FINANCIAL STABILITY REPORT

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مصرف البحرين المركزي

Central Bank of Bahrain

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

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PREFACE

Monetary policy normalization remained throughout the second half of 2023 as many central banks continued to increase their key policy interest rates to offset global inflationary pressures. Global economic growth was steady amid the high interest rates and geopolitical environment. While inflation is moving towards targets in many countries several risks and challenges remain.

Risk remains in higher debt service burdens of households, firms, and governments and the effect on the demand for new credit. Interest rate hikes may still affect borrowers and debt service with debt levels growing globally since the pandemic. Another risk of the longer high interest rate environment is impacting the residential and commercial real estate sectors and a potential spillover to the financial sector.

Central banks made progress in moving inflation towards targets with policy rates of central banks expected to start declining in the second half of 2024. Central banks have to remain vigilant and ease monetary policy gradually. While inflation forecasts are going down, differentiations are seen within various regions in how quickly inflation is reaching its targets. Geopolitical tensions may lead to a reassessment of the economic situation going forward.

The global economy remained resilient as inflation is returning to targets and the banking system was largely resilient, yet challenges remain for the financial stability outlook. Maintaining strong, sustainable growth will require policymakers to continue to stay agile and ready to contain financial market strains to minimize risks and address challenges posed by the interaction between tighter monetary conditions and any built-up vulnerabilities.

The Bahrain economy in H2 2023 continued its growth despite the geopolitical environment, inflationary pressures, and higher interest rates. The financial system remained resilient showing strong performance across key metrics amidst a strong domestic macroeconomic environment.

The banking system maintained adequate capital adequacy and liquidity buffers during 2023 and remained resilient due to strong capital and liquidity positions with credit growth in the banking sector remains instrumental in supporting the private sector.

Moving forward, the CBB remains committed to addressing any potential vulnerabilities and remains alert to possible risks from any global developments and focused on monitoring asset quality. The CBB has also continued commitment to digital transformation, climate related risks to the financial sector, AML/CFT compliance and increased cyber risks.

FINANCIAL STABILITY REPORT COVERAGE

A key objective of CBB is to maintain monetary and financial stability in the Kingdom of Bahrain. As the single regulator for the financial system, CBB attaches utmost importance to fostering the soundness and stability of financial institutions and markets. CBB recognizes that financial stability is critical to contribute to growth, employment, and development in Bahrain.

In pursuit of its objective of promoting financial stability, CBB conducts regular financial sector surveillance, keeping a close watch on developments in individual institutions as well as the system as a whole. The Financial Stability Directorate (FSD) conducts regular surveillance of the financial system to identify areas of concern and undertakes research and analysis on issues relating to financial stability.

The Financial Stability Report (FSR) is one of the key components of CBB's financial sector surveillance framework. The principal purpose of this report is macro-prudential surveillance, assessing the safety and soundness of the financial system (intermediaries, markets, and payments/settlement systems), identifying potential risks to financial stability and mitigate them before they develop into systemic financial turbulence.

This FSR primarily examines the performance of the key components of the Bahraini financial system up to end of December 2023. The Baking sector analysis covers the sector on a consolidated basis (including subsidiaries and branches abroad).

This edition of the FSR contains 9 chapters divided into four parts as follows:

- Part I: International and national developments:
  - Chapter 1: International financial developments.
  - Chapter 2: Developments in Bahrain's financial sector and household sector.
- Part II: Developments in the banking sector:
  - Chapter 3: Performance of the banking sector.
  - Chapter 4: Performance of conventional banks.
  - Chapter 5: Performance of Islamic banks.
- Part III: Developments in the non-banking financial sector:
  - Chapter 6: Performance of the insurance sector.
  - Chapter 7: Performance of capital markets.
- Part IV: Developments in the payments and settlement systems, fintech, and cyber security:
  - Chapter 8: Performance of payment and settlement systems, point of sale, and digital wallets.
  - Chapter 9: FinTech developments and financial inclusion.

FINANCIAL STABILITY

A situation where the financial system is able to function prudently, efficiently and uninterrupted, though providing financial services continuously even in the face of adverse shocks.

EXECUTIVE SUMMARY

Global Macro Financial Environment Overview

The global economy has shown resilience and signs of recovery in the second half of 2023. Economic activity held up better than expected in 2023 despite aggressive central bank's monetary policy tightening, banking sector turmoil, and geopolitical tensions. Monetary policy tightening remained with the US and other advanced economies in efforts to lower inflation.

Global economic growth was 3.2% in 2023 with a projection of 3.2% for 2024. Growth for advanced economies was 1.6% and 4.3% for emerging markets and developing economies. Across major economies, growth for the USA, Euro Area and China in 2023 was 2.5%, 0.4%, and 5.2% respectively. Global headline inflation reached 6.8% in 2023 and is expected to decline gradually.

Financial Sector Overview

The size of the assets of the banking sector in Bahrain was USD 238.5 billion as of December 2023. Retail banking total assets continued growing to reach BD 40.3 billion (USD 107.1 billion) in December 2023, wholesale banking sector showed an increase to USD 131.5 billion, and Islamic banking sector assets (which represent 16.0% of the total banking sector assets) increased to USD 38.2 billion.

The total amount of credit to the private sector (business and personal) by retail banks increased to BD 11.8 billion, a growth of 4.3% YoY. The deposit base also witnessed growth to BD 20.2 billion in December 2023 with 76.4% being domestic deposits that had a 5.3% YoY increase.

Banking Sector

The Bahraini banking system remained resilient during H2 2023, supported by strong macroeconomic conditions and adequate capital and liquidity positions. The capital adequacy ratio (CAR) for the banking sector stood at 19.7% in December 2023. The NPL ratio continued decreasing to 2.9% with a stable provision coverage level of provisioning of 59.8%.

Return-on-assets (ROA) increased to 1.3% and return-on-equity (ROE) increased to 9.3%, showing strong profitability. Liquidity positions remained strong as liquid assets as a proportion of total assets stood at 25.7% and the Loan Deposit Ratio (LDR) at 62.5%.

Conventional Banks

The CAR for conventional retail increased to 21.9% by December 2023. Asset quality improved as NPL ratio stood at 3.4% in December 2023 with coverage at 71.0%. The profitability of retail banks remained positive as ROA increased to 1.7% and ROE to 12.5%. Liquidity position decreased to 32.7% in December 2023 and LDR at 67.1%.

As for wholesale banks, capital adequacy stood at 18.0% in December 2023. The NPL ratio dropped to 2.2% while specific provisions witnessed a decrease to 60.7%. Profitability was positive as ROA for the conventional wholesale banking remained stable at 1.1% and ROE at 5.8% in December 2023. Liquid assets for wholesale banks as a proportion of total assets increased to 23.6% and LDR at 46.5% in December 2023.

Islamic Banks

The CAR of Islamic retail banks stood at 20.0% in December 2023. Asset quality is stable as non-performing facilities (NPF) ratio reached 4.9% while specific provisioning decreased to 40.5%. ROA for Islamic retail remained positive at 0.6% and ROE at 8.2%. Liquidity position to Islamic retail banks remained stable as liquid assets available to Islamic retail banks was 17.7% and LDR was 61.4%.

On the other hand, capital adequacy Islamic wholesale banks increased to

17.4% in December 2023. The NPF ratio for Islamic wholesale banks was 1.0% with provisioning for NPFs increasing to 87.5%. Islamic wholesale banks registered positive profitability with ROA reaching 1.3% and ROE at 10.0% in December 2023. Liquid assets increased for Islamic wholesale to 19.9% of total assets while LDR increased to 30.4%.

Insurance Sector

Overall, the insurance sector in Bahrain remained sound and sustained growth as demonstrated by the industry's performance for the period ended September 2023. The sector is expected to continue to grow due to the increase in the public awareness on the importance of the insurance products as well as due to the soundness of regulatory and supervisory framework of the insurance sector in Bahrain.

As of September 2023, total assets of the Insurance sector reached BD 2,243.0 million with a decrease of 1.9% YoY. Total assets of conventional insurance firms were BD 2,039.8 million, a YoY decrease of 2.6%. Takaful firms' assets increased by 5.2% YoY to reach BD 203.3 million.

Total gross premiums registered BD 217.5 million as of September 2023 with medical records having the highest concentration in Gross Premiums (31.9%). Conventional local firms accounted for the largest segment of total gross premiums (56.0%) followed by Takaful (29.6%) and conventional overseas branches (14.3%).

Capital markets

As of December 2023, Bahrain Bourse recorded a total listing of 42 Companies, 3 Mutual funds and 19 Bonds and Sukuk. Bahrain All Share Index increased by 4.0% at the end of 2023 reaching 1,971.5 points, while the Bahrain Islamic Index increased by 9.9% reaching 728.9 points. As of 2023, market capitalization of the Bahrain Bourse stood at BD 7.8 billion.

Most of the value shares traded in 2023 was in the financial sector representing 46.2%. As for the volume of shares traded, the majority also came from the financial sector (77.1%). Most of the number of transactions in 2023 was attained by the financial sector representing 49.0% of total transactions.

Payments and Settlement Systems and Point of Sale and E-Commerce

The CBB's payment system remained robust during 2023 as CBB continues to further enhance its steps towards digital transformation. Demand for online transactions continues its upward trend based on the performance of the Electronic Fund Transfer System (EFTS) that enables electronic fund transfers within Bahrain.

Daily average volume of Fawri+ transactions increased by 33.8% in H2 2023 compared to H2 2022. The daily average value of Fawri+ transfers increased by 19.7% in H2 2023 compared to H2 2022. The daily average volume and value of ATM transactions for H2 2023 continued to decrease by 16.7% and 13.0% respectively compared to H2 2022 indicating a continued trend of declining cash withdrawals.

Point of Sale (POS) and E-commerce transactions volume and value increased in H2 2023 by 12.1% and 7.7% YoY respectively. Contactless POS payments continue to show an increasing trend reaching 78.4% and 51.7% of the volume and value of transactions respectively.

FinTech, Innovation, and Financial Inclusion

Bahrain continues its efforts in repositioning itself as a Fintech hub in the region combining conventional and Shariah compliant FinTech solutions. CBB continues its Fintech initiatives as part of its digital transformation strategy to further facilitate a more efficient provision of banking services to customers. As of end of December 2023, CBB's Regulatory Sandbox includes 121 companies.

HIGHLIGHTS

DEVELOPMENTS IN INTERNATIONAL FINANCIAL MARKET

As at end 2023

Global Growth	Advanced Economies Growth	Emerging Market Growth
3.2%	1.6%	4.3%

DEVELOPMENTS IN FINANCIAL SECTOR

As at end 2023

Financial Sector % of GDP	Number of Licenses	Banking Sector Assets
17.8%	369	USD 238.5 bn ▲ 6.4% YoY

M2	Personal Credit	Business Credit
BD 14.7 bn ▲ 5.0% YoY	BD 5.8 bn ▲ 2.2% YoY	BD 5.0bn ▲ 1.4% YoY

PERFORMANCE OF BANKING SECTOR

As at end 2023

CAR	NPL	Coverage
19.7% ▲ 0.2% YoY	2.9% ▼ 0.1% YoY	59.8% ▼ 8.7% YoY

INSURANCE SECTOR

As at end Sep. 2023

Insurance Contribution to GDP	Total Assets	Gross Premiums
5.4%	BD 2,243.0 mn ▼ 1.9% YoY	BD 217.5 mn ▼ 6.1% YoY

CAPITAL MARKETS

As at end 2023

All Share Index	All Share Index	Market Capitalization
1,971.49 ▲ 4.0% YOY	728.91 ▲ 9.9% YOY	BD 7.8 bn ▼ 31.9% YOY

PAYMENT AND SETTLEMENT SYSTEMS

H2 2023

ATM Daily Average		Fawri+ Daily Average		POS Transactions	
Volume	Value	Volume	Value	Volume	Value
31,490	BD 3.1 mn	980,519	BD 20.7 bn	95.2 mn	BD 2.1 bn
▼ 16.7% YoY	▼ 13.0% YoY	▲ 33.8 % YoY	▲ 19.7% YoY	▲ 12.1 % YoY	▲ 11.4 % YoY

PART I:
DEVELOPMENTS IN THE INTERNATIONAL AND DOMESTIC FINANCIAL MARKETS

1 DEVELOPMENTS IN INTERNATIONAL FINANCIAL MARKET

HIGHLIGHTS

Global Growth	USA Growth	Euro Area Growth
3.2%	2.5%	0.4%
MENA Growth	**Advanced Economies Growth**	**Emerging Market Growth**
1.9%	1.6%	4.3%

- The World economy is continued to witness a slowed recovering but still facing headwinds amid heightened uncertainty.
- Russia-Ukraine war and geopolitical tensions continue to pose risks and remain a principal source of financial and economic instability.
- Tensions between the world's two largest economies remain significant, and patterns of trade and cross-border investment are shifting.
- Inflation had a downward trend at the end of 2023, largely driven by falling energy prices.
- Financial conditions are tightening, borrowing costs are remaining high.
- Equity markets in Europe and the US have been volatile.

1.1 Overview

The global economy has shown resilience and signs of recovery in the second half of 2023. Economic activity held up better than expected in 2023 despite aggressive central bank's monetary policy tightening, banking sector turmoil, and geopolitical tensions. Consumption was resilient, an easing in global supply chain bottlenecks helped cool inflation, and labor supply recovered.

Risks for the second half of 2023 were more stable than they were earlier of the year, but the outlook is still uncertain due to factors such as the ongoing conflict between Russia and Ukraine and the increasing probability of a global economic slowdown. Developed market central banks have likely now reached the end of their respective hiking cycles.

According to the recent update of the IMF's World Economic Outlook (WEO) in April 2024, global growth was 3.2% in 2023 with a projection of 3.2% in 2024. Advanced Economies grew by 1.6% in 2023 and Emerging Market and Developing Economies by 4.3%. Regarding growth of the world largest three economies in 2023, USA growth reached 2.5%, the Euro Area reached 0.4%, and China reached 5.2%.

Global headline inflation reached 6.8% in 2023 after being 8.7% in 2022 and is projected to decline to 5.9% in 2024 on the back of lower commodity prices. The IMF expects that core Inflation is projected to decline more gradually.

Monetary policy actions remain important to keep inflation expectations anchored with returning inflation to targets. The successful calibration of monetary policy, and the course of global developments will determine the course of recovery of the global economy.

As for financial stability, concerns remain as high global interest rates are also affecting the cost of financing, especially in emerging markets and developing economies. Prolonged high interest rates will put strains on borrowers to meet debt payments and affect the repayment capacity of corporate and household borrowers as defaults are rising, especially in the real estate markets.

In the following sections, recent trends in the global economy are highlighted and the major financial and economic indicators during the second half of 2023.

1.2 Global Macro-financial Environment

Global economic recovery has been slow and uneven throughout the second half of the year 2023 amid high inflation, aggressive monetary tightening, and political instability. The Russia-Ukraine war and the conflict in the Middle east region have weighted on the world economy as they are disrupting trade, leading to shortages of materials, and contributing to soaring energy and commodity prices.

In its April 2024 WEO update, the IMF forecasted the global economy to fall from an estimated 3.5% in 2022 to 3.2% in 2023 and 2024.

1.2.1 Economic Performance

The global economy continues to recover slowly from the blows of the pandemic, Russia's invasion of Ukraine, and the cost-of-living crisis. The Russia-Ukraine war impacted the overall economic performance in Europe and considerably pushed up inflation throughout the continent in the last two years (4.7% in 2022 and 6% in 2023). Since then, economic activity in the EU was very subdued until the second half of 2023. Uncertainty and geopolitical tensions have put additional downward pressure on the financial sector in Europe which in turn amplified volatility and raised new concerns in the global financial markets. According to the IMF regional economic outlook, Europe faces the difficult task of sustaining economic growth, and preserving financial stability.

As Chart 1.1 shows, most European economies experienced slow growth. In its April 2024 WEO update, the IMF showed that Italy and Spain's growth rates dropped from 0.9% and 2.5% respectively in 2022 to 0.7 % and 1.9% respectively in 2023. Ireland's growth has witnessed a spectacular drop from 9.4% in 2022 to -3.2% in 2023.

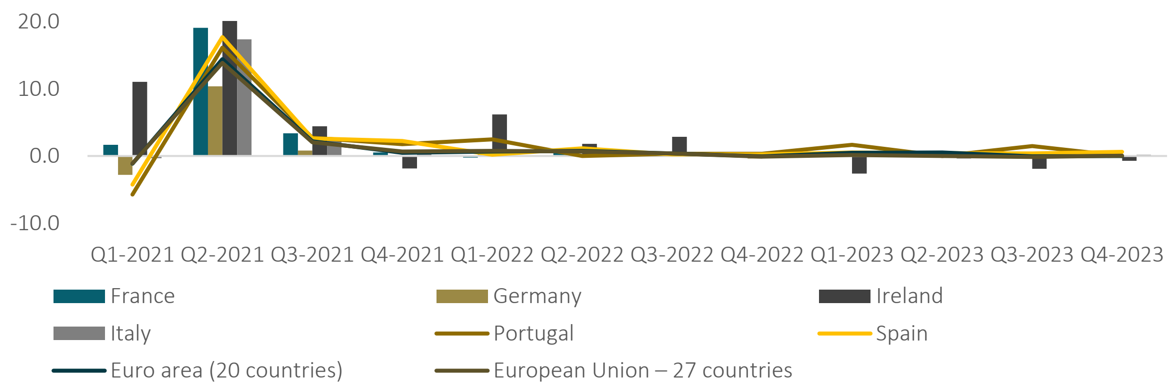
Regarding the two largest economies in the Eurozone, their performances decelerated in the second half of the year 2023 compared to what they achieved in 2022. Germany's economy was hit by sanctions on Russian gas since the third quarter of 2022. German economy is more dependent on heavy manufacturing exports than the other European countries, is currently facing an uncertain global trade environment and worker shortages. The IMF expects German economic growth to experience a recession by 0.3 %in 2023 and then to realize a modest growth by 0.2% in 2024 owing to elevated energy import prices and weak consumer confidence. As for France, tourism, increasing demand for services and luxury goods are fueling the country's economic resilience throughout 2023. According to the IMF WEO, France's growth rate will decelerate from 0.9% in 2023 to 0.7% in 2024.

Turning to the Euro Area (20 countries) and the European Union (EU) (27 countries) their economies have also experienced weak performance in 2023. The Russia-Ukraine war continues to negatively affect the EU economy, setting it on a path of lower growth and higher inflation. Growth in the Euro Area is expected to be 0.4% in 2023, lower from the 3.3% achieved in 2022. Annual average inflation is projected to peak at historical highs in 2023, at 6% in the Euro Area and 8% in the EU, before easing in 2024 to 2.9% and 5.1%, respectively.

According to the European Central Bank, the weaker growth momentum in the EU is expected to extend to 2024, and the impact of tight monetary policy is set to continue restraining economic activity. As the outlook for global growth and trade remains broadly unchanged compared to spring, the EU economy cannot count on strong support from external demand. However, a mild rebound in growth is still projected next year, as inflation keeps easing, the labor market remains robust and real incomes gradually recover.

Growing forward, growth in 2024 is now expected to reach 0.9% (from 1.3%) in the EU and 0.8% (from 1.2%) in the euro area. economic activity in the EU is expected to gradually accelerate again. As inflation continues to drop, real wages Re expected to grow. Inflation in Europe has been falling faster than expected in the past few months of 2024 largely driven by falling energy prices. According to the IMF, inflation in the EU should fall to 2.9% in 2024. The downward trend indicated that developed market central banks have likely reached the end of their hiking cycles. That has shifted attention to the timing and pace of eventual rate cuts.

Chart 1.1: Real GDP Growth in Selected Europeans Countries (Quaterly %) Seasonally Adjusted*



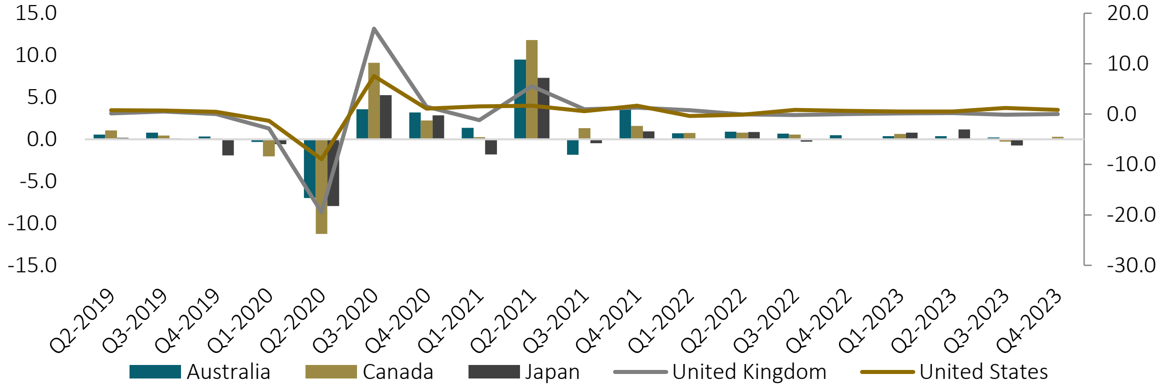
**Growth rate compared to the same quarter of previous year, seasonally adjusted.*
Source: OECD Quarterly National Accounts.

In the United Kingdom, after the economic activity returned to its pre-pandemic level in the beginning of 2023, new shocks hit the UK economy. The IMF forecast UK economic growth to reach 0.5% in 2023 and 1.5% in 2024, lower from the 4.1% realized in 2022.

The economic outlook for the United States has accelerated but than expected despite soaring energy and commodity prices, tighter labor market conditions and aggressive monetary tightening by the Federal Reserve. GDP growth is expected to grow by 2.5% in 2023 and by 2.7% in 2024.

Japan's economy returns to pre-pandemic levels. According to the IMF's world Economic Outlook, Japan is anticipated to see a steady growth by 1.9% for 2023 and then will slow to reach 0.9% in 2024.

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



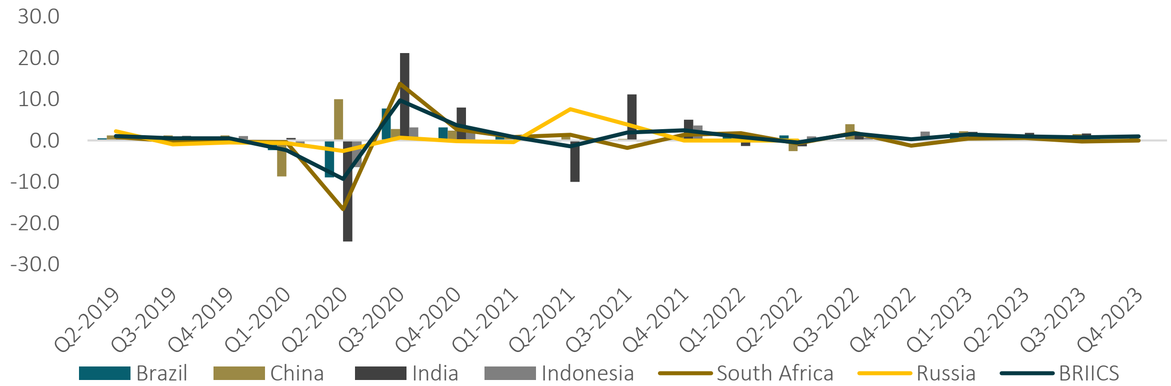
** Growth rate compared to the same quarter of previous year, seasonally adjusted*
Source: OECD Quarterly National Accounts.

As for emerging economies (Chart 1.3), the BRIICS countries' growth was weaker than expected as it reached the level of 1.0% in Q4/2023 from 1.5% achieved in Q1/2023. Recent data shows that China's GDP growth reduced to 0.8% in Q2 from 2.2% in Q1, showing a slowdown in the domestic economic recovery. The government has issued guidelines on boosting confidence in the private sector, and a new round of property easing measures to revive growth. The IMF recent update has maintained China's GDP growth forecast to 5.2% in 2023 compared to 3.0% in 2022 and, expects the economy growth by 4.6% in 2024.

Similarly for India, after rapid economic growth of 7% achieved in 2022, economic momentum has remained even strong in the second half of 2023. The IMF recent update has revised up India's GDP growth forecast to 7.8% for 2023 and 6.8% 2024.Recent economic indicators for India during the first half of 2023 continue to signal expansionary economic conditions driven by domestic demand.

Turning now to Brazil and South Africa, they are looking to rebuild fiscal buffers and have also begun normalizing monetary policy to head off upward price pressures. The IMF expected Brazil and South Africa to achieve growth rates by 2.9% and 0.6% respectively in 2023 and achieve growth rates of 2.2% and 0.9% in 2024.

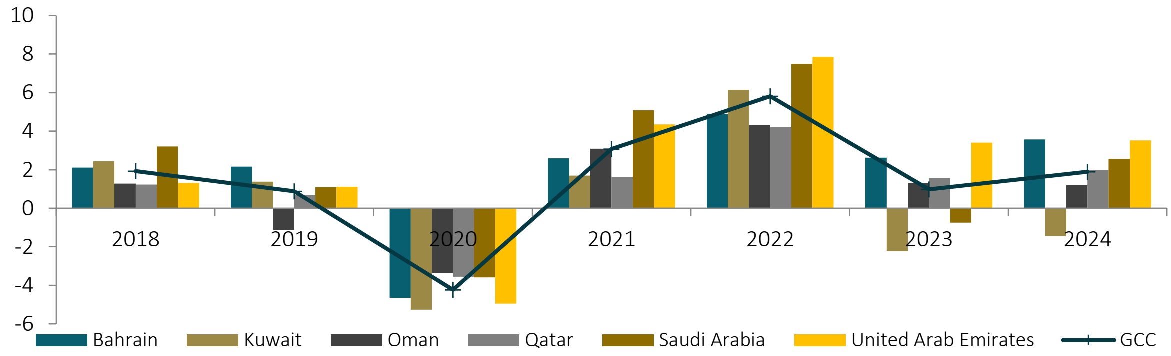
Chart 1.3: Quaterly Real GDP Growth in BRIICS (Quaterly %) *



**Growth rate compared to the same quarter of previous year, seasonally adjusted.*
Data on Russia growth in not available since Q1/2022.
Source: OECD Quarterly National Accounts.

Regionally, the rise in oil and energy prices have helped GCC country to build buffers and to improve their fiscal unbalances that the GCC countries have witnessed during the past few years. WEO for April 2024 projects UAE's real GDP to grow in 2023 by 3.4%, Qatar by 1.6%, Oman by 1.3%, Bahrain by 2.6% while Saudi Arabia and Kuwait are expecting to recessions by 0.8% and -2.2% respectively in 2023. In 2024, Bahrain will be experiencing the highest growth (3.56%), followed by UAE (3.51%), Saudi Arabia (2.55%), Qatar (2%) and Oman (1.2%) while Kuwait will be experiencing a recession by 1.43%.

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

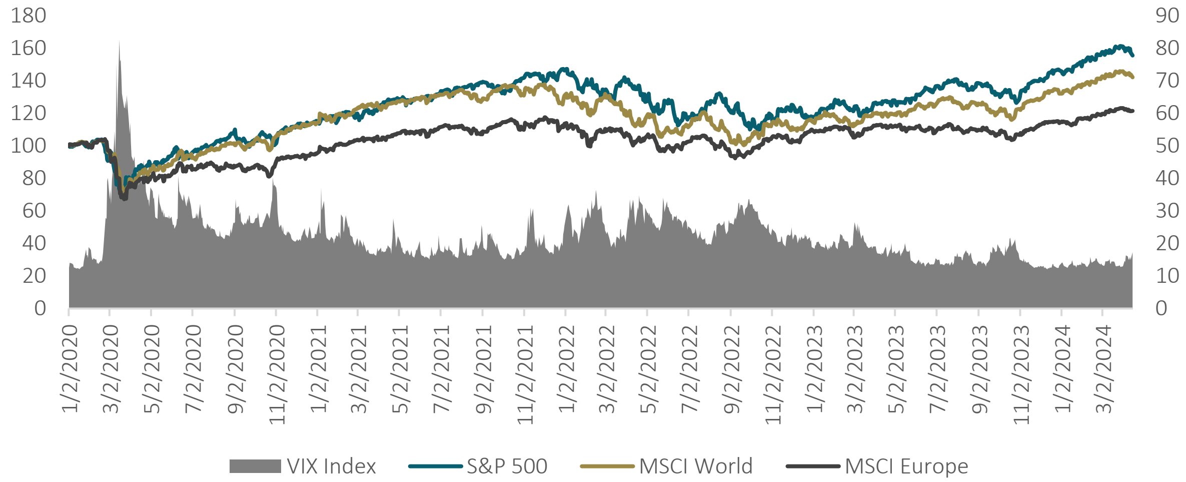


**Forecasts. Source: IMF Regional Economic Outlook, April 2024.*

1.2.2 Financial Markets

Overall financial market sentiment has remained po sitive on balance given the expected global recovery. The increasing number of concerns such as the Russia/Ukraine war, persistence of inflation and central bank tightening did not impact the performance of the equity market. In the US, the relative strength of the US economy had a positive impact on the US stock market. In last three months of 2023, the S&P 500 marked its biggest quarterly percentage jump since the fourth quarter of 2020. In the beginning of 2024, the S&P 500 was trading near its record closing high, which it reached in January 2022 before tumbling that year in its worst annual performance since 2008. As for The MSCI Europe value index has returned an average 5.6% in 2023.

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



Source: Bloomberg.

2 DEVELOPMENTS IN THE FINANCIAL AND NON-FINANCIAL SECTORS

HIGHLIGHTS

As at end 2023

Financial Sector % of GDP	Number of Licenses	Banking Sector Assets
17.8%	369	USD 238.5 bn ▲ 6.4% YoY

Retail Banking Assets	Wholesale Banking Assets	Islamic Banking Assets
USD 107.1 bn ▲ 5.3% YoY	USD 131.5bn ▲ 7.4% YoY	USD 38.2 bn ▲ 6.0% YoY

M2	Personal Credit	Business Credit
BD 14.7 bn ▲ 5.0% YoY	BD 5.8 bn ▲ 2.2% YoY	BD 5.0bn ▲ 1.4% YoY

- The size of the assets of the banking sector in Bahrain continued to grow reaching USD 238.5 billion as of December 2023.
- The retail banking sector assets increased to USD 107.1 billion and wholesale banking sector assets increased to USD 131.5 billion representing 44.9% and 55.1% respectively.
- The volume of credit increased by 3.6% to BD 11.3 billion in December 2022
- Household debt and business debt ratios witnesses an increase while business.
- As of end of 2023, outstanding Loans to SMEs represented 9.6% of total business lending and 4.1% of total lending.

2.1 Overview

This chapter assesses the recent developments of the Bahraini financial and non-financial sectors. The financial condition and performance of financial institutions depend on the their customers (households and business enterprises) and their vulnerabilities to changes in the economic environment. Not only are they sources of deposits, they represent major sources of demand for financial sector products and services.

2.2 Financial Sector Developments

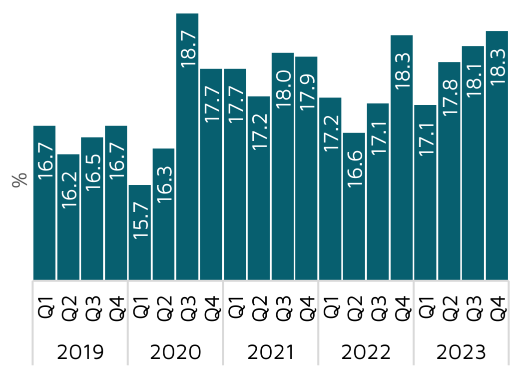
Bahrain's position as a regional financial center is essential to the development of its economy where the financial sector plays a significant role in economic activity and employment creation. The financial sector is the largest non-oil contributor to GDP representing 17.8% of real GDP in 2023 (compared to 17.5% in 2022, 17.7% in 2021, 17.1% in 2020). As of end of 2023 there were 369 licenses issued by CBB (bank and non-bank financial institutions). The banking sector in Bahrain was made up of 84 banks, categorized as follows:

- Retail banks: 30 retail banks that include 23 conventional (6 locally incorporated and 17 branches) and 6 Islamic retail banks.
- Wholesale banks: 54 wholesale banks that include 46 conventional (12 locally incorporated and 34 branches) and 8 Islamic wholesale banks.

The 278 non-banking financial institutions operating in Bahrain include investment business firms, insurance companies (including Takaful and Re-Takaful firms), representative offices and specialized licenses.

