



The late Amir
His Highness Shaikh Isa Bin Salman Al Khalifa



H.H. Shaikh Hamad Bin Isa Al Khalifa
The Amir of the State of Bahrain



H.H. Shaikh Khalifa Bin Salman Al Khalifa
The Prime Minister



H.H. Shaikh Salman Bin Hamad Al Khalifa
The Crown Prince and Commander-in-Chief
of the Bahrain Defence Force

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H.H. Shaikh Khalifa Bin Salman Al Khalifa
Prime Minister

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| Dr. Bakri A. Bashir | - | Adviser, Economic Affairs |
| Ms. Bernadette M. Doyle | - | Adviser, Legal Affairs |
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FOREWORD



It is with great pleasure that I present the 27th Annual Report of the Bahrain Monetary Agency.

The Report provides a brief summary of international economic and financial events in 2000, followed by a detailed review of domestic economic and financial developments and of the activities and operations of the Bahrain Monetary Agency over the course of the year. The Report also presents the statutory accounts and financial statements of the Agency for the year ended 31st December 2000, as well as the significant Circulars and Regulations issued by the Agency during that year.

Bahrain's economy performed strongly in 2000 under the influence of continuing rise in oil and aluminium prices. Inflation remained firmly under control with the Consumer Price Index continuing to fall (down 0.7% following a fall of 1.3% in 1999). In terms of economic growth, GDP at current prices increased by 20.4% and by 5.3% in real terms. The budget was in surplus following a deficit the previous year. The overall balance of payments was again in surplus, by BD75 million, following the return to surplus the previous year.

The outlook for the economy in 2001 indicates continuing improvement. Preliminary data indicates further strengthening of both trade and fiscal accounts. The commitment of the Bahrain authorities to the utilisation of Bahrain resources, the further diversification of the economy, coupled with the support of the private sector, will continue to exert favourable influences on the economy.

Over the year, the banking sector continued to demonstrate satisfactory progress. For the full commercial banks, it was a year of consolidation. The banks' combined balance sheet grew by nearly 3% in the first quarter, with assets/liabilities reaching an all-time high of BD3852.2 million, but declined thereafter, to end the year virtually unchanged at BD3768.1 million. The combined balance sheet of the offshore banking units also reached record levels; assets/liabilities peaking at almost US\$93.0 billion by the year-end. However; those for the investment banks fell throughout the year, from last year's record high of US\$4.0 billion, but recovering slightly in the fourth quarter, to stand at US\$3.4 billion.

A total of 173 banks and financial institutions were licensed by the Agency at end 2000. In addition, the Agency approved 176 collective investment schemes and mutual funds in 2000, bringing the total to 699 schemes sold and marketed in Bahrain by 39 financial institutions.

Supervisory events in 2000 were dominated by international initiatives. First, in February 2000, the Agency was assessed by the IMF for its compliance with the Basel Core Principles (a set of best practices compiled by the Basel Committee). The Agency was found fully compliant with 24 of the 30 principles and sub-principles and an Action Plan was implemented to address the remaining six. The first direct result of this Action Plan was the issuing of a new circular in May 2000 with revised rules for controllers of banking institutions which requires that all potential significant shareholders in Bahraini banks must be assessed fit and proper by the Agency. Other regulations are to be put in place prior to the next IMF Assessment which is scheduled for 2002. The Agency is confident that it will be found fully compliant, or largely compliant, with all the Core Principles by the time of the next Assessment. Second, the Agency was pleased to note the FATF (Financial Action Task Force) formally accepted the Mutual Evaluation Report performed on Bahrain in the Summer of 2000 concerning the compliance of Bahrain with international standards relating to the prevention of money laundering. Third, the imminent implementation of International Accounting Standard 39 (IAS 39) involved both the banks and the Agency in extensive preparatory work throughout the year. The Standard, to be introduced on 1st January 2001, requires accounting and prudential systems to reflect fair value assessment of securities and investments. Its adoption will lead to an immediate and further improvement in the quality of transparency of banks' financial records.

The IMF assessment, the Mutual Evaluation Report and the adoption of IAS 39 are all major contributions to the continuing evolvement of Bahrain as a major international financial centre implementing the highest international standards of best practice.

A further development of major importance during the year was the introduction of direct involvement of external auditors in the statistical reporting system. From June 2000 onwards, as a means to improve the accuracy of prudential reporting to the Agency, all prudential returns submitted by banks became subject to formal review by each bank's external auditors.

Finally, from early 2000, new quarterly information reports were required from providers of investment advisory services and, similarly, from money brokers by the year end.

I should like to take this opportunity to express my deep gratitude to His Highness the Amir of Bahrain, Shaikh Hamad Bin Isa Al Khalifa, His Highness the Prime Minister and Chairman of the Board of the Bahrain Monetary Agency, Shaikh Khalifa Bin Salman Al Khalifa, and His Highness the Crown Prince and Commander-in-Chief of the Bahrain Defence Force, Shaikh Salman Bin Hamad Al Khalifa, for their guidance to, and patronage of, the Agency. I also extend to all Government Ministries and Agencies my sincere appreciation for their continued support.

I am deeply grateful to Bahrain's financial community for its support and cooperation in 2000, and to the Agency's personnel for their substantial contribution towards further enhancing the effectiveness and efficiency of the Agency.

Ahmed Bin Mohammed Al-Khalifa
Governor

CHAPTER ONE

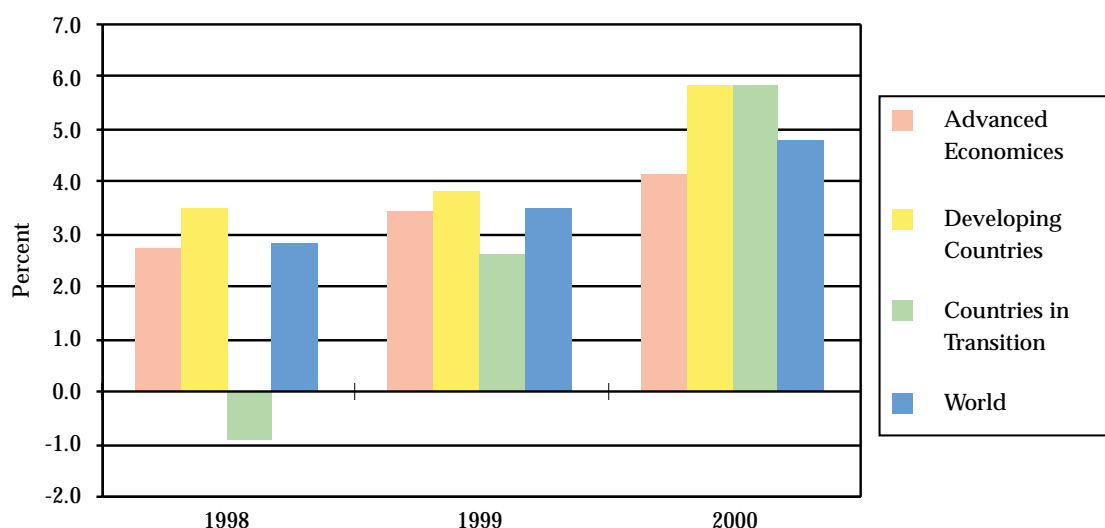
INTERNATIONAL ECONOMIC PERSPECTIVE

1-1 Economic Developments

The global economy witnessed a number of developments in 2000, the most important being the tightening of monetary policy in the United States to address rising demand pressures. In addition, the year witnessed a series of shocks such as a sharp fall in equity markets, particularly those of technology stocks, slow growth in the technology sector, tightening of credit conditions and a sharp weakening in consumer and business confidence.

The steep rise in crude oil prices was also a major feature of 2000. During the year, the average price of crude oil increased to a peak of US\$ 29.80 per barrel in the third quarter of 2000 from a low of US\$ 26.56 in the first quarter. The average price of crude oil in 2000 was US\$ 28.21 per barrel, as compared with US\$ 17.98 per barrel a year earlier.

CHART 1-1: ECONOMIC GROWTH RATES



(a) Output

World economic growth increased to 4.8% in 2000 compared with 3.5% in 1999. Average growth in the advanced and developing economies was 4.1% and 5.8% in 2000, compared with 3.4% and 3.8% respectively in 1999. In addition, countries in transition experienced growth of 5.8% in 2000, compared with 2.6% a year earlier.

(b) Unemployment

Unemployment rates in the advanced economies fell from 6.1% in 1999 to 5.7% in 2000. Unemployment in the United States and the United Kingdom decreased from 4.2% and 6.0% in 1999 to 4.0% and 5.6% respectively in 2000. Similarly, unemployment in Germany fell from 8.3% to 7.8% and in France from 11.3% to 9.7%. Unemployment in Japan, however, remained unchanged at 4.7%.

(c) Inflation

Inflation rates in the advanced economies remained fairly subdued during the year registering 2.3% in 2000. In the developing countries, however, inflation fell from 6.7% to 6.1%. Inflation in the transition economies decreased significantly from 43.9% in 1999 to 20.1% in 2000.

Table 1.1: Inflation Rates (%)

| Country Group | 1998 | 1999 | 2000 |
|-------------------------|------|------|------|
| Advanced Economies | 1.5 | 1.4 | 2.3 |
| Developing Countries | 10.4 | 6.7 | 6.1 |
| Countries in Transition | 21.8 | 43.9 | 20.1 |

Source: IMF, World Economic Outlook, May 2001.

1-2 Exchange Rates and Gold Prices

An analysis of exchange rates between end 1999 and end 2000, using national currency units per SDR, indicates that the Euro, Japanese Yen and Pound Sterling depreciated by 2.5%, 6.7% and 2.8% respectively. In contrast, the U.S. Dollar appreciated by 5.1% against the SDR.

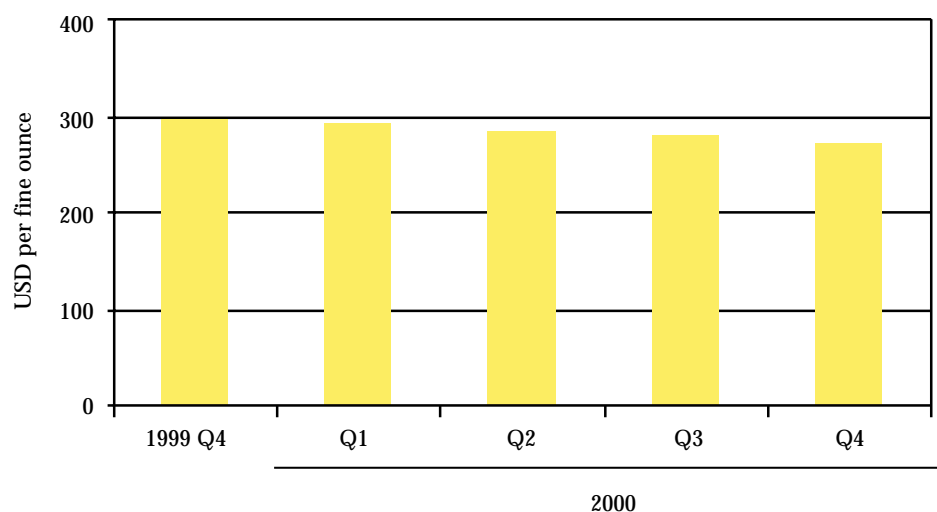
Table 1.2 : Exchange Rates of Major Currencies Against the SDR

| Currency | 1999 | 2000 | | | |
|----------------|--------|--------|--------|--------|--------|
| | Q4 | Q1 | Q2 | Q3 | Q4 |
| US Dollar | 1.3725 | 1.3469 | 1.3373 | 1.2979 | 1.3029 |
| Euro | 1.3662 | 1.4099 | 1.3994 | 1.4808 | 1.4002 |
| Japanese Yen | 140.27 | 142.57 | 140.95 | 139.98 | 149.70 |
| Pound Sterling | 0.8491 | 0.8444 | 0.8843 | 0.8829 | 0.8732 |

Source: IMF, International Financial Statistics, April 2001.

Gold prices showed a downward trend during 2000, falling from US\$ 290.2 per ounce in the first quarter of 2000 to US\$ 269.2 per ounce in the fourth quarter. However, year on year, the average price remained little changed at \$279.00 per ounce.

CHART 1-2: GOLD PRICES IN 2000
(London Closing)



1-3 Interest Rates

Interest rates on the major international currencies rose during 2000. Rates on the U.S. dollar increased from 5.5% in 1999 to 6.7% in 2000. In addition, rates on the Japanese Yen and Euro increased from 0.2% and 3.0% in 1999 to 0.3% and 4.6% respectively in 2000.

Table 1.3: Interest Rates on Major Currency Deposits
(6 Month LIBOR)

| Currencies | 1998 | 1999 | 2000 |
|--------------|------|------|------|
| U.S. Dollar | 5.6 | 5.5 | 6.7 |
| Japanese Yen | 0.7 | 0.2 | 0.3 |
| Euro | 3.7 | 3.0 | 4.6 |

Source: IMF World Economic Outlook, May 2001.

CHAPTER TWO

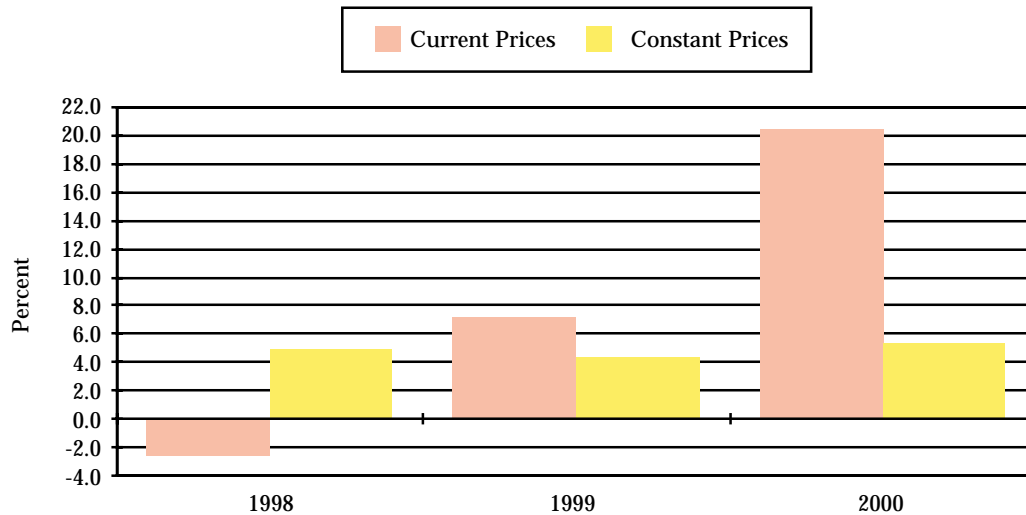
DOMESTIC ECONOMIC DEVELOPMENTS

2-1 Domestic Output

GDP at Current Prices

Gross Domestic Product (GDP) at current prices registered an increase of 20.4% in 2000 compared with 7.1% in 1999.

CHART 2-1: BAHRAIN - ECONOMIC GROWTH RATES



The value added of the non-financial corporations sector rose by 28.0% in 2000 compared with 9.3% a year earlier. This rise was mainly attributable to an increase in the value added of crude petroleum and natural gas sector by 86.5%. As a result, the contribution of the non-financial corporations sector to GDP rose from 68.8% in 1999 to 73.2% in 2000.

Similarly, the value added of the financial corporations sector rose by 19.1% in 2000 compared with 0.8% in 1999. Local and Offshore financial institutions grew by 20.9% and 19.0% respectively in 2000. The share of this sector in GDP remained relatively unchanged at 21.4% in 2000.

On the other hand, growth in the value added of the Government services sector decelerated from 3.3% in 1999 to 1.2% in 2000. Accordingly, the Government services sector's contribution to GDP fell from 12.5% to 10.5%.

