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Faculty of Economy



Bachelor Work

BAHRAIN MONETARY AGENCY

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AHMED ALI

UNIVERZITNÍ KNIHOVNA
TECHNICKÉ UNIVERZITY V LIBERCI



3146070624

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pro

Ahmed Ali

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Název tématu:

Bahrain monetary agency

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2. Principles of Supervision, Operation and Marketing with respect to Collective Investment Schemes
3. Collective Investment Schemes (Amendment to Item 1.B of the Regulation)
4. Quarterly Information Returns for Collective Investment Schemes
5. Guidelines on Advertising and Public Announcements for Collective Investment Schemes
6. Regulation Concerning the Operation and Supervision of Financial Trusts
7. Mutual Fund Investment Company Established in, And Marketed in/from, Bahrain
8. Specific Powers of the Agency
9. Bahrain to be Marketed in Bahrain
10. Foreign Currency
11. Bahrain history Currency
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- www.mafhoum.com/press2
- www.bahraintourism.com/currency_museum.htm
- www.wealth24.com/bahrain/finance.htm
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Vedoucí bakalářské práce:

Doc. Ing. Jiří Fárek, CSc.

Konzultant:

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doc. Ing. Jiří Kraft, CSc.
vedoucí katedry

doc. Ing. Jiří Kraft, CSc.
děkan Hospodářské fakulty

I would like to express my thanks and gratitude for taking time with me and helping me throughout my Bachelor Work. I really enjoyed working with you and carry a great experience. It was a pleasure being able to work with you while.



Symbol:

M1 – (The most narrowly defined measure of money) A measure of the money supply consisting of **currency and coins held by the non-banking public, checkable deposits, and travelers checks.**

M2 – A monetary aggregate consisting of **M1 plus savings deposits, small-denomination time deposits, and money market mutual funds.**

M3 – A monetary aggregate consisting of **M2 plus large-denomination time deposits.**



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1. INTRODUCTION





The Kingdom of Bahrain is a small country located in the center among Persian Gulf countries; it consists of 33 islands with 670 sq. km. area. Its unique location is considered an advantage to the country when it comes to foreign affairs.



Back in the 30's, Bahrain's economy was depending on pearling, later after that it has turned to petroleum processing and refining and that helped make the country an international business district, not to mention that it was the first GCC state to enter the oil age. That processing and refining account for 60% export receipt, 60% of government revenues and 30% of GDP. Bahrain has a highly developed communication and transport facilities, due to that, multinational firms with business in the gulf considered the country as their home, it officiates a mix of over 170 financial institutions including 48 offshore banking units, 34 investment banks, 16 of them specialize in Islamic Banking, 22 commercial banks, of which 14 are foreign owned. In addition there are 34 representative offices of international banks, 17 money changers, 4 money brokers, 11 investment advisor and other financial services providers including those of fund management, insurance, as well as the professions. The Bahrain Stock Exchange was established in 1989.

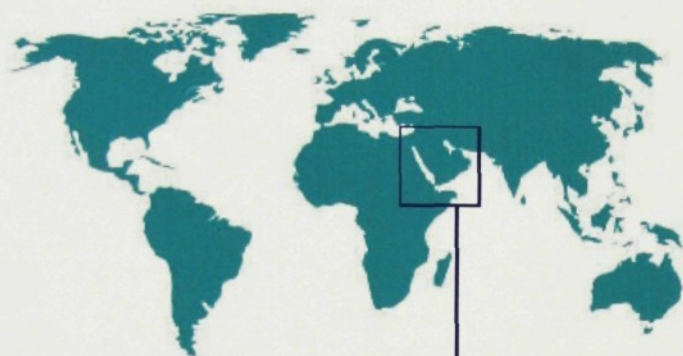
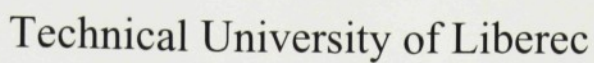
The internationally acknowledged reputation of the Bahrain Monetary Agency (BMA), Bahrain's central bank, in providing regulatory control that always adopts international best practice, underpins the islands dominant status in regional banking. The BMA, established in 1973, is among the most respected bank supervisors worldwide.

