

# BAB

جمعية مصارف البحرين  
Bahrain Association  
of Banks

## Economic and Banking Bulletin Second Quarter 2018







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Members of the Board of Directors of BAB

**BAB**  
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Bahrain Association  
of Banks

# About the Financial Sector in Bahrain 2018

Financial  
Institutions

395

Current GDP

32.2

Billion USD

Regulator



Financial Sector  
Contribution to GDP

17.2%

Sovereign  
Rating

B+

STANDARD  
& POOR'S

BB-

Fitch Ratings

Foreigners

%34 4888

Bahraini's

%66 9311

Financial Sector  
Work force

14,199

Population

1,453,700

Representative  
office

17

Wholesale  
Banks

73

Retail Banks

29

Financial  
Institutions

102

# Executive Summary

Regarding the performance of the national economy, the International Monetary Fund, in its periodic review of the economy of Bahrain, said that the Kingdom's economy is witnessing positive developments and achieved the fastest growth in 2017, supported by the economic and financial reforms package.

In its quarterly report, the Economic Development Board (EDB) affirmed that the real GDP of the Kingdom achieved good growth during the year 2017 and reached 3.9%, due to the diversification of non-oil sectors, which led to the growth of these sectors by 5% in 2017. This strong performance in the face of sluggish regional growth was driven by broad-based success across the highly diversified non-oil private sector, led by tourism, a strong pipeline of infrastructure projects, and a record year for foreign direct investment (FDI) in 2017.

Regarding the banking system in Bahrain, the total budget of the system at the end of the first quarter of 2018 amounted to \$189.1 billion, compared with \$187.4 billion at the end of the fourth quarter of 2017.

The total balance sheet for retail banks totaled \$84.6 billion at the end of the first quarter of 2018, compared to \$83.5 billion at the end of the fourth quarter of 2017, an increase of 1.3%, accounting for 44.7% of the total budget of the banking system. While the total consolidated balance sheet for wholesale banks reached \$104.5 billion at the end of the first quarter of 2018 compared with \$104 billion at the end of the fourth quarter of 2017, a slight increase of 0.4%, representing 55.3% of the total budget of the banking system.

Total assets of Islamic banks amounted to \$27.2 billion at the end of the first quarter of 2018, compared with \$26.7 billion at the end of the fourth quarter of 2017, an increase of 1.9%.

The consolidated budget of the banking system represents 535.5% of GDP at the end of the first quarter of 2018, compared to 530.9% at the end of the fourth quarter of 2017.

The Central Bank of Bahrain's annual survey showed that the number of employees in the financial sector reached 14093 at the end of 2017 compared to 14015 at the end of 2016, an increase of 78, 65.6% of whom are Bahrainis.

The financial results of the seven local commercial banks listed on the Bahrain Stock Exchange showed that the total profits for the first quarter of 2018 for these banks amounted to \$298.2 million, compared with \$264.8 million during the same period of 2017, a remarkable improvement of 13%.

# First: Economic Developments in Kingdom of Bahrain

According to the quarterly report produced by the Bahrain Economic Development Board (EDB), the Bahrain's real GDP grew by 3.9% in 2017, with the non-oil economy expanding by 5%, making it the fastest growing country in the GCC. The pace of growth in the Kingdom accelerated markedly in 2017 compared to 3.2% in 2016. This strong performance in the face of sluggish regional growth was driven by broad-based success across the highly diversified non-oil private sector, led by tourism, a strong pipeline of infrastructure projects, and a record year for foreign direct investment (FDI) in 2017.

Earlier last month, the IMF's World Economic Outlook forecast that Bahrain's economy would continue to be the fastest growing economy in the GCC in 2018, suggesting momentum is expected to be maintained into the current year. Bahrain's economic resilience aligns with broader regional and global trends in which more diversified economies tending to achieve faster growth. Region-wide, business confidence and growth momentum are set to benefit from a more benign outlook in the oil sector and it is expected that 2018 to mark an important milestone as the GCC's makes the economic paradigm shift towards diversified private-sector led growth economies.

Growth in Bahrain is being driven by a variety of strongly performing industries, led by tourism with the hotels and restaurants sector expanding by 9.5% in 2017, total visitor expenditure rising by 8.9% and the average length of stay increasing 2.5% to 2.82 days, in line with the government's strategy to boost the sector and encourage longer stays from existing visitors.

