The late Amir
H.H 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

BOARD OF DIRECTORS

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

DEPUTY CHAIRMAN

H.E. Abdulla Hassan Saif
Minister of Finance & National Economy

GOVERNOR

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Dr. Bakri A. Bashir	-	Adviser, Economic Affairs
Ms. Bernadette M. Doyle	-	Adviser, Legal Affairs
Mr. Richard Ellis	-	Adviser, Banking Control

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FOREWORD

It is with great pleasure that I present the 26th Annual Report of the Bahrain Monetary Agency.

The Report provides a brief summary of international economic and financial events in 1999, 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 1999, as well as the significant Circulars and Regulations issued by the Agency during that year.

Bahrain's economy performed well in 1999, strongly influenced by the continuing recovery in international commodity prices. Inflation remained firmly under control; the Consumer Price Index fell by 1.3% (following a fall of 0.4% in 1998). In terms of economic growth, GDP at current prices increased by 7.1% and by 4.0% in real terms. The budget deficit fell to BD 63.4 million down by more than half from BD 150.4 million in the previous year and the overall balance of payments was in surplus by BD 9.6 million following a deficit of BD 6.3 million in 1998.

The outlook for the economy in 2000 indicates increasing improvement. Preliminary data indicate further strengthening of both the trade and fiscal accounts. Moreover, the sound and prudent policies of the Bahrain authorities, their commitment to the effective utilisation of Bahrain's financial and human resources, as well as to the continued diversification of the economy and support of the private sector, continue to exert favourable influences; the benefit of which will be reaped in future years.

Over the year, the banking sector continued to demonstrate most satisfactory progress. The commercial banks' combined balance sheets grew by 14.1% in 1999 with assets/liabilities reaching an all-time high of BD 3745.5 million. Similarly, the combined balance sheets of the offshore banking units and investment banks also reached record levels; assets/liabilities standing at US$ 88.2 billion and US$ 4.0 billion, respectively, at the year-end.

In February the Agency successfully issued BD 100 million Government bonds on behalf of the Government and in August oversaw the introduction of the regional linking of the ATM shared till network system.

These developments are indicative of the strength of Bahrain's financial sector in benefitting from the opportunities afforded by the tide of greater liberalisation sweeping regional and international markets.

The year 1999 saw significant developments concerning prudential reporting, new regulations and internal controls.

A total of 176 banks and other financial institutions were licensed by the Agency at end-1999, a net unchanged position from the previous year. In addition, the Agency approved and authorised a further 139 collective investment schemes or mutual funds, bringing to 523 the total number of funds sold and marketed by 40 financial institutions.

Following the implementation by the Agency in 1998 of the Market Risk amendments to the Basel Capital Accord, new capital adequacy reporting requirements were introduced for locally-incorporated banks with effect from June 1999. These new requirements covered not only market risk, but also improved the quality of reporting of provisioning, liquidity and foreign exchange positions. Banks are now able to submit their returns by electronic means, thus increasing the accuracy and timeliness of prudential reporting.

A new Quarterly Information Return was introduced for investment advisors, and Islamic banks were required to produce their statutory accounts for 1999 in accordance with the Islamic Accounting Standards adopted by the Accounting and Auditing Organisation for Islamic Financial Institutions. New guidelines for the advertising of, and public announcements for, collective investment schemes were issued by the Agency and new regulations concerning margin trading were introduced.

As part of its efforts to promote transparency, the Agency required public disclosure by locally-incorporated banks of quarterly profit and loss and balance sheet data in accordance with International Accounting Standards along with greater disclosure of risk information. All branches of foreign full commercial bank licensees in Bahrain were also required to publish semi-annual financial statements of their Bahrain operations. To promote best practice on internal controls, the Agency now requires all banks to appoint a compliance officer, and locally-incorporated banks to rotate external audit partners on a five-yearly cycle. Likewise, in the interests of encouraging best risk management practice, the Agency distributed to local banks recent Basel papers on Capital Adequacy, Corporate Governance, Credit Risk and FX Risk. Finally, to discharge Bahrain's international obligation to combat money laundering, the Agency introduced new requirements for financial institutions to report all large and unusual transactions.

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 Monetray 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 1999, and to the Agency's personnel for their substantial contribution towards further enhancing the effectiveness and efficiency of the Agency.

Abdulla Khalifa Mohamed Al-Khalifa
Governor

CHAPTER ONE

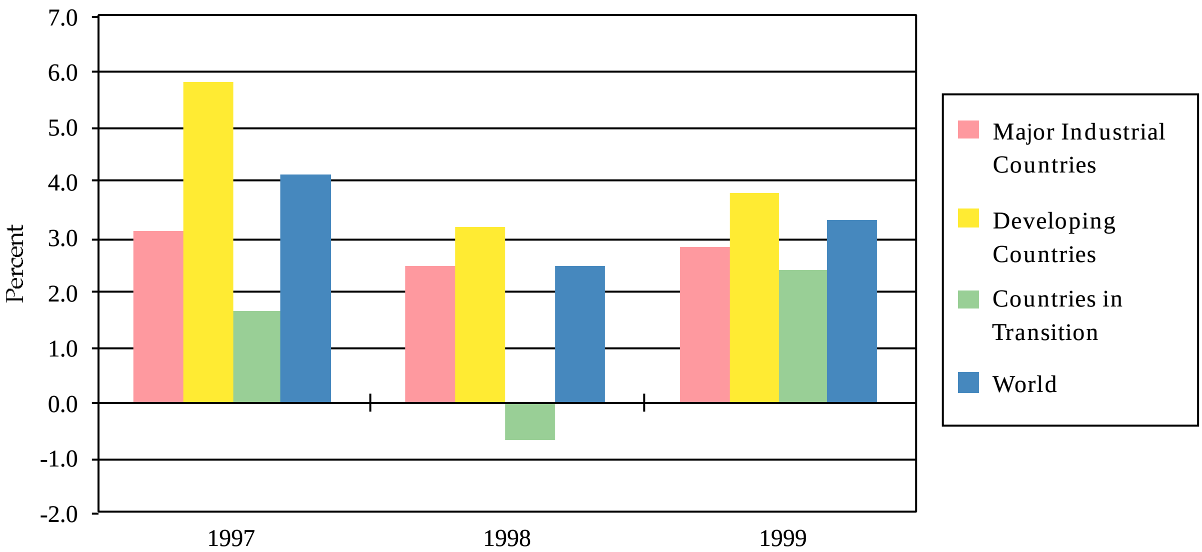
INTERNATIONAL ECONOMIC PERSPECTIVE

1-1 Economic Developments

The global economy witnessed a number of developments in 1999, the most important being the recovery in global economic performance after the 1997-1998 slowdown. The strength of the U.S. economy and the relatively easy monetary policies adopted by the European authorities played a major role in this recovery. Moreover, a rapid return of confidence to the markets of Asia was seen during the year.

Volatility in world oil prices was another important feature of 1999. During the year, the average price of crude oil fell to its lowest level of US$ 10.75 per barrel in February but had rebounded to its highest level of US$ 25.10 per barrel by December. The average price of crude oil in 1999 was US$ 18.14 per barrel, as compared with US$ 13.07 per barrel a year earlier.

CHART 1-1: ECONOMIC GROWTH



(a) Output

World economic growth increased to 3.3% in 1999 compared with 2.5% in 1998. Average growth in the major industrial and developing countries was 2.8% and 3.8% in 1999, compared with 2.5% and 3.2% respectively in 1998. In addition, countries in transition experienced growth of 2.4% in 1999, compared with a contraction of 0.7% a year earlier.

(b) Unemployment

Unemployment rates in the major industrial countries fell slightly from 6.2% in 1998 to 6.1% in 1999. Unemployment in the United States and the United Kingdom decreased from 4.5% and 4.7% in 1998 to 4.2% and 4.4% respectively in 1999. Similarly, unemployment in Germany fell from 9.4% to 9.0% and in France from 11.7% to 11.0%. Unemployment in Japan, however, increased from 4.1% in 1998 to 4.7% in 1999.

(c) Inflation

Inflation rates in the major industrial countries remained fairly subdued during the year registering 1.5% in 1999. In the developing countries, however, inflation fell from 10.1% to 6.5%. In sharp contrast, inflation in the transition economies increased significantly from 21.8% in 1998 to 43.7% in 1999.

Table 1.1: Inflation Rates (%)

Country Group	1997	1998	1999
Major Industrial Countries	2.0	1.3	1.5
Developing Countries	9.5	10.1	6.5
Countries in Transition	27.3	21.8	43.7

Source: IMF, World Economic Outlook, April 2000.

1-2 Exchange Rates and Gold Prices

An analysis of exchange rates, using national currency units per SDR, indicates that the U.S. Dollar and Pound Sterling remained fairly stable against the SDR during 1999. In contrast, the Japanese yen appreciated by 13.8% against the SDR, while the Euro, which was first introduced in 1999, depreciated by 8.1% during the year.

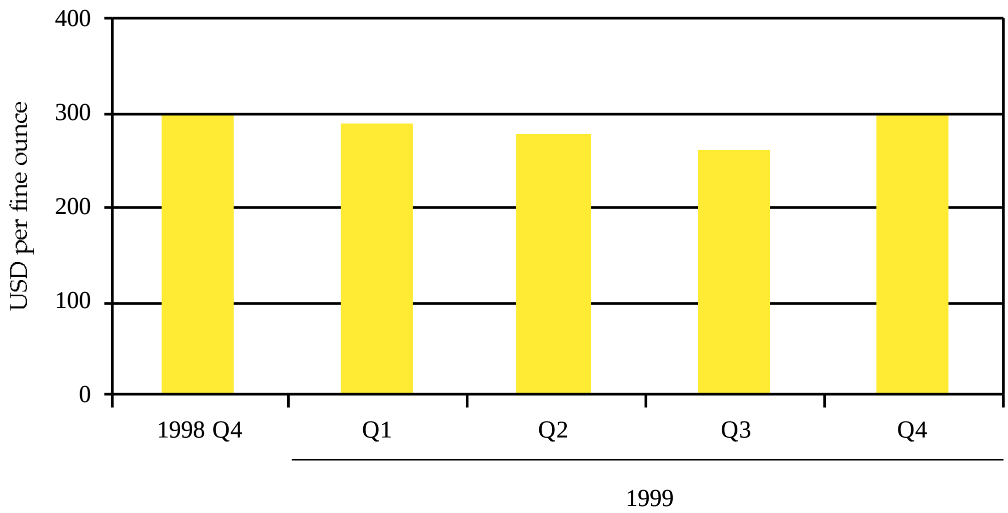
Table 1.2 : Exchange Rates of Major Currencies Against the SDR

Currency	1998	1999			
	Q4	Q1	Q2	Q3	Q4
US Dollar	1.4080	1.3578	1.3359	1.3877	1.3725
Euro	--	1.2641	1.2935	1.3012	1.3662
Japanese Yen	162.77	163.48	161.77	148.27	140.27
Pound Sterling	0.8464	0.8426	0.8482	0.8428	0.8491

Source: IMF, International Financial Statistics, April 2000.

Gold prices continued their downward trend in 1999. Average prices fell from US$ 294.2 per ounce in 1998 to US$ 278.8 per ounce in 1999.

CHART 1-2: GOLD PRICES IN 1999
(London Closing)



1-3 Interest Rates

Interest rates on the major international currencies continued their downward trend during the year. Rates on the U.S. dollar fell slightly from 5.6% in 1998 to 5.5% in 1999. In addition, rates on the Japanese Yen and Euro declined from 0.7% and 3.7% in 1998 to 0.2% and 3.0% respectively in 1999.

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

Currencies	1997	1998	1999
U.S. Dollar	5.8	5.6	5.5
Japanese Yen	0.7	0.7	0.2
Euro	3.5	3.7	3.0

Source: IMF World Economic Outlook, April 2000.

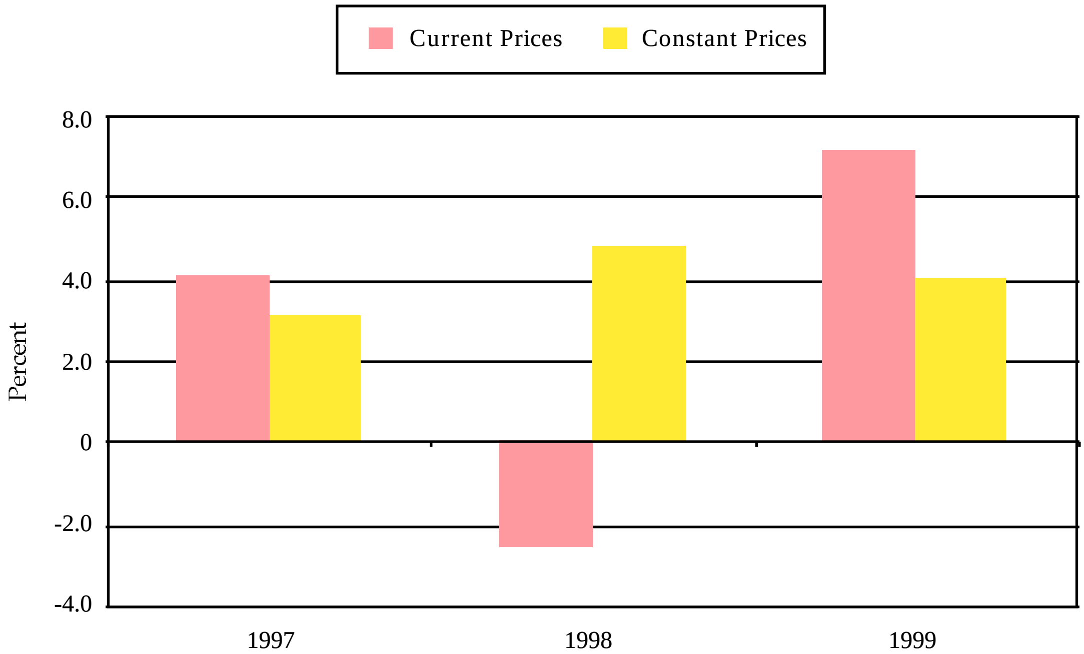
CHAPTER TWO
DOMESTIC ECONOMIC DEVELOPMENTS

2-1 Domestic Output

GDP at Current Prices

Gross Domestic Product (GDP) at current prices registered an increase of 7.1% in 1999, compared with a contraction of 2.6% in 1998.

CHART 2-1: BAHRAIN - ECONOMIC GROWTH RATES



The value added of the non-financial corporations sector rose by 9.4% in 1999, compared with a fall of 6.9% a year earlier. This rise was mainly attributable to an increase in the value added of crude petroleum & natural gas sector by 43.9%. As a result, the contribution of the non-financial corporations sector to GDP rose from 68.4% in 1998 to 69.9% in 1999.

Similarly, the value added of the financial corporations sector rose by 0.8% in 1999 compared with 5.6% in 1998. Offshore financial institutions grew by 9.0% in 1999. The share of this sector in GDP fell from 22.9% in 1998 to 21.6% in 1999.

On the other hand, growth in the value added of the Government services sector decelerated from 6.2% in 1998 to 3.4% in 1999. Accordingly, the Government services sector's contribution to GDP fell from 18.7% to 18.0%.