Table 2.1: Gross Domestic Product at Current Prices

| Sectors | BD Millions | | Annual Growth (%) | | Relative Share (%) | |
|---|----------------|----------------|-------------------|--------------|--------------------|---------------|
| | 1999 | 2000 | 1999 | 2000 | 1999 | 2000 |
| 1- The Non-Financial Corporations | 1712.9 | 2193.0 | 9.3 | 28.0 | 68.8 | 73.2 |
| - Agriculture & Fishing | 21.4 | 22.1 | 2.1 | 3.2 | 0.9 | 0.7 |
| - Mining & Quarrying | 453.5 | 840.8 | 43.4 | 85.4 | 18.2 | 28.1 |
| Crude Petroleum & Natural Gas | 448.1 | 835.7 | 43.9 | 86.5 | 18.0 | 27.9 |
| - Manufacturing | 306.7 | 342.8 | 3.6 | 11.8 | 12.3 | 11.4 |
| - Electricity & Water | 44.9 | 42.8 | 2.5 | (4.7) | 1.8 | 1.4 |
| - Construction | 105.6 | 107.0 | 11.8 | 1.3 | 4.2 | 3.6 |
| - Trade | 207.8 | 240.7 | (11.6) | 15.8 | 8.3 | 8.0 |
| - Hotels & Restaurants | 56.4 | 59.6 | 4.6 | 5.7 | 2.3 | 2.0 |
| - Transport and Communication | 196.2 | 210.9 | 1.8 | 7.5 | 7.9 | 7.0 |
| - Social & Personal Services | 51.6 | 53.2 | 2.9 | 3.0 | 2.1 | 1.8 |
| - Real Estate & Business Activities | 268.7 | 272.9 | 2.0 | 1.6 | 10.8 | 9.1 |
| 2- The Financial Corporations | 537.2 | 640.0 | 0.8 | 19.1 | 21.6 | 21.4 |
| - Financial Institutions | 138.6 | 167.6 | (1.2) | 20.9 | 5.6 | 5.6 |
| - Offshore Financial Institutions | 289.6 | 344.5 | 9.0 | 19.0 | 11.6 | 11.5 |
| - Insurance | 109.0 | 127.9 | (14.1) | 17.4 | 4.4 | 4.3 |
| 3- Government Services | 311.1 | 314.9 | 3.3 | 1.2 | 12.5 | 10.5 |
| 4- Education Services | 106.1 | 109.2 | 6.1 | 2.9 | 4.3 | 3.6 |
| 5- Health Services | 58.8 | 59.3 | 2.8 | 0.8 | 2.4 | 2.0 |
| 6- Private Non-Profit Institutions Serving Households | 1.2 | 1.5 | 3.4 | 25.7 | 0.0 | 0.0 |
| 7- Households with Employed Persons | 17.6 | 18.3 | 8.8 | 3.7 | 0.7 | 0.6 |
| 8- Minus Financial Intermediation Services Indirectly Measured | (312.8) | (395.2) | (0.2) | 26.3 | (12.6) | (13.2) |
| 9- GDP at Producer Prices | 2432.2 | 2941.1 | 7.5 | 20.9 | 97.7 | 98.1 |
| 10- Import Duties | 57.1 | 55.8 | (9.9) | (2.3) | 2.3 | 1.9 |
| TOTAL GDP | 2489.3 | 2996.9 | 7.1 | 20.4 | 100.0 | 100.0 |

Source: Ministry of Finance and National Economy.

GDP at Constant Prices

In 2000, GDP at constant prices (1989=100) increased by 5.3% compared with 4.3% in 1999.

The value added of the non-financial corporations sector increased by 5.2% in 2000 compared with 5.4% in 1999. This rise was a result of an increase in crude petroleum and natural gas by 11.2%. The contribution of this sector to GDP remained relatively unchanged at 70.1% during 1999 and 2000.

Similarly, the value added of the financial corporations sector grew by 14.6% in 2000 compared with 0.1% in 1999. This was due to a rise in both local and offshore financial institutions by 7.9% and 16.6% respectively in 2000. The contribution of this sector to GDP rose from 17.4% in 1999 to 19.0% in 2000.

Growth in the value added of the government services sector decreased from 2.1% in 1999 to 1.3% in 2000. The share of this sector in GDP fell from 11.2% in 1999 to 10.8% in 2000.

**Table 2.2: Gross Domestic Product at Constant 1989 Prices
1989 = 100**

| Sectors | BD Millions | | Annual Growth (%) | | Relative Share (%) | |
|---|----------------|----------------|-------------------|-------------|--------------------|--------------|
| | 1999 | 2000 | 1999 | 2000 | 1999 | 2000 |
| 1-The Non-Financial Corporations | 1736.1 | 1825.9 | 5.4 | 5.2 | 70.2 | 70.1 |
| - Agriculture & Fishing | 22.5 | 23.8 | 2.7 | 6.0 | 0.9 | 0.9 |
| - Mining & Quarrying | 419.5 | 466.3 | 11.7 | 11.1 | 17.0 | 17.9 |
| Crude Petroleum & Natural Gas | 417.2 | 464.1 | 11.7 | 11.2 | 16.9 | 17.8 |
| - Manufacturing | 303.9 | 311.4 | 6.3 | 2.5 | 12.3 | 12.0 |
| - Electricity & Water | 50.7 | 53.4 | 0.2 | 5.3 | 2.1 | 2.1 |
| - Construction | 98.0 | 99.3 | 16.9 | 1.4 | 4.0 | 3.8 |
| - Trade | 323.7 | 332.1 | (6.2) | 2.6 | 13.1 | 12.8 |
| - Hotels & Restaurants | 55.1 | 59.1 | 4.7 | 7.1 | 2.2 | 2.3 |
| - Transport and Communication | 194.2 | 206.0 | 8.3 | 6.1 | 7.9 | 7.9 |
| - Social & Personal Services | 42.7 | 43.8 | 4.9 | 2.6 | 1.7 | 1.7 |
| - Real Estate & Business Activities | 225.9 | 230.8 | 6.4 | 2.2 | 9.1 | 8.9 |
| 2- The Financial Corporations | 431.2 | 494.3 | 0.1 | 14.6 | 17.4 | 19.0 |
| - Financial Institutions | 136.2 | 146.9 | (0.4) | 7.9 | 5.5 | 5.6 |
| - Offshore Financial Institutions | 205.1 | 239.3 | 6.9 | 16.6 | 8.3 | 9.2 |
| - Insurance | 89.9 | 108.1 | (12.0) | 20.3 | 3.6 | 4.2 |
| 3- Government Services | 277.7 | 281.4 | 2.1 | 1.3 | 11.2 | 10.8 |
| 4- Education Services | 83.0 | 90.0 | 5.5 | 8.4 | 3.4 | 3.5 |
| 5- Health Services | 49.7 | 50.8 | 1.4 | 2.2 | 2.0 | 1.9 |
| 6- Private Non-Profit Institutions Serving Households | 1.0 | 1.2 | (1.1) | 18.8 | 0.0 | 0.0 |
| 7- Households with Employed Persons | 15.9 | 16.5 | 3.7 | 3.7 | 0.6 | 0.6 |
| 8- Minus Financial Intermediation Services Indirectly Measured | (173.3) | (208.5) | (5.0) | 20.3 | (7.0) | (8.0) |
| 9- GDP at Producer Prices | 2421.3 | 2551.5 | 4.7 | 5.4 | 97.9 | 98.0 |
| 10- Import Duties | 50.6 | 51.7 | (12.1) | 2.2 | 2.1 | 2.0 |
| TOTAL GDP | 2471.9 | 2603.3 | 4.3 | 5.3 | 100.0 | 100.0 |

Source: Ministry of Finance and National Economy.

Crude Oil Production and Refining

Crude oil production from the Bahrain field rose from 13.7 million barrels in 1999 to 13.8 million barrels in 2000, an increase of 0.7%. On the other hand, imports of crude oil registered a decrease of 2.4% in 2000 to reach 80.3 million barrels.

Refined oil production fell by 2.1 million barrels, or by 2.2% to reach 93.7 million barrels in 2000. Similarly, exports of oil products fell by 5.0% to reach 91.0 million barrels.

CHART 2-2: BAHRAIN - SELECTED OIL STATISTICS

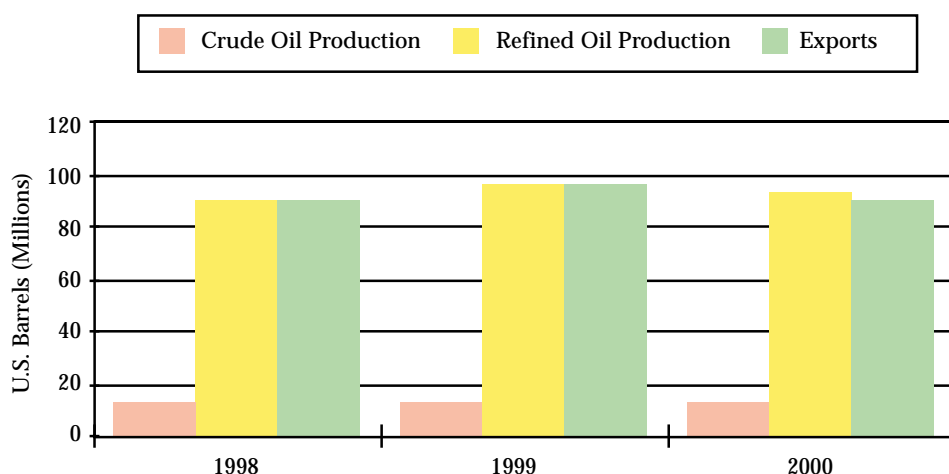


Table 2.3: Selected Oil Statistics

| Description | U.S. Barrels (Thousands) | | Percentage Change | |
|-----------------------------------|--------------------------|--------|-------------------|------|
| | 1999 | 2000 | 1999 | 2000 |
| Bahrain Crude Oil Production | 13,677 | 13,766 | -0.5 | 0.7 |
| Imports of Saudi Arabian Crude 1/ | 82,310 | 80,296 | 6.8 | -2.4 |
| Refined Oil Production | 95,843 | 93,737 | 5.8 | -2.2 |
| Local Sales of Refined Products | 4,409 | 4,694 | -4.9 | 6.5 |
| Exports 2/ | 95,766 | 90,963 | 5.2 | -5.0 |

Source: Ministry of Oil and Industry.

1/ Imported crude used in refined products for export.

2/ Includes exports by Bapco and Banagas.

Gas Production and Utilisation

Bahrain's gas production increased by 1.4% to reach 412.0 billion cubic feet in 2000, compared with 406.4 billion cubic feet in 1999. This rise was attributable to an increase in natural gas production by 2.0%.

Aluminium Bahrain (Alba) remained the single largest consumer of gas, accounting for 26.2% of total gas utilisation in 2000. Oil field injection accounted for 24.7%, while the power stations, Gulf Petrochemical Industries Company (GPIC), and the refinery accounted for 24.5%, 10.0% and 8.8% of total utilisation respectively.

Table 2.4: Gas Production and Utilisation

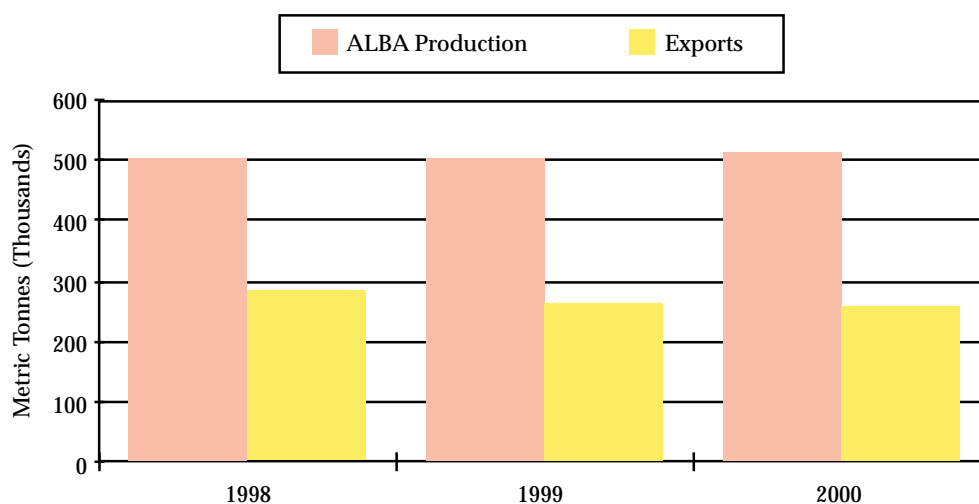
| Items | Billions of Cubic Feet | | Percentage Change | | Relative Share | |
|------------------------|------------------------|--------------|-------------------|------------|----------------|--------------|
| | 1999 | 2000 | 1999 | 2000 | 1999 | 2000 |
| Gas Production | 406.4 | 412.0 | 3.4 | 1.4 | 100.0 | 100.0 |
| Associated Gas | 96.0 | 95.3 | 5.5 | -0.7 | 23.6 | 23.1 |
| Natural Gas | 310.4 | 316.7 | 2.8 | 2.0 | 76.4 | 76.9 |
| Gas Utilisation | 406.4 | 412.0 | 3.4 | 1.4 | 100.0 | 100.0 |
| Power Stations | 93.9 | 101.1 | 6.9 | 7.7 | 23.1 | 24.5 |
| Alba | 109.3 | 108.0 | -2.0 | -1.2 | 26.9 | 26.2 |
| Refinery | 35.7 | 36.3 | 0.8 | 1.7 | 8.8 | 8.8 |
| Oil Field Injection | 100.1 | 101.6 | 3.3 | 1.5 | 24.6 | 24.7 |
| GPIC | 43.5 | 41.0 | 7.4 | -5.7 | 10.7 | 10.0 |
| Others | 23.9 | 24.0 | 14.9 | 0.4 | 5.9 | 5.8 |

Source: Ministry of Oil and Industry.

Aluminium Production

Alba production registered an increase of 1.7%, or 8.8 thousand metric tonnes, to reach 509.7 thousand metric tonnes in 2000.

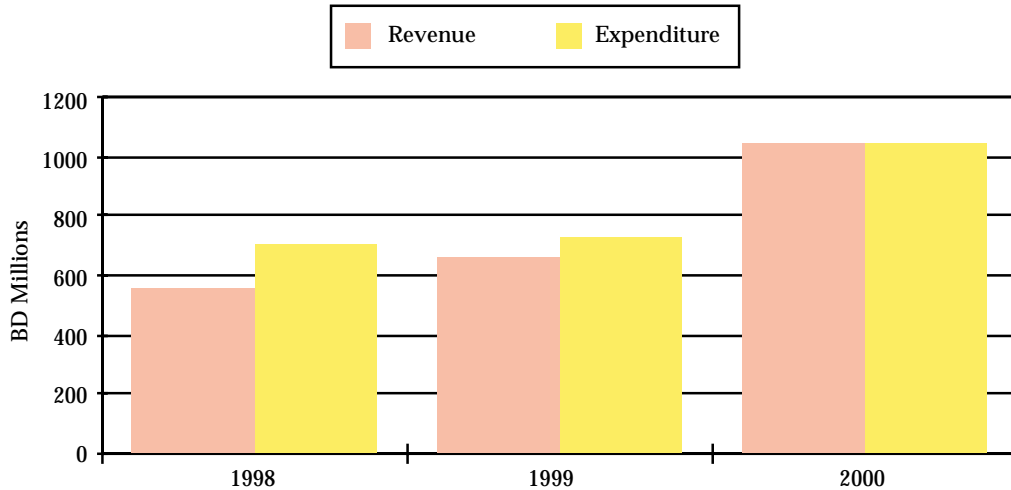
CHART 2-3: BAHRAIN - ALBA'S ALUMINIUM PRODUCTION AND EXPORTS



2-2 Government Finance

The fiscal account registered a surplus of BD 5.3 million in 2000, or 0.2% of GDP, compared with a deficit of BD 63.4 million in 1999, or 2.5% of GDP.

CHART 2-4: BAHRAIN - GOVERNMENT FINANCE



Revenues

Total revenue increased by BD 386.9 million or 58.6%, from BD 660.4 million in 1999 to BD 1,047.3 million in 2000.

Oil and gas revenue increased by BD 393.2 million or 105.9%, to BD 764.6 million in 2000. As a result, the share of oil and gas revenue in total revenue increased from 56.2% in 1999 to 73.0% in 2000.

Non-oil revenue fell by 2.2%, to BD 282.7 million in 2000. As a result, the share of Non-oil revenue in total revenue decreased from 43.8% in 1999 to 27.0% in 2000.

Expenditures

Total expenditure rose by BD 63.2 million or 8.7%, from BD 723.8 million in 1999 to BD 787.0 million in 2000.

