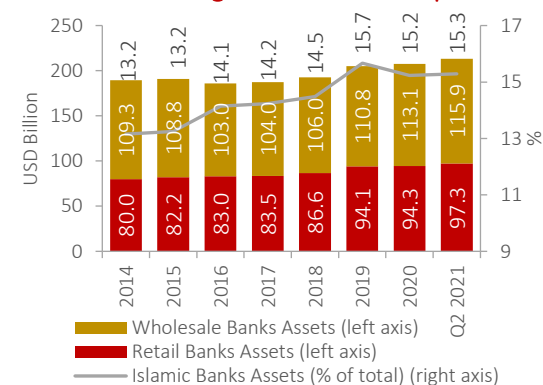
The size of the assets of the banking sector in Bahrain was USD 213.2 billion as of June 2021 (1.1% YoY increase). Table 2.1 shows the change of the size of the various banking segments to GDP. Retail banking continued to grow over the years reaching USD 97.3 billion by Q2 2021 along with the growth of size to GDP. The size of the wholesale banking sector declined between 2014 and 2017 then started to increase with an annual increase of 2.0% in 2018, 4.5% in 2019 and 2.0% in 2020. In June 2021, the size of the wholesale banking sector reached USD 115.9 billion. As for the Islamic banking sector, it grew steadily over the same period to reach USD 32.6 billion in June 2021 representing 15.3% of the size of the banking sector.

Chart 2.1: Size of the Financial Sector to Real GDP



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

Chart 2.2: Banking Sector Asset Composition



Source: CBB Monthly Statistical Bulletin.

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

Indicator	2014	2015	2016	2017	2018	2019	2020	Q2 2021*
Banking Sector (USD billion)	189.3	191.0	186.1	187.4	192.6	204.9	207.4	213.2
times GDP	5.7	6.1	5.8	5.3	5.1	5.3	5.4	6.5
Retail Sector (USD billion)	80.0	82.2	83.0	83.5	86.6	94.1	94.3	97.3
times of GDP	2.4	2.6	2.6	2.4	2.3	2.4	2.5	3.0
Wholesale Sector (USD billion)	109.3	108.8	103.0	104.0	106.0	110.8	113.1	115.9
times of GDP	3.3	3.5	3.2	2.9	2.8	2.9	2.9	3.5
Islamic Sector (USD billion)	24.9	25.3	26.3	26.7	27.9	32.1	31.6	32.6
times of GDP	0.7	0.8	0.8	0.8	0.7	0.8	0.8	1.0

* Using provisional current GDP data.

Source: CBB Monthly Statistical Bulletin.

2.2.1 The Retail Banking Sector

Retail banking assets continued growing to reach BD 36.6 billion (USD 97.3 billion) in June 2021 with a 2.1% year-on-year (YoY) increase (see Chart 2.3). As of June 2021, domestic assets comprised 60.2% of total assets with YoY growth of 6.8% while foreign assets comprised 39.8% of total assets with a YoY contraction of -4.2%.

Chart 2.3: Retail Banks' Assets

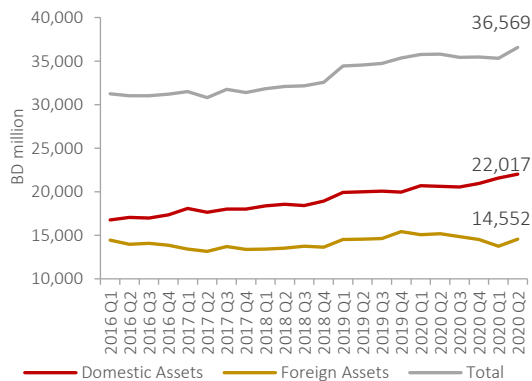
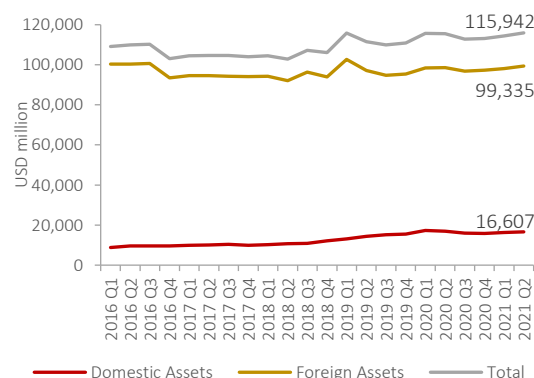
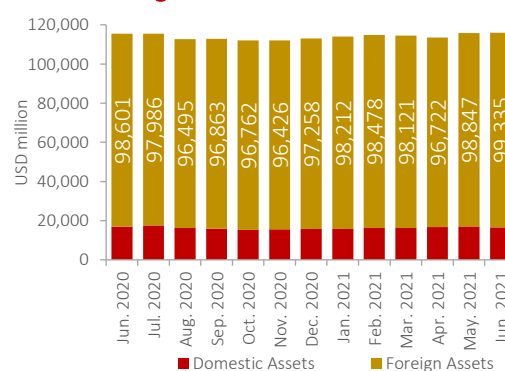


Chart 2.7: Wholesale Banks' Assets



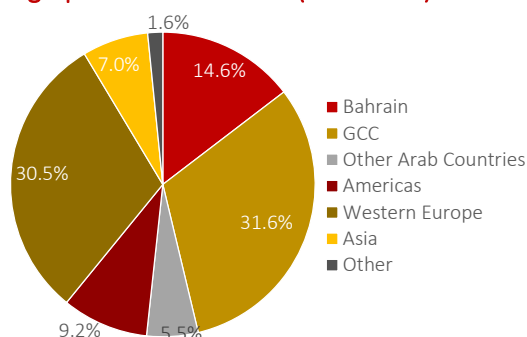
Source: CBB Monthly Statistical Bulletin.

Chart 2.8: Categorization of Wholesale Banks' Assets



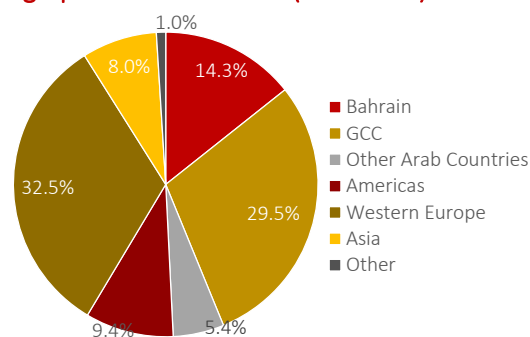
Source: CBB Monthly Statistical Bulletin.

Chart 2.9: Wholesale Banks' Assets by Geographical Classification (June 2020) *



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

Chart 2.10: Wholesale Banks' Assets by Geographical Classification (June 2021) *

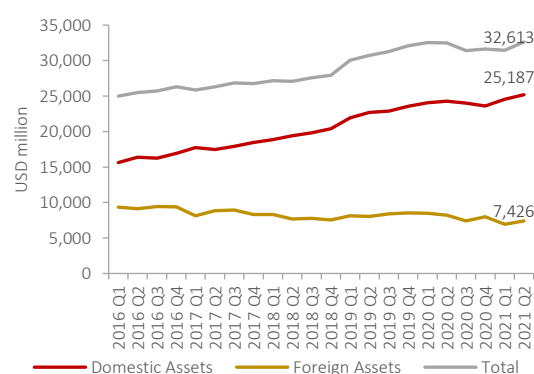


* For conventional and Islamic wholesale banks.
Source: CBB Monthly Statistical Bulletin.

2.2.3 The Islamic Banking Sector

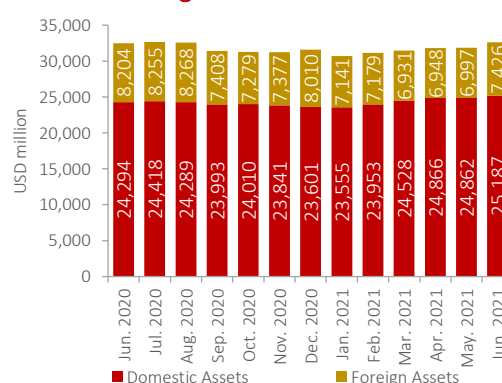
The Islamic banking sector increased to USD 32.6 billion as of June 2021 indicating a 0.4% YoY increase. Domestic assets represented 77.2% of total Islamic banking assets in the sector (3.7% YoY increase) while foreign assets represented 22.8% of total Islamic banking assets (9.5% YoY decrease).

Chart 2.11: Islamic Banks' Assets



Source: CBB Monthly Statistical Bulletin.

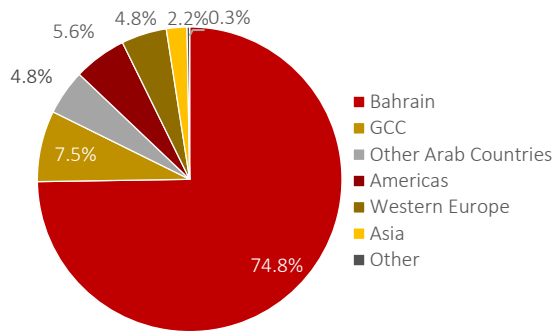
Chart 2.12: Categorization of Islamic Banks' Assets



Source: CBB Monthly Statistical Bulletin

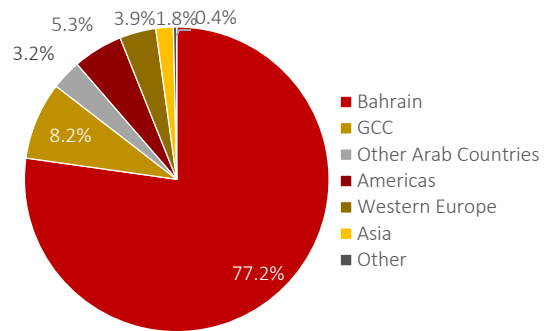
Islamic banks continue to be majorly exposed to domestic risks as the share of Bahrain's total assets increased 77.2% in June 2021 while GCC total assets was 8.2%.

Chart 2.13: Islamic Banks' Assets by Geographical Classification (June 2020)



Source: CBB Monthly Statistical Bulletin.

Chart 2.14: Islamic Banks' Assets by Geographical Classification (June 2021)

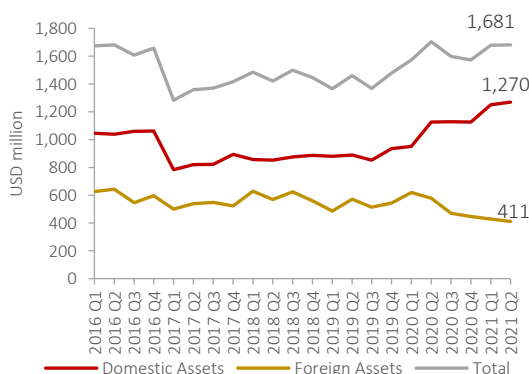


Source: CBB Monthly Statistical Bulletin.

2.2.4 Islamic Windows

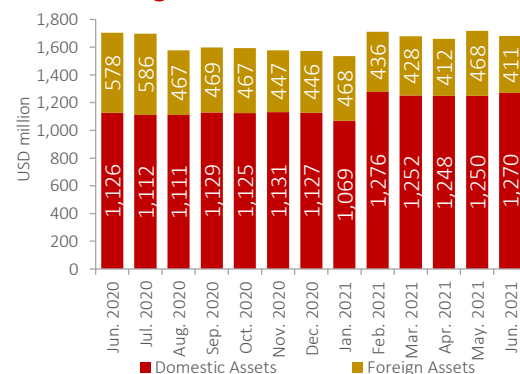
There are a number of conventional retail banks in Bahrain that maintain Islamic windows offering Islamic banking services/products to clients who are interested in completing their banking transactions in a Sharia-compliant system. As of June 2021, there were 5 Islamic windows operating by conventional retail licenses in Bahrain with total assets of BHD 1.7 billion (4.6% of retail banking assets). As of June 2021, 75.5% of total assets were domestic (12.8% YoY increase) while 24.5% were foreign (28.8% YoY decrease).

Chart 2.15: Islamic Windows' Assets



Source: CBB Monthly Statistical Bulletin.

Chart 2.16: Categorization of Islamic Windows' Assets

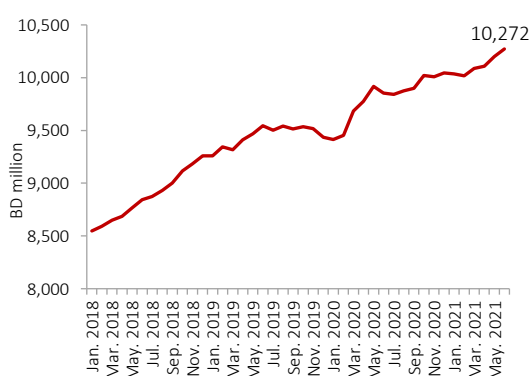


Source: CBB Monthly Statistical Bulletin.

2.2.5 Credit Developments

Credit given to the private sector (business and personal) by retail banks witnessed a YoY increase of 4.3% moving from BD 9.9 billion in June 2020 to BD 10.3 billion in June 2021 (Chart 2.17). Regarding retail banks' lending to the general government, there was an increase to BD 451.1 million at end-June 2021, from BD 328.9 million at end-June 2020 (Chart 2.18).

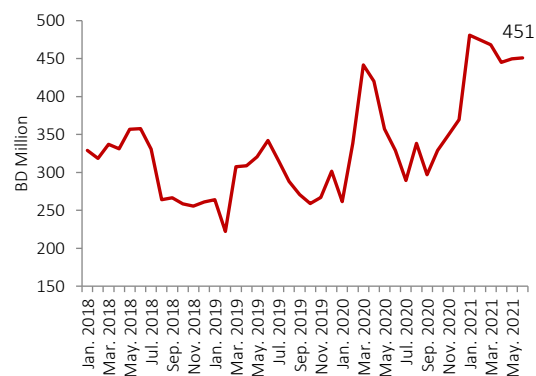
Chart 2.17: Loans to the Private Sector *



Source: CBB Monthly Statistical Bulletin.

* Excluding securities.

Chart 2.18: Loans to General Government *



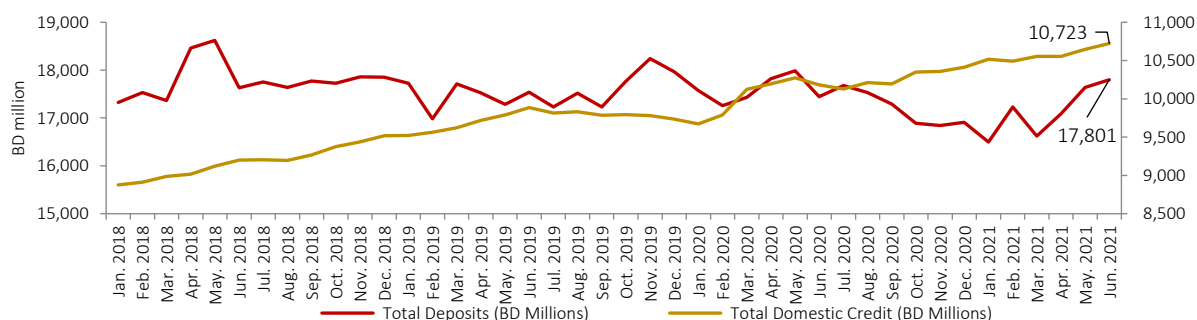
Source: CBB Monthly Statistical Bulletin.

* Excluding securities.

Despite a challenging economic environment during the pandemic, banks were active in lending activities driven mainly by some sectors such as mortgage lending and lower interest rates.

Total deposits reached BD 17.8 billion in June 2021 with a 2.0% YoY change (where domestic deposits represent 79.4% of total deposits and had a YoY increase of 4.4%). Households boosted their savings amounts as a precautionary measure with extra savings due to the loan deferrals that was flowing into bank deposit. Domestic credit increased from BD 10,181.7 in June 2020 to 10,723.5 in June 2021 with a 5.3% YoY increase (Chart 2.19).

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



Source: CBB Monthly Statistical Bulletin.

2.2.6 Net Foreign Assets

The net foreign asset (NFA) position of the banking system is the value of the assets that the banking system owns abroad (Foreign Assets) minus the value of the domestic assets owned by foreigners (Foreign Liabilities). A positive NFA balance means that the system is a net lender, while a negative NFA balance shows that it is a net borrower. The NFA position by banking segment, as of June 2021, is negative (net borrowers) for retail banks, both conventional and Islamic, and conventional wholesale banks. As of June 2021, the NFA position for retail banks was *negative* USD 3,970.6 million and for wholesale banks, the NFA position was *negative* USD 4,175.7 million.

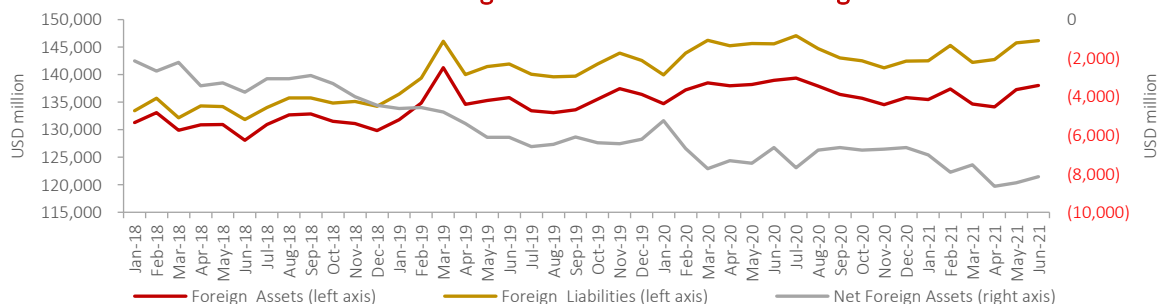
Table 2.2: Net Foreign Assets Position by Banking Segment (June 2021)

Banking Segment (USD million)	Foreign Assets	Foreign Liabilities	Net Foreign Assets
Total Banking Segments	138,037.0	146,183.2	-8,146.3
Retail (Conventional and Islamic)	38,702.2	42,672.9	-3,970.6
Conventional Retail	35,885.1	37,457.9	-1,572.8
Islamic Retail	2,817.2	5,120.1	-2,303.0
Wholesale (Conventional and Islamic)	99,334.7	103,510.4	-4,175.7
Conventional Wholesale	94,725.5	97,905.7	-3,180.2
Islamic Wholesale	4,609.2	5,604.7	-995.5

Source: CBB.

While the foreign assets for some banking segments have been increasing steadily with an upward trend, there is also an increase in foreign liabilities which leads to the increasing negative NFA position. The NFA for conventional wholesale banks decreased significantly over the course of 2020 and half of 2021. Looking at the NFA position for the overall banking sector, data shows that there was a slight upward trend as seen in the chart below.

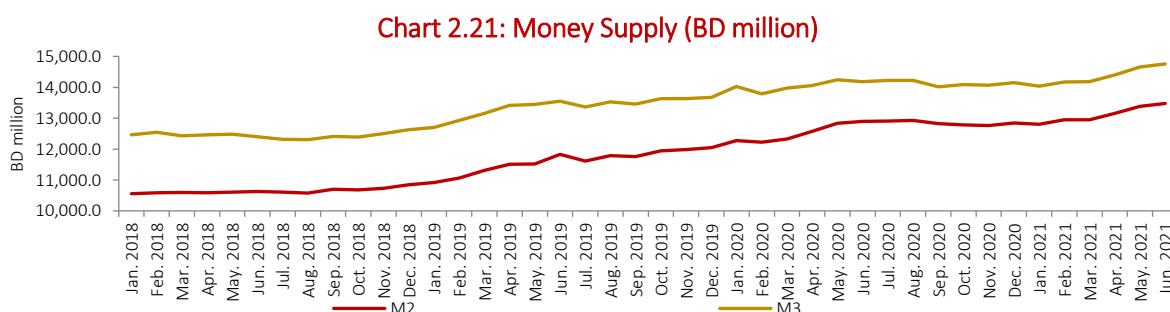
Chart 2.20: Net Foreign Assets of the Overall Banking Sector



Source: CBB.

2.3 Monetary Indicators

Money supply continued to grow. M2 stood at BD 13,475.9 million in June 2021, 4.5% higher than its value of June 2020. M3 was at BD 14,756.2 million in end-June 2021, 4.1% higher than in June 2020 (Chart 2-22).



Source: CBB Monthly Statistical Bulletin.

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

Table 2.3: Money Supply Composition

	2019		2020		Q2 2021	
	BD million	% Change	BD million	% Change	BD million	% Change
Currency Outside Banks	535.1	1.3	593.0	10.8	600.1	-4.9
Demand Deposits	2978.5	2.9	3,288.0	10.4	3,925.4	17.7
M1	3,513.6	2.7	3,880.9	10.5	3,072.3	3.2
Time and savings deposits	8,538.6	15.0	8,959.0	4.9	8,950.4	0.2
M2	12,052.2	11.1	12,840.0	6.5	13,475.4	4.5
General Government Deposits	1,619.7	-8.8	1,311.3	-10.0	1,280.3	-0.4
M3	13,671.9	8.3	14,151.3	3.5	14,756.2	4.1

Source: CBB Monthly Statistical Bulletin.

As of June 2021, growth in money supply was stimulated by a growth in demand deposits. In particular, demand deposits increased by 17.7% from BD 3,333.7 million in June 2020 to BD 3,925.4 million in June 2021, while time and savings deposits increased by 0.2%.

2.4 Inflation

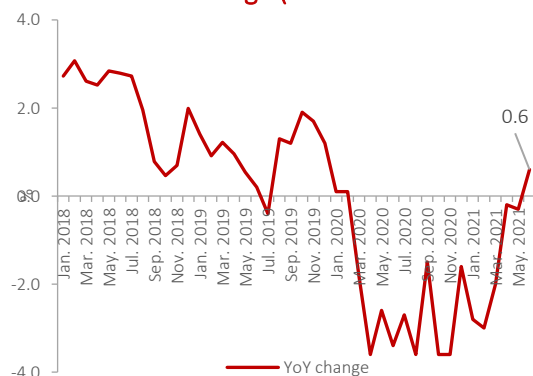
CBB maintains the Bahraini Dinar's peg against the U.S. Dollar, which has provided price stability over the years and as a result managed to keep inflation relatively stable. Bahrain's inflation is measured by its Consumer Price Index (CPI) and includes 12 broad categories of consumer goods that are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

As of June 2021, the Consumer Price Index (CPI) stood at 97.0 points. Monthly inflation increased by 0.3%. The divisions which caused the largest upward contribution to the CPI in the year were Housing, water, electricity, gas and other fuels (+0.6) and Education (+0.2) due to price levels going to pre-corona levels.

The CPI in June 2021 was 0.6% higher than a year earlier which shows price level recovery following the deflation that happened due to the effects of the COVID-19 pandemic and to the economic stimulus package released by the government to support households and businesses.

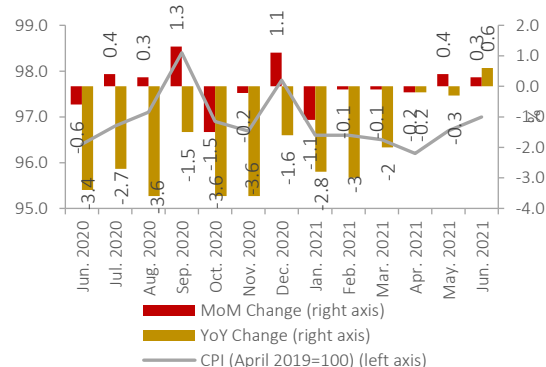
¹ The index has been rebased to April 2019=100, with effect from May 2019, which resulted in certain methodological changes which include updating the expenditure weight, revising the sample of goods and services and improving the methods of price collection. Components are: food and non-alcoholic beverages;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

Chart 2.22: CPI Change (Jan. 2014 – Dec. 2020)



Source: IGA.

Chart 2.23: Monthly Inflation Rate (June 2020 – June 2021)



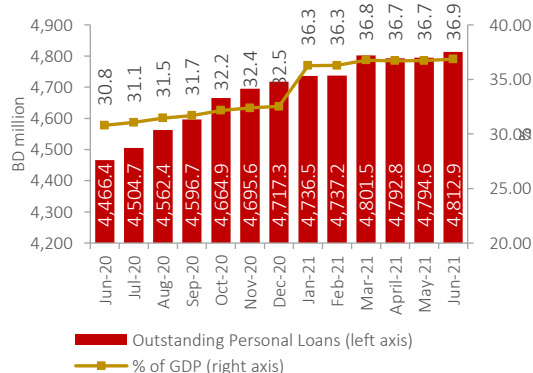
Source: IGA.

2.5 The Households/Personal Sector

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

Outstanding personal loans, used as a proxy for household borrowing, shows an increase in personal credit between June 2020 and June 2021 (Chart 2.24).

Chart 2.24: Personal Loans and Advances (Volume and % of GDP)



*Using 2020 GDP.

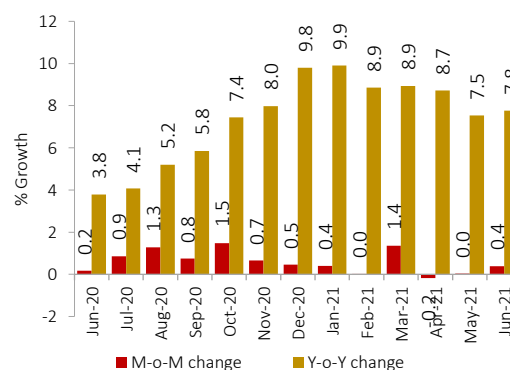
Source: CBB Monthly Statistical Bulletin.

Personal loans as a percentage of GDP increased to 36.9% by June 2021 (BD 4,812.9 million). There was a 2.0% increase in outstanding personal loans between December 2020 and June 2021 (YoY increase was 7.3%).

The monthly growth rate in total personal loans and advances fluctuated between December 2020 to June 2021. Initially at 0.5% in December 2020, it rose to reach its highest level for the year of 1.4% in March 2021 and later fell to reach 0.4% in June 2021. On a yearly basis, the biggest YoY increase was in December 2020 where the personal loans and advances were at 9.8%, but then fell to 7.8% in June 2021.

As of end of June 2021, the two main contributors to personal loans as seen in chart 2.27 were personal loans secured by property mortgages which made up 44.4% of the total personal loans followed by personal loans secured with salary assignments at 38.0% of total personal loans.

Chart 2.25: Growth Rates of Total Personal Loans and Advances (%)



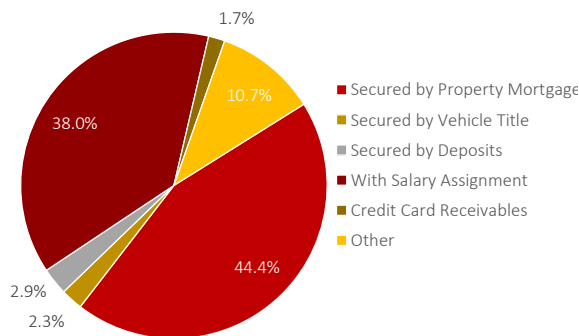
Source: CBB Monthly Statistical Bulletin.

Table 2.4: Personal Loans Breakdown

BD million	Dec. 2020	Jan. 2021	Feb. 2021	Mar. 2021	Apr. 2021	May 2021	Jun. 2021
Total	4,717.3	4,736.5	4,737.2	4,801.5	4,792.8	4,794.6	4,812.9
Secured by Property Mortgage	2,197.9	2,204.8	2,217.6	2,269.4	2,252.2	2,116.6	2,134.6
Secured by Vehicle Title	118.1	117.3	114.9	112.9	113.0	112.7	111.6
Secured by Deposits	187.6	165.0	167.0	163.8	145.2	146.9	138.3
With Salary Assignment	1,700.4	1,731.3	1,745.5	1,757.7	1,779.4	1,828.3	1,828.6
Credit Card Receivables	92.2	91.9	93.6	89.8	89.6	77.6	83.0
Other	421.1	426.2	398.6	407.9	413.4	512.5	516.8

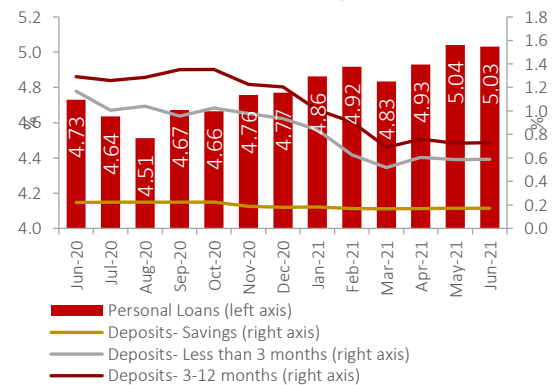
Source: CBB Monthly Statistical Bulletin.

Chart 2.26: Personal Loans Breakdown (June 2021)



Source: CBB Monthly Statistical Bulletin.

Chart 2.27: Retail Banks- Average Interest Rates on Personal Loans and Deposits (%)



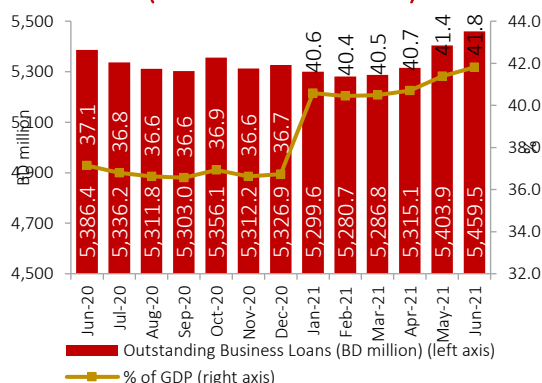
Source: CBB Monthly Statistical Bulletin

Interest rates on personal loans started off at 4.73% in June 2020 and increased to 5.03% in June 2021 (Chart 2.28). The chart also shows the retail deposit rate for: Saving deposits, time deposits less than 3 months, and time deposits 3 months to 12 months over the same period.

2.6 The Bahraini Corporate/Business Sector

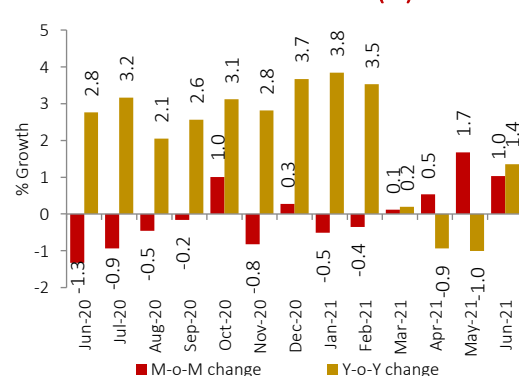
Business loans and advances grew by 2.5% between December 2020 and June 2021 from BD million 5,326.9 in December 2020 to BD million 5,459.9 in June 2021 (Chart 2.28). As of June 2021, YoY growth for business loans was 3.7%. Outstanding business loans as a percentage of GDP increased to 41.8% in June 2021.

Chart 2.28: Business Loans and Advances (Volume and % of GDP)



Source: CBB Monthly Statistical Bulletin.

Chart 2.29: Growth Rates of Total Business Loans and Advances (%)



Source: CBB Monthly Statistical Bulletin.

The monthly growth rate in total personal loans and advances fluctuated between December 2020 and June 2021. Initially at 0.3% in June 2020, it rose to reach its highest level for the year of 1.7% in May 2021. The highest YoY growth was January 2021 (3.8%).

For the past six months, the main contributor to the business loans was the loans to the construction and real estate sector. The biggest contributors to business loans in June 2021 were the construction and real estate sector (33.9%) followed by manufacturing (22.3%), and then transportation and communication (15.8%) (Chart 2.30).

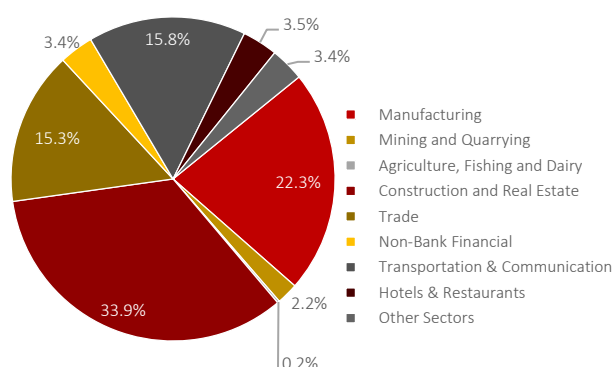
Average interest rates on business loans fluctuated throughout the period from December 2019 to December 2020. It was at its peak in August 2020 at 5.73% (Chart 2.31).

Table 2.5: Business Loans by Sector

BD million	Dec. 2020	Jan. 2021	Feb. 2021	Mar. 2021	Apr. 2021	May 2021	Jun. 2021
Total	5,326.9	5,299.6	5,280.7	5,286.8	5,315.1	5,403.9	5,459.5
Manufacturing	1,173.8	1,216.2	1,200.5	1,181.9	1,187.1	1,258.6	1,307.8
Mining and Quarrying	150.8	121.9	122.9	126.6	121.2	125.8	126.2
Agriculture, Fishing and Dairy	12.1	12.1	12.3	12.1	11.8	12.3	12.6
Construction and Real Estate	1,932.0	1,914.6	1,913.8	1,917.6	1,946.5	1,974.9	1,991.0
Trade	934.4	909.3	908.0	920.9	926.3	920.9	898.4
Non-Bank Financial	227.5	221.5	216.3	216.9	207.7	198.4	199.6
Transportation & Communication	209.0	216.2	207.2	211.4	211.8	209.8	207.3
Hotels & Restaurants	188.1	190.9	189.6	190.8	196.3	197.2	197.8
Other Sectors	896.3	904.0	906.9	910.8	914.5	913.0	923.9

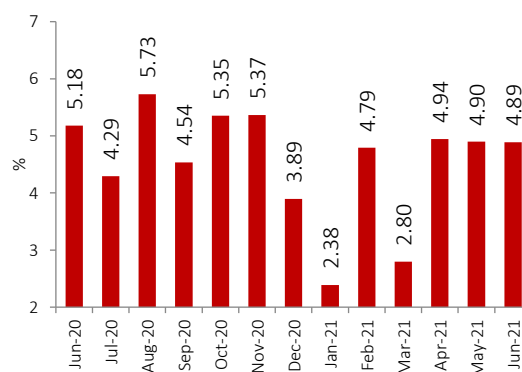
Source: CBB Monthly Statistical Bulletin.

