IMPORTANT NOTICE

NOT FOR DISTRIBUTION IN OR INTO THE UNITED STATES EXCEPT TO QUALIFIED INSTITUTIONAL BUYERS ("QIBs") AS DEFINED IN, AND IN COMPLIANCE WITH, RULE 144A UNDER THE US SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") OR OTHERWISE THAN TO PERSONS TO WHOM IT CAN LAWFULLY BE DISTRIBUTED

IMPORTANT: You must read the following disclaimer before continuing. The following disclaimer applies to the attached prospectus (the "**Prospectus**"). You are advised to read this disclaimer carefully before accessing, reading or making any other use of the attached Prospectus. In accessing the attached Prospectus, you agree to be bound by the following terms and conditions, including any modifications to them from time to time, each time you receive any information from us as a result of such access.

Confirmation of your Representation: You have accessed the attached Prospectus on the basis that you have confirmed your representation to the Issuer and to the Joint Lead Managers (as defined in the attached Prospectus) that (1) you consent to delivery of the attached Prospectus and any amendments or supplements thereto by electronic transmission and agree to the terms set out herein, (2) either (A) you are a QIB (within the meaning of Rule 144A under the Securities Act) or (B) (i) you are outside the United States and, to the extent you purchase the securities described in the attached Prospectus, you will be doing so pursuant to Regulation S under the Securities Act, and (ii) the e-mail address to which the attached Prospectus has been delivered is not located in the United States of America (including the States and the District of Columbia), its territories, its possessions and other areas subject to its jurisdiction; and its possessions (including Puerto Rico, the US Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands), (3) you will not transmit the attached Prospectus (or any copy of it or part thereof) or disclose, whether orally or in writing, any of its contents to any other person except with the consent of the Joint Lead Managers; and (4) you acknowledge that you will make your own assessment regarding any legal, taxation or other economic conditions with respect to your decision to subscribe for or purchase any of the securities.

The attached Prospectus has been made available to you in electronic format. You are reminded that documents transmitted in an electronic format may be altered or changed during the process of transmission and consequently none of the Issuer, the Joint Lead Managers and their respective affiliates, directors, officers, employees, representatives and agents or any other person controlling the Issuer, the Joint Lead Managers or any of their respective affiliates accept any liability or responsibility whatsoever in respect of any discrepancies between the document distributed to you in electronic format and the hard-copy version.

Restrictions: The attached Prospectus is being furnished in connection with an offering exempt from registration under the Securities Act. Nothing in this electronic transmission constitutes an offer of securities for sale in the United States.

ANY SECURITIES TO BE ISSUED HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE SECURITIES ACT, OR THE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED OR SOLD IN THE UNITED STATES UNLESS REGISTERED UNDER THE SECURITIES ACT OR PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, SUCH REGISTRATION. YOU ARE NOT AUTHORISED TO AND YOU MAY NOT FORWARD OR DELIVER THE ATTACHED PROSPECTUS, ELECTRONICALLY OR OTHERWISE, TO ANY OTHER PERSON OR REPRODUCE SUCH PROSPECTUS IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THE ATTACHED PROSPECTUS IN WHOLE OR IN PART IS UNAUTHORISED.

FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. No action has been or will be taken in any jurisdiction by the Joint Lead Managers or the Issuer that would or is intended to, permit a public offering of the securities, or possession or distribution of the Prospectus or any other offering or publicity material relating to the securities, in any country or jurisdiction where action for that purpose is required. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Joint Lead Managers or any affiliate of the Joint Lead Managers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the Joint Lead Managers or such affiliate on behalf of the Issuer in such jurisdiction.

Under no circumstances shall this Prospectus constitute an offer to sell or the solicitation of an offer to buy nor shall there by any sale of these Securities in any jurisdiction in which such offer, solicitation or sale would be unlawful.

This document may only be communicated to persons in the United Kingdom in circumstances where section 2 1(1) of the Financial Services and Markets Act 2000 does not apply to the communication.

You are reminded that the attached Prospectus has been delivered to you on the basis that you are a person into whose possession this Prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not nor are you authorised to deliver this document, electronically or otherwise, to any other person. If you receive this document by e-mail, you should not reply by e-mail to this announcement. Any reply e-mail communications, including those you generate by using the "Reply" function on your e-mail software, will be ignored or rejected. If you receive this document by e-mail, your use of this e-mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

The Kingdom of Bahrain acting through the Ministry of Finance

U.S.$1,500,000,000 6.125 per cent. Bonds due 5 July 2022

Issue Price: 99.867 per cent.

The U.S.$1,500,000,000 6.125 per cent. bonds due 5 July 2022 (the "**Bonds**") are issued by the Kingdom of Bahrain acting through the Ministry of Finance (the "**Issuer**").

The Issuer will pay interest on the Bonds semi-annually in arrear on 5 January and 5 July in each year. The first such payment will be made on 5 January 2013. Interest on the Bonds will accrue from and including 5 July 2012 (the "**Issue Date**").

Except as set forth herein, payments in respect of the Bonds will be made without any deduction or withholding for or on account of taxes of the Kingdom of Bahrain or any political subdivision thereof or any authority therein or thereof having power to tax.

Unless previously redeemed or purchased and cancelled, the Bonds will be redeemed at their principal amount on 5 July 2022.

Application has been made to the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 (the "**UK Listing Authority**") for the Bonds to be admitted to the official list of the UK Listing Authority (the "**Official List**") and to the London Stock Exchange plc (the "**London Stock Exchange**") for such Bonds to be admitted to trading on the London Stock Exchange's Regulated Market (the "**Market**").

References in this Prospectus to Bonds being "**listed**" (and all related references) shall mean that such Bonds have been admitted to the Official List and have been admitted to trading on the Market. The Market is a regulated market for the purposes of Directive 2004/39/EC (the Markets in Financial Instruments Directive).

The Bonds have not been and will not be registered under the Securities Act or with any securities regulatory authority of any State or other jurisdiction of the United States and may not be offered, sold or delivered within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act of 1933, as amended (the "Securities Act") and applicable state securities laws. Accordingly, the Bonds are being offered, sold or delivered: (a) in the United States only to qualified institutional buyers ("QIBs") (as defined in Rule 144A ("Rule 144A") under the Securities Act) in reliance on, and in compliance with, Rule 144A (the "Rule 144A Bonds"); and (b) outside the United States in reliance on Regulation S ("Regulation S") under the Securities Act (the "Regulation S Bonds"). Each purchaser of the Bonds will be deemed to have made the representations described in "*Subscription and Sale*" and "*Transfer Restrictions*" and is hereby notified that the offer and sale of Bonds to it, if in the United States, is being made in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A. In addition, until 40 days after the commencement of the offering, an offer or sale of any of the Bonds within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if the offer or sale is made otherwise than in accordance with Rule 144A. The Bonds are not transferable except in accordance with the restrictions described under "*Subscription and Sale*" and "*Transfer Restrictions*".

In March 2011, Standard & Poor's Credit Market Services Europe Limited ("**Standard & Poor's**") rated the Kingdom of Bahrain's long-term foreign currency sovereign debt as BBB (Negative). In August 2011, Fitch Ratings Ltd. ("**Fitch**") rated the Kingdom of Bahrain's long-term foreign currency sovereign debt as BBB (Stable). Each of Standard and Poor's and Fitch is established in the European Union and is registered under Regulation (EC) No. 1060/2009 (as amended) (the "**CRA Regulation**").

The Bonds will be offered and sold in denominations of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof. The Regulation S Bonds will initially be represented by interests in a global unrestricted bond certificate in registered form (the "**Regulation S Global Bond Certificate**"), without interest coupons, which will be deposited with a common depositary for, and registered in the name of a nominee of, Euroclear Bank S.A./N.V. ("**Euroclear**") and Clearstream Banking, société anonyme ("**Clearstream, Luxembourg**") on the Issue Date. Beneficial interests in the Regulation S Global Bond Certificate will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear or Clearstream, Luxembourg. The Rule 144A Bonds will initially be represented by a global restricted bond certificate in registered form (the "**Rule 144A Global Bond Certificate**" and, together with the Regulation S Global Bond Certificate, the "**Global Bond Certificates**"), without interest coupons, which will be deposited with a custodian for, and registered in the name of a nominee of, The Depository Trust Company ("**DTC**") on the Issue Date. Beneficial interests in the Rule 144A Global Bond Certificate will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its participants. See "*Clearing and Settlement*". Individual definitive bond certificates in registered form ("**Individual Certificates**") will only be available in certain limited circumstances as described herein.

Prospective investors should be aware that none of the statistical information in this Prospectus has been independently verified.

An investment in the Bonds involves certain risks. For a discussion of these risks, see "*Risk Factors*".

Joint Lead Managers

CITIGROUP	**GULF INTERNATIONAL BANK B.S.C.**	**J.P. MORGAN**	**STANDARD CHARTERED BANK**

The date of this Prospectus is 29 June 2012

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IMPORTANT NOTICES

This Prospectus comprises a prospectus for the purposes of Article 5.4 of Directive 2003/71/EC (the "**Prospectus Directive**") and for the purpose of giving information with regard to the Issuer and the Bonds.

The Issuer accepts responsibility 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 and completeness of such information.

Certain information under the headings "*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 "*Clearing and Settlement*" has been extracted from information provided by The International Monetary Fund (in the case of "*Economy of the Kingdom of Bahrain*" and "*Monetary and Financial System*"), The Ministry of Finance (in the case of "*Economy of the Kingdom of Bahrain*", "*Public Finance*" and "*Indebtedness*"), the Central Informatics Organisation (in the case of "*Economy of the Kingdom of Bahrain*" and "*Balance of Payments and Foreign Trade*"), the Central Bank of Bahrain (in the case of "*Economy of the Kingdom of Bahrain*", "*Balance of Payments and Foreign Trade*" and "*Monetary and Financial System*"), the General Organisation for Social Insurance and Civil Service Bureau (in the case of the "*Economy of the Kingdom of Bahrain*"), The National Oil and Gas Authority (in the case of "*Economy of the Kingdom of Bahrain*" and "*Balance of Payments and Foreign Trade*"), the Bahrain Bourse (in the case of "*Monetary and Financial System*"), the Survey & Land Registration Bureau (in the case of "*Overview of The Kingdom of Bahrain*") and the clearing systems referred to in "*Clearing and Settlement*" (in the case of "*Clearing and Settlement*"). The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by each of the relevant sources, no facts have been omitted which would render the reproduced information inaccurate or misleading.

The historical financial information relating to the Issuer contained in this Prospectus has been extracted from information provided by the Issuer, which information is prepared in accordance with the requirements of the accounting policies stipulated in such financial information (the "**Bahrain Accounting Standards**"). Bahrain Accounting Standards differ from United States generally accepted accounting principles ("**US GAAP**") and International Financial Reporting Standards ("**IFRS**"), and such differences may be material. The Issuer has not provided any information in relation to the differences between Bahrain Accounting Standards and US GAAP or IFRS. If information relating to the Issuer's results or financial condition was prepared under US GAAP, IFRS or other generally accepted accounting standards set by an acceptable financial reporting framework, the information may materially differ. See "*Risk Factors – Statistical Information*." In particular, certain statistical information relating to 2011 should be treated as preliminary estimates and statistical information for this year may be subject to future adjustment.

The Joint Lead Managers (as such term is defined in "*Subscription and Sale*") have not independently 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 the Joint Lead Managers as to the accuracy or completeness of the information contained in this Prospectus or any other information provided by the Issuer in connection with the Bonds. None of the Joint Lead Managers accept any liability in relation to the information contained in this Prospectus or any other information provided by the Issuer in connection with the Bonds.

No person is or has been authorised by the Issuer to give any information or to make any representation not contained in or not consistent with this Prospectus or any other information supplied in connection with the Bonds and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer or any of the Joint Lead Managers.

Neither this Prospectus nor any other information supplied in connection with the Bonds (i) is intended to provide the basis of any credit or other evaluation or (ii) should be considered as a recommendation by the Issuer or any of the Joint Lead Managers that any recipient of this Prospectus or any other information supplied in connection with the Bonds should purchase any Bonds. Each investor contemplating purchasing any Bonds should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer. Neither this Prospectus nor any other information supplied in connection with the issue of any Bonds constitutes an offer or invitation by or on behalf of the Issuer or any of the Joint Lead Managers to any person to subscribe for or to purchase any Bonds.

Neither the delivery of this Prospectus nor the offering, sale or delivery of the Bonds shall in any circumstances imply that the information contained herein concerning the Issuer is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Bonds is correct as of any time subsequent to the date indicated in the document containing the same. The Joint Lead Managers expressly do not undertake to review the economic condition or affairs of the Issuer during the life of the Bonds or to advise any investor in the Bonds of any information coming to their attention.

The Bonds may not be a suitable investment for all investors. Each potential investor in the Bonds must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should: (i) have sufficient knowledge and experience to make a meaningful evaluation of the Bonds, the merits and risks of investing in the Bonds and the information contained or incorporated by reference in this Prospectus or any applicable supplement; (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Bonds and the impact the Bonds will have on its overall investment portfolio; (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Bonds, including Bonds with principal or interest payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency; (iv) understand thoroughly the terms of the Bonds; and (v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy the Bonds 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 Bonds may be restricted by law in certain jurisdictions. Neither the Issuer nor the Joint Lead Managers represent that this Prospectus may be lawfully distributed, or that the Bonds 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 assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer or the Joint Lead Managers which is intended to permit a public offering of the Bonds or distribution of this Prospectus in any jurisdiction where action for that purpose is required. Accordingly, the Bonds may not 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 the Bonds may come must inform themselves about, and observe, any such restrictions on the distribution of this Prospectus and the offering and sale of the Bonds. In particular, there are restrictions on the distribution of this Prospectus and the offer or sale of the Bonds in the United States, the European Economic Area (including the United Kingdom), the United Arab Emirates (excluding the Dubai International Financial Centre), the Dubai International Financial Centre, Singapore, Hong Kong, the Kingdom of Bahrain and the Kingdom of Saudi Arabia. See "*Subscription and Sale*" and "*Transfer Restrictions*".

In making an investment decision, investors must rely on their own examination of the Issuer and the terms of the Bonds being offered, including the merits and risks involved. The Bonds have not been approved or disapproved by the United States Securities and Exchange Commission or any other securities commission or other regulatory authority in the United States, nor have the foregoing authorities passed upon or endorsed the merits of the offering of the Bonds or approved this Prospectus or confirmed the accuracy or determined the adequacy of the information contained in this Prospectus. Any representation to the contrary is a criminal offence in the United States.

None of the Joint Lead Managers or the Issuer makes any representation to any investor in the Bonds regarding the legality of its investment under any applicable laws. Any investor in the Bonds should be able to bear the economic risk of an investment in the Bonds for an indefinite period of time. Each investor should consult with its own advisers as to the legal, tax, business, financial and related aspects of the purchase of the Bonds.

Prospective purchasers must comply with all laws that apply to them in any place in which they buy, offer or sell the Bonds or possess this Prospectus. Any consents or approvals that are needed in order to purchase the Bonds must be obtained prior to the deadline specified for any such consent or approval. The Issuer and the Joint Lead Managers are not responsible for compliance with these legal requirements.

In connection with the issue of the Bonds, Citigroup Global Markets Limited (the "Stabilising Manager") (or any person acting on behalf of the Stabilising Manager) may over allot or effect transactions with a view to supporting the market price of the Bonds at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager (or any person acting on behalf of the Stabilising Manager) will undertake stabilisation action. Any stabilisation action or over-allotment may begin on or after the date on which adequate public disclosure of the terms of the offer of the Bonds is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the Bonds and 60 days after the date of the allotment of the Bonds. Any stabilisation action or over-allotment must be conducted by the Stabilising Manager (or any person acting on behalf of the Stabilising Manager) in accordance with all applicable laws and rules.

U.S. INFORMATION

This Prospectus is being submitted on a confidential basis in the United States to a limited number of QIBs for informational use solely in connection with the consideration of the purchase of Bonds. Its use for any other purpose in the United States is not authorised. It may not be copied or reproduced in whole or in part nor may it be distributed or any of its contents disclosed to anyone other than the prospective investors to whom it is originally submitted.

Bonds may be offered or sold within the United States only to QIBs in transactions exempt from registration under the Securities Act in reliance on Rule 144A or any other applicable exemption. Each U.S. purchaser of Bonds is hereby notified that the offer and sale of Bonds to it may be being made in reliance upon the exemption from the registration requirements of Section 5 of the Securities Act provided by Rule 144A.

Each purchaser or holder of Rule 144A Bonds will be deemed, by its acceptance or purchase of such Rule 144A Bonds, to have made certain representations and agreements intended to restrict the resale or other transfer of such Rule 144A Bonds as set out in "*Subscription and Sale*" and "*Transfer Restrictions*".

For a description of certain further restrictions on offers and sales of Bonds and distribution of this Prospectus, see "*Subscription and Sale*" and "*Transfer Restrictions*".

NOTICE TO NEW HAMPSHIRE RESIDENTS ONLY

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENCE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES ("RSA 421 B") WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

Certain Defined Terms and Conventions

Capitalised terms which are used but not defined in any particular section of this Prospectus will have the meaning attributed thereto in "*Terms and Conditions of the Bonds*" or any other section of this Prospectus.

Certain figures and percentages included in this Prospectus have been subject to rounding adjustments; accordingly figures shown in the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

In this Prospectus, unless otherwise specified or the context otherwise requires, references to "**$**", "**U.S.$**", "**USD**" and "**dollars**" are to U.S. dollars and references to "**Bahraini dinars**" and "**BD**" are to the lawful currency for the time being of the Kingdom of Bahrain.

This Prospectus contains a conversion of certain BD amounts into dollars at specified rates solely for the convenience of the reader. These conversions should not be construed as representations that the BD amounts actually represent such dollar amounts or could actually be converted into dollars at the rate indicated. The Bahraini dinar has been pegged to the U.S. dollar at a fixed exchange rate of BD0.376 = U.S.$1.00 and, unless otherwise indicated, dollar amounts in this Prospectus have been converted from BD at this exchange rate.

References to a billion are to a thousand million.

The Bonds are development bonds for the purposes of Legislative Decree No.(29) of 2011 on the Amendment of the Provisions of Legislative Decree no. 15 of 1977 on the issuance of development bonds.

NO REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, IS MADE BY ANY JOINT LEAD MANAGER OR ANY OF THEIR AFFILIATES OR ANY PERSON ACTING ON THEIR BEHALF AS TO THE ACCURACY OR COMPLETENESS OF THE INFORMATION SET FORTH IN THIS PROSPECTUS, AND NOTHING CONTAINED IN THIS PROSPECTUS IS, OR SHALL BE RELIED UPON AS, A PROMISE OR REPRESENTATION, WHETHER AS TO THE PAST OR THE FUTURE. NONE OF THE JOINT LEAD MANAGERS OR ANY OF THEIR AFFILIATES OR ANY PERSON ACTING ON THEIR BEHALF ASSUMES ANY RESPONSIBILITY FOR THE ACCURACY OR COMPLETENESS OF THE INFORMATION SET FORTH IN THIS PROSPECTUS. EACH PERSON RECEIVING THIS PROSPECTUS ACKNOWLEDGES THAT SUCH PERSON HAS NOT RELIED ON THE JOINT LEAD MANAGERS OR ANY OF THEIR AFFILIATES OR ANY PERSON ACTING ON THEIR BEHALF IN CONNECTION WITH ITS INVESTIGATION OF THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION OR ITS INVESTMENT DECISION. EACH PERSON CONTEMPLATING MAKING AN INVESTMENT IN THE BONDS MUST MAKE ITS OWN INVESTIGATION AND ANALYSIS OF THE CREDITWORTHINESS OF THE ISSUER AND ITS OWN DETERMINATION OF THE SUITABILITY OF ANY SUCH INVESTMENT WITH PARTICULAR REFERENCE TO ITS OWN INVESTMENT OBJECTIVES AND EXPERIENCE AND ANY OTHER FACTORS WHICH MAY BE RELEVANT TO IT IN CONNECTION WITH SUCH INVESTMENT.

SERVICE OF PROCESS AND ENFORCEMENT OF CIVIL LIABILITIES

The Issuer is a foreign sovereign state outside the United States and the United Kingdom, and a substantial portion of the assets of the Issuer are located outside the United States and the United Kingdom. As a result, it may not be possible for investors to effect service of process within the United States and/or the United Kingdom upon the Issuer or to enforce against it in the United States courts or courts located in the United Kingdom judgments obtained in United States courts or courts located in the United Kingdom, respectively, including judgments predicated upon the civil liability provisions of the securities laws of the United States or any state or territory within the United States.

A substantial part of the Issuer's assets are located in the Kingdom of Bahrain. If the choice of law by the parties in relation to any applicable agreement relating to the transaction is English law, the Kingdom of Bahrain's courts are likely to apply English law as the governing law of the transaction at the request of a party, provided that (i) the relevant provisions of English law are proved, as a matter of evidence, by the parties relying on it; and (ii) such provisions are not contrary to Bahraini public order or morality.

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

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

(ii) the courts of Bahrain 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;

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

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

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

To date, there has been no reciprocity between England and Bahrain and the United States and Bahrain in relation to the recognition and enforcement of judgments. In order to enforce an English court judgment or a United States court judgment in the Bahrain courts, a fresh case must be filed in the Bahrain courts, which may accept the English court judgment or the United States court judgment as evidence of a debt.

Judicial precedents in Bahrain generally do not have binding effect on subsequent decisions except 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.

NOTICE TO KINGDOM OF 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 resident in Bahrain intending to subscribe Bonds (each, a "**potential investor**") may be required to provide satisfactory evidence of identity and, if so required, the source of funds to purchase the Bonds within a reasonable time period determined by the Issuer and the Joint Lead Managers. Pending the provision of such evidence, an application to subscribe for the Bonds 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 or the Joint Lead Managers are satisfied therewith, its application to subscribe for Bonds may be rejected 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 potential investors, the Issuer 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 and Anti-Money Laundering and Combating of Financial Crime Module contained in the CBB Rulebook, Volume 6.