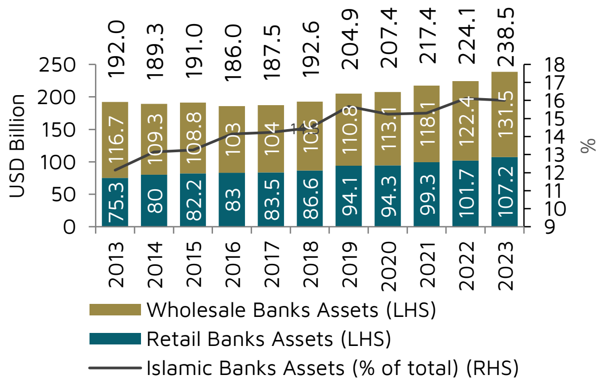
The size of the assets of the banking sector in Bahrain was USD 238.5 billion as of December 2023 (6.4% YoY increase). Growth in Retail and Wholesale banking continued in 2023 with YoY growth of 0.1% and 0.7% respectively. As for the Islamic banking sector, it grew steadily with a 6.0% YoY growth and represented 16.0% of the size of the banking sector.

Chart 2.1: Size of the Financial Sector to Real GDP



Source: Information and e-Government Authority (IGA).

Chart 2.2: Banking Sector Asset Composition

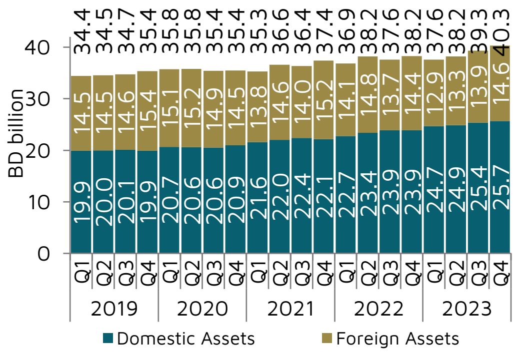


Source: CBB Monthly Statistical Bulletin.

2.2.1 The Retail Banking Sector

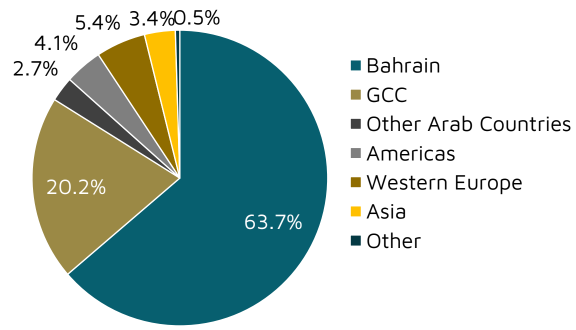
Retail banking assets continued to grow reaching BD 40.3 billion (USD 107.1 billion) in December 2023 with a 5.3% year-on-year (YoY) increase (see Chart 2.3). As of December 2023, domestic assets comprised 63.7% of total assets with a YoY growth of 7.4% while foreign assets comprised 36.3% of total assets with a YoY increase of 1.3%.

Chart 2.3: Retail Banks' Assets



Source: CBB Monthly Statistical Bulletin.

Chart 2.4: Retail Banks' Assets (%) by Geographical Classification (Dec. 2023) *



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

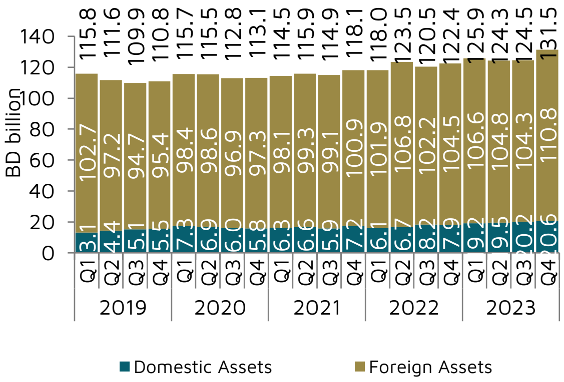
According to the geographical classification of the retail banking sector in Bahrain, the sector is exposed to foreign risk regionally from GCC countries and lightly exposed to Western Europe and U.S as the share of GCC assets of total retail banking assets was 20.2% and European and the Americas contribution was 9.5%.

2.2.2 The Wholesale Banking Sector

The size of the wholesale banking sector increased to USD 131.5 billion in December 2023 with a YoY growth of 7.4%. As of December 2023, domestic assets represented 15.7% of total assets and witnessed a YoY growth of 15.0% while foreign assets made 84.3% of total assets with a 6.1% YoY increase in assets. (See Charts 2.5).

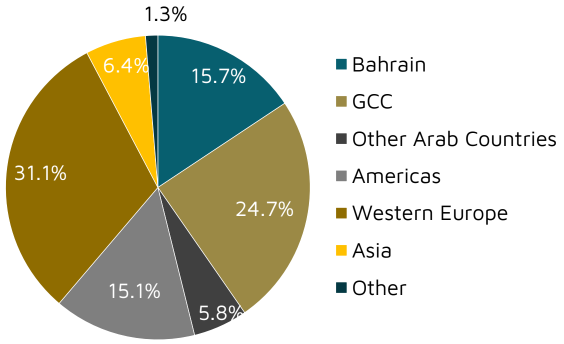
According to the geographical classification of wholesale banks' assets, wholesale banks are exposed to foreign risk from Western Europe and GCC countries. The share of GCC assets decreased to 27.3% in December 2022, which used to represent the larger portion of wholesale bank assets. The share of Western Europe's total assets decreased to 31.1%, remaining the largest portion of wholesale bank assets. The share of America's total assets increased to 15.1% and Asian assets decreased to 6.4% in December 2023.

Chart 2.5: Wholesale Banks' Assets



Source: CBB Monthly Statistical Bulletin.

Chart 2.6: Wholesale Banks' Assets by Geographical Classification (Dec. 2023) *

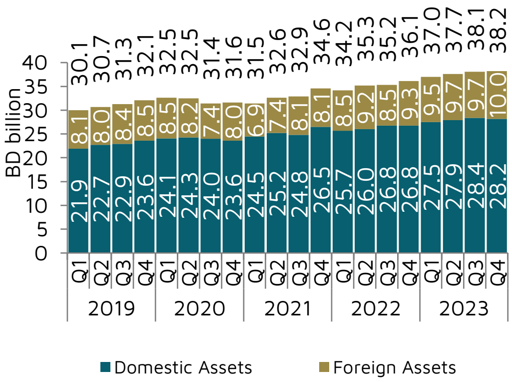


** For conventional and Islamic wholesale banks.*
Source: CBB Monthly Statistical Bulletin.

2.2.3 The Islamic Banking Sector

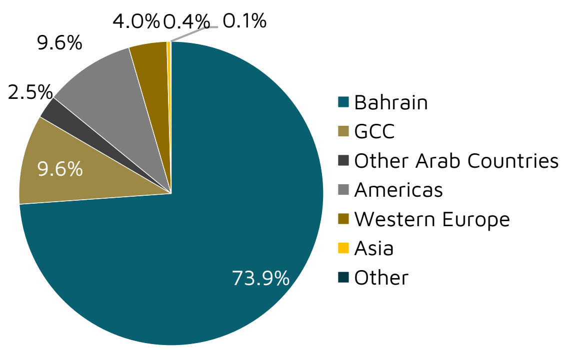
The size of the Islamic banking sector increased to USD 38.2 billion as of December 2023 indicating a 6.0% YoY increase. Domestic assets represented 73.9% of total Islamic banking assets in the sector (5.4% YoY increase) while foreign assets represented 26.1% of total Islamic banking assets (7.7% YoY increase). Islamic banks continue to be majorly exposed to domestic risks as the share of Bahrain's total assets decreased to 73.9% in December 2022 followed by the GCC (9.6%).

Chart 2.7: Islamic Banks' Assets



Source: CBB Monthly Statistical Bulletin.

Chart 2.8: Islamic Banks' Assets by Geographical Classification (Dec. 2023)



Source: CBB Monthly Statistical Bulletin.

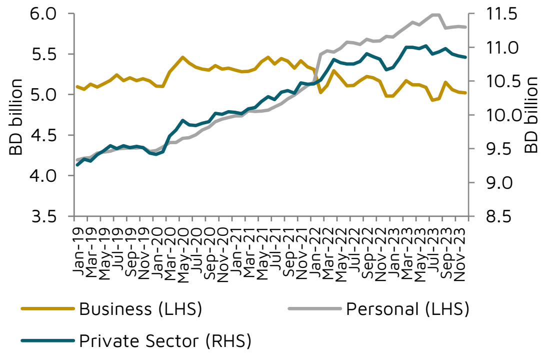
2.2.4 Islamic Windows

There are a number of conventional retail banks in Bahrain that maintain Islamic windows offering Islamic banking services/products to clients who are interested in Sharia-compliant banking. As of December 2023, there were 5 Islamic windows operating by conventional retail licenses in Bahrain with total assets of BHD 8.6 billion (21.3% of retail banking assets). As of December 2023, 39.7% of total assets were domestic (101.8% YoY increase) while 60.3% were foreign (1,162.1% YoY increase).

2.3 Credit Developments

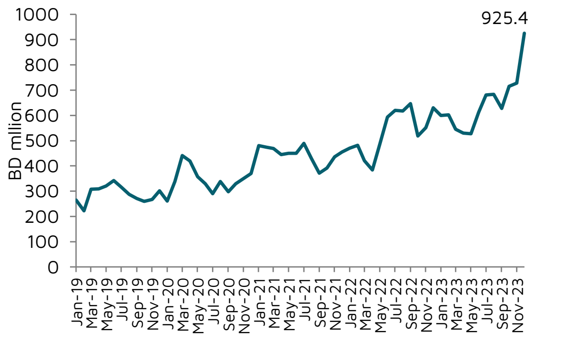
Domestic credit by retail banks increased from BD 11.3 billion in December 2022 to BD 11.8 billion in December 2023 with a 4.3% YoY increase. Credit given to the private sector (business and personal) witnessed a YoY increase of 1.7% moving from BD 10.7 billion in December 2022 to BD 10.9 billion in December 2023 (Chart 2.9). Business lending contributed 42.6% of total lending and personal lending contributed 49.5%. The personal sector was the main driver of the growth in credit financing in 2023 led mainly by mortgage lending. Regarding retail banks' lending to the general government, there was an increase of BD 295.5 million (46.9% YoY increase) at end 2023 reaching BD 925.4 million (Chart 2.10).

Chart 2.9: Loans to the Private Sector*



Source: CBB Monthly Statistical Bulletin.
** Excluding securities.*

Chart 2.10: Loans to General Government*

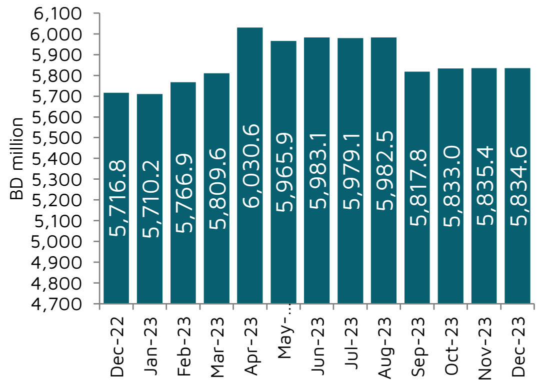


Source: CBB Monthly Statistical Bulletin.
** Excluding securities.*

2.3.1 The Households/Personal Sector

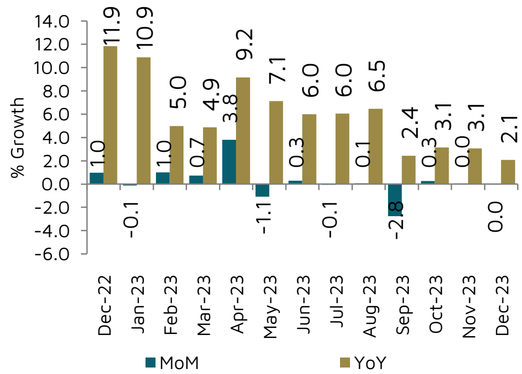
The household/personal sector in Bahrain plays an important role in financial stability and the overall economy. Outstanding personal loans, used as a proxy for household borrowing, shows an increase of 2.2% in 2023 reaching BD 5.8 bilion (Chart 2.11). Personal loans as a percentage of GDP decreased to 35.0% by December 2023.

Chart 2.11: Personal Loans



**Using 2022 forecasted GDP.*
Source: CBB Monthly Statistical Bulletin.

Chart 2.12: Growth Rates of Total Personal Loans and Advances (%)



Source: CBB Monthly Statistical Bulletin

The monthly growth rate in total personal loans and advances fluctuated in 2023. It rose to reach its highest level for the year of 3.8% in April 2023 and later fell to reach 0.0% in December 2023. On a yearly basis, the biggest YoY increase was in January 2023 where the personal loans and advances were at 10.9% which then dropped to 2.1 in December 2023.

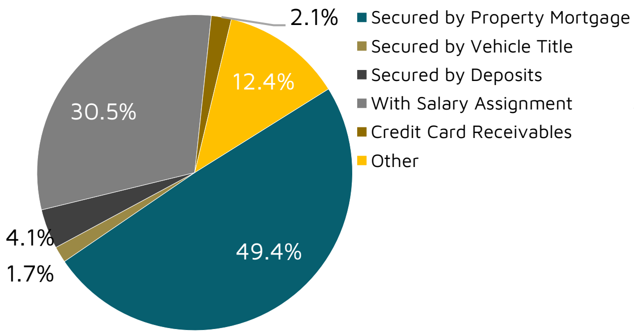
The two main contributors to personal loans remain to be personal loans secured by property mortgages which made up 49.0% of the total personal loans followed by personal loans secured with salary assignments at 30.1% of total personal loans.

Table 2.1: Personal Loans Breakdown

BD million	2019	2020	2021	2022	2023	% YoY
Total	**4,296.2**	**4,717.3**	**5,110.7**	**5,716.8**	**5,834.6**	**5.0**
Secured by Property Mortgage	1,953.2	2,197.9	2,261.5	2,760.8	2,880.3	7.9
Secured by Vehicle Title	123.0	118.1	109.2	106.6	97.1	4.0
Secured by Deposits	140.1	187.6	133.7	129.4	236.9	41.4
With Salary Assignment	1,577.4	1,700.4	1,933.0	1,915.0	1,778.5	-3.7
Credit Card Receivables	104.0	92.2	99.5	84.2	119.9	8.1
Other	398.5	421.1	573.8	720.8	721.9	-12.1

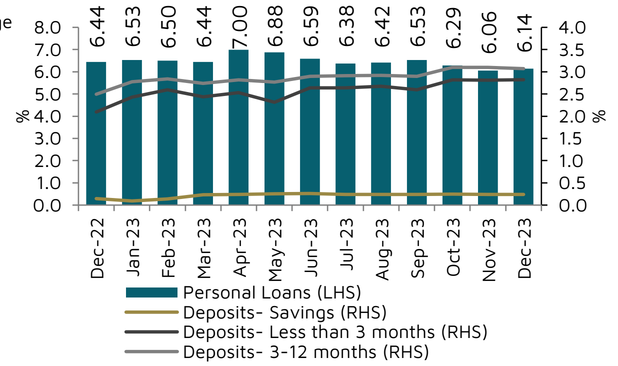
Source: CBB Monthly Statistical Bulletin.

Chart 2.13: Personal Loans Breakdown (Dec. 2023)



Source: CBB Monthly Statistical Bulletin.

Chart 2.14: Retail Banks- Average Interest Rates on Personal Loans and Deposits (%)



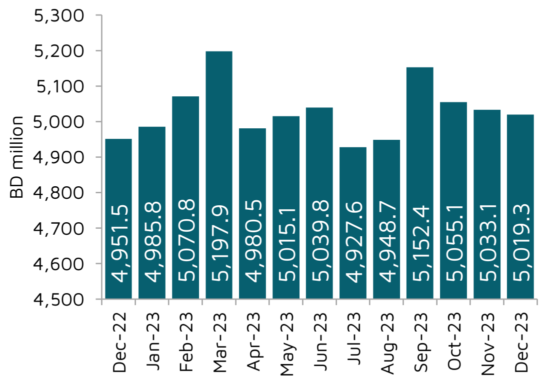
Source: CBB Monthly Statistical Bulletin.

Interest rates on personal loans started off at 6.44% in December 2022 and decreased to 6.14 in December 2023 (Chart 2.14). The chart also shows the retail deposit rate for: Saving deposits, time deposits less than 3 months, and time deposits 3 months to 12 months over the same period. The increase in rates is a reflection the CBB raisings its key policy interest rate multiple times throughout 2022 and 2023.

2.3.2 The Bahraini Corporate/Business Sector

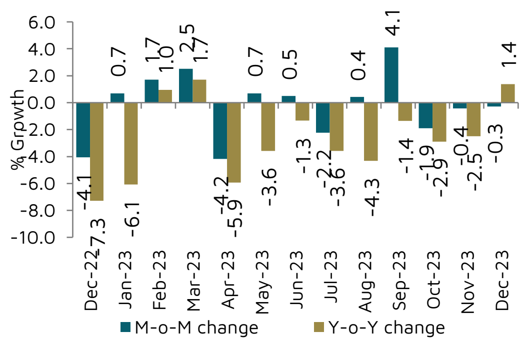
Business loans and advances grew by 1.4% between December 2022 and December 2023 from BD million 4,951.5 in December 2022 to BD million 5,019.3 (Chart 2.15). Outstanding business loans as a percentage of GDP increased to 30.1% in 2023.

Chart 2.15: Business Loans



Source: CBB Monthly Statistical Bulletin.

Chart 2.16: Growth Rates of Total Business Loans and Advances (%)



Source: CBB Monthly Statistical Bulletin.

The monthly growth rate in total personal loans and advances fluctuated between December 2022 and December 2023. Initially -4.1% in December 2022 it increased to reach its highest level for the year 4.1% in September 2023 before falling to -0.3% in December 2023. The highest YoY growth was March 2023 (1.7 %).

The biggest contributors to business loans in December 2023 were the construction and real estate sector (30.6%) followed by manufacturing (27.1%), and then trade (15.3%) (Chart 2.17).

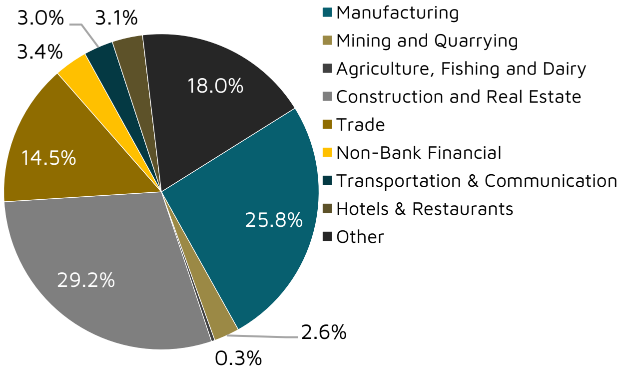
Table 2.2: Business Loans by Sector

BD million	2019	2020	2021	2022	2023	% YoY
Total	**5,138.6**	**5,326.9**	**5,341.2**	**4,951.5**	**5,019.3**	**1.4**
Manufacturing	1,068.1	1,173.8	1,292.3	1,221.3	1,359.2	11.3
Mining and Quarrying	86.7	150.8	74.7	145.1	137.4	-5.3
Agriculture, Fishing and Dairy	6.7	12.1	13.2	16.6	18.3	10.2
Construction and Real Estate	1,841.4	1,932.0	2,009.6	1,651.7	1,537.5	-6.9
Trade	1,071.0	934.4	903.9	814.0	766.8	-5.8
Non-Bank Financial	251.8	227.5	169.5	169.2	179.6	6.1
Transportation & Communication	127.2	209.0	147.5	144.7	159.0	9.9
Hotels & Restaurants	151.6	188.1	196.1	161.4	165.1	2.3
Other Sectors	534.1	499.2	534.4	627.5	950.5	51.5

Source: CBB Monthly Statistical Bulletin.

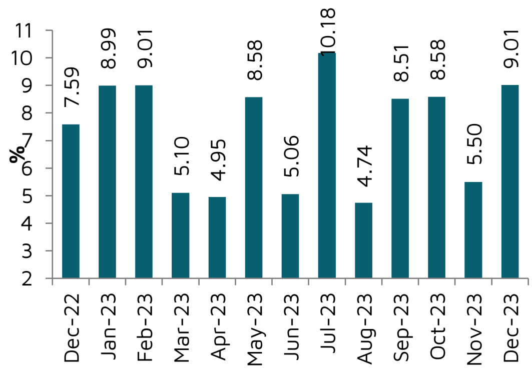
Average interest rates on business loans fluctuated throughout the first half of 2023, but had an overall decreasing trend. It was at its peak in February 2023 at 9.01% and reached 5.06% in June 2023 (Chart 2.18).

Chart 2.17: Business Loans by Sector (Dec. 2023)



Source: CBB Monthly Statistical Bulletin.

Chart 2.18: Retail Banks' Average Interest Rates on Business Loans



Source: CBB Monthly Statistical Bulletin.

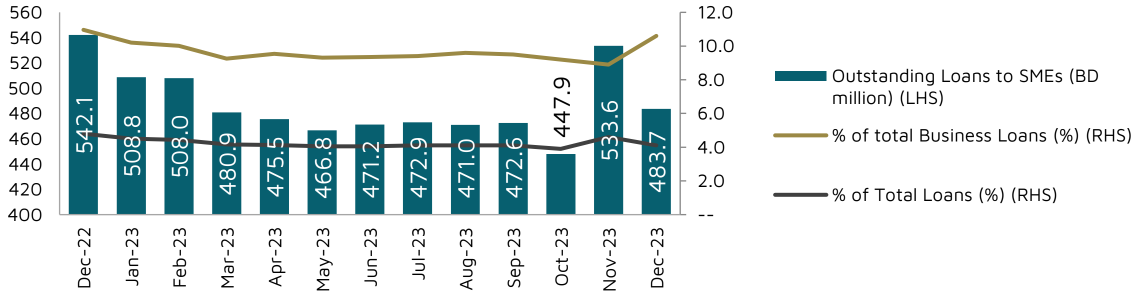
2.3.3 SMEs

The Kingdom of Bahrain has been able to establish a number of institutional frameworks to create an ecosystem conducive for start-ups and for the growth of small- and medium-sized enterprises (SMEs). CBB regonizes the role that SME's play in the economic growth in Bahrain and the importance of funding requiremed to help the sector

Within the Financial Sector Development Strategy 2022-2026, the CBB has indicated its efforts in strengthening of financing mechanisms available SMEs. CBB continues its efforts with the banking sector to help to make SME financing more accessible and affordable by encouraging banks to lend more to SMEs to help boost further the growth of the SME sector, which is a vital part of the Bahraini economy.

As of end of December 2023, outstanding Loans to SMEs were BD 483.7 million representing 9.6% of total business lending and 4.1% of total lending.

Chart 2.19: SME Loans



Source: CBB Monthly Statistical Bulletin.

2.4 Monetary Indictors

Money supply continued to grow in 2023 M2 stood at BD 14,689.9 million in December 2023, 5.0% higher than its value of December 2022. M3 was at BD 15,966.3 million in December 2023, 5.5% higher than in December 2023 (Table 2.3). Table 2.3 sets out an analysis of Bahrain's M1, M2 and M3 money supply as at the dates indicated.

Table 2.3: Money Supply Composoition

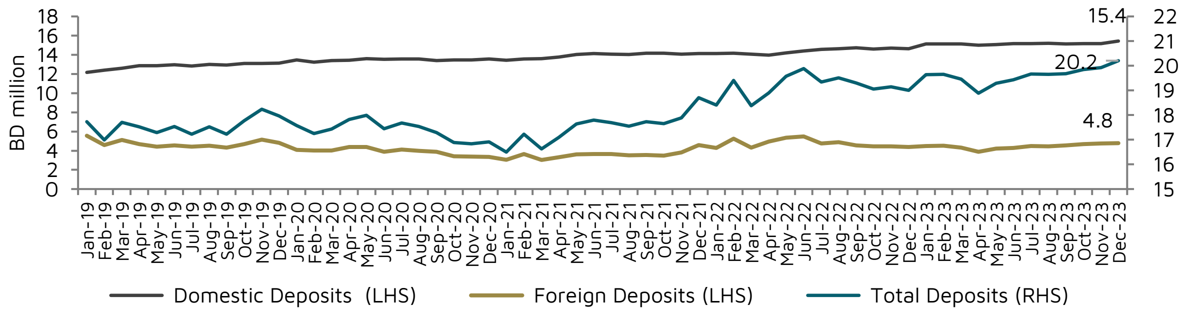
BD million	2019	2020	2021	2022	2023	% YoY
Currency Outside Banks	535.1	593.0	558.0	506.5	531.9	5.0
Demand Deposits	2978.5	3.288.0	3,952.0	3,398.5	3,207.5	(5.6)
M1	**3,513.6**	**3,880.9**	**4,510.0**	**4,214.0**	**4,109.7**	**(2.5)**
Time & savings deposits	8,538.6	8,959.0	8,955.4	10,079.7	10,950.5	8.6
M2	**12,052.2**	**12,840.0**	**13,465.4**	**13,984.8**	**14,689.9**	**5.0**
General Government Deposits	1,619.7	1,311.3	1,418.8	1,150.6	1,276.4	10.9
M3	**13,671.9**	**14,151.3**	**14,884.2**	**15,135.4**	**15,966.3**	**5.5**

Source: CBB Monthly Statistical Bulletin.

As of December 2023, growth in money supply was stimulated by a growth in savings deposits. Time and savings deposits increased by 8.6% from BD 10,079.7 million in December 2022 to BD 10,950 million in December 2023, while demand deposits decreased below December 2022 levels.

Total deposits reached BD 20.2 billion in December 2023 with a 6.3% YoY increase (where domestic deposits represent 76.4% of total deposits and had a YoY increase of 5.25% During 2023, savings were boosted with increases in time deposits as customers were benefiting from the higher interest rates on deposits. Deposits continued a gradual upwards trajectory in line with the growth of the economy.

Chart 2.20: Total Deposits (BD billion)



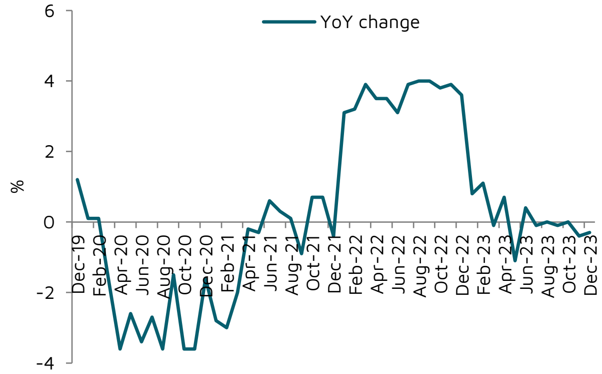
Source: CBB Monthly Statistical Bulletin.

2.5 Inflation

CBB maintains the Bahraini Dinar's peg against the U.S. Dollar, which has provided price stability over the years and as a result managed to keep inflation relatively stable. Bahrain's inflation is measured by its Consumer Price Index (CPI) and includes 12 broad categories of consumer goods that are representative of consumption patterns in the economy.[1]

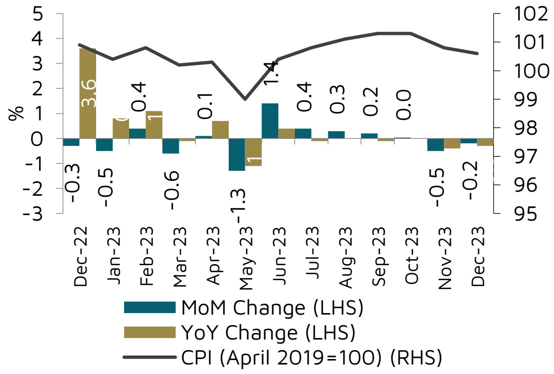
As of December 2023, the Consumer Price Index (CPI) increased to 100.6 points. The annual average rate of inflation in 2023 was-0.3% (compared to 3.6 for 2022). The largest year-on-year price increase was recorded in February 2023 when prices increased by 1.1%.

Chart 2.21: CPI Change (Dec. 2019 – Dec. 2023)



Source: IGA.

Chart 2.22: Monthly Inflation Rate (Dec. 2022 –Dec. 2023)



Source: IGA.

The divisions which made the largest upward contribution to the CPI in 2023 were the food and non-alcoholic beverages group. The divisions which made the largest downward contribution to the CPI in 2023 were the 'housing, water, electricity, and gas' and 'transport' groups.

[1] The index has been rebased to April 2019=100, with effect from May 2019, which resulted in certain methodological changes which include updating the expenditure weight, revising the sample of goods and services and improving the methods of price collection. Components are: food and non-alcoholic beverages; alcoholic beverages, tobacco and narcotics; clothing and footwear; housing, water, electricity, gas and other fuels; furnishing, household equipment and routine household maintenance; health; transport; communication; recreation and culture; education; restaurants and hotels; and miscellaneous goods and services.

PART II:
DEVELOPMENTS IN THE BANKING SECTOR

3 PERFORMANCE OF THE BANKING SECTOR

HIGHLIGHTS

Q4 2023

CAR	Tier 1 CAR	Assets-to-Capital
19.7% ▲ 0.2% YoY	18.1% ▲ 0.0% YoY	8.9 ▼ 0.1 YoY
NPL Ratio	**Specific Provisions Ratio**	**ROA**
2.9% ▼ 0.1% YoY	59.8% ▼ 8.7% YoY	1.3% ▲ 0.1% YoY
ROE	**Liquid Asset Ratio**	**Loan/Deposit Ratio**
9.3% ▲ 0.8% YoY	25.7% ▲ 0.4% YoY	62.5% ▼ 6.0% YoY

- Increase in capital positions. Capital positions remain strong.
- Improvement in asset quality with continued decreasing trend in NPL ratio.
- Loan portfolios remain concentrated in some sectors with no significant change from the previous quarter.
- Stable positive earnings for banks.
- Liquidity position remains resilient.

3.1 Overview

This chapter offers an assessment of the banking sector in Bahrain.[2] Macro-prudential analysis of the entire banking sector is performed based on a set of selected Financial Soundness Indicators (FSIs). The banking sector in Bahrain is divided into four segments: conventional retail (CR), conventional wholesale (CW), Islamic Retail (IR), and Islamic wholesale (IW). The performances of conventional and Islamic banking segments are analyzed separately in in Chapters 4 and 5. Annex 1 and Annex 2 presents selected FSIs for the different banking segments. [3]

[2] Chapters 3, 4, and 5 cover the period between Q4 2022 and Q4 2023, unless otherwise indicated.

[3] Chapters 3, 4, and 5 do not contain sections on stress testing. Stress testing exercises are performed separately in an internal report.

Despite recent global macroeconomic developments in regard to inflationary pressures and monetary tightening, there was no impact on the Bahraini banking sector. Capital and liquid positions remained strong during the peak of COVID-19 related volatility and Bahraini banks' profitability continued to improve post-COVID. FSIs continued to show ample levels of capital and liquidity, low levels of defaults and adequate levels of provisions coverage.

CBB conducted liquidity stress tests of Bahraini retail banks that showed overall banking sector stability. The tests assessed the resilience of the banks against the backdrop of market uncertainty and the banking sector crisis in March 2023. Results indicated that the overall banking system can withstand these hypothetical adverse scenarios.

3.2 Overall Banking Sector Performance

3.2.1 Capital Adequacy

Strong capital position with an overall increasing trend

The capital adequacy ratio[4] (CAR) for the banking sector stood at 19.7% in December 2023 increasing by 0.2% compared to December 2022. The core capital ratio (ratio of Tier 1 capital to risk-weighted assets) showed an increase from 18.1% December 2022 to 18.1% in December 2023. Whereas the leverage ratio (ratio of assets over capital) decreased to 8.1 times during the same period.

Table 3.1: Capital Provision Ratios

Indicator*	Q4 2022	Q2 2023	Q4 2023	YoY Change
All Banking				
CAR (%)	19.5	19.3	19.7	0.2
Tier 1 CAR (%)	18.1	17.8	18.1	0.0
Assets/Capital (Times)	8.2	9.0	8.1	-0.1
All Retail				
CAR (%)	21.5	21.6	21.5	0.0
Tier 1 CAR (%)	20.0	17.7	20.0	0.0
Assets/Capital (Times)	7.8	8.0	8.1	0.3
All Wholesale				
CAR (%)	17.7	17.0	17.9	0.2
Tier 1 CAR (%)	16.2	15.4	16.3	0.1
Assets/Capital (Times)	8.6	10.1	9.8	1.2

Source: CBB.

