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The Bahrain Banking Sector 100 Years of Challenges and Achievements

Ubaydli Ubaydli & Saleh Hussain

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**His Royal Highness
Prince Salman
bin Hamad Al Khalifa**

The Crown Prince,
Deputy Supreme Commander
and First Deputy Prime Minister



**His Royal Highness
Prince Khalifa
bin Salman Al Khalifa**

The Prime Minister
of the Kingdom of Bahrain



**His Majesty
King Hamad
bin Isa Al Khalifa**

The King
of the Kingdom of Bahrain



**The Late Amir of Bahrain,
Shaikh Isa bin Salman Al Khalifa
may God rest his soul in peace**

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of Banks



Thanks and Appreciation

Bahrain Association of Banks “BAB” would like to register its thanks and deep appreciation for all those that contributed to this work and made it possible to be translated from a mere simple idea in our minds to a book that details the story of 100 years of the Financial and Banking sector in Kingdom of Bahrain.

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Finally BAB extends thanks and appreciation to the authors, who applied their rich experience in research, writing and Banking, which was clearly apparent from the contents of the book. We hope that the readers and researchers find the contents of the book useful and represent a qualitative addition for the Bahrain and Arabian Library.

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Foreword

His Royal Highness Prince Khalifa bin Salman Al Khalifa

The Prime Minister

Since its inception a century ago, the banking sector has been a success story that reflects Bahrain's ability to respond to changes. Bahrain has established a strong financial and banking sector that is able to deal with various challenges, and the Government has worked to provide an advanced and effective economic reality, framed by legislative protection and an integrated legal system. As the government was keen to provide an environment conducive to banking, based on its importance as one of the critical economic tributaries, to support economic diversification and provide training and work opportunities for citizens, and enhance our position as a leading financial center in the region.

Today, thanks to the high directives of His Majesty King Hamad bin Isa Al Khalifa, the financial and banking sector in the Kingdom of Bahrain has become a major base to support the growth of the national economy and promote the process of comprehensive development, because of its financial and fiduciary capabilities that are significant for the accomplishment of development projects in various sectors.

The banking sector in the Kingdom of Bahrain has proven its efficiency in dealing with many of the financial crises that the world has gone through, which, despite their severity and the negative effects they have left on many countries, has been overcome by the Bahraini banking sector through its ability to adapt to all variables and continuously keep up with the global monetary and financial frameworks.

The establishment of an advanced regional center in telecommunications services, modern infrastructure, and its geographic proximity that is an advantage, especially at the time of oil surpluses generated by the high prices in the 1970s. This as well as the establishment of external units of the local banks, had a distinct role at that time in revitalizing Bahraini markets.





In addition, the leadership of Bahraini dignitaries in thinking and planning, and their direct contribution through their academic background and their practical experience, contributed to building the first banking system that is operated by Islamic legislation.

On this occasion, we look back proudly at the pioneering achievements of the banking industry, which has established a strong banking base and strengthened the pace of overall development in the Kingdom, qualifying it to attract regional and international financial institutions. Today we have about 413 financial institutions and banks with 14,000 employees and contributes about 17% to the Gross Domestic Product, which is considered as the largest contributor in the non-oil sector.

Moreover, we are pleased to express our pride in this momentous documentation of the development of the banking sector in the Kingdom, applauding the efforts and contribution of national, Gulf, Arab, and global banking leaderships and competencies. Also, we commend the efforts of the Bahrain Association of Banks that worked to support the interests of its members and which continues to be an active partner in the development and service of the financial and banking sector.

We have great confidence in our national capabilities, that enable us to occupy leading positions internationally in the banking field, demonstrating great efficiency and professionalism, and supported by the success achieved by Bahrain's economic policy and the stability and continuous growth of the financial sector.

We are certain, as we celebrate this centenary, that the financial and banking sector in the Kingdom of Bahrain will remain strong, and that the government will always uphold and support the dynamic growth of this sector and protect its future.

Foreword

Governor of the Central Bank of Bahrain

Rasheed Mohammed Al Maraj

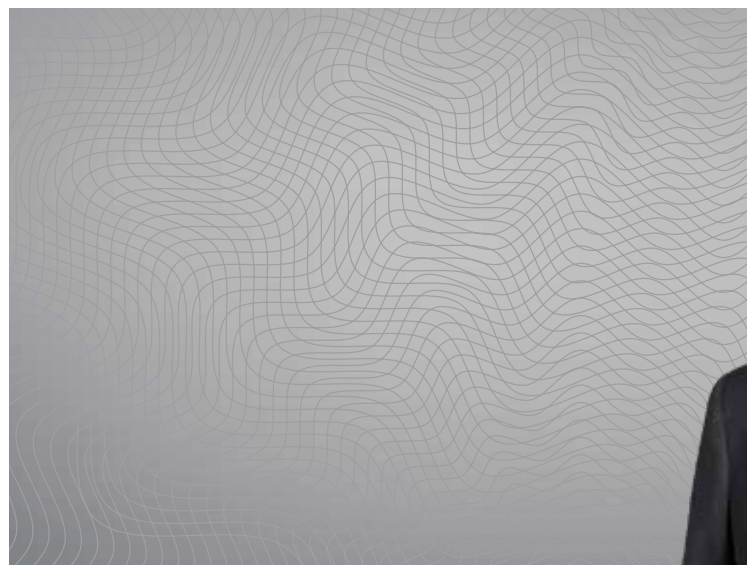
On more than one level, it is challenging to be the Governor of the Central Bank in this era, the most prominent among the reasons being that the banking industry has become more complex and fraught with many risks, This was embodied in the recent financial crisis between 2008 and 2009, leading to massive damage affecting the economies of the world with no exceptions. That is why central banks have an important role in financial stability and the economic cycle. The recent developments in the banking industry regarding “financial technology,” or Fintech services, may establish a new dimension of the imposition and challenges facing the work of central banks.

As the Governor of the Central Bank, writing on this subject becomes difficult when trying to evaluate the banking development in the Kingdom of Bahrain over a century, during which the financial sector expanded and the services it provides diversified.

One of the main reasons is the paucity of information in the early stages of this period, as blogging was not prevalent at the time, which deprives us of historical information in the desired form and accuracy.

As for the second reason, it is that this writer himself has become part of this industry, and therefore unable to draw the necessary distance that someone who wants to dive deep into this centenary needs, to see it with an objective and honest view from every angle, which is indispensable to him. This affects the intent of anyone who wishes to address this era of the history of the Bahraini banking sector with a critical, objective, and responsible view at once.

While the third reason is that the writer is part of the decision-making regarding that movement, especially in its later stages, which is the stage in which the complexities of the banking industry have grown, as they have





varied on the job level, and diversified on the developmental scale, thanks to the revolution of communications and information that swept over the world, and the Bahrain banking industry wasn't spared from it.

However, despite these reasons, it must be emphasized that since its inception, the Bahrain banking sector had the required flexibility that enabled it to positively adapt with every form of change that the global banking sector has known. An open mindset towards change and development contributed to Bahrain's ability to attract international and regional financial institutions, to become a distinct financial center in the Middle East in the mid-1970s. The development of the

Bahraini banking sector as it reaps the fruits of its first centenary, would not have been achieved if it had not found the wise leadership that nurtured it and has not ceased to refine it under the care of His Majesty King Hamad bin Isa Al Khalifa. Under His Majesty it received the support it deserved in distinguished reform projects that established his auspicious era and gave it immunity against the challenges it faced. He was supported in his goals by the expertise of His Royal Highness Prince Khalifa bin Salman Al Khalifa, the Prime Minister, gaining from continuous effort and enterprise in the corridors of state's institutions. This was further enhanced by the futuristic outlook and vision of His Royal Highness Prince Salman bin Hamad Al Khalifa through the 2030 strategic vision, which is covered on some other parts of this book.

In this regard, I have to express appreciation and gratitude for efforts made by the first generation of officials in the Ministry of Finance and National Economy and the Bahrain Monetary Agency before the establishment of the Central Bank of Bahrain; as well as the bankers for their efforts and effective participation in developing the banking sector and laying a solid basis for institutionalized banking environment in the Kingdom of Bahrain.

Foreword

Chairman of the Board of Directors of Bahrain Association of Banks

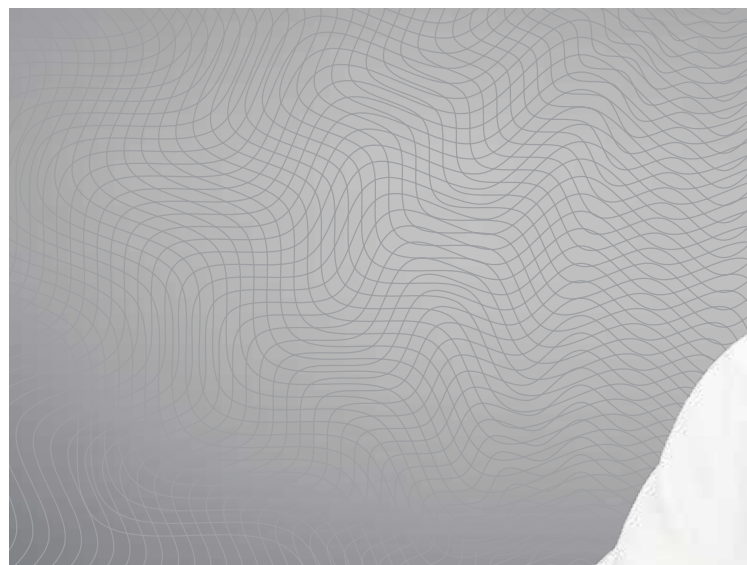
Adnan Ahmed Yousif

By looking at the documents of Banking progress in the Kingdom of Bahrain within a hundred years, as well as our experience of it during the past years, we are fully aware that such progress did not take a straight line. The Banking sector faced many challenges, and equally was marked with many achievements as well. Anyone who tries to explore the paths of this process will find himself walking in spacious and expansive boulevards, at the same time crowded with the images of accelerating events that all went into forming its outcome, which we enjoy today. A well-established banking sector buttressed by strong products and accompanying services, whether the beneficiary was an individual, institution, a private sector, or a governmental department, was achieved by the soundness of its procedures and the rigidity of the environmental laws and legislation behind it.

Since joining the banking business more than half a century ago, I took a pledge to practice this profession according to the values of a discipline belonging to an integrated system, in which three closely intertwined circles co-exist, all consistent with a common goal.

The first of these circles is the Bahraini circle. Bahrain has the wise leadership that guided it in its decisions, taking from the legacy of the past, as deemed appropriate for the present, and promising and visionary for the future. It is this creative balance of the laws of the three stages: the past with its rich heritage, the present with its immediate requirements, and the future with its growing radiance – a set of principles that have been followed since the inception of the Bahraini banking sector.

The messages of that leadership, and its outcome was this precise equation or harmony between a prudent leadership and a qualified citizen which





developed the pillars of the unique Bahraini environment. This in turn encouraged the global banking sector to move towards this country, to launch banking systems for the Arab Gulf region, if not for the Middle East. Equally, that equation enabled the Bahraini banking sector to overcome many obstacles that could have limited its movement or narrowed its ambitions.

The Bahraini circle didn't obscure the second circle, which is of the Arabic identity, as it also provided me with the required urban dimension that is indispensable in any banking sector trying to establish its foothold in international financial and business markets and is looking for a position in those markets.

Moreover, the Bahraini circle realized from the Arab one, and particularly the Gulf one, what it was looking for in terms of the availability of financial liquidity, market capacity, and human expertise. So, the integration between the two circles was a natural result even before it was a logical outcome. At the peak of its banking achievements at the local and Arab levels, the Bahraini banking sector looked for its third circle and found its historic opportunity to launch the offshore banking industry in the mid-seventies and then Islamic banking in the mid-eighties.

Thanks to these efforts and diligence, the Kingdom of Bahrain succeeded in painting a bright image and establishing its reputation in the world of finance and business according to value-based and goal-oriented systems and traditions. On top of these goals, Bahrain has made its mark as a dynamic and modern financial center with the elements of global competitiveness that qualify it to advanced positions in the map of regional and international competing markets, establishing its presence at the level of developed countries, depending on creativity in production and innovation in the services accompanying it and generated by it.

Foreword

Chairman of the Board of Directors of Bahrain Association of Banks

Adnan Ahmed Yousif

This is followed by a continuous focus to consolidate the components of the Gulf and Arab dimensions so that Bahrain maintains its advanced position in the Gulf and Arab markets and can provide the products and services needed by the financial and investment markets on one hand, and expand the economic activities accompanying them or emanating from them on the other.

Alongside was Bahrain's uniqueness in providing advanced and creative Islamic banking services simultaneously, with the required competitiveness and excellence in order to secure its deserved market share.

Without the presence of wise and modern leadership at the time, Bahrain would not have been able to achieve this position, especially its success in building an advanced eco-system qualified to provide services and products for market needs and developing appropriate strategies, drawing out the needed policies, and programs.

While acknowledging and commending the first leaders in establishing the early building blocks, it was at the beginning of this century that Bahrain found its strategic positioning as an advanced financial and banking center, achieved with the reform program launched by His Majesty King Hamad bin Isa Al Khalifa, backed by the expertise of His Royal Highness Prince Khalifa bin Salman Al Khalifa, which strengthened its efficiency and provided it with the fuel indispensable for the Vision 2030, set out by the far sighted outlook of His Royal Highness Prince Salman bin Hamad Al Khalifa, the Crown Prince.

To realize what the country's leaders envisioned, skilled and qualified visual resources capable of efficient response to the needs of the money and business market on one hand, and future dynamic interaction with everything else on the other hand had to be built. Superior academic institutions and high-performance training centers, have been set up throughout the country during the past century, revealing Bahrain's keenness to provide such a high-end and advanced level of qualified local human resources. And so, the harmony achieved between the wise vision of the leadership and the proactive response of the people succeeded.

This was compounded by the solid and modern infrastructure, which was able to meet the needs of global markets, as well as the relevant local and regional ones. That infrastructure provides the required services with high efficiency and at a market-acceptable cost, and has the flexibility to keep pace with development and rapid transformations that are indispensable to the financial and business markets, in order to fully perform its functions at competitive standards. Bahrain has managed to lay the foundations for such a structure and operate it with high efficiency.

This structure has been reinforced by its super dynamic counterpart – the advanced banking legislation and laws in which the Central Bank of Bahrain had a leading role. These are capable of responding in the required speed and developing appropriate solutions to everything that is needed by the international financial and business system, which exercises its activities in all markets.

Furthermore, the local communications network has been strengthened with its administrative expertise, professional competence, and technical infrastructure, contributing to improving the performance and meeting the needs of the local market first, and secondly the ability to address the Arab and Gulf countries in particular, keeping up with the rapid transformations required by the telecommunications industry.

The early extrapolation of financial market trends and exploring the depths of their movement was attested to by the construction of the Bahrain Center and its embrace of start-up companies that combine advanced information technology with the promising financial and business industry, which has become known as “Financial Technology”.

All of this would not have been achieved without the far-sightedness of the wise leadership and the mindful response from the loyal people for a better Bahrain with a vision of a bright future emerging from a rich history.

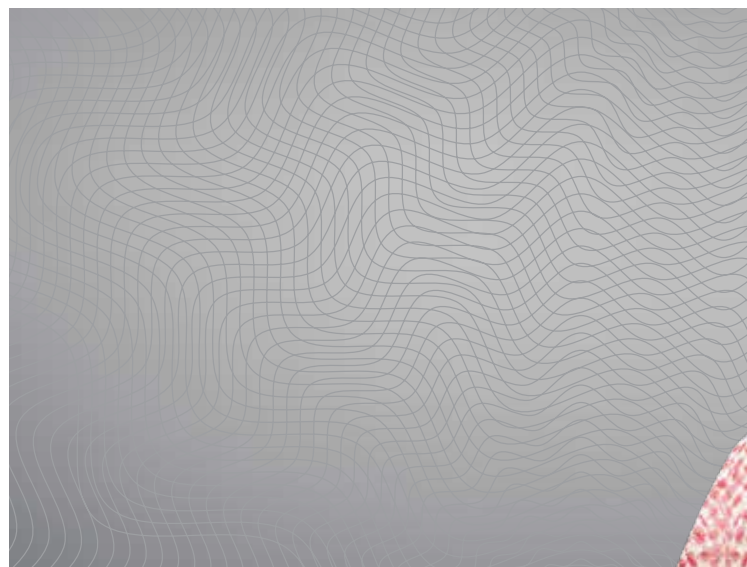
Foreword

CEO of Bahrain Association of Banks

Dr. Waheed Al-Qassim

Completing a comprehensive scientific documentary reading of the development of a hundred years of banking process in Bahrain is not an easy task at all, especially for those in charge of it who understand the seriousness of their responsibility before God, history, people, veterans and banking cadres. It is a narrative in which the requirements of honesty in quoting, blogging prudence requirements and the complexity of the calendar's components overlap. Additionally, and over and above, is the responsibility of speculation and the serious endeavor to complete the unclear aspects of the image, and the missing parts of the novel, to reach to an accurate narrative with integrated elements in place.

However, the challenges and difficulties in this achievement, despite their magnitude, appear small in the face of the successful achievement that was drawn by the first pioneers of Bahraini bankers, enshrined by those who bore its first banners, protected by those who dealt with the requirements of its various growth stages and was preserved by those who had an ambitious vision as well as patience and determination. And still, its banner is held and its flame is fueled by those who found the firm anchor in it, which always qualifies it for diversity and competition, and its future foreshadows Bahraini leaders who live among us and work with patriotism and a high sense of responsibility in order to develop its work standards and to open new horizons for its future. All of this reassures us that the banner is still carried in safe hands and the march is still ongoing. The banking sector has realized its achievements, which were enjoyed by successive generations of the Bahraini people, with the help of God Almighty, the response of the prudent and wise leadership, and the willingness of good citizens. All these factors have come together in order to protect the progress of the banking sector since its first signs and before it emerged in all its stages from birth to maturity.





The Bahraini banking sector succeeded in achieving all that it did and in accomplishing its goals by a synergy of several factors, some of which are purely domestic, while others are external and linked to regional and global factors. The most prominent of these factors was the timing of the start of this movement at the end of the second decade of the twentieth century, and specifically 1919. At the time, the Arab Gulf region, in the heart of which was Bahrain, was drawing the parameters of its modern economy, capable of engaging in the global market system. This engagement would not have been possible in the absence of banking institutions that empower it and regulate the mechanisms of the relationship between its various components. It is natural that a banking industry cannot flourish except in a favorable environment, which was

always available in Bahrain. The cultural and social openness, the capabilities of our ancestors in the fields of diving and trade and the willingness to learn new skills such as foreign languages and others hastened the establishment of this sector. The era of oil gave this sector great momentum. The financial and banking sector could have achieved all this success, sustainable growth and stability thanks to the Bahraini cadres who, one generation after another, raised the banner of hard work, dedication and excellence. In return, the banking sector contributed to the emergence of banking leaders who, through their ideas and experiences, laid the basics of an advanced banking industry in Bahrain as well as the region. The second of these factors is how small the Bahraini market was according to international standards, which would facilitate the task of defining the activities practiced in that market, including those coming from outside its local and natural environment. The small market allows its owners to have quick control and flexibility regarding what's new, which puts it in the correct position to embark in that market without harming its original owners or distorting its features. Also, the Bahraini banking sector succeeded in achieving what it achieved and accomplishing its goals by a synergy of several factors, some of which are purely domestic, while others are external and linked to regional and global factors.

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CEO of Bahrain Association of Banks

Dr. Waheed Al-Qassim

Next is the availability of good governance, which is able to adhere to the required balanced elements that are capable of accepting what is new, as long as that newcomer does not exceed the boundaries of the circle of the Bahraini citizen's interests, its culture and cherished legacy, and did not confuse the ways his market's performance runs the relationships between its components, and on which it depends to earn a living. At the time, that wise leadership set in its mind responding to what is new and able to integrate the Bahraini market into global markets, in accordance with a smooth process enhancing citizens' gains and increasing average well-being. Moreover, included in the list of those factors is the conscious citizen who is also responsible, and who took it upon himself to carry the banners of the new relationships that were born by the launch of the banking sector in that early stage, in order to digest the elements of that newcomer, and reproduce them in local formats that ensure the correct and fruitful alignment between what is local and what is foreign. Also, on that list is the discovery of oil in Bahrain at an early stage, compared to its fellow Arab Gulf states, regardless of its limited quantities and compared to the quantities discovered in later stages in these countries. The oil markets and commercial transactions that emerged at the time required the presence of local banks that would be essentially the channels of commercial communication between those markets, including the Bahraini market.

Monitoring these factors, has helped its owner realize the major milestones of the march of the hundred years of the Bahraini banking sector in specific stages. Leading these stages is the stage of birth and growth, which is the period that extends from the end of the second decade of the twentieth century until the beginning of the sixth decade, which is the stage that was conceived by the Eastern Bank Limited's acquisition (Standard Chartered today) of a license to exercise its business in the Bahraini market, culminated in the establishment of a bank in Bahrain, in the fifties of the last century. During that period, the number of banks in Bahrain was limited, and the nature of operations was confined that it didn't exceed the traditional ones required by the Bahraini market that was small in size and simple in transactions. That stage was fostered and maintained by Their Highnesses Sheikh Isa bin Ali Al Khalifa, Sheikh Hamad bin Isa Al Khalifa, and Sheikh Salman bin Hamad Al Khalifa.

The second stage of the Bahraini banking sector is the one that can be characterized by spread and diversification, which extends from the beginning of the sixties of the last century until the end of it. His Highness, the late Sheikh Isa bin Salman Al Khalifa, and His Royal Highness Prince Khalifa bin Salman Al Khalifa, Prime Minister, was his right hand. During that period, the number of banks operating in the Bahraini market, or those that made that market their headquarters, reached dozens, and the services they provided varied as well as their categories, topped by Islamic banks, which launched from Bahrain and which is considered today as the international center for them, the sovereign funds and investment banks, including those operating in accordance with venture capital measures.

The current stage, which can be described as the stage of selection and specialization, which extends from the beginning of the twenty-first century to the present day, in which Bahrain entered what became known as the financial technology (Fintech), as it succeeded in reaching the correct equation that guarantees a steadfast fruitful marriage between financial markets and information technology. This stage was inaugurated and had the required success by a pioneering reform project launched by His Majesty King Hamad bin Isa Al Khalifa, and embraced under the expert hands of His Royal Highness Prince Khalifa bin Salman Al Khalifa, the Prime Minister, with continuous planning for this movement.

The banking sector has been a primary companion to the development movement in Bahrain over the past decades. It has played a prominent role in expanding and bringing prosperity to the middle class in a way that enhanced the stability of society by providing quality job opportunities with rewarding salaries for citizens, male and female. In addition it provided financing for various types of commercial activities including micro, small and medium enterprises. The banking sector has always had a direct contribution in developing the rest of the economic sectors and an indirect contribution in developing other sectors such as education, legislation, health and others. Moreover, financial and banking institutions are among the largest contributors to social responsibility and sustainable growth projects.

Introduction

Pioneering Leadership and Aspirational Citizens

It stands to reason that the stereotype that we draw in our minds today around banks differs radically from those which was carved in the perceptions less than a quarter of a century ago. The latter is the picture of banks in its traditional form adhered to since its inception and which consistently restricted the banks to a narrow circle, within which the bank becomes a rigid financial institution, providing moderate services, and limited by the boundaries of the time in which it was launched, not much different, whether it was the state that ran that bank, or it was the private sector. These traditional services fulfilled the needs arising from the level of economic development and the nature of the services that prevailed in the operations of the relevant institutions in the markets at the time.

Accordingly, the services provided by these banks were limited to a variety of moderate services, centered on providing loans and encouraging the use of savings funds, in addition to some administrative and consulting services, and feasibility studies. Accordingly, the bank's operations and activities have, historically and in line with this flat image, convinced a certain category in the society of the feasibility of preserving their funds, or part of their surplus funds, in a particular bank, or in a group of banks, for a certain interest which percentage is determined according to the deposited amount, by a set of factors that were functional in the market during that period.

In parallel, banks use those funds deposited with them in lending them to another category of customers, who desperately need them, whether they are institutions or individuals, according to certain conditions within the framework of specific loan conditions and according to pre-determined interest. Those banks earn their profits from the differences they earn between the deposit interest rate and loan fee rates.

Therefore, that long-standing stereotype of banks was not wrong, since they were launched from the tables of those who transferred the noblemen's funds to the liquidity they used in loans operations, until the final stage proposed

by the Rothschild family at the Bretton Woods conference, in the aftermath of the Second World War, It was not until the time of the American President Richard Nixon that the formula was changed in the late 1970s.

However, this image isn't holistic anymore, due to developments in the commercial sector, and even the industrial sector, leaving its profound effects on banks, and directly affecting services which they were providing at the time, in addition to the tools accompanying them that they used, and the products that they offered. Rather, it goes deeper than that, contributing to shaping commercial and even economic behavior for the markets where banks practiced their activities and even expanded to include social behavior.

Such qualitative shifts in the nature of banking services have made fundamental changes in the nature of the establishment of banks and the identification of active circles. Therefore, those banks that responded have evolved into living cells that grow at different speeds in the body of the commercial and industrial community to which they belong and created the necessary transformations.

If we map all these transformations in a comprehensive and integrated framework and we can see the depth of the mutual influence relations between them, we would have realized that today's banks have a significant role to take the concerned society into a developed level of growth, to benefit from the services and products provided by them, and to draw up distinct and implementable development plans capable of giving the best possible results to maintain that required level of well-being, development, and growth alike.

Development has become a feature of the times and an important element that attracted the attention of countries. Also, it is ranked first in programs addressing social and economic imbalances that countries are trying to include in that development programs, and banks occupy an important place in their plans and even a critical number in their equations.

“

The success of Bahraini human resources was balanced in a rewarding equation, as it took advantage of the banking exposure given, and achieved qualifications that allowed Bahrainis to occupy leading positions, and influence decision-making that in turn determined the course of that experience.

”

Introduction

Pioneering Leadership and Aspirational Citizens

There appears to be a high level consensus between economic theories, especially contemporary ones, in linking the feasibility of development plans and activities, the durability of the active banking systems in the markets of those countries, the degree of transparency with which they conduct their business, and the performance measures they're committed to. With such a relationship and its positive interaction with the critical role played by banks in their interconnected frameworks, the importance of the position assumed by the financing and loans' policies of banks within the scope of these plans has increased.

Based on that, the banking sector has moved from its traditional narrow circle to the active participation in establishing mechanisms for successful economies, within the framework of its ambitious development plans. Thanks to all of this, banks have turned into one of the most important pillars of development, and financing has become a major element to achieve the goals set for all development policies and plans, in their comprehensive sense, so that the space occupied by the economic component becomes just a narrow link within the sphere of its vast circle, especially when social development is included within that framework, with its human dimensions.

By extension of such understanding, the position of money and the availability of liquidity shall increase with flexible terms, according to which the production cycle in which the money is transformed from a mere mobile mass controlled by the direction of liquidity to a dynamic and productive core, by the means of production, and become a basic pillar of development. Accordingly, the cash capital lent by banks is transferred from a simple factor of financing, which limits itself in the context of direct and immediate profits, to a major engine in the wheel of the economy in the correct drawn direction.

All this transformation, despite its importance and the qualitative change that occurred in the nature of banking services, did not get the banks out of their traditional surroundings. It had to wait for the winds of the communications and information revolution that swept the global economies at the beginning of the nineties of the twentieth century. Surgical procedures had to be performed on banking systems in order to get them out of their traditional bottle to their new contemporary perimeters and harmonize between information and communication services, the products of banks and

related financial institutions, and the services that they began to provide, all thanks to its effects that are not only flexible but solid and creative as well.

In the midst of these changes and qualitative leaps, comes the initiative of the Bahrain Association of Banks to celebrate the 100th anniversary of the banking sector in the Kingdom of Bahrain. In light of this, preparations are being made to celebrate the 100th anniversary of the grant of the first license allowing the first bank in Bahrain in 1919 to practice its banking activities by the new standards set at that time. Thanks to that step originating from a futuristic vision, Bahrain surpassed the constraints imposed by its limited geographical area and its relatively limited financial resources at an early stage in its modern history.

Bahrain success stories and the successive accomplishments over the past 100 years were due to two main and critical reasons that interacted in a reciprocal and positive way: the first of them is that our wise leadership, who possessed a rare insight into the future, and practiced for decades the civilizational flexibility that does not reject what's new and foreign, but accepts it, absorbs it, and realizes its horizons in order to reproduce it in its appropriate local form. The ruling Al Khalifa family's regime marks the period covered herein of 100 years of Bahrain's history, starting from the era of the late His Highness Sheikh Isa bin Ali Al Khalifa, who was the standard of the banner, until we reach the era of His Majesty King Hamad bin Isa Al Khalifa.

The second critical reason for its success is those ambitious and aspirational people of Bahrain, who have not stopped working to bring the country to the level of developed nations, to seize the position it deserves on the global map.

Here we must stop at a very critical stage, which is the current one, during which the pillars of the modern state were entrenched. In this period, that followed the independence from British influence, His Highness Sheikh Isa bin Salman Al Khalifa reigned and the first government in the country was formed headed by His Royal Highness Prince Khalifa bin Salman Al Khalifa.

Since that date, the country has succeeded in making the qualitative shift required for the development of the country in general, and the banking

Introduction

Pioneering Leadership and Aspirational Citizens

sector in particular, thanks to the wisdom of the rulers, represented in the vision of His Highness, the late Sheikh Isa bin Salman Al Khalifa, and the rich experience of implementation seen in the policies of His Royal Highness Prince Khalifa bin Salman Al Khalifa.

And if Bahrain is to be proud of what it has achieved in the march of history, then it is equally fortunate to be able to show what awaits it in the years ahead under the leadership of His Royal Highness Prince Salman bin Hamad Al Khalifa, whose promising vision builds confidence in a brilliant future that awaits Bahrain.

Complementing this second factor, and of importance in the process of transformation and development, are the citizens of this great nation, the Bahraini nationals who do not hesitate to make sacrifices, who welcome the new without inhibition, who accept progress and change with positivity. All of this is based on a strong and secure cultural background in which the values of an authentic Arabic identity interact with the true teachings of Islam.

This equation that generates creativity and productivity can be seen in the successes achieved by Bahraini human resources. They have seized the opportunities available and grown within the banking experience, qualifying for leadership positions that influence decision-making, and effectively contributing to development plans while ensuring their integration into the national economy.

One thing that helped advance the creativity of equation was the high youth demographic percentage of the population, with about 35 percent consisting of Bahraini youth. Additionally, 43 percent of young people in Bahrain are entrepreneurs and owners of small and medium-sized enterprises. In addition to the youth, there is the significant role played by Bahraini woman in the banking sector, with a significant number holding leadership positions in financial institutions.

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The book doesn't only read history to record it in a deaf narrative context, but rather to look into its depths in the form of wise and informed references that takes lessons from its events and facts.

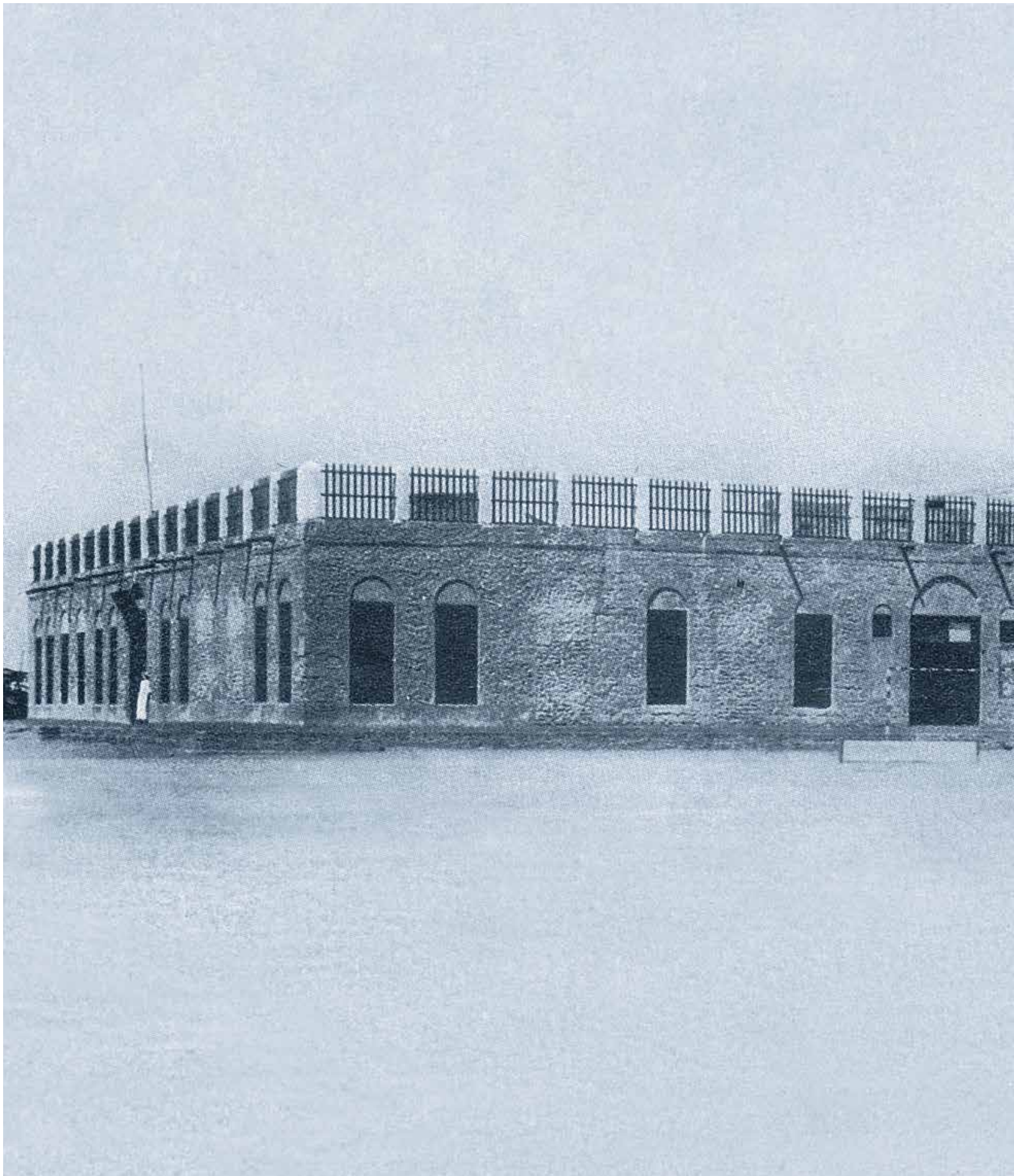
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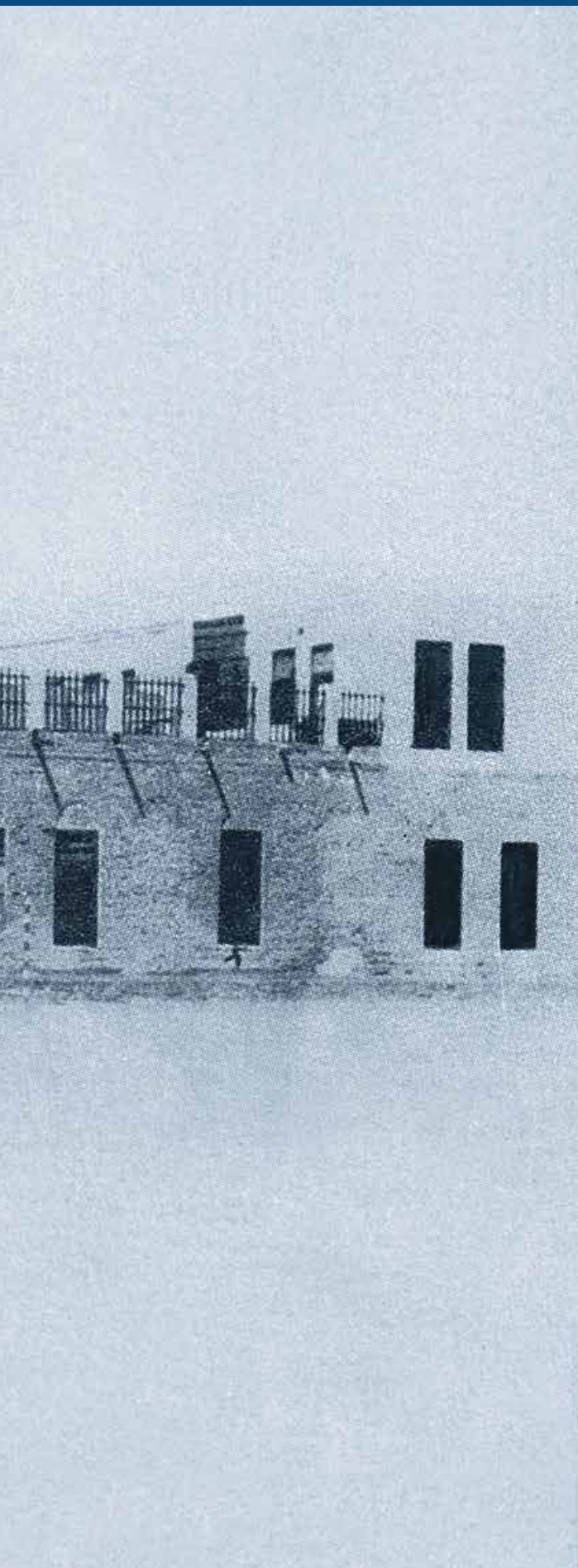
All these factors have contributed to the growth and significance of the banking sector in Bahrain, ranking high when compared to its neighboring countries. This remarkable marriage between wise governance and responsive people who are dedicated their country, has generated the unique and distinct Bahraini experience, taking the country from a traditional society to its position as an advanced financial and banking center, with the promise of a progressive future.

This book tells a story of Bahrain's development as a contemporary nation, a developed society, with wise rulers, and a contented and aspirational people. We have tried to establish a creative balance between the two reference points - the writings left by historians, and the facts recorded by authors, who took the responsibility of chronicling the stories and milestones that took the Bahraini banking sector forward.

The second is those living testimonies documented in countless interviews conducted by those who took on the responsibility of this publication, creating this experience because of their love and appreciation for this country. The book not only reads as a historical record in a narrative context but looks also into the depths backed by references and lessons from actual events and facts. The purpose is so that it can be used in later years to build a forward-looking conclusion that extrapolates the future of the banking financial sector and draws its main features for the coming years.

We hope that this humble contribution will succeed in helping the reader to find what thrills him and provokes his imagination. We look forward to the specialists and researchers finding what is useful for them, quenching their thirst and provokes their thinking. We hope that they will correct us for any unintentional mistakes and will add to the story if there is any accidental inadequacy. Perfection belongs to God alone, but the author has tried to remain honest, objective and positive while documenting this story.





Chapter 1

A Remarkable Legacy For A Promising Future



Coin
Memorial Issue 1424 – 21 H (2004) for
Commemoration of Great Rulers of Bahrain

Main Photo
Al-Hidaya Al-Khalifia School, the first public
school in Bahrain, established in 1919, where
some of the first pioneers of Bahraini bankers
received their education

Bahrain was blessed in its strategic global location, because of which since ancient times it played an important role that attracted the attention of many distinguished historians. One of the most prominent amongst them was Peter Cornwall, who indicated in his book, *Dilmun, the History of the island of Bahrain before Cyrus*: “Dilmun was of value as a commercial center and port through which both commercial goods and the ideas passed. It was a connecting point between many ancient peoples, so it should be given credit for playing a significant role in spreading civilization in the ancient Near East region.

As mentioned in many resources that dealt with the ancient history of Bahrain, Dilmun, thanks to its location on the cliff of the Arabian Gulf, assumed an advanced position as a connecting point between the countries of the eastern and western world. Thanks to that location, ancient Bahrain has, through the ages, been a place searched for by ships leaving from or heading to Sindh in the Indian subcontinent. This has enabled Bahrain to transform into a commercial center in the early stages of its ancient history and instilled in its people a commercial outlook. The background behind this civilization formed, enabled the Bahrainis to acquire instincts and skills that trade and commerce needed in those early stages, and that the financial developments needed in later stages.

As pointed out in the history and archeology of the ancient Arab Gulf region, the scholar Abdul Aziz Sweileh said, “Dilmun civilization had played a significant role in the process of interaction and communication with the region’s civilizations such as Mesopotamia and the Indus Valley because of its active role in the commercial movement. Bahrain was also one of the most prominent islands that have emerged in history and contributed to civilized communication, out of being an integral part of the Dilmun civilization, which through its strategic location in the Arabian Gulf, gained great importance in the period extending from the third millennium BC to the mid of the first millennium BC. The island of Bahrain was a major commercial station for commercial ships coming from the south, where the centers of the Indus Valley civilization and the Majan civilization in the Sultanate of Oman exist, and from the north where the centers of Mesopotamia civilization and Elam civilization in the northwestern part of Persia exist, thus ships were arriving to Bahrain carrying various goods.”

Without having to retrieve the frequent historical mentions in which contemporary Bahrain exercised a distinct role as a commercial connecting point between the countries of the East and the West, there are clear signs that show the rich experience from this role, providing Bahrain with the human skills and administrative systems it needed, which were sufficient to distinguish it from all its neighboring countries.



The house of the Al-Qusaybi family, adjacent to the Manama markets in the year 1920AD, which the Eastern Bank Limited used as its first headquarters in Bahrain

This enabled Bahrain to play a pioneering role, in terms of trade and associated services, in response to the requirements of commercial life, and created the components of the prosperity of the country, and the well-being of the people of that country. This also explains the success achieved by Bahrain in the various fields related to finance and banking from the early days and enlightens those searching for the reasons behind the achievements that are still being made in the same fields.

Therefore, it becomes quite clear that the establishment of an advanced financial and banking system in Bahrain did not emerge accidentally, but rather as a natural outcome of that cultural accumulation inherited through generations, and which is based on the rich experience that Bahrain gained over the ages. In later stages this helped Bahrain to extend bridges of trade and financial cooperation, not only with its neighbors, but also with those looking for a commercial hub in the region, from where they can promote their trade and expand their activities with easy reach to the markets of the surrounding areas.

Top Picture
His Highness the late Sheikh Isa
bin Ali Al Khalifa, ruler of Bahrain,
1869 to 1932

Bottom Picture
Diving for natural pearls through
which Bahrain acquired its
international commercial status



Bahrain has made full use of this legacy and history, and with the combination of continuous prosperity that it enjoyed through the years, responded in a creative manner exercising a pioneering role in the surrounding region, and extending its commercial and financial reach in an extensive and diverse orbit. The legacy of Bahrain grew gradually and smoothly over a period of time, culminating in financial and commercial transformations, which abetted overall development at the same time, and gave it a distinction that further allowed the establishment of commercial and financial relations regionally and globally.

It was thus, not difficult for both the leadership and the people of Bahrain to attract the giants of commercial and financial players, including those involved in banking, at the beginning of the twentieth century. They expressed their interest in setting up their business in the country, and that was how the desire to establish the first bank in the region of The Arabian Gulf was expressed and set about.

In this regard, history records Bahrain's caution to mind its steps so that the desired results it achieved were derived from positive interaction with all new business coming from abroad, after carefully curating it to suit what was currently existing, and create an outcome that was a natural by-product of taking the best and making it compatible with the existing values. Achieving all this required the building of an ecosystem that was both appropriate and flexible at the same time, which not only guaranteed continuity, but also refreshed the elements of the required progress, and the elements of the expected prosperity. This is what we perceive and touch upon when we trace the path of Bahrain's financial sector and economy throughout the past 100 years.

Such attention to build this ecosystem, even in its simplest forms, especially at the beginning of the twentieth century, provided Bahrain with its rich corpus of intellectual assets and tools in the various financial fields, on which it relied and which enabled it to respond flexibly and minimized its negatives at certain difficult times in the course of its history.

Bahrain's outlook and actions seen from the view point of its policies during the period extending from the thirties to the eighties of the previous century, shows that trend towards clear-cut goals and outcomes that have taken into account the successful establishment of an integrated system that guarantees continuity on the one hand, and development, prosperity and growth on the other.

Allah Almighty, in His wisdom, granted Bahrain open-minded and forward-thinking leaders who were able, in the relatively early stages, to embrace both the global and regional transformations positively. Thanks to its leaders, Bahrain was able to keep pace with the many developments that the world witnessed during this period. The economic shifts, at the core of which the financial developments and the banking system, played the most important role in Bahrain's steadfast steps on the path of the desired progress.



Allah Almighty also blessed Bahrain with open-minded, hospitable and dynamic citizens who brought creativity and innovation into the mix, with the qualitative moves Bahrain set in place. This strengthened the core of the Bahraini economy, the most important results of which are the financial booms experienced, and the benefits from creating the required development leaps, resulting also in a stable society which in turn allows creative energies to be directed in the right track, and towards noble goals.

This explains, once again, in rapid historical pauses, the successive radical transformations that Bahrain has experienced during the one hundred years of 1919 – 2019 and gives satisfactory answers to many questions about the reasons behind the smooth and consistent prosperity that the Bahraini banking market, had and still has. It provides answers to its flexibility, the necessary legislation and dynamic monitoring channels, which have provided it with the vitality and durability it needs to withstand and develop, especially in the periods in which other financial markets are exposed to frequent fluctuations. At such time the Bahraini banking sector did not escape but dealt with the factors with high professionalism, which reduced the negative effects and results.

The financial and commercial ecosystem that Bahrain has formed over the ages has helped it cope with the negative implications and reduce their repercussions, as well as confining their effects. While these negatives affected the essence of the economy of other countries, they left their clear impact on the performance of the Bahraini market, which, thanks to the reasons we have mentioned, succeeded in managing it with minimal losses, and going forward with firm and confident steps.

Here, we have to draw the observer's attention to the development of the financial movement, especially that of the Gulf States, because it would be a critical mistake to limit the measures of success of any financial experiment to the volume of money that is traded in its markets, or the number of transfers these markets do. This is because the globally agreed measures of success have become more comprehensive than this narrow traditional scale, as they are the result of complex equations that include all of this, in addition to other components that should be taken into account.

The most important of these components is the degree of flexibility of the laws and legislations that guide the financial market that we want to evaluate, and the ability of these legislations to respond to changes, including the rapid,

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The financial and commercial ecosystem that Bahrain has formed over the ages has helped it cope with the negative implications and reduce their repercussions, as well as confining their effects.

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and even unexpected ones, to which the relevant market is exposed to. This is accomplished by measuring the ability of these legislations to respond to these changes, interact with them with the required positivity, while preserving the interests of the stakeholders in these markets, and gaining their confidence on an ongoing basis, by integrating this with a strict monitoring and follow-up system, such as the system that manages the financial markets in Bahrain. It has to ensure compliance with these legislations, and has to act within the framework they define, without falling within its limits, or allowing the blind and rigid application of its provisions.

This is done in parallel with measuring the ability of markets to provide protection, based on logical stability, interacting with the legal confidentiality that the institutions active in that market cannot go without, including the confidentiality of information related to the owners of these institutions, or the individuals who run their business or activities provided that all of this is achieved without compromising the transparency measures that control the performance mechanisms of that market.

All this is enhanced by paying attention to the necessity of laying the foundations for the required controls that direct and control safety valves which the serious investor is seeking, who faces difficulties and personally avoids everything related to tax evasion, money laundering, resorts to unlawful methods that would confuse the movement of that market, challenge the credibility of its performance, or raise doubts about the level of transparency of that market, or the functioning of its mechanisms.

This is in turn integrated with a stable political system characterized by stable relations between the pillars of government and the citizen, and driven by contemporary mechanisms capable of highlighting the potentials inherent in its institutions and individuals, in order to achieve the desired progress for the citizen, and the desired attraction of foreign investments. Here the equation is for an external investor seeking favorable opportunities and a qualified citizen able to provide such opportunities and achieve the outcome without distortion or spontaneous errors.

It is natural that such policies lead to building interactive channels between efficient and skilled human resources breeding institutions, needed in order to run business on the right path. At the top, is creating flexible coordination channels needed by the requirements of the business market of the financial system, to coordinate its steps with decision-making persons in institutions active in the financial markets and in banks, without preventing these markets from gaining access to those resources coming to it, or attracted towards it from abroad.

His Highness the late Sheikh Isa bin Ali Al Khalifa, ruler of Bahrain, 1869 to 1932



Such a creative and successful professional combination at the same time, capable of the creative harmonizing between the local elements and the foreign ones, while defining the duties of each, and taking care to defend their rights, has turned into something like the necessary safety valve that is indispensable, and that should not be neglected, to create a fertile investment work environment, supported by a parallel rich financial environment, whose efforts combine in a positive and integrated manner to build the desired financial system, capable of achieving stability, growth in revenue, and sustainability in development. This is what the Bahrain financial market has endeavored to achieve and focused on, making it the components of its success.

Placing the Bahraini financial market under the microscope of these standards, and perhaps others, does not deviate it from its values, and its path over a hundred years through this approach. The secret behind the financial and banking renaissance that Bahrain has witnessed and monitors, and its most prominent features is revealed through this book that seeks to carry out a careful inventory, along with the responsible objectivity required.

Such an approach necessitates this book to recount this path, while adhering, as far as possible, to the envisaged scientific objectivity, in the form of a story that narrates a hundred years of details of the birth, and growth of the Bahraini banking sector, from its early embryonic stages, through its lively youth, before it pauses to revise its gains during these years in its maturity stage, capable of growth and development. All this is achieved by

exploring the twists and turns of that path and its ups and downs, with all its accomplishments and even regressions, which were a logical and natural part of the global banking sector, with Bahrain at its heart.

