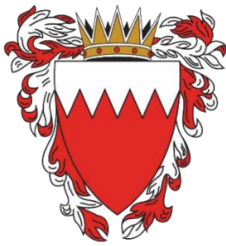
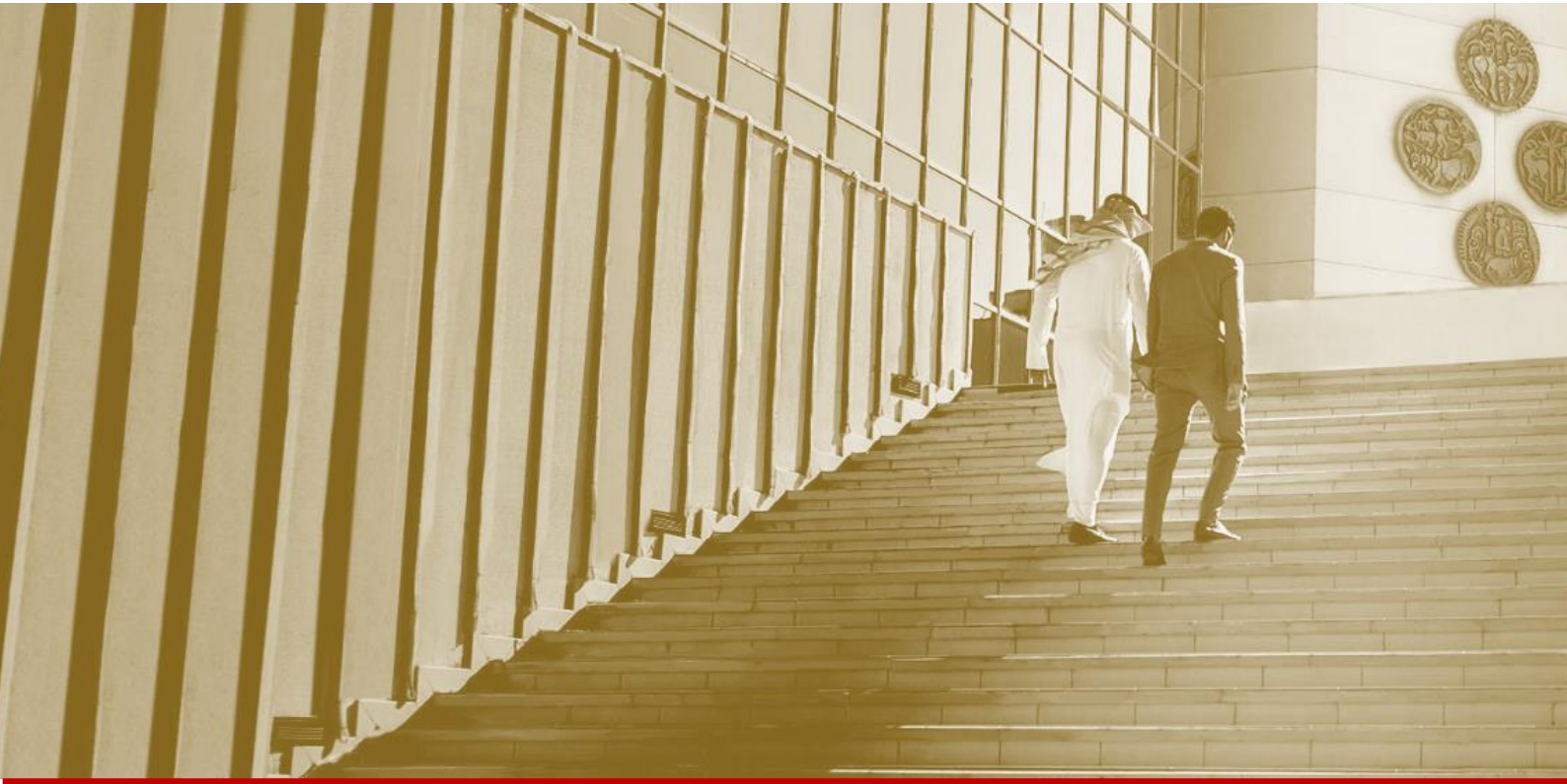


# Annual Report



مَصْرَفُ الْبَحْرَيْنِ الْمَرْكَزِي

Central Bank of Bahrain

# 2021

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Chapter

1

## 1. Monetary Policy Developments

*Monetary Policy Management*

*Domestic Interest Rates*

*Public Debt Issuance*

## Monetary Policy Management

### Monetary Policy Committee

The CBB Monetary Policy Committee (“MPC”) met on a weekly basis throughout 2021. The MPC closely evaluated economic and financial developments, monitored liquidity conditions, provided recommendations for monetary policy instruments and set interest rates on facilities offered by the CBB.

### Reserve Requirements

All retail banks are required to maintain, on a monthly basis, a fixed percentage of their non-bank deposits (denominated in Bahraini dinars), in a non-interest-bearing account at the CBB. During 2021, the reserve percentage remained unchanged at 3%. The reserve percentage has been reduced from 5% to 3% in March 2020 and extended until June 2022, as per the regulatory measures to contain the financial repercussions of the Covid-19 introduced by the CBB.

The total banks' Reserve Requirement balance outstanding in December 2021 was BD 334.819 million, compared to BD 322.857 million in December 2020, with a 3.71% increase.

## Domestic Interest Rates

### Key Policy Interest Rates

In 2021, the CBB have changed its interest rates as follows:

- **On 16<sup>th</sup> February 2021**, the 4-week deposit facility interest rate was cut from 2.00% to 1.75%.
- **On 23<sup>rd</sup> August 2021**, the 4-week deposit facility interest rate was cut from 1.75% to 1.50%.

During 2021, the overnight and one week deposit facility interest rates remained unchanged at 0.75% and 1% respectively. The lending rates remained unchanged at 2.25%.

### Interbank Rates

As at end 2021, the 3-month BHIBOR rate was 1.52%, compared to 2.25% at end 2020. The 6-month BHIBOR rate was 1.62%, compared to 2.53% at end 2020.

### Standing Facility

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

The total outstanding conventional retail banks' deposits with the CBB as of December 2021 was BD 1,665 million, compared to BD 874.330 million in December 2020, with a 90% increase.

## Wakalah

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

The total outstanding balance of Wakalah deposited by Islamic Banks was BD 220.747 million in 31<sup>st</sup> December 2021, compared to BD 163.800 million in 31<sup>st</sup> December 2020, with a 34.77% increase.

## Murabaha Sukuk service

Murabaha Sukuk Service is a Shari'ah compliant liquidity and borrowing tool for clients and Banks that has been developed through a collaboration between CBB and Bahrain Bourse.

A total of 674 Murabaha Sukuk transactions were executed with a total value of BD 2,952 million during the year 2021, compared to 411 transactions with a total value of BD 993.473 million in 2020, with a 197% increase (The service was launched on June 1<sup>st</sup>, 2020). The daily average number of transactions during 2021 was 3 transactions and the average daily value was BD 11.951 million.

## Public Debt Issuance

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

During 2021, the CBB issued conventional three-month Treasury Bills, denominated in Bahraini dinars, on a weekly basis, with an issue amount of BD 70 million. Six-month Treasury Bills were also issued, on a monthly basis, with an issue amount of BD 35 million and Twelve-month Treasury Bills with an issue amount of BD 100 million.

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

During 2021, the CBB, at the request of the MOFNE, issued domestic and international government development bonds and Sukuks for different maturities, as follows:

- Local Government Development Bond with an issue amount of BD 100 million on January 10<sup>th</sup>, 2021, with a maturity of 5 years, and a fixed-rate of 3.75%.
- Local Government Development Bond with an issue amount of BD 200 million on March 14<sup>th</sup>, 2021, with a maturity of 6 years, and a fixed-rate of 4.00%.
- Local Government Development Bond with an issue amount of BD 200 million on May 5<sup>th</sup>, 2021, with a maturity of 5 years, and a fixed-rate of 3.60%.

- Local Government Development Bond with an issue amount of BD 150 million on June 17<sup>th</sup>, 2021, with a maturity of 5 years, and a fixed-rate of 3.60%.
- Local Government Development Bond with an issue amount of BD 150 million on August 5<sup>th</sup>, 2021, with a maturity of 3 years, and a fixed-rate of 3.20%.
- Local Government Development Bond with an issue amount of BD 200 million on October 14<sup>th</sup>, 2021, with a maturity of 2 years, and a fixed-rate of 2.75%.

On January 25<sup>th</sup>, 2021, the CBB appointed Bank ABC, Citibank, GIB, JP Morgan, HSBC, and National Bank of Bahrain (NBB) as Joint Lead Managers (JLMs) to:

- Raise \$500mn in a 7-year Government Development Bond under the GMTN Programme priced at 4.25% and maturing on 25<sup>th</sup> January 2028.
- Raise \$1bn in a 12-year Government Development Bond under the GMTN Programme priced at 5.25% and maturing on 25<sup>th</sup> January 2033.
- Raise \$500mn in a 30-year Government Development Bond under the GMTN Programme priced at 6.25% and maturing on 25<sup>th</sup> January 2051.

On November 18<sup>th</sup>, 2021, the CBB appointed BNP Paribas, Citibank, JP Morgan, HSBC, and NBB as JMLs to:

- Raise \$1bn in a 12.5-year Government Development Bond under the GMTN Programme priced at 5.625% and maturing on 18th May 2034.
- Raise \$1bn in a 7.5-year Islamic Ijara Murabaha Sukuk under the Sukuk Programme (with a structure of 52.5% Ijara & 47.5% Murabaha) priced at 3.875% and maturing on 18th May 2029.

Also, CBB arranged to issue Private Placement on 8<sup>th</sup> September 2021 to raise \$500mn in a 5-year Islamic Ijara Murabaha Sukuk.

Moreover, and on the back of the latest developments witnessed under the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) Shari'ah standards, the CBB appointed Citibank, JP Morgan, HSBC, and NBB as Arrangers to fully update the Trust Certificate Issuance Programme ("Sukuk Programme") and to ensure that it conforms with the latest AAOIFI Standards. Accordingly, the Kingdom of Bahrain's Sukuk Programme was updated on 26<sup>th</sup> August 2021 in accordance with the AAOIFI standards.

Chapter

2

## 2. Regulatory and Supervisory Developments

*Regulatory Developments*

*Supervisory Developments*

## Regulatory Developments

As part of CBB's continuing development of the regulatory framework for the financial system, work was carried out during the year 2021 to strengthen regulatory policies and to develop appropriate prudential regulations, in order to maintain financial stability and market integrity.

### Basel III adoption:

#### *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.

#### *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 30<sup>th</sup> August 2021.

### 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 31<sup>st</sup> 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.

### **Third Consultation Paper – Draft Secured Transactions Law**

The CBB received from the Ministry of Justice, Islamic Affairs and Awqaf a revised draft of the Secured Transactions Law in the Kingdom of Bahrain. Therefore, the CBB issued a third consultation paper in this regard. The CBB received the comments and feedback of the financial sector and related parties and sent them to the Ministry of Justice, Islamic Affairs and Awqaf.

### **Merchant Fees on Payment to Zakat and Charity Fund**

The CBB issued in April 2021 a circular to all banks and payment service providers requiring them to exempt the Zakat and Charity Fund (“the Fund”) of the Ministry of Justice, Islamic Affairs and Awqaf from merchant fees for payments made to the Fund.

### **Amendments to Caps on Fees and Charges for Individual Customers, including Non-Bahraini Individuals**

The CBB issued in May 2021 a circular to all retail banks requiring them to include non-Bahraini customers, who earn a monthly salary below BD250, in the list of exempted customers from applicable fees and charges on current and saving accounts balance falling below stipulated minimum and printing of account statement.

### **Merchant Fees**

The CBB issued in April 2021 a circular to all banks and payment service providers notifying them that the cap merchant fee of 0.8% is not applicable to transactions with the Government of Bahrain, accordingly all previous bilateral arrangements made with the Government shall prevail until further notice.

### **Requirements to Enhance Representation of Payment Transaction Data**

The CBB issued in April 2021 a circular to all Payment Service Providers (“PSPs”) with regards to the need to follow a consistent practice in representation of payment transactions undertaken by the various Payment Service Providers within the Kingdom of Bahrain. Hence licensees must comply with ISO 18245 dealing with Merchant Categorisation Codes (MCCs).

This step was taken to ensure that customers will be able to view/access or store merchant transactions data in a consistent manner to allow further analyses of their transactions. All PSPs offering e-wallets/prepaid cards (with the exception of Fawri+ and Fawri transactions via BenefitPay) were required to start the process of assigning MCCs to relevant merchants and provide customers with the relevant data pertaining to payment transactions in the relevant applications and/or customer transaction statements as the case may be. PSPs were required to ensure full compliance by 30<sup>th</sup> June 2021.

## Requirements to Incorporate Merchant Category Codes for Internal Fund Transfers

In addition to the circular issued above in point no. 9 to ensure the adoption of ISO 18245 dealing with Merchant Categorisation Codes (MCCs) for representation of payment transactions within the Kingdom of Bahrain, the CBB issued another circular in May 2021 which required the licensees to start the process of assigning MCCs to all new and existing business customer/merchant accounts.

Assigning MCC codes will ensure that all internal fund transfers into these business customer/merchant accounts are captured for the purpose of proper representation of the payment transactions. Licensees must therefore, introduce new processes and implement the necessary changes to the core banking and other technology applications or systems in order to capture the MCC in a separately identified data field such that the data can be made available to customers and also shared through API interfaces with relevant Account Information Service Providers.

Licensees were required to ensure that all new and existing business customer/merchant accounts have been assigned an MCC by 30<sup>th</sup> September 2021.

## 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.

## Wage Protection Scheme (WPS) Project Implementation

The CBB issued in June 2021 a circular to all retail banks and payment service providers which referred to His Excellency the Minister of Labor and Social Affairs' Resolution Number 22 for the year 2021, regarding the implementation phases of the subject project.

The first phase for project implementation went into production environment (go-live) since 1<sup>st</sup> May 2021. During this phase, LMRA along with The Benefit Company observed a number of reporting issues arising from improper data cleansing exercises by sender banks and/or system operational issues from receiving banks.

As such, CBB directed all retail banks and payment service providers to carry out a comprehensive data cleansing exercise and resolve all system related issues, in coordination with Benefit and LMRA, in order to achieve full compliance with the above resolution by no later than 30<sup>th</sup> September 2021.

In this regard, licensees must provide The Benefit Company with weekly update reports on the progress of the aforesaid resolution requirements.

## **Resolution No. (16) of 2021 with respect to promulgating the Regulation Pertaining to Control in Banks**

The CBB issued in June 2021 Resolution No. (16) of 2021 with respect to promulgating the Regulation Pertaining to Control in Banks after completion of the consultation process and studying the comments received from the banking industry. By virtue of this regulation, Resolution No. (31) of 2008 issuing a regulation Governing control in banks is repealed.

This Regulation applies to the current/existing controller, except for his control/ownership approved before the provisions of this regulation came into force. Article (9) also states that foreign banks must notify the CBB in the event that a person owns more than 50% of its share capital, within one week from the date of the ownership taken place provided that the notification is accompanied with a copy of the foreign supervisory authority's approval. The CBB shall take an action as it deems appropriate.

## **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 Authorisation Module, Open Banking Module, General Requirements Module and Glossary of Defined terms of the CBB Rulebook Volume 5 Specialised Licensees (Ancillary Service Providers).

## **Proposed Amendments to the 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 1<sup>st</sup> October 2021. Licensees were required to submit a gap analysis and an action plan to CBB no later than 15<sup>th</sup> 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 1<sup>st</sup> May 2022. Licensees were required to submit a gap analysis and an action plan to CBB no later than 31<sup>st</sup> 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:

4. Risk based approach to ensure consistency across licensees.
5. 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.
6. 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.

## New directives on a new license category for Fund Managers

The CBB introduced in September 2021 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”) i.e. funds, targeted at ‘accredited investors’ only (i.e. investors with a net worth of USD 1 million and above and not offered to ‘retail investors’ or ‘expert investors’ as defined under the CBB regulations). Examples of such funds include private equity funds, hedge funds, structured funds, real estate funds, venture capital funds and other alternative investment funds.

In this respect, the CBB issued a new Module on "Category 4 Investment Firms (Module C4)" to address the CBB's requirements relevant to the new license category. In addition to the said Module, category 4 investment firms are subject to the Principles of Business Module, the Financial Crime Module, the Enforcement Module and relevant Sections of the Authorisation Module.

## Dormant Accounts

- As part of CBB's objective to protect the interests of customers of financial institutions, the CBB issued in January 2021 a circular to all retail banks and financing companies requiring them to place any prepaid card which is inactive for a period of six months on the “dormant” list by the issuing bank or financing company.
- The CBB issued in September 2021 new requirements in respect of “dormant accounts” and “unclaimed balances” under a new Section in the Business and Market Conduct Module of Volumes 1 and 2 of the CBB Rulebook. These accounts are called “dormant” due to inactivity or no claim or renewal request being made on these accounts. The directives include the types of accounts and the criteria for classifying them as dormant in detail. Licensees must establish policies and procedures to deal with dormant accounts and unclaimed balances which must include measures to

contact the customer concerned, activation of the accounts where appropriate, return of the moneys to the customer and control measures to prevent frauds and misuse of such accounts. Licensees must report to the CBB the particulars of dormant accounts and unclaimed balances on a quarterly basis in the relevant section of the Prudential Information Return. Licensees were required to submit a gap analysis and an action plan to CBB no later than 16<sup>th</sup> September 2021 and the rules came into effect as of 3<sup>rd</sup> October 2021.