NOTICE TO KINGDOM OF SAUDI ARABIA RESIDENTS

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 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 Bonds should conduct their own due diligence on the accuracy of the information relating to the Bonds. If a prospective purchaser does not understand the contents of this Prospectus he or she should consult an authorised financial adviser.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Some statements in this Prospectus may be deemed to be forward looking statements. Forward looking statements include statements concerning the Issuer's plans, objectives, goals, strategies, future operations and performance and the assumptions underlying these forward looking statements. When used in this Prospectus, the words "anticipates", "estimates", "expects", "believes", "intends", "plans", "aims", "seeks", "may", "will", "should" and any similar expressions generally identify forward looking statements. These forward looking statements are contained in the sections entitled "*Risk Factors*", "*Overview of the Kingdom of Bahrain*", "*Economy of the Kingdom of Bahrain*", "*Balance of Payments and Foreign Trade*", "*Monetary and Financial System*", "*Public Finance*" and "*Indebtedness*" and other sections of this Prospectus. The Issuer has based these forward looking statements on its current view with respect to future events and financial performance. Although the Issuer believes that the expectations, estimates and projections reflected in its forward looking statements are reasonable as of the date of this Prospectus, if one or more of the risks or uncertainties materialise, including those identified below or which the Issuer has otherwise identified in this Prospectus, or if any of the Issuer's underlying assumptions prove to be incomplete or inaccurate, events relating to the Issuer and the Issuer's actual results may be materially different from those expected, estimated or predicted.

The risks and uncertainties referred to above include, but are not limited to:

External factors, such as

- the impact of changes in the international prices of commodities, including in particular the prices of crude oil and natural gas;
- interest rates in financial markets outside Bahrain;
- present and future exchange rates;
- the impact of changes in the credit rating of Bahrain; and
- economic conditions in Bahrain's major export markets.

Internal factors, such as

- the volumes of crude oil and natural gas exported from Bahrain;
- domestic inflation;
- changes in political, social, legal or economic conditions in Bahrain;
- foreign currency reserves;
- natural disasters; and
- the levels of foreign direct and portfolio investment.

Without limiting the generality of the foregoing, this Prospectus contains estimates of, and statements with respect to anticipated items of, public revenues and expenditures, and revenues and expenditures of Government-owned entities, for future periods. Any forward looking statements contained in this Prospectus speak only as at the date of this Prospectus. Without prejudice to any requirements under applicable laws and regulations, the Issuer expressly disclaims any obligation or undertaking to disseminate after the date of this Prospectus any updates or revisions to any forward looking statements contained herein to reflect any change in expectations thereof or any change in events, conditions or circumstances on which any such forward looking statement is based.

Information included herein which is identified as being derived from information published by the Kingdom of Bahrain or one of its agencies or instrumentalities is included herein on the authority of such publication as a public official document of the Kingdom of Bahrain. All other information herein with respect to the Kingdom of Bahrain is included herein as a public official statement made on the authority of the Ministry of Finance of the Kingdom of Bahrain.

OVERVIEW

This overview does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Prospectus. It does not contain all the information investors may consider important in making their investment decision. Therefore, investors should read this entire Prospectus carefully, including, in particular, the section entitled "Risk Factors".

The Offering

Issuer:	The Kingdom of Bahrain acting through the Ministry of Finance
Risk Factors:	There are certain factors that may affect the Issuer's ability to fulfil its obligations under the Bonds. These are set out under "*Risk Factors*" and include certain political and economic issues that may affect the Issuer and certain factors relating to the statistical information included in this Prospectus. In addition, there are certain factors which are material for the purpose of assessing the market risks associated with the Bonds. These are set out under "*Risk Factors*" and include the fact that the Bonds may not be a suitable investment for all investors, certain risks relating to the structure of the Bonds and certain market risks.
Issue:	U.S.$1,500,000,000 6.125 per cent. Bonds due 5 July 2022 (the "**Bonds**")
Issue Price:	99.867 per cent. of the principal amount of the Bonds
Maturity Date:	5 July 2022
Joint Lead Managers:	Citigroup Global Markets Limited Gulf International Bank B.S.C. J.P. Morgan Securities Ltd. Standard Chartered Bank
Fiscal Agent and Principal Paying and Transfer Agent:	Citibank, N.A., London Branch
Registrar and Paying and Transfer Agent:	Citigroup Global Markets Deutschland AG
Interest:	The Bonds will bear interest from and including 5 July 2012. Interest on the Bonds will be payable semi-annually in arrear on 5 January and 5 July in each year, commencing on 5 January 2013, at the rate of 6.125 per cent. per annum.
Form and Denomination:	The Bonds will be issued in registered form, in denominations of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof. The Regulation S Bonds will be represented by the Regulation S Global Bond Certificate and the Rule 144A Bonds will be represented by the Rule 144A Global Bond Certificate, in each case without coupons. The Global Bond Certificates will be exchangeable for Individual Certificates in the limited circumstances specified in the Global Bond Certificates.
Taxation:	All payments of principal and interest by or on behalf of the Issuer in respect of the Bonds will be made without withholding or deduction for or on account of any taxes imposed by the Kingdom of Bahrain or any authority therein or thereof having power to tax

	in accordance with Condition 7, unless such withholding or deduction is required by law. In that event, the Issuer will, save in certain circumstances provided in Condition 7, be required to pay such additional amounts as will result in receipt by the Bondholders of such amounts as would have been received by them had no such withholding or deduction been required.
Negative Pledge:	The terms and conditions of the Bonds will contain a negative pledge provision as further described in Condition 3.
Cross-acceleration:	The terms and conditions of the Bonds will contain a cross-acceleration provision as further described in Condition 8.
Initial Delivery of Bonds:	On or before the Issue Date, the Regulation S Global Bond Certificate will be deposited with Citibank Europe plc as common depositary for, and registered in the name of a nominee of, Euroclear and Clearstream, Luxembourg and the Rule 144A Global Bond Certificate will be deposited with Citibank, N.A., as custodian for, and registered in the name of a nominee of, DTC.
Status of the Bonds:	The Bonds are (subject to Condition 3 of the terms and conditions of the Bonds) direct, unconditional and unsecured obligations of the Issuer which rank *pari passu*, without any preference among themselves and, subject as aforesaid, with all other outstanding present and future unsecured and unsubordinated obligations of the Issuer (save for such exceptions as may be provided by applicable legislation and subject to Condition 3 of the terms and conditions of the Bonds).
Listing:	Application has been made to the UK Listing Authority for the Bonds to be admitted to the Official List and to the London Stock Exchange for the Bonds to be admitted to trading on the Market.
Selling Restrictions:	There are restrictions on the offer, sale and transfer of the Bonds in the United States, the European Economic Area (including the United Kingdom), the Kingdom of Bahrain, the United Arab Emirates (excluding the Dubai International Financial Centre), the Dubai International Financial Centre, Singapore, Hong Kong and the Kingdom of Saudi Arabia. See "*Subscription and Sale*" and "*Transfer Restrictions*".
Governing Law:	The Bonds, and any non-contractual obligations arising out of or in connection with the Bonds, are governed by and shall be construed in accordance with English law.
Use of Proceeds:	The Issuer intends to use the net proceeds of the issue of the Bonds for its general budgetary purposes. See "*Use of Proceeds*".
Ratings:	In March 2011, Standard & Poor's rated the Kingdom of Bahrain's long-term foreign currency sovereign debt as BBB (Negative). In August 2011, Fitch rated the Kingdom of Bahrain's long-term foreign currency sovereign debt as BBB (Stable). Each of Standard & Poor's and Fitch is established in the European Union and is registered under the CRA Regulation. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating agency.

Security Codes:	The Common Code and ISIN for the Regulation S Bonds and the Common Code, ISIN and CUSIP number for the Rule 144A Bonds are as follows: ***Regulation S Bonds*** Common Code: 079358029 ISIN: XS0793580290 ***Rule 144A Bonds*** Common Code: 080110405 ISIN: US05674RAB06 CUSIP: 05674RAB0
Clearing:	Euroclear and Clearstream, Luxembourg (in the case of the Regulation S Bonds) and DTC (in the case of the Rule 144A Bonds).

RISK FACTORS

The Issuer believes that the following factors may affect its ability to fulfil its obligations under the Bonds. All of these factors are contingencies which may or may not occur and the Issuer is not 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 Bonds are also described below.

The Issuer believes that the factors described below represent the principal risks inherent in investing in the Bonds, but the inability of the Issuer to pay principal, interest or other amounts on or in connection with any Bonds may occur for other reasons which may not be considered significant risks by the Issuer 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

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 Bonds, 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.

Global slowdown risk

Beginning in 2007, global credit markets began experiencing challenging market conditions which have resulted in reduced liquidity, greater volatility, widening of credit spreads and a lack of price transparency. These market conditions spread and, as at the date of this Prospectus, continue to persist throughout the world. As a consequence, these market conditions have had a significant effect on credit markets within the Middle East region. These market conditions may continue to affect the global credit markets and credit markets within the Middle East region and may do so for the foreseeable future. Bahrain's economy has been adversely affected by these trends and 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 Bonds.

The on-going deterioration of the sovereign debt of several countries, including Greece, Italy, Ireland, Spain and Portugal, together with the risk of contagion to other, more stable, countries, particularly France and Germany, has exacerbated the global economic crisis that began in 2007. This situation has also raised a number of uncertainties regarding the stability and overall standing of the European Monetary Union. These negative trends have worsened in 2012 and have caused considerable turbulence on the global financial and credit markets due to the fear that Greece's problems could spread to the rest of the Eurozone and the impact of the recent request by Spain to provide financial assistance to recapitalize its banks. Concerns that the Eurozone sovereign debt crisis could worsen may lead to the reintroduction of national currencies in one or more Eurozone countries or, in particularly dire circumstances, the abandonment of the euro. Bahrain's banks had approximately U.S.$12 billion in assets in the European Union, excluding the United Kingdom, of which three quarters of the assets are held by the wholesale sector. The departure or risk of departure from the euro by one or more Eurozone countries and/or the abandonment of the euro as a currency could result in a deleterious impact on the global economy, the financial services sector and the price of oil, which in turn may have a material adverse effect on Bahrain's economy and adversely affect the trading price of the Bonds.

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. This includes changes in interest rates and trade and energy policies within the GCC. 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.

Bahrain 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, including continuing global tensions over Iran's nuclear programme, 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 continued, although there was some 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 the 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 with the goal of encouraging national dialogue and reconciliation.

The National Consensus Dialogue (the "**Dialogue**") took place in July, 2011, and included participants from across Bahrain's political, social and religious spectrum, including representatives of a range of different expatriate and religious groups. The Dialogue produced a number of recommendations for constitutional and legislative reform. Most significantly, it proposed constitutional amendments to increase the powers of Parliament and in particular of its elected chamber. These amendments were ratified by HM the King on 3 May 2012.

The Bahrain Independent Commission of Inquiry (the "**BICI**") was established by Royal Order in June 2011. Made up of international human rights experts, it was assigned a task of reporting on the protests and demonstrations of February and March 2011, and their aftermath. It produced its report on 23 November, 2011, setting out detailed narrative regarding the events that had taken place and presented a series of recommendations involving comprehensive, structural reform and a process of national reconciliation. The government pledged to implement the BICI recommendations in their entirety. A high-level National Commission, chaired by the speaker of the upper house of Parliament and including independent representatives from across Bahraini society, was formed to monitor and oversee the government's progress in implementing the BICI recommendations. Its report dated 20 March, 2012, found that the government had made substantial progress towards fully implementing the BICI recommendations, with the most important issues already addressed and clear procedures in place to complete those recommendations that remain outstanding.

Although there has continued to be sporadic unrest in 2012, the level of unrest has continued to decline. However, there can be no assurance there will not be further protests and domestic unrest in the future.

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 Bonds.

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 16.6 per cent. of its gross domestic product ("**GDP**"), and financial services, which constituted 15.7 per cent. of real 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 24.7 per cent. and 16.7 per cent. of real GDP, respectively, in the year ended 31 December 2011. The oil sector constituted 12.1 per cent. of real GDP in the year ended 31 December 2011. However, revenue from the oil industry continues to be the most significant factor to public finances in Bahrain, with budgeted revenue from oil and gas comprising approximately 87.8 per cent. of public revenue for the year ended 31 December 2011, 85.1 per cent. of public revenue for the year ended 31 December 2010 and approximately 83.0 per cent. for the year ended 31 December 2009.

Growth in Bahrain is dependent on government spending. Notwithstanding the foregoing, volatility in world oil prices has significantly affected Bahrain's budget and resulted in material differences between the actual and budgeted amounts. For example, 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.$2,419 million, whereas the actual deficit for 2009 was U.S.$1,186.1 million. This was also the case in 2010 when Bahrain budgeted a deficit of approximately U.S.$3,539.6 million, but in fact recorded a significantly reduced deficit of approximately U.S.$1,223 million. Similarly, in 2011 Bahrain budgeted a deficit of approximately U.S.$2,223 million, but in fact recorded a significantly reduced deficit of approximately U.S.$83.3 million. However, no assurance can be given that international oil prices will continue at current or historical levels, particularly in light of continuing volatile global economic conditions. 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 revenues from oil will be reduced and its 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, with an 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 2012 up to 1 March 2012 was U.S.$117 per barrel. See "*Public Finance – Government Budget*". However, a sustained period during which oil prices become significantly lower than those experienced in recent periods or which have formed the basis of the Government's budget for 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 pursuant to the treaty. Bahrain was allocated 147,771 bpd in 2011. However, no assurance can be given that the current level of output that Bahrain receives from the Abu Saafa oilfield will be maintained.

Bahrain's efforts to further diversify its economy may not be successful

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 social spending is sometimes recorded off-budget

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, social security spending is sometimes recorded off-budget. The liability of the Government for borrowing by significant state-owned entities has given rise to concerns about the level of transparency within Government finances when considering Bahrain as a creditor.

A principal social policy issue in Bahrain is housing for the population. The Government is seeking to invest in the housing sector, although such investment is expected to take several years to ameliorate the current shortage of affordable housing.

The level of unemployment among Bahraini nationals was 3.8 per cent. in 2008, 3.5 per cent. in 2009, 3.7 per cent. in 2010, 4.0 per cent. in 2011 and estimated to be 3.8 per cent. as at March 31 2012. Bahrain employs a significant number of expatriate workers. As at 30 September 2011, approximately 77.1 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.

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, Standard & Poor's 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, Standard & Poor's 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 2012.

In March 2011, the financial sector balance sheet decreased by 6.5 per cent. or by U.S.$14,059.9 million. After March 2011, the decrease continued but at an increasingly slower rate until September 2011, when the aggregate balance sheet reached a value of U.S.$198,611.9 million. Since then, the aggregate balance sheet has gradually recovered reaching a value of U.S.$198,715.7 million in February 2012. Deposits continued to grow during this period and throughout the second half of 2011. In March 2012, total private sector deposits amounted to U.S.$21,181.4 million.

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

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 2011 the financial services sector was the single largest sector of the Bahraini economy, accounting for 24.7 per cent. of real GDP. The global economic downturn which started in 2007 has impacted some financial institutions in Bahrain, including Gulf Finance House which continues restructuring efforts which began in 2010 and Arcapita Bank which filed for Chapter 11 bankruptcy protection in 2012 after failing to agree a restructuring package with lenders. The Central Bank of Bahrain ("**CBB**") is Arcapita's largest creditor holding approximately U.S.$255 million of the bank's debt. Although Bahrain appears to have largely 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, including on its extractive, financial and manufacturing sectors, and adversely affect the trading price of the Bonds. See "*Risks related to the market generally – Global slowdown risk*" above.

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 to fund restructuring costs and working capital until the airline achieved profitability.

Regional and local tensions in 2011 and 2012, have negatively impacted the performance of many of Gulf Air's strategic routes. Rising fuel costs have increased operating costs and were coupled with decreased customer demand. As a result, the implementation of Gulf Air's operational and strategic restructuring, which was started in 2011 has been disrupted. Despite the setback, Gulf Air has continued to focus on key elements of the operational and strategic restructuring started in 2011 and interim solutions to recover lost revenue continue to be pursued, such as the implementation of new routes outside of Middle East and North Africa ("**MENA**") region, some of which will require an additional equity injection in Gulf Air.

Since January 2012, Mumtalakat and the Government of Bahrain have been working closely with Gulf Air to review and potentially reformulate its strategy in light of the dramatically changed circumstances. Several options have been considered, analysed and presented to the Government and Parliament. A final decision on the way forward is pending as of the date of this Prospectus.

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 Bonds generally

Modification

The terms and conditions of the Bonds contain provisions for calling meetings of Bondholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Bondholders, including Bondholders who did not attend and vote at the relevant meeting and Bondholders who voted in a manner contrary to the majority.

The terms and conditions of the Bonds also provide that the Bonds and such conditions may be amended by the Issuer without the consent of the Bondholders to correct a manifest error. In addition, the parties to the Agency Agreement (as defined in "*Terms and Conditions of the Bonds*") may agree to modify any provision thereof, but the Issuer shall not agree, without the consent of the Bondholders, to any such modification unless it is of a formal, minor or technical nature; it is made to correct a manifest error; or it could not be expected to be materially prejudicial to the interests of the Bondholders.

Change of law

The structure of the Bond issue is based on English 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 or administrative practices after the date of this Prospectus.

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 Bonds and (ii) the market value of the Bonds.

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 paid by a person within its jurisdiction to an individual resident in that other Member State 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 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 other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have adopted similar measures (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 has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither the Issuer nor any paying agent nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. The Issuer is required to maintain a paying agent in a Member State that is not obliged to withhold or deduct tax pursuant to the EU Savings Directive.

Enforcement risk; waiver of immunity

The terms and conditions of the Bonds are governed by English law. Any dispute in relation to the terms and conditions of the Bonds may be referred to arbitration in London, England under the London Court of International 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 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 laws 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 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.

In addition, no document will be admitted in evidence in the Bahrain 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 terms and conditions of the Bonds, any dispute may also be referred to the courts of England (who shall have non-exclusive jurisdiction to settle any dispute arising from such documents) if the parties to the dispute so require.

Notwithstanding that a judgment may be obtained in an English court, there is no assurance that the Issuer has or would at the relevant time have assets in the United Kingdom against which such a judgment could be enforced.

As there has been no reciprocity between England and Bahrain, the courts of Bahrain are unlikely to enforce an English judgment without requesting that a fresh case is filed in the Bahrain courts which may lead to the possibility that the Bahrain courts may re-examine the merits of the claim although the Bahrain Courts may also accept the English court judgment as evidence of a debt. The choice by the parties of English law as the governing law of the transaction will be recognised by the courts of Bahrain provided that the provisions thereof are (a) proved, as a matter of evidence, by the party relying on it, and (b) not contrary to Bahraini public order and morality.

Judicial precedents in Bahrain generally do not have binding effect on subsequent decisions except as a directive for decisions of the Constitutional Court (the "**Constitutional Court**"). Although decisions rendered by the Court of Cassation ("**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.

There is limited reciprocity between the Kingdom of Bahrain and other countries in relation to the recognition and enforcement of judgments. The Kingdom of Bahrain's courts may enforce a foreign court judgment without re-examining the merits of the claim, provided that:

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

(ii) the courts of Bahrain 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;

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

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

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

Generally where provisions relating to interest payments are provided for in an agreement, the courts in Bahrain may give effect to such a provision so long as the agreement between the parties which provides for payment of interest is a commercial agreement relating to commercial activities.

The Issuer, to the extent permitted by law, 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 it under the Bonds and the Agency Agreement are valid and binding under the laws of the Kingdom of Bahrain.

Claims for specific enforcement

In the event that the Issuer fails to perform its obligations under the terms and conditions of the Bonds, the potential remedies available to the Bondholders 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.

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 Bondholders 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 Issuer to perform its obligations under the terms and conditions of the Bonds.

Transfers of Bonds are restricted, which may adversely affect the value of the Bonds

The Bonds are being offered and sold pursuant to an exemption from registration under the Securities Act and applicable state securities laws of the United States. The Bonds have not been and will not be registered under the Securities Act or any United States state securities laws. Therefore, the Bonds may not be transferred or sold in the United States except pursuant to an exemption from, or a transaction not subject to, the registration requirements of the Securities Act and applicable United States state securities laws, or pursuant to an effective registration statement, and Bondholders may be required to bear the risk of investment in the Bonds for an indefinite period of time. The Bonds contain provisions that restrict the Bonds from being offered, sold or otherwise transferred except pursuant to the exemptions available pursuant to Rule 144A and Regulation S, or other exceptions, under the Securities Act. Furthermore, the Bonds are not registered or qualified Bonds under any other country's securities laws. It is the obligation of each Bondholder to ensure that its offers and sales of Bonds within the United States and other countries comply with applicable securities laws.

Risks related to the market generally

There is currently no secondary market for the Bonds and there may be limited liquidity for Bondholders

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

Exchange rate risks and exchange controls

The Issuer will pay principal and interest on the Bonds 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 U.S. dollars would decrease (1) the Investor's Currency-equivalent yield on the Bonds, (2) the Investor's Currency equivalent value of the principal payable on the Bonds and (3) the Investor's Currency equivalent market value of the Bonds.

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 less interest or principal than expected, or no interest or principal.

Interest rate risks

Investment in the Bonds involves the risk that subsequent changes in market interest rates may adversely affect the value of the Bonds.

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 authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) the Bonds are legal investments for it, (2) the Bonds can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any Bonds. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Bonds under any applicable risk-based capital or similar rules.

Credit ratings may not reflect all risks

In March 2011, Standard & Poor's rated the Kingdom of Bahrain's long-term foreign currency sovereign debt and long-term local currency sovereign debt as BBB (Negative) and in August 2011, Fitch rated the Kingdom of Bahrain's long-term foreign currency sovereign debt as BBB (Stable) and its long-term local currency sovereign debt as BBB+ (Stable).

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 judgement, circumstances in the future so warrant. The Issuer has no obligation to inform Bondholders 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 Bonds.

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 Bonds. 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.

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). 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 on the cover page of this Prospectus.

TERMS AND CONDITIONS OF THE BONDS

The following is the text of the terms and conditions of the Bonds which will be endorsed on each Bond in definitive form (if issued) and incorporated by reference into the Global Bond Certificates.

