FINANCIAL STABILITY REPORT

MARCH 2022

ISSUE NO. 32

مصرف البحرين المركزي

Central Bank of Bahrain

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

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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.

COVID-19 PANDEMIC RECOVERY UPDATE

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 global financial conditions continued to ease on the back of speedy regulatory and supervisory policy actions taken. Large scale fiscal and monetary stimulus to support households and corporates, stabilize markets, and restore confidence in the financial system limited the economic fallout and boosted recovery.

However, growth projections for 2022 are being revised as risks to global financial stability remain. While many countries have eased restrictions and withdrawn targeted policy measures, the pandemic's impact is still not over as the Omicron variant led to a sharp increase in cases in early 2022. Strength of the recovery still varies across countries as many regions are still susceptible to the virus with increases in infections. Many regions are still facing challenges with disparities to access to medical interventions and vaccine deployment, effectiveness of policy support, and exposure to cross-country spill overs.

On top of the Covid-induced lockdowns in some areas, other non-health related risks such as rising inflation, increasing debt, supply chain disruptions, and geopolitical tension are causing the recovery to lose momentum. The rise in inflation and the dangers of raising interest rates is concern as economies are recovering. Supply-chain disruptions are another downside risk due to their potential impact on economic growth and consumer prices.

Risk of deterioration in asset quality, liquidity, and business activity within the financial system still remains. 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. CBB continued to closely monitor economic and market developments in order to ensure financial stability.

Figure 1: Classication 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

2020

16 MARCH

- CBB's cut key policy interest rate on the one-week deposit facility from 1.75% to 1.00%.
- CBB cut overnight deposit rate from 1.50% to 0.75%
- CBB cut one-month deposit rate from 2.20% to 1.45% and CBB lending rate from 2.45% to 1.70%.

18 MARCH

- All licensees to follow and implement sterilization instructions issued Ministry of Health.
- Increase limit of contactless (NFC) transactions on POS to BD 50 without a PIN.
- Cap of 0.8% set on merchant fees imposed on debit card transactions.
- Reduced cash reserve ratio for retail banks from 5% to 3%.
- Relax LTV for new residential mortgages.
- Provide retail banks repo arrangements up to 6 months at 0% on a case-by-case basis.
- Loan deferment Phase 1: Defer loan payments to customers for a period of 6 month (March 2020 until August 2020).

23MARCH

- Money changers to disinfect all incoming currency notes and wholesale imported notes.
- Money changers required to equip employees with Personal Protective Equipment (PPE).

22 SEPTEMBER

- Loan Deferment Phase 2: Defer loan payments to customers for 4 months (September 2020 until December 2020).

29 DECEMBER

- Loan Deferment Phase 3: Defer Loan payments to customers for 6 months (January 2021 until June 2021).

2021

27 MAY

- Loan Deferment Phase 4: Defer Loan payments to customers for 6 months (July 2021 until December 2021).

23 DECEMBER

- Loan Deferment Phase 5: Defer loan payments to customers for 6 months (January 2022 until June 2022).

CBB Loan Deferments

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 five 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.

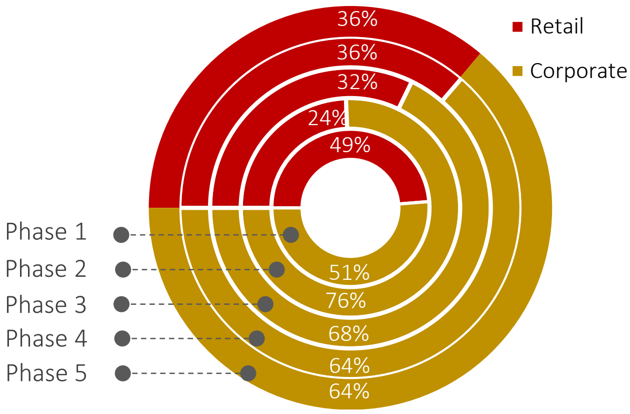
- Phase 3: Announced in end of December 20200 for six months (January 2021 until June 2021) unless the borrower agrees to pay within a shorter period.
- Phase 4: Announced in end of May 2021 for six months (July 2021 until December 2021) unless the borrower agrees to pay within a shorter period.
- Phase 5: Announced in end of December 2021 for six months (January 2022 until June 2022) 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	Phase 5
Number of Customers that Applied Instalment Deferral					
Total	-	72,685	74,274	75,237	78,099
Retail	-	70,857	72,217	73,131	76,386
Corporate	-	1,828	2,057	2,106	1,713
% of Total Customers	-	24.5%	23.3%	24.4%	23.5%
Total Outstanding Loans for Customers who applied for deferment (BD' 000)					
Total	6,233,426	2,756,930	2,879,915	2,821,604	3,108,174
Retail	4,233,565	1,507,829	1,646,134	1,612,237	1,837,411
Corporate	1,999,861	1,249,100	1,233,781	1,209,367	1,270,763
% of Total Loan Portfolio	-	26.1%	27.0%	25.0%	26.3%
Deferred Installments Amounts (BD' 000)					
Total	1,079,388	255,601	343,582	382,771	388,503
Retail	525,888	62,227	110,660	138,906	140,381
Corporate	553,501	193,374	232,922	243,865	248,122
% of Total Deferred	17.3%	9.3%	11.9%	13.6%	12.5%

Source: CBB.

Chart 1: Inslallment Deferrals (Retail vs. Corporate)



Source: CBB.

Other Government Initiatives

Other measures were taken by the Ministry of Finance and National Economy (MOFNE), 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.

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. As of end of March 2022, 80.9% of the population were fully vaccinated receiving two doses, 82.0% of the population received the first dose, and 64.8% received the booster dose (based on 2021 population figures from iGA).

EXECUTIVE SUMMARY

Global Macro Financial Environment Overview

Global economic activity gained momentum despite the differences in pandemic developments and policy actions in 2021. In its recent World Economic Outlook, the International Monetary Fund (IMF) forecasted 5.9% growth in 2022 compared to the -3.9% 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 1.7% in Q4/2021. The Euro Area (19 countries) and the European Union (EU) (27 countries) experienced growths of 2.3% and 2.1% in Q3/2021. The UK's GDP growth decelerated from 5.6% in Q1/2021 to 1% in Q3 and Q4/2021. BRIICS countries' growth was weaker than expected as it reached the level of 4.7% in Q3/2021.

Financial Sector Overview

The size of the assets of the banking sector in Bahrain was USD 217.5 billion as of December 2021 (6.1 times of GDP). Retail banking total assets continued growing to reach BD 37.4 billion (USD 99.4 billion) in December 2021, wholesale banking sector showed an increase to USD 118.1 billion, and Islamic banking sector assets (which represent 15.9% of the total banking sector assets) increased to USD 34.6 billion.

The total amount of credit given to the private sector (business and personal) by retail banks witnessed a boost with a 4.7% YoY increase moving from BD 10.4 billion to 10.9. The deposit base also witnessed growth to BD 18,704.2 million in December 2021 with 75.5% being domestic deposits that had a 4.2% YoY increase. Personal loans and business loans recorded 8.3% and 0.3% 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 18.7% in December 2021. The NPL ratio decreased to 3.2% in December 2021. Return-on-assets (ROA) increased to 1.1% from December 2020 to December 2021, return-on-equity (ROE) increased to 7.8% from 2.8% over the same period. Liquidity positions remained strong as liquid assets as a proportion of total assets stood at 26.2%.

Conventional Banks

The CAR for conventional retail increased from 20.0% in December 2020 to 20.6% in December 2021. Asset quality improved as NPL ratio decreased to 3.9% in December 2021 while specific provisions increased to 71.9%. Profitability or retail banks remained positive with ROA increased to 1.3% and ROE at 10.9%. Liquidity position remained at the same level 33.6% in December 2021.

As for wholesale banks the CAR stood at to 17.1% in December 2021. The NPL ratio dropped to 2.8% in December 2021 while specific provisions witnessed a decrease to 72.8%. Profitability was positive as ROA for the conventional wholesale banking sector increased to 1.3% in December 2021 and ROE increased to 3.5%. Liquid assets for wholesale banks as a proportion of total assets increased to 24.7% in December 2021.

Islamic Banks

The CAR of Islamic retail banks stood at to 21.7% in December 2021. Asset quality improved as non-performing facilities (NPF) ratio decreased by 1.5% to 5.0% in December 2021 while specific provisioning increased to 56.4%. ROA for Islamic retail banks increased to 0.6% in December 2021 and ROE to 7.3%. Liquidity position to Islamic retail banks improved as liquid assets available to Islamic retail banks increased from 17.8% of total assets in December 2020 to 19.5% in December 2021.

On the other hand, the CAR for Islamic wholesale banks decreased to 15.8% in December 2021. The NPF ratio for Islamic wholesale banks decreased and it remains at a low position with provisioning for NPFs remaining high at 92.0%. Islamic wholesale banks registered positive profitability ROA has reached 0.8% in December 2021 and ROE similarly increased from 3.1% to 10.0%. Liquidity assets increased for Islamic wholesale to 18.0% 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 203.7 million as of September 2021. As of September 2021, total assets of conventional insurance firms were BD 2,196 million, a YoY increase of 1.2%. Takaful firms' assets was stable at BD 204.7 million.

Viewing the concertation of the overall insurance industry, medical records the highest concentration in Gross Premiums (28.6%) and Gross Claims (33.3%). Conventional local firms accounted for the largest segment of total gross premiums (54.3%), followed by Takaful (30.0%) and conventional overseas branches (15.7%).

For conventional insurance, motor insurance has the highest concentration for Gross Premiums (24.8%) and Net Premiums Written (35.9%), while long-term (life) has the highest concentration in, Gross Claims (30.2%) and Net Claims (38.0%). Takaful insurance companies have very high concentration on the medical and motor Insurance business lines as gross Premiums for both sectors represented (67.1%), Net Premiums Written (68.5%), Gross Claims (87.2%), and Net Claims (95.9%).

Non-Bank Financial Institutions

The two main segments of the non-Bank Financial Institutions sector are investment businesses and money changers. In December 2021, total assets of investment businesses decreased by 7.1% to BD 421.0 million. Investment business firms' profit dropped reaching BD (1,034) million in Q4 2021. Profits of Category 2 firms increased reaching 2,092.7 BD million.

During 2021, money changers' purchase of foreign currencies amounted to BD 5.5 billion, while the sale of foreign currencies was recorded at BD 6.7 billion for the year. A breakdown of Money Changers turnover indicates that "European" currency group recorded the highest YoY percentage increase in sales. As for purchases, the top YoY increase is also "European".

Capital markets

As of 31st December 2021, Bahrain Bourse recorded a total listing of 42 Companies, 3 Mutual funds and 17 Bonds and Sukuk. During the second half of 2021, there were 25 companies that closed higher and 11 closed lower and 6 remained unchanged. Bahrain All Share Index increased by 20.6% for the year reaching 1,797.3 points, while the Bahrain Islamic Index increased by 15.6% reaching 751.7 points. As of end of 2021, market capitalization of the Bahrain Bourse stood at BD 10.8 billion.

Most of the value and the volume of shares traded in H2 2021 was in the Financials representing 58.4% and 81.8% respectively. Most of the number of transactions in H2 2021 (10,971 transactions) was attained by the Financials sector representing 64.2% of total transactions. As of December 2021, there was 60 private offerings with a total value of USD 15.623 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 H2 2021 increased to 171 transfers compared to 138 transfers for H2 2020.

The daily average volume of cheques for H2 2021 decreased compared to H2 2020 from 9,147 cheques to 8,936 cheques. The daily average value of cheques increased in the second half of 2021 by 5.6% when compared to the second half of 2020 from BD28.5 million to BD30.1 million. The daily average volume of ATM transactions for the H2 2021 decreased by 13.9% compared to H2 2020 to 44,192 per day while the daily average value of ATM transactions decreased by 2.8% to reach 4.2 million.

Point of Sale (POS) transactions reached 125.5 million in terms of volume and BD 3,151.2 million in terms of value with a 49.7% and 34.6% increase respectively for 2021 compared to 2020. There is growing trend in using contactless cards during 2020 and 2021 as contactless transactions reached 71.0% of volume and 44.7% of value in December 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 23 companies.

PART I:

DEVELOPMENTS IN THE INTERNATIONAL AND DOMESTIC FINANCIAL MARKETS

1 DEVELOPMENTS IN INTERNATIONAL FINANCIAL MARKET

HIGHLIGHTS

Global Growth	USA Growth	Euro Area Growth
5.9%	5.6%	5.2%
MENA Growth	**Advanced Economies Growth**	**Emerging Market Growth**
4.1%	5.0%	6.5%

- COVID-19 pandemic led to uneven economic recovery across the globe in second half 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.
- Volatility in energy prices and supply chain disruptions have resulted in higher and more broad-based inflation.
- Stock markets indices recovered remarkably in the second half of 2021 and Equity markets in Europe have been less volatile.

1.1 Overview

The global economic activity regained momentum in 2021 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 (January 2022), the global economy is gradually recovering from the consequences of the pandemic crisis and it is expected to grow 5.9% in 2021. However, the pace of recovery is still uneven across country due to the persistence of the virus and the appearance of its variants in many 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 half of 2021 data indicates that the recovery is widening beyond manufacturing to services and the IMF forecasts the US growth to reach 5.6% in 2021. Likewise, the UK economy is regaining momentum and it is expected to reach 7.2% growth in 2021.

As for developing countries, many Asian countries such as Thailand, Indonesia and Malaysia have re-imposed mobility restrictions till end 2021 because of the spread of the new Omicron 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 half of 2021. Despite all these challenges, the IMF forecast Emerging market Asia growth to be 7.2% 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. However, raised inflation is expected to persist for longer with ongoing supply chain disruptions and high energy prices.

Inflation in the current period has become a global challenge as consumers are feeling the high inflation in decades due to a rise in food and energy prices putting further pressure on household budgets. The rise in inflation in early 2022 reflected the rapid economic recovery from the pandemic-induced recession which was supported by highly accommodative fiscal and monetary policy.

Inflation was significantly above targets in most advanced economies and emerging markets coupled with a faster than expected reopening fueling a surge in consumer spending with inventories suffering from supply chain disruption. Extraordinary policy responses taken, that helped firms and households withstand an unprecedented loss of income and potential financial disruptions, created a rapid goods-intensive recovery and increase in demand which supply has been unable to meet. Macroeconomic policy supported aggregate demand and fiscal stimulus and monetary policy fostered accommodative financial conditions. In some countries, industries returned quickly to full capacity, leading to rapid price increases while others were not able to return to full capacity with due to labor market disruptions from the pandemic causing labor supply participation to remain below pre-pandemic levels.

A number of drivers contributed to the current inflation surge. Lockdowns and mobility restrictions led to severe disruptions in various supply chains, causing short-term supply shortages. Various supply chain bottlenecks have emerged as a result of strong overall demand from the economic recovery, the sharp increase in relative demand for durable goods, and hoarding and panic buying. The pandemic brought a shift in what consumers buy where spending on goods rose dramatically.

Another factor is the geopolitical situation due to Russia's invasion of Ukraine that has changed the outlook for the global economy by causing a surge in energy and food prices that affected consumers and businesses. Before the Ukraine war, higher inflation was expected to fade as supply chain woes ease, central banks raise interest rates, and demand tilts more toward services again instead of goods-intensive consumption. Supply shocks to energy and food because of the Russian invasion of Ukraine led to rising energy and food prices, which inevitably meant higher inflation globally. Both Russia and Ukraine are exporters of major commodities, and the disruptions from the war and sanctions have caused global prices to soar, especially for oil and natural gas.

As inflation increases, the question remains how long it will last. Predictions are that inflation is to persist longer than previously expected. Impact will likely be bigger for low-income countries and emerging markets, where food and energy are a larger share of consumption. Central banks have a dilemma on how to tackle rising prices and stagflation concerns without slowing off economic recovery from the pandemic. In an effort to contain inflation, the Federal Reserve has raised interest rates by 0.25 percent in March 2022 for the first time since 2018 and laid out an aggressive plan to tighten monetary policy to tame inflation and is expected to raise the raise rates multiple times in 2022. Policymakers will have to take measures to subdue inflation and must find the right balance in responding to shifts in projected inflation with a geopolitical conflict that has drastically altered the global environment. The rise in US interest rates is driven by worries on the effect on emerging markets with spillovers on economies with macroeconomic vulnerabilities (i.e., have not fully recovered from the pandemic) that are sensitive to the rise in U.S. interest rates.

As for financial stability, concerns show up in price volatility in markets that are leading to higher lending costs. Global financial systems have functioned well throughout the pandemic; however, the current geopolitical climate is amplifying existing risks. Rising inflation and interest rates will make it difficult for some borrowers to meet debt payments. Large falls in property or financial asset prices would be disruptive for financial markets and the economy.
The duration of the current inflation levels will depend on (1) the relationship between the labor market tightness and supply chain bottlenecks and the central bank response and (2) the duration of the geopolitical tensions and its impact on energy prices, food prices, and global growth.

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

1.2 Global Macro-financial Environment

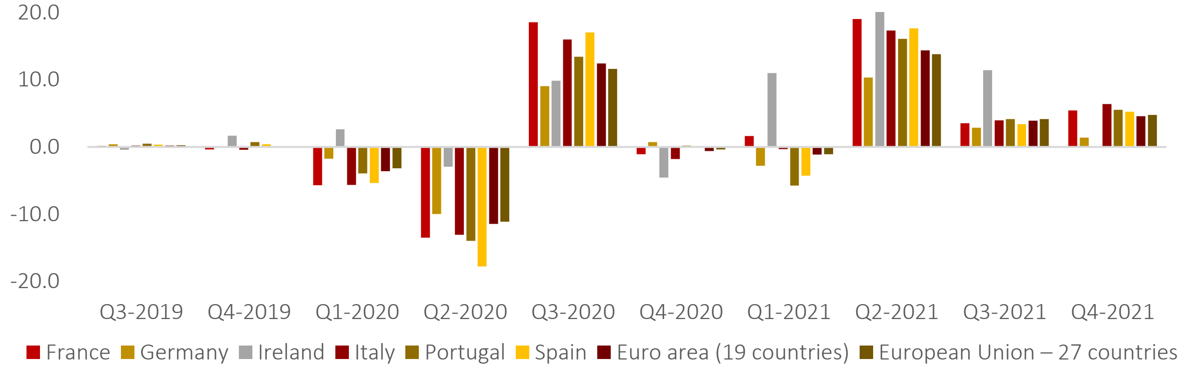
The global economic and financial conditions improved slightly in the second half of 2021, and risks associated to this environment eased significantly. The emergence of COVID-19 and its variants added new risks and tension to the global economy and led to significant volatility in financial markets. 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 5.9% in 2021 and 3.9% in 2022.

1.2.1 Economic Performance

The economic performance in Europe has witnessed a deep recession during the first semester of 2021 due the emergence of the new Covid-19 variant Omicron that has dramatically affected Europe' economic activity. Uncertainty and geopolitical tensions have put additional downward pressure on financial sector in Europe which in turn amplified volatility and raised new concerns in the global financial markets. As chart 1.1 shows, after witnessing negative growth in 2020, most European economies were performing better all over 2021 because most European countries moved toward normalization of economic activities as vaccine rollout proceeds and governments additional fiscal support reflecting tighter restrictions in the second semester of the year. As a result, European countries recovered faster than expected in the second semester of 2021. For example, after a long a deep recession Spain economy has witnessed a positive growth by 2.6% and 2.2% in Q3 and Q4/2021 respectively. Similarly, Italy, GDP reached 2.6% in Q3/2021 and 2% in Q4/2021. As for Portugal, growth rate reached 2.9 in Q3 and 1.6% in Q4/2021.

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 semester of 2021, but the third quarter data shows the German economy was recovered as growth rate reached 1.7% in Q3/2021. France also was hit severely by the pandemic crisis where the French economy recorded a recession of 0.4% in Q1/2021 and similarly to Germany, France recorded a better-than-expected growth rate that reached 3.1% in Q3/2021. The recovery of the two neighboring countries was fueled by the launch of the recovery fund by a €750 billion (6% of GDP) that was 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 (Quaterly %) Seasonally Adjusted*

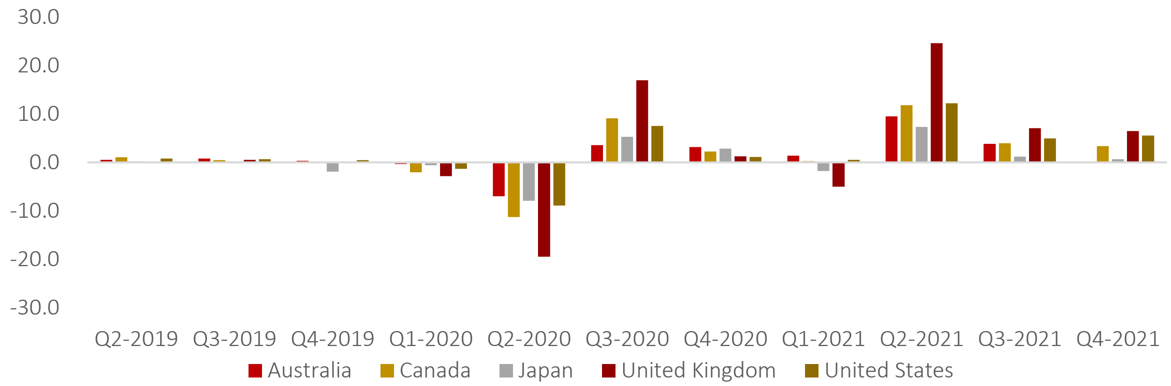


**Growth rate compared to the same quarter of previous year, seasonally adjusted.*
Source: OECD Quarterly National Accounts.

Turning to the Euro Area (19 countries) and the European Union (EU) (27 countries) their economies have also experienced a better-than-expected recovery with growth rates reached of 2.3% and 2.1% respectively in Q3/2021. This performance is due to the gradual normalization of economic activity of many European countries that supported the recovery. In the United Kingdom, the government delayed the final step of its economic reopening in Q3 because of the spread of the new Omicron delta variant. As a result, the UK's GDP growth decelerated from 5.6% in Q1/2021 to 1% in Q3 and Q4/2021. After an effort to normalize the economic activity, the UK growth is expected a rebound in overall 2021 to reach a growth of 7.2%.

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 Q3/2021 and the latest data shows that the US economic growth was 1.7% in Q4/2021. 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.

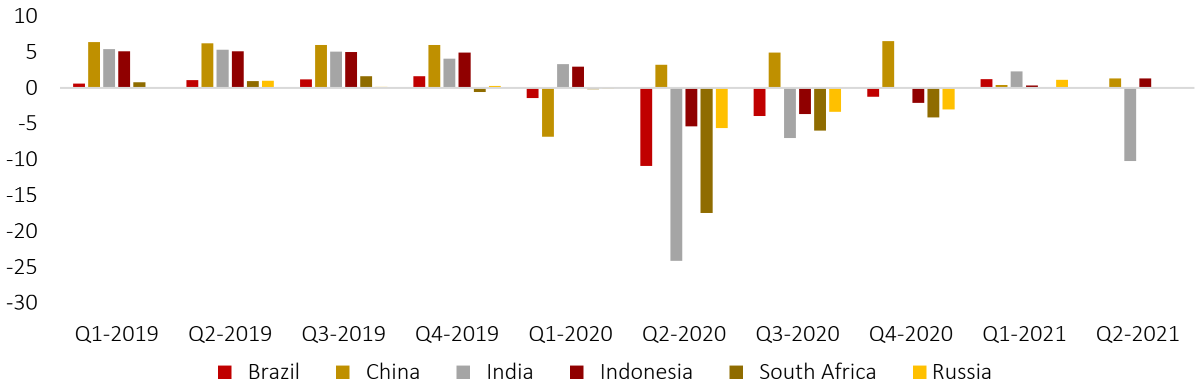
Chart 1.2: Real GDP Growth in Advanced Economies (Quaterly %) *



** 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 4.7% in Q3/2021 from 12.2% achieved in Q2/2021. Recent data shows that China economy is predicted to expand this year to reach 8.1% growth, according to the IMF. The world's second largest economy ended the second quarter with a growth of 1.6% from 0.3% in the first quarter, as IMF projections show. Similarly, India is expected to reach a growth rate by 9.1% in 2021 as economic recovery, post the second wave of the pandemic, seems to be holding ground. Turning now to Brazil and Russia, they are looking to rebuild fiscal buffers and have also begun normalizing monetary policy to head off upward price pressures. The IMF expected Brazil and Russia to achieve growth rates by4.7 and 4.5% respectively in 2021.

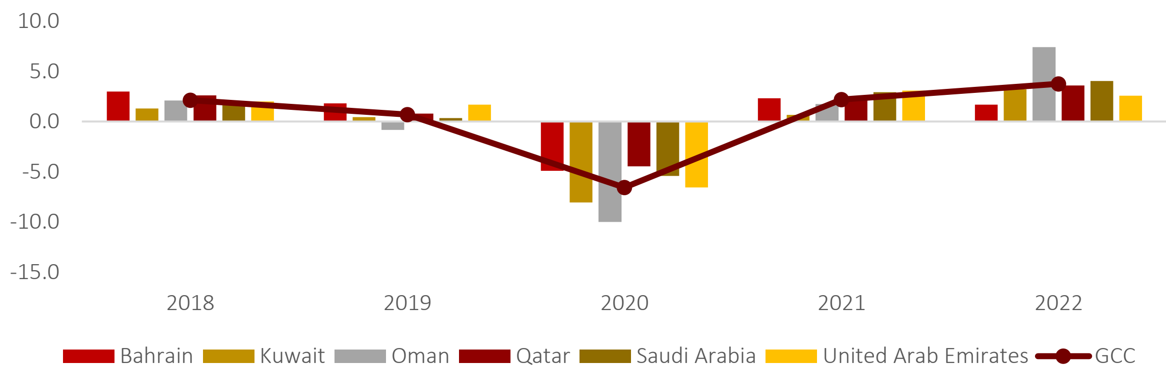
Chart 1.3: Quaterly Real GDP Growth in BRIICS (Quaterly %) *



*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 especially after the rebound in energy prices that hit record level since 2013. According to the IMF Regional Economic Outlook, the GCC countries are expected to achieve a growth rate of 2.7% in 2021.

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

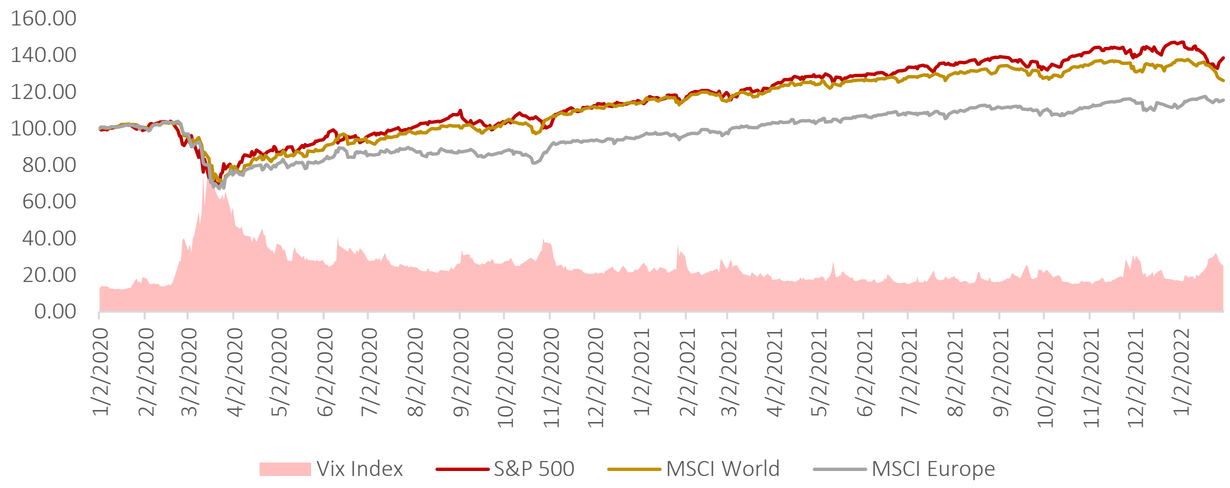


**Forecasts. Source: IMF Regional Economic Outlook, April 2021.*

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 and continue recovering at the same pace till the end of 2021, reaching the pre-pandemic level.

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



Source: Bloomberg.

2 DEVELOPMENTS IN THE FINANCIAL AND NON-FINANCIAL SECTOR

HIGHLIGHTS

Financial Sector % of GDP	Number of Licenses	Banking Sector Assets
17.7% 2021	360 Dec. 2021	USD 217.5 bn ▲ 4.9% YoY
Retail Banking Assets	**Wholesale Banking Assets**	**Islamic Banking Assets**
USD 99.4 bn ▲ 5.4% YoY	USD 118.1 bn ▲ 4.4% YoY	USD 34.6 bn ▲ 9.3% YoY
M2	**Personal Credit**	**Business Credit**
BD 13.5bn ▲ 4.9% YoY	BD 5.1 bn ▲ 8.3% YoY	BD 5.3 bn ▲ 0.3% YoY

- The size of the assets of the banking sector in Bahrain was USD 217.5 billion as of December 2021.
- The retail banking sector assets increased to USD 99.4 billion and wholesale banking sector assets increased to USD 118.1 billion as of end-December 2020 representing 45.7% and 54.3% respectively.
- The volume of credit increased by 5.3% to BD 10,906.3 million in December 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 Q4 of 2021, the financial sector represented 17.7% of real GDP.

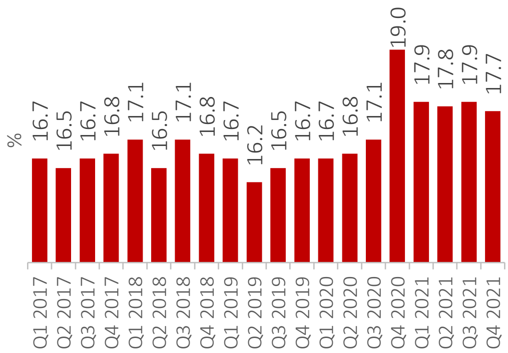
As of end of December 2021, there were 360 licenses issued by CBB (bank and non-bank financial institutions). The banking sector in Bahrain was made up of 98 banks, categorized as follows:

- Retail banks: 30 retail banks that include 24 conventional (7 locally incorporated and 17 branches) and 6 Islamic retail banks.
- Wholesale banks: 59 wholesale banks that include 49 conventional (13 locally incorporated and 36 branches) and 10 Islamic wholesale banks.

The 262 non-banking financial institutions operating in Bahrain includes investment business firms, insurance companies (including Takaful and Re-Takaful firms), representative offices and specialized licenses.

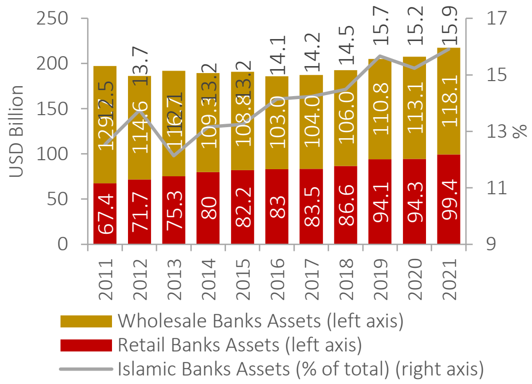
The size of the assets of the banking sector in Bahrain was USD 217.5 billion as of December 2021 (4.9% YoY increase). Table 2.1 shows the change of the size of the various banking segments to GDP. Retail banking continued to grow over the years reaching USD 99.4 billion by Q4 2021 along with the growth 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 118.1 billion. As for the Islamic banking sector, it grew steadily over the same period to reach USD 34.6 billion in December 2021 representing 15.9% 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

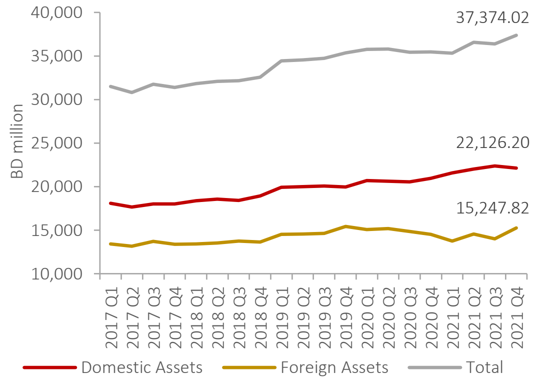
Indicator	2014	2015	2016	2017	2018	2019	2020	2021*
Banking Sector (USD billion)	189.3	191.0	186.1	187.4	192.6	204.9	207.4	217.5
times GDP	5.7	6.1	5.8	5.3	5.1	5.3	5.4	6.1
Retail Sector (USD billion)	80.0	82.2	83.0	83.5	86.6	94.1	94.3	99.4
times of GDP	2.4	2.6	2.6	2.4	2.3	2.4	2.5	2.8
Wholesale Sector (USD billion)	109.3	108.8	103.0	104.0	106.0	110.8	113.1	118.1
times of GDP	3.3	3.5	3.2	2.9	2.8	2.9	2.9	3.3
Islamic Sector (USD billion)	24.9	25.3	26.3	26.7	27.9	32.1	31.6	34.6
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

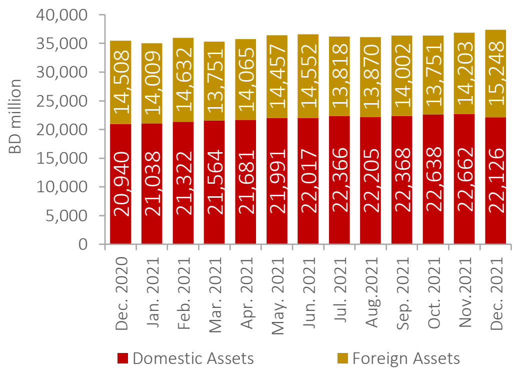
Retail banking assets continued growing to reach BD 37.4 billion (USD 99.4 billion) in December 2021 with a 5.4% year-on-year (YoY) increase (see Chart 2.3). As of December 2021, domestic assets comprised 59.2% of total assets with YoY growth of 5.7% while foreign assets comprised 40.8% of total assets with a YoY growth of 5.1%.