- The CBB issued in September 2021 a circular to all retail banks that included the introduction of a one-time fee of up to BD5 to cover expenses for handling dormant accounts in Appendix BC-7 and BC-8 ‘Caps on Fees and Charges for Standard Services Provided to Individuals’ for conventional and Islamic banks respectively. No fee must be charged, however, if the account has zero or negative balance. Additionally, the charging of such fee must not result in the account balance becoming negative.

### Climate-Related Risks

The 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. The CBB is accordingly working toward requirements relating to climate-related risks. Climate-related risks pose significant challenges for the global economy and to the safety and soundness of financial institutions and the stability of the financial sector more broadly.

The CBB had also issued during the year 2021 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 feedback received were studied and discussed in the Regulatory Policy Committee.

The CBB intends to deal with the issue of climate related risk in phases. The circular requires all licensees to raise awareness within their organisation about climate-related risks and assess how they would identify and address climate-related risks. The CBB also encourages 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, International Association of Insurance Supervisors, International Organisation of Securities Commissions and the Financial Stability Board.

### New directives on Promotion of Financial Products and Services in Business and Market Conduct Module (Module BC)

The CBB issued in November 2021 to all conventional and Islamic banks detailed directives on the promotion of financial products and services after the completion of the consultation

period, studying the feedback from banks. Banks must ensure that advertisements or financial promotions regardless of the means used are clear, understandable, fair, accurate, not misleading and doesn't include hidden messages or deceive the public in any way along with other requirements.

All banks must comply with the requirements by 1st January 2022.

## Regulatory and Concessionary Measures to Mitigate the Impact of Coronavirus

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

- **General meetings:** The CBB issued in February 2021 the following safety guidelines regarding the upcoming general meetings to discuss the financial results for the year ended 31st December 2020:
  1. All CBB licensees and listed companies are encouraged to convene their general meetings via electronic or teleconferencing means.
  2. All companies, opting to convene their general meetings physically, must comply with all pertinent precautionary and safety measures implemented by the Government of Bahrain to combat the COVID-19, particularly in relation to the limit of public gatherings.
  3. Listed companies, opting to convene their general meetings physically, are required to additionally arrange for electronic or teleconferencing means in order to ensure that all shareholders are able to attend the meetings.
  4. CBB licensees and listed companies that intend to hold board elections in their upcoming general meetings are permitted to postpone the election pursuant to Article (172) of the Commercial Companies Law, Decree Law No. (21) for the year 2001, where the board of the concerned licensee/listed company shall request an extension of their appointment for a period of no longer than 6 months from the CBB or Ministry of Industry, Commerce and Tourism, as the case may be.
  5. The representatives of the CBB shall attend the general meetings via the arranged teleconferencing means. Accordingly, licensees and listed companies are required to facilitate the necessary arrangements to affect the same.
- **Agreed Upon Procedures of the Financial Crime Module:** the CBB issued a circular in March 2021 to all banks that included the CBB's decision to grant licensees an extension until 30<sup>th</sup> September 2021 for submitting the report on the test of compliance with customer due diligence requirements and the Agreed Upon Procedures report on the quality of Anti-Money Laundering procedures, systems and controls in relation to the requirements of the FC Module. Hence licensees must submit this report for the year 2020 by 30<sup>th</sup> September 2021 and for subsequent years, by 30<sup>th</sup> June for each of the following years.



- **Independent Review by Third Party Consultants:** the CBB issued a circular in March 2021 to all banks that included the CBB's decision to defer the 2021 submission requirements related to independent review by third party consultants stipulated in the CBB Rulebook until the end of June 2022 except for the independent review of Stress Testing Framework which must be submitted as per the submission due date stipulated in the CBB Rulebook. With respect to the external validation of ECL models and systems licensees are required to submit the report for the year 2021 by 31<sup>st</sup> December 2021.
- **Extension of Credit Installments Deferral:** The CBB issued in May 2021 a circular to all banks and financing companies regarding existing deferral arrangements based on current economic conditions and the various consultations made with the industry, CBB has decided that the existing deferral arrangements expiring in 30<sup>th</sup> June 2021 will be extended for another period of six months until 31<sup>st</sup> December 2021 for all Stage 1 & 2 resident retail, small and medium sized enterprises and other corporate customers subject to observing conditions 1 to 7 stated in the circular issued in December of last year. CBB will reassess the need for any further deferral arrangement during December 2021 and shall advise the licensees accordingly.
- **Update on COVID-19 Regulatory Measures:** The CBB also issued in December 2021 a circular to all retail banks and financing companies regarding existing deferral arrangements based on the consultation made with the Bahrain Association of Banks. The CBB decided that the existing deferral arrangements expiring on 31<sup>st</sup> December 2021 will be extended for another period of six months until 30<sup>th</sup> June 2022 for all Stage 1 & 2 resident retail, small and medium sized enterprises and other corporate customers subject to observing conditions 1 to 7 stated in the circular issued on 29 December 2020. Moreover, the existing regulatory concessionary measures, i.e. the reduced levels of LCR, NSFR, SMEs risk weight, cash reserve ratio, cooling off period for transferring exposures from Stage 3 to Stage 2, the relaxation concerning the days past due for ECL staging criteria from Stage 1 to Stage 2 of 74 days, the amortization of modification loss and 2020 ECL (management overlay), and the relaxation on LTV ratio for residential mortgages, will also be extended until 30<sup>th</sup> June 2022.

## Supervisory Developments

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

During 2021, the Central Bank of Bahrain and other relevant AML/CFT governmental and institutional stakeholders prepared Bahrain's Third Mutual Evaluation Follow up Report, which includes a re-rating request for certain recommendations. The final draft report will be discussed and adopted in the MENAFATF Plenary Meeting in May 2022. Bahrain's follow up report highlights the major initiatives undertaken by the various authorities in the Kingdom. Such initiatives also reflect the Kingdom's continuous commitment to AML/CFT international standards.

In addition, the Compliance Directorate conducted regulatory onsite examinations on various licensees to assess their compliance with the AML Law, CBB Law, and Financial Crime

Module of all volumes. The onsite examinations contributed to the ongoing efforts of improving compliance with the Kingdom's overall AML/CFT framework through exhaustive reviews of the effectiveness of the controls implemented. The onsite examinations focuses on reviewing the licensees AML/CFT procedures, systems and internal controls and subsequently support CBB's ML/TF prevention efforts.

As part of the outreach plan, the CBB issued a guidance paper for all Financial Institutions in relation to "*Beneficial Ownership*". The paper outlines the methods of identifying the beneficial ownership of legal entities and legal arrangements and obtaining the relevant information, as well as verification, CDD and record keeping measures. The paper also includes examples to help financial institutions in understanding the requirements in relation to beneficial ownership as stipulated in the Financial Crime Module (Module FC) in CBB Rulebook Volumes 1 to 5 or Anti Money Laundering & Combating Financial Crime Module (AML Module) in CBB Rulebook Volume 6.

In addition, the CBB issued another guidance paper, "*Risk Assessment*" during the year on methods of identifying types of money laundering, terrorist financing and proliferation financing risks and the means to assess, evaluate, and mitigate such risks using a risk-based approach. It discusses the application of a risk assessment and the necessity of reviewing and evaluating an FI's risk assessment effectiveness.

The Compliance Directorate continued enhancing the AML/CFT supervisory tools by generating monthly sanctions exposure reports for the purpose of ongoing monitoring of the financial sector's overall exposure to major international sanction programs.

The Compliance Directorate conducted regulatory onsite examinations on various licensees to assess their compliance with the AML Law, CBB Law, and Financial Crime Module of all volumes. The onsite examinations contributed to the ongoing efforts of improving compliance with the Kingdom's overall AML/CFT framework through exhaustive reviews of the effectiveness of the controls implemented. The onsite examinations focuses on reviewing the licensees' AML/CFT procedures, systems and internal controls and subsequently support the CBB's ML/TF prevention efforts.

During 2021, CBB participated, to the extent relevant to the financial sector, in the various peer reviews conducted by the Organisation for Economic Co-operation and Development ("OECD") in relation to the assessment of the effective implementation of the relevant Exchange of Information ("EOI") standards, for tax purposes. In cooperation with the relevant governmental authorities, CBB dedicated resources and efforts to complete the aforementioned assessments and participated in the various OECD's peer review meetings.

In October, Kingdom of Bahrain was subject to OECD's peer review in relation to the effective implementation of the Automatic Exchange of Information ("AEOI"). The aforementioned peer review concluded that CBB has implemented an overarching strategy in order to ensure the compliance of the relevant Financial Institutions with the AEOI Standards.

In November, Kingdom of Bahrain was subject to OECD's peer review in relation to the effective implementation of the Economic Substance ("ES") requirements. The aforementioned peer review concluded that CBB has in place the required mechanism.



Moreover, during 2021, CBB electronically obtained the CRS and FATCA annual reports from the relevant licensees and exchanged them with the relevant reportable jurisdictions in a timely manner. Additionally, CBB obtained ES annual reports from the relevant licensees and conducted the relevant risk assessment in relation to their substance adequacy.

## Banking Supervision Directorates

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

CBB continued its proactive monitoring and risk-based supervision of licensees, with the objective of protecting consumers' interests as well as promoting financial stability and soundness of the banking industry in the Kingdom of Bahrain. Accordingly, the following measures were taken by CBB during 2021:

- 1. COVID-19 Policy Measures:** CBB twice extended its Covid-19 concessionary measures, for a period of six months each during the year. Such concessions included loan deferrals, lower LCR, NSFR and Cash Reserve Ratio requirements, easing of ECL staging criteria, reduction in eligible capital risk weights for SMEs, and liquidity support to financial institutions, among others.  
During the third quarter of 2021, CBB also conducted meetings with 13 conventional banks to assess the impact of the pandemic and ensuing concessionary measures on Banks' overall financial condition, cost of risk, and overall views of any potential financial sector vulnerabilities.
- 2. Implementation of New Initiatives:** In its endeavour towards supporting Bahrain Government's commitment to achieve global climate goals, CBB issued guidance to raise the awareness on climate-related risks among its licensees and conducted a survey to gauge the current state of affairs in banks with regards to Environmental, Social and Governance (ESG). Additionally, CBB continued to monitor licensees' preparedness to transition from LIBOR to alternative reference rates (ARR), implementation of new regulatory requirements pertaining to cyber security risk management, dormant accounts and unclaimed balances, merchant category codes assigned to business/merchant accounts and monitoring data cleansing exercise for WPS implementation.
- 3. Domestic-Systematically Important Banks (D-SIBs):** With the objective of enhancing the effectiveness and practicability of DSIB's recovery and resolution plans, CBB issued rules requiring DSIBs to conduct annual simulation exercise of RRP to assess their feasibility and credibility. Besides, the conventional banking supervision directorates continued to closely monitor and assess the performance of D-SIBs using risk based supervisory methodology.
- 4. Prudential Meetings:** The Conventional Banking Supervision Directorates resumed conducting prudential meetings during the year with 8 prudential meetings being conducted to review the licensees' performances and strategic future directions as well as other supervisory issues of relevance for CBB.

5. **Open Banking Framework:** The supervision directorates in cooperation with the Fintech Unit at CBB continued monitoring of licensee's adoption and application of the new Bahrain Open Banking Framework to ensure that processes, systems and interfaces are aligned to the new framework and international benchmarks.
6. **Monitoring the Level of Real Estate Exposures:** CBB closely monitored the real estate exposures of banks on a quarterly basis with the objective of controlling risk concentration to the volatile sector.
7. **Related Party Exposures:** CBB continued its monitoring of the related party exposures of locally incorporated banks with the aim of limiting concentration risk to related parties and ensuring licensees' full regulatory compliance with relevant requirements.
8. **Monitoring of Impaired Loans Portfolio:** The impaired loans portfolio of licensees continued to be assiduously monitored and assessed by CBB, with the objective of proactively identifying any incipient deterioration in asset quality.
9. **Meeting on Financial Statements:** CBB conducted annual meetings with banks and financing companies along with their external auditors to discuss annual financial statements before being approved by the respective Boards. The deliberations encompassed among other issues recognition of income, movements in impaired assets, adequacy of provisions, valuation practices, and proposed dividends etc.
10. **Supervisory College Meetings:** CBB during the year attended virtual supervisory college meetings organized by home regulators in UK and India, with the objective of enhancing cross-border supervision and cooperation of foreign bank licensees.
11. **Appointed Experts Assignments:** As part of its efforts towards enhancing the effectiveness of its supervisory practices, CBB Conventional Banking Supervision Directorates appointed qualified "Appointed Experts" to undertake Agreed Upon Procedures covering review of functions in the licensees. Accordingly, the Conventional Banking Supervision Directorates conducted 5 assignments through "Appointed Experts" during 2021.
12. **Monitoring of Banks BOD and Organization Structures:** The annual corporate governance reports as well as organization structures including succession plans submitted by conventional banking licenses were continued to be reviewed by CBB with the objective of assessing the performance of Directors in the Board as well as the adequacy of resources among functions.

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

13. **Compliance with the "Code of Best Practice on Consumer Credit and Charging":** With the objective of ensuring that licensees maintain transparent, fair and reasonable dealings with their customers, CBB continued its monitoring of the effectiveness of licensees' compliance with the provisions of the Code.

- 14. Combatting Electronic Fraud:** CBB continued to monitor the measures taken by licensees to minimize and control electronic fraud and increase customer awareness about frauds through social engineering and other channels.

***Objective 3: Promoting Transparency and Market Discipline:***

With the objective of ensuring utmost protection of consumers and stakeholders in the financial sector, CBB continued its efforts in monitoring and oversight of the public disclosures made by its licensees under Basel 3 Pillar 3 guidelines, and their compliance with CBB's requirements in this regard as to promote transparency and market discipline.

- 15. Public Disclosure by Banks:** The supervision directorates, with the objective of assessing the extent of transparency and adequacy of disclosures made to various stakeholders, continued to review and evaluate licensees' public disclosures' reports and monitored ad-hoc disclosures made by licensees to their customers and stakeholders via various channels.

- 16. Enforcement Actions:** CBB continued to enforce high standards of compliance by its licensees by using effective supervision and enforcement as a tool. Accordingly, and as stipulated in Article 38 of CBB Law, the Conventional Banking Supervision Directorates at CBB have taken 10 enforcement actions against their licensees including imposition of financial penalties during the year 2021.

### **Islamic Financial Institutions Supervision**

During 2021, the Islamic Financial Institutions Supervision Directorate ("IFISD") continued focusing on improving the knowledge and skills of its staff despite the current pandemic by enrolling them in BIBF virtual training courses (technical and soft skills) and participating in virtual conferences, seminars and IFISB online executive program. One staff has enrolled in the Banking Supervisors' Training Program offered by MAS Academy.

In addition, one senior staff enrolled in Preparing Young Leaders' Program "Takween" offered by the Institute of Public Administration (BIPA). The program aims to develop a leading person who is capable to manage himself/herself effectively and draw his/her own personal objectives according to the strategic goals of the organization.

Furthermore, IFISD participated in reviewing Shari'ah Standard No. 30 (Tawarruq) in collaboration with Bahrain Association of Banks (BAB). In addition, the Director of IFISD participated in AAOIFI 19<sup>th</sup> Annual Shari'ah Boards Conference as a speaker.

Finally, IFISD continued sharing the experience of the Kingdom of Bahrain in the Islamic Banking sector with other countries. This year IFISD received a delegation from Astana International Financial Centre (AIFC).

### **Inspection Directorate**

The Inspection Directorate completed 41 inspection visits during 2021 spread over various types of licensees, including banks, insurance firms, investment firms, specialized licensees,

capital market licensees including crypto-asset services and Collective Investment Undertakings (CIUs). The visits were performed using a risk based supervisory framework designed to fulfill the on-site supervisory objectives and to assess the robustness of the control framework at the inspected licensees. The Directorate employed a risk focused examination approach using the CMORTALE methodology, which included the following assessment elements - capital adequacy, management quality, operational risk, risk management, transparency and disclosure, asset quality, liquidity and earnings. The methodology assesses the risk profile of CBB's licensees with the ultimate objective of promoting the safety and soundness of financial institutions. The outcomes of the inspection procedures include urging licensees to ensure effective management of and identifying regulatory actions required to maintain the financial stability by reducing the risk of insolvency, and instances of losses to depositors or investors; thus, ensuring consumer protection and mitigating any potential loss of market confidence.

Among the on-site visits, 46% were thematic visits to investigate and assess matters line consumer protection aspects, corporate governance, mortgage financings, country risk, correspondent banking, business and market conduct, and customer complaints.