The issue of the U.S.$1,500,000,000 6.125 per cent. Bonds due 5 July 2022 (the "**Bonds**") was authorised by The Kingdom of Bahrain acting through the Ministry of Finance (the "**Issuer**") by Legislative Decree No.(29) of 2011 on the Amendment of the Provisions of Legislative Decree no. 15 of 1977 on the issuance of development bonds. A fiscal agency agreement dated 5 July 2012 (the "**Agency Agreement**") has been entered into in relation to the Bonds between the Issuer, Citibank, N.A., London Branch as fiscal agent and principal paying and transfer agent and Citigroup Global Markets Deutschland AG as registrar and paying and transfer agent. The fiscal agent and principal paying and transfer agent and the registrar and paying and transfer agent for the time being are referred to below respectively as the "**Fiscal Agent**", the "**Registrar**" and the "**Paying and Transfer Agents**" (which expression shall include the Fiscal Agent). The Agency Agreement includes the form of the Bonds. Copies of the Agency Agreement are available for inspection during normal business hours at the specified offices of the Paying and Transfer Agents. The holders of the Bonds (the "**Bondholders**") are deemed to have notice of all the provisions of the Agency Agreement applicable to them.

For the purposes of Conditions 3, 5(b), 8 and 11(f), references to the "Issuer" shall be deemed to refer to the Kingdom of Bahrain whether or not acting through any ministry, authority or agency.

1. Form, Denomination and Title

(a) **Form and denomination:** The Bonds are serially numbered and in registered form in the denominations of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof (an "**authorised denomination**").

(b) **Title:** Title to the Bonds will pass by transfer and registration as described in Condition 2. The holder (as defined below) of any Bond will (except as otherwise required by law or as ordered by a court of competent jurisdiction) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it or its theft or loss (or that of the related certificate, as appropriate) or anything written on it or on the certificate in respect of it (other than a duly executed transfer thereof)) and no person will be liable for so treating the holder. For this purpose, "**holder**" shall mean the person in whose name a Bond is registered in the Register (as defined in Condition 2(a)).

(c) **Status:** The Bonds constitute, subject to Condition 3, direct, unconditional and unsecured obligations of the Issuer and shall at all times rank pari passu and without any preference among themselves. The payment obligations of the Issuer under the Bonds shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 3, at all times rank at least equally with all its other present and future unsecured and unsubordinated obligations.

2. Registration and Transfer of Bonds

(a) **Registration:** The Issuer will cause a register (the "**Register**") to be kept at the specified office of the Registrar on which will be entered the names and addresses of the holders of the Bonds and the particulars of the Bonds held by them and of all transfers and redemptions of Bonds. A certificate (each, a "**Bond Certificate**") will be issued to each Bondholder in respect of its registered holding or holdings of Bonds. Each Bond Certificate will be numbered serially with an identifying number which will be recorded in the Register.

(b) **Transfer:** Bonds may, subject to the terms of the Agency Agreement and to Conditions 2(c) and 2(d), be transferred in whole or in part in an authorised denomination by lodging the relevant Bond Certificate (with the form of application for transfer in respect thereof duly executed and duly stamped where applicable) at the specified office of the Registrar or any Paying and Transfer Agent.

No transfer of a Bond will be valid unless and until entered on the Register. A Bond may be registered only in the name of, and transferred only to, a named person (or persons, not exceeding four in number).

The Registrar will within seven business days (as defined in Condition 6(c)), in respect of any duly made application for the transfer of a Bond, deliver a new Bond to the transferee (and, in the case of a transfer of part only of a Bond, deliver a Bond for the untransferred balance to the transferor) at the specified office of the Registrar or (at the risk and, if mailed at the request of the transferee or, as the case may be, the transferor otherwise than by ordinary mail, at the expense of the transferee or, as the case may be, the transferor) mail the Bond by uninsured mail to such address as the transferee or, as the case may be, the transferor may request.

(c) **Formalities free of charge:** Such transfer will be effected without charge subject to (i) the person making such application for transfer paying or procuring the payment of any taxes, duties and other governmental charges in connection therewith, (ii) the Registrar being satisfied with the documents of title and/or identity of the person making the application and (iii) the regulations referred to in Condition 2(e).

(d) **Closed periods:** Neither the Issuer nor the Registrar will be required to register the transfer of any Bond (or part thereof) (i) during the period of 15 days ending on and including the day immediately prior to 31 March 2020 (the "**Maturity Date**"); or (ii) during the period of 15 days ending on (and including) any Record Date (as defined in Condition 6(a)) in respect of any payment of interest on the Bonds.

(e) **Regulation:** All transfers of Bonds and entries on the Register will be made subject to the detailed regulations concerning transfers of Bonds scheduled to the Agency Agreement. The regulations may be changed by the Issuer, with the prior written approval of the Registrar and the Bondholders. A copy of the current regulations will be made available by the Registrar to any Bondholder upon request.

3. Negative Pledge

So long as any Bond remains outstanding (as defined in the Agency Agreement), the Issuer will not create, or have outstanding, any mortgage, charge, lien, pledge or other security interest, upon the whole or any part of its present or future undertaking, assets or revenues to secure any Relevant Indebtedness, or any guarantee or indemnity in respect of any Relevant Indebtedness, without at the same time or prior thereto according to the Bonds the same security as is created or subsisting to secure any such Relevant Indebtedness, guarantee or indemnity or such other security as shall be approved by an Extraordinary Resolution (as defined in the Agency Agreement) of the Bondholders. For the avoidance of any doubt, the right of holders of Shari'ah – compliant certificates to require the issuer thereof to sell the relevant underlying asset(s) to the Issuer (or any person on its behalf) following a default thereunder, however described, shall not of itself comprise a security interest for the purposes of the foregoing.

In these Conditions "**Relevant Indebtedness**" means any present or future indebtedness which is in the form of, or represented or evidenced by, bonds, debentures, notes or other similar instruments (including Shari'ah – compliant certificates) which for the time being are, or are capable of being, quoted, listed or dealt in or traded on any stock exchange or over-the-counter or other securities market and are denominated or payable, or which at the option of the relevant holder thereof may be payable in a currency other than the lawful currency of Bahrain.

4. Interest

The Bonds bear interest from and including 5 July 2012 at the rate of 6.125 per cent. per annum, payable semi-annually in arrear on 5 July and 5 January in each year, commencing on 5 January 2013 (each an "**Interest Payment Date**"). Each Bond will cease to bear interest from the due date for redemption unless, upon due surrender, payment of principal is improperly withheld or refused. In such event it shall continue to bear interest at such rate (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Bond up to that day are received by or on behalf of the relevant holder, and (b) the day after the Fiscal Agent has notified Bondholders of receipt of all sums due in respect of all the Bonds up to that day (except to the extent that there is failure in the subsequent payment to the relevant holders under these Conditions). If interest is required to be calculated for a period of less than a complete Interest Period (as defined below), the relevant day-count fraction will be determined on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed.

The period beginning on 5 July and ending on the first Interest Payment Date and each successive period beginning on an Interest Payment Date and ending on the next succeeding Interest Payment Date is called an "**Interest Period**".

5. Redemption and Purchase

(a) **Final redemption**: Unless previously purchased and cancelled, the Bonds will be redeemed at their principal amount on the Maturity Date. The Bonds may not be redeemed at the option of the Issuer other than in accordance with this Condition.

(b) **Purchase**: The Issuer may at any time purchase Bonds in the open market or otherwise at any price. The Bonds so purchased, while held by or on behalf of the Issuer, shall not entitle the holder to vote at any meetings of the Bondholders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the Bondholders or for the purposes of Condition 11(a).

(c) **Cancellation**: All Bonds so redeemed will be cancelled and may not be re-issued or resold. Bonds so purchased may, at the option of the Issuer, be cancelled and, if so cancelled, may not be re-issued or resold.

6. Payments

(a) **Method of payment**: Payment of principal in respect of the Bonds and accrued interest payable on redemption of the Bonds other than on an Interest Payment Date will be made to the persons shown in the Register at the close of business on the Record Date, subject to the surrender of the Bonds at the specified office of any Paying and Transfer Agent. Payments of interest due on an Interest Payment Date will be made to the persons shown in the Register at close of business on the Record Date. For this purpose, "**Record Date**" means the fifteenth business day, in New York City and the place of the specified office of the Registrar, before the due date for the relevant payment. Each such payment will be made by transfer to a U.S.$ account maintained by the payee with a bank in New York City.

(b) **Payments subject to fiscal laws**: All payments are subject in all cases to any applicable fiscal or other laws and regulations, but without prejudice to the provisions of Condition 7. No commissions or expenses shall be charged to the Bondholders in respect of such payments.

(c) **Delay in payment**: Bondholders will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due as a result of the due date not being a business day. In these Conditions "**business day**" means a day on which commercial banks and foreign exchange markets are open in the relevant city and (where such surrender is required by these Conditions) in the place of the specified office of the relevant Paying and Transfer Agent to whom the relevant Bond is surrendered.

(d) **Registrar and Paying and Transfer Agents**: The initial Registrar and Paying and Transfer Agents and their initial specified offices are listed below. The Issuer reserves the right at any time to vary or terminate the appointment of any Paying and Transfer Agent and/or the Registrar and appoint additional or other Paying and Transfer Agents, provided that it will maintain (i) a Registrar and a Fiscal Agent, (ii) a Paying and Transfer Agent (which may be the Fiscal Agent) having its specified office in a major European city and (iii) a Paying and Transfer Agent (which may be the Fiscal Agent) with its specified office in a European Union Member State that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, any such Directive. Notice of any change in the

Registrar or the Paying and Transfer Agents or their specified offices will promptly be given to the Bondholders.

7. Taxation

All payments of principal and interest by or on behalf of the Issuer in respect of the Bonds shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within the Kingdom of Bahrain or any authority therein or thereof having power to tax, unless such withholding or deduction is required by law. In that event the Issuer shall pay such additional amounts as will result in receipt by the Bondholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Bond:

(a) **Other connection**: to a holder, or to a third party on behalf of a holder, if such holder is liable to such taxes, duties, assessments or governmental charges in respect of such Bond by reason of his having some connection with the Kingdom of Bahrain other than the mere holding of the Bond; or

(b) **Surrendered more than 30 days after the Relevant Date**: surrendered (where surrender is required) for payment more than 30 days after the Relevant Date except to the extent that the holder of it would have been entitled to such additional amounts on surrender of such Bond for payment on the last day of such period of 30 days; or

(c) **EU Directive**: where such withholding or deduction is imposed on a payment to or for an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, any such Directive; or

(d) **Payment by another Paying and Transfer Agent**: to a holder, or to a third party on behalf of a holder, who would have been able to avoid such withholding or deduction by surrendering (where surrender is required) the relevant Bond to another Paying and Transfer Agent in a Member State of the European Union.

In this Condition, "**Relevant Date**" means whichever is the later of (i) the date on which such payment first becomes due and (ii) if the full amount payable has not been received by the Fiscal Agent on or prior to such due date, the date on which, the full amount having been so received, notice to that effect shall have been given to the Bondholders. Any reference in these Conditions to principal and/or interest shall be deemed to include any additional amounts which may be payable under this Condition.

8. Events of Default

If any of the following events ("**Events of Default**" and each an "**Event of Default**") occurs:

(a) **Non-payment**: the Issuer fails to pay the principal of, or any interest on, any of the Bonds when due and such failure continues for a period of 14 days; or

(b) **Breach of other obligations or undertakings**: the Issuer defaults in performance or observance of or compliance with any of its other obligations or undertakings in respect of the Bonds 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 Issuer by any Bondholder; or

(c) **Cross Acceleration**: 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 Issuer 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

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

(e) **Unlawfulness or invalidity**: (i) the validity of the Bonds is contested by the Issuer or the Issuer shall deny any of its obligations under the Bonds or 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 5 July 2012, (ii) it becomes unlawful for the Issuer to perform or comply with any of its obligations under or in respect of the Bonds or the Agency Agreement or (iii) any of such obligations becomes unenforceable or invalid; or

(f) **Licence**: any licence, authorisation, approval, consent, order or exemption of or from any governmental authority of Bahrain with respect to these Bonds ceases to remain in full force and effect and continues as such for at least 30 days; or

(g) **IMF**: 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;

then the Fiscal Agent shall, upon receipt at its specified office of a written request to the Issuer from holders of not less than 25 per cent. in aggregate outstanding principal amount of the Bonds, declare all the Bonds immediately due and payable, at their principal amount together with accrued interest, without further formality. Upon such declaration by the Fiscal Agent, the Principal Paying and Transfer Agent shall give notice thereof to the Issuer and to the holders of Bonds in accordance with Condition 13.

If the Issuer receives notice in writing from the holders of at least 50 per cent. in aggregate outstanding principal amount of the Bonds to the effect that the Event of Default or Events of Default giving rise to any above-mentioned declaration is or are cured following any such declaration and that such holders wish the relevant declaration to be withdrawn, the Issuer shall give notice thereof to the Bondholders (with a copy to the Fiscal Agent) whereupon the relevant declaration shall be withdrawn and shall have no further effect but without prejudice to any other rights or obligations which may have arisen before the Issuer gives such notice.

In this Condition:

"**External Debt**" means any loan or debt (including any Shari'ah-compliant debt or financing) of Bahrain (whether entered into directly or indirectly by the Issuer) which:

(a) is denominated in a currency other than the lawful currency of Bahrain; and/or

(b) is denominated in a lawful currency of Bahrain and represented by securities and where at least 50 per cent. in aggregate face amount of such securities is initially placed outside Bahrain; and/or

(c) is denominated in the lawful currency of Bahrain and not represented by securities and where the

lender is not incorporated or otherwise located in Bahrain.

"**IMF**" means the International Monetary Fund or any of its successor entities.

9. Prescription

Claims in respect of principal and interest will become void unless made within a period of 10 years in the case of principal and five years in the case of interest from the appropriate Relevant Date.

10. Replacement of Bond Certificates

If any Bond Certificate is lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Fiscal Agent subject to all applicable laws and stock exchange or other relevant authority requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may require (provided that the requirement is reasonable in light of prevailing market practice). Mutilated or defaced Bonds must be surrendered before replacements will be issued.

11. Meetings of Bondholders, Modification and Waiver

(a) **Meetings of Bondholders**: The Agency Agreement contains provisions for convening meetings of Bondholders to consider matters relating to the Bonds, including, without limitation, the modification of any provision of these Conditions. Any such modification may be made if, having been approved in writing by the Issuer, it is sanctioned by an Extraordinary Resolution. Such a meeting may be convened by the Issuer and shall be convened by the Fiscal Agent upon the request in writing of Bondholders holding not less than 10 per cent. of the aggregate principal amount of the outstanding Bonds. The quorum at any meeting of Bondholders convened to vote on an Extraordinary Resolution will be two or more persons holding or representing not less than 50 per cent. of the aggregate principal amount of the outstanding Bonds or, at any adjourned meeting of Bondholders, two or more persons being or representing Bondholders, whatever the aggregate principal amount of the outstanding Bonds held or represented; provided, however, that any proposals relating to a Reserved Matter may only be sanctioned by an Extraordinary Resolution passed at a meeting of Bondholders at which two or more persons holding or representing not less than 75 per cent. of the aggregate principal amount of the outstanding Bonds or, at any adjourned meeting, 25 per cent. of the aggregate principal amount of the outstanding Bonds form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Bondholders, whether present or not.

If a resolution is passed in writing, such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Bondholders.

(b) **Extraordinary Resolution**: In these Conditions "**Extraordinary Resolution**" means:

(i) in relation to any Reserved Matter:

(A) a resolution passed at a meeting of Bondholders duly convened and held in accordance with the Agency Agreement by a majority consisting of not less than 75 per cent. of the principal amount of the outstanding Bonds which are represented at that meeting; or

(B) a resolution in writing signed by or on behalf of holders of not less than 75 per cent. of the principal amount of the Bonds for the time being outstanding; and

(ii) in relation to any other matter:

(A) a resolution passed at a meeting of Bondholders duly convened and held in accordance with the Agency Agreement by a majority consisting of not less than 66.67 per cent. of the aggregate principal amount of the outstanding Bonds which are represented at that Meeting; or

(B) a resolution in writing signed by or on behalf of holders of not less than 66.67 per cent. of the outstanding principal amount of the Bonds for the time being outstanding.

(c) **Reserved Matter**: In these Conditions "**Reserved Matter**" means any proposal to:

(i) change any date, or the method of determining the date, fixed for payment of principal or interest in respect of the Bonds or to reduce the amount of principal or interest payable on any date in respect of the Bonds;

(ii) effect the exchange or substitution of the Bonds for, or the conversion of the Bonds into, shares, bonds or other obligations or securities of the Issuer or any other person or body corporate formed or to be formed;

(iii) reduce or cancel the principal amount of the Bonds;

(iv) vary the currency in which any payment in respect of the Bonds is to be made;

(v) amend the status of Bonds under Condition 1(c);

(vi) amend the obligation of the Issuer to pay additional amounts under Condition 7;

(vii) amend the Events of Default set out in Condition 8;

(viii) amend the law governing the Bonds, the arbitration provisions, the courts to the jurisdiction of which the Issuer has submitted in the Bonds, the Issuer's obligation to maintain an agent for service of process in England or the Issuer's waiver of immunity in respect of actions or proceedings brought by any Bondholder set out in Condition 16;

(ix) modify the provisions contained in the Agency Agreement concerning the quorum required at any meeting of the Bondholders or any adjournment thereof or concerning the majority required to pass an Extraordinary Resolution or the percentage of votes required for the taking of any action;

(x) change the definition of "*Extraordinary Resolution*" or "*outstanding*" in the Conditions and/or Agency Agreement;

(xi) instruct any Bondholder or committee appointed on behalf of all Bondholders pursuant to Condition 11(e) to withdraw, settle or compromise any proceeding or claim being asserted pursuant to Condition 8;

(xii) conferring upon any committee appointed pursuant to Condition 11(e) any powers or discretions which the Bondholders could themselves exercise by Extraordinary Resolution; or

(xiii) amend this definition.

(d) **Manifest error, etc.**: The Bonds and these Conditions may be amended by the Issuer without the consent of the Bondholders to correct a manifest error. In addition, the parties to the Agency Agreement may agree to modify any provision thereof, but the Issuer shall not agree, without the consent of the Bondholders, to any such modification unless it is of a formal, minor or technical nature, it is made to correct a manifest error or if to do so could not be expected to be materially prejudicial to the interests of the Bondholders.

(e) **Bondholders' representative committee**:

(i) Appointment: The Bondholders may, by a resolution passed at a meeting of Bondholders duly convened and held in accordance with the Agency Agreement by a majority of at least 50 per cent. in aggregate principal amount of the Bonds then outstanding, or by notice in writing to the Issuer (with a copy to the Fiscal Agent) signed by or on behalf of the holders of at least 50 per cent. in aggregate principal amount of the Bonds then outstanding, appoint any persons as a committee to represent the interests of the Bondholders if any of the following events shall have occurred:

(A) an Event of Default;

(B) any event or circumstance which would, with the giving of notice, lapse of time, the issuing of a certificate and/or fulfilment of any other requirement provided for in Condition 8 become an Event of Default; or

(C) any public announcement by the Issuer to the effect that the Issuer is seeking or intends to seek a restructuring of the Bonds (whether by amendment, exchange offer (other than a tender, exchange or similar offer made by the Issuer at any time when all amounts payable in respect of the Bonds have been paid in a timely manner) or otherwise).

(ii) Powers: Such committee in its discretion may, among other things, (A) engage legal advisers and financial advisers to assist it in representing the interests of the Bondholders, (B) adopt such rules as it considers appropriate regarding its proceedings and (C) enter into discussions with the Issuer and/or other creditors of the Issuer. The Issuer shall pay any reasonably incurred fees and expenses of any such committee (including, without limitation, the fees and expenses of the committee's legal advisers and financial advisers, if any) within 30 days of the delivery to the Issuer of a reasonably detailed invoice and supporting documentation.

(f) **Outstanding Bonds**: for the purposes of (i) ascertaining the right to attend and vote at any meeting of Bondholders and (ii) Condition 8, Condition 11 and Schedule 4 (Provisions for Meetings of Bondholders) to the Agency Agreement, those Bonds (if any) which are for the time being held by any person (including but not limited to the Issuer) for the benefit of the Issuer or by any public body owned or controlled, directly or indirectly, by the Issuer shall (unless and until ceasing to be so held) be deemed not to remain outstanding.

12. Further Issues

The Issuer may from time to time without the consent of the Bondholders create and issue further securities either (i) having the same terms and conditions as the Bonds in all respects (or in all respects except for the first payment of interest on them) and so that such further issue shall be consolidated and form a single series with the outstanding securities of any series (including the Bonds) or (ii) upon such terms as the Issuer may determine at the time of their issue. References in these Conditions to the Bonds include (unless the context requires otherwise) any other securities issued pursuant to this Condition and forming a single series with the Bonds.

These additional Bonds, even if they are treated for non-tax purposes as part of the same series as the original Bonds, in some cases may be treated as a separate series for U.S. federal income tax purposes. In such a case, the additional Bonds may be considered to have been issued with OID even if the original Bonds had no OID, or the additional Bonds may have a greater amount of OID than the original Bonds. These differences may affect the market value of the original Bonds if the additional Bonds are not otherwise distinguishable from the original Bonds.

13. Notices

Notices to Bondholders will be sent to them by first class mail (airmail if overseas) at their respective addresses on the Register, and will be deemed to have been given on the second weekday (being a day other than a Saturday or a Sunday) after the date of mailing. In addition, the Issuer shall also ensure that notices are duly given or published in a manner which complies with the rules and regulations of any listing authority, stock exchange and/or quotation system (if any) by which the Bonds have then been admitted to listing, trading and/or quotation.

