



مصرف البحرين المركزي

Central Bank of Bahrain

CENTRAL BANK OF BAHRAIN ANNUAL REPORT

A photograph of the Central Bank of Bahrain building, a modern, multi-story structure with a white facade and large glass windows. The building is set against a clear sky. In the foreground, there are several Bahraini flags on poles and a palm tree. The overall image has a blue tint.

2023

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Chapter

1

Monetary Policy Developments

Monetary Policy Management

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Monetary Policy Management

Monetary Policy Committee

The CBB Monetary Policy Committee (“MPC”) met on a weekly basis throughout 2023. The MPC closely evaluated economic and financial developments, monitored liquidity conditions, provided recommendations for monetary policy instruments and set interest rates on facilities offered by the CBB.

Reserve Requirements

All retail banks are required to maintain, on a monthly basis, a fixed percentage of their non-bank deposits (denominated in Bahraini dinars), in a non-interest-bearing account at the CBB. During 2023, the reserve percentage remained unchanged at 5%.

The total banks' Reserve Requirement balance outstanding in December 2023 was BD 592.979 million, with an increase of 5.25% compared to December 2022.

Domestic Interest Rates

Key Policy Interest Rates

In 2023, the CBB have changed its interest rates as follows:

- **On 1st February 2023**, the one-week deposit facility rate was increased from 5.25% to 5.50%, the overnight deposit rate from 5.00% to 5.25%, the four-week deposit rate from 6.00% to 6.25% and the CBB lending rate from 6.50% to 6.75%.
- **On 22nd March 2023**, the one-week deposit facility rate was increased from 5.50% to 5.75%, the overnight deposit rate from 5.25% to 5.50%, the four-week deposit rate from 6.25% to 6.50% and the CBB lending rate remained unchanged at 6.75%.
- **On 3rd May 2023**, the one-week deposit facility rate was increased from 5.75% to 6.00%, the overnight deposit rate from 5.50% to 5.75%, the four-week deposit rate from 6.50% to 6.75% and the CBB lending rate from 6.75% to 7.00%.
- **On 26th July 2023**, the one-week deposit facility rate was increased from 6.00% to 6.25%, the overnight deposit rate from 5.75% to 6.00%, the four-week deposit rate remained unchanged at 6.75% and the CBB lending rate also remained unchanged at 7.00%.

Interbank Rates

By the end of 2023, the 3-month BHIBOR rate was 6.51%, compared to 6.14% at the end of 2022. The 6-month BHIBOR rate was 6.48%, compared to 6.27% at the end of 2022.

Loans and Deposits rates

The weighted interest rate on deposits (6-12 months) increased from 2.74% at end of the first quarter 2023 to 3.07% at end of fourth quarter as well as the weighted interest rate on deposits (less than 3 months) from 2.43% to 2.82% for the same period. Saving deposits rates also increased from 0.23% to 0.24% for the same period. Business loan rates increased from 8.16% at end of the first quarter 2023 to 9.27% at end of the fourth quarter 2023. On the contrasts, Personal loans rates decreased from 6.44% to 6.14% 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 2023 was BD 3.578 billion, compared to BD 2.448 billion in 31st December 2022, with a 46% 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 89.383 million in 31st December 2023, compared to BD 106.802 million in 31st December 2022, with a 16% 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 1,246 Murabaha Sukuk transactions were executed with a total value of BD 7.682 billion during the year 2023, compared to 940 transactions with a total value of BD 3.892 billion in 2022, with a 97% increase. The daily average number of transactions during 2023 was 5 transactions and the average daily value was BD 30.851 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 2023, 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 2023, the CBB, at the request of the MOFNE, issued domestic and international government development bonds and Sukuks for different maturities, as follows:

- Local Government Development Bond with an issue amount of BD 100 million on April 13th, 2023, with a maturity of 3 years, and a fixed-rate of 6.00%.
- Local Government Development Bond with an issue amount of BD 200 million on May 3rd, 2023, with a maturity of 2 years, and a fixed-rate of 5.875%.
- Local Government Development Bond with an issue amount of BD 100 million on June 27th, 2023, with a maturity of 4 years, and a fixed-rate of 6.25%.
- Local Government Development Bond with an issue amount of BD 200 million on October 15th, 2023, with a maturity of 3 years, and a fixed-rate of 6.50%.

Moreover, the CBB completed one International Government Development Bond under the Global Medium Term Note Programme "GMTN Programme" and one Ijarah Murabaha Sukuk issuances under the Trust Certificate Issuance Programme "Sukuk Programme", as follows:

- **On April 18th, 2023, the CBB appointed Bank ABC, National Bank of Bahrain (NBB), Citibank, HSBC, JP Morgan, and Standard Chartered Bank as Joint Lead Managers (JLMs) to:**

- Raise \$1bn in a 7.5-year Islamic Ijara Murabaha Sukuk under the Sukuk Programme (with a structure of 51% Ijarah & 49% Murabaha) priced at 6.25% and maturing on 18th October 2030.
- Raise \$1bn in a 12-year Government Development Bond under the GMTN Programme priced at 7.75% and maturing on 18th April 2035.

Additionally, in 2023 the CBB has also arranged to issue three Private Placements with amounts of \$500 million, \$1billion, and \$500 million respectively and issued one Senior Unsecured Term Loan with amount of \$1.5 billion.

Chapter

2

Regulatory and Supervisory Developments

Regulatory Developments

Supervisory Developments

Regulatory Developments

Amendments to the Credit Risk Management Module

Sovereign Debt

The CBB, in January 2023 issued amendments to the Credit Risk Management Module of the CBB Rulebook – Volumes 1 and 2, which includes the deletion of Section (CM-1.10) related to Provisions Against Sovereign Debt and Appendix CM-1 “Sovereign Debt Provisioning Matrix” included in Part B of the CBB Rulebook. All banks shall calculate Expected Credit Loss (ECL) against exposures to sovereign debt using the methodology and accounting policy under IFRS 9 and as per the requirements in Section (CM-1.8) on Classification and Provisioning.

Non-performing loans

The CBB in February 2023, issued amendments to the credit risk management Module for all retail banks and financing companies, after completing the consultation with the financial sector. The amendments included the addition and classification of purchased or originated credit impaired exposures (POCI) that are in default or impaired as part of non-performing exposures. Such exposures maybe reclassified as performing subject to meeting certain conditions stipulated in the Module.

The amendments also included reclassifying non-performing exposures from stage 3 to the stage 2, for retail clients (natural persons), for a period of three months for loans/facilities with monthly instalments and six months for loans/facilities with quarterly instalments.

Amendments to Capital Adequacy and Credit Risk Management Modules on Credit Protection Guarantees

The CBB in January 2023, issued amendments to the Credit Risk Management and Capital Adequacy Modules for all banks under the CBB Rulebook Volumes 1 and 2 regarding credit default guarantees provided by Tamkeen. The Capital Adequacy Module included the addition of a paragraph to recognize credit default guarantees provided by Tamkeen as eligible credit risk mitigants. The Credit Risk Management Module also included the exemption of the portion of the exposure that is explicitly guaranteed by Tamkeen from the application of the expected credit loss model.

Amendments to the Financial Crime Module

Reporting to the CBB on Terrorist Financing

The CBB in January 2023, issued amendments to the Financial Crime Module for all licensees, that included the addition of a paragraph stipulating that licensees must report any frozen assets or actions taken in compliance with the prohibition requirements of the relevant UNSCRs, including attempted transactions.

Customer Due Diligence (Know your customer) and Customer Onboarding Requirements

The CBB also issued in September 2023, amendments to the Financial Crime Module for all licensees on know-your-customer requirements and digital onboarding process, as licensees are not required to carry out enhanced due diligence procedures for Bahrainis, GCC citizens (wherever they are), and expatriates residing in Bahrain while licensees must carry out enhanced due diligence procedures for other categories of customers. The requirements also included allowing licensees to carry out digital onboarding process for all customers.

Companies Under Formation:

The CBB in December 2023, issued amendments to the Financial Crime Module of CBB Rulebook Volumes One and Two for conventional and Islamic retail banks regarding facilitating the opening of

accounts for companies under formation after studying the feedback received on the consultation papers issued and meeting with the banks in this regard.

These amendments contribute to facilitating and streamline the process of opening accounts for companies under formation as retail banks may open a bank account for the purpose of injection of initial capital (bank account for depositing capital) for a company under formation, but it is not permissible to make any transfers or disbursement of funds from this bank account until all customer due diligence requirements have been fully met. Retail bank licensees may also open a separate bank account for the purpose of payment of formation expenses under conditions to be agreed with the customer.

Amendments to Capital Adequacy Module for Investment Firms

The CBB in February 2023, issued amendments to the Capital Adequacy Module for investment firms. The amendments included the reduction of the minimum capital requirements for Category 3 investment firms from BD125,000 to BD25,000. In addition, such firms must maintain adequate liquid funds representing 25% of operating expenses incurred in the preceding financial year at all times in the form of cash or liquid assets that can be converted to cash in the short-term to cover its operating expenses.

Open Banking

Consultation Paper: Extending the Scope of Open Banking

The CBB is studying the feedback received on the consultation paper issued in March 2023 which includes amendments to existing open banking related regulations in the General Requirements Module of CBB Rulebook Volumes 1 and 2 for conventional and Islamic banks and the Open Banking Module of the CBB Rulebook Volume 5 to allow legal persons access to open banking offerings. The proposed amendments address the following requirements:

- Banks to provide AISPs and PISPs access to information belonging to their customers who are legal persons with their consent.
- AISPs/PISPs to develop and agree with banks, the API specifications, customer onboarding and related service and operational standards consistent with the security standards and guidelines in BOBF.
- The data required to be shared by banks and the nature of products and services that are subject to the above requirements.

Consultation Paper: on Open Banking Requirements

As part of the CBB's objective to enhance its regulatory framework, the CBB in October 2023 issued a consultation paper to retail banks and entities providing open banking services that includes the following amendments:

- Embedded authentication flow for onboarding customers.
- Public disclosures and CBB reporting requirements on API performance statistics.
- CBB reporting requirements on Open Banking performance by AISPs/PISPs.

The CBB is considering requiring the licensees to whom this circular is addressed to implement the requirements with effect from 1st April 2024.

Amendments to Crypto-asset Module (Module CRA)

The CBB in March 2023, issued amendments to the requirements under the Crypto-assets Module of the CBB Rulebook – Volume 6. The amendments include a new chapter on (Digital Token Offerings) and revisions of the definition of crypto assets in the Glossary and cyber security requirements.

The CBB also issued in September 2023, amendments to the Crypto-Asset Module of Volume 6 which included the addition of a new Section for Cyber Hygiene Practices and two-factor authentication requirements similar to what was issued for Volume 5 licensees.

Government Employee Certificates issued through the National Electronic Portal

As part of the government's initiative to enhance the efficiency and quality of its electronic services, the National Electronic Portal's (Bahrain.bh) service for issuance of salary/service certificates provided to government employees under the Civil Service Bureau has been upgraded. The CBB therefore, issued at the end of March 2023, a circular to all licensees regarding government employee certificates issued through the national portal to inform them that only electronic copies will be available and physical copies will not be issued. Accordingly, all licensees must accept such electronic certificates for any relevant financial services offered to their customers. The CBB also attached a user guide for the services and samples of electronic certificates.

High Level Controls Module

Revised High Level Controls Module - Conventional and Islamic Banks

The CBB in March 2023, issued a revised High-Level Controls (HC) Module for Conventional and Islamic Banks under the CBB Rulebook – Volumes 1 and 2 and related amendments in the CBB Reporting Requirements (BR), Operational Risk Management (OM) and Public Disclosures Requirements (PD) Modules.

The newly added requirements in Module HC were effective from 1st October 2023. All banks were required to assess the changes required to their policies, procedures, processes and systems to ensure full compliance with the requirements and provide the CBB with a gap analysis and an action plan for implementation no later than 31st May 2023.

The CBB has also issued an amendment to the Module to separate the rules whereby "Part One" contains requirements applicable to Bahraini bank licensees and "Part Two" includes the requirements applicable to branches of foreign bank licensees, for ease of reference.

Revised High Level Controls Module - Investment firms:

The CBB in June 2023, issued a revised High-Level Controls (HC) Module for investment firm licensees under the CBB Rulebook – Volume 4 and related amendments in the CBB Reporting Requirements Module (BR) and Risk Management (OM) Module.

The newly added requirements in Module HC are effective from 1st January 2024. All investment firm licensees were required to assess the changes required to their policies, procedures, processes and systems to ensure full compliance with the newly added requirements and provide the CBB with a gap analysis and an action plan for implementation no later than 1st October 2023.

Consultation Paper: Revised High Level Controls Module for insurance firms and specialised licensees

The CBB issued in June and July 2023, two consultation papers to insurance firms and specialised licensees of Rulebook Volumes 3 and 5 regarding a new, restructured High Level Controls Module that is commensurate with the complexity and size of these firms. This version will replace the previous version, similar to what was issued to banks and investment firms earlier this year.

Doctors' Education Loans Scheme supported by Tamkeen

The CBB issued in April 2023, a circular to all retail banks regarding the introduction of a new scheme by the Ministry of Health in cooperation with Tamkeen to support Bahraini doctors' obtaining

specialised education. This arrangement will be offered by the retail banks that agreed with Tamkeen to participate in the scheme.

Accordingly, the loans provided under the above-mentioned scheme will not be subject to the consumer finance requirements stipulated in Chapter CM-5 of the Credit Risk Management Module of CBB Rulebook Volumes 1 and 2 for Conventional and Islamic Banks.

Resolution No. (2) for the year 2023 amending the Deposit Protection and Unrestricted Investment Accounts Scheme Regulation No. (34) of 2010

The CBB in May 2023 issued Resolution No. (2) for the year 2023 certain Articles of the Deposit Protection Scheme Regulation No. (34) of 2010 with regards to banks contributions and changes related to converting from conventional to Islamic bank.

Employee Salary Transfers by Banks' Corporate Customers

The CBB issued in May 2023 a circular to all retail banks requiring them to advise their corporate customers making salary transfers to their employees to ensure that the transaction advice to receiving banks clearly describes the different components of the fund transfer such that the receiving bank is able to distinguish between salary payments and other non-salary payments to avoid erroneous loan installment deductions.

This is due to the CBB's knowledge that non-salary payments made by banks' corporate customers to their employees are being mis-labeled as salary transfers leading to some banks making loan installment deductions from such transfers.

Revised Appointed Representative Requirements in General Requirements Module

The CBB issued in June 2023 revised requirements for "Appointed Representatives" in the General Requirements Module of the CBB Rulebook – Volume 3 to replace the existing Chapter GR-9 after consulting with the insurance sector, studying and taking into consideration the comments received, and meeting with the Bahrain Insurance Association in this regard. The revised requirements included amendments to the Authorisation Module, Client Money Module and the Glossary. Insurance firms who were unable to fully comply with the new requirements with immediate effect were required to ensure full compliance by 1st January 2024 and submit an action plan for implementation to the supervisory point of contact at the CBB no later than 31st October 2023.

Consultation Paper: Proposed National Risk Management Framework for Information Security

The CBB received a draft on the "National Risk Management Framework" for Information Security from the National Cyber Security Center at the Ministry of Interior, accordingly, the CBB in June 2023 issued a consultation paper to all licensees for their feedback. This draft aims to improve and enhance cybersecurity controls for public and private institutions in the Kingdom of Bahrain at the national level by providing a national framework for managing information security risks. Financial Services sector is considered one of the Critical National Infrastructure sectors.

This consultation paper outlines the principles, processes and procedures for managing organizational risks. It provides a structured approach to identifying, assessing, mitigating and monitoring risks across an organisation's operations.

This document also serves as a guide for employees and stakeholders involved in risk management activities and ensures consistency and standardization in risk management throughout the organization.

The paper also provides practical steps and tangible solutions. It equips practitioners with the necessary tools to assess risks and vulnerabilities, and the best approach to implementing robust security measures, ensuring resilience in the face of an ever-evolving threat landscape.

Two-Factor Authentication Requirements for Volume 5 licensees

The CBB issued in July 2023, the final amendments to the requirements of two-factor authentication (also referred to as (2FA)) to financing companies, money changers, payment service providers and crowdfunding platform operators of Volume 5 licensees, after the completion of consulting the financial industry and studying the feedback received in this regard. This measure is an additional protection measure that secures customers' accounts to prevent any unauthorized access to or use of client accounts. According to these requirements, licensees must take appropriate measures to authenticate the identity of their customers, and must also, at a minimum, establish adequate security features for client authentication, including the use of at least two of the three elements mentioned in the requirements.

Dividends and Profit Repatriation

Conventional and Islamic banks

The CBB issued in August 2023 final amendments to the requirements of General Requirements and Capital Adequacy Modules of the CBB Rulebook Volumes 1 (Conventional banks) and 2 (Islamic banks) regarding Dividends and Profit Repatriation after the completion of consulting the banking industry and studying the feedback received in this regard. Banks must submit details about dividends, their impact on capital adequacy ratio, liquidity coverage ratio, net stable funding ratio, ratio and other ratios, and their impact on stress testing.

Insurance Firms

The CBB also issued in November 2023, a consultation paper on the Dividends and Profit Repatriation to insurance firms. The consultation paper required insurance firms to provide details about dividend distributions, their impact on the capital adequacy ratio, solvency margin and the impact on stress testing to ensure that the proposed dividends will not lead to a breach of regulatory and other requirements. This consultation was issued to insurance firms similar to what was issued to banks earlier.

