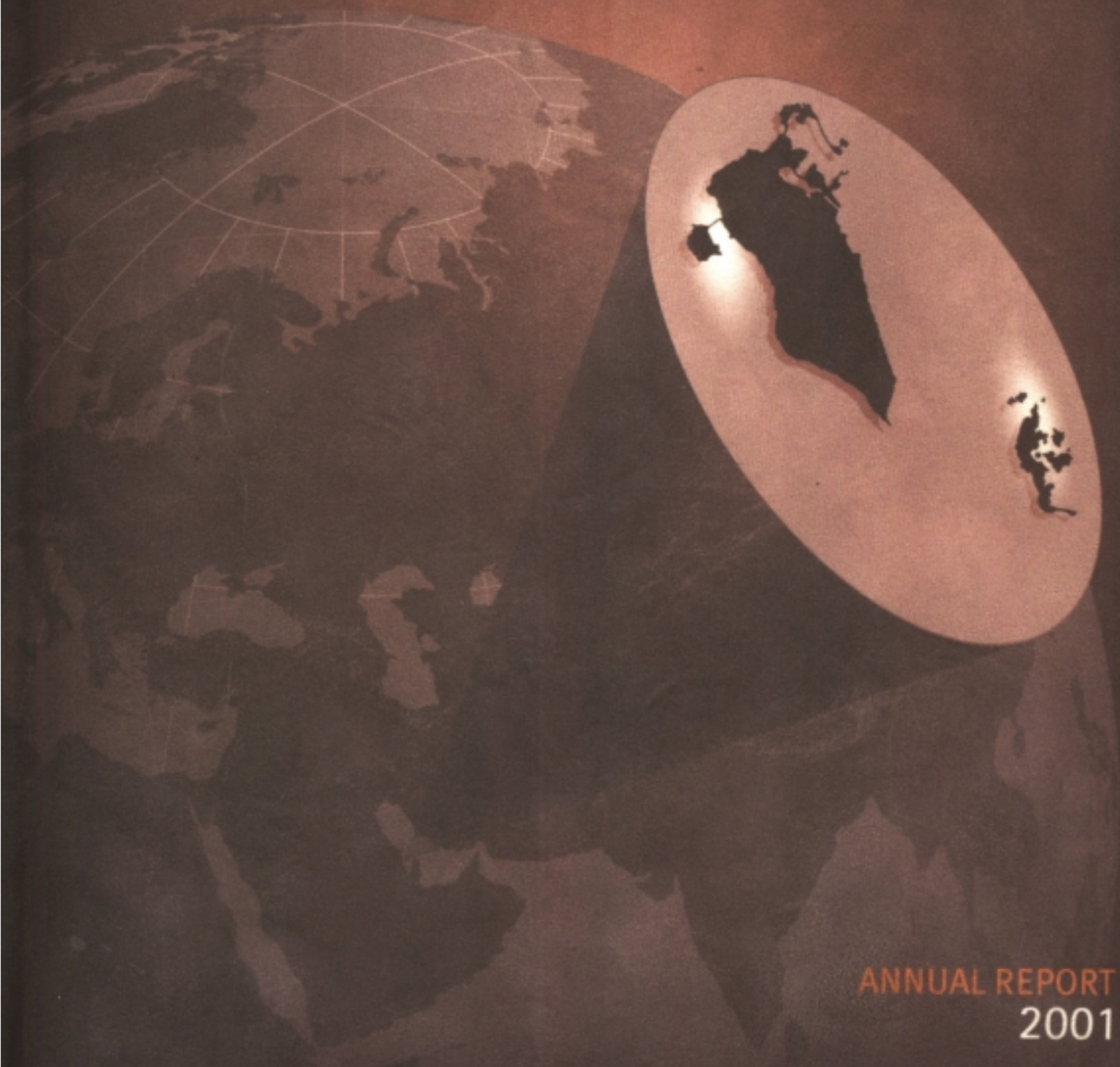




KINGDOM
OF BAHRAIN



BAHRAIN MONETARY AGENCY



ANNUAL REPORT
2001



The late Amir
His Highness Shaikh Isa Bin Salman Al-Khalifa



His Majesty Shaikh Hamad Bin Isa Al Khalifa
King of Bahrain



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



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

BOARD OF DIRECTORS

CHAIRMAN

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

DEPUTY CHAIRMAN

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

GOVERNOR

H.E. Shaikh Ahmed Bin Mohammed Al-Khalifa

MEMBERS

Mr. Khalid Mohammed Jassim Kanoo
Mr. Khalid Hussain Al-Maskati

ADVISERS

Mr. John Field	- Adviser, Banking and Finance
Dr. Bakri A. Bashir	- Adviser, Economic Affairs
Mr. Ashley Freeman	- Adviser, Legal Affairs
Mr. Ralph Ricks	- Adviser, Banking Control
Mr. Brian Kettell	- Adviser, Publications & Promotion

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FOREWORD



It is with great pleasure that I present the 28th Annual Report of the Bahrain Monetary Agency.

The Report provides a brief summary of international economic and financial events in 2001, followed by a detailed review of domestic economic and financial developments and of the activities and operations of the Bahrain Monetary Agency over the course of the year. The Report also presents the statutory accounts and financial statements of the Agency for the year ended 31st December 2001, as well as the significant Circulars and Regulations issued by the Agency during that year.

Bahrain's economy in 2001 was constrained by the decline in international oil prices; the average international price of crude oil falling by a little over US\$4 per barrel to US\$24.28 per barrel. Inflation remained firmly under control with the Consumer Price Index continuing to fall (down 1.2% following a decline of 0.7% in 2000). In terms of economic growth, GDP at constant prices grew by nearly 5% although was little changed in terms of current prices. The budget was again in surplus and the overall balance of payments (increase in reserve assets) continued in surplus.

During 2001, the banking sector displayed great resilience in the face of the turmoil on the international financial markets. The commercial banks' combined balance sheet grew by 3% with assets/liabilities reaching an all-time high of BD3882.2 at the year-end and the investment banks' combined balance sheets increased to US\$4.0 bn. In contrast, the assets of the off-shore banking units declined by 5% to US\$88.3 bn.

The performance of the Islamic banking sector was most satisfactory with assets/liabilities growing by nearly 30%, year on year. The Agency remains committed to the expansion of Islamic banking and finance, and during the year became the first central bank to issue Islamic financial instruments. An Islamic securities programme was implemented with the first of a regular series of issues of the short-term Sukuk Al-Salam and the longer-term leasing securities of Sukuk Al-Ijara. These instruments and the establishment in Bahrain of the International Islamic Financial Market represent important steps in the evolution of Islamic banking.

During the year Bahrain implemented the GCC agreement to peg the external value of their respective currencies to the US dollar as part of the development towards a common GCC Currency by 2010.

A new BD20 currency note was issued bearing the portrait of His Majesty Shaikh Hamad Bin Isa Al Khalifa.

A total of 170 banks and financial institutions were licensed by the Agency at the end-2001. 15 new licenses were issued during the year, including 4 full commercial bank licenses and 5 investment bank licenses. In addition, the Agency approved 117 collective investment schemes and mutual funds in 2001, bringing the total to 1,238 schemes sold and marketed by 41 financial institutions.

A number of significant regulatory and supervisory enhancements were initiated in 2001. A comprehensive regulatory and reporting framework for Islamic banks was finalised. Reporting under the new Prudential Information Returns and Regulations for Islamic Banks (PIRI) subsequently started on a quarterly basis at end-March 2002. The framework represents the first comprehensive prudential framework specifically aimed at Islamic banks. It applies Basel capital standards, with additional requirements aimed at the specific risk features of Islamic products (such as restricted investment accounts). It also applies international Accounting Standards and those issued by the Accounting and Auditing Organisation of Islamic Financial Institutions (AAOIFI). The framework further consolidates Bahrain's position as a leading centre for Islamic banking and finance.

Work continued on addressing the remaining recommendations made by the IMF following its assessment in 2000 of Bahrain's compliance with the Basel Core Principles. The Agency expects to be substantially compliant with all the Core Principles by the end of 2002.

A new, comprehensive money laundering regulation was issued in October 2001, applicable to all licensed banks and other financial institutions. The Circular built on a series of earlier measures relating to the combating of money laundering. Amongst other things, the new regulation required licensees to appoint a Money Laundering Reporting Officer to co-ordinate a licensee's anti-money laundering system of controls and oversee internal and external reporting. The Agency, in addition, established a Compliance Unit to act as a dedicated contact point for financial institutions reporting suspicious transactions, and has actively reviewed licensees' anti-money laundering arrangements as part of its on-site examinations. The Agency issued Circulars tightening up its Large Exposures regime.

A new quarterly reporting scheme for Collective Investment Schemes was implemented from the fourth quarter of 2001. Consultation sessions with external auditors were also initiated, seeking to improve communication between the audit profession and the Agency. Reporting requirements on banks were reduced, as part of an initiative to improve the focus of information received, whilst new computerized reporting was introduced for moneychangers.

I should like to take this opportunity to express my deep gratitude to His Majesty the King, Shaikh 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 guidance to, and patronage of, the Agency. I also extend to all Government Ministries and Agencies my sincere appreciation for their continued support.

I am deeply grateful to Bahrain's financial community for its support and co-operation in 2001, and to the Agency's personnel for their substantial contribution towards further enhancing the effectiveness and efficiency of the Agency.

Ahmed Bin Mohammed Al-Khalifa
Governor

CHAPTER ONE

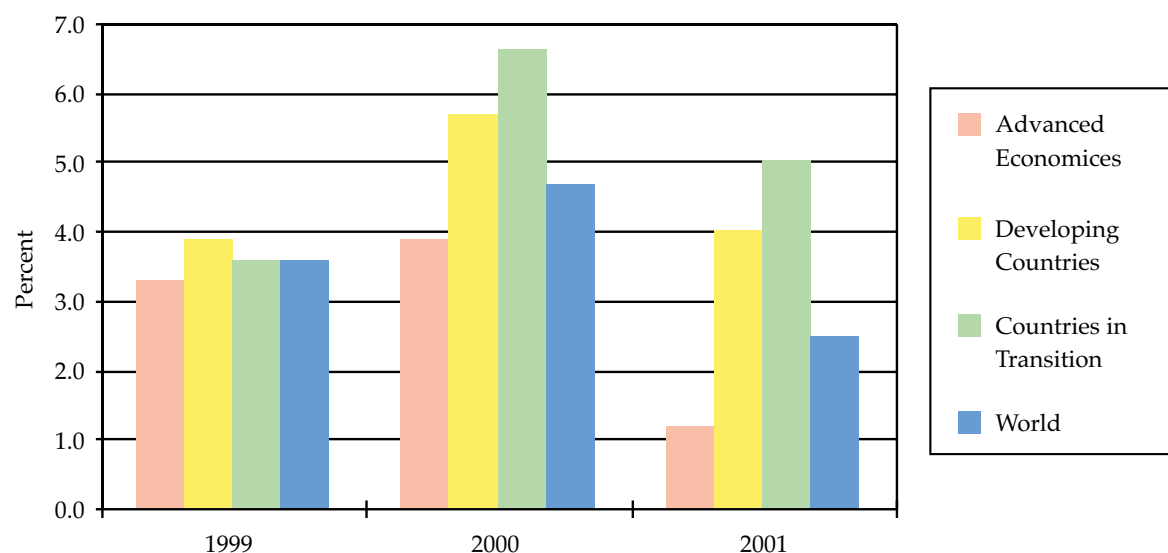
INTERNATIONAL ECONOMIC PERSPECTIVE

1-1 Economic Developments

The global economy witnessed a number of developments in 2001, the most important being the global slowdown, weakening domestic demand and confidence and a delayed recovery in the United States. The tragic events of September 11 had a short-run impact on the economy especially the financial markets, which recovered strongly after the events. Inflation in most countries was moderate. The financial markets have remained volatile, partly reflecting rapidly changing expectations about the duration and depth of the slowdown.

Another key economic development witnessed in 2001 was the decline in oil prices. During the year, the average price of crude oil decreased from a peak of US\$ 26.72 per barrel in the second quarter of 2001 to a low of US\$ 19.31 in the fourth quarter. The average price of crude oil in 2001 was US\$ 24.28 per barrel, as compared with US\$ 28.24 per barrel a year earlier.

CHART 1-1: ECONOMIC GROWTH RATES



(a) Output

World economic growth decelerated during 2001 reaching 2.5% compared with 4.7% in 2000. Average growth in the advanced economies, developing countries and countries in transition was 1.2%, 4.0% and 5.0% in 2001, compared with 3.9%, 5.7% and 6.6% respectively in 2000.

(b) Unemployment

Unemployment rates in the advanced economies increased from 5.9% in 2000 to 6.0% in 2001. Unemployment in the United States and Japan increased from 4.0% and 4.7% in 2000 to 4.8% and 5.0% respectively in 2001. In contrast, unemployment in France and the United Kingdom fell from 9.5% and 5.6% in 2000 to 9.0% and 5.1% respectively in 2001. Unemployment in Germany remained constant at 7.9%.

(c) Inflation

Inflation rates in the advanced economies remained fairly subdued during the year registering 2.2% in 2001. Inflation fell in developing countries from 6.1% to 5.7%, and in countries in transition from 20.2% to 15.9%.

Table 1.1: Inflation Rates (%)

Country Group	1999	2000	2001
Advanced Economies	1.4	2.3	2.2
Developing Countries	6.9	6.1	5.7
Countries in Transition	44.1	20.2	15.9

Source: IMF, World Economic Outlook, April 2002.

1-2 Exchange Rates and Gold Prices

An analysis of exchange rates, using national currency units per SDR, indicates that the Euro and the Japanese Yen depreciated by 1.8% and 10.6% respectively against the SDR. In contrast, the U.S. Dollar and Pound Sterling appreciated by 3.5% and 0.8% respectively against the SDR.

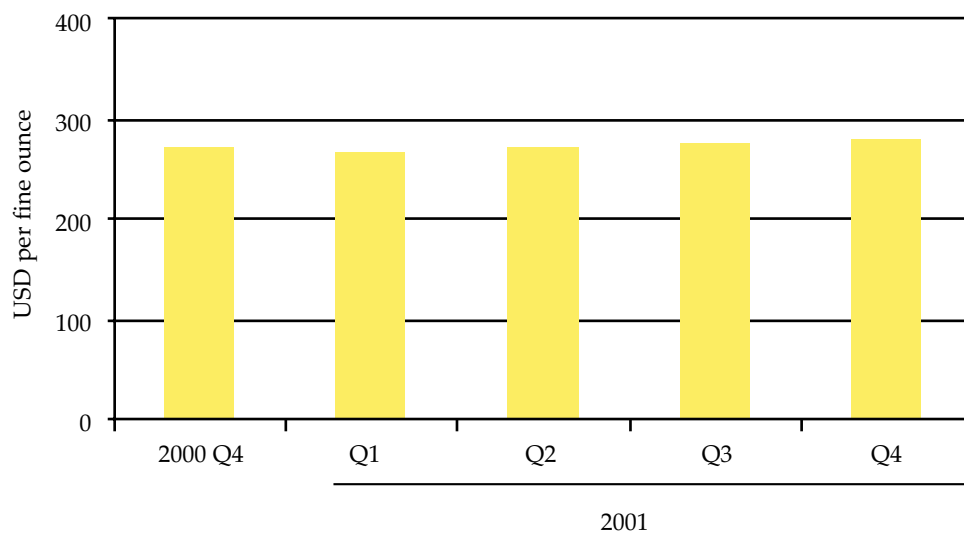
Table 1.2 : Exchange Rates of Major Currencies Against the SDR

Currency	2000	2001			
	Q4	Q1	Q2	Q3	Q4
US Dollar	1.3029	1.2607	1.2457	1.2890	1.2567
Euro	1.4002	1.4273	1.4689	1.4117	1.4260
Japanese Yen	149.70	157.08	154.52	153.78	165.64
Pound Sterling	0.8731	0.8843	0.8872	0.8767	0.8665

Source: IMF, International Financial Statistics, April 2002.

Gold prices showed an upward trend during 2001, rising from US\$ 263.5 per ounce in the first quarter of 2001 to US\$ 278.4 per ounce in the fourth quarter. However, average prices decreased from US\$ 279.0 per ounce in 2000 to US\$ 271.0 per ounce in 2001.

CHART 1-2: GOLD PRICES IN 2001
(London Closing)



1-3 Interest Rates

Interest rates on the major international currencies have fallen during the year. Rates decreased on the U.S. dollar from 6.6% in 2000 to 3.7% in 2001, on the Japanese Yen from 0.3% to 0.2%, and on the Euro from 4.6% to 4.1%.

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

Currencies	1999	2000	2001
U.S. Dollar	5.5	6.6	3.7
Japanese Yen	0.2	0.3	0.2
Euro	3.0	4.6	4.1

Source: IMF, World Economic Outlook, April 2002.

CHAPTER TWO

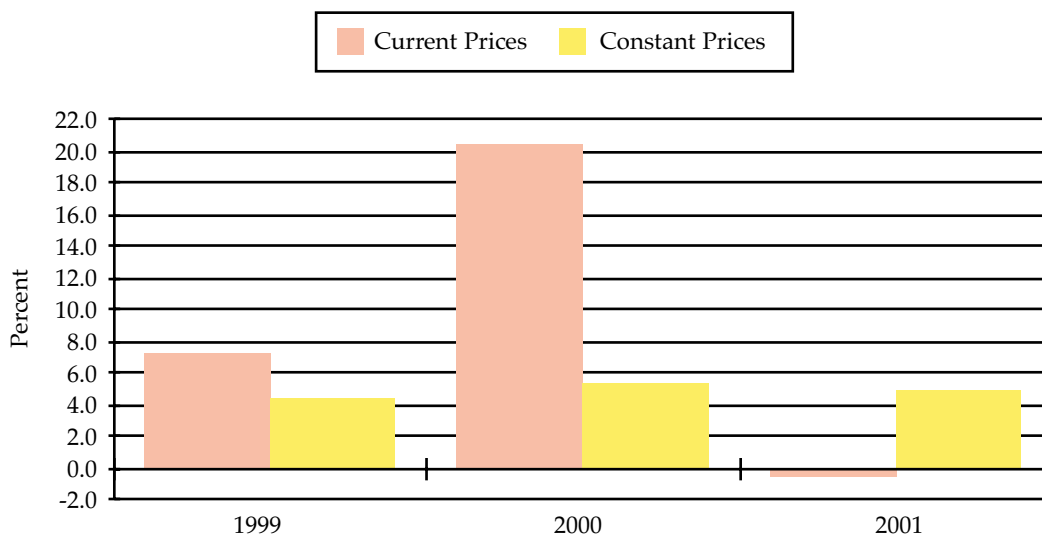
DOMESTIC ECONOMIC DEVELOPMENTS

2-1 Domestic Output

GDP at Constant Prices

In 2001, real GDP growth (1989=100) was 4.8% compared with 5.3% in 2000.

CHART 2-1: ECONOMIC GROWTH RATES



The value added of the non-financial corporations sector increased by 5.5% in 2001 compared with 5.2% in 2000. This growth was attributable to growth in manufacturing, transportation and communication and the trade sectors by 6.7%, 13.2% and 5.7% respectively. The contribution of this sector to GDP increased from 70.1% in 2000 to 70.7% in 2001.