3.2.2 Asset Quality

Continued improvement in asset quality with decreasing NPL and strong provisions

The non-performing loans (NPLs) ratio continued its decrease reaching 2.9% in December 2023 from 3.0% in December 2022. The specific provisions as a proportion of NPLs continued to fall, decreasing to 59.8% in December 2023 from 68.5% in December 2022. During the pandemic, banks were required to assess credit exposures and be more prudent in determining any additional provision during the pandemic resulting in an increase in provisioning. Banks have gradually reduced their provisions to pre-pandemic levels as the economic outlook and business activity improved.

[4] The capital adequacy ratio relates total capital to risk-weighted assets (RWA). The indicator excludes overseas retail banks, which do not have prescribed capital levels or ratios.

Table 3.2: NPL Ratios (Q4 2023)

Indicator	Q4 2022	Q2 2023	Q4 2023	YoY Change
All Banking				
NPLs (% Total Loans)	3.0	3.1	2.9	-0.1
Specific provisions (% of NPLs)*	68.5	61.8	59.8	-8.7
All Retail				
NPLs (% Total Loans)	3.7	4.0	3.8	0.1
Specific provisions (% of NPLs)*	68.0	61.1	58.9	-9.1
Al Wholesale				
NPLs (% Total Loans)	2.4	2.2	2.2	-0.2
Specific provisions (% of NPLs)*	69.2	63.0	61.0	-8.2

Source: CBB.

Data on NPLs by time segment (up to 1 year, 1 year to 3 years, and over 3 years) show that the majority of NPLs in the banking sector are for a period of over 3 years (41.4% of total NPLs). NPLs for over 3 years represented 1.2% of total gross loans. Specific provisioning for NPLs decreases as they are non-performing for longer periods of time. As seen in Table 3.3, NPLs for a period of more than 3 years are provisioned by 61.1%.

Table 3.3: NPL Ratios and Specific Provisions by Time Period (Q4 2023)

Indicator	Up to 1 year	1 up to 3 years	Over 3 years	Total
All Banking				
NPLs (% Total Loans)	1.1	0.6	1.2	2.9
Specific Provisions (% of NPLs)	46.9	68.0	61.1	59.8
All Retail				
NPLs (% Total Loans)	2.0	0.7	1.2	3.8
Specific Provisions (% of NPLs)	46.9	68.0	61.1	58.9
All Wholesale				
NPLs (% Total Loans)	0.5	0.5	1.2	2.2
Specific Provisions (% of NPLs)	53.4	63.8	50.7	61.0

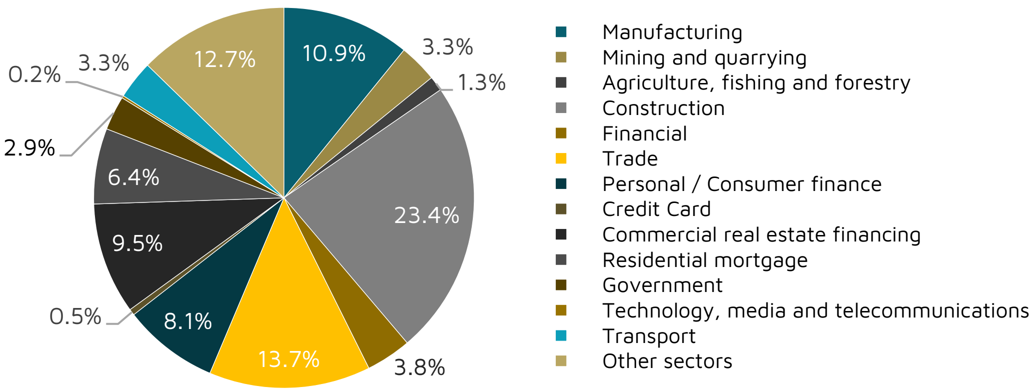
Source: CBB.

Chart 3.1: NPLs by Time Period (%)

Source: CBB.

The NPLs were concentrated in construction (23.4%), trade (13.8%) and manufacturing (10.9%) as indicated in chart 3.2.[5]

Chart 3.2: NPLs Concentration by Sector (Q4 2023)



Source: CBB.

[5] The other sectors category includes sectors such as private banking, services, tourism, and utilities.

Data on the sectoral breakdown of NPLs ratios (NPLs per sector as a percentage of gross loans in each sector) shows an increase in impairment in some sectors, while some experience a decrease, and others remain unchanged (Table 3.4). The highest increase was in commercial real estate financing by 1.8%. The highest decrease was in the mining and quarrying sector, which was 1.6%.

Table 3.4: NPL Ratios by Sector (%)

Sector	Q4 2022	Q2 2023	Q4 2023	YoY Change
Manufacturing	3.8	2.8	2.4	-1.4
Mining and quarrying	5.9	4.8	4.3	-1.6
Agriculture, fishing and forestry	2.0	2.4	2.0	0.0
Construction	7.0	6.8	7.2	0.2
Financial	0.7	0.7	0.6	-0.1
Trade	6.6	6.2	6.2	-0.4
Personal / Consumer finance	2.2	2.3	2.8	0.6
Credit Card	2.6	2.9	2.9	0.3
Commercial real estate financing	2.7	4.6	4.5	1.8
Residential mortgage	3.5	3.8	2.9	-0.6
Government	0.4	1.2	1.1	0.7
Technology, media and telecommunications	1.1	0.4	0.4	-0.7
Transport	3.5	3.1	3.2	-0.3
Other sectors	2.6	2.3	2.7	0.1

Source: CBB.

Loan portfolios face slight fluctuations and remain concentrated in some sectors.

The loan portfolio of the banking system remains concentrated in some sectors yet no sector exceeding 20% of total loans. Financial represented the highest exposure with 19.0% of total loans in December 2023. Manufacturing followed with 13.1% and construction stood at 9.4% of total loans.

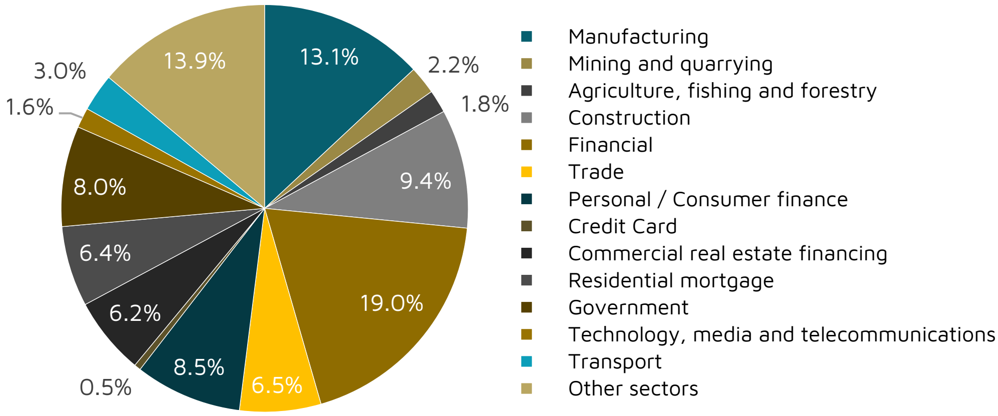
Table 3.5: Lending Distribution (% Total Loans)

Sector	Q4 2022*	Q2 2023*	Q4 2023*	YoY Change
Manufacturing	12.4	13.1	13.1	0.7
Mining and quarrying	1.6	2.0	2.2	0.6
Agriculture, fishing and forestry	1.4	1.4	1.8	0.4
Construction	10.1	9.5	9.4	-0.7
Financial	15.0	16.8	19.0	4.0
Trade	6.5	7.5	6.5	0.0
Personal / Consumer finance	9.7	9.6	8.5	-1.2
Credit Card	0.5	0.5	0.5	0.0
Commercial real estate financing	9.2	8.9	6.2	-3.0
Residential mortgage	6.2	5.7	6.4	0.2
Government	7.3	6.5	8.0	0.7
Technology, media and telecommunications	1.8	1.7	1.6	-0.2
Transport	2.9	2.8	3.0	0.1
Other sectors	15.3	14.0	13.9	-1.4
Top Two Sectors (%)	30.3	30.8	32.9	2.6
Real Estate/ Construction Exposure (%) **	25.6	24.1	22.0	-3.6

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

The top two recipient sectors, financial and other sectors, jointly represented 32.9% of loans in December 2023, a slight increase from the 30.3% in December 2022. Exposure to real estate/construction was 22.0% of total lending in December 2023, a moderate decrease from 25.6% registered in December 2022.

Chart 3.3: Lending Distribution (% Total Loans)



Source: CBB.

3.2.3 Profitability

Profitability remains positive.

The overall banking sector's profitability indicators have been stable between June 2022 to June 2023 and remain robust. Return-on-assets (ROA) increased to 0.7% in June 2023 from 0.6% in June 2022. As of June 2023, return-on-equity (ROE) increased to 5.3% from 4.8% in June 2022. Net interest income (as a % of total income) stood at 66.9% in June 2023. In addition, operating expenses as a proportion of total income was 44.4% in June 2023, a decrease from the 46.1% registered in June 2022.

Table 3.6: Profitability

Indicator	Q4 2022	Q4 2023	YoY Change
All Banking			
ROA (%) *	1.2	1.3	0.1
ROE (%) **	8.5	9.3	0.8
Net Interest Income (% Total Income) ***	70.3	69.2	-1.1
Operating Expenses (% Total Income)	50.4	46.6	-3.8
All Retail			
ROA (%) *	1.3	1.4	0.1
ROE (%) **	10.9	11.6	0.7
Net Interest Income (% Total Income) ***	76.8	77.6	0.8
Operating Expenses (% Total Income)	52.8	47.1	-5.7
All Wholesale			
ROA (%) *	1.2	1.1	-0.1
ROE (%) **	5.3	6.4	1.1
Net Interest Income (% Total Income) ***	64.4	62.6	-1.8
Operating Expenses (% Total Income)	47.8	46.1	-1.7

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

3.2.4 Liquidity

Liquidity positions remain comfortable.

Between December 2022 and December 2023, the overall loan-deposit ratio decreased from 66.5% to 62.5%. Liquid assets as a proportion of total assets increased by 0.4% to 25.7% over the same period.

Table 3.7: Liquidity

Indicator	Q4 2022	Q2 2023	Q4 2023	YoY Change
All Banking				
Liquid Asset Ratio (%)	25.3	23.4	25.7	0.4
Loan-Deposit Ratio (%)	66.5	66.2	62.5	-4.0
All Retail				
Liquid Asset Ratio (%)	29.1	27.9	29.0	-0.1
Loan-Deposit Ratio (%)	68.2	76.8	65.2	-3.0
All Wholesale				
Liquid Asset Ratio (%)	22.1	20.0	23.3	1.2
Loan-Deposit Ratio (%)	64.9	58.7	60.6	-4.3

Source: CBB.

Liquidity indicators such as liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) remained above CBB's requirements and guidelines. LCR for locally incorporated retail banks (conventional and Islamic) was 205.2% and NSFR was 131.1%.

3.3 Developments in Regulation and Initiatives

The following section sheds light on the regulatory and policy initiatives that took place in 2023 for the banking and financial sector:

Table 3.8: Key Banking Sector Regulatory and Policy Developments 2023

Item	Description
Amendments to the Credit Risk Management Module (Module CM)- Sovereign Debt	The CBB in January 2023, amended Module CM requiring banks to calculate Expected Credit Loss using the methodology under IFRS 9 for exposures to sovereigns which were previously subject to impairment loss assessments using the sovereign debt matrix.
Amendments to the Financial Crime and AML Modules (Module FC & AML)	The CBB in January 2023, introduced amendments to Module FC and AML for all licensees, requiring them to report to CBB any assets frozen or actions taken in compliance with the prohibition requirements of the relevant UNSCRs, including attempted transactions.
Guidance Paper – Trade-Based Money Laundering	The CBB in February 2023, issued a guidance paper to all licensees to assist financial institutions in understanding trade-based money laundering and the means of identifying suspicious activities associated with it.
Amendments to the Credit Risk Management Module (Module CM)- Non-performing loans	The CBB in February 2023, issued amendments to the credit risk management Module for all retail banks, after completing the consultation with the financial sector. The amendments included the addition and classification of purchased or originated credit impaired exposures (POCI) that are in default or impaired as part of non-performing exposures. Such exposures maybe reclassified as performing subject to meeting certain conditions stipulated in the Module .The amendments also included reclassifying non-performing exposures from stage 3 to the stage 2, for retail clients (natural persons), for a period of three months for loans/facilities with monthly instalments and six months for loans/facilities with quarterly instalments
Revised High Level Controls Module (Module HC)- Conventional and Islamic Banks	The CBB in March 2023, issued a revised High-Level Controls (HC) Module which is in line with the Basel Committee on Banking Supervision Paper "Principles of Corporate Governance" for Conventional and Islamic Banks under the CBB Rulebook – Volumes 1 and 2 and related amendments in the CBB Reporting Requirements (BR), Operational Risk Management (OM) and Public Disclosures Requirements (PD) Modules. The newly added requirements in Module HC were effective from 1st October 2023. All banks were required to assess the changes required to their policies, procedures, processes and systems to ensure full compliance with the requirements and provide the CBB with a gap analysis and an action plan for implementation no later than 31st May 2023.

Amendments to Crypto-asset Module (Module CRA)	The CBB in March 2023, issued amendments to Module CRA which included a new Chapter on digital token offerings, revisions to the definitions of crypto-assets and enhancements to the cyber security requirements. The CBB also issued in September 2023, amendments to the Crypto-Asset Module of Volume 6 which included the addition of a new Section for Cyber Hygiene Practices and two-factor authentication requirements similar to what was issued for Volume 5 licensees.
Amendments to General Requirements Module (Module GR) and Capital Adequacy Module (Module CA)	The CBB in August 2023, issued amendments to Module GR and CA applicable to all banks on the requirement to submit additional information for CBB's prior approval of proposed cash or stock dividends. Such details include the impact on Capital Adequacy ratio, liquidity coverage ratio, net stable funding ratio, leverage ratio and the impact on stress testing.
Amendments to Capital Adequacy and Credit Risk Management Modules on Credit Protection Guarantees	The CBB in January 2023, issued amendments to the Credit Risk Management and Capital Adequacy Modules for all banks under the CBB Rulebook Volumes 1 and 2 regarding credit default guarantees provided by Tamkeen. The Capital Adequacy Module included the addition of a paragraph to recognize credit default guarantees provided by Tamkeen as eligible credit risk mitigants. The Credit Risk Management Module also included the exemption of the portion of the exposure that is explicitly guaranteed by Tamkeen from the application of the expected credit loss model.
Consultation Paper: Extending the Scope of Open Banking:	The CBB is studying the feedback received on the consultation paper issued in March 2023 which includes amendments to existing open banking related regulations in the General Requirements Module of CBB Rulebook Volumes 1 and 2 for conventional and Islamic banks and the Open Banking Module of the CBB Rulebook Volume 5 to allow legal persons access to open banking offerings. The proposed amendments address the following requirements: 1. Banks to provide AISPs and PISPs access to information belonging to their customers who are legal persons with their consent. 2. AISPs/PISPs to develop and agree with banks, the API specifications, customer onboarding and related service and operational standards consistent with the security standards and guidelines in BOBF. 3. The data required to be shared by banks and the nature of products and services that are subject to the above requirements.
Consultation Paper: on Open Banking Requirements	As part of the CBB's objective to enhance its regulatory framework, the CBB in October 2023 issued a consultation paper to retail banks and entities providing open banking services that includes the following amendments: 1. Embedded authentication flow for onboarding customers. 2. Public disclosures and CBB reporting requirements on API performance statistics. 3. CBB reporting requirements on Open Banking performance by AISPs/PISPs. The CBB is considering requiring the licensees to whom this circular is addressed to implement the requirements with effect from 1st April 2024.
Consultation Paper: Proposed National Risk Management Framework for Information Security	The CBB received a draft on the "National Risk Management Framework" for Information Security from the National Cyber Security Center at the Ministry of Interior, accordingly, the CBB in June 2023 issued a consultation paper to all licensees for their feedback. This draft aims to improve and enhance cybersecurity controls for public and private institutions in the Kingdom of Bahrain at the national level by providing a national framework for

	managing information security risks. Financial Services sector is considered one of the Critical National Infrastructure sectors. The consultation paper outlines the principles, processes and procedures for managing organizational risks. It provides a structured approach to identifying, assessing, mitigating and monitoring risks across an organisation's operations. The paper also provides practical steps and tangible solutions. It equips practitioners with the necessary tools to assess risks and vulnerabilities, and the best approach to implementing robust security measures, ensuring resilience in the face of an ever-evolving threat landscape.
Consultation Paper: Amendments to Capital Adequacy Module	As part of the CBB's initiatives to enhance its regulatory framework and to comply with the Basel Committee for Banking Supervision's Basel III standards, the CBB issued in August 2023 a consultation paper that includes various amendments to Capital Adequacy Module, Part 2: Credit Risk of the CBB Rulebook - Volume 1 for Conventional Banks and its appendices,
Amendments to Financial Crime Module (Module FC) – Customer Due Diligence	The CBB also issued in September 2023, amendments to the Financial Crime Module for all licensees on know-your-customer requirements and digital onboarding process, as licensees are not required to carry out enhanced due diligence procedures for Bahrainis, GCC citizens (wherever they are), and expatriates residing in Bahrain while licensees must carry out enhanced due diligence procedures for other categories of customers. The requirements also included allowing licensees to carry out digital onboarding process for all customers.
Resolution No. (45) of 2023 issuing regulations specifying the types of securities that may be offered for trading, the methods of issuing and dealing in them, and the obligations of the parties concerned with the process of issuing each type:	The CBB in September 2023, issued Resolution No. (45) of 2023 regarding issuing regulations specifying the types of securities that may be offered for trading, the methods of issuing and dealing in them, and the obligations of the parties concerned with the process of issuing each type in the Kingdom of Bahrain, for which crypto assets were added as part of the securities that maybe offered for trading and are determined in accordance with the rules and controls that the CBB issues in this regard.
Financing to Small and Medium Sized Enterprises (SMEs) requirements	The CBB, in October 2023 issued a circular to all retail banks on the requirements of Financing to Small and Medium Sized Enterprises (SME) in accordance with the government initiatives taken to support these companies. Requirements include the following: 1. Banks must review the SME financing targets and scale them up keeping in view the financial services sector development strategy KPI of 20% share of financing allocated to SMEs from the domestic financing portfolio by the end of 2025. The CBB expects banks that provide financing services to SMEs to reach the following minimum percentages: a. 5% by 31st December 2023, b. 10% by 31st December 2024, c. 20% by 31st December 2025. 2. Create a separate department or unit within the credit department dedicated to SME financing. 3. Develop specific policies and products to cater to financing needs of SMEs and for growing the SME financing portfolio.
Amendments to the Financial Crime Module upon reliance on Third Parties For Customer Due Diligence (Third Party Reliance)	The CBB in October 2023, after the completion of consulting the financial sector and studying the feedback received, issued amendments to the Financial Crime Module for all licensees, which include undertaking specific measures upon reliance on a regulated financial institution (third party) to conduct and implement customer due diligence. The requirements state that licensees remain ultimately responsible for customer due diligence upon reliance on third

	parties. In addition, the requirements prohibit reliance on third parties to carry out enhanced due diligence measures, but the licensee can agree with them to obtain the necessary documents or information.
Resolution No. (54) of 2023 with Respect to issuing a Regulation on the Rules and Procedures of Mergers and Acquisitions of Shares of Companies Listed on Exchanges Licensed by the Central Bank of Bahrain	The CBB issued in October 2023 Resolution No. (54) of 2023 with Respect to issuing a Regulation on the Rules and Procedures of Mergers and Acquisitions of Shares of Companies Listed on Exchanges Licensed by the Central Bank of Bahrain after completion of consulting the financial industry and studying the feedback received. The provisions of the Regulation accompanying the Resolution is applicable to all parties concerned with offers, acquisitions or mergers that result in control over the shares of joint stock companies listed on the market. It also covers mergers where the listed joint stock company is a party whether it is acquired or a merged company.
Environmental, Social and Governance Requirements Module	The CBB, in November 2023 issued the Environmental, Social and Governance Requirements Module (Module ESG) that includes ESG reporting requirements to listed companies, banks, insurance firms, financing companies and investment firms category 1 and 2 after completion of the consultation period and taking into account the financial sector's responses and feedback on the consultation paper issued in this regard. The ESG reporting requirements are important for effective adoption of ESG frameworks which contributes to the Kingdom of Bahrain's commitment to Sustainable Development Goals. The CBB recognises that during the initial years of implementation of ESG reporting requirements there may be data and methodological challenges. Nevertheless, companies must take all reasonable steps to report the Key Performance Indicators using alternative methods or simplified reporting mechanisms where such disclosure would remain fair, clear and not misleading. Companies should also appropriately explain any limitations on their ability to report and the steps being taken to address those limitations. The above-mentioned requirements are effective from year ending 31st December 2024 (i.e. the first report for the year ending 31st December 2024 is due in the year 2025). Module ESG shall be incorporated under a new volume "Common Volume" within the CBB Rulebook.
Amendments to Financial Crime Module (Module FC) – Customer Due Diligence	The CBB in December 2023, issued amendments to the Financial Crime Module of CBB Rulebook Volumes One and Two for conventional and Islamic retail banks regarding facilitating the opening of accounts for companies under formation after studying the feedback received on the consultation papers issued and meeting with the banks in this regard. These amendments contribute to facilitating and streamline the process of opening accounts for companies under formation as retail banks may open a bank account for the purpose of injection of initial capital (bank account for depositing capital) for a company under formation, but it is not permissible to make any transfers or disbursement of funds from this bank account until all customer due diligence requirements have been fully met. Retail bank licensees may also open a separate bank account for the purpose of payment of formation expenses under conditions to be agreed with the customer.
Insurance Cover on Loans/Financing	The CBB in December 2023, introduced new requirements in the Business and Market Conduct Module of the CBB Rulebook Volumes 1 and 2 for conventional and Islamic to ensure that amounts recovered by retail banks from their customers, in

	respect of insurance on loans/financing, are not in excess of the cost borne by the banks of such insurance. These requirements include calculating the cost of insurance for loans/financing by banks, the methodology for calculating the amount of insurance coverage, disclosure requirements, and the customer's rights in this regard.
Resolution No. (2) for the year 2023 amending the Deposit Protection and Unrestricted Investment Accounts Scheme Regulation No. (34) of 2010	The CBB in May 2023 issued Resolution No. (2) for the year 2023 certain Articles of the Deposit Protection Scheme Regulation No. (34) of 2010 with regards to banks contributions and changes related to converting from conventional to Islamic bank.
Draft Resolution on Regulating the Security Right over Accounts at Financial Institutions and Securities	The CBB in September 2023, issued a consultation paper on a draft resolution on regulating the right of security over accounts at financial institutions and eligible securities, which includes the conditions for establishing the security right, the rules for security rights, accounts eligible for guarantee, and other requirements.
Amendments to the Takeovers, Mergers and Acquisitions Module (Module TMA)	The CBB in November 2023 issued amendments to Takeovers, Mergers and Acquisitions Module, specifically, Section (TMA-2.2) on Independent Advisor, Shareholder Approval and on the formation of an independent committee which is established to discharge the board's responsibilities in relation to the offer. Such amendments were introduced after completing the financial sector consultation and studying the feedback received.

4 PERFORMANCE OF CONVENTIONAL BANKS

HIGHLIGHTS

Q4 2023

	Retail		Wholesale	
CAR	21.9%	▲ 0.5% YoY	18.0%	▲ 0.3% YoY
Tier 1 CAR	20.5%	▲ 0.4%	16.2%	▲ 0.0% YoY
Assets-to-Capital	6.9	▲ 0.1 YoY	9.9	▲ 1.2 YoY
NPL	3.4%	▲ 0.1% YoY	2.2%	▼ 0.1% YoY
Specific Provisions	71.0%	▼ 3.3% YoY	60.7%	▼ 6.3% YoY
ROA	1.7%	▲ 0.3% YoY	1.1%	▼ 0.1% YoY
ROE	12.5%	▲ 1.5% YoY	5.8%	▲ 1.4% YoY
Liquidity	32.7%	▼ 0.1% YoY	23.6%	▲ 0.7% YoY
Loan/Deposit	67.1%	▼ 3.4% YoY	46.5%	▼ 7.7% YoY

- Capital position slightly improves for both conventional retail and conventional wholesale.
- Asset quality of conventional banks improves with decreasing NPLs.
- Loan portfolios in conventional retail and wholesale banks remain concentrated despite the decrease in some sectors.
- Slight increase in earnings for conventional retail banks and conventional wholesale banks.
- Liquidity declined for conventional banks, but they continue to have ample liquidity levels.

4.1 Overview

Chapter 4 offers macro-prudential analysis of the conventional banking sector based on a set of selected FSIs. The Chapter analyses the following conventional banking segments (retail and wholesale): capital adequacy, asset quality, profitability, and liquidity. Unless specified otherwise, the analysis in this chapter is based on consolidated financial data (Bahraini and non-Bahraini operations).

4.2 Capital Adequacy

Conventional banks remain well capitalized.

The CAR for conventional retail increased from 21.5% in December 2022 to 21.9% in December 2023. The core capital ratio (ratio of Tier 1 capital to risk-weighted assets) also increased from 20.1% in December 2022 to 20.5% in December 2023. Assets over capital slightly increased by 0.1 during the same period to reach 6.9 times. The NPLs net provisions to capital decreased to 3.1% in December 2023 from 3.3% in December 2022.

As for wholesale banks, CAR also increased to 18.0% in December 2023 from the level of 17.8% it registered in December 2022. Tier 1 capital remained constant at 16.2%. Furthermore, the leverage ratio (ratio of assets over capital) increased to 1.2 times in December 2023. Finally, the ratio of NPLs net of provisions to capital increased to 3.6% over the same period.

Table 4.1: Conventional Banks' Capital Provisions Ratios

Indicator *	Convntional Retail			Conventional Wholesale		
	Q4 2022	Q4 2023	Change	Q4 2022	Q4 2023	Change
CAR (%)	21.5	21.9	0.5	17.8	18.0	0.3
Tier 1 CAR (%)	20.1	20.5	0.4	16.2	16.2	0.0
Assets/Capital (Times)	6.8	6.9	0.1	8.7	9.9	1.2
NPLs net of Provisions to Capital (%)	3.3	3.1	-0.2	3.2	3.6	0.4

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

4.3 Asset Quality

4.3.1 Non-Performing Loans

Drop in NPLs for conventional banks with high provisioning position for retail banks

The NPL ratio increased to 3.4% in December 2023 from 3.3% in December 2022 for conventional retail banks. Specific provisions as a proportion of NPLs decreased to 71.0% in December 2023. As for conventional wholesale banks, the NPL ratio decreased from 2.3% in December 2022 to 2.2% in December 2023. Specific provisions witnessed a decrease of 6.3% from 67.0% in December 2022 to 60.7% in December 2023.

Table 4.2: Conventional Banks' NPL Ratios

Indicator *	Convntional Retail			Conventional Wholesale		
	Q4 2022	Q4 2023	Change	Q4 2022	Q4 2023	Change
NPLs (% Total Loans)	3.3	3.4	0.1	2.3	2.2	-0.1
NPLs Local Banks (%)	3.0	3.3	0.3	2.9	2.9	0
NPLs Overseas Banks (%)	4.1	2.9	-1.2	1.8	1.6	-0.2
Specific Provisions (% of NPLs) *	74.3	71.0	-3.3	67.0	60.7	-6.3

Source: CBB.

Available data on the sectoral breakdown of NPLs shows most sectors experiencing an increase in impairment, while some experience a decrease (Table 4.3). For conventional retail banks, the highest increase was in construction by 11.3% while the largest decrease was in manufacturing by 3.4%.

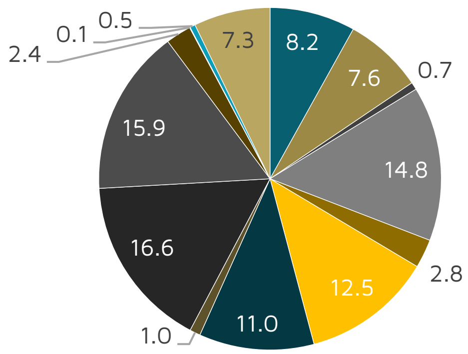
Table 4.3: Conventional Banks' NPL Ratios by Sector (%)

Sector	Convntional Retail			Conventional Wholesale		
	Q4 2022	Q4 2023	Change	Q4 2022	Q4 2023	Change
Manufacturing	5.3	1.9	-3.4	1.6	1.7	0.1
Mining and quarrying	61.7	58.9	-2.8	0.8	0.6	-0.2
Agriculture, fishing and forestry	4.3	2.3	-2	0.7	1.3	0.6
Construction	8.5	19.8	11.3	5.2	5.0	-0.2
Financial	1.0	0.8	-0.2	0.6	0.4	-0.2
Trade	3.6	5.4	1.8	6.2	4.8	-1.4
Personal / Consumer finance	1.7	2.6	0.9	3.5	4.3	0.8
Credit Card	2.2	3.0	0.8	0.4	1.4	1
Commercial real estate financing	2.7	4.2	1.5	1.8	4.0	2.2
Residential mortgage	4.5	3.9	-0.6	1.0	0.9	-0.1
Government	1.4	1.0	-0.4	0.2	1.6	1.4
Technology, media and telecommunications	0.2	0.1	-0.1	1.9	0.2	-1.7
Transport	2.0	0.9	-1.1	3.8	3.8	0
Other sectors	2.6	2.6	0	2.1	2.2	0.1

Source: CBB.

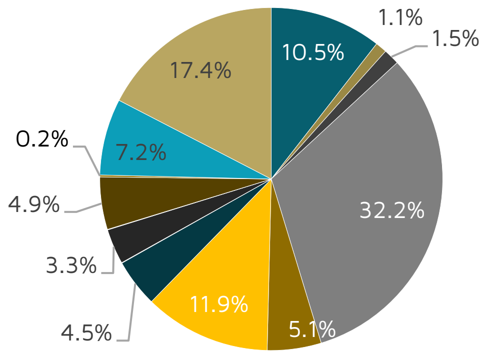
As for wholesale banks, sectoral breakdown of impaired loans demonstrates that impairment in construction loans was the highest between all sectors at 5.0%, followed by trade with an impairment of 4.8%. The biggest increase in impairment was found in commercial real estate financing with an increase of 2.2%. Data on the concentration of NPLs by sector for conventional retail banks shows that the majority of NPLs come from the commercial real estate sector (16.6%), residential mortgage (15.9%), construction (14.8%) and trade (12.5%). On the other hand, the data on the concentration of NPLs by sector for wholesale banks indicates that that the majority of NPLs are concentrated and come from the construction sector (32.2%), others (14.2%), and trade (11.9%).

Chart 4.1: CR Banks' NPLs Concentration by Sector (December 2023)



Source: CBB.

Chart 4.2: CW Banks' NPLs Concentration by Sector (December 2023)



Source: CBB.

- Manufacturing
- Agriculture, fishing and forestry
- Financial
- Personal / Consumer finance
- Commercial real estate financing
- Government
- Transport
- Mining and quarrying
- Construction
- Trade
- Credit Card
- Residential mortgage
- Technology, media and telecommunications
- Other sectors

4.3.2 Loan Concentrations

Loan portfolios remain concentrated

The loan portfolio of retail banks remained with the top recipient of retail loans remains to be the personal/consumer finance accounting for 14.0% of total loans in December 2023 followed by manufacturing representing 13.9%. Exposure to real estate/construction decreased to 29.0% of total lending in December 2023. As for wholesale banks, lending remains concentrated in the financial sector and construction sector accounting for 25.1% and 14.4% respectively. Exposure to real estate/construction decreased to 17.0% of total lending in December 2023.