The Kingdom of Bahrain is one of the most economically free countries in the world, as measured by the Heritage Foundation. It offers attractive investment opportunities with a well educated English speaking people. There are no exchange controls and import duties are low. Bahrain has no personal or corporate taxation. It also has a great tradition of tolerance and understanding of the non-Arab way of life.



This reflects solid macroeconomic fundamentals and an improving climate for both foreign direct investment and portfolio investment. Bahrain, a member of the World Trade Organization was in effect, the first Gulf Cooperation Council (GCC) country to allow 100 percent foreign ownership in the industrial, commercial, tourism and financial sectors.

Above all that, Bahrain faces some major long-term economic problems, such as unemployment especially among the young and the depletion of oil and underground water resources. The Currency is “Bahraini Dinar”, coded as BHD.

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Significant Christian, Hindu and other minorities enjoy freedom of religion and their own places of worship.



2. MONEY AND BANKING





2.1 Money Supply and Liquidity

How Banks Create Money:

Creating Money through Excess Reserves

The Fed influences the amount of excess reserves by:

1. buying or selling Bahrain government bonds
2. extending discount loans to banks
3. changing the required reserve ratio



The most important is buying and selling government bonds.

Some kinds of assets perform the store-of-value function. Some can be converted into currency or checkable deposits. So these are included under broader definitions of money.

Savings deposits – That earns interest but have no specific maturity date.

Time deposits: Deposits that earn a fixed rate of interest if held for the specified period, which can range anywhere from several months to several years.

Money market mutual funds: A collection of short-term interest-earning assets purchased with funds collected from many shareholders.

The difference between M1 and M2 becomes less meaningful when banks allow depositors to transfer money between one account and another. *(You can see M1 and M2, page.1)*

Credit cards are not considered money. They are an easy means of obtaining a short-term loan from the card issuer.



Banks must be prepared to satisfy depositor's requests for funds. A bank could fail if it lacked sufficient reserves to meet all depositors' requests for funds. Required reserves are not meant to be used for this purpose, so banks hold excess reserves and easily convertible assets for this purpose.

Liquidity – A measure of the ease with which an asset can be converted into money without significant loss of value.

At the end of 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. (*You can see M1, page.1*)

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% BD Millions. (*You can see M1 and M2, page.1*)

