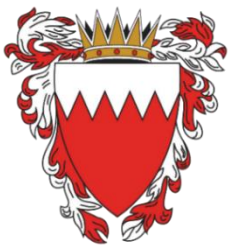
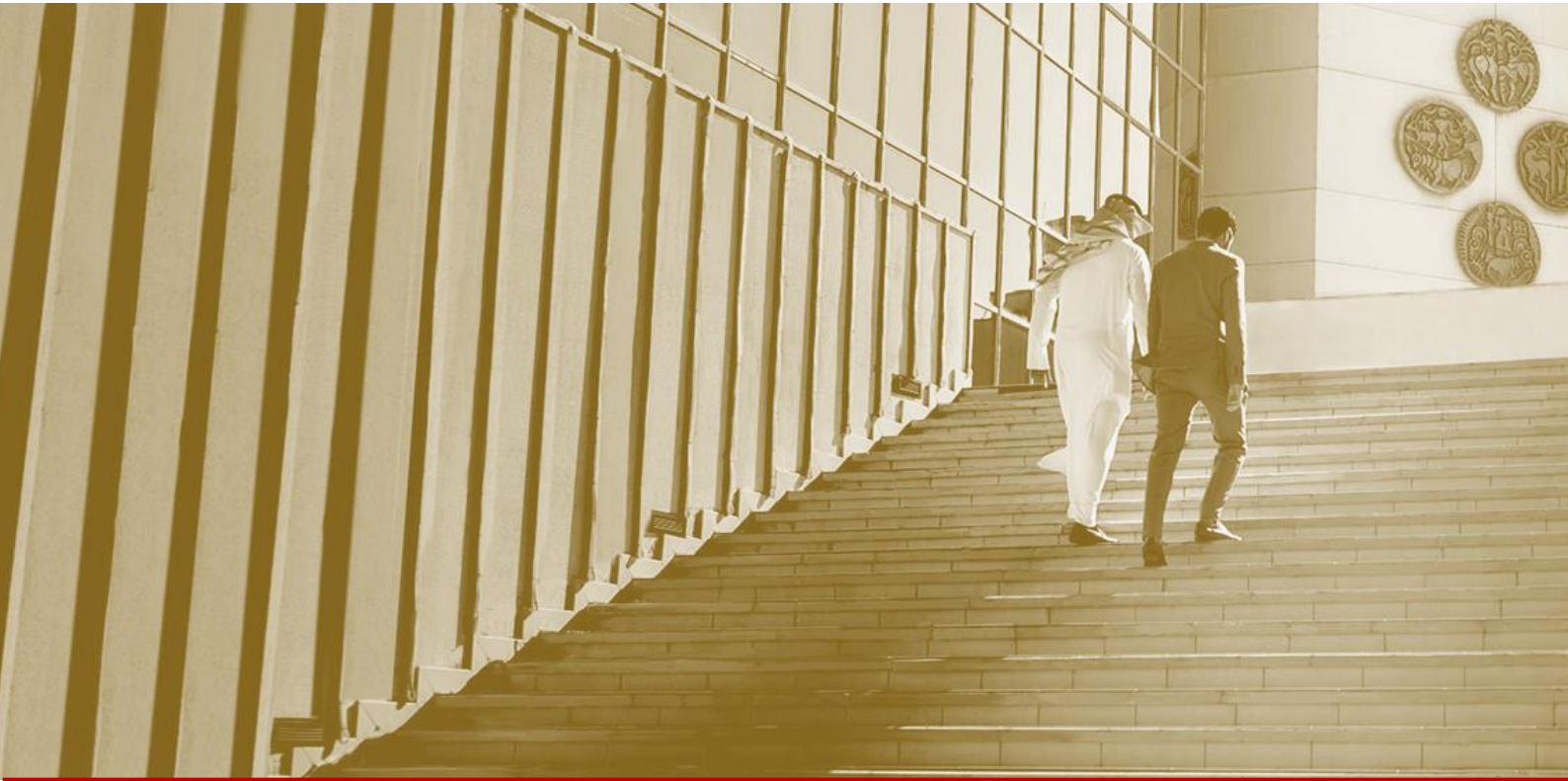


Annual Report



مصرف البحرين المركزي

Central Bank of Bahrain

2022

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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 2022. 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.

In August 2022, the reserve percentage was reformed back to 5% from 3% which was reduced as per the regulatory measures introduced by the CBB in March 2020 to contain the financial repercussions of the Covid-19.

The total banks' Reserve Requirement balance outstanding in December 2022 was BD 563.379 million, with an increase of 68% compared to December 2021.

Domestic Interest Rates

Key Policy Interest Rates

In 2022, the CBB have changed its interest rates as follows:

- **On 17th March 2022**, the one-week deposit facility rate was increased from 1.00% to 1.25%, the overnight deposit rate from 0.75% to 1.00%, the four-week deposit rate from 1.50% to 1.75% and the CBB lending rate from 2.25% to 2.50%.
- **On 5th May 2022**, the one-week deposit facility rate was increased from 1.25% to 1.75%, the overnight deposit rate from 1.00% to 1.50%, the four-week deposit rate from 1.75% to 2.50% and the CBB lending rate from 2.50% to 3.00%.
- **On 16th June 2022**, the one-week deposit facility rate was increased from 1.75% to 2.50%, the overnight deposit rate from 1.50% to 2.25%, the four-week deposit rate from 2.50% to 3.25% and the CBB lending rate from 3.00% to 3.75%.
- **On 28th July 2022**, the one-week deposit facility rate was increased from 2.50% to 3.25%, the overnight deposit rate from 2.25% to 3.00%, the four-week deposit rate from 3.25% to 4.00% and the CBB lending rate from 3.75% to 4.50%.
- **On 22nd September 2022**, the one-week deposit facility rate was increased from 3.25% to 4.00%, the overnight deposit rate from 3.00% to 3.75%, the four-week deposit rate from 4.00% to 4.75% and the CBB lending rate from 4.50% to 5.25%.
- **On 3rd November 2022**, the one-week deposit facility rate was increased from 4.00% to 4.75%, the overnight deposit rate from 3.75% to 4.50%, the four-week deposit rate from 4.75% to 5.50% and the CBB lending rate from 5.25% to 6.00%.

- **On 15th December 2022**, the one-week deposit facility rate was increased from 4.75% to 5.25%, the overnight deposit rate from 4.50% to 5.00%, the four-week deposit rate from 5.50% to 6.00% and the CBB lending rate from 6.00% to 6.50%.

Interbank Rates

As at end 2022, the 3-month BHIBOR rate was 6.14%, compared to 1.52% at end 2021. The 6-month BHIBOR rate was 6.27%, compared to 1.62% at end 2021.

Loans and Deposits rates

The weighted interest rate on deposits (3-12 months) increased from 0.63% at end 2021 to 2.50% at end 2022 as well as the weighted interest rate on deposits (less than 3 months) from 0.47% to 2.10% for the same period. On contrast, saving deposits rates decreased from 0.15% to 0.14% for the same period. Business loan rates increased from 4.14% at end 2021 to 7.26% at end 2022. Also, Personal loans rates increased from 4.26% to 6.44% for the same period.

Standing Facilities

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 31st December 2022 was BD 2.448 billion, compared to BD 1.665 billion in 31st December 2021, with a 47% 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 106.802 million in 31st December 2022, compared to BD 220.747 million in 31st December 2021, with a 52% decrease.

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 940 Murabaha Sukuk transactions were executed with a total value of BD 3.892 billion during the year 2022, compared to 674 transactions with a total value of BD 2.952 billion in 2021, with a 32% increase. The daily average number of transactions during 2022 was 4 transactions and the average daily value was BD 15.756 million.

Public Debt Tools

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).

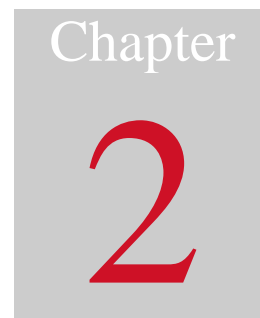
During 2022, the CBB issued conventional three-month Treasury Bills, denominated in Bahraini dinars, on a weekly basis, with an issue amount of BD 70 million. Six-month Treasury Bills were also issued, on a monthly basis, with an issue amount of BD 35 million and Twelve-month Treasury Bills with an issue 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 2022, 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 150 million on March 17th, 2022, with a maturity of 3 years, and a fixed-rate of 4.20%.
- Local Government Development Bond with an issue amount of BD 150 million on May 19th, 2022, with a maturity of 5 years, and a fixed-rate of 5.50%.
- Local Government Development Bond with an issue amount of BD 200 million on July 17th, 2022, with a maturity of 5 years, and a fixed-rate of 6.20%.

Additionally, the CBB has also arranged to issue three Private Placements with amounts of \$500 million, \$500 million and \$350 million respectively in 2022.



2. Regulatory and Supervisory Developments

Regulatory Developments

Supervisory Developments

Regulatory Developments

Climate related risks

The Central Bank of Bahrain (“the CBB”) issued in March 2022 a guidance note to all licensees with regards to climate related risks with the objective of ensuring that the licensees are kept abreast of the developments and practices in the area of climate-related risk management as it will shape business models in years to come.

The CBB will seek periodic feedback from the licensees on their preparedness to potentially implement a framework to identify and manage climate-related risks and also capitalize on climate-related opportunities.

Implementing high ESG standards

As part of the Central Bank of Bahrain’s (“CBB”) objective to maintain disclosure transparency and high corporate governance standards, in addition to its commitment to social and climate related goals, the CBB is currently developing Environmental, Social, and Governance (“ESG”) disclosure guidelines to assist companies with ESG integration and reporting against a broad range of environmental, social, and corporate governance factors.

The guidelines will be based on international best practices, frameworks and initiatives, taking also into consideration of the feedback from listed companies, banks, insurance firms, and category 1 investment firms on the ESG Reporting Survey conducted by the CBB.

The CBB anticipates the issuance of the ESG disclosure guidelines in the first half of 2023 that will be addressed to listed companies and relevant CBB licensees.

Revised new directives on Collective Investment Undertakings

The Central Bank of Bahrain (“the CBB”) issued in March 2022 new directives on Collective Investment Undertakings (“CIU”) under CBB Rulebook Volume 7 after conducting a comprehensive review of its Collective Investment Undertakings (“CIU”) regulations governing the mutual funds industry. The new CIU regulations are now combined under a single Module making it simpler and market friendly.

The new framework acknowledges the demands placed by the fast-paced changes in the fund management industry and therefore aims at lightning the administrative processes and simplifying the authorization requirements for establishing and marketing CIUs. The new regulations classify the CIUs into two broad categories, the first category is targeting retail investors, and the second category is targeting accredited and affluent investors.

Requirements to enhance Representation of Payment Transactions

The CBB issued in February 2022 a circular to all financing companies and payment service providers with regards to the need to follow a consistent practice in representation of payment

transactions undertaken by financing companies and payment service providers who provide acquiring services within the Kingdom.

In order to ensure that customers will be able to view/access or store their payment transaction data in a consistent manner and to allow further analyses of the transactions, financing companies and payment service providers providing acquiring services are required with effect from 29th May 2022 to include Merchant Category Codes (MCC), consistent with ISO 18245, in the customer transaction data to be shared with the issuers.

Bahrain Open Banking Framework – Developer Portal

In order to promote digital transformation in the financial services sector and ensure smooth implementation of the Bahrain Open Banking Framework, the CBB issued amendments to the General Requirements Module of CBB Rulebook Volumes 1 and 2 requiring retail banks to give access to companies operating in the CBB's Regulatory Sandbox and AISPs/PISPs granted in-principle licensing confirmation to their developer portals (testing facilities) for the purpose of testing open banking solutions.

Proposed amendments to Operational Risk Management Module

- **Introducing amendments to the requirements for cybersecurity risk Management**

The CBB issued new amendments in March 2022 to banks, insurance firms, investment firms, money changers, and ancillary service providers on reporting of cyber security incidents immediately (within one hour), upon occurrence or detection of any cybersecurity incident and submit Section A of the cybersecurity incident report (Appendix OM-1) within two hours. Licensees are also required submit Section B of the report to the CBB within ten calendar days.

- **Cybersecurity risk management requirements**

In August 2022, the CBB issued to all banks, insurance firms, investment firms, money changers, and ancillary service providers requirements on the use of email domains and URLs for communication with customers. The requirements aim to enhance consumer protection measures and prevent frauds such as phishing that may lead to breaches of confidential data or financial losses to customers.

- **Consultation paper: Proposed Financial Cybersecurity Controls**

The CBB issued a consultation paper to all licensees with regards to a draft national level standard on Financial Cybersecurity Controls received from the Ministry of Interior's National Cyber Security Center. The draft standards address the best practices to be implemented in seven domains which are Governance, Cybersecurity of Financial Technology, Cyber Defense, Cybersecurity Assessment, Cybersecurity of Third-Party, Cybersecurity Incident Management and Cybersecurity Audit.

Amendments to the Financial Crime Module (Module FC)

The CBB in June 2022, issued amendments to the Financial Crime Module of the CBB Rulebook Volumes 1 and 2 respectively by adding a paragraph that allows banks to open accounts for Bahraini citizens residing outside Bahrain, through the digital on-boarding process, using the national electronic E-KYC system.

The CBB issued later in December 2022 further amendments allowing the opening of accounts for natural persons holding a golden visa residing outside the GCC countries through the digital onboarding process.

Consultation Paper - Trust Law

The CBB issued a consultation paper in January 2022 to all banks, investment companies, trust service providers, law firms, and audit firms seeking their feedback on the effectiveness and practical applicability of the Trust Law issued in October 2016 to consider need for any changes.

Resolution No. (10) of 2022 pursuant to issuing the Execution Law in Civil and Commercial Matters issued against licensees by the Central Bank of Bahrain

The CBB issued Resolution No. (10) for the year 2022 to all banks regarding the rules and procedures for implementing execution law issued against licensees after consulting with the industry.

Amendments to Takeovers, Mergers and Acquisitions Module (Module TMA)

In January 2022, the CBB issued the final amendments on compulsory acquisitions to Module TMA under Volume 6 of the CBB Rulebook for Capital Markets, after consulting with the industry.

Amendments to the General Requirements Module of the CBB Rulebook Volumes 1 and 2

In February 2022, the CBB issued a circular to all retail banks regarding amendments to the General Requirements Module (Module GR) mandating access and sharing of the Merchant Category Code (MCC), consistent with ISO 18245, relevant to customer account activity/transactions. These amendments aim to ensure better transparency with regards to payment transactions and customer account activities, which is necessary for proper implementation of open banking. The amended requirements are effective from 15th May 2022.

Amendments to the CBB Rulebook Volume 5 (Category 3: Financing Companies)

In February 2022, the CBB amended the CBB Rulebook Volume 5 (Type 3: Financing Companies), to cater to financing companies with limited scope of short-term credit activities such as “Buy Now, Pay Later” (BNPL). The amendments will allow innovative business models using digital technology and platforms to provide small value consumer loans. Consumers and small businesses are expected to benefit from such new business models.

Caps on Fees and Charges for Standard Services applicable to Microfinance Institutions

The CBB issued in January 2022 a consultation paper on proposed new caps on fees and charges for standard services provided by Microfinance Institutions. The CBB studied the feedback received from the industry and issued the final rules in March 2022 as part of a new Appendix BC-3 of the CBB Rulebook Volume 5. The caps on fees and charges will be effective from 1st April 2022. Licensees who were addressed in the circular must ensure that their caps are displayed in their website.

New Financing and Equity based Crowdfunding Platform Operators’ Directives

The CBB issued new regulations applicable to crowdfunding platform operators following a comprehensive review of the existing regulations, which were first issued in 2017. The new regulations contain rules regarding equity-based crowdfunding and financing-based crowdfunding and are covered under one Module: Crowdfunding Platform Operators Module (Module CFP).