Current expenditure rose from BD 596.0 million in 1999 to BD 664.1 million in 2000, or by 11.4%. This rise reflected increases in all current expenditure chapters over the year, particularly in transfers, grants, subsidies and repayment of loan interest and manpower. Current expenditure represented 84.4% of total expenditure in 2000.

However, projects expenditure fell by 3.8%, from BD 127.8 million in 1999 to BD 122.9 million in 2000.

Total amount reserved for sovereign and strategic projects was BD 255.0 million in 2000.

Table 2.5: Government Finance

| Description | BD Millions | | Annual Growth (%) | | Relative Share (%) | |
|---|--------------|---------------|-------------------|--------------|--------------------|--------------|
| | 1999 | 2000 | 1999 | 2000 | 1999 | 2000 |
| A. Total Revenue | 660.4 | 1047.3 | 19.2 | 58.6 | 100.0 | 100.0 |
| Oil & Gas Revenue | 371.4 | 764.6 | 43.2 | 105.9 | 56.2 | 73.0 |
| Non-Oil Revenue | 289.0 | 282.7 | -1.9 | -2.2 | 43.8 | 27.0 |
| Taxation & Fees | 109.5 | 114.7 | -3.6 | 4.7 | 16.6 | 11.0 |
| Government Goods & Services | 98.2 | 95.4 | 3.5 | -2.8 | 14.9 | 9.1 |
| Investments & Govt. Properties | 38.3 | 40.3 | -10.5 | 5.2 | 5.8 | 3.8 |
| Grants | 37.6 | 18.8 | 0.0 | -50.0 | 5.7 | 1.8 |
| Sale of Capital Assets | 0.2 | 0.3 | 100.0 | 50.0 | 0.0 | 0.0 |
| Miscellaneous | 5.2 | 13.2 | -8.8 | 153.8 | 0.8 | 1.3 |
| B. Total Expenditure | 723.8 | 787.0 | 2.7 | 8.7 | 100.0 | 100.0 |
| Current Expenditure | 596.0 | 664.1 | 6.4 | 11.4 | 82.3 | 84.4 |
| Manpower | 388.8 | 396.4 | 2.3 | 1.9 | 53.7 | 50.4 |
| Services | 58.2 | 58.9 | 12.1 | 1.2 | 8.0 | 7.5 |
| Consumables | 30.6 | 33.7 | 14.2 | 10.1 | 4.2 | 4.3 |
| Assets | 7.7 | 7.7 | 42.6 | 0.0 | 1.1 | 1.0 |
| Maintenance | 24.5 | 24.2 | 14.5 | -1.2 | 3.4 | 3.1 |
| Transfers | 46.9 | 87.5 | 12.7 | 86.6 | 6.5 | 11.1 |
| Grants, Subsidies and Repayment of Loan Interest | 39.3 | 55.7 | 19.8 | 41.7 | 5.4 | 7.0 |
| Projects Expenditure | 127.8 | 122.9 | -11.5 | -3.8 | 17.7 | 15.6 |
| Sovereign and Strategic Projects | | 255.0 | | | | |
| C. Surplus/Deficit | -63.4 | 5.3 | | | | |

Source: Ministry of Finance and National Economy.

2-3 Consumer Price Index

Bahrain's Consumer Price Index (CPI), (base year 1994-1995 =100), reached an index level of 102.1 in 2000, compared with 102.8 in 1999, a decrease of 0.7%.

An analysis of the main goods and services groups within the CPI reveals a slight increase in the average prices of three main groups during 2000, namely, the transportation services group and medical and health services group by 0.6% each, and the service requirements of personal care group by 0.1%.

In contrast, average prices of the remaining groups decreased by varying degrees. This included the ready-made clothes, textiles & foot-wear group by 1.5%, the goods for home services group by 1.3%, the food, beverages & tobacco group by 1.3%, and house-related expenses, fuel lighting & water group by 0.9%.

Table 2.6: Consumer Price Index (CPI)
(1994 - 1995 = 100)

| Groups | 1999 | 2000 | Annual Change % |
|--|--------------|--------------|-----------------|
| 1. Food, Beverages and Tobacco | 103.1 | 101.8 | -1.3 |
| 2. Ready-made Clothes, Textiles and Foot-wear | 101.8 | 100.3 | -1.5 |
| 3. House-Related Expenses, Fuel Lighting & Water | 100.5 | 99.6 | -0.9 |
| 4. Goods for Home Services | 96.3 | 95.0 | -1.3 |
| 5. Transportation Services | 100.8 | 101.4 | 0.6 |
| 6. Education | 127.6 | 127.4 | -0.2 |
| 7. Medical Care & Health Services | 107.8 | 108.4 | 0.6 |
| 8. Service Requirements of Personal Care | 89.9 | 90.0 | 0.1 |
| 9. Culture, Entertainment and Recreation | 112.0 | 111.7 | -0.3 |
| General C.P.I. | 102.8 | 102.1 | -0.7 |

Source: Central Statistics Organisation

2-4 Bahrain Stock Exchange

The Bahrain index closed at 1,805.8 points at end-2000, a decrease of 18.4% compared with end-1999.

The main indicators for the market indicate a fall in activity during 2000. The volume of shares traded fell from 536.3 million shares in 1999 to 422.1 million shares in 2000, or by 21.3%, and their value fell from BD 168.0 million to BD 92.5 million, or by 44.9%. The number of transactions fell from 18,145 in 1999 to 11,906 in 2000, or by 34.4%. Also, the market capitalization of listed companies fell from BD 2.7 billion at end-1999 to BD 2.5 billion at end-2000.

An analysis by sector reveals that the shares traded in the commercial banking sector amounted to BD 41.1 million or 44.4% of the value of total shares traded. Shares traded in the investment sector amounted to BD 27.3 million or 29.5% of the value of total shares traded, followed by the services sector with BD 17.2 million or 18.6% of the total.

Table 2.7: Trading Activity of the Bahrain Stock Exchange

| Items | 1998 | 1999 | 2000 | Annual change % | |
|--|---------|---------|---------|-----------------|-------|
| | | | | 1999 | 2000 |
| Volume of shares traded (million) | 619.7 | 536.3 | 422.1 | -13.6 | -21.3 |
| Value of shares traded (BD million) | 217.3 | 168.0 | 92.5 | -22.7 | -44.9 |
| Number of Transactions | 24,061 | 18,145 | 11,906 | -24.6 | -34.4 |
| Bahrain Index (points) | 2,188.9 | 2,212.2 | 1,805.8 | 1.1 | -18.4 |
| Number of listed companies | 38 | 37 | 36 | -2.6 | -2.7 |
| Market capitalisation of listed companies (BD billion) | 2.6 | 2.7 | 2.5 | 3.8 | -7.5 |

Source: Bahrain Stock Exchange

CHAPTER THREE

FOREIGN TRADE AND BALANCE OF PAYMENTS

3-1 Trade Balance

The trade balance registered a surplus for the second consecutive year, rising from BD 166.5 million in 1999 to BD 409.4 million in 2000. The value of both total exports and imports rose during the year. The oil trade balance surplus increased from BD 491.0 million in 1999 to BD 727.6 million in 2000, or by 48.2%, which was mainly due to a rise in oil prices. In addition, the non-oil trade balance deficit fell from BD 324.5 million to BD 318.2 million, or by 1.9%.

Exports

The value of total exports rose from BD 1,556.8 million in 1999 to BD 2,143.4 million in 2000, an increase of 37.7%. Oil exports rose by 56.1%, from BD 960.1 million in 1999 to BD 1,498.9 million in 2000. As a result, the share of oil exports in total exports increased from 61.7% to 69.9%. Similarly, the value of non-oil exports rose by 8.0%, from BD 596.7 million in 1999 to BD 644.5 million in 2000, while its share in total exports fell from 38.8% to 30.1%.

An analysis by the main commodity groups in 2000 shows that exports of mineral products comprised 73.6% of total exports, followed by exports of base metals and articles thereof with 14.5%, and textiles and textile articles with 5.9%.

Imports

The value of total imports increased by 24.7% to reach BD 1,734.0 million in 2000 compared with BD 1,390.3 million in 1999. Oil imports increased from BD 469.1 million in 1999 to BD 771.3 million in 2000, an increase of 64.4%. As a result, the share of oil imports in total imports rose from 33.7% to 44.5%. In addition, the value of non-oil imports rose from BD 921.2 million in 1999 to BD 962.7 million in 2000, or by 4.5%, while its share in total imports fell from 66.3% to 55.5%.

An analysis by the main commodity groups shows that imports of mineral products represented 48.3% of total imports, followed by machinery, appliances and electrical equipment with 11.2%, and products of chemical and allied industries with 8.1%.

CHART 3-1: BAHRAIN - FOREIGN TRADE

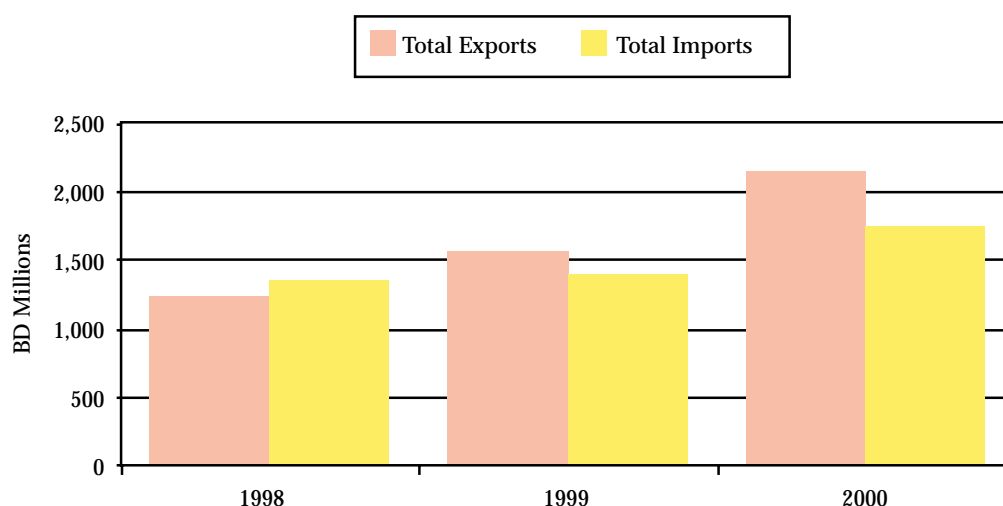


Table 3.1: Foreign Trade

| Main Group | BD Millions | | Annual Change (%) | | Relative Share (%) | |
|----------------------|----------------|----------------|-------------------|-------------|--------------------|--------------|
| | 1999 | 2000* | 1999 | 2000 | 1999 | 2000 |
| Total Exports | 1,556.8 | 2,143.4 | 26.6 | 37.7 | 100.0 | 100.0 |
| Oil Exports | 960.1 | 1,498.9 | 50.7 | 56.1 | 61.7 | 69.9 |
| Non-Oil Exports 1/ | 596.7 | 644.5 | 0.7 | 8.0 | 38.3 | 30.1 |
| Total Imports | 1,390.3 | 1,734.0 | 3.7 | 24.7 | 100.0 | 100.0 |
| Oil Imports | 469.1 | 771.3 | 71.2 | 64.4 | 33.7 | 44.5 |
| Non-Oil Imports | 921.2 | 962.7 | -13.7 | 4.5 | 66.3 | 55.5 |
| Trade Balance | 166.5 | 409.4 | | | | |

Source: Central Statistics Organisation

* Provisional data.

1/ Includes re-exports.

3-2 Direction of Non-Oil Trade

The year 2000 witnessed an increase in the value of non-oil exports to Bahrain's main trading partners, with the exception of Arab countries. Overall, there were no significant changes in the non-oil trade balance deficit with Asia and Europe. The non-oil trade balance surplus with the Arab countries fell by 60.5%, whereas the non-oil trade balance with the Americas switched from a deficit of BD 32.7 million in 1999 to a surplus of BD 18.9 million in 2000.

CHART 3-2: BAHRAIN - DIRECTION OF NON-OIL TRADE DURING 2000

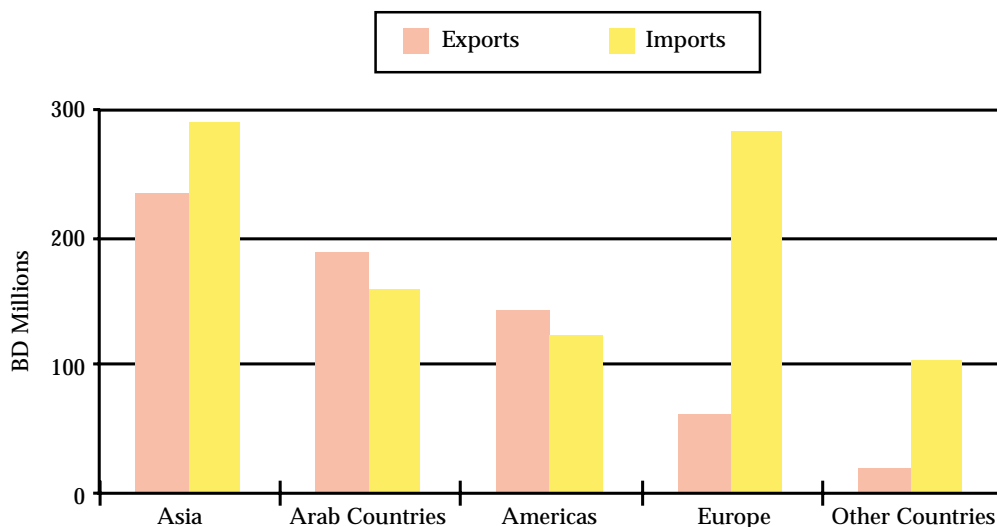


Table 3.2: Direction of Non-Oil Trade

(BD Millions)

| Country Groups | 1999 | | | 2000* | | |
|-----------------|--------------|--------------|---------------|--------------|--------------|---------------|
| | Exports | Imports | Balance | Exports | Imports | Balance |
| Arab Countries | 218.8 | 150.0 | 68.8 | 187.7 | 160.5 | 27.2 |
| Africa | 3.3 | 3.3 | 0.0 | 5.6 | 3.7 | 1.9 |
| Asia | 195.0 | 246.1 | -51.1 | 233.3 | 289.5 | -56.2 |
| Europe | 60.2 | 284.2 | -224.0 | 60.6 | 283.2 | -222.6 |
| Americas | 101.1 | 133.8 | -32.7 | 144.0 | 125.1 | 18.9 |
| Oceania | 12.5 | 103.0 | -90.5 | 9.6 | 100.0 | -90.4 |
| Other Countries | 5.8 | 0.8 | 5.0 | 3.7 | 0.7 | 3.0 |
| Total | 596.7 | 921.2 | -324.5 | 644.5 | 962.7 | -318.2 |

Source: Central Statistics Organisation

* Provisional data

3-3 Non-Oil Trade with GCC Countries

Bahrain's non-oil trade surplus with GCC countries decreased from BD 66.4 million in 1999 to BD 19.2 million in 2000, or by 71.1%. This decrease was due to a fall in non-oil exports of BD 38.7 million, or by 19.4%, together with an increase in non-oil imports of BD 8.5 million, or 6.4%. Non-oil exports to GCC countries accounted for 25.0% of Bahrain's total non-oil exports, while imports from them represented 14.7%.