Other high performing sectors in 2017 included social and personal services (9.4%), led by private education and healthcare, trade (8.5%), real estate and professional services (5.5%) and financial services (5%). Additionally, the EDB attracted BHD 276 million of foreign direct investment into Bahrain in 2017, a record year for the organization. This represents an increase of 161% from 2016, and is expected to generate 2,800 jobs over the next three years.

The success of private sector industries across the Bahraini ecosystem supports the widespread recognition the Kingdom enjoys as a regional pioneer of economic diversification thanks to sustained efforts to improve the business and regulatory environment. This process continued apace in 2017, with data suggesting the oil and gas sector now accounts for only 18.4% of Bahrain's real GDP, compared to 43.6% in 2000.

Despite the demonstrable success of economic diversification, oil and gas remains a strong component of Bahrain's economy, with the Kingdom's oil sector set to transition to an era of renewed growth. Therefore, the recent announcement that Bahrain has discovered its largest oil and natural gas repository since it began producing in 1932, is a significant boost to its future economic outlook. The 2,000 sq. km Khalij al Bahrain field,



## Economic Developments in Kingdom of Bahrain

which is expected to start production within the coming five years, is mainly composed of shale oil and natural gas in quantities that far exceed Bahrain's current reserves, with a recent resource evaluation suggesting levels capable of supporting the long-term extraction of oil and gas.

The International Monetary Fund (IMF) said that the Kingdom of Bahrain was not affected by the decline in oil prices as much as the other GCC countries did, due to the growth of the non-oil sector in the Kingdom, the strength of the financial sector, the infrastructure projects and the development of tourism and hospitality sector. According to the report on regional economic prospects, the IMF raised its expectations for the growth of non-oil GDP in Bahrain in 2018 and 2019. As for the promotion of diversification of the economy and private sector development, the report noted that Bahrain has taken steps in this area to strengthen Economic growth through the application of wages protection system as well as other important measures to increase the flexibility of expatriate employment. According to the report, oil prices are expected to improve to more than US\$ 60 in 2018 and 2019, a 20% increase over 2017, while oil output is expected to rise at a faster pace this year.

It is noteworthy that the non-oil sector formed 82% of the gross domestic product, while the oil sector accounted for 18%, which contributed to the diversification of the national economy and enabled it to resist the regional and global economic conditions.

## Second: Performance of Banking Sector

### 1. The Banking System

The banking system in Bahrain consists of wholesale banks and retail banks. The total budget of the system at the end of the first quarter of 2018 amounted to \$ 189.1 billion, compared with 187.4 \$ billion at the end of the fourth quarter of 2017, an increase of 1.0%.

The total balance sheet for retail banks totaled \$ 84.6 billion at the end of the first quarter of 2018, compared to \$ 83.5 billion at the end of the fourth quarter of 2017, an increase of 1.3%, accounting for 44.7% of the total budget of the banking system.

While the total consolidated balance sheet for wholesale banks reached \$ 104.5 billion at the end of the first quarter of 2018 compared with \$ 104 billion at the end of the fourth quarter of 2017, a slight increase of 0.4%, representing 55.3% of the total budget of the banking system.

Total equity of the banking system totaled \$ 28.3 billion at the end of the first quarter of 2018, compared to \$ 28.7 billion at the end of the fourth quarter of 2017, a decrease of 1.4%, representing 15% of liabilities.

The consolidated budget of the banking system represents 535.5% of GDP at the end of the first quarter of 2018, compared to 530.9% at the end of the fourth quarter of 2017.