Consultation Paper: Amendments to the Capital Adequacy Module

As part of the CBB's initiatives to enhance its regulatory framework and to comply with the Basel Committee for Banking Supervision's Basel III standards, the CBB issued in August 2023 a consultation paper that includes various amendments to Capital Adequacy Module, Part 2: Credit Risk of the CBB Rulebook - Volume 1 for Conventional Banks and its appendices, (the proposed Appendix CA-2 will replace the existing Appendix and Appendix CA-24 is a newly added appendix).

Draft Resolution on Regulating the Security Right over Accounts at Financial Institutions and Securities

The CBB in September 2023, issued a consultation paper on a draft resolution on regulating the right of security over accounts at financial institutions and eligible securities, which includes the conditions for establishing the security right, the rules for security rights, accounts eligible for guarantee, and other requirements.

Family Office Module

The CBB in September 2023 issued a new "Family Office Module" introducing a new category of investment firms under its Investment Business Regulations – Volume 4 of the CBB Rulebook. Such

category is permitted to provide regulated investment and wealth management services to family offices that are subject to the CBB's supervision.

The regulations were developed to suit the business models of family offices that provide services to multiple wealthy families while maintaining regulatory requirements related to governance and internal controls. This category of license will be able to provide wealth management advice, investment management, custody services, trust services, fund management and insurance advice.

Resolution No. (45) of 2023 issuing regulations specifying the types of securities that may be offered for trading, the methods of issuing and dealing in them, and the obligations of the parties concerned with the process of issuing each type

The CBB in September 2023, issued Resolution No. (45) of 2023 regarding issuing regulations specifying the types of securities that may be offered for trading, the methods of issuing and dealing in them, and the obligations of the parties concerned with the process of issuing each type in the Kingdom of Bahrain, for which crypto assets were added as part of the securities that maybe offered for trading and are determined in accordance with the rules and controls that the CBB issues in this regard.

Financing to Small and Medium Sized Enterprises (SMEs) requirements

The CBB, in October 2023 issued a circular to all retail banks on the requirements of Financing to Small and Medium Sized Enterprises (SME) in accordance with the government initiatives taken to support these companies. Requirements include the following:

1. Banks must review the SME financing targets and scale them up keeping in view the financial services sector development strategy KPI of 20% share of financing allocated to SMEs from the domestic financing portfolio by the end of 2025. The CBB expects banks that provide financing services to SMEs to reach the following minimum percentages:
 - a. 5% by 31st December 2023,
 - b. 10% by 31st December 2024,
 - c. 20% by 31st December 2025.
2. Create a separate department or unit within the credit department dedicated to SME financing.
3. Develop specific policies and products to cater to financing needs of SMEs and for growing the SME financing portfolio.

Amendments to the Financial Crime Module upon reliance on Third Parties For Customer Due Diligence (Third Party Reliance)

The CBB in October 2023, after the completion of consulting the financial sector and studying the feedback received, issued amendments to the Financial Crime Module for all licensees, which include undertaking specific measures upon reliance on a regulated financial institution (third party) to conduct and implement customer due diligence.

In such cases, the third-party financial institution has an existing business relationship with the client independent from the client's relationship with the licensee, as the third party in this case carries out its own due diligence measures on the client. This differs from the outsourcing procedure whereby the licensee specifies the measures and monitors/directs the third party in order to effectively implement CDD measures.

The requirements state that licensees remain ultimately responsible for customer due diligence upon reliance on third parties. In addition, the requirements prohibit reliance on third parties to

carry out enhanced due diligence measures, but the licensee can agree with them to obtain the necessary documents or information.

Resolution No. (54) of 2023 with Respect to issuing a Regulation on the Rules and Procedures of Mergers and Acquisitions of Shares of Companies Listed on Exchanges Licensed by the Central Bank of Bahrain

The CBB issued in October 2023 Resolution No. (54) of 2023 with Respect to issuing a Regulation on the Rules and Procedures of Mergers and Acquisitions of Shares of Companies Listed on Exchanges Licensed by the Central Bank of Bahrain after completion of consulting the financial industry and studying the feedback received.

The provisions of the Regulation accompanying the Resolution is applicable to all parties concerned with offers, acquisitions or mergers that result in control over the shares of joint stock companies listed on the market. It also covers mergers where the listed joint stock company is a party whether it is acquired or a merged company.

Consultation Paper: Total Repayments Ratio and Maximum Tenor Limit

The CBB in November 2023, issued a consultation paper that included amendments to the Credit Risk Management Module regarding total repayments ratio and maximum tenor limit applicable to consumer finance for retail banks and financing companies. The consultation paper included, but was not limited to, the following:

- a) Banks and financing companies should communicate through email/SMS with all consumer finance customers requesting them to accept or decline the automatic restructure into a tenor of ten years;
- b) Such restructuring exercise must not be considered or used towards any downgrade to stage 2 in the future due to the exceptional nature of this requirement;
- c) The reduction of the debt-service ratio (total monthly repayments) from 50% to 40% of the monthly gross income and increasing the repayment period from 7 years to 10 years. The loan period that passed already should be counted into the ten years tenor;
- d) Banks and financing companies can charge the appropriate reschedule fee allowed in accordance with the caps on fees and charges in the CBB Rulebook;
- e) The new tenor shall not apply to stage 3 exposures;
- f) Banks and financing companies must not increase interest rates when restructuring the existing facilities with such new tenor.

The CBB studied the feedback received from the financial industry, met with the banks and is waiting for a proposal from Bahrain Association of Banks.

Environmental, Social and Governance Requirements Module

The CBB, in November 2023 issued the Environmental, Social and Governance Requirements Module (Module ESG) that includes ESG reporting requirements to listed companies, banks, insurance firms, financing companies and investment firms category 1 and 2 after completion of the consultation period and taking into account the financial sector's responses and feedback on the consultation paper issued in this regard. The ESG reporting requirements are important for effective adoption of ESG frameworks which contributes to the Kingdom of Bahrain's commitment to Sustainable Development Goals.

The CBB recognises that during the initial years of implementation of ESG reporting requirements there may be data and methodological challenges. Nevertheless, companies must take all reasonable steps to report the Key Performance Indicators using alternative methods or simplified

reporting mechanisms where such disclosure would remain fair, clear and not misleading. Companies should also appropriately explain any limitations on their ability to report and the steps being taken to address those limitations.

The CBB also held a round-table discussion session in cooperation with the Ministry of Sustainable Development to discuss this matter with the sector before issuing the final directives.

The above-mentioned requirements are effective from year ending 31st December 2024 (i.e. the first report for the year ending 31st December 2024 is due in the year 2025). Module ESG shall be incorporated under a new volume “Common Volume” within the CBB Rulebook.

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

The CBB in November 2023 issued amendments to Takeovers, Mergers and Acquisitions Module, specifically, Section (TMA-2.2) on Independent Advisor, Shareholder Approval and on the formation of an independent committee which is established to discharge the board’s responsibilities in relation to the offer. Such amendments were introduced after completing the financial sector consultation and studying the feedback received.

Insurance Cover on Loans/Financing

New Requirements: Conventional and Islamic banks

The CBB in December 2023, introduced new requirements in the Business and Market Conduct Module of the CBB Rulebook Volumes 1 and 2 in Section BC-4.21, to ensure that amounts recovered by retail banks from their customers, in respect of insurance on loans/financing, are not in excess of the cost borne by the banks of such insurance. Such requirements were included after studying the feedback received on the consultation papers issued in this regard and meeting with banks, Bahrain Association of Banks, Bahrain Insurance Association and insurance firms in in this regard.

These requirements include calculating the cost of insurance for loans/financing by banks, the methodology for calculating the amount of insurance coverage, disclosure requirements, and the customer’s rights in this regard.

Consultation Paper: Financing Companies

The CBB in December 2023, issued a consultation paper to all financing companies regarding insurance cover on loans similar to what was issued for banks earlier.

Such requirements were added in the Business and Market Conduct Module of the CBB Rulebook Volume 5 for financing companies. These requirements include calculating the cost of insurance for loans/financing by financing companies, the methodology for calculating the amount of insurance coverage, disclosure requirements, and the customer’s rights in this regard.

Consultation Paper: Life and Unit-Linked Insurance Requirements

As part of the CBB’s initiatives to further enhance its regulatory framework, the CBB issued in December 2023 a consultation paper on new Chapter BC-5 on “Life and Unit-Linked Insurance” under the Business and Market Conduct Module - Rulebook Volume 3. The new Chapter included proposed requirements on Product Design and Oversight, Pricing and Terms and Conditions, Claims, Selling of Products and Disclosures, Customer Notifications and Other Requirements.

Supervisory Developments

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

During the year 2023, the Central Bank of Bahrain (“CBB”) and other relevant AML/CFT governmental and institutional stakeholders prepared Bahrain’s Fifth Mutual Evaluation Follow up

Report. The final draft report will be discussed and adopted in the MENAFATF Plenary Meeting in May 2024. The 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 (“CD”) conducted regulatory onsite examinations on various licensees to assess their compliance with the AML Law, CBB Law, and Financial Crime Module of all volumes. The onsite examinations contributed to the ongoing efforts of improving compliance with the Kingdom's overall AML/CFT framework through exhaustive reviews of the effectiveness of the controls implemented. The onsite examinations focuses on reviewing the licensees’ AML/CFT procedures, systems and internal controls and subsequently support CBB’s ML/TF prevention efforts.

The Kingdom of Bahrain was subject to OECD’s peer review in relation to the effective implementation of the Automatic Exchange of Information (“AEOI”). The peer review concluded that the CBB has implemented an overarching strategy 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 2023.

In addition, the Kingdom was subject to OECD’s peer review in relation to the effective implementation of the Economic Substance (“ES”) requirements. The peer review concluded that the CBB has the required mechanism in place.

Moreover, during the year 2023, the CBB electronically obtained CRS and FATCA annual reports from the relevant licensees and exchanged them with the relative reportable jurisdictions in a timely manner. In addition, the CBB obtained ES annual reports from the relevant licensees and conducted a risk assessment in relation to their substance adequacy. The 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 2023:

- 1. Monitoring Domestic-Systematically Important Banks (D-SIBs):** The CBB continued its rigorous oversight of D-SIBs through the conventional banking supervision directorates. This included quarterly financial performance reviews, bi-annual prudential meetings, and a detailed annual analysis of their Recovery and Resolution Plans (RRPs).
- 2. Implementation of New Initiatives:** To address emerging issues in the banking sector, particularly electronic fraud, the CBB began discussions with the Bankers Association of Bahrain to establish a “Fraud Operations Center.” This center aims to create a comprehensive database of fraud events and countermeasures, enhancing control over fraudulent fund transfers in Bahrain. Additionally, the CBB collaborated with banks to enhance Environmental, Social, and Governance (ESG) disclosures, aligning with international standards.
- 3. Related Party Exposures:** The banking supervision directorates continued its regular monitoring of related party exposures of locally incorporated banks, ensuring compliance with CBB rules and limiting risk concentrations.

4. **Monitoring Real Estate Exposures:** Focusing on controlling risk in volatile sectors, the directorates continued monitoring banks' real estate exposures quarterly.
5. **Impaired Loans Portfolio Monitoring:** Supervision directorates monitored and assessed impaired loan portfolios quarterly, including considering any post-pandemic impacts. Based on these assessments, banks and financing companies were advised to take any necessary measures to curb the potential growth of impaired loan portfolios.
6. **Prudential Meetings:** The conventional banking supervision directorates conducted 47 prudential meetings annually. These meetings reviewed the licensees' performance in the previous year, their strategic future direction, and other relevant supervisory issues and included half-yearly meetings with D-SIBs.
7. **Meetings on Financial Statements:** Annual trilateral meetings with banks, financing companies, and their external auditors were continued to discuss year-end financial results before Board approval. These meetings addressed issues like provision adequacy, movements in impaired assets, valuation practices, income recognition, and proposed dividends.
8. **Supervisory College Meetings:** The CBB participated in supervisory college meetings organized by home regulators in the UK and the UAE, aiming to enhance cross-border supervision of branches of foreign bank licensees.
9. **Open Banking Framework:** The supervision directorates, in cooperation with the Information Technology directorate, continued to monitor the implementation of the Bahrain Open Banking Framework phases by their licensees, ensuring compliance with CBB's requirements.
10. **Conducting Studies and Surveys:** To improve the quality of banking services and ensure adequate controls for customer protection, the directorates conducted various surveys throughout the year. These included financing to the SME sector in Bahrain, changes in bank interest rates, compliance with Apple Pay fraud guidelines, credit card easy payment plan calculations, and digital onboarding of customers.
11. **Monitoring Banks' BOD and Governance Structures:** The directorates continued to monitor and assess the performance and governance structure of the Boards of Directors of banks and financing companies. This included reviewing annual corporate governance reports, director attendance and participation at Board meetings, Board sub-committee structures, and appointing independent directors. The directorates also assessed banks' compliance with CBB's enhanced High-Level Controls Module, which includes rules on ethical conduct and whistleblowing.
12. **Compliance with the "Code of Best Practice on Consumer Credit and Charging":** The banking supervision directorates continued monitoring licensees' adherence to the Code, ensuring customers are treated fairly, responsibly, and transparently.
13. **Meetings on Customer Centricity and Compliance Culture:** Meetings were held with banks to emphasize the need for Senior Management to promote a customer-centric culture, improve service delivery quality, and ensure accountability for customer service deficiencies. The importance of quickly resolving customer complaints and presentations on enhancing compliance culture and ethical conduct were also discussed.

14. **Public Disclosure by Banks:** The banking supervision directorates continued overseeing banks' compliance with CBB's public disclosure requirements, including assessing annual external auditor reports to ensure transparency and adequate stakeholder disclosures.
15. **Enforcement Actions:** Pursuing the reduction of risks to the financial system and consumers, the CBB enforced compliance standards through effective enforcement mechanisms. In 2023, per Article 38 of the CBB Law, the Conventional Banking Supervision Directorates took 15 enforcement actions against licensees, including imposing penalties.

Islamic Financial Institutions Supervision

During 2023, the Islamic Financial Institutions Supervision Directorate ("IFISD") has focused on enhanced supervision on both Banks and ancillary service providers, while also ensuring employees development through relevant training programs. The IFISD has increased the collaboration and synergies with key departments in the CBB, including policy, licensing, complaints, and banking services departments.

With the growing number of Ancillary Service Provider licensees, the CBB established a dedicated unit under IFISD responsible for supervising these licensees. Additionally, the IFISD took the lead in engaging with open banking companies through multiple meetings and open discussions to recognize the technical challenges to improve the customer journey experience in open banking. The CBB also worked to mitigate the current obstacles including customer journey and authentication process. IFISD has additionally collaborated with the policy unit and FinTech and innovation unit to augment the Open Banking Framework, as well other Modules in the Rulebook including rules related to cybersecurity, insurance coverage on financing facilities, dividends assessments, as well updates to the Prudential Information Returns for Islamic Banks, to reflect any accounting standards or rulebook changes. IFISD was involved broadly with Licensing Directorate in assessing new applications of multiple new companies seeking CBB license, including AISP/PISP, Shariah Advisory, crowdfunding platform operator and payment service providers.

IFISD has also ensured to remain up to date with the latest market trends and emerging risks to which licensees are exposed to. Given the same, IFISD has held multiple thematic meetings with licensees, with the focus during the year on fraud risk management and customer centricity. The IFISD directed banks to implement advanced fraud monitoring systems based on machine learning and appointed Fraud Risk Officers to effectively monitor fraud incidents. The IFISD, along with other supervision directorates, worked on establishing a thematic supervisory approach for proactive supervision of licensees.

IFISD continued focusing on developing the knowledge and skills of its staff by enrolling them in BIBF training courses (technical and soft skills). Moreover, IFISD's staff participated in virtual and physical conferences, seminars and training courses, including BIS- IMF online programs covering key topics related to Recovery & Resolution of Banks, and ESG. An IFISD employee also attended the Banking Supervisors' Training Program offered by MAS Academy, whilst two employees attended the Head of Retail Banking Grooming program and Chief Risk Officer Grooming Program, held by Waqf Fund.

Finally, IFISD has had a crucial role in receiving delegations from abroad and sharing IFISD's experience and supervisory method with other regulators. IFISD believes in the importance of sharing experiences with fellow regulators, to continue to enhance the supervision of ASPs and Islamic Banks, as well as seeing growth in the sectors not only in Bahrain but regionally as well. During the year 2023, IFISD has received delegations from Jordan and Algeria, which were both fruitful meetings for all parties.

Inspection Directorate

The Inspection Directorate completed 51 inspection visits during 2023 spread over various types of licensees comprising of 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, 53% were thematic visits to investigate and assess matters like consumer protection, 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 the financial institutions. The outcome of the inspection includes urging licensees to ensure effective management and identifying regulatory actions required to maintain the financial stability via 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 the Basel Committee of Banking Supervision (BCBS), the Inspection Directorate continued its effort during the year to strengthen the risk assessment and profiling methodology of its licensees' business, control failure and systemic risks, and assess the emergent risks from the innovative financial products.

During the year, the Directorate redesigned the inspection reporting format. The new format is aligned to the broader risk based supervisory initiative that adopts a tabular format for presenting inspection observations in line with CBB's supervision objectives. A detailed risk taxonomy was also developed to support this new reporting arrangement, where risk elements were aligned to the supervisory risk rating model.

In alignment with the guidance issued by the BCBS, an enhanced business model review methodology was developed and implemented as part of the inspection process to assess the sustainability of the licensees' business models. The business model assessment framework identifies business model weaknesses such as unrealistic business projections, unsustainable risk appetite, declining competitive position, management deficiencies and inadequate attention to consumers' needs.