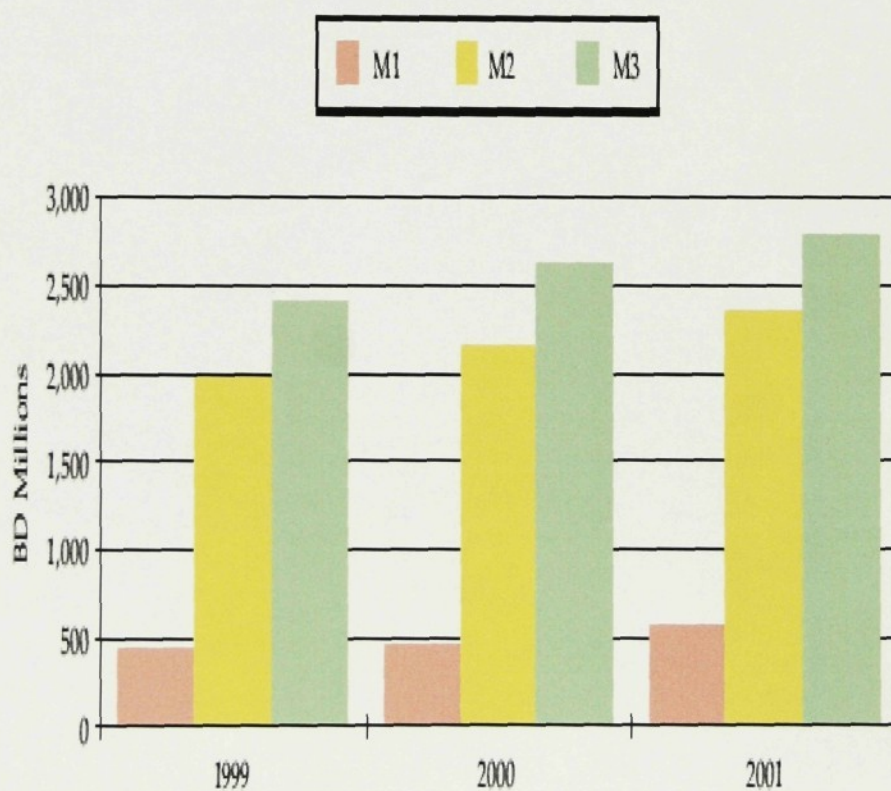


M1 – (The most narrowly defined measure of money) A measure of the money supply consisting of currency and coins held by the non-banking public, checkable deposits, and travelers checks.

M2 – A monetary aggregate consisting of M1 plus savings deposits, small-denomination time deposits, and money market mutual funds

M3 – A monetary aggregate consisting of M2 plus large-denomination time deposits

Graph 2.1: Domestic Liquidity



Source from BMA's Book - 2001



Table 2.1: Domestic Liquidity

(BD Millions)

Items	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

Source from BMA's Book - 2001

Changes in the major factors affecting domestic liquidity over the period 1999-2001 are illustrated in Table 2.2.

Table 2.2: 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

Source from BMA's Book - 2001



Total domestic liquidity (M3) registered an increase of BD 181.1 million, or 7.0%, at end-2001. (*You can see M3, page.1*)

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

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.

2.2 The Banking System

Over the past twenty years, Bahrain has developed as a regional financial center for the Gulf region and for much of the Arab world. Bahrain's financial institutions attract funds from the Gulf region since, unlike most other countries in the region; Bahrain does not prohibit the use of interest in banking operations.

Bahrain has a well developed commercial banking sector which includes many of the large international banks. A number of offshore banking institutions offer specialized commercial services. There is a housing bank, which provides long term finance for housing and commercial real estate developments. Additionally, there are several Islamic banks and financial institutions that constitute a significant factor in the financial community. The distinctive feature of Islamic banking is that no interest is paid; instead the bank charges fees and shares its profits or losses. In addition, the Bahraini Stock Exchange, established in 1989, has been open to foreign as well as Bahraini investors since 1990.



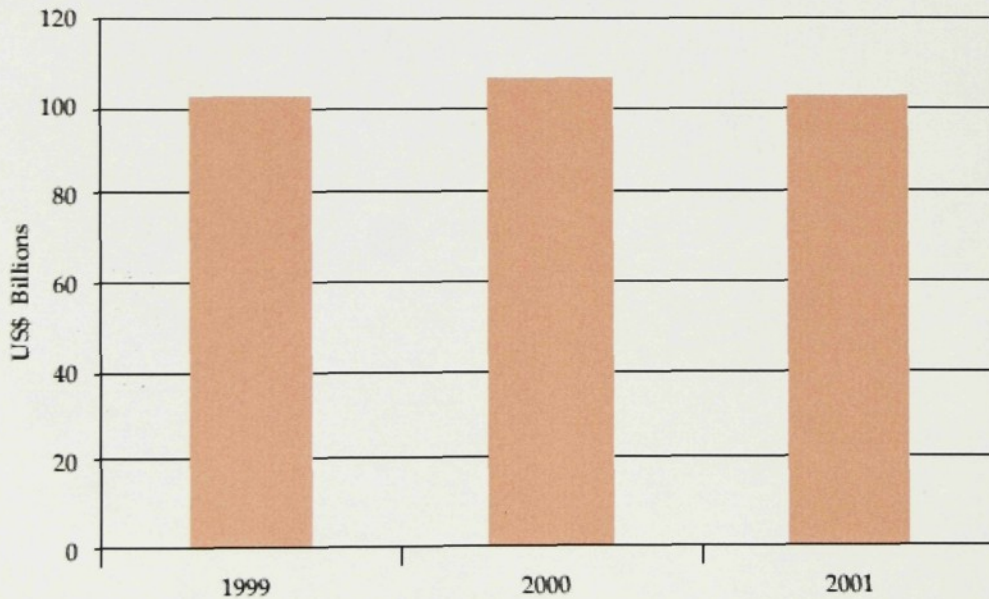


The consolidated balance sheet of the banking system in Bahrain:

- commercial banks
- offshore banking units
- 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.