**Table (1)**  
**Banking System Highlights**

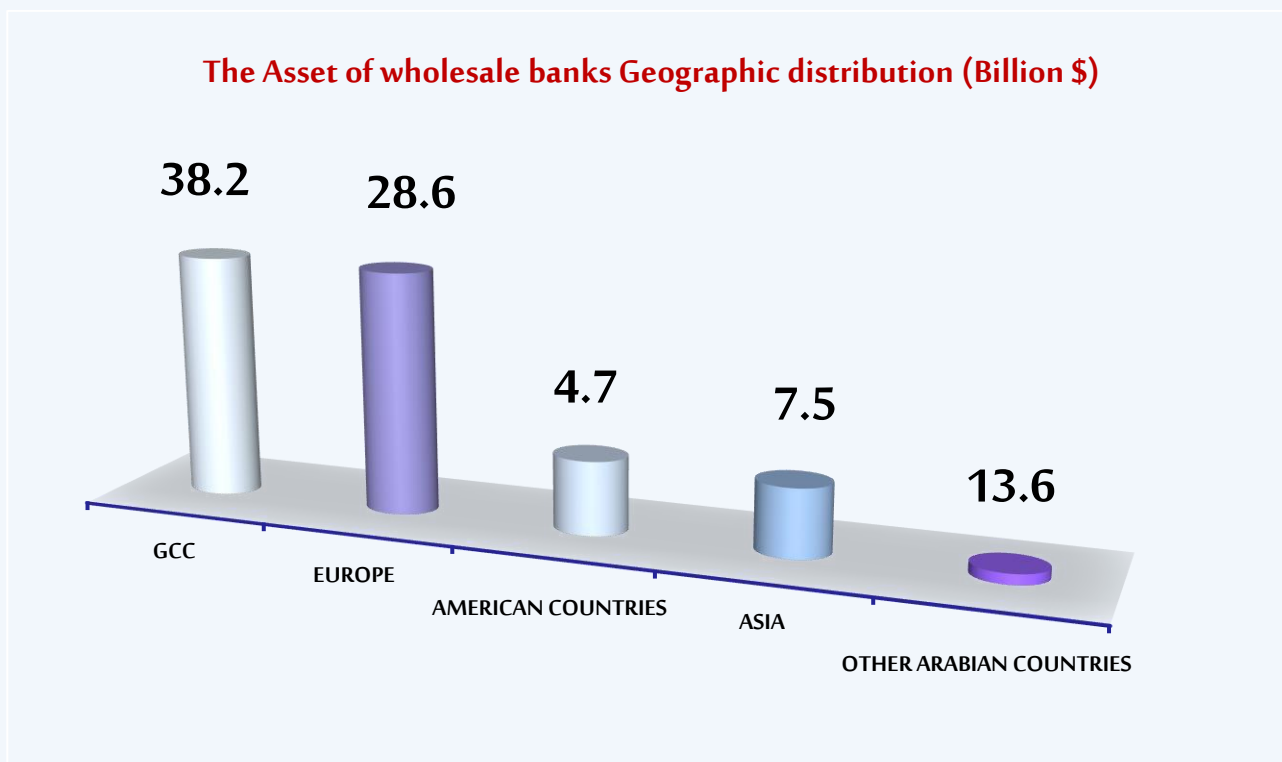
Item	2017 / 2	2017 / 3	2017 / 4	2018 / 1
Banking system – Billion US\$	186.5	189.1	187.4	189.1
Percentage of GDP (%)	579.7	587.9	530.9	535.5
Retail Banks Assets	81.9	84.4	83.5	84.6
Wholesale Banks Assets	104.6	104.7	104.0	104.5
Total Equity of Banking System	27.9	28.6	28.7	28.3

### 2. Wholesale Banks

Total assets of wholesale banks rose slightly to \$ 104.5 billion at the end of the first quarter of 2018 compared to \$ 104 billion at the end of the fourth quarter of 2017, an increase of 0.4%.

On the asset side, the foreign assets represent the majority of assets, with a value of \$ 94.2 billion at the end of the first quarter of 2018 compared to \$ 94.1 billion at the end of the fourth quarter of 2017, an increase of 0.1%, representing 90% of total assets. At the end of the first quarter of 2018, these assets consist mainly of non-bank assets of US \$ 36.5 billion, assets of head offices and affiliates of US \$ 21.8 billion, securities of US \$ 17.7 billion and assets with banks of US \$ 10.3 billion. On the liabilities side, foreign liabilities also represented the majority of liabilities and amounted to \$ 94 billion.

Geographically, the assets of wholesale banks are distributed among the GCC countries at \$ 38.2 billion, Europe \$ 28.6 billion, American countries \$ 4.7 billion, Bahrain \$10.5 billion, Asia \$ 7.5 billion, and other Arab countries \$ 13.6 billion and others \$ 1.4 billion.





