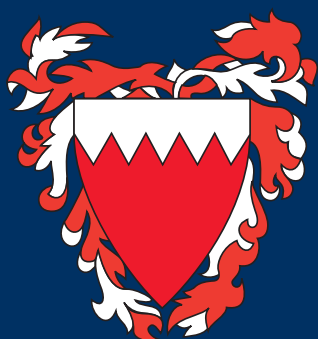




Kingdom of Bahrain

Bahrain Monetary Agency







His Highness
Shaikh Khalifa Bin Salman Al Khalifa
The Prime Minister



His Majesty
King Hamad Bin Isa Al Khalifa
King of Bahrain



His Highness
Shaikh Salman Bin Hamad Al Khalifa
*The Crown Prince
Commander-in-Chief
of the Bahrain Defence Force*

BOARD OF DIRECTORS

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



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



H.E. Shaikh Ahmed Bin Mohammed Al - Khalifa
Governor



Mr. Khalid Mohammed Kanoo
Chairman of Bahrain Chamber of Commerce & Industry



Mr. Khalid Hussain Al Maskati
Businessman



H.E. Khalid Abdulla Al Bassam
Deputy Governor / Secretary to the Board



TABLE OF CONTENTS

	Page
• LIST OF TABLES	i
• LIST OF CHARTS	ii
• FOREWORD BY H.E. THE GOVERNOR	iii
• VISION AND MISSION	v
• MAIN ECONOMIC INDICATORS 2003	vii
• CHAPTER ONE: INTERNATIONAL ECONOMIC PERSPECTIVE	
1-1 Global Economic Developments	1
1-2 Exchange Rates	2
1-3 Oil Prices	3
1-4 Gold Prices	4
1-5 Capital Markets Developments	4
1-6 Interest Rates	5
• CHAPTER TWO: DOMESTIC ECONOMIC DEVELOPMENTS	
2-1 Population	6
2-2 Employment	7
2-3 Average Monthly Wages	8
2-4 Crude Oil Production and Refining	10
2-5 Gas Production and Utilisation	11
2-6 Aluminium Production	11
• CHAPTER THREE: FOREIGN TRADE AND BALANCE OF PAYMENTS	
3-1 Trade Balance	12
Exports	12
Imports	13
3-2 Direction of Non-Oil Trade	13
3-3 Non-Oil Trade with GCC Countries	15
3-4 Balance of Payments (BOP)	16
3-5 International Investment Position (IIP)	19

TABLE OF CONTENTS

	Page
• CHAPTER FOUR: MONEY AND BANKING	
4-1 The Banking and Financial System	20
4-2 Money Supply and Liquidity	20
4-3 The Banking System	21
4-4 Commercial Banks	22
4-5 Offshore Banking Units	26
4-6 Investment Banks	26
4-7 Islamic Banks	27
4-8 Employment in the Banking & Financial Sector	28
• CHAPTER FIVE: BAHRAIN STOCK EXCHANGE	
5-1 Bahrain Stock Exchange (BSE)	29
5-2 Market Performance	29
5-3 Sector Performance	31
5-4 Bonds and Sukuk	32
5-5 Mutual Funds	32
5-6 Nationalities of Investors	32
• CHAPTER SIX: INSURANCE SECTOR	
6-1 Bahrain's Domestic Insurance Market	33
6-2 Reinsurance Companies	36
6-3 Supplementary Insurance Services	36
6-4 Insurance Syndicates	36
6-5 Exempt Companies	36
6-6 Insurance Sector Employment	37
6-7 Insurance Operations	37
• CHAPTER SEVEN: BMA- MAIN DEVELOPMENTS, ACTIVITIES AND FINANCIAL STATEMENTS	
• BMA'S MAIN DEVELOPMENTS AND ACTIVITIES	42
• NUMBER OF BANKS AND FINANCIAL INSTITUTIONS	45
• LIST OF BMA OFFICERS	46
• ORGANISATIONAL CHART	47
• BALANCE SHEET AND PROFIT AND LOSS ACCOUNT AND APPROPRIATION	48
• LIST OF BANKS AND OTHER FINANCIAL INSTITUTIONS IN BAHRAIN	www.bma.gov.bh
• LIST OF BMA REGULATIONS AND CIRCULARS	www.bma.gov.bh
• LIST OF MUTUAL FUNDS	www.bma.gov.bh

LIST OF TABLES

No.	Description	Page
1-1	Exchange Rates of Major Currencies Against the SDR	3
1-2	Average Oil Prices of Selected Crudes	3
2-1	Population	6
2-2	Employment	7
2-3	Average Monthly Wages	9
2-4	Selected Oil Statistics	10
2-5	Gas Production and Utilisation	11
3-1	Foreign Trade	12
3-2	Direction of Non-Oil Trade	13
3-3	Non-Oil Trade with GCC Countries - 2003	15
3-4	Balance of Payments	18
3-5	International Investment Position (IIP)	19
4-1	Domestic Liquidity	20
4-2	Factors Affecting Domestic Liquidity	21
4-3	Consolidated Balance Sheet of the Banking System	22
4-4	Geographical Classification of the Banking System's Assets and Liabilities at End-2003	22
4-5	Domestic Deposits at Commercial Banks (Excluding Interbank Deposits)	23
4-6	Outstanding Credit to Non-Bank Residents by Economic Sector	25
4-7	Credit Card Survey	25
4-8	Interest Rates on BD Deposits & Loans	26
4-9	Geographical Classification of Islamic Banks' Assets and Liabilities at End-2003	27
4-10	Employment in the Banking & Financial Sector (2002-2003)	28
5-1	Trading Activities in the Market	29
5-2	Fundamental Ratio Analysis	30
5-3	Bonds and Sukuk	32
6-1	Gross Premiums and Claims of Bahrain Local Insurance Market (by Class Share)	34
6-2	Financial Position of National Insurance Companies	34
6-3	Premiums and Claims of the Local Insurance Market (by Company Type)	36
6-4	Supplementary Insurance Services	36
6-5	Premiums and Claims of Local Insurance Market (by Class)	37
6-6	Gross Premiums and Claims of Companies Operating in Bahrain (Life)	38
6-7	Gross Premiums and Claims of Companies Operating in Bahrain (Fire)	38
6-8	Gross Premiums and Claims of Companies Operating in Bahrain (Marine)	39
6-9	Gross Premiums and Claims of Companies Operating in Bahrain (Motors)	40
6-10	Gross Premiums and Claims of Companies Operating in Bahrain (Miscellaneous)	41

LIST OF CHARTS

No.	Description	Page
1-1	Summary of World Output	1
1-2	Consumer Prices	2
1-3	Average Crude Oil Prices	3
1-4	Average Gold Prices	4
1-5	Major World Stock Market Indices	4
1-6	Interest Rate on Major Currency Deposits (6-month LIBOR)	5
2-1	Population	6
2-2	Employment Trends	8
2-3	Crude Oil Production	10
3-1	Foreign Trade	13
3-2 (a)	Direction of Non-Oil Trade- Exports	14
3-2 (b)	Direction of Non-Oil Trade- Imports	14
3-3 (a)	Non-Oil Trade with GCC Countries- Exports	15
3-3 (b)	Non-Oil Trade with GCC Countries- Imports	16
3-4	International Investment Position (IIP)	19
4-1	Domestic Liquidity	20
4-2	Consolidated Balance Sheet of the Banking System	21
4-3	FCB Deposit Trends	23
4-4	Outstanding Credit to Non-Bank Residents by Economic Sector in 2003	24
4-5	Islamic Banks Balance Sheet - 2003	27
5-1	BSE Index	30
5-2	Development in Sector Indices	31
5-3	Trading by Nationality (Value) - 2003	32
6-1	Total Premiums of Local Market	33
6-2	Gross Premiums of Bahrain Domestic Insurance Market	35
6-3	Retention of Bahrain Domestic Insurance Market	35
6-4	Employment in Insurance Market	37

FOREWORD



Ahmed Bin Mohammed Al-Khalifa
Governor

It is with pleasure that I present the 30th Annual Report of the Bahrain Monetary Agency. This report provides a general overview of the international economic and financial events that had an impact on Bahrain during 2003 and takes a detailed look at how the Bahrain economy reacted to these events. It also summarises the operations of the Bahrain Monetary Agency during the year and presents the audited financial accounts of the Agency for the fiscal year ending 31 December 2003.

The international economy grew strongly in 2003. World output growth accelerated to 3.9%, from 3.0% in the previous year. Oil prices were also strong, averaging almost US\$ 29 a barrel, compared to under US\$ 25 a barrel in the previous two years.

In this international economic environment, the Bahrain economy continued to grow strongly and the trade balance remained in surplus. The overall balance of payments (reserve assets) registered a surplus of BD 16.4 million in 2003. This is the fifth consecutive annual balance of payments surplus. This strong overall economic performance was reflected in an upgrade of Bahrain's rating by international credit rating agencies. Fitch raised Bahrain to A- (from BBB) and Standard & Poor's raised Bahrain to A- positive (from A-stable).

The outlook for the Bahrain economy is very positive. Oil prices are expected to stay above their long term averages at least for 2004, which will provide a continuing stimulus to the economy. In addition, the highly successful Formula One Grand Prix in April 2004 brought in large numbers of foreign tourists. Some large investments made in previous years, in particular the substantial increase in the Kingdom's aluminium production capacity are coming on-line in 2004. These activities are expected to maintain Bahrain's strong real growth in 2004.

Over the longer term, the Kingdom remains committed to further diversifying Bahrain's economy and to implementing the Government's privatisation program. Over the past year the telecommunications sector has been opened to private competition. Bahrain already has the most diversified economy among the GCC countries and is therefore well placed to benefit from ongoing initiatives for closer economic and financial integration in the region.

The Bahrain financial sector continued to expand in 2003. The number of banks and other financial institutions increased to 357 in 2003, from 339 in 2002. The financial system did well in 2003, with many institutions showing significant increases in profitability over the previous year.

The consolidated balance sheets of the banking sector grew to over US\$100 billion by the end of 2003, up 36% over the previous year. Much of this growth was the result of a renewal of confidence in the Bahrain financial sector after the political uncertainties in the Gulf region in 2002. This renewal of confidence resulted in a substantial inflow of assets into Bahrain's banking institutions.

There were 24 Islamic banks at the end of 2003, licensed as full commercial banks, investment banks, or offshore banking units. Over the year their total asset base had grown quickly, from US\$ 2.9 billion to US\$ 4.2 billion, an increase of almost 45%.

Domestic insurance companies in Bahrain also posted strong financial results in 2003. The domestic insurance sector comprises 12 Bahrain companies and 9 branches of foreign companies. The Bahrain companies increased their shareholders' equity by over 15% in 2003 and held just over 70% of the insurance market (by premium income).

The strength of the Bahrain economy was reflected on the Bahrain Stock Exchange. The total number of shares traded in 2003 increased by 15% compared to 2002, while the value of shares traded increased by 26%. The Bahrain Stock Exchange Index rose by 29% during 2003. Market capitalisation rose from BD 2.85 billion at the end of 2002 to BD 3.66 billion at the end of 2003.

Investment in mutual funds increased by 5% overall in 2003 with balanced funds showing the largest growth. There was strong interest in locally incorporated funds that increased their assets by 45% (reaching 17% of total invested funds). The locally incorporated balanced funds did particularly well over the year, accounting for 69% of the value in locally incorporated mutual funds in 2003.

The Bahrain Monetary Agency has been responsible for bank regulation since its founding and has developed an international reputation for sound and effective supervision and regulation. In 2002, the Bahrain Monetary Agency became the single regulator of the Bahrain financial sector, taking on responsibility for insurance and capital markets. During 2003, the Bahrain Monetary Agency has been integrating these new responsibilities into its operations. A new Central Bank Law has been prepared that formally recognises the Agency's status as the single regulator of the Bahrain financial sector. This law is now in the final approval stage.

The Bahrain Monetary Agency issued US\$ 480 million of Islamic Leasing Sukuk during 2003. These instruments provide Islamic banks and insurance companies with investments to absorb excess liquidity. The Agency also issued Al Salam Government Sukuk to provide investors with non-tradable short-term investments. A standardised commodity investment agreement, to facilitate inter-bank dealing among Islamic banks, was also developed.

One of the important strategic initiatives of 2003 was the memorandum of understanding (MOU) signed between the Bahrain Monetary Agency and the London Metals Exchange (LME). This MOU was aimed at advancing the fast growing global Islamic banking industry by developing contracts and documents for Islamic Financial Institutions to conduct transactions on the LME.

I would like to take this opportunity to thank His Majesty King Hamad Bin Isa Al Khalifa, His Highness the Prime Minister 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 continued guidance and support of the Bahrain Monetary Agency.

I also extend my sincere appreciation to all the Government Ministries and Agencies for their continued cooperation and support. The success that the Agency has achieved in 2003 would not have been possible without the support and cooperation of Bahrain's financial community. Finally, I would like to recognise the substantial contribution that the personnel of the Agency made towards enhancing the Agency's efficiency and effectiveness.

Ahmed Bin Mohammed Al-Khalifa
Governor

VISION AND MISSION

Our Vision:

To strengthen the position of Bahrain as a major international financial centre through the application of sound monetary and financial policies consistent with international best practices.

Our Mission:

- To ensure monetary and financial stability in the Kingdom of Bahrain.
- To regulate, develop and maintain confidence in the financial sector.

The BMA will carry out its mission through:

- Providing central banking services to the government and financial sector that are cost-effective, reliable and that support national objectives and Bahrain's position as a leading financial centre,
- Ensuring that the regulation and supervision of the financial sector of Bahrain meets the highest international standards, while maintaining Bahrain's reputation for market friendly regulation and encouraging ongoing investment by leading global firms in the Bahrain financial sector,
- Ensuring the consistent application of regulatory standards in banking, insurance and capital markets, as well as encouraging an open and cooperative approach in dealing with financial institutions,
- Working with international organisations such as the International Monetary Fund (IMF), the Bank for International Settlements (BIS), the International Organisation of Securities Commissions (IOSCO), the International Association of Insurance Supervisors (IAIS) and the Financial Action Task Force (FATF), in order to foster the stability of the global financial system,
- Facilitating market innovation, including the development of Islamic banking and finance and encouraging the use of training and technology to ensure Bahrain's financial sector is globally competitive,
- Promoting a culture of excellence within the BMA work environment that emphasises the highest standards of professionalism, integrity, prudence, teamwork and innovation.

MAIN ECONOMIC INDICATORS 2003

Total Population (2003)	689,418
Bahraini	427,955
Non-Bahraini	261,463
Growth Rate (%)	2.6

Total Employment	224,579
Private Sector	189,932
Public Sector	34,647

Trade Balance

Total Exports (BD Millions)	2481.8
Total Imports (BD Millions)	2027.7
Trade Balance (BD Millions)	454.1

Balance of Payments

Current Account (BD Millions)	-18.5
Overall Balance (BD Millions)	16.4

Monetary Aggregates

M2 (BD Millions)	2765.0
Banking System Total Assets/Liabilities (US\$ Billions)	100.9
Consolidated Balance Sheet of Commercial Banks (BD Millions)	4602.0
**Total Domestic Deposits (BD Millions)	3076.4
**Loans & Advances (BD Millions)	1798.9
Interest Rates on Deposits	
Time (3-12 months)	1.81
Savings	1.01
Interest Rates on Loans	
Business	5.34
Personal	7.89
Consolidated Balance Sheet of Offshore Banking Units (US\$ Billions)	83.4
Consolidated Balance Sheet of Investment Banks (US\$ Billions)	5.3
Consolidated Balance Sheet of Islamic Banks (US\$ Billions)	4.2

Bahrain Stock Exchange (BSE)

BSE Index (Points)	2346.3
Market Capitalisation (BD Millions)	3657.6
Value of Shares Traded (BD Millions)	102.3
No. of Listed Companies	44

Insurance Sector

No. of Policies Issued (Millions)	1.7
Gross Premiums (BD Millions)	79.0
Gross Claims (BD Millions)	36.4

CHAPTER ONE

INTERNATIONAL ECONOMIC PERSPECTIVE

1-1 Global Economic Developments

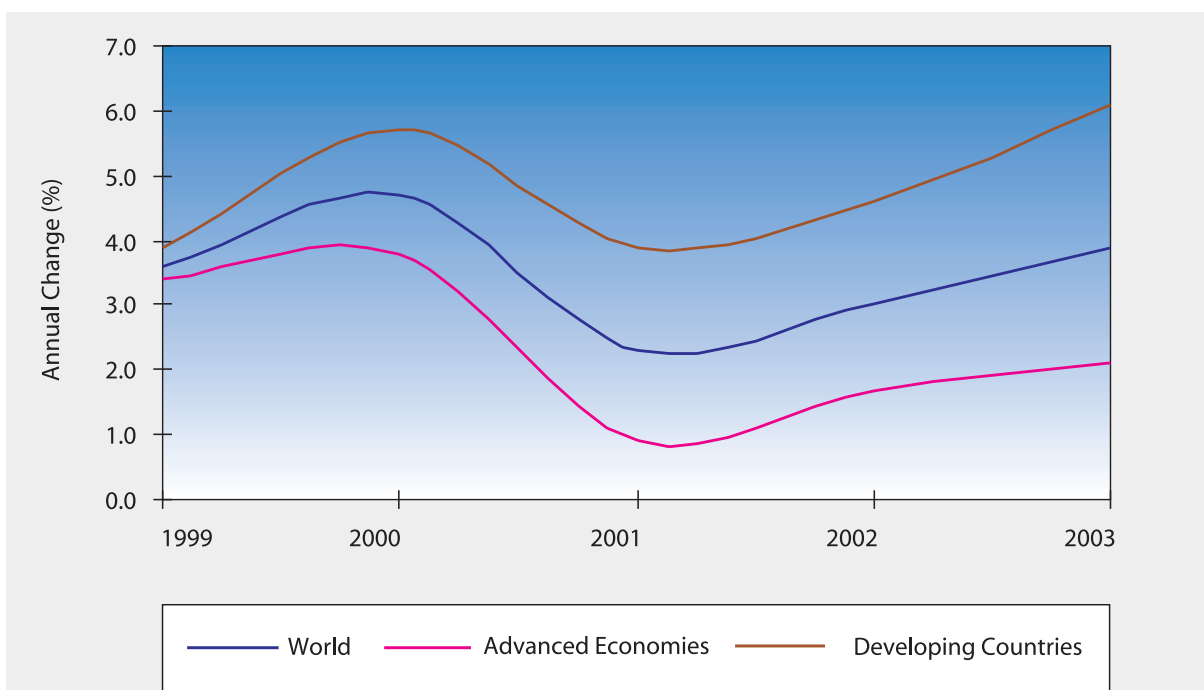
The year 2003 witnessed a number of significant developments reflecting an emerging global economic recovery. Industrial production had picked up sharply accompanied by a rise in global trade. However, the pace and nature of the recovery varied between regions. The rise was most rapid in the United States, the world's largest economy and in emerging Asian nations, especially in China. In the Euro area, the recovery was subdued, suffering from weak consumption and depressed domestic demand. In Japan, the recovery was rapid and mainly driven by exports, particularly to Asia, despite the appreciation of the Yen, as well as the recovery of their equity markets.

Geopolitical uncertainties had a significant impact on major economic developments in 2003 including the rise in oil and gold prices. In the foreign exchange market, developments have been dominated by a further depreciation in the US Dollar against many major currencies. In addition, the performance of global capital markets picked up during the year.

Output

World output growth accelerated during 2003 to 3.9% compared with 3.0% in 2002. Average growth in advanced economies showed an increase in 2003 at 2.1% compared with 1.7% in 2002, while in developing countries it picked up in 2003 to 6.1% against 4.6% in 2002.

• Chart 1-1: Summary of World Output



Source: IMF, World Economic Outlook, April 2004.