**Graph 2.2: Consolidated
Balance Sheet of the Banking System**



Source from BMA's Book - 2001



Table 2.3: 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

Source from BMA's Book - 2001

2.3 Commercial Banks

Commercial banks in Bahrain are offering attractive incentives in their efforts to encourage customers to deposit in savings accounts. The latest is the cash prize scheme introduced by National Bank of Bahrain in a series of monthly, quarterly and annual draws.

Commercial Bank of Bahrain's savings certificate scheme continues to get bigger and richer each year. It was launched in 1998 and for 2001 the number of prizes has been increased to 504 with a total value of \$850,000.

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.



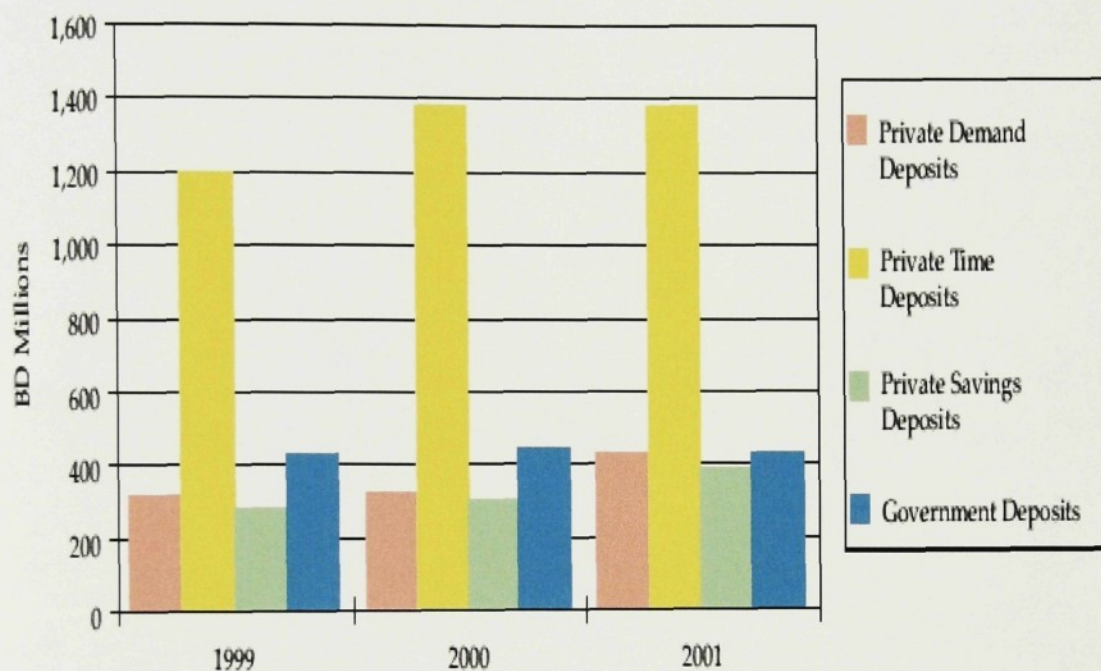
Private sector deposits denominated in both Bahraini Dinars and foreign currencies increased by 13.7% and 2.2% respectively. Deposits denominated in Bahraini Dinars represented 62.6% of the total private sector deposits.

(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%.



Graph 2.3: FCB Deposit Trends



Source from BMA's Book - 2001



*Table 2.4: 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

Source from BMA's Book - 2001

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 1,421.5million 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-2000to BD 800.4 million at end-2001. Credit to the trade and non-bank financial sectors decreased by8.0% 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.

