

IMPORTANT NOTICE

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CONFIRMATION OF YOUR REPRESENTATION: You have accessed the attached document on the basis that you have confirmed your representation to the Issuer and the Government (each as defined in the attached prospectus) and to the Managers (as defined in the prospectus) that (1) you are outside the United States of America, as defined in Regulation S under the U.S. Securities Act of 1933, as amended (the Securities Act) 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, (2) the electronic 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 include Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands, and (3) you consent to delivery of the attached prospectus and any amendments or supplements thereto by electronic transmission. The attached document has been made available to you in electronic form.

You are reminded that documents transmitted via this medium may be altered or changed during the process of transmission and consequently none of the Issuer, the Government, the Managers and their respective affiliates, directors, officers, employees, representatives and agents or any other person controlling the Issuer, the Government, the Managers or any of their respective affiliates accepts 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 document 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 of America.

THE CERTIFICATES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE SECURITIES ACT, OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OF AMERICA OR ANY OTHER JURISDICTION AND MAY NOT BE OFFERED OR SOLD IN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, US PERSONS (AS SUCH TERMS ARE DEFINED IN REGULATION S UNDER THE SECURITIES ACT) UNLESS REGISTERED UNDER THE SECURITIES ACT OR PURSUANT TO AN EXEMPTION FROM 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 THIS DOCUMENT AND 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 Managers, the Issuer or the Government that would, or is intended to, permit a public offering of the securities, or possession

or distribution of the prospectus (in preliminary, proof or final form) 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 Managers or any affiliate of the Managers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the Managers or such affiliate on behalf of the Issuer in such jurisdiction.

The attached prospectus is being distributed only to and directed only at (A)(i) persons who are outside the United Kingdom, (ii) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, or (iii) those persons to whom it may otherwise lawfully be distributed in accordance with the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 and (B)(i) persons falling within one of the categories of Investment Professional as defined in Article 14(5) of the Financial Services and Markets Act 2000 (Promotion of Collective Investment Schemes) (Exemptions) Order 2001, (ii) persons falling within any of the categories of person described in Article 22 (High net worth companies, unincorporated associations, etc.) of the Financial Services and Markets Act 2000 (Promotion of Collective Investment Schemes) (Exemptions) Order 2001 and (iii) any other person to whom it may otherwise lawfully be made in accordance with the Financial Services and Markets Act 2000 (Promotion of Collective Investment Schemes) (Exemptions) Order 2001 (all such persons in (A) and (B) above together being referred to as relevant persons). The attached prospectus is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which the attached prospectus relates is available only to relevant persons and will be engaged in only with relevant persons.

You are reminded that the attached prospectus has been delivered to you on the basis that you are a person into whose possession the attached 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 to 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.

CBB International Sukuk Company (No.2) (SPC)

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

US\$750,000 Trust Certificates due 2014

Issue Price: 100 per cent.

The US\$750,000,000 Trust Certificates due 2014 (the "**Certificates**" or the "**Sukuk**") of CBB International Sukuk Company (No.2) (SPC) (a single person company whose proprietor is the Central Bank of Bahrain) (the "**Issuer**") will be constituted by a declaration of trust (the "**Declaration of Trust**") dated on or about 17 June 2009 (the "**Closing Date**") made by the Issuer. Pursuant to the Declaration of Trust, the Issuer will declare that it will hold certain assets, primarily consisting of a certain land parcel and rights under the related Ijara Sub-Lease Agreement (as defined herein), upon trust absolutely for the holders of the Certificates pro rata according to the face amount of Certificates held by each Certificateholder in accordance with the Declaration of Trust and the terms and conditions of the Certificates (the "**Conditions**").

On the 17th day of each June and December, or if any such day is not a Business Day (as defined herein), the following Business Day, commencing in December 2009 (each, a "**Periodic Distribution Date**"), the Issuer will make a Periodic Distribution (as defined herein) to Certificateholders (as defined herein) of an amount which is calculated on the basis of 6.247 per cent, per annum, of the outstanding principal amount of the Certificates as at the beginning of the relevant Return Accumulation Period (as defined herein) on an 30/360 day basis, assuming a 360 day year of 12 30-day months.

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

Unless previously redeemed in the circumstances described in Condition 8, the Certificates will be redeemed on the Periodic Distribution Date falling in June 2014 (the "**Scheduled Dissolution Date**") at the Dissolution Distribution Amount (as defined herein).

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

An investment in the Certificates involves certain risks of which investors should be fully aware. For discussion of these risks see "Risk Factors" on page 10.

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

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

Joint Lead Managers

CALYON

Deutsche Bank

HSBC

The date of this Prospectus is 15 June 2009

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

The Certificates have been rated "A" by Fitch, Inc. ("**Fitch**") and are expected to be rated "A" by Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("**S&P**", and together with Fitch, the "**Ratings Agencies**"). These ratings will relate to the timely payment of Periodic Distribution Amounts (as defined herein) on the Certificates. A rating is not a recommendation to buy, sell or hold securities, does not address the likelihood or timing of prepayment and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. A suspension, reduction or withdrawal of the rating assigned to the Certificates may adversely affect the market price of the Certificates.

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

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

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

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

None of the Managers, the Delegate, the Agents or the Payment Administrator have verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by any of them as to the accuracy, adequacy, reasonableness or completeness of the information contained in this Prospectus or

any other information provided by the Government or the Issuer in connection with the Certificates, their distribution or their future performance.

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

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

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

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

CERTAIN DEFINED TERMS AND CONVENTIONS

Statistical information relating to Bahrain included in this Prospectus is official data publicly available at the date of this Prospectus, and in most cases the latest official data publicly available. Such data may be subsequently revised in accordance with Bahrain's ongoing maintenance of its economic data, and such revised data will not be distributed by the Issuer to any holder of the Certificates. Statistical data appearing in this Prospectus have, unless otherwise stated, been obtained from the Ministry of Finance, The Central Bank of Bahrain, the Central Informatics Organisation and other named sources. Similar statistics may be obtainable from other sources, although the underlying assumptions and methodology, and consequently the resulting data, may vary from source to source. All statistical information relating to 2008 should be treated as preliminary and statistical information for this and prior years may be subject to future adjustment.

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

The fiscal year of Bahrain ends on 31 December of each year. References in this Prospectus to the 2008 fiscal year refer to data available as at 31 December 2008. Unless stated otherwise, references to fiscal years prior to 2008 refer to the fiscal year ended on 31 December of such year.

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

FORWARD LOOKING STATEMENTS

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

EXCHANGE RATES

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

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

NOTICE TO UK RESIDENTS

The Certificates represent interests in a collective investment scheme (as defined in the Financial Services and Markets Act 2000 (the "FSMA")) which has not been authorised, recognised or otherwise approved by the Financial Services Authority. Accordingly, this Prospectus is not being distributed to, and must not be passed on to, the general public in the United Kingdom.

The distribution in the United Kingdom of this Prospectus and any other marketing materials relating to the Certificates (A) if effected by a person who is not an authorised person under the FSMA, is being addressed to, or directed at, only the following persons: (i) persons who are Investment Professionals as defined in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Financial Promotion Order") and (ii) persons falling within any of the categories of persons described in Article 49(2)(a) to (d) (High net worth companies, unincorporated associations, etc) of the Financial Promotion Order and (B) if effected by a person who is an authorised person under the FSMA, is being addressed to, or directed at, only the following persons: (i) persons falling within one of the categories of Investment Professional as defined in Article 14(5) of the Financial Services and Markets Act 2000 (Promotion of Collective Investment Schemes) (Exemptions) Order 2001 (the "Promotion of CISs Order"), (ii) persons falling within any of the categories of person described in Article 22(2)(a) to (d) (High net worth companies, unincorporated associations, etc.) of the Promotion of CISs Order and (iii) any other person to whom it may otherwise lawfully be made in accordance with the Promotion of CISs Order. Persons of any other description in the United Kingdom may not receive and should not act or rely on this Prospectus or any other marketing materials in relation to the Certificates.

Potential investors in the United Kingdom are advised that all, or most, of the protections afforded by the United Kingdom regulatory system will not apply to an investment in the Certificates and that compensation will not be available under the United Kingdom Financial Services Compensation Scheme.

Any individual intending to invest in any investment described in this Prospectus should consult his professional adviser and ensure that he fully understands all the risks associated with making such an investment and that he has sufficient financial resources to sustain any loss that may arise from such investment.

KINGDOM OF SAUDI ARABIA NOTICE

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

NOTICE TO BAHRAIN RESIDENTS

The Central Bank of Bahrain and the Bahrain Stock Exchange assume no responsibility for the accuracy and completeness of the statements and information contained in this document and expressly disclaim any liability whatsoever for any loss howsoever arising

from reliance upon the whole or any part of the contents of this document. Each potential investor subscribing for Certificates on the Closing Date of such Certificates (each, a "potential investor") will be required to provide satisfactory evidence of identity and, if so required, the source of funds to purchase the Certificates within a reasonable time period determined by the Issuer, the Government and the Managers of the relevant issue. Pending the provision of such evidence, an application to subscribe for Certificates will be postponed. If a potential investor fails to provide satisfactory evidence within the time specified, or if a potential investor provides evidence but neither the issuer nor the Managers are satisfied therewith, its application to subscribe for Certificates will be rejected immediately in which event any money received by way of application will be returned to the potential investor (without any additional amount added thereto and at the risk and expense of such potential investor). In respect of any Bahraini potential investors, the Issuer and the Government will comply with Bahrain's Legislative Decree No. (4) of 2001 with respect to Prohibition and Combating of Money Laundering and various Ministerial Orders issued thereunder including, but not limited to, Ministerial Order No. (7) of 2001 with respect to Institutions Obligations Concerning the Prohibition and Combating of Money laundering.

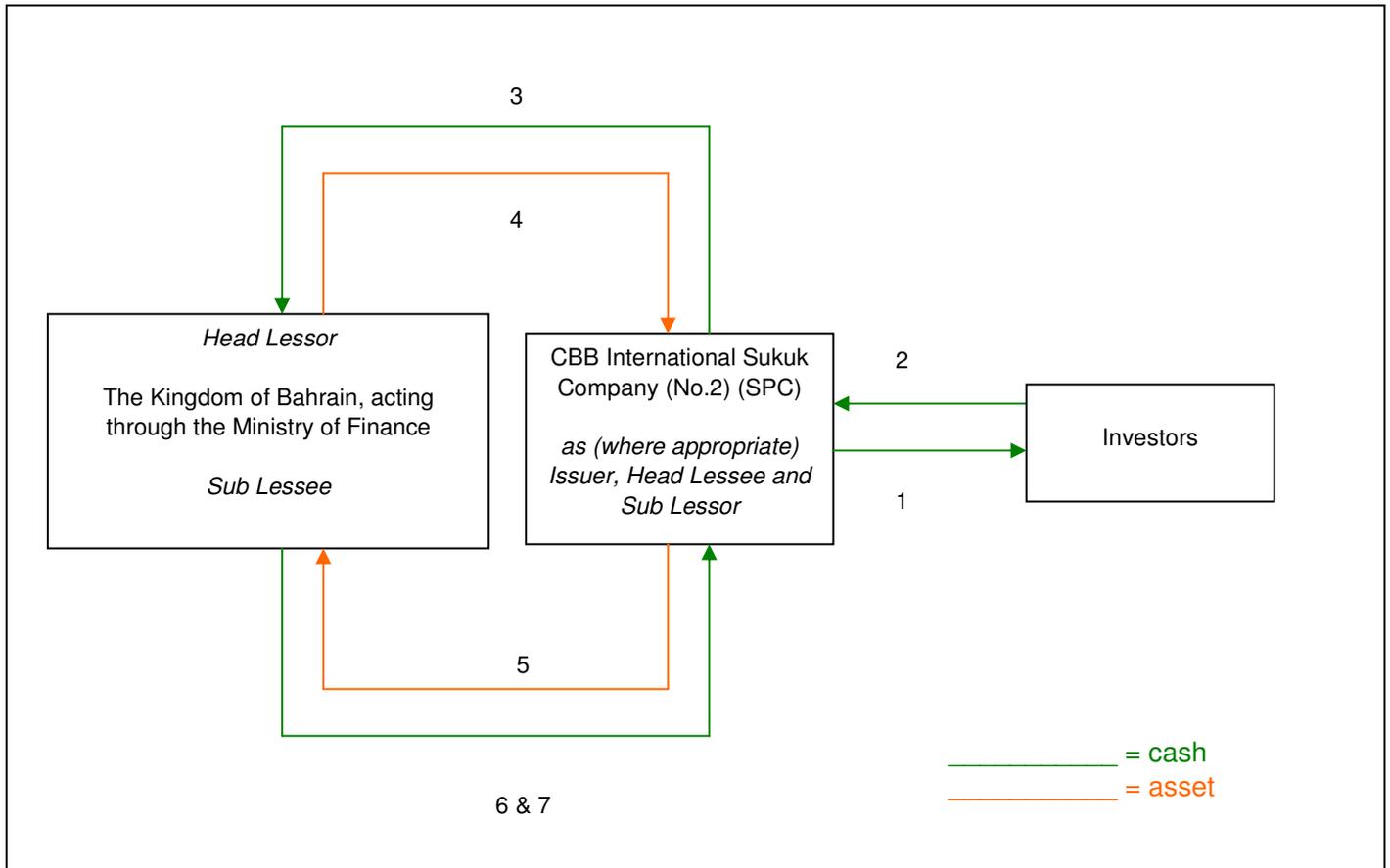
STABILISATION

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

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STRUCTURE DIAGRAM

**Notes**

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

OVERVIEW OF THE OFFERING

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

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

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

PARTIES

Issuer	CBB International Sukuk Company (No.2) (SPC), a single person company whose proprietor is the Central Bank of Bahrain and which is incorporated in Bahrain under Articles 289-297 of the Commercial Companies Law (Decree Law No. 21/2001) (the " Issuer ").
Ownership of the Issuer	The authorised and issued share capital of the Issuer is BD 1,000 divided into five ordinary shares of par value BD 200 each. All of the Issuer's ordinary shares are owned by the Central Bank of Bahrain (the " CBB ").
Head Lessor	The Kingdom of Bahrain, acting through the Ministry of Finance, (in such capacity, the " Head Lessor ") will lease by way of head lease (the " Head Lease ") for a term of 100 years a certain Land Parcel (as defined below) to the Issuer (as trustee and agent for and on behalf of Certificateholders) pursuant to the Ijara Head Lease Agreement (as defined below).
Sub-Lessee	The Kingdom of Bahrain, acting through the Ministry of Finance, (in such capacity, the " Sub-Lessee ") will lease by way of sub-lease (the " Sub-Lease ") from the Issuer the Land Parcel on the terms set out in the Ijara Sub-Lease Agreement (as defined below) for a period of five years commencing on the Closing Date and terminating on the Periodic Distribution Date falling in June 2014.
Joint Lead Managers	CALYON Credit Agricole CIB (" CALYON "), Deutsche Bank AG, London Branch (" Deutsche Bank ") and HSBC Bank plc (" HSBC ").
Trustee and Delegate	The Issuer will act as trustee (in such capacity, the " Trustee ", which expression shall include its delegate referred to below) in respect of the Trust Assets (as defined below) for the benefit of Certificateholders in accordance with the Declaration of Trust and the Conditions. Under the Declaration of Trust, the Issuer will unconditionally and irrevocably delegate authority to Citicorp Trustee Company Limited (the " Delegate ") to take all necessary action on its behalf should a Dissolution Event (as set forth in Condition 11) occur.
Sukuk Agent	Pursuant to an Agency Declaration dated the Closing Date made by the Issuer (the " Agency Declaration "), the Issuer (in such capacity, the " Sukuk Agent ", which expression shall include Citibank N.A. acting as co-agent the " Co-Sukuk Agent ") will also act as agent for and on

behalf of Certificateholders with respect to the Trust Assets.

Payment Administrator	Citibank N.A. will act as Payment Administrator (the " Payment Administrator ") under the Agency Agreement (as defined in the Conditions). Among other things, the Payment Administrator will operate the Transaction Account described under " Transaction Account " below, receive payments from the Sub-Lessee under the Ijara Sub-Lease Agreement and make certain payments in respect of the Certificates.
Principal Paying Agent, Transfer Agent and Reference Agent	Citibank N.A.
Registrar	Citigroup Global Markets Deutschland AG & Co. KGaA
Risks	<p>Some of the risks associated with or in relation to:</p> <ul style="list-style-type: none"> • the Issuer <ul style="list-style-type: none"> ○ it is newly incorporated and has no operating history ○ it has no material assets other than the Land Parcel (as described below) • the application of withholding taxation • the Government, including <ul style="list-style-type: none"> ○ political considerations in relation to Bahrain ○ economic and social considerations in Bahrain ○ statistical information relating to Bahrain • the Certificates <ul style="list-style-type: none"> ○ there is currently no secondary market for the Certificates and there may be limited liquidity for Certificateholders ○ the Certificates are limited recourse, unsecured obligations of the Trust • enforcement, relating to change of law, enforcement risk and risks relating to claims for specific enforcement • additional risks include the suitability of investments for investors and risks relating to investing in emerging markets.

SUMMARY OF THE CERTIFICATES

Certificates	US\$750,000,000 Trust Certificates due 2014 (the " Certificates " or the " Sukuk ").
Closing Date	17 June 2009.
Issue Price	100 per cent. of the aggregate principal amount of the Certificates.
Periodic Distribution Dates	<p>The 17th day of each June and December or, if any such day is not a Business Day, the following Business Day, commencing in December 2009.</p> <p>"Business Day" means a day on which commercial banks in London, New York and Bahrain are open for general business.</p>
Periodic Distributions	On each Periodic Distribution Date, Certificateholders will receive, from moneys received in respect of the Trust Assets, a " Periodic

Distribution Amount" equalling an amount equal to the product of (a) 6.247 per cent per annum, (b) US\$750,000,000 and (c) the number of days in such Return Accumulation Period (such number of days being calculated on the basis of a year of 360 days with 12 30-day months) divided by 360.

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

Scheduled Dissolution Date The Periodic Distribution Date falling in June 2014.