The new regulations include principles governing the conduct of operations by the platform, rules on platform offers and disclosures, avoiding conflicts of interest, due diligence of borrowers/issuers through Know Your Customer (KYC), segregation of client money from platform operator’s money and other measures to ensure safe operation of the activity. Additionally, the new regulations require the crowdfunding platform operators to ensure the suitability of the products being offered on the platform to retail clients.

Discrepancies in Bahrain Credit Reference Bureau Data Reporting

The CBB issued a consultation paper in April 2022 to all retail banks, financing companies and microfinance institutions regarding the existence of certain credit exposure reporting discrepancies between financial institutions’ own MIS Data and Bahrain Credit Reference Bureau Data (“BCRB”). The CBB required licensees to resolve such discrepancies and data inconsistencies in the reports through conducting periodic reviews and reconciliations.

Consultation paper: Proposed Revised High-Level Controls Module

The CBB issued a consultation paper for Conventional and Islamic banks on a new revised High-Level Controls Module (Module HC). The proposed requirements under the revised Module HC are in line with the Basel Committee on Banking Supervision paper “Principles of Corporate Governance in July 2015” and will replace the existing Module.

The CBB studied the banking industry’s feedback received on the consultation paper issued in this regard and will issue the final rules in due course.

Outsourcing Requirements

As part of the CBB’s efforts to enhance its regulatory framework, the CBB in July 2022 issued revised outsourcing requirements. The requirements included a definition for outsourcing and what functions can and cannot be outsourced and the requirements that licensees must adhere to before entering into an outsourcing agreement.

Consultation paper: Dealing with Accounts of Expatriates whose Work Permits have Expired and are no Longer Residing in the Kingdom

The CBB issued a consultation paper to all retail banks, financing companies and payment service providers regarding accounts in the name of expatriates whose work permits have expired and have not been renewed, and who are no longer residing in the Kingdom of Bahrain. The CBB is considering new requirements in relation to procedures and processes regarding such accounts.

Replacement of the Traditional Hard-Copy Residency Permits with Digital Residency Permits

The CBB issued in March 2022 a circular to all licensees with regards to the cancellation of the traditional hard-copy residency permits by the Nationality, Passports and Residence Affairs. The traditional hard-copy residency permits will be replaced with digital residency permits with a QR code for verification. This step is done in line with the electronic services provided in most government entities and the private sector in the Kingdom of Bahrain.

Consultation: Proposed Amendments to Authorization Module (Module AU) and Financial Crime Module (Module FC) for investment firms

As part of the CBB’s initiatives to further enhance its regulatory framework, the CBB issued various amendments to Module AU and Module FC of the CBB Rulebook – Volume 4 to allow investment firms to offer services involving crypto-assets. The Authorization Module was amended to include certain conditions and requirements such as notifying the CBB before dealing with crypto-assets which fall under the definition of financial instruments, refrain from dealing with crypto-assets as a principal as well as other licensing requirements. The Financial Crime Module included requirements on transfer of crypto-assets, information accompanying crypto-asset transfers, responsibilities of ordering financial institution,

responsibilities of intermediary financial institutions, responsibilities of beneficiary financial institution and other requirements.

Consultation paper: Amendments to Crypto-asset Module of Volume 6

As part of the CBB initiatives to further enhance its regulatory framework, the CBB issued a consultation paper proposing various amendments to Crypto-asset Module including a new Chapter on digital token offerings, revisions to the definitions of crypto-assets and enhancements to the cyber security requirements.

ATM Physical Security Measures

The CBB issued a circular to all retail banks requiring them to comply with the CBB Rulebook requirements with regards to the Physical Security Measures in chapter 5 of the Operational Risk Management Module and take immediate action to ensure full compliance with the CBB Rulebook requirements to avoid risk of attacks and loss of reputation and customer trust.

The CBB shall conduct surprise inspections of ATM installations throughout the Kingdom on a selective basis and any non-compliance will lead to suspension of the subject ATMs as well as a financial penalty of BD5,000 on each violation.

Directive on Arrangements relating to Regulated Services provided by Payment Service Providers (PSPs)

The CBB issued a directive pursuant to Article 3(b) of Resolution No. (16) of 2012 relating to marketing financial services in the Kingdom of Bahrain, and in relation to Regulated Services Provided by such licensees.

The directive allows payment service providers to enter into an arrangement with third-parties to market financial services in the Kingdom of Bahrain subject to the following certain conditions including PSP shall remain fully responsible for regulated services provided in connection with the arrangement.

Judicial Banking Orders System

The CBB issued in September and November a circular to all banks, insurance firms, investment firms, payment service providers and Bahrain Bourse regarding the introduction of a new system by the Ministry of Justice, Islamic Affairs and Waqf to handle the blocking and unblocking orders with all banks as members in the system. The new system will replace the existing Blocking and Unblocking system that is currently operated by the CBB.

Social Housing Loans Through Participating Banks

With the objective of facilitating the implementation of social housing schemes and to encourage retail banks to participate, the CBB amended the Capital Adequacy Module for conventional and Islamic banks. The amendment allows the bank to reduce the risk weight for residential and real estate exposures granted under the Social Housing Schemes of the Kingdom of Bahrain to 25%, subject to meeting certain conditions, such as the timely recognition of expected credit loss as per the Credit Risk Management Module.

Women's Representation on Boards of Directors of Listed Companies

As part of the CBB's objective towards enhancing the corporate governance standards in the capital market of the Kingdom of Bahrain and particularly enhancing equal opportunities between women and men among the Board composition of listed companies, the CBB in September introduced amendments to the High-Level Controls Module of the CBB Rulebook Volume 6 regarding women's representation on the board of directors of listed companies.

Client Money Requirements for Payment Service Providers

The CBB issued enhancements to its client money requirements in November 2022, after consulting the industry in October 2022, which clarified the CBB's requirements including the definition of client money, the accounting treatment and additional controls.

Consultation: Revised Appointed Representative Requirements of CBB Reporting Requirements Module

As part of the CBB's objective to enhance its regulatory framework, the CBB issued in November 2022 a consultation paper to all insurance firms proposing amendments to the requirements on "Appointed Representatives" in Module GR of the CBB Rulebook – Volume 3.

Survey on life insurance policies

As part of the CBB's objectives for further enhancing its regulatory framework, the CBB is currently studying the approach by retail banks and financing companies for insuring their consumer finance portfolio and residential mortgage portfolio. The CBB in this regard issued in November 2022 a survey for retail banks and financing companies on various aspects of insurance related to credit.

Pension Commutation Scheme

Pursuant to the launch of the Social Insurance Organisation's Pension Commutation Scheme, the CBB issued in December 2022 an amendment to the Credit Risk Management Module for conventional and Islamic banks which excluded any credit facility awarded based on

eligibility as per the Social Insurance Organisation's Pension Commutation Scheme from consumer finance requirements.

Proposed Amendments to Credit Risk Management (CM) Module

The CBB issued proposed amendments to the Credit Risk Management Module (Module CM) to all retail banks and financing companies. The proposed amendments relate to re-categorization of non-performing exposures whereby the cooling-off period for reclassification of retail customers will be changed to three months for facilities with monthly installments, six months for facilities with quarterly installments.

Financial impact of Covid-19

As the business landscape has significantly recovered due to fall in Covid-19 cases and the severity of the pandemic, the CBB issued in May 2022 a circular, which stated that all listed companies and licensees are no longer required to disclose the financial impact of Covid-19 in their interim and annual financial statements and disclose the same through a supplementary public disclosure published on the Bahrain Bourse website for listed companies.

The CBB had also issued in June 2022 two circulars to all retail banks on the extension of the regulatory measures and concessions to contain the financial repercussions of the Covid-19 pandemic as the CBB agreed on the recommendation of the Bahrain Association of Banks to discontinue the installments deferral program by 30th June 2022. The CBB urged all licensees to assess customers' needs for either rescheduling or restructuring existing facilities.

The other circular included the continuation of the following concessionary prudential measures:

The risk weight for SMEs shall continue at 25% until further notice;

The cash reserve ratio shall be restored from 3% to 5%, with effect from 1st August 2022. and Amortization of modification loss and 2020 ECL (management overlay) must be amortised starting from 1st January 2023.

Supervisory Developments

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

During 2022, the Central Bank of Bahrain and other relevant AML/CFT governmental and institutional stakeholders prepared Bahrain's Fourth Mutual Evaluation Follow up Report. The final draft report will be discussed and adopted in the MENAFATF Plenary Meeting in May 2023. 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 focus 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 "Trade-based Money Laundering". This paper outlines the process, trends and challenges of trade-based money laundering and touches on Trade-Based Terrorist Financing and services-based money laundering. The paper also includes risk indicators to help financial institutions identify potential suspicious activity associated with trade-based money laundering. Additionally, the paper covers measures and best practices to counter trade-based money laundering.

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.

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. It is worth mentioning that the Kingdom has achieved the highest overall rating of "On-Track" which has been adopted and published by the OECD in November 2022.

Additionally, the Kingdom 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 2022, CBB electronically obtained CRS and FATCA annual reports from the relevant licensees and exchanged them with the relevant reportable jurisdictions in a timely manner. In addition to that, CBB obtained ES annual reports from the relevant licensees and conducted the relevant risk assessment in relation to their substance adequacy. The aforementioned assessment concluded that the relevant licensees are compliant with the ES requirements.

Banking Supervision Directorates

The CBB continued with its proactive monitoring and risk-based supervision of licensees with the objective of ensuring financial stability and soundness of the banking and financial system in the Kingdom of Bahrain. Accordingly, the CBB undertook the following measures during 2022:

- 1. COVID-19 Policy Measures:** The CBB further extended its Covid-19 concessionary measures, from January to June 2022. The concessionary measures, which included loan deferrals, relaxed criteria for ECL, reduced eligible capital risk weights for SMEs, liquidity support to financial institutions and lower requirements for LCR, NSFR and Cash Reserve Ratio, among others were finally withdrawn with effect from July 2022 (SME capital risk weight remains reduced until further notice).

CBB also conducted meetings with locally incorporated banks in the last quarter of 2022, to assess the credit risk impact of withdrawal Covid-19 concessions as well as any resultant potential financial sector vulnerabilities.

- 2. Domestic-Systematically Important Banks (D-SIBs):** The Banking Supervision Directorates continued to closely monitor D-SIBs by having quarterly reviews of their performance and bi-annual prudential meetings. In addition, the Recovery and Resolution Plans (RRPs) prepared by D-SIBs continued to be reviewed in line with the Financial Stability Board guidance and the CBB's Rulebook requirements.
- 3. Monitoring the Level of Real Estate Exposures:** The supervision directorates with the aim of controlling risk concentration to this sector continued close monitoring of the real estate exposures of banks on a quarterly basis.
- 4. Related Party Exposures:** Exposures to related party by locally incorporated banks are being monitored regularly to limit concentration risk to related parties while also ensuring licensees' full regulatory compliance with relevant CBB's requirements.
- 5. Monitoring of Impaired Loans Portfolio:** With the aim of proactively identifying any abnormal trends in the credit portfolio, Banking Supervision Directorates diligently monitored and assessed impaired loans portfolio on quarterly basis.
- 6. Prudential Meetings:** The Conventional Banking Supervision Directorates conducted 36 prudential meetings during the year covering issues pertaining to licensees' performances along with strategic future directions as well as other supervisory issues of relevance for the CBB.

- 7. Open Banking Framework:** The implementation of both phases I and II of the new Bahrain Open Banking Framework were being closely monitored by Banking Supervision Directorates in cooperation with the Information Technology at the CBB with the objective of ensuring their compliance with the CBB's requirements and international benchmarks.
- 8. Meeting on Financial Statements:** Annual tripartite meetings between CBB, banks/financing companies, and their external auditors were conducted by Banking Supervision Directorates to discuss their annual financial statements before being approved by their respective Boards. Such deliberations encompassed issues pertaining to recognition of income, movements in impaired assets, adequacy of provisions, valuation practices, and proposed dividends among others.
- 9. Supervisory College Meetings:** As part of cross border cooperation on supervision of banking institutions including oversight of foreign bank branch licensees, the CBB attended supervisory college meetings organized by regulators from the UAE during the year.
- 10. Studies/Surveys:** The Conventional Banking Supervision Directorates conducted several surveys during the year as part of its proactive supervisory approach.
- 11. Appointed Experts Assignments:** During 2022, two assignments were conducted by qualified "Appointed Experts" appointed by the conventional Banking Supervision Directorates to undertake Agreed Upon Procedures through onsite examination of licensees with the objective of augmenting the effectiveness of its supervisory practices.
- 12. Monitoring of Banks BOD and Organization Structures:** Conventional Banking Supervision Directorates continued its practice of reviewing the corporate governance reports submitted annually by banks, as well as their organization structures, with the objective of evaluating the Board of Directors performance including their participation in Board meetings and also assessing the succession plan along with adequacy of resources in critical functions. Additionally, the CBB attended all Banks and Financing Companies' AGMs/EGMs, as part of its monitoring of corporate governance and shareholder rights.
- 13. Compliance with the "Code of Best Practice on Consumer Credit and Charging":** The Banking Supervision Directorates continued its monitoring of banks and financing companies' adherence to the provisions of the Code, to ensure that licensees act fairly, responsibly, and transparently in dealing with their customers.
- 14. Combatting Electronic Fraud:** As part of CBB's endeavor to ensure mitigation against banking sector frauds, the Banking Supervision Directorates continued its monitoring of measures taken to prevent, control and minimize electronic frauds in banks as well as for enhancing awareness of customers on social engineering bank frauds.

15. Public Disclosure by Banks: To achieve the aforesaid objective of enhanced transparency and adequate disclosures to the stakeholders, the Banking Supervision Directorates continued to monitor banks' compliance with the CBB Rules on public disclosures including the annual review report of external auditors on public disclosures requirements of CBB.

16. Enforcement Actions: In its endeavor to ensure high standards of compliance and proper conduct by its licensees, the CBB applies Enforcement as a tool for effective supervision. Therefore, and in accordance with Article 38 of the CBB Law, the Conventional Banking Supervision Directorates during 2022 took 5 Enforcement Actions against banks including imposition of financial penalties.

Islamic Financial Institutions Supervision

During 2022, the Islamic Financial Institutions Supervision Directorate ("IFISD") continued focusing on developing the knowledge and skills of its staff by enrolling them in BIBF training courses (technical and soft skills).

IFISD's staff participated in virtual and physical conferences, seminars including topics related to ESG in addition to IFISB online executive program. One staff of IFISD has enrolled in the Banking Supervisors' Training Program offered by MAS Academy and has obtained Advance Diploma in Islamic Finance from BIBF. Furthermore, another staff has obtained ACCA (Association of Chartered Certified Accountants) qualification and CSAA (Certified Shari'a Advisor and Auditor) certificate which is one of the most prestigious qualifications awarded by the AAOIFI. In addition, two staff joined the Regulator Knowledge Exchange offered by Cambridge Centre, which is a digital community platform for financial authorities; designed to help financial regulators become more knowledgeable in the regulation and supervision of digital financial services.

During 2022, IFISD provided several suggestions to update and amend the rules and regulations pertaining to its licensees in collaboration with the Policy Unit. Also, IFISD participated in working group committee of AAOIFI in development of their governance standards and in public hearing and provided feedback to IFSB and AAOIFI on their prospective standard's exposure drafts.

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 Awash Bank, Ethiopia.

Inspection Directorate

The Inspection Directorate completed 46 inspection visits during 2022 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.

Among the on-site visits, 48% were thematic visits to investigate and assess matters line consumer protection aspects, corporate governance, fraud risk management, payment system risks, correspondent banking, cross border group structures and reviewing veracity of a wide range of customer complaints.

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 outcome of the inspection procedures includes 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.