With the entry of digital banks and fintech firms into the sector, the Inspection Directorate developed a framework to assess digital banks and ancillary service providers. The new framework included additional on-site review components such as mobile application security review based on OWASP's MASVS framework, open banking framework and online fraud assessment.

The auditing of regulated crypto-asset service providers was strengthened by supplementing their compliance with the Crypto-Asset (CRA) Module of the CBB Rulebook as well as their adherence to global benchmarks such as Crypto Currency Security Standards (CCSS) in relation to wallet controls,

authentication (such as multi-Sig arrangements), data sanitization and proof of reserve requirements.

With the rapid growth in payment system utilization, the on-site examination reviews also focused on various types of payment service providers including issuing and acquiring banks, payment gateways and intermediate payment service providers. The same has also been extended to cover the application of Insurtech by some insurance licensees that provide services to customers via online means like websites and automated chatbots. Furthermore, the on-site reviews were enhanced to include review of Robotic Process Automation (RPA) as well as Artificial Intelligence (AI) and Machine Learning (ML) use by licensees.

The digitalization of the financial sector has led to a greater focus on cybersecurity risks and associated controls. During the year, the Inspection Directorate integrated its cybersecurity assessment framework with the National Cyber Security Center Risk Management framework. Moreover, the Directorate continued its effort to strengthen the cybersecurity audit program and pilot-tested several tools and platforms specialized in cybersecurity controls through assessing licensees' external surface and scanning their externally facing or publicly accessible assets; enabling the Directorate greater insights of the assets and attack surface and, at the same time, allow real time peer analysis of licensees within the same industry and benchmarking cybersecurity risks.

To fulfil the core supervisory objective of consumer protection, the Inspection Directorate continued to examine consumer protection practices 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 also extended its effort to assess the licensees' compliance with the Personal Data Protection Law (Law No.30 of 2018).

On a more specific note, the Inspection Directorate conducted a thematic exercise to examine the accuracy of the insurance premium charged to customers by the retail banks on loans, and whether the same was passed in a fair and equitable manner. Based on the inspection findings, the CBB issued further guidance to relevant licensees to strengthen its practices.

The Inspection Directorate continued its efforts to strengthen the examination procedures. Initiatives in this context included introduction of an assessment framework for step-in risk, improvements in the on-site inspection of security in banks' Automated Teller Machines (ATMs) and strengthening the stress testing and ICAAP review procedures. In view of technology adoption, cloud migration and outsourcing of processes, the Directorate further enhanced its new product assessment framework. With the objective of adapting to the changing regulatory framework, the Directorate expanded the inspection framework to include gap assessment of Environmental, Social and Governance (ESG) practices of licensees.

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 the Inspection staff with the skills and experience necessary to effectively assess risk management practices and emerging trends in the financial sector.

Beyond individual need-based trainings that were provided to the Inspection team members, several staff attended the CBB Supervisory Skills Development Program and the Forensic Accounting Training program during the year.

Capital Markets Supervision

The CBB endeavoured during 2023, 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 CBB issued an amendment to the Anti-Money Laundering and Combating Financial Crime (AML) Module in September 2023, which entailed the removal of Rule AML-1.4.14 that previously stated that licensees are required to obtain the CBB's prior approval before digitally onboarding customers residing outside the GCC. The AML Module has also been amended in October 2023 to reflect new provisions relating to reliance on third parties for customer due diligence in alignment with the Financial Action Task Force's (FATF) Recommendation 17.
- The CBB issued amendments to the Takeovers, Mergers and Acquisitions (TMA) Module, of Volume 6 of the CBB Rulebook on the requirements stipulated in Section TMA-2.2 "Independent Advice and Shareholder Approval" on 12th November 2023.
- As part of its initiatives to further enhance the regulatory framework, and in line with the developments in the sector and international best practices, the CBB issued amendments to the CRA Module in March 2023. In addition to a new chapter on digital token offerings, the amended CRA Module allows crypto-asset licensees to provide additional activities subject to the CBB's prior approval on a case-by-case basis.

Amendments to the CBB's Regulations

Resolution No. (1) of 2023 consolidating CBB's fees and charges for licenses and services provided by the CBB was issued on February 16, 2023.

The CBB issued Resolution No. (54) of 2023 regarding the Rules and Procedures pertaining to Mergers and Acquisitions of shares of companies listed on Securities Exchanges, based on Article (93 bis) of the CBB and Financial Institutions Law promulgated by Law No. (64) of 2006, and based on Article (319 bis) of the Commercial Companies Law promulgated by Legislative Decree (21) of 2001 and its amendments, which includes the types of acquisition offers or acquisitions that result in control of the company's shares and mergers to which the company is a party, whether a merging company or merged company, and the requirements applicable on each.

On 7th September 2023, the CBB issued Resolution No. (45) of 2023 specifying the types of securities that may be offered for trading and the methods of issuing and dealing with them and the obligations of the parties involved in the issuance of each type of security, based on Article (83)(a) of the CBB and Financial Institutional Law promulgated by Law No. 64 of 2006.

The Central Bank of Bahrain has issued on the 5th of November 2023, the Environmental, Social and Governance (ESG) Requirements Module addressed to all listed companies, banks, insurance companies, financing companies and category 1 & 2 Investment firms.

Supervision of Exchanges, Clearing, Settlement and Central Depositories and their Members Bahrain Bourse B.S.C. (“BHB” or “Bahrain Bourse”)

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 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.

In April 2023, BHB has amended its fees relating to the Bahrain Investment Market (BIM), specifically those relating to registration and listing.

In December 2023, the CMSD issued a no-objection to BHB regarding the issuance of its Market Making Guidelines. These guidelines introduce a new market-making model to improve the role of market makers in enhancing liquidity. In relation, BHB have also been provided no-objection for the amendment of its former Market Making Guidelines, which have been repurposed to apply exclusively to liquidity providers.

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

BHC has circulated a consultation paper dated 9th February 2023 in relation to the General Meeting Guidelines to listed companies, custodians and securities brokerage firms. Following the closure of the consultation paper on 22nd February 2023, BHB has issued a circular in relation to the General Meeting Guidelines (Ref. LP/35/2023) dated the 31st December 2023 for the attention of Listed Companies.

BHC has issued its proposed Delivery Versus Payment (DVP) Framework for industry consultation in March 2023. After having received feedback from the market, the CMSD is currently working with BHC regarding the issuance of the finalized framework and its related industry feedback statement.

Pursuant to the issuance of BHB’s General Meeting Guidelines in December 2023, BHC has subsequently circulated new fees for share registrar services provided at general assembly meetings for listed companies.

Registered Members of BHB and BHC

The CMSD issued two no-objection letters to BHB during January 2023, authorizing 2 licensed and registered members of Muscat Stock Exchange (“MSX”) (United Securities LLC, Global Financial Securities LLC) to be onboarded onto the “Tabadul” platform, thereby facilitating their direct market access into BHB in their capacity as “External Trading Members”.

The CMSD issued two no-objection letters to BHB in January 2023, permitting 4 licensed and registered members of BHB (Gulf Securities Co. W.L.L; SICO B.S.C. (c); Tradeline Securities W.L.L; and Al Ahlia Bahrain B.S.C. (c)) to be onboarded onto the “Tabadul” platform, thereby facilitating their direct market access into MSX.

The CMSD issued a no-objection letter to BHB in March 2023, permitting an additional licensed member by the CBB, and registered at BHB (Mubasher Capital B.S.C. (c)) to be onboarded onto the

“Tabadul” platform, thereby facilitating its direct market access into Abu Dhabi Securities Exchange (ADX).

The CMSD issued a no-objection letter to BHB in April 2023, with regards to amending the membership category of the External Trading Member “Al Dar Shares & Bonds” from operating as a broker (for the benefit of its clients’ accounts) to operating as a broker-dealer (for the benefit of its own account and its clients’ accounts), in accordance with their request and their fulfillment of the relevant requirements.

Supervision of Crypto-asset Licensees

CoinMENA B.S.C. (c) (“CoinMENA”)

During the year, the CMSD has worked with CoinMENA regarding several ongoing matters including fulfilling the required controlled functions, and resolving issues facing crypto asset service providers, especially regarding the banking arrangement and the cross-border transfers. The CMSD issued the necessary approvals to enable the company to provide its operations without disruption.

In order to enable the Company to enhance its liquidity and provide more competitive prices to its clients, the CMSD acknowledged CoinMENA’s engagement with three additional liquidity providers. The company conducted its risk assessment on the proposed service providers and provided the CMSD with the necessary reports.

Upon CoinMENA’s requests, the CMSD has been in discussion with the Company to expand into new markets, and introduce additional products and services.

Rain Management W.L.L. (“Rain”)

During the year, the CMSD has worked with Rain regarding several ongoing matters including fulfilling the required controlled functions, and resolving issues facing crypto asset service providers, especially regarding the banking arrangement and the cross-border transfers. The CMSD issued the necessary approvals to enable the company to provide its operations without disruption.

In order to enable the Company to enhance its liquidity and provide more competitive prices to its clients, the CMSD acknowledged Rain’s engagement with five additional liquidity providers. The company conducted its risk assessment on the proposed service providers and provided the CMSD with the necessary reports.

Rain notified the CMSD regarding its utilization of Bitcoin Lightning Network, by engaging with (Lightspark) to provide faster and cost-effective payment solutions for customers.

Upon Rain’s requests, the CMSD has been in discussion with the Company to expand into new markets and introduce additional products and services. This included launching the second phase of its Over the Counter (“OTC”) Trading Service, amongst other services.

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

Binance increased its capital from BD 1.9 million to BD 6 million and increased its authorized capital to BD 10 million, after obtaining the CMSD’s approvals and fulfilling the legal requirements.

Upon Binance’s requests, the CMSD has been in discussion with the Company to expand into new markets and introduce additional products and services. As such, Binance started offering Futures trading service at a preliminary stage, subject to certain conditions specified by the CMSD. Additionally, the CMSD provided Binance with its no-objection to launch additional products and features, including Grid Trading, Automated Trading, Rebalancing Bot, in addition to Time-Weighted Average Price (“TWAP”).

Waterfort Bahrain B.S.C. (c)

Waterfort Bahrain commenced its operations in 2023. However, the Company is still in its testing phase. The Company is currently working on fulfilling the CBB's requirements including the appointment of approved persons.

Amber Technologies Bahrain B.S.C. (c)

The CBB issued Resolution No. 62 of 2023 granting Amber Technologies Bahrain B.S.C. a license to provide crypto-asset services as a Category 3 licensee. However, the Company has not yet commenced its operations.

Offering and Listing of Securities**Offering of Securities**

During the year 2023, the CMSD issued its no objection on the use of a total of sixty one (61) offering documents (compared to 53 offering documents in 2022) 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	2,843,729,248.30	25	Registration Article (81) –
Conventional Bond	Government	1,000,000,000	1	Filing - Exempt from Article (81)
	Private Placement	5,500,000,000	3	Filing - Exempt from Article (81)
Islamic Sukuk	Government	1,000,000,000	1	Filing - Exempt from Article (81)
	Private Placement	3,100,000,000	2	Filing - Exempt from Article (81)
	Private Placement	650,000,000	3	Registration Article (81) –
Structured Products	Private Placement	-	26	Filing - Exempt from Article (81)
Total		14,093,729,248.30	61	

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

Type of Offering	2023 (in US\$ millions)	2022 (in US\$ millions)	Variance (in US\$ millions)	Var %	No. of issues 2023	No. of issues 2022	Var
Private Placement – Ordinary Shares	2,844	2,286	558	24%	25	26	(1)
Private Placement - Conventional Bond	5,500	2,500	3,000	120%	3	1	2
Governmental – Conventional Bond	1,000	1,000	0	0%	1	2	(1)
Governmental - Islamic Sukuk	1,000	350	650	186%	1	1	0
Private Placement - Islamic Sukuk	350	586	(236)	(40%)	2	2	0
Private Placement - - Convertible Additional Tier 1 Islamic Sukuk	300	-	300	100%	1	0	1
Private Placement – Marketing Islamic Sukuk	3,100	900	2,200	244%	2	1	1

Marketing - Structured Products	-	-	-	-	26	20	6
Total	14,094	7,622	6,472	85%	61	53	8

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 2023
National Bank of Bahrain B.S.C.	Increase in capital	Issue of Bonus shares.	22 March 2023
Bank of Bahrain and Kuwait B.S.C.	Increase in capital	Issue of Bonus shares.	29 March 2023
Esterad Investment Company B.S.C.	Increase in capital	Issuance of ordinary shares to be allocated to the shareholders of Venture Capital Bank B.S.C.(c) (“VCB”) based on the approved swap ratio, as part of the acquisition of VCB.	19 June 2023

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. 31, 32, 33 and 34)	4	600

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	11	Due to maturity
Government Development Bond (Issue No. 15, 20 and 27)	3	Due to maturity

The CBB provided its no objection on the delisting of Al Baraka Banking Group B.S.C. (c) (“ABG”) from Bahrain Bourse’s mainboard on 20th December 2023 upon satisfaction of the requirements of the Takeovers, Mergers and Acquisition’s Module,, and ABG is currently in the process of finalizing the conversion of the company into a closed shareholding company and its subsequent delisting from Bahrain Bourse.

Disclosure, Governance & Investor Protection

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

Most of the publicly listed companies have complied with the requirement of notifying the Bahrain Bourse regarding the dates of their Board of Directors' meetings, 5 days before the end of the relevant quarter. This is in accordance with Resolution No. 54 of 2015 pertaining to disclosure and publication of annual and quarterly financial statements, and the notification of the Board of Directors' meetings for the discussion of the company's financial statements. 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.

- One listed company has not adhered to the above requirement during the first, second and third quarter of 2023.
- Eleven listed companies not adhering to the above requirement during the fourth quarter of 2023.

Most publicly listed companies have complied with the requirement to publish the annual financial results for the year 2022 and interim financial results for the year 2023 within the specified timeframe. Except for one company which did not commit to publishing all quarterly financial statements of 2023.

Additionally, three companies requested an extension to the publication period above. The suspension was lifted for the companies that requested an extension on the following dates, after Bahrain Bourse received the required publications.

- In addition, all listed companies have complied with publishing the aforementioned statements and publishing them in at least two local newspapers (one in Arabic and one in English). The exception is for one company, which did not commit to publishing all quarterly financial statements of 2023.
- All publicly listed companies published the specimens of the annual financial results for the year 2022 and interim financial results for the year 2023, except for one company on all interim financial results for the year 2023, respectively on Bahrain Bourse's website.
- All publicly listed companies disclosed and published their full set of the annual results for the year 2022 on Bahrain Bourse's website. Further, the interim financial results for the year 2023 have been disclosed and published for all publicly listed companies, except for one company for all interim financial results of 2023, on Bahrain Bourse's website.
- 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 November 16, 2023, the annual financial statements for the year 2020, 2021, and 2022. Yet, BMB remains suspended due to accumulated losses and its non-compliance of the above for the interim financial results of all periods of 2023.

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 2023, the number of the announcements made by the listed companies pertaining to the disclosure of material information reached 1860 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
Aluminum Bahrain B.S.C ("Alba")	Extra-Ordinary	To approve the registration of Alba Club WLL as a branch of Alba under CR No. 999-1 and amending the Memorandum & Articles of Association ("M&AOA") relating to the Activities/Objects of the company.
Banader Hotels Company B.S.C	Extra-Ordinary	To approve the sale of White Hotels Company W.L.L to BMMI, conversion of Preference shares owned by BMMI into Ordinary Shares, the purchase of treasury shares and the dissolution and liquidation of Banader and its processes.
Al Baraka Group B.S.C.	Extra-Ordinary	To approve the delisting of Al Baraka Group's shares from Bahrain Bourse pursuant to the Exit Offer by Dallah AlBaraka Holding Company B.S.C.(c) to the shareholders of the Company, the name change to Al Baraka Group B.S.C.(c), the amendment and restatement in full of the M&AoA and its processes.
Bahrain Ship Repairing and Engineering Company B.S.C., Bahrain Car Parks Company (Amakin) B.S.C., Seef Properties B.S.C.	Extra-Ordinary	To approve the amendment of the M&AOA, pursuant to the latest amendments of the Commercial Companies Law.
Bank of Bahrain and Kuwait B.S.C.	Extra-Ordinary	To approve the amendment of the M&AOA, pursuant to the latest amendments of the Commercial Companies Law and to increase the issued and paid-up capital as a result of distributing bonus shares.
BMMI B.S.C., Esterad Investment Company B.S.C., Nass Corporation B.S.C.	Extra-Ordinary	To approve the addition of commercial activities and amend the related articles in the MAoA.
Ithmaar Holding B.S.C.	Extra-Ordinary	To approve the issuance of Tier 1 Mudaraba financing and to approve the amendment of the MAoA pursuant to the latest amendments of the Commercial Companies Law.
Khaleeji Bank B.S.C.	Extra-Ordinary	To approve the amending the Bank's corporate name and the related articles in the MAoA.
National Bank of Bahrain B.S.C.	Extra-Ordinary	To approve the increase the issued and paid-up capital as a result of distributing bonus shares and to amend the related articles in the MAoA.
Al Salam Bank B.S.C.	Extra-Ordinary	To approve the increase the issued and paid-up capital as a result of distributing bonus

		shares and to amend the related articles in the MAoA, and to approve the issuance of Tier 1 Financial Instruments and/or Sukuk (Additional Tier 1 Capital).
Zain Bahrain B.S.C	Extra-Ordinary	To approve the addition and deletion of activities to the commercial registration and amend the related articles in the MAoA.
Ahli United Bank B.S.C.	Extra-Ordinary	To approve the issuance bonds, loans and any other financial instruments, the delisting of the Bank from Bahrain Bourse and Boursa Kuwait, the conversion of the Bank from a public Bahraini shareholding company to a closed Bahraini shareholding company, the conversion of the Bank and the Bank's subsidiaries into Sharia compliant entities, the change of the commercial activity of the Bank, the amendment and restatement of the MAoA of the Bank as required to implement the above resolutions.

