IMPORTANT NOTICE

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

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

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

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

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

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

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

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

The attached Prospectus is not being distributed to, and must not be passed on to, the general public in the UK. Rather, the communication of the attached Prospectus as a financial promotion is only being made to those persons falling within Article 12, Article 19(5) or Article 49 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, or to other persons to whom the attached Prospectus may otherwise be distributed without contravention of section 21 of the Financial Services and Markets Act 2000. This communication is being directed only at persons having professional experience in matters relating to investments and any investment or investment activity to which this communication relates will be engaged in only with such persons. No other person should rely on it.

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 or the Issuer that would or is intended to, permit a public offering of the securities, or possession or distribution of the Prospectus or any other offering or publicity material relating to the securities, in any country or jurisdiction where action for that purpose is required. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the 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.

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

The Kingdom of Bahrain
acting through the Ministry of Finance
U.S.$600,000,000 7.000 per cent. Bonds due 12 October 2028
(to be consolidated and form a single series with the U.S.$1,000,000,000 7.000 per cent. Bonds due 12 October 2028 issued on 12 October 2016)
Issue Price: 102.792 per cent. plus 136 days accrued interest

The U.S.$600,000,000 7.000 per cent. bonds due 12 October 2028 (the "**New Bonds**") to be consolidated and form a single series with the existing U.S.$1,000,000,000 7.000 per cent. bonds due 12 October 2028 issued on 12 October 2016 (the "**Existing Bonds**") are issued by the Kingdom of Bahrain acting through the Ministry of Finance (the "**Issuer**"). The New Bonds and Existing Bonds are herein collectively referred to as the "**Bonds**", except where the context otherwise requires. The New Bonds are intended to be consolidated and form a single series with the Existing Bonds on the New Issue Date (as defined below). The Issuer will pay interest on the New Bonds semi-annually in arrear on 12 April and 12 October in each year. Interest on the New Bonds will accrue from and including 12 October 2016.

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

Unless previously redeemed or purchased and cancelled, the New Bonds will be redeemed at their principal amount on 12 October 2028.

This Prospectus has been approved by the Central Bank of Ireland (the "**Central Bank**") as competent authority under Directive 2003/71/EC, as amended including by Directive 2010/73/EU (the "**Prospectus Directive**"). The Central Bank only approves this Prospectus as meeting the requirements imposed under Irish and European Union ("**EU**") law pursuant to the Prospectus Directive. Application has been made to the Irish Stock Exchange plc for the New Bonds to be admitted to the official list (the "**Official List**") and to trading on the Irish Stock Exchange plc's regulated market (the "**Main Securities Market**"). The Main Securities Market is a regulated market for the purposes of the Markets in Financial Instruments Directive (Directive 2004/39/EC). References in this Prospectus to Bonds being "**listed**" (and all related references) shall mean that such Bonds have been admitted to the Official List and have been admitted to trading on the Main Securities Market.

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

On 9 December 2016, Standard & Poor's Credit Market Services Europe Limited ("**Standard & Poor's**") downgraded Bahrain's long-term foreign currency sovereign debt rating to BB– (Stable Outlook). On 15 February 2017, Fitch Ratings Ltd. ("**Fitch**") affirmed Bahrain's long-term foreign currency sovereign debt rating to BB+ (Stable Outlook) and local currency rating to BB+ (Stable Outlook). Each of Standard & Poor's and Fitch is established in the EU, included in the list of credit rating agencies published by the European Securities and Markets Authority ("**ESMA**") on its website (at http://www.esma.europa.eu/page/List-registered-and-certified-CRAs) in accordance with Regulation (EC) No. 1060/2009 (as amended) (the "**CRA Regulation**") and registered under the CRA Regulation. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

The New Bonds will be offered and sold in denominations of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof. The New Regulation S Bonds will initially be represented by interests in a global unrestricted bond certificate in registered form (the "**New Regulation S Global Bond Certificate**"), without interest coupons, which will be deposited with a common depositary for, and registered in the name of a nominee of, Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking S.A. ("**Clearstream, Luxembourg**") on 28 February 2017, (the "**New Issue Date**"). Beneficial interests in the New Regulation S Global Bond Certificate will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear or Clearstream, Luxembourg. The New Rule 144A Bonds will initially be represented by a global restricted bond certificate in registered form (the "**New Rule 144A Global Bond Certificate**" and, together with the New Regulation S Global Bond Certificate, the "**New Global Bond Certificates**"), without interest coupons, which will be deposited with a custodian for, and registered in the name of a nominee of, The Depository Trust Company ("**DTC**") on the New Issue Date. Beneficial interests in the New Rule 144A Global Bond Certificate will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its participants. See "*Clearing and Settlement*". Individual definitive bond certificates in registered form ("**Individual Certificates**") will only be available in certain limited circumstances as described herein.

Prospective investors should be aware that none of the statistical information in this Prospectus has been independently verified. An investment in the New Bonds involves certain risks. For a discussion of these risks, see "*Risk Factors*".

Joint Lead Managers

BANK ABC	**BNP PARIBAS**	**CREDIT SUISSE**	**J.P. MORGAN**	**STANDARD CHARTERED BANK**

Co-Manager

NATIONAL BANK OF BAHRAIN

The date of this Prospectus is 27 February 2017.

IMPORTANT NOTICES

This Prospectus comprises a prospectus for the purposes of Article 5 of the Prospectus Directive and for the purpose of giving information with regard to the Issuer and the New Bonds.

The Issuer accepts responsibility for the information contained in this Prospectus. To the best of the knowledge and belief of the Issuer (having taken all reasonable care to ensure that such is the case) the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import and completeness of such information. None of the sources and websites referred to in this Prospectus form part of the Prospectus.

This Prospectus includes a map of Bahrain, statistical data and macroeconomic information regarding Bahrain for the periods indicated (comprising information on unemployment levels, the national income, the real Gross Domestic Product ("**GDP**"), the consumer price index and inflation, price levels, average monthly wage rates, foreign direct investment levels, the balance of payments, the crude oil and oil refining industries, the banking industry, foreign reserves, the budget, domestic liquidity, Bahrain Bourse (BHB) (the "**Bahrain Bourse**") transactions and the equity holdings of the Government of Bahrain (the "**Government**") in local and foreign companies) and information regarding clearing and settlement of the New Bonds under the following headings, "*Recent Developments*", "*Overview of The Kingdom of Bahrain*", "*Economy of The Kingdom of Bahrain*", "*Balance of Payments and Foreign Trade*", "*Monetary and Financial System*", "*Public Finance*", "*Indebtedness*" and "*Clearing and Settlement*". This information has been extracted from information provided by:

(i) the International Monetary Fund (in the case of "*Recent Developments*", "*Economy of the Kingdom of Bahrain*" and "*Monetary and Financial System*");

(ii) the Ministry of Finance (in the case of "*Recent Developments*", "*Economy of the Kingdom of Bahrain*", "*Public Finance*" and "*Indebtedness*");

(iii) the Central Informatics Organisation (in the case of "*Recent Developments*", "*Economy of the Kingdom of Bahrain*" and "*Balance of Payments and Foreign Trade*");

(iv) the Central Bank of Bahrain (in the case of "*Recent Developments*", "*Economy of the Kingdom of Bahrain*", "*Balance of Payments and Foreign Trade*" and "*Monetary and Financial System*");

(v) the General Organisation for Social Insurance and Civil Service Bureau (in the case of the "*Economy of the Kingdom of Bahrain*");

(vi) the National Oil and Gas Authority (in the case of "*Recent Developments*", "*Economy of the Kingdom of Bahrain*" and "*Balance of Payments and Foreign Trade*" and "*Public Finance*");

(vii) the Bahrain Bourse (in the case of "*Recent Developments*", "*Monetary and Financial System*");

(viii) the Ministry of Industry, Commerce and Tourism (in case of "*Economy of the Kingdom of Bahrain*");

(ix) the Nationality, Passports and Residences Affairs (in case of "*Economy of the Kingdom of Bahrain*");

(x) Bahrain Mumtalakat Holding Company B.S.C. (c) (in the case of "*Recent Developments*", "*Economy of the Kingdom of Bahrain*" and "*Public Finance*");

(xi) the Oil and Gas Holding Company B.S.C.(c) (in the case of "*Economy of the Kingdom of Bahrain*" and "*Public Finance*");

(xii) the Telecommunications Regulatory Authority (in case of "*Economy of the Kingdom of Bahrain*");

(xiii) the Survey & Land Registration Bureau (in the case of "*Overview of The Kingdom of Bahrain*");

(xiv) DTC, Euroclear and Clearstream, Luxembourg (in the case of "*Clearing and Settlement*");

(xv) Standard & Poor's (in the case of "*Recent Developments*" and "*Indebtedness*"); and

(xvi) Fitch (in the case of "*Recent Developments*" and "*Indebtedness*").

The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by each of the relevant sources, no facts have been omitted which would render the reproduced information inaccurate or misleading.

The Managers (as such term is defined in "*Subscription and Sale*") have not independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by any of the Managers as to the accuracy or completeness of the information contained in this Prospectus or any other information provided by the Issuer in connection with the New Bonds. None of the Managers accept any liability in relation to the information contained in this Prospectus or any other information provided by the Issuer in connection with the Bonds.

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

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

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

The New Bonds may not be a suitable investment for all investors. Each potential investor in the New Bonds must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor may wish to consider, either on its own or with the help of its financial and other professional advisers, whether it:

(i) has sufficient knowledge and experience to make a meaningful evaluation of the New Bonds, the merits and risks of investing in the New Bonds and the information contained or incorporated by reference in this Prospectus or any applicable supplement;

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

(iii) has sufficient financial resources and liquidity to bear all of the risks of an investment in the New Bonds, including New Bonds with principal or interest payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;

(iv) understands thoroughly the terms of the New Bonds; and

(v) is able to evaluate possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Legal investment considerations may restrict certain investments. The investment activities of certain investors are subject to investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (i) New Bonds are legal investments for it, (ii) New Bonds can be used as collateral for various types of borrowing and (iii) other restrictions apply to its purchase or pledge of any New Bonds. Financial institutions should consult their legal

advisers or the appropriate regulators to determine the appropriate treatment of New Bonds under any applicable risk-based capital or similar rules.

This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy the New Bonds in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Prospectus and the offer or sale of the New Bonds may be restricted by law in certain jurisdictions. Neither the Issuer nor the Managers represent that this Prospectus may be lawfully distributed, or that the New Bonds may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer or the Managers which is intended to permit a public offering of the New Bonds or distribution of this Prospectus in any jurisdiction where action for that purpose is required. Accordingly, the New Bonds may not be offered or sold, directly or indirectly, and neither this Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Prospectus or the New Bonds may come must inform themselves about, and observe, any such restrictions on the distribution of this Prospectus and the offering and sale of the New Bonds. In particular, there are restrictions on the distribution of this Prospectus and the offer or sale of the New Bonds in the United States, the European Economic Area (including the United Kingdom), the United Arab Emirates (excluding the Dubai International Financial Centre), the Dubai International Financial Centre, Singapore, Hong Kong, Bahrain and the Kingdom of Saudi Arabia. See "*Subscription and Sale*" and "*Transfer Restrictions*".

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

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

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

In connection with the issue of the New Bonds, J.P. Morgan Securities plc (the "Stabilising Manager") (or any person acting on behalf of the Stabilising Manager) may over-allot or effect transactions with a view to supporting the market price of the New Bonds at a level higher than that which might otherwise prevail. However, the stabilisation may not necessarily occur. Any stabilisation action or over-allotment may begin on or after the date on which adequate public disclosure of the terms of the offer of the New Bonds is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the issue date of the New Bonds and 60 days after the date of the allotment of the New Bonds. Any stabilisation action or over-allotment must be conducted by the Stabilising Manager (or any person acting on behalf of the Stabilising Manager) in accordance with all applicable laws and rules.

U.S. INFORMATION

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

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

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

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

SERVICE OF PROCESS AND ENFORCEMENT OF CIVIL LIABILITIES

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

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

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

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

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

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

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

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

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

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

NOTICE TO BAHRAIN RESIDENTS

The Central Bank of Bahrain (the "**CBB**") and the Bahrain Bourse assume no responsibility for the accuracy and completeness of the statements and information contained in this Prospectus and expressly disclaim any liability whatsoever for any loss howsoever arising from reliance upon the whole or any part of the contents of this Prospectus. Each potential investor resident in Bahrain intending to subscribe for the New Bonds (each, a "**potential investor**") may be required to provide satisfactory evidence of identity and, if so required, the source of funds to purchase the New Bonds within a reasonable time period determined by the Issuer and the Managers. Pending the provision of such evidence, an application to subscribe for the New Bonds will be postponed. If a potential investor fails to provide satisfactory evidence within the time specified, or if a potential investor provides evidence but none of the Issuer or the Managers are satisfied therewith, its application to subscribe for New Bonds may be rejected in which event any money received by way of application will be returned to the potential investor (without any additional amount added thereto and at the risk and expense of such potential investor). In respect of any potential investors, the Issuer will comply with Bahrain's Legislative Decree No. (4) of 2001 with respect to the Prevention and Prohibition of the Laundering of Money and various Ministerial Orders issued thereunder including, but not limited to, Ministerial Order No. (7) of 2001 with respect to Institutions' Obligations Concerning the Prohibition and Combating of Money Laundering and Anti-Money Laundering and Combating of Financial Crime Module contained in the CBB Rulebook, Volume 6.

CAUTIONARY STATEMENT REGARDING FORWARD LOOKING STATEMENTS

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

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

External factors, such as:

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

Internal factors, such as:

- the volumes of crude oil, natural gas and aluminium exported from Bahrain;
- the impact of fiscal consolidation, diversification and removal of subsidies;
- domestic inflation;
- delays in projects and implementation of fiscal reform;
- changes in political, social, legal or economic conditions in Bahrain;
- foreign currency reserves;
- natural disasters; and
- the levels of foreign direct and portfolio investment.

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

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

Certain Defined Terms and Conventions

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

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

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

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

References to a billion are to a thousand million.

The New Bonds are development bonds for the purposes of Legislative Decree No. (30) of 2015 on the Amendment of the Provisions of Legislative Decree no. (15) of 1977 on the issuance of development bonds.

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OVERVIEW

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

*References herein to a "**Condition**" are to the numbered condition corresponding thereto set out in the terms and conditions of the New Bonds.*

Bahrain's economy has shown resilience since the global financial crisis in 2008, with a track record of continued growth and low inflation. Bahrain has taken steps to diversify its economy away from a dependence on oil. Although oil continues to play an important part in Bahrain's economy, Bahrain also has an increasingly important financial services industry (acting as a financial centre for the Middle East and North Africa ("**MENA region**")). Manufacturing, oil refining, aluminium production and tourism are also significant contributors to Bahrain's GDP.

Bahrain's real GDP grew by 2.0 per. cent in 2011, 3.7 per cent. in 2012, 5.4 per. cent in 2013, 4.4 per. cent in 2014, 2.9 per cent. in 2015 and 3.6 per cent. in the first three quarters of 2016 compared to the first three quarters of 2015. According to estimates prepared by the International Monetary Fund ("**IMF**"), Bahrain's real GDP is forecasted to grow by 2.1 per cent. in 2016, 1.8 per cent. in 2017 and 1.6 per cent. in 2018. The EDB has revised its forecast for Bahrain's real GDP growth in 2016 upwards to 3.4 per cent. mainly due to higher than expected oil output for the year. While the IMF's 2016 real GDP growth forecast did not account for the increase in oil production, Bahrain expects the IMF to revise its forecast in relation to Bahrain's real 2016 GDP growth to more closely align with the EDB's forecast. Between 2012 and 2014, Bahrain has generated a current account surplus, driven by a free market economy with no restrictions on capital movement and an attractive business environment. However, in 2015, Bahrain generated a small current account deficit due to a decrease of oil export receipts which deficit is expected to increase in 2016 before decreasing in 2017 if the increases in oil prices in early 2017 persist. The non-oil sector has continued to grow, contributing 80.2 per cent. to Bahrain's GDP in 2015 and recording year-on-year growth of 3.6 per cent. in 2015.

Bahrain has also benefitted from the deployment of the U.S.$7.5 billion GCC Development Fund which has and will be provided as a grant to Bahrain. The deployment of the GCC Development Fund accelerated in 2016 with U.S.$1.5 billion being awarded to projects to be funded from the GCC Development Fund compared to U.S.$0.9 billion in 2015. As of 12 February 2017, U.S.$6.2 billion was allocated to projects, U.S.$3.3 billion of contracts were awarded and U.S.$0.8 billion was actually paid from the GCC Development Fund.

The following tables set forth certain summary statistics about the economy of Bahrain, public finance and public debt for the periods indicated.

	For the year ended 31 December					For the three months ended		
	2011	**2012**	**2013**	**2014**	**2015**	**31 March 2016**(2)	**30 June 2016**(3)	**30 Sept 2016**(4)
GDP at current prices (U.S.$ millions)(1)	28,776.6	30,749.3	32,539.6	33,387.7	31,125.9	7,586.1	7,974.1	8,156.9
GDP at constant prices (U.S.$ millions)(1)	26,223.3	27,201.0	28,674.4	29,921.8	30,778.9	7,837.6	7,935.0	8,070.8
GDP Growth at 2010 Constant Prices(5)	2.0	3.7	5.4	4.4	2.9	4.5	2.5	3.9
Inflation rate(6)	(0.4)	2.8	3.3	2.6	1.9	3.3	3.3	2.6

Note:

(1) Using the fixed conversion rate of BD0.376 = U.S.$1.00.
(2) GDP as at 31 March 2016 is only for the period between 31 December 2015 and 31 March 2016.
(3) GDP as at 30 June 2016 is only for the period between 31 March 2016 and 30 June 2016.
(4) GDP as at 30 September 2016 is only for the period between 30 June 2016 and 30 September 2016.
(5) With respect to the percentage change for a quarter, the figure represents the percent change between the relevant quarter in 2016 as compared to the same quarter in 2015.
(6) With respect to the percentage change for a quarter, the figure represents the percent change between the CPI in the final month of each quarter compared to the corresponding months in the previous year.

Source: Central Informatics Organisation

	2011	2012	2013	2014	2015
			U.S.$ millions		
FDI	22,331.4	23,876.1	27,603.7	29,122.3	27,659.6
Current Account	2,523.9	2,577.9	2,409.8	1,523.1	(79.3)
Budget Surplus/(deficit)	(83)	(602)	(1,091)	(1,210)	(4,035)
Government Revenue	7,504	8,070	7,829	8,217	5,431
Oil and Gas Revenue	6,593	7,036	6,915	7,081	4,241
Non-oil Revenue	911	1,034	914	1,136	1,190
Total Expenditure	7,588	8,673	8,920	9,427	9,467

Note:
Source: CBB

	As at 31 December					
	2011	2012	2013	2014	2015	2016
Total External Debt (U.S.$ millions)	3,640.6	5,035.6	6,428.5	6,811.9	8,208.2	11,205.2
Total outstanding Government Debt to current price GDP Ratio	32.8	36.2	43.9	44.4	61.8	72.2(1)

Note:
(1) Based on 2016 expected GDP.

Source: Ministry of Finance

Bahrain's 2015/2016 Budget and Key Priorities

Bahrain's key priorities are set forth in its Vision 2030 (defined below), the National Development Strategy 2015-2018 and the Government Action Plan 2015-2018. These key priorities are:

- protecting Bahrain's security environment by strengthening the rule of law and enhancing democratic institutions;
- transforming its economy from oil-dependent to globally competitive, diverse and fuelled by private enterprise, high productivity sectors (such as financial services and industry), and establishing stable financial and monetary systems;
- doubling the disposable income of every household from 2008 levels by 2030 and supporting rising living standards by implementing reforms to education, healthcare, housing, and labour market regulation;
- investing in Bahrain's port infrastructure and housing stock to provide modern transport, commodity and cargo terminals as well as high quality and safe housing; and
- achieving sustainable development through efficient utilisation of resources and rationalising the operations of the Government to better respond to Bahrain's needs.

The key initiatives undertaken by Bahrain include:

- *Fiscal initiatives to consolidate and enhance the flexibility of Bahrain's finances*

  Bahrain has adopted policies which prioritise fiscal sustainability and expand its efforts to diversify revenue streams, as well as, consolidate and enhance Bahrain's financial flexibility. The Government has adopted a three-pronged approach to achieve this goal: (a) developing non-oil streams of revenue; (b) increasing fees such as the fees for licences and services provided by the Civil Aviation Authority, visa fees, postal and traffic violation fees; (c) reallocating subsidies to lower-income segments of the population; and (d) controlling the growth of current public spending. In order to control growth of current public spending, the Government has launched the design and implementation of a fiscal sustainability framework and strategy and has established six ministerial teams which seek to revise and reduce recurrent expenditures. See "*Public Finance – Fiscal Policy.*"

- *Continuing the development of oil and gas capacity, including Bahrain Petroleum Company ("**Bapco**") modernisation programme and construction of pipeline with Saudi Arabia*

  Bahrain plans to invest U.S.$15.0 billion over the next two decades to develop oil and gas resources including completing construction of a new pipeline between Bahrain and Saudi Arabia by 2018 to increase capacity and efficiency. See "*Economy of the Kingdom of Bahrain - Mining - Oil*" It is also working on the Bapco Modernisation Programme (defined below) with the aim of increasing its refining capacity by a third and significantly improving its product mix. See *"Economy of the Kingdom of Bahrain – Mining –Refining."*

- *Developing non-oil streams of revenue including a focus on financial services and growing international trade*

  Bahrain is now one of the primary financial centres for the MENA region, with its financial sector being the largest non-oil contributor to GDP (accounting for 16.3 per cent. of GDP in 2015), and continues to place strong emphasis on attracting commercial, investment and Islamic banks to the country. As a member of the Gulf Cooperation Council ("**GCC**"), Bahrain is participating in a number of trade agreement negotiations, most notably with the EU, India and China. See "*Economy of the Kingdom of Bahrain – Other Services - Trade."*. Bahrain will continue to work on developing the non-oil revenue sector during the course of 2017-2018.

- *Expanding production capacity of Aluminium Bahrain B.S.C. ("**Alba**")*

  Aluminium is Bahrain's largest non-oil export and state-owned Alba is the world's fourth largest producer of aluminium by individual smelter capacity. Alba is aiming to invest over U.S.$3 billion to add a sixth potline which is expected to start production in early 2019 and is expected to add approximately 540,000 tonnes to Alba's existing capacity of 936,000 tonnes of aluminium per year. Alba's production volume reached 971,420 tonnes of aluminium in 2016. Alba has successfully closed the first phase of financing in September 2016 and has received U.S.$1.5 billion of commitments from banks for financing the addition of the sixth potline. Construction on the sixth potline has not yet started. See "*Public Finance – Revenue – Alba.*"

- *Developing a skilled and flexible labour force and developing an entrepreneurial generation*

  Bahrain has formulated strategic and operational plans to increase employability, job creation and social support. Under Vision 2030, as defined below, the Government aims to provide a number of different training programmes in the areas of financial services, hotel trade and technical retail. See "*Economy of the Kingdom of Bahrain – Employment.*" As part of the Tamkeen programme, the Government seeks to assist Bahraini individuals and enterprises by providing programmes on career progression, business incubators, pre-seed capital support and international placements. See "*Overview of the Kingdom of Bahrain – Tamkeen*".

- *Creating a regulatory framework to support private sector investment in the Bahraini real estate market*

  The Government has sought to strengthen the legal and supervisory framework of the real estate industry by introducing a sophisticated regulatory regime. New legislation has been introduced to regulate the activities of developers and protect investor returns, as well as establishing a joint judicial and expert committee to overcome delayed project obstacles and take projects forward. The purpose of this new regulatory framework is to attract investment for the Housing Project (defined below) which contemplates close cooperation between the public and private sectors to deliver affordable housing to low and middle income Bahraini families. In 2015 and 2016 to date, 3,103 new housing units have been delivered and occupied in Bahrain. There are currently an additional 1,800 housing units allocated and over 11,000 under construction. See "*Economy of the Kingdom of Bahrain – Foreign Direct Investment and Privatisation – Real Estate*."

The Offering

Issuer:	The Kingdom of Bahrain acting through the Ministry of Finance
Risk Factors:	There are certain factors that may affect the Issuer's ability to fulfil its obligations under the New Bonds. These are set out under "*Risk Factors*" and include certain political and economic issues that may affect the Issuer and certain factors relating to the statistical information included in this Prospectus. In addition, there are certain factors which are material for the purpose of assessing the market risks associated with the New Bonds. These are set out under "*Risk Factors*" and include the fact that the New Bonds may not be a suitable investment for all investors, certain risks relating to the structure of the New Bonds and certain market risks.
Issue:	U.S.$600,000,000 7.000 per cent. Bonds due 12 October 2028 (to be consolidated and form a single series with the U.S.$1,000,000,000 7.000 per cent. Bonds due 12 October 2028 issued on 12 October 2016). The New Bonds are intended to be consolidated and form a single series with the Existing Bonds on the New Issue Date.
Issue Price of the New Bonds:	102.792 per cent. of the principal amount of the New Bonds plus 136 days accrued interest of U.S.$26.4 per U.S.$1,000 principal amount of the New Bonds in respect of the period from, and including, 12 October 2016 to, but excluding, the New Issue Date.
Maturity Date of the New Bonds:	12 October 2028
Joint Lead Managers:	Arab Banking Corporation B.S.C. BNP Paribas Credit Suisse Securities (Europe) Limited J.P. Morgan Securities plc Standard Chartered Bank
Co-Manager:	National Bank of Bahrain B.S.C.
Fiscal Agent and Principal Paying and Transfer Agent:	Citibank, N.A., London Branch
Registrar and Paying and Transfer Agent:	Citigroup Global Markets Deutschland AG
Interest on the New Bonds:	The New Bonds will bear interest from and including 12 October 2016. Interest on the Bonds will be payable semi-annually in arrear on 12 April and 12 October in each year, commencing on 12 April 2017, at the rate 7.000 per cent. per annum.
Form and Denomination:	Each of the New Bonds will be issued in registered form, in denominations of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof. The New Regulation S Bonds will be represented by the New Regulation S Global Bond Certificate and the New Rule 144A Bonds will be represented by the New Rule 144A Global Bond Certificate, in each case without coupons. The New Global Bond Certificates will be exchangeable for Individual Certificates in the limited circumstances specified in the New Global Bond Certificates.

Taxation:	All payments of principal and interest by or on behalf of the Issuer in respect of the Bonds will be made without withholding or deduction for or on account of any taxes imposed by Bahrain or any authority therein or thereof having power to tax in accordance with Condition 7, unless such withholding or deduction is required by law. In that event, the Issuer will, save in certain circumstances provided in Condition 7, be required to pay such additional amounts as will result in receipt by the Bondholders of such amounts as would have been received by them had no such withholding or deduction been required.
Negative Pledge:	The terms and conditions of the New Bonds will contain a negative pledge provision as further described in Condition 3.
Cross-acceleration:	The terms and conditions of the New Bonds will contain a cross-acceleration provision as further described in Condition 8.
Initial Delivery of New Bonds:	On or before the New Issue Date, the New Regulation S Global Bond Certificate will be deposited with Citibank Europe plc as common depositary for, and registered in the name of a nominee of, Euroclear and Clearstream, Luxembourg and the New Rule 144A Global Bond Certificate will be deposited with Citibank, N.A., as custodian for, and registered in the name of a nominee of, DTC.
Status of the New Bonds:	The New Bonds are (subject to Condition 3) direct, unconditional and unsecured obligations of the Issuer which rank *pari passu*, without any preference among themselves and, subject as aforesaid, with all other outstanding present and future unsecured and unsubordinated obligations of the Issuer (save for such exceptions as may be provided by applicable legislation and subject to Condition 3).
Listing:	Application has been made to the Irish Stock Exchange plc for the New Bonds to be admitted to the Official List and for the New Bonds to be admitted to trading on the Main Securities Market. The Existing Bonds were admitted to the Official List and trading on the Main Securities Market on 12 October 2016.
Selling Restrictions:	There are restrictions on the offer, sale and transfer of the New Bonds in the United States, the European Economic Area (including the United Kingdom), Bahrain, the United Arab Emirates (excluding the Dubai International Financial Centre), the Dubai International Financial Centre, Singapore, Hong Kong and the Kingdom of Saudi Arabia. See "*Subscription and Sale*" and "*Transfer Restrictions*".
Governing Law:	The New Bonds, and any non-contractual obligations arising out of or in connection with the New Bonds, are governed by and shall be construed in accordance with English law.
Use of Proceeds:	The Issuer intends to use the net proceeds of the issue of the New Bonds for its general budgetary purposes. See "*Use of Proceeds*".

Ratings:..	Bahrain's long-term foreign currency sovereign debt is rated BB– (Stable Outlook) by Standard & Poor's. Bahrain's long-term foreign and local currency sovereign debt is rated BB+ (Stable Outlook) by Fitch. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued or endorsed by a credit rating agency established in the European Union and registered under the CRA Regulation (or is endorsed and published or distributed by subscription by such a credit rating agency in accordance with the CRA Regulation).
Security Codes of the New Bonds:	The Common Code and ISIN for the New Regulation S Bonds and the Common Code, ISIN and CUSIP number for the New Rule 144A Bonds are as follows: ***New Regulation S Bonds*** Common Code: 140576654 ISIN: XS1405766541 ***New Rule 144A Bonds*** Common Code: 098266267 ISIN: US05674RAG92 CUSIP: 05674RAG9
Clearing:..	Euroclear and Clearstream, Luxembourg (in the case of the New Regulation S Bonds) and DTC (in the case of the New Rule 144A Bonds).

RISK FACTORS

The Issuer believes that the following factors may affect its ability to fulfil its obligations under the New Bonds. All of these factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring.

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

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

Risk factors relating to the Issuer

Bahrain's economy remains significantly dependent on oil revenues and is vulnerable to external shocks, including the current low oil price environment

Although the Government has sought to grow the non-oil sector, Government revenues remain significantly dependent on oil revenues, with actual revenue from oil and gas accounting for approximately 78.1 per cent., 86.2 per cent. and 88.3 per cent. of public revenue for the years ended 31 December 2015, 2014, and 2013, respectively. Over the same period, revenues from oil and gas have decreased by 38.7 per cent. to U.S.$4.2 billion in 2015 from U.S.$6.9 billion in 2013 as a result of low global oil prices. Moreover, despite recent efforts at fiscal consolidation, Government spending has also increased significantly, particularly on social programmes, public sector wages and subsidies. These factors have resulted in a significant increase in Bahrain's fiscal deficit and debt-to-GDP ratio. Bahrain's estimated budget deficit in 2016 is expected to be approximately 11.7 per cent. of current GDP, which is a decrease from 13.0 per cent. in 2015 but higher than the 3.6 per cent. recorded in 2014, with the debt-to-GDP ratio having reached 72.2 per cent. as at 31 December 2016 (based on 2016 expected GDP), compared to 61.8 per cent. as at 31 December 2015, 44.4 per cent. as at 31 December 2014 and 43.9 per cent. as at 31 December 2013. Real GDP growth is estimated by the International Monetary Fund to be 2.1 per cent. in 2016 compared to 2.9 per cent. in 2015 and 4.4 per cent. in 2014. The EDB has revised its forecast for Bahrain's real GDP growth in 2016 upwards to 3.4 per cent. mainly due to higher than expected oil output for the year. While the IMF's 2016 real GDP growth forecast did not account for the increase in oil production, Bahrain expects the IMF to revise its forecast in relation to Bahrain's real 2016 GDP growth to more closely align with the EDB's forecast. In 2015, the current account recorded a deficit of U.S.$79.3 million (0.3 per cent. of current GDP) as a result of a decrease in oil export receipts, compared to a surplus of U.S.$2,577.9 million in 2012, U.S.$2,409.8 in 2013 and U.S.$1,523.1 million in 2014. With a budget break-even price of U.S.$121 in 2015 and U.S.$132 in 2016, a continued low oil price environment is expected to continue to have a significant negative effect on Bahrain's public finances, with an increase in the current account deficit anticipated for 2016. The Government budget for 2015/2016 assumed U.S.$60.0 per barrel (compared to an actual average oil price of U.S.$52.4 and U.S.$44.0 per barrel in 2015 and 2016, respectively). See "*Public Finance – Government Budget.*" As a result of these factors, Bahrain remains susceptible to adverse developments in the external environment, particularly those that impact global oil prices. Moreover, Bahrain also has more limited reserves of oil compared to a number of other GCC countries, a substantial portion of which it shares with Saudi Arabia. Bahrain's main source of oil is from the Abu Saafa oilfield, which is on the border with Saudi Arabia. Under a treaty with Saudi Arabia first signed in 1958, Bahrain is entitled to receive 50 per cent. of the output from the Abu Saafa field, although historically Bahrain has received significantly more than its 50 per cent. entitlement. However, no assurance can be given that Bahrain will continue to receive more than its 50 per cent. share of entitlement from the Abu Saafa oilfield, which further increases Bahrain's vulnerability to reductions in global oil prices. Accordingly, if Bahrain does not decrease public expenditure (or increase non-oil revenues), an environment of prolonged low oil prices may lead to a further widening in the fiscal deficit and adversely impact Bahrain's sovereign credit rating as well as its borrowing costs. See "*Risk Factors – Bahrain's sovereign credit rating is subject to revision and downgrade*".

Bahrain's fiscal consolidation efforts may not be successful

Although the Government is seeking to reduce public spending through various fiscal consolidation programmes (See "*Public Finance – Fiscal Policy*"), there can be no assurance that their implementation will be in line with originally set out timeframes, that such measures will achieve targeted savings or that such measures will be sufficient to offset the recent increases in spending combined with below-trend income from oil revenues. A portion of Bahrain's public finances are in the form of subsidies in relation to consumables, utilities and petroleum products. The Government, in conjunction with the World Bank, is in the process of restructuring its subsidies programme. On 1 October 2015 Bahrain replaced a general subsidy on meat, which accounted for 5.8 per cent. of total subsidies, with a means-tested cash payment, which is projected to realise annual savings of approximately U.S.$50 million. It has also raised unified gas prices by U.S.$0.25 per year until 2021, which is projected to realise savings of approximately U.S.$930.9 million over six years. In addition, the removal of utilities' (water and electricity) subsidies are expected to generate reductions of over U.S.$456 million through 2019 and increases in the prices of marine petrol, diesel, kerosene, Mumtaz and Jayyed fuel are expected to generate savings of U.S.$242 million through 2019. While the removal of subsidies has contributed and may continue to contribute to an increase of some components affecting inflation, inflation remained low during the course of 2016 increasing by 2.7 per cent. Inflation peaked in June 2016 following which it decreased by 1.0 per cent. by December 2016 as food and housing prices stabilised. Additionally, to control growth of current public spending the Government has also established six ministerial teams which are mandated to revise and reduce recurrent expenditure See "*Public Finance – Fiscal Policy*".

However, the restructuring of the subsidies and incentives programmes may not result in expected savings and may have an adverse effect on economic growth or be subject to significant opposition and/or delays from the National Assembly or the public. Despite the Government's attempts to achieve fiscal consolidation without a significant effect on living standards, there is a possibility that this may lead to social instability among the lower income sections of society.