On the other hand, the value added of the financial corporations sector fell by 9.6% in 2001 compared with a growth of 14.7% in 2000. This was due to a decline in the value added of the local financial institutions, offshore financial institutions and insurance sector by 8.3%, 4.2% and 23.1% respectively in 2001. The contribution of this sector to GDP fell from 19.0% in 2000 to 16.4% in 2001.

The government services sector grew by 2.1% in 2001 compared with 1.3% in 2000. The share of this sector in GDP fell from 10.8% in 2000 to 10.5% in 2001.

Table 2.1: Gross Domestic Product at Constant 1989 Prices
1989 = 100

Sectors	BD Millions		Annual Growth (%)		Relative Share (%)	
	2000	2001*	2000	2001	2000	2001
1-The Non-Financial Corporations	1825.9	1926.8	5.2	5.5	70.1	70.7
- Agriculture & Fishing	23.8	22.1	6.0	(7.1)	0.9	0.8
- Mining & Quarrying	466.3	470.4	11.1	0.9	17.8	17.2
Crude Petroleum & Natural Gas	464.1	467.9	11.2	0.8	17.8	17.2
- Manufacturing	311.4	332.4	2.5	6.7	12.0	12.2
- Electricity & Water	53.4	57.5	5.3	7.7	2.0	2.1
- Construction	99.3	108.6	1.4	9.3	3.8	4.0
- Trade	332.1	351.0	2.6	5.7	12.8	12.9
- Hotels & Restaurants	59.0	63.4	7.1	7.5	2.3	2.3
- Transport and Communication	206.0	233.3	6.1	13.2	7.9	8.6
- Social & Personal Services	43.8	45.4	2.6	3.6	1.7	1.7
- Real Estate & Business Activities	230.8	242.7	2.2	5.2	8.9	8.9
2- The Financial Corporations	494.6	447.3	14.7	(9.6)	19.0	16.4
- Financial Institutions	147.2	134.9	8.1	(8.3)	5.6	4.9
- Offshore Financial Institutions	239.3	229.3	16.6	(4.2)	9.2	8.4
- Insurance	108.1	83.1	20.3	(23.1)	4.2	3.1
3- Government Services	281.4	287.3	1.3	2.1	10.8	10.5
4- Education Services	90.0	104.2	8.5	15.7	3.5	3.8
5- Health Services	50.7	53.6	2.2	5.7	2.0	2.0
6- Private Non-Profit Institutions Serving Households	1.2	1.2	18.8	0.0	0.0	0.0
7- Households with Employed Persons	16.5	16.9	3.7	2.4	0.6	0.6
8- Minus Financial Intermediation Services Indirectly Measured	(208.8)	(163.7)	20.5	(21.6)	(8.0)	(6.0)
9- GDP at Producer Prices	2551.5	2673.6	5.4	4.8	98.0	98.0
10- Import Duties	51.7	54.0	2.2	4.4	2.0	2.0
TOTAL GDP	2603.2	2727.6	5.3	4.8	100.0	100.0

Source: Ministry of Finance and National Economy.

* Provisional data

GDP at Current Prices

Gross Domestic Product (GDP) at current prices registered a decline of 0.4% in 2001 compared with growth of 20.4% in 2000.

The value added of the non-financial corporations sector fell by 1.2% in 2001 compared with growth of 28.0% a year earlier. This contraction was a result of a decline in the value added of the crude petroleum and natural gas sector by 12.4%. As a result, the contribution of the non-financial corporations sector to GDP fell from 73.1% in 2000 to 72.6% in 2001.

The value added of the financial corporations sector fell by 12.8% in 2001 compared with a growth of 19.1% in 2000. The value added of the local financial institutions, Offshore financial institutions and insurance sector declined by 1.4%, 14.0% and 24.6% respectively in 2001. The share of this sector in GDP declined from 21.4% in 2000 to 18.7% in 2001.

On the other hand, the Government services sector registered a growth of 2.0% in 2001 compared with 1.2% in 2000. The Government services sector's contribution to GDP increased from 10.5% to 10.8%.

Table 2.2: Gross Domestic Product at Current Prices

Sectors	BD Millions		Annual Growth (%)		Relative Share (%)	
	2000	2001*	2000	2001	2000	2001
1- The Non-Financial Corporations	2193.0	2167.3	28.0	(1.2)	73.1	72.6
- Agriculture & Fishing	22.1	21.7	3.2	(1.8)	0.7	0.7
- Mining & Quarrying	840.8	739.9	85.4	(12.0)	28.1	24.8
Crude Petroleum & Natural Gas	835.7	731.8	86.5	(12.4)	27.9	24.5
- Manufacturing	342.8	358.0	11.8	4.4	11.4	12.0
- Electricity & Water	42.8	42.8	(4.7)	0.0	1.4	1.4
- Construction	107.0	119.4	1.3	11.6	3.6	4.0
- Trade	240.7	255.0	15.8	5.9	8.0	8.6
- Hotels & Restaurants	59.6	64.6	5.7	8.3	2.0	2.2
- Transport and Communication	211.0	224.2	7.5	6.3	7.0	7.5
- Social & Personal Services	53.2	56.9	3.0	7.0	1.8	1.9
- Real Estate & Business Activities	273.0	284.8	1.6	4.3	9.1	9.5
2- The Financial Corporations	640.0	557.9	19.1	(12.8)	21.4	18.7
- Financial Institutions	167.6	165.1	20.9	(1.4)	5.6	5.5
- Offshore Financial Institutions	344.6	296.4	19.0	(14.0)	11.5	9.9
- Insurance	127.8	96.4	17.4	(24.6)	4.3	3.3
3- Government Services	314.9	321.3	1.2	2.0	10.5	10.8
4- Education Services	109.2	121.7	2.9	11.5	3.6	4.1
5- Health Services	59.3	62.7	0.8	5.7	2.0	2.1
6- Private Non-Profit Institutions Serving Households	1.5	1.8	25.7	20.0	0.1	0.1
7- Households with Employed Persons	18.3	18.9	3.7	3.8	0.6	0.6
8- Minus Financial Intermediation Services Indirectly Measured	(395.1)	(325.7)	26.3	(17.6)	(13.2)	(10.9)
9- GDP at Producer Prices	2941.1	2925.9	20.9	(0.5)	98.1	98.1
10-Import Duties	55.8	57.6	(2.3)	3.2	1.9	1.9
TOTAL GDP	2996.9	2983.5	20.4	(0.4)	100.0	100.0

Source: Ministry of Finance and National Economy.

* Provisional data

Crude Oil Production and Refining

Crude oil production from the Bahrain field fell from 13.8 million barrels in 2000 to 13.7 million barrels in 2001, a decrease of 0.8%. Similarly imports of crude oil registered a decrease of 7.8% in 2001 to reach 74.0 million barrels.

Refined oil production fell by 6.0 million barrels, or by 6.4% , to reach 87.8 million barrels in 2001. Similarly, exports of oil products fell by 3.6% to reach 87.7 million barrels.

CHART 2-2: SELECTED OIL STATISTICS

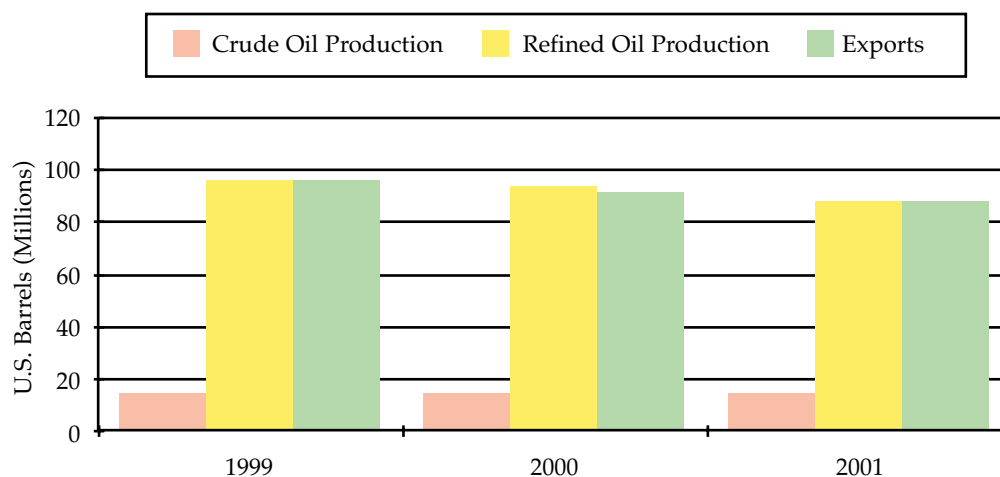


Table 2.3: Selected Oil Statistics

Description	U.S. Barrels (Thousands)		Percentage Change	
	2000	2001	2000	2001
Bahrain Crude Oil Production	13,766	13,656	0.7	-0.8
Imports of Saudi Arabian Crude 1/	80,296	74,031	-2.4	-7.8
Refined Oil Production	93,737	87,765	-2.2	-6.4
Local Sales of Refined Products	4,694	4,885	6.5	4.1
Exports 2/	90,963	87,664	-5.0	-3.6

Source: Ministry of Oil.

1/ Imported crude used in refined products for export.

2/ Includes exports by Bapco and Banagas.

Gas Production and Utilisation

Bahrain's gas production increased by 3.0% to reach 424.4 billion cubic feet in 2001, compared with 412.0 billion cubic feet in 2000. This rise was attributable to increases in both non-associated and associated gas production of 3.5% and 1.3% respectively.

Aluminium Bahrain (Alba) remained the single largest consumer of gas, accounting for 26.4% of total gas utilisation in 2001. Power stations accounted for 24.8%, while the Oil field injection, Gulf Petrochemical Industries Company (GPIC), and the refinery accounted for 24.0%, 10.3% and 8.5% of total utilisation respectively.

Table 2.4: Gas Production and Utilisation

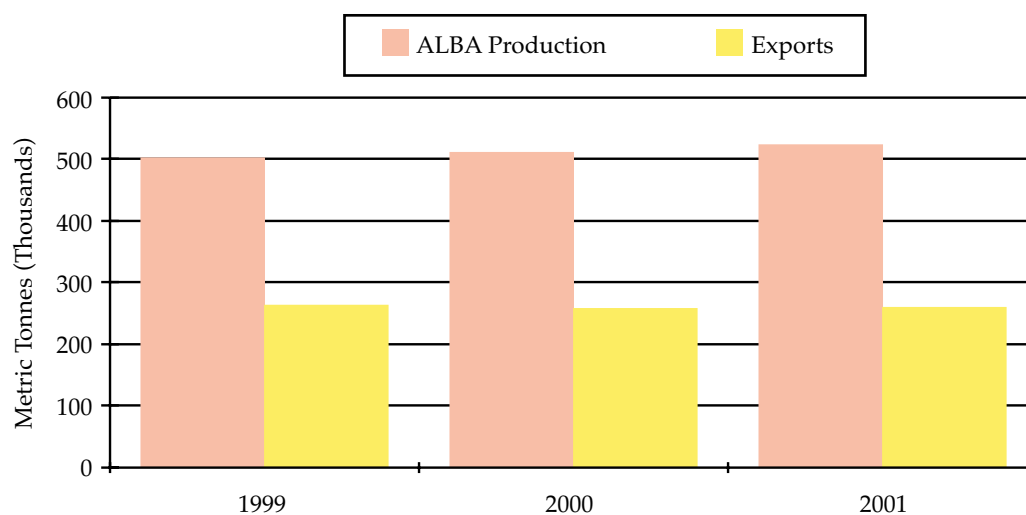
Items	Billions of Cubic Feet		Percentage Change		Relative Share	
	2000	2001	2000	2001	2000	2001
Gas Production	412.0	424.4	1.4	3.0	100.0	100.0
Associated	95.3	96.5	-0.7	1.3	23.1	22.7
Non-associated	316.7	327.9	2.0	3.5	76.9	77.3
Gas Utilisation	412.0	424.4	1.4	3.0	100.0	100.0
Power Stations	101.1	105.4	7.7	4.2	24.5	24.8
Alba	108.0	112.2	-1.2	3.9	26.2	26.4
Refinery	36.3	36.0	1.7	-0.8	8.8	8.5
Oil Field Injection	101.6	102.0	1.5	0.4	24.7	24.0
GPIC	41.0	43.8	-5.7	6.8	10.0	10.3
Others	24.0	25.0	0.4	4.2	5.8	6.0

Source: Ministry of Oil.

Aluminium Production

Alba production registered an increase of 2.5%, or 12.9 thousand metric tonnes, to reach 522.6 thousand metric tonnes in 2001.

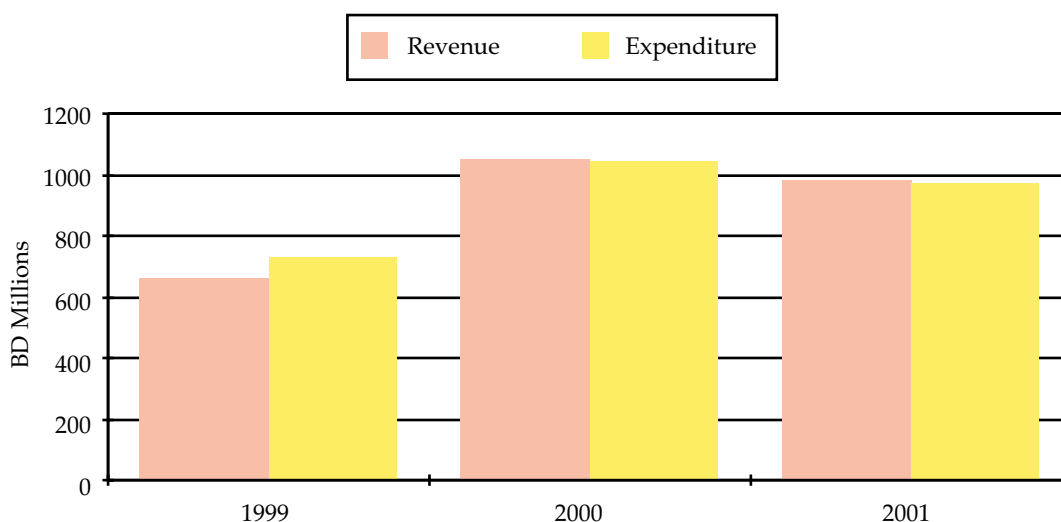
CHART 2-3: ALBA'S ALUMINIUM PRODUCTION AND EXPORTS



2-2 Government Finance

The fiscal account registered a surplus for the second consecutive year, although it fell from BD 5.3 million in 2000 to BD 3.2 million in 2001.

CHART 2-4: GOVERNMENT FINANCE



Revenues

Total revenue amounted to BD 980.9 million in 2001, as against BD 1047.3 million in 2000, a decrease of BD 66.4 million or 6.3%. Oil and gas revenue decreased by 12.1% to BD 672.1 million in 2001. As a result, its share in total revenue declined from 73.0% in 2000 to 68.5% in 2001.

In contrast, Non-oil revenue increased by 9.2% to BD 308.8 million in 2001, and its share in total revenue increased from 27.0% in 2000 to 31.5% in 2001.

Expenditures

Total expenditure rose by BD 45.7 million or 5.8%, from BD 787.0 million in 2000 to BD 832.7 million in 2001.

Current expenditure rose from BD 664.1 million in 2000 to BD 669.7 million in 2001, or by 0.8%. Projects expenditure increased from BD 122.9 million in 2000 to BD 163.0 million in 2001, or by 32.6%.

Total amount reserved for sovereign and strategic projects was BD 145.0 million in 2001.

Table 2.5: Government Finance

Description	BD Millions		Annual Growth (%)		Relative Share (%)	
	2000	2001	2000	2001	2000	2001
A. Total Revenue	1047.3	980.9	58.6	-6.3	100.0	100.0
Oil & Gas Revenue	764.6	672.1	105.9	-12.1	73.0	68.5
Non-Oil Revenue	282.7	308.8	-2.2	9.2	27.0	31.5
Taxation & Fees	114.7	118.6	4.7	3.4	11.0	12.1
Government Goods & Services	95.4	96.5	-2.8	1.2	9.1	9.8
Investments & Govt. Properties	40.3	48.5	5.2	20.3	3.8	5.0
Grants	18.8	37.6	-50.0	100.0	1.8	3.9
Sale of Capital Assets	0.3	0.3	50.0	0.0	0.0	0.0
Miscellaneous	13.2	7.3	153.8	-44.7	1.3	0.7
B. Total Expenditure	787.0	832.7	8.7	5.8	100.0	100.0
Current Expenditure	664.1	669.7	11.4	0.8	84.4	80.4
Manpower	396.4	414.1	1.9	4.5	50.4	49.7
Services	58.9	68.7	1.2	16.6	7.5	8.2
Consumables	33.7	33.9	10.1	0.6	4.3	4.1
Assets	7.7	9.8	0.0	27.3	1.0	1.2
Maintenance	24.2	24.0	-1.2	-0.8	3.1	2.9
Transfers	87.5	60.6	86.6	-30.7	11.1	7.3
Grants, Subsidies and Repayment of Loan Interest	55.7	58.6	41.7	5.2	7.0	7.0
Projects Expenditure	122.9	163.0	-3.8	32.6	15.6	19.6
Sovereign and Strategic Projects	255.0	145.0				
C. Surplus/Deficit	5.3	3.2				

Source: Ministry of Finance and National Economy.

2-3 Consumer Price Index

Bahrain's Consumer Price Index (CPI), (base year 1994-1995 =100), reached an index level of 100.9 in 2001, compared with 102.1 in 2000, a decrease of 1.2%.

An analysis of the main goods and services groups within the CPI reveals a slight increase in the average prices of four main groups during 2001, namely, the culture, entertainment and recreation group by 2.4%, the medical care & health services group by 2.3%, the ready-made clothes, textiles and foot-wear group by 1.8% and the transportation services group by 1.2%.

In contrast, average prices of the remaining groups decreased by varying degrees. This included the education group by 13.6%, the goods for home services group by 4.8%, the service requirements of personal care group by 2.7% and the food, beverages and tobacco group by 1.4%.

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

Groups	2000	2001	Annual Change %
1. Food, Beverages and Tobacco	101.8	100.4	-1.4
2. Ready-made Clothes, Textiles and Foot-wear	100.3	102.1	1.8
3. House-Related Expenses, Fuel Lighting & Water	99.6	98.9	-0.7
4. Goods for Home Services	95.0	90.4	-4.8
5. Transportation Services	101.4	102.6	1.2
6. Education	127.4	110.0	-13.6
7. Medical Care & Health Services	108.4	110.9	2.3
8. Service Requirements of Personal Care	90.0	87.6	-2.7
9. Culture, Entertainment and Recreation	111.7	114.4	2.4
General C.P.I.	102.1	100.9	-1.2

Source: Central Statistics Organisation

2-4 Bahrain Stock Exchange

The Bahrain index closed at 1,761.5 points at end-2001, a decrease of 2.5% compared with end-2000.