Share Transfers

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 2023, the CMSD issued its no objection on the amendments to the ESOP and related documents of one company. In this regard, the CMSD also approved 9 share transfer requests from and to the trustees' accounts for the benefit of listed companies' employees.

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 2023, the CMSD issued its no objection on one application received pertaining to the release of qualification shares.

Listed Companies' Memorandum & Articles of Association

During the year 2023, the CMSD approved two applications requesting approval on their amendment of certain provisions of their respective M&AOA.

Market Making

- The CMSD issued its no objection letter on 8th May 2023 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.
- The CMSD issued its no objection letter on 24th May 2023 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.
- The CMSD issued its no objection letter on 17th August 2023 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.
- The CMSD issued its no objection letter on 28th August 2023 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 until 31st December 2023.

- The CMSD issued its no objection letter on 27th November 2023 to Al Baraka to terminate SICO's market making activity for Al Baraka's shares on Bahrain Bourse.

Market Surveillance

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

- During 2023, the Market Surveillance Department identified a total of 9 suspected cases related to trades executed on the BHB, of which the preliminary examination results were as follows:
 - 6 cases were closed due to insufficient evidence of a breach.
 - 2 suspected cases have been transferred to the Investigation and Enforcement Department for onwards examination.
 - 1 suspected case has 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.
- The Market Surveillance is in the process of updating several articles within CBB's Volume 6 Market Abuse and Manipulation Module in order to keep up with the developments in trading and investment trends.
- 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
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
National Hotel 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

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

- The CMSD issued a Non-compliance Letter dated 7th February 2023, to an SRO for non-adherence to the requirements of MAE-5.3.18 of the Markets and Exchanges ("MAE") Module of

Volume 6 of the CBB Rulebook, which is in relation to notifying the CBB immediately about a Board Member's resignation within a given time period.

- The CMSD issued a Non-Compliance Letter dated 7th February 2023, to an SRO for non-adherence to the requirements of CSD-5.3.18 of the Clearing, Settlement & Central Depository ("CSD") Module of Volume 6 of the CBB Rulebook, which is in relation to notifying the CBB immediately about a Board Member's resignation within a given time period.
- The CMSD issued a Non-Compliance Letter dated 12th March 2023, to an SRO for non-adherence to the requirements of CSD-3.1.1(b,c,d,i) and CSD-3.2.1 (a,b) of the CSD Module of Volume 6 of the CBB Rulebook, in relation to certain shortcomings of the SRO in one of the listed companies' ordinary general meeting.
- The CMSD issued a Non-Compliance Letter dated 7th June 2023, to an SRO for non-adherence to the requirements of CSD-3.1.1 (b,c,d,g,i) and CSD-1.6.2(d) of the CSD Module of Volume 6 of the CBB Rulebook.
- The CMSD issued a Non-Compliance Letter dated 7th December 2023, to an SRO for non-adherence to the requirements of CSD-3.1.1 (b,c,d,g,i) of the CSD Module of Volume 6 of the CBB Rulebook.

Non-Compliance by Crypto-Asset Service Providers

- The CMSD issued a Non-Compliance Letter dated 20th April 2023, to one of its licensed Crypto-Asset Service Providers for its non-adherence to the requirements of AML-1.1.2 and AML-2.2.5 of the Anti-Money Laundering ("AML") Module of Volume 6 of the CBB Rulebook, in addition to its failure to comply with the requirements of CRA-11.3.1 of the Crypto-Asset ("CRA") Module of Volume 6 of the CBB Rulebook, by providing the CBB incorrect information.
- The CMSD issued a Non-Compliance Letter dated 1st August 2023, to one of its licensed Crypto-Asset Service Providers for its failure to comply with the requirements of CRA-4.8.4 of the CRA Module of Volume 6 of the CBB Rulebook related to the non-submission of the Professional Indemnity Insurance.
- The CMSD issued a Non-Compliance Letter dated 4th October 2023, to one of its licensed Crypto-Asset Service Providers for its failure to comply with multiple requirements of the CRA Module of Volume 6 of the CBB Rulebook.
- The CMSD issued a Non-Compliance Letter dated 7th December 2023, to one of its licensed Crypto-Asset Service Providers for its failure to comply with the requirements of the CRA Module of Volume 6 of the CBB Rulebook pertaining to the safekeeping of clients' assets.
- The CMSD issued a Non-Compliance Letter dated 7th December 2023, to one of its licensed Crypto-Asset Service Providers for its failure to comply with the requirements of CRA-4.5.5 of the CRA Module of Volume 6 of the CBB Rulebook, in relation to receiving client money through a related party bank transaction.
- The CMSD issued a Non-Compliance Letter dated 25th December 2023, to one of its licensed Crypto-Asset Service Providers for its failure to comply with the requirements of CRA-4.10.1 of the CRA Module and MIR-7.1.1 and MIR-7.1.2A of the Market Intermediaries and Representatives ("MIR") of Volume 6 of the CBB Rulebook, for not obtaining CBB's prior approval for the business transfer from the CBB by filing Form 5: Approval of Business Transfer.

Non-Compliance by Members of SROs

A Member of an SRO was issued a Non-Compliance Letter dated 3rd September 2023, for its non-adherence to the requirements of MIR-A.4.4(a) of the MIR Module of Volume 6 of the CBB Rulebook, by executing orders of its clients contrary to the CBB's rules and regulations and BHB's Market Rules as the trade executed was in contravention of Rule TMA-4.1.8 of the Takeovers, Mergers and Acquisitions ("TMA") Module of Volume 6 of the CBB Rulebook, pertaining to the need for listed companies to obtain prior approval from the CBB in relation to purchase or sale of their securities (treasury shares).

Non-Compliance by Listed Companies

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

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

Number of Non-Compliance Cases Related to the Submission of Monthly Statement of the Register of Interest for Year :		Percentage Change
2022	2023	
8	4	-50%

Notification of Non-Compliance to Submission of Annual Verification of the Insiders' and the Key Persons' Data Register

The CMSD issued Non-Compliance Letters to 4 Listed Companies 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 a Financial Penalty dated 25th June 2023 to one of the above-mentioned listed companies.

Notification of Non-Compliance to the AML Module of Volume 6 of the CBB Rulebook

- The CMSD issued a Non-Compliance Letter dated 29th March 2023 to a Listed Company for its non-adherence to the requirements of AML-7.1.3 of the AML Module of Volume 6 of the CBB Rulebook and Article 52 of the CBB Law, due to increasing its controller's ownership to 10.11% without the CBB's prior approval.
- The CMSD issued a Non-Compliance Letter dated 17th April 2023 to a Listed Company for its non-adherence to the requirements of AML-7.1.1 of the AML Module of Volume 6 of the CBB Rulebook and Article 32.12.1 of the CBB Disclosure Standards, for not notifying the CBB about the increase of a shareholder's ownership in a listed company by more than 5%, and disseminate such information through BHB's website.

Notification of Non-Compliance in Relation to Submission of Market Making Reporting Requirements

The CMSD issued a Non-Compliance Letter dated 12th July 2023 to a Listed Company for its non-adherence to the requirements of MIR-4.19.30 (b) of the MIR Module of Volume 6 of the CBB Rulebook for the failure to adhere to the designated timeline to submit the monthly market making report to the CBB.

Notification of Non-Compliance to the MAM Module of Volume 6 of the CBB Rulebook

The CMSD issued a Non-Compliance Letter dated 6th August 2023 to a Listed Company for its failure to comply with the requirements of MAM-2.14.2 of the MAM Module of Volume 6 of the CBB Rulebook, as the Permanent Insiders of that company must have refrained from trading and waited until the commencement of the following day's trading session, or after 24 hours, whichever is less, after the publication of the financial statements.

Notification of Non-Compliance with the Requirements of the TMA Module of Volume 6 of the CBB Rulebook

- The CMSD issued a Non-Compliance Letter dated 23rd August 2023 to a Listed Company for its non-adherence to the requirements of TMA-4.1.8 of the TMA Module of Volume 6 of the CBB Rulebook, due to the company's repurchase of its own shares (treasury shares) without obtaining the CBB's prior approval. Consequently, the CMSD issued a Formal Warning dated 19th October 2023 to the said Listed Company.
- The CMSD issued a Non-Compliance letter dated 30th November 2023 to a Listed Company for its non-adherence to the requirements of TMA-2.11.1 of the TMA Module of Volume 6 of the CBB Rulebook, due to the offeree company's failure to submit the offeree board circular to the CBB within the required timeframe.

Notification of Non-Compliance to Disclosure Standards and Related Resolutions

- The CMSD issued 12 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
Publication of financial statements and adherence to the content of financial statements/press releases	1
Failure to notify CMSD of change in Board of Directors/Senior Management and failure to notify the public of the same	2
Failure to disclose of Board of Directors meeting date or any change to the date	9

In relation to the non-disclosure of the Board of Directors meeting date to discuss and approve the annual financial statements for the year 2022, the CMSD issued Financial Penalties dated 5th March 2023 to 2 Listed Companies. (1 of which practiced its right to appeal to the Appeals Committee, which was ultimately rejected, and the applicable Financial Penalty was imposed on 5th April 2023).

Complaints Handling

Supplementing the CBB's Consumer Protection Unit's Role in handling complaints CBB-wide, the below table summarizes the 12 complaints, which were received and examined by the CMSD in 2023:

Complaints	Number of Complaints
Listed Companies	
Non-Disclosure of a Listed Company's Accumulated Losses Due to an Acquisition Transaction, on the Website of Bahrain Bourse	1
Crypto-Asset Service Providers	
Loss of Trading Opportunity Due to Technical	1

Problems	
Crypto Transfer Complaints	2
Fraud Incidents	7
Complaint Regarding Account Closure	1
Total	12

Takeovers, Mergers and Acquisitions

Bahrain Family Leisure Company B.S.C. and Dividend Gate Capital

Bahrain Family Leisure Company B.S.C. (“Family”) signed a Memorandum of Understanding (MoU) on 13th October 2022 with Dividend Gate Capital (“Dividend Gate”), which marks an introduction to a merger or acquisition of the food and beverages units of Dividend Gate by Family through a share exchange. Family appointed SICO B.S.C. (c) as its adviser.

On 3rd January 2024, Family announced that discussions are ongoing and the appointed consultants by both parties are currently continuing their reviews.

The CMSD is currently supervising and monitoring the ongoing developments related to the potential transaction mentioned above.

Dallah AlBaraka Holding Company B.S.C. (c) and Al Baraka Group B.S.C.

The CMSD supervised and monitored the developments in Dallah AlBaraka Holding Company B.S.C. (c).’s (“Dallah”) voluntary conditional exit offer to acquire up to 100% of the issued and paid-up ordinary shares of Al Baraka Group B.S.C (“ABG”) (“Exit Offer”).

On 20th July 2023, ABG announced the appointment of BDO Consulting W.L.L. as an independent financial adviser for the Exit Offer, and the formation of an independent committee from ABG’s board members to assess the Exit Offer. ABG also announced that Dallah appointed SICO B.S.C. (c) as its financial advisor.

On 4th October 2023, ABG announced the receipt of a firm intention and offer document from Dallah on Bahrain Bourse (“BHB”). The CMSD provided its no-objection on both on 3rd October 2023. Subsequently, the CMSD provided its no-objection on ABG’s offeree board circular on 19th October 2023, and all documents related to the offer were published on 24th October 2023.

On 17th September 2023, ABG announced the suspension of all its market making activities effective from Monday, 18th September 2023.

The offer opened for acceptances on 6th November 2023, and on 14th November 2023, as part of the conditions precedent to the offer, an Extraordinary General Assembly was held where ABG’s shareholders (excluding Dallah and Connected Dallah Shareholders) approved the conversion of ABG into a closed shareholding company and the delisting of ABG’s shares from BHB pursuant to Dallah’s voluntary conditional exit offer to ABG’s shareholders and based on the terms and conditions stated in the offer document dated 3rd October 2023 and the board circular dated 24th October 2023.

The CMSD issued its no-objection on the delisting of ABG from BHB on 20th December 2023, and the offer initially closed on 21st December 2023. The Exit Offer was announced unconditional in all respects on 24th December 2023, having received acceptances of 36.96% which represent 8.36% of ABG’s total share capital, and the offer remained open for acceptances until the final offer closing date of 7th January 2024. On 8th January 2024, ABG announced the completion of the final offer period and published the results of the offer, having received acceptances of 37.15% representing 8.40% of ABG’s total share capital.

The CMSD provided its no-objection to proceed with the settlement of the offer to Dallah on 10th January 2024, which was settled on 17 January 2023.

The CMSD will be notified once the conversion of ABG into a closed shareholding company is finalized, and an announcement will be made upon delisting of ABG from BHB.

Gulf Tamin Ltd. and Arabic Insurance Group B.S.C.

The CMSD is currently supervising and monitoring the ongoing developments in Gulf Tamin Ltd.'s ("Gulf Tamin") partial offer by way of cash offer to acquire 22,001,000 of the issued and paid-up ordinary shares of Arab Insurance Group B.S.C ("ARIG") at a purchase price of USD 0.53 per ARIG share, representing approximately 10% of ARIG's share capital ("Partial Offer").

The CMSD provided its no-objection on the firm intention to the board of directors of Gulf Tamin on 26th October 2023 and on 1st November 2023, ARIG announced the receipt of a firm intention to make a partial offer from Gulf Tamin on 29th October 2023.

On 16th November 2023, the CMSD provided its no-objection on Gulf Tamin's offer document and on 23rd November 2023, ARIG announced the receipt of the offer document pertaining to the Partial Offer from Gulf Tamin dated 19th November 2023, and published the offer document on the same date.

ARIG announced the appointment of BDO Consulting W.L.L. as an independent adviser on 27th November 2023 pursuant to TMA-2.2.1 of the TMA Module. Furthermore, the CMSD provided its no-objection on ARIG's offeree board circular on 7th December 2023, and all documents related to the offer were published on 10th December 2023.

The offer opened for acceptances on 21st December 2023, and will initially close on 18th January 2024. On 22 January 2024, ARIG announced the end of the Partial Offer, having received acceptance of 3.47%, and accordingly, the offer lapsed. Therefore, all ARIG shareholders who accepted the Partial Offer will remain shareholders in ARIG without any modification or change in their pre-offer shareholdings in ARIG.

Delmon Poultry Company B.S.C. and General Poultry Company

The CMSD is supervising and monitoring the ongoing developments related to the proposed consolidation submitted by General Poultry Company ("GPC") to the shareholders of Delmon Poultry Company B.S.C. ("Delmon") to merge the two companies together.

On 29th October 2023, Delmon announced that GPC has sent a non-binding expression of interest in its letter dated 24th October 2023 with a proposal to merge the two companies.

On 31st December 2023, Delmon announced that GPC has sent a Memorandum of Understanding (MoU) on 12th December 2023 regarding the merger of the two companies. Delmon is currently in the process of reviewing the MoU.

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

Annual Meeting of the International Organization of Securities Commissions ("IOSCO") 2023

The CMSD on behalf of the CBB as a member of the IOSCO participated in its Annual Meeting and workshops to discuss and address issues facing securities market regulators and supervisors. The meetings were held from 13th to 15th June 2023 in Bangkok, Thailand.

Annual Meeting of the IOSCO's Africa/Middle East Regional Committee ("AMERC") and the Growth and Emerging Markets Committee ("GEMC")

The CMSD on behalf of the CBB as a member of the IOSCO AMERC and GEMC participated in its Annual Meetings and workshops to discuss market developments and regulatory updates pertaining to technology-based innovations in non-banking financial institutions and focus on sustainability-related issues. The meetings were held from 20th to 23rd November 2023 in Cairo, Arab Republic of Egypt.

International Cooperation

Pursuant to the Memorandum of Understanding between the CBB and IOSCO, and the Memorandum of Understanding between the regulators of financial markets of the GCC member states:

Incoming Requests for Assistance	
Request for Information (Fit and Proper)	4
Outgoing Requests for Assistance	
Request for Information	1
Request for Information (Fit and Proper)	2
Total Outgoing Requests	3
Inquiries, Studies, and Surveys which the CBB Participated In	14

16th and 17th Meetings of the GCC Financial Integration Strategy Working Group

- The CBB's CMSD participated in the 16th meeting of the GCC Financial Integration Strategy Working Group, held virtually on 1st March 2023. Therein, the following was agreed:
 - The GCC Financial Integration Strategy Working Group to finalize the drafting of the Investment Funds' Passporting Regulations to be shared in the upcoming meeting of Heads of GCC Capital Markets Authorities Committee (or their equivalent) for their endorsement.
 - The finalized action plan for the implementation of the initiative related to the unification of the account opening requirements form and KYC procedures - which includes a study to be conducted to make it mandatory in the future - to be shared in the upcoming meeting of Heads of GCC Capital Markets Authorities Committee (or their equivalent) for their endorsement.

The CBB's CMSD participated in the 17th meeting of the GCC Financial Integration Strategy Working Group, on 17th October 2023, held virtually. Therein, the following was agreed:

- Upon obtaining the GCC Secretariate General's legal affirmation on the matter, the GCC Financial Integration Strategy Working Group will share the finalized Investment Funds' Passporting Regulation with the Heads of GCC Capital Markets Authorities Committee (or their equivalent) for their endorsement.
- The GCC's Secretariate General will coordinate across jurisdictions in regard to rolling out of the implementation of initiative to unify KYC and account opening requirements.