Chart 2.3: Retail Banks' Assets



Source: CBB Monthly Statistical Bulletin.

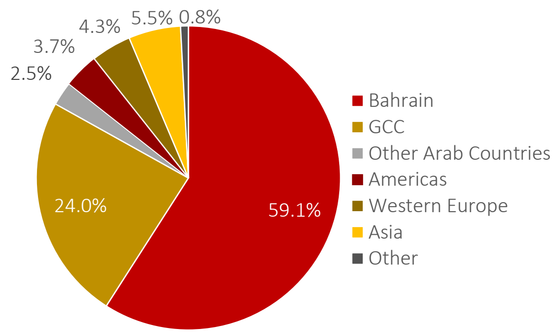
Chart 2.4: Categorization of Retail Banks' Assets



Source: CBB Monthly Statistical Bulletin.

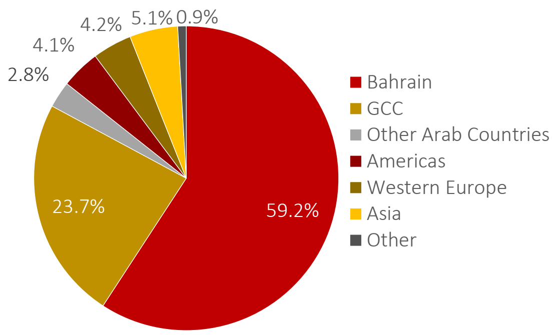
Retail-banking sector in Bahrain is relatively exposed to foreign risk regionally from GCC countries and lightly exposed to foreign risk from Europe and U.S as the share of GCC assets of total retail banking assets was 23.7% and European and American contribution was 8.3%.

Chart 2.5: Retail Banks' Assets (%) by Geographical Classification (December 2020)*



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

Chart 2.6: Retail Banks' Assets (%) by Geographical Classification (June 2021)*



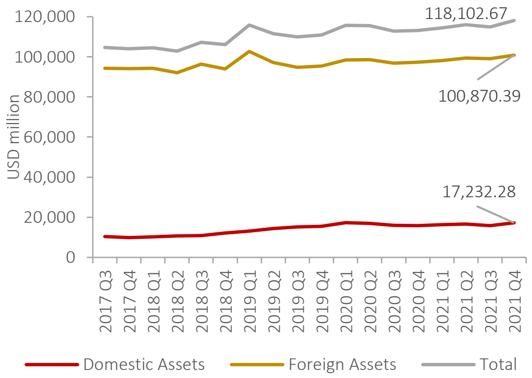
** For conventional and Islamic retail banks.*
Source: CBB Monthly Statistical Bulletin.

2.2.2 The Wholesale Banking Sector

The wholesale banking sector increased to USD 118.1 billion in December 2021 with a YoY growth of 4.4%. As of December 2021, domestic assets, representing 14.6 % of total assets, witnessed a YoY growth of 8.9% while foreign assets made 85.4% of total assets with a 3.7% YoY increase (See Charts 2.7 and 2.8).

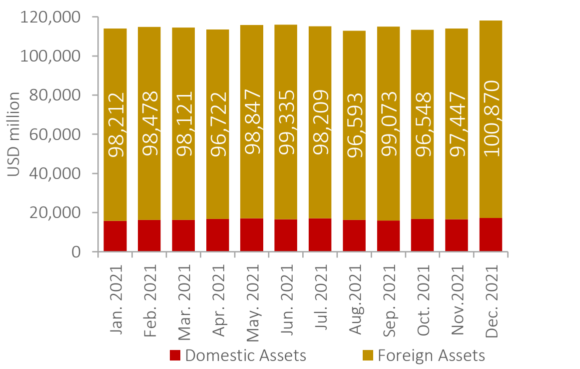
According to the geographical classification of wholesale banks' assets, wholesale banks are exposed to foreign risk from Western Europe and GCC countries. The share of GCC assets decreased to 28.3% in December2021, which used to represent the larger portion of wholesale bank assets compared to Europe. The share of Europe's total assets increased to 32.0%, making it the largest portion of wholesale bank assets. The share of America's total assets increased from 9.4% in December 2020 to 11.1% in December 2021. Asian assets remained at 7.3% in December 2021.

Chart 2.7: Wholesale Banks' Assets



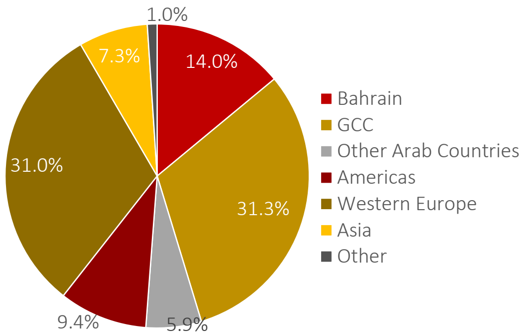
Source: CBB Monthly Statistical Bulletin.

Chart 2.8: Categorization of Wholesale Banks' Assets



Source: CBB Monthly Statistical Bulletin.

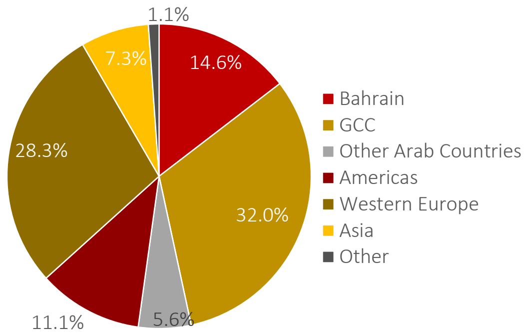
Chart 2.9: Wholesale Banks' Assets by Geographical Classification (Dec. 2020) *



* For conventional and Islamic wholesale banks.

Source: CBB Monthly Statistical Bulletin.

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



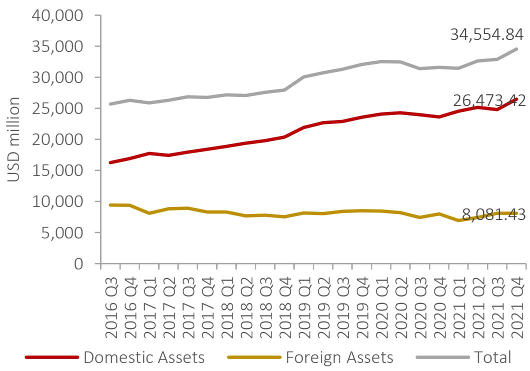
* For conventional and Islamic wholesale banks.

Source: CBB Monthly Statistical Bulletin.

2.2.3 The Islamic Banking Sector

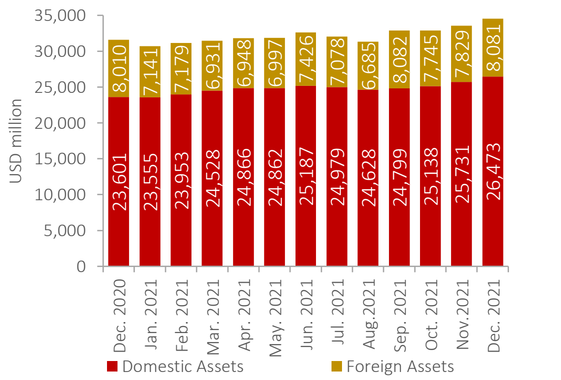
The Islamic banking sector increased to USD 34.6 billion as of December 2021 indicating a 9.3% YoY increase. Domestic assets represented 76.6% of total Islamic banking assets in the sector (12.2% YoY increase) while foreign assets represented 23.4% of total Islamic banking assets (0.9% YoY increase).

Chart 2.11: Islamic Banks' Assets



Source: CBB Monthly Statistical Bulletin.

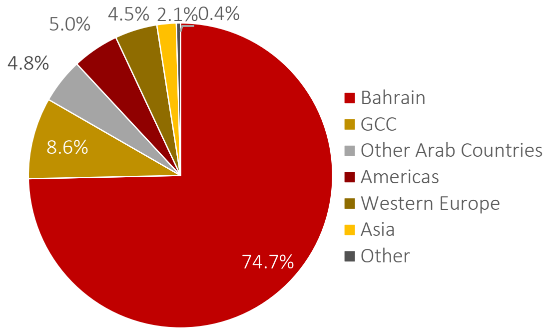
Chart 2.12: Categorization of Islamic Banks' Assets



Source: CBB Monthly Statistical Bulletin

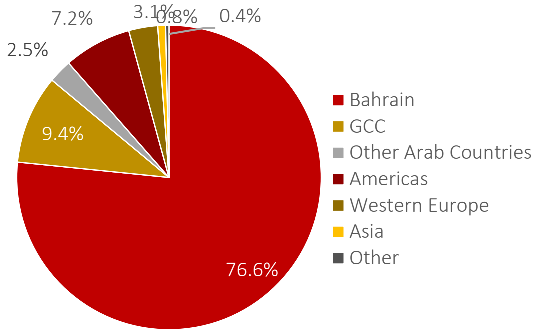
Islamic banks continue to be majorly exposed to domestic risks as the share of Bahrain's total assets increased to 76.6% in December 2021 while GCC total assets was 9.4%.

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



Source: CBB Monthly Statistical Bulletin.

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

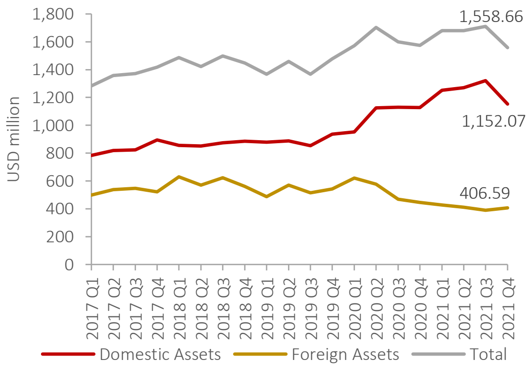


Source: CBB Monthly Statistical Bulletin.

2.2.4 Islamic Windows

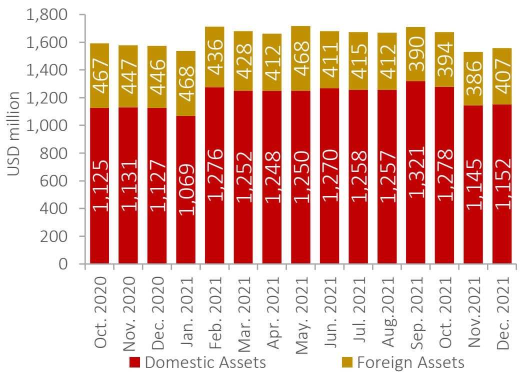
There are a number of conventional retail banks in Bahrain that maintain Islamic windows offering Islamic banking services/products to clients who are interested in completing their banking transactions in a Sharia-compliant system. As of December 2021, there were 5 Islamic windows operating by conventional retail licenses in Bahrain with total assets of BHD 1.6 billion (4.3% of retail banking assets). As of December 2021, 73.9% of total assets were domestic (2.2% YoY increase) while 26.1% were foreign (9.9% YoY decrease).

Chart 2.15: Islamic Windows' Assets



Source: CBB Monthly Statistical Bulletin.

Chart 2.16: Categorization of Islamic Windows' Assets

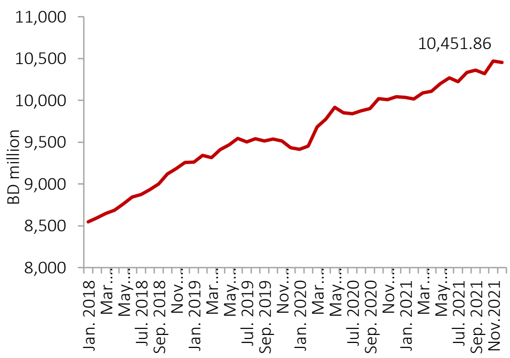


Source: CBB Monthly Statistical Bulletin.

2.2.5 Credit Developments

Credit given to the private sector (business and personal) by retail banks witnessed a YoY increase of 4.7% moving from BD 10.4 billion in December 2020 to BD 10.9 billion in December 2021 (Chart 2.17). Regarding retail banks' lending to the general government, there was an increase to BD 454.4 million at end-December 2021, from BD 369.6 million at end-December 2020 (Chart 2.18).

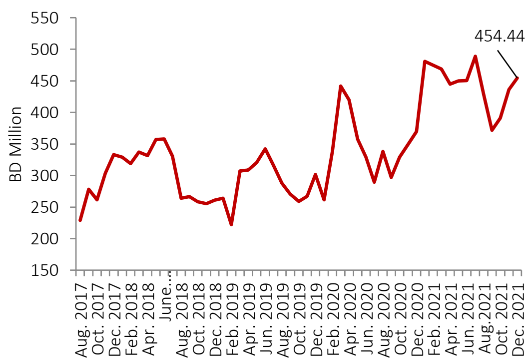
Chart 2.17: Loans to the Private Sector *



Source: CBB Monthly Statistical Bulletin.

*** Excluding securities.*

Chart 2.18: Loans to General Government *



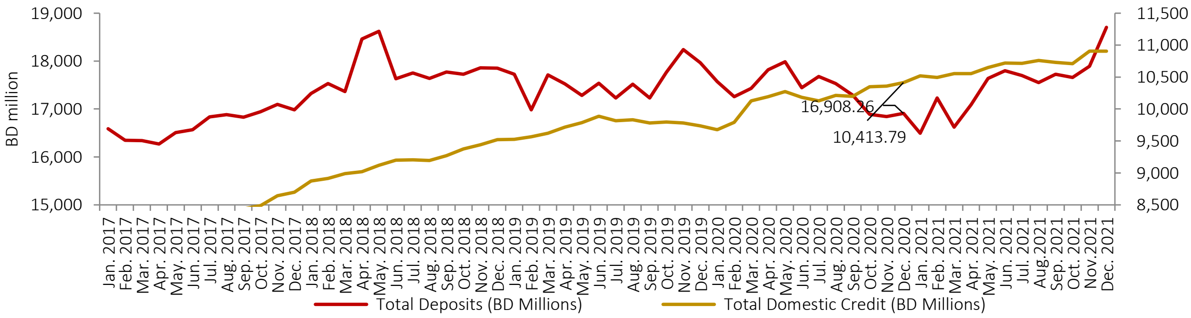
Source: CBB Monthly Statistical Bulletin.

*** 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 18.7 billion in December 2021 with a 10.6% YoY growth (where domestic deposits represent 75.5% of total deposits and had a YoY increase of 4.2%). 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 10,413.8 in December 2020 to 10,906.3 in December 2021 with a 4.7% YoY increase (Chart 2.19).

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



Source: CBB Monthly Statistical Bulletin.

2.2.6 Net Foreign Assets

The net foreign asset (NFA) position of the banking system is the value of the assets that the banking system owns abroad (Foreign Assets) minus the value of the domestic assets owned by foreigners (Foreign Liabilities). A positive NFA balance means that the system is a net lender, while a negative NFA balance shows that it is a net borrower. The NFA position by banking segment, as of December 2021, is negative (net borrowers) for retail banks, both conventional and Islamic, and conventional wholesale banks. As of December 2021, the NFA position for retail banks was *negative* USD 3,973.3 million and for wholesale banks, the NFA position was *negative* USD 3,744.7 million.

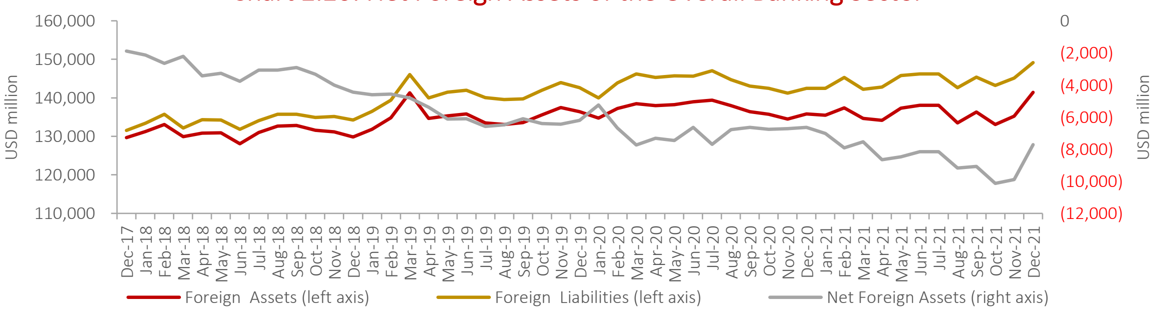
Table 2.2: Net Foreign Assets Postion by Banking Segment (December 2021)

Banking Segment (USD million)	Foreign Assets	Foreign Liabilities	Net Foreign Assets
Total Banking Segments	**141,423.0**	**149,141.0**	**-7,718.0**
Retail (Conventional and Islamic)	**40,552.7**	**44,526.0**	**-3,973.3**
Conventional Retail	37,876.1	39,002.8	-1,127
Islamic Retail	2,676.6	5,427.7	-2,751
Wholesale (Conventional and Islamic)	**100,870.3**	**104,615.0**	**-3,744.7**
Conventional Wholesale	95,465.5	98,110.4	-2,644.9
Islamic Wholesale	5,404.8	6,504.6	-1,099.8

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 negative NFA position. Looking at the NFA position for the overall banking sector, data shows that there was a upward trend starting October 2021 as seen in the chart below.

Chart 2.20: Net Foreign Assets of the Overall Banking Sector

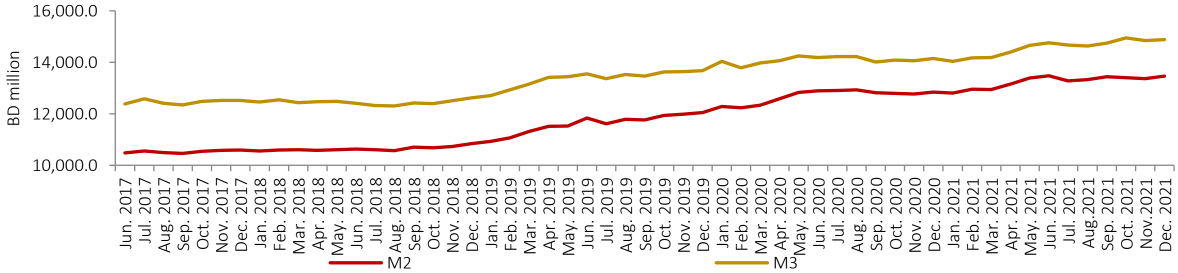


Source: CBB.

2.3 Monetary Indictors

Money supply continued to grow. M2 stood at BD 13,465.4 million in December 2021, 4.9% higher than its value of December 2020. M3 was at BD 14,884.2 million in end-December 2021, 5.2% higher than in December 2020 (Chart 2-22).

Chart 2.21: Money Supply (BD million)



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 Composoition

	2019		2020		2021	
	BD million	% Change	BD million	% Change	BD million	% Change
Currency Outside Banks	535.1	1.3	593.0	10.8	558.0	-5.9
Demand Deposits	2978.5	2.9	3.288.0	10.4	3,952.0	20.2
M1	**3,513.6**	**2.7**	**3,880.9**	**10.5**	**4,510.0**	**16.2**
Time and savings deposits	8,538.6	15.0	8,959.0	4.9	8,955.4	0.0
M2	**12,052.2**	**11.1**	**12,840.0**	**6.5**	**13,465.4**	**4.9**
General Government Deposits	1,619.7	-8.8	1,311.3	-10.0	1,418.8	8.2
M3	**13,671.9**	**8.3**	**14,151.3**	**3.5**	**14,884.2**	**5.2**

Source: CBB Monthly Statistical Bulletin.

As of December 2021, growth in money supply was stimulated by a growth in demand deposits. In particular, demand deposits increased by 20.2% from BD 3,288.0 million in December 2020 to BD 3,952.0 million in December 2021, while time and savings deposits remained at December 2020 levels.

2.4 Inflation

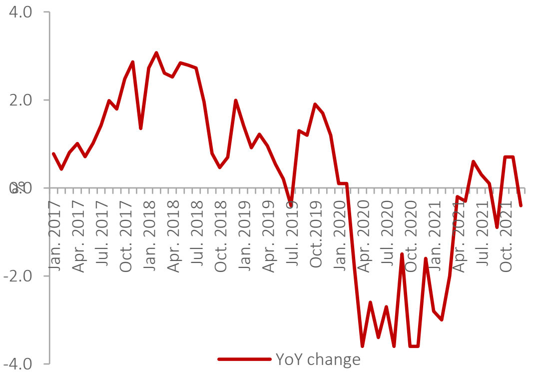
CBB maintains the Bahraini Dinar's peg against the U.S. Dollar, which has provided price stability over the years and as a result managed to keep inflation relatively stable. Bahrain's inflation is measured by its Consumer Price Index (CPI) and includes 12 broad categories of consumer goods that are 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 December 2021, the Consumer Price Index (CPI) stood at 97.4 points. Monthly inflation stayed at 0.0%. The division which caused the largest upward contribution to the CPI in the year were food and non-alcoholic beverages group (+0.4) and hotel and restaurant (+0.2). However, the divisions which caused the largest downward contribution to the CPI in the year were transport and housing, water, electricity, gas and other fuels (-0.4).

The CPI in December 2021 was 0.4% 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.

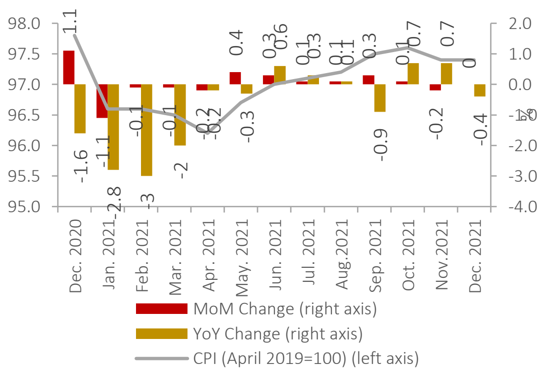
[1] The index has been rebased to April 2019=100, with effect from May 2019, which resulted in certain methodological changes which include updating the expenditure weight, revising the sample of goods and services and improving the methods of price collection. Components are: food and non-alcoholic 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. 2017 – Dec. 2021)



Source: IGA.

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



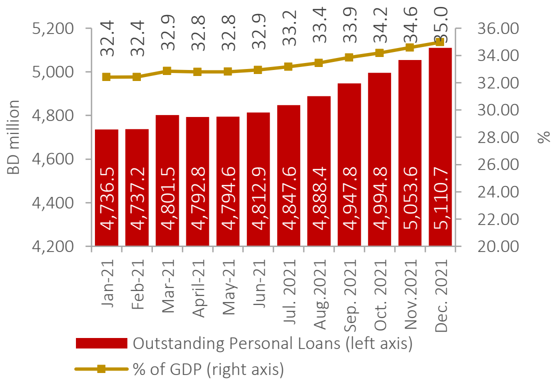
Source: IGA.

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.

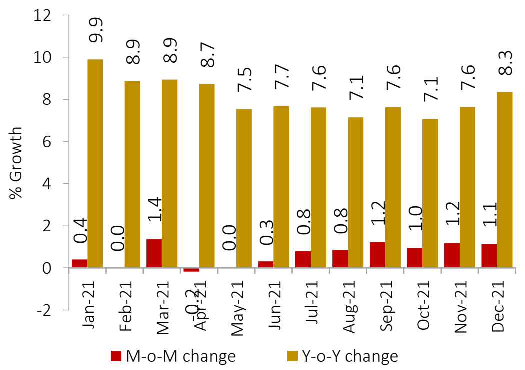
Outstanding personal loans, used as a proxy for household borrowing, shows an increase in personal credit between June 2020 and June 2021 (Chart 2.24).

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



**Using 2020 GDP.*
Source: CBB Monthly Statistical Bulletin.

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



Source: CBB Monthly Statistical Bulletin.

Personal loans as a percentage of GDP increased to 39.1% by December 2021 (BD 5,110.7 millIon). There was a 6.3% increase in outstanding personal loans between June 2021 and December 2021 (YoY increase was 8.3%).

The monthly growth rate in total personal loans and advances fluctuated between June 2021 to December 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 8.3% in December 2021.

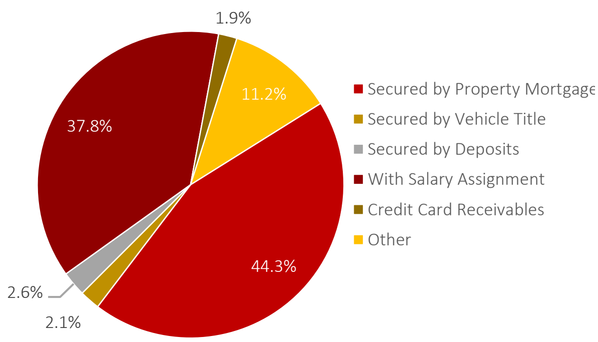
As of end of December 2021, the two main contributors to personal loans as seen in chart 2.27 were personal loans secured by property mortgages which made up 44.3% of the total personal loans followed by personal loans secured with salary assignments at 37.8% of total personal loans.

Table 2.4: Personal Loans Breakdown

BD million	Jun. 2021	Jul. 2021	Aug, 2021	Sep. 2021	Oct. 2021	Nov. 2021	Dec. 2021
Total	4,809.2	4,847.6	4,888.4	4,947.8	4,994.8	5,053.6	5,110.7
Secured by Property Mortgage	2,134.6	2,156.1	2,183.2	2,206.2	2,234.9	2,244.1	2,261.5
Secured by Vehicle Title	111.6	110.3	110.0	108.1	108.0	108.6	109.2
Secured by Deposits	138.3	133.6	128.3	124.0	119.6	124.2	133.7
With Salary Assignment	1,828.6	1,839.6	1,852.5	1,891.1	1,898.2	1,921.6	1,933.0
Credit Card Receivables	83.0	89.9	89.5	95.7	95.1	98.8	99.5
Other	513.5	518.1	524.9	522.7	539.0	556.3	573.8

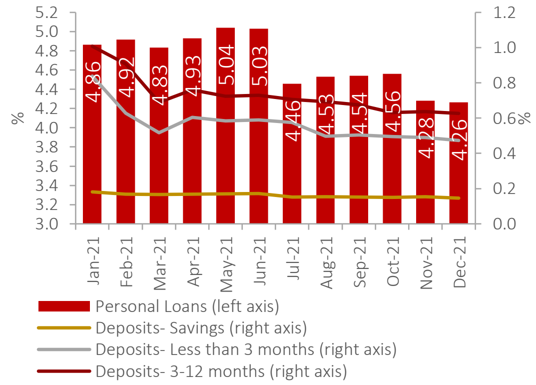
Source: CBB Monthly Statistical Bulletin.

Chart 2.26: Personal Loans Breakdown (Dec. 2021)



Source: CBB Monthly Statistical Bulletin.

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



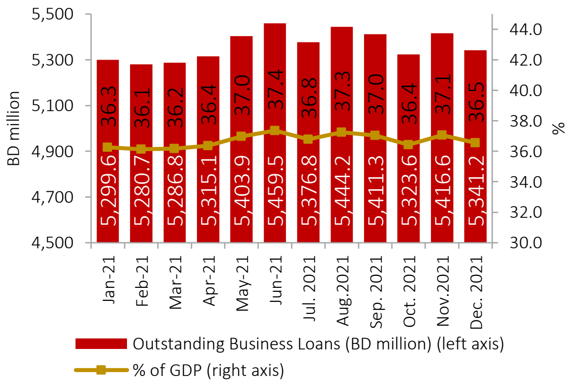
Source: CBB Monthly Statistical Bulletin

Interest rates on personal loans started off at 4.78% in December 2020 and decreased to 4.26% in December 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

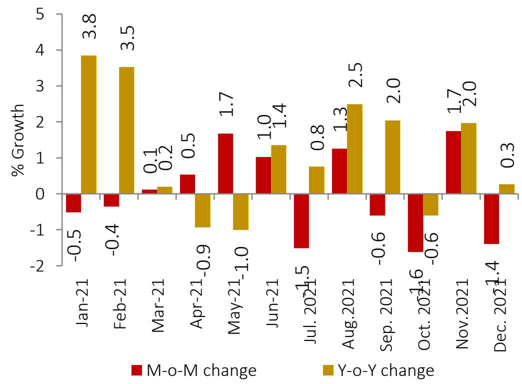
Business loans and advances contracted by 2.2% between June 2021 and December 2021 from BD million 5,459.6 in December 2020 to BD million 5,341.2 in December 2021 (Chart 2.28). As of December 2021, YoY growth for business loans was 0.3%. Outstanding business loans as a percentage of GDP decreased to 40.9% 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 June 2021 and December 2021. Initially at 1.0% in June 2021, it decreased to reach its highest level for the year of 1.7% in November 2021 before falling to -1.4% in December 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 December 2021 were the construction and real estate sector (37.6%) followed by manufacturing (24.2%), and then trade (16.9%) (Chart 2.30).

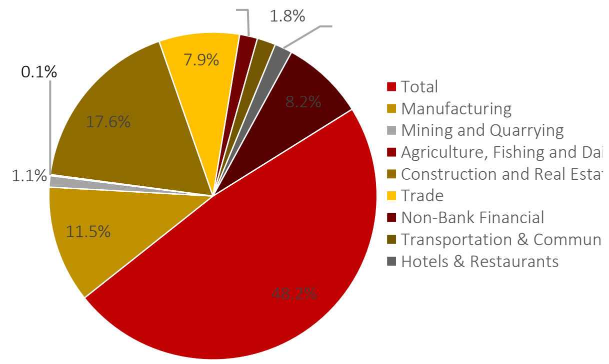
Average interest rates on business loans fluctuated throughout the period from December 2020 to December 2021. It was at its peak in March 2021 at 4.94% (Chart 2.31).

Table 2.5: Business Loans by Sector

BD million	Jun. 2021	Jul. 2021	Aug. 2021	Sep. 2021	Oct. 2021	Nov. 2021	Dec. 2021
Total	5,459.5	5,376.8	5,444.2	5,411.3	5,323.6	5,416.6	5,341.2
Manufacturing	1,307.8	1,286.1	1,337.7	1,339.0	1,270.4	1,327.3	1,292.3
Mining and Quarrying	126.2	70.1	71.0	75.3	74.7	75.2	74.7
Agriculture, Fishing and Dairy	12.6	12.8	12.3	11.9	12.3	13.0	13.2
Construction and Real Estate	1,991.0	1,975.5	1,981.0	2,004.8	1,997.7	2,001.2	2,009.6
Trade	898.4	902.0	910.7	882.1	871.6	900.1	903.9
Non-Bank Financial	199.6	195.7	202.2	186.1	177.5	178.2	169.5
Transportation & Communication	207.3	214.8	208.4	198.0	197.3	197.9	147.5
Hotels & Restaurants	197.8	196.7	198.1	193.5	192.9	197.4	196.1
Other Sectors	923.9	934.6	929.3	912.1	919.4	921.6	878.0

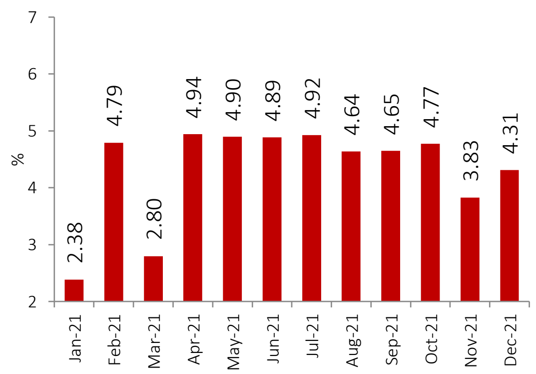
Source: CBB Monthly Statistical Bulletin.

Chart 2.30: Business Loans by Sector (Dec. 2021)



Source: CBB Monthly Statistical Bulletin.

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



Source: CBB Monthly Statistical Bulletin.

2.7 Climate – Related Financial Risks Developments

There is a growing need to develop and implement policies aimed at mitigating climate change risks, in sectors like energy, agriculture, transportation. Climate-related risks pose significant challenges for the global economy and to the safety and soundness of financial institutions. The Government of the Kingdom of Bahrain has committed to achieving the global climate goals. CBB acknowledges its role with regards to leading climate change initiatives within the financial sector in the Kingdom and is accordingly working towards requirements relating to climate change. 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.

A number of international initiatives have been launches in the last two decades to address the various aspects of climate related risks. CBB's goal is to monitor efforts and progress from international organizations such as the Financial Stability Board (FSB) and 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 Task Force on Climate- Related Financial Disclosures (TCFD) is one such platform created by the FSB to develop consistent climate- related risk disclosures for use by companies and investors in providing information to stakeholders. The TCFD came up with its Fundamental Principles of Effective Disclosure in 2017 that call for effective disclosures which are relevant, specific, complete, clear, timely, verifiable, balanced and consistent over time.

The FSB also published a Roadmap for addressing climate- related financial risks, that was presented to the G20 in July 2021, that set 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.