At the beginning of the twentieth century, Bahrain was not separate from its Gulf neighbours, and therefore its economy was not very different from any of its Arab-Gulf counterparts. When we talk about economics, we mean that primitive natural economy, which was dependent on agriculture, mainly in its early traditional patterns, which was centered on palm cultivation supported by marine activity with pearling as its most important resource at that time. Frankly speaking, none of the limited geographical area, the financial possibilities, the surrounding regional circumstances, the dominant international policies and even the prevailing culture, could lead to prosperity, but without which Bahrain's leadership and its people succeeded in achieving.

In the midst of all of this, particularly in the early 1930s, a new positive factor has emerged that affected the Bahraini economy, and even the social relationships between its various categories. That factor was oil, which despite its relatively small quantities; which did not exceed, without calculating the production of the Abu Sa'fa field, the ceiling of 40,000 barrels per day. Yet it created, especially in the third and fourth decades of the twentieth century, an economic boom that had profound implications at the economic, social, and even political levels. At that time, the revenues of the oil discovery gave Bahrain a secure national income that exceeded what other Gulf emirates were obtaining from their sources of income, as their oil production was in rudimentary stages in comparison to international standards.

The economy of oil underwent various transformations, but they were complementary on the one hand, and it imposed requirements that had to be met on the other hand.

Here, in order for the historical picture to be complete, we have to refer quickly to that positive relationship between the discovery of oil and the beginning of modern education in Bahrain. Royal advisor Charles Belgrave mentioned this in his memoirs, as he said that the year 1937 was distinguished in the history of modern Bahrain, thanks to the increase in oil revenues that contributed to modernizing the country and improving its health situation, in response to the wish of the country's ruler then, His Highness, Sheikh Hamad bin Isa Al Khalifa. In that year, according to Charles Belgrave, the number of students enrolled in schools amounted to nearly one thousand, distributed among eight schools.

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A wise leadership with a citizen-combined effort is vital for a significant outcome for the Bahraini banking industry to shine through all the ramifications and changes within the global economy.

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All this requires referring to the fundamental shift in the state's relationship with oil over the years, from a contributor that accounts for more than 90% of GDP, to a mere contributor like other economic activities, including what is generated by the banking sector in the GDP. The Governor of the Central Bank of Bahrain Rasheed Mohammed Al Maraj, stated, "Thanks to the developments that the banking industry has witnessed in the past four decades, it has become the second largest contributor to the GDP, after oil, at a rate of 17%. It attains an annual growth of about 10%, and employs more than 14 thousand, more than 65% of whom are Bahrainis.

The observer, while monitoring all these transformations and requirements, within the scope of addressing the path of the one hundred years of banking work in Bahrain, should have a balanced objectivity when considering the need of the oil economy at that time to financial systems capable of building bridges of cooperation with the local, Gulf and global markets.

The Bahraini oil market, since its early beginnings until now, was not only local, but also regional, and even global, in many of its aspects, which required it, even as it took its first slow steps on the path of modernity that oil discovery brought with it, to respond to these needs that have imposed themselves, in order to be able to fulfill its new semi-urgent responsibilities, in the positive sense of the term "urgent".

Rasheed Mohammed Al Maraj stresses on the role played by the Central Bank in developing the banking and financial market, saying, "As a matter of fact, we regard the Central Bank as the entity that undertakes three central direct and indirect tasks interacting in an integrated manner with each other and exchange the dialectical effect positively, that generate, within a harmonic framework, the suitable incubation environment qualified to provide the right atmosphere for a growing and evolving banking sector.

The first of these is concerned with legislation and regulations. There is a highly qualified specialized department at the Central Bank of Bahrain capable of developing regulations that will regulate work in the financial sector in line with international standards.

The second is our supervisory role that guarantees the success of the controls set by such legislations and regulations in providing mechanisms that facilitate the development of banking sector in the Bahraini market and improve the efficiency of its performance. It should be noted here that the exercise of this supervisory role is needed because of the importance of immunizing the banking system from purely administrative disciplinary basics in a manner that enhances the confidence of its clients and depositors.



His Highness the late
Sheikh Isa bin Ali Al
Khalifa with his sons at
an occasion

Finally, we in the midst of all these activities, practice a unique type of self-censorship, in order to do this without prejudice to the standards of global transparency and its values. It is worth noting here that we are doing all this with caution in order to avoid drowning in the bureaucracy hindering any form of development indispensable to the financial and banking sector. Achieving this at the required level is a process that we strive to adhere to its traditions and avoid passing up any of them.

Whereas the existence of banks in Bahrain started in 1919, there are accumulated experiences of a hundred years, which were created as they were making their way through these decades, a set of facts on the ground, and another set of phenomena that resulted in the factors that contributed to the construction of the edifice of Bahrain, which the citizen can be proud of today.

This quick outline of the history of Bahrain during this era, the components of which may appear filled with historical ups and downs, was necessary to understand that inherent relationship between education and development towards modern society, on the one hand, and the discovery of oil on the other hand, as well as the efforts of the Bahrain government to reduce the share of oil in the national income.

Top Picture

A copy of the letter of His Highness late Sheikh Isa bin Ali Al Khalifa, the ruler of Bahrain at that time, dated 19 August 1918 corresponding to Dhu al-Qi'dah 3, 1336 upon which the Eastern Bank Limited was given the first license of a commercial bank in Bahrain

Coin

Indian one rupee coin during the British empire rule between 1910 - 1936



Translation of a letter dated 3rd Dhil-Qaad 1336= 11th August 1918 from Shaikh Isa bin Ali, C.S.I., Ruler of Bahrain to G.A.MunGavin, Esq., Political Agent, Bahrain.

After Compliments,

With reference to the conversation I had with your honour yesterday regarding the establishment of a bank (in Bahrain), I now write to say that I am fully satisfied with your proposed arrangements for opening the bank which I am very glad to approve of.

I would request your honour kindly to instruct the manager of the said bank to give me an assurance, through your honour in the sense which we verbally discussed, namely, that the bank will not deal with my subjects (in giving large loans) without previously informing me as I know best about the financial position etc. of my subjects. Further, if a claim or complaint should arise between the representative of the bank and any of my subjects the case should be dealt with like other ordinary cases by the courts in my country in accordance with the existing laws and rules of this country. Also that the bank will accept currency notes in the same way as it may issue them. For this I shall be very much obliged to your honour. Usual Ending.

*True translation
Shahid J. Khan
25.5.2019*

It also forms a solid ground that helps direct the attention of those who try to monitor the start of the work of banks in Bahrain, with a holistic comprehensive view, the efforts made by the competent authorities in Bahrain at that time, led by the ruler of Bahrain, His Highness the late Sheikh Isa bin Ali Al Khalifa, and demonstrating the wisdom he demonstrated in dealing with the request to open a foreign bank in Bahrain, and the deep impact of such a request at that time as well as in later stages, on Bahrain's society and situation.

His Highness the late Sheikh Isa bin Ali Al Khalifa did not give immediate approval, though he could do so. The underlying reasons behind his decision were purely social considerations, and careful reflection of the implications of that approval, which had to be carefully thought of in advance, in order to avoid any effects that were not taken into account, on the Bahraini citizen as an individual, and the Bahraini society as an entity.

Today, this temporary refusal, or what can be described as hesitation, may evoke some amazement, especially in the minds of the younger segment of society, but it should be seen, and evaluated in light of the prevailing collective awareness at that time and the values that were governing the local community at that point in the country's development. This explains why

His Highness approved to grant the bank a license to practice its business, nearly three years after the first rejection. Moreover, the approval stipulated not affecting the interests of the citizens.

Such a background by which leadership, the people, and construction shovels, dug their way through the century, has enabled Bahrain's markets, including the money and business market, to gain a special local financial flavor, with a distinct regional one, while maintaining international standards required to help Bahrain and provide it with the importance it deserves, by which it exceeded its geographically small area, limited population, and its limited sources of income.

All of this has laid the foundations for the leadership that Bahrain has enjoyed throughout the ages and provided Bahrain with the energy it desperately needed to chart the parameters of its promising future that it is enjoying its outcomes today.

Thanks to all of that, the good people of Bahrain, hand in hand with their rulers open to all that is new, proved their common, integrated, and keen interest in looking forward to the future, without forgetting their true historical legacy or setting aside their civilization repertoire, following the example of their ancestors in every step on the path of building the edifice of the banking system Bahrain has today. It is not strange that the people of Bahrain succeeded in building their contemporary financial empire, just like their ancestors had built great civilizations such as Dilmun, Arados, Tylos, Awal and others, the reputation of which is still appreciated by those interested in the history of the financial movement worldwide as well as historians.

If there is a single thing that these and other facts, not mentioned here, prove, it is that the qualitative boom that Bahrain has achieved in the various fields of money management and business, at the forefront of which is the banking sector, is due to the ability of the Bahrain government and leadership and the citizens to confront challenges they faced with an open mind, confidence, and correct solutions that eventually led to the desired shift in the Bahraini economy, and enabled it to move smoothly from the traditional primitive system to a more contemporary one.

This shift would not have happened without sacrifices and that success would not have been achieved without the concerted efforts, which are still required, and cannot be neglected or compromised, in order to continue the path to development and progress.

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While the rulers were open to new ideas and changes, with a common integrated focus on the future, they upheld their history and legacy.

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Bab Al Bahrain, in 1949, was considered the main gate to Manama Commercial Market and for receiving passengers arriving Bahrain by sea through Manama port







Chapter 2

Confident Vision Reinforced By Steady Steps



Coin
Memorial Issue 1424 – 21 H (2004) for
Commemoration of Great Rulers of Bahrain

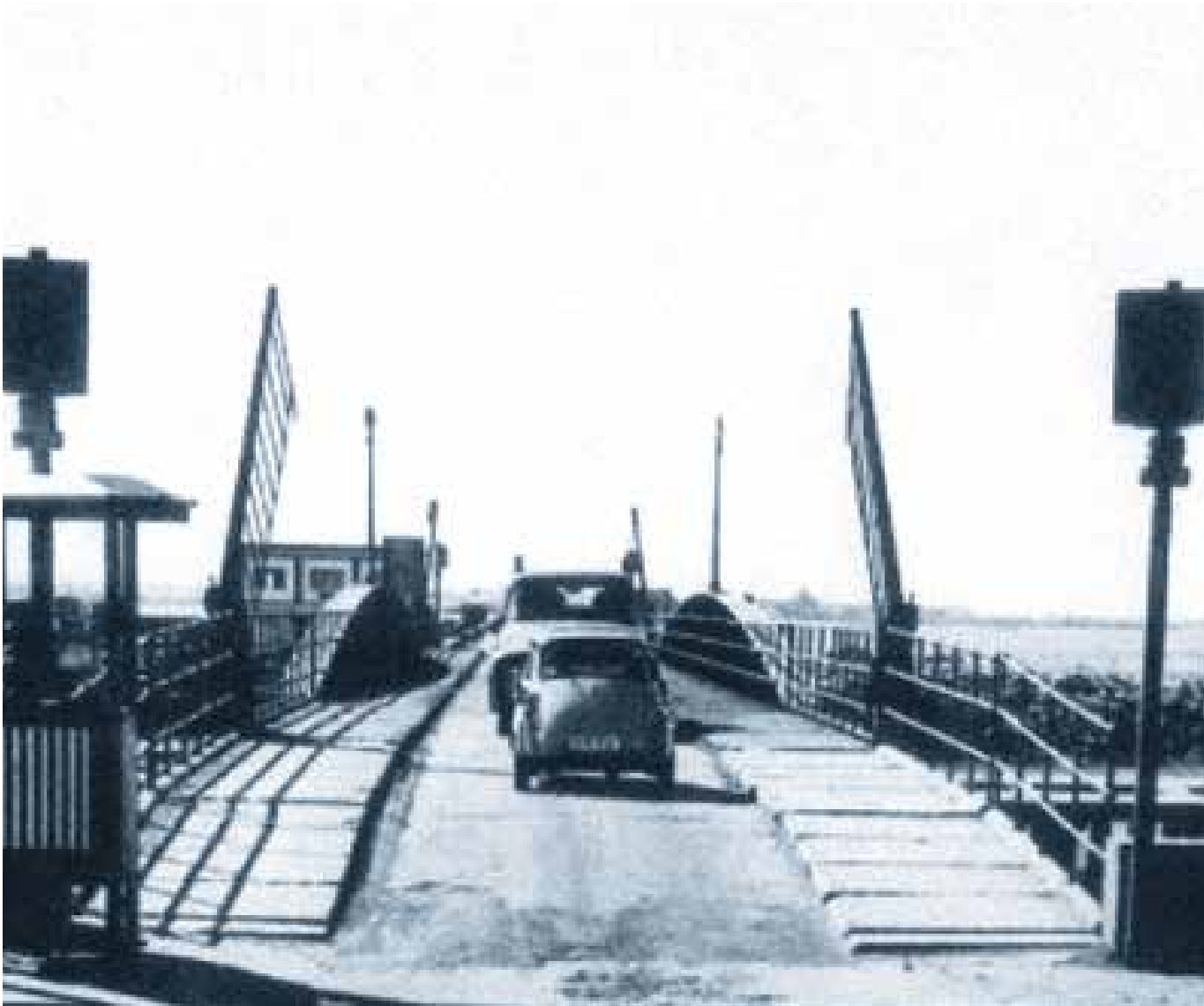
Main Photo
The house of late Sheikh Isa bin Ali Al Khalifa
in Muharraq, where he had his official meetings
with his government representatives

Bahrain's history is deeply embedded in the story of the development of human societies and civilizations extending back over thousands of years, its roots entrenched in the soil and natural geography of the land. The history and what went to create it distinguishes itself from other nations. Thanks to that distinguished history, these scattered islands have gained the name of Pearl of the Gulf. This name was not accidentally given, nor the name Bahrain given arbitrarily. Even at the beginning of the twentieth century, before the discovery of oil in the Arab Gulf region, Bahrain was one of the regional hubs for pearling and shipbuilding, excelling in both at that time. The pearl industry was once the mainstay of the Bahraini economy, at that time an agriculture-based economy, with its traditional models and limited, conventional methods.

In the 1930s, Bahrain held approximately 35% of the Arabian Gulf pearl industry, and its markets retained more than 90% of its trade. According to various credible historical resources, in 1930 workers from the pearling industry amounted to nearly 20,000, indicating the flexibility and accumulation of rich experience, that generated locally grown professional skills, and an attitude of learning and determination to master new and challenging competencies. This is evident in the positive shift in skills and mindset that Bahraini workers were able to quickly adopt, and gain the required qualifications in the days following first, the discovery of oil, and the markets generated by its industry, and then, the trade that flourished on its sidelines in later stages.

In his book, *The Travels in Assyria, Media and Persia*, published in 1829, James Buckingham talks in detail about the pearling industry. This is also subsequently mentioned by the political resident in the Arabian Gulf, John Lorimer, in his book, *Gulf Guide* when he referred to the large ratio of the population in Bahrain occupied in the pearl industry. According to Lorimer, "the industry (i.e. the pearl industry) amounted approximately to 625,933 Sterling Pounds between 1873 and 1874."

The discovery of oil in Bahrain happened much earlier than any of its neighboring Arab countries. The first traces were discovered in the early 1930s and it was accompanied by the takeover of the pearl industry by the artificial pearls created in Japan during the same period.



Sheikh Hamad Bridge connects Muharraq Island with Manama City. It took more than 12 years to finish (1929 – 1941) and played an important role in the flow of trade between the two cities

According to historical sources it was discovered by a poor young Japanese man named Mikimoto who was born in the village of Toba in the Shima District. Working in fishing, pearling, diving, and selling shells, he was 18 when he began his search for an alternate method to make the perfect pearl. His success saw the gradual decline of the natural pearl industry.

In 1929 the Great Depression began and the devastating economic downturn impacted markets worldwide, including the Bahraini market. The repercussions of that financial crisis caused further damage to the pearling industry in Bahrain. By then it constituted only a small percentage of the national income. The Depression affected not only pearling, but also shipbuilding and agriculture, despite its smaller role due to the geographical limitations of the country as well as the limited population on the other hand.

Top Picture
BAPCO's employees were paid their weekly wage in the 50s of last century

Bottom Picture
Eastern Bank Limited, (currently Stanchart) first Head office at Government Road, Manama



Amid all this, the discovery of oil in Bahrain constituted a significant qualitative leap in the Bahraini national income and left a clearly positive impact on the development of the Bahraini economy, while also forming the new social components of Bahrain's society. In addition to the double growth, both horizontal and vertical, the Bahraini middle class became a growing presence in Bahrain's modern and contemporary political development. Parallely, the oil industry also generated the first seeds of a new group of workers attracted by the setting up of the first oil refinery in the Middle East, which can be described as the labor category.

When dealing with the emergence and formation of the Bahraini working class, it is worth noting here that its social and even political behavior were qualitatively different from that of the workers' movement in other industrialized countries, due to the local factors that accompanied its formation, including the tribal roots of the Bahraini society on the one hand, and its mixture with the religious culture and Islamic roots.

The social dimension of the emergence of oil in the Bahraini economy was summarized by the former Minister of Finance and Economy, Mr. Ibrahim Abdul Karim in his study entitled, Bahrain and its Importance among the Arab Emirates, in which he stated, "Although Bahrain was the first to discover oil among the Gulf countries, I consider the beginning of the 1950s to be the real beginning of the economic development Bahrain witnessed, which changed

the composition of the population, both in quantity and quality. This is due to two reasons. The first is that the shape of the economic structure has changed, as the pearl sector has dwindled in the national economy, the agricultural sector has witnessed a kind of stagnation, the oil industry sector has emerged, and the services sector has flourished. The second is introducing the principle of profit sharing to the field of relationships between oil producing countries and companies in the Middle East.”

There are many classifications that attempted to describe a society at that time; some gave it the traditional agricultural character that suddenly transformed towards the industrial society, while others described it as was later known as the “Asian pattern of production.” Perhaps the best description of this economic pattern, after the discovery of oil and its export began at unprecedented commercial rates, is what has been called, “the Rentier State,” which still leaves its marks on the essence of the economic features of the Bahraini pattern of production.



With regard to the early beginning of the banking sector in Bahrain, according to its international standards and professional concept, Philip Dua in his book *The History of Banks in Bahrain*, quoted from Khaled Al-Bassam's book, *Stories from the Gulf*, referring to the subject of opening a small pilot office in Manama, for simple financial transactions, under the management of the British Imperial Bank. This experience did not have the chance it deserved to succeed and continue for many reasons...The question remains, however, why this initiative did not continue? Why did it die while still in the cradle and what are the reasons behind its failure?

Were these reasons purely financial, did they stem from political backgrounds, or were they a combination of both, in varying proportions? These questions need frank and honest answers as they explain many of the developments that took place in the region at that time and reveal the reasons behind the geopolitical formation of the history of the Arab Gulf region.

After that quick end, which some consider “unsuccessful”, and by all the criteria “unfortunate” for that bank, it was not possible for the trade movement in Bahrain, in light of the developments it had experienced and the relationships it had built with global markets, especially the Indian and British ones which were both linked to the British existence in the Arab Gulf region, but to wait for some time to witness the birth of the first bank in the traditional sense.

The financial relationships prevailing in Bahrain at the beginning of the twentieth century were not different from those of other Arab countries, especially the Gulf ones, and the social relationships which in turn were a natural reflection of the pattern of the primitive production confined to the pearl and agricultural industry. At that time, the affluent merchant operated like a “bank” that citizens were depositing their small amounts of money with. Further, citizens even did not hesitate to deposit their precious possessions of jewelry with that merchant. Family and community bonds were the guarantee that regulated that relationship, more than laws or regulations.

The Bahraini businessman Khalid Kanoo referred to in his book *Beit Kanoo*, “As my uncle Ahmed Ali Kanoo told me, the above-mentioned circumstances have given rise to the idea of establishing a well-protected treasury (Tejoori) for safekeeping with Hajj Youssef bin Ahmed Kanoo for the people of Bahrain Island and others. Perhaps it was a coincidence that Hajj Youssef Kanoo started his (banking) services.”

“

The affluent and trusted citizen operated what could be called a bank for people who deposited their money with him for safekeeping.

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Jacques Cartier and Senior Sales Assistant, Morris Richard, with one of the pearl expert of Mokhbul Al-Dakhir at his home on one of his visits to Bahrain

Kanoo added “There are many reasons behind the great demand for Hajj Youssef banking services. Many traders preferred to maintain the traditional commercial methods that they considered to have played their role towards them successfully.”

The second story related to the establishment was told by the Bahraini businessman and Chairman of the Board of Directors of Yousif Al-Moayyed Group, Farouk Yousif Al-Moayyed, which in essence corresponds to what was stated in Khalid Kanoo’s book. Al-Moayyed said during our meeting with him, “If we wanted to record the history of the establishment of banks in Bahrain, then we have to mention that at the beginning of the twentieth century the late Haji Yousif bin Ahmed Kanoo (who is the uncle of my grandfather Khalil Al-Moayyed) was practicing the profession of keeping people’s money, as people, especially Tawawish, and pearl merchants used to deposit their money with him, because of their great confidence in him. He used to keep the sums deposited in a large safe, which is now in the collections of the Bahrain National Museum. This means that he was working as a bank for people who were depositing their money with him. After that, the Eastern Bank Limited appeared.”

His Highness Sheikh Hamad bin Isa bin Ali Al Khalifa opening Bapco refinery plant on December 11, 1937



The first breakthrough, which can be considered the establishment point of the Bahraini banking sector, took place in 1916, when the Eastern Bank Limited officially applied to open a branch in Bahrain, subordinate to its branch in Basra, Iraq. On February 12, 1917, Mr. McVeil the bank's official envoy, arrived in Bahrain and visited the ruler of Bahrain, His Highness Isa bin Ali Al Khalifa to obtain a license to open the bank. However, the ruler did not agree, and the subject was closed until January 1919, when the administration of the Eastern Bank in Basra sent a letter to the British Political Agency in Bahrain, notifying him of their desire to open a branch of the bank in Bahrain. That request was approved, and the bank began operating on July 3, 1920.

There is some contradiction on the date of the official inauguration, with some saying it took place on July 1, 1919, while others say it was on July 3, 1920. Regardless of the accuracy of either of the two dates, the bank opened for business on July 3, 1920. Historical records show that the ruler of Bahrain, His Highness Sheikh Isa bin Ali Al Khalifa took the pioneering steps, laying the foundation stone for Banking in Bahrain. He did not grant the license until after he made sure that Bahrainis are satisfied and would benefit with this step.

It seemed that His Highness Sheikh Isa bin Ali Al Khalifa was keen to grant the license in response to the developments of the commercial movement at the time, and its need for banking system mechanisms, commensurate with its current status.

On this basis, the initial rejection by the ruler of Bahrain at that time, the late His Highness Isa bin Ali Al Khalifa, was not arbitrary, but rather relied on a group of factors, the most important of which was to protect the Bahraini citizen and his interests at that time.

Regardless of all these details, it can be stated that 1919 is the year that witnessed the opening of the first commercial bank in Bahrain, and it is also the date that marks the start of the Bahraini banking sector in its modern and contemporary format. Therefore, it can be considered the day when Bahrainis and residents found a safe modern way to keep their money. Also, the official Bahraini departments found a way to send their money to foreign companies and institutions implementing many projects in the country at that time.

Those who wish to go into the details of the story of the establishment of that bank can refer to many resources dating back to this era, including what the Bahraini businessman Khalid Kanoo recorded in his book, *Beit Kanoo*. Khalid Kanoo tells the story of the Eastern Bank's establishment, "When the representative of the British Eastern Bank Limited applied in 1916 to open a branch in Manama, he did not expect to face any objection, so he was surprised when he received the letter of rejection from the ruler of Bahrain then. When the bank's representative Mr. McVeil met the ruler of Bahrain at that time, His Highness Sheikh Isa bin Ali Al Khalifa in mid-February 1917, the ruler told him that some Bahrain merchants had opposed the idea of establishing an official bank in Bahrain, for fear of getting involved in usury."

In addition, Mr. Yusuf Kano was known as the only banker in Bahrain, and he realized that the opening of any bank to work in Bahrain would affect his business. Then Mr. Bray, the British Political Agent, invited a group of prominent businessmen at that time and explained to them the benefits that they will get from the opening of a commercial bank in Bahrain and assured them that the bank would not undertake any banking transactions in contradiction with their values.

1919 is the year that witnessed the opening of the first commercial bank in Bahrain, and it is also the date that marks the start of the Bahraini banking sector in its modern and contemporary format.

Accordingly, a group of merchants made a petition to His Highness Sheikh Isa bin Ali Al Khalifa, asking him to agree to grant the bank a license to operate in Bahrain. In response to that letter, His Highness Sheikh Isa bin Ali Al Khalifa granted the approval to the bank through a letter signed by him, but it included two conditions.

The first is that the bank shall respect the laws of the country. The second is that the bank shall not offer large loans to Bahrainis without obtaining His Highness' prior approval. The story is a clear indication of the nature of the relationship between the Bahraini citizen and the ruling authority, which can best be described as open and transparent. This situation, though simple, is also an indication of the ruler's keenness to defend the sovereignty of his country, no matter how small its size is, before an institution which belongs to a superpower at the time, such as Britain.

When the bank received the approval letter from His Highness, it deemed it best to hurry to lay the foundation stone and conduct its business, but, as Philip Dew says in the book entitled History of Banks in Bahrain, it found itself facing two problems that forced it to wait, and thus delayed the opening of the branch. The first is that the bank was unable to obtain the local or resident employees necessary to manage the new bank from its branch in Bombay, India, as the bank was keen to have exemplary employees, in order to avoid any negative consequences that may have an effect on the activities of the bank at a later time.

The second was the Indian currency, which was then in use in the financial transactions, and the need to provide it in quantities that met the branch's needs in Bahrain. The paper currency of the Indian rupee was available, but customers and people in Bahrain preferred to have the coin currency which the Indian government prevented from leaving the Indian market. It therefore took some time until the bank was able to open its branch in Bahrain and start its business on July 3, 1920. This meant that while the bank was entitled to conduct its business in 1919, regardless of the delay it sometimes willingly accepted or was forced to at other times.

In an interview with the first Governor of the Bahrain Monetary Agency and former Minister of Finance and National Economy, Abdullah Hassan Saif, he discussed the emergence of the banking profession in Bahrain saying, "At the beginning of the twentieth century, the main source of income to the state was represented in the pearl sector as Bahrain used to extract and of course export it abroad.

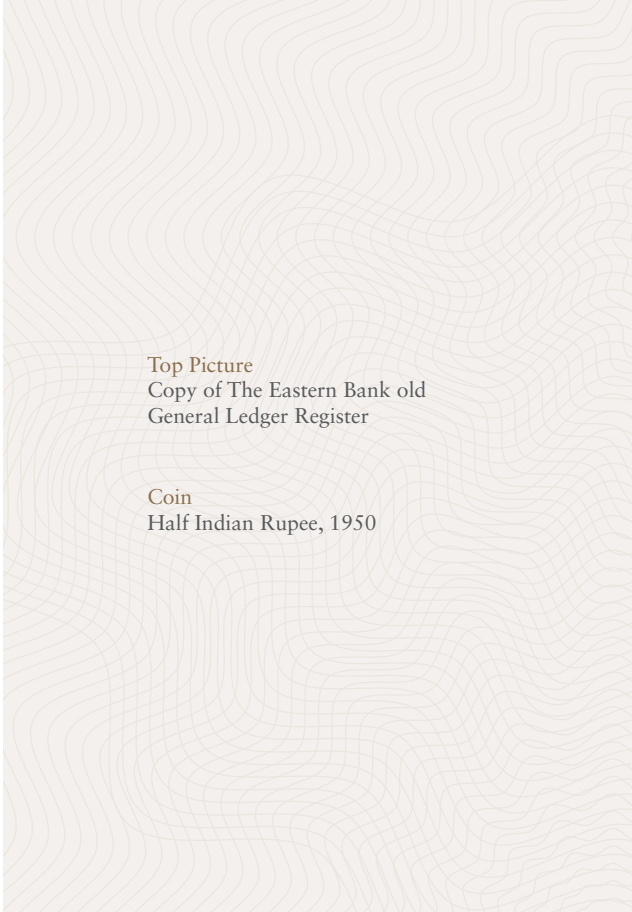
“

Sheikh Isa bin Ali Al Khalifa granted approval in 1918 to establish the first foreign bank, Eastern Bank Limited.

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Top Picture
Copy of The Eastern Bank old
General Ledger Register

Coin
Half Indian Rupee, 1950



“Since the financing system is one of the most important factors in commercial success, His Highness Sheikh Isa bin Ali Al Khalifa, the ruler of Bahrain at the time, with his wisdom and insight, issued his sublime order to establish the first foreign bank, the Eastern Bank Limited on Dhu al-Qi’dah 3, 1336 AH, corresponding to August 11, 1918. The most important condition in the license of the bank was that if any dispute arises between the bank and a customer, it must be heard by the courts of the country, and according to the rule of law in the country.

There is no doubt that behind the breakthrough of the Bahraini banking sector, lay many challenges, some of which were not purely financial. Some of the Bahrain merchants opposed the idea of opening a branch of the Eastern Bank as an ideological challenge, with the strong connection between banking and usury. Avoiding the practice of usury through traditional banking activities may have led to the search for another modern but more acceptable style of banking, the result of which was the establishment of “Islamic banking transactions,” in the various financial activities, including in banking.

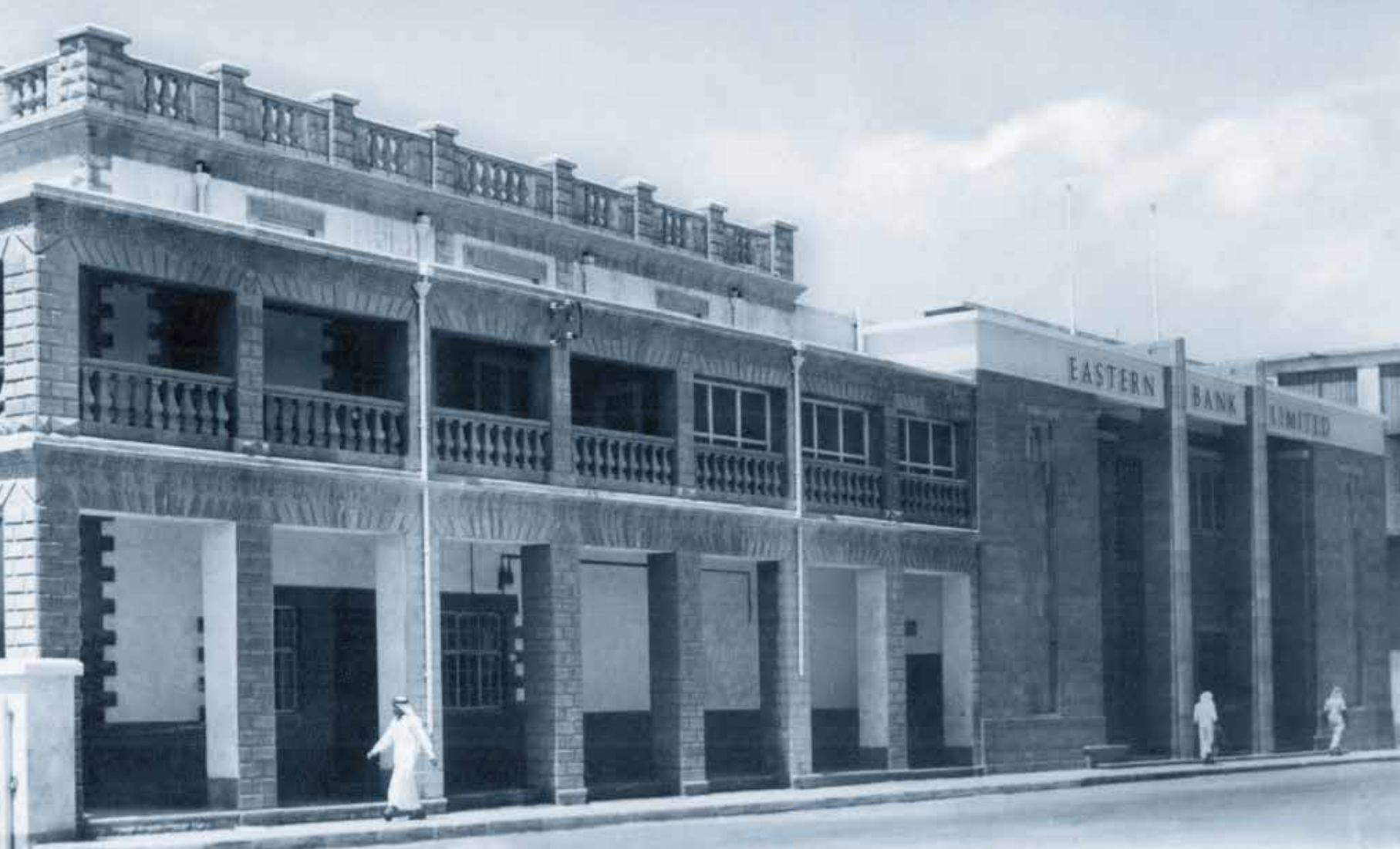
It must be admitted here that although the Bahraini market is small compared to the adjacent Gulf markets, and that Bahrain as a country does not have an internationally recognized Islamic center such as Mecca in Saudi Arabia, or Al-Azhar in Egypt, Bahrain succeeded in achieving a global landmark in terms of establishing Islamic financial work, particularly Islamic banks, as recognized today in the international financial markets.

Therefore, it must be emphasized here that chance alone would not have led Bahrain to the Islamic financial sector, and that Bahrain became a prominent financial center for Islamic banks especially those larger ones. The breakthrough of banking work, in its contemporary format enabled it as a country to be the first incubator for spawning the Islamic banking sector.

Regarding the same subject, Abdullah Saif adds, “The banking industry in Bahrain has been divided into three articulated axes; retail banking, wholesale banking, and investment banking,” He added more details about wholesale banking as he said, “The Gulf region has witnessed an increase in oil demand which led to abundant revenues in oil-exporting countries. This was a cause to find a way to circulate the abundant liquidity and create new banking channels to invest this liquidity in. The Bahrain Monetary Agency realized, then, and at an early stage in the life of that abundance of liquidity, the necessity of having a number of international banks that have the financial ability and the professional experience qualified to meet this urgent need. Therefore, an administrative and supervisory organization was created to authorize the establishment of banks in Bahrain to play the role of crediting and lending. The success achieved by Bahrain would not have been realized without the insightful leadership and responsive people.”

“
It must be emphasized here that chance alone would not have led Bahrain to become an Islamic banking centre.
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Within the scope of the establishment and breakthrough period, one of the first employees who joined the Eastern Bank, Abdullah Abu Al-Fateh, tells us about his personal experience as follows: “I was working in the Traffic Department as an inspector, and at that time I was writing reports about car accidents to present them to the police. A friend of mine advised me to seek to join the Eastern Bank Limited (Standard Chartered Bank now). When I started work, there was a group of twelve employees, eight of whom were Bahraini Jews, and four were foreigners. I was asked to hire more

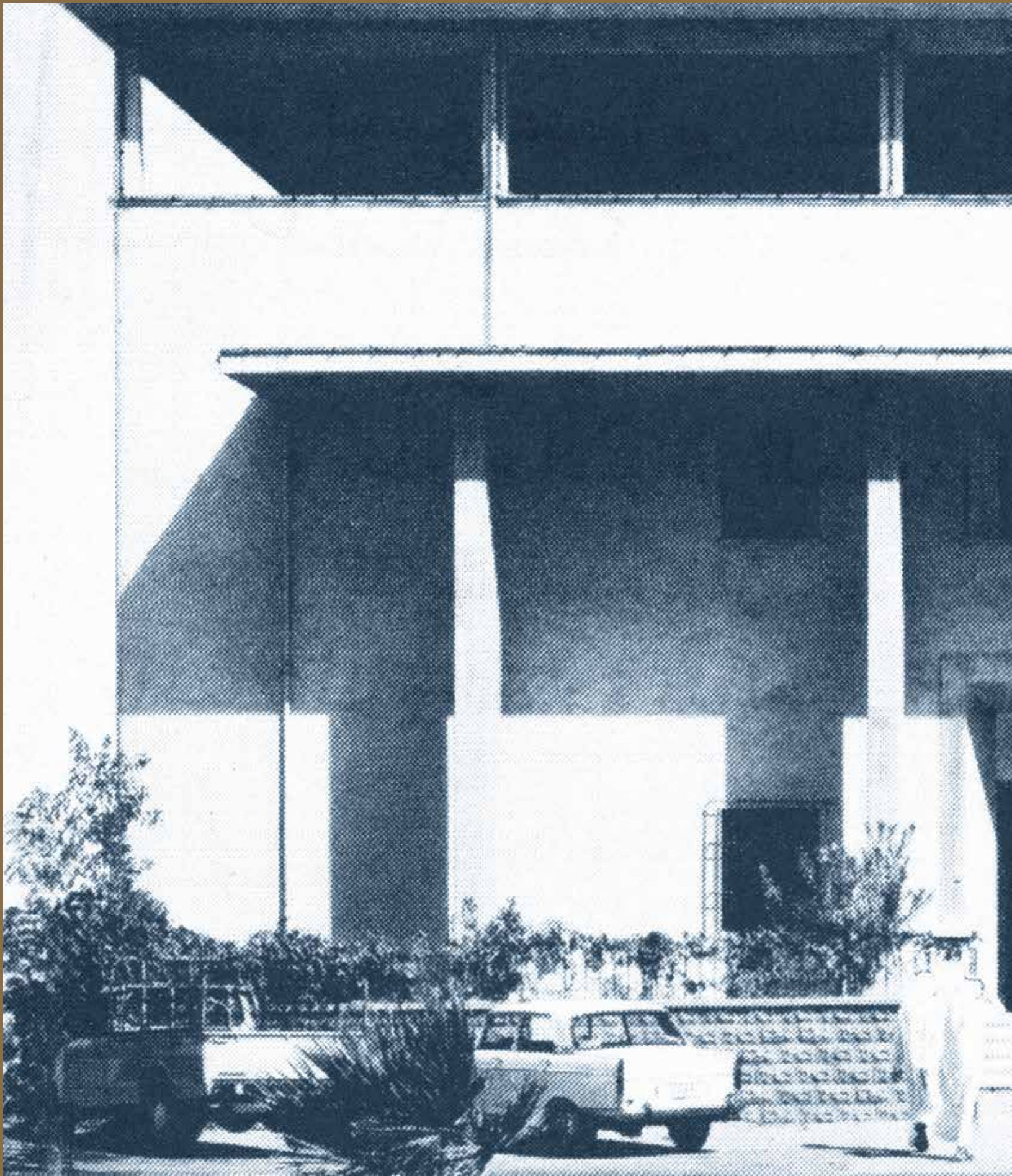


The building of the Eastern Bank Limited in the 1940s, where the bank's current headquarters lies

employees. This was in 1957 and there were only the Eastern Bank, the British Bank of the Middle East, and the Bank of Bahrain which after a while became the National Bank of Bahrain. In two years, I was able to employ 120 Bahrainis. After that, the bank's business expanded and it had clients such as government bodies, the Emiri Diwan, some members of the royal family and most of the merchants in Bahrain. The competition between us and the British Bank was natural, logical and intense at the same time."

When we asked Abu Al-Fateh if there were Bahraini female employees, he answered, "Yes, there were two female employees, but I do not remember their names now."

It is well known fact further confirmed through personal recollections, that Bahraini women were involved in working in the banking sector in an early stage of the second decade of the first half of the twentieth century, and that financial institutions, were among the first employers of female staff.



The first headquarters of Bahrain Bank in Government Avenue







Chapter 3

Deliberate Steps to Create a Unique Establishment



Coin

Memorial Issue 1424 – 21 H (2004) for
Commemoration of Great Rulers of Bahrain

Main Photo

Sheikh Abdullah Road in Manama with the market
at the beginnings of twentieth century - and it was
one of the important markets in Bahrain and at the
end of which the covered market can be seen

As we have mentioned earlier, the ruler of Bahrain at the time, His Highness Sheikh Isa bin Ali Al Khalifa, planted the first seeds of the banking sector in Bahrain, opening the branch of the Eastern Bank Limited in 1919. Undoubtedly a bold and progressive step, it is significant in the historical context for having succeeded in opening the horizons of business and financial transactions in an unprecedented step in the region at the time. While Bahraini merchants were cautious when dealing with that newcomer seeking at first to promote the simple and direct traditional banking services that had been the practice until then.

Banking transactions at that time, and in the early period of the establishment of the banking sector in Bahrain, also did not go beyond simple procedures such as opening current accounts and accepting personal deposits. Progress came slowly; over time the bank developed its services gradually and carefully to offering loans and uncomplicated commercial banking facilities to local institutions, which were also finding their way towards shifting their commercial activities from simple forms to more complex ones. This gradual shift allowed local institutions to conduct their business through an institution that facilitated their transactions with global financial and business markets.

However, the Bahraini market had to wait nearly a quarter of a century from the opening of the Eastern Bank branch, before another bank, the British Bank for the Middle East, (today known as HSBC) applied to open a branch in Bahrain in 1944. The bank obtained its license, during the reign of His Highness, the late Sheikh Salman bin Hamad Al Khalifa, who made no objection and was in fact, keen to remove any obstacles that would delay the branch's activities.

Unlike the opposition that faced the opening of the first bank, the Bahraini commercial sector, welcomed the new addition. Having gone through the process once earlier and having experienced first-hand what could be accomplished using the facilities provided by banking transactions to enable the commercial movement to succeed, especially the import and export movement, the reaction was not unexpected, reflecting on the stage of development that the Bahraini commercial movement had reached at that time and its level of professionalism and commercial maturity.

The younger contemporary generations, who today engage the more complicated and bigger procedures without a hesitation are often surprised



Head office of BBME in 1965 with customers and other citizens awaiting to exchange their then Indian Rupee Currency with the newly issued Bahrain Dinar

two banks, perhaps seeing no justification for that delay, but, the fact is that due diligence done at the time and the careful balance achieved taking all parameters into consideration created a distinctive establishment based on strong and coherent pillars.

In evaluating the developments that took place 100 years ago, one should take into account three basic elements that have governed that development and charted its steps. The first is the level of commercial development that Bahraini society reached at the time, with life patterns that were still simple and basic, without the need for any complicated form of financial exchanges, confined as it was mainly to transactions at the local market, and with a very limited number of people practicing trade. The second was the slow and organic pace of human progress at that time, with no urgent events that served as accelerators to the pace. The third reason could be that communication and transport between countries and peoples of the world were still in their very early stages and had not yet reached anywhere near what it is today, in terms of speed, performance, developments in services, and diversity in products.

pushing to establish a banking sector that would respond to the new needs of the residents in Bahrain Islands, both the locals and expatriates.

Three developments that were relatively simultaneous playing a positive role in developing the performance of the Bahraini banking market and promoting the quality of its outcomes. The first was the relative vitality of the banking sector by that time, which was compatible with needs arising from the discovery of oil, along with the start of the construction of Sheikh Hamad Bridge, which took over 12 years to finish (1929 - 1941), and connected the two largest islands in the Bahrain archipelago; Manama and Muharraq. These developments came together, and the results led to rapid changes that the Bahraini banking sector was able to support fully while the changes in turn, served to fuel its own growth.

Despite its short distance that did not exceed a mile, this bridge played an important role as it contributed to accelerating the traffic flow between the two islands. It also contributed to the prosperity of the local market that provided the two new banks with the cash they desperately needed.

Objectively viewed, it can be seen how all this had a social impact, one immediate effect was the improvement of education facilities. Khadija Al-Kubra School for Girls was opened in Muharraq in 1928. The setting up of schools began at a relatively early stage in Bahrain, as the first formal school for boys was opened in 1919. Bahrain's early understanding of the importance of education was a huge stepping-stone for progress, it created a labor force of both males and females that were skilled and eager to work, and with the establishment of the banking sector, the timing of events could not have been better planned.

All of these efforts succeeded in forming a distinguished professional banking vanguard, which undertook, often spontaneously, to establish local banking awareness, albeit in smaller circles. The result was a growing domestic need for a reliable national bank, able to compete with foreign banks through the services it provides.

We are now approaching the end of the first stage in the history of the Bahraini banking sector, which could be described as the foundation stage. In 1942, His Highness Sheikh Salman bin Hamad Al Khalifa acceded the throne of the Kingdom and took the reins of power.

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Bahrain found itself, automatically, in need of an incubator able to deal with that liquidity creatively. At the time, there were no better means than the banking channels.


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His Highness late Sheikh
Salman bin Isa Al Khalifa
opening the branch of Arab
Bank Jordan Limited in 1960



The writer Youssef Salah El Din gave a vivid and interesting description of the situation in that period, with its final years coinciding with the intensification of the Second World War. In a lengthy and informative lecture which the Bahraini newspaper, Gulf Daily News quoted from, “Thanks to Allah Almighty and then to His Highness late Sheikh Hamad bin Isa bin Ali Al Khalifa, the ruler of Bahrain at that time, His Highness late Sheikh Salman bin Hamad Al Khalifa, the adviser to the Government of Bahrain Charles Belgrave that Bahrain could overcome this serious ordeal. The British authorities provided some goods and food supplies after subjecting them to the system of rationing and distributing them with cards. Some merchants contributed with their money and food supplies which they provided to the needy. However, some merchants benefited from the ordeal by monopolizing the goods and making wealth out of which and were called “war profiteers”.

Once again, we discover that Bahrain’s strategic location, the early discovery of oil in its lands, and its openness to other civilizations, made it a country, that though small in size, was at the heart of global developments. This does not mean that Bahrain did not suffer from the horrors of World War II, as the British Empire had a military presence on the Bahraini lands at that time. What made matters worse was that the War was accompanied by the worsening crisis generated by the Great Depression. This came also at the same time as the decline of the pearling industry and the accompanying trade, which had been the backbone of the Bahraini economy until that stage.



Bahrain had to withstand much to overcome the effects of the Second World War, which finally ended in 1945. However, it is a known fact that the start of Bahrain's development over again, and its transformation from a society based on a traditional economy to a relatively contemporary one, began during the era of His Highness Sheikh Salman bin Hamad Al Khalifa. During this era Bahrain prospered and slowly gained a great deal of liberalization. The national economy grew, more modern schools and hospitals were established, and literary output flourished. A press and literary movement were established and resulted in the issue of both daily and monthly newspapers.

Parallelly, Bahrain's citizens responding to these developments rushed to send their children, both boys and girls, to modern schools, and many enrolled them in universities abroad, especially Arabic ones in Lebanon, Egypt, Iraq and Syria.

The state also provided support to the Bahraini students at the distinguished American University of Beirut. The degree-holders of this university formed a high percentage of the first ministerial council in Bahrain in the early 1970s, after Bahrain gained its independence.

One of the unfortunate events during that period was the death of His Highness Sheikh Hamad bin Ali Al Khalifa, who was then succeeded by his son His Highness Sheikh Salman bin Hamad Al Khalifa. During the rule of His Highness Sheikh Salman, the country witnessed continuous and rapid steps on the path of progress, which in essence created the structure and pillars of the Bahraini banking sector.

The pace of progress was especially felt in the evolution of the banking sector, both in the number and nature of the services provided. During the era of His Highness Sheikh Salman bin Hamad Al Khalifa, the number of banks operating in the country amounted to four; namely the Eastern Bank, the British Bank of the Middle East, the Bank of Bahrain (later, the National Bank of Bahrain), and the Arab Bank Ltd. (Jordan). However, one of the most important turning points in the history of banking in Bahrain was the establishment of the first Bahraini bank. The range of services that banks were providing expanded to include more advanced services other than simple deposits, loans and the simple banking facilities that prevailed before His Highness Sheikh Salman took the reins of power.

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Bahrain's strategic location, its early discovery of oil and its openness to other civilizations, all combined to make it a country, that though small in size, was at the heart of global developments.

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With regard to the increase in the number of foreign banks operating in Bahrain at that time, it would have been five, if a license was given to the “Indochine” Bank (IndoChina Bank), as the late Ahmad Muhammad Al-Asiri stated in an interview with, Gulf News, “In 1948, I formed a commercial company with Muhammad Jalal and Youssef Al-Obaidli and in a later period, our company became the representative in Bahrain of a French bank called the (Indochine) or the (IndoChina Bank), which was the first bank to open in the eastern region of the Kingdom of Saudi Arabia. The bank tried to open a branch in Bahrain, but it failed. If it had succeeded, it would have become the third bank after the Eastern Bank and the British Bank.”

Another story chronicling the roots of the banking sector in Bahrain is told by those who have experienced the development of the Bahraini financial market in the 1940 and 1950s, but it is not very different in the essence and method of its performance. Businessman Ali Yusef Al-Obaidly recounted one of his memories with his late father, Yusef Al-Obaidly, who, due to his relative mastery of the English language, learned during a short period of study at the American University of Beirut, succeeded in building a financial transaction relationship with the American Consulate in the eastern region of the Kingdom of Saudi Arabia that was limited to exchanging and transferring the salaries of the American Consulate employees to the United States. He was assisted by his late sister’s husband, Ahmed Al-Asiri.