26th and 27th Meeting of Heads of GCC Capital Markets Authorities Committee (or their equivalent)

- The CBB's CMSD participated in the 26th Meeting of Heads of GCC Capital Markets Authorities Committee (or their equivalent) held on 14th March 2023 virtually to discuss the progress of the drafting of the Investment Funds' Passporting Regulations. During the meeting, the proposed action plan for the implementation of the initiative related to the unification of the account opening requirements form and KYC procedures was endorsed.
- The 27th meeting of the Heads of GCC Capital Markets Authorities Committee (or their equivalent) was also held virtually on 5th November 2023 wherein the finalized version of

the Investment Funds' Passporting Regulations was approved and recommended for sharing with the Ministerial Committee of the Capital Market Regulators for their endorsement.

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. During the year, the CMSD and the Capital Market Authority finalized a memorandum of understanding pertaining to the unification of KYC procedures and enhancing cross-listing coordination and is currently coordinating for final approvals. The related execution plan has also been put in place and approved.

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, 4, and Family Office Services), Money Changers, Trust Service Providers Categories A and B, Representative Offices of Investment Firms and Administrators.

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 notification process 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 2023, FISD continued to fulfill its responsibilities by implementing rules and regulations and using various supervisory tools, including in-depth financial analysis, prudential meetings with management of licensees, formal requests for information from the sector, liaising internally with other Directorates at the CBB, in addition to the ongoing monitoring of licensees through regular communication and exchange of correspondence.

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

Circulars

On 27th February 2023, the CBB issued circular no. OG/81/2023, addressed to Investment Business Firms, informing the licensees of the amendments to the Capital Adequacy Module, whereby Category 3 Investment Business Firm's minimum capital requirement has been reduced from BD 125,000 to BD 25,000.

On 4th June 2023, the CBB issued circular no. OG/200/2023, addressed to Investment Business Firms, informing them of the revised High Level Controls Module and related amendments in the CBB Reporting Module and Risk Management Module, which takes effect 1st January 2024. In addition,

the Circular instructed licensees to assess the changes required to their policies, procedures, processes and systems to ensure full compliance with the newly added requirements.

On 22nd June 2023, the CBB issued circular no. EDFIS/C/021/2023, addressed to All Banks, Investment Firm Licensees, Trust Service Providers and Administrators, informing them about the launch of the online portal for the submission of the application forms for all types of CIUs and PIUs, to replace the prescribed forms in Part B of the CBB Rulebook – Volume 7, as part of the CBB's effort to simplify and accelerate the authorization and notification process of Bahrain and Overseas Domiciled CIUs/PIUs.

On 14th September 2023, the CBB issued circular no. OG/316/2023, addressed to all investment firms and trust service providers, informing them about the issuance of the Family Office Services Module under CBB Rulebook Volume 4.

On 5th November 2023, the CBB issued circular no. OG/371/2023, addressed to Investment Firm Licensees, Categories 1 and 2, informing them about the issuance of the Environmental, Social and Governance Requirements Module, including ESG reporting requirements applicable to such licensees.

Regulatory and Rulebook Updates

During 2023, FSD 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 2023.

In January 2023, the CBB issued an update to the CBB Reporting (BR) Module, to delete a paragraph in relation to the requirement to seek CBB's approval for outsourcing arrangements for certain functions.

In April 2023, the CBB updated its Capital Adequacy Module (CA) to reduce the Category 3 Investment Business Firm's minimum capital requirement from BD 125,000 to BD 25,000. In addition, the Module was amended to introduce a new requirement wherein Category 3 investment firms must maintain adequate liquid funds representing 25% of operating expenses incurred in the preceding financial year at all times.

In July 2023, the CBB issued an update to the CBB Reporting (BR) Module to add a new Paragraph on Prudential Meetings Requirements, and another Paragraph on notifying the CBB of any changes to the business strategy of licensees.

In addition, the CBB issued a revised and restructured High-Level Controls Module (HC), that has superseded the previous version.

Moreover, the Risk Management (RM) Module has been amended to include the requirements and conditions that must be met when outsourcing the internal audit function.

In October 2023, the CBB introduced a new module for a new category of license under the name of Family Office Services (FO). In addition, the CBB has updated the Glossary of CBB Rulebook Volume 4 to add definitions of certain terminologies related to the Family Office Services.

CBB Rulebook Volume 5

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 2023, the CBB issued an update to the CBB Reporting (BR) Module, to delete a paragraph in relation to the requirement to seek CBB's approval for outsourcing arrangements for certain functions.

In July 2023, the CBB amended the Risk Management (RM) Module, to add new regulatory requirements on secured customer authentication requirements when using online or digital platforms.

Administrators/ Registrars Development

In January 2023, the CBB issued an update to the CBB Reporting (BR) Module, to delete a paragraph in relation to the requirement to seek CBB's approval for outsourcing arrangements for certain functions.

In addition, the Capital Adequacy (CA) Module was updated to amend the liquidity requirements for licensees wherein they must maintain adequate liquid funds representing 25% of operating expenses incurred in the preceding financial year at all times.

CBB Rulebook Volume 7

Collective Investment Undertakings Developments

As part of the Central Bank of Bahrain's ("CBB") effort to simplify and accelerate the authorization and notification process, the CBB has decided to introduce an online portal for the submission of the application forms for all types of CIUs and PIUs, to replace the prescribed forms in Part B of the CBB Rulebook – Volume 7.

The online portal to submit the authorization/notification application forms electronically was launched in June 2023.

During the course of 2023, 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.

Promoting stability and soundness in the financial system

During the course of 2023, 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 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 clients 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 clients.

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.

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.

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, for the CBB review, their year-end financial statements prior to the submission of the financial statements for approval to the Company’s Board of Directors.
- The CBB also requires Insurance firms to submit actuarial reports that include the assessment of the actuary in order to assess the soundness of the insurance firms overall financial condition.
- The CBB receives and reviews various prudential reports as per the requirements of the CBB Rulebook (Volume 3) in order to effectively and 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

Consumer protection in life and unit-linked insurance policies: In order to develop the rules and regulations to protect customers with regard to life insurance and unit-linked insurance policies, a joint committee was established between the CBB and experienced representatives from the insurance companies and the Bahrain Institute of Banking & Finance (“BIBF”) to discuss the challenges of these products and determine the reasons for the recurring complaints about these types of insurance. The committee reviewed the market practices and rules in other jurisdictions as well, with the aim of developing a regulatory framework that ensures the protection of the rights of

customers and all parties and the implementation of best practices. The ISD also conducted a comprehensive study on the statistics and practices of insurance companies in Bahrain in this regard. Accordingly, a detailed report was prepared on current practices in the insurance market in the Kingdom of Bahrain and the laws in force in other countries, and a proposal was made to issue rules to protect customers with regard life insurance and unit-linked insurance policies. Accordingly, a consultation paper was issued to insurance companies to receive their comments on the proposed rules in preparation for their issuance.

Enhancing the Compliance Function and Being Client Centric: ISD has conducted a meeting with the Chief Executive Officers/General Managers and Compliance Officers of all Insurance firms, in which a discussion was held with the industry in respect of the importance of customer centricity, customer satisfaction and compliance matters. Subsequent to the meeting, ISD issued a directive summarizing the discussion points and outlined the expectations and requirements to enhance the focus on customers. In addition, the directive requires the assessment/review to be undertaken by the licensees related to elevating the compliance function within the licensee and enhancing the quality of services provided to clients and accordingly requested all licenses to provide a brief of the status/practices for each point. In addition, ISD requested all licensees to report on the results of the assessment/review on all discussion points by reporting identified gaps, plans to close the gap and the timeframe for achieving it.

Advancing Local Expertise within the Insurance Sector: The ISD has collaborated with the Bahrain Institute of Banking & Finance (“BIBF”) and Bahrain Insurance Association to introduce a specialized “Unified Motor Policy Claims Handling” course in which all licensees are required to enroll all relevant staff involved in the motor insurance line of business in the above course during the year 2024.

The course is under the levied courses which is designed specifically for staff members working in the motor insurance departments. The course aims to deepen participants’ understanding of motor insurance processes and claims procedures including the “Unified Motor Insurance Policy”. The goal is to standardize claim handling across the market thereby enhancing fairness and ensuring positive customer experience.

- **Dividends and Profit Repatriation:** The ISD has introduced new requirements regarding dividend distributions, aligning them with international best practices. The new requirements aim to ensure the licensee's having adequate capital adequacy and solvency margin and its ability to meet their obligations before and after the proposed dividends.
- **Insurance Appointed Representative:** As part of CBB’s objective to further enhance its regulatory framework, the CBB revised and optimized the rules pertaining to appointed representatives aiming to better organize the market, resolve concerns in certain practices and improve rules that would have a positive impact on the business aspect for insurance licensees.
- **Market conduct in the motor business:** The ISD continuous to hold regular mutual meetings with the motor committee of Bahrain Insurance Association in addition to holding several meetings with claim mangers 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 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, the CBB from its part is putting all the required efforts and plans on all fronts to achieve its part in the strategy.

Promote information symmetry & transparency

- During 2023, the ISD released the Insurance Market Review Report of 2022. The report presents the financial performance and financial position of the insurance industry in the Kingdom of Bahrain for the years 2021 and 2022, including by class of business in the Kingdom of Bahrain. The total gross premiums of the Bahrain insurance market has increased to BD 279,437 million in 2022 (2021: BD 275,929 million).
- In order to further enhance information symmetry and transparency, the CBB is continuing the publication of quarterly Insurance Market Review for the market, in order to improve timely informed decisions by 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' implementation of the standard which was effective 1st January 2023 and by also participating in the IFRS17 Technical Committee established by the Bahrain Insurance Association (BIA). Furthermore, the ISD is in process to amend and update its prudential returns and the related rules and regulation in the CBB Rulebook (Volume 3).
- **In-house Actuaries:** The CBB is continuing the monitoring of the 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 which has been effective in 2023, the CBB requested all insurance firms to establish an internal actuarial unit within their organization structure, for which all insurance firms should appoint an in-house Bahraini Qualified Actuary and an in-house Bahraini Actuarial Analyst which was 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, the CBB is continuing the monitoring of this initiative by looking at aspects that can be improved in order to optimize the process in which it could be beneficial for all stakeholders (i.e. including improvement that can benefit insurance companies; improvements that can improve other Government Entities' claim process by suggesting a notification to be sent to them in case of public property damage).

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

Financial Stability Directorate

During 2023 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).

- 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.
 - 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.
 - 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 current global economic and geopolitical developments and any implications on financial stability.

The Financial Market Infrastructure (FMI) and Payments Oversight Division

The Financial Market Infrastructures (FMIs) and Payments Oversight under the Financial Stability Directorate performs one of the crucial functions within the Central Bank of Bahrain which is ensuring meeting objectives outlined in the recently published FMIs and Payment Oversight Framework which includes safety, efficiency, effectiveness, reliability, resiliency, transparency, facilitating necessary change, harmony, market integration, innovation and adaptability limiting various risks i.e. *systemic risk, credit risk, liquidity risk, operational risk, legal risk, etc.* ensuring overall operational resilience and ultimately contribute to the well-functioning and trust in financial markets.

The FMIs and Payments Oversight continues to oversee the Financial Market Infrastructures (FMIs), Systemically Important Payment Systems (SIPS), Major Retail Payment Systems (MRPS) and Retail Payment Systems (RPS) based on the Principles for Financial Market Infrastructures (PFMIs) through the continuous performance of the below activities:

1. Collection of Data from various sources such as system database, data from Participants, periodic reporting, surveys and constant monitoring;
2. Thematic On-Site and Off-Site Inspections including assessments in order to measure the compliance of Operators and/or Participants, highlight deficiencies and recommend alignment and/or enhancements;
3. Analysis and Reporting based on collected data and information to identify trends, patterns, anomalies and potential risks associated with the functioning of FMIs and Payment Systems;
4. Review assessments to identify key risks, areas for improvement, establish regulatory expectations and take appropriate actions;

5. Conduct in-depth research and studies including analysis of various aspects to identify potential vulnerabilities, emerging threats, areas of weaknesses within existing infrastructures, best practices and potential benefits associated with new innovations.
6. Encouraging and inducing change through fostering harmony and market integration in the FMI and Payments landscape;
7. Cooperative arrangements and synergies aiming to avoid the possibility of gaps, inefficiency, duplication and inconsistencies in the oversight function;
8. Proactive approach to study, assess and prepare for upcoming projects and challenges in the FMI and Payments ecosystem not only to foster innovation of new payments, nevertheless, to enhance, upgrade current and existing FMIs and Payment Systems.

The Statistical Research Division

- During 2023, the Statistical Research Division in order to enhance the quality and comprehension of its statistics worked on updating and implementing newly designed monthly statistical returns templates that collect banking data so that the statistics keep pace with the requirements of the working group concerned with monetary and financial statistics in the Gulf Cooperation Council countries. The detailed data collected through the new templates serve the purpose of reducing the gap and be more compatible in filling the standardized form of the International Monetary Fund (“IMF”). The Division during the entire year worked on both templates in parallel, old, and new, to ensure smooth transition for the Monthly Statistical Bulletin data that was linked to the old statistical return form. This was achieved in October 2023 Statistical Bulletin with updating data for all months starting from January 2023. The developments of the new templates include:
 - Developed templates to collect data on claims and liabilities for residents of each GCC country.
 - Developed templates to collect data on claims and liabilities by country, currency and type of customer had been updated with IMF’s list of countries. Those sheets capture the geographical classification of deposits, other liabilities, and equity on one side, and loans and other assets on the other side.
 - The classification of business loans was changed to the International Standard Industrial Classification of All Economic Activities (ISIC-4) including data for loans to small and medium enterprises (“SMEs”).
 - Develop the data gathering of interest rates by type and maturity of deposits.
 - Collect rates of profits from the Islamic Banks to include them in the Monthly Statistical Bulletin.
- Collecting, compiling, and disseminating statistical information and releasing financial data that is published through the Monthly Statistical Bulletin.
- Providing international organizations with the Banking and Financial Statistics in Bahrain such as IMF, Bank of International Settlement (“BIS”), World Bank, GCC Stat, Arab Monetary Fund, etc.
- Conducting annual surveys such as the Manpower Survey, in which the Division had updated survey form to include data on financial technology workers “FinTech” in the banking and financial sector. As well as quarterly studies such as the Locational Banking Statistics in cooperation with the Bank for International Settlements.

- Continuing to develop periodical reports and statistics such as the weekly and monthly Point of Sale (POS) and E-Commerce data. The Division also coordinated with the acquirers to provide daily POS data to the Ministry of Finance & National Economy (MOFNE) as per their request.

Chapter

3

Other CBB Projects and Activities

New Licenses

Fintech & Innovation

Payment System (“SSS” & “RTGS”)

Currency Issue

CBB Training Programs

IT Projects

Consumer Protection

External Communications Unit

CBB’s Organisational Chart

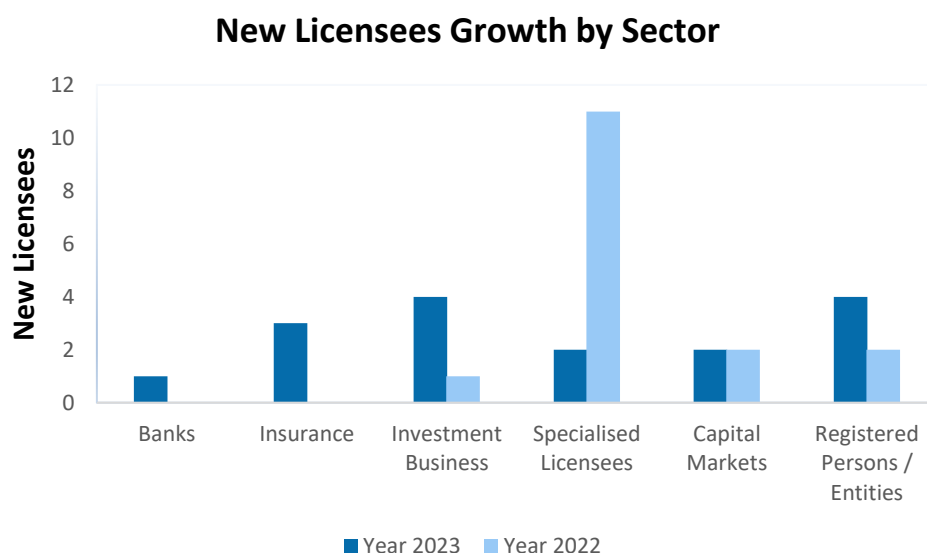
New Licensed Institutions & Registered Persons

The Central Bank of Bahrain (“CBB”) has issued 12 new licensed institutions, 3 registered persons as an Individual Actuary and 1 registered company as a Corporate Loss Adjuster in 2023 compared to 14 new licensed institutions, 1 registered person as a Loss Adjuster and 1 registered person as an actuary in 2022, reaching to a total of 369 Licensed Institutions and registered persons providing financial services in and from the Kingdom of Bahrain as of 31st December 2023 compared to a total of 364 licensees and registered persons as of 31st December 2022.