A failure to reduce the budget deficit and/or public spending, and a failure to diversify the economy, could make the economy more susceptible to the risks associated with the sectors in which the economy is concentrated (for example, the oil industry) and any downturn in such sectors or the economy generally, could have an adverse effect on the economic and financial condition of Bahrain.

Bahrain's economy is dependent on economic and other conditions of Saudi Arabia in particular, as well as the GCC countries

In addition to sharing oil production with Saudi Arabia (see "*– Bahrain's economy remains significantly dependent on oil revenues and is vulnerable to external shocks, including the current low oil price environment*"), Bahrain's economy is closely aligned and dependent on the economies of Saudi Arabia in particular, as well as the other GCC countries. This includes changes in interest rates and trade and energy policies within the GCC. Based on the Central Informatics Organisation ("**CIO**") foreign trade data, non-oil exports to GCC countries amounted to 68.2 per cent. of total non-oil exports in 2015, and Saudi Arabia accounted for 48.1 per cent of total non-oil exports. As for non-oil imports, 18.1 per cent. of non-oil imports in 2015 were from other GCC countries and Saudi Arabia contributed 6.2 per cent. of total non-oil imports. As at 30 June 2016, non-oil exports to GCC countries amounted to 65.3 per cent. of total non-oil exports, and Saudi Arabia accounted for 37.9 per cent. of the total non-oil exports. As at 30 June 2016, 19.0 per cent. of total non-oil imports were from other GCC countries and Saudi Arabia accounted for 7.1 per cent. of total non-oil imports. See *"Economy of the Kingdom of Bahrain – Other Services – Trade"*. Accordingly, Bahrain's economy may be adversely affected by any adverse change in the social, political, or economic conditions in Saudi Arabia or the other GCC countries. Although Bahrain has sought to diversify its geographical economic dependence, there can be no assurance that such geographical diversification will be successful which could have a material adverse effect on the economy and financial condition of Bahrain. See also "*Risk Factors – Bahrain's economy remains significantly dependent on oil revenues and is vulnerable to external shocks, including the current low oil price environment*" for a discussion of the Abu Saafa oilfield shared with Saudi Arabia.

Furthermore, Bahrain benefits from a U.S.$7.5 billion development fund established in 2011 with contributions made by the non-donee GCC member states (the "**GCC Development Fund**"). The GCC Development Fund includes investments in key infrastructure projects across the manufacturing, energy, healthcare and education sectors. The GCC Development Fund was originally established with the aim of raising U.S.$10 billion for Bahrain with preliminary commitments from four GCC member states. To date, U.S.$7.5 billion has been

allocated to Bahrain by three GCC member states. Of the U.S.$7.5 billion, as of 12 February 2017, U.S.$6.2 billion was allocated to projects, U.S.$3.3 billion of contracts were awarded and U.S.$0.8 billion was actually paid from the GCC Development Fund. The GCC Development Fund is intended to stimulate economic growth and is expected to be used in furtherance of development goals set out in Vision 2030, and, in particular, on important infrastructure projects. See "*Public Finance – Government Budget*" for a description of the priority projects to be financed through the GCC Development Fund, which is in addition to the Government project budget allocations. Under the terms of the GCC Development Fund, the Government of Bahrain has to coordinate with the Saudi Fund (representing the Government of the Kingdom of Saudi Arabia), the Kuwait Fund (representing the Government of Kuwait), and the Abu Dhabi Fund (representing the Government of the United Arab Emirates) for finalising the planned projects. Any adverse change in the amount or rate at which funding under the GCC Development Fund is deployed could have an adverse effect on Bahrain's growth prospects or further increase Bahrain's budget deficit if Bahrain is required to turn to other funding sources to meet its development and other requirements.

Bahrain is subject to a number of on-going domestic political risks

Although Bahrain has not experienced any significant political or security disruptions in recent years, the ongoing political stasis and tensions with opposing political and social groups continue to impact investor perceptions of Bahrain's political stability and foreign investment flows.

Following widespread protests that occurred in February and March 2011 (described under "*Overview of the Kingdom of Bahrain – Constitution and Government*"), the Government has been unable to reach a political accommodation with certain political groups. His Majesty the King and His Royal Highness the Crown Prince initiated several rounds of national dialogue in 2011, 2013 and 2014 despite repeated withdrawals by opposition groups. In September 2014, a national dialogue framework document was produced, which laid out key steps for political reform (See "*Overview of the Kingdom of Bahrain – Constitution and Government*"). His Majesty the King signed into law a set of reforms to the distribution of electoral districts, and all political groups were encouraged to participate in the November 2014 parliamentary elections.

However, certain opposition groups decided to boycott the November 2014 parliamentary elections. Nevertheless, 52.6 per cent of eligible voters cast their vote and independent candidates won 37 of 40 seats. On 11 June 2016, His Majesty King Hamad bin Isa Al-Khalifa issued an amendment to the country's political society law, banning the use of religion in political societies. On 17 July 2016, Bahrain's High Civil Court dissolved Al Wefaq National Islamic Society citing attempts to undermine the constitution, support for terrorism, slander of the judiciary and incitement of lawless action. However, the Government reiterated its intention to continue its cooperation with political societies within the bounds of the law, including the ban on the use of religion in political societies.

Although Bahrain's security situation has stabilized over the past few years, there can be no assurance that protests or unrest will not occur in the future. In the event that political unrest should take place, such a development could have an adverse material impact on foreign direct investment in Bahrain or on the country's reputation in the region, including its standing as a regional leader in the financial services sector. An unsettled political environment may also have negative implications on Bahrain's fiscal accounts and future growth trajectory. While the Government has already begun to implement a broader strategy to diversify its revenue base and cut expenditures further, progress has been hampered by political and religious factionalism. The lack of a broad political consensus that encompasses Bahrain's various political and religious groups may undermine the Government's ability to implement the full extent of its fiscal readjustment programme, and may hinder its efforts to reverse the rise in public debt in the near term.

Political instability in Bahrain and in the region may have a material adverse effect on Bahrain's economy and adversely affect the trading price of the Bonds. See also "*Risk Factors - Bahrain is located in a region that has been subject to on-going geo-political and security concerns*".

Bahrain is located in a region that has been subject to on-going geo-political and security concerns

Bahrain is located in a region that is strategically important and parts of this region have, at times, experienced political instability. For example, the region is currently subject to a number of armed conflicts including those in Yemen, Syria, Iraq, and Palestine as well as the multinational conflict with Islamic State. Bahrain, along with other Arab states, is currently participating in the Saudi Arabian led intervention in Yemen which began in 2015 and is ongoing. The intervention was in response to requests for assistance from the Yemeni government (See

"Overview of the Kingdom of Bahrain – International Relations – GCC"). In addition, tensions have persisted between Bahrain and Iran regarding alleged interference by Iran in Bahrain's domestic affairs, which resulted in Bahrain recalling its ambassador to Iran on 1 October 2015, and subsequently announcing the severance of diplomatic ties with Iran on 4 January 2016. There have also been a number of domestic violent incidents in Bahrain that have been alleged by the Bahraini government to be linked to Iran, which has also increased tensions between Iran, Bahrain and a number of other GCC countries.

More generally, since 2011, the prospect of a nuclear Iran has been at the center of international geopolitical discourse. The comprehensive agreement between the U.N. Security Council’s five permanent members plus Germany ("**P5+1**") and Iran that was reached on July 2015 (the "**Joint Comprehensive Plan of Action**") conditions international economic sanctions relief, mainly United States and EU sanctions, on Iranian nuclear capabilities reduction and supervision by the International Atomic Energy Agency (the "**IAEA**"). After the IAEA confirmed that Iran met the relevant requirements of the Joint Comprehensive Plan of Action, certain economic sanctions were lifted on 16 January 2016 with a view to improving Iran’s position in the international community. However, certain other sanctions remain in place and the situation remains subject to change. Any continuation or increase in international or regional tensions regarding Iran could have a destabilising impact on the Gulf region, including with respect to Bahrain.

These recent and ongoing developments, along with terrorist acts, acts of maritime piracy and other forms of instability in the region (that may or may not directly involve Bahrain), may contribute to instability in the Middle East and surrounding regions and may have a material adverse effect on Bahrain's attractiveness for foreign investment and capital, its ability to engage in international trade and, subsequently, its economy and financial condition.

Bahrain's sovereign credit rating is subject to revision and downgrade

Ratings are an important factor in establishing the financial strength of debt issuers and are intended to measure an issuer's ability to repay its obligations based upon criteria established by the rating agencies. Fitch affirmed Bahrain's long-term foreign sovereign credit rating at BB+ (stable outlook) and Standard & Poor's downgraded Bahrain from BB with a stable outlook to BB– with a stable outlook on 9 December 2016. While Standard & Poor’s noted in its 9 December 2016 report that the Bahrain economy had shown resilience during 2016, reflecting a diversified economy with strong regulatory oversight of the financial sector and a well-educated workforce, the Standard and Poor’s report also noted Bahrain’s deterioration in external financing conditions principally as a result of an ongoing decline in its foreign exchange reserves and a 2016 restatement of its external accounts. Similarly, while Fitch noted in its 15 February 2017 report that Bahrain had made progress on its fiscal consolidation and cost-cutting measures, that non-oil revenue was increasing and that Bahrain had a strong financial sector and a strong skill base, the Fitch report also noted Bahrain’s increase in government debt and widening budget deficit.

These ratings reflect the current opinion of the relevant rating agencies, and one or more of the ratings could be downgraded or withdrawn in the future. Rating agencies may increase the frequency and scope of ratings reviews, revise their criteria or take other actions that may negatively impact Bahrain's ratings. In addition, changes to the process or methodology of issuing ratings, or the occurrence of events or developments affecting Bahrain, could make it more difficult for Bahrain to achieve ratings that it would otherwise have expected.

The Issuer cannot be certain that a credit rating will remain for any given period of time or that a credit rating will not be affirmed or withdrawn entirely by the relevant rating agency if, in its judgement, circumstances in the future so warrant. The Issuer has no obligation to inform Bondholders of any such revision, downgrade, or withdrawal.

The ratings may not reflect the potential impact of all risks related to structure, market, macro-economic performance and geo-politics and other factors that may affect the value of the Bonds. A credit rating is not a recommendation to buy, sell, or hold securities and may be revised, suspended or withdrawn by its assigning rating agency at any time.

In general, European-regulated investors are restricted under the CRA Regulation from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended), subject to transitional provisions that apply in certain circumstances. Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-

registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended, subject to transitional provisions that apply in certain circumstances). The list of registered and certified rating agencies published by ESMA on its website in accordance with the CRA Regulation is not conclusive evidence of the status of the relevant rating agency included in such list, as there may be delays between certain supervisory measures being taken against a relevant rating agency and the publication of the updated ESMA list. Certain information with respect to the credit rating agencies and ratings is set out on the cover page of this Prospectus.

Bahrain has been adversely affected by the recent sustained decreases in oil prices, which has resulted in a material decline in revenues while spending and debt-to-GDP levels have continued to rise. There has also been a decrease in the current account surplus to a current account deficit. The Government has sought to address the low oil price and widening fiscal deficit through fiscal consolidation measures. See "*Public Finance – Fiscal Policy*."

The rating downgrade by Standard & Poor's on 9 December 2016 and by Fitch on 28 June 2016 and any further decline in Bahrain's credit rating could have a material adverse effect on its cost of borrowing and could limit its access to debt capital markets. A downgrade may also adversely affect the market value of the Bonds. Furthermore, any unsolicited ratings may not benefit from Government input but could also negatively impact Bahrain's cost of borrowing. Whilst the Government is continuing to monitor and manage the risk of further credit ratings downgrade or negative change in outlook, there can be no assurance that its efforts in this respect will be sufficient or successful.

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

Investing in securities involving emerging markets, such as Bahrain, generally involves a higher degree of risk than investments in securities of issuers from more developed countries. Bahrain's economy is susceptible to future adverse effects similar to those suffered by other emerging market countries. International investors' reactions to the events occurring in one emerging market country sometimes appear to demonstrate a "contagion" effect, in which an entire region or class of investment is disfavoured by international investors, Bahrain could be adversely affected by negative economic or financial developments in other emerging market countries. Key factors affecting the environment include the timing and size of increases in interest rates in the United States, further evidence of a slowdown in China and geo-political tensions in the Middle East, as well as on-going tensions between Russia and Ukraine.

Accordingly, there can be no assurance that the market for securities bearing emerging market risk, such as the Bonds, will not be affected negatively by events elsewhere, especially in emerging markets. Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risk involved.

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

Bahrain's economy remains highly dependent on the oil industry. See "*– Bahrain's economy remains significantly dependent on oil revenues and is vulnerable to external shocks, including the current low oil price environment*" above. The Government has been working towards increasing oil production over the past few years. It is expected that these efforts will continue in the foreseeable future. (See "*Economy of the Kingdom of Bahrain – Mining – Oil*"). The Government has set out a comprehensive economic vision for Bahrain ("**Vision 2030**") to outline a path for the development of Bahrain's economy, as described in "*Overview of The Kingdom of Bahrain – Vision 2030*." Vision 2030 is based on realigning Bahrain's economy from an oil-driven economy to a global diversified competitive economy, predominantly based on finance, tourism, healthcare and industry. However, there can be no assurance that Bahrain's efforts to diversify its economy and reduce its dependence on oil will be successful.

Low oil prices continue to place pressure on the GCC governments to tackle fiscal deficits. For Bahrain, the impact of such pressures may be somewhat mitigated by the financial support provided by the GCC Development Fund as a number of projects supported by the programme, including public housing schemes, will commence in 2015/2016. The Government seeks to promote structural reforms designed to strengthen Bahrain's long-term fiscal sustainability and counteract excessive growth in its budget deficit. It has also introduced initiatives to increase growth in non-oil based industries, and encouraged diversification of the

Bahraini economy (*See "Public Finance – Fiscal Policy"*). However, there can be no assurances that such support, reforms and initiatives will be successful.

Bahrain's social spending is sometimes recorded off-budget and Bahrain's fiscal deficit and debt ratio may not be fully reflective of all of the Government's obligations

Bahrain's budget is prepared on a cash basis. This means that flows are recorded when cash is received or disbursed. Although non-monetary flows can be recorded, most accounting systems (including that used in Bahrain) using the cash basis do not record non-monetary flows because the focus is on cash management rather than resource flows. In addition, with respect to accruals, the time of recording may diverge significantly from the time of the economic activities and transactions to which they relate. For example, the interest paid on a zero-coupon bond would not be recorded until the bond matures, which could be many years after the expense was incurred. For this reason, together with the fact that a number of extra-budgetary transactions are only presented on a net basis, social security spending is sometimes recorded off-budget. Accordingly, actual Government funding and its aggregate subsidy bill may not be completely reflected in the budget. Off-budget expenses have a significant impact on the Government's financial reserves and if the Government does not have the revenue to support these expenses then this could have an adverse effect on the economy of Bahrain and the Issuer's ability to satisfy its obligations under the Bonds.

The liability of the Government for borrowings by significant state-owned entities has given rise to concerns about the level of transparency within Government finances when considering Bahrain as a creditor and may result in official Government figures understating the level of Government debt and obligations.

Bahrain may not be successful in addressing certain social policy concerns and failure to appropriately address such concerns may have an adverse impact on the financial condition of Bahrain

A principal social policy concern in Bahrain is housing for the population. The Government is seeking to invest in the housing sector, although such investment is expected to take several years to ameliorate the current shortage of affordable housing and the success of the Government's current social housing initiatives will depend, in part, on finding suitable partners in the private sector to aid in real estate and infrastructure development. See "*Economy of the Kingdom of Bahrain – Foreign Direct Investment and Privatisation – Real Estate*" for a further discussion on the Government's plan to increase social housing.

Another social policy concern is unemployment. The level of unemployment among Bahraini nationals was 3.8 per cent. in 2012, 4.3 per cent. in 2013 and 3.8 per cent. in 2014. Bahrain employs a significant number of expatriate workers. According to the Labour Market Regulatory Authority ("**LMRA**"), as at 31 March 2016, 78.4 per cent. of employees in Bahrain registered at the Civil Service Bureau and the Social Insurance Organisation were expatriate workers (see "*Overview of the Kingdom of Bahrain – Location and Population*"). In recent years, the Government has followed a policy of aiming to increase the number of Bahraini nationals in employment. There are no assurances that this policy will be successful or that it will not have an impact on the financial condition of Bahrain.

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

The Government has made concerted efforts over the past decade to encourage the growth of its financial services and banking industries, and the country is one of the primary financial centres for the Middle East and North Africa. In 2015 the financial services sector was the single largest non-oil contributor to the Bahraini economy, accounting for 16.3 per cent. of real GDP. As at 30 September 2016 the financial services sector accounted for 16.8 per cent. of real GDP. The global economic downturn which started in 2007 has impacted some financial institutions in Bahrain, including Arcapita Bank which filed for Chapter 11 bankruptcy protection in 2012. On 17 September 2013, Arcapita Bank exited Chapter 11 proceedings after agreeing to a plan to dispose of its assets over time to pay off creditors. As at April 2015, Arcapita Bank had divested approximately 14 investments to raise U.S.$2.4 billion. The CBB is Arcapita Bank's largest creditor holding approximately U.S.$233 million of the bank's debt as at 30 June 2016. Furthermore, factors adversely affecting the asset quality, liquidity, capital adequacy or profitability of banks may add further pressure on the banking industry. While the loan to deposit ratio, the ratio of non-performing loans to gross loans, the ratio of liquid assets to total assets, the capital adequacy ratio and the return on assets of the overall banking sector have remained stable between September 2015 and September 2016, any subsequent changes may have an adverse impact on Bahrain's banking industry. The loan to deposit ratio of the overall banking sector increased to 67.9 per cent. in September 2016 from 67.0 per cent. in September 2015. Over the

same period, the ratio of non-performing loans to gross loans of the overall banking sector increased from 5.4 per cent. to 5.5 per cent., the ratio of liquid assets to total assets of the overall banking sector increased to 33.7 per cent. from 32.2 per cent., total capital adequacy ratio of the overall banking sector increased to 19.2 per cent. from 18.7 per cent. and return on assets of the overall banking sector increased to 1.0 per cent. from 0.9 per cent. Any subsequent global or regional deterioration in the global financial services sector (including global commodity prices) could have an adverse impact on Bahrain's economy, its extractive, financial, and manufacturing sectors, and/or its credit rating (see "*Risk Factors – Bahrain's sovereign credit rating is subject to revision and downgrade"*) and adversely affect the trading price of the Bonds. See "*Risk Factors – Risks related to the market generally – Global Market Condition*". In addition, any sustained outflows of capital from Bahrain as a result of deteriorating global and/or regional financial conditions could place considerable pressure on the Bahraini Dinar's fixed exchange rate against the U.S. Dollar. See "*Risk Factors – Bahrain's currency may be subject to depreciation*".

Bahrain's currency may be subject to depreciation

The depreciation of the Bahraini Dinar against the U.S. dollar or other foreign currencies may adversely affect the financial condition of Bahrain, as well as Bahrain's ability to repay its debt denominated in currencies other than the Bahraini Dinar, including amounts due under the Bonds. The value of the Bahraini Dinar is impacted by a number of factors which are outside of Government control. Neither the Government nor the CBB have taken any steps to devalue the Bahraini Dinar. However, there can be no assurance that there will not be a need for a devaluation as a result of external factors. There is a risk that the depreciation of the Bahraini Dinar could result in reduced revenues in the balance of payments or outflows of capital from Bahrain, each of which could have a material adverse effect on Bahrain's economy. Although a devaluation of the Bahraini Dinar could make exports, particularly aluminium (as further described below), more competitive in international markets, this may not be sufficient to mitigate the impact of a devaluation.

Bahrain has significant plans to expand its oil and gas capacities, and these plans are subject to construction and financing risks. Moreover, nogaholding may not pay any dividends to the Government in 2016 or in future years

Although Bahrain continues to seek to diversify its economy, the oil sector (crude petroleum, natural gas, and quarrying) represents a significant part of GDP (20.0 per cent. of real GDP as at 30 September 2016, compared to 19.8 per cent. of real GDP for the year ended 31 December 2015 and 20.4 per cent. for the year ended 31 December 2014) and a critical component of Government finances. See also "*Risk Factors – Bahrain's economy remains significantly dependent on oil revenues and is vulnerable to external shocks, including the current low oil price environment*". Bahrain is engaged in a number of significant projects to enhance its oil and gas sector, and any delay or increase in costs of these projects may have a negative impact on Bahrain's public finances, may adversely affect the economy of Bahrain and may affect the ability of the Issuer to satisfy its obligations under the Bonds. Bahrain's projects to expand its oil and gas capabilities may also result in nogaholding not paying dividends to the Government in future years. See "*Public Finance*" for details of the Government's diversification efforts.

Bahrain, with Saudi Arabian Oil Company ("**Saudi Aramco**"), is currently in the process of constructing a new pipeline between Bahrain and Saudi Arabia, which is expected to carry around 360,000 barrels per day ("**bpd**") of crude oil between Bahrain and Saudi Arabia (with a maximum of 400,000 bpd). This will replace the existing pipeline that carries 235,000 bpd (see "*Overview of the Kingdom of Bahrain – Mining – Oil*"). Bahrain plans to steadily increase its own oil production over the next 20 years. See "*Economy of the Kingdom of Bahrain – Mining – Oil*". Because Saudi Arabia's Al Robaya Holding Company was awarded both Engineering, Procurement and Construction ("**EPC**") in relation to the pipeline in Saudi Arabia, and onshore procurement in Bahrain and the National Petroleum Construction Company of the United Arab Emirates has been awarded the offshore EPC contract, managing delays in relation to the completion of the pipeline may be outside of Bahrain's controls. See "*Economy of the Kingdom of Bahrain – Principal Sectors of the Economy – Mining – Abu Saafa oilfield*". Further, the Bahrain Petroleum Company B.S.C.(c) ("**Bapco**") is presently working on the Bapco Modernisation Programme described below in this risk factor. Any delay in the construction of the pipeline or delays in the work relating to the Bapco Modernisation Programme may affect Bahrain's growth and revenue generation strategy and impact the Issuer's ability to satisfy its obligations under the Bonds.

Further, the pipeline between Saudi Arabia and Bahrain will be fully funded by The Oil and Gas Holding Company B.S.C. (c) ("**nogaholding**"). nogaholding has obtained a multi-bank Murabaha Financing Facility of U.S.$750 million from a group of 10 international, regional and local banks. The proceeds from the facility are

proposed to be utilised to fund the construction of the oil pipeline between Saudi Arabia and Bahrain, and other projects.

In 2015, although dividends were declared, nogaholding did not receive a cash dividend from its operating companies, however, it paid a U.S.$150 million dividend to the Government. Given the medium to long term nature of the ongoing as well as prospective projects, and the need to fund its respective equity requirements, it is expected that nogaholding will not pay any dividends to the Government in 2016. In 2015 nogaholding did not receive dividends from two of its portfolio companies, Banagas and Banagas Expansion Company, due to falling oil prices and the equity requirements of those portfolio companies resulting in reduced dividends being paid to the Government. nogaholding does not currently expect to receive dividends from Banagas and Banagas Expansion Company in 2016.

Bapco is presently working on a modernisation programme with the aim of increasing its refining capacity by a third, significantly improving its product mix and reducing sulphur content, which is expected to occur over a period of five years and estimated to cost in excess of U.S.$4.5 billion (the "**Bapco Modernisation Programme**"). The Bapco Modernisation Programme includes plans for the construction of a new refining plant.

Any delay in the completion of the Saudi Arabia / Bahrain pipeline or the Bapco Modernisation Programme, each as described above, as a result of construction delays or other issues, including projects not being completed to specification, or the inability to obtain sufficient financing, may adversely affect Bahrain's growth and revenue generation strategy and impact the Issuer's ability to satisfy its obligations under the Bonds.

Increases in commercial tariffs of natural gas and diesel may impact the economy

Starting from 1 April 2015, the commercial tariff of natural gas increased to U.S.$2.50 per one million British Thermal Units ("**mmbtu**"). Under a multi-phased readjustment programme, the price of natural gas will increase by 25 cents per mmbtu each year, until it reaches U.S.$4.0 per mmbtu by 1 April 2021. The Government has also introduced a four year phased programme for the increase in prices of diesel, where the price of diesel payable by consumers in 2017 would be U.S.$0.48 per litre. However, there can be no assurances that these increases will be sufficient or will not have an adverse effect on the economy of Bahrain, which may impact the Issuer's ability to satisfy its obligations under the Bonds.

The prices of aluminium are cyclical and sustained low prices may impact the economy

Bahrain's revenues are influenced by global aluminium prices through its ownership of Alba. Alba's exports also accounted for approximately 11.5 per cent. of Bahrain's total exports and 30.1 per cent. of its total non-oil exports in 2015. The cyclical aluminium industry has historically experienced significant shifts in global demand and price volatility. Over the past few years, the market has faced overcapacity and declining prices; however 2015 has seen the major producers work to restore supply-side discipline by cutting production. While aluminium prices declined significantly in 2015 (by 10.9 per cent.) and continued to decline in 2016 (by 3.6 per cent.), aluminium prices have recovered in the second half of 2016 and compared to the first half of 2016 recorded a growth of 7.9 per cent. The recent slow-down in the global economy has also curtailed demand in the short-term as currencies weaken in emerging market countries. Further declining domestic demand in China and Russia has led to excess supply in the market. As prices fall, demand and sentiment is expected to rise in the medium-term. These unpredictable circumstances make price forecasts for Alba's products difficult to estimate. Despite weak international markets, Alba has generated significant profits for the Government and its exports continue to contribute to Bahrain's balance of payments account. There can be no assurance that this trend will continue, and sustained low demand or low prices could have an adverse effect on Government revenues or the economy.

Alba's competitive position in the global aluminium market is dependent on its continued access to sufficient gas supplies on attractive terms from its sole supplier, Bapco. Although Alba expects to remain highly competitive globally following the conclusion of a long-term agreement with Bapco for the supply of gas on favourable terms, as well as through reductions in production costs, efficiency improvement programmes, and maximising output of value-added products which attract higher premiums, no assurances can be given that Alba will maintain or improve its competitive position. Decisions by Bapco to change the terms under which it supplies gas to Alba and/or Alba's inability to lock in a long-term alternative gas supplier on commercially attractive terms could have a material adverse effect on Alba's business, financial condition, results of operations and prospects.

Ongoing global geopolitical tensions, particularly those within the Middle East region, can lead to factors that could affect Alba's performance. For example, the on-going civil war in Yemen could lead to disruption off its coast at the Bab al-Mandab gateway, which Alba relies on for shipments of incoming raw materials required for aluminium production and through which it ships a small portion of its finished product to customers outside of the GCC to Europe, the United States and Asia. Disruption to this shipping channel could require Alba to seek out alternative shipping routes, which may be more costly and less efficient.

Restructuring of Gulf Air

The Government is an indirect shareholder of Gulf Air B.S.C. (c) ("**Gulf Air**") through its shareholdings in Bahrain Mumtalakat Holding Company B.S.C. (c) ("**Mumtalakat**"). (See "*Public Finance – Revenue – Mumtalakat*"). Mumtalakat owns 100 per cent. of Gulf Air Group Holding B.S.C. (c), which, in turn, owns 100 per cent. of Gulf Air. Gulf Air has historically relied on material financial support from its shareholder to cover its operating losses and various funding needs.

Since January 2012, Mumtalakat and the Government have been working with Gulf Air and its strategic advisers to review and reformulate its strategy in light of the changed circumstances and to implement a strategy focused on reducing costs and rationalising business operations. A five-year business plan detailing the restructuring of Gulf Air's operations, along with a detailed assessment of the Government funding required to complete the restructuring, was considered, analysed, and presented to the Government and a parliamentary sub-committee. The five-year plan received final approval from the leadership of Bahrain and, pursuant to Legislative Decree No. (54) of 2012, the Government began transferring funds to the airline to support its restructuring. In November 2012, a new board of directors and an executive restructuring committee were appointed at Gulf Air to manage the implementation of its restructuring. The restructuring plan remains subject to modification to allow the board of directors to react to changes in the global aviation industry, for example fluctuations in oil prices. As at 31 December 2015, Gulf Air has received a total of U.S.$1,117 million (U.S.$492 million in 2012, U.S.$253 million in 2013, U.S.$199 million in 2014 and U.S.$ 173 million in 2015) from the Government, with the expectation to receive a remaining U.S.$146 million in 2016.

Although Gulf Air's losses from operations have decreased during the course of the five-year restructuring plan from U.S.$488.8 million in 2012 to U.S.$82.6 million in 2015, there could be a further need for additional direct material financial support or any other form of credit support to be extended by the Government to Gulf Air beyond that financial support provided for by Legislative Decree No. (39) of 2010 and Legislative Decree No. (54) of 2012. If the operational and strategic restructuring of Gulf Air fails to succeed and improve Gulf Air's financial performance, there can be no assurance that Gulf Air will repay any direct material financial support or any other form of credit support that it receives from the Government (See "*Economy of the Kingdom of Bahrain – Revenue – Gulf Air*").

Reliability of statistical information

The statistical information contained in this Prospectus has been produced by the Ministry of Finance, the CBB, the CIO, and certain other named sources. Such statistical information may differ from statistics produced by similar sources in Western Europe and the United States of America for a variety of reasons, including the use of 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. Where specified, certain statistical information has been estimated based on information currently available and should not be relied upon as definitive or final. Such information may be subject to future adjustment. In addition, in certain cases, the information is not available for recent periods and, accordingly, has not been updated. The information for past periods should not be viewed as indicative of current circumstances or periods not presented.

Risks relating to the New Bonds generally

The terms of the Bonds may be modified or waived without the consent of all the Bondholders

The terms and conditions of the Bonds contain provisions for calling meetings of Bondholders to consider matters affecting their interests generally and for the passing of written resolutions of Bondholders without the need for a meeting. Such provisions are commonly referred to as "collective action clauses". These provisions permit defined majorities to bind all Bondholders including Bondholders who did not attend and vote at the

relevant meeting or sign the relevant written resolution and Bondholders who voted in a manner contrary to the majority.

In the future, the Issuer may issue debt securities which contain collective action clauses in the same form as the collective action clauses in the terms and conditions of the Bonds. If this occurs, the Bonds could be capable of aggregation with any such future debt securities, meaning that a defined majority of the holders of such debt securities (when taken in the aggregate) would be able to bind all holders of all the relevant aggregated series of debt securities, including the Bonds.

Any modification or actions relating to any Reserved Matter (as defined in the terms and conditions of the Bonds), including in respect of payments and other important terms, may be made (a) to the Bonds with the consent of the holders of 75 per cent. of the aggregate principal amount of the outstanding Bonds, and (b) to multiple series of debt securities which may be issued by the Issuer (including the Bonds) with the consent of both (i) the holders of at least two thirds of the aggregate principal amount of all outstanding debt securities being aggregated and (ii) the holders of at least 50 per cent. in aggregate principal amount of the outstanding debt securities of each series being aggregated. In addition, under certain circumstances, including the satisfaction of the Uniformly Applicable condition (as more particularly described in the terms and conditions of the Bonds), any such modification or action relating to any Reserved Matter may be made to multiple series of the Issuer's debt securities (including the Bonds) with the consent of 75 per cent. of the aggregate principal amount of the outstanding debt securities of all affected series, without requiring a particular percentage of the holders of any individual affected debt securities to vote in favour of or approve any proposed modification or action. Any modification or action proposed by the Issuer may, at the option of the Issuer, be made in respect of certain series of the Issuer's debt securities only and, for the avoidance of doubt, the collective action provisions may be used for different groups of two or more debt securities simultaneously. At the time of any proposed modification or action, the Issuer will be obliged, *inter alia,* to specify which method or methods of aggregation will be used by the Issuer.

There is therefore a risk that the terms and conditions of the Bonds may be amended, modified or waived in circumstances whereby the holders of debt securities voting in favour of or signing a written resolution in respect of an amendment, modification or waiver may be holders of different series of debt securities and, as such, the majority of Bondholders would not necessarily have voted in favour of or signed a written resolution in respect of such amendment, modification or waiver. In addition, there is a risk that the provisions allowing for aggregation across multiple series of debt securities may make the Bonds less attractive to purchasers in the secondary market on the occurrence of an Event of Default or in a distress situation.

The terms and conditions of the Bonds also contain a provision permitting the Bonds and the terms and conditions of the Bonds to be amended without the consent of the Bondholders to correct a manifest error, or where the modification is of a formal, minor or technical nature or is not materially prejudicial to the interests of the Bondholders.

Any such amendment, modification or waiver in relation to the Bonds may adversely affect their trading price.

Change of law

The structure of the Bond issue is based on English law and administrative practices in effect as at the date of this Prospectus. No assurance can be given as to the impact of any possible change to English law or administrative practices after the date of this Prospectus and any such change could materially adversely impact the value of any Bonds affected by it.

Change of tax law

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

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

Enforcement risk; waiver of immunity

The Agency Agreement, the terms and conditions of the New Bonds, and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law.

Any dispute in relation to the Agency Agreement, the terms and conditions of the New Bonds, and any non-contractual obligations arising out of or in connection with them, may be referred to arbitration in London, England under the London Court of International Arbitration Rules. Bahrain has ratified the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards and the party seeking to enforce the arbitration award must supply:

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

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

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

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

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

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

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

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

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

(1) the subject matter of the dispute is not capable of settlement by arbitration under the laws of Bahrain; or

(2) the recognition or enforcement of the award would be contrary to the public policy of Bahrain.

In addition, no document will be admitted in evidence in the Bahrain courts unless they are submitted in Arabic or accompanied by a duly authenticated Arabic translation approved by the official translator of the courts of Bahrain, which will be the official text.

Under the terms and conditions of the Bonds, any dispute may also be referred to the courts of England (who shall have non-exclusive jurisdiction to settle any dispute arising from such documents) if the Bondholder(s) require. In these circumstances, each party irrevocably agrees to submit to the non-exclusive jurisdiction of the courts of England.

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

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

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

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

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

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

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

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

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

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

The Issuer, to the extent permitted by law, has waived its rights in relation to sovereign immunity (including, without limitation, Article 251 of the Law of Civil and Commercial Procedure (Decree Law No. (12) of 1971 of the laws of Bahrain). However, there can be no assurance as to whether such waivers of immunity from jurisdiction or execution or attachment or other legal process or similar defence by the Issuer under the Bonds and the Agency Agreement are valid and binding under the laws of Bahrain.

Claims for specific enforcement

In the event that the Issuer fails to perform its obligations under the terms and conditions of the Bonds, the potential remedies available to the Bondholders include obtaining an order for specific enforcement of the relevant obligations or a claim for damages. There is no assurance that any court would order specific performance of a contractual obligation.

The amount of damages, which a court may award in respect of a breach, will depend upon a number of possible factors including an obligation on the Bondholders to mitigate any loss arising as a result of the breach. No assurance is provided on the level of damages which a court may award in the event of a failure by the Issuer to perform its obligations under the terms and conditions of the Bonds.