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.

In view of the macroeconomic impact of the Covid-19 pandemic on Bahrain financial sector, an enhanced business model review methodology was developed and is currently being introduced as part of inspection process to assess sustainability of licensee business models. The business model assessment framework is designed to provide sustainability assessment and also helps to identify business model vulnerabilities such as unrealistic business projections, unsustainable risk appetite, declining competitive position, management deficiencies and inadequate attention to consumer needs.

With the entry of digital banks and fintech firms in the financial sector, the Inspection Directorate developed a framework to assess digital banks and fintech licensees. The new framework included additional on-site review components such as mobile application security review, open banking framework review and online fraud assessment review. With the rapid growth in payment system utilization, on-site review also focused on various types of payment service provider including issuing and acquiring banks, payment gateways and intermediate payment service providers. The directorate continued its efforts to strengthen its cybersecurity assessment framework and conducted detailed vulnerability assessment reviews of licensees alongside regular inspection visits. The Directorate strengthened its cybersecurity examination framework through additional review of E-Banking, biometric security assessments, mobile application reviews, cloud security assessment and cybersecurity maturity assessment. Furthermore, the on-site examination process was enhanced to include review of robotic process automation (RPA) as well as artificial intelligence (AI) and machine learning (ML) use by licensees. During the year, the directorate introduced an examination framework for chatbot assessment, covering the quality, ease of use, efficiency and ethical aspects of chatbots implemented by licensees.

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 2022, to complete the implementation of its plan for the development and update of the capital market sector's legislative, regulatory and supervisory framework, 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. The aim is to create a suitable environment for the development of business activities of the capital markets by way of licensing additional market institutions and the encouragement of the diversification of listing and trading of new and innovative securities and financial instruments, along with enhancing the standards, the regulations and the mechanisms of supervision of all the businesses and activities of capital market institutions. The CBB's CMSD is driven by a systematic methodology entailing precise action and supervision for the protection of the sector from potential risks arising, ensuring the adherence and fulfilment of obligations by all relevant parties involved in the capital markets, and boosting investor confidence.

Developments in the Regulatory and Supervisory Framework

Amendments to the CBB Rulebook - Volume 6, Capital Markets

- The Takeovers, Mergers and Acquisitions (TMA) Module, Volume 6 of the CBB Rulebook has been amended on 19th January 2022, and such amendments were made in relation to the compulsory acquisition in line with the amendments to the Commercial Companies Law by Decree Law No. (28) of 2020 amending some provisions of the Commercial Companies Law promulgated by Decree Law No. (21) of 2001.
- The CBB has issued amendments to the Markets and Exchanges (MAE) Module of the CBB Rulebook Volume 6 to reflect the shift in equity crowdfunding operators' requirements following the issuance of the Crowdfunding Platform Operators (CPO) Module under Volume 5 of the CBB Rulebook on 28th April 2022.

- The CBB's Regulatory Policy Unit is currently finalizing the updated and amended version of the Crypto-Asset (CRA) Module of the CBB Rulebook Volume 6, after receiving industry feedback based on a consultation paper circulated on 7th August 2022. The amendments aim to enhance the regulatory framework in line with developments in the sector as well international best practices and will also introduce requirements in relation to Digital Token Offerings (DTO).
- 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 a Self-Regulatory Organization's (SRO) Arbitration Committee, to ensure that regulatory responsibilities are discharged in an effective manner and in line with international best practices.

Amendments to the CBB's Regulations

The CBB issued an amendment to Resolution No. (27) of 2012, 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 as it pertains to the establishment of the Enforcement Decision Review Committee ("EDRC"). In this regard, CBB's Resolution No. (12) of 2022 has been issued on 17th March 2022 to include that the scope of the EDRC within the Resolution is extended to account for enforcement decisions to be imposed upon listed companies.

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

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

- BHB has launched the "Tabadul" platform in July 2022, after coordination with the CMSD. This was based on a strategic partnership agreement signed in November 2021 between Abu Dhabi Securities Exchange (ADX) and BHB. The partnership aims to achieve synergies and greater cross border cooperation to enhance market liquidity, including external market access.
- In view of BHB's Board of Directors' Resolution No. (5/2/2022) dated 23rd June 2022 pertaining to the formation of the BHB's Violation Committee, the CMSD issued its no-objection in this regard dated 18th July 2022, wherein the formation of the said committee is aligned with efforts expended to enable the BHB to be responsible for reviewing and evaluating high frequency violations of the BHB's rules and regulations and determining penalties to be imposed on issuers and registered members.
- In view of BHB's Board of Directors' Resolution No. (3/2/2022) dated 23rd June 2022 pertaining to the formation of the BHB's Disciplinary Board, the CMSD issued its no-objection in this regard dated 14th September 2022, wherein the formation of the said committee is aligned with efforts expended to enable the BHB to be responsible for adjudicating on any alleged violation of the rules and regulations of BHB and determine penalties to be imposed against market participants (including issuers and registered members).

- A Memorandum of Understanding (MOU) was signed between BHB and Muscat Stock Exchange (MSX) and in October 2022, with the aim of enhancing cooperation between the two exchanges. In addition, a cooperation agreement was also signed between the two parties enabling MSX to join the “Tabadul” platform to link both markets and enable direct trading between BHB and MSX.
- Pursuant to the BHB Board of Directors’ and the CBB’s approval, BHB published the Issuers’ Violations Framework on 30th November 2022, which sets out the administrative fines that may be imposed commencing from 2nd January 2023 on any issuer who fails to comply with the BHB rules. BHB has further published the Issuers’ Violations Industry Consultation Feedback Statement and the Administrative Fee Applicable to appeals.
- During the year, the CMSD has worked with BHB and Bahrain Clear B.S.C. to implement a set of priorities and initiatives in relation to Bahrain’s economic recovery plan. The initiatives include encouraging initial public offerings and listing of companies and enhancing ways for coordination of dual listing and establishing clearing, settlement and depository links with other GCC countries. Efforts were also focused on encouraging small and medium-sized companies to list on the Bahrain Investment Market, and to seek avenues by which to support Bahrain’s promotion to an emerging market.

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

The CMSD issued its no-objection to BHC on 21st July 2022 regarding its proposed digital on-boarding project.

Registered Members of BHB and BHC

- The CMSD issued a number of no-objection letters to BHB during June 2022 permitting 4 licensed and registered members of BHB to be onboarded onto the Tabadul platform thereby facilitating their direct market access into ADX.
- The CMSD issued a number of no-objection letters to BHB during July 2022 and October 2022 authorizing 6 licensed and registered members of ADX to be onboarded onto the Tabadul platform thereby facilitating their direct market access into BHB in their capacity as External Trading Members.

Supervision of Crypto-asset Licensees

CoinMENA B.S.C. (c) (“CoinMENA”)

- Following an evaluation of CoinMENA’s request, the CBB issued Resolution No.25 of 2022 to upgrade its license from Crypto Asset Service Provider - Category 2 to Crypto Asset Service Provider - Category 3.
- The Company has increased its capital, after obtaining the CBB’s approval, from BD250,000 to BD1,500,000.
- The CMSD issued no-objection letters to CoinMENA permitting it to offer its services to clients of four additional countries beyond the GCC.

Rain Management W.L.L. (“Rain”)

The CMSD issued no-objection letters to Rain permitting it to offer its services to clients of three additional countries beyond the GCC.

Binance Bahrain B.S.C. (c) (“Binance”)

The CBB issued Resolution No. 11 of 2022 granting Binance a license to provide crypto-asset services as a Category 3 licensee. Subsequently and as per Binance’ request, the CBB issued Resolution No. 24 of 2022 to amend its license to a Category 4 crypto-asset service provider. Accordingly, Binance commenced its operations in October 2022.

Companies Granted with in-Principle Approvals

- Amber Bahrain B.S.C. (c) has been granted the CBB’s in-principle approval to obtain a crypto-asset license (Category 3). The company is currently in the process of completing the applicable licensing procedures and requirements in an effort to secure CBB’s final approval.
- BitOasis Bahrain W.L.L. (under formation) has been granted the CBB’s in-principle approval to obtain a CBB crypto-asset license (Category 2). The company is currently in the process of completing the applicable licensing procedures and requirements in an effort to secure CBB’s final approval.

Offering and Listing of Securities

During the year 2022, the CMSD issued its no objection on the use of a total of fifty three (53) offering documents (compared to 60 offering documents in 2021) 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	2,286,447,535	26	Registration – Article (81)
	Government	1,000,000,000	2	Filing - Exempt from Article (81)
Conventional Bond	Private Placement	2,500,000,000	1	Filing - Exempt from Article (81)
	Government	350,000,000	1	Filing - Exempt from Article (81)
Islamic Sukuk	Private Placement	900,000,000	1	Filing - Exempt from Article (81)
	Private Placement	586,130,116	2	Registration – Article (81)
	Private Placement	-	20	Filing - Exempt from Article (81)
Total		7,622,577,651	53	

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

Type of Offering	2022 (in US\$ millions)	2021 (in US\$ millions)	Variance (in US\$ millions)	Var %	No. of issues 2022	No. of issues 2021	Var
Private Placement Ordinary Shares	- 2,286	2,706	(420)	(16%)	26	29	(3)
Private Placement Preference Shares	- -	252	(252)	(100%)	-	1	(1)
Convertible Additional Tier 1 Capital Securities	- -	415	(415)	(100%)	-	2	(2)
Private Placement Conventional Bond	- 2,500	3,250	(750)	(23%)	1	2	(1)
Governmental – Conventional Bond	1,000	3,000	(2,000)	(67%)	2	2	-
Governmental Islamic Sukuk	- 350	1,000	(650)	(65%)	1	2	(1)
Private Placement Islamic Sukuk	- 586	-	586	100%	2	-	2
Private Placement – Marketing Islamic Sukuk	900	5,000	(4,100)	(82%)	1	2	(1)
Marketing - Structured Products	-	-	-	-	20	20	-
Total	7,622	15,623	(8,001)	(51%)	53	60	(7)

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.	21 March 2022
SICO B.S.C. (c)	Increase in capital	Issue of Bonus shares.	24 March 2022
National Bank of Bahrain B.S.C.	Increase in capital	Issue of Bonus shares.	24 March 2022
Bank of Bahrain and Kuwait B.S.C.	Increase in capital	Issue of Bonus shares.	28 March 2022
GFH Financial Group B.S.C.	Increase in capital	Issue of Bonus shares.	4 April 2022
Ahli United Bank B.S.C.	Increase in capital	Issue of Bonus shares.	7 April 2022

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 (Issue No. 28, 29, and 30)	3	500

Cross-listing of Securities

The CMSD issued its no objection on the cross-listing of Kuwait Finance House K.S.C.P (“KFH”) on Bahrain Bourse on 6th September 2022. KFH was officially listed on Bahrain Bourse on 6th October 2022.

Delisting

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

Security/Financial Instrument	No. of Issues	Reason
3 Months Treasury Bills issues	40	Due to maturity
6 Months Treasury Bills issues	12	Due to maturity
6 Months Ijarah Sukuk issues	12	Due to maturity
12 Months Treasury Bills issues	12	Due to maturity
Government Development Bond (Issue No. 14 and 18)	2	Due to maturity

Disclosure, Governance & Investor Protection

Listed companies’ board of directors meetings & disclosure of financial statements as per Resolution No. (54) for the year 2015

- a. 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. However, in regard to the listed companies that have not adhered to the above-noted requirements, the CMSD issued the following non-compliance letters, after-which the Board of Director’s meetings were announced:

- Listed companies not adhering to the above requirement during the first quarter of 2022 are Bahrain Middle East Bank B.S.C. (“BMB”), Bahrain Ship Repairing and Engineering Company B.S.C. (“BASREC”), United Gulf Investment Corporation B.S.C. (“UGIC”), Banader Hotels Company B.S.C., Arab Banking Corporation B.S.C., Seef Properties B.S.C., INOVEST B.S.C. and Zain Bahrain B.S.C. (“ZAIN”).
 - Listed companies not adhering to the above requirement during the second quarter of 2022 are BMB, BASREC, Bahrain Kuwait Insurance Company B.S.C., Takaful International Company B.S.C., APM Terminals Bahrain B.S.C., Bahrain Commercial Facilities Company B.S.C. and ZAIN.
 - Listed companies not adhering to the above requirement during the third quarter of 2022 are BMB and BASREC.
 - Listed companies not adhering to the above requirement during the fourth quarter of 2022 are BMB, Al Baraka Group B.S.C., BASREC, Bahrain Telecommunications Company B.S.C., Delmon Poultry Company B.S.C. and UGIC.
- b. Most publicly listed companies have complied with the requirement to publish the annual and interim financial statements for the year ended 31st December 2021 and during 2022 respectively, within the specified timeframe. In addition, all listed companies have complied with publishing the afore-mentioned statements and publishing them in at least two local newspapers (one in Arabic and one in English), except for BMB, which did not commit to publishing the annual financial statement for 2020 and the financial statements for all periods of 2021 and all quarterly financial statements of 2022.
- c. All publicly listed companies, except for BMB, published the specimens of the annual financial results for the year 2021 and interim financial results for the year 2022 respectively on Bahrain Bourse’s website.
- d. All publicly listed companies, except for BMB, disclosed and published their full set of the annual results for the year 2021 and interim financial results for the year 2022 respectively on the Bahrain Bourse’s website.
- e. Although BMB is suspended from trading due to its non-compliance with the above as it pertains to the years 2018 and 2019, 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 and on 28 June 2022, the financial results for the second and third quarter of 2020 were also published. Yet, BMB remains suspended due to its non-compliance of the above for the annual financial results of 2020 and all periods of 2021.

Disclosure Standards

Disclosure of Material Information

The CMSD ensures that all publicly listed companies are committed to disclosing 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). Cumulatively across 2022, the number of the announcements made by the listed companies pertaining to the disclosure of material information reached 1,999 announcements.

General Meetings

The CMSD has approved the agendas for all listed companies' Annual General Meetings, in addition to other general meetings held as outlined below:

Company	General Meeting	Purpose
Bahrain Ship Repairing and Engineering Company B.S.C., Bahrain Flour Mills Company B.S.C., Nass Corporation B.S.C., National Hotels Company B.S.C.,	Extra-Ordinary	<ul style="list-style-type: none"> ▪ Discussing and approving the proposal to add new activities to the company's Commercial Registration.
Arab Banking Corporation B.S.C., Ahli United Bank B.S.C., Banader Hotels Company B.S.C., Al Baraka Group B.S.C., Bahrain Ship Repairing and Engineering Company B.S.C., Bank of Bahrain and Kuwait B.S.C., Bahrain Flour Mills Company B.S.C., Bahrain Islamic Bank B.S.C., BMMI B.S.C., Bahrain Duty Free Shop Complex B.S.C., Esterad Investment Company B.S.C., GFH Financial Group B.S.C., Gulf Hotels Group B.S.C., INOVEST B.S.C., Khaleeji Commercial Bank B.S.C., Nass Corporation B.S.C., National Bank of Bahrain B.S.C., National Hotels Company B.S.C., Delmon Poultry Company B.S.C., Al Salam Bank B.S.C., Takaful International Company B.S.C., Trafco Group B.S.C., United Gulf Holding Company B.S.C., United Gulf Investment Corporation B.S.C.	Extra-Ordinary	<ul style="list-style-type: none"> ▪ Approval to amend the Memorandum & Articles of Association ("M&AOA"), pursuant to the latest amendments of the Commercial Companies Law.
Arab Banking Corporation B.S.C.	Extra-Ordinary	<ul style="list-style-type: none"> ▪ To approve the issuance of convertible perpetual tier 1 capital securities.
Ithmaar Holding B.S.C.	Extra-Ordinary	<ul style="list-style-type: none"> ▪ To discuss the Company's financial position pursuant to Article 64(7) of the Articles of Association of the company and approve suitable measures to

		<p>resolve the addressed issues.</p> <ul style="list-style-type: none"> To discuss and approve, subject to obtaining the required regulatory approvals, the proposed sale and transfer of certain direct assets of the company and indirect assets of the company to Al Salam Bank B.S.C., or any other entity as may be agreed upon with Al Salam Bank B.S.C.
Arab Banking Corporation B.S.C., Ahli United Bank B.S.C., Bank of Bahrain and Kuwait B.S.C., Al Salam Bank B.S.C.	Extra-Ordinary	<ul style="list-style-type: none"> To approve the increase in the authorised capital.
Esterad Investment Company B.S.C.	Extra-Ordinary	<ul style="list-style-type: none"> Approve the strategic acquisition of Venture Capital Bank BSC (c) based on the Board Circular to be provided by the Board to the shareholders.
Bahrain Flour Mills Company B.S.C., Bahrain Car Parks Company (Amakin) B.S.C.	Extra-Ordinary	<ul style="list-style-type: none"> Approval to amend the M&AoA, to add new business activities.
Ahli United Bank B.S.C.	Extra-Ordinary	<ul style="list-style-type: none"> Approval of the issuance of bonds.
Khaleeji Commercial Bank B.S.C.	Extra-Ordinary	<ul style="list-style-type: none"> Approval to reduce capital by cancelling 50% of the treasury shares.
Bank of Bahrain and Kuwait B.S.C., Ahli United Bank B.S.C., GFH Financial Group B.S.C., National Bank of Bahrain B.S.C., Al Salam Bank B.S.C.	Extra-Ordinary	<ul style="list-style-type: none"> Approval to increase issued capital due to the distribution of bonus shares.