Dissolution of the Trust In accordance with the Ijara Sub-Lease Agreement, the Sub-Lessee will be required to pay all Rentals (as defined in the Ijara Sub-Lease Agreement) accrued but unpaid to the date of payment of the Dissolution Distribution Amount plus the Termination Payment on or before the relevant date for the redemption of the Certificates and dissolution of the Trust. This payment will be applied to redeem the Certificates in accordance with Condition 4.2 at the Dissolution Distribution Amount on the Scheduled Dissolution Date.

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

"Termination Payment" means an amount equal to (i) US\$750,000,000 plus (ii) where payment thereof cannot be made without withholding or deduction for or on account of any Taxes (as defined in Condition 9), such additional amounts so that, upon payment by the Issuer to the holders of the Certificates (after any deduction or withholding by the Issuer on account of Taxes, if applicable), the net amount received by such holders will be the full amount due to such holders under the Conditions as if no such deduction or withholding had been made.

Early Dissolution of the Trust Other than as a result of the occurrence of a Dissolution Event, the Trust will not be subject to dissolution, and the Certificates will not be redeemed, prior to the Scheduled Dissolution Date.

Dissolution Events The **"Dissolution Events"** are set forth in Condition 11.

Form and Delivery of the Certificates The Certificates will be issued in registered global form only.

Clearance and Settlement Holders of the Certificates may elect to hold their interest in the Global Certificate in book-entry form through each of Euroclear or Clearstream, Luxembourg.

Denominations The Certificates will be issued in minimum denominations of US\$100,000 and integral multiples of US\$1,000 in excess thereof.

Status	Each Certificate represents an undivided beneficial ownership in the Trust Assets and will rank <i>pari passu</i> , without any preference, with the other Certificates.
The Trust Assets	<p>The "Trust" is the trust created by the Issuer under the Declaration of Trust.</p> <p>The "Trust Assets" are the Land Parcel, all of the Issuer's rights, title, interest and benefit, present and future, in, to and under the Transaction Documents, all monies standing to the credit of the Transaction Account, and all proceeds of the foregoing.</p>
The Ijara Head Lease Agreement	<p>Under the terms of an Ijara Head Lease Agreement dated the Closing Date between the Head Lessor and the Issuer (the "Ijara Head Lease Agreement"), the Head Lessor will agree to lease to the Issuer, and the Issuer will agree to lease from the Head Lessor, the Land Parcel for a term of 100 years commencing on the Closing Date.</p> <p>The Head Lease will be granted in consideration of a single advance rental payment (the "Advance Rental") payable by the Issuer to the Head Lessee on the Closing Date. The net proceeds received by the Issuer from the issue and sale of the Certificates will be used to pay the Advance Rental.</p>
Land Parcel	The " Land Parcel " is a piece of land, owned by the Government, earmarked for industrial development. It is located in the Hidd industrial area, an industrial zone accessible via the Bahrain International Airport, Mina Salman seaport and Hidd deepwater port as well as the Saudi-Bahraini Causeway.
The Ijara Sub-Lease Agreement	<p>Under the terms of an Ijara Sub-Lease Agreement dated the Closing Date between the Issuer as lessor, the Sub-Lessee, the Delegate, the Sukuk Agent and the Co-Sukuk Agent (the "Ijara Sub-Lease Agreement"), the Issuer will agree to lease to the Sub-Lessee, and the Sub-Lessee will agree to lease from the Issuer, the Land Parcel during the five-year term commencing on the Closing Date and extending to the Scheduled Dissolution Date.</p> <p>Under the Ijara Sub-Lease Agreement, the Sub-Lessee will agree that if the Issuer is or would be prevented from making Periodic Distribution Amounts to Certificateholders or does not or would not have sufficient funds to pay the same in full as a result of actions taken by the Government of Bahrain or the shareholder of the Issuer (including, but not limited to, the imposition of any tax or the dissolution of the Issuer), the Sub-Lessee will account to the Trustee (which term here includes the Delegate) or the Sukuk Agent (which term here includes the Co-Sukuk Agent) on demand for such amounts as are necessary to enable the Periodic Distribution Amounts to be paid in full.</p> <p>The rental payments under the Ijara Sub-Lease Agreement (the "Rentals") will equal the Periodic Distribution Amounts payable on the Periodic Distribution Date coinciding with the Rental Payment Date for such Rental.</p>

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

Transaction Account	The Payment Administrator will maintain and operate a transaction account (the " Transaction Account ") on behalf of the Trust. Distributions of monies deriving from the Trust Assets will be made to holders of the Certificates from funds standing to the credit of the Transaction Account.
Rentals	The Sub-Lessee will pay the Rental directly into the Transaction Account by each Periodic Distribution Date. Upon receipt of each Rental, on the relevant Periodic Distribution Date the Payment Administrator will withdraw such monies from the Transaction Account and use such amounts to make payments on, among other things, the Certificates in the order of priority set out below.
Priority of Distributions	<p>On each Periodic Distribution Date, or on the date specified in accordance with the Conditions for redemption of the Certificates, the Payment Administrator shall apply the monies standing to the credit of the Transaction Account in the following order of priority:</p> <ul style="list-style-type: none"> (a) first, to the Delegate and the co-agent under the Agency Declaration in respect of all amounts owing to it under the Transaction Documents in its capacities as Delegate of the Trustee and co-agent under the Agency Declaration; (b) second, to the Principal Paying Agent for application in or towards payment <i>pari passu</i> and rateably of all Periodic Distribution Amounts due and unpaid; (c) third, only if such payment is made on the Scheduled Dissolution Date (as defined in the Conditions), or any earlier date of dissolution, to the Principal Paying Agent for application in or towards payment <i>pari passu</i> and rateably of the Dissolution Distribution Amount; and (d) fourth, only if such payment is made on the Scheduled Redemption Date, or any earlier date of dissolution, to the Issuer.
Costs Undertaking	Pursuant to a costs undertaking (the " Costs Undertaking ") given by the Kingdom of Bahrain, acting through the Ministry of Finance, the Kingdom of Bahrain, acting through the Ministry of Finance will pay certain fees and expenses of, and indemnify against certain losses of, among others, the Trustee, the Delegate, the Sukuk Agent, the Payment Administrator and the Agents appointed under the Agency Agreement.
Limited Recourse	Each Certificate represents solely an undivided beneficial ownership interest in the Trust Assets. Holders of the Certificates will have no recourse to any assets of the Issuer other than the Trust Assets. Any

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

Negative Pledge and Cross Default	So long as any of the Certificates remains outstanding, the Government (to the extent provided in the Ijara Sub-Lease Agreement) has undertaken that it will not secure any of its present or future Relevant Indebtedness except in certain limited cases. The Ijara Sub-Lease Agreement provides that the lease may be terminated by the Issuer if the Government is in default in relation to any External Debt or guarantee thereof in excess of US\$30,000,000 or the Government declares a moratorium in respect of, repudiates or commences negotiations in relation to its External Debt. See " <i>Summary of Principal Transaction Documents - Ijara Sub-Lease Agreement</i> ".
Enforcement	Following the distribution of the Trust Assets to the Certificateholders to the extent permitted under the Conditions and the Declaration of Trust, the Trustee shall not be liable for any further sums or assets, and accordingly such Certificateholders may not take any action against the Trustee or any other person to recover any such sum or asset, in respect of the Certificates or the Trust Assets.
Withholding Tax	All payments (i) by the Government under the Ijara Sub-Lease Agreement and (ii) by the Issuer under the Certificates are to be made without withholding or deduction for or on account of Taxes, unless the withholding or deduction of the Taxes is required by law. In such event, the Government (in the case of (i) above) will be required, pursuant to the Ijara Sub-Lease Agreement, to pay to the Issuer such additional amounts so that the Issuer will receive the full amount which otherwise would have been due and payable under the Ijara Sub-Lease Agreement and the Issuer (in the case of (ii) above) will be required to pay additional amounts so that the Certificateholders will receive the full amount which otherwise would have been due and payable under the Certificates.

Use of Proceeds	The net proceeds of the issue of the Certificates will be used by the Issuer to pay the Advance Rental for the Land Parcel to the Head Lessor pursuant to the Ijara Head Lease Agreement.
Listing	Application has been made for the Certificates to be listed on the Official List of the UKLA and to be admitted to trading on the Regulated Market of the London Stock Exchange. See " <i>General Information</i> ".
Rating	The Certificates have been rated "A" by Fitch and are expected to be rated "A" by S&P. See " <i>Ratings</i> ".
Certificateholder Meetings	A summary of the provisions for convening meetings of Certificateholders to consider matters relating to their interests as such is set out in Condition 15.
Tax Considerations	See " <i>Tax Considerations</i> " for a description of certain tax considerations applicable to the Certificates.
Transfer Restrictions	Certain purchase and transfer restrictions applicable to the Certificates are described under " <i>Subscription and Sale</i> ".
Transaction Documents	The " Transaction Documents " are the Ijara Head Lease Agreement, the Ijara Sub-Lease Agreement, the Declaration of Trust, the Agency Declaration, the Agency Agreement, the Costs Undertaking, the Certificate Purchase Agreement, the Certificates and any other agreements and documents delivered or executed in connection therewith (each as defined in the Conditions).
Governing Law	<p>The Declaration of Trust, the Agency Agreement, the Costs Undertaking, the Certificate Purchase Agreement and the Certificates will be governed by English law. In respect of any dispute under such documents, the Government has consented to arbitration in London accordance with the Arbitration Rules of the London Court of International Arbitration. 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.</p> <p>The Ijara Head Lease Agreement, the Ijara Sub-Lease Agreement and the Agency Declaration will be governed by Bahraini law and subject to the jurisdiction of the courts of Bahrain.</p>
Waivers of Sovereign Immunity	The Government irrevocably and unconditionally waives and agrees not to raise with respect to the Transaction Documents to which it is a party any right to claim sovereign or other immunity from jurisdiction or execution and any similar defence, and irrevocably and unconditionally consents to the giving of any relief or the issue of any process, including, without limitation, the making, enforcement or execution against any property or assets whatsoever (irrespective of its use or intended use) of any order or judgment made or given in connection with any suit, action or proceedings arising out of or in connection with such Transaction Document.

Selling Restrictions There are restrictions on the offer, sale and transfer of the Certificates in the United States of America, the United Kingdom, the United Arab Emirates, the Kingdom of Saudi Arabia, the Kingdom of Bahrain, Japan, Dubai International Finance Centre, Kuwait, Qatar, Malaysia, Hong Kong and Singapore.

United States Selling Regulation S category 2.
Restrictions

RISK FACTORS

The purchase of Certificates may involve substantial risks and is suitable only for sophisticated investors who have the knowledge and experience in financial and business matters necessary to enable them to evaluate the risks and merits of an investment in the Certificates. Before making an investment decision, prospective purchasers of Certificates should consider carefully, in the light of their own financial circumstances and investment objectives, all of the information in this Prospectus.

Each of the Issuer and the Government believes that the factors described below represent the material risks inherent in investing in the Certificates, but the inability of the Issuer to pay any amounts on or in connection with any Certificate may occur for other reasons and none of the Issuer, the Managers (as defined under "Subscription and Sale"), or the Government represents that the statements below regarding the risks of holding any Certificates are exhaustive. Each of the Issuer and the Government believes that all material risks in the context of the issue of the Certificates have been disclosed at this time.

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. Words and expressions defined in "Terms and Conditions of the Certificates" shall have the same meanings in this section.

Risk factors relating to the Issuer

At the date of this Prospectus, the Issuer is a newly established single person company with limited liability incorporated in Bahrain on 10 June 2009 in Bahrain and has no operating history. The Issuer will not engage in any business activity other than the issuance of the Certificates, the leasing of the Trust Assets as described herein, acting in the capacity as Trustee and other activities incidental or related to the foregoing as required under the Transaction Documents.

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

The ability of the Issuer to pay amounts due on the Certificates will primarily be dependent upon receipt by the Issuer from the Sub-Lessee of all amounts due under the Ijara Sub-Lease Agreement (which may not be sufficient to meet all claims under the Certificates and the Transaction Documents).

Risk factors relating to taxation

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income (in this paragraph, the "**Directive**"). Member States are required, from 1 July 2005, to provide to the tax authorities of another Member State details of certain payments paid by a person within its jurisdiction to an individual resident in that other Member State. However, for a transitional period, Belgium, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have agreed to adopt similar measures (a withholding system in the case of Switzerland) with effect from the same date.

If, following implementation of this Directive, 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, none of the Issuer, the Trustee, the Delegate or any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Certificate as a result of the imposition of such withholding tax. If a withholding tax is imposed on payment made by a Paying Agent following implementation of this Directive, the Issuer will be required to maintain a Paying Agent in a Member State that will not be obliged to withhold or deduct tax pursuant to the Directive.

Risk factors relating to the Certificates

There is currently no secondary market for the Certificates and there may be limited liquidity for Certificateholders

There can be no assurance that a secondary market for the Certificates will develop, or if a secondary market does develop, that it will provide the Certificateholders with liquidity of investment or that it will continue for the life of the Certificates. The market value of the Certificates may fluctuate and a lack of liquidity, in particular, can have a severe adverse effect on the market value of the Certificates. Accordingly, the purchase of the Certificates is suitable only for investors who can bear the risks associated with a lack of liquidity in the Certificates and the financial and other risks associated with an investment in the Certificates.

The Certificates are limited recourse, unsecured obligations of the Trust

Recourse to the Issuer is limited to the Trust Assets and proceeds of the Trust Assets are the sole source of payments on the Certificates. Upon occurrence of a Dissolution Event, the only remedy available to Certificateholders will be to require the Sub-Lessee to pay all accrued but unpaid Rentals and the Termination Payment due in respect of the Land Parcel. Certificateholders will otherwise have no recourse to any assets of the Government (to the extent it fulfils all of its obligations under the Transaction Documents to which it is a party), the Managers, the Agents or the Payment Administrator or any affiliate of any of the foregoing entities in respect of any shortfall in the expected amounts from the Trust Assets. The Government is obliged to make its payments under the Transaction Documents to which it is a party directly to the Issuer, the Trustee and the Delegate, for the benefit of the Certificateholders, will have direct recourse against the Government to recover payments due to the Issuer or the Trustee from the Government pursuant to the Transaction Documents to which the Government is a party. There can be no assurance that the net proceeds of the realisation of, or the enforcement with respect to, the Trust Assets will be sufficient to make all payments due in respect of the Certificates.

Risk factors relating to the Government

Political Considerations relating to Bahrain

Since his accession in March 1999, Sheikh Hamed 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 and an appointed chamber. 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, however demands for constitutional reforms are still continuing.

Bahrain's economy is dependent on economic and other conditions of Saudi Arabia in particular and the wider GCC region

Bahrain's economy is closely aligned and dependent on the economies of Saudi Arabia in particular and the wider GCC region. Accordingly, Bahrain's economy may be adversely affected by any adverse change in the social, political or economic conditions in Saudi Arabia or the wider GCC region. Although Bahrain has sought to diversify its geographical economic dependence, there can be no assurance that such geographical diversification may be successful.

Economic and Social Considerations in Bahrain

Although Bahrain enjoys a strong and diverse economy, it is significantly influenced by fluctuations in international oil prices. In 2002, the two principal economic sectors were the oil sector, which constituted 23.5 per cent. of GDP, and financial services, which constituted 17.5 per cent. of GDP. By 2008, the economy had undergone a significant change such that the two principal economic sectors were financial services which contributed 26.6 per cent. of GDP and manufacturing which contributed to 16.0 per cent. of GDP. Bahrain's trade and current account balances are also affected by movements in the price of oil as Bahrain is a net exporter of oil and its related products.

Bahrain's fiscal performance is also significantly impacted by international oil prices. In both 2007 and 2008, despite budgeting significant deficits, Bahrain in fact recorded substantial surpluses, almost entirely reflecting prevailing oil prices significantly in excess of those budgeted. Bahrain receives oil, which it exports, 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 although it has historically received significantly more than this. Currently production at Abu Saafa is around 300,000 barrels per day ("bpd") from which Bahrain receives 50 per cent. of the output. However, no assurance can be given that the current level of output that Bahrain receives from the Abu Saafa oilfield will be maintained.

The Government has set out a comprehensive economic vision for Bahrain ("Vision 2030") to outline a path for the development of Bahrain's economy. Vision 2030 is based on shifting Bahrain's economy from an oil-driven economy to a global diversified competitive economy predominately based on finance, tourism and industry. However, there can be no assurance that diversification and non-dependence on oil will be successful.

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

The principal social policy issue in Bahrain is the level of unemployment among Bahraini nationals. Bahrain employs a significant number of expatriate workers (approximately 34.1 per cent., of its working population are expatriate in 2008) and, in recent years, has followed a policy of aiming to increase the number of Bahraini nationals in employment.

Statistical Information relating to Bahrain.

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 other sources for a variety of reasons, including different definitions and different cut-off times. The 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. In addition, certain statistical information relating to 2008 and to 2009 should

be treated as preliminary estimates and statistical information for these and prior years may be subject to future adjustment.

Risk factors relating to enforcement

Change of law

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

Enforcement risk

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

Certain of the Transaction Documents to which the Government is a party are governed by English law. In respect of any dispute under such documents, the Government has irrevocably consented to arbitration, in London, in accordance with the Arbitration Rules of the London Court of International Arbitration. 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 Government has or would at the relevant time have assets in the United Kingdom against which such a judgment could be enforced.

As there is no reciprocity between England and Bahrain, the courts of Bahrain are unlikely to enforce an English judgment without re-examining the merits of the claim and may not observe the choice by the parties of English law as the governing law of the transaction.

Judicial precedents in Bahrain generally do not have binding effect on subsequent decisions except for decisions of the Court of Cassation and the Constitutional Court. There is no formal system of reporting court decisions in Bahrain except for those decisions of the Court of Cassation and the Constitutional Court. These factors arguably create some judicial uncertainty.

Claims for specific enforcement

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

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

Additional risks*Suitability of investments*

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

- (a) have sufficient knowledge and experience to make a meaningful evaluation of the Certificates, the merits and risks of investing in the Certificates and the information contained in this Prospectus;
- (b) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Certificates and the impact the Certificates will have on its overall investment portfolio;
- (c) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Certificates, including where the currency of payment is different from the potential investor's currency;
- (d) understand thoroughly the terms of the Certificates and be familiar with the behaviour of any relevant indices and financial markets; and
- (e) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic and other factors that may affect its investment and its ability to bear the applicable risks.