INTERNATIONAL ECONOMIC PERSPECTIVE

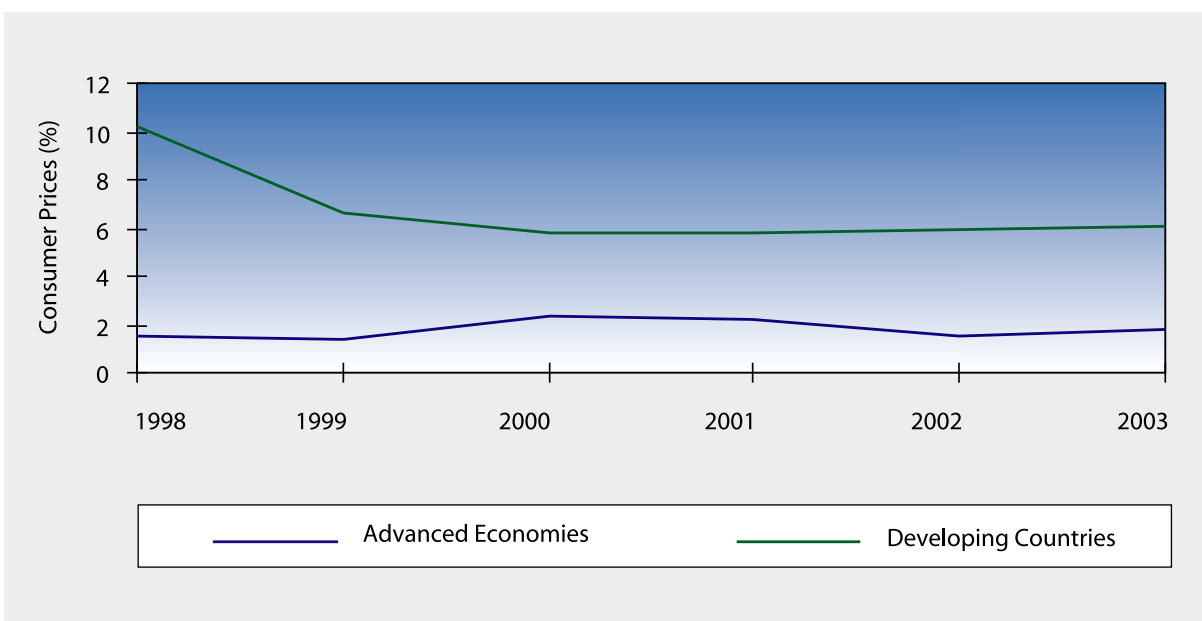
Unemployment

Unemployment rates in advanced economies increased from 6.4% in 2002 to 6.6% in 2003. In spite of their strong overall economic performance, unemployment in the United States increased from 5.8% in 2002 to 6.0% in 2003. In Europe the unemployment picture was mixed. The unemployment rate decreased slightly to 5.0% in the United Kingdom during 2003, from 5.2% in 2002. However, in Germany, unemployment increased by 1.3 percentage points, resulting in a rate of 9.9% in 2003. In Japan, the rate of unemployment showed a slight decrease from 5.4% in 2002 to 5.3% in 2003.

Inflation

Global inflation rates remained subdued in 2003. Inflation rates in both advanced economies and developing economies showed a slight increase during the year. Average inflation in the advanced economies and the developing countries rose from 1.5% and 6.0% in 2002 to 1.8% and 6.1% in 2003 respectively.

• Chart 1-2: Consumer Prices



Source: IMF, World Economic Outlook, April 2004.

1-2 Exchange Rates

An analysis of the foreign exchange rates using national currency units per SDR in 2003 indicates that the US Dollar depreciated by 9.3%. Conversely, the exchange rate of the other major currencies such as the Euro, the Japanese Yen and the Pound Sterling appreciated by 9.2%, 2.4% and 1.3% respectively against the SDR during the year.

INTERNATIONAL ECONOMIC PERSPECTIVE

Table 1-1: Exchange Rates of Major Currencies Against the SDR

Currencies	2002	2003			
	Q4	Q1	Q2	Q3	Q4
US Dollar	1.3595	1.3738	1.4009	1.4298	1.4860
Euro	1.2964	1.2609	1.2259	1.2271	1.1770
Japanese Yen	163.01	165.06	167.89	158.99	159.15
Pound Sterling	0.8435	0.8696	0.8490	0.8540	0.8326

Source: IMF, International Financial Statistics, April 2004.

1-3 Oil Prices

Oil prices have maintained their high level in 2003 despite the end of the war in Iraq and the resumption of Iraqi crude production. The average price of oil increased from US\$ 24.95 per barrel in 2002 to US\$ 28.89 per barrel in 2003, or by 15.8%. In the first quarter of 2003, the average oil price reached its maximum at US\$ 31.3 mainly driven by the political uncertainties in the Gulf region. Political disruptions in oil producing nations have caused upward pressure on oil prices, especially towards the second half of the year. Furthermore, supply imbalances associated with war related disruptions and OPEC's announcement of a cut in oil production targets had a significant role in the rise of oil prices during the year.

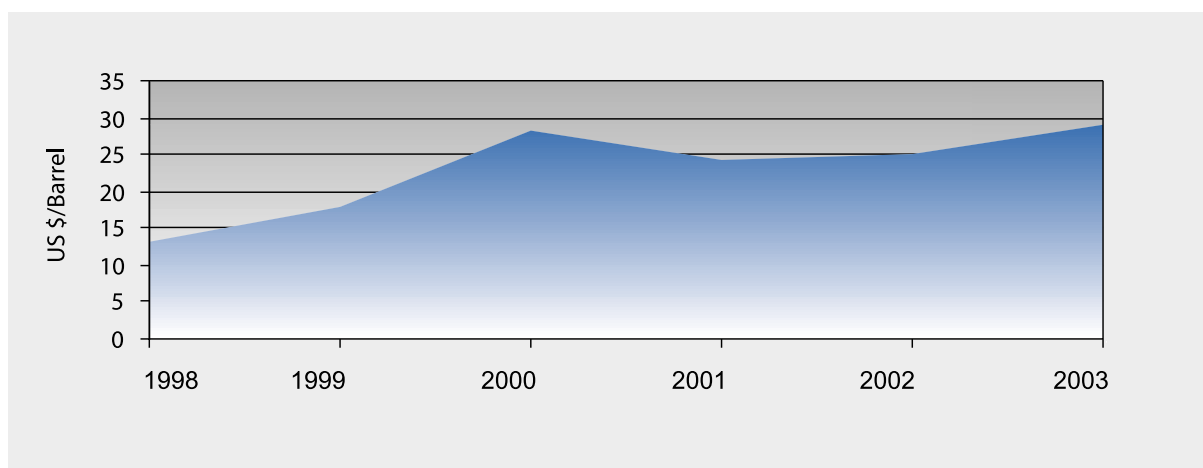
• Table 1-2: Average Oil Prices of Selected Crudes

(US\$ per barrel)

	1999	2000	2001	2002	2003
Average Crude Oil Price	17.98	28.24	24.28	24.95	28.89
UK Brent	17.70	28.31	24.41	25.00	28.85
Dubai	17.08	26.09	22.71	23.73	26.73
West-Texas	19.17	30.32	25.87	26.12	31.10

Source: IMF, International Financial Statistics, April 2004.

• Chart 1-3: Average Crude Oil Prices



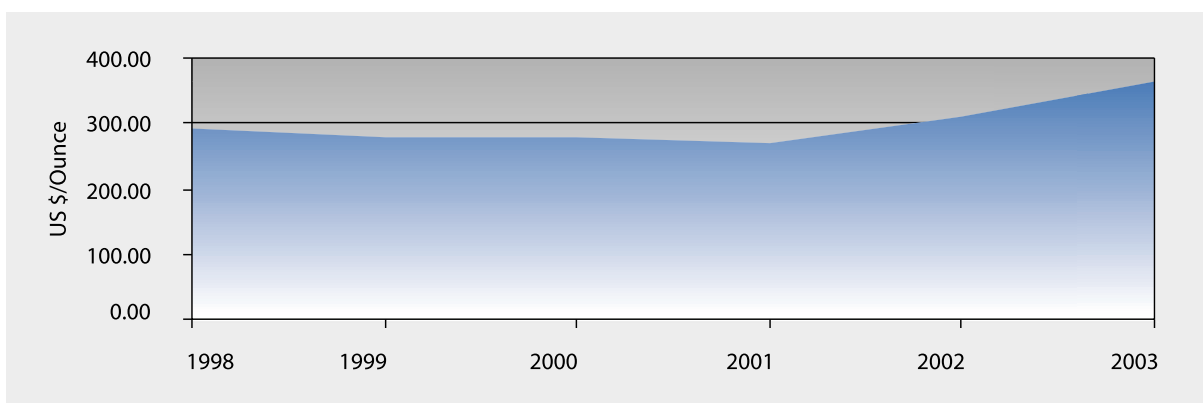
Source: IMF, International Financial Statistics, April 2004.

INTERNATIONAL ECONOMIC PERSPECTIVE

1-4 Gold Prices

Average gold prices climbed from US\$ 310.0 per ounce in 2002 to US\$ 363.5 per ounce in 2003, an increase of 17.3%. The price of gold climbed steadily during 2003 to reach an average of US\$ 391.9 per ounce in the fourth quarter, an increase of 11.3% from the US\$ 352.1 per ounce average in the first quarter. This reflects the rise in investment demand for the metal during the year as a result of the increase in global uncertainties.

• Chart 1-4: Average Gold Prices

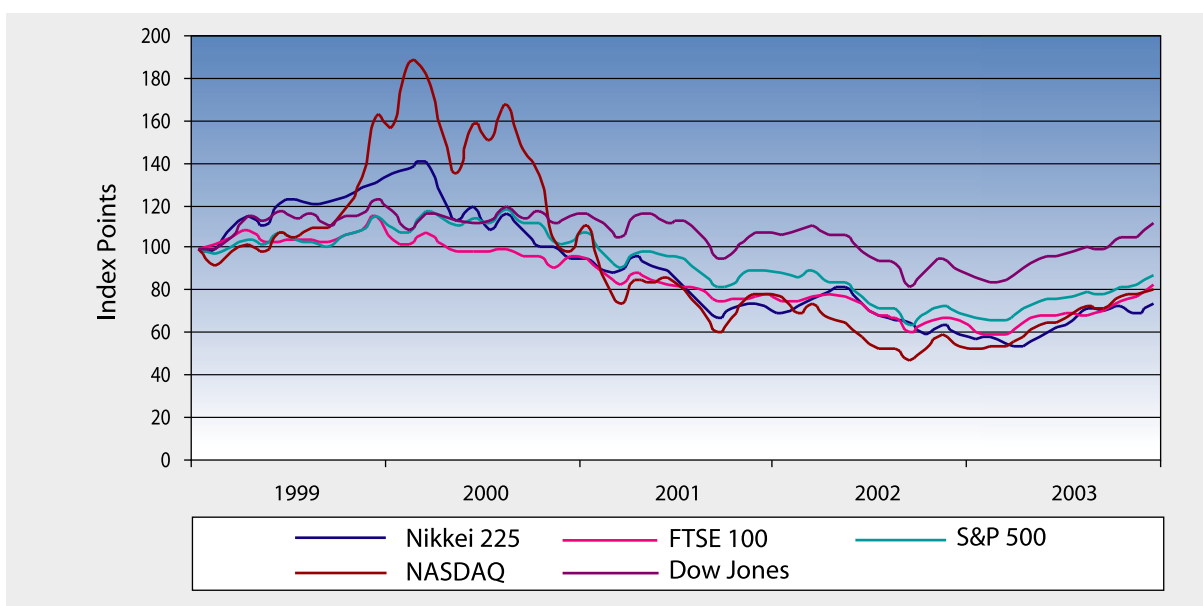


Source: IMF, International Financial Statistics, April 2004.

1-5 Capital Markets Developments

Reflecting a stronger world economy, global capital markets have begun to show some recovery from the lows reached after the bursting of the high tech bubble in 2000. During 2003, the Dow Jones Industrial Average index rose by 25.3% and the NASDAQ rose by 50.0%. In Europe, the FTSE 100 rose by 25.8% and in Japan the Nikkei was up by 24.5%. However, these exchanges still remain well below the highs reached in early 2000. Only the Dow Jones Industrial average was above its January 1999 level at the end of 2003.

• Chart 1-5: Major World Stock Market Indices (January 1999 = 100)

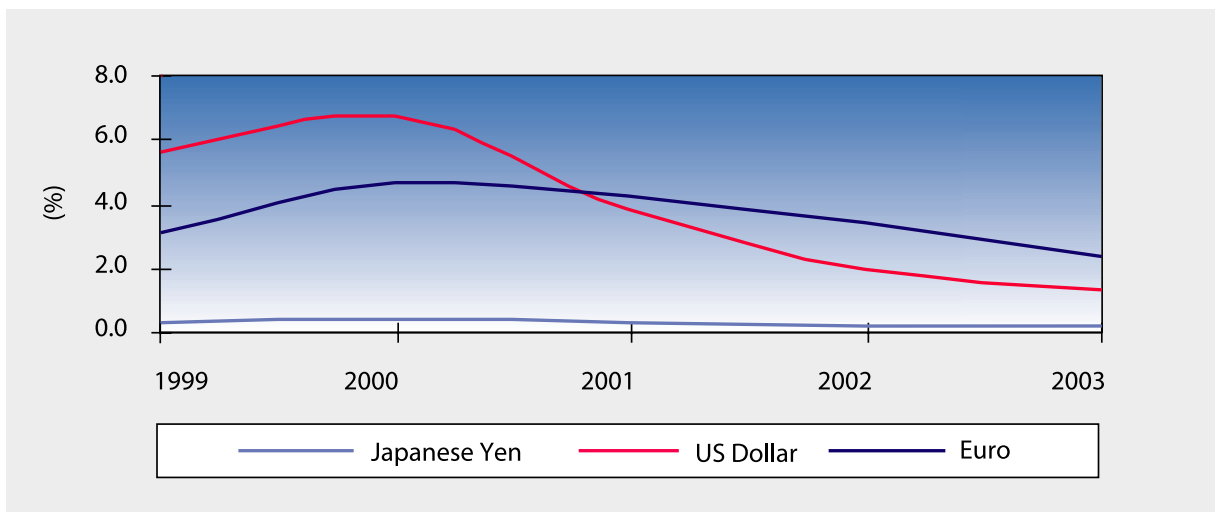


INTERNATIONAL ECONOMIC PERSPECTIVE

1-6 Interest Rates

In response to the state of the global economy in 2003, many central banks in major developed countries decided to reduce their interest rates. The US Fed cut its key federal funds rate to 1 percent in June 2003. The rate on the Euro also fell during the year as the European Central Bank (ECB) cut its re-financing rate by 50 basis points reaching 2.3%, the lowest since the Euro was introduced in 1999. However, the rate on the Japanese Yen remained unchanged at 0.1%.

• *Chart 1-6: Interest Rate on Major Currency Deposits (6-month LIBOR)*



Source: IMF, World Economic Outlook, April 2004.

CHAPTER TWO

DOMESTIC ECONOMIC DEVELOPMENTS

2-1 Population

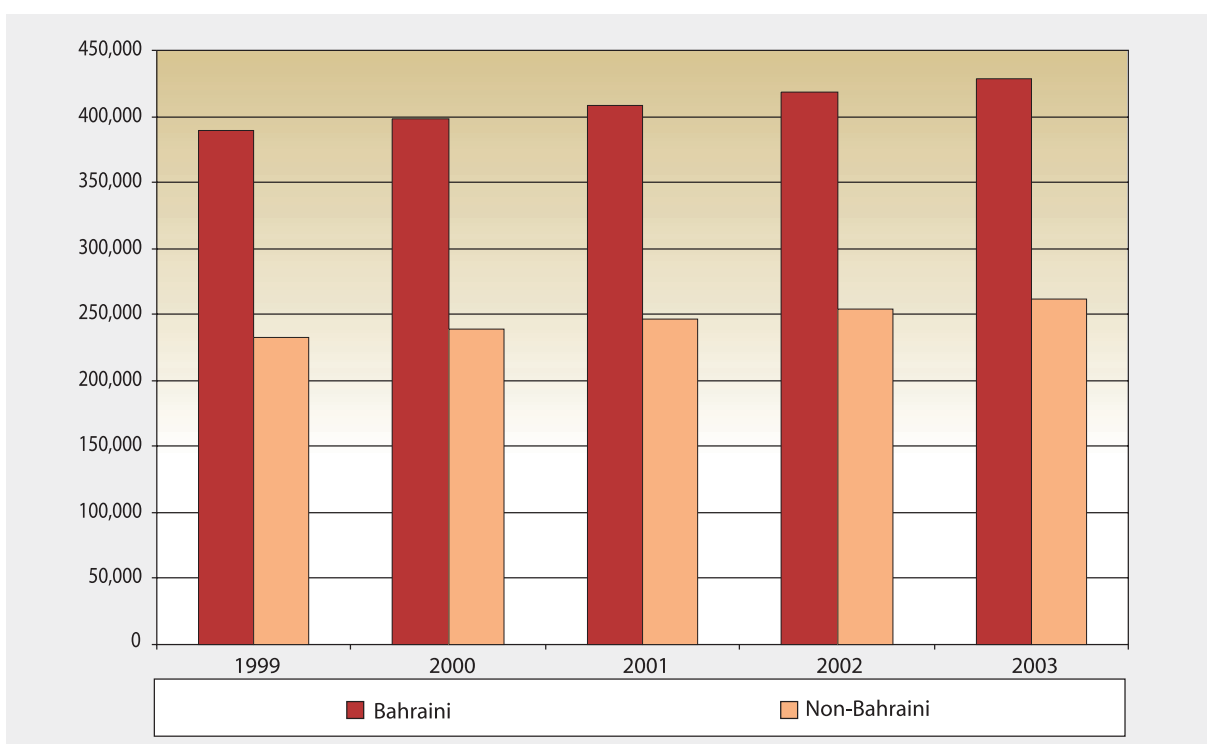
Bahrain's population increased from 672,124 at end-2002 to 689,418 at end-2003 or by 2.6%. The growth of Bahrainis in the population increased by 2.4% whereas non-Bahraini population grew by 2.9%.

• *Table 2-1 : Population*

	2001	2002	2003
Total Population	654,619	672,124	689,418
Bahraini	407,959	417,940	427,955
Non-Bahraini	246,660	254,184	261,463
Annual Population Growth (%)	2.7	2.7	2.6
Annual Bahraini Population Growth	2.4	2.4	2.4
Annual Non-Bahraini Population Growth	3.0	3.1	2.9
Population Under Age 15	180,974	187,105	190,107
Population Above Age 65	16,586	16,869	17,376
Total Fertility Rate Per Bahraini Woman	3.0	3.0	-

Source: Central Informatics Organisation.

• *Chart 2-1: Population*



DOMESTIC ECONOMIC DEVELOPMENTS

2-2 Employment

Total employment increased in 2003 by 14.1% from 196,894 in 2002 to 224,579 in 2003. In addition, total employment as a percentage of total population increased by 3.3% to reach 32.6% in 2003.

The private sector makes up the largest part of employment in the economy, accounting for 84.6% of total employment, whilst the public sector accounts for 15.4%. Male and female employment in the private sector accounted for 87.3% and 12.7% respectively, while in the public sector for 59.6% and 40.4% respectively.

Bahraini employment in the private sector increased in absolute terms from 55,367 in 2002 to 60,161 in 2003 or by 8.7%. Bahraini employment accounted for 31.7% of private sector employment in 2003. Non-Bahraini employment in the private sector made up 68.3% of total private sector employment in 2003.

With respect to the public sector, Bahraini nationals made up 90.6% of total public sector employment, whereas non-Bahrainis accounted for only 9.4% in 2003.