Share Transfers

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. During 2022, the CMSD issued its no objection on two applications pertaining to the release of qualification shares.

Employee Share Option Plan (ESOP)

The rules governing ESOP within the Offering of Securities (OFS) Module of Volume 6 of the CBB Rulebook were amended in 2017. The afore-mentioned 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, in 2022, the CMSD issued its no objection on the amendments to the ESOP and related documents of the Bank of Bahrain and Kuwait B.S.C. In this regard, the CMSD also approved 20 share transfer requests from and to the trustees' accounts for the benefit of listed companies' employees.

Listed Companies' Memorandum & Articles of Association

During the year 2022, the CMSD approved 10 applications from Solidarity Bahrain B.S.C., Takaful International Company B.S.C., National Bank of Bahrain B.S.C., Bank of Bahrain and Kuwait B.S.C., Trafco Group B.S.C., Ahli United Bank B.S.C., Al Baraka Group B.S.C., Delmon Poultry Company B.S.C., Bahrain Islamic Bank B.S.C. and INOVEST B.S.C. requesting CBB's approval on their amendment of certain provisions of their respective M&AOA.

Market Making

1. The CMSD issued its no objection letter on 9th May 2022 to Alba to extend SICO's market making activity for Alba's shares on 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 12th June 2022 to Batelco to extend SICO's market making activity for Batelco's shares on Bahrain Bourse using approximately 3% of Batelco's issued share capital for a renewable period of 12 months.
3. The CMSD issued its no objection letter on 25th August 2022 to Al Baraka to extend SICO's market making activity for Al Baraka's shares on Bahrain Bourse using approximately 3% of Al Baraka's issued share capital for a renewable period of 12 months.
4. The CMSD issued its no objection letter on 29th August 2022 to Eskan Bank Realty Income Trust (EBRIT) to extend SICO's market making activity for EBRIT's units on Bahrain Bourse for a renewable period of 12 months.

Market Surveillance

The latest developments from a market surveillance perspective are as follows:

- During 2022, the Market Surveillance Department identified a total of 19 suspected cases related to trades executed on the BHB, of which the preliminary examination results were as follows:
 - 14 cases were closed due to insufficient evidence of a breach.
 - 1 suspected case has been transferred to the Investigation and Enforcement Department for onwards examination.
 - 4 suspected cases have been forwarded to the Bahrain Bourse for their comments and feedback.
- The Market Surveillance Department continues to update and monitor disclosures made by CBB's employees on their ownership in listed companies, if any.

- Moreover, the CMSD continues to monitor orders placed and trades executed by market makers on a periodic basis, to ensure their compliance with CBB's market making rules encompassed within the CBB Rulebook, Volume 6 and Bahrain Bourse's Market Making Guidelines. The CMSD additionally monitors the trading activities of key persons and major shareholders of Bahrain Bourse's listed companies.
- Furthermore, the Market Surveillance Department conducts a thorough analysis on a monthly basis examining significant developments witnessed in Bahrain's capital markets for the month and issues a related bulletin for CBB's internal consideration.
- As part of the Kingdom's Economic Recovery Plan, the CMSD has been working closely with the BHB to explore avenues to be pursued for the inclusion of Bahrain in an emerging market index. The aspiration here is that this step will put the Kingdom on the worldwide investment map, as well as reinforce the recognition of BHB's instrumental role in improving market access and efficiency, enhancing transparency and governance, increasing liquidity and strengthening investor confidence. Such inclusion will pave the way for increased participation from foreign investors in Bahrain's capital market and drive significant capital inflows to the Kingdom. In this regard, the CBB has completed its review of a proposed liquidity enhancement proposal developed by the BHB. The BHB is currently in the process of issuing the same as a consultation paper prior to its implementation.
- The CMSD issued its no objection letters to the following listed companies, allowing them to trade in treasury shares:

Listed Company	Purpose
BBK B.S.C.	Support share price and liquidity in the market and Employee Share Option Program
ESTERAD Investment Company B.S.C.	Support share price and liquidity in the market
Bahrain Cinema Company B.S.C.	Support share price and liquidity in the market
TRAFICO Group B.S.C.	Support share price and liquidity in the market
GFH Financial Group B.S.C.	Capital reorganization and Employee Share Option Program
Bahrain & Kuwait Insurance Company	Support share price and liquidity in the market
Al Salam Bank – Bahrain B.S.C.	Support share price and liquidity in the market
Khaleeji Commercial Bank B.S.C.	Support share price and liquidity in the market
National Hotel Co. B.S.C.	Sale of treasury
Bahrain National Holdings Co. B.S.C.	Sale of treasury
Takaful International Co. B.S.C.	Support share price and liquidity in the market
Bahrain Ship Repairing and Engineering Co. B.S.C.	Support share price and liquidity in the market
SICO B.S.C.	Employee Share Option Program

Compliance and Enforcement

Breach in a Shareholders' General Meeting

Following the CMSD's examination of a submitted complaint and the preparation of a Preliminary Investigation Report, the CBB is currently examining the proposed enforcement route to be taken against the relevant parties for the breach of various rules and regulations of the CBB Law. The CBB aims through its enforcement, to convey its concerns and the seriousness of the matter given the reputational and operational risks associated with the case and therefore mandate the related parties to implement specific measures to ensure the protection of all rights and the enhancement of all participants' confidence in future meetings.

Non-Compliance by a Self-Regulatory Authority (SRO)

The CMSD issued a Financial Penalty to an SRO, dated 18th April 2022, for failing to comply with the requirements of CSD-3.1.1(b,c,i) of the Clearing, Settlement & Central Depository Module (CSD) of Volume 6 of the CBB Rulebook.

Non-Compliance by an Insider

An individual holding insider information was issued a Warning letter, dated 6th January 2022, for breaching Article (100) of the CBB Law, in his capacity as a high-level professional at a listed company.

Non-Compliance by Crypto-Asset Licensees

1. The CMSD issued a Non-Compliance Letter, dated 22nd February 2022, to one of its crypto-asset licensees for its failure to comply with the requirements of CRA-4.6.2 and CRA-4.6.3 outlined in the Crypto-Asset (CRA) Module of Volume 6 of the CBB Rulebook related to promotional advertisements.
2. The CMSD issued a Non-Compliance Letter, dated 4th April 2022, to one of its crypto-asset licensees for its failure to comply with the requirements under CBB's Circular (Ref. CMS/C/011/22) dated 21st February 2022, pertaining to the process of listing of crypto-assets.
3. The CMSD issued a Non-Compliance Letter, dated 21st June 2022 to one of its crypto-asset licensees for its failure to comply with the requirements of CRA-4.8 outlined in the CRA Module of Volume 6 of the CBB Rulebook, as the licensee has not maintained a professional indemnity coverage since commencement of its operations.
4. The CMSD issued a Non-Compliance Letter, dated 5th July 2022, to one of its crypto-asset licensees for its failure to comply with the requirements of CRA-4.6.1 outlined in the CRA Module of Volume 6 of the CBB Rulebook, which stipulates that licensees and any person or entity acting on its behalf must not directly or by implication, make any false, misleading, or deceptive representations or omissions in all advertising and marketing materials.

5. The CMSD issued a Non-Compliance Letter, dated 15th August 2022, to one of its crypto-asset licensees for its failure to comply with the CMSD's letter (Ref. CMS/L135/21) dated 21st March 2021, obligating the licensee to submit its Quarterly Reviewed Financial Statements no later than 45 days from the end of each quarter of the financial year.
6. The CMSD issued a Formal Warning, dated 13th September 2022, to one of its crypto-asset licensees for its failure to comply with the requirements of CRA-10.2.4 (b) of the CRA Module of Volume 6 of the CBB Rulebook which pertains to the requirement that licensees must notify the CBB of any matter which could have a significant adverse impact on the licensee's reputation.
7. The CMSD issued a Non-Compliance Letter, dated 24th October 2022, to one of its crypto-asset licensees mainly for its failure to comply with the requirements of CRA-1.7.9 outlined in the CRA Module of Volume 6 of the CBB Rulebook, as the licensee failed to provide, for the CBB's approval, the details of the interim arrangement that it will have in place until appointing a permanent replacement for the controlled function affected.

Non-Compliance by Members of SROs

1. A member of an SRO was issued a Non-Compliance Letter, dated 3rd April 2022, for its non-submission to the CBB of the "Additional Financial Information" of the Electronic Submission of Returns and Analysis of Data (ESRAD) by the stipulated deadline set by the CBB, for the year ended 31st December 2021.
2. A member of an SRO was issued a Non-Compliance Letter, dated 4th April 2022, for its failure to comply with the requirements of MIR-4.7.22 and MIR-4.7.23 outlined in the Market Intermediaries and Representatives License (MIR) Module of Volume 6 of the CBB Rulebook, as the member has failed to submit the Agreed-upon Procedure for Client Asset Segregation within the stipulated deadline.

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

2021	2022	
4	8	100%

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 5 listed companies as a result of 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 submitted no later than 10 days after the company's Annual General Meeting date. Consequently, the CMSD issued 4 financial penalties dated 15th June 2022 to the above-mentioned listed companies (3 of which practiced their right to appeal to the Appeals Committee which was ultimately rejected, and the applicable financial penalty was imposed on 18th July 2022).

3. Notification of Non-Compliance to the Anti-Money Laundering Module of Volume 6 of the CBB Rulebook.

The CMSD issued a Non-Compliance Letter, dated 30th August 2022 to a listed company for its non-adherence to AML-7.1.1 and AML-7.1.3 of the Anti-Money Laundering Module (AML) of Volume 6 of the CBB Rulebook by increasing its controller's ownership without the CBB's prior approval and not disclosing the matter in the June 2022 and July 2022 Monthly Register of Interest.

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

The CMSD issued a Non-Compliance Letter, dated 10th October 2022, to a listed company for its non-adherence to OFS-5.1.11 (c) and OFS-5.9.7 of the Offering of Securities Module ("OFS") of Volume 6 of the CBB Rulebook by issuing a replacement to the original Private Placement Memorandum with material changes to the terms of the offering without obtaining the CBB's prior approval.

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

The CMSD issued 23 Non-Compliance Letters to the listed companies that have not met the requirements of Disclosure Standards and the related resolutions in the following manner:

Disclosure Standards/Related Resolutions	Number of Contraventions
Content of financial statements/press releases	1
Disclosure of material information immediately	1
Failure to notify CMSD of change in Board of Directors/senior management	2
Failure to disclose of Board of Directors meeting date or any change to the date	19

In relation to one of the above-noted cases in relation to the non-disclosure of the Board of Directors meeting date, the CMSD issued a financial penalty dated 26th October 2022 to the listed company.

As it pertains to non-disclosure of the Board of Directors meeting date in the third quarter of 2021, financial penalties were imposed on 3 listed companies on 18th April 2022 (1 of

which practiced its right to appeal to the Appeals Committee which was ultimately rejected, and the applicable financial penalty was imposed on 22nd May 2022).

A Formal Warning dated 19th April 2022 was also issued to a listed company for its failure to comply with Article 32.1, 42.1, 42.2, 42.5.19 of the CBB's Disclosure Standards in 2021 for its non-disclosure of material information requirements.

Complaints Handling

Supplementing the CBB's Consumer Protection Unit's Role in handling complaints CBB-wide, the below table summarizes the 11 complaints, which were received and examined by the CMSD in 2022:

Complaints	Number of Complaints
Listed Companies/SRO	
Shareholder's General Meetings	2
Crypto-Asset Service Providers	
Crypto Transfer Complaints	2
Account Security Complaint	1
Scam Incidents	2
Confusion Regarding the Terms and Conditions	4
Total	11

Takeovers, Mergers and Acquisitions

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

The CMSD supervised and monitored the developments in Kuwait Finance House K.S.C.P.'s ("KFH") voluntary conditional offer to acquire up to 100% of the issued ordinary shares of Ahli United Bank B.S.C ("AUB").

KFH published its firm intention and offer document on Bahrain Bourse on 25th July 2022 after obtaining the CMSD's no-objection on both on the same day. Subsequently, the CMSD provided its no-objection on AUB's offeree board circular on 11th August 2022.

The offer opened for acceptances on 24th August 2022, and initially closed on 7th September 2022. KFH announced the offer unconditional as to acceptances on 8th September 2022, having received acceptances of 96.107%, and that the offer will remain open for acceptances until the final closing date of 23rd September 2022. Furthermore, KFH also announced that it will exercise its right to compulsorily acquire the remaining shares of AUB in accordance with article 319 (bis) 1 of the Bahrain Commercial Companies Law and paragraph TMA-3.4.4 of the Takeovers, Mergers, and Acquisitions (TMA) Module of Volume 6 of the CBB Rulebook.

KFH dispatched notices of compulsory acquisition to all AUB shareholders who did not accept KFH's offer ("Dissenting Shareholders") on 14th September 2022, and the notice

was later published in local newspapers as an alternative method to deliver the notice to unreachable shareholders.

The CMSD provided its no-objection to proceed with the settlement of the offer to KFH on 29th September 2022, and upon completing and obtaining all the necessary procedures and approvals, KFH was cross-listed on Bahrain Bourse on 6th October 2022.

Moreover, upon the expiry of the regulatory 60-day objection period given to the Dissenting Shareholders to object to the compulsory acquisition of their shares, and considering that no such objections were made, KFH settled the offer on 20th November 2022 after obtaining the CMSD's no-objection on 16th November 2022. Accordingly, KFH completed the acquisition of 100% of the issued ordinary shares of AUB.

Esterad Investment Company B.S.C. and Venture Capital Bank B.S.C. (c)

Esterad announced on 9th November 2022 that it completed the acquisition of a 99.5% stake in the issued share capital VCB through Esterad's wholly owned subsidiary Esterad Ventures W.L.L., after completion of the required regulatory process as of 7th November 2022.

Joint Work of the Gulf Cooperation Council (GCC) and Other External Participations

Proposed Memorandum of Understanding with Israel Securities Authority

At the request of the Israel Securities Authority ("ISA"), a couple of virtual meetings were held between the ISA and the CMSD on 17th January 2021 and 14th February 2021, to discuss the cooperation prospects between the two jurisdictions. Accordingly, the Ministry of Foreign Affairs and the CBB reviewed the Proposed Memorandum of Understanding ("MoU"), which outlines the scope of the proposed cooperation in the field of financial technology and the exchange of experiences in the field of investment in the capital markets.