Table 2.1: Gross Domestic Product at Current Prices

Sectors	BD Millions		Annual Growth (%)		Relative Share (%)	
	1998	1999*	1998	1999*	1998	1999*
1 - The Non-Financial Corporations	**1,591.5**	**1,740.8**	**(6.9)**	**9.4**	**68.4**	**69.9**
- Agriculture & Fishing	21.0	21.4	2.1	2.1	0.9	0.9
- Mining & Quarrying	316.3	453.6	(29.1)	43.4	13.6	18.2
Crude Petroleum & Natural Gas	311.4	448.2	(29.5)	43.9	13.4	18.0
- Manufacturing	296.1	306.7	(15.6)	3.6	12.7	12.3
- Electricity & Water	43.8	44.9	11.3	2.5	1.9	1.8
- Construction	94.5	105.6	0.8	11.8	4.1	4.2
- Trade	235.0	207.9	6.3	(11.6)	10.1	8.3
- Hotels & Restaurants	53.9	56.4	10.7	4.6	2.3	2.3
- Transport and Communication	192.7	196.3	14.3	1.8	8.3	7.9
- Social & Personal Services	99.4	106.3	10.2	6.9	4.3	4.3
- Real Estate	238.9	241.8	3.8	1.2	10.3	9.7
2- The Financial Corporations	**532.9**	**537.2**	**5.6**	**0.8**	**22.9**	**21.6**
- Financial Institutions	140.3	138.6	10.6	(1.2)	6.0	5.6
- Offshore Financial Institutions	265.7	289.6	8.7	9.0	11.4	11.6
- Insurance	126.8	109.0	(4.9)	(14.1)	5.5	4.4
3- Government Services	**433.7**	**448.3**	**6.2**	**3.4**	**18.7**	**18.0**
4- Private Non-Profit Institutions Serving Households	**1.2**	**1.2**	**25.9**	**3.4**	**0.1**	**0.0**
5- Household Sector	**16.2**	**17.7**	**3.6**	**8.8**	**0.7**	**0.7**
6- Less : Imputed Services Charge	**(313.6)**	**(312.8)**	**2.2**	**(0.2)**	**(13.5)**	**(12.6)**
7- Import Duties	**63.4**	**57.1**	**14.4**	**(9.9)**	**2.7**	**2.3**
TOTAL GDP	**2,325.2**	**2,489.4**	**(2.6)**	**7.1**	**100.0**	**100.0**

Source: Ministry of Finance and National Economy.
* = provisional

GDP at Constant Prices

In 1999, GDP at constant prices (1989=100) increased by 4.0% compared with 4.8% in 1998.

The value added of the non-financial corporations sector increased by 4.9% in 1999 compared with 6.1% in 1998. This rise was a result of an increase in crude petroleum and natural gas by 9.2%. The contribution of this sector to GDP increased from 70.4% in 1998 to 71.0% in 1999.

Similarly, the value added of the financial corporations sector grew by 0.2% in 1999, compared with a fall of 1.8% in 1998. This was due to a rise in both local and offshore financial institutions by 1.9% and 5.1% respectively. The contribution of this sector to GDP fell from 18.2% in 1998 to 17.5% in 1999.

Growth in the value added of the government services sector increased by 2.2% in 1999, compared with 1.8% in 1998. The share of this sector in GDP fell from 16.0% in 1998 to 15.8% in 1999.

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

Sectors	BD Millions		Annual Growth (%)		Relative Share (%)	
	1998	1999*	1998	1999*	1998	1999*
1- The Non-Financial Corporations	**1,668.0**	**1,749.5**	**6.1**	**4.9**	**70.4**	**71.0**
- Agriculture & Fishing	21.9	22.5	(0.7)	2.7	0.9	0.9
- Mining & Quarrying	375.6	410.2	11.3	9.2	15.8	16.7
Crude Petroleum & Natural Gas	373.4	407.9	11.4	9.2	15.8	16.6
- Manufacturing	286.1	304.2	2.0	6.3	12.1	12.3
- Electricity & Water	50.6	50.6	15.5	0.1	2.1	2.1
- Construction	83.7	98.0	1.0	17.0	3.5	4.0
- Trade	345.0	323.8	7.6	(6.1)	14.6	13.1
- Hotels & Restaurants	52.7	55.1	6.1	4.7	2.2	2.2
- Transport and Communication	179.4	194.2	5.9	8.3	7.6	7.9
- Social & Personal Services	82.2	89.2	6.7	8.5	3.5	3.6
- Real Estate	190.9	201.7	1.4	5.7	8.1	8.2
2- The Financial Corporations	**430.6**	**431.6**	**(1.8)**	**0.2**	**18.2**	**17.5**
- Financial Institutions	136.7	139.3	8.2	1.9	5.8	5.7
- Offshore Financial Institutions	191.9	201.6	(5.7)	5.1	8.1	8.2
- Insurance	102.1	90.7	(6.1)	(11.1)	4.3	3.7
3- Government Services	**379.7**	**388.1**	**1.8**	**2.2**	**16.0**	**15.8**
4- Private Non-Profit Institutions Serving Households	**1.0**	**1.0**	**28.7**	**(0.1)**	**0.0**	**0.0**
5- Household Sector	**15.3**	**15.9**	**3.6**	**3.7**	**0.6**	**0.6**
6- Less : Imputed Services Charge	**(182.4)**	**(173.3)**	**(2.6)**	**(5.0)**	**(7.7)**	**(7.0)**
7- Import Duties	**57.6**	**50.7**	**14.8**	**(12.0)**	**2.4**	**2.1**
TOTAL GDP	**2,369.8**	**2,463.4**	**4.8**	**4.0**	**100.0**	**100.0**

Source: Ministry of Finance and National Economy.
* = provisional

Crude Oil Production and Refining

Crude oil production from the Bahrain field fell from 13.75 million barrels in 1998 to 13.47 million barrels in 1999, a decrease of 2.0%. On the other hand, imports of crude oil registered an increase of 6.8% in 1999 to reach 82.3 million barrels.

Refined oil production rose from 90.6 million barrels in 1998 to 95.8 million barrels in 1999, or by 5.8%. Likewise, exports of oil products increased by 5.2% to reach 95.8 million barrels.

CHART 2-2: BAHRAIN - SELECTED OIL STATISTICS

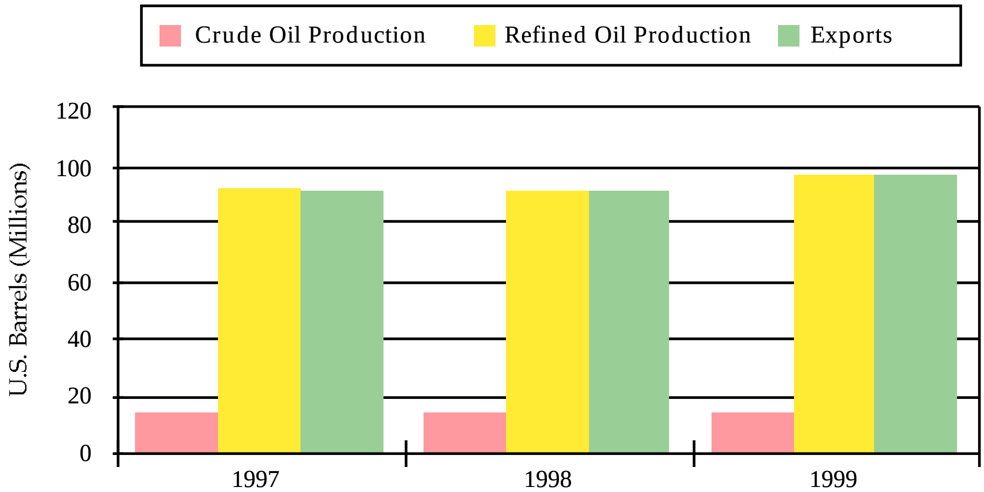


Table 2.3: Selected Oil Statistics

Description	U.S. Barrels (Thousands)		Percentage Change	
	1998	1999	1998	1999
Bahrain Crude Oil Production	13,751	13,472	-2.9	-2.0
Imports of Saudi Arabian Crude 1/	77,049	82,310	-0.6	6.8
Refined Oil Production	90,586	95,843	-1.1	5.8
Local Sales of Refined Products	4,636	4,409	8.5	-4.9
Exports 2/	91,043	95,766	0.3	5.2

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 3.4% to reach 406.4 billion cubic feet in 1999, compared with 392.9 billion cubic feet in 1998. This rise was attributable to increases in both associated and natural gas production of 5.5% and 2.8% respectively.

Aluminium Bahrain (Alba) remained the single largest consumer of gas, accounting for 26.9% of total gas utilisation. Oil field injection accounted for 24.6%, while the power stations, Gulf Petrochemical Industries Company (GPIC), and the Refinery accounted for 23.1%, 10.7% and 8.8% of total utilisation respectively.

Table 2.4: Gas Production and Utilisation

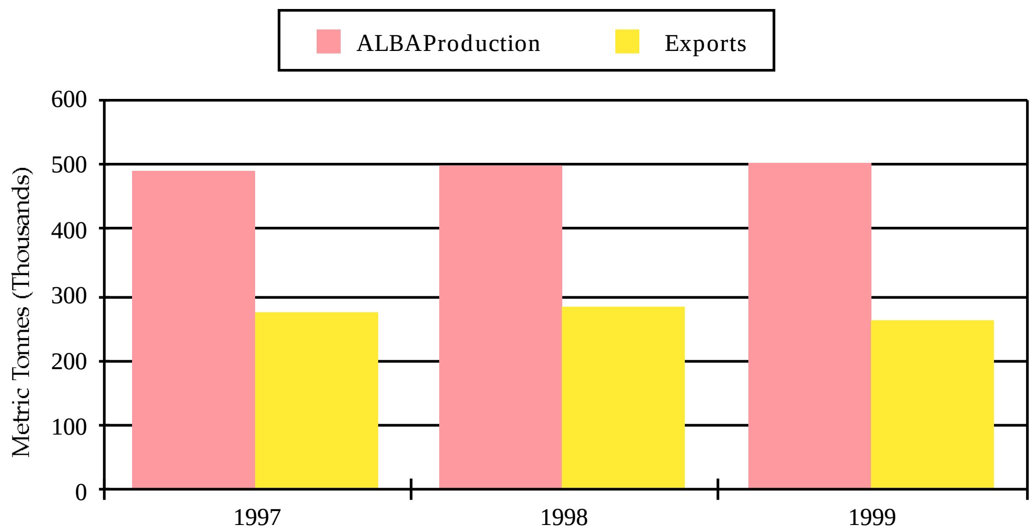
Items	Billions of Cubic Feet		Percentage Change		Relative Share	
	1998	1999	1998	1999	1998	1999
Gas Production	**392.9**	**406.4**	**4.7**	**3.4**	**100.0**	**100.0**
Associated Gas	91.0	96.0	-0.9	5.5	23.2	23.6
Natural Gas	301.9	310.4	6.5	2.8	76.8	76.4
Gas Utilisation	**392.9**	**406.4**	**4.7**	**3.4**	**100.0**	**100.0**
Power Stations	87.8	93.9	22.8	6.9	22.3	23.1
Alba	111.5	109.3	0.5	-2.0	28.4	26.9
Refinery	35.4	35.7	1.7	0.8	9.0	8.8
Oil Field Injection	96.9	100.1	3.2	3.3	24.7	24.6
GPIC	40.5	43.5	-2.6	7.4	10.3	10.7
Others	20.8	23.9	-0.8	14.9	5.3	5.9

Source: Ministry of Oil and Industry.

Aluminium Production

Alba production registered an increase of 0.3%, or 1.4 thousand metric tonnes, to reach 502.7 thousand metric tonnes in 1999.

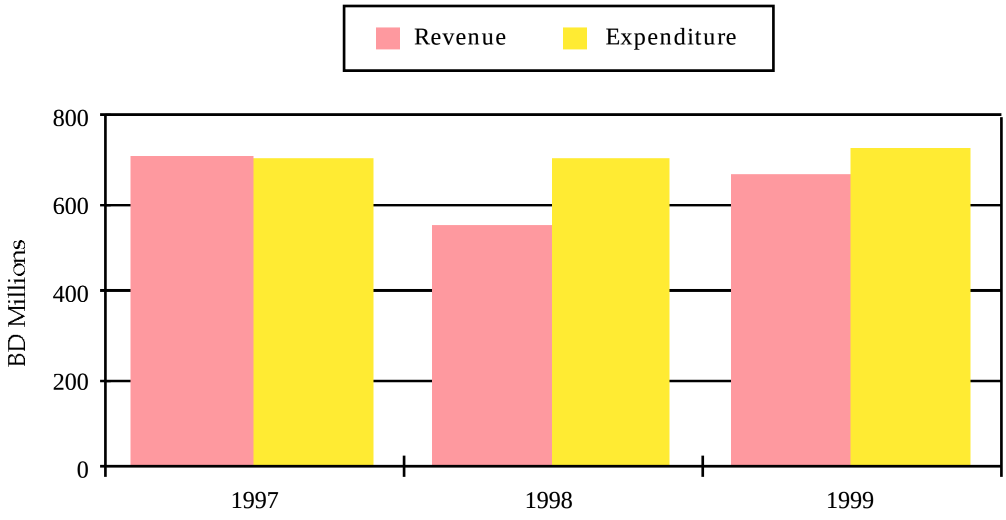
CHART 2-3: BAHRAIN - ALBA'S ALUMINIUM PRODUCTION AND EXPORTS



2-2 Government Finance

The fiscal account registered a deficit of BD 63.4 million in 1999, or 2.5% of GDP, compared with a deficit of BD 150.4 million, or 6.5% of GDP in 1998.

CHART 2-4: BAHRAIN - GOVERNMENT FINANCE



Revenues

Total revenue increased by 19.2%, from BD 554.1 million in 1998 to BD 660.4 million in 1999.

Oil and gas revenue increased by 43.2%, to BD 371.4 million in 1999. As a result, the share of oil and gas revenue in total revenue increased from 46.8% in 1998 to 56.2% in 1999.

Non-oil revenue fell by 1.9%, to BD 289.0 million in 1999. This decline was mainly due to a decrease in revenues from taxation & fees and investments & government properties by 3.6% and 10.5% respectively.

Expenditures

Total expenditure rose by 2.7% from BD 704.5 million in 1998 to BD 723.8 million in 1999.

Current expenditure rose from BD 560.1 million in 1998 to BD 596.0 million in 1999, or by 6.4%. This rise reflected increases in all current expenditure chapters over the year, particularly in manpower and services.

However, projects expenditure fell by 11.5%, from BD 144.4 million in 1998 to BD 127.8 million in 1999.

Table 2.5: Government Finance

Items	BD Millions		Annual Growth %		Relative Share %	
	1998	**1999**	**1998**	**1999**	**1998**	**1999**
A. Total Revenue	**554.1**	**660.4**	**-21.5**	**19.2**	**100.0**	**100.0**
Oil & Gas Revenue	**259.4**	**371.4**	**-38.6**	**43.2**	**46.8**	**56.2**
Non-Oil Revenue	**294.7**	**289.0**	**4.1**	**-1.9**	**53.2**	**43.8**
Taxation & Fees	113.6	109.5	8.2	-3.6	20.5	16.6
Government Goods & Services	94.9	98.2	9.6	3.5	17.2	14.9
Investments & Govt. Properties	42.8	38.3	11.5	-10.5	7.7	5.8
Grants	37.6	37.6	-20.0	0.0	6.8	5.7
Sale of Capital Assets	0.1	0.2	-50.0	100.0	0.0	0.0
Miscellaneous	5.7	5.2	-3.4	-8.8	1.0	0.8
B. Total Expenditure	**704.5**	**723.8**	**0.1**	**2.7**	**100.0**	**100.0**
Current Expenditure	**560.1**	**596.0**	**1.3**	**6.4**	**79.5**	**82.3**
Manpower	380.2	388.8	4.9	2.3	54.0	53.7
Services	51.9	58.2	-3.9	12.1	7.3	8.0
Consumables	26.8	30.6	-13.8	14.2	3.8	4.2
Assets	5.4	7.7	-19.4	42.6	0.8	1.1
Maintenance	21.4	24.5	-13.4	14.5	3.0	3.4
Transfers	41.6	46.9	-3.0	12.7	5.9	6.5
Grants, Subsidies and Repayment of Loan Interest	32.8	39.3	5.1	19.8	4.7	5.4
Projects Expenditure	**144.4**	**127.8**	**-4.1**	**-11.5**	**20.5**	**17.7**
C. Surplus/Deficit	**-150.4**	**-63.4**				

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 102.8 in 1999, compared with 104.2 in 1998, a decrease of 1.3%.