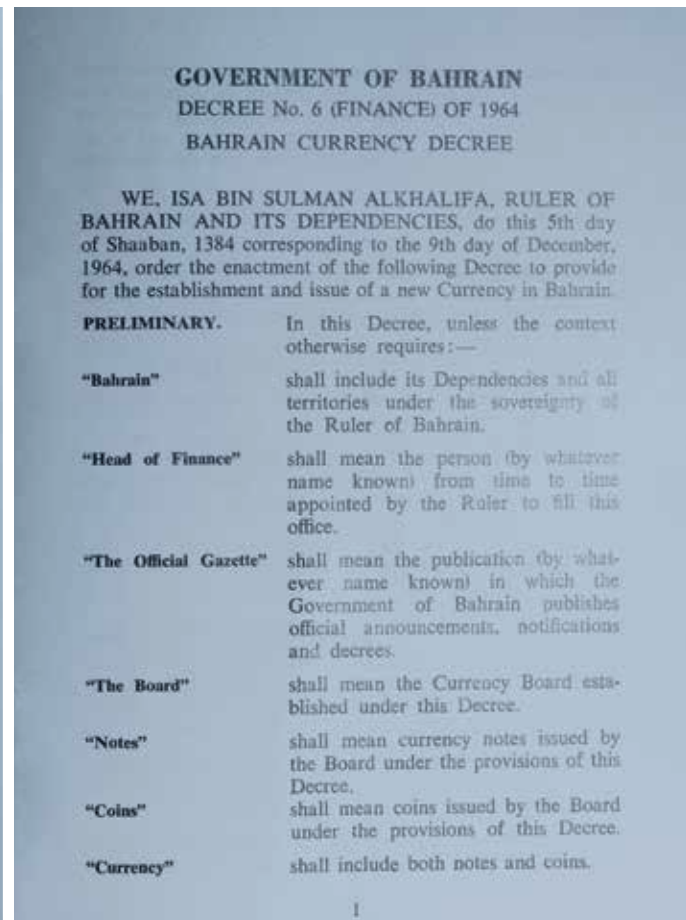
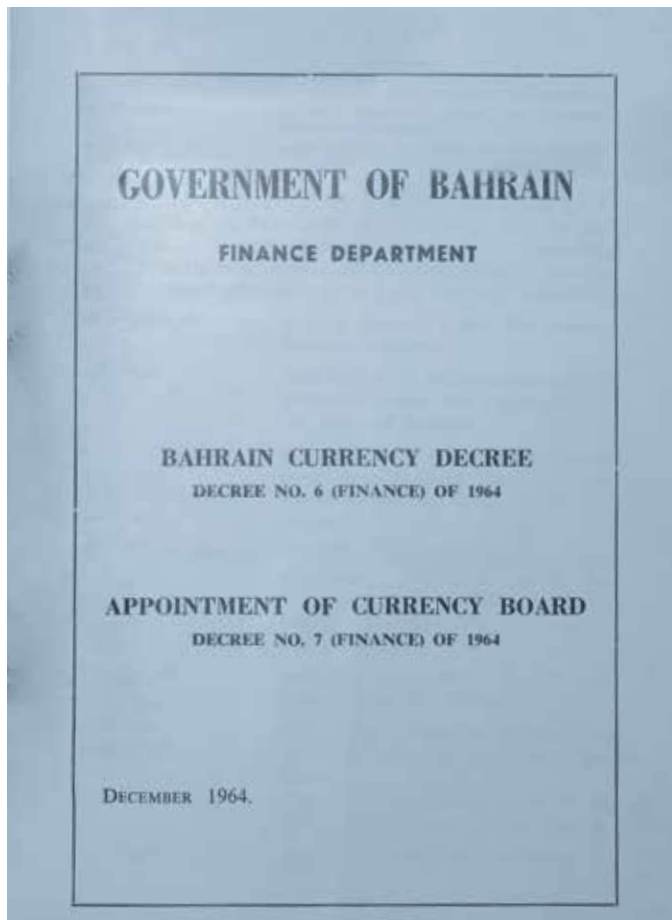
These and other stories, are mere attempts to date the beginnings of the Bahraini banking sector and talk only about an embryonic form of banking work, created by the need to conduct business which was also in its primitive stages. Despite their historical importance, these trials did not reach, even at their best, the traditional form of banking in its modern model, with all the complications it required, and even imposed by the development of the commercial movement in other human societies, in particular European ones. The banking sector, which was at its beginning, was a natural response to the outcomes of the industrial revolution in those societies, and the financial and banking transactions that accompanied it, and that exceeded the financial activities of the local parties involved in it, which would have generated financial services that regulate the evolving relationships between local markets, including the Bahraini, and the international ones far from it.

In essence, these stories reveal two important issues related to the behavior of the Bahraini citizen, even in the late periods of Bahrain’s contemporary

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The financial activities between local players had exceeded the norm, which lead to a need to develop relationships and financial services within the local markets.

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Decree No. (7) of 1964 issued by the government of the Kingdom of Bahrain for appointing the members of the Bahrain Currency Board

history. The first is that the Bahraini citizen has an instinctive willingness to take calculated risks. Thanks to that trait, he does not hesitate to accept what is new as he has something of a challenge within him. The second is his refusal to limit his professional or commercial activity within the narrow surroundings of his islands, and his readiness to migrate to improve his living conditions or leave no path unexplored in search of another source of income.

As for the establishment of the National Bank of Bahrain, the former Minister of Finance and National Economy, Ibrahim Abdul Karim Muhammad, indicated in an interview that, “Mr. Ali Ahmed Kanoo was the head of the board of directors of the National Bank of Bahrain and the late Minister of Finance Mahmoud Al-Alawi was one of the members of its Board, representing the government’s share in the bank.”

Abdul Karim added, “When I succeeded the late Mr. Mahmoud on the bank’s board of directors, I found that among the owners of the bank was the British Bank of Grindlays with a share of 25% of the capital, in addition to Indian and Saudi owners. Since the aim of the establishment of the bank was and is still, to be patriotic, the name was created as National Bank of Bahrain, and its ownership was limited to the State and Bahraini institutions and individuals.

Top Picture

His Highness late Ruler of Bahrain Shaikh Salman bin Hamad Al Khalifa receiving officials of British Bank of the Middle East in the late fifties of the twentieth century

Bottom Picture

His Royal Highness Prince Khalifa bin Salman Al Khalifa, the Prime Minister in a visit to the offices of Arab Bank - in early sixties of twentieth century



The establishment of the National Bank of Bahrain is a very important milestone in the emergence of the banking sector in Bahrain, and the development it has witnessed. The establishment of the bank, and the parties that called for its establishment, and subsequently subscribed to its shares, together achieved a milestone and a significant step forward towards the contribution of the local commercial sector to the activities of the Bahraini banking sector, directly, and independently of its foreign counterparts.

In parallel, this expressed a set of transformations that have begun to formulate in the imagination of the Bahraini commercial sector, especially in the minds of the top echelons with the growing maturity and nationalistic sensibility of that group of society, as they began to realize what foreign banks were doing. Regardless of the level and quality of the services provided at that time, in terms of the rights of citizens, these banks were getting the lion's share from the financial returns. The services provided by foreign banks were channels for the depletion of the national capital, on the one hand, and for achieving the highest profits for foreigners from the domestic market, on the other hand.

The second of these transformations was related to the cash liquidity that was in the hands of a considerable percentage of the Bahraini merchants, thanks to the revival of the commercial movement generated by the discovery of oil and exporting it in commercial quantities. The third of these transformations was the exit from the economic crises generated by the Great Depression in

the 1930s and made worse by the repercussions of the Second World War until 1945. The fourth of these transformations is the spread of modern education among the middle class of Bahraini society, with their nationalistic ideas which called for the development of the national economy.

Talking once again about the establishment of the National Bank of Bahrain, the Bahraini businessman Farouk Al-Moayyed described the steps as follows, “The first local bank was The National Bank of Bahrain, when a meeting that comprised of ten merchants from the richest families in Bahrain, including Khalid Kanoo, Ahmed Kanoo, Youssef Al-Moayyed, Ahmed Fakhro, and Youssef Akbar, was held. These merchants applied for a license to establish a bank, to Charles Belgrave, then known as the (Adviser) who refused the request without stating any reasons. However, Belgrave’s subsequent actions showed that he did not want the Bahraini economy to get freed from the British financial influence at that time.”



Top Picture

The visit of His Highness the late Sheikh Isa bin Salman Al Khalifa, his brother His Royal Highness Prime Minister Prince Khalifa bin Salman Al Khalifa and Sheikh Mohammad bin Salman Al Khalifa to the headquarters of Eastern Bank Limited

Bottom Picture

Customers and Citizens awaiting the opening of the Bank of Bahrain's doors for business to subscribe in the shares of the bank as the bank's changed its name to National Bank of Bahrain - in 1973



At that historic moment, His Highness the late Sheikh Salman bin Hamad Al Khalifa directly interfered, and agreed to give the license, and was keen that the opening shall take place as soon as possible.

Al-Moayyed added, “The oil boom took place in the 1970s, when oil prices jumped from US\$3 to US\$30 per barrel, and maybe a little higher. It must be recognized here that the National Bank of Bahrain was not prepared for that boom, and the agreement held with Grindlays Bank did not help it to do so (the bank, at its beginning, had entered into a technical agreement with the Ottoman Bank, the name of which was later changed to Grindlays Bank and the agreement was terminated in 1966/1968), due to a financial problem that the bank was facing as a result of lending to some companies, including Viking, which was building housing projects and became bankrupt and was unable to pay back its debts to the bank. The agreement with the Grindlays Bank was terminated, and the government quickly supported the bank and offered it loans until it was able to rise again to become the largest bank in Bahrain. Then, other local banks were established, such as Bank of Bahrain and Kuwait that was established in 1971 and the Al ahli Commercial Bank that was established in the early 1970s.

The late Ahmed Al-Asiri, who was the second Bahraini employee at the National Bank of Bahrain, has another story about the establishment of the bank. In the same interview with Gulf News, Al-Asiri said, “Muhammad Jalal adopted the idea, and to the best of my knowledge, some of the

small merchants at that time headed by Muhammad Jalal, have called for establishing the Bank of Bahrain. They have also contacted a number of big merchants at that time like Youssef Akbar Ali Rida, Hussein Yateem, Youssef Khalil Al-Moayyed, Ahmed Ali Kanoo and others. They formed the Establishment committee until the idea of opening the bank developed into practical steps. It was agreed that the bank's paid-up capital would be 5 million rupees, of which 75% would be allocated for Bahrainis and 25% for foreigners. The law stipulated that subscription to the bank's shares shall be open for a period of one month. If the shares were not covered during this period, the amounts subscribed would be returned to their owners."

Al-Asiri continues recalling, "When the month ended, the surprising result was that foreigners covered the percentage allocated to them four times, while the Bahrainis did not cover half of the shares allocated to them. Among the foreign subscribers were the Eastern Bank, the British Bank and the Ottoman Bank in London, and a number of members of foreign communities in Bahrain.



At that time, I had already assumed my responsibility as Secretary of the Establishment Committee, so, accompanied by the English manager of the bank who had started assuming his responsibilities before me and his name was Sparks, I headed to meet His Highness the late Sheikh Salman bin Hamad Al Khalifa, the ruler of Bahrain, to explain the crisis of subscription to His Highness. When we finished, he asked, “What do you propose now?”

The manager replied, “We propose Your Highness to cover the remaining shares to establish the bank so that the project can succeed.”

His Highness replied, “We can do this, but it was not our goal when we granted the license for the establishment of this bank as our policy is based on the fact that this bank is for the people of Bahrain, and the people of Bahrain should assume covering its shares and establishing it.”

When we explained that Bahraini subscribers were unable to cover the shares, he asked to meet the members of the Establishment Committee. When they attended, His Highness explained to them the importance of establishing the bank, the necessity of the success of the establishment project and the responsibility that they have in order to achieve this. As a result, most of them increased the share of their subscription in the capital until the whole shares were covered.”

As for the role of Bahrainis in managing the bank, Al-Asiri says, “Efficient Bahraini cadres took over the leadership of the bank, and began to establish systems and follow modern scientific methods in running the bank’s affairs and in drawing up the present and future policy to elevate the status of the National Bank of Bahrain, and making it the bank that provides the latest and best services to Bahraini citizens and its customers as well as representing in the best manner Bahrain in the regional and international fields.”

Talking about the National Bank of Bahrain, Bahraini banker, Nouredin Nouredine, started by saying: “With regard to the path of the banking sector, and before the establishment of the Bahrain monetary agency, it is worth noting that dealing with some central banking transactions such as receiving cash from banks, availing cash these banks need, receiving the amounts of the bank reserves, as well as the entire process of clearing checks between commercial banks in Bahrain work all done by and through the National Bank of Bahrain. Before the establishment of this national bank, these transactions were carried out by the Eastern Bank Limited (presently

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Efficient Bahraini cadres took charge as the leadership of the Bahrain Bank and began to establish systems and follow modern scientific methods in running the banks affairs.

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Standard Chartered Bank). This role assigned to the bank was assumed by the Bahrain Monetary Agency. This was better, as it was necessary and also logical, to assign all central-level banking transactions in this sector to this new authority.”

Noureddin continues, “The Ministry of Finance also assumed some other transactions of the central bank, including receiving the state’s revenues, making payments on behalf of the government, and controlling the money supply and the capital markets by changing the money supply and interest rates being the body in charge of the cash (domestic and foreign) as well as acting as the government’s advisor on all monetary affairs.

Noureddine adds, “In addition to the functions mentioned above, the Bahrain Monetary Agency gradually exercised the role of regulating the operations of all banks, and at a later stage all insurance companies. It was also charged to issue bank licenses to the new offshore banking units (OBUs), as well as to all other banking institutions wishing to operate from Bahrain.”

When we met him, former CEO of the National Bank of Bahrain, Hassan Ali Jumaa, elaborated on the distinguished role played by the bank in the path of the financial and banking sector in the Bahraini markets, focusing on attempts to merge with, or acquire other banks, saying, “There were attempts to merge with others banks in Bahrain and in the Gulf States, but they did not succeed. After completing the other central tasks assigned to the bank, we began expanding in branches to the bank, automation and ATMs. Then, we began focusing on qualifying Bahraini human resources through training programs as we used to choose a group of distinguished graduates from high schools and send them to the University of Bahrain to continue university studies and employ them after they completed the training or study period. In addition, we were encouraging them to work for us in the summer period. This demonstrates that the bank was keen on training the Bahrainis and that it used to employ and train graduates. After some years, a high percentage of them held distinguished administrative positions, and thanks to this wise policy, the percentage of Bahrainisation increased to reach nearly 95%. The bank permanently achieved profits and was distributing annual profits for shareholders, despite the difficult economic conditions in some years. This was the result of appropriate strategies we were implementing, including studying the risks related to the activity and how to manage them.”

Shedding light on its accomplishments, the former CEO of National Bank of Bahrain, Abdul Razzaq Hassan Al Qasim shared what Hassan Jumaa reported, “One of the contributions of the National Bank of Bahrain regarding the social aspect is that at the time of the crisis of the invasion of Kuwait, the bank forgave some of the borrowers’ premiums.

Top Picture

The first issue of Bahraini dinar in 1965 to replace the Indian rupee being exchanged at the offices of Bahrain Bank

Bottom Picture

Employees of British Bank of the Middle East counting the new issued Bahraini Dinar (1965) instead of Indian Rupee



Also, the bank was the only bank to allocate 5% annually from its profits for social work. In terms of employee training, all employees were entitled to training courses. In addition, the bank used to choose a group of students, who were about to graduate from the university, every year for summer work at the bank, and employ them when they finish their university studies.”

This equation, which can be described as smart professionalism, built the society that Bahrain was looking for in order to be able to receive the newcomers and to develop them. This led, during the period from 1942 to 1961, to the success of Bahrain in preparing itself as a modern country and its economy as a developed banking platform in order to be able to establish a national bank jointly owned by both the state and the private sector, in order to enhance the role of the state in the national economy on the one hand, and highlight the contributions of local commercial enterprises representing the private sector on the other hand. All this was done in order to motivate and attract a distinguished and successful group from regional and international banks, to carry out their regional and sometimes global activities from the Bahrain market.

The response came from a group of distinguished international commercial banks, including a number of commercial banks such as Habib Bank Limited of Pakistan 1968, Rafidain Bank of Iraq 1969, First City Bank of America 1969, Iran Melli bank 1970, Cairo Bank of Egypt 1970 and Paribas Bank of France 1970.

To understand the reality of the banking sector during that time, we met Mr. Rashid Al Dhaen, the former commercial director of the British Bank for the Middle East, currently HSBC. We travelled a long professional journey with him, sharing his rich memories and stellar achievements. Talking about joining the bank in 1953, he recalls, “At the beginning, I attended a training course with Bapco and I graduated successfully. Then, I was offered a job with Bapco with a monthly salary of 150 rupees (approximately 15 Bahraini dinars), but I asked them to wait until I consult my father who was getting a salary of 80 rupees only. I initially did not expect that my father would approve because I was going to arrive late in the evening. When I discussed the matter with my father and told him that the salary is 150 rupees he agreed and advised me to join the company. For some reason which was not clear to me, I did not work for Bapco. Maybe, I wanted to try somewhere else, so I started looking for a job at a bank. One day, I went to the telecom company, which was then known as Cable & Wireless, but they asked me to wait until they contact me.”



Top Picture

The arrival of the procession of the Prime Minister, His Royal Highness Prince Khalifa bin Salman Al Khalifa, to Tujjar Avenue to inaugurate the Bank of Bahrain and Kuwait in 1972

Bottom Picture

A talk between the Prime Minister His Royal Highness Prince Khalifa bin Salman Al Khalifa and the Chairman of the Board of Directors of the Bank of Bahrain and Kuwait, Mr. Rashid bin Abdul Rahman Al Zayani at the opening ceremony



Al-Dhaen goes on recalling his memories, “While I was walking in the Manama market in search of a job, a friend of mine met me accidentally, and it was a bit of a coincidence, near the current “Yateem Complex”. This friend was a player in Al Hilal Club in Muharraq, and an employee at the British Bank. When he asked me, “What are you doing here?” I answered immediately, without thinking, “I am looking for a job”. His reply was encouraging as he said, “I have a job for you in the British Bank of the Middle East.” I then asked him “Are you still playing football?” He replied, “Yes and I play with Al-Nahda Club (currently Bahrain Club in Muharraq). This friend took me directly to a bank official, and he told him “We found an excellent player”. The official replied, “Tonight we have an important match with the Eastern Bank, play with us and if we beat them, you will be employed tomorrow. I played that match, and I scored two goals. The British Bank beat the Eastern Bank, and I won the job. That victory was the reason for my employment with the bank. I started work in the mail section, and then I was promoted to a media official. In the end, I held the position of the commercial manager, and I stayed in that position until I retired in 1988.”

Al-Dhaen indicated that the competition at the time was severe between the British Bank and the Eastern Bank because of the small market on the one hand, and the limited number of merchants active in the market, on the other hand. However, this competition did not involve the employees of either bank, whose relationships were always cordial.

In 1961, the country suffered a traumatic event, the sudden death of His Highness the late Sheikh Salman bin Hamad Al Khalifa. He was succeeded by his son His Highness, the then, under apparent Prince Sheikh Isa bin Salman Al Khalifa. Sheikh Isa's reign was marked by a set of accomplishments, including the boom in the banking industry in Bahrain, particularly in the 1970s and 1980s.

During His Highness Sheikh Isa's reign, on August 14, 1971, the country was declared independent from British protection. This was followed by a change of the status of the ruler of Bahrain to a Amir, and the country's official name became "The State of Bahrain", and the state joined the United Nations and the Arab League.

At that time, the country's leadership focused on building the structures of the new state. In the context of developing government work, the first cabinet of ministers was formed, headed by His Royal Highness Prince Khalifa bin Salman Al Khalifa in 1975, and His Majesty King Hamad bin Isa Al Khalifa was declared the Crown Prince.



The approval of the first constitution in Bahrain in 1972, was a landmark event of great consequence, according to which parliamentary elections took place, and the National Council (the first elected parliament) was established in 1973, which was dissolved in 1975.

This was accompanied by the issuance of the Bahraini Dinar as the first national currency in October 1965 and the opening of the University of Bahrain in 1986. During the reign of His Highness Sheikh Isa bin Salman bin Hamad Al Khalifa, a law was issued to give licenses for offshore banking units to international, local and regional banks. Therefore, the banking sector has become an important pillar of the national economy. All of this led to Bahrain becoming a world-class financial and banking center in the Middle East region. The importance of the financial banking sector, and its contributions to the country's economy increased.

These achievements made during the era of His Highness Sheikh Isa bin Salman Al Khalifa were accompanied by corresponding achievement in the industrial sector in which the government played an important role. The Prime Minister His Royal Highness Prince Khalifa bin Salman Al Khalifa eagerly urged the banking sector to contribute to the construction of a group of giant industrial projects that contributed to enforcing the pillars of the national economy. The outcome of this wise policy was a group of companies related, in one way or another, to the oil industry, such as Aluminum Bahrain Company (Alba), Bahrain Steel Company, The Bahrain Petroleum Company (BAPCO), Arab Shipbuilding And Repair Yard Company (ASRY) as well as the modernization and expansion of Salman Port, the Associated Gas Project and Gulf Petrochemicals Industries Company (GPIC).

It is important at this point to also mention the distinguished role played by the former Minister of Development, Mr. Youssef Ahmed Al Shirawi when talking about the establishment of the largest companies in the Kingdom, who ensured that a high percentage of their shares, and sometimes their full shares are owned by the government of Bahrain, such as Bapco, Alba, and others.

The achievements in the economic field, such as the establishment of giant companies, according to the standards of the Bahraini market and the growth and expansion of the banking sector according to the global standards

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Bahrain has continued to set its capabilities to find solid economic components for its citizens and neighbours, while also linking with new global partners in banking.

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generated an urgent need to develop education systems to meet the needs of that growth, especially when talking about the need for skilled local manpower, and parallel cadres eligible to hold senior management positions in these companies and banks. All of this led to the thought of upgrading the country's education to the university level.

Thus, Bahrain, with all the elements of its civilization and cultural heritage extending for thousands of years, has succeeded in playing the pioneering role that it has consistently mastered, and it has continued its path in setting its capabilities to find solid economic components for its citizens and neighbors. It has also linked itself with new partners in the world of banking by using its human potential, strategic location, and international relationships, to create a financial center, and more specifically, a financial and strategic center of global importance.

If we have the right to characterize this distinguished era in the history of the banking sector, we can call it the approach of the "birth stage of the national banking flavor", represented in the establishment of the first national bank, the National Bank of Bahrain, without provoking other foreign banks, in order to avoid pushing them towards immigration abroad. The positive coexistence between the national and the foreign elements formed a sound equation for building the financial environment in which Bahrain, quite unique as we have mentioned from its counterparts from the neighboring countries.

His Majesty King Hamad bin Isa Al Khalifa and the late His Highness Sheikh Isa bin Salman Al Khalifa in a visit to Bahrain National Bank in December 1981 on the occasion of opening the new headquarters of the bank. Mr. Nouredine Abdullah and Mr. Abdul Rahman Abdullah appear in the picture



His Highness, late
Sheikh Isa bin Salman
Al Khalifa receiving
one of the senior
officials of the British
Bank for the Middle
East

Here, we should pause to understand why Bahrain took this step, at a stage when the world economy began recovering from the Great Depression that destroyed much of the infrastructure of great economies such as the British and the American ones. At the same time, the world succeeded in getting rid of the repercussions of the Second World War, with all the negative and even destructive implications of that war, which cannot be ignored when talking about the economy, and worse when we deal with the banking sector.

Minister of Finance at that time, Mr. Ibrahim Abdul Karim Muhammad, describes this period and its accompanying fast-paced achievements made by the banking sector saying, “The banks in Bahrain in the 1970s were traditional, and so were their products and services which included accepting deposits, granting loans and opening documentary credits. In 1972, the number of banks operating in Bahrain was limited, and we were avoiding granting licenses to new international banks in Bahrain for fear of unfair competition with the local banks. The cash surpluses from the proceeds of the sale of oil were multiplying at a rapid pace in the Arab Gulf States, which encouraged global investment institutions with financial solvency, and sufficient experience to deal with the accumulated huge sums of these surpluses.”

Mr. Abdel Karim continues, “At that time, we thought about the issue of developing Bahrain to be eligible to become an advanced financial center in the region. I also remember what was stated in an article by Dr. Salim Al-Hoss, who became the Prime Minister of Lebanon for several years. The title of the article was (Towards A free zone for banks in Lebanon), but in 1975, the civil war broke out in Lebanon, and the idea did not turn into reality there.

We began receiving applications for opening branches of international banks in Bahrain, because there were no banking channels in the region to deal with the accumulated liquidity resulting from the rise in oil prices. Mr. Abdul Karim adds, “So we adopted the idea and developed it to the licenses of offshore banks units (OBU). These licenses and the accompanying procedural facilities attracted the attention of global banks from many countries around the world to open branches in Bahrain. These banks were looking for suitable opportunities to provide their services to Gulf Countries to invest their oil surpluses, as well as offering loans to countries of the world to help them build their economies. These banks have actually contributed to economic development in various regions of the world.

Abdul Karim continues recalling this golden period of the prosperity of the financial and banking sector in Bahrain, “On the other hand, Bahrain had several advantages that helped attract offshore banks to it, including the availability of qualified and trained Bahraini human cadres, and lack of taxes and fees, the social openness of Bahrain to other cultures and the strategic geographical location, as banks were dealing with the markets of the Far East in the morning, with the Gulf countries and the countries of the Middle East during the day, with Europe in the evening, and with America in the first part of the night.

Mr. Abdul Karim continues, “When we have put forward the idea of the financial center for discussion in the Cabinet, it was approved by the Prime Minister His Royal Highness Prince Khalifa bin Salman Al Khalifa, who never hesitated to accept the idea, and even encouraged to move forward with it. When the matter was presented after that to His Highness the late Sheikh Isa bin Salman Al Khalifa, he agreed on the proposals of the Council of Ministers, and ordered the issuance of the offshore banking regulations in Bahrain, as a decree and not a law, to avoid the long cycle that laws take since thinking about them, through issuing them, and finally amending them.”

The rewarding results proved the validity and feasibility of this trend. This was evident in figures and statistics that reflected the growth of the banking sector in Bahrain at high rates, embodied in the number of banks and the size of their budgets. Bahrain continued its expansion plans in the banking sector, to become, in later stages, a global financial center for this vital economic sector, which took unprecedented dimensions.

Top Picture

Former Ministry of Finance and National Economy Ibrahim Abdul Karim opening a branch of National & Grindlay's Bank in November 1973, accompanied by the commercial manager of the branch Mr. Hassan Ali Al Saad

Bottom Picture

The building from which the Bahrain Currency Board started in 1964/1965



At the beginning of 1975, when the government saw that the opportunity had become favorable to benefit from the high incomes of the Gulf States from oil sales in the reconstruction of the Gulf States, it initiated in a relatively short period, to enact laws and take the necessary measures to enable the financial sector to play the appropriate role to attract international banks and financial institutions to Bahrain, to lead the development process in the region.

Perhaps the reader wandering through the history of the banking sector in Bahrain, following its steps, looking for its returns on the national economy, will see the benefits that the banking sector has, and is still, providing to Bahrain and Bahraini citizens.

Noureddine helps us answer these questions when he explains, “The banking sector remains the main employer in the private sector which has invested a lot in training and developing many banking experts in Bahrain who can serve the industry within the country, as well as working in the rest of the GCC countries. Here a very important issue should be focused on, which is the positive reflection of this wealth of knowledge and experience

on the economy, regardless of whether the Bahraini bankers work inside or outside Bahrain. The establishment of the Bankers Association and Bahrain Institute of Banking & Finance (BIBF) contributed a lot to the training and development of the citizens of Bahrain over the years.“

This stage is ended, if we may say so, by that great shift the Bahraini banking sector has witnessed from its early primitive state to its brilliant futuristic outlook, looking for a foothold not only in the Bahraini market, but also exceeding it towards the promising regional markets, and its counterpart extremely complex and fiercely competitive financial markets.

Bahrain would not have achieved this without that great support that the Government has shown and by its remarkable qualitative moves.





The headquarters of Bahrain Islamic Bank, the first Islamic Bank opened in Bahrain in 1978, in Qudabiya Avenue







Chapter 4

Economic Diversification & A Supportive Domestic Banking Market



Coin
Memorial Issue 1424 – 21 H (2004) for
Commemoration of Great Rulers of Bahrain

Main Picture
Government Avenue in the 1970s, comprising a
group of major banks and commercial stores

Before exploring the transformations that the Arab region witnessed during the 1970s, at the heart of which is Bahrain, it is necessary to pause for a moment at a very important development, which is the use and popularity of the personal computer and the invention of the communication systems. In the banking sector, the ATM appeared and performed the tasks of the exchange staff, thus contributing to reducing the number of employees in the banking branches. Banking transactions also witnessed rapid changes in the various fields of information technology, including but not limited to, expansions in communications, and the leaps in computer programs. The banking market was not isolated from such developments.

In the same context, the end of the twentieth century witnessed, as Muhammad Taher Abdullah points out in a doctoral thesis, “Major changes formed the features of the beginning of a new era with the aim of creating a new world order, based on the huge boom in the field of information and communication technology, which had a great impact on the performance of the banking system. The solid core of this boom was formed in the 1970s.”

Thanks to the relationship that Bahrain shared with the two world powers, namely Britain and the United States of America, it was natural that such transformations at the international level would logically echo in Bahrain, prepared as it was for change and transformation.

The War of October 1973, which some call the Ramadan War, between Arabs and the Zionists is a very important phase in history to comprehensively understand the Arab economic situation in the 1970s. It is known that oil prices were stable during the years preceding 1973, at a level close to US\$3.6 and any fluctuations in these prices were always so slight as to be considered negligible.

Thanks to the Arab decision made in Kuwait in 1973 to ban the export of Arab oil to the United States of America as a protest against its support for the Zionists, oil prices began to rise, reaching US\$12 per barrel at the end of 1974, to stabilize at a level ranging between US\$12.5 and US\$14 during the period between 1974 and 1978. This decision changed the rules that governed the laws of the world oil markets. Prices remained bullish even after the end of the war.



The first headquarters of the British Bank for the Middle East in Al-Khalifa Avenue at the end of the 1970s

This is not a platform to go into the details of the high oil prices, and the reasons behind that decision. What matters to us here is that these astronomical oil surpluses were not expected at that time. The natural result of the sudden rise in oil prices and the cash liquidity generated by them was that such liquidity, huge in size and surprising in the speed of its formation, was looking for an investment mechanism in a rational and meaningful manner.

Bahrain was proactive in leveraging that historical moment, and at an early stage. It accurately explored the essence of these transformations and realized the need for a regional, central, and developed platform. Bahrain was by then well capable of building a coherent financial and banking system, governed by contemporary laws, flexible mechanisms, with strict regulations, and an efficient control system in place, allowing it to manage these funds that needed a system that protects them, facilitates their movement, and guarantees their growth.

Top Picture
His Royal Highness Prince Khalifa
Bin Salman Al Khalifa, The Prime
Minister in one of his visits to
Bahrain Monetary Agency's offices

Bottom Picture
Normal Indian Rupee and Gulf
India Rupee used in Bahrain until
1964



Bahrain was indeed a safe haven and in return, the pioneering trend that it had stimulated had provided the local market with the means to put the funds to settle in Bahrain markets. All of this reinforced the pioneering role that Bahrain has played throughout the ages and qualified it to grant the banking licenses necessary to create real investment opportunities, and to find financing channels for urban projects in the Gulf countries.

At that time, Bahrain was aware of the need to provide the required protection for funds, and to quickly respond to applications for licenses to practice their business from Bahrain. The Bahraini Supervisory authorities, represented in the Bahrain Monetary Agency (currently the Central Bank of Bahrain) and the Ministry of Commerce and Industry, must be credited for their speedy actions, again distinguishing Bahrain from the other Gulf countries. As a result, there were many applications to open banks and insurance, investment and brokerage companies, which all found in Manama the security, stability and the dynamic and developed systems they were looking for. Thanks to the combination of all these factors, Bahrain became the focus of attention and the nucleus for the transfer of capital generated by the oil boom and searching for a stable and organized market.

The state infrastructure and institutions were at the same time, attractive, and stimulating auxiliary factors, supporting the new financial system, primary amongst that was the backing of the head of State, His Highness Sheikh Isa bin Salman Al Khalifa, the ruler of the country at that time, and the Prime

Minister, His Royal Highness Prince Khalifa bin Salman Al Khalifa, the leader of the executive authority, as well as the support and the ambition of the Crown Prince, the current monarch His Majesty King Hamad bin Isa Al Khalifa.

However, this transformation had also imposed a need for local skilled human resources, ready to raise the status of his country. The efficient Bahraini workforce were the natural auxiliary factor that allowed and encouraged the speed of transformation and validated the efficiency of delivery required. This was not strange to the people of Bahrain, who time and again with their spirit of adventure, initiative, and rapid response in taking the right decision made the outcome fruitful.

The cultural background of the Bahraini society has among these circumstances appeared to play a distinctive role in providing an attractive environment for expatriates looking for a job or investment opportunities. This has turned Bahrain into a global workshop filled with a significant presence of the cosmopolitan element, bringing diversity in lifestyle and behavioral patterns, cultures and civilizations.



The first issue by Bahrain Currency Board in 1964 and the second issue by Bahrain Monetary Agency in 1973



This cultural diversity, and ability to work through cultural differences, to ensure harmonious coexistence, productive collaborations, and build a positive environment for everyone would lead Bahrain towards more success and achievement at a speed, which no one would restrict.

Simultaneously, Bahrain expanded within the banking sector to become a global financial center for all types of banking activities, which, thanks to this insightful view into the future, took unprecedented dimensions in the region. At the beginning of 1975, the government, under the leadership of the Prime Minister, His Royal Highness Prince Khalifa bin Salman Al Khalifa, ascertained that the conditions were favorable, and the opportunity was available to benefit from the high incomes of Gulf States from oil sales. As Chairman of the Board of Directors of Al-Moayyed International Group, Farouk Al-Moayyed spoke about the late Minister of Development, Youssef Al-Shirawi, who has to be credited for calling for the conversion of the accumulated cash liquidity into a group of successful Gulf investment projects that have been based in Bahrain, such as Aluminum Bahrain (Alba), the Gulf Petrochemical Industries Company (GBIC), Arab Shipbuilding and Repair Yard (ASRY), and other giant companies that have prospered and are still bringing prosperity to the Bahraini economy.

It would be amiss to ignore the role of the Bahraini private sector represented by Bahrain Chamber of Commerce and Industry as its response was quick and dynamic, and it engaged smoothly and skillfully in those projects, benefiting from the opportunities provided by the healthy investment environment, in accordance with its local, regional and international parties. Through coordination and cooperation with state institutions, the Chamber worked to protect the national economy, at the heart of which is the private sector.

Anyone who wants to evaluate this stage objectively has to view it, as we have indicated, in the context of the transformations that have passed through the international scene, along with the events that took place in the Arab region and the prevailing conditions in the Gulf region.

Summarizing this Bahraini banking journey, the CEO of Al Baraka Banking Group, Adnan Yousif in an exclusive statement to the Bahrain News Agency (BNA) stated, “Stable and wise financial policies at the macro-economic level, which operate within a regulatory framework that is credible and in line with international standards, has a positive impact on the banking institutions and their leading position in the region.”

One important initiation to the modern Bahraini financial system, with its international standards, was the establishment of the Bahrain Currency Board in 1964, when it issued the first new Bahraini dinar on October 7, 1965 to replace the Gulf Rupee. It was done within the vision and framework of developing the Bahraini currency and protecting it from counterfeiting by adding security features to it.

The growth of the local financial market, its improved performance, and the expansion of the markets was a call to Bahrain to start laying the foundations of a strict regulatory system that was flexible at the same time. This had to be done in a manner that ensures monitoring the work of institutions and individuals involved in the Bahraini financial market and banks, not only within the framework of the local market, but also in the surrounding regional or international markets, without the red tape of unnecessary bureaucratic procedures, that only served to burden the components of the financial and banking activity in Bahrain, and strip them of the enthusiasm that prompted them to choose Bahrain as a starting point in the first place.

Any modern regulatory system cannot achieve this in the absence of an integrated legislative system, that is able to run the market and ensure the safety of those involved in its activities, including fighting all forms of counterfeiting and money laundering, in order to ensure efficient performance, gain the confidence of those dealing with the Bahraini market, and guarantee the stability of the financial system.

In order to ensure the proper pairing of the legislative system and the supervisory procedures, it was necessary to create a contemporary mechanism that has the required specifications to help it pursue the developments that the Bahraini capital market and banks need, and interact with it with the required positive dynamism that ensures providing this market with guarantees securing upgrading its performance and smoothness of its operations, without breaching any of the laws and regulations in force in mature markets, competing with the Bahraini market, or integrating with it.

From this need, and thanks to the positive results achieved through the renaissance of the Bahraini financial market, creative thinking started, looking for the development of institutions related to organizing the mechanisms of that market, arranging the laws that govern the relationship between the active parties therein, and coordinating the activities of their incomes and diversifying its outcomes alike.

All of this would require an independent department that plays this role with high efficiency, able to perform the functions that continuously ensure the stability of the market as well as develop systems that manage it with a balanced skill.

This led to the launch of the “Bahrain Monetary Agency”, which was established under the law promulgated by Emiri Decree No. (23) dated 5 December 1973. The establishment was, as we pointed out, based on the urgent need, to regulate the work of the escalating financial institutions and place them under an independent government department in charge of developing the necessary laws and regulations. This trend was reinforced by the establishment of an independent committee, composed of officials in the Bahraini government and technical assistance from the International Monetary Fund to conduct a study, the results of which concluded the need to regulate control over banks. The recommendations of the committee led the government to issue the above-mentioned law, Emiri decree No. (23) on 5 December 1973.

The decree stated the objectives of the Bahrain Monetary Agency, summarized in a set of procedures based on distinct laws. the most important of these procedures are organizing the transactions of managing and exchanging the currency of the State of Bahrain, monitoring and regulating foreign exchange transactions, maintaining the stability of the value of Bahraini currency and working to secure monetary stability, so that the Bahraini market can regulate the banking professions and supervise the banking system, provided that this is done in an environment in which supervision and guidance of banking credit are availed in a manner that achieves the objectives of the state’s economic policy, and contributes to the creation of a developed monetary and financial market.

This is clearly reflected in the articles of that law. Article 7 of the law stipulates the requirements of good governance, as the conditions of membership in the board of the agency stipulate that. “The Chairman of the board referred to in Article (5) as well as the rest of the members referred to in Articles (4) and (5) of the law shall be Bahraini nationals and shall have experience in financial affairs, and none of the board members may be an agent, representative, employee, manager, or a shareholder in a financial institution with more than 10% of the capital.”

Since the establishment of the Bahrain Monetary Agency, its executive leadership was headed in the position of a Governor, Mr Abdullah Hassan Saif (1981 - 1998), followed by Sheikh Abdullah bin Khalifa bin Mohammad Al Khalifa (1999 – 2000) and then by Sheikh Ahmed bin Mohammad Al Khalifa (2001 – 2005) until Governor Rasheed Mohammed Al Maraj assumed the responsibility in 2005 till the time this book was edited in 2020.

Due to the fact that the Bahrain Monetary Agency is the main player in the field of control over the banking system, it was able to play an important role in managing and organizing the work of the banking sector after it took over the responsibility from the Bahrain Currency Board, which had a specific responsibility limited to issuing the Bahraini dinar and managing monetary policy in Bahrain.

Regarding the conditions of that stage and the reasons behind establishing the Monetary Agency, banker Adnan Bseisu says, “The Monetary Council at its beginning, was chaired by a British manager. The main task of the Council was to issue the currency and assist banks operating in Bahrain concerning the provision and exchange of foreign currencies, such as the Pound Sterling etc. The designation of the (Bahrain Monetary Agency) at that time was consistent with what was used in the Kingdom of Saudi Arabia regarding the name (Saudi Arabian Monetary Agency) the use of the word agency was to avoid the use of the word (bank) or (banks), and the issues that may arise at that time regarding the usurious transactions. Therefore, the term “Monetary Agency” was used instead of that of Central Bank.”

It is noteworthy here that the Indian rupee continued as the official currency of the country until Bahrain gained its independence from the United Kingdom in 1971. Other than the Indian currency Bahrain was using other currencies such as the Turkish Lira.

The Bahrain Monetary Agency is the main player in the control of the banking system, and it was able to play an important role in managing and organizing the work of the banking sector after it took over the responsibility.

However, due to a large number of Indian merchants in the Gulf markets, including the Bahraini market, and especially those involved in pearl trade activities in Bahrain, the Indian rupee was the most widely used currency compared to any other currency.

In the midst of this, the Indian rupee was subject to fluctuations with current transactions at that time, which negatively affected its market value. Therefore, in 1959, the government of India had to issue Indian bank notes, called the “Gulf Rupee”, for use in the Gulf States. The purpose was to help the Gulf States until each country issued its local currency, which in Bahrain was the case when the Bahraini dinar became the national currency.

The BMA must be given credit for the key and high efficiency role it played in the banking sector. It continued to play this role even after its name was changed to the Central Bank of Bahrain, which continued in developing that legacy of rich experience, in line with the market’s growth and its relevant requirements.

That change was not superficial or confined to the name only. A set of tasks was entrusted to the agency, as well as another group of various and complex powers, which enabled it to issue laws and regulations governing the work of various holders of banking licenses, as well as the application of global accounting and regulatory standards and governance requirements on the entire components of the financial sector, which made it an active member on the ranks of central banks at the international level.

In the context of the Bahrain Monetary Agency and its role in reviving the banking sector, it is necessary to look at the reality of offshore banking units (OBU), the number of which, according to the annual report issued by the Monetary Agency in 1977, amounted to nearly 33 units.

The number of offshore banking units, then amounted to 33 units within only two years of obtaining licenses to carry out their activities, is a number that cannot be underestimated. The most prominent offshore banking units represented 23 countries and included Algimni Bank, Chase Manhattan, Bank of America, American Express, Banco De Brazil, Credit Suisse, UPS, Lloyds Bank, Barclays Bank, Midland Bank, National Westminster (Britain), Canadian Imperial Commercial Bank, State Bank of India, Swiss Bank, Paris National Bank, Korea Exchange Bank, Hanil Bank (South Korea), the European Arab Bank (Spain), the Arab Malaysian Development Bank, and others.

Then the number of offshore banking units increased, as the annual report of the Bahrain Monetary Agency at the end of 1980 indicated, to 59 units, an

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As the annual report of the Bahrain Monetary Agency at the end of 1980 indicated, the number of offshore banking units increased to 59 units, an increase of 79% over the number of units in 1977, which was 33 units.

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increase of 79% over the number of units in 1977, which was 33 units. This increase is considered a record, even by international standards, in this area.

In our interview with Mr. Faisal Alwan, he said, “The difference that distinguished what Bahrain did, compared to other countries, was the encouragement that banks and financial institutions received from the highest authority in the country at that time, reflected in the pioneering role played by the government headed by His Highness Prince Khalifa bin Salman Al Khalifa, The Prime Minister, who did not hesitate to attend economic conferences and receive banking delegations from all over the world. This was reinforced by the supervisory authorities that provided all laws and regulations for the success and development of banking sector in Bahrain.”

Meanwhile, the banking sector in Bahrain was growing at an accelerating pace, peaking in the 1970s. This growth required thinking about changing the supervisory authority over the work of banks from the Currency Board to Bahrain Monetary Agency.

In spite of the great efforts made by the Agency, the global developments in the banking sector were advancing rapidly required the restructuring of official daily movement of the Bahraini finance and business market. Therefore, the establishment of the Central Bank of Bahrain was a logical response and a natural outcome to deal with the results of that revolution, and to adapt with them positively.

Manama Center was the main center for many offshore banks and representative offices of some international banks in the 1980s



The current headquarters of Central Bank of Bahrain







Chapter 5

Good Choices & Future Strategy

Government House
in Manama

The 1970s witnessed, as pointed out by Ibrahim Abdul Karim, the former Minister of Finance and National Economy, a very important economic shift, which however did not receive the attention it deserved.

“These were two important events, the first of which took place in 1972 when the Gulf States paid attention to the fact that the international companies that owned the big concessions were holding most of the oil sector in terms of supply and demand. Although some countries were contributing to the ownership of these large foreign companies, the companies themselves were controlling the market, prices, and management, which caused conflict once it became evident. Therefore, the Gulf States decided to change this situation through full ownership of the oil companies. This is what the Kingdom of Saudi Arabia, Kuwait, Bahrain and the rest of the Gulf States actually did.”

The early 1970s was also characterized by the political stability Bahrain was looking forward to. This political stability strengthened the confidence of the people in their leadership, which was then in a suitable position to start the process of building and development. The financial and banking sector received the attention and development it needed, with the establishment of an integrated banking system. At that time, Bahrain relied on the rich legacy it gained from accumulated experiences in the financial and business sector, particularly banking. This was carried out through a good choice of the types of banks and the nature of the services and products they provided to their clients, in the light of a concise, well-defined, and clear strategy.

At that time, attention was directed towards conventional banking, logical and natural due to the developments that Bahrain was witnessing at that time. There was a core group that encouraged the pursuit of such a sound approach. The Eastern Bank Limited (now known as Standard Chartered Bank) was practicing its traditional activities in Bahrain according to the letter dated August 11, 1918 issued by the ruler, His Highness Sheikh Isa bin Ali Al Khalifa. This letter specified conditions in the interest of the Bahraini citizens and subject to the laws in force in the country.



His Majesty King Hamad bin Isa Al Khalifa and the late His Highness, the late Sheikh Isa bin Salman Al Khalifa in the ceremony of the 25th anniversary of National Bank of Bahrain. In the picture, the chairman of the Board of Directors of the Bank Mr. Ahmed bin Ali Kanoo is presenting souvenirs

The Eastern Bank Limited opened in 1919 to start activities in 1920. After that, Bahrain continued to host many banks, some of which were Bahraini and the others were Arab. In addition, international banks were permitted to work in the Bahraini market.

The National Bank of Bahrain was by that time in the stage of maturity nearly 15 years since its inception, and its services were positively received by citizens, who regarded it as a national financial edifice worthy of patronage by citizens. By 1985, the number of banks operating in Bahrain amounted to 18 banks which provided a high degree of diversity in the number and nature of their services.



One of the meetings of the Board of Directors of the Bank of Bahrain and Kuwait chaired by the late Mr. Rashid bin Abdul Rahman Al Zayani.

Mr. Murad continues, “When I was appointed as General Manager / Chief Executive Officer, I worked hard to establish a new organizational structure. Then we worked to solve problems related to large loans. New capital was pumped in and it helped the bank to rise and get to where it is today.”

He added, “The establishment of the bank was itself an important and distinguished event at that time, as it was the first Bahraini bank with joint Gulf ownership between Bahrain and Kuwait. The State of Kuwait was not granting licenses for opening non-Kuwaiti banks and this was the first exception when it allowed BBK to open a branch in its markets.”

He summed it up saying, “BBK is currently the largest local commercial bank in terms of shareholders’ equity and assets in Bahrain, at the level of providing banking services. It has a large branch network in Bahrain and a suitable Gulf and international presence. BBK is proud that Bahraini employees represent 95% of the total workforce. The bank had a budget and a plan for training and upgrading of the skills of Bahraini employees.”

Regarding the BBK path, Shura Council Chairman, Ali Saleh Al Saleh talks about his tenure on the Board of Directors of BBK, representing the government, “I have remained for nearly twelve years on the Board of Directors of BBK, and I have worked with excellent Bahraini and Kuwaiti competencies. I was also in the Executive Committee of the Bank of Bahrain and Kuwait, which was working all the time to solve the problems of the bank day by day. We were able to solve the daily problems and restore customers’ confidence in the bank, as others did to the National Bank of Bahrain and the Alahli Commercial Bank.”

Here we should pause at a very important issue which is the readiness of the Bahraini market, supported by its coherent legislation to attract banks from outside the country on the one hand and to be able to convince these banks that the Bahraini market is characterized by the commercial stability and judicial guarantees they were looking for. This led to giving flexible facilities that made the procedures of establishing a bank very easy. This, of course, also meant not compromising on the adherence to laws and regulations in force internationally in the money and business markets.

As the formation of Banks with joint ownership of a Bahrain bank and a foreign bank gets completed without difficulties, the case was not the same, when it comes for banks with foreign capital as the regulations are different and less flexible as well as the conduct of business. Specially when it comes to establishment of a gulf Bank. As an example of the due consideration that Bahrain extends to the foreign banks and Arab banks in particular, is the merger of United Bank of Kuwait, UK and Al Ahli Commercial Bank, Bahrain which resulted in a new bank named Ahli United Bank.

Ahli United Bank was established in 2000. The bank acquired a percentage stake in Bank of Kuwait and the Middle East in 2001. The subsidiary bank changed its name to Ahli United Bank and converted to an Islamic bank instead of conventional in April 2010. In Bahrain, the bank operates Islamic Banking services through “AlHilal Islamic Banking windows”.

Such spiral banking activities, and the presence of Bahraini talents in the scene, reveal two very important facts. The first of which is that the Bahraini monetary and business market had the necessary legislation that provides flexibility and speed of action. The second is the leadership of the Bahraini executives in the higher departments of decision making, which would take into account the national interests in any decisions regarding the development of the banking sector or determining its paths.

Top Picture
His Royal Highness Prime Minister Prince Salman Al Khalifa in the inaugural ceremony of Ahli Commercial Bank, with the Chairman of the Board of Directors at that time, Mr. Mohammad bin Yousuf Jalal

Bottom Picture
His Royal Highness Prime Minister Prince Khalifa bin Salman Al Khalifa in the opening ceremony of Islamic Investment City Bank of City Corp, the first Islamic Bank license of an American Bank



The banker, Mohammed Al-Shroogi, points to the flexibility the state system has, which allows some positive transgressions to cut the bureaucracy of the relevant departments. Regarding this issue, Al-Shorouqi says, “I paid a visit to His Highness Prince Khalifa bin Salman Al Khalifa, to tell His Highness about the intention of Citibank to build its headquarters in the Kingdom of Bahrain. The laws in Bahrain at that time did not allow foreign institutions to own real estate or land in Bahrain, but His Highness issued orders to amend the laws to facilitate the bank’s acquisition of its headquarters. The bank was considering building its headquarters in the banks’ area in Manama, but His Highness proposed a plot in Seef District in a strategic location from the commercial perspective. Moreover, when we finished the design plan of the building, we went to His Highness to show the design to His Highness. We had two different designs, and we asked His Highness about his opinion of the designs. His Highness referred without hesitation to the one according to which the current headquarters in Seef District was established.