12th, 13th, 14th and 15th Meetings of the GCC Financial Integration Strategy Working Group

The CBB's CMSD participated in the 12th meeting of the GCC Financial Integration Strategy Working Group, on both 11th and 17th January 2022, as well as the 13th meeting held on 28th and 29th June 2022 and the 14th meeting held on 30th August 2022, all of which were held virtually. Therein, the following was agreed:

- The final version of the Passporting of Financial Products' Coordination Framework has been reviewed to be shared in the upcoming meeting of Heads of GCC Capital Markets Authorities Committee (or their equivalent) for their endorsement.
- The drafted action plan for the implementation of the initiative related to the unification of the account opening requirements form and KYC procedures was discussed, and it was agreed that the same would be shared in the upcoming meeting of Heads of GCC Capital Markets Authorities Committee (or their equivalent) for their endorsement. It was also agreed to submit to the said committee, the presentation on the study of the prospect of adopting the KYC template as mandatory where it pertains to accounting for the minimum set of requirements. However, the

final recommendation of the working group was to approve the account opening requirements form and KYC procedures on guidance-basis and as a minimum set of requirements.

The CBB's CMSD participated in the 15th meeting of the GCC Financial Integration Strategy Working Group on 22nd December 2022 virtually, where the following was agreed:

- Mandating the technical and legal specialists to participate in extensive meetings to complete work on producing regulations to govern the passporting of investment funds and submit a finalized version of the same to the GCC Financial Integration Strategy Working Group prior to 23rd February 2023.
- Mandating the Capital Market Authority of Kuwait and the Capital Market Authority of the Kingdom of Saudi Arabia to update the drafted action plan for the implementation of the unification of the account opening requirements form and KYC procedures to include a study to be conducted two years from its implementation on the prospect of moving from guidance-based to mandatory adoption of the same. The two authorities were also mandated to update the KYC template and share the same with the GCC General Secretariat before the end of January 2023 for its discussion in the working group's upcoming meeting.

The 4th joint meeting between the Heads of GCC Capital Markets Authorities Committee (or their equivalent) and Heads of GCC Markets

The 4th joint meeting between the Heads of GCC Capital Markets Authorities Committee (or their equivalent) and Heads of GCC Markets was held virtually on 14th March 2022 wherein various matters were discussed including the unification of the investor number initiative, as well as the paper presented by the Kingdom of Saudi Arabia's Tadawul on the rules and governing framework of the GCC's Securities Exchanges' Committee.

24th and 25th Meeting of Heads of GCC Capital Markets Authorities Committee (or their equivalent)

The CBB's CMSD participated in the 24th Meeting of Heads of GCC Capital Markets Authorities Committee (or their equivalent) held on 14th March 2022 virtually to discuss the drafted Passporting of Financial Products' Coordination Framework, the Capital Market Authority of Kuwait's report on member states' interaction with the capital markets-related educational portal and updates on the initiative pertaining to the unification of KYC and account opening requirements.

The 25th meeting of the Heads of GCC Capital Markets Authorities Committee (or their equivalent) was also held virtually on 4th October 2022 wherein the finalized version of the Passporting of Financial Products' Coordination Framework was approved, and the finalized unification of the account opening requirements and KYC procedures was also endorsed.

Annual Meeting of the International Organization of Securities Commissions ("IOSCO") 2022

The CMSD on behalf of the CBB as a member of the IOSCO participated in its Annual Meeting to discuss and address issues facing securities market regulators and supervisors. The meetings were held from 16th to 20th October 2022 in Marrakech, Morocco.

10th GCC Ministerial Committee of the Capital Market Regulators

The 10th GCC Ministerial Committee of the Capital Market Regulators was held virtually on 16th November 2022, wherein the meeting focused on several areas including:

- Approving the finalized version of the Passporting of Financial Products' Coordination Framework (Issue 1.5, November 2022) and mandating the GCC Financial Integration Strategy Working Group to prepare and submit passporting regulations that are aligned with the said coordination framework to the Heads of GCC Capital Markets Authorities Committee (or their equivalent) in their upcoming meeting.
- Approving the finalized unification of the account opening requirements and KYC procedures for adoption on a guidance-basis, whilst maintaining the capital markets' regulator's discretion to add any additional requirement(s) as deemed fit. The action plan for the implementation of the same was also approved with the recommendation to include an associated timeline for implementation. Additionally, it was agreed that the GCC Financial Integration Strategy Working Group will, in two years' time from its implementation, study the prospect of moving from guidance-based to mandatory adoption of the account opening and KYC procedures and accordingly make the necessary recommendation to the Heads of GCC Capital Markets Authorities Committee (or their equivalent).

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

The CMSD and the Capital Market Authority 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. On 14th September 2022, a bilateral meeting was held between representatives from both Kingdoms to discuss the latest updates. On 30th November 2022, CMA shared a draft MoU pertaining to the unification of KYC procedures and enhancing cross-listing coordination, to which the CBB reverted with feedback on 22nd December 2022 in preparation for approval of the same by both parties

Financial Institutions Supervision Directorate ("FISD")

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.

During the course of 2022, 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.

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 14th March 2022, the CBB issued circular no. OG/107/2022 informing the licensees of the issuance of a guidance note in relation to climate-related risks, with the objective of ensuring that licensees are kept abreast of the developments and practices in the area, and informing all CBB licensees that a periodic feedback will be sought from the licensees on their preparedness to potentially implement a framework to manage those risks and to capitalize on the associated opportunities.

On 20th March 2022, the CBB issued circular no. EDFIS/C/008/2022, addressed to Money Changers, requiring licensees to conduct a study on the possibility of connecting CCTV cameras in branches with a centralized monitoring unit at the head office, and subsequently connecting this unit to the centralized monitoring unit at the Ministry of Interior. In addition, licenses were requested to ensure that all cash movements between branches, or to and from banks, are performed by specialized service providers.

On 28th March 2022, the CBB issued circulars no. OG/131/2022 and OG/133/2022, addressed to Investment Business Firms and money changers, informing the licensees of the dedicated emails for Investment Business Firms and Money Changers to be used to report any cyber incident to the CBB, in addition to extending the time to submit the licensees' reports on cyber incidents they experience.

Furthermore, and on 9th May 2022, the CBB issued circular no. OG/187/2022 addressed to all CBB licensees and listed companies, informing them that requirement to disclose the financial impact of COVID-19 in the financial statements is no longer mandatory.

In addition, on 21st and 25th July 2022, the CBB issued circulars no. OG/263/2022 and OG/268/2022 informing all CBB licensees of the issuance of new outsourcing requirements replacing the previous requirements in all CBB Rulebooks.

On 18th August 2022, the CBB issued circular no. OG/286/2022, addressed to CBB licensees, informing them of the updates to the Cybersecurity Requirements in the relevant Rulebook Volumes, regarding the use of email domains and URL communications.

On 1st November 2022, the CBB issued circular no. EDFIS/C/030/2022, addressed to Money Changers, urging licensees to take an active part in the Arab International Cybersecurity Summit and extensively contribute in the form of delegate attendance and explore sponsorship opportunities.

Regulatory and Rulebook Updates

During 2022, 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 during the year 2022.

In January 2022, the CBB issued several updates to CBB Rulebook Volume 4, with the main update being the introduction of the regulatory requirements pertaining to the new category of license, which is Investment Business Category 4, contained in a newly issued Module dedicated for such Category, which is the Category 4 Investment Firms (C4) Module. In addition, the Authorization (AU) Module was also updated to reflect the new category of license.

In addition, the CBB issued an update to the Risk Management (RM) Module to enhance the Cyber Security requirements. Moreover, amendments were made to the General Requirements (GR) Module, to introduce the requirement to inform the CBB in case of changing the corporate name of licensees.

Further, the CBB has reduced the burden on licensees by eliminating some of the reporting requirements that are not essential in nature through amending the High-Level Controls (HC) Module and the CBB Reporting (BR) Module.

In April 2022, the CBB has updated its Risk Management (RM) Module to include a dedicated email for Investment Business Firms to be used to report any cyber incident to the CBB, in addition to extending the time to submit the licensees' reports on cyber incidents they experience.

In addition, in July 2022, the CBB has issued an update to the Risk Management (RM) Module, to introduce new requirements on Outsourcing, replacing the rules that were previously in place.

Also, The CBB has amended the definition of accredited investors included in the Glossary of CBB Rulebook Volume 4.

In October 2022, the CBB updated the Risk Management (RM) Module, to introduce new requirements to the Cyber Security Section, in relation to the use of email domains and URL communications.

CBB Rulebook Volume 5

General Developments (All of Volume 5 Licensees)

In January 2022, the CBB has amended Form 3: Application for Approved Person Status to broaden the definition of “Family” for the purpose of reporting family relationships of the applicant to any approved person at the licensee.

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 2022, amendments were made to the General Requirements (GR) Module, to introduce the requirement to inform the CBB in case of changing the corporate name of licensees. In addition, the CBB has updated the CBB Reporting (BR) Module to amend the deadlines for some of the reporting requirements to be in line with the deadlines of other licensed institutions. Furthermore, the CBB has issued an update to the Risk Management (RM) Module to introduce requirements pertaining to Cyber Security.

In April 2022, the CBB has updated its Risk Management (RM) Module to include a dedicated email for Money changers to be used to report any cyber incident to the CBB, in addition to extending the time to submit the licensees’ reports on cyber incidents they experience. In addition, in July 2022, the CBB has issued a new requirement on Outsourcing as part of the Risk Management (RM) Module, replacing the rules that were previously in place. In October 2022, the CBB updated the Risk Management (RM) Module, to introduce new requirements to the Cyber Security Section, in relation to the use of email domains and URL communications.

Administrators/ Registrars Development

In January 2022, amendments were made to the General Requirements (GR) Module, to introduce the requirement to inform the CBB in case of changing the corporate name of licensees.

In addition, in July 2022, the CBB has issued an update to the General Requirements (GR) Module, to introduce new requirements on Outsourcing, replacing the rules that were previously in place.

Representative Offices

In January 2022, amendments were made to the General Requirements (GR) Module, to introduce the requirement to inform the CBB in case of changing the corporate name of licensees.

CBB Rulebook Volume 7

Collective Investment Undertakings Developments

The CBB embarked on a comprehensive revision of the Collective Investment Undertakings (“CIU”) regulations governing the Funds industry which falls under Volume 7 of the CBB Rulebook. The “all new” Module CIU was issued on 24th March 2022.

The new Module CIU follows a risk-based supervision approach in dealing with regulatory and supervisory matters related to CIUs. The changes included minimizing the CIUs applications’ processing time (for the authorization and notification of local and offshore CIUs) to 5 working days. The new Module also provides higher flexibility in terms of relevant persons requirements and the permissible asset classes.

On 8th September 2022, the CBB issued its simplified application Forms (Form 1 – Retail).

CIU Application Form and Form 2 – Exempt CIU/PIU Notification Form) of Volume 7, to support the expedited process for all applicants. Module CIU was further revised on 14th November 2022 to incorporate various amendments; mainly to make the Module more comprehensible and to enhance the safeguard measures that protect the interest of CIU participants. During 2022, the FISD continued to ensure that Bahrain domiciled CIUs/PIUs and placement agents of overseas domiciled CIUs adhere to the requirements of CBB Rulebook Volume 7 issued in March 2022. During 2022, the CBB registered in its records 210 overseas domiciled CIUs to be marketed in Bahrain, in addition to 1 locally domiciled CIU.

Promoting stability and soundness in the financial system

During the course of 2022, 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.

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 publicly or privately, are either authorized or notified, as applicable, 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 providers, 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 has a qualified MLRO appointed at all times.

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

Insurance Supervision Directorate

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

- The CBB requested insurance firms to submit their year-end financial statements and attend a virtual meeting with the CBB along with their external auditors prior to the submission of the financial statements for approval to the Board of Directors.
- The CBB also requires Insurance firms to submit actuarial reports that includes the assessment of the actuary, to assess the soundness of the insurance firms overall financial condition.
- 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

- **In-house Actuaries:** As part of CBB ongoing initiatives towards developing the insurance sector through enhancing the national skill sets to provide a base for future initiatives and creating job opportunities, which are part of the priorities of the Financial Sector development Strategy 2022-2026, and considering the implementation of IFRS 17 “Insurance Contracts” standard effective in 2023, the CBB requested all insurance firms to establish an internal actuarial unit within their organization structure, for which all insurance firms must appoint an in-house Bahraini Qualified Actuary and an in-house Bahraini Actuarial Analyst to be implemented in two phases. In order to support the above initiative, the CBB in collaboration with Tamkeen and BIBF, have arranged for a “Qualified Actuaries Development Program” that would promote Bahraini Actuaries and, accordingly, all insurance firms were encouraged to take advantage of such program to comply with the directive.
- **Mutually resolved minor accidents initiative:** Believing in the principle of coordination and cooperation with the General Traffic Department and the Bahrain Insurance Association, a survey was launched by CBB during June 2022 to solicit the public’s opinion regarding the project of mutually resolved minor accidents. The purpose of this survey is to evaluate the public’s experiences and take their opinion in order to provide services that rise to the required level for what it serves and to meet the aspirations of the public in terms of services, in addition to the CBB’s interest in assessing the level of services provided by the insurance companies directly entrusted with minor accidents and the extent of their commitment to the procedures in digitalizing the claims process. The CBB is reviewing the observations and suggestions submitted by the public through this survey to take appropriate measures in this regard.

The CBB believes that minor accident initiative in tandem with the motor digitalization initiative elevates the user experience in the insurance industry by reducing time, effort, complexity and enhancing transparency, documentation and quality of service provided.

- **Money-in-Transit Insurance:** As part of CBB's objectives to safeguard stakeholders' interest, the ISD directed all insurance firms providing insurance on money-in-transit performed by specialized service provider companies; to ensure that the vehicle used in transferring money is authorized by the concerned directorate at the Ministry of Interior, prior to the issuance of the vehicle insurance policy. Accordingly, Insurance firms were requested to update their current underwriting procedures to include such verification before insuring the aforementioned vehicles.
- **Reduced time to submit prudential reports for timely information:** The ISD has reduced the time required to submit quarterly prudential reports and semi-annual prudential reports to 30 calendar days from previously 45 calendar days, in order to enhance timely prudential supervision to bolster the role of the CBB in enhancing the soundness and stability of the sector.
- **Consumer protection in life and motor:** As part of CBB's core objectives, the ISD is currently drafting rules to further protect consumer rights of insurance policies pertaining to life, medical and motor insurance. This step will further enhance consumer protection and bolster the public's trust in the insurance industry.
- **Appointed Representative:** As part of CBB's objective to further enhance its regulatory framework, CBB issued a consultation related to appointed representatives aiming to resolve the current related concerned practices.
- **Market conduct in the motor business:** The ISD has initiated regular mutual meetings between Insurance Supervision Directorate and motor committee of Bahrain Insurance Association in addition to holding several meetings with claim managers in insurance firms to discuss the concerns and complaints received in respect of motor insurance business in order enhance the existing procedures to better serve the clients and protect their rights.
- **Economic recovery plan:** The CBB is currently following up with the Bahrain Insurance Association in respect of the objectives included in Bahrain's Economic Recovery Plan 2022-2026 in order to achieve the desired goals for the insurance sector. Moreover, CBB from its parts putting all the required efforts and plans on all fronts to achieve its part in the strategy.

