CBB International Sukuk Company (No.3) (SPC)

(a single person company incorporated in Bahrain with limited liability whose proprietor is the Central Bank of Bahrain)

U.S.$750,000,000 Trust Certificates due 2018

Issue Price: 100 per cent.

The U.S.$750,000,000 Trust Certificates due 2018 (the ''**Certificates**'' or the ''**Sukuk**'') of CBB International Sukuk Company (No.3) (SPC) (a single person company whose proprietor is the Central Bank of Bahrain) (the ''**Issuer**'') will be constituted by a declaration of trust (the ''**Declaration of Trust**'') dated on or about 22 November 2011 (the ''**Closing Date**'') made by the Issuer. Pursuant to the Declaration of Trust, the Issuer will declare that it will hold certain assets, primarily consisting of a certain land parcel and rights under the related Ijara Sub-Lease Agreement (as defined herein), upon trust absolutely for the holders of the Certificates pro rata according to the face amount of Certificates held by each Certificateholder in accordance with the Declaration of Trust and the terms and conditions of the Certificates (the ''**Conditions**'').

On the 22nd day of each May and November, or if any such day is not a Business Day (as defined herein), the following Business Day, commencing in May 2012 (each, a ''**Periodic Distribution Date**''), the Issuer will make a Periodic Distribution (as defined herein) to Certificateholders (as defined herein) of an amount which is calculated on the basis of 6.273 per cent. per annum, of the outstanding face amount of the Certificates as at the beginning of the relevant Return Accumulation Period (as defined herein) on an 30/360 day basis, assuming a 360 day year of 12 30-day months.

The Issuer will make such Periodic Distributions solely from the proceeds received in respect of the Trust Assets (as defined herein) which include rental payments under the Ijara Sub-Lease Agreement, which rental payments will equal the Periodic Distribution Amounts payable to Certificateholders on the Periodic Distribution Date coinciding with the payment date for such rental.

Unless previously redeemed in the circumstances described in Condition 8, the Certificates will be redeemed on the Periodic Distribution Date falling in November 2018 (the ''**Scheduled Dissolution Date**'') at the Dissolution Distribution Amount (as defined herein).

Application has been made to the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 (the ''**UKLA**'') for the Certificates to be admitted to the official list of the UKLA (the ''**Official List**'') and to the London Stock Exchange plc (the ''**London Stock Exchange**'') for such Certificates to be admitted to trading on the Regulated Market of the London Stock Exchange. References in this Prospectus to Certificates being ''**listed**'' (and all related references) shall mean that such Certificates have been admitted to the Regulated Market of the London Stock Exchange and have been admitted to the Official List. The Regulated Market of the London Stock Exchange is a regulated market for the purposes of Directive 2004/39/EC on markets in financial instruments (''**MiFID**'').

An investment in the Certificates involves certain risks of which investors should be fully aware. For discussion of these risks see "Risk Factors" on page 16.

The Certificates have not been and will not be registered under the United States Securities Act of 1933, as amended (the ''**Securities Act**'') or with any securities regulatory authority of any state or other jurisdiction of the United States of America and may not be offered, sold or delivered within the United States or to U.S. Persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the Certificates are being offered, sold or delivered solely to non-U.S. Persons (as defined in Regulation S) outside the United States of America in reliance on Regulation S under the Securities Act (''**Regulation S**''). Each purchaser of the Certificates is hereby notified that the offer and sale of Certificates to it is being made in reliance on the exemption from the registration requirements of the Securities Act provided by Regulation S.

Delivery of the Certificates in book-entry form will be made on the Closing Date. The Certificates will be issued in registered form in minimum denominations of U.S.$100,000 and integral multiples of U.S.$1,000 in excess thereof. Certificates will be represented at all times by interests in a global registered certificate (the ''**Global Certificate**''), deposited on or about the Closing Date with a common depositary (the ''**Common Depositary**'') for Euroclear Bank S.A/N.V. (''**Euroclear**'') and Clearstream Banking, société anonyme (''**Clearstream, Luxembourg**''). Interests in the Global Certificate will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream, Luxembourg. Definitive Certificates evidencing holdings of interests in the Certificates will be issued in exchange for interests in the Global Certificate only in certain limited circumstances described herein.

The Certificates have been assigned a rating of BBB by Fitch, Inc. (''**Fitch**'') and have been assigned a rating of BBB by Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. (''**S&P**'' and, together with Fitch, the ''**Rating Agencies**''). These ratings relate to the timely payment of Periodic Distribution Amounts (as defined herein) on the Certificates. A rating is not a recommendation to buy, sell or hold securities, does not address the likelihood or timing of prepayment and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. A suspension, reduction or withdrawal of the rating assigned to the Certificates may adversely affect the market price of the Certificates. Fitch and S&P have each assigned credit ratings to The Kingdom of Bahrain. For further details, see ''*Economic consequences of February – March 2011 Protests*'' under ''*Risk Factors*''. As of the date of this Prospectus, neither Fitch nor S&P are established in the European Union and neither Fitch nor S&P are registered under Regulation (EU) No 1060/2009 (the ''**CRA Regulation**''). Fitch Ratings Ltd., which is established in the European Union and which is registered under the CRA Regulation, in its application for registration under the CRA Regulation, applied for permission to endorse ratings of Fitch. Standard & Poor's Credit Market Services Europe Limited, which is established in the European Union and which is registered under the CRA Regulation, in its application for registration under the CRA Regulation applied for permission to endorse ratings of S&P. In each case, as at the date of this Prospectus, notification of the corresponding endorsement decision has not yet been provided by the relevant competent authority.

The transaction structure relating to the Certificates (as described in this Prospectus) has been approved by the Sharia Boards of BNP PARIBAS, Citi Islamic Investment Bank E.C. and Standard Chartered Bank. Prospective Certificateholders should not rely on such approvals in deciding whether to make an investment in the Certificates and should consult their own Sharia advisers as to whether the proposed transaction described in such approvals is in compliance with their individual standards of compliance with Sharia principles.

Joint Lead Managers

BNP PARIBAS **Citigroup** **Standard Chartered Bank**

The date of this Prospectus is 21 November 2011

This Prospectus (the "**Prospectus**") comprises a prospectus for the purposes of Article 5.3 of Directive 2003/71/EC (the "**Prospectus Directive**") and for the purpose of giving information with regard to the Issuer, the Government and the Certificates which is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer, the Government and of the Certificates.

The Government of The Kingdom of Bahrain (the "**Government**", which expression means the Government whether or not acting through any ministry, agency or authority) accepts responsibility for the information included in this Prospectus under the headings "*Political Considerations Relating to Bahrain*", "*Economic and Social Considerations in Bahrain*", "*Overview of The Kingdom of Bahrain*", "*Economy of The Kingdom of Bahrain*", "*Balance of Payments and Foreign Trade*", "*Monetary and Financial System*", "*Public Finance*", "*Indebtedness*" and "*Summary of the Principal Transaction Documents*" (the "**Bahrain Information**"). To the best of the knowledge of the Government (having taken all reasonable care to ensure that such is the case) the Bahrain Information is in accordance with the facts and contains no omission likely to affect its import.

The Issuer is responsible for the information contained in this Prospectus. To the best of the knowledge and belief of the Issuer (having taken all reasonable care to ensure that such is the case) the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information. The Issuer accepts responsibility accordingly.

No person has been authorised to give any information or to make any representation other than those contained in this document in connection with the offering of the Certificates and, if given or made, such information or representations must not be relied upon as having been authorised by the Issuer, the Government, the Managers (as defined under "*Subscription and Sale*"), the Agents, the Payment Administrator (each as defined herein) or any other person. Neither the delivery of this document nor any sale of any Certificates shall, under any circumstances, constitute a representation or create any implication that the information contained herein is correct as of any time subsequent to the date hereof or that there has been no change in the affairs of any party mentioned herein since that date.

This document does not constitute an offer of any Certificates. It may not be used for the purpose of an offer to, or a solicitation by, anyone in any jurisdiction or in any circumstances in which such an offer or solicitation is not authorised or is unlawful. Save as mentioned under "*Subscription and Sale*", no action has been or will be taken to permit a public offering of the Certificates in any jurisdiction where action would be required for that purpose. The Certificates may not be offered or sold, directly or indirectly, and this Prospectus may not be distributed, in any jurisdiction except in accordance with the legal requirements applicable in such jurisdiction.

None of the Managers, the Delegate, the Agents or the Payment Administrator have verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by any of them as to the accuracy, adequacy, reasonableness or completeness of the information contained in this Prospectus or any other information provided by the Government or the Issuer in connection with the Certificates, their distribution or their future performance.

Neither this Prospectus nor any other information supplied in connection with the Certificates is intended to provide the basis of any credit or other evaluation or should be considered as a recommendation by the Issuer, the Government, the Managers, the Delegate, the Agents or the Payment Administrator that any recipient of this Prospectus should purchase any of the Certificates. Each investor contemplating purchasing any Certificates should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer and the Government.

No comment is made or advice given by the Issuer, the Government, the Managers, the Delegate or the Agents in relation to taxation matters relating to the Certificates or the legality of the purchase of the Certificates by an investor under any applicable law.

EACH PROSPECTIVE INVESTOR IS ADVISED TO CONSULT ITS OWN TAX ADVISER, LEGAL ADVISER AND BUSINESS ADVISER AS TO TAX, LEGAL, BUSINESS AND RELATED MATTERS CONCERNING THE PURCHASE OF THE CERTIFICATES.

This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any Certificates in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Prospectus and the offer or sale of the Certificates may be restricted by law in certain jurisdictions. None of the Issuer, the Government, the Managers, the Trustee, the Delegate or the Agents represents that this Prospectus may be lawfully distributed, or that any Certificates may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assumes any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, the Government, the Managers, the Trustee, the Delegate or the Agents which is intended to permit a public offering of any Certificates or distribution of this Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Certificates may be offered or sold, directly or indirectly, and neither this Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Prospectus or any Certificates may come must inform themselves about, and observe, any such restrictions on the distribution of this Prospectus and the offering and sale of the Certificates. In particular, there are restrictions on the distribution of this Prospectus and the offer or sale of Certificates in the United States of America, the United Kingdom, the United Arab Emirates (excluding the Dubai International Financial Centre), the Kingdom of Saudi Arabia, the Kingdom of Bahrain, Brunei Darussalam, Japan, Dubai International Finance Centre, Kuwait, Qatar, Malaysia, Hong Kong, Singapore and Switzerland, see "*Subscription and Sale*".

CERTAIN DEFINED TERMS AND CONVENTIONS

Statistical information relating to Bahrain included in this Prospectus is official data publicly available at the date of this Prospectus, and in most cases the latest official data publicly available. Such data may be subsequently revised in accordance with Bahrain's ongoing maintenance of its economic data, and such revised data will not be distributed by the Issuer to any holder of the Certificates. Statistical data appearing in this Prospectus have, unless otherwise stated, been obtained from the Ministry of Finance, The Central Bank of Bahrain, the Central Informatics Organisation and other named sources. Similar statistics may be obtainable from other sources, although the underlying assumptions and methodology, and consequently the resulting data, may vary from source to source. All statistical information relating to 2010 should be treated as preliminary and statistical information for this and prior years may be subject to future adjustment.

References to "**Bahrain**" and to the "**Kingdom**" herein are to the Kingdom of Bahrain and include references to the Kingdom of Bahrain in each capacity in which it is acting hereunder, except where the context does not permit.

The fiscal year of Bahrain ends on 31 December of each year. References in this Prospectus to the 2010 fiscal year refer to data available as at 31 December 2010. Unless stated otherwise, references to fiscal years prior to 2010 refer to the fiscal year ended on 31 December of such year.

Totals in certain tables in this Prospectus may differ from the sum of the individual items in such tables due to rounding. In addition, certain figures contained in this Prospectus are estimates prepared in accordance with procedures customarily used by Bahrain for the reporting of data. Certain other figures are preliminary in nature. In each case, the actual figures may vary from the estimated or preliminary figures set forth in this Prospectus.

FORWARD LOOKING STATEMENTS

This Prospectus includes, and any accompanying prospectus supplement may include, forward-looking statements. All statements other than statements of historical facts included in this Prospectus and any prospectus supplement regarding, among other things, Bahrain's economy, fiscal condition, debt or prospects may constitute forward-looking statements. Forward-looking statements generally can be identified by the use of forward-looking terminology such as "may", "will", "expect", "intend", "estimate", "anticipate", "believe", "continue" or similar terminology. Although each of the Issuer and the Government believes that the expectations reflected in its forward-looking statements are reasonable at this time, there can be no assurance that these expectations will prove to be correct.

EXCHANGE RATES

References herein to "**U.S.$**", "**$**" or "**U.S. dollars**" are to United States dollars and references to "**BD**" or "**Bahrain dinars**" are to the lawful currency for the time being of Bahrain. The Bahrain dinar is "pegged" to the U.S. dollar at an exchange rate of BD0.376 = U.S.$1.00.

This Prospectus contains conversions of certain Bahraini dinar amounts into U.S. dollars for the convenience of the reader. No representation is made that the Bahraini dinar amounts actually represent the U.S. dollar amounts or could have been or could be converted into U.S. dollars at the rates indicated, at any particular rate, or at all.

KINGDOM OF SAUDI ARABIA NOTICE

This Prospectus may not be distributed in the Kingdom of Saudi Arabia except to such persons as are permitted under the Offers of Securities Regulations issued by the Capital Market Authority of the Kingdom of Saudi Arabia (the "Capital Market Authority").

The Capital Market Authority takes no responsibility for the contents of and does not make any representations as to the accuracy or completeness of this Prospectus, and expressly disclaims any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of this Prospectus. Prospective purchasers of the Certificates should conduct their own due diligence on the accuracy of the information relating to the Certificates. If a prospective purchaser does not understand the contents of this Prospectus he or she should consult an authorised financial adviser.

NOTICE TO BAHRAIN RESIDENTS

The Central Bank of Bahrain and the Bahrain Bourse assume no responsibility for the accuracy and completeness of the statements and information contained in this Prospectus and expressly disclaim any liability whatsoever for any loss howsoever arising from reliance upon the whole or any part of the contents of this Prospectus. Each potential investor subscribing for Certificates on the Closing Date of such Certificates (each, a "potential investor") will be required to provide satisfactory evidence of identity and, if so required, the source of funds to purchase the Certificates within a reasonable time period determined by the Issuer, the Government and the Managers. Pending the provision of such evidence, an application to subscribe for Certificates will be postponed. If a potential investor fails to provide satisfactory evidence within the time specified, or if a potential investor provides evidence but none of the Issuer, the Government or the Managers are satisfied therewith, its application to subscribe for Certificates will be rejected immediately in which event any money received by way of application will be returned to the potential investor (without any additional amount added thereto and at the risk and expense of such potential investor). In respect of any Bahraini potential investors, the Issuer and the Government will comply with Bahrain's Legislative Decree No. (4) of 2001 with respect to Prohibition and Combating of Money Laundering and various Ministerial Orders issued thereunder including, but not limited to, Ministerial Order No. (7) of 2001 with respect to Institutions Obligations Concerning the Prohibition and Combating of Money laundering.

NOTICE TO RESIDENTS OF THE UNITED ARAB EMIRATES

This Prospectus is not intended to constitute an offer, sale or delivery of the Certificates or other securities under the laws of the United Arab Emirates (the "UAE"). The Certificates have not been and will not be registered under Federal Law No.4 of 2000 concerning the Emirates Securities and Commodities Authority and the Emirates Security and Commodity Exchange, or with the UAE Central Bank, the Dubai Financial Market, the Abu Dhabi Securities Market or with any other UAE exchange.

The issue of the Certificates and interests thereon have not been approved or licensed by the UAE Central Bank or any other relevant licensing authorities in the UAE, and does not constitute a public offer of securities in the UAE in accordance with the Commercial Companies Law, Federal Law No.8 of 1984 (as amended) or otherwise.

In relation to its use in the UAE, this Prospectus is strictly private and confidential and is being distributed to a limited number of sophisticated investors and must not be provided to any person other than the original recipient, and may not be reproduced or used for any other purpose. The Certificates may not be offered or sold directly or indirectly to the public in the UAE.

DUBAI INTERNATIONAL FINANCIAL CENTRE NOTICE

This Prospectus has not been reviewed, approved or licensed by the Central Bank of the United Arab Emirates (the "UAE"), Emirates Securities and Commodities Authority or any other relevant licensing authority in the UAE including any licensing authority incorporated under the laws and regulations of any of the free zones established and operating in the territory of the UAE, in particular the Dubai Financial Services Authority, a regulatory authority of the Dubai International Financial Centre.

This Prospectus relates to an Exempt Offer in accordance with the Offered Securities Rules (the "Rules") of the Dubai Financial Services Authority. This Prospectus is intended for distribution only to Persons of a type specified in those Rules. It must not be delivered to, or relied on by, any other Person. The Dubai Financial Services Authority has no responsibility for reviewing or verifying any documents in connection with Exempt Offers. The Dubai Financial Services Authority has not approved this Prospectus nor taken steps to verify the information set out in it, and has no responsibility for it. The

Certificates to which this Prospectus relates may be illiquid and/or subject to restrictions on their resale. Prospective purchasers of the Certificates offered should conduct their own due diligence on the Certificates. If you do not understand the contents of this Prospectus you should consult an authorised financial adviser.

NOTICE TO RESIDENTS OF MALAYSIA

The Certificates may not be offered for subscription or purchase and no invitation to subscribe for or purchase such Certificates in Malaysia may be made, directly or indirectly, and this Prospectus or any document or other materials in connection therewith may not be distributed in Malaysia other than to person or in categories falling within Schedule 6 or Section 229(1)(b), Schedule 7 or Section 230(1)(b) and Schedule 8 or Section 257(3) of the Capital Market and Services Act, 2007 of Malaysia. The Securities Commission of Malaysia shall not be liable for any nondisclosure on the part of the Issuer or the Government and assumes no responsibility for the correctness of any statements made or opinions or reports expressed in this Prospectus.

NOTICE TO RESIDENTS OF THE STATE OF QATAR

The Certificates have not been and will not be offered, sold or delivered at any time, directly or indirectly, in the State of Qatar ("Qatar") in a manner that would constitute a public offering. This Prospectus has not been reviewed or approved by or registered with the Qatar Central Bank, the Qatar Exchange or the Qatar Financial Markets Authority. This Prospectus is strictly private and confidential, and may not be reproduced or used for any other purpose, nor provided to any person other than the recipient thereof.

STABILISATION

In connection with the issue of the Certificates, BNP Paribas (the ''**Stabilising Manager**'') or persons acting on its behalf may over-allot Certificates or effect transactions with a view to support the market price of the Certificates at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager (or persons acting on its behalf) will undertake stabilisation action. Any stabilisation action may begin on or after the issue date of the Certificates and, if begun, may be ended at any time, but it must end no later than 30 days after the issue date of the Certificates. Any stabilisation action or over-allotment must be conducted by the Stabilising Manager (or persons acting on its behalf) in accordance with all applicable laws and rules.

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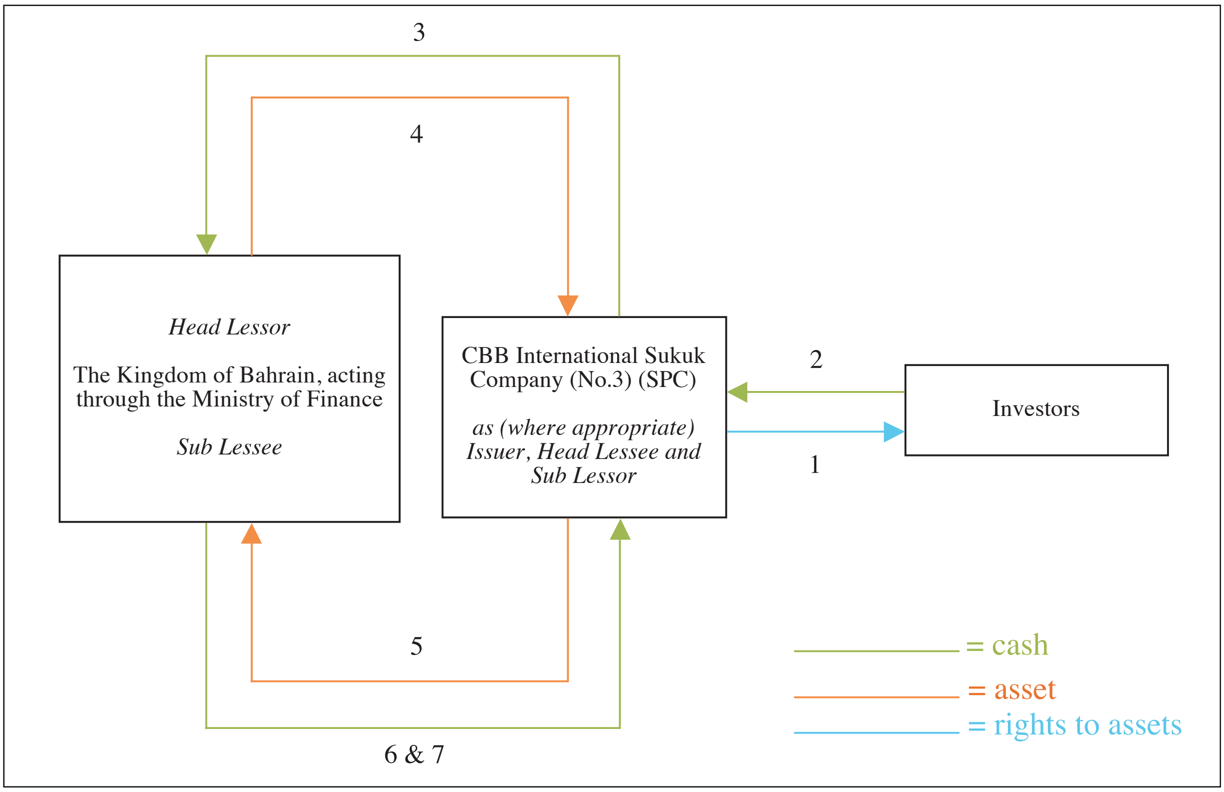
STRUCTURE DIAGRAM



Notes

1. U.S.$750,000,000 Trust Certificates (Sukuk al-ijara) issued to investors.
2. Sukuk proceeds received by the Issuer.
3. Advance Rental payment made by the Issuer as Head Lessee (single payment made on the Closing Date) to the Head Lessor.
4. Head Lease of Land Parcel granted by the Head Lessor to the Issuer as Head Lessee.
5. Seven year Sub Lease of Land Parcel granted by the Issuer as Sub Lessor to the Sub Lessee.
6. Semi-annual rental payments made by the Sub Lessee to the Issuer as Sub Lessor, equal to Periodic Distribution Amounts.
7. Termination Payment to redeem the Sukuk in full made by the Sub Lessee to the Issuer as Sub Lessor on maturity/dissolution.

OVERVIEW OF THE OFFERING

The following overview does not purport to be complete and is qualified in its entirety by reference to, and must be read in conjunction with, the detailed information appearing elsewhere in this Prospectus and related documents referred to herein.

This overview should be read as an introduction to the Prospectus and any decision to invest in the Certificates should be based on consideration of the Prospectus as a whole by the investor.

*Reference to a ''**Condition**'' is to a numbered condition of the ''**Terms and Conditions of the Certificates**''.*

PARTIES

Issuer	CBB International Sukuk Company (No.3) (SPC), a single person company whose proprietor is the Central Bank of Bahrain and which is incorporated in Bahrain under Article 76 of the Commercial Companies Law (Decree Law No. 21/2001) (the ''**Issuer**'').
Ownership of the Issuer	The authorised and issued share capital of the Issuer is BD 1,000 divided into five ordinary shares of par value BD 200 each. All of the Issuer's ordinary shares are owned by the Central Bank of Bahrain (the ''**CBB**'').
Head Lessor	The Kingdom of Bahrain, acting through the Ministry of Finance, (in such capacity, the ''**Head Lessor**'') will lease by way of head lease (the ''**Head Lease**'') for a term of 100 years a certain Land Parcel (as defined below) to the Issuer (as trustee and agent for and on behalf of Certificateholders) pursuant to the Ijara Head Lease Agreement (as defined below).
Sub-Lessee	The Kingdom of Bahrain, acting through the Ministry of Finance, (in such capacity, the ''**Sub-Lessee**'') will lease by way of sub-lease (the ''**Sub- Lease**'') from the Issuer the Land Parcel on the terms set out in the Ijara Sub-Lease Agreement (as defined below) for a period of seven years commencing on the Closing Date and terminating on the Periodic Distribution Date falling in November 2018.
Joint Lead Managers	BNP Paribas, Citigroup Global Markets Limited and Standard Chartered Bank.
Trustee and Delegate	The Issuer will act as trustee (in such capacity, the ''**Trustee**'', which expression shall include its delegate referred to below) in respect of the Trust Assets (as defined below) for the benefit of Certificateholders in accordance with the Declaration of Trust and the Conditions. Under the Declaration of Trust, the Issuer will unconditionally and irrevocably delegate to Citicorp Trustee Company Limited (the ''**Delegate**'') the duties, powers, trusts, authorities and discretions vested in the Trustee by certain provisions of the Declaration of Trust.
Sukuk Agent	Pursuant to an Agency Declaration dated the Closing Date made by the Issuer (the ''**Agency Declaration**''), the Issuer (in such capacity, the ''**Sukuk Agent**'', which expression shall include Citibank, N.A. acting as co-agent the ''**Co-Sukuk Agent**'')) will also act as agent for and on behalf of Certificateholders with respect to the Trust Assets.
Payment Administrator	Citibank, N.A. will act as Payment Administrator (the ''**Payment Administrator**'') under the Agency Agreement (as defined in the Conditions). Among other things, the Payment Administrator will operate the Transaction Account described under ''**Transaction Account**'' below, receive payments from the Sub-Lessee under the Ijara Sub- Lease Agreement and make certain payments in respect of the Certificates.

Principal Paying Agent, Transfer Agent and Reference Agent	Citibank, N.A.
Registrar	Citigroup Global Markets Deutschland AG

SUMMARY OF THE CERTIFICATES

Certificates	U.S.$750,000,000 Trust Certificates due 2018 (the "**Certificates**" or the "**Sukuk**").
Closing Date	22 November 2011
Issue Price	100 per cent. of the aggregate face amount of the Certificates.
Periodic Distribution Dates	The 22nd day of each May and November or, if any such day is not a Business Day, the following Business Day, commencing in May 2012. "**Business Day**" means a day on which commercial banks in London, New York and Bahrain are open for general business.
Periodic Distributions	On each Periodic Distribution Date, Certificateholders will receive, from moneys received in respect of the Trust Assets, a "**Periodic Distribution Amount**" equalling an amount equal to the product of (a) 6.273 per cent. per annum, (b) U.S.$750,000,000 and (c) the number of days in such Return Accumulation Period (such number of days being calculated on the basis of a year of 360 days with 12 30-day months) divided by 360.
Return Accumulation Period	The period from and including the Closing Date to but excluding the first Periodic Distribution Date and each successive period from and including a Periodic Distribution Date to but excluding the next succeeding Periodic Distribution Date is called a "**Return Accumulation Period**".
Scheduled Dissolution Date	The Periodic Distribution Date falling in November 2018.
Dissolution of the Trust	In accordance with the Ijara Sub-Lease Agreement, the Sub-Lessee will be required to pay all Rentals (as defined in the Ijara Sub-Lease Agreement) accrued but unpaid to the date of payment of the Dissolution Distribution Amount plus the Termination Payment on or before the relevant date for the redemption of the Certificates and dissolution of the Trust. This payment will be applied to redeem the Certificates in accordance with Condition 4.2 at the Dissolution Distribution Amount on the Scheduled Dissolution Date. "**Dissolution Distribution Amount**" means, as of any date, the aggregate face amount of the Certificates then outstanding plus accrued and unpaid Periodic Distribution Amounts as of such date. "**Termination Payment**" means an amount equal to (i) U.S.$750,000,000 plus (ii) where payment thereof cannot be made without withholding or deduction for or on account of any Taxes (as defined in Condition 9), such additional amounts so that, upon payment by the Issuer to the holders of the Certificates (after any deduction or withholding by the Issuer on account of Taxes, if applicable), the net amount received by such holders will be the full amount due to such holders under the Conditions as if no such deduction or withholding had been made.
Early Dissolution of the Trust	Other than as a result of the occurrence of a Dissolution Event, the Trust will not be subject to dissolution, and the Certificates will not be redeemed, prior to the Scheduled Dissolution Date.
Dissolution Events	The "**Dissolution Events**" are set forth in Condition 11.
Form and Delivery of the Certificates	The Certificates will be issued in registered global form only.

Clearance and Settlement	Holders of the Certificates must elect to hold their interest in the Global Certificate in book-entry form through each of Euroclear or Clearstream, Luxembourg.
Denominations	The Certificates will be issued in minimum denominations of U.S.$100,000 and integral multiples of U.S.$1,000 in excess thereof.
Status	Each Certificate represents an undivided beneficial ownership in the Trust Assets and will rank *pari passu*, without any preference, with the other Certificates.
The Trust Assets	The "**Trust**" is the trust created by the Issuer under the Declaration of Trust. The "**Trust Assets**" are the Land Parcel, all of the Issuer's rights, title, interest and benefit, present and future, in, to and under the Transaction Documents, all monies standing to the credit of the Transaction Account, and all proceeds of the foregoing.
The Ijara Head Lease Agreement	Under the terms of an Ijara Head Lease Agreement dated the Closing Date between the Head Lessor and the Issuer (the "**Ijara Head Lease Agreement**"), the Head Lessor will agree to lease to the Issuer, and the Issuer will agree to lease from the Head Lessor, the Land Parcel for a term of 100 years commencing on the Closing Date. The Head Lease will be granted in consideration of a single advance rental payment (the "**Advance Rental**") payable by the Issuer to the Head Lessee on the Closing Date. The net proceeds received by the Issuer from the issue and sale of the Certificates will be used to pay the Advance Rental.
Land Parcel	The "**Land Parcel**" consists of two plots of land located in the Askar area, owned by the Kingdom of Bahrain and earmarked for development in connection with the Bahrain-Qatar causeway project, and duly registered with the Survey & Land Registration Bureau under Title Deed numbers: 132976 (Gazette No. 2003/2110) and 132977 (Gazette No. 2003/2109), having an area of 1,776,484 square meters and 1,187,811 square meters, respectively.
The Ijara Sub-Lease Agreement	Under the terms of an Ijara Sub-Lease Agreement dated the Closing Date between the Issuer as lessor, the Sub-Lessee, the Delegate, the Sukuk Agent and the Co-Sukuk Agent (the "**Ijara Sub-Lease Agreement**"), the Issuer will agree to lease to the Sub-Lessee, and the Sub-Lessee will agree to lease from the Issuer, the Land Parcel during the seven year term commencing on the Closing Date and extending to the Scheduled Dissolution Date. Under the Ijara Sub-Lease Agreement, the Sub-Lessee will agree that if the Issuer is or would be prevented from making Periodic Distribution Amounts to Certificateholders or does not or would not have sufficient funds to pay the same in full as a result of actions taken by the Government or the shareholder of the Issuer (including, but not limited to, the imposition of any tax or the dissolution of the Issuer), the Sub-Lessee will account to the Trustee (which term here includes the Delegate) or the Sukuk Agent (which term here includes the Co- Sukuk Agent) on demand for such amounts as are necessary to enable the Periodic Distribution Amounts to be paid in full. The rental payments under the Ijara Sub-Lease Agreement (the "**Rentals**") will equal the Periodic Distribution Amounts payable on the Periodic Distribution Date coinciding with the Rental Payment Date for such Rental. The Sub-Lessee will be obligated to pay Rentals on the second

Business Day prior to the end of each Return Accumulation Period or, if any such day is not a Business Day, then the following Business Day, or any other date on which the Ijara Sub-Lease Agreement is earlier terminated in accordance with its terms (each, a "**Rental Payment Date**").

Transaction Account

The Payment Administrator will maintain and operate a U.S. dollar transaction account (the "**Transaction Account**") on behalf of the Trust. Distributions of monies deriving from the Trust Assets will be made to holders of the Certificates from funds standing to the credit of the Transaction Account.

Rentals

The Sub-Lessee will pay the Rental directly into the Transaction Account by each Periodic Distribution Date. Upon receipt of each Rental, on the relevant Periodic Distribution Date the Payment Administrator will withdraw such monies from the Transaction Account and use such amounts to make payments on, among other things, the Certificates in the order of priority set out below.

Priority of Distributions

On each Periodic Distribution Date, or on the date specified in accordance with the Conditions for redemption of the Certificates, the Payment Administrator shall apply the monies standing to the credit of the Transaction Account in the following order of priority:

(a) **first,** to the Delegate and the co-agent under the Agency Declaration in respect of all amounts owing to it under the Transaction Documents in its capacities as Delegate of the Trustee and co-agent under the Agency Declaration;

(b) **second,** to the Principal Paying Agent for application in or towards payment *pari passu* and rateably of all Periodic Distribution Amounts due and unpaid;

(c) **third,** only if such payment is made on the Scheduled Dissolution Date (as defined in the Conditions), or any earlier date of dissolution, to the Principal Paying Agent for application in or towards payment *pari passu* and rateably of the Dissolution Distribution Amount; and

(d) **fourth,** only if such payment is made on the Scheduled Redemption Date, or any earlier date of dissolution, to the Issuer.

Costs Undertaking

Pursuant to a costs undertaking (the "**Costs Undertaking**") given by the Kingdom of Bahrain, acting through the Ministry of Finance, the Kingdom of Bahrain, acting through the Ministry of Finance, will pay certain fees and expenses of, and indemnify against certain losses of, among others, the Trustee, the Delegate, the Sukuk Agent, the Payment Administrator and the Agents appointed under the Agency Agreement.

Limited Recourse

Each Certificate represents solely an undivided beneficial ownership interest in the Trust Assets. Holders of the Certificates will have no recourse to any assets of the Issuer other than the Trust Assets. Any creditor of the Issuer (other than Certificateholders) will have no recourse to the Trust Assets. Proceeds of the Trust Assets are the sole source of payments on the Certificates. The Certificates do not represent an interest in or obligation of any of the Issuer, the Trustee, the Delegate, the Government, the Managers (as defined under "*Subscription and Sale*"), the Principal Paying Agent, Transfer Agent and Registrar (together, the "**Agents**") or the Payment Administrator or any affiliate of any of the foregoing entities. Accordingly, Certificateholders will have no recourse to any assets of the Issuer (other than the Trust Assets to the extent that they are contractual rights), the Trustee, the Delegate, the Government, the Managers, the Agents or the Payment Administrator or any affiliate of any of the foregoing entities in respect of any shortfall in the expected amounts from the Trust Assets. The Government is obliged to make the payments under the Transaction Documents to which it is a party directly to the Issuer, and the Trustee, for the benefit of the Certificateholders, will have direct recourse against the Government to recover payments due from the Government pursuant to such Transaction Documents.

Negative Pledge and Cross Default

So long as any of the Certificates remains outstanding, the Government (to the extent provided in the Ijara Sub-Lease Agreement) has undertaken that it will not secure any of its present or future Relevant Indebtedness except in certain limited cases. The Ijara Sub-Lease Agreement provides that the lease may be terminated by the Issuer if the Government is in default in relation to any External Debt or guarantee thereof in excess of U.S.$30,000,000 or the Government declares a moratorium in respect of, repudiates or commences negotiations in relation to its External Debt. See "*Summary of Principal Transaction Documents – Ijara Sub-Lease Agreement*".

Enforcement

Following the distribution of the Trust Assets to the Certificateholders to the extent permitted under the Conditions and the Declaration of Trust, the Trustee shall not be liable for any further sums or assets, and accordingly such Certificateholders may not take any action against the Trustee or any other person to recover any such sum or asset, in respect of the Certificates or the Trust Assets.

Withholding Tax

All payments (i) by the Government under the Ijara Sub-Lease Agreement and (ii) by the Issuer under the Certificates, are to be made without withholding or deduction for or on account of Taxes, unless the withholding or deduction of the Taxes is required by law. In such event, the Government (in the case of (i) above) will be required, pursuant to the Ijara Sub-Lease Agreement, to pay to the Issuer such additional amounts so that the Issuer will receive the full amount which otherwise would have been due and payable under the Ijara Sub-Lease Agreement and the Issuer (in the case of (ii) above) will be required to pay additional amounts so that the Certificateholders will receive the full amount which otherwise would have been due and payable under the Certificates.

Use of Proceeds

The net proceeds of the issue of the Certificates will be used by the Issuer to pay the Advance Rental for the Land Parcel to the Head Lessor pursuant to the Ijara Head Lease Agreement.

Listing

Application has been made for the Certificates to be listed on the Official List of the UKLA and to be admitted to trading on the Regulated Market of the London Stock Exchange. See "*General Information*".

Rating

The Certificates have been assigned a rating of BBB by Fitch and have been assigned a rating of BBB by S&P. Whether or not each credit rating has been issued by a credit rating agency established in the European Union and registered under the CRA Regulation has been disclosed in "*Ratings*".

Certificateholder Meetings

A summary of the provisions for convening meetings of Certificateholders to consider matters relating to their interests as such is set out in Condition 15.

Tax Considerations

See "*Tax Considerations*" for a description of certain tax considerations applicable to the Certificates.