In the 1970s, the leadership of Bahrain in the financial and business sector was clear-cut about its ability to attract international banks and companies to Bahrain, and to provide the necessary support such institutions needed through the issuance of laws and regulations to facilitate the relevant

procedures. The policies regulating the financial and business market were clear and distinct, and they were managed by deliberate and successful policy, and its timely issuance. In terms of timing, Bahrain was then prepared to receive banks and financial institutions that were located in Lebanon, which was at that time suffering from the repercussions of the civil war that broke out in 1975, which had begun to take a dangerous turn.

At that time, many of the banks operating there rushed to leave Beirut, either back to their countries of origin or to other capitals where better working conditions were created.

The common saying is, “The misfortunes of some are opportunities for others,” but the reality was that the readiness of Bahrain at this time was something gained over many decades of preparation, whereby its financial systems regulating the market, and the laws developed for offshore companies and banks, were what helped attract these banks to Bahrain.



This in turn, encouraged other global banks to find a foothold in Bahrain, including many that were managing their business from Beirut. In 1975, the Bahrain Monetary Agency decided to expand the circle of banking presence in the national economy, so it diversified the specifications and activities of banks that could conduct their business from the Bahraini market and rushed to add more flexibility to the banking facilities and services to companies coming from abroad, offering new banking services and investment opportunities for the banking sector. The idea of allowing the offshore banking units was timely as it was critical for Bahrain to win this in a fiercely competitive market.

In this context, it is possible to understand the start of this type of banking activities from Bahrain, but not other markets in the neighboring countries. By allowing the activities of offshore banking units, the sound equation began to exercise its role in the Bahraini market that was eager to achieve more success in the fields of renewable banking and financial services. The offer was initially directed to attract foreign banks, but then it also became available for regional and Bahraini banks, within specific controls, and strict professional supervision from the Bahrain Monetary Agency.

It was fortunate that the development of offshore banking units coincided with the rapid increase in the revenues of the countries of the region from oil production. The growth of offshore banking thus became a positive phenomenon that accelerated the pace of bringing the Bahraini market to the attention of international banking and financial markets.

The state has had a tangible and increasing role in encouraging the external banking units sector through incentives it provided, the most important of which is the possibility that these units can be branches, subsidiaries, or joint ventures and that they are entitled to enter into banking transactions with the Government of Bahrain, its affiliated bodies or any bank licensed in the State of Bahrain. These banks can also provide all banking services to non-residents except for current accounts supported by issuing check books. These banks were granted exemptions from any taxes on profits.

A set of reasons stood behind the selection of Bahrain as a financial center at that time, including but not limited to, the good global reputation that the Bahrain Monetary Agency had as a world-class regulatory body, an independent law regulating the work of Offshore Banking Units, the absence of taxes, the availability of Bahraini trained workforce, and the ease of obtaining licenses to employ foreign workforce.

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In 1973 and after the end of the war between Arabs and Israel, the so-called financial boom in the Gulf began, resulting from the unexpected rise in oil prices. As mentioned earlier this was accompanied by the outbreak of the civil war in Lebanon in 1975, which helped Bahrain to turn into a safe and appropriate shelter at the same time, for the international banks operating from Lebanon, seeking to find an alternative financial center that allowed them to take advantage of the financial boom generated by the cash revenues from the oil markets.

The Government of Bahrain, represented by His Royal Highness the Prime Minister Prince Khalifa bin Salman Al Khalifa, aware of the situation was quick to open the way for international banks to function from Bahrain. International banks operated from Bahrain through the licenses of offshore banking units. Banks also benefitted from the fact that the Kingdom of Saudi Arabia was not yet allowing foreign banks to operate on its lands at that time. There is no doubt that the existence of foreign banks in Bahrain helped the development of the Bahraini economy in general, and the provision of job and career opportunities for Bahraini youth in particular. The banking sector, including offshore banks, thus grew, becoming a stable financial sector manned by qualified and trained Bahraini youth, who gained valuable experience and were instrumental in charting the course of the banks and setting their policies.

Regarding the time when the offshore banks began to practice their activities in Bahrain, Mr. Mohammed Al-Shroogi, who was working for Citibank in Bahrain and the Gulf, says, “Commercial banks in Bahrain until the 1960s were few in number. Citibank was one of the banks that started to work in the mid-1960s. The rapid developments took place when the civil war began in Lebanon, as banks were searching for an alternative country, and Turkey was one of the possible alternatives. After examining the situation, Citibank decided to transfer its training center and representative office from Beirut to Athens. It also decided to transfer approximately US\$ 2 billion to the bank’s branch in Bahrain, which raised the total assets of banks in Bahrain at a sudden and huge increase at the same time.”

This sudden rise caused a problem for the Bahrain Monetary Agency. As a result, a meeting was held between the Bahrain Monetary Agency represented at that time by Mr. Abdullah Saif and Mr. Michael Calandez from the Citibank’s main office in New York. During the meeting, it was clear that the agency had no intention at that time to accept that sudden increase in the size of the total assets of commercial banks. When the matter was discussed with Mr. Calandez, he suggested that half of the amount (\$ 1 billion) can be considered part of Citibank’s total assets in Bahrain, and the second part as offshore amounts, i.e. not considered as local sums in the bank’s total balance sheet.

Top Picture
His Royal Highness Prime Minister
Prince Khalifa bin Salman Al Khalifa
receiving late Sheikh Saleh Kamel, the
Chairman of Al Baraka Islamic Group
at that time

Bottom Picture
The first office of First National City
Bank, opposite Bab Al Bahrain



It is noted here that the expression “offshore” was used in that interview. Hence, it was that the Agency began to issue off-shore licenses, and Citibank obtained the first license, followed by ABN Amro Bank. Accordingly, Citibank began expanding in external banking, and the branch’s Balance Sheet in Bahrain reached nearly \$ 50 billion as a result of granting loans to customers outside Bahrain, while these loans were recorded in the books of the offshore banking unit. Al-Shroogi added that the number of employees handling foreign currencies increased from 3 to 50. He stressed that His Royal Highness the Prime Minister has always been responsive to new developments and always instructed the government to be flexible to change and take the necessary procedures.

After that, other Gulf countries such as Qatar and Dubai in the United Arab Emirates started allowing international banks to operate on their lands. Dubai has attracted a large number of banks especially in later years, but Bahrain with its early and visionary start was still hosting the largest number of them so far. About that period, the CEO of Al Baraka Islamic Group, Adnan Yousef, stresses, “At the beginning of 1975, the Prime Minister His Royal Highness Prince Khalifa bin Salman Al Khalifa launched an invitation to the global and regional banks to operate in Bahrain in the form of offshore banking units.

His Highness's sponsorship of this project was encouraging, as His Highness issued special laws for large Gulf banks wishing to operate in Bahrain, such as the Gulf International Bank and the Arab Banking Corporation, with the aim of protecting their large capitals and assets."

In fact, Bahrain Monetary Agency issued a circular to the financial sector in Bahrain under No. (31) on 27 September 1975 that clearly stipulates the conditions necessary to obtain the license of offshore banking units. Once again, Bahrain, government and its people, affirmed its leadership in the ability to foresee the future and to explore the depths of the financial market developments both locally and internationally. Similarly, Dr. Anwar Al-Sada refers, by virtue of his position in Bahrain Monetary Agency first, and the Central Bank of Bahrain later, that Bahrain is distinguished with a set of specifications that made it a regional financial center, attractive to investments. Dr. Al-Sada summarized these specifications as follows, "The flexibility of laws regulating the market, that ensures efficient performance on the one hand, and not compromising the credibility of the Bahraini market on the other hand."



Top Picture

His Royal Highness Prime Minister Prince Khalifa bin Salman Al Khalifa attending the official opening of Arab Banking Corporation building accompanied by the Chief Executive Officer of the Corporation, Mr. Abdullah Al Saudi in 1982

Bottom Picture

His Royal Highness Prince Khalifa bin Salman Al Khalifa the Prime Minister and a group of ministers in a meeting with the Board of Directors of Investcorp



Bahraini businessman Farouk Al-Moayyed recalls his memories about what was going on in the 1970s regarding the international banks wanting to operate in Bahrain, “The influx of offshore banks was not limited to the 1970s, as it continued even in the decade that followed. By 1985, Bahrain also started to witness an increase in the number of offshore banks operating in the Bahraini market, which amounted to 75 units representing 23 different countries in the world. The share of Arab countries was 23 units, Western Europe 22, North America 11 and Asia 19.”

On the same topic, the former Governor of the Bahrain Monetary Agency and Minister of Finance Abdullah Saif states in an interview, “When talking about the development of Bahrain as a financial center, we must emphasize on the professional and developmental factors that accompanied that experience, and contributed to its success, namely security and political stability, the law and judiciary, professional and legislative transparency, the presence of highly qualified local professional cadres as well as a modern and efficient communication system, ease of travel and movement and the existence of legal institutions, financial auditing and efficient vocational training institutions.”

He added, “In addition to all of this, Bahrain is distinguished by the quality of government and there is a strong relationship, based on absolute mutual trust, between the symbols of governance that led to the consolidation of

unity of leadership, and the speed of decision-making and the efficiency of its implementation represented by His Majesty King Hamad bin Isa Al Khalifa, the leader of ambition and modernization, His Royal Highness Prince Khalifa bin Salman Al Khalifa, the distinguished Prime Minister who represents the past and present of Bahrain and the rich experience, and His Royal Highness Prince Salman bin Hamad Al Khalifa, Crown Prince, Deputy Supreme Commander of the Bahrain Defense Force, First Vice President of Cabinet who formulates the structures of a promising future.”

During our meeting with the former CEO of the National Bank of Bahrain, Nouredine Nouredine, he said, “It became clear in the early 1970s that there was a need to establish a new financial center in the Middle East. On the American continent, New York was the financial center, in Europe there were London and Frankfurt, and in the Far East, there were Hong Kong and Singapore.



As such and in order to enable traders who deal in foreign currencies and other investment banking transactions from different time zones to work 24 hours a day, there was a need for a new financial center in the Middle East. Historically, Beirut was the regional financial center at that time, but the outbreak of the civil war in Lebanon, and the loss of political stability deprived Beirut of that center.

At that time, no other country was able to bridge this gap, except for Bahrain. At the same time, as a result of the oil embargo decision that resulted from the 1973 war with Israel, the price of oil jumped four-fold. This resulted in a large influx of funds, which needed to be recycled, into the Gulf region. Once again, Bahrain was the most qualified country to play for this role.

For these reasons, the Bahrain Monetary Agency (BMA) was established in 1973, which was assigned to allow banks from all over the world to establish the so-called Offshore Banking Units (OBU) in Bahrain. The laws issued by the Monetary Agency stipulated that these banks could not compete with other banks licensed to operate in Bahrain prior to the issuance of the offshore banking law.

During the years that followed, these units witnessed a large cash flow, which led to a big boom in the banking sector due to the need to provide additional support services. At that time, many companies serving the banking sector were established in Bahrain or transferred thereto, such as accounting firms, brokerage firms, legal companies, etc. The entire project proved to be very successful and this small country thrived despite its limited oil resources.”

At the beginning of their existence in Bahrain, the offshore banks limited their activities to selling, buying and exchanging currencies as well as receiving deposits from Gulf firms and countries. Dealing in short-term transactions was relatively limited. It is noteworthy here that customer deposits were for short terms as their terms ranged between one month and one year only. Also, the term of deposits and loans between banks was also relatively short and ranged between one day and one month.

Then, the personal loans to VIPs in the Gulf, as well as direct loans to large companies and governments emerged and formed the second wave of the activities of offshore banks. Three years later, the syndicated loan activities carried out by a group of banks appeared. In these loans, each bank is obliged to pay a certain percentage within a large loan to large companies or the governments of the Gulf States.

It must be admitted here that some of these loans suffered from default, as borrowers did not commit to repaying them on the agreed due dates, which caused financial difficulties for both parties, lenders and borrowers. This was

due to many reasons, including misestimating the nature and size of the loan, or the failure to study the true financial viability of borrowers.

In this regard, Adnan Youssef says, “There is another matter related to large lending transactions carried out by offshore banks to countries outside the Middle East, such as South America and Asia, and even some countries in Europe. These offshore banks have experienced heavy losses as a result of the failure of a group of countries to pay back the due debts. Some of those countries were supported by the World Bank to reschedule their debts. However, some offshore banks in Bahrain incurred heavy losses, which required pumping new capital to supply these banks with the cash they needed to continue their operations.”

Such events, despite the enormity of the losses, did not deter the offshore banks operating in Bahrain from continuing to provide distinguished and irreplaceable services, to their clients in the region, by financing inter-trade operations with countries around the world. This included, among other things, treasury business and investment tools from local and international funds dealing in trade, real estate and others - a sample of many distinguished services created by offshore banks.

It was natural for the scope of the beneficiaries to expand to include all countries of the world that have benefited, in one way or another, from the existence of international and even regional ones in Bahrain’s markets. Benefitting from the lending transactions and banking facilities was not limited to the Gulf countries, but rather went beyond the region to reach global levels.

Loans offered to Latin American and European countries exceeded the established rates. For example, a loan of US\$4 billion was offered to the French government and it was arranged as a collective loan by the banks operating in Bahrain. Also, Banks in Bahrain assumed arranging a collective loan to finance the European Channel Tunnel project between Britain and France.

The large “offshore” banks operating in Bahrain also financed a group of loans offered to countries from South America, Arab and Asian countries. Thus, the banking sector in Bahrain was a global financier of projects in the Gulf countries, especially the Kingdom of Saudi Arabia, as the sizes of its banks were not then large enough to undertake the major financing requirements in Saudi Arabia, which was in the midst of a major economic revolution as a result of the surge in oil resources.

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The large “offshore” banks operating in Bahrain also financed a group of loans to countries from South America, Arab and Asian countries.

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This was confirmed by economic expert Adnan Bseisu, who stated, “The international banks in Bahrain were able to create an active market for collective loans, which were mostly directed to big projects in the Gulf countries. Also, other countries in Latin American, Asia and others benefitted from these loans and facilities.”

The same issue was confirmed by the CEO of supervision at the Central Bank of Bahrain, Khalid AlHammad who said during our meeting with him, “After the issuance of the laws of offshore banks, the Bahrain Monetary Agency issued other laws for licensing investment banks. Bahrain has taken into account issuing flexible laws, compatible with the international standards in force in this field.”

He went on to state, “Bahrain adds multiple benefits to banks operating in its lands, in addition to the flexibility of related laws. These benefits include the availability of trained human elements, and an understanding of leadership that discusses any urgent matters related to the banking business and seeks to find appropriate solutions. Also, Bahrain encourages both Bahraini and foreigners to work in the banking sector without any discrimination. Therefore, Bahrainis benefit from foreigners as the latter obtain opportunities to hold higher positions.”

Mr Khalid stressed: “The Central Bank of Bahrain makes the training of Bahrainis an obligatory requirement because of its belief that training is the best way to improve the performance of employees of the banking sector.”

His Royal Highness Prime Minister Prince Khalifa bin Salman Al Khalifa in a visit to Bahrain Monetary Agency, accompanied by Mr. Ibrahim Abdul Karim Mohammad, former Minister of Finance and National Economy and Mr. Abdullah Hassan Saif, former Governor of Bahrain Monetary Agency

He added, “The bank is aware that some of the people who benefit from the training provided by it may leave the bank to work for other banks or entities. We at the bank tolerate this since the people who leave the bank after their training mostly work in the financial sector and add a lot to it.”

The banks operating in Bahrain did not limit its work to offering loans and entering directly into the financing transactions. Rather, they exceeded this kind of service to offer more sophisticated ones. Adnan Youssef refers to this issue, saying, “For example, the so called “Basel Accords”, which are mainly based on the principle of capital adequacy when issuing the related standards, known as bank solvency, which is intended to measure the percentage of the relationship between the sources of the bank’s capital and the risks to which the assets or any transactions the bank may be exposed to. The Basel Accords have set this ratio at about 8%, whereas Islamic banks raised it to 12.5%. At that time, this step was considered as a form of risk, but the practical experience proved the validity, and even the feasibility of it.”

On this issue specifically, Ibrahim Abdul Karim describes what the Bahrain government was thinking of at that time regarding Gulf banks, which experienced some difficulties, saying, “We were keen that joint Gulf banks operate in Bahrain to strengthen the financial position in Bahrain. The Gulf International Bank (GIB) was the first bank that operated according to this innovative new form, and it was the first Gulf bank to operate through the offshore banking license, and I was the first Chairman of its Board of Directors. At a later stage, the bank suffered heavy losses as a result of offering large loans to Latin American countries and the need to pump new capital as well as the exit of the Gulf Investment Company from its ownership.”

At this stage, we come to the role of the Arab Banking Corporation, which has opened branches in other countries such as America, Britain, Egypt, Algeria and Jordan as well as subsidiaries in Brazil, Spain, Hong Kong, and others.

There is no doubt that the establishment of Arab Banking Corporation is a milestone in the banking business in Bahrain and the Arab world as well, as it is the largest Arab financial pool, and to this day it represents the largest banking institution in the Arab world in terms of capital and budget size.

There is no one better than Mr. Abdullah Ammar Al-Saudi, who has been ABC’s CEO for years to tell the story of this great corporation. “Let me go back a little to the beginning of the 1970s when oil prices started to rise, which led to the accumulation of financial surpluses in some Arab oil exporting countries and encouraged Arab banks to operate outside their borders.”

Top Picture

His Royal Highness Prince Khalifa bin Salman Al Khalifa The Prime Minister, on his way to the official Opening Ceremony of Arab Banking Corporation in 1982

Bottom Picture

His Royal Highness Prince Salman bin Hamad Al Khalifa, the Crown Prince at the opening ceremony of the headquarters of HSBC Bank in Seef District



The beginning was with “Francaises et Arabes Banques de Union” (ALUBAF) in 1970 in France, through political influence (a decision from the Arab League) in sympathy with some of the situations of General Charles de Gaulle’s towards some Arab issues. The list of shareholders included a consortium of banks. This was followed by the establishment of banks in many western countries, the United States, and some South American countries. After some time, some people were convinced that this consortium is a way to attract the leading Arab bankers to get to know them and their trends and to benefit from them in defining ways to deal with their countries. I used to call them “Social Clubs.” However, I don’t remember that I personally learned much from this experience, which led to thinking about establishing the ‘Arab Banking Corporation’.”

Al-Saudi recalls, “I discussed this issue with Mr. Abdel-Wahab Al-Tammar from Kuwait, with whom I have worked in establishing the Arab Spanish Bank. After that, we proposed the idea to the Minister of Finance of the State of Kuwait at that time Mr. Abdul Rahman Al-Otaiqi, as well as the Minister of Finance of Libya, Mr. Muhammad al-Zarrouk Rajab, who both were enthusiastic about the idea. In addition to both Libya and Kuwait, the idea was supposed to be discussed with both the United Arab Emirates (Abu Dhabi) and the Kingdom of Saudi Arabia, but that did not happen. However, it was decided to establish the Arab Banking Corporation which was jointly owned by Libya, Kuwait, and the United Arab Emirates with a capital of one billion US dollars. Many people

at that time considered this figure a huge sum of money, but we regarded it as a logical figure that fits the role assigned to ABC, as we aspired that the Arab presence in the financial markets would be distinctive and commensurate with the efforts of the Arabs at that time to be an effective player in these markets, through the establishment of a leading Arab international bank.”

Al-Saudi adds, “When it was time to choose the country where to establish the project, we had to take into account that we will start with a giant capital, and will face intense global competition so our attention turned to Beirut, which was then a prominent center for banks in the Middle East. However, the outbreak of civil war in Lebanon in the mid-1970s made Beirut miss this opportunity. Then we thought of Tunisia, but we found that we needed to be closer to the countries that export most oil. As a result, Bahrain was our favorite destination, taking into account, at that time, that Bahrain started since 1975 to attract international banks under the licenses of offshore banking units. We regarded Bahrain as a suitable platform to serve the countries of the region, to proceed from which to the rest of the countries of the world.”



Al-Saudi adds “My first visit to Bahrain was on December 1, 1979. We discussed the issue of launching the Arab Banking Corporation and we then idea got the approval of His Royal Highness the Prime Minister Prince Khalifa bin Salman Al Khalifa, and the ruler of Bahrain at that time, His Highness Sheikh Isa bin Salman Al Khalifa. All of this culminated in approval, marked by the support of the regulatory authorities in Bahrain, as well as the envisaged response from the owners of capital, who are the founding shareholders. The Arab Banking Corporation was established on January 17, 1980, by a special decree from the Government of Bahrain and with a capital of US\$ 1 billion. The opening ceremony was distinguished and nearly 1,000 people attended it, about 400 of whom were from outside Bahrain.”

Regarding the activities of the Corporation, Al-Saudi says, “Our policy was clear and the necessary administrative arrangements were put in place to ensure the smooth flow of the work and to make ABC able to compete with foreign banks. ABC focused on the circulation of accumulated funds in the Arab region to and from international, unlike other Arab banking institutions that most of their investments were outside the Arab region. The Arab Banking Corporation, which adopted the policy of acquiring banks in various external markets for expansion, is considered a pioneer compared to Arab banks operating in the international markets at that time. The Corporation achieved growth, which was embodied in its direct branches, in addition to joint ownership agreements in 29 countries, in the Arab World and worldwide.”

Regarding the support that the Arab Banking Corporation has received from the supervisory authorities in Bahrain, Al-Saudi had praises, “Positive reaction from these authorities, from the very beginning, as officials did not hesitate to provide assistance, including former Minister of Finance and National Economy Ibrahim Abdel Karim, and the Governor of the Bahrain Monetary Agency, who later became Minister of Finance, Abdullah Hassan Saif, as well as the late former Minister of Commerce, Habib Qasim.”

Al-Saudi continues, “It is perhaps appropriate to point out that the Arab Banking Corporation has become, during the first seven years, at the top of the list of Arab banks in terms of international presence and total assets. If we take into account the wars and difficult circumstances the region and the world experienced during the period in which the Corporation began its work, we can take pride in the achievements of ABC during the 1980s and the 1990s which I used to call, ‘The Unusual Decades’. In the period extending from 1980 to 2000, wars and financial disasters occurred, and some Arab

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With the advent of the second half of the 1970s, Bahrain could become a financial center in the Gulf qualified to attract banks of all types, nationalities, and varying capitals.

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countries suffered from these wars and disasters, most particularly in the financial sectors. These wars and disasters include but are not limited to, Souk Al-Manakh stock market crash in Kuwait in 1984, the Iraqi-Iranian war from 1980 to 1988, the severe global financial crisis in 1987, the Iraqi invasion of Kuwait in 1990, and Kuwait liberation war in 1991.”

Al-Saudi attributed the success of the Arab Banking Corporation to a set of subjective reasons, the most important of which is “clarity and good implementation of the strategy.” He confirmed that, “the Corporation was holding annual meetings attended by 40 senior officials from its branches and companies in all countries to present the results of their work for the past year and their work plan and future strategies. Everyone is committed to everything agreed upon in these meetings.” When asked about what must be done by Bahrain to maintain its distinguished position in the financial and banking sector, he said, “The world is witnessing great transformations, and Bahrain is part of the world so it must be prepared for that. The momentum prevailing in the 1980s, the 1990s and the beginning of the twenty-first century changed. Therefore, we must prepare for the future with a new vision, and there is great hope that Bahrain will continue the path of progress and construction.”

Regarding the same subject, we met Mr. Ghazi Abdul-Jawad who occupied the position of CEO of Gulf international Bank before assuming his post with the Corporation until 2008. We asked him about how he was nominated for the position, and how his experience was during the period he spent in his position. He replied “Before I came to work in Bahrain, I was working for the Saudi Investment Bank. I was responsible for the western and southern regions of Saudi Arabia, and I received two-year training with Chase Manhattan Bank.”

Mr. Abdul-Jawad added, “I was invited by the Board of Directors of the Arab Banking Corporation to assume the position of CEO, and I started my work in February 1987, and there were urgent matters that required making crucial decisions. International banks had reservations in dealing with the Corporation, including fear of the possibility of freezing assets by American authorities that have control over banks dealing with the Corporation. At that time, the Corporation was the biggest Gulf bank with branches in many Arab and international countries, including Hong Kong, Brazil, London as well as representative offices in Tehran, Morocco and Algeria. ABC also had ownerships in fellow banks such as the Arab African Bank and others.”

With the advent of the second half of the 1970s, Bahrain could become a financial center in the Gulf qualified to attract banks of all types, nationalities, and varying sizes of capitals. This situation has provided Bahrain with the needs of any developing country that aspires to position itself in the international financial and business market.

After the success of the Arab Banking Corporation, it was the turn of Gulf International Bank in the Kingdom of Bahrain. The bank was established in 1975 and started its operations in 1976. It is the first bank of pure Gulf ownership. This bank started its activities as an offshore banking unit. Bahrain Monetary Agency was required, in coordination with the Council of Ministers, to issue a special law for the bank to practice its activity as a Gulf bank in Bahrain.

The owners' shares of the Gulf International Bank have changed in the early years of incorporation before they settled in accordance with the current percentages; the Public Investment Fund of the Kingdom of Saudi Arabia 97.222%, the General Investment Authority of the State of Kuwait 0.730%, Qatar Holding LLC of the State of Qatar 0.730%, and Bahrain Mumtalakat Holding Company of Kingdom of Bahrain 0.438%, the State General Reserve Fund of the Sultanate of Oman 0.438%, the Emirates Investment Authority of the United Arab Emirates 0.438%.

The bank has set its vision to work according to a clear strategy to become “the preferred bank in providing financial services and innovative banking solutions”, as its mission was “To help the clients of the bank and work with them to develop their businesses and achieve their ambitions.”

Khalid Al-Fayez, the former CEO of Gulf International Bank, tells a story about how international banks started the business from Bahrain. “The initial value of Gulf International Bank was relatively modest. We began to work with a modest paid-up capital of BD 50 million.”

Al-Fayez adds, “Banking services in Bahrain were relatively limited at that time. I remember that there were few banks operating in Bahrain such as Standard Chartered Bank, British Middle East Bank, HSBC, Citibank and National Bank of Bahrain. I also remember two representative offices of two foreign banks; Credit Suisse and Union Bank of Switzerland (UBS). In addition, there was a joint Arab bank called BAIL. Office spaces and living accommodation as well as banking talents were limited.”

Al-Fayez points out, “The Bahrain Monetary Agency (BMA), currently the Central Bank of Bahrain (CBB), was very helpful and supportive. I got an office in the Bahrain Monetary Agency and its employees were very cooperative. I worked from the headquarters of the Bahrain Monetary Agency for a few months. Then, I established an office near the Sheraton Hotel roundabout. The total number of employees working with me was five. After that, we moved to a building at the end of Bab Al Bahrain Avenue, called Tariq Building. We stayed there until we established the current main office and moved there in 1982.”



Former Chairmen and Chief Executive Officers of Gulf International Bank, from right to left Mr. Abdullah Hassan Saif, previous Chairman of the Board of Directors, Mr. Ibrahim Abdul Karim Mohammad, former Chairman of the Board of Directors, Dr. Khalid Al Fayez, the first CEO of the bank, Mr. Ghazi Abdul Jawad, former CEO of the bank and Dr. Abdullah Al Quaiz, former CEO of the bank

Al-Fayez continues, “International banks started flocking to Bahrain in large numbers. The main attraction behind their rush was the cash flowing in the markets. At that time, the banks repeatedly recycled this liquidity abroad to finance their business outside the Gulf. When some of these banks started lending in the Gulf, we felt at Gulf International Bank that we were no longer in a favorable position. I managed to persuade the shareholders to allow the bank to be active in our region, and as a result, the bank’s statute has been changed to allow this.”

Al-Fayez continues, highlighting the banking situation in Bahrain, “As I mentioned, the main attraction for international banks at that time was the large surplus of funds in the Gulf. International banks began to come in large numbers and unfortunately some of the banks were not of the type we expected and there was more focus on quantity rather than quality. When liquidity began to dry up, especially in the late 1980s, these banks began to migrate outside Bahrain.”

It is noteworthy here that the flexibility of the Bahrain financial market could turn obstacles into investment opportunities which are evident in Bahrain’s resorting to issuing special and even exceptional laws, by the highest authority in the country, to facilitate the establishment of financial institutions. The establishment of Gulf International Bank in the mid-1970s is one of the prominent examples of this.



When we mention Gulf International Bank and its contributions in Bahrain, we have to refer to some of its chief executive officers who participated in leading the bank such as Dr. Abdullah Al-Qweiz, the former ambassador of the Kingdom of Saudi Arabia in the Kingdom of Bahrain and Dr. Yahya Al-Yahya, who spent many years working in the Saudi American Bank.

At the end of 1988, as stated in the annual report of Bahrain Monetary Agency, the total assets and liabilities of the offshore banks recorded a noticeable increase of 7.3% over the figures of 1987. At the end of 1988, the total assets were US\$ 68.1 billion while at the end of 1987 they amounted to about US\$ 63.5 billion. The total of offshore banks at the end of 1998 amounted to 48 units.

Mr. Al-Fayez's analyzed the reasons behind Bahrain's success in establishing itself as a distinctive financial center, despite its limited financial capabilities and its small-size market. "There are several reasons behind such success, the first of which is the strong commitment from the decision making circles to make Bahrain an offshore banking center, the second of which is the location of Bahrain, which is adjacent to the Saudi market, the largest oil exporter in the world, and the largest owner of petroleum revenues as well, and the third of which is that Bahrain has a kind of social life different from the neighboring countries, and above all, as we previously mentioned, there was ample liquidity in the region, which constituted a major attraction for financial institutions with various investment and financing activities, for

Top Picture

A law was enacted to establish Bahrain Monetary Agency, as it was published in the year 1973AD Issue No. 1050 of the Official Gazette

Bottom Picture

His Excellency Sheikh Ahmed bin Mohammad Al Khalifa, former Governor of Bahrain Monetary Agency witnessing the ceremony of opening the HSBC Adilya branch in 2002, with the former CEO of the bank Mr. Saleh Al Kawary and a group of prominent merchants

other traditional banking services. In addition, we should not disregard the relative ease of living in Bahrain, which made it the most attractive place compared to other countries in the Gulf at that time.”

This quick overview of some of the banks that chose to start operating their business from Bahrain, leads us to another form of the financial presence of some banks, which preferred to start their operations through opening representative offices that could turn in later stages into banks operating at full capacity. During that period, some banks that were practicing their activities in the Arab Gulf region and had a desire to expand these activities in order to provide their services to their customers in their headquarters in their countries of origin, found that representative offices are the most appropriate form for them in the early stages of thinking to move to Bahrain. These offices were just as the front desks of these banks that undertook to study the market and providing consultations in the light of which these banks would take strategic courses.



Many of these banks discovered that there was an opportunity to work from Bahrain. These banks were looking for administrative and legislative arrangements that would enable them to conduct their business from Bahrain, without the need for a branch or an offshore bank to represent it directly. This is how the representative offices emerged. Once again, Bahrain proves its leadership in devising solutions that help banks find a commercial foothold in the region, without having to comply with administrative procedures. Representation offices have extended the concerned banks with the freedom to exist in Bahrain, to enable employees in these offices to reside in Bahrain, and to use the license granted by the Monetary Agency to manage their public relations. The representation office is accordingly turned into an active and dynamic link with the bank's customers in the region. Thanks to these flexible facilities, several bank representative offices were opened and by 1991 their number amounted to 45.

Most important of all, some of these offices discovered that they need to expand, so they applied to open an offshore bank after a period of time in response to the growth of their needs and activities, at the same time. Regarding this issue, the chairman of the Bahraini Shura Council, and former Minister of Commerce Mr. Ali Saleh Al-Saleh, referred to government efforts, particularly those of the Ministry of Commerce to remove obstacles facing banks wishing to adopt Bahrain as a financial center to carry out their activities, especially offshore banks, and those that were based in Bahrain through opening representative offices.

Al-Saleh explains: "We continued to work to consolidate the reputation of Bahrain as a financial center for the region. Although there were several competitors, we were able to establish Bahrain's reputation as a center of attraction for these banks, which strengthened confidence in the efficiency of the regulations in force in Bahrain, and its ability to meet the needs of those banks. He added, "Throughout my time in the Ministry, we were concerned with facilitating procedures, in coordination with the Ministry of Finance and the Central Bank. Communication was solid, and continuous between us and those in charge of banks. We were trying to identify the needs of the banks and do our best to facilitate any issues and avoid bureaucracy as far as possible. We used to examine the demands of the banks, try to accelerate meeting their needs and make the necessary amendments to the laws whenever possible. Communication with the banks was continuous and we were aware that the more we facilitate issues to the banks, the more we enforce the confidence of these banks in Bahrain as a financial center. The small size of the Bahrain market and the absence of bureaucracy have greatly helped us achieve this flexibility. This has made the decision-making processes to change the laws take place quickly, and within a very short time.

Al-Saleh continues, "This is what characterized the period in which I was a minister. All applications to the ministry from banks and insurance companies

received the attention they deserved, and their transactions and applications were dealt with very quickly. We worked on developing and solving problems as quickly as possible and were able to promote the work of the Ministry, in cooperation with the Central Bank and the Ministry of Finance."

Al-Saleh continues, "In fact, we have here to commend the positive role played by the Prime Minister His Royal Highness Prince Khalifa bin Salman Al Khalifa, who has spared no effort in supporting Bahraini financial institutions such as the Bank of Bahrain and Kuwait, the National Bank of Bahrain and Ahli Commercial Bank. The government allocated large sums of money to help these banks solve their financial crises. He added, "We cannot here override the support and assistance provided by the ruler of Bahrain at that time, His Highness the late Sheikh Isa bin Salman Al Khalifa, to ensure speedy achievement and efficient performance.

Another noteworthy issue was revealed in the annual reports of the Bahrain Monetary Agency, which indicated that the number of representative offices reached 21, in 1977, while the current number does not exceed 7. This is because when most of the representative offices were opened in Bahrain in the 1970s, they had, as we mentioned, a specific purpose for the bank in question, such as promoting the main branches of these banks, or using them as a marketing platform and transferring information about the economic situation of the Gulf States at that time. Some banks have also used representative offices to obtain residence permits for bank employees. Since the reasons for opening offices to some banks have ceased to exist, most of them have decided to go without them, and thus closed them.

Bahrain's ambitions to diversify the components of its financial market did not stop at the limits of what it achieved in the sectors mentioned above. Therefore, the idea of investment banks emerged as a result of the need to provide various banking services that meet the needs of customers and banks operating in Bahrain including commercial and offshore banks. As a result, the Bahrain Monetary Agency has introduced a new type of license called "investment banks", to help banks contribute to providing investment services to their clients, including buying and selling of shares as well as investment funds. The number of investment banks amounted to 17 in 1986, and then rose to 21 in 1989. The total assets and liabilities of investment banks and companies amounted to US\$ 4 billion with an annual growth rate of 16.4% between 1988 and 1989. The number of investment bank licenses amounted to 21, the share of Islamic banks of which was 12.

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Bahrain's ambitions to diversify the components of its financial market did not stop at the limits of what it achieved. Therefore the idea of investment banks emerged as a result of the need to provide various banking services to clients and banks.

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One of the leading investment banks, Investcorp, which was managed for years by the late Mr. Namir Kirdar and its board of directors was chaired for several terms by the former Kuwaiti Minister of Finance, Abdul Rahman Salem Al-Ateeqi. Since its inception as an idea in 1980 and before it became a project in 1982 to introduce its shares on the market in 1982, Investcorp was keen to limit its activities to managing alternative investments, as its field of work is focused on finding investment opportunities in Western countries and the United States of America and presenting them to investors from The Arab Gulf and Western countries. The value of the investments it managed since its establishment until June 30, 2019 amounted to US\$ 28 billion. Regarding this period, former Finance Minister Mr Abdullah Saif says, “To keep pace with global developments in the field of developing the financial market in Bahrain, innovative financial tools and activities have been introduced that would create new channels for the banking and financial market in Bahrain. A new system has been issued to encourage the attraction of financial institutions specialized in Investment Management.”

When talking about investment banks, it must be noted that they started their business during the period of that extraordinary financial boom that the region witnessed and continued until the second half of the 1970s, when most investment banks, whether traditional or Islamic, found themselves involved in investing in real estate, shares and bonds. Their business results were profitable at the beginning, but, for various reasons related to the

His Highness Prime Minister Prince Khalifa bin Salman Al Khalifa in the opening ceremony of the new headquarters of Bahrain National Bank in October 2000, on the left of His Highness Mr. Hassan Juma, the then CEO of the bank

method of stating its financial position within accounting standards in which the achieved profits are deferred to the due dates of the investment, or the calculation of the profits before the due date, made them suffer some financial difficulties. This created an atmosphere of uncertainty, leaving deep negative effects on demonstrating unrealized profits, on the basis of which the results of banks show investment with unrealized profits and the profits are distributed to shareholders and investors on the basis of this unrealized profitability.

All these issues were revealed when the financial crisis erupted, and the huge losses of some banks and clients appeared, causing great problems between banks and investors, as well as the exit of a number of banks from the market and those that remained may still suffer from the repercussions of that stage.

There is no doubt that investment banks have introduced multiple investment products, which have contributed greatly to creating many opportunities that many investors have benefited from. Hence, it would be a mistake to underestimate the positives that were brought about with the idea of incorporation and granting the appropriate licenses required at that time.

These investment banks would not practice their business and develop their services, far from their counterparts, which are the investment funds. The Bahraini market provided an appropriate climate that contributed to the flourishing of the investment funds. The marketing of foreign investment funds established abroad began in Bahrain during the 1980s, while the first investment fund locally established emerged in 1984.

The first regulatory framework for collective investment funds was issued by the Central Bank in 1992 and was later in June 2007. The regulations and rules relating to the operation of investment funds were subsequently revised and issued in April 2012, and they were an important part of the supervisory guidelines for the Central Bank of Bahrain. That included integrated rules and regulations related to licensing, registering and supervising of the locally established collective investment funds, and foreign investment funds licensed or registered in the Kingdom.

By the end of June 2019, the number of investment funds registered by the Central Bank amounted to 2136, of which 74 were investment funds based in Bahrain, compared to 2290 investment funds in the same period of 2018. The number of Islamic investment funds amounted to 80 of the total licensed investment funds, registered by the end of June 2019.

The net asset value of these funds amounted to \$ 7.534 billion by the end of March 2019, compared to \$ 7.877 billion in the same period of 2018, a decrease of 4.5%, of which \$ 3.340 billion is the value of the assets in the locally established funds. The value of assets in Islamic investment funds was \$ 1.325 billion at the end of March 2019.

Some economic schools see that “investment funds are one of the best modern and developed tools in international markets in the field of collective management of savings, if not the best at all. Many developing countries have been keen on introducing them in their legal and economic systems in order to find an investment pool other than a bank through which the national savings flow to invest in the stock market, which is concerned with providing long and medium term financing for investment projects, instead of collecting these savings in the form of deposits with banks used in granting short-term loans, most of them are directed to financing consumer expenditure.”

In the midst of that atmosphere, Bahrain willingly decided to adhere to global transparency standards. The Central Bank of Bahrain requested investment banks operating in Bahrain to comply with these standards. The Capital Markets Supervision Directorate at the Central Bank of Bahrain deemed that maintaining a detailed record of each of the investment funds operating in its markets is necessary in order to carry out its tasks in a way that guarantees both market stability and growth. This necessitated the imposition of a set of multiple and manifold procedures that would begin with control over and supervision of licensed stock exchange markets and ensuring the implementation of clearing, settlement and central depositing systems, followed by control over and supervision of members licensed to work in stock exchange markets and clearing, settlement and central depository systems, each in respect of its relevant activity.

This also requires obtaining approval for listing and organizing the process of issuing and offering securities. After that, the operations of supervision and control over the listed companies begin, before reaching the stage of organizing acquisitions, mergers, depreciation as well as fair and transparent share buybacks.

All this is culminated in recurrent processes that undertake the implementation of investor awareness initiatives, so that it can monitor the market, through the keenness of the Capital Markets Supervision Directorate to supervise and regulate the capital markets in the Kingdom in order to maintain the transparency, fairness and effectiveness of the capital market to ensure the protection of the integrity and reputation of the Kingdom of Bahrain as a major financial center, in the first instance, and then the endeavor of Capital Markets Supervision Directorate to undertake these responsibilities through adhering to the international standards governing capital markets, particularly those of the International Organization of Securities Commissions (IOSCO).

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In 2008, Bahrain became one of the signatories of the Multiparty Memorandum of Understanding (MOU) of the International Organization of Securities Commissions, for the purpose of consultation, cooperation and information exchange.

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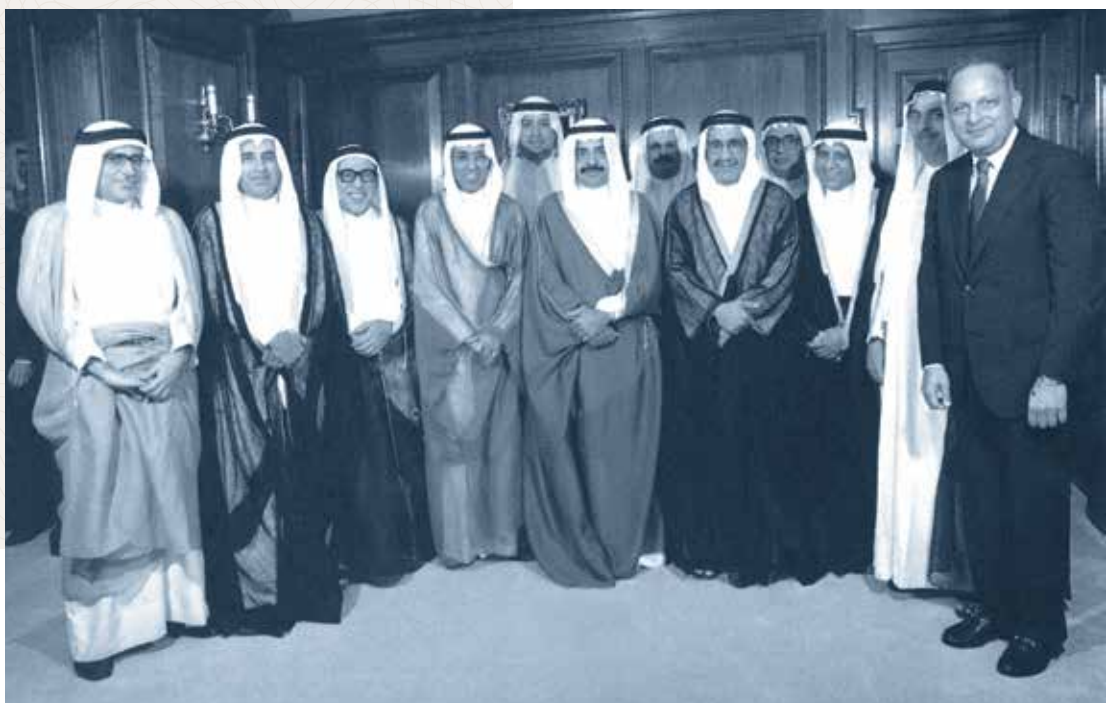


It is noteworthy that the International Monetary Fund has reviewed the extent of the commitment of the Central Bank of Bahrain to the basic standards of the International Organization of Securities Commissions in the period between 2005 and 2006. In 2008, Bahrain became one of the signatories of the Multiparty Memorandum of Understanding (MOU) of the International Organization of Securities Commissions, for the purpose of consultation, cooperation and information exchange.

At the end of this part related to investment banks, whether those operating under the principles of conventional banking or Islamic banking, it must be mentioned and confirmed that these banks have provided and are still providing a lot to countries where they practice their activities. The financial successes these banks achieved and the investment projects they generated encouraged the others to follow their examples. One of the most prominent of the accomplishments of these banks is the financial harbor and the residential and commercial complexes in Bahrain, and many similar projects in the Gulf which would not have taken place without the knowledge and culture spread by this segment of banks. Gulf Finance House has played a very significant role in financing important projects inside and outside Bahrain such as the Financial Harbor, etc. There are a group of Investment Islamic banks such as Arcapita, Venture Capital and Innovest which have greatly contributed to financing a lot of construction projects inside and outside Bahrain.

His Royal Highness Prince Khalifa bin Salman Al Khalifa, the Prime Minister in the opening ceremony of Investcorp Bank on 28 May 1984, at the left of His Highness Sheikh Mohammad bin Khalifa Al Khalifa, the then Minister of Interior

His Royal Highness Prince Khalifa bin Salman Al Khalifa, the Prime Minister in a visit to Investcorp in the presence of the members of the Board of Directors of Investcorp and its CEO Namir Birkirdar



In order for the Investment Activities circle to complete, it was necessary to pay attention to allowing the establishment of private investment companies, with a distinct legal entity, to be registered with the Central Bank of Bahrain, which in turn, and in order to strictly maintain the internationally agreed standards in this sector, divided the investment companies into three categories, each of which is distinct from the others.

Each company holding a permit belonging to the first category of the licenses is entitled to deal in financial instruments as a major dealer, or an agent for arranging investment deals, or in charge of managing investments, or maintaining records related to investments and providing technical advice and investment services.

The second category is the one that is entitled to provide investment services, except for that of dealing in investment instruments, as a major dealer. Therefore, this category cannot deal with investment services that they are their issuing body, but it can deal with other types of investments, including managing customers' investments.

As for the third category, it is the one that permits the investment companies supporting this category to deal in various types of investment within the specific controls including that the holder of this category have to be

independent and is not entitled to maintain customer investment balances and is prevented from obtaining any commissions from any party except its direct customer, and is not entitled to have agency agreements with any investment manager.

This circle could not be complete without paying attention to the sovereign funds, that Bahrain attracted some of which and established some others.

Sovereign funds are those that belong to sovereign countries and that are established for general or specific purposes for the country concerned, such as future generations funds, or funds intended to serve specific projects. These types of funds are either in the local currency, or in a global currency, according to their purpose. The general investment funds are distinguished by three main characteristics: (1) sovereign wealth funds are owned or monitored by the state (2) these funds operate financial assets in the long term (3) the investment policy of these funds aims to reach specific goals such as saving for future generations, diversifying the GDP, and achieving economic balance.”

At the level of Bahrain, there is a package of sovereign funds, as offshore banks and traditional or Islamic investment banks located in Bahrain invested in some sovereign funds, while some banks in Bahrain worked with the countries concerned to establish some of these funds by providing advice or attracting investment and even managing some of those funds.

Bahrain has paid particular attention to the issue of sovereign funds, and has cared for studying the best and most feasible ways to benefit from this type of financial activities. This does not mean that it was partially away from participating in some regional sovereign funds.

That is why Bahrain decided to wait sometime to be able to establish its sovereign fund when the appropriate conditions are in place at the market level in addition to self-preparedness.

The requirements integrated with the launch of the reform project and the Vision of 2030. The establishment of the Mumtalakat Holding Company, the sovereign wealth fund of the Kingdom of Bahrain in 2006 was a response to this, in order to restructure the state-owned companies so as to “achieve strategic and responsible investments in accordance with a solid governance framework and sound and stable financial values that are commercially viable so as to be able to continue.”



Headquarters of Bahrain National Bank in its final stages







Chapter 6

Leader of the Competition in the Islamic Banking Sector

Ahmed Al Fateh Mosque, the biggest in Bahrain, located in the middle of Ahmed Al Fateh Islamic Centre, and one of the most prominent Islamic tourist attractions in Bahrain

In the midst of the worsening international conflicts and the transition of the competition to the Islamic sector, it was inevitable that part of that conflict would deflect to the field of banking. International Islamic organizations endeavoured to establish this sector and legislate its services.

As many resources point out, “The emergence of Islamic banks was a response to the desire of Islamic societies to find a formula for banking transactions away from the suspicion of usury and without using the interest facility.”

The first attempt to establish an Islamic bank took place in 1963 when the local savings banks were established. The first bank was established in the city of Mit Ghamr in the Arab Republic of Egypt and was founded by the former president of the International Union of Islamic Banks Mr Ahmed Al-Najjar. This experiment lasted for about three years. Then, Nasser Social Bank was established, which is the first bank that stipulated that dealing with bank interests, by either taking or giving, is prohibited. The nature of the bank’s transactions was in effect social, not commercial banking.

“The real interest in establishing Islamic banks operating in accordance with the provisions of Islamic Sharia was reflected in the recommendations of the Conference of Foreign Ministers of Islamic Countries in Jeddah, Kingdom of Saudi Arabia in 1972. The Conference stressed the necessity of establishing an international Islamic bank for Islamic countries. As a result, an agreement was concluded to establish the Islamic Development bank. This agreement was signed by the finance ministers of Islamic countries in 1974. The Islamic Development Bank started its activity in 1977 in Jeddah, Kingdom of Saudi Arabia. This bank is distinguished for its services directed towards development programs.

The first integrated Islamic bank operating in accordance with the provisions of Islamic Sharia was established in 1975. It was Dubai Islamic Bank which provided all banking and investment services to individuals in accordance with the provisions of Islamic Sharia. After that, the establishment of Islamic banks continued to reach 267 banks spread over 48 countries worldwide, with a business volume of more than US\$ 250 billion, according to the statistics of the General Council of Islamic Banks in September 2003. In addition, there were branches for Islamic transactions in conventional banks worldwide.