Promote information symmetry & transparency

- During 2022, the ISD released the Insurance Market Review Report of 2021. The Report presents the financial performance and financial position of the insurance industry in the Kingdom of Bahrain for the years 2020 and 2021, including by class of business in the Kingdom of Bahrain. The total gross premiums of the Bahrain insurance market has decreased to BD 275.929 million in 2021 (2020: BD 276.872 million).

- The CBB started publishing quarterly Insurance Market Review for the market in order to make better informed decisions to all stakeholders.

On-going monitoring of previous initiatives

- **International Financial Reporting Standard (IFRS 17):** The ISD continues monitoring the effective implementation of IFRS17 by observing the insurance firms' readiness by also participating in the IFRS17 Technical Committee established by the Bahrain Insurance Association (BIA) in which the members were discussing and unifying the implementation of such standard that is effective by 1st January 2023.
- **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 ISD continues monitoring the effective implementation of digitalization of motor insurance process across all insurance firms.
- **Cyber Security Requirement:** The CBB continuous to monitor the effective implementation of the new cyber security requirements by insurance licensees in order to make sure that appropriate risk management measures are in place.

Financial Stability Directorate

During 2022 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:

- 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.
- Continuing to develop periodical reports and statistic such as the weekly and monthly Point of Sale (POS) and E-Commerce data.
- 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.
- Continue to develop the CBB's macro-prudential policy framework consider the various policy tools and contingency planning through stress testing exercises.

- 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.
- Conducting research that focuses on the effects of the COVID-19 pandemic on the economy, the financial sector (banking and non-banking), and addressing:
 - 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.
 - The implications and any potential risks with ending the loan deferral program in June 2022 for individuals and companies after a period of two years, and any effects on the asset quality of retail banks and financing companies.
 - Global inflation due to the reopening of the economy after the Covid-19 pandemic and supply chains disruptions due to the global geopolitical conflicts and high interest rates and implications on financial stability.
 - 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) 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

Financial Sector Development Strategy (2022-2026)

New Licenses

Fintech & Innovation

Payment System (“SSS” & “RTGS”)

Currency Issue

CBB Training Programs

IT Projects

Consumer Protection

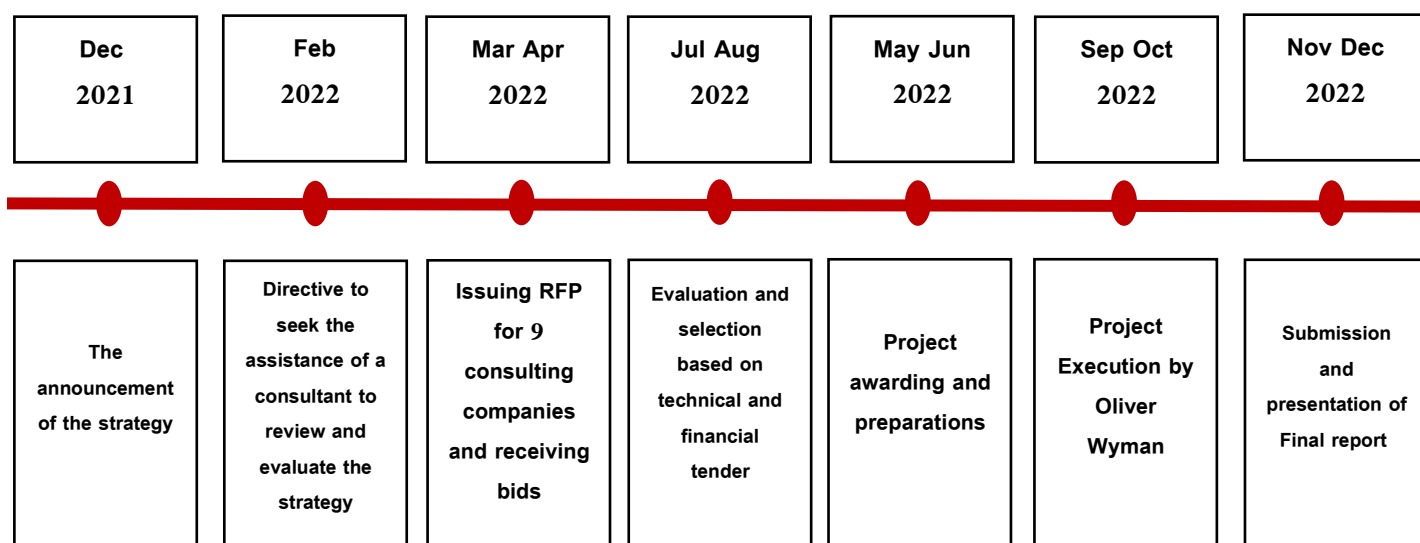
External Communications Unit

CBB’s Organisational Chart

Financial Sector Development Strategy (2022-2026)

Following the directives of the Government of Bahrain to develop a comprehensive strategy for the development of financial services in the Kingdom of Bahrain for the next five years, the Financial Sector Development Strategy was launched in December 2021. Further, in February 2022, directives of HRH Prince Salman bin Hamad Al Khalifa, the Crown Prince and Prime Minister were received to seek the assistance of a specialized consultancy firm to review and evaluate the strategy and submit a recommendations report to Bahrain's Government Executive Committee. The CBB contracted with the Oliver Wyman – a Management consulting company for a period of 8 weeks to review the financial sector development strategy and submit a final report concluding the results of the evaluation and all factors that may impact the execution and implementation of the strategy priorities and initiatives, and submitting suggestions and recommendations that would enhance the strategy further; According to the following:

Timeline



Scope of Work

The project scope of work was defined to review and evaluate the Financial Sector Development Strategy and submit a report on the results of the evaluation and all factors that may positively or negatively impact the execution and implantation of Strategy priorities and initiatives, in addition to providing suggestions and recommendations to enhance the strategy further.

Project phases

- Downloading the strategic vision of all relevant stakeholders at the CBB, the financial sector and other relevant entities.
- Reviewing, filtering and prioritizing strategic initiatives to achieve the most appropriate provision for the strategic vision.
- Conducting feasibility study and knowledge transfer.

Study Findings

The consultants reviewed and studied the strategic initiatives by conducting extensive meetings with concerned stakeholders of each initiative and collecting the necessary data for analysis, strategic feasibility study, classifying and structuring the initiatives according to desired objectives defined during the strategic vision download. As follows:

- Maximize Financial Sector impact on The Kingdom of Bahrain's economy.
- Position of the Kingdom of Bahrain through leadership in the financial sector and innovation.

Strategic initiatives have been categorized into two main categories, either as sources of growth and prosperity of the financial sector, or enablers for the strategic vision. Further, the scope and impact of each initiative on achieving the strategic goals and identifying additional initiatives and proposals to enrich each category if applicable.

Six main areas/sectors have been identified for the development of the financial services sector:

Four areas were identified to have a significant and direct impact on the growth and prosperity of the sector, namely:

- Insurance
- Private Banking
- Financial Operations and Support
- Fintech and innovation

In addition to two main areas that are considered more modest and indirectly affect the strategic objectives of the financial services sector, namely:

- Payments
- Capital Markets

Based on the above six areas, new or revised initiatives have been identified to capture key opportunities in the financial services sector. In addition to reviewing the current initiatives and suggesting proposals for improvement, and present recommendations either to maintain them or to exclude them because they do not fall directly under the strategic vision.

The consultants also reviewed and evaluated the strategy's Key Performance Indicators and proposed models to revise and link them to the proposed strategic vision better.

Several workshops on the Strategy focus areas and proposed initiatives were conducted by consultant experts to highlight their significance and explain the role of the CBB in supervising and following up on their implementation by the relevant stakeholders.

A proposed vision for governance was presented by the consultants to ensure the best implementation of the initiatives and the necessary mechanism for organization and coordination among the concerned executive authorities.

The Study findings and recommendations were presented by Oliver Wyman to CBB's Board of Directors in November 2022. Based on the observations raised by the Board, the consultants revised and submitted the final report.

New Licensed Institutions & Registered Persons

The Central Bank of Bahrain (“CBB”) has issued 14 new licensed institutions, 1 registered person as a Loss Adjuster and 1 registered person as an actuary in 2022 compared to 4 new licensed institutions issued in 2021, reaching to a total of 364 Licensed Institutions and registered persons providing financial services in and from the Kingdom of Bahrain as of 31st December 2022 compared to a total of 360 licensees and registered persons as of 31st December 2021.

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

1. Mr. Thomas Pickup – Registered Actuary.
2. Gulf International Loss Adjuster W.L.L. – Registered Loss Adjuster.
3. Albaraka Group B.S.C. (c) – Investment Business Firm – Category 1.
4. STC Pay Bahrain Remittances B.S.C. (c) – Money Changer.
5. Crestbridge Funds Service W.L.L. – Fund Administrators.
6. Tamam Bahrain B.S.C. (c) – Financing Company.
7. Flooss Bahrain B.S.C. (c) – Financing Company.
8. G4S Cash Solutions Bahrain W.L.L. - Ancillary Service Provider: Cash Processing Services.
9. Spare Technologies W.L.L. - Ancillary Service Provider: Account Information Services Provider and Payment Initiation Services Provider.
10. STC Pay Bahrain B.S.C. (c) - Ancillary Service Provider: Payment Service Provider, and Card Processing.
11. Safaghat W.L.L. - Ancillary Service Provider: Crowdfunding Platform Operator.
12. Bambucorn Bahrain W.L.L. – Ancillary Service Provider: Crowdfunding Platform Operator.
13. Beban W.L.L. - Ancillary Service Provider: Crowdfunding Platform Operator.
14. Fintech Galaxy Bahrain W.L.L. - Ancillary Service Provider: Account Information Services Provider.
15. Binance Bahrain B.S.C. (c) – Crypto-Asset Services – Category 4
16. CoinMENA B.S.C. (c) – Crypto-Asset Services – Category 3

The main growth of new licenses issued in 2022 was in the Specialized Licensee sector as shown in the graph below:



Fintech & Innovations Unit

As part of CBB's continuing development of the regulatory framework for the financial system, the FinTech & Innovation Unit ("FIU") has embarked on a number of initiatives during the year 2022 to encourage the adoption and growth of FinTech and to foster innovation within the financial services sector, as follows:

Updated Regulations and directives for Crowdfunding

The (FIU) strives to maintain bespoke and innovation-friendly regulations that attract sector-wide solution offerings. As a part of this initiative, a comparative study was prepared to benchmark the CBB's crowdfunding regulations to other regulators worldwide with an aim of enhancing its existing crowdfunding regulatory framework and further attraction to Bahrain. On this basis, amendments were made to the Crowdfunding regulations under Rulebook Volumes 5 and 6. One of the key updates made in the guidance for crowdfunding platforms is to allow retail investors to participate in these investments.

Updated Regulations for Finance Companies

The CBB issued amendments to the Financing regulations (Rulebook Volume 5, Category 3: Finance Companies) to support new and innovative consumer finance business models with short-term credit facilities. These amendments will help facilitate the entry of new companies into the market in this area, such as online platforms that offer short-term financing "buy now, pay later."

Updated Regulatory Sandbox Framework

The development of an updated Sandbox framework has been initiated to improve the existing pre-application process for participation within the Sandbox, as well as ensure the flow of relevant procedures and processes, ultimately achieving a coherent and multi-stage approach to support the comprehensive testing processes.

Working Papers and Studies

Working Paper on Artificial Intelligence and Machine Learning

As part of its participation as a member of The Global Financial Innovation Network ("GFIN"), the FIU co-authored a working paper on the use cases and application of Artificial Intelligence and Machine Learning in the financial services sector with the participation of representatives from the Israel Securities Authority .

As part of this initiative, the FIU and the Israel Securities Authority (ISA) prepared a questionnaire to explore the work currently being undertaken by central banks and financial regulators in the field of artificial intelligence and machine learning as well as to explore the different financial use cases involving Artificial Intelligence and Machine Learning. Additionally, during the month of November, the FIU, together with the ISA, studied and analyzed the survey responses and presented the results at the annual meeting of the network held in the United Arab Emirates. As a next step, the unit will work with the ISA to consolidate the analysis of the questionnaire and, after consulting GFIN's members, develop a roadmap for the project.

Study on crypto assets in collaboration with the Agile Nations Network

The FIU, in coordination with the National Economy Sector at the Ministry of Finance and National Economy, is leading on a study on the regulation of crypto assets in cooperation with the Agile Nations Network, led by the Artificial Intelligence Office at the Ministry of Cabinet Affairs of the United Arab Emirates.

The Agile Nations Network aims to foster collaborative regulatory efforts, facilitate innovation in each country's entities and scale across markets, while supporting measures to protect citizens and their surrounding environment.

The network was established by the Treasury Board of Canada Secretariat, the Danish Business Authority, the Italian Ministry of Innovation Technology, the Ministry of Economy, Trade and Industry of Japan, the Ministry of Trade and Industry of Singapore, the Ministry of Cabinet Affairs of the United Arab Emirates, and the Department for Business, Energy and Industrial Strategy of the United Kingdom.

Working paper on the topic of digital currencies for central banks

The FIU participated in the preparation of a working paper on central banks digital currencies ("CBDC"), an initiative lead by the Arab Monetary Fund "AMF" and in collaboration with representatives from Banque du Liban and M10 Networks Inc. The working paper was published by the Arab Monetary Fund in February 2022.

Open Finance Study

The FIU has developed a roadmap for the CBB to expand on open finance as an extension of open banking, in line with the direction of global central banks in this field.

Activities and programs

FinTech Innovation Challenges Series with FinHub973

On May 18, 2022, CBB launched a series of FinTech innovation challenges across the Kingdom under the title 'Bahrain 2022 Supernova' for the second consecutive year, via FinHub973. This initiative aims to drive development and promote innovation in the financial services sector by enhancing the cooperation and integration between financial institutions and fintech startups. Hence, it allows fintech companies and innovative startups in the Kingdom of Bahrain and the region to present their solution offerings related to open banking to the local financial institutions leveraging FinHub973.

A program to support the graduation project of UOB students in the field of financial technology

In line with the CBB's effort to sustain the development of the financial services and financial technologies sector as well as the support of Bahraini cadres in this field, the CBB in cooperation with UOB and the participation of several local banks, supported the graduation project for Master of Fintech students using the CBB's digital lab, FinHub973, which works according to the operating system of FinTech Galaxy's FinX22 innovation platform. This platform provides students with an opportunity to test the application of

knowledge and skills to the technical issues that will be presented by the financial institutions participating in the program.

Launch of a pilot project to provide instant round-the-clock and cross-border payments via the blockchain-based JP Morgan Coin system under the supervision and control of the Central Bank of Bahrain

In collaboration with JP Morgan and Bank ABC, the CBB has launched a pilot project to provide instant round-the-clock and cross-border payments via JP Morgan Coin System's Onyx, a bank-led blockchain platform for the exchange of value and digital assets. This test is the first of its kind within the region using the JP Morgan Coin System. In December 2021, the first pilot transaction was completed under the supervision and control of the CBB where Bank ABC was able to initiate real-time payments to Aluminum Bahrain (Alba) for the benefit of its US counterparts, leveraging JP Morgan Coin, a licensed payment and settlement system that enables participating entities to transfer US dollars deposited with JPMorgan. The payment's test successful results, which were overseen by the CBB, demonstrate the Kingdom's commitment to advancing fintech and striving to deliver the highest quality of services and the best customer experience to continue to lead the region's fintech transformation.

The Bank also consulted with JP Morgan, Bank ABC, and other stakeholders during 2022 to consider involving government entities such as the Ministry of Finance and The National Oil and Gas Authority Holding Company (Noga Holding) in the JP Morgan Coin cross-border payment system, which is scheduled to be implemented during 2023.

JP Morgan Coin was launched in Singapore between JP Morgan Bank, DBS Bank, and Singapore Investment Fund Temasek.