14. Currency Indemnity

U.S. dollars is the sole currency of account and payment for all sums payable by the Issuer under or in connection with the Bonds, including damages. Any amount received or recovered in a currency other than U.S. dollars (whether as a result of, or of the enforcement of, a judgment or order of a court of any jurisdiction or otherwise) by any Bondholder in respect of any sum expressed to be due to it from the Issuer shall only constitute a discharge to the Issuer to the extent of the U.S. dollar amount which the recipient is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so). If that U.S. dollar amount is less than the U.S. dollar amount expressed to be due to the recipient under any Bond, the Issuer shall indemnify it against any loss sustained by it as a result. In any event, the Issuer shall indemnify the recipient against the cost of making any such purchase. For the purposes of this Condition, it will be sufficient for the Bondholder to demonstrate that it would have suffered a loss had an actual purchase been made. These indemnities constitute a separate and independent obligation from the Issuer's other obligations, shall give rise to a separate and independent cause of action, shall apply irrespective of any indulgence granted by any Bondholder and shall continue in full force and effect despite any other judgment, order, claim or proof for a liquidated amount in respect of any sum due under any Bond or any other judgment or order.

15. Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of the Bonds under the Contracts (Rights of Third Parties) Act 1999.

16. Governing Law and Jurisdiction

(a) **Governing law**: The Agency Agreement, the Bonds and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law.

(b) **Arbitration**: Subject to Condition 16(c), any dispute arising out of or in connection with the Bonds (including a dispute regarding the existence, validity or termination of the Bonds or a dispute relating to any non-contractual obligations arising out of or in connection with the Bonds) (a "**Dispute**") shall be referred to and finally resolved by arbitration under the LCIA (formerly known as the London Court of International Arbitration) Rules (the "**Rules**") which Rules (as amended from time to time) are deemed to be incorporated by reference into this Condition 16(b). The number of arbitrators shall be three. The Issuer, and the Bondholder, shall each nominate one arbitrator, and both arbitrators shall in turn jointly nominate a further arbitrator who shall be the chairman of the tribunal. In the event that the Issuer or the Bondholder or both fail to nominate an arbitrator within the time limits specified by the Rules, such arbitrator(s) shall be appointed by the LCIA within 15 days of such failure. In the event that the party nominated arbitrators fail to nominate the third arbitrator within 15 days of the appointment of the second arbitrator, such arbitrator shall be appointed by the LCIA within 15 days of such failure. The seat of arbitration shall be London, England and the language of the arbitration shall be English.

(c) **Courts**: Before the tribunal has been constituted in respect of a claim asserted or brought by or against a Bondholder(s) any such Bondholder(s) may by notice in writing to the Issuer (and, if applicable, any other Bondholder(s) by or against whom the claim is asserted or brought) require that a Dispute be heard by the courts of England. All parties agree that the English courts will have non-exclusive jurisdiction to settle such Dispute and submit to the non-exclusive jurisdiction of the English courts in connection with the Bonds and any non-contractual obligations arising out of or in connection with them and waive objection to the English courts on grounds of inappropriate or inconvenient forum or otherwise as regards proceedings in connection with the Bonds.

(d) **Agent for service of process**: The Issuer irrevocably appoints Law Debenture Corporate Services Limited of Fifth Floor, 100 Wood Street, London EC2V 7EX, England as its agent in England to receive service of process in any proceedings in England based on any of the Bonds. The Issuer agrees that failure by a process agent to notify the Issuer of the process will not invalidate proceedings concerned or service of the process. If for any reason the Issuer does not have such an agent in England, it will promptly appoint a substitute process agent and notify the Bondholders of such appointment. Nothing herein shall affect the right to serve process in any other manner permitted by law.

(e) **Enforcement**: Each of the Issuer and the Bondholders agrees that an arbitral award or judgment or order of an English or other court, in connection with a dispute arising out of or in connection with these Conditions, shall be binding on it and may be enforced against it in the courts of any competent jurisdiction.

(f) **Waiver of immunity**: The Issuer, to the extent permitted by law, hereby irrevocably and unconditionally waives and agrees not to raise with respect to the Bonds 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 whatsoever (irrespective of its use or intended use) of any order or judgment made or given in connection with any proceedings. In particular (but not by way of limitation of the foregoing), the Issuer, to the extent permitted by law, agrees and confirms that Article 251 of the Law of Civil and

Commercial Procedure (Decree Law No. 12/197 1 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 the Bonds or any provision hereof.

SUMMARY OF PROVISIONS RELATING TO THE BONDS WHILE IN GLOBAL FORM

The Global Bond Certificates

The Bonds will be evidenced on issue by the Regulation S Global Bond Certificate (deposited with, and registered in the name of a nominee for, a common depositary for Euroclear and Clearstream, Luxembourg) and the Rule 144A Global Bond Certificate (deposited with a custodian for, and registered in the name of Cede & Co. as nominee of DTC).

Beneficial interests in the Regulation S Global Bond Certificate may be held only through Euroclear or Clearstream, Luxembourg at any time. See "*Clearing and Settlement – Book-Entry Ownership*". By acquisition of a beneficial interest in a Regulation S Global Bond Certificate, the purchaser thereof will be deemed to represent, among other things, that it is not located in the United States.

Beneficial interests in the Rule 144A Global Bond Certificate may only be held through DTC at any time. See "*Clearing and Settlement – Book-Entry Ownership*". By acquisition of a beneficial interest in the Rule 144A Global Bond Certificate, the purchaser thereof will be deemed to represent, among other things, that it is a QIB and that, if in the future it determines to transfer such beneficial interest, it will transfer such interest in accordance with the procedures and restrictions contained in the Agency Agreement. See "*Transfer Restrictions*".

Beneficial interests in each Global Bond Certificate will be subject to certain restrictions on transfer set forth therein and in the Agency Agreement, and with respect to Rule 144A Bonds, as set forth in Rule 144A, and the Rule 144A Global Bond Certificate will bear the legend set forth thereon regarding such restrictions set forth under "*Transfer Restrictions*". A beneficial interest in the Regulation S Global Bond Certificate may be transferred to a person who takes delivery in the form of an interest in the Rule 144A Global Bond Certificate in denominations greater than or equal to the minimum denominations applicable to interests in the Rule 144A Global Bond Certificate and only upon receipt by the Registrar of a written certification (in the form provided in the Agency Agreement) to the effect that the transferor reasonably believes that the transferee is a QIB and that such transaction is in accordance with any applicable securities laws of any state of the United States or any other jurisdiction. Beneficial interests in the Rule 144A Global Bond Certificate may be transferred to a person who takes delivery in the form of an interest in the Regulation S Global Bond Certificate and in accordance with Regulation S.

Any beneficial interest in the Regulation S Global Bond Certificate that is transferred to a person who takes delivery in the form of an interest in the Rule 144A Global Bond Certificate will, upon transfer, cease to be an interest in the Regulation S Global Bond Certificate and become an interest in the Rule 144A Global Bond Certificate, and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the Rule 144A Global Bond Certificate for as long as it remains such an interest. Any beneficial interest in the Rule 144A Global Bond Certificate that is transferred to a person who takes delivery in the form of an interest in the Regulation S Global Bond Certificate will, upon transfer, cease to be an interest in the Rule 144A Global Bond Certificate and become an interest in the Regulation S Global Bond Certificate and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the Regulation S Global Bond Certificate for so long as it remains such an interest. No service charge will be made for any registration of transfer or exchange of Bonds, but the Registrar may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith. Except in the limited circumstances described below, owners of beneficial interests in Global Bond Certificates will not be entitled to receive physical delivery of the Individual Certificates. No Bonds will be issued in bearer form.

Legends

The holder of an Individual Certificate may transfer the Bonds evidenced thereby in whole or in part in the applicable minimum denomination by surrendering it at the specified office of the Registrar or any Paying and Transfer Agent, together with the completed form of transfer thereon. Upon the transfer, exchange or replacement of a Rule 144A Individual Certificate bearing the legend referred to under "*Transfer*

Restrictions", or upon specific request for removal of the legend on a Rule 144A Individual Certificate, the Issuer will deliver only Rule 144A Individual Certificates that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Issuer and the Registrar such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Issuer that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act.

Amendments to Terms and Conditions of the Bonds

Each Global Bond Certificate contains provisions that apply to the Bonds that they evidence, some of which modify the effect of the terms and conditions of the Bonds. The following is a summary of those provisions:

Payments

Payments of principal and interest in respect of Bonds evidenced by a Global Bond Certificate will be made against presentation for endorsement by the Fiscal Agent and, if no further payment falls to be made in respect of the relevant Bonds, surrender of such Global Bond Certificate to or to the order of the Fiscal Agent or such other Paying and Transfer Agent as shall have been notified to the relevant Bondholders for such purpose. A record of each payment so made will be endorsed in the appropriate schedule to the relevant Global Bond Certificate, which endorsement will be *prima facie* evidence that such payment has been made in respect of the relevant Bonds.

Meetings

The holder of each Global Bond Certificate will be treated as being two persons for the purposes of any quorum requirements of, or the right to demand a poll at, a meeting of Bondholders and in any such meeting as having one vote in respect of each integral U.S.$1,000 in principal amount of Bonds.

Cancellation

Cancellation of any Bond required by the terms and conditions of the Bonds to be cancelled will be effected by reduction in the principal amount of the applicable Global Bond Certificate.

Exchange for Individual Certificates

Exchange

Each Regulation S Global Bond Certificate will be exchangeable, free of charge to the holder, in whole but not in part, for Individual Certificates if: (i) it is held by or on behalf of a clearing system and such clearing system is closed for business for a continuous period of 14 calendar days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so, by the holder giving notice to the Registrar or (ii) the Issuer would suffer a material disadvantage in respect of the Bonds as a result of a change in the laws or regulations (taxation or otherwise) of any jurisdiction referred to in Condition 7 of the terms and conditions of the Bonds which would not be suffered were the Bonds in definitive form, by the Issuer giving notice to the Registrar and the Bondholders, in each case of its intention to exchange the relevant Regulation S Global Bond Certificate for Individual Certificates on or after the Exchange Date (as defined below) specified in the notice.

Each Rule 144A Global Bond Certificate will be exchangeable, free of charge to the holder, in whole but not in part, for Individual Certificates if (i) DTC or its successor depositary notifies the Issuer that it is no longer willing or able to discharge properly its responsibilities as depositary with respect to the Rule 144A Global Bond Certificate or ceases to be a "clearing agency" registered under the United States Exchange Act of 1934, or is at any time unable to act as such, and the Issuer is unable to locate a qualified successor within 90 days of receiving notice of such ineligibility on the part of such depositary or (ii) the Issuer would suffer a material disadvantage in respect of the Bonds as a result of a change in the laws or regulations (taxation or otherwise) of any jurisdiction referred to in Condition 7 of the terms and conditions of the Bonds which would not be suffered were the Bonds in definitive form, by the Issuer giving notice to the Registrar and the

Bondholders, in each case of its intention to exchange the relevant Global Bond Certificate for Individual Certificates on or after the Exchange Date (as defined below) specified in the notice.

The Registrar will not register the transfer of, or exchange of interests in, a Global Bond Certificate for Individual Certificates for a period of 15 calendar days ending on the date for any payment of principal or interest in respect of the Bonds.

"Exchange Date" means a day falling not later than 60 calendar days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Registrar or the relevant Paying and Transfer Agent is located.

Delivery

If any of the events in paragraph (i) or (ii) of "*Exchange for Individual Certificates – Exchange*" above occurs, the relevant Global Bond Certificate shall be exchangeable in full for Individual Certificates and the Issuer will, free of charge to the Bondholders (but against such indemnity as the Registrar or any relevant Paying and Transfer Agent may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange), cause sufficient Individual Certificates to be executed and delivered to the Registrar for completion and despatch to the relevant Bondholders. A person having an interest in a Global Bond Certificate must provide the Registrar with (a) a written order containing instructions and such other information as the Issuer and the Registrar may require to complete, execute and deliver such Individual Certificates and (b) in the case of the Rule 144A Global Bond Certificate only, a fully completed, signed certification substantially to the effect that the exchanging holder is not transferring its interest at the time of such exchange or, in the case of simultaneous sale pursuant to Rule 144A, a certification that the transfer is being made in compliance with the provisions of Rule 144A to a QIB. Individual Certificates issued in exchange for an interest in the Rule 144A Global Bond Certificate shall bear the legend applicable to transfers pursuant to Rule 144A, as set out under "*Transfer Restrictions*".

CLEARING AND SETTLEMENT

*The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of DTC, Euroclear or Clearstream, Luxembourg (together, the "***Clearing Systems***") currently in effect. 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 nor 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 Bonds held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.*

The Clearing Systems

Custodial and depositary links are to be established between DTC, Euroclear and Clearstream, Luxembourg to facilitate the initial issue of the Bonds and cross-market transfers of the Bonds associated with secondary market trading. See "*– Book-Entry Ownership*" and "*– Settlement and Transfer of Bonds*" below.

Investors may hold their interests in a Global Bond Certificate directly through DTC, Euroclear or Clearstream, Luxembourg if they are accountholders ("**Direct Participants**") or indirectly ("**Indirect Participants**" and, together with Direct Participants, "**Participants**") through organisations which are accountholders therein.

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each hold securities for their customers and facilitate the clearance and settlement of securities transactions through electronic book-entry transfer between their respective accountholders. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions which clear through or maintain a custodial relationship with an accountholder of either system. 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 depository and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Their customers are worldwide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations.

DTC

DTC has advised the Issuer as follows: DTC is a limited purpose trust company organised under the laws of the State of New York, a "banking organization" under the laws of the State of New York, a member of the U.S. Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its Participants and facilitate the clearance and settlement of securities transactions between Participants through electronic computerised book-entry changes in accounts of its Participants, thereby eliminating the need for physical movement of certificates. Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Indirect access to DTC is available to others, such as banks, securities brokers, dealers and trust companies, that clear through or maintain a custodial relationship with a DTC Direct Participant, either directly or indirectly.

Investors may hold their interests in the Rule 144A Global Bond Certificate directly through DTC if they are Direct Participants in the DTC system, or as Indirect Participants through organisations which are Direct Participants in such system.

Under the rules, regulations and procedures creating and affecting DTC and its operations (the "**Rules**"), DTC makes book-entry transfers of Rule 144A Bonds represented by the Rule 144A Global Bond Certificate among Direct Participants on whose behalf it acts with respect to Rule 144A Bonds and receives and transmits distributions of principal and interest on Rule 144A Bonds. The Rules are on file with the Securities and Exchange Commission. Direct Participants and Independent Participants with which beneficial owners of Rule 144A Bonds have accounts with respect to the Rule 144A Bonds similarly are required to make book-entry transfers and receive and transmit such payments on behalf of their beneficial owners. Accordingly, although beneficial owners who hold Rule 144A Bonds through Direct Participants or Indirect Participants will not possess Rule 144A Bonds, the Rules, by virtue of the requirements described above, provide a mechanism by which Participants will receive payments and will be able to transfer their interest in respect of the Rule 144A Bonds.

DTC has advised the Issuer that it will take any action permitted to be taken by a holder of Bonds only at the direction of one or more Direct Participants and only in respect of such portion of the aggregate principal amount of the Rule 144A Global Bond Certificate as to which such Participant or Participants has or have given such direction. However, in the circumstances described under "*Summary of Provisions Relating to the Bonds while in Global Form – Exchange for Individual Certificates*", DTC will cause its custodian to surrender the Rule 144A Global Bond Certificate for exchange for Individual Certificates (which will bear the legend applicable to transfers pursuant to Rule 144A).

Payments through DTC

Payments of principal and interest in respect of a Global Bond Certificate registered in the name of, or in the name of a nominee for, DTC will be made to the order of such nominee as the registered holder of such Bond.

Book-Entry Ownership

Euroclear and Clearstream, Luxembourg

The Regulation S Global Bond Certificate evidencing Regulation S Bonds will have an ISIN and a Common Code and will be registered in the name of a nominee for, and deposited with a common depositary on behalf of, Euroclear and Clearstream, Luxembourg.

The address of Euroclear is 1 Boulevard du Roi Albert 11, B-1210 Brussels, Belgium, and the address of Clearstream, Luxembourg is 42 Avenue J.F. Kennedy, L-1855, Luxembourg.

DTC

The Rule 144A Global Bond Certificate evidencing the Rule 144A Bonds will have an ISIN, Common Code and a CUSIP number and will be deposited with a custodian (the "**Custodian**") for, and registered in the name of Cede & Co. as nominee of, DTC. The Custodian and DTC will electronically record the principal amount of the Bonds held within the DTC System.

The address of DTC is 55 Water Street, New York, New York 10041, United States of America.

Relationship of Participants with Clearing Systems

Each of the persons shown in the records of DTC, Euroclear or Clearstream, Luxembourg as the holder of a Bond evidenced by a Global Bond Certificate must look solely to DTC, Euroclear or Clearstream, Luxembourg (as the case may be) for its share of each payment made by the Issuer to the holder of such Global Bond and in relation to all other rights arising under such Global Bond Certificate, subject to and in accordance with the respective rules and procedures of DTC, Euroclear or Clearstream, Luxembourg (as the case may be). The Issuer expects that, upon receipt of any payment in respect of Bonds evidenced by a Global Bond Certificate, the common depositary by whom such Bond is held, or nominee in whose name it is registered, will immediately credit the relevant Participants' or accountholders' accounts in the relevant clearing system with payments in amounts proportionate to their respective beneficial interests in the principal amount of the relevant Global Bond Certificate as shown on the records of the relevant common depositary or its nominee. The Issuer also expects that payments by Direct Participants in any clearing system to owners of beneficial interests in any Global Bond Certificate held through such Direct Participants in any clearing system will be governed by standing instructions and customary practices. Save as aforesaid, such persons shall have no claim directly against the Issuer in respect of payments due on the Bonds for so long as the Bonds are evidenced by such Global Bond Certificate and the obligations of the Issuer will be discharged by payment to the registered holder of such Global Bond Certificate in respect of each amount so paid. None of the Issuer, the Fiscal Agent or any other Paying and Transfer Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of ownership interests in any Global Bond Certificate or for maintaining, supervising or reviewing any records relating to such ownership interests.

Settlement and Transfer of Bonds

Subject to the rules and procedures of each applicable clearing system, purchases of Bonds held within a clearing system must be made by or through Direct Participants, which will receive a credit for such Bonds on the clearing system's records. The ownership interest of each actual purchaser of each such Bond (the "**Beneficial Owner**") will in turn be recorded on the Direct and Indirect Participants' records.

Beneficial Owners will not receive written confirmation from any Clearing System of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which such Beneficial Owner entered into the transaction.

Transfers of ownership interests in Bonds held within the Clearing System will be effected by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates evidencing their ownership interests in such Bonds, unless and until interests in any Global Bond Certificate held within a Clearing System are exchanged for Individual Certificates.

No Clearing System has knowledge of the actual Beneficial Owners of the Bonds held within such Clearing System and their records will reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by the clearing systems to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

The laws of some jurisdictions may require that certain persons take physical delivery in definitive form of securities. Consequently, the ability to transfer interests in a Global Bond Certificate to such persons may be limited. As DTC can only act on behalf of Direct Participants, who in turn act on behalf of Indirect Participants, the ability of a person having an interest in a Rule 144A Global Bond Certificate to pledge such interest to persons or entities that do not participate in DTC, or otherwise take actions in respect of such interest, may be affected by a lack of a physical certificate in respect of such interest.

Trading between Euroclear and/or Clearstream, Luxembourg Participants

Secondary market sales of book-entry interests in the Bonds held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the Bonds held through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to conventional Eurobonds.

Trading between DTC Participants

Secondary market sales of book-entry interests in the Bonds between DTC Participants will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to United States corporate debt obligations in DTC's Same-Day Funds Settlement system in same-day funds, if payment is effected in U.S. dollars, or free of payment, if payment is not effected in U.S. dollars. Where payment is not effected in U.S. dollars, separate payment arrangements outside DTC are required to be made between the DTC participants.

Trading between DTC seller and Euroclear/Clearstream, Luxembourg Purchaser

When book-entry interests in Bonds are to be transferred from the account of a DTC Participant holding a beneficial interest in the Rule 144A Global Bond Certificate to the account of a Euroclear or Clearstream, Luxembourg accountholder wishing to purchase a beneficial interest in the Regulation S Global Bond Certificate (subject to the certification procedures provided in the Agency Agreement), the DTC participant will deliver instructions for delivery to the relevant Euroclear or Clearstream, Luxembourg accountholder to DTC by 12 noon, New York time, on the settlement date. Separate payment arrangements are required to be made between the DTC Participant and the relevant Euroclear or Clearstream, Luxembourg Participant. On the settlement date, the custodian of the Rule 144A Global Bond Certificate will instruct the Registrar to (i) decrease the amount of Bonds registered in the name of Cede & Co. and evidenced by the Rule 144A Global Bond Certificate and (ii) increase the amount of Bonds registered in the name of the nominee of the common depositary for Euroclear and Clearstream, Luxembourg and evidenced by the Regulation S Global Bond Certificate. Book-entry interests will be delivered free of payment to Euroclear or Clearstream, Luxembourg, as the case may be, for credit to the relevant accountholder on the first business day following the settlement date.

Trading between Euroclear/Clearstream, Luxembourg seller and DTC Purchaser

When book-entry interests in the Bonds are to be transferred from the account of a Euroclear or Clearstream, Luxembourg accountholder to the account of a DTC Participant wishing to purchase a beneficial interest in the Rule 144A Global Bond Certificate (subject to the certification procedures provided in the Agency Agreement), the Euroclear or Clearstream, Luxembourg Participant must send to Euroclear or Clearstream, Luxembourg delivery free of payment instructions by 7:45 p.m., Brussels or Luxembourg time, one business day prior to the settlement date. Euroclear or Clearstream, Luxembourg, as the case may be, will in turn transmit appropriate instructions to the common depositary for Euroclear and Clearstream, Luxembourg and the Registrar to arrange delivery to the DTC Participant on the settlement date. Separate payment arrangements are required to be made between the DTC Participant and the relevant Euroclear or Clearstream, Luxembourg accountholder, as the case may be. On the settlement date, the common depositary for Euroclear and Clearstream, Luxembourg will (a) transmit appropriate instructions to the custodian of the Rule 144A Global Bond Certificate who will in turn deliver such book-entry interests in the Bonds free of payment to the relevant account of the DTC Participant and (b) instruct the Registrar to (i) decrease the amount of Bonds registered in the name of the nominee of the common depositary for Euroclear and Clearstream, Luxembourg and evidenced by the Regulation S Global Bond Certificate; and (ii) increase the amount of Bonds registered in the name of Cede & Co. and evidenced by the Rule 144A Global Bond Certificate.