### 3. Retail Banks

Total assets of retail banks amounted to BD 31.8 billion at the end of the first quarter of 2018 compared to BD 31.4 billion at the end of the fourth quarter of 2017, an increase of 1.3%.

As a result of the nature of its activity in providing retail banking services to individuals and institutions in the local market, the local assets of retail banks represent the majority of assets and reached BD 18.4 billion at the end of the first quarter of 2018, representing 58% of total assets.

At the end of the first quarter of 2018, local assets constituted government facilities (loans and securities) amounting to BD 5.2 billion compared with BD 5.1 billion at the end of the fourth quarter of 2017, an increase of 2%, facilities to private sector amounting to BD 9.3 billion, compared with BD 8.9 billion, an increase of 4.5%, interbank deposits of BD 1.9 billion compared to BD 1.8 billion, an increase of 5% and deposits with the Central Bank of Bahrain worth BD 972 million compared to BD 1.1 billion, a decrease of 12%.

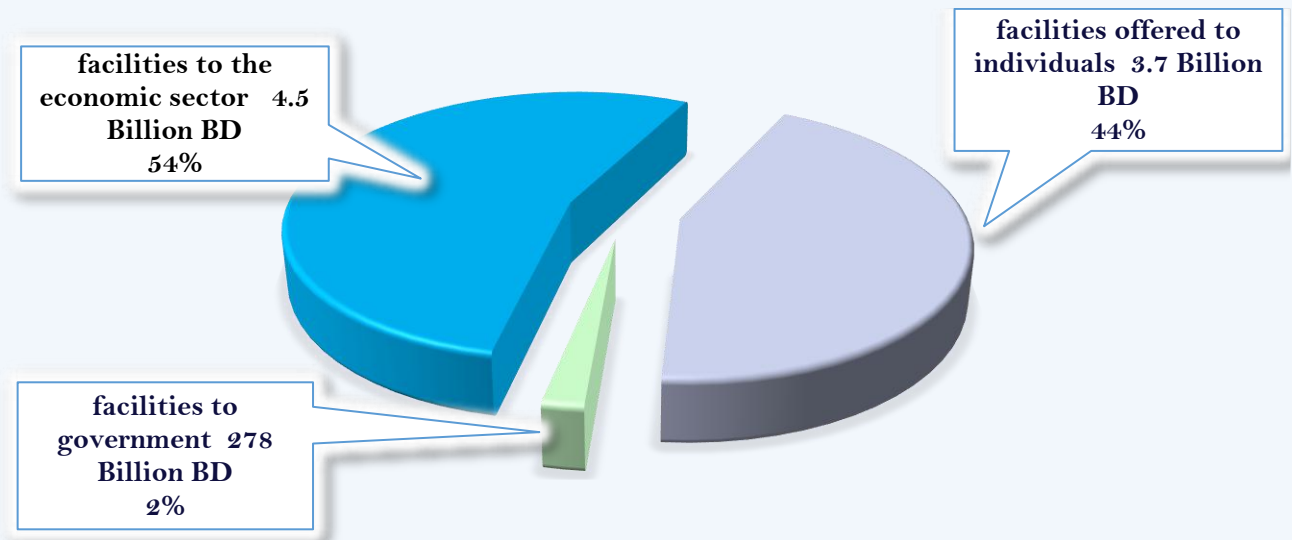
In addition, the local liabilities represent the majority of the liabilities, which stood at BD 17.5 billion at the end of the first quarter of 2018 compared to BD 17.1 billion at the end of the fourth quarter of 2017, an increase of 2.3%, representing 55% of the total liabilities. Private sector deposits represent the main weight on the liabilities side of BD 10.1 billion, followed by government deposits of BD 2.3 billion, shareholders' equity of BD 2.9 billion and interbank deposits worth BD 1.3 billion at the end of the first quarter of 2018.

As for the distribution of the total facilities in terms of sector, they are divided into three main sections: facilities to the economic sector activities which reached BD4.7 billion at the end of the first quarter of 2018 (52% of total facilities), facilities to individuals BD 3.9 billion (44%) and facilities to government BD 337 million (4%).