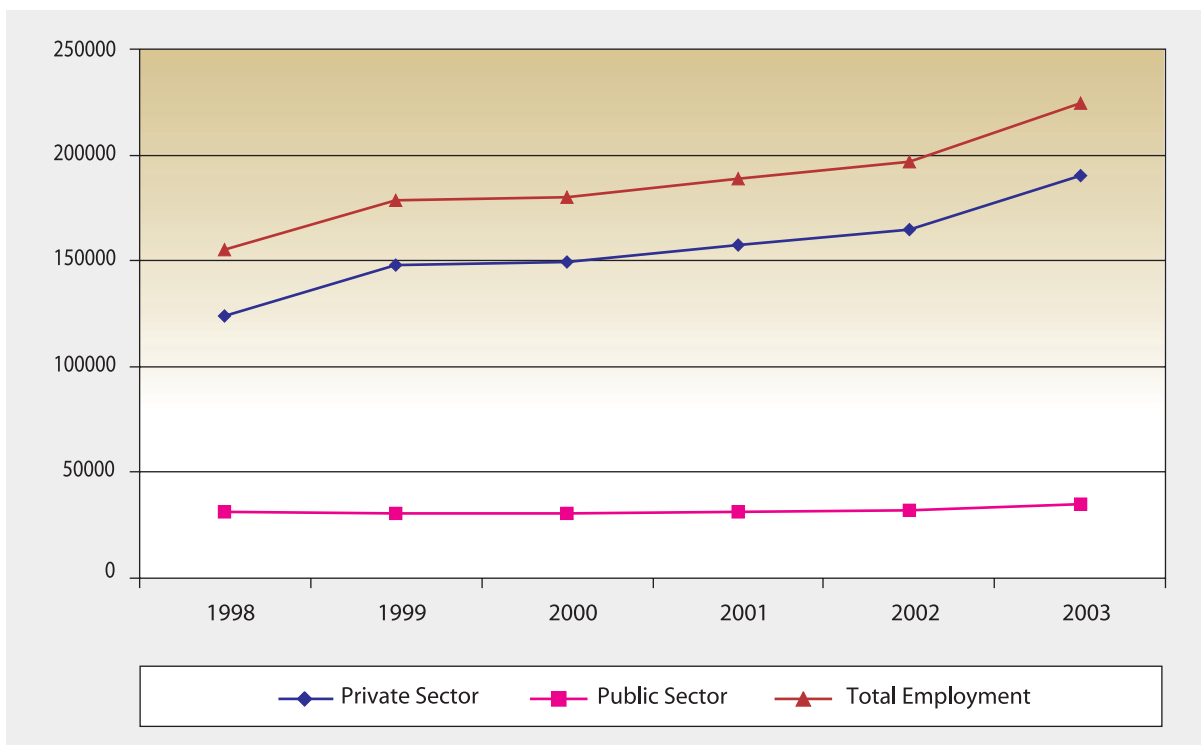
• Table 2-2: Employment

	2001	2002	2003
Total Population	654,619	672,124	689,418
Total Employment	188,420	196,894	224,579
As % of Total Population	28.8	29.3	32.6
Private Sector	157,396	164,700	189,932
As % of Total Employment	83.5	83.6	84.6
Male	136,782	143,862	165,780
Female	20,614	20,838	24,152
Bahraini	53,135	55,367	60,161
As % of Private Sector Employment	33.8	33.6	31.7
Non-Bahraini	104,261	109,333	129,771
As % of Private Sector Employment	66.2	66.4	68.3
Public Sector	31,024	32,194	34,647
As % of Total Employment	16.5	16.4	15.4
Male	19,203	19,417	20,644
Female	11,821	12,777	14,003
Bahraini	27,734	29,151	31,403
As % of Public Sector Employment	89.4	90.5	90.6
Non-Bahraini	3,290	3,043	3,244
As % of Public Sector Employment	10.6	9.5	9.4

Source: Ministry of Labour and Social Affairs.

DOMESTIC ECONOMIC DEVELOPMENTS

• Chart 2-2: Employment Trends



2-3 Average Monthly Wages

Average monthly wages in the private sector decreased from BD 237 in 2002 to BD 228 in 2003 or by 3.8%, while average monthly wages in the public sector increased from BD 458 to BD 477 or by 4.1%.

DOMESTIC ECONOMIC DEVELOPMENTS

• Table 2-3: Average Monthly Wages

	2001	2002	2003
Average Monthly Wages (BD)			
Private Sector	235	237	228
Male	238	239	228
Female	218	225	227
Bahraini			
Male	371	376	387
Female	230	241	244
Non-Bahraini			
Male	182	182	170
Female	199	196	196
Public Sector	453	458	477
Male	444	450	470
Female	468	471	488
Bahraini			
Male	439	445	468
Female	477	478	493
Non-Bahraini			
Male	485	493	484
Female	390	395	422

Source: Ministry of Labour and Social Affairs.

DOMESTIC ECONOMIC DEVELOPMENTS

2-4 Crude Oil Production and Refining

Crude oil production rose by 1.4% to reach 68.9 million barrels in 2003 compared with 67.9 million barrels in 2002. The offshore Abu-Sa'afa oilfield production level reached 55.1 million barrels, accounting for 80.1% of total crude oil production, while Bahrain oilfield production level reached 13.7 million barrels or 19.9% of total crude oil production. The daily average production of crude oil from Abu-Sa'afa field was 151.1 thousand barrels, while the daily average from the Bahrain field was 37.6 thousand barrels. Imports of Saudi Arabian crude oil increased by 3.0% to reach 79.1 million barrels in 2003.

• Table 2-4: Selected Oil Statistics

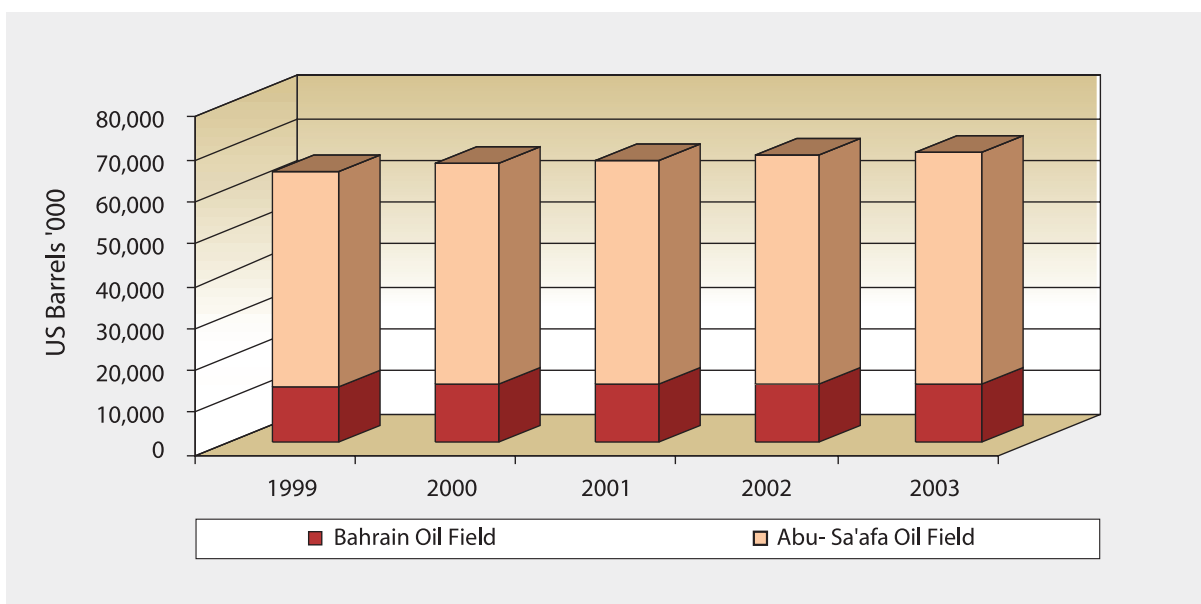
Description	U.S. Barrels (Thousands)		Change %	
	2002	2003	2002	2003
Bahrain Crude Oil Production	67,885	68,866	2.0	1.4
• Bahrain Oilfield	13,800	13,720	1.1	-0.6
• Abu-Sa'afa Oilfield	54,085	55,146	2.2	2.0
Imports of Saudi Arabian Crude Oil 1/	76,768	79,108	3.6	3.0
Production of Refined Oil	91,122	92,350	3.8	1.3
Local Sales of Refined Products	5,415	5,956	10.8	10.0
Exports	145,683	148,624	2.4	2.0
• Oil products 2/	91,472	93,131	2.4	1.8
• Abu-Sa'afa Oilfield	54,211	55,493	2.2	2.4

Source: Ministry of Oil.

1/ Imported crude oil used in refined products for export.

2/ Includes exports by Bapco and Banagas.

• Chart 2-3 Crude Oil Production



DOMESTIC ECONOMIC DEVELOPMENTS

2-5 Gas Production and Utilisation

Bahrain's total gas production registered an increase of 1.3% in 2003 to reach 434.5 billion cubic feet. This is mainly due to an increase in the production of natural gas by 2.0%. In 2003, power stations were the largest consumer of natural gas with 29.3% of total gas production used for this purpose. The second and third largest consumers of gas were Aluminum Bahrain (ALBA) with 25.9% of total production, and oilfield re-injection with 21.7% of total production.

• Table 2-5: Gas Production and Utilisation

Items	Billions of Cubic feet		Change %		Relative Share %	
	2002	2003	2002	2003	2002	2003
Gas Production	429.2	434.5	1.1	1.3	100.0	100.0
Natural Gas	333.0	339.8	1.6	2.0	77.6	78.2
Associated Gas	96.2	94.7	-0.3	-1.5	22.4	21.8
Gas Utilisation	429.2	434.5	1.1	1.3	100.0	100.0
Alba	115.3	112.5	2.8	-2.4	26.9	25.9
Power Stations	112.5	127.0	6.7	12.9	26.2	29.3
Oilfield Re-Injection	95.2	94.5	-6.7	-0.7	22.2	21.7
GPIC	43.0	39.7	-1.8	-7.6	10.0	9.1
Bapco Refinery	37.1	35.2	3.1	-5.1	8.6	8.1
Others	26.0	25.6	4.4	-1.7	6.1	5.9

Source: Ministry of Oil.

2-6 Aluminum Production

Alba's production increased by 2.3% to reach 531.0 thousand metric tonnes in 2003 from 518.9 thousand metric tonnes in the previous year, with 49.0% of total production being exported.

CHAPTER THREE

FOREIGN TRADE AND BALANCE OF PAYMENTS

3-1 Trade Balance

The trade surplus continued for the fifth successive year. The surplus rose from BD 294.0 million in 2002 to BD 454.1 million in 2003. Oil trade surplus increased from BD 858.8 million in 2002 to BD 982.6 million in 2003. On the other hand, the non-oil trade deficit decreased from BD 564.8 million in 2002 to BD 528.5 million in 2003.

Exports

The value of total exports increased by 13.9% from BD 2178.7 million in 2002 to BD 2481.8 million in 2003. Oil exports rose from BD 1487.6 million in 2002 to BD 1759.7 million in 2003, or by 18.3% as a result of the rise in oil prices. Exports of petroleum products and of Abu-Sa'afa crude oil increased by 20.4% and 15.6% respectively.

Non-oil exports rose from BD 691.1 million in 2002 to BD 722.1 million in 2003 as a result of the increase in the exports of base metals and articles thereof by 11.5%.

•Table 3-1 : Foreign Trade

Main Groups	BD Millions		Change (%)		Relative Share (%)	
	2002	2003*	2002	2003	2002	2003
Total Exports	2178.7	2481.8	3.9	13.9	100.0	100.0
Oil Exports	1487.6	1759.7	7.5	18.3	68.3	70.9
Abu-Sa'afa	651.7	753.2	7.4	15.6	29.9	30.3
Petroleum Products	835.9	1006.5	7.5	20.4	38.4	40.6
Non-Oil Exports (fob) 1/	691.1	722.1	-3.0	4.5	31.7	29.1
of which, Base Metals and Articles Thereof (includes Aluminum)	307.7	343.1	-5.0	11.5	14.1	13.8
Textiles and Textile Articles	172.2	106.4	8.0	-38.2	7.9	4.3
Products of Chemical and Allied Industries	51.4	69.3	-4.3	34.8	2.4	2.8
Machinery and Appliances, Electrical Equipment	21.2	22.2	26.9	4.7	1.0	0.9
Total Imports	1884.7	2027.7	16.4	7.6	100.0	100.0
Oil Imports	628.8	777.1	8.7	23.6	33.4	38.3
Non-Oil Imports (cif)	1255.9	1250.6	20.7	-0.4	66.6	61.7
of which, Machinery and Appliances, Electrical Equipment	282.4	243.3	45.3	-13.8	15.0	12.0
Products of Chemical and Allied Industries	154.0	160.0	2.9	3.9	8.2	7.9
Transport Equipment	166.2	213.4	51.2	28.4	8.8	10.5
Textiles and Textile Articles	95.9	81.6	1.3	-14.9	5.1	4.0
Base Metals and Articles Thereof	86.8	101.2	43.2	16.6	4.6	5.0
Trade Balance	294.0	454.1				

Source: Ministry of Oil and Central Informatics Organisation.

* Provisional data

1/ Includes re-exports.

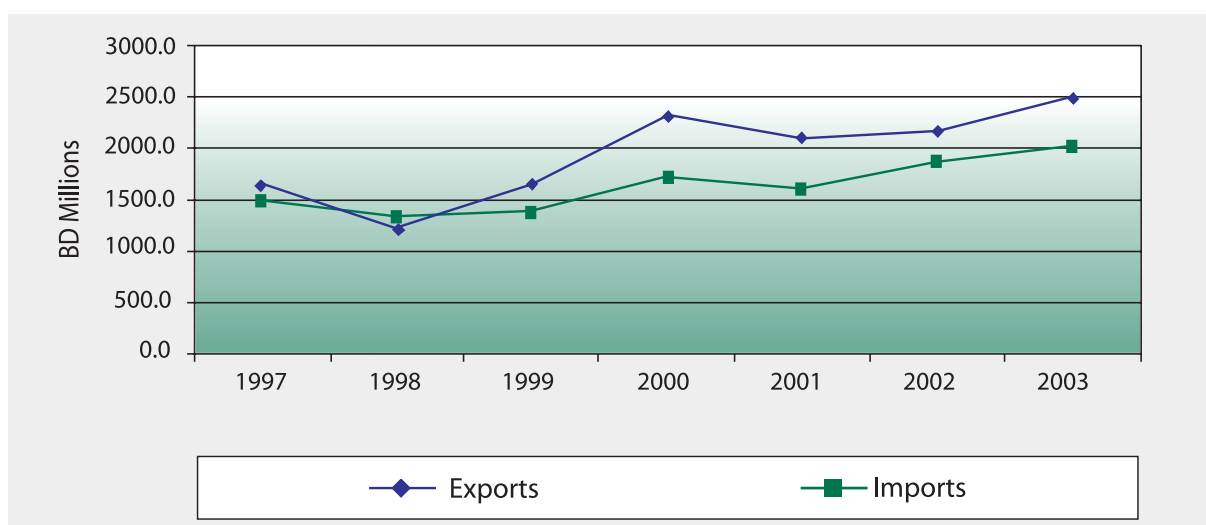
FOREIGN TRADE AND BALANCE OF PAYMENTS

Imports

The value of total imports rose from BD 1884.7 million in 2002 to BD 2027.7 million in 2003, or by 7.6%. The value of oil imports increased from BD 628.8 million in 2002 to BD 777.1 million in 2003, or by 23.6%.

The value of non-oil imports amounted to BD 1250.6 in 2003 compared with BD 1255.9 million in 2002. Imports of transport equipment and base metals and articles thereof rose by 28.4% and 16.6% respectively.

• Chart 3-1: Foreign Trade



3-2 Direction of Non-Oil Trade

An analysis of the trade data for the year 2003 indicates an increase in the value of non-oil trade with the main trading partners. Overall, the non-oil trade surplus with the Arab countries rose by BD 39.2 million, while the surplus with the Americas switched into a deficit of BD 7.4 million as a result of the decline in Bahrain exports to them by BD 69.1 million. On the other hand, the non-oil trade deficit with Europe and Asia declined by 8.9% and 7.4% respectively.

• Table 3-2: Direction of Non-Oil Trade

(BD Millions)

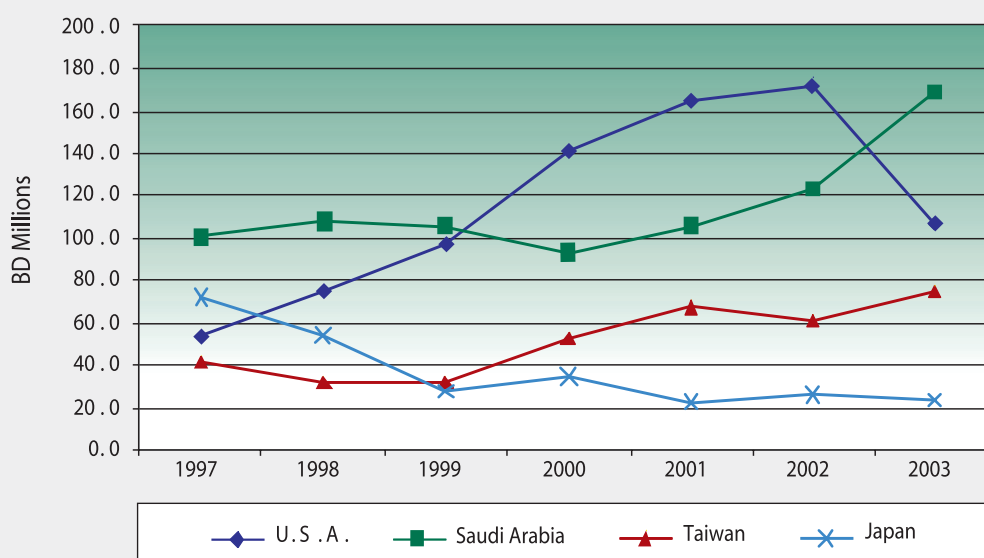
Country Groups	2002			2003*		
	Exports	Imports	Balance	Exports	Imports	Balance
Arab Countries	243.6	215.6	28.0	292.1	224.9	67.2
Africa	2.7	6.8	-4.1	5.9	6.7	-0.8
Asia	202.2	381.4	-179.2	246.5	412.4	-165.9
Europe	52.7	420.3	-367.6	46.0	380.7	-334.7
Americas	176.5	126.6	49.9	107.4	114.8	-7.4
Oceania	8.4	104.8	-96.4	20.9	110.5	-89.6
Other Countries	5.0	0.4	4.6	3.3	0.6	2.7
Total	691.1	1255.9	-564.8	722.1	1250.6	-528.5

Source: Central Informatics Organisation.

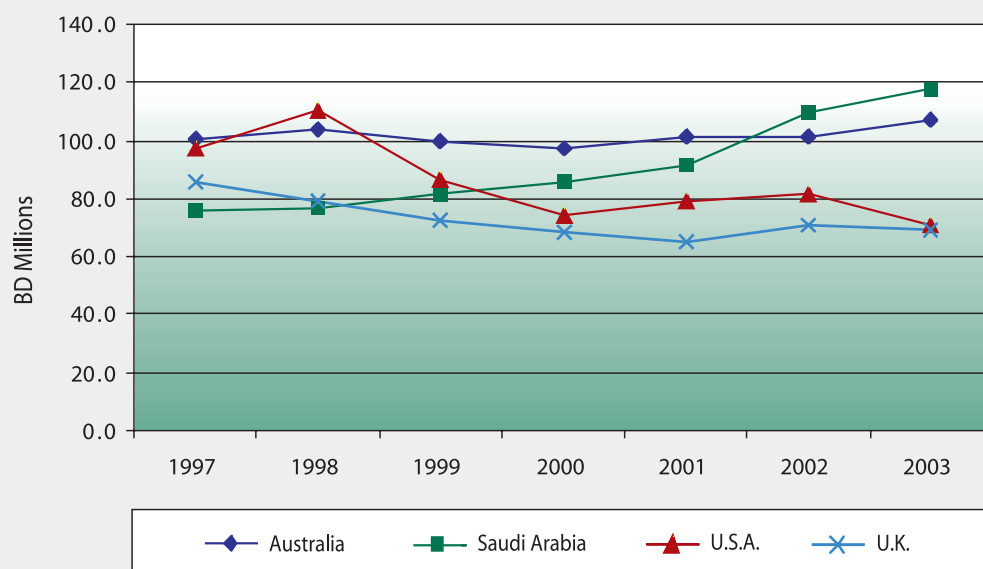
* Provisional data

FOREIGN TRADE AND BALANCE OF PAYMENTS

• Chart 3-2(a): Direction of Non-Oil Trade - Exports



• Chart 3-2(b): Direction of Non-Oil Trade - Imports



FOREIGN TRADE AND BALANCE OF PAYMENTS

3-3 Non-Oil Trade with GCC Countries

Bahrain non-oil trade surplus with the GCC countries increased from BD 17.6 million in 2002 to BD 57.8 million in 2003. This increase was a result of an increase in non-oil exports to them by 28.2%. Non-oil exports to GCC countries accounted for 36.4% of total non-oil exports, while imports from them represented 16.4%. Saudi Arabia and United Arab Emirates are the main trading partners among the GCC countries.