During the year 2021 CBB issued a survey in cooperation with the Sustainable Development Committee of the Bahrain Association of Banks to collect qualitative and quantitative information to assess the current state, practices and exposures related to ESG (Environmental, Social, Governance) and sustainable finance when taking business decisions and develop strategies for banking and financial services. The survey was 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 collected are to be by 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. The feedback received was studied and discussed in CBB's Regulatory Policy Committee. The responses helped 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.

Following that, CBB issued in November 2021 a circular to all licensees regarding climate-related risks in accordance with the commitment of the Government of Bahrain to achieve the global climate goals and to inform them accordingly that CBB is working towards requirements relating to climate-related risks.

CBB intends to deal with the issue of climate related risk in phases. All licensees are required to raise awareness within their organization about climate-related risks and assess how they would identify and address climate-related risks. The CBB also encouraged licensees to include these topics in their annual training plans and also require members of the board, management and staff to attend the various training programs including those offered by BIBF's Sustainable Development Academy. The CBB will issue the requirements, in the near future, in relation to the initial phase which would focus on qualitative disclosure requirements regarding efforts made to address climate-related risks, followed by more comprehensive requirements including quantitative requirements in subsequent phases. The CBB requirements would be developed based on guidance from relevant international official sector bodies such as Basel Committee on Banking Supervision (BCBS), International Association of Insurance Supervisors (IAIS), International Organization of Securities Commissions (IOSCO) and the FSB.

The CBB issued a follow up circular in March 2022 issuing all licensees regulated and supervised by the CBB are kept abreast of the developments and practices in the area of climate- related risks management as it will shape business models in years to come. The CBB encouraged all licensees to familiarize themselves with climate- related risks and opportunities and prepare themselves for a future where climate change will potentially be an important factor in the economic and financial success of individual organizations.

The CBB will continue to seek periodic feedback from the licenses on their preparedness to potentially implement framework to identity and mange climate – related risks and also capitalize on climate related opportunities.

PART II:

DEVELOPMENTS IN THE BANKING SECTOR

3 PERFORMANCE OF THE BANKING SECTOR

HIGHLIGHTS

CAR	Tier 1 CAR	Assets-to-Capital
18.7% ▲ 0.1% YoY	17.2% ▼ 0.1%	8.7 ▲ 0.5 YoY
NPL	**Specific Provisions**	**ROA**
3.2% ▼ 1.1% YoY	70.1% ▲ 2.1% YoY	1.1% ▲ 0.4% YoY
ROE	**Liquidity**	**Loan/Deposit**
7.8% ▲ 5.0% YoY	26.2% ▲ 1.6% YoY	69.8% ▼ 1.1% YoY

- Stability in capital positions.
- Non-performing loans continue to decrease.
- Loan portfolios remain concentrated in some sectors with no significant change from previous quarter.
- A boost 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 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 and stable capital position

The capital adequacy ratio[4] (CAR) for the banking sector stood at 18.7% in December 2021 remaining stable with a slight increase from 18.6% in December 2020. The core capital ratio (ratio of Tier 1 capital to risk-weighted assets) showed a slight decrease from 17.3% in December 2020 to 17.2% in December 2021. Whereas the leverage ratio (ratio of assets over capital) increased to 8.7% during the same period.

Table 3.1: Capital Provision Ratios

Indicator*	Q4 2020	Q2 2021	Q4 2021	YoY Change
CAR (%)	18.6	18.8	18.7	0.1
Tier 1 CAR (%)	17.3	17.6	17.2	-0.1
Assets/Capital (Times)	8.2	8.3	8.7	0.5

** 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 3.2% in December 2021 from 4.3% in December 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. 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 70.1% in December 2021 from 68.0% in December 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

Indicator	Q4 2020	Q2 2021	Q4 2021	YoY Change
NPLs (% Total Loans)	4.3	3.8	3.2	-1.1
Specific provisions (% of NPLs) *	68.0	69.0	70.1	2.1

** 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 (42.1% of total NPLs). NPLs for over 3 years represented 1.3% of total gross loans. Specific provisioning for NPLs increase 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 74.2%.

Table 3.3: NPL Ratios and Specific Provisions by Time Period (Q4 2021)

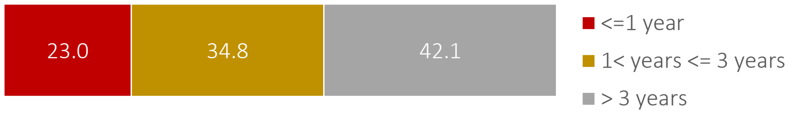
Indicator	Up to 1 year	1 up to 3 years	Over 3 years	Total
NPLs (% Total Loans)	0.7	1.1	1.3	3.2

[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.

Specific Provisions (% of NPLs)	52.2	77.1	74.2	70.1

Source: CBB.

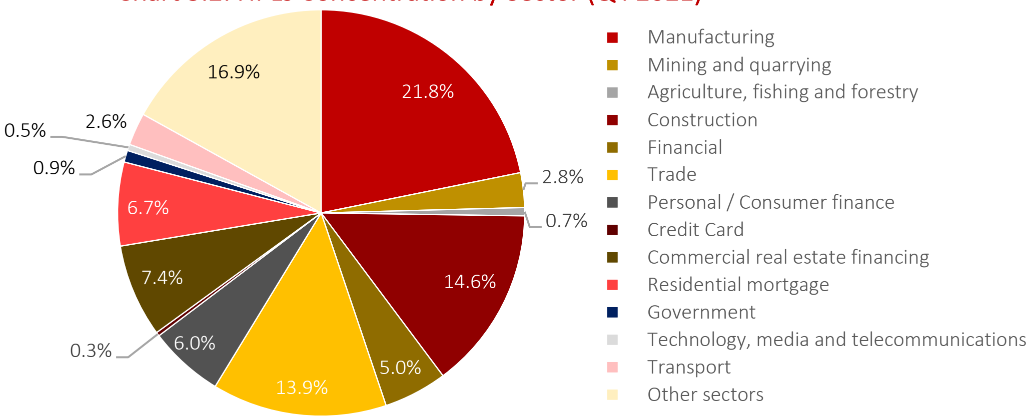
Chart 3.1: NPLs by Time Period (%)



Source: CBB.

Data on the concentration of NPLs by sector shows that the majority of NPLs come from manufacturing (21.8%), construction (14.6%), and trade (13.9%) as indicated in chart 3.2.[5]

Chart 3.2: NPLs Concentration by Sector (Q4 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 and only increase was in residential mortgage by 0.3%. The largest decrease was in the mining and quarrying sector which was 5.8%.

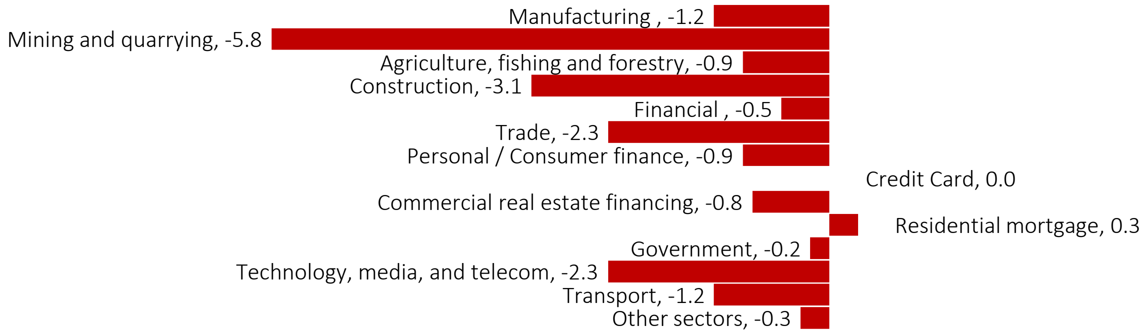
Table 3.4: NPL Ratios by Sector (%)

Sector	Q4 2020	Q2 2021	Q4 2021	YoY Change
Manufacturing	6.8	6.2	5.6	-1.2
Mining and quarrying	18.4	8.7	12.6	-5.8
Agriculture, fishing and forestry	2.8	2.2	1.9	-0.9
Construction	8.4	5.7	5.3	-3.1
Financial	1.8	1.4	1.3	-0.5
Trade	9.9	9.6	7.6	-2.3
Personal / Consumer finance	3.2	2.5	2.3	-0.9
Credit Card	3.0	3.3	3.0	0.0
Commercial real estate financing	3.9	3.8	3.1	-0.8
Residential mortgage	4.0	5.1	4.3	0.3
Government	0.8	0.7	0.6	-0.2
Technology, media and telecommunications	3.8	2.5	1.5	-2.3
Transport	4.3	3.1	3.1	-1.2
Other sectors	4.5	5.0	4.2	-0.3

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

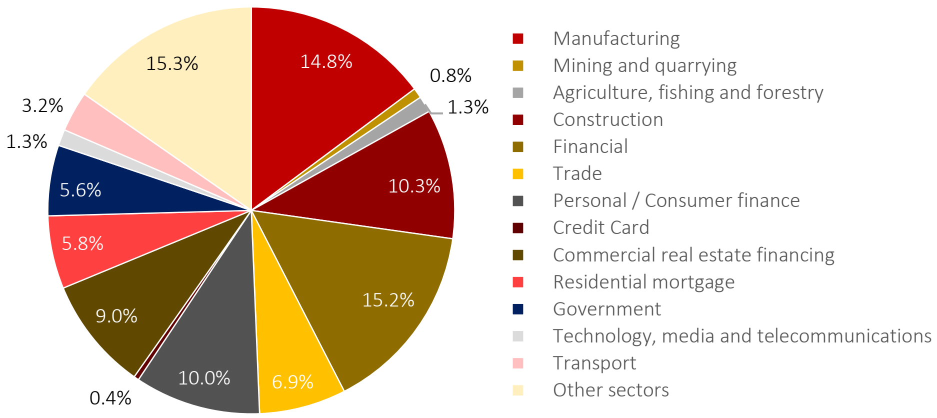
The loan portfolio of the banking system remains concentrated with no sector exceeding 20% of total loans. Financial and other sectors represented the highest exposure with 15.1% of total loans in December 2021. Manufacturing and Construction followed with 15.0% and 10.4% respectively. Personal/consumer finance stood at 10.1% of total loans. The sector with the largest decline was trade dropping 1.7%.

Table 3.5: Lending Distribution (% Total Loans)

Sector	Q4 2020	Q2 2021*	Q4 2021*	YoY Change
Manufacturing	14.0	15.1	14.8	0.8
Mining and quarrying	0.8	0.9	0.8	0.0
Agriculture, fishing and forestry	1.3	1.3	1.3	0.0
Construction	10.5	11.0	10.3	-0.2
Financial	13.4	14.9	15.2	1.8
Trade	8.5	7.4	6.9	-1.6
Personal / Consumer finance	9.4	9.4	10.0	0.6
Credit Card	0.5	0.4	0.4	-0.1
Commercial real estate financing	9.0	8.7	9.0	0.0
Residential mortgage	5.9	6.2	5.8	-0.1
Government	5.2	5.3	5.6	0.4
Technology, media and telecommunications	1.2	1.1	1.3	0.1
Transport	3.3	3.5	3.2	-0.1
Other sectors	17.0	14.9	15.3	-1.7
Top Two Sectors (%)	31.0	30.0	30.5	-0.5
Real Estate/ Construction Exposure (%) **	25.4	25.9	25.2	-0.2

** Figures may not add to a hundred due to rounding.*
*** Real Estate/Construction exposure is calculated as the share of the construction, commercial real estate financing, and residential mortgages sectors of total lending.*
Source: CBB.

Chart 3.4: Lending Distribution (% Total Loans)



Source: CBB.

The top two recipient sectors, financial and other sectors, jointly represented 30.5% of loans in December 2021, decreasing from 31.0% in June 2021. Exposure to real estate/construction was 25.2% of total lending in December 2021, a slight decrease from 25.4% registered in December 2020.

SME lending remains low

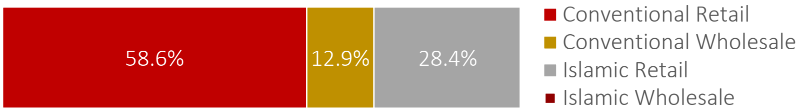
Credit extension to Small and Medium Enterprises (SMEs) slightly improved between 2020 and 2021. SME loans (as a % of total loans) increased to 2.2% in December 2021. SME NPLs decreased from 11.0% in December 2020 to 9.0%. Provisioning levels recorded a decrease from 43.1% in December 2020 to 40.2% in December 2021.

Table 3.6: SME Lending *

Indicator	Q4 2020	Q2 2021	Q4 2021	YoY Change
SME Loans (% of total Loans)	1.9	2.1	2.2	0.3
SME NPLs (% of total SME Loans)	11.0	9.0	9.0	-2.0
SME Provisioning (% of total SME NPLs)	43.1	40.7	40.2	-2.9

**For Bahrain Operations Only*
Source: CBB.

Chart 3.5: SME Lending by Banking Segment (Q4 2021)



Source: CBB.

3.2.3 Profitability

Profitability boost post-COVID

The overall banking sector's profitability indicators showed major improvements between December 2020 to December 2021 as banks recovered from the uncertainties of the COVID-19 pandemic. Return-on-assets (ROA) increased from 0.7% in December 2021 to 1.1% in December 2021. As of End-December 2021, return-on-equity (ROE) increased to 7.8% from 2.8% in December 2020.

Table 3.7: Profitability

Indicator	Q4 2020	Q4 2021	YoY Change
ROA (%) *	0.7	1.1	0.4
ROE (%) **	2.8	7.8	5.0
Net Interest Income (% Total Income) ***	69.7	70.3	0.5
Operating Expenses (% Total Income)	70.7	52.4	-18.3

** 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 70.3% in December 2021. In addition, operating expenses as a proportion of total income was 52.4% in December 2021, a decrease from the 70.7% registered in June 2021.

3.2.4 Liquidity

Liquidity positions remain resilient

Between December 2020 and December 2021, the overall loan-deposit ratio decreased from 70.9% to 69.8%. Liquid assets as a proportion of total assets increased from 24.6% to 26.2%, over the same period.

Table 3.8: Liquidity

	Q4 2020	Q2 2021	Q4 2021	Change
Liquid Asset Ratio (%)	24.6	26.5	26.2	1.6
Loan-Deposit Ratio (%)	70.9	70.1	69.8	-1.1

Source: CBB.

3.3 Developments in Regulation and Initiatives

The following section sheds light on the regulatory and policy initiatives that took place during 2021 for the banking and financial sector that are related to financial stability:

Table 3.9: Banking Sector Regulatory and Policy Developments

Item	Description
Revised Credit Risk Management Module according to Basel 3	Following the industry consultation process, the CBB issued in May 2021 the revised Credit Risk Management Module (Module CM) under the CBB Rulebook Volumes 1 and 2. The amendments were made to better align the CBB's regulatory framework with the principles and guidance from the Basel Committee on Banking Supervision. The requirements in the amended Modules are effective from 1st July 2022 on which date, the existing Module CM will become redundant. However, licensees were encouraged to early implement the new requirements where feasible and advise the CBB accordingly. In addition, all banks were required to provide the CBB with a gap analysis and action plan for implementation of the revised Module CM, no later than 30th August 2021.
Consultation paper: Proposed Amendments to Liquidity Risk Management Module (Module LM)	As part of CBB's objective to further enhance its regulatory framework, CBB issued a consultation in March 2021 to proposing a new Chapter within Module LM of the CBB Rulebook including requirements in respect of 'Loans to Deposit Ratio' for conventional retail bank licensees (Volume 1) and 'Financing to URIA and Current Account Ratio' for Islamic retail bank licensees (Volume 2). The CBB is studying the feedback and comments received from the banking sector on this consultation paper.
Consultation paper: proposed requirements on Financing to Small and Medium Sized Enterprises (SMEs)	The CBB issued in March 2021 a consultation paper to all retail banks on proposed requirements on Financing to Small and Medium Sized Enterprises (SMEs) along with the Government initiatives taken to support such entities. The CBB has taken this step due to the restricted access of SMEs to finance is significantly restricted despite the important contributions made by SMEs to economic growth and employment. The draft proposal requires retail banks to: 1. Ensure by 31st December 2025 that financing to SMEs accounts for at least 20% of their domestic financing portfolio. This should be implemented in a phased manner and on an incremental basis. The CBB detailed the ratios as well that banks must reach at the end of each year. 2. Create a separate department, or a separate unit within the credit department, which is dedicated to SME financing with appropriate position in the licensee's hierarchy and suitable resources allocated; and 3. Amend the credit policies and procedures in order to implement the proposed new requirements. The CBB is studying the feedback and comments received from the banks on this consultation paper.
Amendments related to the submission of Recovery and Resolution Plans	The CBB issued in May 2021 amendments to the Domestic Systemically Important Banks (DS) Module and Internal Capital Adequacy Assessment Process (ICAAP) Module that includes specifying the due date in relation to the submission of Recovery and Resolution Plans (RRPs) under such Modules.

Issuance of Amendments to Open Banking Regulations	The CBB issued in July 2021 final amendments (after completion of the consultation in April of the same year) to the Licensing Requirements Module, General Requirements Module, CBB Reporting Requirements Module of Volumes 1 and 2 for conventional and Islamic banks respectively to align the directives with the Bahrain Open Banking Framework. The CBB also issued other amendments to the Authorization Module, Open Banking Module, General Requirements Module and Glossary of Defined terms of the CBB Rulebook Volume 5 Specialized Licensees (Ancillary Service Providers).
Proposed amendments to Operational Risk Management Module Cyber Security Risk Management	Given the increased relevance of cyber security in the current environment, the CBB issued in July 2021 new requirements on Cyber Security Risk Management under the CBB Rulebook Volumes 1 and 2 for conventional and Islamic banks respectively. The new requirements are effective from 1st October 2021. Licensees were required to submit a gap analysis and an action plan to CBB no later than 15th July 2021. The CBB issued in November 2021 similar directives on Cyber Security Risk Management to insurance firms, investment firms, ancillary service providers and money changers after receiving feedback and comments on the consultation papers issued in this regard. The new requirements are effective from 1st May 2022. Licensees were required to submit a gap analysis and an action plan to CBB no later than 31st December 2021.
Consultation paper: Proposed Chapter on Cloud Outsourcing Arrangements	The CBB issued in July 2021 a consultation paper proposing a new Chapter OM-2A on cloud outsourcing arrangements to be added to the Operational Risk Management Module of Volumes 1 and 2 and a new Appendix OM-2 “Cloud Outsourcing Control Guidelines”. The CBB received the banking industry feedback for review and study.
Final Amendments to Financial Crime Module (FC)	The CBB issued in September 2021, the final amendments to the Financial Crime Module after the completion of the consultation period and studying the comments and feedback received. The amendments include: ▪ Risk based approach to ensure consistency across licensees. ▪ Amendments to customer due diligence requirements in light of the introduction of the National E-KYC and for allowing licensees own digital on-boarding solution and the associated governance, technical and process requirements. ▪ The removal of Simplified Due Diligence Section for entities operating under Regulatory Sandbox, which will be addressed in CBB’s Regulatory Sandbox Framework separately. The CBB also issued in October 2021 the final amendments to the Financial Crime Module of CBB Rulebook Volumes 3 (Insurance Firms), 4 (Investment Firms), 5 (Specialised Licensees), 6 (Capital Market Licensees) along what was issued for banks earlier and after the completion of the consultation period and study of industry feedback.

4 PERFORMANCE OF CONVENTIONAL BANKS

HIGHLIGHTS

	Retail		Wholesale	
CAR	20.6%	▲ 0.6% YoY	17.1%	▼ 0.7% YoY
Tier 1 CAR	19.2%	▲ 0.5% YoY	15.6%	▼ 1.4% YoY
Assets-to-Capital	6.9	▼ 0.1 YoY	9.0	▲ 0.6 YoY
NPL	3.9%	▼ 0.8% YoY	2.8%	▼ 1.3% YoY
Specific Provisions	71.9%	▲ 2.0% YoY	72.8%	▼ 1.6% YoY
ROA	1.3%	▲ 0.3% YoY	1.3%	▲ 0.5% YoY
ROE	10.9%	▲ 1.3% YoY	3.5%	▲ 8.8% YoY
Liquidity	33.6%	▼ 0.8% YoY	24.7%	▲ 3.1% YoY
Loan/Deposit	69.3%	▲ 3.0% YoY	68.7%	▼ 2.4% 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 wholesale 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 a decline for wholesale banks

The CAR for conventional retail increased from 20.0% in December 2020 to 20.6% in December 2021. The core capital ratio (ratio of Tier 1 capital to risk-weighted assets) showed an increase from 18.7% in December 2020 to 19.2% in December 2021. The leverage ratio (ratio of assets over capital) slightly decreased to 6.9% during the same period. The NPLs net provisions to capital decreased to 4.3% in December 2021 from 5.0% in December 2020.

As for wholesale banks, CAR decreased to 17.1% in December 2021 from the level of 17.8% it registered in December 2020. Tier 1 capital decreased to 15.6% in December 2021 from the level of 17.0 it recorded in December 2020. Furthermore, the leverage ratio (ratio of assets over capital) increased to 9.0% in December 2021. Finally, the ratio of NPLs net of provisions to capital decreased to 3.1% over the same period.

Table 4.1: Conventional Banks' Capital Provisions Ratios

Indicator *	Retail			Wholesale		
	Q4 2020	Q4 2021	Change	Q4 2020	Q4 2021	Change
CAR (%)	20.0	20.6	0.6	17.8	17.1	-0.7
Tier 1 CAR (%)	18.7	19.2	0.5	17.0	15.6	-1.4
Assets/Capital (Times)	7.0	6.9	-0.1	8.4	9.0	0.6
NPLs net of Provisions to Capital (%)	5.0	4.3	-0.7	4.9	3.1	-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 with high provisioning position

The NPL ratio decreased to 3.9% in December 2021 from 4.7% in December 2020 for conventional retail banks. Specific provisions as a proportion of NPLs increased to 71.9% in December 2021. As for conventional wholesale banks, the NPL ratio decreased from 4.1% in December 2020 to 2.8% in December 2021. Specific provisions witnessed a decrease of 1.6% from 74.3% in December 2020 to 72.8% in December 2021.

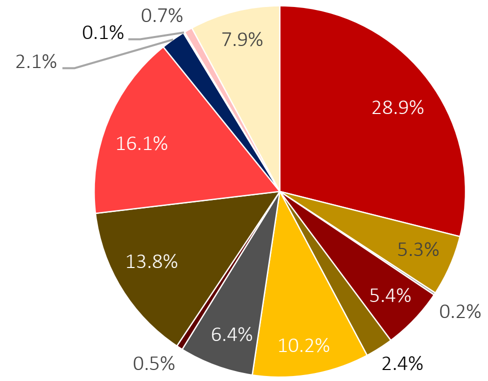
Table 4.2: Conventional Banks' NPL Ratios

Indicator *	Retail			Wholesale		
	Q4 2020	Q4 2021	Change	Q4 2020	Q4 2021	Change
NPLs (% Total Loans)	4.7	3.9	-0.8	4.1	2.8	-1.3
NPLs Local Banks (%)	4.1	3.7	-0.4	5.5	3.8	-1.7
NPLs Overseas Banks (%)	6.2	4.4	-1.8	3.0	2.0	-1.0
Specific Provisions (% of NPLs) *	69.9	71.9	2.0	74.3	72.8	-1.5

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

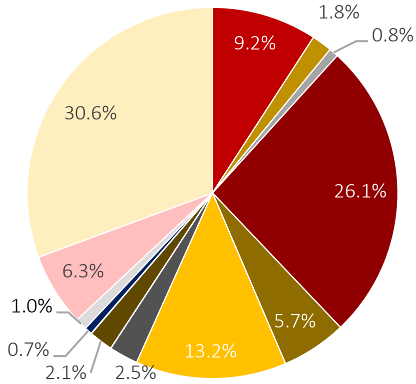
Data on the concentration of NPLs by sector for conventional retail banks shows that the majority of NPLs come from the manufacturing sector (28.9%), residential mortgage (16.1%), commercial real estate sector (13.8%) and trade (10.2%). On the other hand, the data on the concentration of NPLs by sector for wholesale banks indicates that that the majority of NPLs are concentrated and come from the construction sector (26.2%), trade (13.2%), and others (30.6%).

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



Source: CBB.

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

Available data on the sectoral breakdown of NPLs shows some sectors experiencing an increase in impairment, while most experience a decrease (Table 4.3). For conventional retail banks, the highest increase was in mining and quarrying by 14.7% while the largest decrease was in transport by 5.7%.

As for wholesale banks, sectoral breakdown of impaired loans demonstrates that impairment in trade was the highest between all sectors at 7.0%, followed by construction with an impairment of 4.4%. The biggest decrease in impairment was found in the mining and quarrying sector with a decrease of 11.7%.

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

Sector	Retail			Wholesale		
	Q4 2020	Q4 2021	Change	Q4 2020	Q4 2021	Change
Manufacturing	9.8	8.1	-1.7	2.6	1.7	-0.9
Mining and quarrying	28.0	42.7	14.7	15.8	4.1	-11.7
Agriculture, fishing and forestry	2.3	2.1	-0.2	1.3	1.0	-0.3
Construction	8.2	5.9	-2.3	7.5	4.4	-3.1
Financial	1.6	1.1	-0.5	1.3	0.8	-0.5
Trade	6.0	4.6	-1.4	11.8	7.0	-4.8
Personal / Consumer finance	1.9	1.7	-0.2	4.2	3.3	-0.9
Credit Card	2.8	2.9	0.1	5.5	2.3	-3.2
Commercial real estate financing	3.1	2.8	-0.3	3.5	2.6	-0.9
Residential mortgage	5.6	6.2	0.6	1.3	1.0	-0.3
Government	4.5	2.9	-1.6	0.4	0.3	-0.1
Technology, media and telecommunications	2.6	0.2	-2.4	4.2	2.3	-1.9
Transport	7.0	1.3	-5.7	3.4	3.5	0.1
Other sectors	3.5	2.6	-0.9	3.5	4.0	0.5

Source: CBB.

4.3.2 Loan Concentrations

Loan portfolios remain concentrated

The loan portfolio of retail banks remains concentrated with minimal changes in the composition of the loans. The top recipient of retail loans remains to be the commercial real estate financing sector accounting for 19.6% of total loans in December 2021 followed by personal/consumer finance representing 14.7%. Exposure to real estate/construction increased to 33.4% of total lending in December 2021. As for wholesale banks, lending remains concentrated in the financial sector and construction sector accounting for 19.5% and 17.2% respectively. Exposure to real estate/construction decreased to 19.5% of total lending in December 2021.

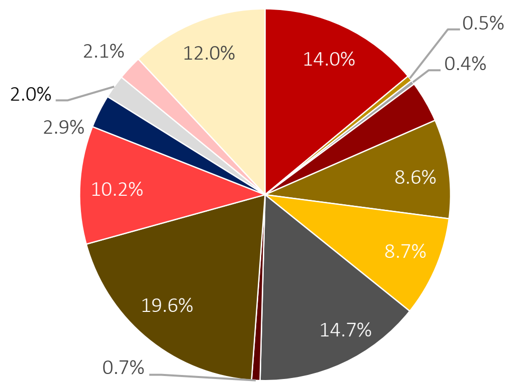
Table 4.4: Conventional Banks' Lending Distribution by Sector (% Total Loans)

Sector	Retail			Wholesale		
	Q4 2020	Q4 2021	Change	Q4 2020	Q4 2021	Change
Manufacturing	14.5	14.0	-0.5	13.6	15.3	1.7
Mining and quarrying	0.4	0.5	0.1	1.2	1.2	0.0
Agriculture, fishing and forestry	0.4	0.4	0.0	2.2	2.4	0.2
Construction	3.6	3.6	0.0	18.2	17.2	-1.0
Financial	6.7	8.6	1.9	19.0	19.5	0.5
Trade	10.6	8.7	-1.9	5.8	5.4	-0.4
Personal / Consumer finance	16.1	14.7	-1.4	1.8	2.2	0.4
Credit Card	0.8	0.7	-0.1	0.0	0.0	0.0
Commercial real estate financing	19.3	19.6	0.3	2.6	2.3	-0.3
Residential mortgage	10.2	10.2	0.0	0.2	0.1	-0.1
Government	2.0	2.9	0.9	5.4	6.2	0.8
Technology, media and telecommunications	1.9	2.0	0.1	1.1	1.3	0.2
Transport	1.1	2.1	1.0	6.0	5.2	-0.8
Other sectors	12.6	12.0	-0.6	22.9	21.8	-1.1
Top Two Sectors (%)	35.4	34.2	-1.2	41.9	41.3	-0.6
Real Estate/ Construction Exposure (%) **	33.1	33.4	0.3	20.9	19.5	-1.4

** 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.

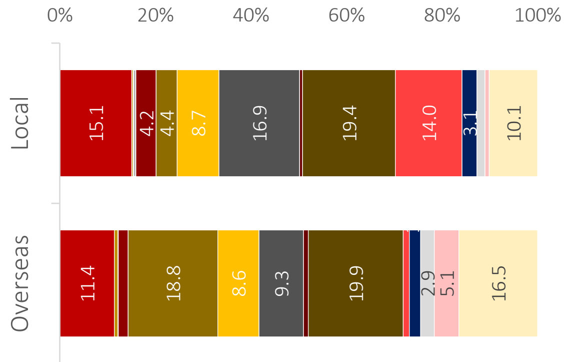
Available data on local and overseas banks, shows that loan portfolio of locally incorporated retail banks remains concentrated with the top recipient of loans being the commercial real estate financing sector (19.4%). Real estate/construction exposure increased to 37.6% of total lending in December 2021. Similarly, the numbers as of end-December 2021 continue to show high concentration for overseas retail banks. The top recipient of loans was the commercial real estate financing sector (19.9%). And exposure to real estate/ construction was 23.2% of total lending in December 2021.

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

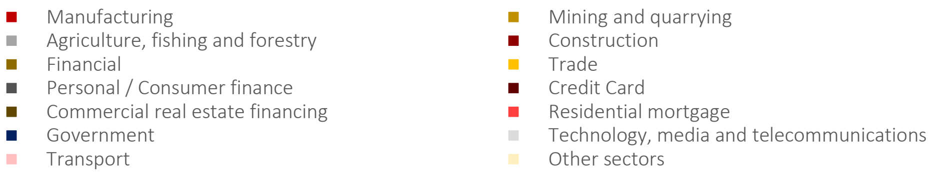


Source: CBB.

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

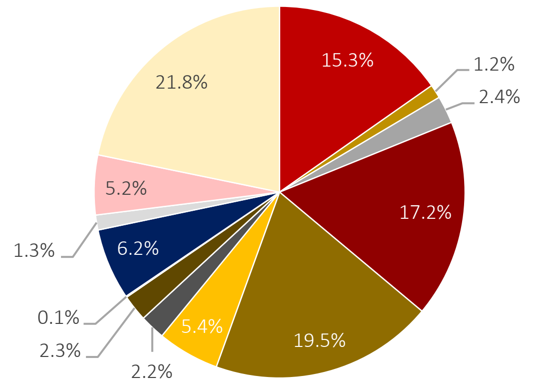


Source: CBB.



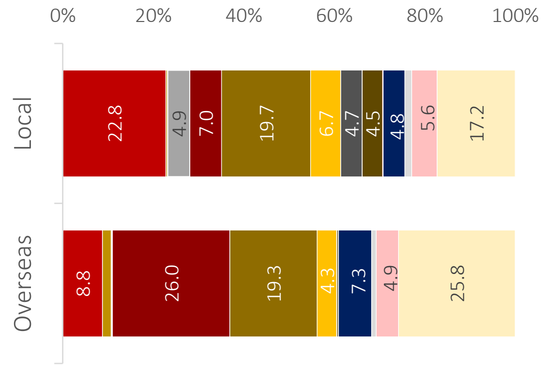
As for locally-incorporated wholesale banks, the top recipient of loans is the manufacturing sector (22.8%) and the real estate/ construction exposure was 11.6% for the same period. For overseas wholesale banks, the top recipient of loans in December 2021 was the construction sector (26.0%) and real estate/construction exposure decreased from 27.8% in December 2020 to 26.3% in December 2021.

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



Source: CBB.

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



Source: CBB.

4.4 Profitability

Banks' profitability shows major improvement

Profitability for conventional retail banks was positive, and, as at end-December 2021, ROA increased to 1.3%. ROA for locally incorporated banks increased to 1.5% in December 2021. For overseas banks, ROA increased from 0.3% in December 2020 to 0.9% in December 2021. ROE for locally incorporated banks increased to 10.9% from 9.6% during the same period. Net interest income (as a % of total income) increased from 76.1% to 78.9% during the same period as well. Operating expenses as a proportion of total income decreased from 61.6% in December 2020 to 49.4% in December 2021.

Table 4.5: Conventional Banks' Profitability

Indicator	Retail			Wholesale		
	Q4 2020	Q4 2021	Change	Q4 2020	Q4 2021	Change
ROA (%) *	1.0	1.3	0.3	0.8	1.3	0.5
ROA Locally Incorporated Banks (%)	1.3	1.5	0.2	-0.6	0.4	1.0
ROA Overseas Banks (%)	0.3	0.9	0.6	2.1	2.2	0.1
ROE (%) **	9.6	10.9	1.3	-5.3	3.5	8.8
Net Interest Income (% Total Income)	76.1	78.9	2.8	63.6	62.8	-0.8
Operating Expenses (% Total Income)	61.6	49.4	-12.2	68.6	42.7	-25.9

** ROA = ratio of net income to assets.*
*** ROE = ratio of net income to tier 1 capital (for Locally Incorporated Banks only).*
Source: CBB.