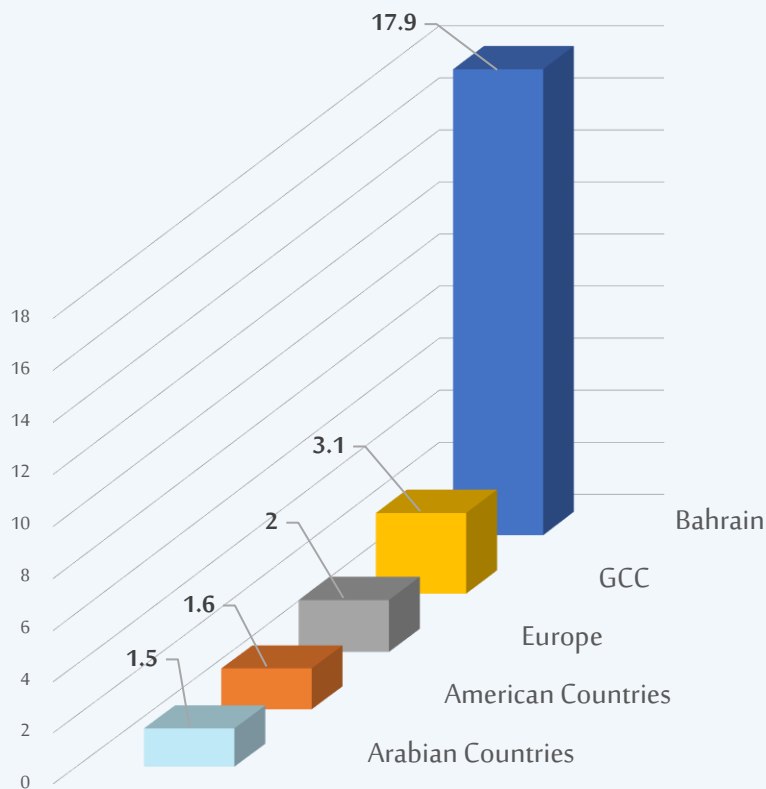
The facilities to economic sector activities were provided to industry (BD 779 million), quarries (BD 74 million), agriculture (BD 7 million), construction (BD 1,712 million), trade (BD 1,147 million), financial sector – non banks (BD 209 million), transport and communications (BD 100 million), hotels and restaurants (BD 168 million) and other sectors (BD 820 million) at the end of the first quarter of 2018.

With regard to the facilities offered to individuals in terms of security provided were facilities with mortgages guarantee BD 1,769 million, facilities with vehicle guarantee BD 108 million, facilities with deposits BD 54 million, facilities with salary assignment BD 1,296 million, credit cards receivables BD 83 million and others BD 593 million.

## Performance of Banking Sector



## Islamic Banks assets geographical distribution (Billion \$)



### 4. Islamic Banks

Islamic banks consist of Islamic retail banks and Islamic wholesale banks. Total assets of these banks amounted to \$ 27.2 billion at the end of the first quarter of 2018, compared with \$ 26.7 billion at the end of the fourth quarter of 2017, an increase of 1.9%.

Foreign assets of Islamic banks stood at \$ 8.3 billion at the end of the first quarter of 2018, mainly consisting of \$ 2.4 billion assets with main offices, \$ 2.1 billion securities, \$ 1.5 billion investments with banks and \$ 1.4 billion non-bank investments.

While domestic assets stood at \$ 18.9 billion at the end of the first quarter of 2018, consisting of non-bank investment \$ 9.9 billion, investment with banks \$ 4.5 billion and investment with the government \$ 2.4 billion.

On the liabilities side, the foreign liabilities of Islamic banks amounted to \$ 7.9 billion at the end of the first quarter of 2018, consisting mainly of capital and reserves \$ 3.6 billion, liabilities with banks \$ 2.1 billion and non-bank liabilities \$ 1.7 billion.

