THE KINGDOM OF BAHRAIN’S NATIONAL RISK ASSESSMENT 2025

Public Version

DISCLAIMER

The National Money Laundering, Terrorist Financing, and Proliferation Financing (ML/TF/PF) Risk Assessment of The Kingdom of Bahrain has been conducted as by The Kingdom of Bahrain's authorities, using the Risk Assessment Tools developed and provided by the World Bank Group. The World Bank Group project team's role was limited to delivery of the tool, providing guidance on the technical aspects of the tool, and review/feedback to assist with the accurate use of it. Data, statistics, and information used for completing the modules, as well as findings, interpretation, and judgment under the scope of National ML/TF/PF Risk Assessment, completely belong to the authorities and do not reflect the views of the World Bank Group.

TABLE OF CONTENTS

LIST OF ACRONYMS

ACCA	Association of Chartered Certified Accountants
AML	Anti-Money Laundering
ASP	Ancillary Service Provider
AUP	Agreed-Upon Procedures Audit
BHD	Bahraini Dinars
BNPL	Buy Now Pay Later
CBB	Central Bank of Bahrain
CDD	Customer Due Diligence
CFT	Combating the Financing of Terrorism
CPA	Certified Public Accountant
CPF	Countering Proliferation Financing
CR	Commercial Registration
DNFBP	Designated Non-Financial Business Profession
EDD	Enhanced Due Diligence
EKYC	Electronic Know Your Customer
ESR	Economic Substance Regulation
ESW	Egmont Secure Webpage
FATF	Financial Action Task Force
FC Module	Financial Crime Module
FI	Financial Institution
FINC	Financial Intelligence National Centre
FIU	Financial Intelligence Unit
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
JCTC	Joint Counter Terrorism Centre
KYC	Know Your Customer
LEA	Law Enforcement Agency
MENA	Middle East and North Africa
MENAFATF	Middle East and North Africa Financial Action Task Force
MER	Mutual Evaluation Report
ML	Money Laundering
MLA	Mutual Legal Assistance
MOI	Ministry of Interior

MOIC	Ministry of Industry and Commerce
MOJ	Ministry of Justice, Islamic Affairs and Waqf
MOSD	Ministry of Social Development
MVTS	Money or Value Transfer Services
NBR	National Bureau for Revenue
NGO	Non-Governmental Organization
NIA	National Intelligence Agency
NPO	Non-Profit Organization
NRA	National Risk Assessment
P2P	Peer-to-Peer
PEP	Politically Exposed Person
PF	Proliferation Financing
PPO	Public Prosecution Office
PSP	Payment Service Provider
RBA	Risk-Based Approach
REQ	Risk Evaluation Questionnaire
RERA	Real Estate Regulatory Authority
SME	Small and Medium Enterprises
STR	Suspicious Transaction Report
TF	Terrorist Financing
TFS	Targeted Financial Sanctions
TFTC	Terrorist Financing Targeting Center
TSP	Trust Service Provider
UBO	Ultimate Beneficial Owner
UN	United Nations
UNODC	United Nations Office on Drugs and Crime
UNSCR	United Nations Security Council Resolutions
VASP	Virtual Asset Service Provider
VA	Virtual Asset
VAT	Value Added Tax
WMD	Weapons of Mass Destruction

OBJECTIVE

1. The National Risk Assessment (NRA) is a systematic process to identify, evaluate, and mitigate potential risks of money laundering (ML), terrorist financing (TF) and proliferation financing (PF) that could affect the country. The outcomes of the NRA will be utilized to develop a risk-based approach, ensuring effective allocation of resources to mitigate the identified risks, ultimately strengthening the Kingdom's capacity to combat ML, TF and PF. The Kingdom of Bahrain also will maintain an up-to-date risk assessment to reflect evolving or emerging ML, TF, and PF risks.

2. The NRA process is organized and led by the AML/CFT Committee, which includes several working groups that are comprised of representatives from all relevant Anti-Money Laundering/Countering the Financing of Terrorism (AML/CFT) stakeholders in the Kingdom of Bahrain. The NRA was conducted in collaboration with the private sector to develop a holistic risk assessment.

3. The NRA seeks to provide a comprehensive assessment of the Kingdom of Bahrain's ML, TF and PF risks through identifying, analysing and evaluating threats, vulnerabilities taking into account the consequences. Subsequently, the assessment findings guided the formulation of the national AML/CFT/CPF strategy and the action plan.

4. Post-implementation procedures of the AML/CFT/CPF strategy have been approved and adopted by the Committee to Combat Extremism, Terrorism and its Financing and Money Laundering to demonstrate the Kingdom's high-level political commitment. This ministerial-level committee established pursuant to Royal Decree (50) of (2020) is mandated to study all issues and the allocation of resources relating to combating extremism, fighting terrorism and its funding, as well as countering money laundering and proliferation financing risks.

EXECUTIVE SUMMARY

Overview

5. The Kingdom of Bahrain conducted its first comprehensive National Risk Assessment in 2017 which was adopted by the Cabinet of Ministers in the year 2018. The outcomes of the report guided the enhancement to the Kingdom's AML/CFT framework. This included amendments to rules and regulations, and enhancements to supervisory efforts across several governmental agencies. Although the NRA was updated in the year 2021, this report is intended to reassess the risks given the emerging threats and inherent risks. This is mainly because the AML/CFT Committee risk assessment working groups recommended it, citing the increase in technological advancements and the development of new products and services across the assessed sectors.

6. Overall, the report provides an analysis of the national risks and vulnerabilities related to ML, TF and PF risks and the associated criminal activities. Such an assessment is a result of utilizing the World Bank tool which aids in the identification of the threats and vulnerabilities of the assessed sectors. The report also outlines the methodology used to assess these risks and examines the national ML risk landscape and identifies the key sources and methods of ML, TF and PF activity.

7. The threat assessment takes into account the identification of threats considering the geographical feature of the Kingdom of Bahrain. As such, the vulnerabilities in the assessed sectors, namely financial services, VASPs and DNFBPs, are assessed to determine the level of risks in the context of the identified threats. More specifically, the assessment included a review on the existing AML/CFT/CPF controls adopted by the different supervisory bodies.

National Cooperation and Coordination

8. In compliance with Bahrain's commitment to international standards and best practices in Anti-Money Laundering (AML), Countering the Financing of Terrorism (CFT) and Countering Proliferation Financing (CPF), the AML/CFT Committee is established under the Ministerial Order (116) of 2023, and composed of representatives from various government agencies, including regulators, law enforcement agencies and other relevant competent authorities. One of the strategic objectives and primary responsibilities of the Committee is to assess the Kingdom's risks and vulnerabilities arising from its national, regional and international context, and monitor advancements in the effectiveness of Kingdom's risk-based approach to AML/CFT/CPF and the application of a risk-based approach (RBA) to ensure that measures are being enforced to prevent or mitigate money laundering and terrorist financing are commensurate with the risks identified.

9. The Financial Intelligence National Centre, represented by the Director of Evaluation and Follow-up Directorate, has been appointed as the secretary of the Committee, and is responsible for following-up on the progress of the Committee and liaising with the Working Group to ensure adequate coordination and progress.

Key Findings

10. The following table illustrates the identified overall risks of each sector:

SECTOR	OVERALL RISK
Financial Institutions	
Retail Banks	*MEDIUM HIGH*
Wholesale Banks	*MEDIUM HIGH*
Money Changers	*MEDIUM HIGH*
Virtual Assets Service Providers/ Crypto currency Exchanges	*MEDIUM HIGH*
Ancillary Service Providers	*MEDIUM*
Financing/Micro-financing Companies	*MEDIUM LOW*
Insurance	*LOW*
Investment Business Firms	*LOW*
DNFBPs	
Lawyers	*MEDIUM*
DPMS	*MEDIUM LOW*
Real Estate Agents	*MEDIUM LOW*
Accountants and Auditors	*LOW*
Notaries	*LOW*
Trust Service Providers	*LOW*

11. Assessment of the ML threats in Bahrain revealed that during the sample period, the most prominent proceeds-generating predicate offences that pose ML threats were "drug trafficking" and "fraud". Ultimately, a targeted risk-based national strategy was developed to address the NRA's findings.

12. With strong high-level commitment, Bahrain will persist in improving its AML/CFT/CPF framework, concentrating on the priority issues identified through the risk assessment. In summary, the measures implemented by the Kingdom of Bahrain have strengthened the legal and operational framework for combating ML/TF/PF. This initiative is backed by significant political support and careful oversight from the Cabinet of Ministers, guided by the leadership of the Ministry of Interior and aligned with Bahrain’s National Roadmap.

Geographical Background

13. The Kingdom of Bahrain, an island nation in the Arabian Gulf, is situated off the eastern coast of Saudi Arabia. The Kingdom of Bahrain is an archipelago consisting of a main island and 36 smaller islands, with a total surface area of 765 sq.km. It is located in the central part of the Arabian Gulf, with Saudi Arabia to the west and Qatar to the southeast. The main island, which compromises approximately 91.3% of the total surface area, is connected to Saudi Arabia's mainland through a 25 km causeway.

14. As of 2024, the country's population is estimated at 1.59 million, with males representing 58% and females 42% of the population, making it the smallest by population compared to other Gulf countries in the region.

Economical Background and Financial Inclusion

15. The country enjoys a strong, diverse, and competitive economy which constantly promotes business growth. The Kingdom's economy is the most diversified in the GCC region with a higher contribution of non-oil sector contributing to the GDP.

16. Bahrain's economy historically depended heavily on oil and gas. Although it was one of the first countries in the Gulf to discover oil, its reserves are not as large as those of its neighbours. Nonetheless, oil still plays a significant role in the economy.

17. In recent years, Bahrain has made significant efforts to diversify its economy. The government has invested in financial services, tourism, and real estate, which resulted in the Kingdom having a robust financial sector.

18. By investing in the fintech and digital payment infrastructure, the Kingdom has made significant steps in expanding access to financial services across all segments of society. Platforms such as "BenefitPay" have supported individuals and businesses transact with a simplified measures to be taken upon conducting transactions, offering secure, user-friendly, and widely accessible digital payment solutions. Bahrain has a highly tech-savvy population with high levels of mobile and broadband usage. This has supported the growth of digital financial services, and the support for SMEs and individuals to easily access the financial system. Moreover, Digital lending services have been launched, aiming to make loans more accessible to individuals for various needs.

Political Background

19. The Kingdom of Bahrain is a constitutional monarchy, comprising legislative, executive, and judicial authorities, with a democratic system of government. The Kingdom adopted its constitution in February 2002. Bahrain has a bicameral legislature consisting of the Shura Council (appointed) and the Council of Representatives (elected). The political system includes elements of both monarchy and parliamentary governance.

20. The government of Bahrain has dedicated substantial efforts to enhance its legal and institutional framework in order to mitigate ML/TF/PF risks in the country.

METHODOLOGY

21. Multiple resources were used to conduct this NRA. Resources including, but not limited to, the National ML/TF Risk Assessment tool, consultation with the public and private sectors of the Kingdom of Bahrain, and FATF guidance. The risk assessment toolkit utilized for this NRA self-assessment has been developed by the World Bank Group with the collaboration of other organizations including the United Nations Office on Drugs and Crime (UNODC).

22. The Kingdom of Bahrain utilized the Generic ML National Risk Assessment Tool for ML Risk (ML Threat and ML Vulnerability). The NRA ML Tool consists of seven modules that help in assessing the national money laundering risk and are closely interrelated.