As for conventional wholesale banking sector, ROA increased to 1.3% in December 2021 from 0.8% in December 2020. The ROA for local wholesale banks increased from -0.6% to 0.4%, while overseas wholesale banks slightly increased from 2.1% to 2.2%. ROE for local wholesale banks increased from -5.3% to 3.5%. Net interest income as a proportion of total income decreased from 63.6% in December 2020 to 62.8% in December 2021. Operating expenses as a proportion of total income showed a decrease from 68.6% in December 2020 to 42.7% in December 2021.

4.5 Liquidity

Liquidity position is strong and improves for conventional wholesale banks

Between December 2020 and December 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 69.3% in December 2021 from 66.3% in December 2020. Liquid assets as a proportion of total assets decreased to 33.6% in December 2021. Liquid assets as a proportion of the short-term liabilities also remained at the same level of 43.4% over this period.

As at end-December 2021, the overall loan-deposit ratio for conventional wholesale banks stood at 68.7%, a decrease from the 71.1% recorded in December 2020. Liquid assets for wholesale banks as a proportion of total assets increased to 24.7% in December 2021 from 21.6% in December 2020. The liquid assets as a proportion of short-term liabilities increased by 4.3% to be 30.8% in December 2021. Non-bank deposits as a proportion of total deposits stood at 50.3%, an increase from the 46.8% level achieved in December 2020, while bank deposits decreased from 53.2% in December 2020 to 49.7% in December 2021.

Table 4.6: Conventional Bank's Liquidity

Indicator	Retail			Wholesale		
	Q4 2020	Q4 2021	Change	Q4 2020	Q4 2021	Change
Liquid Asset Ratio (%)	34.4	33.6	-0.8	21.6	24.7	3.1
Loan-Deposit Ratio (%)	66.3	69.3	3.0	71.1	68.7	-2.4
Non-Bank Deposits (% of Total Deposits)	72.1	73.9	1.8	46.8	50.3	3.5

Source: CBB.

5 PERFORMANCE OF ISLAMIC BANKS

HIGHLIGHTS

	Retail		Wholesale	
CAR	21.7%	▲ 1.4% YoY	15.8%	▼ 0.6% YoY
Tier 1 CAR	19.9%	▲ 2.0% YoY	14.4%	▼ 0.6% YoY
Assets-to-Capital	11.0	▲ 0.9 YoY	11.1	▲ 1.5 YoY
NPL	5.0%	▼ 1.5% YoY	0.7%	▼ 0.9% YoY
Specific Provisions	56.4%	▲ 13.5% YoY	92.0%	▲ 4.4% YoY
ROA	0.6%	▲ 0.4% YoY	0.8%	▲ 0.5% YoY
ROE	7.3%	▲ 5.2% YoY	10.0%	▲ 6.9% YoY
Liquidity	19.5%	▲ 1.7% YoY	18.0%	▲ 3.4% YoY
Loan/Deposit	73.3%	▼ 6.4% YoY	63.0%	▼ 0.2% 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 increased from 20.3% in December 2020 to 21.7% in December 2021. Tier 1 capital increased from 17.9% to 19.9% during this period. As at end- December 2021, the CAR for Islamic wholesale banks decreased to 15.8% from 16.4% in December 2020. Tier 1 capital also decreased from 15.0% to 14.4% over the same period. The ratio of NPFs net of provisions to capital decreased to 0.3% in December 2021.

Table 5.1: Islamic Banks' Banks' Capital Provisions Ratios

Indicator *	Retail			Wholesale		
	Q4 2020	Q4 2021	Change	Q4 2020	Q4 2021	Change
CAR (%)	20.3	21.7	1.4	16.4	15.8	-0.6
Tier 1 CAR (%)	17.9	19.9	2.0	15.0	14.4	-0.6
Assets/Capital (Times)	10.1	11.0	0.9	9.6	11.1	1.5
NPLs net of Provisions to Capital (%)	22.2	13.7	-8.5	0.9	0.3	-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

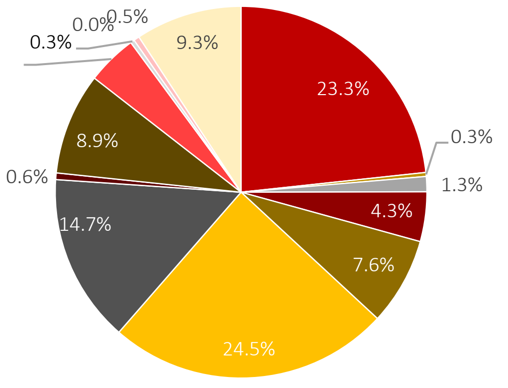
Non-performing facilities (NPF) ratio for Islamic retail banks decreased to 5.0% in December 2021. Specific provisoining increased to 56.4% in December 2021 from 42.9% in December 2020. As of end- December 2021, NPF ratio for Islamic wholesale banks decreased to 0.7%. Provisioning for NPFs increased to 92.0% over the same period.

Table 5.2: Islamic Banks' NPF Ratios

Indicator *	Retail			Wholesale		
	Q4 2020	Q4 2021	Change	Q4 2020	Q4 2021	Change
NPFs (% Gross Facilities)	6.5	5.0	-1.5	1.6	0.7	-0.9
Specific Provisions (% of NPFs)	42.9	56.4	13.5	87.6	92.0	4.4

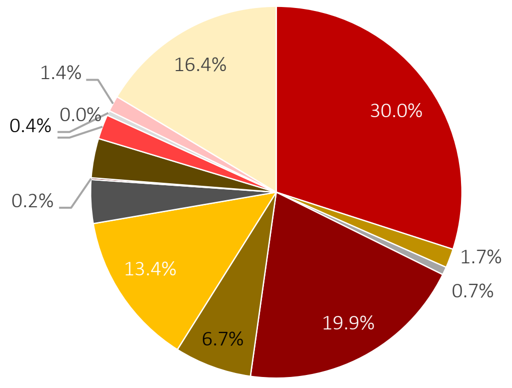
Source: CBB.

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



Source: CBB.

Chart 5.2: IW Banks' NPLs Concentration by Sector (December 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 (24.5%), manufacturing (23.3%), personal/consumer finance (14.7%) as indicated in chart 5.1. As for Islamic wholesale banks, the majority of NPFs are concentrated and come from manufacturing (30.0%), construction (19.9%), and other sectors (16.4%) 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 (33.9%) in December 2021 followed by trade and manufacturing with 19.5% and 11.8% respectively. The biggest declines in NPFs by sector was in the manufacturing sector which went down by 3.4%. The biggest increase in NPFs was in agriculture, fishing and forestry sector with an increase of 3.9% as indicated in table 5.3.

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

Sector	Retail			Wholesale		
	Q4 2020	Q4 2021	Change	Q4 2020	Q4 2021	Change
Manufacturing	15.2	11.8	-3.4	7.2	7.7	0.5
Mining and quarrying	4.1	4.2	0.1	25.0	9.9	-15.1
Agriculture, fishing and forestry	30.0	33.9	3.9	7.5	5.4	-2.1
Construction	8.5	6.9	-1.6	14.6	8.8	-5.8
Financial	6.4	3.5	-2.9	0.7	1.7	1.0
Trade	19.7	19.5	-0.2	10.4	10.3	-0.1
Personal / Consumer finance	5.0	3.0	-2.0	4.8	1.8	-3.0
Credit Card	5.5	3.1	-2.4	1.0	2.5	1.5
Commercial real estate financing	5.5	3.9	-1.6	16.3	10.7	-5.6
Residential mortgage	2.1	1.6	-0.5	1.5	1.9	0.4
Government	0.0	0.0	0.0	0.0	0.0	0.0
Technology, media and telecommunications	5.2	3.8	-1.4	58.0	42.9	-15.1
Transport	6.1	5.2	-0.9	8.2	5.4	-2.8
Other sectors	6.6	6.2	-0.4	10.1	10.7	0.6

Source: CBB.

On the other hand, the sector with the highest impairment for Islamic wholesale banks was the technology, media and telecommunications sector with 42.9% in December 2021. This was followed by the commercial and real estate financing and trade sectors with 10.7% and 10.3% respectively. Available data on the sectoral breakdown of non-performing facilities shows that the biggest increase was in the credit card sector with an increase of 1.5%. The biggest drop was in the mining and quarrying and the technology, media and telecommunications sectors equally with a decrease of 15.1%. The mining and quarrying sector went down from 25.0% in December 2020 to 9.9% in December 2021. Whereas the technology, media, and telecommunications went down from the 58.0% recorded in December 2020 to 42.9 in December 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 December 2021, the top recipient of financing was personal/consumer finance (24.5%), an increase from 19.1% recorded in December 2020. The top two recipients of financing (personal/consumer finance and residential mortgage) accounted for 38.1% of total facilities extended, compared to 36.7% for the top two sectors in December 2020. Real estate/construction exposure decreased to 28.3% in December 2021.

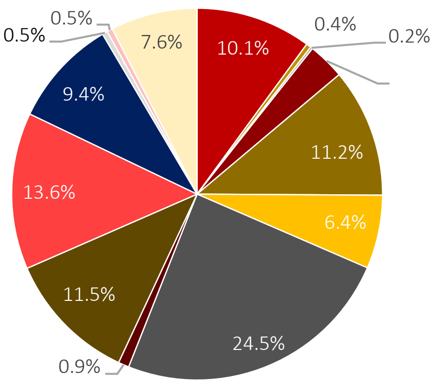
At End- December 2021, the financial sector was the top recipient of financing from Islamic wholesale banks, at 21.4%, increasing by 8.6% from December 2020. The others sector saw the largest decrease from 16.0% in December 2020 to 8.3% in December 2021. Real estate/ construction exposure increased from 15.5% in December 2020 to 20.1% in December 2021.

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

Sector	Retail			Wholesale		
	Q4 2020	Q4 2021	Change	Q4 2020	Q4 2021	Change
Manufacturing	9.1	10.1	1.0	18.4	21.1	2.7
Mining and quarrying	0.5	0.4	-0.1	1.0	0.9	-0.1
Agriculture, fishing and forestry	0.2	0.2	0.0	1.3	0.7	-0.6
Construction	3.2	3.2	0.0	9.1	12.3	3.2
Financial	12.2	11.2	-1.0	12.8	21.4	8.6
Trade	7.2	6.4	-0.8	13.5	7.1	-6.4
Personal / Consumer finance	19.1	24.5	5.4	9.2	11.2	2.0
Credit Card	0.9	0.9	0.0	1.0	0.3	-0.7
Commercial real estate financing	10.6	11.5	0.9	2.4	1.7	-0.7
Residential mortgage	17.6	13.6	-4.0	4.0	6.1	2.1
Government	9.8	9.4	-0.4	8.9	7.5	-1.4
Technology, media and telecommunications	0.5	0.5	0.0	0.1	0.1	0.0
Transport	0.6	0.5	-0.1	2.3	1.4	-0.9
Other sectors	8.5	7.6	-0.9	16.0	8.3	-7.7
Top two recipient sectors	36.7	38.2	1.5	34.4	42.5	8.1
Real Estate/ Construction Exposure**	31.4	28.3	-3.1	15.5	20.1	4.6

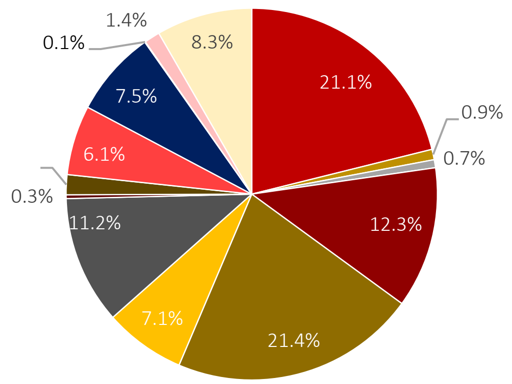
Source: CBB.
**Figures may not add to a hundred due to rounding*
*** Real Estate/ Construction exposure is calculated as the share of the Construction, Commercial real estate financing and Residential Mortgages sectors of total lending.*

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



Source: CBB.

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



Source: CBB.

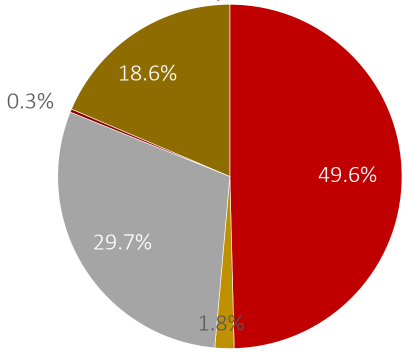
The concentration of lending distribution by Islamic instrument remained the same over the past. At the end of December 2021, the top recipient of finance for Islamic retail banks was Murabaha at 49.6% followed by Ijarah 29.7%. As for wholesale banks, the top recipient of finance was Murabaha at 65.7%.

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

Instrument	Retail			Wholesale		
	Q4 2020*	Q4 2021*	Change	Q4 2020*	Q4 2021*	Change
Murabaha	53.8	49.6	-4.2	70.8	65.7	-5.1
Istisna'a	1.2	1.8	0.6	3.4	3.2	-0.2
Ijarah	0.0	29.7	29.7	3.0	0.9	-2.1
Salam	0.3	0.3	0	1.6	1.2	-0.4
Others	17.0	18.6	1.6	21.3	29.0	7.7

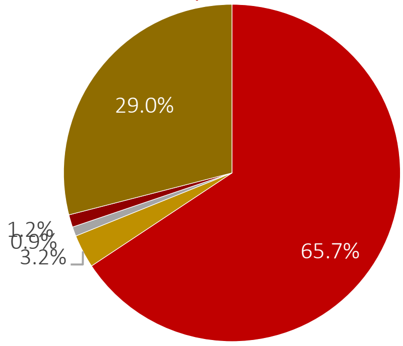
**Figures may not add to a hundred due to rounding.*
Source: CBB.

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.

5.4 Profitability

Improvement in earnings for Islamic banks

ROA for Islamic retail banks increased to 0.6% in December 2021 compared to 0.2% in December 2020. ROE also increased from 2.1% to 7.3% for the same period. Furthermore, operating expenses decreased from 89.2% in December 2020 to 73.9% in December 2021. As for Islamic wholesale banks, ROA increased from 0.3% in December 2020 to 0.8% in December 2021. ROE also increased from 3.1% to 10.0% in the same period. Furthermore, operating expenses (as % of total income) decreased from 83.2% in December 2020 to 67.6% in December 2021.

Table 5.6: Islamic Banks' Profitability (%)

Indicator	Retail			Wholesale		
	Q4 2020*	Q4 2021*	Change	Q4 2020*	Q4 2021*	Change
ROA*	0.2	0.6	0.4	0.3	0.8	0.5
ROE**	2.1	7.3	5.2	3.1	10.0	6.9
Operating expenses (% total operating income)	89.2	73.9	-15.3	83.2	67.6	-15.6

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 17.8% of total assets in December 2020 to 195% in December 2021. The ratio of total facilities to deposits decreased from 79.7% in December 2020 to 73.3% in December 2021.

As of end- December 2021, liquid assets of Islamic wholesale banks represented 18.8% of total assets, 3.4% higher than the 14.6% registered in December 2020. Additionally, the facilities deposit ratio decreased from 63.2% in December 2020 to 63.0% in December 2021.

Table 5.7: Islamic Banks' Liquidity (%)

Indicator	Retail			Wholesale		
	Q4 2020*	Q4 2021*	Change	Q4 2020*	Q4 2021*	Change
Liquid Assets (% of total assets)	17.8	19.5	1.7	14.6	18.0	3.4
Facilities – deposits ratio (%)	79.7	73.3	-6.4	63.2	63.0	-0.2

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
132	5.5%	30.5%
Asset of Conv. Insurance	**Assets of Takaful Insurance**	**Gross Premiums**
BD 2,196 mn	BD 204.7 mn	BD 203.7 mn

- Conventional firms account for 91.5% of total insurance industry with BD 2,196 million in total gross premiums as of September 2021. General insurance contributes for 79.1% of total gross premiums.
- Local Conventional insurance firms' performance is concentrated on Motor and Long-term (Life) business lines, and Takaful is concentrated in Motor and Medical business lines.
- Overseas insurance firms' performance is concentrated on Medical and Long-term (Life) 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 January 2022, there are a total of 132 insurance organizations licensed and registered in the Kingdom. There are 31 insurance companies: 16 conventional local, 10 conventional overseas/foreign branches, and 5 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 101 other registered insurance licenses include 35 Insurance Brokers, 3 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 Q3 2021, the insurance sector

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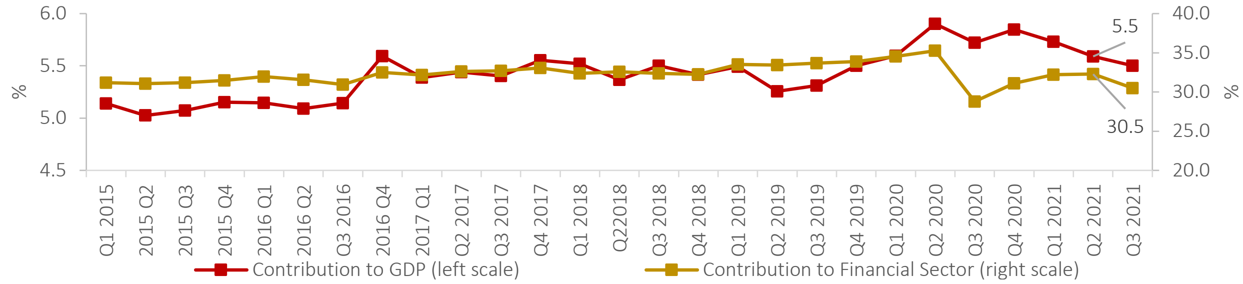
[6] Takaful companies are companies conducting takaful business in line with Islamic principles. Overseas insurance companies are branches of foreign companies.

7 Chapter 6 covers the period between Q3 2020 and Q3 2021, unless otherwise indicated.

represented 5.5% of the real GDP and the contribution of the Insurance sector to the overall financial sector has increased representing 30.5%. 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 September 2021, total assets of the Insurance sector reached BD 2,400.3 million with an increase of 1.2% compared to BD 2,372.3 million in September 2020. Total liabilities had a decrease of 3.6% over the same period reaching BD 1,673.6 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*	
	Q3 2020	Q3 2021	Q3 2020	Q3 2021	Q3 2020	Q3 2021	Q3 2020	Q3 2021
Conventional	**2,168,245**	**2,195,587**	**1,611,286**	**1,549,897**	**291,224**	**369,440**	**47,827**	**32,459**
Local	1,921,885	1,976,098	1,402,257	1,367,477	256,595	334,404	39,927	27,452
Overseas	246,359	219,490	209,029	182,420	34,629	35,037	7,899	5,007
Takaful	**204,105**	**204,726**	**124,313**	**123,783**	**60,377**	**55,945**	**3,313**	**3,599**
All Insurance	**2,372,349**	**2,400,313**	**1,735,599**	**1,673,679**	**351,601**	**425,385**	**51,140**	**36,058**

**For takaful it only includes Shareholder figures.*
Source: CBB.

Total available capital[8] increased from 351.6 BD million in September 2020 to 425.4 BD million in September 2021. Profitability on the other hand, decreased between September 2020 and September 2021 reaching BD 36.1 million.

6.2.1 Conventional Insurance Firms

As of September 2021, total assets of the conventional insurance sector stood at BD 2,195.6 million increasing by 1.3% compared to the BD 2,168.2 million registered in September 2020. Total assets of local insurance Firms were BD 1,976.1 million (90.0% of total assets) with a growth rate of 2.8% since September 2020. Total assets of overseas foreign branches were BD 219.5 million (10.0% of total assets) recording a decline of 10.9%.

The liabilities of the conventional insurance sector registered at BD 1,549.9 million with a 3.8% decrease from the BD 1,611.3 million in September 2020. Liabilities for local insurance firms registered at BD 1,367.5 million decreasing by 2.5%. Liabilities of overseas foreign branches were BD 182.4 million in September 2021 with a decrease of 12.7%.

Available Capital: Total capital as of September 2021 was at BD 369.4 million increasing by 26.9% from the BD 291.2 million in the equivalent period of the previous year. Total available capital for local insurance was BD 334.4 with a YoY increase of 30.3%. Total available capital for overseas foreign branches increased by 1.2% from BD 34.6 million in September 2020 to BD 35.0 million in September 2021.

Net profit decreased for conventional insurance firms from BD 47.8 million in September 2020 to a profit of BD 32.5 million in September 2021. Net profit for local insurance was BD 27.5 million with a YoY increase of 31.2%.Net profit for overseas insurance was BD 5.0 with a year-to-year decrease of 36.6%.

[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 September 2021 were stable at BD 204.7 million. The liabilities decreased by 0.4% from BD 124.3 million in September 2020 to BD 123.8 million in September 2021. Total regulatory capital experienced an annual decrease of 7.3% from BD 60.4 million in September 2020 to BD 55.9 million in September 2021. As for net profits, Takaful companies showed a 8.6% increase in profits between September 2020 and September 2021 reaching BD 3.6 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 202.9 million, increasing by 0.4% YoY. Conventional insurance represented 70.0% of total gross premiums (local and branches represented 54.3% and 15.7% respectively) while takaful accounted for 30.0% of gross premiums. As of September 2021, life insurance represented 21.0% of gross premiums while non-life/general insurance represented 79.0% covering the various classes (Graph 6.2).

Looking at the performance by class, Engineering category experienced the greatest decline within the rest of the insurance business line, with an annual decrease of 17.2%, followed by Long-term (Life) and Motor, decreasing by 9.3% and 2.2% respectively. On the other hand, the Others business line and Medical insurance experienced an annual increase by 15.9% and 7.3% during the same period. The top 3 business lines sectors represented 75.7% 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 September 2021, Net Premiums Written decreased compared to the previous period registering a value of BD 135.5 million. Others class showed the biggest increase over the period increasing by 13.2%, from BD 1.9 million in September 2020 to BD 2.1 million in September 2021. On the other hand, the biggest decline was derived from Miscellaneous Financial Loss class, decreasing from BD 356 million in September 2020 to BD 285 million in September 2021.

However, Gross Claims for the overall insurance industry recorded a YoY increase of 4.1% from BD 102.5 million in September 2020 to BD 106.7 million in September 2021. The decrease was mainly due to a decrease in Others class by BD 2.8 million from BD 1.5 million in September 2020 to BD 4.3 million in September 2021.

Net Claims for the overall insurance industry show a decrease of 0.6%, which was derived from an annual decrease in Miscellaneous Financial Loss by BD 181 million (152.1%). The greatest increase was recorded in Long-term (Life) by BD 4.0 million (26.2%).

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

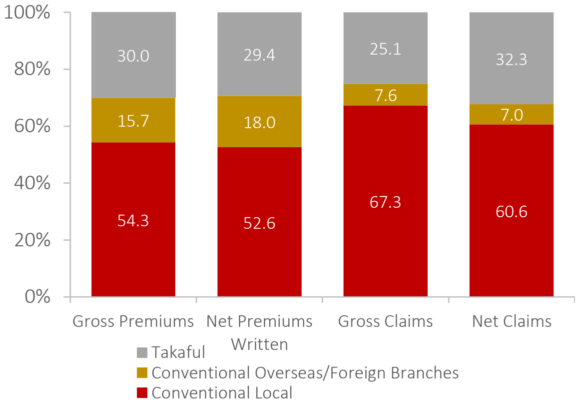
BD '000	Gross Premiums		Net Premiums Written		Gross Claims		Net Claims	
	Q3 2020	Q3 2021	Q3 2020	Q3 2021	Q3 2020	Q3 2021	Q3 2020	Q3 2021
Long-term (Life)	47,069	42,682	41,957	37,266	17,700	25,738	15,277	19,278
Fire, Property & Liability	27,112	28,847	4,199	3,653	10,171	7,318	892	188
Miscellaneous Financial Loss	3,700	3,791	356	285	676	406	119	(62)
Marine & Aviation	3,978	4,460	1,052	1,187	1,146	1,604	264	139
Motor	54,271	53,091	52,215	51,232	34,653	31,172	31,513	27,462
Engineering	5,722	4,740	1,037	959	479	690	(12)	(19)
Medical	54,281	58,227	34,676	38,792	36,200	35,481	25,455	25,138
Others	6,748	7,819	1,872	2,119	1,501	4,296	(71)	897
Total	**202,880**	**203,658**	**137,364**	**135,492**	**102,526**	**106,705**	**73,436**	**73,021**

Source: CBB.

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

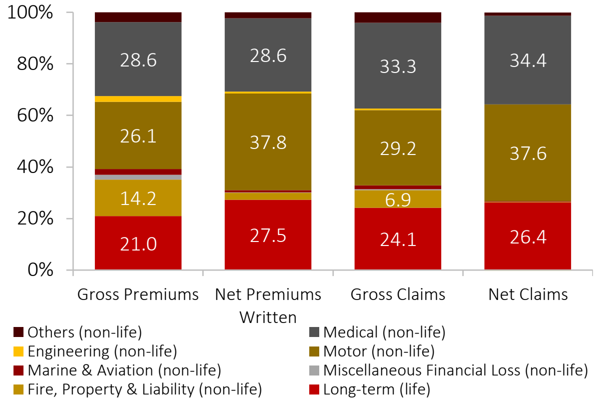
The concentrations of premuims and claims by class are viewed in Graph 6.3:

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 (Q3 2021)



Source: CBB.

6.3.1 Conventional Insurance Firms

The Gross Premiums recorded for conventional insurance showed a YOY increase by BD 234 million (0.2%), where total gross premiums increased from BD 142.3 million in September 2020 to BD 142.5 million in September 2021 (Table 6.3). The greatest increases were from the Others business class by around BD 1.6 million (56.5%). The largest YoY decline was by Engineering business classes with BD 1.7 million (39.1%). In terms of concentration, Long-term (life), Motor and Medical business classes represented 26.5%, 24.8% and 24.5% respectively of the total gross premiums.

Net Premiums Written reflected an annual decrease by 2.1% compared to September 2020. The greatest increase was from Others business class by around BD 194 million. Motor and Long term (life) insurance remained the largest in terms of Net Premiums Written concentration as well, accounting for 35.9% and 35.7%.

Gross Claims increased by 8.8% YoY in September 2021 due to an increase in Others business class from BD 956 million in March 2020 to BD 2.9 million by September 2021. The highest share in gross claims was Long-term (life) 30.2%, followed by Medical at 28.7%.

Net Claims on the other hand, experienced an annual increase of 6.2% from BD 46.5 million in September 2020, reaching BD 49.4 million in September 2021. Others business line increased by 315.5%. Nonetheless, the concentration falls heavily within the Long-term (life) insurance class, accounting for 38.0% of the total net claims.

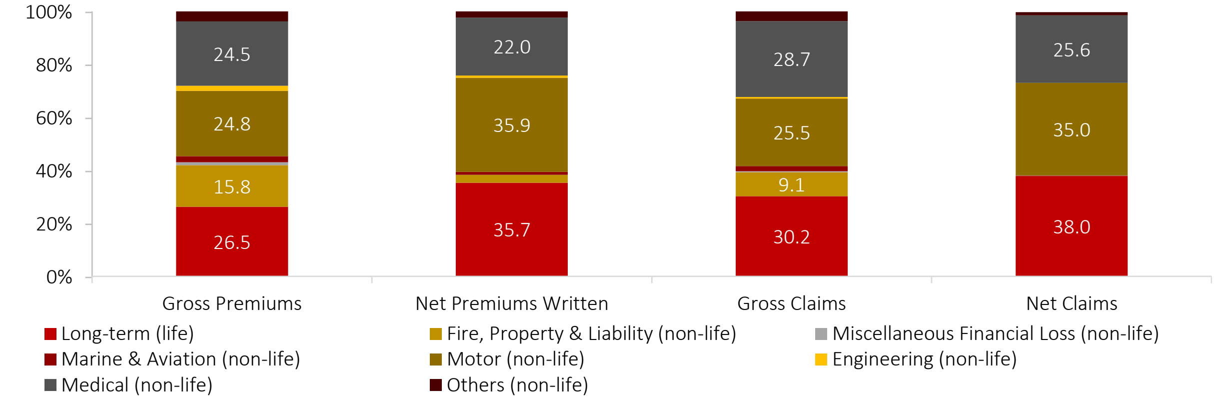
Table 6.3: Premiums and Claims for Conventional Insurance by Class

BD '000	Gross Premiums		Net Premiums Written		Gross Claims		Net Claims	
	Q3 2020	Q3 2021	Q3 2020	Q3 2021	Q3 2020	Q3 2021	Q3 2020	Q3 2021
Long-term (Life)	41,685	37,705	38,685	34,175	16,765	24,155	14,848	18,792
Fire, Property & Liability	21,458	22,520	3,280	2,807	9,183	7,241	320	23
Miscellaneous Financial Loss	1,602	1,645	157	56	(7)	297	18	31
Marine & Aviation	2,993	3,305	912	1,057	823	1,521	211	87
Motor	35,461	35,408	34,311	34,315	23,726	20,392	20,024	17,315
Engineering	4,377	2,664	847	794	221	478	(202)	(115)
Medical	31,896	34,862	18,340	21,096	21,780	22,906	11,600	12,658
Others	2,825	4,422	1,184	1,378	956	2,895	(291)	627
Total	**142,297**	**142,531**	**97,715**	**95,677**	**73,447**	**79,884**	**46,529**	**49,418**

Source: CBB.

Motor insurance had the highest exposure in Net Premiums Written (35.9%). Whereas, Long-term (life) had the highest exposure in Gross Premiums (26.5%), Gross Claims (30.2%) and Net Claims (38.0%).

Chart 6.4: Concentrations of Premiums and Claims for Conventional Insurance by Class (Q3 2021)



Source: CBB.

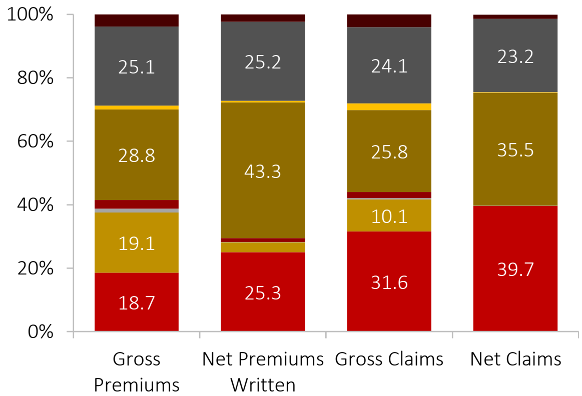
Table 6.4 below and Charts 6.6 and 6.7 shows a further division of the premiums and claims by class between Local and Overseas firms within the conventional insurance industry for March 2021. For local conventional insurance, medical insurance has the highest concentration for Gross Premiums (37.4%), 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 (Q3 2021)

BD '000	Gross Premiums		Net Premiums Written		Gross Claims		Net Claims	
	Local	Overseas	Local	Overseas	Local	Overseas	Local	Overseas
Long-term (Life)	20,649	17,056	18,034	16,141	22,667.17	1,488	17,561	1,231
Fire, Property & Liability	21,145	1,375	2,301	506	7,235.87	5	28	(5)
Miscellaneous Financial Loss	1,251	394	34	23	296.03	1	30	1
Marine & Aviation	3,037	268	850	207	1,396.02	125	(31)	118
Motor	31,856	3,553	30,895	3,420	18,529.67	1,863	15,737	1,579
Engineering	1,324	1,340	390	404	1,512.88	(1,035)	92	(207)
Medical	27,691	7,171	17,949	3,147	17,283.60	5,622	10,257	2,400
Others	3,583	839	863	515	2,865.14	30	597	30
Total	110,535	31,996	71,315	24,363	71,786.38	8,098	44,271	5,148

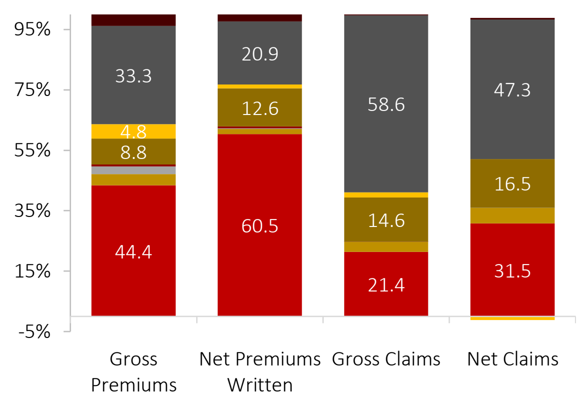
Source: CBB.

Chart 6.5: Concentrations of Premiums and Claims by Class for Local Insurance (Q3 2021)



Source: CBB.

Chart 6.6: Concentrations of Premiums and Claims by Class for Overseas Insurance (Q3 2021)



Source: CBB.

Long-term (life) | Fire, Property & Liability (non-life) | Miscellaneous Financial Loss (non-life)
Marine & Aviation (non-life) | Motor (non-life) | Engineering (non-life)
Medical (non-life) | Others (non-life)

6.3.2 Takaful Insurance Firms

The Gross Premiums for Takaful companies increased on a YoY basis by 0.9%, from BD 60.6 million at September 2020 reaching BD 61.1 million in September 2021. The largest increase was attributed to Engineering increasing by BD 732 million (54.5%). Medical Insurance line recorded the highest contributor towards total Takaful gross premiums, accounting for 38.2% of the total.

Net Premiums Written increased by 0.4% from September 2020 to September 2021, reaching BD 39.8 million. Motor insurance accounted for the largest components in terms of gross claims, representing 43.3% of the total net premiums written.