Transfer Restrictions	Certain purchase and transfer restrictions applicable to the Certificates are described under "*Subscription and Sale*".
Transaction Documents	The "**Transaction Documents**" are the Ijara Head Lease Agreement, the Ijara Sub-Lease Agreement, the Declaration of Trust, the Agency Declaration, the Agency Agreement, the Costs Undertaking, the Certificate Purchase Agreement, the Certificates and any other agreements and documents delivered or executed in connection therewith (each as defined in the Conditions).
Governing Law	The Declaration of Trust, the Agency Agreement, the Costs Undertaking, the Certificate Purchase Agreement and the Certificates and any non-contractual obligations rising out of or in connection with the same will be governed by English law. The Ijara Head Lease Agreement, the Ijara Sub-Lease Agreement and the Agency Declaration will be governed by Bahraini law.
Waivers of Sovereign Immunity	The Government irrevocably and unconditionally waives and agrees not to raise with respect to the Transaction Documents to which it is a party any right to claim sovereign or other immunity from jurisdiction or execution and any similar defence, and irrevocably and unconditionally consents to the giving of any relief or the issue of any process, including, without limitation, the making, enforcement or execution against any property or assets whatsoever (irrespective of its use or intended use) of any order or judgment made or given in connection with any suit, action or proceedings arising out of or in connection with such Transaction Document.
Selling Restrictions	There are restrictions on the distribution of this Prospectus and the offer, sale and transfer of the Certificates in the United States of America, the United Kingdom, the United Arab Emirates (excluding the Dubai International Financial Centre), the Kingdom of Saudi Arabia, the Kingdom of Bahrain, Brunei Darussalam, Japan, Dubai International Finance Centre, Kuwait, Qatar, Malaysia, Hong Kong, Singapore and Switzerland and such other restrictions as may be required in connection with the offering and sale of the Certificates, as described under "*Subscription and Sale*".

RISK FACTORS

Each of the Issuer and the Government believes that the following factors may affect its ability to fulfil its obligations under the Certificates. All of these factors are contingencies which may or may not occur and neither the Issuer nor the Government is in a position to express a view on the likelihood of any such contingency occurring.

In addition, factors which are material for the purpose of assessing the market risks associated with the Certificates are also described below.

Each of the Issuer and the Government believes that the factors described below represent the principal risks inherent in investing in the Certificates, but the inability of the Issuer to pay Periodic Distribution Amounts, Dissolution Distribution Amounts or other amounts on or in connection with any Certificates may occur for other reasons which may not be considered significant risks by either of the Issuer or the Government based on information currently available to it or which it may not currently be able to anticipate. Prospective investors should also read the detailed information set out elsewhere in this Prospectus and reach their own views prior to making any investment decision.

Risk factors relating to the Issuer

At the date of this Prospectus, the Issuer is a newly established single person company with limited liability incorporated in Bahrain on 16 October 2011 and has no operating history. The Issuer will not engage in any business activity other than the issuance of the Certificates, the leasing of the Trust Assets as described herein, acting in the capacity as Trustee and other activities incidental or related to the foregoing as required under the Transaction Documents.

The Issuer's only material assets, which will be held on trust for Certificateholders, will be the Land Parcel, including the obligation of the Sub-Lessee to make payments under the Ijara Sub-Lease Agreement. Therefore the Issuer is subject to all the risks to which the Government, as Sub-Lessee, is subject to the extent that such risks could limit the Government's ability to satisfy in full and on a timely basis their respective obligations under the Ijara Sub-Lease Agreement.

See "*Risk factors relating to the Government*" below for a further description of these risks. The ability of the Issuer to pay amounts due on the Certificates will primarily be dependent upon receipt by the Issuer from the Sub-Lessee of all amounts due under the Ijara Sub-Lease Agreement (which may not be sufficient to meet all claims under the Certificates and the Transaction Documents).

Risks relating to the Government

Investing in securities involving emerging markets generally involves a higher degree of risk

Investing in securities involving emerging markets such as Bahrain, generally involves a higher degree of risk than investments in securities of issuers from more developed countries. These higher risks include, but are not limited to, higher volatility, limited liquidity and changes in the legal, economic and political environment. Bahrain's economy is susceptible to future adverse effects similar to those suffered by other emerging market countries. In any event, there can be no assurance that the market for securities bearing emerging market risk, such as the Certificates, will not be affected negatively by events elsewhere, especially in emerging markets. Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risk involved.

Bahrain's economy is dependent on economic and other conditions of Saudi Arabia in particular as well as the other Gulf Cooperation Council ("GCC") countries

Bahrain's economy is closely aligned and dependent on the economies of Saudi Arabia in particular as well as the other GCC countries. Accordingly, Bahrain's economy may be adversely affected by any adverse change in the social, political or economic conditions in Saudi Arabia or the other GCC countries. Although Bahrain has sought to diversify its geographical economic dependence, there can be no assurance that such geographical diversification will be successful which could have a material adverse effect on the economy and financial condition of Bahrain.

Dependence on the oil industry

Although Bahrain enjoys a strong and diverse economy, it is significantly influenced by fluctuations in international oil prices. In 2002, the two principal economic sectors were the oil sector, which constituted 23.5 per cent. of its gross domestic product ("**GDP**"), and financial services, which constituted 17.5 per cent. of GDP. From 2007, the economy underwent a significant change such that the two principal economic sectors have consistently been financial services (financial corporations) and manufacturing, which contributed 24.62 per cent. and 16.4 per cent. of GDP, respectively, in the year ended 31 December 2010. The oil sector constituted 11.85 per cent. of GDP in the year ended 31 December 2010. However, revenue from the oil industry continues to be significant to public finances in Bahrain, with revenue from oil and gas comprising approximately 85.1 per cent. of public revenue for the year ended 31 December 2010, approximately 83.0 per cent. for the year ended 31 December 2009 and approximately 85.2 per cent. for the year ended 31 December 2008. Bahrain's trade and current account balances are also affected by movements in the price of oil as Bahrain is a net exporter of oil and its related products.

Notwithstanding the foregoing, in 2008, despite budgeting a significant deficit, Bahrain in fact recorded a substantial surplus, almost entirely due to movements in world oil prices. In 2009, Bahrain budgeted a significant deficit of U.S.$2,900 million, whereas the actual deficit for 2009 was U.S.$995 million. This was also the case in 2010 when Bahrain budgeted a deficit of approximately U.S.$3,539.9 million, but in fact recorded a significantly reduced deficit of approximately U.S.$1,223 million. However, no assurance can be given that international oil prices will continue at present or historical levels. If international oil prices were to deteriorate to a level lower than that which Bahrain has used as a basis for preparation of its budget estimates, Bahrain's budget could be in a more significant deficit as a result thereof.

The oil price assumptions which have formed the basis of the Government's budgets in recent periods and which formed the basis of the Government's budget for 2009/2010 have been conservative (assumed average price of U.S.$40 per barrel). The Government budget for 2011/2012 assumed an increase in the average price of oil to U.S.$80 per barrel to reflect the Government's revised estimate of international oil prices. The average price per barrel in the period 1 January 2011 up to 1 August 2011 was U.S.$105. The actual price per barrel was U.S.$76.4 as at 1 August 2011. See "*Public Finance – Government Budget*". However, a sustained period during which oil prices became significantly lower than those experienced in recent periods or which have formed the basis of the Government's budget for 2009/2010 or 2011/2012, could result in material restraint on levels of public expenditure in Bahrain.

Bahrain receives oil from the Abu Saafa oilfield which is on the border with Saudi Arabia. Under a treaty first signed in 1958 with Saudi Arabia, Bahrain is entitled to receive 50 per cent. of the output from this field. Bahrain has historically received significantly more than the 50 per cent. proportion that it is entitled to receive. The Abu Saafa oilfield's current production level is just below 300,000 barrels per day ("**bpd**") from which Bahrain currently receives 50 per cent. of the output that it is entitled to. Bahrain was allocated 146,091 bpd in the first quarter of 2011, 147,775 bpd in the second quarter of 2011 and 142,142 bpd in the third quarter of 2011. However, no assurance can be given that the current level of output that Bahrain receives from the Abu Saafa oilfield will be maintained.

Economic and social considerations in Bahrain

Bahrain's economy in recent years has been characterised by increasing diversification of economic activity and decreasing dependence on the oil industry. The Government has set out a comprehensive economic vision for Bahrain ("**Vision 2030**") to outline a path for the development of Bahrain's economy, as described in "*Overview of The Kingdom of Bahrain – Vision 2030*". Vision 2030 is based on shifting Bahrain's economy from an oil-driven economy to a global diversified competitive economy predominantly based on finance, tourism and industry. However, there can no be no assurance that Bahrain's efforts to diversify its economy and reduce its dependence on oil will be successful which could have a material adverse effect on the economy and financial condition of Bahrain.

Bahrain's budget is prepared on a cash basis. This means that flows are recorded when cash is received or disbursed. Although non-monetary flows can be recorded, most accounting systems (including that used in Bahrain) using the cash basis do not record non-monetary flows because the focus is on cash management rather than resource flows. In addition, with respect to accruals, the time of recording may diverge significantly from the time of the economic activities and transactions to which they relate. For example, the interest paid on a zero-coupon bond would not be recorded until the bond matures, which could be many years after the expense was incurred.

For this reason, together with the fact that a number of extra-budgetary transactions are only presented on a net basis, the social security system is entirely off budget. The liability of the Government for borrowing by significant state-owned entities has given rise to concerns at the level of transparency within Government finances when considering Bahrain as a creditor.

The principal social policy issue in Bahrain is the level of unemployment among Bahraini nationals which was 3.8 per cent. in 2008, 4.0 per cent. in 2009, 3.7 per cent. in 2010 and estimated to be 3.7 per cent. in June 2011. Bahrain employs a significant number of expatriate workers. As at 31 December 2010, approximately 76.7 per cent. of employees in Bahrain registered at the Civil Service Bureau and the Social Insurance Organisation were expatriate workers, see ''*Location and Population*''. In recent years, the Government has followed a policy of aiming to increase the number of Bahraini nationals in employment.

One of the leading initiatives of Economic Vision 2030 is to establish partnerships between the government and the private sector. Such partnerships are expected to save citizens long waiting times for housing services, and will help implement prominent housing projects in Bahrain. The Ministry of Housing is currently focusing on building 4,100 social and affordable housing units in North Bahrain New Town, Buhair area in East Riffa and Al Luwzi area in Hamad Town. The Ministry will introduce innovative solutions to secure financing for these projects, including cooperating with mortgage providers. The ultimate goal is to reduce waiting-lists, secure better living standards through innovative solutions and to widen the housing alternatives for Bahrain citizens.

The Kingdom is located in a region that has been subject to ongoing political and security concerns

The Kingdom of Bahrain is located in a region that is strategically important and parts of this region have, at times, experienced political instability. Regional wars, such as the Gulf War of 1991, the Iraq War of 2003 and the 2006 conflict in Lebanon as well as terrorist acts, maritime piracy or other forms of instability in the Middle East and surrounding regions that may or may not directly involve Bahrain may have a material adverse effect on Bahrain's ability to engage in international trade and, subsequently its economy and financial condition.

Political Considerations relating to Bahrain

Since his accession in March 1999, Sheikh Hamad bin Isa Al-Khalifa, the current King of Bahrain, has embarked upon a programme of political reform. These reforms resulted in the adoption of a new Constitution in February 2002 which envisaged a bicameral parliament made up of an equally numbered elected chamber (''**Chamber of Deputies**'') and an appointed chamber (the ''**Shura Council**''). Elections in relation to the elected chamber, Bahrain's first for 30 years, were held in October and November of 2002. The first elections to the Chamber of Deputies were held in late October 2002. There was opposition within Bahrain to the new parliament by groups who argued that only the elected chamber should have legislative powers. As a result, some opposition groups boycotted the 2002 elections. Further parliamentary elections were held in 2006 as scheduled and all parties participated in the elections. New parliamentary elections were held in October 2010. Approximately 67 per cent. of eligible voters cast their vote which was a significantly higher turn-out rate than in previous parliamentary elections. The election process successfully ran its course despite there being domestic political tension. The party with the most seats (18 out of 40) was Al-Wefaq, the largest political party in Bahrain. It should be noted that some political parties boycotted the parliamentary election process.

In the aftermath of the February – March 2011 Protests (as discussed and defined below), members of the Al Wefaq Party resigned from parliament and vacated their 18 parliamentary seats. By-elections were held in Bahrain on 24 September 2011 to fill the vacated seats. Opposition groups, including Al Wefaq, boycotted the by-elections.

On 14 February 2011, protests and demonstrations were held in Bahrain, protesting against the Government (the ''**February – March 2011 Protests**''). The date was chosen to coincide with the anniversary of Bahrain's constitutional reforms of 2002.

In the following weeks, the GCC or ''**Pearl**'' roundabout became the staging-post for widespread protests in the centre of Manama and neighbouring areas. Prominent protests occurred in the key financial and Government districts in Manama. By 13 March 2011, protestors had occupied and blockaded the key transportation arteries leading into the centre of Manama causing significant economic and social disruption.

On 14 March 2011, amid growing domestic unrest, the GCC deployed the Peninsula Shield, which was formed in 1981 as a measure for co-coordinating collective security challenges within GCC member states, of which Bahrain is a member. The following day, Bahraini security forces evacuated Pearl roundabout.

On 16 March 2011, His Majesty, King Hamad bin Isa Al Khalifa, issued Royal Decree No 18 of 2011 announcing a state of National Safety for three months, which was scheduled to end on 15 June 2011. On 1 June 2011, and ahead of the scheduled date, His Majesty declared an end to the period of National Safety paving the way for national dialogue and reconciliation.

His Majesty announced the launch of various initiatives (more fully described in ''*Overview of the Kingdom of Bahrain*'') aimed at increasing democratisation and political accountability in Bahrain. Despite these efforts, pockets of unrest continue, predominantly in rural areas.

Political instability in Bahrain and in the region may have a material adverse effect on Bahrain's economy and adversely affect the trading price of the Sukuk.

Economic Consequences of February – March 2011 Protests

On 15 March 2011, following an initial downgrade in mid-February, ratings agency Fitch, further downgraded Bahrain's long-term foreign currency Issuer Default Rating (''IDR'') to 'BBB' from 'A-', local currency IDR to 'BBB+' from 'A' and Country Ceiling to 'BBB+' from 'A'. Fitch has simultaneously downgraded the short-term foreign currency IDR to 'F3' from 'F1'. In addition, the agency has also put the long-term IDRs on Rating Watch Negative.

On 3 August 2011, Fitch affirmed Bahrain's long-term foreign currency IDR at 'BBB' and its local currency IDR at 'BBB+' and removed them from Rating Watch Negative. The outlook on the IDRs is 'stable'. The agency simultaneously affirmed Bahrain's Country Ceiling at 'BBB+' and short-term foreign currency IDR at 'F3'.

On 17 March 2011, S&P lowered its long and short-term local and foreign currency sovereign credit ratings on Bahrain to 'BBB/A-3' from 'A /A-2'. The ratings remain on CreditWatch with negative implications, where they were initially placed in February 2011.

On 20 July 2011, S&P affirmed its long and short-term local and foreign currency sovereign credit rating on Bahrain at 'BBB/A-3'. The ratings were removed from CreditWatch with negative implications.

During the February – March 2011 Protests, there was a short period of decline in some of the banking sector indicators. However, most of these indicators recovered by April and May 2011. The monetary system showed a temporary fluctuation, but returned to normal again by April 2011, and the performance of the banking sector has remained consistent between Q4 2010 and Q1 2011.

In March 2011, the financial sector balance sheet decreased by 6.5 per cent. or by U.S.$14,059.9 million. After March, the decrease continued but at an increasingly slower rate. Deposits continued to grow during this period.

Political, social and economic instability in Bahrain and in the region may have a material adverse effect on Bahrain's economy and adversely affect the trading price of the Sukuk.

A crisis in the financial services sector could have an adverse effect on Bahrain's economy

The Government has made concerted efforts over the past decade to encourage the growth of its financial services and banking industries, and the country is now one of the primary financial centres for the Middle East and North Africa. In June 2011 the financial services sector was the single largest sector of the Bahraini economy, accounting for 24.7 per cent. of real GDP. Although Bahrain appears to have weathered the worst of the global downturn in the financial services sector so far, any subsequent global or regional deterioration could have a disproportionate impact on Bahrain's economy and adversely affect the trading price of the Certificates.

Restructuring of Gulf Air

The Government is a direct shareholder of Gulf Air through its shareholdings in Bahrain Mumtalakat Holding Company B.S.C. (c) (''**Mumtalakat**''), which directly owns 100 per cent. of Gulf Air share capital. Gulf Air has historically relied on material financial support from its shareholder to cover its operating losses and various funding needs. Since 2009 Gulf Air has been implementing a significant operational and strategic restructuring to improve its profitability.

In connection with the operational and strategic restructuring, Gulf Air has required material financial support through recapitalisation. On 15 October 2010 the Government issued Legislative Decree No. (39) of 2010, which provided Gulf Air with U.S.$1.1 billion of financial support in the form of an equity injection into Mumtalakat which in turn made an equity injection of U.S.$1.1 billion into Gulf Air.

Regional events in 2011, have negatively impacted the performance of many of Gulf Air's strategic routes. Rising fuel costs have also increased operating costs. As a result, the implementation of Gulf Air's operational and strategic restructuring in 2011 has been disrupted. Despite the set back, Gulf Air has continued to focus on key elements of the operational and strategic restructuring in 2011 and interim solutions to recover lost revenue were launched in 2011, such as the implementation of new routes outside of Middle East and North Africa ("**MENA**"). Meanwhile, Gulf Air is working closely with Mumtalakat and the Government to review and potentially reformulate its strategy.

There can be no assurance that the operational and strategic restructuring of Gulf Air will (i) succeed and improve Gulf Air's profitability; or (ii) not be modified as the restructuring develops, and such modification could result in a further need for additional direct material financial support or any other form of credit support to be extended by the Government to Gulf Air beyond that financial support provided for by Legislative Decree No. (39) of 2010. If the operational and strategic restructuring of Gulf Air fails to succeed and improve Gulf Air's profitability, there can be no assurance that Gulf Air will repay to the Government any direct material financial support or any other form of credit support that it receives from the Government. See "*Gulf Air*".

Statistical information

The statistical information contained in this Prospectus has been produced by the Ministry of Finance, the CBB, the Central Informatics Organisation and certain other named sources. Such statistical information may differ from statistics produced by similar sources in Western Europe and the United States for a variety of reasons, including the use of different definitions and different cut-off times. The Joint Lead Managers have not separately investigated the accuracy of such statistical information and no assurance can be given that any such information, where it differs from that provided by other sources, is more accurate or reliable. Where specified, certain statistical information has been estimated based on information currently available and should not be relied upon as definitive or final. Such information may be subject to future adjustment. In addition, in certain cases, the information is not available for recent periods and, accordingly, has not been updated. The information for past periods should not be viewed as indicative of current circumstances or periods not presented.

Risks relating to the Certificates generally

There may be limited liquidity for Certificateholders in the secondary market

There can be no assurance that a secondary market for the Certificates will develop, or if a secondary market does develop, that it will provide the Certificateholders with liquidity of investment or that it will continue for the life of the Certificates. Therefore, investors may not be able to sell their Certificates easily or at a price that will provide them with a yield comparable to similar interests that have a developed secondary market. The market value of the Certificates may fluctuate and a lack of liquidity, in particular, can have a severe adverse effect on the market value of the Certificates. Accordingly, the purchase of the Certificates is suitable only for investors who can bear the risks associated with a lack of liquidity in the Certificates and the financial and other risks associated with an investment in the Certificates.

An investor in the Certificates must be prepared to hold the Certificates for an indefinite period of time or until their maturity. Application has been made for the listing of the Certificates on the London Stock Exchange but there can be no assurance that any such listing will occur on or prior to the Closing Date or at all or, if it does occur, that it will enhance the liquidity of the Certificates.

The Certificates are limited recourse, unsecured obligations of the Trust

The Certificates are not debt obligations of the Issuer. Instead, the Certificates represent a beneficial interest solely in the Trust Assets. Recourse to the Issuer is limited to the Trust Assets and proceeds of the Trust Assets are the sole course of payments on the Certificates. Upon occurrence of any of the Dissolution Events, the only remedy available to each of the Delegate, and through the Delegate, the Certificateholders will be to require the Sub-Lessee to pay all accrued but unpaid Rentals and the Termination Payment due in respect of the Land Parcel. Certificateholders will otherwise have no recourse to any assets of the Government (to the extent it fulfils all of its obligations under the Transaction Documents to which it is a party), the Joint Lead Managers, the Agents or the Payment Administrator or any affiliate of any of the foregoing entities in respect of any shortfall in the expected amounts from the Trust Assets. The Government is obliged to make its payments under the Transaction Documents to which it is a party directly to the Issuer, and the Delegate, for and on behalf of the Certificateholders, will have direct recourse against the Government to recover payments due to the

Issuer or the Trustee from the Government pursuant to the Transaction Documents to which the Government is a party. There can be no assurance that the net proceeds of the realisation of, or the enforcement with respect to, the Trust Assets will be sufficient to make all payments due in respect of the Certificates.

Certificates where denominations involve integral multiples: Definitive Certificates

The Certificates have a minimum denomination of U.S.$100,000 and integral multiple amounts of U.S.$1,000 in excess thereof. It is possible that the Certificates may be traded in amounts that are not integral multiples of U.S.$100,000. In such a case a holder who, as a result of trading such amounts, holds an amount which is less than U.S.$100,000 in his account with the relevant clearing system at the relevant time may not receive a Definitive Certificate in respect of such holding (should Definitive Certificates be printed) and would need to purchase a face amount of Certificates such that its holding amounts to U.S.$100,000.

If Definitive Certificates are issued, holders should be aware that Definitive Certificates which have a denomination that is not an integral multiple of U.S.$100,000 may be illiquid and difficult to trade.

No third party guarantees

Investors should be aware that no guarantee is or will be given in relation to the Certificates by the Government or any other person.

Consents to variation of Transaction Documents and other matters

The Declaration of Trust contains provisions permitting the Delegate from time to time and at any time without the consent of Certificateholders, to any modification of, or to any waiver or Declaration of Trust, or determine, without any such consent as aforesaid, that any Dissolution Event or Potential Dissolution Event shall not be treated as such, which in any such case is not, in the opinion of the Delegate, materially prejudicial to the interests of Certificateholders or may agree, without any such consent as aforesaid but only with prior written confirmation from the Ratings Agencies (or their successors) that their then current ratings of the Certificates will not be adversely affected, to any modification, waiver, authorisation of any breach or proposed breach of, the Conditions or any of the provisions of the authorisation or determination which, in its opinion, is of a formal, minor or technical nature or to correct a manifest error.

Change of law

The structure of the Certificates issue is based on English and Bahraini law and administrative practices in effect as at the date of this Prospectus. No assurance can be given as to the impact of any possible change to English law, Bahraini law or administrative practices after the date of this Prospectus nor can any assurance be given as to whether any such change could adversely affect the ability of the Issuer or the Government to comply with their respective obligations under the Certificates or the Transaction Documents to which any of them is a party.

Change of tax law

Statements in this Prospectus concerning the taxation of investors are of a general nature and are based upon current law and practice in the jurisdictions stated. Such law and practice is, in principle, subject to change, possibly with retrospective effect, and this could adversely affect investors.

In addition, any change in legislation or in practice in a relevant jurisdiction could adversely impact (i) the ability of the Issuer to service the Certificates and (ii) the market value of the Certificates.

European Union Directive on the taxation of savings income

Under Council Directive 2003/48/EC on the taxation of savings income (the ''**EU Savings Directive**'') Member States are required to provide to the tax authorities of another Member State details of payments of interest and other similar income (which may include Periodic Distribution Amounts) paid by a person within its jurisdiction to or for an individual resident or to certain limited types of entity established in that other Member State. However, for a transitional period Austria and Luxembourg are instead required (unless during such period they elect otherwise) to operate a withholding system in relation to such payments (subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be withheld). The transitional period will end after agreement on exchange of information is reached between the European Union and certain non-European Union states.

A number of third countries (including Switzerland) and certain British and Dutch dependent or associated territories have adopted measures equivalent to the EU Savings Directive (a withholding system in the case of Switzerland).

The European Commission has proposed certain amendments to the EU Savings Directive, which may, if implemented, amend or broaden the scope of the requirements described above.

If a payment were to be made or collected through a Member State which operates such a withholding tax, or through a third county or territory which has adopted equivalent measures, and an amount of, or in respect of, tax were to be withheld from that payment, neither the Issuer nor any Paying and Transfer Agent nor any other person would be obliged to pay additional amounts with respect to any Certificate as a result of the imposition of such withholding tax. However, the Issuer is required to maintain a Paying and Transfer Agent with its specified office in a Member State that will not be obliged to withhold or deduct tax pursuant to the EU Savings Directive or any other directive implementing the conclusions of the ECOFIN council meeting of 26–27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, any such directive.

Enforcement Risks; waiver of immunity

Ultimately, the payment under the Certificates are dependent upon the Government making payments in the manner contemplated under the Transaction Documents. If the Government fails to do so, it may be necessary to bring an action against the Government to enforce its obligations under the Transaction Documents, which could be both time consuming and costly.

The Government has irrevocably agreed that certain of the Transaction Documents will be governed by English law and, where this is the case, that any dispute arising from such Transaction Documents may be referred to arbitration in London under the London Court of International Arbitration, Arbitration Rules. Bahrain has ratified the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards and the party seeking to enforce the arbitration award in Bahrain must supply:

(a) the duly authenticated original or a duly certified copy of the award; and

(b) the original or a duly certified copy of the arbitration agreement.

However, the enforcement of the arbitration award may be refused at the request of the party against whom it is invoked, if that party furnishes to the competent authority where the recognition and enforcement is sought proof that:

(a) the party to the agreement was, under the law applicable to it, under some incapacity, or the said agreement is not valid under the law to which the parties have subjected to or failing any indication thereon under the law of Bahrain; or

(b) the party against whom the award is invoked was not given proper notice of the appointment of the arbitrator or of the arbitration proceedings or was otherwise unable to present his case; or

(c) the award deals with a dispute not contemplated by or not falling within the terms of the submission to arbitration or it contains decisions on matters beyond the scope of the submission to arbitration, provided that if the decision on matters submitted to arbitration can be separated from those not so submitted, only that part of the award which contains decisions on matters not submitted to arbitration may be set aside; or

(d) the composition of the arbitral authority or the arbitral procedure was not in accordance with the agreement of the parties, or failing such agreement, was not in accordance with the laws of the country where the arbitration took place; or

(e) the award has not yet become binding on the parties, or has been set aside or suspended by a competent authority of the country in which, or under the laws of which that award was made.

Recognition and enforcement of an arbitral award may also be refused if the competent authority in Bahrain finds that:

(a) the subject matter of the dispute is not capable of settlement by arbitration under the laws of that country; or

(b) the recognition or enforcement of the award would be contrary to the public policy of that country.

No document will be admitted in evidence in the Bahraini courts unless they are submitted in Arabic or accompanied by a duly authenticated Arabic translation approved by the Official Translator of the Courts of Bahrain, which will be the official text.

Under the relevant Transaction Documents, any dispute may also be referred to the courts in England who shall have exclusive jurisdiction to settle any dispute arising from such Transaction Documents. Where an English judgment has been obtained, there is no assurance that the Government has, or would at the relevant time have, assets in the United Kingdom against which such judgment could be enforced. Accordingly there may be insufficient assets of the Government to satisfy in whole or part any judgment obtained from an English court relating to amounts owing under the Certificates.

In addition, there is limited reciprocity between Bahrain and other countries in relation to the recognition and enforcement of judgments. The Bahraini courts may enforce a foreign law judgment without re-examining the merits of the claim, provided that:

(a) such court enforces judgments and orders rendered in Bahrain;

(b) the Bahraini courts did not have jurisdiction in the matter in respect of which the order or judgment has been made and it was made by a foreign court of competent jurisdiction under the jurisdiction rules or laws applied by such court;

(c) the parties had been served with due notice to attend and had been properly represented;

(d) the judgment was final in accordance with the law of the court making it; and

(e) the judgment did not conflict with any previous decision of the Bahraini courts and did not involve any conflict with public order or morality in Bahrain.

There is no reciprocity between England and Bahrain in relation to the recognition and enforcement of judgments. In order to enforce an English court judgment in the Bahrain courts, a fresh case must be filed in the Bahrain courts, which may accept the English court judgment as evidence of a debt.

Judicial precedents in Bahrain generally do not have binding effect on subsequent decisions except as a directive for decisions of the Constitutional Court. Although decisions rendered by the Court of Cassation do not have binding effect on lower courts, the present practice is for the lower courts to adhere to the precedents and principles laid down by the Court of Cassation. There is no formal system of reporting court decisions in Bahrain except for those decisions of the Court of Cassation and the Constitutional Court. These factors create greater judicial uncertainty.

The Government has waived its rights in relation to sovereign immunity (including, without limitation, Article 251 of the Law of Civil and Commercial Procedure (Decree Law No. 12/1971 of the laws of Bahrain). However, there can be no assurance as to whether such waivers of immunity from execution or attachment or other legal process by the Government under the Transaction Documents to which it is a party are valid and binding under the laws of Bahrain and applicable in Bahrain.

Claims for specific enforcement

In the event that the Issuer fails to perform its obligations under any Transaction Document to which it is a party, the potential remedies available to the Trustee and Delegate include obtaining an order for specific enforcement of the relevant obligations or a claim for damages. There is no assurance that any court would order specific performance of a contractual obligation as this is generally a matter for the discretion of the relevant court.

The amount of damages which a court may award in respect of a breach will depend upon a number of possible factors including an obligation on the Trustee and Delegate to mitigate any loss arising as a result of the breach. No assurance is provided on the level of damages which a court may award in the event of a failure by the Government to perform its obligations as set out in the Transaction Documents to which it is a party.

Risks related to the market generally

Exchange rate risks and exchange controls

The Trustee (acting in its capacity as the Issuer) will pay Periodic Distribution Amounts and Dissolution Distribution Amounts on the Certificates in U.S. dollars. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than U.S. dollars.

These include the risk that exchange rates may significantly change (including changes due to devaluation of U.S. dollars or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls.

An appreciation in the value of the Investor's Currency relative to the U.S. dollars would decrease: (i) the Investor's Currency equivalent yield on the Certificates; (ii) the Investor's Currency equivalent value of the Dissolution Distribution Amount payable on the Certificates; and (iii) the Investor's Currency equivalent market value of the Certificates.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive a lower Dissolution Distribution Amount than expected, or no Dissolution Distribution Amount.

Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to investment laws and regulations, or review or regulation by certain governmental or regulatory authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) the Certificates are legal investments for it, (2) the Certificates can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any Certificates. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Certificates under any applicable risk-based capital or similar rules and regulations.

Suitability of investments

The Certificates may not be a suitable investment for all investors. Each potential investor in the Certificates must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

(a) have sufficient knowledge and experience to make a meaningful evaluation of the Certificates, the merits and risks of investing in the Certificates and the information contained in this Prospectus;

(b) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Certificates and the impact the Certificates will have on its overall investment portfolio;

(c) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Certificates, including where the currency of payment is different from the potential investor's currency;

(d) understand thoroughly the terms and conditions of the Certificates and be familiar with the behaviour of any relevant indices and financial markets; and

(e) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic and other factors that may affect its investment and its ability to bear the applicable risks.

A potential investor should not invest in the Certificates unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the Certificates will perform under changing conditions, the resulting effects on the value of such Certificates and the impact this investment will have on the potential investor's overall investment portfolio.

Credit ratings may not reflect all risks

S&P and Fitch each downgraded their outlook on Bahrain's long term foreign currency sovereign debt and long-term local currency sovereign debt, from A (Stable) in December 2009 to BBB (Stable) in March 2011. For a further discussion of the impact of the February – March 2011 Protests on Bahrain's credit rating, please see "*Economic Consequences of February – March 2011 Protests*".

In May 2006, Moody's Investors Service Limited ("**Moody's**") assigned the Government an unsolicited credit rating of A2 (Stable). On 23 August 2010, Moody's downgraded its rating of the Government to A3 (Stable). Moody's is established in the European Union and is registered under the CRA Regulation. Unsolicited credit ratings do not typically involve discussions with the entity subject to the rating and the agencies issuing unsolicited credit ratings do not have access to all information which would be used to form the basis of a solicited rating.

The Issuer cannot be certain that a credit rating will remain for any given period of time or that a credit rating will not be downgraded or withdrawn entirely by the relevant rating agency if, in its judgment, circumstances in the future so warrant. The Issuer has no obligation to inform Certificateholders of any such revision, downgrade or withdrawal. A suspension, downgrade or withdrawal at any time of the credit rating assigned to the Issuer may adversely affect the market price of the Certificates.

The ratings reflect only the views of the assigning rating agency. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Certificates. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by its assigning rating agency at any time. Investors must conduct their own assessments of the Issuer and are strongly cautioned not to place undue emphasis on any particular rating that has been assigned to the Issuer or the Certificates.

In general, European regulated investors are restricted under the CRA Regulation from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended), subject to transitional provisions that apply in certain circumstances whilst the registration application is pending. Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended). Certain information with respect to the credit rating agencies and ratings is set out under ''*Ratings*''.

Global slowdown risk

Beginning in 2007, global credit markets began experiencing challenging market conditions which resulted in reduced liquidity, greater volatility, widening of credit spreads and a lack of price transparency. These conditions have had a significant effect on credit markets within the Middle East region, and could continue to affect the global credit markets and credit markets within the Middle East region in the foreseeable future if global economic conditions worsen. Bahrain's economy could be further adversely affected by a worsening of general economic conditions in the global markets in which it operates. In addition, changes in investment markets, including changes in interest rates, exchange rates and returns from equity, property and other investments, or a decrease in demand for oil and gas, may also adversely affect Bahrain's economy, which could therefore affect the ability of the Issuer to perform its obligations in respect of the Certificates.

Sharia rules

The Sharia Boards of BNP Paribas, Citi Islamic Investment Bank E.C. and Standard Chartered Bank have each reviewed the Transaction Documents. However, there can be no assurance that the Transaction Documents or the issue and trading of the Certificates will be deemed to be Sharia compliant by any Sharia board or Sharia scholars. Neither of the Issuer nor the Government makes any representation as to the Sharia compliance of the Certificates and potential investors are reminded that, as with any Sharia views, differences in opinion are possible. Potential investors should obtain their own independent Sharia advice as to the compliance of the Transaction Documents and the issue and trading of the Certificates with Sharia principles.

In addition, prospective investors are reminded that the enforcement of any obligations of any of the parties in the transaction would be, if in dispute, either the subject of arbitration under English law or court proceedings under the laws of Bahrain or England and Wales. In such circumstances, the arbitrator or judge, as the case may be, will likely first apply the relevant law of the Transaction Document rather than Sharia principles in determining the obligations of the parties.

TERMS AND CONDITIONS OF THE CERTIFICATES

The following is the text of the Terms and Conditions of the Certificates which (subject to modification) will be endorsed on each Certificate in definitive form (if issued):

Each of the U.S.$750,000,000 Trust Certificates (Sukuk al-Ijara) due 2018 (the "**Certificates**") represents an undivided beneficial ownership of the Trust Assets (as defined in Condition 4.1) held on trust (the "**Trust**") for the holders of such Certificates pursuant to a declaration of trust (the "**Declaration of Trust**") dated on or about 22 November 2011 (the "**Closing Date**") made by the Issuer (as defined in Condition 4.1). When acting as trustee under these Conditions, the Issuer is referred to as the "**Trustee**" which expression shall include Citicorp Trustee Company Limited acting as its delegate (the "**Delegate**").

Pursuant to an Agency Declaration dated the Closing Date made by the Issuer (the "**Agency Declaration**"), the Issuer is also acting as agent for and on behalf of Certificateholders and Citibank, N.A. is acting as a co-agent for and on behalf of Certificateholders. Each Certificateholder by its acquisition and holding of a Certificate agrees to the appointment of the Issuer and Citibank, N.A. as its agents pursuant to the terms of the Agency Declaration.

In these Conditions, references to "**Certificates**" shall be references to the Certificates as represented by a Global Certificate or definitive Certificates, as described in Condition 1.

Payments relating to the Certificates will be made pursuant to an Agency Agreement dated the Closing Date (the "**Agency Agreement**") made among the Issuer, Citibank, N.A. as principal paying agent (in such capacity, the "**Principal Paying Agent**" and, together with any further or other paying agents appointed from time to time in respect of the Certificates, the "**Paying Agents**"), as transfer agent (in such capacity, the "**Transfer Agent**" and, together with any further or other transfer agents appointed from time to time in respect of the Certificates, the "**Transfer Agents**"), as replacement agent (in such capacity, the "**Replacement Agent**" and, together with any further or other replacement agents appointed from time to time in respect of the Certificates, the "**Replacement Agents**") as reference agent (in such capacity, the "**Reference Agent**"), as payment administrator (in such capacity, the "**Payment Administrator**") and Citigroup Global Markets Deutschland AG as registrar (in such capacity, the "**Registrar**").

The statements in these Conditions include summaries of, and are subject to, the detailed provisions of the Declaration of Trust, the Agency Declaration and the Agency Agreement. In these Conditions, words and expressions defined and rules of construction and interpretation set out in the Declaration of Trust shall, unless defined herein or the context otherwise requires, have the same meanings herein. Copies of the Transaction Documents are available for inspection during normal business hours at the specified offices of the Paying Agents. The Certificateholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Declaration of Trust, the Agency Declaration and the Agency Agreement applicable to them.

Each initial Certificateholder, by its acquisition and holding of its interest in a Certificate, shall be deemed to authorise and direct the Trustee and any co-agent under the Agency Declaration to apply the sums paid by it in respect of its Certificates to purchase the Trust Assets, and to enter into each Transaction Document to which it is a party, subject to the terms and conditions of the Declaration of Trust and these Conditions.

1. FORM, DENOMINATION AND TITLE

1.1 Form and Denomination

The Issuer will cause the Registrar to maintain the Register in respect of the Certificates in accordance with the provisions of the Agency Agreement. The Certificates are issued in registered form in face amounts of U.S.$100,000 and integral multiples of U.S.$1,000 in excess thereof. A Certificate will be issued to each Certificateholder in respect of its registered holding of Certificates. Each Certificate will be numbered serially with an identifying number which will be recorded on the relevant Certificate and in the register of Certificateholders which the Issuer will cause to be kept by the Registrar.