Although DTC, Euroclear and Clearstream, Luxembourg have agreed to the foregoing procedures in order to facilitate transfers of beneficial interests in Global Bond Certificates among Participants and accountholders of DTC, Euroclear and Clearstream, Luxembourg, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Issuer, the Fiscal Agent or any other Paying and Transfer Agent will have any responsibility for the performance by DTC, Euroclear, Clearstream, Luxembourg or their respective Direct or Indirect Participants of their respective obligations under the rules and procedures governing their operations.

Settlement of Pre-issue Trades

It is expected that delivery of Bonds will be made against payment therefore on the Issue Date, which could be more than three business days following the date of pricing. Under Rule 15c6-1 under the Exchange Act, trades in the United States secondary market generally are required to settle within three business days (T+3), unless the parties to any such trade expressly agree otherwise.

Accordingly, purchasers who wish to trade Bonds in the United States on the date of pricing or the next succeeding business days until three days prior to the Issue Date will be required, by virtue of the fact the Bonds initially will settle beyond T+3, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Settlement procedures in other countries will vary.

Purchasers of Bonds may be affected by such local settlement practices and purchasers of Bonds between the relevant date of pricing and the Issue Date should consult their own advisers.

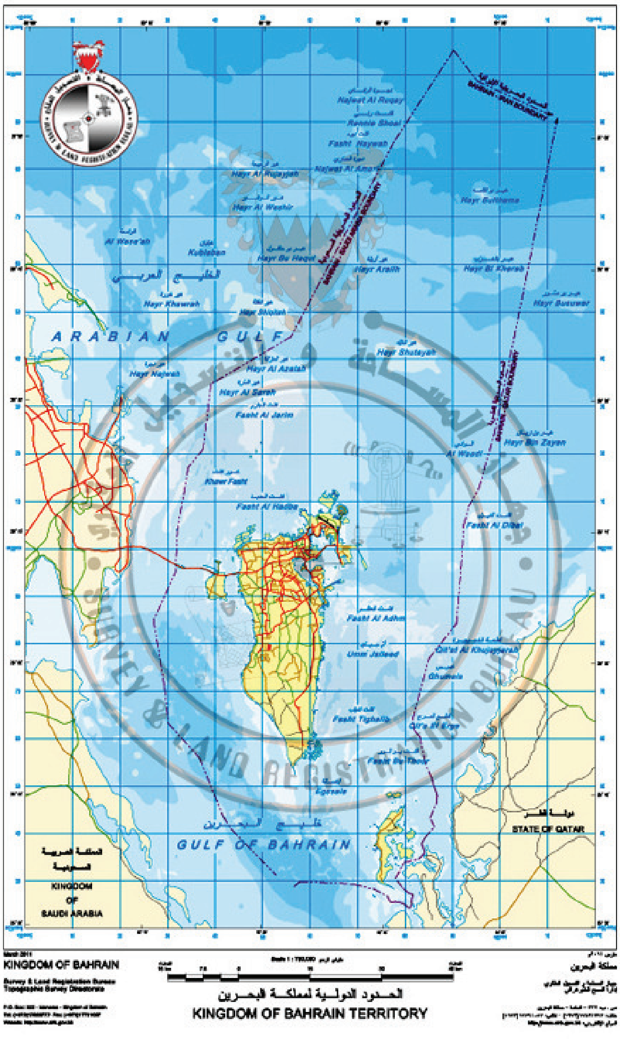
USE OF PROCEEDS

The Issuer will use the net proceeds of the issue of the Bonds, U.S.$1,495,605,000 for its general budgetary purposes.

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 760 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). Muharraq and Sitra are connected to Bahrain Island by causeways.



Source: Survey & Land Registration Bureau, Kingdom of Bahrain

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 46 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 system of government rests on a separation of the legislative, executive and judicial authorities. The legislative authority is vested in the King and the National Assembly in accordance with the Constitution. Executive authority is vested in the King together with the Council of Ministers and the Ministers and judicial rulings are issued in his name in accordance with the provisions of the Constitution. The Constitution also declares the state religion to be Islam with Islamic Shari'ah 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 (the Shura 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 groups. 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 next election process for the Chamber of Deputies is expected in 2014.

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 Shari'ah courts. The Shari'ah 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 Consensus 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 Consensus Dialogue issued 300 invitations to societies and individuals to participate in the dialogue which commenced on 2 July 2011. The overwhelming majority of these invitations were accepted, and participants included political societies, civil and non-governmental organisations, expatriate societies and representatives of many religious groups. A session of the Dialogue was devoted specifically to expatriates' issues. The Al-Wefaq society (a large Shia oriented political society which held 18 seats in the Chamber of Deputies prior to early 2011) was invited to the National Consensus Dialogue, but, having submitted their demands, withdrew from the dialogue having submitted their proposal.

The National Consensus Dialogue ended on 25 July 2011 and its recommendations were collated into a report. Legislative reforms to the political system recommended by the Dialogue include increased Parliamentary scrutiny over the government and enabling the Prime Minister to select his government, subject to the approval of the elected Parliament. The elected Parliament will also be granted greater legislative and monitoring powers. New measures will also ensure non-sectarianism in all civil and political organisations and oversight of funding of political societies. The dialogue would also introduce economic reforms including: faster implementation of Vision 2030; the creation of independent authorities to assess the quality of government services and implementation of management policies and financial transparency (governance) in ministries and institutions, in line with international standards; and establishment of mechanisms to manage the expenditure of government institutions. Societal reforms to be introduced from the dialogue include implementation of youth programmes, a National Strategy for NGOs (including corporate social responsibility programmes), and better implementation of legislation on security and peace. Additional Dialogue reforms include formation of the Supreme Judiciary Council by appointment rather than election, judicial training on human rights issues, laws protecting the freedom of expression and assembly and initiatives to improve foreign workers' rights, including establishing a minimum wage. 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. The proposed constitutional changes were then sent to Parliament and were approved by the Parliament on 30 April 2012.

HM the King ratified the constitutional changes on 3 May 2012. The amendments provide for:

- Increased powers of the Parliament: in particular by granting it enhanced democratic scrutiny over the Government.
- Parliamentary approval of new Governments: the constitution has been amended so that a new Government will need to secure the approval of the democratically elected Parliament.
- Elected Chamber to preside over the National Assembly: responsibility for presiding over the National Assembly has been transferred from the Chairman of the Shura Council to the Chairman of the Council of Representatives.
- Greater legislative and monitoring powers for the Elected Chamber: Ministers will be required to be answerable to appointed representatives.
- Measures to create more efficient law-making procedures: These measures will help address and overcome delays in ratification, and gaps in implementation, of legislation.

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 was 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.

Professor Mahmoud Cherif Bassiouni, an expert in international criminal and human rights law, heads the BICI. The BICI was granted access to government officials, records and facilities, as well as the right to conduct confidential interviews with any complainant or witness. The Commission's 500-page report, published on 23 November 2011, contained a detailed narrative regarding the events that had taken place and presented a series of recommendations involving comprehensive, structural reform and a process of national reconciliation. The government pledged to implement in full the BICI recommendations in their entirety.

To this end, and implementing the very first BICI recommendation, a high-level National Commission was set up, chaired by the speaker of the upper house of Parliament and including independent representatives from across Bahraini society, to monitor and oversee the government's progress in implementing the BICI recommendations.

On 20 March 2012, this National Commission presented its report on the implementation of the BICI recommendations. The report found that the government had made substantial progress towards fully implementing the BICI recommendations, with the most important issues already addressed and clear procedures in place to complete those recommendations that remain outstanding. Since March 2012, the Government continued to follow these procedures.

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. Please refer to "*Economy of the Kingdom of Bahrain – Foreign Direct Investment and Privatisation – Infrastructure*" below for more details.

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 to enable GCC to complete a study on the cost benefit of such agreements. This study is currently under review.

Bahrain also has an agreement with the Russian Federation for the promotion and protection of investment. Bahrain is involved in strategic dialogue with China, and has entered into number of trade and tax related agreements with China, including the Agreement for Economic, Trade and Technical Cooperation, the Agreement for Avoidance of Double Taxation and the Agreement for Promotion and Protection of Investment.

Bahrain has recently concluded the Agreement on the Exchange of Information with respect to Taxes with India. There are also other agreements in place with India, including the Agreement for Economic, Trade and Technical Corporation.

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 (former Chairman of the Saudi Arabian Monetary Agency) was elected as chairman for a term of one year with Rasheed Al Maraj as vice chairman. 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 and met three times in 2012 as of the date of this Prospectus. The Governor of the CBB has been the chairman of the board of GCC MC since January 2012. Preparation for the development and implementation of a proposed GCC single currency will be 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 had in 2008 – 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. The key priority areas of Vision 2030 are taken into account during each budget process.

To turn 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 ("**NES**"), 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 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 the 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. See also "*Public Finance—Government Budget*".

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. The 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. As at 5 October 2011, 9000 Bahraini employees have benefitted from the programme. 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*". As of December 2011, Tamkeen has injected more than BD166 million into the private sector through its programmes, and has assisted over 100,000 Bahrainis and enterprises. Moreover, it has made in excess of BD166 million available through its financing portfolio, which has enabled 3,000 Bahrainis find employment and has helped more than 1,000 enterprises to participate in leading local, regional, and international trade fairs and exhibitions.

In 2012, Tamkeen plans to launch more than 20 new programmes that involve training aimed at developing human capital – for students, employees, employers, or job seekers - to match market requirements. Tamkeen will also introduce programmes to enhance the productivity of individuals through promoting awareness of successful practices in the private sector. In relation to enterprises, Tamkeen provides professional consulting services to enhance their performance and facilitates access to financing to bridge the enterprise financing gap. In addition, Tamkeen is also leading other national initiatives to enhance investments in Bahrain.

Fifty per cent. (50%) of the fees collected by the Labour Market Regulatory Authority are provided to Tamkeen for its activities.

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. The BLIS project is currently in Phase 2 which involves implementing new streamlined business licensing procedures for commercial registration and licenses, and launching the BLIS electronic portal to fully automate the commercial registration and licensing process for 15 pre-selected business licenses. This process is scheduled to be completed by the end of 2012.

Despite the February – March 2011 Protests, Vision 2030 has not been materially 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 has moved to diversify its economy away from a dependence on oil. Although oil continues to play an important part in Bahrain's economy, Bahrain also has an increasingly important financial services industry (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, U.S.$683.2 million in 2011 and an estimated U.S.$1,329 million in 2012). 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 metres 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 2009, the financial services sector remained the single largest contributor to Bahrain's GDP (with financial corporations alone contributing 24.7 per cent. to Bahrain's real GDP). In line with the objectives of Vision 2030, contributions to the economy from manufacturing (15.4 per cent. of GDP in 2009), mining and quarrying (including oil and gas) (13.2 per cent. of GDP in 2009), Government services (14.9 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 (14.7 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.

In 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 (16.7 per cent. of GDP), mining and quarrying (including oil and gas) (13.1 per cent. of GDP), Government services (15.1 per cent. of GDP), transport and other communications (9.8 per cent. of GDP) and real estate and business activities (7.94 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, down from 15.5 per cent. of GDP in 2009 and up from 13.5 per cent. of GDP in 2008, respectively. Government consumption also impacts private consumption since the Government is the country's major employer and promoter of capital projects. Government consumption has dramatically increased in recent years from approximately U.S.$265.96 million in early 2000, to U.S.$3,281.4 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 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:

	2008	2009	2010	2011
Total:				
At current prices (U.S.$ millions)(1)	22,151.1	19,621.0	21,929.8	25,825.3
At constant 2001 prices (U.S.$ millions)(1)	12,591.8	12,979.7	13,654.4	13,866.2
Percentage change over previous period:				
At current prices	19.9	(11.4)	11.8	17.8
At constant 2001 prices	6.3	3.1	4.5	2.2
Per capita:(2)				
At current prices (U.S.$)(1)	20,081.9	16,650.3	17,763.0	20,918.4
At constant 2001 prices (U.S.$)(1)	11,137.5	11,725.4	10,987.1	11,231.6

Notes:

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

(2) Assuming a population of 1,107,000 in 2008, 1,107,000 in 2009 and 1,234,571 in 2010 and 2011.

Source: Central Informatics Organisation

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

	2008		2009		2010*	
	(U.S.$ millions)(1)	*(%)*	*(U.S.$ millions)*(1)	*(%)*	*(U.S.$ millions)*(1)	*(%)*
Private consumption	6,739.1	30.4	6,724.4	34.3	7,496.1	34.2
Government consumption	2,942.4	13.3	3,163.9	16.1	3,281.4	15.0
Gross fixed capital formation	7,250.2	32.7	5,186.1	26.4	6,160.3	28.1
Change in stocks(2)	264.3	1.2	194.8	1.0	207.4	0.9
Exports of goods & services	21,231.4	95.9	15,704.8	81.4	17,880.3	79.8
Imports of goods & services	16,276.3	73.5	11,354.0	57.9	13,097.1	59.7
Change in exports/imports	4,955.1	22.4	4,350.8	22.2	4,783.2	21.8
GDP	**22,151.0**	**100**	**19,621.0**	**100**	**21,929.8**	**100**

Notes:

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

(2) Including net errors and omissions.

* Provisional data

Source: Central Informatics Organisation. Data for 2011 not available as of the date of this Prospectus.

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:

	2008	2009	2010
	(%)	*(%)*	*(%)*
Private consumption	5.1	(2.9)	4.2
Government consumption	6.8	2.2	3.5
Gross investment	8.2	(19.2)	17.9
Change in stocks[1]	(64.8)	885.7	(68.3)
Exports of goods and services	16.2	(17.8)	0.6
Imports of goods and services	16.9	(27.2)	2.9
GDP	**6.3**	**3.1**	**4.5**

Note:

(1) Including net errors and omissions.

Source: Central Informatics Organisation. Data for 2011 not available as of the date of this Prospectus.

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:

	2008		2009		2010[4]		2011[4]	
	millions)[1]	*%*	*(U.S.$ millions)[1]*	*%*	*(U.S.$ millions)[1]*	*%*	*(U.S.$ millions)[1]*	*%*
Non-financial corporations	**9,191.4**	**73.0**	**9,011.3**	**69.4**	**9,548.4**	**70.4**	**9,776.9**	**70.5**
Agriculture and fishing	75.2	0.6	77.5	0.6	74.9	0.6	74.9	0.5
Mining and quarrying[2]	1,738.2	13.8	1,718.7	13.2	1,756.8	13.0	1,812.3	13.1
(i) Crude petroleum and natural gas	1,609.3	12.8	1,604.9	12.4	1,625.7	12.0	1,680.5	12.1
(ii) Quarrying	128.9	1.0	113.8	0.9	131.1	1.0	131.8	1.0
Manufacturing	2,015.7	16.0	1,989.1	15.3	2,224.4	16.4	2,310.2	16.7
Electricity and water	193.8	1.5	202.2	1.6	213.8	1.6	234.7	1.7
Construction	904.7	7.2	731.1	5.6	753.3	5.6	724.8	5.2
Trade	983.9	7.8	882.8	6.8	932.5	6.9	943.5	6.8
Hotels and restaurants	378.1	3.0	416.7	3.2	458.5	3.4	398.1	2.9
Transport and communications	1,027.8	8.2	1,143.2	8.8	1,219.5	9.0	1,353.3	9.8
Social and personal services	632.7	5.0	717.6	5.5	756.1	5.6	824.4	5.9
Real estate and business activities	1,241.4	9.9	1,132.5	8.7	1,158.8	8.5	1,101.1	7.9
Financial corporations	**3,347.8**	**26.6**	**3,246.1**	**25.0**	**3,339.2**	**24.6**	**3,427.4**	**24.7**
Financial institutions	1,118.1	8.9	1,192.1	9.2	1,157.7	8.5	1,213.6	8.8
Offshore financial institutions	1,458.6	11.6	1,262.9	9.7	1,160.6	8.6	1,141.9	8.2
Insurance	771.0	6.1	791.1	6.1	1,021.0	7.5	1,072.0	7.7
Government services	1,833.1	14.6	1,923.1	14.8	1,988.9	14.7	2,099.5	15.1
Govt. education services	451.1	3.6	483.3	3.7	503.9	3.7	541.4	3.9
Govt. health services	231.3	1.8	246.4	1.9	265.2	2.0	289.5	2.1
Other Government services	1,150.7	9.1	1,193.4	9.2	1,219.8	9.0	1,268.6	9.2
Private non-profit institutions serving households	17.0	0.1	18.2	0.1	20.5	**0.2**	**23.7**	**0.2**
Households with employed persons	**116.0**	**0.9**	**132.6**	**1.0**	**151.8**	**1.1**	**156.8**	**1.1**
Minus financial intermediation services indirectly measured[3]	**(2,120.6)**	**(16.8)**	**(1,500.3)**	**(11.6)**	**(1,688.8)**	**(12.5)**	**(1,815.7)**	**(13.1)**
GDP producer prices	**12,384.6**	**98.4**	**12,830.8**	**98.8**	**13,360.1**	**98.5**	**13,668.7**	**98.6**
Import duties	207.2	1.7	152.0	1.2	204.3	1.5	197.5	1.4
GDP	**12,591.8**	**100**	**12,982.8**	**100.0**	**13,564.4**	**100**	**13,866.1**	**100**

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.

(4) Provisional data.

Source: 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, 32,192 bpd as at 31 December 2010 and 42,510 bpd as at 31 December 2011 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, 149,974 bpd in 2010 and 147,771 bpd in 2011. Bahrain also imports about 230,000 bpd of crude oil from Saudi Arabia for processing at its refinery at Sitra (see "*Manufacturing - Refining*" below). Bahrain's crude oil production for the third and fourth quarters of 2010 and the four quarters of 2011 was 16.9, 16.9, 16.5, 16.8, 17.6, and 18.6 million barrels respectively.

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's production and development activities are well under way 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 continues to hire additional local employees. As an example of the increased level of activity in the Bahrain field, Tatweer is on target to drill in the region of 250 new oil wells in 2012 alone.

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 bpd to a production level of 45,800 bpd in December 2011, which is higher than its 2011's forecast daily average of 43,000 bpd. In March 2012, production level was 45,300 barrels per day, as compared to 2012's forecasted daily average of 45,200 bpd. The increase in production in 2011 and 2012 has been achieved by the use of tertiary production techniques. The significant drilling and work over activity now taking place will ensure that production continues to increase throughout 2012.

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:

	2008	**2009**	**2010**	**2011**[(1)]
	(barrels per day)			
Crude oil from Awali	32,861	32,192	31,876	42,510
Crude oil from Abu Saafa	149,829	150,028	149,974	147,771
Crude oil from Saudi Arabia	224,000	224,371	234,679	217,160
Total	409,178	406,591	416,529	407,441

Note:

(1) Provisional data.

Source: National Oil and Gas Authority

Bahrain has been in talks with 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, and the front end engineering has commenced. 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 late 2012. 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 bpd of crude oil between Bahrain and Saudi Arabia (with a maximum of 400,000 bpd), will replace the existing pipeline that carries 230,000 bpd. 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 538.2 billion cubic feet in 2008, 543.4 billion cubic feet in 2009 and 556.6 billion cubic feet in 2010. In 2011, actual gas production was 552.1 billion cubic feet. Gas production for the third and fourth quarters of 2010 and the four quarters of 2011 was 154.9, 135.2, 123.6, 141.9, 156.3, and 130.3 billion cubic feet respectively.

Gas from the Khuff reservoir is sold directly to Bapco's principal domestic consumers, being Aluminium Bahrain B.S.C. ("**Alba**") (which accounted for 25 per cent., 24 per cent., 23 per cent. and 28 per cent. of total gas utilisation respectively in each of 2008, 2009, 2010 and 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 10 per cent. in 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 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 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 work over 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 liquefied natural gas that it imports from abroad through the implementation of its Liquefied Natural Gas Supply Project ("**LNG Supply Project**"). The LNG Supply

Project proposes to deploy a floating storage and regasification facility and import liquefied 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 second 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 aluminium 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.

Aluminium

The Alba aluminium smelter, with a capacity of 865,000 tonnes per year, is one of the largest aluminium 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 69.3 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 November 2010, Mumtalakat conducted a global offering of a portion of its ordinary shares in Alba. Alba's ordinary shares are listed on the Bahrain Bourse and global depositary receipts representing such shares are listed on the London Stock Exchange under the symbol "ALBH". Alba's global depositary receipts were listed on the London Stock Exchange on 30 November 2010. See "*Public Finance—Revenue—Alba*" below for more detail.

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, 2010 and 2011, aluminium exports are estimated by the CBB to have accounted for approximately 8 per cent., 11.3 per cent. and 9.4 per cent., respectively of Bahrain's total exports and 33 per cent., 25.4 per cent. and 44.6 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 aluminium to Asia, Europe and across the MENA region.

There are a number of other aluminium-based industries in Bahrain, including plants which produce approximately 165,000 tonnes per year of rolled products, 180,000 tonnes per year of aluminium cables, 25,000 tonnes per year of extruded aluminium products.

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:

	2008	2009	2010	2011
		(barrels per day)		
Refined oil production	263,299	261,912	272,226	263,086
Local sales of refined products	24,753	24,837	25,989	24,074
Exports[1]	222,935	222,861	234,529	226,107

Note:

(1) Includes exports by Bapco.

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, 2010 and 2011 accounting for approximately 26.6 per cent., 25.0 per cent., 24.6 per cent. and 24.7 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 as a successor to the Bahrain Monetary Agency (BMA), 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 but is accountable to the Minister of Finance. 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. 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, U.S.$197.1 billion as at 31 December 2011 and U.S.$200.4 billion as at 31 March 2012. The decrease in consolidated balance sheet since 2010 was primarily due to deleveraging of wholesale banks' assets in conjunction with prudential meetings the banks held with the CBB, which has led to a "clean up" of non-performing assets. These actions were taken in response to the global financial crisis, the effects of which crystallised in Bahrain in 2010 and 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 BD500,000 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 BD2.5 million and BD3 million 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 Bourse (formerly known as the Bahrain Stock Exchange) commenced operations in June 1987; and in late 2010 by the Royal Decree No. (60) of 2010 was converted into a closed shareholding company and renamed Bahrain Bourse BHB (closed). It currently has 49 Bahraini firms listed with a total market capitalisation of U.S.$16.8 billion as at 31 March 2012 (compared to 49 Bahraini firms listed with a total market capitalisation of U.S.$16.6 billion as at 31 December 2011, and 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 2011, the Bahrain economy registered a real GDP value of U.S.$13,866.2 million as compared to real GDP value of U.S.$13,564.4 million registered in 2010 as a consequence of the Government's stimulus expenditure in 2011 and government services contribution to GDP.