CHART 3-3: BAHRAIN - DIRECTION OF NON-OIL TRADE WITH GCC COUNTRIES DURING 2000

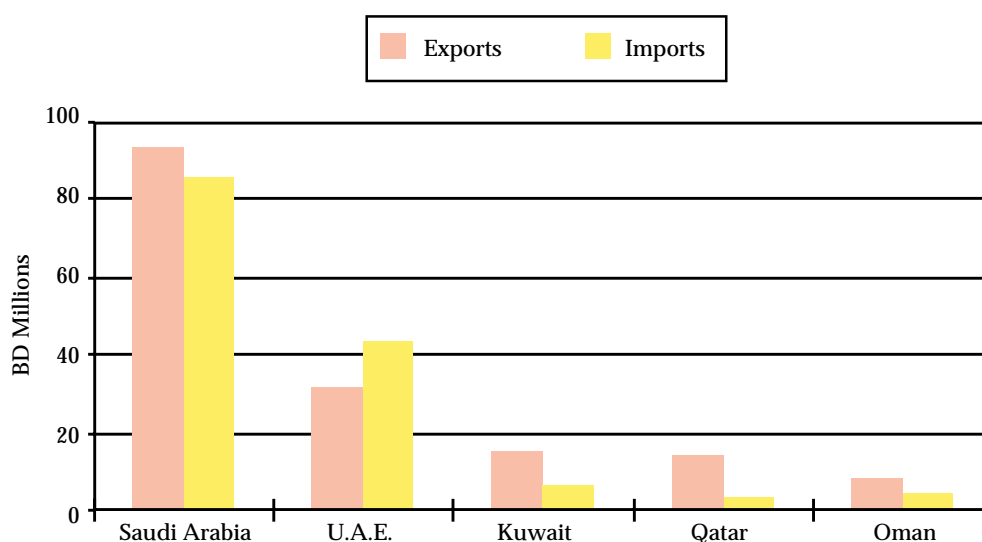


Table 3.3: Non-Oil Trade with GCC Countries

(BD Millions)

| Country | 1999 | | | 2000* | | |
|--------------|--------------|--------------|-------------|--------------|--------------|-------------|
| | Exports | Imports | Balance | Exports | Imports | Balance |
| Kuwait | 20.3 | 5.6 | 14.7 | 15.1 | 6.1 | 9.0 |
| Oman | 6.7 | 3.5 | 3.2 | 8.0 | 4.2 | 3.8 |
| Qatar | 36.9 | 3.5 | 33.4 | 13.9 | 3.4 | 10.5 |
| Saudi Arabia | 104.7 | 81.4 | 23.3 | 92.7 | 85.4 | 7.3 |
| U.A.E. | 31.1 | 39.3 | -8.2 | 31.3 | 42.7 | -11.4 |
| Total | 199.7 | 133.3 | 66.4 | 161.0 | 141.8 | 19.2 |

Source: Central Statistics Organisation

* Provisional data.

3-4 Balance of Payments

The current account registered a surplus of BD 42.5 million in 2000, compared with a deficit of BD 128.1 million in 1999. This was due to an increase in the trade balance surplus by BD 246.3 million as a result of the increase in oil prices, which led to an increase in oil exports by 52.4%. In addition, the net service receipts increased by BD 17.1 million as a result of the growth in the tourism industry in Bahrain. On the other hand, net current transfers and net income outflow increased by BD 64.2 million and BD 28.6 million respectively.

The capital and financial account registered an increase in the foreign assets by BD 59.5 million in 2000 compared with an increase in the foreign liabilities by BD 136.0 million in 1999 as a result of the increase in the net outflow of the financial account by BD 78.3 million.

Bahrain overall balance of payments (Reserve Assets) surplus increased from BD 9.6 million in 1999 to BD 75.2 million in 2000.

Table 3.4: Balance of Payments

(BD Millions)

| Items | 1998 | 1999 | 2000 (Prov.) |
|---|---------------|---------------|-----------------|
| 1. Current Account (a+b+c+d) | -292.3 | -128.1 | 42.5 |
| a. Goods | -10.7 | 252.7 | 499.0 |
| Exports | 1229.6 | 1556.8 | 2143.4 |
| - Oil and oil products | 664.4 | 1035.6 | 1577.8 |
| - Non-oil | 565.2 | 521.2 | 565.6 |
| Imports | -1240.3 | -1304.1 | -1644.4 |
| - Oil and oil products | -334.9 | -528.0 | -838.3 |
| - Non-oil | -905.4 | -776.1 | -806.1 |
| b. Services (net) | 27.4 | 38.2 | 55.3 |
| - Transportation | -62.6 | -46.0 | -50.4 |
| - Travel | 84.3 | 93.7 | 112.7 |
| - Insurance | -10.1 | -8.6 | -9.0 |
| - Others | 15.8 | -0.9 | 2.0 |
| c. Income (net) | -60.9 | -110.9 | -139.5 |
| Investment Income | -60.9 | -110.9 | -139.5 |
| - Direct Investment Income | -226.6 | -223.8 | -252.7 |
| - Portfolio Income | 193.4 | 217.1 | 265.1 |
| - Other Investment Income | -27.7 | -104.3 | -151.9 |
| d. Current Transfers (net) | -248.1 | -308.1 | -372.3 |
| - Workers' remittances | -272.6 | -321.9 | -380.8 |
| 2. Capital and Financial Account (net) (A+B) | 52.3 | 136.0 | -59.5 |
| A. Capital Account | 37.6 | 37.6 | 18.8 |
| - Capital Transfers | 37.6 | 37.6 | 18.8 |
| B. Financial Account (1+2+3+4)* | 14.7 | 98.4 | -78.3 |
| 1. Direct Investment | -0.5 | 109.2 | 134.6 |
| - Abroad | -68.0 | -61.4 | 0.1 |
| - In Bahrain | 67.5 | 170.6 | 134.5 |
| 2. Portfolio Investment (net) | -380.5 | -727.8 | 74.8 |
| 3. Other Investment (net) | 389.4 | 726.6 | -212.5 |
| 4. Reserve Assets (net) | 6.3 | -9.6 | -75.2 |
| 3. Errors and Omissions | 240.0 | -7.9 | 17.0 |

* Financial transactions. A negative sign means net outflows/increases in external assets.

CHAPTER FOUR

MONEY AND BANKING

4-1 Money Supply and Liquidity

At end 2000, currency in circulation registered an increase of BD 7.7 million, or 6.8%, to reach BD 120.7 million at year end.

M1 (Currency in circulation plus private demand deposits) increased by BD 19.5 million, or 4.6%, to reach BD 445.7 million at end-2000.

As a result of the increase in M1 and growth in private sector savings and time deposits by BD 180.5 million, M2 (M1 plus private sector savings and time deposits) rose by 10.2%, from BD 1,956.7 million at end-1999 to BD 2,156.7 million at end-2000. M3 (M2 plus government deposits) rose by 9.0% to reach BD 2,602.6 million at end-2000 compared with BD 2,388.7 million at end-1999.

CHART 4-1: BAHRAIN - DOMESTIC LIQUIDITY

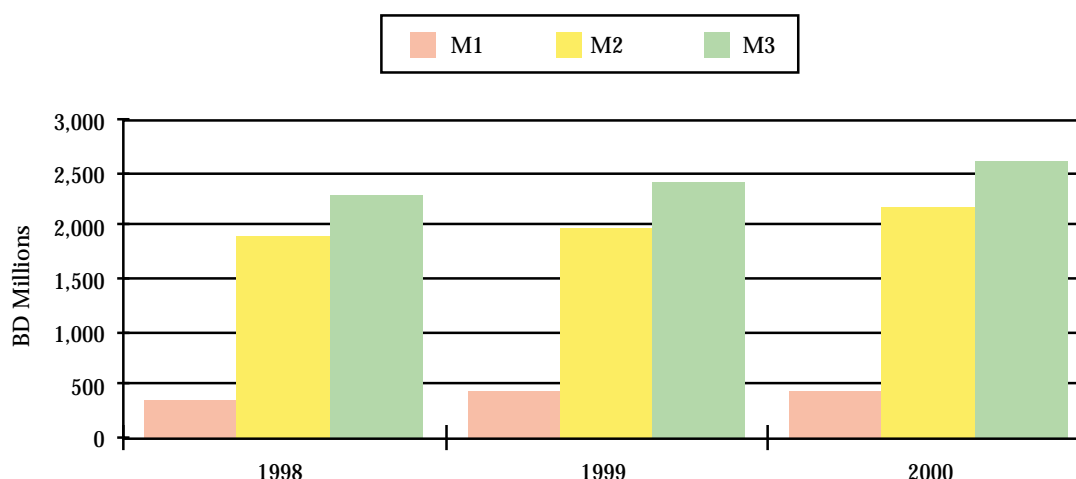


Table 4.1: Domestic Liquidity

(BD Millions)

| Items | Year-end | | | Change (2000 vs. 1999) | |
|-------------------------|----------|---------|---------|------------------------|---------|
| | 1998 | 1999 | 2000 | Absolute | Percent |
| Currency in Circulation | 93.3 | 113.0 | 120.7 | 7.7 | 6.8 |
| M1 | 365.6 | 426.2 | 445.7 | 19.5 | 4.6 |
| M2 | 1,876.2 | 1,956.7 | 2,156.7 | 200.0 | 10.2 |
| M3 | 2,299.3 | 2,388.7 | 2,602.6 | 213.9 | 9.0 |

Factors Affecting Domestic Liquidity

Changes in the major factors affecting domestic liquidity over the period 1998-2000 are illustrated in Table 4.2.

Table 4.2: Factors Affecting Domestic Liquidity

(BD Millions)

| Factors | Year-end | | | Changes | |
|---|----------------|----------------|----------------|-----------------------|-----------------------|
| | 1998 | 1999 | 2000 | (1999 vs. 1998) | (2000 vs. 1999) |
| A. Total Domestic Liquidity (M3) | 2,299.3 | 2,388.7 | 2,602.6 | 89.4 | 213.9 |
| B. Factors Affecting Liquidity | | | | | |
| 1. Net Foreign Assets (a+b) | 1,000.6 | 807.5 | 1,122.1 | -193.1 | 314.6 |
| (a) BMA | 383.1 | 391.9 | 465.2 | 8.8 | 73.3 |
| (b) Commercial Banks | 617.5 | 415.6 | 656.9 | -201.9 | 241.3 |
| 2. Domestic Claims (a+b+c) | 1,298.7 | 1,581.2 | 1,480.5 | 282.5 | -100.7 |
| (a) Claims on government | 267.9 | 336.2 | 343.0 | 68.3 | 6.8 |
| (b) Claims on private sector 1/ | 1,160.0 | 1,302.6 | 1,380.5 | 142.6 | 77.9 |
| (c) Other assets (net) | -129.2 | -57.6 | -243.0 | 71.6 | -185.4 |

1/ Loans and holdings of securities.

Total domestic liquidity (M3) registered an increase of BD 213.9 million, or 9.0%, at end-2000 following a rise of BD 89.4 million, or 3.9%, at end-1999.

Net foreign assets registered a rise of BD 314.6 million, or 39.0%, at end-2000. This was a result of an increase in commercial banks' and BMA's net foreign assets by BD 241.3 million and BD 73.3 million respectively.

Total domestic assets fell by BD 100.7 million at end-2000, or by 6.4%. This was a result of a decrease in other assets (net) of BD 185.4 million. However, claims on both the private sector and the government increased by BD 77.9 million and BD 6.8 million respectively.

4-2 The Banking System

The consolidated balance sheet of the banking system in Bahrain (commercial banks, offshore banking units, and investment banks) rose from US\$ 102.1 billion at end-1999 to US\$ 106.4 billion at end-2000, an increase of 4.2%.

Offshore banking units accounted for 87.4% of the total balance sheet of the banking system at end-2000, while commercial and investment banks accounted for 9.4% and 3.2% respectively.

**CHART 4-2: BAHRAIN - CONSOLIDATED
BALANCE SHEET OF THE BANKING SYSTEM**

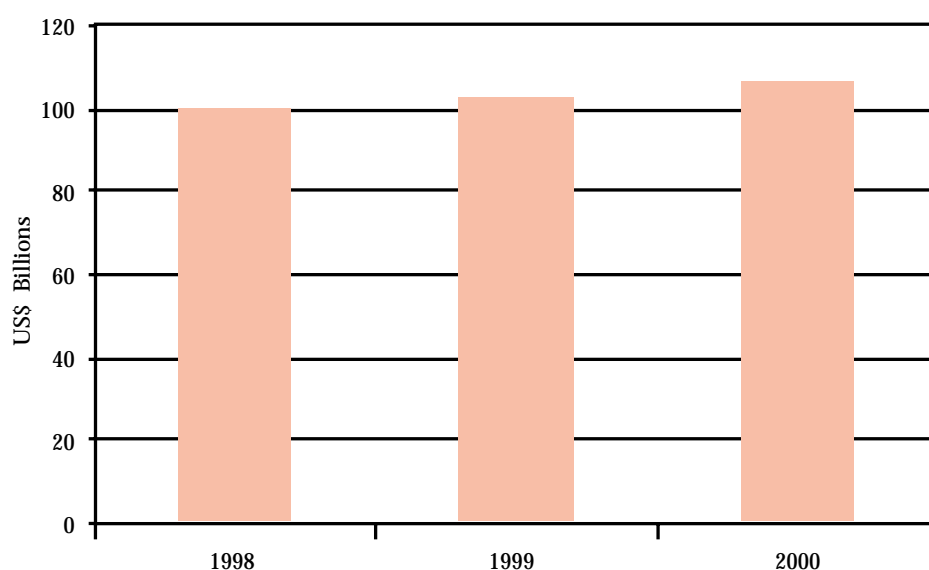


Table 4.3: Consolidated Balance Sheet of the Banking System

(US\$ Billions)

| Items | End-1999 | | End-2000 | | Annual Change % |
|------------------------|--------------|--------------|--------------|--------------|-----------------|
| | Absolute | % | Absolute | % | |
| Commercial Banks | 9.9 | 9.7 | 10.0 | 9.4 | 1.0 |
| Offshore Banking Units | 88.2 | 86.4 | 93.0 | 87.4 | 5.4 |
| Investment Banks | 4.0 | 3.9 | 3.4 | 3.2 | -15.0 |
| Total | 102.1 | 100.0 | 106.4 | 100.0 | 4.2 |

4-3 Commercial Banks

At end-2000, Bahrain's commercial banking sector comprised 19 Full Commercial Banks (FCBs), two of which were Islamic banks.

The consolidated balance sheet of the commercial banks continued its upward trend in 2000 to reach BD 3,768.1 million, as against BD 3,745.5 million at end-1999, an increase of 0.6%.

Foreign Assets and Liabilities

Total foreign assets of the commercial banks increased by 0.3%, from BD 1,282.4 million at end-1999 to BD 1,285.9 million at end-2000. During the same period, total foreign liabilities fell by 27.4%, from BD 866.8 million to BD 629.0 million, this was due to a decrease in transactions between some resident banks with their Head Offices and affiliates abroad. As a result, total net foreign assets rose by BD 241.3 million, or 58.1% to reach BD 656.9 million at end-2000.

Domestic Deposits

(a) Private Sector Deposits

Total private sector deposits (Bahraini Dinars plus other currencies) amounted to BD 2,009.7 million at end-2000, an increase of BD 214.4 million, or 11.9%, over end-1999. Total time, savings, and demand deposits increased by 15.4%, 6.2% and 3.7% respectively.

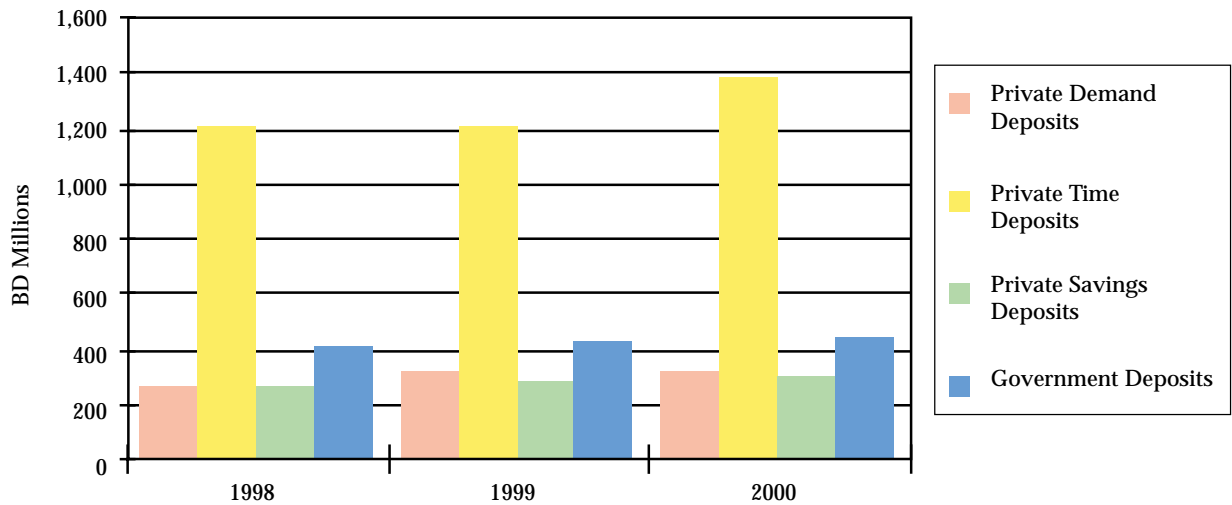
Private sector deposits denominated in Bahraini Dinars were BD 1,207.1 million at end-2000, compared with BD 1,089.2 million at end-1999, an increase of 10.8%. In addition, deposits in other currencies increased from BD 706.1 million at end-1999 to BD 802.6 million at end-2000, or by 13.7%.