An analysis of the main goods and services groups within the CPI reveals a slight increase in the average prices of two main groups during 1999, namely transportation services by 0.6% and clothes, textiles and foot-wear by 0.4%.

In contrast, average prices of the remaining groups decreased by varying degrees. This included house-related expenses by 3.4%, goods for home services by 2.9%, services requirements of personal care by 1.1%, and food, beverages and tobacco by 1.0%.

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

Groups	1998	1999	Annual Change %
1. Food, Beverages and Tobacco.	104.1	103.1	-1.0
2. Ready-made Clothes, Textiles and Foot-wear.	101.4	101.8	0.4
3. House-Related Expenses, Fuel Lighting & Water.	104.0	100.5	-3.4
4. Goods for Home Services.	99.2	96.3	-2.9
5. Transportation Services.	100.2	100.8	0.6
6. Education.	127.9	127.6	-0.2
7. Medical Care & Health Services.	107.7	107.8	-0.1
8. Service Requirements of Personal Care.	90.9	89.9	-1.1
9. Culture, Entertainment and Recreation.	112.1	112.0	--
General C.P.I.	**104.2**	**102.8**	**-1.3**

Source: Central Statistics Organisation

2-4 Bahrain Stock Exchange

The Bahrain index closed at 2,212.2 points at end-1999, an increase of 23.3 points or 1.1% compared with end-1998.

The number of shares traded fell from 620 million in 1998 to 536 million in 1999, or by 13.6%. Similarly, the value of shares traded fell from BD 217.3 million to BD 168.0 million, or by 22.7%. The number of transactions also fell from 24,061 in 1998 to 18,143 in 1999, or by 24.6%

An analysis by sector reveals that the value of shares traded in the investment sector amounted to BD 68.2 million or 40.6% of the value of total shares traded. Shares traded in the commercial banking sector amounted to BD 45.5 million or 27.1% of the value of total shares traded, followed by the services sector with BD 35.5 million or 21.1% of the total.

Table 2.7: Trading Activity of the Bahrain Stock Exchange

Items	1997	1998	1999	Annual change %	
				98-97	99-98
Number of shares traded (million)	630	620	536	-1.6	-13.6
Value of shares traded (BD million)	180.8	217.3	168.0	20.2	-22.7
Number of Transactions	19,087	24,061	18,143	26.1	-24.6
Bahrain Index (points)	2,310.1	2,188.9	2,212.2	-5.2	1.1
Number of listed companies	38	38	37	--	-2.6
Market capitalisation of listed companies (BD billion)	2.9	2.6	2.7	-10.3	3.8

Source: Bahrain Stock Exchange

CHAPTER THREE

FOREIGN TRADE AND BALANCE OF PAYMENTS

3-1 Trade Balance

The trade balance switched from a deficit of BD 111.3 million in 1998 to a surplus of BD 188.0 million in 1999. The value of both total imports and exports registered an increase.

The oil trade balance surplus rose from BD 363.0 million in 1998 to BD 491.0 million in 1999, while the non-oil trade balance deficit fell from BD 474.3 million to BD 303.0 million.

Exports

The value of total exports rose by BD 307.6 million, from BD 1,229.6 million in 1998 to BD 1,537.2 million in 1999, an increase of 25.0%. Oil exports increased by 50.7%, from BD 637.0 million in 1998 to BD 960.1 million in 1999, and its share in total exports rose from 51.8% to 62.5%. In contrast, the value of non-oil exports fell by 2.6%, from BD 592.6 million in 1998 to BD 577.1 million in 1999, consequently its share in total exports fell from 48.2% to 37.5%.

An analysis by commodity groups in 1999 shows that exports of mineral products comprised 66.3% of total exports, followed by exports of base metals and articles thereof with 19.4%, and textiles and textile articles with 6.1%.

Imports

The value of total imports increased by 0.6% to reach BD 1,349.2 million in 1999, compared with BD 1,340.9 million in 1998. Oil imports registered an increase of BD 195.1 million to reach BD 469.1 million in 1999, compared with BD 274.0 million in 1998, an increase of 71.2%. As a result, the share of oil imports in total imports rose from 20.4% to 34.8%. In contrast, the value of non-oil imports fell by 17.5%, from BD 1,066.9 million in 1998 to BD 880.1 million in 1999, and its share in total imports fell from 79.6% to 65.2%.

An analysis by commodity groups shows that imports of mineral products represented 38.9% of total imports, followed by machinery, appliances and electrical equipment with 12.2%, and products of chemical and allied industries with 9.1%.

CHART 3-1: BAHRAIN - FOREIGN TRADE

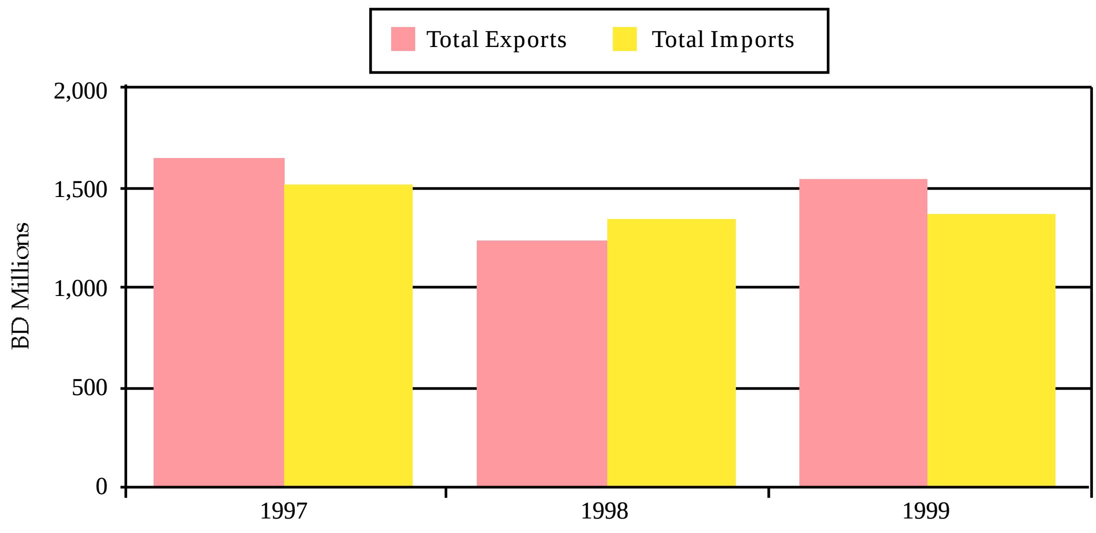


Table 3.1: Foreign Trade

Main Group	BD Millions		Annual Change (%)		Relative Share (%)	
	1998	1999*	1998	1999	1998	1999
Total Exports	**1,229.6**	**1,537.2**	**-25.4**	**25.0**	**100.0**	**100.0**
Oil Exports	637.0	960.1	-37.6	50.7	51.8	62.5
Non-Oil Exports 1/	592.6	577.1	-5.6	-2.6	48.2	37.5
Total Imports	**1,340.9**	**1,349.2**	**-11.4**	**0.6**	**100.0**	**100.0**
Oil Imports	274.0	469.1	-48.2	71.2	20.4	34.8
Non-Oil Imports	1,066.9	880.1	8.4	-17.5	79.6	65.2
Trade Balance	**-111.3**	**188.0**				

Source: Central Statistics Organisation
* Provisional data.
1/ Includes re-exports.

3-2 Direction of Non-Oil Trade

An analysis of the trade data indicates a decline in the value of non-oil trade with Bahrain's main trading partners. Overall, the non-oil trade balance surplus with the Arab countries fell by 19.9%, while the non-oil trade deficits with Europe, Asia, and the Americas declined by 22.9%, 45.7%, and 69.2% respectively.

CHART 3-2: BAHRAIN - DIRECTION OF NON-OIL TRADE DURING 1999

Table 3.2: Direction of Non-Oil Trade

(BD Millions)

Country Groups	1998			1999*		
	Exports	Imports	Balance	Exports	Imports	Balance
Arab Countries	206.5	142.8	63.7	199.9	148.9	51.0
Africa	6.6	5.4	1.2	3.3	3.2	0.1
Asia	220.8	308.9	-88.1	194.7	242.5	-47.8
Europe	63.2	344.1	-280.9	60.1	276.8	-216.7
Americas	80.7	154.0	-73.3	100.8	123.4	-22.6
Oceania	9.3	107.0	-97.7	12.5	84.6	-72.1
Other Countries	5.5	4.7	0.8	5.8	0.7	5.1
Total	**592.6**	**1,066.9**	**-474.3**	**577.1**	**880.1**	**-303.0**

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 60.4 million in 1998 to BD 48.4 million in 1999, or by 19.9%. This decrease was a result of an increase in non-oil imports of BD 8.9 million, or 7.2%, together with a fall in non-oil exports of BD 3.1 million, or 1.7%. Non-oil exports to GCC countries accounted for 31.3% of Bahrain's total non-oil exports, while imports from them represented 15.0%.

CHART 3-3: BAHRAIN - DIRECTION OF NON-OIL TRADE WITH GCC COUNTRIES DURING 1999

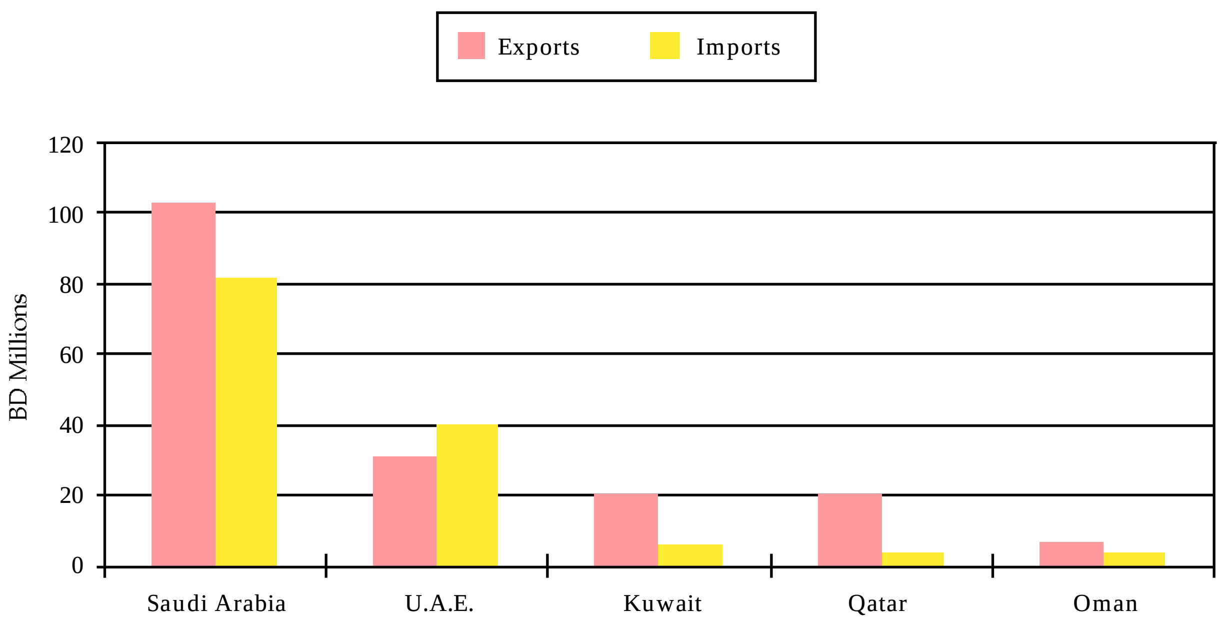


Table 3.3: Non-Oil Trade with GCC Countries

(BD Millions)

Country	1998			1999*		
	Exports	Imports	Balance	Exports	Imports	Balance
Kuwait	20.6	4.7	15.9	20.3	5.5	14.8
Oman	6.3	3.9	2.4	6.6	3.4	3.2
Qatar	13.9	2.8	11.1	20.2	3.5	16.7
Saudi Arabia	107.6	76.4	31.2	102.9	81.0	21.9
U.A.E.	35.5	35.7	-0.2	30.8	39.0	-8.2
Total	**183.9**	**123.5**	**60.4**	**180.8**	**132.4**	**48.4**

Source: Central Statistics Organisation

* Provisional data.

3-4 Balance of Payments

The current account deficit decreased from BD 292.3 million in 1998 to BD 158.3 million in 1999. This was mainly due to a switch in the goods balance from a deficit of BD 10.7 million in 1998 to a surplus of BD 270.4 million in 1999, together with an increase in the net service receipts by BD 21.2 million. On the other hand, net outflow of income and current transfers increased by BD 108.2 million and BD 60.0 million respectively.

The capital and financial account surplus increased from BD 52.3 million in 1998 to BD 102.9 million in 1999. This was a result of an increase in the financial account of BD 50.6 million, due to the rise in the direct investment and other investment during 1999.

As a result, Bahrain's overall balance of payments (Reserve Assets) registered a surplus of BD 9.6 million in 1999, compared with a deficit of BD 6.3 million in 1998. These developments helped to reduce the errors and omissions from BD 240.0 million in 1998 to BD 55.3 million in 1999.

Table 3.4: Balance of Payments

(BD Millions)

Items	1997	1998	1999 (Prov.)
1. Current Account (a+b+c+d)	**-11.7**	**-292.3**	**-158.3**
a. Goods	227.4	-10.7	270.4
Exports	1,648.0	1,229.6	1,537.2
- Oil and oil products	1,026.0	664.4	1,019.0
- Non-oil	622.0	565.2	518.2
Imports	-1,420.6	-1,240.3	-1,266.8
- Oil and oil products	-580.0	-334.9	-525.0
- Non-oil	-840.6	-905.4	-741.8
b. Services (net)	0.9	27.4	48.6
- Transportation	-57.1	-62.6	-46.2
- Travel	71.0	84.3	93.7
- Insurance	-9.3	-10.1	-8.2
- Others	-3.7	15.8	9.4
c. Income (net)	-88.8	-60.9	-169.1
Investment Income	-88.8	-60.9	-169.1
- Direct Investment Income	-211.9	-226.6	-223.8
- Portfolio Income	175.8	191.7	210.3
- Other Investment Income	-52.7	-26.0	-155.7
d. Current Transfers (net)	-151.2	-248.1	-308.1
2. Capital and Financial Account (net) (A+B)	**14.1**	**52.3**	**102.9**
A. Capital Account	47.0	37.6	37.6
- Capital Transfers	47.0	37.6	37.6
B. Financial Account (1+2+3+4)*	-32.9	14.7	65.3
1. Direct Investment	105.9	-0.5	106.9
- Abroad	-17.9	-68.0	-61.4
- In Bahrain	123.8	67.5	168.3
2. Portfolio Investment	-432.7	-319.3	-776.2
3. Other Investment	332.5	328.2	744.2
4. Reserve Assets	-38.6	6.3	-9.6
3. Errors and Omissions	**-2.4**	**240.0**	**55.3**

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

CHAPTER FOUR
MONEY AND BANKING

4-1 Money Supply and Liquidity

During 1999, currency in circulation registered an increase of BD 19.7 million, or 21.1%, to reach BD 113.0 million at year end. This was probably a reflection of precautionary action to guard against possible Y2K problems.