His Majesty King Hamad bin Isa Al Khalifa with the late His Majesty Sheikh Isa bin Salman Al Khalifa. In the picture, Mr. Saeed bin Ahmed Lootah the founder of the first Islamic bank, Dubai Islamic Bank and Mr. Ahmed Bazi Al Yasin the founder of Kuwaiti Finance House

The Islamic bank is defined as “A bank that is committed to applying the provisions of Islamic Sharia in all its banking and investment transactions, through the application of the concept of financial intermediation based on the principle of profit or loss sharing, and through the framework of the agency, both public and private.”

Although the emergence of Islamic banks did not originate in Bahrain, as described above, thanks to its insightful future vision, Bahrain managed in a very short period of time, to attract Islamic banks, working according to international standards to become one of its main bases successfully. With great effort it became the leading Arab country in embracing Islamic banking, and developing a supportive environment through great effort, and went on from there to establish the products of Islamic banking.



Sheikh Abdul Rahman bin Mohammad Al Khalifa chairing the Regular General Assembly of Bahrain Islamic Bank in 1981

Despite the fact that banking work in accordance with the noble Islamic Sharia laws had started in other countries, Bahrain took the lead in formulating regulations, laws, banking procedures, accounting standards, and governance controls, which have made a great difference. By its proactive leadership, Bahrain has become the main center for Islamic banking in the Middle East. It has become of great importance in international financial and business markets, a fact which is reflected in figures and statistics, and reinforced by the worldwide spread of Islamic banking.

Regarding the success of Bahrain in occupying this distinguished position in the Banking sector, the Governor of the Central Bank of Bahrain, Mr. Rasheed Mohammed Al Maraj, affirms, “It was not a mere coincidence that qualified the Kingdom of Bahrain and initiated the successes it achieved in order to be able to host and revitalize these two forms of Banking sector activity. In fact, while the resources of some of these reasons were purely subjective, others were very objective.”

On the subjective level, it should be noted that the readiness of the Banking sector in Bahrain, which led to that early birth and distinct qualitative transformations, is a natural and logical outcome of two main factors. The first is the open leadership capable of positive creative interaction with these global transformations in this vital sector in the economic field. Therefore, the qualitative transformations in the Bahraini Banking sector did not

face administrative obstacles that often deter the creative embrace of the requirements of such development. The second lies in the instinctive readiness of the Bahraini citizen in terms of work, self-development and accepting the challenge of involving in new activities and excelling in them. This is why the percentage of Bahrainisation in the banking sector and in the higher positions that led this transformation amounted to 90% and provided it with the ability to continue and grow to higher levels.

This integration between the progressive view of the leaders of Bahrain and the individual qualifications of the citizen has established societal values that found root in the banking sector. Such integration led to the distinctions that Bahrain enjoys, and succeeded in attracting the international and regional Banking sector towards the Bahrain market and generated that diversity in its activities whether Islamic banking or offshore banking units.

In short, the wise leadership represented by His Highness, the late Sheikh Isa bin Salman Al Khalifa and His Royal Highness Prince Khalifa bin Salman Al Khalifa, Prime Minister since the 1970s, who led the work to establish Bahrain as a financial center to attract many regional and international financial institutions and to develop human cadres, led to the expansion of the financial sector, and its contribution to GDP to 17%; making it the second sector after the oil sector in terms of contribution to the economy.

Many Muslim economists have endeavored to set rules for this banking style, which differs from those established by traditional banks, which have decades of experience. It has become clear for most of them that if Islamic banks want to succeed and maintain a share in the market that guarantees continuation and growth for them in such a competitive market, they should practice activities not undertaken by traditional banks, such as participation in industrial, commercial, and urban projects through carrying out legitimate types of transactions such as speculation, Murabaha, share-to-buy, interest-free loans, contributing to the capital of other institutions, lease and lease-to-own, receiving savings or deposits and investing them under the supervision of their devices or joint supervision between them and the depositors and then distributing the profits to the depositors. There was another problem that lies not only in the name of non-interest banks, but also in the nature of the name, as provisions differ according to naming, because the word “bank” means, to many people, two basic things - that banks are prohibited from engaging in trade and that banks can only be based on interest-bearing transactions.

This explains how the current volume of Islamic banking in the world, which began in the 1970s, exceeded US\$ 3 trillion, the share of the Kingdom of Bahrain at the end of 2018 amounted to more than US\$ 27.5 billion.

In order to provide banking services that are based on the values of Islamic Sharia and adhere to its standards, Bahrain had to fiercely compete on two levels. The first is competition with the Islamic centers that some Islamic countries rushed to establish, or those that do not want to lose their share of Islamic money. The second is competition with some traditional banks that have established special windows and promoted them as operating according to Islamic Sharia.

The role of the Monetary Agency / Central Bank of Bahrain was not limited to supporting the granting of licenses to Islamic banks, speeding up the registration procedures and facilitating the requirements for activities, but far exceeded that. Through the initiatives of the Central Bank, efforts have been made to find new products to display in the market to strengthen the Islamic services and expand their scope, making it available to all, and comprehensive in quality and options to fulfill customer needs. The policy required a lot of innovation so that there would be no obstacles for clients wishing to choose between conventional and Islamic banking.

The leadership of the country has played a major role in encouraging the presence of Islamic banking in Bahrain by facilitating procedures and speedy granting of licenses to various components of Islamic banking. The move towards supporting Islamic banks was backed by the ruler of the country at that time, His Highness, the late Sheikh Isa bin Salman Al Khalifa, and by the government headed by His Royal Highness Prince Khalifa bin Salman Al Khalifa, the Prime Minister. The late Emir, and the Prime Minister spared no effort to direct the relevant departments to support Islamic banking, and their doors were always open to meet the agents and representatives of bodies wishing to practice Islamic banking.

Thus, the role of the Central Bank was not limited to licensing Islamic banks, but it also worked with the banking sector to find products and offer them to clients including banks, companies and even individuals. These products included government bonds that matched the requirements of Islamic Sharia. These products achieved, and are still achieving, unparalleled success, and provided an opportunity for the financial markets in Bahrain and other Gulf countries to introduce a new Islamic product that was, and is still, well accepted by the international financial and banking markets, along with the active institutions in these markets. There is no doubt that this product provides liquidity in the markets, expands the scope of financial market activities and gives it the depth necessary to increase the frequency and work cycles of daily transactions.

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The role of the Central Bank was not limited to licensing Islamic banks, but it also worked with the banking sector to find products and offer them to clients including banks, companies and even individuals.

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Regarding the same subject, the CEO of Mumtalakat Holding Company, Khaled Al-Rumaihi said, “His Majesty the King, His Royal Highness the Prime Minister, and His Royal Highness the First Deputy had their distinctive touch on that vision. Since the beginning of banking and financial work in Bahrain, nearly half a century ago, Bahrain has made many great achievements in this field, due to the directives of our rational leadership that have had the greatest impact in enhancing Bahrain’s leading financial position.”

Al-Rumaihi added, “We must value the pioneering historical transformations in the banking sector that flourished, and laid the firm foundations for the development and growth of this sector during the era of His Highness, the late Sheikh Isa bin Salman Al Khalifa, and the qualitative development it achieved after that, which attracted the most prominent global banking and financial institutions in the era of His Majesty King Hamad bin Isa Al Khalifa, His Royal Highness Prime Minister Prince Khalifa bin Salman Al Khalifa, and His Royal Highness Prince Salman bin Hamad Al Khalifa, Crown Prince, Deputy Supreme Commander, First Deputy Prime Minister and Chairman of the Economic Development Board.”

Regarding this topic, Dr. Anwar Al-Sada, referred to the Central Bank of Bahrain, where he worked in the regulatory and supervisory department and before that, the Bahrain Monetary Agency, “Always keen on making a balance between working hard to encourage innovation and paying great attention to avoid risk. The result of this was these flexible laws, strict regulatory supervision, and continuous periodic monitoring.”

The beginning was the initiative launched by the Central Bank of Bahrain, when it issued short-term Islamic government bonds, with a maturity of only one month, amounting to US\$ 25 million. On August 29, 2001, Islamic lease Sukuk in the amount of US \$ 100 million were issued, which was the first in the world.

The Central Bank then followed up with the issue of the government Ijara Sukuk of US\$ 70 million for a three-year maturity period, with maturity date on 27 February 2005. In fact, the coverage from market dealers reached more than 70%. This was tangible evidence of the desire of dealers to acquire such quality products which were well-received in the market and another indication of Bahrain’s success in finding and innovating new opportunities for Islamic banking work.

As per the jurisprudence of Bahraini origin, Islamic banking is getting stronger and stronger after each new and successful issuance by the Central Bank of Bahrain. A special license was issued by the Bahrain Monetary Agency for the first Bahraini Islamic bank in 1987, which was the Bahrain Islamic Bank, to provide commercial services to clients according to the requirements of Islamic Sharia. The first general manager of the bank was Mr. Abdul Latif Janahi.

At the beginning of its establishment, and for the purpose of supervision, the bank was treated by the monetary agency, as a traditional commercial bank. Therefore, it had to submit its monthly reports to the agency like other commercial banks. The total assets and liabilities of the bank's budget for the period from 1985 to 1989 grew from BD 64.57 million to BD 91.71 million; an average of 9.2%.

After that, there were continuous applications from local and foreign banks to obtain licenses to practice Islamic banking, which made Bahrain an important and inspiring center for contemporary Islamic banking. The Shamil Islamic Bank, which was established as a result of the merger of Faisal Islamic Bank and the Islamic Investment Company, was one of the first large Islamic banks established in Bahrain, with total assets of approximately \$ 2.9 billion and more than \$ 230 million as capital and reserves.

In our meeting with the CEO of Al Baraka Group, Adnan Ahmed Youssef, he said, "Throughout my career when I visited any country in the world, I looked forward to meeting officials of central and the larger banks. When I asked any of them about Bahrain, they all praised Bahrain and confirmed that they are aware of the support the Bahrain government offers for the financial and banking sector."

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A special license was issued by the Bahrain Monetary Agency for the first Bahraini Islamic bank in 1987.

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He added, "In 1985 the Governor of the Bank of Bahrain then, Abdullah Saif (formerly the Bahrain Monetary Agency), with the support of His Royal Highness the Prime Minister, and the encouragement of His Highness the late Emir of the country, His Majesty Sheikh Isa bin Salman Al Khalifa, worked to facilitate the procedures for revitalizing the movement to establish Islamic banks, thanks to which Bahrain succeeded in embracing Islamic banks (Bahrain Islamic Bank was established in 1978). That step paved the way for these types of banking products."

He stressed, "if this initiative was delayed, the Islamic banks would have gone to another country."

Adnan points to the work that has been done over decades since the start of the Islamic Banking sector in the 1970s in order to institutionalize it, "The Governor of the Bank of Bahrain undertook to coordinate with the relevant authorities in Bahrain, which resulted in this solid base that extended the Islamic Banking sector with its capacity for innovation, resilience and growth."



Sheikh Abdulla bin Khalid Al Khalifa, former Minister of Justice & Islamic Affairs in a visit to Bahrain Islamic Bank in 1981, accompanied by Sheikh Abdul Rahman Al Khalifa, Chairman of the Board of Directors of the bank

Al-Baraka Islamic Banking Group offers an integrated set of Islamic products and services in accordance with Islamic Sharia. The late Sheikh Saleh Abdullah Kamel tops the list of the founders of the bank. He has managed to elevate the work of the bank to the current levels through wise leadership and unparalleled determination. His choice for operating in Bahrain proved the convergence of interests between a person looking forward to the best and a country that can offer the best.

In turn, former Finance Minister Ibrahim Abdul Karim Mohammed deals with the phenomenon of the revival of Islamic banking in Bahrain, saying, “We cannot talk about Bahrain as a financial center without referring to Islamic banks, the first of which was the Islamic Bank of Bahrain, then Faisal Islamic Bank (currently Ithmaar Bank) and Al Baraka Bank, which turned Bahrain into a developed, contemporary Islamic financial center.”

On the same issue, businessman Farouk Al-Moayyed expresses his opinion regarding Bahrain’s embrace of Islamic banking, saying: “Bahrain was the first to grant licenses for Islamic banks, granting a license to the first Islamic bank, Bahrain Islamic Bank, in 1978. The first CEO of the bank was Mr. Abdul Latif Janahi. The first founders of the bank, included Sheikh Abdul Rahman bin Rashid Al Khalifa, and Mr. Mohammed Al-Zamil.”

Top Picture

His Royal Highness Prince Khalifa bin Salman Al Khalifa, the Prime Minister in the ceremony of the inauguration of the Towers of Bahrain Financial Harbor

Bottom Picture

His Royal Highness Prince Salman bin Hamad Al Khalifa, the Crown Prince, Deputy Supreme Commander and First Deputy Prime Minister at the inauguration of Diyar Al Muharraq in the year 2019



When we asked Mr. Farouk Al-Moayyed about what Islamic banks added to Bahrain's merchants and local companies, he replied, "Of course, the banks added a lot to the Bahraini merchants and the local companies as they provided loans and facilities that contributed to building the country. They also availed different options for local merchants and companies for comparison in order to obtain better services, higher interest rates, or competitive commissions that are more attractive in purely commercial terms. This also helped develop Bahrain at the level of construction and advancement of the economy. Large companies such as Aluminum Bahrain (Alba), Gulf Petrochemical Industries Company (GPIC), Gulf Steel Company, and Arab Shipbuilding And Repair Yard Company (ASRY) and others were established. The availability of financing for these companies from banks in Bahrain helped them obtain financing and accordingly succeed.

We have to pause here to pay dues to the pioneering role played by Mr. Al-Shirawi, as Minister of Development and Industry which has highly promoted Bahrain's position, despite its modest financial capabilities, compared to other Gulf countries. Al-Shirawi was assisted in doing so by the flexible political leadership and the qualified Bahraini human resources. Al-Shirawi found in

that leadership, represented in the ruler of the country at that time the late Sheikh Isa bin Salman Al Khalifa, and his brother, His Royal Highness Prince Khalifa bin Salman Al Khalifa, the Prime Minister, what he was aspired to as a minister of development in terms of support and assistance, in order to establish huge companies of the size of “Alba”, “GPIC”, and others.

In a meeting with the CEO of the Kuwait Finance House, Abdul Hakim Al-Khayyat, we asked him the differences between the work of Islamic banks and the conventional ones. He said “Conventional banks give depositors interests and calculate interest on loans. In most cases, when debtors fail to pay, the traditional bank rushes to take advantage of the imposed interest. In turn, the value of interest increases until they turn, in case of inability to pay, bad debts which may after years reach to very high levels that may affect the bank’s ability to continue its business.



Al-Khayyat explained, “On the contrary, we find that Islamic banks operate with a different methodology, which is based on principles, values, and mechanisms of what we might call the principle of ‘Sharing with the customer in profits and bearing losses with him’. Therefore, Islamic banks take into account the social dimension, in its banking relations with the customer, whether an individual or institution. Therefore the profit rates that Islamic banks share with their customers are often higher than those provided by the conventional banks which set the interest rate for the term of the deposit, while the Islamic bank also takes into account sharing the customer in some additional profits according to the achieved results.”

Al-Khayyat added, “The conventional bank is exposed to losses due to provisions, while the Islamic banks protect their customers from a large portion of the losses. The Islamic bank does not add more interest to the customer when he fails to pay, because the profits that can be obtained is determined in advance, and the bank cannot claim more from the customer. In cases where the Islamic bank has to calculate additional fees on the insolvent customer, i.e. the customer who is unable to pay in the agreed time, any amounts collected shall all be distributed as donations to the needy people. This equation that governs the behavior of Islamic banks stands behind the strength of the position of Islamic banks and their ability to grow.”

Executive Director - Banking Supervision at the Central Bank of Bahrain Khalid Hamad Al-Hamad spoke about Islamic banks, their importance and how Bahrain can be the first center for banking business in the world, explaining that while Islamic banks started in Egypt, Sudan, United Arab Emirates and Kuwait, they remain the largest in Bahrain. This is a result of Bahrain’s sponsorship of banking work in general and the creation of institutions that support banking work such as Bahrain Institute of Banking and Finance (BIBIF), the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), and General Council for Islamic Banks and Financial Institutions (CIBAFI).

He pointed out, “The Central Bank of Bahrain provides full support to all components of the financial sector, and always ensures that international standards related to the financial sector are taken into account.”

Regarding Islamic banks, Khaled Al-Rumaihi, CEO of Mumtalakat Holding Company, adds, “We have to address the position of Bahrain in the field of Islamic banking as the first country in the region that has paid great attention to Islamic banking, and has contributed significantly to developing related

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While Islamic banks started in other countries too, they remain the largest in Bahrain, a result of its sponsorship of banking in general and the creation of support institutions.

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concepts, legislative rules, and standards-compliant with the Islamic Sharia. Bahrain Islamic Bank was established in 1978, and this pioneering step was followed by qualitative leaps that strengthened the confidence of the leaders of Islamic banking in the Kingdom of Bahrain as a rising center in this field such as the establishment of the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and a number of international Islamic organizations in Bahrain in 1991, along with the issuance of the first rule book by the Central Bank of Bahrain on Islamic banking business rules in 2001, and that led to strengthening the position of Bahrain as the first in the world in developing and issuing Sukuk.

We conclude the talk about Islamic banks, during that period with the testimony of the first CEO of the first Islamic bank in Bahrain, Bahrain Islamic Bank that was launched under the leadership of its CEO Dr. Abdul Latif Al-Janahi.

Abdul Latif Janahi says in his book “Steps Towards the Impossible” issued in 2018, narrated by his daughter Najwa Abdel-Latif Janahi, “The initiative was launched by the late Saudi King Faisal bin Abdul Aziz Al Saud, who proposed the idea in the “Third Islamic Conference of Foreign Ministers held in Jeddah in 1972, as Jeddah was the headquarters of the General Secretariat of the organization.

Former minister of Labor His Excellency Sheikh Khalifa bin Salman Al Khalifa presenting Bahrain Islamic Bank the Award of Bahrization as the first bank obtaining this award, received by Mr. Abdul Latif Janahi

A recommendation was made to establish an international Islamic bank for Islamic countries as well as the issuance of a document signed by leaders stating that the leaders of the Islamic world shall support the establishment of Islamic banks in their countries.

What is striking here, as Janahi recounts, is that King Faisal, after the document was prepared, “invited the leaders to sign it, and the first person to sign was His Highness Sheikh Isa bin Salman, the Emir of the State of Bahrain, then the leaders of the Arab countries signed one after another. After that, the Islamic Development Bank was established by a group of Arab and Islamic governments.

Janahi adds, “Abdul Latif started the establishment of an Islamic bank in Bahrain as a result of the support of His Highness the late Emir of the country, Sheikh Isa bin Salman Al Khalifa. Two months after the initial opening, the official opening took place under the patronage of His Highness Sheikh Isa bin Salman Al Khalifa, the Emir of Bahrain. It was not strange for His Highness to give the opening of the Bahrain Islamic Bank all this attention, as His Highness was the first to sign the document supporting Islamic banks, and he was the one who granted the bank its legal status by issuing an Emiri decree to establish it. There was no legislation related to Islamic banks at that time... (Abdul-Latif is proud of the committee that undertook to develop the Islamic legislation that runs the business of that new bank, which formed a model that rose above sectarianism) the Sharia Supervisory Control established at the bank included scholars of most common jurisprudence schools such as Jafari, Shafia and Maliki.”

In our meeting with Dr. Anwar Al-Sada, who served as the Deputy Governor of the Central Bank of Bahrain, he said: “Bahrain has taken excellent steps, including the establishment of a special directorate to supervise Islamic banks and making the Central Bank the sole supervisor of all the components of the financial banking sector.”

For his part, banker Mohamed Al-Shroogi, who held a senior position at Citibank Bahrain and the Gulf, remembers the story of Citibank obtaining a license to conduct its banking activities with an Islamic background, saying, “In 1996, we thought of issuing a license for an Islamic bank, so we went directly to the Bahrain Monetary Agency to discuss this matter. We obtained the license, in a relatively short time, and established an Islamic bank with an independent license as the first American bank to obtain a license of this kind.”

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Bahrain hosts various Islamic financial institutions in addition to a number of organization and bodies important for the development of Islamic services.

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Although the background of Ebdaa Bank is a traditional bank, it also offers some Islamic banking services. It is a model in offering service to women. As a result, it was awarded “Best Empowerment of Women at the Level of the Gulf Cooperation Council” by the Government of Dubai, in May 2017 in recognition of its role in supporting Bahraini women and empowering them economically. Ebdaa Bank was not alone in provision of micro financing as other banks such as Family Bank also offers distinguished services to small and medium size enterprises.

The CBB Rulebook Volume for Islamic banks covers areas, including conditions for licensing, capital adequacy, risk management, the exercise of activity, financial crime, and terms and requirements of disclosure/reporting. The directives volume also addresses the specific characteristics of Takaful companies. The volume formed the first comprehensive regulatory framework for regulating the Islamic financial services sector.

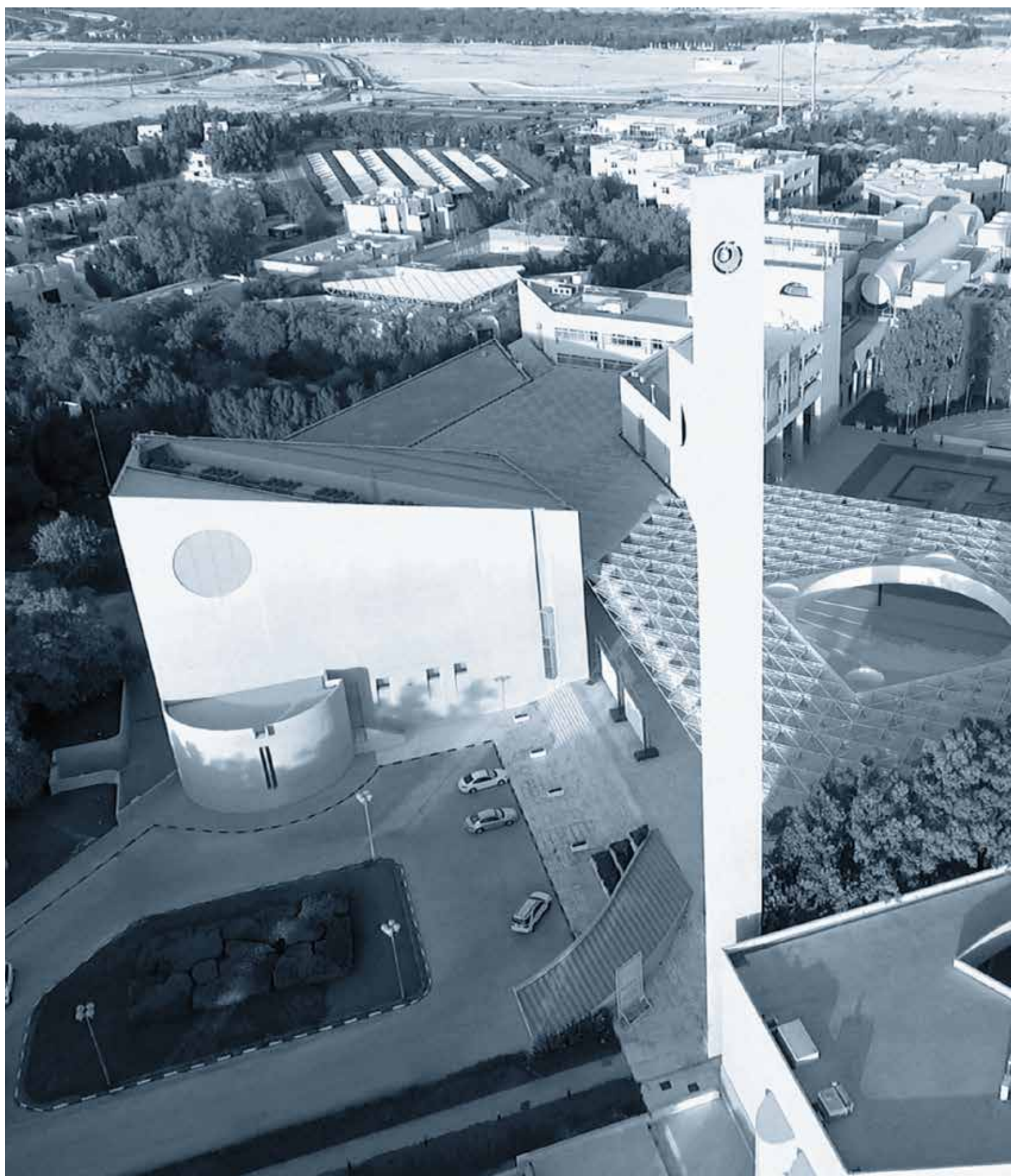
In addition to the various Islamic financial institutions in the Bahraini financial sector, the Kingdom of Bahrain also hosts a large number of organizations and bodies important for the development of Islamic services, including the Accounting and Auditing Organization for Islamic Financial Institutions, the Liquidity Management Center, the International Islamic Financial Market, and the International Islamic Rating Agency, and Sharia Review Bureau.

The Secretary-General of Islamic Fiqh Council of the Organization of Islamic Conference, later Islamic Cooperation Organization, Muhammad Alhabib bin Alkhoja delivering a speech at one of the events of the organization



Bahrain Financial Harbor is in one of its first construction stages







Chapter 7

An Integrated Banking System

An aerial shot of the buildings of the University of Bahrain the source for providing the financial and banking sector with its distinguished professional cadres

Bahrain's success in specialized banking organizations encouraged state officials to build the appropriate ecosystem capable of encouraging more of these institutions and positioning Bahrain where it deserves to be in international financial and business markets, while paying more attention to supporting small and medium enterprises.

Regarding this matter, the former President of Bahrain Development Bank, as well as the Chief of several other banks in the course of his career, Khalid Shaheen in recalling memories of past events, raises subjects of great importance, related to the promotion of small and medium-sized enterprises, "The Bahrain Development Bank played the role of the financial guarantor of these institutions before the Commercial banks, which enabled these institutions to have access to financing capital, on the one hand, and gave the financing bank a sense of confidence that its financing will not be lost, due to the guarantees provided. Today, Labor Fund 'Tamkeen' also plays this role.

In mid 1970s of last century, Bahrain achieved a number of distinguished achievements on the path of building a distinguished financial and banking sector, which includes distinguished banking services offered by specialized and general banking units. This was not easily achievable without having in place a solid infrastructure which accommodates the needs of the financial institutions and supported by appropriate rules and regulations.

Bahrain was now keen to establish specialized banks to contribute to the implementation of its ambitious strategic plans in certain areas, including financing housing projects and supporting small and medium-sized projects. Accordingly, Bahrain established a group of specialized banks, with specific goals, the most prominent amongst these being the Housing Bank and the Bahrain Development Bank. In addition to these two banks, and with the emergence of a need for other institutions that contribute to the needs of other segments of society, two other banks were established, namely Creativity Bank and the Family Bank.

Through its rich banking experience also in the field of Micro Finance, Bahrain has succeeded in adding new dimensions through some of the services and products provided by the Bahraini market in this eminent banking field, which is new to the region.

It is taken for granted that these banks add new responsibilities to the supervisory authorities, at the top of which is Central Bank of Bahrain, to ensure that these banks and institutions adhere to the necessary professional standards, which are imposed by general regulatory requirements, and other special requirements imposed by the nature of the work of these banks, and the mechanisms of their activities.



Her Royal Highness Princess Sabeeka bint Ibrahim Al Khalifa with Sheikh Khalifa bin Ibrahim Al Khalifa, CEO of Bahrain Bourse, and with Dr. Sheikha Mariam bint Hassan Al Khalifa, Deputy Chairperson and Hala Mohammed Jaber Al Ansari the General Secretary for Supreme Council for Women

There is no doubt that all these specialized banks were directed primarily to benefit the Bahraini citizen. Hence, they were provided with continued care and the necessary support to make sure that they carry out the tasks assigned to them. Constant follow ups by His Majesty King Hamad bin Isa Al Khalifa in person, direct support of His Royal Highness Prince Khalifa bin Salman Al Khalifa and the Crown Prince, Deputy Supreme Commander, First Deputy Prime Minister, His Royal Highness Prince Salman bin Hamad Al Khalifa ensured that they stayed on track to deliver the vision. The efforts and actions of all these banks directly, and at other times indirectly, are built into the plans aimed at achieving the Bahrain 2030 strategy for raising the standard of living of the Bahraini citizen and meeting his daily needs.

With the approach of the 1980s, the issue of providing adequate housing was on the top of government priorities. Attention began to move towards the necessity of providing adequate housing for citizens, and accordingly, the Housing Bank was established in 1979 in a unique pioneering social role, to provide real estate financing for low and middle income citizens, as well as in participating in real estate development activities in the Kingdom.

Top Picture

Her Royal Highness Princess Sabeeka bint Ibrahim Al Khalifa, wife of His Majesty King Hamad bin Isa Al Khalifa on the occasion of opening of a project of Bahrain Development Bank – ‘Riyadat’ in Aali in February 2010

Bottom Picture

Princess Rania Al Abdullah, wife of King Abdullah bin Al Hussein, King of Jordan and Sheikh Ibrahim Al Khalifa, the former Minister of Housing on a visit to one of Bahrain Development Bank projects



Dr. Khaled Abdullah, CEO of the Housing Bank, talks about the comfort-level experienced while working in the Housing Bank, “The bank has reached a model formula, based on a sound equation, that avoids neglecting the bank’s benefits, along with meeting the peoples’ needs in the housing sector as well as finding housing solutions for citizens has become a must.”

He added, “I feel so happy and satisfied when I find myself surrounded by an efficient team of qualified Bahraini cadres performing their daily tasks, including planning large-scale housing projects, with high professionalism.

The percentage of Bahrainisation in the bank is approximately 96%, of which approximately 50% are males and 50% are females. The same percentage applies to the number of senior management positions in the bank. We focus on high training for executives to prepare them for leadership positions.”

Dr. Khaled continued “We play the role of the financial arm of the government, with a high level of professional skill that goes beyond any form of administrative bureaucracy, to solve housing problems for citizens, especially middle and lower-income groups. The bank is doing studies to provide housing and find solutions that make financing for real estate projects within the reach of all.”

The Housing Bank is a leading institution in providing real estate and housing financing in the Kingdom of Bahrain and it has played an active

role in the real estate development market. Since its establishment, the bank has provided real estate financing amounting to BD 814.7 million, benefiting 56,386 Bahraini families. The bank's investment and real estate development activities include investment, construction and real estate management and the provision of the necessary financing for the construction of affordable social housing units, community complexes and commercial projects.

This resulted in the increase of the limited income customers for acquiring suitable housing, and this led to satisfaction of the needs of the middle class of Bahrain society, which represents a vast majority on the Bahrain housing map."

The Housing Bank believes in the importance of effective participation by the private sector in meeting the housing needs of the Bahraini citizen. In this context, the bank has structured innovative financial offers to attract private sector participation. The bank has also been keen to build partnerships with real estate developers and landowners with the aim of building affordable social housing units.





Her Royal Highness Princess Sabeeka bint Ibrahim Al Khalifa, wife of His Majesty King Hamad bin Isa Al Khalifa receiving a memento from the CEO of Bahrain Bourse Sheikh Khalifa bin Ibrahim Al Khalifa on the occasion of recognition of Women contribution in the Banking sector in 2015

The bank implemented an ambitious five-year strategy, which significantly contributed to strengthening the scope of its activities and gave it an important social dimension in supporting the social aspect of Bahrain's 2030 economic vision. This strategy specifically defines the bank's active role in helping the Ministry of Housing fulfill the government's commitment to reduce waiting lists for housing units of low and middle income Bahraini families. This was achieved by accelerating the construction of social housing units in partnership with the private sector.

The Housing Bank is wholly owned by the Government of the Kingdom of Bahrain with a declared capital of BD 400 million. The bank operates according to a license issued by the Central Bank of Bahrain to practice retail banking services. At the end of 2019, the total assets of the bank amounted to BD 862 million and total shareholders equity of BD306.5 million.

Regarding work in the financial sector in general, and the future that awaits this sector in Bahrain, Dr. Khaled stresses, "The sector, in general, stimulates the elements of the so-called apprenticeship, meaning that it requires its affiliate to develop high professional qualities and skills that distinguish them from those developed in other sectors. As for the future, there is the question of financial technology (FINTECH), and the issues it focused on including the growing use of the artificial intelligence, while keeping in mind the frightening aspect of when the performance of robots or machines exceeds that of the human."

In our discussions with the businessman Mr. Mohammed Kanoo on the banking industry at present and comparing that with the beginning stage, he said, the banking now is very complicated and sophisticated with the new technology and FINTECH. This new technology made available a good number of new services for the clients as its based on the speed of execution and variety of products and services. The Fintech has exceeded the boundaries which were limiting its progress to new products and markets which is making a vast difference between what we were used to get and it it offers today. The Fentech has found more markets and it's expanding. it might have some shortcoming but overall it has a lot more to offer too. Going back to remember the opening of both The Eastern Bank and BBME in the early part of last century the two foreign banks were small ad were offering limited proucts and services which included deposits and loans and some other supporting services which helped at the time to support the Bahrain market.

The first National Bank was “Bank of Bahrain” which was established by a Group of businessmen among them was the late Khalil Yousif AlMoayyed in 1957. The name thereafter was changed to “National Bank of Bahrain”, after the Government bought some of its shares. At the beginning of th seventies of last century another group of local meerchants to establish Bank of Bahrain & Kuwait. It must be stressed that the ability of Bahrain to be a leader in the banking industry in the Gulf Region. Bahrain is the first to grant a banking license in 1918 to a commercial bank, and the first to grant licenses to banks with specilaized services. We talk here about Islamic Banking and öffshore banking Units.

There remained one more station to consider as we are exploring the paths of the history of the development of the financial and business industry in Bahrain, where we find a constellation of those who have made great efforts to build the lofty edifice of this industry whom we were unable to meet due to reasons beyond our control and their desire.

In addition to the above mentioned, there are also others such as the late Mr. Mohammed Jalal, former Chairman of the Board of Directors of the Alahli Commercial Bank, the late Mr. Mohamed Abdullah Al-Zamil, former Chairman of the Board of Directors of the Bahrain Islamic Bank, the late Mr. Ahmed Ali Kanoo, former Chairman of the National Bank of Bahrain, the late Mr. Rashid bin Abdul Rahman Al Zayani, former Chairman of the Board of Directors of the Bank of Bahrain and Kuwait.

In addition, there was Mr. Hassan Khalifa Al-Jalahmah, who spent a long time as a member of the Board of Directors of BBK and then Chairman of the Board, participating in the progress of the bank. As for The late Prince Muhammad bin Faisal Al Saud, his contributions to the financial sector are



invaluable and are embodied in the Ithmaar Bank, who held the position of Chairman of the Board of Directors and is a major shareholder in it.

No doubt that there is a long list of Bahraini shining names which left its legacy on the movement of banking and business in Bahrain and it is a list that cannot be captured due to the vast contribution that cannot be determined and our fear of long and necessary deliberation.

In the same context, and within the framework of the vertical banking expansion that started from specialization in banking services, “Bahrain Development Bank” was established in December 1991 by Emiri Decree No. (19) issued on December 11, 1991. The bank began its operations on January 20, 1992. Mr. Ndhal AlAujan was the General Manager of the bank for a number of years.

Bahrain Development Bank provides a full range of financial services (finance) and development services to small and medium enterprises and entrepreneurs in the Kingdom of Bahrain.

The bank also plays a distinguished role in promoting and encouraging a culture of entrepreneurship in various sectors and economic activities, and financing some of its projects, through the implementation of a comprehensive strategy that is in line with the Bahrain Economic Vision 2030 and that achieves the bank’s mission towards contributing to the Kingdom’s economic development process, especially in light of the growing role for small and medium enterprises in this area.

Former Minister of Finance and National Economy, Abdullah Hassan Saif and the governor of Bahrain Central Bank Rasheed Mohammed Al Maraj in a meeting with the members of the board of directors and executive management of Gulf International Bank

The strategy adopted by the bank, mainly emanated from the directives of the leadership of the country, made it unique with special benefits that contributed in particular to promoting services provided by the bank, including but not limited to providing competitive interest rates, financing new and existing projects, granting long-term repayment periods, providing a comfortable grace period, in addition to providing business consultations and training programs, along with supporting and following up project growth.

The former CEO of the Development Bank, Mr. Khaled Shaheen who has a history worth pausing at, points out, “The beginning of the bank was a project to establish a (Development Fund), and it was supposed to be owned by companies and banks, including an import company, the Bank of Bahrain and Kuwait, Batelco and other companies. However, after a while, it was transferred to a development bank, and it was fully owned by the government.”

For the diversification of specialized banking services, the “Family Bank” was established in 2009. The project which was supported by the late Prince Talal bin Abdulaziz Al Saud, head of the Arab Gulf Development Program “AGFUND”, was supported by Her Royal Highness Princess Sabeeka bint Ibrahim Al Khalifa, wife of the King of the Kingdom of Bahrain, Chairwoman of the Supreme Council for Women, out of the belief of the role of these banks in supporting low-income earners by providing small loans on easy terms.

The basic purpose of the “Family Bank”, which was established as the first Islamic bank in the Middle East to provide Islamic microfinance is to participate in raising the standard of living and improve the social and economic situation of the beneficiaries of its services.

On the same direction, the offering of various differentiated specialized banking services, the establishment of Family Bank in 2009 under the umbrella of “micro finance”, was well received by the concerned parties as these parties accorded this form of banking the care it deserved. Here we can pose to at the bottom of the list of specialized banks, specifically at those banks that provide a micro finance so that we can closely look at Family Bank. It was established as the first Islamic bank in the Middle East offering a micro financing with the purpose of upgrading of level of living and improving the social and economic lives of the customers it serves. The Bank offer all its services and products through a complete range of Islamic sustainable products.

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Bahrain Development Bank provides a full range of financial services (finance) and development services to small and medium enterprises and entrepreneurs in the Kingdom of Bahrain

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Such successes, which were achieved in a relatively very short period, would not limit themselves to the banking industry department alone, as they had to pay attention to those components that are active in the financial and business sector, so that the Bahraini economy can satisfy the requirements of the broader comprehensive circle that provides integrated services, and with international standards as well.

After this semi-detailed look at the banking sector, a gesture must be made, albeit swiftly, towards the sectors supporting it. No one can argue that insurance activities are an important part of the financial banking system. The insurance activity in Bahrain has been accompanied by the development and prosperity that the Banking sector has enjoyed since the discovery of oil and the beginning of its production in 1932. This is contained in the book entitled “The History of Insurance in Bahrain, by author Ali Rabia. The author has fully addressed the emergence and development of the insurance industry in Bahrain, and paused at the stations of the relationship between this sector and the Banking sector.

Although there is no specific date that determines the beginning of insurance in Bahrain with the international standards for this vital activity, the documents that we have had access to indicate that the insurance industry was closely linked with the entry of American and British insurance companies, with the aim of providing this service to industrial and service institutions, especially when the flow of oil began in Bahrain in 1932.

This beginning was also natural and logical, as it was very difficult for a complex industry such as insurance to arise directly from Bahrain, as international insurance companies had to exercise their required role in this regard, which does not mean that Bahrain was a repelling environment for the insurance industry. On the contrary, Bahrain was one of the first countries to welcome these foreign companies, and even the first to have relationships with them, and as thus the insurance industry began in Bahrain.

In this regard, it is believed that the Northern Insurance Company of the East India Company (Kerry McKinsey Limited) was the first to enter the insurance market in Bahrain before 1948, followed immediately by the Union Insurance Company of Norway in 1950.

Perhaps all insurance companies in Bahrain until the period before the 1970s were foreign except for the Cooperative Compensation Fund, whose activity was limited to vehicle insurance and Bahrain Insurance Company, before that date.

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The insurance industry was closely linked with the entry of American and British companies with the aim of providing the service to the industrial and service institutions.

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The number of insurance companies in Bahrain continued to increase in response to economic openness and the developmental boom, which created the market need for the various types of insurance. By 1981, there were 27 insurance companies operating in Bahrain, including 5 national companies, 13 foreign companies, and 9 exempt companies.

The first tangible jump in this sector took place by 1990, with a total number of 62 insurance companies, including 9 national companies, 13 foreign companies and 40 exempt companies.

Mr. Ashraf Bseisu, CEO, Solidarity Holding Company, said that there is a real possibility for the future development of Islamic Insurance market in Bahrain compared with other Gulf Countries due to the presence of a suitable environment.

Regarding this sector, the former Minister of Trade and the current Chairman of the Shura Council Ali Saleh Al-Saleh says, "The stock exchange was then affiliated to the Ministry of Commerce and Industry, and the Minister of Commerce as chairman of the Stock Exchange's board of directors, and insurance companies were also under the supervision of the Ministry of Commerce and Industry. Since 2002, the responsibility for monitoring the stock exchange and insurance companies was transferred to the Central Bank of Bahrain."

Under the patronage of His Royal Highness Prince Khalifa bin Salman Al Khalifa the Prime Minister witnessed an opening ceremony of Arab Insurance Group in the presence of the owners the then ministers of finance of Kuwait and United Arab Emirates

The role of Bahrain appears clearly here, which facilitated the entry of the transactions of these companies into the local markets, by providing them with an attractive national environment able to create common interests between them and the local markets.

The talk about these successes achieved by Bahrain in the various financial sectors, including banking and insurance, does not mean at all that there were no hard times. The crises that the Arab region witnessed, in particular during the extended period we are talking about had deep and complex implications on the insurance and banking industry alike.

Therefore, it should be noted here that the Arab region experienced many difficulties and was subject to many complex conditions during the period from 1950 to 2019. Despite all of this, Bahrain succeeded, to a large extent, in facing these conditions and dealing with them professionally to avoid the faults of that stage and prevented the implications of a good percentage of these negatives over the performance of the banks operating in Bahrain and the accompanying insurance industry.

To shed some light, which helps to diagnose the features of this stage and its repercussions, we asked Mr. Abdullah Saif about the events that Bahrain faced during his time as Governor of the Monetary Agency. He replied, “Among all these events of the contemporary stage, the following events can be focused on; the Souk Al-Manakh stock market crash in 1982, the Iraqi-Iranian war (1980-1988), Iraq’s invasion of Kuwait in 1990, Kuwait’s liberation war in 1991, and the Bahraini 20-dinar category banknote counterfeiting, all of which had a negative impact on the Kingdom of Bahrain, and some of which on the countries of the region. However, due to the vigilance and efficiency of the concerned authorities in the country, the effects of these events were dealt with wisely and lessons were learned from them.”

Being a former Minister of Finance and National Economy, we also asked him about the role of the Ministry in facilitating the work of banks in Bahrain, and he answered: “On the official level, as a holder of this position, I have to attend all State meetings relevant to the financial and economic aspects. The banking sector is the second contributor after the public sector in the components of the gross domestic product. Also, I represented Bahrain in international forums related to the financial and banking sector.

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The Central Bank of Bahrain established a fund called “Endowment Fund”, which is concerned with financing research, education and training in the fields of Islamic financial services.

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Desiring to know more, we asked Mr. Abdullah Saif, “If we divide your path into stages, what are the articulated stations of them, and what distinguishes one from the other?” He replied, “This path is characterized by harmony in the nature of its activity and its interrelationship at the official and private levels and is focused on finance and economics. It is imperative, in terms of fairness and truth-telling, to pause at the biography of the late His Highness Sheikh Isa bin Salman Al Khalifa, whose role we greatly appreciate in the progress that Bahrain has witnessed in its way of building the modern state and drawing the parameters of its government. I will define this in the context of the banking and financial renaissance that Bahrain witnessed during his era extending from 1961 to 1999. Many of the achievements I referred to were made during the era of Sheikh Isa who has the credit for consolidating these achievements.

Saif adds, “This naturally leads us to the distinguished role played by His Royal Highness Prince Khalifa bin Salman Al Khalifa, the Prime Minister who greatly supported his late brother Sheikh Isa, and was responsible for transmitting the vision of the government from mental perception to realities.”

The Central Bank of Bahrain has recently established a fund called “Endowment Fund”, which is concerned with financing research, education and training in the fields of Islamic financial services. It works in partnership with the sector and authorities concerned with developing standards and criteria adopted in the markets.

Of course, the Banking sector in Bahrain could not limit its professional relationships, or even the services it provides to the market, without the involvement of Bahraini women in it.

Regarding this issue, we had a meeting with one of the first ladies who joined the banking work, Mrs. Aisha Youssef bin Youssef Fakhro, in which she said, “I got a BA in Accounting from the University of Damascus. The field of work that was available to me was teaching, but I did not find what I aspired to in it. I then joined the National Bank of Bahrain, with a salary of BD 60, which was a relatively reasonable salary compared to salary rates in that period. I still remember that a friend of mine in the bank was getting a salary of BD 90 although he did not have a university degree like me. I did not forget the help I received from the commercial manager of the bank, Mr. Mohamed Ahmadi, who allowed me to work in most of the important departments in the bank. My performance was good, according to everyone’s testimony, and I was very pleased about this. After that, I was appointed in an administrative position which I reached in a relatively short period than the bank’s officials expected. I was not the only Bahraini lady to work for the National Bank of Bahrain at that time, as there was Mrs. Naima Bousheikha, the daughter of the famous singer Abdullah Bousheikha.”

Her Royal Highness Princess Sabeeka bint Ibrahim Al Khalifa the wife of the King Hamad bin Isa Al Khalifa of Bahrain, the President of the Supreme Council of Women honors the CEO of SICO Najla Al Shirawi in Bahrain on Celebrating Bahraini Women's Day in 2015



That was the preface as the situation has changed radically since the date Aisha Fakhro mentioned. This was referred to by the Chairman of the Board of Directors of the Bahrain Stock Exchange, Abdul Karim Bucheery, when he stated, “Public and private education was available for both genders since the beginning of the twentieth century, and women’s work opportunities have become more acceptable since the mid-twentieth century.”

To obtain a broader picture of the situation of Bahraini women in the financial and banking sector in Bahrain, let us have a look at the contents and outcomes of the study entitled “The Status of Women in the Financial and Banking Sector in Bahrain: Challenges and Opportunities” sponsored by the Supreme Council for Women and prepared by Mr. Adel Ismail Alalwai in 2016.

The study included female employees who are still working in the banking sector and others who left work. The number of Bahraini employees in the banking sector amounted to 14,675, of whom 37% were Bahraini women, which represented 25% of all employees in the sector, including foreigners.

The study showed that 8% of women working in the sector have become members of the boards of directors of companies and banks, while the majority, 92%, was for men. The outcomes of the study revealed that 4.5% of working women have held the position of CEO while men have held 92% of the same position.

Nevertheless, Bahrain has taken multiple steps to encourage women to participate in all fields, and has provided all capabilities for this so that woman can be in her right position as an active member of the society.

Under the title “Women in Banks”, the Bankers Magazine reported in its issue in the winter of 2015, the following information regarding women working in Bahrain, “The percentage of women has amounted to 35% of the total number of employees in Bahrain. Their ratio of the total workers in Executive positions also increased to 23%, and Bahraini women occupied nearly 40% of the total managerial positions.”

With regard to women who assumed leadership positions in banks in Bahrain, the first Bahraini and Gulf woman who held the position of the Chairwoman of the Customer Service department and that of the Chief Financial Officer, comes to mind, as well as many other similar positions, not all of which are referred to in this book.

There is no one to tell the stories of the success of the Bahraini woman in this field better than the woman herself, so we met Mrs. Sabah Al-Moayyed. “Bahraini women are glad about the existence of the government leadership that embraces and provides equal opportunities for men and women. The role played by the Supreme Council of Women is very important and has helped open the way for women to hold the highest positions in government institutions and the private sector as well. Under this umbrella, the finance and banking sector is involved. The Economic Development Board has also played a pioneering and supportive role to enable Bahraini women to hold leadership positions including in the Boards of Directors of the various government organisations.

When we asked the former CEO of SICO, Mr. Tony Malis, about the work atmosphere, Bahrainisation, and the role of women in SICO, he said: “We are pleased and indeed proud of the fact that the percentage of Bahrainisation in the company exceeds 70%. We pay special interest in training Bahrain employees and also caring for the women employees. A woman employee, who had been my assistant for two years, was appointed as CEO when I left SICO.”

The representation of women at various levels of work is very important, but the challenges will remain. However, opportunities are available for women to hold the position of CEO. Access to leadership positions remains a difficult and complex task at the same time, but persistence and improving performance at every stage of work is important than everything else.

We asked Mrs. Najlaa Al Shirawi, the CEO of SICO the same question, “Being a woman who worked in the banking sector from the base of the pyramid until I reached its top, the achievement is very important for me personally, and for Bahraini women in general. A very important note should be recorded here; women and men face the same challenges in banks. This helps seize opportunities and make a difference in a sector that has special importance in the national economy and in the scope of qualification of efficient and appropriate national human resources.”

Top Picture

Her Royal Princess Shaikha Sabeeka bint Ibrahim Al Khalifa, wife of His Majesty King Hamad bin Isa Al Khalifa hands a recognition award to Sheikha Hessa Al Khalifa, the then Chairperson of Al Salam Bank on the occasion of recognition of women in the Banking Sector in 2015

Bottom Picture

His Royal Highness Prince Khalifa bin Salman Al Khalifa, the Prime Minister shaking hands with Mrs. Sabah Al Moayyed on receiving a group of Chief Executive Officers of some banks



Al-Shirawi continues, “Women can reach the top positions in any institution and the banking sector is no exception, according to the principle of equal opportunities. Individuals who aspire to occupy high positions that are challenging can achieve their goals through determination. Women in the financial sector represent approximately 30% of all employees, but at a lower percentage at the level of the members of the Board of Directors and Executive departments. Things are not as easy as some believe, and we must here focus on at the prominent role that Bahraini women still play regarding women’s responsibilities to form a stable family that is the base of a developed society.”