In general, the market experienced a fall in activity during 2001. The volume of shares traded fell from 422.1 million shares in 2000 to 335.3 million shares in 2001, or by 20.6%, and their value fell from BD 92.5 million to BD 72.2 million, or by 21.9%. The market capitalization of listed companies remained unchanged at BD 2.5 billion at end-2001.

An analysis by sector reveals that the shares traded in the commercial banking sector amounted to BD 30.5 million or 42.2% of the value of total shares traded. Shares traded in the investment sector amounted to BD 20.6 million or 28.5% of the value of total shares traded, followed by the services sector with BD 18.3 million or 25.4% of the total.

Table 2.7: Trading Activity of the Bahrain Stock Exchange

Items	1999	2000	2001	Annual change %	
				2000	2001
Volume of shares traded (million)	536.3	422.1	335.3	-21.3	-20.6
Value of shares traded (BD million)	168.0	92.5	72.2	-44.9	-21.9
Number of Transactions	18,145	11,906	13,113	-34.4	10.1
Bahrain Index (points)	2212.2	1805.8	1761.5	-18.4	-2.5
Number of listed companies	37	36	36	-2.7	0.0
Market capitalisation of listed companies (BD billion)	2.7	2.5	2.5	-7.5	0.0

Source: Bahrain Stock Exchange

CHAPTER THREE

FOREIGN TRADE AND BALANCE OF PAYMENTS

3-1 Trade Balance

The trade balance registered a surplus for the third consecutive year, although the surplus declined from BD 587.1 million in 2000 to BD 482.0 million in 2001. The value of both total exports and total imports decreased during the year. The oil trade balance surplus decreased from BD 912.4 million in 2000 to BD 805.7 million in 2001, or by 11.7%. At the same time, the non-oil trade balance deficit fell from BD 325.3 million to BD 323.7 million, or by 0.5%.

Exports

The value of total exports decreased from BD 2,329.3 million in 2000 to BD 2,084.8 million in 2001, or by 10.5%. Oil exports decreased by 17.8% from BD 1683.7 million in 2000 to BD 1,384.1 million in 2001. As a result, the share of oil exports in total exports decreased from 72.3% to 66.4%. On the other hand, the value of non-oil exports rose by 8.5% , from BD 645.6 million in 2000 to BD 700.7 million in 2001 because of the increase in the export of Textiles and Textile Articles. As a result, its share in total exports rose from 27.7% to 33.6%.

An analysis by the main commodity groups shows that exports of mineral products (including oil) comprised 70.8% of total exports, followed by exports of base metals and articles thereof with 15.5%, and textiles and textile articles with 7.6%.

Imports

The value of total imports decreased by 8.0% to reach BD 1,602.8 million in 2001 compared with BD 1,742.2 million in 2000. Oil imports decrease from BD 771.3 million in 2000 to BD 578.4 million in 2001, a decrease of 25.0%. Consequently, its share in total imports fell from 44.3% to 36.1%. On the other hand, the value of non-oil imports rose from BD 970.9 million in 2000 to BD 1,024.4 million in 2001, or by 5.5%, and its share in total imports rose from 55.7% to 63.9%.

An analysis by the main commodity groups shows that imports of mineral products (including oil) represented 40.3% of total imports, followed by machinery, appliances and electrical equipment with 11.9%, and products of chemical and allied industries with 9.2%.

CHART 3-1: FOREIGN TRADE

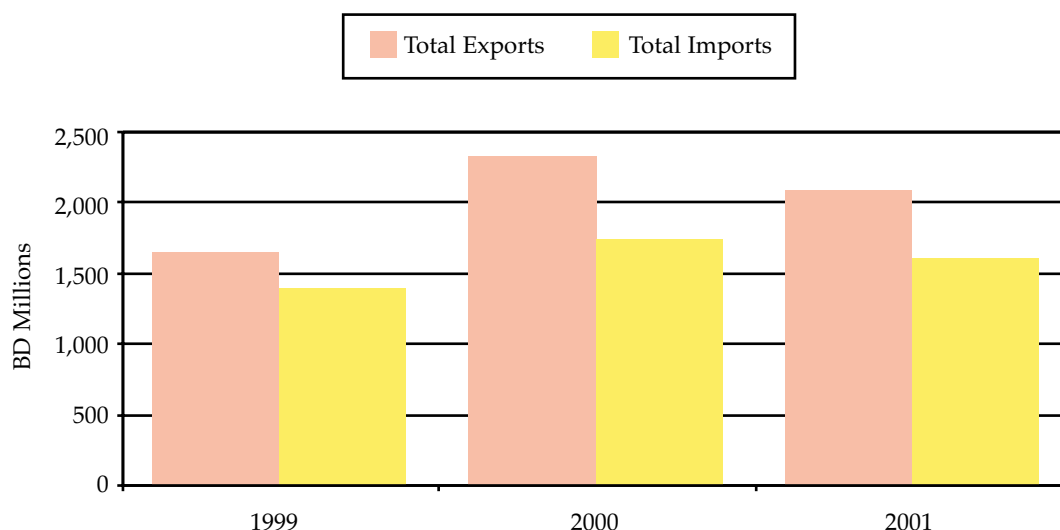


Table 3.1: Foreign Trade

Main Groups	BD Millions		Annual Change (%)		Relative Share (%)	
	2000	2001*	2000	2001	2000	2001
Total Exports	2,329.3	2,084.8	42.0	-10.5	100.0	100.0
Oil Exports	1,683.7	1,384.1	61.3	-17.8	72.3	66.4
Non-Oil Exports 1/	645.6	700.7	8.2	8.5	27.7	33.6
Total Imports	1,742.2	1,602.8	25.3	-8.0	100.0	100.0
Oil Imports	771.3	578.4	64.4	-25.0	44.3	36.1
Non-Oil Imports	970.9	1,024.4	5.4	5.5	55.7	63.9
Trade Balance	587.1	482.0				

Source: Central Statistics Organisation

* Provisional data.

1/ Includes re-exports.

3-2 Direction of Non-Oil Trade

An analysis of the trade data indicates an increase in the value of non-oil trade with the main trading partners. Overall, the non-oil trade balance surplus with the Arab countries and the Americas rose by 103.7% and 128.8% respectively. The non-oil trade deficit with Asia and Europe rose by 22.1% and 10.0% respectively.

CHART 3-2: DIRECTION OF NON-OIL TRADE DURING 2001

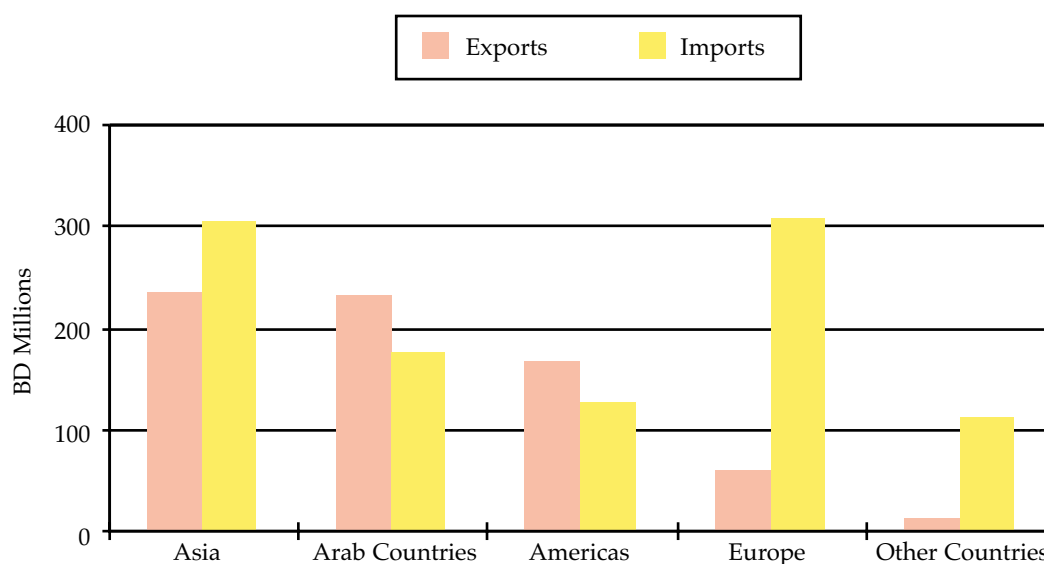


Table 3.2: Direction of Non-Oil Trade

(BD Millions)

Country Groups	2000			2001*		
	Exports	Imports	Balance	Exports	Imports	Balance
Arab Countries	188.2	161.4	26.8	229.3	174.7	54.6
Africa	5.6	3.7	1.9	2.4	3.4	-1.0
Asia	233.4	291.3	-57.9	233.5	304.2	-70.7
Europe	60.7	287.1	-226.4	58.5	307.6	-249.1
Americas	144.4	126.7	17.7	166.5	126.0	40.5
Oceania	9.6	100.0	-90.4	7.8	107.9	-100.1
Other Countries	3.7	0.7	3.0	2.7	0.6	2.1
Total	645.6	970.9	-325.3	700.7	1,024.4	-323.7

Source: Central Statistics Organisation

* Provisional data

3-3 Non-Oil Trade with GCC Countries

Bahrain's non-oil trade surplus with GCC countries increased from BD 18.8 million in 2000 to BD 46.1 million in 2001, or by 145.2%. This increase was a result of an increase in non-oil exports of BD 32.9 million or 20.4%. Non-oil exports to GCC countries accounted for 27.7% of total non-oil exports, while imports from them represented 14.5%.

**CHART 3-3: DIRECTION OF NON-OIL TRADE
WITH GCC COUNTRIES DURING 2001**

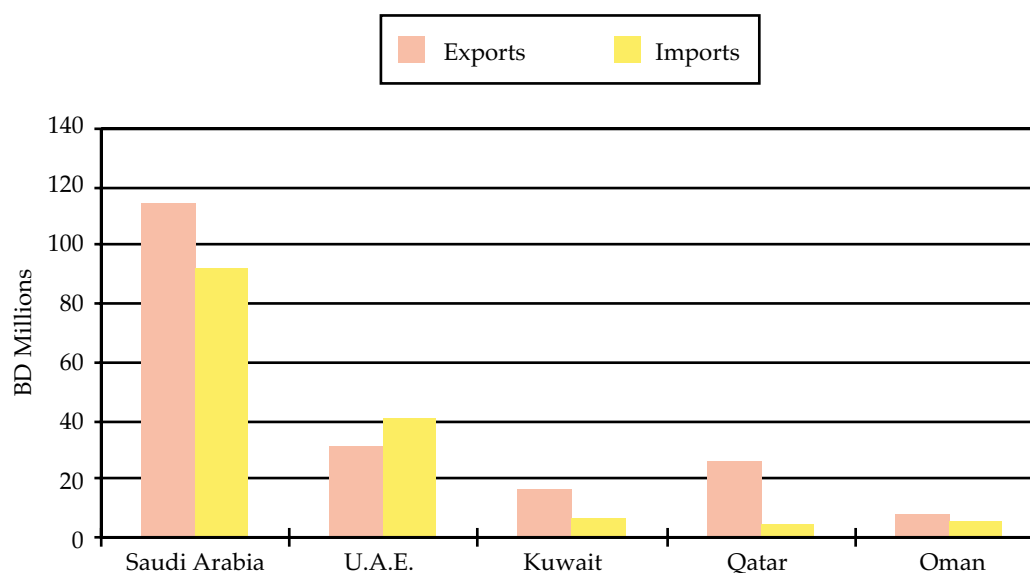


Table 3.3: Non-Oil Trade with GCC Countries

(BD Millions)

Country	2000			2001*		
	Exports	Imports	Balance	Exports	Imports	Balance
Kuwait	15.1	6.2	8.9	15.7	6.8	8.9
Oman	8.0	4.3	3.7	7.6	4.9	2.7
Qatar	14.0	3.4	10.6	26.0	3.9	22.1
Saudi Arabia	92.9	85.6	7.3	114.4	92.1	22.3
U.A.E.	31.4	43.1	-11.7	30.6	40.5	-9.9
Total	161.4	142.6	18.8	194.3	148.2	46.1

Source: Central Statistics Organisation

* Provisional data.

3-4 Balance of Payments

The current account surplus decreased from BD 275.5 million in 2000 to BD 42.7 million in 2001. This was due to a decrease in the trade balance surplus by BD 99.6 million and to an increase in both net current transfers and net income outflow by BD 103.0 million and BD 40.7 million respectively.

The capital and financial account registered an increase in the net foreign assets by BD 126.1 million in 2001 compared with an increase of BD 61.0 million in 2000. This was due to a rise in the financial account outflow by BD 163.7 million.

Bahrain overall balance of payments (Reserve Assets) registered a surplus of BD 46.4 million in 2001 compared with BD 75.2 million in 2000.

Table 3.4: Balance of Payments

(BD Millions)

Items	1999	2000	2001 (Prov.)
1. Current Account (a+b+c+d)	-35.3	275.5	42.7
a. Goods	336.3	677.3	577.7
Exports	1640.4	2329.3	2084.8
- Oil and oil products	1119.2	1762.6	1475.0
- Non-oil	521.2	566.7	609.8
Imports	-1304.1	-1652.0	-1507.1
- Oil and oil products	-528.0	-840.0	-645.4
- Non-oil	-776.1	-812.0	-861.7
b. Services (net)	38.2	54.6	65.1
- Transportation	-46.0	-51.1	-54.9
- Travel	93.7	112.7	130.3
- Insurance	-8.6	-9.0	-9.6
- Others	-0.9	2.0	-0.7
c. Income (net)	-101.7	-84.1	-124.8
Investment Income	-101.7	-84.1	-124.8
- Direct Investment Income	-223.8	-252.7	-272.2
- Portfolio Income	226.3	299.1	180.4
- Other Investment Income	-104.2	-130.5	-33.0
d. Current Transfers (net)	-308.1	-372.3	-475.3
- Workers' remittances	-321.9	-380.8	-483.9
2. Capital and Financial Account (net) (A+B)	114.5	-61.0	-126.1
A. Capital Account	37.6	18.8	37.6
- Capital Transfers	37.6	18.8	37.6
B. Financial Account (1+2+3+4)*	76.9	-79.8	-163.7
1. Direct Investment	109.2	131.0	- 46.7
- Abroad	-61.4	-3.6	- 81.2
- In Bahrain	170.6	134.6	34.5
2. Portfolio Investment (net)	-749.4	73.0	-518.3
3. Other Investment (net)	726.6	-208.6	447.7
4. Reserve Assets (net)	-9.6	-75.2	-46.4
3. Errors and Omissions	-79.2	-214.5	83.4

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

CHAPTER FOUR

MONEY AND BANKING

4-1 Money Supply and Liquidity

At end 2001, currency in circulation registered an increase of BD 2.2 million, or 1.8%, to reach BD 122.9 million .

M1 (Currency in circulation plus private demand deposits) increased by BD 106.3 million, or 23.9%, to reach BD 552.0 million at end-2001.

As a result of the increase in M1 and growth in private sector savings and time deposits by BD 93.0 million, M2 (M1 plus private sector savings and time deposits) rose by 9.2%, from BD 2,156.7 million at end-2000 to BD 2,356.0 million at end-2001. At the same time, M3 (M2 plus government deposits) rose by 7.0% .

CHART 4-1: DOMESTIC LIQUIDITY



Table 4.1: Domestic Liquidity

Items				(BD Millions)	
	Year-end			Change (2001 vs. 2000)	
	1999	2000	2001	Absolute	Percent
Currency in Circulation	113.0	120.7	122.9	2.2	1.8
M1	426.2	445.7	552.0	106.3	23.9
M2	1,956.7	2,156.7	2356.0	199.3	9.2
M3	2,388.7	2,602.6	2783.7	181.1	7.0

Factors Affecting Domestic Liquidity

Changes in the major factors affecting domestic liquidity over the period 1999-2001 are illustrated in Table 4.2.

Table 4.2: Factors Affecting Domestic Liquidity

(BD Millions)

Factors	Year-end			Changes	
	1999	2000	2001	(2000 vs. 1999)	(2001 vs. 2000)
A. Total Domestic Liquidity (M3)	2,388.7	2,602.6	2783.7	213.9	181.1
B. Factors Affecting Liquidity					
1. Net Foreign Assets (a+b)	807.5	1,122.1	1205.7	314.6	83.6
(a) BMA	391.9	465.2	510.9	73.3	45.7
(b) Commercial Banks	415.6	656.9	694.8	241.3	37.9
2. Domestic Claims (a+b+c)	1,581.2	1,480.5	1578.0	-100.7	97.5
(a) Claims on government	336.2	343.0	375.2	6.8	32.2
(b) Claims on private sector 1/	1,302.6	1,380.5	1410.9	77.9	30.4
(c) Other assets (net)	-57.6	-243.0	-208.1	-185.4	34.9

1/ Loans and holdings of securities.

Total domestic liquidity (M3) registered an increase of BD 181.1 million, or 7.0%, at end-2001.

Net foreign assets registered a rise of BD 83.6 million, or 7.5%, at end-2001. This was a result of an increase in BMA and commercial banks net foreign assets by BD 45.7 million and BD 37.9 million respectively.

Total domestic assets rose by BD 97.5 million, or 6.6%, at end-2001. This was due to an increase in other assets (net) of BD 34.9 million, and in claims on the government and on the private sector by BD 32.2 million and BD 30.4 million respectively.

4-2 The Banking System

The consolidated balance sheet of the banking system in Bahrain (commercial banks, offshore banking units, and investment banks) declined from US\$ 106.4 billion at end-2000 to US\$ 102.7 billion at end-2001, a decrease of 3.5%.

Offshore banking units accounted for 86.1% of the total balance sheet at end-2001, while commercial and investment banks accounted for 10.0% and 3.9% respectively.

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

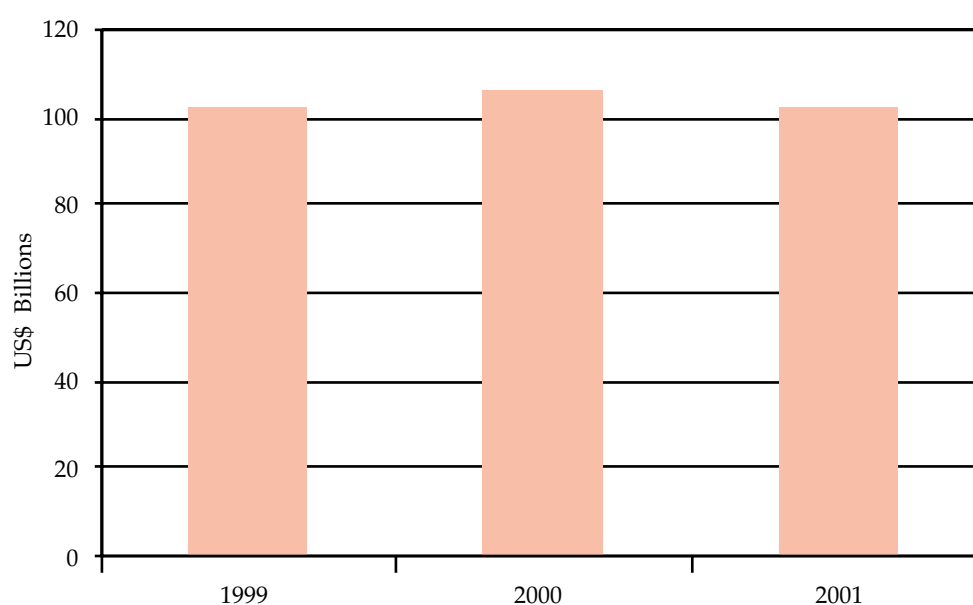


Table 4.3: Consolidated Balance Sheet of the Banking System

(US\$ Billions)

Items	End-2000		End-2001		Annual Change %
	Absolute	%	Absolute	%	
Commercial Banks	10.0	9.4	10.3	10.0	3.0
Offshore Banking Units	93.0	87.4	88.4	86.1	-4.9
Investment Banks	3.4	3.2	4.0	3.9	17.6
Total	106.4	100.0	102.7	100.0	-3.5

4-3 Commercial Banks

At end-2001, Bahrain's commercial banking sector comprised 21 Full Commercial Banks (FCBs), four of which were Islamic banks.