Chart 2.30: Business Loans by Sector (June 2021)



Source: CBB Monthly Statistical Bulletin.

Chart 2.31: Retail Banks' Average Interest Rates on Business Loans



Source: CBB Monthly Statistical Bulletin.

CBB's and Climate Change Policy

There is a growing need to develop and implement policies aimed at mitigating climate change risks, in sectors like energy, agriculture, transportation. CBB acknowledges its role with regards to leading climate change initiatives within the financial sector in the Kingdom. Currently, the roadmap as it is remains flexible to respond to the developing understanding of climate-related financial risks and to adjust priorities and timelines with feedback from multiple players within the financial system. CBB's goal is to monitor efforts and progress from international organizations such as the Financial Stability Board (FSB) and International Monetary Fund (IMF) as they coordinate with other international bodies working towards the common goal of addressing climate-related financial risks. It is still early to develop any forward-looking metrics towards developing climate change targets as such initiatives are still underway within the short and medium term.

The FSB roadmap, that was presented to the G20 in July 2021, sets out a comprehensive plan for addressing climate-related financial risks. The road map includes steps and target dates covering four main areas: firm-level disclosures, data, vulnerabilities analysis, and regulatory and supervisory practices and tools. The CBB has started looking at several items within the FSB roadmap by implementing the following:

1- Raising Awareness: Raising awareness and knowledge sharing should be a key priority by CBB to encourage financial institutions to start building in-house capacity and to collaborate within their institutions to improve their understanding of how climate-related factors translate into financial risks and opportunities. This will allow financial institutions to eventually allocate sufficient internal resources to address climate-related risks and opportunities and later on as policy measures are taken to develop training in order to equip employees with the necessary skills and knowledge.

The CBB has already sent a questionnaire, led by the Policy Unit, to licensees on sustainable finance as Environmental, Social and Governance (ESG) practices are growing rapidly as a differentiator within the banking and financial services sector. The questionnaire is the first step to understand the current exposure of financial institutions to climate-related risks. The objective was to collect quantitative and qualitative information focusing on thematic areas related to sustainable finance:

- Strategy and policy framework
- Existing exposure, Decision making and innovation
- Initiatives and programs
- Challenges and Incentives
- Disclosures and Stress Testing

The responses will help assess the current state of sustainable finance in Bahrain, the current level of awareness of the financial sector to climate related financial risks, and where the institutions stand on addressing climate related issues within their institution such as:

- Incorporating climate change into their corporate strategy.
- Allocating any funds for climate change projects.
- Types of incentives/pre-requisites required to encourage investment in sustainable development and climate related projects.
- If institution has any sustainability and climate-finance-related disclosures.
- If institution incorporates sustainability and/or climate-related risk into regular stress testing.

The results will be used by the CBB as a foundation to continue to raise awareness, bridge data gaps, investigate analytical tools to translate physical and transition risk into financial risk, and then lead a policy dialogue for any prospective policy measures to be taken in the future.

2- Bridging data gaps: CBB started to investigate steps to fill climate data gaps. The emphasis will be ensuring cross-sectoral and international consistency. Looking at the type of data collected by international bodies, there will be a clearer understanding of data provided in order to efficiently fill the various data gaps identified. The FSD will be closely monitoring a number of deliverables that will be published by the FSB based on their indicative roadmap timeline as they will help set the requirements by international standard-setting bodies. As these deliverables are non-binding and have no obligations by member countries to follow, with every deliverable released by the FSB, CBB will look at what it can implement to further develop effective regulatory, supervisory and financial sector policies in the future.

3- Analytical Tools: CBB will also look at possible effective regulatory and supervisory practices and tools. Vulnerability assessments would enable the refinement of analytical techniques and any possible future policy measures. Climate-related stress tests for example can accomplish the task of assessing potential impact of natural hazards on the economy, the strength of financial institutions, and the financial system. These tests will allow authorities to monitor and the resilience of the financial system to climate risks under different scenarios for the evolution of physical and transition risks. The stress testing module in the CBB rule book (Volumes 1 and 2) currently offers guidance to conventional and Islamic bank licensees on the key requirements of an effective stress testing. The stress tests reflect significant activities undertaken by the banks and consider the material risks affecting the banks covering includes a number of major risk categories including credit, market, interest rate, liquidity, operational, and other material risks. The CBB is looking to widen the scope in the future that can possibly include climate- related risks as part of the other material risks.

PART II:

DEVELOPMENTS IN THE BANKING SECTOR



PERFORMANCE OF THE BANKING SECTOR

HIGHLIGHTS

CAR 18.8% ▲ 0.2% YoY	Tier 1 CAR 17.6% ▲ 0.3% YoY	Assets-to-Capital 8.3 ▲ 0.1 YoY
NPL 3.8% ▼ 0.5% YoY	Specific Provisions 69.1% ▲ 1.1% YoY	ROA 0.6% ▲ 0.2% YoY
ROE 4.0% ▲ 2.4% YoY	Liquidity 26.5% ▲ 1.9% YoY	Loan/Deposit 70.1% ▲ 0.6% YoY

- Increase in capital positions.
- Non-performing loans continue to decrease.
- Loan portfolios remain concentrated in some sectors with no significant change from previous quarter.
- A decrease in earnings for banks.
- Liquidity position remains resilient.

3.1 Overview

This chapter offers an assessment of the banking sector in Bahrain.² Macro-prudential analysis of the entire banking sector is performed based on a set of selected Financial Soundness Indicators (FSIs). The banking sector in Bahrain is divided into four segments: conventional retail (CR), conventional wholesale (CW), Islamic Retail (IR), and Islamic wholesale (IW). The performances of conventional and Islamic banking segments are analyzed separately in Chapters 4 and 5.³ Annex 1 presents selected FSIs for the different banking segments. Annex 2 presents selected graphs showing the development of selected FSIs over time.

Amidst the implications of COVID-19 on the banking sector and given that businesses have increasingly become vulnerable to financial losses, it has become important for CBB to understand and assess the financial impact the pandemic on banks. Having considered the implications of the instalment deferrals, CBB directed banks to apply a number of requirements keeping in view principles of consistent treatment across the industry, level playing field, prudence, and consumer and investor protection. As a result, capital and liquid positions remained strong during the peak of COVID-19 related volatility and Bahraini banks' profitability outlook is set to improve.

² Chapters 3, 4, and 5 cover the period between Q2 2020 and Q2 2021, unless otherwise indicated.

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

3.2 Overall Banking Sector Performance

3.2.1 Capital Adequacy

Strong capital position with an increasing trend

The capital adequacy ratio⁴ (CAR) for the banking sector stood at 18.8% in June 2021 increasing from 18.5 in June 2020. The core capital ratio (ratio of Tier 1 capital to risk-weighted assets) showed an increase from 17.1% in June 2020 to 17.6% in June 2021. Whereas the leverage ratio (ratio of assets over capital) increased to 8.3% during the same period.

Table 3.1: Capital Provision Ratios

Indicator*	Q2 2020	Q4 2020	Q2 2021	YoY Change
CAR (%)	18.5	18.6	18.8	0.2
Tier 1 CAR (%)	17.1	17.3	17.6	0.3
Assets/Capital (Times)	8.2	8.2	8.3	0.1

* For Locally Incorporated Banks only.

Source: CBB.

3.2.2 Asset Quality

Continued improvement in asset quality with decreasing NPL and increasing provisions

The non-performing loans (NPLs) ratio continued its decrease reaching 3.8% in June 2021 from 4.5% in June 2020. The CBB monitored the impact of the pandemic on NPL ratios as pressures on asset quality continued due to the global pandemic and after a contraction in economic activity in 2020. CBB's loan deferments managed to prevent defaults by individuals and business that suffered temporary cash-flow concerns preventing any deterioration in asset quality.

With the expected economic recovery to continue, banks need to remain prudent in monitoring any deteriorations in lending portfolios once the loan deferral program ends due to concerns of a lagged effect on NPLs.

The specific provisions as a proportion of NPLs continued to grow increasing to 69.1% in June 2021 from 64.8% in June 2020. Licensees were required to make an assessment on credit exposures and requested to be more prudent in determining any additional provision required considering the economic and financial impact of COVID-19 on customers.

Table 3.2: NPL Ratios (Q2 2021)

Indicator	Q2 2020	Q4 2020	Q2 2021	YoY Change
NPLs (% Total Loans)	4.5	4.3	3.8	-0.5
Specific provisions (% of NPLs) *	64.8	68.0	69.1	1.1

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

Source: CBB.

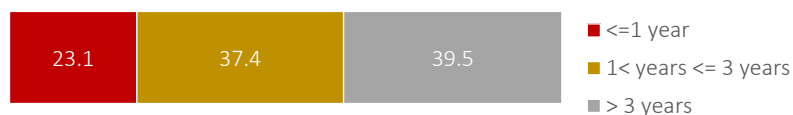
Data on NPLs by time segment (up to 1 year, 1 year to 3 years, and over 3 years) show that the majority of NPLs in the banking sector are for a period of over 3 years (34.8% of total NPLs). NPLs for over 3 years represented 1.5% of total gross loans. Specific provisioning for NPLs increases as they are non-performing for longer periods of time. As seen in Table 3.3, NPLs for a period for more than 3 years are provisioned by 78.6%.

⁴ The capital adequacy ratio relates total capital to risk-weighted assets (RWA). The indicator excludes overseas retail banks, which do not have prescribed capital levels or ratios.

Table 3.3: NPL Ratios and Specific Provisions by Time Period (Q2 2021)

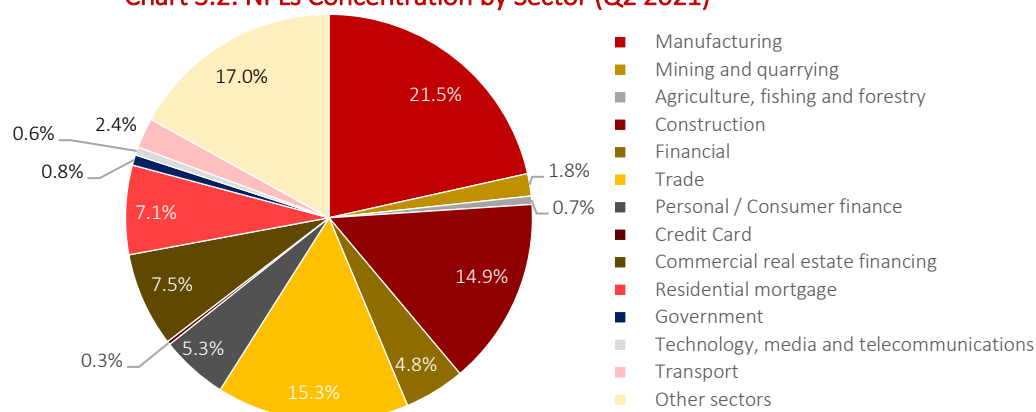
Indicator	Up to 1 year	1 up to 3 years	Over 3 years	Total
NPLs (% Total Loans)	0.9	1.4	1.5	4.3
Specific Provisions (% of NPLs)	49.9	70.8	78.6	69.1

Source: CBB.

Chart 3.1: NPLs by Time Period (%)

Source: CBB.

Data on the concentration of NPLs by sector shows that the majority of NPLs come from trade (16.1%), mining and quarrying (14.5%), and manufacturing (10.4%) as indicated in chart 3.2.⁵

Chart 3.2: NPLs Concentration by Sector (Q2 2021)

Source: CBB.

Data on the sectoral breakdown of NPLs ratios (NPLs per sector as a percentage of gross loans in each sector) shows increase in impairment in some sectors, while some experience a decrease and others remaining unchanged (Table 3.4). The highest increase was in residential mortgage by 1.5%. The highest decrease was in the construction sector which was 4.7%.

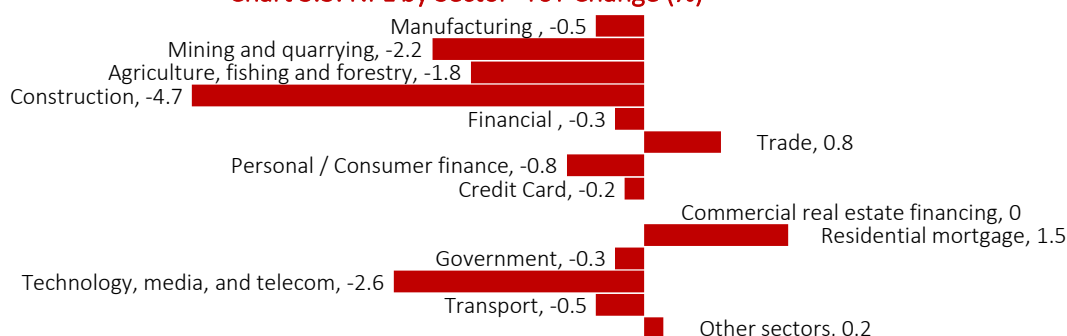
Table 3.4: NPL Ratios by Sector (%)

Sector	Q2 2020	Q4 2020	Q2 2021	YoY Change
Manufacturing	6.7	6.8	6.2	-0.5
Mining and quarrying	10.9	18.4	8.7	-2.2
Agriculture, fishing and forestry	4.0	2.8	2.2	-1.8
Construction	10.4	8.4	5.7	-4.7
Financial	1.7	1.8	1.4	-0.3
Trade	8.8	9.9	9.6	0.8
Personal / Consumer finance	3.3	3.2	2.5	-0.8
Credit Card	3.5	3.0	3.3	-0.2
Commercial real estate financing	3.8	3.9	3.8	0.0
Residential mortgage	3.6	4.0	5.1	1.5
Government	1.0	0.8	0.7	-0.3
Technology, media and telecommunications	5.1	3.8	2.5	-2.6
Transport	3.6	4.3	3.1	-0.5
Other sectors	4.8	4.5	5.0	0.2

Source: CBB.

⁵ The other sectors category includes sectors such as private banking, services, tourism, and utilities.

Chart 3.3: NPL by Sector- YoY Change (%)



Source: CBB.

Loan portfolios faces slight fluctuations and remain concentrated in some sectors

The loan portfolio of the banking system remains concentrated with no sector exceeding 20% of total loans. Manufacturing represented the highest exposure with 15.1% of total loans in June 2021. Financial and Construction followed with 14.9% and 11.0% respectively. Personal/consumer finance stood at 9.4% of total loans. The sector with the largest decline was trade dropping 1.7%.

Table 3.5: Lending Distribution (% Total Loans)

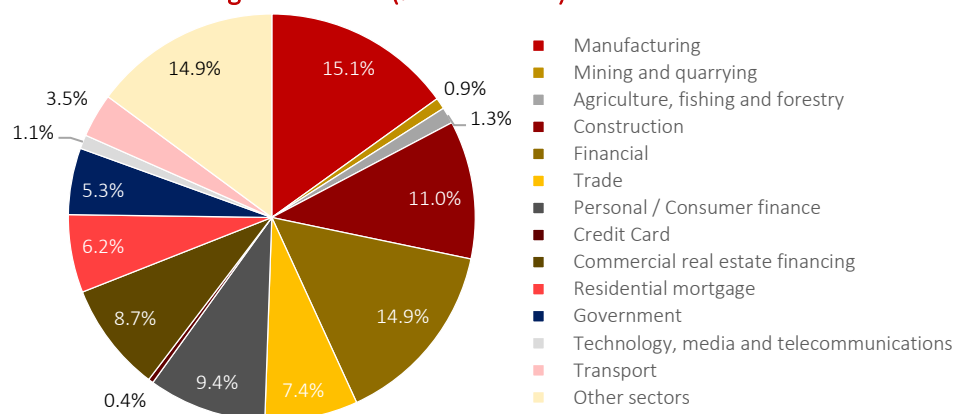
Sector	Q2 2020	Q4 2020	Q2 2021*	YoY Change
Manufacturing	14.9	14.0	15.1	0.2
Mining and quarrying	1.4	0.8	0.9	-0.5
Agriculture, fishing and forestry	1.1	1.3	1.3	0.2
Construction	10.7	10.5	11.0	0.3
Financial	15.2	13.4	14.9	-0.3
Trade	9.1	8.5	7.4	-1.7
Personal / Consumer finance	8.9	9.4	9.4	0.5
Credit Card	0.4	0.5	0.4	0.0
Commercial real estate financing	8.8	9.0	8.7	-0.1
Residential mortgage	5.7	5.9	6.2	0.5
Government	4.4	5.2	5.3	0.9
Technology, media and telecommunications	1.3	1.2	1.1	-0.2
Transport	3.1	3.3	3.5	0.4
Other sectors	14.7	17.0	14.9	0.2
Top Two Sectors (%)	30.2	31.0	30.0	-0.2
Real Estate/ Construction Exposure (%) **	25.3	25.4	25.9	0.6

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

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

Source: CBB.

Chart 3.4: Lending Distribution (% Total Loans)



Source: CBB.

The top two recipient sectors, manufacturing and other sectors, jointly represented 30.0% of loans in June 2021, decreasing from 31.0% in December 2020. Exposure to real estate/construction was 25.9% of total lending in June 2021, a slight increase from 25.4% registered in December 2020.

SME lending remains low

Credit extension to Small and Medium Enterprises (SMEs) remained unchanged between June 2020 and December 2020. SME loans (as a % of total loans) increased to 2.1% in June 2021. SME NPLs decreased slightly between the same periods from 12.6% to 9.0%. Provisioning levels recorded a decrease from 35.1% in June 2020 to 40.7% in June 2021.

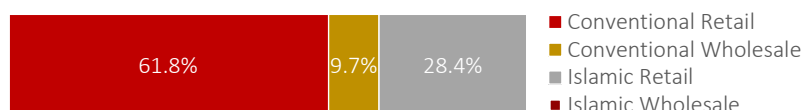
Table 3.6: SME Lending *

Indicator	Q2 2020	Q4 2020	Q2 2021	YoY Change
SME Loans (% of total Loans)	1.9	1.9	2.1	0.2
SME NPLs (% of total SME Loans)	12.6	11.0	9.0	-3.6
SME Provisioning (% of total SME NPLs)	35.1	43.1	40.7	5.6

*For Bahrain Operations Only

Source: CBB.

Chart 3.5: SME Lending by Banking Segment (Q2 2021)



Source: CBB.

3.2.3 Profitability

Profitability remains positive

The overall banking sector's profitability indicators have been stable between June 2020 to June 2021 and remain robust. Profits of banks did decline on account of higher provision charges against uncertainties due to the COVID-19 pandemic. Return-on-assets (ROA) increased slightly from 0.4% in June 2020 to 0.6% in June 2021. As of end-June 2021, return-on-equity (ROE) increased to 4.0% from 1.6% in June 2020.

Table 3.7: Profitability

Indicator	Q2 2020	Q2 2021	YoY Change
ROA (%) *	0.4	0.6	0.2
ROE (%) **	1.6	4.0	2.4
Net Interest Income (% Total Income) ***	70.9	72.5	1.6
Operating Expenses (% Total Income)	70.2	51.5	-18.7

* ROA = ratio of net income to assets.

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

*** For Conventional Banks.

Source: CBB.

Net interest income (as a % of total income) stood at 72.5% in June 2021. In addition, operating expenses as a proportion of total income was 51.5% in June 2021, a decrease from the 70.2% registered in June 2020.

3.2.4 Liquidity

Liquidity positions remain resilient

Between June 2020 and June 2021, the overall loan-deposit ratio decreased from 69.5% to 70.1%. Liquid assets as a proportion of total assets increased from 24.6% to 26.5%, over the same period.

Table 3.8: Liquidity

	Q2 2020	Q4 2020	Q2 2021	Change
Liquid Asset Ratio (%)	24.6	24.6	26.5	1.9
Loan-Deposit Ratio (%)	69.5	70.9	70.1	0.6

Source: CBB.

4! PERFORMANCE OF CONVENTIONAL BANKS

HIGHLIGHTS

CAR Retail 20.5% ▲ 1.7% YoY Wholesale 17.6% ▼ 0.3% YoY	Tier 1 CAR Retail 19.0% ▲ 1.5% YoY Wholesale 16.7% ▼ 0.3% YoY	Assets-to-Capital Retail 7.0 ▼ 0.5 YoY Wholesale 8.2 0.0 YoY
NPL Retail 4.3% ▼ 0.3% YoY Wholesale 3.6% ▼ 1.1% YoY	Specific Provisions Retail 69.6% ▲ 3.4% YoY Wholesale 73.9% ▲ 1.6% YoY	ROA Retail 0.7% ▲ 0.1% YoY Wholesale 0.6% ▲ 0.2% YoY
ROE Retail 5.8% ▼ 0.2% YoY Wholesale 1.7% ▲ 4.0% YoY	Liquidity Retail 34.1% ▲ 1.3% YoY Wholesale 24.7% ▲ 2.5% YoY	Loan/Deposit Retail 67.2% ▼ 2.9% YoY Wholesale 69.4% ▲ 0.8% YoY

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

4.1 Overview

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

4.2 Capital Adequacy

Increase in capital adequacy for conventional retail banks and nearly unchanged for wholesale banks.

The CAR for conventional retail increased from 18.8% in June 2020 to 20.5% in June 2021. The core capital ratio (ratio of Tier 1 capital to risk-weighted assets) showed an increase from 17.5% in June 2020 to 19.0% in June 2021. The leverage ratio (ratio of assets over capital) decreased to 7.0% during the same period. The NPLs net provisions to capital increased to 5.3% in June 2021 from 5.1% in June 2020.

As for wholesale banks, CAR decreased to 17.6% in June 2021 from the level of 17.9% it registered in June 2020. Tier 1 capital decreased to 16.7% in June 2021 from the level of 17.0% it recorded in June 2020. Furthermore, the leverage ratio (ratio of assets over capital) remained at 8.2% in June 2021. Finally, the ratio of NPLs net of provisions to capital decreased to 4.4% over the same period.

Table 4.1: Conventional Banks' Capital Provisions Ratios

Indicator *	Retail			Wholesale		
	Q2 2020	Q2 2021	Change	Q2 2020	Q2 2021	Change
CAR (%)	18.8	20.5	1.7	17.9	17.6	-0.3
Tier 1 CAR (%)	17.5	19.0	1.5	17.0	16.7	-0.3
Assets/Capital (Times)	7.5	7.0	-0.5	8.2	8.2	0.0
NPLs net of Provisions to Capital (%)	5.1	5.3	0.2	6.2	4.4	-1.8

* For Locally Incorporated Banks only.

Source: CBB.

4.3 Asset Quality

4.3.1 Non-Performing Loans

Drop in NPLs for conventional banks and improvement in provisioning position

The NPL ratio decreased to 4.3% in June 2021 from 4.6% in June 2020 for conventional retail banks. Specific provisions as a proportion of NPLs increased to 69.6% in June 2021. As for conventional wholesale banks, the NPL ratio decreased from 4.7% in June 2020 to 3.6% in June 2021. Specific provisions witnessed an increase of 1.6% from 72.3% in June 2020 to 73.9% in June 2021.

Table 4.2: Conventional Banks' NPL Ratios

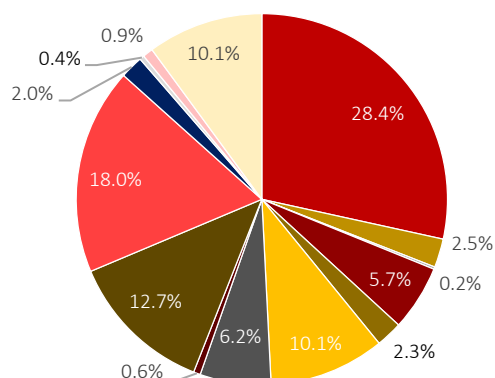
Indicator *	Retail			Wholesale		
	Q2 2020	Q2 2021	Change	Q2 2020	Q2 2021	Change
NPLs (% Total Loans)	4.6	4.3	-0.3	4.7	3.6	-1.1
NPLs Local Banks (%)	3.8	4.3	0.5	6.3	5.4	-0.9
NPLs Overseas Banks (%)	6.6	4.5	-2.1	3.5	2.1	-1.4
Specific Provisions (% of NPLs) *	66.2	69.6	3.4	72.3	73.9	1.6

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

Source: CBB.

Data on the concentration of NPLs by sector for conventional retail banks shows that the majority of NPLs come from the manufacturing sector (28.5%), residential mortgage (18.0%), commercial real estate sector (12.7%) and trade (10.1%). On the other hand, the data on the concentration of NPLs by sector for wholesale banks indicates that the majority of NPLs are concentrated and come from the construction sector (26.2%), trade (21.1%), and others (22.0%).

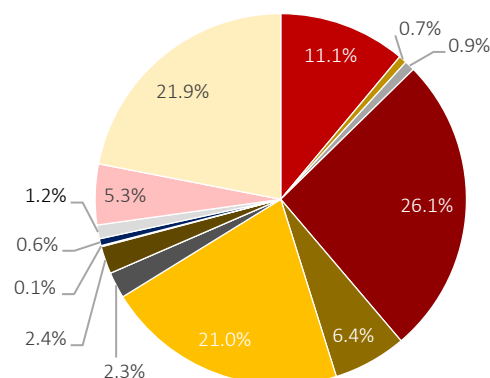
Chart 4.1: CR Banks' NPLs Concentration by Sector (June 2021)



Source: CBB.

- Manufacturing
- Agriculture, fishing and forestry
- Financial
- Personal / Consumer finance
- Commercial real estate financing
- Government
- Transport

Chart 4.2: CW Banks' NPLs Concentration by Sector (June 2021)



Source: CBB.

- Mining and quarrying
- Construction
- Trade
- Credit Card
- Residential mortgage
- Technology, media and telecommunications
- Other sectors

Available data on the sectoral breakdown of NPLs shows some sectors experiencing an increase in impairment, while some experience a decrease (Table 4.3). For conventional retail banks, the highest increase was in residential mortgage by 2.8% while the highest decrease was in transport by 5.5%.

As for wholesale banks, sectoral breakdown of impaired loans demonstrates that impairment in trade was the highest between all sectors at 12.9%, followed by credit card with an impairment of 8.4%. The biggest increase was seen in the credit card sector which increased by 6.1%. The biggest decrease in impairment was found in the construction sector with a decrease of 5.6%.

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

Sector	Retail			Wholesale		
	Q2 2020	Q2 2021	Change	Q2 2020	Q2 2021	Change
Manufacturing	9.6	9.0	-0.6	2.1	2.7	0.6
Mining and quarrying	34.4	29.4	-5.0	5.9	1.7	-4.2
Agriculture, fishing and forestry	2.6	2.1	-0.5	2.0	1.2	-0.8
Construction	6.1	6.6	0.5	10.4	4.8	-5.6
Financial	1.8	1.3	-0.5	1.1	1.1	0.0
Trade	5.1	4.5	-0.6	10.4	12.9	2.5
Personal / Consumer finance	2.5	1.8	-0.7	5.2	4.4	-0.8
Credit Card	2.8	3.6	0.8	2.3	8.4	6.1
Commercial real estate financing	3.2	2.9	-0.3	3.6	4.1	0.5
Residential mortgage	4.8	7.6	2.8	1.1	1.3	0.2
Government	3.7	3.1	-0.6	0.9	0.4	-0.5
Technology, media and telecommunications	3.0	0.8	-2.2	6.9	4.2	-2.7
Transport	7.2	1.7	-5.5	2.6	3.2	0.6
Other sectors	2.9	3.6	0.7	4.0	3.9	-0.1

Source: CBB.

4.3.2 Loan Concentrations

Loan portfolios remain concentrated

The loan portfolio of retail banks remains concentrated with minimal changes in the composition of the loans. The top recipient of loans remains to be the commercial real estate financing sector accounting for 19.1% of total loans in June 2021 followed by personal/consumer finance representing 15.1%. Exposure to real estate/construction remained at 33.1% of total lending in June 2021. As for wholesale banks, lending remains concentrated in the financial sector and construction sector accounting for

19.8% and 19.3% respectively. Exposure to real estate/construction remained at 33.1% of total lending in June 2021.

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

Sector	Retail			Wholesale		
	Q2 2020	Q2 2021	Change	Q2 2020	Q2 2021	Change
Manufacturing	15.0	13.7	-1.3	13.2	14.8	1.6
Mining and quarrying	0.6	0.4	-0.2	2.4	1.4	-1.0
Agriculture, fishing and forestry	0.3	0.4	0.1	2.1	2.5	0.4
Construction	4.0	3.8	-0.2	18.3	19.3	1.0
Financial	7.2	7.6	0.4	21.1	19.8	-1.3
Trade	11.0	9.8	-1.2	8.0	5.8	-2.2
Personal / Consumer finance	14.6	15.1	0.5	1.4	1.8	0.4
Credit Card	0.7	0.7	0.0	0.0	0.0	0.0
Commercial real estate financing	18.4	19.1	0.7	2.5	2.1	-0.4
Residential mortgage	9.5	10.3	0.8	0.3	0.1	-0.2
Government	2.4	2.8	0.4	4.1	5.3	1.2
Technology, media and telecommunications	1.8	1.9	0.1	1.5	1.0	-0.5
Transport	1.2	2.3	1.1	5.8	5.8	0.0
Other sectors	13.3	12.2	-1.1	19.3	20.2	0.9
Top Two Sectors (%)	33.4	34.2	0.8	40.4	40.0	-0.4
Real Estate/ Construction Exposure (%) **	31.9	33.1	1.2	21.1	21.5	0.4

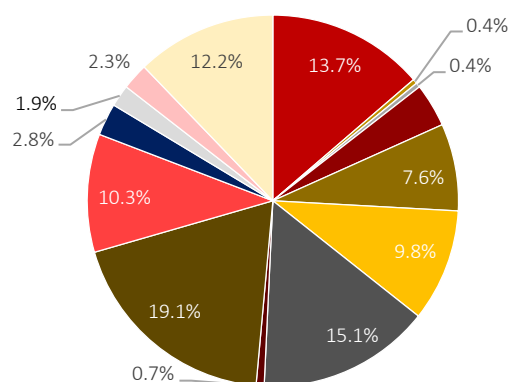
* Figures may not add to a hundred due to rounding.

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

Source: CBB.

Available data on local and overseas banks, shows that loan portfolio of locally incorporated retail banks remains concentrated with the top recipient of loans being the commercial real estate financing sector (19.1%). Real estate/construction exposure increased to 37.5% of total lending in June 2021. Similarly, the numbers as of end-June 2021 continue to show high concentration for overseas retail banks. The top recipient of loans was the commercial real estate financing sector (18.9%). And exposure to real estate/ construction was 22.4% of total lending in June 2021.

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



Source: CBB.

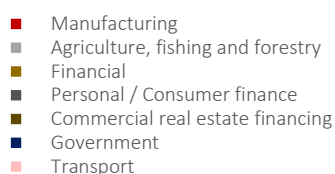
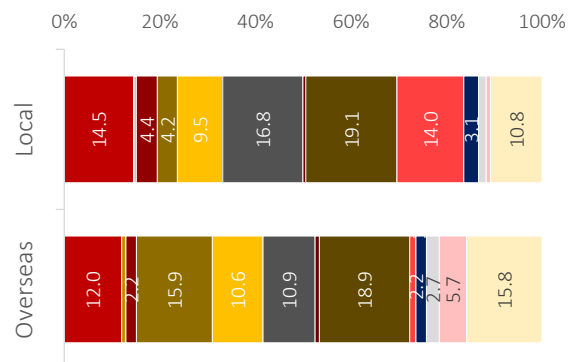
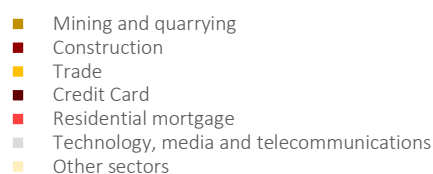


Chart 4.4: Local and Overseas CR Banks' Lending Distribution by Sector (% Total Loans)



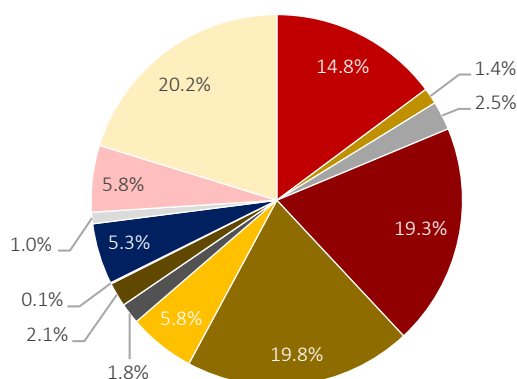
Source: CBB.



As for locally-incorporated wholesale banks, the top recipient of loans is the financial sector (20.6%) and the real estate/ construction exposure was 12.0% for the same period. For overseas wholesale

banks, the top recipient of loans in June 2021 was the construction sector (29.0%) and real estate/construction exposure increased from 27.2% in June 2020 to 29.3% in June 2021.

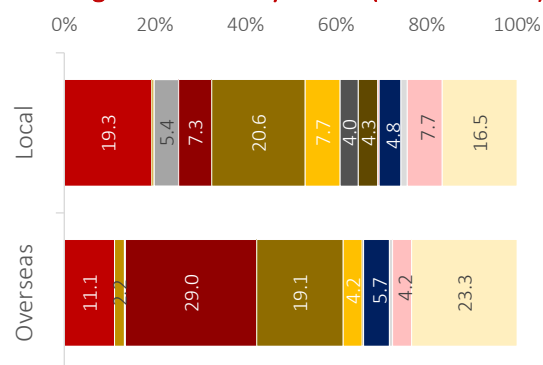
Chart 4.5: CW Banks' Lending Distribution by Sector (% Total Loans)



Source: CBB.