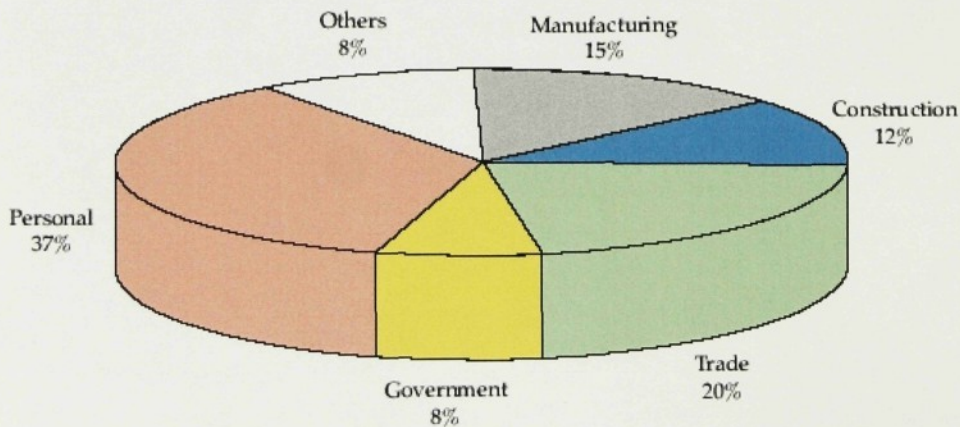
(b) Personal Sector

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.

**Graph 2.4: Outstanding
Commercial Bank Credit to Residents in 2001**



Source from BMA's Book - 2001



Table 2.5: 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

Source from BMA's Book - 2001



D 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 2.6: Interest rates Rates on BD Deposits and 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

Source from BMA's Book - 2001

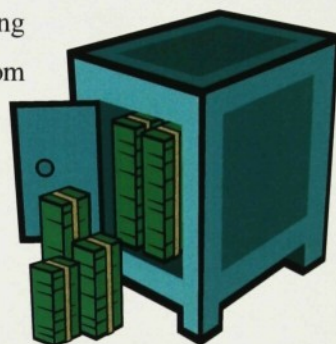
2.4 Offshore Banking Units

Offshore banking is an area where Bahrain is the recognized leader with its 70 or so banks. Many are also involved in raising the finance for Asian and Middle Eastern power projects. Indeed, Bahrain's banks are handling foreign exchange transactions worth an estimated \$3.5 billion a day. The market has grown nearly 40% since 1995 and the financial sector, especially banking and insurance has grown from 3% of the GDP to 23% in the same



period. The combined assets of offshore banks have grown from less than \$2 billion in 1995 to nearly \$90 billion at the end of last year. Norton Rose is the leading law firm in this area, with a significant banking practice.

Bahrain has been encouraging the establishment of "offshore" banking units (OBUs) since the mid 1970s. An OBU is not allowed to provide local banking services but is allowed to accept deposits from governments and from large, regional financial organizations and to make medium-term loans for local and regional capital projects. The OBUs serve to channel money from the petroleum-producing region back into world markets.



The BMA is necessary in order to establish an OBU. The OBUs operate under the following conditions: (1) OBUs may be branches or joint ventures; (2) OBUs must be fully staffed and operational at all times; (3) OBUs may transact business with the Government of Bahrain, its agencies, or any licensed bank operating in Bahrain (conducting business with any other entity or individual resident in Bahrain requires the prior permission of the BMA which is normally given only if the transaction is related to a development project); (4) OBUs may provide non-residents of Bahrain with all banking services except checking accounts; (5) OBUs which are branches are not required to maintain any reserves with the BMA; (6) OBUs are required to supply to the BMA such information as may be prescribed by it from time to time; (7) OBUs are required annually to submit to the BMA a balance sheet and profit and loss account audited by auditors; (8) OBUs which are partly or wholly owned by banks or other entities are required annually to file with the BMA a copy of the consolidated accounts of the owners; and (i) OBUs are required to pay to the BMA an annual license fee of an amount as may from time to time be prescribed by the BMA.