Gross Claims decreased by 7.8% compared from September 2020 to September 2021, with Fire, Property & Liability registering the largest decrease (BD 912 million) within the same period. Medical and Motor insurance accounted for the largest components in terms of gross claims, representing 46.9% and 40.2% of the total gross claims.

Net Claims recorded an annual decrease of 12.3% at September 2021, with Miscellaneous Financial Loss having the highest decrease of 192.1% respectively. Furthermore, Medical and Motor representing the largest components of net claims, accounting for 52.9% and 43.0% from the total respectively.

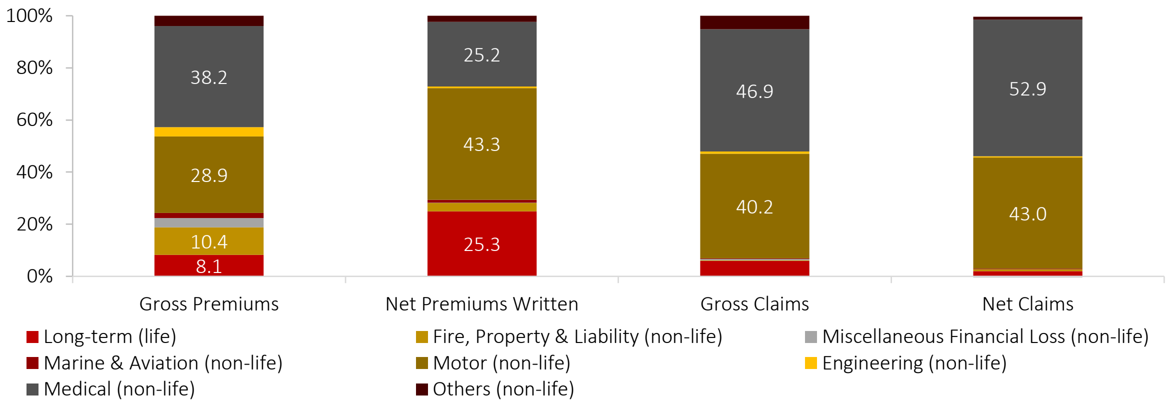
Table 6.5: Premiums and Claims by Class for Takaful Insurance Firms

BD '000	Gross Premiums		Net Premiums Written		Gross Claims		Net Claims	
	Q3 2020	Q3 2021	Q3 2020	Q3 2021	Q3 2020	Q3 2021	Q3 2020	Q3 2021
Long-term (Life)	5,384	4,977	3,272	3,090	935	1,583	429	486
Fire, Property & Liability	5,654	6,327	919	846	989	77	571	164
Miscellaneous Financial Loss	2,098	2,146	199	229	683	109	101	(93)
Marine & Aviation	985	1,155	140	130	323	84	53	52
Motor	18,810	17,683	17,903	16,918	10,927	10,780	11,489	10,147
Engineering	1,344	2,076	190	164	258	212	190	96
Medical	22,385	23,365	16,337	17,696	14,419	12,575	13,855	12,480
Others	3,923	3,397	689	741	545	1,401	220	270
Total	**60,583**	**61,127**	**39,649**	**39,815**	**29,079**	**26,820**	**26,908**	**23,603**

Source: CBB.

Takaful insurance companies have very high concentration on the Medical and Motor Insurance business lines. Gross Premiums for both sectors combined represents (67.1%), Net Premiums Written (68.5%), Gross Claims (87.2%), and Net Claims (95.9%).

Chart 6.7: Concentrations of Premiums and Claims by Class for Takaful Insurance Firms (Q3 2021)



Source: CBB.

6.3.3 Retention Ratio and Loss Ratio (By Class)

Life insurance business line registered a retention ratio of 87.3% in September 2021. Observing the non-life insurance, Medical and Motor, that accounted for 54.7% of the total Gross Premiums in September 2021 respectively, registered retention ratios of 96.5% for Motor and 66.6% for Medical.

Nevertheless, retention ratios were significantly lower for other business lines such as Fire, Property and Liability andMiscellaneous Financial Loss, registering 12.7% and 7.5% respectively.

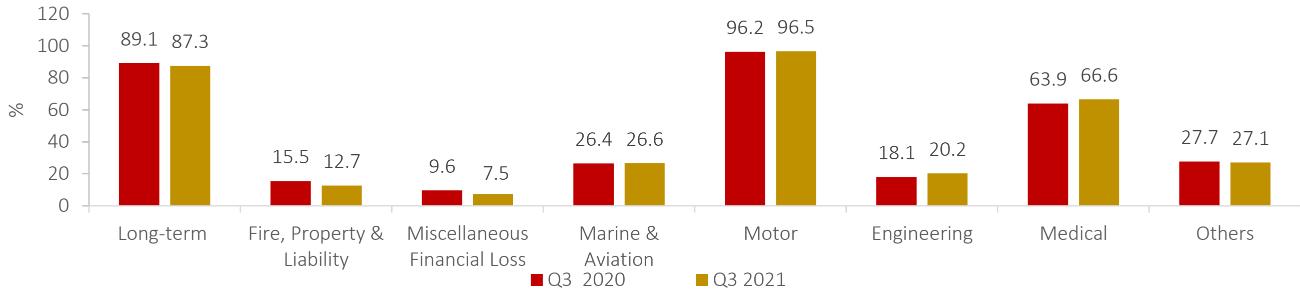
Table 6.6: Retention and Loss Ratios of Overall Insurance Sector

%	Retention Ratio [1]		Loss Ratio [2]	
	Q3 2020	Q3 2021	Q3 2020	Q3 2021
Long-term	89.1	87.3	38.0	56.0
Fire, Property & Liability	15.5	12.7	23.4	5.0
Miscellaneous Financial Loss	9.6	7.5	42.8	-18.2
Marine & Aviation	26.4	26.6	25.8	13.0
Motor	96.2	96.5	59.1	53.0
Engineering	18.1	20.2	-1.6	-2.7
Medical	63.9	66.6	74.9	72.2
Others	27.7	27.1	-4.0	46.8

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 THE INSURANCE SECTOR

7 PERFORMANCE OF NON-BANK FINANCIAL INSTITUTIONS

HIGHLIGHTS

# of Investment Businesses	Investment Businesses Assets	Assets Under Management
49	BD 421 mn	BD 11,320 mn

# of Money Changers	Money Changers Purchase	Money Changers Sale
18	BD 5,495 mn	BD 6,720 mn

- Total assets of Investment Businesses decreased by 7.1%.
- Profits of investment businesses dropped as category 1 firms recorded a loss.
- 71.6% of all currency transactions of money changers were in Asian and non-GCC Arab currencies for Q4 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 Q4 2020 and Q4 2021, unless otherwise indicated.

A significant number of investment businesses and money changers have established their presence in Bahrain. As of December 2021, there are a total of 49 investment business firms and 18 money changer organizations licensed and registered in the Kingdom.

Investment firms can be further broken-down into:

- 23 Category 1 firms,
- 12 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

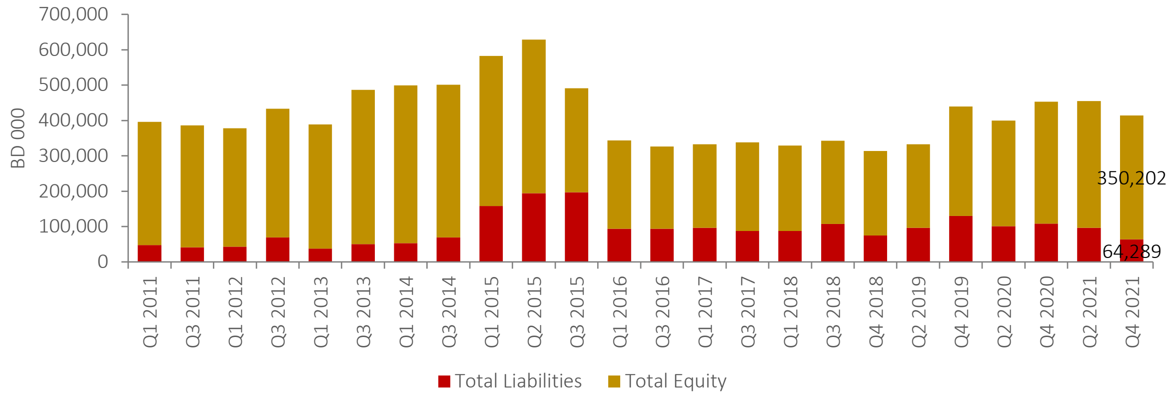
Total assets for investment businesses peaked in December 2015 reaching BD 628.8 million, but since the beginning of 2016 have stabilized around BD 330 million (Chart 7.1). In December 2021, total assets of investment businesses decreased by 7.1% to BD 421.0 million from BD 453.2 million in December 2020. During the same period, total liabilities decreased by BD 44.1 million (40.7%) and total equity increased by BD 5.4 million (1.6%).

Table 7.1: IB Total Assets by Category

BD '000	Total Assets		Total Liabilities		Total Equity	
	Q4 2020	Q4 2021	Q4 2020	Q4 2021	Q4 2020	Q4 2021
Category 1	405,820.0	367,127.2	99,538.2	53,892.6	306,281.8	307,290.6
Category 2	39,165.8	45,191.0	6,764.5	7,405.6	32,401.3	37,385.4
Category 3	8,194.1	8,708.4	2,042.0	2,990.9	6,152.1	5,525.6
Total	**453,179.9**	**421,026.6**	**108,344.7**	**64,289.1**	**344,835.2**	**350,201.6**

Source: CBB.

Chart 7.1: IB Total Assets by Time Period



Source: CBB.

7.1.1 Assets Under Management

Between December 2020 and December 2021, total assets under management increased by 2.3% from BD 11,062.5 million to BD 11,320.1 million. Assets under management of residents increased by 2.9% from BD 7,203.4 million in December 2020 to 7,415.7 million in December 2021. Non-residents' assets under management recorded a 1.2% increase from December 2020 reaching BD 3,904.5 million.

Table 7.2: Assets under Management

BD '000	Q4 2020	Q2 2021	Q4 2021	YoY % Change
AUM - Residents	7,203,350.6	6,407,601.5	7,415,651.7	2.9
AUM - Non-Residents	3,859,126.9	4,875,341.1	3,904,453.6	1.2
Total AUM	**11,062,477.4**	**11,180,220.5**	**11,320,105.3**	**2.3**

Source: CBB.

7.1.2 Profitability

Category 1 investment businesses recorded a loss in the fourth quarter of 2021 after recording huge profits during the fourth quarter of 2020. The major drop in profits is mainly due to an individual firm that reported a significant loss in the fourth quarter of 2021. Category 2 firms' profits increased by 151% from BD 0.83 million in December 2020 to BD 2.09 million in December 2021. Category 3 firms also recorded a decline in profitability for the fourth quarter of 2021 with a 63.6% drop (Table 7.3).

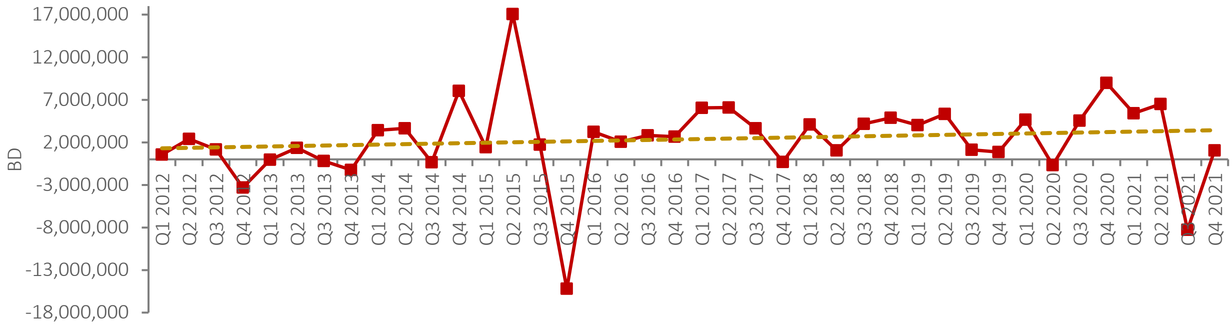
Table 7.3: IB Profitability by Category

BD '000	Q4 2020	Q2 2021	Q4 2021	YoY % Change
Category 1	7,638.5	4,560.8	-1,235.7	-
Category 2	834.8	1,935.2	2,092.7	150.7
Category 3	486.3	10.2	177.0	-63.6
Total	**8,959.7**	**6,506.2**	**1,034.0**	-88.5

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, apart from September 2021. 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 (Q1 2011 – Q4 2021)



Source: CBB.

7.2 Money changers

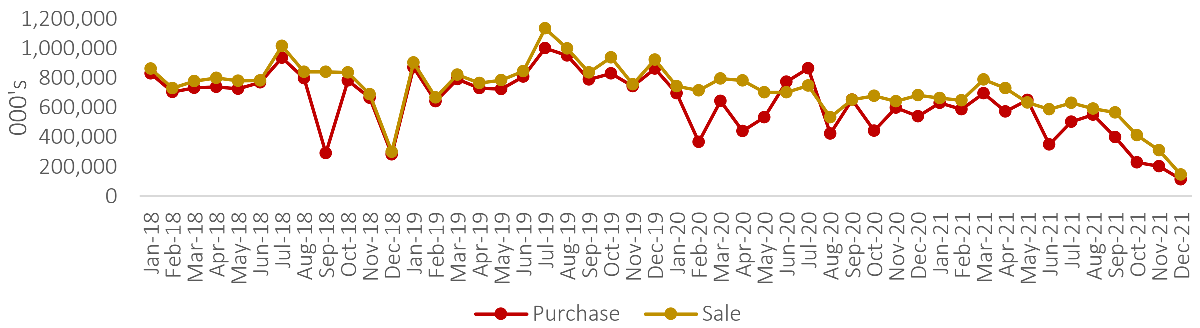
During 2021, money changers' purchase of foreign currencies amounted to BD 5.5 billion, while the sale of foreign currencies was recorded at BD 6.7 billion for the year. The month with the highest sale of currencies was March 2021, and the lowest month for sale of currencies was December 2021 (Table 7.3).

Table 7-3: Money Changers Total Turnover (Jan. 2021 – Dec. 2021)

BD 000's	Purchase	Sale
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
Jul. 2021	504,682.4	631,605.3
Aug. 2021	551,116.5	593,023.5
Sep. 2021	400,091.3	567,590.1
Oct. 2021	228,643.2	413,889.3
Nov. 2021	201,991.9	310,100.3
Dec. 2021	114,389.4	145,476.0
Total	**5,495,012.7**	**6,719,883.1**

Source: CBB.

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



Source: CBB.

For the fourth quarter of 2021, money changers' purchase and sale of currencies stood at BD 0.55 billion and BD 0.87 billion, respectively. A breakdown of Money Changers turnover indicates that "European" currency group recorded the highest YoY increase in sales. The largest decline in sales was the "Other Arab" currency group recording a drop of 90.6%. As for purchases, the top YoY increase is also "European", followed by "USD" with a 21.1%. The largest decline in purchases was in "Other Arab" with a drop 80.7%.

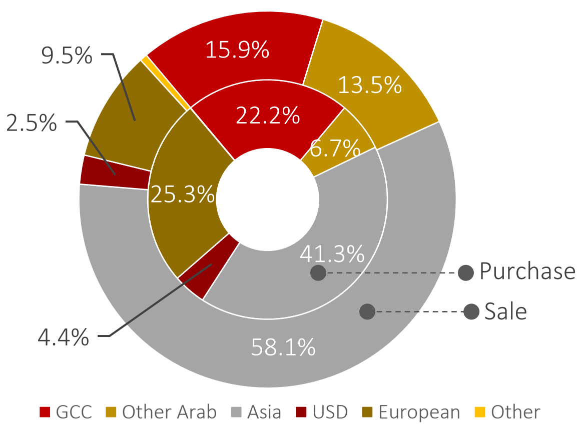
Table 7.4: MC Turnover by Currency Group

BD 000's	Purchase			Sale		
	Q4 2020	Q2 2021	Q4 2021	Q4 2020	Q2 2021	Q4 2021
GCC	239,491.6	268,011.3	121,132.5	243,040.5	167,426.6	137,892.9
Other Arab	388,840.6	692,775.1	36,500.6	606,916.9	860,810.8	117,031.2
Asia	938,889.2	596,045.0	225,272.3	1,124,581.6	899,945.8	505,126.0
USD	17,701.2	19,348.2	24,197.4	17,925.4	13,042.5	21,701.7
European	144.1	157.0	137,721.8	8,646.2	8,516.3	82,226.2
Other	244.2	220.8	199.9	5,678.3	5,413.2	5,490.7
Total	**1,585,310.7**	**1,576,557.4**	**545,024.5**	**2,006,788.8**	**1,955,155.2**	**869,465.7**

Source: CBB.

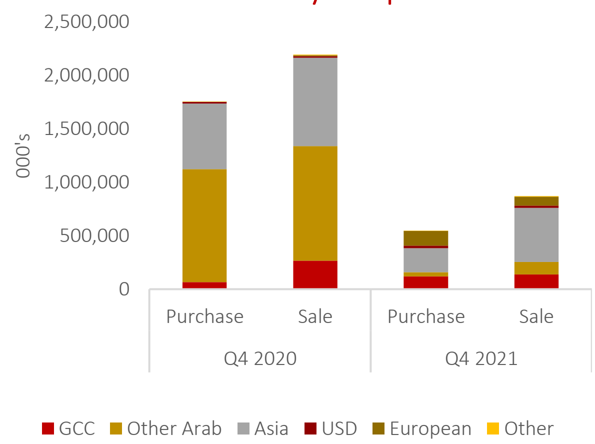
For the fourth quarter of 2021, only 15.9% of all currencies sold were in GCC currencies, an increase from the 12.1% recorded in Q4 2020. The "Asia" currency group was the most exchanged with 58.1% of total purchase and sale of currencies in Q4 2021.

Chart 7.3: Money Changers Currency Group Purchase & Sale, Q4 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

The global COVID-19 pandemic and diminished economic activity that resulted from it had an impact on financial institutions. Investment business firms that have investment exposures to sectors that have been heavily affected by the pandemic such as aviation and Real Estate related investments, as well as other licensees such as money changers, continued to face some of the challenges driven by the impact of the ongoing Covid-19 pandemic, including but not limited to, difficulty to find new business and investments opportunities in the ongoing economic circumstances and uncertainties linked to the same at the global scale.

However, as the global perspective of the pandemic is improving and movement of people have become less restrictive, it is evident that some of the financial institutions have resumed their business by seeking new opportunities and slowly moving back to their normal course of business.

The Digital transformation gained priority. While digital transformation was already a corporate priority for many financial institutions, the investments in digital channels such as mobile and Internet Remittance had become an increased or urgent priority as a result of the crisis. Other aspects including the digitization of internal processes and the development of data analytics grew in importance for about one in two clients. It is worth mentioning that, despite the restrictions and health concerns pertaining to face-to-face communications, many of the money changers have come up with innovative technological solutions for their customers, that were aimed to continue serving the targeted market through mobile applications and designated websites.

Digital transformation is no doubt bringing a paradigm shift in business operations and changing cyber-security requirements. With the pandemic introducing newer levels of risks, financial institutions cyber-security teams have to leverage both proactive and reactive measures to ensure business continuity and enjoy the competitive advantage. Protection of businesses and assets from malicious threats should include, ongoing integration and automation of cyber security measures to address the fast-evolving threat landscape

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

7.4 Developments in Regulation and Initiatives

The Central Bank of Bahrain ("CBB") has introduced a new license category of investment firms under the CBB Rulebook Volume 4 – Investment Business.

The new license category caters to the business models of specialist fund managers who operate/manage/market Collective Investment Undertakings ("CIUs") in general with specific focus on Venture Capital fund managers. The new Module was developed to introduce light-touch regulations for the promotion of Bahrain as a financial hub that is investors friendly, attracting FDI in the form of shareholding in those licensees by making it appealing to a wider base of applicants, like foreign investment boutiques that are specialized in operating and managing CIUs, as well as experienced individuals who wish to have their own CIU practice in Bahrain.

The new regulations maintain high standards of business conduct, include measures to safeguard client money/assets and require disclosure standards to investors in line with international best practices.

It is worth mentioning that the CBB is in the process of enhancing its overall Rulebook requirements and making it in line with the fast-changing international best practices in order to maintain Bahrain's competitive advantage in the region.

To support this vision, the CBB is planning to issue for consultation on a fully revised regulations pertaining to the regulatory requirements of Collective Investment Undertakings ("CIUs") as part of the update in Volume 7 of the CBB rulebook.

The CBB is keen to revitalize the funds' industry by introducing more flexible and practical regulations that compete with the best international standards, and that allow for a variety of funds' classes to be incorporated and offered in the kingdom of Bahrain, to support the overall outlook of enhancing Bahrain's position in the region.

Moreover, and as part of the CBB objectives to elevate and enhance the corporate governance standards for its licensees, the High-Level Control (HC) Module was amended by introducing certain requirements pertaining to the review of the independency of Independent Directors on an annual basis, the reclassification of Independent Directors after they have served three consecutive Board terms, the termination of Board memberships of CEOs that no longer occupy such position, and the requirement to notify the CBB of changes of Board categorization.

Furthermore, and as part of the CBB's objectives to build a resilient and trusted cyber environment for financial institutions in the Kingdom of Bahrain, and to make cyberspace safer for the clients of its licensees, the CBB has issued a material update to its Cyber Security requirements for Investment business firms and Money changers under the Risk Management Module of Rulebook Volumes 4 and 5 respectively.

8 PERFORMANCE OF CAPITAL MARKETS

HIGHLIGHTS

# of Companies	All Share Index	Islamic Index
42 Dec 2021	1,797.25 ▲ 20.6% YoY	751.72 ▲ 15.6% YoY
Market Capitalization	**Value of Transactions**	**Volume of Transactions**
BD 10.8 bn ▲ 16.6% YoY	BD 93.0 mn H2 2021	0.43 bn H2 2021

- Increase in both the Bahrain All Share & Bahrain Islamic Index.
- Bahrain Bourse's market capitalization stood at BHD 10.8 bn by the second half, increasing from BHD 9.9 bn in end of first half 2021, resulting in an increase of 9.4%.
- Financials Sector dominated the market trading activity as it had the highest value traded.
- Bahrainis represented 73% of the value of shares bought and 76% of value of shares sold during second 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 second half 2021, Bahrain Bourse recorded a total listing of 42 Companies, 3 Mutual Funds, 17 Bonds and Sukuk and one REIT. During second half of 2021, there were 25 companies that closed higher and 11 closed lower and 6 remained unchanged. Financials sector remains the dominant sector in Bahrain Bourse in terms of market capitalization and trading activity accounting for 58.4% of total value traded during second half 2021 and making up 74.3% 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, ALBH BATELCO, and BBK represent 71.1% of the total market.

8.2 Bahrain Bourse

8.2.1 All Share Index and Islamic Index Overview

Increase in market index

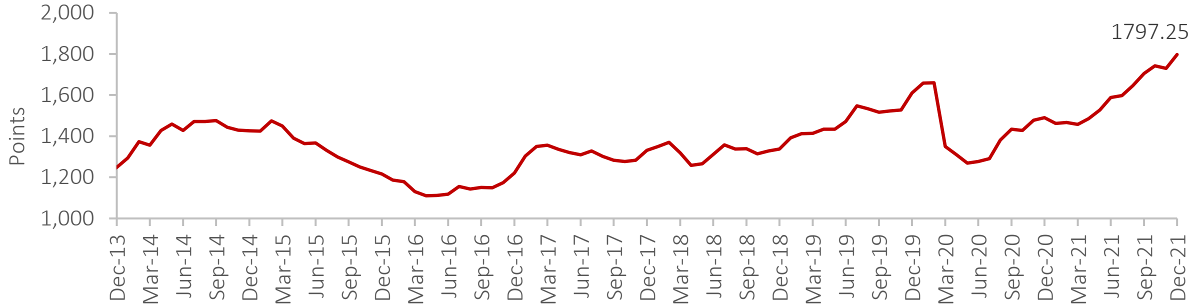
Bahrain All Share Index increased by 20.6% during 2021. The index kept increasing during the second half of the year with the lowest month-end close level recorded in March end at 1,458 points, and the highest month end close was recorded on December at 1,797 points.

Table 8.1: Key Indicators of Bahrain Bourse

Indicator	2014	2015	2016	2017	2018	2019	2020	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	1,797.3
Highest	1,476.0	1,474.8	1,220.5	1,356.0	1,369.9	1,610.2	1,668.7	1,797.3
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	10,815.5
Total Value (BD million)	269.1	110.0	124.5	211.3	323.8	286.4	212.8	195.7
Total Volume (million)	1,126.1	515.6	734.4	1,129.8	1,441.1	1,157.3	1,209.3	1,018.3
No. of Transactions	16,211	11,248	10,592	19,440	19,225	20,712	19,309	21,001
No. of Companies Listed	47	47	46	44	43	44	44	42

Source: Bahrain Bourse.

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



Source: Bahrain Bourse.

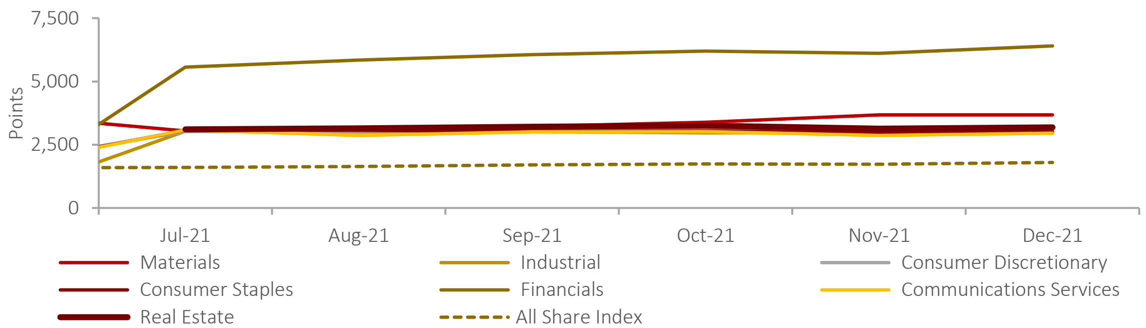
Bahrain Bourse's earlier sector industry classification had been in place since the establishment of Bahrain Bourse in 1987. The decision to reclassify current industrial sectors aims to enhance transparency and provide more reliable information on sector performance that is aligned to international best practices.

Table 8.2: Bahrain All Share Index by Sector

	H1 2021	H2 2021
Materials	N\A	3,675.4
Industrials	N\A	3,042.2
Consumer Discretionary	N\A	3,035.8
Consumer Staples	N\A	3,010.6
Financials	N\A	6,402.5
Communications Services	N\A	2,957.9

Source: Bahrain Bourse.

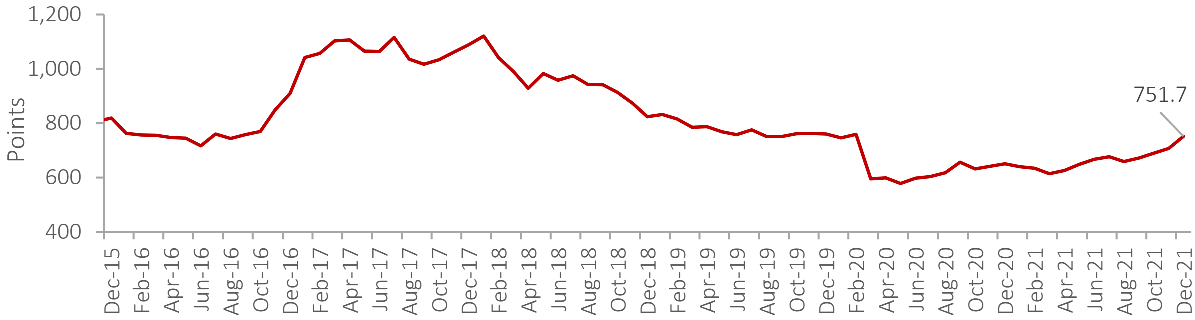
Chart 8.2: Sector Indices Levels & Returns, July. 2021 – Dec. 2021



Source: Bahrain Bourse.

In September 2015, Bahrain Bourse launched the Bahrain Islamic Index. It was the first Islamic finance index in the region, and 16 Shariah compliant companies are included within the index as of second half of 2021. YoY data demonstrates that the Bahrain Islamic Index increased by 15.6% between December 2020 and December 2021 reaching 751.7 points.

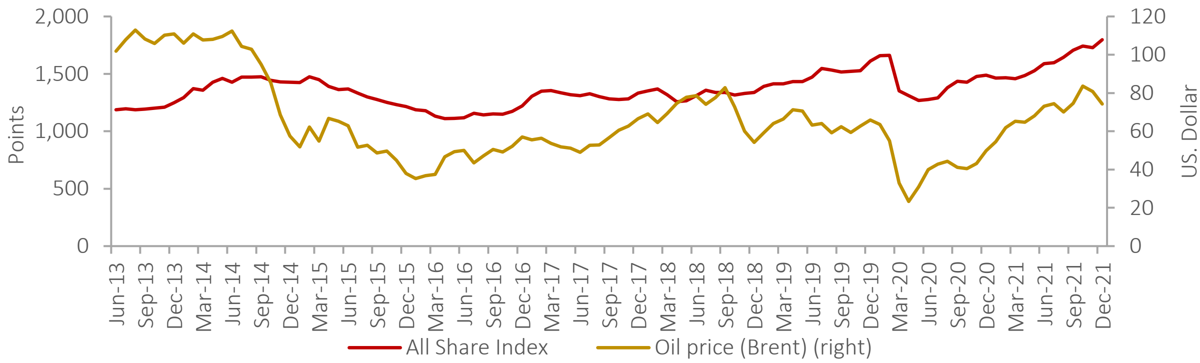
Chart 8.3: Bahrain Islamic Index, Dec. 2015 – Dec 2021



Source: Bahrain Bourse.

With Bahrain being an oil exporting country, it is significant to analyze the relationship between oil prices and the stock prices. Since the beginning of 2015, Bahrain All-Share Index and the oil prices had a moderate, positive correlation at 0.52 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 second half of 2021, market capitalization of the Bahrain Bourse stood at BD 10.8 billion. This level of market capitalization is 9.4% higher from the first half of 2021.

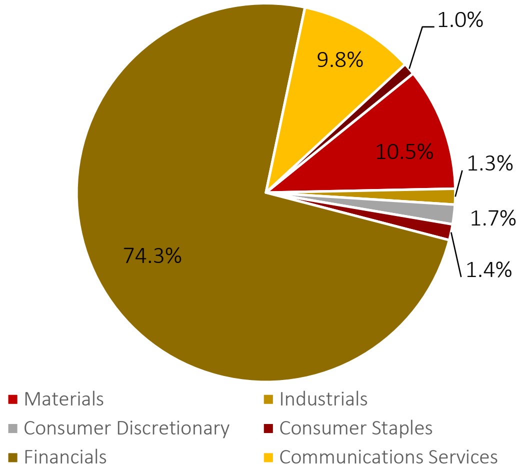
Table 8.3: Market Capitalization on the Bahrain Bourse

Sector (BD)	H1 2021	H2 2021	H1 2021–H2 2021 (% Change)
Materials	N\A	1,136,000,000	N\A
Industrials	N\A	145,265,000	N\A
Consumer Discretionary	N\A	180,580,543	N\A
Consumer Staples	N\A	146,583,999	N\A
Financials	N\A	8,032,611,119	N\A
Communications Services	N\A	1,063,716,677	N\A
Real Estate	N\A	110,693,971	N\A
Total	**9,889,493,409**	**10,815,451,308**	**9.4**

Source: Bahrain Bourse.

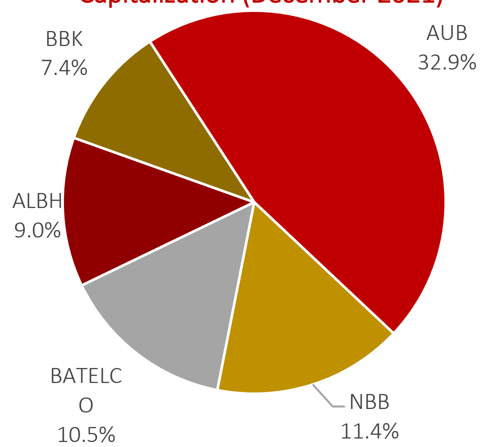
A breakdown of market capitalization by sector indicates that the Materials sector scored the highest increase in market capitalization (20.7%) during the last five months of 2021. The Communications Services sector recorded the highest percentage decrease in market capitalization with a 4.2% decrease during the last five months of 2021.

Chart 8.5: Market Capitalization by Sector (December 2021)



Source: Bahrain Bourse.

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



Source: Bahrain Bourse.

Ahli United Bank is the largest company in terms of Market Capitalization and contributes to 32.9% of the total market capitalization as of second 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 10.5% and Aluminum Bahrain (ALBH) with 9.0% and Bank of Bahrain and Kuwait (BBK) with 7.4%.

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

Company	Market Capitalization (BHD)	% from Total Market
Ahli United Bank (AUB)	3,553,251,135	32.9
National Bank of Bahrain (NBB)	1,236,040,941	11.4
Bahrain Telecommunication Company (BATELCO)	1,136,000,000	10.5
Aluminum Bahrain (ALBH)	969,645,600	9.0
Bank of Bahrain and Kuwait (BBK)	798,386,011	7.4
Total	**7,693,323,687**	**71.1**

Source: Bahrain Bourse.

Most of the value of shares traded during second half 2021 was in the Financial sector whose traded shares (by value) represented 58.4% of total value.