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

As licensees moved towards increased digitalization, the Inspection Directorate continued to strengthen its cybersecurity assessment framework and conducted detailed vulnerability assessment reviews of licensees alongside regular inspection visits. The Directorate strengthened their cybersecurity framework through additional review of E-Banking, mobile and biometric security assessments, and security assessment of cloud-based services. A cybersecurity maturity assessment was shared with the licensees as part of CBB examination outcome.

To fulfil the core supervisory objective of consumer protection, the Inspection Directorate continued to conduct examination of consumer protection practices of licensees using a detailed assessment framework encompassing review of strategy, governance and culture, adequacy of product design, fair and equitable treatment to consumers, disclosure adequacy and data privacy. The Directorate extended its effort to assess the compliance of licensees with the Personal Data Protection Law (Law No.30 of 2018) and highlight deficiencies for licensee action.

With a view to adapt to changing regulatory framework, the Directorate expanded the Inspection framework to include gap assessment of environmental, social and governance (ESG) practices of licensees. Moreover, the journey towards LIBOR Transition was monitored during the Inspection visits. The Directorate also initiated the examination process of crypto- asset service providers during 2021.

Firmly believing in professional development and in response to the greater regulatory emphasis on sound risk management practices within the financial sector and challenges thrown by disruption of traditional financial models with the advent of FinTech, the

Inspection Directorate continued its CPD efforts by identifying, and implementing training and development programs designed to provide inspection staff with the skills and experience necessary to effectively assess risk management practices and emerging trends in the financial sector.

## Capital Markets Supervision

The CBB endeavoured during 2021, to complete the implementation of its plan for the development and updating of the legislative, regulatory and supervisory framework for the capital market sector, in line with international standards and best practices in consultation with the stakeholders and interested parties in this sector and all other financial sector components in Bahrain. In the form in which the CBB and these institutions and bodies, are able to create a suitable environment for the development of the business and activities of the capital market, through the licensing of more market institutions and the encouragement of the diversification of listing and trading of new and innovative securities and financial instruments, along to enhancing the standards, the regulations and the mechanisms of supervision of all the businesses and activities of capital market institutions and licensed financial markets.

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

### *Developments in Regulatory and Supervisory Framework*

#### Amendments to the CBB Rulebook - Volume 6, Capital Markets

- The CBB issued a circular (Ref. EDFIS/C/030/2021) dated 2<sup>nd</sup> June 2021 to all listed companies, self-regulatory organizations ("SRO"), SRO members, crypto-asset service providers and other parties within the capital markets pertaining to amendments made to the Prohibition of Market Abuse & Manipulation ("MAM") Module of Volume 6 of the CBB Rulebook, wherein some of the provisions were adjusted from guidance to rules to reflect that they are indeed mandatory requirements on permanent insiders of listed companies.
- The CBB issued a circular (Ref. EDFIS/045/2021) dated 27th September 2021 to all listed companies, self-regulatory organizations ("SRO"), SRO members, crypto-asset service providers and other parties within the capital markets pertaining to amendments made to the Market Surveillance, Investigation & Enforcement ("MIE") Module of Volume 6 of the CBB Rulebook. The amendments included a new chapter for Financial Penalties, and also reflected the most recent CBB Law amendments, among other updates made to better align with international best practices in various areas of investigation and enforcement.
- The CBB is internally discussing proposed additional amendments to the Dispute Resolution, Arbitration and Disciplinary Proceedings ("DRA") Module of Volume 6 of the CBB Rulebook which will mainly focus on 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.

- The CMSD, in coordination with the concerned departments in the CBB, is working on the completion of an initial draft of 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 Digital Token Offering ("DTO") Module.
- The Training and Competency ("TC") Module has been issued within Volume 6 of the CBB Rulebook relating to Capital Markets, according to a circular issued by the CBB (OG/258/2021) on August 24, 2021.
- The Anti-Money Laundering and Combating Financial Crime ("AML") of Volume 6 of the CBB Rulebook relating to Capital Markets has been amended on 28 October 2021 to include updates regarding Risk-based Approach and the National e-KYC solutions.
- The CMSD is in discussions on the final amendments after receiving industry feedback based on a consultation paper circulated on 17<sup>th</sup> November 2021 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.

#### Proposed Amendments to the CBB's Regulations

- The 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 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). The proposal is currently being reviewed by the relevant authority in preparation for its publication in the Official Gazette.

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

#### Bahrain Bourse B.S.C. ("BHB")

- In view of the Bahrain Bourse B.S.C.'s Board of Directors' Resolution (1/2021) dated 17th March 2021 pertaining to the formation of the BHB's Disciplinary Appeals



Board, the CMSD issued its no-objection in this regard dated 7th July 2021, wherein the formation of the said committee is aligned with efforts expended to enable the BHB to secure a comprehensive framework to settle disputes, govern, and take disciplinary action against market participants (including issuers and registered members) and grant them the right to appeal enforcement actions imposed on them pursuant to decisions passed by the BHB's Disciplinary Board and the Violations Committee.

- The CBB has issued a no-objection letter to BHB dated 23 February 2021 regarding the issuance of its amended Listing Rules.
- As of 11 July 2021, BHB has implemented the Global Industry Classification Standard (GICS) for the classification of listed companies, which aims to reclassify listed companies according to an international standard for classification in the capital market, which enhances transparency and provides greater accurate information about companies' performance and the market in particular in line with the best international standards.
- A strategic partnership agreement has been signed between the Abu Dhabi Securities Exchange and the BHB in November of 2021. The partnership aims to achieve synergies and greater cross border cooperation to enhance market liquidity, including external market access, Central Securities Depositories (CSDs) and settlements, and the listing and settlement of Exchange Traded Funds (ETFs).

#### Bahrain Clear B.S.C. (c) ("BHC")

- The CMSD has issued a letter to BHC on 17 February 2021 acknowledging the fee adjustments related to BHC's dividend distribution services.
- Following the issuance of Resolution 48-2/2020 by the Government's Ministerial Committee for Financial and Economic Affairs and Fiscal Balance, BHB have issued Resolution 3/2020 on 29 April 2020 pertaining to the establishment of the Unclaimed Cash Dividends Fund and the Annual Cash Dividends Fund. The CBB is supervising the BHC's progress to ensure that all proper procedures are in place.
- During the year 2021, the CMSD has been in communication with BHC to ensure that it meets the CBB's requirements associated with the initial approval for BHC to act as a paying agent and distribute cash dividends to investors on behalf of the listed companies.
- BHC has cancelled the MyShare Card, which was aimed at facilitating the distribution and automatic transfer of cash dividends to shareholders' card accounts. BHC has started the procedures for transferring the investors' dues to their bank accounts and updating the CBB on a monthly basis.
- The CBB has been cooperating with BHC regarding its digital on-boarding proposal.
- The CBB has been cooperating with BHC regarding its proposed Delivery Versus Payment (DVP) framework, after publication for consultation to the market.
- Under the supervision of the CBB and the Saudi Capital Markets Authority, and in accordance with the initiative to harmonize the capital markets systems and procedures between the Kingdom of Bahrain and the Kingdom of Saudi Arabia, including the clearing, settlement and central depository systems, BHC is

coordinating with its counterparts in the KSA to work on developing a mechanism for implementing the initiative and studying possible aspects of cooperation between the two Kingdoms.

#### BHB and BHC Members

- During 2021, Global Investment House B.S.C (c) has been in the process of completing the CBB's requirements concerning the termination of brokerage business and closure of the brokerage office.

#### *Supervision of Crypto-asset Licensees*

- After obtaining its CBB crypto-asset license in November of 2020, CoinMENA B.S.C (c) started its operations, as a Category-2 crypto asset service provider, in March of 2021.
- Binance Bahrain W.L.L. has been provided with in-principal approval to obtain a CBB crypto-asset license (Category-3). The company is currently in the process of completing the licensing procedures and requirements before obtaining final approval.

#### *Offering and Listing of Securities*

##### Offering of Securities

- During the year 2021, the CMSD issued its no objection on the use of a total of sixty (60) offering documents (compared to 46 offering documents in 2020) after ensuring compliance with the relevant requirements under the CBB Law and the Offering of Securities (OFS) Module of CBB Rulebook Volume 6, as follows:

Type of Security	Type of Offering	Issues Value (in US\$)	No. of issues	Type of approval
Ordinary Shares	Private Placement	2,706,197,053	28	Registration – Article (81)
	Private Placement	-	1	Filing - Exempt from Article (81)
Preference Shares	Private Placement	252,250,000	1	Registration – Article (81)
Convertible Additional Tier 1 Capital Securities	Private Placement	25,000,000	1	Registration – Article (81)
		390,000,000	1	Filing - Exempt from Article (81)
Conventional Bond	Government	3,000,000	2	Filing - Exempt from Article (81)
	Private Placement	3,250,000,000	2	Filing - Exempt from Article (81)
Islamic Sukuk	Government	1,000,000	2	Filing - Exempt from Article (81)
	Private Placement	5,000,000,000	2	Filing - Exempt from Article (81)
Structured Products	Marketing	-	20	Filing - Exempt from Article (81)
<b>Total</b>		<b>\$15,623,447,053</b>	<b>60</b>	



- Offers of securities in comparison to last year (variance analysis):

Type of Offering	2021 (in US\$ millions)	2020 (in US\$ millions)	Variance (in US\$ millions)	Var %	No. of issues 2021	No. of issues 2020	Var
Rights Issue – Ordinary shares	-	70	(70)	(100%)	-	1	(1)
Private Placement – Ordinary Shares	2,706	1,574	1,132	72%	29	21	8
Private Placement – Preference Shares	252	-	252	100%	1	1	-
Private Placement – Convertible Preference Shares	-	6	(6)	(100%)	-	1	(1)
Convertible Additional Tier 1 Capital Securities	415	-	415	100%	2	-	2
Private Placement - Conventional Bond	3,250	2,500	750	30%	2	1	1
Governmental – Conventional Bond	3,000	2,000	1,000	50%	2	2	-
Governmental - Islamic Sukuk	1,000	2,000	(1,000)	(50%)	2	2	-
Private Placement - Islamic Sukuk	-	400	(400)	(100%)	-	1	(1)
Private Placement – Marketing Islamic Sukuk	5,000	659	4,341	658%	2	3	(1)
Marketing - Structured Products	-	60	(60)	(100%)	20	17	3
<b>Total</b>	<b>15,623</b>	<b>9,269</b>	<b>6,354</b>	<b>68.5%</b>	<b>60</b>	<b>50</b>	<b>10</b>

### Change in Capital

- The CMSD issued its no objection on the change in capital of the following listed companies:

Listed company	Increase/Reduction	Reason	Date of CMSD NOL
Al Salam Bank –B.S.C.	Increase in capital	Issue of Bonus shares.	18 March 2021
Bank of Bahrain and Kuwait B.S.C.	Increase in capital	Issue of Bonus shares.	25 March 2021
National Bank of Bahrain B.S.C.	Increase in capital	Issue of Bonus shares.	25 March 2021
Bahrain Kuwait Insurance Company B.S.C.	Increase in capital	Issue of Bonus shares.	30 March 2021
Ahli United Bank B.S.C.	Increase in capital	Issue of Bonus shares.	31 March 2021
GFH Financial Group B.S.C.	Increase in capital	Issue of Bonus shares.	7 April 2021

### Listing of Securities

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

Security/Financial Instrument	No. of Issues	Value (in BHD millions)
Government 3M Treasury Bills	40	2,800
Government 6M Treasury Bills	12	420
Government 12M Treasury Bills	12	1,200
Government 6M Short Term Islamic Lease (Ijarah) Sukuk	12	312
Government Development Bond (Issues 22, 23, 24, 25, 26 and 27)	6	1,000

Delisting

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

Security/Financial Instrument	No. of Issues	Reason
3 Months Treasury Bills issues	41	Due to maturity
6 Months Treasury Bills issues	12	Due to maturity
6 Months Ijarah Sukuk issue	12	Due to maturity
12 Months Treasury Bills issues	12	Due to maturity
Government Development Bond (Issues No. 11 and 17)	2	Due to maturity

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

Security/Financial Instrument	Reason	Date of CMSD NOL
<b>SICO Funds Company B.S.C. (c) Investment Funds:</b>	Liquidation of Funds	7 March 2021
-Khaleeji Equity Fund (KLJ.EQ.FUND)		
- SICO Kingdom Equity Fund (SICO.KEF)		
- SICO Gulf Equity Fund (SICO.GEF)		
- SICO Fixed Income Fund (SICO.FIF)		
<b>Investcorp Holdings B.S.C.</b>	Voluntary Delisting	The CMSD issued its no objection to delist on 11 July 2021. The company's shares were delisted effective 12 July 2021.
<b>United Paper Industries B.S.C.</b>	Voluntary Delisting	The CMSD issued its no objection to delist on 22 August 2021. The company's shares were delisted effective 3 October 2021.
<b>Makaseb Funds Company II B.S.C. (c) Investment Funds:</b>	Liquidation of Funds	8 November 2021
-Makaseb Arab Tiger Fund (MAKASEB.AT)		
-Makaseb Income Fund (MAKASEB.IF)		

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

- Most of the publicly listed companies have complied with the requirement of notifying the Bahrain Bourse regarding the dates of their Board of Directors meetings, 5 days before the end of the relevant quarter. This is in accordance with Resolution No. 54 of 2015 pertaining to disclosure and publication of annual and quarterly financial statements, and the notification of the Board of Directors' meetings for the discussion of the company's financial statements. The above was not complied with during the third quarter of 2021 by Bahrain Middle East Bank B.S.C. ("BMB"), APM Terminals Bahrain B.S.C., Delmon Poultry Company B.S.C and Solidarity Bahrain B.S.C. which did not disclose their Board of Directors meeting dates and consequently non-compliance letters were issued to them, to which they responded by announcing their dates. Moreover, during the fourth quarter of 2021, all publicly listed companies have complied with the resolution.

- All publicly listed companies, except BMB, have complied with the requirement of publishing the annual and interim financial statements for the year ended 31 December 2020, within the appropriate timeframe. In addition, all listed companies have complied with publishing the aforementioned statements and disclosing them in at least two local newspapers (one Arabic and one English), with the exception of BMB, which did not commit to publishing the interim financial statements for all periods of 2021.
- All publicly listed companies, except BMB, have published the specimen of the annual and interim financial results for the year 2020 and interim financial results for the year 2021 respectively on Bahrain Bourse's website.
- All publicly listed companies, except BMB, have disclosed and published their full set of the annual and interim financial results for the year 2020 and interim financial results for the year 2021 respectively on the Bahrain Bourse's website.
- Although BMB is suspended from trading due to its incompliance with the above, BMB has published on February 25, 2020, the financial results for the first, second and third quarters of 2019 and the annual financial statements for the same year. Yet, BMB remains suspended due to its non-compliance of the above during all periods of 2020 and 2021.

### Disclosure Standards

#### 1. Disclosure of Material Information:

The CMSD ensures that all publicly listed companies are committed to disclose material information that may affect stakeholders that deal in securities as per the rules and requirements of the CBB's Disclosure Standards (particularly with regards to the content, timing and disclosure of information on the Bahrain Bourse website). Throughout 2021, the number of the announcements made by the listed companies pertaining to the disclosure of material information were approximately 1944 announcements.