(b) Government Deposits¹

Government deposits (Bahraini Dinars plus other currencies) amounted to BD 436.7 million at end-2000, compared with BD 431.0 million at end-1999, an increase of 1.3%. This increase was a result of a rise in Bahraini Dinar deposits of BD 7.2 million, coupled with a fall in deposits in other currencies by BD 1.5 million.

¹ Includes the Central Government and the Social Insurance System.

CHART 4-3: BAHRAIN - FCB DEPOSIT TRENDS



**Table 4.4: Domestic Deposits at Commercial Banks
(Excluding Interbank Deposits)**

(BD Millions)

| Items | End-1999 | | | End-2000 | | | (2000 vs. 1999) |
|-----------------------------------|----------------|--------------|----------------|----------------|----------------|----------------|-----------------|
| | BD | OC | Total | BD | OC | Total | % |
| 1. Private Sector Deposits | 1,089.2 | 706.1 | 1,795.3 | 1,207.1 | 802.6 | 2,009.7 | 11.9 |
| Demand Deposits | 237.7 | 75.5 | 313.2 | 260.1 | 64.9 | 325.0 | 3.8 |
| Time Deposits | 578.7 | 623.0 | 1,201.7 | 658.8 | 728.2 | 1,387.0 | 15.4 |
| Savings Deposits | 272.8 | 7.6 | 280.4 | 288.2 | 9.5 | 297.7 | 6.2 |
| 2. Government Deposits | 156.1 | 274.9 | 431.0 | 163.3 | 273.4 | 436.7 | 1.3 |
| Total Domestic Deposits | 1,245.3 | 981.0 | 2,226.3 | 1,370.4 | 1,076.0 | 2,446.4 | 9.9 |

Credit

Outstanding credit facilities extended by commercial banks to the different sectors of the domestic economy amounted to BD 1,421.5 million at end-2000, compared with BD 1,349.9 million at end-1999, an increase of 5.3%.

(a) Business Sectors

Credit facilities extended to the business sectors rose by BD 39.8 million, or 5.1%, from BD 781.4 million at end-1999 to BD 821.2 million at end-2000. Credit extended to the trade and construction & real estate sectors increased by 11.0% and 7.7% respectively, while credit extended to the manufacturing sector decreased by 5.1%. The business sector's share of total credit facilities extended was 57.8% at end-2000.

(b) Personal Sector

Credit facilities extended to the personal sector increased by BD 31.9 million, or 6.8%, from BD 467.6 million at end-1999 to BD 499.5 million at end-2000. The personal sector's share of total credit facilities extended was 35.1% at end-2000.

(c) Government

Credit to the government amounted to BD 100.8 million at end-2000. The Government sector's share of total credit facilities extended was 7.1% at end-2000.

**CHART 4-4: BAHRAIN - OUTSTANDING
COMMERCIAL BANK CREDIT TO RESIDENTS IN 2000**

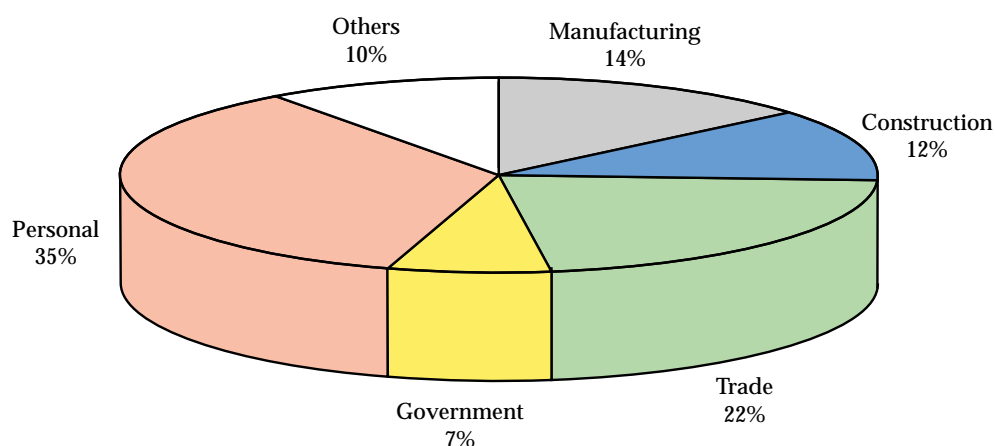


Table 4.5: Outstanding Credit to Non-Bank Residents by Economic Sector

(BD Millions)

| Sectors | Year-end | | | | Change (2000 vs. 1999) | |
|--------------------------------|----------------|--------------|----------------|--------------|------------------------|-------------|
| | 1999 | | 2000 | | Absolute | % |
| | Absolute | % | Absolute | % | | |
| 1. Business | 781.4 | 57.9 | 821.2 | 57.8 | 39.8 | 5.1 |
| Manufacturing | 210.1 | 15.6 | 199.4 | 14.0 | -10.7 | -5.1 |
| Mining and Quarrying | 0.5 | 0.0 | 0.2 | 0.0 | -0.3 | -60.0 |
| Agriculture, Fishing and Dairy | 4.1 | 0.3 | 4.6 | 0.3 | 0.5 | 12.2 |
| Construction & Real Estate | 158.7 | 11.8 | 170.9 | 12.0 | 12.2 | 7.7 |
| Trade | 278.8 | 20.6 | 309.4 | 21.8 | 30.6 | 11.0 |
| Non-Bank Financial | 43.9 | 3.3 | 45.4 | 3.2 | 1.5 | 3.4 |
| Other Business | 85.3 | 6.3 | 91.3 | 6.4 | 6.0 | 7.0 |
| 2. Government | 100.9 | 7.5 | 100.8 | 7.1 | -0.1 | -0.1 |
| 3. Personal | 467.6 | 34.6 | 499.5 | 35.1 | 31.9 | 6.8 |
| Total | 1,349.9 | 100.0 | 1,421.5 | 100.0 | 71.6 | 5.3 |

BD Interest Rates

(a) Deposits

The weighted average time deposit rate rose from 5.24% at end-1999 to 5.45% at end-2000. Meanwhile, the weighted average savings rate remained stable at 2.22%.

(b) Loans

The weighted average interest rate on business loans rose from 8.99% at end-1999 to 9.04% at end-2000. The interest rate on personal loans rose from 13.09% to 14.57%.

Table 4.6: Interest Rates on BD Deposits & Loans

| Items | End 1998 | End 1999 | 2000 | | | |
|--------------------|-------------|-------------|----------------|----------------|----------------|----------------|
| | | | 1st Quarter | 2nd Quarter | 3rd Quarter | 4th Quarter |
| 1. Deposits | | | | | | |
| Time 1 / | 4.39 | 5.24 | 5.71 | 6.16 | 5.92 | 5.45 |
| Savings | 2.29 | 2.22 | 2.23 | 2.22 | 2.22 | 2.22 |
| 2. Loans | | | | | | |
| Business | 8.60 | 8.99 | 8.61 | 9.23 | 9.40 | 9.04 |
| Personal | 12.72 | 13.09 | 13.04 | 13.93 | 14.04 | 14.57 |

1/ Time deposits of 3-12 months.

4-4 Offshore Banking Units

The number of licensed Offshore Banking Units (OBUs) totaled 51 at end-2000. The aggregate assets/liabilities of the OBUs increased from US\$ 88.2 billion at end-1999 to US\$ 93.0 billion at end-2000, or 5.4%.

Foreign Assets and Liabilities

Total foreign assets of the OBUs increased by 5.3% to reach US\$ 88.8 billion at end-2000, compared with US\$ 84.3 billion at end-1999. Total foreign liabilities also increased from US\$ 82.3 billion at end-1999 to US\$ 87.4 billion at end-2000, an increase of 6.2%. As a result, net foreign assets of the OBUs fell to US\$ 1.4 billion at end-2000.

The geographical distribution of OBU assets and liabilities at end-2000 is illustrated in Table 4.7

Table 4.7: Geographical Classification of OBU Assets/Liabilities at End-2000

| Countries | Assets | | Liabilities | |
|----------------|--------------|--------------|--------------|--------------|
| | US\$ billion | % of total | US\$ billion | % of total |
| Arab Countries | 30.6 | 32.9 | 39.0 | 41.9 |
| Asia | 10.5 | 11.3 | 15.1 | 16.3 |
| Americas | 20.0 | 21.5 | 10.5 | 11.3 |
| Western Europe | 29.8 | 32.0 | 28.0 | 30.1 |
| Others | 2.1 | 2.3 | 0.4 | 0.4 |
| Total | 93.0 | 100.0 | 93.0 | 100.0 |

A classification by currencies indicates that the U.S. dollar, GCC currencies, and the Euro accounted for 74.3%, 10.0% and 7.7% of total assets, and 71.0%, 11.2% and 7.4% of total liabilities respectively at end-2000.

Table 4.8: Currency Structure of OBU Assets/Liabilities at End-2000

| Currencies | Assets | | Liabilities | |
|----------------|--------------|--------------|--------------|--------------|
| | US\$ billion | % of total | US\$ billion | % of total |
| USD | 69.1 | 74.3 | 66.0 | 71.0 |
| GCC Currencies | 9.3 | 10.0 | 10.4 | 11.2 |
| Euro | 7.2 | 7.7 | 6.9 | 7.4 |
| Others | 7.4 | 8.0 | 9.7 | 10.4 |
| Total | 93.0 | 100.0 | 93.0 | 100.0 |

4-5 Investment Banks

The number of licensed Investment banks (IBs) at end-2000 totaled 31. The aggregate assets/liabilities of the IBs decreased by 15.0%, from US\$ 4.0 billion at end-1999 to US\$ 3.4 billion at end-2000.

Foreign Assets and Liabilities

Total foreign assets of the IBs decreased from US\$ 3.3 billion at end-1999 to US\$ 2.8 billion at end-2000, or by 15.2%. Similarly, total foreign liabilities decreased from US\$ 2.9 billion at end-1999 to US\$ 2.3 billion at end-2000, or by 20.7%. As a result, total net foreign assets of the IBs amounted to US\$ 0.5 billion at end-2000.

The geographical distribution of IB assets and liabilities at end-2000 is illustrated in Table 4.9.

Table 4.9: Geographical Classification of IB Assets/Liabilities at End-2000

| Countries | Assets | | Liabilities | |
|----------------|----------------|--------------|----------------|--------------|
| | US\$ million | % of total | US\$ million | % of total |
| Arab Countries | 1,239.6 | 36.6 | 2,555.8 | 75.6 |
| Asia | 115.2 | 3.4 | 34.7 | 1.0 |
| Americas | 780.4 | 23.1 | 347.6 | 10.3 |
| Western Europe | 1,243.3 | 36.8 | 409.9 | 12.1 |
| Others | 3.3 | 0.1 | 33.8 | 1.0 |
| Total | 3,381.8 | 100.0 | 3,381.8 | 100.0 |

A classification by currencies indicates that the U.S. dollar and GCC currencies accounted for 85.6% and 11.7% of total assets, and 88.8% and 5.3% of total liabilities respectively at end-2000.

Table 4.10 : Currency Structure of IB Assets/Liabilities at End-2000

| Currencies | Assets | | Liabilities | |
|----------------|----------------|--------------|----------------|--------------|
| | US\$ million | % of total | US\$ million | % of total |
| USD | 2,895.6 | 85.6 | 3,002.7 | 88.8 |
| GCC Currencies | 394.8 | 11.7 | 178.1 | 5.3 |
| Others | 91.4 | 2.7 | 201.0 | 5.9 |
| Total | 3,381.8 | 100.0 | 3,381.8 | 100.0 |

4-6 Employment in the Banking & Financial Sector

Total employment in the banking and financial sector rose from 5,068 at end-1999 to 5,229 at end-2000, an increase of 3.2%. Bahrainis made up 74.2% of the total number of employees in the banking and financial sector at end-2000.

The Banking Sector

Total employment in the banking sector (commercial banks, offshore banking units, investment banks and representative offices) increased by 2.2%, to reach 4,794 at end-2000 compared with 4,692 at end-1999. Bahrainis made up 77.0% of the total.

Commercial banks accounted for 48.0% of the total employment in the banking sector, while offshore banking units, investment banks and representative offices accounted for 30.8%, 19.4% and 1.8% respectively.

The Financial Sector

The financial sector consists of money changers, money brokers and investment advisory & other financial services.

Total employment in the financial sector was 435 at end-2000, compared with 376 at end-1999, an increase 15.7%. Bahrainis accounted for 43.7% of the total employment.

Table 4.11 : Employment in the Banking & Financial Sector 1999 - 2000

| Sectors | End - 1999 | | | End - 2000 | | |
|-------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | Bahraini | Non Bahraini | Total | Bahraini | Non Bahraini | Total |
| Banking Sector | | | | | | |
| Commercial Banks | 2,042 | 315 | 2,357 | 2,015 | 290 | 2,305 |
| Offshore Banking Units | 958 | 462 | 1420 | 996 | 482 | 1,478 |
| Investment Banks | 569 | 284 | 853 | 648 | 277 | 925 |
| Representative Offices | 23 | 39 | 62 | 32 | 54 | 86 |
| Total | 3,592 | 1,100 | 4,692 | 3,691 | 1,103 | 4,794 |
| Financial Sector | | | | | | |
| Money Changers | 75 | 163 | 238 | 122 | 186 | 308 |
| Money Brokers | 38 | 28 | 66 | 37 | 26 | 63 |
| Inv. Advisory & Other | 31 | 41 | 72 | 31 | 33 | 64 |
| Financial Services | | | | | | |
| Total | 144 | 232 | 376 | 190 | 245 | 435 |
| Grand Total | 3,736 | 1,332 | 5,068 | 3,881 | 1,348 | 5,229 |

CHAPTER FIVE

BMA OPERATIONS, ACTIVITIES, STATUTORY ACCOUNTS AND REGULATIONS

ACCOUNTS:

Statutory Accounts

The total assets/liabilities of the Agency increased from BD 560.9 million at end-1999 to BD 575.4 million at end-2000.

On the assets side, holdings of foreign exchange and other assets rose by BD 110.6 million and BD 9.8 million respectively, while claims on Bahrain-based banks fell by BD 106.1 million.

On the liabilities side, notes & coins in circulation decreased by BD 6.1 million to reach BD 154.2 million at end-2000, while Bahraini Dinar deposits rose by BD 3.8 million to reach BD 110.9 million.

The Agency's net profit for the year 2000 was BD 24.5 million, compared with BD 18.1 million a year earlier.

ADMINISTRATION:

Training and Career Development Unit

The Agency continued its efforts to enhance the capabilities of its staff through internal and external training courses as well as field tours in order to expose them to the latest administrative, financial, banking and accounting advances.

A number of Agency staff were enrolled, during the year, in a one-year course leading to the CPA Certificate. Also, a practical training course for a period of 6 months was arranged for one staff member at the International Monetary Fund. Another overseas training opportunity was made available for two staff members who participated in the Executive Management Programme of Dardin University, USA, in association with the Bahrain Institute of Banking and Financial Studies.

In addition, the Agency pursued its training objectives by sending a number of staff to numerous courses, in various fields, including computer technologies and data processing, money laundering, forgery and fraud. Furthermore, a number of staff enrolled at the Bahrain University to enhance their academic standards and language skills in the areas of finance, banking, computer studies and the English language.

Personnel Division

During 2000, nine employees were recruited by the Agency. The total number of Agency staff at end-2000 was 204.

Public Relations Division

The Public Relations Division organized a number of economic conferences and events under the sponsorship of the Agency. This included the Organisation of Islamic Banking Profession Conference, the Gulf Economic & Investment Conference, a Conference on Internet and E-Commerce in Financial Services, and the 2000 World Islamic Banking Conference.