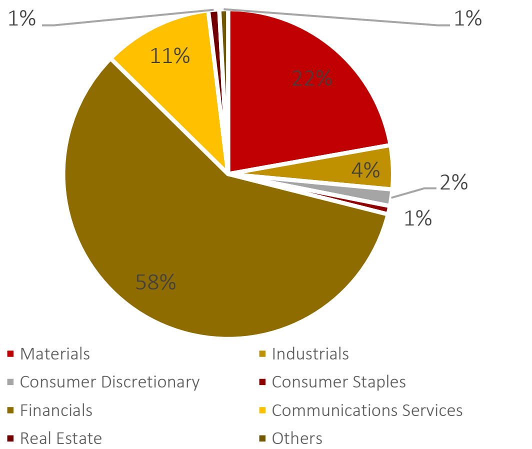
Table 8.5: Value of Shares Traded by Sector (% of Value of all shares traded)

Sector	H1 2021	H2 2021
Materials	N\A	22.2
Industrials	N\A	4.3
Consumer Discretionary	N\A	1.6
Consumer Staples	N\A	0.8
Financials	N\A	58.4
Communications Services	N\A	10.7
Real Estate	N\A	1.1

Source: Bahrain Bourse.

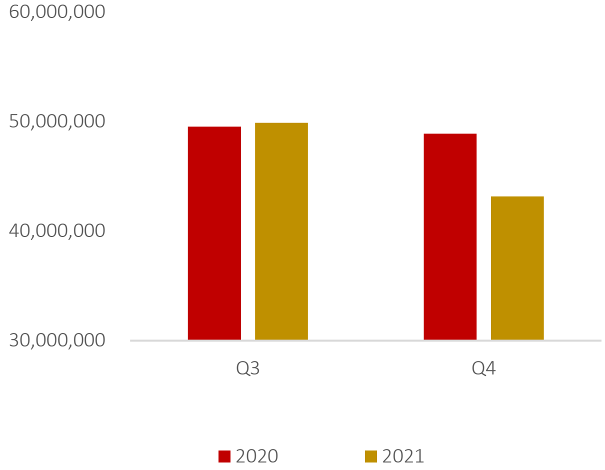
The Materials sector represents the second largest level at 22.2% of the total value of shares traded in second half 2021. Investors interest in Consumer Staples sector were the least during second half of 2021 whose traded shares by value represented only 0.8% each of the total value of traded shares. During second half 2021, the value of shares traded was highest in August and the lowest was in December, and the average value of shares traded during the year for a month was BD 15.5 million.

Chart 8.7: Value of Shares Traded by Sector (% of Value of all shares traded) (H2 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 Financial sector representing 81.8% of the total volume of shares traded, followed by the Materials sector at 6.8%. The lowest level was attained by the Consumer Staples sector at 0.3%.

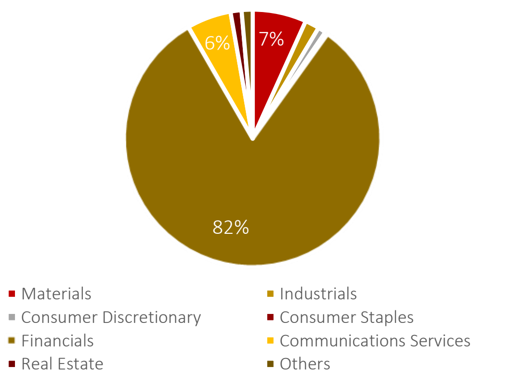
Table 8.6: Volume of Shares Traded by Sector (% of Volume of all shares traded)

Sector	H1 2021	H2 2021
Materials	N/A	6.8
Industrials	N/A	1.8
Consumer Discretionary	N/A	1.0
Consumer Staples	N/A	0.3
Financials	N/A	81.8
Communications Services	N/A	5.6
Real Estate	N/A	1.4
Closed	6.5	1.4

Source: Bahrain Bourse.

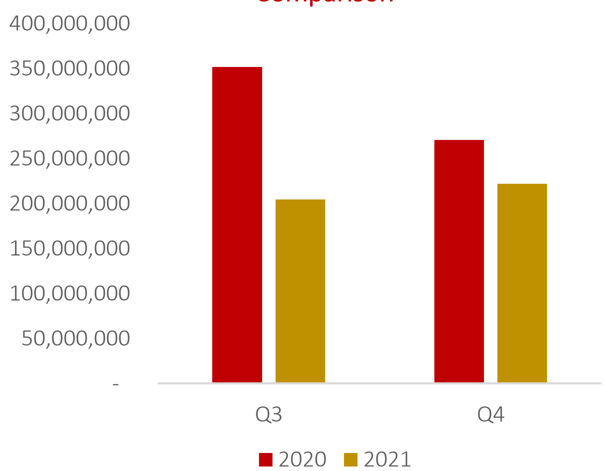
During second half of 2021, the volume traded was highest in October and the lowest was in July, and the average volume traded during the year for a month was 71.0 million shares.

Chart 8.9: Volume of Shares traded by Sector (% of Volume of all shares traded) (H2 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.

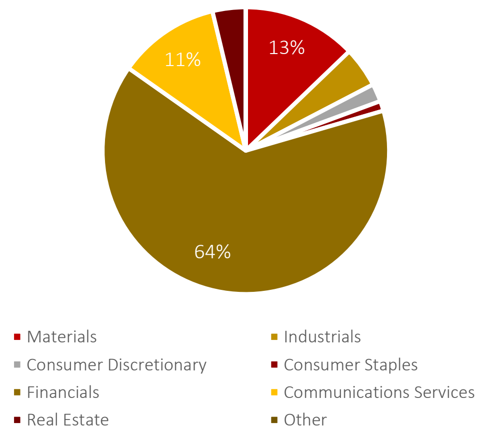
During the second half of 2021, the market executed 10,971 transactions. Most of the transactions were executed by the Financials sector at 7,048 transactions (64.2% of all transactions), followed by the Materials at 1,408 transactions (12.8%), and the Communications Services sector at 1,262 transactions (11.5%).

Table 8.7: Number of Transactions by Sector

Sector	H1 2021	H2 2021
Materials	N/A	1,408
Industrials	N/A	498
Consumer Discretionary	N/A	221
Consumer Staples	N/A	123
Financials	N/A	7,048
Communications Services	N/A	1,262
Real Estate	N/A	410
Closed	N/A	1
Total Market	**10,472**	**10,971**

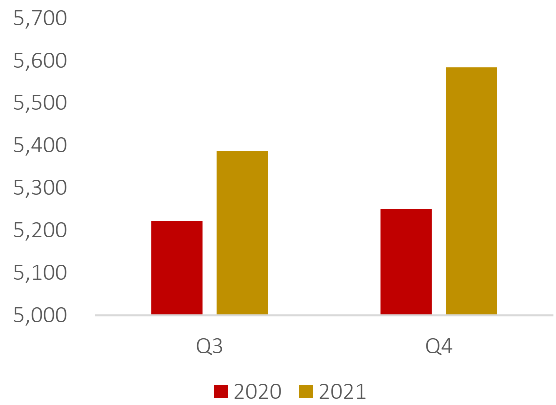
Source: Bahrain Bourse.

Chart 8.11: Number of Transactions (% of all transactions) (H2 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

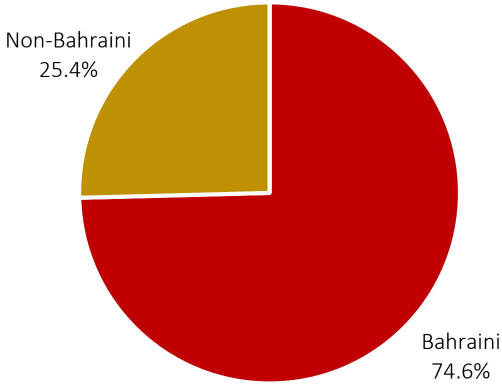
As of 2021, Non-Bahraini nationals contributed to 25.4% of the value of shares bought while Bahraini nationals contributed the remaining 74.6% of the value of shares bought. As for sell-side of the transactions, Non-Bahraini nationals contributed to 24.7% of the value of shares sold while Bahraini nationals contributed to 75.3% of the remaining value of shares sold.

Table 8.8: Value of Transactions by Nationality (BD)

	2020		2021	
	Bahraini	Non-Bahraini	Bahraini	Non-Bahraini
Buy	160,732,933	52,066,674	145,983,121	49,724,901
Sell	157,556,986	55,242,620	147,406,070	48,301,952

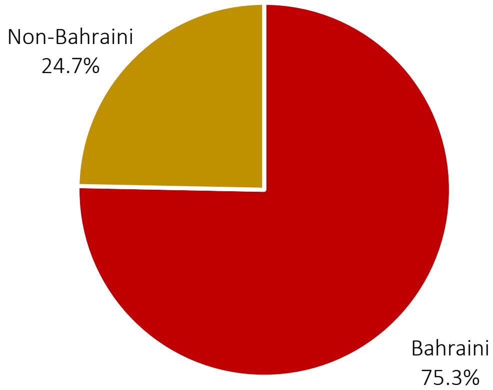
Source: Bahrain Bourse.

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

All the GCC major equity markets indices recorded positive returns during 2021 compared to end of year 2020. The largest increase was recorded by Abu Dhabi Exchange General Index at 68.4%, followed by Tadawul All Share Index with an increase of 29.8%.

Table 8.9: Stock Market Indices in GCC counties

Index	2020	2021	2020 - 2021 (% Change)
Bahrain All Share Index	1,490	1,797	20.6
Kuwait All Share Index	5,546	7,043	27.0
Dubai Financial Market General Index	2,492	3,196	28.3
Tadawul All Share Index	8,690	11,282	29.8
Abu Dhabi Exchange General Index	5,045	8,488	68.2
Qatar Exchange Index	10,436	11,626	11.4
Muscat Securities Market Index 30	3,659	4,130	12.9

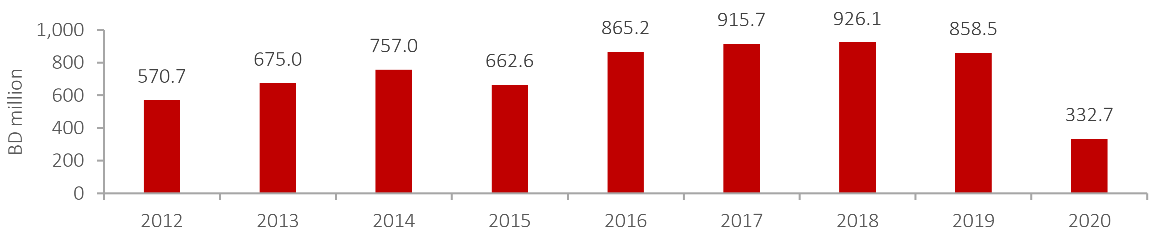
Sources: Bahrain Bourse, Saudi Stock Exchange (Tadawul), Boursa Kuwait, Qatar Stock Exchange, Dubai Financial Market, Abu Dhabi Securities Exchange and Muscat Securities Market.

8.3 Market Resilience

Decline in corporate profitability

The overall profitability of the Bahraini Bourse 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

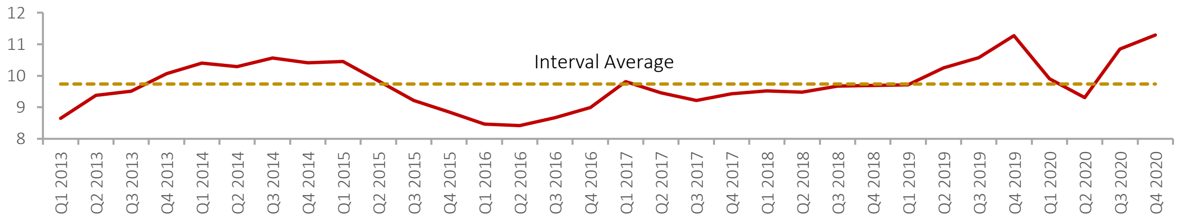
Investment and Hotel and Tourism sectors recorded negative P/E ratios for 2020. The total market P/E ratio in 2020 increased from 11.54 to 16.40.

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.

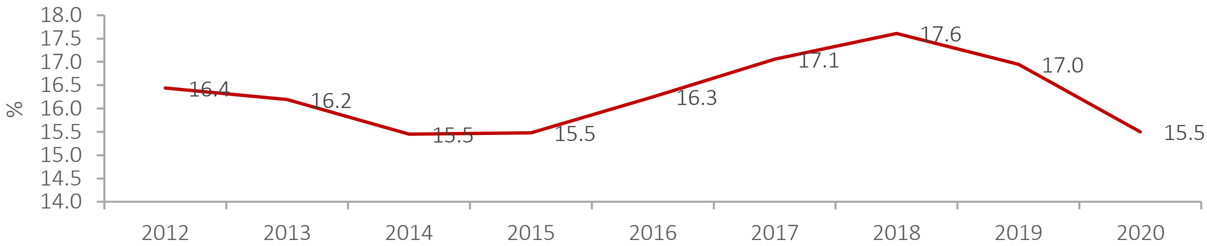
Chart 8.16: Total Market Price-Earnings Multiples



Source: Bahrain Bourse.

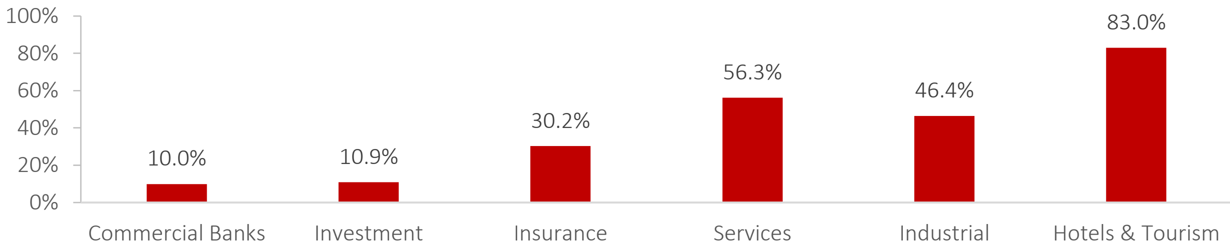
The overall equity-to-assets ratio decreased to 15.5% in 2020 mostly due to the Commercial Banks and Investment sectors. The Commercial Banks and Investment sectors have the lowest equity/assets ratio due to the high leverage nature of the sectors (Chart 8.17 & 8.18).

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.

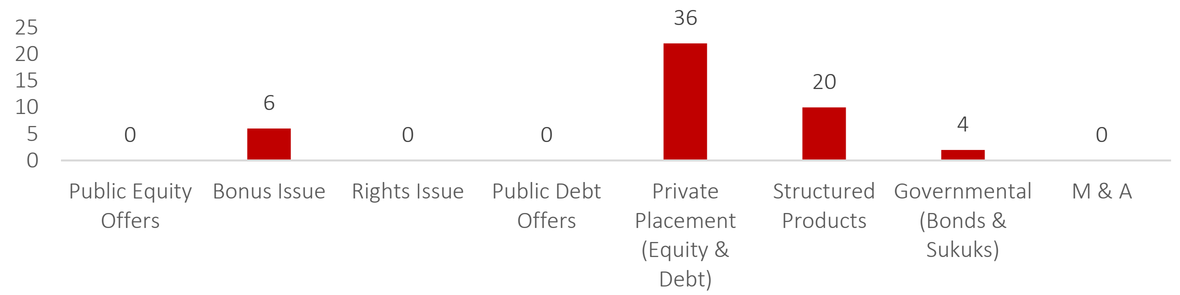
It is worth noting that Bahrain Bourse's earlier sector classification had been in place since the establishment of Bahrain Bourse in 1987.

8.4 Capital Market Activities

8.4.1 Offering of Securities

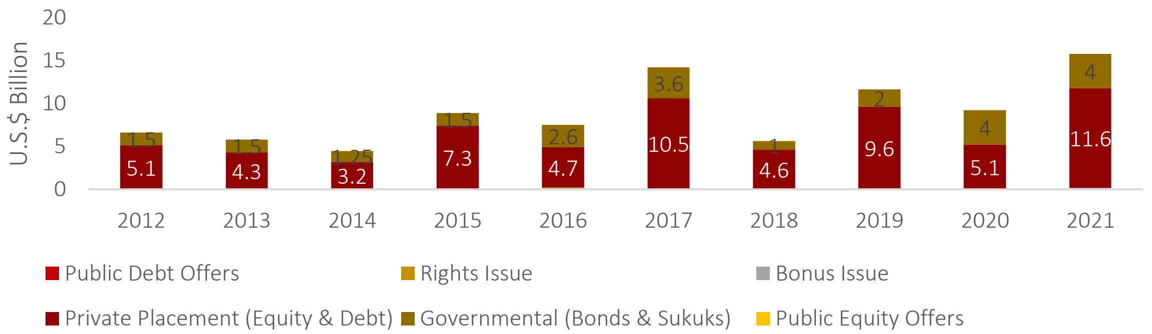
As at December 2021, CBB issued its no objection to the issuance of 60 private offering documents after ensuring the completeness of all the information and details as per CBB Law, Rules and Regulations. The total value of issuances reached USD 15.623 billion. (Chart 8.19 & 8.20).

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

AUB announced the extension of the period for the postponement of the acquisition procedures on 29th December 2020, until the update of the KFH studies that will be carried out by the advisors appointed by KFH in this regard, and the CBB issued its approval for the same on 31st December 2020.

Pursuant to the above, AUB announced on 1st December 2021 the approval of AUB's Board of Directors to update the studies of financial and legal due diligence and to resume the relevant acquisition-related procedures, including evaluating the impact of these studies on the final share exchange ratio, which marked the end of the postponement of the acquisition procedures. AUB also re-appointed the professional advisors who were previously appointed to provide the necessary financial, tax (KPMG) and legal (Linklaters LLP) studies regarding the said transaction.

8.4.3 GFH Financial Group B.S.C. ("GFH") offer to acquire 100% of Khaleeji Commercial Bank B.S.C.'s ("KHCB") issued and paid-up capital

GFH announced on 14th October 2021 of the Group's firm intention to make an offer to acquire up to 100% of the issued and paid-up ordinary shares of KHCB, representing up to 187,589,034 ordinary shares of KHCB (constituting voting rights), not currently owned by GFH, representing up to 21.03% stake of KHCB's issued and paid-up share capital, by way of a share exchange at a ratio of 0.914 shares in GFH for each share in KHCB.

On 25th November 2021, GFH announced its revised offer by way of a revised share exchange ratio of 0.384 shares in GFH, and BHD 0.024 per KHCB share at the discretion of each shareholder of KHCB.

The Offer Documents, which includes the revised Offer Document issued by GFH, the Offeree Board Circular issued by KHCB's Board of Directors, and the report of the independent professional advisor, have been sent to KHCB's shareholders in accordance with the requirements of the Takeovers, Mergers and Acquisitions (TMA) Module, Volume 6 of the CBB Rulebook.

GFH announced the results of the offer on 5th January 2022, and accordingly, the offer was settled on 11th January 2022 in accordance with the requirements of the Takeovers, Mergers and Acquisitions (TMA) Module, Volume 6 of the CBB Rulebook. Consequently, trading in KHCB shares was resumed on 12th January 2022.

8.4.4 Solidarity Bahrain B.S.C. and T'azur Company B.S.C.(c) Merger Transaction

It was disclosed by Solidarity on 25th July 2021, that after the results of the due diligence procedures were sent by Solidarity to the Board of Directors of T'azur, the two parties had further discussions on the agreed terms related to the proposed merger deal, which

included the valuation and the swap ratio. Accordingly, the Board of Directors of Solidarity submitted a firm intention to make an offer to T'azur on 18th July 2021, in order to implement the merger of T'azur (operations related to the Kingdom of Bahrain only) with Solidarity, which was accepted by the Board of Directors of T'azur.

Accordingly, the Solidarity's Board of Directors held an Extraordinary General Assembly on 29th September 2021 to obtain shareholder approval for the merger and other related items, including the swap ratio. Accordingly, Solidarity announced on 24th October 2021on the request to transfer business of T'azur to Solidarity, of which was published by the Central Bank of Bahrain in the Official Gazette on 21st October 2021, and the objection period for the transfer will expire on 21st January 2022.

Solidarity announced on 30th January 2022 informing the shareholders that it has obtained the Central Bank of Bahrain's final approval on the merger of Solidarity with T'azur via the transfer of business, assets and liabilities from T'azur to Solidarity against the issuance of ordinary shares of Solidarity.

The merger transaction will be finalized by duly registering the amended and restated Memorandum and Articles of Association of Solidarity with the Ministry of Industry, Commerce and Tourism and after receiving the Central Bank of Bahrain's approval on the issuance of new ordinary shares pursuant to the settlement of the merger.

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 and crypto-asset service providers must also test their IT infrastructures and core systems to verify the robustness of the security control measure that is in place to prevent security breaches, including penetration testing and vulnerability assessment undertaken by reputable third-party cyber security consultants to be conducted each year in June and December. In addition, Capital Markets licensees are mandated to maintain relevant systems in place for mitigating and managing operational and other risks.

FinTech solutions 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.

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 16 November 2021 to Bahrain Bourse regarding the issuance of the updated Listing Rules. Bahrain Bourse issued the updated Listing Rules on 26 December 2021.

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 marker 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. In addition, the CMSD, on behalf of the CBB, manages its international cooperation within the capital markets' field, while making use of the best international experiences, among others. Therefore, CMSD actively participates in the International Organization of Securities Commissions' ("IOSCO") Multilateral Memorandum of Understanding ("IOSCO MMoU"), which CBB is a signatory of, by contributing in all of incoming and outgoing requests including surveys. By utilizing information exchange to cooperate in developing, implementing and promoting adherence to internationally recognized and consistent standards of regulation, oversight and enforcement, such international cooperation enables the CBB to better protect investors, promote investor confidence, maintain fair, efficient and transparent markets and address systemic risks.

Beyond this, during 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 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. The latest update was published on July 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. The latest update was published on July 2021.
- **Amendments to the Takeovers, Mergers and Acquisitions ("TMA") Module of Volume 6 of the CBB Rulebook**: The CBB issued a circular (Ref. OG/34/2022) dated 19 January 2022 addressed to all listed companies in relation to the amendments to the Takeovers, Mergers and Acquisitions (TMA) Module, Volume 6 of the CBB Rulebook. Such amendments are in relation to the compulsory acquisition in accordance with the amendments to the Commercial Companies Law by Decree Law No. (28) of 2020 amending some provisions of the Commercial Companies Law promulgated by Decree Law No. (21) of 2001
- **The Anti-Money Laundering and Combating Financial Crime ("AML") Module of Volume 6 of the CBB Rulebook:** The AML Module has been amended on 28th October 2021 to include updates

regarding Risk-based Approach (to mandate licensees to implement such approach in establishing an AML/CFT/CPF program and conduct ML/TF/PF risk assessments prior to and during the establishment of a business relationship and, on an ongoing basis) and capturing the National e-KYC solutions. The latter builds on the launch of the national eKYC platform, operated by BENEFIT in collaboration with the Information and eGovernment Authority and under the supervision of the CBB. 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.

- **Issuance of Training and Competency (TC) Module:** The TC Module has been issued within Volume 6 of the CBB Rulebook relating to Capital Markets, according to a circular issued by the CBB on 24th August 2021. The TC 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.
- **Guidance on upcoming general meetings:** The CMSD provided confirmation on the applicability of the circular issued on the 14th of February 2021 (Ref: OG/50/2021) for the upcoming General Meetings to all listed companies.

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.

- **Introduction of the Digital Token Offering (DTO) Module and amendments to the Crypto-asset (CRA) Module:** The CMSD is working on drafting the Digital Token Offering ("DTO") Module, which will constitute the regulatory and supervisory framework for offering digital token instruments in the Kingdom of Bahrain. The CMSD is also working on updating and amending the Crypto-Asset ("CRA") Module to enhance the regulatory framework in line with developments in the sector and international best practices, in addition to including the requirements in relation to the DTO Module.
- **Women empowerment:** The CMSD is cooperating with the Supreme Council for Women (SCW) and the Ministry of Industry, Commerce & Tourism (MOICT) to enhance governance standards in capital markets by proposing amendments to the High-Level Controls Module (HC Module) of the CBB Rulebook Volume 6, entailing requirements in relation to women's representation in the board of directors (BoD) of listed companies. Current proposals involve having no less than 5 BoD members from both genders and obligating companies to disclose the gender composition of its BoD in the annual governance report.

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.
- Members of the Capital Market Authorities also formed the 'Mulim' team, which will launch a long-term Gulf program to raise Capital Market awareness. The program is set to commence in February 2022 and aims to raise awareness in the financial and investment transactions culture amongst GCC nationals and residents.

PART IV:

DEVELOPMENTS IN PAYMENT SYSTEMS, FINTECH, AND CYBER SECURITY

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

HIGHLIGHTS

Item	Volume	Value
RTGS Daily Average	171	BD 321.5 mn
SSSS Aggregate	46	BD 2.97 bn
ATM Daily Average	44,192	BD 4.2 mn
BCTS Daily Average	8,936	BD 30.1 mn
Fawri + Daily Average	463,286	BD 13.5 mn
Fawri Daily Average	41,132	BD 65.7 mn
Fawateer	27,301	BD 2.1 mn
POS Transactions	125.5 mn	BD 3.2 bn
Digital Wallets	153.1 mn	BD 5.0 bn

- Daily average (volume and value) of bank transfers increased in H2 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 153.0% and 74.6% respectively in H2 2021 compared to H2 2021. Daily average of volume and value of Fawri Transactions increased by 14.4% and 22.8% in H2 2021 compared to H2 2020.
- Daily average of volume and value of Fawateer Transactions increased by 71.0% and 54.6% respectively in H2 2021 compared to H2 2020.
- POS Transactions volume and value increased by 49.7% and 34.6% in 2021 compared to 2020.
- E-wallets transactions continue to increase with 153.1 million transactions worth BD 5.0 billion in 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 Bahrain[11]. In

[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.

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

The FMIs, Payment and Settlement Systems Framework continues to operate smoothly and function safely, efficiently, resiliently and reliably, assuring to maintain the financial stability during the second half of 2021 (from 1st July, 2021 to 31st December, 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.

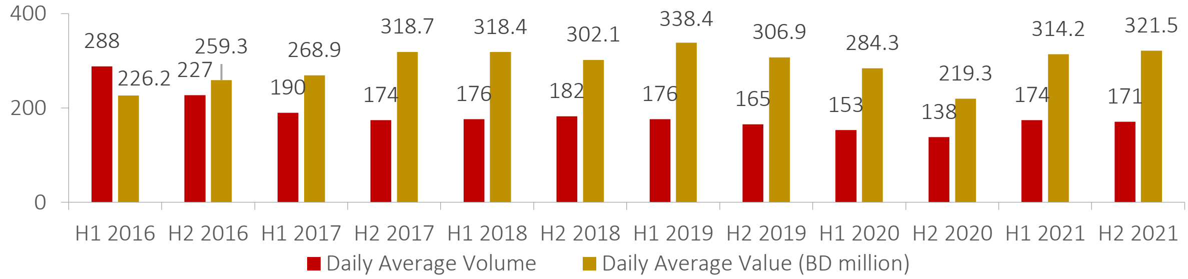
9.2 Real Time Gross Settlement System (RTGS)

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 System through AFAQ Payment System transferring payments between the Kingdom of Bahrain and Kingdom of Saudi Arabia.[12]

Chart 9.1: RTGS Bank Transfers Daily Average Volume and Value



Source: 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 H2 2021 (second half of 2021) decreased slightly by 1.72% to 171 Transfers compared to 174 Transfers for H1 2021 (first half of 2021).[13] Furthermore, the daily average volume of Bank Transfers for H2 2021 has increased marginally by 23.91% from 138 to 171 Transfers when compared to H2 2020.

Contrary to the decrease in the daily average volume of Bank Transfers through the RTGS have, the value of those transfers has increased in H2 2021 by 2.32% when compared to H1 2021 from BD 314.2 million to BD 321.5 million. In addition, the daily average value of Bank Transfers for H2 2021 had increased significantly by 46.60% from BD 219.3 million to BD 321.5 million when compared H2 2020.

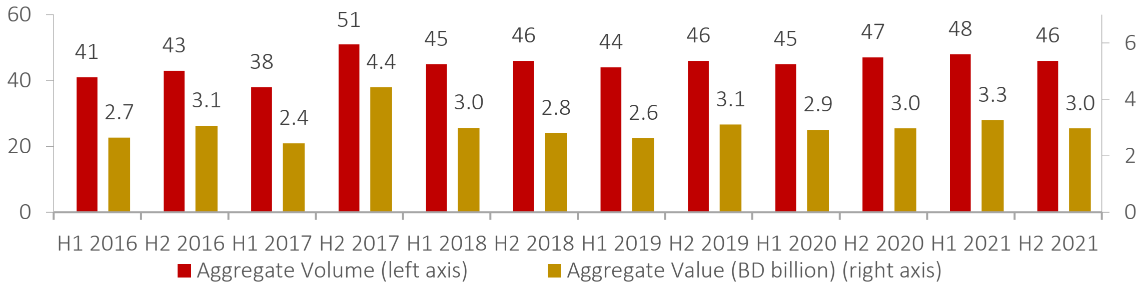
9.3 Scripless Securities Settlement System (SSSS)

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 June, 2007 along with the RTGS System. The number of direct participants is twenty-nine (29) participants where the indirect participants are thirty-two (32) members in the SSSS.

The volume of issues H2 2021 decreased slightly compared to H1 2021 by 4.16% from 48 issues to 46 issues. Moreover, the volume of issues also decreased in H2 2021 compared H2 2020 by 2.13% from 47 issues to 46 issues.

The aggregate value of issues in H2 2021 had a modest decrease by 9.10% to BD 3.0 billion from BD 3.3 billion in H1 2021 and maintained constant in H2 2021 compared to H1 2020 with BD 3.0 billion in both periods.

Chart 9.2: SSSS Aggregate Volume and Value [14]



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 during the period from 1st July 2021 to 31st December 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).

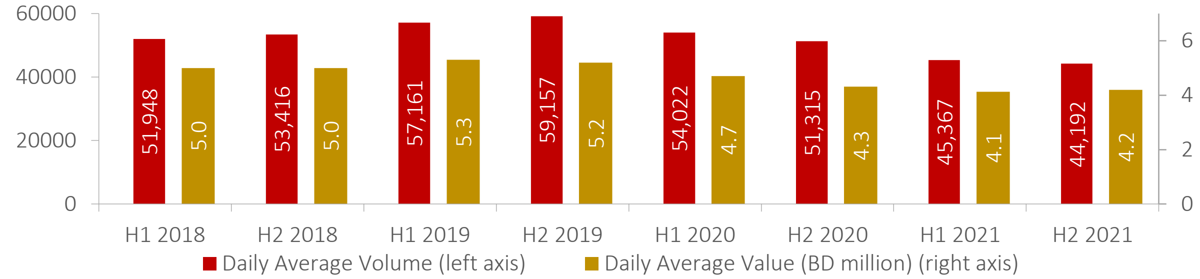
The daily average volume of ATM Transactions for H2 2021 decreased by 2.7% to 44,192 per day compared to 45,367 transactions per day for H1 2021. In addition, the daily average volume of ATM transaction decreased by 13.9% in H2 2021 compared to H2 2020 (51,315 transactions per day).

[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 increased by 1.2% to reach BD 4.2 million when compared to the BD 4.1 million in H1 2021 and decreased by 2.8% when compared H2 2020 (BD 4.3 million).

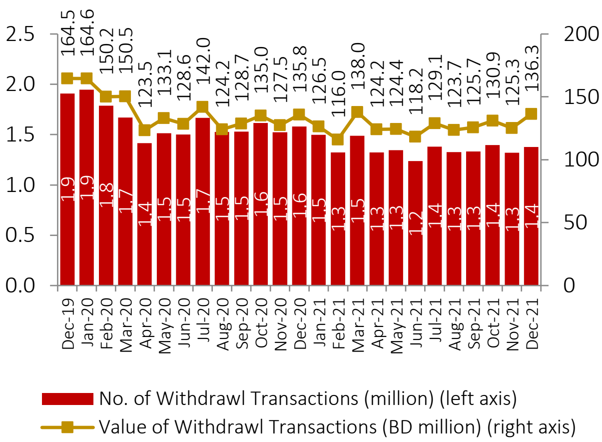
Chart 9.3: ATM Transactions Daily Average and Volume



Source: BENEFIT.

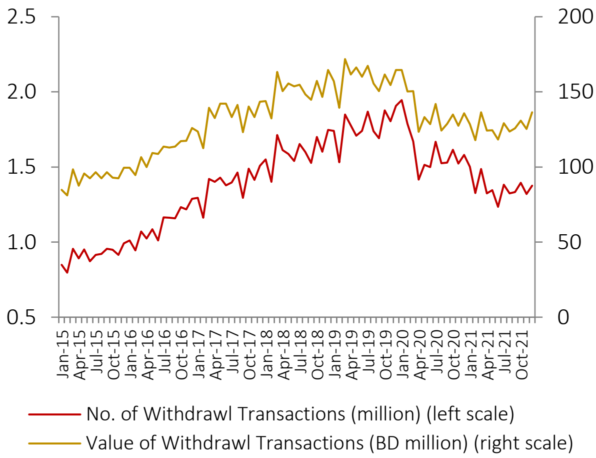
Overall, there was a downward trend in both the value and the volume of ATM transactions compared to 2020 (Chart 9.4). In H2 2021, monthly volume of ATM transactions ranged between 1.3 and 1.4 million transactions while the value of ATM transactions ranged between BD 123.7 million and BD 136.3 million.