1.2 Title

Title to the Certificates passes only by registration in the register of Certificateholders kept by the Registrar. The registered holder of any Certificate will (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not any payment thereon is overdue and regardless of any notice of ownership, trust or any interest or any writing on, or the theft or loss of, the Certificate issued in respect of it) and no person will be liable for so treating the holder of any Certificate. The registered holder of a Certificate will be recognised by the Issuer as entitled to his Certificate free from any equity, set-off or counterclaim on the part of the Issuer against the original or any intermediate holder of such Certificate. In these Conditions, ''**Certificateholder**'' and (in relation to a Certificate) ''**holder**'' have the meanings given thereto in the Declaration of Trust.

2. TRANSFERS OF CERTIFICATES AND ISSUE OF CERTIFICATES

2.1 Transfers

Subject to Conditions 2.4 and 2.5 and the provisions of the Agency Agreement, a Certificate may be transferred by depositing the certificate issued in respect of that Certificate, with the form of transfer on the back duly completed and signed, at the specified office of any of the Transfer Agents.

2.2 Delivery of New Certificates

Each new Certificate to be issued upon any transfer of Certificates will, within five business days (or such longer period as may be required to comply with any applicable fiscal or other law or regulation) of receipt by the relevant Transfer Agent of the duly completed form of transfer endorsed on the relevant Certificate, be mailed by uninsured mail at the risk of the holder entitled to the Certificate to the address specified in the form of transfer. For the purposes of this Condition, ''**business day**'' shall mean a day on which banks are open for business in the city in which the specified office of the Transfer Agent with whom a Certificate is deposited in connection with a transfer is located.

Where some but not all of the Certificates in respect of which a Certificate is issued are to be transferred, a new Certificate in respect of the Certificates not so transferred will, within five business days of receipt by the relevant Transfer Agent of the original Certificate, be mailed by uninsured mail at the risk of the holder of the Certificates not so transferred to the address of such holder appearing on the register of Certificateholders or as specified in the form of transfer.

2.3 Formalities Free of Charge

Registration of any transfer of Certificates will be effected without charge by or on behalf of the Issuer or any Transfer Agent but upon payment (or the giving of such indemnity as the Issuer or any Transfer Agent may reasonably require) by the transferee in respect of any stamp duty, tax or other governmental charges which may be imposed in relation to such transfer.

2.4 Closed Periods

No Certificateholder may require the transfer of a Certificate to be registered during the period of seven days ending on (and including) the due date for any payment of the Dissolution Distribution Amount (as defined in Condition 8.2) or any Periodic Distribution Amount (as defined in Condition 6.1) on that Certificate.

2.5 Regulations

All transfers of Certificates and entries on the register of Certificateholders will be made subject to the detailed regulations concerning transfer of Certificates scheduled to the Declaration of Trust and/or the Agency Agreement. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Certificateholder who requests in writing a copy of such regulations.

Among other things, such regulations require the following: The Issuer shall ensure that the Registrar maintains a register showing the amount of the outstanding Certificates (with each Certificate bearing an identifying serial number), the issue dates and the names and addresses of the holders of the Certificates. The Trustee and the holders of Certificates may inspect the register of Certificates. The Certificates are transferable (in whole or, subject to Condition 1.1, in part) and the Certificates to be transferred must be delivered for registration to the specified office of any Transfer Agent with the form of transfer, which may be obtained from any Transfer Agent, endorsed and accompanied by such other evidence as the Issuer may require to prove the title of the transferor or his right to transfer the Certificates. The holder of Certificates shall be entitled to receive in accordance with Condition 2.2 only one Certificate in respect of his entire holding of such Certificates. In the case of a transfer of a portion of the face amount of a Certificate, a new

Certificate in respect of the balance of the Certificates not transferred will be issued to the transferor in accordance with Condition 2.2.

3. STATUS; LIMITED RECOURSE

3.1 Status

Each Certificate evidences an undivided beneficial ownership interest in the Trust Assets and will rank *pari passu*, without any preference, with the other Certificates.

3.2 Limited Recourse

Proceeds of the Trust Assets are the sole source of payments on the Certificates. Save as provided in the next sentence, the Certificates do not represent an interest in or obligation of any of the Issuer, the Trustee, the Delegate, the Government or any of their affiliates or any other person. Accordingly, Certificateholders will have no recourse to any assets of the Issuer (other than the Trust Assets to the extent that they are contractual rights), the Trustee (including, in particular other assets comprised in other trusts, if any), the Delegate, the Government, the Agents or any of their affiliates or any other person in respect of any shortfall in the expected amounts from the Trust Assets to the extent the Trust Assets have been exhausted, following which all obligations of the Issuer shall be extinguished. The Government is obliged to make the payments under the Transaction Documents to which it is a party directly to the Issuer, and the Trustee, for and on behalf of Certificateholders, will have direct recourse against the Government to recover payments due from the Government pursuant to such Transaction Documents.

If, following distribution of the proceeds of the Trust Assets, there remains a shortfall in payments due under the Certificates, subject to Condition 12, no holder of Certificates will have any claim against the Issuer, the Trustee, the Delegate, the Government (to the extent it fulfils all of its obligations under the relevant Transaction Documents), the Agents or any of their affiliates or any other person or other assets (other than the Trust Assets to the extent not exhausted) in respect of such shortfall and any unsatisfied claims of Certificateholders shall be extinguished. In particular, no holder of Certificates will be able to petition for, or join any other person in instituting proceedings for, the reorganisation, liquidation, winding up or receivership of the Issuer or the Trustee or any of their affiliates as a consequence of such shortfall or otherwise.

3.3 Agreement

By purchasing Certificates, each Certificateholder agrees that (notwithstanding anything to the contrary contained herein or in any other Transaction Document):

(a) no payment of any amount whatsoever shall be made by any of the Issuer, the Trustee or the Trust or any of their respective agents on their behalf except to the extent funds are available therefor from the Trust Assets and further agrees that no recourse shall be had for the payment of any amount owing hereunder or thereunder or under any other Transaction Document, whether for the payment of any fee or other amount hereunder or any other obligation or claim arising out of or based upon the Declaration of Trust or any other Transaction Document, against any of the Issuer, the Trustee or the Trust to the extent the Trust Assets have been exhausted and to the extent that it fulfils all of its obligations under the Transaction Documents to which it is a party following which all obligations of the Issuer, the Trustee and the Trust shall be extinguished; and

(b) prior to the date which is one year and one day after the date on which all amounts owing by the Issuer under the Transaction Documents to which it is a party have been paid in full, it will not institute against, or join with any other Person in instituting against the Issuer, the Trustee or the Trust, any bankruptcy, reorganisation, arrangement or liquidation proceedings or other proceedings under any bankruptcy or similar law.

4. TRUST

4.1 Summary of the Trust

CBB International Sukuk Company (No.3) (SPC), a single person company whose proprietor is the Central Bank of Bahrain and which is incorporated in Bahrain under Article 76 of the Commercial Companies Law (Decree Law No. 21/2001), (the "**Issuer**") and Citibank, N.A. will act as agents for and on behalf of Certificateholders pursuant to the Agency Declaration.

The Issuer will enter into an ijara head lease agreement (the "**Ijara Head Lease Agreement**") with the Kingdom of Bahrain, acting through the Ministry of Finance (in such capacity, the "**Head Lessor**") and the Delegate. Pursuant to the Ijara Head Lease Agreement, the Head Lessor will lease for a term of 100 years the parcel of land owned by it and identified therein (the "**Land Parcel**") to the Issuer. The Issuer will sub-lease the Land Parcel for a term of seven years to the Kingdom of Bahrain, acting through the Ministry of Finance, (in such capacity, the "**Sub-Lessee**") pursuant to an ijara sub-lease agreement (the "**Ijara Sub-Lease Agreement**") dated the Closing Date between the Issuer, the Delegate, and the Sub-Lessee.

Pursuant to the Declaration of Trust, the Issuer will declare a trust over its 100 year leasehold interest to the Land Parcel and all of its rights, title, interest and benefit, present and future, in, to and under the Transaction Documents, all monies standing to the credit of the Transaction Account (as defined below), and all proceeds of the foregoing (together, the "**Trust Assets**") for the Certificateholders pro rata according to the face amount of Certificates held by each Certificateholder in accordance with the Declaration of Trust and these Conditions. All payments by the Government under the Ijara Sub-Lease Agreement will be deposited into an account in the name of the Trustee maintained for such purpose (the "**Transaction Account**").

The Ijara Head Lease Agreement, the Ijara Sub-Lease Agreement, the Declaration of Trust, the Agency Declaration, the Agency Agreement, the Costs Undertaking, the Certificate Purchase Agreement, the Certificates, any supplements or modification to them and any other agreements and documents delivered or executed in connection therewith are collectively referred to as the "**Transaction Documents**".

4.2 Application of Proceeds from Trust Assets

Pursuant to the Declaration of Trust, the Trustee holds the Trust Assets for and on behalf of the holders of the Certificates. On each Periodic Distribution Date (as defined in Condition 6.1 below), or on the Scheduled Dissolution Date (as defined in Condition 8.1) or any earlier date of dissolution of the Trust, the Payment Administrator shall apply the monies standing to the credit of the Transaction Account in the following order of priority:

(a) **first**, to the Delegate and the co-agent under the Agency Declaration in respect of all amounts owing to it under the Transaction Documents in its capacities as Delegate and co-agent under the Agency Declaration;

(b) **second**, to the Principal Paying Agent for application in or towards payment *pari passu* and rateably of all Periodic Distribution Amounts due and unpaid;

(c) **third**, only if such payment is made on the Scheduled Dissolution Date or any earlier date of dissolution of the Trust, to the Principal Paying Agent for application in or towards payment *pari passu* and rateably of the Dissolution Distribution Amount; and

(d) **fourth**, only if such payment is made on the Scheduled Dissolution Date or any earlier date of dissolution of the Trust, to the Issuer.

The Principal Paying Agent shall apply the monies so received towards the payments set forth above.

By subscribing for or acquiring the Certificates, Certificateholders acknowledge that their sole recourse will be to the Trust Assets (to the extent that they are contractual rights) and access to those assets is limited as set forth in Condition 3.2, Condition 8 and Condition 12. Certificateholders acknowledge that, in certain circumstances, the Trust Assets may be insufficient to fund expected distributions to Certificateholders and, taken as a whole, may have a value less than that of the face amount of the Certificates. The Certificateholders acknowledge that no recourse may be had for the payment of any amount owing in respect of the Certificates against the Trustee (other than the Trust Assets to the extent that they are contractual rights) or the Trust in respect of any shortfall in the expected amounts from the Trust Assets to the extent the Trust Assets have been exhausted, following which all obligations of the Issuer shall be extinguished. In addition, subject to Condition 8 and Condition 12, no Certificateholder will be able to petition for, or join any other person in instituting proceedings for, the reorganisation, liquidation, receivership or winding up of the Trust or directly against the Government as a consequence of such shortfall or otherwise.

5. COVENANTS

The Issuer has covenanted in the Declaration of Trust that, among other things, for so long as any Certificate is outstanding, it shall not:

(a) incur any indebtedness in respect of borrowed money whatsoever, or give any guarantee in respect of any obligation of any person or issue any shares (or rights, warrants or options in respect of shares or securities convertible into or exchangeable for shares) other than those in issue as at the Closing Date except, in all cases, as contemplated in the Transaction Documents;

(b) secure any of its present or future indebtedness for borrowed money by any lien, pledge, charge or other security interest upon any of its present or future assets, properties or revenues (other than those arising by operation of law);

(c) sell, transfer, assign, participate, exchange or otherwise dispose of, or pledge, mortgage, hypothecate or otherwise encumber (by security interest, lien (statutory or otherwise), preference, priority or other security agreement or preferential arrangement of any kind or nature whatsoever or otherwise) (or permit such to occur or suffer such to exist), any part of (i) its title to the Land Parcel or any interest therein except pursuant to the Ijara Sub-Lease Agreement or as otherwise contemplated in the Transaction Documents or (ii) its interests in any of the other Trust Assets except pursuant to the Transaction Documents;

(d) use the proceeds of the issue of the Certificates for any purpose other than as set out in the Prospectus;

(e) (except as contemplated in the Transaction Documents) amend or agree to any amendment of any Transaction Document to which it is a party or its Memorandum and Articles of Association, or enter into any other agreement, letter or document, without prior written confirmation from Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, Inc. and Fitch, Inc. (together, the "**Ratings Agencies**") (or their successors) that their then current ratings of the Certificates will not be adversely affected; provided that if, in the opinion of the Trustee, any such amendment may introduce into any Transaction Document or the Issuer's Memorandum and Articles of Association an element incompatible with Sharia principles, the Issuer may only agree to such amendment with the prior consent of Certificateholders holding at least 51 per cent. of the face amount of the Certificates then outstanding;

(f) exercise its option (described in Condition 8.2) under the Ijara Sub-Lease Agreement except in its capacity as Trustee or Agent;

(g) (except as contemplated in the Transaction Documents) act as trustee in respect of any trust other than the Trust or in respect of any parties other than the Certificateholders;

(h) have any subsidiaries or employees;

(i) redeem any of its shares or pay any dividend or make any other distribution to its shareholders;

(j) put to its directors or shareholders any resolution for or appoint any liquidator for its winding up or any resolution for the commencement of any other bankruptcy or insolvency proceeding with respect to it; or

(k) enter into any contract, transaction, amendment, obligation or liability other than the Transaction Documents to which it is a party or as expressly permitted or required thereunder or engage in any business or activity other than:

    (i) as provided for or permitted in the Transaction Documents;

    (ii) the ownership, management and disposal of the Trust Assets as provided in the Transaction Documents; and

    (iii) such other matters which are incidental thereto.

6. PERIODIC DISTRIBUTIONS

6.1 Periodic Distribution Dates

Subject to Condition 4.2 and Condition 8, the Principal Paying Agent shall distribute to holders of the Certificates pro rata to their respective holdings, out of amounts transferred to the Transaction Account, a distribution in relation to the Certificates on each Periodic Distribution Date equal to the applicable Periodic Distribution Amount.

"**Periodic Distribution Amount**" means for each Periodic Distribution Date, an amount equal to the product of:

(a) 6.273 per cent. per annum;

(b) U.S.$750,000,000; and

(c) the number of days in such Return Accumulation Period (calculated on the basis of a year of 360 days with 12 30-day months) immediately preceding such Periodic Distribution Date, divided by 360.

"**Periodic Distribution Date**" means the 22nd day of May and November if any such day is not a Business Day the following Business Day, commencing in May 2012 to and including 22 November 2018.

The period from and including the Closing Date to but excluding the first Periodic Distribution Date and each successive period from and including a Periodic Distribution Date to but excluding the next succeeding Periodic Distribution Date is called a "**Return Accumulation Period**".

In these Conditions, except where otherwise defined, "**Business Day**" means a day on which commercial banks in London, New York and Bahrain are open for general business.

6.2 Cessation of Accrual

No further amounts will be payable on any Certificate from and including its due date for redemption unless, upon due presentation, payment in respect of the Certificate is improperly withheld or refused or unless default is otherwise made in respect of payment, in which event such amounts payable on the Certificate shall continue to be due and payable in the manner provided in this Condition 6 and the Trust will not be terminated.

6.3 Certificates to be final

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition by the Principal Paying Agent shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Trustee, the Agents and all Certificateholders and (in the absence of wilful default or bad faith) no liability to the Issuer, the Trustee or the Certificateholders shall attach to the Principal Paying Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

7. PAYMENT

7.1 Payments in Respect of Certificates

Subject to Condition 7.2, payment of the Dissolution Distribution Amount and any Periodic Distribution Amount will be made by the Principal Paying Agent in U.S. dollars by wire transfer in same day funds to the registered account of each Certificateholder or by U.S. dollar cheque drawn on a bank that processes payments in U.S. dollars mailed to the registered address of the Certificateholder if it does not have a registered account. Payments of the Dissolution Distribution Amount will only be made against surrender of the relevant Certificate at the specified office of any of the Paying Agents. The Dissolution Distribution Amount and each Periodic Distribution Amount will be paid to the holder shown on the register of Certificateholders at the close of business on the date (the "**record date**") being the seventh day before the date on which the Dissolution Distribution Amount is paid or the relevant Periodic Distribution Date, as the case may be.

For the purposes of this Condition, a Certificateholder's registered account means the U.S. dollar account maintained by or on behalf of it with a bank that processes payments in U.S. dollars, details of which appear on the register of Certificateholders at the close of business on the relevant record date, and a Certificateholder's registered address means its address appearing on the register of Certificateholders at that time.

7.2 Payments Subject to Applicable Laws

Payments in respect of Certificates are subject in all cases to any fiscal or other laws and regulations applicable in the place of payment, but without prejudice to the provisions of Condition 9.

7.3 Payment only on a Payment Business Day

Where payment is to be made by transfer to a registered account, payment instructions (for value the due date or, if that is not a Payment Business Day, for value the first following day which is a Payment Business Day) will be initiated and, where payment is to be made by cheque, the cheque will be mailed, in each case by the Principal Paying Agent, on the due date for payment or, in the case of a payment of the Dissolution Distribution Amount, if later, on the Business Day on which the relevant Certificate is surrendered at the specified office of a Paying Agent.

Certificateholders will not be entitled to any Periodic Distribution Amount or other payment for any delay after the due date in receiving the amount due if the due date is not a Payment Business Day, if the relevant Certificateholder is late in surrendering its Certificate (if required to do so) or if a cheque mailed in accordance with this Condition arrives after the due date for payment.

In this Condition, "**Payment Business Day**" means a day on which commercial banks in Bahrain, London and New York are open for general business and, in the case of presentation of a Certificate, in the place in which the Certificate is presented.

7.4 Agents

The names of the initial Agents and their initial specified offices are set out at the end of these Conditions. The Issuer reserves the right at any time to vary or terminate the appointment of any Agent and to appoint additional or other Agents provided that it will at all times maintain (i) a Principal Paying Agent, (ii) a Paying Agent and a Transfer Agent in any place required by the stock exchange or other authority on which the Certificates are listed and/or admitted to trading, (iii) if European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive is introduced, a Paying Agent in a Member State of the European Union that will not be obliged to withhold or deduct tax pursuant to such Directive, (iv) a Registrar, (v) a Reference Agent and (vi) a Payment Administrator. Notice of any termination or appointment and of any changes in specified offices will be given to Certificateholders promptly by the Issuer in accordance with Condition 14.

8. DISSOLUTION OF TRUST AND REDEMPTION OF CERTIFICATES

8.1 Scheduled Dissolution

Unless the Certificates are previously redeemed (and the Trust is dissolved after such redemption) following the occurrence of a Dissolution Event (as defined in Condition 11), the Termination Payment and all accrued but unpaid Rentals (as defined in the Ijara Sub- Lease Agreement) will be paid under the Ijara Sub-Lease Agreement and the Certificates will be redeemed in whole but not in part on the Scheduled Dissolution Date at the Dissolution Distribution Amount and the Trust will thereafter be dissolved.

In these Conditions:

"**Scheduled Dissolution Date**" is the Periodic Distribution Date falling in November 2018; and

"**Termination Payment**" means an amount equal to:

(a) U.S.$750,000,000; plus

(b) where payment thereof cannot be made without withholding or deduction for or on account of any Taxes (as defined in Condition 9), such additional amounts so that, upon payment by the Issuer to the holders of the Certificates (after any deduction or withholding by the Issuer on account of Taxes, if applicable), the net amount received by such holders will be the full amount due to such holders under the Conditions as if no such deduction or withholding had been made.

8.2 Summary of Dissolution

The Issuer has the option under the Ijara Sub-Lease Agreement, for the benefit of the holders of the Certificates, to terminate the Ijara Sub-Lease Agreement and by a written notice require the Sub-Lessee to pay all accrued but unpaid Rentals and the Termination Payment on the date specified by the Trustee to Certificateholders in accordance with Condition 11 for redemption of the Certificates following a Dissolution Event.

Upon the occurrence of a Dissolution Event, the Trustee may, or if so requested in writing by the holders of at least 25 per cent. in aggregate face amount of the Certificates then outstanding or if so directed by an Extraordinary Resolution of the holders of Certificates but subject as provided in Condition 12(b), the Trustee shall, exercise the Issuer's rights under the Ijara Sub-Lease Agreement by giving notice thereunder to the Sub-Lessee.

Upon receipt of the Termination Payment in accordance with the terms of the Ijara Sub-Lease Agreement, such payment will be applied to redeem the Certificates in accordance with Condition 4.2 at the Dissolution Distribution Amount.

''**Dissolution Distribution Amount**'' means, as of any date, the aggregate face amount of the Certificates then outstanding plus accrued and unpaid Periodic Distribution Amounts as of such date.

8.3 Dissolution Following a Dissolution Event

Upon the occurrence of a Dissolution Event, in accordance with Condition 11 the Certificates may be redeemed in whole but not in part at the Dissolution Distribution Amount and the Trust will be dissolved by the Trustee on the dates specified in Condition 11.

8.4 Cancellations

All Certificates which are redeemed will forthwith be cancelled and accordingly may not be held, reissued or resold.

8.5 Notice of Dissolution

The Issuer will give notice to the Certificateholders in accordance with Condition 14 of any dissolution of the trust and associated redemption of certificates in accordance with Condition 8.3.

9. TAXATION

All payments in respect of the Ijara Sub-Lease Agreement and the Certificates shall be made without withholding or deduction for, or on account of, any present or future taxes, levies, duties, fees, assessments or other charges of whatever nature, imposed or levied by or on behalf of the Kingdom of Bahrain or any political subdivision or authority thereof or therein having power to tax, and all interest, penalties or similar liabilities with respect thereto (''**Taxes**''), unless the withholding or deduction of the Taxes is required by law. In such event, the Government will be required, pursuant to the Ijara Sub-Lease Agreement to pay to the Issuer additional amounts (which amounts will be applied towards payments in respect of the Certificates), and if applicable the Issuer will pay such additional amounts as may be necessary, so that the full amount which otherwise would have been due and payable under the Certificates is received by parties entitled thereto, except that no such additional amount shall be payable in relation to any payment in respect of any Certificate:

(a) the holder of which is liable for such Taxes in respect of such Certificate by reason of having some connection with the Kingdom of Bahrain other than the mere holding of such Certificate; or

(b) presented for payment by or on behalf of a holder who would not be liable or subject to the withholding or deduction by making a declaration of non-residence or other similar claim for exemption to the relevant tax authority; or

(c) presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that a holder would have been entitled to additional amounts on presenting the same for payment on the last day of the period of 30 days assuming, whether or not such is in fact the case, that day to have been a Payment Business Day; or

(d) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000, or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(e) presented for payment by or on behalf of a Certificateholder who would be able to avoid such withholding or deduction by presenting the relevant Certificate to another Paying Agent in a different Member State of the European Union.

In these Conditions:

"**Relevant Date**" means the date on which the payment first becomes due but, if the full amount of the money payable has not been received by the Principal Paying Agent or the Trustee on or before the due date, it means the date on which, the full amount of the money having been so received, notice to that effect shall have been duly given to Certificateholders by the Issuer in accordance with Condition 14.

10. PRESCRIPTION

Certificates will become void unless presented for payment within periods of 10 years (in the case of Dissolution Distribution Amounts) and five years (in the case of Periodic Distribution Amounts) from the Relevant Date in respect of the Certificates, subject to the provisions of Condition 7.

11. DISSOLUTION EVENTS

Upon the occurrence and continuation of any of the following events ("**Dissolution Events**"):

(a) default is made in the payment of the Dissolution Distribution Amount or any Periodic Distribution Amount, and, in the case of a Periodic Distribution Amount only, such default continues for a period of 14 days; or

(b) the Government shall default in performance or observance of or compliance with any of its other obligations or undertakings under the Transaction Documents to which it is a party and either such default is not capable of remedy or such default (if capable of remedy) is not remedied within 30 days after written notice of such default shall have been given to the Government by the Trustee; or

(c) a Lease Event of Default or Change in Circumstances occurs under and as defined in the Ijara Sub-Lease Agreement; or

(d) the Government repudiates any Transaction Document to which it is a party or does or causes to be done any act or thing evidencing an intention to repudiate any Transaction Document to which it is a party; or

(e) at any time it is or will become unlawful for the Government to perform or comply with any or all of its obligations under the Transaction Documents or any of the obligations of the Government under the Transaction Documents are not or cease to be legal, valid, binding and enforceable; or

(f) at any time it is or will become unlawful for the Issuer to perform or comply with any of its obligations under the Transaction Documents or any of the obligations of the Issuer under the Transaction Documents are not or cease to be legal, valid, binding and enforceable,

the Issuer is obliged to notify the Delegate of such occurrence, and the Delegate shall give notice of the occurrence of such Dissolution Event to the holders of Certificates in accordance with Condition 14 with a request to such holders to indicate if they wish the Trust to be dissolved. If so requested in writing by the holders of at least 25 per cent. in aggregate face amount of such Certificates then outstanding or if so directed by an Extraordinary Resolution of the holders of Certificates, the Trustee shall (subject in each case to being indemnified and/or secured and/or pre-funded to its satisfaction), or if the Trustee so decides in its discretion the Trustee may, give notice to all the holders of such Certificates in accordance with Condition 14 that the Certificates are to be redeemed at the Dissolution Distribution Amount on the date specified in such notice and that the Trust is to be dissolved on the day after the last outstanding Certificate has been redeemed, provided, however, that in the case of any of the events described in (b) or (c) above, such notice may only be given if the Delegate has certified in writing to the Issuer that such event, in the opinion of the Delegate, is materially prejudicial to the interests of Certificateholders. For the avoidance of doubt, pursuant to the Declaration of Trust the Delegate is not obliged to monitor whether a

Dissolution Event has occurred, and is entitled to assume, in the absence of written notice to the contrary, that no such event has occurred.

12. ENFORCEMENT AND EXERCISE OF RIGHTS

(a) Following the distribution in full of the proceeds of the Trust Assets in respect of the Certificates to the Certificateholders in accordance with these Conditions and the Declaration of Trust, the Trustee shall not be liable for any further sums, and accordingly Certificateholders may not take any action against the Trustee or any other person to recover any such sum, in respect of the Certificates or Trust Assets.

(b) The Trustee shall not be bound in any circumstances to take any action to enforce or to realise the Trust Assets or take any action against the Government under any Transaction Document to which the Government is a party unless directed or requested to do so (a) by an Extraordinary Resolution or (b) in writing by the holders of at least 25 per cent. in aggregate face amount of the Certificates then outstanding and in either case then only if it (or, where it has delegated such duties to the Delegate, where the Delegate) shall be indemnified and/or secured and/or pre-funded to its satisfaction against all liabilities to which it may thereby render itself liable or which it may incur by so doing.

(c) No Certificateholder shall be entitled to proceed directly against the Government unless (i) the Trustee, having become bound so to proceed, fails to do so within 60 days of becoming so bound and such failure is continuing and (ii) the relevant Certificateholder (or such Certificateholder together with the other Certificateholders who propose to proceed directly against the Government) holds at least 25 per cent. of the aggregate face amount of the Certificates then outstanding. Under no circumstances shall the Trustee or any Certificateholders have any right to cause the sale or other disposition of any of the Trust Assets, and the sole right of the Trustee and Certificateholders against the Issuer and the Government shall be to enforce the obligation of the Government to pay the Rentals and the Termination Payment under the Ijara Sub-Lease Agreement.

(d) The foregoing paragraphs in this Condition 12 are subject to this paragraph. After distributing the net proceeds of the Trust Assets in accordance with Condition 4.2, the obligations of the Trustee in respect of the Certificates shall be satisfied and no holder of the Certificates may take any further steps against the Trustee to recover any further sums in respect of the Certificates and the right to receive any such sums unpaid shall be extinguished. In particular, no holder of the Certificates shall be entitled in respect thereof to petition or to take any other steps for the winding-up of the Issuer or the Trustee nor shall any of them have any claim in respect of the trust assets of any other trust established by the Trustee.

13. REPLACEMENT OF CERTIFICATES

Should any Certificate be lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified offices of the Replacement Agent upon payment by the claimant of the expenses incurred in connection with the replacement and on such terms as to evidence and indemnity as the Trustee may reasonably require. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

14. NOTICES

All notices to Certificateholders will be valid if mailed to them by first class pre-paid registered mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective addresses in the register of Certificateholders maintained by the Registrar and published in a daily newspaper having general circulation in London approved by the Trustee. It is expected that such publication will normally be made in the Financial Times or, if such publication is not practicable, in a leading English language daily newspaper having general circulation in Europe. The Issuer shall also ensure that notices are duly given or published in a manner which complies with the rules and regulations of any other stock exchange on which the Certificates are for the time being listed. Any notice shall be deemed to have been given on the seventh day after being so mailed or on the date of publication or, if so published more than once or on different dates, on the date of the first publication.

15. MEETINGS OF CERTIFICATEHOLDERS, MODIFICATION, WAIVER, AUTHORISATION AND DETERMINATION

(a) The Declaration of Trust contains provisions for convening meetings of Certificateholders to consider any matter affecting their interests, including the modification or abrogation by Extraordinary Resolution of these Conditions or the provisions of the Declaration of Trust. The quorum at any meeting for passing an Extraordinary Resolution will be one or more persons present holding or representing a clear majority in aggregate face amount of the Certificates for the time being outstanding, or at any adjourned such meeting one or more persons present whatever the face amount of the Certificates held or represented by him or them. An Extraordinary Resolution passed at any meeting of Certificateholders will be binding on all holders of the Certificates, whether or not they are present at the meeting.

(b) The Trustee may agree, without the consent of Certificateholders, to any modification of, or to any waiver or authorisation of any breach or proposed breach of, any of these Conditions or any of the provisions of the Declaration of Trust, or determine, without any such consent as aforesaid, that any Dissolution Event or Potential Dissolution Event shall not be treated as such, which in any such case is not, in the opinion of the Trustee, materially prejudicial to the interests of Certificateholders or may agree, without any such consent as aforesaid but only with prior written confirmation from the Ratings Agencies (or their successors) that their then current ratings of the Certificates will not be adversely affected, to any modification which, in its opinion, is of a formal, minor or technical nature or to correct a manifest error or is not materially prejudicial to the interests of Certificateholders.

(c) In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation or determination), the Trustee shall have regard to the general interests of Certificateholders as a class but shall not have regard to any interests arising from circumstances particular to individual Certificateholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Certificateholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof and the Trustee shall not be entitled to require, nor shall any Certificateholder be entitled to claim, from the Trustee or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Certificateholders.

(d) Any modification, abrogation, waiver, authorisation or determination shall be binding on Certificateholders and any modification, abrogation, waiver, authorisation or determination shall be notified by the Trustee to Certificateholders as soon as practicable thereafter in accordance with Condition 14.

"**Potential Dissolution Event**" means an event which, with the giving of notice, lapse of time, determination of materiality or fulfilment of any other applicable condition (or any combination of the foregoing), would constitute a Dissolution Event.

16. INDEMNIFICATION AND LIABILITY OF THE TRUSTEE

(a) The Declaration of Trust contains provisions for the indemnification of the Trustee in certain circumstances and for its relief from responsibility, including provisions relieving it from taking action unless indemnified and/or secured and/or pre-funded to its satisfaction. In particular, in connection with the exercise of any of its rights in respect of the Trust Assets, the Trustee shall in no circumstances take any action unless directed to do so in accordance with Condition 12(b), and then only if it shall have been indemnified and/or secured and/or pre-funded to its satisfaction.

(b) Neither the Trustee nor the Delegate makes any representation nor assumes any responsibility for the validity, sufficiency or enforceability of the obligations of the Sub-Lessee under the Ijara Sub-Lease Agreement and neither of them shall under any circumstances have any liability or be obliged to account to Certificateholders in respect of any Rentals and the Termination Payment which should have been paid by the Sub-Lessee, but are not so paid, nor in any circumstances have any liability arising from the Trust Assets other than as expressly provided in these Conditions or in the Declaration of Trust.

(c) The Trustee is excepted from any liability in respect of any loss or theft of the Trust Assets or any cash, from any obligation to insure the Trust Assets or any cash and from any claim arising from the fact that the Trust Assets or any cash are held by or on behalf of the Trustee or on deposit or in an account with any depositary or clearing system or are registered in the name of the Trustee or its nominee, unless such loss or theft arises as a result of wilful default or misconduct of the Trustee.

17. CURRENCY INDEMNITY

The Issuer agrees to indemnify each Certificateholder against any loss incurred by such holder as a result of any judgment or order being given or made for any amount due under such Certificate and such judgment or order is expressed and paid in a currency (the ''**Judgment Currency**'') other than U.S. dollars and as a result of any variation as between (a) the rate of exchange at which the U.S. dollars is converted into the Judgment Currency for the purpose of such judgment or order and (b) the rate of exchange at which the holder on the date of payment of such judgment or order is able to purchase U.S. dollars with the amount of the Judgment Currency actually received by the holder. This indemnification will constitute a separate and independent obligation of the Issuer and will continue in full force and effect notwithstanding any such judgment or order as aforesaid. The term ''**rate of exchange**'' includes any premium and costs of exchange payable in connection with the purchase of, or conversion into, U.S. dollars.

18. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of these Conditions, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

19. GOVERNING LAW AND SUBMISSION TO JURISDICTION

(a) The Declaration of Trust and the Certificates (including the remaining provisions of this Condition and any non-contractual obligations arising out of or in connection with the Declaration of Trust and the Certificates) are governed by, and will be construed in accordance with, English law.

(b) Subject to Condition 19(c), any dispute, claim, difference or controversy arising out of, relating to or having any connection with the Declaration of Trust and/or the Certificates (including any dispute as to their existence, validity, interpretation, performance, breach or termination or the consequences of their nullity and any dispute relating to any non-contractual obligations arising out of or in connection with them) (a ''**Dispute**'') shall be referred to and finally resolved by arbitration under the London Court of International Arbitration (''**LCIA**'') Arbitration Rules (the ''**Rules**''), which Rules (as amended from time to time) are incorporated by reference into this Condition 19. For these purposes:

(i) the place of arbitration shall be London;

(ii) the Issuer, and the Trustee and the Delegate together, shall each nominate one arbitrator, and both arbitrators shall in turn jointly nominate a further arbitrator who shall be the chairman of the arbitration. In the event that the Issuer or the Trustee and the Delegate or the first two arbitrators shall fail to nominate an arbitrator or the third arbitrator within the time limits specified by the Rules, such arbitrator shall be appointed promptly by the LCIA;

(iii) there shall be three arbitrators, each of whom shall be disinterested in the arbitration, shall have no connection with any party thereto and shall be an attorney experienced in international securities transactions; and

(iv) the language of the arbitration shall be English.

(c) Notwithstanding Condition 19(b) above, the Trustee, the Delegate or any Certificateholder (where permitted so to do) may, in the alternative, and at its sole discretion, by notice in writing to the Issuer:

(i) within 28 days of service of a Request for Arbitration (as defined in the Rules); or

(ii) in the event no arbitration is commenced,

require that a Dispute be heard by a court of law (''**Proceedings**''). If the Trustee, the Delegate or any Certificateholder (where permitted so to do) gives such notice, the Dispute to which such notice refers shall be determined in accordance with Condition 19(d) and, subject as provided below, any arbitration commenced under Condition 19(b) in respect of that Dispute will be terminated. With the exception of the Delegate (whose costs will be borne by the Issuer, failing whom the

Guarantor), each person who gives such notice and the recipient of that notice will bear its own costs in relation to the terminated arbitration.

If any notice to terminate is given after service of any Request for Arbitration in respect of any Dispute, the Trustee, the Delegate or the relevant Certificateholder, as the case may be, must also promptly give notice to the LCIA Court and to any Tribunal (each as defined in the Rules) already appointed in relation to the Dispute that such Dispute will be settled by the courts. Upon receipt of such notice by the LCIA Court, the arbitration and any appointment of any arbitrator in relation to such Dispute will immediately terminate. Any such arbitrator will be deemed to be *functus officio*. The termination is without prejudice to:

(A) the validity of any act done or order made by that arbitrator or by the court in support of that arbitration before his appointment is terminated;

(B) his entitlement to be paid his proper fees and disbursements; and

(C) the date when any claim or defence was raised for the purpose of applying any limitation bar or any similar rule or provision.

(d) In the event that a notice pursuant to Condition 19(c) is issued all parties agree that the English courts will have non-exclusive jurisdiction to settle any Dispute and submit to the non-exclusive jurisdiction of the English courts in connection with the Declaration of Trust and the Certificates and any non-contractual obligations arising out of or in connection with them and waive objection to the English courts on grounds of inconvenient forum or otherwise as regards proceedings in connection with the Declaration of Trust and the Certificates.

(e) The Issuer has in the Declaration of Trust irrevocably and unconditionally appointed an agent for service of process in England and has undertaken that, in the event of such agent ceasing so to act or ceasing to be registered in England, it will appoint another person approved by the Delegate as its agent for service of process in relation to any Proceedings or Disputes. Nothing herein shall affect the right to serve process in any other manner permitted by law.

(f) The Issuer has in the Declaration of Trust agreed that an arbitral award or judgment or order of an English court or other court, in connection with the Declaration of Trust, shall be conclusive and binding on it and may be enforced against it in the courts of any competent jurisdiction.

PRINCIPAL PAYING AGENT, REPLACEMENT AGENT AND TRANSFER AGENT

Citibank, N.A.
14th Floor
Citigroup Centre
Canada Square
Canary Wharf
London E14 5LB
United Kingdom

REGISTRAR

Citigroup Global Markets Deutschland AG
Reuterweg 16
D-60323 Frankfurt am Main
Germany

and/or such other or further Principal Paying Agent, Paying Agents, Registrar,Replacement Agent or Transfer Agent and/or specified offices as may from time to time be appointed by the Trustee and notice of which has been given to Certificateholders.