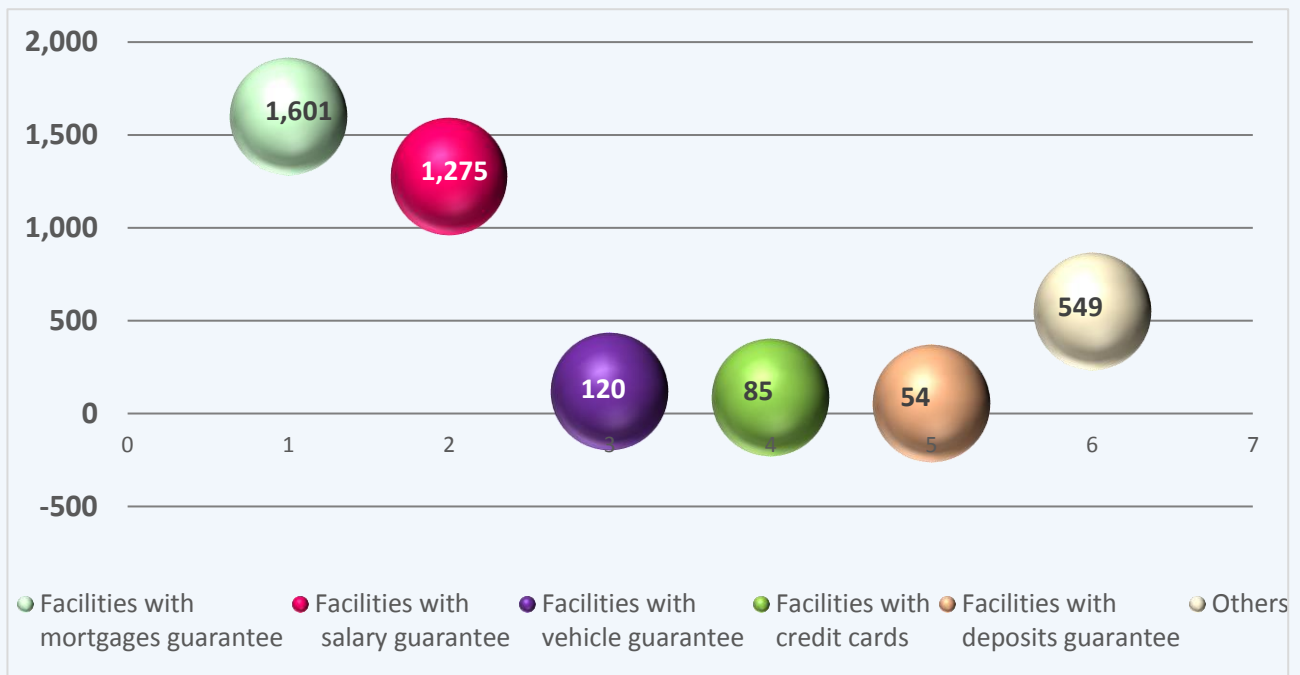
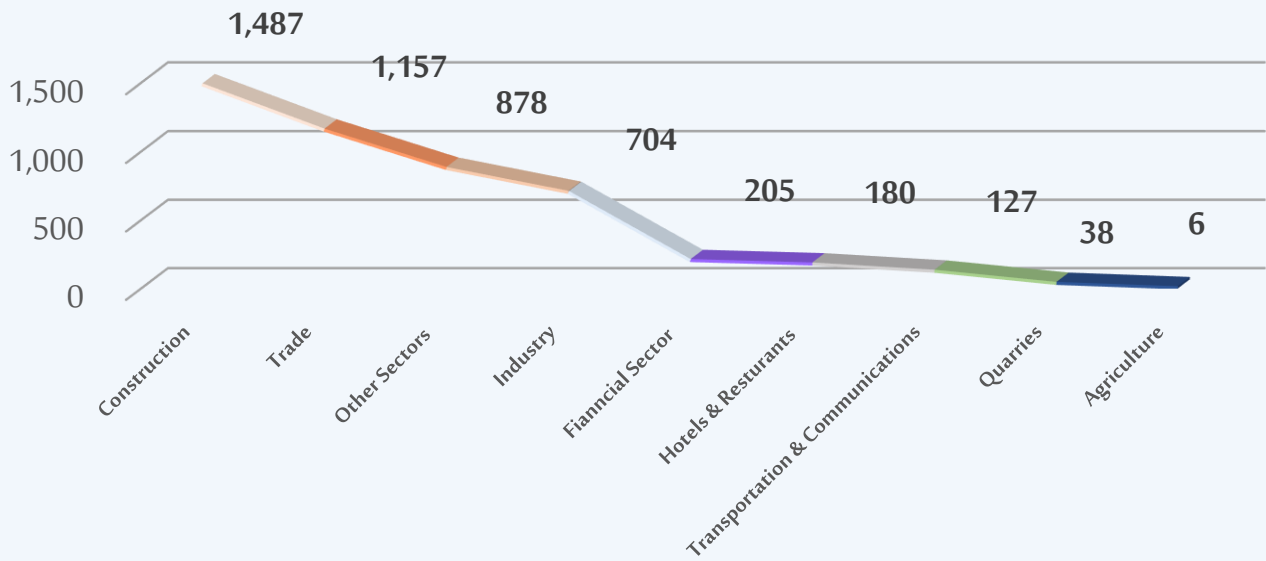
While domestic liabilities stood at \$ 18.9 billion at the end of the first quarter of 2018, consisting of non-bank liabilities \$ 10.4 billion, capital and reserves \$ 3.3 billion, bank liabilities \$ 3.1 billion and liabilities from the government \$ 1.3 billion.