    - Module 1: Threat Assessment
    - Module 2: National Vulnerability
    - Module 3: Banking Sector Vulnerability
    - Module 4: Securities Sector Vulnerability
    - Module 5: Insurance Sector Vulnerability
    - Module 6: Other Financial Institution's Vulnerability
    - Module 7: DNFBP Sectors Vulnerability

23. Additionally, Bahrain has also utilized the World Bank's newly developed tool to produce a separate inclusive toolkit (assessments):

    - Terrorist Financing Risk Assessment Tool;
    - Legal Persons and Arrangement ML Risk Assessment Tool;
    - Non-Profit Organizations TF Risk Assessment Tool; and
    - Virtual Assets and Virtual Asset Service Providers ML/TF Risk Assessment Tool

Terminology

24. For the purpose of assessing ML/TF/PF risk at the national level, this assessment report uses the following key concepts:

Risks	Includes three factors: threat, vulnerability and consequence. An ML/TF risk assessment is a process that attempts to identify, analyze and understand ML/TF risks and serves as a first step in addressing them. Ideally, a risk assessment involves making judgments about threats, vulnerabilities and consequences.
Threats	• Potential harm caused to for example, the state, society, the economy, etc. by a person or group of people, object or activity. In the ML/TF context this includes criminals, terrorist groups, their facilitators, their funds, as well as past, present and future ML or TF activities. Threat serves as an essential starting point in understanding of ML/TF risk.
Vulnerabilities	• The state of being exposed to the possibility of harm from threat. In this context, looking at vulnerabilities as distinct from threat means focusing on factors that represent weaknesses in things, including but not limited to, systems, processes, or controls in place in a country.
Consequence	• Refers to the impact or harm that ML or TF may cause and includes the effect of the underlying criminal and terrorist activity on financial systems and institutions, as well as the economy and society more generally. The consequences of ML or TF may be short or long term in nature and may also relate to populations, specific communities, the business environment, national or international interests, as well as the reputation and attractiveness of a country's financial sector.

25. The above key concepts and terminology have been used in this assessment, however, the 'consequences' assessment has been considered during the analysis of threats and vulnerabilities to elaborate on the impact or harm that ML/TF/ PF may cause.

26. The overall national ML risk is categorized on a scale of low, medium low, medium, medium high and high. The national vulnerability to ML, such as national deficiencies and vulnerability score, which ranges from 0.0 to 1.0, and corresponds to one of five levels ranging from “low” to “high”.

27. The result of threat and vulnerability assessment is a risk map which can be used to determine the final risk level of the country as shown in Figure below.

Overall Money Laundering Risk in a Jurisdiction

Overall Threat					
H	M	M	MH	H	H
MH	M	M	MH	MH	H
M	ML	M	M	MH	MH
ML	ML	ML	M	M	M
L	L	ML	ML	M	M
	L	ML	M	MH	H

Overall Vulnerability

28. As shown above, the overall ML risk level is set at the level where the results of the threat assessment and the vulnerability assessment intersect.

Team Composition and Private Sector Engagement

29. The AML/CFT Committee established the NRA working groups which were mandated to undertake the Kingdom’s NRA and develop a strategic action plan in accordance with the Ministerial Order (116) of 2023. Both working groups which include the National Risk Assessment (Money Laundering Risks) Working Group and the National Risk Assessment (Terrorist Financing and Proliferation Financing Risks) Working Group, are responsible for conducting a comprehensive and risk-based assessment of ML, TF and PF risks in the Kingdom of Bahrain. The working groups are structured with co-chairs, members, and representatives from relevant authorities and were mandated to conduct comprehensive assessments of ML/TF/PF risks. In collaboration and coordination with the National AML/CFT/CPF Statistics Working Group, which is responsible for developing and implementing a national strategy for collecting, analysing, recording, reciprocating mechanism and reporting of AML/CFT/CPF statistics.

Public Private Partnerships

30. The AML/CFT Committee Secretariat led the NRA process. Representatives from relevant competent authorities, as well as the private sector and the non-profit organizations (NPOs), have participated in the risk assessment process.

31. As part of ensuring a comprehensive assessment of the ML, TF and PF risks, the process of the NRA included roundtable discussions with members of the private sectors, supervisors and the AML/CFT Committee. The aim of the roundtable discussions is to gain insights into the main threats, vulnerabilities and risks of the sectors. The roundtable discussion also serves as an opportunity to share field knowledge regarding challenges faced by private sectors and supervisors and provide feedback regarding existing laws, regulations, and implementation.

32. In addition, risk questionnaires were circulated to private sectors to gather information, both quantitative and qualitative, to aid in comprehensive assessments of the ML, TF and PF risks. Feedback on the questionnaires was used to inform the assessment results.

NRA Process

33. The process of a risk assessment can be structured into a series of activities or stages. The Kingdom of Bahrain's NRA process is divided into three stages.

Preparation Stage

This stage primarily focuses on the consolidation of the qualitative and quantitative collected data which is derevied from the relevant authorities. The data collected was based on questionnaires prepared by the AML/CFT Committee. In addition, this stage included bilateral meetings with the relevant AML/CFT/CPF stakeholders including the private sector.

Assessment Stage

The second stage of the NRA is the assessment and analysis phase of the risk factors. Gathered qualitative and quantitative information and data were analyzed by the NRA working groups to identify the risks in the sectors. The overall risks were determined using the World Bank tool. The input variables are weighted based on their signifcance and vulnerability level, area, product, etc.

Finalization Stage

The third and final stage of the NRA is the finalization stage, which focuses on the review of the final risk assessment results and designing a risk-based action plan to address the weaknesses and gaps identified. Accordingly, the identified priorities contribute to the development of a national strategy for their mitigation.

Section One:
Money Laundering Risk Assessment

SECTION 1: MONEY LAUNDERING RISK ASSESSMENT

Legal Persons and Arrangements ML Risk Assessment

Overview – Risk and Context

34. Companies and other legal structures are inherently associated with significant ML and TF risks primarily from the ability to conceal the identities of individuals within the ownership structure that are engaged in illicit activities given their direct access to the global financial system.

35. The Kingdom of Bahrain provides various types of legal persons which are governed by specific regulations issued by supervisors. Primarily, legal persons for business purposes are governed by the Commercial Companies Law (Decree No. 21 of 2001) and are supervised by the Ministry of Industry and Commerce (MOIC). The non-governmental organizations are supervised by the Ministry of Social Development (MOSD) and are governed by the NPO Law (Decree No.21 of 1989).

36. Trusts are all registered with the Central Bank of Bahrain (CBB) and are subject to the Trust Law (Decree No. 23 of 2006). The CBB supervises the financial sector, including trust service providers (TSPs), and has strong controls to prevent criminals from beneficially owning a significant or controlling interest or holding a management function. Regarding other legal arrangements, Bahrain has waqfs, which are an Islamic type of legal arrangement where property or money can be kept in favor of (endowed to) the public or a particular individual, for a permanent period (normally a lifetime). It is regulated by Shari'a and supervised by the Ministry of Justice, Islamic Affairs & Waqf's (MOJ), based on MO *No. (3) of 2017* which includes the procedures for waqf creation.

37. The CBB issued directives to establish economic substance requirements for regulated financial activities, and the MOIC issued the Ministerial resolution (106) of 2018 to set economic substance requirements for commercial activities. These directives and the Ministerial Order require covered Bahraini entities (Corporations, Branches, Partnerships etc.) that carry out certain activities, as have been covered under the Economic Substance Regulation (ESR) law, to maintain, demonstrate and report on adequate "economic presence" in Bahrain. It also ensures that all registered commercial companies must have a real and effective economic substance in order to avoid establishing these companies as an umbrella for tax evasion or transfer of profits or illegal movements of funds. These requirements mitigate, to a great extent, the risk of shell companies.

38. The Kingdom of Bahrain possesses several features that make it attractive for non-residents to form an entity in the jurisdiction, such as its location, ease of doing business, and 100% foreign ownership appealing for setting up regional headquarters, branches, or subsidiaries, and the absence of corporate and personal income taxes (for most sectors). Nevertheless, legal structures are unattractive to perpetrators for ML given the stringent disclosure requirements. This extends to include mandatory local registration and natural person representative requirements which subsequently limit their attractiveness to criminals, including non-residents, by ensuring transparency and accountability. The requirements are similar to all legal structure types and operational activities.

Methodology

39. The World Bank tool (Legal Persons and Arrangements ML Risk Assessment Tool 2022) has been utilized to ensure comprehensive coverage of both entity-specific risks and broader ML threats from legal structures. It involved a structured approach that integrated the Legal Persons (LP) risk assessment with the National ML risk assessment. The approach used was a step-by-step integration process:

    - Mapping/identifying of Legal Structures (Step 1): Mapping out all types of legal persons and arrangements in the jurisdiction. This includes companies, trusts, partnerships, and other legal entities. Categorize Entities: Classify these entities based on their characteristics, ownership structures, and the sectors they operate in.
    - Threat Assessment (Money Laundering) (Step 2)
    - Entity Risk Assessment (Step 3)
    - National Vulnerability Assessment (Step 4)

Basic & Beneficial Ownership Information

40. Information on the creation and types of legal persons, such as companies, is publicly available. It is stipulated in the Commercial Companies Law and in the Sijilat system, which is the online central register for companies in Bahrain. All legal persons are required to obtain a Commercial Registration (CR) from the MOIC, moreover, they are obligated to inform the MOIC regarding any changes in basic information. The CR certificate includes the following information and is publicly available through the central registry system Sijilat and consists of:

    - Commercial Registration number and establishment date.
    - Name of the legal representative of the establishment.
    - The legal form of the establishment.
    - Commercial name of the establishment.
    - Registration expiry date.
    - Activity/Business License (once the necessary approvals/licenses have been obtained).

41. The Sijilat portal is also utilized by the competent authorities, through direct access to essential business information, licensing details, and compliance records to ensure proper oversight and enforcement of regulations across various sectors.

42. Regarding beneficial ownership information, Bahrain follows a multi-pronged approach that ensures BO information can be accessed and determined in a timely manner by competent authorities through MOIC’s Sijilat UBO portal and by using a company approach where companies are required to obtain and hold adequate, accurate and up-to-date information on the company’s own beneficial ownership, and cooperate with competent authorities to the fullest extent possible to make information available in order to determine the beneficial owner. UBO information is also available through others sources; including FIs and DNFBPs, to provide accurate and up-to-date information on the company's beneficial ownership.

43. MOIC has issued a Ministerial resolution (83) of 2020 regarding criteria, conditions and rules governing the disclosure of Ultimate Beneficial Owner (UBO) and is applicable to all registered structures. The Ministerial decision, as well as all other relevant laws and regulations has provided a clear definition of the ultimate beneficiary in line with the FATF definition of BO. The MOIC has solid controls to prevent criminal ownership and control of its supervised entities. Overall, all types of legal persons are required to inform MOIC about the ultimate beneficial owner information at the time of licensing/registering as stipulated in the ministerial resolution (83) of 2020. Subsequently, whenever changes in BO information occurs, companies have an obligation to disclose these changes.

44. Sanctions are enforced for submitting false BO information and failure to report or update BO information can result in administrative fines reaching up to 50,000 BHD, in accordance with Article 7 from the Ministerial Resolution (83) of 2020. Nominee shares and nominee directors, including the issuance of bearer shares, are restricted in Bahrain.

Foreign Legal Structures

45. Number of legal persons registered and/or created owned or controlled by non-residents in Bahrain is expanding. This signifies the increase in the attractiveness for foreigners to form companies in the Kingdom. Nonetheless, the Kingdom of Bahrain does not allow a foreign bearer share entity to operate or own assets.

46. The MOIC has the authority to request financial reports from foreign companies in order to trace any changes in ownership and to ensure BO information is available. All documents, including identity of foreign investors, must be apostilled prior to submitting registration application.

47. Bahrain is active in international co-operation, and exchanges useful UBO information with foreign counterparts, which also mitigates the cross-border risks of misusing foreign legal structures.

Legal Persons

48. In line with FATF's recommendation 24, basic information on companies is available, recorded, and made available to the public. Sijilat, is Bahrain's official commercial registration portal, designed to streamline business registration and regulatory processes. The platform provides a centralized database that enhances transparency, facilitates compliance with legal requirements, and enables real-time monitoring of commercial activities.