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 2.7

Table 2.7: 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

Source from BMA's Book - 2001



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 2.8: 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

Source from BMA's Book - 2001

2.5 Investment Banks

Bahrain is the principal financial services center of the Middle East. Utilizing sophisticated world wide communications, it serves both a regional and a more broadly international clientele and provides a complete range of financial and banking services, including well-developed offshore facilities. Legal, regulatory, and accounting systems in the financial sector are transparent and consistent with international norms.

Bahrain is the principal financial services center of the Middle East. Utilizing sophisticated world wide communications, it serves both a regional and a more broadly international clientele and provides a complete range of financial and banking services, including well-developed offshore facilities. Legal, regulatory, and accounting systems in the financial sector are transparent and consistent with international norms. Bahrain is the home to 28 investment banks. The Bahrain Development Bank will also lend





funds in some cases to local projects that it considers appropriate, in principle not limited to projects of Bahraini-owned companies. Credit is allocated on market terms, and is available to foreign investors; credit terms are variable, but are limited to 10 years. For major infrastructure investments, banks will often offer to assume a part of the risk, and Bahrain's banks have shown extensive cooperation in syndicating loans for larger risks. Generally, Bahrain's banks are described as "hungry" for solid investment opportunities.

Investment banks, characterized as non-bank financial institutions, operate under a licensing system by the BMA. They may not offer current account services, although deposits can be accepted from non-bank institutions in a minimum value of US\$ 50,000 or the equivalent. Deposits may also be accepted from banks inside and outside Bahrain. Investment banks are allowed to grant loans to both residents and non-residents provided they are not in the form of an overdraft. In addition, they may also undertake all forms of business in securities including underwriting, placing and trading in securities, consultancy on issues of investment and the raising of capital. Investment banks may be formed as exempt companies.

The number of 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.

2.6 Islamic banks

Islamic banks appeared on the world scene as active players over two decades ago. But "many of the principles upon which Islamic banking is based have been commonly accepted all over the world, for centuries rather than decades.



Bahrain is the leading centre for Islamic finance in the Middle East region. The first Islamic bank in Bahrain was established in 1979, when Bahrain Islamic Bank was licensed. Since then, the sector has grown considerably, satisfying a growing desire by customers to transact their financial activities in accordance with the Islamic sharia. A cornerstone of Islamic banking is the principle of profit sharing.

The geographical distribution of IB assets and liabilities at end-2001 is illustrated in Table 2.9.

Table 2.9: 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

Source from BMA's Book - 2001

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 2.10: 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

Source from BMA's Book - 2001

2.7 Employment in the Banking & Financial Sector

Total Bahrain's economy has always been more diversified than other Gulf States. Its lack of dependence on oil and gas has led to sophisticated tourism and banking sectors. While neighbors were affected by the drop in oil prices in the late eighties, Bahrain came away relatively unscathed. The legal market is small and restricted to mainly offshore banking and infrastructure projects. So what is attracting foreign firms to Manama, the capital? The answer is that Bahrain is



Increasingly pushing its position as a leading financial centre. Norton Rose, Trowers & Hamlin, Baker & McKenzie and most recently White & Case are all here pitching for work. 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

The Bahrain Monetary Agency functions as a central bank. The BMA manages the national currency; ensures the orderly functioning of local foreign exchange markets; maintains the value of currency and monetary stability; organizes banking businesses to control the banking system; regulates bank credit in accordance with government policies; assists in the development of Bahrain's financial markets; and acts as a fiscal agent of the government in the issue and redemption of debt instruments.

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 & to Bahrain is the financial services centre of the Middle East. Utilizing sophisticated worldwide communications, it serves both a regional and international clientele and provides a complete range of financial and banking services including well-developed offshore facilities.

Financial Institutions

- Commercial banks
- Specialised banks
- Offshore banking units
- Investment banks

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.