#### 2. General Meetings:

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

Company	General Meeting	Purpose
Arab Banking Corporation B.S.C., Bahrain Commercial Facilities Company B.S.C. ("BCFC"), Bahrain National Holding Company B.S.C., Bahrain Duty Free Shop Complex B.S.C.	Extra-Ordinary	<ul style="list-style-type: none"> <li>▪ Approval to amend the M&amp;AoA, pursuant to latest the amendments of the Commercial Companies Law.</li> </ul>
Bahrain Telecommunications Company B.S.C., Seef Properties B.S.C. ("SEEF")	Extra-Ordinary	<ul style="list-style-type: none"> <li>▪ Approval to amend the M&amp;AoA, pursuant to latest the amendments of the Commercial Companies Law.</li> <li>▪ Discussing and approving the proposal to add new activities to the company's Commercial Registration.</li> </ul>
National Bank of Bahrain B.S.C.	Extra-Ordinary	<ul style="list-style-type: none"> <li>▪ Approval to amend the M&amp;AoA, pursuant to</li> </ul>

("NBB"), Al Salam Bank B.S.C.		latest the amendments of the Commercial Companies Law.
Nass Corporation B.S.C., Trafco Group B.S.C., APM Terminals Bahrain B.S.C.	Extra-Ordinary	<ul style="list-style-type: none"> <li>Approval to increase issued capital due to the distribution of bonus shares.</li> <li>Discussing and approving the proposal to add new activities to the company's Commercial Registration.</li> </ul>
	Extra-Ordinary	<ul style="list-style-type: none"> <li>Approval to amend the M&amp;AoA, to add a new business activity.</li> </ul>
Bahrain Car Parks Company (Amakin) B.S.C.	Extra-Ordinary	<ul style="list-style-type: none"> <li>Approval to amend the M&amp;AoA, to add new business activities.</li> <li>Discussing and approving the proposal to amend the company commercial name.</li> </ul>
		<ul style="list-style-type: none"> <li>Approval of the issuance of Additional Tier 1 Capital by way of convertible sukuk amounting to BD 40 million.</li> </ul>
Bank of Bahrain and Kuwait B.S.C., Bahrain Kuwait Insurance Company B.S.C.	Extra-Ordinary	<ul style="list-style-type: none"> <li>Approval to increase issued capital due to the distribution of bonus shares.</li> </ul>
		<ul style="list-style-type: none"> <li>Approval to reduce capital by cancelling treasury shares worth 37 million dollars.</li> <li>Approval to increase issued capital due to the distribution of bonus shares.</li> </ul>
GFH Financial Group B.S.C.	Extra-Ordinary	<ul style="list-style-type: none"> <li>Approval to issue bonds.</li> <li>Approval to increase issued capital due to the distribution of bonus shares.</li> </ul>
		<ul style="list-style-type: none"> <li>Approval to amend the M&amp;AoA, pursuant to latest the amendments of the Commercial Companies Law.</li> <li>Discussing and approving the proposal to cancel certain treasury shares to rectify the discrepancy appearing on the company's share register.</li> </ul>
Arab Insurance Group B.S.C. ("ARIG")	Extra-Ordinary	<ul style="list-style-type: none"> <li>Approval to increase issued capital due to the distribution of bonus shares.</li> </ul>
		<ul style="list-style-type: none"> <li>Discussing and approving the proposal to write off the accumulated losses against the share premium account of the company.</li> </ul>
United Gulf Holding Company B.S.C.	Extra-Ordinary	<ul style="list-style-type: none"> <li>Approval to increase issued capital due to the distribution of bonus shares.</li> </ul>
		<ul style="list-style-type: none"> <li>Approval to increase issued capital due to the distribution of bonus shares.</li> </ul>

### Treasury Shares and Share Transfer

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

Company			Purpose
BBK			Support Share Price & Employee Share Option Program
Esterad Investment B.S.C	Company		Supports share price and liquidity in the market.
Bahrain Cinema B.S.C.	Company		Supports share price and liquidity in the market.
Trafco Group B.S.C			Support share price and liquidity in the market.
GFH Financial Group B.S.C.			Capital Reorganization

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Bahrain & Kuwait Insurance Company	Support share price and liquidity in the market.
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Al Salam Bank - Bahrain B.S.C.	Support share price in the market.
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Khaleeji Commercial Bank B.S.C	Support Share Price and Liquidity in the Market
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## 2. Qualification Shares

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

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

## 3. Employee Share Option Plan ("ESOP")

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

Pursuant to the above, the CMSD issued its no objection on the amendments to the ESOP and documents of Khaleeji Commercial Bank B.S.C. and SICO B.S.C. to comply with the OFS Module.

In this regard, the CMSD has approved 25 share transfer requests from and to the trustees' accounts for the benefit of the employees of the listed companies in 2021.

## Listed Companies' Memorandum & Articles of Association

During the year 2021, the CMSD has approved applications from ARIG, BCFC, NBB and SEEF requesting CBB's approval to amend certain provisions of the Memorandum & Articles of Association ("M&AOA").

## Market Making

1. The CMSD issued its no objection letter on 9<sup>th</sup> May 2021 to Alba to extend SICO's market making activity for Alba's shares in Bahrain Bourse using approximately 3% of Alba's issued share capital for a renewable period of 12 months.
2. The CMSD issued its no objection letter on 27<sup>th</sup> May 2021 to Bank ABC to extend SICO's market making activity for ABC's shares in Bahrain Bourse using approximately 3% of Bank ABC's issued share capital for a renewable period of 12 months.

3. The CMSD issued its no objection letter on 9<sup>th</sup> June 2021 to Batelco to extend SICO's market making activity for Batelco's shares in Bahrain Bourse using approximately 3% of Batelco's issued share capital for a renewable period of 12 months.
4. The CMSD issued its no objection letter on 29<sup>th</sup> August 2021 to Al Baraka to extend SICO's market making activity for Al Baraka's shares in Bahrain Bourse using approximately 3% of Al Baraka's issued share capital for a renewable period of 12 months.

### **Market Surveillance**

During 2021, the Market Surveillance Department has identified a total of 13 suspected cases, of which the preliminary examination results were as follows:

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

The CMSD continues (in cooperation with the Information Technology & Human Resources Directorates), to activate the project of CBB's Insider Forms and the disclosure of ownership of securities of companies licensed by the Central Bank of Bahrain to the production environment (Live), which is being electronically filled by the CBB's staff.

The CMSD continues to monitor orders and trades conducted by Market Makers in a periodic basis, ensuring compliance with Central Bank of Bahrain's Volume 6 Rulebook and Bahrain Bourse's Market Making Guidelines, along with monitoring the trading activities of Key Persons and Major Shareholders of Bahrain Bourse's listed companies.

During the year, the Market Surveillance has also collaborated with the Bahrain Bourse by providing comments on suggested and current regulations of their Market Rules and Listing Rules. In addition, the Market Surveillance has begun the process of enhancing Central Bank of Bahrain's Volume 6 Prohibition of Market Abuse and Manipulation Module in order to ensure that rules and regulations are more relevant to today's market.

A study on a monthly basis is conducted by Market Surveillance that revolves around significant developments witnessed in Bahrain's Capital market for the month.

The Market Surveillance now also monitors, and issues reports on the activities that occur on the newly licensed crypto-asset platform providers in Bahrain (Rain Bahrain & CoinMena).

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

<b>Company</b>	<b>Purpose</b>
<b>BBK B.S.C.</b>	Support Share Price & Employee Share Option Program
<b>Bahrain Cinema Company B.S.C.</b>	Support Share Price and Liquidity in the Market
<b>TRAFICO Group B.S.C.</b>	Support Share Price and Liquidity in the Market
<b>GFH Financial Group B.S.C.</b>	Capital Reorganization

<b>Bahrain &amp; Kuwait Insurance Company</b>	Support Share Price and Liquidity in the Market
<b>Al Salam Bank – Bahrain B.S.C.</b>	Support Share Price
<b>Khaleeji Commercial Bank B.S.C.</b>	Support Share Price and Liquidity in the Market
<b>ESTERAD Investment Company B.S.C.</b>	Support Share Price and Liquidity in the Market

### *Compliance and Enforcement*

#### Non-Adherence of Individuals to Offering of Securities' Requirements

The CMSD issued a Warning dated 10th March 2021 to an individual who has used a Private Placement Memorandum without securing the CBB's prior approval, wherein he has undertaken promotional and marketing activities to secure subscriptions by issuing securities to selected investors. This contravention is a breach of Article (81) of the CBB Law and the governing stipulations outlined in the Offering of Securities ("OFS") Module of Volume 6 of the CBB Rulebook.

#### Breach of Insider Trading Rules & Regulations

Following the CMSD's examination of a submitted Suspicious Transaction Report and the preparation of a Preliminary Investigation Report, the CBB is currently examining the proposed enforcement route to be taken against the relevant investor for breach of insider trading rules and regulations as defined by Article (100) of the CBB Law. The CBB aims through its enforcement, to convey its concerns and the seriousness of insider trading and the necessity of acting on the side of caution when timing transactions to diligently avoid any potential or actual breach of the CBB's rules and regulations.

#### Non-Compliance by Members of the Bahrain Bourse

A member of the Bahrain Bourse was issued a Non-Compliance Letter, dated 28<sup>th</sup> December 2021 for its non-submission of its "Additional Financial Information" on the Electronic Submission of Returns and Analysis of Data ("ESRAD"), for the period ended 30th September 2021.

#### Non-Compliance by Crypto-Asset Licensees

1. His Excellency the Governor issued a Formal Warning dated 3<sup>rd</sup> May 2021 to one of its crypto-asset licensees for its non-adherence to a number of requirements set out under the Anti-Money Laundering and Combating of Financial Crime ("AML") Module of Volume 6 of the CBB Rulebook.
2. The CMSD issued a Non-Compliance Letter, dated 16<sup>th</sup> August 2021 to one of its crypto-asset licensees mainly for its failure to comply with requirements outlined in the Crypto-Asset ("CRA") Module of Volume 6 of the CBB Rulebook which pertain to intragroup outsourcing, segregation of clients' assets and arrangement with collection agents.



3. His Excellency the Governor issued a Formal Warning dated 29<sup>th</sup> September 2021 to one of its crypto-asset licensees for its non-adherence to requirements set out in the Crypto-Asset (“CRA”) Module of Volume 6 of the CBB Rulebook relating to the issuance of accurate advertising and marketing materials and the necessity of obtaining the CBB’s approval on potential business expansions.
4. The CMSD issued a Formal Warning, dated 21<sup>st</sup> October 2021 to one of its crypto-asset licensees mainly for its failure to comply with Article (65) of the CBB Law and CRA-1.7.1 of the Crypto-Asset (“CRA”) Module of Volume 6 of the CBB Rulebook which pertain to the requirement that CBB’s prior written approval is secured for any person wishing to undertake a controlled function in a licensee.

#### Non-Compliance by Listed Companies

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

In accordance with the requirement to disclose ownership interests by shareholders owning 5% or more in shares of listed companies within 5 business days from the end of the month, a number of listed companies have been notified for failing to deliver the report during the required timeframe as outlined below:

Number of Non-Compliance Cases Related to the Submission of Monthly Statement of the Register of Interest for Year :		Percentage Change
2020	2021	
4	4	-

##### 2. Notification of Non-Compliance to Submission of Annual Verification of the Insiders’ and the Key Persons’ Data Register

The CMSD issued Non-Compliance Letters to 4 listed companies in response to their non-adherence to the requirement stipulated in the Prohibition of Market Abuse and Manipulation (“MAM”) Module of Volume 6 of the CBB Rulebook pertaining to the annual verification of the insiders’ and the key persons’ data register, which is to be reviewed by the company’s Internal Auditor, to be submitted no later than 10 days after the company’s Annual General Meeting date.

##### 3. Notification of Non-Compliance to Disclosure Standards and Related Resolutions

The CMSD issued Non-Compliance Letters to 21 listed companies for not meeting the requirements of the Disclosure Standards and the related resolutions in the following manner:

Disclosure Standards/Related Resolutions	Number of Contraventions
Publication of financial statements, content of financial statements/ press releases	3
Disclosure of material information immediately	1
Disclosure of Board of Directors meeting date or any change to the date	17



4 of the above-noted cases have also been referred to the EDRC with a recommendation to impose financial penalties, particularly in relation to delays in disclosure of material information to the market and disclosure of Board of Directors meeting date, which are currently under review.

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

The CMSD issued a Non-Compliance Letter, dated 17th January 2021 to a listed company for its non-adherence to OFS-5.1.11 of the Offering of Securities Module ("OFS") of Volume 6 of the CBB Rulebook by failing to submit to the CBB, as soon as practicable, a supplementary or replacement Private Placement Memorandum.

#### 5. Notification of Suspicious Treasury Share Repurchase Pattern

A listed company was issued a Notice, dated 18<sup>th</sup> February 2021, to highlight its treasury share repurchase pattern of increasing the bid of the security which may be classified as a contravention as mirrored under MAM-3.10.33 of the Prohibition of Market Abuse & Manipulation ("MAM") Module of Volume 6 of the CBB Rulebook pertaining to the manipulative practice of Advancing the Bid. As such, the CMSD issued the said Notice to flag that such conduct can interfere with the free and fair operation of the market and potentially distort the price of securities.

### *Complaints*

The CMSD received 36 complaint during the year of 2021, as follow:

<b>Complaint</b>	<b>Number of Complaints</b>
Unauthorized Crypto-Currency Trading Activity	1
Uncooperativeness of SRO Client	1
Delays in Fund Transfers To/From Crypto-Asset Licensee	11
Crypto-Asset Licensee System Outage	21
Potential Crypto-Asset Licensee Client Account Compromise	2
<b>Total</b>	<b>36</b>

### *Takeovers, Mergers and Acquisitions*

#### 1. Ahli United Bank B.S.C. and Kuwait Finance House K.S.C.P.

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

AUB announced the extension of the period for the postponement of the acquisition procedures on 29<sup>th</sup> 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 31<sup>st</sup> December 2020.

Pursuant to the above, AUB announced on 1<sup>st</sup> 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.

## 2. Khaleeji Commercial Bank B.S.C and GFH Financial Group B.S.C.

The CMSD is supervised and monitored the developments in the acquisition offer from GFH Financial Group B.S.C. ("GFH") to Khaleeji Commercial Bank B.S.C. ("KHCB").

GFH announced on 14<sup>th</sup> 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 25<sup>th</sup> 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 5<sup>th</sup> January 2022, and accordingly, the offer was settled on 11<sup>th</sup> 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 12<sup>th</sup> January 2022.

## 3. Solidarity Bahrain B.S.C and T'azur Company B.S.C.(c)

The CMSD is currently supervising and monitoring the developments in the merger of Solidarity Bahrain B.S.C. ("Solidarity") and T'azur Company B.S.C.(c) ("T'azur").

It was disclosed by Solidarity on 25<sup>th</sup> 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 18<sup>th</sup> 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 29<sup>th</sup> September 2021 to obtain shareholder approval for the merger and other related

items, including the swap ratio. Accordingly, Solidarity announced on 24<sup>th</sup> October 2021 on 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 21<sup>st</sup> October 2021, and the objection period for the transfer will expire on 21<sup>st</sup> January 2022.

### ***Joint Work of the Gulf Cooperation Council (“GCC”) and Other External Participations:***

#### **1. Proposed Memorandum of Understanding (“MoU”) with Israel Securities Authority (“ISA”)**

At the request of the Israel Securities Authority (“ISA”), a couple of virtual meetings were held between the ISA and the CMSD on 17<sup>th</sup> January 2021 and 14<sup>th</sup> February 2021, to discuss cooperation prospects between the two jurisdictions. Accordingly, a draft memorandum of understanding linking both parties is currently under review. The MoU outlines the scope of the proposed cooperation in the field of financial technology and the exchange of experiences in the field of investment in capital markets.

#### **2. 10th Meeting of the GCC Financial Integration Strategy Working Group**

The CBB’s CMSD participated in the 10<sup>th</sup> meeting of the GCC Financial Integration Strategy Working Group, held virtually on both 3<sup>rd</sup> and 25<sup>th</sup> March 2021, wherein the following was agreed:

- Members to provide the General Secretariat and the Securities & Commodities Authority (“SCA”) of the United Arab Emirates with their preferred method for adopting the drafted passporting scheme framework (i.e. an agreement, a regulatory framework or a memorandum of understanding) and share any additional feedback on the passporting of financial products’ regulations.
- Members to provide the General Secretariat and SCA with any further comments on the passporting of investment funds’ regulations.
- Members to provide the Capital Markets Authority of Kuwait with any additional feedback on the KYC form template.
- Members to conclude the preparation of an action plan to be adopted for the initiatives and priorities discussed for integration between the financial markets in the GCC countries.

#### **3. Work on Cooperation Initiative Assigned by the Coordination Committee in the Fields of Economy, Energy, Trade & Industry Stemming from the Saudi-Bahraini Coordination Council**

On 4<sup>th</sup> April 2021, the first meeting of the two working groups was held between the Saudi and Bahraini sides of the Coordination Committee in the Fields of Economy, Energy, Trade & Industry where they discussed the proposed cooperation initiatives, including those pertaining to the CBB. The CMSD and the Capital Market Authority (“CMA”) from the Kingdom of Saudi Arabia are working towards achieving the proposed deliverables of the assigned initiative: “harmonization of regulations and procedures adopted in the capital markets to facilitate investment and trading for citizens and investors from the two Kingdoms”. The initiative whose implementation is in progress is divided into three sub-initiatives, namely, unification of the KYC procedures between the CBB and Saudi’s CMA, enhancing cross-listing coordination between the two countries

and studying the scope for cooperation in the field of settlement, clearing and central depository (and the prospect of forming electronic linkages) between the two Kingdoms.

4. 22nd Meeting of Heads of GCC Capital Markets Authorities Committee (or their equivalent)

The 22<sup>nd</sup> meeting of the Heads of GCC Capital Markets Authorities Committee (or their equivalent) was held virtually on 11<sup>th</sup> April 2021 to discuss a plethora of matters including the passporting of investment funds' action plan and the adoption of the proposed tool to track the implementation of the agreed initiatives and priorities for integration between the financial markets in the GCC countries. The meeting also examined the procedures for developing a unified KYC model and discussed the prospect of preparing a unified GCC-wide program to raise awareness of investment in the capital markets according to specific goals, means and budget.

5. International Organization of Securities Commissions' ("IOSCO") Africa-Middle East Regional Committee ("AMERC") Meeting

On 3<sup>rd</sup> June 2021, as a member of the IOSCO's AMERC, the CMSD joined the AMERC meeting virtually, where prevalent regional issues facing capital market-related regulatory authorities were discussed particularly in relation to supervision of cross-listed companies and crypto-assets, market fragmentation and cyber resilience.