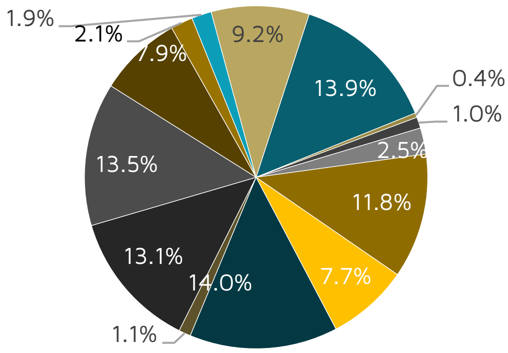
Table 4.4: Conventional Banks' Lending Distribution by Sector (% Total Loans)

Sector	Convntional Retail			Conventional Wholesale		
	Q4 2022	Q4 2023	Change	Q4 2022	Q4 2023	Change
Manufacturing	13.0	13.9	0.9	13.1	13.6	0.5
Mining and quarrying	0.3	0.4	0.1	3.0	3.8	0.8
Agriculture, fishing and forestry	0.5	1.0	0.5	2.4	2.6	0.2
Construction	3.7	2.5	-1.2	15.9	14.4	-1.5
Financial	7.9	11.8	3.9	20.9	25.1	4.2
Trade	8.7	7.7	-1.0	5.0	5.5	0.5
Personal / Consumer finance	14.6	14.0	-0.6	2.7	2.3	-0.4
Credit Card	0.8	1.1	0.3	0.1	0.1	0
Commercial real estate financing	19.2	13.1	-6.1	1.9	1.9	0
Residential mortgage	11.0	13.5	2.5	0.2	0.1	-0.1
Government	4.8	7.9	3.1	8.7	7.0	-1.7
Technology, media and telecommunications	2.3	2.1	-0.2	1.9	1.6	-0.3
Transport	1.6	1.9	0.3	4.6	4.2	-0.4
Other sectors	11.5	9.2	-2.3	19.7	17.8	-1.9
Top Two Sectors (%)	33.9	27.9	-6.0	40.6	42.9	2.3
Real Estate/ Construction Exposure (%) **	34.0	29.0	-5.0	18.0	16.4	-1.6

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

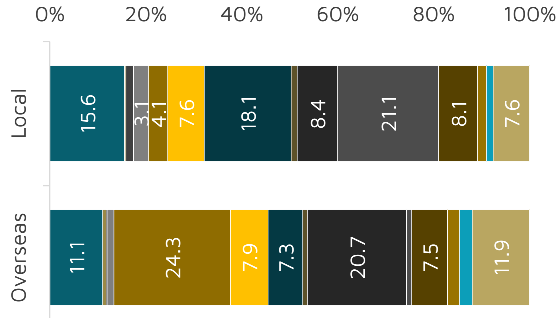
The loan portfolio of locally incorporated retail banks remains concentrated in some sector with the top recipient of loans being the residential mortgage sector (21.1%). Real estate/construction exposure decreased to 32.6%. The overseas retail banks loan portfolio shows commercial real estate financing sector as the top sector (20.7%) and the exposure to real estate/ construction was 23.2% of total lending in December 2023.

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



Source: CBB.

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

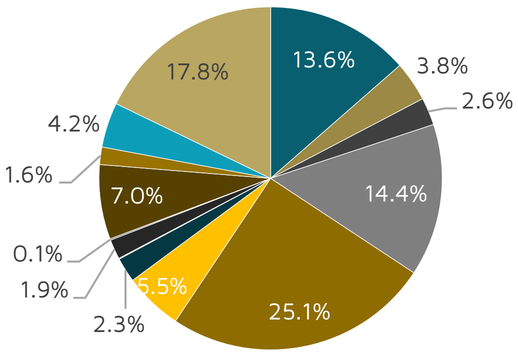


Source: CBB.

- Manufacturing
- Agriculture, fishing and forestry
- Financial
- Personal / Consumer finance
- Commercial real estate financing
- Government
- Transport
- Mining and quarrying
- Construction
- Trade
- Credit Card
- Residential mortgage
- Technology, media and telecommunications
- Other sectors

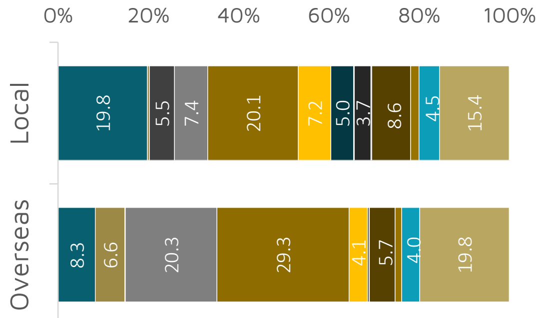
As for locally incorporated wholesale banks, the top recipient of loans is the financial sector (20.1%) and the real estate/ construction exposure was 11.2% for the same period. For overseas wholesale banks, the top recipient of loans in December 2023 was the financial sector (29.3%) and real estate/construction exposure decreased from 26.0% in December 2022 to 20.7% in December 2023.

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



Source: CBB.

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



Source: CBB.

- Manufacturing
- Agriculture, fishing and forestry
- Financial
- Personal / Consumer finance
- Commercial real estate financing
- Government
- Transport
- Mining and quarrying
- Construction
- Trade
- Credit Card
- Residential mortgage
- Technology, media and telecommunications
- Other sectors

4.4 Profitability

Banks' profitability remains positive and at similar levels as last year

Profitability for conventional retail banks was an overall positive, and, as at end-December 2023, ROA slightly increased to 1.7%. ROA for locally incorporated banks increased to 1.7% in December 2023. For overseas banks, ROA also increased to 1.7% in December 2023. ROE for locally incorporated banks increased to 12.5% from 11.0% during the same period. Net interest income (as a % of total income) increased from 76.8% to 77.6% during the same period as well. Operating expenses as a proportion of total income decreased from 48.5% in December 2022 to 39.0% in December 2023.

Table 4.5: Conventional Banks' Profitability

Indicator	Convntional Retail			Conventional Wholesale		
	Q4 2022	Q4 2023	Change	Q4 2022	Q4 2023	Change
ROA (%) *	1.4	1.7	0.3	1.2	1.1	-0.1
ROA Locally Incorporated Banks (%)	1.5	1.7	0.2	0.5	0.5	0.0
ROA Overseas Banks (%)	1.3	1.7	0.4	2.0	1.9	-0.1
ROE (%) **	11.0	12.5	1.5	4.4	5.8	1.4
Net Interest Income (% Total Income)	76.8	77.6	0.8	64.4	62.6	-1.8
Operating Expenses (% Total Income)	48.5	39.0	-9.5	47.1	45.3	-1.8

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

As for conventional wholesale banking sector, ROA slightly decreased to 1.1% in December 2023 from 1.2% in December 2022. The ROA for local wholesale banks remained unchanged at 0.5%, while overseas wholesale banks decreased from 2.0% to 1.9%. ROE for wholesale banks increased from 4.4% to 5.8%. Net interest income as a proportion of total income decreased from 64.4% in December 2022 to 62.6% in December 2023. Operating expenses as a proportion of total income showed a decrease from 47.1% in December 2022 to 45.3% in December 2023.

4.5 Liquidity

Liquidity position is strong but declines for conventional banks.

Between December 2022 and December 2023, non-bank deposits decreased by 2.6% for conventional retail banks. The overall loan-deposit ratio for the segment decreased to 67.1% in December 2023 from 70.5% in December 2022. Liquid assets as a proportion of total assets slightly decreased to 32.7% in December 2023. Liquid assets as a proportion of the short-term liabilities increased to 49.3% over this period.

As of December 2023, the overall loan-deposit ratio for conventional wholesale banks stood at 63.8%, a decrease from the 69.4% recorded in December 2022. Liquid assets for wholesale banks as a proportion of total assets increased to 22.9% in December 2023 from 22.9% in December 2023. The liquid assets as a proportion of short-term liabilities increased by 1.2% to 29.9% in December 2023. Non-bank deposits as a proportion of total deposits stood at 46.5%, an increase from the 54.2% level achieved in December 2022, while bank deposits increased from 45.8% in December 2022 to 53.5% in December 2023.

Table 4.6: Conventional Bank's Liquidity

Indicator	Convntional Retail			Conventional Wholesale		
	Q4 2022	Q4 2023	Change	Q4 2022	Q4 2023	Change
Liquid Asset Ratio (%)	32.8	32.7	-0.1	22.9	23.6	0.7
Loan-Deposit Ratio (%)	70.5	67.1	-3.4	69.4	63.8	-5.6
Non-Bank Deposits (% of Total Deposits)	76.0	73.4	-2.6	54.2	46.5	-7.7

Source: CBB.

5 PERFORMANCE OF ISLAMIC BANKS

HIGHLIGHTS

Q4 2023

	Retail		Wholesale	
CAR	20.0	▼ 1.1% YoY	17.4%	▲ 0.5% YoY
Tier 1 CAR	18.5%	▼ 1.5% YoY	16.5%	▲ 0.3%
Assets-to-Capital	12.3	▲ 1.0 YoY	9.1	▲ 0.2 YoY
NPF	4.9%	▲ 0.1% YoY	1.0%	▼ 3.8% YoY
Specific Provisions	40.5	▼ 14.3% YoY	87.5%	▼ 7.4% YoY
ROA	0.6%	▼ 0.3% YoY	1.3%	▲ 0.2% YoY
ROE	8.2%	▼ 2.4% YoY	10.0%	▼ 0.3%
Liquidity	17.7%	▲ 0.7% YoY	19.9%	▲ 6.1% YoY
Loan/Deposit	61.4%	▼ 10.2%	30.4%	▼ 3.1% YoY

- Sector remains well capitalized despite decrease in capital position for Islamic retail and increased for Islamic wholesale banks.
- Non-performing facilities (NPFs) slightly increased for Islamic retail banks and decreased for wholesale.
- Concentration of facilities for Islamic banks continues in specific sectors.
- Earnings for retail Islamic banks slightly decreased but for increased for wholesale.
- Liquidity positions slightly increased for retail Islamic banks but decreased for wholesale banks.

5.1 Overview

Chapter 5 offers macro-prudential analysis of the Islamic banking sector based on a set of selected FSIs. The Chapter analyses the following conventional banking segments (retail and wholesale): capital adequacy, asset quality, profitability, and liquidity. Unless specified otherwise, the analysis in this chapter is based on consolidated financial data (Bahraini and non-Bahraini operations).

5.2 Capital Adequacy

Islamic retail and wholesale banks remain well-capitalized despite slight decrease in retail

The CAR of Islamic retail banks slightly decreased from 21.1% in December 2022 to 20.0% in December 2023. Tier 1 capital decreased from 19.7% to 18.2% during this period. As at end-December 2023, the CAR for Islamic wholesale banks increased to 17.4% in December 2023 from 16.9% in December 2022. Tier 1 capital also increased from 16.2% to 16.5% over the same period. The ratio of NPFs net of provisions to capital decreased to 2.0% in December 2023.

Table 5.1: Islamic Banks' Banks' Capital Provisions Ratios

Indicator	Islamic Retail			Islamic Wholesale		
	Q4 2022	Q4 2023	Change	Q4 2022	Q4 2023	Change
CAR (%)	21.1	20.0	-1.1	16.9	17.4	0.5
Tier 1 CAR (%)	19.7	18.2	-1.5	16.2	16.5	0.3
Assets/Capital (Times)	11.3	12.3	1	8.9	9.1	0.2
NPFs Net Provisions to Capital (%)	13.2	19.5	6.3	0.5	0.2	-0.3

Source: CBB.

5.3 Asset Quality

5.3.1 Non-Performing Facilities

Slight increase in retail NPFs for Islamic retail banks

Non-performing facilities (NPF) ratio for Islamic retail banks increased to 4.9% in December 2023. Specific provisoining decreased to 40.5% in December 2023 from 54.8% in December 2022. As of end- December 2023, NPF ratio for Islamic wholesale banks decreased to 1.0%. Provisioning for NPFs decreased to 87.5% over the same period.

Table 5.2: Islamic Banks' NPF Ratios

Indicator	Islamic Retail			Islamic Wholesale		
	Q4 2022	Q4 2023	Change	Q4 2022	Q4 2023	Change
NPFs (% Gross Facilities)	4.8	4.9	0.1	4.8	1.0	-3.8
Specific Provisions (% of NPFs)	54.8	40.5	-14.3	94.9	87.5	-7.4

Source: CBB.

A look at the non-performing facilities by sector for Islamic retail banks indicates that the construction sector had the highest impairment (29.8%) in December 2023 followed by mining and quarrying and agriculture, fishing and forestry with 14.5% and 13.8% respectively. The biggest declines in NPFs by sector was in the transport sector which went down by 3.5%. The biggest increase in NPFs was in construction, with an increase of 15.3% as indicated in table 5.3.

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

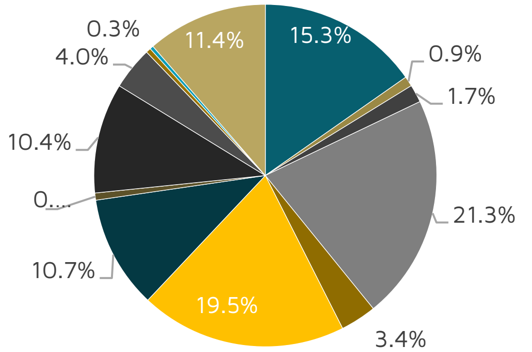
Sector	Islamic Retail			Islamic Wholesale		
	Q4 2022	Q4 2023	Change	Q4 2022	Q4 2023	Change
Manufacturing	10.8	7.7	-3.1	1.2	3.0	1.8
Mining and quarrying	13.0	14.5	1.5	0.0	0.0	0
Agriculture, fishing and forestry	16.3	13.8	-2.5	3.4	0.0	-3.4
Construction	14.5	29.8	15.3	25.8	0.0	-25.8
Financial	0.4	2.4	2	0.8	0.0	-0.8
Trade	19.9	11.9	-8	4.7	0.0	-4.7
Personal / Consumer finance	2.5	2.4	-0.1	0.0	0.0	0
Credit Card	4.0	3.2	-0.8	0.0	0.0	0
Commercial real estate financing	3.4	5.8	2.4	7.4	1.5	-5.9
Residential mortgage	1.7	1.2	-0.5	0.0	0.0	0
Government	0.0	0.0	0	0.0	0.0	0
Technology, media and telecommunications	1.1	5.2	4.1	9.0	0.0	-9
Transport	7.0	3.5	-3.5	3.9	0.0	-3.9
Other sectors	5.7	6.8	1.1	7.4	4.1	-3.3

Source: CBB.

On the other hand, the sector with the highest impairment for Islamic wholesale banks was the manufacturing sector with 3.0% in September 2023. This was followed by commercial real estate financing with 1.5%. Available data on the sectoral breakdown of non-performing facilities shows that the biggest increase was in the manufacturing sector with an increase of 1.8%. The biggest drop was in the construction sector with a decrease of 25.8%. The trade sector went down from 4.7% in September 2022 to 0.0% in September 2023.

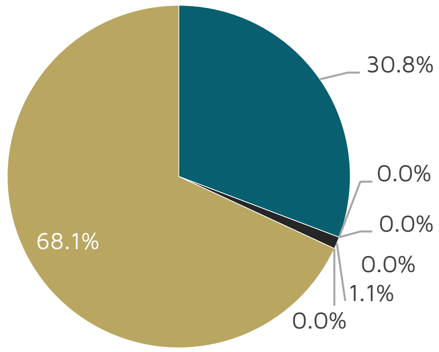
Looking at the data on the concentration of NPFs for Islamic retail banks by sector indicates that the majority of NPLs are concentrated and come from the trade sector (31.8%), construction (12.6%), personal/consumer finance (11.4%) as indicated in chart 5.1. As for Islamic wholesale banks, the majority of NPFs are concentrated and come from construction (68.3%), and other sectors (13.6%) as indicated in chart 5.2.

Chart 5.1: IR Banks' NPLs Concentration by Sector (December 2023)



Source: CBB.

Chart 5.2: IW Banks' NPLs Concentration by Sector (December 2023)



Source: CBB.

- Manufacturing
- Agriculture, fishing and forestry
- Financial
- Personal / Consumer finance
- Commercial real estate financing
- Government
- Transport
- Mining and quarrying
- Construction
- Trade
- Credit Card
- Residential mortgage
- Technology, media and telecommunications
- Other sectors

5.3.2 Facilities Concentrations

Loan portfolios remain concentrated

There has been some diversification in the asset concentration among most of the sectors in Islamic retail banks. At the end of December 2023, the top recipient of financing was personal/consumer finance (22.3%), a decrease from 24.9% recorded in December 2022. The top two recipients of financing (personal/consumer finance and residential mortgage) accounted for 39.1% of total facilities extended, compared to 41.5% for the top two sectors in December 2022. Real estate/construction exposure decreased to 29.2% in December 2023.

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

Sector	Islamic Retail			Islamic Wholesale		
	Q4 2022	Q4 2023	Change	Q4 2022	Q4 2023	Change
Manufacturing	8.5	9.7	1.2	6.0	8.7	2.7
Mining and quarrying	0.5	0.3	-0.2	0.0	0.0	0
Agriculture, fishing and forestry	0.6	0.6	0	0.1	0.4	0.3
Construction	3.9	3.5	-0.4	21.5	21.7	0.2
Financial	8.1	7.0	-1.1	39.1	46.6	7.5
Trade	6.7	8.1	1.4	3.2	1.6	-1.6
Personal / Consumer finance	24.9	22.3	-2.6	0.0	0.0	0
Credit Card	1.1	1.0	-0.1	0.0	0.0	0
Commercial real estate financing	9.7	8.9	-0.8	2.9	0.6	-2.3
Residential mortgage	16.6	16.8	0.2	2.4	0.0	-2.4
Government	10.0	12.5	2.5	2.9	3.9	1
Technology, media and telecommunications	0.4	0.4	0	0.1	0.1	0
Transport	0.4	0.5	0.1	2.4	2.2	-0.2
Other sectors	8.5	8.3	-0.2	18.3	14.2	-4.1
Top two recipient sectors	41.5	39.1	-2.4	60.6	68.3	7.7
Real Estate/ Construction Exposure**	30.3	29.2	-1.1	26.7	22.3	-4.4

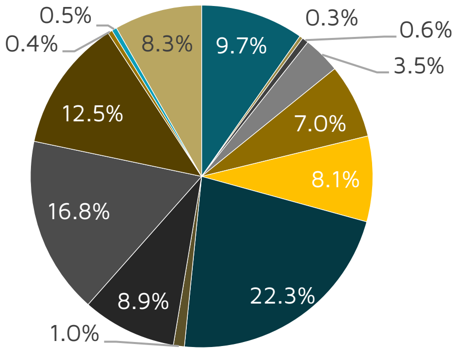
Source: CBB.

**Figures may not add to a hundred due to rounding*

*** Real Estate/ Construction exposure is calculated as the share of the Construction, Commercial real estate financing and Residential Mortgages sectors of total lending.*

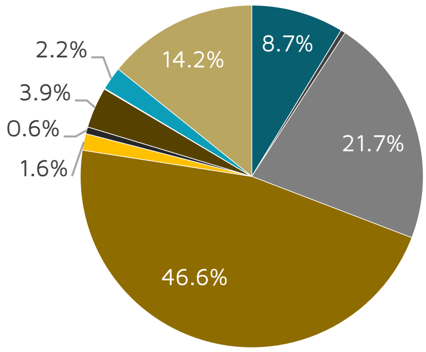
At End- December 2023, the financial sector was the top recipient of financing from Islamic wholesale banks, at 46.6%, increasing by 7.5% from December 2022. The residential mortgage sector saw the largest decrease from 2.4% in December 2023 to 0.0% in December 2022. Real estate/ construction exposure decreased from 26.7% in December 2022 to 22.3% in December 2023.

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



Source: CBB.

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



Source: CBB

- Manufacturing
- Agriculture, fishing and forestry
- Financial
- Personal / Consumer finance
- Commercial real estate financing
- Government
- Transport
- Mining and quarrying
- Construction
- Trade
- Credit Card
- Residential mortgage
- Technology, media and telecommunications
- Other sectors

The concentration of lending distribution by Islamic instrument remained the same over the past. At the end of September 2023, the top recipient of finance for Islamic retail banks was Murabaha at 41.5% followed by Ijarah 33.0%. As for wholesale banks, the top recipient of finance was Murabaha at 68.5%.

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

Instrument	Islamic Retail			Islamic Wholesale		
	Q4 2022	Q4 2023	Change	Q4 2022	Q4 2023	Change
Murabaha	43.6	41.5	-2.1	52.2	68.5	16.3
Istisna'a	1.6	2.2	0.6	13.4	16.8	3.4
Ijarah	33.2	33.0	-0.2	7.0	2.9	-4.1
Salam	0.2	5.0	4.8	0.0	0.0	0
Others	21.4	18.3	-3.1	27.4	11.8	-15.6

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

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

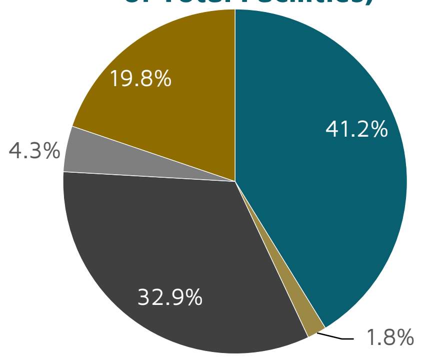
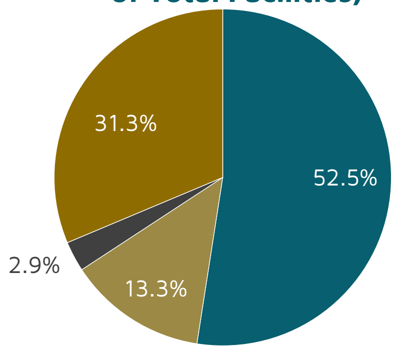


Chart 5.6: IW Banks' Lending Distribution by Islamic Instrument (% of Total Facilities)



■ Murabaha ■ Istisna'a ■ Ijarah

Source: CBB.

5.4 Profitability

Improvement in earnings for wholesale Islamic banks

ROA for Islamic retail banks decreased from 0.9 to 0.6 for the period between December 2022 to December 2023. ROE decreased from 10.6% to 8.2% for the same period. Furthermore, operating expenses increased from 65.8% in December 2022 to 70.9% in December 2023. As for Islamic wholesale banks, ROA increased from 1.1% in December 2022 to 1.3% in December 2023. ROE also decreased from 10.3% to 10.0% in the same period. Furthermore, operating expenses (as % of total income) decreased from 55.2% in December 2022 to 53.5% in December 2023.

Table 5.6: Islamic Banks' Profitability (%)

Indicator	Islamic Retail			Islamic Wholesale		
	Q4 2022	Q4 2023	Change	Q4 2022	Q4 2023	Change
ROA*	0.9	0.6	-0.3	1.1	1.3	0.2
ROE**	10.6	8.2	-2.4	10.3	10.0	-0.3
Operating Expenses (% Total Operating Income)	65.8	70.9	5.1	55.2	53.5	-1.7

Source: CBB.
** ROA = ratio of net income to assets.*
***ROE = ratio of net income to tier 1 capital.*

5.5 Liquidity

Increased liquidity levels for Islamic retail and wholesale banks

The volume of liquid assets available to Islamic retail banks increased from 17.0% of total assets in December 2022 to 17.7% in December 2023. The ratio of total facilities to deposits decreased from 71.6% in December 2022 to 61.4% in December 2023. As of end- December 2023, liquid assets of Islamic wholesale banks represented 19.9% of total assets, 6.1% higher than the 13.8% registered in December 2022. Additionally, the facilities deposit ratio decreased slightly from 33.5% in December 2022 to 30.4% in December 2023.

Table 5.7: Islamic Banks' Liquidity (%)

Indicator	Islamic Retail			Islamic Wholesale		
	Q4 2022	Q4 2023	Change	Q4 2022	Q4 2023	Change
Liquid Assets (% of total assets)	17.0	17.7	0.7	13.8	19.9	6.1
Facilities – deposits ratio (%)	71.6	61.4	-10.2	33.5	30.4	-3.1

Source: CBB.

PART III:
DEVELOPMENT IN THE NON-BANKING FINANCING SECTOR

6 PERFORMANCE OF THE INSURANCE SECTOR

HIGHLIGHTS

Q3 2023

Insurance Licenses	Insurance Contribution to GDP	Contribution to Financial Sector
133	5.4%	31.9%
Asset of Conv. Insurance	**Assets of Takaful Insurance**	**Gross Premiums**
BD 2,039.8	BD 203.3 mn	BD 217.5 mn

- Conventional firms account for 69.2% of total insurance industry with BD 153.1 million in total gross premiums as of September 2023. General insurance contributes 89.6% of total gross premiums.
- Local Conventional insurance firms' performance is concentrated on Motor and Long-term (Life) business lines, and Takaful is concentrated in Motor and Medical business lines.
- Overseas insurance firms' performance is concentrated on Medical and Long-term (Life) business lines.

6.1 Overview

This chapter highlights the overall performance of the insurance industry in Bahrain by looking at two main insurance segments: conventional and takaful, their different business lines, and classes.[6] The conventional sector is further divided into local and overseas/branch firms.[7]

A significant number of insurance companies and organizations have established their presence in Bahrain. As of August 2023, there are a total of 129 insurance organizations licensed and registered in the Kingdom. There are 31 insurance companies: 16 conventional local, 10 conventional overseas/foreign branches, and 5 takaful. These institutions offer all basic and modern insurance services such as medical and health insurance and long-term insurance (life and savings products). The remaining 102 other registered insurance licenses include Insurance Brokers, Insurance Managers, Insurance Consultants, Registered Actuaries, Registered loss Adjusters, and Insurance Pools and Syndicates.

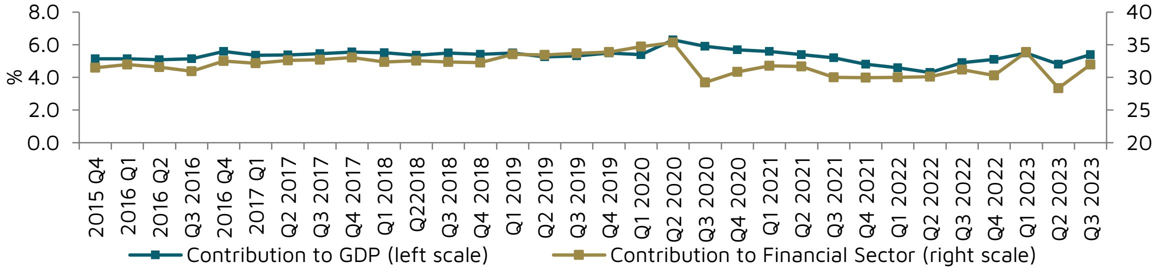
Insurance contribution reached 5.4% of GDP by end of Q3 2023 (compared to 5.6% by end of Q3 2023 and 4.9% by end of Q3 2022). The contribution of the Insurance sector to the overall financial sector reached 31.9% in Q3 2023. Chart 6.1 shows the quarterly

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

[7] Chapter 6 covers the period between Q3 2022 and Q3 2023, unless otherwise indicated.

contribution of the Insurance sector to GDP along with the contribution of the insurance sector to the financial sector.

Chart 6.1: Insurance Sector Contribution and Quarterly Growth to GDP (%)



Source: IGA.

6.2 Financial Position and Profitability of Insurance Sectors

As of September 2023, total assets of the Insurance sector reached BD 2,243.0 million with a decrease of 1.9% compared to BD 2,286.6 million in September 2022. Total liabilities decreased by 3.0% over the same period reaching BD 1,554,106.

Total available capital[8] decreased from 433.6 BD million in September 2022 to 395.7 BD million in September 2023. Profitability, on the other hand, increased significantly between September 2022 and September 2023 reaching BD 40.8 million.

Table 6.1: Total Assets, Liabilities, Capital, and Profitability of Insurance Sector by Segment

BD 000	Total Assets*		Total Liabilities*		Capital Available*		Net Profit*	
	Q3 2022	Q3 2023	Q3 2022	Q3 2023	Q3 2022	Q3 2023	Q3 2022	Q3 2023
Conventional	**2,093,282**	**2,039,781**	**1,474,685**	**1,422,245**	**391,213**	**348,189**	**14,799**	**40,789**
Local	1,908,032	1,845,567	1,322,020	1,258,995	360,314	322,541	13,742	39,252
Overseas	185,250	194,214	152,665	163,250	30,899	25,648	1,057	1,537
Takaful	**193,317**	**203,316**	**127,386**	**131,861**	**42,431**	**47,559**	**-**	**-**
All Insurance	**2,286,599**	**2,243,096**	**1,602,071**	**1,554,106**	**433,644**	**395,747**	**14,799**	**40,789**

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

6.2.1 Conventional Insurance Firms

As of September 2023, total assets of the conventional insurance sector stood at BD 2,039.8 million decreasing by 2.6% compared to the BD 2,136.7 million registered in September 2022. Assets of local insurance firms were BD 1,845.6 million (82.3% of total assets) with a negative growth rate of 3.3% since September 2022. Total assets of overseas foreign branches were BD 194.2 million (8.7% of total assets) recording an increase of 4.8%.

The liabilities of the conventional insurance sector registered at BD 1,422.2 million with a 3.6% decrease from BD 1,474.7 million in September 2022. Liabilities for local insurance firms registered at BD 1,259.0 million decreasing by 4.8%. Liabilities of overseas foreign branches were BD 163.3 million in September 2023 with an increase of 3.5%.

Total capital as of September 2023 was at BD 348.2 million decreasing by 11.0% from BD 391.2 million in the equivalent period of the previous year. Total available capital for local insurance was BD 322.5 with a YoY decrease of 10.5%. Total available capital for overseas foreign branches decreased by 17.0% from BD 30.9 million in September 2022 to BD 25.6 million in September 2023.

Net profit increased for conventional insurance firms from BD 14.8 million in September 2022 to a profit of BD 40.8 million in September 2023. Net profit for local insurance was BD 39.2 million with a YoY increase of 185.6%. Net profit for overseas insurance was BD 1.5 with a yoy decrease of 45.4%.

[8] As per CBB Rulebook, equity is a regulatory equity, which means encompasses Tier 1 Capital, Tier 2 Capital and deduction.

6.2.2 Takaful Insurance Firms

Total assets in Takaful firms in September 2023 increased by 5.2% to BD 203.3 million. The liabilities increased by 3.5% from BD 127.4 million in September 2022 to BD 131.9 million in September 2023. Total regulatory capital experienced an annual increase of 12.1% from BD 42.4 million in September 2022 to BD 47.6 million in September 2023.

6.3 Insurance Premiums and Claims Analysis

The Insurance products and services in the Kingdom are delivered via two main insurance classes: Life and non-life insurance.[9]

Gross Premiums for the insurance sector stood at BD 217.5 million, increasing by 6.1% YoY. Conventional insurance represented 70.4% of total gross premiums (local and branches represented 56.0% and 14.3% respectively) while takaful accounted for 29.6% of gross premiums. As of September 2023, life insurance represented 10.4% of gross premiums while non-life/general insurance was 89.6% covering the various classes.

Looking at the performance by class, Long-term (Life) category experienced an annual decrease of 39.7%. Marine and Aviation also decreased by 12.5%. On the other hand, Miscellaneous Financial Loss increased by 17.5% and Engineering increased by 54.2%. The top 3 business lines sectors represented 74.6% of total gross premiums.

As of September 2023, Net Premiums Written increased by 2.2% compared to the previous period registering a value of BD 127.1 million. medical showed the biggest increase (18.6%) over the period increasing from BD 38.5 million in September 2022 to BD 45.6 million in September 2023. On the other hand, the biggest decline was derived from the Long-term (Life) class, decreasing by 27.5% from BD 25.7 million in September 2022 to BD 18.6 million in September 2023.

Gross Claims for the insurance industry recorded a YoY increase of 22.9% from BD 108.4 million in September 2022 to BD 133.3 million in September 2023. The increase was mainly in the Fire, Property and Liability class increasing by 130.2% from BD 1.5 million in September 2022 to BD 4.6 million in September 2023 and Medical by 21.4% from BD 37.4 million to BD 45.5 million.

Net Claims for the insurance industry show an increase of 14.4%, which was derived from an annual increase in Medical (26.2%) and Long-term (Life) (19.6%).

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

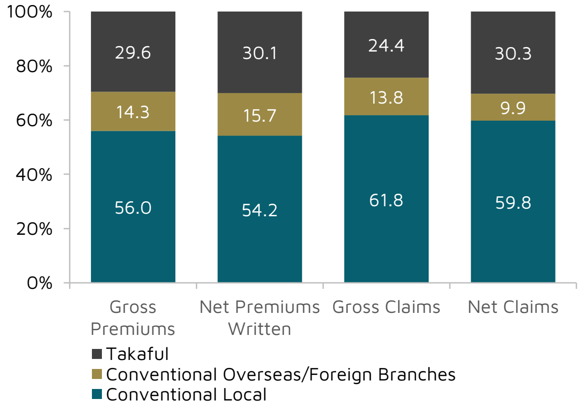
BD 000	Gross Premiums		Net Premiums Written		Gross Claims		Net Claims	
	Q3 2022	Q3 2023	Q3 2022	Q3 2023	Q3 2022	Q3 2023	Q3 2022	Q3 2023
Long-term (Life)	32,242	22,666	25,711	18,639	18,526	20,924	15,078	18,040
Fire, Property & Liability	29,584	34,352	4,301	3,851	7,311	16,828	1,714	2,918
Miscellaneous Financial Loss	5,314	6,243	552	573	409	813	(37)	92
Marine & Aviation	5,019	4,392	1,180	1,000	889	584	(44)	194
Motor	55,033	58,337	53,161	56,671	37,269	40,191	32,712	33,473
Engineering	6,829	10,530	842	350	3,099	2,978	271	(120)
Medical	61,185	69,474	38,483	45,630	37,509	45,547	26,306	33,195
Others	9,738	11,465	2,878	3,228	3,435	5,437	1,271	642
Total	**204,944**	**217,460**	**127,108**	**129,942**	**108,446**	**133,301**	**77,271**	**88,433**

Source: CBB.