M1 (Currency in circulation plus private demand deposits) increased by BD 60.6 million, or 16.6% to reach BD 426.2 million at end-1999.

As a result of the increase in M1 and growth in private sector savings and time deposits by BD 19.9 million, M2 (M1 plus private sector savings and time deposits) rose by 4.3%, from BD 1,876.2 million at end-1998 to BD 1,956.7 million at end-1999. M3 (M2 plus government deposits) rose by 3.9% to reach BD 2,388.7 million at end-1999 compared with BD 2,299.3 million at end-1998.

CHART 4-1: BAHRAIN - DOMESTIC LIQUIDITY

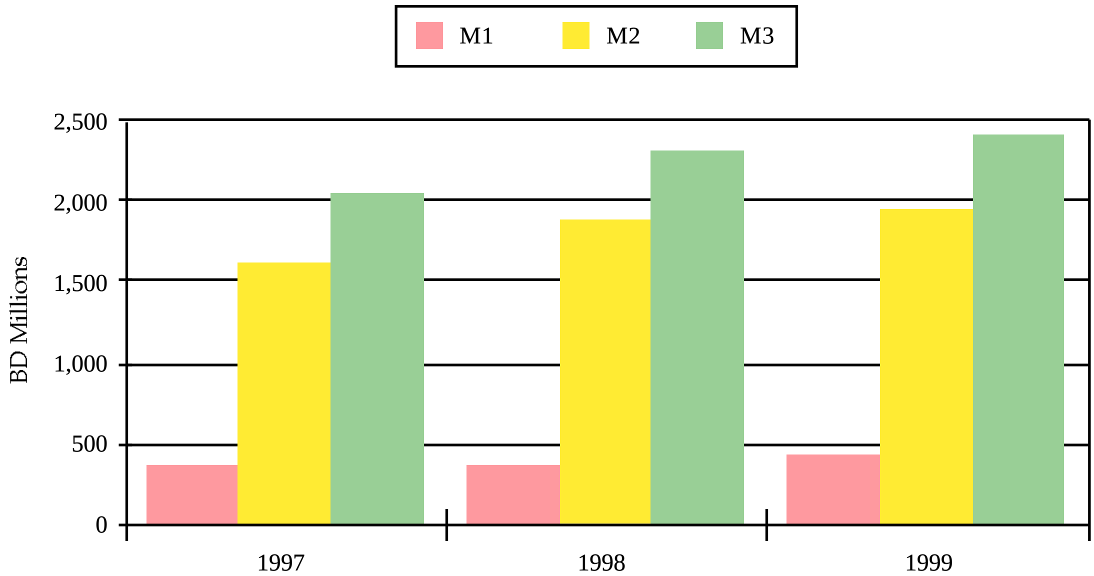


Table 4.1: Domestic Liquidity

(BD Millions)

Components	Year-end			Change (1999 vs. 1998)	
	1997	1998	1999	Absolute	Percent
Currency in Circulation	104.6	93.3	113.0	19.7	21.1
M1	347.8	365.6	426.2	60.6	16.6
M2	1,609.5	1,876.2	1,956.7	80.5	4.3
M3	2,053.7	2,299.3	2,388.7	89.4	3.9

Factors Affecting Domestic Liquidity

Trends in the major factors affecting domestic liquidity over the period 1997-1999 are illustrated in Table 4.2.

Table 4.2: Factors Affecting Domestic Liquidity

(BD Millions)

Factors	Year-end			Changes	
	1997	**1998**	**1999**	**(1998 vs. 1997)**	**(1999 vs. 1998)**
A. Total Domestic Liquidity (M3)	**2,053.7**	**2,299.3**	**2,388.7**	**245.6**	**89.4**
B. Factors Affecting Liquidity					
1. Net Foreign Assets (a+b)	**871.7**	**1,000.6**	**807.5**	**128.9**	**-193.1**
(a) BMA	390.5	383.1	391.9	-7.4	8.8
(b) Commercial Banks	481.2	617.5	415.6	136.3	-201.9
2. Domestic Claims (a+b+c)	**1,182.0**	**1,298.7**	**1,581.2**	**116.7**	**282.5**
(a) Claims on government	215.8	267.9	336.2	52.1	68.3
(b) Claims on private sector 1/	1,074.3	1,160.0	1,302.6	85.7	142.6
(c) Other assets (net)	-108.1	-129.2	-57.6	-21.1	71.6

1/ Loans and holdings of securities.

Total domestic liquidity (M3) registered an increase of BD 89.4 million, or 3.9%, at end-1999 following a rise of BD 245.6 million, or 12.0%, at end-1998.

Net foreign assets of the BMA and the commercial banks registered a decline of BD 193.1 million, or 19.3%, at end-1999. This was a result of a fall of BD 201.9 million in the commercial banks' net foreign assets against an increase in BMA's net foreign assets by BD 8.8 million.

Total domestic assets rose by BD 282.5 million at end-1999, or by 21.8%. This was a result of an increase in claims on the private sector and the government by BD 142.6 million and BD 68.3 million respectively. In addition, other assets (net) increased by BD 71.6 million over the same period.

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$ 99.4 billion at end-1998 to US$ 102.1 billion at end-1999, an increase of US$ 2.7 billion, or 2.7%.

Offshore banking units accounted for 86.4% of the total balance sheet of the banking system at end-1999, while commercial and investment banks accounted for 9.7% and 3.9% respectively.

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

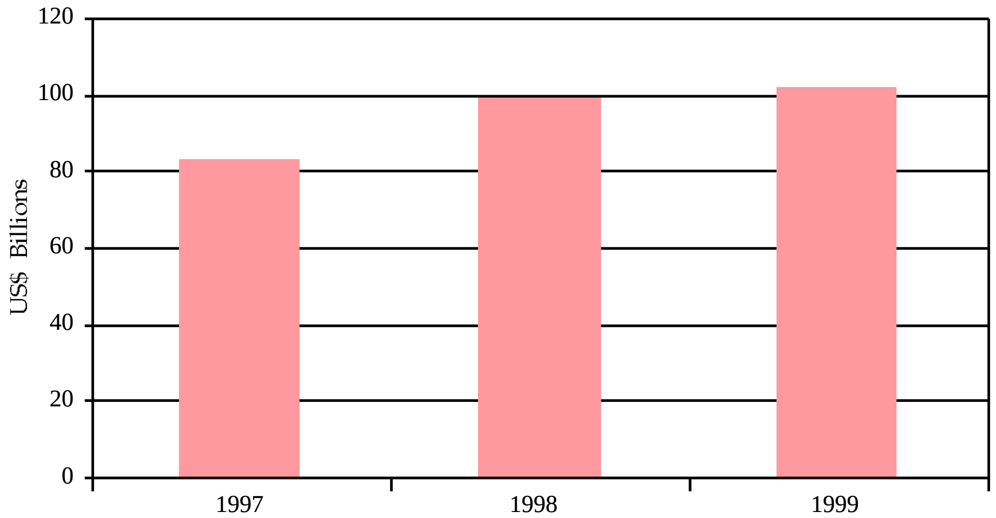


Table 4.3: Consolidated Balance Sheet of the Banking System

(US$ Billions)

Items	End-1998		End-1999		Annual Change %
	Absolute	%	Absolute	%	
Commercial Banks	8.7	8.8	9.9	9.7	13.8
Offshore Banking Units	87.6	88.1	88.2	86.4	0.7
Investment Banks	3.1	3.1	4.0	3.9	29.0
Total	**99.4**	**100.0**	**102.1**	**100.0**	**2.7**

4-3 Commercial Banks

At end-1999, 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 1999 with growth of 14.1% to reach BD 3,745.5 million.

Foreign Assets and Liabilities

Total foreign assets of the commercial banks increased by BD 92.7 million, or 7.8%, from BD 1,189.7 million at end-1998 to BD 1,282.4 million at end-1999. During the same period, total foreign liabilities rose by BD 294.5 million, or 51.5%, to BD 866.8 million. As a result, total net foreign assets declined by BD 201.9 million, or 32.7%, falling to BD 415.6 million at end-1999.

Deposits

(a) Private Sector Deposits

Total private sector deposits (Bahraini Dinars plus other currencies) amounted to BD 1,795.3 million at end-1999, an increase of BD 48.3 million, or 2.8%, over end-1998. Total demand and savings deposits increased by 15.0% and 2.4% respectively.

Private sector deposits denominated in Bahraini Dinars were BD 1,089.2 million at end-1999, compared with BD 1,021.5 million at end-1998, an increase of 6.6%. Deposits in other currencies decreased by BD 19.4 million, or 2.7%, falling to BD 706.1 million at end-1999.

(b) Government Deposits[1]

Government deposits (Bahraini Dinars plus other currencies) amounted to BD 431.0 million at end-1999, compared with BD 408.7 million at end-1998, an increase of 5.5%. This increase was a result of a rise in Bahraini Dinar deposits of BD 37.3 million, or 31.4%, while foreign currency deposits declined by BD 15.0 million, or 5.2%.

[1] Includes the Central Government and the Social Insurance System.

CHART 4-3: BAHRAIN - FCB DEPOSIT TRENDS

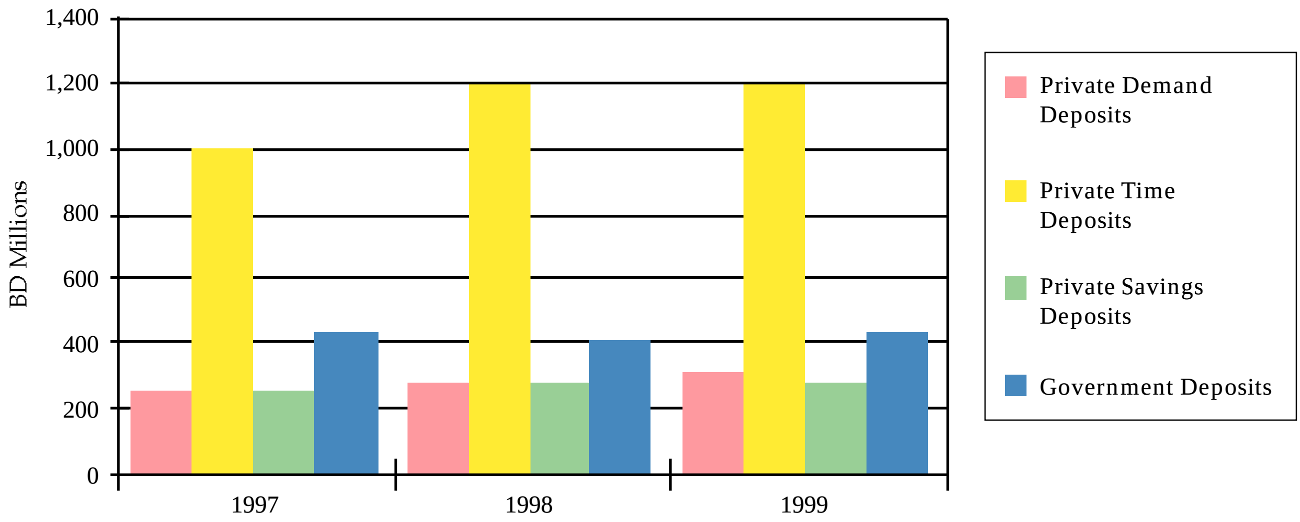


Table 4.4: Domestic Deposits at Commercial Banks (Excluding Interbank Deposits)

(BD Millions)

Items	End-1998			End-1999			Change
	BD	OC	Total	BD	OC	Total	%
1. Private Sector Deposits	**1,021.5**	**725.5**	**1,747.0**	**1,089.2**	**706.1**	**1,795.3**	**2.8**
Demand Deposits	217.7	54.6	272.3	237.7	75.5	313.2	15.0
Time Deposits	537.3	663.6	1,200.9	578.7	623.0	1,201.7	0.1
Savings Deposits	266.5	7.3	273.8	272.8	7.6	280.4	2.4
2. Government Deposits	**118.8**	**289.9**	**408.7**	**156.1**	**274.9**	**431.0**	**5.5**
Total Domestic Deposits	**1,140.3**	**1,015.4**	**2,155.7**	**1,245.3**	**981.0**	**2,226.3**	**3.3**

Credit

Outstanding credit facilities extended by commercial banks to the different sectors of the domestic economy amounted to BD 1,349.9 million at end-1999, compared with BD 1,173.0 million at end-1998, an increase of BD 176.9 million, or 15.1%.

(a) Business Sectors

Credit facilities extended to the business sectors rose by BD 86.0 million, or 12.4%, from BD 695.4 million at end-1998 to BD 781.4 million at end-1999. Credit extended to the trade, manufacturing and construction and real estate sectors increased by 8.9%, 11.2% and 13.8% respectively. The business sector's share of total credit facilities extended was 57.9% at end-1999.

(b) Personal Sector

Credit facilities extended to the personal sector increased by BD 58.3 million, or 14.2%, to BD 467.6 million at end-1999. The personal sector's share of total lending was 34.6% at end-1999.

(c) Government

Credit to the government rose by BD 32.6 million, or 47.7%, to BD 100.9 million at end-1999, compared with BD 68.3 million at end-1998.

CHART 4-4: BAHRAIN - OUTSTANDING COMMERCIAL BANK CREDIT TO RESIDENTS IN 1999

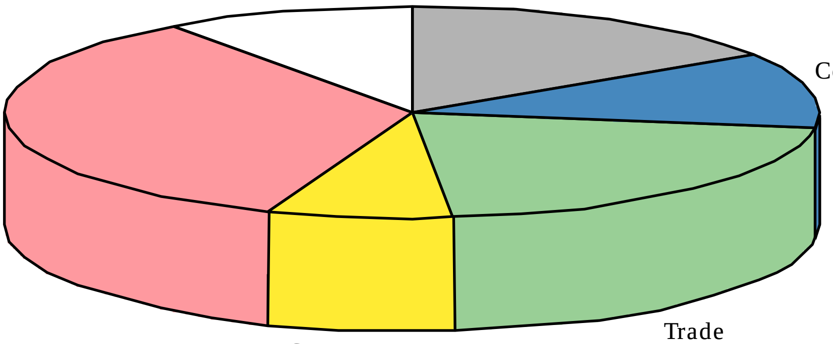


Table 4.5: Outstanding Credit to Non-Bank Residents by Economic Sector

(BD Millions)

Sectors	Year-end 1998 Absolute	1998 %	1999 Absolute	1999 %	Change (1999 vs. 1998) Absolute	Change %
1. Business	**695.4**	**59.3**	**781.4**	**57.9**	**86.0**	**12.4**
Manufacturing	189.0	16.1	210.1	15.6	21.1	11.2
Mining and Quarrying	3.6	0.3	0.5	0.0	-3.1	-86.1
Agriculture, Fishing and Dairy	5.9	0.5	4.1	0.3	-1.8	-30.5
Construction and Real Estate	139.4	11.9	158.7	11.8	19.3	13.8
Trade	256.1	21.8	278.8	20.6	22.7	8.9
Non-Bank Financial	28.8	2.5	43.9	3.3	15.1	52.4
Other Business	72.6	6.2	85.3	6.3	12.7	17.5
2. Government	**68.3**	**5.8**	**100.9**	**7.5**	**32.6**	**47.7**
3. Personal	**409.3**	**34.9**	**467.6**	**34.6**	**58.3**	**14.2**
Total	**1,173.0**	**100.0**	**1,349.9**	**100.0**	**176.9**	**15.1**

BD Interest Rates

(a) Deposits

The weighted average time deposit rate rose from 4.39% at end-1998 to 5.24% at end-1999. Meanwhile, the weighted average savings rate fell from 2.29% to 2.22%.

(b) Loans

On the lending side, the weighted average interest rate on business loans rose from 8.60% at end-1998 to 8.99% at end-1999. Meanwhile, the interest rate on personal loans rose from 12.72% to 13.09%.