Threat Assessment

49. The WB tool has assisted in rating the level of abuse of legal persons for money laundering based on law enforcement data and level of abuse based on threat perceptions and open sources. The law enforcement data analysed concern Suspicious Activity Reports/Suspicious Transaction Reports, criminal convictions, and other data. All variables for the indicator based on enforcement data rely on quantitative data concerning the level of detected cases where legal structures were used for ML purposes to support the ratings. The level of ML abuse based on threat perception and open sources was calculated based on credible open sources and public/private sector experts.

50. There was a number of Mutual Legal Assistance requests were sent/received by competent authorities related to ML involving legal persons within the Kingdom. However, given the robust ultimate beneficial owner requirements, demonstrated in the legal framework and in the Sijilat system, relevant authorities are able to identify the ultimate natural persons exploiting such legal structures.

51. Supervisory authorities, FIs, and DNFBPs submit their STRs to the Financial Intelligence National Center (FINC) whenever they find out suspicious activities relating to legal entities. These include individuals exploiting the operations of the legal persons in ML. The findings of the threat assessment revealed that the level of threat is categorized as **medium**.

National Vulnerability

52. A review and analysis were conducted of the vulnerabilities and available mitigatory controls on legal structures. The national vulnerability assessment consists of two elements: (1) an assessment of the attractiveness of the country as an international center for formation or registration of legal structures for non-residents – that is, "Attractiveness for Non-Resident Incorporation" (ANRI); and (2) an assessment of the strength of the Kingdom's mitigation measures to address risks of illicit abuse of legal structures.

53. The ANRI score is a measure of a country's general attractiveness as a formation or incorporation center for non-residents, considering different types of legal structures – companies, partnerships, foundations, and others. The score includes features related to the legal, institutional, economic, regulatory, and political frameworks that impact its attractiveness for the provision of company formation services (and related professional services) to non-resident individuals and non-resident legal entities. The ANRI score was reached by a partaking of competent authorities such as the National Bureau for Revenue (NBR) and the (CBB).

54. The ratings of the given input variables for the ANRI score were reached to a medium level of attractiveness which implies features for bona fide business investments and may also suggest an increase its attractiveness to illicit actors seeking to form legal structures to hide or invest proceeds of crime. Nonetheless, a high level of attractiveness as a location for forming legal structures does not directly translate into a higher level of risk of abuse, but it can mean that stronger mitigation measures are needed when compared to a jurisdiction with a lower attractiveness level (that is, with a low ANRI score).

55. Subsequently, the strength of the country's existing mitigation measures against abuse of legal persons has been determined by intermediate variables and indicators such as, quality of corporate registry, accessibility of BO information, verification mechanism, enforcement of sanctions against violations of BO reporting rules, and controls against opaque structures. When assessing the quality of the national registry (Sijilat) in Bahrain, there is close to comprehensive coverage of all legal entities registered, and the level of accurate and up-to-date basic company information available in the national registry is high, online access to basic company information exists free of charge. LEAs have direct access to beneficial ownership information.

56. Overall, all legal persons in Bahrain are subject to transparency requirements that includes the appointment of a natural person as the ultimate beneficial owner and there is an obligation to update the ultimate beneficial owner (UBO). In addition, discrepancies are being traced, and appropriate actions being taken.

57. The score for strength of mitigation measures was combined with the ANRI score to reach the national vulnerability level generated by the WB tool is of medium level. Accordingly, the ML vulnerabilities associated with legal persons are determined to be **medium**.

Overall Risks

58. The tool calculated a threat score, indicating a medium level of threat, which is supported by some identified misuse of legal entities in the STRs submitted particularly from MOIC. The national vulnerability score is also categorised as medium. This is a combination of a high Attractiveness for Non-Resident Incorporation (ANRI) score and the strength of the country's mitigation measures. While Bahrain has strong mitigation measures in place, such as comprehensive beneficial ownership requirements, a high-quality corporate registry, and robust enforcement actions, the overall risk is determined to be **medium**.

Legal Arrangements

Trusts

59. All trusts within the Kingdom of Bahrain are provided services by Trust Service Providers (TSPs) licensed by the CBB. Trusts are required to register through a TSP within the CBB's trust registry office. A trust is only valid if it is created by virtue of a notarized trust Instrument signed by both the Settlor and Trustee, or by the Settlor alone where the trust is created by a Unilateral Declaration of Trust. Trust instruments are notarized at a branch office within CBB's headquarters. All details of settlers and beneficiaries are included within the trust instrument and any changes to this information must also be submitted to the CBB. TSPs offer a wide variety of services to trusts, including the creation and management of trust structures for asset protection, estate management, management of shares and accounting services.

Threat Assessment

60. It is recognised that the use of trusts in ownership and control structures that provide for the separation of legal ownership from beneficial ownership, and often having low transparency of ownership and control, is considered a typology used to obscure the ultimate beneficial owner, hence is deemed to be a threat to ML.

61. Nonetheless, law enforcement data revealed that a trivial number of STRs were identified related to trusts during the assessment period, indicating a low level of engagement in suspicious behaviour. In addition, no reported cases of domestic abuse were identified in the sample period. Therefore, the ML threats associated with the sector are determined to be **low**.

National Vulnerability

62. Regarding mitigation measures, the CBB has high quality of regulation and supervision of TSPs given its clear procedures and strong controls to enhance the quality of AML regulation of TSPs. Risks related to ownership structures are mitigated given that beneficial ownership and beneficiary disclosure requirements are in place and are available to TSPs and are supervised by the CBB. The risks in terms of size are minimal given that the total number of trusts within Bahrain is relatively small.

63. The world bank tool's analysis reveal that cross border risk exposure is limited and is considered low given that the primary location of the trusts' business operations and ownership structures are domestic. In addition, based on available data, the risk of exposure to jurisdictions of origin for proceeds of crime is low. As such, the vulnerabilities associated with trusts are categorized as **low**.

Overall Risks

64. A low threat assessment is determined by the minimal number of (STRs) and the absence of identified domestic abuse cases during the assessment period. The limited scale of misuse is attributed to effective supervisory controls and the small size of the trust sector within the jurisdiction. National vulnerability is also categorized as low, a conclusion supported by the presence of robust mitigation measures. These include the high-quality regulation and supervision of Trust Service Providers (TSPs) by the CBB, which enforces stringent procedures and controls. Furthermore, risks are contained through mandatory beneficial ownership and beneficiary disclosure requirements, the small number of active trusts, and a low cross-border risk exposure, as the majority of trusts have domestic operations and ownership structures. Accordingly, the overall money laundering (ML) risk associated with trusts is assessed as **low**.

Waqfs

65. Waqfs are legal arrangements where property or money can be kept in favour of (endowed to) the public or a particular individual, for a permanent period (normally a lifetime) and no ownership changes. Generally, waqfs can be perceived as religious funds donated for public use, usually used in jurisdictions that apply Islamic law. There are three types of waqf in Bahrain, depending on how the waqf is created. The waqf councils execute the terms of the waqf, together with the administrator of the waqf (*Nather*).

66. All waqfs in the Kingdom of Bahrain are governed by *Shari'a* and are supervised by the Ministry of Justice and Islamic Affairs and Waqf (MOJ) through *Ministerial Decision No. 3 of 2017* which includes the procedures for waqf creation. MOJ ensures that waqf properties and assets are identified, managed and are in line with the intended purposes.

Threat Assessment

67. Waqfs are primarily used for charitable purposes in Bahrain. MOJ maintains robust rules and regulations for the establishment and management of waqfs going through in-depth due diligence. During the assessment period, no cases were reported regarding suspicions of the abuse of Waqfs in ML/TF. Therefore, the ML/TF threats associated with the sector are determined to be **low**.

National Vulnerability

68. To register waqfs, individuals are required to be registered through court and where the MOJ oversees the assets under management. All parties in the establishment and registration phase shall be known and ultimate beneficiaries are disclosed. More importantly, MOJ ensures that the proceeds from waqfs are used effectively as mentioned in initial purpose, which includes public benefit including education, healthcare, religious institutions, and social services.

69. There is an agreement that mandates the administrator (*Nather*) to open a specific bank account for the waqf and submit biannual reports detailing all income and expenses, as well as an annual audited financial statement, to the waqf council. These measures are in place to secure the waqf's compliance with AML/CFT regulations and also to protect waqf's money as well.

70. The ML risks associated with the waqfs in Bahrain are mitigated by rigorous measures taken to ensure transparency of beneficial ownership information. The size of the sector is small and there is no exposure to cross-border transactions. Therefore, given that Waqfs in the Bahrain are well controlled and mainly used for charitable purposes and no cases were detected hence the low threat level and the vulnerability score categorized for the Waqf sector is **low**.

Overall Risks

71. Based on the assessment provided, the overall risk of waqfs being misused for ML/TF in Bahrain is **low**. The threat assessment is rated as low due to the complete absence of reported cases of waqf abuse for ML/TF, as confirmed by law enforcement agencies. This is further reinforced by the stringent supervision from the Ministry of Justice and Islamic Affairs, which governs all waqfs under Shari'a law and mandates in-depth due diligence. Similarly, the national vulnerability is also deemed low, due to several mitigating factors. These include mandatory court registration for waqfs, the requirement for full disclosure of ultimate beneficiaries, and the small size of the sector. The administrator's obligation to maintain a dedicated bank account and provide financial reports to the waqf council further strengthens these controls. Importantly, Waqf ownership cannot be changed. The combination of a low threat and low vulnerability results in a final overall risk score of **low**.

MONEY LAUNDERING THREAT ASSESSMENT AT A NATIONAL LEVEL

Threat Overview and Context

72. The Kingdom of Bahrain's regulatory authorities have kept pace with its fast-growing financial sector and other sectors with regards to digital transformation. The regulatory authorities have implemented measures to mitigate the risks of new and emerging technologies and to ensure a stable and secure financial environment.

73. Bahrain's AML/CFT framework is primarily governed by Law No. (4) of 2001. Recent amendments, including Law No. (25) of 2013, have strengthened this framework. To support this legal framework,

various ministerial orders and regulatory procedures have been issued to delegate and organize the implementation of AML/CFT measures.

Threat Objective

74. In accordance with the World Bank tool, consultation with the public and private sector, and FATF guidance, the Kingdom of Bahrain has conducted its second formal and comprehensive NRA. The Money Laundering threat assessment period covers the years from **2021-2024**.

75. The Threat Assessment helps determine the national money laundering “threat level”, which ranges from “low” to “high” on a five-point scale. In the Threat Assessment, the NRA Working Group aims to identify the main predicate offences, origins and flows of criminal proceeds, and money laundering techniques and trends in the Kingdom of Bahrain. The assessment also facilitates systematic analysis of cross-border money laundering threats.

76. The ML Threat Assessment will incorporate three fundamental aspects:

- Predicate Offence Assessment
- Sectoral Threat Assessment
- The Overall Threat Assessment

77. Nonetheless, the aim of this assessment is to systematically align the national (AML/CFT/CPF) strategy with a risk-based approach. This involves identifying, analysing, and assessing threats identified by relevant authorities to prioritize efforts accordingly.

PREDICATE OFFENCES THREAT ASSESSMENT

78. While the assessment has covered all levels of threats emanating from predicate offences, this document focuses mainly on predicate offenses that pose higher threats compared to others to provide a clearer understanding of the most pressing threats and their potential impact on the financial system.

79. Predicate offences relating to ML violations are defined as the offences of which proceeds are concealed into the financial system or through the acquisition of assets or any other act that is conducted with the intention of disguising the original source of those funds to reflect a legitimate source instead. ML is prohibited and prosecuted under the law in accordance with Law decree No. (4) for year 2001.

Predicate Offence Analysis

80. Given the diverse nature, sequence, and modus operandi of predicate offenses, it is essential to analyse trends and identify common methods used in their commission to effectively investigate, prosecute, and convict offenders.

81. Assessment of the ML threats in Bahrain reveal that during 2021-2024, the most prominent proceeds-generating predicate offences that pose ML threats were "drug trafficking" and "fraud".