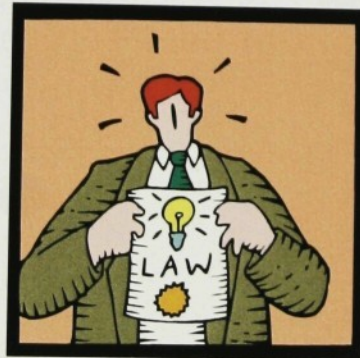
Table 2.11: Employment in the Banking & Financial Sector 2000 – 2001

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	31	33	64	31	31	62
Financial Services						
Total	190	245	435	186	252	438
Grand Total	3,882	1,349	5,231	3,874	1,358	5,232

Source from BMA's Book - 2001



3. BMA OPERATIONS, ACTIVITIES, STATUTORY ACCOUNTS & REGULATIONS





3.1 Accounts:

Statutory Accounts

Accounts of the BMA, Heritage had loaned money to Quality based on Quality's accounts Receivable. These accounts, which were PACA trust assets, were then transferred to Heritage. Heritage received payments from Quality's customers and applied them against the loan balance. Quality, however, retained the risk of nonpayment, for it remained indebted to Heritage for the cash advances until they were repaid. Thus, the court reasoned, Heritage did not actually purchase the accounts receivable. Instead, it only acquired a security interest in the accounts receivable, and this interest was inferior to the rights of the PACA trust beneficiaries, in this case Overton

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.



3.2 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

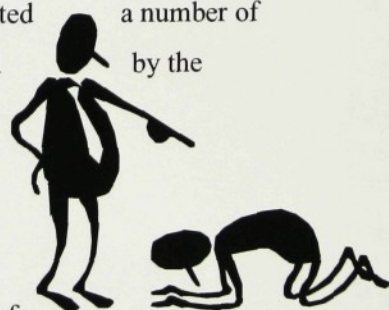
GCC, the Meeting of the Technical Committee in charge of studying the requirements of the Resolutions of the GCC with respect to the implementation of Article (22) of the

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".

3.3 Banking Control:

Banking Inspection

During the year, the Banking Inspection Directorate conducted 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 finalized 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, money brokers, 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 finalized 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

An institution (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.

3.4 Banking Services:

BMA Services was set up in 1983 by the BMA to provide specialist services to its members in the areas of:

- Insurance
- Investment & Protection.
- Finance



From investments to retirement planning, to household, travel and surgery insurance and mortgage search, BMA Services is there to help members of the BMA with tailored products and expert independent advice.

BMA Services, the financial services arm of the British Medical Association, has chosen Swiss Life, one of the UK's leading protection companies, to develop a flexible, bespoke income protection plan to meet the changing needs of doctors throughout their careers. The new product, the BMA Services Income Protection Plan, reflects the changing salaries and work patterns of doctors, from their last year at medical school through to their work in hospitals, general practice and private practice.



Unlike some other income protection products designed for the medical profession, the BMA Services plan offers the option of a guaranteed or review able premium.

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 cheques 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 Shari's 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 Aluminum) 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 Shari's, the Salam Government Securities to create a new field for vestment 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.



3.5 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 the entire 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.

3.6 Currency Issue:

Currency Control:

The Bahrain Monetary Agency (BMA) is the regulatory body that oversees the commercial banks and other financial institutions operating in Bahrain and is the rough equivalent of a central bank. The BMA controls the issuing of currency and is the authority in charge of exchange matters. In addition, the BMA sets maximum interest rates for all loans made in Bahraini Dinar and recommends maximum rates of interest payable on deposits of Bahraini Dinar.





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.

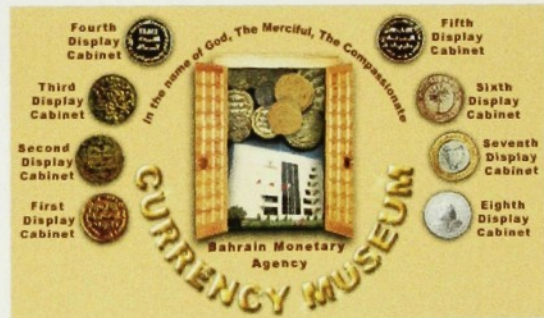
On the occasion of the National day, the Agency put into circulation a new banknote of BD 20, which shows on the front the portrait of His Majesty Shaikh Hamad Bin Isa Al-Khalifa, King of Bahrain, this was the first BD 20 banknote with the portrait of his Majesty the King since the circulation of the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





3.7 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.