6. 11th Meeting of the GCC Financial Integration Strategy Working Group

The CBB's CMSD participated in the 11<sup>th</sup> meeting of the GCC Financial Integration Strategy Working Group, held virtually on 15<sup>th</sup> August 2021, wherein, among other things, the following was agreed:

- **The legislative and legal tool for the adoption of the passporting of financial products' regulations**
  - Drafting the passporting of financial products' regulations in the form of an agreement between the financial market regulators of the GCC countries, to be subsequently signed/ratified upon adoption by member states in accordance with their respective legislation, procedures and expected time-frame.
  - Mandating the technical and legal specialists to review the final version of the passporting of financial products' regulations for the subsequent approval of the GCC Financial Integration Strategy Working Group prior to its presentation at the upcoming meeting of Heads of GCC Capital Markets Authorities Committee (or their equivalent).
- **Studying the account opening template and KYC procedures**
  - Encouraging members to adopt legislation that allows third-party reliance for the completion of due diligence measures in conformity with the recommendations of the Financial Action Task Force (FATF). Further, members are expected to boost awareness of licensed financial institutions regarding the prospect of relying on a third-party from the Gulf Cooperation Council Member States and encouraging

them to sign bilateral agreements with corresponding institutions in the other countries, with emphasis on risk assessment and that the ultimate responsibility for due diligence measures remains with the financial institution that has relied on the third party.

- Mandating the Capital Markets Authority of Kuwait (CMA) to update account opening template and KYC procedures in light of the Central Bank of Bahrain's observations, and submit the same to the Heads of GCC Capital Markets Authorities Committee (or their equivalent) for guidance.

7. 23rd Meeting of Heads of GCC Capital Markets Authorities Committee (or their equivalent)

The 23<sup>rd</sup> meeting of the Heads of GCC Capital Markets Authorities Committee (or their equivalent) was held virtually on 13<sup>th</sup> September 2021 to discuss a number of matters including:

- Agreeing that the passporting of financial products' regulations will be drafted in the form of a regulatory framework and accordingly directing the GCC Financial Integration Strategy Working Group and their respective legal specialists to conduct a final review of the same.
- Approving the account opening requirements form and KYC procedures on guidance-basis and as a minimum set of requirements. Also, agreeing on the proposal to permit reliance on third parties to perform the necessary due diligence and thus members were encouraged to adopt regulations that allow for this in a way that is aligned with the recommendations of the Financial Action Task Force (FATF).
- Approving the preparation of a unified GCC-wide program to raise awareness of investment in the capital markets for the year 2022 and agreeing to hold a training program for media specialists in the GCC capital markets' regulatory authorities and securities exchanges for the year 2022.

8. 46th Annual Conference of the International Organization of Securities Commissions ("IOSCO")

The CMSD on behalf of the CBB as a member of the IOSCO participated in its 46<sup>th</sup> Annual Conference to discuss and address issues facing securities market regulators and supervisors. The meetings were held on the 8-11 November 2021.

9. Forum for Financial Services Regulatory Dialogue between the European Union ("EU") and the Middle East North Africa ("MENA") Region

On 23<sup>rd</sup> November 2021, Abu Dhabi Global Market's Financial Services Regulatory Authority organized and held a forum linking supervisory authorities from the EU and MENA region, wherein the Director of the CMSD participated in the 1st Panel discussions surrounding the CMSD's practical experience in enhancing operational flexibility in the capital markets and financial services in general, from a technological and digital perspective.

10. GCC's Investor awareness Working Group

Pursuant to the decisions reached in the Heads of GCC Capital Markets Authorities Committee, a delegation from the CBB's Research and Investor Protection participated in the working group set for the purpose of establishing investor awareness campaigns in order to raise more awareness among investors. The working group has met five times virtually in 2021.

## **Financial Institutions Supervision Directorate ("FISD")**

### **Overall responsibilities of FISD as part of CBB**

The Financial Institutions Supervision Directorate (FISD) supervises a number of financial institutions, namely, Investment Business Firms Categories 1, 2, 3 and 4, Money Changers, Trust Service Providers Categories A and B, Representative Offices of Investment Firms and Administrators/Registrars.

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

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

### **Routine responsibilities covered during 2021**

During the course of 2021, FISD continued to fulfill its responsibilities by implementing rules and regulations and using various supervisory tools, including in-depth financial analysis, prudential meetings with management of licensees, formal requests for information from the sector, liaising internally with other Directorates at the CBB, in addition to the ongoing monitoring of licensees through regular communication and exchange of correspondence.

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

### **Developments achieved/or made considerable progress during 2021**

#### *New regulations/circulars issued during 2021*

Being vigilant of the continuous developments in the local, regional and international financial centers, the CBB continuously enhances its existing regulations to ensure parity with best market practice, and identifies gaps based on industry demand and international developments.

As a result of such strategy, the FISD identifies certain areas for development and sets at the beginning of each year objectives which are then executed.

#### ***Circulars:***



On 4th January and 17th March 2021, the CBB issued circulars no. EDBO/E1/2021 and EDBO/E9/2021 respectively, addressed to all Money Changers, mandating the use of purpose codes for SWIFT cross-border payments.

Furthermore, and on 14th February 2021, the CBB issued circular no. OG/50/2021 addressed to all CBB Licensees and Listed Companies, encouraging them to convene all upcoming General Meetings electronically, and permitting them to postpone Board elections for 6 months. The Circular also provided guidance for those opting to convene their meetings physically, where an option to attend the same electronically must be provided, and precautionary and safety measures implemented by Ministry of Health to combat the coronavirus (Covid 19) must be observed.

Moreover, the CBB has issued Circular OG/230/2021 on 15th July 2021, requesting all licensees to provide their comments in relation to the proposed Cyber Security regulations.

In addition, on 16th September 2021, the CBB issued circular no. OG/296/2021 to all Investment Firm licensees, informing them of the introduction of a new category of Investment Business Firms (Category 4), and the issuance of the regulatory requirements pertaining to the same.

Further, and on 1st November 2021, the CBB issued circulars no. OG/354/2021 and OG/356/2021, informing all Money Changers and Investment Business firms of the issuance of the requirements pertaining to Cyber Security within the Risk Management Module, and requesting them to submit a gap analysis and an action plan to comply with the same by 1st May 2022.

On 8th November 2021, the CBB issued circular no. OG/370/2021 in relation to climate-related risks, informing licensees that the CBB is in the process of developing regulatory requirements in relation to such risks, and requiring all licensees to assess how would they identify and address such risks, raise awareness within the organization pertaining to climate-related risks as well as encouraging them to include training programs to their staff and Board members in relation to the same.

### ***Regulatory and Rulebook Updates:***

During 2021, FISD continued to develop the rules and regulations pertaining to its licensees, either by way of updating existing rules or introducing new rules.

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

### ***CBB Rulebook Volume 4:***

With respect to the area of Investment Business, the CBB undertakes regular exercises with the objective of reviewing and updating the existing rules and regulations, in light of the latest market developments in the financial sector and international best practice

As a result, quarterly updates to the Rulebook were issued in January and April of 2021.

In January 2021, the CBB issued an update to the Authorization (AU) Module, removing the requirement to obtain the CBB's prior approval for the appointment of Shari'a Supervisory Board members of Investment Business Firms operating with Islamic Principles.

In April 2021, the CBB has updated its Enforcement (EN) Module to introduce financial penalties for non-compliance with blocking / unblocking requirements.

Moreover, the High Level Control (HC) Module was amended to introduce 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.

### ***CBB Rulebook Volume 5:***

#### **Specialized Licensees Developments**

##### **General Developments (All of Volume 5 Licensees):**

In April 2021, the CBB has updated its Enforcement (EN) Module to introduce financial penalties for non-compliance with blocking / unblocking requirements.

#### **Money Changers Developments**

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

In January 2021, the Authorization (AU) Module was updated to include a new requirement to notify the CBB of information that could question compliance of the approved persons with the fit and proper requirements.

Furthermore, the Risk Management Module was amended to require Licensees to implement enhanced fraud monitoring to guard against electronic frauds, and to have in place customer awareness communications to alert about the risk of electronic frauds when transacting online.

#### **Administrators/ Registrars Development**

In January 2021, the Authorization (AU) Module was updated to include a new requirement to notify the CBB of information that could question compliance of the approved persons with the fit and proper requirements.

#### **Representative Offices**

In January 2021, the Authorization (AU) Module was updated to include a new requirement to notify the CBB of information that could question compliance of the approved persons with the fit and proper requirements.



*CBB Rulebook Volume 7:***Collective Investment Undertakings Developments**

During 2021, the FISD continued to ensure that Bahrain domiciled CIUs and placement agents of overseas domiciled CIUs adhere to the requirements of CBB Rulebook Volume 7 issued in April 2012.

During 2021, the CBB registered 120 overseas domiciled CIUs to be marketed in Bahrain, in addition to 1 locally domiciled PIU.

*Promoting stability and soundness in the financial system*

During 2021, FISD continued to monitor the performance of the financial institutions under its supervision, through various supervisory tools, including the scrutinizing of financial reports submitted by licensees on a monthly or quarterly basis and through conducting regular management meetings.

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

Furthermore, and 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.

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

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

Moreover, the Code of Practice within the Business Conduct Module of Rulebook Volume 4 comprehensively addresses the measures that Investment Business Firms are required to adhere to in addressing the public.

Additionally, the FISD ensures that all CIUs offered to the public, are either authorized, registered or filed as required, and are marketed to the appropriate category of clients only by eligible financial institutions.

*Promoting transparency and market discipline.*

Transparency and market discipline are observed at all times in the process of supervising licensees. As a result, FISD ensures that any information that should be disclosed to the

public, is done so in a transparent and timely manner. Additionally, the FISD ensures that the sector as a whole, adheres to reporting requirements prudently.

Additionally, the review of rules and regulations that enhance the level of transparency and market discipline is an ongoing process.

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

The aim of this inspection plan is to assess the effectiveness of those institutions in performing their roles and responsibilities and their regulatory compliance with Volume7 of CBB Rulebook.

On the other hand, all CIUs are scrutinized to include minimum information to be contained in a prospectus in order to achieve a prudent standard level of transparency.

Additionally, CIUs are required by virtue of the rules that regulate such products, to disclose any amendments to the prospectus to the unit holders, on a timely basis.

FISD ensures that any related information is made available to unit holders at all times. Additionally, unit holders are informed of certain information with regards to their investments in the funds, on regular intervals.

### *Reducing the likelihood of licensees being used for financial crime including money laundering activities.*

The Financial Crime Module of CBB Rulebook Volumes 4 and 5 addresses this crucial area and is being monitored by the Compliance Directorate.

The FISD liaises with the Compliance Directorate on such matters and ensures that every financial institution under its supervision always has a qualified MLRO appointed.

With regards to observing Anti-money Laundering requirements for CIUs, the FISD ensures that any eligible CIU is authorized or registered prior to being marketed in the Kingdom of Bahrain. Such authorization/registration is subject to the CIU observing the Anti Money Laundering Law of the Kingdom of Bahrain at all times.

## **Insurance Supervision Directorate**

### *Promote stability and soundness in the insurance system*

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

- The CBB requested insurance licensees to submit their year-end financial statements and attend a virtual meeting with the CBB whenever required and with their external auditors prior to the submission of the financial statements for approval to the Board of Directors.

- The CBB continued to receive monthly investment reports and assess the performance of the investment portfolio.
- The CBB receives and reviews various prudential reports as per the requirements of the CBB Rulebook (Volume 3) in order to efficiently supervise and assess the Licensees compliance with the requirements of the CBB and Financial Institutions Law No. (64) of 2006 and the CBB Rulebook (Volume 3).

### *Regulatory and Rulebook Updates*

- **Enhancement of the “Financial Crime (FC)” Module under the CBB Rulebook (Volume 3):** The CBB issued enhancements to the FC module in October 2021 in respect of moving towards a more risk-based approach when establishing programs for Anti-Money Laundering (AML), Countering Terrorist Financing (CFT) and Proliferation of Weapons of Mass Destruction (CPF), as well as amendments to recognize E-KYC and electronic documents.
- **International Financial Reporting Standard (IFRS 17):** In light of the International Accounting Standards Board’s (IASB) decision to postpone the effective implementation date of IFRs 17 “Insurance Contracts” from 1<sup>st</sup> January 2022 to 1<sup>st</sup> January 2023, the CBB issued a directive to that effect, extending the timeline for all insurance firms to initiate the implementation of the new standard on a semi-annual basis starting 30<sup>th</sup> June 2022. Furthermore, the CBB is observing the insurance firms’ readiness by also participating in the IFRS17 Technical Committee established by the Bahrain Insurance Association (BIA) in which the members are discussing and would unifying the implementation of such standard.
- **Enhancements to Cyber Security Requirements:** The CBB published new requirements relating to cyber security risk management in the “Risk Management (RM)” Module under the CBB Rulebook (Volume 3) which come into effect on 1<sup>st</sup> May 2022. Accordingly, a directive was sent out in November 2021 requiring all insurance licensees to submit a gap analysis report by 31<sup>st</sup> December 2021 with an action plan to be able to meet the new requirements when they come into effect.

### *Promote transparency*

- During 2021, the Insurance Supervision Directorate released the Insurance Market Review Report of 2020. The Report presents the financial performance of the insurance industry in Kingdom of Bahrain for the years 2019 and 2020 (for both conventional insurance & reinsurance, and takaful & retakaful business) by class of business in the Kingdom. The total gross premiums of the Bahrain insurance market have decreased to BD 276.87 million in 2020 (2019: BD 287.36 million).

### *Promote better users’ experience*

- **Directive to all Insurance Firms and Insurance Brokers:** As part of the CBB’s **ongoing** initiatives towards promoting better clients’ experience, the CBB issued a directive to all insurance firms **and** insurance brokers to ensure that vehicle insurance policies are updated in the General Directorate of Traffic (GDT) system

instantaneously upon policies being issued or renewed in order for policyholders to complete their vehicle registration and renewal process without delay.

### *Financial Digital Transformation*

- **Digitalizing the Motor Insurance Process:** As part of the CBB's ongoing initiatives towards financial digitalization in the Kingdom of Bahrain and developments in digital financial services as well as promoting better clients' experience, the CBB issued a new directive in June 2021 instructing all insurance firms to implement digital channels in serving their customers/policyholders for the issuance of motor insurance policies without requiring the customer's presence in the company's premises (whenever applicable).

The directive instructed insurance firms to upgrade their IT systems, policies and procedures in order to reflect the digital transformation process in motor insurance. Execution of the directive was divided into six phases as follows:

1. Digitalization of the issuance/renewal of motor insurance policies which should include disclosure of the policy benefits, terms, conditions and exclusions in a clear and fair manner.
2. Online payment methods for the collection of premiums, deductibles, depreciation, etc.
3. Ability to make amendments/endorsements to motor policies such as cancellation of policies, transfer of ownership, etc. through digital channels.
4. Automation of the claims process which include enabling the customer to open a claim and obtain claim status updates digitally.
5. Submission of complaints with status updates to be enabled through digital channels.
6. All fees and charges to be clearly disclosed on digital channels and on the company's website for ease of reference.

### *Covid-19*

- **Service Continuity Measures:** The CBB continues to have open discussion with all insurance licensees in order to be updated on all issues that may affect the continuity of the services provided by the Companies.
- **Effects of the Pandemic:** the CBB continues to review and monitor the insurance licensees' data/statistics in order to measure the effect of the pandemic on the insurance sector's operations (mainly premiums and claims).

### **Financial Stability Directorate**

During 2021 the Financial Stability Directorate ("FSD") continued conducting research and analysis on issues related to financial stability. The FSD continued to perform the following core functions:

- Conducting research that focuses on the effects of the COVID-19 pandemic on the economy, the financial sector (banking and non-banking), and addressing:
  - Implications on the banking sector and financial stability.
  - Macro-Prudential policies and supervisory and regulatory measures taken by the CBB to mitigate the effects on the on consumers of financial services.
  - Regulatory and supervisory requirements, risk management system, stress testing, business continuity plans, recovery plans, FinTech and Financial Inclusion, to enhance financial stability during the pandemic.
  - Strategies to support economic recovery and economic growth in the post-pandemic phase and the effect on individuals and corporates after the removal of support measures.
- Issuing various publications such as the Financial Stability Report (semi-annual) and the Economic Report (annual), along with other periodical publications that monitor domestic and international macro financial developments that include the Financial Soundness Indicators (Quarterly).
- Collecting, compiling and disseminating statistical information and releasing financial data that is published through the Monthly Statistical Bulletin.
- Conducting annual surveys such as the Manpower Survey, Coordinated Portfolio Investment (“CPIS”) Survey, and Coordinated Direct Investment (“CDIS”) Survey, Locational International Banking surveys.
- Monitoring major global economic developments in the internal Weekly International Bulletin.
- Maintaining CBB’s relations with major international institutions and agencies (IMF, World Bank, and rating agencies) and acting as a point of contact for other third parties, both domestic and overseas.
- Further developing the semi-annual financial stability report, which is published in March and September of each year, to be more comprehensive through:
  - Covering developments in the non-banking financial sector, such as the insurance sector and capital markets.
  - Developing chapters on FinTech, Financial Inclusion, and Cyber security.
  - Looking at climate change risks and its implications on financial stability.
- Continuing to develop periodical reports and statistics:
  - The FSD has developed the economic report for the Kingdom of Bahrain, to include new chapters on foreign direct investment and workers' remittances, in addition to further developing the current chapters that focus on the financial sector.
  - Developing weekly and monthly POS data statistics.
  - Conducting several studies related on climate change risks (physical and transitional risks) and implications on the banking system and financial stability and their impact on a number of sectors (such as individuals, companies, real estate, industry, and trade). The studies also touched on the

role of strengthening risk management and the policy measures to face these risks, and the need to issue guidelines and regulation to the financial sector to spread awareness of the risks of climate change, consider the required measures and preparations, and how to develop stress tests related to climate change.