82. The following table highlights predicate offences threat scores:

PREDICATE OFFENCES	**THREAT SCORES**
Drug Trafficking	*MEDIUM HIGH*
Fraud	*MEDIUM HIGH*
Corruption	*MEDIUM*
Immorality and Prostitution	*MEDIUM*
Cash Courier Violations/ False or Non-Disclosure	*MEDIUM*
Forgery	*MEDIUM LOW*
Human Trafficking	*LOW*
Breach of Trust	*LOW*
Theft	*LOW*
Tax Evasion	*LOW*

83. The purpose of this analysis is to identify the most prevalent predicate offences in the Kingdom, and to estimate the size of the proceeds generated by these crimes.

ML Threat – Drug Trafficking

Introduction

84. According to the National Committee for Combating Narcotic Drugs and Psychotropic Substances Crimes, drug trafficking within Bahrain is primarily carried out by small-scale traffickers rather than large criminal organizations with sustainable business models.

85. Drug traffickers are involved in all aspects of the drug trade, from smuggling to trafficking and trading. Despite their small-scale, drug traffickers still require attention, as they pose risks to society and may generate illicit proceeds that can enter the financial system. Addressing these risks involves close coordination between LEAs and supervisory authorities with the use of international cooperation, enhance border control measures and intelligence sharing.

Conclusion

86. The post- COVID-19 Pandemic had a significant impact on the sample period as the lift of extensive travel restrictions allowed drug traffickers to restore their efforts after being hampered by the travel restrictions. The renewed efforts by drug traffickers were associated with evolved methods to facilitate drug sales. Such methods relied heavily on emerging trends such as moving proceeds using

virtual assets and mule accounts which has led to an increase in the ML threat level. As such, drug trafficking is considered to pose a **medium-high** threat to Money Laundering.

Case Study No. 1 – ML using Virtual Assets Service Provider

In 2023, the Financial Intelligence National Center (FINC) disrupted a money laundering operation linked to drug trafficking and laundered via Virtual Asset Service Providers (VASPs).

CASE SPECIFICS: After receiving a Suspicious Transaction Report (STR), FINC initiated an investigation which revealed that Suspect A was operating a network from outside the jurisdiction. He hired associates who exploited an ancillary service provider application, due to its convenience and ease of use, to receive payments from buyers. The associates would provide their IBAN to the buyers, and once payment was received, the drugs would be placed at a hidden location and shared the coordinates with the buyer.

A detailed operational financial analysis conducted by FINC revealed that proceeds from the drug sales were transferred through the ancillary service provider application. Once received, Suspect B, who played a key role in the complex layering and laundering process, would release an equivalent value in virtual currency to the associate's wallet address via peer-to-peer (P2P) transactions, deducting his commission. The associates would then transfer the virtual currencies to Suspect A's wallet address via P2P, completing the laundering cycle.

OUTCOMES: After thorough investigation and legal proceedings, 22 individuals were found guilty.
The perpetrators were: -
Sentenced: 5-years of imprisonment and Fined: 100,000 BHD
Confiscated Proceeds: Nearly 12 million BHD
Deported: To be deported after their sentence

ML Threat – Fraud

Introduction

87. Fraud refers to instances in which a perpetrator collects funds from victims for the alleged purpose of investing those funds without gaining the required license. Without the knowledge of the victims, most perpetrators do not engage in any business investments and only intend on taking possession of their victim's funds.

Conclusion

88. The previous National Risk Assessment deemed the threat level of Fraud offences to be high to Money Laundering due to the amount of proceeds and the inclusion of sophisticated offenders capable of structuring and layering proceeds.

89. Coordinated & cooperation efforts by various law enforcement authorities under the Ministry of Interior proved to be effective, as authorities were able to curb the frequency of such crimes through the adoption of new technologies to aid in detection and successful awareness campaigns. Furthermore, the establishment of the National Cyber Security Center in 2020 also contributed

significantly to the efforts in mitigating fraud. It is in light of these factors that Fraud is deemed to pose a **medium-high** threat to Money Laundering.

Case Study No. 2 – Investment Fraud

In 2024, the FINC successfully disrupted an investment fraud operation led by Suspect A, purporting to be a legitimate investment company. Suspect A targeted individuals by offering opportunities to invest in sports memorabilia and other rare collectibles. Victims would invest in the high-value collectibles as they were promised substantial returns. Suspect A maintained custody of the items, explaining that several investors held stakes in the same items, due to their high value and the risk of damage.

CASE SPECIFICS: Suspect A, in association with Suspect B, who acted as a collecting agent, convinced victims to invest initial amounts in his business. After visiting the company's premises in a prominent area and observing its professional layout, the victims felt confident that it was legitimate. Over the following months, the suspect paid monthly returns in addition to the initial invested amounts, also providing access to a website developed by Suspect C, which showcases the items the victims were supposedly investing in, with their values, reflecting a continuous increase. Encouraged by these returns, the victims invested additional amounts. Suspect A was enabled to accumulate an estimated total of 4 million BHD. Subsequently, Suspect A failed to make the promised payments. When confronted, he delayed and, in some cases, provided what he claimed were rare items as a gesture for their assurance. Following the incidents, the victims filed official complaints.
FINC analysts performed a detailed operational financial analysis and established that to conceal his criminal activities, Suspect A employed Suspect D as a third-party launderer, facilitator, and advisor. Suspect D sought to legitimize the operation by incorporating certain assets into transactions, thereby creating the appearance of a lawful purpose for executing the contracts and receiving the funds. This arrangement enabled the laundering of an estimated 1,843,189 BHD through transfers to personal account and a corporate entity in which Suspect A was involved in, as well as salary and rental payments and the purchase of luxury vehicles. However, the profits and amounts stated were inconsistent with the terms of the executed contracts.

OUTCOMES: Following a successful prosecution, all suspects are to be deported upon completion of their sentences, which varied in length and fines.

Suspect A: sentenced to 8 years of imprisonment and fined 100,000 BHD
Confiscated amount of 3,371,250 BHD ordered by the court to be returned to the rightful owner

Suspect B: sentenced to 1 year of imprisonment and fined 5,000 BHD

Suspect C: sentenced to 1 year of imprisonment

Suspect D: sentenced to 5 years of imprisonment and fined 100,000 BHD

The Company: was fined 100,000 BHD

Foreign Predicate Offence

90. A type of money laundering involves laundering proceeds from predicate offenses committed outside the Kingdom. There have been instances of money laundering involving proceeds from foreign predicate offenses.

91. Bahrain's Financial Intelligence National Center, with the support of international cooperation have proven highly effective in identifying a case that involved illicit financial flows across multiple jurisdictions. These funds were transferred using trade-based methods through financial institutions in the Kingdom. The Kingdom was successful in dismantling a major international Hawala network, thereby disrupting attempts to exploit its financial system as a conduit for illicit funds originating from foreign predicate offences. This case demonstrates the Kingdom's ability to identify, analyse, and dismantle complex financial crime networks through accurate analysis of suspicious activity, and the investigation led to positive prosecution following a successful conviction and the confiscation of illicit proceeds of crime.

92. Based on the risk analysis, money laundering related to foreign predicate offenses presents a **medium** threat. A justification to such assessment is that there have been complex cases that involve cross-border transactions and officials from foreign jurisdictions being involved during the sample period.

Case Study No. 3 – Trade-Based ML using Money or Value Transfer Services

In early 2023, the FINC successfully investigated and disrupted a significant transnational money laundering network originating from the Kingdom of Bahrain. The network utilized money or value transfer services to facilitate illicit financial flows across multiple jurisdictions. Suspicious Transaction Reports (STRs) analysis identified unusual cash deposits and international transfers lacking supporting documentation, FINC uncovered a sophisticated trade-based money laundering operation.

CASE SPECIFICS: Two expatriates based in Bahrain were the primary actors in this transnational money laundering network. They employed a sophisticated network of companies and money lenders to facilitate the illegal movement of illicit funds. By leveraging the informal characteristics of MVTS, Suspect A and Suspect B were able to bypass traditional banking channels and regulatory oversight.
To enhance its understanding of the suspicious transfers of funds, FINC initiated international cooperation with five FIUs to investigate the beneficiary companies in their respective jurisdictions. Counterpart FIUs provided essential information, revealing that many of these companies had been previously identified in STRs as potential subjects of money laundering. As the Suspects were exploiting their company to conduct transfers to companies abroad, international cooperation was pivotal in understanding the nature of the transfers. FINC, through Egmont Secure Web (ESW), engaged with FIUs of four countries concerning the companies in their jurisdictions. Some companies were revealed to have had a history of sales and purchases with the Suspect's company in Bahrain.

OUTCOMES: FINC's investigation led to the conclusion that the financial activities of the suspects and their company were highly suspicious. As a result, the suspects were summoned for questioning. During the interrogation, one of the suspects confessed to operating an illegal funds transfer network on behalf of an accomplice (Suspect C) from their home country. The suspects also disclosed that Suspect C and their clients were of the same nationality. The evidence collected during the investigative process, comprising the analysis conducted by FINC analysts and the confessions of Suspect A and Suspect B, was compiled into a detailed case file. This case file was subsequently submitted to the Public Prosecution's Office (PPO) for prosecution.

- Suspect A and Suspect B were sentenced to a 3-year prison sentence and a fine of 100,000 BHD.
- The company was sentenced to fine of 100,000 BHD.
- A total of 7 million BHD was seized from the Suspects and the company's assets.

The successful dismantling of this network represents a significant achievement for FINC. Such underground networks facilitate illicit financial flows and pose a significant threat to the integrity of the Kingdom's financial system. This case demonstrates FINC's ability to identify, analyse, and dismantle complex financial crime networks through accurate analysis of suspicious activity and effective international cooperation.

Sectoral Threat Assessment

93. This section of the report reflects the ratings and assessments of the domestic ML threats per sector/subsector. The ratings were given based on the size of each sector/subsector, the number of STRs reported, the total detected amounts of proceeds in each case, and the number of STRs for each sector that has been violated from the total number of STRs reported. Subsequently, a sectoral analysis is provided to illustrate the given findings of ML acts and the abuse of sectors. By analysing this data, an overall evaluation of the domestic money laundering threats for each sector can be made.

94. Subsectors like Money Changers, financing companies, ancillary services and VASPs. In most cases, money service businesses were the second target for money laundering attempts. Criminals, primarily non-Bahraini individuals, often use these businesses to send illicit funds to their associates abroad. These threats and vulnerabilities will be elaborated on and expanded in the sectoral analysis below.

95. The number of STRs is growing annually for both financial institutions and DNFBPs. Quantity and quality are both significant factors in STR reporting. The quality of STRs has also increased due to ongoing communication, outreach, and discussions with the reporting entities.

96. Financial Institutions were abused by drug traffickers, with the banking sector being abused for committed ML acts, followed by money service businesses and virtual assets as sectors abused for ML by drug trafficking offenders.

International Money Laundering Threat

97. The Economic Vision 2030 launched in 2008 by His Majesty King Hamad bin Isa Al Khalifa, is a comprehensive economic vision for Bahrain, providing a clear direction for the continued development of the Kingdom's economy and, at its heart, is a shared goal of building a better life for every Bahraini citizen, as well as for residents of the Kingdom. The vision entails policies in favor of lowering market entry requirements as an effort to attract foreign direct investments to the Kingdom.

98. The geographical and strategic location of Bahrain, as well as many of its economic and political factors, contributed to the Kingdom's integral role in regional economics. Financial services are the highest contributor to the regional economy. Given its geographical position and the several free

trade agreements, a large population of expatriates are residents in the Kingdom. These two factors contribute to a large inflow and outflow of transactions through Bahrain's financial institution's sector. An analysis of the number of ML cases with international ML affiliations does not suggest any alterations to the International ML threats assessed in the prior NRA, nevertheless, the introduction of the crypto-currency brokerages (VASPs) in the sample period validates the following update.