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

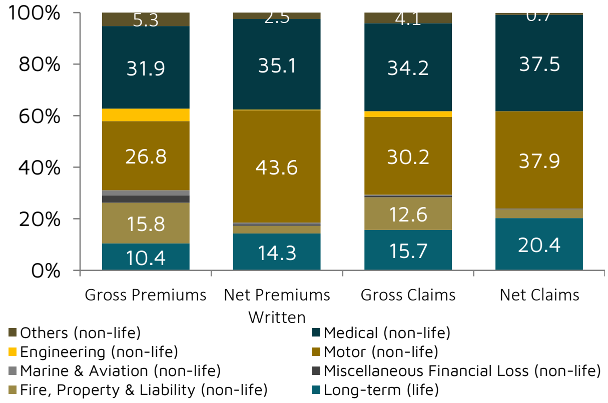
[9] Non-life or general insurance includes Fire, Property & Liability, Miscellaneous Financial Loss, Marine & Aviation, Motor, Engineering, Medical and Others.

Chart 6.2: Premiums and Claims of Insurance Sector by Segment (%) (Q3 2023)



Source: CBB.

Chart 6.3: Concentrations of Premiums and Claims for Insurance Firms by Class (Q3 2023)



Source: CBB.

6.3.1 Conventional Insurance Firms

Gross Premiums for conventional insurance recorded a YoY increase of 4.2% increasing from BD 146.9 million in September 2022 to BD 153.0 million in September 2022 (Table 6.3). The greatest increase was from Fire Property & Liability insurance by around BD 8.0 million (33.4%). The largest YoY decline was from Long-term (Life) by BD 9.1 million (32.7%). In terms of concentration, Medical, Motor, Fire Property & Liability business classes represented 27.8%, 26.8% and 20.9% respectively of the total gross premiums.

Net Premiums Written reflected a YoY decrease by 0.8%. The Medical class had an increase of BD 3.5 million (14.8%). On the other hand, Long term (Life) net premiums written decreased by BD 6.3 million (27.0%). Motor, Long-term (Life) and Medical insurance remained the largest in terms of Net Premiums Written concentration, accounting for 43.9%, 18.8 % and 29.8%.

Gross Claims increased by 27.4% YoY in September 2023 due to a an increase in Medical from BD 24.3 million to BD 29.9 million (23.3%). The highest share in gross claims was Medical 29.7%, followed by Motor at 28.8%.

Net Claims experienced an annual increase of 19.1% from BD 51.7 million in September 2022, reaching BD 61.6 million in September 2023. Net claims for Medical insurance increased by BD 4.5 million (33.4%) and by BD 1.4 million (6.9%) for Motor insurance. The concentration falls heavily within the Motor insurance class, accounting for 37.3% of the total net claims.

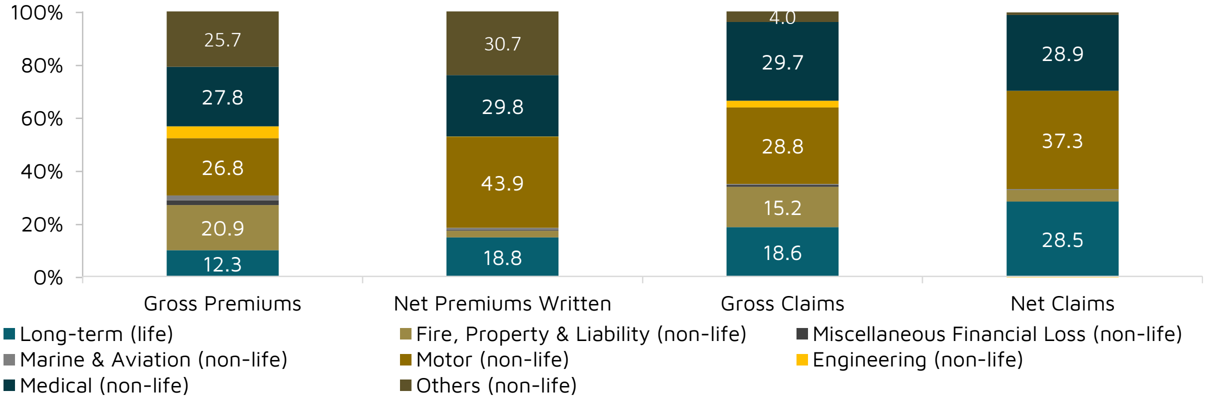
Table 6.3: Premiums and Claims for Conventional Insurance by Class

BD 000	Gross Premiums		Net Premiums Written		Gross Claims		Net Claims	
	Q3 2022	Q3 2023	Q3 2022	Q3 2023	Q3 2022	Q3 2023	Q3 2022	Q3 2023
Long-term (Life)	27,916	18,776	23,444.5	17,113	17,257	18,740	14,671	17,545
Fire, Property & Liability	24,032	32,065	3,412.6	3,000	5,760	15,298	1,217	2,687
Miscellaneous Financial Loss	2,634	3,481	201.2	310	224	716	(103)	74
Marine & Aviation	3,808	3,336	1,035.0	889	787	459	(117)	135
Motor	38,835	40,979	37,554.4	39,876	25,731	29,061	21,507	22,991
Engineering	4,576	8,349	643.1	145	2,275	2,548	133	(216)
Medical	39,379	42,562	23,571.6	27,064	24,282	29,930	13,338	17,796
Others	5,660	7,710	1,778.7	2,488	2,733	3,993	1,067	596
Total	**146,839**	**153,077**	**91,641**	**90,884**	**79,050**	**100,745**	**51,714**	**61,608**

Source: CBB.

Medical had the highest exposure in Gross Premiums (27.8%) and Gross claims (29.7%). Whereas Motor insurance had the highest exposure in Net Premiums Written (43.9%) and Net Claims (37.3%).

Chart 6.4: Concentrations of Premiums and Claims for Conventional Insurance by Class (Q3 2023)



Source: CBB.

Table 6.4 below and Charts 6.5 and 6.6 shows a further division of the premiums and claims by class between Local and Overseas firms within the conventional insurance industry for September 2023.

Table 6.4: Premiums and Claims for Conventional Local and Overseas Insurance by Class (Q3 2023)

BD '000	Gross Premiums		Net Premiums Written		Gross Claims		Net Claims	
	Local	Oversea s	Local	Overseas	Local	Overseas	Local	Oversea s
Long-term (Life)	6,872	11,904	6,262	10,852	17,394	1,346	16,841	703
Fire, Property & Liability	29,064	3,001	2,537	462	10,702	4,596	911	1,776
Miscellaneous Financial Loss	2,652	829	279	31	716	-	74	-
Marine & Aviation	3,023	313	779	111	407	53	83	52
Motor	36,935	4,045	35,931	3,945	25,603	3,458	19,672	3,319
Engineering	7,944	405	29	116	1,085	1,463	(205)	(10)
Medical	32,436	10,126	22,602	4,461	22,680	7,249	14,765	3,031
Others	7,134	575	2,030	458	3,824	169	699	(103)
Total	**121,879**	**31,198**	**70,449**	**20,434**	**82,411**	**18,334**	**52,840**	**8,768**

Source: CBB.

Chart 6.5: Concentrations of Premiums and Claims by Class for Local Insurance (Q3 2023)

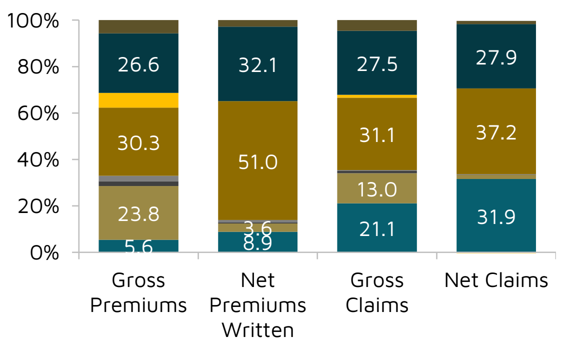
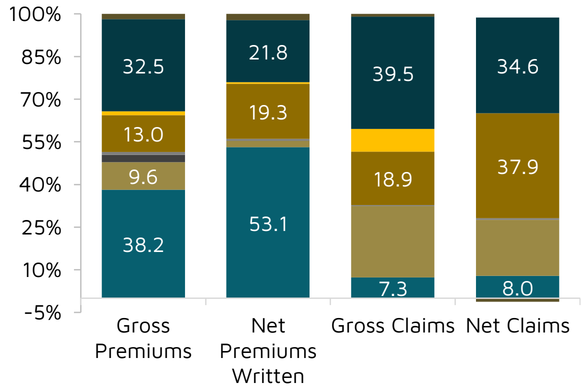


Chart 6.6: Concentrations of Premiums and Claims by Class for Overseas Insurance (Q3 2023)



Source: CBB.

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

6.3.2 Takaful Insurance Firms

The Gross Premiums for Takaful companies increased on a YoY basis by 10.8%, from BD 58.1 million at September 2022 reaching BD 64.4 million in September 2023. The largest increase was attributed to Miscellaneous Financial Loss increasing by BD 0.7 million (19.1%). Medical had a decline of BD 6.9 million (31.6%). Motor insurance line was the highest contributor towards Takaful gross premiums, accounting for 24.2% of gross premiums.

Net Premiums Written increased by 10.1% from September 2022 to September 2023, reaching BD 39.1 million. Motor and Medical insurance accounted for the largest components in terms of gross claims, representing 43.0% and 47.5% of the total net premiums written.

Gross Claims increased by 10.8% compared from September 2022 to September 2023, with Medical registering the an increase (BD 2.4 million) within the same period. Medical and Motor insurance accounted for the largest components in terms of gross claims, representing 48.0% and 34.2% of the total gross claims.

Net Claims recorded an annual increase of 5.0% in September 2022, with Medical insurance having the an increase recorded at 18.7%. Furthermore, Medical and Motor represent the largest components of net claims, accounting for 57.4% and 39.1% of the total respectively.

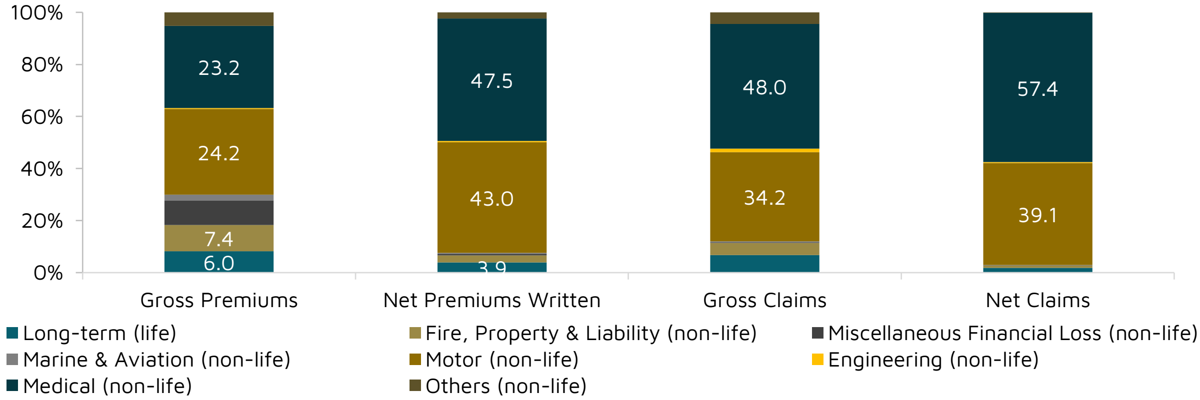
Table 6.5: Premiums and Claims by Class for Takaful Insurance Firms

BD '000	Gross Premiums		Net Premiums Written		Gross Claims		Net Claims	
	Q3 2022	Q3 2023	Q3 2022	Q3 2023	Q3 2022	Q3 2023	Q3 2022	Q3 2023
Long-term (Life)	4,327	3,889	2,266	1,526	1,269	2,184	406	495
Fire, Property & Liability	4,502	4,791	888	1,092	1,552	1,530	497	231
Miscellaneous Financial Loss	3,729	4,440	351	263	185	97	66	18
Marine & Aviation	1,211	1,056	145	110	101	125	73	59
Motor	16,198	15,607	10,270	16,795	11,538	11,129	11,205	10,482
Engineering	2,253	199	144	205	824	430	138	96
Medical	21,806	14,911	11,597	18,567	13,226	15,618	12,967	15,398
Others	4,079	3,755	1,100	740	701	1,444	204	46
Total	**58,104**	**64,383**	**35,467**	**39,058**	**29,396**	**32,557**	**25,557**	**26,825**

Source: CBB.

Takaful insurance companies have very high concentration on the Medical and Motor Insurance business lines. Gross Premiums for both sectors combined represent (47.4%), Net Premiums Written (90.5%), Gross Claims (82.2%), and Net Claims (96.5%).

Chart 6.7: Concentrations of Premiums and Claims by Class for Takaful Insurance Firms (Q3 2023)



Source: CBB.

6.3.3 Retention Ratio and Loss Ratio (By Class)

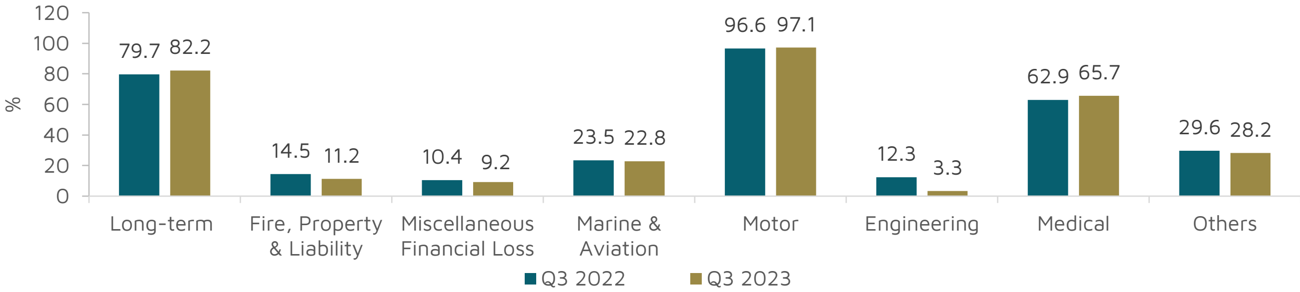
Life insurance business line registered a retention ratio of 82.2% in September 2023. Observing the non-life insurance, Medical and Motor, that accounted for 58.8% of the total Gross Premiums in September 2023 respectively, registered retention ratios of 97.1% for Motor and 65.7% for Medical. Nevertheless, retention ratios were significantly lower for other business lines such as Fire, Property & Liability and Engineering, registering 11.2% and 3.3% respectively.

Table 6.6: Retention and Loss Ratios of Overall Insurance Sector

%	Retention Ratio [1]		Loss Ratio [2]	
	Q3 2022	Q3 2023	Q3 2022	Q3 2023
Long-term	79.7	82.2	65.5	110.4
Fire, Property & Liability	14.5	11.2	37.1	70.0
Miscellaneous Financial Loss	10.4	9.2	(9.4)	11.5
Marine & Aviation	23.5	22.8	(3.8)	19.9
Motor	96.6	97.1	60.7	59.1
Engineering	12.3	3.3	35.8	(27.3)
Medical	62.9	65.7	73.2	78.9
Others	29.6	28.2	54.5	21.2

1. *Net Premiums Written / Gross Premiums*
2. *Net Claims Incurred / Net Premiums Earned*
Source: CBB.

Chart 6.8: Retention Ratios of Insurance Sector



Source: CBB.

6.4 Regulatory Changes, Market trends and Risks

The CBB has continued to take a proactive approach towards achieving its mandated objectives towards the Insurance Sector with consideration of all stakeholders. The below demonstrates the list of initiatives taken to further develop the market for the benefit of all stakeholders:

- Proactively safeguarding policy holders' rights by introducing new rules to protect and enhance the Life and Unit-Linked insurance landscape in the Kingdom, which is currently in the consultation stage.
- Reviewing and amending the prudential reports along with the related rules to reflect the implementation of International Financial Reporting Standards (IFRS 17).
- Introduced new requirements regarding dividend distributions to align with international best practice and ensure adequate solvency and capital adequacy.
- Enhancing the national skill set and providing a base for future initiatives in the area of actuarial studies by requiring firms to establish internal actuarial unit and mandating employing Bahrainis; supported with a Tamkeen program.
- Revised the Appointed Representative rules to organize the market, resolve concerns and improved rules that would have a positive impact on the business aspect for the insurance licensees.
- Ensuring CBB's commitments of having a fair and positive customer experience within the insurance industry, a directive has been issued to all insurance firms for enhancing the Compliance Function and Being Client Centric.

- Continuously working on achieving the objectives included in the Bahrain’s Economic Recovery Plan 2022-2026 for the insurance sector.
- Support the implementation and continuous monitoring of the mutually resolved minor accidents initiative led by the General Traffic Department at the Ministry of Interior; and
- Actively seeking to advance local expertise within the insurance sector by making certain insurance courses mandatory for certain lines of business and making them levied.
- Actively promoted innovation and digital transformation through assisting Companies' compliance with the issued related directives.
- Promote awareness of insurance needs in order to enhance insurance literacy within the Kingdom.
- In partnership with the Bahrain Insurance Association "BIA", Bahrain Institute of Banking and Finance "BIBF" and the Labor Fund “Tamkeen”, the CBB is working to train a group of graduates and unemployed Bahrainis by offering a training program, where the program will include intensive training for a period of six months, with opportunities for employment at the end of the program.

7 PERFORMANCE OF CAPITAL MARKETS

HIGHLIGHTS

As at end 2023

# of Companies	All Share Index	Islamic Index
42	1,971.49 ▲4.0% YoY	728.91 ▲9.9% YoY

Market Capitalization	Value of Transactions	Volume of Transactions
BD 7.8 bn ▼31.9% YoY	BD 210.2 mn	780.7 mn

- Increase in Bahrain All Share & increase in Bahrain Islamic Index.
- Bahrain Bourse's market capitalization stood at BHD 7.8 billion in 2023 end, decreasing by 31.9%.
- The Financials Sector dominated the market trading activity as it had the highest value traded.
- Bahrainis represented 63% of the value of shares bought and 59% of value of shares sold during 2023.

7.1 Overview

This chapter provides an overview of the capital markets sector in the Kingdom of Bahrain and provide statistical insights of the performance of the mainboard market operated by Bahrain Bourse as a Self-Regulatory Organization (SRO) as well as relevant data on the issuance of securities and activities pertaining to takeovers, mergers and acquisitions in Bahrain.

In 2002, Bahrain expanded and centralized the scope of the financial sector regulatory supervision to encompass capital markets under CBB's Capital Markets Supervision Directorate (CMSD) supervisory umbrella. Henceforth, with the inception of the integrated regulator approach referred to as the "Single Regulatory Model", CBB became responsible for Bahrain's capital markets with a combination of rule and principle based regulatory framework.

As of end of 2023, Bahrain Bourse recorded a total listing of 42 Companies (including 1 REIT), 3 Mutual Funds, 19 Bonds and Sukuk and one REIT. During 2023, there were 15 companies that closed higher and 22 closed lower and 5 remained unchanged. Financials sector remains the dominant sector in Bahrain Bourse in terms of market capitalization making up 60% of the total market capitalization. Bahrain Bourse remains a highly concentrated market in terms of market capitalization as the largest 5 companies in terms of market capitalization are ALBH, NBB, BBK, BEYON, and UGH represent 67% of the total market.

7.2 Bahrain Bourse

7.2.1 All Share Index and Islamic Index Overview

Increase in market index

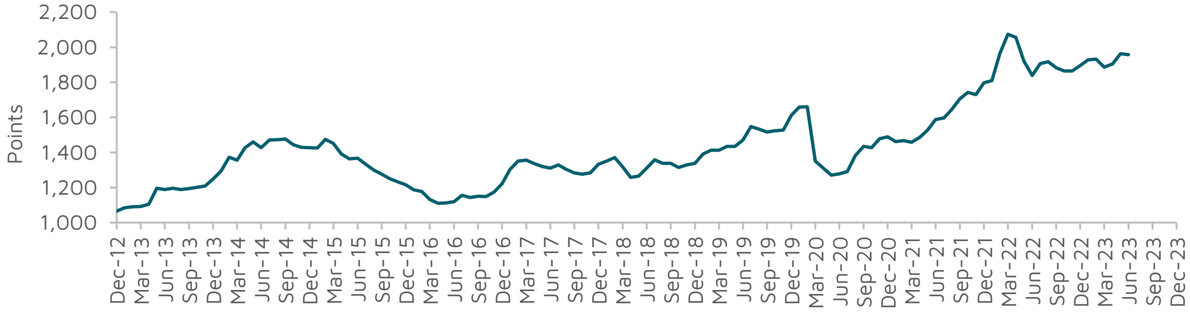
Bahrain All Share Index increased by 4.0% during 2023. The index increased during the first half of the year with the lowest month-end close level recorded being in March, and the highest month-end close was recorded in July.

Table 7.1: Key Indicators of Bahrain Bourse

Indicator	2018	2019	2020	2021	2022	2023
All Share Index	**1,337.3**	**1,610.2**	**1,489.8**	**1,797.3**	**1,895.3**	**1,971.49**
Highest	1,369.9	1,610.2	1,668.7	1,797.3	1,918.0	1,992.02
Lowest	1,257.9	1,391.4	1,232.4	1,447.6	1,839.6	1,886.61
Market Capitalization (BD,	8,198.5	10,134.6	9,277.3	10,815.5	11,408.9	7,768.6
Total Value (BD million)	323.8	286.4	212.8	195.7	160.6	210.2
Total Volume (million)	1,441.1	1,157.3	1,209.3	1,018.3	517.3	780.7
No. of Transactions	19,225	20,712	19,309	21,001	17,190	17,730
No. of Companies Listed	43	44	44	42	42	42

Source: Bahrain Bourse.

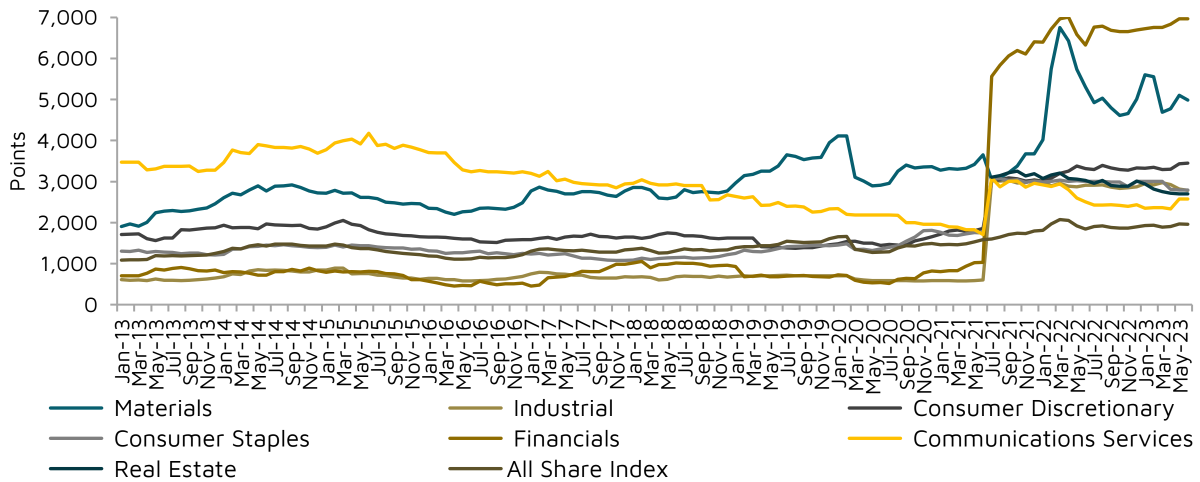
Chart 7.1: Bahrain All-Share Index, Dec. 2012 – Dec. 2023



Source: Bahrain Bourse.

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

Chart 7.2: Sector Indices Levels & Returns, Jan. 2013 – Dec. 2023



Source: Bahrain Bourse.

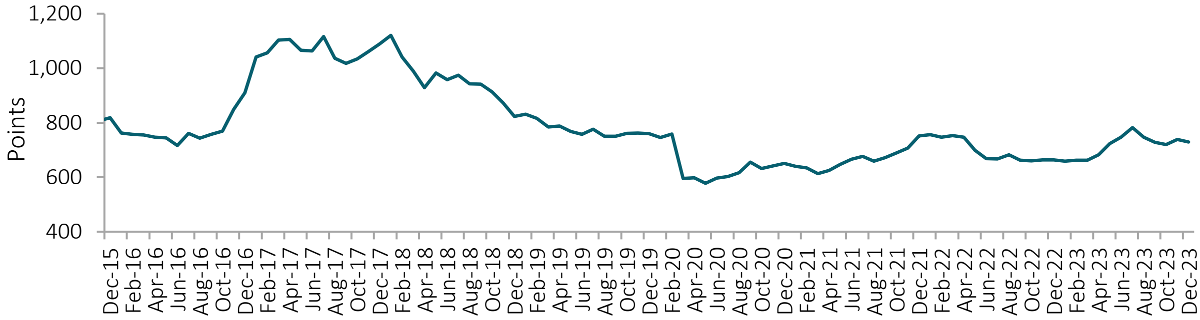
Table 7.2: Bahrain All Share Index by Sector

	2022	2023
Materials	5,007.7	5,260.34
Industrials	2,871.2	2,998.53
Consumer Discretionary	3,333.0	3,503.62
Consumer Staples	3,003.9	2,547.56
Financials	6,691.2	6,976.11
Communications Services	2,437.1	2,480.53

Source: Bahrain Bourse.

In September 2015, Bahrain Bourse launched the Bahrain Islamic Index as the first Islamic finance index in the region. There were 14 Shariah compliant companies included within the index as of 2023. Bahrain Islamic Index increased by 9.9% in 2023 reaching 728.91 points.

Chart 7.3: Bahrain Islamic Index, Dec. 2015 – Dec. 2023



Source: Bahrain Bourse.

7.2.2 Bahrain Bourse Trading Statistics

Market Capitalization

As of 2023, market capitalization of the Bahrain Bourse stood at BD 7.8 billion. This level of market capitalization is 31.9% lower than 2022.

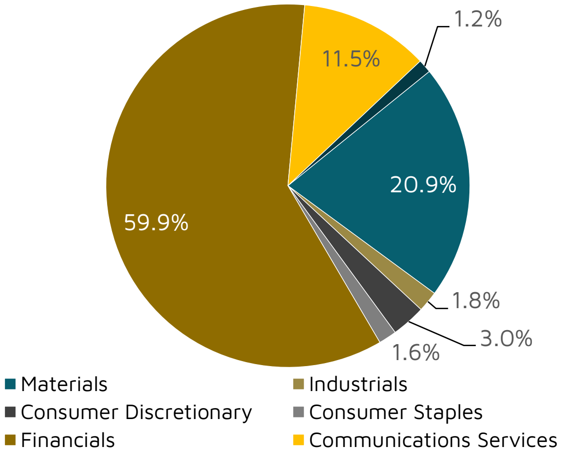
Table 7.3: Market Capitalization on the Bahrain Bourse

Sector (BD)	2022	2023	(% Change)
Materials	1,547,800,000	1,625,900,000	5.0
Industrials	137,100,000	143,179,000	4.4
Consumer Discretionary	198,256,972	235,362,443	18.7
Consumer Staples	146,255,232	124,037,039	-15.1
Financials	8,398,661,786	4,654,469,132	-44.5
Communications Services	876,430,856	892,057,628	1.7
Real Estate	104,381,971	93,568,551	-10.3
Total	**11,408,886,817**	**7,768,573,793**	**-31.9**

Source: Bahrain Bourse.

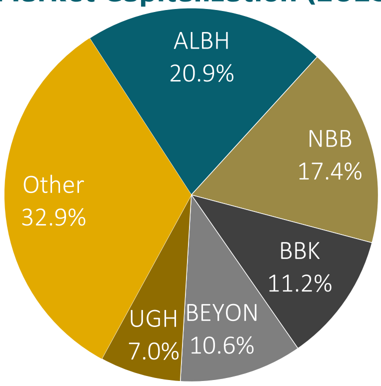
A breakdown of market capitalization by sector indicates that the Consumer Discretionary sector scored the highest increase in market capitalization (18.7%) during 2023. The Financials sector recorded the highest percentage decrease in market capitalization with a 44.5% decrease during 2023.

Chart 7.4: Market Capitalization by Sector (2023)



Source: Bahrain Bourse.

Chart 7.5: Largest 5 companies by Market Capitalization (2023)



Source: Bahrain Bourse.

Aluminum Bahrain is the largest company in terms of Market Capitalization and contributes 20.9% of the total market capitalization as 2023. National Bank of Bahrain has the second largest share of Market Capitalization of 17.3% and it is followed by Bank of Bahrain & Kuwait with 11.2%, Bahrain Telecommunication Company with 10.6% and United Gulf Holding Company with 7.0%.

Table 7.4: Largest 5 Companies by Market Capitalization (2023)

Company	Market Capitalization (BHD)	% from Total Market
Aluminum Bahrain (ALBH)	1,625,900,000	20.9
National Bank of Bahrain (NBB)	1,348,314,661	17.3
Bank of Bahrain and Kuwait (BBK)	871,963,349	11.2
Bahrain Telecommunication Company (BEYON)	823,284,000	10.6
United Gulf Holding Company (UGH)	544,476,638	7.0
Total	**5,205,059,111**	**67.1**

Source: Bahrain Bourse.

Value of Shares Traded

Most of the value of shares traded during 2023 was in the financial sector whose traded shares (by value) represented 46.2% of total value.

Table 7.5: Value of Shares Traded by Sector (% of Value of all shares traded)

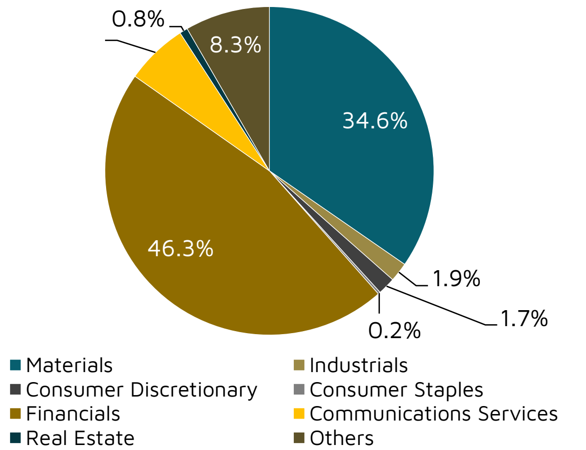
Sector	Value (BHD)	% from Total Market
Materials	72,830,922	34.6
Industrials	3,975,731	1.8
Consumer Discretionary	3,619,870	1.7
Consumer Staples	482,982	0.2
Financials	97,308,214	46.2
Communications Services	12,824,110	6.1
Real Estate	1,673,683	0.8

Source: Bahrain Bourse.

The Financials sector represents the largest level at 46.2% of the total value of shares traded in 2023. Investors' interest in Consumer Staples sector was the least during this period with traded shares by value representing only 0.2% of the total value of traded shares.

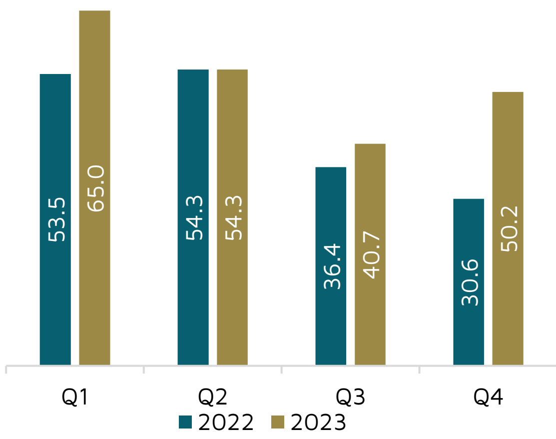
PERFORMANCE OF CAPITAL MARKETS

Chart 7.6: Value of Shares Traded by Sector (% of Value of all shares traded) (2023)*



** Other sector includes Closed companies, Non-Bahraini and IPOs.*
Source: Bahrain Bourse.

Chart 7.7: Value of Shares Traded Comparison



Source: Bahrain Bourse.