Table 4.6: Interest Rates on BD Deposits & Loans

Items	End 1997	End 1998	1999			
			1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
1. Deposits						
Time/1	5.40	4.39	4.38	4.54	5.08	5.24
Savings	2.40	2.29	2.27	2.29	2.22	2.22
2. Loans						
Business	8.70	8.60	8.53	8.43	8.44	8.99
Personal	12.10	12.72	12.59	12.73	12.07	13.09

1/ Time deposits of 3-12 months.

4-4 Offshore Banking Units

The number of licensed offshore banking units (OBUs) totaled 48 at end-1999. The aggregate assets/liabilities of the OBUs increased from US$ 87.6 billion at end-1998 to US$ 88.2 billion at end-1999.

Foreign Assets and Liabilities

Total foreign assets of the OBUs increased from US$ 84.1 billion at end-1998 to US$ 84.3 billion at end-1999. Total foreign liabilities also increased from US$ 82.2 billion at end-1998 to US$ 82.3 billion at end-1999. As a result, total foreign assets of the OBUs amounted to US$ 2.0 billion at end-1999.

The geographical distribution of OBU assets and liabilities at end-1999 is illustrated in Table 4.7

Table 4.7: Geographical Classification of OBU Assets/Liabilities at End-1999

Countries	Assets		Liabilities	
	US$ billion	% of total	US$ billion	% of total
Arab Countries	31.8	36.1	36.1	40.9
Asia	12.7	14.4	12.6	14.3
Americas	16.1	18.3	13.5	15.3
Western Europe	25.6	29.0	25.3	28.7
Others	2.0	2.2	0.7	0.8
Total	**88.2**	**100.0**	**88.2**	**100.0**

A classification by currencies indicates that the U.S. dollar, GCC currencies, and the Euro accounted for 72.2%, 10.6% and 5.4% of total assets, and 74.5%, 10.3% and 4.2% of total liabilities respectively at end-1999.

Table 4.8: Currency Structure of OBU Assets/Liabilities at End-1999

Currencies	Assets		Liabilities	
	US$ billion	% of total	US$ billion	% of total
USD	63.7	72.2	65.7	74.5
GCC Currencies	9.3	10.6	9.1	10.3
Euro	4.8	5.4	3.7	4.2
Others	10.4	11.8	9.7	11.0
Total	**88.2**	**100.0**	**88.2**	**100.0**

4-5 Investment Banks

The number of licensed Investment banks (IBs) at end-1999 totaled 33. The aggregate assets/liabilities of the IBs increased by 29.0%, from US$ 3.1 billion at end-1998 to US$ 4.0 billion at end-1999.

Foreign Assets and Liabilites

Total foreign assets of the IBs increased from US$ 2.6 billion at end-1998 to US$ 3.3 billion at end-1999, or by 26.9%. Similarly, total foreign liabilities increased from US$ 2.4 billion to US$ 2.9 billion at end-1999, or by 20.8%. As a result, total net foreign assets of the IBs rose from US$ 0.2 billion at end-1998 to US$ 0.4 billion at end-1999.

The geographical distribution of IB assets and liabilities at end-1999 is illustrated in Table 4.9.

Table 4.9: Geographical Classification of IB Assets/Liabilities at End-1999

Countries	Assets		Liabilities	
	US$ million	% of total	US$ million	% of total
Arab Countries	1,467.5	36.5	2,562.0	63.8
Asia	145.5	3.6	197.5	4.9
Americas	1,052.9	26.2	773.5	19.3
Western Europe	1,345.8	33.5	483.3	12.0
Others	5.5	0.2	0.9	0.0
Total	**4,017.2**	**100.0**	**4,017.2**	**100.0**

A classification by currencies indicates that the U.S. dollar and GCC currencies accounted for 83.8% and 13.0% of total assets, and 87.6% and 7.6% of total liabilities respectively at end-1999.

Table 4.10 : Currency Structure of IB Assets/Liabilities at End-1999

Currencies	Assets		Liabilities	
	US$ million	% of total	US$ million	% of total
USD	3,364.8	83.8	3,518.2	87.6
GCC Currencies	524.1	13.0	306.8	7.6
Others	128.3	3.2	192.2	4.8
Total	**4,017.2**	**100.0**	**4,017.2**	**100.0**

CHAPTER FIVE

BMA OPERATIONS, ACTIVITIES, STATUTORY ACCOUNTS AND REGULATIONS

ACCOUNTS:

Statutory Accounts

The total assets/liabilities of the Agency increased from BD 471.9 million at end-1998 to BD 560.9 million at end-1999.

On the assets side, holdings of foreign exchange rose by BD 46.1 million, while claims on Bahrain-based banks rose by BD 71.3 million. Other assets fell by BD 28.3 million.

On the liabilities side, notes and coins in circulation increased by BD 45.8 million to reach BD 160.3 million at end-1999. Similarly, Bahraini Dinar deposits rose by BD 37.7 million to reach BD 107.1 million.

The Agency's net profit for the year 1999 was BD 18.1 million, compared with BD 31.2 million a year earlier.

ADMINISTRATION:

Training and Career Development Unit

In keeping with the Agency's goal of improving the skills of its employees in various fields, a number of employees took part in specialised programmes both inside and outside Bahrain. During the year, three employees obtained their Masters degrees in Business Administration, Islamic Banking and Leadership Management, while three others were registered for the Certified Public Accountant (CPA) certification.

Furthermore, two employees took part in the Gulf Executive Management Course organised by the Bahrain Institute of Banking and Finance (BIBF) and Darden Post Graduate College, University of Virginia, U.S.A.

The Agency also conducted a workshop on money laundering that was attended by a number of Agency staff as well as staff from other GCC central banks. Also, attachment training was arranged with the IMF for two employees to gain practical training in banking supervision and economic research for a period of 3–6 months.

Personnel Division

During 1999, six employees including an Advisor, Banking Control, were recruited by the Agency. The total number of Agency staff at the end of 1999 was 203.

Public Relations Division

The Public Relations Division issued a Quarterly News Bulletin during 1999. The new Bulletin, called "Money" contains news on major Agency activities.

The Division also organised many visits to the Agency's Currency Museum for high ranking officials from central banks and government establishments from various countries. It also arranged visits for students of the University of Bahrain, the BIBF, and government and private schools to provide an opportunity to observe the main duties and functions of the Agency.

BANKING CONTROL:

Banking Inspection

The Banking Inspection Directorate conducted a number of 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 financial status and systems, 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 monitored the Year 2000 compliance preparations of all banks and financial institutions regulated by the Agency by requesting individual monthly status reports and completion statements by the end of October 1999.

In recognition of the importance of the year 2000 issue, the Agency established a Millenium Event Office and assigned to monitor the performance of the financial sector during the Y2K roll-over period between 30th December, 1999 and 5th January, 2000.

The Directorate was a member of Bahrain's Anti-Money Laundering Committee. The Committee is charged with preparing an initial draft of the proposed law regarding the prevention of money laundering in Bahrain.

Officials from the Directorate participated in the Gulf Co-operation Council representatives meetings with the Financial Action Task Force delegation, which was held at the GCC Headquarters in Riyadh on 30th and 31st January, 1999. The latest legislation and regulations relating to the prevention of money laundering was reviewed during the meeting. The eleventh session of the Financial Action Task Force, was also attended by delegates from the Directorate. In this respect, the Directorate continued to complete the FATF financial and legal questionnaires on an annual basis, regarding the implementation by the State of Bahrain to the forty recommendations issued by the Financial Action Task Force.

Banking Supervision

The Directorate continued to supervise those banks under its jurisdiction through a continuous supervisory approach and by focussing on their exposure to their differing business risks. In addition, assessments were made of the quality of senior management. The Directorate conducted its prudential meetings with the management of each bank. Discussion covered banks' Strategies, Capital Adequacy, Asset Quality, Liquidity, Profitability, Operational Risks, Transparency, Contingency Planning, Operations Continuity, Operations of Overseas Branches and Subsidiaries, in addition to the development of Banking Services, Computer Systems, Recruitment, Risk Management Systems and Training. The Directorate also conducted various meetings with the external auditors of each bank. At the end of the year the Directorate evaluated its meetings held during the year and scheduled the prudential meetings for year 2000.

In the context of implementing the Basel Committee's capital adequacy standards for Market Risk, the Directorate held various meetings with banks to discuss the latest developments in implementing the Market Risk directives. With effect from end of June 1999, all locally-incorporated banks started using a set of new prudential returns to measure the market risk capital charges. More specifically, the Directorate sought to improve the accuracy and timeliness of the banks' quarterly returns by collecting the financial data by the use of computer diskettes.

The Directorate issued circulars requiring locally incorporated banks to publish quarterly financial and risk information whilst foreign commercial banks operating in Bahrain were required to publish semi annual financial information concerning their Bahrain Operations. The Agency also issued a circular to the commercial banks permitting them to offer to clients margin trading on domestically listed shares. The Agency consulted the locally incorporated banks on the Basel Committee's proposed more wide-ranging framework to measure Capital Adequacy and other related documents concerning best practice for managing credit risk and foreign exchange settlement risks.

The Directorate participated in the meetings of the GCC Banking Supervisory Committee that were held to discuss the Basel Committee's Core Principles and other Basel documents concerning banking risks, and Y2K issues.

The Directorate also participated in the meetings of the Banking Supervision Committee, established by the Arab Monetary Fund. Discussions were held concerning deposit insurance schemes and information exchange between supervisory authorities.

A representative from the Directorate participated in the annual meeting of the Offshore Banking Supervisors Group. The Group endorsed the importance of implementing the Core Principles for Effective Banking Supervision. The Directorate was also represented in the second annual meeting of Financial Sanctions Experts.

Financial Institutions Supervision

The Directorate continued to supervise Islamic banks and non-bank financial institutions operating in Bahrain. As a part of its supervisory activities, prudential meetings are held with Islamic banks, moneychangers, money-brokers, 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 its supervision over the Islamic banks operating in Bahrain, and in order to implement a suitable accounting standards for these institutions, the Agency required all Islamic banks to issue their statutory accounts for the year ending 31st December 1999, using the Islamic accounting standards adopted by the Accounting and Auditing Organization for Islamic Financial Institutions.

Also, as a part of its supervisory role to enhance the supervision on the providers of investment advisory services, the Agency issued in June 1999 a new Quarterly Information Report (QIR) to be completed by the above entities on a timely and regular basis.

In pursuit of its objective to protect the public investors from any misleading information, the Agency issued in October 1999 a circular explaining the Guidelines on Advertising and Public Announcements for Collective Investment Schemes to ensure that advertisements on such schemes are clear, fair and not misleading to the investors.

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 1999, approval and authorization have been granted to 40 banks to establish and market in/from Bahrain 523 schemes, of which 139 schemes were approved in 1999.

Licensing and Information Unit

The Agency issued 10 new licenses in 1999, comprising 2 offshore banking units, 4 investment banks, 2 representative offices, and 2 investment advisory and other financial services. At the end of 1999, a total of 176 banks and other financial institutions were licensed by the Agency.

Central Risk

The Unit continued to assist the commercial banks by identifying on a confidential basis the total debt exposure of each client.

In addition, the Unit is currently exploring the feasibility of enhancing its system in order to assist banks in making better informed lending decisions and also to stay abreast of the latest developments in management of central risk. A survey of all commercial banks was conducted by means of a questionnaire and interviews.

BANKING SERVICES:

Automated Clearing House

The number of cheques cleared by the Banking Services Directorate was 1,898,360 during 1999 compared with 1,952,318 during 1998. The total value of these cheques was BD 1,266.2 million, as against BD 1,305.9 million in 1998, a decrease of 3%. The number of inter-bank transfers increased to 68,757 in 1999 from 62,890 in 1998. The value of total telex transfers increased to BD 14,504 million in 1999 compared with BD 11,338 million in 1998, an increase of 28%.

Issues of Treasury Bills

On behalf of the Government of Bahrain, the Agency continued to hold weekly auctions of Treasury Bills.

The initial amount of 91-day treasury bills issued for sale each week was BD 15.0 million. The total value of bills issued for sale during the year was BD 750.0 million. Tenders received totalled BD 1,950.4 million indicating that on average issues were over-subscribed by 2.6 times. The average interest rate on new issues of 91-day bills during 1999 was 5.50%. The highest rate was 6.12% in October, 1999 and the lowest rate was 5.18% in March, 1999.

The Agency also issued each month treasury bills to the value of BD 5.0 million with a maturity of 182 days. The total amount issued during the year was BD 60.0 million.

At the end of 1999, outstanding treasury bills totalled BD 225.0 million.

Government Development Bonds

On behalf of the Government of Bahrain, the Agency issued on 3rd February, 1999, the 16A 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 points over 6 months Libor rate. On 20 July, 1999, the Agency issued the 17th issue of Government Development Bonds totalling BD 40.0 million, with a maturity of 5 years and carrying an interest rate of 6.25%. At end 1999, outstanding bonds totalled BD 257.0 million.

Provision of Bahraini Dinar Liquidity

The Bahraini Dinar liquidity of the commercial banks consists mainly of the current account balances which 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 U.S. Dollars to finance its domestic expenditure, the banks' purchases of U.S. Dollars from the Agency, changes in the amount of currency in circulation and changes in the banks' reserve balance with the Agency.

During 1999, the Agency continued its policy of providing liquidity through secondary operations in treasury bills. Accordingly, the Agency provided commercial banks with facilities to either discount outright their treasury bills or to enter into a repo agreement whereby the bank sells bills to the Agency and simultaneously contracts to repurchase them at a later date and at a higher price.

The total number of "Repo" transactions concluded by the Directorate during 1999 was 1,069 of which 766 were for a one-day period, 213 for two days and 90 for seven days. The total value of " Repo" transactions concluded in 1999 was BD 3,691.4 million. Repos outstanding at the year-end were BD 75.5 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 months periods at the prevailing Bahraini market interest rate. Such deposits totalled BD 245.2 million at end 1999, as against BD 640.9 million a year earlier.

COMPUTER SERVICES:

The Computer Services Directorate (CSD) continued to actively provide maintenance services to the various Directorates within the Agency. These services largely catered for changes and enhancements required by the end-users to develop in-house applications.

The CSD successfully completed the upgrade of all required firmware and operating systems of all servers and networking equipment within the Agency, in order to ensure Year 2000 compliance. The Directorate together with designated users from other Directorates and the internal and external auditors were involved in extensive tests of all applications in use at the Agency.

The Directorate developed software to be used at the Agency's Currency Museum. This software makes use of touch-screen technology to provide information pertaining to the coins displayed in the Museum.

A new application system was introduced to handle the Banking Supervision Directorate's Prudential Information Returns.

CURRENCY ISSUE:

Issue & Vault Sections

Currency in circulation amounted to BD 160.3 million at end-1999, compared with 114.5 million at end-1998. The value of old bank notes destroyed during the year was BD 8.6 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

Under the patronage of H.H. Shaikh Khalifa Bin Salman Al Khalifa, the Prime Minister and Chairman of the Board of the BMA, the Currency Museum was officially opened on February 16, 1999. The Museum contains historic Arabic, Islamic, and foreign coins that had, from time-to-time, been in circulation in the State of Bahrain. In addition, all notes and coins issued by the Bahrain Currency Board and the Bahrain Monetary Agency are displayed.

ECONOMIC RESEARCH:

During 1999, the Economic Research Directorate continued to monitor economic, monetary, and financial developments. 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 Arab Monetary Fund, the International Monetary Fund, and the Bank for International Settlements. During the year, the Agency published four issues of the Quarterly Statistical Bulletin and the Annual Report. The Directorate also completed a number of research studies and reports relating to financial and banking developments in Bahrain.