Money Laundering Threat from Other Countries

99. Criminal activities originating in foreign jurisdictions can pose a significant threat to Bahrain's financial system when illicit proceeds are introduced into the global financial network. Given the interconnected nature of the global financial system, there is a high probability that these funds may eventually be transferred to financial institutions within the Kingdom. While banks implement robust preventive measures to mitigate these risks, international money laundering remains a threat.

100. Due to the diverse operational and legal frameworks, risk tolerances, and threat profiles of different sectors in Bahrain, it is crucial to assess each sector individually. This subsection will examine the specific ML threats facing key sectors in Bahrain and assign a threat rating to each, ultimately providing an overall assessment of international ML threats to the Kingdom's financial system.

SECTORAL ANALYSIS

101. During the assessment period, multiple money laundering cases were identified, involving various sectors, predicate offenses, and international connections. This highlights the significant global money laundering threats facing Bahrain. Given the diverse AML/CFT/CPF frameworks, risk tolerances, and threat levels across different sectors, it is crucial to evaluate each sector individually when assessing money laundering risks. This section will examine the specific money laundering threats to various sectors in Bahrain and assign a threat rating to each, providing an overall assessment of international money laundering risks within the country.

Financial Institutions

Retail Banks

Introduction

102. The retail banking sector in Bahrain remains a cornerstone of the financial system, characterized by diverse product offerings, an extensive customer base, and increasing adoption of digital banking solutions. Its role in supporting individuals, SMEs, and micro-enterprises makes it essential for fostering economic resilience and promoting financial inclusion.

103. Bahrain's retail banking sector currently comprises of locally incorporated banks and branches of foreign banks. Among these foreign banks are globally recognized institutions, underscoring Bahrain's international financial connectivity.

104. Based on supervisory assessments and NRA questionnaires, the retail banking sector faces inherent ML risks. These risks are driven by the cash-intensive nature of many products and services, increased reliance on digital banking channels, and the high volume of cross-border transactions.

Despite these vulnerabilities, the sector has implemented comprehensive measures to mitigate risks and enhance resilience.

<u>Overall Risks</u>

105. In the Kingdom of Bahrain, retail banks are subject to stringent regulatory requirements, with D-SIBs receiving enhanced scrutiny and ongoing monitoring to mitigate ML risks.

106. Conventional Retail Banks must comply with the provisions set out in the Financial Crime Module of Volume 1 of the CBB Rulebook, while Islamic Retail Banks are required to follow the requirements outlined in Volume 2 of the CBB Rulebook. These requirements encompass customer due diligence, enhanced due diligence, suspicious transactions reporting and sanction screening obligations.

107. The CBB has taken steps to mitigate the ML risks arising from the increased use of digital channels. The CBB introduced new requirements related to digital onboarding and non-face to face business using advanced technologies. Retail banks are required, but not limited to, in the adoption of advanced biometric systems and capture the geo-location of any customer using their services. Furthermore, Retail Banks are required to verify the information captured through legitimate sources. As an example, the CBB leads the country's digitalization efforts through circulating a circular mandating licensee to connect to the national EKYC platform.

108. The CBB adopts a risk-based approach to supervision, prioritizing resources based on the risk profile of licensees and sector type. Over the past four years, the CBB has conducted risk-based on-site examinations on retail banks.

109. To enhance industry practices and address recurring regulatory issues, the CBB organized round table discussions with the retail banking sector aiming at enhancing industry knowledge sharing typologies and addressing common concerns identified by Licensee.

110. Given the substantial ML threats faced by the sector, its vulnerabilities, and the effectiveness of its controls, the overall money laundering risk in the retail banking sector is classified as **<u>medium-high</u>**.

Wholesale Banks

<u>Introduction</u>

111. Bahrain's wholesale banking sector is a critical component of the country's financial system, serving as a core for corporate and institutional clients. The sector facilitates complex financial transactions that underpin regional and international trade, investment and economic growth.

112. The Wholesale Banking sector is a key pillar in the country's financial system and comprises of licensed banks, including Islamic wholesale banks.

113. Given their key role in the financial system, wholesale banks enable economic development and serve as a potential target for ML threats.

Overall Risks

114. The wholesale banking sector is subject to ML risks due to the nature of their business activities and their products. Large corporate customers might have complex ownership structures or utilize high risk products such as trade finance services and high value cross-border wire remittances.

115. Therefore, Conventional wholesale banks are required to comply with the provisions set out in the Financial Crime Module of Volume 1 of the CBB Rulebook. Similarly, Islamic wholesale banks are required to follow the requirements outlined in Volume 2 of the CBB Rulebook these provisions mitigates the risk of ML.

116. The CBB adopts a risk-based approach to supervision, prioritizing resources based on the risk profile of licensees and sector type. Over the past four years, the CBB conducted risk-based on-site examinations on wholesale banks to assess compliance with AML/CFT/CPF rules and regulations.

117. Based on the CBB risk-based supervision, institutions have implemented robust AML/CFT/CPF controls including comprehensive client onboarding procedures to mitigate risks associated with the non-resident client base and transaction monitoring systems to monitor high risk customer accounts.

118. Given the substantial ML threats faced by the sector, its vulnerabilities, and the effectiveness of its controls, the overall money laundering risk in the retail banking sector is classified as **medium-high**.

Money Changers

Introduction

119. Bahrain's active financial sector and its extensive international workforce create a natural and legitimate demand for high-volume foreign exchange and cross-border remittance services, a function primarily served by Money Changers.

120. Money changers provide a wide range of services, including foreign currency exchange, inward/outward remittance, online remittance and cross-border cash transactions. Money Changers also play a pivotal role within Bahrain's non-bank financial sector. The CBB is the sole regulator of financial institutions, including Money Changers, and has established a comprehensive regulatory framework to govern their activities.

121. The CBB's regulatory framework mandates robust customer due diligence measures for Money Changers and requires licensees to report suspicious transactions related to ML, TF and PF. In addition, all relevant staff members must undergo periodic AML/CFT/CPF assessments and training.

Overall Risks

122. In the Kingdom of Bahrain, Money Changers must be licensed by the CBB and are subject to AML/CFT/CPF rules and regulations. More specifically, Money Changers must comply with the provisions set out in Volume 5 of the Financial Crime Module of the CBB Rulebook, which outlines the regulatory requirements to combat ML, TF and PF.

123. The provisions outlined in Volume 5 of the FC Module include similar requirements to those outlined in the other volumes including CDD, STR reporting and Record Keeping Requirements.

124. During the past four years, the CBB has conducted risk-based on-site examinations on Money Changers, resulting in enforcement actions against licensees.

125. Following the issuance of the examination reports, all licensees were required to provide the CBB with a comprehensive action plan to address the violations noted during on-site examination reports. The action plans were assessed by the Compliance Directorate to ensure adequacy, comprehensiveness and timely remediation of regulatory observations.

126. Given the ML threats faced by the sector, its vulnerabilities and the strengths of its controls, the sector's overall ML risk is classified as **medium-high**.

Virtual Asset Service Providers

Introduction

127. The market for buying and selling of crypto-currencies has grown within the Kingdom of Bahrain in previous years, with companies registered and regulated as Crypto-Asset Service Providers (CASPs)[1]. Accordingly, licensed VASPs are obliged to comply with the Crypto-Asset (CRA) Module which aims at minimizing the risks associated, in particular, the risk of financial crime and illegal use of virtual assets, and the AML/CFT/CPF regulatory requirements specified within the AML Module of the CBB Rulebook.

128. VASPs are inherently exposed to ML/TF/PF risks due to the anonymous nature of crypto transactions, the speed and global reach of transfers, and use of privacy-enhancing tools that obscure transaction trails. VASPs as a sector demands heightened scrutiny and robust AML/CFT/CPF controls.

129. The CBB has conducted multiple thorough AML/CFT/CPF risk-based on-site examinations on VASPs. The aim of such examinations was to identify and mitigate any gaps and vulnerabilities in the institution's AML/CFT/CPF systems and controls.

130. It is important to note that none of the VASPs accept direct deposits of cash. All deposits must be conducted through banking channels.

131. VASPs are subject to enhanced supervisory scrutiny, including off-site and on-site examinations. The AML/CFT/CPF systems and controls of the examined institutions were found to be relatively sufficient with no alarming gaps identified. The CBB has fully incorporated the Travel Rule into its regulatory framework for VASPs. Under the AML Module of Volume 6, (AML-2A: Money Transfers and Accepted Crypto-Assets), VASPs are required to treat all crypto-asset transfers similar to cross-border transfers. Which includes obtaining comprehensive originator and beneficiary information such as full name, wallet identifiers and relevant identification details for every transfer. Furthermore, the CBB actively enforces compliance with travel rule requirements, including instances wherein VASPs

[1] The term 'Crypto-Asset (CRA)' and 'Crypto-Asset Service Providers (CASPs)' is used by the CBB on their rulebook module to refer to the terms 'Virtual Assets (VA)' and 'Virtual-Asset Service Providers (VASPs)' which is adopted in this report and in line with FATF glossary.

were examined and instances of non-compliance with such requirements resulted in regulatory actions.

Overall Risks

132. Although several vulnerabilities were identified with regards to crypto transfers, adequate risk mitigation measures are evident both at the FIs and regulatory levels. Adequate AML/CFT/CPF systems and controls have been put in place by both VASPs in the sector and the CBB, such as internal crypto-currency tracking tools used to monitor the regulated crypto-asset providers transactional behaviour, periodic and constant AML/CFT/CPF examinations and implementation and enforcement of the CRA Module and AML Modules.

133. Licensed VASPs are obliged to screen all customers against sanctions lists prior to accepting the customer and on an ongoing basis. VASPs have adopted both on-chain and off-chain screening and monitoring tools which identify and trigger suspicious wallet addresses. The wallet database includes wallets linked to, as an example, sanctioned individuals/entities and the dark web. Additionally, the CBB completed onsite/offsite examinations on the licensed VASPs during the sample period.

134. Overall, given the ML threats, vulnerabilities and controls implemented by VASPs the sector is assessed as having a **medium-high** risk of ML.

Case Study No. 4 – ML– Crypto

Since the inception of crypto-currency service providers in the Kingdom of Bahrain, an established virtual asset service provider sought to operate in the Kingdom. The Central Bank of Bahrain supervises the VASPs subsector by conducting strong oversight and close monitoring, especially during the sandbox stage. The CBB and MOIC require all their licensees (including Auditors and Accountants) to submit periodic audit reports (daily/monthly/quarterly) which detail all information contained in the financial statements.

CASE *SPECIFICS:* The case involves the company owner of an auditing firm who, in collusion with owners of several other institutions including the newly operational VASP, manipulated audit reports. This action was detected and reported to the Public Prosecution by the Ministry of Industry and Commerce due to violations of the law of prohibition of Combating Money Laundering and Terrorism Financing. Upon receiving the complaint, the Public Prosecution assigned law enforcement agencies to investigate the possibility of money laundering. The investigation revealed that the company owners involved in the fraudulent activities had previously been convicted in Bahrain for operating financial activities without a license. Further analysis uncovered that the subject of the investigation had concealed a significant amount of 8 million BHD from the financial reports. To obscure the true financial picture, the subject had instead reported a drastically reduced figure of 35,000 BHD.

OUTCOMES: This deliberate concealment of substantial funds raises serious concerns regarding potential money laundering activities. The case underscores the importance of rigorous financial reporting and the need for effective oversight to prevent financial crimes. Following a thorough investigation and legal proceedings, the individual was found guilty and sentenced to a 3-year prison. Upon completion of the sentence, the individual will be deported from the country.

Ancillary Service Providers and Payment Service Providers

Introduction

135. The Kingdom of Bahrain has financial institutions categorized as Ancillary Service Providers (ASPs), with the sector being dominated by only a few major players. This represents only a small share of the financial sector in the Kingdom, with a relatively minimal amount of funds flowing through such institutions.