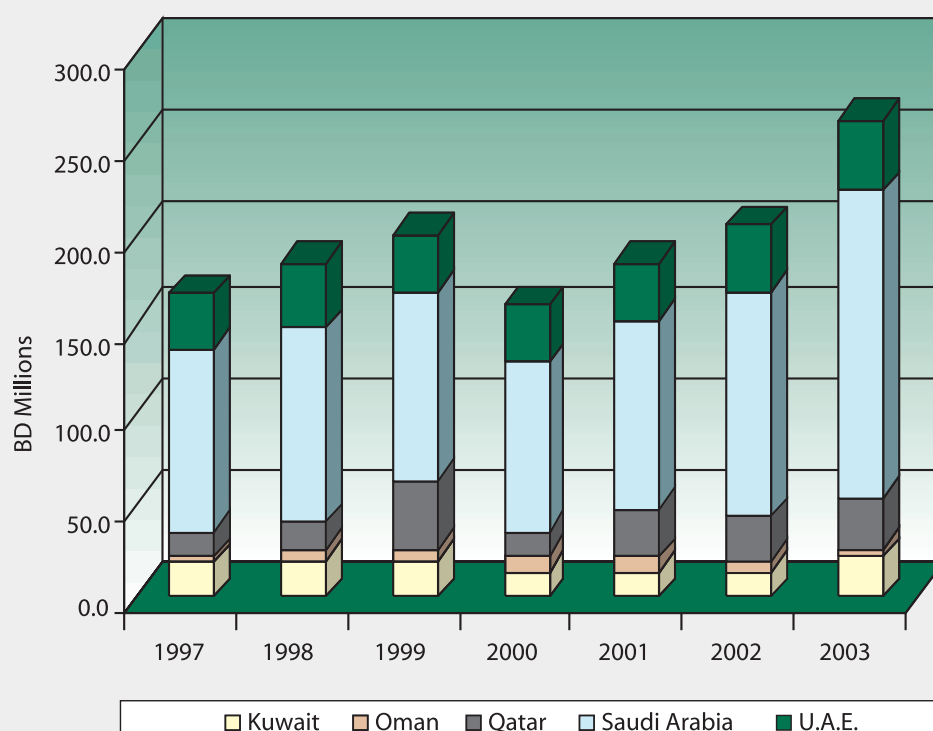
•Table 3-3: Non-Oil Trade with GCC Countries – 2003*

Countries	Exports			Imports			Trade Balance
	BD Millions	Annual Change (%)	Relative Share (%)	BD Millions	Annual Change (%)	Relative Share (%)	
Kuwait	22.5	49.0	8.6	13.4	22.9	6.5	9.1
Oman	3.7	-31.5	1.4	6.9	-10.4	3.4	-3.2
Qatar	28.7	18.1	10.9	8.6	34.4	4.2	20.1
Saudi Arabia	169.2	37.1	64.4	117.4	6.8	57.3	51.8
U.A.E.	38.7	5.2	14.7	58.7	11.8	28.6	-20.0
Total	262.8	28.2	100.0	205.0	9.4	100.0	57.8

Source: Central Informatics Organisation.

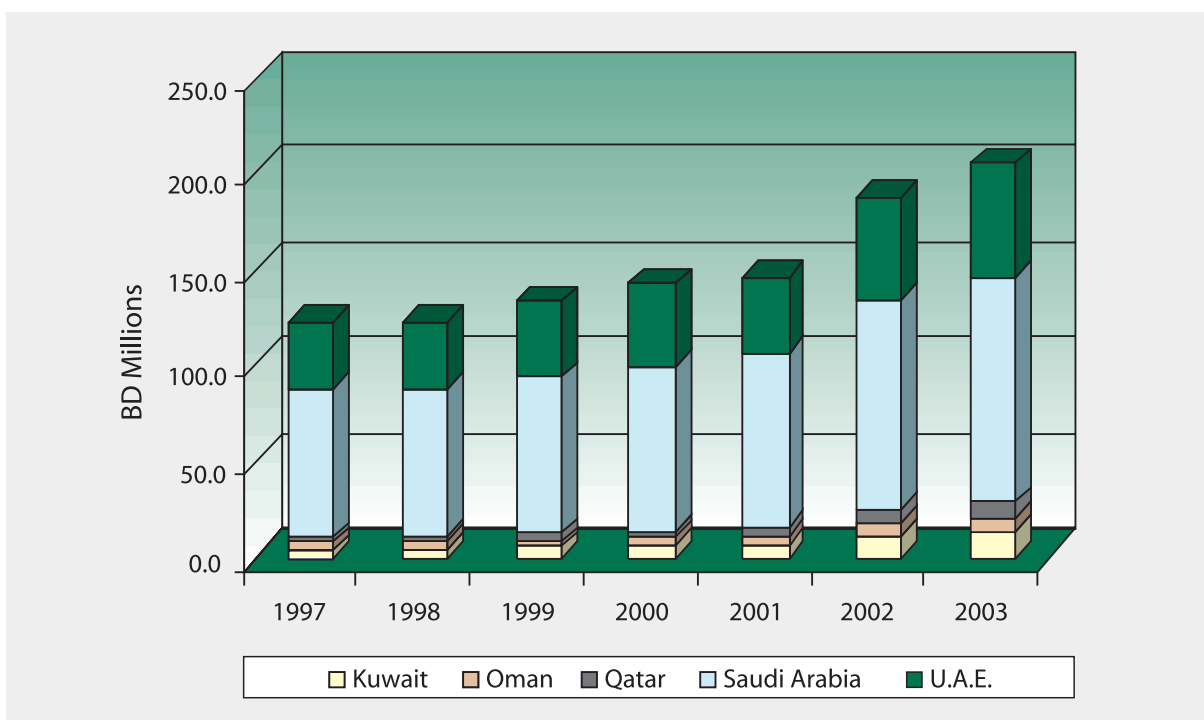
* Provisional data

• Chart 3-3(a): Non-Oil Trade with GCC Countries - Exports



FOREIGN TRADE AND BALANCE OF PAYMENTS

• Chart 3-3(b): Non-Oil Trade with GCC Countries - Imports



3-4 Balance of Payments (BOP)

Current Account

The current account deficit declined from BD 193.0 million in 2002 to BD 18.5 million in 2003. This was due to an increase in the goods surplus and net services receipts by BD 157.1 million and BD 23.2 million respectively. Net current transfer payments and net investment income paid to non-resident investors amounted to BD 503.8 million and BD 195.5 million respectively.

Net services increased by BD 23.2 million due to the increase in net income from travel by BD 19.8 million.

Net investment income payments decreased from BD 197.4 million in 2002 to BD 195.5 million in 2003.

Net current transfers abroad increased by 1.6% from BD 496.1 million in 2002 to BD 503.8 million in 2003, as a result of the increase in workers' remittances by BD 2.1 million.

Capital and Financial Account

The capital and financial account registered a net outflow of BD 122.9 million in 2003, compared with a net outflow of BD 438.9 million in 2002.

Capital transfers decreased from BD 38.2 million in 2002 to BD 18.8 million in 2003 or by 50.8%. These transfers comprise official grants received by the Government.

FOREIGN TRADE AND BALANCE OF PAYMENTS

The financial account registered a net outflow – for the fourth consecutive year – of BD 141.7 million in 2003. This is due to the increase in Bahrain portfolio assets by BD 1,152.2 million as a result of the increase in banks' portfolio assets and total outstanding investments in mutual funds.

The year 2003 witnessed an increase in other investment assets and liabilities by BD 7,815.8 million and BD 8,668.6 million respectively, to end with a net inflow of BD 852.8 million compared with a net inflow of BD 1,114.4 million in 2002. Other investments comprise mainly of currency and deposits.

Reserve assets registered a surplus for the fifth consecutive year. The net surplus increased from BD 13.1 million in 2002 to BD 16.4 million in 2003.

FOREIGN TRADE AND BALANCE OF PAYMENTS

•Table 3-4: Balance of Payments

(BD Millions)

Items	2001	2002	2003**
1. Current Account (a+b+c+d)	85.4	-193.0	-18.5
a. Goods	605.4	447.4	604.5
General Merchandise	575.1	412.5	572.0
Exports (fob)	2096.9	2178.7	2481.8
- Oil and oil products	1475.0	1562.6	1851.5
- Non-Oil	621.9	616.1	630.3
Imports (fob)	-1521.8	-1766.2	-1909.8
- Oil and oil products	-646.5	-699.5	-848.7
- Non-Oil	-875.3	-1066.7	-1061.1
Repairs on goods	30.3	34.9	32.5
b. Services (net)	76.2	53.1	76.3
- Transportation	-56.2	-78.6	-76.0
- Travel	143.0	135.6	155.4
- Insurance Services	-9.7	-11.9	-11.6
- Other Business Services	-0.9	8.0	8.5
c. Income (net)	-120.9	-197.4	-195.5
Investment Income	-120.9	-197.4	-195.5
- Direct Investment Income	-268.2	-263.0	-257.6
- Portfolio Income	180.4	107.0	86.8
- Other Investment Income	-33.1	-41.4	-24.7
d. Current Transfers (net)	-475.3	-496.1	-503.8
- Workers' Remittances	-483.9	-501.7	-503.8
2. Capital and Financial Account (net) (A+B)	-165.7	-438.9	-122.9
A. Capital Account (net)	37.6	38.2	18.8
- Capital Transfers	37.6	38.2	18.8
B. Financial Account (1+2+3+4)*	-203.3	-477.1	-141.7
1. Direct Investment	-51.0	10.1	-84.7
- Abroad	-81.2	-71.5	-278.7
- In Bahrain	30.2	81.6	194.0
2. Portfolio Investment (net)	-556.0	-1588.5	-893.4
- Assets	-544.5	-1932.6	-1152.2
- Liabilities	-11.5	344.1	258.8
3. Other Investment (net)	450.1	1114.4	852.8
- Assets	2114.3	12568.0	-7815.8
- Liabilities	-1664.2	-11453.6	8668.6
4. Reserve Assets (net)	-46.4	-13.1	-16.4
3. Errors and Omissions	80.3	631.9	141.4

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

** Provisional Data

FOREIGN TRADE AND BALANCE OF PAYMENTS

3-5 International Investment Position (IIP)

IIP provisional data for the year 2003 indicates that Bahrain continued to enjoy the position of net external creditor. The net international investment position remained unchanged at BD 2.3 billion at end-2003.

Foreign assets rose by 37.8% from BD 24.6 billion at end-2002 to BD 33.9 billion at end-2003 as a result of the increase in other investment assets by 49.1%.

Similarly, foreign liabilities rose from BD 22.3 billion at end-2002 to BD 31.6 billion at end-2003 or by 41.7% due to the increase in other investment liabilities by 46.4%.

• Table 3-5: *International Investment Position (IIP)*

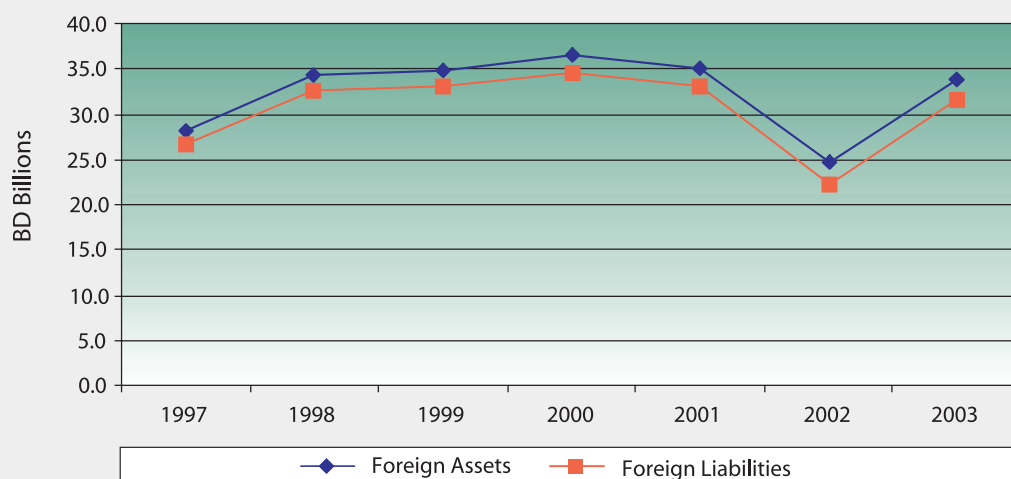
(BD Billions)

Items	2001	2002	2003**
IIP, net	2.1	2.3	2.3
Foreign Assets	35.2	24.6	33.9
Direct Investment Abroad	0.8	0.8	1.1
Portfolio Investment	5.3	7.3	8.4
Other Investment*	28.4	15.9	23.7
Reserve Assets	0.7	0.6	0.7
Foreign Liabilities	33.1	22.3	31.6
Direct Investment in Bahrain	2.3	2.3	2.5
Portfolio Investment	0.2	0.6	0.7
Other Investment*	30.6	19.4	28.4

* Includes loans, currency and deposits.

** Provisional data.

• Chart 3-4: *International Investment Position (IIP)*



CHAPTER FOUR MONEY AND BANKING

4-1 The Banking and Financial System

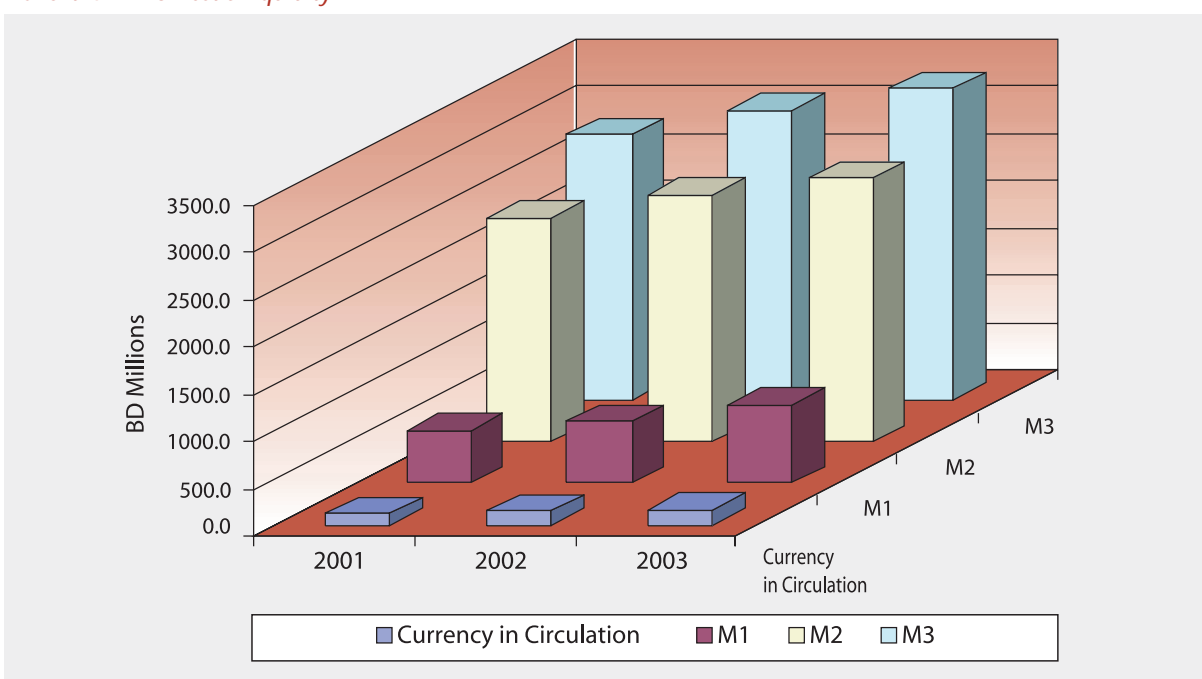
The number of banks and financial institutions licensed by the Agency increased to 357 at end-2003, from 339 at end-2002. 12 new licenses were issued to the banking sector during the year, including 1 full commercial bank, 2 investment banks, 1 offshore banking unit, 1 representative office, 6 investment advisory/brokers and 1 financing company.

4-2 Money Supply and Liquidity

Currency in circulation registered an increase of BD 13.8 million or 9.7% at end 2003, to reach BD 155.8 million.

M1 (currency in circulation plus private demand deposits) increased by BD 174.2 million, or 26.9%, to reach BD 821.4 million at end-2003. As a result of the increase in M1 and growth in private sector saving deposits by 21.0%, M2 (M1 plus private sector savings and time deposits) rose by 6.4% from BD 2,599.6 million at end-2002 to BD 2,765.0 million at end-2003. At the same time, M3 (M2 plus government deposits) rose by 7.8%, to reach BD 3,278.6 million at end-2003.

• Chart 4-1: Domestic Liquidity



• Table 4-1: Domestic Liquidity

(BD Millions)

Items	Year-end			Change (2003 vs. 2002)	
	2001	2002	2003	Absolute	%
Currency in Circulation	122.9	142.0	155.8	13.8	9.7
M1	552.0	647.2	821.4	174.2	26.9
M2	2,356.0	2,599.6	2,765.0	165.4	6.4
M3	2,783.7	3,040.5	3,278.6	238.1	7.8

MONEY AND BANKING

Factors Affecting Domestic Liquidity

Changes in the major factors affecting domestic liquidity over the period 2001-2003 are illustrated in Table 4.2.

• Table 4-2: Factors Affecting Domestic Liquidity

(BD Millions)

Factors	Year-end			Changes	
	2001	2002	2003	(2002 vs. 2001)	(2003 vs. 2002)
A. Total Domestic Liquidity (M3)	2,783.7	3,040.5	3,278.6	256.8	238.1
B. Factors Affecting Liquidity					
1. Net Foreign Assets (a+b)	1,205.7	1,219.6	1,204.7	13.9	-14.9
(a) BMA	510.9	523.3	539.2	12.4	15.9
(b) Commercial Banks	694.8	696.3	665.5	1.5	-30.8
2. Domestic Claims (a+b+c)	1,578.0	1,820.9	2,073.9	242.9	253.0
(a) Claims on government	375.2	425.2	529.0	50.0	103.8
(b) Claims on private sector 1/	1,410.9	1,606.6	1,754.2	195.7	147.6
(c) Other assets (net)	-208.1	-210.9	-209.3	-2.8	1.6

1/ Loans and holdings of securities.

Total domestic liquidity (M3) registered an increase of BD 238.1 million, or 7.8% at end-2003.

Net foreign assets registered a decline of BD 14.9 million, or 1.2%, at end-2003. This was mainly a result of the decrease in FCB net foreign assets by BD 30.8 million and an increase in BMA's net foreign assets by BD 15.9 million.

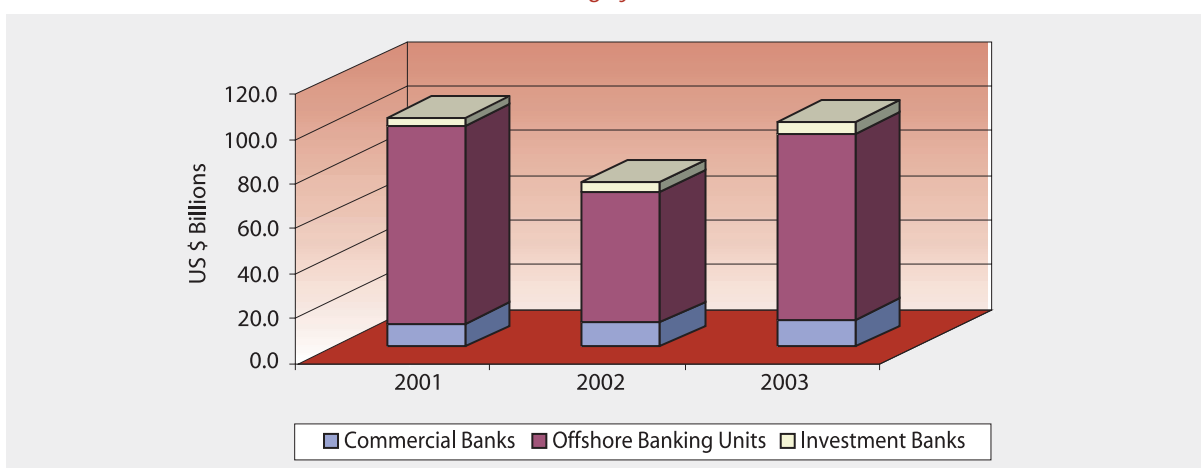
Total domestic claims rose by BD 253.0 million, or 13.9%, at end-2003. This was due to an increase in claims on the private sector and on the government by BD 147.6 million and BD 103.8 million respectively.

4-3 The Banking System

The consolidated balance sheet of the banking system in Bahrain (commercial banks, offshore banking units, and investment banks) increased from US\$ 74.0 billion at end-2002 to US\$ 100.9 billion at end-2003, or by 36.4%.

Offshore banking units accounted for 82.7% of the total balance sheet at end-2003, while commercial and investment banks accounted for 12.1% and 5.2% respectively.