The consolidated balance sheet of the commercial banks continued its upward trend in 2001 to reach BD 3,882.2 million, as against BD 3,768.1 million at end-2000, an increase of 3.0%.

Foreign Assets and Liabilities

Total foreign assets of the commercial banks decreased by 2.7%, from BD 1,285.9 million at end-2000 to BD 1,251.3 million at end-2001. During the same period, total foreign liabilities fell by 11.5%, from BD 629.0 million to BD 556.5 million. As a result, net foreign assets increased by BD 37.9 million, or 5.8%, to reach BD 694.8 million at end-2001.

Domestic Deposits

(a) Private Sector Deposits

Total private sector deposits (Bahraini Dinars plus other currencies) amounted to BD 2,192.8 million at end-2001, an increase of BD 183.1 million, or 9.1%, over end-2000. Demand and saving deposits increased by 32.0% and 27.0% respectively.

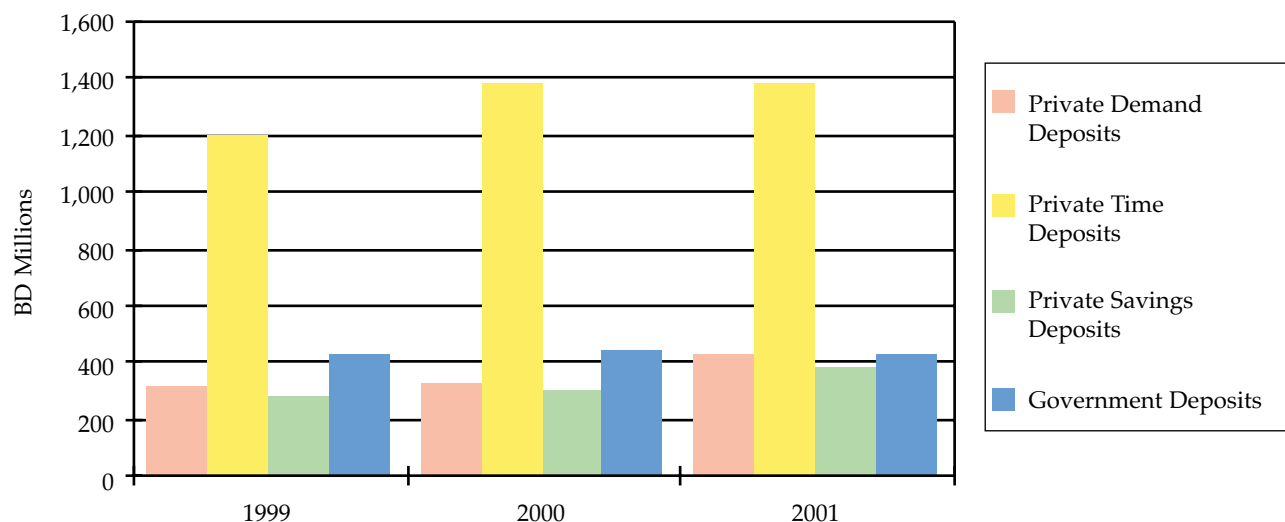
Private sector deposits denominated in both Bahraini Dinars and foreign currencies increased by 13.7% and 2.2% respectively. Deposits denominated in Bahraini Dinars represented 62.6% of the total private sector deposits .

(b) Government Deposits ¹

Government deposits (Bahraini Dinars plus other currencies) amounted to BD 426.3 million at end-2001, compared with BD 436.7 million at end-2000, a decrease of 2.4%. This was a result of a fall in foreign currency deposits by BD 24.5 million, or 9.0%, and a rise in Bahraini Dinar deposits by BD 14.1 million, or 8.6%.

¹ Includes the Central Government and the Social Insurance System.

CHART 4-3: FCB DEPOSIT TRENDS



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

(BD Millions)

Items	End-2000			End-2001			(2001 vs. 2000)
	BD	OC	Total	BD	OC	Total	%
1. Private Sector Deposits	1,207.1	802.6	2,009.7	1,372.5	820.3	2,192.8	9.1
Demand Deposits	260.1	64.9	325.0	321.3	107.8	429.1	32.0
Time Deposits	658.8	728.2	1,387.0	683.7	701.8	1,385.5	-0.1
Savings Deposits	288.2	9.5	297.7	367.5	10.7	378.2	27.0
2. Government Deposits	163.3	273.4	436.7	177.4	248.9	426.3	-2.4
Total Domestic Deposits	1,370.4	1,076.0	2,446.4	1,549.9	1,069.2	2,619.1	7.1

Credit

Outstanding credit facilities extended by commercial banks to the different sectors of the domestic economy amounted to BD 1,448.2 million at end-2001, compared with BD 1,421.5 million at end-2000, an increase of 1.9%.

(a) Business Sectors

Credit facilities to the business sector declined by 2.5%, from BD 821.2 million at end-2000 to BD 800.4 million at end-2001. Credit to the trade and non-bank financial sectors decreased by 8.0% and 51.8% respectively, while credit to the manufacturing sector increased by 11.1%. The business sector's share of total outstanding credit facilities was 55.3% at end-2001.

(b) Personal Sector

Credit facilities extended to the personal sector increased by 6.4%, from BD 499.5 million at end-2000 to BD 531.7 million at end-2001. The personal sector's share of total outstanding credit facilities was 36.7% at end-2001.

(c) Government

Credit to the government rose by 15.2%, to BD 116.1 million at end-2001, compared with BD 100.8 million at end-2000.

**CHART 4-4: OUTSTANDING
COMMERCIAL BANK CREDIT TO RESIDENTS IN 2001**

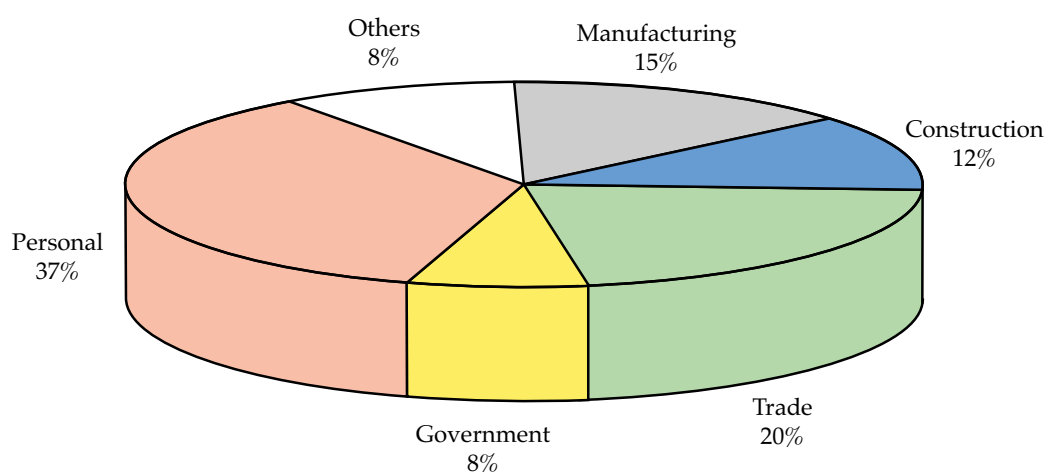


Table 4.5: Outstanding Credit to Non-Bank Residents by Economic Sector

(BD Millions)

Sectors	Year-end				Change (2001 vs. 2000)	
	2000		2001		Absolute	%
	Absolute	%	Absolute	%		
1. Business	821.2	57.8	800.4	55.3	-20.8	-2.5
Manufacturing	199.4	14.1	221.5	15.3	22.1	11.1
Mining and Quarrying	0.2	0.0	0.2	0.0	0.0	0.0
Agriculture, Fishing and Dairy	4.6	0.3	6.5	0.5	1.9	41.3
Construction & Real Estate	170.9	12.0	168.5	11.6	-2.4	-1.4
Trade	309.4	21.8	284.8	19.7	-24.6	-8.0
Non-Bank Financial	45.4	3.2	21.9	1.5	-23.5	-51.8
Other Business	91.3	6.4	97.0	6.7	5.7	6.2
2. Government	100.8	7.1	116.1	8.0	15.3	15.2
3. Personal	499.5	35.1	531.7	36.7	32.2	6.4
Total	1,421.5	100.0	1448.2	100.0	26.7	1.9

BD Interest Rates

Average interest rates experienced a downward trend during 2001 in accordance with interest rates on the US dollar .

The weighted average time deposit rate declined from 5.45% at end-2000 to 1.54% at end-2001. Also, the weighted average savings rate declined from 2.22% to 1.16% .

The weighted average interest rate on business loans fell from 9.04% at end-2000 to 6.76% at end-2001, and that on personal loans fell from 11.28% to 9.41% .

Table 4.6: Interest Rates on BD Deposits & Loans

Items	End 1999	End 2000	2001			
			1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
1. Deposits						
Time /1	5.24	5.45	4.04	3.26	1.95	1.54
Savings	2.22	2.22	2.20	2.08	1.81	1.16
2. Loans						
Business	8.99	9.04	8.64	7.61	6.71	6.76
Personal	11.16	11.28	11.36	10.29	10.16	9.41
3. Credit Cards	17.09	17.02	17.11	17.36	17.32	17.21

1/ Time deposits of 3-12 months.

4-4 Offshore Banking Units

The number of licensed Offshore Banking Units (OBUs) totaled 47 at end-2001. The aggregate assets/liabilities of the OBUs decreased from US\$ 93.0 billion at end-2000 to US\$ 88.4 billion at end-2001, or by 4.9%.

Foreign Assets and Liabilities

Total foreign assets of the OBUs decreased by 5.2% to reach US\$ 84.2 billion at end-2001, compared with US\$ 88.8 billion at end-2000. Total foreign liabilities also decreased from US\$ 87.4 billion at end-2000 to US\$ 82.8 billion at end-2001, or by 5.3%. As a result, net foreign assets of the OBUs remained stable at US\$ 1.4 billion at end-2001.

The geographical distribution of OBU assets and liabilities at end-2001 is illustrated in Table 4.7

Table 4.7: Geographical Classification of OBU Assets/Liabilities at End-2001

Countries	Assets		Liabilities	
	US\$ billion	% of total	US\$ billion	% of total
Arab Countries	27.3	30.9	35.5	40.2
Asia	10.1	11.4	14.4	16.3
Americas	17.2	19.5	8.8	10.0
Western Europe	31.1	35.2	29.3	33.1
Others	2.7	3.0	0.4	0.4
Total	88.4	100.0	88.4	100.0

A classification by currencies indicates that the U.S. dollar, GCC currencies, and the Euro accounted for 68.2%, 11.3% and 12.5% of total assets, and for 69.2%, 11.8% and 11.2% of total liabilities respectively at end-2001.

Table 4.8: Currency Structure of OBU Assets/Liabilities at End-2001

Currencies	Assets		Liabilities	
	US\$ billion	% of total	US\$ billion	% of total
USD	60.3	68.2	61.2	69.2
GCC Currencies	10.0	11.3	10.4	11.8
Euro	11.0	12.5	9.9	11.2
Others	7.1	8.0	6.9	7.8
Total	88.4	100.0	88.4	100.0

4-5 Investment Banks

The number of licensed Investment banks (IBs) at end-2001 totaled 32. The aggregate assets/liabilities of the IBs increased by 17.6%, from US\$ 3.4 billion at end-2000 to US\$ 4.0 billion at end-2001.

Foreign Assets and Liabilities

Total foreign assets of the IBs increased from US\$ 2.8 billion at end-2000 to US\$ 3.4 billion at end-2001, or by 21.4%. Similarly, total foreign liabilities increased from US\$ 2.3 billion at end-2000 to US\$ 2.8 billion at end-2001, or by 21.7%. As a result, net foreign assets of the IBs amounted to US\$ 0.6 billion at end-2001.

The geographical distribution of IB assets and liabilities at end-2001 is illustrated in Table 4.9.

Table 4.9: Geographical Classification of IB Assets/Liabilities at End-2001

Countries	Assets		Liabilities	
	US\$ million	% of total	US\$ million	% of total
Arab Countries	1,406.2	34.9	3,163.4	78.4
Asia	98.9	2.4	31.6	0.8
Americas	1,367.6	33.9	389.6	9.6
Western Europe	1,152.1	28.6	426.3	10.6
Others	9.1	0.2	23.0	0.6
Total	4,033.9	100.0	4,033.9	100.0

A classification by currencies indicates that the U.S. dollar and GCC currencies accounted for 87.0% and 10.5% of total assets, and for 90.1% and 7.1% of total liabilities respectively at end-2001.

Table 4.10 : Currency Structure of IB Assets/Liabilities at End-2001

Currencies	Assets		Liabilities	
	US\$ million	% of total	US\$ million	% of total
USD	3,509.6	87.0	3,636.2	90.1
GCC Currencies	421.7	10.5	284.3	7.1
Others	102.6	2.5	113.4	2.8
Total	4,033.9	100.0	4,033.9	100.0

4-6 Islamic Banks

The number of licensed Islamic banks (commercial banks, offshore banking units, and investment banks) at end-2001 totaled 20. The aggregate assets/liabilities of the Islamic Banks increased from US\$ 1.9 billion at end-2000 to US\$ 2.5 billion at end-2001, or by 31.6%.

Foreign Assets and Liabilities

Total foreign assets of the Islamic banks increased from US\$ 0.8 billion at end-2000 to US\$ 1.3 billion at end-2001, or by 62.5%. Similarly, total foreign liabilities increased from US\$ 0.8 billion at end-2000 to US\$ 1.2 billion at end-2001, or by 50.0%. As a result, net foreign assets of the Islamic banks amounted to US\$ 0.1 billion at end-2001.

The geographical distribution of Islamic banks assets and liabilities at end-2001 is illustrated in Table 4.11.

Table 4.11: Geographical Classification of Islamic banks Assets/Liabilities at End-2001

Countries	Assets		Liabilities	
	US\$ million	% of total	US\$ million	% of total
Arab Countries	1676.6	68.2	2053.7	83.6
Asia	96.2	3.9	27.5	1.1
Americas	484.2	19.7	229.3	9.3
Western Europe	196.0	8.0	147.6	6.0
Others	5.1	0.2	0.0	0.0
Total	2458.1	100.0	2458.1	100.0

A classification by currencies indicates that the U.S. dollar and GCC currencies accounted for 78.2% and 21.6% of total assets, and for 70.0% and 30.0% of total liabilities respectively at end-2001.

Table 4.12 : Currency Structure of Islamic banks Assets/Liabilities at End-2001

Currencies	Assets		Liabilities	
	US\$ million	% of total	US\$ million	% of total
USD	1922.8	78.2	1720.1	70.0
GCC Currencies	531.4	21.6	737.3	30.0
Others	3.9	0.2	0.7	0.0
Total	2458.1	100.0	2458.1	100.0

4-7 Employment in the Banking & Financial Sector

Total employment in the banking and financial sector was 5,232 at end-2001, compared with 5,231 at end-2000. Bahrainis represented 74.0% of the total number of employees in the banking and financial sector at end-2001.

The Banking Sector

Total employment in the banking sector (commercial banks, offshore banking units, investment banks and representative offices) was 4,794 at end-2001 compared with 4796 at end-2000. Bahrainis represented 76.9% of the total.

Employment in commercial banks represented 44.3% of the total, while offshore banking units, investment banks and representative offices accounted for 33.6%, 20.5% and 1.6% respectively.

The Financial Sector

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

Total employment in the financial sector was 438 at end-2001, compared with 435 at end-2000. Bahrainis accounted for 42.5% of the total .

Table 4.13 : Employment in the Banking & Financial Sector 2000 - 2001

Sectors	2000			2001		
	Bahraini	Non Bahraini	Total	Bahraini	Non Bahraini	Total
Banking Sector						
Commercial Banks	2,015	290	2,305	1,857	265	2,122
Offshore Banking Units	996	482	1,478	1,097	512	1,609
Investment Banks	649	278	927	707	275	982
Representative Offices	32	54	86	27	54	81
Total	3,692	1,104	4,796	3,688	1,106	4,794
Financial Sector						
Money Changers	122	186	308	123	196	319
Money Brokers	37	26	63	32	25	57
Inv. Advisory & Other Financial Services	31	33	64	31	31	62
Total	190	245	435	186	252	438
Grand Total	3,882	1,349	5,231	3,874	1,358	5,232

CHAPTER FIVE

BMA OPERATIONS, ACTIVITIES, STATUTORY ACCOUNTS AND REGULATIONS

ACCOUNTS:

Statutory Accounts

The total assets/liabilities of the Agency increased from BD 575.4 million at end 2000 to BD 634.1 million at end 2001.

On the assets side, holdings of Foreign exchange and claims on Bahrain-based banks rose by BD 61.3 million and BD 3.2 million respectively, while Kingdom of Bahrain bonds and treasury bills fell by BD 5.1 million.

On the liabilities side, Bahraini Dinar deposits rose by BD 43.6 million to reach BD 154.6 million, while notes and coins in circulation decreased by BD 4.3 million to reach BD 149.9 million.

The Agency's net profit for the year 2001 was BD 31.4 million, compared with BD 24.5 million a year earlier.

ADMINISTRATION:

Public Relations Division

The Public Relations Division organized a number of economic conferences and events. Most important of these events was the International Conference for Islamic Banks, the Fourth Meeting of the joint Financial and Economic Co-operation Committee and the Committee of Governors of Monetary Agencies and Central Banks in the GCC, the Thirty First Meeting of the Governors of Monetary Agencies and Central Banks in the GCC, the Meeting of the Technical Committee in charge of studying the requirements of the Resolutions of the GCC with respect to the implementation of Article (22) of the Unified Economic agreement aiming at the unification of currency, the Fifth Conference of the Financial Institutions in the Middle East and North Africa, and the Sixth Meeting of the International Islamic Financial Markets. The Division has also issued Four Issues of the quarterly news bulletin "Money".