### ***The Financial Market Infrastructure (FMI) and Payments Oversight Division***

The Financial Market Infrastructure (FMI) and Payments Oversight Division under the Financial Stability Directorate ensures efficiency, safety, resiliency and reliability of FMIs and Payments achieving one of the crucial functions within the Central Bank of Bahrain.

The Division ensures implementation of the Principles for Financial Market Infrastructures (PFMI) to the current FMIs, Payment and Settlement Systems to manage and mitigate risk.

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

1. Conducting Off-site and On-site Monitoring.
2. Periodic and continuous updating of the database of information developed and prepared by the division.
3. Verifying and using information obtained through monitoring data to understand the FMIs and Payments eco-system in the economy. Moreover, the information obtained through monitoring is used to assess whether they meet the relevant policy requirements and standards, identify critical observations of differences in self-assessments by the FMIs, operators of the FMIs and the Payment eco-system's Participants.
4. Developing and enhancing a number of mechanisms to ensure accurate and comprehensive monitoring for various stages and components of FMIs and Payments Systems.
5. Collaborating with other Directorates, Units and Divisions within the CBB, regulatory authorities within the Kingdom of Bahrain and others throughout the world to fulfil the needs of the public and the economy for a harmonised FMI and Payments eco-system.
6. Encourage and induce technological and institutional developments necessary to fulfil the FMIs and payment needs in Kingdom of Bahrain through Fintech and Innovative new projects such as: Open Banking Services and electronic cheques (e-cheques), etc., as the FMIs and Payments Oversight Division has a fundamental role in monitoring and overseeing these systems, especially when new financial entities and institutions join the FMIs and Payments eco-system, such as Payment Service Providers, Third Party Payment Providers, Ancillary Services and Ancillary Service Providers.



## Chapter

## 3

### 3. Other CBB Projects and Activities

*New Licenses*

*Fintech & Innovation*

*Payment System (“SSS” & “RTGS”)*

*Currency Issue*

*CBB Training Programs*

*IT Projects*

*External Communications Unit*

*CBB’s Organisational Chart*

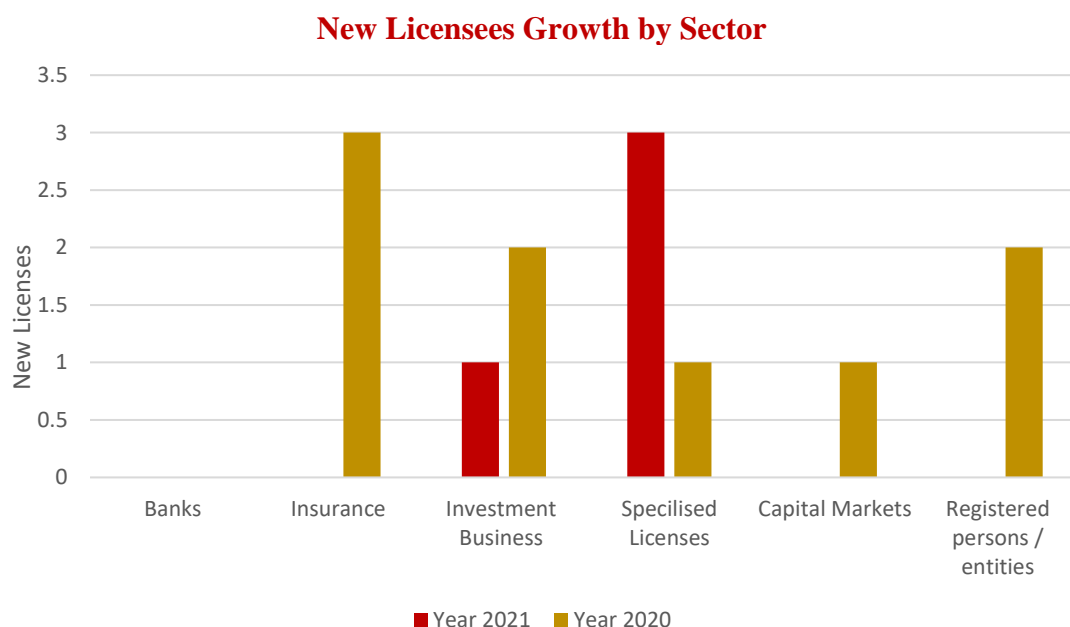
## New Licensed Institutions & Registered Persons

The Central Bank of Bahrain (“CBB”) has issued 4 new licensed institutions in 2021 compared to 4 new licensed institutions and 2 persons registered as Loss Adjusters issued in 2020, reaching to a total of 360 Licensed Institutions and registered persons providing financial services from the Kingdom of Bahrain as of 31<sup>st</sup> December 2021 compared to a total of 370 licensees and registered persons as of 31<sup>st</sup> December 2020.

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

- 1) Ajyad Capital B.S.C. (c) – Investment Business Firm – Cat. 1 (Islamic Principles – Locally).
- 2) Batelco Remittance Service B.S.C. (c) – Money Changer.
- 3) Batelco Financial Services B.S.C. (c) – Ancillary Service Provider: Payment Service Provider, Account Information Services Provider, Payment Initiation Services Provider and Card Processing.
- 4) My Fatoorah B.S.C. (c) – Ancillary Service Provider: Payment Service Provider.

The main growth of new licenses issued in 2021 was in the Specialized Licensee sector as shown in the graph below:



## Fintech & Innovations Unit

### CBB's Regulatory Sandbox

As the CBB continues to monitor the progress of the Regulatory Sandbox companies, the FinTech & Innovation Unit continues to find ways to improve the processes made available to those companies participating in the test. The Regulatory Sandbox framework has recently

been updated in December 2021. The new framework enhances the eligibility criteria for participation in the Sandbox and also streamlines the entire process to ensure a more phased and consistent approach to testing.

To date, the CBB has received 159 applications to join the Regulatory Sandbox. During 2021:

- 28 new Regulatory Sandbox applications were received;
- 19 applications were authorized to join the Regulatory Sandbox;
- 3 applications were refused entry to the Regulatory Sandbox due to the proposed activities not meeting the eligibility criteria as set out in the Regulatory Sandbox Framework;
- 9 applications withdrew from the Regulatory Sandbox at the request of applicants; and
- 4 applications were terminated by the CBB due to the participants not meeting the eligibility criteria as set out in the Regulatory Sandbox Framework.

Since the launch of the Regulatory Sandbox, 16 companies have successfully exited the Sandbox after having completed testing. These include:

1. Tarabut Gateway W.L.L
2. Rain Financial
3. Belfrics Middle East W.L.L.
4. Basket FZE
5. Sprinklexchange
6. Arabianchain
7. Braxtone
8. PIE
9. PyypI
10. Spire
11. Bambucorn
12. Spare
13. AT Payments
14. Aion Digital
15. Denarri Cash
16. OddoTec

Out of those companies 2 went on to received full operational licenses from the CBB.

## Completed Projects/Unit Accomplishments During 2020

As part of CBB's continuing development of the regulatory framework for the financial system, the FinTech & Innovation Unit has embarked on a number of initiatives during the year 2021 to encourage use of FinTech and to foster innovation within the financial services sector, as follows:

## Open Banking Regulations

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

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

- **FinHub973 Platform Enhancements & Updates:** The FinTech & Innovation unit continues to work closely with Fintech Galaxy, as well as key strategic partners from the ecosystem to develop new features and updating existing features of FinHub 973. FinHub973 CBB digital lab roadmap delivers major enhancements against an accelerated timeline.
- **Bahrain Supernova Challenge 2021 (May-June 2021):** The CBB conducted a national FinTech Challenge under the name of 'Bahrain Supernova Challenge' via FinHub973, which included four separate FinTech innovation challenges that were designed by the CBB along with the strategic partners of FinHub973, aimed at stimulating innovation opportunities, connecting financial institutions with FinTech start-ups while substantiating Bahrain's position as a regional financial center for innovation. FinTech Start-ups and tech firms from Bahrain and the region were invited to submit their proposals via FinHub93 to address problem statements under the following themes:
  1. Central Bank of Bahrain – RegTech Solution: Account Blocking & Unblocking Automation Process;
  2. Bank ABC – Autonomous Finance;
  3. The BENEFIT Company – Extending Payment Services for Proximity/Wearables Devices;
  4. ila Bank – Banking, User Experience & AI;
  5. National Bank of Bahrain – Connecting Customer Accounting system with NBB for Banking needs.

A jury composed of senior management from the participating institutions, in addition to a number of experts in this field and specialists from the CBB, were in charge of evaluating the submitted proposals to select the winners.

## Global Financial Innovation Network: Cross-Border Sandbox Testing

The Fintech & Innovation Unit, representing the CBB, has joined the second cohort of the cross-border sandbox testing working stream through the Global Financial Innovation Network (GFIN). The cross-border sandbox testing working stream allows companies to test innovative products and business models across two or more jurisdictions, who are members of GFIN, simultaneously.

The selected company for the cross-border test that the CBB was a part of “BR AG” completed testing its SupTech solution with the participating regulators. The FinTech & Innovation Unit is currently liaising with the other regulators involved in the cross-border test to present the outcomes of the test with the wider GFIN network.

The CBB’s participation comes alongside 23 other regulators from across 5 continents.

### **Global Financial Innovation Network: Coordination Group Membership**

The GFIN is made up of members (national financial sector regulators) and observers (non-regulator participants) and is overseen by the ‘Coordination Group’, which is made up of a select number of GFIN members and sets the overall direction, strategy and annual work program of the GFIN. The Coordination Group is currently being chaired by the United Kingdom’s Financial Conduct Authority (“FCA”). Membership in the coordination group lasts for two years and members meet twice a year to provide ongoing input and engagement into the work-streams. The Central Bank of Bahrain, alongside 10 other regulators, has been re-elected, for the second term, in 2021 to take part of GFIN’s Coordination Group.

### **Open Finance**

The Fintech & Innovation Unit prepared a study on Open Finance in an effort to set the roadmap to evolve beyond Open Finance in the Kingdom. Open finance is based on the principle that the data supplied by and created on behalf of financial services customers are owned and controlled by those customers. Re-use of these data by other providers takes place in a safe and ethical environment with informed consumer consent. In short, open finance is an extension of open banking and is not limited to retail banks.

### **Launch of Pilot to test instant cross-border fund’s transfers leveraging JP Morgan’s Blockchain-based system “JP Morgan Coin”**

JP Morgan and Arab Banking Corporation (“Bank ABC”) are collaborating on innovative, next generation financial services solutions that allow for the optimization of both in-country and cross-border payments across a wide array of regional and global currencies, utilizing blockchain technology, under the supervision and oversight of the CBB.

During December 2021, in collaboration with both JP Morgan and Bank ABC and under the supervision and oversight of the CBB, the first successful live blockchain-based cross-border payment transaction was conducted leveraging the JP Morgan Coin value transfer rails.

### **Participation in World Economic Forum (“WEF”) Publications on CBDC’s & Stablecoins**

The FinTech & Innovation Unit at the CBB contributed in the preparation and review of two whitepapers published by the World Economic Forum’s (“WEF”) Digital Currency

Governance Consortium (“DCGC”). WEF’s publication consisted of a series of whitepapers composed of eight parts, exploring a number of critical topics relating to Central Bank Digital Currencies (“CBDC’s) and stablecoins.

### **Participation in Arab Monetary Funds (“AMF”) publication on a CBDC Guidance Paper**

The CBB contributed to a research paper which is to be published by the AMF, in collaboration with the AMF, representatives from the Banque Du Liban and M10 Networks Inc. The objection of the guidance paper will be to guide Central Banks in understanding Central Bank Digital Currencies (“CBDCs”), their related risks, current applications, and the future of CBDCs. The paper will be published by AMF during 2022.

### **Manpower Industry Survey in Collaboration with Supreme Council for Women (“SCW”)**

As part of the executive strategic plan of the ‘Women in FinTech Committee’ for the years 2021-2022, which is led by the Supreme Council for Women (“SCW”), it was decided to conduct a survey in cooperation with the CBB to monitor the current job offerings relating to FinTech and financial innovation within the Kingdom’s financial services sector as well as flexible working policies adopted. Accordingly, a joint survey has been conducted between CBB and SCW where a total number of 67 CBB licensed entities participated in the survey, comprising of: 22 banking licensees, 12 Ancillary Service Provider licensees and 33 Insurance licensees.

The survey’s main objective is to assess the progress that has been accomplished in bridging the gap and achieving gender balance within the financial services sector, measuring the impacts of different policies, programs and plans adopted by the sector to ensure gender equality and the sustainability of women within the financial services sector, in addition to measuring the level of contribution of women towards to the FinTech sector. The survey also strived to measure the robustness of the financial services sector in implementing necessary measures to meet the exceptional circumstances during the COVID-19 pandemic, by applying flexible ‘working from home’ policies and other support services to employees, and to determine the extent of sustaining such flexible policies on an ongoing basis. The survey covered data from the years 2020-2021.

### **Memberships in local and International Committees/Working Groups**

- FinTech Working Group - Secretariat General of the GCC.
- Global Financial Innovation Network (“GFIN”):
  - The CBB, alongside 10 other regulators, has been re-elected in 2021, to be a member of GFIN’s Coordination Group for a second term.



- The CBB is currently participating in two work-streams of GFIN: The RegTech work-stream and cross-border test work-stream.
- Arab Monetary Fund (AMF) Fintech Working Group.
- The Head of the FinTech & Innovation Unit is a member of the ‘Bahrain Women in FinTech Committee’, which is led by the Supreme Council for Women (“SCW”). The Bahrain Women in FinTech Committee will be responsible for promoting gender equality within the FinTech Sector and encouraging upskilling Bahraini women within ICT and STEM related fields.
- The Director of the FinTech & Innovation was a member of the World Economic Forum’s (“WEF”) ‘Digital Currency Governance Consortium’ phase 1 during the period 2020- 2021.

### Participations in Local & International Conferences and Workshops

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

### Payment and Settlement Systems (“SSS” & “RTGS”)

Bank transfers through the Real Time Gross Settlement System (“RTGS”) were 300,181 in 2021, for a total amount of BD 83 billion with a daily average of 1,215 transfers and an average daily value of BD 336.1 million, broken down as follows:

- The volume of bank transfers among retail banks through RTGS was 42,569 for a value of BD 78.5 billion.
- The volume of customer transfers through the RTGS totalled 257,612 with a value of BD 4.52 billion.
- Total fees received from RTGS and SSS member banks (transaction fees and annual membership fees) amounted to BD 364,817 in 2021.

There were 2,485 transactions carried out through the Scripless Securities Settlement (“SSS”) System in 2021, the value of which was BD 13.261 billion, the daily average number of transactions was 10 and the average daily value was BD 53.687 million.

### Cheque Clearing

The number of cheques cleared in 2021 was 2,168,231 with a total amount BD 7.178 billion. The daily average number of cheques was 8,778 and the average daily value was BD 29.06 million.

## ATM network

The number of withdrawals processing through the local ATM network system (BENEFIT) during 2021 was 16,351,010 with a total amount BD 1.520 billion with a daily average of 44,797 transactions and an average daily value of BD 4.166 million.

## Electronic Fund Transfer System (EFTS)

- The number of Fawri+ transactions in 2021 was 9,629,924 with a total amount of BD 15.243 billion. The daily average number of Fawri+ transactions was 26,383 and the average daily value was BD 41.762 million.
- The number of Fawri transactions in 2021 was 140,580,028 with a total amount of BD 4.424 billion. The daily average number of Fawri transactions was 385,151 and the average daily value was BD 12.121 million.
- The number of Fawateer transactions in 2021 was 9,111,342 with a total amount of BD 641.691 million. The daily average number of Fawateer transactions was 24,963 and the average daily value was BD 1.758 million.

## AFAQ Service System

The Arabian Gulf System for Financial Automated Quick Payment Transfer (AFAQ) is the Real Time Gross Settlement system for cross-currency cross-border payments between the GCC countries.

The Service was launched on 10<sup>th</sup> December 2020, with the Central Bank of Bahrain and Saudi Central Bank being its first participants.

During 2021, a total of 17 Retail Banks were on boarded including 8 Banks from the Kingdom of Saudi Arabia and 9 Banks from the Kingdom of Bahrain. The CBB is targeting the first quarter of 2022 to onboard all the remaining Retail Banks to the AFAQ Service.