- Manufacturing
- Agriculture, fishing and forestry
- Financial
- Personal / Consumer finance
- Commercial real estate financing
- Government
- Transport

Chart 4.6: Local and Overseas CW Banks' Lending Distribution by Sector (% Total Loans)



Source: CBB.

- Mining and quarrying
- Construction
- Trade
- Credit Card
- Residential mortgage
- Technology, media and telecommunications
- Other sectors

4.4 Profitability

Banks' profitability shows slight improvement

Profitability for conventional retail banks was positive, and, as at end-June 2021, ROA increased to 0.7%. ROA for locally incorporated banks remained at 0.8% in June 2021. For overseas banks, ROA increased from 0.2% in June 2020 to 0.6% in June 2021. ROE for locally incorporated banks decreased to 5.8% from 6.0% during the same period. Net interest income (as a % of total income) increased from 74.6% to 77.7% during the same period as well. Operating expenses as a proportion of total income decreased from 54.9% in June 2020 to 44.7% in June 2021.

Table 4.5: Conventional Banks' Profitability

Indicator	Retail			Wholesale		
	Q2 2020	Q2 2021	Change	Q2 2020	Q2 2021	Change
ROA (%) *	0.6	0.7	0.1	0.4	0.6	0.2
ROA Locally Incorporated Banks (%)	0.8	0.8	0.0	-0.3	0.2	0.5
ROA Overseas Banks (%)	0.2	0.6	0.4	1.1	0.9	-0.2
ROE (%) **	6.0	5.8	-0.2	-2.3	1.7	4.0
Net Interest Income (% Total Income)	74.6	77.7	3.1	66.9	67.6	0.7
Operating Expenses (% Total Income)	54.9	44.7	-10.2	68.5	44.2	-24.3

* ROA = ratio of net income to assets.

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

Source: CBB.

As for conventional wholesale banking sector, ROA increased to 0.6% in June 2021 from 0.4% in June 2020. The ROA for local wholesale banks increased from -0.3% to 0.2%, while overseas wholesale banks decreased from 1.1% to 0.9%. ROE for local wholesale banks increased from -2.3% to 1.7%. Net interest income as a proportion of total income increased from 66.9% in June 2020 to 67.6% in June 2021. Operating expenses as a proportion of total income showed a decrease from 68.5% in June 2020 to 44.2% in June 2021.

4.5 Liquidity

Liquidity position is strong and improves for conventional banks

Between June 2020 and June 2021, bank deposits and non-bank deposits remained at similar level for conventional retail banks. The overall loan-deposit ratio for the segment increased to 67.2% in June 2021 from 66.4% in June 2020. Liquid assets as a proportion of total assets increased from 32.8% in June 2020 to 34.1% in June 2021. Liquid assets as a proportion of the short-term liabilities presented an increase from 41.2% to 42.8% over this period.

As at end-June 2021, the overall loan-deposit ratio for conventional wholesale banks stood at 69.4%, an increase from the 67.1% recorded in June 2020. Liquid assets for wholesale banks as a proportion of total assets increased to 24.7% in June 2021 from 22.2% in June 2020. The liquid assets as a proportion of short-term liabilities increased by 2.6% to be 29.8% in June 2021. Non-bank deposits as a proportion of total deposits stood at 48.9%, a slight increase from the 48.1% level achieved in June 2020, while bank deposits decreased slightly from 51.9% in June 2020 to 51.1% in June 2021.

Table 4.6: Conventional Bank's Liquidity

Indicator	Retail			Wholesale		
	Q2 2020	Q2 2021	Change	Q2 2020	Q2 2021	Change
Liquid Asset Ratio (%)	32.8	34.1	1.3	22.2	24.7	2.5
Loan-Deposit Ratio (%)	66.4	67.2	0.8	67.1	69.4	2.3
Non-Bank Deposits (% of Total Deposits)	73.3	70.4	-2.9	48.1	48.9	0.8

Source: CBB.

PERFORMANCE OF ISLAMIC BANKS

HIGHLIGHTS

CAR Retail: 21.6% ▲ 1.0% YoY Wholesale: 16.4% ▼ 1.2% YoY	Tier 1 CAR Retail: 19.6% ▲ 1.8% YoY Wholesale: 15.2% ▼ 1.0% YoY	Assets-to-Capital Retail: 10.4 ▲ 0.5 YoY Wholesale: 10.0 ▲ 1.3 YoY
NPL Retail: 5.5% ▼ 2.0% YoY Wholesale: 1.8% ▲ 0.4% YoY	Specific Provisions Retail: 52.4% ▼ 11.7% YoY Wholesale: 78.6% 0.0% YoY	ROA Retail: 0.3% ▲ 0.1% YoY Wholesale: 0.4% ▲ 0.4% YoY
ROE Retail: 3.9% ▲ 1.8% YoY Wholesale: 4.7% ▲ 5.2% YoY	Liquidity Retail: 19.4% ▲ 2.1% YoY Wholesale: 18.8% ▲ 2.3% YoY	Loan/Deposit Retail: 76.2% ▼ 2.9% YoY Wholesale: 64.0% ▼ 1.6% YoY

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

5.1 Overview

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

5.2 Capital Adequacy

Capital positions increase for Islamic retail and declines for Islamic wholesale

The CAR of Islamic retail banks slightly increased from 20.6% in June 2020 to 21.6% in June 2021. Tier 1 capital increased from 17.9% to 19.6 during this period. As at end-June 2021, the CAR for Islamic wholesale banks decreased to 16.4% from 17.6% in June 2020. Tier 1 capital also decreased from 16.2% to 15.2% over the same period. The ratio of NPFs net of provisions to capital increased to 1.9% in June 2021.

Table 5.1: Islamic Banks' Banks' Capital Provisions Ratios

Indicator *	Retail			Wholesale		
	Q2 2020	Q2 2021	Change	Q2 2020	Q2 2021	Change
CAR (%)	20.6	21.6	1.0	17.6	16.4	-1.2
Tier 1 CAR (%)	17.8	19.6	1.8	16.2	15.2	-1.0
Assets/Capital (Times)	9.9	10.4	0.5	8.7	10.0	1.3
NPLs net of Provisions to Capital (%)	25.7	15.5	-10.2	1.3	1.9	0.6

Source: CBB.

5.3 Asset Quality

5.3.1 Non-Performing Facilities

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

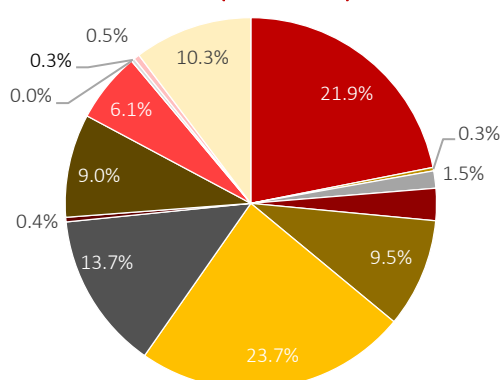
Non-performing facilities (NPF) ratio for Islamic retail banks decreased to 5.5% in June 2021. Specific provisioning increased to 52.4% in June 2021 from 40.7% in June 2020. As of end-June 2021, NPF ratio for Islamic wholesale banks rose to 1.8%. Provisioning for NPFs remained at 78.6% over the same period.

Table 5.2: Islamic Banks' NPF Ratios

Indicator *	Retail			Wholesale		
	Q2 2020	Q2 2021	Change	Q2 2020	Q2 2021	Change
NPFs (% Gross Facilities)	7.5	5.5	-2.0	1.4	1.8	0.4
Specific Provisions (% of NPFs)	40.7	52.4	11.7	78.6	78.6	0.0

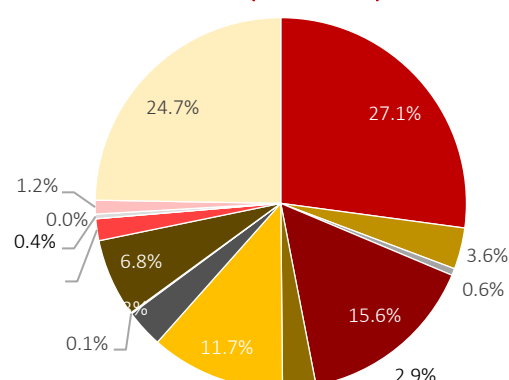
Source: CBB.

Chart 5.1: IR Banks' NPLs Concentration by Sector (June 2021)



Source: CBB.

Chart 5.2: IW Banks' NPLs Concentration by Sector (June 2021)



Source: CBB.

- Manufacturing
- Agriculture, fishing and forestry
- Financial
- Personal / Consumer finance
- Commercial real estate financing
- Government
- Transport

- Mining and quarrying
- Construction
- Trade
- Credit Card
- Residential mortgage
- Technology, media and telecommunications
- Other sectors

Looking at the data on the concentration of NPFs for Islamic retail banks by sector indicates that the majority of NPLs are concentrated and come from the trade sector (23.7%), manufacturing (21.9%), personal/consumer finance (13.7%) as indicated in chart 5.1. As for Islamic wholesale banks, the majority of NPFs are concentrated and come from manufacturing (27.1%), construction (15.6%), and other sectors (24.7%) as indicated in chart 5.2.

A look at the non-performing facilities by sector for Islamic retail banks indicates that the agriculture, fishing and forestry sector had the highest impairment (36.4%) in June 2021 followed by trade and manufacturing with 19.0% and 12.2% respectively. The biggest declines in NPFs by sector was in the construction sector which went down by 13.9%. The biggest increase in NPFs was in the agriculture, fishing and forestry sector with an increase of 16.8% as indicated in table 5.3.

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

Sector	Retail			Wholesale		
	Q2 2020	Q2 2021	Change	Q2 2020	Q2 2021	Change
Manufacturing	14.1	12.2	-1.9	7.3	7.3	0.0
Mining and quarrying	3.3	4.0	0.7	16.0	22.1	6.1
Agriculture, fishing and forestry	19.6	36.4	16.8	16.1	5.2	-10.9
Construction	18.2	4.3	-13.9	12.4	11.0	-1.4
Financial	6.8	4.5	-2.3	1.2	0.9	-0.3
Trade	16.2	19.0	2.8	10.5	10.5	0.0
Personal / Consumer finance	5.6	4.1	-1.5	2.1	1.9	-0.2
Credit Card	5.8	2.5	-3.3	3.4	2.6	-0.8
Commercial real estate financing	6.2	4.3	-1.9	8.8	21.6	12.8
Residential mortgage	2.1	2.0	-0.1	1.8	2.0	0.2
Government	0.0	0.0	0.0	0.0	0.0	0.0
Technology, media and telecommunications	5.7	3.7	-2.0	6.8	36.2	29.4
Transport	17.2	5.5	-11.7	6.0	5.3	-0.7
Other sectors	9.0	6.0	-3.0	14.5	17.2	2.7

Source: CBB.

On the other hand, the sector with the highest impairment for Islamic wholesale banks was the technology, media and telecommunications sector with 36.2% in June 2021, up from the 6.8% recorded in June 2020. This was followed by the mining and quarrying and commercial real estate financing with 22.1% and 21.6% respectively. Available data on the sectoral breakdown of non-performing facilities shows that the biggest increase was in the technology, media and telecommunications sector with an increase of 29.4%. The biggest drop was in agriculture, fishing and forestry sector with a decrease of 10.9% from 16.1% in June 2020 to 5.2% in June 2021.

5.3.2 Facilities Concentrations

Loan portfolios remain concentrated

There has been some diversification in the asset concentration among most of the sectors in Islamic retail banks. At the end of June 2021, the top recipient of financing was personal/consumer finance (18.4%), an increase from 17.7% recorded in June 2020. The top two recipients of financing (personal/consumer finance and residential mortgage) accounted for 34.9% of total facilities extended, compared to 32.3% for the top two sectors in June 2020. Real estate/construction exposure increased to 31.4% in June 2021.

At End- June 2021, the manufacturing sector was the top recipient of financing from Islamic wholesale banks, at 23.9%, decreasing by 0.4% from June 2020. The construction sector saw the largest decrease from 9.8% in June 2020 to 9.1% in June 2021. Real estate/ construction exposure decreased from 18.1% in June 2020 to 17.2% in June 2021.

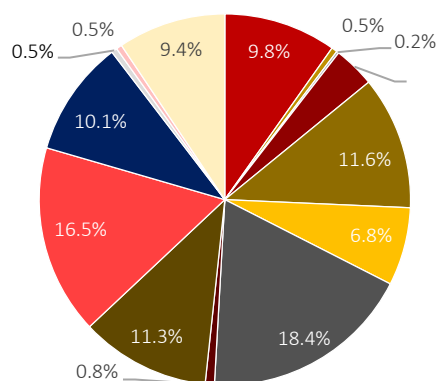
Table 5.4: Islamic Banks' Lending Distribution by Sector (% Total Facilities)

Sector	Retail			Wholesale		
	Q2 2020	Q2 2021	Change	Q2 2020	Q2 2021	Change
Manufacturing	10.4	9.8	-0.6	24.3	23.9	-0.4
Mining and quarrying	0.7	0.5	-0.2	1.0	1.1	0.1
Agriculture, fishing and forestry	0.4	0.2	-0.2	0.8	0.8	0.0
Construction	3.7	3.6	-0.1	9.8	9.1	-0.7
Financial	12.4	11.6	-0.8	19.7	20.0	0.3
Trade	9.0	6.8	-2.2	7.8	7.2	-0.6
Personal / Consumer finance	17.7	18.4	0.7	10.9	11.3	0.4
Credit Card	0.9	0.8	-0.1	0.3	0.3	0.0
Commercial real estate financing	11.1	11.3	0.2	2.1	2.0	-0.1
Residential mortgage	14.6	16.5	1.9	6.3	6.1	-0.2
Government	9.1	10.1	1.0	6.9	7.5	0.6
Technology, media and telecommunications	0.4	0.5	0.1	0.4	0.1	-0.3
Transport	0.5	0.5	0.0	1.6	1.4	-0.2
Other sectors	9.2	9.4	0.2	8.1	9.2	1.1
Top two recipient sectors	32.3	34.9	2.6	44.0	43.9	-0.1
Real Estate/ Construction Exposure**	29.3	31.4	2.1	18.1	17.2	-0.9

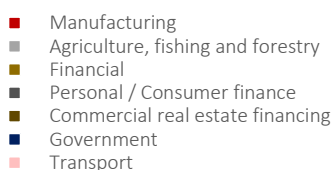
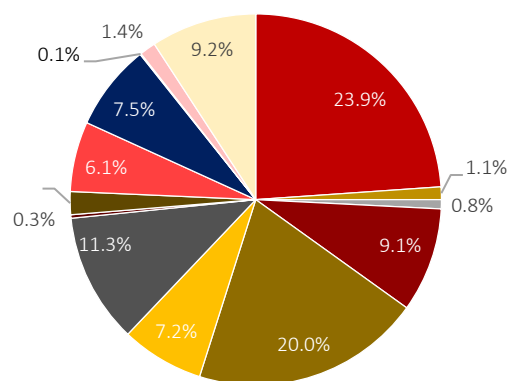
Source: CBB.

*Figures may not add to a hundred due to rounding

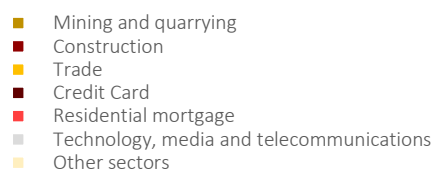
** Real Estate/ Construction exposure is calculated as the share of the Construction, Commercial real estate financing and Residential Mortgages sectors of total lending.

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

Source: CBB.

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

Source: CBB.



The concentration of lending distribution by Islamic instrument remained the same over the past. At the end of June 2021, the top recipient of finance for Islamic retail banks was Murabaha at 51.0% followed by Ijarah 28.6%. As for wholesale banks, the top recipient of finance was Murabaha at 65.3%.

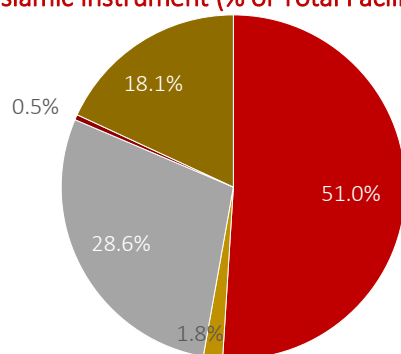
Table 5.5: Islamic Banks' Lending Distribution by Islamic Instrument (% of Total Facilities)

Instrument	Retail			Wholesale		
	Q2 2020*	Q2 2021*	Change	Q2 2020*	Q2 2021*	Change
Murabaha	51.3	51.0	-0.3	69.4	65.3	-4.1
Istisna'a	0.0	1.8	1.8	3.0	3.3	0.3
Ijarah	32.5	28.6	-3.9	1.8	1.1	-0.7
Salam	0.0	0.5	0.5	1.3	1.2	-0.1
Others	16.1	18.1	2	24.5	29.1	4.6

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

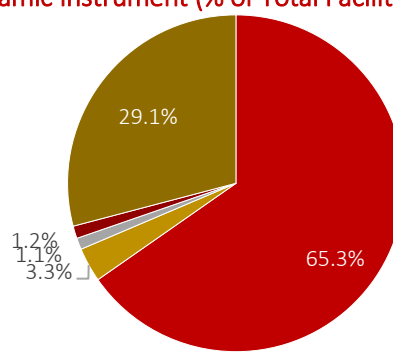
Source: CBB.

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



Source: CBB.

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



Source: CBB.

■ Murabaha ■ Istisna'a ■ Ijarah ■ Salam ■ Others

5.4 Profitability

Improvement in earnings for Islamic banks

ROA for Islamic retail banks increased to 0.3% in June 2021 compared to 0.2% in June 2020. ROE also increased from 2.1% to 3.9% for the same period. Furthermore, operating expenses decreased from 83.7% in June 2020 to 71.6% in June 2021. As for Islamic wholesale banks, ROA increased from 0.0% in June 2020 to 0.4% in June 2021. ROE also increased from -0.5% to 4.7% in the same period. Furthermore, operating expenses (as % of total income) decreased from 94.3% in June 2020 to 68.5% in June 2021.

Table 5.6: Islamic Banks' Profitability (%)

Indicator	Retail			Wholesale		
	Q2 2020*	Q2 2021*	Change	Q2 2020*	Q2 2021*	Change
ROA*	0.2	0.3	0.1	0.0	0.4	0.4
ROE**	2.1	3.9	1.8	-0.5	4.7	5.2
Operating expenses (% total operating income)	83.7	71.6	-12.1	94.3	68.5	-25.8

Source: CBB.

* ROA = ratio of net income to assets.

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

5.5 Liquidity

Liquidity remains remain stable for Islamic retail and wholesale banks

The volume of liquid assets available to Islamic retail banks increased from 17.3% of total assets in June 2020 to 19.4% in June 2021. The ratio of total facilities to deposits decreased from 79.1% in June 2020 to 76.2% in June 2021.

As of end- June 2021, liquid assets of Islamic wholesale banks represented 18.8% of total assets, 2.3% higher than the 16.5% registered in June 2020. Additionally, the facilities deposit ratio decreased from 65.6% in June 2020 to 64.0% in June 2021.

Table 5.7: Islamic Banks' Liquidity (%)

Indicator	Retail			Wholesale		
	Q2 2020*	Q4 2021*	Change	Q2 2020*	Q4 2021*	Change
Liquid Assets (% of total assets)	17.3	19.4	2.1	16.5	18.8	2.3
Facilities – deposits ratio (%)	79.1	76.2	-2.9	65.6	64.0	-1.6

Source: CBB.

Part III:

DEVELOPMENT IN THE NON-BANKING FINANCING SECTOR



6 PERFORMANCE OF THE INSURANCE SECTOR

HIGHLIGHTS

Insurance Licenses	Contribution to GDP	Contribution to Financial Sector
134	5.6%	32.3%
Asset of Conv. Insurance	Assets of Takaful Insurance	Gross Premiums
BD 2,202 mn	BD 207.8 mn	BD 80.7 mn

- Conventional firms account for 67.2% of total insurance industry with BD 80.7 million in total gross premiums as of March 2021. General insurance contributes for 80.1% of total gross premiums.
- Local Conventional insurance firms' performance is concentrated on Motor business line, and Takaful is concentrated in Long-term (Life) and Motor business lines.
- Overseas insurance firms' performance is concentrated on Long-term (Life) and Motor business lines.

6.1 Overview

This chapter highlights the overall performance of the insurance industry in Bahrain by looking at two main insurance segments: conventional and takaful, their different business lines, and classes.⁶ The conventional sector is further divided into local and overseas/branch firms.⁷

A significant number of insurance companies and organizations have established their presence in Bahrain. As of June 2021, there are a total of 134 insurance organizations licensed and registered in the Kingdom. There are 32 insurance companies: 16 conventional local, 10 conventional overseas/foreign branches, and 6 takaful. From these companies, 2 companies are conventional re-insurance firms and 2 re-takaful firms. These institutions offer all basic and modern insurance services such as medical and health insurance and long-term insurance (life and savings products). The remaining 102 other registered insurance licenses include 35 Insurance Brokers, 4 Insurance Managers, 3 Insurance Consultants, 16 Insurance Firms, brokers and consultants restricted to business outside Bahrain, 30 Registered Actuaries, 12 Registered loss Adjusters, and 2 Insurance Pools and Syndicates.

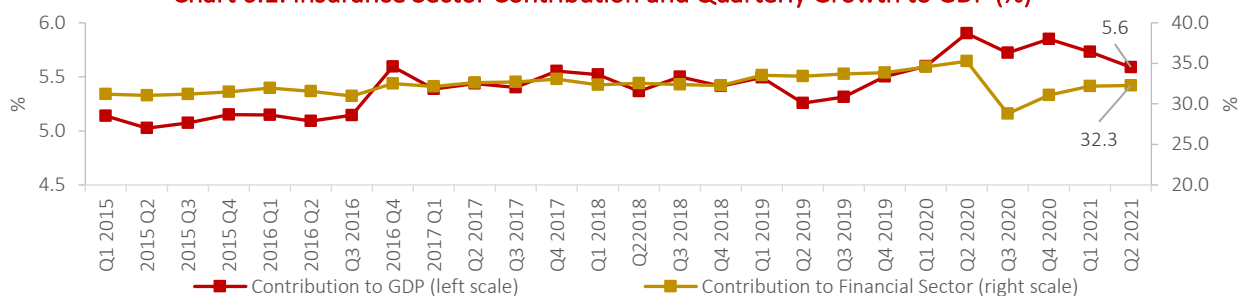
The insurance industry continued to grow during the past few years. The insurance industry has been growing steadily in recent years, mirroring the growth of Bahrain's financial sector, the increased access to financial services and products has led to demand for insurance services. A notable development in recent years has been international insurers developing their regional operations, many of whom have chosen Bahrain as their regional base. Insurance contribution increased to 5.4% of GDP by end of 2017, 5.5% by end of 2018, 5.4% by end of 2019, and 5.8% by end of 2020. For Q2 2021, the insurance sector represented 5.6% of the real GDP and the contribution of the Insurance sector to the overall financial

⁶ Takaful companies are companies conducting takaful business in line with Islamic principles. Overseas insurance companies are branches of foreign companies.

⁷ Chapter 6 covers the period between Q1 2020 and Q1 2021, unless otherwise indicated.

sector has increased representing 32.3%. Chart 6.1 shows the quarterly contribution of the Insurance sector to GDP along with the contribution of the insurance sector to the financial sector.

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



Source: IGA.

6.2 Financial Position and Profitability of Insurance Sector

As of March 2021, total assets of the Insurance sector reached BD 2,409.5 million with a decrease of 0.8% compared to BD 2,427.8 million in March 2020. Total liabilities had a decrease of 3.6% over the same period reaching BD 1,766.7 million.

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

BD'000	Total Assets*		Total Liabilities*		Capital Available*		Net Profit*	
	Q1 2020	Q1 2021	Q1 2020	Q1 2021	Q1 2020	Q1 2021	Q1 2020	Q1 2021
Conventional	2,219,963	2,201,744	1,700,909	1,632,024	297,893	320,191	2,044	9,195
Local	1,969,238	1,974,093	1,488,344	1,439,643	264,491	287,191	(339)	7,886
Overseas	250,725	227,651	212,565	192,380	,403	33,000	2,383	1,309
Takaful	207,794	207,787	131,950	134,629	59,336	53,816	1,289	1,818
All Insurance	2,427,757	2,409,531	1,832,859	1,766,653	357,229	374,006	3,332	11,013

*For takaful it only includes Shareholder figures.

Source: CBB.

Total available capital⁸ increased from 357.2 BD million in March 2020 to 374.0 BD million in March 2021. Profitability on the other hand, increased between March 2020 and March 2021 reaching BD 11.0 million.

6.2.1 Conventional Insurance Firms

As of March 2021, total assets of the conventional insurance sector stood at BD 2,201.7 million decreasing by 0.8% compared to the BD 2,220.0 million registered in March 2020. Total assets of local insurance Firms were BD 1,974.1 million (81.9% of total assets) with a growth rate of 0.2% since March 2020. Total assets of overseas foreign branches were BD 227.7 million (9.4% of total assets) recording a decline of 9.2%.

The liabilities of the conventional insurance sector registered at BD 1,632.0 million with a 4.0% decrease from the BD 1,700.9 million in March 2020. Liabilities for local insurance firms registered at BD 1,439.6 million decreasing by 3.3%. Liabilities of overseas foreign branches were BD 192.4 million in March 2021 with a decrease of 9.5%.

Available Capital: Total capital as of March 2021 was at BD 320.2 million increasing by 7.5% from the BD 297.9 million in the equivalent period of the previous year. Total available capital for local insurance was BD 287.2 with a YoY increase of 8.6%. Total available capital for overseas foreign branches decreased by 1.2% from BD 33.4 million in March 2020 to BD 33.0 million in March 2021.

Net profit increased for conventional insurance firms from BD 2.0 million in March 2020 to a profit of BD 9.2 million in March 2021. Net profit for local insurance was BD 7.9 million with a YoY increase of 2,426.3%. Net profit for overseas insurance was BD 1.3 with a year-to-year decrease of 45.1%.

⁸ As per CBB Rulebook, equity is a regulatory equity, which means encompasses Tier 1 Capital, Tier 2 Capital and deduction.

6.2.2 Takaful Insurance Firms

Total assets in Takaful firms in March 2021 were stable at BD 207.8 million. The liabilities increased by 2.0% from BD 132.0 million in March 2020 to BD 134.6 million in March 2021. Total regulatory capital experienced an annual decrease of 9.3% from BD 59.3 million in March 2020 to BD 53.8 million in March 2021. As for net profits, Takaful companies showed a 41.0% increase in profits between March 2020 and March 2021 reaching BD 1.8 million.

6.3 Insurance Premiums and Claims Analysis

The Insurance products and services in the Kingdom are delivered via two main insurance classes: Life and non-life insurance.⁹

Gross Premiums for the insurance sector stood at BD 80.7 million, increasing by 6.8% YoY. Conventional insurance represented 67.2% of total gross premiums (local and branches represented 50.2% and 17.0% respectively) while takaful accounted for 32.8% of gross premiums. As of March 2021, life insurance represented 19.9% of gross premiums while non-life/general insurance represented 80.1% covering the various classes (Graph 6.2).

Looking at the performance by class, Marine and Aviation category experienced the greatest decline within the rest of the insurance business line, with an annual decrease of 14.1%, followed by Miscellaneous and Financial Loss and Motor, decreasing by 12.4% and 9.3% respectively. On the other hand, Life and Engineering insurance experienced an annual increase by 28.2% and 19.9% during the same period. The top 3 business lines sectors represented 82.3% of total gross premiums. High concentration within these sectors can be explained by Banks imposing an obligatory requirement on customers to have a life insurance prior to getting specific loans, third party motor insurance being mandatory, and many institutions providing their employees with health insurance.

As of March 2021, Net Premiums Written increased compared to the previous period registering a value of BD 55.9 million. The long-term (life) class showed the biggest increase over the period increasing by 29.8%, from BD 10.9 million in March 2020 to BD 14.1 million in March 2021. On the other hand, the biggest decline was derived from Motor class, decreasing from BD 19.4 million in March 2020 to BD 17.6 million in March 2021.

However, Gross Claims for the overall insurance industry recorded a YoY decrease of 1.8% from BD 38.8 million in March 2020 to BD 38.1 million in March 2021. The decrease was mainly due to a decrease in motor by BD 4.0 million from BD 14.3 million in March 2020 to BD 10.3 million in March 2021.

Net Claims for the overall insurance industry show a decrease of 6.8%, which was derived from an annual decrease in Motor by BD 4.3 million (33.7%). The greatest increase was recorded in Long-term (life) by BD 2.7 million (60.6%).

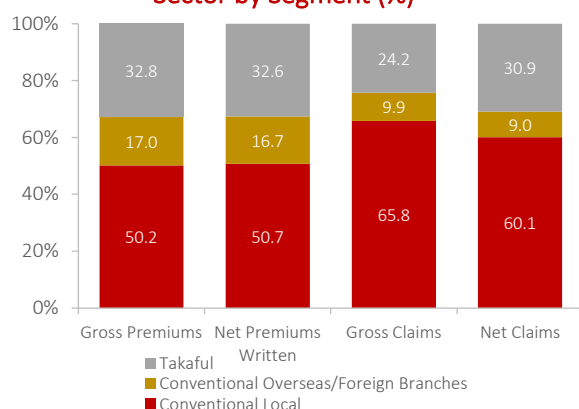
Table 6.2: Premiums and Claims for all Insurance Firms by Class— Bahrain Operations

BD '000	Gross Premiums		Net Premiums Written		Gross Claims		Net Claims	
	Q1 2020	Q1 2021	Q1 2020	Q1 2021	Q1 2020	Q1 2021	Q1 2020	Q1 2021
Long-term (Life)	12,556	16,099	10,878	14,116	5,204	8,788	4,519	7,256
Fire, Property & Liability	7,189	6,986	1,349	1,230	5,098	5,697	409	446
Miscellaneous Financial Loss	1,562	1,369	(13)	110	348	212	4	86
Marine & Aviation	1,531	1,315	358	351	321	125	62	91
Motor	20,027	18,174	19,384	17,550	14,320	10,288	12,765	8,460
Engineering	2,061	2,471	385	309	242	138	(74)	14
Medical	27,514	32,206	17,331	21,534	12,889	12,176	9,263	8,541
Others	3,143	2,122	1,579	729	369	686	29	244
Total	75,584	80,743	51,250	55,929	38,791	38,111	26,977	25,138

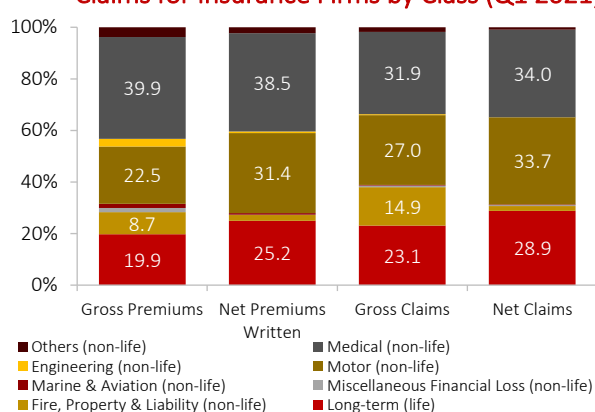
Source: CBB.

The concentrations of premiums and claims by class are viewed in Graph 6.3

⁹ Non-life or general insurance includes: Fire, Property & Liability, Miscellaneous Financial Loss, Marine & Aviation, Motor, Engineering, Medical and Others.

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

Source: CBB.

Chart 6.3: Concentrations of Premiums and Claims for Insurance Firms by Class (Q1 2021)

Source: CBB.

6.3.1 Conventional Insurance Firms

The Gross Premiums recorded for conventional insurance showed a YOY increase by BD 4.0 million (7.9%), where total gross premiums increased from BD 50.3 million in March 2020 to BD 54.3 million in March 2021 (Table 6.3). The greatest increases were from Long-term (life) by around BD 4.3 million (43.4%) and Medical by BD 2.7 million (16.0%). The largest YoY decline was by Other business classes with BD 1.0 million (50.4%). In terms of concentration, Long-term (life) and Medical business classes represented 36.4% and 26.4% respectively of the total gross premiums.

Net Premiums Written reflected an annual increase by 9.7% compared to March 2020. The greatest increase was from Long-term (life) by around BD 4.0 million. Long term (life) insurance remained the largest in terms of Net Premiums Written concentration as well, accounting for 34.4%.

Gross Claims increased by 2.4% YoY in March 2021 due to an increase in Long-term (life) from BD 4.9 million in March 2020 to BD 8.2 million by March 2021. The highest share in gross claims was Long-term (life) 28.2%, followed by Medical at 27.1%.

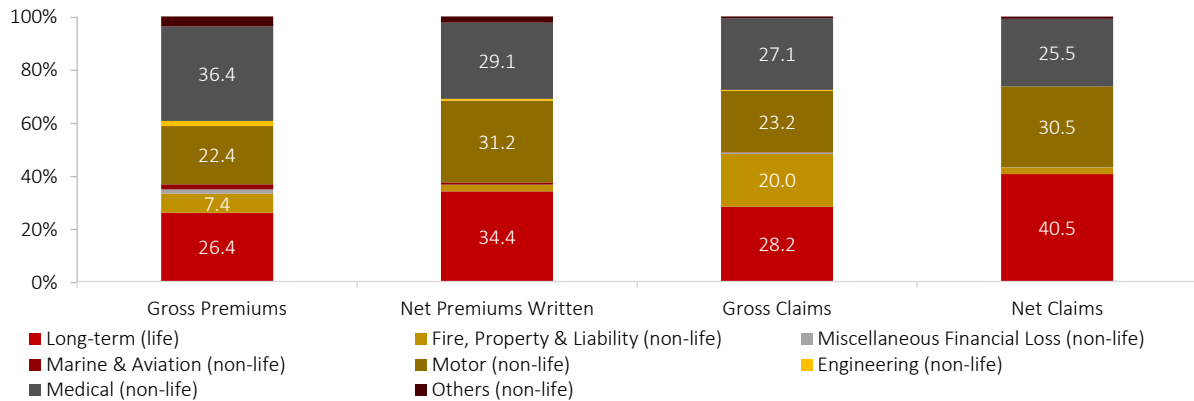
Net Claims on the other hand, experienced an annual decrease of 0.7% from BD 17.5 million in March 2020, reaching BD 17.4 million in March 2021. Others business line decreased by 1171.4%. Nonetheless, the concentration falls heavily within the Long-term (life) insurance class, accounting for 40.5% of the total net claims.