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

The Existing Bonds have been and the New Bonds are being offered and sold pursuant to an exemption from registration under the Securities Act and applicable state securities laws of the United States. The Bonds have not been and will not be registered under the Securities Act or any United States state securities laws. Therefore the Bonds may not be transferred or sold in the United States except pursuant to an exemption from, or a transaction not subject to the registration requirements of the Securities Act and applicable United States state

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

Risks related to the market generally

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

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

Exchange rate risks and exchange controls

The Issuer will pay principal and interest on the Bonds in U.S. dollars. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than U.S. dollars. These include the risk that exchange rates may significantly change (including changes due to devaluation of U.S. dollars or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to U.S. dollars would decrease (i) the Investor's Currency-equivalent yield on the Bonds, (ii) the Investor's Currency-equivalent value of the principal payable on the Bonds, and (iii) the Investor's Currency-equivalent market value of the Bonds.

The Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate or the ability of the Issuer to make payments in respect of the Bonds. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Interest rate risks

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

TERMS AND CONDITIONS OF THE NEW BONDS

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

The issue of the U.S.$600,000,000 7.000 per cent. Bonds due 12 October 2028 (the "**New Bonds**") to be consolidated and form a single series with the existing U.S.$1,000,000,000 7.000 per cent. Bonds due 12 October 2028 issued on 12 October 2016 (the "**Existing Bonds**" and, together with the New Bonds, the "**Bonds**") was authorised by The Kingdom of Bahrain acting through the Ministry of Finance (the "**Issuer**") by Legislative Decree No. (30) of 2015 on the Amendment of the Provisions of Legislative Decree no. (15) of 1977 on the issuance of development bonds. A fiscal agency agreement dated 28 February 2017 (the "**Agency Agreement**") has been entered into in relation to the New Bonds between the Issuer, Citibank, N.A., London Branch as fiscal agent and principal paying and transfer agent and Citigroup Global Markets Deutschland AG as registrar and paying and transfer agent. The fiscal agent and principal paying and transfer agent and the registrar and paying and transfer agent for the time being are referred to below respectively as the "**Fiscal Agent**", the "**Registrar**" and the "**Paying and Transfer Agents**" (which expression shall include the Fiscal Agent). The Agency Agreement includes the form of the New Bonds. Copies of the Agency Agreement are available for inspection during normal business hours at the specified offices of the Paying and Transfer Agents. The holders of the New Bonds (the "**Bondholders**") are deemed to have notice of all the provisions of the Agency Agreement applicable to them.

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

1. Form, Denomination and Title

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

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

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

2. Registration and Transfer of Bonds

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

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

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

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

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

(d) **Closed periods:** Neither the Issuer nor the Registrar will be required to register the transfer of any Bond (or part thereof) (i) during the period of 15 days ending on and including the day immediately prior to 12 October 2028 (the "**Maturity Date**") or (ii) during the period of 15 days ending on (and including) any Record Date (as defined in Condition 6(a)) in respect of any payment of interest on the Bonds.

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

3. Negative Pledge

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

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

4. Interest

The New Bonds bear interest from and including 12 October 2016 at the rate of 7.000 per cent. per annum, payable semi-annually in arrear on 12 April and 12 October in each year, commencing on 12 April 2017 (each an "**Interest Payment Date**"). The amount of interest payable on the first Interest Payment Date will be U.S.$7,000.00 in respect of each U.S.$200,000 in principal amount of the Bonds. Each Bond will cease to bear interest from the due date for redemption unless, upon due surrender, payment of principal is improperly withheld or refused. In such event it shall continue to bear interest at such rate (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Bond up to that day are received by or on behalf of the relevant holder and (b) the day after the Fiscal Agent has notified Bondholders of receipt of all sums due in respect of all the Bonds up to that day (except to the extent that there is failure in the

subsequent payment to the relevant holders under these Conditions). If interest is required to be calculated for a period of less than a complete Interest Period (as defined below), the relevant day-count fraction will be determined on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed.

The period beginning on 12 October 2016 and ending on the first Interest Payment Date and each successive period beginning on an Interest Payment Date and ending on the next succeeding Interest Payment Date is called an "**Interest Period**".

5. Redemption and Purchase

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

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

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

6. Payments

(a) **Method of payment:** Payment of principal in respect of the Bonds and accrued interest payable on redemption of the Bonds other than on an Interest Payment Date will be made to the persons shown in the Register at the close of business on the Record Date, subject to the surrender of the Bonds at the specified office of any Paying and Transfer Agent. Payments of interest due on an Interest Payment Date will be made to the persons shown in the Register at close of business on the Record Date. For this purpose, "**Record Date**" means the 15^{th} business day, in New York City and the place of the specified office of the Registrar, before the due date for the relevant payment. Each such payment will be made by transfer to a U.S.$ account maintained by the payee with a bank in New York City.

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

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

(d) **Registrar and Paying and Transfer Agents:** The initial Registrar and Paying and Transfer Agents and their initial specified offices are listed below. The Issuer reserves the right at any time to vary or terminate the appointment of any Paying and Transfer Agent and/or the Registrar and appoint additional or other Paying and Transfer Agents, provided that it will maintain (i) a Registrar and a Fiscal Agent and (ii) a Paying and Transfer Agent (which may be the Fiscal Agent) having its specified office in a major European city. Notice of any change in the Registrar or the Paying and Transfer Agents or their specified offices will promptly be given to the Bondholders.

7. Taxation

All payments of principal and interest by or on behalf of the Issuer in respect of the Bonds shall be made free and clear of, and without withholding or deduction for or on account of, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within Bahrain or any authority therein or thereof having power to tax, unless such withholding or deduction is required by law. In that event the Issuer shall pay such additional amounts as will result in receipt by the Bondholders of such

amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Bond:

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

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

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

8. Events of Default

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

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

(b) **Breach of other obligations or undertakings:** the Issuer defaults in performance or observance of or compliance with any of its other obligations or undertakings in respect of the Bonds and either such default is not capable of remedy or such default (if capable of remedy) is not remedied within 30 days after written notice of such default shall have been given to the Issuer by any Bondholder; or

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

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

(e) **Unlawfulness or invalidity:** (i) the validity of the Bonds is contested by the Issuer or the Issuer shall deny any of its obligations under the Bonds or as a result of any change in, or amendment to, the laws or regulations in Bahrain, which change or amendment takes place after 28 February 2017, (ii) it becomes unlawful for the Issuer to perform or comply with any of its obligations under or in respect of the Bonds or the Agency Agreement or (iii) any of such obligations becomes unenforceable or invalid; or

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

(g) **IMF:** Bahrain ceases to be a member of the IMF or eligible to use the general resources of the IMF pursuant to Article 26 of the IMF Articles of Agreement,

then the Fiscal Agent shall, upon receipt at its specified office of a written request to the Issuer from holders of not less than 25 per cent. in aggregate outstanding principal amount of the Bonds, declare all the Bonds immediately due and payable, at their principal amount together with accrued interest, without further formality. Upon such declaration by the Fiscal Agent, the Principal Paying and Transfer Agent shall give notice thereof to the Issuer and to the holders of Bonds in accordance with Condition 15.

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

In this Condition:

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

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

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

(c) is denominated in the lawful currency of Bahrain and not represented by securities and where the lender is not incorporated or otherwise located in Bahrain; and

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

9. Prescription

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

10. Replacement of Bond Certificates

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

11. Meetings of Bondholders; Written Resolutions

(a) Convening Meetings of Bondholders; Conduct of Meetings of Bondholders; Written Resolutions

(i) The Issuer may convene a meeting of the Bondholders at any time in respect of the Bonds in accordance with the Agency Agreement. The Issuer will determine the time and place of the meeting. The Issuer will notify the Bondholders of the time, place and purpose of the meeting not less than 21 and not more than 45 days before the meeting.

(ii) The Issuer or the Fiscal Agent, on behalf of and under instruction of the Issuer, will convene a meeting of Bondholders if the holders of at least 10 per cent. in principal amount of the outstanding Bonds (as defined in the Agency Agreement and described in Condition 11(i)) have delivered a written request to the Issuer or the Fiscal Agent (with a copy to the Issuer) setting out the purpose of the meeting. The Fiscal Agent will agree the time and place of the meeting with the Issuer promptly. The Issuer or the Fiscal Agent, as the case may be, will notify the Bondholders within 10 days of receipt of such written request of the time and place of the meeting, which shall take place not less than 21 and not more than 45 days after the date on which such notification is given.

(iii) The Issuer (with the agreement of the Fiscal Agent) will set the procedures governing the conduct of any meeting in accordance with the Agency Agreement. If the Agency Agreement does not include such procedures, or additional procedures are required, the Issuer and the Fiscal Agent will agree such procedures as are customary in the market and in such a manner as to facilitate any multiple series aggregation, if in relation to a Reserved Matter the Issuer

proposes any modification to the terms and conditions of, or action with respect to, two or more series of debt securities issued by it.

(iv) The notice convening any meeting will specify, *inter alia*;

(A) the date, time and location of the meeting;

(B) the agenda and the text of any Extraordinary Resolution to be proposed for adoption at the meeting;

(C) the record date for the meeting, which shall be no more than five business days, as defined in Condition 6(c), before the date of the meeting;

(D) the documentation required to be produced by a Bondholder in order to be entitled to participate at the meeting or to appoint a proxy to act on the Bondholder's behalf at the meeting;

(E) any time deadline and procedures required by any relevant international and/or domestic clearing systems or similar through which the Bonds are traded and/or held by Bondholders;

(F) whether Condition 11(b), or Condition 11(c), or Condition 11(d) shall apply and, if relevant, in relation to which other series of debt securities it applies;

(G) if the proposed modification or action relates to two or more series of debt securities issued by the Issuer and contemplates such series of debt securities being aggregated in more than one group of debt securities, a description of the proposed treatment of each such group of debt securities;

(H) such information that is required to be provided by the Issuer in accordance with Condition 11(f);

(I) the identity of the Aggregation Agent and the Calculation Agent, if any, for any proposed modification or action to be voted on at the meeting, and the details of any applicable methodology referred to in Condition 11(g); and

(J) any additional procedures which may be necessary and, if applicable, the conditions under which a multiple series aggregation will be deemed to have been satisfied if it is approved as to some but not all of the affected series of debt securities.

(v) In addition, the Agency Agreement contains provisions relating to Written Resolutions. All information to be provided pursuant to Condition 11(a)(iv) shall also be provided, *mutatis mutandis*, in respect of Written Resolutions.

(vi) A "**record date**" in relation to any proposed modification or action means the date fixed by the Issuer for determining the Bondholders and, in the case of a multiple series aggregation, the holders of debt securities of each other affected series that are entitled to vote on a Multiple Series Single Limb Extraordinary Resolution or a Multiple Series Two Limb Extraordinary Resolution, or to sign a Multiple Series Single Limb Written Resolution or a Multiple Series Two Limb Written Resolution.

(vii) An "**Extraordinary Resolution**" means any of a Single Series Extraordinary Resolution, a Multiple Series Single Limb Extraordinary Resolution and/or a Multiple Series Two Limb Extraordinary Resolution, as the case may be.

(viii) A "**Written Resolution**" means any of a Single Series Written Resolution, a Multiple Series Single Limb Written Resolution and/or a Multiple Series Two Limb Written Resolution, as the case may be.

(ix) Any reference to "**debt securities**" means any notes, bonds (including the Bonds), debentures or other debt securities issued by the Issuer in one or more series with an original stated maturity of more than one year.

(x) "**Debt Securities Capable of Aggregation**" means those debt securities which include or incorporate by reference this Condition 11 and Condition 12 or provisions substantially in these terms which provide for the debt securities which include such provisions to be capable of being aggregated for voting purposes with other series of debt securities.

(b) **Modification of this Series of Bonds only**

(i) Any modification of any provision of, or any action in respect of, these Conditions or the Agency Agreement in respect of the Bonds may be made or taken if approved by a Single Series Extraordinary Resolution or a Single Series Written Resolution as set out below.

(ii) A "**Single Series Extraordinary Resolution**" means a resolution passed at a meeting of Bondholders duly convened and held in accordance with the procedures prescribed by the Issuer and the Fiscal Agent pursuant to Condition 11(a) by a majority of:

(A) in the case of a Reserved Matter, at least 75 per cent. of the aggregate principal amount of the outstanding Bonds; or

(B) in the case of a matter other than a Reserved Matter, more than 50 per cent. of the aggregate principal amount of the outstanding Bonds.

(iii) A "**Single Series Written Resolution**" means a resolution in writing signed or confirmed in writing by or on behalf of the holders of:

(A) in the case of a Reserved Matter, at least 75 per cent. of the aggregate principal amount of the outstanding Bonds; or

(B) in the case of a matter other than a Reserved Matter more than 50 per cent. of the aggregate principal amount of the outstanding Bonds.

Any Single Series Written Resolution may be contained in one document or several documents in the same form, each signed or confirmed in writing by or on behalf of one or more Bondholders.

(iv) Any Single Series Extraordinary Resolution duly passed or Single Series Written Resolution approved shall be binding on all Bondholders, whether or not they attended any meeting, whether or not they voted in favour thereof and whether or not they signed or confirmed in writing any such Single Series Written Resolution, as the case may be.

(c) **Multiple Series Aggregation – Single limb voting**

(i) In relation to a proposal that includes a Reserved Matter, any modification to the terms and conditions of, or any action with respect to, two or more series of Debt Securities Capable of Aggregation may be made or taken if approved by a Multiple Series Single Limb Extraordinary Resolution or by a Multiple Series Single Limb Written Resolution as set out below, provided that the Uniformly Applicable condition is satisfied.

(ii) A "**Multiple Series Single Limb Extraordinary Resolution**" means a resolution considered at separate meetings of the holders of each affected series of Debt Securities Capable of Aggregation, duly convened and held in accordance with the procedures prescribed by the Issuer and the Fiscal Agent pursuant to Condition 11(a), as supplemented if necessary, which is passed by a majority of at least 75 per cent. of the aggregate principal amount of the outstanding debt securities of all affected series of Debt Securities Capable of Aggregation (taken in aggregate).

(iii) A "**Multiple Series Single Limb Written Resolution**" means each resolution in writing (with a separate resolution in writing or multiple separate resolutions in writing distributed to the

holders of each affected series of Debt Securities Capable of Aggregation, in accordance with the applicable bond documentation) which, when taken together, has been signed or confirmed in writing by or on behalf of the holders of at least 75 per cent. of the aggregate principal amount of the outstanding debt securities of all affected series of Debt Securities Capable of Aggregation (taken in aggregate). Any Multiple Series Single Limb Written Resolution may be contained in one document or several documents in substantially the same form, each signed or confirmed in writing by or on behalf of one or more Bondholders or one or more holders of each affected series of debt securities.

(iv) Any Multiple Series Single Limb Extraordinary Resolution duly passed or Multiple Series Single Limb Written Resolution approved shall be binding on all Bondholders and holders of each other affected series of Debt Securities Capable of Aggregation, whether or not they attended any meeting, whether or not they voted in favour thereof, whether or not any other holder or holders of the same series voted in favour thereof and whether or not they signed or confirmed in writing any such Multiple Series Single Limb Written Resolution, as the case may be, and on all couponholders (where applicable) of each other affected series of Debt Securities Capable of Aggregation.

(v) The "**Uniformly Applicable**" condition will be satisfied if:

(A) the holders of all affected series of Debt Securities Capable of Aggregation are invited to exchange, convert, or substitute their debt securities, on the same terms, for (i) the same new instrument or other consideration or (ii) a new instrument, new instruments or other consideration from an identical menu of instruments or other consideration; or

(B) the amendments proposed to the terms and conditions of each affected series of Debt Securities Capable of Aggregation would, following implementation of such amendments, result in the amended instruments having identical provisions (other than provisions which are necessarily different, having regard to different currency of issuance).

(vi) It is understood that a proposal under Condition 11(c)(i) above will not be considered to satisfy the Uniformly Applicable condition if each exchanging, converting, substituting or amending holder of each affected series of Debt Securities Capable of Aggregation is not offered the same amount of consideration per amount of principal, the same amount of consideration per amount of interest accrued but unpaid and the same amount of consideration per amount of past due interest, respectively, as that offered to each other exchanging, converting, substituting or amending holder of each affected series of Debt Securities Capable of Aggregation (or, where a menu of instruments or other consideration is offered, each exchanging, converting, substituting or amending holder of each affected series of Debt Securities Capable of Aggregation is not offered the same amount of consideration per amount of principal: the same amount of consideration per amount of interest accrued but unpaid and the same amount of consideration per amount of past due interest, respectively, as that offered to each other exchanging, converting, substituting or amending holder of each affected series of Debt Securities Capable of Aggregation electing the same option from such menu of instruments).

(vii) Any modification or action proposed under Condition 11(c)(i) above may be made in respect of some series only of the Debt Securities Capable of Aggregation and, for the avoidance of doubt, the provisions described in this Condition 11(c) may be used for different groups of two or more series of Debt Securities Capable of Aggregation simultaneously.

(d) **Multiple Series Aggregation – Two limb voting**

(i) In relation to a proposal that includes a Reserved Matter, any modification to the terms and conditions of, or any action with respect to, two or more series of Debt Securities Capable of Aggregation may be made or taken if approved by a Multiple Series Two Limb Extraordinary Resolution or by a Multiple Series Two Limb Written Resolution as set out below.

(ii) A "**Multiple Series Two Limb Extraordinary Resolution**" means a resolution considered at separate meetings of the holders of each affected series of Debt Securities Capable of Aggregation, duly convened and held in accordance with the procedures prescribed by the Issuer and the Fiscal Agent pursuant to Condition 11(a), as supplemented if necessary, which is passed by a majority of:

(A) at least 66 ⅔ per cent. of the aggregate principal amount of the outstanding debt securities of affected series of Debt Securities Capable of Aggregation (taken in aggregate); and

(B) more than 50 per cent. of the aggregate principal amount of the outstanding debt securities in each affected series of Debt Securities Capable of Aggregation (taken individually).

(iii) A "**Multiple Series Two Limb Written Resolution**" means each resolution in writing (with a separate resolution in writing or multiple separate resolutions in writing distributed to the holders of each affected series of Debt Securities Capable of Aggregation, in accordance with the applicable bond documentation) which, when taken together, has been signed or confirmed in writing by or on behalf of the holders of:

(A) at least 66 ⅔ per cent. of the aggregate principal amount of the outstanding debt securities of all the affected series of Debt Securities Capable of Aggregation (taken in aggregate); and

(B) more than 50 per cent. of the aggregate principal amount of the outstanding debt securities in each affected series of Debt Securities Capable of Aggregation (taken individually).

Any Multiple Series Two Limb Written Resolution may be contained in one document or several documents in substantially the same form, each signed or confirmed in writing by or on behalf of one or more Bondholders or one or more holders of each affected series of Debt Securities Capable of Aggregation.

(iv) Any Multiple Series Two Limb Extraordinary Resolution duly passed or Multiple Series Two Limb Written Resolution approved shall be binding on all Bondholders and holders of each other affected series of Debt Securities Capable of Aggregation, whether or not they attended any meeting, whether or not they voted in favour thereof, whether or not any other holder or holders of the same series voted in favour thereof and whether or not they signed or confirmed in writing any such Multiple Series Two Limb Written Resolution, as the case may be, and on all couponholders (where applicable) of each other affected series of Debt Securities Capable of Aggregation.

(v) Any modification or action proposed under paragraph 11(d)(i) above may be made in respect of some series only of the Debt Securities Capable of Aggregation and, for the avoidance of doubt, the provisions described in this Condition 11(d) may be used for different groups of two or more series of Debt Securities Capable of Aggregation simultaneously.

(e) **Reserved Matters**

In these Conditions, "**Reserved Matter**" means any proposal:

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

(ii) to change the currency in which any amount due in respect of the Bonds is payable or the place in which any payment is to be made;

(iii) to change the majority required to pass an Extraordinary Resolution, a Written Resolution or any other resolution of Bondholders or the number or percentage of votes required to be cast, or the number or percentage of Bonds required to be held, in connection with the taking of any decision or action by or on behalf of the Bondholders or any of them;

(iv) to change this definition, or the definition of "Extraordinary Resolution", "Single Series Extraordinary Resolution", "Multiple Series Single Limb Extraordinary Resolution", "Multiple Series Two Limb Extraordinary Resolution", "Written Resolution", "Single Series Written Resolution", "Multiple Series Single Limb Written Resolution" or "Multiple Series Two Limb Written Resolution";

(v) to change the definition of "debt securities" or "Debt Securities Capable of Aggregation";

(vi) to change the definition of "Uniformly Applicable";

(vii) to change the definition of "outstanding" or to modify the provisions of Condition 11(i);

(viii) to change the legal ranking of the Bonds;

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

(x) to change any provision of the Bonds describing circumstances in which Bonds may be declared due and payable prior to their scheduled maturity date, as set out in Condition 8;

(xi) to change the law governing the Bonds, the arbitration provisions, the courts to the jurisdiction of which the Issuer has submitted in the Bonds, any of the arrangements specified in the Bonds to enable proceedings to be taken or the Issuer's waiver of immunity, in respect of actions or proceedings brought by any Bondholder, as set out in Condition 18;

(xii) to impose any condition on or otherwise change the Issuer's obligation to make payments of principal, interest or any other amount in respect of the Bonds, including by way of the addition of a call option;

(xiii) except as permitted by any related guarantee or security agreement, to release any agreement guaranteeing or securing payments under the Bonds or to change the terms of any such guarantee or security;

(xiv) to exchange or substitute all the Bonds for, or convert all the Bonds into, other obligations or securities of the Issuer or any other person, or to modify any provision of these Conditions in connection with any exchange or substitution of the Bonds for, or the conversion of the Bonds into, any other obligations or securities of the Issuer or any other person, which would result in the Conditions as so modified being less favourable to the Bondholders which are subject to the Conditions as so modified than:

    (A) the provisions of the other obligations or debt securities of the Issuer or any other person resulting from the relevant exchange or substitution or conversion; or

    (B) if more than one series of other obligations or debt securities results from the relevant exchange or substitution or conversion, the provisions of the resulting series of debt securities having the largest aggregate principal amount.

(f) **Information**

Prior to or on the date that the Issuer proposes any Extraordinary Resolution or Written Resolution pursuant to Condition 11(b), Condition 11(c) or Condition 11(d), the Issuer shall publish in accordance with Condition 12 and provide the Fiscal Agent with the following information:

(i) a description of the Issuer's economic and financial circumstances which are, in the Issuer's opinion, relevant to the request for any potential modification or action, a description of the Issuer's existing debts and a description of its broad policy reform programme and provisional macroeconomic outlook;

(ii) if the Issuer shall at the time have entered into an arrangement for financial assistance with multilateral and/or other major creditors or creditor groups and/or an agreement with any such creditors regarding debt relief, a description of any such arrangement or agreement. Where permitted under the information disclosure policies of the multilateral or such other creditors, as applicable, copies of the arrangement or agreement shall be provided;

(iii) a description of the Issuer's proposed treatment of external debt securities that fall outside the scope of any multiple series aggregation and its intentions with respect to any other debt securities and its other major creditor groups; and

(iv) if any proposed modification or action contemplates debt securities being aggregated in more than one group of debt securities, a description of the proposed treatment of each such group, as required for a notice convening a meeting of the Bondholders in Condition 11(a)(iv)(G).

(g) **Claims Valuation**

For the purpose of calculating the par value of the Bonds and any affected series of debt securities which are to be aggregated with the Bonds in accordance with Condition 11(c) and Condition 11(d), the Issuer may appoint a Calculation Agent. The Issuer shall, with the approval of the Aggregation Agent and any appointed Calculation Agent, promulgate the methodology in accordance with which the Calculation Agent will calculate the par value of the Bonds and such affected series of debt securities. In any such case where a Calculation Agent is appointed, the same person will be appointed as the Calculation Agent for the Bonds and each other affected series of debt securities for these purposes, and the same methodology will be promulgated for each affected series of debt securities.

(h) **Manifest error, etc.**

The Bonds, these Conditions and the provisions of the Agency Agreement may be amended without the consent of the Bondholders to correct a manifest error. In addition, the parties to the Agency Agreement may agree to modify any provision thereof, but the Issuer shall not agree, without the consent of the Bondholders, to any such modification unless it is of a formal, minor or technical nature or it is not materially prejudicial to the interests of the Bondholders.

(i) **Bonds controlled by the Issuer**

For the purposes of (i) determining the right to attend and vote at any meeting of Bondholders, or the right to sign or confirm in writing, or authorise the signature of, any Written Resolution, (ii) this Condition 11 and (iii) Condition 8, any Bonds which are for the time being held by or on behalf of the Issuer or by or on behalf of any person which is owned or controlled directly or indirectly by the Issuer or by any public sector instrumentality of the Issuer shall be disregarded and be deemed not to remain outstanding, where:

(i) "**public sector instrumentality**" means the Central Bank of Bahrain or any department, ministry or agency of the government of the Issuer or any corporation, trust, financial institution or other entity owned or controlled by the government of the Issuer or any of the foregoing; and

(ii) "**control**" means the power, directly or indirectly, through the ownership of voting securities or other ownership interests or through contractual control or otherwise, to direct the management of or elect or appoint a majority of the board of directors or other persons performing similar functions in lieu of, or in addition to, the board of directors of a corporation, trust, financial institution or other entity.

A Bond will also be deemed to be not outstanding if the Bond has previously been cancelled or delivered for cancellation or held for reissuance but not reissued or, where relevant, the Bond has previously been called for redemption in accordance with its terms or previously become due and payable at maturity or otherwise and the Issuer has previously satisfied its obligations to make all payments due in respect of the Bond in accordance with its terms.

In advance of any meeting of Bondholders, or in connection with any Written Resolution, the Issuer shall provide to the Fiscal Agent a copy of the certificate prepared pursuant to Condition 12(d) which

includes information on the total number of Bonds which are for the time being held by or on behalf of the Issuer or by or on behalf of any person which is owned or controlled directly or indirectly by the Issuer or by any public sector instrumentality of the Issuer and, as such, such Bonds shall be disregarded and deemed not to remain outstanding for the purposes of ascertaining the right to attend and vote at any meeting of Bondholders or the right to sign, or authorise the signature of, any Written Resolution in respect of any such meeting. The Fiscal Agent shall make any such certificate available for inspection during normal business hours at its specified office and, upon reasonable request, will allow copies of such certificate to be taken.

(j) **Publication**

The Issuer shall publish all Extraordinary Resolutions and Written Resolutions which have been determined by the Aggregation Agent to have been duly passed in accordance with Condition 12(g).

(k) **Exchange and Conversion**

Any Extraordinary Resolutions or Written Resolutions which have been duly passed and which modify any provision of, or action in respect of, the Conditions may be implemented at the Issuer's option by way of a mandatory exchange or conversion of the Bonds and each other affected series of debt securities, as the case may be, into new debt securities containing the modified terms and conditions if the proposed mandatory exchange or conversion of the Bonds is notified to Bondholders at the time notification is given to the Bondholders as to the proposed modification or action. Any such exchange or conversion shall be binding on all Bondholders.

12. Aggregation Agent; Aggregation Procedures

(a) **Appointment**

The Issuer will appoint an Aggregation Agent to calculate whether a proposed modification or action has been approved by the required principal amount outstanding of Bonds, and, in the case of a multiple series aggregation, by the required principal amount of outstanding debt securities of each affected series of debt securities. In the case of a multiple series aggregation, the same person will be appointed as the Aggregation Agent for the proposed modification of any provision of, or any action in respect of, these Conditions or the Agency Agreement in respect of the Bonds and in respect of the terms and conditions or bond documentation in respect of each other affected series of debt securities. The Aggregation Agent shall be independent of the Issuer.

(b) **Extraordinary Resolutions**

If an Extraordinary Resolution has been proposed at a duly convened meeting of Bondholders to modify any provision of, or action in respect of, these Conditions and other affected series of debt securities, as the case may be, the Aggregation Agent will, as soon as practicable after the time the vote is cast, calculate whether holders of a sufficient portion of the aggregate principal amount of the outstanding Bonds and, where relevant, each other affected series of debt securities, have voted in favour of the Extraordinary Resolution such that the Extraordinary Resolution is passed. If so, the Aggregation Agent will determine that the Extraordinary Resolution has been duly passed.

(c) **Written Resolutions**

If a Written Resolution has been proposed under the terms of these Conditions to modify any provision of, or action in respect of, these Conditions and the terms and conditions of other affected series of debt securities, as the case may be, the Aggregation Agent will, as soon as reasonably practicable after the relevant Written Resolution has been signed or confirmed in writing, calculate whether holders of a sufficient portion of the aggregate principal amount of the outstanding Bonds and, where relevant, each other affected series of debt securities, have signed or confirmed in writing in favour of the Written Resolution such that the Written Resolution is passed. If so, the Aggregation Agent will determine that the Written Resolution has been duly passed.

(d) **Certificate**

For the purposes of Condition 12(b) and Condition 12(c), the Issuer will provide a certificate to the Aggregation Agent up to three days prior to, and in any case no later than, with respect to an Extraordinary Resolution, the date of the meeting referred to in Condition 11(b), Condition 11(c) or Condition 11(d), as applicable, and, with respect to a Written Resolution, the date arranged for the signing of the Written Resolution.

The certificate shall:

(i) list the total principal amount of Bonds and, in the case of a multiple series aggregation, the total principal amount of each other affected series of debt securities outstanding on the record date; and

(ii) clearly indicate the Bonds and, in the case of a multiple series aggregation, debt securities of each other affected series of debt securities which shall be disregarded and deemed not to remain outstanding as a consequence of Condition 11(i) on the record date identifying the holders of the Bonds and, in the case of a multiple series aggregation, debt securities of each other affected series of debt securities.

The Aggregation Agent may rely upon the terms of any certificate, notice, communication or other document believed by it to be genuine.

(e) **Notification**

The Aggregation Agent will cause each determination made by it for the purposes of this Condition 12 to be notified to the Fiscal Agent and the Issuer as soon as practicable after such determination. Notice thereof shall also promptly be given to the Bondholders.

(f) **Binding nature of determinations; no liability**

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 12 by the Aggregation Agent and any appointed Calculation Agent will (in the absence of manifest error) be binding on the Issuer, the Fiscal Agent and the Bondholders and (subject as aforesaid) no liability to any such person will attach to the Aggregation Agent or the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions for such purposes.

(g) **Manner of publication**

The Issuer will publish all notices and other matters required to be published pursuant to the Agency Agreement including any matters required to be published pursuant to Condition 8, Condition 11, this Condition 12 and Condition 13:

(i) through the systems of Clearstream Banking S.A., Euroclear Bank SA/NV and DTC and/or any other international or domestic clearing system(s) through which the Bonds are for the time being cleared;

(ii) in such other places and in such other manner as may be required by applicable law or regulation; and

(iii) in such other places and in such other manner as may be customary.

13. Bondholders' Committee

(a) **Appointment**

(i) Holders of at least 25 per cent. of the aggregate principal amount of the outstanding debt securities of all series of affected debt securities (taken in aggregate) may, by notice in writing to the Issuer (with a copy to the Fiscal Agent), appoint any person or persons as a committee to represent the interests of such holders (as well as the interests of any holders of outstanding

debt securities who wish to be represented by such a committee) if any of the following events has occurred:

(A) an Event of Default under Condition 8;

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

(C) any public announcement by the Issuer, to the effect that the Issuer is seeking or intends to seek a rescheduling or restructuring of the Bonds or any other affected series of debt securities (whether by amendment, exchange offer or otherwise); or

(D) with the agreement of the Issuer, at a time when the Issuer has reasonably reached the conclusion that its debt may no longer be sustainable while the Bonds or any other affected series of debt securities are outstanding.

(ii) Upon receipt of a written notice that a committee has been appointed in accordance with Condition 13(a), and a certificate delivered pursuant to Condition 13(d), the Issuer shall give notice of the appointment of such a committee to:

(A) all Bondholders in accordance with Condition 15; and

(B) the holders of each affected series of debt securities in accordance with the terms and conditions of such affected series of debt securities,

as soon as practicable after such written notice and such certificate are delivered to the Issuer.

(b) **Powers**

Such committee in its discretion may, among other things:

(i) engage legal advisers and financial advisers to assist it in representing the interests of the Bondholders;

(ii) adopt such rules as it considers appropriate regarding its proceedings;

(iii) enter into discussions with the Issuer and/or other creditors of the Issuer; and

(iv) designate one or more members of the committee to act as the main point(s) of contact with the Issuer and provide all relevant contact details to the Issuer.

Except to the extent provided in this Condition 13(b), such committee shall not have the ability to exercise any powers or discretions which the Bondholders could themselves exercise.

(c) **Engagement with the committee and provision of information**

(i) The Issuer shall:

(A) subject to Condition 11(c)(ii), engage with the committee in good faith;

(B) provide the committee with information equivalent to that required under Condition 11(f) and related proposals, if any, in each case as the same become available, subject to any applicable information disclosure policies, rules and regulations; and

(C) pay any reasonable fees and expenses of any such committee (including without limitation, the reasonable and documented fees and expenses of the committee's legal and financial advisers, if any) following receipt of reasonably detailed invoices and supporting documentation.

(ii) If more than one committee has been appointed by holders of affected series of debt securities in accordance with the provisions of this Condition 13 and/or equivalent provisions set out in the terms and conditions of any affected series of debt securities, the Issuer shall not be obliged to engage with such committees separately. Such committees may appoint a single steering group (to be comprised of representatives from such committees), whereupon the Issuer shall engage with such steering group.

(d) **Certification**

Upon the appointment of a committee, the person or persons constituting such a committee (the "**Members**") will provide a certificate to the Issuer and to the Fiscal Agent signed by the authorised representatives of the Members, and the Issuer and the Fiscal Agent may rely upon the terms of such certificate.

The certificate shall certify:

(i) that the committee has been appointed;

(ii) the identity of the Members; and

(iii) that such appointment complies with the terms and conditions of the relevant bond documentation.

Promptly after any change in the identity of the Members, a new certificate which each of the Issuer and the Fiscal Agent may rely on conclusively, will be delivered to the Issuer and the Fiscal Agent identifying the new Members. Each of the Issuer and the Fiscal Agent will assume that the membership of the committee has not changed unless and until it has received a new certificate.

The provisions of this Condition 13(d) shall apply, *mutatis mutandis*, to any steering group appointed in accordance with Condition 13(c)(ii).

In appointing a person or persons as a committee to represent the interests of the Bondholders, the Bondholders may instruct a representative or representatives of the committee to form a separate committee or to join a steering group with any person or persons appointed for similar purposes by other affected series of debt securities.

14. Further Issues

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

15. Notices

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

16. Currency Indemnity

U.S. dollars is the sole currency of account and payment for all sums payable by the Issuer under or in connection with the Bonds, including damages. Any amount received or recovered in a currency other than U.S. dollars (whether as a result of, or of the enforcement of, a judgment or order of a court of any jurisdiction or otherwise) by any Bondholder in respect of any sum expressed to be due to it from the Issuer shall only

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

17. Contracts (Rights of Third Parties) Act 1999

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

18. Governing Law and Jurisdiction

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

(b) **Arbitration:** Subject to Condition 18(c), any dispute arising out of or in connection with the Bonds (including a dispute regarding the existence, validity or termination of the Bonds and any dispute relating to any non-contractual obligations arising out of or in connection with the Bonds) (a "**Dispute**") shall be referred to and finally resolved by arbitration under the LCIA Rules (the "**Rules**") which Rules (as amended from time to time) are deemed to be incorporated by reference into this Condition 18(b). The number of arbitrators shall be three. The claimant (or claimants jointly) shall nominate one arbitrator for appointment by the LCIA Court. The defendant (or defendants jointly) shall nominate one arbitrator for appointment by the LCIA Court. Both arbitrators shall jointly nominate a further arbitrator who shall be the chairman of the tribunal. In the event that the claimant (or claimants jointly) or the defendant (or defendants jointly) or both fail to nominate an arbitrator within the time limits specified by the Rules, such arbitrator(s) shall be appointed by the LCIA Court. In the event that the party-nominated arbitrators fail to nominate the third arbitrator within 15 days of the appointment of the second arbitrator, such arbitrator shall be appointed by the LCIA Court. The claimant parties and/or the defendant parties shall be treated as two separate sides for the purposes of Article 8.1 of the Rules. The seat, or legal place, of arbitration shall be London, England and the language of the arbitration shall be English. Any request for arbitration may be served on the agent for service of process as outlined below.