136. ASPs and Payment Service Providers (PSPs) both operate under the same ASP type issued by the CBB. However, they have distinct business activities.

137. ASPs are institutions that provide services complementary to the financial sector but are not directly involved in transferring funds. ASPs provide services such as third-party administration, compliance services, data-processing services, or a local service or management office.

138. Payment Service Providers are institutions that facilitate the transfer of funds between parties including customers, business, and banks. These institutions enable businesses to accept a wide range of payment methods including credit cards, debit cards, digital wallets and bank transfers.

139. PSPs provide financial services such as managing client money accounts for cash deposits, withdrawals and related operations. PSPs also integrate customer delivery channels (e.g. ATMs, POS, mobile) to facilitate transactions and interface with external networks (e.g. Benefit Company, VISA, Mastercard) for seamless transactions exchange.

140. Clients of PSPs are primarily corporates/organizations which include government agencies, licensed banks, and telecommunication companies. Some of the services provided by PSPs include, for example, payment processing for banks, bill-based businesses and government agencies. In this context, the KYC measures are conducted on customers for whom the PSPs collect payments on their behalf (i.e. telecommunication companies).

141. Overall, given the business nature, level of risk exposure, and robust measures in place, the payment service providers are identified as having a relatively lower risk of exploitation for money laundering than other financial sectors.

Overall Risks

142. ASPs operating in Bahrain are required to implement CDD and EDD requirements as outlined in the FC Module of Volume 5 of the CBB Rulebook. In addition, Payment Service Providers must implement risk-based transaction monitoring systems to identify unusual or abnormal customer activity.

143. The CBB adopts a risk-based approach to supervision, prioritizing resources based on the risk profile of licensees and sector type. During the past four years, the CBB has conducted several risk-based examinations on ASPs.

144. Given the ML threats faced by the sector, its vulnerabilities and the strengths of its controls, the sector's overall ML risk is classified as **medium** risk.

Financing and Micro-Financing Sector

Introduction

145. The Financing and Micro-Financing sector in Bahrain is part of a growing market aimed at improving financial inclusion and supporting small and medium enterprises (SMEs). The CBB licenses several financing companies and micro-financing institutions under its regulatory framework. These entities operate within Bahrain's financial ecosystem, providing both traditional and innovative financing solutions, including consumer loans and microloans targeted at individuals and small businesses.

146. The CBB has introduced several regulatory updates and initiatives related to financing and microfinancing companies to align with market dynamics and technological advancements and govern their operations. In February 2022, the CBB made amendments to the CBB Rulebook Volume 5 (Type 3: Financing Companies), to cover within its scope innovative business models using digital technology and platforms to provide small value consumer loans for small and medium enterprises and individuals. The amendments will help facilitate the entry of new companies into the market such as online platforms that provide short-term financing “Buy Now, Pay Later” (BNPL).

147. Regulatory improvements by the CBB have mitigated the risks associated with financing and micro-financing companies. These measures have strengthened oversight mechanisms and compliance frameworks, resulting in improved risk management practices within the sector. However, due to their cash-intensive operations, these companies remain inherently vulnerable to exploitation for ML activities. The sector is assessed as medium-low risk, acknowledging residual vulnerabilities that require ongoing vigilance and strong anti-money laundering measures to address.

Overall risks

148. Financing and Micro-Financing companies operating in the Kingdom of Bahrain are subject to various regulatory restrictions that reduce their exposure to ML risks. These institutions are prohibited from accepting deposits from customers, as such their funding sources are limited to the capital provided by shareholders.

149. In addition, the scope of operations for these institutions are limited to Bahraini nationals or expatriate’s resident in the Kingdom of Bahrain. Micro-Finance companies are also subject to caps on the credit facilities they can extend per eligible client and to a maximum payment term.

150. Financing and Micro financing companies must comply with the provisions set out in Volume 5 of the Financial Crime Module of the CBB Rulebook, which outlines the regulatory requirements to combat money laundering, terrorist financing and proliferation financing.

151. The CBB adopts a risk-based approach to supervision, prioritizing resources based on the risk profile of licensees and sector type. The CBB emphasizes implementing risk-based monitoring and assessments to detect red flags within small-value, high-volume transactions. Financing and micro financing companies undergo regulatory AML/CFT oversite, through onsite inspections, analysing AUP reports, exposure reports, and REQ.

152. Overall, the regulatory framework governing Financing and Micro-Financing companies in Bahrain imposes significant restrictions on their business activities, funding sources, and client base. Therefore, the sector's overall ML risk is classified as **medium-low**.

Insurance Sector

Introduction

153. The Insurance sector in Bahrain is made up of two main segments, conventional and takaful. Bahrain's domestic Insurance sector is comprised of Locally Incorporated Firms and Overseas Insurance Firms (branches of foreign companies) conducting Insurance, Reinsurance, Takaful, Retakaful and Captives business in the Kingdom of Bahrain.

154. The business classes in the insurance sector include 'Long-term Insurance' such as ones relating to 'Group Life Assurance,' 'Participating with Profit Policies,' and 'Children's Education Policies.' Other classes include 'Fire, Property & Liability Insurance, 'Marine & Aviation Insurance,' 'Motor Insurance,' 'Medical Insurance,' and other classes of insurance relating to 'Miscellaneous Financial Loss' and 'Engineering.'

155. The CBB acts as the regulator of the insurance sector and provides an efficient regulatory framework for financial services firms operating in Bahrain. The CBB's requirements include, but are not limited to, conducting a comprehensive risk assessment through implementing customer due diligence measures, appropriate transaction screening and monitoring, sufficient training of relevant staff, adequate record keeping, and prompt suspicious transaction reports filing.

Overall Risks

156. Insurance firms in the Kingdom of Bahrain are obligated to adhere to the AML/CFT rules and regulations. Insurance companies must comply with the requirements outlined in Financial Crime Module of Volume 3 of the CBB Rulebook which includes the regulatory requirements to combat money laundering, terrorist financing and proliferation financing.

157. These requirements include implementing a risk-based approach to assess and manage ML/TF risks, conducting CDD measures and implementing mechanisms to review and identify abnormal customer activity.

158. Adopting a risk-based approach, insurance firms are subject to on-site supervision by the CBB. The CBB employs a combination of supervisory information and risk assessment tools to profile licensees and proactively identify those requiring additional supervisory attention.

159. As per the CBB Rulebook requirements, insurance licensees generally do not accept premiums in cash. In addition, brokers, individual appointed representatives, and corporate non-financial appointed representatives are prohibited from receiving client money as specified in the Client Money Module of the CBB Rulebook (Volume 3).

160. Insurance companies, including companies offering life insurance products, typically do not accept premiums in cash. For general insurance policies, individual premiums are small and may involve cash

or other payment methods. However, corporate premiums are generally settled through non-cash transactions.

161. Given the ML threats faced by the sector, its vulnerabilities and the strengths of its controls, the sector’s overall ML risk is classified as **low**.

Investment Business Firms

Introduction

162. Investment business firms in Bahrain offer two main services: asset management and advisory services. These firms hold investment business licenses, classified into Categories 1, 2, and 4 (asset management) and Category 3 (for advisory services). It is worth noting that most investment business licensees are locally incorporated companies.

163. The client base of the licensees varies; some licensees target high net worth individuals or institutional clients, while others target retail clients. The licensees must classify their clients as retail, expert, or accredited investors, in accordance with the sophistication of clients and the level of risk they can undertake.

164. Investment business firms deal with resident and non-resident clients, mainly in securities and investment products locally and internationally. Although the flow of funds, both inward and outward, is through licensed financial institutions (mostly banks), complex structures and layers of ownership can exist in products those licensees offer, combined with the fact that most of the transactions they undertake are international in nature contributes to the risk of this category.

Overall risks

165. In the Kingdom of Bahrain, investment businesses must be licensed by the CBB and are subject to AML/CFT/CPF rules and regulations. More specifically, investment businesses must comply with the provisions set out in the Financial Crime Module of Volume 4 of the CBB Rulebook, which outlines the regulatory requirements to combat ML, TF and PF. These provisions relate to conducting ML/TF/PF risk assessments, implementing CDD and EDD measures, filing suspicious transaction reports and maintaining customer records.

166. Given the ML threats faced by the sector, its vulnerabilities and the strengths of its controls, the sector’s overall ML risk is classified as **low**.

Designated Non-Financial Businesses and Professions (DNFBPs)

167. Designated Non-Financial Businesses and Professions (DNFBPs) are required to follow strict anti-money laundering (AML) laws and regulations. The primary legal framework for DNFBPs in Bahrain is Decree Law No. (4) of 2001, which outlines the country's AML regulations. The Ministry of Industry, Commerce (MOIC), the Ministry of Justice and Islamic Affairs and Waqf (MOJ), and the Real Estate Regulatory Authority (RERA) are the main supervisory and regulatory authorities responsible for overseeing and regulating the DNFBPs sector in Bahrain.

Lawyers Sector

Introduction

168. The lawyer's sector in Bahrain plays a key role in the legal system, offering a broad range of legal services, under the supervision of the MOJ overseeing compliance with legal, ethical, AML/CFT/CPF requirements.

Overall Risks

169. The Ministry conducts thorough monitoring activities, including Risk-based supervision to assess compliance with AML/CFT/CPF regulations. The MOJ also issued relative circulars and guidance papers to the sector.

170. The MOJ organize training sessions for the staff in charge with supervision of lawyers, as well as lawyers, to enhance their understanding of CDD procedures, identifying high-risk transactions, and filing STRs. These training initiatives aim to strengthen the capacity to monitor and report suspicious activities. The Ministry is working to expand and enhance training efforts to keep pace with emerging risks and ensure full compliance with AML/CFT/CPF regulations.

171. As a legal profession and based on the FATF methodology, lawyers are considered a reporting entity, and therefore, subject to AML/CFT/CPF requirements when they prepare for, or carry out, transactions for their client concerning the following activities:

- (i) buying and selling of real estate;
- (ii) managing of client money, securities or other assets;
- (iii) management of bank, savings or securities accounts;
- (iv) organisation of contributions for the creation, operation or management of companies;
- (v) creating, operating or management of legal persons or arrangements and buying and selling of business entities.

172. Given the overall threat of money laundering within this sector and the mitigation measures adopted by the sector and the MOJ, lawyer's sector is considered **medium.**

Jewellery and Precious Metals Dealers (DPMS)

Introduction

173. The jewellery and precious metals sector in the Kingdom of Bahrain enjoys a wide regional and global reputation, as it is renowned for its high quality and distinctiveness. The sector is regulated by the Ministry of Industry and Commerce and entities operating in the sector must comply with AML/CFT/CPF requirements.

174. Bahrain plays a vital role in the regional gold market and contributes to the global trade of finished gold products and testing, including other precious metals. The Ministry of Industry and Commerce has implemented robust regulations requiring all gold to be tested and stamped with a unique code

before it can be traded. This measure ensures transparency and traceability thereby reducing the risk of money laundering through smuggling or unverified gold.

Overall Risks

175. While the sector is inherently exposed to ML risks. It's significantly mitigated by a proactive regulatory measure that prohibits cash transactions exceeding 3,000 BHD (nearly $8000) as per the MO no 103 of 2021 (art. 3/10), which is a threshold set far below the FATF methodology, which states that dealers in precious metals and dealers in precious stones are subject to obligations when they engage in any cash transaction with a customer equal to or above USD/EUR 15,000 (FATF Rec 22), thus forcing all high-value transactions into the regulated banking system. In Bahrain, Cash transactions are limited to a maximum of 3,000 BHD and transactions above 3000 BHD are accepted through banking channels only. These measures have been introduced to mitigate the risk of misusing the sector.

176. However, till now, merchants operating in the sector are required to conduct CDD, record keeping, and STR reporting measures when buying or selling gold or other precious metals for all transactions.

177. Overall, given the volume in transactions, industry nature, mitigatory measures, and supervisory controls the jewellery and precious metals sector in Bahrain is rated to **medium-low** ML risk.