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

1. Mr. Nikhil Dodhia – Registered Actuary.
2. Mr. Elias Rahal – Registered Actuary.
3. Mr. Shariq Sikander – Registered Actuary.
4. Sedgwick Bahrain W.L.L. - Loss Adjuster (Corporate).
5. Ahli United Bank B.S.C (c) – (Conversion of License) from Conventional Retail Bank to Islamic Retail Bank.
6. Howden Insurance Brokers W.L.L. – Insurance Broker.
7. Braxtone Insurance and Reinsurance Brokers Co. WLL – Insurance Broker.
8. RSW Insurance Risk Consultants W.L.L – Insurance Consultant.
9. 3YZ Investments B.S.C (c) - Investment Business Firms Category 1.
10. Beyon Money Investment B.S.C (c) - Investment Business Firms Category 2.
11. BAGS Capital B.S.C. (c) - Investment Business Firms Category 4.
12. Blacksand Company B.S.C. (c) - Investment Business Firms Category 4.
13. Spire Solutions & Services W.L.L - Ancillary Service Provider: Account Information Services Provider and Payment Initiation Services Provider.
14. Amanah for sharia audit & consultancy services W.L.L - Ancillary Service Provider- Shariah Review.
15. Waterfort Bahrain B.S.C. (c) - Crypto-Asset Services – Category 3.
16. Amber Technologies Bahrain B.S.C. (c) - Crypto-Asset Services – Category 3.

The main growth of new licenses issued in 2023 was in the Insurance Licensee sector & Investment Business Firms sector as shown in the graph below:



Fintech & Innovations Unit

CBB's Regulatory Sandbox

Since the launch of the Regulatory Sandbox in 2017 and up until 31st December 2023, the CBB has received 149 applications to join the Regulatory Sandbox.

During 2023:

- 19 new Regulatory Sandbox applications were received;
- 14 applications were authorized to join the Regulatory Sandbox.
- 3 applications were refused entry to the Regulatory Sandbox due to the proposed activities not meeting the eligibility criteria as set out in the Regulatory Sandbox Framework;

As of 31st December 2023, 23 companies have successfully exited the Sandbox after having completed testing. These include:

1. Tarabut Gateway W.L.L
2. Rain Financial
3. Belfrics Middle East W.L.L.
4. Basket FZE
5. Sprinklexchange
6. Arabianchain
7. Braxtone
8. PIE
9. Pyypl
10. Spire
11. Bambucorn
12. Spare
13. AT Payments
14. Aion Digital
15. Denarri Cash
16. OddoTec
17. Safaghat
18. Tabby
19. COCOA
20. Spotti
21. Twazn Digital Investments
22. Tasleefa

23. Lamaa for Information Technology

Out of those companies, 7 went on to receive a full operational license from the CBB:

- **Tarabut Gateway** has received an open banking license to operate as an AISP/PISP from the CBB.
- **Rain Financial** has received a license to operate as a Crypto Asset Platform Category 3 from the CBB.
- **PIE (Floos Bahrain)** has received a license to operate as a Financing Company from the CBB.
- **Bambucorn** has received a crowdfunding license from the CBB.
- **Spare** has received an open banking license to operate as an AISP/PISP from the CBB.
- **Spire** has received an open banking license to operate as an AISP/PISP from the CBB.
- **Safaghat** received a crowdfunding license from the CBB.

Completed Projects/Unit Accomplishments During 2023

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 2023 to encourage the adoption and growth of FinTech and to foster innovation within the financial services sector, as follows:

Updated FIU Strategy

The FIU developed a comprehensive Fintech strategy to highlight strategic initiatives and priority areas in the Fintech sphere for the FIU to focus on in the coming year. The FIU ensured that the outlined initiatives and priority areas were in line with the Kingdom's Vision 2030. The strategy was presented to executive and senior leadership within the CBB.

FinTech Statistics and Categorizations

Along with the Financial Stability Directorate and MOIC, the FIU created a Fintech Statistics Repository and a Fintech Categorization model with the goal of publishing an annual FinTech statistics report to capture and assess key indicators of the Fintech ecosystem in Bahrain. This is an ongoing initiative that is in the process of completion with the involved parties.

Facilitating the Opening of Regulatory Sandbox Bank Accounts with the Bahrain Development Bank ("BDB")

As part of the FIU's efforts to improve and develop the experience of participants in the Regulatory Sandbox, the FIU cooperated with the Bahrain Development Bank ("BDB") to facilitate the process of opening bank accounts for participants in the Sandbox. BDB announced this initiative in October 2023, where they presented their electronic platform "Tijara" specifically designed to meet the needs of startup companies and entrepreneurs.

Working Papers and Studies

Working paper on Artificial Intelligence and Machine Learning ("AI/ML")

The FIU participated in producing a working paper, via the Global Financial Innovation Network ("GFIN"), on the uses of Artificial Intelligence and Machine Learning technologies in the financial services sector.

As part of this initiative, the FIU prepared a survey to inquire about any work that global central banks and financial regulators are currently doing in the fields of artificial intelligence and machine learning. Subsequently, the FIU studied and analyzed the survey responses.

On February 2023, a comprehensive report of the survey results was presented to members of the GFIN network during a Coordination Group meeting. The FIU consulted GFIN members in developing a road plan for the project. Hence, it was agreed that the report would be published on the official GFIN website.

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.

During January 2023, the FIU completed its contribution to the paper and submitted it to the Office of Prime Ministers and the Council of Ministers in the United Arab Emirates.

GCC Sandbox Fast Track Questionnaire

The CBB, in cooperation with the Central Bank of the United Arab Emirates, prepared a questionnaire to study the feasibility of implementing a fast track to accept applicants to the Regulatory Sandbox environments in the GCC. These results of the study along with the recommendation will be presented to the Governors' Committee.

Scale Box Proposal

The FIU prepared a study to evaluate the feasibility of launching a "Scale Box" experimental environment that would enable qualified Regulatory Sandbox graduates to continue their business operations in an experimental environment. The CBB's FinTech Scale Box will act as an extension of the Regulatory Sandbox for Sandbox graduates who have successfully completed their testing. The Scale Box will allow these companies to continue their business operations with increased thresholds as well as pre-determined set meetings with the CBB's Regulatory Sandbox Committee and Licensing Directorate in order to prepare for their respective licensing applications. The FIU presented the study to the members of the Regulatory Sandbox Committee. Based on the the committee's discussion, the FIU decided to re-examine this proposal, taking into account the legal and licensing challenges associated with the proposal.

FinTech Bahrain Proposal

The FIU executed a proposal for a FinTech Innovation Hub under the umbrella of the FIU, "FinTech Bahrain". "FinTech Bahrain" would be established by the CBB and to be overseen and administrated by the FIU, with the main objective of complementing the FIU to support the development of the FinTech ecosystem in Bahrain. "FinTech Bahrain would incorporate aspects of a FinTech Incubator, act as the primary access point to the regulator as well as other relevant stakeholders from both the public and private sectors (such as government authorities, investors, academic & training institutions, incubators, accelerators, and the wider financial sector) to support the needs and requirements for developing Bahrain's FinTech ecosystem. This proposal was submitted to CBB senior management.

RegTech and SupTech Study

In line with the CBB's vision to advance the latest supervisory and regulatory compliance practices, the FIU prepared a study on 'RegTech' and 'SupTech' initiatives, which address some of the most important methods for facilitating and adopting 'SupTech' and 'RegTech' solutions that have been approved by global supervisory and regulatory bodies. The unit developed a road map and recommendations for the CBB in relation to regulatory compliance technologies and supervisory/oversight development.

Activities and programs

GFIN Greenwashing TechSprint

Along with 13 global regulatory bodies, the CBB participated in the first technology and innovation TechSprint on "Greenwashing" in the financial services sector. This was executed in cooperation with the Global Innovation Network ("GFIN"). This initiative aims to ensure the credibility of "ESG" and sustainability driven financial products in light of the increasing number of financial and investment products and services that are marketed as "green" or of a sustainable nature.

It is worth noting that applications to join the competition were opened on April 17, 2023 for a period of 4 weeks. The CBB extended an invitation to companies interested in participating in the TechSprint and was involved in evaluating the applications received. The TechSprint began in June and concluded in September. The FIU participated in the concluding ceremony of the TechSprint through a virtual meeting on Microsoft Teams, where the participants presented their solutions to a group of judges and the winners were announced.

A program to support the graduation projects of UOB Master in FinTech students

In line with the CBB's effort to sustain the development of the financial services and financial technologies sectors as well as supporting Bahraini cadres in this field, the CBB in cooperation with UOB and the participation of several local banks and other financial institutions, supported the graduation projects 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 program provides students with an opportunity to test the application of knowledge and skills to the technical issues that were 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, 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 pilot which was overseen by the CBB, demonstrates 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.

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

CBB's participation in the mBridge test

The FIU, in cooperation with the Banking Services Directorate, the Information Technology Directorate and the Currency Directorate, participated as observer members of the mBridge platform. The mBridge platform is a joint project between the Innovation Center of the Bank of Settlements of Hong Kong, the Hong Kong Monetary Authority (HKMA), the Bank of Thailand (BOT), the Central Bank of the UAE (CBUAE) and the People's Bank of China Digital Currency Institute (PBCDCI).

The Central Bank of Bahrain has joined as an observer member of the platform and a participating member in the platform's experimental regulatory environment to provide tests on central bank digital currencies. Virtual tests have been conducted to enable cross border payments using digital currencies.

Awards and Achievements

The CBB's Re-Election in the Global Financial Innovation Network's Coordination Group

The Central Bank of Bahrain was elected as a member of the Coordination Group of the Global Financial Innovation Network for the third consecutive term, along with 11 international financial regulatory bodies, after an internal voting process for the network.

"FinHub973" Receiving IGA eGov Award

The CBB's Digital Lab FinHub973 obtained the 2023 eGovernment Excellence Award as a result of the digital innovation nature of the platform.

The Central Bank of Bahrain wins the Informatics Medal for the year 2023

The CBB was awarded the Informatics Medal for the year 2023, presented by the Board of Trustees of His Royal Highness Sheikh Salem Al-Ali Al-Sabah in its seventeenth edition, which aims to develop human capabilities in the field of information development and consolidate the role of community institutions in the information field.

Membership of local and international committees/task forces

- The FIU represents the CBB as a member of the FinTech Working Group - Secretariat General of the GCC.
- The FIU 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 FIU represents the CBB as a member of the Arab Monetary Fund's FinTech Working 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.

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 Systems

Payment and Settlement Systems ("SSS" & "RTGS")

The Banking Services Directorate operates the Real-time Gross Settlement (RTGS) and the Scripless Securities Settlement (SSS) systems as well as activities related to payments, clearing, Financial Market Infrastructures (FMIs) and payment systems and services.

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

The RTGS system, owned and operated by the CBB, is a systemically important large-value payment system that allows member banks to make fund transfers between themselves, and on behalf of their customers in real time, on a gross basis. It also provides settlement in central bank money for other payment and securities settlement systems, such as ATM Network System (BENEFIT), Bahrain Cheque Truncation Systems (BCTS), Bahrain Electronic Cheque System (BECS), Electronic Fund Transfer System (EFTS), at times stipulated by the CBB.

The number of bank transfers through the RTGS were 360,911 in 2023, for a total amount of BD 104.1 billion with a daily average of 1,449 transfers and an average daily value of BD 418.1 million, broken down as follows:

- The volume of bank transfers among retail banks through RTGS was 48,277 for a value of BD 99.2 billion.
- The volume of customer transfers through the RTGS totalled 312,634 with a value of BD 4.9 billion.

The SSS system, operated by the CBB, acts as a Central Securities Depository (CSD) for government securities issued (in Scripless form) by the CBB. It settles securities transactions through its seamless integration with the RTGS system. Furthermore, the SSS system provides electronic auctioning of government securities on behalf of the government.

There were 3,290 transactions carried out through SSS System in 2023 valuing BD 13.324 billion. The daily average number of transactions was 13 and the average daily value was BD 53.509 million.

Total fees received from RTGS and SSS member banks (transaction fees and annual membership fees) amounted to BD 395,476 in 2023.

Cheque Clearing

The number of cheques cleared in the year 2023 was 2,035,734, totalling an amount of BD 7.040 billion. The daily average number of cheques was 8,176 and the average daily value was BD 28.273 million.

ATM Network (BENEFIT)

The number of withdrawals processing through the local ATM network system (BENEFIT) during 2023 was 13,371,623 and totalling an amount of BD 1.358 billion with a daily average of 36,635 transactions and an average daily value of BD 3.721 million.

Electronic Fund Transfer System (EFTS)

The EFTS which was launched by the CBB, in collaboration with the BENEFIT Company in November 2015 facilitating bank customers to make instant low-value payments known as Fawri+, between two bank accounts and within 30 seconds on a round-the-clock basis. A customer can make multiple low-value Fawri+ payments a day, subjected to a maximum value limit of BD 1,000. EFTS also offers two other types of customer payment services, the first being Fawri, which is a deferred batch fund transfer service that supports same-day or future dated, small, or large value payments on working days. The second is the Electronic Bill Presentment and Payment (EBPP) called Fawateer, whereby bank customer can settle bills from both online and offline billers.

- The number of Fawri+ transactions in the year of 2023 was 334,760,358 with a total amount of BD 7.305 billion. The daily average number of Fawri+ transactions was 917,152 and the average daily value was BD 20.014 million.
- The number of Fawri transactions in the year of 2023 was 12,401,316 with a total amount of BD 20.697 billion. The daily average number of Fawri transactions was 33,976 and the average daily value was BD 56.704 million.

- The number of Fawateer transactions in the year of 2023 was 12,739,166 with a total amount of BD 989.247 million. The daily average number of Fawateer transactions was 34,902 and the average daily value was BD 2.710 million.

AFAQ System

The Arabian Gulf System for Financial Automated Quick Payment Transfer (AFAQ) is the Real Time Gross Settlement system for cross-currency cross-border payments between the GCC countries. The Service was launched on 10th December 2020, with the Central Bank of Bahrain (CBB) and Saudi Central Bank (SAMA) being its first participants.

Bahrain Banks cross-border payments transfers through the AFAQ Service were 49,165 in 2023, for a total amount of BD 363.96 million with a daily average of 199 transfer and an average daily value of BD 1.47 million broken down as follows:

- Interbank transfers: The volume of the incoming bank transfers through AFAQ Service was 433 for a value of BD 1.9 million and the volume of the outgoing bank transfers was 1,197 for a value of BD 5.98 million.
- Customer transfers: The volume of the incoming customer transfers through AFAQ Service totalled to 18,728 with a value of BD 83.71 million and the volume of the outgoing customer transfers was 28,807 for a value of BD 272.37 million.

Bahrain Electronic Cheque System (BECS)

The Bahrain Electronic Cheque System (BECS) was launched by the CBB, in collaboration with the BENEFIT Company on 19th October 2021, and is the first of its kind in the world that caters to individual, as well as corporate bank customers. The system also 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 e-cheque 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	2022 Total	2023 Total	Total Since Launch
Number of active customers registered in the system (individuals)	259,056	138,782	928,249
Number of active customers registered in the system (corporates)	143	33	267
Number of electronic cheque book requests	1,136	630	4,347
Number of electronic cheques issued by individuals through BenefitPay application	3,597	2,673	7,821
Number of electronic cheques issued by corporates, Customers of Joint Accounts, and Customers of Accounts with Power of Attorney through BENEFIT E-cheque application	1,317	1,325	2,746
Total number of cheques deposited and paid	4,122	3,300	8,512

Digital Payments Projects and Initiatives

The following are the most strategic projects and initiatives in the area of payment, clearing and settlement systems:

Project mBridge

The Central Bank of Bahrain (CBB) has joined project mBridge [under the Bank for International Settlement Innovation Hub (BISIH)] as an Observing Member. Being that the mBridge is seen as one of the important projects for CBDCs, many central banks are exploring cross-border transactions using CBDC. The CBB participated in the sandbox testing in the mBridge. On October 2023, BISIH published the project mBridge update which includes CBB as an Observing Member. The CBB will continue the work on the mBridge project along with the BISIH and other country members during 2024.

Central Bank Digital Currency (CBDC) Project

The Central Bank Digital Currency project was launched in 2018 with the establishment of an internal committee including members of various directorates in the CBB. The objective of the committee was to assess the feasibility of introducing a Central Bank Digital Currency (CBDC) and set a framework aligned with CBB's goals and regulations. In February 2022, the committee has formulated a Proof of Concept (POC) to demonstrate the viability of introducing CBDC in the Kingdom of Bahrain and the appropriate design of the CBDC platform customized for the needs of the Bahraini financial market.

RTGS Operating Hours

In line with the Economic Recovery Plan of the Kingdom of Bahrain and the CBB Financial Sector Strategy, the CBB have extended the operational hours of the RTGS system during workdays and increased the number of settlement sessions from 2 to 3 sessions for the settlement of fund transfers through the EFTS. This strategic initiative aims to provide an extended timeframe for customers to transfer funds through the Fawri service, as well as banks to perform their high value interbank transactions. The CBB has extended the customer cut-off time for settling Fawri payments on the same day to 14:25. Hence, any payments initiated after the cut-off time will be settled on the next working day.

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 139.6 million during 2023.

The total value of currency deposits during 2023 amounted to BD 741.3 million, while that of the currency withdrawals stood at BD 724.8 million.

The value of currency in circulation recorded BD 668.5 million on 31st December 2023, of which currency coins and notes amounted to BD 23.1 million and BD 645.4 million respectively:

- The fourth issue of currency notes reached a level of BD 61.0 million and amounted to 9.5% 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 575.9 million and amounted to 89.2% of the total value of currency notes in circulation.
- The value of the third issue of currency notes stood at BD 8.4 million and amounted to 1.3% of the total value of currency notes in circulation.

The Directorate has minted 300 of a silver medal set that includes four commemorative medals, symbolizing the wild in the kingdom of Bahrain. The Directorate also began working on medals with the same design to represent Sea life in the Kingdom, and it is hoped to be launched during the year 2024.