The Institute for International Finance ("**IIF**") and the IMF have published forecasts for Bahrain's projected GDP growth. For the year 2012, the IIF estimates that Bahrain's growth will be 3.7 per cent. while the IMF forecasts that Bahrain's growth will be 2.0 per cent.

Other Services

Tourism

Saudi nationals are the principal tourists to Bahrain with the causeway linking the two countries facilitating this movement. In 2009, 2010 and in the first half of 2011, 6,825,045, 9,528,214 and 3,021,630 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 star.

Bahrain and Qatar have agreed to build a 40 kilometre toll-operated causeway called the Qatar Bahrain Friendship Bridge (linking both countries), see "*Economy of the Kingdom of Bahrain – Foreign Direct Investment and Privatisation – Infrastructure*". It is anticipated that completion of the project will result in a growth in the number of tourists and business travellers to Bahrain.

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 130,000 square metres 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 12,000 square metres. 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 had however been reinstated to the Formula One race schedule for 2012 and hosted 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 and has a cost of over U.S.$1.3 billion, has also experienced delays. 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 United States in 2004, a first for a

GCC country. GCC as a block is working on trade agreements with the EU and other countries such as Japan, India and China. Bahrain is also working to boost trade with Japan, one of Bahrain's top trade partners, with trade volume in excess of U.S.$1.2 billion. Please refer to "*Balance of Payments and Foreign Trade*" for more detail.

Bahrain is one of the members of the GCC common market (as described in more detail in "*—Common Market*" below).

The GCC has a uniform 5 per cent. import tax rate (with some exemptions and a special tax for tobacco and alcohol of 100 per cent.). Bahrain exports to the GCC are exempt from tax and are therefore are more competitive than from other non-GCC countries (with no free trade agreements).

Bahrain trades heavily with the GCC, in particular with Saudi Arabia. Of total Bahraini non-oil goods exports in 2008, 52 per cent. were to the GCC and of total imports of non-oil goods, 15 per cent. were from the GCC. Bahrain also imports about BD2.8 billion of oil (in 2011 prices) annually from Saudi Arabia.

The GCC tax agreement has also been particularly appealing for those foreign investors whose main market is the GCC but who prefer Bahrain's business and social environment. These companies make employment contributions to Bahrain in addition to their export contributions.

Telecommunications

Bahrain also has a high quality modern telecommunications system, currently operated by BATELCO, Zain and STC through its "Viva" operations. BATELCO, a listed entity on the Bahrain Bourse, is approximately 57 per cent. owned by the Government through two investment holding companies, Mumtalakat, through which the Government holds an approximate 37 per cent. shareholding and Amber Holdings Limited, through which the Government holds a 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)). BATELCO shares are traded on the Bahrain Bourse. 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 (former 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 US Dollar, which has provided price stability over the years, and as a result managed to keep inflation relatively stable. As Bahrain has no significant onshore production, its inflation (as measured by the Consumer Price Index) has been mainly affected by the cost of imports. Until the year 2008, Bahrain recorded moderate consumer price increases in the range of 3 per cent. to 4 per cent. However, during the years 2009, 2010 and 2011, consumer prices decelerated, particularly in 2011, where a deflation rate of 0.4 per cent. was recorded. This was mainly due to a reduction in consumer spending.

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

	2008	2009	2010	2011
Consumer price index (CPI) (2006=100)	106.9	109.9	112.1	111.6
Inflation (per cent)	3.5	2.8	2.0	(0.4)

Source: Central Informatics 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 106.9 in 2008, resulting in an inflation rate of 3.5 per cent. for the year 2008. In 2009, there was a slowdown in consumer prices and the CPI increased by approximately 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 recording an inflation rate of 2.0 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. In 2011, the CPI decreased by 0.4 per cent. to 111.6 recording a negative inflation rate of 0.4 per cent. This decrease in the rate of inflation in 2011 was due to a decrease in consumer spending.

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 2012 to 30 April 2012 and inflation when comparing the CPI in each of those months to the corresponding months in the previous year:

	January 2012	February 2012	March 2012	April 2012
Consumer price index (CPI) (2006=100)	112.3	114.0	114.7	114.6
Year-on-year charge (per cent)	(0.2)	0.4	4.7	4.2

Source: Central Informatics Organisation

The main contributors to the year-on-year CPI fluctuation in 2011 and in the period ended 30 April 2012 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 Ministry of Labour recommends that a Bahraini employee’s minimum wage should be no less than BD250 per month.

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

	2008	2009	2010	2011
		(U.S.$)[1]		
Public sector	1,704.8	1,760.6	1,803.2	2,031.9
Private sector	659.6	702.1	726.1	744.7
		(percentage change)		
Public sector	3.0	3.0	13.0	2.0
Private sector	11.0	6.0	3.0	3.0

Notes:

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

(2) Figures reflect Bahraini and non-Bahraini workers. Monthly wages in this sector for Bahraini workers only were U.S.$1,422.9, U.S.$1,558.5, U.S.$1,590.4 and U.S.$1,646.3 in 2008, 2009, 2010 and 2011 respectively.

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, 76.7 per cent. in 2010 and 77.1 per cent. for the first three quarters of 2011). 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 15.0 per cent. in 2005 to 3.7 per cent. in 2010.

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 Bahrain. 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 of 2010, 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.

The table below sets out Bahrain's foreign direct investment for the periods indicated:

	2008	**2009**	**2010**	**2011**
		(U.S.$ million)		
Direct Investment (net)	**(14363.8)**	**(19812.4)**	**(19338.5)**	**(19038.6)**
Abroad	9340.2	7548.7	7882.7	8776.3
In Bahrain	14741.2	14998.1	15154.0	15934.8

Source: CBB

Bahrain's net international investment position, constituted of Bahrain's outstanding international assets and liabilities, amounted to U.S.$20.4 billion at the end of the fourth quarter of 2011, compared with U.S.$16.6 billion, U.S.$17.0 billion, U.S.$17.3 billion, U.S.$18.4 billion, and U.S.$19.6 billion at the ends of the third and fourth quarters of 2010 and the first, second and third quarters of 2011 respectively.

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.$738 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 950 plus megawatt 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. Commercial production at the facility commenced in the first quarter of 2012. Currently, 48 million gallons of water are produced at this plant, and the second stage of the power plant has also been commissioned. As a result, currently 90 per cent. of electricity and water are produced by the private sector. As the demand for electricity and water continues to grow, it is intended that new private water and electricity plants will be developed. The Government is also encouraging private sector investment in various sectors such as utilities, education and healthcare and privatised its public transport system.

In November 2010, Mumtalakat conducted a global offering of a portion of its ordinary shares in Alba. The ordinary shares are listed on the Bahrain Bourse and global depositary receipts representing such shares are listed on the London Stock Exchange. See "*Public Finance—Revenue—Alba*" below for more detail.

The King Hamad University Hospital is managed by the Bahrain Defence Force (unlike other government hospitals which are managed by the Government) 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 opened 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 late 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 Fahad Causeway.

The King Fahad Causeway, completed in 1986, is a 25 kilometre 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 40 kilometre 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; however, construction has been delayed and a commencement date will be determined once the design is completed and approved. Construction for vehicle traffic is expected to be completed 52 months from the commencement date, and 70 months from the commencement date for the rail bridge. The total cost of the project is expected to be U.S.$5 billion, and any financing is expected to be repaid from the income generated from commissioning the bridge, with any shortfalls covered by both countries. 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 cubic metres per 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. The tender was awarded in January 2012. 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.

The Government intends to increase private sector investment in housing development through a separate private public partnership housing project. It is envisaged that this new project will provide a further 4,000 housing units.

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)	**2008**	**2009**	**2010**	**2011***
			(U.S.$ millions)(2)		
1.	Current account (a+b+c+d)	2,256.9	560.1	770.7	3,247.1
a.	Goods	3,244.9	2,438.8	2,642.8	7,800.3
	General Merchandise	3,069.4	2,260.6	2,456.6	7,544.4
	Exports (fob)	17,315.7	11,873.7	13,647.1	19,650.3
	Oil	13,788.8	8,913.6	10,180.9	15,490.7
	Non-oil	3,526.9	2,960.1	3,466.2	4,159.6
	Imports (fob)	(14,246.3)	(9,613.0)	(11,190.4)	(12,105.9)
	Oil	(7,204.3)	(4,354.3)	(5,393.1)	(7,469.4)
	Non-oil	(7,042.0)	(5,258.8)	(5,797.3)	(4,636.4)
	Repairs on goods	175.5	178.2	186.2	255.9
b.	Services (net)	1,710.1	1,912.0	2,142.0	1,261.4
	Transportation	(144.1)	40.4	43.4	87.0
	Travel	662.8	710.4	856.1	316.5
	Communication services	665.2	700.0	752.1	572.1
	Financial services (Including Insurance)	486.7	433.8	474.2	267.3
	Other business services	39.6	27.4	16.2	18.6
c.	Income (net)	(923.7)	(2,399.7)	(2,373.3)	(3,764.6)
	Investment income	(923.7)	(2,399.7)	(2,373.3)	(3,764.6)
	Direct investment income	(1,273.9)	(294.7)	(2,088.3)	(3,390.4)
	Portfolio income	1,087.0	16.0	(42.0)	351.3
	Other investment income	(736.7)	(2,121.0)	(242.2)	(725.3)
d.	Current transfers (net)	(1,774.5)	(1,391.0)	(1,641.8)	(2,050.0)
	Workers' remittances	(1,774.5)	(1,391.0)	(1,641.8)	(2,050.0)
2.	Capital and financial account (net)(A+B)	(2,226.6)	(494.4)	(877.1)	(3,319.5)
A.	Capital account (net)	50.0	50.0	50.0	76.1
	Capital transfers	50.0	50.0	50.0	76.1
B.	Financial account (1+2+3+4)(3)	(2,276.6)	(544.4)	(927.1)	(3,395.5)
1.	Direct investment	173.4	2,048.7	(178.2)	(112.8)
	Abroad	(1,620.5)	1,791.5	(334.0)	(893.7)
	In Bahrain	1,793.9	257.2	155.8	780.9
2.	Portfolio investment (net)	9,276.9	8,275.5	4,755.9	5,583.1
	Assets	6,286.7	6,710.1	2,051.6	5,164.0
	Liabilities	2,990.2	1,565.4	2,704.3	419.1
3.	Other investment (net)	(12,021.0)	(10,987.5)	(4,225.3)	(9,452.9)
	Assets	(3,264.6)	18,123.7	2,739.6	17,327.4
	Liabilities	(8,756.4)	(29,111.2)	(6,964.9)	(26,780.1)
4.	Reserve assets (net)	294.1	118.9	(1,279.5)	587.2
5.	Errors and omissions	(30.3)	(65.7)	106.4	72.3

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 data

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.$770.7 million in 2010 and U.S.$3,247.1 million in 2011. As a percentage of real GDP, Bahrain recorded a current account surplus of 17.9 per cent. in 2008, 4.3 per cent. in 2009, 5.7 per cent. in 2010 and 23.4 per cent. in 2011. The contraction in the current account surplus position in 2008 was due to a U.S.$1,476.0 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 37.6 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 12.0 per cent. The increase in the current account surplus in 2011 by 321.3 per cent. was due to an increase in revenue from oil and non-oil exports.

Bahrain's economy is dependent on imports as evidenced by import/GDP ratios of 64.3 per cent,. 48.9 per cent., 51.0 per cent. and 46.7 per cent. in each of 2008, 2009, 2010 and 2011, 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 aluminium exports by Alba. Although aluminium 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 five years, ending 2011.

Bahrain's services balance has been positive in each of the preceding five years, ending 2011. 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 2011 of U.S.$2,050.0 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. In 2011, there was a U.S.$408.2 million increase in remittances, which lead to a negative outflow of net current transfers of U.S.$2,050.0 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, a net outflow of U.S.$178.2 million in 2010 and a net outflow of U.S.$112.8 million in 2011. In 2011, direct investment flows from abroad showed outflows of U.S.$893.7 million and in Bahrain showed inflows of U.S.$780.9 million. Direct investment abroad continued to be 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, 2010 and 2011 of U.S.$8,275.5 million, U.S.$4,755.9 million and U.S.$5,583.1 million, respectively. Other investment (principally comprising bank loans and cash deposits) have demonstrated an outflow. For 2009, 2010, and 2011 other investment recorded outflows of U.S.$10,987.5 million, U.S.$4,225.3 million and U.S.$9,452.9 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 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 2011, Bahrain's balance of payments showed a deficit of U.S.$587.2 million.

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. In 2011, the deficit was equivalent to 2.3 per cent. of the 2011 GDP. As of 31 December 2008, 2009, 2010 and 2011 Bahrain's gross foreign exchange reserves were estimated by the CBB to be equal to 4.4, 4.5, 5.2 and 4.5 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:

	2008	2009	2010	2011
		(U.S.$)[1]		
Imports of oil (U.S.$ millions)[1]	7,204.3	4,354.3	5,393.1	7,469.4
As a percentage of total imports	50.6	45.3	48.2	61.7

Note:

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

Source: CBB

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 aluminium 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, 11.3 per cent. of total exports and 44.6 per cent. of all non-oil exports in 2010 and 9.4 per cent. of total exports and 44.6 per cent. of all non-oil exports in 2011). The reduction in the surplus recorded in 2009 and 2010, compared to the surplus recorded in 2008, was due to low oil prices. In 2011, the surplus increased as a result of increase in oil prices.

The increase in 2008 was due to higher oil prices and a sharp reduction in non-import revenues due to the global decline in consumer goods prices. In 2009 and 2010, lower surpluses of U.S.$ 2,438.8 million and U.S.$ 2,642.8 million, respectively, were recorded. In 2011, the surplus increased to U.S.$7,800.3 due to higher oil prices.

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 two measures to improve market liquidity: interest rate cuts and the opening of a new foreign exchange swap facility. 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. This reserve ratio remained unchanged during 2011.

The CBB Monetary Policy Committee ("**MPC**") meets on a weekly basis throughout the year to closely evaluate economic and financial developments, monitor liquidity conditions in order to provide recommendations for monetary policy instruments and set interest rates on facilities offered by the CBB to the banking sector. With its regular meetings and recommendations submitted to H.E. the Governor, the MPC played a vital role in the CBB's efforts to mitigate the effects of the global financial crisis on Bahrain.

Money Supply

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

	At 31 December							At 31 March
	2008	2009	% change 2009 vs 2008	2010	% change 2010 vs 2009	2011	% change 2011 vs 2010	2012
	(US$ millions, except percentages)[1]							
Currency in circulation	809.0	859.0	6.2%	929.8	7.6%	1,069.7	15.0%	1,101.6
M1[2]	5,049.7	5,740.2	13.7%	6,127.4	6.7%	7,013.0	14.5%	7,082.7
M2[3]	17,894.7	18,394.3	5.8%	20,924.2	10.5%	21,635.9	3.4%	22,283.0
M3[4]	21,395.0	22,351.6	4.5%	25,254.5	13.0%	26,579.8	5.2%	27,450.0

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.

Source: CBB

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 2011, the broadest measure of money (M3), increased by U.S.$1,325.27 million or 5.3 per cent. from U.S.$25,254.52 million at the end of 2010 to U.S.$26.579.79 million. In the context of deposits, M3 includes general government deposits (with both the CBB and retail banks) which increased by U.S.$613.6 million or 14.2 per cent. from U.S.$4,330.32 million in 2010 to U.S.$4,943.88 million in 2011. Government deposits accounted for 17.1 per cent. of M3 in 2010 and 18.6 per cent. of M3 in 2011. From a domestic liquidity perspective (an alternative approach to measuring M3), the growth in M3 was largely due to an increase in total domestic assets relative to net foreign assets. For the period ending 31 December 2011, net foreign assets (held by both the CBB and retail banks) decreased by U.S.$1,118.9 million or 20.8 per cent. to reach a total of U.S.$4,250.27 million and total domestic assets increased by U.S.$2,444.1 million or 12.3 per cent. to reach a total of U.S.$22,329.52 million.

Foreign Reserves

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

	At 31 December				As at 31 March
	2008	**2009**	**2010**	**2011**	**2012**
			(US$ millions)		
Foreign exchange	3,806.9	3,533.5	4,782.2	4,238.6	4,401.1
SDRs	14.6	200.0	193.1	196.7	198.5
Reserve position in the IMF	109.7	111.6	107.7	109.3	110.3
Total gross foreign reserves	3,930.6	3,845.1	5,083.0	4,544.5	4,709.9
Gold	6.6	6.6	6.6	6.6	6.6
Total gross foreign reserves (incl. gold)	3,937.2	3,851.7	5,089.6	4,551.1	4,716.5

Source: CBB and International Monetary Fund

Bahrain's foreign reserves are held abroad and primarily invested in fixed income instruments and money markets. These investments are generally US dollar denominated and are invested in low credit risk securities such as government or government secured instruments. Total gross foreign reserves 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 2011, totalling U.S.$4,567.9 million, a 10.3 per cent. decrease over 2010, which was due to a reduction in the CBB's net foreign assets and an associated increase in foreign assets of retail banks.

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				At 30 April
	2008	2009	2010	2011	2012
			(US$ millions)[1]		
Wholesale Banks					
Assets	188,862.6	162,042.1	156,724.8	129,736.2	129702.5
Domestic	18,879.3	13,163.2	10,967.0	10,068.7	8,528.3
Foreign	169,983.3	148,878.9	145,757.8	119,667.5	122,369.2
Liabilities	188,862.6	162,042.1	156,724.8	129,736.2	129702.5
Domestic	21,528.7	16,632.1	15,398.0	12,826.6	10,442.4
Foreign	167,333.9	145,410.0	141,326.8	116,909.6	120,455.1
Retail Banks					
Assets	63,491.8	59,735.6	65,452.9	67,380.9	68,272.6
Domestic	29,612.8	29,016.8	34,859.6	37,385.6	37,772.9
Foreign	33,879.0	30,718.9	30,593.5	29,995.2	31,687.8
Liabilities	63,491.8	59,735.6	65,452.9	67,380.9	68,272.6
Domestic	32,951.3	31,029.8	35,439.9	37,390.7	38,222.1
Foreign	30,540.4	28,705.9	30,013.0	29,990.2	31.238.6
Total Assets	**252,354.4**	**221,777.7**	**222,177.7**	**197,117.1**	**197,975.1**
Total Liabilities	**252,354.4**	**221,777.7**	**222,177.7**	**197,177.1**	**197,975.1**

Notes:

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

Source: CBB

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

Conventional Banks

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 30 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 December 2011, there were 30 retail banks with an aggregate balance sheet of approximately U.S.$67,380.9 million. As at 30 April 2012, there were 30 retail banks with an aggregate balance sheet of approximately U.S.$68,272.6 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, 33.5 per cent as at 31 December 2011 and 33.0 per cent. as at 30 April 2012.

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. As at 31 December 2011, total business loans and loans to the Government accounted for 63.0 per cent. and 3.5 per cent., respectively, of total domestic lending by retail banks. Retail bank combined foreign and local currency deposits at the ends of the third and fourth quarters of 2010 and the four quarters of 2011 amounted to U.S.$27.9 billion, U.S.$28.6 billion, U.S.$31.3 billion, U.S.$30.3 billion, and U.S.$30.2 billion, and U.S.$31.8 billion respectively.

Wholesale Banks

Wholesale banks comprise of locally incorporated banks and branches of foreign commercial and investment banks which use Bahrain as a base. Locally incorporated 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. 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 April 2012, the number of wholesale banks, including wholesale Islamic banks, present in Bahrain had decreased to 75 of which 20 were wholesale Islamic banks.

The table below shows a breakdown of the assets and liabilities of wholesale banks as at 31 December 2008, 2009, 2010, 2011 and as at 30 April 2012.

	As at 31 December								**As at 30 April**	
	2008		**2009**		**2010**		**2011**		**2012**	
	Assets	**Liabilities**	**Assets**	**Liabilities**	**Assets**	**Liabilities**	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Domestic *(U.S.$ billions)*....	18.9	21.5	13.2	16.6	11.0	15.4	10.1	12.8	8.3	10.4
Foreign (*U.S.$ billions*)	170.0	167.3	148.9	145.4	145.8	141.3	119.7	116.9	121.4	119.3
Share of GCC countries (*per cent.*)[(1)]	37.2	28.6	38.0	29.2	32.9	26.9	34.6	30.5	34.8	34.2
Share of Western Europe (*per cent.*)	34.5	40.8	33.3	41.3	39.0	42.5	36.9	40.1	38.2	39.9
Share of Americas (*per cent.*)	10.7	6.4	10.4	5.0	10.2	7.4	12.1	5.6	11.7	4.0
Share of Asian countries (*per cent.*)	4.1	5.7	5.3	6.4	6.5	4.2	4.2	4.6	4.3	4.5
Denominated in U.S. dollars (*per cent.*)	65.4	70.5	67.4	68.4	67.6	71.4	71.1	76.4	68.7	72.5
Denominated in Euro (*per cent.*)	11.4	11.0	10.6	12.6	10.6	10.7	9.8	8.6	11.1	8.9
Denominated in GCC currencies (*per cent.*)	13.4	10.1	11.6	9.3	9.0	5.2	8.6	7.2	9.8	9.7

Note:

(1) Excluding Bahrain.

Source: CBB

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 licenses, 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 licenses, of which 6 were retail banks, 21 were wholesale banks and 3 were representative offices. As at 31 December 2011, there were a total of 29 Islamic licenses of which 20 were wholesale banks, 7 were retail banks and 2 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.$25,519.5 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 2011, the consolidated total assets of Islamic banks (comprising unrestricted investments) stood at U.S.$24,697.3 million. Restricted investment accounts (which are off balance sheet items) of Islamic banks amounted to approximately U.S.$25,871.2 million as at 31 December 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 Ratio as at				
	31 December 2009	**31 December 2010**	**31 December 2011**	**Specific Provision (2010)**	**Specific Provision (2011)**
			(%)		
Conventional Retail Banks	5.8	4.3	4.3	61.4	61.0
Conventional Wholesale Banks	6.0	7.7	7.6	56.0	66.5
Islamic Retail Banks	5.0	16.8	16.0	38.4	43.5
Islamic Wholesale Banks	9.3	8.2	6.0	53.1	112.9

Source: CBB

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.