CBB's participation in cross-border sandbox tests in partnership with central banks and international supervisory bodies

In December 2022, the CBB joined to participate in the GFIN's second edition of the cross-border pilot environment tests (CBT 2.0), which will include the Fiscal Sustainability and Fintech pillar.

Membership of local and international committees/task forces

- The unit represents the CBB as a member of the FinTech Working Group - Secretariat General of the GCC.
- The Unit represents the CBB as an active and key member of the Global Financial Innovation Network (GFIN), and as a member of the Coordination Group.
- The unit represents the CBB as a member of the Arab Monetary Fund's FinTech Group.
- The Director of the FIU at CBB participates as a member of the "Women in Fintech Committee" under the patronage of the Supreme Council for Women. The Committee's work focuses on contributing to the implementation of the National Gender Balance Initiative in the field of financial technology and future sciences.
- The unit has nominated itself for the co-chair position of the MENA FinTech Regulations Group led by the University of Cambridge and utilizing the Regulatory Knowledge Exchange platform.

Participation in local and international conferences and workshops

In an initiative to develop financial technology within the Kingdom of Bahrain by learning about the experiences of other countries, the unit participated in several conferences and workshops.

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

Bank transfers through the Real Time Gross Settlement System (“RTGS”) were 308,334 in 2022, for a total amount of BD 85.50 billion with a daily average of 1,248 transfers and an average daily value of BD 346.14 million, broken down as follows:

- The volume of bank transfers among retail banks through RTGS was 43,573 for a value of BD 80.88 billion.
- The volume of customer transfers through the RTGS totalled 264,761 with a value of BD 4.61 billion.
- Total fees received from RTGS and SSS member banks (transaction fees and annual membership fees) amounted to BD 365,172 in 2022.

There were 2,584 transactions carried out through the Scripless Securities Settlement (“SSS”) System in 2022, the value of which was BD 12.737 billion, the daily average number of transactions was 10 and the average daily value was BD 51.565 million.

Cheque Clearing

The number of cheques cleared in 2022 was 2,117,536 with a total amount BD 7.451 billion. The daily average number of cheques was 8,573 and the average daily value was BD 30.165 million.

ATM network

The number of withdrawals processing through the local ATM network system (BENEFIT) during 2022 was 15,238,271 with a total amount BD 1.508 billion with a daily average of 41,749 transactions and an average daily value of BD 4.131 million.

Electronic Fund Transfer System (EFTS)

- The number of Fawri+ transactions in 2022 was 245,843,593 with a total amount of BD 6.176 billion. The daily average number of Fawri+ transactions was 673,544 and the average daily value was BD 16.919 million.
- The number of Fawri transactions in 2022 was 11,059,884 with a total amount of BD 18.419 billion. The daily average number of Fawri transactions was 30,301 and the average daily value was BD 50.462 million.

- The number of Fawateer transactions in 2022 was 13,197,046 with a total amount of BD 1.079 billion. The daily average number of Fawateer transactions was 36,156 and the average daily value was BD 2.957 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 10th December 2020, with the Central Bank of Bahrain (CBB) and Saudi Central Bank (SAMA) being its first participants, and in March 2022, the Central Bank of Kuwait has also joined the service.

During 2022, the CBB has successfully onboarded all its retail banks to the AFAQ service and became the first central bank in the GCC to accomplish this milestone.

Banks cross-border payments transfers through the AFAQ Service were 15,402 in 2022, for a total amount of BD 84.67 million with a daily average of 62 transfer and an average daily value of BD 342,782 broken down as follows:

- Interbank transfers: The volume of the incoming bank transfers through AFAQ Service was 37 for a value of BD 218,112 and the volume of the outgoing bank transfers was 465 for a value of BD 846,708.
- Customer transfers: The volume of the incoming customer transfers through AFAQ Service totalled to 11,638 with a value of BD 54.63 million and the volume of the outgoing customer transfers was 3,262 for a value of BD 28.97 million.

Bahrain Electronic Cheque System Service (BECS)

The Bahrain Electronic Cheque System (BECS) which was launched by the CBB, in collaboration with the BENEFIT Company on 19th October 2021, 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 in detail:

Service	2021 Total	2022 Total	Total Since Launch
Number of active customers registered in the system (individuals)	530,411	259,056	789,467
Number of active customers registered in the system (corporates)	93	142	235

Number of electronic cheque book requests	2,581	1,136	3,717
Number of electronic cheques issued by individuals through BenefitPay application	1,551	3,597	5,148
Number of electronic cheques issued by corporates, Customers of Joint Accounts, and Customers of Accounts with Power of Attorney through BENEFIT E-cheque application	104	1,317	1,421
Total number of cheques deposited and paid	1,090	4,122	5,212

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 116,332,158/500 during 2022.

The total value of currency deposits during 2022 amounted to BD 1,002,231,500/-, while that of the currency withdrawals stood at BD 982,522,095/-.

The value of currency in circulation recorded BD 685,059,245/- on 31st December 2022, of which currency coins and notes amounted to BD 22,907,055/- and BD 662,152,190/- respectively:

- The fourth issue of currency notes reached a level of BD 63,865,980/- and amounted to 9.65% of the total value of currency notes in circulation.
- The upgraded Fourth issue of the BD 20, BD 10 and BD5 new series of currency notes reached a level of BD 589,795,825/- and amounted to 89.07% of the total value of currency notes in circulation.
- The value of the third issue of currency notes stood at BD 8,490,385/- amounted to 1.28% of the total value of currency notes in circulation.

During December 2022, The Central Bank of Bahrain issued Bahraini Dinar banknotes carrying the signature of His Royal Highness Prince Salman bin Hamad Al Khalifa, the Crown Prince and Prime Minister, on all denominations. All denominations of current banknotes will remain in circulation alongside the new issue, that will carry the same design and color in each denomination.

CBB Training Programs

During 2022, 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. And in light of the improvement in the situation related to Coronavirus (Covid 19), especially during the second half of the year, the training plans varied between virtual and physical programs offered 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 166 employees in 139 training courses at BIBF; covering different areas including finance, Islamic banking, compliance, insurance, Fintech, management and information technology.
- Enhancing technical competencies through enrolling 239 employees in 239 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.
- Conducting two batches of the tailored “CBB Skills Development” training program, for 36 new employees as part of the CBB induction program.
- Conducting 3 batches of the tailored “First Aid and Fire Fighting” program for 35 marshals and security Officers at CBB, in cooperation with the Civil Defence School.
- Sponsoring 15 employees for different professional and academic qualifications in cooperation with Tamkeen and the Waqf Fund.
- Providing internships for 31 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 the Year 2022, several projects were completed as part of the IT Projects Roadmap. They include the following:

Perform External Penetration Tests to check for security vulnerabilities

As part of the ongoing efforts to enhance the information security, the Information Technology Directorate (ITD) contracted with a specialized company to perform “Penetration Tests” and to 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 the required fixes have been applied to strengthen the security controls against probable breaches. The CBB conducted two Penetration Tests yearly and the highest Information Security standards are applying when conducting these exercises.

Cyber Managed Detection and Response

ITD extended the cloud-managed Anti-Malware solution which was being used to include 24/7 monitoring features for immediate and rapid response and instant remediation of incidents on CBB infrastructure. The detection and response will be conducted by a specialized team which is monitoring CBB network and in case of any detection it will be remediated within one hour approximately.

ISO 27001:2013 Information Security Management System - CBB Renewal for new 3 years cycle

The Certificate for Information Security Management System (i.e. ISO 27001:2013 - ISMS) is an internationally recognized certification for Information Security. It is one of the most widely used standards for information security. CBB started the journey of the renewal of the certification at the beginning of 2022 with a consultant vendor to review the ISO certificate controls and to address the identified gaps. CBB got certified with ISO 27001: 2013 for the coming 3 cycles (years).

SWIFT Customer Security Program (CSP) Independent Assessment

The SWIFT's Customer Security Program (CSP) helps financial institutions to ensure that their defences against cyberattacks are effective, thereby protecting the integrity of the wider financial network. In 2021, SWIFT mandated this program to be independently assessed by a SWIFT-authorized third-party auditor. The ITD signed a contract with a specialized authorized company to perform a SWIFT CSP assessment that ensures compliance with the mandated SWIFT security controls. The assessment was completed and reports were submitted to SWIFT.

GCC Real Time Gross Settlement System (AFAQ) Project

The Central Bank of Bahrain has completed the process of onboarding all Bahraini Retail banks in the AFAQ system. The concerned directorates in the Central Bank of Bahrain succeeded in including Bahraini retail banks in the system, after ensuring their technical readiness. With regards to the process of including the Gulf banks and other Central Banks in the AFAQ system, the CBB and a group of Bahraini retail banks collaborated with the Gulf Payments Company, Central Bank of Saudi (SAMA) and a group of Saudi banks, to link and to test the messages flows with the Central Bank of Kuwait and the banks operating in Kuwait.

Accounting System (Dynamic 365)

In line with the CBB's objectives to automate and develop processes, reduce the burden on employees and to ensure the highest standards of information security, the CBB undertook the replacement of the current Accounting System with MS Dynamics 365.

Upgrade of existing Reserve Management System

As part of the CBB efforts to keep pace with the latest versions of the existing systems, thereby facilitating the system users to use its updated features and enhancing the robustness

of the application security, the Reserve Management system has been upgraded successfully to the latest version.

Replacement of Intranet & Extranet Platforms

The project for replacing the existing platforms for the Intranet and Extranet has been completed successfully on the Amazon cloud computing platform.

Expert initiative system

As part of the CBB digital strategy initiatives, it was recommended to build a central repository to collect the employee's technical expertise and personal skills in the Human Resources System. This has been achieved successfully by developing a self-service form in the intranet to allow the employees to enter their qualifications, work experience, fields of their technical expertise and/or outstanding personal skills and talents. The information provided will be used to update HR records and will be shared with relevant parties to maximize the involvement of CBB experts in different projects and tasks.

Transfer the Internet Gateway to Cloud-hosted Services

As part of the IT Directorate efforts to enhance CBB's Internet browsing services, the "Internet Gateway" used was migrated from an almost obsolete on-premise device to a cloud-hosted service. This will lead to the addition of many modern security features based on best practices and standards to reduce cyber risks and improve the Internet browsing service as well as improve the cloud services used for the Dynamics 365 accounting system and the Office 365 system.

Avaya system Upgrade

The ITD completed migrating and upgrading the IP telephony system to a new virtual environment from the current obsolete hardware and this was targeted to improve the system performance. Moreover, the system has been upgraded to the latest version, which was not possible due to the previous hardware's limitation. The upgrade also provides for better application security and performance, apart from additional mobile phone support features.

Data Center Shutdown

As part of CBB's continued endeavour to enhance the Business Continuity processes, ITD completed a resilience test for the systems used in CBB, by performing a "Data Center Shutdown" to ensure the successful start-up process for all the critical systems that are hosted in CBB's data center. This test will help in guaranteeing the speed in starting up all the systems and the services in a safe way, and to verify the availability of the backups and systems without loss of information. The exercise is also used to ensure the updated documentation could be successfully used to start-up the required critical systems.

Consumer Protection

Tawasul system

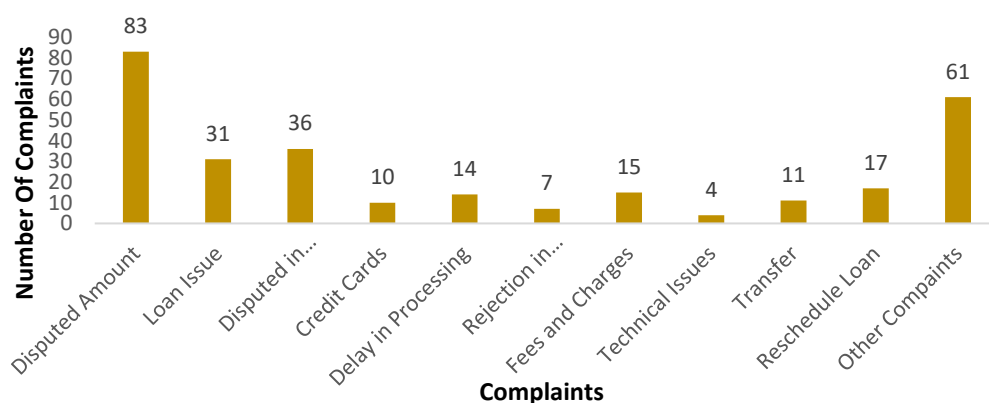
- Total Number of Cases Received (2,489)

- Total Number of Complaints Received (1,972)
- Total Number of Queries Received (428)
- Total Number of Suggestions Received (89)

All cases were jointly resolved and closed by the Consumer Protection office and relevant Directorates in CBB.

Customer Complaints

Total Number of complaints received during the year 2022 (289) distributed as follow:



External Communications Unit

Press Releases from CBB:

- Total Number of Press Releases (123 Press Release)
- Total Number of Government Securities and Sukuk Press Releases (90 Press Release)
- Total Number of Press Releases related to CBB announcements and events (33 Press Release)

Press releases

No.	Date	Subject
1	05.01.2022	CBB Governor Rasheed Al Maraj Receives Central Banker of the Year, Middle East Award 2022
2	06.01.2022	Central Bank of Bahrain, Alba, Bank ABC And Onyx By J.P. Morgan Complete Test With Blockchain Based Jpm Coin System
3	11.01.2022	المعراج: برامج وخطط معهد البحرين للدراسات المصرفية والمالية تتوافق مع استراتيجية تطوير قطاع الخدمات المالية (2022-2026) ضمن خطة التعافي الاقتصادي
4	08.02.2022	Central Bank of Bahrain issues new amendments to the directives on Financing Companies under CBB Rulebook Volume 5

5	01.03.2022	CBB and Gartner hold workshop on Innovation in Insurance
6	16.03.2022	CBB Raises Key Interest Rate
7	27.03.2022	CBB holds first Board meeting for 2022
8	29.03.2022	Central Bank of Bahrain issues revised Collective Investment Undertakings regulations
9	03.04.2022	Central Bank of Bahrain receives ISO 22301:2019 Certification in Business Continuity - Management System (BCMS)
10	13.04.2022	The Central Bank of Bahrain supports University of Bahrain Master in Financial Technology student projects
11	28.04.2022	Central Bank of Bahrain Issues New Crowdfunding Platform Operators Regulations
12	04.05.2022	CBB Raises Key Interest Rate
13	09.05.2022	الاجتماع الدوري بين مصرف البحرين المركزي وجمعية مصارف البحرين
14	18.05.2022	Central Bank of Bahrain launches the Bahrain Supernova FinTech Challenges 2022 on FinHub 973 to drive open innovation across the Financial Services industry
15	15.06.2022	CBB Raises Key Interest Rate by 75 basis points
16	16.06.2022	Central Bank of Bahrain issues new directives for insurance firms to establish an internal actuarial unit and appoint a Bahraini competencies as actuarial experts to work within insurance companies
17	26.06.2022	CBB holds second Board meeting for 2022
18	29.06.2022	The Central Bank of Bahrain launches a survey campaign to solicit clients' opinion on the initiative of assigning mutually resolved minor accidents to insurance companies
19	27.07.2022	CBB Raises Key Interest Rate by 75 basis points
20	10.08.2022	Prizes amounting to more than 250,000 Saudi Riyals, the "Mulim Campaign" announces its GCC Smart Investor Award
21	21.09.2022	CBB Raises Key Interest Rate by 75 basis points
22	02.10.2022	CBB holds third Board meeting for 2022
23	17.10.2022	مصرف البحرين المركزي يُمثل البنوك والمصارف المركزية لدول مجلس التعاون في المؤتمر الدولي لمخططات البطاقات الإقليمية والتجزئة في أمستردام