The Division also arranged visits to the Agency's Coin Museum for central bank governors and senior government officials visiting Bahrain. In addition, visits to the Agency by students from the University of Bahrain, Bahrain Institute of Banking & Finance, and government and private schools were arranged to brief them on Agency's activities and functions.

During the year, the Division published four issues of the quarterly news bulletin "Money".

BANKING CONTROL:

Banking Inspection

The Banking Inspection Directorate conducted a number of risk-focused inspections of banks and financial institutions licensed by the Agency. These inspections were conducted with the aim of ensuring the soundness of the respective bank's systems of internal control, and that all applicable regulations issued by the Agency were properly observed. The outcome of each inspection was discussed with the management of the relevant institution.

The Directorate collaborated with various ministries to prepare for the mutual evaluation visit conducted by the Financial Action Task Force (FATF) delegation during June 2000. The Directorate attended the FATF meeting held in Madrid during September 2000 to discuss the findings of the FATF report. The Directorate also completed the annual FATF financial and legal questionnaire. The Directorate participated with other officials from various ministries in the membership of a committee created to review the final draft of the law for the prevention and prohibition of money laundering.

Representatives from the Directorate participated in the E-Commerce Steering Committee and E-Commerce working groups, to prepare the regulations and guidelines for E-Commerce in Bahrain. Directorate officials also attended the UN Expert visit held on 29th July 2000 regarding E-Commerce.

Banking Supervision

During the year, the Banking Supervision Directorate pursued its responsibilities and continued to supervise those banks under its jurisdiction through a continuous supervisory approach. The Directorate conducted its prudential meetings with the management of each bank in Bahrain in the presence of their external auditors. Discussions covered Bank's Strategies, Capital Adequacy, Profitability, Asset Quality, Liquidity, Operational Risk, Transparency, Operations of Subsidiaries and Overseas Branches, Reporting to BMA, Internal Controls and Competence of management of banks. At the end of the year the Directorate scheduled the prudential meetings for the year 2001.

The Directorate has decided that in respect of the Quarterly Prudential Returns as ending on 30th June, 2000 and thereafter, or banks external auditors should formally review these returns to confirm to the Agency that they are being completed in accordance with the Agency's guidelines.

The Directorate also reviewed with the banks and their external auditors the effect of International Accounting Standard No. 39 on a banks financial positions and the steps and actions that the banks had taken in implementing the standard with effect from 1st January, 2001. In this context, the Directorate commissioned a consultant to update the Prudential Informational Report to comply with the IAS 39.

Currently, the Directorate is studying certain amendments to policy issues such as the capital adequacy framework, connected exposures and concentration guidelines.

The Directorate participated in the meetings of the GCC Banking Supervisory Committee that were held to discuss documents issued by the Basle Committee concerning banking risks and other regional supervisory issues. The Directorate also participated in the meetings of the Arab Banking Supervision Committee in which discussions were held concerning banks profitability and risk management. A representative from the Directorate also participated in the annual meeting of the Financial Sanctions Experts group.

Financial Institutions Supervision

During the year, the Financial Institutions Supervision Directorate continued its supervisory role over the financial institutions in Bahrain. Prudential meetings were held with Islamic banks, moneychangers, moneybrokers, investment advisors and banks marketing mutual funds in/from Bahrain, to discuss their overall financial performance based on the periodical returns submitted to the Agency.

In furtherance of its aim to constantly develop supervision over Islamic banks, and in order to provide a regulatory framework for the monitoring of their operations, the Directorate reviewed the new Prudential Information and Regulations for Islamic Banks (PIRI), that Islamic banks will be required to complete on a quarterly basis. In developing the PIRI framework, the Agency took into consideration the various standards developed by the Accounting and Auditing Organization for Islamic Financial Institutions (AAIOFI), International Accounting Standards and the Basle Committee's various guidelines.

Also, as part of its supervisory role to enhance the supervision on the providers of investment advisory services, the Agency developed in May 2000 a new computerized Quarterly Information Report (QIR) which is completed and submitted to the Agency electronically on a prompt and regular basis. In addition, the Agency issued in October 2000 a new (QIR) to be completed by money brokers on a regular basis, starting the fourth quarter of 2000.

Furthermore, during the period between the coming into force of the Regulation governing the general supervision, operation and marketing of collective investment schemes issued on 18th November 1992 and 31st December 2000, approval and authorization have been granted to 39 banks to establish and market in/from Bahrain 699 schemes, of which 176 schemes were approved in 2000.

Licensing and Information Unit

The Agency issued 9 new licences in 2000, comprising of 5 offshore banking units, 1 investment bank, 2 representative offices, and 1 money changer. At the end of 2000, a total of 173 banks and other financial institutions were licensed by the Agency.

Central Risk

The Central Risk Unit continued to assist the commercial banks by identifying the necessary obligations of bank clients with exposures of BD 50,000 and above, replying to the inquiries raised by banks and providing them with total credit facilities while maintaining the confidentiality of information.

The Agency is currently exploring the feasibility of enhancing the Central Risk Unit and up-grading its existing capabilities in order to assist lending banks in making better informed lending decisions and also to stay abreast with the more advanced Central Risk functions operated by other central banks.

BANKING SERVICES:

Automated Clearing and Fund Transfers

The number of cheques cleared by the Banking Services Directorate was 1,944,638 during 2000 compared with 1,898,360 during 1999. The total value of these cheques was BD 1,365.9 million as against BD 1,266.2 million in 1999, an increase of 7.9%. (The average value of a cheque cleared rose from BD 666 to BD 702). To improve the efficiency of the Clearing system the Agency implemented a penalty charge of BD 2 on each returned cheque. Also, the Agency has imposed a charge of BD 5 for incompatibility between supporting documents and the value of individual cheque batches. Moreover, the Agency has initiated two clearing sessions daily for processing cheques to expedite the settlement function.

The number of inter-bank transfers increased to 76,527 in 2000 from 68,757 in 1999. The value of total telex transfers increased to BD 15,594 million in 2000 compared with BD 14,504 million in 1999, an increase of 7.5%. The Agency has developed its internal system to interface with the (SWIFT) message system.

Issues of Treasury Bills

The Agency continued to hold weekly auctions of treasury bills on behalf of the Government of Bahrain. The initial amount of 91-days bills issued for sale each week was BD 10.0 million. The total value of bills issued for sale during the year was BD 510.0 million. Tenders received totalled BD 1,383.0 million indicating that, on average, each week's issue was over subscribed 2.7 times.

The average interest rate on new issues of 91-day bills during 2000 was 6.5%.

The Agency also issued each month treasury bills of BD 5.0 million with a maturity of 182 days and, for the first time, the Agency offered two BD 30.0 million tranches of treasury bills with a maturity of one year.

At the end of 2000, outstanding treasury bills totalled BD 220.0 million.

Government Development Bonds

On behalf of the Government of Bahrain, the Agency issued on February 3, 2000 the 16B issue of Government Development Bonds totalling BD 100.0 million. The Bonds have a maturity of 30 years and carry an interest rate of 50 basis point over the six-month LIBOR rate.

Provision of Bahraini Dinar Liquidity

The Bahraini Dinar liquidity of the commercial banks consists mainly of the current account balances they hold with the Agency. These balances, which can be traded between banks in the money market, fluctuate from day to day under the influence of the Government's conversions of US Dollars to finance its domestic expenditure, the banks' purchases of US Dollars from the Agency, changes in the amount of currency in circulation and changes in the banks' reserve balance with the Agency.

During 2000, the Agency continued its policy of providing liquidity through secondary operations in treasury bills. Accordingly, the Agency provided commercial banks with facilities to discount their treasury bills or to enter into "Repo" agreements.

The total number of "Repo" transactions concluded by the Directorate during 2000 was 769 of which 586 were for a one-day period, 166 for two days and 17 for seven days. The total value of "Repo" transactions concluded in 2000 was BD 1,061.7 million.

Banks' Deposits

The Agency continued to offer the commercial banks the facility to invest their funds in Bahraini Dinar deposits with the Agency for one week to six month periods at the prevailing Bahraini market interest rate. Such deposits totalled BD 625.4 million at end 2000 as against BD 245.2 million a year earlier.

COMPUTER SERVICES:

The Directorate has implemented an Intranet for all Agency employees. This will greatly reduce the flow of paper within the Agency. All employees now have access to specific information pertaining to loans, salary and leave. The security needs have been specifically addressed to enable an employee to view only his/her information.

The Directorate continued to provide maintenance services to the various directorates within the Agency. These services largely cater to changes and enhancements required by the end users to in-house developed applications.

The Directorate completed the upgrade of all network cabling within the Agency. This will provide adequate bandwidth to address existing as well as future application requirements.

The application in use by the Banking Services Directorate has been enhanced to enable the Agency to run two sessions for cheque clearing. Additionally, functionality has been added to allow for fees to be charged for returned cheques. Also, the Directorate developed in-house software to be used by the Banking Supervision and Investment Business Section.

CURRENCY ISSUE:

Issue & Vault Sections

Currency in circulation amounted to BD 154.2 million at end-2000, compared with BD 160.3 million at end-1999. The value of old bank notes destroyed during the year was BD 26.8 million.

The Directorate continued working with equipment to verify the authenticity of bank notes as well as other advanced methods of reviewing and packaging the bank notes.

Currency Museum

The Agency's Coin Museum took part in a number of national exhibitions and conferences including "Made in Bahrain 2000" organized under the patronage of H.H. Shaikh Khalifa Bin Salman Al-Khalifa The Prime Minister, during the period 9-13 May 2000. The Museum also participated in the "2000 World Islamic Banking Conference" held during the period 28-29 October 2000 where rare Islamic coins of the type that once circulated in Bahrain were exhibited. The Museum also participated in a show organized by Hamad Town Secondary School from 24-25 December 2000.

Visitors to the Museum:

The Coin Museum was classified by the Tourism Directorate at the Ministry of Cabinet Affairs and Information as a tourist landmark in Bahrain. Given this new status, the Museum has attracted more visitors from inside and outside Bahrain, including senior officials, businessmen, students, and tourist groups.

During the year the Museum acquired 7 new rare Islamic coins of a type known to have circulated in Bahrain during earlier periods of Bahrain's development.

ECONOMIC RESEARCH:

The Economic Research Directorate continued to monitor economic, monetary, and financial developments during the year. The Directorate was also responsible for the preparation and publication of statistical data as well as the co-ordination with regional and international organisations such as the GCC, the Arab Monetary Fund, the International Monetary Fund and the Bank for International Settlements. During the year, the Agency published the Annual Report and four issues of the Quarterly Statistical Bulletin. The Directorate also completed a number of research studies and reports relating to financial and banking developments in Bahrain.

The Directorate was responsible for the coordination of the IMF Article IV Consultation mission that took place in Bahrain at the beginning of 2000. Also, the Directorate was represented in the Bahrain delegation that participated in the October, 2000 meetings with the World Trade Organization (WTO) to review Bahrain's trade policies.

The Directorate also participated in the meeting of the technical committee responsible for studying the currency unification among the GCC.

Furthermore, the Directorate took part in the arrangements and briefing for international and regional meetings. This included the Annual Meetings of the International Monetary Fund, the World Bank, the Arab Monetary Fund and the GCC.

INVESTMENT:

The Investment Directorate continued to manage the Agency's investment portfolios consisting of gold and foreign exchange. The Directorate continued to meet all commercial banks' requirements for U.S. Dollars. During the year 2000, the Agency's outright sales of U.S. Dollars to commercial banks in Bahrain totalled US\$ 1,381.1 million against US\$ 1,230.4 million in 1999, an increase of 12.2%. The official buying and selling rates for the U.S. Dollar against the Bahraini Dinar remained unchanged at BD 0.375 and BD 0.377 respectively.

The Directorate also continued to issue daily recommended exchange rates to commercial banks in Bahrain for their dealings with the public in U.S. Dollar, Pound Sterling and Deutschemark for amounts up to BD 1,000.

LIST OF BMA OFFICERS

| | |
|---|--|
| H.E. Sh. Ahmed Bin Mohammed Al-Khalifa | Governor |
| Dr. Naser M. Y. Al Belooshi | Executive Director - Management Services |
| Dr. Khalid Abdulla Ateeq | Executive Director - Banking Control |
| Mr. Khalid Abdulla Al Bassam | Executive Director - Banking Operations |
| Mr. Abbas Mahmood Radhi | Director, Currency Issue Directorate |
| Sh. Salman Bin Khalifa Al Khalifa | Director, Banking Services Directorate |
| Mr. Anwar Khalifa Al Sadah | Director, Financial Institutions Supervision Directorate |
| Mr. Nabeel Hussain Mattar | Director, Administration Directorate |
| Mr. Ahmed Isa Al Somaim | Director, Investment Directorate |
| Mr. Khalid Hamad A. Rahman | Director, Banking Supervision Directorate |
| Dr. Abdul Rahman Ali Saif | Director, Economic Research Directorate |
| Mrs. Raqia Ebrahim Bardooli | Director, Accounts Directorate |
| Mr. Yousif Rashid Al Fadhel | Director, Computer Services Directorate |
| Mr. Waleed Abdulla Rashdan | Director, Inspection Directorate |

STATUTORY ACCOUNTS

THE AGENCY ANNUAL REPORT 2000

The total capital funds of the Agency increased from BD 285.9 million at end-1999 to BD 301.3 million at end-2000. The net foreign exchange holdings on the Agency's account increased from BD 424.4 million at end-1999 to BD 535.0 million at end-2000. Notes and coins in circulation fell by BD 6.1 million, from BD 160.3 million at end-1999 to BD 154.2 million at end-2000.

BAHRAIN MONETARY AGENCY
FINANCIAL STATEMENTS
31 DECEMBER 2000

AUDITORS' REPORT TO H.H. THE CHAIRMAN OF THE BOARD OF DIRECTORS OF THE BAHRAIN MONETARY AGENCY

Your Highness,

We have audited the financial statements of the Bahrain Monetary Agency (the Agency) for the year ended 31 December 2000. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the financial statements present fairly, in all material respects, the financial position of the Agency as of 31 December 2000 and the results of its operations for the year then ended in accordance with the Amiri Decree No. (23) of 1973.

We confirm that, in our opinion, proper accounting records have been kept by the Agency and the financial statements are in agreement therewith. We obtained all the information and explanations which we required for the purpose of our audit.

Ernst & Young

10 February 2001
Manama, State of Bahrain.

BAHRAIN MONETARY AGENCY

BALANCE SHEET 31 DECEMBER 2000

| | Note | 2000 BD'000 | 1999 BD'000 |
|--|------|----------------|----------------|
| ASSETS | | | |
| Gold | | 2,500 | 2,500 |
| Foreign exchange | 3 | 535,002 | 424,406 |
| Cash and due from Bahraini banks | | 9,583 | 115,718 |
| Accounts with central banks | | 162 | 10 |
| Fixed assets | | 847 | 781 |
| Other assets | | 27,325 | 17,536 |
| | | 575,419 | 560,951 |
| | | 575,419 | 560,951 |
| LIABILITIES AND CAPITAL FUNDS | | | |
| LIABILITIES | | | |
| Notes and coins in circulation | 4 | 154,191 | 160,298 |
| Bahraini dinar deposits | | 110,962 | 107,113 |
| Other payables | | 8,978 | 7,669 |
| | | 274,131 | 275,080 |
| | | 274,131 | 275,080 |
| CAPITAL FUNDS | | | |
| Capital | 5 | 200,000 | 200,000 |
| General reserve | 6 | 80,576 | 66,151 |
| Contingency reserve | 7 | 8,000 | 7,000 |
| Re-evaluation reserve | 8 | 12,712 | 12,720 |
| | | 301,288 | 285,871 |
| | | 301,288 | 285,871 |
| | | 575,419 | 560,951 |
| | | 575,419 | 560,951 |
| Chairman | | Governor | |

The attached notes 1 to 8 form part of these financial statements.