Volume of Shares Traded

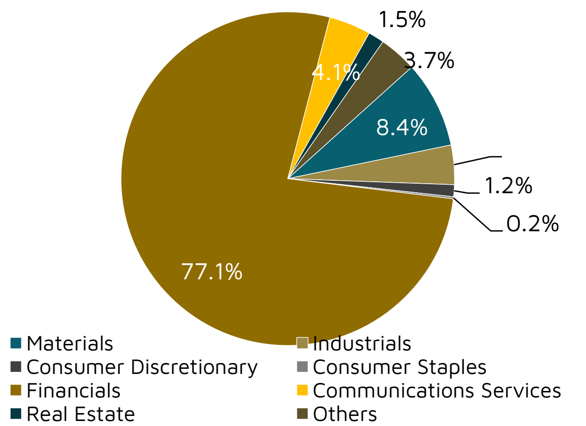
The bulk of the volume of shares traded in 2023 was in the Financial sector representing 77% of the total volume of shares traded, followed by the Materials sector at 8%. The lowest level was attained by the Consumer Staples sector at 0.1%.

Table 7.6: Volume of Shares Traded by Sector (% of Volume of all shares traded)

Sector	2022	2023
Materials	11.2	8.4
Industrials	4.3	3.8
Consumer Discretionary	2.0	1.1
Consumer Staples	2.4	0.1
Financials	72.7	77.1
Communications Services	5.4	4.0
Real Estate	2.1	1.5

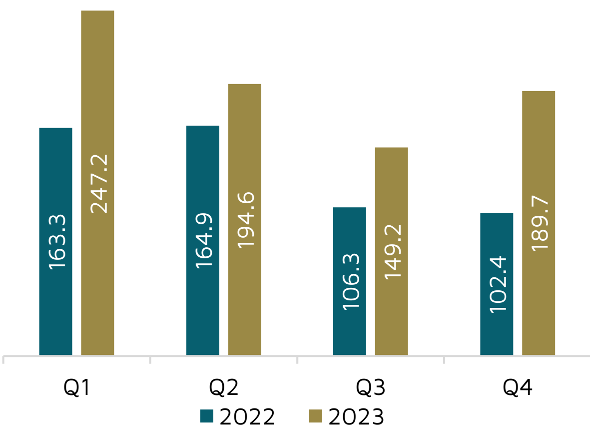
Source: Bahrain Bourse.

Chart 7.8: Volume of Shares traded by Sector (% of Volume of all shares traded) (2023)*



** Other sector includes Closed companies, Non-Bahraini and IPOs.*
Source: Bahrain Bourse.

Chart 7.9: Volume of Shares Traded Comparison



Source: Bahrain Bourse.

Number of Transactions

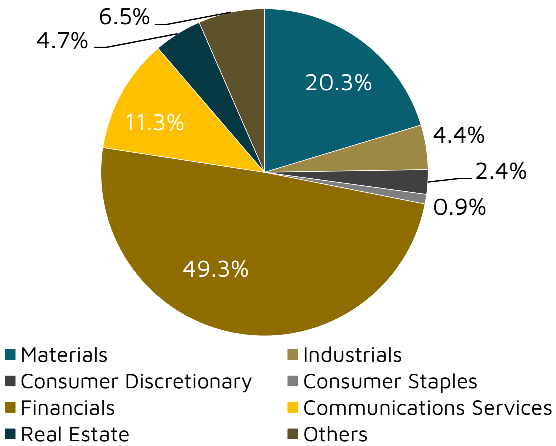
During 2023, the market executed 17,730 transactions. Most of the transactions were executed by the Financials sector at 8,743 transactions (49% of all transactions), followed by the Materials at 3,605 transactions (20%), and the Communications Services sector at 2,003 transactions (11%).

Table 7.7: Number of Transactions by Sector

Sector	2022	2023
Materials	4,582	3,605
Industrials	454	781
Consumer Discretionary	386	429
Consumer Staples	193	168
Financials	8,299	8,743
Communications Services	2,462	2,003
Real Estate	814	841
Total Market	**17,474**	**17,730**

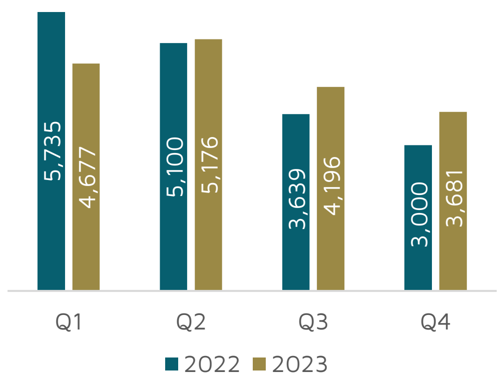
Source: Bahrain Bourse.

Chart 7.10: Number of Transactions (% of all transactions) (2023) *



**Other sector includes Closed companies and IPOs.*
Source: Bahrain Bourse.

Chart 7.11: Number of Transactions Comparison



Source: Bahrain Bourse.

Trading by nationality

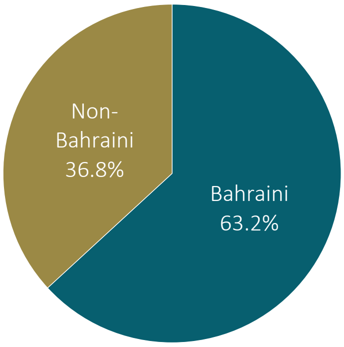
As of 2023, non-Bahraini nationals contributed to BHD 77.4m of the value of shares bought while Bahraini nationals contributed BHD 132.8m of the value of shares bought. As for sell-side of the transactions, Non-Bahraini nationals contributed to BHD 86.2m of the value of shares sold while Bahraini nationals contributed to BHD 124m of the remaining value of shares sold.

Table 7.8: Value of Transactions by Nationality (BD million)

	2022		2023	
	Bahraini	**Non-Bahraini**	**Bahraini**	**Non-Bahraini**
Buy	116.7	53.0	33.5	20.7
Sell	111.4	58.4	124.0	86.2

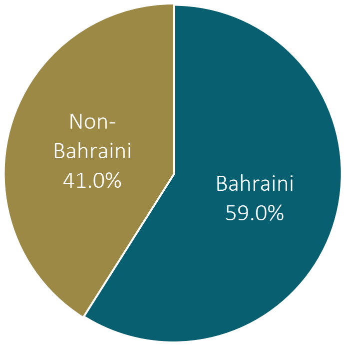
Source: Bahrain Bourse.

Chart 7.12: Share of Trading Value of Buy transactions by nationality (2023)



Source: Bahrain Bourse.

Chart 7.13: Share of Trading Value of Sell transactions by nationality (2023)



Source: Bahrain Bourse.

7.2.3 Economic Recovery Plan and Capital Markets Development Strategy

In December 2021, the Government of Bahrain initiated the economic recovery plan, which aims to greatly contribute to making Bahrain Bourse a regional financial market. With the support of the CBB, Bahrain Bourse continues to develop its operations to improve the financial services sector, benefit the national economy, provide more quality job opportunities, and attract investments.

The CBB continues to work with Bahrain Bourse to implement a set of priorities and initiatives in partnership with the relevant parties, specifically in areas that will develop the performance of the financial market sector. The initiatives include encouraging initial public offerings and listing of companies, including government-owned companies, enhancing ways for coordination of dual listing with other GCC countries, and further strengthening the bond market. Efforts are also focused on encouraging small and medium-sized companies to list in the Bahrain Investment Market (BIM).

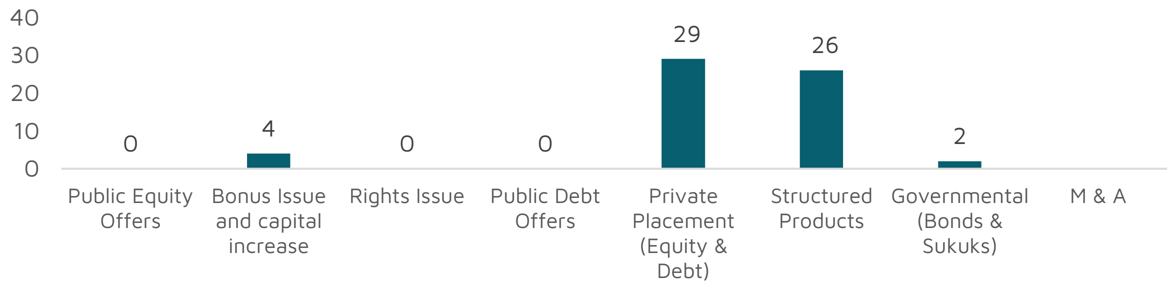
The strategy also aims to develop the financial market by supporting Bahrain in joining the emerging markets index, which would stimulate investment and provide support to market intermediaries and representatives in a way that contributes to expanding the number of investors and improving liquidity levels. It is also worth noting that the CBB has worked with Bahrain Clear to enhance ways of coordinating and linking clearing, settlement and central depository systems regionally and internationally, which aims to facilitate and enable investors to access the market of both parties by removing borders as much as possible – this initiative has seen light by virtue of the launch of the Tabadul Hub Platform. Further, Bahrain Bourse and Bahrain Clear are currently working on various areas to automate the services provided to investors, including the application of the digital on-boarding mechanism to attract investors and facilitate the trading process and its related services.

7.3 Capital Market Activities

7.3.1 Offering of Securities

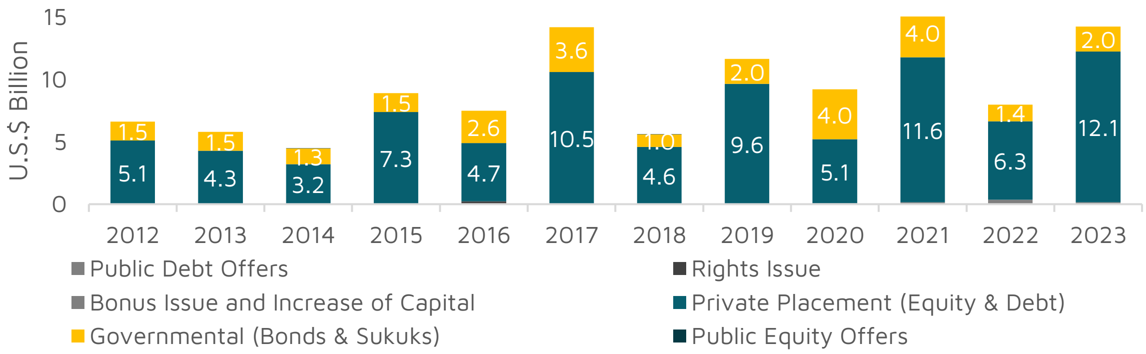
As at December 2023, CBB issued its no objection to the issuance of 61 offering documents. The total value of issuances reached USD 14.1 billion. (Chart 7.18 & 7.19).

Chart 7.14: Number of Capital Market Activities



Source: CBB.

Chart 7.15: Total Issuance Value



Source: CBB.

7.3.2 Esterad Investment Company B.S.S. ("Esterad") increase of capital and issuance of ordinary shares for the acquisition of 100% of Venture Capital Bank B.S.C. ("VCB")

On 8th June 2023, Esterad announced the establishment and registration of the Trust established for the settlement of the purchase consideration for VCB's shareholders.

On 19th June 2023, upon ensuring the satisfaction of all regulatory requirements, the CMSD provided its no objection to the increase of the issued and paid up capital of Esterad from BD 14,000,000 representing 140,000,000 shares to 14,706,316 representing 147,063,161 shares through the issuance of 7,063,161 new ordinary shares at a nominal value of BHD 0.100 based on the approved swap ratio of 0.245 ordinary shares of Esterad in exchange for 1 ordinary share in Venture Capital Bank.

7.4 Risks & Challenges in Capital Markets

The significance of cybersecurity risk on capital markets cannot be overlooked, given the developing landscape of the global markets, which decrees that regulators and capital market service providers must remain prudent, progressive, and vigilant to minimize such risks. In this regard, CBB; through the requirements stipulated under Module of CBB Rulebook Volume 6 requires Licensees to have in place a well-designed Disaster Recovery Plan and maintain at all times a plan of action (referred to as a business continuity plan) that sets out the procedures and establishes the systems necessary to restore fair, orderly and transparent operations, in the event of any disruption to the operations of the market.

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

FinTech solutions are increasingly affecting the Capital Markets, these changes are being reflected on different areas including: the core infrastructure that connects investors/clients with the intermediaries through block chain technologies, post-trade and settlement digitization and innovative technology driven business models. In order to effectively reduce risks related to use of FinTech solutions, CBB is working towards further entertaining the regulatory framework pertaining to data security, legal framework of data usage, creating robust compliance and regulatory reporting and increasing partnership between financial institutions, FinTech services providers and the regulator.

Among the shared goals of CBB and the Bahrain Bourse presently is to increase liquidity and the number of investors in the market. Such an increase would mean a greater amount of due diligence and responsibility for CBB as it aims to ensure that all stakeholders involved are aware and adhering to the rules and regulations. Meanwhile, listed companies are also aiming to increase liquidity and trading in their own shares by cross listing in multiple exchanges. Consequently, such initiatives bring about their own set of regulatory risks that CBB tackles.

As of February 2024, 5 of the 42 listed companies on Bahrain Bourse were cross-listed outside of Bahrain, leading to challenges faced by CBB in maintaining the cross-listed companies' compliance with the capital market regulations of Bahrain. CBB is utilizing the IOSCO MMoU and the MoU between regulators of the financial markets in the Gulf Cooperation Council States in requesting assistance in relation to cross-listed companies.

It is important that the Buy-and-Hold/Passive Investment investor mentality is tackled, through the provision of tools which gives the investors a clear view of market activity. Bahrain Bourse is in collaboration with market information companies, such as Bloomberg, Thompson Reuters etc., to distribute data packages which include facilities relating to real-time market coverage, historical and end-of-day data, etc.

7.5 Developments in Regulation and Initiatives

The CBB actively takes part in joint work meetings of the GCC Council's Capital Market Authorities (or their equivalent) that aim to harmonize the rules and regulations for the capital markets in the GCC and actively participates in the organization and management of a number of bilateral economic cooperation initiatives between the Kingdom of Bahrain and the Kingdom of Saudi Arabia as approved by the Saudi-Bahraini Coordination Council. In addition, the CMSD, on behalf of the CBB, manages its international cooperation within the capital markets' field, while making use of the best international experiences, among others. Therefore, the CMSD actively participates in the International Organization of Securities Commissions' ("IOSCO") Multilateral Memorandum of Understanding ("MMoU") and GCC MMoU, which CBB is a signatory of, by utilizing information exchange. In addition to such, the CMSD participates in incoming and outgoing requests such as studies, surveys, IOSCO Forum Inquiries, Reports and Consultations in order to engage and to share information with the IOSCO members at both global and regional levels on the basis of our respective experiences to assist the development of markets, strengthen market infrastructure and implement appropriate regulation. Such international cooperation enables the CBB to better protect investors, promote investor confidence, maintain fair, efficient, and transparent markets and address systemic risks.

During 2023, CBB endeavored to develop and complete the capital markets regulatory and legal frameworks, including Volume 6 of CBB Rulebook, its main objectives being, to enhance transparency, develop the capital markets, and protect investors. The following section will shed light on the activities that took place in the areas of policy, regulation, and market infrastructure during 2023:

7.5.1 Policy and Regulatory Developments

- The CBB issued an amendment to the Anti-Money Laundering and Combating Financial Crime (AML) Module in September 2023, which entailed the removal of Rule AML-1.4.14 that previously stated that licensees are required to obtain the CBB's prior approval before digitally on-boarding customers residing outside the GCC. The AML Module has also been amended in October 2023 to reflect new provisions relating to reliance on third parties for customer due diligence in alignment with the Financial Action Task Force's (FATF) Recommendation 17.

  Crypto-Asset ("CRA") Module of Volume 6 of the CBB Rulebook: As part of its initiatives to further enhance the regulatory framework, and in line with the developments in the sector and international best practices, the CBB issued amendments to the CRA Module in March 2023. In addition to a new chapter on digital token offerings, the new amendments enable crypto-asset licensees to provide additional activities subject to the CBB's prior approval on a case-by-case basis.

- The CBB issued the Environmental, Social, and Governance (ESG) requirements module on November 5, 2023, to all listed companies, banks, insurance firms, financing companies, and category 1 and 2 investment firms.
- The CBB issued Resolution No. (45) of 2023 specifying the types of securities that may be offered for trading and the methods of issuing and dealing with them and the obligations of the parties involved in the issuance of each type of security, based on Article (83)(a) of the CBB and Financial Institutional Law promulgated by Law No. 64 of 2006.
- The CBB issued Resolution No. (54) of 2023 regarding the Rules and Procedures pertaining to Mergers and Acquisitions of shares of companies listed on Securities Exchanges, based on Article (93 bis) of the CBB and Financial Institutions Law promulgated by Law No. (64) of 2006, and based on Article (319 bis) of the Commercial Companies Law promulgated by Legislative Decree (21) of 2001 and its amendments, which includes the types of acquisition offers or acquisitions that result in control of the company's shares and mergers to which the company is a party, whether a merging company or merged company, and the requirements applicable on each.

7.5.2 Investor Protection Initiatives

- The Capital Market Authorities in the GCC formed the investor awareness program 'Mulim', which was launched as long-term Gulf program to raise Capital Market awareness. The program is in its second year with the aim of raising awareness on the culture of financial transactions and investment in the capital markets, through a number of awareness programs and events. Two of the initiatives of the program are the Gulf investor week and the GCC Smart Investor Award, which opens the door for participation to citizens and residents of the GCC countries in order to establish creative ideas related to the culture of financial and investment transactions.
- The CBB continues to work on investor protection and awareness through participation in IOSCO led programs in addition with IOSCO members within the region. The CBB endeavored its participation in the WIW Campaign of 2023 by posting tweets as per the "IOSCO WIW 2023 Posts and Tweets Agenda" on its respective social media (X, formerly known as Twitter) platform. In addition to the above, the CBB participated in BHB's Ring the Bell for Financial Literacy Event (a campaign hosted by BHB to promote the importance of financial literacy) and shared the video on Instagram and X.

PART IV:
DEVELOPMENTS IN PAYMENT SYSTEMS, FINTECH, AND CYBER SECURITY

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

HIGHLIGHTS

H2 2023

RTGS Daily Average	
Volume	Value
197	BD 437.0 mn
▲ 10.7% YoY	▲ 38.5% YoY

SSSS Aggregate	
Volume	Value
45	BD 2.8 bn
0.0 % YoY	0.0% YoY

ATM Daily Average	
Volume	Value
31,490	BD 3.1 mn
▼ 16.7% YoY	▼ 13.0% YoY

BCTS Daily Average	
Volume	Value
8,029	BD 27.4 mn
▼ 6.9% YoY	▼ 9.9% YoY

Fawri + Daily Average	
Volume	Value
980,519	BD 20.7 bn
▲ 33.8 % YoY	▲ 19.7% YoY

Fawri Daily Average	
Volume	Value
50,035	BD 85.7 mn
▲ 8.7% YoY	▲ 11.4% YoY

Fawateer Daily Average	
Volume	Value
52,989	BD 4.4 mn
▲ 5.0% YoY	▲ 13.2% YoY

POS Transactions	
Volume	Value
95.2 mn	BD 2.1 bn
▲ 12.1% YoY	▲ 7.7% YoY

- Daily average (volume and value) for ATM Transactions continued decreasing trend for cash transactions by 16.7% and 13.0% compared to H2 2022.
- The daily average volume and value of cheques decreased over the same period by 6.9% and 9.9% respectively.
- Daily average of volume and value of Fawri+ transactions increased by 33.8% and 19.7% respectively in H2 2023 in comparison to H2 2022. The daily average of volume and value of Fawri Transactions increased by 8.7% and 11.4% respectively in H2 2023 in comparison to H2 2022.
- Daily average of volume and value of Fawateer Transactions increased by 5.0% and 13.2% respectively in H2 2023 in comparison to H2 2022.
- POS and Ecommerce transactions (volume and value) increased by 12.1% and 7.7% respectively in H2 2023.

8.1 Overview

The payment landscape has moved from traditional systems to digital alternatives. Technologies have been introduced that address consumer and market dynamics and support the drive towards greater autonomy and flexibility. As a regulator and facilitator, CBB has supported the introduction and structured development of advanced payment systems that have enabled the growing digitalization of the financial sector. In The Kingdom of Bahrain and around the world, the pandemic served as a catalyst to accelerate the rapid digitalization of the payments as consumer preferences began to shift towards contactless payment.

Financial Market Infrastructures (FMIs), Payment and Settlement Systems are central to the smooth operations of the financial sector and the efficient functioning of the overall economy. Therefore, the Oversight of FMIs and Payments improves the stability of Payments, markets, and the wider financial system in addition to providing a valuable measure to evaluate risks to financial stability. FMIs, Payment and Settlement Systems are a crucial part of the financial infrastructure in the country.

The current FMIs in the Kingdom of Bahrain comprises of five main components:

i) the Real Time Gross Settlement System (RTGS);
ii) the Scripless Securities Settlement System (SSSS);
iii) the ATM Clearing System (ATM);
iv) the Bahrain Cheque Truncation System (BCTS) and
v) the Electronic Fund Transfer System (EFTS) including the Electronic Bill Presentment and Payment (EBPP) System.

CBB operates, manages and oversees the national Payment and Settlement Systems in the Kingdom of Bahrain[10].In addition, CBB assess all FMIs, Payment and Settlement Systems in terms of compliance with the requirements set by the Principles for Financial Market Infrastructures (PFMI), CBB Law, and CBB's Directives. The FMIs, Payment and Settlement Systems Framework continues to operate smoothly and function safely, efficiently, resiliently, and reliably, assuring to maintain the financial stability during the second half of 2023 (from 1st July 2023 to 31st December 2023).

Point of Sale (POS) terminals, E-Commence and digital payments are other methods that enhance a customer's payment experience in Bahrain by providing payment solutions that support international and domestic payment schemes. Several digital wallets are established in Bahrain's FinTech ecosystem that offer various payment solutions. Seamless contactless and digital payments transactions are projected to be the prominent payment methods in the future.

This chapter describes recent trends in FMIs, Payment and Settlement Systems, POS, and digital wallet transactions.

8.2 Real Time Gross Settlement System (RTGS)

CBB operates and oversees the Real Time Gross Settlement (RTGS) System where all Inter-Bank payments are processed and settled in real time on-line mode, which went live on the 14th of June 2007. The RTGS System provides for Payment and Settlement of Customer transactions as a value addition and enables the Banks to have real-time information on, for example, account balances, used and available intra-day credit, queue status, transaction status, etc. The RTGS System is multi-currency capable and based on Straight Through Processing (STP). The number of direct participants in the RTGS are thirty-two (32) Participants including CBB. On Sunday, 3rd December 2023, Central Bank of Oman (CBO) joined the RTGS System as part of AFAQ.

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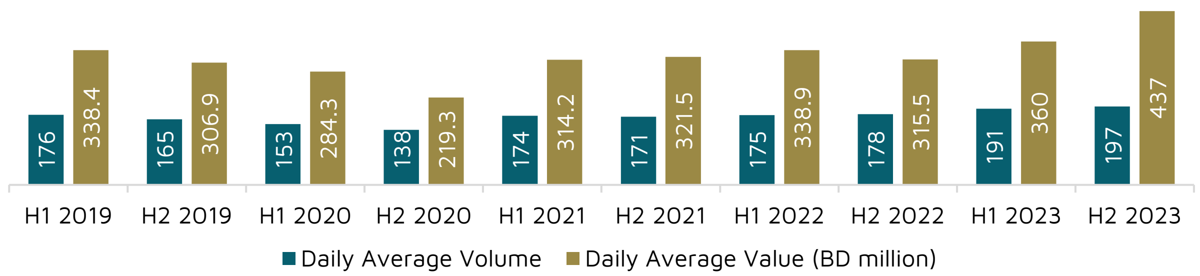
[10] CBB operates the Real Time Gross Settlement System (RTGS) and the Scripless Securities Settlement System (SSSS), whereas BENEFIT operates the ATM Clearing System (ATM), the Bahrain Cheque Truncation System (BCTS) and the Electronic Fund Transfer System (EFTS) including the Electronic Bill Presentment and Payment (EBPP) System on behalf of CBB.

Total RTGS Bank transactions in H2 2023 reached 24,638 thousand in terms of volume and BD 62,304.7 million in terms of value showing a 14.1% and 36.6% increase respectively since H2 2022. [11]

Chart 0.1: RTGS Bank Transfers Daily Average Volume and Value



Source: CBB.

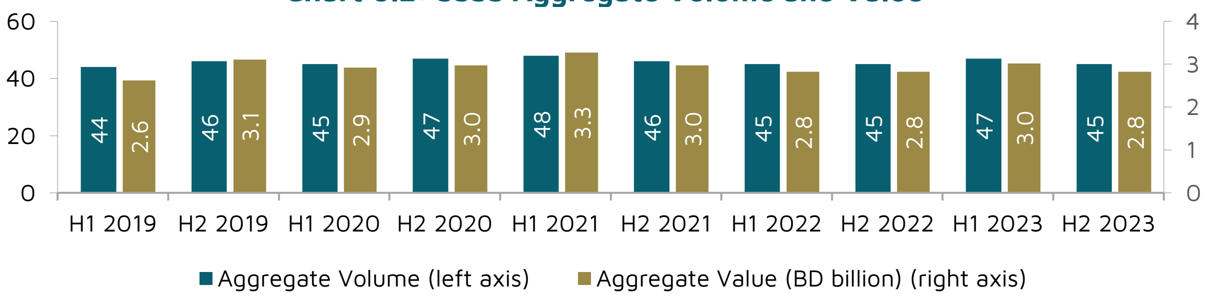
The daily average volume of Bank Transfers for H2 2023 increased by 10.7% from 178 to 197 Transfers when compared to H2 2022. In addition, the daily average value of Bank Transfers for H2 2023 had increased by 38.5% from BD 315.5 million to BD 437.0 million when compared H2 2022.

8.3 Scripless Securities Settlement System (SSSS)

CBB operates and oversees Scripless Securities Settlement System (SSSS) that provides the Depository and Settlement Services for holdings and transactions in Government Securities including Treasury Bills (T-Bills), Governments Bonds and Islamic Securities (Sukuk). Moreover, the SSSS went live on 14th June 2007 along with the RTGS System. The number of direct participants is thirty (30) participants whereas the indirect participants are twenty-nine (29) members in the SSSS.

The volume of issues in H2 2023 remained constant in comparison to H2 2023, *i.e. 45 issues*. The aggregate value of issues in H2 2023 also remained at BD 2.8 billion in comparison to H2 2022.

Chart 0.2: SSSS Aggregate Volume and Value



Source: CBB.

The volume of issues was within the normal range of issues which did not pose additional burden to the System's processing capacity and the risk of significant participant's failure is minimised due to executing and settling in Real Time Gross Settlement System (RTGS). The SSSS continued to operate smoothly and efficiently during the period from 1st July 2023 to 31st December 2023.

8.4 ATM Clearing System (ATM)

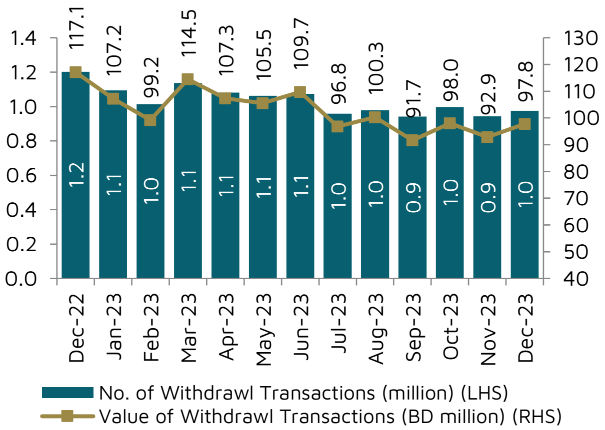
ATM clearing is based on a Deferred Net Settlement (DNS) system. The Benefit Company (BENEFIT) in Bahrain receives and processes all the ATM transactions. The GCC net, a

[11] H1 data is from 1st January until 30th June; H2 data is from 1st July to 31st December.

leased line network across the GCC countries, provides for the communication backbone for the transmission of all the ATM Transactions and settlement related electronic messages.

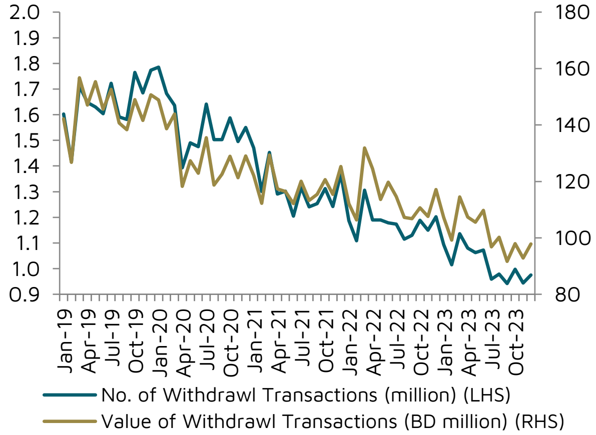
Total ATM transactions in H2 2023 reached 5.8 million in terms of volume and BD 577.3 million in terms of value indicating a 16.7% and 13.0% decrease respectively since H2 2022. Overall, there is a continued downward trend in both the value and the volume of ATM transactions (Chart 8.5). In H2 2023, monthly volume of ATM transactions ranged between 0.9 and 1.1 million transactions while the value of ATM transactions ranged between BD 91.7 million and BD 109.7 million.

Chart 0.3: Number and Value of ATM Transactions, June 2022 – June 2023



Source: BENEFIT.

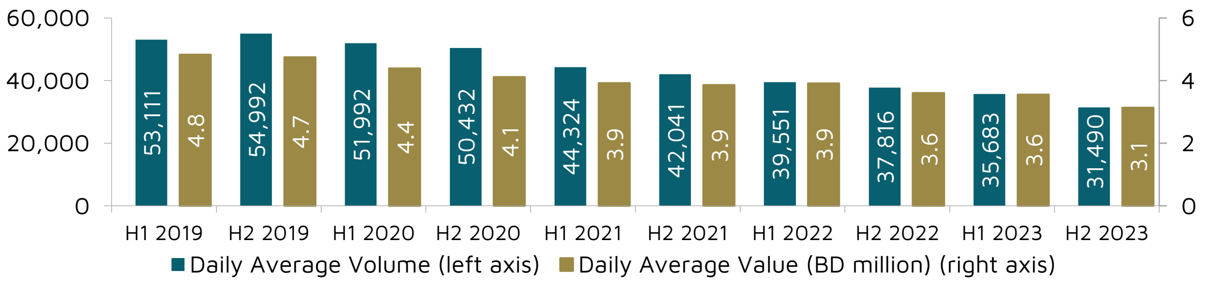
Chart 0.4: Number and Value of ATM Transactions



Source: BENEFIT.

The daily average volume of ATM Transactions for H2 2023 reached 31,490 transactions per day (a 11.8% decrease compared to H2 2023 and 16.7% decrease compared to H2 2022). The daily average value of ATM Transactions for H2 2023 reached BD 3.1 million (a 11.7% decrease compared to H2 2023 and 13.0% decrease compared to H2 2022).

Chart 0.5: ATM Transactions Daily Average and Volume*



Source: BENEFIT.
** Local Debit Cards Only.*

8.5 Bahrain Cheque Truncation System (BCTS)

Cheques is one of the most popular instruments in use among Retail and Corporate Customers. As part of CBB vision to replace the paper based Automated Cheque Clearing System operated by CBB, the Bahrain Cheque Truncation System (BCTS) commenced its operations in co-operation with the BENEFIT Company (BENEFIT) on the 13th May 2012. The BCTS is operated by BENEFIT and overseen by CBB. The number of participants in the BCTS is 30 participants.

The total volume of cheques for H2 2023 decreased by 3.8% compared to H2 2022 to reach 100.4 million and total value of cheques decreased by 6.9% to reach BD 3421.0 million compared to H2 2022.

The daily average volume of cheques for H2 2023 decreased by 6.9% from 8,624 cheques in H2 2022 to 8,029 cheques. Furthermore, the daily average value of cheques decreased in H2 2023 by 9.9% from BD 30.4 million for H2 2022 to BD 27.4 million.

The BCTS continued to operate smoothly and efficiently for the period from 1st July 2023 to 31st December 2023. Charts 8.7 and 8.8 show the volume and value of cheques and the percentage returned cheques to the total volume and value. Between Q3 2023 and Q4 2023, returned cheques declined from 2.9% to 2.6% as a percentage of total volume and the value also decreased from 9.6% to 3.2% as a percentage of total value.