CBB Training Programs

During 2023, 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.

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

- Developing employees' skills and knowledge through enrolling 173 employees in 171 training courses at BIBF; covering different areas including finance, Islamic banking, compliance, insurance, Fintech, management, and information technology.
- Enhancing technical competencies through enrolling 276 employees in 238 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.
- Sponsoring 21 employees for different professional and academic qualifications in cooperation with Tamkeen and the Waqf Fund.
- Conducting 4 batches of the tailored Forensic Accounting Training Program for 66 employees from various CBB Directorates, in cooperation with Behind the Balance Sheet company. The program aims to enhance the forensic accounting skills of the Central Bank's employees. Another 4 batches of the program are scheduled to be conducted during January 2024.
- Conducting a tailored training program to enhance the supervisory skills for 21 employees at Superintendent level from different CBB Directorates, in cooperation with the Bahrain Institute of Banking and Finance. The program aims to enhance several supervisory skills for participants such as coaching & mentoring, work ethics and effective communication, logical thinking and innovation and building personal development plans.
- Launching the "Mentoring" program for 12 of the CBB's new employees, with the participation of 11 senior management members. This program aims to enhance communication, foster transfer of experiences, and improve the work environment.
- Making use of technology through providing access to 100 employees to an e-learning platform, which is operated by the Bank for International Settlements and covers a variety of Banking and Finance subjects.
- Conducting a number of internal seminars and workshops, in coordination with different CBB Directorates and relevant organizations; covering various topics such as economics, investment and ESG.
- 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.
- Providing internships for 29 university students, to enhance their professional skills and prepare them for the workplace.

IT Projects

During the Year 2023, several projects were completed as part of the IT Projects Roadmap. They include the following:

Perform Comprehensive Penetration Tests to check for Security Vulnerabilities

As part of the ongoing efforts to enhance the information security and protection at Central Bank of Bahrain (CBB), the Information Technology Directorate (ITD) contracted with a specialized company to perform “Comprehensive Penetration Tests” to verify and detect vulnerabilities in the IT infrastructure and systems applications used in CBB, so that the same can be addressed and corrected promptly. The company submitted the test results to the Central Bank of Bahrain’s Information Security section, which included a list of potential security vulnerabilities. Accordingly, these vulnerabilities have been reviewed and remediated, the required fixes applied and revalidated to close the observations, thereby strengthening the security controls against probable breaches and attacks. The CBB also conducts two Penetration Tests yearly, and the highest Information Security standards are applied when conducting these exercises.

Managed Cybersecurity Services for round-the-clock monitoring

The CBB, represented by the Information Technology Directorate (ITD), has effectively implemented Managed Cybersecurity monitoring services, offering a comprehensive approach to security monitoring and management. This comprehensive outsourced service encompasses round-the-clock monitoring of vital infrastructure, networks, and endpoints, along with advanced threat detection and response capabilities. Additionally, it includes robust vulnerability management and incident response measures, ensuring a constant state of preparedness against potential breaches and attacks.

SWIFT Customer Security Program (CSP) Independent Assessment

In keeping with the CBB’s commitment to implementing the highest standards of cybersecurity associated with financial systems, an assessment of the SWIFT Customer Security Program (CSP) has been completed. The assessment was conducted by a specialized company accredited by SWIFT, and the required assessment reports and compliance measures for mandatory security controls have been shared with SWIFT. This program is applied to all member organizations of the SWIFT payment network, helping financial institutions ensure that their defenses against cyber-attacks are up-to-date and effective, thereby safeguarding the integrity of the broader financial network.

Financial Cyber Wargame Exercise (Cyber Resilience)

The CBB organized a simulation workshop on cyber resilience to test and educate the participants on ways to deal with attacks and security breaches in the banking and financial services sector. This was conducted for the CBB’s executive management and several CEOs, administrators, cybersecurity, and technical staff from various major local banks in the Kingdom of Bahrain and the Benefit Company, with more than 80 participants being actively involved. This event is considered part of the CBB’s strategy to enhance cybersecurity practices in the financial and banking services sector and its ongoing efforts to maintain the stability of the sector and ensure a safe environment for all employees in the banking sector, customers, and society, in addition to the CBB’s endeavour to develop the skills and competencies of the national workforce in the field of Cybersecurity, through such practical workshops.

Improving the security of the Payments System’s Private Network infrastructure

In line with the CBB’s commitment to embracing the most stringent global security standards for the National Payment Network, the ITD accomplished substantial security improvements in September

2023. By implementing an advanced Public Key Infrastructure (PKI), the network now boasts reinforced security measures, including robust authentication, encryption, and data integrity.

Reaccreditation of ISO [ISO 22301:2019] Certificate for Business Continuity Management System Standard

In line with the CBB's commitment to adopting the best international standards and its continuing efforts to implement best practices that ensure business continuity, readiness to address potential risks, sustainability in providing banking services, and fulfilling its supervisory and regulatory role effectively, the CBB has obtained reaccreditation for the second cycle of the "ISO 22301:2019" certificate, which is endorsed by the United Kingdom Accreditation Service (UKAS), following the CBB's compliance with all standard requirements and successful completion of the auditing process, which encompassed all practices across its various directorates and divisions.

GCC Real Time Gross Settlement (AFAQ) System Billing

As part of the automation and digitization of the internal processes that are associated with the GCC Real Time Gross Settlement System (AFAQ), a new system has been launched that calculates membership fees and transactions within the AFAQ system and generates invoices for participating local banks. This has been achieved by linking the Banking Services system with the AFAQ system, which will eliminate the reliance on the existing manual processes. The new system will also contribute to improving the efficiency and accuracy of the internal processes that are related to the AFAQ system.

Digital License Certificate Issuance

As part of the CBB's ongoing efforts to modernize and automate the existing processes, the ITD has successfully launched a new system for the CBB's digital issuance of license certificates for financial institutions, thereby eliminating the need for physical printing of licenses. Additionally, a Quick Response (QR) Code feature has been added to the digitally issued certificate, allowing it to be scanned to verify the existence of the financial institution's license in the Licensing Directory page of the CBB's official website.

Enhancing the Suspicious Transactions Reporting (STR) System

As part of the process development at the CBB, the enhancements and modifications to the STR system have been successfully completed. This development was required to apply the recommendations and suggestions provided by stakeholders in the National Financial Investigation Unit of the Kingdom of Bahrain's Ministry of Interior. New fields have been introduced, which in turn will contribute to enhancing the effectiveness of the investigation processes carried out by the Anti-Economic Crime Directorate at the Ministry of Interior. These modifications signify a proactive approach to refining processes within the CBB and promoting collaboration with relevant authorities to effectively combat economic crimes.

Request for Currency Museum visit

In alignment with the CBB's strategy to implement best practices in the process automation, a new webpage titled "Request for Currency Museum Visit" has been introduced on the CBB's official website. The Currency Issue Directorate has started receiving visit requests for the museum through this webpage that collects all the necessary information from the visitors and automatically sends it to the Currency Issue Directorate's designated email address. This effectively replaces the previous method of receiving requests via phone calls also streamlines the visit request process, reduces manual efforts, and promotes efficient communication channels between CBB and the public.

Automatic Reconciliation Report

As part of the automation plan for internal operations related to the GCC Real Time Gross Settlement System (AFAQ), the integration of the daily statement messages (MT950) to securely access the CBB's Saudi Riyals account in the Saudi Central Bank (SAMA) within the CBB's Reserve Management System (TCS), has been completed. Further, this integration enables the creation of an automatic reconciliation report that maintains the balances and calculates the daily accrued interest, thereby eliminating reliance on the replaced manual processes and enhances accuracy of the reconciliation operations.

Automate the process of receiving Authorization Requests and Collective/Private Investment Undertakings (CIU/PIU)

As part of the CBB's ongoing efforts at optimally automating its applications, two new forms related to Collective Investment Units (CIUs) have recently been introduced on the official CBB website. The first form, titled "FORM 1: RETAIL CIU APPLICATION FORM" is designed for retail banks and financial institutions to apply for an authorization letter. The second form, known as "FORM 2: EXEMPT CIU/PIU NOTIFICATION FORM" is intended for accredited investors in collective and private investment funds. These forms require the comprehensive information about the funds, objectives, related parties, subscription accounts, and contact details to be entered. The purpose of submitting these forms is to notify the CBB and to seek the approval. By collecting and documenting the necessary information electronically, this initiative aims to expedite and streamline the application process, reduce manual efforts while ensuring accuracy and efficiency, and enhance communication and interaction between retail banks, accredited investors, and the CBB.

Upgrade of the Electronic Submission of Returns and Data (ESRAD) System

This upgrade was initiated for the CBB to stay updated using the latest versions of hosted applications, provide the highest levels of service to system users, and enhance information security. The ESRAD upgrade has been successfully completed by the developer company. The system provides functionality to regularly collect necessary data from licensed Financial Institutions regulated by the CBB. The upgrade included migrating the system's infrastructure to Amazon Web Services (AWS) cloud environment, improving user interfaces, and enhancing security features in the system.

Enhancing the Access Control of the Attendance System for CBB Employees

As part of the ITD efforts to enhance system functionalities that would better serve CBB Employees, the earlier used fingerprint-based access at CBB's entrance for the Access Control and Attendance system, has been replaced with face biometrics technology. This change aims to facilitate touchless access for CBB employees during the entry and exit processes. Additionally, this technology is characterized by improved accuracy and increased security level.

Upgrade CBB Enterprise Storage and Backup Solution

As part of the ITD efforts at refreshing the technology underlying its infrastructure devices, the central information storage units (Enterprise Storage) and the Backup solution have been successfully replaced. This upgrade will provide the latest encryption technologies protect against malicious software and use high-performance components internally that will strengthen the continuity of CBB's business operations and facilitate application performance requirements.

CBB Database Migration from Oracle version 11g to version 19c

In alignment with the CBB's initiatives to keep up with the latest versions of its enterprise database and thereby comply with Oracle's recommendation to use non-obsolete versions of its database that support integration with CBB's hosted applications and also enhance information security resilience, the central database version has been upgraded from Oracle (11g) to the widely popular and

supported version (19c). This upgrade ensures that the database system operates with optimal performance, cost savings, stronger security features, and support for the latest operating systems. As a result, an efficient and integrated data platform will be provided to serve the business users at the CBB.

Consumer Protection

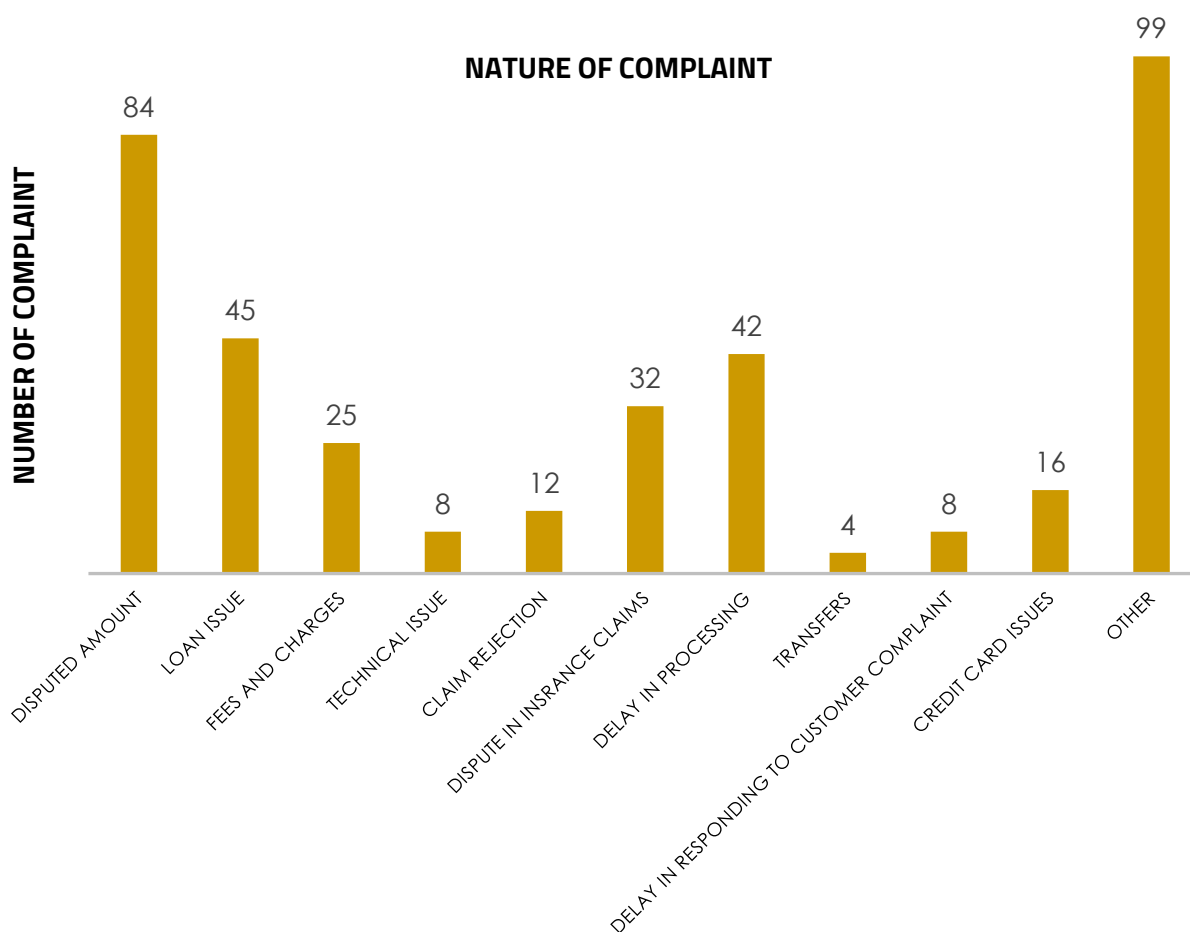
Tawasul system

- Total Number of Cases Received (2,496)
- Total Number of Complaints Received (2,072)
- Total Number of Queries Received (327)
- Total Number of Suggestions Received (97)

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 2023 (375) distributed as follow:



External Communications Unit

Press Releases from CBB:

- Total Number of Press Releases (120 Press Release)
- Total Number of Government Securities and Sukuk Press Releases (92 Press Release)
- Total Number of Press Releases related to CBB announcements and events (28 Press Release)

Press releases

Date	Subject
01.02.2023	CBB Raises Key Interest Rate by 25 basis points
09.02.2023	The Central Bank of Bahrain organizes a workshop to enhance and develop cybersecurity practices in the banking sector
22.02.2023	Number of Bahrainis working in the financial sector increased by 3.3% in 2022
19.03.2023	CBB holds First Board meeting for 2023
22.03.2023	CBB Raises Key Interest Rate by 25 basis points
30.03.2023	CBB Issues a New Regulatory Framework for Digital Tokens Further Developing the Crypto-Assets Market
11.04.2023	CBB announces launch of Greenwashing TechSprint
03.05.2023	CBB Raises Key Interest Rate by 25 basis points
08.05.2023	Waqf Fund organizes fourth session of Distinguished Leader Series with Dr. Mustafa Al-Sayed
17.05.2023	مشاركة مدير وحدة التكنولوجيا المالية والابتكار في مصرف البحرين المركزي في قمة الأصول المشفرة التي تم تنظيمها من قبل مؤسسة فاينانشل تايمز في المملكة المتحدة
18.06.2023	CBB holds Its Second Board meeting for 2023
26.06.2023	مصرف البحرين المركزي وجمعية مصارف البحرين يعقدان اجتماعهما التشاوري الدوري
05.07.2023	The Central Bank of Bahrain signs a Memorandum of Understanding with Naisbitt King
26.07.2023	CBB Raises Key Interest Rate by 25 basis points
31.08.2023	مصرف البحرين المركزي ينظم طاولة مستديرة بالتعاون مع وزارة التنمية المستدامة حول الإرشادات المتعلقة بالإفصاح عن الممارسات البيئية والاجتماعية وحوكمة الشركات وتعزيز دور القطاع المالي في تصميم أدوات مالية مبتكرة لتسريع وتيرة تحقيق أهداف التنمية المستدامة
04.09.2023	Mulim Campaign” announces its GCC Smart Investor Award“
12.09.2023	Bahrain insurance sector has shown growth in gross premiums for the six months ended 30 June 2023
18.09.2023	Central Bank of Bahrain issues new regulation in relation to investment services provided by Family Offices
24.09.2023	Central Bank of Bahrain issues the first Investment Business Category 4 license to BAGS Capital
25.09.2023	Bank ABC goes live with instant blockchain payments for institutions with J.P. Morgan’s Coin Systems in partnership with the CBB
22.10.2023	CBB holds Third Board meeting for 2023

19.11.2023	Central Bank of Bahrain issues new Environmental, Social and Governance Reporting Framework
03.12.2023	CBB celebrates Bahraini Women's Day
10.12.2023	CBB holds Fourth Board meeting for 2023
11.12.2023	اليوم العالمي لمكافحة الفساد
11.12.2023	Central Bank of Bahrain re-elected as GFIN Coordination Group Member
12.12.2023	Waqf Fund organizes 13th Corporate Governance Workshop on Customer-centricity
20.12.2023	Waqf Fund Organizes a Presentation on Application of Ijarah – A Study of Shari'ah Standards, Laws and Judicial Rulings