The Directorate is responsible for all matters relating to sovereign rating. During 1999, Fitch IBCA, a major international credit rating agency, conducted a detailed examination of Bahrain's economic and financial structure, subsequently awarding Bahrain investment grade status.

In the domestic front, the Directorate initiated a comprehensive survey of working days at commercial banks. The survey covered the managements of all the commercial banks and a sample of their employees and customers.

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 BMAInvestment portfolio consisting of gold and foreign exchange. The Directorate also met commercial banks' requirements of U.S. Dollars. During 1999, the BMA's outright sales of U.S. Dollars to commercial banks totalled US$ 1,230.4 million against US$ 1,474.6 million in 1998, a decrease of 16.6%. 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 dealing with the public in U.S. Dollars, Pound Sterling and Deutsche mark for amounts up to BD 1,000.

During the year, SWIFT was introduced as the payment system for the Investment Directorate Operations, replacing the telex.

LIST OF BMA OFFICERS

As at 31st December 1999

H.E. Sh. Abdulla Bin Khalifa Bin Mohamed 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 1999

The total capital funds of the Agency increased from BD 280.9 million at end-1998 to BD 285.9 million at end-1999. The net foreign exchange holdings on the Agency's account increased from BD 378.3 million at end-1998 to BD 424.4 million at end-1999. Notes and coins in circulation rose by BD 45.8 million, from BD 114.5 million at end-1998 to BD 160.3 million at end-1999.

BAHRAIN MONETARY AGENCY

FINANCIAL STATEMENTS

31 DECEMBER 1999

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 1999. 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 1999 and the results of its operations for the year then ended in accordance with the Amiri Decree No. 23 of 1973 and prevailing practices of the banking industry.

We also 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

21 February 2000
Manama, State of Bahrain.

BAHRAIN MONETARY AGENCY

BALANCE SHEET
31 DECEMBER 1999

	Note	1999 BD'000	1998 BD'000
ASSETS			
Gold		2,500	2,500
Foreign exchange	3	424,406	378,264
Cash and due from Bahrain banks		115,718	44,398
Accounts with central banks		10	157
Fixed assets		781	820
Other assets		17,536	45,854
TOTAL ASSETS		560,951	471,993
LIABILITIES AND CAPITAL FUNDS			
LIABILITIES			
Notes and coins in circulation	4	160,298	114,525
Bahrain dinar deposits		107,113	69,424
Other payables		7,669	7,176
Total liabilities		275,080	191,125
CAPITAL FUNDS			
Capital	5	200,000	200,000
General reserve	6	66,151	61,126
Contingency reserve	7	7,000	7,000
Re-evaluation reserve	8	12,720	12,742
Total capital funds		285,871	280,868
TOTAL LIABILITIES AND CAPITAL FUNDS		560,951	471,993

....

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 1999

	Note	1999 BD'000	1998 BD'000
INCOME			
Net interest income		28,327	28,654
License fees		717	670
Investment trading (loss) gain		(7,908)	6,121
Other		1,115	1,175
		22,251	36,620
EXPENDITURE			
General and administration		3,791	4,935
Note issue expenses		320	485
Brokerage		27	23
		4,138	5,443
PROFIT FOR THE YEAR		18,113	31,177
APPROPRIATION			
Transfer to contingency reserve	7	--	5,000
TRANSFER TO GENERAL RESERVE	6	18,113	26,177

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

BAHRAIN MONETARY AGENCY

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 1999

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 for 1973 and prevailing practices of the banking industry.

a) Accounting convention

The financial statements are prepared under the historical cost convention.

b) Gold

Gold 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.

c) 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.

d) Depreciation

The cost of the building and any extension 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.

e) Foreign currencies

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

f) Notes and coins in circulation

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

g) Revenue recognition

Interest income is recognised on a time proportion basis taking into account the principle 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 48,768,000 (1998 : BD 52,679,000). The market value of these investments as of 31 December 1999 was BD 45,460,000 (1998 : BD 53,608,000).

4. EXCESS OF AUTHORISED BACKING FOR CURRENCY IN CIRCULATION

	1999 BD'000	**1998 BD'000**
AUTHORISED BACKING		
Gold	2,500	2,500
Net foreign currency balances	424,406	378,264
	426,906	380,764
CURRENCY IN CIRCULATION		
Notes and coins	(160,298)	(114,525)
Excess of authorised backing over currency in circulation	266,608	266,239

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

	1999 BD'000	1998 BD'000
Authorised	400,000	400,000
Issued	200,000	200,000

6. GENERAL RESERVE

	1999 BD'000	1998 BD'000
Balance at beginning of the year	61,126	46,613
Transfer for the year	18,113	26,177
Transfer to the Government of the State of Bahrain	(13,088)	(11,664)
Balance at end of the year	66,151	61,126

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

	1999 BD'000	1998 BD'000
Balance at beginning of the year	7,000	2,000
Transfer during the year	--	5,000
Balance at end of the year	7,000	7,000

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

8. RE-EVALUATIONRESERVE

	1999 BD'000	1998 BD'000
Balance at beginning of the year	12,742	12,750
Transfer during the year	(22)	(8)
Balance at end of the year	12,720	12,742

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 1999.

LIST OF BANKS AND OTHER FINANCIAL INSTITUTIONS LICENSED BY THE BMA
(As at 31st December 1999)

FULL COMMERCIAL BANKS (19):

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

SPECIALISED BANKS (2):

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

OFFSHORE BANKING UNITS (48):

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

INVESTMENT BANKS (33):

ABC Islamic Bank (E.C.)
ABC Islamic Fund (E.C.)
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)
Cards Financial Services Company B.S.C. (c)
Citi Islamic Investment Bank E.C.
Credit Card Services - Diners Club W.L.L.
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.
Islamic Investment Company of the Gulf (Bahrain) E.C. "Investment Bankers"
Man-Ahli Investment Bank E.C.
Merrill Lynch International Bank Limited
Nikko Europe Plc. (Under Vlountary Liquidation)
Nomura Investment Banking (Middle East) E.C.
Okasan International (M.E.) E.C.
(Under Voluntary Liquidation)
Securities & Investment Company B.C.S.C.
Sumitomo Finance (Middle East) E.C.
(Under Vlountary Liquidation)
TAIB Bank E.C.
Turk-Gulf Merchant Bank E.C.
UBS Brinson, Inc.
United Gulf Bank (B.S.C.) E.C.

REPRESENTATIVE OFFICES (36):

Alliance Capital Limited
American Express Bank Ltd.
American Express International Inc.
Bank of Bermuda Limited (The)
Banque Nationale de Paris
Baring Asset Management
BB Aval - Berliner Bank Group
Citicorp Investment Bank
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
Mercury Asset Management Ltd.
Merrill Lynch Bank (Suisse) S.A.
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
Wesserstein Perella Middle East, Inc.

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 (19):

Al-Manama Exchange
Al-Orrayed Exchange
Al-Yousif Exchange
Al-Zamil Exchange Est.
Arab Exchange Company.
Awal Exchange Co. W.L.L.
Bahrain Express Exchange
Bahrain Financing Co.
Bahrain India International Exchange Co. W.L.L.
City Exchange
Dalil Exchange
Delmon Exchange
Gulf Exchange Co.
Haji Yousif Al Awadi Exchange Establishment
Khalil Ebrahim Al Fardan Exchange
Mandeel Exchange
Nonoo Exchange Co. W.L.L.
World Exchange Centre W.L.L.
Zenj Exchange Co. W.L.L.

INVESTMENT ADVISORY AND OTHER FINANCIAL SERVICES (13):

a) Investment Advisory & Other Financial Services/Consultants (1):

Ghazi Al-Musawi Financial Consultants

b) Investment Advisory & Other Financial Services/Brokerage (11):

Abdulla A. Saudi & Associates
Capital Growth Management W.L.L.
Finexco International Limited
H & A Investment Services Company W.L.L.
Indogulf Financial Services W.L.L.
InterVest Independent Investment Consultants
Islamic Finance Consultants E.C.
Mondial International Financial Services
Robert Fleming (Bahrain) W.L.L.
Towry Law (Asia) HK Limited
Veritas Financial Advisory Services (Middle East) W.L.L.

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

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

LIST OF REGULATIONS & CIRCULARS
1999

1- Decree No. (16) of 1999 Appointing the Governor of the Bahrain Monetary Agency.

2- Collective Investment Schemes.

3- The Year 2000 : Monitoring and Co-ordination.

4- Audit Partners of External Auditors and Reporting Accountants of Locally Incorporated Banks.

5- Year 2000 Completion Statements.

6- Public Disclosure.

7- Enhancing Bank Transparency.

8- Annual Accounts for Islamic Banks for the year ending 31st Decmember, 1999.

9- Compliance, Risk Management and Internal Controls.

10- Proposed Margin Trading System for Bahrain.

11- Enhancing Islamic Banks' Transparency.

12- Enhancing Corporate Governance in Banking Organisations.

Decree No. (16) of 1999
Appointing the Governor of the Bahrain Monetary Agency

We, Hamad bin Isa Al Khalifa, The Amir of the State of Bahrain

Having examined the Constitution, and

Decree Law No. (23) of 1973 for the Establishment of the Bahrain Monetary Agency and the amendments thereto, and

Decree No. (2) of 1998 appointing a Deputy Governor, and

Upon the recommendation of the Prime Minister and Chairman of the Bahrain Monetary Agency, and

With the approval of the Council of Ministers

Hereby decree the following

Article One

Shaikh Abdulla bin Khalifa bin Mohamed Al Khalifa is appointed as Governor of the Bahrain Monetary Agency.

Article Two

The Prime Minister and the Chairman of the Bahrain Monetary Agency shall implement this Decree and it shall come into effect from the date of its publication in the Official Gazette.

Amir of the State of Bahrain
Hamad bin Isa Al Khalifa

Prime Minister
Khalifa bin Salman Al Khalifa

Issued on : 28 Rajab 1420 a.h.
Corresponding to : 6 November 1999.

OG / 121 / 99
19th April, 1999

The General Manager
All FCBs, IBs, OBUs and Representative Offices
The Managing Partner
Selected Law Firms and Auditing Firms
Manama
Bahrain

Dear Sir,

Re: <u>Collective Investment Schemes</u>

As you are aware, in accordance with Resolution No. (3) of 1992 dated 24th October, 1992 signed by H.H. Sh. Khalifa Bin Salman Al Khalifa, The Prime Minister, Chairman of the Board of Directors of the Bahrain Monetary Agency, the Agency is responsible for the overall licensing and regulation of Collective Investment Schemes in Bahrain. Pursuant to this Resolution, on 18th November, 1992 the Agency issued a Regulation (Agency Circular OG / 356 / 92) concerning the Supervision, Operation and Marketing of Schemes.

As part of the process of developing Bahrain's banking and financial centre, the Agency has decided that, effective as of the date of this Circular, it will consider applications for authorisation and approval to establish Schemes in Bahrain, and / or to market Schemes in / from Bahrain, (1) from banks and other financial institutions operating in / from Bahrain and licensed by the Agency, and (2) from banks and other financial or other institutions which are not operating in / from Bahrain (and, therefore, not licensed by the Agency), but which are institutions of high standing and good reputation and which are operating in / from other reputable international financial centres. Paragraph 1.B of the above Regulation is, therefore, amended to take account of this change.

In addition to meeting the requirements set out in the Regulation (and subsidiary principles issued pursuant thereto), a local representative will need to be appointed in Bahrain for Schemes falling under (2) above. This representative, who the Agency would ordinarily expect to be a law firm, accountancy firm or an Agency licensee (and who must be acceptable to the Agency in terms of experience, qualifications and abilities), will act as the person in Bahrain who is responsible for all administrative and other matters pertaining to the Scheme.

Any authorisation and approval given for a Scheme falling under (2) above will require the payment to the Agency of an annual fee of Bahraini Dinars Two Thousand (in the case of an "Umbrella Scheme", Bahraini Dinars 2,000 x (1+X) where X is the number of subschemes in the Umbrella Scheme).

Schemes listed on the Bahrain Stock Exchange ordinarily attract separate listing charges. For Schemes falling under (2) above for which the Agency has given its authorization and approval, however, no listing fees will be levied by the Exchange. Separate Commercial Registration fees will, however, be charged by the Ministry of Commerce for the Commercial Registration of <u>any</u> locally incorporated Scheme and for any expansion in the permitted activities of the local representative of a Scheme. The Ministry should be contacted directly in relation to the amount of all such fees.

Queries and/or clarifications in relation to the contents of this Circular should be addressed to Anwar Al Sadah, Director – Financial Institutions' Supervision Directorate at the Agency on phone number 529444. Application forms for authorization and approval of Schemes can be obtained directly from the Directorate.

Yours faithfully,

Abdulla H. Saif
<u>Governor</u>

OG / 249 / 99
24 November, 1999

The General Manager
All FCBs, OBUs, IBs, Moneybrokers, Moneychangers
Manama
Bahrain

Dear Sir,

Re: The Year 2000: Monitoring and Co-ordination

The Agency is pleased to note the extensive preparations by the financial sector to address any possible problems raised by the arrival of the Year 2000 ("Y2K"). The monthly Y2K status reports submitted by banks have shown that all banks are now ready for Y2K, as far as internal systems and controls are concerned. Testing of payments-related systems is complete, and contingency plans have been drawn up in the event of residual bugs or other potential difficulties caused by the date change.

Although the financial sector is well prepared, banks and other licensees may still encounter problems from difficulties experienced by third party service providers, whether they are in Bahrain or other countries. Equally, other countries (particularly supervisory authorities) have expressed strong interest in knowing how Bahrain's financial markets will perform in the first days of the new millennium. Their interest is particularly strong as Bahrain will be open for business on the 2nd and 3rd of January 2000, whereas the majority of financial markets are not set to open until 4th January, 2000. Thus, Bahrain is likely to be the first international banking centre to be transacting live business in the new millennium.

In view of these considerations, the Agency has decided to set up a Millennium Event Office which will function from 31st December, 1999 to 5th January, 2000 ("the Y2K period"). The key functions of this Office are:

i) To monitor the progress of the financial sector in Bahrain and internationally at key points over the Y2K period.

ii) To act as an information clearing house for the general public, licensees in Bahrain and official bodies both in Bahrain and abroad.

iii) To act as a focal point for problem identification, evaluation and resolution.

The Office will pass on relevant information to banks and other licensees concerning the functioning of other financial centres and other sectors / industries inside and outside Bahrain. It will also require banks and other licensees to submit status reports as shown on the attached table. Suggested draft reports are attached to this circular for your convenience. A brief description of the reports is given below. Reports should be made by fax or e-mail. If necessary, phone or hand delivered letter may also be used for reporting purposes.

Friday 31 December, 1999

1. The 'country status report' serves to confirm the status of other countries as they enter the Year 2000.

Saturday 1 January, 2000

2. The ATM and telebanking status reports serve to confirm the health of individual ATM machines and the Benefit network, and the functioning of telebanking systems.

3. The "ready for business" status report serves to confirm internal system checking (general ledger etc is complete).

4. See 1 above.

Sunday 2 January, 2000

5. The "open for business" report confirms whether a licensee is open for business and whether all services are functioning normally.

6. The "systems functioning" report confirms successful functioning of transactions systems. This would include any comments on payments systems such as SWIFT or the Bahrain clearing system.

7. See 3 above.

Monday 3 January, 2000

8. See 5 above.

9. This report confirms whether the first day's overnight processing and trading-runs have been completed successfully or not.

Tuesday 4 January, 2000

10. See 9 above.

11. This report confirms whether local clearing has been completed successfully or not.

12. See 1 above.

Exception Reporting

Any licensee which becomes aware of any information which may directly or indirectly negatively affect its operations (whether in Bahrain or abroad) should contact the Office directly. Dependent upon the substance and nature of the information, the Office will make efforts to contact the supervisory authorities or central bank concerned to clarify matters.