Emerging markets

Investors in emerging markets should be aware that these markets are subject to greater risks than more developed markets, including, in some cases, significant legal, economic and political risks. Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate. 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 particularly in the United States and Europe, 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 may continue to affect the global credit markets 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, a decrease in demand for oil and gas, may also adversely affect Bahrain's economy, which could therefore affect the ability of the Issuer and the Government to perform their respective obligations in respect of the Certificates.

TERMS AND CONDITIONS OF THE CERTIFICATES

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

Each of the US\$750,000,000 Trust Certificates (Sukuk al-Ijara) due 2014 (the "**Certificates**") represents an undivided beneficial ownership of the Trust Assets (as defined in Condition 4.1) held on trust (the "**Trust**") for the holders of such Certificates pursuant to a declaration of trust (the "**Declaration of Trust**") dated on or about 17 June 2009 (the "**Closing Date**") made by the Issuer (as defined in Condition 4.1). When acting as trustee under these Conditions, the Issuer is referred to as the "**Trustee**" which expression shall include Citicorp Trustee Company Limited acting as its delegate (the "**Delegate**").

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

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

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

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

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

1. **FORM, DENOMINATION AND TITLE**

1.1 **Form and Denomination**

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

1.2 **Title**

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

2. **TRANSFERS OF CERTIFICATES AND ISSUE OF CERTIFICATES**

2.1 **Transfers**

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

2.2 **Delivery of New Certificates**

Each new Certificate to be issued upon any transfer of Certificates will, within five business days of receipt by the relevant Transfer Agent of the duly completed form of transfer endorsed on the relevant Certificate, be mailed by uninsured mail at the risk of the holder entitled to the Certificate to the address specified in the form of transfer. For the purposes of this Condition, "**business day**" shall mean a day on which banks are open for business in the city in which the specified office of the Transfer Agent with whom a Certificate is deposited in connection with a transfer is located.

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

2.3 **Formalities Free of Charge**

Registration of any transfer of Certificates will be effected without charge by or on behalf of the Issuer or any Transfer Agent but upon payment (or the giving of such indemnity as the Issuer or any Transfer Agent may reasonably require) by the transferee in respect of

any stamp duty, tax or other governmental charges which may be imposed in relation to such transfer.

2.4 **Closed Periods**

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

2.5 **Regulations**

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

Among other things, such regulations require the following: The Issuer shall ensure that the Registrar maintains a register showing the amount of the outstanding Certificates (with each Certificate bearing an identifying serial number), the issue dates and the names and addresses of the holders of the Certificates. The Trustee and the holders of Certificates may inspect the register of Certificates. The Certificates are transferable (in whole or, subject to Condition 1.1, in part) and the Certificates to be transferred must be delivered for registration to the specified office of any Transfer Agent with the form of transfer, which may be obtained from any Transfer Agent, endorsed and accompanied by such other evidence as the Issuer may require to prove the title of the transferor or his right to transfer the Certificates. The holder of Certificates shall be entitled to receive in accordance with Condition 2.2 only one Certificate in respect of his entire holding of such Certificates. In the case of a transfer of a portion of the principal amount of a Certificate, a new Certificate in respect of the balance of the Certificates not transferred will be issued to the transferor in accordance with Condition 2.2.

3. **STATUS; LIMITED RECOURSE**

3.1 **Status**

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

3.2 **Limited Recourse**

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

If, following distribution of the proceeds of the Trust Assets, there remains a shortfall in payments due under the Certificates, subject to Condition 12, no holder of Certificates will have any claim against the Issuer, the Trustee, the Delegate, the Government (to the

extent it fulfils all of its obligations under the relevant Transaction Documents), the Agents or any of their affiliates or any other person or other assets in respect of such shortfall and any unsatisfied claims of Certificateholders shall be extinguished. In particular, no holder of Certificates will be able to petition for, or join any other person in instituting proceedings for, the reorganisation, liquidation, winding up or receivership of the Issuer or the Trustee or any of their affiliates as a consequence of such shortfall or otherwise.

3.3 Agreement

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

- (a) no payment of any amount whatsoever shall be made by any of the Issuer, the Trustee or the Trust or any of their respective agents on their behalf except to the extent funds are available therefor from the Trust Assets and further agrees that no recourse shall be had for the payment of any amount owing hereunder or thereunder or under any other Transaction Document, whether for the payment of any fee or other amount hereunder or any other obligation or claim arising out of or based upon the Declaration of Trust or any other Transaction Document, against any of the Issuer, the Trustee or the Trust to the extent the Trust Assets have been exhausted following which all obligations of the Issuer, the Trustee and the Trust shall be extinguished.
- (b) prior to the date which is one year and one day after the date on which all amounts owing by the Issuer under the Transaction Documents to which it is a party have been paid in full, it will not institute against, or join with any other Person in instituting against the Issuer, the Trustee or the Trust, any bankruptcy, reorganisation, arrangement or liquidation proceedings or other proceedings under any bankruptcy or similar law.

4. TRUST

4.1 Summary of the Trust

CBB International Sukuk Company (No.2) (SPC), a single person company whose proprietor is the Central Bank of Bahrain and which is incorporated in Bahrain under Articles 289-297 of the Commercial Companies Law (Decree Law No. 21/2001), (the "**Issuer**") and Citibank N.A. will act as agents for and on behalf of Certificateholders pursuant to the Agency Declaration.

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

Pursuant to the Declaration of Trust, the Issuer will declare a trust over its title to the Land Parcel and all of its rights, title, interest and benefit, present and future, in, to and under the Transaction Documents, all monies standing to the credit of the Transaction Account (as defined below), and all proceeds of the foregoing (together, the "**Trust Assets**"). All payments by the Government under the Ijara Sub-Lease Agreement will be deposited into an account of the Trustee maintained for such purpose (the "**Transaction Account**").

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

4.2 **Application of Proceeds from Trust Assets**

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

- (a) **first**, to the Delegate and the co-agent under the Agency Declaration in respect of all amounts owing to it under the Transaction Documents in its capacities as Delegate and co-agent under the Agency Declaration;
- (b) **second**, to the Principal Paying Agent for application in or towards payment *pari passu* and rateably of all Periodic Distribution Amounts due and unpaid;
- (c) **third**, only if such payment is made on the Scheduled Dissolution Date or any earlier date of dissolution of the Trust, to the Principal Paying Agent for application in or towards payment *pari passu* and rateably of the Dissolution Distribution Amount;
- (d) **fourth**, only if such payment is made on the Scheduled Dissolution Date or any earlier date of dissolution of the Trust, to the Issuer.

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

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

5. **COVENANTS**

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

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

- (b) secure any of its present or future indebtedness for borrowed money by any lien, pledge, charge or other security interest upon any of its present or future assets, properties or revenues (other than those arising by operation of law);
- (c) sell, transfer, assign, participate, exchange or otherwise dispose of, or pledge, mortgage, hypothecate or otherwise encumber (by security interest, lien (statutory or otherwise), preference, priority or other security agreement or preferential arrangement of any kind or nature whatsoever or otherwise) (or permit such to occur or suffer such to exist), any part of (i) its title to the Land Parcel or any interest therein except pursuant to the Ijara Sub-Lease Agreement or as otherwise contemplated in the Transaction Documents or (ii) its interests in any of the other Trust Assets except pursuant to the Transaction Documents;
- (d) use the proceeds of the issue of the Certificates for any purpose other than as set out in the Prospectus;
- (e) (except as contemplated in the Transaction Documents) amend or agree to any amendment of any Transaction Document to which it is a party or its Memorandum and Articles of Association, or enter into any other agreement, letter or document, without prior written confirmation from Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, Inc. and Fitch, Inc. (together, the "**Ratings Agencies**") that their then current ratings of the Certificates will not be adversely affected; provided that if, in the opinion of the Trustee, any such amendment may introduce into any Transaction Document or the Issuer's Memorandum and Articles of Association an element incompatible with Sharia principles, the Issuer may only agree to such amendment with the prior consent of at least 51 per cent, by outstanding amount of Certificateholders;
- (f) exercise its option (described in Condition 8.2) under the Ijara Sub-Lease Agreement except in its capacity as Trustee or Agent;
- (g) (except as contemplated in the Transaction Documents) act as trustee in respect of any trust other than the Trust or in respect of any parties other than the Certificateholders;
- (h) have any subsidiaries or employees;
- (i) redeem any of its shares or pay any dividend or make any other distribution to its shareholders;
- (j) put to its directors or shareholders any resolution for or appoint any liquidator for its winding up or any resolution for the commencement of any other bankruptcy or insolvency proceeding with respect to it; or
- (k) enter into any contract, transaction, amendment, obligation or liability other than the Transaction Documents to which it is a party or as expressly permitted or required thereunder or engage in any business or activity other than:
 - (i) as provided for or permitted in the Transaction Documents;
 - (ii) the ownership, management and disposal of the Trust Assets as provided in the Transaction Documents; and
 - (iii) such other matters which are incidental thereto.

6. PERIODIC DISTRIBUTIONS

6.1 Periodic Distribution Dates

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

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

- (a) 6.247 per cent. per annum;
- (b) US\$750,000,000; and
- (c) the number of days in such Return Accumulation Period (calculated on the basis of a year of 360 days with 12 30-day months) immediately preceding such Periodic Distribution Date, divided by 360.

"Periodic Distribution Date" means the 17th day of June and December if any such day is not a Business Day the following Business Day, commencing in December 2009 to and including June 2014.

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

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

6.2 Cessation of Accrual

No further amounts will be payable on any Certificate from and including its due date for redemption unless, upon due presentation, payment in respect of the Certificate is improperly withheld or refused or unless default is otherwise made in respect of payment, in which event such amounts payable on the Certificate shall continue to be due and payable.

6.3 Certificates to be final

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

7. PAYMENT

7.1 Payments in Respect of Certificates

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

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

7.2 Payments Subject to Applicable Laws

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

7.3 Payment only on a Payment Business Day

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

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

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

7.4 Agents

The names of the initial Agents and their initial specified offices are set out at the end of these Conditions. The Issuer reserves the right at any time to vary or terminate the appointment of any Agent and to appoint additional or other Agents provided that it will at all times maintain (i) a Principal Paying Agent, (i) a Paying Agent and a Transfer Agent in any place required by the stock exchange or other authority on which the Certificates are listed and/or admitted to trading, (iii) if European Council Directive 2003/48/EC on the

taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive is introduced, a Paying Agent in a Member State of the European Union that will not be obliged to withhold or deduct tax pursuant to such Directive, (iv) a Registrar, (v) a Reference Agent and (vi) a Payment Administrator. Notice of any termination or appointment and of any changes in specified offices will be given to Certificateholders promptly by the Issuer in accordance with Condition 14.

8. DISSOLUTION OF TRUST AND REDEMPTION OF CERTIFICATES

8.1 Scheduled Dissolution

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

In these Conditions:

"Scheduled Dissolution Date" is the Periodic Distribution Date falling in June 2014; and

"Termination Payment" means an amount equal to:

- (a) US\$750,000,000; plus
- (b) where payment thereof cannot be made without withholding or deduction for or on account of any Taxes (as defined in Condition 9), such additional amounts so that, upon payment by the Issuer to the holders of the Certificates (after any deduction or withholding by the Issuer on account of Taxes, if applicable), the net amount received by such holders will be the full amount due to such holders under the Conditions as if no such deduction or withholding had been made.

8.2 Summary of Dissolution

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

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

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

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

8.3 **Dissolution Following a Dissolution Event**

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

8.4 **Cancellations**

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

8.5 **Notice of Dissolution**

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

9. **TAXATION**

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

- (a) presented for payment by or on behalf of a holder who is liable for such Taxes in respect of such Certificate by reason of having some connection with the Kingdom of Bahrain other than the mere holding of such Certificate; or
- (b) presented for payment by or on behalf of a holder who would not be liable or subject to the withholding or deduction by making a declaration of non-residence or other similar claim for exemption to the relevant tax authority; or
- (c) presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that a holder would have been entitled to additional amounts on presenting the same for payment on the last day of the period of 30 days assuming, whether or not such is in fact the case, that day to have been a Payment Business Day; or
- (d) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (e) presented for payment by or on behalf of a Certificateholder who would be able to avoid such withholding or deduction by presenting the relevant Certificate to another Paying Agent in a different Member State of the European Union.

In these Conditions:

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

10. **PRESCRIPTION**

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

11. **DISSOLUTION EVENTS**

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

- (a) default is made in the payment of the Dissolution Distribution Amount or any Periodic Distribution Amount, and, in the case of a Periodic Distribution Amount only, such default continues for a period of 14 days; or
- (b) the Government shall default in performance or observance of or compliance with any of its other obligations or undertakings under the Transaction Documents to which it is a party and either such default is not capable of remedy or such default (if capable of remedy) is not remedied within 30 days after written notice of such default shall have been given to the Government by the Trustee; or
- (c) a Lease Event of Default or Change in Circumstances occurs under and as defined in the Ijara Sub-Lease Agreement; or
- (d) the Government repudiates any Transaction Document to which it is a party or does or causes to be done any act or thing evidencing an intention to repudiate any Transaction Document to which it is a party; or
- (e) at any time it is or will become unlawful for the Government to perform or comply with any or all of its obligations under the Transaction Documents or any of the obligations of the Government under the Transaction Documents are not or cease to be legal, valid, binding and enforceable; or
- (f) at any time it is or will become unlawful for the Issuer to perform or comply with any of its obligations under the Transaction Documents or any of the obligations of the Issuer under the Transaction Documents are not or cease to be legal, valid, binding and enforceable,

the Issuer is obliged to notify the Delegate of such occurrence, and the Delegate shall give notice of the occurrence of such Dissolution Event to the holders of Certificates in accordance with Condition 14 with a request to such holders to indicate if they wish the Trust to be dissolved. If so requested in writing by the holders of at least 25 per cent, in aggregate principal amount of such Certificates then outstanding or if so directed by an Extraordinary Resolution of the holders of Certificates, the Trustee shall (subject in each case to being indemnified and/or secured to its satisfaction), or if the Trustee so decides in its discretion the Trustee may, give notice to all the holders of such Certificates in accordance with Condition 14 that the Certificates are to be redeemed at the Dissolution Distribution Amount on the date specified in such notice and that the Trust is to be

dissolved on the day after the last outstanding Certificate has been redeemed, provided, however, that in the case of any of the events described in (b) or (c) above, such notice may only be given if the Delegate has certified in writing to the Issuer that such event, in the opinion of the Delegate, is materially prejudicial to the interests of Certificateholders. For the avoidance of doubt, pursuant to the Declaration of Trust the Delegate is not obliged to monitor whether a Dissolution Event has occurred, and is entitled to assume, in the absence of written notice to the contrary, that no such event has occurred.

12. ENFORCEMENT AND EXERCISE OF RIGHTS

- (a) Following the distribution of the proceeds of the Trust Assets in respect of the Certificates to the Certificateholders in accordance with these Conditions and the Declaration of Trust, the Trustee shall not be liable for any further sums, and accordingly Certificateholders may not take any action against the Trustee or any other person to recover any such sum, in respect of the Certificates or Trust Assets.
- (b) The Trustee shall not be bound in any circumstances to take any action to enforce or to realise the Trust Assets or take any action against the Government under any Transaction Document to which the Government is a party unless directed or requested to do so (a) by an Extraordinary Resolution or (b) in writing by the holders of at least 25 per cent, in aggregate principal amount of the Certificates then outstanding and in either case then only if it (or, where it has delegated such duties to the Delegate, where the Delegate) shall be indemnified and/or secured to its satisfaction against all liabilities to which it may thereby render itself liable or which it may incur by so doing.
- (c) No Certificateholder shall be entitled to proceed directly against the Government unless (i) the Trustee, having become bound so to proceed, fails to do so within sixty days of becoming so bound and such failure is continuing and (ii) the relevant Certificateholder (or such Certificateholder together with the other Certificateholders who propose to proceed directly against the Government) holds at least 25 per cent, of the aggregate principal amount of the Certificates then outstanding. Under no circumstances shall the Trustee or any Certificateholders have any right to cause the sale or other disposition of any of the Trust Assets, and the sole right of the Trustee and Certificateholders against the Government shall be to enforce the obligation of the Government to pay the Rentals and the Termination Payment under the Ijara Sub-Lease Agreement.
- (d) The foregoing paragraphs in Condition 12 are subject to this paragraph. After distributing the net proceeds of the Trust Assets in accordance with Condition 4.2, the obligations of the Trustee in respect of the Certificates shall be satisfied and no holder of the Certificates may take any further steps against the Trustee to recover any further sums in respect of the Certificates and the right to receive any such sums unpaid shall be extinguished. In particular, no holder of the Certificates shall be entitled in respect thereof to petition or to take any other steps for the winding-up of the Issuer or the Trustee nor shall any of them have any claim in respect of the trust assets of any other trust established by the Trustee.

13. REPLACEMENT OF CERTIFICATES

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

14. **NOTICES**

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

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

- (a) The Declaration of Trust contains provisions for convening meetings of Certificateholders to consider any matter affecting their interests, including the modification or abrogation by Extraordinary Resolution of these Conditions or the provisions of the Declaration of Trust. The quorum at any meeting for passing an Extraordinary Resolution will be one or more persons present holding or representing more than two-thirds in aggregate principal amount of the Certificates for the time being outstanding, or at any adjourned such meeting one or more persons present whatever the principal amount of the Certificates held or represented by him or them. An Extraordinary Resolution passed at any meeting of Certificateholders will be binding on all holders of the Certificates, whether or not they are present at the meeting.
- (b) The Trustee may agree, without the consent of Certificateholders, to any waiver or authorisation of any breach or proposed breach of, any of these Conditions or any of the provisions of the Declaration of Trust, or determine, without any such consent as aforesaid, that any Dissolution Event or Potential Dissolution Event shall not be treated as such, which in any such case is not, in the opinion of the Trustee, materially prejudicial to the interests of Certificateholders or may agree, without any such consent as aforesaid but only with prior written confirmation from the Ratings Agencies (or their successors) that their then current ratings of the Certificates will not be adversely affected, to any modification which, in its opinion, is of a formal, minor or technical nature or to correct a manifest error.
- (c) In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation, determination or substitution), the Trustee shall have regard to the general interests of Certificateholders as a class but shall not have regard to any interests arising from circumstances particular to individual Certificateholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Certificateholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof and the Trustee shall not be entitled to require, nor shall any Certificateholder be entitled to claim, from the Trustee or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Certificateholders.