BAHRAIN MONETARY AGENCY

PROFIT AND LOSS ACCOUNT AND APPROPRIATION YEAR ENDED 31 DECEMBER 2000

| | Note | 2000 BD'000 | 1999 BD'000 |
|-------------------------------------|------|----------------|----------------|
| INCOME | | | |
| Net interest income | | 32,823 | 28,323 |
| Licence fees | | 717 | 717 |
| Net investment trading loss | | (4,724) | (7,908) |
| Other | | 1,450 | 1,115 |
| | | <u>30,266</u> | <u>22,247</u> |
| EXPENDITURE | | | |
| General and administration expenses | | 4,357 | 3,787 |
| Note issue expenses | | 1,380 | 320 |
| Brokerage fees | | 47 | 27 |
| | | <u>5,784</u> | <u>4,134</u> |
| PROFIT FOR THE YEAR | | 24,482 | 18,113 |
| Transfer to contingency reserve | 7 | 1,000 | -- |
| TRANSFER TO GENERAL RESERVE | 6 | <u>23,482</u> | <u>18,113</u> |

The attached notes 1 to 8 form part of these financial statements.

BAHRAIN MONETARY AGENCY

NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2000

1. ACTIVITIES

The Bahrain Monetary Agency is the central monetary authority of the State of Bahrain. The Agency is responsible for the issue of currency, acts as the fiscal agent on behalf of the Government of the State of Bahrain and is the supervisory authority for banking and investment institutions in the State of Bahrain.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements are prepared in compliance with the Amiri Decree No. (23) of 1973.

Accounting convention

The financial statements are prepared under the historical cost convention, except for gold which is valued in accordance with Article 27 (a) of the Amiri Decree No. (23) of 1973 at BD 1 per 1.86621 grams of fine gold.

Foreign exchange

Foreign exchange comprises deposits placed, net of deposits taken, and investments denominated in foreign currencies.

Investments are purchased with the intention of being held to maturity and are treated as long term. Accordingly, short term market fluctuations are not taken into account and investments are carried at cost, net of premium or discount on purchase. Premium or discount on purchase is amortised over the remaining life of the investment and included under net interest income in the profit and loss account.

Depreciation

The cost of the building and any addition thereto is expensed in the year in which the cost is incurred. The cost of other fixed assets is depreciated by equal annual instalments over the estimated useful lives of the assets.

Foreign currencies

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

Assets and liabilities in foreign currencies at the balance sheet date are retranslated on the basis of the official par value of the Bahraini dinar in relation to the United States dollar and the closing market rates of exchange for the other currencies against the United States dollar at the year end.

In accordance with Article 32 (a) of the Amiri Decree No. (23) of 1973, gains and losses on retranslation of foreign currencies into Bahraini dinars are taken direct to re-evaluation reserve account. The deficit, if any, in this account is covered by the Government of the State of Bahrain by the issue of non- negotiable, interest free bonds.

Notes and coins in circulation

Notes and coins in circulation are stated net of the Bahrain dinar notes and coins held in banking stock and adjusted for the notes and coins to be withdrawn from circulation.

Revenue recognition

Interest income is recognised on a time apportioned basis, taking into account the principal outstanding and the rate applicable. License fees, investment trading results and other income are recognised when received or realised.

3. FOREIGN EXCHANGE

Included in foreign exchange are marketable securities carried at their cost of BD 77.493 million (1999 : BD 48.504 million). The market value of these investments as of 31 December 2000 was BD 77.075 million (1999 : BD 47.730 million).

4. EXCESS OF AUTHORISED BACKING FOR CURRENCY IN CIRCULATION

| | 2000 | 1999 |
|---|---------------|---------------|
| | BD'000 | BD'000 |
| Authorised backing: | | |
| Gold | 2,500 | 2,500 |
| Net foreign currency balances | 535,002 | 424,406 |
| | <hr/> | <hr/> |
| | 537,502 | 426,906 |
| Currency in circulation: | | |
| Notes and coins | (154,191) | (160,298) |
| | <hr/> | <hr/> |
| Excess of authorised backing over currency in circulation | 383,311 | 266,608 |
| | <hr/> <hr/> | <hr/> <hr/> |

The excess of authorised backing for currency in circulation is calculated in accordance with Articles 28 and 29 of the Amiri Decree No. (23) of 1973.

5. CAPITAL

| | 2000 | 1999 |
|------------|---------------|---------------|
| | BD'000 | BD'000 |
| Authorised | 400,000 | 400,000 |
| | <hr/> <hr/> | <hr/> <hr/> |
| Issued | 200,000 | 200,000 |
| | <hr/> <hr/> | <hr/> <hr/> |

6. GENERAL RESERVE

| | 2000 | 1999 |
|--|---------------|---------------|
| | BD'000 | BD'000 |
| Balance at beginning of the year | 66,151 | 61,126 |
| Transfer from profit and loss account | 23,482 | 18,113 |
| Transfer to the Government of the State of Bahrain | (9,057) | (13,088) |
| | <hr/> | <hr/> |
| Balance at end of the year | 80,576 | 66,151 |
| | <hr/> <hr/> | <hr/> <hr/> |

Transfer to the Government of the State of Bahrain relates to the transfer made in accordance with Article 18 of the Amiri Decree No. (23) of 1973.

7. CONTINGENCY RESERVE

| | 2000 | 1999 |
|----------------------------------|---------------|---------------|
| | BD'000 | BD'000 |
| Balance at beginning of the year | 7,000 | 7,000 |
| Transfer during the year | 1,000 | -- |
| | <hr/> | <hr/> |
| Balance at end of the year | 8,000 | 7,000 |
| | <hr/> <hr/> | <hr/> <hr/> |

The contingency reserve has been established to meet any future contingencies.

8. RE-EVALUATION RESERVE

| | 2000 | 1999 |
|--|---------------|---------------|
| | BD'000 | BD'000 |
| Balance at beginning of the year | 12,720 | 12,742 |
| Movement in unrealised surplus during the year | (8) | (22) |
| | <hr/> | <hr/> |
| Balance at end of the year | 12,712 | 12,720 |
| | <hr/> <hr/> | <hr/> <hr/> |

Re-evaluation reserve represents the net unrealised surplus arising from the translation of foreign currencies, included in foreign exchange, at the exchange rates ruling on 31 December 2000.

LIST OF BANKS AND OTHER FINANCIAL INSTITUTIONS LICENSED BY THE BMA (As at 31st December 2000)

FULL COMMERCIAL BANKS (19):

| | |
|-----------------------------------|---|
| ABN AMRO Bank N.V. | Citibank N.A. |
| Al-Ahli Commercial Bank B.S.C.(c) | Grindlays Bahrain Bank B.S.C. (c) |
| Arab Bank plc | Habib Bank Limited |
| Bahrain Islamic Bank B.S.C. | HSBC Bank Middle East |
| Bahraini Saudi Bank B.S.C. (The) | National Bank of Bahrain BSC |
| Bank Melli Iran | Rafidain Bank |
| Bank of Bahrain and Kuwait B.S.C. | Shamil Bank of Bahrain E.C. (Islamic Bankers) |
| Bank Saderat Iran | Standard Chartered Bank |
| Banque Du Caire S.A.E. | United Bank Limited |
| BNP Paribas | |

SPECIALISED BANKS (2):

Bahrain Development Bank B.S.C.
Housing Bank (The)

OFFSHORE BANKING UNITS (51):

| | |
|---|---|
| ABN AMRO Bank N.V. | Disbank |
| Ahli United Bank B.S.C. | Finansbank A.S. |
| Al Baraka Banking Group E.C. | Gulf International Bank B.S.C. |
| Allied Banking Corporation | Gulf Investment Corporation |
| ALUBAF Arab International Bank E.C. | Habib Bank Ltd. |
| Arab Asian Bank E.C. | Hanvit Bank |
| Arab Bank plc | Hongkong and Shanghai Banking Corporation Limited. (The) |
| Arab Banking Corporation (B.S.C.) | HSBC Bank Middle East |
| Arab Investment Company S.A.A. (The) | International Bank for Commerce (Under Liquidation) |
| Australia & New Zealand Banking Group Limited (ANZ) | Kocbank A.S. |
| Bahrain Arab International Bank (E.C.) (Under Voluntary Liquidation) | Korea Exchange Bank |
| Bahrain International Bank (E.C.) | Korfezbank |
| Bahrain Middle East Bank (E.C.) | Kuwait Asia Bank E.C. (Under Voluntary Liquidation) |
| Bank Kapital T.A.S. | MashreqBank psc |
| Bank of Credit and Commerce International S.A. (Under Liquidation) | Muslim Commercial Bank Ltd. |
| Bank of Tokyo - Mitsubishi, Ltd. (The) | National Bank of Abu Dhabi |
| Bank Saderat Iran | National Bank of Kuwait S.A.K. |
| Banque de Commerce et de Placements S.A. | National Bank of Pakistan |
| Banque Francaise de l'Orient | Pamukbank T.A.S. |
| BNP Paribas | Saudi National Commercial Bank (The) |
| Chase Manhattan Bank (The) | Shamil Bank of Bahrain E.C. (Islamic Bankers) |
| Citibank N.A. | Standard Chartered Bank PLC |
| Citicorp Banking Corporation of Delaware | Standard Chartered Grindlays Bank Limited |
| Credit Agricole Indosuez | State Bank of India |
| Demirbank T.A.S. | Turkiya Is Bankasi A.S. |
| | Yapi ve Kredi Bankasi A.S. |

INVESTMENT BANKS (31):

ABC Islamic Bank (E.C.)
ABC Islamic Fund (E.C.)
AFS-Singer & Friedlander E.C.
(Under Voluntary Liquidation)
Albaraka Islamic Bank B.S.C. (E.C.)
Al Khaleej Islamic Investment Bank (B.S.C.)E.C.
Amex (Middle East) E.C.
Arab Financial Services Company (E.C.)
Arab Islamic Bank (E.C.)
Bahrain Investment Bank B.S.C.
Bahrain Islamic Investment Co. B.S.C. (c)
Capital Investment Holding Co. (E.C.)
Capital Union, E.C. (c)
Card Company E.C. (The)
Citi Islamic Investment Bank E.C.
CrediMax
Daiwa SBCM Europe, Middle East

Faysal Investment Bank of Bahrain (E.C.)
First Islamic Investment Bank E.C.
Gulf Finance House (B.S.C.) E.C.
Investcorp Bank E.C.
Investors Bank E.C.
Man-Ahli Investment Bank E.C.
Merrill Lynch International Bank Limited
Nomura Investment Banking (Middle East) E.C.
Okasan International (M.E.) E.C.
(Under Voluntary Liquidation)
Securities & Investment Company B.C.S.C.
Shamil Bank of Bahrain E.C. (Islamic Bankers)
TAIB Bank E.C.
Turk-Gulf Merchant Bank E.C.
UBS Brinson, Inc.
United Gulf Bank (B.S.C.) E.C.

REPRESENTATIVE OFFICES (38):

Alliance Capital Limited
American Express Bank Ltd.
American Express International Inc.
Bank of Bermuda Limited (The)
Baring Asset Management
BB Aval - Berliner Bank Group
BNP Paribas
Citicorp Investment Bank
Close Brothers Corporate Finance Limited
Commerzbank AG
Credit Agricole Indosuez
Dai-Ichi Kangyo Bank, Limited (The)
Deutsche Bank A.G.
Discount Bank and Trust Company
E D & F Man International Ltd.
First Union National Bank
Fuji Bank Limited (The)
GNI Fund Management
(Gerrard and National Inter commodities)

Hansard Financial Trust Limited
HSBC Bank plc
Industrial Bank of Japan, Limited (The)
International Commercial Bank of China (The)
International Investment Group
Matheson Bank Limited
Merrill Lynch Bank (Suisse) S.A.
Merrill Lynch Investment Managers Limited
MFS International Limited
Murray Johnstone Limited
Robert Fleming Holdings Limited
Sakura Bank, Limited (The)
Salomon Smith Barney, Inc.
Sanwa Bank Limited (The)
Sumitomo Bank, Limited (The)
Thomas Cook Group Ltd. (The)
Tokai Bank, Limited (The)
UBS AG
Wasserstein Perella Middle East, Inc.
Weiss, Peck and Greer L.L.C. (Investments)

**FOREIGN EXCHANGE AND
MONEY BROKERS (6):**

Charles Fulton (Gulf) W.L.L.
Harlow Butler (Bahrain) W.L.L.
International Financial Services
(Under Voluntary Liquidation)

Marshalls (Bahrain) Limited
R.P. Martin (Bahrain) W.L.L.
Tullett & Tokyo (Bahrain) Company W.L.L.

MONEY CHANGERS (18):

| | |
|--|---|
| Al-Manama Exchange | Delmon Exchange |
| Al-Yousif Exchangers | Gulf Exchange Co. |
| Al-Zamil Exchange Est. | Haji Yousif Al Awadi Exchange Establishment |
| Arab Exchange Company. | Khalil Ebrahim Al Fardan Exchange |
| Awal Exchange Co. W.L.L. | Mandeel Exchange |
| Bahrain Express Exchange | National Finance & Exchange Co. W.L.L. |
| Bahrain Financing Co. | Nonoo Exchange Co. W.L.L. |
| Bahrain India International Exchange Co. B.S.C.(C) | World Exchange Centre W.L.L. |
| Dalil Exchange | Zenj Exchange Co. W.L.L. |

**INVESTMENT ADVISORY AND
OTHER FINANCIAL SERVICES (8):**

a) Investment Advisory & Other Financial Services/Brokerage (7):

| | |
|--|----------------------------------|
| Abdulla A. Saudi & Associates | Islamic Finance Consultants E.C. |
| Capital Growth Management W.L.L. | Robert Fleming (Bahrain) W.L.L. |
| H & A Investment Services Company W.L.L. | Towry Law (Asia) HK Limited |
| Indogulf Financial Services W.L.L. | |

b) Provider of Ancillary Services to the Financial Sector (1):

The Benefit Company B.S.C. (c)

LIST OF BMA REGULATIONS & CIRCULARS 2000

- 1- Prudential Information and Regulations for Islamic Banks (PIRI).
- 2- New Return to the Agency.
- 3- Bahrain Monetary Agency - Prudential Returns.
- 4- Bahrain Monetary Agency - Prudential Returns.
- 5- Controllers of, and holdings and transfers of significant ownership or controlling interests in, Agency licensees.
- 6- Returned Cheques.
- 7- Cheque Clearing System.
- 8- Quarterly Information Report.
- 9- Quarterly Information Report (QIR).

OG/386/2000
12th July 2000

***The General Manager
All Islamic Banks
All Audit Firms
AAOIFI
Manama - Bahrain***

Dear Sir,

Prudential Information and Regulations for Islamic Banks (PIRI)

The Islamic banking industry has been growing at a steadily increasing rate in Bahrain. The nature of this industry is substantially different from conventional banking both in terms of risks being undertaken and for the purposes of accounting and disclosure.

The Agency recognizes the importance of this industry to Bahrain and has identified the need to develop a separate framework for regulating these institutions, taking into account their special features. The Agency also recognizes the need to maintain and enhance the confidence of the participants in the financial services industry and the investors in Islamic banks.

With this in mind the Agency has developed a proposed framework for Prudential Information and Regulations for Islamic Banks (PIRI). The objective of the PIRI is not only to provide a regulatory framework but also to use information contained in these proposed returns to monitor the operations of the banks and to identify signs of deterioration in a bank's performance if any.

The proposed PIRI framework covers five important areas:

- n Capital adequacy, covering both credit and market risk;
- n Asset quality, including monitoring of large exposures and related party exposures;
- n Management of investment accounts, both unrestricted and restricted and on and off balance sheet;
- n Liquidity management, covering both on balance sheet and separate funds pertaining to restricted investment accounts; and
- n Earnings quality.

The Agency perceives that the PIRI framework will assist in developing further credibility for Islamic banks and will provide a standard framework of comparison that can be subsequently used in allocating credit ratings.

In developing the proposed PIRI framework, the Agency has taken into consideration the various standards developed by the Accounting and Auditing Organization for Islamic Financial Institutions (AAIOFI), International Accounting Standards and the Basle Committee's various guidelines.

The Agency therefore, seeks your close cooperation in reviewing the PIRI framework in detail and providing it with your valuable comments by 15th September 2000.

Should you have any queries relating to this circular, please contact the Director of Financial Institutions Supervision Directorate at the Agency on Tel: 529444/529445. The Agency would like to thank you in advance for your cooperation in this regard.

Yours faithfully,

Abdulla K. Al-Khalifa
Governor

BC/1/2000
5th February, 2000

***The General Manager
All Moneychangers
Manama - Bahrain***

Dear Sir,

New Return to the Agency

In order to clarify and simplify the Agency's requirement in relation to the monthly return, the Agency has decided to issue this circular to replace the Agency circular No. BC/22/99 dated 24th October 1999.