Conferences, Forums and Workshops

Date	Event
8-9 February 2023	CBB Financial Sector Cyber Wargame Exercise
2 March 2023	Bahrain Association of Banks (BAB) Open Dialogue
13-15 March 2023	Union of Arab Banks "The Effective Management of Financial Crime Risks in Modern Banking" workshop
7-8 May 2023	21 st AAOIFI Annual Shari'ah Boards Conference
30 May 2023	4 th Islamic Finance Innovation Day
30 August 2023	Roundtable Discussion on ESG Reporting and Designing Innovative Financial Instruments for SDG Acceleration
1-3 October 2023	Union of Arab Banks "Implementation of ESG and Climate Risk in Financial Services" workshop
10-12 October 2023	Fintech Forward Bahrain
23-24 October 2023	Judicial & Legal Studies Institute Secured Transactions Conference
29-30 November 2023	AAOIFI-IsDB 18 th Annual Islamic Banking and Finance Conference
10 December 2023	Insurance Sustainability Forum
13 November 2023	Middle East Investor Relations Association (MEIRA) Annual Conference
13 December 2023	International Banks Day

Interviews

Date	Interview Topic	Interviewee	Media or Event
12 February 2023	Interview with The Telegraph "The Gulf state diversifying away from oil – and it's not buying a Premier League club"	HE Rasheed Al Maraj Governor	The Telegraph

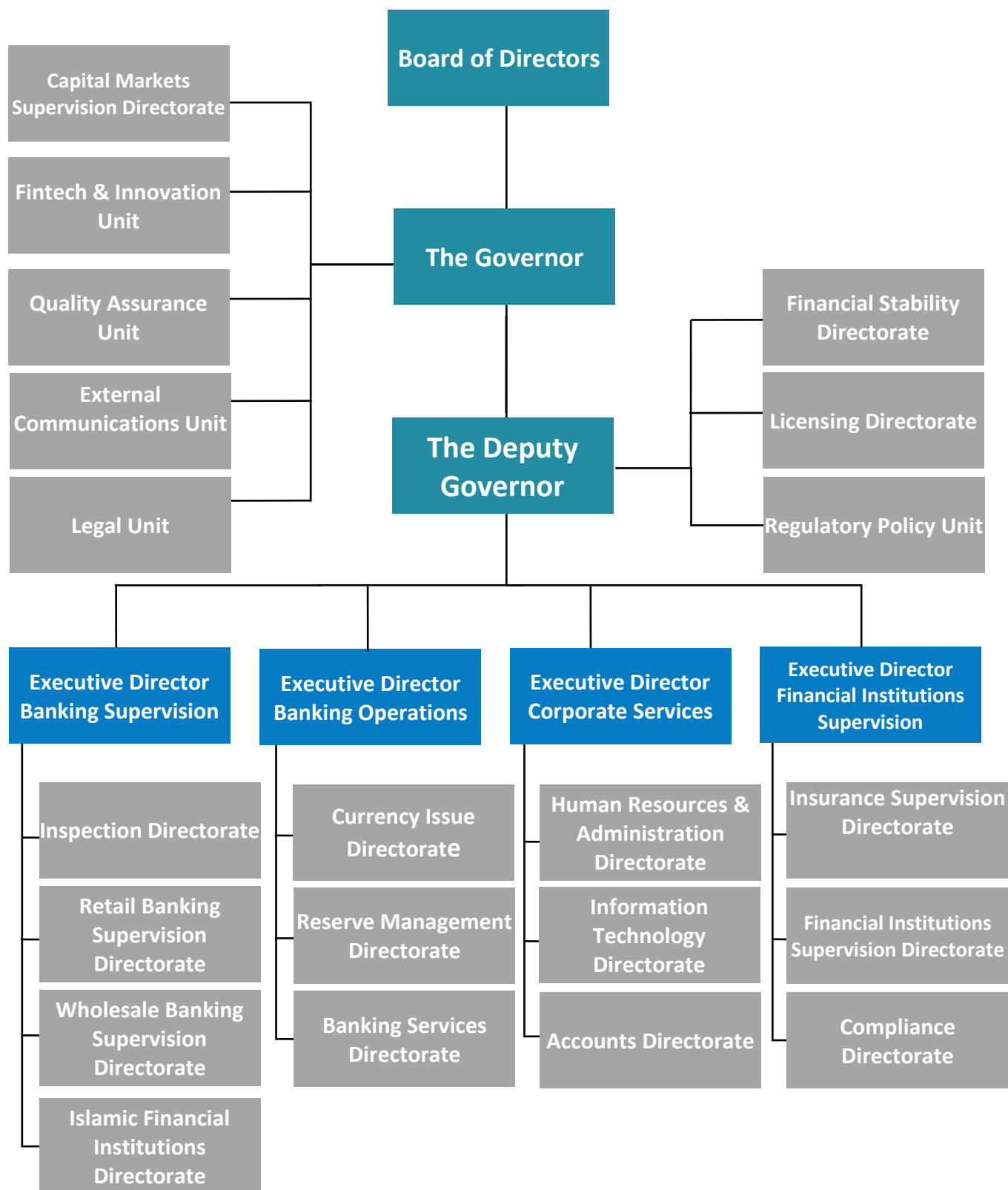
15 June 2023	مقابلة حول طباعة الأوراق النقدية الجديدة للعيادي	Fahad Al Arabi Director - Currency Issue	Bahrain TV
15 June 2023	مقابلة حول الرقابة على السحوبات التي تجريها البنوك	Maha Mohammed Abdulla Director - Inspection Directorate	Bahrain TV
13 September 2023	مقابلة حول موضوع نمو قطاع التأمين في النصف الأول من العام	Elham Taleb Director of Insurance Supervision Directorate	Bahrain TV
19 September 2023	مقابلة حول موضوع إصدار التوجيهات الجديدة بشأن الخدمات الاستثمارية المقدمة من الشركات العائلية	Ebtisam Al Arayedh Director – Financial Institutions Supervision Directorate	Bahrain TV
10 October 2023	Interview on the Investor Awareness program “Mulim” and the GCC Smart Investor Award	Ali Haroon Al Aamer -Acting Director of Capital Markets Supervision	Bahrain TV
11 October 2023	Interview with Arabian Business regarding Fintech initiatives	Yasmeen Al Sharaf Director- Fintech and Innovation Unit	Arabian Business
20 November 2023	مقابلة حول اصدار إطاراً جديداً لإعداد التقارير الخاصة بالممارسات البيئية والاجتماعية وحوكمة الشركات	Abeer Al Saad – Executive Director of Financial Institutions Supervision	Bahrain TV
22 November 2023	How Open Banking is Shaping the Future of Finance in the Middle East – Open Banking article	Yasmeen Al Sharaf Director- Fintech and Innovation Unit	World Economic Forum (WEF)
17 November 2023	Interview for the Asia Report Segment during the Singapore Fintech Festival 2023	Yasmeen Al Sharaf Director- Fintech and Innovation Unit	BBC Asia Business Report
23 November 2023	Interview for the	Yasmeen Al Sharaf	Bloomberg TV

Daybreak Middle East and Africa Segment during the Singapore Fintech Festival 2023	Director- Fintech and Innovation Unit
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Awards

Date	Subject	Awarding Body
11 October 2023	eGovernment Excellence Award 2023 – Best Work Environment for Digital Innovation (Public Sector)	eGovernment
23 January 2024	3 rd place award in the Capital Governorate competition for best decorated buildings in Manama (Government institutions category) on the occasion of National Day and anniversary of HM King Hamad bin Isa Al Khalifa's accession to the throne and National Day 2023	Capital Governorate

CBB's Organizational Chart



Chapter

4

Financial Statements for the Year Ended December 2023

**CENTRAL BANK OF BAHRAIN
INDEPENDENT AUDITOR'S REPORT
AND
FINANCIAL STATEMENTS
31 DECEMBER 2023**

CENTRAL BANK OF BAHRAIN
FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2023

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



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CR No. 6220 - 2

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 2023 and profit and loss account and appropriation for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements of the Central Bank for the year ended 31 December 2023 are prepared, in all material respects, in accordance with the basis of accounting 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 are 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 basis of accounting described in note 2 of the financial statements, for determining the acceptability of the basis of accounting and for such internal control as the management determines is necessary to enable the preparation of the 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.



Independent auditors' report to the Board of Directors (continued)
Central Bank of Bahrain

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.

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
10 March 2024

CENTRAL BANK OF BAHRAIN
BALANCE SHEET
AS AT 31 DECEMBER 2023

	Note	2023 BD'000	2022 BD'000
ASSETS			
Gold	4	2,500	2,500
Foreign reserves	5	1,859,778	1,577,108
Due from Ministry of Finance	6	3,477,419	2,773,741
Cash, due from Bahraini banks and securities	7	631,055	446,592
Other assets	8	62,816	35,906
TOTAL ASSETS		6,033,568	4,835,847
LIABILITIES			
Notes and coins in circulation	4	667,820	684,353
Bahraini Dinar deposits from banks		4,471,297	3,230,724
Other deposits		189,007	278,269
Due to other central banks		642	558
Profit payable to the Government of the Kingdom of Bahrain		2,500	2,500
Provision for currency withdrawn		6,145	6,151
Other liabilities	9	17,001	13,201
TOTAL LIABILITIES		5,354,412	4,215,756
CAPITAL FUNDS			
Capital	10	200,000	200,000
General reserve	11	310,990	279,831
Contingency reserve	12	147,408	119,032
Revaluation reserve	13	20,758	21,228
TOTAL CAPITAL FUNDS		679,156	620,091
TOTAL LIABILITIES AND CAPITAL FUNDS		6,033,568	4,835,847



Hassan Khalifa Al Jalahma
Chairman



Khalid Humaidan
Governor

The attached notes 1 to 14 form part of these financial statements.

CENTRAL BANK OF BAHRAIN
PROFIT AND LOSS ACCOUNT AND APPROPRIATION
FOR THE YEAR ENDED 31 DECEMBER 2023

	Note	2023 BD'000	2022 BD'000
INCOME			
Interest income		292,145	95,887
Interest expense		(235,778)	(76,669)
Net interest income		56,367	19,218
Registration and licensing fees		5,214	5,354
Exchange gain on sale of US dollars		11,991	8,512
Net realised investment (loss)/gain		(257)	570
Other income		7,095	3,607
TOTAL INCOME		80,410	37,261
EXPENSES			
Staff costs		(13,137)	(12,785)
General and administration expenses		(3,106)	(3,331)
Notes issue expenses		(1,787)	(948)
Funds and advisory fees		(22)	(18)
TOTAL OPERATING EXPENSES		(18,052)	(17,082)
PROFIT FOR THE YEAR BEFORE PROVISION FOR IMPAIRMENT		62,358	20,179
Provision for impairment		(39)	(40)
PROFIT FOR THE YEAR		62,319	20,139
Transfer to contingency reserve	12	(28,660)	(7,569)
Transfer to general reserve	11	(31,159)	(10,070)
BALANCE PAYABLE TO THE GOVERNMENT OF KINGDOM OF BAHRAIN		2,500	2,500



Hassan Khalifa Al Jalahma
Chairman



Khalid Humaidan
Governor

The attached notes 1 to 14 form part of these financial statements.

CENTRAL BANK OF BAHRAIN
NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2023

1 REPORTING ENTITY

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 outside Bahrain.

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 2023, 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 10 March 2024.

2 BASIS OF ACCOUNTING

These financial statements have been prepared in accordance with the significant accounting policies (note 3) in compliance with the financial reporting requirements as set out in Part 1 of the Central Bank of Bahrain and Financial Institutions Law No. (64) of 2006. These policies have been consistently applied to all the years presented, unless otherwise stated.

3 SIGNIFICANT ACCOUNTING POLICIES

3.1 Accounting convention

The financial statements are prepared under the historical cost convention.

3.2 Functional and presentation currency

These financial statements are presented in Bahraini Dinars, which is the Central Bank's functional currency. All amounts have been rounded to the nearest thousand, unless otherwise stated.

3.3 Gold

Gold is carried at cost.

3.4 Foreign reserves

Foreign reserves comprise deposits placed and investments denominated in foreign currencies. All financial assets are recognised at cost on the settlement date, i.e. the date on which the executed trade is settled. All investments and deposits are carried at cost less provision for impairment.

3.5 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.

3.6 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.

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3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.6 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.

3.7 Notes and coins in circulation

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

3.8 Foreign currencies

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

Monetary assets and liabilities denominated in foreign currencies are translated at the reporting date into the functional currency at the parity rate of the Bahraini dinar in relation to the United States Dollar and the closing market exchange rate for the other currencies.

In accordance with Article 22 (a) and (b) of Part 1 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.

3.9 Foreign currency swaps

The Central Bank enters into foreign currency swaps with banks in Bahrain. The difference between the swap rate and the Bahraini dinar parity rate is recorded as realized gains and losses on settlement date in the profit and loss account and appropriation.

3.10 Provision for impairment

The Central Bank assesses at each reporting date whether an investment is impaired. Investments in bonds are assessed for impairment on a portfolio basis. Impairment on other assets is assessed based on recoverability of the asset.

Contingency reserve is utilised by the Central Bank to provide impairment for assets used in relation to Central Bank's objectives as determined by the Board.

3.11 Revenue recognition

Interest income

Interest income is recognised on a time apportioned basis, taking into account the principal outstanding and the rate applicable. Premiums or discounts on purchase of bonds 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.

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.

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.

CENTRAL BANK OF BAHRAIN
 NOTES TO THE FINANCIAL STATEMENTS
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3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.11 Revenue recognition (continued)

3.12 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.

3.13 Notes issue expenses

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

3.14 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.

4 EXCESS OF AUTHORISED BACKING OVER CURRENCY IN CIRCULATION

	2023 BD'000	2022 BD'000
Authorised backing		
Gold	2,500	2,500
Foreign reserves – note 5	1,859,778	1,577,108
	<u>1,862,278</u>	<u>1,579,608</u>
Notes and coins in circulation	(667,820)	(684,353)
Excess of authorised backing over currency in circulation	<u>1,194,458</u>	<u>895,255</u>

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 2023 was BD 116,931 thousand (2022: BD 103,366 thousand).

5 FOREIGN RESERVES

	2023 BD'000	2022 BD'000
Bank deposits	1,791,512	1,506,842
Bonds portfolio	68,873	70,266
	<u>1,860,385</u>	<u>1,577,108</u>
Less: provision for impairment on bonds (refer note 12)	(607)	-
	<u>1,859,778</u>	<u>1,577,108</u>

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5 FOREIGN RESERVES (continued)

Bonds are quoted in active markets with 99.91% representing bonds relating to Government of Bahrain or being of investment grade BBB or higher (2022: 99.90%) based on their market values. All the deposits (2022: 100%) and 100% of bonds (2022: 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 2023 was BD 69,988 thousand (2022: BD 70,552 thousand).

6 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.

7 CASH, DUE FROM BAHRAINI BANKS AND SECURITIES

	2023	2022
	BD'000	BD'000
Cash	22	22
Due from Bahraini banks	21,598	19,584
Ijara Sukuk / Treasury bonds & bills issued by the Government of Bahrain	609,435	426,986
	631,055	446,592

8 OTHER ASSETS

	2023	2022
	BD'000	BD'000
Interest receivable	13,798	9,800
Staff loans	4,526	4,587
Equipment	1,771	1,735
Murabaha receivable *	36,004	15,080
Others	6,717	4,704
	62,816	35,906

* This murabaha receivable is collateralised against Government of Kingdom of Bahrain sukuk amounting to BD 36,004 thousand (2022: BD 15,080 thousand).

9 OTHER LIABILITIES

	2023	2022
	BD'000	BD'000
Deferred license fee received	4,824	4,664
Other payables	1,406	2,022
Interest payable	9,781	5,790
Accrued expenses	990	725
	17,001	13,201

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10 CAPITAL

	<i>2023</i>	<i>2022</i>
	<i>BD'000</i>	<i>BD'000</i>
Authorised	<u>500,000</u>	<u>500,000</u>
Issued and fully paid up	<u>200,000</u>	<u>200,000</u>

11 GENERAL RESERVE

	<i>2023</i>	<i>2022</i>
	<i>BD'000</i>	<i>BD'000</i>
Balance at beginning of the year	279,831	269,761
Transfer from profit and loss account and appropriation	<u>31,159</u>	<u>10,070</u>
Balance at end of the year	<u>310,990</u>	<u>279,831</u>

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.

12 CONTINGENCY RESERVE

	<i>2023</i>	<i>2022</i>
	<i>BD'000</i>	<i>BD'000</i>
Balance at beginning of the year	119,032	111,219
Transfer during the year	28,660	7,569
Utilised during the year (refer note 5)	(607)	-
Recovery of provisioned asset	<u>323</u>	<u>244</u>
Balance at end of the year	<u>147,408</u>	<u>119,032</u>

In accordance with Article 21 of the Central Bank of Bahrain and Financial Institution Law, the Board has approved a transfer of BD 28,660 thousand of the current year's net profit to the contingency reserve (2022: BD 7,569 thousand). During the year, the reserve was utilised for a provision on bond portfolio for BD 607 thousand (2022: Nil) and recovery of a provisioned asset which was previously utilised from the contingency reserve of BD 323 thousand (2022: BD 244 thousand).

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13 REVALUATION RESERVE

	2023	2022
	BD'000	BD'000
Balance at beginning of the year	21,228	21,177
Movement during the year	(470)	51
Balance at end of the year	20,758	21,228

The revaluation reserve relates to profit / (losses) resulting from the revaluation of assets and liabilities in foreign currencies.

14 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 2023 and 2022, there were no outstanding contingent liabilities. Further, the outstanding commitments relating to currency swap transactions (USD purchase against BD) as of 31 December 2023 amounted to BD 2,049 million (31 December 2022: BD 1,911 million).