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

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

16. INDEMNIFICATION AND LIABILITY OF THE TRUSTEE

- (a) The Declaration of Trust contains provisions for the indemnification of the Trustee in certain circumstances and for its relief from responsibility, including provisions relieving it from taking action unless indemnified and/or secured to its satisfaction. In particular, in connection with the exercise of any of its rights in respect of the Trust Assets, the Trustee shall in no circumstances take any action unless directed to do so in accordance with Condition 12(b), and then only if it shall have been indemnified and/or secured to its satisfaction. Subject thereto, the Trustee waives any right to be indemnified and/or secured by Certificateholders in circumstances where the Trust Assets are insufficient therefor.
- (b) Neither the Trustee nor the Delegate makes any representation nor assumes any responsibility for the validity, sufficiency or enforceability of the obligations of the Sub-Lessee under the Ijara Sub-Lease Agreement and neither of them shall under any circumstances have any liability or be obliged to account to Certificateholders in respect of any Rentals and the Termination Payment which should have been paid by the Sub-Lessee, but are not so paid, nor in any circumstances have any liability arising from the Trust Assets other than as expressly provided in these Conditions or in the Declaration of Trust.
- (c) The Trustee is excepted from any liability in respect of any loss or theft of the Trust Assets or any cash, from any obligation to insure the Trust Assets or any cash and from any claim arising from the fact that the Trust Assets or any cash are held by or on behalf of the Trustee or on deposit or in an account with any depository or clearing system or are registered in the name of the Trustee or its nominee, unless such loss or theft arises as a result of wilful default or misconduct of the Trustee.

17. CURRENCY INDEMNITY

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

18. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

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

19. GOVERNING LAW AND SUBMISSION TO JURISDICTION

- (a) The Declaration of Trust, the Agency Agreement and the Certificates (and any non-contractual obligations arising out of or in connection with the Declaration of Trust, the Agency Agreement and the Certificates) are governed by, and will be construed in accordance with, English law.
- (b) The Issuer has in the Declaration of Trust irrevocably and unconditionally agreed for the benefit of the Trustee and Certificateholders that the courts of England are to have non-exclusive jurisdiction to settle any disputes which may arise out of or in connection with the Declaration of Trust or the Certificates and that accordingly any suit, action or proceedings arising therefrom or in connection therewith (together referred to as "**Proceedings**") may be brought in the courts of England
- (c) The Issuer has in the Declaration of Trust irrevocably and unconditionally waived and agreed not to raise any objection which it may have now or subsequently to the laying of the venue of any Proceedings in the courts of England and any claim that any Proceedings have been brought in an inconvenient forum and has further irrevocably and unconditionally agreed that a judgment in any Proceedings brought in the courts of England shall be conclusive and binding upon the Issuer and may be enforced in the courts of any other jurisdiction. Nothing in this Condition shall limit any right to take Proceedings against the Issuer in any other court of competent jurisdiction, nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction, whether concurrently or not.
- (d) Without limiting the rights of the Certificateholders under this Condition, any controversy, claim or cause of action arising from or connected with the Certificates (including any such dispute regarding the existence, validity or termination of the Certificates and a dispute relating to any non-contractual obligations arising out of or in connection with the Certificates (each a "**Dispute**")) may be referred by any Certificateholder to arbitration in London in accordance with the rules of the London Court of International Arbitration (the "**Rules**"), the Rules (as amended from time to time) being incorporated into this Condition by reference. The number of arbitrators shall be three, each of whom shall be disinterested in the arbitration, shall have no connection with any party thereto and shall be an attorney experienced in international securities transactions.
- (e) The Issuer has in the Declaration of Trust irrevocably and unconditionally appointed an agent for service of process in England in respect of any Proceedings and has undertaken that in the event of such agent ceasing so to act it will appoint such other person as the Trustee may approve as its agent for that purpose. In the event that no such replacement agent for service of process in England has been appointed by the Issuer within 14 days, the Trustee shall have the power to appoint, on behalf of and at the expense of the Issuer, a replacement agent for service of process in England.

**PRINCIPAL PAYING AGENT,
REPLACEMENT AGENT AND TRANSFER AGENT**

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

REGISTRAR

**Citigroup Global Markets Deutschland AG &
Co. KGaA**
Reuterweg 16
D-60323 Frankfurt am Main
Germany

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

GLOBAL CERTIFICATE

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

1. HOLDERS

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

2. CANCELLATION

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

3. PAYMENTS

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

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

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

4. NOTICES

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

5. REGISTRATION OF TITLE

Subject as provided in paragraph 7, registration of title to Certificates in a name other than that of a nominee for the Common Depository will not be permitted unless Euroclear or Clearstream, Luxembourg, as appropriate, notifies the Issuer that it is unwilling or unable to continue as a clearing system in connection with the Global Certificate, and in each

case a successor dealing system approved by the Trustee is not appointed by the Issuer within 90 days after receiving such notice from Euroclear or Clearstream, Luxembourg. In these circumstances, title to a Certificate may be transferred into the names of holders notified by the Common Depositary in accordance with the Conditions, except that new Certificates in respect of Certificates so transferred may not be available until 21 days after the request for transfer is duly made.

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

6. TRANSFERS

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

7. DEFINITIVE CERTIFICATES

Interests in the Global Certificate will be exchanged for Certificates in definitive form ("**Definitive Certificates**") upon the occurrence of an Exchange Event.

For these purposes, "**Exchange Event**" means that:

- (a) the Trustee has given notice in accordance with Condition 11 that a Dissolution Event has occurred; or
- (b) the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no successor or alternative clearing system satisfactory to the Trustee is available. Upon the occurrence of an Exchange Event, the Issuer will issue Definitive Certificates (in exchange for the whole of the Global Certificate) within 30 days of the occurrence of the relevant Exchange Event upon presentation of the Global Certificate by the person in whose name it is registered in the register kept by the Registrar in respect of the Certificates on any day (other than a Saturday or Sunday) on which banks are open for business in the city in which the Registrar has its office.

USE OF PROCEEDS

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

RATINGS

The Certificates have been assigned a rating of "A" by Fitch and are expected to be assigned a rating of "A" by S&P.

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

THE ISSUER

The Issuer was incorporated as a single person company in Bahrain on 10 June 2009 under Articles 289-297 of the Commercial Companies Law (Decree Law No 21/2001) with its registered office at Flat 10, Building 150, Road 1501, Block 315, Manama, Bahrain and telephone number +973 1754 7574. The Issuer is registered with number 71950-1 in the Commercial Register established by the Ministry of Commerce of the Kingdom of Bahrain. Pursuant to Article 3 of the Issuer's Articles of Association, the Issuer has been formed solely for the purpose of participating in the transactions contemplated by the Transaction Documents.

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

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

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

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

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

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

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

The fiscal year of the Issuer will end on 31 December of each year, beginning in 2009. The Issuer will prepare but is not required to, and does not intend to, publish annual audited accounts. The Issuer will not prepare any interim accounts.

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

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

SUMMARY OF PRINCIPAL TRANSACTION DOCUMENTS

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

Declaration of Trust

The Declaration of Trust is entered into on the Closing Date between CBB International Sukuk Company (No.2) (SPC), the Kingdom of Bahrain, acting through the Ministry of Finance and Citicorp Trustee Company Limited. Pursuant to the Declaration of Trust, the Issuer has declared that it will, in its capacity as Trustee, hold the Trust Assets (as are described further below) upon trust absolutely for the holders of the Certificates pro rata according to the face amount of Certificates held by each Certificateholder in accordance with the Declaration of Trust and the Conditions.

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

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

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

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

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

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

- (a) by an Extraordinary Resolution; or

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

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

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

The Declaration of Trust is governed by English law.

Ijara Head Lease Agreement

The "**Land Parcel**" is a piece of land, owned by the Government, earmarked for industrial development. It is located in the Hidd industrial area, an industrial zone accessible via the Bahrain International Airport, Mina Salman seaport and Hidd deepwater port as well as the Saudi-Bahraini Causeway. The Land Parcel comprises a total area of approximately 767,250 square metres and has an extension of 990 x 270 x 1280 metres.

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

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

Ijara Sub-Lease Agreement

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

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

The Rentals under the Ijara Sub-Lease Agreement will equal the Periodic Distribution Amounts payable on the relevant Periodic Distribution Date. The Sub-Lessee will be obligated to pay Rentals on the second Business Day prior to the end of each Return Accumulation Period, commencing in December 2009 up to and including June 2014, or any other date on which the Ijara Sub-Lease Agreement is earlier terminated in accordance with its terms.

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

period, the Rental applicable to the Rental Period in respect of which the payment delay occurred, divided by the number of actual days in such Rental Period.

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

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

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

"Permitted Security Interest" means any Security Interest:

- (a) upon property to secure Relevant Indebtedness incurred for the purposes of financing the acquisition or construction of such property (or property which forms part of a class of a similar nature where the Security Interest is by reference to the constituents of such class from time to time);
- (b) existing on property at the time of its acquisition;
- (c) arising by operation of law or in the ordinary course of trading which has not been foreclosed or otherwise enforced against the assets to which it applies;
- (d) securing or providing for the payment of Relevant Indebtedness incurred in connection with any Project Financing providing that such Security Interest only applies to:
 - (i) properties which are the subject of such Project Financing; or
 - (ii) revenues or claims which arise from the operation, failure to meet specifications, exploitation, sale or loss, or failure to complete, or damage to, such properties; or
 - (iii) the renewal or extension of any Security Interest described in paragraphs (a) and (b) above, provided that the principal amount of the original financing secured thereby is not increased;

"Project Financing" means any arrangement for the provision of funds which are to be used solely to finance a project for the acquisition, construction, development or

exploitation of any property pursuant to which the persons providing such funds agree that the principal source of repayment of such funds will be the project and revenue (including insurance proceeds) generated by such project;

"Relevant Indebtedness" means:

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

Under the Ijara Sub-Lease Agreement, if:

- (a) the Sub-Lessee in its capacity as such shall default for a period of 14 days or more in the payment of any sum payable under the Ijara Sub-Lease Agreement or any of the Related Documents; or
- (b) the Sub-Lessee in its capacity as sub-lessee shall default in performance or observance of or compliance with any of its other obligations, covenants or undertakings under the Ijara Sub-Lease Agreement or any of the Related Documents and either such default is not capable of remedy or such default (if capable of remedy) is not remedied within 30 days after written notice of such default shall have been given to the Sub-Lessee by the Issuer; or
- (c) any representation or warranty made or given by the Sub-Lessee under the Ijara Sub-Lease Agreement or any of the Related Documents or which is contained in any certificate, document or statement furnished at any time pursuant to the terms of the Ijara Sub-Lease Agreement or any of the Related Documents proves to have been incorrect in any material respect on or as of the date made; or
- (d) any External Debt shall become due and payable prior to the stated maturity thereof following a default or any security therefor becomes enforceable or the Government fails to make repayment of any External Debt at the maturity thereof or at the expiration of any grace period originally applicable thereto or any guarantee of any External Debt shall not be honoured when due and called upon and, in any such case, the amount of the External Debt shall be greater than US\$30,000,000 (or its equivalent in any other currency or currencies); or
- (e) if a moratorium is declared on the payment of any External Debt or the Government repudiates any External Debt or is, or admits that it is, unable to pay any External Debt as it falls due, or the Government commences negotiations or proceedings with a view to the general adjustment of any External Debt; or
- (f) any licence, authorisation, approval, consent, order or exemption of or from any governmental authority of the Kingdom of Bahrain with respect to the Ijara Sub-Lease Agreement or the Related Documents ceases to remain in full force and effect and continues as such for at least 30 days; or
- (g) the validity of the Ijara Sub-Lease Agreement is contested by the Sub-Lessee or the Sub-Lessee shall deny any of the Sub-Lessee's obligations under the Ijara Sub-Lease Agreement or any of the Related Documents; or

- (h) as a result of any change in, or amendment to, the laws or regulations in the Kingdom of Bahrain, which change or amendment takes place after 15 June 2009, (a) it becomes unlawful for the Sub-Lessee to perform or comply with any of its obligations under or in respect of the Ijara Sub-Lease Agreement or (b) any of such obligations becomes unenforceable or invalid; or
- (i) the Kingdom of Bahrain ceases to be a member in good standing of the IMF or eligible to use the general resources of the IMF pursuant to Article 26 of the IMF Articles of Agreement; or
- (j) there is, or there will be, a compulsory acquisition, confiscation or expropriation of all or any part of the Land Parcel by a governmental authority which, in any such case, renders the Head Lease and/or the Sub-Lease null and void; or
- (k) the Issuer ceases to be wholly owned by the CBB,

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

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

Tax Gross-up

All payments:

- (a) by the Government under the Ijara Sub-Lease Agreement; and
- (b) by the Issuer under the Certificates are to be made without withholding or deduction for or on account of Taxes, unless the withholding or deduction of the Taxes is required by law.

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

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

Agency Declaration

CBB International Sukuk Company (No.2) (SPC) and Citibank N.A, shall enter into the Agency Declaration on the Closing Date as Sukuk Agent and Co-Sukuk Agent respectively. Pursuant to the Agency Declaration, the Sukuk Agent will also act as agent for and on behalf of Certificateholders with respect to the Trust Assets and, in such capacity it will declare that it shall hold the Trust Assets as agent for and on behalf of Certificateholders pro rata according to the face amount of Certificates held by each Certificateholder, in accordance with the Agency Declaration, the Declaration of Trust and the Conditions.

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

The Agency Declaration is governed by the laws of Bahrain.

Costs Undertaking

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

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

The Costs Undertaking is governed by English law.

Waiver of Immunity

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

THE KINGDOM OF BAHRAIN

Location and Population

Bahrain is made up of approximately 40 islands with a total land surface area of slightly over 700 square kilometres situated in the Arabian Gulf. The islands are about 24 kilometres from the east coast of Saudi Arabia and 28 kilometres from 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 new main port, at Hidd are located) and Sitra (a mainly industrial island). All these islands are connected to Bahrain Island by causeways.



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

Bahrain's last census, in April 2001, recorded a population of 650,604. The most recent figures estimate Bahrain's population to be 1,039,297 as at 31 December 2007, of whom 50.7 per cent. are Bahrain nationals, the remainder being principally expatriate workers. Approximately 81 per cent. of the population are Muslim, with small minorities of Christians and Hindus 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 90 per cent. of the population living in towns and cities and 38 per cent. of the population living in Manama and Muharraq alone. According to the 2001 census, nearly 27.9 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 2007 was approximately 8.21 per cent. The national education system is well established (adult literacy is 87.7 per cent. according to the April 2001 census). Bahrain's life expectancy for men and women is 71 and 75 years, respectively. This is among the highest in the Arabian Gulf region.

Bahrain is divided into 12 municipalities (manatiq, singular - mintaqah); Al Hadd, Al Manamah, Al Mintaqah al Gharbiyah, Al Mintaqah al Wusta, Al Mintaqah ash Shamaliyah, Al Muharraq, Ar Rifa' wa al Mintaqah al Janubiyah, Jidd Hafs, Madinat Hamad, Madinat 'Isa, Juzur Hawar, Sitrah. All these municipalities are centrally administered from Manama.

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 traders 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 Kuwait. 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).

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 of Bahrain (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 the Kingdom of Saudi Arabia ("**Saudi Arabia**"), the United Arab Emirates (the "**UAE**"), State of Qatar ("**Qatar**"), State of Kuwait ("**Kuwait**") and Sultanate of Oman ("**Oman**"), established the Gulf Co-operation Council ("**GCC**").

When Sheikh Isa died in March 1999, his son Sheikh Hamed 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**"), that sought to establish a new national assembly that was to be part appointed and part elected. It also paved the way for Bahrain to become a constitutional monarchy and for Sheikh Hamad bin Isa Al-Khalifa to be proclaimed king of Bahrain (the "**King**"). The NAC was approved in a national referendum in February 2001, in which 98.4 per cent. of the voters voted in favour of it. At the same time the state security law, which had been introduced in 1975, was repealed.

Constitution and Government

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

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

The Constitution provides for a National Assembly comprising of two chambers, the Consultative Council and the chamber of deputies (the "**Chamber of Deputies**"). Each chamber has 40 members. The members of the Chamber of Deputies sit for a four year term whereas the members of the Consultative Council are appointed by the King whilst the members of the Chamber of Deputies are elected by way of national elections.

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 first election to the Chamber of Deputies was held in 2002, albeit with only moderate participation by some political groupings. A second election was held in 2006 with full and active participation from all the major political groupings. The Chamber of Deputies currently represents a wide-range of political opinion in Bahrain and is playing a constructive role in the development of the democratic process.

In accordance with the Constitution, the cabinet ("**Cabinet**") has been duly ratified by the National Assembly.

The Cabinet is headed by the Prime Minister (who, at the date of this Prospectus, is Sheikh Khalifa ibn Salman Al-Khalifa) and appointed by the King. 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, Sheikh Salman bin Hamad Al-Khalifa, is the crown prince (the "**Crown Prince**") and commander-in-chief of the Bahrain Defence Force.

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

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

The civil court system consists of summary courts ("**Summary Courts**"), which primarily deal with all commercial and criminal matters. The Summary Courts of first instance are located in all communities and include separate civil and criminal sections. The court of appeal ("**Court of Appeal**") hears all appeals and is the highest appellate court in the country. The Court of Appeal also decides on the constitutionality of laws and regulations enacted by the legislature.

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 45 kilometre 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, geological and marine surveys have been undertaken and revisions to the original design of the bridge have commenced so as to include rail and marine pipeline for the supply of gas which is expected to run parallel to the causeway. The project was expected to be completed by 2013 however, in light of the revisions this date is anticipated to be delayed.