Table 6.3: Premiums and Claims for Conventional Insurance by Class

BD '000	Gross Premiums		Net Premiums Written		Gross Claims		Net Claims	
	Q1 2020	Q1 2021	Q1 2020	Q1 2021	Q1 2020	Q1 2021	Q1 2020	Q1 2021
Long-term (Life)	10,007	14,348	9,001	12,980	4,869	8,152	4,354	7,040
Fire, Property & Liability	4,298	4,010	1,089	917	4,900	5,766	370	443
Miscellaneous Financial Loss	977	910	32	54	(72)	141	(5)	22
Marine & Aviation	1,162	1,077	341	318	162	25	51	2
Motor	13,585	12,129	13,213	11,773	10,336	6,705	8,585	5,290
Engineering	1,364	1,102	263	256	118	89	(108)	(6)
Medical	17,018	19,745	9,091	10,988	7,520	7,821	4,260	4,426
Others	1,901	943	1,319	408	383	182	(14)	150
Total	50,312	54,264	34,349	37,695	28,217	28,882	17,494	17,367

Source: CBB.

Medical insurance had the highest exposure in Gross Premiums (36.4%). Whereas, Long-term (life) had the highest exposure in Net Premiums Written (34.4%), Gross Claims (28.2%) and Net Claims (40.5%).

Chart 6.4: Concentrations of Premiums and Claims for Conventional Insurance by Class (Q3 2020)

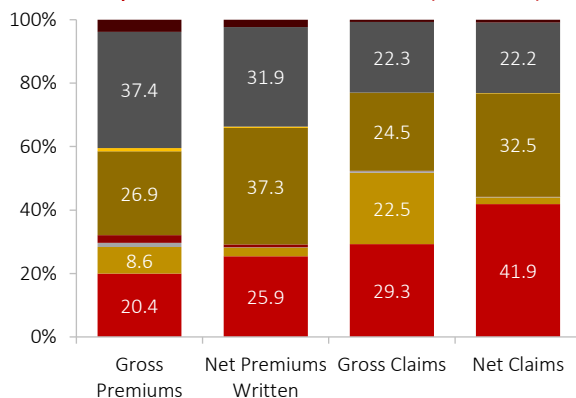
Source: CBB.

Table 6.4 below and Charts 6.6 and 6.7 shows a further division of the premiums and claims by class between Local and Overseas firms within the conventional insurance industry for March 2021. For local conventional insurance, medical insurance has the highest concentration for Gross Premiums (37.4%), Motor has the highest concentration in Net Premiums Written (37.3%), and Long-term (life) has the highest concentration in Gross Claims (29.3%), and Net Claims (41.9%).

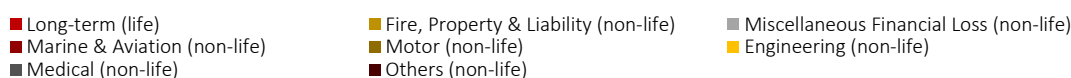
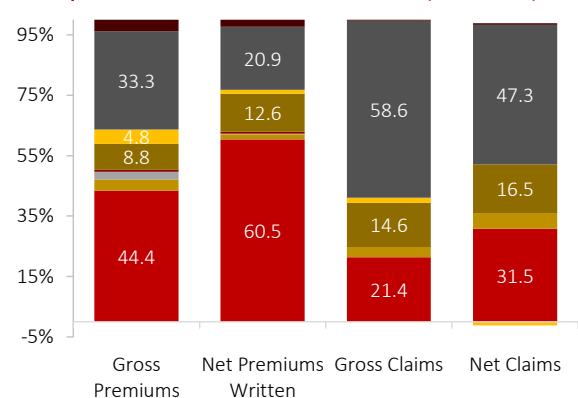
Table 6.4: Premiums and Claims for Conventional Local and Overseas Insurance by Class (Q1 2021)

BD '000	Gross Premiums		Net Premiums Written		Gross Claims		Net Claims	
	Local	Overseas	Local	Overseas	Local	Overseas	Local	Overseas
Long-term (Life)	8,251	6,096	7,342	5,637	7,342	810	6,324	716
Fire, Property & Liability	3,487	522	763	154	5,638	128	322	120
Miscellaneous Financial Loss	547	364	35	19	140	1	21	1
Marine & Aviation	988	89	255	63	24	1	6	(4)
Motor	10,920	1,209	10,596	1,177	6,153	552	4,914	375
Engineering	439	662	133	123	25	64	17	(24)
Medical	15,166	4,579	9,045	1,943	5,600	2,221	3,352	1,074
Others	723	220	207	202	171	11	140	11
Total	40,522	13,742	28,376	9,318	25,093	3,788	15,097	2,270

Source: CBB.

Chart 6.5: Concentrations of Premiums and Claims by Class for Local Insurance (Q1 2021)

Source: CBB.

**Chart 6.6: Concentrations of Premiums and Claims by Class for Overseas Insurance (Q1 2021)**

Source: CBB.

6.3.2 Takaful Insurance Firms

The Gross Premiums for Takaful companies increased on a YoY basis by 4.8%, from BD 25.3 million at March 2020 reaching BD 26.5 million in March 2021. The largest increase was attributed to Medical increasing by BD 2.0 million (18.7%). Medical Insurance line also recorded the highest contributor towards total Takaful gross premiums, accounting for 47.1% of the total.

Net Premiums Written increased by 7.9% from March 2020 to March 2021, reaching BD 18.2 million. Medical and Motor insurance accounted for the largest components in terms of gross claims, representing 57.8% and 31.7% of the total net premiums written.

Gross Claims decreased by 12.7% compared from March 2020 to March 2021, with Medical registering the largest decrease (BD 1.0 million) within the same period. Medical and Motor insurance accounted for the largest components in terms of gross claims, representing 47.2% and 38.8% of the total gross claims.

Net Claims recorded an annual decrease of 18.0% at March 2021, with Motor having the highest decrease of 24.2% respectively. Furthermore, Medical and Motor representing the largest components of net claims, accounting for 52.9% and 40.8% from the total respectively.

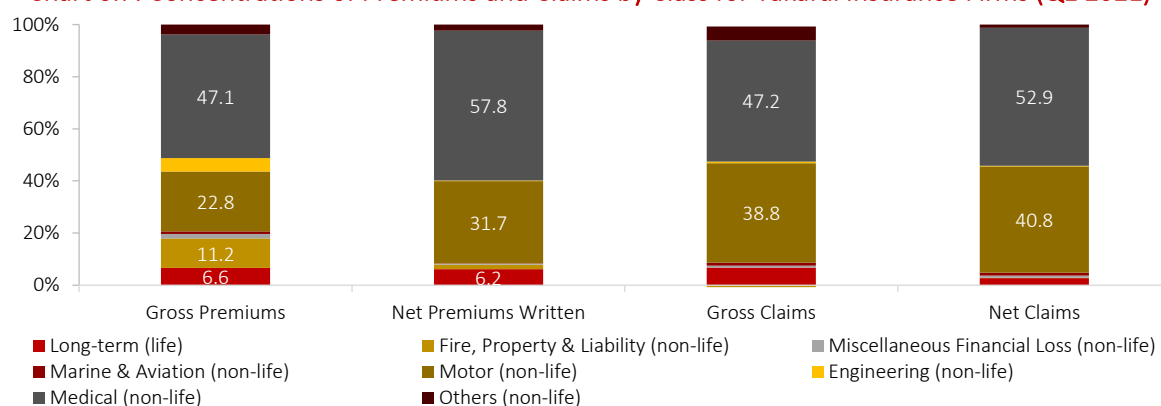
Table 6.5: Premiums and Claims by Class for Takaful Insurance Firms

BD '000	Gross Premiums		Net Premiums Written		Gross Claims		Net Claims	
	Q1 2020	Q1 2021	Q1 2020	Q1 2021	Q1 2020	Q1 2021	Q1 2020	Q1 2021
Long-term (Life)	2,550	1,751	1,136	1,136	335	637	165	216
Fire, Property & Liability	2,891	2,976	260	313	198	(70)	39	3
Miscellaneous Financial Loss	585	459	(44)	56	420	71	9	64
Marine & Aviation	370	238	17	33	158	100	10	89
Motor	6,442	6,045	6,170	5,777	3,984	3,583	4,180	3,170
Engineering	697	1,369	122	53	123	49	34	20
Medical	10,496	12,461	8,240	10,546	5,368	4,355	5,004	4,115
Others	1,242	1,179	259	321	(14)	504	42	94
Total	25,272	26,479	16,902	18,235	10,574	9,229	9,483	7,772

Source: CBB.

Takaful insurance companies have very high concentration on the Medical and Motor Insurance business lines. Gross Premiums for both sectors combined represents (69.9%), Net Premiums Written (89.5%), Gross Claims (86.0%), and Net Claims (93.7%).

Chart 6.7: Concentrations of Premiums and Claims by Class for Takaful Insurance Firms (Q1 2021)



Source: CBB.

6.3.3 Retention Ratio and Loss Ratio (By Class)

Life insurance business line registered a retention ratio of 87.7% in March 2021. Observing the non-life insurance, Medical and Motor, that accounted for 62.4% each of the total Gross Premiums in March 2021 respectively, registered retention ratios of 96.6% for Motor and 66.9% for Medical. Nevertheless,

retention ratios were significantly lower for other business lines such as Miscellaneous Financial Loss and Engineering, registering 8.1% and 12.5% respectively.

Table 6.6: Retention and Loss Ratios of Overall Insurance Sector

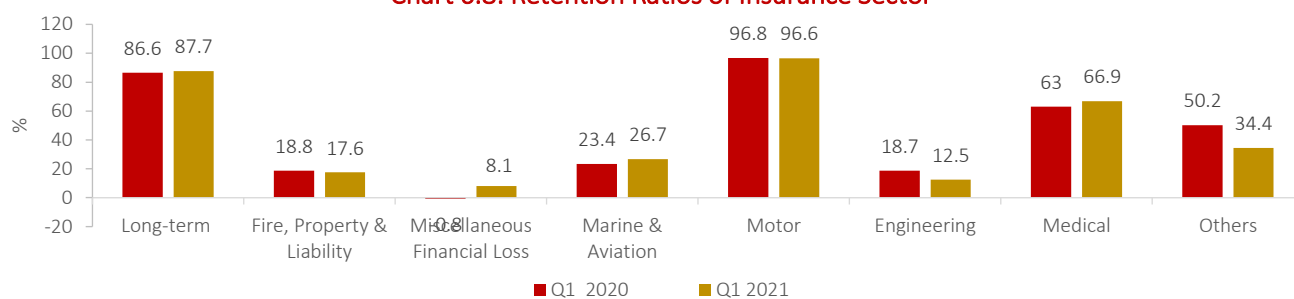
%	Retention Ratio ¹		Loss Ratio ²	
	Q1 2020	Q1 2021	Q1 2020	Q1 2021
Long-term	86.6	87.7	46.5	56.0
Fire, Property & Liability	18.8	17.6	25.0	33.6
Miscellaneous Financial Loss	-0.8	8.1	4.5	87.7
Marine & Aviation	23.4	26.7	17.7	29.7
Motor	96.8	96.6	67.4	49.8
Engineering	18.7	12.5	-24.4	6.6
Medical	63.0	66.9	78.3	73.2
Others	50.2	34.4	4.1	43.1

1. Net Premiums Written / Gross Premiums

2. Net Claims Incurred / Net Premiums Earned

Source: CBB.

Chart 6.8: Retention Ratios of Insurance Sector



Source: CBB.



PERFORMANCE OF NON-BANK FINANCIAL INSTITUTIONS

HIGHLIGHTS

# of Investment Businesses	Investment Businesses Assets	Assets Under Management
51	BD 452 mn	BD 11,180 mn
# of Money Changers	Money Changers Purchase	Money Changers Sale
18	BD 7,023 mn	BD 8,002 mn

- Total assets of Investment Businesses increased by 9.7%.
- Category 1 Investment Business recorded huge profits after recovering from major losses.
- 86.4% of all currency transactions of money changers were in Asian and non-GCC Arab currencies for Q2 2021.

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

Chapter 7 covers the period between Q2 2020 and Q2 2021, unless otherwise indicated.

A significant number of investment businesses and money changers have established their presence in Bahrain. As of June 2021, there are a total of 51 investment business firms and 18 money changer organizations licensed and registered in the Kingdom.

Investment firms can be further broken-down into:

- 24 Category 1 firms,
- 13 Category 2 firms, and
- 14 Category 3 firms.¹⁰

¹⁰ Category 1 firms may undertake any regulated investment service, as listed below: a) Dealing in financial instruments as principal; b) Dealing in financial instruments as agent; c) Arranging deals in financial instruments; d) Managing financial instruments; e) Safeguarding financial instruments (i.e. a custodian); f) Advising on financial instruments g) Operating a collective investment undertaking (i.e. an operator). Category 2 firms may undertake the same regulated services except "a)". Category 3 firms may only undertake "c)" and "f)".

7.1 Investment Businesses

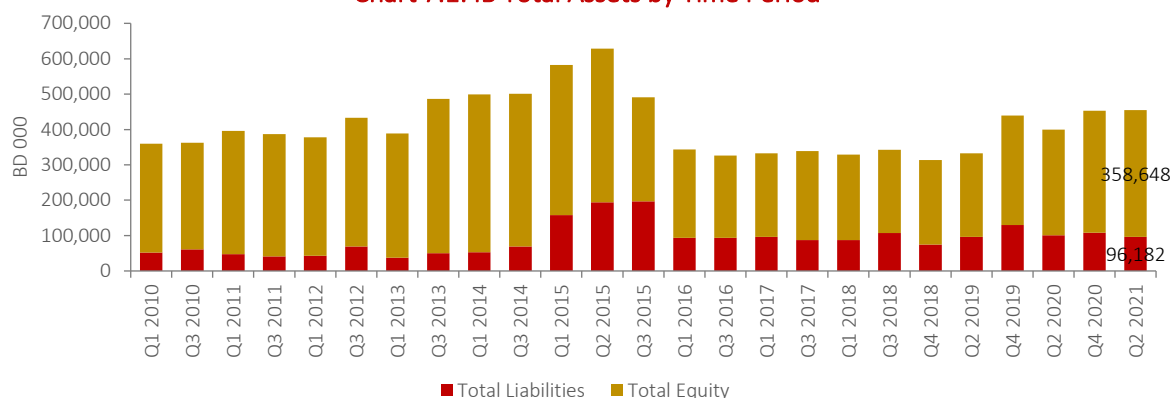
Total assets for investment businesses peaked in June 2015 reaching BD 628.8 million, but since the beginning of 2016 have stabilized around BD 330 million (Chart 7.1). In June 2021, total assets of investment businesses increased by 9.7% to BD 452.5 million from BD 412.4 million in June 2020. During the same period, total liabilities decreased by BD 5.8 million (5.7%) and total equity increased by BD 55.3 million (18.2%). These growths are mainly due to the conversion of a few wholesale banks to investment businesses.

Table 7.1: IB Total Assets by Category

BD '000	Total Assets		Total Liabilities		Total Equity	
	Q2 2020	Q2 2021	Q2 2020	Q2 2021	Q2 2020	Q2 2021
Category 1	364,431.0	404,180.0	92,535.8	87,475.2	266,972.7	316,704.8
Category 2	35,710.5	41,139.6	7,211.2	6,484.5	30,448.8	34,954.1
Category 3	12,297.2	7,171.7	2,195.9	2,222.3	5,892.7	6,988.8
Total	412,438.6	452,491.3	101,942.8	96,182.0	303,314.2	358,647.7

Source: CBB.

Chart 7.1: IB Total Assets by Time Period



Source: CBB.

7.1.1 Assets Under Management

Between June 2020 and June 2021, total assets under management increased by 13.7% from BD 9,832.4 million to BD 11,180.2 million. Assets under management of residents increased by 15.9% from BD 5,529.7 million in June 2020 to 6,407.6 million in June 2021. Non-residents' assets under management recorded a 10.9% increase from June 2020 reaching BD 4,772.8 million.

Table 7.2: Assets under Management

BD '000	Q2 2020	Q4 2020	Q2 2021	YoY % Change
AUM - Residents	5,529,696.3	7,203,350.6	6,407,601.5	15.9
AUM - Non-Residents	4,302,763.6	3,859,126.9	4,772,788.6	10.9
Total AUM	9,832,432.9	11,062,477.4	11,180,220.5	13.7

Source: CBB.

7.1.2 Profitability

Profits of category 1 investment businesses recovered in the second quarter of 2021 after recording a major loss during the second quarter of 2020. The major growth in profits is mainly due to an individual firm that has recently changed its operating license from a wholesale bank to an investment business. Category 2 firms' profits increased by 327% from BD 0.45 million in June 2020 to BD 1.94 million in June 2021. Category 3 firms also recorded a decline in profitability for the second quarter of 2021 with a 97.4% drop (Table 7.3).

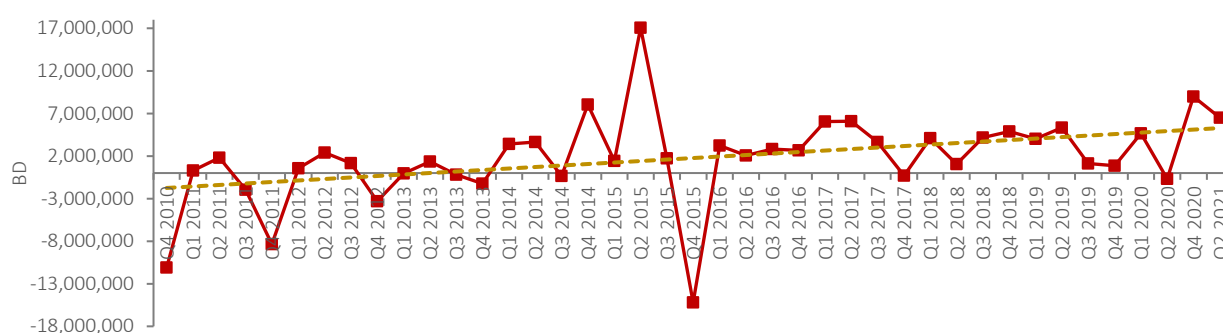
Table 7.3: IB Profitability by Category

BD '000	Q2 2020	Q4 2020	Q2 2021	YoY % Change
Category 1	-1,653.3	7,638.5	4,560.8	-
Category 2	453.7	834.8	1,935.2	326.5
Category 3	392.2	486.3	10.2	-97.4
Total	-807.4	8,959.7	6,506.2	-

Source: CBB.

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

Chart 7.2: IB Profitability (Q4 2010 – Q2 2021)



Source: CBB.

7.2 Money changers

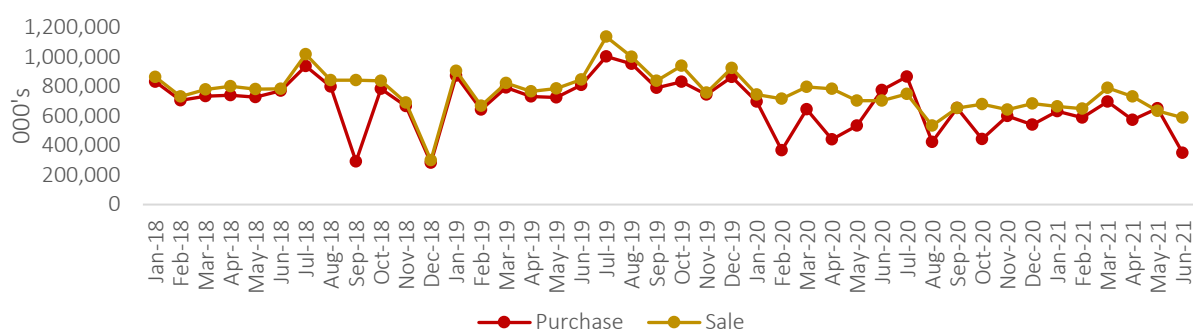
Between July 2020 and June 2021, money changers' purchase of foreign currencies amounted to BD 7.0 billion, while the sale of foreign currencies was recorded at BD 8.0 billion for the year. The month with the highest sale of currencies was March 2021, and the lowest month for sale of currencies was August 2020 (Table 7.3).

Table 7.3: Money Changers Total Turnover (Jul. 2020 – Jun. 2021)

BD 000's	Purchase	Sale
Jul. 2020	865,987.7	748,487.7
Aug. 2020	423,749.6	534,866.9
Sep. 2020	653,640.2	653,751.6
Oct. 2020	444,341.7	680,768.3
Nov. 2020	600,372.3	642,589.1
Dec. 2020	540,596.8	683,431.3
Jan. 2021	631,721.9	663,777.1
Feb. 2021	589,431.1	649,635.5
Mar. 2021	696,387.5	789,630.8
Apr. 2021	573,127.9	732,851.0
May 2021	652,228.8	633,771.6
Jun. 2021	351,200.8	588,532.6
Total	7,022,786.3	8,002,093.5

Source: CBB.

Chart 7-4: Money Changers Total Turnover (Jan. 2018 – Jun. 2021)



Source: CBB.

For the second quarter of 2021, money changers' purchase and sale of currencies stood at BD 1.58 billion and BD 1.96 billion, respectively. A breakdown of Money Changers turnover indicates that "Asian" currency group recorded the highest YoY increase in sales with 8.8%. The largest decline in sales was the "Other Arab" currency group recording a drop of 19.5%. As for purchases, the top YoY increase is also "GCC" with 306%, followed by "USD" with 34.1%. The largest decline in purchases was in "Other Arab" with a 34.3% drop.

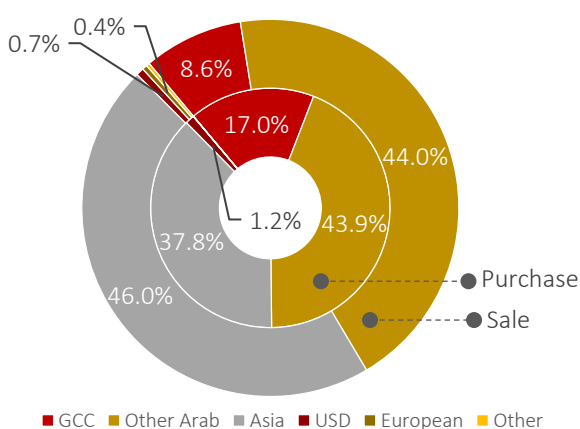
Table 7.4: MC Turnover by Currency Group

BD 000's	Purchase			Sale		
	Q2 2020	Q4 2020	Q2 2021	Q2 2020	Q4 2020	Q2 2021
GCC	66,046.0	239,491.6	268,011.3	267,056.0	243,040.5	167,426.6
Other Arab	1,054,669.9	388,840.6	692,775.1	1,069,674.8	606,916.9	860,810.8
Asia	615,223.1	938,889.2	596,045.0	827,094.3	1,124,581.6	899,945.8
USD	14,424.8	17,701.2	19,348.2	14,371.3	17,925.4	13,042.5
European	103.9	144.1	157.0	7,594.0	8,646.2	8,516.3
Other	288.9	244.2	220.8	5,534.9	5,678.3	5,413.2
Total	1,750,756.7	1,585,310.7	1,576,557.4	2,191,325.3	2,006,788.8	1,955,155.2

Source: CBB.

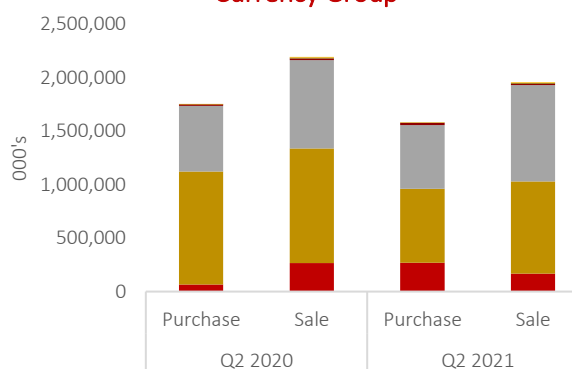
For the second quarter of 2021, only 12% of all purchase and sale of currencies were in GCC currencies, an increase from the 8.4% recorded in Q2 2020. The "Other Arab" currency group was the most exchanged with 44% of total purchase and sale of currencies in Q2 2021.

Chart 7.3: Money Changers Currency Group Purchase & Sale, Q2 2021 (% of Total)



Source: CBB.

Chart 7.4: Money Changers Total Turnover by Currency Group



Source: CBB.

7.3 Challenges & Risks in Non-Banking Financial Institutions

Investment business firms and money changers continued to face the challenges driven by the impact of the ongoing Covid-19 pandemic, including but not limited to, holding some of their projects and investments on hold due to the economic circumstances and uncertainties linked to the same at the global scale. The main challenges faced by the FIs can be summarized in two main points, liquidity issues and business opportunities.

Nonetheless, it has been noticed that some of the FIs have moved towards investing in sectors or taking positions in instruments that have leveraged from the pandemic.

In general, the licensees have shown an improvement as compared to the beginning of the pandemic in the sense that they have coped with the basic technological/technical business disruption issues that arose in the previous year.

The pandemic led most FIs to assign even greater priority to the digital transformation of front- and back-end operations with some money changers introducing new e-services to keep up with the market demands and the technological developments.

As with the previous period, the CBB has continued to provide its support to the licensees, when needed, by means of providing conditional waivers and extensions linked to the regulatory requirements that may not be met by the licensees due to the exceptional circumstances of the pandemic. It is worth mentioning that the CBB has been closely monitoring the overall liquidity and financial positions of the licensees during this period, with the aim of protecting the investors and maintaining a healthy sector.

Licensees are encouraged to continue taking the necessary measures to protect the health and safety of all staff and clients, by following the government of the Kingdom of Bahrain's instructions in relation to the disinfection of workplaces, working remotely and maintaining social distance, as issued by the Ministry of Health and the competent authorities.

7.4 Developments in Regulation and Initiatives

As part of the efforts to ensure that CBB regulatory framework is up to date and caters for the recent trends in the international financial markets, and as part of CBB's initiative to promote Venture Capital ("VC") fund managers and funds in Bahrain, after receiving demand and interest from the industry in this regard, the CBB has issued a consultation paper on a proposed new Category of Investment business firms (Category 4), under CBB Rulebook Volume 4, that will be mainly serving as operators of CIUs

The proposed Category 4 is for asset management firm specialized in operating and managing Collective Investment Schemes ("CIUs") in general, VC funds in specific. The proposal widens the scope of the Category 4 beyond VC funds to make it appealing to a wider base of applicants, like foreign investment boutiques that are specialized in operating and managing CIUs, as well as individuals who are experienced investment managers and investment bankers who wish to have their own CIU practice in Bahrain.

The CBB is also considering the below regulatory development initiatives during 2021:

1. Introduction of new rules on Venture Capital Funds.
2. Discussing a proposal to introduce a new rule that allows Investment Business Licensees to offer Crypto assets to their clients, subject to fulfilling specific regulatory requirements and subject to CBB prior written approval.

8 PERFORMANCE OF CAPITAL MARKETS

HIGHLIGHTS

# of Companies 43 June 2021	All Share Index 1,557.97 ▲ 24.3% YoY	Islamic Index 666.38 ▲ 11.7% YoY
Market Capitalization BD 9.9 bn ▲ 24.7% YoY	Value of Transactions BD 212.8 mn H1 2021	Volume of Transactions 1.21 bn H1 2021

- Increase in both the Bahrain All Share & Bahrain Islamic Index.
- Bahrain Bourse's market capitalization stood at BHD 9.89 bn by the first half, increasing from BHD 9.28 bn in end of 2020, resulting in an increase of 6.3%.
- Services Sector dominated the market trading activity as it had the highest value traded.
- Bahrainis represented 76.2% of the value of shares bought and 74.7% of value of shares sold during first half 2021.

8.1 Overview

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

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

As of end of first half 2021, Bahrain Bourse recorded a total listing of 43 Companies, 5 Mutual Funds, 16 Bonds and Sukuk and one REIT. During first half of 2021, there were 11 companies that closed higher and 21 closed lower and 11 remained unchanged. Commercial Banks sector remains the dominant sector in Bahrain Bourse in terms of market capitalization and trading activity accounting for 36.1% of total value traded during first half 2021 and making up 54.0% of the total market capitalization. Bahrain Bourse remains a highly concentrated market in terms of market capitalization as the largest 5 companies in terms of market capitalization are AUB, NBB, BATELCO, ALBH and BBK represent 69.3% of the total market.

8.2 Bahrain Bourse

8.2.1 All Share Index and Islamic Index Overview

Increase in market index

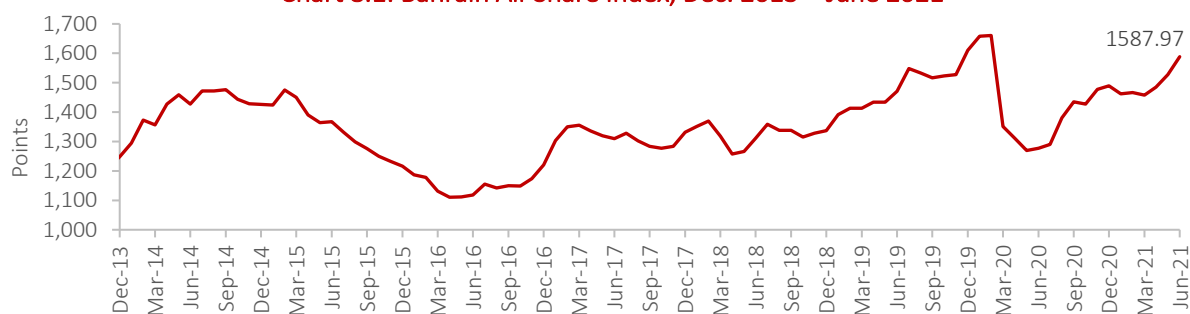
Bahrain All Share Index increased by 6.6% for the first half of 2021. During first half 2021, the index was generally decreasing for the first quarter and increasing during the second quarter as the lowest month-end close level was recorded in March at 1,458 points, and the highest month end close was recorded on June at 1,587 points.

Table 8.1: Key Indicators of Bahrain Bourse

Indicator	2014	2015	2016	2017	2018	2019	2020	H1 2021
All Share Index	1,426.6	1,215.9	1,220.5	1,331.7	1,337.3	1,610.2	1,489.8	1,588.0
Highest	1,476.0	1,474.8	1,220.5	1,356.0	1,369.9	1,610.2	1,668.7	1,596.1
Lowest	1,294.3	1,215.9	1,110.5	1,276.7	1,257.9	1,391.4	1,232.4	1,447.6
Market Cap (BD, million)	8,327.1	7,199.9	7,248.2	8,146.3	8,198.5	10,134.6	9,277.3	9,889.5
Total Value (BD million)	269.1	110.0	124.5	211.3	323.8	286.4	212.8	102.6
Total Volume (million)	1,126.1	515.6	734.4	1,129.8	1,441.1	1,157.3	1,209.3	915.3
No. of Transactions	16,211	11,248	10,592	19,440	19,225	20,712	19,309	10,030
No. of Companies Listed	47	47	46	44	43	44	44	43

Source: Bahrain Bourse.

Chart 8.1: Bahrain All-Share Index, Dec. 2013 – June 2021



Source: Bahrain Bourse.

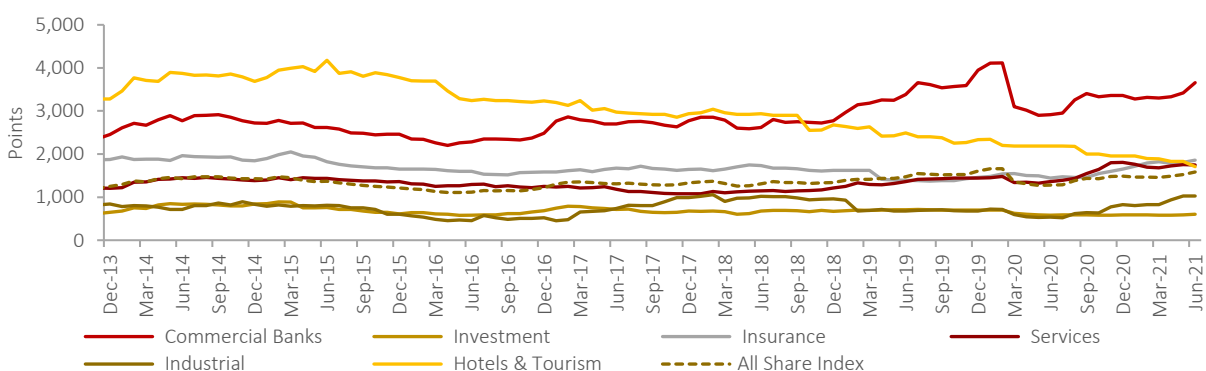
As for the sector indices, 1 sector closed lower and 5 sectors closed higher in first half 2021 compared to the first half of 2020. The Hotel & Tourism sector recorded the only decrease of 22.0%.