BANKING CONTROL:

Banking Inspection

During the year, the Banking Inspection Directorate conducted a number of risk-focused inspections of banks and financial institutions licensed by the Agency. In addition, a system of follow-up visits was implemented to observe the rectification of matters raised in the inspection reports. These inspections were conducted with the aim of ensuring that the licensees adhered to all applicable regulations issued by the Agency as well as assuring the safety and soundness of the respective bank's system of internal controls. Finally, the outcome of each inspection was discussed with the management of the relevant institution.

The Directorate attended the Financial Action Task Force (FATF) meetings held throughout the year to discuss issues related to money laundering. Representatives from the Directorate also attended the Offshore Group of Banking Supervision (OGBS) meeting held in London. The meeting discussed issues of the recent initiatives of the FATF.

The Directorate assisted in the completion and implementation of the new Money Laundering Regulation that came into effect on the 14th of October 2001. The Directorate also established a new unit (Compliance Unit) to deal with issues regarding money laundering.

As part of its ongoing development to the inspection work, the Directorate has finalised a new inspection methodology. This methodology, when introduced, would increase the efficiency and effectiveness of the inspection work conducted by the Directorate.

Banking Supervision

Certain amendments were introduced to the Prudential Information Returns so as to incorporate the current requirements of International Accounting Standards, especially the requirements of IAS 39 concerning the fair value measurement. To enhance transparency, the Agency requested all investment banks to publish their quarterly accounts with effect from the third quarter of the year.

The Agency requested all banks operating in Bahrain to carry out a formal review on their credit culture based on the principles issued by the Basle Committee and to submit detailed reports to the Agency on their findings.

The Agency held prudential meetings with most of the banks operating in Bahrain individually in the presence of the respective external auditors to discuss their future strategies, risk management, profitability, asset quality, training and compliance.

The Agency also held several consultative meetings with all auditing and accounting firms which are qualified to audit bank's accounts, through which several issues were discussed such as the unification of the procedures concerning the implementation of IAS 39, developing the manner of reviewing the Prudential Information Returns, enhancing transparency in annual reports, improvement of the manner followed in conducting prudential meetings with banks and improving the management letters issued by external auditors.

After consultation with locally incorporated banks, large exposures requirements were revised with regard to connected lending limits. Locally incorporated banks were consulted with regard to establishing regulations on the supervisory treatment of acquisitions and major investments. Comments are yet to be received.

With the participation of the Directorate, the GCC Banking Supervision Committee conducted two meetings in Bahrain in February and October of the year.

Financial Institutions Supervision

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

In furtherance of its aim to constantly develop the supervision on the Islamic banks operating in Bahrain and in order to provide a regulatory framework for regulating these institutions and monitoring their operations, the Agency has finalised new Prudential Information Returns and Regulations for Islamic Banks (PIRI) and required all Islamic banks to submit the new returns to the Agency on a quarterly basis starting from March 2002. In developing the new PIRI framework, the Agency has taken into consideration the various standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFA), International Accounting Standards and the Basle Committee's various guidelines in that respect. Furthermore, the Agency has required the Islamic banks to comply with all corporate governance standards as well as the Shari'a pronouncement issued by the Shari'a Board of AAOIFI.

Also, as a part of its supervisory roles to enhance the supervision on the moneychangers, the Agency has developed on 6th October 2001 new computerized Monthly, Quarterly and Annual reports to be completed by the above entities starting from 31st December 2001. In addition, the Agency issued in March 2001, a Circular outlining the new scale of brokerage fees for banks in Bahrain. The new scale has been effective from 1st March 2001, and replaces the scale of fees issued in 1987 by the Agency.

In pursuit of its objective of continuing to develop Bahrain as a major centre for fund management business, the Agency has published a booklet comprising all the regulations with respect to the General Supervision, Operation and Marketing of Collective Investment Schemes and the regulation concerning the operation and supervision of Financial Trusts.

As a part of its ongoing concern to develop the statistical information on collective investment schemes, the Agency has developed a new Quarterly Information Returns for Collective Investment Schemes in November 2001 and requested all banks and financial institutions which are engaged in establishing and/or marketing those schemes to complete the new returns on a quarterly basis starting from the fourth quarter of 2001.

Furthermore, approval and authorization have been granted to 41 banks to establish and market in/from Bahrain 1238 schemes, of which 117 schemes were approved in 2001.

Licensing and Information Unit

The Agency has issued 15 new licenses in 2001, comprising of 4 Full Commercial Banks, 1 Offshore Banking Unit, 5 Investment Banks, 3 Representative Offices, and 2 Investment Advisory and Other Financial Services. At the end of 2001, a total of 170 banks and other financial institutions were licensed by the Agency.

The Central Risk Unit (CRU) has continued to assist in the process of helping commercial banks operating in Bahrain with their dealings with customers in the area of credit and loans.

BANKING SERVICES:

Automated Clearing House

The number of cheques cleared by the Banking Services Directorate was 2,023,870 during 2001 compared with 1,944,368 during 2000. The total value of these cheques was BD 1,578.4 million during 2001 as against BD 1,365.9 million in 2000, an increase of 4.1%. In order to control returned cheques, the Agency has increased the penalty charges to BD 10.0 on commercial banks for each delivered returned cheque either for the reasons of "refer to drawer", "Represent", "Not arranged for" or cheques which are marked as "Account closed".

The number of inter-bank transfers increased to 86,985 in 2001 from 76,527 in 2000. The value of total transfers increased to BD 19,612 million in 2001 compared with BD 15,594 million in 2000, an increase of 25.8%.

Issues of Treasury Bills

The Agency continued to hold a weekly auction of Treasury Bills on behalf of the Government of the Kingdom of Bahrain. The initial amount of 91-day treasury bills issued for sale each week was BD 10.0 million.

The total value of bills issued for sale during the year was BD 450.0 million. Tenders received totaled BD 1,217.0 million indicating an average issue was over-subscribed by 2.7 times.

The average interest rate on new issues of 91 days bills during 2001 was 3.9%. The highest rate was 6.38% in January 2001 and the lowest rate was 1.83% in December 2001.

The Agency also issued monthly Treasury Bills of BD 5.0 million with a maturity of 182 days. The total amount issued during the year was BD 60.0 million. At the end of 2001, Outstanding Treasury Bills totaled BD 190.0 million.

Leasing Islamic Securities (SUKUK)

On behalf of the Government of the Kingdom of Bahrain the Bahrain Monetary Agency issued the first Islamic Leasing (SUKUK). This is the first issue by any central bank in the region.

The Leasing Sukuk is being issued following the Agency's success in obtaining the required permission, "Fatwa" from the BMA's internally formed Sharia'a Committee, these Sukuk are listed in the Bahrain Stock Exchange.

The size of the issue is U.S. Dollar 100.0 million. The Sukuk which were issued on 4th September 2001 for 5 years carried a fix return of 5.25%. The return is paid on 4th March and 4th September of each year.

The minimum denomination for subscription was US Dollar 10,000 or multiples thereof. All Commercial Banks and Islamic Institutions operating in Bahrain are entitled to invest in these Sukuk.

Government Al-Salam Islamic Securities

Al-Salam Islamic Securities are instruments representing assets (raw Aluminium) and which are accounted as a liability sold against deferred delivery. On behalf of the Government of the Kingdom of Bahrain, the Agency has issued, according to Islamic Sharia'a, the Salam Government Securities to create a new field for investment of surplus financial resources and to provide short-term financing for securities, the Government of the Kingdom of Bahrain undertakes to sell commodities to be delivered in the future.

These securities are issued monthly for three months and the volume of the issue totaled US\$25.0 million and for full nominal value, the minimum subscription limit was US\$ 10,000.

Provision of Bahraini Dinar Liquidity

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

During 2001, the Agency continued its policy of providing liquidity through secondary operations in Treasury Bills. Accordingly, the Agency provided commercial banks with facilities to discount their treasury bills and or to sell them to the Agency, with a simultaneous agreement to repurchase them at a later date and at a higher price which would include interest for the period of the transaction (repos).

The total number of "Repos" transactions concluded by the Directorate during 2001 was 569 of which 402 were for a period of one-day, 153 for two days and 14 for seven days. The total value of "repos" transactions concluded in 2001 was BD 880.8 million.

Banks Deposits

The Agency continued to offer commercial banks the facility to invest their funds in Bahraini Dinar deposits with the Agency for one week to six month periods at the prevailing Bahraini market interest rate. Such deposits totaled BD 973.8 million at end 2001 as against BD 625.4 million a year earlier.

COMPUTER SERVICES:

The Computer Services Directorate (CSD) has successfully implemented a secure infrastructure to allow access to the Internet from the employees desktop. This infrastructure also allows employees to be able to receive and send email via the Internet from their desktops.

The Directorate developed in-house software – Money Changer Returns and Museum Records- to be used by Banking Supervision and Currency Issue Directorates respectively.

The CSD has successfully completed the upgrade of all the main Database from Oracle version 7 to Oracle 8. In addition, the CSD has successfully migrated from SWIFT alliance entry

to SWIFT alliance access in order to be able to handle the growing reliance on SWIFT and to be able to provide Straight Through Processing in the future.

The CSD continues to actively provide maintenance services to various directorates within the Agency.

CURRENCY ISSUE:

Issue & Vault Sections

Currency in circulation amounted to BD 150.0 million at end-2001, compared with BD 154.2 million at end 2000. The value of old banknotes destroyed during the year was BD 29.6 million.

On the occasion of the National Action Charter, the Agency issued two gold commemorative medals weighing one ounce and half an ounce. Also, the Agency issued a gold commemorative medal, on the occasion of the opening of Zayed Town.

On the occasion of the National day, the Agency put into circulation a new banknote of BD 20, which shows on the front the portrait of His Majesty Shaikh Hamad Bin Isa Al-Khalifa, King of Bahrain, this was the first BD 20 banknote with the portrait of his Majesty the King since the circulation of the Bahraini Dinar in 1965.

Currency Museum

The BMA established a permanent stand of the first banknotes and coins issued by the central banks of all GCC countries.

During the year, the Directorate published a new booklet of gold and silver commemorative medals, containing full information about all commemorative medals issued by the Bahrain Monetary Agency on different occasions which also includes the weights and diameters of these medals.

ECONOMIC RESEARCH:

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

In light of the close co-operation between the Agency and the specialised international organizations, the Agency took part in the Triennial Central Bank Survey of Foreign Exchange and Derivatives Market Activity that is carried out by the Bank for International Settlements in conjunction with a number of central banks and monetary authorities. For its part, the Directorate conducted the survey in the Kingdom of Bahrain, which covered a sample of banks and financial institutions.

In addition, the Agency has participated for the first time in the second Coordinated Portfolio Investment Survey conducted by the International Monetary Fund. The survey covered flows of portfolio investment out of the Kingdom of Bahrain into equities, short-term and long-term debt. A sample of banks and financial institutions, insurance companies and the social insurance sector was surveyed. In order to enhance participation and increase the quality of the data, members of the Directorate held some meetings with the participants to provide background about the Survey and to answer any questions.

The Directorate has also undertaken a thorough review of the Quarterly Statistical Bulletin with the aim of expanding its coverage. As a result, new data for Islamic banks, the Balance of Payments and the Bahrain Stock Exchange are now published in the Bulletin .

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

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

INVESTMENT:

The Investment Directorate continued to manage the BMA's investment portfolios consisting of gold and foreign exchange. The Directorate also met commercial banks requirements of U.S. Dollars. During the year, the BMA's outright sales of U.S. Dollars to Commercial Banks in Bahrain totaled U.S. \$1,972.3 million against U.S. \$1,381.1 million in 2000, an increase of 42.8%. The official buying and selling rates for the U.S. Dollar against the Bahraini Dinar remained unchanged at BD 0.375 and BD 0.377 respectively.

The Directorate also continued to issue daily exchange rates for the Agency's dealings in U.S. Dollar with the commercial banks in Bahrain.

LIST OF BMA OFFICERS

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

STATUTORY ACCOUNTS

THE AGENCY ANNUAL REPORT 2001

The total capital funds of the Agency increased from BD 301.3 million at end-2000 to BD 320.9 million at end-2001. The net foreign exchange holdings on the Agency's account increased from BD 535.0 million at end-2000 to BD 596.3 million at end-2001. Notes and coins in circulation fell by BD 4.3 million, from BD 154.2 million at end-2000 to BD 149.9 million at end-2001.

BAHRAIN MONETARY AGENCY
FINANCIAL STATEMENTS
31 DECEMBER 2001

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

Your Highness,

We have audited the financial statements of the Bahrain Monetary Agency (the Agency) for the year ended 31 December 2001. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion the financial statements present fairly, in all material respects, the financial position of the Agency as of 31 December 2001 and the results of its operations for the year then ended in accordance with the Amiri Decree No. 23 of 1973.

Ernst & Young

16 February 2002
Manama, Kingdom of Bahrain

BAHRAIN MONETARY AGENCY

BALANCE SHEET 31 DECEMBER 2001

	Note	2001 BD'000	2000 BD'000
ASSETS			
Gold		2,500	2,500
Kingdom of Bahrain bonds and treasury bills		15,660	20,727
Foreign exchange	3	596,310	535,002
Cash and due from Bahraini banks		12,755	9,583
Due from other central banks		4	162
Fixed assets		898	847
Other assets		6,014	6,598
		634,141	575,419
		634,141	575,419
LIABILITIES AND CAPITAL FUNDS			
LIABILITIES			
Notes and coins in circulation	4	149,881	154,191
Bahraini dinar deposits		154,579	110,962
Other payables		8,778	8,978
		313,238	274,131
		313,238	274,131
CAPITAL FUNDS			
Capital	5	200,000	200,000
General reserve	6	95,194	80,576
Contingency reserve	7	13,000	8,000
Re-evaluation reserve	8	12,709	12,712
		320,903	301,288
		320,903	301,288
		634,141	575,419
		634,141	575,419

.....
Chairman

.....
Governor

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

BAHRAIN MONETARY AGENCY

PROFIT AND LOSS ACCOUNT AND APPROPRIATION YEAR ENDED 31 DECEMBER 2001

	Note	2001 BD'000	2000 BD'000
INCOME			
Net interest income		31,986	32,830
Licence fees		741	717
Net investment trading gain/(loss)		3,905	(3,346)
Other		184	65
		<u>36,816</u>	<u>30,266</u>
EXPENDITURE			
General and administration expenses		4,802	4,357
Note issue expenses		600	1,380
Brokerage fees		55	47
		<u>5,457</u>	<u>5,784</u>
PROFIT FOR THE YEAR		31,359	24,482
Transfer to contingency reserve	7	<u>5,000</u>	<u>1,000</u>
TRANSFER TO GENERAL RESERVE	6	<u><u>26,359</u></u>	<u><u>23,482</u></u>

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

BAHRAIN MONETARY AGENCY

NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2001

1. ACTIVITIES

The Bahrain Monetary Agency ("the Agency") is the central monetary authority of the Kingdom of Bahrain and operates under the Amiri Decree No. (23) of 1973. The Agency is responsible to organise the issue and circulation of the currency of the Kingdom of Bahrain as well as its foreign exchange operations, maintain the value of the currency of Bahrain, endeavour to ensure monetary stability, organise the banking business, control the banking system, control and direct bank credit so as to realize the objectives of the economic policy of the Kingdom of Bahrain, and participate 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 221 staff as of 31 December 2001 (2000: 204).

The financial statements of the Agency for the year ended 31 December 2001 were authorised for issue in accordance with the approval of H.E. The Chairman and H.E. The Governor on 16th February 2002.

2. SIGNIFICANT ACCOUNTING POLICIES

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

Accounting convention

The financial statements are prepared under the historical cost convention.

Foreign exchange

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

Investments are purchased with the intention of being held to maturity and are treated as long term investments. Accordingly, short term market fluctuations are not taken into account and investments are carried at amortised cost less provision for impairment, where necessary. Premiums or discounts on purchase are amortised on a straight-line basis over the remaining life of the investment and included under net interest income in the profit and loss account.

Depreciation

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

Foreign currencies

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

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 against the United States dollar at the year end.

In accordance with Article 32 (a) of the Amiri Decree No. (23) of 1973, gains and losses on retranslation of foreign currencies, other than US dollars, into Bahraini dinars are taken direct to re-evaluation reserve account. The deficit, if any, in this account is covered by the Government of the 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 grams 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 trading results and other income are recognised when received or realised.

Note issue expenses

These are recognised when incurred.

3. FOREIGN EXCHANGE

Included in foreign exchange are marketable securities carried at their cost of BD 81.714 million (2000: BD 77.493 million). The market value of these investments as of 31 December 2001 was BD 82.963 million (2000: BD 77.075 million).

4. EXCESS OF AUTHORISED BACKING FOR CURRENCY IN CIRCULATION

	2001	2000
	BD '000	BD '000
Authorised backing:		
Gold	2,500	2,500
Net foreign currency balances	596,310	535,002
	<hr/>	<hr/>
	598,810	537,502
Currency in circulation:		
Notes and coins	(149,881)	(154,191)
	<hr/>	<hr/>
Excess of authorised backing over currency in circulation	448,929	383,311
	<hr/>	<hr/>

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

5. CAPITAL	2001 BD '000	2000 BD '000
Authorised	400,000	400,000
Issued and fully paid up	200,000	200,000

6. GENERAL RESERVE	2001 BD '000	2000 BD '000
Balance at beginning of the year	80,576	66,151
Transfer from profit and loss account	26,359	23,482
Transfer to the Government of the Kingdom of Bahrain	(11,741)	(9,057)
Balance at end of the year	95,194	80,576

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

7. CONTINGENCY RESERVE	2001 BD '000	2000 BD '000
Balance at beginning of the year	8,000	7,000
Transfer during the year	5,000	1,000
Balance at end of the year	13,000	8,000

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

8. RE-EVALUATION RESERVE	2001 BD '000	2000 BD '000
Balance at beginning of the year	12,712	12,720
Movement in unrealised surplus during the year	(3)	(8)
Balance at end of the year	12,709	12,712

Re-evaluation reserve represents the net unrealised surplus arising from the translation of foreign currencies, included in foreign exchange, at the exchange rates ruling on 31 December 2001.