Chart 9.4: Number and Value of ATM Transactions, December 200 – December 2021



Source: BENEFIT.

Chart 9.5: Number and Value of ATM Transactions



Source: BENEFIT.

9.5 Bahrain Cheque Truncation System (BCTS)

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

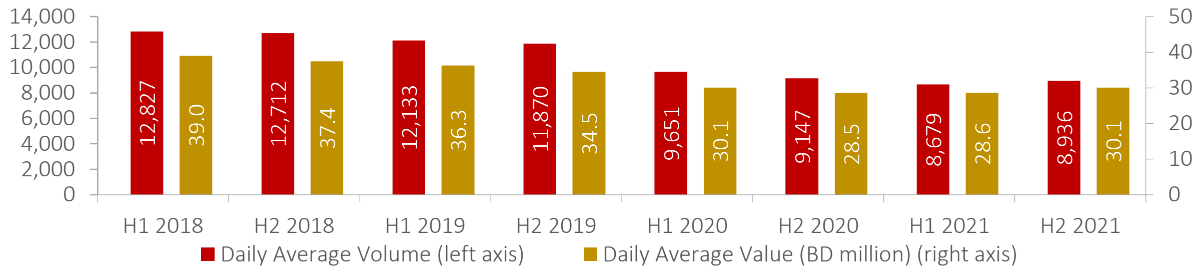
The main feature of the BCTS is the increasing efficiency and speed of the cheque clearing as it facilitates Bank Customers to have their cheques cleared and obtain their funds on the same day or maximum by the next working day in addition to providing Customers with a more secure and convenient service.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

The number of participants in the BCTS are thirty (30) participants. The daily average volume of cheques for H2 2021 increased by 2.96% when compared to the H1 2021 from 8,679 cheques to 8,936 cheques.

However, the daily average volume of cheques in H2 2021 decreased by 2.30% from 9,147 cheques in H2 2020.

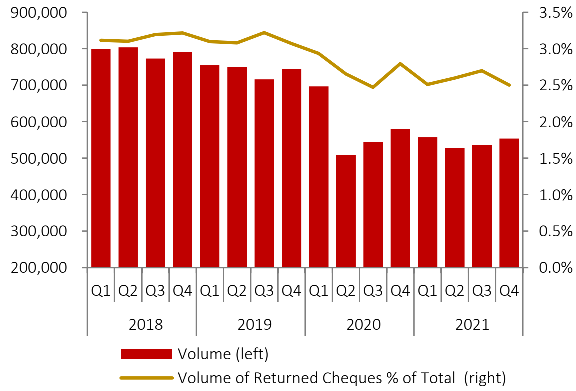
Furthermore, the daily average value of cheques increased in the second half of 2021 by 5.24% when compared to the first half of 2021 from BD 28.6 million to BD 30.1 million. In addition, the daily average value of cheques for the second half of 2021 increased by 5.61% from BD 28.5 million for the second half of 2020 to BD 30.1 million.

Chart 9.6: BCTS Daily Average Volume and Value



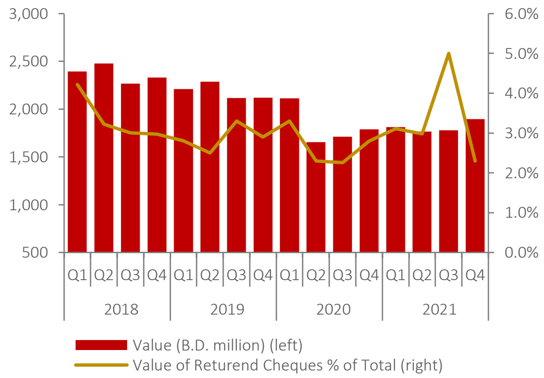
The BCTS continued to operate smoothly and efficiently for the period from 1st July, 2021 to 31st December, 2021. Charts 9.7 and 9.8 show the volume and value of cheques and the percentage returned cheques to the total volume and value. Between Q2, 2020 and Q2, 2021, returned cheques ranged between 2.5% to 2.9% as a percentage of total volume and 2.3% to 5.0% as a percentage of total value.

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



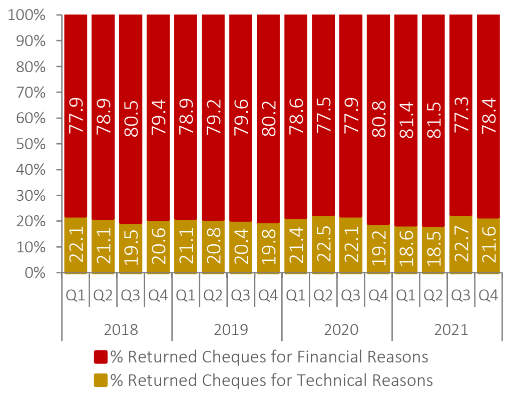
Source: BENEFIT.

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



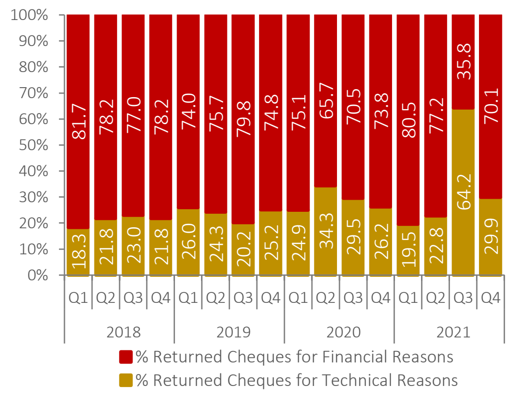
Source: BENEFIT.

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 are returned due to financial reasons reaching 77.3% in Q3, 2021 and 78.4% of the total volume of cheques in Q4, 2021, where in terms on the value of returned cheques technical reasons reached 64.2% of the total value of cheques in Q3 2021, but financial reasons consumed majority of cheques returned in Q4, 2021 with 70.1%. (Charts 9.9 and 9.10).

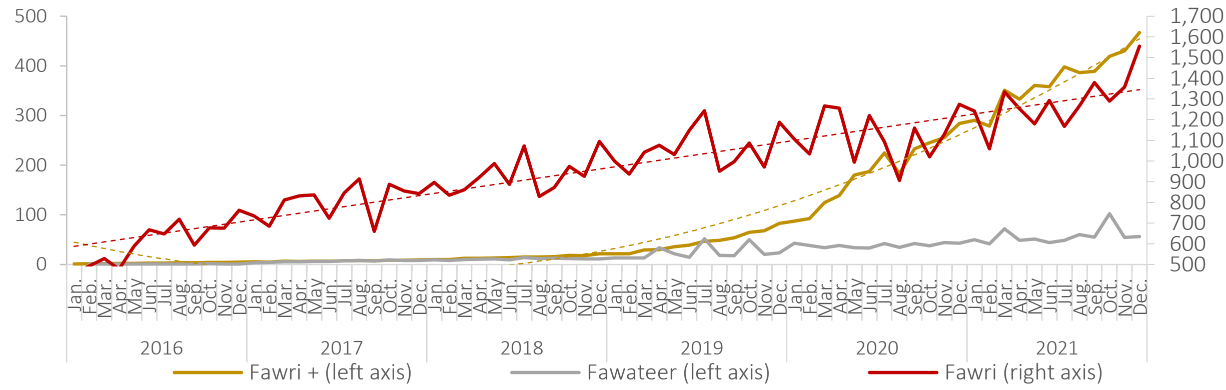
9.6 Electronic Fund Transfer System (EFTS) including Electronic Bill Presentment and Payment (EBPP) System

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 26.36% from BD 1,971.5 million for H1 2021 to BD 2,491.1 million for H2 2021. The total value of Fawri transfers for H2 2021, increased by 8.91% from BD 7,361.3 million for H1 2021 to BD 8,017.1 million for H2 2021.

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



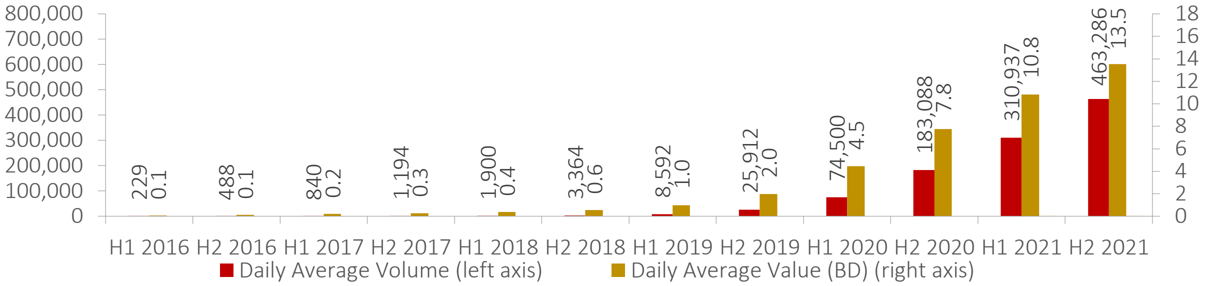
Source: BENEFIT.

In addition, the value of Fawateer payments increased by 22.42% from BD 308.2 million in H1 2021 to BD 377.3 million in H2 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 H2 2021 increased significantly by 49.00% when compared to H1 2021 from 310,937 transfers to 463,286 transfers. Furthermore, the daily average volume of Fawri+ transfers for H2 2021 increased by 153.04% from 183,088 transfers in H2 2020. The daily average value of Fawri+ transfers increased by 24.98% from BD 10,832,197.670 in H1 2021 to BD 13,538,383.544 in H2 2021. The daily average value also increased by 74.59% in H2 2021 when compared to the from BD 7,754,418.142 in H2 2020.

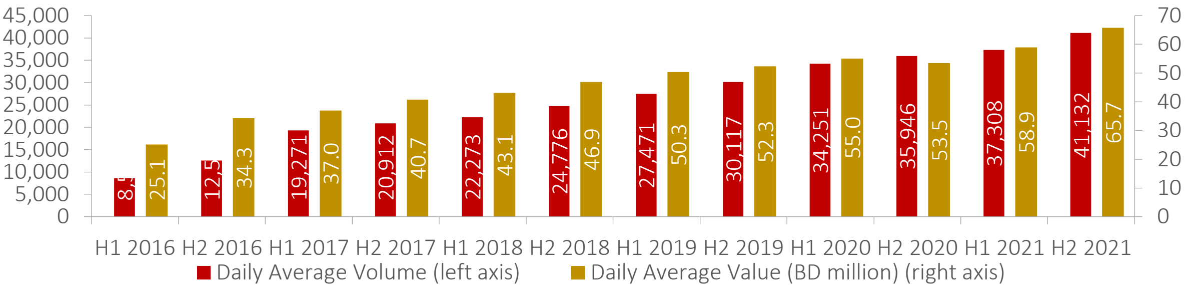
The daily average volume of Fawri transfers in H2 2021 increased by 10.25% when compared H1 2021 from 37,308 transfers to 41,132 transfers. Moreover, the daily average volume of Fawri transfers in H2 2021 increased by 14.43% from the 35,946 transfers in H2 2020. In addition, the daily average value of Fawri transfers increased by 11.54% from BD 58.9 million in H1 2021 to BD 65.7 million in H2 2021. Furthermore, the daily average value of Fawri transfers increased by 22.80% from BD 53.5 million in H2 2020.

Chart 9.12: EFTS Fawri+ Daily Average Volume and Value



Source: BENEFIT.

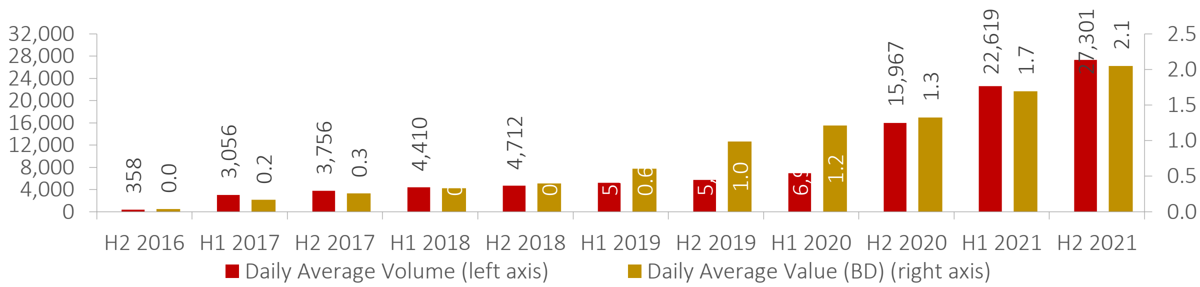
Chart 9.13: EFTS Fawri Daily Average Volume and Value



Source: BENEFIT.

The daily average volume of Fawateer Payments for the second half of 2021 increased by 20.70% when compared to H1 2021 from 22,619 payments to 27,301 payments and increased by 70.98% from the 15,967 payments in H2 2020. In addition, the daily average value of Fawateer reached BD 2,050,391.525 in H2 2021 increasing by 21.09% when compared to H1 2021 (BD 1,693,214.598) and by 54.61% compared to H2 2020 (BD 1,326,163.928).

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 July 2021 to 31st December 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)

The increase in POS terminals and their utilities, combined with mobile POS helps in achieving higher financial inclusion. POS Transactions in Bahrain have shown a steady increase in both in volume and value, an indicator of strong business and economic activity within the Kingdom.

The total number of transactions for 2021 reached 125.5 million (a 49.7% increase compared to 2020 and 70.2% increase compared to 2019). Similarly, the total value of transactions for 2021 increased to BD 3,151.2 million (a 34.6% increase compared to 2020 and 29.4% increase compared to 2019). Both the volume and value of cards issues in Bahrain has increased in 2021 by 41.7% and 27.4% respectively when compared 2020 and by 87.5% and 44.2% respectively when compared to 2019. The volume and value of transactions by cards issued outside Bahrain showed a significant increase in 2021 compared to 2020 increasing by 150.0% and 104.6% respectively to pre-pandemic levels 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 (million)			Value of transactions (BD million)		
		Cards issued in Bahrain	Cards issued outside Bahrain	Total	Cards issued in Bahrain	Cards issued outside Bahrain	Total
2018		49.0	15.4	**64.5**	1,524.1	453.2	**1,977.2**
2019		58.4	15.2	**73.7**	1,877.2	557.2	**2,434.4**
2020		77.3	6.4	**83.8**	2,124.9	217.0	**2,341.9**
2021		109.5	16.0	**125.5**	2,707.2	444.0	**3,151.2**
2020	**Q1**	17.2	3.4	**20.6**	502.3	111.8	**614.1**
	Q2	15.9	0.8	**16.6**	447.3	25.0	**472.3**
	Q3	20.5	0.9	**21.4**	554.9	33.2	**588.1**
	Q4	23.8	1.4	**25.1**	620.5	46.9	**667.4**
2021	**Q1**	25.2	1.6	**26.8**	639.4	53.6	**693.0**
	Q2	24.9	1.8	**26.7**	615.3	59.0	**674.3**
	Q3	29.1	4.9	**34.0**	698.4	138.4	**836.9**
	Q4	30.4	7.7	**38.0**	754.1	193.0	**947.0**

Source: CBB.

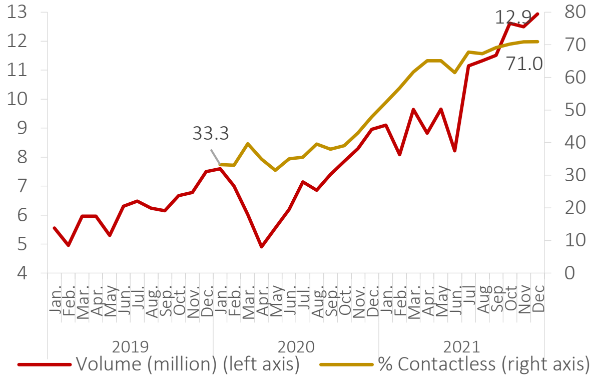
As of Q4 2021, the total number of transactions performed using POS machines in Bahrain was 38.0 million which is a 51.5% YoY increase from Q4 2020, and 12.0% increase from Q2 2021. As for the total value of transactions, the total value of transactions performed using POS machines in Bahrain in Q4 2021 was BD 947.0 million which is a 41.9% YoY increase from Q4 2020, and 13.2% increase from Q2 2021. The increase in spending in volume and value of POS transactions reflects the increase in consumer spending compared to 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 cyclicality in behavior over the long run. The continued increase in POS transactions in the second half of 2021 compared to the first half of 2021 and 2020 shows the continued trend of people preferring to make direct payments to merchants through POS terminals instead of ATM/Cash withdrawals.

The COVID-19 health crisis impacted the nature of POS transactions shifting consumers towards contactless payments. 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.

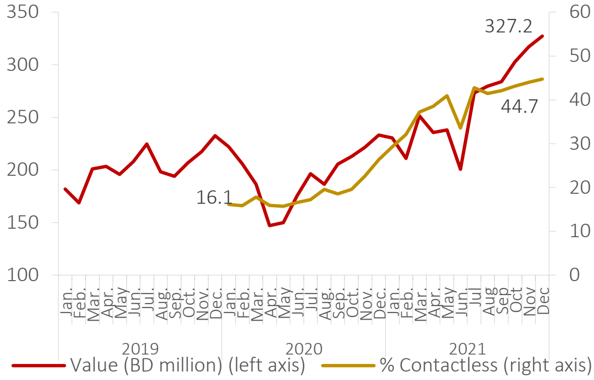
Contactless adoption has accelerated in the Kingdom and will continue to grow due to the change in consumer spending habits. Charts 9.15 and 9.16 show the increasing trend in using contactless cards during 2020 and 2021. The percentage of contactless transactions in terms of volume increased from 33.3% in January 2020 to 71.0% in December 2021. Similarly, in terms of value, the percentage of contactless transactions increased from 16.1% in January 2020 to 44.7% in December 2021.

Chart 9.15: Volume of Monthly POS Transactions (millions)



Source: CBB.

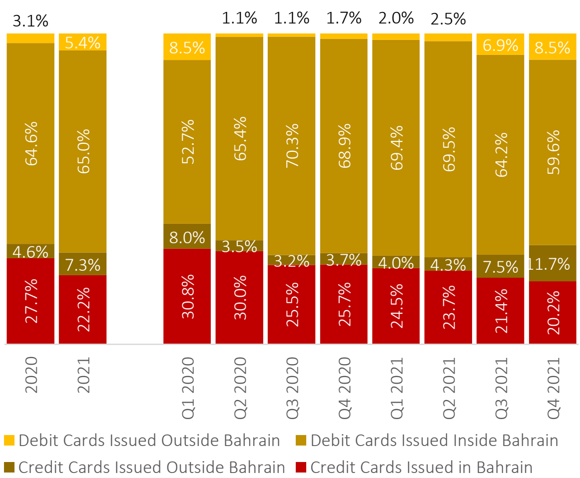
Chart 9.16: Value of Monthly POS Transactions (BD million)



Source: CBB.

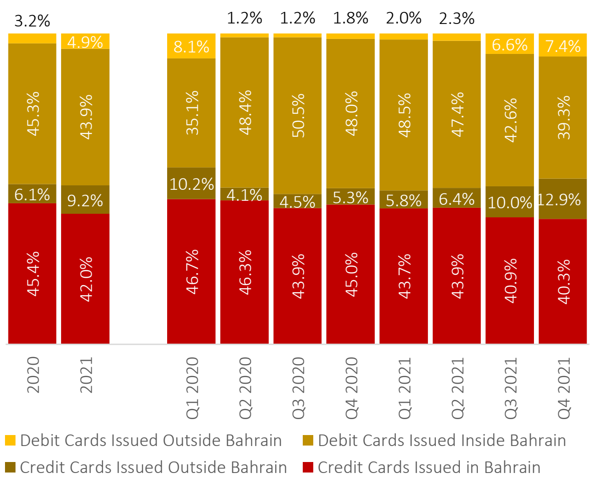
As of 2021, 87.2% of the volume of transactions and 85.9% of the value of transactions came from cards issued inside Bahrain (Chart 9.17 and Chart 9.19). The increase in share of cards issued outside Bahrain is due to increase in number of foreigners visiting Bahrain as restrictions are easing for vaccinated travelers and travel restrictions placed during the COVID-19 pandemic were gradually lifted. The share of cards issued outside Bahrain saw an increase starting Q3 2021.

Chart 9.17: Volume of POS Transactions (% by Card Type)



Source: CBB.

Chart 9.18: Value of POS Transactions (% by Card Type)



Source: CBB.

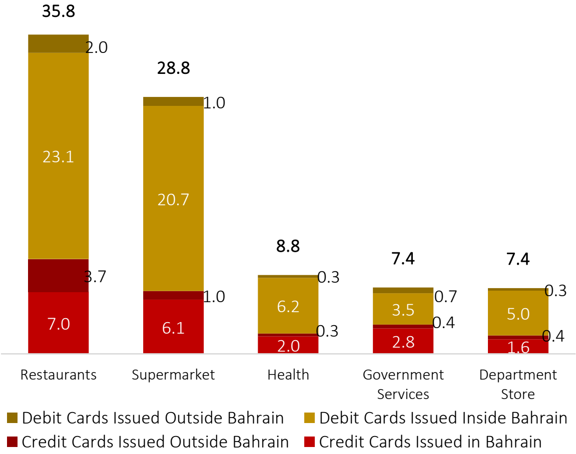
For 2021, most of the volume and of transactions were from debit cards (representing 70.5%) while most of the value of transactions were from credit cards (representing 53.3%). The share of transactions by credit cards increased in Q3 and Q4 2020 due to an increase in the share of credit cards issued outside Bahrain.

Charts 9.20 and 9.21 show the top 5 sectors in terms of volume and value of transactions for 2021. In terms of volume the top 5 sectors represented 70.3% of all the transactions for 2021 and were: restaurants (35.8 million), supermarkets (28.8 million), health (8.8 million), government services (7.4 million), and department stores (7.4 million). The majority of the number of transactions for the restaurants, supermarket, health, government services, and department stores were done using debit cards issued inside Bahrain making 64.6%, 72.0%, 70.7%, 46.9%, and 67.9% of the transactions respectively.

In terms of value, the top 5 sectors represented 54.4% of all transactions and were: government services (BD 801.4 million), supermarkets (BD 331.6 million), restaurants (BD 260.1 million), health (BD

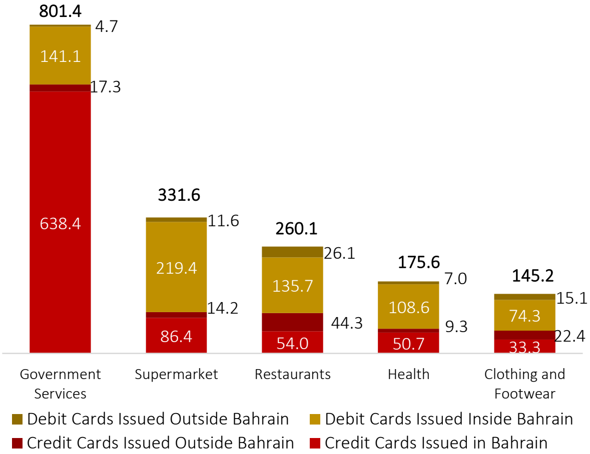
175.6 million), and clothing and footwear (BD 145.2 million). For government services, 79.7% of the value of transactions were made by credit cards issued inside Bahrain. As for supermarkets, restaurants, health, and clothing and footwear 66.2%, 52.2%, 61.9% and 51.2% of the value of transactions respectively were made by debit cards issued inside Bahrain.

Chart 9.19: Top 5 Sectors by Volume of Transactions- 2021 (million)



Source: CBB.

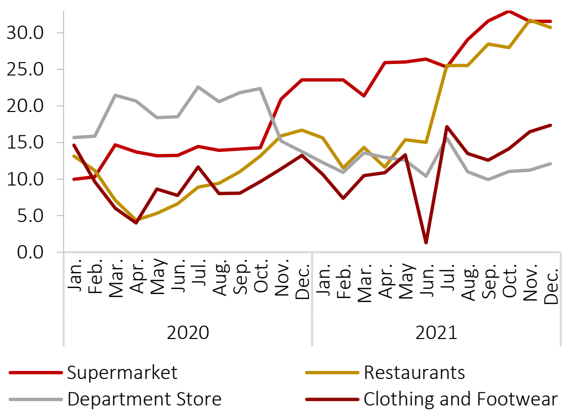
Chart 9.20: Top 5 Sectors by Value of Transactions- 2021 (BD million)



Source: CBB.

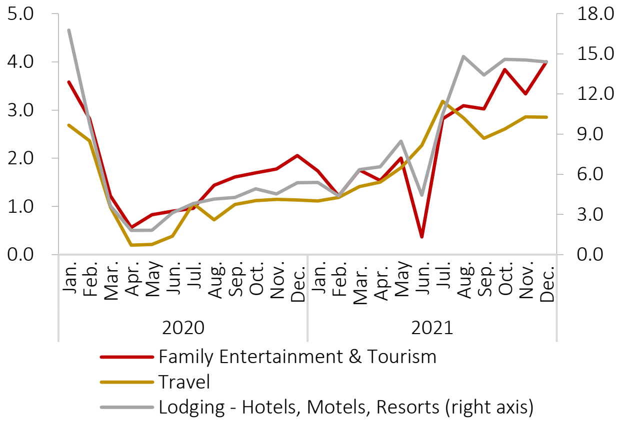
Charts 9.22 and 9.23 shows the monthly value of POS transactions for from January 2020 to December 2021 in selected sectors that have witnessed a change in consumer during the pandemic.

Chart 9.21: Monthly Value of POS Transactions of Selected Indicators (BD million)



Source: CBB.

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

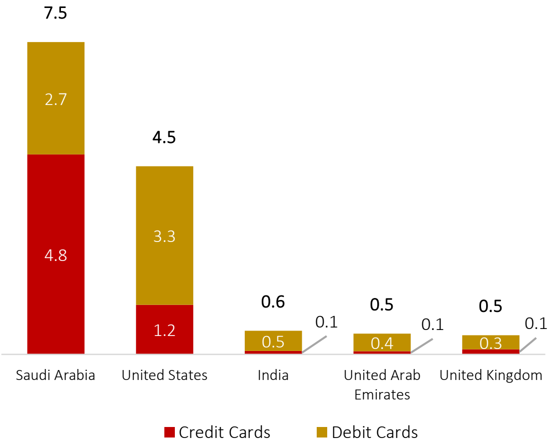


Source: CBB.

Charts 9.23 and 9.24 show the top 5 countries in terms of volume and value of foreign transactions for 2021. In terms of volume the top 5 countries represented 84.7% of total foreign transactions and were: Saudi Arabia (7.5 million), United States (4.5 million), India (0.6 million), United Arab Emirates (0.5 million) and United Kingdom (0.5 million). The majority of the number of transactions from Saudi Arabia were from credit cards (64.0%), while the majority of the number transaction from the United, India, United Arab Emirates, and United Kingdom were from debit cards representing 73.6%, 85.6%, 84.3%, and 73.2% respectively.

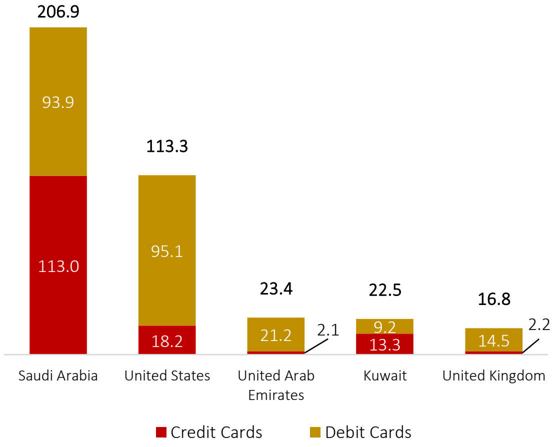
In terms of value, the top 5 countries represented 86.2% of the total value of foreign transaction and were: Saudi Arabia (BD 206.9 million), United States (BD 113.3 million), United Arab Emirates (BD 23.4 million), Kuwait (BD 22.5 million) and United Kingdom (BD 16.8 million). The majority of the value of transactions from Saudi Arabia and Kuwait were from credit cards (54.6% and 59.1% respectively), while the majority of the value transaction from the United, United Arab Emirates, and United Kingdom were from debit cards representing 83.9%, 90.8%, and 89.7%, respectively.

Chart 9.23: Top 5 Nationalities by Volume of Transactions- 2021 (million)



Source: CBB.

Chart 9.24: Top 5 Sectors by Value of Transactions- 2021 (BD million)



Source: CBB.

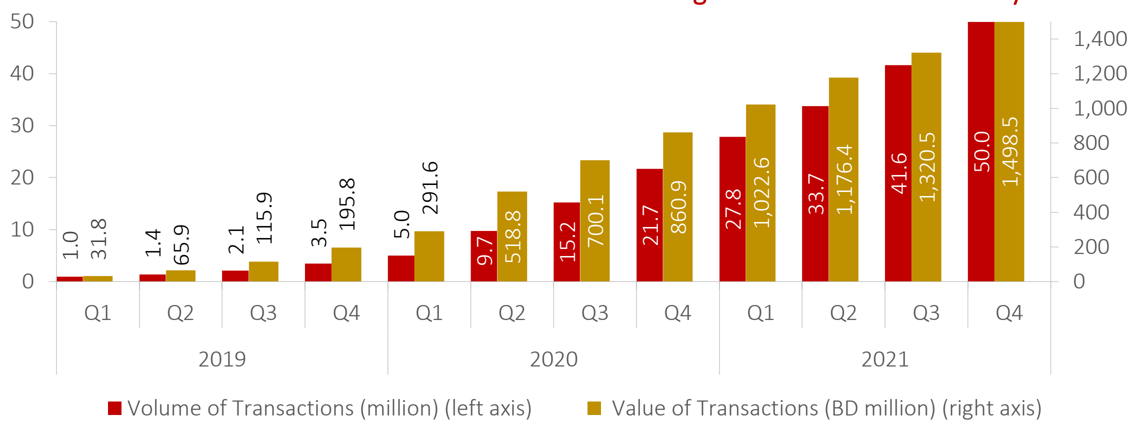
9.8 Digital Wallets

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 Chart 9.25, 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 2021 increased to 153.1 million transactions (196.2%) and BD 5.0 billion transactions (111.6%) respectively compared to 2020.

The total volume in Q4 2021 was 50.0 million transactions, a 20.0% increase from the 41.6 million transactions in Q3 2021 and 130.2% YoY increase from the 21.7 million in Q4 2020. The value of transactions in Q4 2021 was 1.5 million, a 13.5% increase from Q3 (BD 1,320.5 million) and 74.1% YoY increase from Q4 2020 (BD 860.9 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 pandemic has accelerated the trend toward digitalization of retail financial services. While comprehensive data on the market shares of FinTechs and other retail digital financial services are scarce, proxies suggest they have further expanded their footprint in financial services. The COVID-19 pandemic has accelerated the adoption of innovative financial services. While the ability of digital innovation to improve market access, the range of product offerings, and convenience has been acknowledged for some time, pandemic-related responses and containment measures increased the importance of these factors in 2020-21. COVID-19 hastened several trends already underway, including the use of digital payments and changes in the way retail customers and vendors buy and sell goods.

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 to attract both local and international emerging FinTech companies as well as existing CBB licensees to enable them to test their innovative ideas and expand their business in the region.[15] The sandbox provides authorized companies with the opportunity to test and experiment their innovative financial solutions freely 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.

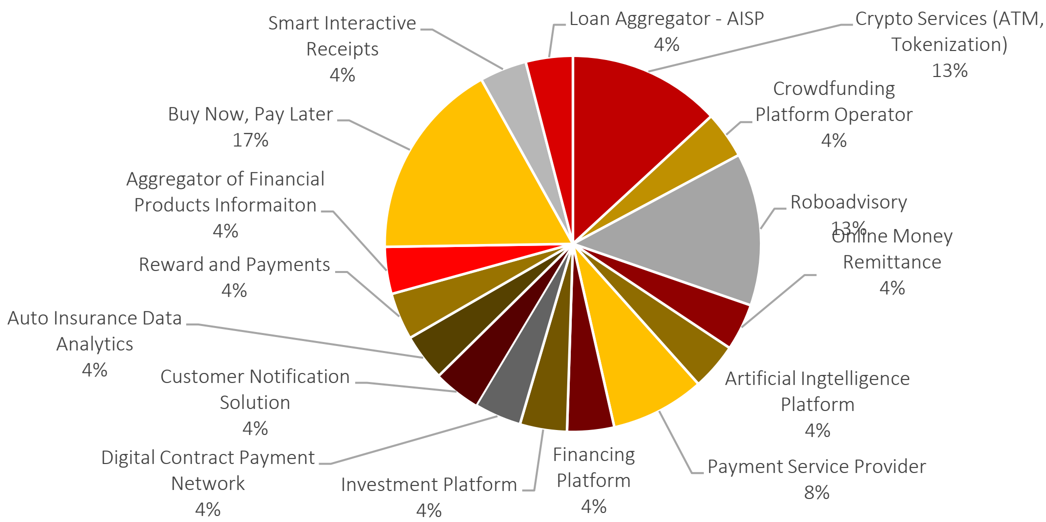
The Sandbox has gained significant interest from local, regional and global start-ups and a number of companies have successfully completed testing their solutions. As of December 30, 2021, CBB had 23 companies testing their solutions within the Regulatory Sandbox, 14 have graduated of which two have 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

[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.

digital financing solutions, crypto platforms, tokenization offerings, open-banking solutions, payment services providers, robo-advisory solutions and many more.