Geographically, the assets of the Islamic banks were distributed among Bahrain (\$ 18.9 billion), GCC (\$ 3 billion), Europe (\$ 1.8 billion), Americas (\$ 936 million), other Arab countries (\$ 1.8 billion), Asia (\$ 662 million), and other countries (\$ 146 million) at the end of the first quarter of 2018.



## Performance of Banking Sector

**Facilities To Economic Sector (Billion BD)**



## Fourth: Banking Sector News

### **Net foreign assets of the Central Bank of Bahrain rise in April significantly**

Central Bank of Bahrain (CBB) data showed that the Bank's net foreign assets, an indicator of the country's ability to defend its currency against any market pressure, rose sharply last April, indicating the kingdom's financial situation improved.

The net foreign assets rose to 776.9 million dinars (\$ 2.06 billion) in April from 530.7 million dinars in March. The Central Bank of Bahrain's net foreign assets currently equate to about 63 days in imports according to non-oil import statistics for 2017. Bahrain also has investments abroad that may be liquidated if it needs foreign currency.

### **Annual Manpower Survey 2017**

The total number of employees in the financial sector in 2017 amounted to 14,093 employees compared to 14,015 employees at the end of 2016, an increase of 78 jobs, according to the annual survey conducted by the Central Bank of Bahrain.

The banking sector underwent an increase in employment by 45 jobs. Total employment in the banking sector reached 7,447 at end-2017 compared with 7,402 at end-2016. The employment in the non-bank financial sector (comprising insurance firms, money changers, financing companies, investment business firms, and other non-bank financial institutions) increased by 0.6%, taking the number to 6,194 employees at end-2017 compared to 6,156 employees at end-2016 while the number of employees in the supporting institutions decreased from 457 employees at the end of 2016 to 452 employees at the end of 2017.

According to the annual survey conducted by the Central Bank of Bahrain (CBB), the Bahraini workforce employed by the financial services sector reached 9,248 in 2017, an increase of 93 jobs. Total Bahraini workforce represented 65.6% of total workforce in the financial sector. The proportion of Bahraini women is 38.3% of total Bahraini workforce under the financial sector maintaining the same percentage as 2016. Additionally, the proportion of Bahraini women with managerial positions is 32.2% of total Bahraini managerial positions under the financial sector at end-2017, an increase from 31.0% at end-2016.

The survey also covered the number of board members of the banks and financial institutions. The Bahraini women held 8.7% of total Bahraini board members at end-2017 up from 6.4% at end-2016.

### **The Council of Arab Central Banks and Monetary Agencies Governors Calls to Expand Access to Finance and Promote Affordable Financial Services for Young Population and Entrepreneurs in the Arab Region**

Recognizing the vital role of financial inclusion in strengthening financial stability and promoting sustainable development and social well-being, the Council of Arab Central Banks and Monetary Authorities' Governors, is giving particular attention to the promotion of financial inclusion in the Arab countries. In this regard, and in view of the growing need to sensitize all Arab actors on the importance of financial inclusion, the Council welcomed in 2016 the 27th of April as the Arab Day of Financial Inclusion, celebrated this year under the overarching theme of "Promoting young people's and entrepreneurs' access to financial services".

In this context, the Council welcomes the measures taken by Arab countries to promote financial inclusion and reaffirms the need to integrate all segments of society into the formal financial system, especially young people, women and entrepreneurs. To this end, it is necessary to improve their access to appropriate financial services and products matching their needs, at an appropriate cost and under reasonable conditions, to protect their rights and to raise their awareness of financial issues in order to enable them to make the right decision on the use of financial and investment instruments.