• Chart 4-2: Consolidated Balance Sheet of the Banking System



MONEY AND BANKING

• Table 4-3 : Consolidated Balance Sheet of the Banking System

(US\$ Billions)

Items	2002	2003	Change %
Commercial Banks	10.7	12.2	14.4
Offshore Banking Units	58.8	83.4	41.8
Investment Banks	4.5	5.3	17.8
Total	74.0	100.9	36.4

The geographical distribution of the banking system assets and liabilities at end-2003 is illustrated in Table 4-4.

• Table 4-4 : Geographical Classification of the Banking System's Assets and Liabilities at End-2003 (US\$ Millions)

Countries	Assets			Liabilities		
	FCBs	OBUs	IBs	FCBs	OBUs	IBs
Arab Countries	10,465.4	24,304.4	2,157.6	11,577.7	34,008.4	3,493.3
Asia	221.0	9,052.9	85.5	97.3	12,844.8	17.9
Americas	602.7	20,421.4	1,572.6	98.9	8,322.7	1,269.7
Western Europe	908.5	27,022.2	1,497.5	449.5	27,699.8	471.9
Others	41.8	2,581.3	0.0	16.0	506.5	60.4
Total	12,239.4	83,382.2	5,313.2	12,239.4	83,382.2	5,313.2

4-4 Commercial Banks

At end-2003, Bahrain's commercial banking sector comprised of 24 Full Commercial Banks (FCBs), five of which were Islamic banks.

The consolidated balance sheet of the commercial banks continued its upward trend in 2003 to reach BD 4,602.0 million, as against BD 4,021.5 million at end-2002, an increase of 14.4%.

Foreign Assets and Liabilities

Total foreign assets of the commercial banks increased from BD 1,273.9 million at end-2002 to BD 1,398.4 million at end-2003, or by 9.8%. In addition, total foreign liabilities rose by 26.9%, from BD 577.6 million at end-2002 to BD 732.9 million at end-2003. As a result, net foreign assets decreased by BD 30.8 million to reach BD 665.5 million at end-2003.

Domestic Deposits

(i) Private Sector Deposits

Total private sector deposits (Bahraini Dinars plus other currencies) amounted to BD 2,563.2 million at end-2003, an increase of BD 251.7 million or 10.9%, over end-2002. Demand and savings deposits increased by 31.7% and 21.0% respectively.

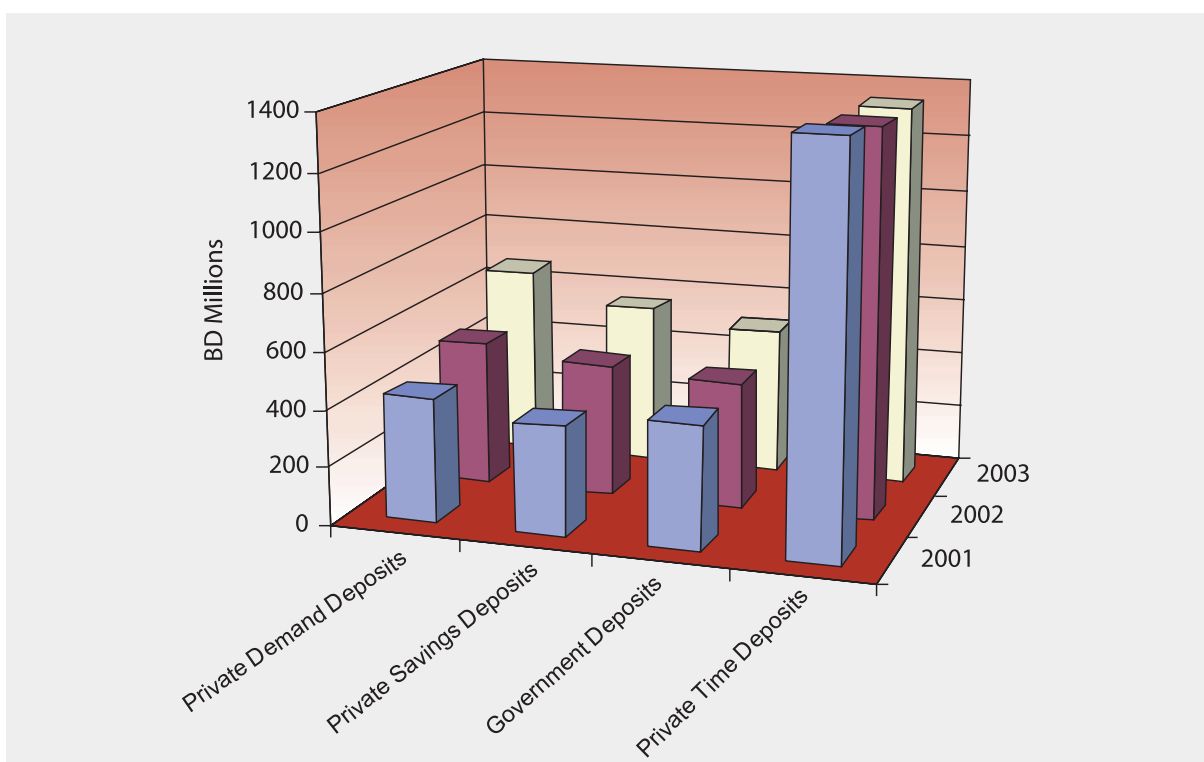
MONEY AND BANKING

Private sector deposits denominated in Bahraini Dinars increased by 17.0%, while those denominated in foreign currencies decreased by 0.9%. Deposits denominated in Bahraini Dinars represented 69.5% of the total private sector deposits.

(ii) Government Deposits /1

Government deposits (Bahraini Dinars plus other currencies) amounted to BD 513.2 million at end-2003, compared with BD 439.4 million at end-2002, an increase of 16.8%. This was a result of the rise in foreign currency deposits by BD 75.6 million, or 31.6%, and a fall in Bahraini Dinars deposits by BD 1.8 million, or 0.9%.

• Chart 4-3: FCB Deposit Trends



• Table 4-5: Domestic Deposits at Commercial Banks (Excluding Interbank Deposits)

(BD Millions)

Items	End-2002			End-2003			(2003 vs. 2002) %
	BD	OC	Total	BD	OC	Total	
1. Private Sector Deposits	1,523.6	787.9	2,311.5	1,782.2	781.0	2,563.2	10.9
Demand Deposits	392.4	112.8	505.2	531.6	134.0	665.6	31.7
Time Deposits	682.2	662.6	1,344.8	706.9	632.1	1,339.0	-0.4
Savings Deposits	449.0	12.5	461.5	543.7	14.9	558.6	21.0
2. Government Deposits	199.8	239.6	439.4	198.0	315.2	513.2	16.8
Total Domestic Deposits	1,723.4	1,027.5	2,750.9	1,980.2	1,096.2	3,076.4	11.8

1/ Includes the Central Government and the Social Insurance System.

MONEY AND BANKING

Credit

Outstanding credit facilities extended by commercial banks to the different sectors of the domestic economy amounted to BD 1,798.9 million at end-2003, compared with BD 1,629.8 million at end-2002, an increase of 10.4%.

(i) Business Sector

Outstanding credit facilities to the business sector decreased by 0.7%, from BD 842.7 million at end-2002 to BD 837.1 million at end-2003. Credit to construction and real estate, trade and manufacturing decreased by 6.3%, 4.5% and 1.8% respectively. The business sector's share to total outstanding credit facilities was 46.5%.

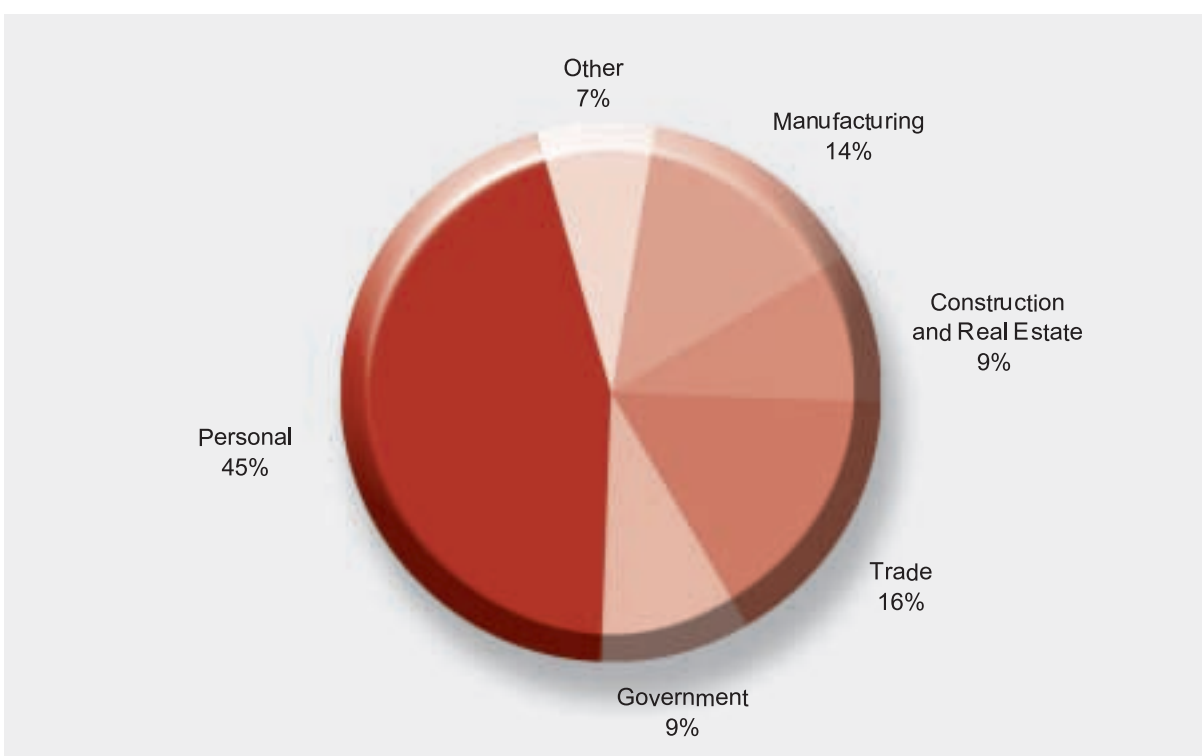
(ii) Personal Sector

Outstanding credit facilities to the personal sector increased by 19.0%, from BD 678.7 million at end-2002 to BD 807.5 million at end-2003. The personal sector's share of total outstanding credit facilities was 44.9%.

(iii) Government

Outstanding credit to the government increased by 42.3% to BD 154.3 million at end-2003, compared with BD 108.4 million at end-2002. The government sector's share of total outstanding credit facilities was 8.6%.

• Chart 4-4: Outstanding Credit to Non-Bank Residents by Economic Sector in 2003



MONEY AND BANKING

• Table 4-6: Outstanding Credit to Non-Bank Residents by Economic Sector

(BD Millions)

Sectors	Year-end				Change (2003 vs. 2002)	
	2002		2003		Absolute	%
	Absolute	%	Absolute	%		
1. Business	842.7	51.7	837.1	46.5	-5.6	-0.7
Manufacturing	255.7	15.7	251.1	13.9	-4.6	-1.8
Mining and Quarrying	0.6	0.0	1.0	0.1	0.4	66.7
Agriculture, Fishing and Dairy	5.9	0.4	6.3	0.3	0.4	6.8
Construction & Real Estate	176.9	10.8	165.8	9.2	-11.1	-6.3
Trade	299.6	18.4	286.2	15.9	-13.4	-4.5
Non-Bank Financial	27.9	1.7	41.1	2.3	13.2	47.3
Other Business	76.1	4.7	85.6	4.8	9.5	12.5
2. Government	108.4	6.7	154.3	8.6	45.9	42.3
3. Personal	678.7	41.6	807.5	44.9	128.8	19.0
Total	1,629.8	100.0	1,798.9	100.0	169.1	10.4

Credit Cards

Total number of customers using credit cards increased from 116,538 at end-2002 to 126,889 at end-2003 or by 8.9%. Bahraini customers accounted for 73.0% of total customers.

Total outstanding credit rose by 7.6% to reach BD 58.0 million at end-2003, compared with BD 53.9 million at end-2002.

The weighted average interest rate on credit cards rose from 17.40% at end-2002 to 17.44% at end-2003.

• Table 4-7: Credit Card Survey

Items	2002	2003	Change %
Number of Customers	116,538	126,889	8.9
Number of Accounts	82,418	90,978	10.4
of which: Rollover Accounts	62,031	66,089	6.5
Overdue Accounts	8,437	13,201	56.5
Total Outstanding (BD Millions)	53.9	58.0	7.6
of which: Delinquency Amounts	5.8	4.8	-17.2
Rollover Amounts	44.1	44.3	0.5

MONEY AND BANKING

BD Interest Rates

The weighted average time deposit rate (3-12 months) increased from 0.91% at end-2002 to 1.81% at end-2003. Also, the weighted average saving rate increased from 0.60% to 1.01%.

The weighted average interest rate on business loans fell from 5.72% at end-2002 to 5.34% at end-2003, and that on personal loans from 8.02% to 7.89%.

• Table 4-8: Interest Rates on BD Deposits & Loans

Items	End 2001	End 2002	2003			
			Q1	Q2	Q3	Q4
1. Deposits						
Time/1	1.54	0.91	1.69	1.13	1.31	1.81
Savings	1.16	0.60	1.11	1.07	1.01	1.01
2. Loans						
Business	6.76	5.72	5.77	5.19	5.29	5.34
Personal	9.41	8.02	8.36	8.42	8.51	7.89
3. Credit Cards	17.21	17.40	17.41	17.45	17.18	17.44

1/ Time deposits of 3-12 months.

4-5 Offshore Banking Units

The number of licensed Offshore Banking Units (OBUs) totalled 50 at end-2003. The aggregate assets/liabilities of the OBUs increased from US\$ 58.8 billion at end-2002 to US\$ 83.4 billion at end-2003, or by 41.8%.

Foreign Assets and Liabilities

Total foreign assets of the OBUs increased by 43.1%, to reach US\$ 78.4 billion at end-2003, compared with US\$ 54.8 billion at end-2002. Total foreign liabilities also increased from US\$ 53.5 billion at end-2002 to US\$ 76.5 billion at end-2003, or by 43.0%. As a result, net foreign assets of the OBUs increased to US\$ 1.9 billion at end-2003.

A classification by currencies indicates that the U.S. dollar, GCC currencies, and the Euro accounted for 67.4%, 10.0% and 16.9% of total assets, and for 66.9%, 11.6% and 15.7% of total liabilities respectively at end-2003.

4-6 Investment Banks

The number of licensed Investment Banks (IBs) at end-2003 totaled 36. The aggregate assets/liabilities of the IBs increased by 17.8%, from US\$ 4.5 billion at end-2002 to US\$ 5.3 billion at end-2003.

Foreign Assets and Liabilities

Total foreign assets of the IBs increased from US\$ 3.8 billion at end-2002 to US\$ 4.2 billion at end-2003, or by 10.5%. Similarly, total foreign liabilities increased from US\$ 3.2 billion at end-2002 to US\$ 3.9 billion at end-2003, or by 21.9%. As a result, net foreign assets of the IBs amounted to US\$ 0.3 billion at end-2003.

MONEY AND BANKING

A classification by currencies indicates that the U.S. dollar and GCC currencies accounted for 84.9% and 9.4% of total assets, and for 86.8% and 7.5% of total liabilities respectively at end-2003.

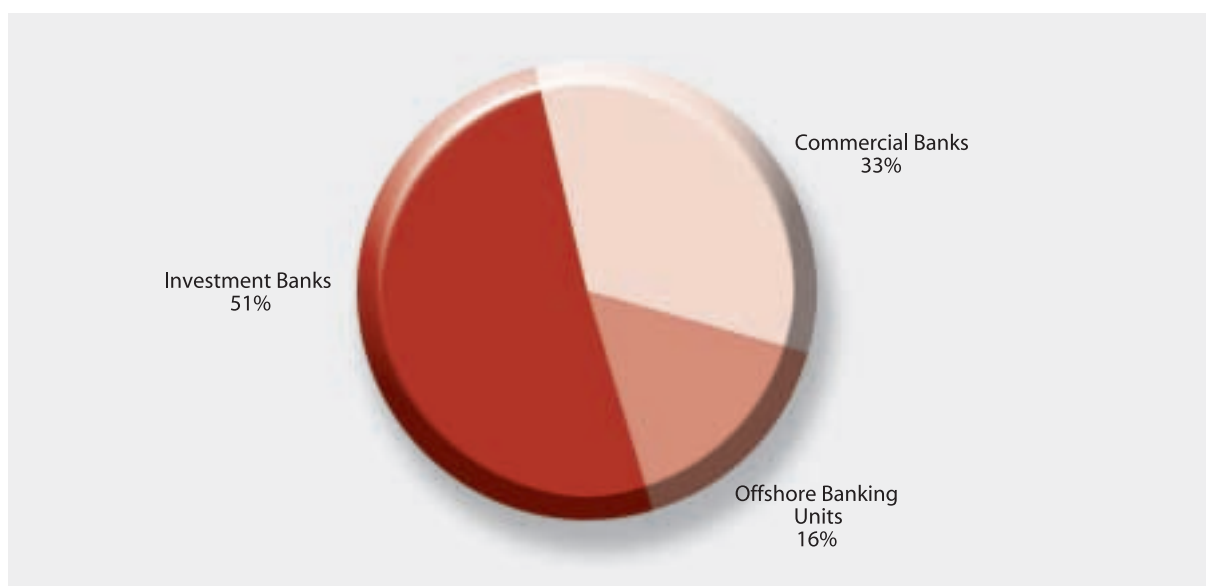
4-7 Islamic Banks

The number of licensed Islamic banks (commercial banks, offshore banking units, and investment banks) at end-2003 totalled 24. The consolidated assets/liabilities* of the Islamic banks increased from US\$ 2.9 billion at end-2002 to US\$ 4.2 billion at end-2003, or by 44.8%.

Foreign Assets and Liabilities

Total foreign assets of the Islamic banks increased from US\$ 1.6 billion at end-2002 to US\$ 2.1 billion at end-2003, or by 31.3%. Similarly, total foreign liabilities increased from US\$ 1.3 billion at end-2002 to US\$ 1.9 billion at end-2003, or by 46.2%. As a result, net foreign assets of the Islamic banks amounted to US\$ 0.2 billion at end-2003.

• Chart 4-5: Islamic Banks Balance Sheet-2003



The geographical distribution of Islamic banks assets and liabilities at end-2003 is illustrated in Table 4-9.

• Table 4-9: Geographical Classification of Islamic Banks' Assets and Liabilities at End-2003

(US\$ Millions)

Countries	Assets	Liabilities
Arab countries	2,946.0	3,360.0
Asia	117.3	37.4
Americas	731.5	536.0
Western Europe	361.9	223.5
Others	0.2	0.0
Total	4,156.9	4,156.9

* Unrestricted Investment Accounts only.

MONEY AND BANKING

A classification by currencies indicates that the U.S. dollar and GCC currencies accounted for 73.8% and 21.4% of total assets, and for 71.4% and 26.2% of total liabilities respectively at end-2003.

4-8 Employment in the Banking & Financial Sector

Total employment in the banking and financial sector was 6,407 at end-2003, compared with 6,221 at end-2002, a growth of 3.0%. Bahrainis represented 73.5% of the total number of employees in the banking and financial sector at end-2003.

The Banking Sector

Total employment in the banking sector (commercial banks, offshore banking units, investment banks and representative offices) was 5,068 at end-2003, compared with 4,946 at end-2002, an increase of 2.5%. Bahrainis represented 77.7% of the total.

Employment in commercial banks represented 46.1% of the total, while offshore banking units, investment banks and representative offices accounted for 31.3%, 21.5% and 1.1% respectively.

The Financial Sector

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

Total employment in the financial sector was 1,339 at end-2003, compared with 1,275 at end-2002, an increase of 5.0%. Bahrainis accounted for 57.7% of the total.