GLOBAL CERTIFICATE

The Global Certificate contains the following provisions which apply to the Certificates in respect of which they are issued whilst they are represented by the Global Certificate, some of which modify the effect of the Conditions. Terms defined in the Conditions have the same meaning in paragraphs 1 to 7 below.

1. HOLDERS

For so long as all of the Certificates are represented by the Global Certificate and the Global Certificate is held on behalf of a clearing system, the right to payments on such Certificates shall be vested, as against the Issuer and the Trustee, solely in the Common Depositary in accordance with and subject to the terms of the Global Certificate. Each Holder must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for its share of each payment made to the Common Depositary.

2. CANCELLATION

Cancellation of any Certificate following its redemption by the Issuer will be effected by reduction in the aggregate face amount of the Certificates in the register of Certificateholders and by the annotation of the appropriate schedule to the Global Certificate.

3. PAYMENTS

Payments of the Dissolution Distribution Amount in respect of Certificates represented by the Global Certificate will be made upon presentation and surrender of the Global Certificate to or to the order of the Registrar or such other Agent as shall have been notified to the holder of the Global Certificate for such purpose.

Distributions of amounts with respect to book-entry interests in the Certificates held through Euroclear or Clearstream, Luxembourg will be credited, to the extent received by the Registrar, to the cash accounts of Euroclear or Clearstream, Luxembourg participants in accordance with the relevant system's rules and procedures.

A record of each payment made will be entered into the register kept by the Registrar in respect of the Certificates by or on behalf of the Registrar and shall be prima facie evidence that payment has been made.

4. NOTICES

So long as all the Certificates are represented by the Global Certificate and the Global Certificate is held on behalf of a clearing system, notices to Certificateholders may be given by delivery of the relevant notice to that clearing system for communication by it to entitled Holders in substitution for notification as required by the Conditions except that, so long as the Certificates are listed on any stock exchange, notices shall also be published in accordance with the rules of such exchange. Any such notice shall be deemed to have been given to the Certificateholders on the third day after the day on which such notice is delivered to the relevant clearing systems.

Whilst any of the Certificates held by a Certificateholder are represented by the Global Certificate, notices to be given by such Certificateholder may be given (where applicable) through Euroclear and/or Clearstream, Luxembourg and otherwise in such manner as the Registrar and Euroclear and Clearstream, Luxembourg may approve for this purpose.

5. REGISTRATION OF TITLE

Subject as provided in paragraph 7, registration of title to Certificates in a name other than that of a nominee for the Common Depositary will not be permitted unless Euroclear or Clearstream, Luxembourg, as appropriate, notifies the Issuer that it is unwilling or unable to continue as a clearing system in connection with the Global Certificate, and in each case a successor dealing system approved by the Trustee is not appointed by the Issuer within 90 days after receiving such notice from Euroclear or Clearstream, Luxembourg. In these circumstances, title to a Certificate may be transferred into the names of holders notified by the Common Depositary in accordance with the Conditions, except that new Certificates in respect of Certificates so transferred may not be available until 21 days after the request for transfer is duly made.

The Registrar will not register title to the Certificates in a name other than that of a nominee for the Common Depositary for a period of seven calendar days preceding the due date for any payment of the Dissolution Distribution Amount or Periodic Distribution Amount in respect of the Certificates.

Record dates will be determined in accordance with the standard practices of Euroclear and Clearstream, Luxembourg.

6. TRANSFERS

Transfers of book-entry interests in the Certificates will be effected through the records of Euroclear or Clearstream, Luxembourg and their respective participants in accordance with the rules and procedures of Euroclear or Clearstream, Luxembourg and their respective direct and indirect participants, as more fully described under ''*Clearance and Settlement*''.

7. DEFINITIVE CERTIFICATES

Interests in the Global Certificate will be exchanged for Certificates in definitive form (''**Definitive Certificates**'') upon the occurrence of an Exchange Event. For these purposes, ''**Exchange Event**'' means that:

(a) the Trustee has given notice in accordance with Condition 11 that a Dissolution Event has occurred; or

(b) the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no successor or alternative clearing system satisfactory to the Trustee is available. Upon the occurrence of an Exchange Event, the Issuer will issue Definitive Certificates (in exchange for the whole of the Global Certificate) within 30 days of the occurrence of the relevant Exchange Event upon presentation of the Global Certificate by the person in whose name it is registered in the register kept by the Registrar in respect of the Certificates on any day (other than a Saturday or Sunday) on which banks are open for business in the city in which the Registrar has its office.

USE OF PROCEEDS

The net proceeds of the issue of the Certificates, being approximately U.S.$748,875,000, will be used by the Issuer to pay the Advance Rental in respect of the Land Parcel to the Head Lessor pursuant to the Ijara Head Lease Agreement.

RATINGS

The Certificates have been assigned a rating of BBB by Fitch and have been assigned a rating of BBB by S&P. Fitch Ratings Ltd., which is established in the European Union and which is registered under the CRA Regulation, in its application for registration under the CRA Regulation, applied for permission to endorse ratings of Fitch. Standard & Poor's Credit Market Services Europe Limited, which is established in the European Union and which is registered under the CRA Regulation, in its application for registration under the CRA Regulation applied for permission to endorse ratings of S&P. In each case, as at the date of this Prospectus, notification of the corresponding endorsement decision has not yet been provided by the relevant competent authority.

A rating is not a recommendation to buy, sell or hold securities, does not address the likelihood or timing of prepayment and may be subject to suspension, revision or withdrawal at any time by the assigning rating organisation. A suspension, reduction or withdrawal of the ratings assigned to the Certificates may adversely affect the market price of the Certificates.

THE ISSUER

The Issuer was incorporated as a single person company in Bahrain on 16 October 2011 under Article 76 of the Commercial Companies Law (Decree Law No 21/2001) (the "**Companies Law**") with its registered office at Central Bank of Bahrain, King Faisal Highway, Diplomatic Area, Block 317, Road 1702, Building 96, Manama, Bahrain. The Issuer is registered with number 79225 in the Commercial Register established by the Ministry of Commerce of the Kingdom of Bahrain. Pursuant to Article 3 of the Issuer's Articles of Association, the Issuer has been formed solely for the purpose of participating in the transactions contemplated by the Transaction Documents. Pursuant to Article 76 of the Companies Law, as the Issuer is wholly owned by the Government through the CBB, the provisions of the Companies Law do not apply, unless otherwise stated in the Issuer's Articles of Association.

The authorised and issued share capital of the Issuer is BD 1,000 divided into five ordinary shares of par value BD 200 each and is fully paid up. The Issuer's ordinary shares are owned by its proprietor, the CBB. The Issuer has no subsidiaries.

The directors of the Issuer and their principal occupations are as follows:

Director	**Principal Occupation**
Sheikh Salman bin Isa Al-Khalifa	Executive Director of Banking Operations
Mr Ahmed Mohammed Buhiji	Director of Banking Services
Mr Ahmed Isa Al-Somaim	Director of Reserve Management

The business address of each of the directors is Central Bank of Bahrain, PO Box 27, Manama, Bahrain. There are no potential conflicts of interest between any duties to the Issuer of the directors listed above and their private interests. The Issuer has no employees and will have no employees as at the Closing Date.

The objects of the Issuer as set out in its Articles of Association are to own, manage and dispose of real estate, to manage the Land Parcel as a trustee and agent and to carry on the necessary business activities to realise these objectives, including leasing and maintaining the Land Parcel and to act as a special purpose company to issue the sukuk.

The Issuer will not engage in any material activities other than those relating or incidental to the issue of the Certificates and the matters contemplated in this Prospectus and the Transaction Documents to which it is or will be a party and the authorisation of its entry into the other transactions and documents referred to in this Prospectus and those Transaction Documents. The Issuer will comply with any corporate governance regime applicable to it in Bahrain.

As of the Closing Date, after giving effect to the transactions contemplated by the Transaction Documents, the total equity of the Issuer will be BD 1,000, consisting of five issued and paid shares. Pursuant to the terms of its Articles of Association and the Transaction Documents, the Issuer may not issue any securities other than the Certificates or otherwise incur indebtedness, except as contemplated in the Transaction Documents.

The fiscal year of the Issuer will end on 31 December of each year, beginning in 2011. The Issuer will prepare but is not required to, and does not intend to, publish annual audited accounts. The Issuer will not prepare any interim accounts.

The Issuer has no operating history and no historical financial information.

As at the date of this Prospectus, the capitalisation of the Issuer is BD 1,000. Following the issue of the Certificates, the capitalisation of the Issuer will be BD 1,000. There has been no material change in the capitalisation of the Issuer since the date of incorporation.

SUMMARY OF PRINCIPAL TRANSACTION DOCUMENTS

The following is a summary of certain provisions of the principal Transaction Documents and is qualified in its entirety by reference to the detailed provisions of the principal Transaction Documents. Copies of the Transaction Documents will be available for inspection at the offices of the Paying Agents (as defined in the Conditions).

Declaration of Trust

The Declaration of Trust is entered into on the Closing Date between CBB International Sukuk Company (No.3) (SPC), the Kingdom of Bahrain, acting through the Ministry of Finance and the Delegate. Pursuant to the Declaration of Trust, the Issuer has declared that it will, in its capacity as Trustee, hold the Trust Assets (as are described further below) upon trust absolutely for the holders of the Certificates pro rata according to the face amount of Certificates held by each Certificateholder in accordance with the Declaration of Trust and the Conditions.

Under the Declaration of Trust the Trustee will unconditionally and irrevocably delegate its duties, powers, trusts, authorities and discretions to the Delegate with effect immediately upon the occurrence of a Dissolution Event, and upon such Dissolution Event all references to the Trustee shall be construed as references to the Delegate.

The Declaration of Trust specifies that, after enforcing or realising the Trust Assets in accordance with the Declaration of Trust and Conditions and distributing the net proceeds of the Trust Assets in accordance with Condition 4.2, the obligations of the Trustee in respect of the Certificates shall be satisfied and no Certificateholder may take any further steps against the Trustee to recover any further sums in respect of the Certificates.

The Declaration of Trust specifies that, following the distribution of the proceeds of the Trust Assets in respect of the Certificates to Certificateholders in accordance with the Conditions, the Trustee and the Delegate shall not be liable for any further sums, and that accordingly Certificateholders may not take any action against the Trustee or any other person to recover any such sum in respect of the Certificates.

The Declaration of Trust provides that no Certificateholder shall be entitled to proceed directly against the Government unless:

(a) the Trustee having become bound so to proceed, fails to do so within 60 days of becoming so bound and such failure is continuing; and

(b) the relevant Certificateholder (or such Certificateholder together with the other Certificateholders who propose to proceed directly against the Government) holds at least 25 per cent. of the aggregate face amount of the Certificates then in issue. Under no circumstances shall the Trustee or any Certificateholders have any right to cause the sale or other disposition of any of the Trust Assets, and the sole right of the Trustee and the Certificateholders against the Government shall be to enforce the obligation of the Government to pay the Rentals (including the Termination Payment) under the Ijara Sub-Lease Agreement and otherwise perform its obligations under the Transaction Documents to which the Government is a party.

The Trustee shall not be bound in any circumstances to take any action to enforce or realise the Trust Assets or take any action against the Government under any Transaction Document to which the Government is a party unless directed or requested to do so:

(a) by an Extraordinary Resolution; or

(b) in writing by the holders of at least 25 per cent. in aggregate face amount of the Certificates then outstanding,

and in either case then only if it is indemnified and/or secured and/or pre-funded to its satisfaction against all Liabilities to which it may thereby render itself liable or which it may incur by so doing.

The Trust Assets are comprised of the Land Parcel, all of the Issuer's rights, title, interest and benefit, present and future, in, to and under the Transaction Documents, all monies standing to the credit of the Transaction Account, and all proceeds of the foregoing.

The Declaration of Trust is governed by English law.

Ijara Head Lease Agreement

The "**Land Parcel**" consists of two plots of land located in the Askar area, owned by the Kingdom of Bahrain and earmarked for development in connection with the Bahrain-Qatar causeway project, and duly registered with the Survey & Land Registration Bureau under Title Deed numbers: 132976 (Gazette No. 2003/2110) and 132977 (Gazette No. 2003/2109), having an area of 1,776,484 square meters and 1,187,811 square meters, respectively.

Pursuant to the Ijara Head Lease Agreement, the Head Lessor will lease the Land Parcel for a term of 100 years to the Issuer. The net proceeds received by the Issuer from the issuance and sale of the Certificates will be used to pay the Advance Rental due under the Ijara Head Lease Agreement.

The Ijara Head Lease Agreement is governed by the laws of Bahrain.

Ijara Sub-Lease Agreement

Under the terms of an Ijara Sub-Lease Agreement dated the Closing Date between, *inter alia*, the Issuer as lessor, the Trustee and the Kingdom of Bahrain, acting through the Ministry of Finance, as Sub-Lessee, the Issuer will agree to lease to the Sub-Lessee, and the Sub-Lessee will agree to lease from the Issuer, the Land Parcel during the seven year term commencing on the Closing Date and extending to the Scheduled Dissolution Date.

Under the Ijara Sub-Lease Agreement, the Sub-Lessee will agree that if the Issuer is or would be prevented from making Periodic Distribution Amounts to Certificateholders or does not or would not have sufficient funds to pay the same in full as a result of actions taken by the Government of Bahrain or the shareholder of the Issuer (including, but not limited to, the imposition of any tax or the dissolution of the Issuer), the Sub-Lessee will account to the Trustee (which term here includes the Delegate) or the Sukuk Agent (which term here includes the Co-Sukuk Agent) on demand for such amounts as are necessary to enable the Periodic Distribution Amounts to be paid in full.

The Rentals under the Ijara Sub-Lease Agreement will equal the Periodic Distribution Amounts payable on the relevant Periodic Distribution Date. The Sub-Lessee will be obligated to pay Rentals on the second Business Day prior to the end of each Return Accumulation Period, commencing in May 2012 up to and including November 2018, or any other date on which the Ijara Sub-Lease Agreement is earlier terminated in accordance with its terms.

Under the Ijara Sub-Lease Agreement, if payment of a Rental is not made to the Issuer in full on its due date for payment, the Sub-Lessee (in addition to making the relevant payment) irrevocably undertakes to donate directly, in accordance with Sharia principles, a late payment amount to be paid to a charity of the Issuer's choice in respect of the period from and including the due date for payment to but excluding the date of full payment, equalling, for the number of days during such period, the Rental applicable to the Rental Period in respect of which the payment delay occurred, divided by the number of actual days in such Rental Period.

In accordance with the Ijara Sub-Lease Agreement, upon termination of the sub-lease thereunder the Sub-Lessee will be required to pay all Rentals accrued but unpaid to the date of payment of the Dissolution Distribution Amount plus the Termination Payment.

In the Ijara Sub-Lease Agreement, the Sub-Lessee will covenant that from the Closing Date and for so long as its liabilities under the Ijara Sub-Lease Agreement have not been discharged, the Government will not without the prior written consent of the Trustee create or have outstanding, and will procure that there is not created or permitted to be outstanding, any Security Interest, other than a Permitted Security Interest, upon, or with respect to, any of its present or future assets or revenues or upon the official external reserves of the Kingdom of Bahrain (which expression includes the gold and the reserves of the Kingdom of Bahrain by whomsoever and in whatsoever form owned or held or customarily regarded and held out as the official external reserves) or any part thereof, to secure any Relevant Indebtedness.

"**External Debt**" means any loan or debt of the Kingdom of Bahrain which (i) is denominated in a currency other than the lawful currency of the Kingdom of Bahrain and/or (ii) is denominated in the lawful currency of the Kingdom of Bahrain and represented by securities and where at least 50 per cent. in aggregate principal amount of such securities is initially placed outside the Kingdom of Bahrain and/or (iii) is denominated in the lawful currency of the Kingdom of Bahrain and not represented by securities and where the lender is not incorporated or otherwise located in the Kingdom of Bahrain.

"**Permitted Security Interest**" means any Security Interest:

(a) upon property to secure Relevant Indebtedness incurred for the purposes of financing the acquisition or construction of such property (or property which forms part of a class of a similar nature where the Security Interest is by reference to the constituents of such class from time to time);

(b) existing on property at the time of its acquisition;

(c) arising by operation of law or in the ordinary course of trading which has not been foreclosed or otherwise enforced against the assets to which it applies;

(d) securing or providing for the payment of Relevant Indebtedness incurred in connection with any Project Financing providing that such Security Interest only applies to:

  (i) properties which are the subject of such Project Financing; or

  (ii) revenues or claims which arise from the operation, failure to meet specifications, exploitation, sale or loss, or failure to complete, or damage to, such properties; or

  (iii) the renewal or extension of any Security Interest described in paragraphs (a) and (b) above, provided that the principal amount of the original financing secured thereby is not increased;

"**Project Financing**" means any arrangement for the provision of funds which are to be used solely to finance a project for the acquisition, construction, development or exploitation of any property pursuant to which the persons providing such funds agree that the principal source of repayment of such funds will be the project and revenue (including insurance proceeds) generated by such project;

"**Relevant Indebtedness**" means:

(a) any present or future indebtedness (whether being principal, premium, interest or other amounts) for or in respect of any notes, bonds, debentures, debenture stock, loan stock, Sharia compliant certificates or other securities which is or is capable of being quoted, listed or ordinarily dealt in on any stock exchange, over-the-counter or other securities market; and

(b) any guarantee or indemnity of such indebtedness;

Under the Ijara Sub-Lease Agreement, if:

(a) the Sub-Lessee in its capacity as such shall default for a period of 14 days or more in the payment of any sum payable under the Ijara Sub-Lease Agreement or any of the Related Documents; or

(b) the Sub-Lessee in its capacity as sub-lessee shall default in the performance or observance of, or compliance with, any of its other obligations, covenants or undertakings under the Ijara Sub-Lease Agreement or any of the Related Documents and either such default is not capable of remedy or such default (if capable of remedy) is not remedied within 30 days after written notice of such default shall have been given to the Sub-Lessee by the Issuer; or

(c) any representation or warranty made or given by the Sub-Lessee under the Ijara Sub-Lease Agreement or any of the Related Documents or which is contained in any certificate, document or statement furnished at any time pursuant to the terms of the Ijara Sub-Lease Agreement or any of the Related Documents proves to have been incorrect in any material respect on or as of the date made; or

(d) any External Debt shall become due and payable prior to the stated maturity thereof following a default or any security therefor becomes enforceable or the Government fails to make repayment of any External Debt at the maturity thereof or at the expiration of any grace period originally applicable thereto or any guarantee of any External Debt shall not be honoured when due and called upon and, in any such case, the amount of the External Debt shall be greater than U.S.$30,000,000 (or its equivalent in any other currency or currencies); or

(e) if a moratorium is declared on the payment of any External Debt or the Government repudiates any External Debt or is, or admits that it is, unable to pay any External Debt as it falls due, or the Government commences negotiations or proceedings with a view to the general adjustment of any External Debt; or

(f) any licence, authorisation, approval, consent, order or exemption of or from any governmental authority of the Kingdom of Bahrain with respect to the Ijara Sub- Lease Agreement or the Related Documents ceases to remain in full force and effect and continues as such for at least 30 days; or

(g) the validity of the Ijara Sub-Lease Agreement is contested by the Sub-Lessee or the Sub-Lessee shall deny any of the Sub-Lessee's obligations under the Ijara Sub-Lease Agreement or any of the Related Documents; or

(h) as a result of any change in, or amendment to, the laws or regulations in the Kingdom of Bahrain, which change or amendment takes place after 21 November 2011, (a) it becomes unlawful for the Sub-Lessee to perform or comply with any of its obligations under or in respect of the Ijara Sub-Lease Agreement or (b) any of such obligations become unenforceable or invalid; or

(i) the Kingdom of Bahrain ceases to be a member of the IMF or eligible to use the general resources of the IMF pursuant to Article 26 of the IMF Articles of Agreement; or

(j) there is, or there will be, a compulsory acquisition, confiscation or expropriation of all or any part of the Land Parcel by a governmental authority which, in any such case, renders the Head Lease and/or the Sub-Lease null and void; or

(k) the Issuer ceases to be wholly owned by the CBB,

then, in any such event, the Issuer may, without prejudice to any other right or remedy the Issuer may have under the Ijara Sub-Lease Agreement, the Related Documents or the law, by written notice, terminate the Ijara Sub-Lease Agreement and the sub-lease thereunder.

"**Related Documents**" means any other documents required by the Issuer to be executed by the Sub-Lessee on the date the Ijara Sub-Lease Agreement is executed.

Tax Gross-up

All payments:

(a) by the Government under the Ijara Sub-Lease Agreement; and

(b) by the Issuer under the Certificates are to be made without withholding or deduction for or on account of Taxes, unless the withholding or deduction of the Taxes is required by law.

In such event, the Government (in the case of (a) above) will be required, pursuant to the Ijara Sub-Lease Agreement to pay to the Issuer such additional amounts so that the Issuer will receive the full amount which otherwise would have been due and payable under the relevant agreement or undertaking and the Issuer (in the case of (b) above) will be required to pay additional amounts so that the Certificateholders will receive the full amount which otherwise would have been due and payable under the Certificates.

The Ijara Sub-Lease Agreement is governed by the laws of Bahrain.

Agency Declaration

CBB International Sukuk Company (No.3) (SPC) and Citibank, N.A, shall enter into the Agency Declaration on the Closing Date as Sukuk Agent and Co-Sukuk Agent respectively. Pursuant to the Agency Declaration, the Sukuk Agent will also act as agent for and on behalf of Certificateholders with respect to the Trust Assets and, in such capacity it will declare that it shall hold the Trust Assets as agent for and on behalf of Certificateholders pro rata according to the face amount of Certificates held by each Certificateholder, in accordance with the Agency Declaration, the Declaration of Trust and the Conditions.

Under the Agency Declaration the Sukuk Agent will unconditionally and irrevocably appoint as its co-agent the Co-Sukuk Agent with all its duties, powers, authorities, discretions and obligations under the Agency Declaration, with sole authority to take action should a Dissolution Event occur.

The Agency Declaration is governed by the laws of Bahrain.

Costs Undertaking

The Costs Undertaking will be entered into on the Closing Date by the Government in favour of, among others, the Issuer, the Trustee, the Sukuk Agent, the Agents, the Payment Administrator, the Delegate and Citibank, N.A.

Pursuant to the Costs Undertaking, the Government will pay certain fees and expenses of, and indemnify against certain liabilities incurred by, among others, the Trustee, the Delegate and the Agents.

The Costs Undertaking is governed by English law.

Waiver of Immunity

The Government, in the Transaction Documents to which it is a party and to the extent permitted by law irrevocably and unconditionally waives and agrees not to raise with respect to such Transaction Documents any right to claim sovereign or other immunity from jurisdiction or execution and any similar defence, and to the extent permitted by law irrevocably and unconditionally consents to the giving of any relief or the issue of any process, including, without limitation, the making, enforcement or execution against any property or assets (irrespective of its use or intended use) of any order or judgment made or given in connection with any suit, action or proceedings arising out of or in connection with any Transaction Document (to the extent permitted by law) to which it is party. In particular (but not by way of limitation of the foregoing), the Government agrees and confirms that Article 251 of the Law of Civil and Commercial Procedure (Decree Law No. 12/1971 of the laws of the Kingdom of Bahrain) shall not apply, and shall not be so construed as to apply, to any proceedings for enforcement or execution of any order or judgment made in respect of or arising out of any Transaction Document to which it is party of any provision thereof.

OVERVIEW OF THE KINGDOM OF BAHRAIN

Location and Population

Bahrain is an archipelago made up of 36 islands with a total land surface area of slightly over 700 square kilometres situated in the Arabian Gulf. The islands are about 24 kilometres from the east coast of the Kingdom of Saudi Arabia (''**Saudi Arabia**'') and 28 kilometres from the State of Qatar (''**Qatar**''). The largest island, Bahrain Island, comprises nearly 91.3 per cent. of the total land area of Bahrain and is linked to mainland Saudi Arabia by a 25 kilometre causeway. The capital of Bahrain, Manama, is on Bahrain Island. Bahrain's other significant islands include the southern archipelago called Hawar, near the coast of Qatar, Muharraq island (''**Muharraq**'') (which is Bahrain's second largest city and where Bahrain's international airport and the country's main port, Khalifa Bin Salman Port at Hidd, are located) and Sitra (a mainly industrial island). All these islands are connected to Bahrain Island by causeways.

Most of Bahrain is low lying barren desert, with the highest point being approximately 134 metres above sea level, although the northern part of the country has been extensively urbanised and cultivated. Average rainfall in Bahrain is 47 millimetres per annum. Most of Bahrain is surrounded by the relatively shallow part of the Arabian Gulf known as the Gulf of Bahrain. Bahrain obtains its drinking water from underground freshwater deposits and, increasingly, from desalinisation plants.

Bahrain's last census, in April 2010, recorded a population of 1,234,571, of whom 53.96 per cent. are Bahraini nationals, the remainder being principally expatriate workers. According to the 2010 census, approximately 70.2 per cent. of the population are Muslim, with small minorities of Christians, Hindus and Jews also present. Arabic is the official language, although English is widely used and understood for business purposes.

The population is highly urbanised, with up to 89 per cent. of the population living in towns and cities. According to the 2010 census, nearly 31.8 per cent. of the population is under the age of fifteen. A census is held in Bahrain every ten years. The annual population growth rate of Bahrain for 2009 and 2010 was approximately 6.8 per cent. and 4.8 per cent. respectively. The national education system is well established (adult literacy is 93.7 per cent. according to the April 2010 census). Bahrain's life expectancy for men and women is 76 and 80 years, respectively. This is among the highest in the Arabian Gulf region.

History

The earliest record of Bahrain dates back to the third millennium BC, when it was known as Dilmun. Dilmun was a successful station for tradesmen in the Arabian Gulf and its thriving community was closely linked to that in Mesopotamia. Around 600 BC, Bahrain became part of the expanding Babylonian empire, at a time when the island was known by the Greek name of Tylos. The island became known for its wealth of pearls and it enjoyed considerable prosperity. In the 7th century AD, Islam was introduced to Bahrain.

The islands changed hands many times in the following centuries. In the mid-18th century, the Al-Khalifa family arrived from Al Zubara. They, together with their allies, assumed control of the islands and the family has remained in power ever since (see "*Constitution and Government*" below). During the 19th century, Bahrain became the British Empire's political headquarter in the Gulf. Oil was discovered in Bahrain in 1932 (which coincided with the collapse of Bahrain's pearl industry). Bahrain was the first country to discover oil in the region.

On 15 August 1971, Bahrain declared its independence from Britain. Upon independence, the late Sheikh Isa assumed the position of Emir as Head of State while his brother, Sheikh Khalifa, became Prime Minister. In 1972, a constituent assembly was formed and, in May 1973, a constitution was published. In December 1973, a 44-person national assembly (the "**National Assembly**") was established, comprising of 30 elected members.

The then National Assembly was dissolved in August 1975 following disagreement between it and the Government. In the early 1990s, political tensions increased despite limited reforms by the Government including the establishment of a consultative council (the "**Consultative Council**").

In 1981 Bahrain, together with Saudi Arabia, the United Arab Emirates (the "**UAE**"), Qatar, State of Kuwait ("**Kuwait**") and Sultanate of Oman ("**Oman**"), established the GCC.

When Sheikh Isa died in March 1999, his son Sheikh Hamad bin Isa Al-Khalifa came to power. The new Emir (as he previously was referred to) embarked on a programme of political reform and released all jailed political activists. He also introduced a new national charter, the National Action Charter (the "**NAC**"), which sought to establish a new national assembly that was to be part appointed and part elected. It also paved the way for Bahrain to become a constitutional monarchy and for Sheikh Hamad bin Isa Al-Khalifa to be proclaimed king of Bahrain (the "**King**"). The NAC was approved in a national referendum in February 2001, in which 98.4 per cent. of the voters voted in favour of it. At the same time the state security law, which had been introduced in 1975, was repealed.

Constitution and Government

Under a new constitution adopted in February 2002 (the "**Constitution**") pursuant to the NAC, Bahrain is a hereditary constitutional monarchy with a democratic system of government. The Constitution also declares the state religion to be Islam with Islamic Sharia as a principal source for legislation.

Under the Constitution, the King is entitled to appoint the prime minister and other ministers. The King is the supreme commander of the Bahrain Defence Force and chairs the Higher Judicial Council (which oversees the judiciary). The King has power to conclude treaties on behalf of Bahrain, and any amendments to the Constitution require the approval of the King.

The Constitution provides for a National Assembly comprising two chambers: the Consultative Council and the chamber of deputies (the "**Chamber of Deputies**"). Each chamber has 40 members. The members of the Chamber of Deputies are elected in national elections, whereas the members of the

Consultative Council are appointed by the King. Members of the Chamber of Deputies and Consultative Council each sit for four year terms.

Legislation is initiated in the Chamber of Deputies and draft laws are considered by the Consultative Council, which has the power to comment on and suggest alterations to proposed legislation. New laws may only be passed when approved by both chambers and ratified by the King.

The Chamber of Deputies represents a wide range of political opinion in Bahrain and plays a significant role in the development of the democratic process. The first election to the Chamber of Deputies was held in 2002, albeit with only moderate participation by some political group. A second election process was held in 2006 and a third election process was held in 2010, with both election processes experiencing full and active participation from all the major political groupings.

The Cabinet (''**Cabinet**'') is appointed by the King. The Cabinet is headed by the Prime Minister as at the date of this Prospectus, is His Royal Highness Prince Khalifa bin Salman Al-Khalifa. The Prime Minister is responsible for much of the day-to-day running of the country. In accordance with the Constitution, the King's eldest son, His Royal Highness Prince Salman bin Hamad Al-Khalifa, is the crown prince (the ''**Crown Prince**'') and commander-in-chief of the Bahrain Defence Force.

The judiciary is enshrined under the Constitution as an independent and separate branch of the Government. The Constitution is upheld by a constitutional court, independent of both the executive and legislative branches. The Minister of Justice oversees the administration of the court system, but does not exercise a judicial function.

Bahrain has a dual court system, consisting of civil courts and Sharia courts. The Sharia courts deal only with personal law matters relating to Muslims such as marriage, divorce and inheritance. These courts do not have jurisdiction over commercial matters.

The civil court system consists of courts of first instance, which deal with all civil, commercial and criminal matters. The court of appeal hears all appeals and is the highest appellate authority in the country on issues of facts. The Court of Cassation is the final appellate authority and decides on issues of law. The Constitutional Court decides on the constitutionality of laws and regulations enacted by the legislature.

On 1 June 2011, in the aftermath of the February – March 2011 Protests (see ''*Risk Factors*''), His Majesty announced the launch of the National Dialogue. The purpose of the National Dialogue was to provide a forum for Bahraini society, including Bahraini citizens and expatriates, to present their views and proposals for future reform in Bahrain.

The National Dialogue issued 300 invitations to societies and individuals to participate in the dialogue which commenced on 2 July 2011. Invitees included political parties, civil and non-governmental organisations and the media.

The National Dialogue ended on 25 July 2011 and its recommendations were collated into a report. The Council of Ministers (the collective decision making body of the Government comprising of all Government ministers) formed a ministerial sub-committee to oversee the implementation programme.

On 3 October 2011, the ministerial sub-committee presented its report to His Royal Highness, Prime Minister Prince Khalifa bin Salman Al Khalifa. Once the Cabinet approves the report, it will then be presented to His Majesty, the King, who in turn will direct the recommendations arising from the report to the relevant authority for implementation.

Some of the political, social and economic reforms proposed by the National Dialogue in its report, include:

- greater democratisation and political scrutiny;
- increasing powers of the elected parliament;
- the need for an egalitarian electoral system with a review of the current electoral constituencies;
- confirmation of Bahrain's international human rights commitments and the implementation of a national programme to promote human rights awareness;
- establishment of a national body for reconciliation to combat extremism and sectarianism; and
- renewed focus on economic diversification and improvements in Government delivery.

The Bahrain Independent Commission of Inquiry (the "**BICI**") was established on 29 June 2011 pursuant to Royal Order No 28 of 2011. The BICI was developed in consultation with the Office of the UN High Commissioner for Human Rights and it has been commended by the UN Secretary General, Amnesty International together with the UK and US governments.

The BICI has been asked to determine whether the events of the February – March 2011 Protests (and thereafter) involved violations of international human rights law and norms and to make the recommendations that it deems appropriate.

Due to the substantial number of testimonies and the large amount of information presented to the BICI, the BICI concluded that it required more time to complete its investigative activities. Therefore, the BICI requested that His Majesty King Hamad consider extending the mandate of the BICI for a brief period to enable the commission to complete its final report. His Majesty approved an extension of the commission's mandate, and the BICI is now due to submit its final report on 23 November 2011. The report will include mechanisms to be implemented by the Government to prevent similar occurrences.

International Relations

Bahrain's principal objectives in its foreign policy have traditionally been to maintain cordial relations with its neighbouring countries. Bahrain has good relations with the UAE, Kuwait, Oman and Saudi Arabia, the latter being its key international partner in trade and industry (see "*Balance of Payments and Foreign Trade*" below).

In 2001, the International Court of Justice settled a long-standing territorial dispute between Bahrain and Qatar and as a result, relations between the two countries have improved. Bahrain and Qatar have agreed to build a 40 kilometre toll-operated causeway called the Qatar-Bahrain friendship bridge (linking both countries) which is anticipated to be the longest fixed link in the world. As at the date of this Prospectus, no date has been set for construction work to commence due to delays resulting from cost and design problems.

Bahrain enjoys good relations with the European Union ("**EU**") and the United States of America (the "**US**"), the latter having the headquarters of its Gulf naval force on Bahrain island. In 2002, the US designated Bahrain a "major non-NATO ally". Bahrain also entered a free trade agreement with the United States in 2004.

Bahrain has concluded important trade agreements with both Malaysia and Thailand. The GCC was in discussions with the EU concerning a trade agreement between the GCC and the EU. Negotiations were suspended in 2009 because of increased restrictions by the EU. Trade agreements with India and China were also suspended. Bahrain is involved in strategic dialogue with China.

Bahrain has signed various double taxation conventions and tax information exchange agreements with other countries, including Austria, Uzbekistan, Ireland, Belarus, China, Iran, the Netherlands and Turkey.

Bahrain, Saudi Arabia, Qatar and Kuwait approved a monetary union pact in December 2009. As a consequence of the monetary union pact, a GCC Monetary Council (the "**GCC MC**") was established in Riyadh, holding its inaugural meeting in March 2010. At this meeting, Mohammed Al-Jasser (Chairman of the Saudi Arabian Monetary Agency) was elected as chairman for a term of one year. The GCC MC's primary strategic aim is to lay the foundation, and act as a precursor institution, for the establishment of a GCC Central Bank (the "**GCC CB**"). The GCC MC set itself the primary task of consulting with GCC member countries in order to draft the legal and organisational framework that has underpinned the GCC CB. The board of the GCC MC have been meeting six times a year during 2010 and 2011. The Governor of Bahrain will be the chairman of the board of GCC MC from January 2012. Preparation for the development and implementation of a GCC single currency is now the responsibility of the GCC CB. No timeline for the implementation of a GCC single currency has yet been set.

Bahrain is a founding member of the World Trade Organisation ("**WTO**") and is a member of many other international organisations including the United Nations ("**UN**"), the International Monetary Fund ("**IMF**"), the World Bank Group (International Bank for Reconstruction and Development ("**IRBD**")), the International Centre for Settlement of Investment Disputes ("**ICSID**"), the International Finance Corporation ("**IFC**"), the International Labour Organization ("**ILO**"), the Multilateral Investment Guarantee Agency ("**MIGA**"), the Organization of the Conference ("**OIC**"), the Global Forum on Transparency and Exchange of Information for Tax Purposes ("**GFTEI**"), and a member of a number of regional organizations such as the Arab League, the Arab Monetary Fund ("**AMF**"), the Organization of

Arab Petroleum Exporting Countries ("**OAPEC**"), the Islamic Development Bank ("**IBD**"), and the Co-operation Council for the Arab States of the Gulf ("**GCC**"). In addition a number of international programmes, including the United Nations Industrial Development Programme which have their regional office in Bahrain and the Middle East and North Africa Financial Action Task Force ("**MENAFATF**") which have their headquarters in Bahrain.

Vision 2030

In October 2008, the Government set out a comprehensive economic vision for Bahrain ("**Vision 2030**") to outline a path for the development of the economy, with the ultimate aim of ensuring that every Bahraini household has at least twice as much disposable income as it currently has – in real terms – by 2030. Vision 2030's objective is to shift Bahrain's economy from an oil-driven economy to a global competitive economy predominantly based on finance, tourism and industry. The economic vision sets out the aspirations for Bahrain's economy, government and society in accordance with the guiding principles of sustainability, competitiveness and fairness.

To turn the Economic Vision 2030 into reality, the Economic Development Board ("**EDB**"), whose chairman is the Crown Prince and whose members include representatives of a number of ministries of the Government worked in close cooperation with partners across government to develop the National Economic Strategy 2009-2014, which has three guiding principles: (i) to strengthen the private sector and change the balance between private and public sector employment (see "*Foreign Direct Investment and Privatisation*"); (ii) to aim for diversification and innovation in a sustainable knowledge-based economy, independent of oil to the extent possible (see "*Trade and Tourism*" and "*Gross Domestic Product*"); and (iii) to ensure appropriate skill-building in the Bahrain labour market to match the shift in focus.

Vision 2030 is implemented through the National Economic Strategy ("**NES**"), which began in 2009 and is updated every two years (last update was December 2010). During the last update there was a change in perspective with regards to industry policy. The updated NES recognised the social implications of the large growth in the number of foreign workers, falling productivity and unsustainable growth in heavy industries. It also outlined the need for a new growth strategy and considered the challenges of a growing Bahraini workforce, limited natural resources and fiscal sustainability. The updated NES has also showcased a comprehensive economic equilibrium model, which included population, workforce and GDP projections.