Reporting Arrangements

1. All licensees should confirm by letter to the Agency their opening times from 30th December, 1999 to 5th January, 2000.

2. All licensees should also nominate key contacts who will be available for Y2K matters during the Y2K period. These staff will be responsible for reporting to the Agency in accordance with the above requirements. The Agency will refer any Y2K information to these staff during the Y2K period.

3. Licensees should also provide the following information to the Agency:

1.	Name(s) and Title(s) of Contact(s)		
2.	Phone Numbers	-	Office
		-	Mobile
		-	Residence
3.	Fax Numbers	-	Office
4.	E-mail	-	Office

Where applicable, times or days where the person(s) is/are (not) contactable should be clearly stated.

The above information should be provided to Mr. Waleed Rashdan - Director of Inspection Directorate by 10th December, 1999. Any queries on this circular should be directed to the above.

Office Activity

During the Y2K period, the Office will be in contact with other official bodies and in particular, other central banks and supervisors. The Office will be fully operational from the evening of 31.12.1999 and open continuously throughout 1.1.2000 until 5.00 p.m. on 2.1.2000. The Office will then work from 7.30 a.m. until 5.00 p.m. The Office will terminate its activities on Wednesday 5 January at 2.00 p.m. If circumstances require an extension to operating times then arrangements will be made accordingly.

The Millennium Office will be headed by Mr. Waleed Rashdan, Director of Banking Inspection Directorate, and staffed with personnel from Banking Control, Banking Operations and other relevant Directorates of the Agency.

The relevant Millennium Event Office points of contact for 31st December, 1999 until 5th January, 2000 are given below:

Phone Numbers	:	540071 540072 540073 540075
Fax No.	:	540076
E-Mail	:	bmay2k@batelco.com.bh
Location	:	4th Floor - BMA Building

Yours faithfully,

Abdulla K. Al Khalifa
Governor

ODG/59/99
15th June, 1999

The General Manager,
All Locally Incorporated Banks,
All External Auditors,
Manama – Bahrain.

Dear Sir,

Re: Audit Partners of External Auditors
And Reporting Accountants
of Locally Incorporated Banks

Pursuant to its powers under the BMA Law, the Agency has decided that audit partners of the audit firm assigned to Locally Incorporated Banks shall be required to be changed every five years. Therefore, the current audit partners appointed for the reviews to be carried out during the calendar year 1999 and for the annual audit of the financial statements for the year ended 31/12/1999 may, subject to the Agency agreeing or requiring otherwise, remain in place for up to five consecutive years (i.e. until 31/12/2003). In respect of all reviews and audits pertaining to the calendar year 2004, new audit partners will be required to be appointed for consecutive five-year periods thereafter.

In order to meet the procedural requirements of the BMALaw, banks should continue to reconfirm the appointment of the relevant external auditor at the beginning of each financial year during each five-year period but adding the name of the new partner. The Agency retains its rights of removal of external auditors on a discretionary basis, as well as other rights relevant in this context as set out in the BMA Law.

The Agency would take this opportunity to remind all locally incorporated banks, as well as their external auditors, of the contents of previous Agency circulars regarding direct contacts between the Agency and external auditors or reporting accountants, specifically Agency Circulars No. 14/86 dated 19th June, 1986 and BC/6/97 dated 21st April, 1997.

Persons with queries relating to this Circular should feel free to contact the Executive Director – Banking Control on Tel. No. 529400 or 529401.

Yours faithfully,

Abdulla K. Al Khalifa,
Deputy Governor.

ODG / 170 / 99
3 October, 1999

The General Manager
All FCBs, OBUs, IBs
All Moneychangers
All Moneybrokers
Manama
Bahrain

Dear Sir,

Re: Year 2000 Completion Statements

The Agency is pleased to note the extensive efforts by the financial sector in its preparations for Year 2000 Compliance. As part of the final preparations for Year 2000, the Agency requires confirmation, by all licensees actively involved in settlements and payments transfers, whether with the general public or in the interbank market, that all such licensees have taken all reasonable measures to ensure Year 2000 Compliance.

All relevant licensees should submit the attached Statement to the Agency by 31 October, 1999. A copy should be sent to the licensee's external auditors. Where licensees are unable to provide confirmations (for example on certain areas or operations) they should state why. They should explain what needs to be done, and when they expect to be able to supply such confirmation.

The Statement should be made on a consolidated basis (i.e. including all subsidiaries). In the case of locally incorporated licensees, the statement should be signed by the Chairman. In the case of branches of foreign banks, the confirmation should be signed by the Chief Executive.

The Statement is not intended to act as a guarantee, but serves to state that Y2K preparations have been monitored, reviewed and authorised at the highest level.

Should you have any queries relating to this Circular, please contact the Executive Director of Banking Control, Tel no. 529400 or Fax no. 532605.

Yours faithfully,

Abdulla K. Al Khalifa
Deputy Governor

cc: All External Auditors

To: The Deputy Governor
Bahrain Monetary Agency
Manama
Bahrain

Year 2000 Completion Statement

1. On behalf of [name of institution], I write to confirm that [name of institution] has taken all measures which in its view were necessary to maintain adequate business continuity before, on and after 1 January, 2000*. I undertake to notify you immediately should this completion statement no longer reflect the position of [name of institution].

2. In particular, I confirm that, in our view:

   i) We have taken all reasonable steps to achieve Year 2000 compliance in all the information systems (including hardware, software, personal spreadsheets and other desktop programmes, and embedded chips) which will be critical to the adequate continuity of our business before, on and after 1 January, 2000, whether supplied and maintained by us or by third parties.

   For this purpose we have used [the British Standards Institution definition / the definition appended hereto**] of Year 2000 compliance / conformity.

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* for these purposes residual activity such as continuing to monitor the preparedness of key third parties, activity before during and after the event period, and the adjustment and testing of business continuity plans in the light of developments in the lead-up to the Millennium, is disregarded.

** delete as appropriate and attach alternative definition if applicable.

ii) We have otherwise taken all reasonable steps to maintain adequate business continuity, including assessing and taking into account the potential impact on our business of problems in those third parties which are critical to our business;

iii) We have put in place control arrangements designed to minimise the risk that changes to internal or external systems made after the date of this statement may materially prejudice the Year 2000 compliance status of our systems and our ability otherwise to maintain adequate business continuity; and

iv) We have developed and (to the extent reasonably practical) tested plans designed to enable us to maintain adequate business continuity in the event that problems arise in our own systems or in those of third parties, before, on or after 1 January, 2000. These plans are ready and available for activation should the need arise, subject to any new information or developments. These plans have been discussed and reviewed by our external auditors ……………. [name of the company].

Name ____

Position ____

Name of Licensee ____

BC/2/99
21st February, 1999

The General Manager
All Locally Incorporated Banks (except Islamic Banks)
Manama
Bahrain

Dear Sir,

Re: Public Disclosure

The Agency refers to its Circular No. BMA/751/93 dated 8th July, 1993 (copy attached) in which locally incorporated banks quoted on the Bahrain Stock Exchange were required to disclose reviewed quarterly financial statements.

With the objective of improving financial disclosure (transparency) by banks operating in Bahrain, all locally incorporated banks (whether quoted or not) should, with effect from the end of 2nd quarter of 1999, prepare and disclose to the public, within eight weeks of the end of each quarter, their quarterly financial statements in accordance with International Accounting Standard 34 (Interim Financial Reporting). Such statements, which should be sent to the Agency, should be reviewed by your bank's external auditors in accordance with International Standards on Auditing applicable to Review engagements.

With regard to your bank's Annual Report, the Agency expects your bank to maintain an up-to-date checklist of all applicable IASs, including Agency's Circulars No. BMA/751/93 (Directors' and Senior Management Interest) and EDBC/14/96 (Derivatives), for full compliance purposes. In cases where your bank is not able to achieve full compliance in this regard, a meeting should be held with the Director of Banking Supervision Directorate to discuss the reasons for such non-compliance prior to the finalization of the Annual Report.

Furthermore, the Agency now attaches for your **guidance** and **compliance** a list of additional information that should be disclosed in your bank's Annual Report with effect from 31st December, 1999. Your bank is also required to include such additional information requirements in the checklist mentioned above.

Any queries relating to the above should be directed to the attention of Mr. Khalid Hamad Abdulrahman, the Director of Banking Supervision Directorate on telephone No. 529405 or facsimile No. 532605.

Yours faithfully,

Dr. Khalid Abdulla Ateeq
Executive Director - Banking Control

cc. ALL EXTERNAL AUDITORS

Additional Public Disclosure Requirements

Banks should, in their Annual Report, provide timely information which facilitates market participants' assessment of them. There are five broad categories of information, each of which should be addressed in clear terms and appropriate detail to help achieve a satisfactory level of bank transparency. These categories are:

Financial performance:-

- Discussion of the main factors that influenced the bank's financial performance for the year, explaining differences in performance between the current year and previous years and the reasons for such changes, and discussing factors that will have a significant influence on the bank's future financial performance.

- Basic quantitative indicators of financial performance (such as ROAE, ROAA, NIM, cost-to-income ratios etc.).

- A discussion on the impact of acquisitions of new businesses.

All of the above should be disclosed in the financial review section of the Annual Report.

Financial position:-

- The average amount of assets, liabilities, commitments, contingent liabilities, and shareholders' funds over the period should be included in the Financial Statements Section.

- Quantitative information about capital base and its components (tier-1, tier-2, tier-3, risk weighted assets, risk asset ratio) and debt to equity ratio should be included in the Financial Review Section.

- The impact of changes in the capital structure on earnings and dividends should be included in the Financial Review Section.

Risk management strategies and practices:-

- Discussion of overall risk management philosophy, overall policy and methodologies, how risks arise, how risks are managed and controlled, and whether and how derivatives are used to manage risks should be included in the Financial Statements Section.

- Discussion of risk management structure and risk measurement and monitoring (e.g., models, value-at-risk, simulation, credit scoring, capital allocation, etc.), monitoring process, model validation process, stress testing, back testing, the use of risk-mitigating tools (collateral/guarantees, netting agreements, managing concentrations), limits (e.g., credit limits, market risk limits), and periodic review of exposures should be included in the Financial Statements Section.

Risk exposures:-

- Credit risk should include:-

  - The magnitude of the bank's credit exposure on an aggregate basis, as well as its significant components.

  - Details on how the bank manages credit risk and information on whether or not strategies used have been effective.

  - Descriptive information about the business activities that create credit risk, the bank's strategies regarding those business lines, and the nature and composition of the exposures that arise.

  - Quantitative information about gross positions (e.g., loans, investments, trading and off-balance sheet exposures).

  - Information about the types of counterparties (e.g., exposure to banks, commercial, and government entities; domestic and international exposures; subordinate assets, and secured and unsecured exposures), significant concentrations of credit exposure, and potential credit risk exposure arising from existing derivative contracts.

  - The gross amount of non-performing loans and other problem assets, and an ageing schedule (over 3 months, over 1 year, and over 3 years) of past due loans and other assets and the related amount of specific provisions set aside against all of the above.

  - An individual breakdown of movement of general and specific provisions and interest in suspense, and how these provisions are determined.

  All of the above should be disclosed in the Financial Statements Section.

  - Qualitative information about the credit risk function should be included in the Financial Review Section.

- Market risk should include:-

  - Detailed quantitative information about the nature and extent of interest rate-sensitive assets and liabilities and off-balance sheet exposures (e.g., breakdown of fixed and floating rate items and the net interest margin earned, and the duration and effective interest rates of assets and liabilities). These disclosures should also identify assets and liabilities, and related gains and losses, in addition to the effect on the value of assets, liabilities and economic equity given a specific change in interest rate. This information should be included in the Financial Statements Section.

  - Summarized data for significant concentrations of foreign exchange exposure by currency, broken down by hedged and unhedged exposures should be included in the Financial Statements Section.

- Quantitative information about investments in foreign subsidiaries (foreign currency translation risk) should be included in the Financial Statements Section. Such disclosure should be supplemented with a discussion about the nature of the currency exposure, how that exposure has changed from year to year, foreign exchange translation effects thereon, the earnings impact of foreign exchange transactions and the effectiveness of risk management (hedging) strategies. This information should be included in the Financial Review Section.

- Summarized data about market risk exposure (Value-at-Risk), including the magnitude of the exposure on a daily, weekly, or monthly basis, maximum and minimum values, and end-of-period values. The assumptions used in calculations (e.g., confidence level, holding period, etc.) should also be disclosed. In addition, a histogram of the daily profits or exposures over the reporting period should be included in the Financial Statements Section.

- Qualitative information about the main types of operational risk including any specific problem (e.g., Year 2000) that is considered to be individually significant, and how the bank manages and controls such risk should be included in the Chairman's Report Section.

- Legal contingencies, including pending legal actions, and a discussion and estimate of the potential liabilities should be included in the Financial Statements Section, in addition to qualitative information about how the bank manages and controls such risk should be included in the Financial Review Section.

Corporate governance:-

- Information about the board structure (e.g., the size of the board, board committees, and membership), senior management structure (responsibilities, reporting lines), and the basic organizational structure (lines of business structure, legal entity structure) should be provided.

- Information about the profession, business title, and experience in years of each board member and the qualifications and experience in years of senior executives, including Managing Directors, Chief Executives and General Managers should be included.

All of the above should be disclosed in the first pages of the Annual Report.

BC/1/99
22nd February, 1999

The General Manager
All FCB Branches of Foreign Banks
Manama
Bahrain

Dear Sir,

Re: Enhancing Bank Transparency

As you are aware, transparency for banks has become an issue of considerable importance. The potential benefits of transparency and public disclosure have grown as the scope of banks' activities has expanded. This is particularly the case in the light of the financial disturbances in emerging markets.

With the above in mind, the Agency is now writing to you to advise you that all commercial branches of foreign banks operating in Bahrain should, effective from June 1999, prepare and disclose to the public semi-annual financial statements for their Bahrain operation (Balance Sheet and Profit and Loss Accounts) in the same format as their Annual Audited Accounts. Such statements, which should be sent to the Agency, should be reviewed by your external auditors, in accordance with International Standards on Auditing applicable to Review engagements, and should be published in one local newspaper within eight weeks from the statements' date.

Any queries relating to the above should be addressed to Mr. Khalid Hamad Abdulrahman, the Director of Banking Supervision Directorate.

Yours faithfully,

Dr. Khalid Abdulla Ateeq
Executive Director - Banking Control

BC / 04 / 99
17th March, 1999

The General Manager,
All Islamic Banks,
Manama, Bahrain.

Dear Sir,

Sub:* *Annual Accounts for Islamic Banks for the year ending 31st December, 1999

Section A: General Requirements:

1. Islamic banks are required to adopt the accounting standards in their 1999 statutory accounts which have been issued by the Accounting and Auditing Organization for Islamic Financial Institutions. In this context, the external auditors' report should show whether the bank has complied with the terms of its banking license and with all relevant provisions of the BMA Law and any other relevant laws.

2. The accounts submitted should be approved by the bank's Board of Directors, signed (normally by the Chairman and the Chief Executive Officer) and annotated as follows:

"These accounts were approved by the Board of Directors on ____________________________ 2000 and signed on their behalf by _____________________ and ________________________ ".

3. If the Agency feels that the accounts fall short of the requirements of this Circular, it may ask for additional information to be incorporated in the accounts.