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

(d) **Agent for service of process:** The Issuer irrevocably appoints Norose Notices Limited of 3 More London Riverside, London SE1 2AQ, England as its agent in England to receive service of process in any proceedings being brought in England based on any of the Bonds pursuant to Condition 18(b) and/or Condition 18(c). The Issuer agrees that failure by a process agent to notify the Issuer of the process will not invalidate proceedings concerned or service of the process. If, for any reason, the Issuer does not have such an agent in England, it will promptly appoint a substitute process agent and notify the Bondholders of such appointment. Nothing herein shall affect the right to serve process in any other manner permitted by law.

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

(f) **Waiver of immunity:** The Issuer, to the extent permitted by law, hereby irrevocably and unconditionally waives and agrees not to raise with respect to the Bonds any right to claim sovereign or other immunity from jurisdiction or execution and any similar defence, and to the extent permitted by law, irrevocably and unconditionally consents to the giving of any relief or the issue of any process, including, without limitation, the making, enforcement or execution against any property or assets whatsoever (irrespective of its use or intended use) of any order or judgment made or given in connection with any proceedings. In particular (but not by way of limitation of the foregoing), the Issuer, to the extent permitted by law, agrees and confirms that Article 251 of the Law of Civil and Commercial Procedure (Decree Law No. 12/1971 of the Laws of Bahrain) shall not apply, and shall not be so construed as to apply, to any proceedings for enforcement or execution of any order or judgment made in respect of or arising out of the Bonds or any provision hereof.

SUMMARY OF PROVISIONS RELATING TO THE NEW BONDS WHILE IN GLOBAL FORM

The New Global Bond Certificates contain the following provisions which apply to the New Bonds in respect of which they are issued whilst they are represented by the New Global Bond Certificates, some of which modify the effect of the terms and conditions of the New Bonds. Terms defined in the terms and conditions of the New Bonds have the same meaning in the terms below.

The New Global Bond Certificates

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

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

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

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

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

Legends

The holder of an Individual Certificate may transfer the New Bonds evidenced thereby in whole or in part in the applicable minimum denomination by surrendering it at the specified office of the Registrar or any Paying and

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

Amendments to Terms and Conditions of the New Bonds

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

Payments

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

Meetings

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

Cancellation

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

Exchange for Individual Certificates

Exchange

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

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

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

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

Delivery

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

CLEARING AND SETTLEMENT

*The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of DTC, Euroclear or Clearstream, Luxembourg (together, the "***Clearing Systems***") currently in effect. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. None of the Issuer nor any other party to the Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Bonds held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.*

The Clearing Systems

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

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

Euroclear and Clearstream, Luxembourg

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

DTC

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

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

Under the rules, regulations and procedures creating and affecting DTC and its operations (the "**Rules**"), DTC makes book-entry transfers of New Rule 144A Bonds represented by the New Rule 144A Global Bond Certificate among Direct Participants on whose behalf it acts with respect to New Rule 144A Bonds and receives and transmits distributions of principal and interest on the New Rule 144A Bonds. The Rules are on file with the Securities and Exchange Commission. Direct Participants and Indirect Participants with which beneficial owners of New Rule 144A Bonds have accounts with respect to the New Rule 144A Bonds similarly are required to make book-entry transfers and receive and transmit such payments on behalf of their beneficial owners. Accordingly, although beneficial owners who hold New Rule 144A Bonds through Direct Participants

or Indirect Participants will not possess New Rule 144A Bonds, the Rules, by virtue of the requirements described above, provide a mechanism by which Participants will receive payments and will be able to transfer their interest in respect of the New Rule 144A Bonds.

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

Payments through DTC

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

Book-Entry Ownership

Euroclear and Clearstream, Luxembourg

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

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

DTC

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

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

Relationship of Participants with Clearing Systems

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

Settlement and Transfer of New Bonds

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

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

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

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

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

Trading between Euroclear and/or Clearstream, Luxembourg Participants

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

Trading between DTC Participants

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

Trading between DTC seller and Euroclear/Clearstream, Luxembourg Purchaser

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

common depositary for Euroclear and Clearstream, Luxembourg and evidenced by the New Regulation S Global Bond Certificate. Book-entry interests will be delivered free of payment to Euroclear or Clearstream, Luxembourg, as the case may be, for credit to the relevant accountholder on the first business day following the settlement date.

Trading between Euroclear/Clearstream, Luxembourg seller and DTC Purchaser

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

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

Settlement of Pre-issue Trades

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

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

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

USE OF PROCEEDS

The Issuer will use the net proceeds of the issue of the New Bonds, amounting to approximately U.S.$632,000,000, for its general budgetary purposes.

RECENT DEVELOPMENTS

Set out below are recent developments in certain areas for the period 13 October 2016 (the day following the issue of the Existing Bonds) to 27 February 2017. This section does not contain all the information investors may consider important in making their investment decision. Therefore, investors should read this entire Prospectus carefully, including, in particular, the section entitled "Risk Factors", "Overview of the Kingdom of Bahrain", "Economy of the Kingdom of Bahrain", "Balance of Payments and Foreign Trade", "Monetary and Financial System", "Public Finance" and "Indebtedness".

Since October 2016, Bahrain's economy has been stable despite volatile geopolitical conditions, both locally and globally. Between 30 June 2016 and 30 September 2016 Bahrain's real GDP grew by 1.7 per cent. and inflation levels remained low throughout the same period. According to estimates prepared by the International Monetary Fund, Bahrain's real GDP is forecasted to grow by 2.1 per cent. in 2016, 1.8 per cent. in 2017 and 1.6 per cent. in 2018. The EDB has revised its forecast for Bahrain's real GDP growth in 2016 upwards to 3.4 per cent. mainly due to higher than expected oil output for the year. While the IMF's 2016 real GDP growth forecast did not account for the increase in oil production, Bahrain expects the IMF to revise its forecast in relation to Bahrain's real 2016 GDP growth to more closely align with the EDB's forecast. The Government continues to focus on (i) reducing subsidies and (ii) expanding on increasing non-oil revenues through various initiatives. Please see "*Recent Developments - Non-oil Revenue*" and "*Recent Developments - Redirecting Subsidies*" below for the most recent non-oil revenue increasing initiatives.

Rating

On 9 December 2016, S&P Global Ratings downgraded its Bahrain's long-term foreign sovereign credit rating by one notch to BB– (stable outlook) from BB. On 15 February 2017, Fitch affirmed Bahrain's long-term foreign sovereign credit rating at BB+ (stable outlook).

Recent developments to *"Economy of the Kingdom of Bahrain - Gross Domestic Product"*

Bahrain's real GDP grew 3.9 per cent. between the third quarter of 2016 and the third quarter of 2015 and 3.6 per cent. in the first three quarters of 2016 compared to the first three quarters of 2015. According to estimates prepared by the International Monetary Fund ("**IMF**"), Bahrain's real GDP is forecasted to grow by 2.1 per cent. in 2016, 1.8 per cent. in 2017 and 1.6 per cent. in 2018. The EDB has revised its forecast for Bahrain's real GDP growth in 2016 upwards to 3.4 per cent. mainly due to higher than expected oil output for the year. While the IMF's 2016 real GDP growth forecast did not account for the increase in oil production, Bahrain expects the IMF to revise its forecast in relation to Bahrain's real 2016 GDP growth to more closely align with the EDB's forecast. The non-oil sector has continued to grow, contributing 80.0 per cent. to Bahrain's GDP in the third quarter of 2016, having grown by 4.7 per cent. compared to the third quarter of 2015.

Bahrain has an increasingly important financial services industry, which remains the largest non-oil contributor to GDP. Manufacturing, oil refining, aluminium production and tourism are also significant contributors to GDP. As at 30 September 2016, the financial services sector contributed 16.8 per cent. to Bahrain's real GDP, while manufacturing, mining and quarrying (including oil and gas), government services, transport and communications, real estate and business activities contributed 14.0 per cent., 20.8 per cent., 12.6 per cent., 7.3 per cent., and 5.4 per cent. of real GDP, respectively.

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 2010 prices for the periods indicated:

	For the year ended 31 December			For the three months ended[(3)]		
	2013	2014	2015	31 March 2016[(4)]	30 June 2016[(5)]	30 Sept 2016[(6)]
Total:						
At current prices (U.S.$ millions)[(1)]	32,539.6	33,387.7	31,125.9	7,586.1	7,974.1	8,156.9
At constant 2010 prices (U.S.$ millions)[(1)]	28,674.4	29,921.8	30,778.9	7,837.6	7,935.0	8,070.8
Percentage change over previous period: [(7)]						
At current prices	5.8	2.6	(6.8)	(0.3)	(0.2)	3.5
At constant 2010 prices	5.4	4.4	2.9	4.5	2.5	3.9
Per capita:[(2)]						
At current prices (U.S.$)[(1)]	25,965.4	25,389.9	22,819.5	N/A	N/A	N/A

At constant 2010 prices (U.S.$)(1)	22,881.1	22,754.2	22,565.2	N/A	N/A	N/A

Notes:

(1) Using the fixed conversion rate of BD0.376 = U.S.$1.00.
(2) Assuming a population of 1,253,191 in 2013, 1,315,000 in 2014 and 1,364,000 in 2015.
(3) No GDP per capita figures published for quarterly GDP.
(4) GDP as at 31 March 2016 is only for the period between 31 December 2015 and 31 March 2016.
(5) GDP as at 30 June 2016 is only for the period between 31 March 2016 and 30 June 2016.
(6) GDP as at 30 September 2016 is only for the period between 30 June 2016 and 30 September 2016.
(7) With respect to the percentage change for a quarter, the figure represents the percent change between the relevant quarter in 2016 as compared to the same quarter in 2015

Source: Central Informatics Organisation.

Recent developments to *"Economy of the Kingdom of Bahrain – Common Market - Inflation"*

The table below shows the consumer price index during each month in the period 1 January 2016 to 31 December 2016 and inflation when comparing the CPI in each of those months to the corresponding months in the previous year:

	Jan. 2016	Feb. 2016	Mar. 2016	Apr. 2016	May 2016	Jun. 2016	Jul. 2016	Aug. 2016	Sep. 2016	Oct. 2016	Nov. 2016	Dec. 2016
Consumer price index (CPI) (2006=100)	126.0	127.0	127.7	127.5	127.5	127.9	127.8	127.4	128.2	127.7	126.6	126.6
Year on year charge (per cent.)	2.3	2.9	3.3	3.8	3.7	3.3	3.5	2.6	2.6	1.5	1.9	2.3

Source: Central Informatics Organisation

The main contribution to the year-on-year CPI fluctuation for the 12 month period ended on 30 December 2016 compared to the 12 month period ended on 30 December 2015 was an increase in the prices of alcoholic beverages and tobacco (26.0 per cent.), transportation (13.2 per cent.), and housing, water, electricity, gas, and other fuels (3.0 per cent.). During the course of 2016, inflation increased by 2.7 per cent. Inflation peaked in June 2016 following which it decreased by 1.0 per cent. by December 2016 as food and housing prices stabilised.

Recent developments to *"Economy of the Kingdom of Bahrain - Financial Services"*

The aggregate balance sheet of the banking system was U.S.$189.4 billion as at 30 November 2016 compared to U.S.$192.4 billion as at 30 June 2016.

As at 31 December 2016, total market capitalisation of the Bahrain Bourse increased to U.S.$19.3 billion (a 0.7 per cent. increase compared to 31 December 2015).

As at 31 December 2016, the Bahrain Bourse had 44 Bahraini companies listed, compared to 47, 47, and 46 listed as at 31 December 2013, 2014 and 2015, respectively.

Recent developments to *"Economy of the Kingdom of Bahrain - Principal Sectors of the Economy"*

The table below sets out Bahrain's GDP by economic activity based on constant 2010 prices and by percentage contribution for the periods indicated:

	For the year ended 31 December						For the three months ended					
	2013		2014		2015		March 2016		June 2016		September 2016	
	(U.S.$ millions)(1)	(%)	(U.S.$ millions)(1)	(%)	(U.S.$ millions)(1)	(%)	(U.S.$ millions)(1)	(%)	(U.S.$ millions)(1)	(%)	(U.S.$ millions)(1)	(%)
Non-financial corporations	**19,698.6**	**68.7**	**20,689.1**	**69.1**	**21,251.2**	**69.0**	**5,424.0**	**69.2**	**5,475.1**	**69.0**	**5,560.2**	**68.9**
Agriculture and fishing	80.5	0.3	89.7	0.3	86.9	0.3	22.7	0.3	23.0	0.3	23.2	0.3
Mining and quarrying(2)	6,094.4	21.3	6,324.0	21.1	6,327.9	20.6	1,618.9	20.7	1,629.6	20.5	1,677.5	20.8
(i) Crude petroleum and natural gas	5,936.9	20.7	6,115.1	20.4	6,108.8	19.8	1,559.6	19.9	1,569.7	19.8	1,616.4	20.0

	For the year ended 31 December						For the three months ended					
	2013		2014		2015		March 2016		June 2016		September 2016	
	(U.S.$ millions)(1)	(%)	(U.S.$ millions)(1)	(%)	(U.S.$ millions)(1)	(%)	(U.S.$ millions)(1)	(%)	(U.S.$ millions)(1)	(%)	(U.S.$ millions)(1)	(%)
(ii) Quarrying............	157.5	0.5	209.0	0.7	219.1	0.7	59.3	0.8	59.9	0.8	61.1	0.8
Manufacturing...........	4,165.5	14.5	4,368.2	14.6	4,508.0	14.6	1,137.0	14.5	1,149.1	14.5	1,132.4	14.0
Electricity and water..	380.9	1.3	424.0	1.4	444.5	1.4	106.6	1.4	110.1	1.4	113.9	1.4
Construction.............	1,911.9	6.7	2,035.4	6.8	2,156.0	7.0	562.0	7.2	568.3	7.2	571.6	7.1
Trade.........................	1,272.8	4.4	1,323.5	4.4	1,351.4	4.4	342.6	4.4	345.5	4.4	351.5	4.4
Hotels and restaurants	673.5	2.3	698.8	2.3	720.1	2.3	182.4	2.3	179.2	2.3	187.2	2.3
Transport and communications.........	1,974.6	6.9	2,093.1	7.0	2,236.1	7.3	568.9	7.3	570.2	7.2	585.6	7.3
Social and personal services......................	1,567.1	5.5	1,683.1	5.6	1,742.4	5.7	462.0	5.9	471.9	5.9	481.8	6.0
Real estate and business activities......	1,577.3	5.5	1,649.2	5.5	1,677.9	5.5	421.0	5.4	428.0	5.4	435.6	5.4
Financial corporations............	**4,769.2**	**16.6**	**4,910.0**	**16.4**	**5,023.0**	**16.3**	**1,274.2**	**16.3**	**1,302.3**	**16.4**	**1,356.1**	**16.8**
Financial institutions..	1,349.2	4.7	1,409.7	4.7	1,492.8	4.9	384.6	4.9	399.9	5.0	453.4	5.6
Offshore financial institutions................	1,960.9	6.8	1,983.5	6.6	1,961.4	6.4	487.0	6.2	497.2	6.3	493.6	6.1
Insurance..................	1,459.1	5.1	1,516.9	5.1	1,568.8	5.1	402.7	5.1	405.2	5.1	409.1	5.1
Government services	**3,667.1**	**12.8**	**3,843.4**	**12.8**	**3,958.1**	**12.9**	**1,000.3**	**12.8**	**1,010.7**	**12.7**	**1,019.3**	**12.6**
Government education services......	769.3	2.7	801.2	2.7	821.9	2.7	207.2	2.6	210.8	2.7	212.2	2.6
Government health services......................	532.1	1.9	554.9	1.9	575.0	1.9	146.5	1.9	148.6	1.9	150.4	1.9
Other Government services......................	2,365.6	8.2	2,487.3	8.3	2,561.2	8.3	646.5	8.2	651.2	8.2	656.8	8.1
Private non-profit institutions serving households	**11.9**	**-**	**12.6**	**-**	**13.6**	**-**	**4.3**	**0.1**	**4.6**	**0.1**	**4.8**	**0.1**
Households with employed persons......	**227.5**	**0.8**	**239.7**	**0.8**	**255.8**	**0.8**	**68.1**	**0.9**	**69.1**	**0.9**	**73.7**	**0.9**
GDP producer prices........................	**28,374.3**	**99.0**	**29,694.8**	**99.2**	**30,501.7**	**99.1**	**7,770.9**	**99.1**	**7,861.8**	**99.1**	**8,014.1**	**99.3**
Import duties............	**300.1**	**1.0**	**227.0**	**0.8**	**277.1**	**0.9**	**66.8**	**0.9**	**73.2**	**0.9**	**56.7**	**0.7**
GDP	**28,674.4**	**100**	**29,921.8**	**100**	**30,778.9**	**100**	**7,837.6**	**100**	**7,935.0**	**100**	**8,070.8**	**100**

Notes:

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

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

Source: Central Informatics Organisation

Recent developments to *"Monetary and Financial System - Money Supply"*

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

	As at 31 December					As at 30 November	% Change 31 December 2015 - 30 November 2016
	2011	**2012**	**2013**	**2014**	**2015**	**2016**	**2016**
				(U.S.$ millions)(1)			
Currency in circulation(2) ...	1,353.7	1,389.6	1,537.2	1,623.7	1,729.0	1,763.6	2.0%
M1(3)	7,013.0	6,944.4	7,435.6	8,231.6	8,761.7	9,043.9	3.2%
M2(4)	21,635.9	22,512.8	24,359.3	25,945	26,709.8	27,356.6	2.4%
M3(5)	26,579.8	27,752.9	29,839.6	30,944.7	31,636.2	32,637.5	3.2%

Notes:

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

(2) These figures exclude money held by banks.

(3) Currency in circulation plus private demand deposits.

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

(5) M2 plus government deposits.

Source: CBB

M3 increased by U.S.$1,001.3 million (or 3.2 per cent.), from U.S.$31,636.1 million at the end of 2015 to U.S.$32,637.5 million as at 30 November 2016. General government deposits (with both the CBB and retail banks) increased by U.S.$354.6 million (or 7.2 per cent.), from U.S.$4,926.3 million as at 31 December 2015 to U.S.$5,280.9 million as at 30 November 2016. Government deposits accounted for 16.7 per cent. of M3 as at the end of November 2016. The growth in M3 was principally due to an increase in domestic assets. Between 31 December 2015 and 30 November 2016, net foreign assets (held by both the CBB and retail banks) decreased by U.S.$1,114.6 million (or 52.4 per cent.), to U.S.$1,012.8 million, and total domestic assets increased by U.S.$2,115.7 million (or 7.2 per cent.), to U.S.$31,624.5 million.

Recent developments to *"Monetary and Financial System - Foreign Reserves"*

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

	As at 31 December				**As at 30 June 2016**	**As at 30 November 2016**
	2012	**2013**	**2014**	**2015**		
	(U.S.$ millions)					
Foreign exchange	4,897.6	5,037.8	5,757.4	3,108.8	2,489.4	2,330.1
SDRs	197.6	199.6	187.9	179.8	90.6	87.7
Reserve position in the IMF	109.4	109.6	103.2	98.7	190.5	1,84.4
Total gross foreign reserves	5,204.6	5,347.0	6,048.5	3,387.3	2,770.5	2,602.2
Gold	6.6	6.6	6.6	6.6	6.6	6.6
Total gross foreign reserves (including gold)	5,211.2	5,353.6	6,055.1	3,393.9	2,777.1	2,608.8

Source: CBB and International Monetary Fund

Total gross foreign reserves (including gold) decreased by 23.1 per cent. from U.S.$3,393.9 million in 2015 to U.S.$2,608.8 million as at 30 November 2016. The decrease was due to the decline in all components of total gross foreign reserves, except for gold, which remained stable at U.S.$6.6 million.

Recent developments to *"Monetary and Financial System - The Banking Sector"*

The aggregate balance sheet of all banking institutions in Bahrain decreased by 0.8 per cent. from 31 December 2015 to 30 November 2016, from U.S.$191.0 billion to U.S.$189.4 billion, respectively. The table below sets out the annual aggregate balance sheet of all banking institutions in Bahrain (conventional and Islamic):

	As at 31 December				**As at 30 November 2016**	**% Change 31 December 2015 - 30 November 2016**
	2012	**2013**	**2014**	**2015**		
Wholesale Banks						
Assets	114,610.7	116,685.7	109,284.5	108,813.8	105,688.2	-2.9
Domestic	7,879.9	7,490.5	7,828.1	8,642.4	10,406.3	20.4
Foreign	106,730.8	109,195.2	101,456.4	100,171.4	95,281.9	-4.9
Liabilities	114,610.7	116,685.7	109,284.5	108,813.8	105,688.2	-2.9
Domestic	11,359.0	10,207.7	10,116.7	9,601.9	10,778.2	12.3
Foreign	103,251.7	106,478.0	99,167.8	99,211.9	94,910.0	-4.3
Retail Banks						
Assets	71,711.8	75,313.6	80,008.6	82,187.0	83,716.5	1.9
Domestic	40,372.8	41,233.4	41,430.1	43,945.6	46,456.8	5.7
Foreign	31,338.9	34,080.2	38,578.5	38,241.3	37,259.7	-2.6
Liabilities	71,711.7	75,313.6	80,008.5	82,187.0	83,716.6	1.9
Domestic	39,889.1	40,290.2	41,755.6	42,957.7	45,132.8	5.1
Foreign	31,822.6	35,023.4	38,252.9	39,229.3	38,583.8	-1.6
Total	**186,322.4**	**191,999.3**	**189,293.1**	**191,000.8**	**189,404.7**	**-0.8**

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

Total private deposits increased to U.S.$26.0 million as at 30 November, a 2.5 per cent. increase from 31 December 2015.

The loan to deposit ratio of the overall banking sector increased to 67.9 per cent. in September 2016 from 67.0 per cent. in September 2015. Over the same period, the ratio of non-performing loans to gross loans of the overall banking sector increased from 5.4 per cent. to 5.5 per cent., the ratio of liquid assets to total assets of the overall banking sector increased to 33.7 per cent. from 32.2 per cent., total capital adequacy ratio of the overall banking sector increased to 19.2 per cent. from 18.7 per cent. and return on assets of the overall banking sector increased to 1.0 per cent. from 0.9 per cent.

Recent developments to *"Monetary and Financial System - Conventional Banks"*

Retail Banks

As at 31 December 2016, there were 29 retail banks, of which seven were Islamic retail banks. As at 30 November 2016 the aggregate balance sheet of retail banks was of approximately U.S.$83,716.5 million.

Personal loans form a significant component of retail banks' domestic lending activities, accounting for 44.6 per cent. as at 30 November 2016.

As at 30 November 2016, total business loans and loans to the Government accounted for 52.1 per cent. and 3.3 per cent., respectively, of total domestic lending by retail banks.

Retail banks' combined foreign and local currency deposits at the ends of the first three quarters of 2016 amounted to U.S.$43.2 billion, U.S.$43.8 billion and U.S.$43.0 billion, respectively.

Wholesale Banks

As at 31 December 2016, there were 75 wholesale banks in Bahrain, of which 19 were wholesale Islamic banks.

The table below shows a breakdown of the assets and liabilities of wholesale banks as at 30 November 2016. The geographical distribution of assets and liabilities of wholesale banks has not fluctuated significantly since 31 December 2015. The majority of assets for wholesale banks are denominated in U.S. dollars and 64.9 per cent. of total assets remain concentrated in Western Europe and GCC countries.

	As at 31 December								As at 30 November 2016	
	2012		2013		2014		2015			
	Assets	*Liabilities*	*Assets*	*Liabilities*	*Assets*	*Liabilities*	*Assets*	*Liabilities*	*Assets*	*Liabilities*
Domestic (*U.S.$ billions*)..................	7.9	11.4	7.5	10.2	7.8	10.1	8.6	9.6	10.4	10.8
Foreign (*U.S.$ billions*)....................	106.7	103.3	109.2	106.5	101.5	99.2	100.1	99.2	95.3	94.9
Share of GCC countries (*per cent.*)[(1)].	26.9	36.5	29.4	38.5	32.1	37.8	32.8	34.8	34.3	34.8
Share of Western Europe (*per cent.*)..	40.0	33.4	38.6	29.8	36.8	28.1	34.6	28.1	30.6	27.6
Share of Americas (*per cent.*)............	14.6	4.4	11.9	3.4	8.0	3.2	8.4	4.5	10.6	4.4
Share of Asian countries (*per cent.*)..	7.4	5.5	8.7	7.7	10.3	8.1	10.8	9.5	9.3	7.8
Denominated in U.S. dollars (*per cent.*).....................................	65.5	73.4	65.5	74.0	66.2	77.3	68.1	78.2	69.7	78.3
Denominated in Euro (*per cent.*).......	10.1	8.3	9.5	9.2	7.2	6.6	7.6	7.4	6.6	6.6
Denominated in GCC currencies (*per cent.*).....................................	11.8	8.4	11.5	7.8	13.1	7.8	12.2	8.6	12.3	9.1

Note:
(1) Excluding Bahrain.
Source: CBB

Recent developments to *"Monetary and Financial System - Islamic Banks"*

As at 30 November 2016, there were a total of 26 Islamic banking licenses, of which seven were held by retail banks and 19 were held by wholesale banks.

As at 30 November 2016, the aggregate total assets of Islamic banks constituting unrestricted investments amounted to U.S.$26,264.0 million, while restricted investment accounts (off balance sheet items) amounted to U.S.$1,870.5 million.

Recent developments to *"Monetary and Financial System - Non-Performing Loans"*

The table below shows a breakdown of non-performing loans ("**NPLs**") as a percentage of loans issued by the banking institutions in Bahrain (conventional and Islamic) as at the last day of the month indicated.

	Non-Performing Loans Ratio as at									
	Jun-12	**Dec-12**	**Jun-13**	**Dec-13**	**Jun-14**	**Dec-14**	**Jun-15**	**Dec-15**	**Jun-16**	**Sep-16**
					(%)					
Conventional Retail Banks	3.7	4.2	4.3	4.1	3.7	3.7	*3.5*	3.9	4.8	4.7
Conventional Wholesale Banks	7.5	8.1	8.3	6.9	6.3	5.9	*5.8*	5.2	5.2	5.5
Islamic Retail Banks	16.5	15.0	13.4	12.1	14.1	12.5	*11.3*	12.0	13.3	12.1
Islamic Wholesale Banks	5.7	6.2	5.4	5.2	4.9	4.6	*4.1*	4.6	3.0	2.9
Total Banking Sector	6.9	7.2	7.1	6.2	5.9	5.6	5.2	5.3	5.6	5.5

Source: CBB

Recent developments to *"Monetary and Financial System - Insurance"*

As at 30 November 2016, there were approximately 153 insurance companies and organizations registered in Bahrain.

Recent developments to *"Monetary and Financial System - Capital Markets"*

The total number of Bahraini companies listed on the Bahrain Bourse decreased from 46 companies as at December 2015 (with a total market capitalisation of U.S.$19.1 billion) to 44 companies (with a total market capitalisation of U.S.$19.3 billion) as at 31 December 2016.

The table below sets out certain data relating to Bahrain Bourse transactions for the period indicated.

	For the year ended 31 December				
	2012	**2013**	**2014**	**2015**	**2016**
Volume of shares traded (millions of shares)	627.7	1867.8	1,127.4	515.6	734.4.
Value of shares traded (U.S.$ million)[(1)]	293.2	600.7	716.3	292.5	331.0
Bahrain All Share index (points)	1,065.6	1,248.9	1,426.6	1,215.9	1220.5
Number of listed Bahraini companies[(2)]	47	47	47	46	44

Notes:

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

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

Source: Bahrain Bourse

Recent developments to *"Indebtedness"*

The following table sets out the Government's total outstanding borrowing (excluding debt of the government related entities) at each of the dates indicated:

	As at 31 December				
	2012	**2013**	**2014**	**2015**	**2016**
			(U.S.$ millions)		
Outstanding external debt[(1)]	5,035.6	6,428.5	6,811.9	8,208.2	11,205.2
Outstanding gross domestic debt[(2)]	6,097.1	7,867.9	8,011.6	11,019.0	12,367.0
Total outstanding Government debt	11,132.7	14,296.4	14,823.5	19,227.2	23,572.2

Note:

(1) For 2012 figures, this does not include U.S.$350 million in Islamic leasing securities which were sold in an international capital markets transaction, but of which 65 per cent. was subscribed for by domestic banks and included as "Domestic Government" Debt. This was repaid in March 2013. See "*Indebtedness – Domestic Government Debt*".

(2) Includes U.S.$350 million in Islamic leasing securities, which was fully paid on 13 March 2013

Source: Ministry of Finance

Recent developments to *"Indebtedness - External Government Debt"*

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

	As at 31 December				
	2012	2013	2014	2015	2016
Outstanding external debt (U.S.$ millions) [1]	5,035.6	6,428.5	6,811.9	8,208.2	11,205.2
As a percentage of GDP	16.4	19.8	20.4	26.4	34.3[2]

Note:

(1) For 2012 figures, this does not include U.S.$350 million in Islamic leasing securities which were sold in an international capital markets transaction, but of which 65 per cent. was subscribed for by domestic banks and included as "Domestic Government" Debt. This was repaid in March 2013. See "*Indebtedness – Domestic Government Debt*".

(2) Based on 2016 expected GDP.

Source: Ministry of Finance

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

	As at 31 December				
	2012	2013	2014	2015	2016
			(U.S.$ millions)		
GCC Development Funds[1][2]	**785.6**	**678.5**	**561.9**	**458.2**	**420.2**
-Kuwait Fund for Arab Economic Development	148.5	131.0	111.2	93.7	82.2
-Arab Fund for Economic and Social Development	271.5	229.0	189.2	152.2	155.7
-The Saudi Fund for Development	11.3	9.0	6.6	4.2	2.4
-Abu Dhabi Fund for Development	30.7	20.5	10.2	0.0	0.0
-Qatar Fund for Development	70.0	70.0	70.0	70.0	70.0
-Islamic Development Bank	253.6	219.0	174.7	138.2	109.9
International Islamic Leasing Securities Issue No. 1[3]	**750.0**	**750.0**	**-**	**-**	**-**
International bonds Issue No. 1 (2010)	**1,250.0**	**1,250.0**	**1,250.0**	**1,250.0**	**1,250.0**
International Islamic Leasing Securities Issue No. 2	**750.0**	**750.0**	**750.0**	**750.0**	**750.0**
International bonds Issue No. 2 (2012)	**1,500.0**	**1,500.0**	**1,500.0**	**1,500.0**	**1,500.0**
International bonds Issue No. 3 (2013)	**-**	**1,500.0**	**1,500.0**	**1,500.0**	**1,500.0**
International bonds Issue No. 4 (2014)	**-**	**-**	**1,250.0**	**1,250.0**	**1,250.0**
International bonds Issue No. 5 (2015)				**700.0**	**700.0**
International bonds Issue No. 6 (2015)				**800.0**	**800.0**
International bonds Issue No. 7 (2016)					**275.0**
International bonds Issue No. 8 (2016)					**325.0**
International Islamic Leasing Securities Issue No. 3					**435.0**
International bonds Issue No. 9 (2016)					**1,000.0**
International Islamic Leasing Securities Issue No. 4					**1,000.0**
Total outstanding external debt[4]	**5,035.6**	**6,428.5**	**6,811.9**	**8,208.2**	**11,205.2**

Notes:

(1) U.S.$420.2 million outstanding under long-term loans from regional development funds and institutions as at 31 December 2016 are not included in the calculation of Bahrain's current debt ceiling because they are covered under several decrees over the years for specific project-based borrowing from GCC funds and the Islamic Development Bank.

(2) Loans from the GCC development funds set forth in this table do not reflect grants deployed from the GCC Development Fund.

(3) U.S.$750.0 million outstanding under International Islamic Leasing Securities Issue No. 1 as at 31 March 2012 was authorised under Legislative Decree No.(23) of 2009 and is not included in the calculation of Bahrain's current general debt ceiling. This debt was subsequently repaid in June 2014.

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

Source: Ministry of Finance

Each of the loans from the GCC development funds set forth in the above table 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.

The following table sets out the total external debt maturing in each of the years stated:

	Amount of debt to be re-paid in each year ended 31 December ***(U.S.$ millions)***	**Total External Debt** ***(U.S.$ millions)***
As at 31 December 2016		**11,205.2**
As at 31 December 2017	55.9	11,149.3
As at 31 December 2018	808.5	10,340.8
As at 31 December 2019	486.7	9,854.1
As at 31 December 2020	1,295.2	8,558.9
As at 31 December 2021	1,013.3	7,545.6
As at 31 December 2022	1,537.2	6,008.4
As at 31 December 2023	1,545.2	4,463.2
As at 31 December 2024	1023.9	3,439.3
As at 31 December 2025	13.3	3,426.0
As at 31 December 2026	1135.6	2,290.4
After 2026		**2,290.4**

Source: Ministry of Finance

The total outstanding external debt as at 31 December 2016 was U.S.$11,205.2 million (34.3 per cent. of 2016 expected GDP). The majority of the Government's external debt as at 31 December 2016 was denominated in GCC currencies and in U.S. dollars. The current average maturity of the external debt is approximately 13 years.

Recent developments to *"Indebtedness - Domestic Government Debt"*

The table below shows a breakdown of Bahrain's domestic debt as at 31 December 2012, 2013, 2014, 2015 and 2016:

	As at 31 December 2016				
	2012	**2013**	**2014**	**2015**	**2016**
			(U.S.$ millions)		
Treasury bills (three month)	930.9	1,196.0	1,196.8	1,861.7	1,861.7
Treasury bills (six month)	478.7	478.7	478.7	558.5	558.5
Treasury bills (12 months)	1,063.8	1,329.8	1,595.7	2,127.7	2,327.1
Al Salam Islamic securities (three month)	143.6	287.2	287.2	343.1	343.1
Islamic leasing securities(1)	1,733.0	1,648.9	1,542.6	2,835.1	2,303.2
Syndicated loans(3)	58.2	41.6	25.0	8.3	0.0
Development bonds(2)	1,688.9	2,885.7	2,885.6	3,284.6	4,973.4
Gross domestic debt(4)	**6,097.1**	**7,867.9**	**8,011.6**	**11,019.0**	**12,367.0**
Held by SIO	407.9	550.5	484.8	690.7	538.3
Held by pension funds	102.1	78.7	4.8	130.7	54.8
Net domestic debt	**5,587.1**	**7,238.7**	**7,522.0**	**10,197.6**	**11,773.9**

Notes:

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

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

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

(4) Includes U.S.$350 million in Islamic leasing securities, which was fully paid on 13 March 2013.