The existence of an integrated educational system that started since the beginning of 1919 has helped the Bahraini woman achieve her aspirations. Educational opportunities for girls are compulsory in its early stages and has become an acquired right for the individual. The changes and developments took place in harmony with the keenness to redraw the education strategy in line with Bahrain’s entry into a stage of advanced use of technology in education. This was achieved through His Majesty King Hamad’s 2004 project for future schools, which aims to connect all Bahrain schools with the electronic network and activate e-learning to be a basic supporter of education.

The Bahraini woman has had a direct and powerful influence since the beginning of Banking and commercial development. The evolution of Bahraini women towards decision-making and higher-level positions in financial institutions was a natural part of the journey, with an increasing number of Bahraini girls enrolling in graduate institutes and universities, especially those with a curriculum that provides knowledge in the various fields of finance and business.

No one monitoring the progress of the Bahraini women's movement can deny the valuable efforts made by Her Royal Highness Princess Sabeeka bint Ibrahim, Wife of His Majesty the King. In her capacity as the President of the Supreme Council for Women, Her Royal Highness draws future-oriented strategies to empower women through education, training, and rehabilitation, supporting and enhancing the development of their capabilities.





The building of Arab Banking Corporation among buildings of number of financial institutions in Diplomatic area







Chapter 8

A Banking System That Challenges Crises

A panoramic view of the diplomatic area which is the hub of financial institutions of Bahrain at the middle of which building of Alubaf building which received number of prizes as the best design and architectural awards and along with other group of banking institutions

It must be emphasized here that economic crises are a regular and in ways, essential features of the capitalist system. No one disputes the periodicity of its recurrence, even in the strongest and safest international economies. The durability of any capitalist economy is not measured through the exposure of its economic system to a financial crisis at some stage of its development, but rather by the ability of that system to recover from that crisis and get rid of its effects.

Therefore, economists focus on explaining the causes of the crisis, the motives behind it, proposing appropriate recovery solutions, and developing various solutions thereof, ranging from uprooting it, and setting barriers that prevent its recurrence.

In this context, Dr. Zakaria Shaabani defines the financial crisis as, “A sudden and sharp decrease in the prices of one or more types of assets, whether they are material (machinery), financial (stocks), or financial assets/property rights (financial derivatives). The financial crisis, in general, is divided into two main parts; the first depends on the currency and sudden financial decline, and the second on debts and the banking industry.”

During the period between 1980 and 2019, the world witnessed a series of political and economic crises, some of which were due to global reasons, while others were regional ones. The Bahraini market was not immune to these crises, nor independent of them. Rather, it was felt that some of the effects of these crises were harsh on the Bahraini markets, and almost ravaged them. If it were not for the strength of these markets, the established legislation that regulates their movement, and the laws that govern them, it would have been even more devastating. We are not talking here about the small crises that pass like summer clouds, but rather those crises that affect the structure of financial markets and weaken their pillars.

It should be noted here that the leaders of the Gulf Cooperation Council states, including Bahrain, meet regularly and when the world is exposed to any major crises that would affect the Gulf economy, discuss a unified course of action. We saw this at the December 2009 summit, following the American mortgage crisis and its repercussions at the global level. At that summit, the leaders of the Gulf states, during their annual summit in Muscat, discussed the economic conditions in their countries in light of the global financial crisis and low oil prices, while analysts confirmed that these countries would be able to pass the difficult stage in 2009, thanks to the surplus of previous oil revenues.



His Majesty, the late Sheikh Isa bin Salman Al Khalifa, chairing the Bahrain delegation participating in the first summit of the Gulf Cooperation Council countries

In this regard, the Secretary-General of the Cooperation Council, at that time, Mr. Abdul Rahman Al-Attiyah said in an interview with the London-based “Al-Hayat” newspaper, “The leaders will study the issue of the financial crisis, out of a deep awareness of the importance and necessity of activating the joint vision among the GCC countries, indicating that the GCC countries (Saudi Arabia, The United Arab Emirates, Kuwait, Qatar, Sultanate of Oman and Bahrain) possess the abilities which help them to overcome this crisis peacefully.”

Al-Attiyah justified his optimism that these countries would benefit from the financial surpluses they achieved during the past five years, as well as the positive effects and repercussions of the conservative policy adopted by the Gulf financial institutions in the face of the global financial crisis.

The Bahrain market has suffered from a number of those severe crises that extended, over a period of nearly a quarter of a century, and the most prominent and worst features of the crisis that swept through the Gulf capitals, including those of neighboring countries, are to be discussed.



Syed Ibrahim Abdul Karim, former Minister of the Finance was attending an event honoring Executive Officer of Chaise Manhattan Bank

We start with the Gulf crises, the first of which was the Kuwaiti Souk Al-Manakh stock market crash (1979-1982). Without the need to go into details of the reasons that led to the crash, it is possible to stop at the moment when Souk Al-Manakh stock market index dropped from 240 points in March 1982 to 110 points in August of the same year, reflecting an escalating deterioration that exceeded 50% in a relatively short period of no more than six months, and then the great disaster happened when one of the largest commercial companies disclosed that they were unable to pay their debts. In the face of this situation, there was nothing to prevent the explosion of what could be described as “Al-Manakh bubble burst.”

It was not more than six years after that crisis that the Arab Gulf states found themselves faced with a fierce war, which erupted between two of the largest neighboring countries of the Gulf Cooperation Council, which are Iraq and Iran.

The war between the two countries lasted for eight years, leaving behind huge economic losses.

Dr. Tawfiq Al-Marayati summarizes the volume of the economic losses of this war that continued between the years 1980-1988, “After the war dissolved in 1988, Iraq suffered economic losses estimated at BD 452 billion, equivalent to 10 times the average GDP during the war period (1980-1988). In 1986 the oil markets collapsed, and thus the oil revenues fell to the lowest level,

amounting to US\$ 6.9 billion. After the OPEC decision to stabilize the oil production of member countries, Iraq's revenues increased to US\$ 11.4 billion, then decreased to US\$ 11 billion in 1988, and rising again to US\$ 14.5 billion in 1989, or the equivalent of 55% of the revenues achieved in 1980, which amounted to US\$ 26.4 billion. In light of these fluctuations in the revenues of this vital source, the Iraqi government had to balance the many urgent demands that included the need for more imports, servicing external debt, spending on reconstruction and development, financing regular government expenditures, and preparing ambitious programs for military industrialization."

This bleak image reveals the magnitude of the losses whose effects extended to the Arab Gulf region, especially as Bahrain was not far from the epicentre, and its influence was felt faster than in the other Gulf countries. Bahrain thus, had to restructure some of the pillars of its economy, in order to be able to overcome the problems generated by this war, as quickly as possible and with the least possible losses.

Moving away from the Arab Gulf region, the storm of the Black Monday crisis was next. On that day, specifically October 19, 1987, the global stock markets collapsed, after their huge losses exceeded all expectations at the time. The crisis also hit the United States in a relatively short period. Then, shockingly, the Dow Jones Industrial Average fell 508 points to 1738.74 points, and millions of dollars on the stock markets on the major global stock exchanges disappeared faster than the eye could see. Until today, despite the research, studies, and discussions that have taken place, the true reason behind what happened or who is responsible for what happened, is unknown. With global stock markets collapsing on that Black Monday, the Hong Kong economy lost 45.8% of its value, while the Australian economy lost 41.8% of its value, while the British losses were greater, estimated at 60%.

Some financial analysts explained that what happened was the result of disputes over monetary policy or inflationary concerns. One of the reasons for this crisis was the manipulation of the prices of the floating-rate bonds, the exaggeration in the number of times they were bought and sold, which created an inflated and unreal market, and made the prices of those bonds undervalued. The losses were then estimated at nearly US\$ 500 billion in just one day, which is considered the largest drop in a single day. It is recorded that, during the Black Monday, there was a 5% increase in hospital admissions, above the usual limit.

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Bahrain had to restructure some of the pillars of its economy, in order to be able to overcome the problems generated by Iran - Iraq war and with least possible cost

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Top Picture

His Excellency Sh Ahmed Mohammed AlKhalifa ex Minister of Finance and Mr. Rasheed Mohammed Al Maraj, Governor of Central Bank of Bahrian with some guests on the occasion of celebrating 100 years of Banking in Bahrain “in Washington during IMF Meetings in 2019

Bottom Picture

His Excellency Sheikh Salman bin Khalifa Al Khalifa Minister of Finance and National Economy along with Mr. Rasheed Mohammed Al Maraj, Governor of Central Bank of Bahrain and Adnan Yousif Chairman of Board of Trustees of Bahrain Association of Banks attending the reception of Bahrain Association of Banks during IMF meetings in Washington in 2019



The Gulf economy, and at the heart thereof, the Bahraini economy, had not revived yet from dealing with all these crises, when on the morning of Thursday, August 2, 1990 the citizens of the Gulf woke up to the news of the Iraqi invasion of Kuwait. On that day, Iraq invaded Kuwait and Kuwaitis were surprised by the Iraqi forces deployed in their streets. The country was finally liberated on February 26, 1991, with the help of America and the coalition countries.

Kuwait endured many human and financial losses caused by the crisis, consequences shared to a lesser but significant level by the rest of the Gulf countries in the form of lost economic opportunities. In Bahrain, the losses that some banks faced was significant. Kuwait accounted for the debts of Kuwaiti companies due to foreign banks, including some banks located in Bahrain, and their value according to the assets and liabilities of the Kuwaiti companies concerned. Therefore, the values of some loans due to banks in Bahrain became less than the values according to which the loans were granted, in addition to that the banks in Bahrain that gave loans to companies in Kuwait had to make provisions for the differences that resulted from the re-evaluation of the Kuwaiti company budgets.

A committee was formed in 1991, under the authority of the United Nations, that estimated the losses of Kuwait alone as a result of that invasion at about US\$ 52.4 billion, but the General Authority for Estimating Compensation estimated these losses at US\$ 92 billion, in addition to destroying the country's infrastructure, government institutions and facilities, and confiscating state documents and its national archive.

Despite all of that, this crisis did not have a profound and lasting impact on the performance of the Bahraini economy, in particular, the banking sector, as it was able at that time to face these crises, the losses it produced, and the negative conditions that accompanied. Thanks to the strong structure of its financial markets, especially the banking sector, Bahrain managed to reduce the repercussions of these losses, and to continue moving forward in order to maintain the balance of its economy in the face of such sudden crises.

As the world was approaching the third millennium, and specifically in 1997, signs of a new crisis in the markets of East Asia began to appear. Overnight, the “The miracle of Asian economy” turned into an economic disaster in July 1997. The fingers pointed at the time to the United States of America, which reduced interest levels to make America appear more attractive to investors, which caused the crisis.



From what has been aforementioned in this book, we find that the number of offshore banks in Bahrain has increased since the issuance of the first license in 1975 to reach nearly 75 units in 1984. Of course, the activity of most of these units covers the countries of the Gulf region and the countries of the Middle East, Asia, Europe, and America - that is, it covers all regions of the world. The occurrence of any financial crisis in the world must affect all or some of the banks in Bahrain. Al-Manakh stock market crash in Kuwait, for example, has negatively affected a large number of banks in Bahrain, especially those banks that were owned by Kuwaiti parties, and those that were dealing in granting loans and providing banking facilities to companies or individuals in Kuwait.

The war between Iran and Iraq also affected negatively the levels of banking transactions of banks operating in Bahrain with their counterparts in Iraq, and thus most or all forms of banking transactions with Iraq were interrupted and the government of Iraq became indebted to banks located in Bahrain. Over time, the lending banks had to set aside allocations for the debts owed to them by some Iraqi government.

As for the global crisis in 1987, known as Black Monday, its impact was significant on the global level, and the banks in Bahrain were not spared from its consequences, as the core of the crisis focused on the decrease in the market value of global stock exchanges, which is the result of large speculations in the volume of transaction amounts and the excessive pricing of American Floating Rate Notes. Some banks in Bahrain, through their treasury divisions, in this type of shares incurred significant losses and did not recover for a while.

The crisis swelled when it rolled like a snowball to Thailand, the Philippines, Hong Kong, Indonesia, and Malaysia, and threatened an unprecedented financial crisis. The Thai economy then lost 75% of its value, while the value of the Singaporean economy fell 60%. After that, these Asian countries came under the umbrella of the rescue within the programs of the International Monetary Fund, and it took years of being subject to severe conditions to meet the requirements of the International Monetary Fund. The only Asian country that did not accept joining the International Monetary Fund program was Malaysia.

In 1997, the Asian markets were rocked by a major financial shock that affected the currencies of Indonesia, Thailand, Hong Kong, and Malaysia as a result of the sudden reduction of interest rates on the US dollar.

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The global crisis in 1987, known as Black Monday, had a significant impact on the global level, and the banks in Bahrain were not spared from its consequences.

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This, in turn, created financial difficulties for a group of banks in Bahrain, especially those that granted loans and other banking products to East Asian countries. On the other hand, new products appeared in the banking market of Bahrain that did not exist before the Asian crisis. This was represented in the specialization of a group of banks in Bahrain in the purchase and sale of loans owed to some East Asian countries at discounted prices, i.e. less than their original values. For example, if the entire amount of the loan to an Asian country is one million dollars, it may be sold by one bank to another bank for less than a million. During that period, some financial institutions and dealers in the financial markets were announcing the purchase and sale prices of these debts on a daily basis.

There had been individuals and brokers specializing in buying and selling debts between banks in Bahrain and their counterparts at the world level, not only the debts of Asian countries, but also the debts of other countries in Europe, Latin America, and others.

But Bahrain emerged from those near-devastating crises, with the least possible losses, though this does not mean that it had not affected it. The Bahraini market, with its close financial ties to those regional and international financial markets, could not be far from these developments. This economic collapse was devastating, due to which Bahrain and some Gulf countries incurred a lot of material and social losses, however, thanks to the immunity of its least-affected financial legislations, Bahrain managed to avoid the aggravation of the crisis because of these legislations, and the conservatism in investment that was imposed by such legislation.

The best evidence of Bahrain's success in emerging from these successive crises in less than half a century is nothing other than Bahrain's tendency to pair technology and services provided by banking institutions and similar services, in addition to its maintenance of the banks operating therein that managed to absorb the shock of these crises.

Above all, through the Bahrain Monetary Agency, the country managed these crises as quickly as possible. Perhaps there are many lessons learned in overcoming the crisis of counterfeiting the Bahraini currency in the 1990s, which confirms the solidity of the structure of the Bahraini banking system on the one hand, and its flexibility on the other hand.

History records here the Bahraini human resources that were at the top of the banking pyramid, and their initiative in developing appropriate solutions to contain these crises, got them out of it with the least possible losses and ready to move on with remarkable effectiveness.



The electronic share price plate of the companies listed on Bahrain Bourse







Chapter 9

Professional Institutions in the Banking Sector

The main building of the Bahrain Institute for Banking and Financial Studies in the Juffair, which was established in 1989 AD

The strengthening of financial and banking market relations through links with civil society organizations is extremely important when it comes to planning strategies within the requirements of the general market. The positive mutual relations and influence between the two parties have grown steadily with the growth witnessed in that market on the one hand, and the development experienced by these organizations on the other hand. This is evident in the increased presence of the relevant support organizations which introduced many events that require their contribution.

With the trend of the Bahraini money market and businesses towards beneficial alignment with the waves of the globalization movement, it was imperative for this to lead to closer relations between the two parties; the market and the organizations. Therefore, it is logical to see the concerted efforts of the two parties to build a contemporary and developed Bahraini capital and businesses market, and to the same extent relevant civil society organizations that play a positive role in responding to the requirements of that growth and prosperity.

It is very necessary to emphasize that the relationship we are talking about is not one-dimensional, but complex and multidimensional. Such a relationship explains the success of the parties in building and ensuring the continued performance of the fruitful equation between them, and in the joint activities that they undertake.

It is also natural and logical that the Bahrain Association of Banks (BAB) is the closest of these organizations to the Bahraini money and business market in general, and banking institutions in particular. BAB was established in 1979 by a ministerial decree as a professional association for banks operating in Bahrain and started its work with 100 members. As stated in the statute of the association, an executive committee of 12 members must be formed from among its members, representing various types of banking licenses in Bahrain. The said committee is considered the highest authority in the association.

In order to get the complete image of the association as determined by its statute and demonstrated by the activities and the projects it implemented, we met with current CEO, Dr. Waheed Al Qassim, “Bahrain’s celebrations



The provision of decree No. (21) of 1979 licensing the establishment of Bahrain Association of Banks and announcing its statute as published in issue No. (1337) of the Official Gazette

this year include 100-year anniversaries of five important sectors at the heart of the Bahraini economy, central of which is the financial and banking sector, with a successful path spanning from 1919 to 2019. The other four sectors are education, interior affairs, transportation and the municipalities.”

Dr. Waheed referred to the qualitative changes the association introduced to its method of work, “The Board of Trustees adopted a new strategy that is compatible with the specific directives of banking, and in harmony with it in terms of integration with the components of other sectors in the Kingdom of Bahrain.”

Dr. Waheed continued, “The association coordinates with the Ministry of Education regarding current practices and future changes in banking, and how to introduce legislation within education programs and the curricula of the ministry so that the graduate can engage in banking work with a rich knowledge that helps him perform his work in a more effective manner.”



Board of Trustees of
Bahrain Association of
Banks in 1998

The same approach governs the association's attitude in its relationship with the various universities and training centers in Bahrain as BAB communicates with them, to increase their knowledge of the concerns of the financial and banking sector, so that they can include programs and subjects in their curricula that serve the work of banks, and in order to contribute to preparing graduates for work in the financial institutions."

He adds, "Perhaps a fact that needs to be mentioned is that Bahrain is an archipelago of islands, but the nature of contemporary life requires that we think in a coordinated and integrated way, and not like we are a scattered entity. It is very necessary for us to have continuous coordination so that every government agency can perform the roles and responsibilities assigned to it, in the general coordinated national framework, so that they may ultimately integrate to achieve the country's highest goals."

Dr. Waheed quoted the Economic Development Board (EDB) as a model example of such thinking, "The roles it plays simultaneously serve the implementation of the Bahrain Vision 2030 and contribute to finding the desired integration."

"The need has become urgent to transfer the rich experience of the first generations to the young generations, to ensure the transfer of experience, so that these young people can gain knowledge, take responsibility, and continue to develop."

Dr. Waheed stressed, “The reference to the Economic Development Board is an example, but there are many other institutions too, among the most important of which is the Labor Fund (Tamkeen), which has deservedly undertaken to establish the system required to sponsor the projects to ensure the growth and continuity of the work of medium and small enterprises taking into account that they are the backbone of Bahrain’s economy that is always and strategically looking for diversification of the sources of the national income, as indicated by 2030 Vision.”

Bahrain Insurance Association follows BAB in importance in terms of positive mutual influence relationships between the Bahraini money and businesses market, in particular the banks operating in it, and civil society organizations. It was established in 1993 and has a legal personality and an independent budget. The Central Bank of Bahrain is the sole competent authority that licenses such societies, approves their statutes, registers and, and supervises them.

The Bahrain Institute of Banking & Finance (BIBF) maintains a special and distinguished place thanks to the financial relationship between this institute and the banks operating in Bahrain. The institute was opened in 1981 under the name of ‘Bahrain Bankers Training’, with a specific policy in line with the need for the banking sector for training. In 1994, the number of participants receiving training in the center increased from 213 to 3572, which resulted in a complete shift in the status of the center and the need to change the name to become the ‘Bahrain Institute of Banking and Finance’.

Since its establishment, the institute has contributed to qualifying approximately 340,000 of its affiliates. Its services are no longer limited to residents in Bahrain, as it is attended by trainees from nearly 63 countries, thanks to the high standard of its courses, covering the most important subjects in the fields related to finance, business as well as various other sectors of the economy.

The number and type of services, products, and courses provided by the institute soon doubled, amounting to more than 400 academic and professional qualifications in banking, insurance, accounting, Islamic finance, human resources, management, leadership, and project management.

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The Bahrain Institute of Banking & Finance (BIBF) maintains a special and distinguished relationship with banks operating in Bahrain.

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Top Picture
His Royal Highness Crown
Prince Salman bin Hamad Al
Khalifa on a visit to Bahrain
Institute of Banking & Finance

Bottom Picture
One of the training courses
in BIBF



On the academic and educational level, the institute has played a pivotal and significant role in training ambitious human resources in the region, and it graduates approximately 20,000 students from Bahrain as well as dozens of countries besides the Kingdom, annually in various disciplines and branches of business and various specific sectors of the economy.

In this direction, and in order to build a flexible support system for the financial institutions, Bahrain continued to encourage the establishment of professional organizations and its counterparts with direct or even indirect ties with companies involved in the financial and business industry.

This explains why Bahrain did not limit itself to providing Islamic banks with the opportunity to conduct their business from Bahrain, thanks to the facilities they offer and the flexible and developed laws and regulations that facilitate the processes and procedures for obtaining commercial licenses, but also exceeded that through qualifying and developing the Bahraini commercial and banking environment, to cope with its peers operating in efficient global markets. As a result, Bahrain has grown to become an integrated incubator environment capable of attracting successful institutions in Islamic finance and banking.

This integrated with setting terms and procedures in place for organizing the work of Islamic banks in Bahrain so as to be compatible, though not necessarily identical, with the licensing and establishment of institutions

operating in the same field, but according to traditional systems. This flexible and creative complementing has enabled the Bahraini market to also attract more traditional financial institutions, including those operating in accordance with the tolerant values and standards of Islamic Sharia.

The Bahraini vision did not stop at that but continued the initiatives through partnerships established by Bahraini institutions in charge of organizing this sector to conduct their activities therein, with their international and regional counterparts. The Bahrain Monetary Agency quickly entered into a partnership with London Metal Exchange with the signing of an agreement aimed at achieving further development of the Islamic banking industry. This agreement helps the dealing parties, including the London Stock Exchange, to reach a unified formula for contracts and documents related to dealing in minerals, and to create an atmosphere of cooperation in which Bahrain Monetary Agency (currently the Central Bank of Bahrain) supports all the components of Islamic banking with the highest support of the Bahrain government.



In an interview with Bankers Magazine, Issue of Spring 2012, Mr. Mahmoud Al-Kooheji, CEO of the Labor Fund, Tamkeen said, “Tamkeen has ten partners in the banking sector in Bahrain. They are all Islamic banks or conventional banks with Islamic banking departments.”

The Central Bank of Bahrain gives further evidence of this stating on its website, “The Kingdom of Bahrain has become a global center in the Islamic financial services sector, and it is the host country for the largest gathering of Islamic financial institutions in the Middle East. Today, Bahrain embraces organizations and bodies important for the development of Islamic services. It also has 9 Islamic banks in the retail sector, 14 Islamic Banking windows by conventional banks and 6 Takaful insurance Companies and two Reinsurance companies operating in the Kingdom. Bahrain has also become a leading market for Islamic bonds (Sukuk), including short-term government Sukuk and Ijara Sukuk. The central bank has played a key role in offering these innovative products.”

It goes on to elaborate, “The growth in the Islamic banking services sector has been significant, as the total assets in this sector jumped from US\$ 1.9 billion in 2000 to US\$ 27.8 billion in November 2018, a 14-time increase. The share of Islamic banks in the market increased from 1.8% of total banking assets in 2000 to 14.5% in November 2018.”

“The Central Bank of Bahrain has developed a comprehensive framework for reporting, specially designed in line with developments and needs related to the Islamic banking and takaful insurance sector. The directives volume for Islamic banks covers areas including licensing conditions, capital adequacy, risk management, the exercise of activity, financial crime, disclosure/reporting terms and requirements. The insurance directives volume also addresses specific characteristics of Takaful and Retakaful companies. The two volumes have formed the first comprehensive regulatory framework for regulating the Islamic financial services sector in the region.”

In this integrated strategic vision, one can understand the emergence of such organizations that we are talking about, foremost amongst this is the ‘Waqf Fund’, which was established in November 2006 under the auspices of the Central Bank of Bahrain and in partnership with Unicorn Investment Bank, Bahrain Islamic Bank, Kuwait Finance House (Bahrain), Al Baraka Banking Group, Arcapita Bank, Arab Banking Corporation, Shamil Bank and Gulf Finance House.

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The Kingdom of Bahrain hosts a large number of organizations in addition to bodies important for developing Islamic services.

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It is worth noting here that Unicorn Investment Bank operates within the principles of Islamic Sharia, and the bank's name was changed to Al-Khair Bank as of October 2011. Shamil Bank is now Ithmaar Bank, after initially becoming Faisal Islamic Bank.

The Waqf Fund uses the returns on its investments to finance the Fund's initiatives that are implemented through an integrated system of institutions and organizations affiliated with Islamic banking.

In addition, the Kingdom of Bahrain also hosts a large number of organizations and bodies important for developing Islamic services, including the Accounting and Auditing Organization for Islamic Financial Institutions, abbreviated to AAOIFI. This body develops accounting and auditing standards to ensure that institutions engaged in Islamic banking comply with the accounting standards, and at the same time do not conflict with international accounting standards. The beginning of work on laying the standards of accounting was through a working paper prepared by the Islamic Development Bank in Jeddah which was submitted to the annual meeting of its Board of Trustees in Istanbul in March 1987. After that, several work committees were formed, that resulted in a set of accounting standards amounting to approximately 43 standards as well as other reports that eventually led to the formation of the Accounting and Auditing Organization for Islamic Financial Institutions in Algeria in 1990. The Organization was registered in the Kingdom of Bahrain in 1991 as a non-profit international organization. Bahrain Monetary Agency has been keen that all Islamic financial institutions operating in the Kingdom of Bahrain shall adhere to applying these standards.

(Source: Investors Guide for Banks, Institutions, and Investment Funds in the GCC Countries (2004).

AAOIFI, as the CBB website indicates, is one of the leading international non-profit organizations that support Islamic financial institutions. Established in 1991 and headquartered in the Kingdom of Bahrain, it has achieved highly important professional accomplishments, at the top of which is the issuance of 100 standards to date in the areas of accounting, auditing, work ethics, and governance, in addition to Sharia standards adopted by central banks and financial authorities in a group of countries as mandatory or indicative. The Organization's standards are currently applied by the leading Islamic financial institutions around the world, as these standards have provided an advanced degree of homogenization for Islamic financial practices at the international level.

Sheikh Ibrahim bin Khalifa Al Khalifa, the former Deputy Governor of the Bahrain Monetary Agency, who moved to the Ministry of Finance and National Economy before becoming Minister of Housing, assumed the chairmanship of the Board of Directors of the Agency as well as some other Islamic institution bodies for years, bringing in a high level of professionalism.

Sheikha Haya bint Rashid Al Khalifa the Chairperson of Board of Trustees of Bahrain Chamber for dispute resolution and members of board of trustees in reception of His Excellency the minister of Justice and Islamic affairs Sheikh Khalid bin Ali Al Khalifa



The Islamic International Rating Agency also is specialized in the classification of Islamic banks and financial institutions and determining the range of their dependence on traditional international financial institutions. In its complementary role, it evaluates Islamic financial institutions and their products, in a neutral and internationally recognized way.

The General Council of Islamic Banks and Financial Institutions (CIBAFI) is also an international organization established in 2001, by a Royal Decree of the Government of the Kingdom of Bahrain. It is headquartered in the Kingdom and is a member of the Organization of Islamic Cooperation (OIC). This General Council represents the official umbrella of the Islamic financial industry worldwide, and aims to support, develop and protect the Islamic financial services industry. It also supports cooperation between members and other financial institutions of the same interest and common goals. The General Council includes in its membership more than 130 financial institutions, distributed over more than 34 countries, including the most active in the Islamic financial market, international multilateral institutions, and professional societies in the industry. It is recognized as one of the main organizations in the structure of the Islamic financial services system.

The General Council aims to support and develop the Islamic financial services industry achieving a feasible economy and adheres to the principles

of Islamic Sharia through representing and defending them with regard to the application of supervision, financial and economic policies that are in the public interest of members. Accordingly, the initiatives of the General Council are based on defined strategic goals focusing on supporting the added value of Islamic banking and regulatory policies and systems, and encouraging research, innovation, and professional rehabilitation and empowerment.

Among the organizations that support the work of Bahraini money and business institutions not classified within the Islamic framework, there is the Bahrain Chamber for Dispute Resolution, a very important institution, given that the Bahraini market has a large group of local and foreign banks and financial institutions carrying out their activities with capital that exceeds billions of dollars. This requires a strong dispute resolution system according to internationally recognized standards. The transactions resulting from the institutions operating in this market often have issues that need to be settled between the parties; therefore Bahrain has established a special Chamber to settle such disputes, to maintain the transparency needed in the market and the ability to continue to do business.

The Bahrain Chamber for the Resolution of Economic, Financial and Investment Disputes was established by Decree Law No. (30) for 2009 issued by His Majesty King Hamad bin Isa Al Khalifa on 6 Rajab 1430 AH corresponding to June 29, 2009 which was amended by Decree Law No. (65) for 2014. The decree contains (39) articles, the most prominent of which are the following:

In addition to its competence to settle disputes through the judicial procedure stipulated in the decree and chamber management procedures, it provides many services that fall into the field of dispute settlement such as mediation, arbitration, and others.

To improve the work of the Chamber and give it global status, a cooperation agreement was signed with the American Arbitration Association in August 2009 with the aim of dispute resolution.

After that, the Chamber participated in several conferences and workshops in various countries of the world. It also held numerous events and conferences in Bahrain, all of which were directed to raising awareness of the importance of the Chamber's role. The chamber's performance evolved in the following years starting from 2012, as it initiated organizing training workshops in cooperation with the American Arbitration Association in mediation and arbitration matters. These workshops are attended by a good percentage of Bahraini lawyers and those interested in mediation and arbitration, working in the Bahraini market.

In general, any commercial activity, in particular the financial part thereof, that works in a market that strictly adheres to the internationally applicable standards of transparency cannot go without the services of financial and accounting auditing companies on a periodic basis, to ensure that companies maintain accounting and financial records that help them prepare their final accounts and to provide them, when necessary, to banks to obtain facilities and loans. Auditing companies are a strong supporter of all parties in the commercial and banking sectors, and the annual reports of companies that are signed by these auditing companies are among the most reliable criteria in the issue of granting loans and other forms of financing.

The banking activity in Bahrain or the banking revolution that has already begun in the early 1970s in this Kingdom, large in its ambitions, has opened doors wide for auditing firms to operate in Bahrain, and work in its markets and from there to provide similar services for the nearby markets.

With the growth of the Bahraini financial market, the widening range of activities it is engaged in, and the services it provides, the need has emerged for services and consultations in addition to the accounting audit of all types of banks, small and large, and in addition to those services that the regulatory authorities need. All this led to the emergence of the need for the services of auditing companies for those wishing to practice their commercial and financial activities, including banking, from Bahrain markets, and particular that the annual closing accounts are credible and reliable when submitted to relevant authorities, both internal and external.

International auditing firms rushed to operate in Bahrain to provide their services to banks and financial institutions. Thus, Bahrain has ensured, through the regulatory authorities such as the Bahrain Monetary Agency and the Central Bank of Bahrain that the preparation of accounts and financial reports is available for those who deal in the financial sector, and in line with the requirements of international accounting standards.

The number of auditing firms at the beginning of the 1970s did not exceed two or three international companies, but with the passage of time and the growing need, the number doubled many times over and today there are more than 15 companies, at the top of which are international auditing companies such as Ernst and Young, KPMG Fakhro, Price Waterhouse Coopers, Deloitte & Touche, and others.

It is known that the services of auditing firms are not limited to financial auditing, but rather extend to other consulting and professional services that include giving opinions on specific administrative matters and providing assistance in drawing strategies, and business plans for companies and banks.



Auditing firms extended their services to reach internal auditing of clients, preparing feasibility studies, and even studying bankruptcy and embezzlement issues and preparing reports on them, which are needed by all sectors of the economy, especially the financial and business sector.

The presence of audit firms, especially the so called, 'Big Four', added a lot of credibility in the level of transparency of the performance of the banking sector in Bahrain, particularly now that the Central Bank of Bahrain set global controls and standards for the work of these audit firms.

With the development of the Bahraini financial and business market, and the growth of its activities, its transactions have become more complicated, which led to the need for international law firms. This was necessary to complete the banking system circle formed of the group of parties operating in the money and business market including individuals and corporate clients. These companies undertook to conclude large financial deals, such as loans, deposits and investments as well as the settlement of disputes resulting from all these transactions.

In addition, the need for lawyers and law offices emerged, as they are an integral part of the overall work in the money and business markets, including banking.

A memorial picture of the former Minister of Exterior Affairs His Excellency Sheikh Mohammad bin Mubarak Al Khalifa, former Minister of Finance and National Economy Ibrahim Abdul Karim Mohammad, Governor of Bahrain Monetary Agency Abdullah Saif former, former Chairman of Shura Council Ibrahim Humaidan, former Minister of Commerce Habib Qassim with the partners of KPMG Fakhro, Mr. Qassim Fakhro, Mr. Hussein Qassim and Mr. Jamal Fakhro

Top Picture

The Bahrain Court building, opened in 1937 AD during the reign of the late His Highness Sheikh Hamad Bin Isa Bin Ali Al Khalifa, center for number of court buildings including the commerce board currently used by Constitutional Court

Bottom Picture

His Royal Highness Prime Minister Prince Khalifa bin Salman Al Khalifa at a Housing Bank exhibition, with Deputy Prime Minister His Highness Sheikh Ali bin Khalifa Al Khalifa and former Minister of Housing Bassim Al Hammar and the CEO Dr. Khalid Abdullah



The law firms undertake editing contracts and documents, reviewing them periodically, and finally filing cases when disputes and problems arise out of work relationships. By virtue of the nature and universality of transactions between banks and their customers, the need for international firms to law offices is an indispensable issue.

When banks began to flock to Bahrain, the maximum need for law firms of global levels emerged. These firms have contributed to laying solid foundations for the quality of contracts between the parties involved, those subject to Bahraini law, and others subject to the laws of other Gulf countries or subject to English and American law and others. This contributed to strengthening the degree of transparency of the Bahraini money and business market, and strengthened the position of that market, and provided it with the global and regional reputation it was working to achieve.

International law firms were initially operating under the umbrella of a local law firm, but requirements evolved, and some foreign law firms became independent and began operating without a local guarantor or sponsor.

To the extent that those institutions and companies have made financial returns through their activities that they have practiced in the Bahraini market, this market has achieved a number of material and moral benefits that can be summarized in the direct returns, which are charges for licenses and recurring expenses, the total of which amounted to US\$ 170.48 million

in 1983 and US\$ 290.32 million in 1988. The workforce in these banks amounted to 2539 employees in 1983, the Bahrainis represented 59% and in 1989 the number of employees was 1874 employees and Bahrainis represented 65.5% of them.

This was accompanied by the provision of specialized training and qualification programs that many Bahrainis benefited from. These programs were carried out inside or outside Bahrain, through the main branches of foreign banks located in Bahrain or at specialized institutes and universities all over the world.

In addition, there were a growing number of Bahrainis who wanted to continue university studies and obtain degree certificates and other professional certificates specialized in a specific field of finance and business, such as the certificate of investment or risk management.



That distinguished package of studies and training programs yielded the desired results, thanks to their academic and training level. The logical and natural outcome was the entry of dozens of Bahraini banking leaders who practiced their roles in an advanced manner, to the local and regional labor markets alike. This, in turn, led a high percentage of them to assume high positions in banks in Bahrain, which helped them to make more achievements that strengthened the positions of local cadres in the Bahraini and even regional financial and business markets.

In parallel, the availability of various financial and banking licenses, such as offshore licenses, conventional and Islamic investment and insurance companies of all kinds, have created the need for the training institutes, bodies and societies supporting the financial sector, such as Bahrain Association of Banks, Bahrain Insurance Association, Bahrain Institute of Banking & Finance, Bahrain Chamber For Dispute Resolution addition to all the supporting components that have contributed, directly or indirectly, to the development of the banking sector in Bahrain.

The presence of the financial banking sector, and its prosperity in Bahrain, helped to establish private local and international universities, which also helped, and are still helping, in providing programs tailored to serve the sector and granting university degrees for various conventional and Islamic banking and accounting disciplines.

A book issued by the Ministry of Finance and National Economy, entitled, “30 years of the Path of Economic and Social Development in the State of Bahrain,” talks about the success of the “Calm and resolute policy of monetary and financial authorities, by providing adequate liquidity, monetary stability and the significant expansion in the banking sector.”

The commercial bank assets increased from about US\$ 35.9 million in 1966 to about US\$ 1871.3 million in 1990. The assets of the offshore banking units were US\$ 1687 million in 1975, but they amounted to US\$ 59.863 million in 1990. The tangible development that this sector witnessed was not a coincidence but was the result of the efforts made by officials and employees in this sector for many years since the opening of the first commercial bank in the 1920s.

Mr. Nouredine Nouredine states, “Bahrain has established itself as a financial center originally to serve the international banking industry during the past three decades of the previous century, and thereafter as a center for Islamic banking services. As such, it gained advantages over any other competitors because it built an infrastructure to serve the banking sector, especially the presence of a cadre of specialized bank employees, in addition

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The private Jawhara market was the stock exchange in Bahrain until the Bahrain Stock Exchange was established in 1987.

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to a full group of supportive civil organizations that provided the assistance services required to build a well-established banking and financial market, such as training centers, law firms, brokerage firms, etc.”

The growth of the Bahraini market accelerated gradually, and this steady growth was reflected in the performance of the companies operating in the market, and benefitted from its positives in terms of the level of performance efficiency and the growth of assets. This led to the start of the establishment of the Bahrain Stock Exchange.

As the financial and economic references almost unanimously agree that the stock exchange and its development are “the measure of civilized progress in our contemporary world, and without it, it is difficult for nations to rise and develop ... rather (it) is one of its most important tools, and an effective means to achieve development in all fields ... Stock exchanges also have a very important role in attracting surplus, unused and uncontained capital in the national economy, and transforming it from unemployed money to employed capital with positive impacts.

In his book, ‘The Role of Financial Markets in Financing Investment and Development in Developing Countries (1988-2012), Hegazy Abdel-Hamid El-Gazzar also stressed , “The stock market mechanism is one of the most important mechanisms used to affect the development process. The importance of these markets arises from its ability to collect and develop the capital saved from its various sources and rationally distributing it in an effective investment, which helps in the implementation of economic development plans and programs.”

On the basis of such a theoretical background, the Bahrain Stock Exchange business was initiated and developed to reach its current status.

“Historically, The Bahrain Stock Exchange was established in 1987. Before that date, the private (Jawhara market) was just like the stock exchange in Bahrain,” said Sheikh Khalifa bin Ibrahim Al Khalifa, head of the Bahrain Stock Exchange.

“Al Jawhara market was the first market to buy and sell stocks in Bahrain. Few people know that this market existed before Al Manakh market in the State of Kuwait. Al Jawhara market was near the central market and transactions in it were conducted simply. Some dealers in the market used to carry travel bags, some of them were filled with cash, while others were filled with a set of passports. The owner of the bags then fills the subscription forms in shares of companies under establishment, pays the subscription value and gets a receipt of the amount paid. Then, the deals of the sale and purchase of shares are concluded, and the subscription requests were filled in, and even the sale and purchase of shares were carried out on the sidewalk.”

Top Picture
His Majesty King Hamad bin Isa Al Khalifa receives the Bahrain Bourse Annual Report (1996) from the then Chairman of the Bourse His Excellency Ali Saleh Al Saleh

Bottom Picture
Director General of the Social Security Authority the late Sheikh Isa bin Ibrahim Al Khalifa on one of his visits to Bahrain Bourse in the year 1989 AD



One of the prominent milestones in the path of international banks that have practiced their activities in Bahrain is the experience of the Arab Asian Bank in the early 1980s. some customers came to the bank's offices loaded with a number of travel bags, some filled with passports, others with banknotes. Those coming from outside sit in the bank's waiting hall, to fill the subscription forms and then carry bags heading towards the jewel market, and in the evening, they return with brighter faces, because their bags have become heavier."

The Bahrain Stock Exchange was established by Emiri Decree No. (4) in June 1987 and started its activities the same year. The Stock Exchange exercises the role of controlling exchanges in stocks and bonds, in addition to conducting the traditional functions of the stock markets. In the first year of market activity, viz. 1989, the total turnover was over BD 21.3 million, collected from 3,160 transactions, covering 77.6 million shares.

However, at the end of 1989, the qualitative shift in the history of the market took place, as the number of companies listed on the market amounted to 29 companies, belonging to the following categories: (5) commercial banks; (4) offshore / investment banks, (2) investment companies, (5) insurance companies, (7) service companies, (3) companies from the industrial sector, (3) companies from the sector of hotels and tourism.

The Stock Exchange, no matter how large the value of trades carried out by it, can extract its presence, which has the confidence of dealers in trading its shares, unless its management is keen to develop and rationalize the methods of dealing in the market, in a manner that ensures the provision of liquidity, continuity, fairness and safety of dealing in a manner that leads to discipline to achieve the interest and protection of dealers in the market. This should be done in parallel with the development of the stock market in a way that enhances the financial position of the State of Bahrain, by developing financial institutions and investment tools circulated in the market.

In order to reach the highest levels of performance, safety valves should be put in place to verify the regulation of the issuance of securities in the market, in coordination with the competent authorities, whether in the stage of incorporation or amendment of the capital of companies.



With the growth witnessed by the Bahrain Stock Exchange, that market started to establish companies parallel to it and operating under its umbrella. Bahrain Clearing Company was established and opened on July 17, 2017. This was a qualitative event in the history of the capital sector in the Kingdom of Bahrain, which would attract more local and regional investments to contribute to enhancing investor confidence in this sector and raise the rating of the capital sector in the Kingdom by the rating institutions concerned with the assessment of the investment climate. According to the agreement, Bahrain Clearing Company would expand the services of the central registry to include distributing cash dividends and directly depositing them into the bank accounts of the shareholders in the listed and unlisted joint-stock companies, managing the general assemblies of the joint-stock companies listed on the stock exchange, including the e-voting service, the services of borrowing and lending in securities, short selling, and the supporting services of margin trading. The company's services also include providing investment fund services such as the provision of all information related to investment funds, and providing custodian services for Bahraini investors in financial markets and other exchanges, in addition to enabling Bahraini commercial banks to mediate in concluding of deals on securities and financial instruments listed on the Bahrain Stock Exchange, which will enhance the confidence and credibility of the stock exchange with all parties involved in market operations and transactions.

Beyond any media reports, we return to the figures of the performance of Bahrain Stock Exchange to point out the achievements of that market. The brochure issued by the Bahrain Stock Exchange entitled "Investors Guide 2018" maps the features of the Bahrain Stock Exchange in terms of size and performance. According to the brochure, the market consists of a group of Bahraini and non-Bahraini listed companies from various sectors at the end of 2018. The listed Bahraini companies and banks include seven commercial banks, eleven investment companies and banks, five insurance companies, ten companies in the service sector, and three companies in the industrial sector, four companies in the hotel and tourism sector, one closed company sector one non-Bahraini company.

The collected data of the market at the end of 2017 indicates that the total assets of the listed companies were BD 55.794 billion, compared to BD 52.129 billion in 2016, an increase of 7%. The total property rights amounted to BD 9.593 billion compared to BD 9.085 billion in 2016, an increase of 4.9%.

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Bahrain hosts 400 banks and financial institutions with prominent regional and international representation and the total assets of financial sectors in April 2019 was US\$ 201.2 billion.

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The net profit for all companies amounted to BD 915.719 million, compared to BD 865.185 million in 2016, an increase of 5.8%. It is clear from these figures that the market has grown despite global financial difficulties.

The number of issued and paid shares amounted to 32,253,027 shares in 2017, compared to 30,133,333 shares in 2016, an increase of 7%. The annual index at the end of 2017 was 1331.71 points compared to 1220.45 points at the end of 2016, an increase of 111.26 points, which is equivalent to 9.1%.

It is noted that the Bahrain Stock Exchange achieved one development after another in a journey during which it was able to establish itself in a relatively modern market, and also succeeded in providing new products that are available to dealers in that market.

CEO of Mumtalakat Holding Company, Khaled Al-Rumaihi refers to the year 1989, which represented, in his point of view, “An important milestone point, which is the establishment of the Bahrain Stock Exchange, which has become one of the most open financial markets in the Gulf Cooperation Council region and contributed significantly to strengthening the financial position of the Kingdom of Bahrain. The Kingdom also tended to be a leading center for financial technology “Fintec”. The Central Bank of Bahrain announced in 2017, in cooperation with the Economic Development Board, the launch of a pilot regulatory environment for financial technology, which constitutes a virtual environment for institutions licensed by the Central Bank of Bahrain and other local and foreign investors to test the innovative financial technology services solutions without incurring the costs of licenses and adhering to the regulatory and licensing regulations imposed on conventional institutions. Bahrain then put forward regulations for crowdfunding activities that allowed financing through loans in addition to many financing opportunities through acquiring shares in financial technology projects, small and medium enterprises and emerging projects without the need for conventional banks. This has formed a remarkable evolution to keep pace with the global changes.”

Al-Rumaihi confirms, “All these accomplishments and initiatives contributed to making Bahrain the incubator of approximately 400 banks and financial institutions with a prominent regional and international reputation. The assets of the Bahraini financial sector amounted to \$ 201.2 billion in April 2019, and the financial sector contributed with 16.7%, to the gross domestic product as indicated in the data of the Central Bank of Bahrain. Besides, Bahrain has an environment that includes many competencies in the field of banking that have proven their worthiness and raised the name of Bahrain high in all regional and global forums.”



Investcorp house building in Diplomatic area 1982







Chapter 10

The Required Reforms



Coins

The 16th Commemoration Issue 1419H – 1999 for the inauguration of His Royal Highness the King Hamad bin Isa Al Khalifa as the new ruler of Bahrain

Main Photo

The National Action Charter in the hands of His Majesty King Hamad bin Isa bin Salman Al Khalifa in 2002

The strengthening of financial and banking market relations through links with civil society organizations is extremely important when it comes to planning strategies within the requirements of the general market. The positive mutual relations and influence between the two parties have grown steadily with the growth witnessed in that market on the one hand, and the development experienced by these organizations on the other hand. This is evident in the increased presence of the relevant support organizations which introduced many events that require their contribution.

Together they formed an integrated team that established the features of the state, maintained it, and safeguarded it from the ambitious invaders, and keen to inculcate the elements of continuity and development, in a way that ensures the country's progress towards the front.

The shock was mitigated when the dynamic and energetic young Crown Prince Hamad bin Isa Al Khalifa took over the helm of power, with the strong support of his uncle, His Royal Highness Prince Khalifa bin Salman Al Khalifa. The Prime Minister supported His Majesty with the authority of rich experience and wisdom of more than half a century. The newly ordained Crown Prince, His Royal Highness Prince Salman bin Hamad Al Khalifa, added to the perspective a futuristic outlook, always searching for the right answers and leading the way forward with creativity and innovation.

With the accession of His Majesty King Hamad bin Isa Al Khalifa to the throne, the aspirations of youth met the experience of the elders to create the best ways to push Bahrain towards a future that guarantees the establishment of a modern society in which its citizens exercise the political and social rights that were granted to them through the king's reform project and its document that defined its main features, which is called the 'National Action Charter.'

The voice of the loyal people of Bahrain was not far from all these transformations, as the percentage of votes for approval of that Charter exceeded all accounts when it reached 98.4%, obtaining the legitimacy required in order for it to become an integrated system with all aspects of life, political, social, and economic aspects in the forefront. Those who want to read the National Action Charter, with some objectivity, should look at it with an eye that takes into account the following circumstances surrounding it.



His Majesty King Hamad bin Isa Al Khalifa receives the Chairman of the Board of Directors of Al Baraka Islamic Banking Group, the late Sheikh Saleh Kamel

Firstly, it was launched in one of the smallest countries of the Gulf Cooperation Council in terms of geographical area, population, and national income. Hence, on its own, it poses a challenge to the regional conditions that exist then, of which Bahrain was an integral part.

The second of these conditions represented the political reality that was operating the elements of the existing relations in Bahraini society with its three powers on one side, and its civil components on the other side. Those circumstances were extremely complicated at that time, and it needed a historical lift, of which the historic charter was the alternative.

And third came the fast pace that governed the mechanisms of transferring the charter, from the narrow circle in which it was written to a vast wide space, which is Bahraini society. At this point, it was required to coordinate the steps of that transition, to ensure the successful implementation of what was stated in that Charter.



His Majesty King Hamad bin Isa bin Salman Al Khalifa, receiving Mr. Rasheed Mohammed Al Maraj, Governor of the Central Bank of Bahrain, who presented His Majesty with commemorative gold medals that reflect the distinguished achievements during His Majesty's era

The successive developments called for by the Charter, has at its heart the financial, banking, and Bahraini stock markets, forming a paradigm shift. Those markets, at all levels, have also benefited, directly and indirectly, from that shift, thanks to the fertile environment provided by the project which was launched by His Majesty King Hamad bin Isa Al Khalifa, at the beginning of the twenty-first century, and received by His Royal Highness Prince Khalifa bin Salman Al Khalifa, Prime Minister. The process of its transfer from its mere theoretical space to direct practical reality began through the projects of His Royal Highness Prince Salman bin Hamad Al Khalifa, Crown Prince, Deputy Supreme Commander, and First Deputy Prime Minister.

A set of achievements that affected the heart of economic policies in the country embodied in the reform project, its backgrounds intensified at the launch of the Economic Vision 2030, which came in conjunction with the establishment of the Economic Development Board, the establishment of the National Audit Office and the Tender Board. In addition to the launch of the first Bahraini sovereign fund to hold the government ownerships in other government entities among them holding in National Bank of Bahrain, Mumtalakat Holding Company.