In addition, the Council underlines the role of Central Banks, Monetary Authorities and other financial sector regulators in the Arab countries in promoting financial inclusion. Indeed, they are called upon to (i) develop appropriate regulatory framework aimed at promoting financial services, (ii) develop payment systems and credit information services, (iii) identify gaps and constraints on supply and demand sides and take the necessary measures to address them, and (iv) encourage the



private sector to contribute to awareness raising and financial education in order to build capacity among all community actors.

Furthermore, the Council welcomes several efforts undertaken in cooperation with the relevant regional and international institutions to promote financial inclusion in the Arab region. These efforts have recently led to the establishment by the Arab Monetary Fund, under the auspices of the Council and in cooperation with regional and international institutions of the Financial Inclusion for the Arab Region Initiative (FIARI), with the objective of building capacity and overcoming obstacles to improving financial inclusion indicators in Arab countries. The initiative comprises a multitude of activities that focus on supporting young people, women's financial empowerment and newly created businesses and entrepreneurs, while providing technical assistance to develop national strategies and policies in the area of financial inclusion.

### **Central Bank of Bahrain on the Forefront of Innovation**

A delegation from the Central Bank of Bahrain ("CBB") visited Visa Innovation Center on 15th May 2018. The visit came in line with the CBB's drive towards digitization and positioning the Kingdom of Bahrain at the forefront of payment innovation. The delegation was guided through Visa's initiatives and experienced first-hand some of Visa's innovative prototypes.

Known for being a forward-thinking regulator, the CBB has taken the front seat in instigating a progressive payment infrastructure and continuously explores the realms of cutting-edge innovation. The launch of the Mobile e-Wallet "Benefit Pay" in 2017 marked yet another milestone in the Kingdom's digital payments journey. The app, which was developed by the Benefit Company in its capacity as the Kingdom's Payment Switch and Credit Bureau provides a wide range of services for both consumers and merchants supported by the QR Code scanning technology.

More notably, in 2015, the CBB in collaboration with the Benefit Company launched the Electronic Fund Transfer System ("EFTS") which revolutionized the way frictionless payments are made. Through the EFTS network, all local banks and major billers are interconnected to enable near real-time fund transfer up to BD. 1,000 via the Fawri+ service. Additionally, users can opt for other services enabled by this network such as the deferred settlement fund transfer service, which allows users to transfer any amount of money (bank account to bank account) within just a few hours of

the business day via the Fawri service as well as having the ability to settle bills in an aggregated manner via the Fawateer service.

With several initiatives and projects planned to be rolled-out on a national level, the CBB jointly with other governmental and non-governmental stakeholders such as the Information & e-Government Authority and the Benefit Company, commenced work on introducing a national Electronic Know-Your-Customer (“e-KYC”) utility which employs the latest technology in order to streamline the customer onboarding process and the on-going updates of customer information undertaken by financial institutions in Bahrain.

### **Commercial banks' profits rose by 13% during the first quarter of 2018**

The performance of the seven local retail banks listed on the Bahrain Stock Exchange (BSE) witnessed a remarkable improvement during the first quarter of 2018 compared with the same period last year, which confirms the continued improvement of the performance of the banking sector in Bahrain, supported by the healthy financial conditions and stronger role in supporting Bahrain's economy.

CEO of Bahrain Association of Banks Dr. Waheed Al Qassim said: “The excellent performance of the Bahraini retail banks during the first quarter of 2018 reflects the strong fundamentals of these banks, which enable them to achieve sustainable profits for shareholders while continuing to finance various economic development programs as evidenced by the growth of credit facilities to economic activities during the first quarter of 2018.

The financial results of the seven local commercial banks (National Bank of Bahrain, BBK, Al Ahil United, Bahrain Islamic Bank, Ithmaar Bank, Al Salam Bank and Khaleeji Commercial Bank) show that the total profits for the first quarter of 2018 were \$ 298.2 million compared to US \$ 264.8 million during the same period of 2017, a remarkable improvement of 13%.

# Members of the Board of Directors of BAB



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Al Baraka Banking Group



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Deputy Chairman  
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