Table 8.2: Bahrain All Share Index by Sector

	2014	2015	2016	2017	2018	2019	2020	H1 2021
Commercial Banks	2,721.2	2,461.8	2,481.8	2,772.6	2,769.8	3,947.6	3,363.0	3,654.4
Investment	842.1	613.8	686.2	680.2	669.9	703.6	585.2	600.5
Insurance	1,844.7	1,653.6	1,585.6	1,645.8	1,619.9	1,458.3	1,654.5	1,857.7
Services	1,386.0	1,361.7	1,248.9	1,078.6	1,216.3	1,439.6	1,806.8	1,748.9
Industrial	830.9	606.1	524.3	986.5	960.8	674.1	823.1	1,026.9
Hotels & Tourism	3,687.6	3,779.2	3,237.5	2,940.3	2,677.7	2,336.1	1,958.1	1,708.1

Source: Bahrain Bourse.

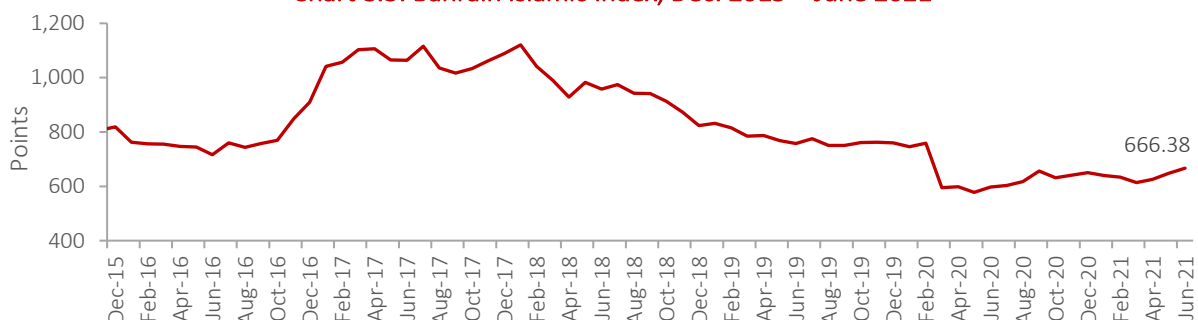
Chart 8.2: Sector Indices Levels & Returns, Dec. 2013 – Jun. 2021



Source: Bahrain Bourse.

In September 2015, Bahrain Bourse launched the Bahrain Islamic Index. It was the first Islamic finance index in the region, and 15 Shariah compliant companies are included within the index as of first half 2021. YoY data demonstrates that the Bahrain Islamic Index increased by 11.7% between June 2020 and June 2021 reaching 666.4 points.

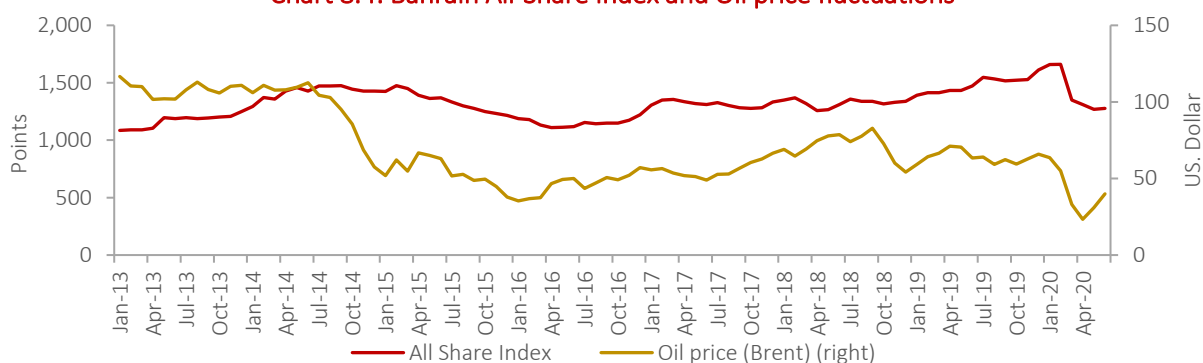
Chart 8.3: Bahrain Islamic Index, Dec. 2015 – June 2021



Source: Bahrain Bourse.

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

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



Source: Bahrain Bourse and the World Bank.

8.2.2 Bahrain Bourse Trading Statistics

Increase in market capitalization

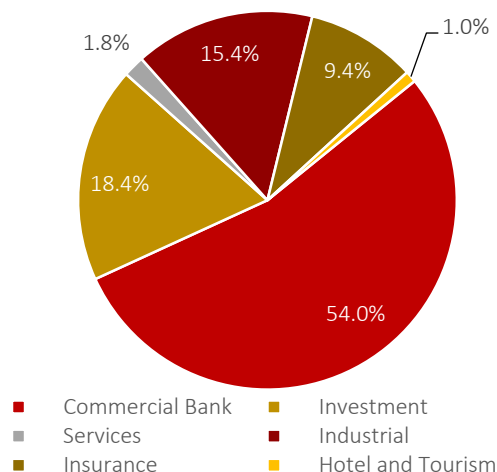
As of first half of 2021, market capitalization of the Bahrain Bourse stood at BD 9.9 billion. This level of market capitalization is 6.6% higher for the first half year.

Table 8.3: Market Capitalization on the Bahrain Bourse

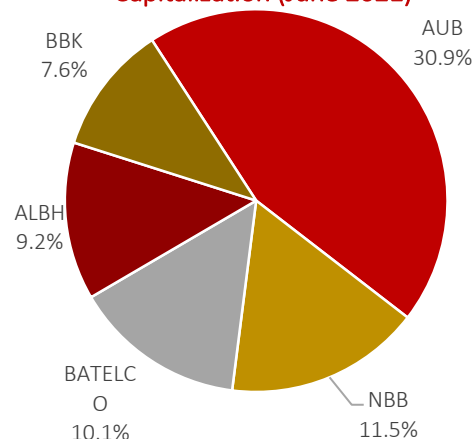
Sector (BD)	H1 2020	H1 2021	H1 2020 – H1 2021 (% Change)
Commercial Banks	4,257,809,788	5,340,259,948	25.4%
Investment	1,740,600,477	1,822,383,192	4.7%
Insurance	139,835,900	179,749,780	28.5%
Services	1,183,352,523	1,523,212,434	28.7%
Industrial	484,210,454	928,248,301	91.7%
Hotel and Tourism	122,553,715	95,639,754	-22.0%
Total	7,928,362,857	9,889,493,409	24.7%

Source: Bahrain Bourse.

A breakdown of market capitalization by sector indicates that the Hotel and Tourism sector recorded the highest year-on-year decrease in market capitalization (-22.0%). The Industrial sector scored the highest percentage increase in market capitalization with a 91.7% increase.

Chart 8.5: Market Capitalization by Sector (June 2021)

Source: Bahrain Bourse.

Chart 8.6: Largest 5 companies by Market Capitalization (June 2021)

Source: Bahrain Bourse.

Ahli United Bank is the largest company in terms of Market Capitalization and contributes to 30.9% of the total market capitalization as of first half 2021. National Bank of Bahrain has the second largest share of Market Capitalization of 11.5% and it is followed by Bahrain Telecommunication Company (BATELCO) with 10.1% and Aluminum Bahrain (ALBH) with 9.2% and Bank of Bahrain and Kuwait (BBK) with 7.6%.

Table 8.4: Largest 5 Companies by Market Capitalization (June 2021)

Company	Market Capitalization (BHD)	% from Total Market
Ahli United Bank (AUB)	3,056,560,116	30.9
National Bank of Bahrain (NBB)	1,133,037,530	11.5
Bahrain Telecommunication Company (BATELCO)	997,920,000	10.1
Aluminum Bahrain (ALBH)	913,060,000	9.2
Bank of Bahrain and Kuwait (BBK)	748,954,983	7.6
Total	6,250,410,976	69.3

Source: Bahrain Bourse.

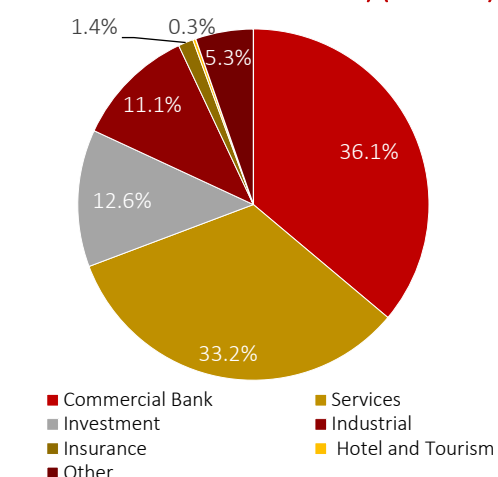
Most of the value of shares traded during first half 2021 was in the Commercial Banks sector whose traded shares (by value) represented 44.1% of total value.

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

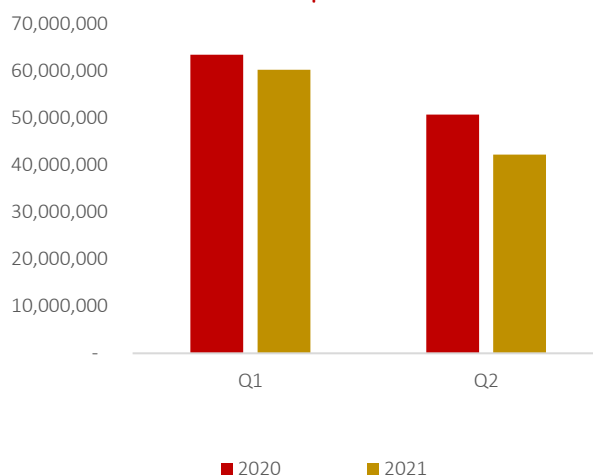
Sector	H1 2020	H1 2021
Commercial Banks	54.6	36.1
Investment	13.0	12.6
Insurance	0.5	1.4
Services	20.2	33.2
Industrial	4.6	11.1
Hotel and Tourism	0.1	0.3

Source: Bahrain Bourse.

The services sector represents the second largest level at 36.1% of the total value of shares traded in first half 2021. Investors interest in Hotel and Tourism and Insurance sectors were the least during first half of 2021 whose traded shares by value represented only 0.3% of the total value of traded shares. During first half 2021, the value of shares traded was highest in March and the lowest was in April, and the average value of shares traded during the year for a month was BD 17.1 million.

Chart 8.7: Value of Shares Traded by Sector (% of Value of all shares traded) (H1 2021) *

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

Chart 8.8: Value of Shares Traded YoY Comparison

Source: Bahrain Bourse.

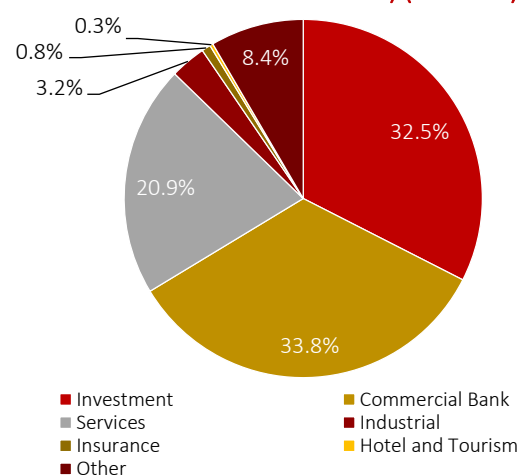
The bulk of the volume of shares traded in 2021 was also in the Commercial Banking sector representing 33.8% of the total volume of shares traded, followed by the Investment sector at 32.5%. The lowest level was attained by the Hotel and Tourism sector at 0.3%.

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

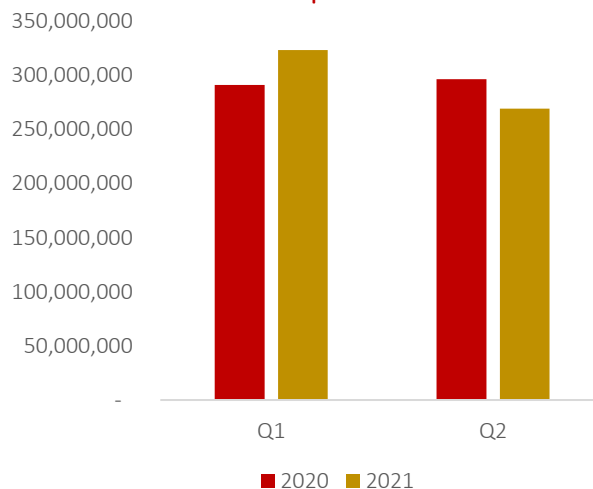
Sector	H1 2020	H1 2021
Commercial Banks	44.0	33.8
Investment	32.8	32.5
Insurance	0.4	0.8
Services	10.8	20.9
Industrial	2.2	3.2
Hotel and Tourism	0.1	0.3

Source: Bahrain Bourse.

During first half of 2021, the volume traded was highest in June and the lowest was in April, and the average volume traded during the year for a month was 152.5 million shares.

Chart 8.9: Volume of Shares traded by Sector (% of Volume of all shares traded) (H1 2021) *

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

Chart 8.10: Volume of Shares Traded YoY Comparison

Source: Bahrain Bourse.

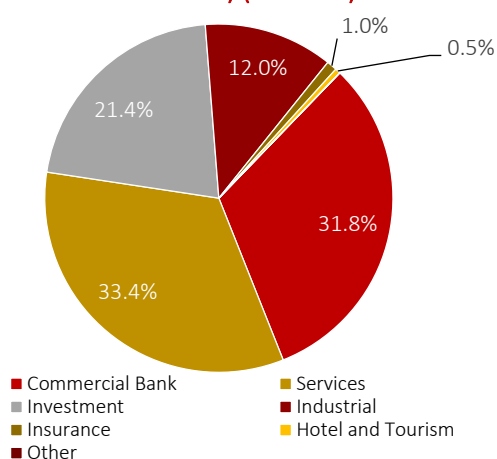
Most of the transactions were executed by the Services sector at 3,352 transactions (33.4% of all transactions), followed by the Commercial Banks at 3,185 transactions (31.8%), and the Investment sector at 2,142 transactions (21.4%). During 2021, the market executed 10,030 transactions.

Table 8.7: Number of Transactions by Sector

Sector	H1 2020	H1 2021
Commercial Banks	3,345	3,185
Investment	1,770	2,142
Insurance	63	96
Services	2,814	3,352
Industrial	509	1,205
Hotel and Tourism	30	49
Closed	6	-
IPO	0	1
Total Market	8,837	10,030

Source: Bahrain Bourse.

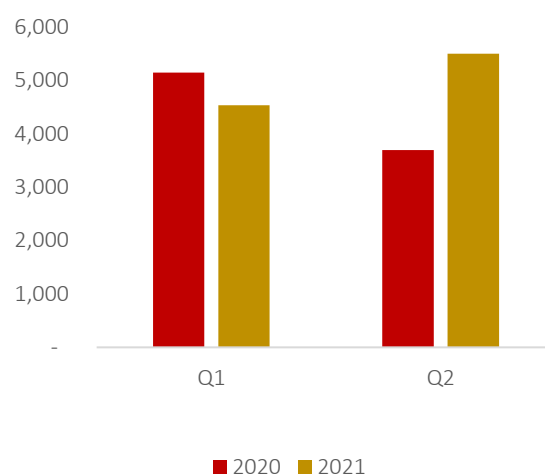
Chart 8.11: Number of Transactions (% of all transactions) (H1 2021) *



*Other sector includes Closed companies and IPOs.

Source: Bahrain Bourse.

Chart 8.12: Number of Transactions YoY Comparison



Source: Bahrain Bourse.

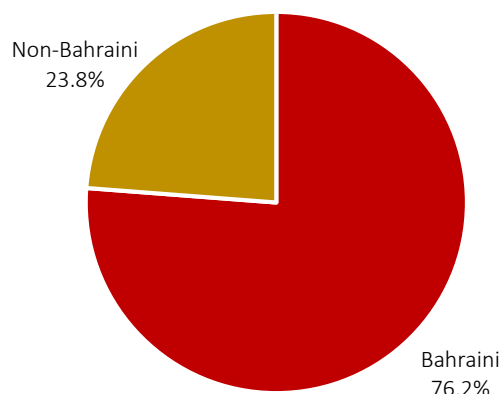
Trading by Nationality

As of first half 2021, Non-Bahraini nationals contributed to 23.8% of the value of shares bought while Bahraini nationals contributed the remaining 76.2% of the value of shares bought. As for sell-side of the transactions, Non-Bahraini nationals contributed to 25.3% of the value of shares sold while Bahraini nationals contributed to 74.7% of the remaining value of shares sold.

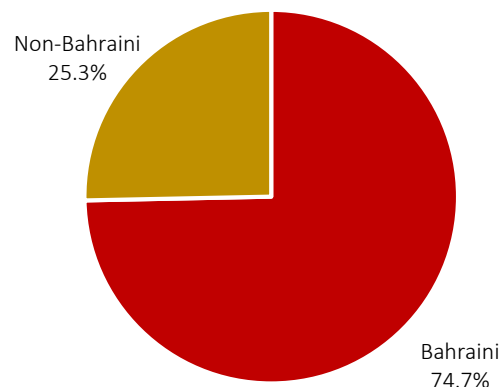
Table 8.8: Value of Transactions by Nationality (BD)

	H1 2020		H1 2021	
	Bahraini	Non-Bahraini	Bahraini	Non-Bahraini
Buy	79,787,443	34,598,630	78,225,307	24,414,259
Sell	76,542,191	37,843,881	76,649,526	25,990,040

Source: Bahrain Bourse.

Chart 8.13: Share of Trading Value of Buy transactions by nationality (H1 2021)

Source: Bahrain Bourse.

Chart 8.14: Share of Trading Value of Sell transactions by nationality (H1 2021)

Source: Bahrain Bourse.

GCC Indices recover

Apart from Tadawul All Share Index, the GCC major equity markets indices recorded negative returns during 2020 compared to end of year 2019. The largest decrease was recorded by Kuwait All-Share Index at 11.7%, followed by Dubai Financial Market General Index with a decrease of 9.8%.

Table 8.9: Stock Market Indices in GCC counties

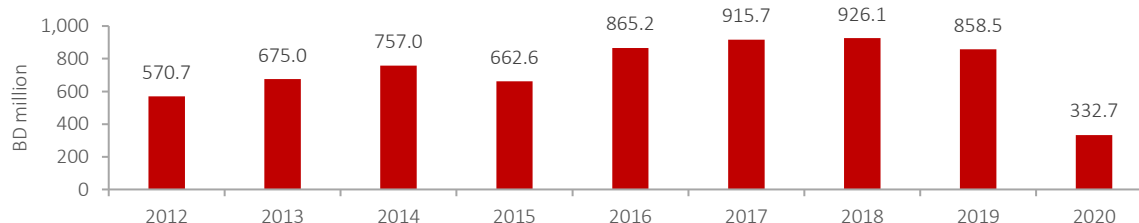
Index	2019	2020	2019 - 2020 (% Change)
Bahrain All Share Index	1,610	1,490	-7.5
Kuwait All Share Index	6,282	5,546	-11.7
Dubai Financial Market General Index	2,764	2,492	-9.8
Tadawul All Share Index	8,389	8,690	3.6
Abu Dhabi Exchange General Index	5,075	5,045	-0.6
Qatar Exchange Index	10,425	10,436	0.1
Muscat Securities Market Index 30	3,981	3,659	-8.1

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

8.3 Market Resilience

Decline in corporate profitability

The overall profitability of the Bahraini Bourse declined by 61.2% to BD 332.7 million in 2020 from BD 858.5 million in 2019. Return on assets dropped to 0.5% in 2020, while return on equity decreased to 3.4% in 2020 compared to 8.3% in 2019.

Chart 8.15: Stock Market Net Income

Source: Bahrain Bourse.

As at December 2020, almost all the sectors valuation in terms of P/E ratio increased or turned negative compared to December 2019 as earnings took a massive hit due to the global pandemic. Commercial Banks, Insurance, and Services sectors increased by 32.1%, 4.4%, and 82.7% respectively while

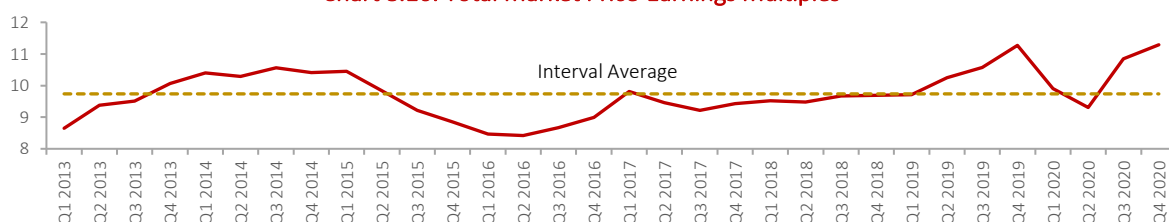
Investment and Hotel and Tourism sectors recorded negative P/E ratios for 2020. The total market P/E ratio in 2020 increased from 11.54 to 16.40.

Table 8.10: Price-Earnings Multiples

Sector	2019	2020
Commercial Banks	13.04	17.23
Investment	7.04	-1.34
Insurance	9.00	9.40
Services	12.27	22.42
Industrial	85.95	63.54
Hotel and Tourism	15.87	-7.32
Total Market	11.54	16.40

Source: Bahrain Bourse.

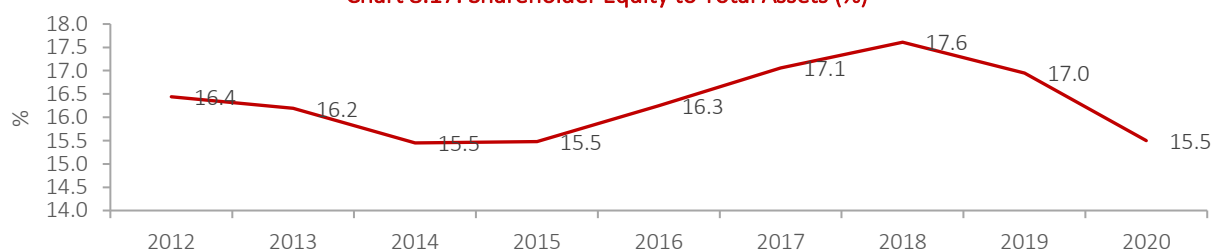
Chart 8.16: Total Market Price-Earnings Multiples



Source: Bahrain Bourse.

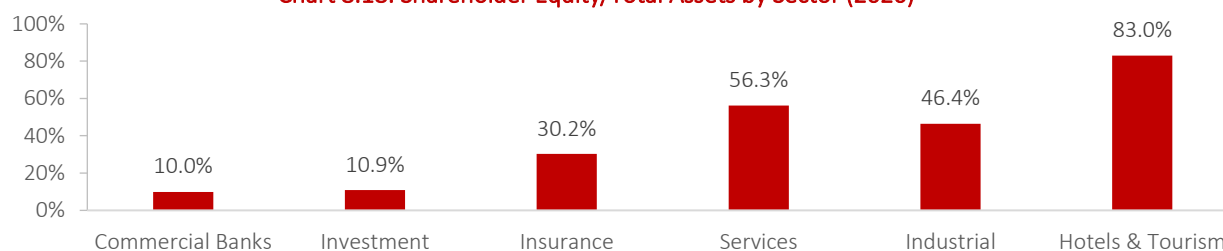
The overall equity-to-assets ratio decreased to 15.5% in 2020 mostly due to the Commercial Banks and Investment sectors. The Commercial Banks and Investment sectors have the lowest equity/assets ratio due to the high leverage nature of the sectors (Chart 8.17 & 8.18).

Chart 8.17: Shareholder Equity to Total Assets (%)



Source: Bahrain Bourse.

Chart 8.18: Shareholder Equity/Total Assets by Sector (2020)



Source: Bahrain Bourse.

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

Bahrain Bourse has adopted the Global Industry Classification Standard (GICS) for listed companies effective 11th July 2021.

The GICS is a global hierarchical industry classification standard developed by index providers MSCI and S&P Dow Jones Indices and it covers 11 sectors representing first level of GICS. Of the 11 industrial sector groups, companies currently listed on Bahrain Bourse have been reclassified into seven industrial sector groups based on their principal business activity (Level 1): materials (includes 1 company), industrials, covering Capital Goods, and Commercial & Professional Services and Transportation (

includes 3 companies), consumer discretionary, covering Consumer Services, Retailing, Automobiles & Components, and Consumer Durables & Apparel (includes 5 companies), consumer staples, covering Food & Staples Retailing, and Food, Beverage & Tobacco, and Household & Personal Products (includes 4 companies), financials, covering Banks, Insurance, and Diversified Financials (includes 22 companies), communication services, covering Telecommunication Services, and Media & Entertainment (includes 3 companies), and real estate, covering REITs, and Real Estate Management & Development (includes 3 companies).

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

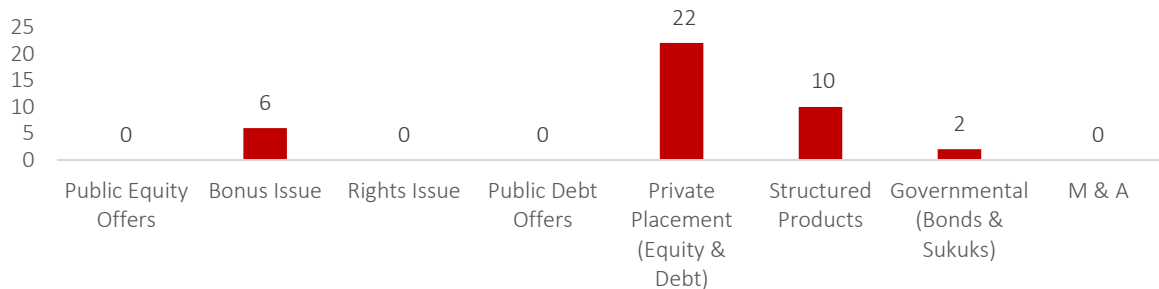
It is worth noting that Bahrain Bourse's earlier sector classification had been in place since the establishment of Bahrain Bourse in 1987.

8.4 Capital Market Activities

8.4.1 Offering of Securities

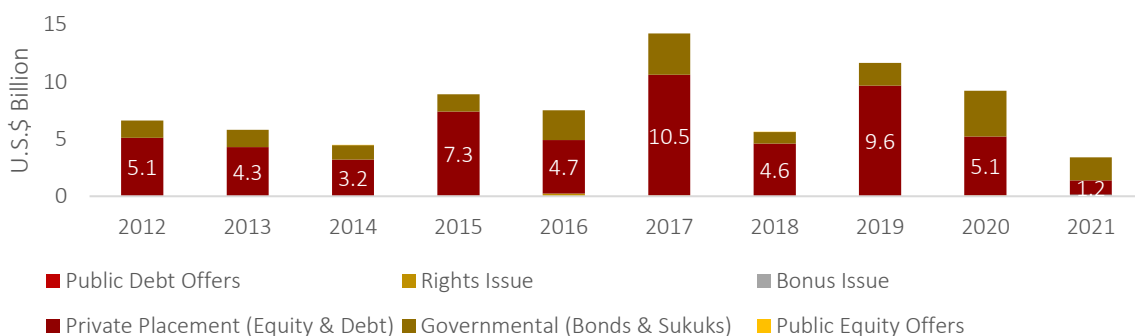
As at June 2021, CBB issued its no objection to the issuance of 34 private offering documents after ensuring the completeness of all the information and details as per CBB Law, Rules and Regulations. The total value of issuances reached USD 3.557 billion. (Chart 8.19 & 8.20).

Chart 8.19: Number of Capital Market Activities



Source: CBB.

Chart 8.20: Total Issuance Value



Source: CBB.

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

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

6 of CBB Rulebook. The following documents were issued pursuant to the requirements of the TMA Module, upon receipt of the CMSD's respective no objection letters:

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

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

AUB announced the extension of the suspension period for the resumption of the acquisition of AUB by KFH on 29th December 2020, until the completion of KFH's updated assessments to be completed by the international advisor appointed by KFH in that respect, subject to regulatory approvals. CBB issued its no objection to the abovementioned extension on 31st December 2020. There are no new developments in the matter as of the abovementioned announcement, and the same has been announced in the monthly progress announcement dated 29th June 2021.

8.5 Risks & Challenges in Capital Markets

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

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

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

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

As of June 2021, 9 of the 43 listed companies on Bahrain Bourse were cross-listed outside of Bahrain, leading to challenges faced by CBB in maintaining the cross-listed companies' compliance with the capital market regulations of Bahrain. CBB is utilizing the IOSCO MMoU and the MoU between regulators of the financial markets in the Gulf Cooperation Council States in requesting assistance in relation to cross-listed companies. Concurrently, the CBB has issued a no-objection letter dated 23 February 2021 to Bahrain Bourse regarding the issuance of the updated Listing Rules. Bahrain Bourse issued the updated Listing Rules on April 5 2021.

Due to the limited number of capital market service providers, conflict of interest issues arises when certain capital market service providers offer multiple services to a single client. As such, CBB requires the capital market service providers to act with a high level of due diligence, provide comprehensive disclosures and detailed declarations. It is important that the Buy-and-Hold/Passive Investment investor mentality is tackled, through the provision of tools which gives the investors a clear view of market activity. Bahrain Bourse is in collaboration with market information companies, such as Bloomberg, Thompson Reuters etc., to distribute data packages which include facilities relating to real-time market coverage, historical and end-of-day data, etc.

Risks and challenges have also risen under the impact of the global pandemic, Coronavirus (COVID-19). The evolving situation has led to an increase in volatility and risk levels in the capital markets, affecting both the trading activity and investors. Furthermore, it creates opportunities for fraudulent actors and scammers to inject inaccurate information into the market. As such, CBB has issued a number of circulars to guide market participants to be mindful towards the market amid the pandemic, such as disclaiming current market risks, monitoring and reporting fraudulent and suspicious activity, and strengthening lines of communication with all market institutions, participants, and CBB. CBB has also emphasized on the importance of listed companies' compliance with its requirements and has implemented various relief measures including the exemption from the preparation and publication of the quarterly reviewed financial results.

8.6 Developments in Regulation and Initiatives

The CBB's CMSD actively takes part in joint work meetings of the GCC Council's Capital Market Authorities (or their equivalent) that aim to harmonize the rules and regulations for the capital markets in the GCC and actively participates in the organization and management of a number of bilateral economic cooperation initiatives between the Kingdom of Bahrain and the Kingdom of Saudi Arabia as approved by the Saudi-Bahraini Coordination Council. Beyond this, during the first half of 2021, the CBB's CMSD endeavored to develop and complete the capital markets regulatory and legal frameworks, including Volume 6 of CBB Rulebook, its main objectives being to enhance transparency, develop the capital markets, and protect investors. The following section will shed light on the activities that took place in the areas of policy, regulation and market infrastructure during the first half of 2021:

8.6.1 Policy and Regulatory Developments

- **Amendments to the Market Surveillance, Investigation & Enforcement ("MIE") Module of Volume 6 of the CBB Rulebook:** The CBB has reviewed the MIE Module of Volume 6 of CBB Rulebook, generally to be in line with international best practices in various areas of investigation and enforcement. The amendments included a new chapter for Financial Penalties, and also reflected the most recent CBB Law amendments, among other things. Following a public consultation exercise, the amendments have been issued on 7th June 2021.
- **Amendments to Prohibition of Market Abuse & Manipulation ("MAM") Module of Volume 6 of the CBB Rulebook:** In April 2021, the CBB issued an update to some of the provisions of the MAM Module of Volume 6, mainly to adjust some stipulations from Guidance to Rules to reflect that they are indeed mandatory requirements on Permanent Insiders of Listed Companies.
- **Clearing, Settlement and Central Depository Rules:** Bahrain Clear ("BHC") Clearing, Settlement and Central Depository Rules are being finalized and shall be submitted to the CMSD shortly.

- **AUP for Testing Compliance with AML Module:** As part of CBB's objective to establish industry leading practices, CBB issued the Agreed Upon Procedures ("AUP") for testing compliance with the Anti-Money Laundering and Combating Financial Crime ("AML") Module of CBB Rulebook Volume 6 on 16th January 2019, with further amendments issued on 2nd December 2019. The CMSD is currently working on updating the AUP to ensure its applicability on licensees regulated under the Market Intermediaries and Representatives (MIR) Module as well as the Crypto-asset (CRA) Module. The update will also ensure standardization of processes and report formats across CBB and will consider the best international practices from the Financial Action Task Force (FATF) regarding AML.
- **Market Fairness and Integrity Amid COVID-19 Developments:** The CMSD issued a circular (Ref: CMS/C/011/2020) dated 1 April 2020 addressed to all listed companies to emphasize the importance of compliance with the requirements of Corporate Governance and Controls, Disclosure Standards, and the Prohibition MAM Module of CBB Rulebook.
- **Reporting of Financial Impact of COVID-19:** As part of CBB's objective to maintain transparency amidst the current implications of coronavirus (COVID-19) and given that businesses have increasingly become vulnerable to financial losses, it has become important for CBB and other stakeholders to understand and assess the financial impact of the COVID-19 pandemic on listed companies and CBB licensees. A circular was issued (Ref: OG/259/2020) dated 14 July 2020 for all listed companies and licensees to disclose the financial impact of COVID-19 in their interim and annual financial statements. For listed companies, such disclosures must be made through a supplementary disclosure that must be published on Bahrain Bourse website in addition to the inclusion of such disclosure in the financial statements.
- **Bahrain Clear's Share Register at General Meetings:** The CMSD issued a circular (Ref: CMS/L441/2020) dated 5 October 2020 to Bahrain Clear to emphasize on the importance of ensuring an updated share register is provided as of the date of the general meeting. Being the share registrar of listed companies, the CMSD highlighted to Bahrain Clear the importance of their role in relation to administering and keeping the updated record of the shareholding of listed companies. The circular was issued, as the current procedure at the time harms the rights of the shareholders as the rightful shareowners recorded in the company's register on the date of the general meeting will not exercise their present rights in the said meeting.
- **Issuance of Training and Competency (TC) Module:** CBB issued circular EDFIS/C/031/2021 dated 7th June 2021 pertaining to a new Training and Competency (TC) Module under CBB Rulebook Volume 6 issued for consultation. The Module aims at presenting requirements that have to be met by capital markets licensees with respect to training and competency of individuals undertaking controlled functions.