Bahrain enjoys good relations with the European Union ("**EU**") and the United States of America (the "**US**"), the latter having the headquarters of its US 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 US in 2004.

Bahrain has concluded important trade agreements with both Malaysia and Thailand. The GCC is also in discussions with the EU concerning a trade agreement between the GCC and the EU. Currently negotiations are on-going between the EU and the GCC with a couple of outstanding issues pending to be resolved, specifically the application of export duties. Meetings have been scheduled for June 2008 with the aim of having the agreement finalised by the end of the year. Trade agreements with India and China are also currently under negotiation.

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**") and the International Bank for Reconstruction and Development (World Bank) and a number of regional organisations such as the GCC, the Arab League, the Arab Monetary Fund (AMF), the Organisation of Arab Petroleum Exporting Countries (OAPEC), the Multilateral Investment Guarantee Agency (MIGA) and the Islamic Development Bank. In addition, a number of international programmes, including the United Nations Industrial Development Programme, have their regional offices 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. Vision 2030's objective is to shift Bahrain's economy from an oil-driven economy to a global competitive economy predominately 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.

Specifically, the Government aims to (i) have the private sector driving the economy, (see "*Foreign Direct Investment and Privatisation*"); (ii) focus on existing high potential sectors including non-oil GDP growth (see "*Gross Domestic Product*"); and (iii) diversify the economy specifically through economic opportunities independent of oil such as tourism and financial services (see "*Trade and Tourism*").

In collaboration with the legislative body, civil society and the private sector, the Government aims to develop a detailed strategic and operational plan to execute Vision 2030. Specifically, Vision 2030 will be translated into a tangible and coordinated national strategy across all Government institutions.

THE BAHRAINI ECONOMY

Introduction

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

Bahrain's Economic Development Board ("**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 (budgeted at US\$811.2 million in 2009, a decrease of 37.8 per cent. from 2008). The services sector has benefited from Bahrain's strong transport infrastructure, its deepwater harbour at Mina Salman (which is anticipated to be replaced by the new harbour at Hidd (having been operational in early 2008 for testing) after an official opening by the King anticipated to be by July 2009), and the international airport on Muharraq. Bahrain has a growing tourism industry with several large scale tourist developments under construction and also the recently completed water park called "The Lost Paradise of Dilmun" (see "*Tourism and Trade*").

Bahrain also has a high quality modern telecommunications system, currently operated by the Bahrain Telecommunications Company B.S.C. ("**BATELCO**") and Zain Bahrain B.S.C. (C) ("**Zain**"). BATELCO is approximately 57 per cent. owned by the Government through two investment holding companies, Bahrain Mumtalakat Holding Company (B.S.C.) (C) (established by royal decree dated 26 July 2006 ("**Mumtalakat**")), through which the Government holds a 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 25 per cent.) through a quasi-governmental institution, the Social Insurance Organization ("**SIO**") (formerly the General Organisation for Social Insurance and the Pension Fund Commission (which merged in February 2008)). The remainder of BATELCO's shares are held by other financial and commercial organisations and various GCC citizens. Zain began operations in December 2003 following the implementation of the law passed on 5 November 2002 permitting competition in the telecommunications sector.

Bahrain's relative economic stability is reflected by the generally steady historical upgrade in its sovereign rating by international rating agencies. However, in October 2008, the international rating agencies Standard & Poor's Rating Services ("**Standard & Poor's**") and Fitch Inc. ("**Fitch**") reaffirmed their outlook on Bahrain's long-term foreign currency sovereign debt as A (Stable). The same rating agencies assigned a rating of A (Stable) to Bahrain's long-term local currency sovereign debt.

Gross Domestic Product

As was the case in 2006, the financial services sector was the single largest contributor to Bahrain's 2007 GDP, reflecting the very high growth in the sector in recent years. In 2007, financial services contributed 26.8 per cent. to Bahrain's real GDP. This robust growth in the financial services sector reflects the high growth in all activities within the financial services sector. Significantly, the diversification of the economy away from oil is also reflected in the increasing contribution from manufacturing (15.9 per cent. of GDP in 2007), mining and quarrying

(including oil and gas) (14.2 per cent. of GDP in 2007), Government services (14.2 per cent. of GDP in 2007), transport and communications (8.5 per cent. of GDP in 2007) and real estate and business activities (9.8 per cent. of GDP in 2007).

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

In 2008, Bahrain's principal exports were crude and refined oil and aluminium products. Direct government consumption constituted approximately 13.5 of GDP in 2008 down from 14.3 and 14.2 per cent. of GDP in 2007 and 2006, respectively. Government spending also impacts private consumption since the Government is the country's major employer and instigator of capital projects, which has dramatically increased in recent years from approximately US\$265.96 million in early 2000, to US\$2,949.3 million in 2008 (a 13.3 per cent. increase from 2007). Investment itself is affected by the oil sector with gross fixed capital formation and stock building being affected by periods of weak oil prices.

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

	2005	2006	2007	2008
Percentage change in real GDP ⁽¹⁾	7.9	6.7	8.1	6.3

Note:

⁽¹⁾ Based on 2001 constant prices.

Source: Ministry of Finance and Central Informatics Organisation

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

	2005	2006	2007*	2008*
Total:				
At current prices (US\$ millions) ⁽¹⁾	13,460	15,851	18,472	21,902
At constant 2001 prices (US\$ millions)	10,247	10,928	11,845	12,590
Percentage change over previous period (at constant 2001 prices)	7.9	6.7	8.1	6.3
At constant 2001 prices (US\$ millions) Per Capita ⁽²⁾	11,529	11,378	11,397	12,114
At current prices (US\$)	15,144	16,505	17,774	21,074*

*Based on population data for 2007

Notes:

⁽¹⁾ Using the fixed conversion rate of BD0.376 = US\$1.00

⁽²⁾ Assuming a population of 888,824 in 2005, 960,425 in 2006 and 1,039,297 in 2007 and 2008.

Source: Ministry of Finance

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

	2005		2006		2007		2008	
	(US\$ millions)	(%)	(US\$ millions)	(%)	(US\$ millions)	(%)	(US\$ millions)	(%)
Private consumption	4,936	36.7	5,628	35.5	6,194	33.5	6,739	30.8
Government consumption	2,117	15.7	2,253	14.2	2,604	14.2	2,949	13.5
Gross investment	3,103	23.1	4,095	25.8	4,873	26.4	6,981	31.9
Change in stocks⁽¹⁾	194	1.4	-228	1.4	113	0.6	297	1.4
Exports of goods & services	13,397	99.5	15,662	98.8	17,314	93.7	21,212	96.8
Imports of goods & services	10,287	76.4	11,559	72.9	12,626	68.4	16,276	74.3
Change in Exports/Imports	3,110	23.1	4,103	25.9	4,688	25.4	4,936	22.5
GDP	13,459	100	15,852	100	18,473	100	21,902	100

Note:

⁽¹⁾ Including net errors and omissions

⁽²⁾ Using the fixed conversion rate of BD0.376 = US\$1.00

Source: Ministry of Finance

The following table sets out the growth in real GDP (by expenditure approach) for the periods indicated:

	2005	2006	2007	2008
	<i>(constant 2001 prices; growth rate in percentage)</i>			
Private consumption	8.6	5.7	2.5	5.1
Government consumption	6.9	2.8	2.5	6.8
Gross investment	6.9	31.1	15.2	6.8
Change in stocks ⁽¹⁾	111.6	(318.5)	(166.1)	(0.7)
Exports of goods and services	8.6	17.6	10.2	16.3
Imports of goods and services	8.9	23.0	10.6	16.9
GDP	7.9	6.7	8.4	6.3

Note:

⁽¹⁾ Including net errors and omissions

Source: Ministry of Finance and Central Informatics Organisation

Principal Sectors of the Economy

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

	2005		2006		2007		2008	
	(US\$ Millions) ⁽¹⁾	(%)	(US\$ Millions)	(%)	(US\$ Millions)	(%)	(US\$ Millions)	(%)
Non-financial corporations	7,289.87	71.14	8,055.16	73.71	8,682.72	73.31	9,249.05	73.46
Agriculture and fishing	61.86	0.60	57.31	0.52	73.70	0.62	75.20	0.60
Mining and Quarrying ⁽²⁾	1,643.56	16.04	1,643.35	15.04	1690.08	14.27	1738.15	13.81
(i) Crude petroleum and natural gas	1,601.60	15.63	1,584.95	14.50	1602.70	13.53	1609.25	12.78
(ii) Quarrying	41.97	0.41	58.40	0.53	87.37	0.74	128.90	1.02
Manufacturing	1,531.41	14.95	1,764.15	16.14	1878.95	15.86	2015.66	16.01
Electricity and water	148.59	1.45	162.29	1.48	177.36	1.50	192.93	1.53
Construction	554.49	5.41	674.52	6.17	834.12	7.04	904.68	7.19
Trade	868.27	8.47	909.84	8.33	949.66	8.02	980.83	7.79
Hotels and restaurants	261.52	2.55	308.01	2.82	349.64	2.95	378.11	3.00
Transport and communications	837.50	8.17	942.79	8.63	1001.06	8.45	1089.36	8.65
Social and personal services	440.43	4.30	510.11	4.7	573.8	4.8	632.7	5.0
Real estate and business activities	942.10	9.19	1,082.74	9.91	1154.40	9.75	1241.42	9.86
Financial corporations	2,574.73	25.13	2,902.15	26.56	3170.77	26.77	3347.80	26.59
Financial institutions	683.38	6.67	883.35	8.08	1004.02	8.48	1118.11	8.88
Offshore financial institutions	1,323.16	12.91	1,379.20	12.62	1422.50	12.01	1458.65	11.59
Insurance	568.16	5.54	639.60	5.85	744.25	6.28	771.04	6.12
Government services	1,501.17	14.65	1,558.96	14.27	1677.35	14.16	1833.04	14.56
Govt.Education services	375.80	3.67	392.61	3.59	412.10	3.48	451.06	3.58
Govt.Health services	172.07	1.68	190.69	1.74	211.58	1.79	230.96	1.83
Other Government services	953.32	9.30	975.66	8.93	1053.67	8.90	1151.02	9.14
Private non-profit institutions serving households	13.43	0.13	15.19	0.14	15.26	0.13	17.02	0.14
Households with employed persons	58.16	0.57	82.18	0.75	112.64	0.95	115.99	0.92
Minus financial intermediation services indirectly measured⁽³⁾	(1,332.53)	(13.0)	(1,845.96)	(16.89)	(1,990.16)	(16.80)	(2,157.81)	(17.14)
GDP producer prices	10,104.87	98.61	10,767.69	98.53	11,668.57	98.51	12,405.09	98.53
Import duties	141.97	1.39	160.72	1.47	176.04	1.49	185.02	1.47
GDP	10,246.84	100	10,928.40	100	11,844.61	100	12,590.10	100

Note:

⁽¹⁾ Using the fixed conversion rate of BD0.376 = US\$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

Source: Ministry of Finance and Central Informatics Organisation

The following paragraphs provide a brief description of the key principal sections 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 production of approximately 32,861 thousand barrels per day ("**bpd**") as at 31 December 2008 from its only onshore oilfield, Awali. As at 31 December 2007, the average production was 34,389 thousand bpd. Bahrain has authorised two companies, PTT Thailand, and Occidental Petroleum Corporation ("**Occidental**") to carry out exploration and production of new offshore fields which are still ongoing. Bahrain has also signed a deal with Occidental to increase production on onshore fields. Bahrain exports oil from the Abu Saafa oilfield which is on the border with Saudi Arabia. Under a treaty signed in 1958 with Saudi Arabia, Bahrain is entitled to receive 50 per cent. of the output from this field. Bahrain's share in the production at Abu Saafa amounts up to around 149,829 bpd in 2008, following the completion of the US\$1.2 billion expansion. Bahrain also imports crude oil from Saudi Arabia for processing at its refinery at Sitra (see "Manufacturing - Refining" below). Crude oil imports constituted 54.9 per cent. of Bahrain's total imports in 2007 and 55.8 per cent. in 2008.

The state-owned Bahrain Petroleum Company ("**Bapco**") is responsible for all of Bahrain's oil activities including operating the Awali field and running the Sitra refinery. Bapco also operates Bahrain's gas fields. The table below sets out the cumulative annual daily production and import of oil from Bapco.

	2005	2006	2007	2008
		<i>(thousand barrels per day)</i>		
Crude oil from Awali	36,569	35,849	34,389	32,951
Crude oil from Abu Saafa	149,994	147,461	149,890	150,238
Imports of Saudi Arabian crude	229,745	224,000	227,703	226,488

Source: National Oil and Gas Authority

Gas

Although Bahrain's gas reserves are relatively small, production has gradually risen over recent years from 393 billion cubic feet in 1998 to 473.2 billion cubic feet in 2005. In 2006 production rose further to 487.93 billion cubic feet and then to 507.67 billion cubic feet in 2007 and then to 538.23 billion cubic feet in 2008. All natural gas is sold by Bapco to the Bahrain National Gas Company ("**BANAGAS**"). The principal domestic customers of BANAGAS are Aluminium Bahrain B.S.C ("**Alba**") (which accounted for 27 per cent. of total gas utilisation in both 2006 and 2007) followed by the power stations, Gulf Petrochemical Industries Company ("**GPIC**") and the refinery (which accounted for 9 per cent. of total gas utilisation in 2006 and 8 per cent. in 2007). The other principal use of the gas produced was for oil field injection which accounted for 18 per cent. of total gas utilisation in both 2006 and 2007. BANAGAS mainly produces propane, butane and naphtha, as well as liquefied gas from its gas liquefaction plant, for export.

Manufacturing

The discovery of oil in the early 1930s was the spur for industrialisation in Bahrain. The principal manufacturing facilities 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 and light engineering facilities, and textile production.

Aluminium

The Alba smelter, with a capacity of 865,000 tonnes per year, is the largest aluminium smelter in the Middle East. Alba is state owned on a majority holding basis with 77 per cent. through Mumtalakat, with Saudi Basics Industries Corporation ("**SABIC**") owning a further 20 per cent. of the company. In 2007, aluminium exports accounted for approximately 10 per cent. of Bahrain's total exports and almost 47 per cent. of its non-oil exports. In 2008, aluminium exports accounted for 9 per cent. and 46 per cent. of Bahrain's total exports and total non-oil exports, respectively. Alumina for the smelter is imported from Australia.

As at the date of this Prospectus, there are a number of other aluminium-based industries in Bahrain, including plants which produce approximately 165,000 tonnes per year of rolled products, 55,000 tonnes per year of aluminium cables, 21,000 tonnes per year of extruded aluminium products, 7,000 tonnes per year of aluminium powder and 2,000 tonnes per year of aluminium pellets.

In addition, a 450,000 tonnes per year coke-calcinating plant operated by Alba began production in Bahrain in January 2002. Most of its production is used by Alba and the balance is exported. Alba previously imported coke from the US and Argentina.

Refining

Bahrain has an oil refinery at Sitra which has a capacity of 250,000 bpd and operates at levels close to capacity. The principal products produced at the refinery in terms of volume are gas and fuel oil, jet fuel, naphtha and gasoline. Bapco is currently commissioning the new plants under the US\$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 commissioned in January 2009.

As at the date of this Prospectus, around 15 per cent. of the refinery's output is supplied by Bahrain's own oil production with the balance being imported from Saudi Arabia.

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

	2005	2006	2007	2008
		<i>(thousand barrels per day)</i>		
Refined oil production	267,715	263,609	268,230	264,021
Local sales of refined products	20,404	20,903	22,815	24,753
Exports	249,181	241,220	250,685	222,935

Note: 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 Mumtalakat), 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 Middle East and North Africa (MENA) region based on the size of its banking sector. It benefited more than any other Gulf state 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 2006 and 2007, accounting for approximately 26.6 per cent. and 26.7 per cent. of total GDP, respectively. Financial services were the largest component of GDP in real terms in 2008, accounting for approximately 26.6 percent of total GDP.

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 US dollar and has remained the same level for more than 20 years. The Central Bank of Bahrain ("**CBB**") and its predecessor, the Bahrain Monetary Agency ("**BMA**") has acquired a reputation as a successful banking regulator. The Bahraini legal system is seen as a sound system for settling disputes and there has been a relaxation of ownership rules, with certain activities now being permitted to be undertaken by 100 per cent. foreign-owned Bahraini entities and/or entirely foreign firms. As at 31 December 2007 and 2006 the consolidated balance sheet of the banking system was US\$245.8 billion and US\$187.3 billion, respectively. The consolidated balance sheet of the banking system was US\$252.4 billion as at 31 December 2008.

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

Bahrain also has an established insurance sector and a stock exchange, both of which are regulated by the CBB.

The Bahrain Stock Exchange ("**BSE**") opened in June 1987 and currently has 45 Bahraini firms listed with a total market capitalisation of US\$20.0 billion as at 31 December 2008 (compared to 44 Bahraini firms with a total market capitalisation of US\$27.1 billion as at 31 December 2007). An additional six overseas firms have been listed as a result of cross-listing arrangements with other exchanges.

Other Services

Tourism and Trade

The Government has encouraged the development of tourism and trade in Bahrain. It is a 50 per cent. equity investor in a US\$1.2 billion hotel development (an increase from the initial project cost of US\$800 million in 2008 which has resulted from the adjustment in project costs) on a 20 kilometre site south-west of Manama and in the development of Lulu Island as a tourist centre provisionally incorporating a marina. The development has now been renamed 'Reef Island' and will be a mixed-use master planned community consisting of residential and commercial units, retail, hospitality, healthcare and entertainment facilities. Infrastructure works (such as earthworks) on the project were completed in 2006 and construction of phase one (residential units) commenced in 2007 and is expected to be completed by the end of 2009. Phase two of the development (construction of hospitality, healthcare, retail and entertainment facilities) is expected to be completed by the end of 2010.

Bahrain has a growing tourism industry with several large scale tourist developments under construction. Bahrain continues to host Formula One races and the contract has been extended beyond the preliminary six years. The Government-assisted US\$1 billion private sector development of Amwaj Islands (a 300 million square feet freehold development) is nearing completion. The Government is a partner in another US\$1 billion resort complex in the south of

the country, Durrat al Bahrain. The Lost Paradise of Dilmun, one of the largest water parks in the Middle East, was completed in September 2007. 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.