Islamic retail bank NPLs deviate from other conventional banks and other financial institutions due to the fact that real estate constitutes a large portion of the Islamic banks collaterised assets. Therefore, with real estate prices declining for the years 2008 - 2010, the ratio of NPLs to gross loans increased.

In the year 31 December 2010 to 31 December 2011, the NPLs of Conventional Retail Banks remained unchanged at 4.3 per cent. and the NPLs of Islamic Retail Banks decreased from 16.8 per cent. to 16.0 per cent. The NPLs of Conventional Wholesale Banks decreased from 7.7 per cent. to 7.6 per cent. and the ratio of NPLs of Islamic Wholesale Banks to their gross loans decreased from 8.2 per cent. to 6.0 per cent. in the same period.

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 12.5 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 came 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 12.5 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 licensees, 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 Shari'ah 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. 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. As at 31 December 2011, there were approximately 154 insurance companies and organisations registered in Bahrain.

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 two 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.

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 Bahrain Bourse was established as a shareholding company according to Law No.60 of 2010 to replace the Bahrain Stock Exchange that was established in 1987. As at 31 December 2011, a total of 49 Bahraini companies were listed on the Bahrain Bourse with a total market capitalisation of U.S.$16.6 billion (compared to 49 Bahraini companies with total market capitalisation of U.S.$20.1 billion as at 31 December 2010). A further five non-Bahraini companies were listed on the Bahrain Bourse 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 Bahrain Bourse. 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 the Bahrain Bourse listed firms.

The CBB regulates the Bahrain Bourse. 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 the Bahrain Bourse transactions for the periods indicated.

	Year ended 31 December				Four months ended 30 April
	2008	**2009**	**2010**	**2011**	**2012**
Volume of shares traded (millions of shares)	1,675.8	852.2	612.2	520.2	143.0
Value of shares traded (U.S.$ million)[1]	2,094.0	474.4	288.3	279.2	67.2
Bahrain index (points)	1,804.1	1,458.2	1,432.3	1,143.7	1,152.8
Number of listed Bahraini companies[2]	51	49	49	49	49

Notes:

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

(2) Excludes companies listed on the Bahrain Bourse under cross-listing arrangements.

Source: The Bahrain Bourse

PUBLIC FINANCE

The 2012 budget was drafted with a focus towards achieving the goals set out in Vision 2030, which include a shift in Bahrain's economy from an oil-driven economy to a global competitive economy predominantly based on finance, tourism and industry.

The key principles of the 2013 - 2014 budget are to reduce expenditure growth, develop public revenues and revenue collection mechanisms, control the level of public debt through the development of a debt strategy, stimulate growth, prioritise Government projects towards housing and investment, develop a policy for the management of Government subsidies, create job opportunities and maximise optimal use of natural and financial resources.

Government budget

Bahrain prepares budgets on a biennial basis, taking into account the key priority areas of Vision 2030 during each budgeting process. For more information on this economic strategy, see "*Overview of The Kingdom of Bahrain – Vision 2030*". 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. The budget is built around a two year cycle, but separate budgets are prepared for each calendar year. The financial year commences on 1 January and ends on 31 December.

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:

	2008	2009	2010	2011	2012
	Actual	Actual	Actual	Actual	Budgeted*
			(U.S.$ million)		
Revenues	7,121	4,543	5,786	7,504	6,710.2
Oil and gas	6,067	3,771	4,926	6,593	5,859.1
Taxation and fees	496	424	476	448.6	321.2
Other non-oil	559	349	384	362.1	221
Expenditure	5,479	5,538	7,009	7,588	9,751.0
Current expenditure	4,128	4,501	4,968	6,415	7,145.0
Projects expenditure	1,352	1,037	2,041	1,172.3	2,605.8
Surplus/(deficit)	1,455.8	(1,186)	(1,223)	(83)	(3,041.0)
Transfer to reserve for sovereign and strategic projects & roll over	465.9	745.4	834	797.3	NA

* As provided in the Government's revised budget for fiscal years 2011/2012.

Source: Ministry of Finance

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.$1,186 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 2011 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.$6,105 million in 2011, of which U.S.$5,3137 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 nominal GDP growth to be 8.1 per cent. and 5.7 per cent. in 2011 and 2012, respectively as well as oil price of U.S.$80 per barrel.

In 2011, a budget deficit of U.S.$2,223 million was estimated in the original budget. In the revised budget for 2011, current expenditure was budgeted at U.S.$6,936 million whilst projects expenditure was budgeted at U.S.$2,462.8 million. Both figures accounted for a roll-over of expenditure from 2010. This resulted in a revised budget deficit estimate of U.S.$3,294 million which the Government primarily attributed to the conservative oil price of assumption of U.S.$80 per barrel. In 2011 a significantly reduced deficit of U.S.$83 million was recorded, as the actual oil price was U.S.$105 per barrel.

In 2012 a revised deficit of U.S.$3,041 million was budgeted based on an estimate oil price of U.S.$80 per barrel. The 2013 - 2014 budget is now with the Cabinet for approval.

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. Development Fund proceeds are expected to be utilised towards the achievement of Vision 2030's developmental goals. For more information on this economic strategy, see "*Overview of The Kingdom of Bahrain – Vision 2030*".

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 increased 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 and U.S.$6,710.2 million for the years to 31 December 2011 and 2012, respectively. The table below sets out a breakdown of Government revenues for the periods indicated:

	2008	2009	2010	2011	2012
	Actual	**Actual**	**Actual**	**Actual**	**Budgeted***
			(U.S.$ million)		
Oil and gas	6,067.1	3,770.8	4,925.8	6,593.3	5,859.1
Taxation and fees	495.5	423.8	476.1	448.6	529.9
Government goods and services	365.3	119.0	138.3	107.3	94.8
Government investment and properties	68.1	63.5	51.6	40.8	32.6
Grants	78.4	75.6	76.1	266.6	100
Fines, penalties and misc	44.9	88.1	117.3	47.6	92.8
Sale of capital assets	2.2	2.3	0.9	0.8	0.9
Total:	**7,121.4**	**4,543.1**	**5,786.2**	**7,504**	**6,710.2**

* As provided in the Government's adjusted budget for fiscal years 2011/2012.

Source: Ministry of Finance

The principal source of revenue for the last five years has been, and is expected to be in 2012, the oil and gas industry, which is highly dependent on world oil prices. In 2008, revenues from oil and gas increased to 85.2 per cent. 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 and 2011, revenues from the oil industry represented 85 per cent. and 87.8 per cent. of total revenue, respectively.

Taxation and fees income has traditionally been one of the other two significant contributors to revenue, being approximately 7.0 per cent. in 2008 and increasing to 9.3 per cent. in 2009. In 2010 and 2011, taxation and fees revenue decreased again to 8.2 per cent. and 5.9 per cent., respectively.

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 31 March 2012 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. Mr Mahmood Al Kooheji was appointed as the new Chief Executive Officer of Mumtalakat on 20 March 2012.

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 Bahrain Bourse and global depositary receipts representing such Ordinary Shares are listed on the London Stock Exchange.

As a consequence of the Offering, Mumtalakat holds a 69.3 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.$450 million in 2008 and approximately U.S.$525 million in 2009 and has historically received direct and indirect support from the Government. In 2010, Gulf Air commenced a significant operational and strategic restructuring to improve its profitability that included certain measures, such as reducing Gulf Air's fleet of wide bodied aircraft, increasing its fleet of narrow bodied aircraft and focussing 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 which was intended to last through the end of 2012. The initial steps of the restructuring concluded successfully with a 28 per cent. reduction in the airline's operating losses for 2010.

However, local and regional events in 2011 have negatively impacted the performance of many of Gulf Air's routes. Rising fuel costs also increased operating costs. Despite this disruption, Gulf Air continued to focus on key elements of the operational and strategic restructuring in 2011. Interim solutions to recover lost revenue were also launched in 2011, such as the implementation of new routes outside the MENA region, but with limited success. See "*Risk Factors – Restructuring of Gulf Air*".

Since January 2012, Mumtalakat and the Government of Bahrain have been working closely with Gulf Air to review and potentially reformulate its strategy in light of the dramatically changed circumstances. Several options have been considered, analysed and presented to the Government and Parliament. A final decision on the way forward is pending as of the date of this Prospectus.

The table below sets out the companies in which Mumtalakat holds equity exceeding 50 per cent. as at 31 December 2008, 2009, 2010, 2011 and 31 March 2012:

	As at 31 December				As at 31 March
	2008	2009	2010	2011	2012
	(Equity holding (per cent.))				
Company					
Gulf Air Company	100	100	100	100	100
Bahrain Airport Company	100	100	100	100	100
Aluminium Bahrain (Alba)	77	77	69	69	69
Tourism Projects Company	100	100	100	100	100
Bahrain International Circuit	100	100	100	100	100
Bahrain Flour Mills Company	0(2)	0(2)	0(2)	0(2)	0(2)
General Poultry Company	0(2)	0(2)	0(2)	0(2)	0(2)
Bahrain Real Estate Company (EDAMAH)	100	100	100	100	100
Al-Awali Real Estate Company	100	100	100	100	100
Howar Island Development Company	100	100	100	100	100
Bahrain Food Holding Company	100	100	100	100	100
Gulf Air Group Holding Company	100	100	100	100	100
Gulf Aviation Academy BSC	0	100	100	100	100
ATBahrain BSC (Closed Joint Stock Company)	100	100	100	100	100
Falcon Group Holding Company	0	0	100	100	100
Gulf Technics Company	0	0	100	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, 2011 and 31 March 2012:

	As at 31 December				As at 31 March
	2008	2009	2010	2011	2012
	(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	0	0	0
Lulu Tourism Company	50.0	50.0	0	0	0
Al Areen Desert Spa Company	33.3	0	0	0	0
Zallaq Resort Company	4.0	4.0	4.0	0	0
Southern Area Development Company	28.1	28.1	28.1	28.13	28.13
National Bank of Bahrain (NBB)	49.0	49.0	49.0	49.0	49.0
Gulf International Bank (GIB)	0.4	0.4	0.4	0.4	0.4
Bahrain Livestock Company	25.0	0(1)	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	33.3	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, 2011 and 31 March 2012:

	As at 31 December				As at 31 March
	2008	**2009**	**2010**	**2011**	**2012**
	(Equity holding (per cent.))				
Company					
McLaren Group Limited	30.0	42.0	42.0	50.0	50.0
United Arab Shipping Company (UASC)	2.1	2.1	1.6	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	0.1	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	4.1	4.1	3.9	3.9	3.9
Arab Company for Drug Industries & Medicine Appliance	0.9	0.9	1.0	1.0	1.0
OCB Education Solutions	0	9.0	9.0	9.0	9.0
BBIC Limited	37.4	0	0	0	0
McLaren Automotive	0	50.0	50.0	45.4	45.4

Source: Ministry of Finance

nogaholding

NOGA was formed in 2005 out of the structural reform of Bahrain's 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 the boards of directors, chief executives and senior executive managements 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 in 2011 nogaholding received dividends of U.S.$162.7 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 paid a dividend of U.S.$150.0 million to the Ministry of Finance. In 2012, nogaholding received dividends of U.S.$226 million from the same companies, as at the end of May 2012. The expected dividend for 2012 is U.S.$249 million. In 2012, will nogaholding is expected to pay a dividend of U.S.$150 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 loans which matures in October 2016, is approximately U.S.$426 million. nogaholding has outstanding debt of U.S.$116 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 is expected to 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 ongoing, but alternate plans such as importing gas from overseas; implementing energy conservation measures; and purchasing electricity from the GCC grid are also either underway or 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, 2010 and 2011 and 31 March 2012:

	As at 31 December				As at 31 March
	2008	**2009**	**2010**	**2011**	**2012**
	(Equity holding (per cent.))				
Company					
Bapco	100	100	100	100	100
GPIC	33	33	33	33	33
BANAGAS	75	75	75	75	75
Bahrain Aviation Fuel Co	60	60	60	60	60
BANAGAS Expansion Company	100	100	100	100	100
Bahrain Lube Base Oil Company	0	55	55	55	55
Tatweer Petroleum	0	51	51	51	51
Skaugen Gulf Petchem Carriers BSC (c)	0	0	0	35	35

Source: nogaholding

Current Expenditure

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

	2008	**2009**	**2010**	**2011**	**2012**
	Actual	**Actual**	**Actual**	**Actual**	**Budgeted***
	(U.S.$ million)				
Manpower	2,186.3	2,217.9	2,308.7	2,673	2,970.2
Services	304.6	345.0	347.2	453	372
Consumables	470.8	208.1	211.9	249	401
Assets	51.2	56.0	55.4	81	57
Maintenance	117.9	126.1	118.1	157	144
Transfers	566.0	1,181.1	1,407.9	1,688	2,310
Grants, subsidies and payment	430.7	366.6	518.8	1,115	892
Total	**4,127.6**	**4,500.8**	**4,967.9**	**6,415**	**7,145**

* As provided in the Government's adjusted 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 2008 was 53.0 per cent. of total current expenditure. In 2009 and 2010, manpower expenditure comprised 49.3 per cent. and 46.5 per cent. respectively, of total current expenditure. In 2011, manpower expenditure comprised 41.7 per cent. of the total current expenditure, and the manpower expenditure for 2012 is budgeted at 41.6 per cent. of the 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 2008, 80.4 per cent. in 2009, 80.6 per cent. in 2010, and 80.4 per cent. in 2011.

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 53.0 per cent. of the total expenditure in 2008, 59.0 per cent. in 2009, 52.6 per cent. in 2010 and 54.8 per cent. in 2011. 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 were the Ministry of Health, the Ministry of Defence and Sh Mohamed bin Khalifa Specialist Heart Center which between them accounted for 81 per cent. of total consumables expense in 2010. In 2010, the Ministries of Health, Defence and Interior and Sh Mohamed bin Khalifa Specialist Heart Center were the major users of consumables, accounting for 77.1 per cent. of total consumables. In 2011 it was 86 per cent. and is budgeted at 88 per cent. in 2012 respectively, of total 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. In 2011, it was 16.6 per cent. (due to the increase in one off transfers). Payments on interest constitute the major part of current expenditure under the heading "*Grants, subsidies and payment of interest*". Payments on interest constituted 33.1 per cent. of grants, subsidies and payments of interest expenditure in 2008, 36.3 per cent. in 2009, 46.4 per cent. in 2010 and 27.3 per cent. in 2011. In 2012, interest is expected to be 49.5 per cent. of the grants, subsidies and payment expenditure.

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:

	2008	2009	2010	2011	2012
	Actual	**Actual**	**Actual**	**Actual**	**Budgeted***
			(U.S.$ million)		
Infrastructure	896.8	650.0	597.6	683.2	1,329
Social services	143.3	106.1	97.8	117.6	431.4
Economic services	9.0	14.5	21.8	12.8	81.1
Administrative services	130.2	81.2	65.4	114.9	154.3
Others	171.6	185.0	1,258	243.8	610.1
Total	**1,352.0**	**1,036.9**	**2,040.9**	**1,172.3**	**2,065.9**

* As provided in the Government's adjusted budget for fiscal year 2012

Source: Ministry of Finance

The projects expenditure is financed through the general budget. While the budgeted expenditure for 2011 was U.S.$2,463 million, the actual projects expenditure for that period was only U.S.$1,172 million. A similar trend is expected for projects expenditure budgeted for 2012.

The principal area of projects expenditure is infrastructure, which accounted for 63.5 per cent. in 2008, 62.7 per cent. in 2009, 29.2 per cent. in 2010, 58.2 per cent in 2011 and is forecasted to be 50.9 per cent. in 2012.

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.$2.6 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 was completed in 2011 with a total cost of U.S.$135 million. The Manama Interchange and improvements to King Faisal Road and North Manama access causeway are the major current works. The North Manama causeway's estimated cost is U.S.$266 million and it is scheduled to be completed in early 2013. The King Faisal Road improvements are expected to cost U.S.$180 million, of which U.S.$21.2 million has been spent so far. This project is expected to be completed in 2015. The work has also commenced on Mina Salman Interchange project, which has a cost of U.S.$64.3 million and is expected to reduce congestions and promote free flow of traffic from Saudi to the new port. The work is now 6 per cent. complete.

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 assumes 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.

The Bonds are authorized under Legislative Decree No.29 of 2011 (the "**2011 Decree**"). The 2011 Decree establishes Bahrain's debt ceiling in respect of certain borrowings at U.S.$9,308.5 million in principal amount outstanding at any time, of which U.S.$6,310.1 million was utilised as of 31 March 2012 and U.S.$2,998.4 million remained available. Certain additional amounts have been authorized pursuant to separate decrees that do not apply towards the ceiling. See "*— External Government Debt*" and "*— Domestic Government Debt*" below.

External Government Debt

As at 31 December 2011, Bahrain's total external debt amounted to U.S.$3,640.4 million, equal to 14 per cent. of the 2011 GDP. Bahrain's total external debt as at 31 March 2012, was equal to 14 per cent. of the 2011 GDP.

The majority of the Government's outstanding external borrowing comprises international Islamic leasing securities and international bonds. The following table sets out the Government's outstanding external borrowing at each of the dates indicated:

	As at 31 December			As at 31 March
	2009	**2010**	**2011**	**2012**
		(U.S.$ millions)		
Outstanding external debt[1]	1,724.3	2,917.0	3,640.6	3,625.2

Note:

(1) Does not include U.S.$350 million in Islamic leasing securities which were sold in an international capital markets transaction, but of which 65 per cent. was subscribed for by domestic banks and included as Domestic Government Debt. See "— *Domestic Government Debt*" below.

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 31 March
	2009	**2010**	**2011**	**2012***
		(U.S.$ millions)		
GCC Development Funds[1]				
Kuwait Fund for Arab Economic Development	176.8	172.3	164.4	160.6
Arab Fund for Economic and Social Development	353.3	339.2	313.9	309.8
The Saudi Fund for Development	19.4	15.9	13.6	13.7
Abu Dhabi Fund for Development	66.0	54.0	42.0	42.0
Qatar Fund for Development	70.0	70.0	70.0	70.0
Islamic Development Bank	288.8	265.0	286.5	279.0
International Islamic Leasing Securities Issue No.1[2]	750.0	750.0	750.0	750.0
International bonds	–	1,250	1,250	1,250.0
International Islamic Leasing Securities Issue No.2	–	–	750.0	750.0
Total outstanding external debt[3]	**1,724.3**	**2,917.0**	**3,640.6**	**3,625.2**

Notes:

(1) U.S.$875.1 million outstanding under long term loans from regional development funds and institutions as of 31 March 2012 are not included in the calculation of Bahrain's current debt ceiling because they are covered under several decrees over the years for specific project based borrowing from GCC funds and the Islamic Development Bank.

(2) U.S.$750.0 million outstanding under International Islamic Leasing Securities Issue No.1 as of 31 March 2012 were authorised under Legislative Decree No.23 of 2009 are not included in the calculation of Bahrain's current general debt ceiling.

(3) Does not include U.S.$350 million in Islamic leasing securities which were sold in an international capital markets transaction, but of which 65 per cent. was subscribed for by domestic banks and included as Domestic Government Debt. See "— *Domestic Government Debt*" below.

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 31 March 2012 although the amount outstanding will have increased as a result of further drawings under existing facilities.

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

	March	By end of	(December)					After
	2012[1]	**2012**[1]	**2013**[1]	**2014**	**2015**	**2016**	**2017**	**2017**
				(U.S.$ millions)				
Total outstanding external debt........	3,625.2	77	90.6	838.8	81.8	65.2	55.6	2,415.9

Note:

(1) Does not include U.S.$350 million in Islamic leasing securities which were sold in an international capital market transaction, but which 65 per cent. was subscribed for by domestic banks and included as Domestic Government Debt. See "*—Domestic Government Debt*" below.

Source: Ministry of Finance

The total outstanding external debt as at 31 March 2012 was U.S.$3,625.2 million. The majority of the Government's external debt as at that date was denominated in GCC currencies and US dollars. The current average maturity of the external debt is approximately 7.5 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 2009, 2010, 2011 and as at 31 March 2012:

	As at 31 December			As at 31 March
	2009	2010	2011	2012
	(U.S.$ millions)			
Treasury bills (three month)	664.9	669.9	930.9	930.9
Treasury bills (six month)	79.8	319.1	478.7	478.7
Treasury bills (12 months)	359.0	531.9	930.9	1,063.8
Al Salam Islamic securities (three month)	47.9	95.7	143.6	143.6
Islamic leasing securities[(1)]	2,287.2	1,537.4	1,998.9	1,998.9
Syndicated loans[(3)]	339.4	228.2	117.7	117.7
Development bonds[(2)]	146.2	1,343.1	1196.8	1,196.8
Other loans	0.3	0	0	0
Gross domestic debt[(4)]	3,175.0	4,720.4	5,797.5	5,930.5
Held by SIO	307.9	479.8	484.6	441.8
Held by pension funds	211.7	159.0	159.9	119.1
Net domestic debt	**2,655.4**	**4,081.6**	**5,154**	**5,369.5**

Notes:

(1) A portion (U.S.$438.8 million) outstanding under Islamic leasing securities as of 31 March 2012 was authorised under Legislative Decree No.23 of 2009 and are not included in Bahrain's current debt ceiling.

(2) A portion (U.S.$1,063 million) outstanding under International Islamic Leasing Securities Issue No.1 as of 31 March 2012 were authorised under Legislative Decree No.39 of 2010 and are not included in Bahrain's current debt ceiling.

(3) U.S.$117.7 million outstanding under syndicated loans are not included in Bahrain's current debt ceiling because these are syndicated loans covered under Decree No 21 of 1997; Decree No 18 of 2002 in respect of debt covering Hidd Phase I, Hid Phase II, and Abu Saafa Expansion projects respectively.