3.8 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 remained unchanged at BD 0.375 and BD 0.377 respectively.



Bahraini Dinar

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

3.9 Structural Policies

As a member of the six-nation Gulf Cooperation Council (GCC), Bahrain participates fully in GCC efforts to achieve greater economic integration among its member states (Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates in addition to Bahrain). In addition to according duty-free treatment to imports from other GCC states, Bahrain has adopted GCC food product labeling and automobile standards. Efforts are underway within the GCC to enlarge the scope of cooperation in fields such as product standards and industrial investment coordination. In recent years, the GCC has focused its attention on negotiations on a trade agreement with the European Union. If these negotiations are successfully concluded, such an agreement could have a long-term adverse impact on the competitiveness of U.S. products within the GCC, including



Bahrain. Bahrain is also an active participant in the ongoing U.S.-GCC economic dialogue. For the present, U.S. products and services compete on an equal footing with those of other non-GCC foreign suppliers.

With the exception of a few basic foodstuffs and petroleum product prices, the Government of Bahrain does not attempt to control prices on the local market. Because most manufactured products sold in Bahrain are imported, prices are basically dependent upon the source of supply, shipping costs, and agents' mark-ups. Since the opening of the Saudi Arabia-Bahrain Causeway in 1985, local merchants are less able to maintain excessive margins, and as a consequence, prices have tended to fall toward the levels prevailing in other GCC countries.

Bahrain is essentially tax-free. The only corporate income tax in Bahrain is levied on oil, gas, and petroleum companies. There is no individual income tax, nor does the island have any value added tax, property tax, or production tax. A few indirect and excise taxes are assessed. Aside from customs duties, including a tax on gasoline, a ten percent levy on rents paid by residential tenants, a 12.5 Percent tax on office rents, and a 15 percent tax on hotel room rates are imposed.

3.10 Relationship Between GCC & BMA

"The pronouncement of these regulations is part of BMA's ongoing policy to enhance its regulations not only on Islamic banks but also on all financial institutions using Bahrain as a hub for their operations.

The BMA organized a one-day workshop to provide the required background, development methodology and basic elements of the new regulations to heads of internal audit and chief financial officers and financial controllers.





It conducted case study-based training for filing regulatory forms with BMA with special focus on capital adequacy.

Al Ateeq added that "Bahrain was among the first to recognize the importance of the concept of Islamic banking and finance and had been in the forefront from the very beginning in developing this to maintain and enhance the island's status as the region's pre-eminent international financial centre.

In this regard a major responsibility of BMA was to create and protect a regulatory environment where the public can confidently entrusted their savings to the institutions so regulated it was to this end that these new regulations, which were results of detailed discussions and consultations, were introduced."



4. Conclusion

The Bahrain Monetary Agency (BMA) is the regulatory body that oversees the commercial banks and other financial institutions operating in Bahrain and is the rough equivalent of a central bank. The BMA controls the issuing of currency and is the authority in charge of exchange matters.

Bahrain is the principal financial services center of the Middle East. Utilizing sophisticated world wide communications, it serves both a regional and a more broadly international clientele and provides a complete range of financial and banking services, including well-developed offshore facilities.

Over the past twenty years, Bahrain has developed as a regional financial center for the Gulf region and for much of the Arab world. Bahrain's financial institutions attract funds from the Gulf region since, unlike most other countries in the region; Bahrain does not prohibit the use of interest in banking operations.

Commercial Bank of Bahrain's savings certificate scheme continues to get bigger and richer each year. It was launched in 1998 and for 2001 the number of prizes has been increased to 504 with a total value of \$850,000, so its good improving for commercial banks in Bahrain there for using new technology (e-commerce). Bahrain has a well developed commercial banking sector which includes many of the large international banks. A number of offshore banking institutions offer specialized commercial services in Bahrain.



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