Saudi nationals are the principal tourists to Bahrain with the causeway linking the two countries facilitating this movement. 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 to conduct and or attend business meetings, despite considerable competition from Dubai for tourists from the west. Bahrain currently has over 100 hotels, of which seven are registered as five stars.

In international trade, Bahrain has signed several significant trade agreements, including agreements with Malaysia and Thailand. Bahrain also concluded a Free Trade Agreement with the US, a first for the GCC in 2004. Bahrain is pursuing a Free Trade Agreement with the EU in association with the other GCC countries, and expectations are high for a conclusive agreement very soon. Trade Agreements with India and China are expected to be signed soon.

Common Market

The six GCC countries recently declared 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. As a separate, but a related initiative, the GCC countries (with the exception of Oman and the UAE) have also declared their intention to introduce a uniform single GCC-wide currency by the year 2010. In May 2008, it was agreed that the GCC Central Bank would be headquartered in Riyadh, which would also be home to the Monetary Council (the precursor to the GCC Central Bank).

Inflation

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

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

	2005	2006	2007	2008
Consumer price index (CPI) (2006 = 100)	98.0	100.0	103.3	106.9
Inflation (per cent.)	2.6	2.0	3.3	3.5

Source: Central Statistics Organisation

The Government has updated its consumer basket weights with the year 2006 as the new base year. Accordingly, Bahrain has maintained strong economic growth in a relatively low inflation environment as indicated by the CPI. The reported CPI at the new base year of 2006 increased from 100.0 in 2006, to 103.3 in 2007 and to 106.9 in 2008. An increase of 3.3 per cent. in 2007 and 3.5 per cent. for the year 2008. This increase in the rate of inflation in 2007 and 2008 may be attributable to the increase in commodity and food prices rises.

Wages

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

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

	2005	2006	2007	2008
			(US\$) ⁽¹⁾	
Public sector	1,766	1,862	2,059	2,120
Private sector	551	559	617	702
			(percentage change)	
Public sector	11.2	5.4	10.6	3.5
Private sector	3.5	1.4	10.5	6.5

Note: ⁽¹⁾Using the fixed conversion rate of BD0.376 = US\$1.00

Source: General Organisation for Social Insurance and Civil Service Bureau

Employment

Bahrain has a high proportion of non-Bahrainis amongst its working population (49.4 per cent. in 2007 and 34.1 per cent. in 2008). 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. is declining 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 (LF) 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 program, unemployment has been reduced from 15 per cent. in 2005 to 3.6 per cent. in 2008.

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 particularly that everyone has 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 will come into effect in August 2009, will allow foreign employees to transfer from one job to another independent of their sponsors, and lift all restrictions that were previously applicable to employees under the sponsorship programme.

Foreign Direct Investment and Privatisation

Foreign Direct Investment

The EDB was established by decree 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 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 US\$79.8 million. Since then, privatisations have accelerated, and during 2006/07 Hidd Power plant was privatised generating US\$737 million. In 2007, the Seef Mall privatisation generated US\$72 million to the Government. Private power capacity has increased significantly following the establishment of the private Al Ezzel 1000 kilowatt power and 90 metre gallons per day ("**gpd**") water plant.

As set out in Vision 2030, privatisation remains a priority for 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 due to be commissioned in stages commencing 2010 and completing in 2011. The Government has liberalised its telecommunications sector with the telecommunications law which came into effect in November 2002 and permitted a third-generation mobile network. The Government is also encouraging private sector investment in various sectors such as utilities, education and healthcare and privatised its public transport system. A new private sector power plant was established in 2007 under the privatisation scheme, and future privatisation of infrastructure products (specifically roads) may be considered.

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**

	2005	2006	2007	2008
			(US\$ millions) ⁽¹⁾	
1. Current account (a+b+c+d)	1,474.2	2,187.5	2,906.7	2,256.9
a. Goods	1,477.9	2,386.2	2,864.7	3,244.9
General Merchandise	1,371.3	2,246.3	2,708.0	3,069.4
Exports (fob)	10,242.0	12,200.0	13,633.5	17,315.7
Oil	7,783.5	9,217.5	10,796.0	13,788.8
Non-oil	2,458.5	2,982.5	2,837.5	3,526.9
Imports (fob)	-8,870.7	-9,953.7	-10,925.5	-14,246.3
Oil	-4,169.7	-4,901.6	-5,864.1	-7,204.3
Non-oil	-4,701.0	-5,052.1	-5,061.4	-7,042.0
Repairs on goods	106.6	139.9	156.7	175.5
b. Services (net)	1,631.9	1,717.0	1,823.4	1,710.1
Transportation	52.7	48.1	50.8	-144.2
Travel	505.8	592.3	626.3	662.8
Communication services	626.3	618.1	642.8	665.2
Financial services (Including Insurance)	421.0	427.1	467.3	486.7
Other business services	26.1	31.4	36.2	39.6
c. Income (net)	-412.2	-384.8	-298.7	-923.6
Investment income	-412.2	-384.8	-298.7	-923.6
Direct investment income	-687.2	-838.8	-1,190.2	-1,273.9
Portfolio income	1,027.7	1,590.7	2,054.3	1,087.0
Other investment income	-752.7	-1,136.7	-1,162.8	-736.7
d. Current transfers (net)	-1,223.4	-1,530.9	-1,482.7	-1,774.5
Workers' remittances	-1,223.4	-1,530.9	-1,482.7	-1,774.5
2. Capital and financial account (net)(A+B)	-1,624.2	-2,198.7	-2,916.5	-2,226.6
A. Capital account (net)	50.0	75.0	50.0	50.0
Capital transfers	50.0	75.0	50.0	50.0
B. Financial account (1+2+3+4)*	-1,674.2	-2,273.7	-2,966.5	-2,276.6
1. Direct investment	-86.7	1,934.8	86.9	173.4
Abroad	-1,135.4	-980.1	-1,669.2	-1,620.5
In Bahrain	1,048.7	2,914.9	1,756.1	1,793.9
2. Portfolio investment (net)	-4,614.4	-8,831.1	-8,559.8	9,276.9
Assets	-7,036.2	-10,527.1	-9,890.1	6,286.7
Liabilities	2,421.8	1,696.0	1,330.3	2,990.2
3. Other investment (net)	3,321.0	5,444.7	6,921.0	-12,021.0
Assets	11,562.5	-30,234.8	-38,504.8	-3,264.6
Liabilities	14,883.5	35,679.5	45,425.8	-8,756.4
4. Reserve assets (net)	-294.1	-822.1	-1,414.6	294.1
3. Errors and omissions	150.0	11.2	9.8	-30.3

Notes:

⁽¹⁾Using the fixed conversion rate of BD0.376 = US\$1.00

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

**Trade statistics in this table are prepared on a fob[^] basis.

[^] fob means 'free on board'.

Source: CBB

Current Account

Bahrain's economy is significantly dependent on imports as evidenced by import/GDP ratios of between 59 per cent. and 65 per cent. in each of the preceding four years ending in 2008. 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). Although

import volumes have remained relatively stable in recent years, there have been significant swings in value as the price of oil imported by Bahrain fluctuates.

Bahrain's principal exports are crude oil, refined 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 four years, ending 2008.

Bahrain's services balance has been positive in each of the preceding four years, ending 2008. The principal source of revenue in the services sector is income from tourists. 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 has resulted in significant negative current transfers in each of the preceding four years, ending 2008.

Bahrain's current account surplus, as a percentage of real GDP, was 14.4 per cent. in 2005, 20.0 per cent. in 2006 and 24.5 per cent. in 2007. In 2008, Bahrain's current account surplus, as a percentage of real GDP, was 17.9 per cent.

Capital 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 Balance of Payments and Foreign Trade. However, in 2006 foreign direct investment in Bahrain was more than double the amount invested abroad. In 2007 and 2008, foreign direct investment in Bahrain was US\$1,756 million and US\$1,794 million, respectively.

On a net basis, portfolio investment (which principally comprises debt and equity securities issued by banks) showed a net outflow in 2005. Other investment (principally comprising of bank loans and cash deposits) has showed an inflow since then, including for the years ending 2005 and 2006. For the years ending 2007 and 2008 other investment was provisionally US\$6,921 million and US\$12,021 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 surpluses of US\$294 million, US\$822 million and US\$1,415 million in each of 2005, 2006 and 2007, respectively. In 2008 Bahrain's balance of payments showed a deficit of US\$294 million. In 2005, 2006 and 2007, the surpluses were equal to 2.2 per cent., 5.2 per cent. and 7.7 per cent. of the relevant year's GDP. In 2008, the deficit was equivalent to 1.3 per cent. of 2008 GDP. As of 31 December 2006, Bahrain's gross foreign exchange reserves were equal to approximately 3.2 months of obligations in respect of imports of goods. As at 31 December 2007 and as of 30 September 2008, Bahrain's gross foreign exchange reserves were equal to approximately 4.4 and 4.2 months, respectively, of obligations in respect of imports of goods and non factor services.

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:

	2005	2006	2007	2008
Imports of oil (US\$ millions) ⁽¹⁾	4,170	4,902	5,864	7,204
As a percentage of total imports	44.3	46.6	51.0	50.6

Note: ⁽¹⁾ Using the fixed conversion rate of BD0.376 = US\$1.00

Source: National Oil and Gas Authority

The majority of Bahrain's major exports are petroleum related, consisting of petroleum products from the refinery at Sitra, petrochemical products from the petrochemical complex operated by GPIC and revenues derived from the sale of Bahrain's share of the crude oil produced at the Abu Saafa oil field. For a summary of oil production and refinery figures, see the tables under "Bahraini Economy - Principal Sectors of the Economy" above. The largest non-oil export is aluminium from the Alba production plant (accounting for 14.0 per cent. of total exports and 57.2 per cent. of all non-oil exports in 2006 and 9.7 per cent. of total exports, 46.8 per cent. of all non-oil exports in 2007).

As it had for the previous three years, the trade balance registered a surplus in 2005. This surplus, at US\$1,478 million, was double the surplus of US\$738 million recorded in 2004. The surplus in 2006, increased further by 62 per cent. to US\$2,386 million. These movements largely reflect the movements in the oil trade balance over the period which in turn were mainly due to the increasing in global oil prices.

In 2007 the surplus increased by 20 per cent. to US\$2,865 million. The surplus in 2008, according to provisional results, increased by a further 13 per cent. to US\$3,245 million. The increases in 2007 and 2008 were due to high oil prices.

Non-oil trade

Bahrain's non-oil trade balance has been in deficit in each of the three years to 2007, with the amount of the deficit ranging from a low of US\$2,631 million in 2006 to a high of US\$2,786 million in 2007 (in each case measured on a cost, insurance and freight basis ("CIF")).

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

	2005			2006			2007		
	Exports	Imports	Balance	Exports	Imports	Balance	Exports	Imports	Balance
	(US\$ millions) ⁽¹⁾								
Arab countries	1153.46	804.79	348.67	1257.71	928.19	329.52	1407.18	1079.79	327.39
Africa	5.32	17.82	(12.50)	10.64	16.49	(5.85)	12.23	21.28	(9.05)
Asia	762.23	1743.88	(981.65)	1016.22	1818.62	(802.40)	555.85	1841.76	(1285.91)
Europe	207.98	1611.70	(1403.72)	357.18	1697.34	(1340.16)	347.61	1435.11	(1087.50)
Americas	263.03	600.27	(337.24)	269.68	605.32	(335.64)	376.86	507.45	(130.59)
Oceania	52.39	443.09	(390.70)	56.38	544.95	(488.57)	125.80	735.37	(609.57)
Other countries	14.10	1.86	12.24	14.63	2.66	11.97	11.97	2.93	9.04
Total	2458.51	5223.40	(2764.90)	2982.45	5613.56	(2631.13)	2837.50	5623.67	(2786.19)

Note:

⁽¹⁾ Using the fixed conversion rate of BD0.376 = US\$1.00

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

Source: Central Informatics Organisation

The tables below show Bahrain's main non-oil trading partners by market share for the periods shown:

Exports:	2005	2006	2007
		(%)	
Saudi Arabia	26.3	22.5	24.9
US	10.7	8.5	13.1
Taiwan	4.7	2.8	0.7
UAE	6.4	5.6	7.1
Imports:	2005	2006	2007
		(%)	
Saudi Arabia	8.0	8.6	9.8
Australia	8.2	9.5	12.9
Japan	11.0	11.1	10.7
US	6.6	7.1	6.8
United Kingdom	5.6	5.0	4.2
Germany	7.3	7.2	5.7

Source: Central Informatics Organisation

Bahrain's principal non-oil export destinations were Saudi Arabia and the US, which together accounted for 31 per cent. of total non-oil exports in 2006. The principal export to the US was ready made garments and the principal exports to Saudi Arabia were aluminium, asphalt and textiles. In terms of non-oil imports, Bahrain's principal trading partners in 2006 were Saudi Arabia, Australia, Japan, the US, the United Kingdom and Germany, which together were the source of 48.5 per cent. of Bahrain's imports in that year. The principal import from Australia was alumina used by the Alba smelter whilst cement and food products were the principal non-oil imports from Saudi Arabia. Cars and car parts were the principal imports from Japan and Germany, coke (for the Alba plant) and tobacco were the principal imports from the US and various general machinery was the principal import from the United Kingdom.

In 2007, Bahrain's principal non-oil export destinations were Saudi Arabia and the US, which together accounted for 38 per cent. of total non-oil exports in that year. The principal export to the US was ready made garments and the principal exports to Saudi Arabia were aluminium, asphalt and textiles. In terms of non-oil imports, Bahrain's principal trading partners in 2007 were Australia (accounting for 12.9 per cent. of total imports), Japan (accounting for 10.7 per cent. of total imports), Saudi Arabia (accounting for 9.8 per cent. of total imports), China (accounting for 8.5 per cent. of total imports) and the US (accounting for 6.8 per cent. of total imports). Collectively these countries were the source of 48.7 per cent. of Bahrain's imports in 2007. The principal import from Australia were alumina used by the Alba smelter whilst cement and food products were the principal non-oil imports from Saudi Arabia. Cars and car parts were the principal imports from Japan, coke (for the Alba plant) and tobacco were the principal imports from the US.

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

Exports	2005		2006		2007	
	(US\$ millions)	(%)	(US\$ millions)	(%)	(US\$ millions)	(%)
Base metals and articles thereof	1417.55	57.6	1821.81	61.1	1,442.02	50.8
Textiles	135.64	5.5	101.06	3.4	120.74	4.3
Total non-oil exports	2458.51	100	2982.45	100	2,837.50	100

Imports	2005		2006		2007	
	(US\$ millions)	(%)	(US\$ millions)	(%)	(US\$ millions)	(%)
Machinery and appliances, electrical equipment	1071.81	20.5	1275.27	22.7	1,133.51	20.2
Chemical products	707.45	13.5	897.61	16.0	1,002.66	17.8
Transport equipment	788.56	15.1	887.23	15.8	986.44	17.5
Textiles	234.57	4.5	201.06	3.6	171.01	3.0
Total non-oil imports	5223.40	100	5613.56	100.0	5,623.67	100

Note: Conversions from Bahraini Dinars to US dollars were converted using the fixed conversion rate of BD0.376 = US\$1.00

The totals in the above tables do not conform to the equivalent numbers stated in the balance of payments because the numbers in these tables are prepared on a CIF basis.

Source: Central Informatics Organisation

Bahrain's principal non-oil export items are base metals (principally aluminium products but also iron) and textiles including ready made garments. Between them, these two items accounted for 63.1 per cent. of non-oil exports in 2005, 64.5 per cent. in 2006, and approximately 55.1 per cent. in 2007. This variation in percentage of non-oil exports is predominantly as a result of upward movement in global oil prices.

On the imports side, the principal categories of imports are machinery and electrical equipment, transport equipment (including cars), chemical products (principally coke for the Alba smelter) and textiles (principally raw materials). Between them, these four categories accounted for approximately 53.6 per cent. of non-oil imports in 2005, 58.1 per cent. in 2006 and approximately 58.5 per cent. in 2007.

MONETARY AND FINANCIAL SYSTEM

Monetary and Exchange Rate Policy

Bahrain's monetary and exchange rate policy was previously managed by the BMA pursuant to the Bahrain Monetary Agency Law (No 23 of 1973). The objective of Bahrain's monetary policy was 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 = US\$1. 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 now 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 33-year track record and wide range of responsibilities. The CBB now implements Bahrain's monetary and foreign exchange rate policies, manages the Government's reserves and debt issuance, issues the national currency and oversees the country's 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.

Liquidity and Money Supply

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

	2005	At 31 December 2006 (US\$ millions) ⁽¹⁾	2007	2008
Currency in circulation	507.45	605.59	681.38	809.04
M1	2,825.80	3,419.68	4,182.45	5,049.73
M2	9,342.55	10,731.91	15,113.30	17,894.68
M3	11,088.83	13,012.23	17,705.05	21,394.95

Note: ⁽¹⁾Using the fixed conversion rate of BD0.376 = US\$1.00

Source: CBB

The indicators above highlight the continued growth of money supply during 2007. Currency in circulation (outside banks) increased by US\$75.80 million (12.5 per cent.) to US\$681.38 million in 2007 compared with US\$605.59 million in 2006. As at 31 December 2007, M1 (currency in circulation plus private demand deposits) grew by 22.3 per cent. to US\$4,182.45 million compared to 21.0 per cent. (US\$3,419.68 million) in 2006. M2 (M1 plus private sector savings and time deposits) grew by 40.8 per cent. to US\$15,113.30 million in 2007 compared to 14.9 per cent. (US\$10,731.91 million) for the corresponding period in 2006. M3 (M2 plus government deposits) grew by 36.1 per cent. to US\$17,705.05 million compared to US\$13,012.23 million for the corresponding period in 2006.