Real Estate Agents

Introduction

178. The real estate sector in the Kingdom of Bahrain is a key component of the national economy, contributing to economic growth and investment opportunities. Recognizing the sector's importance, the Real Estate Regulatory Authority (RERA) was established with the issuance of Royal Decree No. 27 of 2017 to create a robust and safe regulatory environment that fosters investor confidence while protecting the rights of all stakeholders.

179. Real estate transactions in Bahrain can be carried out directly between parties or through brokers or agents appointed by either party. All contracts for the sale or purchase of real estate are notarized by public notaries operating under the supervision of the MOJ as stated above on AML/CFT/CPF obligation.

180. RERA's mandate is to ensure that the sector operates in a transparent and secure manner in alignment with international best practices. This includes ensuring proper licensing and oversight of persons operating in the real estate sector and ensuring adequate customer and investor protection.

181. Agents operating in Bahrain's real estate sector are licensed by RERA and must adhere to Decision No. (2) of 2021 on AML/CFT/CPF obligation in Real Estate Sector. These regulations enhance safeguards to ensure the real estate sector remains protected against criminal exploitation.

182. RERA implements comprehensive licensing requirements and has increased transparency within the market by requiring all brokers, valuers, property managers and real estate developers to hold a RERA license. Mandating licensing of developers and developments has strengthened the regulatory framework by identifying and prohibiting unlicensed real estate activities.

183. The real estate sector is globally considered as a potential venue for money laundering risks due to its high-value transactions and involvement of multiple intermediaries. RERA collaborates with the Financial Intelligence National Center and other stakeholders to ensure compliance with Bahrain's AML/CFT/CPF laws and regulations.

Overall Risks

184. RERA has introduced specific measures aiming at enhancing compliance and minimizing exposure to financial crime in Bahrain's real estate sector. More specifically, Resolution 2 of 2021 establishes a robust regulatory framework with clear procedures for licensed entities to mitigate financial crime risks.

185. The provisions outlined in Resolution 2 of 2021 require licensees to implement customer due diligence requirements, retain records of business relationships and establish mechanisms for reporting suspicious transactions. To further mitigate inherent risk, RERA has implemented a strict regulatory cap, mandating that all real estate cash transactions over 2,000 BHD must be processed through banking channels.

186. Given the threats, vulnerabilities, controls and regulatory oversight of the real estate sector, the overall risks associated with the sector are assessed as **medium-low.**

Accountancy and the Audit Sector

Introduction

187. The auditing and accountancy sector in Bahrain is highly regulated and requires significant professional qualifications and experience for market entry. This rigorous entry process, including certifications like CPA or ACCA, ensures a high level of control and expertise within the sector. Additionally, the sector is overseen by a disciplinary council that monitors compliance and takes action against any misconduct.

Overall Risks

188. This strict oversight over this sector is essential due to the widespread influence of auditors and accountants in various businesses and legal entities. As a profession, firms operating under this subsector are required to report any suspicious transactions and conduct CDD requirements as stipulated in the conditions of Recommendation 22 in the FATF methodology (the same as lawyers, stated above). It's worth noting that auditors have restrictions on business as per Trade Law no (7) of 1987 and its amendments, and therefore, most of the activities mentioned in the FATF Methodology are out of their scope. However, the sector is under MOIC rigid supervision monitoring their AML compliance activities based on their operations which might limit the scope affecting the risks associated by the sector. Given the business nature, scope, limited number of licensees, and the mitigatory measures, it is concluded that the threat level of ML in auditing and accountancy firms is **low** risk.

Notaries Sector

Introduction

189. The notary sector in Bahrain plays a critical role in the legal and financial systems, providing services to authenticate documents and transactions. The MOJ oversees the regulatory framework to ensure compliance with legal standards, including AML/CFT/CPF. Notaries are required to comply with Decision No. (28) of 2021 on AML/CFT/CPF obligation

Overall Risks

190. The MOJ conducts regular audits and inspections to ensure compliance with AML/CFT/CPF regulations. This includes field inspections to assess records, client verification, and adherence to legal standards. Additionally, circulars were issued regarding sanctions to ensure notaries compliance with international regulations.

191. As a legal profession and based on the FATF methodology, notaries are obliged to report suspicious transactions and conduct CDD requirements in the five conditions stipulated in Recommendation 22 of the FATF methodology (stated above in lawyer's section), which might limit the scope and affect the risks associated with this sector.

192. Considering that their business is mainly legalization of operations, low level of risk exposure, and the factors mentioned, the notaries sector is rated as **low*.***

Trusts Service Providers

Introduction

193. Trust Service Providers (TSPs) offer services related to the establishment, administration and management of trusts. More specifically, trust services are defined as:

- Establishment of trusts;
- Administration of trusts in accordance with the provisions of the trust deed;
- Providing related ancillary services to trusts in accordance with the provisions of the trust deed; and
- Providing financial advisory services to trust business clients only.

194. All trusts are required to register with the CBB by a trustee (TSP licensed by the CBB and domiciled in Bahrain).

Overall Risks

195. The TSP sector in Bahrain is subject to various AML/CFT/CPF controls to mitigate the risks associated with money laundering and terrorist financing. These controls include beneficial ownership transparency as the owners of the assets and their beneficiaries are known to the TSPs and the CBB. The details of settlors, trustees, protectors, and beneficiaries are provided in the trust instrument, which is submitted to the CBB as part of the registration process. Any amendments to the trust instrument must also be submitted to the CBB.

196. All trusts are required to register with the CBB through TSP and the CBB maintains a trust registry office which serves as a centralized repository for trust-related information.

197. TSPs are required to conduct customer due diligence measures including identifying and verifying the identities of the settlors and beneficiaries as well as reporting suspicious transactions and activities to the relevant authorities.

198. Due to the high level of beneficiary transparency, the small number of licensees and low level of activities the ML threats faced by the sector are classified as **low** risk.

CONCLUSION

199. This assessment attempted to identify, analyse, and evaluate the risk of money generating crimes in Bahrain and the targeted sectors. The assessment was able to clearly present the ML threats and vulnerabilities identified through the NRA process wherein input from competent authorities was pooled and analysed in accordance with the FATF methodology and using the World Bank Tool.

200. The threat analysis identified the main proceeds-generating offences that a country's systems are exposed to including offences predicate offences (both domestic and international) as well as the criminals perpetuating these offences. The most prominent threats relating to money laundering identified in this report were the predicate offence of drug trafficking as the highest threat to ML acts, Fraud, particularly investment fraud, poses the 2nd highest threat to money laundering. This will guide the competent authorities in allocating their resources to concentrate on monitoring and reducing the identified ML threats.

201. Finally, after bringing together and considering the various quantitative and qualitative data, the inherent vulnerabilities associated with different financial and nonfinancial sectors within the Kingdom, including FIs, DNFBPs and VASPs, has been examined. The sectoral analysis has led to various measures in mitigating inherent and residual risks, such as improving the level of compliance with existing AML obligations (customer due diligence, transaction monitoring, and suspicious activity reporting) and enhancing effectiveness of AML supervision and enforcement mechanisms. This includes the practice of engaging with the public and private stakeholders to identify emerging risks in the country.

Section Two:
TF & PF and NPOs Risk Assessment

SECTION 2 – TERRORIST FINANCING & PROLIFERATION FINANCING AND NPO RISK ASSESSMENT

202. A proper risk assessment of terrorism financing (TF) is a cornerstone of safeguarding both national security and financial stability. It enables governments and financial institutions to identify threats, vulnerabilities, and potential channels that may be exploited by terrorist networks. By systematically evaluating these risks, authorities can allocate resources more efficiently and design targeted policies that strengthen resilience against TF activities, rather than applying generic or misdirected measures. Furthermore, effective TF risk assessments are vital for compliance with international standards and application of a risk-based approach. Beyond compliance, such assessments enhance detection capabilities by improving monitoring systems, reducing false positives, and enabling better cooperation at both domestic and international levels. Ultimately, this process protects the integrity of the financial system, fosters investor confidence, and supports global efforts to disrupt and prevent terrorism financing.

TERRORIST FINANCING RISK ASSESSMENT AT A NATIONAL LEVEL

203. At the national level, the General Directorate of Criminal Investigation and Forensic Science is mandated to combat acts of terrorism in Bahrain, while the Financial Intelligence National Center (FINC) pursues cases related to the financing of terrorism, both entities coordinate closely once a case is initiated. At the prosecutorial stage, the Attorney General has established a specialized Terrorism Prosecution Office to investigate terrorism and terrorism financing cases. When financial links are suspected, this office directs FINC to examine the financial aspects of the case. These coordinated measures have led to successful prosecutions and convictions. Alternatively, in instances where conviction is not achieved but law enforcement authorities have reasonable grounds for suspicion, the individual is designated on the National Terrorist List.

204. To ensure high-level commitment, Bahrain formed the Committee for Combating Extremism, Terrorism, its Financing, and Money Laundering. The Committee is responsible for studying all issues related to combating extremism, terrorism, its financing, and money laundering, and in particular, it has the following to do:

- Proposing policies, coordinating and unifying general national efforts, reviewing and updating them periodically in the field of combating extremism, combating terrorism, its financing and money laundering.
- Proposing the classification and inclusion of individuals and entities on national terrorism lists.
- Assessing the risks of extremist ideology, terrorism, and money laundering.

205. Proposing legislation and regulations related to combating extremism, terrorism, its financing, and money laundering, and coordinating with the competent authorities in the Kingdom and obtaining their opinions on this.

206. Bahrain has adopted a regularly updated national counter-terrorism strategy, which is shared with all relevant authorities and formally approved by the Ministerial Committee for Combating Extremism, Terrorism, and its Financing and Money Laundering, chaired by His Excellency the Minister of Interior. Within this framework, the National Designation Working Group, operating under the Secretariat of the Committee, plays a central role in monitoring and reviewing the designation of individuals and entities for inclusion on the national terrorist list. These designations, once finalized, are submitted to the Cabinet of Ministers for approval, representing a proactive measure to mitigate terrorism financing risks.

207. In addition, ad-hoc meetings are convened as needed to address emerging issues related to terrorism and its financing. Pursuant to Royal Decree No. (50) of 2020, which established the Committee for Combating Extremism, Terrorism, and its Financing and Money Laundering, the Minister of Interior issued Ministerial Resolution No. (107) of 2025 Anti-Terrorism Task Force under the Committee. This Task Force strengthens inter-agency coordination and ensures a more agile and responsive framework to address terrorism financing threats.

208. The Task Force is mandated with several key responsibilities. These include the proactive exchange and analysis of security and intelligence information related to terrorism and its financing, ensuring the effectiveness of Bahrain's counter-terrorism framework. It is tasked with identifying and disrupting sources of terrorist funding by tracing and examining financial flows. The Task Force also works to identify internal and external threats in line with the outcomes of the National Risk Assessment (NRA), and to propose strategies for national adoption by the Ministerial Committee for Combating Extremism, Terrorism, and its Financing and Money Laundering. In addition, it is responsible for analysing trends and typologies of terrorist operations, recommending preventive measures, and updating national mechanisms to mitigate terrorism financing risks. Finally, it seeks to unify national efforts by enhancing inter-agency cooperation and conducting joint operations to track and disrupt terrorist activities and their financing.

209. The AML/CFT Committee serves as a central coordinating body with the primary objective of preventing and countering the misuse of Bahrain's financial system and broader economy for money laundering, terrorism financing, and proliferation financing (ML/TF/PF) purposes. Its mandate includes preparing recommendations and draft decisions for adoption by the Government of Bahrain, thereby ensuring an aligned national approach to combating financial crime. The Committee provides a forum for the oversight and continuous review of Bahrain's AML/CFT/ CPF framework and reports directly to the Ministerial Committee, ensuring high-level supervision and accountability.