LIST OF BANKS AND OTHER FINANCIAL INSTITUTIONS LICENSED BY THE BMA

(As at 31st December 2001)

FULL COMMERCIAL BANKS (21):

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

SPECIALISED BANKS (2):

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

OFFSHORE BANKING UNITS (47):

ABN AMRO Bank N.V.	Habib Bank Ltd.
Ahli United Bank B.S.C.	Hanvit Bank
Al Baraka Banking Group E.C.	Hongkong and Shanghai Banking Corporation Limited. (The)
Allied Banking Corporation	HSBC Bank A.S.
ALUBAF Arab International Bank E.C.	HSBC Bank Middle East
Arab Asian Bank E.C.	JP Morgan Chase Bank
Arab Bank plc	Kocbank A.S.
Arab Banking Corporation (B.S.C.)	Korea Exchange Bank
Arab Investment Company S.A.A. (The)	Korfezbank
Australia & New Zealand Banking Group Limited (ANZ)	Malayan Banking Berhad (Maybank)
Bahrain International Bank (E.C.)	MashreqBank psc
Bahrain Middle East Bank (E.C.)	Muslim Commercial Bank Ltd.
Bank Kapital T.A.S.	National Bank of Abu Dhabi
Bank of Tokyo - Mitsubishi, Ltd. (The)	National Bank of Kuwait S.A.K.
Bank Saderat Iran	National Bank of Pakistan
Banque de Commerce et de Placements S.A.	Pamukbank T.A.S.
BNP Paribas	Saudi National Commercial Bank (The)
Citibank N.A.	Shamil Bank of Bahrain E.C. (Islamic Bankers)
Citicorp Banking Corporation of Delaware	Standard Chartered Bank PLC
Credit Agricole Indosuez	Standard Chartered Grindlays Bank Limited
Disbank	State Bank of India
Finansbank A.S.	Turkiya Is Bankasi A.S.
Gulf International Bank B.S.C.	Yapi ve Kredi Bankasi A.S.
Gulf Investment Corporation	

INVESTMENT BANKS (32):

ABC Islamic Bank (E.C.)	Faysal Investment Bank of Bahrain (E.C.)
ABC Islamic Fund (E.C.)	First Islamic Investment Bank E.C.
Al-Amin Bank B.S.C. (E.C.)	Gulf Finance House (B.S.C.) E.C.
Albaraka Islamic Bank B.S.C. (E.C.)	International Credit Company B.S.C. (C)
Al Khaleej Finance and Investment	International Investment Bank B.S.C. (E.C.)
Al Khaleej Islamic Investment Bank (B.S.C.)E.C.	Investcorp Bank E.C.
Amex (Middle East) E.C.	Investors Bank E.C.
Arab Financial Services Company (E.C.)	Man-Ahli Investment Bank E.C.
Arab Islamic Bank (E.C.)	Merrill Lynch International Bank Limited
Bahrain Investment Bank B.S.C.	Nomura Investment Banking (Middle East) E.C.
Capital Investment Holding Co. (E.C.)	Securities & Investment Company B.C.S.C.
Capital Union, E.C. (c)	Societe General Asset Management (SGAM) Bahrain E.C.
Card Company E.C. (The)	TAIB Bank E.C.
Citi Islamic Investment Bank E.C.	UBS Asset Management Inc.
CrediMax	United Gulf Bank (B.S.C.) E.C.
Daiwa Securities SBCM Europe, Middle East Branch	
Diner Club Services Bahrain W.L.L.	

REPRESENTATIVE OFFICES (37):

Aberdeen Asset Managers Limited	International Investment Group
Alliance Capital Limited	Lend Lease Investment Limited
American Express Bank Ltd.	Man Investment Products Limited
American Express International Inc.	Merrill Lynch Bank (Suisse) S.A.
Bank of Bermuda Limited (The)	Merrill Lynch Investment Managers Limited
Bank of Butterfield (UK) Limited	MFS International Limited
BNP Paribas	Murray Johnstone Limited
Citicorp Investment Bank	Robeco Institutional Asset Management B.V.
Close Brothers Corporate Finance Limited	Robert Fleming Holdings Limited
Commerzbank AG	Salomon Smith Barney, Inc.
Credit Agricole Indosuez	Sanwa Bank Limited (The)
Dai-Ichi Kangyo Bank, Limited (The)	Sumitomo Mitsui Banking Corporation
Deutsche Bank A.G.	Thomas Cook Group Ltd. (The)
Discount Bank and Trust Company	Tokai Bank, Limited (The)
First Union National Bank	UBS AG
Fuji Bank Limited (The)	Wasserstein Perella Middle East, Inc.
GNI Fund Management	Weiss, Peck and Greer L.L.C. (Investments)
(Gerrard and National Inter commodities)	
HSBC Bank plc	
Industrial Bank of Japan, Limited (The)	
International Commercial Bank of China (The)	

MONEY BROKERS (4):

Charles Fulton (Gulf) W.L.L.
Harlow Butler (Bahrain) W.L.L.

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

MONEY CHANGERS (18):

Al-Manama Exchange
Al-Yousif Exchangers
Al-Zamil Exchange Est.
Arexco W.L.L.
Awal Exchange Co. W.L.L.
Bahrain Express Exchange
Bahrain Financing Co.
Bahrain India International Exchange Co. B.S.C.(C)
Dalil Exchange

Delmon Exchange
Gulf Exchange Co.
Haji Yousif Al Awadi Exchange Establishment
Khalil Ebrahim Al Fardan Exchange
Mandeel Exchange Co. W.L.L.
National Finance & Exchange Co. W.L.L.
Nonoo Exchange Co. W.L.L.
World Exchange Centre W.L.L.
Zenj Exchange Co. W.L.L.

**INVESTMENT ADVISORY AND
OTHER FINANCIAL SERVICES (9):****a) Investment Advisors/Brokers (7):**

Abdulla A. Saudi & Associates
Capital Growth Management W.L.L.
Erem Finance & Investment Consultants E.C. (c)
H & A Investment Services Company W.L.L.

Indogulf Financial Services W.L.L.
Islamic Finance Consultants E.C.
Towry Law (Asia) HK Limited

b) Provider of Ancillary Services to the Financial Sector (2):

The Benefit Company B.S.C. (c)
Bloomberg Tradebook Europe Limited (Tradebook Europe)

LIST OF BMA REGULATIONS & CIRCULARS

2001

- 1- Decree Law No. (4) of 2001 with Respect to the Prevention and Prohibition of the Laundering of Money.
- 2- Decree No. (17) of 2001 Appointing the Governor of the Bahrain Monetary Agency.
- 3- Decree No. (48) of 2001 Fixing the Bahraini Dinar Exchange Rate against the U.S. Dollar
- 4- Monitoring of Capital Adequacy.
- 5- Developing a Sound Credit Culture.
- 6- UN Security Council Resolution 1373 (2001) Prohibiting the Financing of Terrorism .
- 7- International Accounting Standards No.39 (IAS 39) .
- 8- Discount Window for the Bahrain Government Bonds .
- 9- Money Laundering Regulation .
- 10- New Prudential Regulation for Islamic Banks.
- 11- The Monitoring and Control of Large Exposures of Banks Licensed by the Agency.

**DECREE LAW NO. (4) of 2001
WITH RESPECT TO THE PREVENTION AND PROHIBITION
OF THE LAUNDERING OF MONEY**

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

Having reviewed the Constitution,

And Amiri Order No. (4) of 1975,

And the Criminal Procedure Code of 1966, as amended,

And the Bahrain Monetary Agency Law promulgated by Decree Law No. (23) of 1973, as amended,

And the Commercial Companies Law promulgated by Decree Law No. (28) of 1975, as amended,

And the Penal Code promulgated by Decree Law No. (15) of 1976, as amended,

And the Bahrain Stock Exchange Law promulgated by Decree Law No. (4) of 1987,

And the Law of Commerce promulgated by Decree Law No. (7) of 1987, as amended,

And the Insurance Companies and Organisations Law promulgated by Decree Law No. (17) of 1987, as amended by Decree Law No. (35) of 1996,

And Decree No. (17) of 1989 on the Ratification of United Nations Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances, 1988,

And Decree No. (9) of 1995 on the Ratification of the Arab Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances,

And upon the submission of the Minister of Justice and Islamic Affairs and the Minister of Finance & National Economy, and

After the approval of the Council of Ministers,

Hereby Decree the following Law:

Article One

DEFINITIONS

In this Law, unless the context otherwise requires:

"Court" means the High Criminal Court

"criminal activity" means any activity which is a crime whether in the State of Bahrain or in any other State

"Enforcement Unit" means the Unit empowered to implement the provisions of this Law as defined in paragraph 3 of Article 4

"institution" means any natural person, body corporate or other entity constituted or recognised under the laws of Bahrain whose occupation or business includes the carrying out of any of the activities listed in the Schedule to this Law

"relevant entities" means Ministries and Government entities which licence, supervise and regulate institutions

"proceeds of crime" means property which is derived directly or indirectly, in whole or in part, from any criminal activity

"property" means property of every kind, nature and description, whether movable or immovable, tangible or intangible and shall, for instance, include:

- (a) any currency, national or foreign, bills, securities, bonds, negotiable instruments or any instrument capable of being negotiable including those payable to bearer or endorsed payable to bearer;
- (b) cash or currency deposits or accounts with any bank, credit or other financial institutions;
- (c) works of art, jewellery, precious metals and other items of value;
- (d) land, property and any rights attached thereto; and
- (e) any thing or object, used in money laundering

"transaction" means any disposition of property including but not limited to purchase, sale, loan, pledge, gift, transfer, delivery, deposit, withdrawal, transfer between accounts, exchange of currency, loan, extension of credit, purchase or sale of any stock, bond, certificate of deposit, or use of a safe deposit box

"transaction record" includes:

- (a) the identification records of persons who are a party to that transaction;
- (b) details of the transaction including institutions which conducted it;
- (c) details of any account used for the transaction

Article Two

OFFENCE OF MONEY LAUNDERING

- 2.1 Any person who commits any of the following acts for the purpose of showing that the source of the property is lawful shall have committed the offence of money laundering:
- (a) conducting a transaction with the proceeds of crime knowing or believing or having reason to know or believe, that such property is derived from criminal activity or from an act of participation in criminal activity;
 - (b) the concealment or disguise of the nature, source, location, disposition, movement, rights with respect of, in or over, or ownership of the proceeds of crime, knowing or believing, or having reason to know or believe, that such proceeds of crime are derived from criminal activity or from an act of participation in criminal activity;
 - (c) the acquisition or receipt or transfer of the proceeds of crime, knowing or believing, or having reason to know or believe, that the same was derived from criminal activity or from an act of participation in criminal activity;
 - (d) the retention or possession of the proceeds of crime knowing or believing, or having reason to know or believe, that the same was derived from criminal activity or from an act of participation in criminal activity.
- 2.2 Any of the following acts shall be deemed to be an act of participation in the offence of money laundering:
- (a) destruction, misappropriation, concealment or forgery or any document which could be used as evidence in the offence or against the accused;
 - (b) knowledge of the intent of any person who commits the offence, and provision of any facilities or information which may assist such person to conceal the offence or escape from prosecution.
- 2.3 A person can be punished for the offence of money laundering under this Law even if he is not convicted in the underlying criminal activity. In this context, "underlying criminal activity" refers to criminal activity from which the property which is involved in a money laundering offence has been directly or indirectly derived.
- 2.4 A person can be separately charged and convicted of both a money laundering offence under this Law and of an offence constituted by an underlying criminal activity from which the property or the proceeds, in respect of which he is charged with money laundering, were derived.
- 2.5 Where an offence of money laundering is committed by a corporate body, every person who, at the time of the commission of the offence, acted in an official capacity for or on behalf of such body, shall be guilty of that offence if the offence was committed by the intentional conduct or gross negligence of such person.

2.6 OFFENCES RELATED TO THE OFFENCE OF MONEY LAUNDERING

A person who commits any of the following acts shall have committed an offence related to money laundering:

- (a) failure to disclose to the Enforcement Unit any information or suspicion acquired in the course of that person's trade, business, profession, employment or otherwise regarding the offence of money laundering;
- (b) failure or refusal to follow or obstruction or hindering of any order issued by the Enforcement Unit or issued at its request by the Investigation Magistrate pursuant to investigation of the offence of money laundering;
- (c) disclosure of any information or suspicion acquired in the course of that person's, trade, business, profession, employment or otherwise regarding the issue of an investigation order or attachment order in a money laundering offence, where such disclosure is likely to prejudice the investigation.

Article Three

PUNISHMENTS

- 3.1 Any person committing, attempting or participating in a money laundering offence shall be liable to imprisonment for a period not exceeding seven (7) years and a fine not exceeding Bahrain Dinars One Million (BD 1,000,000/-).

The punishment shall be imprisonment for a period of not less than five (5) years and fine of not less than Bahrain Dinars One Hundred Thousand (BD 100,000/-) in any of the following cases:

- (a) the accused has committed the offence through an organised criminal gang;
- (b) the accused has committed the offence by using his power or influence through an institution;
- (c) the accused has committed the offence for the purpose of disguising the source of the proceeds which are derived from criminal activity to appear as of a lawful source.

- 3.2 Without prejudice to the rights of bona fide third parties a person convicted of the offence of money laundering shall in addition to the punishment prescribed, be liable to confiscation of property which is the subject matter of the offence, or any other property owned by him or by his spouse or his minor children, equivalent in value to the property which is subject matter of the offence.

The Court shall order the confiscation of such property on the extinction of the criminal proceedings due to the death of the accused provided that his heirs are unable to establish the lawful source thereof.

- 3.3 In cases where the offence of money laundering is committed by a corporate body and notwithstanding the liability of any natural person, the corporate body shall be liable to the punishment of a fine prescribed in this Law in addition to confiscation of the property which is the subject matter of the offence.
- 3.4 Any person who commits any of the offences related to money laundering shall be liable to imprisonment for a period not exceeding two (2) years and/or a fine not exceeding Bahrain Dinars Fifty Thousand (BD 50,000/-) or both.
- 3.5 Any person who contravenes the provisions of Regulations and Ministerial Regulations issued under this Law shall be liable to imprisonment for a period not exceeding three (3) months or a fine not exceeding Bahrain Dinars Twenty Thousand (BD 20,000/-) or both.
- 3.6 The provisions relating to extinction of criminal proceedings and prescription and limitation of punishments under the Code of Criminal Procedure or any other Law, shall not affect the punishments prescribed under this Law.
- 3.7 Any of the accused who reports a money laundering offence to the Enforcement Unit before such offence is known to the Enforcement Unit shall be exempted from the punishment prescribed under this Law.

Where the accused reports the offence after it is known to the Enforcement Unit, his report shall lead to arrest or the other accused persons and attachment of property.

Article Four

THE POLICY COMMITTEE FOR THE PREVENTION AND PROHIBITION OF MONEY LAUNDERING

- 4.1 The Minister of Finance and National Economy shall in co-ordination with the relevant entities appoint a policy committee for the prevention and prohibition of money laundering.
- 4.2 The Committee shall in particular exercise the following powers:
- (a) formulate policies and procedures to regulate the business of the Committee;
 - (b) establish general policies with regard to the prevention and prohibition of money laundering;
 - (c) in co-ordination with the relevant entities, issue guidelines on the reporting of suspicious transactions;
 - (d) study regional and international developments in the field of money laundering for the purpose of recommending updates to the guidelines and changes to the Law when necessary;
 - (e) co-ordinate with the relevant entities for the implementation of the United Nations Convention and the Arab Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances.

- 4.3 The Committee in discharging its functions, may seek the assistance of such entities as it may determine necessary.
- 4.4 The Minister of Interior shall appoint the Enforcement Unit, which shall have the following powers:
- (a) receipt of reports on money laundering offences and related offences;
 - (b) conducting investigations and compiling evidence in money laundering offences and related offences;
 - (c) implementing procedures relating to international co-operation under the provisions of this Law;
 - (d) execution of decisions, orders and decrees issued by the competent courts in money laundering offences and related offences.
- 4.5 The relevant entities shall in co-ordination with the Enforcement Unit issue instructions on procedures to prevent and prohibit money laundering including the following:
- (a) regular reports from institutions on suspicious transactions;
 - (b) institutions reporting on suspicious transactions;
 - (c) institutions establishing the identity of the customers and the beneficiaries of customers and verification of that identity;
 - (d) internal reporting requirements of institutions.
- 4.6 Public Prosecution shall be responsible for conducting proceedings relating to money laundering offences and related offences before the Courts.

Article Five

INSTITUTIONS

An institution shall:

- (a) keep for a period of five (5) years after the relationship has ended a copy of the evidence of identity of each client as may be provided for in the regulations made pursuant to this Law;
- (b) keep a transaction record of any new or unrelated transaction for a period of five (5) years after the termination of the transaction so recorded;
- (c) report to the Enforcement Unit and the relevant entities any transactions suspected by the relevant officer by reason of the identity of the persons involved, the nature of the transaction or any other circumstances;

- (d) provide the Enforcement Unit with such further information or assistance as the Enforcement Unit may request;
- (e) comply with the instructions of the relevant entities regarding developing and applying internal policies, procedures and controls including the designation of compliance officers at management level to combat money laundering and develop audit functions to evaluate such policies, procedures and controls;
- (f) co-operate with any Government entity including the Enforcement Unit;
- (g) develop and apply a procedure to audit compliance with the provisions of this Article;
- (h) not open or keep any secret, fictitious, or anonymous accounts.

Article Six

6.1 INVESTIGATIONS PROCEDURE

Where the Enforcement Unit has evidence that a person has committed or attempted or participated in committing a money laundering offence, it may obtain an order issued by the Investigation Magistrate authorising any of the following actions:

- (a) requiring the accused or any other natural or corporate person to deliver up any documents or records or papers or to provide any information which is requisite for the investigation;
- (b) entry into public or private premises for the attachment of any documents, records, papers or objects which are requisite for the investigation;
- (c) attachment and freezing of any property which is subject to confiscation in accordance with the provisions of this Law;
- (d) prohibition of the transfer of such property.

- 6.2 The Enforcement Unit may order the attachment of the property related to the offence in order to prevent its disposal, provided that the Investigation Magistrate shall be notified within three (3) days of the issue of the said order.

Any interested party may appeal to the competent Court from any order issued pursuant to the preceding paragraph within fifteen (15) days of the date of issue of the order.

The ruling of the Court in the appeal shall be final until the criminal case is adjudged or disposed of.

Article Seven

SECURITY OF ACCOUNTS AND RECORDS

On the coming into force of the provisions of this Law, no institution can plead before the Investigation Magistrate or the competent Court, secrecy or confidentiality in respect of accounts, identification of customers or record keeping provided under the provisions of any Law.

Article Eight

REQUEST OF ASSISTANCE FROM FOREIGN STATES

- 8.1 Where a foreign State makes a request for specific information relating to suspicious transactions, persons and corporations involved in those transactions or the investigation or prosecution of a money laundering offence, the Enforcement Unit shall execute the request or inform the foreign State making the request of any reason for not executing the request forthwith or of any delay in the execution of the request.
- 8.2 The Enforcement Unit, in response to a request from a foreign State, may obtain from the Investigation Magistrate an order for the following:
- (a) a warrant to search any premises or persons for attachment of any document, material or thing;
 - (b) any document or object relevant to identifying, locating or quantifying any property or identifying or locating any document necessary for the transfer of any property in either case belonging to, in the possession of or under the control of any person the subject of the request be delivered to the Enforcement Unit in addition to information relating to any transaction conducted by or for such person during such period as the Investigation Magistrate directs;
 - (c) attachment of any property of or in the possession of any person named in the request for the period specified in the order, and the management or disposal of that property for the purpose of determining any dispute as to the ownership of or other interest in the property or any part thereof, and payment of any costs.
- 8.3 The Enforcement Unit may, upon request from a foreign State accompanied by an order issued by a court of the requesting State directed to any person within the jurisdiction of Bahrain to deliver himself or any document or material in his possession or under his control to the foreign State, for the purposes of conducting investigations in that State, obtain a Court order directed to that person in the same terms as in the order accompanying the request.
- 8.4 The Investigation Magistrate shall take the evidence of the person referred to in the foregoing paragraph of this Article, and the Enforcement Unit shall transmit the record of such evidence to the foreign State.
- 8.5 The Enforcement Unit may, in respect of any proceedings for a money laundering offence, obtain an order from the Investigation Magistrate to any person resident in a foreign State to deliver himself or any document or thing in his possession or control, to the

Investigation Magistrate or, subject to the approval of the foreign State, to the competent court in that State.