As part of its efforts to further develop the FinTech ecosystem and enhance the competitiveness of the financial services sector, CBB announced its new Regulatory Sandbox Framework in December 2021 which will allow FinTech firms to test and experiment their ideas and solutions related to the sector in a more efficient and effective environment. The new Framework enhances the eligibility criteria for participation in the Regulatory Sandbox, as well as streamlines the entire Sandbox process to ensure a more phased and consistent approach to support testing. The revised framework serves as a continuation of the CBB's efforts to keep pace with technological developments to adopt modern banking services through FinTech solutions, promoting a culture of innovation in the financial sector and national economy.

Chart 10.1: Regulatory Sandbox Statistics- Company Types (%)



Source: CBB.

Table 10.1: Regulatory Sandbox Statistics- Classification by Region

Region	No. of Sandbox Companies
MENA	18
Americas	2
Europe	3
Asia	0
Africa	0

Source: CBB.

10.2.2 FinHub 973: CBB Digital Lab

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

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

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

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 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 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.

10.2.5 Bahrain Electronic Cheque System (BECS)

In October of 2021, the CBB, in cooperation with The BENEFIT Company, launched the Bahrain Electronic Cheque System (BECS) that provides for E-Cheque services. BECS is the first fully pledged E-Cheque system in the world, that caters to individual, as well as corporate bank customers. The BECS is a fully electronic cheque issuance and clearing system that has revolutionized the way Bahraini Customers transact using cheques. The BECS provides customers with mobile Apps such as BenefitPay Application for retail customers and the E-Cheque Application for other types of customers (e.g. corporate customers), the allows customers to request an E-Cheque book from their banks, write an E-Cheque, sign an E-Cheque, issue an E-Cheque and deposit an E-Cheque securely online without the need to visit the bank. Customers now can complete the whole cheque cycle online and can view the status of all their written and deposited cheques, providing insights and tracking that were not available with paper cheques. These services are also available 24/7, increasing convenience.

There are many advantages that came with the digitalization of cheques the first being that the E-Cheque can no longer be lost or stolen since it is now an electronic record stored in a database, rather than the traditional paper cheque. Another advantage is that the E-Cheque is more secure since it uses PKI (Public Key Infrastructure) Technology that is built upon The BENEFIT Company being certified as the Certification Authority (CA). This ensures that no E-Cheques or signatures are counterfeit or amended in any way, and the customer's electronic signature is as unique and safe as a signature on a paper cheque.

For individual customers, E-Cheque services can be availed directly through registering on the BenefitPay Application, and corporate customers can avail the services by visiting and registering for the dedicated E-Cheque Application through their banks. The E-Cheque Application also allows corporate customers to easily setup multiple authorized signatories to sign E-Cheques online, while applying limits on each authorized signatory.

10.2.6 Apple Pay

In October 2021, Apple Pay has rolled out in Bahrain with support for Mastercard and Visa cards issued by a number of Bahrain retail banks. The adoption is considered a safer, more secure and private way to pay that helps customers avoid handing their payment card to someone else, touching physical buttons or exchanging cash protecting every transaction.

10.2.7 The Arabian Gulf System for Financial Automated Quick Payment Transfer (AFAQ)

The Arabian Gulf System for financial Automated Quick Payment Transfer (AFAQ) is a Real Time Gross Settlement service for cross-currency cross-border payments between GCC countries. The system is operated by the Gulf payment Company (GPC) which is owned and funded by the GCC central Banks including the CBB. The AFAQ system allows its participants to transfer payments from one local currency to another local currency in real time within the business day schedule.

The AFAQ cross-currency service was launched on 10th December 2020 with the CBB and Saudi Central Bank (SAMA) as its first participants. The CBB is currently in the process of onboarding all Bahrain Banks into the system, representing the first batch, five banks were live on 19th April 2021 which are Ahli United Bank (AUB), Bahrain Islamic Bank (BISB), Bahrain and Kuwait Bank (BBK), Eskan Bank and National Bank of Bahrain (NBB). By the end of December 2021, the CBB has successfully managed to onboard a total of 9 banks, with a target of onboarding all Bahrain Banks during the Year 2022. With regards to the onboarding of other GCC Central Banks, the Central Bank of Kuwait has joined the system on 13th March 2022 whereas, other Central Banks onboarding is in progress.

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.

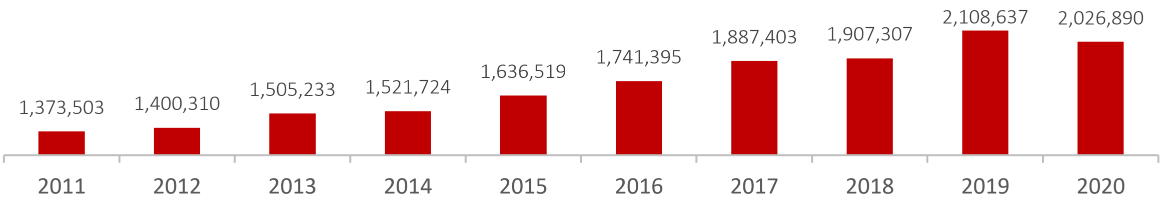
Table 10.2: Financial Inclusion Figures for the Kingdom of Bahrain

	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 10.2: 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. 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 the final regulations on Cyber Security Risk Management for insurance licensees, investment business firms, specialized licensees including money changers and ancillary service providers and crypto-asset licensees following the industry consultation.

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	Q4 2020	Q2 2021	Q4 2021
Capital Adequacy			
CAR (%) *	18.6	18.7	18.7
Tier 1 CAR (%) *	17.3	17.5	17.2
Assets-to-Capital (Times) *	8.2	8.3	8.7
Asset Quality			
NPLs (% of Total Loans)	4.3	3.8	3.2
Specific Provisions (% of NPLs)	68.0	69.0	70.1
Loan Concentration (Share of Top Two Sectors) (%)	31.0	30.0	30.5
Real Estate/ Construction Exposure (%)	25.4	26.0	25.2
Earnings			
ROA (%)	0.7	0.6	1.1
ROE (%) *	2.8	3.9	7.8
Net Interest Income (% of Total Income) **	69.7	72.5	70.3
Net Fees & Commissions (% of Total Income) **	12.4	13.1	13.0
Operating Expenses (% of Total Income)	70.7	51.2	52.4
Liquidity			
Liquid Assets (% of Total Assets)	24.6	26.4	26.2
Loan-Deposit Ratio (%)	70.9	70.2	69.8

** Locally-Incorporated Banks only.*
***Conventional Banks only.*
Source: CBB.

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

Indicator	Conventional Retail			Conventional Wholesale		
	Q4 2020	Q2 2021	Q4 2021	Q4 2020	Q2 2021	Q4 2021
Capital Adequacy						
CAR (%) *	20.0	20.4	20.6	17.8	17.6	17.1
Tier 1 CAR (%) *	18.7	18.9	19.2	17.0	16.7	15.6
Assets-to-Capital (Times) *	7.0	7.0	6.9	8.4	8.3	9.0
NPLs Net Provisions to Capital (%) *	5.0	5.3	4.3	4.9	4.4	3.1
Asset Quality						
NPLs (% of Total Loans)	4.7	4.3	3.9	4.1	3.6	2.8
Specific Provisions (% of NPLs)	69.9	69.6	71.9	74.3	73.9	72.8
Net NPL' (% of Net Loans)	1.5	1.4	1.2	1.1	1.0	0.8
Loan Concentration (Share of Top Two Sectors)	35.4	34.2	34.2	41.9	39.9	41.9
Real Estate/ Construction Exposure (%)	33.1	33.1	33.4	20.9	21.6	19.4
Earnings						
ROA (%)	1.0	0.7	1.3	0.8	0.6	1.3
ROA Local Banks (%)	1.3	0.8	1.5	-0.6	0.2	0.4
ROA Overseas Banks (%)	0.3	0.6	0.9	2.1	0.9	2.2
ROE (%) *	9.6	5.8	10.9	-5.3	1.7	3.5
Net Interest Income (% of Total Income)	76.1	77.7	78.9	63.6	67.6	62.8
Net Fees & Commissions (% of Total Income)	10.1	9.9	10.2	13.7	16.1	15.2
Operating Expenses (% of Total Income)	61.6	44.8	49.4	68.6	44.3	42.7
Liquidity						
Liquid Assets (% of Total Assets)	34.4	34.1	33.6	21.6	24.5	24.7
Liquid Assets (% of Short-Term Liabilities)	43.4	42.8	42.4	26.5	30.0	30.8
Loan-Deposit Ratio (%)	66.3	67.2	69.3	71.1	69.4	68.7
Non-Bank Deposits (% of Total Deposits)	72.1	70.4	73.9	46.8	49.3	50.3

** Locally-Incorporated Banks only.*
Source: CBB.

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

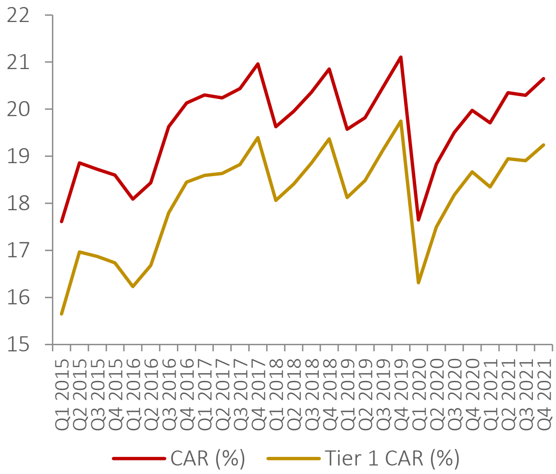
Indicator	Islamic Retail			Islamic Wholesale		
	Q4 2020	Q2 2021	Q4 2021	Q4 2020	Q2 2021	Q4 2021
Capital Adequacy						
CAR (%) *	20.3	21.6	21.7	16.4	16.1	15.8
Tier 1 CAR (%) *	17.9	19.6	19.9	15.0	15.0	14.4
Assets-to-Capital (Times) *	10.1	10.4	11.0	9.6	10.2	11.1
NPFs Net Provisions to Capital (%) *	22.2	16.0	13.7	0.9	1.8	0.3
Asset Quality						
NPFs (% of Total Facilities)	6.5	5.5	5.0	1.6	1.7	0.7
Specific Provisions (% of NPFs)	42.9	51.8	56.4	87.6	79.4	92.0
Net NPFs (% of Net Facilities)	4.0	2.8	2.6	0.2	0.4	0.1
Facilities Concentration (Share of Top Two	36.7	34.9	38.2	34.4	44.1	42.5
Real Estate/ Construction Exposure (%)	31.4	31.4	28.4	15.5	17.5	20.1
Earnings						
ROA (%)	0.2	0.3	0.6	0.3	0.4	0.8
ROE (%) *	2.1	3.6	7.3	3.1	4.3	10.0
Net Income from Own Funds, Current Accounts and Other Banking Activities (% of Operating Income)	45.0	39.3	38.5	42.2	39.8	41.8
Net income from Jointly Financed Accounts and Mudarib Fees (% of Operating Income)	53.9	59.6	60.6	55.6	58.2	56.0
Operating Expenses (% of Total Income)	89.2	73.2	73.9	83.2	65.5	67.6
Liquidity						
Liquid Assets (% of Total Assets)	17.8	19.2	19.5	14.6	19.0	18.0
Facility-Deposit Ratio (%)	79.7	76.2	73.3	63.2	64.9	63.0
Current Accounts from Non-Banks (% of Non-Capital Liabilities, excl. URIA)	33.5	36.0	37.2	49.1	46.7	46.8

** Locally-Incorporated Banks only.*
Source: CBB.

ANNEX 2: SELECTED FSIs GRAPHS

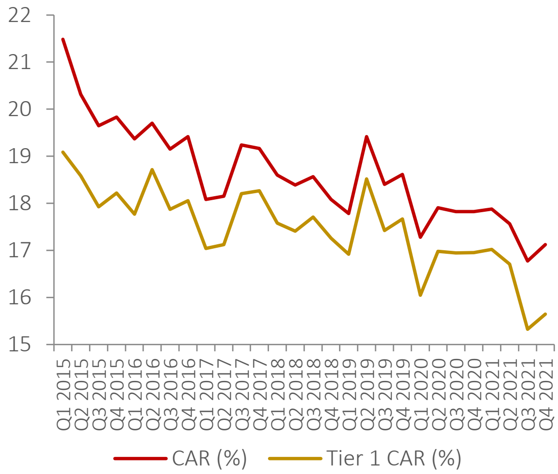
A. Capital Adequacy

Annex 2 Graph 1: Conventional Retail



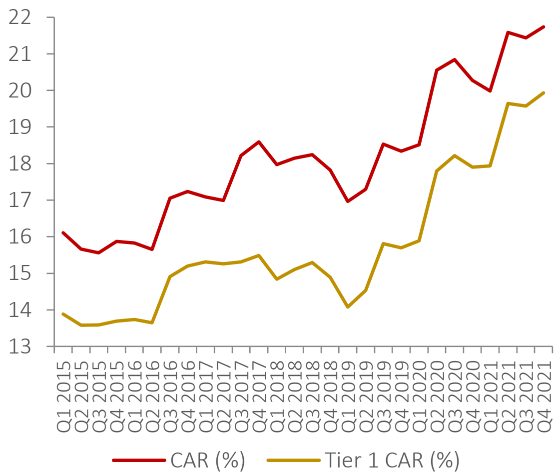
Source: CBB.

Annex 2 Graph 2 : Conventional Wholesale



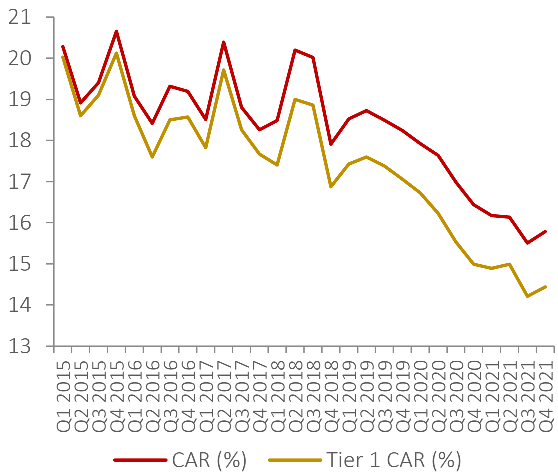
Source: CBB.

Annex 2 Graph 3: Islamic Retail



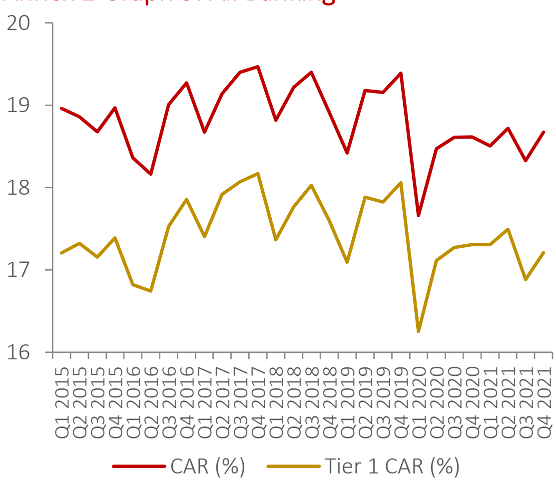
Source: CBB.

Annex 2 Graph 4: Islamic Wholesale



Source: CBB.

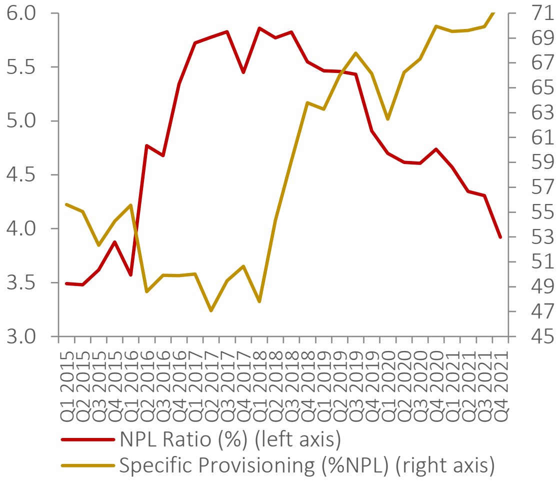
Annex 2 Graph 5: All Banking



Source: CBB.

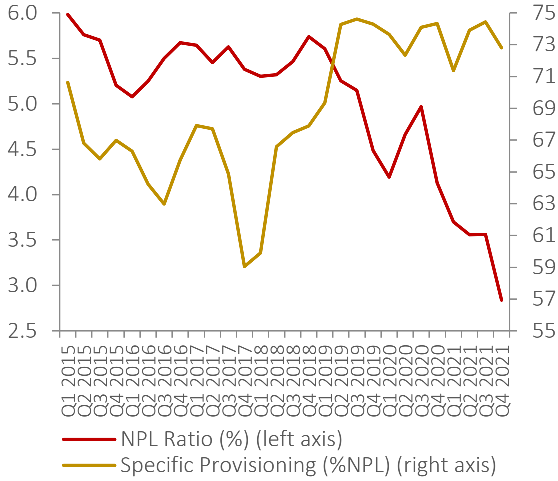
B. Asset Quality

Annex 2 Graph 6: Conventional Retail



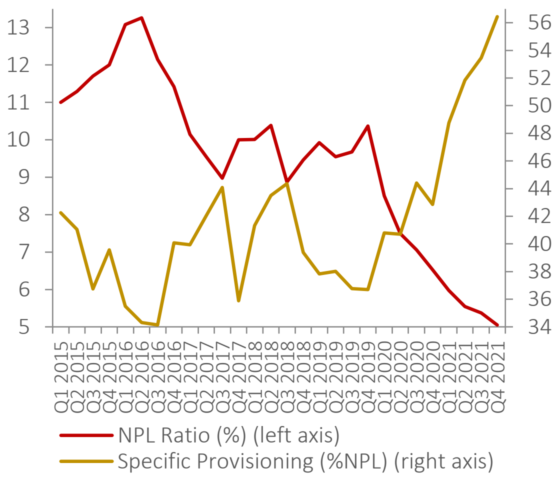
Source: CBB.

Annex 2 Graph 7: Conventional Wholesale



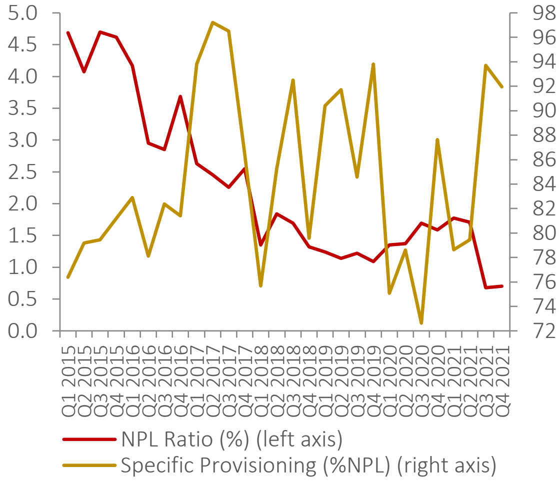
Source: CBB.

Annex 2 Graph 8: Islamic Retail



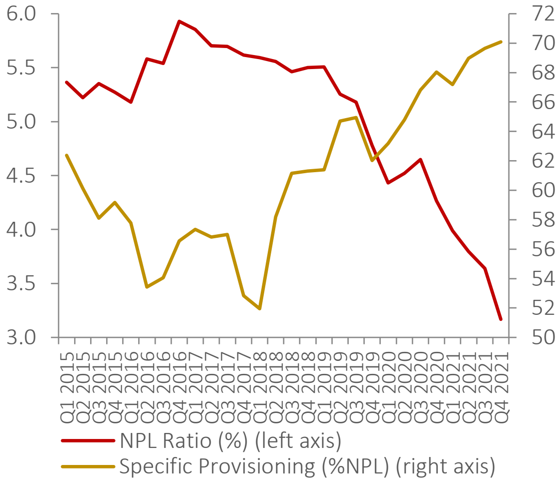
Source: CBB.

Annex 2 Graph 9: Islamic Wholesale



Source: CBB.

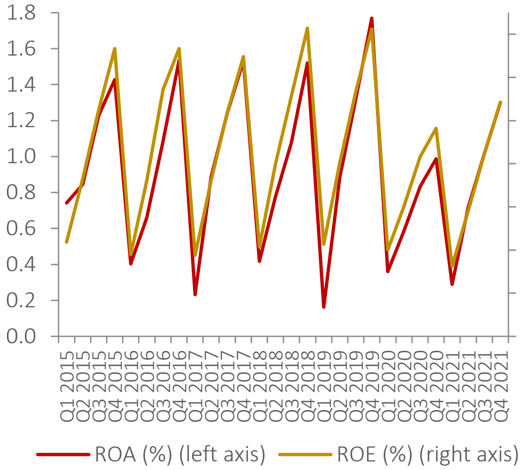
Annex 2 Graph 10: All Banking



Source: CBB.

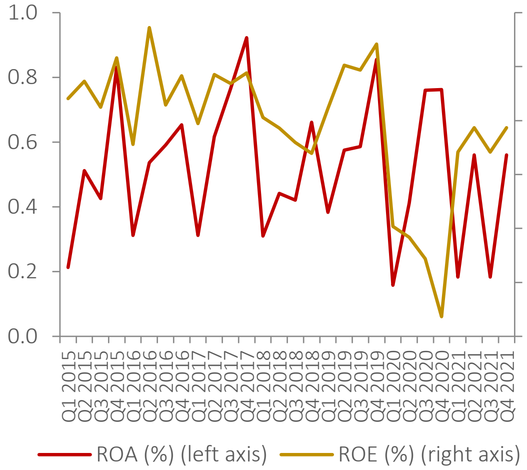
C. Profitability

Annex 2 Graph 11: Conventional Retail



Source: CBB.

Annex 2 Graph 12: Conventional Wholesale

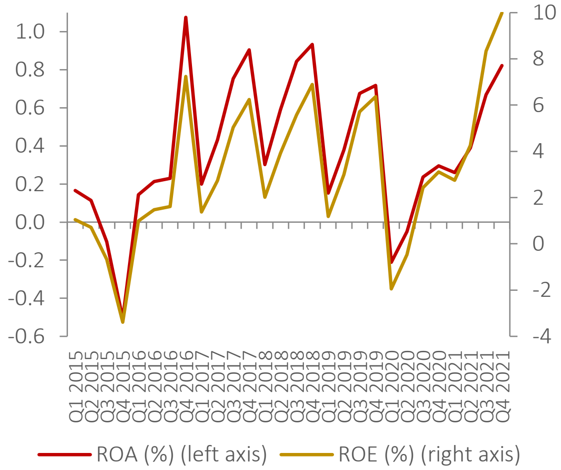


Source: CBB.

Annex 2 Graph 13: Islamic Retail

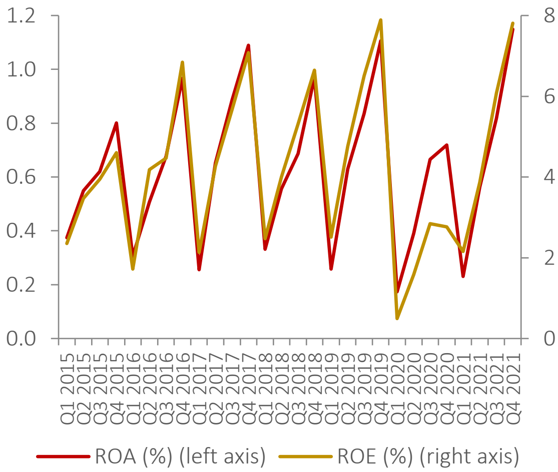
Source: CBB.

Annex 2 Graph 14: Islamic Wholesale



Source: CBB.

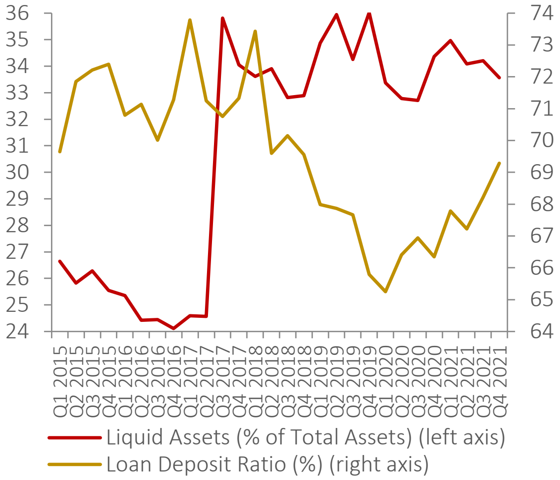
Annex 2 Graph 15: All Banking



Source: CBB.

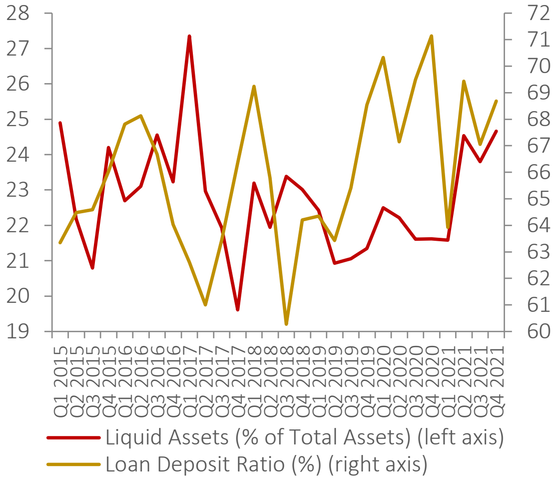
D. Liquidity

Annex 2 Graph 16: Conventional Retail



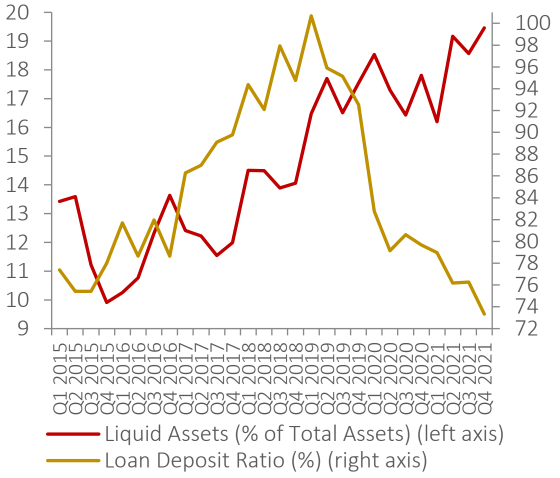
Source: CBB.

Annex 2 Graph 17: Conventional Wholesale



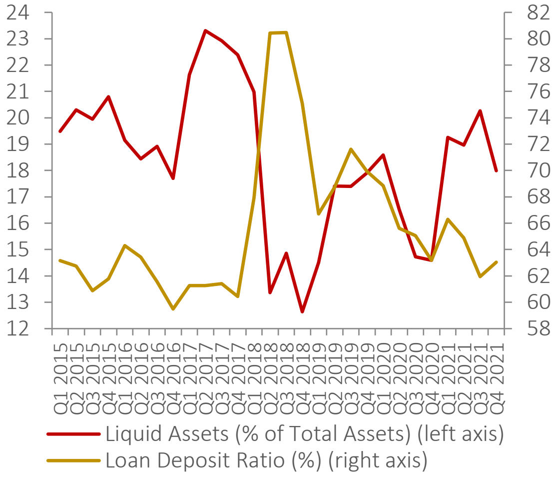
Source: CBB.

Annex 2 Graph 18: Islamic Retail



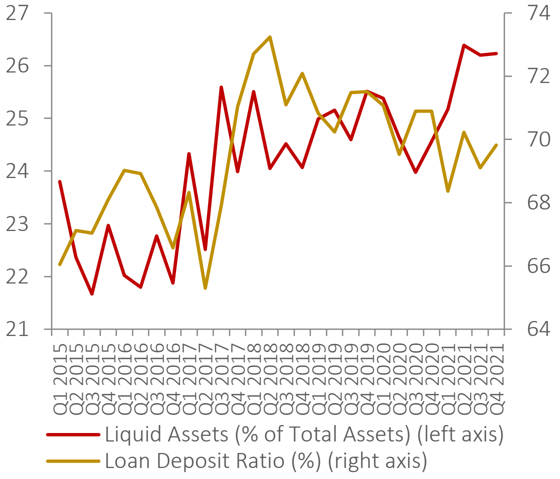
Source: CBB.

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
16th March 2020	▪ 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%.
18th March 2020	▪ 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, 025% 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.
20th March 2020	▪ 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.
23rd March 2020	▪ 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.

20th September 2020	▪ 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.
22nd September 2020	▪ 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.
29th December 2020	▪ 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: - 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.
27th May 2021	▪ 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.
23rd December 2021	▪ CBB has decided that the existing deferral arrangements expiring on 31st December 2021 will be extended for another period of six months until 30th June 2022 for all Stage 1 & 2 resident retail, SMEs and other corporate customers.

Source: CBB.

CBB Circulars

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

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

17th 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
19th March 2020 OG/108/2020	All CBB Licensees All Listed Companies	Upcoming General Meetings
23rd March 2020 EDBS/KH/C/30/2020	All Retail Banks All Financing Companies All Microfinance Companies	Implementation Guidelines Regarding the 6th Months Deferral
24th March 2020 EDBS/KH/C/32/2020	All Retail Banks All Financing Companies All Microfinance Companies	Implementation Guidelines Regarding the 6th Months Deferral
24th March 2020 EDFIS/C/030/2020	All Insurance Licensees	Sub: Services Continuity Measures
26th March 2020 EDFIS/C/032/2020	Self-Regulatory Organizations (SRO) SRO Members Crypto-asset Licensees	Services Continuity Measures
30th March 2020 EDBS/KH/C/33/2020	All Banks	Deferral of Implementation of Announced Regulator Policy Requirements
30th March 2020 OG/124/2020	All listed Companies All locally incorporated banks	Exemption for First Quarter Financial Results Preparation and Publication
30th March 2020 CMS/C/010/20	SRO Members	Market Intermediaries responsibility Amid COVID-19
1st April 2020 EDBS/KH/C/34/2020	Ancillary Service Providers Financing Companies Microfinance Institutions	Agreed Upon Procedures for Financial Crime (FC) Module
1st April 2020 EDBS/KH/C/35/2020	All Banks	Agreed Upon Procedures for Financial Crime (FC) Module
1st April 2020 EDFIS/C/034/2020	All Insurance Licensees	Agreed Upon Procedures for Financial Crime (FC) Module
1st April 2020 EDFIS/C/035/2020	All Investment Firms	Agreed Upon Procedures for Financial Crime (FC) Module
1st April 2020 EDFIS/C/036/2020	All Money Changers All Non-Bank Representative Offices All Administrators/Registrars All Trust Services Providers Ancillary Services Providers- Third Party Administrators	Agreed Upon Procedures for Financial Crime (FC) Module
1st April 2020 EDFIS/C/037/2020	Self-Regulatory Organizations (SRO) SRO Members Crypto-asset Licensees	Agreed Upon Procedures for Anti-Money laundering and Combating of Financial Crimes (AML) Module
1st April 2020 CMS/C/011/2020	All Listed Companies	Market Fairness and Integrity Amid COVID-10 Developments
2nd April 2020 EDBS/KH/C/36/2020	All Banks	Date Sensitive Reporting Requirements Extensions/Exemptions Under Rulebooks (Volume 1 and 2)
2nd April 2020 EDBS/KH/C/37/2020	All Financing Companies All Microfinancing Companies	Date Sensitive Reporting Requirements Extensions/Exemptions Under Rulebooks (Volume5)
2nd April 2020 EDBS/KH/C/38/2020	All Banks	Date Sensitive Reporting Requirements Extensions/Exemptions Under Rulebooks (Volume 5)
8th April 2020 OG/148/2020	All Licensees	Additional COVID-19 Precautionary Measures
12th April 2020 OG/152/2020	All Retail Banks	Directive on Use of Salary Transfers to Bahrainis by the Government
26th April 2020 EDBS/C/41/2020	All Bank Licensees All Financing Companies All Microfinance Companies	Financial Impact Assessment of the Six Months Instalment Deferral
27th May 2020 EDFIS/C/052/2020	All Licensees	Money Laundering & Terrorist Financing Risks & Practices during COVID-19
21st June 2020 OG/226/2020	All Bahraini Bank Licensees All Financing Companies	Regulatory Concessionary Measures

	All Microfinance Institutions	
1st July 2020 OG/249/2020	All Branches of Foreign Banks	Regulatory Concessionary Measures
14th July 2020 OG/259/2020	All Listed companies All Licensees	Reporting of Financial Impact of COVID-19
24th August 2020 EDBS/KH/C/54/2020	All Banks Al Financing Companies ALL Microfinance Companies	Exemptions from Submission of Agreed Upon Procedures on PIR/PIRI/PIRFM (Volumes 1, 2, and 5)
26th August 2020 OG/296/2020	All Banks Al Financing Companies ALL Microfinance Companies All Payment Services Providers All Cards Processing Services Providers	Status Update on COVID-19 Policy Measures
21st September 2020 OG/318/2020	All Retail Banks Financing Companies Micro-Finance Companies	Further Deferment of Loan Instalments
22st September 2020 OG/321/2020	All Retail Banks Financing Companies Micro-Finance Companies	Further Deferment of Loan Instalments
8th November 2020 EDBS/C/67/2020	All Retail Banks All Financing Companies All Micro-Finance Companies	Non-Charging of Interest/Profit on Deferral Period
29th December 2020 OG/431/2020	All Banks All Financing Companies All Micro-Finance Companies All Payment Service Providers	Update on COVID-19 Policies Measures
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
23 December 2021 OG/417/2021	All Retail Banks All Financing Companies	Update on COVID-19 Regulatory Measures

Source: CBB.

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