24	25.10.2022	Bahrain insurance sector has shown steady results for the six months ended 30 June 2022
25	30.10.2022	مصرف البحرين المركزي داعم رئيسي للقيمة العربية الدولية للأمن السيبراني
26	02.11.2022	CBB Raises Key Interest Rate by 75 basis points
27	03.11.2022	Central Bank of Bahrain issues Bahrain Digital Payment Landscape Report 2022
28	06.11.2022	CBB receives renewed ISO certification for Information Security
29	06.11.2022	The CBB continues to make progress towards implementing high ESG standards
30	30.11.2022	CBB establishes Opportunities Equity Committee
31	30.11.2022	CBB celebrates Bahraini Women's Day
32	14.12.2022	CBB holds fourth Board meeting for 2022
33	14.12.2022	CBB Raises Key Interest Rate by 50 basis points

Conferences, Forums and Workshops

No.	Date	Subject
1	06-08 March 2022	Cyber Security: Methods and Techniques Workshop Organised by Union of Arab Banks
2	01 March 2022	Innovation in Insurance- Virtual Workshop In partnership with Gartner
3	14 April 2022	Bahrain Open Banking Framework virtual workshop for UOB Master of Fintech students
4	15-16 May 2022	The 20th AAOIFI Annual Shari'ah Boards Conference
5	27 June 2022	Adoption of ISO20022 Standards – Webinar for SWIFT Community in Bahrain
6	27-28 November 2022	AAOIFI-IsDB 17th Annual Islamic Banking and Finance Conference
7	28 November 2022	Financial Cybersecurity Controls Discussion Workshop
8	04 December 2022	International Banks Day Celebration 2022- "Opportunities Equity Effect" Live virtual session

Interviews

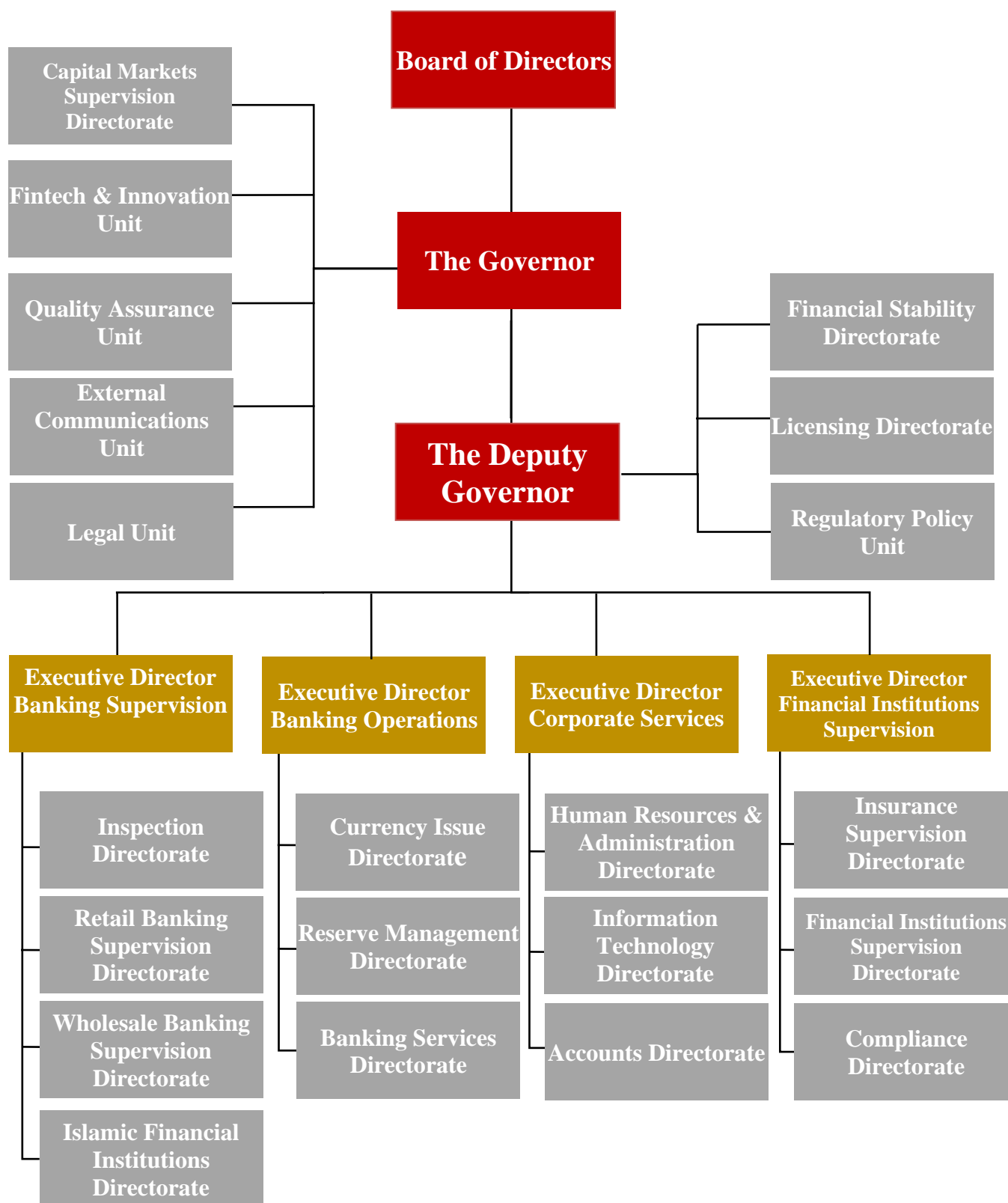
No.	Date	Interview Topic	Interviewee	Media or Event
1	01 February 2022	Interview with HE the Governor of Central Bank of Bahrain	HE Rasheed Al Maraj, Governor	CNN
2	23 February 2022	مقابلة برنامج "المرّة الأولى" بخصوص الإصدار الأول للدينار البحريني	Nabeel Al Ghawi - Head- Currency & Museum Affairs Tariq Ahmed Abdulla - Superintendent - Currency & Museum Affairs	تلفزيون البحرين Bahrain International TV
3	29 June 2022	How Crowdfunding Can Finance The Future In Bahrain (And Beyond)	Yasmeen Murtadha Al Sharaf Director- Fintech and Innovation Unit Shireen A.Karim Al Sayed Director - Regulatory Policy Unit	Entrepreneur Middle East Magazine
4	19 July 2022	Interview on the recent announcement for insurers to establish an internal actuarial unit	Elham Taleb - Director - Insurance Supervision Directorate	Asia Insurance Review
5	18 August 2022	Interview on the Investor Awareness program "Mulim" and the GCC Smart Investor Award	Hesa Almannai - Senior Financial Analyst Capital Markets Supervision Directorate Hussain Mohamed- Senior Financial Analyst Capital Markets Supervision Directorate	تلفزيون البحرين Bahrain International TV
6	12 September 2022	دور المرأة البحرينية الفاعل في المسيرة التنموية لمملكة البحرين	Yasmeen Murtadha Al Sharaf Director- Fintech and Innovation Unit	تلفزيون دبي
7	03 December 2022	لقاء أثناء ورشة عمل حول ضوابط الأمن السيبراني في القطاع المالي	Yousef Rashid Al Fadhel Executive Director - Corporate Services	تلفزيون البحرين

Awards

No.	Date	Subject	Awarding Body
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1	04 January 2022	CBB Governor Rasheed Al Maraj Receives Central Banker of the Year, Middle East Award 2022	The Banker Magazine
2	10 March 2022	Yasmeen Al Sharaf featured in Women in FinTech Powerlist 2021	Innovate Finance
3	30 January 2023	1st place award in the Capital Governorate competition for best decorated buildings in Manama (Government institutions category) on the occasion of the anniversary of HM King Hamad bin Isa Al Khalifa's accession to the throne and National Day for 2022	The Capital Governorate

CBB's Organizational Chart



Chapter

4

4. Financial Statements for the Year Ended December 2022

CENTRAL BANK OF BAHRAIN

**INDEPENDENT AUDITOR'S REPORT
AND
FINANCIAL STATEMENTS
31 DECEMBER 2022**

CENTRAL BANK OF BAHRAIN
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022

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



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Independent auditors' report

To the Board of Directors

*Central Bank of Bahrain
Kingdom of Bahrain*

Opinion

We have audited the financial statements of the Central Bank of Bahrain (the "Central Bank"), which comprise the balance sheet as at 31 December 2022 and profit and loss and appropriation for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements are prepared, in all material respects, in accordance with the accounting policies described in note 2 of the financial statements.

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 Auditors' responsibilities for the audit of the financial statements section of our report. We are independent of the Central Bank in accordance with the International Ethics Standards Board for Accountants 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 these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter – Basis of Accounting

We draw attention to Note 2 to the financial statements which describes the basis of accounting. The financial statements have been prepared to comply with the Central Bank's financial reporting requirements. As a result, the financial statements may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Responsibilities of the Management for the Financial Statements

Management is responsible for the preparation of the financial statements in accordance with the accounting policies described in note 2 of the financial statements, and for such internal control as the 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, the 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 the management either intends to liquidate the Central Bank or to cease operations, or has no realistic alternative but to do so.



Auditors' 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 auditors' 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.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism 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 the management.
- Conclude on the appropriateness of the 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 auditors' 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 auditors' 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 presentation in line with the accounting policies described in Note 2.

We communicate with the management regarding, 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.

KPMG Fakhro
Partner Registration Number 213
19 March 2023

CENTRAL BANK OF BAHRAIN
BALANCE SHEET
AS AT 31 DECEMBER 2022

	Note	2022 BD'000	2021 BD'000
ASSETS			
Gold	3	2,500	2,500
Foreign reserves	4	1,577,108	1,873,964
Due from Ministry of Finance	5	2,773,741	1,920,360
Cash, due from Bahraini banks and treasury bills	6	446,592	318,594
Other assets	7	35,906	12,239
TOTAL ASSETS		4,835,847	4,127,657
LIABILITIES			
Notes and coins in circulation	3	684,353	704,058
Bahraini Dinar deposits from banks		3,230,724	2,538,594
Other deposits		278,269	264,708
Due to other central banks		558	1,016
Profit payable to the Government of the Kingdom of Bahrain		2,500	2,500
Provision for currency withdrawn		6,151	6,156
Other liabilities	8	13,201	8,468
TOTAL LIABILITIES		4,215,756	3,525,500
CAPITAL FUNDS			
Capital	9	200,000	200,000
General reserve	10	279,831	269,761
Contingency reserve	11	119,032	111,219
Revaluation reserve	12	21,228	21,177
TOTAL CAPITAL FUNDS		620,091	602,157
TOTAL LIABILITIES AND CAPITAL FUNDS		4,835,847	4,127,657



Hassan Khalifa Al Jalahma
Chairman



Rasheed Mohammad Al Maraj
Governor

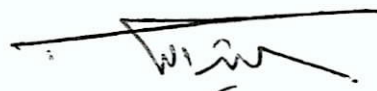
The attached notes 1 to 13 form part of these financial statements.

CENTRAL BANK OF BAHRAIN
PROFIT AND LOSS ACCOUNT AND APPROPRIATION
FOR THE YEAR ENDED 31 DECEMBER 2022

	<i>Note</i>	2022 BD'000	2021 BD'000
INCOME			
Interest income		95,887	33,397
Interest expense		(76,669)	(27,485)
Net interest income		19,218	5,912
Registration and licensing fees		5,354	5,317
Exchange gain on sale of US dollars		8,512	9,271
Net realised investment gain		570	1,985
Other income		3,607	3,266
TOTAL INCOME		37,261	25,751
EXPENSES			
Staff costs		(12,785)	(12,138)
General and administration expenses		(3,331)	(3,423)
Notes issue expenses		(948)	(1,080)
Funds and advisory fees		(18)	(19)
TOTAL OPERATING EXPENSES		(17,082)	(16,660)
PROFIT FOR THE YEAR BEFORE PROVISION FOR IMPAIRMENT		20,179	9,091
Provision for impairment		(40)	(43)
PROFIT FOR THE YEAR		20,139	9,048
Transfer to contingency reserve	11	(7,569)	(2,024)
Transfer to general reserve	10	(10,070)	(4,524)
BALANCE PAYABLE TO THE KINGDOM OF BAHRAIN		2,500	2,500



Hassan Khalifa Al Jalahma
Chairman



Rasheed Mohammad Al Maraj
Governor

CENTRAL BANK OF BAHRAIN
NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2022

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 2022, 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 19 March 2023.

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 2022

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

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 2022

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

	2022	2021
	BD'000	BD'000
Authorised backing		
Gold	2,500	2,500
Foreign reserves – note 4	1,577,108	1,873,964
	1,579,608	1,876,464
Notes and coins in circulation	(684,353)	(704,058)
Excess of authorised backing over currency in circulation	895,255	1,172,406

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 2022 was BD 103,366 thousand (2021: BD 103,660 thousand).

4 FOREIGN RESERVES

	2022	2021
	BD'000	BD'000
Bank deposits	1,506,842	1,831,071
Bonds portfolio	70,266	42,893
	1,577,108	1,873,964

CENTRAL BANK OF BAHRAIN
NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2022

4 FOREIGN RESERVES (continued)

All bonds are quoted in active markets with 99.90% representing bonds relating to Government of Bahrain or being of investment grade BBB or higher (2021: 99.82%) based on their market values. All the deposits (2021: 100%) and 100% of bonds (2021: 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 2022 was BD 70,552 thousand (2021: BD 44,278 thousand).

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

	2022	2021
	BD'000	BD'000
Cash	22	22
Due from Bahraini banks	19,584	18,323
Ijara Sukuk / Treasury bonds & bills issued by the Government of Bahrain	426,986	300,249
	446,592	318,594

7 OTHER ASSETS

	2022	2021
	BD'000	BD'000
Interest receivable	9,800	2,605
Staff loans	4,587	4,454
Equipment	1,735	1,715
Murabaha receivable *	15,080	-
Others	4,704	3,465
	35,906	12,239

* This murabaha receivable is collateralised against Kingdom of Bahrain sukuk amounting to BD 15 million.

8 OTHER LIABILITIES

	2022	2021
	BD'000	BD'000
Deferred license fee received	4,664	4,724
Other payables	2,022	2,739
Interest payable	5,790	845
Accrued expenses	725	160
	13,201	8,468

CENTRAL BANK OF BAHRAIN
NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2022

9 CAPITAL

	<i>2022</i>	<i>2021</i>
	<i>BD'000</i>	<i>BD'000</i>
Authorised	500,000	500,000
Issued and fully paid up	200,000	200,000

10 GENERAL RESERVE

	<i>2022</i>	<i>2021</i>
	<i>BD'000</i>	<i>BD'000</i>
Balance at beginning of the year	269,761	265,237
Transfer from profit and loss account and appropriation	10,070	4,524
Balance at end of the year	279,831	269,761

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

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

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

11 CONTINGENCY RESERVE

	<i>2022</i>	<i>2021</i>
	<i>BD'000</i>	<i>BD'000</i>
Balance at beginning of the year	111,219	109,195
Transfer during the year	7,569	2,024
Recovery of provisioned asset	244	-
Balance at end of the year	119,032	111,219

In accordance with Article 21 of the Central Bank of Bahrain and Financial Institution Law, the Board has approved a transfer of BD 7,569 thousand of the current year's net profit to the contingency reserve (2021: BD 2,024 thousand) and recovery of a provisioned asset which was previously utilised from the contingency reserve.

CENTRAL BANK OF BAHRAIN
NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2022

12 REVALUATION RESERVE

	2022	<i>2021</i>
	BD'000	<i>BD'000</i>
Balance at beginning of the year	21,177	21,180
Movement during the year	51	(3)
Balance at end of the year	21,228	21,177

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 2022 and 2021, there were no outstanding contingent liabilities. Further, the outstanding commitments relating to currency swap transactions (USD purchase against BD) as of 31 December 2022 amounted to BD 1,911 million (31 December 2021: BD 1,991 million).