4. In addition to the statutory accounts, the BMA expects to receive the following along with the bank's financial statements:

   a) Copies of any report(s) submitted by the external auditors to the Management or Board of Directors where applicable, management letter / internal control report, and any other reports submitted to the Board.

   b) The 1999 audited accounts for the bank's ultimate holding company.

   c) The 1999 audited accounts and management letters for subsidiaries and branches of the bank located outside Bahrain.

   d) A list of subsidiaries, associated companies and affiliates of the bank, together with details of their locations and the amount of participation by the bank in these entities.

5. Banks should ensure that the audited accounts reconcile with other Agency's reports required as at 31st December, 1999 (Prudential Information Report and Monthly Statements of Assets and Liabilities as at 31st December, 1999) and that an adequate explanation of any material differences between such accounts and reports is provided by the bank's external auditor.

6. The prior approval of the BMA must be obtained before declaring/paying dividends (in any form), and before reducing or diminishing the reserves accounts.

7. The Agency's approval should be obtained before any transfer of Islamic exposures to Qard Hassan if the amount is more than BD100,000 or it's equivalent in foreign currency. This should be applied on both on-balance sheet items and restricted investment accounts.

8. All information submitted will be treated as confidential in accordance with Article 78 of the Bahrain Monetary Agency Law.

Section B: Additional Information for the BMA (Supplementary Schedules):

1. The information submitted to the BMA should reconcile with the information in the statutory accounts. Furthermore, both sets of accounts should use the same accounting policies.

2. The supplementary schedules submitted must be expressed in the currency of the bank's share capital. However, banks holding commercial banking licenses should add an additional column to reflect their operations in US$.

3. Banks which hold more than one type of banking license from the BMA must submit separate accounts for each type of license.

4. Banks are required to submit the Agency with their audited accounts by no later than 15th March, 2000.

5. Banks that produce their financial statements using the "Islamic Calendar" are required to provide the Agency with their 1999 audited accounts as per the requirements of this Circular.

6. All accounts and notes should show the comparison with the positions as at 31st December, 1998.

The following is the list of supplementary Schedules and Appendixes to be submitted to the BMA (as per the attached standard form documents):

Consolidated Balance Sheet	Schedule No.1
Consolidated Profit & Loss Account	Schedule No.2
Statement of Cash Flows	Schedule No.3
Statement of Changes in Owner's Equity	Schedule No.4
Statement of Sources and Uses of Zakat and Charity Funds	Schedule No.5
Statement of Sources and Uses of Qard Fund	Schedule No.6
Classification of Islamic Investment/Facilities	Appendix 1
Full detail notes to the Financial Statements	Appendix 2

Finally, the Agency intends to hold a meeting in the Fourth Floor at the Agency on 19th April, 1999 at 10:00 a.m. with all Islamic banks to clarify and respond to any questions you may have concerning the contents of this Circular. Therefore, you are invited to this meeting or to nominate an official from your bank to attend it.

Thanking you for your co-operation.

Yours faithfully,

Dr. Khalid Abdulla Ateeq,
Executive Director – Banking Control.

BC / 13 / 99
15th June, 1999

The General Manager
All Full Commercial Banks
All Offshore Banking Units
All Investment Banks
All Islamic Banks
Manama - Bahrain

Dear Sir,

Re: Compliance,
Risk Management and Internal Controls

In accordance with its underlying objective of promoting best practice with respect to banks' internal systems and controls and international banking supervision, the Agency has been reviewing the banks' approach to compliance. The expression 'Compliance', in this circular refers to compliance with BMA regulations, reporting and licensing requirements, rather than compliance with banks' internal limits or procedures.

Although there is a general requirement for all licensees in Bahrain to comply with the standard conditions and licensing criteria (and relevant circulars), there has, historically, been no specific requirement as to **how** licensees should delegate responsibility and authority for compliance with BMA requirements.

In many cases, the subject of compliance has been spread across the key senior management functions (e.g. credit, risk management / control, treasury, internal audit, legal, operations), internal committees, the Board of Directors, the external auditors and the reporting accountants in association with the Agency's inspections.

Bearing in mind the complex structure and underlying risks of banks and other financial institutions, the spreading of responsibility for compliance across various entities and functions without an internal single central co-ordinating point may lead to certain areas of compliance not being covered effectively and efficiently.

The Agency is aware that some banks have appointed certain functions such as internal audit with the role of ensuring compliance with BMA requirements, but practice varies.

The Agency accordingly requires that all banks appoint a senior member of staff with the role of compliance. Given the significant diversity of size and functions of banks in Bahrain, the level of seniority of such an appointment is a matter for each bank to consider on a case-by-case basis. The compliance officer or manager may perform other functions (e.g. internal audit or legal) in some cases, or may perform the compliance role exclusively, subject to Agency's approval.

The Agency would insist, however, that the compliance officer / manager be appropriately qualified and experienced. The Agency will require notification of the appointment of a compliance manager / officer by 30 November, and the submission to the Agency of a completed Personal Questionnaire for the appointee. The bank should also outline how the compliance function fits into the bank's senior management reporting structure, and give details of relevant reporting lines within the bank.

The compliance officer / manager should have access to the Board of Directors in the case of locally incorporated banks as well as to the senior management of the bank.

All correspondence or enquiries concerning this Circular should be addressed to the Director in the Agency responsible for the supervision of your bank.

Yours faithfully,

Dr. Khalid Abdulla Ateeq
Executive Director - Banking Control

BC / 15 / 99
17th July, 1999

The General Manager
All Full Commercial Banks
Manama
Bahrain

Dear Sir,

Re: Proposed Margin Trading System for Bahrain

I attach guidance notes for banks concerning the proposed margin trading system for securities listed on the Bahrain Stock Exchange. As stated in the guidance notes, banks which intend to act as lending banks under the system must apply to the Agency for permission to do so. The Agency will notify the Bahrain Stock Exchange ('BSE') of the identity of lending banks.

In considering applications to act as lending banks under the scheme, the Agency shall take the following points into consideration:

1) Current Capital Adequacy Ratio relative to minimum required by the Agency.

2) Adequacy of internal credit control and monitoring systems of the bank (with reference to past lending performance, provisioning and previous inspection reports) both generally and specifically to margin lending.

3) Procedures for approval of lending under the system. In particular, the Agency expects lending banks to exercise approval procedures which are more stringent than for conventional lending purposes.

Applicant banks should address the above points in their applications to the Agency.

All correspondence or enquiries concerning this Circular should be addressed to Mr. Khalid Hamad Abdulrahman, the Agency's Director of Banking Supervision Directorate on 529405.

Yours faithfully,

Dr. Khalid Abdulla Ateeq
Executive Director – Banking Control

PROPOSED MARGIN TRADING SYSTEM FOR BAHRAIN

The following outlines the basic aspects of a margin system for Bahrain as proposed by the Bahrain Monetary Agency (the ***"Agency"***), the Bahrain Bankers' Society (the ***"Society"***) and the Bahrain Stock Exchange. The margin trading system is referred to below as the ***"System"***.

Introduction

Investors purchasing securities (as defined from time to time by the Bahrain Stock Exchange (***"BSE"***)) listed on the BSE may pay for them under the System by borrowing a portion of the purchase price from a lending bank. The System shall operate in accordance with the relevant provisions of the BMALaw, the BSE Law, any rules and regulations issued pursuant to such Laws and any other Law which may be promulgated in relation to this matter from time to time. The System will be introduced for different types of securities in stages, the first being for equities in companies listed on the BSE. Unless restrictions apply under Bahrain law in this regard, the System shall be available to Bahraini or non-Bahraini investors, whether resident or non-resident in Bahrain.

Main Objective of the System

The main objective of introducing the System is to enhance the overall activity on the BSE, allowing investors to leverage their investments, in a controlled manner.

Lending Banks

Only Full Commercial Banks licensed by the Agency will be permitted to act as lending banks for the System. Lending banks must each receive the prior general written approval of the BMA in order to take part in the System. The BMAwill notify the BSE of the identity of lending banks for the System. The BMA's approval may be withdrawn at its discretion. For the sake of clarity, it should be noted that (1) brokers will not be permitted to act as lenders for the System, (2) an investor may, through his relationship with any one individual lending bank under the System, invest a maximum of BD200,000 in securities (i.e. BD200,000 per investor / per individual lending bank, made up of BD100,000 by way of the investor's own initial margin and BD100,000 by way of the loan from the relevant lending bank to that investor), (3) an investor may, under the System, invest a maximum of BD500,000 in securities (i.e. BD500,000 per investor / per all lending banks, made up of BD250,000 by way of the investor's own initial margin with all lending banks and BD250,000 by way of total loans from all lending banks to that investor), (4) the amount of the loan made to an investor under the System shall be included in the "large exposures concept" adopted by the BMA, and (5) the total amount of loans granted by an individual lending bank to all investors under the System shall not, at any time, exceed 15% of that lending bank's capital base, such percentage to be reviewed by the BMA at its discretion from time to time.

In relation to point no. (3) above, the Agency will, through its Central Risk Unit (***"CRU"***), require lending banks to inform it of all lending made to investors under the System from time to time. Lending banks will be able to check with the CRU on the amount of loans outstanding under the System at any time to a particular investor.

Brokers

Only those brokers approved by the BSE will be permitted to act as brokers for the System. Generally, brokers will only be approved if they (a) hold a "Class A" license from the BSE, and (b) meet the requirements set for the System from time to time by the BSE and the BMA.

Documentation

Only standard-form documents (application forms and agreements) will be used for the System. Standard-form agreements, drafted and approved in advance by the BSE, will be entered into between the lending bank and the investor (in respect of lending), and between the lending bank and the investor and the broker (in respect of trading) and, as relevant, these agreements shall (amongst other things) confirm that:

- the investor is borrowing a stated amount from the lending bank for the purpose of taking part in the System;

- the investor will repay such stated amount, together with any interest thereon, when due and in accordance with the agreement;

- the investor understands the risks involved in margin trading as well as the implications of the undertakings given by him;

- the lending bank can sell the securities bought through the System if the relevant margin is called and not met, without further formalities being required;

- the broker is liable for marking the securities to market on a daily (or more frequent) basis and for keeping the lending bank updated as to the lending bank's exposure to the investor;

- the investor can place orders with the broker for the purchase of securities up to the limit permitted by the agreement;

- each party to the agreement in question shall abide by the duty of confidentiality imposed on him in relation to the matters set out in the agreement; and

- there is an overriding obligation on the parties thereto to comply with Bahrain law in general and, in particular, with the share-ownership restrictions applying to certain types of securities.

Owner of the Securities Bought Using the System

For ease of transfer and sale of the securities in the event that a margin is called by the lending bank but not met by the investor, the securities will be registered in the lending bank's name (for the account of the investor) and held by a custodian.

Under this proposal, (1) the securities should not be considered as part of the bank's own assets for the purposes of determining ownership / control under Bahrain law, and (2) if the investor has discharged his obligations to the lending bank under the System and the securities have not been sold, the securities shall be transferred into the legal ownership of the investor.

Margin Percentage

For equities listed on the BSE, an investor shall have the right to borrow a loan the value of which shall not exceed 50% of the total value of the funds being invested (i.e. 1:1). The BMA and the BSE shall coordinate in making any change to the margin percentages set for the System.

Margin Call Top-up

The margin call top-up shall be 30% of the total value of the funds invested by an investor through a margin account with a lending bank. An investor shall settle a margin call on the settlement date (as determined by the BSE) by making a cash payment of such amount to the lending bank. Such cash payment may, at the investor's discretion and in whole or part, come from the sale of the securities bought through the System, or otherwise. Failure to meet such margin call will, however, give the lending bank the right to sell the securities bought through the System.

Margin Interest

The lending bank shall charge a rate of interest on the loan amount granted to the investor at a rate to be determined by the lending bank. In the event that the investor's margin account is in credit in excess of the margin applicable thereto, interest shall be paid on the excess at a rate to be determined by the lending bank. Interest shall be charged / paid on the basis determined by the agreement.

BC/20/99
28th September, 1999

The General Manager
All Locally Incorporated Islamic Banks
Manama
Bahrain

Dear Sir,

Re: Enhancing Islamic Banks' Transparency

As you are aware, transparency and accounting harmonisation for Islamic banks have become issues of considerable importance particularly with the expansion in the scope of bank's activities. This Circular replaces paragraph 1 of the Agency Circular BMA/751/93 dated 8th July, 1993 in relation to transparency and is effective immediately. The remainder of Circular BMA/751/93 remains effective.

Taking into consideration the above, the Agency is now writing to advise you that, effective from March 2000, all Islamic banks operating in Bahrain should prepare and disclose the following information to the public on a quarterly basis:

- A Statement of Financial Position (Balance Sheet).
- An Income Statement.
- A Statement of Cash Flows.
- A Statement of Changes in Restricted Investment Accounts.
- A Statement of Changes in Owners' Equity.
- Changes to Accounting Policies.

The presentation of the above statements should be in accordance with FAS1 issued by the Accounting & Auditing Organization for Islamic Financial Institutions and the statements should be prepared on a consolidated basis. The statements should include comparative data for income related items to the identical period in, and the year to date for, the bank's previous financial year. The balance sheet should be compared with the balance sheet in the bank's previous audited annual accounts. Such statements, which should also be sent to the Agency, should be reviewed by your external auditors, in accordance with International Standards on Auditing and the Auditing Standards for Islamic Financial Institutions where applicable. The statements should be published in one of the local newspapers within eight weeks from the statements' date.

For the sake of clarity, the first set of statements to be published pursuant to this circular will be for the quarterly period 1/1/2000-31/3/2000.

The quarterly statements should include the following items and be prepared on the following basis :

1) The statements should include (as a minimum) **each** of the **headings** and subtotals that were included **in the most recent annual financial statements** as presented under FAS1. Notes should be included if their omission would make the quarterly statement misleading.

2) Basic and diluted earnings per share should be presented in the earnings statement.

3) A statement should be included to the effect that the same accounting policies and methods of computation are followed in the quarterly statements as compared with the most recent financial statements or, where these policies or methods have changed, a description of the nature and effect of the change.

4) Explanatory comments concerning the seasonality of the quarterly operations should be provided.

5) The nature and amount of any unusual items affecting assets, liabilities, income or cash flows should be included.

6) Information should be provided on the nature and amount of changes in estimates of amounts reported in prior quarterly periods of the current financial year, or changes in estimates of amounts reported in prior financial years, if these changes have a material effect in the current quarterly period.

7) Issuances, repurchases, and repayments of securities should be stated.

8) Dividends paid (aggregate or per share) for shares should be disclosed.

9) Any material events subsequent to the end of the quarterly period that have not been reflected in the Financial Statements for the quarterly period should be outlined.

10) The effect of changes in the composition of the bank during the quarterly period, including business combinations, acquisitions or disposal of subsidiaries and long-term investments, restructurings and discontinuing operations should be stated.

11) Changes to contingent liabilities and contingent assets since the last annual balance sheet should be disclosed.

Any queries relating to the above should be address to Mr. Anwar Al Sadah, the Director of Financial Institutions Supervision Directorate.

Yours faithfully,

Dr. Khalid Abdulla Ateeq
Executive Director – Banking Control

c.c. Accounting Firms.

BC/23/99
8th November, 1999

The General Manager
All FCBs, OBUs & IBs
Manama
Bahrain

Dear Sirs,

Re: Enhancing Corporate Governance in Banking Organisations

Attached, please find a copy of a paper issued by the Basel Committee on Banking Supervision concerning the above matter. The Agency, in issuing this paper, wishes to draw the attention of banks in Bahrain to this very important area. The Agency believes that the attached paper, and its key recommendations, should provide a guideline for the banks in Bahrain to follow in putting in place the infrastructure necessary for efficiency, effectiveness and overall success.

Any persons with queries concerning the attached should contact the Director at the Agency in charge of supervision of their respective entity.

Yours faithfully,

Dr. Khalid Abdulla Ateeq,
Executive Director – Banking Control

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