With the implementation of the NES, the EDB has been able to forge new relationships, strengthen communications channels and streamline approaches to the planning and implementation of policies. As a result EDB has created the National Communications Centre and established a countrywide network of public sector communications professionals to facilitate the implementation of the Vision 2030 programme.

Bahrain has also implemented educational reforms to help to ensure that the population develops the skills necessary to implement Vision 2030 objectives. The establishment of the Bahrain Teachers College was authorised in March 2008 as an integral part of the national educational reforms. The Bahrain Polytechnic was officially opened in November 2008. Quality Assurance Authority was established in 2008 with a remit to review and publicly report on the quality of education and training institutions in Bahrain. It focuses on driving the improvement process and raising standards of education and training in Bahrain. The Ministry of Education and ten schools from all five governorates in Bahrain have been working together to pilot the School Improvement Programme since September 2008.

The Government has also established other programmes since 2008, all designed to make the Bahrain employee more attractive in the job market. The Ministry of Labour, Tamkeen (the Bahrain labour fund, as more fully described in "*Economy of The Kingdom of Bahrain*"), and the Labour Market Regulatory Authority have worked alongside Government partners including the EDB to increase productivity, support growing businesses and entrepreneurs, build core skills for Bahraini nationals and deliver and provide a safety net and training for those who find themselves unemployed.

Examples of such programmes include Tamkeen's Career Progression Programme. This programme offers training to Bahraini employees who are in relatively low paid jobs and require training in order to progress their careers. In 2010 and 2011, 7,241 and 9,063 Bahraini employees were accepted on to the programme, respectively. In 2010, 3,918 Bahraini employees successfully completed the training and achieved wage increases on their basic salaries. The total number of Bahraini employees who achieved wage increases, increased to 5,039 in 2011. Tamkeen has also launched an innovative new campaign, known as "A9eel", which is designed to motivate Bahraini youth to adopt a positive attitude with respect to work. The programme was launched in March and April 2010. The campaign uses various communication channels, including multimedia, websites, television, radio, the press and visits to schools to cultivate and develop the professional work ethic of the Bahraini labour force. See ''*Employment*'' under ''*Economy of The Kingdom of Bahrain*.''

Phase 1 of the Business Licensing Integrated System (''**BLIS**'') project was completed in March 2011. The aim of the BLIS is to simplify the process of business registration, streamline licensing requirements and ensure full transparency of procedures and coordination between all relevant organisations.

Despite the February – March 2011 Protests, Vision 2030 has not been disrupted. The Government intends to continue to take the measures necessary to implement the objectives of Vision 2030.

ECONOMY OF THE KINGDOM OF BAHRAIN

Introduction

Bahrain enjoys a strong and diverse economy. Unlike many of its Gulf neighbours, Bahrain's economy is not reliant upon the oil industry as it has successfully diversified its economy away from the dependence on oil. Although oil does play an important part in Bahrain's economy, it also has an increasingly important financial services industry (with Bahrain acting as a financial centre for the Middle East and North Africa ("**MENA**") region). Manufacturing Oil refining, aluminium production and tourism are also significant contributors to its GDP.

The EDB, established in mid 2000, is the apex organisation for spearheading economic development in Bahrain. It is currently targeting the following eight sectors for development: information technology; business services; healthcare; financial services; tourism; logistics; high-tech manufacturing; and education, see "*Foreign Direct Investment and Privatisation*" below.

Bahrain benefits from a strong infrastructure which has been developed by the Government since the 1970s through continued public capital investment (being U.S.$597.6 million in 2010 and an estimated U.S.$760.1 million in 2011). The services sector has benefited from Bahrain's strong transport infrastructure, its deepwater harbour at Mina Salman (which was replaced by the new harbour at Hidd in December 2009), and the international airport in Muharraq. Bahrain has a growing tourism industry with several large scale tourist developments under construction or recently finished, including The Lost Paradise of Dilmun water park and the indoor-outdoor Wahoo Water Park (see "*Tourism and Trade*").

The Bahrain City Centre Mall was constructed on the reclaimed coastline of Bahrain, on the northern coast of Manama in the new commercial district. Work commenced on site in February 2006 and was completed in June 2008. The site is approximately 130,000 square meters and is connected to the adjacent highways via elevated road ways. The site has a mall, a hotel and a water park in the same development to satisfy local, regional and tourist demand.

Bahrain also has a high quality modern telecommunications system, currently operated by the Bahrain Telecommunications Company B.S.C. ("**BATELCO**"), Zain Bahrain B.S.C. (C) ("**Zain**") and Saudi Telecommunications Company ("**STC**") through its "*Viva*" operations, see "*Telecommunications*".

Gross Domestic Product

In recent years, the financial services sector has been the single largest contributor to Bahrain's GDP, reflecting the very high growth in the sector.

In 2008, the financial services sector was the single largest contributor to Bahrain's GDP (with financial corporations alone contributing 26.6 per cent. to Bahrain's real GDP), despite a downturn in the global financial markets. The sector overtook the oil and gas sector which had been the leading sector up until the early 2000s. In line with the objectives of Vision 2030, contributions to the economy from manufacturing (16.0 per cent. of GDP in 2008), mining and quarrying (including oil and gas) (13.8 per cent. of GDP in 2008), Government services (14.6 per cent. of GDP in 2008), transport and communications (8.7 per cent. of GDP in 2008) and real estate and business activities (9.9 per cent. of GDP in 2008) continued to increase.

In 2009, the financial services sector remained the single largest contributor to Bahrain's GDP (with financial corporations alone contributing 25.0 per cent. to Bahrain's real GDP). In line with the objectives of Vision 2030, contributions to the economy from manufacturing (15.3 per cent. of GDP in 2009), mining and quarrying (including oil and gas) (13.2 per cent. of GDP in 2009), Government services (14.8 per cent. of GDP in 2009), transport and communications (8.8 per cent. of GDP in 2009) and real estate and business activities (8.7 per cent. of GDP in 2009) continued to increase.

In 2010, the financial services sector continued to remain the single largest contributor to Bahrain's GDP (with financial corporations alone contributing 24.6 per cent. to Bahrain's real GDP). The diversification of the economy away from oil and in line with the objectives of Vision 2030, has meant that contributions to the economy from manufacturing (16.4 per cent. of GDP in 2010), mining and quarrying (including oil and gas) (13.0 per cent. of GDP in 2010), Government Services (27.36 per cent. of GDP in 2010), transport and communications (9.0 per cent. of GDP in 2010) and real estate and business activities (8.5 per cent. of GDP in 2010) continued to increase.

For the three months ended 31 March 2011, Bahrain registered real GDP growth of 16.9 per cent. when compared to the corresponding three months ended 31 March 2010. For the three months ended 30 June 2011, Bahrain registered real GDP growth of 0.8 per cent. when compared to the corresponding three months ended 30 June 2010. For the six months ended 30 June 2011, the financial services sector remained the single largest contributor to Bahrain's GDP (contributing 24.7 per cent. to Bahrain's real GDP), followed by manufacturing (16.8 per cent. of GDP), mining and quarrying (including oil and gas) (12.8 per cent. of GDP), Government services (15.1 per cent. of GDP), transport and other communications (9.7 per cent. of GDP) and real estate and business activities (8.1 per cent. of GDP).

A table setting out the principal sectors of the economy is provided in "*Principle Sectors of the Economy*" below.

Direct government consumption constituted approximately 15 per cent. of GDP in 2010 up from 15.5, 13.5 and 14.3 per cent. of GDP in 2009, 2008 and 2007, respectively. Government consumption also impacts private consumption since the Government is the country's major employer and instigator of capital projects. Government consumption has dramatically increased in recent years from approximately U.S.$265.96 million in early 2000, to U.S.$3,281.40 million in 2010 (a 3.7 per cent. increase from 2009). Investment itself is affected by the oil sector with gross fixed capital formation and stock building being affected by periods of weak oil prices.

The following table sets out the growth rate in real terms of Bahrain's GDP for the periods indicated:

	2007	**2008**	**2009**	**2010**	**2011 Q1**	**2011 Q2**
Percentage change in real GDP[1]................	8.4	6.3	3.1	4.5	(75.1)	1

Note:
(1) Based on 2001 constant prices.
Source: Ministry of Finance and Central Informatics Organisation

The following table sets out the GDP of Bahrain for the periods indicated both as a total and on a per capita basis, and both in current prices and constant 2001 prices for the periods indicated:

	2007	**2008**	**2009**	**2010**	**2011 Q1**	**2011 Q2**
Total:						
At current prices (U.S.$millions)[(1)]	18,472.3	22,151	19,621	21,929.8	5,973	6,411.3
At constant 2001 prices (U.S.$millions)[(1)]	11,844.7	12,591.8	12,980.1	13,564.4	3,381.4	3,416.0
Percentage change over previous period:						
At current prices	16.5	19.9	(11.4)	11.8	(72.8)	7.3
At constant 2001 prices	8.4	6.3	3.1	4.4	(75)	1
Per capita:[(2)]						
At current prices (U.S.$millions)[(1)]	17,774	20,074	16,650	17,763.09	4,838.118	5,193.14
At constant 2001 prices (U.S.$millions)[(1)]	11,397	11,411	11,015	10,987.14	2,738.927	2,766.953

Notes:

(1) Using the fixed conversion rate of BD0.376 = U.S.$1.00.

(2) Assuming a population of 1,039,297 in 2007, 1,107,000 in 2008, 1,107,000 in 2009 and 1,234,571 in 2010.

Source: Ministry of Finance

The following table sets out GDP in current prices (using the expenditure approach) and in percentage terms for the periods indicated:

	2007		2008		2009		2010	
	(U.S.$ millions)[(1)]	*(%)*	*(U.S.$ millions)*[(1)]	*(%)*	*(U.S.$ millions)*[(1)]	*(%)*	*(U.S.$ millions)*[(1)]	*(%)*
Private consumption	6,194	33.5	6,739.1	30.4	6,724.4	34.3	7,496.10	34.2
Government consumption	2,604	14.2	2,942.4	13.3	3,163.9	16.1	3,281.40	15.0
Gross investment	4,873	26.4	7,250.2	32.7	5,186.1	26.4	6,160.30	28.1
Change in stocks[(2)]	113	0.6	264.3	1.2	194.8	1.0	207.4	0.9
Exports of goods & services	17,314	93.7	21,231.4	95.8	15,704.8	80.0	17,880.30	81.5
Imports of goods & services	12,626	68.4	16,276.3	73.5	11,354.0	57.9	13,097.10	59.7
Change in exports/imports	4,688	25.4	4,955.1	22.4	4,350.8	22.2	4,783.20	21.8
GDP	**18,472.3**	**100**	**22,151.0**	**100**	**19,621.0**	**100**	**21,929.80**	**100**

Notes:

(1) Using the fixed conversion rate of BD0.376 = U.S.$1.00.

(2) Including net errors and omissions.

Source: Ministry of Finance

The following table sets out the growth in percentage terms in real GDP (by expenditure approach) based on constant 2001 prices for the periods indicated:

	2007	2008	2009	2010
	(%)	*(%)*	*(%)*	*(%)*
Private consumption	2.5	5.1	(2.9)	4.7
Government consumption	2.5	6.8	2.2	3.5
Gross investment	15.2	8.2	(19.2)	17.9
Change in stocks[(1)]	(166.1)	(64.8)	885.7	(68.3)
Exports of goods and services	10.2	16.2	(17.8)	0.6
Imports of goods and services	10.6	16.9	(27.2)	2.9
GDP	**8.4**	**6.3**	**3.1**	**4.5**

Note:

(1) Including net errors and omissions.

Source: Ministry of Finance and Central Informatics Organisation

Principal Sectors of the Economy

The table below sets out Bahrain's GDP by economic activity based on constant 2001 prices and by percentage contribution for the periods indicated:

	2007		2008		2009		2010		2011*	
	(U.S.$ millions)[1]	%	*(U.S.$ millions)*[1]	%	*(U.S.$ millions)*[1]	%	*(U.S.$ millions)*[1]	%	*(U.S.$ millions)*[1]	%
Non-financial corporations	8,682.72	73.31	9,191.38	73.00	9,023.60	69.5	9,548.43	70.39	4,777.25	70.28
Agriculture and fishing	73.70	0.62	75.21	0.60	77.02	0.6	74.86	0.55	35.95	0.53
Mining and quarrying[2]	1,690.08	14.27	1,738.16	13.80	1,710.23	13.2	1,756.78	12.95	866.48	12.75
(i) Crude petroleum and natural gas	1,602.70	13.53	1,609.26	12.78	1,596.46	12.3	1,605.10	11.83	795.18	11.70
(ii) Quarrying	87.37	0.74	128.91	1.02	113.77	0.9	151.67	1.12	71.29	1.05
Manufacturing	1,878.95	15.86	2,015.66	16.01	1,996.11	15.4	2,224.38	16.40	1,117.57	16.44
Electricity and water	177.36	1.50	193.83	1.54	202.15	1.6	213.80	1.58	112.7	1.66
Construction	834.12	7.04	904.68	7.18	728.61	5.6	753.27	5.55	370.02	5.44
Trade	949.66	8.02	983.88	7.81	882.79	6.8	932.52	6.87	467.63	6.88
Hotels and restaurants	349.64	2.95	378.11	3.00	423.88	3.3	458.51	3.38	184.25	2.71
Transport and communications	1,001.06	8.45	1,027.77	8.16	1,147.02	8.8	1,219.52	8.99	651.75	9.59
Social and personal services	573.8	4.8	632.71	5.02	723.19	5.6	756.03	5.57	412.04	6.06
Real estate and business activities	1,154.40	9.75	1,241.41	9.86	1,132.60	8.7	1,158.75	8.54	558.79	8.22
Financial corporations	**3,170.77**	**26.77**	**3,347.79**	**26.59**	**3,205.05**	**24.7**	**3,339.22**	**24.62**	**1,688.48**	**24.84**
Financial institutions	1,004.02	8.48	1,118.11	8.88	1,097.04	8.5	1,157.68	8.53	594.86	8.75
Offshore financial institutions	1,422.50	12.01	1,458.64	11.58	1,138.56	8.8	1,160.55	8.56	568.79	8.37
Insurance	744.25	6.28	771.04	6.12	969.44	7.5	1,020.98	7.53	524.8	7.72
Government services	1,677.35	14.16	1,833.06	14.56	1,927.50	14.8	1,988.88	14.66	1,030.76	15.16
Govt. education services	412.10	3.48	451.06	3.58	486.86	3.8	503.90	3.71	266.32	3.92
Govt. health services	211.58	1.79	231.33	1.84	246.35	1.9	265.15	1.95	142.41	2.10
Other Government services	1,053.67	8.90	1,150.66	9.14	1,194.25	9.2	1,219.84	8.99	622.04	9.15
Private non-profit institutions serving households	**15.26**	**0.13**	**17.02**	**0.14**	**18.19**	**0.1**	**20.53**	**0.15**	**12.89**	**0.19**
Households with employed persons	**112.64**	**0.95**	**115.98**	**0.92**	**132.55**	**1.0**	**151.78**	**1.12**	**77.47**	**1.14**
Minus financial intermediation services indirectly measured[3]	**(1,990.16)**	**(16.80)**	**(2,120.64)**	**(16.84)**	**(1,501.60)**	**11.6**	**(1,688.75)**	**(12.45)**	**(901.53)**	**(13.26)**
GDP producer prices	**11,668.57**	**98.51**	**12,384.63**	**98.35**	**12,805.26**	**98.7**	**13,360.10**	**98.49**	**6,685.31**	**98.35**
Import duties	176.04	1.49	207.18	1.65	174.44	1.3	204.28	1.51	112.09	1.65
GDP	**11,844.61**	**100**	**12,591.78**	**100**	**12,980.10**	**100**	**13,564.38**	**100**	**6,797.43**	**100.00**

Notes:

(1) Using the fixed conversion rate of BD0.376 = U.S.$1.00.

(2) Mining and quarrying comprises (i) crude petroleum and natural gas; and (ii) quarrying.

(3) Adjustment figure which related to the value of financial services provided by banks net of indirect charges.

* *As at 31 June 2011.*

Source: Ministry of Finance and Central Informatics Organisation

The following paragraphs provide a brief description of the principal sectors of the economy based on percentage contribution for the relevant periods.

Mining

Oil

Bahrain has the lowest oil reserves of all of the GCC countries, with an average crude oil production of 32,192 bpd as at 31 December 2009 and 31,900 bpd as at 31 December 2010 from its only onshore oilfield, Awali. Bahrain has authorised two companies, PTT Exploration and Production Company Limited (part of the PTT Thailand group of companies) and Occidental of Bahrain Ltd. ("**Occidental**"), to carry out exploration and production of new offshore fields. Bahrain has also signed a U.S.$1.2 billion deal with Occidental to increase production at its existing onshore field. Bahrain also exports oil from the Abu Saafa oilfield which is located on its border with Saudi Arabia. Under a treaty signed with Saudi Arabia in 1958, Bahrain is entitled to receive 50 per cent. of the output from this field. Bahrain's share in the production at Abu Saafa amounted to around 150,028 bpd in 2009 and 149,974 bpd in 2010. Bahrain also imports about 230,000 bpd of crude oil from Saudi Arabia for processing at its refinery at Sitra (see "*Manufacturing - Refining*" below).

Occidental, MDC Oil and Gas (Bahrain Field) LLC ("**Mubadala**"), The Oil and Gas Holding Company B.S.C.(c) ("**nogaholding**") (together the "**Joint Venture Partners**") and the National Oil and Gas Authority of Bahrain ("**NOGA**") announced in November 2009 the creation of a new state-owned joint operating company, Tatweer Petroleum-Bahrain Field Development Company WLL ("**Tatweer Petroleum**"). Tatweer Petroleum will operate under a Development and Production Sharing Agreement signed in April 2009 by the Joint Venture Partners and NOGA, approved by the Bahraini parliament in May 2009 and ratified by His Majesty King Hamad bin Isa Al Khalifa. Tatweer Petroleum has begun production and development activities with its team largely comprised of individuals from the state-owned Bahrain Petroleum Company ("**Bapco**"), in addition to employees from Occidental and Mubadala. The company also plans to hire additional local employees.

Tatweer Petroleum is responsible for all of Bahrain's on-shore domestic field activities including operation of the Awali field and the Khuff gas reservoir. Tatweer Petroleum's strategic aim is to double the production of oil from the on-shore field within five years and triple the production of oil within ten years. Tatweer Petroleum embarked on this strategic aim at the end of 2009 and has already increased crude oil production from 2010's forecasted daily average of 31,900 barrels per day to a production level of 44,700 barrels per day in August 2011 so exceeding 2011's forecasted daily average of 43,000 barrels per day. The increase in production in 2011 has been achieved by the use of tertiary production techniques. Upstream drilling and work over activity will ensure that 2011 production targets continue to be met.

Bapco manages and distributes gas from Bahrain's main gas field, the Khuff gas reservoir, to end-user customers and manages and operates the Sitra oil refinery. The table below sets out the cumulative annual daily crude oil available to Bahrain:

	2007	2008	2009	2010	2011*
			(barrels per day)		
Crude oil from Awali	34,389	32,861	32,192	31,876	43,000
Crude oil from Abu Saafa	149,890	149,829	150,028	149,974	145,321**
Crude oil from Saudi Arabia	227,703	226,488	224,371	234,679	227,000

** Figures estimated as at 31 December 2011.*
*** Quarter 1 to 3 average*
Source: National Oil and Gas Authority

Bahrain has been in talks with oil giant Saudi Aramco over plans to move ahead with constructing a new pipeline measuring 71 miles in length between Bahrain and Saudi Arabia. The design discussions regarding the size, capacity and route of the pipeline have been finalised. The front end engineering plan has also been finalised. The project, expected to cost approximately U.S.$350 million, commenced at the end of 2009, but construction is not expected to commence until 2012. Bapco is awaiting final Government approvals for the landing location of the pipeline and the route in Bahrain that the pipeline will follow. Front end engineering design will commence as soon as planning permission is received from the Central Planning Office and a front-end engineering and design contractor will be appointed. Bahrain has appointed the MTQ Group to provide oilfield equipment and engineering services in connection with this project. The pipeline, which is expected to carry around 350,000 barrels per day of crude oil between Bahrain and Saudi Arabia (with a maximum of 400,000 barrels per day), will replace the existing pipeline that carries 230,000 barrels. Bahrain plans to steadily increase its own oil production over the next 20 years.

Gas

Although Bahrain's gas reserves are relatively small, production from the Khuff gas reservoir has gradually risen over recent years from 393.0 billion cubic feet in 1998 to 507.7 billion cubic feet in 2007. Production rose further to 538.2 billion cubic feet in 2008 and then to 543.4 billion cubic feet in 2009. Bahrain does not export gas produced from the Khuff gas reservoir and hence production was reduced to 452.2 billion cubic feet in 2010 in line with reduced domestic demand (despite the fact that the Khuff gas reservoir had a potential production capacity of 547.5 billion cubic feet in 2010).

Gas from the Khuff reservoir is sold directly to Bapco's principal domestic consumers, being Aluminum Bahrain B.S.C. ("**Alba**") (which accounted for 25 per cent., 24 per cent. and 23 per cent. of total gas utilisation respectively in each of 2008, 2009, 2010 and 23 per cent. for the nine months ended 30 September 2011) followed by Bahrain's power stations, Gulf Petrochemical Industries Company ("**GPIC**") (which accounted for 8 per cent. of total gas utilisation in each of 2008, 2009, 2010 and the nine months ended 30 September 2011), and the Sitra refinery (which accounted for 8 per cent. of total gas utilisation in each of 2008, 2009, 10 per cent. in 2010 and 9 per cent. for the nine months ended 30 September 2011). The other principal use of the gas produced from the Khuff reservoir was for oil field injection which accounted for 17 per cent. of total gas utilisation in each of 2008 and 2009, 16 per cent. in 2010 and 15 per cent. for the nine months ended 30 September 2011.

Bapco has successfully completed the drilling of three gas wells as part of a major U.S.$100 million Government programme to boost natural gas production in Bahrain by an additional 500 million cubic feet per day. The Government aims to increase the production capacity of the Khuff gas reservoir to 2.4 billion cubic feet per day by 2024. The programme, which involves drilling a total of eight new deep gas wells in the Khuff gas reservoir, aims to meet the Kingdom's growing demand for natural gas for power generation and local industries. In addition to the eight new wells, the programme also includes the workover of five previously-drilled wells at the same reservoir. The Khuff gas drilling programme started in early 2009. The first well (No. 866) was drilled to a vertical depth of 10,550 feet into the Khuff reservoir. The second well (No. 869) was the first directional gas well drilled in Bahrain to a measured depth of 12,325 feet into the pre-Khuff formation. The third well (No. 868) was drilled and completed to a vertical depth of 12,100 feet into the pre-Khuff formation. During 2010, Tatweer drilled three Khuff gas wells (No. 867, No. 871 and No. 873) and one gas well (No. 872) during March 2011. Gas wells are not drilled unless they are necessary to meet both the average demand and the peak demand for gas which occurs in the summer. Sufficient production capacity is currently available to meet any increase in demand.

The design of these new wells is an improvement as compared to those drilled previously in that some were directionally drilled, maximising contact by exposing added reservoir over the same thickness which, in turn, increases production from the same well-bore. Additionally, all wells are equipped with seven-inch diameter production tubes which should enhance production capacity of these wells compared to previous wells equipped with five-inch production tubing.

Gas, which is produced with crude oil, i.e. associated gas, is sold by Bapco to the Bahrain National Gas Company ("**BANAGAS**"). BANAGAS produces liquefied propane and butane for export, and naphtha which is pipelined to the refinery. Residue gas from BANAGAS enters the national gas system at a pressure lower than Khuff gas and is sold to local customers who can accommodate the lower pressure. The Government aims to increase its production volume of associated gas in connection with its strategic aim to increase its oil production.

The Government aims to increase the amount of liquified natural gas that it imports from abroad through the implementation of its Liquified Natural Gas Supply Project ("**LNG Supply Project**"). The LNG Supply Project proposes to establish a liquified natural gas import terminal on reclaimed land at the northern end of the Khalifa Bin Salman Port which will import liquified natural gas from a number of exporters worldwide. The LNG Supply Project is in its initial phase. It is presently anticipated that the preferred strategic partner will be selected by the end of the first quarter of 2012 and the design and construction phase of the project will commence in the fourth quarter of 2012.

Manufacturing

The discovery of oil in the early 1930s was the spur for industrialisation in Bahrain. The principal manufacturing facilities in Bahrain are an aluminum smelter operated by Alba, an oil refinery operated by Bapco at Sitra and the petrochemicals complex operated by GPIC. Other areas of manufacturing include ship repair, iron palletising facilities, light engineering facilities, and textile production.

Aluminum

The Alba aluminium smelter, with a capacity of 865,000 tonnes per year, is one of the largest aluminum smelters in the world and produces in excess of 500,000 tonnes of aluminium per annum. The Alba aluminium smelter is the world's fourth largest producer of aluminium by individual smelter capacity. Alba is state owned on a majority holding basis with 69.4 per cent. of its share capital held through Bahrain Mumtalakat Holding Company (B.S.C.) (C) ("**Mumtalakat**") established by royal decree dated 26 July 2006 and 20.6 per cent. of its share capital held by Saudi Basics Industries Corporation ("**SABIC**"). In 2008, aluminium exports accounted for approximately 9 per cent. of Bahrain's total exports and approximately 46 per cent. of its total non-oil exports. In 2009 and 2010, aluminium exports are estimated by the Central Bank of Bahrain ("**CBB**") to have accounted for approximately 8 per cent. and 11.3 per cent. respectively of Bahrain's total exports and 33 per cent. and 25.4 per cent. respectively of its total non-oil exports. Alumina for the smelter is imported from Australia.

At the start of 2002, Alba drew up a broad based business plan, which can be broken down into three separate but interrelated parts: (i) a strategic plan to ensure the efficient operation of the smelter; (ii) a marketing plan to ensure a sustainable and secure revenue stream from existing and new markets and products; and (iii) new business development initiatives, such as acquiring broad based assets or developing business partners, to ensure opportunities for expanding Alba's business. The strategic plan identifies five key performance areas that should be focused on: safety, people, environment, cost and productivity.

In line with the strategic plan, Alba has diversified its customer base by exporting aluminum to Asia, Europe and across the MENA region.

There are a number of other aluminum-based industries in Bahrain, including plants which produce approximately 165,000 tonnes per year of rolled products, 155,000 tonnes per year of aluminum cables, 30,000 tonnes per year of extruded aluminum products, 30,000 tonnes per year of aluminium wheels, a further 25,000 tonnes of aluminium for high quality electricity usage, 7,000 tonnes per year of aluminum powder and 2,000 tonnes per year of aluminum pellets.

In addition, a coke-calcinating plant operated by Alba with a capacity of 450,000 tonnes per year began production in January 2002. The majority of its production is used by Alba and the balance is exported. Alba previously imported coke from the United States and Argentina.

Refining

Bahrain has an oil refinery at Sitra which has a capacity in excess of 250,000 bpd and operates at levels close to capacity. The principal products produced at the refinery, in terms of volume, currently are gas and fuel oil, jet fuel, diesel, naphtha and gasoline. Bapco has commissioned major new plants under a U.S.$1 billion modernisation programme designed to reduce the sulphur content of the middle distillates to enable it to meet current environmental standards and the requirements of its principal customers. The low sulphur diesel complex was completed in June 2007 and a refinery gas desulphurisation plant was completed and has been in operation since January 2009.

The table below provides details of activities in relation to Bahrain's oil refining industry for the periods indicated:

	2007	2008	2009	2010	2011*
Refined oil production	268,230	263,299	261,912	272,226	252,627
Local sales of refined products	22,815	24,753	24,837	25,989	23,068
Exports(1)	250,685	222,935	222,861	234,529	208,177

Note:

(1) Includes exports by Bapco.

* *Figures estimated for the six months ended 30 June 2011.*

Source: National Oil and Gas Authority

Petrochemicals

GPIC, which is a joint venture between the Government (which has a 33.3 per cent. share in the company through nogaholding), SABIC and Petrochemical Industries Inc. of Kuwait, established a petrochemicals complex at Sitra in 1985. The plant includes production capability of 1,200 tonnes per day of methanol and ammonia and 1,700 tonnes per day of urea. In 1995, a sulphur derivatives plant was commissioned by National Chemical Industries Corporation. This plant has a capacity of 9,000 tonnes per year of sodium sulphite and 6,000 tonnes per year of metabisulphite and uses feedstock from the refinery operated by Bapco.

Financial Services

Bahrain has become one of the major financial centres in the MENA region. It benefited significantly when financial institutions left Lebanon during the 1975-1990 civil war, and its success is due, in part, to its geographical location between the east and west time zones and its proximity to Kuwait and Saudi Arabia. Financial services remained the largest component of GDP in real terms in 2008, 2009 and 2010, accounting for approximately 26.6 per cent., 25.1 per cent. and 24.62 per cent. of total GDP, respectively.

Pursuant to Vision 2030, Bahrain continues to develop a diverse economy by placing an emphasis on attracting commercial and investment banks, Islamic banks and other financial firms to the area. Its exchange rate is pegged to the U.S. dollar and has remained at the same level for more than 20 years.

The CBB is the sole banking regulator in Bahrain. Established in 2006, the CBB performs the role of financial agent to the Government, a role which principally entails advising the Government in relation to financial matters generally, as well as administering Government debt. More specifically, the main functions of the CBB are to arrange and implement the issuance of currency; to maintain monetary stability; and to supervise and construct the regulatory framework applicable to financial institutions. The CBB is not directly accountable to parliament and is independent of the Government. There are seven members of the Board of Directors of the CBB, including an independent chairman, each of whom is appointed by royal decree. The governor of the CBB serves for a five year term (the current governor was reappointed in January 2010).

The Bahraini legal system is seen as a sound system for settling disputes and there has been a relaxation of ownership rules, with certain activities now being permitted to be undertaken by 100 per cent. foreign-owned Bahraini entities and/or entirely foreign firms. As at 31 December 2006 and 2007 the consolidated balance sheet of the banking system was U.S.$187.3 billion and U.S.$245.8 billion, respectively. The consolidated balance sheet of the banking system was U.S.$252.4 billion as at 31 December 2008, U.S.$221.8 billion as at 31 December 2009, U.S.$222.2 billion as at 31 December 2010 and U.S.$198.1 billion as at 31 August 2011.

In a move aimed at attracting more foreign investors and reinforcing Bahrain's status as a ''*commercial hub*'' for the region, a new independent arbitration centre for commercial disputes was unveiled in January 2010. The Bahrain Chamber of Dispute Resolution (the ''**Chamber**''), which is a joint initiative between Bahrain's Ministry of Justice and the New York-based American Arbitration Association, will act as arbitrator between parties that voluntarily present their grievances and agree to accept its ruling as a final and binding resolution.

The Chamber has been developed as a means by which parties to a dispute can avoid the delays and uncertainty arising from using national courts. It has the authority to arbitrate cases where the claim is for more than 500,000 BD and involves an international party or a party licensed by the CBB. Its rulings are not subject to challenge in Bahrain once they are handed down, but the parties involved can still seek alternative legal redress through foreign courts where local law permits such a legal challenge and the parties involved opt to do so.

The Chamber, which is expected to cost between 2.5 and 3 million BD per year to run, is intended to serve regional needs in the Gulf, Iraq, Yemen, and Iran, and also to review cases from other parts of the world. Disputes arising after 4 January 2010 can be heard by the Chamber.

The banking system in Bahrain comprises conventional banks and Islamic banks, each of which is described in more detail under ''*Monetary and Financial System*'' below.

The Bahrain Financial Trust Law 2006 has broadened the range of specialised services that can be offered by financial institutions in Bahrain. It provides opportunities for companies and individuals to hold both conventional and Islamic assets situated anywhere in the world for employees' or their spouses' benefit. Recently, the CBB has approved the first Real Estate Investment Trust to be established in Bahrain. The Bahrain Financial Trusts Law 2006 provides the basis for the legal recognition of financial trusts established in accordance with the requirements of that law. Amongst other things, the trustee must be licensed by the CBB. The CBB operates a secure Trust Registry Office relating to trusts established under the Bahrain Financial Trusts Law 2006.

The English law concept of ''trust'' however, is not widely recognised by the courts of Bahrain. Furthermore, any judicial consideration by the Bahraini courts of any application to enforce a decision of a foreign court as to the legal and beneficial ownership of property (including rights in respect of securities) in Bahrain which is the subject of a trust is unknown. Unless a trust is created which meets the requirements of the Bahrain Financial Trusts Law 2006, it is not clear whether or not any trust created under any other method will be enforceable in Bahrain.

Bahrain also has an established insurance sector and a stock exchange, both of which are regulated by the CBB. The Bahrain Stock Exchange (''**BSE**'') commenced operations in June 1987 and currently has 49 Bahraini firms listed with a total market capitalisation of U.S.$18.3 billion as at 31 August 2011 (compared to 49 Bahraini firms listed with a total market capitalisation of U.S.$20.1 billion as at 31 December 2010). An additional five overseas firms have been listed as a result of cross-listing arrangements with other exchanges.

Impact of the February – March 2011 Protests on this sector

During the six months to 30 June 2011, the Bahrain economy registered a real GDP value of U.S.$6797.45 million. This value, as a percentage of total GDP as at 31 December 2010, shows that Bahrain has already produced economic output of 50.1 per cent. of total economic output in 2010 during the first half of 2011. As a consequence of the Government's stimulus expenditure in 2011, the Government expects government services to contribute further to GDP and outstrip 2010 GDP.

In the six months to 30 June 2011, Bahrain's economic output grew by 1.3 per cent. Most sectors of Bahrain's economy performed better than they did in the same period in 2010, with non-financial corporations growing by 2.2 per cent., financial corporations by 1.5 per cent. and government services by 4.8 per cent.

The Institute for International Finance ("**IIF**") and the International Monetary Fund ("**IMF**") have published forecasts for Bahrain's projected GDP growth. For the year 2011, the IIF estimates that Bahrain's growth will be 2.9 per cent. while the IMF forecasts that Bahrain's growth will be 1.5 per cent.

The relative stability of the financial services sector during the February – March 2011 Protests is testament to the strength and depth of this sector, confirming Bahrain's status as an established regional financial hub.

Other Services

Tourism

Saudi nationals are the principal tourists to Bahrain with the causeway linking the two countries facilitating this movement. In 2009 and 2010, 6,825,045 and 9,528,214 tourists, respectively, arrived in Bahrain via the causeway. Bahrain aims to continue being a destination of choice, particularly for Saudi tourists travelling to Bahrain for retail shopping and weekend breaks. It is anticipated that such tourism from Saudi Arabia will continue to increase, as will the growth in the number of foreign visitors to Bahrain for business travel, despite considerable competition from Dubai for tourists from the west. In order to accommodate tourists and foreign visitors to Bahrain, Bahrain currently has over 100 hotels, of which seven are registered as five stars.

Bahrain and Qatar have agreed to build a 40 kilometre toll-operated causeway called the Qatar Bahrain Friendship Bridge (linking both countries), see "*International Relations*". It is anticipated that completion of the project will result in a growth in the number of tourists and business travellers to Bahrain from Qatar and Oman.

The Government has encouraged the development of tourism and trade in Bahrain. It is a 50 per cent. equity investor in a U.S.$1.2 billion hotel development on a 20 kilometre site south-west of Manama called Reef Island, a tourist centre provisionally incorporating a marina. The development will be a mixed-use master planned community consisting of residential and commercial units, retail, hospitality, healthcare and entertainment facilities. Infrastructure works on the project were completed in 2006 and construction of phase one (comprising of eight apartment buildings with 272 units, 12 signature villas and 47 beach villas) commenced in 2007 and was completed in 2010. Phase two of the development (construction of hospitality, healthcare, retail and entertainment facilities) has experienced delays.

The Bahrain City Centre Mall is a mixed use development combining leisure, lifestyle and entertainment features with shopping facilities. The retail component is approximately 150,000 sq. m of convenience, fashion and entertainment outlets on three levels and comprises a total of 350 units. The water park, known as the Wahoo Water Park, is the first indoor-outdoor temperature controlled water park in the GCC and is located on the roof of the multi-storey car park and contains 12 indoor and outdoor rides within an area of 15,000 sq. m. Hotel accommodation comprises a five star Kempinski Grand 14 floor hotel and a four star Ixis 12 floor hotel, providing 253 and 294 rooms respectively, with shared hotel facilities. Work on the Kempinski Hotel is now complete, and both hotels are now open for business.

The Sofitel Bahrain Zallaq Thalassa Sea & Spa was opened on 20 February 2011, close to the Bahrain International Circuit and Manama city. This is an exclusive five star resort catering to leisure and business travellers and is the first hotel in the GCC to offer thalassotherapy treatments.

Bahrain has a growing tourism industry with several large scale tourist developments under construction. Bahrain has hosted Formula One races since 2004 and the contract has been extended beyond the preliminary six year period. The Formula One race in 2011 was cancelled due to the political unrest that occurred in the earlier part of the year. Bahrain has however been reinstated to the Formula One race schedule for 2012 and is set to host the 4th race of the new season on 22 April 2012. The Government-assisted U.S.$1 billion private sector development of Amwaj Islands (a 30 million square feet freehold development) has experienced delay. The Government is a partner in another U.S.$1 billion resort complex in the south of the country, Durrat al Bahrain. The Al Areen development, a project that will consist of residential, commercial, health, hospitality and entertainment facilities, is a project that cost over U.S.$1.3 billion. Major components of the development include the Banyan Tree Desert Spa and Resort, the "*Lost Paradise of Dilmun*" Water Park, Sarab Al Areen, Domina Prestige – Al Areen, Al Waha Resort, Downtown Al Areen, Al Areen Medical Centre, Oryx Hills, Sunset Hills, Al Areen Homes, and a number of residential villages, entertainment and recreational facilities. In line with Vision 2030, the key focus for growth and development of the tourism industry in Bahrain is to focus on family based tourism by attracting family holiday makers from the GCC and internationally.