Source: Ministry of Finance

Bahrain's gross domestic debt amounted to U.S.$6,097.1 million in 2012 (19.8 per cent. of Bahrain's 2012 GDP at current prices), U.S.$7,867.9 million in 2013 (24.2 per cent. of Bahrain's 2013 GDP at current prices), U.S.$8,011.6 million in 2014 (24.0 per cent. of Bahrain's 2014 GDP at current prices), U.S.$11,019.0 million in 2015 (35.4 per cent. of Bahrain's 2015 GDP at current prices) and U.S.$12,367.0 million as at 31 December 2016 (37.9 per cent. of Bahrain's 2016 expected GDP at current prices). 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.

The following table sets out the average interest rates payable in 2016 in relation to Bahrain’s domestic debt:

Short-Term Domestic Debts:	**Average Interest Rate (%)**
Treasury bills (three month)	2.1
Treasury bills (six month)	2.2
Treasury bills (12 months)	2.9
Al Salam Islamic securities (three month)	2.1
Islamic leasing securities (six month)	2.3
Long-Term Domestic Debts:	
Development bonds	4.4
Islamic leasing securities	4.7

Source: Ministry of Finance

Bahrain's treasury bills have maturities of three, six and 12 months and its short-term Islamic securities have maturities of three and six months. These securities are issued by the CBB and are used as a tool to manage liquidity. Bahrain uses the proceeds of its Islamic leasing securities for funding projects.

A significant proportion of Bahrain's domestic debt is held by commercial banks, Bahrain’s Social Insurance Organisation and by Government pension funds. As a result, Bahrain's net domestic debt amounted to U.S.$5,587.1 million as at 31 December 2012, U.S.$7,238.7 million as at 31 December 2013, U.S.$7,522.0 million as at 31 December 2014, U.S.$10,197.6 million as at 31 December 2015, and U.S.$ 11,773.9 million as at 31 December 2016.

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. The Legislative Decree No. (30) of 2015 (the " **2015 Decree**") established a ceiling for Bahrain's debt in the form of development bonds, treasury bills and financing instruments that are compliant with Islamic Shari'ah, and such ceiling is currently BD10,000 million (U.S.$26,595.7 million) in principal amount outstanding at any time (of which U.S.$22,127.7 million was utilised and U.S.$4,468.0 million remained available as at 31 December 2016). The New Bonds offered by this Prospectus are authorised under the 2015 Decree.

Recent developments to *"Public Finance – Non-budget expenditures"*

In March 2011, the Foreign Ministers of the GCC announced the establishment of the GCC Development Fund which will be provided as a grant and will be distributed between Bahrain and Oman, with Bahrain receiving U.S.$7.5 billion to be distributed over a ten-year period. See "*Risk Factors – Bahrain's economy is dependent on economic and other conditions of Saudi Arabia in particular, as well as the GCC countries*". GCC Development Fund proceeds are expected to be utilised towards the achievement of Vision 2030's developmental goals. For more information on this economic strategy, see "*Overview of The Kingdom of Bahrain – Vision 2030*".

The Government has identified specific priority projects to be financed through the GCC Development Fund, in the following sectors:

Sector	**Saudi Arabia**	**Kuwait**	**UAE**	**Total**

Sector	Saudi Arabia	Kuwait	UAE	Total
		(U.S.$ millions)		
Housing	350	996	747	2,093
Roads & Sewerage	386	470	210	1,066
Electricity & Water	297	940	50	1,287
Airport	-	-	1,000	1,000
Health	58	-	150	208
Education	85	-	-	85
Social	-	62	-	62
Industry	-	32	-	32
Others	-	-	344	344
To be allocated in Phase 3	1,324	-	-	1,324
TOTAL	2,500	2,500	2,500	7,500

Source: Office of the First Deputy Prime Minister

The Government of Bahrain is coordinating with the Saudi Fund (representing the Government of the Kingdom of Saudi Arabia), Kuwait Fund (representing the Government of Kuwait), and Abu Dhabi Fund (representing the Government of the United Arab Emirates) for finalising the planned projects.

As at the end of 2015 and 2016, U.S.$5,935 million and U.S.$6,176 million, respectively, was allocated to projects from the GCC Development Fund. These projects are in various stages (tendering, award, implementation) of progress. As at the end of 2015 and 2016, U.S.$183 million and U.S.$734 million, respectively, was paid from the GCC Development Fund.

The GCC Development Fund will be in addition to the Government project budget allocations.

The following table sets out the allocated, awarded and paid amounts in relation to projects to be funded from the GCC Development Fund for the periods indicated:

	2013	2014	2015	2016	As of 12 February 2017
		(U.S.$ millions)			
Allocated	n/a	n/a	5,935	6,176	6,176
Awarded	9	702	1,607	3,124	3,345
Paid	n/a	n/a	183	734	751

Source: Office of the First Deputy Prime Minister

Recent developments to *"Public Finance – Fiscal Policy"*

In the 2015/2016 budget, the budget deficit was budgeted at U.S.$4,159.6 million for 2016 (12.7 per cent. of 2016 expected GDP), recurrent expenditure was budgeted at U.S.$8,480.2 million in 2016, and project expenditure was budgeted at U.S.$1,470.7 million in 2016. The 2015/2016 budget was based on an average oil price of U.S.$60 per barrel, compared to the actual average oil price of U.S.$52.4 per barrel in 2015 and U.S.$44.0 per barrel in 2016. (See "*Public Finance – Fiscal Policy*").

The Government continues to focus on (i) reducing subsidies and (ii) further increasing non-oil revenues through various initiatives. Developing non-oil streams of revenue has involved the introduction of new fees and charges across a number of sectors. To date, the Government has approved and implemented increases on special commodities, sand extraction, hotel services, electricity and water, as well as the recovery of government services costs through other revenue initiatives and capital contributions. In addition, the following initiatives that were approved and implemented in 2015 and 2016 are estimated to have a financial impact of U.S.$422 million per annum from 2016 onwards. (Note that full impact will show in the next financial year of implementation):

- Implemented 100 per cent. fees on special commodities (estimated revenue of U.S.$191.5 million);
- Imposed a price on sand extraction equivalent to U.S.$1.3 per cubic meter (estimated revenue of U.S.$23.9 million);

- Increased hotel services fees from 5 per cent. to 10 per cent. (estimated revenue of U.S.$21.3 million);

- Increased fixed fees for both electricity and water, from U.S.$1.1 to U.S.$5.3 per account on a monthly basis (estimated revenue of U.S.$16 million);

- Amending public health fees for companies (estimated revenue of U.S.$5.3 million);

- Imposing fees on material laboratory services and research, development and consultancy services (estimated revenue of U.S.$3.5 million);

- New licensing fees on sand-mining and reclamation (estimated revenue of U.S.$2.7 million);

- Increased meteorological fees, and new fees and charges based on cost recovery projects (estimated revenue of U.S.$1.6 million);

- Recovery of costs in relation to the main services provided by the National Health Regulatory Authority (estimated revenue of U.S.$1.3 million);

- Impose fees on main land subdivision services (estimated revenue of U.S.$2.7 million);

- Impose fees on partial land subdivision services (estimated revenue of U.S.$0.5 million);

- Implement new commercial registration fees (estimated revenue of U.S.$117.0 million);

- Reclassification of industrial locations' rent fees (estimated revenue of U.S.$10.6 million);

- Modify judicial and attorney fees (estimated revenue of U.S.$2.1 million); and

- Impose security fees on departing passengers (estimated revenue of U.S.$22.3 million).

In addition to the above initiatives, the government announced other revenue initiatives with an estimated financial impact of U.S.$33 million per annum through the review and implementation of the following fees as of the beginning of 2017:

- Review of outpatient fees to cover the cost of medical consultations (estimated revenue of U.S.$2.1 million);

- Remove medication subsidies for foreigners (estimated revenue of U.S.$5.3 million);

- Amend fees for engineering professions principally related to the registration and annual renewal of membership fees (estimated revenue of U.S.$0.3 million);

- Impose sanitation fees on the non-domestic sector (estimated revenue of U.S.$20.7 million);

- Impose fees on the examination and marking of precious metals (estimated revenue of U.S.$4.0 million); and

- Collection of membership fees for the Bahrain Chamber of Industry and Commerce (estimated revenue of U.S.$0.5 million).

Additionally, the Government expects to implement throughout 2017 the following initiatives with an estimated financial impact of U.S.$81 million per annum. (Note that full impact will show in the next financial year of implementation):

- Impose fees on health insurance for all departing locals and arriving foreigners to Bahrain (estimated revenue of U.S.$6.6 million);

- Impose fees on prequalification of certification for engineering contractors (estimated revenue of U.S.$1.9 million);

- Recover cost of the main service of the Survey and Land Registration Bureau (estimated revenue of U.S.$5.3 million); and

- Increase and implement new custom service fees (estimated revenue of U.S.$67.0 million).

Bahrain is in the process of implementing value added tax in line with other GCC countries and expects such implementation to complete in 2018. Value added tax will be unified between GCC countries at a rate of five per cent. across sectors other than the food and medical sectors.

Changes to Government subsidies are estimated by the Government to result in savings of U.S.$488.6 million per annum in 2016, and are expected to increase to savings of U.S.$1,679.8 million from 2021 onwards, following completion of gradual reduction in subsidies by 2021. Savings derived from the following gradual changes to subsidies are expected to result to additional savings in the budget of U.S.$247.1 million in 2017:

- Gradual increase of Diesel prices (estimated revenue of U.S.$18.6 million);
- Gradual increase of Kerosene prices (estimated revenue of U.S.$2.7 million);
- Gradual increase of gas prices from $2.25 to $2.50 and an increase of $0.25 every year until 2021 (estimated revenue of U.S.$128.8 million);
- Gradual removal of electricity subsidy for all consumers with the exception of nationals with one account (estimated revenue of U.S.$67.2 million); and
- Gradual removal of water subsidy for all consumers with the exception of nationals with one account (estimated revenue of U.S.$29.8 million).

Recent developments to *"Public Finance – Revenue"*

Total revenues for the years ended 31 December 2012, 2013, 2014 and 2015 and revised budgeted revenues for 2016 are set forth below:

	2012 Actual	**2013 Actual**	**2014 Actual**	**2015 Budget**	**2015 Actual**	**2016 Revised Budget**
			(U.S.$ millions)			
Revenues...	8,070	7,829	8,217	5,578	5,431	5,791
Oil and gas...	7,036	6,915	7,081	4,523	4,241	4,675
Taxation and fees...	579	595	540	513	597	518
Other non-oil..	455	318	596	541	593	598
Expenditure...	8,673	8,920	9,427	10,070	9,467	9,951
Recurrent expenditure..	6,712	7,652	8,235	8,395	8,287	8,480
Projects expenditure Armed & development........	1,960	1,268	1,192	1,676	1,180	1,471
Surplus/(deficit)...	(602)	(1,091)	(1,210)	(4,493)	(4,035)	(4,160)
Transfer to reserve for sovereign and strategic projects & roll over...	736	720	492	-	157	-

Source: Ministry of Finance

Recent developments to "*Public Finance – Mumtalakat*"

Mumtalakat

Mumtalakat is the investment arm of Bahrain, and was established in June 2006 by Royal Decree as an independent holding company for the Government's key commercial assets.

Mumtalakat manages its portfolio of companies with the objective of enhancing their performance and returns. Furthermore, it actively seeks to invest in commercially sound and sustainable opportunities locally, regionally and internationally. Mumtalakat has shareholdings in strategic commercial assets of Bahrain, which are significant contributors to the Bahraini economy and support - directly and indirectly - many other businesses in the country and the region.

Mumtalakat's portfolio of companies includes a wide variety of commercial entities across a broad range of industry sectors, including industrial manufacturing, financial services, telecommunications, real estate, aviation, tourism, and food production. Companies such as Alba, Gulf Air, Batelco, and National Bank of Bahrain ("**NBB**"), represent some of the largest and most established businesses in Bahrain, with multiple

decades of operating history and a track record of leadership and innovation within their industries. Mumtalakat was created to align and implement the execution of the Government's initiatives to improve governance and transparency, pursue value-enhancing opportunities, and help achieve operational excellence for its key state-owned commercial assets. The company is wholly-owned by the Government.

As at 31 December 2016, Mumtalakat has minority and majority shareholdings in more than 50 commercial enterprises and held investments in third party managed funds.

The following companies are subsidiaries of Mumtalakat as at 31 December 2016:

Company	**Equity holding (per cent.)**
Aluminium Bahrain B.S.C. (Alba)	69.38%
Atbahrain B.S.C (c)	100.0%
Bahrain Flour Mills Company B.S.C.	65.7%
Bahrain International Circuit Company S.P.C.	100.0%
Bahrain Real Estate Investment Company (Edamah) B.S.C (c)	100.0%
General Poultry Company B.S.C (c)	100.0%
Gulf Air Holding B.S.C (c)[1]	100.0%
Gulf Technics Co. B.S.C (c)	100.0%
Southern Tourism Company B.S.C (c)	100.0%
Southern Area Development Company B.S.C (c)	55.9%

Notes:

(1) Gulf Air Holding B.S.C(c) owns 100 per cent. stakes in Gulf Air B.S.C(c), Bahrain Airport Company S.P.C, and Gulf Aviation Academy B.S.C(c))

Source: Mumtalakat

The following are other companies in which Mumtalakat holds equity as at 31 December 2016:

ASMAK B.S.C.
Bahrain Livestock Company B.S.C (c)
Bahrain Telecommunications Company B.S.C.
Durrat Khaleej Al- Bahrain B.S.C (c)
Gulf Aluminium Rolling Mill Company B.S.C (c)
Hawar Holding Company
Hawar Aviation Company B.S.C (c)
McLaren Group Limited
McLaren Automotive Limited
National Bank of Bahrain B.S.C.
Al Jazeera Tourism Company B.S.C (c)
Arab Company for Drug Industries and Medical Appliances
Arab Maritime Petroleum Transport Company
Arab Petroleum Investment Corporation
Arab Petroleum Services Company
Arab Satellite Communications Organisation
Al Sahel Resort B.S.C.(c)
Asturiana de Aleaciones S.A (Aleustur)
Desert Ridge
Envirogen Technologies
Magnit
Hyperloop Technologies
Arab Shipbuilding and Repair Yard Company
Bahrain International Golf Course Company B.S.C (c)
Dar Al-Mal Al-Islami Trust
Gulf International Bank B.S.C
Gulf Investment Corporation G.S.C
Oasis Capital B.S.C (c)
The Arab Investment Company S.A.A
United Arab Shipping Company (S.A.G)
GEMS MENASA Holding Limited
Arcapita Group Holding Limited
Arcapita Investment Management B.S.C (c)
PRO Unlimited Global Solutions, Inc.
Cranemere Group Limited
Nobel Learning Communities, Inc.
Laurel Springs School
Gulf Cryo Holding Company KSCC
Professional Logistics Technologies
Gulf Hotels Group
Lenta Limited
Delmon Poultry Company
KOS S.P.A

Source: Mumtalakat

Recent developments to "*Public Finance – Alba*"

Alba is one of Mumtalakat's key portfolio companies and a significant economic contributor to Bahrain. In 2016 Alba’s net income decreased by 19 per cent. to U.S.$128.7 million compared to U.S.$159.5 million in

2015 due to a fall in aluminium prices. Alba's production volume increased to 971,420 tonnes of aluminium in 2016.

Recent developments to *"Economy of the Kingdom Of Bahrain – Mining – Oil"*

Bahrain's crude oil production for the four quarters of 2016 was 4.6, 4.4, 4.4 and 4.4 million barrels, respectively.

The table below sets out the cumulative annual daily crude oil produced by Bahrain:

	2012	2013	2014	2015	2016
			(bpd)		
Crude oil from Bahrain Field.................................	45,289	47,887	48,780	50,581	48,520
Crude oil from Saudi Arabia[(1)]	219,027	215,297	208,262	215,648	209,513
Total Crude Oil Processed in Refinery	**264,316**	**263,184**	**257,042**	**266,229**	**258,033**
Crude oil from Abu Saafa[(2)]...................................	127,666	149,708	153,637	150,942	153,512

Note:

(1) Bapco imports crude oil from Saudi Arabia to be refined at its refinery in Bahrain.

(2) Crude oil produced at Abu-Saafa is exported as crude oil.

Source: National Oil and Gas Authority

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

	2012	2013	2014	2015	2016
			(bpd)		
Refined oil production	276,239	273,870	274,612	276,676	266,713
Local sales of refined products	25,743	26,888	27,553	28,712	29,157
Exports[(1)]..	248,151	242,517	248,892	249,176	225,419

Note:

(1) Includes exports by Bapco.

Source: National Oil and Gas Authority

Recent developments to *"Economy of the Kingdom Of Bahrain – Mining – Gas"*

The table below provides details of Bahrain's gas production for the periods indicated:

	2012	2013	2014	2015	2016
		(billion cubic feet)			
Natural gas production..	448.8	481.6	521.6	519.6	499.9
Associated gas production	142.9	197.9	206.8	232.1	243.9
Total gas production	591.7	679.5	728.4	751.6	743.8

Source: National Oil and Gas Authority

Gas production for the four quarters of 2016 was 166.0, 189.4, 208.2 and 180.2 billion cubic feet, respectively.

Recent developments to *"Economy of the Kingdom Of Bahrain – Other Services – Tourism, Hotels and Restaurants"*

The Tourism industry (Hotels and Restaurants) contributed 2.3 per cent. of GDP during each of the first three quarters of 2016.

The table below sets out arrivals through the ports of the Kingdom of Bahrain for the specified periods:

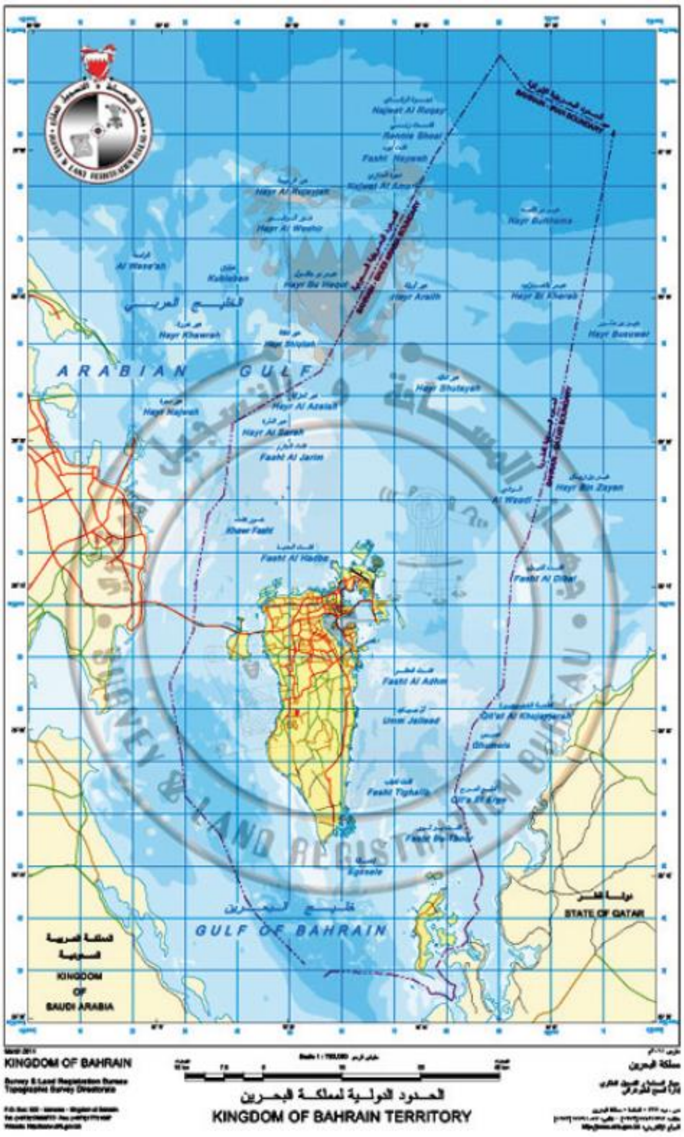
	As at 31 December					
	2011	**2012**	**2013**	**2014**	**2015**	**2016**
Saudi Causeway	6,466,166	8,808,668	9,891,271	11,032,090	11,845,527	12,269,299
Airport	1,650,903	1,978,580	2,087,377	2,245,046	2,498,739	2,593,758
Sea Port	53,244	49,274	63,362	59,627	68,298	90,402
Total	**8,170,313**	**10,836,522**	**12,042,010**	**13,336,763**	**14,412,564**	**14,953,459**

Source: Nationality Passport and Residence Affairs.

OVERVIEW OF THE KINGDOM OF BAHRAIN

Location and Population

Bahrain is an archipelago made up of 36 islands with a total land surface area of 760 square kilometres situated in the Arabian Gulf. The islands are about 24 kilometres from the east coast of Saudi Arabia and 28 kilometres from the State of Qatar ("**Qatar**"). The largest island, Bahrain Island, comprises nearly 91.3 per cent. of the total land area of Bahrain and is linked to mainland Saudi Arabia by a 25 kilometre causeway. The capital of Bahrain, Manama, is on Bahrain Island. Bahrain's other significant islands include the southern archipelago called Hawar, near the coast of Qatar, Muharraq island ("**Muharraq**") (which is Bahrain's second largest city and where Bahrain's international airport and the country's main port, Khalifa Bin Salman Port at Hidd, are located) and Sitra (a mainly industrial island). Muharraq and Sitra are connected to Bahrain Island by causeways.



Source: Survey & Land Registration Bureau, Kingdom of Bahrain

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

Bahrain's last census, in April 2010, recorded a population of 1,234,571, of whom 46 per cent. are Bahraini nationals, the remaining being principally expatriate workers. According to the 2010 census, approximately 70.2 per cent. of the population are Muslim, with small minorities of Christians, Hindus, and Jews also present. Arabic is the official language, although English is widely used and understood for business purposes.

The population is highly urbanised, with up to 89 per cent. of the population living in towns and cities. According to the 2010 census, nearly 31.8 per cent. of the population is under the age of 15. A census is held in Bahrain every ten years. The national education system is well established (adult literacy is 93.7 per cent. according to the 2010 census). Bahrain's life expectancy for men and women is 76 and 80 years, respectively. This is among the highest in the Arabian Gulf region.

According to 2014 data collected by the CIO, Bahrain recorded a population of 1.315 million of which 48.0 per cent. were Bahraini nationals and 52.0 per cent. were principally expatriate workers. The population of Bahrain is estimated to have increased to 1.358 million in 2015.

History

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

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

On 15 August 1971, Bahrain declared its independence from the United Kingdom. Upon independence, the late His Highness Sheikh Sir Isa bin Salman Al Khalifa assumed the position of Emir as head of state while his brother, His Excellency Sheikh Khalifa bin Salman Al 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 30 elected members. The then National Assembly was dissolved in August 1975 following disagreement between the National Assembly and the Emir. In the early 1990s, political tensions increased despite limited reforms by the Government including the establishment of a consultative council (the "**Consultative Council**").

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

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

Constitution and Government

Under a new constitution adopted in February 2002 (the "**Constitution**") pursuant to the NAC, Bahrain is a hereditary constitutional monarchy with a democratic system of government. The system of government rests on a separation of the legislative, executive, and judicial authorities. The legislative authority is vested in His Majesty the King and the National Assembly in accordance with the Constitution. Executive authority is vested in His Majesty the King together with the council of ministers (the "**Council of Ministers**") and the ministerial and judicial rulings are issued in his name in accordance with the provisions of the Constitution. The

Constitution also declares the state religion to be Islam with Islamic Shari'ah as a principal source for legislation.

Under the Constitution, His Majesty the King is entitled to appoint the prime minister and other ministers. His Majesty the King is the supreme commander of the Bahrain Defence Force. His Majesty the King has power to conclude treaties on behalf of Bahrain, and any amendments to the Constitution require the approval of His Majesty the King.

The Constitution provides for a National Assembly comprising two chambers: the consultative council (the "**Shura Council**") and the chamber of deputies (the "**Chamber of Deputies**"). Each chamber has 40 members. The members of the Chamber of Deputies are elected in national elections, whereas the members of the Shura Council are appointed by His Majesty the King. Members of the Chamber of Deputies and Shura Council each sit for four-year terms.

Legislation is initiated in the Chamber of Deputies and draft laws are considered by the Shura 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 His Majesty the King.

The Chamber of Deputies represents a wide range of political opinion in Bahrain and plays a significant role in the development of the democratic process. The first election to the Chamber of Deputies was held in 2002, *albeit* with only moderate participation by some political groups. The last three elections held in 2006, 2010, and 2014 experienced active participation from the major political groupings.

The most recent parliamentary elections held in November 2014 saw 52.6 per cent of eligible voters cast their votes. While a few opposition political societies, including Al Wefaq National Islamic Society, boycotted the elections, independent candidates won 37 of 40 seats. On 11 June 2016, His Majesty King Hamad bin Isa Al-Khalifa issued an amendment to the country's political society law, banning the use of religion in political societies. On 17 July 2016, Bahrain's High Civil Court dissolved Al Wefaq National Islamic Society citing attempts to undermine the constitution, support for terrorism, slander of the judiciary and incitement of lawless action. However, the Government reiterated its intention to continue its cooperation with political societies within the bounds of the law, including the ban on the use of religion in political societies.

The Cabinet (the "**Cabinet**") is appointed by His Majesty the King. The Cabinet is headed by the prime minister, who, at the date of this Prospectus, is His Royal Highness Prince Khalifa bin Salman Al Khalifa (the "**Prime Minister**"). On 17 September 2015, His Majesty the King announced a downsizing of the Cabinet with the specific objective of achieving fiscal consolidation. The downsizing of the Cabinet involved merging ministries and governmental institutions in order to decrease expenditure and enhance performance. The Cabinet will focus to a greater degree on the country's emerging financial challenges as a result of lower oil prices. To respond to those challenges, it will take a set of economic measures to support Bahrain's economic growth.

The Prime Minister is responsible for much of the day-to-day running of the country. In accordance with the Constitution, His Majesty the King's eldest son, His Royal Highness Prince Salman bin Hamad Al Khalifa, is the crown prince (the "**Crown Prince**"), the First Deputy Prime Minister and commander-in-chief of the Bahrain Defence Force.

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

Bahrain has a dual-court system, consisting of civil courts and Shari'ah courts. The Shari'ah courts deal only with personal law matters relating to Muslims such as marriage, divorce, and inheritance. These courts do not have jurisdiction over commercial matters. The civil court system consists of courts of first instance, which deal with all civil, commercial, and criminal matters. The court of appeal hears all appeals and is the highest appellate authority in the country on issues of facts. The Court of Cassation is the final appellate authority and decides on issues of law. The Constitutional Court decides on the constitutionality of laws and regulations enacted by the legislature.

The Ministry of Finance is responsible for formulating and implementing the financial policies of Bahrain within the overall vision of the Government. This entails, amongst other things, the preparation of the state general budget in coordination with other ministries and public entities. The state general budget aims to reflect

the financial and economic objectives of Bahrain, with a focus on improving living standards and increasing levels of economic growth.

The Ministry of Finance is currently focused on implementing the Government's fiscal consolidation policies which aim to decrease public spending whilst promoting the progress and diversification of public investment. It also manages the public debt and maintains its levels within internationally approved limits. See *"Public Finance – Fiscal Policy"* for more information on the Government's fiscal policies.

In order to enhance economic and financial bilateral relations with other countries, the Ministry of Finance has entered into, and is in the process of, negotiating a number of bilateral and multilateral agreements to provide a legal framework for these relationships. These agreements include, among others, agreements on the promotion and protection of investments, agreements on the avoidance of double taxation, free trade agreements and memoranda of understanding on financial and economic cooperation. See *"Overview of the Kingdom of Bahrain – International Relations"* for more information on the Government's bilateral agreements.

On 14 February 2011, protests and demonstrations were held in Bahrain, protesting against the Government (the "**February – March 2011 Protests**"). On 1 June 2011, in the aftermath of the February – March 2011 Protests, His Majesty the King announced the launch of the National Consensus Dialogue (the "**Dialogue**"). The purpose of the Dialogue was to provide a forum for Bahraini society, including Bahraini citizens, and expatriates, to present its views and proposals for future reform in Bahrain. The Dialogue commenced on 2 July 2011 and ended 25 July 2011. Participants included political societies, civil and non-governmental organisations, expatriate societies, and representatives of many religious groups. The Dialogue's recommendations were collated into a report. Reforms recommended by the Dialogue included increased parliamentary scrutiny over the Government and enabling the Prime Minister to select his government, subject to the approval of the elected parliament; granting parliament greater legislative and monitoring powers; ensuring non-sectarianism in all civil and political organisations; and oversight of funding of political societies; economic reforms (including faster implementation of Vision 2030); the creation of independent authorities to assess the quality of government services and implementation of management policies and financial transparency (governance) in ministries and institutions, in line with international standards; the establishment of mechanisms to manage the expenditure of government institutions; implementation of youth programmes, a national strategy for NGOs (including corporate social responsibility programmes) and better implementation of legislation on security and peace; the formation of the Supreme Judiciary Council by appointment rather than election; judicial training on human rights issues; laws protecting the freedom of expression and assembly; and initiatives to improve foreign workers' rights, including establishing a minimum wage.

The Council of Ministers (the collective decision-making body of the Government, comprising all Government ministers) formed a ministerial sub-committee to oversee the implementation programme. On 3 October 2011, the ministerial sub-committee presented its report to His Royal Highness, Prime Minister Prince Khalifa bin Salman Al Khalifa. The proposed constitutional changes were then sent to parliament and were approved by the parliament on 30 April 2012.

His Majesty the King ratified the constitutional changes on 3 May 2012. The constitutional amendments provided for:

- Increased powers of the parliament: in particular by granting it enhanced democratic scrutiny over the Government.

- Parliamentary approval of new Governments: the constitution has been amended so that a new Government will need to secure the approval of the democratically elected parliament.

- Chamber of Deputies to preside over the National Assembly: responsibility for presiding over the National Assembly has been transferred from the Chairman of the Shura Council to the Chairman of the Chamber of Deputies.

- Greater legislative and monitoring powers for the Chamber of Deputies: ministers will be required to be answerable to appointed representatives.

- Measures to create more efficient law-making procedures: these measures will help address and overcome delays in ratification, and gaps in implementation, of legislation.

The Bahrain Independent Commission of Inquiry ("**BICI**") was established on 29 June 2011 pursuant to Royal Order No 28 of 2011. The BICI was developed in consultation with the Office of the UN High Commissioner for Human Rights and was commended by the UN Secretary General, Amnesty International together with the governments of the United Kingdom and the United States. The BICI was asked to determine whether the events of February – March 2011 Protests (and thereafter) involved violations of international human rights law and norms and to make the recommendations that it deems appropriate. Professor Mahmoud Cherif Bassiouni, an expert in international criminal and human rights law, heads the BICI. The BICI was granted access to government officials, records and facilities, as well as the right to conduct confidential interviews with any complainant or witness. The BICI's report, published on 23 November 2011, contained a detailed narrative regarding the events that had taken place and presented a series of recommendations involving comprehensive, structural reform and a process of national reconciliation. The Government pledged to implement the BICI recommendations in their entirety.

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

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

The second round of the Dialogue commenced on 10 February 2013. It represented the continuation of the Dialogue from July 2011 aimed at building on the achievements of the previous Dialogue in order to achieve further national consensus. Prior to the suspension of the second round of the Dialogue in 2014, the participants met on a weekly basis. Due to the withdrawal of the coalition of six opposition societies, the remaining participants have agreed to suspend the Dialogue while keeping the door open to resume the Dialogue should the coalition of six opposition societies decide to return.

International Relations

GCC

Bahrain's principal objectives in its foreign policy have traditionally been to maintain cordial relations with its neighbouring countries. Bahrain is one of the members of the GCC common market (as described in more detail in "*Economy of the Kingdom of Bahrain – Common Market*").

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

Bahrain, Saudi Arabia, Qatar, and Kuwait approved a monetary union pact in December 2009. As a consequence of the monetary union pact, a GCC Monetary Council (the "**GCC MC**") was established in Riyadh, holding its inaugural meeting in March 2010. At this meeting, H.E. Mohammed Al-Jasser (former Chairman of the Saudi Arabian Monetary Agency) was elected as chairman for a term of one year with H.E. Rasheed Al Maraj (Governor of the CBB) as vice chairman. In 2014, H.E. Sheikh Abdullah S. Al-Thani, Governor of Qatar Central Bank, was elected chairman, and H.E. Dr. Mohammad Y. Al-Hashel, Governor of the Central Bank of Kuwait, was elected vice chairman. The GCC MC's primary strategic aim is to provide the foundation, and act as a precursor institution, for the establishment of a GCC Central Bank (the "**GCC CB**"). The GCC MC set itself the primary task of consulting with GCC member countries in order to draft the legal and organisational framework that will underpin the GCC CB. The board of directors of the GCC MC met six times a year in each of 2011, 2012, 2013, and 2014, and has held six meetings in 2015 and four meetings to date in 2016 (See "*Economy of the Kingdom of Bahrain – Common Market*").

A key objective of the GCC is to develop a comprehensive security strategy for the GCC countries. In 1984, the GCC decided to create a joint military force of 10,000 soldiers divided into two brigades, called the Peninsula Shield Force, based in Saudi Arabia near the Kuwaiti and Iraqi borders. The Peninsula Shield Force is composed of infantry, armour, artillery, and combat support elements from each of the GCC countries. During the February – March 2011 Protests, Saudi Arabia and the UAE sent ground troops to Bahrain in order to support the Government, and Kuwait sent a navy unit. Kuwait and Oman refrained from sending ground troops.

In September 2014 GCC members Saudi Arabia, Bahrain, the UAE, Qatar, as well as pending member Jordan, commenced cooperative air operations against Islamic State in Syria. GCC countries have also pledged other support, including provision of operating training facilities for Syrian rebels in Saudi Arabia and allowing the use of their airbases by other countries fighting Islamic State.

Bahrain, along with other Arab states, is currently participating in the Saudi Arabian led intervention in Yemen which began in 2015 in response to requests for assistance from the Yemeni government and is ongoing.

Other Countries

Bahrain has bilateral trade and economic agreements with over 40 countries, including: China, France, India, and the United Kingdom. Bahrain has Free Trade Agreements with Singapore (GSFTA) and the EFTA States (Iceland, Liechtenstein, Norway and Switzerland), and Duty Free Access with the 17 Arab states party to the Greater Arab Free Trade Agreement (GAFTA). Bahrain has also signed: (a) Promotion and Protection of Investment Agreements with 34 countries; (b) Avoidance of Double Taxation Treaties with 41 countries; (c) Reciprocal Exemption of International Air Transport Agreements with 6 countries; and (d) Economic, Trade and Technical Co-operation Agreements with 32 countries.

On 28 May 2014, Bahrain entered into the Agreement for the Promotion and Protection of Investment with Tajikistan. In 2015, Bahrain entered into the Avoidance of Double Tax Agreement with Cyprus and the Avoidance of Double Tax Convention with Portugal.