(4) Includes U.S.$350 million in Islamic leasing securities which were sold in an international capital markets transaction, but of which 65 per cent. was subscribed for by domestic banks and included as Domestic Government Debt. See "— Domestic Government Debt" below.

Source: Ministry of Finance

Bahrain's gross domestic debt amounted to U.S.$3,585.1 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. Bahrain's gross domestic debt amounted to U.S.$5,797.61 million as at 31 December 2011, which was equal to 22.4 per cent of Bahrain's 2011 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.$5,930 million as at 31 March 2012.

Bahrain's treasury bills have maturities of three, six and 12 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, U.S.$5,154 million as at 31 December 2011 and U.S.$5,369 million as at 31 March 2012.

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. Legislative Decree No. (29) of 2011 establishes a ceiling for Bahrain's debt in the form of development bonds, treasury bills and financing instruments that are compliant with Islamic Shari'ah, and such ceiling is currently BD3,500 million (U.S.$9,308.5 million) in principal amount outstanding at any time (of which U.S.$6,310.1 was utilised as of 31 March 2012).

Foreign Exchange Reserves

For the years 2008, 2009, 2010 and 2011, Bahrain's gross foreign reserves were sufficient to finance 3.2, 4.5, 5.2 and 4.5 months of obligations in respect of imports of goods, respectively.

TAXATION

The following summary of certain United Kingdom, United States, European Union and Kingdom of Bahrain tax consequences of ownership of Bonds is based upon laws, regulations, decrees, rulings, income tax conventions, administrative practice and judicial decisions in effect at the date of this Prospectus. Legislative, judicial or administrative changes or interpretations may, however, be forthcoming that could alter or modify the statements and conclusions set forth herein. Any such changes or interpretations may be retroactive and/or have retrospective effect, and could affect the tax consequences to holders of the Bonds. This summary does not purport to be a legal opinion or to address all tax aspects that may be relevant to a holder of Bonds. Each prospective holder is urged to consult its own tax adviser as to the particular tax consequences to such holder of acquiring, holding and disposing of Bonds, including the applicability and effect of any other tax laws or tax treaties, and of pending or proposed changes in applicable tax laws as of the date of this Prospectus, and of any actual changes in applicable tax laws after such date.

Kingdom of Bahrain

As at the date of this Prospectus, there are no taxes payable with respect to income, withholding or capital gains under existing Bahrain laws.

Corporate income tax is only levied on oil, gas and petroleum companies at a flat rate of 46 per cent. This tax is applicable to any oil company conducting business activity of any kind in Bahrain, including oil production, refining and exploration, regardless of the company's place of incorporation.

There are no currency or exchange control restrictions currently in force under Bahrain law and the free transfer of currency into and out of Bahrain is permitted, subject to any anti money laundering regulations and international regulations in force from time to time.

In the event that there is any material amendment or change to Bahrain law in connection with the matters referred to above, the relevant Joint Lead Manager shall notify the Bondholders of such amendment or change in the next following report that is circulated to the Bondholders after such amendment or change has come to the attention of the relevant Joint Lead Manager.

United States Federal Income Taxation

TO ENSURE COMPLIANCE WITH INTERNAL REVENUE SERVICE (IRS) CIRCULAR 230, EACH TAXPAYER IS HEREBY NOTIFIED THAT: (A) ANY TAX DISCUSSION HEREIN IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED BY THE TAXPAYER FOR THE PURPOSE OF AVOIDING U.S. FEDERAL INCOME TAX PENALTIES THAT MAY BE IMPOSED ON THE TAXPAYER; (B) ANY SUCH TAX DISCUSSION WAS WRITTEN TO SUPPORT THE PROMOTION OR MARKETING OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) THE TAXPAYER SHOULD SEEK ADVICE BASED ON THE TAXPAYER'S PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISER.

The following discussion is a summary of certain U.S. federal income tax considerations relevant to the purchase, ownership and disposition of the Bonds. This discussion addresses only U.S. Holders (as defined below) who purchase Bonds in the original offering at the issue price (as defined below), hold the Bonds as capital assets and use the U.S. dollar as their functional currency. This summary is based on the U.S. Internal Revenue Code of 1986, final, temporary and proposed U.S. Treasury regulations, administrative and judicial interpretations, all of which are subject to change, possibly with retroactive effect. This discussion is not a complete description of all U.S. federal tax considerations relating to the Bonds. It also does not address the tax treatment of prospective purchasers subject to special rules, such as banks, dealers, traders that elect to mark to market, insurance companies, investors liable for the alternative minimum tax, U.S. expatriates, tax-exempt entities or persons holding the Bonds as part of a hedge, conversion or other integrated financial transaction.

For purposes of this discussion, a "**U.S. Holder**" is a beneficial owner of the Bonds that is, for purposes of U.S. federal income taxation, (i) a citizen or individual resident of the United States, (ii) a corporation created or organised under the laws of the United States or its political subdivisions, (iii) a trust with respect to which a court within the United States is able to exercise primary supervision over its administration, and one or more U.S. persons have the authority to control all of its substantial decisions or a trust with a valid election in effect to be treated as a U.S. person for U.S. federal income tax purposes, or (iv) an estate the income of which is subject to U.S. federal income taxation regardless of its source.

If a partnership acquires or holds the Bonds, the tax treatment of a partner generally will depend upon the status of the partner and the activities of the partnership. A partner of a partnership that acquires or holds the Bonds should consult its own tax advisors.

Interest

Interest paid on the Bonds, including any additional payments, will be included in the gross income of a U.S. Holder in accordance with the holder's regular method of tax accounting. The interest and any original issue discount ("**OID**") accrued on the Bonds will generally be ordinary income from sources outside the United States.

A U.S. Holder of a Bond issued with OID generally must accrue the OID into income on a constant yield to maturity basis whether or not it receives cash payments. Generally, a Bond will have OID to the extent that its stated redemption price at maturity exceeds its issue price. However, a Bond generally will not be treated as having OID if the stated redemption price exceeds its issue price by less than 1/4 of 1 per cent. of the Bond's stated redemption price at maturity multiplied by the number of complete years from its issue date to maturity (any such amounts being "**de minimis OID**"). The issue price of a Bond is the first price at which a substantial amount of the Bonds are sold (excluding sales to brokers or similar persons). The stated redemption price at maturity of a Bond is the total of all payments due on the Bond other than payments of qualified stated interest. In general, qualified stated interest is interest that is unconditionally payable at least annually at a single fixed rate, provided reasonable legal remedies exist to compel timely payment or the terms of which make non-payment remote.

A U.S. Holder may elect to include in gross income all yield on a Bond (including de minimis OID) using a constant yield method. The constant yield election generally will apply only to the Bond with respect to which it is made, and it may not be revoked without the consent of the U.S. Internal Revenue Service ("**IRS**"). The OID rules are complex and is the Bonds are issued with OID a perspective U.S. investor should consult its own tax advisors.

Disposition

A U.S. Holder will recognise gain or loss on the sale, redemption or other disposition of a Bond in an amount equal to the difference between the amount realised (less any accrued but unpaid interest, which will be taxable as interest income to the extent not previously included in income) and the U.S. Holder's adjusted tax basis in the Bond. A U.S. Holder's adjusted tax basis in a Bond generally will be the amount the U.S. Holder paid for the Bond increased by any OID (including *de minimis* OID) that must be included in the U.S. Holder's income with respect to the Bond under the applicable OID rules.

Gain or loss on disposition of a Bond generally will be U.S. source capital gain or loss. A U.S. Holder will have long-term capital gain or loss if it has held the Bond for more than one year. The long-term capital gains of non-corporate U.S. Holders may be taxed at lower rates. Deductions for capital losses are subject to significant limitations.

Fungible Issue

The Issuer may, without the consent of the Bondholders of outstanding Bonds, issue further securities with identical terms as the Bonds. These additional Bonds, even if they are treated for non-tax purposes as part of the same series as the original Bonds, in some cases may be treated as a separate series for U.S. federal income tax purposes. In such a case, the additional Bonds may be considered to have been issued with OID even if the original Bonds had no OID, or the additional Bonds may have a greater amount of OID than the original Bonds. These differences may affect the market value of the original Bonds if the additional Bonds are not otherwise distinguishable from the original Bonds.

Information reporting and backup withholding

Payments of interest, and accrued OID on, and proceeds from the sale, redemption or other disposition of a Bond by a US Paying Agent that are made within the United States or through certain U.S.-related financial intermediaries may be reported to the IRS unless the holder is a corporation or otherwise establishes a basis for exemption. U.S. Backup withholding tax may apply to amounts subject to reporting if the holder fails to provide an accurate taxpayer identification number or certification of exempt status or otherwise comply with he applicable withholding requirements. A U.S. Holder can claim a credit against U.S. federal income tax liability for amounts withheld under the backup withholding rules, and it can claim a refund of amounts in excess of its liability by providing required information to the IRS. Prospective investors should consult their tax advisors as to their qualification for exemption from backup withholding and the procedure for establishing an exemption.

Recently enacted legislation may require individual U.S. Holders to report to the IRS certain information with respect to their beneficial ownership of the Bonds not held through an account with a financial institution. Investors who fail to report required information could be subject to substantial penalties.

THE DISCUSSION ABOVE IS A GENERAL SUMMARY. IT DOES NOT COVER ALL TAX MATTERS THAT MAY BE OF IMPORTANCE TO A PARTICULAR INVESTOR. EACH PROSPECTIVE INVESTOR IS URGED TO CONSULT ITS OWN TAX ADVISOR ABOUT THE TAX CONSEQUENCES TO IT OF AN INVESTMENT IN THE BONDS IN LIGHT OF THE INVESTOR'S OWN CIRCUMSTANCES.

United Kingdom

The following is a general description of current United Kingdom law and Her Majesty's Revenue and Customs ("**HMRC**") published practice relating to the United Kingdom withholding tax treatment of payments of interest in respect of Bonds, which is not intended to be exhaustive and which does not deal with any other United Kingdom taxation implications of acquiring, holding or disposing of Bonds. It relates to the position of persons who are the absolute beneficial owners of Bonds and some aspects do not apply to certain classes of taxpayer (such as dealers and Bondholders who are connected or associated with the Issuer for relevant tax purposes). The United Kingdom tax treatment of prospective Bondholders depends on their individual circumstances and may be subject to change in the future. Prospective Bondholders who may be subject to tax in a jurisdiction other than the United Kingdom or who may be unsure as to their tax position should seek their own professional advice.

Interest on the Bonds

On the basis that interest on the Bonds is not expected to have a United Kingdom source, payments of interest by the Issuer on the Bonds may be made without withholding or deduction for or on account of United Kingdom income tax.

Reporting requirements

Bondholders may wish to note that, in certain circumstances, HMRC has power to obtain information (including the name and address of the beneficial owner of the interest) from any person in the United Kingdom who either pays or credits interest to or receives interest for the benefit of a Bondholder, or who either pays amounts payable on the redemption of Bonds to or receives such amounts for the benefit of another person, although HMRC published practice indicates that HMRC will not exercise the power referred to above to require this information in respect of such amounts payable on redemption of Bonds where such amounts are paid on or before 5 April 2013. Information so obtained may, in certain circumstances, be exchanged by HMRC with the tax authorities of the jurisdiction in which the Bondholder is resident for tax purposes.

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 paid by a person within its jurisdiction to an individual resident in that other Member State 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 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 other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have adopted similar measures (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.

SUBSCRIPTION AND SALE

Each of Citigroup Global Markets Limited, Gulf International Bank B.S.C., J.P. Morgan Securities Limited and Standard Chartered Bank (the "**Joint Lead Managers**"), pursuant to a Subscription Agreement between the Issuer and the Joint Lead Managers dated 29 June 2012 (the "**Subscription Agreement**"), severally agrees to subscribe for the Bonds at the issue price of 99.867 per cent. of the principal amount of the Bonds. The Issuer will reimburse the Joint Lead Managers in respect of certain of their expenses incurred in connection with the issue of the Bonds and the Issuer has agreed to indemnify the Joint Lead Managers against certain liabilities incurred in connection with the issue of the Bonds. The Subscription Agreement may be terminated in certain circumstances set out therein prior to payment to the Issuer.

Certain of the Joint Lead Managers and their affiliates have from time to time performed, and in the future may perform, various financial advisory, commercial banking and investment banking services for the Issuer and its affiliates, for which they have received and/or will receive fees and expenses.

United States

The Bonds have not been and will not be registered under the Securities Act and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the Joint Lead Managers have agreed, severally and not jointly, to offer the Bonds for resale in the United States initially only to persons who they reasonably believe to be QIBs in reliance on Rule 144A and outside the United States in offshore transactions in reliance on Regulation S. Terms used in this paragraph have the respective meanings given to them by Regulation S.

The Bonds are being offered and sold by the Joint Lead Managers outside the United States in accordance with Regulation S. The Subscription Agreement provides that the Joint Lead Managers may, through their respective U.S. affiliates, resell a portion of the Bonds within the United States only to QIBs in reliance on Rule 144A.

In addition, until 40 days after the commencement of the offering of the Bonds, an offer or sale of Bonds within the United States by a 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 Rule 144A, or another available exemption from registration under the Securities Act.

United Kingdom

Each Joint Lead Manager has represented and agreed in the Subscription Agreement that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 ("**FSMA**")) received by it in connection with the issue or sale of any Bond 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 Bonds in, from or otherwise involving the United Kingdom.

United Arab Emirates (excluding the Dubai International Financial Centre)

Each Joint Lead Manger has represented and agreed in the Subscription Agreement that the Bonds 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.

Dubai International Financial Centre

Each Joint Lead Manager has represented and agreed in the Subscription Agreement that it has not offered and will not offer the Bonds to any person in the Dubai International Financial Centre unless such offer is:

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

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

Kingdom of Bahrain

Each Joint Lead Manager has represented and agreed in the Subscription Agreement that it has not offered and will not offer any Bonds to the Public (as set out in Article 81 of the CBB Rulebook) and as determined by the laws and regulations of the Central Bank of Bahrain from time to time) in the Kingdom of Bahrain.

Kingdom of Saudi Arabia

Any investor in the Kingdom of Saudi Arabia or who is a Saudi person (a "**Saudi Investor**") who acquires Bonds pursuant to any offering should note that the offer of Bonds is a private placement under Article 10 and/or Article 11 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**"). Each Joint Lead Manager has represented and agreed in the Subscription Agreement that the offer of Bonds will not be directed at more than 60 Saudi Investors (excluding "Sophisticated Investors" (as defined in Article 10 of the KSA Regulations)) and the minimum amount payable per Saudi Investor (excluding Sophisticated Investors) will be not less than Saudi Riyal ("**SR**") 1 million or an equivalent amount.

The offer of Bonds 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 Bonds pursuant to a private placement under Article 10 and/or 11 of the KSA Regulations may not offer or sell those Bonds 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 Bonds are offered or sold to a Sophisticated Investor; (b) the price to be paid for the Bonds 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.

Hong Kong

Each Joint Lead Manager has represented and agreed in the Subscription Agreement that:

(e) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Bonds 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 or which do not constitute an offer to the public within the meaning of that Ordinance; and

(f) 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, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Bonds, 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 Bonds which are or 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

Each Joint Lead Manager has acknowledged in the Subscription Agreement that this Prospectus has not been registered as a prospectus with the Monetary Authority of Singapore and the Bonds will be offered pursuant to exemptions under the Securities and Futures Act, Chapter 289 of Singapore (the "**Securities and Futures Act**"). Accordingly, the Bonds may not be offered or sold or made the subject of an invitation for subscription or purchase nor may this Prospectus or any other document or material in connection with the offer or sale or invitation for subscription or purchase of the Bonds be circulated or distributed, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, (ii) to a relevant person pursuant to Section 275(1) of the Securities and Futures Act, or to any person pursuant to Section 275(1A) of the Securities and Futures Act, and in accordance with the conditions specified in Section 275 of the Securities and Futures Act or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the Securities and Futures Act.

Where Bonds are subscribed or purchased under Section 275 of the Securities and Futures Act by a relevant person which is:

(i) a corporation (which is not an accredited investor (as defined in Section 4A of the Securities and Futures Act)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(ii) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities (as defined in Section 239(1) of the Securities and Futures Act) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferable for six months after that corporation or that trust has acquired the Bonds pursuant to an offer made under Section 275 except:

(i) to an institutional investor or to a relevant person defined in Section 275(2) of the Securities and Futures Act, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the Securities and Futures Act;

(ii) where no consideration is or will be given for the transfer;

(iii) where the transfer is by operation of law; or

(iv) as specified in Section 276(7) of the Securities and Futures Act.

General

Each Joint Lead Manager has represented and agreed in the Subscription Agreement that it will comply in all material respects with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Bonds 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 Bonds 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 neither the Issuer nor any of the Joint Lead Managers shall have any responsibility therefor.

Neither the Issuer nor any of the Joint Lead Managers has represented that the Bonds 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 such sale.

TRANSFER RESTRICTIONS

Each purchaser of Rule 144A Bonds, by accepting delivery of this Prospectus and the Bonds, will be deemed to have represented, agreed and acknowledged that:

1. It is (a) a QIB, (b) acting for its own account, or for the account of a QIB, (c) not formed for the purpose of investing in the Issuer, and (d) aware, and each beneficial owner of such Bonds has been advised, that the sale of such Bonds to it is being made in reliance on Rule 144A. If it is acquiring any Bonds for the account of one or more QIBs, it represents that it has sole investment discretion with respect to each such account and that it has the full power to make the foregoing representations, agreements and acknowledgements on behalf of each such account.

2. It understands that the Rule 144A Bonds are being offered only in a transaction not involving any public offering in the United States within the meaning of the Securities Act, and that the Rule 144A Bonds have not been and will not be registered under the Securities Act and may not be offered, sold, pledged or otherwise transferred except (a) in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believe is a QIB purchasing for its own account or for the account of a QIB or (b) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S under the Securities Act, in each case in accordance with any applicable securities laws of any State or another jurisdiction of the United States.

3. It understands that the Rule 144A Bonds, unless otherwise agreed between the Issuer and the Fiscal Agent in accordance with applicable law, will bear a legend to substantially the following effect:

   THIS BOND HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. 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 AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT ("**RULE 144A**") TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A (A "**QIB**"), THAT IS ACQUIRING THIS BOND FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QIB, (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, (3) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER, IF AVAILABLE, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 FOR RESALES OF THE BONDS.

4. It acknowledges that the Issuer, the Registrar, the Joint Lead Managers and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that, if any of the acknowledgements, representations or agreements deemed to have been made by it by its purchase of Rule 144A Bonds is no longer accurate, it shall promptly notify the Issuer and the Joint Lead Managers. If it is acquiring any Bonds as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each of those accounts and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each account.

5. It understands that the Rule 144A Bonds will be evidenced by the Rule 144A Global Bond Certificate. Before any interest in a Rule 144A Global Bond Certificate may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in a Regulation S Global Bond Certificate, it will be required to provide a Paying and Transfer Agent with a written certification (in the form provided in the Agency Agreement) as to compliance with applicable securities laws.

Each purchaser of the Regulation S Bonds, by accepting delivery of this Prospectus and the Bonds, will have been deemed to have represented, agreed and acknowledged that:

1. It is, or at the time the Regulation S Bonds are purchased will be, the beneficial owner of such Regulation S Bonds and (a) that it is located outside the United States (within the meaning of Regulation S) and (b) it is not an affiliate of the Issuer or a person acting on behalf of such an affiliate.

2. It understands that such Regulation S Bonds have not been and will not be registered under the Securities Act.

3. It acknowledges that the Issuer, the Registrar, the Joint Lead Managers and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that, if any of the acknowledgements, representations or agreements deemed to have been made by it by its purchase of the Regulation S Bonds is no longer accurate, it shall promptly notify the Issuer and the Joint Lead Managers. If it is acquiring any Bonds as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each of those accounts and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each account.

GENERAL INFORMATION

Authorisation

(1) The creation and issue of the Bonds have been duly authorised by the Legislative Decree No.(29) of 2011 on the Amendment of the Provisions of Legislative Decree No. (15) of 1977 on the issuance of development bonds.

Listing of Bonds

(2) The listing of the Bonds on the Official List will be expressed as a percentage of their nominal amount (exclusive of accrued interest). It is expected that listing of the Bonds on the Official List and admission of the Bonds to trading on the Market will be granted on or before 6 July 2012, subject only to the issue of the Global Bond Certificates. Transactions on the Market will normally be effected for delivery on the third working day after the day of the transaction.

Expenses

(3) The expenses in connection with the transaction are expected to amount to approximately U.S.$3,000,000.

Significant Change

(4) There has been no significant change in the tax and budgetary systems, gross public debt, foreign trade and balance of payments, foreign exchange reserves, financial position and resources and income and expenditure figures of the Issuer since 31 December 2011.

Litigation

(5) The Issuer has not been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) during the 12 months preceding the date of this Prospectus which may have or have had in the recent past a significant effect on the financial position of the Issuer.

Clearing Systems

(6) The Bonds have been accepted for clearance through Euroclear, Clearstream, Luxembourg and DTC. The Common Code and ISIN for the Regulation S Bonds and the Common Code, ISIN and CUSIP number for the Rule 144A Bonds are as follows:

Regulation S Bonds

Common Code: 079358029
ISIN: XS0793580290

Rule 144A Bonds

Common Code: 080110405
ISIN: US05674RAB06
CUSIP: 05674RAB0

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard de Roi Albert II, B 1210 Brussels. The address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, L 1855 Luxembourg. The address of DTC is 55 Water Street, New York, New York 10041, United States of America.

Documents

(7) So long as the Bonds are listed on the London Stock Exchange's Market, physical copies of (i) this Prospectus, together with any supplement to this Prospectus or further Prospectus; and (ii) the Agency Agreement may be inspected at the specified offices of the Paying and Transfer Agents as set forth on the back cover of this Prospectus, and the latest budget for the current fiscal year will be available on the internet site www.mof.gov.bh. This internet site does not form part of this Prospectus for the purpose of its approval or the listing of the Bonds.

This Prospectus will be published on the website of the Regulatory News Service operated by the London Stock Exchange at *www.londonstockexchange.com/exchange/news/market-news/market-news-home.html*.

Contact Details

(8) The telephone number of the Issuer is +973 17575000.

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