Trade

Bahrain has signed several significant international trade agreements, including agreements with Malaysia and Thailand. Bahrain also concluded a Free Trade Agreement with the US in 2004, a first for a GCC county. Bahrain is pursuing a Free Trade Agreement with the EU in association with the other GCC countries, as well as trade agreements with India and China. Please refer to "*Balance of Payments and Foreign Trade*" for more detail.

Telecommunications

Bahrain also has a high quality modern telecommunications system, currently operated by BATELCO, Zain and STC through its "Viva" operations. BATELCO is approximately 57 per cent. owned by the Government through two investment holding companies, Mumtalakat, through which the Government holds a 37 per cent. shareholding and Amber Holdings Limited, through which the Government holds 20 per cent. shareholding. The Government also holds additional shares (of approximately 21 per cent.) through a quasi governmental institution, the Social Insurance Organization ("**SIO**") (formerly the General Organisation for Social Insurance and the Pension Fund Commission (which merged in February 2008)). The remainder of BATELCO's shares are held by other financial and commercial organisations and various GCC citizens. Zain began operations in December 2003 following the implementation of the law passed on 5 November 2002 permitting competition in the telecommunications sector.

Viva became the third mobile operator in Bahrain and commenced commercial operations in February 2010. Viva will provide competition for the incumbent mobile operators, BATELCO and Zain. STC Group is one of the leading telecommunications groups in the MENA region with more than 93 million subscribers to its service worldwide through nine countries.

The Telecommunications Regulatory Authority ("**TRA**") was established by Legislative Decree No. 48 of 2002 promulgating the Telecommunications Law. The TRA is an independent body and its duties and powers include protecting the interests of subscribers and users of telecommunication services, and promoting effective and fair competition among established and new licensed operators. The TRA's vision is to develop Bahrain as the region's most modern communications hub and to facilitate the development of the market. Its mission is to protect the interests of subscribers and users of telecommunications services and maintain effective and fair competition between established and new entrants to the telecommunications market of Bahrain. Two "National Communications" plans, each one lasting three years, set out strategies for the future of the telecommunications sector in Bahrain. The first National Communication plan, signed in 2003, set out the liberalisation objectives, the short term role of the TRA, licensing strategies aimed at a de facto monopoly, the establishment of the Bahrain Internet Exchange ("**BIX**"), the Government's role as shareholder and the corporate governance of BATELCO. The second National Communication plan, signed in 2008, set out the overall objectives of Government policy for the telecommunications sector, an initiative to help provide better service, continuing to develop the potential of competition, creating the right climate for investors, enhancing the use of the internet and broadband amongst all users and developing the regulatory environment to take account of convergence.

Common Market

On 1 January 2008 the six GCC countries declared the creation of a common market in the GCC region and the countries are currently in the process of further harmonising their laws and regulations to achieve this purpose. Bahrain, Saudi Arabia, Qatar and Kuwait approved a monetary union pact in December 2009. As a consequence of the monetary union pact, a GCC MC was established in Riyadh and held its inaugural meeting in March 2010. At this meeting, Mohammed Al-Jasser (Chairman of the Saudi Arabian Monetary Agency) was elected as chairman for a term of one year. The GCC MC's primary strategic aim is to lay the foundation for and act as a precursor institution for the establishment of a GCC CB. The GCC MC has set itself the primary task of consulting with GCC member countries in order to draft the legal and organisational framework that will underpin the GCC CB. Preparation for the development and implementation of a GCC single currency is now the responsibility of the GCC CB. No timeline for the implementation of a GCC single currency has yet been set.

Inflation

The CBB maintains the Bahraini Dinar's peg against the U.S. Dollar which has provided stability over the years, and as a result managed to keep inflation relatively low. As Bahrain has no significant onshore production, its inflation rates are affected by the cost of imports. The reduction in tariffs in Bahrain from the harmonisation of tariff rates in the GCC area contributed to the mild levels of deflation experienced in Bahrain since 1998. However, in the latter part of 2007 inflationary pressure was noted in all GCC countries including Bahrain arising as a result of the dramatic fall in the value of the U.S. Dollar. Bahrain continues to experience low levels of inflation.

The table below shows the consumer price index and inflation for each of the four years listed below:

	2007	2008	2009	2010
Consumer price index (CPI) (2006 = 100)	103.3	106.9	109.9	112.1
Inflation (per cent.)	3.3	3.5	2.8	1.9

Source: Central Statistics Organisation

The Government has updated its consumer basket weights with the year 2006 as the new base year. Accordingly, Bahrain has maintained strong economic growth in a relatively low inflation environment as indicated by the CPI. The reported CPI at the new base year of 2006 increased from 100.0 in 2006, to 103.3 in 2007 and to 106.9 in 2008. An increase of 3.3 per cent. in 2007 and 3.6 per cent. for the year 2008. In 2009, there was a slowdown in consumer prices and the CPI increased by 3 per cent. to 109.9, recording an inflation rate of 2.8 per cent. This decrease in the rate of inflation in 2009 was a result of the decrease in commodity and food price rises due to the global financial crisis. In 2010 there was a further slowdown in consumer prices as the CPI increased by 2.2 per cent. to 112.1 and recording an inflation rate of 1.9 per cent. This decrease in the rate of inflation in 2010 was again a result of the decrease in commodity and food prices as well as a general fall in the price of rents.

The CPI for Bahrain includes 11 broad categories of consumer goods that are representative of consumption patterns in the economy. These components are: ''food and non-alcoholic beverages'', ''alcoholic beverages, tobacco'', ''clothing and footwear'', ''housing, water, electricity, gas, and other fuels'', ''furnishing, household equipment and routine household maintenance'', ''heath care services'', ''transport communication'', ''recreation and culture'', ''education'', ''restaurants'' and ''miscellaneous goods and services''.

Inflation data is collected and calculated on a monthly basis by the Central Informatics Organisation.

The table below shows the consumer price index during each month in the period 1 January 2011 to 31 August 2011 and inflation when comparing the CPI in each of those months to the corresponding months in the previous year:

	January	February	March	April	May	June	July	August
Consumer price index (CPI)	112.5	113.5	109.5	109.9	109.9	109.6	110.3	111.7
(2006 = 100) Inflation (per cent.)	0.3	0.9	(3.5)	0.4	0.0	(0.3)	0.6	1.3

Source: Central Statistics Organisation

The main contributors to the year-on-year CPI fluctuation in 2011 was fluctuation of the price of items within the 'food and non-alcoholic beverages', 'alcoholic beverages, tobacco' and 'housing, water, electricity, gas and other fuels' CPI broad categories of consumer goods.

Wages

There are only limited statistics relating to wages available in Bahrain. There is no official minimum wage level in Bahrain although the concept has been debated in the past by the Ministry of Labour, the General Organisation of Trade Unions and the Labour Market Regulatory Authority (''**LMRA**'').

The table below sets out average monthly wage rates for the public and private sector for the periods indicated:

	2006	2007	2008	2009	2010
			(U.S.$)[(1)]		
Public sector	1,862	2,059	2,120	2,156.9	2,239.40
Private sector	559	617	702	707.4	728.7
			(percentage change)		
Public sector	5.4	10.6	3.0	1.7	3.8
Private sector	1.4	10.5	13.8	0.8	3.0

Note:
(1) Using the fixed conversion rate of BD0.376 = U.S.$1.00.
Source: General Organisation for Social Insurance and Civil Service Bureau

Employment

Bahrain has a high proportion of non-Bahrainis amongst its working population (76.1 per cent. in 2009 and 76.7 per cent. in 2010). The Government has sought to implement a policy in recent years of increasing the number of Bahraini nationals in employment, principally through specialised training. A number of different training programmes are offered in the financial services, hotel trade and technical fields and, more recently, in the retail trade area. The employment of Bahraini nationals who have completed these types of training course is encouraged by the Government. The Government has also implemented a policy of restricting certain sectors of employment to Bahraini nationals exclusively. These sectors include truck drivers, machinery operators and unskilled workers in Government ministries.

The unemployment rate among Bahraini nationals, which, according to the 2001 census was 12.1 per cent. has declined rapidly due to focused Government reforms. In 2006, the Government launched an ambitious labour market reform program, based on four pillars: National Employment Project (“**NEP**”), LMRA, the Labour Fund and the Unemployment Insurance Program. The reform programme seeks to stimulate investment and technological change, as well as education and training of the Bahraini labour force. Since the launch of the programme, unemployment has been reduced from 15 per cent. in 2005 to 3.7 per cent. as at 30 June 2011.

In accordance with Vision 2030, the Government aims to ensure that all residents and citizens are treated equally under the law and in accordance with human rights including ensuring equal access to services and are supported with adequate job training. In addition, the Government aims to create a level playing field in the job market for Bahrainis through immigration reform and the revision of labour laws. In implementing this vision, the Government, through the Ministry of Labour, issued a decision in April 2009 to abolish the sponsorship system for foreign employees which restricted employees from transferring into new jobs without their employer’s approval. The decision, which came into effect in August 2009, allows foreign employees to transfer from one job to another independent of their sponsors, and lifts all restrictions that were previously applicable to employees under the sponsorship programme.

In January 2006, the BD30 million NEP was established. Its aim is to create job opportunities for unemployed Bahrainis who can register with 20 centres located throughout the Kingdom. In the initial month of its launch, 3,127 unemployed Bahrainis were registered; by January 2007, around 12,000 Bahrainis had found employment as a result of the project and a further 900 were being trained at the Bahrain Training Institute. By 2010 NEP trainees were attending courses with BAPCO, College of Heath Sciences and Bahrain Institute of Banking and Finance.

The NEP programme uses career-related assessment, which is designed to tailor evaluation to individuals’ specific attributes and provide accurate information about a person’s capabilities, desires and future career. Following establishment of the NEP, Ministry of Labour officials have been encouraging private organisations to provide better quality training for their employees. The aim is to raise productivity and performance of the companies. The Cabinet has also approved the formation of a Supreme Committee for Human Resources Development and the ministry implemented a wage subsidy to private companies.

In order to provide financial support to unemployed Bahrainis, the Bahraini government levies a 1 per cent. fee on salaries to pay for an unemployment scheme. Deductions commenced from 1 July 2007, with unemployment benefits becoming payable to those eligible from September 2007.

Other labour market reforms have also taken place. In 2007, a bureau for employed Bahrainis in Qatar and an office for recruitment of Bahrainis in the United Arab Emirates were established. On 1 January 2007, the Labour Fund, re-branded as "Tamkeen" in late 2008, was separated operationally from the EDB focusing its efforts on increasing the efficiency and productivity of the Bahraini labour force, strengthening the economy, and developing the private sector by creating new jobs suitable for Bahrainis.

Tamkeen is an entity initially established by the EDB to regulate and improve the labour market in Bahrain. It is a semi autonomous yet independent authority which formulates strategic and operational plans to enhance the overall prosperity of Bahrain by investing in Bahraini employability, job creation and social support. Tamkeen is funded by the fees collected by the LMRA. Tamkeen's main objectives are to support Bahraini nationals to become employees of choice, and to support high quality private sector job creation and to help the private sector cope with the impact of labour market reform. To achieve these objectives, Tamkeen will invest (i) in the cost and quality competitiveness of Bahraini nationals by reducing the cost of employing Bahrainis relative to expatriates and investing in skill development and will tackle employment barriers with regard to both current employers and new employees to the market through a combination of financial incentives and capability building, and (ii) in supporting the private sector's adjustment to new cost structures by providing access to capital to alleviate short term cash constraints or by improving productivity, and in know-how initiatives that support improvements in productivity and a decrease in reliance on expatriate labour through the spread of management and technical knowledge. See "*Vision 2030*" under "*Overview of The Kingdom of Bahrain*"

Foreign Direct Investment and Privatisation

Bahrain benefits from a number of characteristics which enhance its reputation as a favourable business environment. The country generally has a long and stable economic and political history; as at the date of this Prospectus, 66 per cent. of its financial sector (its single largest GDP-contributing sector) employees are local citizens (demonstrating a lack of reliance on the need to attract foreign expatriate workers from abroad); there is a relatively low cost to conduct business in Bahrain when compared to other countries in the MENA region; there are significant and established wholesale banking, insurance and re-insurance and fund management industries (including industries ancillary to these, such as audit firms); and an efficient and robust legal and regulatory framework which has set in place a single legal framework maintained by the CBB – which acts in a dual role as Bahrain's sole banking regulator and Bahrain's Central Bank.

Foreign Direct Investment

The EDB was established by decree in March 2002 to promote foreign direct investment in Bahrain in order to further diversify the economy. The EDB is an independent public sector organisation constituted under its own law which is headed by the Crown Prince and consists of seven ministers and seven prominent business leaders. In recent years, the principal source of foreign direct investment has been reinvested earnings by Bahrain's significant offshore banking sector.

The EDB has identified eight key economic areas in which it intends to promote foreign direct investment. These are information technology; business services; education; tourism; healthcare; logistics; high tech manufacturing; and financial services.

Privatisation

In 2002, the Government passed a privatisation law which, among other matters, established procedures for determining privatisation policy, identified the sectors to be targeted for privatisation and detailed the use of privatisation proceeds. The total proceeds raised from privatisations in Bahrain between 1989 and 2000 were less than U.S.$79.8 million. Since then, privatisations have accelerated, and during 2006/07 Hidd Power plant was privatised generating U.S.$737 million. In 2007, the Seef Mall privatisation generated U.S.$72 million to the Government. Private power capacity has increased significantly following the establishment of the private Al Ezzel 1000 kilowatt power and 90 metre gallons per day ("**gpd**") water plant which began commercial production in April 2006.

As set out in Vision 2030, privatisation remains a priority for the Government and includes a focus on deregulation in order to encourage private investment in schools, hospitals and other public services. Over the last two decades, a considerable share of Bahrain's growth has been driven by the public sector. Local Bahraini employees have tended to be provided with employment opportunities within the public sector, however, in light of the gradual decline of oil reserves, the Government's strategy is, by 2030, to move away from public sector employment and provide opportunities through the private sector.

Accordingly, the Government has announced that privatisation will take centre stage as the private sector will remain the focus for economic growth. This is part of the Government's strategy to make the private sector the key area for Bahrain's economic growth.

In 2008, a power water production agreement was signed for a 1200 megawatt electricity generation and 100 million gpd water production facility. The first stage of the facility, capable of producing 400 MW of electricity, was commissioned in June 2010. Further commissioning trials are ongoing. Commercial production at the facility is expected to commence in late 2011. Currently 48 million gallons of water is produced at this plant. The Government is also encouraging private sector investment in various sectors such as utilities, education and healthcare and privatised its public transport system.

The King Hamad University Hospital is managed by the Bahrain Defence Force and among its functional roles, the 312 bed hospital located in Muharraq will be used as a teaching hospital for the adjacent, privately run medical university. The hospital is set to open in late 2011.

Similarly, an agreement to build a fully private waste to energy plant with a capacity of 390,000 tons of waste was signed on 24 June 2010. This plant is to be located in Askar area and is expected to be operational by 2014. This plant is expected to process 390,000 tons of solid waste through an incinerator and produce 25 MW of power. The conditions precedent in the agreement have largely been completed and the financing is at the final stages. Construction is expected to commence in 2012.

Infrastructure

The Khalifa Bin Salman Port (''**KBSP**'') inaugurated on 11 November 2009 is the first multi-functional facility that is focused on import, export and re-exports and value added services. The KBSP occupies an area of 110 hectares of reclaimed land and is located in the north-east of the Kingdom, 13 kilometres from Bahrain airport. It is also linked to the road leading to the King Fahd Causeway.

The King Fahad causeway, completed in 1986, is a 25km causeway that links the Kingdom of Bahrain to the largest market in the GCC, Saudi Arabia. The causeway has brought significant economic benefits for both countries (please see ''*Other Services*'' for further information). In addition, Bahrain and Qatar have agreed to build a 40km marine causeway, to be known as the 'friendship bridge'. The causeway serves the purpose of boosting Bahrain's tourism sector and strengthening its business ties with Qatar. The Bahrain-Qatar causeway project is currently in the detailed design phase and construction is due to commence in the second quarter of 2012. Construction for vehicle traffic is expected to be completed by the second quarter of 2016 and for railways in the second quarter of 2018. The cost of the project will be split equally between Bahrain and Qatar. A U.S.$350 million soft loan to be provided by Qatar to Bahrain for the purpose of funding Bahrain's contribution to the project has been signed and has been ratified by parliament recently. In anticipation of the causeway being built, Bahrain has laid plans to develop resorts, business parks and other facilities in proximity to the location of the causeway. The combined causeways linking Qatar to Saudi Arabia (via Bahrain) will further strengthen Bahrain role as a regional hub for foreign transport and trading companies.

The Bahrain Ministry of Works signed the Build Own Operate contract for the Muharraq sewage treatment plant. The plant is expected to have an initial design capacity of approximately 100,000 m3/day. The project has two phases. The first phase is expected to take approximately 30 months and will involve the construction of the sewage treatment plant and a gravity sewer trunk main. This link will enable effluent to be fed from an existing wastewater pumping station to the new plant. When the plant is fully operational, phase two will begin and is expected to last no longer than a year, during which time a series of connection sewers will be built to link existing wastewater pumping stations directly into the sewer trunk main. In addition, a limited local connection network will also feed directly into the plant.

The Bahrain Affordable Housing Project (the ''**Project**'') will involve a public private partnership for the long term development, design, engineering, construction and hard facilities management, maintenance and financing of affordable housing. The Project will be undertaken upon three sites located at Buhair, Al Lawzi and Islands 13 and 14 in Northern Town of Bahrain respectively. The Project will involve the development of approximately 3,100 social houses together with approximately 1,050 affordable houses and apartments. The Government received two bids and in the first quarter of 2011, selected a preferred bidder for the Project. As at the date of this Prospectus, the Government is in advanced negotiations with the preferred bidder. The first social houses constructed as part of the Project are expected to be delivered in the fourth quarter of 2013.

The Project forms part of the Government's larger affordable housing scheme which contemplates close co-operation between the public and private sectors to deliver affordable housing to low and middle income Bahraini families.

BALANCE OF PAYMENTS AND FOREIGN TRADE

The table below sets out Bahrain's balance of payments, prepared in accordance with IMF Manual 5 methodology, for the periods indicated:

Balance of Payments(1)

	2007*	2008*	2009**	2010**
		(U.S.$ millions)(2)		
1. Current account (a+b+c+d)	2,906.7	2,256.9	560.1	770.1
a. Goods	2,864.9	3,244.9	2,438.8	2,642.8
General Merchandise	2,708.0	3,069.4	2,260.6	2,456.6
Exports (fob)	13,633.5	17,315.7	11,873.7	13,647.1
Oil	10,796.0	13,788.8	8,913.6	10,180.9
Non-oil	2,837.5	3,526.9	2,960.1	3,466.2
Imports (fob)	(10,925.5)	(14,246.3)	(9,613.0)	(11,190.4)
Oil	(5,864.1)	(7,204.3)	(4,354.3)	(5,393.1)
Non-oil	(5,061.4)	(7,042.0)	(5,258.8)	(5,797.3)
Repairs on goods	156.7	175.5	178.2	186.2
b. Services (net)	1,823.4	1,710.1	1,912.0	2,142.0
Transportation	50.8	(144.2)	40.4	43.4
Travel	626.3	662.8	710.4	856.1
Communication services	642.8	665.2	700.0	752.1
Financial services (Including Insurance)	467.3	486.7	433.8	474.1
Other business services	36.2	39.6	27.4	16.2
c. Income (net)	(298.7)	(923.6)	(2,399.7)	(2,373.0)
Investment income	(298.7)	(923.6)	(2,399.7)	(2,373.0)
Direct investment income	(1,190.2)	(1,273.9)	(294.7)	(2,088.2)
Portfolio income	2,054.3	1,087.0	16.0	(42.7)
Other investment income	(1,162.8)	(736.7)	(2,121.0)	(242.2)
d. Current transfers (net)	(1,482.7)	(1,774.5)	(1,391.0)	(1,641.8)
Workers' remittances	(1,482.7)	(1,774.5)	(1,391.0)	(1,641.8)
2. Capital and financial account (net)(A+B)	(2,916.5)	(2,226.6)	(494.4)	(877.0)
A. Capital account (net)	50.0	50.0	50.0	50.0
Capital transfers	50.0	50.0	50.0	50.0
B. Financial account (1+2+3+4)(3)	(2,966.5)	(2,276.6)	(544.4)	(927.0)
1. Direct investment	86.9	173.4	2,048.7	(178.3)
Abroad	(1,669.2)	(1,620.5)	1,791.5	(334.0)
In Bahrain	1,756.1	1,793.9	257.2	155.8
2. Portfolio investment (net)	(8,559.8)	9,276.9	8,275.5	4,755.8
Assets	(9,890.1)	6,286.7	6,710.1	2,051.6
Liabilities	1,330.3	2,990.2	1,565.4	2,704.2
3. Other investment (net)	6,921.0	(12,021.0)	(10,987.5)	(4,225.2)
Assets	(38,504.8)	(3,264.6)	18,123.7	2,739.7
Liabilities	45,425.8	(8,756.4)	(29,111.2)	(6,964.8)
4. Reserve assets (net)	(1,414.6)	294.1	118.9	(1,279.4)
3. Errors and omissions	10.2	(30.3)	(65.7)	107.0

Notes:

(1) Trade statistics in this table are prepared on a 'free on board basis' as such term is specified within the International Monetary Fund's Balance of Payment Manual.

(2) Using the fixed conversion rate of BD0.376 = U.S.$1.00.

(3) A negative sign means net outflows/increases in external assets.

* Provisional

** CBB Forecast

Source: CBB

Current Account

Bahrain has a free market economy, with no restrictions on capital movements, foreign exchange, foreign trade or foreign investment. As a result of the global financial crisis, Bahrain's current account surplus shrank in 2009 to an estimated $560.1 million and increased to U.S.$770.1 million in 2010. As a percentage of real GDP, Bahrain recorded a current account surplus of 24.5 per cent. in 2007, 17.9 per cent. in 2008, 4.3 per cent. in 2009 and 3.5 per cent. in 2010. The contraction in the current account surplus position in 2008 was due to a U.S.$1,476.1 million increase in the deficit on income in 2008, as the global financial crisis intensified during that year, and in 2009 was due to a decrease in oil prices during the year, which led to a decrease in export receipts. The increase in the current account surplus in 2010 by 37.5 per cent. was due to the increase in oil exports (which resulted in an increase in export receipts benefiting from an increase in oil prices) and a corresponding increase in net services receipts by 12 per cent.

Bahrain's economy is dependent on imports as evidenced by import/GDP ratios of 59.1 per cent., 64.3 per cent,. 48.9 per cent. and 51.0 per cent. in each of 2007, 2008, 2009 and 2010, respectively. Bahrain's principal imports are crude oil (purchased from Saudi Arabia for processing at the Sitra refinery) and alumina (purchased from Australia for processing at the Alba smelter).

Bahrain's principal exports are crude oil, refined oil products and aluminum exports by Alba. Although aluminum prices have been less volatile than those for oil, fluctuations in recent years have affected Bahrain's trade balance. As a result of its significant oil exports, Bahrain has been a net exporter in each of the last four years, ending 2009.

Bahrain's services balance has been positive in each of the preceding four years, ending 2010. The principal source of revenue in the services sector is income from communication services and tourism. The net freight costs of imports in recent years reflect Bahrain's positive trade balance.

The activities of Bahrain's significant offshore banking industry give rise to high levels of income credits and debits. Other income debits include the repatriation of profits by foreign firms located in Bahrain.

Bahrain experiences a high level of current transfers as expatriate workers remit savings and earnings to their home countries. This resulted in negative current transfers for the year ending 31 December 2010 of U.S.$617.3 million. In 2009, there was a U.S.$383.5 million decrease in remittances, which lead to an outflow of net current transfers of U.S.$1,391.0 million. In 2010, there was a U.S.$250.8 million increase in remittances, which lead to a negative outflow of net current transfers of U.S.$1,641.8 million.

Capital and Financial Account

Within the capital and financial accounts, Bahrain has experienced gradually increasing levels of foreign direct investment. Bahrainis are also active investors abroad, as shown by the direct investment figures. Total direct investment recorded a net inflow of U.S.$2,048.7 million in 2009, and a net outflow of U.S.$178.2 million in 2010. In 2010, direct investment flows both from abroad and in Bahrain showed inflows of U.S.$334.0 million and U.S.$155.9 million, respectively. Direct investment abroad has reversed to become an inflow and reflects tight business conditions and repatriation of capital from the rest of the world.

On a net basis, portfolio investment (which principally comprises debt and equity securities issued by banks) showed a net inflow in 2009 and 2010 of U.S.$8,275.5 million and U.S.$4,755.9 million, respectively. Other investment (principally comprising bank loans and cash deposits) have demonstrated an outflow. For 2009 and 2010, other investment recorded outflows of U.S.$10,987.5 million and U.S.$4,225.3 million, respectively.

As a result of movements in the current capital and financial accounts, and after taking into account errors and omissions, Bahrain's balance of payments showed a surplus of U.S.$1,414.6 million in 2007, while it showed a deficit of U.S.$294.1 million in 2008 and U.S.$118.9 million in 2009. In 2010, Bahrain's balance of payments showed a surplus of U.S.$1,279.5 million. In 2007, the surplus was equal to 7.7 per cent. of that year's GDP. In 2008 and 2009, the deficits were equivalent to 1.3 per cent. and 0.5 per cent. of the relevant year's GDP. In 2010, the surplus was equivalent to 5.8 per cent. of the 2010 GDP. As of 31 December 2007, 2008, 2009 and 2010, Bahrain's gross foreign exchange reserves were estimated by the CBB to be equal to 4.4, 4.4, 4.5 and 5.2 months, respectively, of obligations in respect of imports of goods.

Foreign Trade

Bahrain's major import is crude oil which is piped to the Sitra refinery from Saudi Arabia. Although in terms of volume oil imports have been relatively stable, in terms of price they have varied considerably. This variation in price reflects market-based movements in the price charged by Saudi Arabia for oil.

The table below provides details of Bahrain's crude oil imports for each of the periods indicated:

	2007	2008	2009	2010	2011*
Imports of oil (U.S.$ millions)(1)	5,864.1	4,979.8	3,358.1	4,144.59	524.8
As a percentage of total imports....	51.0	47.9	42.7	45.6	58.7

Note:

(1) Using the fixed conversion rate of BD0.376 = U.S.$1.00.

* Quarter 1 and 2 average.

Source: National Oil and Gas Authority

The majority of Bahrain's major exports are petroleum related, consisting of petroleum products from the refinery at Sitra, petrochemical products from the petrochemical complex operated by GPIC and revenues derived from the sale of Bahrain's share of the crude oil produced at the Abu Saafa oil field. For a summary of oil production and refinery figures, see the tables under ''*Bahraini Economy – Principal Sectors of the Economy*'' above. The largest non-oil export is aluminum from the Alba production plant (estimated by the CBB to account for 8.3 per cent. of total exports and 33.4 per cent. of all non-oil exports in 2009, and 11.3 per cent. of total exports and 44.6 per cent. of all non-oil exports in 2010). The reduction in the surplus recorded in 2009 and 2010, compared to the surplus recorded in 2008, was due to low oil prices.

The trade balance registered a surplus of U.S.$2,146 million in 2007, which was a 27.4 per cent. increase from the previous year. This surplus largely reflected movements in the oil trade balance over the period which in turn were mainly affected by global oil prices. The surplus increased to U.S.$6,067.7 million in 2008. The increases in 2007 and 2008 were due to higher oil prices and a sharp reduction in non-import revenues in 2008 due to the global decline in consumer goods prices. In 2009 and 2010, lower surpluses of 4,447.60 and 4,809.0, respectively, were recorded.

Non-oil trade

Bahrain's non-oil trade balance was in deficit in each of the three years to 2009, with the amount of the deficit ranging from a low of U.S.$2,786.2 million in 2007 to a high of U.S.$4,297.6 million in 2008. The deficit in 2009 was U.S.$2,883.0 million. A surplus of U.S.$2,978.3 million was recorded in 2010 (in each case measured on a cost, insurance and freight basis (''**CIF**'')).

The following table shows a summary of Bahrain's non-oil imports and exports (including re-exports) for the periods shown and the respective trade balances by area:

	2005			2006			2007			2008*		
	Exports	Imports	Balance	Exports	Imports	Balance	Exports	Imports	Balance	Exports	Imports	Balance
						(U.S.$ millions)(1)						
Arab countries	1,153.46	804.79	348.67	1,257.71	928.19	329.52	1,407.18	1,079.79	327.39	676.60	902.66	-226.06
Africa	5.32	17.82	-12.50	10.64	16.49	-5.85	12.23	21.28	-9.05	22.61	12.23	10.38
Asia..........................	762.23	1,743.88	-981.65	1,016.22	1,818.62	-802.40	555.85	1,841.76	-1,285.91	367.29	682.98	-315.69
Europe	207.98	1,611.70	-1,403.72	357.18	1,697.34	-1,340.16	347.61	1,435.11	-1,087.50	270.48	649.73	-379.25
Americas.................	263.03	600.27	-337.24	269.68	605.32	-335.64	376.86	507.45	-130.59	215.43	273.94	-58.51
Oceania	52.39	443.09	-390.70	56.38	544.95	-488.57	125.80	735.37	-609.57	107.97	109.31	-1.34
Other countries......	14.10	1.86	12.24	14.63	2.66	11.97	11.97	2.93	9.04	10.63	1.33	9.3
Total(2)	2,458.51	5,223.40	-2,764. 90	2,982.45	5,613.56	-2,631.13	2,837.50	5,623.67	-2,786.19	2,671.01	2,632.18	38.83

Notes:

(1) Using the fixed conversion rate of BD0.376 = U.S.$1.00

(2) The totals in this table do not conform to the equivalent numbers stated in the balance of payments because the numbers in this table are prepared on a CIF basis.

*Figures estimated for the nine months ended 30 September 2008

Source: Central Informatics Organisation

The table below shows Bahrain's main non-oil trading partners by percentage share for the periods shown:

Exports:	**2005**	**2006**	**2007**	**2008***
		(%)		
Saudi Arabia	26.3	22.5	24.9	29.9
United States	10.7	8.5	13.1	12.4
Taiwan	4.7	2.8	0.7	0.0
UAE	6.4	5.6	7.1	9.8

Imports:	**2005**	**2006**	**2007**	**2008***
		(%)		
Saudi Arabia	8.0	8.6	9.8	24.0
Australia	8.2	9.5	12.9	0.5
Japan	11.0	11.1	10.7	4.7
United States	6.6	7.1	6.8	6.2
United Kingdom	5.6	5.0	4.2	4.0
Germany	7.3	7.2	5.7	3.9

*Figures estimated for the nine months ended 30 September 2008
Source: Central Informatics Organisation

In 2007, Bahrain's principal non-oil export destinations were Saudi Arabia and the United States, which together accounted for 38.0 per cent. of total non-oil exports in that year. The principal export to the United States was ready made garments and the principal exports to Saudi Arabia were aluminium, asphalt and textiles. In terms of non-oil imports, Bahrain's principal trading partners in 2007 were Australia (accounting for 12.9 per cent. of total imports), Japan (accounting for 10.7 per cent. of total imports), Saudi Arabia (accounting for 9.8 per cent. of total imports), China (accounting for 8.5 per cent. of total imports) and the United States (accounting for 6.8 per cent. of total imports). Collectively these countries were the source of 48.7 per cent. of Bahrain's imports in 2007. The principal import from Australia was aluminium used by the Alba smelter whilst cement and food products were the principal non-oil imports from Saudi Arabia. Cars and car parts were the principal imports from Japan, while coke (for the Alba plant) and tobacco were the principal imports from the United States.

The table below sets out the principal Bahraini non-oil exports (excluding re-exports) and imports classified by type for the periods indicated:

	2006		**2007**		**2008***	
	(U.S.$ millions)[1]	*(%)*	*(U.S.$ millions)*[1]	*(%)*	*(U.S.$ millions)*[1]	*(%)*
Exports						
Base metals and articles thereof	1,821.81	61.1	1,442.02	50.8	513.1	51.1
Textiles and textile articles	101.1	3.4	120.74	4.3	31.1	3.1
Total non-oil exports[2]	2,981.90	100	2,837.50	100	1,004.30	100
Imports						
Machinery and appliances, electrical equipment	1,275.27	22.7	1,133.51	20.2	222.9	22.5
Chemical products	897.61	16.0	1,002.66	17.8	105.4	10.6
Transport equipment	887.23	15.8	986.44	117.5	145.3	14.7
Textiles	201.06	3.6	171.01	3.0	34.6	3.5
Total non-oil imports[2]	5,614.4	100	5,622.3	100	989.7	100

Notes:
(1) Using the fixed conversion rate of BD0.376 = U.S.$1.00
(2) The totals in the above tables do not conform to the equivalent numbers stated in the balance of payments because the numbers in these tables are prepared on a CIF basis
*Figures estimated for the nine months ended 30 September 2008
Source: Central Informatics Organisation

Bahrain's principal non-oil export items are base metals (principally aluminium products but also iron) and textiles (including ready made garments). These two items accounted for 57.3 per cent. of non-oil exports in 2005, 64.5 per cent. in 2006, and 55.1 per cent. in 2007. This variation in the percentage of non-oil exports is predominantly as a result of the upward movement in global oil prices.

The principal categories of imports are machinery and electrical equipment, transport equipment (including cars), chemical products (principally coke for the Alba smelter) and textiles (principally raw materials). Between them, these four categories accounted for 55.9 per cent. of non-oil imports in 2005, 58.1 per cent. in 2006 and 58.5 per cent. in 2007.

MONETARY AND FINANCIAL SYSTEM

Monetary and Exchange Rate Policy

Bahrain's monetary and exchange rate policy was previously managed by the BMA pursuant to the Bahrain Monetary Agency Law (No. 23, 1973) and is currently managed by the CBB. The objective of Bahrain's monetary policy is to facilitate the fixed exchange rate regime. In 2001, the BMA formally pegged the Bahraini Dinar to the US dollar at a rate of BD0.376 = U.S.$1.00. This rate had in fact been used in practice since 1980, even though, in principle, the Bahraini Dinar had been pegged to the IMF's special drawing rights ("**SDR**"). This policy is consistent with Bahrain's current and capital accounts and fits in with the regional framework of US dollar-pegged exchange rates as the pricing of oil and gas is in US dollars. The currencies of all GCC countries (except Kuwait) are formally pegged to the US dollar.

The CBB is an independent public sector organisation constituted under its own law, the Central Bank of Bahrain and Financial Institutions Law of 2006. It was created on 7 September 2006. The CBB is responsible for maintaining monetary and financial stability in Bahrain. It succeeded the BMA, which had previously carried out central banking and regulatory functions since its establishment in 1973 (shortly after Bahrain secured full independence from the United Kingdom).

The CBB inherited the BMA's wide range of responsibilities. The CBB implements Bahrain's monetary and foreign exchange rate policies, manages the Government's reserves and debt issuance, issues the national currency and oversees payments and settlement systems. It is also the sole regulator of Bahrain's financial sector, covering the full range of banking, insurance, investment business and capital markets activities.

Both the GCC and Bahrain have experienced the repercussions of global market turmoil present since 2007, see "*Global Slowdown Risk*". In light of such events, the CBB took a proactive role similar to many other central banks and introduced three measures to improve market liquidity: interest rate cuts, the opening of a new foreign exchange swap facility and the acceptance of a wider range of collateral. These adjustments helped to ensure that short-term financial assistance was available to banks at reasonable rates against a wider range of collateral and allowed banks to obtain Bahraini Dinar in return for U.S. dollars as required. Additionally, in March 2009, the mandatory reserve ratio was lowered from 7 per cent. to 5 per cent. following a significant decline in inflationary pressures on consumer and asset prices.

Money Supply

The following table sets out an analysis of Bahrain's domestic liquidity as at the dates indicated:

	At 31 December				
	2007	**2008**	**2009**	**2010**	**2011***
			(U.S.$ millions)(1)		
Currency in circulation	818.09	986.17	1,078.72	1,162.23	1,414.63
M1(2)	4,182.45	5,049.73	5,740.16	6,127.39	6,736.97
M2(3)	15,113.30	17,894.68	18,934.31	20,924.20	20,605.05
M3(4)	17,705.05	21,394.95	22,351.60	25,254.52	25,167.55

Notes:

(1) Using the fixed conversion rate of BD0.376 = U.S.$1.00.

(2) Currency in circulation plus private demand deposits.

(3) M1 plus private sector savings and time deposits.

(4) M2 plus government deposits.

* *Figures as at 31 August 2011.*

Source: CBB

The indicators above highlight the continued growth of money supply during the periods under review. Currency in circulation (outside banks) increased by U.S.$127.66 million (18.7 per cent.) to U.S.$809.04 million as at 31 December 2008 compared with U.S.$681.38 million as at 31 December 2007. As at 31 December 2008, M1 (currency in circulation plus private demand deposits) grew by 20.7 per cent. to U.S.$5,049.73 million as at 31 December 2008 compared to U.S.$4,182.45 million as as 31 December 2007. M2 (M1 plus private sector savings and time deposits) grew by 18.4 per cent. to U.S.$17,894.68 million as at 31 December 2008 compared to U.S.$15,113.30 million as at 31 December

2007. M3 (M2 plus government deposits) grew by 20.8 per cent. to U.S.$21,394.95 million as at 31 December 2008 compared to U.S.$17,705.05 million as at 31 December 2007.