- 8.6 The Minister of Justice and Islamic Affairs may order that the whole or any part of any property confiscated under the provisions of this Law, be given to or shared with a foreign State.

Article Nine

EXCHANGE OF INFORMATION

- 9.1 The Enforcement Unit and the relevant entities in the State of Bahrain may exchange information of a general nature regarding the offence of money laundering with competent authorities in foreign States.
- 9.2 The Enforcement Unit shall in response to a reasonable request from a competent authority in a foreign State provide to that competent authority specific information relating to suspicious transactions or persons and corporations involved in those transactions or the investigation or prosecution of a money laundering offence.

Article Ten

MISCELLANEOUS PROVISIONS

- 10.1 Where an order for attachment of property is issued the Investigation Magistrate may make an order providing for the payment of moneys to the person named in the request for the reasonable subsistence of that person and his family.
- 10.2 Without prejudice to the rights of bona fide third parties a contract shall be considered illegal and void if either party thereto knew or should have known that as a result of the contract the State of Bahrain would be prejudiced in its ability to recover financial claims pursuant to the provisions of this Law.
- 10.3 No institution or employee of an institution shall be liable under any criminal or civil proceedings brought against it or him for complying with the obligations on them under this Law or any Regulations or Resolutions issued thereunder.
- 10.4 Entities which implement the provisions of this Law and their staff shall not be liable under any criminal or civil proceedings brought against them for their compliance with the provisions of this Law and the Regulations and Regulations issued thereunder.
- 10.5 It shall not be a defence to the offences created under this Law that the accused was prohibited from disclosing any information available to him in respect of the offence or suspicion thereof whether the prohibition is imposed by law or otherwise.

Article Eleven

The offence of money laundering shall be deemed to be one of the extraditable offences in accordance with the applicable Laws and the international treaties ratified by the State of Bahrain and the principle of reciprocity.

Article Twelve

REGULATIONS AND RESOLUTIONS

12.1 The Minister of Finance and National Economy in co-ordination with the relevant entities may issue Regulations or Resolutions in relation to the functioning of the Committee provided for in Article 4 of this Law and for any amendments to the Schedule to this Law.

12.2 The Minister of Interior in co-ordination with the relevant entities may issue Regulations or Resolutions in relation to the functioning of the Enforcement Unit.

Article Thirteen

The Ministers shall, where applicable, implement this Law and it shall come into force as of the date of its publication in the Official Gazette.

Amir of the State of Bahrain
Hamad bin Isa Al-Khalifa

Issued on : 4th Dhu'l Qa'da 1421 a.h.
Corresponding to : 29th January 2001

SCHEDULE

ACTIVITIES OF INSTITUTIONS

1. Lending (including personal credits, mortgage credits, factoring (with or without recourse), financial or commercial transaction including forfeiting)
2. Finance leasing
3. Venture risk capital
4. Money transmissions services
5. Issuing and administering means of payment (including credit cards, travellers' cheques and bankers' drafts)
6. Guarantees and commitments
7. Trading for own account or account of customers in:-
 - (a) money marked instruments (including cheques, bills and certificates of deposit);
 - (b) foreign exchange;
 - (c) financial futures and options;
 - (d) exchange and interest rate instruments and other financial derivatives; and
 - (e) transferable instruments
8. Underwriting share issues and the participation in such issues
9. Money broking
10. Investment business
11. Deposit taking
12. Insurance transactions
13. Real property transactions
14. Bullion dealing
15. Financial intermediaries
16. Legal Practice and Advocacy
17. Audit and Accountancy

*Decree No.(17) of 2001
Appointing the Governor
of The Bahrain Monetary Agency*

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

Having perused the Constitution, and

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

Order No. (18) of 1997 with respect to Secondment of a Director for the Bahrain Stock Exchange, and

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

With the approval of the Council of Ministers,

Hereby Decree the following:

Article One

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

Article Two

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

**Amir of the State of Bahrain
Hamad bin Isa Al Khalifa**

**Prime Minister
Khalifa bin Salman Al Khalifa**

**Issued on : 23rd Muharram 1422 a.h.
Corresponding to : 17th April 2001**

Decree No.(48) of 2001
Fixing the Bahraini Dinar
Exchange Rate against the U.S. Dollar

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

Having perused Legislative Decree No. (23) of 1973 for the establishment of the Bahrain Monetary Agency and amendments, and the Resolution of the Supreme Board of the Co-operation Council for Arab States of the Gulf at its Twenty Second Session held in Bahrain in December 2000, and

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

Upon approval of the Council of Ministers,

Hereby Decree the following:

Article One

The Exchange rate of the Bahraini Dinar against the US Dollar shall be fixed at (2.659) U.S. Dollars, and this rate shall be used as a base for Foreign Exchange Transactions in the State of Bahrain.

Article Two

The Bahrain Monetary Agency shall have the power to organize the purchase and sale of US Dollars for the commercial banks operating in the State.

Article Three

The Prime Minister and the Chairman of the Bahrain Monetary Agency and the Minister of Finance & National Economy shall, each in his respective capacity, implement this Decree and it shall come into effect from the date of its publication in the Official Gazette.

Amir of the State of Bahrain
Hamad bin Isa Al Khalifa

Issued on : 10th Shawal 1422 a.h.

Corresponding to : 25th December 2001

OG/78/2001
20 February, 2001

*The General Manager
All Locally Incorporated Banks
Manama
Bahrain*

Dear Sir,

Monitoring of Capital Adequacy

You will, of course, be aware from previous Agency directions on this matter (specifically, Agency Circular BC/1/98 dated 10th January, 1998) that the Agency has set a minimum Risk Asset Ratio ("RAR") of 12% on a consolidated basis for locally incorporated banks. Additionally, the Agency has now decided that, **an 8% RAR should be set for locally incorporated banks on a solo (i.e. unconsolidated) basis, where a bank completes both a PIR and PIRC.**

This means where a bank is required to complete both a form PIR and a form PIRC, 8% is the minimum RAR necessary for the solo bank (PIR), and 12% for the consolidated bank (PIRC). Local banks which complete only the form PIR must continue to exceed a minimum RAR of 12%.

To clarify the effect of these minimum ratios on differing banking groups and individual banks, four examples are given. In the examples, the parent and the subsidiary are Bahrain incorporated banks, but the cases could apply to overseas incorporated subsidiaries (with adjustment to the minimum RAR where appropriate in individual cases).

- Case One : Compliant solo bank - No subsidiaries (PIR only).
- Case Two : Compliant parent bank, compliant group (PIR and PIRC).
- Case Three : Compliant parent bank, compliant subsidiary bank, but non - compliant group.
- Case Four : Non - compliant parent bank, compliant subsidiary bank and compliant group.

The 8.0% solo RAR requirement becomes effective from 1 June 2001. Banks which complete forms PIR and PIRC should review their forms for December 2000 and March 2001 and contact the concerned Director for the supervision of their banks if they have, or anticipate difficulties in meeting the 8% minimum RAR by 1 June 2001.

In furtherance of the principles of prudential supervision generally, and in order to ensure effective monitoring and implementing of the above requirements, the Agency has also decided to establish a set procedure with regard to the notification by locally incorporated banks of actual or likely breaches of the above minimum RARs. Therefore, with effect from the date of this Circular, all locally incorporated banks must give the Agency, immediate written notification of any actual breach by such banks of either or both of the above RARs. Where such notification is given, the bank must also provide the Agency **(a) no later than one calendar week after the notification,**

with a written action plan setting out how the bank proposes to restore the relevant RAR(s) to the required minimum level(s) set out above and, further, describing how the bank will ensure that a breach of such RAR(s) will not occur again in the future, and (b) report on a weekly basis thereafter on the bank's relevant RAR(s) until such RAR(s) have reached the required target level(s) set out below.

In addition, the Agency considers it a matter of basic prudential practice that, in order to ensure that these RARs are constantly met, banks set up internal "targets" of 12.5% (on a consolidated basis) and 8.5% (on a solo basis) to warn them of a potential fall by the bank below the Agency's required minimum RARs as set out above. Where a bank's capital ratio falls below its target ratio, the General Manager should notify the Agency immediately. No formal action plan will be necessary, however the General Manager should explain what measures are being implemented to ensure that the bank will remain above its minimum RAR(s). The bank will be required to submit form PIR (and PIRC where applicable) to the Agency on a monthly basis, until the RAR(s) exceed their target ratio(s).

The Agency will notify banks in writing of any action required of them with regard to the corrective and preventive action (as appropriate) proposed by the bank pursuant to the above, as well as of any other requirement of the Agency in any particular case.

Banks should note that the Agency considers the breach of RARs to be a very serious matter. Consequently, the Agency may (at its discretion) subject a bank which breaches its RAR(s) to a formal licensing reappraisal. Such reappraisal may be effected either through the Agency's own Banking Inspection function or through the use of Reporting Accountants, as appropriate. Following such appraisal, the Agency will notify the bank concerned in writing of its conclusions with regard to the continued licensing of the bank.

The notification requirement concerning breaches of 12.0% actual and 12.5% target ratios is effective from the date of this Circular. The 8% actual and 8.5% target ratios notification requirement becomes effective 1st June, 2001. Such notifications should be made to the concerned Director for the supervision of your bank.

Last but not least, the Agency would appreciate the continued co-operation and support of your compliance officer in this and other regulatory reporting matters. Compliance officers should ensure that their banks have adequate internal systems and controls to comply with this Circular.

Yours faithfully,

Abdulla K. Al-Khalifa
Governor

OG/127/2001
18th March, 2001

The General Manager
All FCBs, OBUs, IBs
Manama
Bahrain

Dear Sir,

Developing a Sound Credit Culture

The Agency has noted a rise in the frequency and amounts of losses experienced recently by some Bahraini banks as a result of corporate insolvencies or frauds. Whilst banks by their very nature are exposed to credit risk in their dealings with clients, there is evidence that some of the losses experienced by certain Bahraini banks might have been avoided or substantially reduced if there had been stronger credit cultures within the concerned banks.

In particular, the Agency has noted that certain banks are continuing to provide large credit facilities on a "clean" basis (i.e. without collateral or security). Sometimes such clean lending has been made without adequate (up to date) financial information. In many banks there is still a tendency to indulge in "name" lending without any credit analysis or understanding of the concerned counterparty's current borrowings from other banks. The following points have been noteworthy in banks' recent losses relating to corporate insolvency and fraud.

- i) **Inadequate credit policies** (i.e. lack of recognition of risk).
- ii) **Lack of sufficient credit analysis** (i.e. inadequate credit assessment of the borrower, an absence of up to date credit information on the borrower and weak or insufficient market intelligence, often due to competitive pressures or efforts to increase market share).
- iii) **Laxness** by certain banks in applying existing systems and controls (i.e. not taking security properly, nor monitoring/controlling excesses).

The above deficiencies relate to the following aspects of a bank's organisation and structure:

- i) Role of the Board of Directors,
- ii) Role of the senior management,
- iii) Role of independent risk management function,
- iv) Effectiveness of systems and controls,
- v) Role of internal audit.

This Circular refers to past documents issued by the Agency and also to Basel Committee documents which should be consulted in the review of the credit culture. In particular, the Agency draws all licensed banks' attention to the September 2000 document issued by the Basel Committee entitled "Principles for the Management of Credit Risk". This document contains 17 principles which all banks should ensure are covered in their credit culture (i.e. policies, procedures, systems and controls). A full bibliography of relevant Agency Circulars and Basel Papers is given at the end of this document. The Agency has decided that, effective from 1st July 2001, it will use the Basel

document as a guideline in its evaluation of the credit cultures of banks operating in Bahrain. Evaluation will be implemented through prudential meetings, inspection and reporting accountants' reviews.

As a matter of best practice, all banks should periodically review their credit cultures in order to reduce future credit losses and also to minimise reputational risk and damage to their credit ratings. In the light of recent default events, the Agency requires all FCBs and all locally incorporated OBUs and IBs to carry out a **full formal review** of their credit culture prior to 30th June 2001, and to communicate the results of this review to the Agency by 31st July 2001. Foreign branches of OBUs are requested to carry out a review of credit culture and report the results of the review or consultation to the Agency by 31st July 2001. Foreign branches of OBUs may apply for exemption from this review by 30th April if they do not engage in significant lending activities (which are sanctioned and monitored) at the Bahrain branch.

Elements of a Strong Credit Culture

First, this circular is recommendatory in nature (except the first sentence of point 1 below), and the guidelines below under the five headings are indicative of best practice. Some of the guidelines may not be appropriate to all licensed banks. However, if a bank is not following these guidelines, it should consider why it is not doing so.

Secondly, this circular is intended as a complement to the September 2000 Paper by the Basel Committee entitled "Principles for the Management of Credit Risk". This circular does not summarise the Basel Paper, but is intended to be read in conjunction with the above Paper.

1. The Role of the Board of Directors

The Board of Directors must approve all the operating policies of a bank. (see BC/20/98 Principle One). Given that credit risk is still the major risk that banks are exposed to in their business, particular scrutiny must be paid to credit policies, in terms of various limits as well as in terms of risk strategy. An essential function of the Board is to review and reassess the credit policies of the bank (including collateral and provisioning policies, concentration policies) on a periodic basis. The Board should also regularly review overdue and large facilities both in terms of performance, and also in relation to the capital (base) of the bank. The Board should insist upon periodic review/evaluation of internal systems and control weaknesses identified by external/internal auditors and management.

Principle 1 of the Principles for the Management of Credit Risk also gives greater detail on the Role of the Board in developing a sound Credit Culture.

2. The Role of Senior Management

Senior Management should be involved in regular reviews of outstanding facilities and overdue accounts as well as reviewing changes in activity, turnover or balances in clients accounts. The role of senior management is covered in depth in Principle 2 of the Principles for the Management of Credit Risk (see also BC/20/98 - Principle 3), however Senior Management should be involved in the credit review process of (larger) existing facilities, visiting clients, requesting up to date financial statements and verifying collateral. Too often, a lack of **direct** contact by senior management with a problem client has been an identified factor in significant credit losses by banks, whether by way of fraud, or corporate failure.

3. Role of an Independent Risk Management Function

Perhaps the key point to emphasise in Risk Management is that the function **must** be independent of the senior management and operational functions which are related to business acquisition. The Risk Management function should report to the Board or to senior management related to control functions. The Risk Management function must not only **monitor** risk, but also **control** it (i.e. review limits, excesses etc). It must also ensure that risk monitoring systems accurately **measure** risk in the first place, and that all risks where they occur are, correctly **identified** (see also Principle 6 of Circular BC/20/98).

4. Effective Internal Systems and Controls

Well implemented sound policies and procedures maintain credit standards, enable monitoring and control of credit risk and identify problem credits in a timely manner (see Principle 2 of Principles for the Management of Credit Risk for more detail). Sound policy and administrative requirements also apply equally strongly to existing facilities as well as new ones (Principle 8 of above Paper). Policies and procedures should allow a thorough understanding of the counterparty, the purpose of the credit facility and the source of repayment (Principle 4 of above Paper) to be gained by the Risk Management function in its assessment of the counterparty for risk profiling purposes. (see also Principle 6 of Circular BC/20/98 and section E of the FSI Paper - "Improving counterparty Risk Management). Banks should seek to utilise internal rating systems to manage credit risk and to set adequate provisions (and/or reserves on the case of Islamic banks) on a timely basis (see Principle 10 of Principles for the Management of Credit Risk and also the Credit Ratings section of Circular BC/47/95 for more detail in this regard).

5. The Role of Internal Audit

In too many banks, this function is under - resourced and is not able to meet its functions fully (see also July 2000 Basel paper on Internal Auditors). Internal audit should review the adequacy of policies and procedures as well as their implementation.

Developing a Sound Credit Culture - Bibliography

Agency Circular No.	Date	Subject
BC/117/95	01-02-95	Risk Management
EDBC/116/96	23-07-96	The Monitoring and Control of Large Exposures of Banks licensed by the Agency.
BC/20/98	27-10-98	Framework for Evaluation of Internal Control Systems
BC/23/99	8-11-99	Enhancing Corporate Government for Banking Organisations

Basel (and FSI) Papers

Date	Title
January 1999	Sound practices for Banks' Interactions with Highly Leveraged Institutions.
September 2000	Principles for the Management of Credit Risk
July 2000	Internal Audit in Banking organisations and the Relationship of the Supervisory authorities with internal and external auditors.
June 1999	Improving Counterparty Risk Management Practices (FSI Paper).

The above Basel Papers are available at the BIS website (www.bis.org). The FSI paper is available from the Agency. The FSI paper is a specialised document aimed at banks active in the derivatives and capital markets and its practices are not relevant to certain licensed banks.

Yours faithfully,

Abdulla K. Al-Khalifa
Governor

OG/423/2001
1 October, 2001

*The General Manager
All Agency Licensees
Manama
Bahrain*

Dear Sir,

Re: UN Security Council Resolution 1373 (2001)
Prohibiting the Financing of Terrorism

Further to the Agency's Circulars No. OG/280/99 and OG/56/2001 and pursuant to the order of H. H. The Prime Minister and Chairman of the Board of the Bahrain Monetary Agency and United Nations Security Council Resolution No. 1373 (2001) (the "Resolution"), a copy of which is attached hereto, the Agency hereby issues the following directives which are effective immediately:

1. All banks, brokers and moneychangers (the "Licensees") must comply in full with the provisions of the Resolution.
2. Any Licensee which wishes, intends or has been requested to do anything which would or might contravene, in its reasonable opinion, the provisions of the Resolution (and in particular Article 1, paragraphs (c) and (d) thereof) must seek, in writing, the prior express written opinion of the Agency on the matter.

Without prejudice to the general duty of all Licensees to exercise the utmost care when dealing with persons or entities they suspect could be "persons" or "entities" pursuant to Article 1, paragraphs (c) and (d), the Agency attaches to this Circular, a list of persons and entities which it deems to be amongst the intended "persons" and "entities" referred to in Article 1, paragraphs (c) and (d). Dealings with such persons or entities is strictly prohibited in all circumstances.

3. All Licensees must ensure, through their compliance function, that all steps necessary to comply with this Circular are taken **immediately**, both by themselves and, if appropriate, their branches and representatives inside and outside of Bahrain.

Licensees are requested to immediately report to the Agency details of:

- A. Funds or other financial assets or economic resources held with them which may be the subject of Article 1, paragraphs (c) and (d) of the Resolution.
- B. All claims, whether actual or contingent, which they have on the persons and entities which may be the subject of Article 1, paragraphs (c) and (d) of the Resolution.

Licensees which have no such funds or claims as referred to above should notify the Agency of such fact upon receiving this Circular.

For the purposes of the Resolution, and of the reporting procedure referred to in this Circular, "funds or other financial resources" includes, but is not limited to, shares in any undertaking owned or controlled by the persons and entities referred to in the said Article 1, paragraphs (c) and (d), dividends related thereto, deposits and similar liabilities and letters of credit/ guarantee.