8.6.2 The Capital Markets Supervision Directorate's Upcoming Initiatives

- **Updates and Amendments to the Dispute Resolution, Arbitration & Disciplinary Proceedings Module:** Following the March 2020 revision of the DRA Module, the CMSD has currently proposed additional amendments mainly in relation to the structure and functioning of an SRO's Arbitration Committee, to ensure that regulatory responsibilities are discharged in an effective manner and in line with international best practices.
- **Proposed Amendments to CBB's Resolution No. (27) of 2012, and its amendment, with respect to the Review of Penalties and Administrative Measures the CBB may impose upon Licensees, Members of their Board of Directors and their Executive Management:** This Resolution pertains to the establishment of the Enforcement Decision Review Committee ("EDRC") for the purpose of taking enforcement decisions of material significance, on behalf of the CBB. The CMSD has proposed that the scope of the EDRC within the Resolution be extended to account for enforcement decisions imposed upon listed companies in order to streamline the enforcement escalation process as a whole, seeing as the current structure only covers the review of enforcement decisions related to licensees and their approved persons (inclusive of their board members and executive management).

- **Offering of Securities (“OFS”) Module Updates and Amendments:** The CMSD is currently drafting updates and amendments to the OFS Module of Volume 6 of CBB Rulebook, to be in line with international best practice regarding the offering and issuing of securities in and from the Kingdom of Bahrain. As a result of the witnessed growth and development in several capital market products including the wide range of Structured Products, the CMSD is currently studying the international best practices regarding appropriate regulatory tools concerning the behavior of issuers and intermediaries within the capital market and the extent of the regulator’s involvement in pre-approving the products and setting products standards and disclosure requirements, in addition to the significant ramifications associated with the offering and marketing the products.
- **Treasury Shares Resolution:** Further to Article (93) of the CBB and Financial Institutions Law, the CMSD is currently in the process of introducing a resolution to regulate the purchase and sale of listed companies’ treasury shares and the permitted uses for these shares.
- **Takeovers, Mergers and Acquisition Resolution:** Further to Article (93 bis) of CBB Law Amendment No. (14) of 2020, the CMSD is currently in the process of introducing a resolution to regulate the process and procedures of mergers and acquisitions of listed companies.
- **Prohibition of Market Abuse and Manipulation (“MAM”) Module Updates and Amendments:** The CMSD is currently reviewing suggested updates and amendments to the MAM Module of Volume 6 of CBB Rulebook, generally to be in line with international best practices in various areas of investigation and enforcement.
- **Liquidity Enhancement:** The CMSD is cooperating with BHB on its initiatives to increase market liquidity, with objective of increasing trading activity and attracting new market participants.
- **BHC Delivery Versus Payment (“DVP”) Model Framework:** CMSD has been cooperating with BHC with regards to its proposed DVP framework, after publication for consultation to the market. BHC is currently working on amending the framework in line with the CMSD’s comments and feedback.
- **Introduction of the Digital Token Offering (DTO) Module and amendments to the Crypto-asset (CRA) Module:** The CMSD is working on an initial draft of a new Digital Token Offering (DTO) Module which will formulate the regulatory framework for the supervision of the offering of digital token in the Kingdom of Bahrain, the same is to be issued for consultation after deliberation by the CBB’s Regulatory Policy Committee (RPC). The CMSD is also working on updating and amending the Crypto-asset (CRA) Module to further strengthen the regulatory framework and to accommodate the new requirement of the DTO Module.
- **BHB Market Rules:** BHB have submitted to the CMSD an amended draft of the BHB Market Rules with changes encompassing several areas such as market structure, violations, market making, and others. The CMSD is currently working with BHB in this regard by providing its comments and feedback prior to final approval.

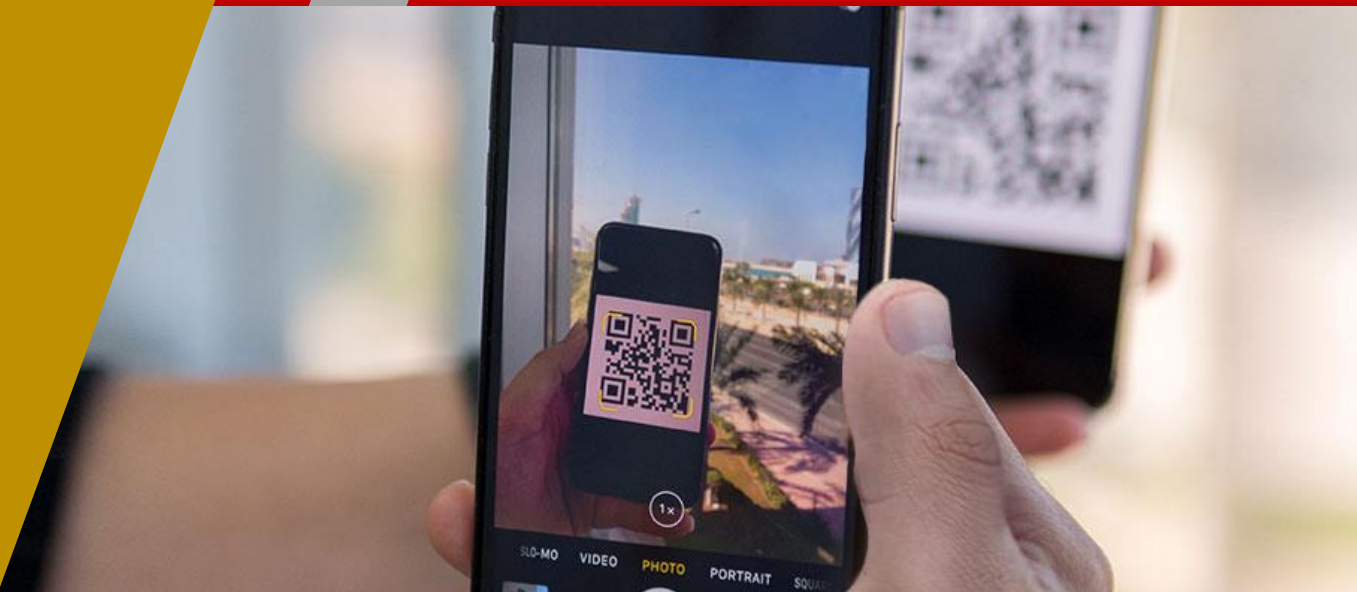
8.6.3 Investor Protection Initiatives

- As part of the efforts of the GCC financial market regulators to promote awareness among GCC nationals and residents under the directives of the Members of the GCC Ministerial Committee of Heads of the GCC Capital Market Authorities, the GCC financial market regulators launched a joint awareness campaign addressing the fundamentals of investing in capital markets, capital market fraud, and the legislation and regulations governing capital market investments. The CBB’s Research and Investor Protection participated in the campaign and led the program during the month of May 2021, under the slogan “Choose the Right Investment”. The campaign aims at providing investors with the key information and enabling them to make sound investment decisions, thus fostering safe capital markets.

PART IV:

DEVELOPMENTS IN PAYMENT SYSTEMS, FINTECH, AND CYBER SECURITY

S





FINANCIAL MARKET INFRASTRUCTURES, PAYMENT AND SETTLEMENT SYSTEMS, POINT OF SALE, AND DIGITAL PAYMENTS

HIGHLIGHTS

RTGS Daily Average 174 BD 314.2 mn Volume Value	SSSS Aggregate 48 BD 3.3 bn Volume Value	ATM Daily Average 45,367 BD 4.1 mn Volume Value
BCTS Daily Average 8,679 BD 28.6 mn Volume Value	Fawri + Daily Average 310,937 BD 10.8 mn Volume Value	Fawri Daily Average 37,308 BD 58.9 mn Volume Value
Fawateer 22,619 BD 1.69 mn Volume Value	POS Transactions 53.5 mn BD 1.4 bn Volume Value	Digital Wallets 61.6 BD 2.2 bn Volume Value

- Daily average (volume and value) of bank transfers increased in H1 2021 compared to H2 2020 while decreasing for ATM Transactions. Daily average volume of cheques decreased while value increased over same period.
- Daily average of volume and value of Fawri+ Transactions increased by 69.8% and 39.7% respectively in H1 2021 compared to H2 2020. Daily average of volume and value of Fawri transactions increased by 3.8% and 10.1% in H1 2021 compared to H2 2020.
- Daily average of volume and value of Fawateer Transactions increased by 41.7% and 27.7% respectively in H1 2021 compared to H2 2020.
- POS Transactions volume and value increased by 15.0% and 5.9% in H1 2021 compared to H2 2020.
- Transactions through e-wallets continue to increase with 61.6 million transactions worth BD 2.2 billion in H1 2021.

9.1 Overview

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

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

CBB operates, manages and oversees the national Payment and Settlement Systems in the Kingdom of Bahrain¹¹. In addition, CBB assesses all FMIs, Payment and Settlement Systems in terms of compliance with the requirements set by the Principles for Financial Market Infrastructures (PFMI), CBB Law, CBB's Directives, etc. Bahrain's position in the financial services sector has enabled it to become a strategic leader in international financial technology as it provides many of the features that will support the development of a supportive environment for financial technology, along with CBB as a Regulator, innovative human capital, and an advanced ICT infrastructure.

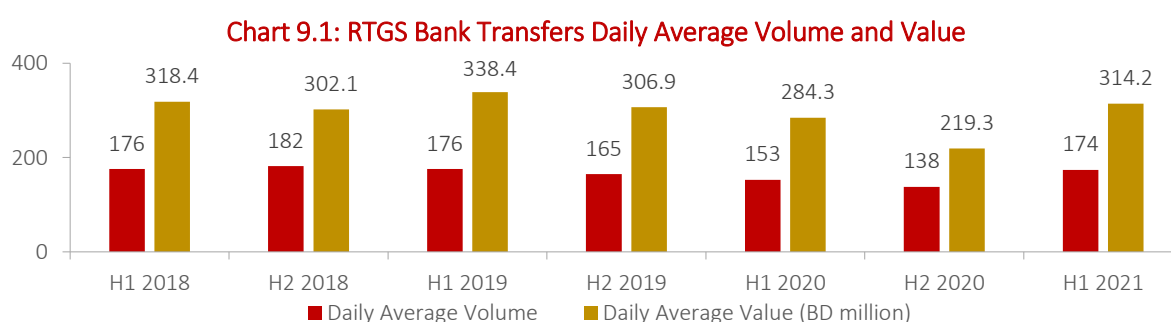
The FMIs, Payment and Settlement Systems Framework continues to operate smoothly and function safely, efficiently, resiliently and reliably, maintaining the financial stability during the first half of 2021 (from 1st January 2021 to 30th June 2021).

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

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

9.2 Real Time Gross Settlement System (RTGS)

CBB operates and oversees the Real Time Gross Settlement (RTGS) System where all Inter-Bank payments are processed and settled in real time on-line mode which went live on the 14th of June 2007. The RTGS System provides for Payment and Settlement of Customer transactions as a value addition. The RTGS System enables the Banks to have real time information on, for example, account balances, used and available intra-day credit, queue status, transaction status, etc. The RTGS System is multi-currency capable and based on Straight Through Processing (STP). The number of direct participants in the RTGS are thirty (30) participants including CBB. On Wednesday, 9th December, 2020, the Saudi Central Bank (SAMA) joined the RTGS through AFAQ Payment System transferring payments between Kingdom of Bahrain and Kingdom of Saudi Arabia.¹²



Source: CBB.

¹¹ CBB operates the Real Time Gross Settlement System (RTGS) and the Scripless Securities Settlement System (SSSS), whereas BENEFIT operates the ATM Clearing System (ATM), the Bahrain Cheque Truncation System (BCTS) and the Electronic Fund Transfer System (EFTS) including the Electronic Bill Presentment and Payment (EBPP) System on behalf of CBB.

¹² AFAQ is a regional payments system provided by Gulf Payments to execute financial transactions in GCC local currencies (Currently facilitating money transfers between SAMA and CBB).

The daily average volume of Bank Transfers for H1 2021 (first half of 2021) increased marginally by 26.1% to 174 transfers compared to 138 transfers for H2 2020 (second half of 2020).¹³ Furthermore, the daily average volume of Bank Transfers for H1 2021 has increased by 13.7% from 153 to 174 transfers when compared to H1 2020.

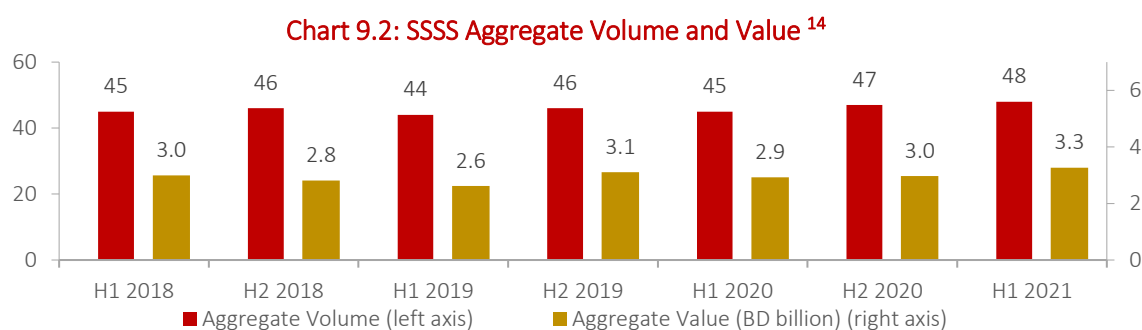
As the daily average volume of Bank Transfers through the RTGS have increased, the value of those transfers has also increased in H1 2021 by 43.3% when compared to H2 2020 from BD 219.3 million to BD 314.2 million. In addition, the daily average value of Bank Transfers for H1 2021 increased by 10.5% from BD 284.3 million to BD 314.2 million when compared H1 2020.

9.3 Scripless Securities Settlement System (SSSS)

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

The volume of issues H1 2021 increased slightly compared to H2 2020 by 2.1% from 47 issues to 48 issues. Moreover, the volume of issues also increased in H1 2021 compared H1 2020 by 6.7% from 45 issues to 48 issues.

The aggregate value of issues in H1 2021 had a modest increase by 10.1% to BD 3.27 billion from BD 2.97 billion in H2 2020 and increased by 12.0% from BD 2.92 billion in H1 2020.



Source: CBB.

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

The SSSS continued to operate smoothly and efficiently for the period from 1st January 2021 to 30th June 2021.

9.4 ATM Clearing System (ATM)

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

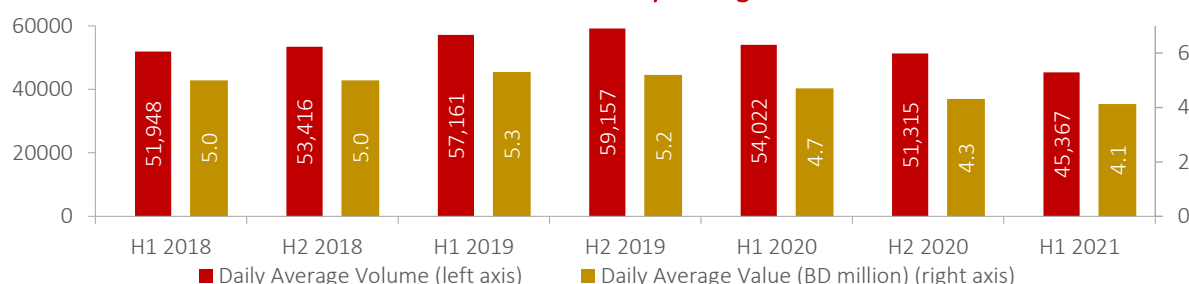
The daily average volume of ATM Transactions for H1 2021 decreased by 11.6% to 45,367 per day compared to 51,315 transactions per day for H2 2021. In addition, the daily average volume of ATM transaction decreased by 16.0% in H1 2021 compared to H1 2020 (54,022 transactions per day).

¹³ H1 data is from 1st January until 30th June; H2 data is from 1st July to 31st December.

¹⁴ Revised Figures as per the latest Report received from the Banking Services Directorate (BKS).

The daily average value of ATM Transactions for the H1 2021 decreased by 4.2% to reach BD 4.1 million when compared to the BD 4.3 million in H2 2021 and decreased by 11.6% when compared H1 2020 (BD 4.7 million).

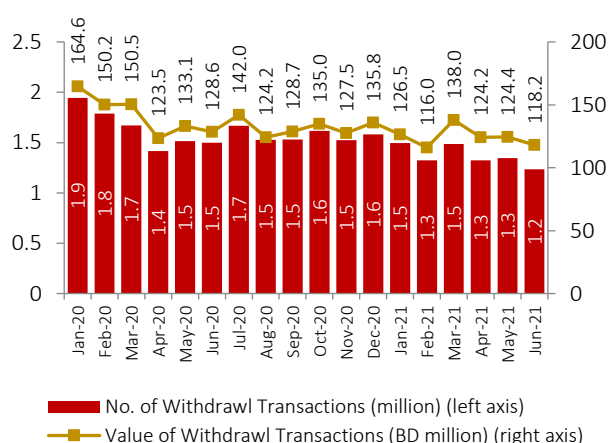
Chart 9.3: ATM Transactions Daily Average and Volume



Source: BENEFIT.

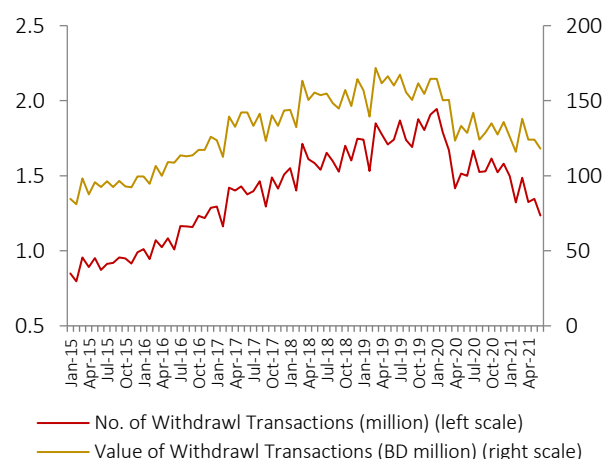
Overall, there was a downward trend in both the value and the volume of ATM Transactions (Chart 9.4). H1 2021, the lowest value of withdrawals was witnessed in February 2021 at BD 116.0 million (8.3% decrease from previous month and 22.8% YoY). The lowest volume of transactions was in June 2021 with 1.2 million transactions (8.1% decrease from previous month and 17.6% YoY).

Chart 9.4: Number and Value of ATM Transactions, December 2020 – December 2021



Source: BENEFIT.

Chart 9.5: Number and Value of ATM Transactions



Source: BENEFIT.

9.5 Bahrain Cheque Truncation System (BCTS)

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

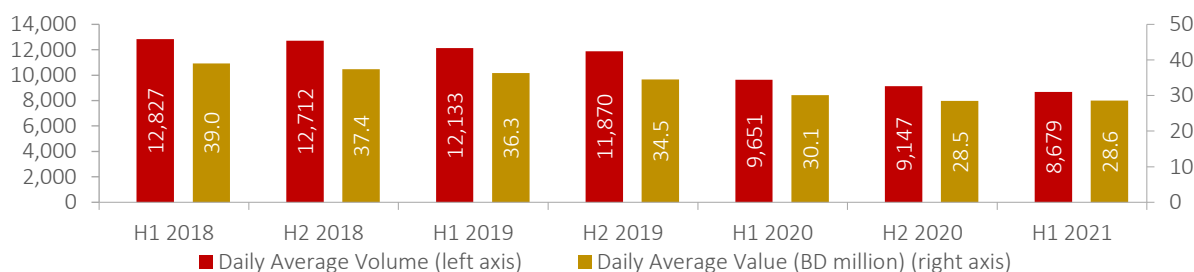
The main feature of the BCTS is the increasing efficiency and speed of the cheque clearing as it facilitates Bank Customers to have their cheques cleared and obtain their funds on the same day or maximum by the next working day in addition to providing Customers with a more secure and convenient service.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

The number of participants in the BCTS are thirty (30) participants. The daily average volume of cheques for H1 2021 decreased by 5.1% when compared to the H2 2020 from 9,147 cheques to 8,679 cheques.

In addition, the daily average volume of cheques in H1 2021 decreased by 10.1% from 9,651 cheques in H1 2020.

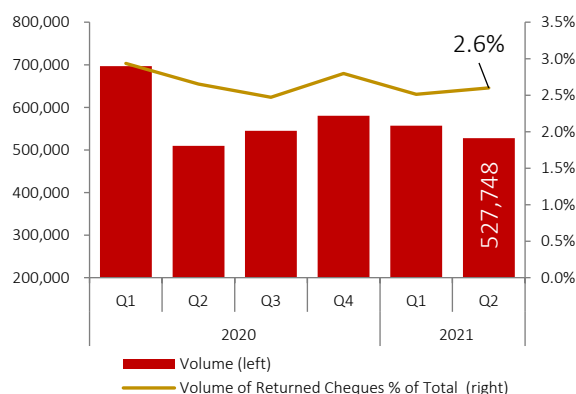
Furthermore, the daily average value of cheques increased slightly in the first half of 2021 by 0.4% when compared to the second half of 2020 from BD 28.5 million to BD 28.6 million. Moreover, the daily average value of cheques for the first half of 2021 decreased by 5.0% from BD 30.1 million for the first half of 2020 to BD 28.6 million.

Chart 9.6: BCTS Daily Average Volume and Value



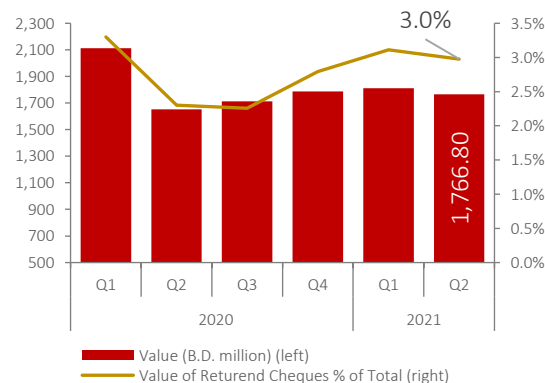
The BCTS continued to operate smoothly and efficiently for the period from 1st January 2021 to 30th June 2021. Charts 9.7 and 9.8 show the volume and value of cheques and the percentage returned cheques to the total volume and value. Between Q1 2020 and Q2 2021, returned cheques ranged between 2.5% to 2.9% as a percentage of total volume and 2.3% to 3.3% as a percentage of total value.

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



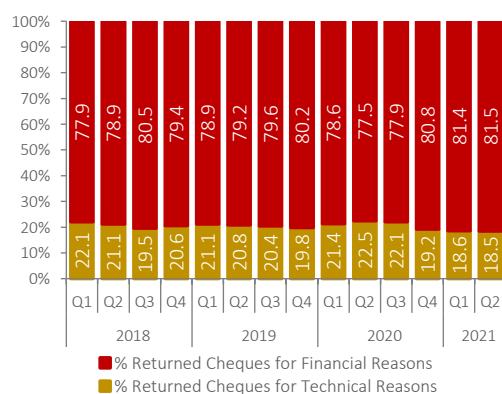
Source: BENEFIT.

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



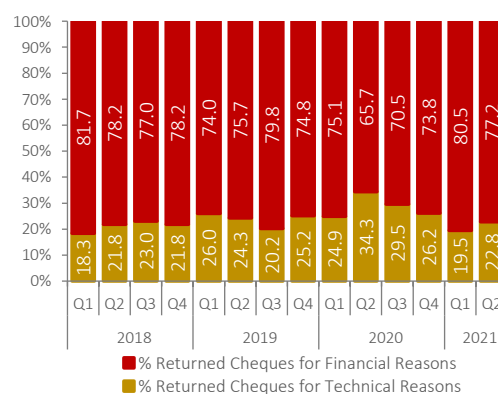
Source: BENEFIT.

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



Source: BENEFIT.

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



Source: BENEFIT.

The majority of the cheques returned in terms of volume and value are returned due to financial reasons reaching 81.5% of the total volume of cheques and 77.2% of the total value of cheques in Q2 2021. Cheques returned due to technical reasons comprised 18.5% of total volume and 22.8% of total value in Q2 2021 (Charts 9.9 and 9.10).

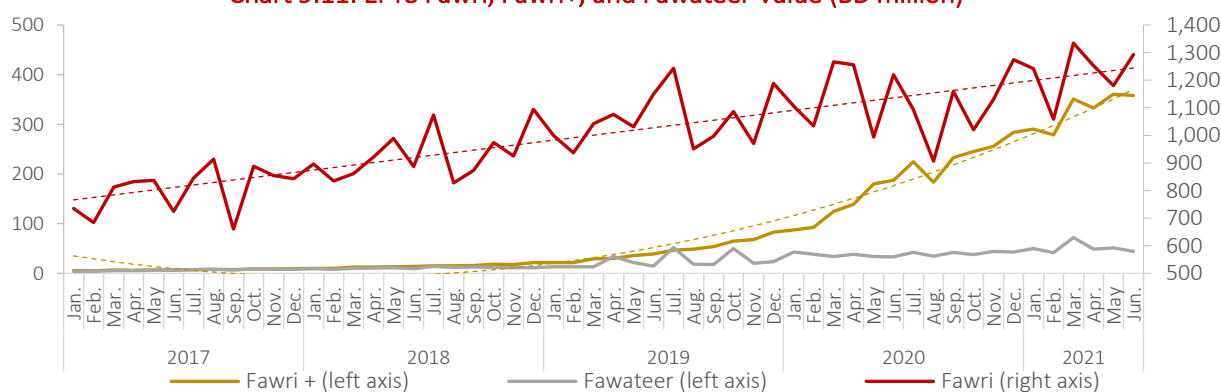
9.6 Electronic Fund Transfer System (EFTS) including Electronic Bill Presentment and Payment (EBPP) System

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

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

Chart 9.11 shows an overall increasing trend in the monthly transfers in Fawri+, Fawri and Fawateer. The value of Fawri+ transfers increased by 38.2% from BD 1,426.8 million in H2 2020 to BD 1,971.5 million for H1 2021. The total value of Fawri transfers for H1 2021, increased by 11.8% from BD 6,582.5 million for H2 2020 to BD 7,361.3 million for H1 2021.

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



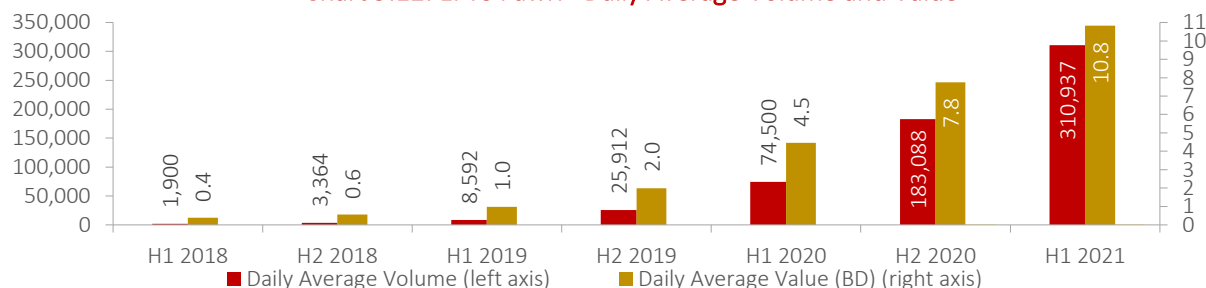
Source: BENEFIT.

In addition, the value of Fawateer payments increased by 26.3% from BD 244.0 million in H2 2020 to BD 308.2 million in H1 2021. The Fawri+ transfers in addition to Fawateer payments in all electronic channels including internet banking, mobile banking and BenefitPay surged during 2020 and 2021 is due to the increasing popularity and convenience in going cashless during the COVID-19 pandemic.

The daily average volume of Fawri+ transfers for H1 2021 increased significantly by 69.8% when compared to H2 2020 from 183,088 transfers to 310,937 transfers. Furthermore, the daily average volume of Fawri+ transfers for H1 2021 increased by 317.4% from 74,500 transfers in H1 2020. The daily average value of Fawri+ transfers increased by 39.7% from BD 7,754,418 in H2 2020 to BD 10,832,197 in H1 2021. The daily average value also increased by 143.1% in H1 2021 when compared to the from BD 4,456,479 in H1 2020.

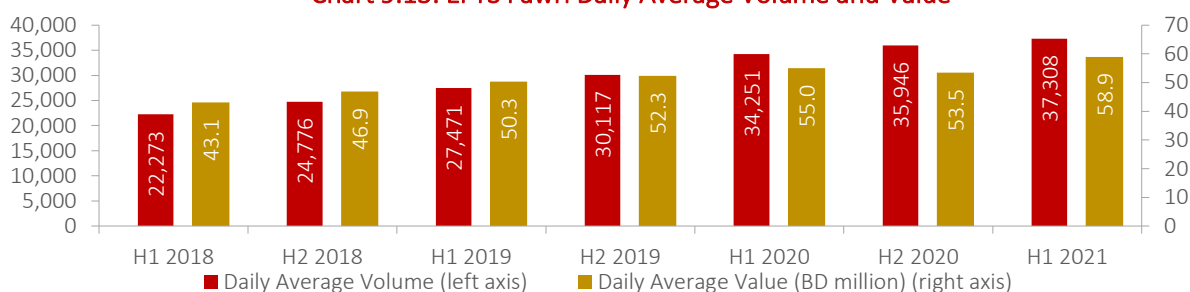
The daily average volume of Fawri transfers in H1 2021 increased by 3.8% when compared H2 2020 from 35,946 transfers to 37,308 transfers. Moreover, the daily average volume of Fawri transfers in H1 2021 increased by 8.9% from the 34,251 transfers in H1 2020. In addition, the daily average value of Fawri transfers increased by 10.1% from BD 53.5 million in H2 2020 to BD 58.9 million in H1 2021. Furthermore, the daily average value of Fawri transfers increased by 7.1% from BD 55.0 million in H1 2020.

Chart 9.12: EFTS Fawri+ Daily Average Volume and Value



Source: BENEFIT.

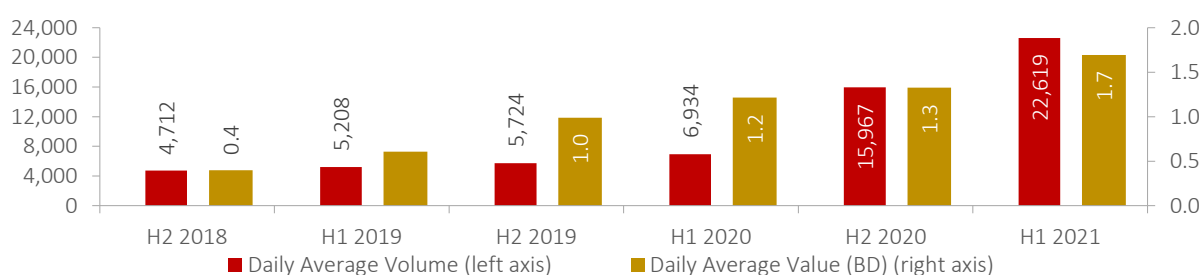
Chart 9.13: EFTS Fawri Daily Average Volume and Value



Source: BENEFIT.

The daily average volume of Fawateer Payments for the first half of 2021 increased by 41.7% when compared to H2 2020 from 15,967 payments to 22,619 payments and increased by 226.2% from the 6,934 payments in H1 2020. In addition, the daily average value of Fawateer reached BD 1,693,215 in H1 2021 increasing by 27.7% when compared to H2 2020 (BD 1,326,164) and by 39.4% compared to H1 2020 (BD 1,214,307).

Chart 9.14: EBPP Fawateer Daily Average Volume and Value



Source: BENEFIT.

The EFTS including EBPP continued to operate in a safe, efficient, resilient and reliable manner from 1st January 2021 to 30th June 2021. CBB continues to assess the EFTS including EBPP in terms of compliance with the requirements set by the Principles for Financial Market Infrastructures (PFMI), CBB Law and CBB's Directives, etc.

9.7 Point of Sale (POS)

POS machines accept different financial instruments, primarily debit and credit cards. POS terminals are an essential part of financial inclusion. The increase in POS terminals and their utilities, combined with mobile POS and new age payment mechanisms helps in achieving higher financial inclusion.

POS Transactions in Bahrain have shown a steady increase in both in volume and value. The total number of transactions for H1 2021 reached 53.5 million (a 15.0% increase compared to H2 2020 and 43.7% increase compared to H1 2020). Similarly, the total value of transactions for H1 2021 increased to BD 1,367.3 million (an 8.9% increase compared to H2 2020 and 25.9% increase compared to H1 2020). Both the volume and value of cards issues in Bahrain has increased in H1 2021 by 13.2% and 6.8% respectively when compared to H2 2020 and by 51.4% and 32.1% respectively when compared to H1 2020. The volume and value of transactions by cards issued outside Bahrain showed a significant increase in H1 2021 compared to H2 2020 increasing by 51.6% and 40.5% respectively indicating a recovery as a result of the removal of travel restrictions due to COVID-19 pandemic.