• Table 4-10 : Employment in the Banking & Financial Sector (2002-2003)

Sectors	2002			2003		
	Bahraini	Non Bahraini	Total	Bahraini	Non Bahraini	Total
Banking Sector						
Commercial Banks	1,919	232	2,151	2,082	254	2,336
Offshore Banking Units	1,118	567	1,685	1,060	526	1,586
Investment Banks	764	278	1,042	778	313	1,091
Representative Offices	24	43	67	17	38	55
Total	3,825	1,121	4,946	3,937	1,131	5,068
Financial Sector						
Insurance Companies	484	260	744	510	261	771
Money Changers	164	213	377	174	231	405
Money Brokers	33	23	56	32	22	54
Inv. Advisory & Other Financial Services	46	47	93	51	53	104
Total	732	543	1,275	772	567	1,339
Grand Total	4,557	1,663	6,221	4,709	1,698	6,407

CHAPTER FIVE

BAHRAIN STOCK EXCHANGE

5-1 Bahrain Stock Exchange (BSE)

During 2003, the Bahrain Stock Exchange (BSE) witnessed an active year in terms of listing Islamic Leasing Sukuk issued by the Bahrain Monetary Agency on behalf of the Government of the Kingdom of Bahrain, as well as the listing of bonds and closed companies.

The BMA was the first Central Bank worldwide to issue Islamic Financial instruments, which helped develop Bahrain into a leading international Islamic financial centre. Islamic instruments were first listed on the BSE in 2001. In 2003 the US\$ 100.0 million 6th issue of Ijara (Leasing) Sukuk was listed as well as the 4th and 5th issues of Bahrain Government US\$ 50.0 million and US\$ 80.0 million Ijara (Leasing) Sukuk in addition to a further issue of Ijara Sukuk of US\$ 250.0 million in value.

The year 2003 has also seen the listing on the BSE of Alba US\$ 200.0 million bonds, and the US\$ 600.0 million Malaysian International Sukuk, the first International Islamic Instrument to be listed on the BSE. Listed also on the BSE during the year were the US\$ 1.3 million convertible bonds of United Finance Company (Omani company) and United Gulf Bank securities with a value of US\$ 60.0 million.

In terms of listing closed companies, the shares of Securities and Investment Company (SICO) were listed with a paid up capital of BD 12.5 million, making it the first joint stock closed company to be listed with the BSE. It was followed by the shares of Al Khaleej Development Company with a paid up capital of US\$ 16.0 million. The third joint stock closed company to find its way on to the BSE list was United Paper Industries Company with a paid up capital of BD 1 million. The year also witnessed the listing of the United Finance Company, an Omani joint stock company, with a paid up capital of US\$ 15.6 million.

5-2 Market Performance

The performance of the Bahrain Stock Exchange improved in 2003 compared to 2002. The BSE benchmark index closed the year up by 28.8% at 2346.29 points, while the market capitalisation of locally listed companies increased to BD 3.66 billion compared to BD 2.85 billion for the year 2002, an increase of 28.3%. Similarly the total volume of shares traded on the BSE increased by 14.9% from 353.1 million shares in 2002 to 405.6 million shares in the year 2003, while the value of traded shares rose by 26.4% from BD 80.9 million in 2002 to BD 102.3 million in 2003.

• Table 5-1: Trading Activities in the Market

	2002	2003	Change %
Volume of shares traded (Millions)	353.1	405.6	14.9
Daily average of shares traded (Millions)	1.4	1.6	14.9
Value of shares traded (BD millions)	80.9	102.3	26.4
Daily average of traded shares value (BD thousands)	328	414	26.4
Number of transactions	12,977	14,629	12.7
Daily average of transactions	53	59	11.3
Performance of the main Index (Points)	1,821.49	2,346.29	28.8
Total number of listed stocks	40	44	10.0
Market Capitalisation of listed Companies (BD billions)	2.85	3.66	28.4
Turnover (%)*	2.73	2.69	-1.4

* Turnover: (Value of Traded Shares / Market Capitalisation) x 100

Listed shares traded at a price-earning ratio of 17.12 in 2003 with a dividend to share price ratio at 3.64. Price to book value ratio increased to 1.39 compared to 1.13 in 2002, which represents the multiples at which an investor would be prepared to pay on top of the book value of a share. Return on shareholders equity increased from 10.7% in 2002 to 11.6% in 2003.

BAHRAIN STOCK EXCHANGE

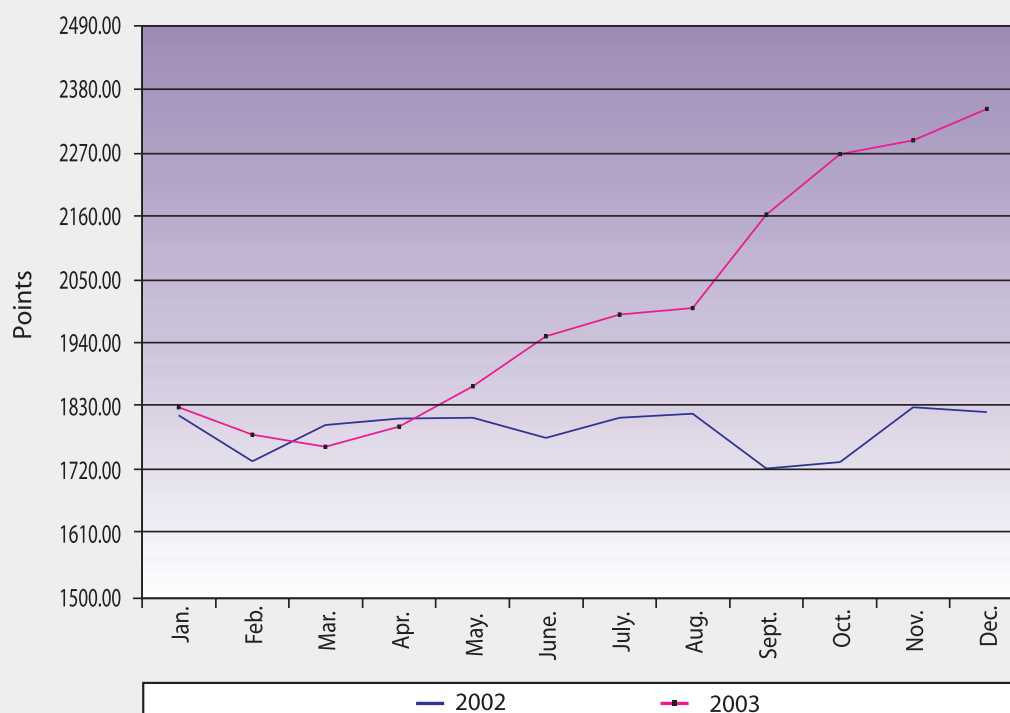
• Table 5-2: Fundamental Ratio Analysis

Sectors	Price Earning Ratio (Multiples)**		Dividend/Price (%)		Price/Book Value (Multiples)	
	2002	2003*	2002	2003*	2002	2003*
BSE	13.17	17.12	4.54	3.64	1.13	1.39
Commercial Banks	12.89	20.39	5.50	3.55	1.29	2.00
Investment Sector	19.00	20.84	2.00	2.01	0.85	0.91
Insurance Sector	10.18	19.59	2.59	2.22	1.10	1.29
Service Sector	10.36	12.00	7.44	6.40	1.95	2.26
Manufacturing Sector	10.21	12.83	6.47	5.14	0.59	0.74
Hotels and Tourism Sector	9.45	14.05	6.33	4.36	0.71	1.03

* Provisional data

** Excluding companies who posted losses

• Chart 5-1: BSE Index

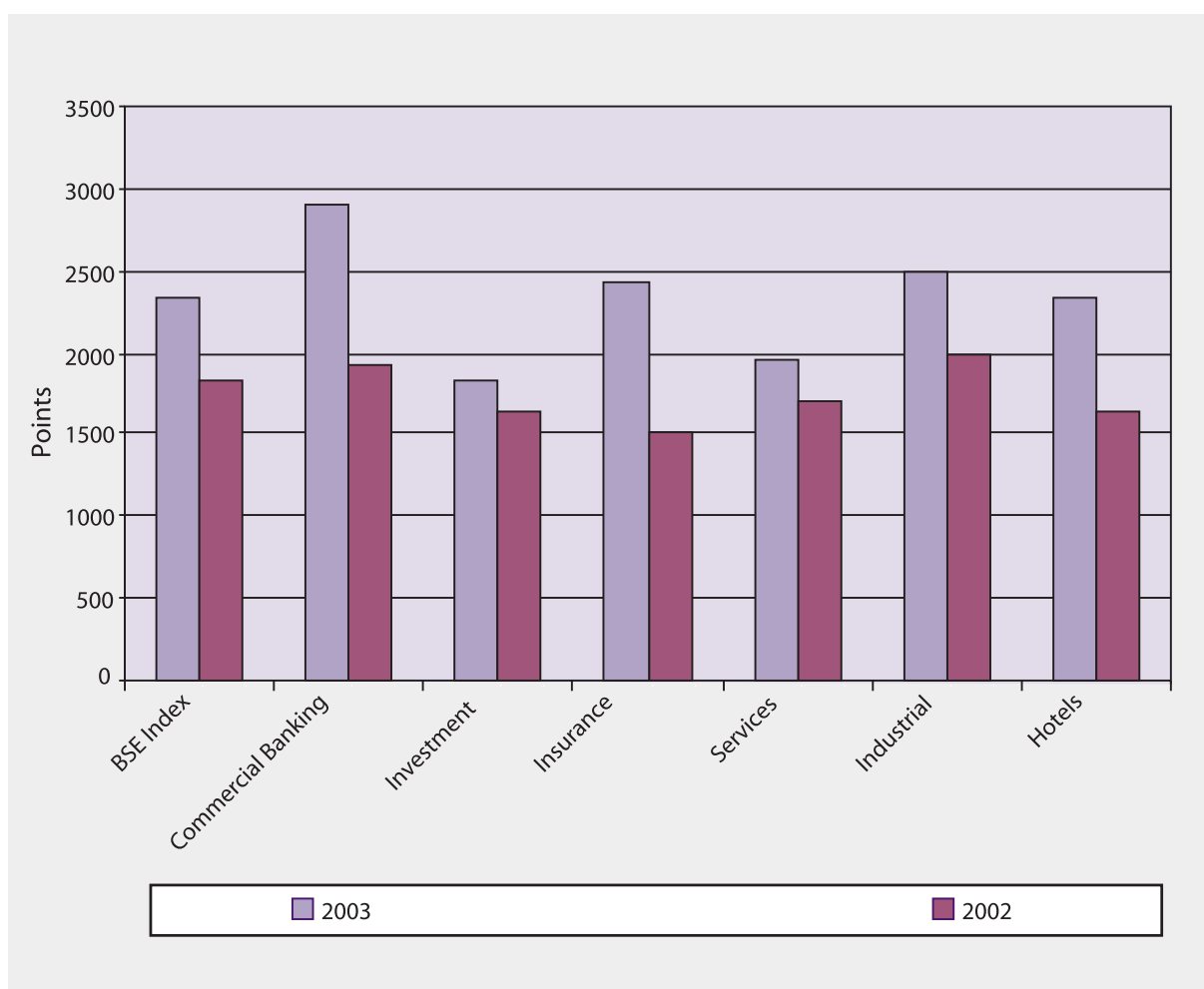


BAHRAIN STOCK EXCHANGE

5-3 Sector Performance

With respect to trading activity distribution by sector, in terms of volume, the commercial banks sector led the market for the year with a share of 47.7% of the total value of traded shares or BD 48.7 million. Ranked second was the services sector, accounting for 35.2% of the total value of traded shares or BD 36.0 million, followed by the investment sector with BD 8.8 million representing 8.6%.

• Chart 5-2: Development in Sector Indices



BAHRAIN STOCK EXCHANGE

5-4 Bonds and Sukuk

The following table shows the value and number of listed bonds and sukuk.

• Table 5-3: Bonds & Sukuk

(BD Millions)

	2001		2002		2003	
	Value	Number	Value	Number	Value	Number
Government	140.0	2	140.0	2	-	-
Corporate	15.0	2	15.0	2	98.0	2
Islamic Sukuk	37.7	1	94.2	3	181.0	4
Non-Bahraini	-	-	-	-	226.7	2
Total	192.7	5	249.2	7	505.7	8

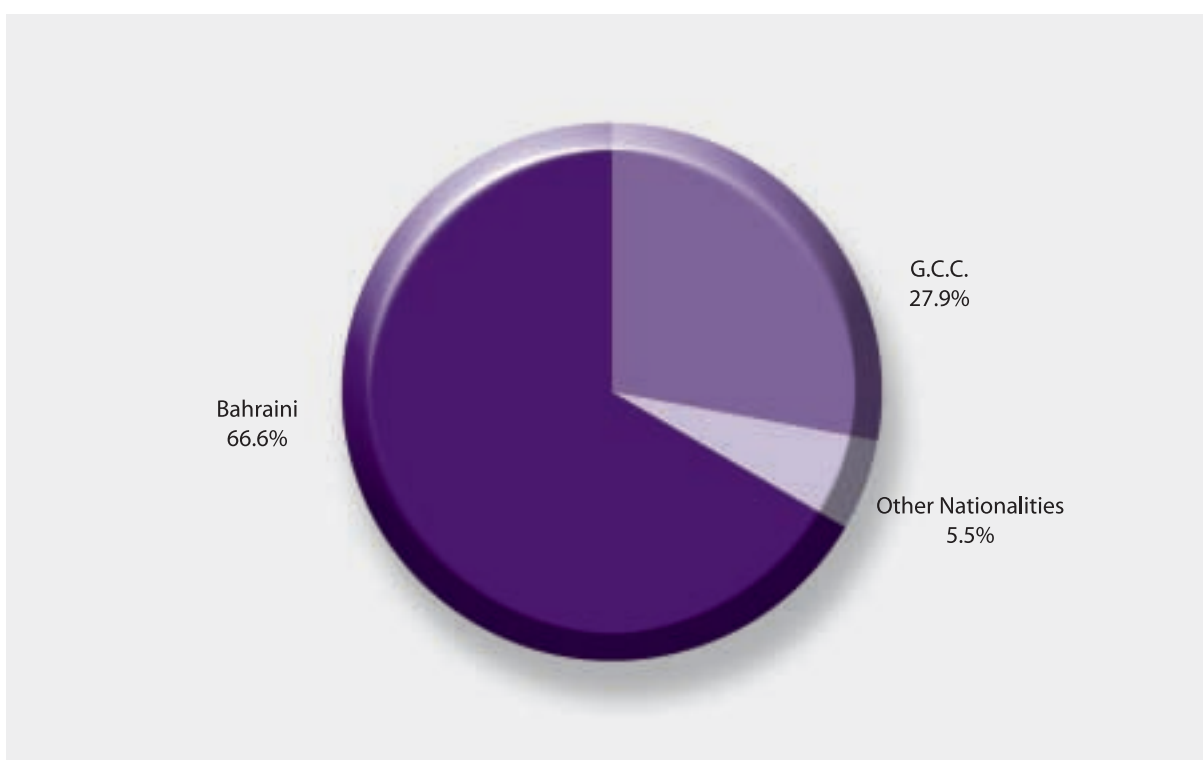
5-5 Mutual Funds

The total number of mutual funds listed on the BSE reached 29 funds during 2003 of which 9 were close-end and 20 open-end funds.

5-6 Nationalities of Investors

Bahraini nationals lead the investors in the market and accounted for 66.6% of the total value of shares traded on the BSE followed by GCC nationals with a stake of 27.9%, then other nationals with a share of 5.5%.

• Chart 5-3: Trading by Nationality (Value)-2003



CHAPTER SIX

INSURANCE SECTOR

6-1 Bahrain's Domestic Insurance Market

Bahrain's domestic insurance market is comprised of 12 national companies and 9 branches of foreign companies carrying out direct insurance business in the Kingdom of Bahrain. In 2003 total premiums amounted to BD 79.0 million, or an increase of 16.1% compared with BD 68.0 million in the previous year.

Premiums and Claims in Bahrain Domestic Insurance Market

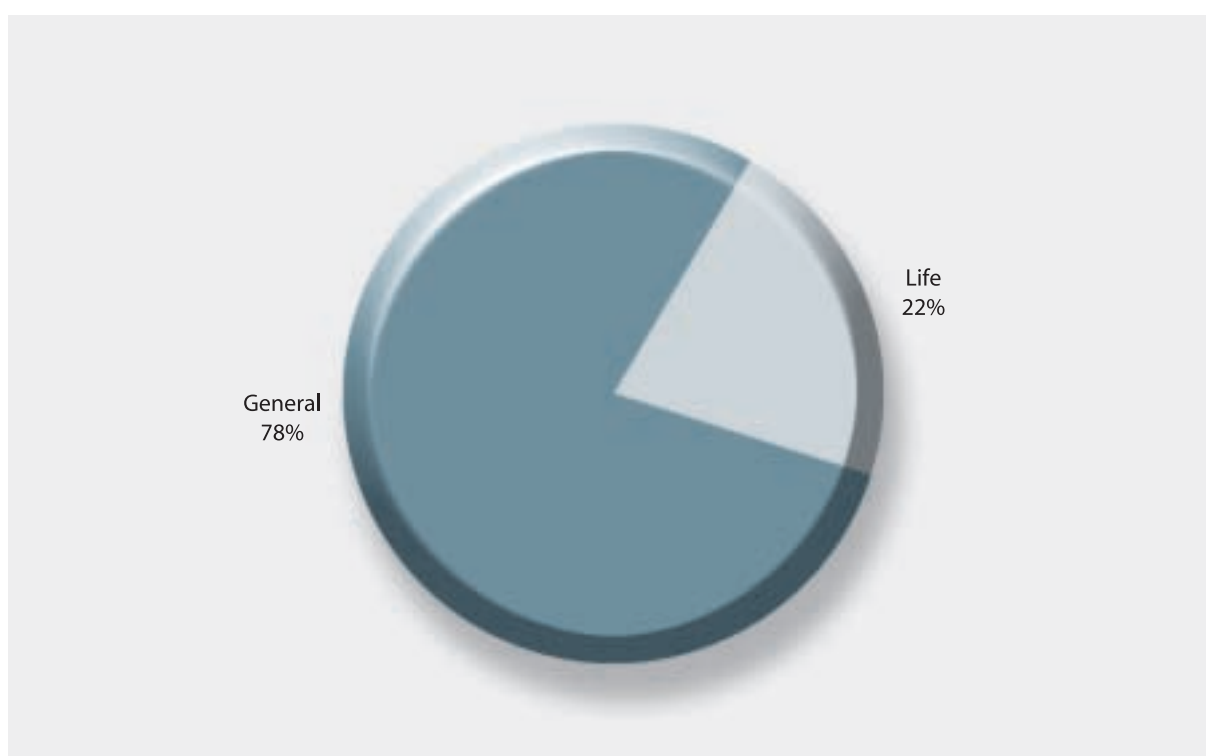
General Insurance:

Total volume of general insurance (fire, marine, motor, and miscellaneous) premiums was BD 62.0 million in 2003, compared with BD 53.7 million in 2002, an increase of 15.4%. General insurance accounted for 78.5% of total premiums. The largest growth was recorded in the miscellaneous insurance sector, which grew by 20.6% compared with 7.0%, 10.1% and 18.5% for fire, marine and motor insurance sectors respectively. Gross claims from general insurance rose from BD 26.8 million in 2002 to BD 29.0 million in 2003, or by 8.0%.

Life Insurance:

Total volume of life insurance was BD 17.0 million in 2003, compared with BD 14.3 million in 2002, an increase of 18.9%. Life insurance accounted for 21.5% of total premiums in 2003. Gross claims under life insurance policies increased from 6.5 million in 2002 to BD 7.5 million in 2003. Despite the increase in gross premiums and gross claims in 2003 the net premiums and claims for life insurance remained unchanged for 2002 and 2003. The net premiums and net claims for 2003 were BD 6.0 million and BD 3.4 million, respectively.

• Chart 6-1: Total Premiums of Local Market



INSURANCE SECTOR

• Table 6-1: Gross Premiums & Claims of Bahrain Local Insurance Market (by Class Share)

(BD '000)

	Gross Premiums				Gross Claims			
	2002	Relative Share %	2003	Relative Share %	2002	Relative Share %	2003	Relative Share %
General	53,706	78.9	61,987	78.5	26,755	80.5	28,898	79.3
Fire	13,018	19.1	13,924	17.6	3,889	11.7	3,052	8.4
Marine	4,518	6.6	4,973	6.3	628	1.9	367	1.0
Motor	25,687	37.8	30,449	38.6	19,030	57.3	21,632	59.4
Miscellaneous	10,483	15.4	12,641	16.0	3,208	9.6	3,847	10.5
Life	14,331	21.1	17,013	21.5	6,482	19.5	7,522	20.7
Total	68,037	100.0	79,000	100.0	33,237	100.0	36,420	100.0

During the last two years, national insurance companies strengthened their financial position by increasing their total shareholders' equity from BD 48.0 million in 2002 to BD 55.3 million in 2003, or by 15.2%. The value of paid up capital increased by 4.3% in 2003 compared with 2002; this is mirrored by the increase in retention capacity, which increased by 19.2%, from BD 20.8 million in 2002 to BD 24.8 million in 2003.