In 2008, currency in circulation increased by US\$127.66 million (18.7 per cent.) to US\$809.04 million compared with US\$681.38 million in 2007. As at 31 December 2008, M1 grew provisionally by 20.7 per cent. to US\$5,049.73 million compared to US\$4,182.45 million in 2007 (which had increased by 22.3 per cent. from the previous year). M2 grew by approximately 18 per

cent. to US\$17,894.68 million in 2008 compared to US\$15,113.30 million in 2007 (which had increased by 40.8 per cent. from the previous year). M3 grew by 20.8 per cent.

Money supply growth has been stimulated on 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 US\$17,085.64 million and accounted for approximately 95 per cent. of M2. In 2007, total private sector deposits (demand deposits as well as time and savings deposits) amounted to US\$14,431.91 million and accounted for approximately 95 per cent. of M2. Although private demand deposits increased by 24.4 per cent., M2 growth was largely a result of growth in time and savings deposits. Time and savings deposits increased by approximately 17 per cent. from US\$10,930.85 million at the end of 2007 to US\$12,844.95 million at the end of 2008, decreasing its share of M2 from approximately 72 per cent. in 2007 to approximately 71 per cent. in 2008.

At the end of 2008, the broadest measure of money (M3), increased by US\$3,689.90 million or by 20.8 per cent. from US\$17,705.05 million at the end of 2007 to US\$21,394.95 million. From the context of deposits, M3 includes general government deposits (with both the CBB and retail banks) which increased by US\$908.51 million or 35.1 per cent. from US\$2,591.76 million in 2007 to US\$3,500.27 million in 2008. As domestic liquidity, as also defined by M3, the growth was largely due to an increase in net foreign assets relative to domestic assets. During 2008, net foreign assets decreased by US\$2,691.22 million or 27.3 per cent. to reach a total of US\$7,152.13 million and total domestic assets increased by US\$6,381.12 million or 81.2 per cent. to reach a total of US\$14,242.82 million.

Foreign Reserves

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

	2005	At 31 December		
		2006	2007	2008
		<i>(US\$ millions)</i>		
Foreign exchange	1,875.8	2,694.7	4,105.3	3,806.9
SDRs	2.7	5.6	9.8	14.6
Reserve position in the IMF	108.0	104.8	108.5	115.7
Total gross foreign reserves	1,986.5	2,805.1	4,223.6	3,937.2
Gold ⁽¹⁾	6.6	6.6	6.6	6.6
Total gross foreign reserves	1,993.1	2,811.7	4,230.2	3,943.8
Net official reserves	-	-	-	-

Note:

⁽¹⁾National valuation.

Source: IMF. Net official reserves are not available for 2005, 2006, 2007 or 2008

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 invested in low credit risk securities such as government or government secured instruments. Total gross foreign reserves fell in 2008 by US\$286.4 million compared to 2007. However due to its conservative investment strategy, the CBB was able to exit most of its investments prior to the downturn in the global financial markets and was able to avoid a larger fall in its total gross foreign reserves. Another factor contributing to the fall in foreign reserves in 2008 may be the significant reversal of inflows experienced in 2007 as a result of inward investments.

The Banking Sector

Prior to 2006, the BMA categorised its licensed banking institutions as either (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).

	2005	2006	At 31 December 2007 (US\$ millions)	2008	2009*
Wholesale Banks					
Assets	123,845.4	164,263.2	196,338.5	188,862.6	179,873.2
Domestic	9,478.6	13,117.0	16,180.7	18,879.3	20,217.3
Foreign	114,366.8	151,146.2	180,157.8	169,983.3	159,655.9
Liabilities	123,845.4	164,263.2	196,338.5	188,862.6	179,873.2
Domestic	13,506.6	16,294.3	17,289.6	21,528.7	23,764.7
Foreign	110,338.8	147,968.9	179,048.9	167,333.9	156,099.1
Retail Banks					
Assets	16,536.2	23,077.1	49,485.4	63,491.8	64,068.4
Domestic	11,880.9	14,515.2	21,372.9	29,612.2	30,967.3
Foreign	4,655.3	8,562.0	28,112.5	33,879.0	33,101.1
Liabilities	16,536.2	23,077.1	49,485.4	63,491.8	64,068.4
Domestic	13,725.8	17,771.8	27,104.3	32,951.3	32,744.7
Foreign	2,810.48	5,305.3	22,381.1	30,540.4	31,323.7

*2009 figures are as at 31 March 2009

Source: CBB

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

(a) Conventional Banks

Wholesale Banks

Wholesale banks comprise of locally incorporated banks and branches of foreign commercial banks which use Bahrain as a base. Wholesale banks are subject to the capital or cash reserve requirements of the CBB and, in the case of branches of overseas banks, may operate with significant tax benefits with regards 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 are the most important sector in Bahrain's financial services industry and employ a significant number of Bahraini nationals. There were 85 wholesale banks present in Bahrain as at 31 December 2007. A further two wholesale banks were established in 2008 bringing the total to 84 wholesale banks present in Bahrain as at 31 December 2008. As at 31 December 2007, wholesale banks had an aggregate balance sheet of US\$196,338.5 million, amounting to 79.9 per cent. of the aggregate balance sheet of the banking system (excluding the CBB). As at 31 December 2008, wholesale banks had an aggregate

balance sheet of US\$188,862.6 million, amounting to 74.8 per cent. of the aggregate balance sheet of the banking system (excluding the CBB).

The table below shows a breakdown of the assets and liabilities of wholesale banks as at 31 December 2007 and 2008.

	As at 31 December			
	2007		2008	
	Assets	Liabilities	Assets	Liabilities
Domestic (US\$ billions)	16.2	17.3	18.9	21.5
Foreign (US\$ billions)	180.1	179.0	170.0	167.4
Share of GCC countries (per cent.) ⁽¹⁾	34.3	30.9	37.2	28.6
Share of Western Europe (per cent.)	36.5	38.5	34.5	40.8
Share of Americas (per cent.)	12.7	7.5	10.7	6.4
Share of Asian countries (per cent.)	4.4	6.1	4.1	5.7
Denominated in US dollars (per cent.)	66.6	69.5	65.4	70.5
Denominated in Euro (per cent.)	11.5	11.4	11.4	11.0
Denominated in GCC currencies (per cent.) ⁽¹⁾	12.9	9.6	13.4	10.1

Note: ⁽¹⁾Excluding Bahrain

Source: CBB

Retail Banks

As at 31 December 2008, there were 30 retail banks (excluding specialised banks) with an aggregate balance sheet of approximately US\$63,491.2 million. This is an increase from the 29 retail banks (excluding specialised banks) with an aggregate balance sheet of approximately US\$49,485.4 million as at 31 December 2007. Retail banks include domestic banks, which hold most of the assets of this category, foreign banks, such as CALYON, BNP Paribas, Citibank, Standard Chartered and HSBC, and four Islamic banks. Personal loans form a significant component of commercial banks' domestic lending activities, accounting for 35.6 per cent. of such lending as at 31 December 2007 and 29.5 per cent. as at 31 December 2008. Business loans (primarily to the trade, construction and manufacturing sectors) and loans to the Government accounted for 58.1 per cent. and 6.3 per cent. respectively of total domestic lending by retail banks as at 31 December 2007. As at 31 December 2008 total business loans and loans to the Government accounted for 65.7 per cent. and 4.8 per cent., respectively of total domestic lending by retail banks.

(b) Islamic Banks

Bahrain is increasingly involved in the rapidly expanding Islamic banking business. 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 with eight more being issued in the 1990s. As at 31 December 2007, there were 25 Islamic banks of which six were retail banks and 19 were wholesale banks, making Bahrain the leading centre for Islamic finance in the Middle East. As at 31 December 2008, there were 26 Islamic banks of which 20 were wholesale banks.

As at 31 December 2007, the consolidated total assets of the Islamic banks (comprising unrestricted investments) stood at US\$16,430 million. Restricted investment accounts of the Islamic banks (which are off balance sheet items) as at 31 December 2007 amounted to approximately US\$7,713.2 million. In 2008, the consolidated total assets of the Islamic banks (comprising unrestricted investments) stood at US\$24,652 million, whilst restricted investment accounts of the Islamic banks amounted to approximately US\$8,252 million. 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.

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 currently issues two main types of banking licence, namely retail bank licences and wholesale bank licences. All these licences may be operated under either conventional or Islamic banking principles.

The CBB's board of directors consists of seven members drawn from the financial services industry, one of whom is a representative of Ministry of Finance and one of whom is the Governor of the CBB. Mr. Qassim Mohammed Fakhro is the Chairman of the board and Mr Hameed Salman Al Sairafi is the Deputy Chairman. Messrs Rasheed Mohammed Al Maraj, Yousif Abdulla Humood, Mohammed Hussain Yateem, Dr Zakaria Hejres and Shaikh Mohammed bin Ahmed Al-Khalifa are all members of the board. The CBB is managed by the Governor, the Deputy Governor, four executive directors and 13 directors and also employs support staff and specialist advisers.

The CBB has four off-site supervision directorates which undertake supervision of retail 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 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 banking supervision directorate is 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 directorate deals with the prudential supervision of banks and requires the published accounts of locally incorporated banks to comply with International Accounting Standards. Locally incorporated banks and branches of overseas banks operating under a commercial bank licence in Bahrain are required to publish financial statements on a quarterly basis and to have such financial statements reviewed by external auditors. In addition, all banks operating in Bahrain are required to send prudential returns on a quarterly basis and statistical returns on a monthly basis to the CBB.

As the banking regulator, the CBB sets and monitors capital requirements on both a consolidated (group) basis and on a solo (parent company only) basis. The CBB currently requires each Bahrain based bank or banking group to maintain a minimum (trigger) capital adequacy ratio of 12 per cent.; a requirement which exceeds the 8 per cent. minimum ratio requirement set by the Basel Committee on Banking Supervision 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. The basic indicator and standardised approaches are permitted for operational risk, while the standardised and internal model approaches are permitted for market risk. New more extensive Pillar Three Disclosure requirements come into effect for all Bahrain incorporated banks' financial statements dated 30 June 2008 onward. Under Pillar Two, individual target capital adequacy requirements, based upon individual risk assessments, will be set for each bank during 2008/9, gradually replacing the industry-wide 12 per cent. ratio mentioned above.

In 1993, a depositor protection scheme was introduced. Under the scheme, both resident and non-resident deposits placed with full commercial banks, whether in the local or in a foreign currency, are protected up to 75 per cent., subject to a maximum of BD15,000 (US\$39,893.62) in the event of liquidation.

Islamic Banking

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

Due to the different way in which Islamic banking is operated and the specific risks inherent in this system, the CBB has developed a regulatory framework separate from that for the conventional banking system. 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. At present there is no depositor protection scheme for Islamic banks.

Insurance

Bahrain is the leading insurance centre in the GCC countries. In total, there were some 167 insurance companies and organisations registered in Bahrain at 31 December 2007. The gross premiums of the insurance market totalled US\$79.0 million in 2007 (representing a 16.2 per cent. increase from the previous year). As at 31 December 2008 there were some 165 insurance companies and organisation and gross premiums of the insurance market totalled US\$487.8 million (representing a 517 cent. increase from the previous year).

Responsibility for the regulation of the insurance sector was passed from the Ministry of Commerce to the insurance directorate of the BMA in 2002. 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, as the successor of the BMA, on a quarterly basis.

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**") in the Ministry of the Interior. Under this new 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 US\$15,000 which they regard as suspicious. An STR is first submitted to the CBB, which, if it deems necessary, will pass on the STR to the FIU for further review. Typically, 30-40 STRs are reported to the CBB each month.

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

Capital Markets

The BSE was established in 1987. As at 31 December 2008, a total of 45 Bahraini companies were listed on the BSE with a total market capitalisation of US\$20.0 billion (compared to 44 Bahraini firms with a total market capitalisation of US\$27.0 billion as at 31 December 2007. A further six non-Bahraini companies were listed on the BSE under cross-listing arrangements. Bonds (both corporate and government) and mutual funds are also listed on the exchange.

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

Since August 2002, the CBB (then the BMA) has assumed responsibility for regulating the BSE. The issuing of broking licences, changes to listing and trading rules and 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 depository system.

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

	2005	2006	2007	2008*
Volume of shares traded				
(millions of shares)	458.3	727.6	851.1	1,675.8
Value of shares traded (US\$ million) ⁽¹⁾	713.0	1,390.7	1,072.0	2,094.0
Bahrain index (points)	2195.80	2217.58	2,755.27	1,804.07
Number of listed Bahraini companies ⁽²⁾	40	43	44	45

* The 2008 figures are provisional figures.

Note: ⁽¹⁾Using the fixed conversion rate of BD0.376 = US\$1.00

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

Source: BSE

PUBLIC FINANCE

Government budget

Bahrain prepares budgets on a biennial basis, the most recently published budget being in for the financial year 2009/2010 which was approved by the National Assembly on 25 March 2009.

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. There are some extra-budgetary transactions (principally related to defence and national security issues as well as in relation to grants from other GCC countries) which are presented only on a net basis in the budget. These are however declining after several items within the extra budgetary category were moved to the general budget and the recent establishment of two holding companies incorporated in Bahrain, Mumtalakat and Oil and Gas Holding Company (B.S.C.) (C), established by royal decree on 31 December 2007 ("**Oil and Gas**"). In addition, 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.

Bahrain's budget is presented on a cash basis.

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

	2005 Actual	2006 Actual	2007 Actual	2008 Budgeted	2009 Budgeted*	2010 Budgeted*
	<i>(US\$ millions)</i>					
Revenues	4,445	4,893	5,417	4,489	3,721	3,894
Oil and gas	3,365	3,768	4,336	3,311	2,824	2,989
Taxation and fees	973	1,051	987	1,077	798	805
Other non-oil	106	74	101	101	101	101
Expenditure	3,429	4,145	4,835	6,133	5,540	5,832
Current expenditure	2,724	2,929	3,540	4,372	4,729	5,024
Projects expenditure	705	1,216	1,295	1,303	811	811
Surplus/deficit	1,016	747	585	1,186	(1,819)	(1,922)
Transfer to reserve for sovereign and strategic projects	332	372	468	457	-	-

**As provided in the Government's budget for fiscal years 2009/2010
Source: Ministry of Finance*

In 2005 a surplus of US\$1,016 million was recorded. The key factor that contributed to the surplus was the continuing increase in the global oil prices which averaged US\$53.77.

In 2006 a surplus of US\$747 million was recorded. The key factor that contributed to the surplus was the continuing increase in the global oil prices which averaged US\$60.73.

In 2007, a surplus of US\$585 million was recorded. The key factor that contributed to the surplus was the continuing increase in the global oil prices which averaged US\$54.00.

In 2008 an anticipated surplus of US\$1,186 million is expected. The key factor that is anticipated to contribute to the surplus is an increase in taxation and fees.

In 2009 a deficit of US\$1,819 million has been budgeted as against a budgeted surplus of US\$1,186 million in 2008. The key driver of the budgeted deficit is increased expenditure in Government projects and infrastructure expenditure. However, a conservative average global oil price of US\$40 per barrel has been applied to the budget. In 2007, the Government applied the same conservative average of US\$40 per barrel to the budget compared to the actual average global oil price of US\$64.92 in that year.

The 2009/2010 budget, prepared by the Government, was approved by the Cabinet and the National Assembly in October 2008. The key item of the budget is the anticipated revenue of US\$3,721 million in 2009 of which, US\$2,824 million is anticipated to be comprised of oil and gas revenues (assuming a very conservative oil price of US\$40 per barrel, compared to an actual price of around US\$60.00 per barrel in the previous two years' budgets). Current expenditure is budgeted at US\$4,729 million whilst projects expenditure is budgeted at US\$811 million. This results in a budgeted deficit of US\$1,819 million. The 2009 and 2010 budgets have assumed average GDP growth of 6.5 to 7 per cent. and an average inflation rate of between 2 and 3 per cent. over the two years.

Revenue

Total revenues for 31 December 2007 increased by approximately 10.6 per cent. to US\$5,416.8 million compared to US\$4,897.9 million for the same period in 2006. The Government budgeted US\$4,416.5 million for 2007 whilst actual revenues amounted to US\$5,416.8 million (a 22.6 per cent. increase). The table below sets out a breakdown of Government revenues for the periods indicated:

	2005 Actual	2006 Actual	2007 Actual	2008 Budgeted	2009 Budgeted	2010 Budgeted
	<i>(US\$ millions)</i>					
Oil and gas	3,365.2	3,767.8	4,336.4	3,311.2	2,824.4	2,988.0
Taxation and fees	165.4	190.4	415.7	412.5	393.6	399.7
Government goods and services	337.8	399.7	312.0	370.5	90.4	94.4
Government investment and properties	195.7	231.9	209.6	274.5	229.8	224.7
Grants	105.6	75.0	95.5	100.0	100	100
Fines, Penalties and Misc	28.7	39.9	36.4	29.3	0.8	0.8
Sale of capital assets	2.4	1.9	11.2	1.9	82.4	86.2
Total	4,450.5	4,897.9	5,416.8	4,499.9	3,721.4	3,893.8

Source: Ministry of Finance

The principal source of revenue for the last five years is that from the oil and gas industry with the actual amount of revenue being highly dependent on world oil prices. In 2005, revenues from oil and gas increased to 75.6 per cent. of total revenue following the increase in the global price of oil. In 2006 and 2007 it increased further to 76.9 per cent and 80.1 per cent., respectively reflecting the boom in the price of oil for those two years. In 2008, the contribution of oil and gas was 73.5 per cent. reflecting the decline in oil prices towards the latter part of year.

Taxation and fees income has traditionally been one of the other two significant contributors to revenue, being approximately 9.2 per cent. in 2005. Taxation and fees revenue amounted to approximately 7.6 per cent. in 2006 and increased to 7.7 per cent. in 2007 and are budgeted to increase to 9.2 per cent. in 2008. In 2009 taxation and fees revenue is budgeted to amount to approximately 10.6 per cent.

Other significant sources 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 comprises electricity and water sales, container handling and other port charges, airport taxes and airspace use fees.

Revenues from Government investments and properties principally comprise dividends earned on the Government's shareholdings whilst grants represent amounts paid annually to Bahrain by other GCC countries. The Government's major domestic shareholdings as at 31 December 2008 include its 100 per cent. stake in its holding companies, Mumtalakat and Oil and Gas. A full table of Government equity holding in various local and foreign companies is set out below.