Table 9.1: Point of Sale (POS) Transactions in Bahrain

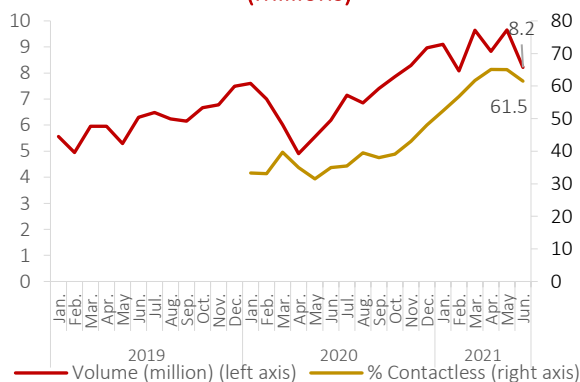
	Volume of transactions			Value of transactions (BD)		
	Cards issued in Bahrain	Cards issued outside Bahrain	Total	Cards issued in Bahrain	Cards issued outside Bahrain	Total
2018	49,048,695	15,425,030	64,473,725	1,524,054,553	453,159,703	1,977,214,256
2019	58,433,552	15,246,093	73,679,645	1,877,177,353	557,218,330	2,434,395,682
2020	77,347,515	6,438,295	83,785,810	2,124,921,776	216,993,593	2,341,915,369
2020 Q1	17,208,015	3,403,237	20,611,252	502,314,582	111,827,796	614,142,378
Q2	15,874,738	772,294	16,647,032	447,251,147	25,008,665	472,259,812
Q3	20,504,199	907,432	21,411,631	554,864,878	33,249,383	588,114,260
Q4	23,760,563	1,355,332	25,115,895	620,491,169	46,907,750	667,398,919
2021 Q1	25,207,125	1,620,229	26,827,354	639,417,616	53,619,453	693,037,069
Q2	24,884,685	1,810,883	26,695,568	615,312,730	58,961,685	674,274,415

Source: CBB.

As of Q2 2021, the total number of transactions performed using POS machines in Bahrain was 26.7 million which is a 6.3% increase from Q4 2020, and 60.4% YoY increase from Q2 2020. As for the total value of transactions, the total value of transactions performed using POS machines in Bahrain in Q2 2021 was BD 674.3 million which is a 1.0% increase from Q4 2020, and 42.8% YoY increase from Q2 2020. The increase in spending in volume and value of POS Transactions in Q2 2021 reflects the increase in consumer spending compared to Q2 2020 where there was a significant impact of the COVID-19 pandemic on consumer spending.

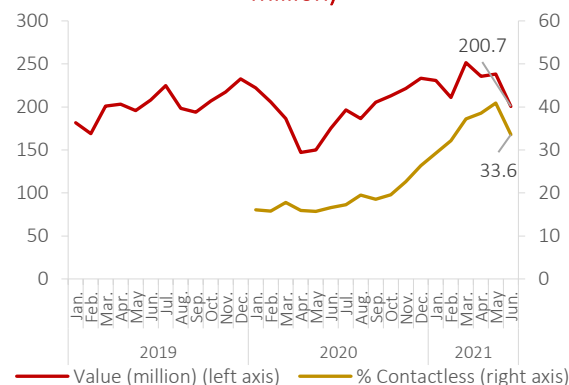
Chart 9.15 shows the monthly of POS Transactions in terms of volume and value which can help identify any cyclicity in behavior over the long run. The overall trend in increase in POS Transactions in the second half of 2020 compared to the first half shows that people prefer making direct payments to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

Chart 9.15: Volume of Monthly POS Transactions (millions)



Source: CBB.

Chart 9.16: Value of Monthly POS Transactions (BD million)



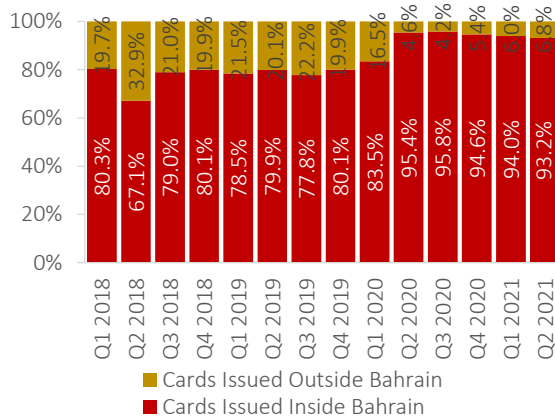
Source: CBB.

The COVID-19 health crisis impacted the nature of POS Transactions shifting towards contactless as consumers are developing new habits. Although contactless adoption is accelerating, POS transaction values are expected to take time to reach the pre-COVID levels. The longer lockdown/precautionary

measures period the more the pandemic will have a lasting impact on consumer behavior. POS Transactions are expected to be driven by contact payments; however, contactless transactions will continue to grow faster than before the pandemic. In March 2020, as part of CBB's precautionary efforts to contain COVID-19, CBB increased the limit on contactless transactions without PIN transaction to BD 50. In September 2020 CBB requested that necessary measures are taken to finalize the issuance and distribution of contactless debit, credit, and prepaid and charge cards to customers by the end of 2020 at no charge to the customers. Charts 9.15 and 9.16 show the increasing trend in using contactless cards during 2020 and 2021. The percentage of contactless transactions in terms of volume increased from 33.3% in January 2020 to 61.5% in June 2021. Similarly, in terms of value, the percentage of contactless transactions increased from 16.1% in January 2020 to 33.6% in June 2021.

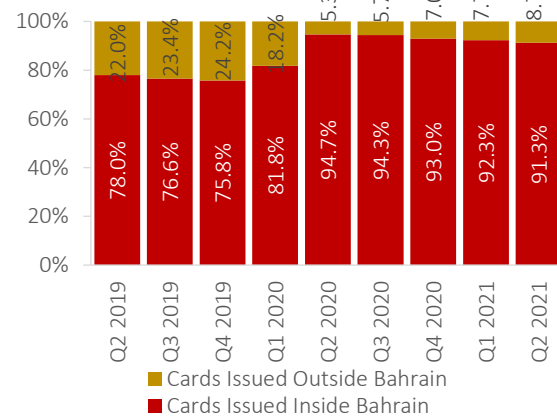
As of Q2 2021, 93.2% of the volume of transactions and 91.3% of the value of transactions came from cards issued inside Bahrain (Chart 9.17 and Chart 9.18). The decrease in share of cards issued outside Bahrain is due to the decrease in number of foreigners visiting Bahrain due to travel restrictions during the COVID-19 pandemic. The share of cards issued outside Bahrain saw an increase starting Q4 2020 as travel restrictions are eased.

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



Source: CBB.

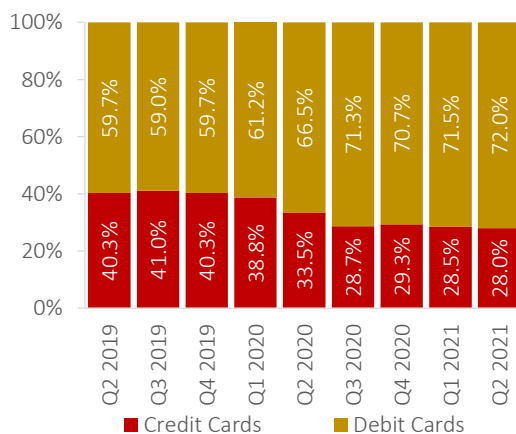
Chart 9.18: Value of POS Transactions (% of Cards Issued Inside vs. Outside Bahrain)



Source: CBB.

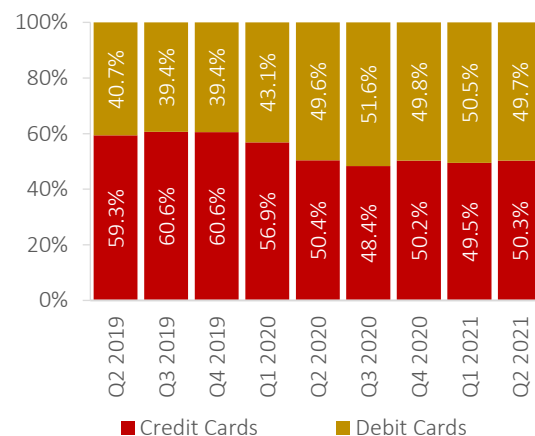
For Q2 2021, 72.0% of the volume of transactions and 49.7% of the value of transactions came from debit cards (Chart 9.19 and Chart 9.20). The share of debit cards increased for both volume and value in Q4 2020 due to a change in consumer spending habits.

Chart 9.19: Volume of Transactions (% of Debit Cards vs. Credit Cards)



Source: CBB.

Chart 9.20: Value of Transaction (% of Debit Cards vs. Credit Cards)

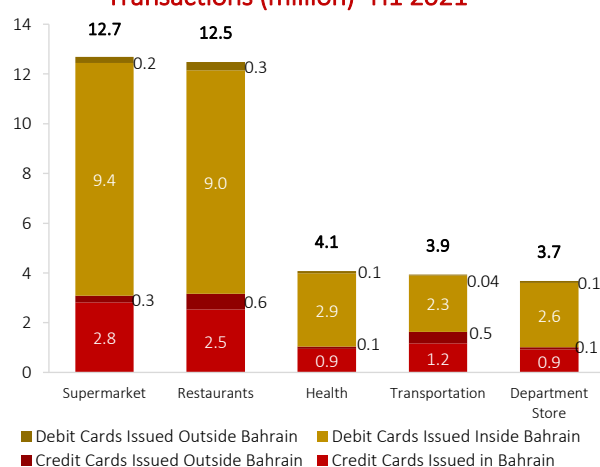


Source: CBB.

Charts 9.20 and 9.21 show the top 5 sectors in terms of volume and value of transactions for the first half of 2021. In terms of volume the top 5 sectors were supermarkets (12.7 million), restaurants (12.5 million), health (4.1 million), transportation (3.9 million), and department stores (3.7 million). The majority of the number of transactions for the supermarket, restaurants, health, transportation, and department stores were done using debit cards issued inside Bahrain making 73.9%, 72.0%, 72.3%, 57.7%, and 70.2% of the transactions respectively.

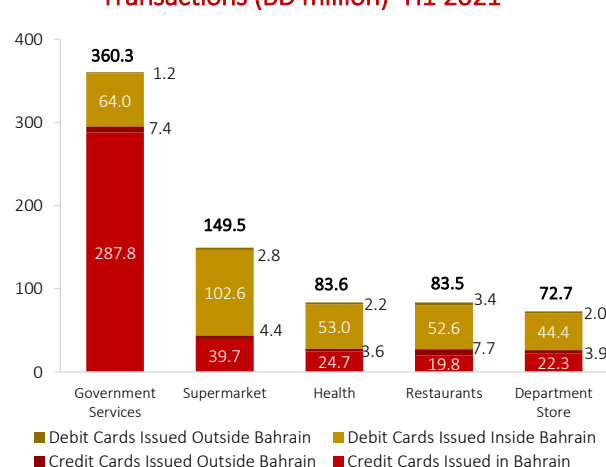
In terms of value, the top 5 sectors were government services (BD 360.3 million), supermarkets (BD 149.5 million), health (BD 83.6 million), restaurants (BD 83.5 million), and department stores (BD 72.7 million). For government services, 79.9% of the value of transactions were made by credit cards issued inside Bahrain. As for supermarkets, health, restaurants and department stores, 68.6%, 63.5%, 63.0% and 61.1% of the value of transactions respectively were made by debit cards issued inside Bahrain.

Chart 9.21: Top 5 Sectors by Volume of Transactions (million)- H1 2021



Source: CBB.

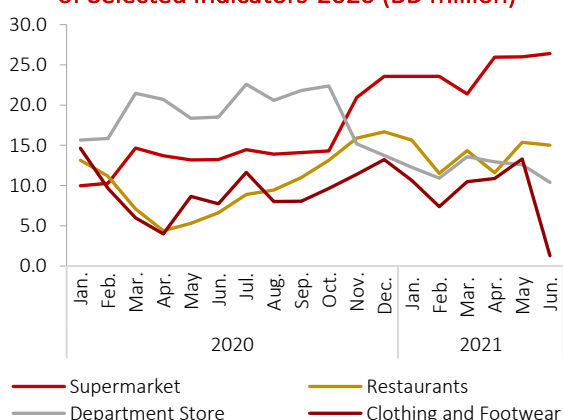
Chart 9.22: Top 5 Sectors by Value of Transactions (BD million)- H1 2021



Source: CBB.

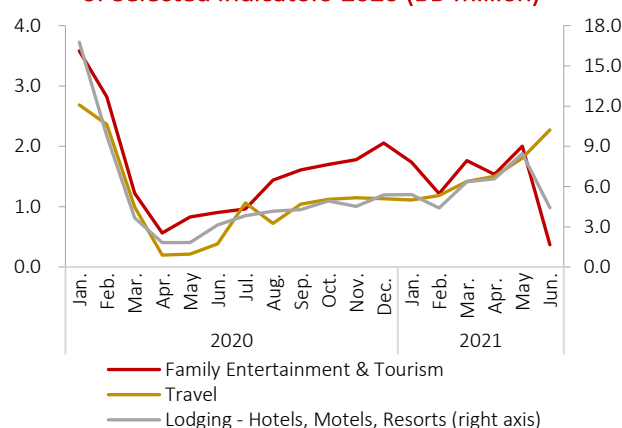
Charts 9.22 and 9.23 shows the monthly value of POS transactions for from 2020 to Jun 2021 in selected sectors that have witnessed a change in consumer spending in 2020 during the pandemic.

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



Source: CBB.

Chart 9.24: Monthly Value of POS Transactions of Selected Indicators-2020 (BD million)



Source: CBB.

9.8 Digital Wallets

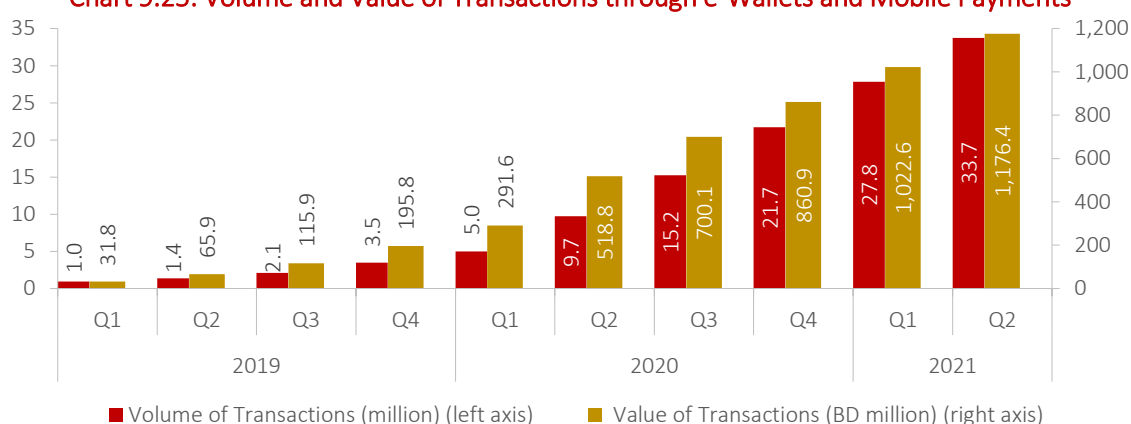
Bahrain's appetite for digital wallets is growing where significant steps have been made in realizing the nation's vision to become a technology pioneer. The Kingdom has been working towards a successful digital economy by building a proper ecosystem provides a network of connected entities from CBB to

banks, to telecommunication companies, to merchants and consumers. The growth in digital wallet usage is a global trend due to 1) simplicity by having one destination to makes transactions that are 2) quicker and easier.

The volume and value of transactions through digital wallets has been increasing significantly over the as provided in Table 9.8, with an increasing trend in both the volume and value of transactions, indicating the success of adoption of these digital solutions. The total volume and value of transactions in H1 2021 increased to 61.6 million transactions (317.2%) and BD 2.2 billion transactions (171.4%) respectively compared to H1 2021.

The total volume in Q2 2021 was 33.7 million transactions, a 21.2% increase from the 27.8 million transactions in Q1 2021 and 246.2% YoY increase from the 9.7 million in Q2 2020. The value of transactions in Q2 2021 was BD 1,176.4 million, a 15.0% increase from Q1 (BD 1,022.6 million) and 126.7% YoY increase from Q2 2020 (BD 518.8 million).

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



Source: CBB.

10

FINTECH, INNOVATION AND
FINANCIAL INCLUSION

HIGHLIGHTS

Regulatory Sandbox	Bank Branches	ATMS
22	204	515
ATM Cards	Debit Cards	Credit Cards
1,664.1 thousand	1,210.3 thousand	306.6 thousand

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

10.1 Overview

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

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

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

10.2 FinTech Developments

The CBB has developed its digital transformation strategy with a vision to develop projects that introduce latest electronic payment and settlement products and FinTech projects to gradually shift to digital systems and reduce the use of cash in financial transactions facilitating a more efficient provision of banking services to individuals. The digital transformation initiatives also focus on working with

financial institutions to encourage and accelerate their transition with technological developments to ultimately benefit the national economy and be in line with international best practices.

As part of its digital transformation strategy, CBB announced a series of measures towards consolidating its position as a regional financial hub and facilitating a number of FinTech initiatives. The CBB has established a Fintech and Innovation Unit, launched a Regulatory Sandbox for financial technology startups and existing financial institutions, and provided licenses for digital banks.

The CBB announced the establishment of a dedicated FinTech & Innovation Unit in October 2017 to ensure an adequate regulatory framework is in place to adapt FinTech, which in turn will enhance the services provided to individual and corporate customers in the financial sector. The FinTech Unit is responsible for 1) the approval process to participate in the Regulatory Sandbox 2) supervision of the activities and operations of the authorized Regulatory Sandbox companies' and 3) monitoring technical and regulatory developments in the FinTech field which will allow industry players to apply innovative products while maintaining the overall safety and soundness of the financial system 4) collaborate with other regulators and policy makers to exchange ideas, share experiences and learnings.

10.2.1 Regulatory Sandbox

CBB launched a regulatory sandbox in June 2017 that enables both local and international emerging businesses, financial technology companies as well as existing CBB licensees, to test their innovative ideas and create pioneering solutions for the financial services sector.¹⁵ This initiative aimed to attract FinTech companies from around the world to develop and expand their business in region.

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

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

As of September 30th, 2021, CBB had 22 companies testing their solutions within the Regulatory Sandbox, 12 have graduated of which two have received a license: one receiving a license as a capital market- crypto asset service and one as a specialized license- ancillary service provider. The solutions being tested out in the sandbox range from digital financing solutions, crypto platforms, tokenization offerings, open-banking solutions, payment services providers, robo-advisory solutions and many more.

10.2.2 FinHub 973: CBB Digital Lab

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

¹⁵ A Regulatory Sandbox (Sandbox) is a framework and process that facilitates the development of the FinTech industry in a calculated way. It is defined as a safe space in which businesses can test innovative products, services, business models and delivery mechanisms without immediately incurring all the normal regulatory and financial consequences of engaging in the activity in question.

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

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

In April 2021, CBB continued its collaboration with FinHub by announcing the launch of a series of nation-wide FinTech innovation challenges, named the 'Bahrain Supernova'. The challenges aimed at furthering the development of the FinTech industry in the Kingdom of Bahrain by presenting real market challenges faced by the financial institutions in the Kingdom, aiming to find customer-centric solutions using emerging technologies. The financial institutions along with the CBB announced several problem-statements, whereby start-ups and tech firms from Bahrain and the region were invited to submit their proposals via the FinHub973 digital platform.

10.2.3 Open Banking

In October 2020, CBB launched the Bahrain Open Banking Framework (BOBF) to ensure holistic implementation of Open Banking services by the industry. The framework includes detailed operational guidelines, cyber security standards and guidelines for adoption, customer experience guidelines, technical open Application Programming Interface (API) specifications and the overall governance framework needed to protect customer data. These standards follow the comprehensive rules on Open Banking which were previously issued in December 2018. The open banking regulations mandated the adoption of open banking by all retail banks in the Kingdom by 30 June 2019. With that, Bahrain became the first country in the Middle East to adopt open banking making access to financial information easier, faster, and tailored to the needs of customers.

Open Banking services entail the provision of two broad categories of services:

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

The OBF aims to improve the reach and quality of services offered by retail banks through digital online and mobile channels. The entrepreneurial and FinTech start-up ecosystem found in Bahrain, that encompasses accelerators, incubators, training programs and funding schemes, can play a major part in Open Banking that will foster competition and enhance efficiency of the financial system adapting to changing consumer trends.

Following the launch of the BOBF, CBB issued for consultation the amended CBB Rulebook Modules to be aligned to BOBF on 28th April 2021. CBB also issued a circular regarding the second phase of the OBF directing retail banks and financial institutions to implement the requirements for the second phase of the framework by 30 June 2022. The second phase of the framework includes guidelines and standards related to the following services:

- Sharing Open Data (publicly available data such as ATM locator, Branch Locator, etc.)
- Domestic Standing Orders
- International Standing Orders
- International Future Dated Payments
- Bulk/Batch Payment

10.2.4 National e-KYC

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

The API of the platform allows for seamless integration with financial institutions core systems, digital channels and mobile apps. With the introduction of Open Banking in Bahrain, this also provides an opportunity for FinTech companies to verify customers identities through their online and mobile applications. The IGA has started providing identity verification services to the government sector, and this project complements providing the services to the private sectors, especially the banking sector, as the project will allow the it to start providing innovative, high-quality, secure data services that keep the privacy of individuals. That will lead to enhance economic growth and expand commercial activities in the Kingdom.

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

10.2.5 Tokenization for Contactless Payments

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

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

The encryption service blocks the card's data from the other party's visibility and prevents any party from accessing it, thus the customer is protected from the risk of misuse of the data available on the card and those stored in it. The service does not require any additional data to be stored on the BenefitPay app, and all that is required from the customer to specify the card in the app to activate the service.

10.2.6 BENEFIT

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

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

- Automated Teller Machine (ATM)
- Point of Sale (POS):

- Bahrain Credit Reference Bureau
- BenefitPay
- Bahrain Cheque Truncation System
- Electronic Fund Transfer System (EFTS)
- Payment Gateway
- Internet Banking Shared Platform
- GCCNet Dispute Management System
- Direct Debit
- Tele Bill Payment through Mobile Phones
- Benefit FinTech Lab

10.2.7 E-Wallet Developments

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

Table 10.1: Digital Wallets and Features in the Kingdom

Wallet	Launch	Description	Features
b-wallet	January 2018	Bahrain's digital services provider, Batelco partnered with Arab Financial Services (AFS), to introduce the digital mobile wallet and payment solution for customers. The digital mobile wallet app enables quick and secure payments through a smartphone app. The user can scan the QR Code available at different merchants to make payment.	<ul style="list-style-type: none"> • Add money into a user's account using any debit card issued in Bahrain. • Send and receive money between b-wallet accounts. • Request money from another b-wallet account. • Make payments to merchants. • Pay with your smartphone using QR code. • Available Offers.
BenefitPay	May 2017	The service provides a one-time step to add a card and/or bank account and enables customers to scan a QR code from the merchant app and enters proper authentication to complete the transaction. BenefitPay also allows for peer-to-peer transactions.	<ul style="list-style-type: none"> • Make Payments to merchants. • Payments using Credit cards through the mobile App payments or websites. • P2P transfers through Fawri+. • Bill payments through Fawateer. • Pay with your smartphone using QR code. • Available Offers.
Max Wallet	July 2017	Launched via a collaboration between BBK and CrediMax, Max Wallet allows customers to pay for their purchases using their mobile device without presenting their physical credit cards and paying with a smartphone using QR code.	<ul style="list-style-type: none"> • Transferring money and sharing payments with friends and family. • Make purchase payments to merchants. • Pay with your smartphone using QR code. • Available Offers.
STC Pay	March 2018	STC Bahrain launched Viva Cash, a new application offering consumers secure and convenient a digital mobile wallet for payments. STC partnered with Sadad Bahrain, licensed and regulated by CBB. VIVA Cash is a mobile wallet that can be used to pay your day-to-day expenses.	<ul style="list-style-type: none"> • Add money to STC Cash account. • Send Money to friends and Family. • Pay post-paid bills & recharge prepaid Lines. • Send money internationally. • Shop at participating merchants. • Pay with your smartphone using QR code. • Make purchase payments to merchants. • Available Offers.

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

10.2.8 Crypto Assets

On February 2019, CBB issued comprehensive regulations that covers a range of activities related to crypto-assets allowing for the licensing and regulation of trading, dealing, advisory services, portfolio management services in accepted crypto-assets as principal, as agent, as custodian and as a crypto-

asset exchange. The range of activities are covered under four licensed category types. Bahrain recognizes that the market for crypto-assets is growing both in the Kingdom and globally. The regulations are part of CBB's initiative to develop its FinTech eco system and to help mitigate against the risk of financial crime and illegal use of crypto-assets within or from Bahrain.

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

10.2.9 Crowdfunding

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

10.2.10 Digital Financial Advice

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

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

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

10.2.11 FinTech Bay

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

10.2.12 Other Regulatory Framework Developments and Projects

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

- CBB Digital Strategic Study project: CBB has engaged a consultant to assist in assessing the current and emerging business models across the financial services industry, how they will shape both the incumbent and new entrants into the market and also help to understand CBB's anticipated role in regulating these business models and to identify cross cutting themes that need to be addressed to furbish digital transformation.
- The CBB is in the process of pushing for digitalizing within the Insurance sector. The CBB is working with the sector to accomplish this in a phased-approach.
- Bahrain Electronic Cheque System (BECS): The first of its kind that caters to individual, as well as corporate bank customers. BECS will allows a bank customer to electronically request

a cheque book, as well as writing, signing and depositing cheques securely online. The system will also provide real-time updates on the where the cheque is in the clearing cycle.

10.3 Financial Inclusion

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

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

The financial services sector provides services to various categories of the Bahraini population. All payments made by the government, whether in the form of salaries, wages, social benefits or payments to service providers to government agencies, are through formal bank accounts. Efforts have been made by CBB to prioritize financial inclusion in terms of adopting and implementing a viable national strategy to 1) improving women's, SME, and young people's access to financial services 2) promoting the protection of consumers of financial services 3) improving and providing financial coverage data and statistics to support policy development, and 4) promoting awareness and financial education.

Table 10.2: Financial Inclusion Figures for the Kingdom of Bahrain

	2015	2016	2017	2018	2019	2020*
Number of Banks**	27	27	26	29	29	29
Number of Branches	171	172	171	173	204	175
Number of Branches per 100,000 in population	12.5	12.1	11.4	11.5	13.7	11.9
Number of ATMs	458	461	453	479	515	505
Number of ATMs per 100,000 in population	33.4	32.4	30.2	31.9	34.7	34.3
Number of Accounts ***	1,636,519	1,741,395	1,887,403	1,907,307	2,108,637	2,026,890
Number of Accounts per 1,000 in population	1,194	1,223	1,257	1,269	1,421	1,376.8
Number of Internet/PC linked accounts	468,746	544,111	534,033	477,894	616,960	707,794
ATM Cards (thousands)	1,352.6	1,407.7	1,481.8	1,384.6	1,644.1	1,733.7
Debit Cards (thousands)	1,097.2	1,111.2	1,128.5	1,171.7	1,210.3	1,363.4
Credit Cards (thousands)	253.3	290.3	329.7	322.9	306.6	402.2
Population	1,370,322	1,423,726	1,501,116	1,503,091	1,483,756	1,472,204

*Preliminary data.

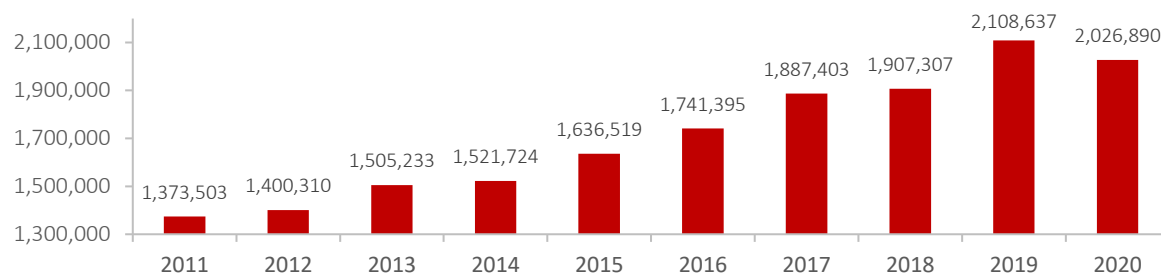
**Retail Banks only (Conventional and Islamic).

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

Source: CBB and IGA.

From 2015 to 2020, figures show that access to finance measured by the number of Branches and ATM machines per 100,000 people within the Kingdom is large (table 10.2). In terms of bank branches per 100,000 people, Bahrain stands at 11.9 for 2020. As for the number of ATM machines per 100,000, Bahrain records 34.3 ATMs per 100,000 in population for 2020. The number of bank accounts within retail banks increased over the last 5 years from 1,636,519 in 2015 to 2,026,890 in 2020 demonstrating an increase of 23.9% (The 2020 decrease in the number of retail bank accounts was 3.9%).

Chart 10.1: Number of Bank Accounts



*Preliminary data.

Source: CBB.

10.4 Cyber Security Initiatives

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

The CBB has more than one role in addressing Cyber risk. Cyber Incidents are required to be reported to the CBB's Banking Supervision immediately upon such occurrence. The related rules are also being revised to seek details of remedial measures and action plans for addressing the weaknesses that led to the incident.

The CBB's Banking Supervision receives vulnerability and penetration testing reports from financial institutions on a regular basis. The Inspection Directorate conducts both on-site and off-site inspections on financial institutions information technology and cyber security infrastructure, recently multiple financial institutions have been inspected. Additionally, the Inspection Directorate covers the whole cybersecurity domains that ranges from physical security, security operation, risk assessment, governance, threat intelligence, user education, and framework and standards. The Economic Research Division at the FSD issued Cyber Risk Surveys to cover cyber risk relative to governance and leadership, identification, protection, detection, response and recovery.

The CBB continues to develop its regulations on cybersecurity in an effort to strengthen the cyber resilience of its financial institutions. Recently, the CBB issued final regulations for all banks on Cyber Security Risk Management. The rules cover:

- Role of Board and Senior Management
- Cyber security risk management framework encompassing:
 - Cyber security strategy
 - Cyber security policy
 - Cyber security risk management approach, tools and methodology
- Prevention Controls
- Cyber Risk Identification and Assessments
- Cyber Incident Detection and Management
- Recovery
- Cyber Security Insurance
- Training and Awareness
- Reporting to CBB

The CBB also issued industry consultations on cyber security for insurance licensees, investment business firms, specialized licensees including money changers and ancillary service providers and crypto-asset licensees.



ANNEX:

FINANCIAL SOUNDESS
INDICATORS AND SELECTED
GRAPHS

ANNEX 1: SELECTED FINANCIAL SOUNDESS INDICATORS (FSIs)

Annex 1 Table 1: Selected Financial Soundness Indicators – All Banking System

Indicator	Q2 2020	Q4 2020	Q2 2021
Capital Adequacy			
CAR (%) *	18.5	18.6	18.8
Tier 1 CAR (%) *	17.1	17.3	17.6
Assets-to-Capital (Times) *	8.2	8.2	8.3
Asset Quality			
NPLs (% of Total Loans)	4.5	4.3	3.8
Specific Provisions (% of NPLs)	64.8	68.0	69.1
Loan Concentration (Share of Top Two Sectors) (%)	30.2	31.0	30.0
Real Estate/ Construction Exposure (%)	25.3	25.4	25.9
Earnings			
ROA (%)	0.4	0.7	0.6
ROE (%) *	1.6	2.8	4.0
Net Interest Income (% of Total Income) **	70.9	69.7	72.5
Net Fees & Commissions (% of Total Income) **	12.3	12.4	13.2
Operating Expenses (% of Total Income)	70.2	70.7	51.5
Liquidity			
Liquid Assets (% of Total Assets)	24.6	24.6	26.5
Loan-Deposit Ratio (%)	69.5	70.9	70.1

* Locally-Incorporated Banks only.

**Conventional Banks only.

Source: CBB.

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

Indicator	Conventional Retail			Conventional Wholesale		
	Q2 2020	Q4 2020	Q2 2021	Q2 2020	Q4 2020	Q2 2021
Capital Adequacy						
CAR (%) *	18.8	20.0	20.5	17.9	17.8	17.6
Tier 1 CAR (%) *	17.5	18.7	19.0	17.0	17.0	16.7
Assets-to-Capital (Times) *	7.5	7.0	7.0	8.2	8.4	8.2
NPLs Net Provisions to Capital (%) *	5.1	5.0	5.3	6.2	4.9	4.4
Asset Quality						
NPLs (% of Total Loans)	4.6	4.7	4.3	4.7	4.1	3.6
Specific Provisions (% of NPLs)	66.2	69.9	69.6	72.3	74.3	73.9
Net NPL' (% of Net Loans)	1.6	1.5	1.4	1.3	1.1	1.0
Loan Concentration (Share of Top Two Sectors)	33.4	35.4	34.2	40.4	41.9	40.0
Real Estate/ Construction Exposure (%)	31.9	33.1	33.1	21.1	20.9	21.5
Earnings						
ROA (%)	0.6	1.0	0.7	0.4	0.8	0.6
ROA Local Banks (%)	0.8	1.3	0.8	-0.3	-0.6	0.2
ROA Overseas Banks (%)	0.2	0.3	0.6	1.1	2.1	0.9
ROE (%) *	6.0	9.6	5.8	-2.3	-5.3	1.7
Net Interest Income (% of Total Income)	74.6	76.1	77.7	66.9	63.6	67.6
Net Fees & Commissions (% of Total Income)	10.4	10.1	10.1	15.7	13.7	16.1
Operating Expenses (% of Total Income)	54.9	61.6	44.7	68.5	68.6	44.2
Liquidity						
Liquid Assets (% of Total Assets)	32.8	34.4	34.1	22.2	21.6	24.7
Liquid Assets (% of Short-Term Liabilities)	41.2	43.4	42.8	27.2	26.5	29.8
Loan-Deposit Ratio (%)	66.4	66.3	67.2	67.1	71.1	69.4
Non-Bank Deposits (% of Total Deposits)	73.3	72.1	70.4	48.1	46.8	48.9

* Locally-Incorporated Banks only.

Source: CBB.