Banks cross-border payments transfers through the AFAQ Service were 3,143 in 2021, for a total amount of BD 20.6 million with a daily average of 20 transfer and an average daily value of BD 132,683, broken down as follows:

- Interbank transfers: The volume of the incoming bank transfers through AFAQ Service was 9 for a value of BD 205,798 and the volume of the outgoing bank transfers was 38 for a value of BD 10.03 million
- Customer transfers: The volume of the incoming customer transfers through AFAQ Service totalled to 2990 with a value of BD 10.3 million and the volume of the outgoing customer transfers of 113 for a value of BD 230,962.

## Bahrain Electronic Cheque System Service (BECS)

As part of the Central Bank of Bahrain's (CBB) continuous efforts to promote digital transformation and introduce innovative financial services, the CBB, in collaboration with the

BENEFIT Company (BENEFIT), launched the Bahrain Electronic Cheque System (BECS) on October 19, 2021.

This system provides electronic cheque services to individual and corporate retail customers through mobile service applications for customers, where individuals can register electronically for the e-cheque service through the BenefitPay application. For corporates, they can register through their retail banks to avail e-cheque services through the dedicated corporate E-Cheque Application.

These services include an electronic cheque book request service from retail banks, cheque issuance services such as electronic editing, signing and depositing, without the customer having to visit the bank branch.

The table below shows the total services carried out through the system from its launch date in October 19, 2021 to December 31, 2021 in detail:

Service	Total
Number of active customers registered in the system (individuals)	530,411
Number of active customers registered in the system (corporates)	93
Number of electronic cheque book requests	2,581
Number of electronic cheques issued by individuals through BenefitPay application	1,551
Number of electronic cheques issued by corporates, Customers of Joint Accounts, and Customers of Accounts with Power of Attorney through BENEFIT E-cheque application	106
Total number of cheques deposited and paid	1,089

## Currency Issue

- The CIS continued its operations counting, sorting of currency notes and shredding of unfit currency notes using the machine which was directly linked to records of the CIS. The value of shredded unfit currency notes amounted to BD 137,285,197.500 during 2021.
- The total value of currency deposits during 2021 amounted to BD 1,075,668,500.0, while that of the currency withdrawals stood at BD 1,034,604,810.0.
- The value of currency in circulation recorded BD 704,768,350.0 on 31<sup>st</sup> December 2021, of which currency coins and notes amounted to BD 22,807,510/- and BD 681,960,840.0 respectively. The fourth issue of currency notes reached a level of BD 66,784,240.0 and amounted to 9.79% of the total value of currency notes in circulation. The value of the third issue of currency notes stood at BD 8,574,985.0 or 1.26% of the total value of currency notes in circulation.
- The upgraded issue of the BD 20, BD 10 and BD5 new series of currency notes reached a level of BD 606,601,615.0 and amounted to 88.95% of the total value of currency notes in circulation.

## CBB Training Programs

During 2021, the Central Bank of Bahrain continued to focus on ensuring that CBB's employees have the right skills and competencies to enable them to perform their responsibilities at a high level. However, due to the current circumstances related to Coronavirus (Covid 19), most of the training programs were held virtually by local and international institutions and organizations.

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

- Developing employees' skills and knowledge through enrolling 62 employees in 86 training courses at BIBF; covering different areas including finance, Islamic banking, compliance, insurance, Fintech, management and information technology.
- Enhancing technical competencies through enrolling 169 employees in 140 external training programs, workshops and conferences, organized by local, regional and international organizations such as the Economic Policy Institute of AMF, IMF, IFSB and other Central Banks and specialized institutes. These programs and conferences covered various areas including banking supervision, compliance, economics, investment, insurance, HR, procurement, Fintech and IT.
- Providing internships for 11 university students, in order to enhance their professional skills and prepare them for the workplace.
- Making use of technology through providing access to 100 employees to an e-learning platform, which covers a variety of Banking and Finance subjects.
- Educating CBB employees about the risks of information security and cyber security and how to avoid them by providing them with specialized monthly electronic training modules, as part of the ongoing training & awareness program carried out by the IT Directorate's Information Security Section.

## IT Projects

During 2021, a number of projects were completed as part of IT Projects Roadmap. They include the following:

### Perform External Penetration Tests to check for security vulnerabilities

As part of the ongoing work to enhance information security, the Information Technology Directorate (ITD) contracted with a specialized company to perform "Penetration Tests" and detect vulnerabilities in the IT infrastructure and applications that are exposed to the Internet, so that the same can be addressed promptly.

The company submitted the test results to the Central Bank of Bahrain's (CBB) Information Security section, which included a list of low, medium, and high severity security vulnerabilities. Accordingly, these vulnerabilities have been remediated and required fixes have been applied to strengthen the security controls against probable breaches.

The CBB conducted two Penetration Tests during the year 2021 and the highest Information Security standards were applied when conducting these exercises.

### **Device Control Security software**

ITD implemented a mechanism for device control on all end points devices and this is part of CBB's overall Anti-Malware solution. This was done in keeping with widely accepted security standards and best practices to reduce cybersecurity risks, in addition to preventing insider threats (intentional or otherwise).

This solution also enables safe and accountable usage of devices and mitigates any risk associated with using devices. Also, it gains an automatic visibility of device usage, besides helping to implement and manage centralized device policies to control its usage.

### **SWIFT Customer Security Program (CSP) Independent Assessment**

The SWIFT's Customer Security Program (CSP) helps financial institutions ensure their defences against cyberattacks are up to date and effective, thereby protecting the integrity of the wider financial network.

In 2021, SWIFT mandated this program to be independently assessed by a SWIFT-authorized 3rd party auditor. The ITD contracted this task to a specialized authorized company to perform this SWIFT CSP assessment that ensures compliance with 31 mandated SWIFT security controls. The assessment was completed on time and reports submitted to SWIFT in November 2021, before the due date.

### **Financial Institutions' handling of Security Incidents**

In line with the CBB's orientation to reduce security risks in the Kingdom of Bahrain's banking sector and in an effort to assist Financial Institutions to enhance their security on the technology front, the ITD's Information Security Section coordinated with CBB's other Directorates to develop the necessary procedures that need to be followed in CBB, in case a Financial Institution reports security incidents and shares related advisories with the financial sector.

### **Open Banking Services**

In compliance with the CBB issued Bahrain Open Banking Framework (Bahrain OBF), in November 2020, the construction of business models for the first phase of Open Banking Services (according to the standards and technical specifications for the application of Open Banking Services in the Kingdom of Bahrain) had been completed by some retail banks and service providers by the end of May 2021.

In September 2021, the CBB also issued a new circular regarding the second phase of the Bahrain OBF, directing retail banks and financial institutions operating in the Kingdom of Bahrain to adopt the requirements of the second phase and finally comply with the framework by June 30, 2022. This phase aims to provide a wider range of banking services effectively at lower costs, with greater focus on the bank customers' usage experience. Moreover, the resulting modernization will also contribute towards enhancing

competitiveness and efficiency of the financial system, taking into account the changing trends of customers and promoting a rapid transformation towards the digital economy in general.

### **ISO 22301:2019 Certification (Business Continuity Management System standard)**

With regard to the (ISO 22301:2019) Certificate for the Business Continuity Management System obtained by the CBB during the third quarter of 2021, User Awareness Training for Business Continuity among all CBB staff has been conducted and the CBB's work team has completed the implementation of the prudential plan's pilot tests successfully, in line with the improvements included in the plan's regulatory documents.

### **GCC Real Time Gross Settlement System (AFAQ) Project**

The CBB, in cooperation with the Gulf Payments Company (GPC), prepared and established the experimental environment in the CBB, which contributed significantly and effectively to supporting retail banks to join and participate in the Gulf Payments System (AFAQ). During 2021, the relevant directorates of the CBB onboarded 11 Bahraini retail banks (Bahrain Islamic Bank, Housing Bank, National Bank of Bahrain, Bank of Bahrain and Kuwait, Ahli United Bank, Al Salam Bank, Arab Bank, Housing Bank for Trade and Finance, Central Bank of India, ICICI Bank Limited and Ithmaar Bank), after ensuring their technical readiness.

With regard to the process of inclusion of Gulf banks and other Central Banks in the AFAQ, the CBB and a group of Bahraini retail banks, during the months of July and August of 2021, partnered with the GPC and the Saudi Central Bank in the pilot phase, to link the United Arab Emirates' Central Bank and the banks operating in it.

### **SWIFT Scope for Cross-Border Payments**

As part of the follow-up and monitoring of cross-border payments movement, the CBB's ITD team completed the provisioning of SWIFT Scope service to facilitate the monitoring and analysis of cross-border payments and SWIFT transactions using the SWIFT network. This enables the CBB to prepare reports on cross-border payments flows linked to the financial sector in the Kingdom of Bahrain.

SWIFT, in cooperation with the CBB's ITD team, completed the installation of the software for the service during the month of November 2020. A circular was also sent to the licensed financial institutions urging them to join the SWIFT Scope service and about 70 financial institutions took the initiative to subscribe to the service. Workshops were arranged for the relevant CBB Directorates during the month of March 2021 to explain how to use the service platform and view all available reports.

### **New Ideas System**

In line with the CBB's direction to stimulate and encourage innovative ideas that contribute to the development and advancement of services provided by the CBB, the ITD, in cooperation with the CBB's Digital Strategy Champions Team, has implemented a page on



the CBB's Intranet platform to enable the CBB employees to register their suggestions and new ideas. Following this, the Team would evaluate the ideas and proposals and consider their adoption and implementation.

### **Accounting System (Dynamic 365)**

Work is underway to replace the current accounting system (ACCPAC) with a new system (Dynamic 365) to keep pace with the latest advancements of Accounting systems. The project was started deployed since mid-January 2020. The integration of the new system with the CBB's internal systems has also been completed. The new system is being operated in parallel with (ACCPAC) to verify the course of operations and system accuracy, thereby ensuring that the balances of the final accounts for previous years' match.

The ITD and Accounts Directorates are also currently arranging for end-users' training in the new system for other Directorates, on the mechanism of submitting purchase requests and paying electronically. The complete dependence on the new system and dispensation of the old system is scheduled to be accomplished during the year 2022.

### **New Intranet/Extranet system**

The project to replace the platform the existing system serving as Intranet and Extranet was initiated earlier. The development and trial of the new Intranet (for CBB staff) has been completed in a pilot environment, with the creation of a new system (MyCBB) on the Amazon cloud computing platform successfully.

The use of the new Intranet platform (MyCBB) by the Central Bank of Bahrain's employees was announced at the end of January 2022, after the Information Technology Directorate had successfully completed the necessary security tests and ensured that the platform was ready for use, provided that efforts would be continued to develop the platform for the (Extranet).

### **Upgrade of existing Reserve Management System**

As part of the CBB efforts to keep pace with the latest versions of existing systems, an agreement to upgrade the existing treasury management system was reached. The latest version provides the best levels of service for the system users and enhances the robustness of information security. The scope of work of this project has been finalized, apart from completion of contracting procedures with the vendor. The implementation is scheduled to start during the first quarter of 2022.

### **Upgrade of Electronic Submission of Returns and Analysis of Data (ESRAD) system**

The ESRAD system is being used by CBB's Supervisions Directorates for collecting financial reports from all Financial Institutions and is subject to the supervision of the CBB. The ITD along with the company that developed the application), started upgrading the existing system in the second quarter of 2021. The new system contains many additional features and services, in addition to improving the general appearance of the interfaces and forms. This will be installed on the Amazon cloud and existing data and other settings will be

migrated, apart from applying the highest level of information security for its protection on the cloud.

The vendor is currently working on improving system functionality, in addition to migrating data from the existing to the new system. This is expected to be completed during the fourth quarter of 2022.

### **AFAQ EoD Ticketing System**

The CBB is intends to automate the manual process of entering transactions for the Central Banks in the Banking Services' Oracle system and to integrate it with the Reserve Management System to create the Saudi Riyal (SAR) deals.

The ITD has completed analysis of the reports required by the Banking Services and Reserve Management Directorate and the implementation of the requirements has begun with the developer of the system. The work is still based on the experience of applying the exchange rate changes in the Reserve System and is expected to be complete with the integration of the two systems, during the first quarter of 2022.

### **Automating Government Securities Deals (Primary Market) in Treasury System (TCS)**

As part of the ongoing initiatives to automate CBB's internal operations, the ITD has completed the implementation of integration between the Securities Settlement System (SSS) and the Reserve Management System (TCS Bancs). Prior to this, the Government security auctions to create Government Primary Market deals in the Reserve Management System (TCS) was completed.

The automation also ensures triggering of e-mail notifications to all concerned parties confirming details of the deals, which in turn, speeds up operations and reduces potential human errors.

### **Training and Allowances System**

As part of the ongoing permanent trend towards reducing manual work in the CBB systems, the ITD has completed the development of a new module for Training and Allowances within the current Human Resources System.

This module has been developed to capture, manage and store all courses and seminars that the CBB's employees can enrol, as well as the allowances for each trip. Additionally, it provides for detailed reports to the system's users.

### **Integrated solution for Foreign Account Tax Compliance Act (FATCA) and Common Reporting Standard (CRS)**

As part of the 2021 initiatives, the National Bureau of Revenue has successfully completed the new Foreign Account Tax Compliance Act (FATCA) and Common Reporting Standard (CRS) systems' implementation in collaboration with CBB Information Technology Directorate.

## External Communications Unit

Press Releases from CBB:

- Total Number of Press Releases (127 Press Release)
- Total Number of Government Securities and Sukuk Press Releases (94 Press Release)
- Total Number of Press Releases related to CBB announcements and events (33 Press Release)

\*all circulated to Local or Regional or International press

### Press releases

No.	Date	Subject
1	30.01.2021	CBB announces launch of eKYC as part of digital transformation strategy
2	23.02.2021	CBB's FinHub 973 Platform on Course to Transform Bahrain's Financial Services Sector
3	24.02.2021	CBB employee contributes to the FATF Mutual Evaluation of New Zealand
4	06.03.2021	CBB and BAB hold forum on FinHub973 for the financial sector
5	25.03.2021	CBB Governor co-chairs FSB RCG MENA meeting on financial market developments and enhancing cross-border payments
6	25.03.2021	Head of Fintech & Innovation Unit at CBB named in Women in FinTech Powerlist 2020
7	28.03.2021	CBB holds first Board meeting for 2021
8	26.04.2021	محافظ مصرف البحرين المركزي يهنئ سمو الشيخ ناصر بن حمد بمناسبة صدور الثقة الملكية بتعيينه رئيسا لمجلس إدارة الشركة القابضة للنفط والغاز
9	26.04.2021	Central Bank of Bahrain launches the Bahrain Supernova Fintech Challenges on FinHub 973 to drive open innovation across the Financial Services industry
10	17.05.2021	Central Bank of Bahrain, Bank ABC and J.P. Morgan announce Digital Currency Settlement Collaboration
11	18.05.2021	Central Bank of Bahrain announces banks' readiness for implementation of Open Banking services

12	19.05.2021	المعراج: التحفظ على أموال البنوك المتورطة في جرائم غسل أموال
13	27.05.2021	مصرف البحرين المركزي يصدر تعميماً لتوفير خيار تأجيل أقساط القروض المستحقة للأفراد والشركات
14	31.05.2021	HM King issues decree appointing CBB Deputy Governor
15	27.06.2021	CBB holds third Board meeting for 2021
16	10.08.2021	مشاركة مصرف البحرين المركزي في مشروع الجينيوم الوطني
17	14.08.2021	The Central Bank of Bahrain introduces AFAQ (GCC RTGS) System
18	14.09.2021	مصرف البحرين المركزي يترأس الاجتماع الثالث والعشرين للجنة رؤساء هيئات الأسواق المالية (أو من يعادلهم) بدول مجلس التعاون لدول الخليج العربية
19	16.09.2021	CBB issues circular regarding the second phase of Bahrain Open Banking Framework
20	15.09.2021	CBB Issues Regulations on New License Category for Fund Managers
21	06.10.2021	CBB holds workshop for GCC Central Bank Information Security Specialists
22	10.10.2021	CBB holds fourth Board meeting for 2021
23	12.10.2021	Central Bank of Bahrain re-elected as GFIN Coordination Group Member
24	16.10.2021	The Central Bank of Bahrain introduces the Bahrain Electronic Cheque System
25	29.11.2021	The Chairman of the Board H.E the Governor of the Central Bank of Bahrain visits the headquarters of the Gulf Payments Company
26	02.12.2021	CBB participates in WEF Publications
27	05.12.2021	ترتكز على 5 أولويات طموحة وحزمة متنوعة من البرامج.. استراتيجية تطوير قطاع الخدمات المالية (2022-2026) ضمن خطة التعافي الاقتصادي تسهم في تعزيز مساعي الاستدامة المالية والاستقرار الاقتصادي
28	06.12.2021	مصرف البحرين المركزي يشارك في اجتماع مجلس الاستقرار المالي
29	06.12.2021	Bahrain Insurance Sector Continues to Show Positive Results for the Six Months Ended 30 June 2021