The table below sets out companies in which Mumtalakat holds equity exceeding 50 per cent. as at 31 December 2007 and 2008:

Company	As at 31 December	
	2007	2008
	Equity holding (per cent.)	
Gulf Air Company	100	100
Bahrain Airport Co.	100	100
Aluminium Bahrain (ALBA)	77	77
Tourism Projects Company	100	100
Bahrain International Circuit	100	100
Bahrain Flour Mills Company	65.7	65.7
General Poultry Company	100	100
Bahrain Real Estate Company	100	100
Al-Awali Real Estate Company	100	100
Howar Island Development Company	100	100

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 2007 and 2008:

Company	As at 31 December	
	2007	2008
	Equity holding (per cent.)	
Gulf Aluminium Rolling Mill Company (GARMCO)	37.29	37.29
Durrat Khaleej Al Bahrain Company	50	50
Bahrain International Golf Company	14.29	14.29
Bahrain Family Leisure Company	12.5	12.5
Lulu Tourism Company	50	50
Al Areen Desert Spa Company	33.3	33.3
Zallaq Resort Company	8.7	4.3
Southern Area Development Company	25	25
National Bank of Bahrain (NBB)	49	49
Gulf International Bank (GIB)	12.1	12.1
Bahrain Livestock Company	25	25
Bahrain Telecommunication Company (BATELCO)	36.7	36.7
Arab Shipbuilding & Repair Yard (ASRY)	18.8	18.8
Howar Holding Company	33.3	33.3

Source: Ministry of Finance

The table below sets out foreign companies in which Mumtalakat holds equity as at 31 December 2007 and 2008:

Company	As at 31 December	
	2007	2008
	Equity holding (per cent.)	
McLaren Group Limited	30	30
United Arab Shipping Company (UASC)	2.1	2.1
Arab Maritime Petroleum Transport Company	3.8	3.8
Arab Petroleum Investment Corporation (APICORP)	3	3
Arab Investment Company	1.7	1.7
Arab Satellite Communication Company (ARABSAT)	2.5	2.5
Dar Al Mal Al Islami	0.2	0.2
Arab Petroleum Services Company	3	3
Arab Pharmaceutical Industries Company	0.9	0.9
Gulf Investment Corporation (GIC)	16.7	16.7
Oasis Capital Bank	0	4.08

Source: Ministry of Finance

The table below sets out companies in which Oil and Gas holds equity as at 31 December 2007 and 2008:

Company	As at 31 December	
	2007	2008
	Equity holding (per cent.)	
BAPCO	30	100
GPIC	33	33
BANAGAS	75	75
Bahrain Aviation Fuel Co	60	60

Source: Ministry of Finance

Current Expenditure

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

	2005 Actual	2006 Actual	2007 Actual	2008 Budgeted
	<i>(US\$ millions)</i>			
Manpower	1557.2	1670.5	1929.5	2178.2
Services	253.7	259.8	281.6	295.2
Consumables	251.9	256.6	389.6	481.4
Assets	34.8	38.3	47.3	47.9
Maintenance	71.3	83.5	123.4	117.0
Transfers	331.4	360.1	526.9	659.6
Grants, subsidies and payment of interest	489.4	260.1	242.0	587.8
Total	2723.9	2929.0	3540.2	4372.3

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 comprised 57.2 per cent. of total current expenditure in 2005. Manpower expenditure in 2006 and 2007 was 57 per cent. and 54.5 per cent. of total current expenditure, respectively. In 2008, manpower expenditure comprised of 49.8 per cent of total current expenditure. The principal employers within the Government sector in Bahrain are the Ministries of Defence, Interior, Education and Health, which between them accounted for 73.6 per cent. of total budgeted manpower expense in 2007 and 74.9 per cent. in 2008.

Services expenditure covers, inter alia, expenditure on utilities such as electricity, water, telephones, postage and travel. Consumables include fuel and general supplies and materials. The major consumers of services are the Ministries of Defence, Education, Electricity and Water and Health, which between them accounted for 56.5 per cent. of total budgeted services expense in 2007. The major users of consumables are the Ministries of Health, Electricity and Water and Defence, which between them accounted for 74.9 per cent. of total budgeted consumables expense in 2007.

The principal transfers are to the 16 local authorities in Bahrain, to Bahrain University and to the Radio and Television Corporation. Between them, these transfers are budgeted to amount to 23 per cent. of total budgeted transfers in 2007. Payments of interest, which are budgeted to amount to BD65 million (US\$173 million) in 2007, constitute the major part of current expenditure under the heading "Grants, subsidies and payment of interest".

In accordance with Vision 2030, the Government aims to reduce the 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 exclusively 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:

	2005 Actual	2006 Actual	2007 Actual	2008 Budgeted
	<i>(US\$ millions)</i>			
Infrastructure	505.1	972.9	846.0	859.0
Social services	69.4	105.1	151.1	164.9
Economic services	4.3	6.6	23.7	21.3
Administrative services	28.2	52.1	118.4	115.2
Others	97.9	79.3	270.2	144.16
Total	704.8	1216.2	1409.6	1,303.2

Source: Ministry of Finance

The principal area of projects expenditure is infrastructure, which accounted for 71.7 per cent. of total projects expenditure in 2005, 80.0 per cent. in 2006 and 60 per cent. in 2007. Infrastructure expenditure is budgeted at 66 per cent. of budgeted total projects expenditure in 2008.

Budget Process

At the beginning of the financial year starting before the two-year budget period, the Ministry of Finance estimates the affordable aggregate expenditures for the following two budgets 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 some 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.

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 approved by the Cabinet and the National Assembly and published after approval.

INDEBTEDNESS

The CBB is officially responsible for debt management in Bahrain and manages the issue of foreign and domestic debt for and on behalf of the Ministry of Finance.

External Government Debt

As at 31 December 2008, Bahrain's total external debt amounted to US\$903.4 million, equal to 4.13 per cent. of GDP.

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

	2005	At 31 December 2006 (US\$ millions)	2007	2008
Outstanding external debt	1,229.8	1,265.2	1,352.1	903.4

Source: Ministry of Finance

The following table sets out the breakdown of the Government's outstanding external borrowing at 31 December 2008 by lender:

	As at 31 December 2008 (US\$ millions)
Kuwait Fund for Arab Economic Development	170.2
Arab Fund for Economic and Social Development	395.2
The Saudi Fund for Development	22.8
Abu Dhabi Fund for Development	78.7
Islamic Development Bank	236.4
Total outstanding external debt	903.4

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 December 2008 although the amount outstanding will have increased as a result of further drawings.

The table below shows the maturity profile of outstanding external debt as at 2008.

	2008 total outstanding external debt	2009	2010	2011	2012	Remaining
		(US\$ millions)				
Total outstanding external debt	903.4	85.1	90.4	101.8	103.4	525

Source: Ministry of Finance

The total outstanding external debt as at 31 December 2008 was US\$903.4 million. The majority of the Government's external debt as at that date was denominated in GCC currencies. The average maturity of the external debt is currently 12.2 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.

In 2008, the international rating agencies Standard & Poor's and Fitch reaffirmed its outlook on Bahrain as A (Stable).

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.

On the other hand, weaknesses noted by the rating agencies included the narrow base for government revenues and its reliance on volatile oil earnings, a lack of transparency in the public finances, uncertainty about the policy agenda in Bahrain and regional instability.

Domestic Government Debt

The table below shows a breakdown of Bahrain's domestic debt at 31 December 2007 and 2008.

	As at 31 December	
	2007	2008
	<i>(US\$ millions)</i>	
Treasury bills (three month)	159.5	398.9
Treasury bills (six month)	79.8	79.8
Al Salam Islamic securities (three month)	47.9	47.9
Islamic leasing securities	1,348.0	1,348.0
Syndicated loans	176.0	450.5
Other loans	387.8	0.8
Gross domestic debt	2,199.6	2,325.9
Held by SIO	121.0	117.0
Held by pension funds	243.40	211.7
Net domestic debt	1,835.2	1,997.2

Source: Ministry of Finance

Bahrain's gross domestic debt amounted to US\$2,199.6 million at 31 December 2007, equal to 13.9 per cent. of GDP in 2006 and US\$2,326.6 as at 31 December 2008, equal to 10.6 per cent. of GDP in 2008. 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 treasury bills have maturities of three, six and twelve months and its short-term Islamic securities have maturities of three months. These securities are issued by the CBB and are used as a tool to manage and, in the case of the Islamic securities, to provide liquidity. Bahrain uses the proceeds of its Islamic leasing securities for funding projects. By Royal Decree No. 3 dated 17 April 2003, Bahrain's domestic debt in the form of securities may not exceed BD900 million (US\$ 2,934 million) in principal amount outstanding at any one time.

A significant proportion of Bahrain's domestic debt is held by commercial banks, SIO and by Government pension funds meaning that Bahrain's net domestic debt amounted to US\$1,997.9 million at 31 December 2008, equal to 9.12 per cent. of GDP in 2008. Total domestic debt, as at 31 December 2008 was US\$2402.7 million. In 2007, Bahrain's net domestic debt amounted to US\$1,835 million at 31 December 2007, equal to 11.6 per cent. of GDP in 2006. Total domestic debt, as at 31 December 2007 was US\$2326.6 million.

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.

Government Lending

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

TAX CONSIDERATIONS

Bahrain Taxation

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

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

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

European Union Taxation

Under EC Council Directive 2003/48/EC on the taxation of savings income, Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income, which may include Periodic Distribution Amounts) paid by a person within its jurisdiction to an individual resident in that other Member State. However, for a transitional period, Belgium, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending as 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) with effect from the same date.

CLEARANCE AND SETTLEMENT

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

Clearing Systems

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

Registration and Form

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

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

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

Clearance and Settlement Procedures

Initial Settlement

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

Secondary Market Trading

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

Trading between Euroclear and/or Clearstream, Luxembourg participants

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

General

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

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

SUBSCRIPTION AND SALE

Under the terms and conditions contained in a Certificate Purchase Agreement (the "**Certificate Purchase Agreement**") dated 15 June 2009 between the Issuer, the Kingdom of Bahrain, acting through the Ministry of Finance, CALYON, Deutsche Bank AG, London Branch and HSBC Bank plc (the "**Managers**"), the Issuer has agreed to issue and sell to the Managers US\$750,000,000 principal amount of the Certificates and, subject to certain conditions, the Managers have severally agreed to subscribe the Certificates.

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

United States of America

The Certificates have not been and will not be registered under the Securities Act and may not be offered or sold within the United States of America except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Each Manager has represented that it has not offered or sold, and agreed that it will not offer or sell, any Certificates constituting part of its allotment within the United States of America except in accordance with Rule 903 of Regulation S. Accordingly, neither it, its affiliates nor any persons acting on its behalf have engaged or will engage in any directed selling efforts with respect to the Certificates. Terms used in this paragraph have the meanings given to them in Regulation S.

United Kingdom

Each Manager has represented and agreed that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (the "**FSMA**")) received by it in connection with the issue or sale of any Certificates in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Certificates in, from or otherwise involving the United Kingdom.

United Arab Emirates

Each Manager has represented and agreed that:

- (a) the Certificates have not been and will not be offered, sold or publicly promoted or advertised by it in the United Arab Emirates other than in compliance with any laws applicable in the United Arab Emirates governing the issue, offering and sale of securities; and
- (b) the information contained in this Prospectus does not constitute a public offer of securities in the United Arab Emirates in accordance with the Commercial Companies Law (Federal Law No. 8 of 1986 (as amended)) or otherwise and is not intended to be a public offer and the information contained in this Prospectus

is not intended to lead to the conclusion of any contract of whatsoever nature within the territory of the United Arab Emirates.

Bahrain

Each Manager has represented that it has not offered and agreed that it will not offer the Certificates to the Public (as defined in Articles 142-146 of the Commercial Companies Law (Decree Law No. 21/2001) of Bahrain) in Bahrain.

Brunei Darussalam

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

Kingdom of Saudi Arabia

Any investor in the Kingdom of Saudi Arabia or who is a Saudi person (a "**Saudi Investor**") who acquires Certificates pursuant to an offering should note that the offer of Certificates is a sophisticated investor offer under Article 10 of the "Offer of Securities Regulations" as issued by the Board of the Capital Market Authority resolution number 2-11-2004 dated 4 October 2004 and amended by the Board of the Capital Market Authority resolution number 1-28-2008 dated 18 August 2008 (the "**KSA Regulations**"). Each Manager has represented and agreed that the offer of the Certificates will only be directed at "Sophisticated Investors" (as defined in Article 10 of the KSA Regulations).

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

Japan

The Certificates have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (the "**Financial Instruments and Exchange Law**"). Accordingly, each Manager has represented and agreed that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Certificates in Japan or to, or for the benefit of, a resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for re-offering or re-sale, directly or indirectly, in Japan or to, or for the benefit of, any resident in Japan except

pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Law and any other applicable laws, regulations and ministerial guidelines of Japan.

Dubai International Finance Centre

Each Manager has represented and agreed that it has not offered and will not offer the Certificates to any person in the Dubai International Financial Centre unless such offer is (a) deemed to be an "Exempt Offer" in accordance with the Offered Securities Rules of the Dubai Financial Services Authority (the "**Rules**"); and (b) made only to persons of a type specified in the Rules.

Kuwait

Each Manager has represented and agreed that no marketing or sale of the Certificates may take place in Kuwait unless the same has been duly authorised by the Kuwait Ministry of Commerce and Industry pursuant to the provisions of Law No. 31/1990 and the various ministerial regulations issued thereunder.

Qatar

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

Malaysia

Each Manager has represented and agreed that the offer of the Certificates in Malaysia has and will only be made to investors specified in Schedule 6 (or Section 229(1)(b)), Schedule 7 (or Section 230(1)(b)) and Schedule 8 (or Section 257(3)) of the Capital Markets and Services Act 2007.

Hong Kong

Each Manager has represented and agreed that:

- (a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, the Certificates other than (i) to persons whose ordinary business is to buy or sell shares or debentures (whether as principal or agent); or (ii) to "professional investors" within the meaning of the Securities and Futures Ordinance (Cap.571) of Hong Kong (the "**SFO**") and any rules made under the SFO; or (iii) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies Ordinance (Cap.32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and
- (b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, (in each case whether in Hong Kong or elsewhere), any advertisement, invitation or document relating to the Certificates, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to certificates which are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" within the meaning of the SFO and any rules made under the SFO.

Singapore

This Prospectus has not been registered as a prospectus with the Monetary Authority of Singapore under the Securities and Futures Act (the "**SFA**") and the Certificates are offered by the Issuer pursuant to exemptions invoked under Sections 304 and 305 of the SFA. Accordingly, each Manager has represented and agreed that it has not offered or sold and that it will not offer or sell any Certificates or cause such Certificates to be made the subject of an invitation for subscription or purchase, nor will it circulate or distribute this Prospectus or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Certificates, whether directly or indirectly, to the public or any member of the public in Singapore other than (a) to an institutional investor or other person specified in Section 304 of the SFA, or (b) pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Switzerland

This Prospectus does not constitute an issue prospectus pursuant to Article 652a or Article 1156 of the Swiss Code of Obligations and the Issuer has not and will not register with the Swiss Financial Market Supervisory Authority ("**FINMA**") as a foreign collective investment scheme. This Prospectus has therefore not been approved or disapproved by the FINMA. As a result, an investor in the Certificates does not benefit from the specific investor protection and/or supervision by the FINMA afforded under the Federal Act on Collective Investment Schemes and its implementing ordinances.

Each Manager represents, warrants and agrees that any offer or sale will be in strict compliance with the Swiss law and in particular with the rules of the Federal Act on Collective Investment Schemes, its implementing ordinances and the circular 08/8 of the FINMA on public solicitation. Each Manager represents, warrants and agrees that the Certificates will not be offered, promoted, sold or distributed to the public in or from Switzerland, but only to qualified investors in accordance with the Federal Act on Collective Investment Schemes and its implementing ordinances.

This Prospectus is personal to each offeree and does not constitute an offer to any other person.

The Prospectus may only be used by those persons to whom it has been handed out in connection with the offer described therein and may neither be copied or directly nor indirectly be distributed or made available to other persons without express consent of the Issuer.

General

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

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

observe, any applicable restrictions on the distribution of this Prospectus and the offering and sale of the Certificates.

GENERAL INFORMATION**1. AUTHORISATION**

The issue of the Certificates has been duly authorised by a resolution of the board of directors of the Issuer on 10 June 2009. The Issuer has obtained all necessary consents, approvals and authorisations in connection with the issuance of the Certificates.

2. LISTING

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

3. CLEARING SYSTEMS

The Certificates have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The ISIN for the Certificates is XS0434228127. The Common Code for the Certificates is 043422812.

4. NO MATERIAL CHANGE

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

5. NO SIGNIFICANT CHANGE

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

6. ACCOUNTS

The first financial year of the Issuer will end on 31 December 2009. The Issuer has no subsidiaries.

7. DOCUMENTS

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

- (a) the constitutional documents of the Issuer;
- (b) the Transaction Documents; and
- (c) the financial statements of Bahrain in respect of the two fiscal years ended 31 December 2007 and 31 December 2008 and the budget for the two year period ending 31 December 2010.

8. LITIGATION

Neither the Issuer nor the Government has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer or the Government is aware) in the twelve months preceding the date of this Prospectus which may have or have in such period had a significant effect on the financial position or profitability of the Issuer or the financial position of the Government.

9. THIRD PARTY INFORMATION

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

10. SHARIA PRONOUNCEMENT - FATWA

The transaction structure relating to the Certificates (as described in this Prospectus) has been approved by the Sharia Boards of CALYON and HSBC. These approvals will be available for inspection, at the specified offices of the Issuer during normal business hours, so long as any of the Certificates is outstanding.

11. COST OF LISTING

The overall cost of listing the Certificates is expected to amount to approximately US\$11,789.

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 Bahrain

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Manama
 Bahrain

DELEGATE**Citicorp Trustee Company Limited**

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**CO-SUKUK AGENT, PAYMENT ADMINISTRATOR,
 PRINCIPAL PAYING AGENT, TRANSFER AGENT,
 REFERENCE AGENT AND REPLACEMENT AGENT****Citibank, N.A.**

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