As at 31 December 2009, currency in circulation increased by U.S.$50.00 million (6.18 per cent.) to U.S.$859.04 million compared with U.S.$809.04 million as at 31 December 2008. As at 31 December 2009, M1 grew by 13.7 per cent. to U.S.$5,740.16 million compared to U.S.$5,049.73 million as at 31 December 2008. M2 grew by 5.8 per cent. to U.S.$18,934.31 million as at 31 December 2009 compared to U.S.$17,894.68 million as at 31 December 2008. M3 grew by 4.5 per cent. to U.S.$22,351.60 million as at 31 December 2009 compared to U.S.$21,394.95 million as at 31 December 2008.

As at 31 December 2010, currency in circulation increased by U.S.$43.1 million (5.0 per cent.) to U.S.$902.12 million compared with U.S.$859.04 million as at 31 December 2009. As at 31 December 2010, M1 grew by 7.3 per cent. to U.S.$6,158.24 million compared to U.S.$18,934.31 million as at 31 December 2009. M2 grew by 7.7 per cent. to U.S.$20,394.94 million as at 31 December 2010 compared to U.S.$18.934.31 million as at 31 December 2009. M3 grew by 9.6 per cent. to U.S.$24,494.68 million as at 31 December 2010 compared to U.S.$22,351.60 million as at 31 December 2009.

Money supply growth has been stimulated by a growth in savings. Broad money (M2) growth was mainly due to increases in private sector deposits in both domestic and foreign currency. In 2008, total private sector deposits (demand deposits as well as time and savings deposits) amounted to U.S.$17,085.64 million and accounted for approximately 95.5 per cent. of M2. In 2009, total private sector deposits (demand deposits as well as time and savings deposits) amounted to U.S.$18,075.27 million and accounted for approximately 95.5 per cent. of M2. Although private demand deposits increased by 15.1 per cent., M2 growth was largely a result of growth in time and savings deposits. Time and savings deposits increased by approximately 2.7 per cent. from U.S.$12,844.95 million as at the end of 2008 to U.S.$13.194.04 million at the end of 2009, decreasing its share of M2 from approximately 71 per cent. in 2008 to approximately 70 per cent. in 2009.

As at 31 December 2010, the broadest measure of money (M3), increased by U.S.$2,902.9 million or 13 per cent. from U.S.$22,351.60 million at the end of 2009 to U.S.$25,254.4 million. In the context of deposits, M3 includes general government deposits (with both the CBB and retail banks) which increased by U.S.$913.0 million or 26.7 per cent. from U.S.$3,417.29 million in 2009 to U.S.$4,330.3 million in 2010. As with domestic liquidity (also a component of M3), the growth was largely due to an increase in total domestic assets relative to net foreign assets. For the period ending November 2009, net foreign assets decreased by U.S.$1,693.08 million or 23.7 per cent. to reach a total of U.S.$5,459.04 million and total domestic assets increased by U.S.$2,190.16 million or 15.4 per cent. to reach a total of U.S.$16,432.98 million.

Foreign Reserves

The table below shows the foreign reserves held by the CBB as at the dates indicated:

	At 31 December				
	2007	**2008**	**2009**	**2010**	**2011***
			(U.S.$ millions)[1]		
Foreign exchange	4,105.3	3,806.9	3,533.5	4,782.2	4,277.9
SDRs	10.2	14.6	200.0	193.1	207.4
Reserve position in the IMF	112.5	109.7	111.6	107.7	115.4
Total gross foreign reserves	4,228.0	3,930.6	3,845.1	5,083.0	4,600.7
Gold	6.6	6.6	6.6	6.6	6.6
Total gross foreign reserves (incl. gold)	4,234.6	3,937.2	3,851.7	5,089.6	4,607.3
Net official reserves[1]	–	–	–	–	–

Note:

(1) Net official reserves are not available for 2006, 2007, 2008, 2009 or 2010.

** Figures as at 31 August 2011.*

Source: IMF

Bahrain's foreign reserves are held abroad and primarily invested in fixed income instruments and money markets. These investments are generally U.S. dollar denominated and are invested in low credit risk securities such as government or government secured instruments. Total gross foreign reserves fell by

7 per cent. in 2008 compared to 2007, as a result the significant reversal of inflows experienced in 2007 due to inward investments. Total gross foreign reserves also fell slightly by 2.2 per cent. in 2009 to U.S.$3,851.71 million compared to U.S.$3,930.6 million in 2008. This was due to outflows from the financial system as well as lower oil prices during 2009. Total gross foreign reserves increased in 2010, totalling U.S.$5,083.0 million, a 32 per cent. increase over 2009. This increase was due to an increase in foreign exchange reserves. The total gross foreign reserves decreased in the eight months ended 31 August 2011, totalling U.S.$4,600.7 million which was due to a decrease in foreign exchange reserves.

The Banking Sector

Prior to 2006, the BMA categorised its licensed banking institutions, being (i) full commercial banks, (ii) offshore banking units or (iii) investment banks. Within each of these categories an institution could choose to subscribe to a conventional or an Islamic framework. As a result, six different types of banking institutions existed. In 2006, the categories of offshore banking unit and investment banks were effectively merged into a single new category, now described as wholesale banking. The category of full commercial banks was also renamed as retail banks. The ability to subscribe to either a conventional or an Islamic framework was retained. As a result, four types of banking institutions are now in existence.

The table below sets out the annual consolidated balance sheet of all banking institutions in Bahrain (conventional and Islamic).

	At 31 December				
	2007	**2008**	**2009**	**2010**	**2011***
	(U.S.$ millions)[(1)]				
Wholesale Banks					
Assets	196,338.5	188,862.6	162,042.1	156,724.8	131,733.4
Domestic	16,180.7	18,879.3	13,163.2	10,967.0	9,583.2
Foreign	180,157.8	169,983.3	148,878.9	145,757.8	122,150.2
Liabilities	196,338.5	188,862.6	162,042.1	156,728.8	131,733.4
Domestic	17,289.6	21,528.7	16,632.1	15,398.0	11,814.8
Foreign	179,048.9	167,333.9	145,410.0	141,326.8	119,918.6
Retail Banks					
Assets	49,485.4	63,491.8	59,735.6	65,452.9	66,364.4
Domestic	21,372.9	29,612.2	29,016.8	34,859.6	36,409.0
Foreign	28,112.5	33,879.0	30,718.9	30,593.4	29,955.3
Liabilities	49,485.4	63,491.8	59,735.6	65,452.9	66,364.4
Domestic	27,104.3	32,951.3	31,029.8	35,439.9	36,546.5
Foreign	22,381.1	30,540.4	28,705.9	30,013.0	29,817.8
Total	245,823.9	252,354.4	221,777.7	222,177.7	198,097.8

Note:

(1) Using the fixed conversion rate of BD0.376 = U.S.$1.00.

* *Figures estimated as at 31 August 2011.*

Source: CBB

The structure of the banking industry in Bahrain is currently as follows:

Conventional Banks

Wholesale Banks

Wholesale banks comprise of locally incorporated banks and branches of foreign commercial banks which use Bahrain as a base. Wholesale banks are subject to the capital or cash reserve requirements of the CBB and, in the case of branches of overseas banks, may operate with significant tax benefits with regard to their home jurisdiction. Wholesale banks pay the CBB an annual licence fee and under specific conditions and limitations may accept deposits from residents of Bahrain. Wholesale banks, including wholesale Islamic banks, are the most important sector in Bahrain's financial services industry and employ a significant number of Bahraini nationals. There were 84 wholesale banks, of which 20 were wholesale Islamic banks, present in Bahrain as at 31 December 2008. In 2009, four wholesale banks changed their status to financing companies and licenses were revoked, bringing the total number of wholesale banks present in Bahrain to 78 as at 31 December 2009 of which 21 were wholesale Islamic banks. As at 31 December 2010, there were 77 wholesale banks in Bahrain, of which 21 were wholesale

Islamic banks. As at 30 September 2011, the number of wholesale banks, including wholesale Islamic banks, present in Bahrain had decreased to 76 of which 21 were wholesale Islamic banks. As at 31 December 2008, wholesale banks had an aggregate balance sheet of U.S.$188,862.6 million, amounting to 74.8 per cent. of the aggregate balance sheet of the banking system (excluding the CBB). As at 31 December 2009, wholesale banks had an aggregate balance sheet of U.S.$162,042.1 million, amounting to 73.1 per cent. of the aggregate balance sheet of the banking system (excluding the CBB). As at 31 December 2010, wholesale banks had an aggregate balance sheet of U.S.$156,724.8 million, amounting to 70.5 per cent. of the aggregate balance sheet of the banking system (excluding the CBB). As at 31 August 2011, wholesale banks had an aggregate balance sheet of U.S.$131,733.4 million, amounting to 66.5 per cent. of the aggregate balance sheet of the banking system (excluding the CBB).

The table below shows a breakdown of the assets and liabilities of wholesale banks as at 31 December 2008, 2009 and 2010.

	As at 31 December									
	2007		2008		2009		2010		2011*	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Domestic (U.S.$billions)	16.2	17.3	18.9	21.5	13.2	16.6	11.0	15.4	9.6	11.8
Foreign (U.S.$billions)	180.1	179	170.0	167.4	148.9	145.4	145.8	141.3	122.2	119.9
Share of GCC countries (per cent.)(1)	34.3	30.9	37.2	28.6	38.0	29.2	32.9	26.9	34.2	31.3
Share of Western Europe (per cent.)	36.5	38.5	34.5	40.8	33.3	41.3	39.0	42.5	36.8	40.5
Share of Americas (per cent.)	12.7	7.5	10.7	6.4	10.4	5.0	10.2	7.4	12.3	5.4
Share of Asian countries (per cent.)	4.4	6.1	4.1	5.7	5.3	6.4	6.5	4.2	5.4	4.2
Denominated in U.S. dollars (per cent.)	66.6	69.5	65.4	70.5	67.4	68.4	67.6	71.4	71.3	75.8
Denominated in Euro (per cent.)	11.5	11.4	11.4	11.0	10.6	12.6	10.6	10.7	11.3	10.4
Denominated in GCC currencies (per cent.)	12.9	9.6	13.4	10.1	11.6	9.3	9.0	5.2	7.1	5.3

Note:

(1) Excluding Bahrain.

* *Figures estimated as at 31 August 2011.*

Source: CBB

Retail Banks

Retail banks include domestic banks, which hold most of the assets of this category and foreign banks as well as six Islamic banks. As at 31 December 2008, there were 30 retail banks with an aggregate balance sheet of approximately U.S.$63,491.8 million. As at 31 December 2009, there were 32 retail banks with an aggregate balance sheet of U.S.$59,735.6 million. As at 31 December 2010, there were 30 retail banks with an increased aggregate balance sheet of approximately U.S.$65,452.9 million. As at 31 August 2011, there were 30 retail banks with an aggregate balance sheet of approximately U.S.$66,364.4 million. Personal loans form a significant component of commercial banks' domestic lending activities, accounting for 29.5 per cent. of such lending as at 31 December 2008, 28.5 per cent. as at 31 December 2009, 30.9 per cent. as at 31 December 2010, 30.9 per cent for the first quarter of 2011 and 29.9 per cent. for the second quarter of 2011. As at 31 December 2008 business loans (primarily to the trade, construction and manufacturing sectors) and loans to the Government accounted for 65.7 per cent. and 4.8 per cent. respectively of total domestic lending by retail banks as at 31 December 2008. As at 31 December 2009, total business loans and loans to the Government accounted for 64.8 per cent. and 6.7 per cent., respectively, of total domestic lending by retail banks. As at 31 December 2010, total business loans and loans to the Government accounted for 64.5 per cent. and 4.6 per cent., respectively, of total domestic lending by retail banks.

Islamic Banks

Bahrain is increasingly involved in the rapidly expanding Islamic banking business and hosts the industry's global oversight body, the Accounting and Auditing Organization for Islamic Institutions, as well as the Islamic Rating Agency and the International Islamic Financial Market. This banking sector was created in Bahrain in 1978 with the establishment of the Bahrain Islamic Bank and expanded in the 1980s with the issue of four banking licences to Islamic banks. Eight further banking licences were issued to Islamic banks in the 1990s. As at 31 December 2009, there were 31 Islamic banks, of which 6 were retail banks, 21 were wholesale banks and 4 were representative offices making Bahrain one of the leading centres for Islamic finance in the Middle East. As at 31 December 2010, there were 30 Islamic banks, of which 6 were retail banks, 21 were wholesale banks and 3 were representative offices. As at 31 August 2011, there were a total of 29 Islamic banks of which 20 were wholesale banks, 6 were retail banks and 3 were representative offices.

As at 31 December 2008, the consolidated total assets of the Islamic banks (comprising unrestricted investments) stood at U.S.$24,652.2 million. Restricted investment accounts of the Islamic banks (which are off balance sheet items) as at 31 December 2008 amounted to approximately U.S.$4,383.2 million. In 2009, the consolidated total assets of the Islamic banks (comprising unrestricted investments) stood at U.S.$24,927.3 million, whilst restricted investment accounts of the Islamic banks amounted to approximately U.S.$7,105.1 million. In 2010, the consolidated total assets of the Islamic banks (comprising unrestricted investments) stood at U.S.$25,356.5 million whilst restricted investment accounts of the Islamic banks amounted to approximately U.S.$3,483.5 million. In the first and second quarters of 2011, the consolidated total assets of Islamic banks (comprising unrestricted investments) stood at U.S.$24,623.4 and U.S.$24,641.4 million, respectively. Restricted investment accounts (which are off balance sheet items) of Islamic banks amounted to approximately U.S.$2,396.4 million as at 31 August 2011. With restricted investment accounts, the account holder may impose certain restrictions as to when and how his funds are to be invested, and the Islamic bank may be restricted from combining its own funds with the restricted investment account funds for investment purposes.

Non Performing Loans

The table below shows a breakdown of non performing loans as a percentage of loans issued by the banking institutions in Bahrain (conventional and Islamic).

	Non Performing Loans Ratios % as at			
	30 June 2010	**31 December 2010**	**31 March 2011**	**30 June 2011**
Conventional Retail Banks	4.2	4.3	4.6	4.2
Conventional Wholesale Banks	6.6	7.7	7.8	8.3
Islamic Retail Banks	12.4	16.8	19.6	17.5
Islamic Wholesale Banks	9.0	8.2	7.9	7.1

In the year 30 June 2010 to 30 June 2011, the non performing loans (‘‘**NPLs**’’) of Conventional Retail Banks remained unchanged at 4.2 per cent. and Islamic Wholesale Banks dropped from 9.0 per cent. to 7.1 per cent. Conversely, the NPLs of Conventional Wholesale Banks increased from 6.6 per cent. to 8.3 per cent. and Islamic Retail Banks rose from 12.4 per cent. to 17.5 per cent. in the same period.

The latest NPL figures for banking institutions in Bahrain issued 30 June 2011 highlighted that all banks except for Conventional Wholesale Banks experienced drops in their NPL ratios when compared to their ratio as at 31 March 2011.

Bank Supervision

The CBB is the sole regulator of Bahrain's financial sector, covering the full range of banking, insurance, investment business and capital markets activities. The CBB's wide scope of responsibilities allows a consistent policy approach to be applied across the whole of Bahrain's financial sector. It also provides a straightforward and efficient regulatory framework for financial services firms operating in Bahrain.

Under the Central Bank of Bahrain and Financial Institutions Law of 2006, Article 44, the CBB is authorised, among other things, to grant banking licences, determine the types of business which banks may or may not conduct, establish capital requirements for banks, conduct inspections of banks, stipulate reserve and liquidity ratios for banks and, in certain circumstances, to take over the administration of banks and liquidate them.

The CBB's board of directors consists of seven members drawn from the financial services industry, three of whom are members/employees of the Ministry of Finance and one of whom is the Governor of the CBB. As at the date of this Prospectus, Mr. Qassim Mohammed Fakhro is the Chairman of the board. Messrs Rasheed Mohammed Al Maraj, Yousif Abdulla Humood, Mohammed Hussain Yateem, Dr. Zakaria Hejres and Sheikh Mohamed bin Khalifa bin Ahmed Al-Khalifa are all members of the board. The CBB is managed by the Governor, four executive directors and 15 directors and also employs support staff and specialist advisers.

The CBB has five off-site supervision directorates which undertake supervision of retail banks, wholesale banks, non-bank financial institutions, Islamic financial institutions and insurance firms, respectively. The principal objectives of these directorates are to ensure that the institutions remain adequately capitalised, have effective risk management and internal controls in place, maintain adequate liquidity and operate with integrity and skill. Supervision is conducted by these directorates in a number of ways, including through prudential meetings with banks and their auditors, monitoring of the regular reporting of banks and ensuring their compliance with a range of regulatory requirements.

A separate inspection directorate carries out on-site examinations of banks, including Islamic financial institutions. This directorate has introduced a risk-based approach whereby a particular institution's risk profile will determine the nature and frequency of inspections. A separate directorate, the compliance directorate, investigates suspicious financial transactions, money laundering, terrorist financing and unauthorised business.

Conventional Banks and non-Bank Financial Institutions

The retail and wholesale banking supervision directorates are responsible for the off-site supervision of all conventional banks, whether locally incorporated or branches of foreign banks. The financial institutions supervision directorate is responsible for all non-Islamic non-bank financial institutions (including money changers and money and foreign exchange brokers).

The banking supervision directorates deal with the prudential supervision of banks and require the published accounts of locally incorporated banks to comply with International Accounting Standards. Locally incorporated banks and branches of overseas banks operating under a commercial bank licence in Bahrain are required to publish financial statements on a quarterly basis and to have such financial statements reviewed by external auditors. In addition, all banks operating in Bahrain are required to send prudential returns on a quarterly basis and statistical returns on a monthly basis to the CBB.

As the banking regulator, the CBB sets and monitors capital requirements on both a consolidated (group) basis and on a solo (parent company only) basis. The CBB currently requires each Bahrain-based bank or banking group to maintain a minimum (trigger) capital adequacy ratio of 12 per cent. on a consolidated basis and 8 per cent. on a solo basis; a requirement (in the case of the consolidated ratio) which exceeds the 8 per cent. minimum ratio requirement set by the Basel Committee on Banking Supervision (''**BCBS**'') under its revised 2005 comprehensive framework for capital adequacy (''**Basel II**''). The CBB has implemented Basel II with effect from 1 January 2008. All Bahrain based banks are currently following the standardised approach to Credit Risk under Pillar One of Basel II. The basic indicator and standardised approaches are permitted for operational risk, while the standardised and internal model approaches are permitted for market risk. New more extensive Pillar Three Disclosure requirements come into effect for all Bahrain incorporated banks' financial statements dated 30 June 2008 onward. It is intended that pursuant to the provisions of Pillar Two of Basel II, individual target capital adequacy requirements, based upon individual risk assessments, will be set for each bank, gradually replacing the industry-wide 12 per cent. ratio mentioned above. Bahrain is in the process of identifying new liquidity regulations to replace Pillar II of Basel II. These new regulations would then be modified as and when international regulations are adopted.

The BCBS has recently proposed a new set of capital adequacy standards, (''**Basel III**''). A period of open consultation between the BCBS and financial institutions around the world ended in April 2010 and it is expected that this developing set of capital adequacy standards will be implemented by the end of 2012. The changes proposed under Basel III focus on strengthening the ability of financial institutions to resist economic downturns similar to the recent global financial crisis.

The CBB has established a deposit protection scheme (the ''**Scheme**'') for compensating eligible depositors (any natural person holding an eligible account with a conventional bank or an Islamic bank in Bahrain) when retail and Islamic banks licensed by the CBB are unable, or are likely to be unable, to satisfy claims against them. A new Scheme was established by the CBB at the beginning of 2011. The

Scheme creates two pre-funded investment funds (one conventional, one Islamic) which will be used to compensate eligible depositors in the event that their bank defaults.

The body established to operate and administer the Scheme is the Deposit Protection Board (the "**Board**"). The Board will consider if and when compensation will be available in relation to a particular bank, sets out the procedures and rules of operation of the Scheme and is also responsible for calculating the amounts of compensation payable.

The Scheme applies to eligible deposits held with the Bahrain offices of CBB licencees, whether in Bahrain Dinars or other currencies, held by persons who are either residents or non-residents of Bahrain. In the event of default, such deposits are protected up to a maximum of BD20,000.

Islamic Banking

As the charging of interest is prohibited under Sharia rules and regulations, Islamic banking institutions operate, *inter alia*, on the principle of profit and loss sharing. Rather than charging interest, they participate in the yield resulting from use of the funds. The depositors also share in the profits of the bank according to a predetermined ratio.

Due to the different way in which Islamic banking operates and the specific risks inherent in the system, the CBB has developed a regulatory framework separate from that for the conventional banking system for Islamic banks. This was first implemented in March 2002 with the introduction of the Prudential Information and Regulatory Framework for Islamic banks ("**PIRI**") by the Islamic financial institutions directorate. The objective of PIRI is to provide an Islamic banking regulatory framework which is based on the Basel standards and addresses the specific features of Islamic financial products.

Among other measures, PIRI requires Islamic banks to maintain a 12 per cent. consolidated capital adequacy ratio with notification to the CBB triggered at 12.5 per cent. (8 per cent. with a corresponding 8.5 per cent. notification trigger on a non-consolidated basis) and to take a capital charge equal to 50 per cent. of investment accounts as a measure of security. Islamic banks, like conventional banks, must also submit prudential returns on a quarterly basis. The deposit protection scheme described above also applies in respect of deposits held with Islamic banks licensed with the CBB.

Insurance

A significant number of insurance companies and organisations have a presence in Bahrain. As at 31 December 2008, there were approximately 163 insurance companies and organisations registered in Bahrain and gross premiums of the insurance market totalled U.S.$487.8 million. This represented a 34.0 per cent. increase on gross premiums received in 2007, being U.S.$327.4 million as at 31 December 2007. As at 31 December 2009, there were approximately 168 insurance companies and organisations registered in Bahrain and gross premiums of the insurance market totalled U.S.$533.4 million, which represents a 7.5 per cent. increase on gross premiums received in 2008. As at 31 December 2010, there were approximately 171 insurance companies and organisations registered in Bahrain and gross premiums of the insurance market totalled U.S.$558.2 million, which represents a 4.6 per cent. increase on gross premiums received in 2009.

Responsibility for the regulation of the insurance sector rests with the insurance directorate of the CBB. The insurance directorate conducts its off-site supervision in a manner broadly equivalent to the banking and financial institutions supervision directorates, although insurance firms are now obliged to report to the CBB on a quarterly basis.

Liquidity

The impact of the global financial crisis on the Bahraini financial system has been relatively modest so the Government and the CBB have not considered it necessary to resort to some of the exceptional measures adopted elsewhere in the world such as unlimited deposit or interbank guarantees or asset purchases by the state.

Nonetheless, the CBB did introduce three measures to improve market liquidity: interest rate cuts, opening of a new foreign exchange swap facility and the acceptance of a wider range of collateral. These adjustments helped to ensure that short-term financial assistance was available to banks at reasonable rates against a wider range of collateral and allowed banks to obtain Bahraini Dinar in return for US dollars as required.

As part of a range of regulatory and supervisory measures, the CBB enhanced its monitoring of bank liquidity, requiring all locally incorporated banks to report their liquidity positions on a daily basis and to report their risk exposures on a weekly basis. Work is underway on new liquidity requirements for banks and so far the CBB has issued two consecutive consultation papers on liquidity risk management within Bahrain. The CBB conducted a comparison between the requirements of the consultation paper and the requirements of managing liquidity risk under Basel III. As a result, it was decided to further assess the readiness of banks in Bahrain in complying with general Basel III requirements as well as specific liquidity requirements under Basel III. The CBB issued a consultation paper in regards to this on 31 August 2011. As at the date of this Prospectus, the CBB is looking at the comments it has received from the banking sector in regards to this consultation paper.

Money laundering

In 2001, Bahrain passed its first anti-money laundering law (Legislative Decree No. 4 of 2001) which, among other things, established a Financial Investigations Unit ("**FIU**") within the Ministry of the Interior. Under this law, banks and financial institutions in Bahrain are obliged to submit a Suspicious Trading Report ("**STR**") in respect of any banking activity with a value of over U.S.$15,000 which they regard as suspicious. An STR is first submitted to the CBB, which, if it deems necessary, will pass the STR on to the FIU for further review. Typically, 30-40 STRs are reported to the CBB each month.

The GCC States also belong to the Financial Action Task Force ("**FATF**"), an anti-money laundering and anti-terror financing association which also includes the 29 OECD countries. In 2006, the Government amended Legislative Decree No. 4 of 2001 by Law No. 54 of 2006 to incorporate FATF's recommendations concerning the financing of terrorism.

Capital Markets

The BSE was established in 1987. As at 31 August 2011, a total of 49 Bahraini companies were listed on the BSE with a total market capitalisation of U.S.$18.3 billion (compared to 49 Bahraini companies with a total market capitalisation of U.S.$20.1 billion as at 31 December 2010). A further five non-Bahraini companies were listed on the BSE under cross-listing arrangements. Bonds (both corporate and government) and mutual funds are also listed on the exchange.

In order to open up Bahrain's economy, the Government relaxed ownership restrictions in 1999 which has had the effect of bolstering the performance of the BSE. In the mid-1980s, GCC nationals were permitted to own up to 49 per cent. of a listed firm and, in 1999, this level was increased to 100 per cent. At the same time, a rule was introduced allowing other foreigners to own 49 per cent. of BSE listed firms.

The CBB regulates the BSE. The issuing of broking licences, changes to listing and trading rules (which are contained in the Capital Markets Rulebook) and market supervision is carried out by the CBB through the capital markets directorate which has adopted a single regulatory model in line with that of the other CBB directorates. The CBB has also commenced custodial services and settlement procedures through a new central depositary system.

The table below sets out certain data relating to BSE transactions for the periods indicated.

	2007	**2008**	**2009**	**2010**	**2011***
Volume of shares traded (millions of shares)	851.1	1,675.8	852.2	612.2	17.7
Value of shares traded (U.S.$million)(1)	1,072.0	2,094.0	474.4	288.3	11.2
Bahrain index (points)	2,755.27	1,804.07	1,458.24	1,432.26	1,165.75
Number of listed Bahraini companies(2)	44	45	44	49	49

Notes:

(1) Using the fixed conversion rate of BD0.376 = U.S.$1.00.

(2) Excludes companies listed on BSE under cross-listing arrangements.

* *Figures for the eight months ended 30 September 2011.*

Source: BSE

PUBLIC FINANCE

Government budget

Bahrain prepares budgets on a biennial basis. The most recently published budget related to the financial year 2011/2012 which was approved by the National Assembly and published on 1 June 2011.

Bahrain's budget is not consolidated. Local authorities are funded by transfers from the Government budget to cover any shortfall in their own budgets. Local authorities are not permitted to borrow funds in their own name. The social security system is excluded from the scope of the budget, though it is consolidated in the Government Finance Statistics ("**GFS**") published by the IMF.

Two holding companies, Mumtalakat and nogaholding, were established by royal decree in June 2006 and August 2007 respectively. Mumtalakat is an independent holding company for the Government's non oil and gas assets, while nogaholding is a holding company for the Government's oil and gas assets. Prior to the establishment of the holding companies described above, the Government received income from these assets directly.

Bahrain's budget is presented on a cash basis.

The following table summarises the execution of the Government budget for the periods indicated:

	2007	2008	2009	2010	2011	2012
	Actual	Actual	Actual	Actual	Budgeted*	Budgeted*
Revenues	5,417	7,121	4,543	5,786	6,105	6,710
Oil and gas	4,336	6,067	3,771	4,926	5,313	5,859
Taxation and fees	416	496	424	476	455	530
Other non-oil	665	559	349	384	337	321
Expenditure	4,835	5,479	5,538	7,009	8,565	8,954
Current expenditure	3,540	4,128	4,501	4,968	6,876	7,092
Projects expenditure	1,295	1,352	1,037	2,041	1,689	1,862
Surplus/(deficit)	585	1,455	(995)	(1,223)	(2,460)	(2,244)
Transfer to reserve for sovereign and strategic projects & roll over	467	652	935	834		

* As provided in the Government's budget for fiscal years 2011/2012.
Source: Ministry of Finance

In 2007, a surplus of U.S.$585 million was recorded. The key factor that contributed to the surplus was the continuing increase in Abu Saafa oil prices which averaged U.S.$66.27 for the year.

In 2008, a surplus of U.S.$1,455 million was recorded. The key factor that contributed to the surplus was the continuing increase in Abu Saafa oil prices which averaged U.S.$91.63 for the year.

In 2009, a deficit of U.S.$995 million was recorded. This differs from the budgeted deficit for 2009 of U.S.$2,900 million, with the difference primarily attributable to the difference between the actual average oil price in 2009 of U.S.$60.68 as compared to a conservative average oil price of U.S.$40 per barrel that was used in calculating the budget.

In 2010, a deficit of U.S.$1,223 million was recorded. The 2010 budget was calculated with a conservative average oil price of U.S.$40 per barrel, but the actual average Abu Saafa oil price in 2010 was U.S.$76.4. Bahrain recorded a deficit which was primarily attributable to an increase in project expenditure, which included a one-off payment to finance capital contribution to Gulf Air.

The 2011/2012 budget, prepared by the Government, was approved by the Cabinet and the National Assembly in May and signed by his Majesty the King on 1 June 2011. It was revised and approved by His Majesty the King on 20 September 2011. The key item of the budget (as revised) is that revenue was estimated to be U.S.$ 6,084,789,894 million in 2011, of which U.S.$ 5,313,454,787 million was expected to have been comprised of oil and gas revenues (assuming an oil price of U.S.$80 per barrel). The 2011/2012 budget has assumed average GDP growth to be 8.1 per cent. and 5.7 per cent. in 2011 and 2012, respectively.

Current expenditure is budgeted at U.S.$5,304 million whilst projects expenditure is budgeted at U.S.$2,873 million, in each case for 2010. Both figures account for a roll-over of expenditure from 2009 and expenditure of U.S.$1,063 million on Gulf Air. This results in a budgeted deficit of U.S.$4,283 million which the Government primarily attributes to the conservative oil price of U.S.$40 per barrel which was assumed when preparing this budget. Actual expenditure in 2010 was U.S.$7,008.0 million, and is expected to be U.S.$3,123.57 million in 2011.

In March 2011, the Foreign Ministers of the GCC announced the establishment of a development fund for Bahrain and Oman worth U.S.$20 billion with contributions to be made by the non-donee GCC members states (the "**Development Fund**"). The Development Fund will be provided as a grant and will be distributed evenly between Bahrain and Oman, with each country receiving U.S.$ 10 billion to be distributed over a 10-year period.

In June 2011, the GCC discussed the options and mechanism for managing the Development Fund and the proposed utilisation by the donee states. In response, Bahrain has identified specific priority projects to be financed through the Development Fund, in the following priority sectors:

– housing;

– infrastructure;

– electricity and water;

– education;

– health;

– social development; and

– youth programmes.

The Government has not relied on the Development Fund for its current budget allocation and any sums received from the Development Fund will be in addition to the U.S.$1.6 billion already allocated in the state budget for 2011 for priority projects. At the date of this Prospectus, the Development Fund has not been capitalised and Bahrain is expected to receive its allocation soon.

Revenue

Total revenues for the year to 31 December 2010 decreased to U.S.$5,786.2 million compared to U.S.$4,543.1 million for the same period in 2009. The Government budgeted for total revenues of U.S.$3,721.0 million in 2009 however actual revenues amounted to U.S.$4,543.1 million (a 22.1 per cent. increase). The Government has budgeted total revenues of U.S.$6,105.0 million for the year to 31 December 2011. The table below sets out a breakdown of Government revenues for the periods indicated:

	2007	2008	2009	2010	2011	2012
	Actual	Actual	Actual	Actual	Budgeted*	Budgeted*
			(U.S.$ million)			
Oil and gas	4,336.4	6,067.1	3,770.8	4,926	5,311	5,859
Taxation and fees	415.7	495.5	423.8	476	455	530
Government goods and services	312.0	365.3	119.0	138	89	95
Government investment and properties	209.6	68.1	63.5	34	33	33
Grants	95.5	78.4	75.6	52	34	100
Fines, penalties and misc	36.4	44.9	88.1	117	112	93
Sale of capital assets	11.2	2.2	2.3	0.9	0.9	1
Total	**5,416.8**	**7,121.4**	**4,543.1**	**5,786.2**	**6,105**	**6,710**

* As provided in the Government's budget for fixed years 2011/2012.
Source: Ministry of Finance

The principal source of revenue for the last five years is the oil and gas industry, which is highly dependent on world oil prices. In 2007 and 2008, revenues from oil and gas increased to 80.1 per cent. and 85.2 per cent. respectively of total revenue, reflecting the high price of oil for those two years. In 2009, the contribution of oil and gas was 83 per cent. reflecting the decline in oil prices towards the latter part of that year. In 2010, revenues from the oil industry represented 85 per cent. of total revenue.

Taxation and fees income has traditionally been one of the other two significant contributors to revenue, being approximately 7.7 per cent. in 2007 and declined to 7.0 per cent. in 2008 and increasing to 9.3 per cent. in 2009. In 2010, taxation and fees revenue decreased again to 8.2 per cent.

Other significant sources of revenue include visa fees, residence permits, car licences, company registration fees and fees for employment permits.

Revenue from Government goods and services (the other significant non-oil contributor to total revenue) principally comprise port charges, airport taxes and airspace use fees.

Revenue from Government investments and properties principally comprise dividends earned on the Government's shareholdings, as well as grants (being amounts paid annually to Bahrain by other GCC countries). The Government's major domestic shareholdings as at 30 September 2011 were its 100 per cent. stake in each of its holding companies, Mumtalakat and nogaholding. A full table of Government equity holdings in various local and foreign companies is set out below.

Mumtalakat

Mumtalakat is an investment holding company of the Government which invests in various non-oil and gas companies that the Government has an interest in. Mumtalakat is not generally involved in the daily operations/management of such companies.

Alba

In November 2010, Mumtalakat conducted a global offering of a portion of its ordinary shares in Alba (the "**Offering**"). The Offering enabled Mumtalakat as selling shareholder to sell ordinary shares ("**Ordinary Shares**") that it owned in Alba representing 10.0 per cent. of Alba's total issued, fully paid and outstanding share capital. The Ordinary Shares are listed on the BSE and global depositary receipts representing such Ordinary Shares are listed on the London Stock Exchange.

As a consequence of the Offering, Mumtalakat holds a 69.4 per cent. equity stake in Alba. SABIC continues to hold a 20.6 per cent. equity stake in Alba. No management change within Alba is envisaged as a consequence of the Offering.

Gulf Air

Gulf Air has experienced material unprofitability in recent periods. As a result, Gulf Air has received material liquidity assistance from Mumtalakat, amounting to approximately U.S.$449.5 million in 2008 and approximately U.S.$523.9 million in 2009 and has historically received direct and indirect support from the Government. As a result, Gulf Air has commenced a significant operational and strategic restructuring to improve its profitability which is scheduled to be implemented by the end of 2012. The board of directors of Gulf Air is currently implementing certain measures designed to increase the company's profitability, such as reducing Gulf Air's fleet of wide bodied aircraft, increasing its fleet of narrow bodied aircraft and focusing less on transit routes which are not sufficiently profitable and adding new MENA routes.

Additionally, in connection with the operational and strategic restructuring, Gulf Air has required material financial support through recapitalisation. On 15 October 2010 the Government issued Legislative Decree No. (39) of 15 October 2010, which provided Gulf Air with U.S.$1.1 billion of financial support in the form of an equity injection into Mumtalakat which in turn made an equity injection of U.S.$1.1 billion into Gulf Air.

Regional events in 2011, have negatively impacted the performance of many of Gulf Air's strategic routes. Rising fuel costs have also increased operating costs. As a result, the implementation of Gulf Air's operational and strategic restructuring in 2011 has been disrupted. Despite the set back, Gulf Air has continued to focus on key elements of the operational and strategic restructuring in 2011 and interim solutions to recover lost revenue were launched in 2011, such as the implementation of new routes outside the MENA region. Meanwhile, Gulf Air is working closely with Mumtalakat and the Government to review and potentially reformulate its strategy. See "*Restructuring of Gulf Air*".

The table below sets out the companies in which Mumtalakat holds equity exceeding 50 per cent. as at 31 December 2008, 2009, 2010 and 30 June 2011:

	As at 31 December				As at 30 June
	2007	2008	2009	2010	2011
	(Equity holding (per cent.))				
Company					
Gulf Air Company	100	100	100	100	100
Bahrain Airport Company	0	100	100	100	100
Aluminium Bahrain (Alba)	77	77	77	69	69
Tourism Projects Company	100	100	100	100	100
Bahrain International Circuit	100	100	100	100	100
Bahrain Flour Mills Company	65.7	0(2)	0(2)	0(2)	0(2)
General Poultry Company	100	0(2)	0(2)	0(2)	0(2)
Bahrain Real Estate Company (EDAMAH)	100	100	100	100	100
Al-Awali Real Estate Company	0	100	100	100	100
Howar Island Development Company	100	100	100	100	100
Bahrain Food Holding Company	0	100	100	100	100
Gulf Air Group Holding Company	0	100	100	100	100
Gulf Aviation Academy BSC	0	0	100	100	100
ATBahrain BSC (Closed Joint Stock Company)	0	100	100	100	100
Falcon Group Holding Company	0	0	0	100	100
Gulf Technical Company	0	0	0	100	100

Notes:

(1) In November 2010, Mumtalakat conducted an Offering of a proportion of its shares in Alba which enabled Mumtalakat as selling shareholder to sell Ordinary Shares representing 10.0 per cent. of Alba's total issued, fully paid and outstanding share capital. As a consequence of the Offering, Mumtalakat holds a 69.4 per cent. equity stake in Alba.