Bahrain enjoys good relations with the EU and the United States of America (the "**U.S.**"), the latter having the headquarters of its Gulf naval force on the island. In 2002, the U.S. designated Bahrain a "major non-NATO ally". Bahrain was also the first Gulf country to have a Free Trade Agreement with the U.S. Negotiations were commenced in 2004 and the agreement was implemented in 2006.

The EU established bilateral relations with GCC countries through the 1988 Cooperation Agreement. The 1988 Cooperation Agreement provides for annual joint councils/ministerial meetings (between EU and GCC foreign ministers), and for joint cooperation committees at senior official level. The 1988 Cooperation Agreement allowed for the development of closer cooperation on issues such as energy, transport, research and innovation, and the economy. The most recent EU-GCC ministerial meeting was held in Doha, Qatar, on 24 May 2015. The GCC delegation was led by H.E. Khalid bin Mohamed Al-Attiyah, Minister of Foreign Affairs of Qatar (as GCC rotating president), and the EU delegation was led by H.E. Federica Mogherini, High Representative of the European Union for Foreign Affairs and Security Policy and Vice President of the European Commission. The GCC Secretariat was represented by H.E. Dr. Abdul Latif bin Rahed Al-Zayani, GCC Secretary General.

The GCC was in discussions with the EU concerning a trade agreement between the GCC and the EU. Negotiations were suspended in 2009 to enable the GCC to complete a study on the cost benefit of such agreements, and this study is still being considered. Further informal contacts have taken place between the parties and both remain committed to concluding the agreement.

The EU's ICI fund for cooperation with high-income countries is the framework for financial cooperation between the EU and the Gulf region (and other high-income countries). Amongst other projects, the ICI has financed the EU-GCC Clean Energy Network for cooperation among various players in the EU and the GCC on clean energy.

Bahrain has entered into a number of trade and tax related agreements and memoranda of understanding with the United Kingdom, including the Agreement for Avoidance of Double Taxation, the Agreement for Promotion and Protection of Investment, the Friendship Treaty, the Memorandum of Understanding for the Economic, Trade and Technical Co-operation, the Memorandum of Understanding on Capacity Building Expertise, and the Memorandum of Understanding on Mutual Assistance and Organised Crime.

Bahrain is working with the United Kingdom on the construction of United Kingdom's new permanent military base, the HMS Juffair at Mina Salman Port in Bahrain. This military base is being developed to support Royal Navy deployments in the Gulf through the creation of a permanent base. It will improve existing onshore facilities at Mina Salman Port, and provide the Royal Navy with a forward operating base and a place to plan, store equipment for naval operations and will provide accommodation for Royal Navy personnel.

Bahrain also has an agreement with the Russian Federation for Economic, Trade and Technical Co-operation and recently signed a Promotion and Reciprocal Protection of Investment Agreement. Bahrain is involved in strategic dialogue with China, and has entered into a number of trade and tax related agreements with China, including the Agreement for Economic, Trade and Technical Co-operation, the Agreement for Avoidance of Double Taxation, and the Agreement for Promotion and Protection of Investment.

Bahrain concluded the Tax Information Exchange Agreement with India. There are also other agreements in place with India, including the Agreement for Economic, Trade and Technical Co-operation.

Bahrain is a founding member of the World Trade Organisation ("**WTO**") and is a member of many other international organisations including the United Nations ("**UN**"), the International Monetary Fund ("**IMF**"), the World Bank Group (International Bank for Reconstruction and Development ("**IBRD**")), the International Centre for Settlement of Investment Disputes ("**ICSID**"), the International Finance Corporation ("**IFC**"), the International Labour Organisation ("**ILO**"), the Multilateral Investment Guarantee Agency ("**MIGA**"), the Organisation of Islamic Cooperation ("**OIC**"), the Global Forum on Transparency and Exchange of Information for Tax Purposes ("**GFTEI**"), and a member of a number of regional organisations such as the Arab League, the Arab Monetary Fund ("**AMF**"), the Organisation of Arab Petroleum Exporting Countries ("**OAPEC**"), the Islamic Development Bank ("**IDB**"), and the GCC. In addition, a number of international programmes, including the United Nations Industrial Development Programme have their regional office in Bahrain and the Middle East and North Africa Financial Action Task Force ("**MENAFATF**") have their headquarters in Bahrain.

A two-day Bahrain International Conference on the Arab Court for Human Rights was held in May 2014. The conference was attended by more than 240 local, regional, and international experts in human rights and judicial systems. The conference was part of ongoing efforts to discuss and finalise the articles of association necessary to establish the Pan-Arab Court, ahead of submission to the Arab League for ratification.

Bahrain has put in place measures to facilitate foreign nationals to conduct business in Bahrain. Bahrain implemented a new visa policy which allows visas to be obtained online or upon arrival in the country. Online visa eligibility has been extended to 113 nationalities.

Vision 2030

In October 2008, the Government approved a long-term vision document called Vision 2030 ("**Vision 2030**"). Vision 2030's objective is to further diversify Bahrain's economy into a globally competitive economy fuelled by private enterprise and predominantly based on high productivity sectors, including finance, services, logistics, tourism, and industry. The economic vision sets out the aspirations for Bahrain's economy, government, and society in accordance with the guiding principles of sustainability, competitiveness, and fairness. The key priority areas of Vision 2030 are taken into account during each budget process and the Government continues to implement its objectives. As part of Vision 2030, the Government sets out a four year program that is approved by the legislative authority. The Government with the support of the Economic Development Board ("**EDB**") monitors the progress of initiatives agreed under the four year program. In March 2013, His Royal Highness the Crown Prince was appointed as the First Deputy Prime Minister and is supporting His Royal Highness the Prime Minister's efforts to ensure the efficiency and effectiveness of the Government's performance, which will underpin its activities undertaken to achieve its economic vision.

Bahrain has implemented educational reforms to help ensure that the population develops the skills necessary to implement the Vision 2030 objectives. These include the establishment of the Bahrain Teachers' College and the creation of the National Authority for Qualification and Quality Assurance Authority of Education and Training ("**NAQQAAET**") in 2008. The NAQQAAET has been tasked with reviewing and publicly reporting on the quality of education and training institutions with a view to raising standards of education and training in Bahrain. The NAQQAAET has published reports on the quality of educational and vocational institutions, covering private and public schools, universities and vocational courses. NAQQAAET has also reviewed individual degree courses provided by universities. The reports present the outcomes of the reviews of the

institutions that have been evaluated by the NAQQAAET. They are based on the most important findings of the review units' visits to schools, vocational providers and higher education institutions. The reports highlight each institution's strengths and areas for improvement, together with recommendations for development. This is in line with the NAQQAAET's remit to independently evaluate educational and training establishments as part of Bahrain's education reform programme and Vision 2030.

Furthermore, during 2011 and 2012, the EDB worked on the development of secondary technical and vocational paths with the establishment of a specialised technical college, as well as collaborating with the University of Bahrain and the Bahrain Training Institute on plans to enhance institutional development. Since then, the EDB has been working closely with a number of government institutions including the Ministry of Labour, Ministry of Education, and the First Deputy Prime Minister's office on the development and implementation of a long term educational reform plan.

In order to encourage entrepreneurship, Bahrain has implemented a Business Licensing Integrated System ("**BLIS**"), which is designed to simplify the process of business registration, streamline licensing requirements, and ensure full transparency of procedures and co-ordination between all relevant organisations. The BLIS project is accessible through an online portal. It streamlines procedures for commercial registration and licences, automating the commercial registration and licensing process for 15 pre-selected business licences.

Furthermore, in order to improve access to international markets and empower the Micro, Small and Medium Enterprises ("**MSMEs**") sector in Bahrain, the Bahraini authorities are working to establish an Export Development Centre (the "**EDC**"). The project is designed to encourage Bahrain-based companies to expand their operations beyond the local market. The EDC will advise businesses on export opportunities for their products and provide training in export procedures.

Economic Development Board

The EDB is the apex organisation for fostering economic development in Bahrain. In 2015, the EDB undertook a strategic review which was reviewed and approved by the EDB Board of Directors, chaired by His Royal Highness the Crown Prince, in June 2015. The EDB's mandate has tightened to focus on attracting and encouraging inward investment and helping foster an environment to help meet that goal. The EDB currently targets five priority sectors for investment promotion: financial services, manufacturing, logistics, information and communications technology ("**ICT**"), and tourism. These are all areas aligned with Bahrain’s unique value proposition that revolves around human capital, liberal quality regulation, and connectivity. These sectors offer investable assets and products and are seen as having high potential in several sub-segments for above-trend growth. In order to facilitate the implementation of its strategy, the EDB has expanded its international footprint through a presence in 10 markets. International companies have been recently investing and expanding in Bahrain. For example, Mondelez International is building a plant at the Bahrain International Investment Park, which is expected to complete by 2017 and is estimated to cost U.S.$90 million and JBF has completed an investment of U.S.$200 million in its plant in the Bahrain International Investment Park. Additionally, in 2015 a number of banks have opened branches in Bahrain, including, Bank of Khartoum, Cairo Amman Bank, JS Bank and Turkiye Finans.

National Development Strategy 2015-2018

The Government is currently implementing the National Development Strategy 2015-2018 ("**NDS**"), which was drafted in collaboration with government ministries and agencies. The strategy reviews Bahrain's socio-economic performance and evaluates the overall strategic context in which future policy must be drafted. The strategy focuses on Bahrain's resources and reviews areas for development, articulating seven national strategic priorities that are designed to achieve sustainable and inclusive development through efficient utilisation of Bahrain's resources. In line with the Vision 2030, the strategy continues efforts to ensure economically and ecologically sustainable growth and further rationalises the operations of the Government to better respond to the needs of the citizenry and the economy. The NDS was prepared concurrently with the Government Action Plan 2015-2018 which embodies its central message and will be used to implement the NDS.

Government Action Plan 2015 - 2018

The Government has introduced a Government Action Plan 2015-2018 (the "**GAP**"), which focuses on capitalising Bahrain's resources and capabilities. The GAP is based on the economic plan devised by the EDB,

the findings of the National Audit Court report and other key international indicators and statistics as well as other development considerations.

The GAP's objective is to maintain a strong and diverse economy with a stable financial and monetary system which is resilient towards global economic challenges. This is expected to be achieved through increased public-private sector partnerships and a series of strategic programmes designed to invest in key resources and sectors that act as drivers for sustainable economic growth.

The six core priorities of the GAP are: sovereignty and the rule of law, economy and finance, human development and social services, infrastructure, environment and urban development, and government performance. The progress of the GAP will be routinely assessed against key performance indicator, as a core element of the Government's budget, and against key elements of the UN's Post-2015 Development Agenda.

Tamkeen

Tamkeen was established by the EDB to regulate and improve the labour market in Bahrain. It is a semi-autonomous independent authority which formulates strategic and operational plans to enhance the overall prosperity of Bahrain by investing in Bahraini employability, job creation and social support. Tamkeen is funded solely by the fees collected by the Labour Market Regulatory Authority in Bahrain ("**LMRA**"), and its main objectives are to support Bahraini nationals to become employees of choice, to support high quality private sector job creation and to help the private sector cope with the impact of labour market reform. To achieve these objectives, Tamkeen aims to (i) increase the competitiveness of Bahraini nationals by reducing the cost of their employment relative to expatriates, investing in skill development and tackling employment barriers with regard to both current employers and new employees to the market through a combination of financial incentives and training, and (ii) support private sector competitiveness and productivity by issuing grants to support the hiring of management and operations consultants, assisting in the purchase of new and upgraded equipment, and helping businesses improve their marketing techniques. The aim is to decrease private sector reliance on expatriate labour by building the management and technical know-how of Bahraini nationals. *See* "*Overview of The Kingdom of Bahrain – Vision 2030*".

In 2015, Tamkeen provided U.S.$76.6 million of labour market investment to Bahraini individuals, including unemployment insurance, and U.S.$99.7 million to support businesses and institutions in Bahrain including unemployment insurance for businesses.

Tamkeen enhanced its support of the Bahraini labour market in 2015 by further expanding the scope of its programs aimed at both individuals and businesses. Tamkeen continued to provide individuals with opportunities to specialise and grow in various professional fields. Tamkeen’s programs and operations are aligned with its 2015-2017 strategy to maximise benefits to its customers and promote macro-economic growth. Some of Tamkeen's programmes were briefly suspended and re-launched with revised criteria.

The schemes Tamkeen operates are aimed at individuals and enterprises. The schemes available to assist individual Bahrainis include:

- Tamkeen Professional Certifications Scheme: supports eligible candidates in attaining professional qualifications.
- Tamkeen Basic Skills Certification Scheme: aims to help Bahrainis acquire or enhance their core skill-set making them more employable or enhancing their performance at their current jobs.
- Mashroo3i Business Awards: targets young Bahraini students and engages them in a business plan competition. This competition helps them learn all about preparing business plans and business prototypes.
- A9eel Programme: a nationwide work ethics campaign. The main objective is to encourage work attitudes that will lead to improved employee productivity, thus contributing to the economic development of Bahrain.

The schemes available to assist Bahraini enterprises include:

- Enterprise Support Programme: assists and supports Bahraini enterprises in developing their businesses and maintaining sustainability.

- Training & Wage Support: addresses skill deficiencies that hinder the career progression opportunities of employees.

- International Placement Programme: supports employers in the private sector to improve their productivity by encouraging growth and development of employees through exposure to international work experience.

- Business Incubator Scheme: Tamkeen in association with the Bahrain Business Incubator Centre (the "**BBIC**") – a subsidiary of Bahrain Development Bank (the "**BDB**") – has launched the Business Incubator Scheme to support start-up businesses and existing enterprises by subsidising a percentage of rental charges of industrial units at the BBIC and help these enterprises develop their businesses

- Finance Scheme: Tamkeen, in partnership with financial institutions, offers both start-up and existing enterprises easy access to capital needed through financial packages that comply with Islamic Sharia'h.

- Feasibility Study Support Scheme: Tamkeen and BDB offer a scheme to provide support to businesses to prepare an independent feasibility study. Such studies give a professional assessment of the business, covering technical feasibility, profitability, and financial viability.

- Pre-Seed Capital Support Scheme: Tamkeen partners up with BDB to offer a scheme that targets innovative and creative business ideas which could be developed further into successful business ventures.

Tamkeen had LMRA fee income of approximately U.S.$206.9 million and total expenditure of approximately U.S.$162.2 million in 2015. As at 31 December 2015, Tamkeen had served more than 130,000 customers; more than 98,000 Bahraini individuals and 33,000 enterprises.

ECONOMY OF THE KINGDOM OF BAHRAIN

Introduction

Bahrain enjoys a strong, diverse and competitive economy. Bahrain has moved to diversify its economy away from a dependence on oil. Although oil continues to play an important part in Bahrain's economy, Bahrain also has an increasingly important financial services industry (acting as a financial centre for the MENA region). Manufacturing, oil refining, aluminium production and tourism are also significant contributors to GDP. In 2015, Bahrain was ranked 39 out of 140 countries worldwide (compared to 44 out of 144 countries in 2014) for its overall global competitiveness ranking in the World Economic Forum's Global Competitiveness Report 2015/2016.

The EDB is the apex organisation for spearheading economic development in Bahrain. It is currently actively targeting five sectors for development: manufacturing; logistics; information and communications technology; financial services and tourism (see "*Economy of the Kingdom of Bahrain – Foreign Direct Investment and Privatisation*"). The office of the First Deputy Prime Minister is responsible for development of the education and healthcare services sectors.

Manufacturing: Bahrain has a highly developed manufacturing sector with significant contribution from aluminium and steel, oil refining and food processing. Subsectors such as food processing, fast-moving consumer goods and other high value downstream activities have experienced relatively high growth within the sector. Bahrain considers manufacturing to be a strategic sector, and has invested in industrial parks, such as the Bahrain International Investment Park, and is in the process of developing an aluminium downstream park.

Logistics: Bahrain's strategic goal is to provide logistics services for the larger GCC market and the northern Arabian Gulf. Currently Bahrain is host to several global logistics companies which operate across the GCC, including DHL, Agility and Aramex. Bahrain's current logistics strategy aims to further reduce cargo travel time from Bahrain across the GCC region by improving customs procedures, as well as expanding the Bahrain Logistics Zone in the Hidd area. Bahrain is also undertaking major infrastructure projects including dredging the Bahrain Approach Channel, developing a new passenger terminal building at Bahrain International Airport and expanding rail connections to the GCC.

ICT: Bahrain has a high quality modern telecommunications system, currently operated by the Bahrain Telecommunications Company B.S.C. ("**Batelco**"), Zain Bahrain B.S.C. (C) ("**Zain**"), and Saudi Telecommunications Company ("**STC**") through its "*Viva*" operations, See "*Economy of the Kingdom of Bahrain – Other Services – Telecommunications*". The sector is regulated by the Telecommunications Regulatory Authority ("**TRA**"), which has created a mature regulatory environment that has been consistently ranked among the best in the MENA region, and is ranked 30 out of 143 countries in the Network Readiness Index prepared by the World Economic Forum. The TRA has strived to increase transparency by regularly publishing Bahrain's National Telecommunications Plans, which includes details of Bahrain's commitment to build a national fibre optic national broadband network capable of delivering ultrafast broadband to 95 per cent. of all households and 100 per cent. of all businesses in Bahrain by the end of 2018. The TRA has also committed to create an independent infrastructure provider, with the purpose of enhancing efficiency and provision of service to all companies in Bahrain that provide telecommunications services and online content.

Financial Services: Bahrain has a well developed banking insurance and fund industry, driven by a comprehensive regulatory framework set by the Bahrain's sole financial regulator, the Central Bank of Bahrain. Bahrain has the largest concentration of Islamic finance institutions in the GCC region, including Islamic banks, Takaful and Retakaful firms, and professional bodies and associations setting global standards for the industry. Capitalizing on Bahrain's 9,000-strong highly-skilled and bilingual local workforce in financial services, the EDB has prioritized its development efforts to focus on deepening Bahrain's ancillary financial services and building on its financial technology sector, including the payment services.

Tourism: Visitor numbers continue to grow with Bahrain being a particularly popular destination for GCC citizens. The number of hotel rooms in the Kingdom has doubled over the past five years, with occupancy rates averaging 48 per cent. in 2015. The Bahrain Tourism Strategy 2015-2018 has focused on a number of initiatives, including the development of public waterfront developments, improving access to culture and antiquity sites, as well as large scale development projects from the private and public sector which include re-developing Hawar island and building several mixed-use projects.

Healthcare: Bahrain is in the process of expanding its healthcare industry with the aim of becoming a leading healthcare destination in the region, by investing in the cardiac and oncology treatment centres. This investment strategy aligns with Bahrain's fiscal policy to increase its non-oil revenue. See *"Public Finance – Project Expenditure."*

Education: Investment in education in Bahrain increased from U.S.$446.8 million in 2006 to U.S.$900.3 million in 2015 (a 101.5 per cent. increase in investment) and the number of public schools increased from 204 schools in 2006 to 281 schools in 2015 (a 37.7 per cent. increase in government schools). Private schools have increased from 60 schools in 2006 to 75 schools in 2015 (a 25 per cent. increase). Five schools have been funded through the GCC Development Fund with a total value of U.S.$85 million, four of which will be completed by the end of 2016 with the last school to be completed by 2018.

Bahrain's economic development is supported by strong infrastructure which has been developed by the Government since the 1970s through continued public capital investment (being U.S.$669.4 million in 2013, U.S.$571.8 million in 2014 and U.S.$618.1 million in 2015). The decrease in capital expenditure in 2015 and the budgeted capital expenditure in 2016 was due to a planned reduction in capital spending on the housing projects compared to previous years.

In addition to direct Government capital expenditure, a number of additional projects are funded through development funds and grants. A number of major projects have been identified and approved by the Government including major housing projects amounting to U.S.$2.2 billion, electricity and water projects amounting to U.S.$1.1 billion, roads & sewerage projects amounting to US $0.9 billion, airport improvement projects amounting to U.S.$0.8 billion, and a number of other projects focussing on education, health, social development, youth, sports and industry which will be funded by the grants received from the GCC Development Fund (see "*Public Finance – Government budget*").

Expenditures relating to projects funded by these grants are not recorded in the budget as capital expenditure. The monies related to the GCC Development Fund are received from the Saudi Fund for Development (acting on behalf of the Saudi Government) (the "**Saudi Fund**"), the Kuwait Fund for Arab Economic Development (acting on behalf of the Kuwait Government) (the "**Kuwait Fund**"), and the Abu Dhabi Fund for Development (acting on behalf of the UAE Government) (the "**Abu Dhabi Fund**"). Details of the amounts to be provided by these entities are set out in "*Public Finance—Government budget*".

Gross Domestic Product

See "*Recent Developments – Economy of the Kingdom of Bahrain – Gross Domestic Product*" for recent developments since 13 October 2016.

Oil is the largest contribution to GDP (19.8 per cent. for the year ending as at 31 December 2015), and the financial services sector is the single largest non-oil contributor to GDP (16.3 per cent. for the year ending as at 31 December 2015), reflecting the importance of trade and finance to the domestic economy.

A table setting out Bahrain's GDP by economic activity based on constant 2010 prices and by percentage contribution is provided in "*Economy of the Kingdom of Bahrain - Principal Sectors of the Economy*" below.

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 2010 prices for the periods indicated:

	As at 31 December			**As at June 2016[(3)(5)]**
	2013	**2014**	**2015**	
Total:				
At current prices (U.S.$ millions)[(1)]	32,539.6	33,387.7	31,125.9	15,559.9
At constant 2010 prices (U.S.$ millions)[(1)]	28,674.4	29,921.8	30,778.9	15,772.6
Percentage change over previous period[(6)]:				
At current prices	5.8	2.6	(6.8)	(0.2)
At constant 2010 prices	5.4	4.4	2.9	3.5[(4)]
Per capita:[(2)]				
At current prices (U.S.$)[(1)]	25,965.4	25,389.9	22,819.5	N/A
At constant 2010 prices (U.S.$)[(1)]	22,881.1	22,754.2	22,565.2	N/A

Notes:

(1) Using the fixed conversion rate of BD0.376 = U.S.$1.00.
(2) Assuming a population of 1,253,191 in 2013, 1,315,000 in 2014 and 1,364,000 in 2015.
(3) No GDP per capita figures published for quarterly GDP.
(4) This growth figure shows growth between June 2015 and June 2016.
(5) GDP as at June 2016 is only for the period between January 2016 and June 2016.
(6) With respect to the percentage change for a quarter, the figure represents the per cent. change between the relevant quarters in 2016 as compared to the same quarter in 2015

Source: Central Informatics Organisation.

Direct government consumption constituted approximately 17.6 per cent. of current GDP in 2015, an increase from 16.1 per cent. of GDP in 2014. Government consumption also affects private consumption since the Government is the country's major employer and promoter of capital projects. In addition, Government procurement contracts are a major source of work for many private companies in Bahrain. Government consumption has increased (in nominal terms) since 2000 to reach U.S.$5,491.4 million in 2015. Investment is affected by the oil sector with gross fixed capital formation and stock building being influenced by periods of fluctuating oil prices. Government investment was 4.1 per cent. (U.S.$1.3 billion) of GDP in 2013, 3.9 per cent. (U.S.$1.3 billion) in 2014 and 4.1 per cent. (U.S.$1.3 billion) in 2015. These figures do not include amounts from the GCC Development Fund.

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

	2013		**2014**		**2015**	
	(U.S.$ millions)[1]	(%)	(U.S.$ millions)[1]	(%)	(U.S.$ millions)[1]	(%)
Private consumption	13,266.5	40.8	13,520.9	40.5	14,024.7	45.1
Government consumption	5,060.6	15.6	5,383.9	16.1	5,491.4	17.6
Gross fixed capital formation	8,058.0	24.8	8,547.3	25.6	7,474.4	24.0
Change in stocks[2]	382.9	1.2	415.4	1.2	111.4	0.4
Exports of goods & services	34,102.9	104.8	32,069.1	96.1	26,325.8	84.6
Imports of goods & services	28,331.4	87.1	26,548.9	79.5	22,301.9	71.7
Net exports of goods & services	5,771.5	17.7	5,520.2	16.5	4,023.9	12.9
GDP	32,539.6	100.0	33,387.7	100.0	31,125.9	100.0

Notes:
(1) Using the fixed conversion rate of BD0.376 = U.S.$1.00.
(2) Including net errors and omissions.
Source: Central Informatics Organisation.

The following table sets out the growth in real GDP in percentage terms (by expenditure approach) based on constant 2010 prices for the periods indicated:

	2013		**2014**		**2015**	
	(U.S.$ millions)[1]	(%)	(U.S.$ millions)[1]	(%)	(U.S.$ millions)[1]	(%)
Private consumption	12,547.7	43.8	12,462.3	41.6	12,697.0	41.3
Government consumption	4,701.0	16.4	4,887.1	16.3	4,903.1	15.9
Gross fixed capital formation	7,526.8	26.2	7,968.3	26.6	7,007.1	22.8
Change in stocks[2]	297.0	1.0	342.1	1.1	297.3	1.0
Exports of goods & services	27,977.4	97.6	26,839.3	89.7	27,191.0	88.3
Imports of goods & services	24,375.5	85.0	22,577.3	75.5	21,316.7	69.3

	2013		2014		2015	
	(U.S.$ millions)[(1)]	(%)	(U.S.$ millions)[(1)]	(%)	(U.S.$ millions)[(1)]	(%)
GDP	28,674.4	100.0	29,921.8	100.0	30,778.9	100.0

Note:
(1) Using the fixed conversion rate of BD0.376 = U.S.$1.00.
(2) Including net errors and omissions.
Source: Central Informatics Organisation.

Principal Sectors of the Economy

See "*Recent Developments – Economy of the Kingdom of Bahrain – Principal Sectors of the Economy*" for recent developments since 13 October 2016.

The table below sets out Bahrain's GDP by economic activity based on constant 2010 prices and by percentage contribution for the periods indicated:

	2012		2013		2014		2015		2016 H1	
	(U.S.$ millions)[(1)]	(%)	(U.S.$ millions)[(1)]	(%)	(U.S.$ millions)[(1)]	(%)	(U.S.$ millions)[(1)]	(%)	(U.S.$ millions)[(1)]	(%)
Non-financial corporations	**18,420.0**	**67.7**	**19,698.6**	**68.7**	**20,689.1**	**69.1**	**21,251.2**	**69.0**	**10,899.2**	**69.1**
Agriculture and fishing	79.4	0.3	80.5	0.3	89.7	0.3	86.9	0.3	45.7	0.3
Mining and quarrying[(2)]...............	5,307.1	19.5	6,094.4	21.3	6,324.0	21.1	6,327.9	20.6	3,248.5	20.6
(i) Crude petroleum and natural gas	5,147.2	18.9	5,936.9	20.7	6,115.1	20.4	6,108.8	19.8	3,129.3	19.8
(ii) Quarrying...........	159.9	0.6	157.5	0.5	209.0	0.7	219.1	0.7	119.2	0.8
Manufacturing	4,018.9	14.8	4,165.5	14.5	4,368.2	14.6	4,508.0	14.6	2,286.1	14.5
Electricity and water	365.4	1.3	380.9	1.3	424.0	1.4	444.5	1.4	216.8	1.4
Construction.............	1,835.6	6.7	1,911.9	6.7	2,035.4	6.8	2,156.0	7.0	1,130.3	7.2
Trade........................	1,252.2	4.6	1,272.8	4.4	1,323.5	4.4	1,351.4	4.4	688.1	4.4
Hotels and restaurants.................	637.8	2.3	673.5	2.3	698.8	2.3	720.1	2.3	361.7	2.3
Transport and communications........	1,913.5	7.0	1,974.6	6.9	2,093.1	7.0	2,236.1	7.3	1,139.1	7.2
Social and personal services	1,470.0	5.4	1,567.1	5.5	1,683.1	5.6	1,742.4	5.7	933.9	5.9
Real estate and business activities	1,540.0	5.7	1,577.3	5.5	1,649.2	5.5	1,677.9	5.5	849.0	5.4
Financial corporations	**4,675.7**	**17.2**	**4,769.2**	**16.6**	**4,910.0**	**16.4**	**5,023.0**	**16.3**	**2,576.5**	**16.3**
Financial institutions	1,321.5	4.9	1,349.2	4.7	1,409.7	4.7	1,492.8	4.9	784.5	5.0
Offshore financial institutions	1,946.1	7.2	1,960.9	6.8	1,983.5	6.6	1,961.4	6.4	984.2	6.2
Insurance..................	1,408.1	5.2	1,459.1	5.1	1,516.9	5.1	1,568.8	5.1	807.9	5.1
Government services.....................	**3,569.2**	**13.1**	**3,667.1**	**12.8**	**3,843.4**	**12.8**	**3,958.1**	**12.9**	**2,010.9**	**12.7**
Government education services.....	702.4	2.6	769.3	2.7	801.2	2.7	821.9	2.7	418.0	2.7
Government health services	522.3	1.9	532.1	1.9	554.9	1.9	575.0	1.9	295.1	1.9
Other Government services	2,344.5	8.6	2,365.6	8.2	2,487.3	8.3	2,561.2	8.3	1,297.8	8.2
Private non-profit institutions serving households	**11.2**	**0.0**	**11.9**	**0.0**	**12.6**	**0.0**	**13.6**	**0.0**	**8.9**	**0.1**
Households with	**220.5**	**0.8**	**227.5**	**0.8**	**239.7**	**0.8**	**255.8**	**0.8**	**137.2**	**0.9**

	2012		2013		2014		2015		2016 H1	
	(U.S.$ millions)[(1)]	(%)	(U.S.$ millions)[(1)]	(%)	(U.S.$ millions)[(1)]	(%)	(U.S.$ millions)[(1)]	(%)	(U.S.$ millions) [(1)]	(%)
employed persons....										
GDP producer prices.......................	**26,896.6**	**98.9**	**28,374.3**	**99.0**	**29,694.8**	**99.2**	**30,501.7**	**99.1**	**15,632.6**	**99.1**
Import duties..........	**304.4**	**1.1**	**300.1**	**1.0**	**227.0**	**0.8**	**277.1**	**0.9**	**140.0**	**0.9**
GDP.........................	**27,201.0**	**100.0**	**28,674.4**	**100.0**	**29,921.8**	**100.0**	**30,778.9**	**100.0**	**15,772.6**	**100.0**

Notes:
(1) Using the fixed conversion rate of BD0.376 = U.S.$1.00.
(2) Mining and quarrying comprises (i) crude petroleum and natural gas; and (ii) quarrying.
Source: Central Informatics Organisation

The following is a description of the principal sectors of the economy based on percentage contribution to GDP for the relevant periods.

Mining

See "*Recent Developments – Economy of the Kingdom Of Bahrain – Mining – Oil*" for recent developments since 13 October 2016.

Oil

Bahrain has the lowest oil reserves of all of the GCC countries, with a daily average crude oil production of 47,887 bpd in 2013, 48,780 bpd in 2014 and 50,581 bpd in 2015 from its only onshore oilfield, Awali. In 2009, the National Oil and Gas Authority of Bahrain ("**NOGA**") signed a development and production sharing agreement (the "**DPSA**") with Occidental Petroleum and Mubadala Development Company Oil and Gas (Bahrain Field) LLC ("**Mubadala**") to increase production from its existing onshore field. The DPSA was terminated on 30 June 2016 with the consent of all the partners due to the uncertain economic conditions resulting from recent declines in oil prices. The Bahrain Field operations have reverted to Government control. Bahrain plans to continue with the long term field development plan envisaged in DPSA by adequately investing over the next two decades to develop oil and gas resources to meet domestic energy needs. See "*Public Finance – Fiscal Policy"* for efforts on diversification and impact of low oil prices.

Tatweer Petroleum

In November 2009, Occidental, Mubadala, nogaholding (the investment holding company of the Government which invests in various oil and gas companies in which the Government has a strategic interest) (together the "**Joint Venture Partners**") and NOGA announced the creation of a new state-owned joint operating company, Tatweer Petroleum-Bahrain Field Development Company WLL ("**Tatweer Petroleum**"). nogaholding acquired 100 per cent. equity in Tatweer Petroleum on 1 July 2016 and in doing so, nogaholding incurred exit expenses (consisting principally of running costs and capital expenditure) capped at U.S.$150 million in respect of its former Joint Venture Partners. Tatweer Petroleum is responsible for operating of the Awali field including the Khuff gas reservoir. Tatweer Petroleum's production and development activities are well under way with its team largely comprised of individuals from the state-owned Bahrain Petroleum Company ("**Bapco**"), together with employees from both Occidental and Mubadala. The company also continues to hire additional local employees. Tatweer Petroleum drilled a total of 65 wells in 2015, which has increased the total number of oil wells at Awali oilfield to 1,741, and is currently expected to drill in excess of 27 additional new oil wells in 2016.

Tatweer Petroleum's strategic aim is to increase the production of oil from the onshore field. Tatweer Petroleum increased crude oil production from 2011's daily average of 42,510 bpd to production levels of 50.581 bpd in 2015 and actual production in 2016 as of June 2016 was a daily average of 49,497 bpd which was higher than the 2016 forecast daily average of 47,570 bpd. The increase in production in 2012 to 2016 has largely been achieved due to faster, more efficient and more productive wells being drilled. The significant drilling and maintenance work will ensure that production continues to increase steadily.

Tatweer Petroleum has continued to focus on developing its production capabilities at the Awali oilfield and improving production efficiency through new facilities and automated systems, with improvements such as:

- continuing the enhanced oil recovery ("**EOR**") programme, with new technologies being introduced at the Awali oilfield such as water flooding and steam injection.

- executing and implementing the new technologies related to the artificial lift methods being used in the field.

- completion of the Solar Power Plant at its headquarters in May 2016.

- construction of the new non associated gas central dehydration facility.

The new Tatweer Petroleum central control facility was completed in March 2015.

Abu Saafa oilfield

Bahrain also exports crude oil from the Abu Saafa oilfield which is located offshore between Bahrain and Saudi Arabia. Under a treaty signed with Saudi Arabia in 1958, Bahrain is entitled to receive 50 per cent. of the output from this field. Bahrain's share in the Abu Saafa production at amounted to around 149,708 bpd in 2013, 153,637 bpd in 2014 and 150,942 bpd in 2015. Between January 2016 and July 2016, Bahrain's share of the production at Abu Saafa amounted to around 160,847 bpd. Bahrain processes about 265,614 bpd of crude oil from the Bahrain Field and Saudi Arabia at its refinery in Sitra (see "*Economy of the Kingdom of Bahrain – Mining – Refining*"). Bahrain's crude oil production for the four quarters of 2015 was 4.3, 4.7, 4.7 and 4.7 million barrels, respectively.