All reports and notifications required to be filed with the Agency, or any queries or requests for further clarification on any matter referred to in this Circular, should be directed to Dr. Khalid Ateeq, Executive Director of Banking Control on Tel: No. 547400 or Fax: No. 532605 at the Agency.

Yours faithfully,

Ahmed bin Mohammed Al-Khalifa
Governor

BC/1/2001
8th May, 2001

The General Manager
All Banks
Manama
Bahrain

Dear Sir,

Re: International Accounting Standards No. 39 (IAS 39)

Pursuant to the introduction of IAS 39 and its implementation with effect from 1st January, 2001, the Agency has decided that the following directions should be adhered to:

- 1- Banks shall continue to suspend interest on loans and advances which are 90 days or more past due.
- 2- All IAS 39 transitional adjustments must be routed through the retained earnings account with the exception of provisions. Banks henceforth will have two options for the treatment of general provisions. As a first step, general and specific provisions as well as interest in suspense balances as of 31st December, 2000 should be pooled together and compared with the estimated provisions resulting from the discounting of future cash flow. Banks may follow either of the following two options a). Any excess general provisions balance brought forward over and above the newly estimated figure may be transferred directly to general reserves or b). where provisions (or impairment allowances) relate to a portfolio of homogeneous loans (e.g. consumer loans) then such excess provisions may continue to be treated as a general provision for capital adequacy purposes.

The Agency will subsequently review the general provisions issue with each bank in the near future and upon any further guidance from the IAS 39 working group.

- 3- With regard to the Agency's Circulars No. ODG/27/88 dated 9th February, 1998 and BD/7/98 dated 10th May, 1998 concerning the sovereign debt provisioning matrix, banks should continue to apply the matrix as a benchmark for estimating future recoverable cash receipts. However, if a lower provisioning amount is determined, i.e. lower than the amount identified through the matrix, and the bank intends to book the lower amount, then a meeting must be arranged with the Agency to discuss the issue before booking such provisions.

Should you have any query on the above, please do not hesitate to contact Mr. Khalid Hamad Abdulrahman, Director of Banking Supervision Directorate on telephone # 529405 or fax # 532605.

You faithfully,

Dr. Khalid Abdulla Ateeq
Executive Director – Banking control

EDBO / 110 / 2001
1st October, 2001

*The General Manager,
All Commercial Banks,
Manama,
Bahrain.*

Dear Sirs,

The Agency is pleased to inform you that it will provide a new service "Discount Window" for the Bahrain Governments Bonds with effect from 6th October, 2001.

Through this facility, commercial banks in Bahrain will be able to borrow funds in Bahraini Dinars for one, two or seven days period against their holdings of Bahrain Government Bonds. This facility will be provided, at a prevailing rate, as quoted on a daily basis by the Agency.

Should you have any questions or seek any clarification, please contact The Director of Banking Services Directorate, on telephone Number 547207.

Yours sincerely,

Khalid A. Al-Bassam
Executive Director – Banking Operations.

EDBC/6/2001
14th October, 2001

*The General Manager
All Agency Licensees
Manama
Bahrain*

Dear Sir,

Re: Money Laundering Regulation

As you will be aware, the Agency has been consulting widely on the introduction of a Money Laundering Regulation taking into account the recommendations of the Financial Action Task Force ("*FATF*") and best international practice generally. I am now able to enclose the final version of the Regulation which is issued pursuant to Amiri Decree No. (23) of 1973 (the BMA Law) and Amiri Decree No. (4) of 2001 (Preventing and Prohibiting Money Laundering). The Regulation is effective and binding immediately on all Agency Licensees.

Any queries relating to the Regulation should be directed to Mr. Waleed Abdulla Rashdan, Director of Inspection Directorate at the Agency on Tel: 547626.

Yours faithfully,

Dr. Khalid Abdulla Ateeq
Executive Director - Banking Control

BC/09/2001
26th November 2001

*The General Manager
All Islamic Banks
Manama - Bahrain*

Dear Sir,

Re: New Prudential Regulations for Islamic Banks

The Agency is pleased to enclose its new prudential regulations for Islamic Banks. We are grateful for the assistance of Islamic Banks in helping us to prepare the same.

These regulations address capital adequacy, assets quality, management of investment accounts, earnings quality, liquidity and corporate governance. We believe they will not only enhance our capacity to supervise and control, but will also provide Islamic Banks with effective criteria to monitor their activities and operations on a regular basis and therefore enhance their performance.

The regulations shall be effective from 1st January 2002. The returns shall be completed and returned to the Agency by the 20 day after the end of each quarter and the first set of returns shall be submitted by 20th April 2002. The previous returns are therefore discontinued on the same date.

The Agency is planning to hold a one day workshop at the Bahrain Institute for Banking and Finance (BIBF), on the new regulations and to work through the forms on 12th January 2002, from 9:00 a.m. to 13:00 p.m. Banks should attend the workshop, so please coordinate with Dr. Taha Al Tayeb at the BIBF on this issue.

Any queries or clarifications on this regulation should be directed to the Director of Financial Institutions Supervision Directorate at telephone No. 547444/445 or facsimile No. 537554.

Yours faithfully,

Dr. Khalid Abdulla Ateeq
Executive Director – Banking Control

BC/12/2001
26 November, 2001

The General Manager
All Licensed Banks (except Islamic Banks)
Manama
Bahrain

Dear Sir,

The Monitoring and Control of Large Exposures
of Banks Licensed by the Agency

As part of its measures to encourage banks to mitigate risk concentrations, the Agency is issuing revised Large Exposures regulations for banks in Bahrain.

This Circular: (i) replaces Circular EDBC/116/96 for the monitoring and control of large exposures of banks and: (ii) revises the Agency's regulations concerning large exposures in the light of the requirements of the Basel Core Principles and current best supervisory practice. All amendments to the previous Circular (EDBC/116/96) are shown in italics.

This Circular applies in full to all banks incorporated in Bahrain on a consolidated basis with effect from the *date of this circular*. In assessing exposures on a consolidated basis, **the group companies of banks to be consolidated in the form "PIRC" should be notified to the Agency immediately upon receipt of this Circular**. The Agency will, as appropriate, discuss the application of this Circular to relevant banks on an unconsolidated basis.

Exposures undertaken by Bahrain branches of Foreign Banks (the "Foreign Branches")

The Agency's policy towards large exposures *on the books of* Foreign Branches is to ensure that *such* exposures are within the policy statement of the parent *bank*, as agreed by the parent regulatory authority. All Foreign Branches should continue to report their 25 largest exposures to the Agency. The Agency may, if circumstances so require and on a case-by-case basis, apply the full requirements of this Circular to Foreign Branches.

The Measure of Exposure

For *large exposures purposes*, the measure of exposure should reflect the maximum loss *that will arise* should a counterparty fail or the loss that may *arise* due to the realisation of *any lending assets, shareholdings or other exposures* or off-balance sheet positions. *In certain cases (particularly derivatives), the measure of a large exposure (for large exposures purposes) may be larger than that used in published accounts. Consistent with this, the exposure should include the amount at risk arising from a bank's:*

- i. Claims on a counterparty including actual claims, and potential claims which would arise from the drawing down in full of undrawn advised facilities (whether revocable or irrevocable, conditional or unconditional) which the bank has committed itself to provide, and claims which the bank has committed itself to purchase or underwrite. *In the case of*

undrawn (overdraft) facilities, the advised limit must be included in the measure of exposure (after deduction of any provisions). In the case of loans, the net outstanding balance as shown in the books of the bank should be included in the measure of exposure after deduction of any provisions;

- ii. Contingent liabilities arising in the normal course of business, and those contingent liabilities which would arise from the drawing down in full of undrawn advised facilities (whether revocable or irrevocable, conditional or unconditional) which the bank has committed itself to provide. *In the case of undrawn L/C or similar facilities, the advised limit must be included in the measure of exposure;*
- iii. *Holdings of equity capital, bonds, bills or other financial instruments. In the case of equity exposures, the current fair value as shown in the books of the bank should be included in the measure of exposure;*
- iv. Other assets which constitute a claim for the bank and which are not included in (i), (ii) or (iii) above.

As a general rule, exposures should be reported on a gross basis (i.e. no offset). However, debit balances on accounts may be offset against credit balances on other accounts with the bank if (i) a legally enforceable right of set off exists in all cases (as confirmed by a legal opinion addressed to the bank) in respect of the recognised amounts, (ii) the debit and credit balances relate to the same customer or to customers in the same group, and (iii) the bank intends either to settle on a net basis, or to realise the debit balances and settle the credit balances simultaneously. For a group facility, a full cross guarantee structure must also exist *before debit balances on accounts may be offset.*

Large exposures are calculated using the sum of the **nominal** amounts **before** the application of risk weighting and credit conversion factors for (i) on-balance sheet claims, (ii) guarantees and other contingent claims, and (iii) potential claims in the case of undrawn facilities. The amount at risk from derivative contracts is taken to be the credit equivalent amount *calculated based on the guidelines for the prudential returns.*

A bank's exposure arising from securities' trading operations is calculated as its net long position in a particular security (a short position in one security issue may not be offset against a long position in another issue made by the same issuer). A bank's "net long position" in a security refers to its commitment to buy that security *together* with its current holding of the same security, *less* its commitment to sell such security.

Identity of Counterparty

For the purposes of measuring exposures, the counterparty will generally be the borrower (customer), the person guaranteed, the issuer of a security in the case of a security held, or the party with whom a contract was made in the case of a derivative contract. Where a third party has provided an explicit unconditional irrevocable guarantee, and subject to the guaranteed bank's policy statement not stating otherwise, the guaranteed bank may be permitted to report the exposure as being to the third party guarantor.

Limits for Large Exposures

Aggregate limit on large exposures – 800%

The aggregate of large exposures may not exceed 800% of the bank's (consolidated) capital base. "Capital base" is the adjusted capital base for the purpose of the risk asset ratio calculated in accordance with the PIR/PIRC return (as applicable). A "large exposure" is any exposure to a counterparty or a group of closely related counterparties which is greater than, or equal to, 10% of (consolidated) capital base.

Single exposure limit – 15%

A bank may not incur an exposure to an individual counterparty or group of closely related counterparties which exceeds 15% of the reporting bank's (consolidated) capital base. "Closely related counterparties" are two or more counterparties who constitute a single risk because one of them has, directly or indirectly, *a controlling interest in the other(s)* (i.e. 20% or more equity voting rights *see Circular BC/8/2000 for definition of "controlling interest" in a licensee. For the purposes of this circular, the said definition of "controlling interest" extends to non-banking entities*), or counterparties connected in such a way that the financial soundness of any one of them may affect the financial soundness of the other(s), or the same factors may affect the financial soundness of both or all of them.

Limit on exposures to connected counterparties – 40% aggregate

Exposures to connected counterparties may be justified only when undertaken for the clear commercial advantage of the bank, when negotiated and agreed on an arm's length basis, and when included in the large exposures policy statement agreed with the Agency.

No lending by a bank to its own external auditors shall be permitted. In this context, *"external auditors" refer to the firm/partnership, the partners, the directors and managers.*

For those conventional banks which provide Islamic banking services, no lending to members of the Shariah board shall be permitted.

"Connected counterparties" includes companies or persons connected with the bank, including in particular **subsidiaries** and **associated companies** (whether such association is due to control or shareholding or otherwise), directors and their associates (whether such association is due to control or family links* or otherwise), management, and shareholders holding 10% or more of the voting power of the bank.

Exposures to all connected *counterparties listed below* when taken together, may not exceed 40% of (consolidated) capital base.

Limits for Connected Counterparties		
	Individual Limit	Aggregate Limit
Shareholders with 'significant ownership (i.e. 10% and above)'	0%	0%
Directors	10%	20%
Associated Companies/ Unconsolidated subsidiaries	15%	20%
Total (including management)		40%

Lending to senior management is covered under Circular EDBC/128/96 dated 4th August 1996. All credit facilities to senior management will be included under the total connected counterparties limits of 40% of capital base.

Shareholders with significant ownership of the bank's capital (10% and above) are not allowed to borrow from the bank (i.e. a 0% limit), however smaller shareholders will be subject to the normal 15% limit on an individual basis. Directors who are also shareholders with significant ownership are subject to the 0% limit mentioned above.

The Agency will examine particularly closely all exposures to companies or persons connected to a bank and will deduct them from the bank's (consolidated) capital base if they are, in the Agency's opinion, of the nature of a **capital investment**, or provision of long term working capital, or are made on particularly concessionary terms. Any other form of connected lending outside the scope of the above will be dealt with by the Agency on a case-by-case basis.

Exempt Exposures

Certain types of exposure are exempt from the limits set out above, but notification of such exposures should be made to the Agency *on a quarterly basis using the attached returns*. These exemptions fall into the following categories and are subject, in each case, to the policy statement as agreed with the Agency:

- short term (*i.e. up to six months original maturity*) interbank exposures;
- exposures to GCC governments, their semi-governmental institutions and agencies that do not operate on a commercial basis, as set out in the guidelines to the PIR/PIRC;
- exposures to OECD central governments;
- exposures secured by cash or GCC government securities/guarantees;
- exposures secured by OECD central government securities/guarantees;
- certain connected exposures, in particular those arising from a group Treasury function (*see below*);
- exposures which are covered by a guarantee from the bank's parent (*see below under "Exposures undertaken by a subsidiary bank"*); and
- exposures arising from underwriting activities, such exposures continuing for no more than 90 calendar days. *Underwriting exposures should normally be part of the trading book of a bank. Any residual holdings of securities held for more than 90 days from the commitment date of underwriting are no longer exempt and are subject to normal large exposure limits.*

* Family links in this context means father, mother, sons, daughters, sisters and brothers.

Exempt exposures to connected counterparties

Exposures to subsidiaries which are always *fully* consolidated on a line by line basis for all supervisory purposes are exempt, *however banks should bear in mind the capital adequacy requirements on a solo basis*. Exposures to unconsolidated subsidiaries are not exempt and will be included under the limits for exposures to associated companies. *In respect of exposures to other connected counterparties*, the Agency *will* allow a bank to take on a Treasury role on behalf of the group as a whole (provided that the group is subject to consolidated supervision by its home supervisor). In this scenario, for example, exposures of more than 15% of the capital base to a parent bank from a subsidiary bank may be permitted *where it constitutes short term lending of excess liquid funds*. The Agency's policy regarding the taking on of a Treasury role includes exposures arising from a central risk management function.

Exposures undertaken by a subsidiary bank

Where exposures undertaken by a *Bahrain* subsidiary of an *overseas bank* are guaranteed by its parent, the Bahrain subsidiary bank may be deemed to have an exposure to the parent. Under the terms of this Circular (see above under "Exempt Exposures"), such indirect exposures to a parent bank may be exempt from the limits on large exposures if the Agency is satisfied that (i) such exposures are entered into within the terms of a policy agreed by the parent bank, and (ii) there are guarantees in place from the parent bank to protect the subsidiary should the exposure become *impaired* or require to be written off.

In the case of a Bahrain incorporated bank's subsidiary inside *Bahrain*, in order for an exposure exceeding 15% of capital base to be acceptable in the subsidiary, the Bahrain parent must at all times have *capacity* to take on the exposure *to the third party*, without itself exceeding the limit of 15% of capital base. Also, the total exposure of the banking group to the customer must be within 15% of the parent bank's consolidated capital base. The Agency will need to be satisfied that adequate control systems are in place to ensure that risks taken in the group as a whole are properly monitored and controlled.

Reporting of Exposures

Bahrain incorporated banks are required to report (for the attention of the Director of Banking Supervision Directorate) all large exposures, (whether exempt or not) on a quarterly basis using the return attached to this Circular. Banks are *required* to adopt policies and *set internal limits* which will not lead to the exposure limit(s) referred to above being exceeded as a matter of course. For some banks, the Agency may determine it prudent to set a lower percentage(s) *than the ones given herein*. Should any bank find that, for reasons outside its control or otherwise, it has an exposure to an individual counterparty (other than an exempt exposure) which results in it exceeding any of the limits set out above, this should be reported immediately to the Agency for its consideration, and *action should be taken to immediately bring the exposure back within applicable limits as soon as possible*.

Policy Statements

The Agency requires each Bahrain incorporated bank to set out its policy on large exposures, including limits for differing types of exposures to individual customers, banks, corporates, countries and economic and *market* sectors, in a policy statement which should be formally *approved* by the board of directors. **The Agency expects banks to review existing large exposures policies in the light of this Circular and to resubmit their policies by 1st March 2002.**

Furthermore, banks should not implement significant changes to these policies without prior discussion with the Agency. *The policy document should identify 'connected counterparties' and the bank's policies towards lending to and investing in these counter-parties. The bank should explain and justify any requests for exemptions for lending/investments in connected counterparties.*

Each bank will be expected to justify to the Agency in the policy document its policy on exposures to individual counterparties, including the maximum size of an exposure contemplated. Exposures to counterparties connected with the bank will continue to be particularly closely examined. The necessary control systems to give effect to a bank's policy on large exposures should be clearly specified and monitored by its board. *Banks are required to implement appropriate internal systems and controls to monitor the size of their capital base on a daily basis to ensure that the limits detailed in this Circular are not exceeded.*

Concentrations in Economic and Market Sectors

The extent to which a bank may be prudently exposed to a particular economic sector will vary considerably depending upon the characteristics and strategy of the bank, and the sector concerned. *Concentrations should also be recognised in not just economic sectors, but also in markets (e.g. individual stock exchanges). The Agency will not apply common maximum percentages to banks' sectoral or market exposures but, instead, will continue to monitor such exposures on an individual and general basis. Banks must specify in their policy statements how they define economic and market sectors, and what limits apply to differing sectors. Exposures and limits for sectors should be reviewed at least quarterly by the board of directors. Banks which have over 10% of their risk adjusted assets in market risk (i.e. the trading book) must also set market risk concentration limits.*

Should you need any further clarification concerning this Circular, reference should be made to the Agency for the attention of Khalid Hamad A Hamad, Director of Banking Supervision Directorate, Tel: 547404/547405.

Implementation Measures

As stated on page 1, this circular applies in full to all locally incorporated banks immediately (except Islamic banks which have their own regulations). Where banks are not in compliance with the limits in this Circular, they should submit an action plan to the Agency within one month from the date of this Circular detailing their approach in terms of complying with the revised taking into consideration a grace period of 6 months from the date of this Circular.

Yours faithfully,

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

Large Exposures Return (LER) (Name Of Bank)						
Quarter Ending:		Name of Counterparty:				
On-Balance Sheet Items		Off-Balance Sheet Items				
Type	Exposure BD / US\$ 000	Maturity	Type	Exposure BD / US\$ 000	Maturity	
1.			6.			
2.			7.			
3.			8.			
4.			9.			
5.			10.			
Total Exposure (1 to 10): (For derivatives contracts, use the credit equivalent amount)			Total Exposure as a % of Capital Base (Use the most recent PIR / PIRC Figure of Capital Base)			%

Security/Collateral

<div>Related Parties</div>	<div>Ownership</div>

Financial Highlights		
Details		
Net Income		
Total Revenue		
Total Assets		
Total Liabilities		
Total Networth		