Chart 0.6: BCTS Daily Average Volume and Value

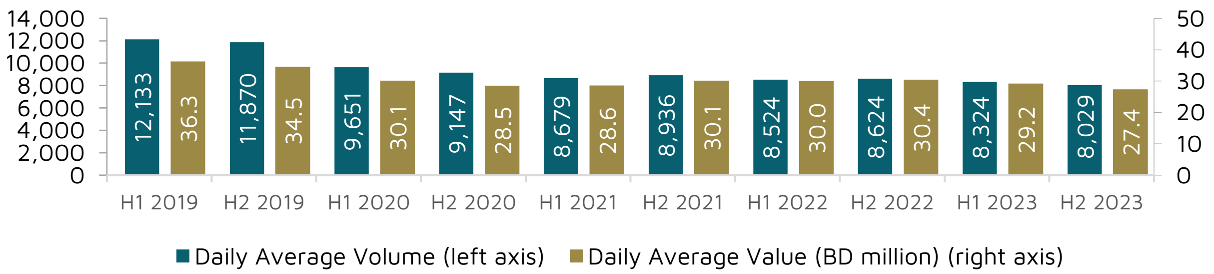
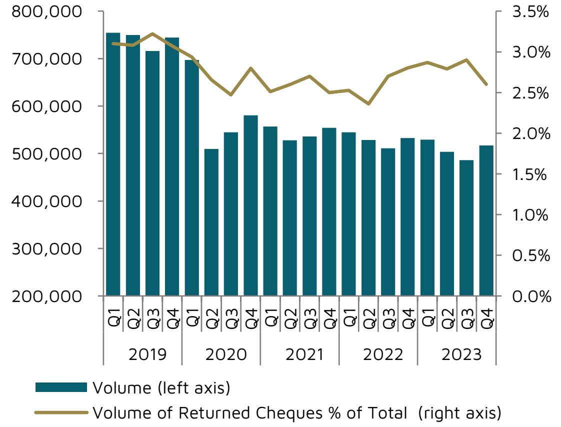
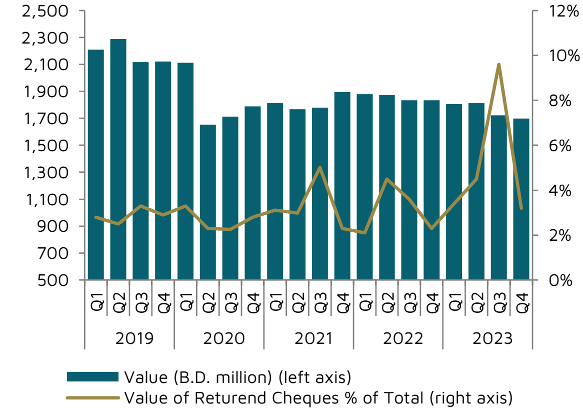


Chart 0.7: Volume of Issued Cheques and % of Returned Cheques



Source: BENEFIT.

Chart 0.8: Value of Issued Cheques and % of Returned Cheques (BD million)



Source: BENEFIT.

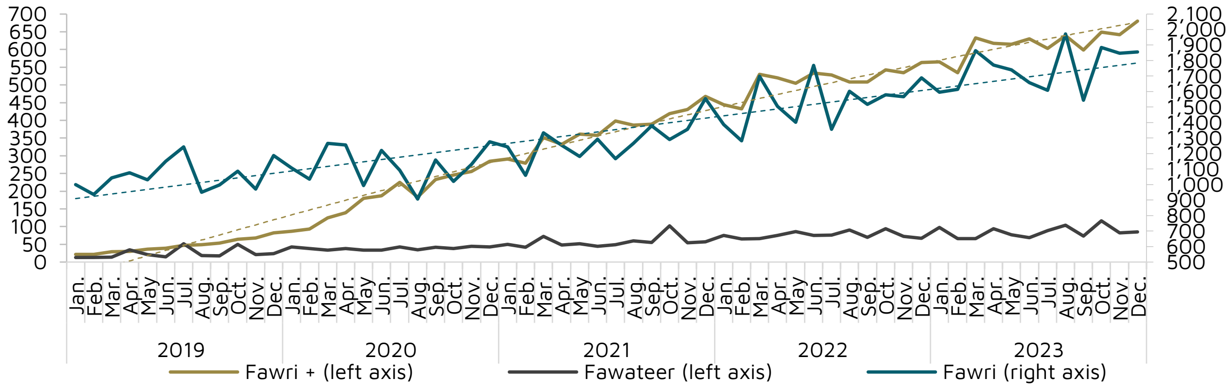
8.6 Electronic Fund Transfer System (EFTS) including Electronic Bill Presentment and Payment (EBPP) System

With the introduction of International Bank Account Number (IBAN) in January 2012, transfers became easier, less time consuming, and more secure for both customers and banks. The Electronic Fund Transfer System (EFTS) was launched on 5th November 2015 and the Electronic Bill Presentment and Payment (EBPP) System was launched on the 3rd October 2016, operated by the Benefit Company (BENEFIT) and overseen by CBB. The EFTS including EBPP is an electronic system that interconnects all Retail Banks in Bahrain with each other and major billers in the Kingdom to enhance the efficiency of fund transfers and bill payments promoting a more proactive and forward-thinking Banking sector.

The Kingdom of Bahrain took a step forward in line with the global trend of going cashless by introducing the EFTS that enabled electronic fund transfers within Bahrain with three services: Fawri+ Fawri, and Fawateer. Fawri+ and Fawri provide fund transfers service to individuals and corporates, where Fawateer provides real-time bill payments offering the public easier access and faster processes. The number of participants offering outward EFTS Services has reached twenty-five (25) participants.

Chart 8.9 shows an overall increasing trend in the monthly transfers in Fawri+, Fawri and Fawateer. The total value of Fawri+ transfers reached BD 3,810.9 million for H2 2023 increasing by 19.7% compared to H2 2022. The total value of Fawri transfers increased by 15.1% for H2 2023 reaching BD 10,712.1 million compared to H2 2022. In addition, the value of Fawateer payments increased by 16.9% from 469.8 million in H2 2022 to BD 549.3 million in H2 2023.

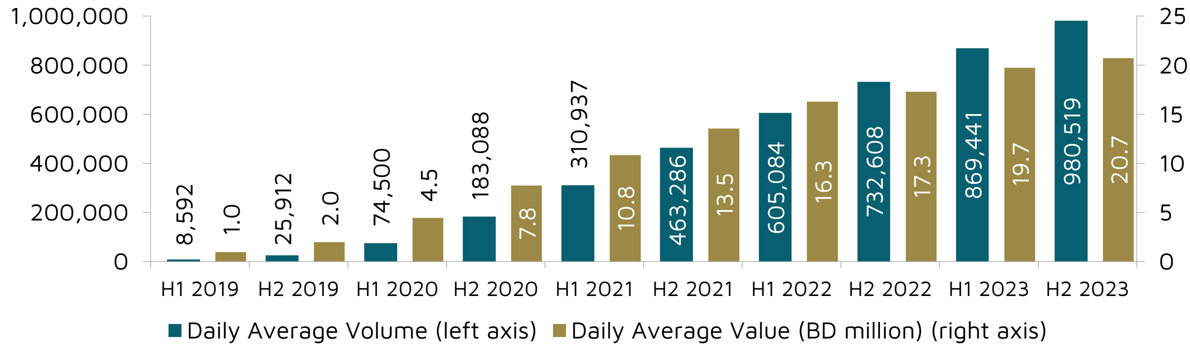
Chart 0.9: EFTS Fawri, Fawri+, and Fawateer Value (BD million)



Source: BENEFIT.

The daily average volume of Fawri+ transfers of H2 2023 when compared to H2 2022 increased by 33.8% from 732,608 transfers to 980,519 transfers. The daily average value of Fawri+ transfers increased by 19.7% in H2 2023 when compared to H2 2022 from BD 17.3 million to BD 20.7 million.

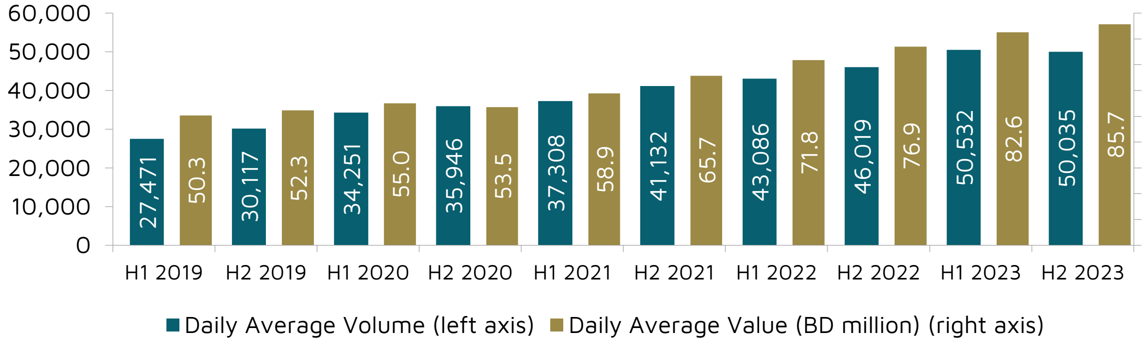
Chart 0.10: EFTS Fawri+ Daily Average Volume and Value



Source: BENEFIT.

The daily average volume of Fawri transfers in H2 2023 increased by 8.7% from 46,019 transfers in H2 2022 to 50,035 transfers. In addition, the daily average value of Fawri transfers increased by 11.4% in H2 2023, from BD 76.9 million in H2 2022 to BD 85.7 million in H2 2023.

Chart 0.11: EFTS Fawri Daily Average Volume and Value

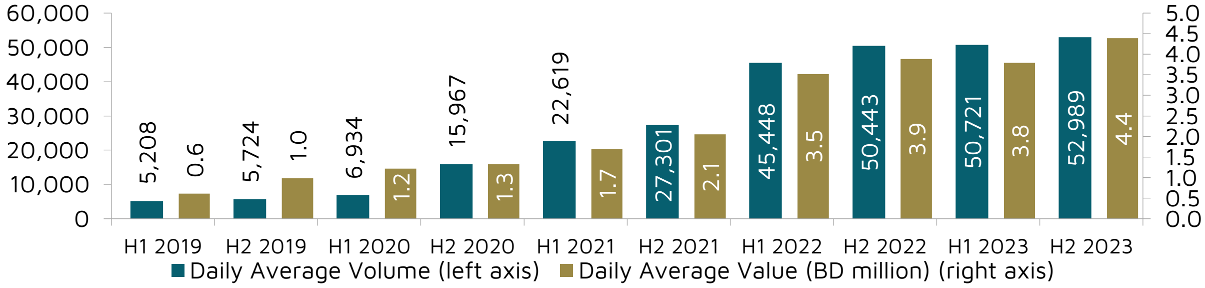


Source: BENEFIT.

The daily average volume of Fawateer Payments for the second half of 2023 increased by 5.0% from 50,443 payments in H2 2022 to 52,989 payments in H2 2023. In addition, the daily average value of Fawateer reached BD 4.4 million in H2 2023 increasing by 13.2% compared to BD 3.9 million in H2 2022.

The EFTS including EBPP continued to operate in a safe, efficient, resilient and reliable manner from 1st July 2023 to 31st December 2023. CBB continues to assess the EFTS including EBPP in terms of compliance with the requirements set by the Principles for Financial Market Infrastructures (PFMI), CBB Law and CBB's Directives, etc.

Chart 0.12: EBPP Fawateer Daily Average Volume and Value



Source: BENEFIT.

8.7 Point of Sale (POS) and E-Commerce

POS transactions in Bahrain continued to show a steady increase in both in volume and value, an indicator of strong business and economic activity within the Kingdom. POS terminals create a seamless payment experience for customers by helping in achieving higher financial inclusion. The total number of transactions for 2023 reached 183.9 million transactions (13.0% YoY increase). Similarly, the total value of transactions for 2023 increased to BD 4,149.6 million (7.9% YoY increase).

Table 0.1: Point of Sale (POS) and E-Commerce Transactions in Bahrain

		Volume of transactions (million)			Value of transactions (BD million)		
		Cards issued in Bahrain	Cards issued outside Bahrain	Total	Cards issued in Bahrain	Cards issued outside Bahrain	Total
2020		77.3	6.4	**83.8**	2,124.9	217.0	**2,341.9**
2021		109.5	16.0	**125.5**	2,707.2	444.0	**3,151.2**
2022		132.1	30.7	**162.8**	3,090.8	753.8	**3,844.6**
2023		147.6	36.3	**183.9**	3,273.9	875.7	**4,149.6**
2022	H2	64.3	13.6	**77.9**	1,534.8	344.8	**1,879.6**
	H2	67.8	17.1	**84.9**	1,555.9	409.0	**1,965.0**
2023	H2	71.6	17.1	**88.7**	1,634.6	398.3	**2,032.8**
	H2	76.0	19.2	**95.2**	1,639.4	477.4	**2,116.8**

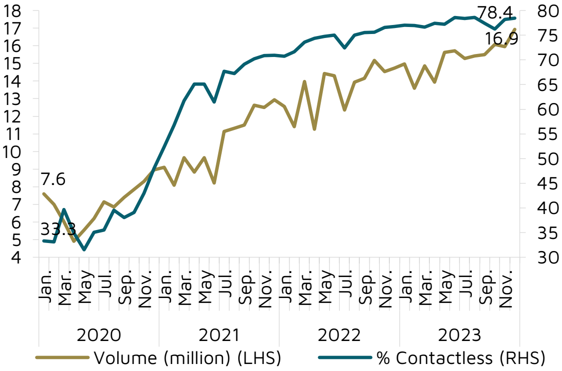
Source: CBB.

The total number of transactions for H2 2023 has reached 95.2 million transactions (12.1% increase compared to H2 2022). Similarly, the total value of transactions for H2 2023 increased to BD 2,116.8 million (7.7% increase compared to H2 2022). Both the volume and value of cards issues in Bahrain had increased by 12.1% and 5.4% respectively in H2 2023 compared to H2 2022. The volume and value of transactions by cards issued outside Bahrain showed an increase of 12.3% and 16.7% respectively over the same period.

Chart 8.13 shows the monthly of POS Transactions in terms of volume and value which can help identify any cyclicality in behavior over the long run. The continued increase in POS transactions in H2 2023 shows the continued trend of people preferring to make direct payments to merchants through POS terminals instead of ATM/Cash withdrawals.

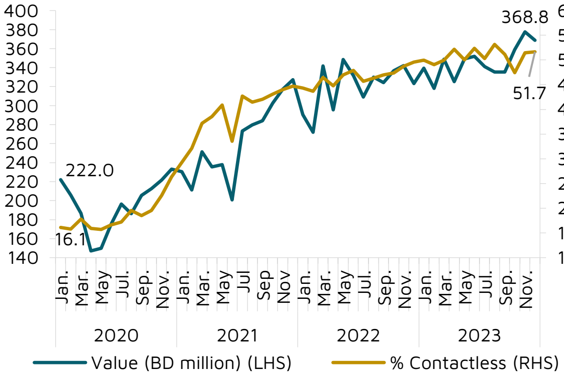
Contactless adoption continues to accelerate in the Kingdom due to the change in consumer spending habits. The percentage of contactless transactions in terms of volume increased from 33.3% in January 2020 to 78.4% in December 2023. Similarly, in terms of value, the percentage of contactless transactions increased from 16.1% in January 2020 to 51.7% in December 2023.

Chart 0.13: Volume of Monthly POS and E-Commerce Transactions (millions)



Source: CBB.

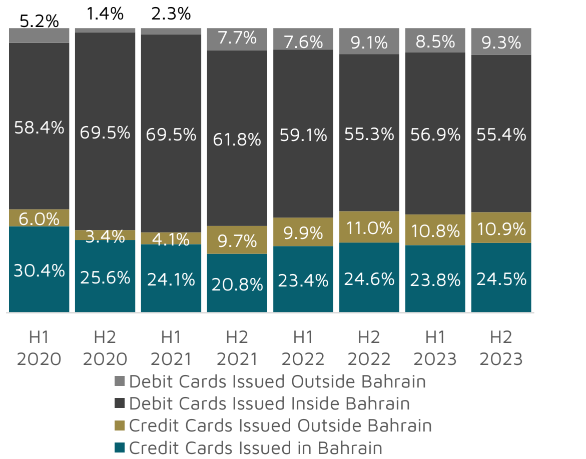
Chart 0.14: Value of Monthly POS and E-Commerce Transactions (BD million)



Source: CBB.

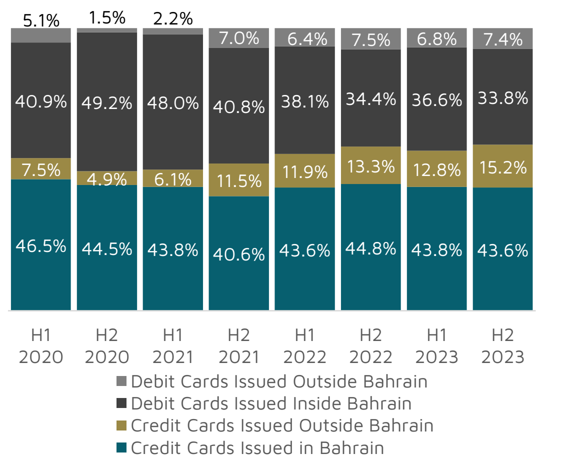
As of H2 2023, 79.9% of the volume of transactions and 77.4% of the value of transactions came from cards issued inside Bahrain (Chart 8.15 and Chart 8.17). The increase in share of cards issued outside Bahrain which is noticeable from H2 2021 is due to increase in number of foreigners visiting Bahrain. The volume of transactions remained to be from debit cards (representing 64.7% in H2 2023) while most of the value of transactions were from credit cards (representing 58.8% in H2 2023).

Chart 0.15: Volume of POS and E-Commerce Transactions (% by Card Type)



Source: CBB.

Chart 0.16: Value of POS and E-Commerce Transactions (% by Card Type)

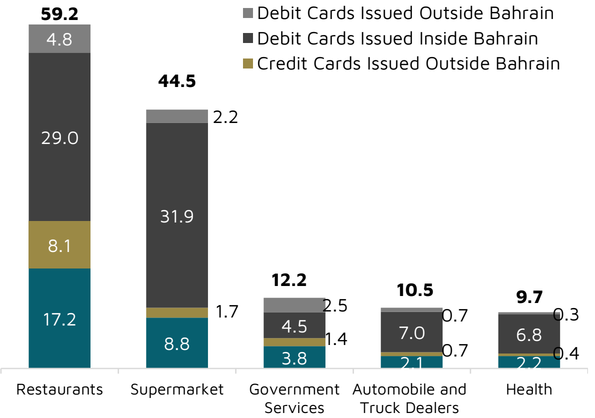


Source: CBB.

Charts 8.19 and 8.20 show the top 5 sectors in terms of volume and value of transactions for 2023. In terms of volume the top 5 sectors represented 73.5% of all the transactions for 2023 and were: restaurants (59.2 million), supermarkets (44.5 million), government services (12.2 million), health (10.5 million), and automobiles and truck dealers (9.7 million). Most of the number of transactions for the restaurants, supermarket, government services, automobiles and Health were made using debit cards issued inside Bahrain making 49.0%, 71.5%, 36.7%, 66.6% and 70.1% of the transactions respectively.

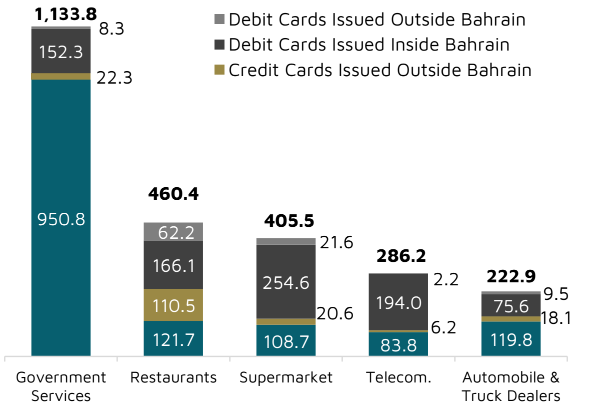
In terms of value, the top 5 sectors represented 60.5% of all transactions and were: government services (BD 1,133.8 million), restaurants (BD 460.4 million), supermarkets (BD 405.5 million), telecommunication (BD 286.2 million), automobile dealers (BD 222.9 million). For government services and automobile dealers, 83.9% and 53.7% of the value of transactions respectively were made by credit cards issued inside Bahrain. As for restaurants, supermarkets, and telecommunication 36.1%, 62.8%, and 67.8% of the value of transactions respectively were made by debit cards issued inside Bahrain.

Chart 0.17: Top 5 Sectors by Volume of POS and E-Commerce – 2023 (million)



Source: CBB.

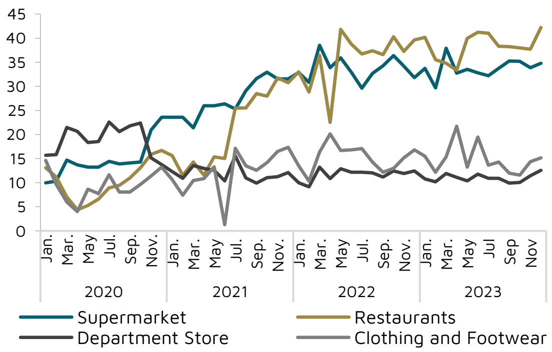
Chart 0.18: Top 5 Sectors by Value of POS and E-Commerce –2023 (BD million)



Source: CBB.

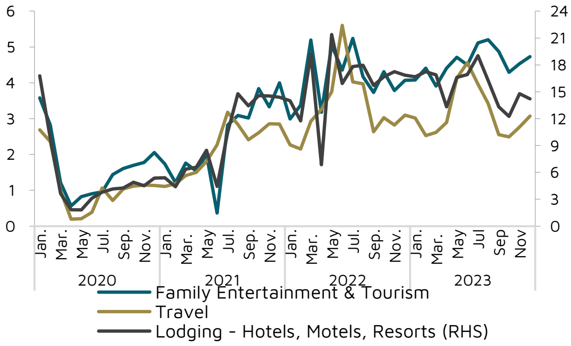
Charts 8.19 and 8.20 show the monthly value of POS transactions from January 2020 to Dec 2023 for selected sectors.

Chart 0.19: Monthly Value of POS and E-Commerce of Selected Indicators (BD million)



Source: CBB.

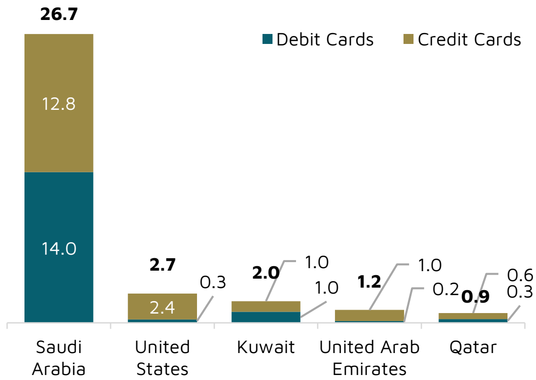
Chart 0.20: Monthly Value of POS and E-Commerce of Selected Indicators (BD million)



Source: CBB.

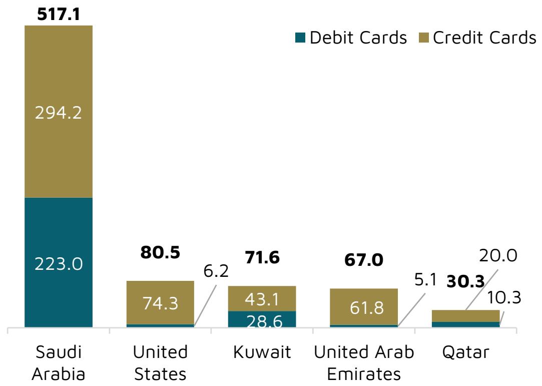
Charts 8.20 and 8.21 show the top 5 countries in terms of volume and value of foreign transactions for 2023. In terms of volume the top 5 countries represented 92.5% of total foreign transactions and were: Saudi Arabia (26.7 million), United States (2.7 million), Kuwait (2.0 million), United Arab Emirates (1.2 million), and Qatar (0.9 million).

Chart 0.21: Top 5 Nationalities by Volume of POS and E-Commerce – 2023 (million)



Source: CBB.

Chart 0.22: Top 5 Sectors by Value of POS and E-Commerce –2023 (BD million)



Source: CBB.

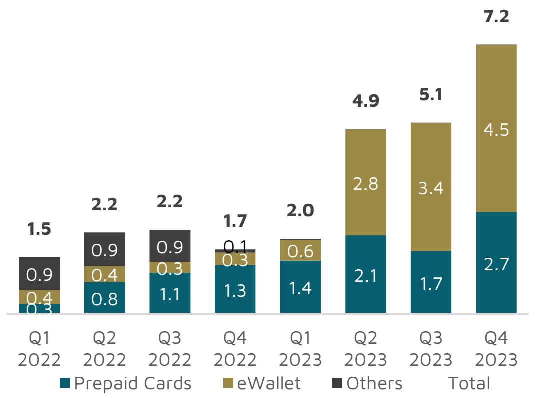
In terms of value, the top 5 countries represented 87.5% of the total value of foreign transaction and were: Saudi Arabia (BD 517.1 million), United States (BD 80.5 million), Kuwait (BD 71.6 million), United Arab Emirates (BD 67.0 million), and Qatar (BD 30.3 million).

8.8 Prepaid Cards and E-Wallets

Bahrain's appetite for digital payments is growing where significant steps have been made in realizing the nation's vision to become a technology pioneer. The Kingdom has been working towards a successful digital economy by building a proper ecosystem that provides a network of connected entities from CBB to banks, to telecommunication companies, to merchants and consumers.

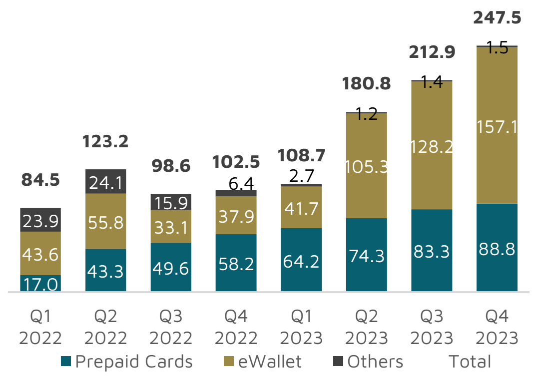
Digital wallets transactions through (prepaid wallets and e-wallets) has been increasing significantly as provided in Charts 8.23 and 8.24, with an increasing trend in both the volume and value of transactions, indicating the continued success of adoption of these digital solutions.

Chart 0.23: Volume of Prepaid and E-Wallet Transactions (millions)



Source: CBB.

Chart 0.24: Value of Prepaid and E-Wallet Transactions (BD millions)



Source: CBB.

9 FINTECH, INNOVATION AND FINANCIAL INCLUSION

HIGHLIGHTS

Regulatory Sandbox	Bank Branches	Number of ATMS
21 Companies	148	476

Number of ATM Cards	Number of Debit Cards	Number of Credit Cards
2.12 million	1.82 million	272.0 thousand

- Bahrain's established financial services industry, its role as a leading finance hub, and the national drive for financial inclusion are supporting the growth of FinTech.
- CBB's continues its initiatives on regulatory reforms to encourage innovation within the financial services sector via the use of FinTech solutions, supervising and overseeing the progress of companies participating in the Regulatory Sandbox and monitoring technical and regulatory developments within the FinTech field.
- Continued FinTech developments within the Kingdom in Open Banking, e-KYC, and contactless payments.

9.1 Overview

Bahrain is repositioning itself to be a Financial Technology (FinTech) hub in the region offering conventional and Shariah compliant FinTech solutions. The Kingdom is encouraging digital transformation and the adoption of innovative technology to create a more efficient financial services sector and achieve higher financial inclusion. CBB seeks to make the Kingdom of Bahrain a key player in FinTech through the availability of (1) innovative financial solutions, (2) highly qualified national talent in finance and banking, and (3) access to supportive policies. The aim of the chapter is to show the recent trends and developments in the FinTech industry and Financial Inclusion within the Kingdom and highlight initiatives taken by CBB and other industry players within the Kingdom.

9.2 FinTech Developments

The CBB has developed its digital transformation strategy with a vision to develop projects that introduce the latest electronic payment and settlement products and FinTech projects facilitating more efficient provision of banking services. The digital transformation initiatives also focus on working with financial institutions to encourage and accelerate their transition with technological developments in line with international best practices to ultimately benefit the national economy. The CBB established a FinTech & Innovation Unit in October 2017, to ensure an adequate regulatory framework is in place to adapt FinTech solutions that will enhance services provided to individual and corporate customers.

9.2.1 Regulatory Sandbox

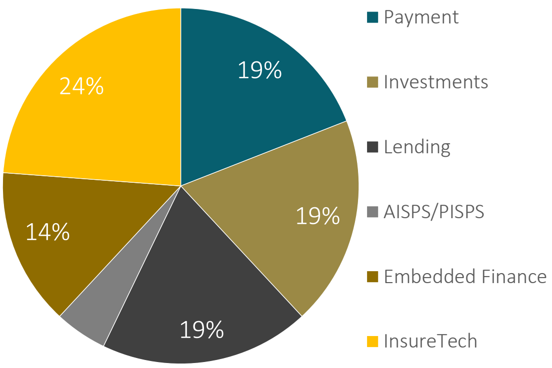
CBB launched a regulatory sandbox in June 2017 to attract both local and international emerging FinTech companies as well as existing CBB licensees to enable them to test their innovative ideas and expand their business in the region.[12] The sandbox provides authorized companies with the opportunity to test and experiment their innovative financial solutions freely until they are commercially viable. The Sandbox focuses on the following Innovation, Customer benefit, Identification of Major Risks, Compliance with CDD and AML/CFT Requirements, and Confidentiality Requirements.

The FinTech Unit is responsible for 1) the approval process to participate in the Regulatory Sandbox 2) supervision of the activities and operations of the authorized Regulatory Sandbox companies' and 3) monitoring technical and regulatory developments in the FinTech field which will allow industry players to apply innovative products while maintaining the overall safety and soundness of the financial system 4) collaborate with other regulators and policy makers to exchange ideas, share experiences and learnings.

The CBB announced its new Regulatory Sandbox Framework in December 2021 to allow FinTech firms to test and experiment with their ideas and solutions related to the sector in a more efficient and effective environment. The new Framework enhances the eligibility criteria for participation in the Regulatory Sandbox, as well as streamlines the entire Sandbox process to ensure a more phased and consistent approach to support testing.

The Sandbox has gained significant interest from local, regional and global start-ups and a number of companies have successfully completed testing their solutions. As of end December 2023, CBB had 21 companies testing their solutions within the Regulatory Sandbox with a wide range of solutions.

Chart 9.1: Regulatory Sandbox Statistics- Company Types (%)



Payment	▪ Digitizing Payment Workflow. ▪ Providing cashless and automated payments.
AISPs/PISPs	▪ Aggregates end-user's financial information into single interface ▪ Payment service providers.
Investments and Wealth Management	▪ Provides holistic financial advice. ▪ Aims to increase investments returns/value.
Embedded Finance	▪ Provides financial services through non-financial products. ▪ Offered by non-financial firms.
Lending	▪ Streamlines and automates lending process. ▪ Includes short-term financing.
Insurance Tech	▪ Aggregates insurance products ▪ Customizes insurance coverages.

Source: CBB.

Table 9.1: Regulatory Sandbox Statistics- Classification by Region

Region	No. of Sandbox Companies
Bahrain	11
Saudi	7
United Arab Emirates	2
United Kingdom	1
Total	**21**

[12] A Regulatory Sandbox (Sandbox) is a framework and process that facilitates the development of the FinTech industry in a calculated way. It is defined as a safe space in which businesses can test innovative products, services, business models and delivery mechanisms without immediately incurring all the normal regulatory and financial consequences of engaging in the activity in question.

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

The Arabian Gulf System for financial Automated Quick Payment Transfer (AFAQ) is a Real Time Gross Settlement service for cross-currency cross-border payments between GCC countries. The system is operated by the Gulf payment Company (GPC) which is owned and funded by the GCC central Banks including the CBB.

The AFAQ cross-currency service allows its participants to transfer payments from one local currency to another local currency in real time within the business day schedule. The service was launched on 10th December 2020 with the CBB and Saudi Central Bank (SAMA) as its first participants, and in March 2022, the Central Bank of Kuwait joined the service. The CBB has successfully onboarded all its Retail Banks during the Year 2022, becoming the first central bank in the GCC to accomplish this milestone.