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

	2012	**2013**	**2014**	**2015**	**As at June 2016**
			(*bpd*)		
Crude oil from Bahrain Field..................................	45,289	47,887	48,780	50,581	49,497
Crude oil from Saudi Arabia(1)	219,027	215,297	208,262	215,648	211,883
Total Crude Oil Processed in Refinery	**264,316**	**263,184**	**257,042**	**266,229**	**261,380**
Crude oil from Abu Saafa(2)...................................	127,666	149,708	153,637	150,942	161,571

Note:
(1) Bapco imports crude oil from Saudi Arabia to be refined at its refinery in Bahrain.
(2) Crude oil produced at Abu-Saafa is exported as crude oil.
Source: National Oil and Gas Authority

The overland and subsea pipeline from Saudi Arabia built during the 1940s is being replaced by a new 30 inch diameter pipeline constructed between Saudi Arabia's Abqaiq plant and Bapco's refinery through Qurayyah, over a distance of approximately 115 kilometres. The Front End Engineering Design of the pipeline was completed in 2014 by Worley Parsons of Australia. A contract signing ceremony took place between Bapco and Saudi Aramco in September 2015 to commence the project implementation. Saudi Arabia's Al Robaya Holding Company was awarded both EPC in Saudi Arabia, and onshore procurement in Bahrain. The National Petroleum Construction Company of the United Arab Emirates has been awarded the offshore EPC contract. Construction has started on the Saudi Arabian portion of the pipeline in 2016. A contract for construction at the Bahrain portion of the pipeline (which is located exclusively onshore and is shorter than the Saudi Arabia portion of the pipeline) has yet to be awarded. The project is expected to cost approximately U.S.$350 million and is currently expected to be completed by 2018. In March 2016, nogaholding obtained a multi-bank Murabaha Financing Facility of U.S.$750 million from a group of 10 international, regional and local banks. The proceeds from the facility are proposed to be utilised to fund the construction of the oil pipeline between Saudi Arabia and Bahrain, and other projects.

The pipeline will have a capacity of up to 360,000 bpd of crude oil and will replace the existing 235,000 bpd pipeline. Bahrain plans to steadily increase its own oil production over the next 20 years. The pipeline is a key

pre-requisite for the Bapco Modernisation Programme (See "*Economy of the Kingdom of Bahrain – Mining – Oil – Refining*").

Refining

See "*Recent Developments – Economy of the Kingdom Of Bahrain – Mining – Oil*" for recent developments since 13 October 2016.

Bahrain has an oil refinery at Sitra operated by Bapco which is wholly owned by the Government of Bahrain. The Bapco Refinery has a nameplate capacity of 262,000 bpd. The refinery was established in 1936 as the first refinery in the gulf region with a capacity of 10,000 bpd. Continuous investments and improvements to the facility, as well as to systems and operations have been made to comply with the highest industry safety standards, meet market demands and achieve high reliability, some cost efficiencies and workforce productivity. The refinery produces a full range of products, with the most valuable being middle distillates which constitute about 58 per cent. of the refinery production.

Bapco recently completed a U.S.$1.2 billion Strategic Investment Program ("**SIP**"), where several new units were added to ensure continued profitability, including the upgrading of low value fuel oil to more valuable low sulfur Euro-V (10 ppm sulfur) diesel, and the production of Group III base oils. In addition to these new processing facilities, environmental projects were also executed as part of the SIP.

The Government has now announced the Bapco Modernisation Program ("**BMP**"), which will be the company's single largest investment in its long history, and consists of a group of related projects managed in a co-ordinated way to maximise benefits. One of the key objectives of the BMP is to improve the product slate by upgrading the refinery residue, thereby improving gross margins and remaining competitive under a wider range of feedstock and product prices, and market conditions. The larger and more complex refinery with increased exports of higher value products is expected to generate positive cash flow for the Kingdom of Bahrain. Bapco will also benefit from a more energy efficient facility, better equipped to meet more stringent environmental compliance regulatory standards and goals. The EPC tendering process commenced in May 2016, and the project is expected to be completed in 2021.The table below provides details of Bahrain's oil refining industry for the periods indicated:

	2012	**2013**	**2014**	**2015**	**As of June 2016**
			(bpd)		
Refined oil production	276,239	273,870	274,612	276,676	274,373
Local sales of refined products	25,743	26,888	27,553	28,712	28,401
Exports[(1)]	248,151	242,517	248,892	249,176	247,368

Note:
(1) Includes exports by Bapco.
Source: National Oil and Gas Authority

Gas

See "*Recent Developments – Economy of the Kingdom Of Bahrain – Mining – Gas*" for recent developments since 13 October 2016.

The table below provides details of Bahrain's gas production for the periods indicated:

	2012	**2013**	**2014**	**2015**
		(billion cubic feet)		
Natural gas production	448.8	481.6	521.6	519.6
Associated gas production	142.9	197.9	206.8	232.1
Total gas production	591.7	679.5	728.4	751.6

Source: National Oil and Gas Authority

Although Bahrain's gas reserves are relatively small, total gas production (i.e., natural gas from the Khuff reservoir and the associated gas production) has gradually increased over the years, from 393.0 billion cubic feet in 1998 to 751.6 billion cubic feet in 2015. Gas production for the four quarters of 2015 was 165.7, 192.8,

214.8 and 178.3 billion cubic feet, respectively. Natural gas production from the Khuff reservoir has overall increased over the years to reach 519.6 billion cubic feet in 2015.

Gas is sold directly to Bapco's principal domestic consumers: Alba (which accounted for 27 per cent., 25 per cent. and 26 per cent. of total gas utilisation in 2013, 2014 and 2015 respectively), followed by Bahrain's power stations (which accounted for 33 per cent., 34 per cent. and 32 per cent. of total gas utilisation in 2013, 2014 and 2015, respectively), Gulf Petrochemical Industries Company ("**GPIC**") (which accounted for 9 per cent., 8 per cent. and 8 per cent. of total gas utilisation in 2013, 2014 and 2015, respectively), and the Sitra refinery (which accounted for, 10 per cent., 10 per cent. and 11 per cent. of total gas utilisation in 2013, 2014 and 2015, respectively).

The table below provides details of the percentage of Bahrain’s Khuff gas sold directly to Bapco's principal domestic consumers for the periods indicated. The table below does not account for re-injected gas:

	2012	**2013**	**2014**	**2015**
	Percentage of total quantity sold			
ALBA	27	27	25	26
Electricity Directorate	34	33	34	32
Bapco	11	10	10	11
GPIC	9	9	8	8
Others	18	21	23	23

Source: Bapco

The other principal use of the natural gas produced from the Khuff reservoir is for oil field injection which accounted for 24 per cent., 24 per cent., 25 per cent. and 28 per cent. of oil field injection in 2012, 2013, 2014 and 2015, respectively.

Bapco successfully completed the drilling of three of the eight Khuff gas wells before transferring management of the Awali field to Tatweer. This is part of a major U.S.$200 million Government programme to boost natural gas production in Bahrain by an additional 500 million cubic feet per day to meet Bahrain's growing demand for natural gas for power generation and local industries. Tatweer drilled five additional wells, and also constructed gas processing facilities. The Khuff gas drilling programme started in early 2009 and completed in March 2011. All the wells are equipped with seven-inch diameter production tubing, which enhances production capacity compared to previous wells equipped with five-inch diameter production tubing. In addition to the eight new wells, the programme also included the maintenance of five previously-drilled wells for the Khuff reservoir.

In February 2011, Bahrain entered into an exploration and production sharing agreement with Occidental Petroleum to explore and drill for deeper onshore gas in the Bahrain Field (the "**Deep Gas Project**"). The Deep Gas Project is estimated to cost U.S.$200 million and exploration and drilling will continue through 2018. The Deep Gas Project is part of the Government's long term energy strategy.

Gas, which is produced with crude oil, i.e. associated gas, is distributed to all seven compressor stations operated by Bahrain National Gas Company ("**Banagas**"). Banagas extracts propane, butane for export, and naphtha which is transported to the refinery by pipeline. Residue gas from Banagas subsequently enters the national gas system at a pressure lower than Khuff gas and is sold to local customers who can accommodate the lower pressure. The Government aims to increase its production volume of associated gas in connection with its strategic aim to increase its oil production.

Further, as part of its diversification programme to reduce its dependence on oil, the Government has also focused on alternative sources of energy. For example, the Government aims to supplement available natural gas by importing liquefied natural gas ("**LNG**") through its Bahrain LNG import terminal ("**Bahrain LNG Terminal Project**"). The Bahrain LNG Terminal Project will form a key part of the energy infrastructure of Bahrain. It is expected to give Bahrain security of supply that it needs to meet its growth in demand for natural gas to fuel large industrial projects, to generate power and water and to increase oil recovery. The Bahrain LNG import terminal is expected to allow Bahrain to handle any potential shortages of gas and will allow Bahrain to supplement domestic gas supplies with gas from LNG.

The terminal will be located offshore and will comprise a Floating Storage Unit ("**FSU**"), a regasification platform, onshore receiving facilities and associated utilities and infrastructure. NOGA and nogaholding have successfully appointed a consortium of Teekay (Canada), Samsung C&T (South Korea) and GIC (Kuwait) for

the development of the terminal on a build, own, operate and transfer basis. The LNG terminal will be owned and operated by Bahrain LNG W.L.L, a newly joint venture owned 30% by nogaholding and 70% by the consortium. GS Engineering & Construction is the EPC Contractor of the Bahrain LNG Terminal Project. Teekay LNG will supply the FSU vessel through a twenty-year time charter to the joint venture. The finance process for the Bahrain LNG Terminal Project has started and the transaction was formally launched in July 2015. The LNG terminal is expected to complete by the end of 2018.

Financial Services

See "*Recent Developments – Economy of the Kingdom of Bahrain – Financial Services*" for recent developments since 13 October 2016.

Bahrain is one of the major financial centres in the MENA region. It benefited significantly when financial institutions left Lebanon during the 1975-1990 civil war, and its success is due, in part, to its geographical location between the east and west time zones and its proximity to Kuwait and Saudi Arabia. Financial services remained the largest non-oil component of the real economy, accounting for approximately 16.6 per cent.16.4 per cent. and 16.3 per cent. of real GDP in 2013, 2014 and 2015, respectively,

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

The Central Bank Bahrain ("**CBB**") is the sole banking regulator in Bahrain. Established in 2006 as a successor to the Bahrain Monetary Agency ("**BMA**"), the CBB performs the role of financial agent to the Government, a role which principally entails advising the Government in relation to financial matters generally, as well as administering Government debt. More specifically, the main functions of the CBB are to arrange and implement the issuance of currency; to maintain monetary and financial stability; and to supervise and construct the regulatory framework applicable to financial institutions. The CBB is also responsible for regulating conduct in Bahrain's capital markets. In 2002, the legislative and regulatory authority and supervision of the Bahrain Bourse was transferred from the Ministry of Commerce to the CBB, which regulates and supervises all the Bahrain Bourse's activities. The CBB is not directly accountable to parliament and is independent of the Government but is accountable to the Minister of Finance. There are seven members of the board of directors of the CBB, including an independent chairman, each of whom is appointed by royal decree. The Governor of the CBB serves for a five-year term (the current governor was reappointed in February 2015).

The Bahraini legal system is seen as a sound system for settling disputes and there has been a relaxation of ownership rules, with certain activities now being permitted to be undertaken by 100 per cent. foreign-owned Bahraini entities and/or entirely foreign firms. The aggregate balance sheet of the banking system was, U.S.$192.0 billion as at 31 December 2013, U.S.$189.3 billion as at 31 December 2014, U.S.$ 191.0 billion as at 31 December 2015, and U.S.$192.4 billion as at 30 June 2016.

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

The Chamber has been developed as a means by which parties to a dispute can avoid the delays and uncertainty arising from using national courts. It has the authority to arbitrate cases where the claim is for more than BD500,000 and involves an international party or a party licensed by the CBB. Its rulings are not subject to challenge in Bahrain once they are handed down, but the parties involved can still seek alternative legal redress through foreign courts where local law permits such a legal challenge and the parties involved opt to do so.

The Chamber, which costs between U.S.$6.6 million and U.S.$8.0 million per year to run, is intended to serve regional needs in the GCC, Iraq, Yemen, and Iran, and also to review cases from other parts of the world. Disputes arising after 4 January 2010 can be heard by the Chamber. As of December 2014, 125 cases were filed with the total value of claims exceeding U.S.$ 2.3 billion.

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

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

Bahrain also has an established insurance sector and a stock exchange, both of which are regulated by the CBB. The Bahrain Bourse (formerly known as the Bahrain Stock Exchange) commenced operations in June 1987; and in late 2010 by the Royal Decree No. (60) of 2010 was established as a shareholding company and renamed the Bahrain Bourse.

The following table sets forth the market capitalisation and growth rates of the Bahrain Bourse for the periods shown:

	As at 31 December			**As at June**
	2013	**2014**	**2015**	**2016**
Market Capitalisation (U.S.$ billions)	18.5	22.1	19.1	17.7
Growth (per cent.)	18.9	19.6	(13.5)	(7.6)

Source: Bahrain Bourse

On 30 June 2016, Bahrain Bourse had 45 companies listed having had 47 listed as at 31 December 2012, 2013 and 2014 and having had 46 listed as at 31 December 2015. Currently one overseas company is also listed on the exchange as a result of cross- listing arrangements with other exchanges. See "*Monetary and Financial Systems – Capital Markets*".

Manufacturing

The manufacturing sector accounted for 14.5 per cent. of GDP in 2015. The discovery of oil in the early 1930s was the spur for industrialisation in Bahrain. The principal manufacturing facilities in Bahrain are an aluminium smelter operated by Alba, an oil refinery operated by Bapco at Sitra (described above under "– *Refining*") and the petrochemicals complex operated by GPIC. Other areas of manufacturing include ship repair, iron palletising facilities, light engineering facilities, and textile production.

Aluminium

The Alba aluminium smelter, with a capacity of 936,000 tonnes per year, is one of the largest aluminium smelters in the world and produces in excess of 900,000 tonnes of aluminium per annum. The Alba aluminium smelter is the world's fourth largest producer of aluminium by individual smelter capacity. Alba is state-owned on a majority holding basis with 69.38 per cent. of its share capital held through Mumtalakat (established by royal decree dated 26 July 2006) and 20.62 per cent. of its share capital held by Saudi Basics Industries Corporation ("**SABIC**"). In November 2010, Mumtalakat conducted a global offering of a portion of its ordinary shares in Alba. Alba's ordinary shares are listed on the Bahrain Bourse and global depositary receipts representing such shares are listed on the London Stock Exchange under the symbol "ALBH". Alba's global depositary receipts were listed on the London Stock Exchange on 30 November 2010. See "*Public Finance – Revenue – Alba*".

Bahrain's largest non-oil export is aluminium, which is smelted at the Alba aluminium smelter, estimated by the CIO to account for 8.8 per cent. of total exports, and 25.7 per cent. of total non-oil exports in 2012, 7.2 per cent. of total exports and 17.9 per cent. of total non-oil exports in 2013, 7.9 per cent. of total exports and 20.8 per cent. of total non-oil exports in 2014 and 10.1 per cent. of total exports and 18.9 per cent. of total non-oil exports in 2015.

There are a number of other aluminium-based industries in Bahrain, including plants which produce approximately 165,000 tonnes per year of rolled products, 180,000 tonnes per year of aluminium cables, and 25,000 tonnes per year of extruded aluminium products. In addition, a coke-calcinating plant operated by Alba with a capacity of 550,000 tonnes per year began production in January 2002. The majority of its production is used by Alba and the balance is exported. Alba previously imported coke from the United States and Argentina.

Alba entered into an agreement with NOGA to set the price of gas for the next seven years. This agreement was reached to help curb rising heating costs incurred in the aluminium manufacturing process. Effective 1 April 2015, gas prices increased from U.S.$2.25 per mmbtu (gross heating value) to US$2.50 per mmbtu and will thereafter increase at a rate of U.S.$0.25 per mmbtu (gross heating value) per annum until the price reaches US$4.00 per mmbtu on 1 April 2021. The table below outlines gas prices per year based on the above agreement:

Date	1 April 2015	1 April 2016	1 April 2017	1 April 2018	1 April 2019	1 April 2020	1 April 2021
Price (*in U.S.$*)	2.50	2.75	3.00	3.25	3.50	3.75	4.00

First metal production under Alba's line 6 expansion project is expected in early 2019. Alba is in the process of structuring and financing its Line 6 expansion project. On 1 August 2016, Alba announced that GE and GAMA Consortium were appointed as the engineering, procurement and construction contractor for its Power Station 5.

Petrochemicals

Gulf Petrochemicals Industries Company ("**GPIC**") is an equally owned joint venture company between the Government of Bahrain (one third ownership through nogaholding), Saudi Arabia Basic Industries Company (one third ownership) and Petrochemical Industries Company of Kuwait (one third ownership) established in 1979 and started production in 1985. GPIC owns a petrochemical and fertiliser complex at Sitra producing 1,200 metric tonnes of ammonia per day, 1,700 metric tonnes of urea per day and 1,200 metric tonnes of methanol per day. 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.

Other Services

Transport and Construction

The Ministry of Transportation and Telecommunications and the Bahrain Airport Company developed a comprehensive project called the *Airport Modernisation Programme*. The project, which commenced in 2014, includes the enhancement of the Bahrain International Airport building through the installation of advanced aerobridges, high-tech security scanning machines and the expansion of the duty free area.

Construction on the Bahrain International Airport passenger terminal began in February 2016 (the "**BIA Passenger Terminal**") and is expected to complete by 2020. Once completed the BIA Passenger Terminal will be four times the size of the current airport (approximately 206,000 m^2) and will accommodate approximately 14 million passengers per annum. The project will also include multi-storey car parks and access roads along with a central utilities complex, new aircraft stands, and taxi lanes. Advanced technology will be introduced throughout to facilitate passenger flow and maintain efficiency and speed while ensuring sustainable operations. Progress has been made in 2015 where a number of contracts have been awarded and tenders announced. In January 2016, the project's main contractor agreement was awarded to a joint venture between the UAE's Arabtec and Turkey's TAV Construction. The joint venture is contracted to complete the main construction works at the new airport, consisting principally of building the new passenger terminal. As of July 2016, the contractors, along with Jordan's Arab Bank, have raised $283 million to support their work on the project. As part of the airport modernization, air cargo is also expected to reach 1 million metric tonnes per annum over the next decade, from 219,000 metric tonnes in 2015.

A new public transport network was announced in 2015 which aims to modernise and upgrade public transport services. The network is intended to further improve the standard of living of all citizens and residents by providing safe, accessible and high quality public transportation in line with global standards and Bahrain's Economic Vision 2030. The Bahrain Public Transport Company was appointed as a new operator for the project under a 10 year concession agreement to operate Bahrain's new public transport network.

A new bus network is now in full operation, and includes 141 new buses operating on 32 routes to destinations not previously covered, including to Bahrain University, Mina Salman and Amwaj Islands, as well as several express links serving Manama, Muharraq and Bahrain International Airport.

The Khalifa Bin Salman Port ("**KBSP**"), inaugurated on 11 November 2009 and privately managed by APM Terminals, is the first multi-functional facility that is focused on import, export and re-exports and value added services. The KBSP occupies an area of 110 hectares of reclaimed land and is located in the north-east of Bahrain, 13 kilometres from Bahrain airport. It is also linked to the road leading to the King Fahad Causeway. The KBSP has a current total capacity of one million twenty-foot equivalent units ("**TEUs**") which, if required, can be increased to handle 2.5 million TEUs.

The King Fahad Causeway, completed in 1986, is a 25-kilometre causeway that links Bahrain to the largest market in the GCC, Saudi Arabia. The causeway has brought significant economic benefits for both countries (see "*Economy of the Kingdom of Bahrain – Revenue – Other Services*"). The feasibility study for a second causeway linking Bahrain and Saudi Arabia called the 'King Hamad Causeway' has completed with the preliminary design expected to start later in 2016. The second causeway is expected to have a road and rail link between Saudi Arabia and Bahrain - and connect to the proposed GCC rail network, which will accommodate freight and passengers and is scheduled for completion by 2023. The GCC rail network would also connect to a proposed light rail urban transit network in Bahrain which is aimed at reducing congestion. Bids for the preliminary design and functional specification of the rail urban transit network were received in March 2016 and the tender for the construction phase is expected to be presented in early 2017.

In 2010, the Ministry of Works completed the first phase of dredging the Bahrain Approach Channel ("**BAC**"), which leads to the KBSP and other port facilities in Bahrain. Phase two of the project is currently underway. Prior to the first phase of dredging, vessels approaching Bahrain's port facilities had to navigate via the natural approach channel which had a draught-limiting depth of approximately -12.8m Chart Datum ("**CD**"), therefore restricting the access of larger vessels to port facilities and today stands at 13.6m CD. The second phase of dredging the BAC aims to increase draught-limiting depth to a minimum of 15m CD which will facilitate port access for ships up to 15,000 TEUs. Following completion of the second phase of dredging in the third quarter of 2016, volumes are expected to increase to one million TEUs over the next 10 years.

The Public Commission for the Protection of Marine Resource, Environment and Wildlife (the "**Marine Commission**") has invested in designing and constructing four fishing harbours in Askar, Hidd, Malkiya, and Tubli and a jetty in Hawar. The Askar harbour will accommodate 150 small boats together with a cafeteria, community hall, shops, prayer room, maintenance workshops, fisheries office and store and offices for the coastguard.

After the collapse of the existing jetty on Hawar Islands, the Marine Commission decided to invest in the construction of a new jetty. The new jetty will accommodate 20 boats, a coastguard jetty for two boats, a jetty for the hotel ferries, harbour master's office and accommodation for the coastguard adjacent to the hotel on Hawar Island.

Bahrain expects to invest U.S.$21.3 million in the Tubli Wastewater Treatment Plant Upgrade Project which aims to upgrade the secondary treatment unit at Tubli STP to improve the quality of water and the 100,000m^3/day overflow to Tubli Plant. The project deploys proprietary reactor units to improve the quality of waters discarded in Tubli Bay.

The Ministry of Works signed the build-own-operate contract for the Muharraq sewage treatment plant in 2011. The plant is expected to have an initial design capacity of approximately 100,000 cubic metres per day. The project has two phases. The first phase involved the construction of the sewage treatment plant and a gravity sewer trunk main, and has been completed in 2015. This link will enable effluent to be fed from an existing wastewater pumping station to the new plant. When the plant is fully operational, phase two will begin and is expected to last no longer than a year, during which time a series of connection sewers will be built to link existing wastewater pumping stations directly into the sewer trunk main. In addition, a limited local connection network will also feed directly into the plant.

The Bahrain Authority for Culture and Antiquities has invested in a 1,001 seat theatre designed for plays, music, and dance at the Bahrain National Theatre, which opened in November 2012. Built on approximately 12,000 m^2 area overlooking the sea, the facilities include a 150 seat studio theatre, changing rooms, a coffee shop, and administrative offices as well as an external car parking and an art garden.

Healthcare

Additionally, Bahrain is in the process of expanding its healthcare industry with the aim of becoming a leading healthcare destination in the region through planned projects for the development of state of the art oncology and cardiac treatment centres. The planned projects include the launch of new specialised medical centres managed by world renowned experts using the latest treatments, medical techniques and technology available to enhance medical care in Bahrain and in the region as a whole. Improving the health sector is amongst the Government's top priorities and aligns with Bahrain's fiscal policy of economic diversification. See *"Public Finance – Fiscal Policy*" for more details on Bahrain's economic diversification plans.

The oncology treatment centre opened in May 2016. It includes 120 beds and provides both in and out patient facilities, palliative care bone marrow transplant and the latest radiotherapy treatments (including linear accelerator and, standard, sterotactic and proton beam). The total cost of the project is estimated at U.S.$54.0 million.

The cardiac treatment centre will consist of 148 beds situated in a new site in Awali, adjacent to the existing Awali Hospital. It will include imaging, CSSD and a chest pain clinic. The total cost of the project is estimated at U.S.$150 million and will be funded by the Abu Dhabi Fund and is expected to be completed in 2019.

Telecommunications

Telecommunications revenues represented approximately 4 per cent. of real GDP in 2015. Bahrain has a high quality modern telecommunications system, currently operated by Batelco, Zain, and STC through its "Viva" operations. Batelco, a listed entity on the Bahrain Bourse, is 77.23 per cent. owned by the Government through Mumtalakat and the Social Insurance Organisation ("**SIO**") (formerly the General Organisation for Social Insurance and the Pension Fund Commission, which merged in February 2008).

Mumtalakat and SIO directly own shares in Batelco of 36.67 per cent., and 20.56 per cent. respectively. In addition, Mumtalakat and SIO own 20.0 per cent. of shares in Batelco through Amber Holding Company ("**Amber**"). Amber itself is a 100 per cent. subsidiary of Hawar Holding Company, which is owned by Mumtalakat (33.33 per cent.) and SIO (66.67 per cent.). Batelco shares are traded on the Bahrain Bourse. Zain began operations in December 2003 following the implementation of the law passed on 5 November 2002 permitting competition in the telecommunications sector.

Viva became the third mobile operator in Bahrain and commenced commercial operations in February 2010. STC Group is one of the leading telecommunications groups in the MENA region with more than 160 million subscribers to its service worldwide through nine countries.

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

Bahrain has a strong mobile sector. Mobile prices tend to be low compared to other GCC countries and LTE coverage is extensive. The main competitors in the mobile sector are Batelco, Viva and Zain. At the end of 2015, there were approximately 2.5 million mobile subscriptions, representing a penetration rate of 185 per cent. At the end of March 2016, there were 2.6 million mobile subscriptions in Bahrain representing a penetration rate of 188 per cent.

At the end of March 2016, there were approximately 2 million broadband subscriptions, a 2 per cent. increase compared to December 2015. Broadband penetration reached 144 per cent. at the end of March 2016 compared to 145 per cent. at the end of December 2015. Growth of broadband subscriptions is driven by the growth of mobile broadband subscriptions. Mobile broadband subscribers represented 89 per cent. of total broadband subscribers at the end of March 2016.

The Government believes that a single national broadband network infrastructure to deliver ultra-fast broadband products and services is preferable and more efficient for a country of the size, population distribution and topology of Bahrain. This single network will be owned by an entity that shall be legally and functionally separated from Batelco and which will supply wholesale products and services to all licensed operators in the Kingdom on a non-discriminatory basis. It will be awarded the right to deploy the national broadband network and to supply wholesale products and services.

The telecommunications sector revenue grew by 4.7 per cent. to reach BD450 million in 2015 compared with BD430 million in 2014. The compounded annual growth rate of the telecommunications sector revenue was 4.6 per cent. between 2010 and 2015. The 2015 ICT Development Index of the International Telecommunication Union ranked Bahrain at 27 out of 167 countries. Bahrain has ranked 11th globally in the telecommunications infrastructure index according to the United Nations' e-Government Readiness Report 2016 published in July 2016. According to the Global Information Technology Report 2016 issued by the World Economic Forum in Geneva, in collaboration with INSEAD University's Business School early July 2016, Bahrain has ranked 24th globally in the information and communication technologies usage sub-index, which measures the readiness of the three pillars (individuals, business and the government) to use information and communication technologies. The Global Information Technology Report 2016, published by the World Economic Forum ranked Bahrain 4^{th} globally in terms of mobile broadband subscriptions and 5^{th} in terms of mobile phone subscriptions.

Real Estate

The Government intends to increase private sector investment in housing development and has introduced a housing units delivery programme and access to housing finance to assist with the design and construction of housing units and to improve access to financing in relation to the acquisition of housing.

Housing units delivery programme: Historically, the Ministry of Housing ("**MoH**") has designed and constructed housing units through awarding EPC contracts. This EPC model is expected to be replaced with the Mazaya Programme described below under "– *Access to housing finance*". Most of the projects currently under implementation by the MoH using the EPC model are housing projects approved under the GCC Development Fund. A total amount of U.S.$2,336 million has been allocated under the GCC Development Fund since 2011; U.S.$350 million from the Saudi tranche, U.S.$996 million from the Kuwait tranche; and U.S.$990 million from the UAE tranche.

The MoH has also procured social housing units through turn-key projects, principally with Diyal Al Muharraq, the owner of an artificial island in the archipelago in Bahrain which develops social housing on 12 square kilometres of land it owns and which includes access to high-quality amenities, including restaurants, retail outlets and parks.

The MoH signed its first public private partnership agreement with the real estate and infrastructure development company, NASEEJ, on 2 January 2012 for the development of 2,450 social housing units and 367 affordable homes across two different locations: North Bahrain New Town and Al Lawzi. This project is under implementation and is expected to complete in 2017.

Access to housing finance: The Mazaya programme social housing finance scheme is a support programme to assist citizens in getting access to private financing to be able to buy housing either from developers or other citizens. The Mazaya programme provides citizens with a monthly mortgage payment subsidy to bridge the difference between the monthly mortgage repayment to be made to the commercial bank and the mortgage payment by the citizen based on 25 per cent. of his income. To ensure commitment towards the purchase of the house and to lower the risk for banks, the citizen has to pay 10 per cent. of the unit price as down payment. Approved commercial banks provide the mortgages, while the housing units are provided commercially by the market and certified by MoH.

In 2015 and 2016 to date, 3,103 new housing units were delivered and occupied in Bahrain and 1,873 housing units were allocated to named beneficiaries. 11,206 housing units are currently under construction, 1,299

housing units have been tendered for construction, and a further 8,092 housing units are planned. These 25,573 housing units consist of: 15,600 units in Al Madina Al Shamaliya (north Bahrain new town), 4,500 units in Eass Hidd housing development, 5,000 units in East Sitra housing development, 3,500 units in Ramli development and 3,000 units in Muharraq.

Trade

The trade sector accounted for 4.4 per cent. of GDP in 2015. Bahrain has signed several significant international trade agreements. Bahrain also concluded a Free Trade Agreement with the United States in 2004, a first for a GCC country. As a block, the GCC is working on trade agreements with the EU and other countries such as India, and China. The GCC signed a free trade agreement with Singapore that came into force in September 2013. Bahrain is also working to boost trade with Japan, one of Bahrain's top trade partners. See "*Balance of Payments and Foreign Trade*" for more detail.

Bahrain is one of the members of the GCC common market (as described in more detail in "*Economy of the Kingdom of Bahrain - Common Market*"). The GCC has a uniform 5 per cent. import tax rate (with some exemptions and a special tax for tobacco of 100 per cent. and alcohol of 100 per cent.). Bahraini exports to the GCC are exempt from tax and are therefore more competitive than from other non-GCC countries (with no free trade agreements). Bahrain trades heavily with the GCC, in particular with Saudi Arabia.

Based on the CIO, non-oil exports to GCC countries amounted to 68.2 per cent. of total non-oil exports in 2015, where Saudi Arabia accounted for 48.1 per cent of total non-oil exports. As for non-oil imports, 18.1 per cent. of total non-oil imports in 2015 were from other GCC countries, and Saudi Arabia contributed 6.2 per cent. of total non-oil imports. As at June 2016, non-oil exports to GCC countries amounted to 65.3 per cent. of total non-oil exports, where Saudi Arabia contributed 37.9 per cent of the total non-oil exports. As at 30 June 2016, 19.0 per cent. of total non-oil imports were from other GCC countries and Saudi Arabia accounted for 7.1 per cent. of total non-oil imports.

The table below sets out Bahrain's non-oil imports to the GCC countries:

Non-oil Imports	**As at 31 December**						**As at 30 June**
Imports U.S.$ millions	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
Saudi	483.5	621.5	730.6	684.6	931.1	773.5	419.2
Kuwait	89.4	91.0	141.5	119.4	130.6	158.3	59.7
Oman	39.9	41.5	74.7	162.0	201.1	89.6	39.4
UAE	374.7	577.1	921.8	1,055.3	1,076.3	1,131.3	464.6
Qatar	58.2	88.0	84.8	93.9	95.7	94.5	138.0
GCC Total	**1,045.7**	**1,419.1**	**1,953.5**	**2,115.2**	**2,434.8**	**2,247.2**	**1,121.0**
Total non-oil imports	**10,143.4**	**10,168.9**	**10,891.5**	**10,172.1**	**12,684.0**	**12,444.5**	**5,890.3**
GCC per cent. of total non-oil import	**10.3**	**14.0**	**17.9**	**20.8**	**19.2**	**18.1**	**19.0**

Source: Central Information Organisation

The table below sets out Bahrain's non-oil exports from the GCC countries:

Non-oil Exports	**As at 31 December**						**As at**
Exports U.S.$ millions	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**June 2016**
Saudi	1,194.1	1,643.1	1,894.1	3,801.6	3,085.6	4,219.4	1,507.7
Kuwait	120.2	162.2	176.1	243.6	220.5	400.3	317.8
Oman	201.9	767.8	309.3	560.9	299.5	133.9	113.2
UAE	396.0	585.9	656.4	1,660.9	1,407.4	953.4	354.7
Qatar	656.9	774.7	660.9	281.9	555.3	267.6	302.6
GCC Total	2,569.1	3,933.8	3,696.8	6,548.9	5,568.4	5,974.5	2,596.0
Total non-oil exports	**5,203.5**	**7,014.6**	**6,734.3**	**10,309.8**	**8,997.1**	**8,766.3**	**3,978.0**
GCC per cent of total non-oil export	**49.4**	**56.1**	**54.9**	**63.5**	**61.9**	**68.2**	**65.3**

Source: Central Information Organisation

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

Bahrain has been chosen to host the GCC headquarters of one of India's leading business and policymaking bodies to promote bilateral trade. The Confederation of Indian Industry (CII) established an office in Manama in September 2014 to increase its presence in the region.

Tourism, Hotels and Restaurants

See "*Recent developments – Economy of the Kingdom Of Bahrain – Other Services – Tourism, Hotels and Restaurants*" for recent developments since 13 October 2016.

Tourism has long been recognised as an important part of the economy in Bahrain. Bahrain has a growing tourism industry with several large-scale tourist developments under construction. Tourism in Bahrain involves several different types of activities ranging from leisure events, business events, and heritage cultural events. Tourism (Hotels and Restaurants) grew by 3.0 per cent. in 2015, 3.8 per cent. in 2014, 5.6 per cent. in 2013 and 11.2 per cent. in 2012. The Tourism industry (Hotels and Restaurants) contributed 2.3 per cent. of GDP in 2015 and during the first quarter of 2016. Data from the World Travel and Tourism Council ("**WTTC**") put the direct contribution of Travel & Tourism to Bahrain's GDP at 4.3 per cent. in 2015. The total contribution (including indirect and induced) of Travel & Tourism to GDP was estimated by the WTTC at 10.6 per cent. of GDP. Hotel occupancy averaged 39 per cent., 41 per cent., 45 per cent. and 48 per cent in 2012, 2013, 2014 and 2015, respectively.

Tourism-related activities are focused around hotel accommodation, retail facilities and restaurants. Bahrain aims to develop its tourism industry by developing a more holistic tourism offering. Bahrain has hosted Formula One races since 2004 and the contract was extended beyond the preliminary six-year period. The Formula One race in 2011 was cancelled due to the political unrest that occurred in the earlier part of the year. Bahrain has been, however, reinstated to the Formula One race schedule since 2012 and has hosted the fourth race of each season. 2014 marked the 10th anniversary since Bahrain started hosting Formula One races.

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

The Government is also taking steps to restore historical sites and is working on a number of initiatives relating to preservation of heritage and protection of archaeological sites. It has been involved with UNESCO in a large-scale excavation programme, resulting in a number of discoveries relating to the ancient Dilmun civilisation. The main archaeological site is named Saar (named after the closest modern village) and is divided into two distinct zones: a residential zone and a cemetery. Dilmun was one of the most important ancient civilisations of the region and is believed to have existed in the third millennium BC. It is thought to have been a hub on a major trading route between Mesopotamia and the Indus Valley in South Asia.