Moneychangers are required to complete and submit the attached report on monthly basis starting 31st March, 2000. The Agency expects to receive the report within 3 weeks of each month end. In order to complete the Report and to ensure that adequate records exist to back-up the Report, moneychangers are required to retain copies of their customers' identification documents including name, address, and nationality for any transaction equal to or exceed BD10,000. Moneychangers are also required to maintain records of details of beneficiaries in case of drafts issued/received including, name, address and nationality for a period of at least five years.

It should be noted that, for the purposes of the Report, "resident" and "non-resident" are defined as follows:

1. Entities

"**Resident Entities**" are those entities that are physically located in Bahrain, whether or not associated with an institution that is located outside Bahrain, and irrespective of nationality of the underlying ownership of such entities.

"**Non-Resident Entities**" are those entities which are located outside Bahrain, whether or not owned – wholly or in part – by entities inside Bahrain.

2. Individuals

"**Resident Individuals**" are those persons who are long-term residents of, or have their "economic center of interest" in, Bahrain. For these purposes, "long-term" generally means working or staying in Bahrain for more than one year.

"**Non-Resident Individuals**" are those persons who are short-term residents of Bahrain. For these purposes, "short-term" generally means working or staying in Bahrain for less than one year.

Any persons with queries relating to the attached should contact Anwar Khalifa Al-Sadah, Director of Financial Institutions Supervision Directorate, at the Agency on Tel: 529444/529445.

Yours faithfully,

Dr. Khalid Abdulla Ateeq
Executive Director – Banking Control

Consolidated monthly return for all moneychangers

**Monthly Purchases of Currencies, Travellers Cheques, Gold, Other P. Metals
and Drafts for the month ending ____ / ____ / 2000**

Amount in BD

| Type of Currency | Purchases | | | | | | | | | | Drafts | |
|-----------------------------------|-----------|----------|-----------|----------|------|----------|-----------------|----------|---------|---------|--------|--|
| | Currency | | Tr. Chqs. | | Gold | | Other P. Metals | | Amounts | Country | | |
| | Res. | Non Res. | Res. | Non Res. | Res. | Non Res. | Res. | Non Res. | | | | |
| <u>G.C.C.</u> | | | | | | | | | | | | |
| | | | | | | | | | | | | |
| <u>Arab</u> | | | | | | | | | | | | |
| | | | | | | | | | | | | |
| <u>Asia</u> | | | | | | | | | | | | |
| | | | | | | | | | | | | |
| <u>North America & Canada</u> | | | | | | | | | | | | |
| | | | | | | | | | | | | |
| <u>European</u> | | | | | | | | | | | | |
| | | | | | | | | | | | | |
| <u>Other</u> | | | | | | | | | | | | |
| | | | | | | | | | | | | |
| <u>Total</u> | | | | | | | | | | | | |

Consolidated monthly return for all moneychangers

Monthly Sales of Currencies, Travellers Cheques, Gold, Other P. Metals
and Drafts for the month ending / / 2000

Amount in BD

| Type of Currency | Sales | | | | | | | | | | Amounts | Drafts Country | |
|-----------------------------------|----------|----------|-----------|----------|------|----------|-----------------|----------|------|----------|---------|-------------------|--|
| | Currency | | Tr. Chqs. | | Gold | | Other P. Metals | | Res. | Non Res. | | | |
| | Res. | Non Res. | Res. | Non Res. | Res. | Non Res. | Res. | Non Res. | | | | | |
| <u>G.C.C.</u> | | | | | | | | | | | | | |
| | | | | | | | | | | | | | |
| <u>Arab</u> | | | | | | | | | | | | | |
| | | | | | | | | | | | | | |
| <u>Asia</u> | | | | | | | | | | | | | |
| | | | | | | | | | | | | | |
| <u>North America & Canada</u> | | | | | | | | | | | | | |
| | | | | | | | | | | | | | |
| <u>European</u> | | | | | | | | | | | | | |
| | | | | | | | | | | | | | |
| <u>Other</u> | | | | | | | | | | | | | |
| | | | | | | | | | | | | | |
| <u>Total</u> | | | | | | | | | | | | | |

BC/6/2000

26th April, 2000

***The General Manager
All Locally Incorporated Banks***

***The Managing Partner
All Auditing Firms
Manama - Bahrain***

Dear Sir,

Re: Bahrain Monetary Agency - Prudential Returns

As you will be aware, locally incorporated banks in Bahrain are required to complete and send to the Agency Prudential Returns on a quarterly basis. In order to ensure value from this regular reporting by banks, the Agency has decided that, in respect of the quarterly Return as ending on 30th June, 2000 and for all quarterly Returns thereafter, banks' external auditors should formally review these returns so as to be able to confirm to the Agency that these Returns are being completed in accordance with the Agency's guidelines in this regard. This review should be conducted by external auditors after the filing of the relevant Return as part of the auditor's quarterly review of the bank.

Banks which demonstrate to the satisfaction of the Agency that they have fulfilled all of the Agency's requirements with regard to Prudential Returns for at least two consecutive quarters may apply (in writing) to the Agency for an exemption from the review procedure set out above. Persons with queries in relation to any matter set out above should contact Mr. Khalid Hamad Abdulrahman, Director - Banking Supervision Directorate at the Agency (ph. 529405).

Yours faithfully,

***Dr. Khalid Abdulla Ateeq
Executive Director - Banking Control***

BC/6/2000

26th April, 2000

***The General Manager
All Branches of Foreign Banks***

***The Managing Partner
All Auditing Firms
Manama - Bahrain***

Dear Sir,

Re: Bahrain Monetary Agency - Prudential Returns

As you will be aware, branches of foreign banks in Bahrain are required to complete and send to the Agency Prudential Returns on a quarterly basis. In order to ensure value from this regular reporting by banks, the Agency has decided that, in respect of the quarterly Return as ending on 30th June, 2000 and for all quarterly Returns thereafter, banks' external auditors should formally review these returns so as to be able to confirm to the Agency that these Returns are being completed in accordance with the Agency's guidelines in this regard. This review should be conducted by external auditors after the filing of the relevant Return.

Banks which demonstrate to the satisfaction of the Agency that they have fulfilled all of the Agency's requirements with regard to Prudential Returns for at least two consecutive quarters may apply (in writing) to the Agency for an exemption from the review procedure set out above. Persons with queries in relation to any matter set out above should contact Mr. Khalid Hamad Abdulrahman, Director - Banking Supervision Directorate at the Agency (ph. 529405).

Yours faithfully,

***Dr. Khalid Abdulla Ateeq
Executive Director - Banking Control***

BC/8/2000
24th May, 2000

***The General Manager
All Banks and Other Financial Institutions (not Rep. Offices)
Manama - Bahrain***

Dear Sir,

**Controllers of, and holdings and transfers of significant ownership or
controlling interests in, Agency licensees**

Pursuant to its general supervisory powers under the BMA Law (Articles 3.C and 14.D) and under other relevant provisions of Bahrain law, the Agency has now formalised the criteria it applies to, and the procedures applicable for, requests for the Agency's approval for controllers of, and for holdings and transfers of significant ownership or controlling interests in Agency licensees. These criteria and procedures are set out below. "This Circular does not override but should be read in conjunction with, Agency Circular BC/11/98 dated 27th July, 1998 concerning the "fit & proper" requirements of the Agency for board and senior management of licensees".

Definitions

For the purposes of this Circular:

- (a) **"controller"** means (i) a managing director or chief executive of the licensee or of another licensee of which the licensee is a subsidiary or associate company, (ii) a parent undertaking of the licensee, (iii) a person who (either alone or with an associate) is or would be a holder or proposed transferee of significant ownership or controlling interests in the licensee, or (iv) a person (either alone or with an associate) in accordance with whose instructions the directors of the licensee or persons who are controllers of the licensee are accustomed to act;
- (b) **"significant ownership"** means ownership (whether legal or beneficial and whether direct or indirect) within the following bands i) between 10 to 19.9 percent, ii) 20 to 32.9 percent, iii) 33 to 49.9 percent, iv) 50 to 74.9 percent, v) or 75 to any greater percentage, of the issued share capital of the licensee". In determining significant ownership, account shall be taken by the Agency of any percentage ownership which, when added to an existing ownership percentage, brings total ownership of the holder or proposed transferee with the percentage bands referred to above;
- (c) **"controlling interests"** mean either significant ownership or any other interests (including, but not limited to, the ability to exercise or control the exercising of voting power of issued share capital in the licensee) which enable the holder, or which would enable a proposed transferee, thereof to exercise significant influence over the management and business of the licensee;
- (d) **"associate"** means, in the case of a controller, (i) the spouse or son or daughter of the controller, (ii) any company of which the controller is a director, (iii) any person who is an employee or partner of the controller, (iv) any other person with whom the controller has any agreement or arrangement with respect to the acquisition, holding or disposal of shares in the

licensee, (v) any person with whom the controller has any agreement or arrangement with respect to acting together in exercising their voting power.

The above percentages and definitions may be amended, and other relevant terms may be defined, from time to time by the Agency either generally or in the case of a particular licensee.

Persons becoming controllers, and transfers made, after the date of this Circular

After the date of this Circular, no person may become a controller of a locally incorporated Agency licensee, and no transfer of significant ownership or controlling interests in a locally incorporated Agency licensee shall be effective or valid in law, unless the Agency has given its prior written consent.

"In the case of branches of foreign banks, the Agency must be notified of any new significant ownership in excess of 50% of the issued share capital of the concerned bank as soon as the branch becomes aware of the new significant ownership. Where the Agency objects to the holder of the significant ownership in the foreign bank, the Agency reserves the right to take any appropriate actions, including withdrawal of the licence. Branches of foreign banks have no other notification requirements concerning "controllers". They do, however, still have to comply with the requirements of Agency Circular BC/11/98 dated 27th July, 1998 concerning the management of branches in Bahrain".

An application should be made to the Agency in writing to obtain such consent.

Persons deemed by the Agency to be controllers or holders at the date of this Circular or at any time hereafter

A person who is deemed by the Agency to be a controller of, or a holder of significant ownership or controlling interests in, an Agency licensee at the date of this Circular or at any time hereafter, may be deemed by the Agency to not be "fit and proper" to hold such position.

In such event, the Agency shall so notify the controller or holder, and such notice may specify any action which the Agency believes should be taken in this regard (including, but not limited to, the imposing of a restriction on, or the disposal of, all or a part of such ownership or interests).

Making a determination of when a person is a controller or a holder

In making a determination of when a person is a controller or a holder, the Agency may take account of all holdings in and control over a licensee which the person in question has, whether directly or indirectly and including, but not limited to, holdings and control by or through subsidiaries, parent or sister companies, as well as associates.

Making a determination of fit and proper

In making a determination of fit and proper of controllers, holders and transferees, for the purposes of this Circular, the Agency shall:

- a. Apply the same broad criteria as it uses for directors, chief executives/general managers and managers of licensees as set out in Agency Circular BC/11/98 dated 27th July, 1998;
- b. Consider the effect of a positive or negative determination in this context on (i) the

interests of depositors and potential depositors of the licensee, (ii) the licensee as a whole, (iii) the Bahrain banking and financial sector; and

c. Take account of such other matters as the Agency may determine appropriate and relevant.

Information to be provided to the Agency

In carrying out its duties under this Circular, the Agency may require such information as it deems necessary to be provided to it by any person and may consult with such persons and authorities (whether in Bahrain or elsewhere) as it considers appropriate.

Notification to the Agency of change in significant ownership or controlling interests

The Agency must be immediately notified by the licensee and by the relevant controller of any movement by a controller between the above percentage bands in a locally incorporated Agency licensee.

Yours faithfully,

Dr. Khalid Abdulla Ateeq
Executive Director - Banking Control

EDBO/074/00
4th July, 2000

The General Manager
All Full Commercial Banks
Manama - Bahrain

Dear Sir,

Subject: Returned Cheques

In light of the continuous efforts being made by the Agency to restrict the phenomenon of returned cheques, the Agency would like to introduce the following clarifications to be printed on all cheque books issued:-

- 1) Customers name and address should be printed on each cheque for easy referrals.
- 2) Unused cheque books need to be withdrawn from all customers when their accounts are closed.
- 3) Returned cheque penalties (Arabic text is enclosed) should be printed on the back cover of the cheque books as follows:-
 - (a) A penalty charge of BD 7/- will be imposed on each cheque returned due to in-sufficient funds.
 - (b) All Current Account will be closed in all commercial banks for a period of one year in case of three cheques being returned for the reason of in-sufficient fund during four months period.
 - (c) Cheques Returned on accounts of in-sufficiency of funds will expose the issuer to a court judgement of imprisonment and/or financial penalties.

Yours faithfully,

Khalid A. Al-Bassam
Executive Director – Banking Operations

EDBO/77/00
30th July, 2000

***The General Manager
All Full Commercial Banks
Manama - Bahrain***

Dear Sir,

Subject: Cheque Clearing System

With reference to the Agency Circular dated 5th April, 2000 regarding the twice daily cheque Clearing sessions. The Agency is pleased to inform you that the trial period has been successfully completed and the system will be implemented permanently with effect from today as per the following:-

- 1) The First clearing session will start from 8:00 to 8:30am. No returned cheques will be accepted during this session.
- 2) The Second Session will start from 12:45 to 1:15pm. The session will be restricted to processing cheques returned from the first session of the same day.
- 3) The cheque Clearing cycle will be two working days (48 Hours maximum) including the date in which the cheque is deposited.

The Agency would like to take this opportunity to thank you for your bank's co-operation during the trial period.

Should you have any queries, please contact Mr. Farid Zubari-Head of Banking Services Directorate on 529752.

Yours faithfully,

Khalid A. Al-Bassam
Executive Director - Banking Operations

BC/10/2000
4th October, 2000

***The General Manager
All FCBs, IBs, OBUs & Representative Offices
Manama - Bahrain***

Dear Sir,

Sub: Quarterly Information Report

The Agency would like to draw your attention to the requirements of Article 4 (d) of the Regulation with respect to the General Supervision, Operation, and Marketing of Collective Investment Schemes issued on 18th November 1992 (Agency Circular No. OG/356/92), and of Agency Circular No. BC/15/97 dated 5th October 1997, which requires your bank to submit to the Agency a Quarterly Information Report of all Collective Investment Schemes which are authorised and approved by the Agency for your bank's marketing in/from Bahrain. A copy of Circular No. BC/15/97 is attached hereto for ease of reference.

All banks are requested to submit the above report on a timely basis. Should any bank fail to provide the above Report at all or on time, the Agency will not consider any further applications to establish and/or market a new scheme in/from Bahrain until matters are appropriately rectified.

Should you have any queries in respect of any matter referred to herein, please do not hesitate to contact Mr. Anwar Al-Sadah, Director of Financial Institutions Supervision Directorate at 529444/445.

Yours faithfully,

Dr. Khalid Abdulla Ateeq
Executive Director - Banking Control

BC/12/2000
10th October, 2000

***The General Manager
All Money Brokers
Licensed by the Agency
Manama - Bahrain***

Dear Sir,

Re : Quarterly Information Report (QIR)

In accordance with the Agency's Standard Conditions and Licensing Criteria for Money and Foreign Exchange Brokers (specifically paragraph No. "5"), the Agency has now developed a Quarterly Information Report (QIR) for completion by Money and Foreign Exchange Brokers Licensed by the Agency.

The attached QIR should be completed by your Firm for each quarter period (i.e. for the quarter period ending on 31st March, 30th June, 30th September and 31st December of each year), and should be submitted to the Agency within 20 days of the end of the quarterly period to which it relates. The first QIR to be sent to the Agency will be for the quarter period ending on 31st December 2000, and should be submitted by 20th January, 2001.

Furthermore, all Money Brokers are request to comply with requirements of this circular in preparing their year 2000 annual accounts. The accounts should be submitted to the Agency within a period no later than two months from the year-end of your financial year.

The Agency also expects your external auditors to reconcile the quarterly reports with the year-end audited accounts.

Any queries concerning this matter should be directed to Mr. Anwar Khalifa Al-Sadah, Director of Financial Institutions Supervision Directorate at the Agency (Tel : 529444/445).

Yours faithfully,

Dr. Khalid Abdulla Ateeq
Executive Director – Banking Control

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