210. The Kingdom of Bahrain has taken several measures in the FATF's follow-up process to address the shortcomings mentioned in the MER. The Kingdom of Bahrain issued Decree Law No. (57) of 2018 amending some provisions of Decree Law No. (4) of 2001 regarding prohibiting and combating money laundering and terrorist financing, so that the definition of financing of terrorism corresponds to that of the UN Convention for the of Suppression of the Financing of Terrorism. Thus, several legislative amendments were enacted, which resulted in a higher level of compliance, especially in FATF recommendation 5 (rated compliance), in addition to an increase in the effectiveness in law enforcement deterring such crimes.

211. The FATF establishes international standards to combat money laundering and terrorist financing. These standards such as Recommendation 6, which require mandatory immediate freezing of assets

for individuals or entities designated by United Nations Security Council Resolutions 1267 and 1373. The primary objective of this immediate action is to prevent the dissipation of assets during the crucial period between the identification of a designated individual or entity and the formal imposition of the asset freeze.

212. In line with the Kingdom's legal framework for combating terrorism and terrorist financing, all individuals and entities designated by the following authorities are subject to the following procedures:

- TFS obligations are implemented once published by the UNSC for UN lists or by the Cabinet for national lists.
- Joint Counter Terrorism Center (JCTC) within the Ministry of Interior follows up on the proper implementation of sanctions by all obliged entities and competent authorities.
- Freezing must be implemented without delay (maximum 24 hours).
- There's a TFS portal that makes it easy for the JCTC to communicate listing, de-listing and changes to competent authorities, and receive feedback on the actions taken and assets frozen.

213. The Kingdom actively participates in global initiatives against terrorism. Bahrain contributes to the Global Coalition to Defeat ISIS. It is also an active member of the Terrorist Financing Targeting Center (TFTC), co-chaired by the United States and Saudi Arabia, and engages with other GCC members to combat terrorism financing. Bahrain is a founding member of MENAFATF, hosting its Secretariat in Manama.

214. FIs and most of DNFBPs use tools and systems to screen customers against TFS lists in order to comply with United Nations Security Council Resolutions and national designation measures. These screening tools, often integrated within customer due diligence (CDD) and ongoing monitoring processes, enable them to automatically detect potential matches between clients (including beneficial owners) and individuals or entities designated for terrorism and terrorism financing. The use of such screening mechanisms enhances the overall effectiveness of Bahrain's CFT framework by ensuring early detection, timely reporting, and freezing of assets where applicable.

215. The Kingdom maintains a zero-tolerance policy regarding terrorism financing, allocating all necessary tools and resources directly toward mitigating this risk. Multiple law enforcement agencies (LEAs) collaborate closely to combat terrorism and its financing, emphasizing its status as a national priority.

216. Consequently, the Kingdom has witnessed a notable decline in terrorism-related crimes during the sample period compared to previous years, reflecting the effectiveness of national efforts to deter such activities and disrupt plots at an early stage. The arrest and subsequent convictions of key orchestrators of past terrorist operations have further acted as a deterrent, discouraging their associates and dissuading potential recruits, thereby contributing to the overall reduction in terrorist activities.

Case Study No. 5 – Dismantling a Terrorist Network:

In 2021, during a routine surveillance patrol, LEAs discovered an unattended package placed next to an ATM. A crime scene specialized team was dispatched to the scene and safely opened the package, uncovering equipment that was, or could have been, used in a terrorist act.

CASE *SPECIFICS:* Following a thorough investigation, the LEAs identified two suspects responsible for leaving the package. Based on these findings, the FINC initiated a parallel financial investigation jointly with Criminal Investigation Directorate. The analysis revealed that the two suspects were part of a wider network, leading to the identification of 12 additional individuals. This brought the total number of linked suspects to 14.

The financial analysis indicated that members of the group were exploiting the financial system to finance and support potential terrorist activities. The methods observed included:

Obtaining suspicious loans, conducting structured transfers via ancillary service providers and wire transfers, making repeated large cash withdrawals, depositing funds from unknown income sources, receiving cheques from unidentified entities, and Moving funds through money changers.

These patterns demonstrated a coordinated effort to conceal the origins and intended use of the funds.

OUTCOMES: As a results of the financial analysis and after a thorough investigation and legal proceedings, 13 individuals were found guilty. The perpetrators and their sentences were as follows:
Life imprisonment Perpetrators: 1, 2, 3, 4
15 years imprisonment Perpetrators: 5, 7, 8, 9
10 years imprisonment + 100,000 BHD fine Perpetrators: 6, 11, 13
5 years imprisonment Perpetrators: 10, 13
3 years imprisonment Perpetrator: 14
Confiscated proceeds: The proceeds derived from the criminal activities were confiscated in accordance with the law.

The successful dismantling of the terrorist network represents a significant achievement for FINC. Terrorist organizations pose a serious threat to the integrity of the Kingdom's financial system and national security. This case demonstrates FINC's capacity to detect, analyse, and disrupt such networks through the effective use of financial intelligence and the analysis of suspicious activity.

TERRORIST FINANCING RISK AT SECTORAL LEVEL

Terrorist Financing Risk at a Sectoral Level

SECTOR	OVERALL RISK
Virtual Assets Service Providers (VASPs)	*MEDIUM-HIGH*
Money Changers	*MEDIUM*
Banking	*MEDIUM*

Virtual Assets Service Providers (VASPs)

217. Virtual Asset Service Providers (VASPs) present an inherent risk of misuse for terrorism financing (TF) due to the features of virtual assets, including speed, global reach, pseudonymity, and the absence of physical transfer across borders. Terrorist financiers may exploit these characteristics to move funds quickly and discreetly, outside the traditional regulated financial system. In particular, peer-to-peer transfers, privacy-enhancing coins, and decentralized platforms heighten the difficulty of tracing beneficial ownership and transaction flows.

218. The Kingdom of Bahrain has implemented robust mitigating measures to ensure compliance with Anti-Money Laundering/Combating the Financing of Terrorism regulations. Bahrain's unwavering commitment to the AML/CFT regime fosters strong cooperation among competent authorities to effectively counter terrorism and its financing.

219. Despite the emergence of new technologies and evolving trends, Bahrain, through the CBB, has adopted a proactive approach to mitigate risks associated with virtual assets. All Virtual Asset Service Providers (VASPs) are required to implement robust sanctions screening systems to detect and prevent transactions involving designated individuals or entities.

220. VASPs are assessed as **medium-high** risk due to the potential for misuse in terrorism financing; however, this risk is mitigated by proactive measures, including continuous transaction monitoring, regular on-site and off-site inspections, and a requirement for immediate reporting of suspicious activities to the relevant authorities.

Money Changers

221. Money Changers and Money or Value Transfer Services (MVTS) pose a potential threat in Bahrain due to their possible exploitation by terrorist financiers. Given that MVTS are widely used by residents to remit funds to their home countries, these channels could be leveraged to facilitate cross-border transfers for illicit purposes.

222. However, the sector’s risk is assessed as **medium**, as robust countermeasures—including customer due diligence (CDD), enhanced due diligence (EDD), suspicious transaction reporting (STR) and TFS implementation—significantly reduce the attractiveness of MVTS for terrorism financing activities.

Banking

223. The formal banking sector in Bahrain is considered a less attractive channel for terrorist financing due to the robust supervisory measures enforced by regulatory authorities. These include the identification of unusual transaction patterns, close scrutiny of remittances to high-risk jurisdictions, and strict enforcement of customer due diligence (CDD) and ongoing transaction monitoring.

224. Although instances of terrorist financing may occur within the banking system, the sector benefits from stringent supervisory frameworks and continuous enhancements to AML/CFT measures, enabling effective identification and mitigation of risks. As a result, the overall risk to the banking sector is assessed as **medium**.

225. Other sectors were assessed to be of lower risk to TF due to the business nature and existing controls.

Overall TF Risk

226. Bahrain's overall risk of terrorism financing is assessed as **medium-low**, considering the Kingdom's regional geopolitical vulnerabilities. However, the proactive, multi-faceted counterterrorism strategy, combining domestic and international measures, effectively mitigates these risks.

NON-PROFIT ORGANISATIONS RISK ASSESSMENT

227. The Kingdom of Bahrain has established a regulatory framework within the Ministry of Social Development (MOSD) to oversee Non-Profit Organizations (NPOs). MOSD has classified the subset of NPOs, where NPO refers to a legal person or arrangement or organisation that primarily engages in raising or disbursing funds for purposes such as charitable, religious, cultural, educational, social or fraternal purposes, or for the carrying out of other types of "good works". This framework aims to streamline NPO operations and proactively mitigate risks without disrupting their operations.

228. MOSD ensures that NPOs have clear policies to promote accountability, integrity and public confidence in the administration and management of NPOs, undertakes outreach with NPOs to raise awareness about the potential vulnerabilities of NPOs to terrorist financing abuse and terrorist financing risks and the measures that NPOs can take to protect themselves against such abuse, and encourage NPOs to conduct transactions through banking channels. NPOs are required to obtain prior approval from MOSD for fundraising and cross-border remittance activities.

229. NPOs inherently pose threats to TF, as they can be misused by terrorist groups to raise, move, or obscure funds under the guise of charitable or humanitarian activities. To mitigate these threats, Bahrain has introduced a comprehensive set of mitigation measures, under the supervision of the MOSD, that reduce the sector's exposure and contribute to lowering its residual risk to a **medium** level.

PROLIFERATION FINANCING RISK ASSESSMENT

230. Bahrain has a robust and well-structured national framework for countering proliferation financing and implementing targeted financial sanctions. This is articulated by its clear legal and

regulatory framework, as well as the Ministerial Resolution (120) for 2021, which mandates the follow-up of implementation to the Joint Counter-Terrorism Center (JCTC).

231. A horizontal risk scan has been completed, confirming the absence of DPRK nationals residing in the country, and the nonexistence of diplomatic presence nor trade, financial, or communication links with the Democratic People's Republic of Korea (DPRK). Additionally, no matches to UN-listed individuals or entities nor any PF-related frozen assets have been identified. This aligns with Bahrain's inherent low risk profile, which stems from its non-involvement in the import, export, or transshipment of WMDs and robust dual-use goods or technologies controls.

232. Competent authorities display high levels of threat awareness and technical capability, underpinned by frequent coordination through the National Committee on Prohibition of Weapons of Mass Destruction (NCPWMD) and strong political commitment. Authorities and obliged entities benefit from the use of advanced screening tools and automated name-checking systems, allowing real-time identification of sanctioned entities and assets.

233. Bahrain ensures timely and transparent access to basic and beneficial ownership information on legal persons is transparent and timely through the multi-pronged approach, as highlighted in the "legal persons and arrangements risk assessment section" of this document. Financial Institutions (FIs), Virtual Assets Service Providers (VASPs) and Designated Non-Financial Businesses and Professions (DNFBPs) are well aware of their TFS obligations, with compliance routinely monitored and enforced by supervisory authorities. Subscription to UN sanction list updates is widespread, and violations trigger significant administrative or criminal penalties. This high level of compliance is supported by ongoing outreach and guidance materials and regular training sessions organized in coordination between the JCTC and regulatory authorities, ensuring that the private sector and the obliged entities understands and implements its TFS obligations effectively.

234. Overall, Bahrain's residual PF risk remains **low**, reflecting the robustness of its national controls, low threat exposure, and proactive institutional engagement in sustaining compliance with relevant UNSCRs and FATF Recommendation 7.

Overall Conclusion:

235. Bahrain is firmly committed to strengthening its AML/CFT/CPF framework, ensuring alignment with international standards and best practices. This commitment is demonstrated through continuous enhancements to the legal, regulatory, and institutional framework, coupled with strong awareness and compliance initiatives across both the public and private sectors. Bahrain also prioritizes inter-agency cooperation, public-private partnerships, and the integration of advanced technologies to strengthen monitoring and detection systems. Collectively, these measures foster a culture of compliance that extends beyond regulatory requirements, embedding resilience and effectiveness into the national framework.