During 2023, the total number of outgoing retail transactions sent through AFAQ was 18,151 transactions with a total value of BHD 173.2 million (up to August 2023). On average the monthly outgoing retail payments volume is 2,270 transactions at an average value of BHD 21.6 million.

9.3 Financial Inclusion

Financial inclusion refers to individuals, irrespective of income level, and businesses having access to useful and affordable financial products and services to meet their needs (through transactions, payments, savings, credit, and insurance). These products and services have to be delivered in a responsible and sustainable way. The importance of financial inclusion comes in facilitating access to financial services to improve the standards of living and economic growth.

Financial inclusion efforts in Bahrain aim to ensure that all businesses and households, have access the suitable financial services they need to engage in day-to-day transactions. CBB is taking a number of initiatives to further develop indicators related to financial inclusion. Figures show access to finance through a number of financial inclusion metrics (Table 9.2). The number of accounts within retail banks and the number of internet/PC linked accounts increased by 17.4% YoY and 24.5% YoY in 2022 respectively.

CBB is continuing its efforts to prioritize financial inclusion in terms of adopting and implementing a viable national strategy to 1) improving women's, SME, and young people's access to financial services 2) promoting the protection of consumers of financial services 3) improving and providing financial coverage data and statistics to support policy development, and 4) promoting awareness and financial education.

Table 9.2: Financial Inclusion Figures for the Kingdom of Bahrain

Indicator	2018	2019	2020	2021	2022*
Number of Banks **	29	29	29	29	29
Number of Branches	173	204	175	151	148
Number of Branches per 100,000 in population	*11.5*	*13.7*	11.9	10.1	9.7
Number of ATMs	*479*	515	505	461	476
Number of ATMs per 100,000 in population	*31.9*	*34.7*	34.3	30.6	31.2
Number of Accounts ***	1,907,307	2,108,637	2,026,890	2,457,448	2,885,562
Number of Accounts per 1,000 in population	*1,269*	*1,421*	1,376.8	1,633.6	1,892.6
Number of Internet/PC linked accounts	477,894	616,960	707,794	1,107,994	1,379,607
ATM Cards (thousands)	1,384.6	1,644.1	1,733.7	1,808.3	2,121.0
Debit Cards (thousands)	1,171.7	1,210.3	1,363.4	1,557.5	1,822.6
Credit Cards (thousands)	322.9	306.6	402.2	312.0	272.0
Population	1,503,091	1,483,756	1,472,204	1,504,365	1,524,693

**Preliminary data.*
***Retail Banks only (Conventional and Islamic).*
****Includes saving deposits as they are used for payments in Bahrain.*
Source: CBB and IGA.

9.4 Cyber Security Initiatives

Cyber risk is steadily evolving into a main threat to all industries. Its impact, however, on the financial services industry is growing into an individually recognized risk by all financial institutions. Given the innovations in information technology (IT) and financial institutions' increased reliance on IT channels, cyber security is no longer regarded as a technical issue but a main threat to the industry.

The CBB has more than one role in addressing Cyber risk. Cyber Incidents are required to be reported to the CBB's Banking Supervision immediately upon such occurrence. The CBB's Banking Supervision receives vulnerability and penetration testing reports from financial institutions on a regular basis. The Inspection Directorate conducts both on-site and off-site inspections on financial institutions information technology and cyber security infrastructure, recently multiple financial institutions have been inspected. Additionally, the Inspection Directorate covers the whole cybersecurity domains that ranges from physical security, security operation, risk assessment, governance, threat intelligence, user education, and framework and standards. The Economic Research Division at the FSD issued Cyber Risk Surveys to cover cyber risk relative to governance and leadership, identification, protection, detection, response and recovery.

On 9th February 2023, the CBB organized a training workshop on cybersecurity for the banking sector, in the presence of CEOs, C-level executives and cybersecurity and technical staff. The event is part of the CBB's strategy to enhance cyber security practices and systems in the financial services sector, and its continuous efforts to maintain financial stability and ensure providing a safe environment for banking transactions.

The training workshop included an exercise in cyber resilience for the banking sector, with more than 80 participants from the CBB, participating local banks and The Benefit Company.

The CBB continues to develop its regulations on cybersecurity in an effort to strengthen the cyber resilience of its financial institutions. The following developments can be highlighted:

1. The CBB issued several amendments to Module CRA in March 2023 which included enhancements to cyber security requirements in line with other volumes after consulting the industry in August 2023.
2. The CBB issued new requirements for multi-factor authentication for money changers, financing companies, payment service providers and crowdfunding platforms in July 2023 after consulting with the industry in April 2023. Similar requirements were issued to crypto-asset licensees in September 2023.
3. The CBB also consulted on 'Proposed Financial Cybersecurity Controls' in November 2022 and on 'National Risk Management Framework for Information Security' in June 2023 which were both developed by National Cyber Security Centre (NCSC).
4. In January 2024, the CBB consulted with banks, PSPs and crypto-assets licensees on the proposed amendments to cyber security regulations which require said licensees to subscribe to a cyber threat intelligence service and an external attack surface management (EASM) platform in order to enhance their cyber security posture.

ANNEX:

FINANCIAL SOUNDESS INDICATORS AND SELECTED GRAPHS

ANNEX 1: SELECTED FINANCIAL SOUNDESS INDICATORS (FSIs)

Annex 1 Table 1: Selected Financial Soundness Indicators – All Banking System

Indicator	Q4 2022	Q2 2023	Q4 2023
Capital Adequacy			
CAR (%) *	19.6	19.3	19.7
Tier 1 CAR (%) *	18.2	17.8	18.1
Assets-to-Capital (Times) *	8.2	9.0	8.9
Asset Quality			
NPLs (% of Total Loans)	3.0	3.1	2.9
Specific Provisions (% of NPLs)	68.5	61.8	58.9
Loan Concentration (Share of Top Two Sectors) (%)	30.3	30.8	32.9
Real Estate/ Construction Exposure (%)	25.5	24.1	22.0
Earnings			
ROA (%)	1.2	0.7	1.3
ROE (%) *	8.5	5.3	9.3
Net Interest Income (% of Total Income) **	70.3	66.9	69.2
Net Fees & Commissions (% of Total Income) **	12.0	10.8	10.6
Operating Expenses (% of Total Income)	50.4	44.4	46.6
Liquidity			
Liquid Assets (% of Total Assets)	25.3	23.4	25.7
Loan-Deposit Ratio (%)	66.5	63.2	62.5

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

Annex 1 Table 2: Selected Financial Soundness Indicators – All Retail and All Wholesale

Indicator	All Retail Banks			All Wholesale Banks		
	Q4 2022	Q2 2023	Q4 2023	Q4 2022	Q2 2023	Q4 2023
Capital Adequacy						
CAR (%) *	21.5	21.6	21.5	17.7	17.0	17.9
Tier 1 CAR (%) *	20.0	17.7	20.0	16.2	15.4	16.3
Assets-to-Capital (Times) *	7.8	8.0	8.1	8.6	10.1	9.8
NPLs Net Provisions to Capital (%) *	5.4	6.8	6.6	2.8	3.0	3.1
Asset Quality						
NPLs (% of Total Loans)	3.7	4.0	3.8	2.4	2.2	2.2
Specific Provisions (% of NPLs)	68.0	61.1	58.9	69.2	63.0	61.0
Net NPLs (% of Net Loans)	1.2	1.6	1.6	0.7	0.8	0.9
Loan Concentration (Share of Top Two Sectors) (%)	34.1	33.7	31.1	41.3	42.6	43.4
Real Estate/ Construction Exposure (%)	33.1	31.5	29.1	18.4	17.2	16.5
Earnings						
ROA (%)	1.3	0.8	1.4	1.2	0.7	1.1
ROE (%) *	10.9	7.6	11.6	5.3	3.6	6.4
Net Interest Income (% of Total Income) **	76.8	77.8	77.6	64.4	58.2	62.6
Net Fees & Commissions (% of Total Income) **	8.9	8.7	8.5	15.3	12.9	12.5
Operating Expenses (% of Total Income)	52.8	46.5	47.1	47.8	42.5	46.1
Liquidity						
Liquid Assets (% of Total Assets)	29.1	27.9	29.0	22.1	20.0	23.3
Loan-Deposit Ratio (%)	68.2	76.8	65.2	64.9	58.7	60.6

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

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

Indicator	Conventional Retail			Conventional Wholesale		
	Q4 2022	Q2 2023	Q4 2023	Q4 2022	Q2 2023	Q4 2023
Capital Adequacy						
CAR (%) *	21.5	21.7	21.9	17.5	17.0	18.0
Tier 1 CAR (%) *	20.1	20.3	20.5	15.9	15.3	16.2
Assets-to-Capital (Times) *	6.8	6.8	6.9	8.8	10.3	9.9
NPLs Net Provisions to Capital (%) *	3.3	4.0	3.1	3.3	3.2	3.6
Asset Quality						
NPLs (% of Total Loans)	3.3	3.6	3.4	2.3	2.1	2.2
Specific Provisions (% of NPLs)	74.3	66.7	71.0	67.0	61.1	60.7
Net NPLs (% of Net Loans)	0.9	1.3	1.0	0.8	0.8	0.9
Loan Concentration (Share of Top Two Sectors) (%)	33.9	33.3	27.9	40.6	41.7	42.9
Real Estate/ Construction Exposure (%)	34.0	33.3	29.0	18.0	17.0	16.4
Earnings						
ROA (%)	1.4	0.9	1.7	1.2	0.7	1.1
ROA Local Banks (%)	1.5	1.0	1.7	0.5	0.3	0.5
ROA Overseas Banks (%)	1.3	0.8	1.7	2.0	1.2	1.9
ROE (%) *	11.0	7.1	12.5	4.5	3.2	5.8
Net Interest Income (% of Total Income)	76.8	77.8	77.6	64.4	58.2	62.6
Net Fees & Commissions (% of Total Income)	9.2	8.4	7.9	15.1	12.2	12.3
Operating Expenses (% of Total Income)	48.6	39.4	39.0	47.0	41.5	45.3
Liquidity						
Liquid Assets (% of Total Assets)	32.8	30.9	32.7	22.9	19.9	23.6
Liquid Assets (% of Short-Term Liabilities)	41.9	39.6	49.3	28.6	25.1	29.6
Loan-Deposit Ratio (%)	68.8	71.4	67.1	68.3	62.1	63.8
Non-Bank Deposits (% of Total Deposits)	76.0	76.0	73.4	54.1	47.6	46.5

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

Annex 1 Table 4: Selected Financial Soundness Indicators - Islamic Banks

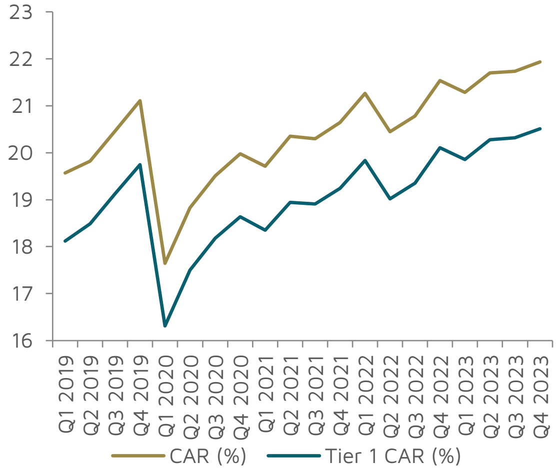
Indicator	Islamic Retail			Islamic Wholesale		
	Q4 2022	Q2 2023	Q4 2023	Q4 2022	Q2 2023	Q4 2023
Capital Adequacy						
CAR (%) *	21.2	21.4	20.0	16.9	17.2	17.4
Tier 1 CAR (%) *	19.7	19.5	18.2	16.2	16.3	16.5
Assets-to-Capital (Times) *	11.3	12.5	12.3	8.9	9.0	9.1
NPFs Net Provisions to Capital (%) *	13.2	17.1	19.5	0.5	2.0	0.2
Asset Quality						
NPFs (% of Total Facilities)	4.8	5.0	4.9	4.8	5.3	1.0
Specific Provisions (% of NPFs)	54.8	49.6	40.5	94.9	81.5	87.5
Net NPFs (% of Net Facilities)	2.3	2.6	3.0	0.6	1.0	0.1
Facilities Concentration (Share of Top Two Sectors) (%)	41.5	39.4	39.1	60.6	63.6	68.3
Real Estate/ Construction Exposure (%)	30.3	26.3	29.2	26.7	22.3	22.3
Earnings						
ROA (%)	0.9	0.4	0.6	1.1	0.7	1.3
ROE (%) *	10.6	4.9	8.2	10.3	5.8	10.0
Net Income from Own Funds, Current Accounts and Other Banking Activities (% of Operating Income)	24.3	51.5	22.0	57.7	63.4	0.0
Net income from Jointly Financed Accounts and Mudarib Fees (% of Operating Income)	72.7	41.9	61.4	38.3	28.0	0.0
Operating Expenses (% of Total Income)	65.8	69.2	70.9	55.2	52.1	53.5
Liquidity						
Liquid Assets (% of Total Assets)	17.0	19.1	17.7	13.8	20.2	19.9
Facility-Deposit Ratio (%)	62.1	63	61.4	33.5	24.8	30.1
Current Accounts from Non-Banks (% of Non-Capital Liabilities, excl. URIA)	36.5	38.3	0.0	3.5	5.0	0.0

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

ANNEX 2: SELECTED FSIs GRAPHS

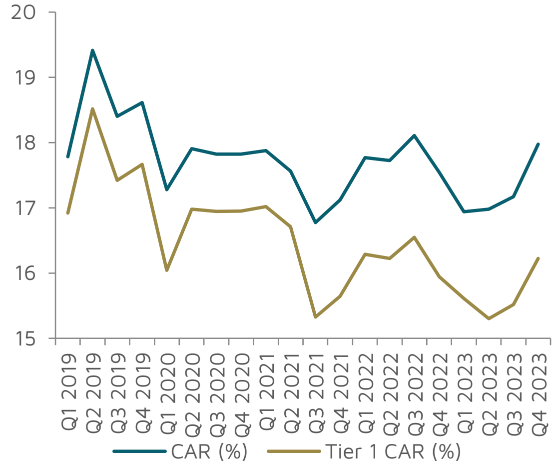
A. Capital Adequacy

Annex 2 Graph 1: Conventional Retail



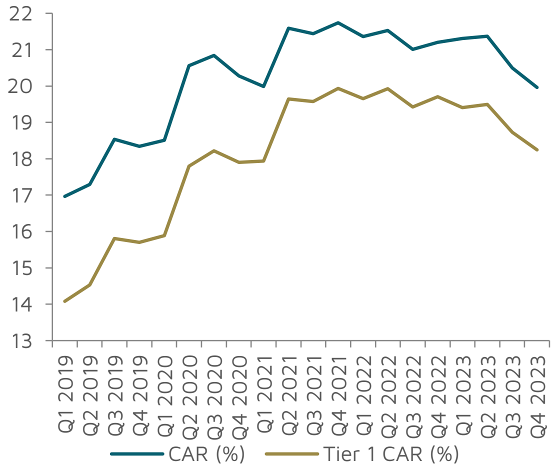
Source: CBB.

Annex 2 Graph 2 : Conventional Wholesale



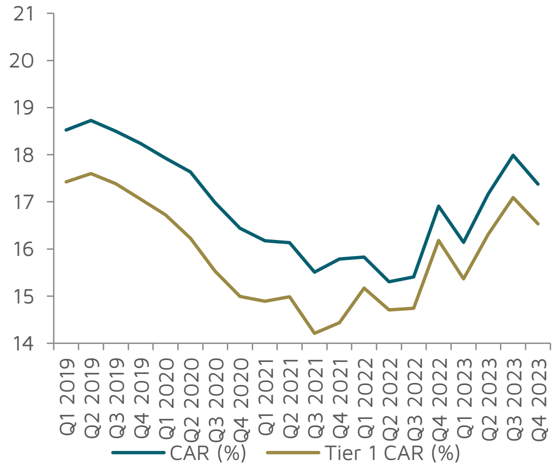
Source: CBB.

Annex 2 Graph 3: Islamic Retail



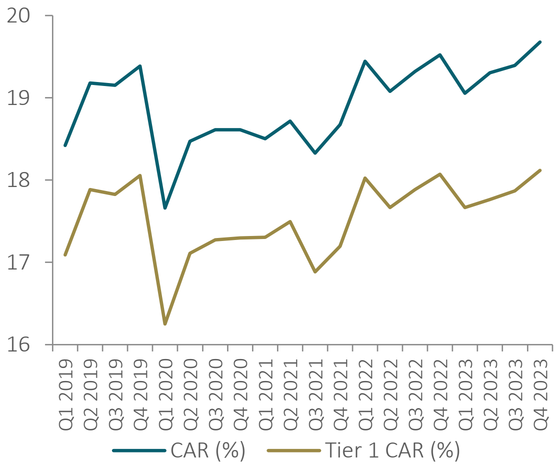
Source: CBB.

Annex 2 Graph 4: Islamic Wholesale



Source: CBB.

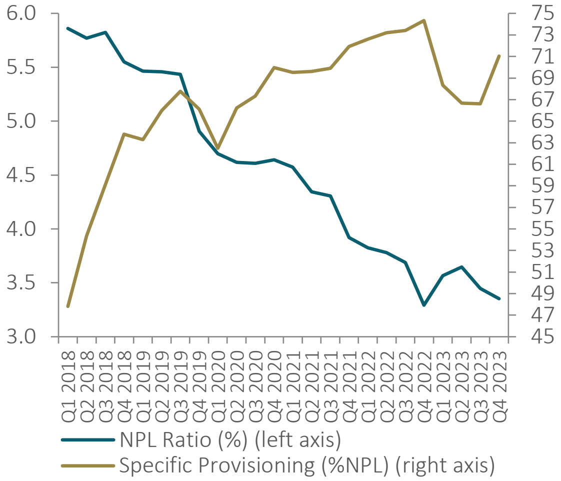
Annex 2 Graph 5: All Banking



Source: CBB.

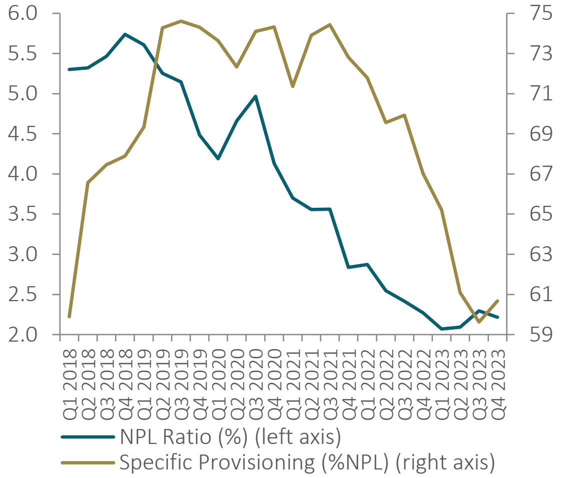
B. Asset Quality

Annex 2 Graph 6: Conventional Retail



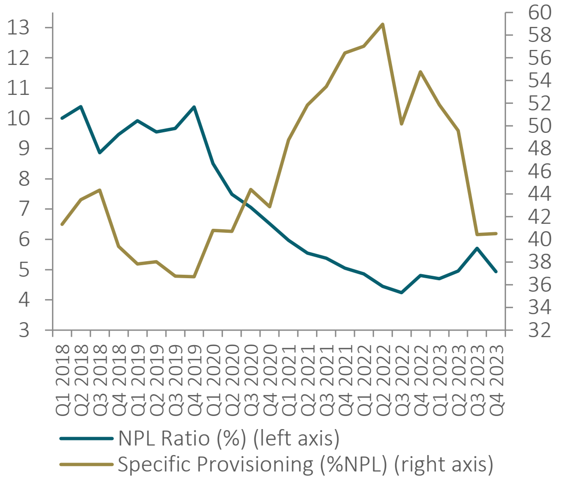
Source: CBB.

Annex 2 Graph 7: Conventional Wholesale



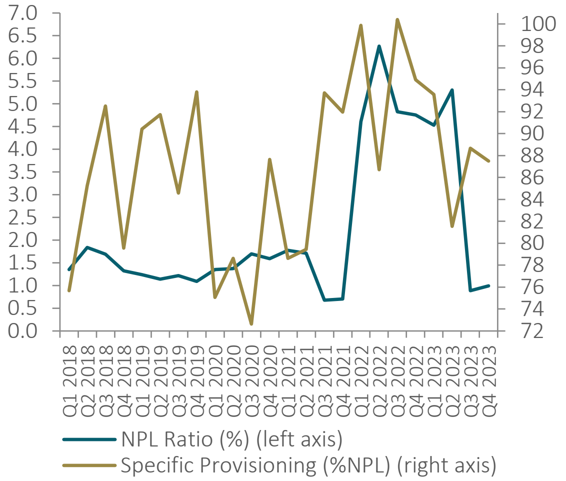
Source: CBB.

Annex 2 Graph 8: Islamic Retail



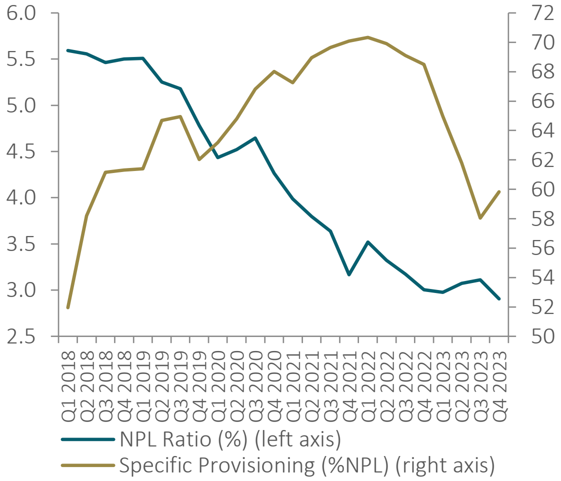
Source: CBB.

Annex 2 Graph 9: Islamic Wholesale



Source: CBB.

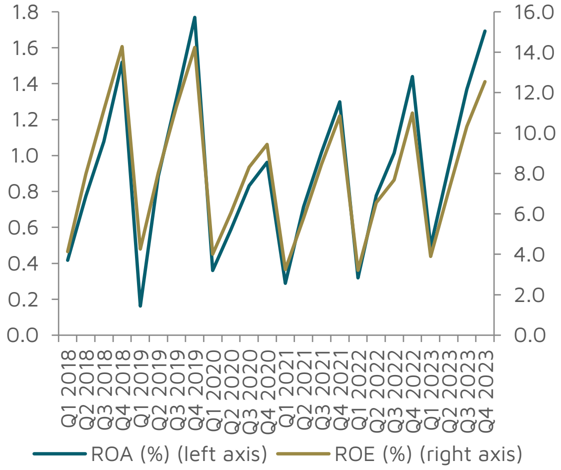
Annex 2 Graph 10: All Banking



Source: CBB.

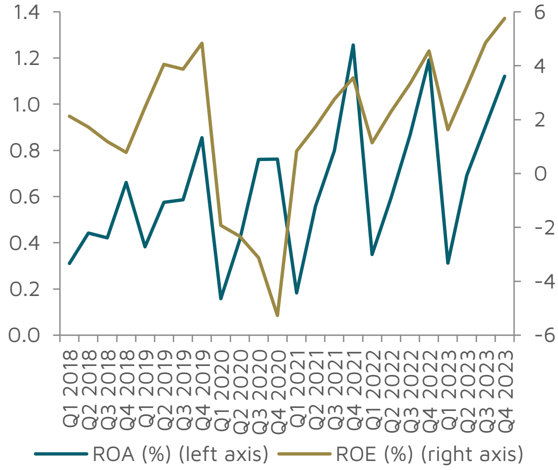
C. Profitability

Annex 2 Graph 11: Conventional Retail



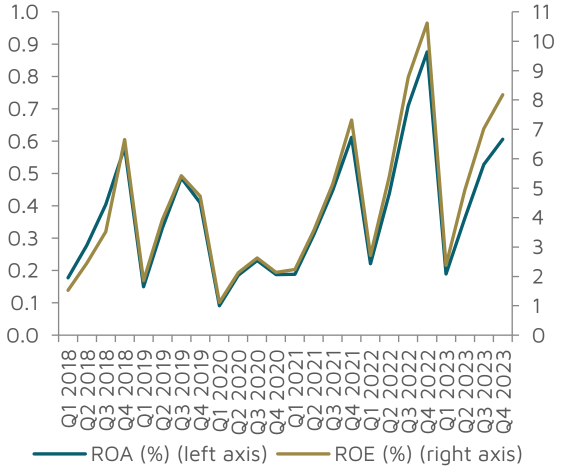
Source: CBB.

Annex 2 Graph 12: Conventional Wholesale



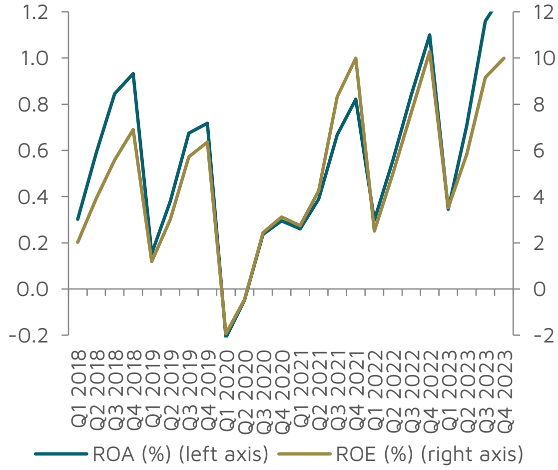
Source: CBB.

Annex 2 Graph 13: Islamic Retail



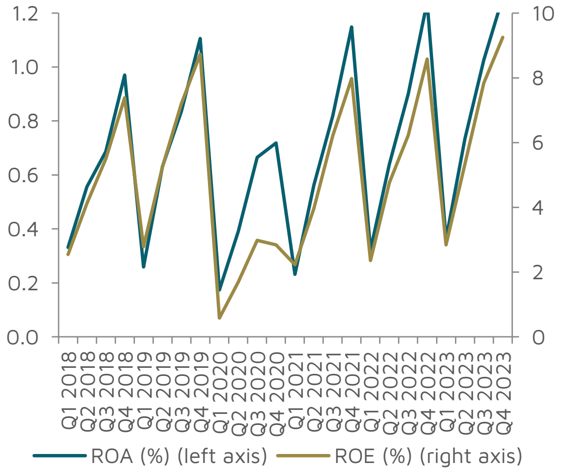
Source: CBB.

Annex 2 Graph 14: Islamic Wholesale



Source: CBB.

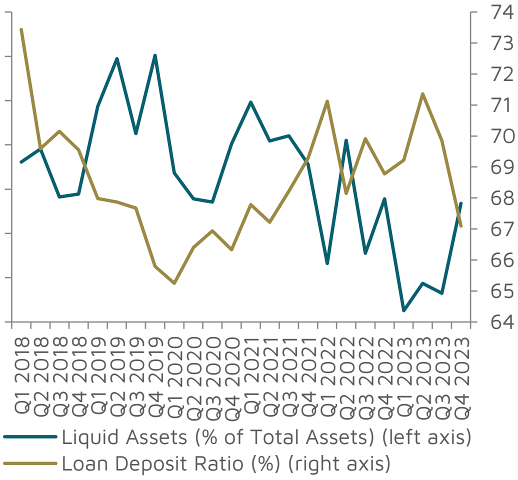
Annex 2 Graph 15: All Banking



Source: CBB.

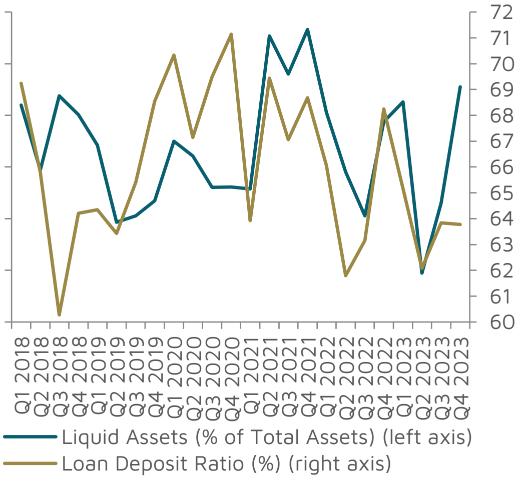
D. Liquidity

Annex 2 Graph 16: Conventional Retail



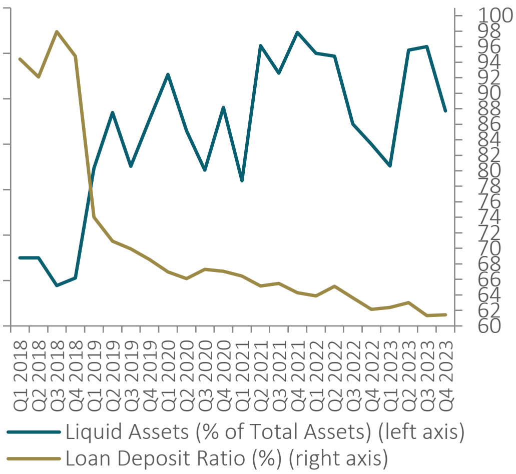
Source: CBB.

Annex 2 Graph 17: Conventional Wholesale



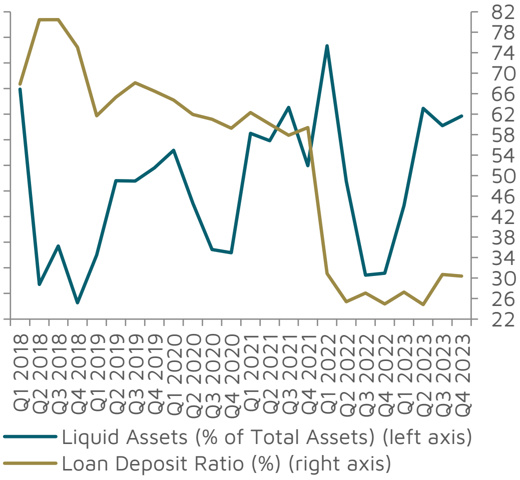
Source: CBB.

Annex 2 Graph 18: Islamic Retail



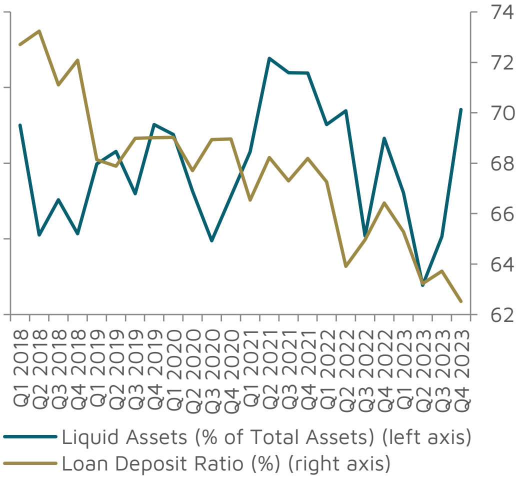
Source: CBB.

Annex 2 Graph 19: Islamic Wholesale



Source: CBB.

Annex 2 Graph 20: All Banking



Source: CBB.

LIST OF ABBREVIATIONS

Acronym	Description
ATM	ATM Clearing System
API	Application Programming Interface
BCTS	Bahrain Cheque Truncation System
BECS	Bahrain Electronic Cheque System
BENEFIT	The Benefit Company
BFB	Bahrain Fintech Bay
CAR	Capital Adequacy Ratio
CBB	Central Bank of Bahrain
CMSD	Capital Markets Supervision Directorate
CR	Conventional Retail
CW	Conventional Wholesale
DSIBs	Domestically Systemically Important Banks
EBPP	Electronic Bill Presentment and Payment System
EFTS	Electronic Fund Transfer System
EU	European Union
FinTech	Financial Technology
FMI	Financial Market Infrastructure
FSD	Financial Stability Directorate
FSIs	Financial Soundness Indicators
FSR	Financial Stability Report
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
GP	Gross Premiums
IBAN	International Bank Account Number
IGA	Information and E-Government Authority
IMF	International Monetary Fund
IR	Islamic Retail
IW	Islamic Wholesale
NFA	Net Foreign Assets
NPW	Net Premiums Written
NPF	Non-performing Facilities
NPL	Non-performing Loans
P/E ratio	Price Earnings Ratio
PFMI	Principles for Financial Market Infrastructures
POS	Point of Sale
ROA	Return on Assets
ROE	Return on Equity
RTGS	Real Time Gross Settlement
RWA	Risk Weighted Assets
SMEs	Small Medium Enterprises
SSSS	Scripless Securities Settlement System
TRMST	Technology Risk Management Security Team
WEO	World Economic Outlook