• Table 6-2: Financial Position of National Insurance Companies

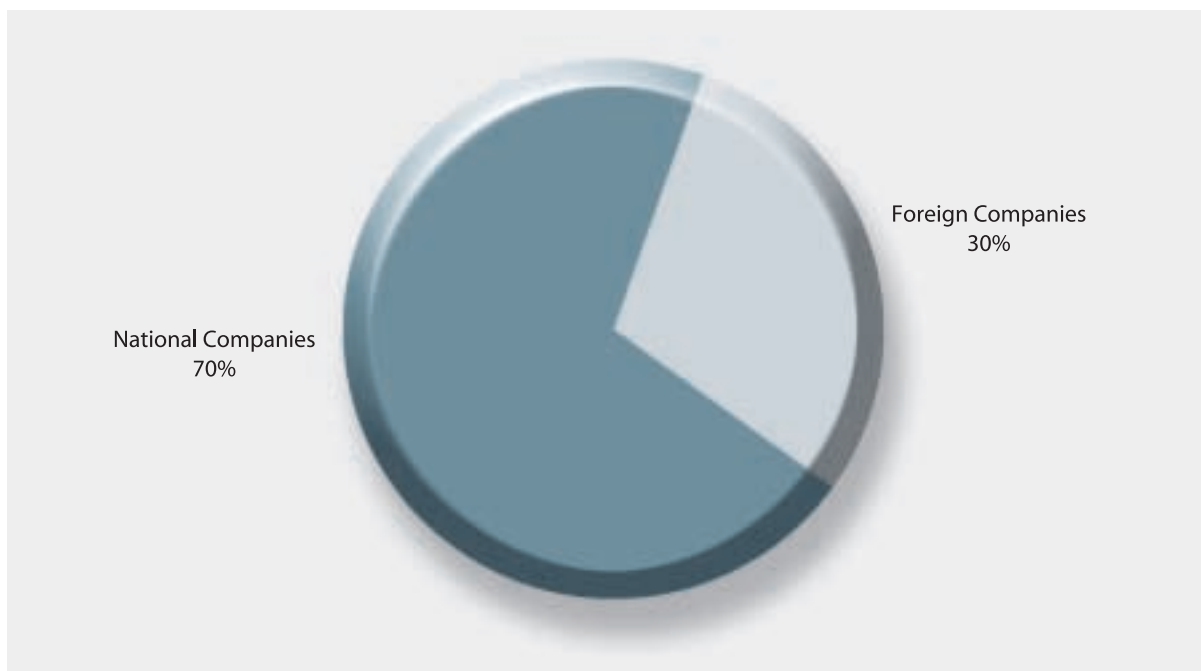
National Insurance Companies	2002	2003	%
Shareholders' Equity	48,043	55,340	15.2
Paid Up Capital	28,637	29,877	4.3
Retention	20,797	24,785	19.2

Gross premiums of Bahrain Domestic Insurance Market

National insurance companies had a 70.4% share of gross premiums underwritten in 2003 while branches of foreign insurance companies had 29.6%.

INSURANCE SECTOR

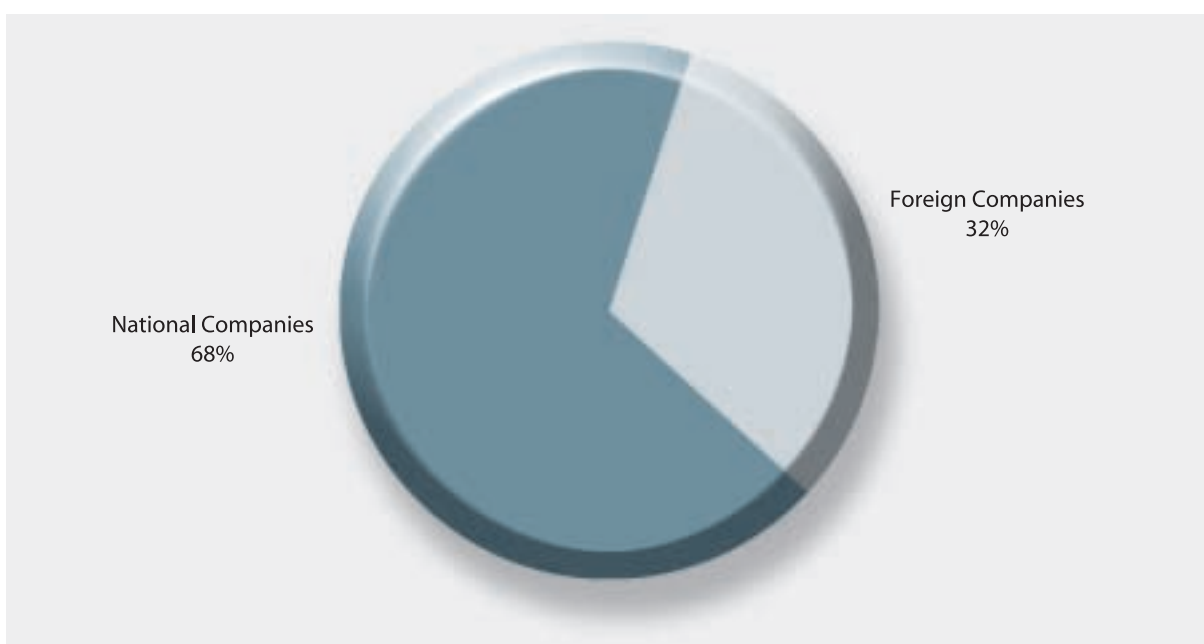
• Chart 6-2: Gross premiums of Bahrain Domestic Insurance Market



Retention of Bahrain Domestic Insurance Market

National insurance companies had a 68.1% share of total retained premiums in 2003 while branches of foreign insurance companies had 31.9%.

• Chart 6-3: Retention of Bahrain Domestic Insurance Market



INSURANCE SECTOR

• Table 6-3: Premiums & Claims of the Local Insurance Market (by Company Type)

(BD '000)

Companies	Gross Premiums		Retained Premiums		Gross Claims		Net Claims	
	2002	2003	2002	2003	2002	2003	2002	2003
National Insurance Companies	48,256	55,606	20,797	24,785	22,488	24,984	11,808	13,903
Branches of Foreign Ins. Companies	19,781	23,394	10,493	11,593	10,749	11,436	7,214	7,275
Total	68,037	79,000	31,290	36,378	33,237	36,420	19,022	21,178

6-2 Reinsurance Companies

Arab Insurance Group (ARIG) is based in the Kingdom of Bahrain. Its underwritten premiums in 2003 totalled around BD 43.0 million.

6-3 Supplementary Insurance Services

Supplementary insurance services provide essential support services for the Bahraini insurance sector. The number of companies and organisations supplying supplementary insurance services increased by 10.0% from 50 in 2002 to 55 in 2003.

• Table 6-4: Supplementary Insurance Services

	2002	2003
Loss Adjusters	7	8
Actuaries	7	7
Consultants	6	7
Representative offices	7	7
Brokers	23	26
Total	50	55

6-4 Insurance Syndicates

Both the Arab War Risks Insurance Syndicate and the Federation of the Afro-Asian Oil and Energy Insurance Syndicate have offices in the Kingdom of Bahrain with a membership of 109 and 172 insurance and reinsurance companies respectively.

6-5 Exempt Companies

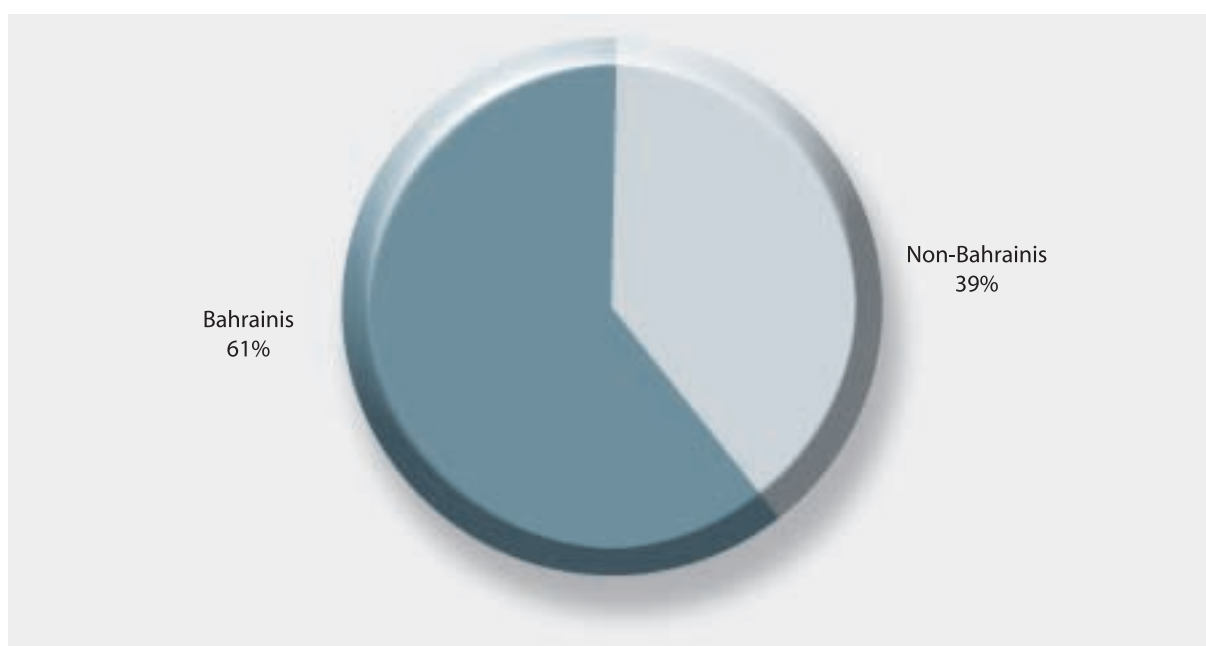
The Kingdom of Bahrain hosts 84 exempt insurance companies at the end of 2003, with a total annual turnover exceeding one billion dollars.

INSURANCE SECTOR

6-6 Insurance Sector Employment

In 2003 the number of employees in the Kingdom's insurance sector totalled 818 of which Bahrainis represent 61.0%. (Figures include employees of Bahrain Kuwait Insurance Company (BKIC) and ARIG abroad).

• Chart 6-4: Employment in Insurance Market



6-7 Insurance Operations

The following tables illustrate the premiums and claims (by class) of Bahrain Insurance Market.

• Table 6-5: Premiums & Claims of Local Insurance Market (by Class)

(BD '000)

	Gross Premiums		Retained Premiums		Gross Claims		Net Claims	
	2002	2003	2002	2003	2002	2003	2002	2003
General	53,706	61,987	25,447	30,327	26,755	28,898	15,667	17,765
Fire	13,018	13,924	1,600	1,813	3,889	3,052	912	277
Marine	4,518	4,973	1,000	1,145	628	367	262	326
Motor	25,687	30,449	20,339	24,569	19,030	21,632	13,234	15,602
Miscellaneous	10,483	12,641	2,508	2,800	3,208	3,847	1,259	1,560
Life	14,331	17,013	5,843	6,051	6,482	7,522	3,355	3,413
Total	68,037	79,000	31,290	36,378	33,237	36,420	19,022	21,178

INSURANCE SECTOR

• Table 6-6: Gross Premiums & Claims of Companies Operating in Bahrain (Life)

(BD '000)

Companies	Gross Premiums		Retained Premiums		Gross Claims		Net Claims	
	2002	2003	2002	2003	2002	2003	2002	2003
National Companies								
Bahrain National Life Assurance Co.	1,097	1,347	415	444	1,240	517	270	156
Al Ahlia Insurance Company	379	329	15	32	43	525	10	16
Takaful International Ins. Co.	295	197	257	81	7	0	7	0
SUB - TOTAL	1,771	1,873	687	557	1,290	1,042	287	172
Foreign Companies								
American Life Insurance Co.	5,782	6,133	4,952	5,225	3,116	3,757	3,006	3,169
Arabia Insurance Company	58	65	36	46	11	4	10	4
Zurich International Life Ltd.	6,720	8,942	168	223	2,065	2,719	52	68
SUB - TOTAL	12,560	15,140	5,156	5,494	5,192	6,480	3,068	3,241
GRAND TOTAL	14,331	17,013	5,843	6,051	6,482	7,522	3,355	3,413

• Table 6-7: Gross Premiums & Claims of Companies Operating in Bahrain (Fire)

(BD '000)

Companies	Gross Premiums		Retained Premiums		Gross Claims		Net Claims	
	2002	2003	2002	2003	2002	2003	2002	2003
National Companies								
Bahrain National Insurance Co.	4,924	5,259	359	304	1,003	(596)	53	52
Bahrain National Life Assurance Co.	0	0	0	0	0	0	0	0
Bahrain Kuwait Ins. Co.	3,485	3,652	103	118	371	2,753	54	60
Al Ahlia Insurance Company	492	716	66	79	51	(202)	20	43
United Insurance Company	0	0	0	0	0	0	0	0
Takaful International Ins. Co.	1,007	968	15	24	267	102	4	(15)
Norwich Union Ins. (Gulf) Co.	647	786	421	518	177	64	167	60
Gulf Union Ins. & Reins. Co.	1,113	986	48	62	391	380	61	9
SUB - TOTAL	11,668	12,367	1,012	1,105	2,260	2,501	359	209
Foreign Companies								
American Life Insurance Co.	0	0	0	0	0	0	0	0
New India Insurance Co.	731	863	477	558	1,156	80	266	71
Arabia Insurance Company	193	174	37	40	4	2	1	2
Iran Insurance Company	74	118	74	104	15	(6)	15	(6)
Royal & Sun Alliance *	294	377	1	0	416	50	233	0
AXA Insurance Company **	35	0	(6)	0	38	424	38	0
Al- Nisr Insurance Co.	23	25	5	6	0	0	0	0
Royal Exchange In. Co.**	0	0	0	0	0	1	0	1
Zurich International Life Ltd.	0	0	0	0	0	0	0	0
SUB - TOTAL	1,350	1,557	588	708	1,629	551	553	68
GRAND TOTAL	13,018	13,924	1,600	1,813	3,889	3,052	912	277

* Royal & Sun Alliance Company Superseded Northern Insurance Company on 1/1/2003

** Under Liquidation

INSURANCE SECTOR

• Table 6-8: Gross Premiums & Claims of Companies Operating in Bahrain (Marine)

(BD '000)

Companies	Gross Premiums		Retained Premiums		Gross Claims		Net Claims	
	2002	2003	2002	2003	2002	2003	2002	2003
National Companies								
Bahrain National Insurance Co.	820	1,084	109	150	85	(102)	31	38
Bahrain National Life Assurance Co.	0	0	0	0	0	0	0	0
Bahrain Kuwait Ins. Co.	600	870	138	168	143	107	23	44
Al Ahlia Insurance Company	1,667	1,481	35	35	48	84	15	24
United Insurance Company	0	0	0	0	0	0	0	0
Takaful International Ins. Co.	267	254	15	23	25	12	1	2
Norwich Union Ins. (Gulf) Co.	609	647	339	357	211	117	159	115
Gulf Union Ins. & Reins. Co.	146	192	44	72	74	45	13	9
SUB - TOTAL	4,109	4,528	680	805	586	263	242	232
Foreign Companies								
American Life Insurance Co.	0	0	0	0	0	0	0	0
New India Insurance Co.	223	267	217	262	20	69	17	69
Arabia Insurance Company	53	53	44	45	2	16	2	16
Iran Insurance Company	28	32	28	32	4	9	4	9
Royal & Sun Alliance *	67	91	1	0	11	10	(8)	0
AXA Insurance Company **	36	0	30	0	5	0	5	0
Al- Nisr Insurance Co.	2	2	0	1	0	0	0	0
Royal Exchange In. Co.**	0	0	0	0	0	0	0	0
Zurich International Life Ltd.	0	0	0	0	0	0	0	0
SUB - TOTAL	409	445	320	340	42	104	20	94
GRAND TOTAL	4,518	4,973	1,000	1,145	628	367	262	326

* Royal & Sun Alliance Company Superseded Northern Insurance Company on 1/1/2003

** Under Liquidation

INSURANCE SECTOR

• Table 6-9: Gross Premiums & Claims of Companies Operating in Bahrain (Motor)

(BD '000)

Companies	Gross Premiums		Retained Premiums		Gross Claims		Net Claims	
	2002	2003	2002	2003	2002	2003	2002	2003
National Companies								
Bahrain National Insurance Co.	5,394	6,391	5,160	6,144	4,739	5,657	3,546	4,092
Bahrain National Life Assurance Co.	0	0	0	0	0	0	0	0
Bahrain Kuwait Ins. Co.	2,341	2,899	1,817	2,172	1,683	2,079	1,247	1,580
Al Ahlia Insurance Company	1,370	1,477	1,291	1,407	804	734	726	708
United Insurance Company	2,515	2,949	2,139	2,510	609	587	556	487
Takaful International Ins. Co.	1,554	1,910	1,444	1,689	1,501	1,695	941	1,059
Norwich Union Ins. (Gulf) Co.	1,535	1,864	1,497	1,803	903	961	903	961
Gulf Union Ins. & Reins. Co.	6,266	7,585	2,980	4,259	5,094	5,822	1,920	2,977
SUB - TOTAL	20,975	25,075	16,328	19,984	15,333	17,535	9,839	11,864
Foreign Companies								
American Life Insurance Co.	0	0	0	0	0	0	0	0
New India Insurance Co.	961	1,271	961	1,271	455	883	454	883
Arabia Insurance Company	854	882	834	827	823	706	797	692
Iran Insurance Company	1,495	1,660	1,495	1,660	946	1,169	946	1,169
Royal & Sun Alliance *	679	733	4	0	561	337	286	0
AXA Insurance Company **	170	0	164	0	350	175	350	175
Al- Nisr Insurance Co.	553	828	553	827	562	674	562	666
Royal Exchange In. Co.**	0	0	0	0	0	153	0	153
Zurich International Life Ltd.	0	0	0	0	0	0	0	0
SUB - TOTAL	4,712	5,374	4,011	4,585	3,697	4,097	3,395	3,738
GRAND TOTAL	25,687	30,449	20,339	24,569	19,030	21,632	13,234	15,602

* Royal & Sun Alliance Company Superseded Northern Insurance Company on 1/1/2003

** Under Liquidation

INSURANCE SECTOR

• Table 6-10: Gross Premiums & Claims of Companies Operating in Bahrain (Miscellaneous)

(BD '000)

Companies	Gross Premiums		Retained Premiums		Gross Claims		Net Claims	
	2002	2003	2002	2003	2002	2003	2002	2003
National Companies								
Bahrain National Insurance Co.	4,214	4,744	354	364	311	916	123	353
Bahrain National Life Assurance Co.	273	256	81	123	223	183	55	58
Bahrain Kuwait Ins. Co.	1,859	2,332	645	695	1,029	784	464	507
Al Ahlia Insurance Company	1,132	1,504	190	192	320	495	102	107
United Insurance Company	0	0	0	0	0	0	0	0
Takaful International Ins. Co.	511	794	26	37	37	309	10	22
Norwich Union Ins. (Gulf) Co.	572	575	465	488	333	162	159	162
Gulf Union Ins. & Reins. Co.	1,172	1,558	329	435	766	794	168	217
SUB - TOTAL	9,733	11,763	2,090	2,334	3,019	3,643	1,081	1,426
Foreign Companies								
American Life Insurance Co.	430	488	210	243	88	120	87	71
New India Insurance Co.	175	200	156	158	79	58	78	58
Arabia Insurance Company	46	46	24	27	(1)	6	(1)	5
Iran Insurance Company	15	37	15	36	1	0	1	0
Royal & Sun Alliance *	76	102	10	0	21	19	13	0
AXA Insurance Company **	3	0	2	0	0	0	0	0
Al- Nisr Insurance Co.	5	5	1	2	1	1	0	0
Royal Exchange In. Co.**	0	0	0	0	0	0	0	0
Zurich International Life Ltd.	0	0	0	0	0	0	0	0
SUB - TOTAL	750	878	418	466	189	204	178	134
GRAND TOTAL	10,483	12,641	2,508	2,800	3,208	3,847	1,259	1,560

* Royal & Sun Alliance Company Superseded Northern Insurance Company on 1/1/2003

** Under Liquidation

CHAPTER SEVEN

BMA - MAIN DEVELOPMENTS, ACTIVITIES AND FINANCIAL STATEMENTS

BMA's Main Developments and Activities

Disclosure Standards Published

The Capital Markets Supervision Directorate (CMSD) published the BMA's Disclosure Standards on the 3rd of December 2003, in accordance with international IOSCO Standards and best practices and came into effect on the 1st of January 2004. They require all listed companies and their boards to provide timely disclosure of all relevant information and to comply with International Accounting Standards. The CMSD also issued several circulars and directives throughout the year requiring listed companies to disclose information on a number of pertinent issues.