Among the institutions related to the Bahraini financial-banking market is the Labor Fund (Tamkeen). This relationship is determined by the Chairman

of Tamkeen's Board of Directors, His Excellency Sheikh Mohammed bin Isa Al Khalifa, saying: "It is necessary to emphasize that the commencement of any form of the relationship dates back to the beginning of the twenty-first century, Tamkeen has been established in 2006 in accordance with Law No. 57 as a national, state-owned institution aiming to support the development of the private sector to be the main driver of economic growth.

Tamkeen Labor Fund has initiated a program of cooperation with the Family Bank, called the "Microfinance Program," and as Tamkeen sees, this program seeks to provide affordable financing in line with the provisions of Islamic Sharia with the aim of supporting existing business ventures to boost their growth. This program also supports individuals with low incomes to be able to establish a small business. Tamkeen works to support beneficiaries with 50% of the cost of profits. Funding ranges from BD 500 to 7,000. In addition to financial support, Family Bank provides advisory services to beneficiaries.

His Excellency Sheikh Mohammed bin Issa Al Khalifa adds: "It is also necessary to go beyond limiting the relationship between the movement and "Tamkeen" in its financial framework only. Our mission stems from a commitment to 'empower' Bahrainis to prosper and contribute to strengthening the national economy. In parallel, our message stresses on 'Empowering Bahrainis according to the needs of the market and enhancing the capabilities of institutions to contribute to strengthening the national economy.' This means that we meet with the Bahraini banking sector from its broad gateway, i.e. developing the national economy, and rehabilitating Bahraini human resources.

From this standpoint, you find that we are proceeding in an integrated manner with the policies set by the state, and it is the responsibility of the Bahraini banking sector to take them into effect."

In order to support the financial sector, within the scope of global standards, the Central Bank of Bahrain was established to play a leading role in attracting more financial institutions to Bahrain and assist in creating opportunities for banking, finance, and insurance business. Accordingly, CBB has updated all the regulations and laws governing traditional and Islamic banking and various investment activities. It also assumed responsibility for the Bahrain Bourse, and was able to add many facilities and development of new products that helped to increase the market activity and expand its services to residents and foreign investors.

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The economic vision of the Kingdom of Bahrain until the year 2030 with an agreed phased plan of implementation was set in place.

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Top Picture

His Majesty King Hamad bin Isa Al Khalifa, received the CEO of Kuwait Finance House, Abdul Hakim Al Khayat, during a visit to Durrat Al Bahrain real estate investment project

Bottom Picture

His Majesty King Hamad bin Isa Al Khalifa receiving commemorative gift from Gulf Finance House Vice Chairman Ahmed bin Khalifa Al Khalifa and the CEO Hisham Al Rayes on the occasion of Kings Endurance race



The Governor of the Central Bank, Rasheed Mohammed Al Maraj, revealed that there was a schedule that would be put in place to implement the economic vision of the Kingdom of Bahrain until the year 2030, with programs to follow up the implementation of the vision according to an agreed phased plan, stressing that the vision will go according to a careful and systematic follow-up to ensure the achievement of the goals that have been set thereof.

Rasheed Mohammed Al Maraj said, “The economic vision of Bahrain extending to the year 2030 goes according to His Majesty’s order, to focus on the Bahraini citizen as an influential element in the economic development of the Kingdom, stressing that the vision was declared at an appropriate time, especially as we are going through unstable economic conditions, and therefore the launching of the vision with this momentum and at this timing came at its optimal timing.”

Al-Maraj explained, “The vision launched by His Majesty came after continuous and tireless efforts that lasted for more than a year, and reviewed by many governmental and private entities, which required the mobilization of energies and efforts to bring it out to reflect the requirements of the next stage and establish the Kingdom’s ambition on the economic level which is related closely to human development. In parallel, the private sector received this vision and considered itself as an essential partner in implementing the vision with the government, and that a balance shall be placed in this partnership in order for the results to come out with what is hoped for, relying

on a true partnership between the two parties to activate this integrated vision, especially since the private sector hopes that there will be integrated plans, such as those that have been accomplished because that puts its feet on the right path in directing its investments and businesses to cope with the government's efforts in this matter, which means that the private sector will proceed in a properly planned and scripted way".

CEO of Bahrain Association of Banks, Dr. Waheed Al Qasim, believes, "Due to the great developments in banking and technological progress in providing services depending on the Internet and direct phone lines, coordination shall be placed between the Association of Banks and various sectors that have a relationship therewith, and that the strategies shall be integrated to serve the country as a whole to implement the 2030 vision. It is counterproductive to place a strategy for each sector without taking into account the requirements of other sectors." That was confirmed by Dr. Wahid Al Qasimi, when he set the Economic Development Board as an example, "as the roles it plays feed into implementing the Bahrain Vision 2030 and contributes to finding the desired integration."



“The banking sector shall not turn into a cause for widespread unemployment or the existence of high levels thereof when the frequency of financial technology (FINTECH) increases, but that the banking sector shall continue to create jobs through cooperation and coordination with other components of society, and various government agencies to prepare the next generation for work in the banking sector. This is what is reiterated to us by HRH Crown Prince Salman bin Hamad Al Khalifa when he calls us to work in an integrated and not fragmented manner. Whoever leaves the banking business is encouraged to consider private business by establishing a small new company within the program (small and medium companies) adopted by Tamkeen and supported by Supreme Council for Development.”

His Excellency Sheikh Mohammed bin Isa Al Khalifa describes such a relationship, saying, “The list is long, and I will limit myself to referring to the most recent thereof. At the beginning of 2020, specifically in late February 2020, Tamkeen Labor Fund signed a joint cooperation agreement with a number of banks in the Kingdom of Bahrain, in preparation for the objectives of expanding support services within the scope of the institutions financing program, in order to enable institutions wishing to obtain financing for the purchase and installation of solar panels for power generation, as well as to support the cost of auditing solar energy accounts.

This agreement comes among the strategic objectives of “Tamkeen” to emphasize strengthening the impact of support in terms of serving institutional development through the solar energy financing plan and encouraging the shift to renewable energy while contributing to reducing energy expenditures for institutions that receive this support on one hand, and support purchasing from institutions operating in this field in the local market on the other hand.

The value of the finance portfolio in this sector is BD 2.5 million, and the amount of financing ranges between BD 5,000 to BD 500,000, with a repayment period of up to 10 years and grace periods subject to bank terms”.

Khaled Al-Rumaihi adds, “I benefited a lot from my work in time-honored institutions in the banking sector. In J. P. Morgan and Investcorp banks, access to global and regional market developments and what these two well-established institutions made to meet market requirements has benefited me a lot, especially in the strategic and leading aspects that helped me in the tasks I received in the Economic Development Board and other public institutions and companies”.

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The Economic Vision 2030, launched by His Majesty King Hamad bin Isa Al Khalifa in October 2008, embodies a comprehensive vision for the Kingdom of Bahrain.

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His Royal Highness Prince Salman bin Hamad Al Khalifa the Crown Prince, Deputy Supreme Commander and First Deputy Prime Minister receiving members of board of Trustees of Bahrain Association of Banks in 2015

The talk with Al-Rumaihi leads us towards an institution that is one of the most important outputs of the reform project launched and led by His Majesty the King, which is the Economic Development Board, whose development role is increasingly prominent, being the public authority which is generally competent in setting the economic development strategy and supervising the guarantees of its implementation to ensure the development and progress of Bahrain by providing an appropriate climate to attract direct investments to the Kingdom.

The Economic Development Board is chaired by the Crown Prince, Deputy Supreme Commander, First Deputy Prime Minister, His Royal Highness Prince Salman bin Hamad Al Khalifa, and its Executive Board includes ministers from the government as well as executives in industrial sectors.

The leading role of EDB is embodied in uniting all concerned government agencies within a unified vision and laying down the basic strategies for sustainable development. The Economic Development Board also works as managing and facilitating the body for business, as it helps all concerned authorities in Bahrain understand and adopt the necessary change to advance. In addition, the Council manages projects to ensure that all agreed reform initiatives are implemented in an effective and timely manner.

The Economic Vision 2030, launched by His Majesty King Hamad bin Isa Al Khalifa in October 2008, embodies a comprehensive vision for the Kingdom of Bahrain, seeking to establish a clear direction to develop the Kingdom's economy, with a focus on a fundamental goal that is reflected in improving the standard of living of all citizens of the Kingdom of Bahrain. It focuses on developing an integrated government vision of society and economy, which revolves around three fundamental principles: competitiveness, justice, and sustainability.

Following the launch of the vision, the Board proceeded on the launch of an institutional economic reform program, in conformity with the goals of the Economic Vision 2030. The work of the Board and the coordination with the competent ministries led to the preparation of the first national economic strategy, which served as a road map for achieving this vision.

Among the most prominent sectors that the Economic Development Board focuses on developing in Bahrain are financial services, as Bahrain has a unified regulatory authority. The Central Bank of Bahrain (CBB) is responsible for all banking and financial services, and it coordinates widely and in a comprehensive manner with the stakeholders in this field to ensure the application of regulations on the ground, and to make sure that they apply internal laws and regulations. The CBB also uses influence and pressure to ensure that other banks comply with policies and laws, which cover all financial and banking sector activities such as, banking services, Islamic finance, Islamic banking, insurance and reinsurance, takaful and re-takaful, and operating and managing assets.

The former Minister of Finance, His Excellency Sheikh Ahmed bin Muhammad Al Khalifa, stressed on how the financial sector focus contributes to the implementation of the Economic Vision 2030. “The financial sector has to meet many global requirements by operating under best practices. There are numbers of educated young people who can use technology to improve information processing in professional ways. This helps to obtain technical knowledge that assists in the proper implementation. The financial sector can use this approach in order for its achievements to be consistent with the goals of Vision 2030”.

In parallel, Al-Rumaihi confirmed saying: “The Economic Development Board added to the responsibility that I have assumed the management of a professional team that put before it the goal of attracting investments to the Kingdom of Bahrain, contributing to creating high-quality jobs therein, and improving the investment climate in the Kingdom. Therefore, it opened before me the horizons for cooperation with the partners in the Central Bank of Bahrain to go ahead in developing this sector and keep up with the latest global and technological changes that undoubtedly contributed to enhancing the competitive position of Bahrain as a leading financial center and as a financial technology center.”

What about the relationship of positive mutual impact between the Bahraini financial and banking sector, and its Gulf counterparts?

Al-Rumaihi believes “that there is a positive mutual relationship between the Bahraini and Gulf financial and banking sectors, where we can experience the

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There is a positive mutual relationship between the Bahraini and Gulf financial and banking sectors over the past 100 years which has attracted and sustained many of the reputable gulf banks and financial institutions to Bahrain.

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effects in the fact that over the past 100 years Bahrain has attracted and sustained many of the reputable Gulf banks and financial institutions that sought to benefit from the financial reputation and strong legislation in Bahrain. In addition, the distinguished local banking qualified staff and competencies. On the other hand, the activities of Bahraini banks in the GCC countries and the Middle East region expanded significantly and remarkably, in line with the economic prosperity and major transformations taking place in the region. I expect that the financial technology sector will play a pivotal role in increasing this positive impact among the financial sectors in Bahrain and the Gulf.”

There is no entity that can be placed in a special position like the stock exchange, except for the Tamkeen Labor Fund, given the distinctive role that each plays, and because of the unique position that each occupies in the financial map of the Bahraini economy. The thing that distinguishes Tamkeen from the stock market is its early establishment in 2006, hence, making it one of the legitimate and direct outputs of the reform project that has been inaugurated and led by His Majesty the King, since the beginning of the twentieth century, after his accession to power, for more than seven years.

The establishment of Tamkeen comes in line with the goals of the Bahrain Economic Vision 2030 and its basic principles represented in sustainability, justice, and competitiveness. Tamkeen contributes, through its main tasks, to develop the private sector, while achieving Bahrain’s goals in enhancing the sustainability of the national economy, diversifying its resources, and creating innovative opportunities through an economy based on knowledge and technology.

The powers of Tamkeen mainly revolve around raising the efficiency of the Bahraini citizen to make him competitive in the labor market, in addition to pushing productivity forward in commercial projects, while also helping to create value-added job opportunities within the Kingdom.

Tamkeen was a powerful arm that helped operating banks in the Bahraini market, through the financing programs that it planned and launched for more than a decade. CEO of Tamkeen, Dr. Ibrahim Al Janahi, concurs saying, “In partnership with local banks, Tamkeen is keen to provide financing solutions to small, medium, and micro-enterprises to help them continue through good planning and diligent innovation to leverage this financing.”

Tamkeen is not limited to what it offers to the present, but its projects carry the nucleus of the future society. This is what Chairman of Tamkeen Board of Directors, His Excellency Sheikh Mohammed bin Isa Al Khalifa refers to, saying: “The entrance here takes complex forms, but with a view to simplicity, the three elements: Vision 2030, Tamkeen, and the Bahraini banking sector, meet together at a joint station, which is diversifying the sources of income and rehabilitating Bahraini human resources.”

Top Picture
Dr. Khalid Rumaihi CEO of Mumtalakat and His Excellency Sheikh Mohammed bin Isa Al Khalifa Chairman of Board of Directors of Tamkeen and Zayed bin Rashid Al Zayani, Minister of Industry, Commerce and Tourism in a debate occasion of C5 Nebula - Partners and Allies in the workplace

Bottom Picture
Signing the agreements of Tamkeen's solar energy financing program for the institutions



In this context, we focused on the economic sector that is most present here, i.e. the financial technology known as Fintech, with a focus on encouraging future projects performed under the entrepreneurial leadership of young Bahraini leaders. Tamkeen Labor Fund won the Best Government Institution for Supporting Entrepreneurship in the Middle East Award, on the sidelines of the International Angel Investors Forum held at the beginning of this year 2020 in Istanbul, Turkey.

Al-Janahi continues, “We also have strategic relations with the Bahrain Technology Companies Association, as Tamkeen finances many of the activities organized by this society, the most prominent being the participation in GITEX, the largest exhibition for communications and information technology in the Middle East, held annually in Dubai.

Approximately 50 medium, small, and micro Bahraini companies participate every year in the Bahraini National Pavilion (BNP) at GITEX, including approximately 20 startups. All of these activities contribute directly to enhancing the role of diversity in the national economy and accelerate the pace of realizing what this vision aims to achieve on the ground.

The Tamkeen CEO casts further light on the development role of Tamkeen within the framework of the reform project, saying, “The first financing program was launched in late August 2007, in cooperation with Shamil



Bank (now: Ithmaar Bank) with an investment portfolio of BD 12.5 million, targeting 300 small and medium-sized enterprises to take advantage of low-profit loans. Because of the success of the financing program, Tamkeen expanded the program to include other financial institutions. In May 2008, the second financing program was launched with the Bahrain Development Bank, with an additional amount of BD 20 million, allocated to serve 900 other SMEs, including 44 women entrepreneurs who benefited from the program”.

“Through the Tamweel+ program, Tamkeen contributes 70% of the assumed annual profit rate, for funding requests that range between BD one million and BD two and a half million that aim to finance expansion projects that have a positive impact on Economy. He added: “the financing programs have affected the economy, as studies have shown that every single dinar spent from the finance portfolio had a positive impact on the economic situation of beneficiary institutions, with a value represented in increasing the profits of these institutions and increasing the employment of skilled and qualified Bahraini workforce.”





A night view of Bahrain Bay area, in the right of the image, the headquarters of Al Baraka Banking Group and in the left, the Arcapita Building





Chapter 11

Financial Technology from a Future Perspective



Coin

The issuance of the memorial coin in the year 1419 AH corresponding to 1999 His Majesty King Hamad bin Isa Al Khalifa assumed the reins of power in the Kingdom of Bahrain

Main Photo

View of the Sheikh Isa bin Salman Causeway, overlooking the Bahrain Financial Harbor

When we talk about financial technology, we are talking about the future, with all its challenges caused by the globalization of the economy, with standards set by the rules of communication and information technology, and outputs designed by the components of artificial intelligence. The Central Bank of Bahrain reflects this on its website talking of the bank's endeavor to develop "the financial system in the field of financial technology, innovation and digital transformation in the Kingdom of Bahrain, the Central Bank of Bahrain has established a unit specialized in the field of financial technology called the Financial Technology and Innovation Unit to conduct market research on innovations that occur in the financial sector, and to develop strategies to take advantage of emerging technology effectively."

In May 2017, the Central Bank of Bahrain issued the Regulatory Sandbox Framework, whereby the unit contributes to the examination of applications for accession to the experimental regulatory environment for financial technology and works to manage the regulatory process for approved applications. The unit also analyzes and studies new innovative services or products that are to be incubated, or provided by companies licensed by the bank, or by companies that are to be licensed by the bank.

Bahrain is making intensive and sustained efforts to enter the field of financial technology as evidenced in the joint cooperation program between Tamkeen Labor Fund and Bahrain Fintech Bay. This was announced in the press conference held on 6th February, 2019, for the launch of the first training program of its kind in the Middle East, preparing and building specialized competencies in the field of financial technology. Dr. Ibrahim Janahi, CEO of Tamkeen confirmed the value involved in strengthening Bahrain's leadership position in the financial technology sector in the region, noting that this specialized program is an essential strategic step to enhance the growth and performance of the financial services sector according to international standards, by establishing a base with rich specialized experience from Bahraini talents, financial technology being one of the most important sectors in the Kingdom today.

In direct harmony with the national aspirations, Dr. Ibrahim Janahi said that this specialized program promotes the values of innovation and sustainability, especially in the financial sector, and in the creation of new sectors and



His Highness the Prime Minister, Prince Khalifa bin Salman Al Khalifa, at Ithmaar Bank's launch of the first ATM withdrawal system using the fingerprint, in the presence of Mr. Ahmed Abdul Rahim, the bank's CEO, and Mr. Yousef Abdullah Al Khan

job opportunities, which will provide a unique Bahraini experience in the financial technology environment, enhancing Bahraini expertise with the latest developments, applications and advanced specialized knowledge in light of the labor market reality and the requirements of the entrepreneurial sector at the regional level

Such policies mean that Bahrain, after becoming a global financial center, is committed to the transformations that the partnership between the money market, business, and technology generate.

Financial technology has always levied itself in a way that cannot be avoided for anyone who wants to keep up to speed with the financial markets. Former Governor of Bahrain Monetary Agency, Abdullah Saif, spoke about the path towards the future with a combined outlook, "This ought to be done through the creative combination of technology, banking, and finance, away from blind imitation, and fostering a high degree of flexibility that allows for positive interaction with developments. This should be done through the consistent use of other countries' experiences, without the blind rigid reproduction of those experiences, or the unjustified sanctification thereof.



His Highness Prince Salman bin Hamad Al Khalifa, the Crown Prince, receiving the late Sheikh Saleh Kamel, Chairman of the Board of Directors of Al Baraka Banking Group, in the presence of the Minister of Finance Salman bin Khalifa Al Khalifa and the Governor of the Central Bank of Bahrain, Mr. Rasheed Mohammed Al Maraj

This in turn requires an understanding of the mechanisms of mergers between international institutions, and the acquisitions associated therewith. This, in turn, leads those who follow this path towards serious thinking in replacing the workforce with technology, without implying the complete abolition of the first, whose role will shift from mere implementation to a degree of continuous creativity and consistent innovation.”

Mr Saif continues, adding: “Despite the advancement of technology and the need to benefit from it, the human element remains important and indispensable, and it is wrong to neglect it when it comes to personal dealing with related parties, such as managing trust operations, managing special accounts, and cooperation between financial institutions.”

“Today we are witnessing an eruption of a technical revolution, and this is an undeniable matter, and it is wrong to neglect it, therefore, it is necessary to take advantage of this technical development in all fields of life, especially in the professional field, and in in the financial range. Some of the positive aspects of this development and the introduction of advanced technology are the shortening of time, the shortening of distance, and the abundant supply of important information in professional life, even in personal and livelihood. Some of the downsides of technology, which is a natural and expected matter, are total dependence, and loss of privacy, whether institutional or even individual.”

Undoubtedly, the next developments in the field of technology and digital are enormous in measure and accelerated in kind, but what is certain, and perhaps incontrovertible, is that what we are witnessing today is a revolution in information, communication and artificial intelligence technology, unprecedented in the history of the development of human thought. All of this means that we are heading towards a changing world, which many societies may not withstand. Bahrain has succeeded so far, thanks to the statesmanship of its political leaders, and the perseverance and skill of its

people in dealing with banks during the past 100 years, which have brought it to the position that it holds today.

This optimistic view regarding the relationship arising between Bahrain as a country and society, and the developments of financial technology, is noted in the introduction to the “Bahrain FinTech Regulations Report 2019.” Here the Governor of the Central Bank of Bahrain, Rasheed Mohammed Al Maraj, says, “Since the Central Bank was established in September 2006, it has played an important role in developing the services of the banking financial sector in Bahrain. This sector includes approximately 400 institutions and banking units and employs approximately 14,000 of the labor force, all of whom contribute to strengthening the status of Bahrain as a financial services station. The progress made in financial technology is in itself an impetus for us to raise the level of banking services to keep pace with technological progress within the rules and regulations that conform to international standards.”

He added, “The additional systems are coming, including E-KYC (Electronic - Know Your Customer). The bank appreciates the need to cooperate and consult with its customers and partners in reaching initiatives that help implement the requirements of financial technology.”

BENEFIT Company CEO, Mr. Abdel Wahed Janahi, talks about the first of its kind E-KYC (Electronic- Know Your Customer) project in the Middle East region, which demonstrates a distinctive constructive relationship that is in accordance with Vision 2030 to integrate and encourage development efforts, especially in the banking sector, in order to provide the best services to the people of Bahrain, both citizens and residents. In the context of diversifying the services provided by Bahrain to provide a friendly and encouraging environment for financial technology, in June 2017 Bahrain launched the Regulatory Sandbox for Fintech services, which is the first of its kind in the region. It was established with the aim of supporting emerging Fintech companies to experiment and test new technology solutions. The Regulatory Sandbox, since its inception, showed Bahrain’s success in this field, where four small and medium-sized companies were registered in the Regulatory Sandbox for financial technology, and more companies are currently being registered.

In the same context, Khalid Humaidan, CEO of the Development Board, throws more light on the relationship between the Council’s programs and Vision 2030, saying, “The Council bears in mind, within the framework of the Bahrain Vision 2030, diversification of income sources, so that we can reduce the Kingdom’s dependence on oil as a major source of income.

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E-KYC (Electronic-Know Your Customer) project is the first of its kind in the Middle East and it integrates and encourages development efforts with the banking sector within Bahrain’s Economic Vision 2030 strategy.

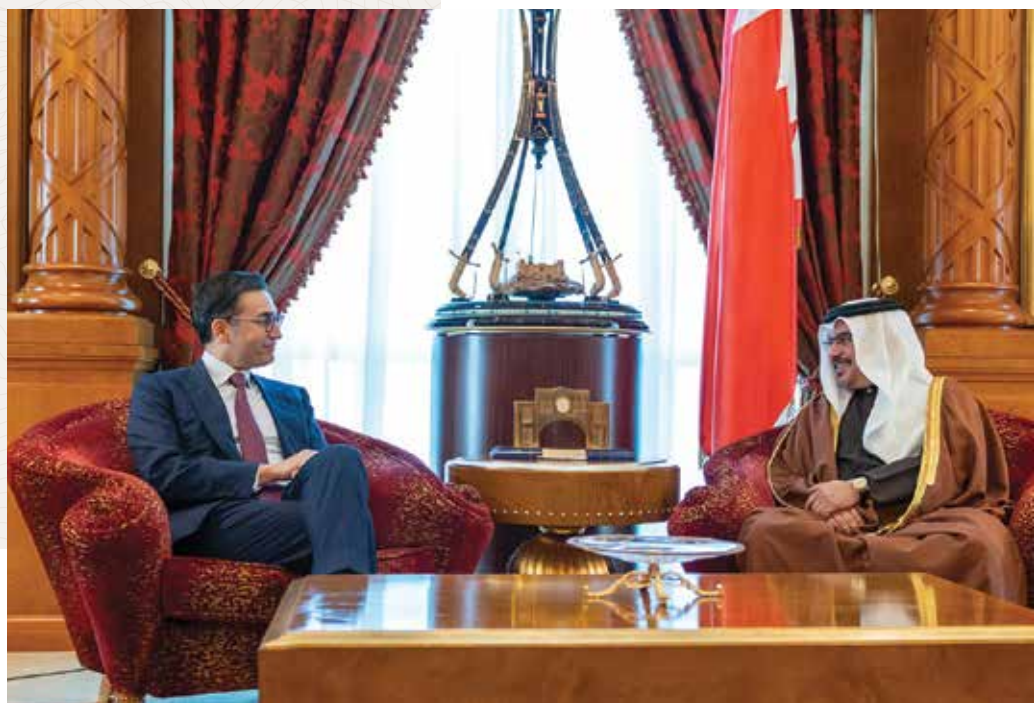
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Top Picture

His Highness the Crown Prince, Prince Salman bin Hamad Al Khalifa, receiving Mr. Iqbal Khan, a member of the Executive Council of Union Bank of Switzerland

Bottom Picture

His Royal Highness Salman bin Hamad Al Khalifa, the Crown Prince and First Deputy Prime Minister on a visit to the Financial Technology Center accompanied by a group of officials, including the Minister of Industry, Commerce and Tourism, Zayed Al Zayani



This is integrated with our concern to provide the qualified local labor force to meet the needs of foreign capital in every activity sector that collectively constitute the pillars of the inputs of the national economy.

“The Board has remained keen on aligning the needs of that investor coming from abroad with the efficiency of Bahraini labor. We have succeeded in achieving this, through cooperation with educational institutions and specialized training centers, which have developed their programs to achieve this goal. We have also studied the trends of local markets, and we have tried, as far as possible, to guide Bahraini youth in order to harmonize the steps of their specialties with the needs of those markets.”

“In a step towards encouraging the growth of Islamic FinTech companies in particular, we have also witnessed the implementation of regulations that allow small and medium-sized companies in Bahrain and the region to obtain Islamic Sharia-compliant financing through crowdfunding. Small and medium-sized companies are now allowed to obtain traditional financing through the same means.”

The prudence of Bahrain’s policies in this direction is proven through what has been stated in a report issued in 2017 by KPMG, “Global investments in financial technology have achieved rapid growth in the past five years, and expectations indicate that they will continue to grow strongly. The value of investments in financial technology has increased tenfold between 2012

and 2015, Although the mergers of enterprises operating in the financial technology sector in the United States led to a decline in global investment in 2016, growth has continued in other regions, including the MENA region. Investments recorded a strong positive rebound in the first half of 2017”.

In the context, Bahrain has committed to what is called the ‘Bahraini Market Index,’ regarding financial technology, which depends on indexes committed by six countries that are considered leaders in this field, namely, USA, UK, UAE, Singapore, Australia, and Bahrain.

The index, regulations version, is based on the issuance of a specific set of dynamic standards, topped by what is known as the level of global cooperation, which requires entering into agreements of understanding with countries that adopt financial technology, in order to share information and build systems supporting this global cooperation.



Next in importance is the ability to create an integrated environment, which helps in consulting and holding meetings and conferences between the parties concerned to ensure collective participation in the exchange of information that helps in the issuance of appropriate laws and the selection of platforms for devices and information systems supporting the development of the financial technology environment.

The launching of regulatory initiatives and enacting laws, to ensure more cooperation between countries followed. The supervisory parties in the aforementioned countries have implemented 75% of the agreed initiatives. Although it was found that some regulatory authorities may be new in terms of artificial intelligence, they are developing in relation to “Sandbox” and the alternatives for providing facilities to customers.

The constituents of the index could not be completed without monitoring entry barriers, as the biggest barrier of entering financial technology products is looking at each barrier separately and issuing a law for each one rather than issuing integrated laws for financial technology. All these factors are supplemented by the development of supporting programs showing that awareness programs in the aforementioned countries, regarding financial technology are available, while the establishment of sites and stations dedicated to financial technology was not sufficiently provided by the regulatory authorities.

In order for the Central Bank of Bahrain to reach its goal, to prepare Bahrain to have a distinctive indicator in this direction, it took a set of proactive measures, which were carried out according to the following time series:

- May 2017:** Issuing instructions and regulations for what is called a “Sandbox.”
- August 2017:** Issuing instructions and regulations for crowdfunding.
- October 2017:** Opening of the Innovation and Financial Technology Unit.
- May 2018:** Announcing plans to launch E-KYC (Electronic-Know Your Customer).
- August 2018:** Dealing with the Global Network for Financial Innovation has started.
- November 2018:** A draft of an open banking system has been issued.

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The Kingdom of Bahrain is the most long-standing financial and banking center in the Gulf region, having a pioneering experience and deep roots since the establishment of the first bank in Bahrain in 1920, which is the Eastern Bank Limited (now Standard Chartered Bank).

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- December 2018:** Procedures for assets and open banking operations were issued, January 2019: draft regulations regarding consulting through digital financial statements were completed.
- January 2019:** Draft regulations regarding consulting through digital financial statements were completed.
- February 2019:** Witnessed performing the financial technology experiment and the necessary procedures were completed.

This tangible development has led to the necessity of providing an experimental control environment for Bahrain, so the Central Bank has invited a number of companies working in business technology and digital developments, in order to examine the current environment, to study and experiment and then plan for future application. A group of companies joined forces with the Central Bank, and this is an encouraging factor, promising the achievement of better results.

What may happen in the future, even in the next twenty years can only be speculation, but it is certain that the world of financial technology will govern and the need for traditional banks and financial institutions will be a thing from the past.

If we take a quick look at some of the practices that can be listed in the services that fall into the financial technology environment; we will find that in a country like Sweden, 3,500 citizens agreed voluntarily, and without any governmental pressure, to implant a small chip in their skins that enables whoever reads the information stored inside it to meet everything that the individual needs. This obviates the presentation of the ID card to identify the person and his professional skills and eliminates the role that credit cards play in implementing services such as withdrawing and depositing money. This chip also helps, when it is programmed to reveal the health status of the person who carries it, to follow his movements, and also to infer the destination he wants to go to.

In a meeting with Khaled Al-Rumaihi, CEO of Mumtalakat Holding Company, on the concerns of financial technology, its achievements, and even its ambitions, he talked about the most prominent phases in the process of the transition from traditional banking to the electronic one.

“The Kingdom of Bahrain is the most long-standing financial and banking center in the Gulf region, having a pioneering experience and deep roots since the establishment of the first bank in Bahrain in 1920, which is the Eastern Bank Limited (now Standard Chartered Bank). During these long decades, the banking sector in the Kingdom has achieved qualitative historical moves through the stage of traditional banks and their retail and wholesale banks and representative offices of international banks, and up to the stage of Islamic banks, and more recently with the adoption of standards for open banking services and the Regulatory Sandbox initiative and financial technology (FINTECH) with the establishment of Bahrain FinTech Bay, which is the first and largest financial technology center in the region.”

Crown Prince Salman bin Hamad Al Khalifa with a group of senior officials in the Kingdom and the heads of the Consultative Council and the Chamber of Deputies, attending the opening of the new hall of Bahrain Bourse at the Bahrain Financial Harbour



In the interest of the government to improve the performance, governance, and transparency of state-owned assets, the state's non-oil assets were included under the umbrella of Mumtalakat, a holding company wholly owned by the state.

Bahrain Holdings Company (Mumtalakat) was established in June 2006 as an independent holding company that manages and develops its investment portfolio that includes various commercial assets. Mumtalakat manages the companies of its investment portfolio companies to enhance and develop the performance of these companies and increase the investment value for each of them, in addition to searching for rewarding investment opportunities in the local market, regional and international markets. The company also works actively to invest and manage companies that have the foundations for success and development in various sectors and markets to create financial and economic returns for the Kingdom of Bahrain.

The organization has shares in more than 40 commercial companies covering a variety of sectors, including manufacturing, financial services, tourism, telecommunications, real estate, transportation, and food production. Mumtalakat also plays a vital role in developing the local economy, as it will create enormous job opportunities in the Kingdom through its investment projects.

Recently, Bahrain Mumtalakat Holding Company announced the Sovereign Wealth Fund of the Kingdom of Bahrain, which is a new partnership with Prodrive, the well-known British group in the world of motor racing and engineering.

Regarding the economic impact on Bahrain, Al-Rumaihi pointed out that Mumtalakat has made a significant contribution to the economy of the Kingdom by investing in Bahrain, having invested approximately 83 million dinars since its inception. Mumtalakat has also contributed to providing and maintaining about 14,000 direct jobs in the Kingdom within its local group companies, through the support provided by its companies to the local strategy and financing the national projects.

Regarding the contribution of Mumtalakat to the state's general budget, the former CEO of Mumtalakat Company, Mahmoud Hashem Al-Kooheji, assured that it would inject into the state's general budget 60 million Bahraini dinars, distributed equally over the two fiscal years, 2019 and 2020. It had already pumped 20 million Bahraini dinars into the state's general budget, distributed equally over the past two years, indicating also Mumtalakat's reliance on its own resources, in addition to its role in motivating investors to invest in the private sector by investing with them.

On the percentage of Bahrainisation in Mumtalakat Holding Group, Al-Rumaihi assured that Mumtalakat Company and its subsidiaries are committed to the Bahrainisation ratio and continue to strive to increase it by training national cadres and developing their skills. He noted that the Bahrainisation ratio within the subsidiaries of Mumtalakat Holding Group amounted to about 70%, despite the presence of many of the group's companies outside the Kingdom of Bahrain. He confirmed that the percentage of Bahrainisation in Mumtalakat Company exceeds 85%.

Al-Rumaihi continues, "There are a number of historical places at which one should pause to understand clearly, due to their significant impact on the development of the financial and banking sector in Bahrain, which started and sparkled at the regional level after the declaration of the independence of the Kingdom of Bahrain.

One of these is the foundation of the Bahrain Monetary Agency (currently, the Central Bank of Bahrain) in 1973, which performed its role to the fullest as a supervisory body that supervises the banking sector in the Kingdom and maintains monetary and financial stability therein, through a policy based on the best international standards and practices. This has greatly contributed to strengthening the banking and financial reputation of the Kingdom at the regional and international levels."

The reference to the Central Bank of Bahrain also highlighted its role as a new model of Sharia Governance that was activated on June 30, 2018, and included Islamic banks, both in the retail and wholesale sector, reflecting Bahrain's endeavors towards establishing pioneering corporate governance principles in the Islamic banking sector, which will constitute the cornerstone of Sharia governance standards at the international level.

Al-Rumaihi cites the Thomson Reuters 2017 report on the development of the Islamic financial sector, as Bahrain has over the past years ranked second after Malaysia, ahead of many countries that the Islamic Banking is practiced on their markets.

He noted, “His Majesty the King, His Royal Highness the Prime Minister and His Highness the First Deputy, each has his distinctive imprint on that movement, and we are inspired to see the light shining and the impact from each of their touches.”

Stressing that since the beginning of banking and financial work in Bahrain, about a century ago, Khaled Al-Rumaihi added that the Kingdom has made many great achievements in this field, as the high directives of our wise leadership have had the greatest impact in enhancing Bahrain’s leading financial position.

“We must value the pioneering historical transformations in the banking sector that flourished and laid the firm foundations for the development and growth of this sector during the era of the late His Highness Sheikh Isa bin Salman Al Khalifa, may God rest his soul, and the qualitative development achieved by the banking sector through which it attracted the most prominent banking and financial institutions in the world during the era of His Majesty King Hamad bin Isa Al Khalifa, His Royal Highness Prince Khalifa bin Salman Al Khalifa, Prime Minister and His Royal Highness Prince Salman bin Hamad Al Khalifa, Crown Prince and Deputy Supreme Commander, First Deputy Prime Minister and Chairman of the Economic Development Board.

That was enriched by the responsibility I assumed in the Economic Development Board as I managed a professional team that set before it the goal of attracting investments to the Kingdom of Bahrain and contributing to creating high-quality jobs therein and improving the investment climate in the Kingdom. Consequently, this opened before me the horizons for cooperation with the partners in the Central Bank of Bahrain to start developing this sector and keep abreast of the latest global and technological changes that undoubtedly contributed to enhancing Bahrain’s competitive position as a leading financial center, and as a FinTech Unit.”

Concerning the road to the future, Al-Rumaihi affirms his optimistic view, “This will result in a widening circle of beneficiaries and shareholders from these services, as this technology will provide a diverse series of financial services that are faster, less expensive, more transparent, and easier, which will cast its effects by doubling the pace of competition among financial institutions, and will also contribute to creating modern qualitative jobs in the future, and the demand for advanced technical and multiple specializations will increase, along with the shift of many jobs towards more technical specialization, and the dependence on technology solutions and alternatives in banking work will increase.”



His Royal Highness Prince Khalifa bin Salman Al Khalifa Prime Minister with Chairman of Board of Directors of National Bank of Bahrain, Farouq Yousuf Almoayed and Sheikh Khalifa bin Ali Al Khalifa the Governor of Southern Governorate to support Khalifa Health center in Jaw area

As for the former CEO of SICO investment company, Tony Mallis, believes, “Naturally, there are big challenges facing the process of shifting from traditional banks to automated banks, but there is a great advantage that Bahrain enjoys, which is its people; as the Bahrainis have a spirit of openness, and love for change and initiative. But, we should not forget here that the banking sector has great challenges, and we shall be ready to face them. Since banking is subject to massive changes, the need to be prepared is massive, too. Technological changes will bring new realities we shall be prepared for.”

According to Khalid Humaidan, CEO of the Economic Development Board, “This cannot be achieved in the absence of advanced infrastructure, available at competitive prices, as it will be difficult to attract foreign investment. There are two main factors for attracting the inflow of foreign investment capital: efficiency and competitive prices. In terms of efficiency, it should be noted here that we plan, within the scope of Vision 2030, to enhance the presence of the financial sector in future industries, which are financial services based on new technology that seeks to improve and automate the provision and usage of financial services based on venture capital.”

Humaidan adds, “It can be said that Bahrain has made significant and non-negligible strides in this regard. Perhaps the most tangible example of the correctness thereof is the Bahrain Center for Financial Technology Services, which has become a successful incubator to startups and small companies in this sector. All of this is based on an advanced communications infrastructure.”

On the importance of Islamic banks in the banking sector system in Bahrain, and their readiness to deal with financial technology, Abdul Hakim Al-Khayat said. “Islamic banks are fully aware that major transformation that have governed the relationship between technology and the financial world, which is now known as financial technology or Fintech. Such a relationship is no longer confined to the financial or banking side, but we have found its scope include other sectors such as food and health, etc., and we have seen that some well-known Islamic banks have taken the initiative to enter this sector and exercise the mechanisms of this equation between the two sectors: technology and financial services. In this regard, the first initiative was presented by the Kuwait Finance House when they launched an incubator that included a group of Bahraini youth, whose mission is to deal with the state of the art in this field and to provide advanced creative ideas in this field.”

He also said: “The bank has developed the ‘Jazeel’ application for the customer to use as an online communication platform to communicate with the bank and provide an opportunity for the customers from all Gulf countries to open accounts in Bahrain, with the choice to have the account in the customer’s local currency. This means that the Saudi user can open his account in Saudi Riyal and the Kuwaiti user can open his account in Kuwaiti Dinar and so on.

“The development of the capabilities of workers in the bank receives all support through training on all new in management and technological development.”

To maintain its position of leadership in the banking field in general, and Islamic banking in particular, he says, “Opening the way for local human cadres to obtain more training through cooperation between the Central Bank and the Bahrain Association of Banks, can meet the needs of the banking sector of human resources with advanced technical skills. It is necessary to stop here to consider the urgent need for raising the rates of local cadres attendance rates in Islamic banks, in order to have the opportunity to play increasing roles to improve the performance of Islamic banks and improve the services they provide, and in order for them to be raised to the status of traditional banks competing with them, if not better.”

“

Opening the way for local human cadres to obtain more training through cooperation between the Central Bank and the Bahrain Association of Banks.

”

Al-Khayyat stressed, “The political will in Bahrain is always a forerunner to achieve the sound equation between the foreign global competence and its local counterpart.

“Bahrain Institute for Banking and Finance helps in this direction, in order to accomplish the mission of preserving and developing the appropriate human environment and infrastructure in Bahrain, to promote this sector in a continuous and evolving manner.”

“As Bahrain has pioneered many matters, there is no doubt about its ability to achieve the appropriate formula, capable of developing the financial sector, both traditional and Islamic, to cope with the evolving era of money and business, which is based on the creative and innovative use of advanced financial technology.”

Al-Khayyat ended by noting the projects implemented by the Kuwait - Bahrain Finance House, “Bahraini capital intermarried with Kuwaiti capital in the implementation of the two most important investment projects, Durrat Al Bahrain and Diyar Al Muharraq, where the first occupies an area of 21 square kilometers at the southern end of the Bahrain coast, and the buildings of the second are spread over an area of 12 square kilometers in the northern part of Muharraq. The two projects contributed to providing job opportunities for the Bahraini workforce, and they opened up new investment opportunities branching from them.”

As Khaled Humaidan, CEO of the Economic Development Board says, “All of this needs experienced leadership in which the skillful and rich experience of His Royal Highness Prince Khalifa bin Salman Al Khalifa is combined and integrated with an objective, contemporary and luminous approach, launched by the vision of His Majesty King Hamad bin Isa Al Khalifa, as embodied in the National Action Charter, which won the approval of the majority of the people, by 98.4%, along with a future view embraced by His Royal Highness Prince Salman bin Hamad Al Khalifa which included in Bahrain Vision 2030.

“What integrates with that vision is the behavior of intelligent people, responsive to their leadership, have the required future skills needed by international projects submitted for investment in the Arab Gulf region, which are keen to make Bahrain a regional center for its activities.”

“This is achieved very efficiently by infrastructure, in particular in the telecommunications sector, which is the backbone of the modern economy. Bahrain has a solid communications infrastructure, which has been built and developed for nearly a century. I am talking about the British company ‘Cable and Wireless’.

What maintains this and preserves its mechanisms, is a contemporary and advanced legislative environment that responds to what foreign investment seeks. Bahrain has a well-established legislative environment in general, and in the financial and business sector in particular.”

To achieve all this, it was important that all decision maker and citizens recognize the necessity of a clear understanding of the values and concepts created through past historical experiences, so that everyone is in a state of readiness for any challenge thrown, and so that the future can be planned with the dynamism it requires. It is certain that this journey did not follow a straight line but had to take many winding roads on the journey to attain the ultimate goals.

From that view, it can be said that Bahrain achieved the goals it set even before it took its first steps on that path, due to the availability of two main factors that derive their strength from the provision of qualified leadership, supported by a loyal and honest nation. But successes, in order to survive and flourish, have uncompromising requirements. Reaching glory and gaining achievements is a significant achievement in itself but preserving them and developing the resources that secure them and ensuring they continue to grow at the same time is a challenge. Having succeeded in achieving the goals, Bahrain was also well placed to develop it and to ensure its growth and continuity.

No one is better positioned to extrapolate the future of the banking sector in the Kingdom of Bahrain than the Governor of the Central Bank of Bahrain, Rasheed Mohammed Al Maraj, who sees in that future many challenges, “These are stemming from the nature of the banking sector in general, and the components of the services it provides, and the dynamic nature that run such traditional and non-traditional services. In particular, this is why it is extremely important to work on developing services, activities, and banking products in line with the needs of customers, in order to ensure the competitive advantage of the Bahraini financial institutions continues. In this regard, it is necessary to work seriously towards the introduction of digital financial technologies in the business of banks and insurance companies, which is what the bank has been keen on through the introduction of digital banking within a continuous development plan.”

“That is why the Central Bank of Bahrain has embarked on establishing the first specialized unit for modern financial technologies in the central banks in the region, as well as launching the Regulatory Sandbox to attract emerging financial companies. The CBB has contributed to these initiatives by stimulating the launch of similar initiatives in many sister Arab countries. Working towards the continuous development of human cadres, opening up to developments in products and ideas, following good banking practices, good governance, treating customers in a good manner, and taking appropriate initiatives will be the key to success in establishing the future of the banking industry in the Kingdom of Bahrain.”



If this development is to reach the last stages of its contemporary development, it will find itself in front of the two most modern stations in the banking sector's progress over the course of its hundred years age.

The first is what is commercially known as 'meem'. As defined on its website, this is a group of retail banking services affiliated with Gulf International Bank. Services were launched in KSA in January 2015, while operations began in Bahrain in March 2018. 'meem' combines digital and traditional banking services (branches) where customers can open accounts, join 'meem' through multiple-choice electronic channels and meet the ever-evolving needs of the banking services sector for individuals in the region.

As the website confirms, 'meem' considers itself the first in providing Sharia-compliant digital banking services. It is characterized as a smart registration application that gives the customer a fast, easy experience of opening a bank account.

As for the second station, 'ila' Bank, which is, as its website states, is one of the branches of leading bank, Arab Banking Corporation. As stated on its website, 'ila' Bank believes that banking services are there to help the customer enjoy the life he wants. Therefore, it was changed to become easier, simpler and smarter, taking into consideration a new world of speed, interconnectivity, and permanent connection to the Internet, to satisfy the customer's desires with just a touch on the customer's phone.

His Royal Highness, Crown Prince Salman bin Hamad Al Khalifa, on a visit to the offices of the Bahrain Economic Development Board. The Central Bank of Bahrain Governor Mr. Rasheed Mohammed Al Maraj and CEO of Mumtalakat Company Khaled Al-Rumaihi and others appear in the picture



The Bahrain World Trade Center is an extension of the development of the diplomatic zone







Chapter 12

Responsibility of the Present and Aspirations of the Future



Coin
The commemorative medal issued by the Bahrain Association of Banks completing a century of banking services in 2019

Main Photo
Bahrain Bay is the center of the launch of financial technology in the Kingdom

A hundred years have passed, having brought with it concerns and dreams along the way. As is natural, not all worries could be eased from the shoulders of its bearer, nor all dreams could come true just as the dreamer had desired. However, what can be put on record is that facing the concerns together has united the government and people of Bahrain in shared responsibility to bring Bahrain to where it is today, and to take the nation forward. The dreams have become shared dreams that have built a framework and infrastructure of progress and development. The outcome of all this has been the position that Bahrain has attained on the world map for its promise and potential for a bright future in which all are blessed with all the elements of civilized societies, in the holistic sense of the word ‘civilized’, in which the country’s leadership achieves its aspirations, and the citizen is blessed with what he yearns for.

Never has it been claimed that the road to progress for the Banking and Financial sector was easy and uncomplicated. The circumstances were sometimes very difficult, even harsh, and sometimes it was necessary to take tough decisions to take the country in a direction contrary to what is expected, or what seems desirable. But this is the nature of living in dynamic societies that carry within it the constant desire for change, and the relentless insistence on evolution. This enabled Bahrain, as a society belonging to this group of countries that have dynamic societies, to achieve what its people were looking for, what its residents were aspiring, and what its leadership had planned for.

Bahrain would not have achieved what it achieved and reached what it was eager to do if Almighty God did not grant it a wise leadership and a broad-minded people, who carried together the flag of progress and prosperity, and were ready together to make sacrifices whatever the price, with mutual confidence, no matter how much patience and endurance is required. The upshot is today’s Bahrain, a Kingdom with a limited geographical area, and scarce natural resources, but rich in its wise and visionary leadership and its ambitious people working towards a progressive and united future.

In the midst of that the Bahraini banking sector remained part of that vision and equation that God granted. Thanks to that, all that the leadership aspired to, and the citizen looked towards, have been achieved, and Bahrain has become a pioneer in the Gulf banking business historically, and the center of the banking sector, and the incubator of money and promising business in the future.



His Royal Highness Prince Khalifa bin Salman Al Khalifa, the Prime Minister receiving the Governor of Central Bank of Bahrain Mr. Rasheed Mohammed Al Maraj along with the Chairmn and members of board of trustees of Bahrain Association of Banks 2017

A history through thousands of years, when these islands were a prominent commercial station between East and West, had a significant and tangible contribution, and many matters of civilizational and commercial exchange, mingled with the sweet scent of influences from successive civilizations.

Contributors stretch from the achievements of Tylos, the exploits of Dilmun, and stops proudly at the great companions of the Prophet, the messengers Al-Ala bin Al-Hadrami to Al-Mundhir bin Sawa Al-Abdi, before it lands and rests in today's Manama. This city turned into a workshop, as described by Dr. Nader Kazem as the city where no one sleeps. There's no one in the Kingdom who does not contribute to taking it to the position it deserves, and especially so in the financial and business world. As the veteran journalist, Ibrahim Bashmi likes to call it, "Champs Elysees of the Gulf". In his book entitled "Manama, Champs Elysees of the Gulf", Bashmi describes the features of that city in the period leading up to the oil boom, and highlights with the skillfulness of his pen, the distinctive social fabric that formed a local cultural microcosm of different civilizational and religious components, reflected in demographic behavior, foods and cuisine.

This effort and that global standing provided Bahrain with the power to surpass the present with decisive gains combined with confidence as it moves forward, breaking all the boundaries of its geographical confines, and exceeding the horizons of its small population. All this has been made possible thanks to the spirit of its people and the wisdom of its rulers. All of this was also enabled by the distinguished country that has proved itself many times over, through its history and promises a future position on the map of the world, that other bigger countries of the world with more resources, more population, are dreaming to reach.