(2) Bahrain Food Holding Company was established in 2008 and Mumtalakat's investments in Bahrain Flour Mills Company and General Poultry Company were transferred to Bahrain Food Holding Company at that time.

Source: Ministry of Finance

The table below sets out local companies in which Mumtalakat holds equity not exceeding 50 per cent. as at 31 December 2008, 2009, 2010 and 30 June 2011:

	As at 31 December				As at 30 June
	2007	2008	2009	2010	2011
	(Equity holding (per cent.))				
Company					
Gulf Aluminium Rolling Mill Company (GARMCO)	37.3	37.3	37.3	37.3	37.3
Durrat Khaleej Al Bahrain Company	50.0	50.0	50.0	50.0	50.0
Bahrain International Golf Company	14.3	14.3	14.3	14.3	14.3
Bahrain Family Leisure Company	12.5	12.5	12.5	0	0
Lulu Tourism Company	50.0	50.0	50.0	0	0
Al Areen Desert Spa Company	33.3	33.3	0	0	0
Zallaq Resort Company	8.7	4.0	4.0	4.0	2.9
Southern Area Development Company	25.0	28.1	28.1	28.1	28.13
National Bank of Bahrain (NBB)	49.0	49.0	49.0	49.0	49.0
Gulf International Bank (GIB)	12.1	0.4	0.4	0.4	0.4
Bahrain Livestock Company	25.0	25.0	0(1)	0(1)	0(1)
Bahrain Telecommunication Company (BATELCO)	36.7	36.7	36.7	36.7	36.7
Arab Shipbuilding & Repair Yard (ASRY)	18.8	18.8	18.8	18.8	18.8
Howar Holding Company	33.3	33.3	33.3	33.3	33.3
Bahrain Exhibition and Convention Company	0	0	0	33.3	33.3

Note:

(1) Bahrain Food Holding Company was established in 2008 and Mumtalakat's investment in Bahrain Livestock Company was transferred to Bahrain Food Holding Company at that time.

Source: Ministry of Finance

The table below sets out foreign companies in which Mumtalakat holds equity as at 31 December 2008, 2009, 2010 and 30 June 2011:

	As at 31 December				As at 30 June
	2007	2008	2009	2010	2011
	(Equity holding (per cent.))				
Company					
McLaren Group Limited	30.0	30.0	42.0	42.0	42.0
United Arab Shipping Company (UASC)	2.1	2.1	2.1	1.6	1.6
Arab Maritime Petroleum Transport Company	3.8	3.8	3.8	3.8	3.8
Arab Petroleum Investment Corporation (APICORP)	3.0	3.0	3.0	3.0	3.0
Arab Investment Company	1.7	1.7	1.7	1.7	1.7
Arab Satellite Communication Company (ARABSAT)	2.5	2.5	2.5	2.5	2.5
Dar-AI Mai Al Islami	0.2	0.2	0.2	0.1	0.1
Arab Petroleum Services Company	3.0	3.0	3.0	3.0	3.0
Gulf Investment Corporation (GIC)	16.7	16.7	16.7	16.7	16.7
Oasis Capital Bank	0	4.1	4.1	3.9	3.9
Arab Company for Drug Industries & Medicine Appliance	0.9	0.9	0.9	1.0	1.0
OCB Education Solutions	0	0	9.0	9.0	9.0
BBIC Limited	0	37.4	0	0	0
McLaren Automotive	0	0	50.0	50	45.4

Source: Ministry of Finance

nogaholdings

NOGA, was formed in 2005 out of the structural reform of Bahrain oil and gas industry. NOGA has been entrusted with the responsibilities of the former Supreme Oil Council, the former Gas Committee and the former Ministry of Oil. NOGA is a political body responsible for protecting the assets of the Government by acting as industry regulator, and proposing and implementing Government policy.

nogaholding, is a wholly owned subsidiary of NOGA. It is an investment holding company of the Government which invests in various oil and gas companies in which the Government has a strategic interest. nogaholding oversees the activities of its various portfolio companies (details of which are set out in the table below) by liaising and consulting with chief executives and boards of directors of such companies.

Each portfolio company pays a dividend to nogaholding. In 2010, nogaholding received dividends from GPIC, BANAGAS and BANAGAS Expansion Company totalling U.S.$85.9 million, and as of 30 September 2011 nogaholding had received dividends of U.S.$137.6 million from the same companies. In 2010, nogaholding paid a dividend of U.S.$159.6 million to the Ministry of Finance, and in October 2011 nogaholding will pay a dividend of U.S.$150.0 million to the Ministry of Finance.

None of nogaholding's portfolio companies has any outstanding debt, other than Bapco which borrowed U.S.$1 billion in 2004 to finance various projects. The current outstanding principal amount in respect of such loan is approximately U.S.$528 million. nogaholding has outstanding debt of $120 million as financing for the company's share in the Bahrain Lube Base Oil Company.

nogaholding's portfolio companies are currently involved in a number of major projects. NOGA has formed a joint venture with the ''contractor parties'' nogaholding, Occidental and Mubadala, to form the Tatweer Petroleum joint venture as discussed above ''*Mining – Oil*''.

With respect to gas, Tatweer has the responsibility to expand Bahrain's production to 2-2.5 billion standard cubic feet per day by 2023 which should satisfy the current and projected future electricity and water demand for Khuff gas. In addition, NOGA has further plans to increase access to gas in order to meet increased gas requirements resulting from any expansion of GPIC, Alba and the Bahrain oil refinery. Offshore and deep drilling projects are planned, but alternate plans such as importing gas from overseas; implementing energy conservation measures; and purchasing electricity from the GCC grid are also being developed.

As part of its strategy to grow and diversify its portfolio, nogaholding purchased a 35 per cent. in the shipping company, Skaugen Gulf Petchem Carriers BSC (c) in 2010. The company's business is transportation of petrochemical gases, e.g. ethylene and butadiene, from Saudi Arabia to the Far East. This acquisition is reflected in the equity table below.

The table below sets out companies in which nogaholding holds equity as at 31 December 2008, 2009 and 2010 and 30 September 2011:

	As at 31 December				As at 30 September
	2007	**2008**	**2009**	**2010**	**2011**
	(Equity holding (per cent.))				
Company					
Bapco	100	100	100	100	100
GPIC	33	33	33	33.3	33.3
BANAGAS	75	75	75	75	75
Bahrain Aviation Fuel Co	60	60	60	60	60
BANAGAS Expansion Company	0	100	100	100	100
Bahrain Lube Base Oil Company	0	0	55	55	55
Tatweer Petroleum	0	0	51	51	51
Skaugen Gulf Petchem Carriers BSC (c)	0	0	0	0	35

Source: nogaholding

Current Expenditure

The following table shows the structure of the Government current expenditure budget for the years indicated:

	2007	2008	2009	2010	2011	2012
	Actual	Actual	Actual	Actual	Budgeted*	Budgeted*
	(U.S.$ millions)					
Manpower	1,929.5	2,186.3	2,217.9	2,308.7	2,631	3,127
Services	281.6	304.6	345	347.2	372	375
Consumables	389.6	470.8	208.1	211.9	232	239
Assets	47.3	51.2	56	55.4	55	57
Maintenance	123.4	117.9	126.1	118.1	136	143
Transfers	526.9	566.0	1,181.1	1,407.8	2,735	2,672
Grants, subsidies and payment of interest	242.0	430.7	366.6	518.8	715	479
Total	3,540.2	4,127.6	4,500.8	4,967.9	6,876	7,092

** As provided in the Government's budget for fiscal years 2011/2012.*
Source: Ministry of Finance

Current expenditure on manpower (principally comprising wages and pension contributions) is the most significant part of Government current expenditure. Manpower expenditure in 2007 and 2008 was 54.5 per cent. and 53.0 per cent. of total current expenditure, respectively. In 2009 and 2010, manpower expenditure comprised 49.3 per cent. and 46.5 per cent. respectively, of total current expenditure. The principal employers within the Government sector in Bahrain are the Ministries of Defence, Interior, Education and Health, which between them accounted for 74.9 per cent. of total manpower expense in 2007, 76.0 per cent. in 2008, 80.4 per cent. in 2009 and 80.6 per cent. in 2010.

Services expenditure covers, inter alia, rent, expenditure on utilities such as electricity, water, telephones, postage, insurance, communication, travel and the staging of conferences and exhibitions. Consumables include fuel, medical supplies, general supplies and materials and printing and stationery. The major consumers of services are the Ministries of Defence, Education, Health and Interior, which between them accounted for 53.6 per cent. of total services expense in 2007, 53.0 per cent. in 2008, 59.0 per cent. in 2009 and 52.6 per cent. in 2010. The Electricity and Water Authority (which commenced independent accounting operations in January 2009 and was formerly known as the Ministry of Electricity and Water) accounted for 57 per cent. of total services expense in 2010. The major users of consumables in 2010 was the Ministry of Health and the Ministry of Electricity and Water, which between them accounted for 81.6 per cent. of total consumables expense in 2010. In 2010, the Ministries of Health, Defence and Interior were the major users of consumables, accounting for 82.6 per cent. of total budgeted consumables.

The principal transfers are to the 19 local authorities in Bahrain, Bahrain University, the Electricity and Water Authority and the Radio and Television Corporation. Transfers to the Electricity and Water Authority amounted to 45 per cent. of the total transfer expenditure in 2008, declining to 33.1 per cent. of the total transfer expenditure in 2009 and decreasing again to 36.3 per cent. in 2010. Payments on interest constitute the major part of current expenditure under the heading ''Grants, subsidies and payment of interest''. Payments on interest constituted 72.5 per cent. of grants, subsidies and payments of interest expenditure in 2007, 33.1 per cent. in 2008, 36.3 per cent. in 2009 and 46.4 per cent. in 2010.

In accordance with Vision 2030, the Government aims to reduce its dependence on oil revenues for funding recurrent expenditure. It aims to achieve this by generating additional sources of revenue and cutting inefficient spending. Subsidies for water, electricity, gasoline and food will be targeted to reduce costs. By funding the majority of its day-to-day expenditure from recurrent revenue (independent of oil), the Government believes it will be able to apply oil revenues for the benefit of future generations.

Projects Expenditure

The following table shows the structure of the Government's projects expenditure for the years indicated:

	2007	2008	2009	2010	2011
	Actual	**Actual**	**Actual**	**Actual**	**Budget***
			(U.S.$ millions)		
Infrastructure	881.6	896.8	650.0	597.6	1,216.8
Social services	122.6	143.3	106.1	97.8	472.8
Economic services	8.7	9.0	14.5	21.8	95.48
Administrative services	122.9	130.2	81.2	65.4	130.85
Others	159.0	171.6	185.0	1,258	546.8
Total	1,294.9	1,352.0	1,036.9	2,040.9	2,462.7

** As provided in the Government's budget for fiscal year 2010/2011.*
Source: Ministry of Finance

The principal area of projects expenditure is infrastructure, which accounted for 60 per cent. to the total projects expenditure in 2007, 63.5 per cent. in 2008, 62.7 per cent. in 2009 and 29.2 per cent. in 2010 and is forecasted to be 57.1 per cent. in 2011.

Significant expenditure on infrastructure has focused on road development, particularly with respect to the Sitra Causeway and the Isa Tower Interchange. The Sitra Causeway project, which has an estimated cost of U.S.$311.1 million, is principally to replace the existing causeway with marine bridges and expand the Um Al Hassam junction to a three level interchange. All of the major components were completed by 31 October 2010, but the demolition of the old bridges and landscaping still remain to be completed in the first quarter of 2012 with an estimated cost of U.S.$293 million. The Isa Tower Interchange will serve to reduce the traffic at this important junction, and will be a three level interchange. Work on the Isa Tower Interchange commenced in October 2007 and has an expected cost of BD51m. Currently, 90 per cent. of the work has been completed.

Budget Process

At the beginning of the financial year before the relevant two-year budget period, the Ministry of Finance estimates the affordable aggregate expenditures for the following two years and obtains Cabinet approval for budget policy and the basis for the aggregation.

The Ministry of Finance then requests detailed revenue and expenditure estimates from all ministries and agencies which it uses to prepare a draft of the budget. These estimates are frequently the subject of discussion between the Ministry of Finance and the estimating ministry or agency.

The draft budget is usually presented to the National Assembly around September which, after its review, is submitted to the Consultative Council for its recommendations, if any. The budget is typically approved in December by Royal Decree after Cabinet endorsement. Pending approval of the budget, monthly spending by individual ministries is limited by law to one-twelfth of their budget for the previous year.

Bahrain's most recently published budget relating to the financial year 2011/2012 was approved by the National Assembly and published on 1 June 2011. The 2011/2012 budget contains a revised approach to oil price assumption by the Government. The oil price assumptions which have formed the basis of Government budgets in recent periods and which formed the basis of the Government's budget for 2009/2010 have been conservative (assumed an average price of U.S.$40 per barrel). However, the Government budget for 2011/2012 will assume an increase in the average price of oil to U.S.$80 per barrel to reflect the Government's raised estimate of international oil prices.

Implementation of the budget once approved is closely monitored by the Ministry of Finance using a financial management information system. Additionally, the Government follows a centralised treasury system under which all payments are routed through the Ministry of Finance enabling it to exercise reasonable control over the performance of the budget.

The state budget law allows supplementary budgets to be prepared and promulgated by Royal Decree after approval by the National Assembly. At the conclusion of each financial year, the Ministry of Finance prepares final accounts including the performance of the budget. These are audited by the National Audit Bureau, approved by the Cabinet and the National Assembly and therefore published after approval.

INDEBTEDNESS

The CBB manages the issue of foreign and domestic debt for and on behalf of the Ministry of Finance.

External Government Debt

As at 31 December 2010, Bahrain's total external debt amounted to U.S.$2,916.97 million, equal to 13.3 per cent. of the 2010 GDP. Bahrain's total external debt as at 30 September 2011, was equal to 13.32 per cent. of the 2010 GDP.

The majority of the Government's outstanding external borrowing comprises long-term loans from regional development funds and institutions. The following table sets out the Government's outstanding external borrowing at each of the dates indicated:

	As at 31 December				As at 30 Sept
	2007	**2008**	**2009**	**2010**	**2011**
			(U.S.$ millions)		
Outstanding external debt	1,352.1	903.4	1,724.3	2,916.97	2,911.72

Source: Ministry of Finance

The following table sets out the breakdown of the Government's outstanding external borrowing at each of the dates indicated by lender:

	As at 31 December			As at 30 Sept
	2008	**2009**	**2010**	**2011**
		(U.S.$ millions)		
Kuwait Fund for Arab Economic Development..	170.2	176.8	170.5	161.5
Arab Fund for Economic and Social Development..........	395.2	353.3	340.3	315.0
The Saudi Fund for Development..........	22.8	19.4	15.9	14.8
Abu Dhabi Fund for Development..........	78.7	66.0	17.7	48.1
Qatar Fund for Development	–	70.0	60.1	70
Islamic Development Bank	236.4	288.8	70	302.2
International Islamic Leasing Securities..........	–	750.0	750	750
International bonds..........	–	–	1,250	1,250
Total outstanding external debt..........	903.4	1,724.3	2,916.97	2,911.7

Source: Ministry of Finance

Each of the above loans relates to one or more specific projects and has typically included a significant grace period before any payments under it are required to be made. None of the loans are secured. No new external debt has been incurred since 30 September 2011 although the amount outstanding will have increased as a result of further drawings.

The following table sets out the total external debt due for each of the years stated:

	Sept 2011	By end of 2011	2012	(December) 2013	2014	2015	2016	After 2016
				(U.S.$ millions)				
Total outstanding external debt	2,911.72	30.843	92.471	90.638	838.811	81.864	65.424	1,711.000

Source: Ministry of Finance

The total outstanding external debt as at 30 September 2011 was U.S.$2,911.72 million. The majority of the Government's external debt as at that date was denominated in GCC currencies and US dollars. The average maturity of the external debt is currently 10 years.

The Government has not granted any formal guarantee in respect of external indebtedness of third parties. However, in relation to the existing external borrowing by Alba to fund its smelter expansion project, each of the shareholders agreed in principle to a keep well type of arrangement. In addition, as the Government is the sole owner of Bapco, it has an informal cash call arrangement with that company.

The principal strengths noted by the rating agencies are the Government's prudent fiscal policy, its general government net asset position and its monetary stability and well-developed financial system, and structural reform targeting sustained economic diversification.

On the other hand, weaknesses noted by the rating agencies included the narrow base for government revenues and its reliance on volatile oil earnings, as well as the risk that the economy is vulnerable to real estate and stock market shocks. There is also uncertainty with regard to the policy agenda in Bahrain and regional instability. For a further discussion of the impact of the February – March 2011 Protests on Bahrain's credit rating, please see ''*Economic Consequences of February – March 2011 Protests*''.

Domestic Government Debt

The table below shows a breakdown of Bahrain's domestic debt at 31 December 2008, 2009, 2010 and as at 31 August 2011:

	As at 31 December				As at 30 Sept
	2007	**2008**	**2009**	**2010**	**2011**
			(U.S.$ millions)		
Treasury bills (three month)	159.5	398.9	664.9	669.9	950.851
Treasury bills (six month)	79.8	79.8	79.8	319.1	425.532
Treasury bills (12 months)	–	–	359.0	531.9	797.72
Al Salam Islamic securities (three month)	47.9	47.9	47.9	95.7	143.617
Islamic leasing securities	1,348.0	1,348.0[(1)]	1,537.5	1,537.5	2,175.74
Syndicated loans	176.0	450.5	339.4	228.17	172.590
Development bonds	–	–	146.2	1,343.08	1,343.08
Other loans	378.8	0.8	0.3	0	–
Gross domestic debt	2,199.6	2,325.9	3,175.0	4,720.4	5,989.29
Held by SIO	121.0	117.0	307.9	479,78	473.404
Held by pension funds	243.4	211.7	211.7	159.04	159.043
Net domestic debt	1,835.2	1,997.2	2,655.4	4,081.58	5,356.85

Note:

(1) Includes U.S.$350 million issued under a sukuk, of which 65 per cent. was subscribed for by domestic banks.

Source: Ministry of Finance

Bahrain's gross domestic debt amounted to U.S.$3,175.0 million as at 31 December 2009 which was equal to 16.2 per cent. of GDP in 2009. Bahrain's gross domestic debt amounted to U.S.$4,720.4 million as at 31 December 2010 which was equal to 21.5 per cent. of Bahrain's 2010 GDP. This debt is principally in the form of short-term treasury bills and Islamic securities, medium and long-term development bonds, medium-term Islamic leasing securities and two long-term syndicated loans. Bahrain's gross domestic debt amounted to U.S.$5,989.29 million as at 30 September 2011.

Bahrain's treasury bills have maturities of three, six and twelve months and its short-term Islamic securities have maturities of three and six months. These securities are issued by the CBB and are used as a tool to manage liquidity. Bahrain uses the proceeds of its Islamic leasing securities for funding projects.

A significant proportion of Bahrain's domestic debt is held by commercial banks, SIO and by Government pension funds. As a result, Bahrain's net domestic debt amounted to U.S.$2,655.4 million at 31 December 2009, U.S.$4,081 million as at 31 December 2010 and U.S.$5,356.85 as at 30 September 2011.

The Government has no contingent liabilities in respect of its domestic debt. None of Bahrain's short-term trade finance is recorded as domestic debt.

By Legislative Decree No. (29) of 2011, Bahrain's debt in the form of development bonds, treasury bills and financing instruments that are compliant with Islamic Sharia may not exceed BD3,500 million (U.S.$9,282 million) in principal amount outstanding at any time.

By Legislative Decree No. (23) of 2009, Bahrain entered into two loans totalling U.S.$1,196.8 million.

Foreign Exchange Reserves

In 2006, Bahrain's gross foreign exchange reserves were sufficient to finance approximately 3.2 months of obligations in respect of imports of goods. For 2007, this figure increased to 4.4 months.

TAX CONSIDERATIONS

Bahrain Taxation

The following is a general description of certain Bahrain tax laws relating to the Certificates and the Issuer and does not purport to be a comprehensive discussion of the tax treatment of the Certificates or the Issuer. Prospective Certificateholders should consult their tax advisers as to applicable tax laws and specific tax consequences of acquiring, owning and disposing of the Certificates.

This general description of taxation in Bahrain is based upon the tax law of Bahrain and the regulations thereunder, each as in effect on the date of this Prospectus. This general description is subject to any subsequent change in Bahrain law and regulations that may come into effect as of such date.

There are no Bahraini income, capital gains or withholding taxes or other deductions applicable to the Issuer or the Certificates and nor is there any stamp duty payable in the Kingdom of Bahrain on the transfer, sale or purchase of the Certificates.

European Union Taxation

Under EC Council Directive 2003/48/EC on the taxation of savings income, Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income, which may include Periodic Distribution Amounts) paid by a person within its jurisdiction to an individual or certain limited types of entity established in that other Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain agreements relating to information exchange between the European Union and certain non-European Union states). A number of non-European Union states including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

The European Commission has proposed certain amendments to the Directive, which may, if implemented, amend or broaden the scope of the requirements described above.

CLEARANCE AND SETTLEMENT

The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of Euroclear or Clearstream, Luxembourg currently in effect. The information in this section concerning such clearing systems has been obtained from sources that the Issuer believes to be reliable, but neither the Issuer nor the Managers takes any responsibility for the accuracy of this section. The Issuer only takes responsibility for the correct extraction and reproduction of the information in this section. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. None of the Issuer and any other party to the Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Certificates held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Clearing Systems

Euroclear and Clearstream, Luxembourg each hold securities for their customers and facilitate the clearance and settlement of securities transactions by electronic book-entry transfer between their respective account holders. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depositary and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective participants may settle trades with each other. Euroclear and Clearstream, Luxembourg customers are world-wide financial institutions, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions that clear through or maintain a custodial relationship with an account holder of either system.

Registration and Form

Book-entry interests in the Certificates will be represented by the Global Certificate registered in the name of a nominee for the Common Depositary. Beneficial ownership of book-entry interests in the Global Certificate will be held through financial institutions as direct and indirect participants in Euroclear and Clearstream, Luxembourg.

The aggregate holdings of book-entry interests in the Global Certificate in Euroclear and Clearstream, Luxembourg will be reflected in the book-entry accounts of each such institution. Euroclear or Clearstream, Luxembourg, as the case may be, and every other intermediate holder in the chain to the beneficial owner of book-entry interests in the Global Certificate will be responsible for establishing and maintaining accounts for their participants and customers having interests in the book-entry interests in the Global Certificate. The Registrar will be responsible for maintaining a record of the aggregate holdings of the Global Certificate registered in the name of a nominee for the Common Depositary and/or, if individual Certificates are issued in the limited circumstances described under "*Global Certificate*", holders of Certificates represented by those individual Certificates. The Principal Paying Agent will be responsible for ensuring that payments received by it from the Issuer for holders of book-entry interests in the Global Certificate holding through Euroclear and Clearstream, Luxembourg are credited to Euroclear or Clearstream, Luxembourg, as the case may be.

The Issuer will not impose any fees in respect of holding the Global Certificate; however, holders of book-entry interests in the Global Certificate may incur fees normally payable in respect of the maintenance and operation of accounts in Euroclear or Clearstream, Luxembourg.

Clearance and Settlement Procedures

Initial Settlement

Upon their original issue, the Certificates will be in global form represented by the Global Certificate. Interests in the Global Certificate will be in uncertified book-entry form. Purchasers holding book-entry interests in the Global Certificate through Euroclear and Clearstream, Luxembourg accounts will follow the settlement procedures applicable to conventional Eurobonds. Book-entry interests in the Global Certificate will be credited to Euroclear and Clearstream, Luxembourg participants' securities clearance accounts on the business day following the Closing Date against payment (value the Closing Date).

Secondary Market Trading

Because the purchaser determines the place of delivery, it is important to establish at the time of trading of any Certificates where both the purchaser's and seller's accounts are located to ensure that settlement can be made on the desired value date.

Trading between Euroclear and/or Clearstream, Luxembourg participants

Secondary market trading between Euroclear participants and/or Clearstream, Luxembourg participants will be settled using the procedures applicable to conventional Eurobonds in same-day funds.

General

Neither of Euroclear and Clearstream, Luxembourg is under any obligation to perform or continue to perform the procedures referred to above, and such procedures may be discontinued at any time.

None of the Issuer, the Trustee or any of their agents will have any responsibility for the performance by Euroclear or Clearstream, Luxembourg or their respective participants of their respective obligations under the rules and procedures governing their operations or the arrangements referred to above.

SUBSCRIPTION AND SALE

Under the terms and conditions contained in a Certificate Purchase Agreement (the "**Certificate Purchase Agreement**") dated 21 November 2011 between the Issuer, the Kingdom of Bahrain, acting through the Ministry of Finance, BNP Paribas, Citigroup Global Markets Limited and Standard Chartered Bank (the "**Managers**"), the Issuer has agreed to issue and sell to the Managers U.S.$750,000,000 face amount of the Certificates and, subject to certain conditions, the Managers have severally agreed to subscribe the Certificates.

The Certificate Purchase Agreement provides that the obligations of the Managers to pay for and accept delivery of the Certificates are subject to the approval of certain legal matters by its counsel and certain other conditions. Pursuant to the Certificate Purchase Agreement, the Issuer will pay certain commissions and expenses to the Managers in respect of the issue and sale of the Certificates. The Kingdom of Bahrain, acting through the Ministry of Finance, has agreed to indemnify the Managers against liabilities incurred in respect of the Certificates.

United States of America

The Certificates have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in accordance with Regulation S under the Securities Act or pursuant to an exemption from the registration requirements of the Securities Act. Each Manager has agreed that, except as permitted by the Certificate Purchase Agreement, it will not offer or sell the Certificates, (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering or the closing date, within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each dealer to which it sells Certificates during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Certificates in the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

The Certificates are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and regulations thereunder.

Until 40 days after the commencement of the offering of the Certificates, an offer or sale of such Certificates within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

United Kingdom

Each Manager has represented and agreed that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (the "**FSMA**")) received by it in connection with the issue or sale of any Certificates in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Certificates in, from or otherwise involving the United Kingdom.

United Arab Emirates (excluding the Dubai International Financial Centre)

Each Manager has represented and agreed that the Certificates have not been and will not be offered, sold or publicly promoted or advertised by it in the United Arab Emirates other than in compliance with any laws applicable in the United Arab Emirates governing the issue, offering and sale of securities.

Bahrain

Each Manager has represented and agreed that it has not offered, and will not offer, the Certificates to the Public (as set out in Articles 142-146 of the Commercial Companies Law (Decree Law No. 21/2001) of Bahrain and as determined by the laws and regulations of the Central Bank of Bahrain from time to time) in Bahrain.

Brunei Darussalam

This Prospectus and the Certificates have not been delivered to, registered with or approved by the Brunei Darussalam Registrar of Companies, Registrar of International Business Companies nor the Brunei Darussalam Ministry of Finance. This Prospectus will not be registered under the relevant securities laws of Brunei Darussalam. The Certificates have not been and will not be offered, transferred, delivered or sold in or from any part of Brunei Darussalam. All offers, acceptances, subscriptions, sales, and allotments of the Certificates or any part thereof shall be made outside Brunei Darussalam. This Prospectus is strictly private and confidential and is being distributed to a limited number of sophisticated institutional investors (''**Relevant Persons**'') upon their request and confirmation that they fully understand that neither the Certificates nor this Prospectus have been approved or licensed by or registered with the Brunei Darussalam Registrar of Companies, Registrar of International Business Companies nor the Brunei Darussalam Ministry of Finance or any other relevant governmental agencies within Brunei Darussalam. This Prospectus must not be acted on or relied on by, distributed or redistributed to, persons who are not the originally targeted Relevant Persons. Any investment or investment activity to which the Prospectus relates is only available to, and will be engaged in only with relevant persons.

Kingdom of Saudi Arabia

Any investor in the Kingdom of Saudi Arabia or who is a Saudi person (a ''**Saudi Investor**'') who acquires Certificates pursuant to an offering should note that the offer of Certificates is a private placement under Article 10 of the ''Offer of Securities Regulations'' as issued by the Board of the Capital Market Authority resolution number 2-11-2004 dated 4 October 2004 and amended by the Board of the Capital Market Authority resolution number 1-28-2008 dated 18 August 2008 (the ''**KSA Regulations**'').

The offer of Certificates shall not therefore constitute a ''public offer'' pursuant to the KSA Regulations, but is subject to the restrictions on secondary market activity under Article 17 of the KSA Regulations. Any Saudi Investor who has acquired Certificates pursuant to a private placement may not offer or sell those Certificates to any person unless the offer or sale is made through an authorised person appropriately licensed by the Saudi Arabian Capital Market Authority and: (a) the Certificates are offered or sold to a Sophisticated Investor; (b) the price to be paid for the Certificates in any one transaction is equal to or exceeds SR 1 million or an equivalent amount; or (c) the offer or sale is otherwise in compliance with Article 17 of the KSA Regulations.

Japan

The Certificates have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the ''**FIEA**'') and, accordingly, each Manager has represented and agreed that it will not, directly or indirectly, offer or sell any Certificates in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Act (Act No. 228 of 1949, as amended)), or to others for re-offering or re-sale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

Dubai International Finance Centre

Each Manager has represented, warranted and agreed that it has not offered and will not offer the Certificates to any person in the Dubai International Financial Centre unless such offer is:

(a) an ''Exempt Offer'' in accordance with the Offered Securities Rules of the Dubai Financial Services Authority (the ''**DFSA**''); and

(b) made only to persons who meet the Professional Clients criteria set out in Rule 2.3.2 of the DFSA Conduct of Business Module.

Kuwait

Each Manager understands that the Certificates have not been licensed for offering in Kuwait by the Kuwait Capital Markets Authority or the Central Bank of Kuwait or any other relevant Kuwaiti government agency. Each Manager represents and agrees that the Certificates have not been and will not be offered, sold or promoted or advertised by it in Kuwait other than in compliance with the Decree Law No. 31 of 1990 (as amended) and Law No. 7 of 2010 and the bylaws thereto (as amended). No private or public offering of the Certificates is being made in Kuwait, and no agreement relating to the sale of the

Certificates will be concluded in Kuwait. No marketing or solicitation or inducement activities are being used to offer or market the Certificates in Kuwait.

Qatar

Each Manager has represented and agreed that it has not offered, sold or delivered and will not offer, sell or deliver, directly or indirectly, any Certificates in Qatar except: (a) in compliance with all applicable laws and regulations of Qatar; and (b) through persons or corporate entities authorised and licensed to provide investment advice and/or engage in brokerage activity and/or trade in respect of foreign securities in Qatar.

Malaysia

Each Manager has represented and agreed that:

(a) this Prospectus has not been registered as a prospectus with the Securities Commission of Malaysia under the Capital Markets and Services Act 2007 of Malaysia; and

(a) accordingly, the Certificates have not been and will not be, offered, sold or delivered, and no invitation to subscribe for or purchase the Certificates have been or will be made, directly or indirectly, nor may any document or other material in connection therewith be distributed in Malaysia, other than to persons or in categories falling within Schedule 6 (or Section 229(1)(b)), Schedule 7 (or Section 230(1)(b)), and Schedule 8 (or Section 257(3)) of the Capital Markets and Services Act 2007 of Malaysia, subject to any law, order, regulation or official directive of the Central Bank of Malaysia, the Securities Commission of Malaysia and/or any other regulatory authority from time to time.

Residents of Malaysia may be required to obtain relevant regulatory approvals including approval from the Controller of Foreign Exchange to purchase the Certificates. The onus is on the Malaysian residents concerned to obtain such regulatory approvals and none of the Managers is responsible for any invitation, offer, sale or purchase of the Certificates as aforesaid without the necessary approvals being in place.

Hong Kong

Each Manager has represented and agreed that:

(a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, the Certificates other than (i) to persons whose ordinary business is to buy or sell shares or debentures (whether as principal or agent); or (ii) to ''professional investors'' within the meaning of the Securities and Futures Ordinance (Cap.571) of Hong Kong (the ''**SFO**'') and any rules made under the SFO; or (iii) in other circumstances which do not result in the document being a ''prospectus'' as defined in the Companies Ordinance (Cap.32) of Hong Kong (the ''**CO**'') or which do not constitute an offer to the public within the meaning of the CO; and

(b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, (in each case whether in Hong Kong or elsewhere), any advertisement, invitation or document relating to the Certificates, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to the Certificates which are intended to be disposed of only to persons outside Hong Kong or only to ''professional investors'' as defined in the SFO and any rules made under the SFO.

Singapore

This Prospectus has not been registered as a prospectus with the Monetary Authority of Singapore under the Securities and Futures Act (the ''**SFA**''). Accordingly, each Manager has represented and agreed that it has not offered or sold and that it will not offer or sell any Certificates or cause such Certificates to be made the subject of an invitation for subscription or purchase, nor will it circulate or distribute this Prospectus or any other document or material in connection with the offer or sale, or invitation for subscription of purchase, of the Certificates, whether directly or indirectly, to the public or any member of the public in Singapore other than (a) to an institutional investor pursuant to Section 274 of the SFA, (b) to a relevant person, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (c) pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Switzerland

The Prospectus does note constitute an offer or solicitation to purchase or invest in the Certificates. The Certificates may not be publicly offered, sold or advertised, directly or indirectly, in, into or from Switzerland and will not be listed on the SIX Swiss Exchange or any other exchange or regulated trading facility in Switzerland. Neither the Prospectus, nor any other offering or marketing material relating to the Certificates, constitutes a prospectus as such term is understood pursuant to Article 652a or Article 1156 of the Swiss Code of Obligations or a listing prospectus within the meaning of the listing rules of the SIX Swiss Exchange or any other regulated trading facility in Switzerland or a simplified prospectus or a prospectus as such terms are defined in the Swiss Collective Investment Scheme Act (''**CISA**''), and neither of the Prospectus, nor any other offering or marketing material relating to the Certificates, may be publicly distributed or otherwise made publicly available in Switzerland.

Each Manager understands that none of the Prospectus, any other offering or marketing material relating to the offering and sale of the Certificates, or the Certificates, have been or will be filed with or approved by any Swiss regulatory authority. In particular, the Prospectus has not been and will not be filed with, and the offer and sale of Certificates will not be supervised by, the Swiss Financial Market Supervisory Authority (''**FINMA**''), and the offer and sale of the Certificates has not been and will not be authorised under the CISA. As a result, an investor in the Certificates will not benefit from the protection and/or supervision by the FINMA or the protections of the CISA. Any offer or sale of the Certificates may, therefore, only be made to qualified investors in accordance with the CISA, its implementing ordinances and circular 2008/8 of the FINMA on public solicitation, and in strict compliance with Swiss law.

Each Manager represents, warrants and agrees that the Certificates will not be publicly offered, sold or advertised, directly or indirectly, in, into or from Switzerland and that any advertisement, offer or sale will be made only to qualified investors as defined in the CISA and only in strict compliance with Swiss law, in particular the Swiss Code of Obligations, the CISA, its implementing ordinances and circular 2008/8 of the FINMA on public solicitation.

General

Each Manager has represented and agreed that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers the Certificates or possesses or distributes this Prospectus and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of the Certificates under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and none of the Issuer, the Government, the Delegate, the Agents or the Payment Administrator shall have any responsibility therefor.

None of the Issuer, the Government, the Delegate, the Agents or the Payment Administrator represents that the Certificates may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating any such sale. Persons into whose possession this Prospectus or any Certificates may come must inform themselves about, and observe, any applicable restrictions on the distribution of this Prospectus and the offering and sale of the Certificates.

GENERAL INFORMATION

1. **Authorisation**

The issue of the Certificates has been duly authorised by a resolution of the board of directors of the Issuer on 16 October 2011. The Issuer has obtained all necessary consents, approvals and authorisations in connection with the issuance of the Certificates.

2. **Listing**

Application has been made for the Certificates to be listed on the Official List of the UKLA and to be admitted to trading on the Regulated Market of the London Stock Exchange.

3. **Clearing Systems**

The Certificates have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The ISIN for the Certificates is XS0708899272. The Common Code for the Certificates is 070889927.

4. **No Material Change**

There has been no material adverse change in the prospects of the Issuer since its date of incorporation.

5. **No Significant Change**

There has been no significant change in the financial or trading position or results of operations of the Issuer since its date of incorporation. There has been no significant change to the Bahrain Information since the end of the last fiscal year.

6. **Accounts**

The first financial year of the Issuer will end on 31 December 2011. The Issuer has no subsidiaries.

7. **Documents**

So long as any of the Certificates remain outstanding, copies of the following documents will be available in English for inspection and obtainable free of charge, during normal business hours on any weekday (excluding public holidays) from the registered office of the Issuer and from the specified office of the Paying Agent for the time being in the United Kingdom:

(a) the constitutional documents of the Issuer;

(b) the Transaction Documents; and

(c) the consolidated final accounts of Bahrain in respect of the two fiscal years ended 31 December 2009 and 31 December 2010 and the budget for the two year period ending 31 December 2012.

8. **Litigation**

Neither the Issuer nor the Government has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer or the Government is aware) during a period covering at least the previous twelve months which may have or have had in the recent past, a significant effect on the financial position or profitability of the Issuer or the financial position of the Government.

9. **Third Party Information**

Where information in this Prospectus has been sourced from third parties this information has been accurately reproduced and as far as each of the Government and Issuer is aware and is able to ascertain from the information published by such third parties no facts have been omitted which would render the reproduced information inaccurate or misleading. The source of third party information is identified where used.

10. Sharia Pronouncement – Fatwa

The transaction structure relating to the Certificates (as described in this Prospectus) has been approved by the Sharia Boards of BNP Paribas, Citi Islamic Investment Bank E.C. and Standard Chartered Bank.

11. Cost of Listing

The overall cost of listing the Certificates is expected to amount to approximately U.S.$14,052.

THE ISSUER

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