Anti-Money Laundering Procedures

Anti-money laundering procedures were drawn up and have been finalised and signed by H.E. The Governor on the 31st of December 2003. In accordance with these procedures, companies receiving money from public subscription in securities must take all necessary measures to ensure legality of the sources of money used for payment of such securities. Strict guidelines requiring full clientele details prior to opening a security account are also laid out in these procedures.

Insurance Inspection and Regulation Activities

Four consultation papers were issued by the Insurance Directorate namely on captive insurance, capital and solvency issues, market conduct and fit and proper criteria. The papers were circulated to all interested parties for feedback with comments to be considered for incorporation in the final insurance regulations manual.

Corporate Restructuring of Locally Incorporated Funds

The BMA has streamlined the registration process of locally incorporated funds. It developed, in conjunction with the Ministry of Commerce, a more appropriate corporate structure for mutual funds wishing to incorporate locally. Also, the BMA will act as agent for such funds, allowing businesses to secure both their regulatory approval and their commercial company registration at the BMA, cutting down on procedural activities.

Issuance of Islamic Sukuk and Islamic Banking Sector Innovations

The BMA has taken innovative steps through its continuing issuance of government Islamic Leasing Sukuk, to provide banks, Islamic institutions, and insurance companies with alternative investment opportunities to absorb excess liquidity. In 2003 there were four series of Government Islamic Leasing Sukuk issued with a total value of US\$ 480 million with a fixed leasing return for the fifth and sixth issues, and a floating rate return for the seventh and eighth issues with a maturity period ranging from three to five years.

Being the first in the world to issue Islamic Sukuk, Bahrain aims to develop the Islamic Banking Sector and provide pioneering Islamic financial instruments, in line with shariah standards, to compete with conventional

BMA - MAIN DEVELOPMENTS, ACTIVITIES AND FINANCIAL STATEMENTS

instruments. The Banking Services Directorate drafted the procedures of the Islamic repo based on sell and buy back of the Islamic Leasing Sukuk.

Licensing

In 2003, 30 new licenses were issued. They comprised of 1 full commercial bank, 1 offshore banking unit, 2 investment banks, 1 representative office, 2 investment advisers/brokers, 2 investment advisers/consultants, 2 ancillary service providers, 1 financing company, 17 insurance firms and 1 stock broker company, bringing the total number of licenses to 357 compared with 339 at end 2002.

Financing Company

The BMA has set standard conditions and licensing criteria for new conventional as well as Islamic financing company activities.

Broking Company License

The BMA has modified the existing standard conditions and licensing criteria for a Broking Company License. The new license allows the company to act as intermediary between financial institutions in arranging commodity, money market and securities transactions.

Outsourcing

In May 2003, the BMA issued a circular to all its licensees on Outsourcing, outlining the process and emphasising it as a possible function to enhance the financial sector in the Middle East region.

Three Tier Approach

The Agency has developed an approach to policy development based around three basic principles, the so-called "three tier approach". The Agency is committed to developing its regulations in a transparent manner and in cooperation with the industry. The principles are those of involvement, consultation and explanation.

Rule Book

During October 2003, the BMA started work on a comprehensive rule book, aimed at replacing its long-standing use of individual circulars, as a more transparent and accessible means of communicating its regulatory requirements.

WTO Commitments

In 2003, the Kingdom of Bahrain updated and submitted its commitments in the financial services to the WTO. A seminar was organised by BMA and the Secretariat of the WTO to provide the banking and financial sectors

BMA - MAIN DEVELOPMENTS, ACTIVITIES AND FINANCIAL STATEMENTS

with an overview of the WTO, Bahrain's commitments in the financial services, and how to prepare Bahrain's financial sector requests from other member countries.

Economic Indicators

The Economic Research Directorate first issued a new quarterly publication "Economic Indicators" in 2003 highlighting the Kingdom's main economic and social developments.

New "Basel" Consultation

The Banking Supervision Directorate held meetings with leading locally incorporated banks to gauge their readiness for implementation of the New Capital Adequacy Accord "Basel 2". It also requested all locally incorporated banks to undertake a quantitative assessment of the new Basel Accord proposals.

BMA - MAIN DEVELOPMENTS, ACTIVITIES AND FINANCIAL STATEMENTS

Number of Banks & Financial Institutions End - 2003

Commercial Banks	24
of which Islamic banks	5
Offshore Banking Units	50
of which Islamic banks	3
Investment Banks	36
of which Islamic banks	16
Representative Offices	29
of which Islamic offices	1
Specialised Banks	2
Money Exchange	17
Investment Advisory and other Financial Services	19
Money Brokers	4
Capital Market Brokers	13
Insurance Companies and Organisations	162
National Insurance Companies and Reinsurance Companies	12
Foreign Insurance Companies	9
Offshore Insurance Companies	83
Representative Offices	7
Insurance Brokers	27
Surveyors and Loss Adjusters	8
Insurance Consultants	7
Actuaries	9
Financing Companies	1
Total	357

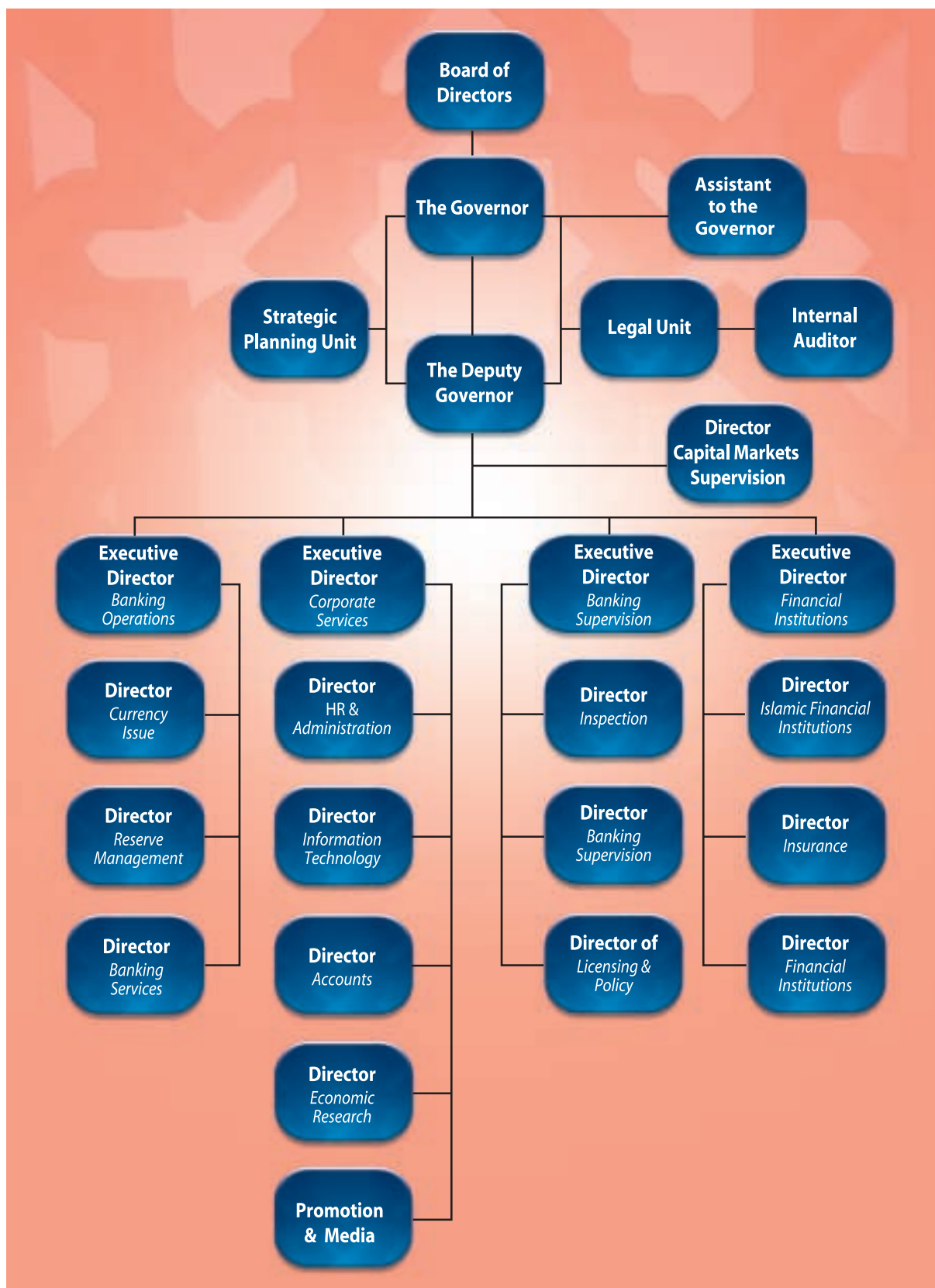
BMA - MAIN DEVELOPMENTS, ACTIVITIES AND FINANCIAL STATEMENTS

List of BMA Officers

H.E. Shaikh Ahmed Bin Mohammed Al Khalifa	Governor
H.E. Mr. Khalid Abdulla Al Bassam	Deputy Governor
Dr. Khalid Abdulla Ateeq	Executive Director - Banking Supervision
Mr. Anwar Khalifa Al-Sadah	Executive Director - Financial Institutions Supervision
Mr. Waleed Abdulla Rashdan	Executive Director - Banking Operations
Dr. Abdul Rahman Ali Saif	Executive Director - Corporate Services
Sh. Salman Bin Khalifa Al Khalifa	Assistant to the Governor
Mr. Ahmed Isa Al Somaim	Director-Reserve Management Directorate
Mrs. Raqia Ebrahim Bardooli	Director-Accounts Directorate
Mr. Yousif Rashid Al Fadhel	Director-Information Technology Directorate
Mr. Ali Salman Thamer	Director-Capital Markets Supervision Directorate
Dr. Huda Hussain Al-Maskati	Director-Inspection Directorate
Mr. Ahmed A. Aziz Al-Bassam	Director-Licensing & Policy Directorate
Sh. Salman Bin Isa Al Khalifa	Director-Islamic Financial Institutions Directorate
Mr. Tawfiq Isa Shehab	Director-Insurance Supervision Directorate
Mr. Abdul Rahman Mohammed Al-Baker	Director-Financial Institutions Supervision Directorate
Mrs. Aisha Abdulla Nuruddin	Director-Human Resources and Administration Directorate
Mr. Farid Jassim Zubari	Director-Currency Issue Directorate
Sh. Salman Bin Ahmed Al Khalifa	Director-Banking Services Directorate
Mr. Ahmed Jassim Bumtaia	Director-Economic Research Directorate

BMA - MAIN DEVELOPMENTS, ACTIVITIES AND FINANCIAL STATEMENTS

Organisational Chart



BMA - MAIN DEVELOPMENTS, ACTIVITIES AND FINANCIAL STATEMENTS

Bahrain Monetary Agency BALANCE SHEET AND PROFIT AND LOSS ACCOUNT AND APPROPRIATION 31 DECEMBER 2003

BMA - MAIN DEVELOPMENTS, ACTIVITIES AND FINANCIAL STATEMENTS

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

Your Highness,

We have audited the accompanying balance sheet of the Bahrain Monetary Agency (the Agency) as of 31 December 2003, and the related profit and loss account and appropriation for the year then ended. The balance sheet and related profit and loss account and appropriation are the responsibility of the Agency's management. Our responsibility is to express an opinion on the balance sheet and related profit and loss account and appropriation 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 balance sheet and related profit and loss account and appropriation are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the balance sheet and related profit and loss account and appropriation. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the balance sheet, related profit and loss account and appropriation present fairly, in all material respects, the financial position of the Agency as of 31 December 2003 and the results of its operations for the year then ended in accordance with the accounting policies set out in Note 2 and in compliance with the Amiri Decree No. 23 of 1973.

Ernst & Young

10 March 2004

Manama, Kingdom of Bahrain

BMA - MAIN DEVELOPMENTS, ACTIVITIES AND FINANCIAL STATEMENTS

Bahrain Monetary Agency

BALANCE SHEET

31 DECEMBER 2003

	Note	2003 BD '000	2002 BD '000
ASSETS			
Gold	4	2,500	2,500
Kingdom of Bahrain's bonds		12,200	12,200
Foreign reserves	3 & 4	827,258	665,798
Cash and due from Bahraini banks		18,076	40,828
Due from other central banks		199	-
Fixed assets		1,138	1,069
Other assets		5,678	5,940
		<u>867,049</u>	<u>728,335</u>
LIABILITIES AND CAPITAL FUNDS			
LIABILITIES			
Notes and coins in circulation	4	196,075	174,159
Bahraini Dinar deposits		269,577	172,368
Due to other central banks		410	45
Other deposits		38,781	35,179
Other payables		12,086	12,045
		<u>516,929</u>	<u>393,796</u>
CAPITAL FUNDS			
Capital	5	200,000	200,000
General reserve	6	114,106	103,830
Special reserve	7	23,000	18,000
Re-evaluation reserve	8	13,014	12,709
		<u>350,120</u>	<u>334,539</u>
		<u>867,049</u>	<u>728,335</u>

The balance sheet and related profit and loss account and appropriation were authorised for issue in accordance with the approval of H.H. The Chairman and H.E. The Governor on 10 March 2004.

Chairman

Governor

BMA - MAIN DEVELOPMENTS, ACTIVITIES AND FINANCIAL STATEMENTS

Bahrain Monetary Agency

PROFIT AND LOSS ACCOUNT AND APPROPRIATION

Year ended 31 December 2003

	Note	2003 BD '000	2002 BD '000
INCOME			
Interest income		32,936	33,985
Interest expense		5,925	5,460
Net interest income		27,011	28,525
Licence fees		847	763
Net realised investment gain		6,767	4,303
Other		39	212
		<u>34,664</u>	<u>33,803</u>
EXPENDITURE			
General and administration expenses		8,364	6,626
Note issue expenses		101	336
Brokerage fees		14	26
		<u>8,479</u>	<u>6,988</u>
PROFIT FOR THE YEAR		26,185	26,815
Transfer to special reserve	7	5,000	5,000
TRANSFER TO GENERAL RESERVE	6	<u>21,185</u>	<u>21,815</u>

BMA - MAIN DEVELOPMENTS, ACTIVITIES AND FINANCIAL STATEMENTS

Bahrain Monetary Agency

NOTES TO THE BALANCE SHEET AND PROFIT AND LOSS ACCOUNT AND APPROPRIATION 31 DECEMBER 2003

1 - ACTIVITIES

The Bahrain Monetary Agency ("the Agency") is the central bank of the Kingdom of Bahrain and operates under the Amiri Decree No. (23) of 1973. The Agency is responsible for organising the issue and circulation of the currency of the Kingdom of Bahrain as well as its foreign exchange, managing the value of the currency of Bahrain, endeavouring to ensure monetary stability, directing the banking business, supervising the banking system, controlling and directing bank credit so as to realise the objectives of the economic policy of the Kingdom of Bahrain, and participating in the creation of a developed money and financial market. The Agency acts as the fiscal agent on behalf of the Government of the Kingdom of Bahrain and is the supervisory authority for banking and investment institutions in the Kingdom of Bahrain. The Agency has no branches or operations abroad.

The Agency's registered address is P O Box 27, located at the BMA building, Diplomatic Area, Kingdom of Bahrain, and employed 280 staff as of 31 December 2003 (2002: 270).

2 - SIGNIFICANT ACCOUNTING POLICIES

The balance sheet and related profit and loss account and appropriation are prepared in compliance with the Amiri Decree No. 23 of 1973.

Accounting convention

The balance sheet and related profit and loss account and appropriation are prepared under the historical cost convention.

Foreign reserves

Foreign reserves comprises deposits placed, net of deposits taken, and investments denominated in foreign currencies. All investments and deposits are carried at cost less provision for impairment.

For the Agency's internal portfolio of investments, premiums or discounts on purchase are amortised on a straight-line basis over the remaining life of the investment and included under interest income in the profit and loss account and appropriation. For investments with external fund managers, these portfolios are actively managed, accordingly there is no amortisation of premiums or discounts.

Depreciation

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

BMA - MAIN DEVELOPMENTS, ACTIVITIES AND FINANCIAL STATEMENTS

Bahrain Monetary Agency

NOTES TO THE BALANCE SHEET AND PROFIT AND LOSS ACCOUNT AND APPROPRIATION 31 DECEMBER 2003

Foreign currencies

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

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

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

Gold

In accordance with Article 27 (a) of the Amiri Decree No.23 of 1973, gold is valued at BD 1.86621 per one gram of fine gold.

Notes and coins in circulation

Notes and coins in circulation are stated net of the Bahraini dinar notes and coins held in banking stock.

Revenue recognition

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

Note issue expenses

These are recognised when incurred.

3 - FOREIGN RESERVES

	2003 BD '000	2002 BD '000
This comprises of the following:		
Bond portfolios	521,100	470,178
Bank deposits	196,276	170,729
Balances with portfolio managers	10,012	31,482
Due from (to) Ministry of Finance and National Economy	99,870	(6,591)
	<u>827,258</u>	<u>665,798</u>

BMA - MAIN DEVELOPMENTS, ACTIVITIES AND FINANCIAL STATEMENTS

Bahrain Monetary Agency

NOTES TO THE BALANCE SHEET AND PROFIT AND LOSS ACCOUNT AND APPROPRIATION 31 DECEMBER 2003

All bonds are quoted in active markets with 93% being of investment grade BBB or higher. All deposits and 89% of bonds are in US dollars (2002: 100%). For other foreign currencies, mainly Euros and Sterling, these are hedged into US dollar currency.

The market value of the bond portfolios at 31 December 2003 was BD 529,345 thousand (2002: BD 477,255 thousand).

4 - EXCESS OF AUTHORISED BACKING FOR CURRENCY IN CIRCULATION

	2003 BD '000	2002 BD '000
Authorised backing:		
Gold	2,500	2,500
Foreign reserves	<u>827,258</u>	<u>665,798</u>
	829,758	668,298
Currency in circulation:		
Notes and coins	<u>(196,075)</u>	<u>(174,159)</u>
Excess of authorised backing over currency in circulation	<u>633,683</u>	<u>494,139</u>

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.

The fair value of gold as at 31 December 2003 was BD 23,612 thousand (2002: BD 19,499 thousand).

5 - CAPITAL

	2003 BD '000	2002 BD '000
Authorised	<u>400,000</u>	<u>400,000</u>
Issued and fully paid up	<u>200,000</u>	<u>200,000</u>

BMA - MAIN DEVELOPMENTS, ACTIVITIES AND FINANCIAL STATEMENTS

Bahrain Monetary Agency

NOTES TO THE BALANCE SHEET AND PROFIT AND LOSS ACCOUNT AND APPROPRIATION 31 DECEMBER 2003

6 - GENERAL RESERVE

	2003 BD '000	2002 BD '000
Balance at beginning of the year	103,830	95,194
Transfer from profit and loss account	21,185	21,815
Payment to the Government of the Kingdom of Bahrain	(10,909)	(13,179)
Balance at end of the year	<u>114,106</u>	<u>103,830</u>

The payment to the Government of the Kingdom of Bahrain represents 50% of the profit of the previous year after transfer to special reserves, in accordance with Article 18 of the Amiri Decree No. 23 of 1973.

7 - SPECIAL RESERVE

	2003 BD '000	2002 BD '000
Balance at beginning of the year	18,000	13,000
Transfer during the year	<u>5,000</u>	<u>5,000</u>
Balance at end of the year	<u>23,000</u>	<u>18,000</u>

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

8 - RE-EVALUATION RESERVE

	2003 BD '000	2002 BD '000
Balance at beginning of the year	12,709	12,709
Movement during the year	<u>305</u>	<u>-</u>
Balance at end of the year	<u>13,014</u>	<u>12,709</u>

Re-evaluation reserve represents the net unrealised surplus arising from the translation of foreign currencies, included in foreign reserves, at the exchange rates ruling on 31 December 2003.

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