Top Picture

His Royal Highness Crown Prince, Salman bin Hamad Al Khalifa, and Chairman of Arcapita, Mr. Abdulaziz Abdulaziz Al-Jumaih, with Chief Executive Officer of Arcapita Bank, Atef Abdulmalik, at the opening of a school in the Riffa Views Project – 2011

Bottom Picture

His Excellency Sheikh Salman bin Khalifa Al Khalifa, Minister of Finance in the midst of the representatives of Bahraini banks participating in the launching ceremony of Liquidity Support Fund initiative



When talking about the banking system which is currently in place in Bahrain, this is what the numbers tell us, substantiated by facts, as stated on the CBB website, “The banking system in Bahrain consists of traditional banks and Islamic banks, and constitutes the largest component of the financial system, where it constitutes more than 85% of the total financial assets of the sector. The total number of financial sector institutions in the country is 376 including 31 retail sector banks, 62 wholesale sector banks, 17 branches of foreign banks, and 8 representative offices. These institutions also include 35 insurance companies, 52 investment business companies, and 53 licensed specialized companies. The value of banking assets at the end of June 2019 reached more than \$ 211 billion, more than five times the annual GDP of Bahrain.”

The country’s banking sector has achieved remarkable growth, as a result of Bahrain’s adoption of an open market economy system; Macroeconomic policies and stable and prudent government financial policies; thanks to the credibility of the regulatory framework, which is in line with international standards; and the capable and qualified local workforce. All of these factors combined together to support Bahrain as a regional banking hub that has succeeded in attracting many foreign banking institutions to establish offices in the Kingdom.

This traditional banking system is supported by an Islamic banking system that integrates with its traditional counterpart and does not clash therewith, and together form a distinct banking system which overcame its competitors.

“The Kingdom of Bahrain has become a global center in the Islamic financial services sector, and the host country for the largest grouping of Islamic financial institutions in the Middle East. Today, Bahrain includes important

organizations and entities for developing Islamic services. It also includes 6 Islamic banks in the retail sector, 13 Islamic banks in the wholesale sector, 9 windows belonging to traditional banks, 6 Takaful insurance companies, and two re-takaful companies operating in the Kingdom. Bahrain has also become a leading market for Islamic instruments (Sukuk), including short-term government Sukuk and Ijara Sukuk. The central bank has played a key role in launching these innovative products.

The growth in the Islamic banking sector has been significant, with total assets in this sector jumping from \$ 1.9 billion in 2000 to \$ 32.7 billion in November 2018, with an increase of more than 14 times. Islamic banks' market share has also increased from 1.8% of total banking assets in 2000 to 14.5% in November 2018." As quoted from Central Bank of Bahrain website.

Chief Economist at Bahrain's Economic Development Board, Jarno Kotilaine in an interview with 'Bankers' magazine, stressed, "The openness of Bahrainis to others is a clear example of everything related to dealing with foreigners.



Bahrain is one of the few countries that allows foreigners membership in the boards of directors and even the presidency of banking associations such as the Bahrain Association of Banks, the Insurance Association, and others. The foreigner and the Bahraini have the full freedom to run, (adding) that Bahrain has a large group of local professionals at various levels of administration."

In the same context, the Chairman of the Board of Directors of BBK, Murad Ali Murad, said, "The position Bahrain has achieved today came as a result of the patience, commitment and governmental encouragement of the top of the leadership hierarchy in the seventies of the last century represented

Top Picture
His Royal Highness Prince Khalifa bin Salman Al Khalifa, the Prime Minister, inspecting the model of Diyar Al Muharraq project at the Kuwait Finance House exhibition in the presence of a group of ministers and officials in the Kingdom

Bottom Picture
Launching the slogan for the celebration of the banking sector centenary in Bahrain in 2019.



by His Highness the late Sheikh Isa bin Salman Al Khalifa, and after him His Majesty King Hamad bin Isa Al Khalifa and his judicious government headed by His Royal Highness Prince Khalifa bin Salman Al Khalifa, Prime Minister, support and follow-up of His Royal Highness Prince Salman bin Hamad Al Khalifa, Crown Prince at the head of the important apparatus of the economic file in the Kingdom, the Central Bank of Bahrain, and the rest of the concerned ministries. Accordingly, Bahrain's success to maintain these accomplishments requires more marketing thereof and taking advantage of being a distinguished center not only for various banking services, but also for providing Islamic banking services."

So also the CEO of Al Baraka Islamic Group, Adnan Ahmed Youssef, talked about the existence of adequate systems and laws, "There is permanent cooperation between the Central Bank of Bahrain and other banks regarding new regulations and rules, where consultation and dialogue take place between the two parties.

"His Royal Highness the Prime Minister was keen to meet the heads of the banking delegations that were coming to Bahrain to present support to the government to facilitate the work of banks in Bahrain. There was also the former Minister of Trade, the late Habib Qassem, and ministers such as Ibrahim Abdul Karim and Abdullah Saif. They were all keen to listen to the heads of foreign delegations to know their requirements and introduce the necessary laws to facilitate their work in Bahrain."

With regard to civil society organizations that support the banking system, Mr. Adnan believes, “The Bahrain Association of Banks is the supportive interface representing the interests of banks and financial institutions within the Central Bank and other relevant ministries. The association is distinguished by the presence of a group of foreigners on its board of directors, and this matter may not be present in most countries, since the members of any banking association in any country may be from the same country. In Bahrain, the representation on the association’s board of directors includes a number of bank officials located in Bahrain, and this gives the association an appropriate dimension to represent the interests of foreign banks operating in Bahrain.”

Mr. Adnan was optimistic about the future of Islamic banks and the competitive ability of their products, “The entry of Islamic banks of all kinds in Bahrain took place in a semi-structured manner where international banks were opened, including the Islamic offshore banks, then the commercial institutions and banks, asset management banks, and investment portfolios. Therefore, Islamic banks were growing in the same way as traditional banks, and the total of their assets reached nearly 3 trillion dollars, while the total



assets of all Arab banks reached the same amount. This means that Islamic banks were able to make their budgets equal to those of Arab banks in a relatively very short period.”

Former CEO of the National Bank of Bahrain, Abdul Razzaq Hassan Al Qasim, has many issues of focus, the most important of which was, “The ability of the government in Bahrain to create the necessary climate to attract traditional banks, then Islamic banks by providing support, regulations, and laws regulating the banking sector, and the support it presented to the local banks at the time of severe crises, including injecting deposits without interest and buying shares in some of them through government institutions. All these factors confirm the unlimited support of the government.”

“We also owe a big thanks to the foreign banks in Bahrain, as they have invested a lot in training and qualifying the local human element, and helped them to hold high positions in the banks of Bahrain and even outside.”

Housing Bank, CEO Dr. Khaled Abdullah, attaches increasing importance to the issue of training and qualification of the human element, “There is an urgent need in the banking sector in general, to double the size and frequency of workers training in this particular sector, in order to reach the goal of preparing the second row or the next generation of local competencies where it is noticed recently that banks have slackened in this regard, which put the sector in front of a problem of seeking leaders who continue what the previous generation started.”

“If we revert to the development that took place in the banking sector, we will find that there was conscious leadership that harnessed the oil boom, which facilitated the presence of banks in Bahrain to work in Bahrain and other Gulf countries, to finance the urban development, and to find different ways of investment that helped to strengthen the banking sector in Bahrain. Banks played a pioneering role in finance at that time, and the Bahrain Institute for Financial Studies also played a distinguished role in developing and qualifying many bank employees to assume high positions through which they contributed to the development of the banking sector.”

When talking about the future, it is necessary to take a deeper look at the principles and objectives contained in Bahrain’s Economic Vision 2030 in order to discover what the leadership of the country represented by His Majesty the King, and the wife of the King, President of the Supreme Council for Women, His Royal Highness the Prime Minister, and His Royal Highness the Crown Prince, are all working to implement, especially with regard to

“

Aspire to move from an economy based on oil wealth to a productive economy that is globally competitive of which the government delineates its features, and the pioneering private sector takes charge of its development.

”

the banking and financial sector which is the subject of this book. Vision 2030 summarizes this, “We, as a Kingdom, aspire to move from an economy based on oil wealth to a productive economy that is globally competitive of which the government delineates its features, and the pioneering private sector takes charge of its development in a way that broadens the middle class of Bahraini citizens who enjoy high standards of living due to increasing productivity and high-paid jobs.”

Future projections cultivate hope and optimism in the hearts of those trying to read what awaits the Bahraini financial market and businesses. The Kingdom of Bahrain’s economy has achieved remarkable growth over the past decades, and the rate of GDP growth has reached 6% annually over the past five years resulting from increased fuel prices, the financial sector boom, and economic growth at the regional level. The confidence of international financial and business circles in the national economy has also increased, as the volume of foreign direct investment inflows increased from BD 0.2 billion in 2003 to BD 1.1 billion in 2006. This economic revival has improved the living standards of Bahraini citizens.

All these facts point to the fact that the Bahraini banking sector at the age of one hundred years, is much more when measured by achievements. This sterling pioneering spirit is embodied by Bahrain, in the past and continues into the future. As we have seen through the pages of this book, all of that was achieved thanks to a set of subjective and objective factors, supported and piloted by a leadership that has a vision and courage, people willing to make sacrifices, citizens who accept challenges, and generations who have accumulated experiences, and reproduce it in creativity in various forms - Resourcefulness and creative thinking even when working in a seemingly static and somber environment, that states everything in numbers as we do in the world of money and business, and at its heart the banking services. At the forefront of all of this is the divine providence that gave Bahrain what it deserves through capabilities that brought it to this position today.

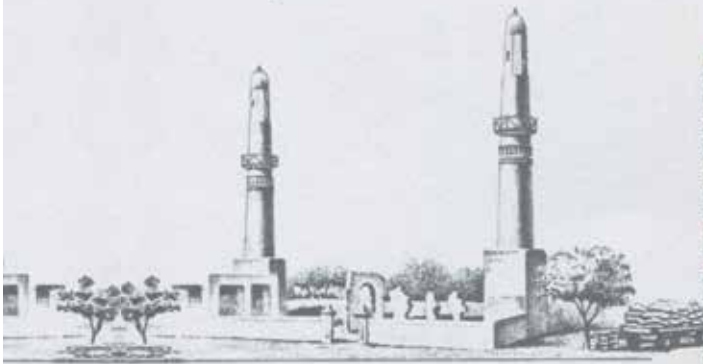
A perfect conclusion to our story would be to say that Bahrain has lived a storied past, is blessed with a prosperous present, and looking forward to a bright future. At this moment of celebration, we shall not forget to acknowledge and be grateful for our historical and contemporary progress and development, that through our exemplary leadership, we have succeeded and achieved excellence, supported by the hard work of a people who are diligent and dedicated to rooting for this process and defending its continuity and advancement.



Monument of celebration of the 100years of the Banking and Finance sector which is built at forefront of Bahrain Financial Harbor



بريد
POSTAGE
2.5
د.ب. BD



الاول ١٩٦٥ - ٢٠١٥
50th Anniversary of



مملكة البحرين
KINGDOM OF BAHRAIN



الذكرى الخمسون لإصدار الدينار البحريني
50th Anniversary of 1st Bahraini Dinar Issued 1965 - 2015



Appendices

Bahrain Banking Sector, 100 years of Challenges & Achievements

His Highness, Sheikh Isa
bin Ali Al Khalifa
1869 - 1932



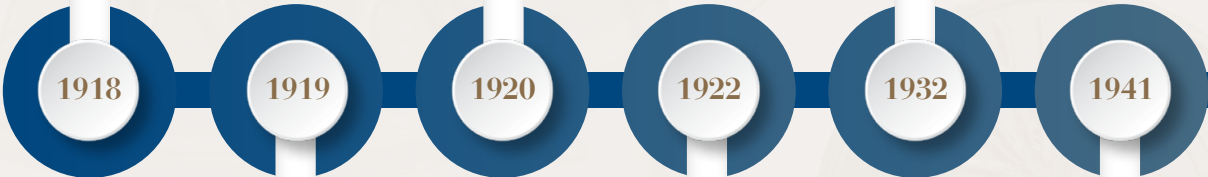
His Highness, Sheikh Hamad
bin Isa bin Ali Al Khalifa
1932 - 1942



Granting a license in 1918
to the first bank in Bahrain,
Eastern Bank Limited
(currently Standard Chartered
Bank). The bank started
operating on July 3, 1920

The first municipal law
was issued

Oil Discovery and
Production in 1932



Opening of Al-Hedaya Al-
Khalifa School in Muharraq
as a start to introduce
formal education in Bahrain

Opening of the first
external audit company
Whinny Murray (currently
Ernest & Young)

The Sheikh Hamad Bridge,
which linked Muharraq Island
with the capital, Manama, was
opened in 1941



His Highness Sheikh Salman
bin Hamad bin Isa Al Khalifa
1942 - 1961



The British Bank of the
Middle East (currently
HSBC) opened a branch in
Bahrain

1944

1950

Opening of a branch of
the first foreign insurance
company in Bahrain -
“Norway Union Fire
Insurance Company”.

Opening of the first
Bahraini insurance
company, Auto Insurance
Cooperative Fund

1954

Bank of Bahrain was opened
as the first Bahraini bank

1957

Start of using the Gulf Indian
rupee instead of the regular
Indian rupee in Bahrain

1959

Arab Bank Limited - Jordan
opened a branch in Bahrain

1960



His Highness, Sheikh Isa bin
Salman bin Hamad Al Khalifa
1961 - 1999



Establishing the
Bahrain Currency
Board - Decree
No.6.

1964

First issue of
Bahraini Dinar was
issued to replace
the Indian Rupee

United Bank Limited
of Pakistan, Rafidain
Bank of Iraq, and
Citibank of America
opened branches to
operate in Bahrain.

1965

1969

BBK obtained
the license and
commenced its
operations in 1972.
Bahrain obtained
independence in
1971 and joined
the United Nations.

1971

Bahrain joined
the International
Monetary Fund and
the International
Bank for
Development and
Reconstruction

1972

Establishing the
Bahrain Monetary
Agency under
Decree No. 23.
The Government of
Bahrain purchased
25% of the shares
of Bank of Bahrain
whose name was
changed to the
National Bank of
Bahrain.
National and
Grindlays Bank
opened a branch
thereof in Bahrain.
Bahrain joined the
Organization of
Arab Petroleum
Exporting
Countries.

1973

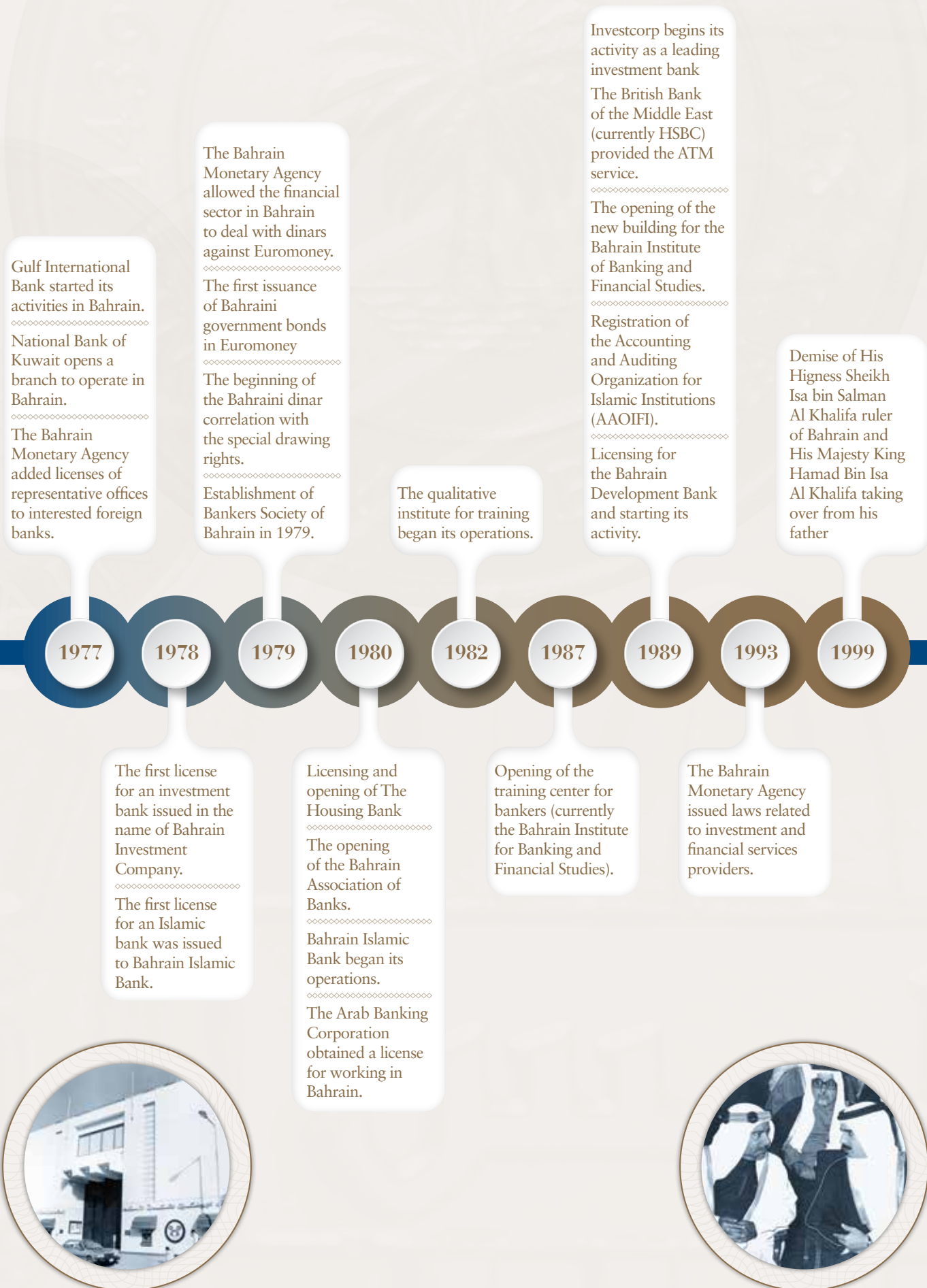
Paribas Bank of
France opened a
branch thereof in
Bahrain.
The Bahrain
Monetary Agency
issued the Offshore
Banking Law.
Issuance of the
first license for
an offshore bank
to Citibank and
another license to
De Nederlandsche
Bank.

1975

The first financial
brokerage firms -
Tellet & Riley and
Marshall's began
their business in
Bahrain

1976





His Majesty King Hamad bin Isa bin
Salman Al Khalifa, King of the Kingdom
of Bahrain since March1999



Opening of the Kuwait
Finance House.

A group of banks and
financial institutions
established Liquidity
management centre in
Bahrain

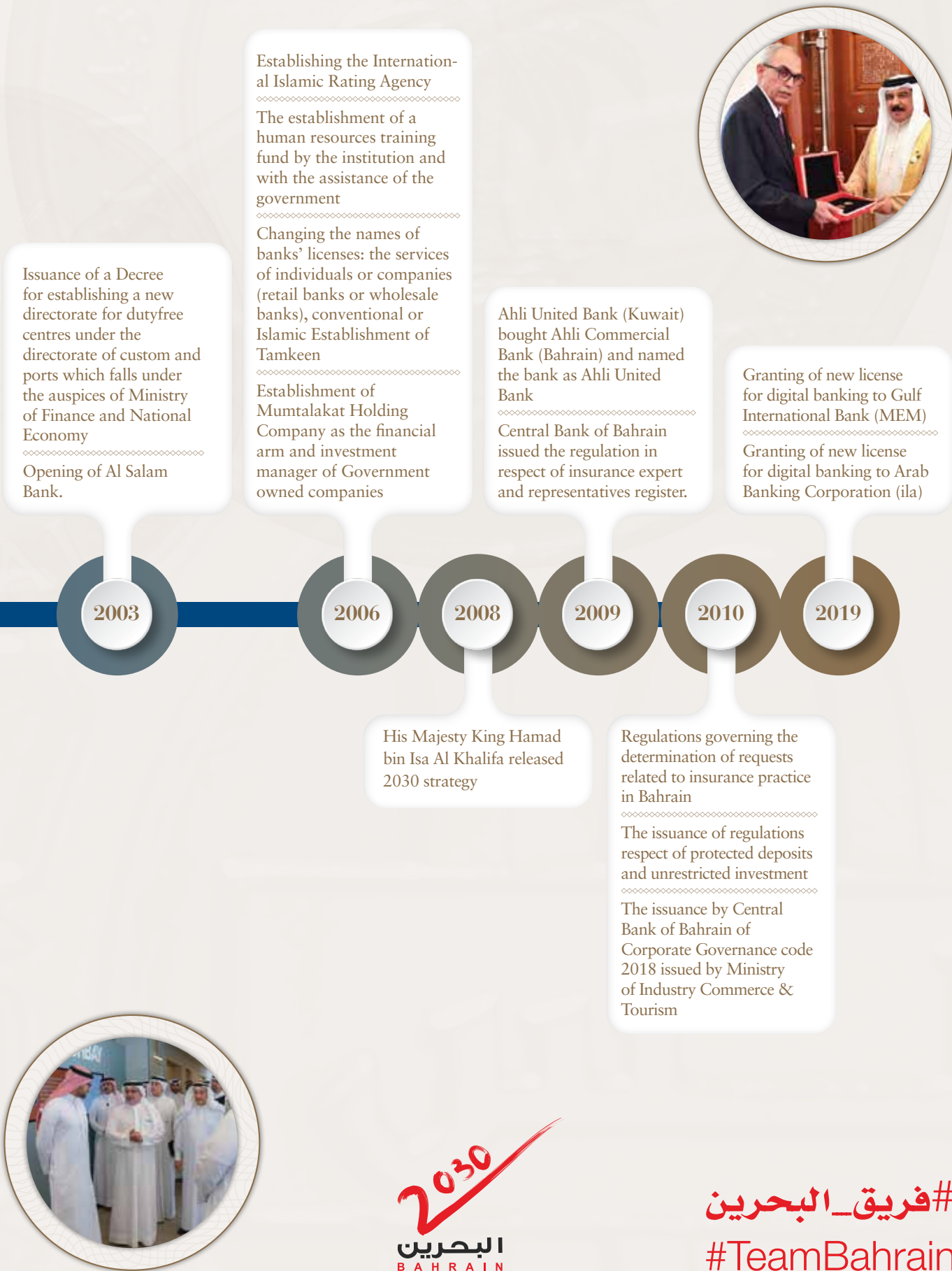
2000

Establishing the Economic
Development Board.
Approving the
establishment of the
Islamic Financial Services
Board

2001

The Bahraini dinar
evolved in the hope of
unifying the currency in
the Gulf countries.
The issuance of Salam
Sukuk (Islamic treasury
bonds) for 5 years.
ijara Sukuk by the Bahrain
Monetary Agency, the
first issuance of its kind
worldwide.
Supreme Council of
Islamic Banks established
The Bahrain Monetary
Agency undertook
supervision of insurance
companies and Bahrain
Bourse, the first Gulf
country to do so.
Bahrain became the
Kingdom of Bahrain
headed by His Majesty
King Hamad bin Isa Al
Khalifa

2002



Shining moments on the path of centennial 1919 - 2019



The British Bank
of Middle East
(currently HSBC)

Habib Bank Limited

1919
–
1930

1931
–
1950

1951
–
1960

1961
–
1970

1971
–
1980

Eastern Bank Limited
(currently Standard
Chartered Bank)

Bank of Bahrain
(currently National
Bank of Bahrain)
Arab Bank Limited

Bank of Bahrain and Kuwait
BNP - Paribas
Citi Bank
J.P. Morgan
Chase Manhattan Bank
Korea Exchange Bank
Hana Bank Korea
State Bank of India
Gulf International Bank
Kuwait National Bank
National Bank of Pakistan
Bahrain Islamic Bank
The Saudi National
Commercial Bank
Manufacturers Hanover Bank
Housing Bank
Arab Banking Corporation
Bahrain Arab International
Bank
HSBC Bank
International Bank for trade
Taib Bank
ABN Ambro



Bahrain Middle East Bank
Bahrain International Bank
Yapi de Kredi Bankasi
Arab Investment Company
Investcorp Bank
Citi Corp Banking
Woori Bank
Al Baraka Islamic Bank
United Gulf Bank

BMI Bank
Al Ahli United Bank
Turkie Is Bankasi
International Bank for Investment
First Bank of Abu Dhabi
Kuwait Finance House
Housing Bank for Trade & Finance
- Jordan
Askari Bank Limited
Liquidity Management Centre
Deniez Bank
Kuwait Turkie Participating Bank
International Banking
Establishment
Gulf Commercial Bank
ICICI Bank

Awal Bank
Bank Al Khair
Future Bank
Turkie Halk Bankasi
Al Salam Bank
Vakif Turkie Vakiveler Bankasi
Venture Capital Bank
APICORP
Bank Al Habib
Al Falah Bank
Global Banking Corporation
Ebdar Bank
Dar Investment Bank
Credi Lebanese Bank
HDFC Bank Limited
The First Energy Bank

1981
–
1990

1991
–
2000

2001
–
2010

2011
–
2019

Gulf Investment Group
Bahrain Development Bank
UBS International for Asset
Management
MSM Bank Limited
Citi Bank Corp Investment
SICO
Capital Union
AlBaraka Banking Group
Finance Bank
Gulf Finance House
R.A. Bahrain
Arcapita Investment

Allied Bank Limited
Cairo Amman Bank
G.S. Bank Limited
BUK International
Ithmaar Bank
Palestine Investment Bank
T.C. Zaraat Bankasi
Al Mashreq Bank
Jordan Bank
Family Bank
Ebdaa Bank
Gulf International Bank -
MEM Bank
Bank ABC - ila Bank



Chronology of the history of the banking sector in Bahrain

Year	Event
1918	<ul style="list-style-type: none"> - Granting a license to the first branch of the Eastern Bank Limited (Standard Chartered Bank currently). - Work began on July 3, 1920
1932	<ul style="list-style-type: none"> - Discovering oil in Bahrain and starting production.
1944	<ul style="list-style-type: none"> - Imperial Bank of Iran (the British Bank of the Middle East, currently HSBC, opens a branch in Bahrain).
1950	<ul style="list-style-type: none"> - The opening of the first branch of Norwich Union Fire Insurance Company
1954	<ul style="list-style-type: none"> - The opening of the first Bahraini insurance company, "Auto Insurance Cooperative Fund".
1957	<ul style="list-style-type: none"> - The Bank of Bahrain (currently National Bank of Bahrain) started its operations as the first local bank.
1959	<ul style="list-style-type: none"> - Start of using the Gulf Indian rupee instead of the regular Indian rupee in Bahrain
1960	<ul style="list-style-type: none"> - Arab Bank Limited opened a commercial bank branch in Bahrain
1964	<ul style="list-style-type: none"> - Establishing the Bahrain currency board Decree no. 6
1965	<ul style="list-style-type: none"> - Bahraini Dinar was issued to replace the Indian Rupee.
1972	<ul style="list-style-type: none"> - Bahrain obtained independence and joined the United Nations.
1973	<ul style="list-style-type: none"> - Establishing the Bahrain Monetary Agency under Decree No. 23 as a successor to the Bahrain Currency Board. - The Government of Bahrain purchased 25% of the shares of Bank of Bahrain whose name was changed to the National Bank of Bahrain. - Bahrain joined the Organization of Arab Petroleum Exporting Countries.
1975	<ul style="list-style-type: none"> - The Bahrain Monetary Agency issued the first license for an offshore banking unit and another license to a financial intermediation company. The first offshore bank to open was Citibank and the De Nederlandsche Bank.
1976	<ul style="list-style-type: none"> - The financial brokerage firms began business in Bahrain - Tellett & Tokyo (Bahrain) Co. and Marshalls (Bahrain).
1977	<ul style="list-style-type: none"> - Gulf International Bank started its activities in Bahrain. - Bahrain becomes a founding member of the Arab Monetary Fund. - The Bahrain Monetary Agency added licenses of representative offices.
1978	<ul style="list-style-type: none"> - The first license for an investment bank issued in the name of Bahrain Investment Company. - The first license for an Islamic bank was issued to Bahrain Islamic Bank.

Year	Event
1979	<ul style="list-style-type: none"> - Bahrain Monetary Agency "BMA" Allowed the market to trade Bahrain Dinars against the Euro. - The first issuance of Bahraini government bonds in Euromoney. - The beginning of the Bahraini dinar correlation with the special drawing rights.
1980	<ul style="list-style-type: none"> - Licensing and opening of The Housing Bank. - The opening of the Bahrain Association of Banks. - Arab Banking Corporation received an Offshore Banking License to establish in Bahrain.
1982	<ul style="list-style-type: none"> - The qualitative institute for training began its operations.
1987	<ul style="list-style-type: none"> - Inauguration of the Bankers Training Center (its name changed in 1989 to the Bahrain Institute of Banking and Finance). - Change of title of CEO of Bahrain Monetary Agency to Governor of Bahrain Monetary Agency. - Investcorp begins its activities.
1989	<ul style="list-style-type: none"> - The opening of the new building for the Bahrain Institute of Banking and Financial Studies. - Registration of the Accounting and Auditing Organization for Islamic Institutions (AAOIFI). - Licensing for the Bahrain Development Bank and starting its activity. - Introducing the requirements of international standards and the demand from all the licensed units to apply it in 1992.
1992	<ul style="list-style-type: none"> - National Bank of Bahrain added automatic transfer service through points of sale for the first time.
1993	<ul style="list-style-type: none"> - The Bahrain Monetary Agency issued laws related to investment and other financial services providers.
1994	<ul style="list-style-type: none"> - The Bahrain Monetary Agency announced the establishment of a fund to protect depositors - Starting the automated check clearance program.
1996	<ul style="list-style-type: none"> - Bahrain becomes a member of the World Trade Organization. - Start applying the fines system for returned checks.
1997	<ul style="list-style-type: none"> - Bahrain participated in the talks related to the financial services of the World Trade Organization regarding the financial sector and the stock exchange.
1999	<ul style="list-style-type: none"> - Signing the first Islamic structuring transaction for financing a project. - The demise of the His Highness the late Sheikh Isa bin Salman Al Khalifa and appointment of His Majesty King Hamad Bin Isa Al Khalifa as successor.

Chronology of the history of the banking sector in Bahrain

Year	Event
2000	<ul style="list-style-type: none"> - Approving the establishment of the Islamic Financial Services Board. - Successful preparations for entering the 2000 millennium without significant incidents
2002	<ul style="list-style-type: none"> - Bahrain Becomes 'Kingdom of Bahrain' and His Majesty Hamad Bin Isa Al Khalifa named the King of the Kingdom of Bahrain. - The Bahraini dinar comes out of the system of special drawings rights to be begged to the US dollar in the hope of unifying the currency in the Gulf countries. - Introduction of the conservative regulatory requirements for Islamic banks. - The issuance of Salam Sukuk (Islamic treasury bonds) and 5-year ijara Sukuk by the Bahrain Monetary Agency, which is considered to be the first issuance of its kind worldwide. - Establishing the Supreme Council of Islamic Banks. - The Bahrain Monetary Agency undertook the supervision of insurance companies and Bahrain Bourse as the first Gulf country to do so.
2003	<ul style="list-style-type: none"> - Establishing the liquidity management center in Bahrain. - Establishing the International Islamic Company for Valuation. - Starting the work of the Liquidity Management Center. - The establishment of a human resources training fund by the institution and with the assistance of the government.
2005	<ul style="list-style-type: none"> - The Central Bank of Bahrain issued regulations for granting consumer financing against the monthly income of individuals.
2006	<ul style="list-style-type: none"> - Changing the names of banks' licenses: the services of individuals or companies (retail banks or wholesale banks), conventional or Islamic. - Bahrain Monetary Agency was replaced by Central Bank of Bahrain as per Decree (64) 2006.
2007	<ul style="list-style-type: none"> - The Central Bank of Bahrain issued directives for collective investment funds. - The Central Bank of Bahrain issued the Charter of Best Practices on Consumer Loans and Banking Services Fees. - The Central Bank of Bahrain issued Decision No. (1) of 2007 for determining the categories of fees due for licenses and services provided by the Central Bank of Bahrain. - The Central Bank of Bahrain issued Resolution No. (49) of 2007 regarding the disclosure of financial statements and board meetings for listed joint-stock companies. - The Central Bank of Bahrain issued Regulation No. (1) of 2007 regarding services subject to the Central Bank of Bahrain's supervision.

Year	Event
2008	<ul style="list-style-type: none"> - The Central Bank of Bahrain issued new directives related to capital adequacy and general disclosures related to Basel II requirements. - The Central Bank of Bahrain issued directives regarding compensation for holders of consumer loans for the remaining insurance premiums in the event of early payment or submitting an additional request to the current loan and setting maximum limits for early payment fees. - The Central Bank of Bahrain issued Resolution No. 31 of 2008 to issue a regulation regarding the regulation of control in banks in accordance with Article 52 of the Law of the Central Bank of Bahrain and financial institutions.
2009	<ul style="list-style-type: none"> - The Central Bank of Bahrain issued Resolution No. (23) of 2009 regarding the determination of deposits. - Regulations governing the procedures in the insurance record for insurance experts, brokers and representatives of insurance companies
2010	<ul style="list-style-type: none"> - The regulations governing the determination of requests related to the practice of insurance in Bahrain. - Issuing regulations related to the organization of procedures for protected deposits and unrestricted investments. - The Central Bank of Bahrain issued directives that include the Charter for Corporate Governance principles issued by the Ministry of Industry and Trade. - The Central Bank of Bahrain issued directives to strengthen the procedures related to the attendance of members of the Board of Directors of the banks to the meetings of the Board of Directors and the General Assembly. - The Central Bank of Bahrain issued directives regarding imposing financial penalties on banks that are non-compliant to submit their periodic reports on time.
2011	<ul style="list-style-type: none"> - The Central Bank of Bahrain has issued directives regarding the prior approval requirements for major acquisitions and investments in capital instruments by locally licensed banks as per the requirements of Principle 5 of the Basic Principles for Effective Banking Supervision issued by the Basel Committee. - The Central Bank of Bahrain issued directives that include modifications to the limits of large exposures to banks in addition to introducing new rules related to temporary exposures resulting from banks' investments in assets that it intends to securitize or offer to investors. - The Central Bank of Bahrain issued Resolution No. 34 of 2010 issuing regulations regarding the system of protection of deposits and absolute investment accounts in accordance with Article 188 of the Law of the Central Bank of Bahrain and financial institutions.

Chronology of the history of the banking sector in Bahrain

Year	Event
2011	<ul style="list-style-type: none"> - The Central Bank of Bahrain issued directives regarding determining the period for keeping credit information related to insolvent individuals in the Bahrain National Electronic Network for Financial Transactions. - The Central Bank of Bahrain issued Decision No. (43) of 2011 issuing the regulations for granting licenses to provide controlled services in accordance with Article 44 of the Law of the Central Bank of Bahrain and financial institutions. - The Central Bank of Bahrain has issued new directives regarding the minimum requirements for handling complaints of licensees' clients. - The Central Bank of Bahrain issued directives related to the service of notifying or reporting financial transactions to customers of retail banks and finance companies. - The Central Bank of Bahrain issued directives on the precautionary procedures of banks and financing companies related to banking services provided online. - The Central Bank of Bahrain issued Resolution No. (59) of 2011 issuing regulations on pledge, seizure, and mortgage expiry of securities. - Regulations governing the formation of the Board of Directors for unrestricted investments and deposits. - Regulations related to prohibiting the provision of investment services. - Regulations related to the study of penalties and fines that the Central Bank is entitled to impose on licensors - The Central Bank of Bahrain issued directives related to capital adequacy and general disclosures relating to Basel 2.5 requirements. - The Central Bank of Bahrain issued directives for collective investment funds that include the principles issued in this regard by the Islamic Financial Services Council. - The Central Bank of Bahrain has issued directives on weights of the risks of commercial financing in the chapter on capital adequacy that reflects the requirements issued in this regard by the Basel Committee for Banking Supervision. - The Central Bank of Bahrain issued Resolution No. 16 of 2012 regarding the regulations of prohibiting the marketing of financial services in the Kingdom of Bahrain in accordance with Article 42 of the Law of the Central Bank of Bahrain and financial institutions. - The Central Bank of Bahrain issued Resolution No. (17) of 2012 regarding the regulations of rules and procedures for listing and trading in securities and financial instruments in financial markets licensed by the Central Bank of Bahrain. - The Central Bank of Bahrain issued Decision No. (27) of 2012 regarding the review of sanctions and administrative measures that the Central Bank of Bahrain can impose on licensees.

Year	Event
2012	<ul style="list-style-type: none"> - The Central Bank of Bahrain issued Resolution No. (33) of 2012 issuing a regulation determining the procedures for deciding banks' requests to transfer banking activities in the Kingdom of Bahrain. - The Central Bank of Bahrain issued new directives on operational risk management that reflect what was stated in the Basel paper on developing and improving operational risk requirements. - The Central Bank of Bahrain issued new directives to enhance the requirements for disclosure of profit rates, interests, and other fees related to credit facilities. - Issuance of the Licensing Procedures Manual - Decree-Law (34) 2015. - Issuance of a decree organizing the work of investment and insurance companies according to the requirements of the Central Bank of Bahrain.
2013	<ul style="list-style-type: none"> - The Central Bank of Bahrain issued directives for risk management for Islamic banks that include the principles of risk management issued by the Islamic Financial Services Council in addition to the principles of risk management issued by the Basel Committee. - The Central Bank of Bahrain issued directives for handling investment accounts that are listed as units in collective investment funds. - The Central Bank of Bahrain issued new directives on efficiency and training for banks. - The Central Bank of Bahrain issued special directives on wages and remuneration policies in banks that include the principles and standards issued by the Basel Committee for Banking Supervision on wages and remuneration policy in accordance with the directives of the Financial Stability Board.
2014	<ul style="list-style-type: none"> - Issuance of a decree regarding the determination of the capital and shares of protected deposit companies. - The Central Bank of Bahrain issued directives that include amendments to the chapter on "Precautionary Requirements for Capital Consolidation and Deductions for Islamic Banks, including that the special-purpose companies that affiliate Islamic banks shall be monitored by the Shari'a Supervisory Board in those banks. - The Central Bank of Bahrain issued new directives to notify the Central Bank before dismissing any of the employees holding supervisory positions or suspending their activities and informing the concerned employee accordingly. - The Central Bank of Bahrain issued directives that include amendments to the chapter on financial crime in order to include the FATF revised recommendations issued in February 2012, in the first, second, and fourth directives volumes (conventional, Islamic and investment companies respectively). - The Central Bank of Bahrain issued Decision No. (44) of 2014 issuing the clearing list according to the market contract. - Issuance of a decree on terms and conditions related to guardianship services. - Issuance of a decree regarding the determination of the capital of protected deposit companies.

Chronology of the history of the banking sector in Bahrain

Year	Event
2014	<ul style="list-style-type: none"> - The start of applying Basel III requirements as per the Basel Committee. - The Central Bank of Bahrain issued the Capital Adequacy Unit for conventional and Islamic banks in its final form, according to the requirements of Basel III. - The Central Bank of Bahrain issued Resolution No. (20) of 2015 establishing a central council for Sharia supervision. - The Central Bank of Bahrain issued Resolution No. (23) of 2015 regarding the conditions and procedures for obtaining the approval of the Central Bank of the candidates for membership in the board of directors of the licensee or for any of its executive positions. - The Central Bank of Bahrain issued Resolution No. (28) of 2015 regarding organizing the practice of the activity of the real estate development project account trustee - The Central Bank of Bahrain issued directives to include the principles of business conduct issued by the Islamic Financial Services Council in the chapter of "Business and Market Behavior" for Islamic banks. - Granting a retail bank license to Gulf International Bank.
2015	<ul style="list-style-type: none"> - Issuance of Decree-Law No. 34 of 2015 amending some provisions of the Central Bank of Bahrain and Financial Institutions Law issued under Law No. (64) of 2006. - Issuance of a decree regarding the conditions for establishing protected deposit companies. - Issuance of a decree regarding the documents required to establish the Trusteeship Fund and subsequent amendments thereto. - Issuance of a decree on establishing limited joint-stock investment companies. - Granting a bank license to GS Bank – Pakistan. - Issuance of a decree determining fees for establishing protected companies.
2016	<ul style="list-style-type: none"> - License to establish the Bahrain Clearing Company - affiliated and owned by the Bahrain Bourse. - The Central Bank of Bahrain issued new directives to provide banking services to clients with special needs. - The Central Bank of Bahrain issued the requirements related to public disclosure in accordance with Basel III. - The Central Bank of Bahrain issued Resolution No. (20) for the year 2016 regarding the regulation of practicing the real estate development project account trustee. - The Central Bank of Bahrain issued Resolution No. (3) of 2016 regarding the formation of a central council for Sharia Supervision. - The Central Bank of Bahrain has issued directives to outsource services that include information to banks and finance companies.

Year	Event
2017	<ul style="list-style-type: none"> - The Central Bank of Bahrain issued new directives for cloud computing. - The Central Bank of Bahrain has issued new directives for the Regulatory Sandbox. - The Central Bank of Bahrain issued a new chapter on the Shariah Governance of Islamic Banks. - The Central Bank of Bahrain issued new directives on crowdfunding for lending and acquisition (conventional and Islamic financing). - The Central Bank of Bahrain issued Resolution No. (33) of 2017 regarding the capital and shares of Nawaat and Khalalia, the Protected Cells Company. - The Central Bank of Bahrain issued Decision No. (32) of 2017 regarding the conditions and procedures for establishing a protected cell company and establishing its cells or converting an existing company into a protected cell company. - The Central Bank of Bahrain issued Decision No. (31) of 2017 regarding the documents and data necessary for registering the inventory or any update thereof. - The Central Bank of Bahrain issued Resolution No. (13) of 2017 regarding the conditions for obtaining the approval of the Central Bank of Bahrain to establish limited investment partnerships. - The Central Bank of Bahrain issued Resolution No. 12 of 2017 regarding the conditions that shall be met by the joint partner in limited investment partnerships. - The Central Bank of Bahrain issued Resolution No. 1 of 2017 determining the fee due for a request to establish a protected cell company or convert an existing company into a protected cell company.
2018	<ul style="list-style-type: none"> - The Central Bank of Bahrain issued liquidity requirements as per Basel III. - The Central Bank of Bahrain issued requirements related to leverage ratios according to Basel III. - The Central Bank of Bahrain has issued new chapters on risk management as per the standards issued by the Financial Stability Board and the Basel Committee. - The Central Bank of Bahrain has issued new directives on open banking services. - The Central Bank of Bahrain issued new directives regarding setting a ceiling on some types of fees for the financial services of a unified nature for retail bank customers. - The Central Bank of Bahrain issued new directives regarding the internal audit of all banks.

Chronology of the history of the banking sector in Bahrain

Year	Event
2018	<ul style="list-style-type: none"> - The Central Bank of Bahrain has issued special directives regarding the calculation of financial fines for Licensees violations. - The Central Bank of Bahrain issued Resolution No. (1) of 2018 amending some provisions of Resolution No. (40) of 2016 regarding fees imposed on registering custodianship of funds and licensing custodians. - The Central Bank of Bahrain issued Decision No. (32) of 2018 some provisions of Regulation No. (1) of 2007 regarding services subject to the Central Bank of Bahrain's supervision. - Granting a retail bank license to the Arab Banking Corporation. - Issuance of a decree regarding terms and conditions related to custody services. - The Central Bank of Bahrain issued Decision No. (33) of 2018 regarding the conditions and procedures for licensing the practice of custodian activities.
2019	<ul style="list-style-type: none"> - The Central Bank of Bahrain issued new directives regarding "operators of coded asset platforms". - The Central Bank of Bahrain issued new directives regarding digital financial advisory services. - The Central Bank of Bahrain issued new directives regarding insurance brokers via electronic platforms. - The Central Bank of Bahrain issued directives for Contactless payment transactions (Near field communication "NFC"). - The Central Bank of Bahrain issued the proposed requirements for POS infrastructure. - The bank issued new requirements for the compliance function in banks. - Issuance of the modified version of the Bahrain Guide to Corporate Governance 2018. - Granting a retail bank license to the Arab Banking Corporation.

The chronology of the banking sector history in Bahrain 1919-2019

Below you find the decisions and directions issued by the Central Bank of Bahrain for insurance companies

No.	Insurance Sector	Date
1	Resolution No. 15 of 2009 issuing a regulation regarding the determination of procedures for deciding requests to transfer the work of licensees to practice insurance business in the Kingdom of Bahrain in accordance with Article 66, 67 of the Law of the Central Bank of Bahrain and financial institutions.	April 2009
2	Resolution No. 11 of 2009 issuing a list of conditions and procedures for registration in the records of insurance experts, brokers and representatives of insurance companies, in accordance with Article 74 of the Law of the Central Bank of Bahrain and financial institutions and including it in the third directives volume of insurance companies	July 2009
3	Directives include the Charter for Corporate Governance issued by the Ministry of Industry and Trade	January 2011
4	Resolution No. 43 of 2011 issuing the regulation of the conditions for granting a license to provide controlled services in accordance with Article 44 of the Law of the Central Bank of Bahrain and financial institutions.	September 2011
5	Directives on minimum requirements for handling complaints from clients of insurance companies	October 2011
6	Directives on dealers with insurance brokers	April 2012
7	Resolution No. 16 of 2012 regarding the regulation prohibiting the marketing of financial services in the Kingdom of Bahrain in accordance with Article 42 of the Law on the Central Bank of Bahrain and financial institutions.	June 2012
8	Directives on imposing financial penalties on insurance companies that are non-compliant to submit their periodic reports on time.	October 2012
9	Strengthening the operational framework and solvency framework for the Takaful and Re-Takaful sector.	April 2014
10	Resolution No. (27) of 2015 issuing the regulation regulating control in investment companies and insurance companies in accordance with the provisions of the Central Bank of Bahrain and Financial Institutions Law promulgated by Law No. (64) of 2006	May 2015

The chronology of the banking sector history in Bahrain 1919-2019

Issuance of the sixth directives volume for the capital markets as follows:

No.	Insurance Sector	Date
1	Chapter of markets and stock exchanges	October 2008
2	Chapter of mergers and acquisitions and share buybacks	December 2008
3	Chapter of cooperation and information exchange with foreign authorities	February 2009
4	Chapter of Preventing tampering and abuse of the market	April 2009
5	Chapter of rules of clearing, settlement, and central deposit	April 2009
6	Chapter of market surveillance, investigation, and enforcement	October 2009
7	Chapter of brokers and market representatives	November 2009
8	Chapter of rules for dispute resolution, arbitration and disciplinary procedures	June 2010
9	Chapter of rules for anti-money laundering and financial crime	October 2010
10	Chapter of high-level controls (governance)	July 2011
11	Chapter of securitization	December 2013

Notes: The above table shows the main events of the development of the banking sector in Bahrain from 1919-2019. In general, it covers all areas where the sector was the scene of events during the period mentioned.

The book contains more comprehensive information on matters related to banks of various types of licenses, as well as insurance companies in various branches of licenses and specialties.



First issue of Bahrain Dinar notes - 1965



First issue of Bahrain Dinar coins - 1965



Left Page

In 1965 the Bahrain Currency Board assumed the responsibility of issuing Bahrain Dinar notes as per Amiri decree-No 6 -1964. The first issue had 6 notes started by 100 fils and ended by 10 dinars.

Current Page

In 1965 the first issue of metal coins of Bahrain Dinars was handled by Bahrain Currency Board as per Amiri Decree No 6 and the number of issued coins were six started from 1 fil, 5, 10,25, 50 and 100 fils.

4th Issue of Bahrain Dinar notes - 2006



2nd Issue of Bahrain Coins - 2011



Left Page

Number of Bahrain Dinar various Notes issued by Central Bank of Bahrain since His Majesty the King, Hamad Bin Isa Al Khalifa, King of Kingdom of Bahrain assumed the throne in 1999 until 2018 and the number of of paper notes issued were five starts from BD1 to BD 20.

Current Page

Various metal issues with different values and amounts which were issued by Central Bank of Bahrain since his Majesty King Hamad Bin Isa Al Khalifa ascended the throne in 1999/ The issues starts with the 5 fils coin and ends with the 100 fils coin.

This Book

Tracing the story of one hundred years of the banking and financial sector in the Kingdom of Bahrain. The beginning was modest, but when the seed that was planted received the nurture it deserved, it grew, flourished and allowed Bahrain to enjoy its bounties. The Bahraini banking sector started its journey one step at a time on a long unpaved road, full of risks and challenges, and sometimes, surprises. Today, the fruits that began with the license granted to the first bank, is an integrated banking system, with the traditional banking services, to the Islamic banking services and down to the start of financial technology with its sophisticated contemporary outlook and standards.

This banking system was distinguished from others by its incubator, which took off through its flexibility that met the needs of the past, interacted with the requirements of the present, and prepared for future implications. This is what the contents of, "The Banking sector in 100 Years" documents. The events leading up to the granting the first license to a modern banking system that enabled it to conduct its business in Bahrain in the late second decade of the twentieth century, it elaborates on the emergence of the Islamic banking sector in the late seventies of the last century, which turned Bahrain to the most important center in the Middle East, if not in the world, and when it, gracefully, describes the channels of the interaction between the components of the financial environment system in Bahrain to perform its functions with the required due diligence, estimated flexibility, and ambitious efficiency.

All these components worked to complement with each other in order to establish an outcome for the banking and financial system, enjoyed by the people of Bahrain. The steady growth in the number and types of institutions that perform services not only in Bahrain stand in evidence today, reaching out to the markets of the world, interacting with merit, and having the necessary flexibility that qualifies them for a creative, innovative mix of elements that are local, regional, and international alike.

This is what makes Bahrain's banking history so rich and so deserving of the present success, and the promising future.

The chapters of the book present Bahrain's position and strengths in the financial and business markets. A position that has to be maintained by building on the current performance, ensuring future growth, and preparing for lasting continuity.