30	07.12.2021	Central Bank of Bahrain Enhances Fintech Regulatory Sandbox to Boost Innovation
31	07.12.2021	The Central Bank of Bahrain implements Work from Home Policy
32	12.12.2021	CBB holds fifth Board meeting for 2021
33	23.12.2021	مصرف البحرين المركزي يصدر تعميماً لتوفير خيار تأجيل أقساط القروض المستحقة لمدة 6 أشهر إضافية للأفراد والشركات

## Conferences and Forums

No.	Date	Event
1	26 March 2021	CBB and BAB forum on FinHub973 for the financial sector
2	6 October 2021	The 5 <sup>th</sup> Workshop for Information Security Specialists in the GCC Central Banks
3	12-13 October 2021	AAOIFI 19th Annual Shariah Boards Conference
4	3 November 2021	ندوة صحيفة البلاد عن بُعد لمناقشة تفرّد مملكة البحرين في إطلاق الشيكات الالكترونية
5	1-2 December 2021	AAOIFI - IsDB 16th Annual Conference

## Interviews

No.	Date	Interviewee	Media or Event
1	22 June 2021	تأجيل الأقساط الشهرية للأفراد والشركات للمرحلة القادمة	Fahad Abdulla Yateem Director – Islamic Financial Institutions Supervision Directorate
2	25 October 2021	خدمة الشيكات الالكترونية	Hesa Abdulla Al Sada Executive Director - Banking Operations
3	14 November 2021	تقرير خاص حول الاحتيال الالكتروني في برنامج "نرتقي"	Consumer Protection Unit
4	19 November 2021	تقرير حول التوجيهات الحديثة لتسهيل إجراءات جمع رؤوس الأموال للشركات الناشئة	Shireen A.Karim Al Sayed Director - Regulatory Policy Unit and Yasmeen Murtadha Al Sharaf Director- Fintech And Innovation Unit

## Press conferences

No.	Date	Interviewee	Media or Event	Media Attendees
1	5 December 2021	استراتيجية تطوير قطاع الخدمات المالية (2022-2026) ضمن خطة التعافي الاقتصادي لمملكة البحرين	HE Rasheed Al Maraj, Governor	All Local Media

## Awards

No.	Date	Subject	Awarding Body
1	13 January 2022	3rd place award in the Capital Governorate competition for best decorated buildings in Manama (Government institutions category) for 2021 on the anniversary of HM King Hamad bin Isa Al Khalifa's accession to the throne and National Day.	The Capital Governorate

## Tawasul system

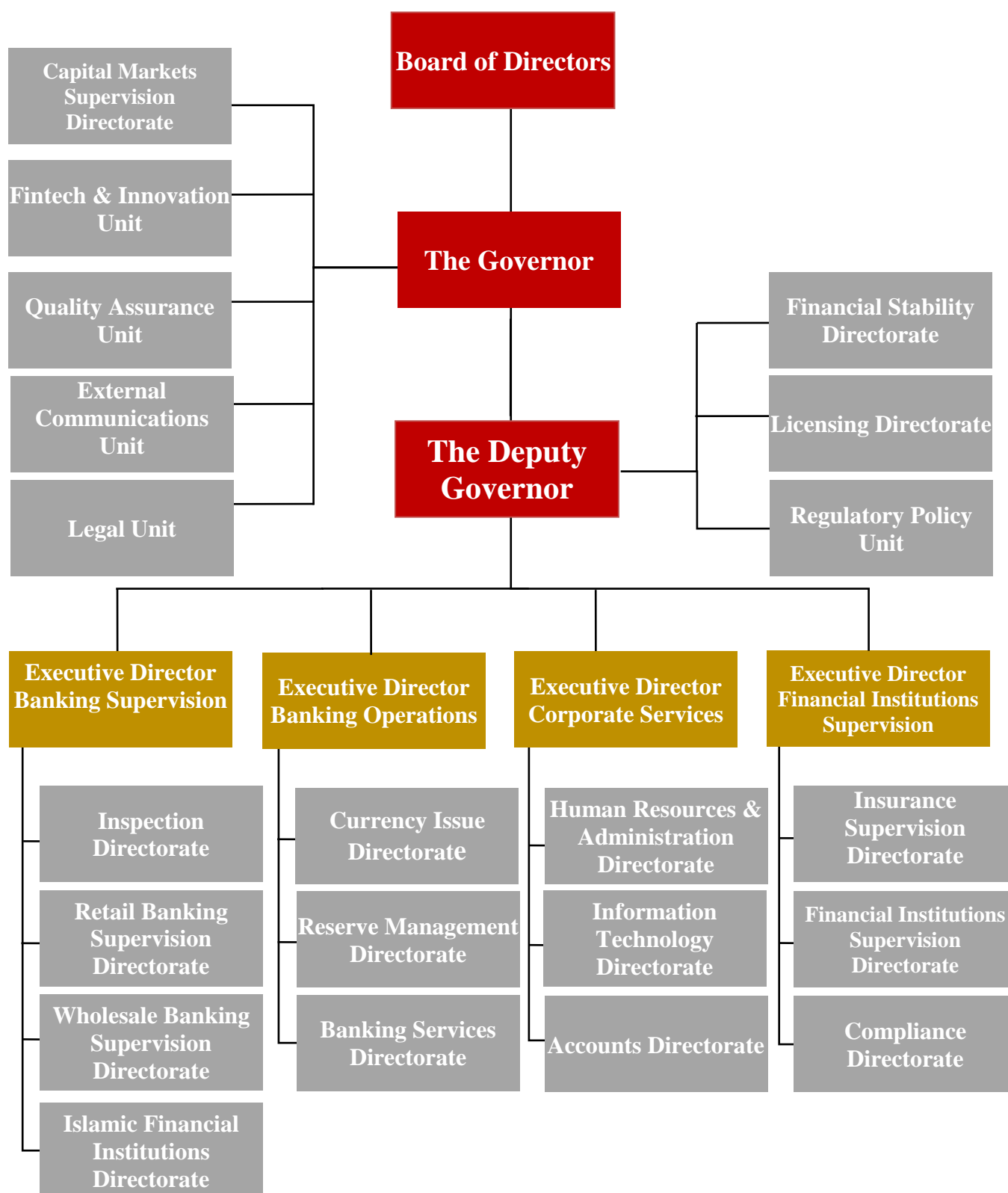
Total number of cases received in 2021 (1,689):

- Total number of complaints received in 2021 (1,348).
- Total number of queries received in 2021 (286).
- Total number of suggestions received in 2021 (55).

\*All cases were jointly resolved and closed by ECU, the Consumer Protection Unit and relevant Directorates in CBB.



## CBB's Organizational Chart



Chapter

4

## **4. Financial Statements for the Year Ended December 2021**

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

**31 DECEMBER 2021**

CENTRAL BANK OF BAHRAIN  
AUDITED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2021

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Balance sheet	3
Profit and loss account and appropriation	4
Notes to the financial statements	5 - 10

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

### **Report on the Audit of the Financial Statements**

We have audited the accompanying financial statements of the Central Bank of Bahrain ("the Central Bank"), which comprise the balance sheet as at 31 December 2021, and the profit and loss account and appropriation for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Central Bank as at 31 December 2021, and its financial performance for the year then ended in accordance with the accounting policies described in Note 2 to the financial statements and in compliance with the Royal Decree No.64 of 2006.

#### *Basis for opinion*

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

#### *Responsibilities of the Management for the financial statements*

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

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

#### *Auditor's responsibilities for the audit of the financial statements*

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

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

### **Report on the Audit of the Financial Statements (continued)**

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

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

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

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





# CENTRAL BANK OF BAHRAIN

## BALANCE SHEET

AS AT 31 DECEMBER 2021

	Note	2021 BD'000	2020 BD'000
<b>ASSETS</b>			
Gold	3	2,500	2,500
Foreign reserves	4	1,873,964	752,579
Due from Ministry of Finance	5	1,920,360	1,901,370
Cash, due from Bahraini banks and treasury bills	6	318,594	351,436
Other assets	7	12,239	13,972
<b>TOTAL ASSETS</b>		<b>4,127,657</b>	<b>3,021,857</b>
<b>LIABILITIES</b>			
Notes and coins in circulation	3	704,058	745,117
Bahraini Dinar deposits		2,538,594	1,413,385
Other deposits		264,708	247,318
Due to other central banks		1,016	4,621
Profit payable to the Government of the Kingdom of Bahrain		2,500	2,500
Provision for currency withdrawn		6,156	6,161
Other liabilities	8	8,468	7,143
<b>TOTAL LIABILITIES</b>		<b>3,525,500</b>	<b>2,426,245</b>
<b>CAPITAL FUNDS</b>			
Capital	9	200,000	200,000
General reserve	10	269,761	265,237
Contingency reserve	11	111,219	109,195
Revaluation reserve	12	21,177	21,180
<b>TOTAL CAPITAL FUNDS</b>		<b>602,157</b>	<b>595,612</b>
<b>TOTAL LIABILITIES AND CAPITAL FUNDS</b>		<b>4,127,657</b>	<b>3,021,857</b>



Hassan Khalifa Al Jalahma  
Chairman



Rasheed Mohammad Al Maraj  
Governor

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

**CENTRAL BANK OF BAHRAIN**  
**PROFIT AND LOSS ACCOUNT AND APPROPRIATION**  
**FOR THE YEAR ENDED 31 DECEMBER 2021**

	Note	2021 BD'000	2020 BD'000
<b>INCOME</b>			
Interest income		33,397	28,656
Interest expense		(27,485)	(17,128)
<b>Net interest income</b>		<b>5,912</b>	<b>11,528</b>
Registration and licensing fees		5,317	5,283
Exchange gain on sale of US dollars		9,271	9,437
Net realised investment gain		1,985	1,238
Other income		3,266	3,562
<b>TOTAL INCOME</b>		<b>25,751</b>	<b>31,048</b>
<b>EXPENSES</b>			
Staff costs		(12,138)	(12,637)
General and administration expenses		(3,423)	(2,760)
Notes issue expenses		(1,080)	(1,359)
Managed funds and advisory fees		(19)	(91)
<b>TOTAL OPERATING EXPENSES</b>		<b>(16,660)</b>	<b>(16,847)</b>
<b>PROFIT FOR THE YEAR BEFORE PROVISION FOR IMPAIRMENT</b>		<b>9,091</b>	<b>14,201</b>
Provision for impairment		(43)	(51)
<b>PROFIT FOR THE YEAR</b>		<b>9,048</b>	<b>14,150</b>
Transfer to contingency reserve	11	(2,024)	(4,575)
Transfer to general reserve	10	(4,524)	(7,075)
<b>BALANCE PAYABLE TO THE KINGDOM OF BAHRAIN</b>		<b>2,500</b>	<b>2,500</b>



Hassan Khalifa Al Jalahma  
Chairman



Rasheed Mohammad Al Maraj  
Governor

# CENTRAL BANK OF BAHRAIN

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## NOTES TO THE FINANCIAL STATEMENTS

### AS AT 31 DECEMBER 2021

#### **1 ACTIVITY**

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

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

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

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

The financial statements of the Central Bank, comprise the balance sheet as at 31 December 2021, the related profit and loss account and appropriation for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information and were authorised for issue by the Board of Directors on 27 March 2022.

#### **2 SIGNIFICANT ACCOUNTING POLICIES**

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

##### **2.1 Accounting convention**

The financial statements are prepared under the historical cost convention.

##### **2.2 Gold**

Gold is carried at cost.

##### **2.3 Foreign reserves**

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

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

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

##### **2.4 Cash, due from Bahraini banks and treasury bills**

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

##### **2.5 Equipment**

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

**CENTRAL BANK OF BAHRAIN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2021**

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**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.5 Equipment (continued)**

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

**2.6 Notes and coins in circulation**

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

**2.7 Foreign currencies**

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

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

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

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

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

**2.8 Provision for impairment**

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

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

**2.9 Revenue recognition**

*Interest income*

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

*Registration and licensing fees*

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

**CENTRAL BANK OF BAHRAIN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
AS AT 31 DECEMBER 2021

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.9 Revenue recognition (continued)**

*Net realised investment gains and losses*

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

**2.10 Interest expense**

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

**2.11 Notes issue expenses**

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

**2.12 Provision**

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

**3 EXCESS OF AUTHORISED BACKING OVER CURRENCY IN CIRCULATION**

	<b>2021</b>	<b>2020</b>
	<b>BD'000</b>	<b>BD'000</b>
Authorised backing		
Gold	<b>2,500</b>	2,500
Foreign reserves – note 4	<b>1,873,964</b>	752,579
	<b>1,876,464</b>	755,079
Notes and coins in circulation	<b>(704,058)</b>	(745,117)
Excess of authorised backing over currency in circulation	<b>1,172,406</b>	9,962

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

The fair value of gold as at 31 December 2021 was BD 103,660 thousand (2020: BD 107,352 thousand).

**4 FOREIGN RESERVES**

	<b>2021</b>	<b>2020</b>
	<b>BD'000</b>	<b>BD'000</b>
Bank deposits	<b>1,831,071</b>	709,619
Bonds portfolio	<b>42,893</b>	42,960
Other securities	-	86,727
	<b>1,873,964</b>	839,306
Less: provision for impairment	-	(86,727)
	<b>1,873,964</b>	752,579

**CENTRAL BANK OF BAHRAIN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
AS AT 31 DECEMBER 2021

**4 FOREIGN RESERVES (continued)**

Other securities along with related provision for impairment have been transferred to other assets during the year as they are no more considered as foreign reserves.

All bonds are quoted in active markets with 99.82% representing bonds relating to Government of Bahrain or being of investment grade BBB or higher (2020: 99.74%) based on their market values. All the deposits (2020: 100%) and 100% of bonds (2020: 100%) are denominated in US Dollars.

The market value of the bond portfolio (including cash and accrued interest held within these portfolio) at 31 December 2021 was BD 44,278 thousand (2020: BD 45,494 thousand).

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

**5 DUE FROM MINISTRY OF FINANCE**

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

**6 CASH, DUE FROM BAHRAINI BANKS AND TREASURY BILLS**

	<b>2021</b>	<b>2020</b>
	<b>BD'000</b>	<b>BD'000</b>
Cash	<b>22</b>	22
Due from Bahraini banks	<b>18,323</b>	56,739
Ijara Sukuk / Treasury bonds & bills issued by the Government of Bahrain	<b>300,249</b>	294,675
	<b>318,594</b>	351,436

**7 OTHER ASSETS**

	<b>2021</b>	<b>2020</b>
	<b>BD'000</b>	<b>BD'000</b>
Interest receivable	<b>2,605</b>	3,470
Staff loans	<b>4,454</b>	4,753
Equipment	<b>1,715</b>	3,906
Others	<b>3,465</b>	1,843
	<b>12,239</b>	13,972

**8 OTHER LIABILITIES**

	<b>2021</b>	<b>2020</b>
	<b>BD'000</b>	<b>BD'000</b>
Deferred license fee received	<b>4,724</b>	4,629
Other payables	<b>2,739</b>	2,015
Interest payable	<b>845</b>	274
Accrued expenses	<b>160</b>	225
	<b>8,468</b>	7,143



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**9 CAPITAL**

	<b>2021</b>	<b>2020</b>
	<b>BD'000</b>	<b>BD'000</b>
Authorised	<b>500,000</b>	500,000
Issued and fully paid up	<b>200,000</b>	200,000

**10 GENERAL RESERVE**

	<b>2021</b>	<b>2020</b>
	<b>BD'000</b>	<b>BD'000</b>
Balance at beginning of the year	<b>265,237</b>	258,162
Transfer from profit and loss account and appropriation	<b>4,524</b>	7,075
Balance at end of the year	<b>269,761</b>	265,237

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

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

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

**11 CONTINGENCY RESERVE**

	<b>2021</b>	<b>2020</b>
	<b>BD'000</b>	<b>BD'000</b>
Balance at beginning of the year	<b>109,195</b>	105,915
Transfer during the year	2,024	4,575
Utilised during the year	-	(1,295)
Balance at end of the year	<b>111,219</b>	109,195

In accordance with Article 21 of the Central Bank of Bahrain and Financial Institution Law, the Board has approved a transfer of BD 2,024 thousand of the current year's net profit to the contingency reserve (2020: BD 4,575 thousand) and utilisation of BD nil for impairment provision (2020: BD 1,295 thousand).

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**12 REVALUATION RESERVE**

	<b>2021</b> <b>BD'000</b>	<b>2020</b> <b>BD'000</b>
Balance at beginning of the year	<b>21,180</b>	21,889
Movement during the year	<b>(3)</b>	(709)
Balance at end of the year	<b>21,177</b>	21,180

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

**13 CONTINGENT LIABILITIES AND COMMITMENTS**

Contingent liabilities and commitments, some of which are offset by corresponding obligations of third parties, arise in the normal course of business, including contingent liabilities in respect of guarantees and indemnities in connection with liquidity support operations. As at 31 December 2021 and 2020, there were no outstanding contingent liabilities. Further, the outstanding commitments relating to currency swap transactions (USD purchase against BD) as of 31 December 2021 amounted to BD 1,991 million (31 December 2020: BD 1,670 million).