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

Indicator	Islamic Retail			Islamic Wholesale		
	Q2 2020	Q4 2020	Q2 2021	Q2 2020	Q4 2020	Q2 2021
Capital Adequacy						
CAR (%) *	20.6	20.3	21.6	17.6	16.4	16.4
Tier 1 CAR (%) *	17.8	17.9	19.6	16.2	15.0	15.2
Assets-to-Capital (Times) *	9.9	10.1	10.4	8.7	9.6	10.0
NPFs Net Provisions to Capital (%) *	25.7	22.2	15.5	1.3	0.9	1.9
Asset Quality						
NPFs (% of Total Facilities)	7.5	6.5	5.5	1.4	1.6	1.8
Specific Provisions (% of NPFs)	40.7	42.9	52.4	78.6	87.6	78.6
Net NPFs (% of Net Facilities)	4.8	4.0	2.8	0.3	0.2	0.4
Facilities Concentration (Share of Top Two)	32.3	36.7	34.9	44.0	34.4	43.9
Real Estate/ Construction Exposure (%)	29.3	31.4	31.4	18.1	15.5	17.2
Earnings						
ROA (%)	0.2	0.2	0.3	0.0	0.3	0.4
ROE (%) *	2.1	2.1	3.9	-0.5	3.1	4.7
Net Income from Own Funds, Current Accounts and Other Banking Activities (% of Operating Income)	53.9	45.0	40.4	46.7	42.2	41.0
Net income from Jointly Financed Accounts and Mudarib Fees (% of Operating Income)	44.3	53.9	58.5	50.6	55.6	56.7
Operating Expenses (% of Total Income)	83.7	89.2	71.6	94.3	83.2	68.5
Liquidity						
Liquid Assets (% of Total Assets)	17.3	17.8	19.4	16.5	14.6	18.8
Facility-Deposit Ratio (%)	79.1	79.7	76.2	65.6	63.2	64.0
Current Accounts from Non-Banks (% of Non-Capital Liabilities, excl. URIA)	31.6	33.5	36.0	43.9	49.1	49.9

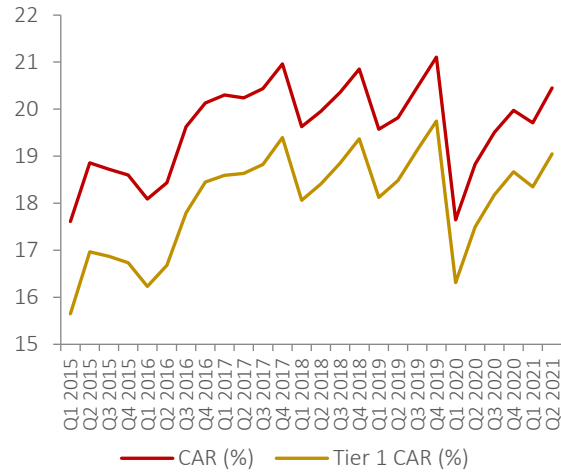
* Locally-Incorporated Banks only.

Source: CBB.

ANNEX 2: SELECTED FSIs GRAPHS

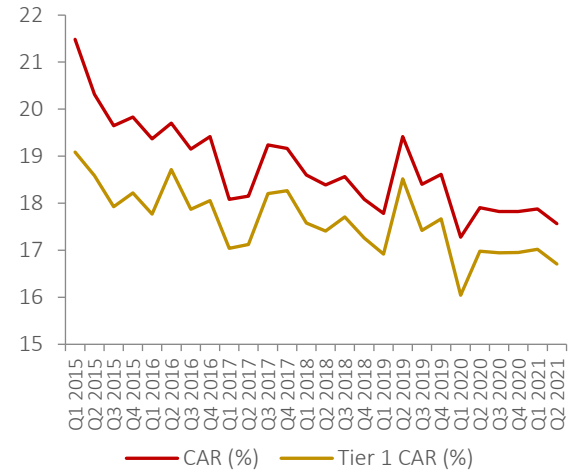
A. Capital Adequacy

Annex 2 Graph 1: Conventional Retail



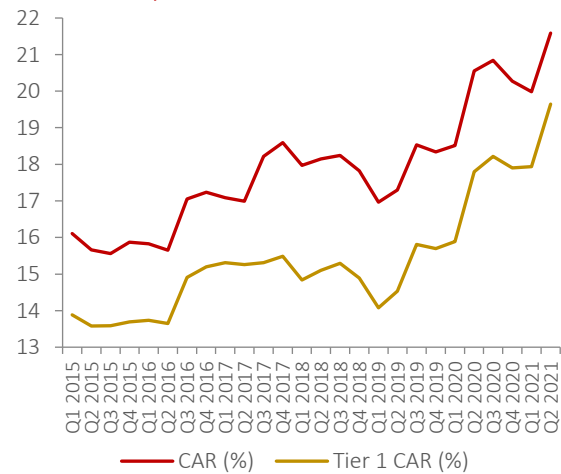
Source: CBB.

Annex 2 Graph 2 : Conventional Wholesale



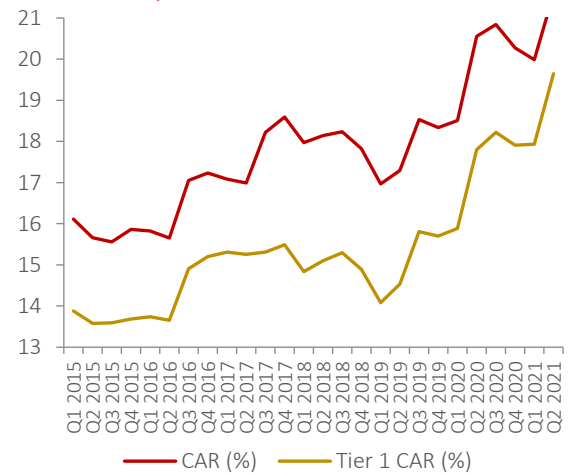
Source: CBB.

Annex 2 Graph 3: Islamic Retail



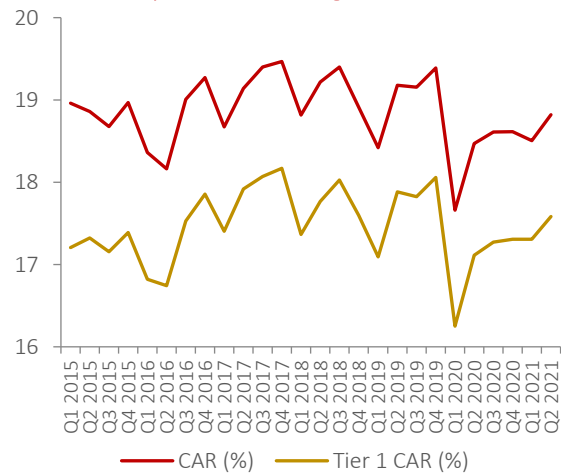
Source: CBB.

Annex 2 Graph 4: Islamic Wholesale



Source: CBB.

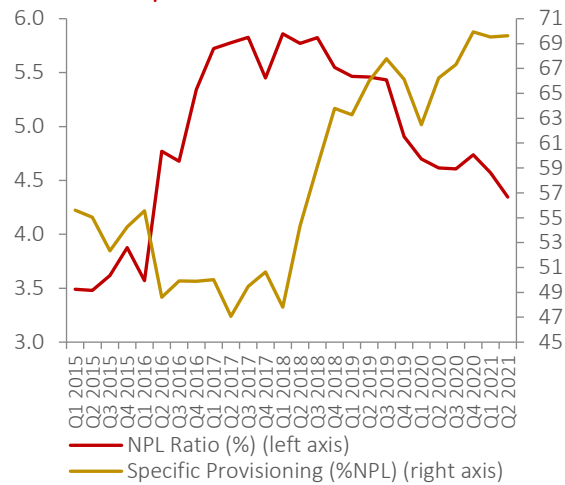
Annex 2 Graph 5: All Banking



Source: CBB.

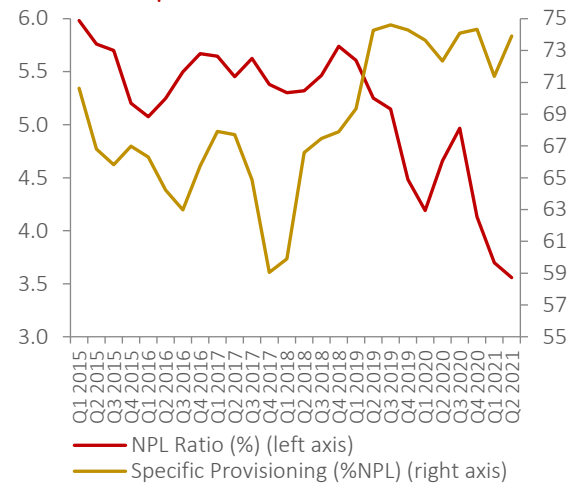
B. Asset Quality

Annex 2 Graph 6: Conventional Retail



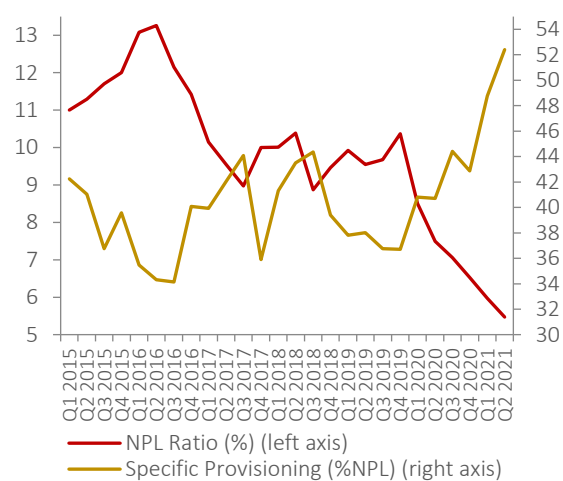
Source: CBB.

Annex 2 Graph 7: Conventional Wholesale



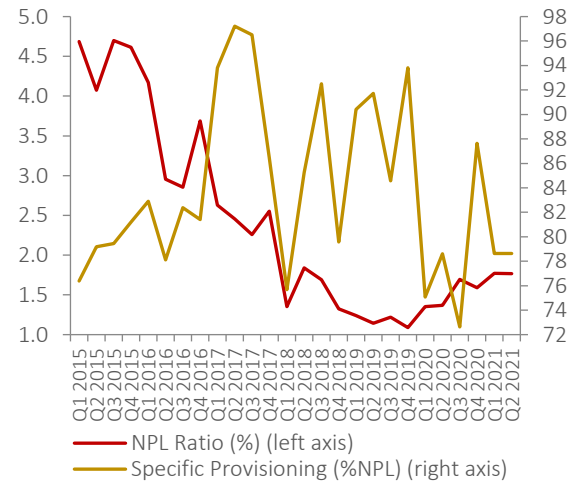
Source: CBB.

Annex 2 Graph 8: Islamic Retail



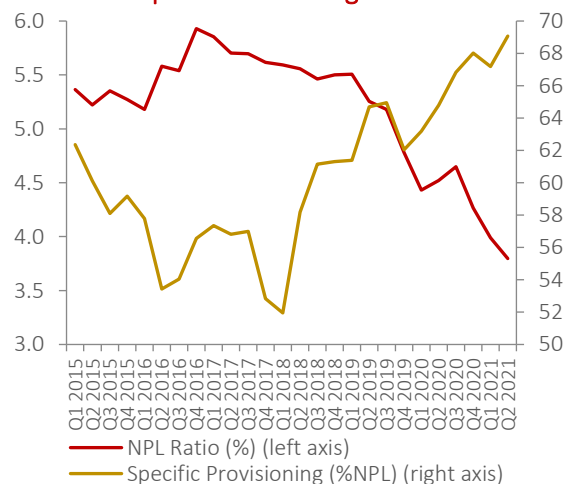
Source: CBB.

Annex 2 Graph 9: Islamic Wholesale



Source: CBB.

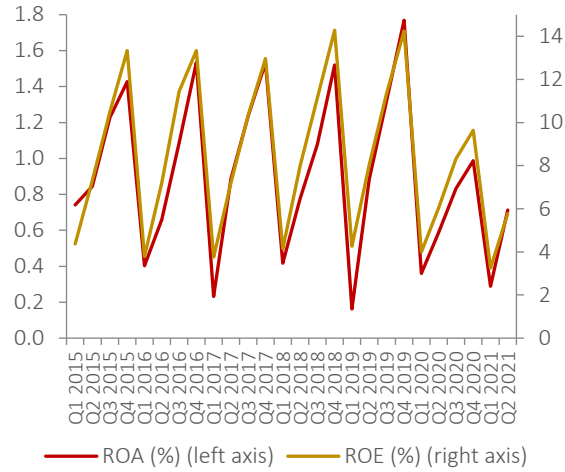
Annex 2 Graph 10: All Banking



Source: CBB.

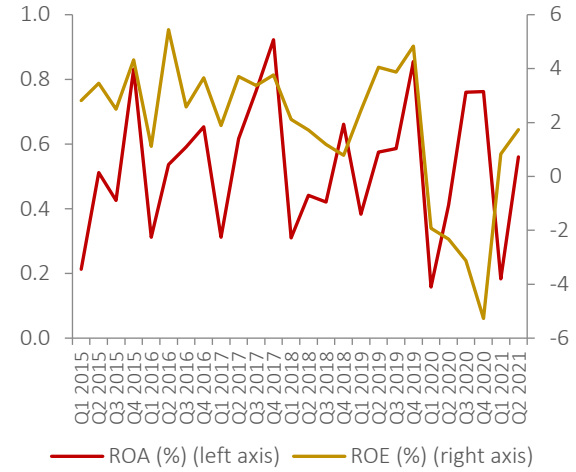
C. Profitability

Annex 2 Graph 11: Conventional Retail



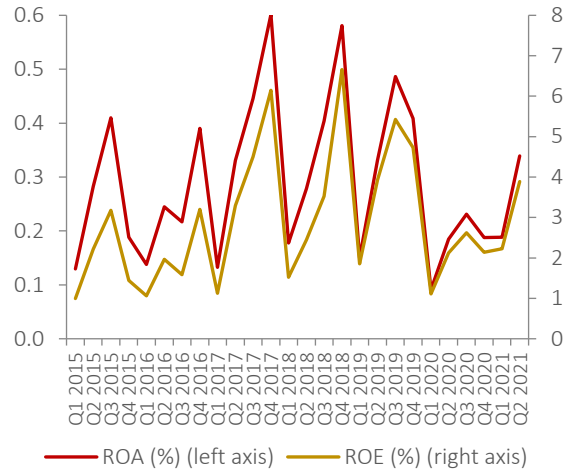
Source: CBB.

Annex 2 Graph 12: Wholesale



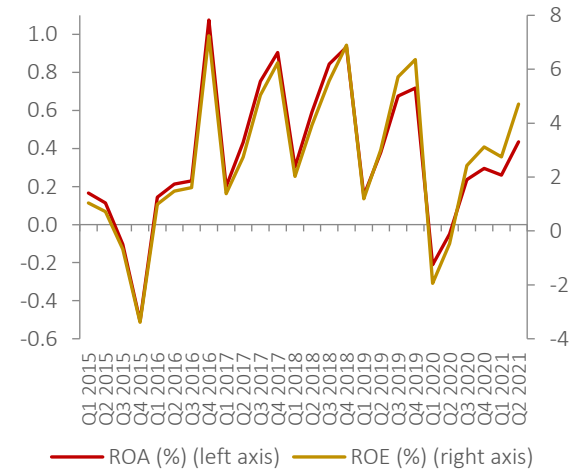
Source: CBB.

Annex 2 Graph 13: Islamic Retail



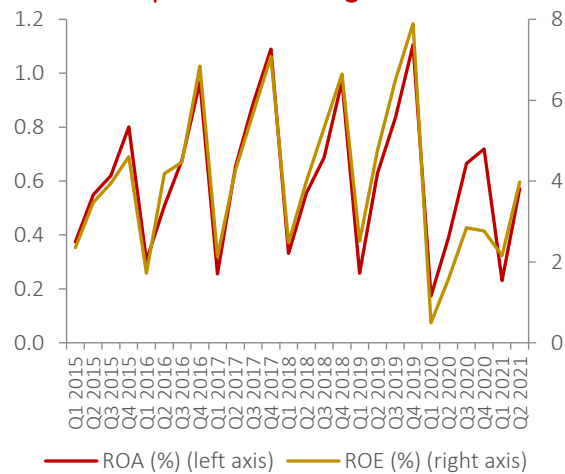
Source: CBB.

Annex 2 Graph 14: Islamic Wholesale



Source: CBB.

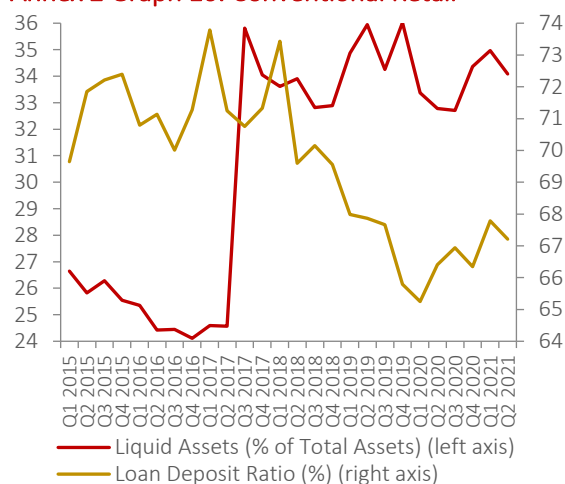
Annex 2 Graph 15: All Banking



Source: CBB.

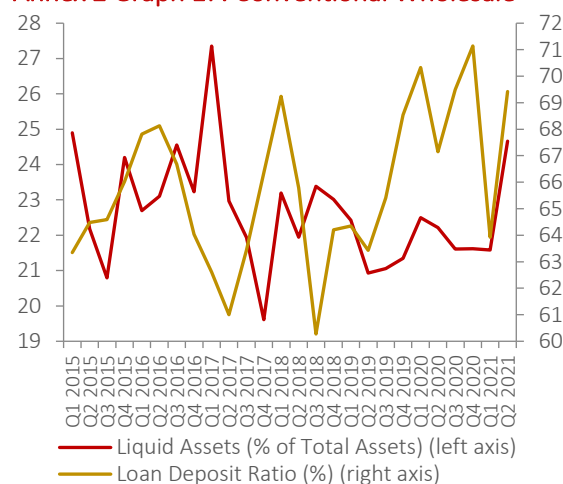
D. Liquidity

Annex 2 Graph 16: Conventional Retail



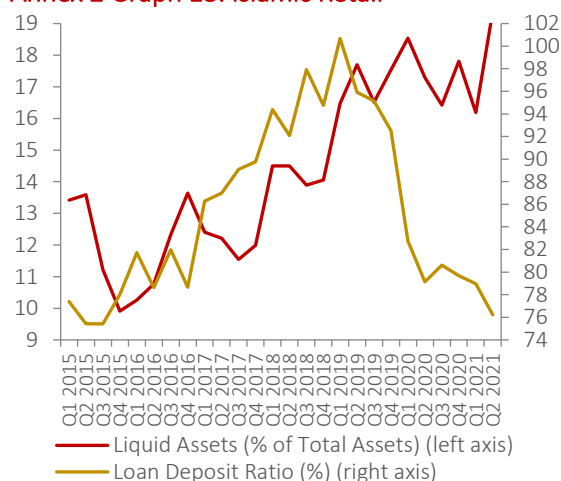
Source: CBB.

Annex 2 Graph 17: Conventional Wholesale



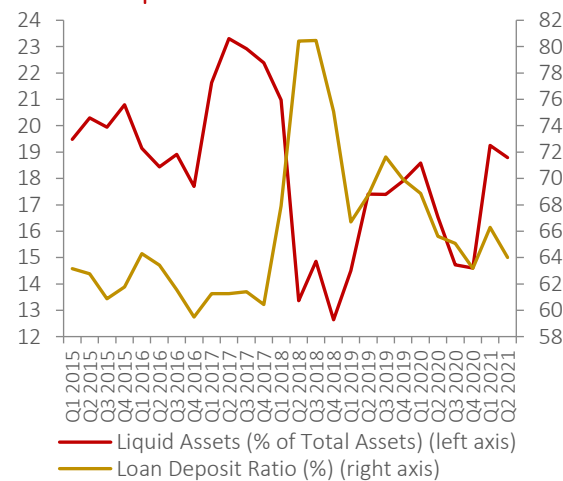
Source: CBB.

Annex 2 Graph 18: Islamic Retail



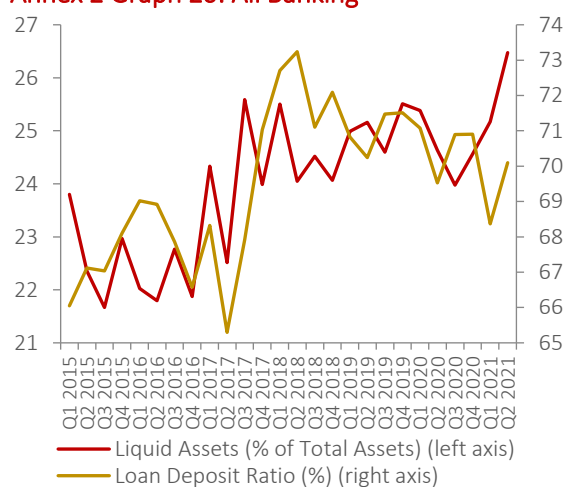
Source: CBB.

Annex 2 Graph 19: Islamic Wholesale



Source: CBB.

Annex 2 Graph 20: All Banking



Source: CBB.

ANNEX 3: TIMELINE OF CBB AND GOVERNMENT MEASURES TO CONTAIN EFFECTS OF COVID-19 PANDEMIC

CBB Measures

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

Date	Measures
16 th March 2020	<ul style="list-style-type: none"> • CBB cut key policy interest rate. • CBB's key policy interest rate on the one-week deposit facility was cut from 1.75% to 1.00%. CBB also decided to cut the overnight deposit rate from 1.50% to 0.75%, the one-month deposit rate from 2.20% to 1.45%, and CBB lending rate from 2.45% to 1.70%.
18 th March 2020	<ul style="list-style-type: none"> ▪ CBB urged providers of POS devices to communicate with merchants to sterilize such devices regularly and to require customers to directly enter and remove their cards from the POS devices. ▪ CBB urged all licensees to follow and implement sterilization instructions issued by the Ministry of Health and submit a report on this. CBB also instructed licensees to communicate with the public by covering the measures taken to ensure the safety of their employees and customers in the press or through social media. ▪ The volume limit of contactless (NFC) transactions on POS devices has been increased to BD50/- without the need to use a PIN code. CBB also instructed its licensees to adhere to the requirements of continuation of operations and services. ▪ A cap of 0.8% has also been set on merchant fees imposed by local banks and finance companies on debit card transactions to reduce merchant and company costs (0.35% to the acquirer, 0.25% to the issuer, 0.2% to the benefit company). ▪ CBB issued several regulatory measures for a period of six months to contain any financial repercussions on customers of the banking sector, which will be reviewed by CBB at the end of the period in consultation with the banking sector. These measures aim to provide more liquidity and flexibility to enable banks to continue providing financing to their customers. ▪ CBB required retail banks, financing companies and microfinance institutions to postpone instalments for any borrower or credit card holder affected by the economic repercussions of the Coronavirus without fees or interest on interest or increase in the percentage of profit / interest for a period of 6 months, unless the borrower agrees to pay within a shorter period. ▪ CBB provided retail banks concessionary repo arrangements with up to 6 months at zero percent on a case-by-case basis. ▪ CBB reduced cash reserve ratio for retail banks from 5% to 3%. ▪ CBB requested to relax the LTV for new residential mortgages or Bahrainis except Mazaya loans.
20 th March 2020	<ul style="list-style-type: none"> ▪ In light of the current situation faced by the Kingdom of Bahrain and to preserve the health and safety of citizens and residents, CBB Bahrain urged consumers to communicate through the National Suggestion & Complaint System "Tawasul" or through CBB website https://www.cbb.gov.bh/complaint-form/ or by calling 17547789/17547360, instead of personally visiting the Consumer Protection Office at CBB.
23 rd March 2020	<ul style="list-style-type: none"> ▪ CBB instructed Money Changers to disinfect all incoming currency notes and wholesale imported notes to limit the risk of exposure to the Coronavirus (COVID-19). ▪ Under the instructions, Money Changers are required to disinfect incoming currency and wholesale imported notes with Ultraviolet Germicidal Irradiation (UVGI) or by isolating notes for 72 hours. ▪ Money Changers Licensees are also required to equip employees with Personal Protective Equipment (PPE) as per recommendations outlined by the Ministry of Health.

20 th September 2020	<ul style="list-style-type: none"> CBB announced that banks will defer loan payments to their customers until the end of the current year in a manner that does not affect the banks' liquidity and financial solvency, provided that interest rates and fees prescribed by banks on these loans are calculated during the deferral period. CBB's announcement followed directives by the Cabinet in its weekly session to help offset the negative impact of Covid-19, without affecting banks' liquidity and financial solvency to contribute in providing liquidity in supporting citizens and various economic sectors to alleviate the economic effects of the pandemic.
22 nd September 2020	<ul style="list-style-type: none"> CBB has clarified that no fees, except insurance, can be charged by lenders on the four-month loan deferral for Bahrainis and local companies. No fees must be charged to customers for providing loan deferment option, except for additional insurance fees resulting from extension of the loan tenor.
29 th December 2020	<ul style="list-style-type: none"> CBB directed banks and financing companies to offer their customers six-month installments deferment option, starting from 1st January 2021. The option must entail extending the tenor to take into account the additional profit/interest, while keeping the installment amount unchanged. Moreover, licensees must not increase profit/interest rates; The following exposures are excluded from the deferment option: <ul style="list-style-type: none"> Credit card exposures; Financing instalments received through court unless arranged through court; Credit syndication facilities to resident corporates involving non-resident participating lenders; and Pre-export financing under letters of credit without recourse to the resident corporate (exporter). CBB will reassess the need to continue with such concessionary measures during June 2021 and advise licensees accordingly.
27 th May 2021	<ul style="list-style-type: none"> CBB has decided that the existing deferral agreement expiring on 30th June 2021 will be extended for another period of six months until 31st December 2021 for all Stage 1&2 resident retail, small and medium sized enterprises and other corporate customers. CBB will reassess for the need for any further deferral arrangement during December 2021 and shall advise the licensees accordingly.

Source: CBB.

CBB Circulars

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

Date/ Circular	Licenses	Subject
5 th March 2020 EDBS/KH/C/21/2020	All Banks All Financing Companies All Micro-Finance Companies	Concessionary Measures to Mitigate the Impact of Coronavirus
8 th March 2020 EDBS/KH/C/24/2020	Selected Retail Banks/Specialized Licenses/Ancillary Service Providers	Measures to Mitigate the Impact of Coronavirus
11 th March 2020 EDBS/KH/C/25/2020	All Banks All Financing Companies All Micro-Finance Institutions All Ancillary Services All Representative Offices	Disinfection Instructions
11 th March 2020 EDFIS/C/024/2020	Self-Regulatory Organizations (SRO) SRO Members Crypto-asset Licensees All listed Companies	Disinfection Instructions
12 th March 2020 EDBS/KH/C/26/2020	All Retail Banks	Services Continuity Measures
16 th March 2020 EDBS/KH/C/28/2020	All Banks All Financing Companies All Micro-Finance Institutions All Ancillary Services All Representative Offices	Disinfection Instructions
17 th March 2020 OG/106/2020	All Banks All Financing Companies All Microfinance Companies All Ancillary Services Providers	Regulatory Measures to Contain the Financial Repercussions of the Covid-19

19 th March 2020 OG/108/2020	All CBB Licensees All Listed Companies	Upcoming General Meetings
23 rd March 2020 EDBS/KH/C/30/2020	All Retail Banks All Financing Companies All Microfinance Companies	Implementation Guidelines Regarding the 6 th Months Deferral
24 th March 2020 EDBS/KH/C/32/2020	All Retail Banks All Financing Companies All Microfinance Companies	Implementation Guidelines Regarding the 6 th Months Deferral
24 th March 2020 EDFIS/C/030/2020	All Insurance Licensees	Sub: Services Continuity Measures
26 th March 2020 EDFIS/C/032/2020	Self-Regulatory Organizations (SRO) SRO Members Crypto-asset Licensees	Services Continuity Measures
30 th March 2020 EDBS/KH/C/33/2020	All Banks	Deferral of Implementation of Announced Regulator Policy Requirements
30 th March 2020 OG/124/2020	All listed Companies All locally incorporated banks	Exemption for First Quarter Financial Results Preparation and Publication
30 th March 2020 CMS/C/010/20	SRO Members	Market Intermediaries responsibility Amid COVID-19
1 st April 2020 EDBS/KH/C/34/2020	Ancillary Service Providers Financing Companies Microfinance Institutions	Agreed Upon Procedures for Financial Crime (FC) Module
1 st April 2020 EDBS/KH/C/35/2020	All Banks	Agreed Upon Procedures for Financial Crime (FC) Module
1 st April 2020 EDFIS/C/034/2020	All Insurance Licensees	Agreed Upon Procedures for Financial Crime (FC) Module
1 st April 2020 EDFIS/C/035/2020	All Investment Firms	Agreed Upon Procedures for Financial Crime (FC) Module
1 st April 2020 EDFIS/C/036/2020	All Money Changers All Non-Bank Representative Offices All Administrators/Registrars All Trust Services Providers Ancillary Services Providers- Third Party Administrators	Agreed Upon Procedures for Financial Crime (FC) Module
1 st April 2020 EDFIS/C/037/2020	Self-Regulatory Organizations (SRO) SRO Members Crypto-asset Licensees	Agreed Upon Procedures for Anti-Money laundering and Combating of Financial Crimes (AML) Module
1 st April 2020 CMS/C/011/2020	All Listed Companies	Market Fairness and Integrity Amid COVID-10 Developments
2 nd April 2020 EDBS/KH/C/36/2020	All Banks	Date Sensitive Reporting Requirements Extensions/Exemptions Under Rulebooks (Volume 1 and 2)
2 nd April 2020 EDBS/KH/C/37/2020	All Financing Companies All Microfinancing Companies	Date Sensitive Reporting Requirements Extensions/Exemptions Under Rulebooks (Volume5)
2 nd April 2020 EDBS/KH/C/38/2020	All Banks	Date Sensitive Reporting Requirements Extensions/Exemptions Under Rulebooks (Volume 5)
8 th April 2020 OG/148/2020	All Licensees	Additional COVID-19 Precautionary Measures
12 th April 2020 OG/152/2020	All Retail Banks	Directive on Use of Salary Transfers to Bahrainis by the Government
26 th April 2020 EDBS/C/41/2020	All Bank Licensees All Financing Companies All Microfinance Companies	Financial Impact Assessment of the Six Months Instalment Deferral
27 th May 2020 EDFIS/C/052/2020	All Licensees	Money Laundering & Terrorist Financing Risks & Practices during COVID-19
21 st June 2020 OG/226/2020	All Bahraini Bank Licensees All Financing Companies All Microfinance Institutions	Regulatory Concessionary Measures
1 st July 2020 OG/249/2020	All Branches of Foreign Banks	Regulatory Concessionary Measures

14th July 2020 OG/259/2020	All Listed companies All Licensees	Reporting of Financial Impact of COVID-19
24 th August 2020 EDBS/KH/C/54/2020	All Banks All Financing Companies ALL Microfinance Companies	Exemptions from Submission of Agreed Upon Procedures on PIR/PIRI/PIRFM (Volumes 1, 2, and 5)
26 th August 2020 OG/296/2020	All Banks All Financing Companies ALL Microfinance Companies All Payment Services Providers All Cards Processing Services Providers	Status Update on COVID-19 Policy Measures
21 st September 2020 OG/318/2020	All Retail Banks Financing Companies Micro-Finance Companies	Further Deferment of Loan Instalments
22 st September 2020 OG/321/2020	All Retail Banks Financing Companies Micro-Finance Companies	Further Deferment of Loan Instalments
8 th November 2020 EDBS/C/67/2020	All Retail Banks All Financing Companies All Micro-Finance Companies	Non-Charging of Interest/Profit on Deferral Period
29 th December 2020 OG/431/2020	All Banks All Financing Companies All Micro-Finance Companies All Payment Service Providers	Update on COVID-19 Policies Measures
28 February 2021 EDFIS/C/015/2021	All Investment Firms	Agreed-Upon Procedures for The Financial Crime (FC) Module
28 February 2021 EDFIS/C/014/2021	All Insurance Licensees	Agreed-Upon Procedures for The Financial Crime (FC) Module
28 February 2021 EDFIS/C/017/2021	Self-Regulated Organizations (SROs) SRO Members Crypto-assets Licensees	Agreed-Upon Procedures of Anti-Money Laundering and Combating Financial Crime (AML) Module
3 March 2021 EDBS/KH/C/07/2021	All Banks	Agreed-Upon Procedures for The Financial Crime (FC) Module
27 May 2021 OG/170/2021	All Retail Banks All Financing Companies	Extension of Credit Instalments Deferral

Source: CBB.

Government Measures

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

Date	Measures
17 th March 2020	<ul style="list-style-type: none"> In accordance with article (87) of the constitution and the social insurance law, the government will introduce a bill that will allocate 215 BD million from the unemployment fund in order to finance the private sector's payroll for the second quarter of this year. The government will allocate 150 BD million to sponsor electricity and water bills for all individual and corporate subscribers for each of the months "April, May and June" of the current year, not to exceed the bills for the same period of last year for each subscriber. Exemption of businesses from municipal fees for the second quarter of this year, which amounts a total value of 25 BD million. Exemption of industrial and commercial enterprises from rent fees of government industrial land for the second quarter of this year Tourist facilities and facilities are exempt from tourism fees for April, May and June this year. Doubling the size of the liquidity fund by 100 million Bahraini dinars to 200 million Bahraini dinars. A package of decisions from the Central Bank of Bahrain to raise the lending capacity of banks by the equivalent of BD 3.7 billion, to give them the flexibility to deal with customer requests to postpone instalments or additional financing. Redirecting the Labour Fund's "Tamkeen" programs for companies affected by the current conditions with restructuring of loans in cooperation with banks, with a total value of BD 60 million.

LIST OF ABBREVIATIONS

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