The Bahrain Authority for Culture and Antiquities is also working on the maintenance and restoration of Al Khamis Mosque. Al Khamis Mosque is believed to have been built during the caliphate of Umayyad Caliph Umar II. The plan is to develop a walking area around the mosque to allow visitors to walk around and appreciate the architectural design of the mosque. A visitor's centre will also be developed.

Bahrain's tourism industry benefits from Bahrain's geography, open culture and liberal regulation. Three of the GCC capitals – Riyadh, Kuwait City, and Doha, as well as the main population centres of Saudi Arabia's Eastern Province, are located within a radius of approximately 400km around Bahrain and are within a convenient commuting distance for day trips.

Saudi nationals are the principal tourists to Bahrain with the causeway linking the two countries facilitating this movement. In 2015, 11.8 million visitors crossed the causeway to enter Bahrain. Bahrain and Saudi Arabia have agreed to build a second bridge, with both road and railway links, see "*Economy of the Kingdom of Bahrain – Foreign Direct Investment and Privatisation – Infrastructure*". Bahrain aims to continue being a destination of choice, particularly for Saudi tourists travelling to Bahrain for retail shopping and weekend breaks. It is anticipated that such tourism from Saudi Arabia will continue to increase, as will the growth in the number of foreign visitors to Bahrain for business travel, despite considerable competition from Dubai for tourists from the West. In order to accommodate tourists and foreign visitors to Bahrain, Bahrain had approximately 111 hotels in 2015, of which 16 were considered five star.

The table below sets out arrivals through the ports of the Kingdom of Bahrain for the specified periods:

	As at 31 December					As at 30 June
	2011	**2012**	**2013**	**2014**	**2015**	**2016(1)**
Saudi Causeway	6,466,166	8,808,668	9,891,271	11,032,090	11,845,527	5,862,464
Airport	1,650,903	1,978,580	2,087,377	2,245,046	2,498,739	1,220,894
Sea Port	53,244	49,274	63,362	59,627	68,298	50,031
Total	**8,170,313**	**10,836,522**	**12,042,010**	**13,336,763**	**14,412,564**	**7,133,389**

Note:
(1) Arrivals data is only for the period between January 2016 and June 2016.
Source: Nationality Passport and Residence Affairs.

Shopping forms an essential part of tourism in Bahrain and there are a number of modern malls and designer boutiques where the latest fashions and international goods are available. Bahrain has approximately 20 malls, which vary in size, capacity and range of products and services offered. Increasingly, the newer malls are located away from the capital (Manama) to serve different areas of the country. As part of the Government's strategy to increase the accessibility of government services outside of Manama, post offices, utility bill payments, and enquiry desks are increasingly common in shopping malls across the country. The two main malls in Bahrain are Bahrain City Centre and Al-Seef Mall.

GCC Common Market

The GCC was established in Abu Dhabi on 25 May 1981. The original union comprised of Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the UAE. The unified economic agreement between the countries of the GCC was signed on 11 November 1981 in Abu Dhabi.

The creation of a customs union began in 2003 and was completed and fully operational on 1 January 2015. On 1 January 2008 the six GCC countries declared the creation of a common market in the GCC region. In January 2015, the common market was further integrated, allowing full equality among GCC citizens to work in the government and private sectors, social insurance and retirement coverage, real estate ownership, capital movement, access to education, health and other social services in all member states. However, some barriers remained in the free movement of goods and services. The coordination of taxation systems, accounting standards, and civil legislation is currently in progress. The interoperability of professional qualifications, insurance certificates and identity documents is also underway.

Bahrain, Saudi Arabia, Qatar, and Kuwait approved a monetary union pact in December 2009. As a consequence of the monetary union pact, a GCC Ministerial Council was established in Riyadh, holding its inaugural meeting in March 2010. The GCC Ministerial Council's primary strategic aim is to provide the foundation, and act as a precursor institution, for the establishment of a GCC Central Bank. The GCC Ministerial Council set itself the primary task of consulting with GCC member countries in order to draft the legal and organisational framework that will underpin the GCC Central Bank. The board of directors of the GCC Ministerial Council met six times a year in each of 2011, 2012, 2013, 2014 and 2015, and has held four meetings to date in 2016.

Preparation for the development and implementation of a proposed GCC single currency will be the responsibility of the GCC Central Bank. In 2014, Bahrain, Kuwait, Qatar, and Saudi Arabia took major steps to ensure the creation of a single currency. No timeline for the implementation of a GCC single currency has yet been set. See *"Economy of the Kingdom of Bahrain – Other Services – Trade"* for trade between the GCC countries and *"Overview of the Kingdom of Bahrain – International Relations" – "GCC"* for foreign policy between GCC countries.

Inflation

See "*Recent Developments – Economy of the Kingdom of Bahrain – Common Market - Inflation*" for recent developments since 13 October 2016.

The CBB maintains the Bahraini dinar's peg against the U.S. Dollar, which has provided price stability over the years, and as a result managed to keep inflation relatively stable. As Bahrain has no significant domestic production, its inflation (as measured by the Consumer Price Index) has been mainly affected by the cost of imports. Until 2008, Bahrain recorded moderate consumer price increases in the range of 3 per cent. to 4 per cent. However, during the years 2009, 2010, and 2011, consumer price rises declined, particularly in 2011, when the inflation rate was negative 0.4 per cent. This was mainly due to a reduction in consumer spending. In 2012, 2013, 2014 and 2015, there was a reversal of the deflationary trend seen over the preceding three years and consumer prices grew to 2.8 per cent., 3.3 per cent., 2.6 per cent. and 1.9 per cent., respectively.

The table below shows the consumer price index and inflation for 2012, 2013, 2014 and 2015, respectively:

	2012	**2013**	**2014**	**2015**
Consumer price index (CPI) (2006=100)........................	114.7	118.5	121.6	123.9
Inflation (per cent.)...	2.8	3.3	2.6	1.9

Source: Central Informatics Organisation

In 2012, the CPI increased by 2.8 per cent. to 114.7 due to renewed consumer and investor confidence. In 2013, the CPI increased by 3.3 per cent. to 118.5 due to increases in the prices of housing, water, electricity, gas and other fuels, furnishings and household equipment. In 2014, the CPI increased by 2.6 per cent. to 121.6 mainly due to increases in the prices of housing, water, electricity, gas and other fuels, and education. In 2015, the CPI increased by 1.9 per cent. to 123.9 mainly due to increases in the prices of housing, water, electricity gas and other fuels, alcoholic beverages and tobacco.

The CPI for Bahrain includes 12 broad categories of consumer goods that are representative of consumption patterns in the economy. These components are: food and non-alcoholic beverages; alcoholic beverages, tobacco; clothing and footwear; housing, water, electricity, gas, and other fuels; furnishing, household equipment and routine household maintenance; heath care services; transport; communication; recreation and culture; education; restaurants; and miscellaneous goods and services.

Inflation data is collected and calculated on a monthly basis by the CIO. The CIO expects to re-base Bahrain's historic and future consumer price index in September 2016 when it expects to publish the 2016 household income and expenditure survey.

The table below shows the consumer price index during each month in the period 1 January 2016 to 30 June 2016 and inflation when comparing the CPI in each of those months to the corresponding months in the previous year:

	January 2016	**February 2016**	**March 2016**	**April 2016**	**May 2016**	**June 2016**
Consumer price index (CPI) (2006=100).......	126.0	127.0	127.7	127.5	127.5	127.9
Year on year charge (per cent.)......................	2.3	2.9	3.3	3.8	3.7	3.3

Source: Central Informatics Organisation

The main contribution to the year-on-year CPI fluctuation for the six month period ended on 30 June 2016 compared to the six month period ended on 30 June 2015 was an increase in the prices of alcoholic beverages and tobacco by 20.1 per cent., transportation by 12.9 per cent., and housing, water, electricity, gas and other fuels by 2.8 per cent.

Wages

The LMRA has developed a database of wage information (relating to Bahraini nationals only) based on International Labour Organisation ("**ILO**") best practices and standards. There is no official minimum wage level in Bahrain although the concept has been debated in the past by the LMRA. The Ministry of Labour recommends that a Bahraini employee's minimum wage should be no less than BD250 per month, and BD400 for Bahraini employees with a university degree.

The table below sets out median monthly wage rates for Bahraini nationals working in the public and private sector for the periods indicated:

	2013	**2014**	**2015**	**1st Quarter**

				2016
		(U.S.$)(1)		
Public sector	1,720.7	1,760.6	1,789.9	1821.8
Private sector	970.7	989.4	1,026.6	1,039.9
		*(percentage change)**		
Public sector	-2.1	2.3	1.7	1.8
Private sector	4.0	1.9	3.8	0.8

Notes:
(1) Using the fixed conversion rate of BD0.376 = U.S.$1.00.
(2) *Percentage change reflects year-on-year comparison of wage levels.
Source: LMRA, Kingdom of Bahrain

In 2013, there was a decrease of 2.1 per cent. in the median monthly wages in the public sector, whereas there was an increase of 4.0 per cent. in the median wages in the private sector. In 2014, there was a 2.3 per cent. and 1.9 per cent. increase in the median monthly wages in the public and private sector respectively. In 2015, there was a 1.7 per cent. and 3.8 per cent. increase in the median monthly wages in the public and private sector, respectively, compared to the end of 2014.

In the first quarter of 2016, the median monthly wages in the public sector increased by 1.8 per cent, and the private sector witnessed an increase of 0.8 per cent compared to the end of 2015.

Employment

Bahrain has a high proportion of non-Bahrainis among its working population (76.9 per cent. in 2012, 77.1 per cent. in 2013, 77.2 per cent. in 2014, 78.1 per cent. in 2015 and 78.4 per cent. in the first quarter of 2016). 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 courses 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, machine operators and unskilled workers in Government ministries.

The unemployment rate among Bahraini nationals which, according to the 2001 census was 12.1 per cent., has declined rapidly due to focused Government reforms. In 2006, the Government launched an ambitious labour market reform programme based on four pillars: the National Employment Project ("**NEP**"), the LMRA, the Labour Fund, and the Unemployment Insurance Programme. The reform programme sought to stimulate investment and technological change, as well as education and training of the Bahraini labour force. Since the launch of the programme, the unemployment rate for Bahraini nationals has been reduced from 15.0 per cent. in 2005 to just under 3.8 per cent in 2014 and 3.4 per cent. in June 2015.

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

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

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

Other labour market reforms have also taken place. In 2007, a bureau for employed Bahrainis in Qatar and an office for recruitment of Bahrainis in the UAE were established. On 1 January 2007, the Labour Fund, known as "Tamkeen", was separated operationally from the EDB and focuses its efforts on increasing the efficiency and productivity of the Bahraini labour force, strengthening the economy, and developing the private sector by creating new jobs suitable for Bahraini nationals. As part of its Career Progression Programme, Tamkeen contributes to the salaries paid to local employees by their employers by means of a wage subsidy for those employees who receive training for career development. This contribution forms part of Tamkeen's overall budget. See "*Overview of the Kingdom of Bahrain – Tamkeen*".

The Government issued a new labour law pursuant to legislative decree No. (36) of 2012 dated 12 August 2012 (the "**New Labour Law**"). The New Labour Law complements the provisions of Labour Law No. 23 of 1976 and is aimed at increasing worker protections in a manner consistent with ILO guidance. The New Labour Law provides that all domestic workers are required to be employed under contractual terms in line with all private sector employees and have increased annual, maternity, and sick leave entitlements. Employees will now also be entitled to compensation for any delays in payment. Fines will be imposed on employers who fail to comply with the provisions of the New Labour Law.

Foreign Direct Investment and Privatisation

Bahrain benefits from a number of characteristics which enhance its reputation as a favourable business environment. The country generally has had a long and stable economic history. In 2015, 65.1 per cent. of its financial sector employees were local citizens compared to 65.9 per cent. in 2014, (demonstrating a lack of reliance on the need to attract foreign expatriate workers from abroad). In 2015, the banking sector contributed to 54.5 per cent. of the total employment in the financial sector and 75.1 per cent. of employment in the banking sector were Bahrainis in 2015 compared to 75.2 per cent. in 2014. The cost of conducting business in Bahrain is relatively low when compared to other countries in the MENA region. There are also significant and established wholesale banking, insurance and reinsurance, and fund management industries (including industries ancillary to these, such as audit firms) and an efficient and robust legal and regulatory framework which has set in place a single legal framework maintained by the CBB which acts in a dual role as Bahrain's sole banking regulator and Bahrain's Central Bank.

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

	2012	2013	2014	2015*
	(U.S.$ millions)			
Direct Investment (net)	(7,127.4)	(7,063.8)	(8,101.1)	(13,035.6)
Abroad	9,698.7	10,751.1	10,671.6	14,625.0
In Bahrain	16,826.1	17,814.9	18,772.6	27,659.6

* Provisional Data
Source: CBB

Bahrain's net international investment position, comprised of Bahrain's outstanding international assets and liabilities, amounted to U.S.$24.0 billion at the end of 2015, compared to U.S.$25.4 billion and U.S.$22.9 billion at the end of 2014 and 2013, respectively.

Foreign Direct Investment

The EDB promotes foreign direct investment in Bahrain in order to further diversify Bahrain’s economy and encourage productivity-driven growth. Bahrain is a regional pioneer of diversification in the GCC context and derives more than 80 per cent. of its GDP from the non-oil sector. 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.

Bahrain has a long history of attracting inward investment and driving forward economic diversification. The non-oil sectors' contribution to real GDP has increased from less than 60 per cent. in 2000 to 80.2 per cent. in 2015 and increased to 80.1 per cent. in the first quarter of 2016. Bahrain attracted U.S.$27.7 billion of inward foreign direct investment in 2015, compared to U.S.$29.1 in 2014 and U.S.$27.6 billion in 2013. The financial services industry attracts significant foreign direct investment in Bahrain, and a number of international financial institutions have offices in Bahrain. Bahrain's highly regarded regulatory environment

provides an ideal base for all types of banking and financial services. A number of Islamic finance global oversight bodies (see "*Monetary and Financial System – Islamic Banks*") are also located in Bahrain. Additionally, manufacturing, professional and industrial services as well as logistics have also attracted foreign investment in Bahrain. Bahrain's central location and attractive lifestyle, supply of skilled labour as well as bilateral trade and economic agreements make it an attractive location for foreign investments in the above sectors.

Furthermore, Bahrain's inward foreign direct investment stocks in 2015 as a percentage of current GDP was 88.9 per cent. and was the highest in the GCC and well above the global average. According to the United Nation Conference on Trade and Development, this reinforces Bahrain's position as one of the region's most open economies.

Privatisation

In 2002, the Government passed a privatisation law which, among other matters, established procedures for determining privatisation policy, identified the sectors to be targeted for privatisation and detailed the use of privatisation proceeds. The total proceeds raised from privatisations in Bahrain between 1989 and 2000 were less than U.S.$79.8 million. Privatisations during 2006 and 2007 generated U.S.$810 million for the Government. There has been no material privatisation in Bahrain since 2007.

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

Accordingly, the Government has announced that privatisation will take centre stage as the private sector will remain the focus for economic growth. This is part of the Government's strategy to make the private sector the key area for Bahrain's economic growth. 90 per cent. of electricity and water are currently produced by the private sector. As the demand for electricity and water continues to grow, it is intended that new private water and electricity plants will be developed. The Government has decided to apply a public private partnership model to the new Al Dur 2 gas-fired power facility. The Government is also encouraging private sector investment in various sectors such as utilities, education and healthcare and has privatised its public transport system.

In 2014, the Prime Minister issued an edict for establishment of a privatisation committee, to be set up under the chairmanship of a minister, to be appointed the Cabinet, with membership from the Finance Ministry, the Economic Development Board, and the Civil Service Bureau. The committee will submit proposals on privatisation plans, study similar proposals by the Government and follow up on privatisation procedures, including launching tenders and awarding them according to the provisions of the privatisation laws.

BALANCE OF PAYMENTS AND FOREIGN TRADE

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

	Balance of Payments(1)(2)	**2012**	**2013**	**2014**	**2015***
			(U.S.$ millions)(3)		
1.	**Current account (a+b+c+d)**	2,577.9	2,409.8	1,523.1	(79.3)
a.	**Goods**	3,372.1	4,322.3	3,713.3	830.9
	General Merchandise				
	Exports (fob)	23,076.6	25,602.4	23,497.9	16,540.4
	Imports (fob)	(19,704.5)	(21,280.1)	(19,784.6)	(15,709.6)
b.	**Services (net)**	2,287.8	1,449.2	1,806.9	3,193.1
	Transportation	(545.2)	(741.2)	(676.3)	(499.5)
	Travel	244.9	336.4	596.8	752.1
	Construction	(1.6)	(1.1)	(1.3)	(0.8)
	Communication services	577.1	573.9	566.2	514.9
	Financial services (including Insurance)	1,484.8	692.6	763.6	1,814.1
	Other business services	233.8	267.0	260.1	213.3
c.	**Income (net)**	(1,007.4)	(1,195.7)	(1,632.7)	(1,735.9)
	Investment income	(1,007.4)	(1,195.7)	(1,632.7)	(1,735.9)
	Direct investment income	(793.4)	(906.4)	(1,279.3)	(1,375.5)
	Portfolio income	(44.7)	(221.3)	(294.4)	(313.6)
	Other investment income	(169.4)	(68.1)	(59.0)	(46.8)
d.	**Current transfers (net)**	(2,074.5)	(2,166.0)	(2364.4)	(2367.3)
	Workers' remittances	(2,074.5)	(2,166.0)	(2364.4)	(2367.3)
2.	**Capital and financial account (net)(A+B)**	(2,626.9)	(2,412.0)	(2,297.1)	1,494.1
A.	**Capital account (net)**	100.0	105.9	100.0	100.0
	Capital transfers	100.0	105.9	100.0	100.0
B.	**Financial account (1+2+3+4)**(4)	(2,726.9)	(2,517.8)	(2,397.1)	1,394.1
I.	**Direct investment**	1,028.7	3,196.0	1913.0	(1,959.6)
	Abroad	(516.0)	(531.6)	394.4	(496.8)
	In Bahrain	1,544.7	3,727.7	1518.6	(1,462.8)
II.	**Portfolio investment (net)**	(123.1)	(4,505.3)	(700.3)	(2,377.9)
	Assets	1,345.5	(4,667.6)	(971.5)	(1,503.7)
	Liabilities	(1,468.6)	162.2	271.3	(874.2)
III.	**Other investment (net)**	(2,972.1)	(1,066.0)	(2,888.6)	4,107.4
	Assets	(4,163.6)	(5,605.9)	(6,831.6)	1,657.2
	Liabilities	1,191.5	4,539.9	3943.1	2,450.3
IV.	**Reserve assets (net)**	(660.4)	(142.6)	(721.3)	1,624.2
3.	**Errors and omissions**	48.9	2.1	773.9	(1,414.9)

Notes:

(1) Trade statistics in this table are prepared on a 'free on board basis' as such term is specified within the BPM6.
(2) The data contained in this table is structured to be consistent with the International Monetary Fund's Balance of Payment Manual, Sixth Edition (the "**BPM6**"). Data from 2012, 2013, and 2014 have also been updated to comply with the BPM6.
(3) Using the fixed conversion rate of BD0.376 = U.S.$1.00.
(4) A negative sign means net outflows/increases in external assets.
* Provisional data
Source: CBB

Current Account

Bahrain has a free market economy, with no restrictions on capital movements, foreign exchange, foreign trade, or foreign investment. Bahrain's current account surplus stood at: U.S.$2,577.9 million in 2012, U.S.$2,409.8 million in 2013, U.S.$1,523.1 million in 2014 and a deficit of U.S.$79.3 million in 2015. As a percentage of current GDP, Bahrain recorded a current account surplus of 8.4 per cent. in 2012, 7.4 per cent. in 2013, 4.6 per cent. in 2014 and a deficit of 0.3 per cent. in 2015. The deficit in the current account in 2015 was due to a decrease in oil export receipts.

Bahrain's economy is dependent on imports, as evidenced by import/current GDP ratios of 64.1 per cent., 65.4 per cent., 59.3 per cent. and 50.5 per cent. in each of 2012, 2013, 2014 and 2015, respectively. Its 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).

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

Bahrain's services account balance has been positive in each of the preceding seven years ending 2015. The principal source of revenue in the services sector is income from financial services (including insurance) and travel. The net freight costs of imports in recent years reflect Bahrain's positive trade balance.

The activities of Bahrain's significant wholesale 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 has a high outflow of funds as expatriate workers remit savings and earnings to their home countries. In 2012, there was a U.S.$24.5 million increase in remittances, which led to an outflow of U.S.$2,074.5 million. In 2013, there was a U.S.$91.5 million increase in remittances, which led to an outflow of U.S.$2,166.0 million. In 2014, there was a U.S.$198.4 million increase in remittances, which led to an outflow of U.S.$2,364.4 million. In 2015, there was a U.S.$2.9 million increase in remittances, which led to an outflow of U.S.$2,367.3 million.

Capital and Financial Account

Within the capital and financial accounts, Bahrain has experienced gradually increasing levels of foreign direct investment. Bahraini entities are also active investors abroad, as shown by the direct investment figures. Total direct investment recorded a net inflow of U.S.$1,028.7 million in 2012, U.S.$3,196.0 million in 2013, U.S.$1,913.0 million in 2014, and a net outflow of U.S.$1,959.6 million in 2015. In 2014, direct investment flows abroad were U.S.$394.4 million while direct investment inflows to Bahrain were U.S.$1,518.6 million. In 2015, direct investment flows abroad were U.S.$496.8 million while direct investment inflows to Bahrain were U.S.$1,462.8 million. Portfolio investments (which principally comprises debt and equity securities issued by banks) demonstrated net outflows of U.S.$123.1 million in 2012, U.S.$4,505.3 million in 2013, U.S.$700.3 million in 2014, and U.S.$2,377.9 million in 2015. Other investments (principally comprising bank loans and cash deposits) demonstrated outflows of U.S.$2,972.1 million in 2012, U.S.$1,066.0 million in 2013, and U.S.$2,888.6 million in 2014. In 2015, other investments recorded an inflow of U.S.$4,107.4 million.

In 2012, Bahrain's balance of payments showed a surplus of U.S.$660.4 million, which was equivalent to 2.1 per cent. of GDP in 2012. In 2013, Bahrain's balance of payments showed a surplus of U.S.$142.6 million, which was equivalent to 0.4 per cent. of GDP in 2013. In 2014, Bahrain's balance of payments showed a surplus of U.S.$721.3 million, which was equivalent to 2.2 per cent of GDP in 2014. In 2015, Bahrain's balance of payments showed a deficit of U.S.$1,624.2 million, which is equivalent to 5.2 per cent. of GDP in 2015. Bahrain’s balance of payments deficit in 2015 was principally due to a decrease in oil export receipts.

As at 31 December 2012, 2013, 2014 and 2015 Bahrain's gross foreign exchange reserves were estimated by the CBB to be equal to 3.2, 3.0, 3.7 and 2.6 months, respectively, of obligations in respect of imports of goods.

Foreign Trade

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

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

	2012	2013	2014	2015*
Imports of oil (U.S.$ millions)(1)	8,930.9	8,486.2	7,440.2	3,933.0
As a percentage of total imports	45.3	39.9	37.6	25.0

Note:
*Provisional Data
(1) Using the fixed conversion rate of BD0.376 = U.S.$1.00.
Source: CBB

The majority of Bahrain's major exports are petroleum-related, consisting of petroleum products from the refinery at Sitra, petrochemical products from the petrochemical complex operated by GPIC and revenues derived from the sale of Bahrain's share of the crude oil produced at the Abu Saafa oil field. For a summary of oil production and refinery figures, see the tables under "*Economy of the Kingdom of Bahrain - Principal Sectors of the Economy*".

The largest non-oil export of Bahrain is aluminium (which is smelted at Alba aluminium smelter). Based on CIO foreign trade data, aluminium was 8.8 per cent. of total exports and 25.7 per cent. of total non-oil exports in 2012, 7.2 per cent. of total exports and 17.9 per cent. of total non-oil exports in 2013, 7.9 per cent. of total exports and 20.8 per cent. of total non-oil exports in 2014, and 10.1 per cent. of total exports and 18.9 per cent. of total non-oil exports in 2015.

MONETARY AND FINANCIAL SYSTEM

See *"Recent Developments – Monetary and Financial System – Money Supply"* for recent developments since 13 October 2016.

Monetary and Exchange Rate Policy

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

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

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

Both the GCC and Bahrain have experienced the repercussions of global market turmoil since 2007, see "*Risk Factors – Risk Factors relating to the Issuer – Global Market Conditions*". In light of such events, the CBB took a proactive role similar to many other central banks and introduced two measures to improve market liquidity: interest rate cuts and the opening of a new foreign exchange swap facility. These adjustments helped to ensure that short-term financial assistance was available to banks at reasonable rates against a wider range of collateral and allowed banks to obtain Bahraini dinar in return for U.S. dollars as required. Additionally, in March 2009, the mandatory reserve ratio was lowered from seven per cent. to five per cent. following a significant decline in inflationary pressures on consumer and asset prices. This required reserve ratio remained unchanged between 2012 and 2016.

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

Money Supply

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

	At 31 December			As at 30 June 2016	% Change Dec. 2015 - June 2016
	2013	**2014**	**2015**		
		(U.S.$ millions)(1)			*(%)*
Currency in circulation(2) ...	1,226.3	1,311.7	1,396.7	1,546.3	10.7
M1(3)	7,435.6	8,231.6	8,761.6	9,190.6	4.9
M2(4)	24,359.2	25,945.5	26,709.8	27,581.5	3.3
M3(5)	29,839.6	30,944.7	31.636.1	32,462.1	2.6

Notes:

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

(2) These figures exclude money held by banks.

(3) Currency in circulation plus private demand deposits.

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

(5) M2 plus government deposits.
Source: CBB

The following table sets out an analysis of Bahrain's M2 and M3 money supply as at the dates indicated:

	At 31 December								As at 30 June	
	2012		**2013**		**2014**		**2015**		**2016**	
	(U.S.$ millions)[(1)]	*(%)*[(5)]	*(U.S.$ millions)*[(1)]	*(%)*[(5)]	*(U.S.$ millions)*[(1)]	*(%)*[(5)]	*(U.S.$ millions)*[(1)]	*(%)*[(5)]	*(U.S.$ millions)*[(1)]	*(%)*[(6)]
M2	**22,512.9**	**4.1**	**24,359.2**	**8.2**	**25,945.5**	**6.5**	**26,709.8**	**2.9**	**27,581.5**	**3.3**
Total private sector deposits[(2)].....	21,392.1	4.0	23,132.9	8.1	24,633.7	6.5	25,313.0	2.8	26,035.2	2.9
Time and savings deposits.................	15,568.4	6.5	16,923.5	8.7	17,713.8	4.7	17,948.2	1.3	18,390.9	2.5
M3	**27,753.0**	**4.2**	**29,839.6**	**7.5**	**30,944.7**	**3.7**	**31.636.1**	**2.2**	**32,462.1**	**2.6**
general government deposits[(3)]..............	5,240.3	6.0	5,480.2	4.6	4,999.3	8.8	4,926.3	1.5	4,880.5	(0.9)
Net foreign assets[(4)]..................	4,420.5	4.0	4,101.3	(7.2)	6,089.7	48.5	3,448.5	(43.4)	3,651.1	5.9
Domestic assets......	23,332.5	4.5	25,738.3	10.3	24,855.0	(3.4)	28,187.7	13.4	28,811.1	2.2

Notes:
(1) Using the fixed conversion rate of BD0.376 = U.S.$1.00.
(2) Includes demand deposits as well as time and savings deposits
(3) Includes general government deposits with both the CBB and the retail banks
(4) Includes net foreign assets held by both the CBB and the retail banks
(5) year on year per cent. change
(6) per cent. change December 2015 to June 2016

Source: CBB

Money supply growth has been stimulated by a growth in savings. Broad money (M2) growth was mainly due to increases in private sector deposits in both domestic and foreign currency.

As at 30 June 2016, M3 increased by U.S.$826.0 million, or 2.6 per cent., from U.S.$31,636.1 million at the end of 2015 to U.S.$32,462.1 million as at 30 June 2016. General government deposits (with both the CBB and the retail banks) decreased by U.S.$45.8 million, or 0.9 per cent., from U.S.$4,926.3 million as at 31 December 2015 to U.S.$4,880.5 million as at 30 June 2016. Government deposits accounted for 15.0 per cent. of M3 as at the end of June 2016. The growth in M3 was mainly due to an increase in both net foreign assets and domestic assets. Between 31 December 2015 and 30 June 2016, net foreign assets (held by both the CBB and retail banks) increased by U.S.$202.6 million, or 5.9 per cent., to U.S.$3,651.1 million, and total domestic assets increased by U.S.$623.4 million, or 2.2 per cent., to U.S.$28,811.1 million.

Foreign Reserves

See "*Recent Developments – Monetary and Financial System – Foreign Reserves*" for recent developments since 13 October 2016.

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

	As at 31 December				As at 30 June 2016
	2012	**2013**	**2014**	**2015**	
			(U.S.$ millions)		
Foreign exchange...	4,897.6	5,037.8	5,757.4	3,108.8	2,489.4
SDRs..	197.6	199.6	187.9	179.8	90.6
Reserve position in the IMF..............................	109.4	109.6	103.2	98.7	190.5
Total gross foreign reserves	5,204.6	5,347.0	6,048.5	3,387.3	2,770.5
Gold...	6.6	6.6	6.6	6.6	6.6
Total gross foreign reserves (including gold)	5,211.2	5,353.6	6,055.1	3,393.9	2,777.1

Source: CBB and International Monetary Fund

Bahrain's foreign reserves are held abroad and primarily invested in fixed income instruments and money markets. These investments are generally U.S. dollar-denominated and are invested in low credit risk securities such as government or government-secured instruments. Total gross foreign reserves (including gold) decreased from U.S.$6,055.1 million as at 31 December 2014 to U.S.$3,393.9 million in 2015. The decrease was due to the decline in all components of total gross foreign reserves, except for gold, which remained stable at U.S.$6.6 million.

As at 31 December 2012, 2013, 2014 and 2015 Bahrain's gross foreign exchange reserves were estimated by the CBB to be equal to 3.2, 3.0, 3.7 and 2.6 months, respectively, of obligations in respect of imports of goods.

The Banking Sector

See "*Recent Developments – Monetary and Financial System – The Banking Sector*" for recent developments since 13 October 2016.

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

Since the financial crisis of 2007, there has been a trend in the banking sector of Bahrain to move away from wholesale banking to retail banking. Bahrain did not witness a generalised, systemic banking crisis. However, as a result of the global financial crisis, there has been a renewed focus on the retail banking sector, while wholesale banks have consolidated operations.

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

	As at 31 December				As at 30 June 2016
	2012	2013	2014	2015	
			(U.S.$ millions)(1)		
Wholesale Banks					
Assets	114,610.7	116,685.7	109,284.5	108,813.8	109,892.1
Domestic	7,879.9	7,490.5	7,828.1	8,642.4	9,595.0
Foreign	106,730.8	109,195.2	101,456.4	100,171.4	100,297.1
Liabilities	114,610.7	116,685.7	109,284.5	108,813.8	109,892.1
Domestic	11,359.0	10,207.7	10,116.7	9,601.9	10,258.8
Foreign	103,251.7	106,478.0	99,167.8	99,211.9	99,633.3
Retail Banks					
Assets	71,711.7	75,313.6	80,008.6	82,187.0	82,498.9
Domestic	40,372.8	41,233.4	41,430.1	43,945.6	45,364.6
Foreign	31,338.9	34,080.2	38,578.5	38,241.3	37,134.3
Liabilities	71,711.7	75,313.6	80,008.5	82,187.0	82,499.0
Domestic	39,889.1	40,290.1	41,755.7	42,957.6	43,518.4
Foreign	31,822.7	35,023.5	38,252.9	39,229.3	38,980.6
Total	**186,322.4**	**191,999.3**	**189,293.1**	**191,000.8**	**192,391.0**

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

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

Conventional Banks

Retail Banks

See *"Recent Developments – Monetary and Financial System – Conventional Banks – Retail Banks"* for recent developments since 13 October 2016.

Retail banks include domestic banks, which hold most of the assets of this category and foreign banks as well as six Islamic banks.

The table below sets out the aggregate balance sheet of retail banks and a breakdown of loans made by retail banks as at the dates indicated.

	As at 31 December				As at 30 June 2016
	2012	**2013**	**2014**	**2015**	
Retail banks[1]	29	28	28	28	28
Islamic retail banks	6	6	6	6	6
Aggregate balance sheet of retail banks (U.S.$ millions)[2]	71,711.7	75,313.6	80,008.6	82,187.0	82,499.0
Combined foreign and local deposits of retail banks (U.S.$ millions)[2]	34,451.2	39,704.2	41,484.4	43,489.3	43,783.6
Business loans made by retail banks (percentage of total loans)	62.5	60.0	55.8	53.0	52.3
Loans to Government made by retail banks (percentage of total loans)	2.9	2.4	2.6	3.8	3.4
Personal loans made by retail banks (percentage of total loans)	34.6	37.6	41.6	43.2	44.3

Note:
(1) Including Islamic retail banks
(2) Using the fixed conversion rate of BD0.376 = U.S.$1.00
Source: CBB

Wholesale Banks

See "*Recent Developments – Monetary and Financial System – Conventional Banks – Wholesale Banks*" for recent developments since 13 October 2016.

Wholesale banks comprise locally-incorporated banks and branches of foreign commercial and investment banks which use Bahrain as a base. Locally-incorporated wholesale banks are subject to the capital or cash reserve requirements of the CBB and, in the case of branches of overseas banks, may operate with significant tax benefits with regard to their home jurisdiction. Wholesale banks pay the CBB an annual licence fee and under specific conditions and limitations may accept deposits from residents of Bahrain.

Wholesale banks, including wholesale Islamic banks, are the most important sector in Bahrain's financial services industry. As at 31 December 2012, 2013, 2014, 2015 and June 2016 there were 74, 76, 75, 75 and 74 wholesale banks in Bahrain, respectively, of which 20, 18, 17, 19 and 19 respectively were wholesale Islamic banks.

The table below shows a breakdown of the assets and liabilities of wholesale banks as at 31 December 2012, 2013, 2014, 2015 and as at 30 June 2016.

	As at 31 December								As at 30 June 2016	
	2012		**2013**		**2014**		**2015**			
	Assets	*Liabilities*	*Assets*	*Liabilities*	*Assets*	*Liabilities*	*Assets*	*Liabilities*	*Assets*	*Liabilities*
Domestic (*U.S.$ billions*)	7.9	11.4	7.5	10.2	7.8	10.1	8.6	9.6	9.6	10.3
Foreign (*U.S.$ billions*)	106.7	103.3	109.2	106.5	101.5	99.2	100.2	99.2	100.3	99.6
Share of GCC countries (*per cent.*)[1]	26.8	36.5	29.4	38.5	32.1	37.8	32.8	34.8	33.9	33.0
Share of Western Europe (*per cent.*)	40.0	33.4	38.6	29.8	36.8	28.1	34.6	28.1	33.1	29.8
Share of Americas (*per cent.*)	14.6	4.4	11.9	3.4	8.0	3.2	8.4	4.5	8.7	5.1
Share of Asian countries (*per cent.*)	7.4	5.5	8.7	7.7	10.3	8.1	10.8	9.5	10.3	8.1
Denominated in U.S. dollars (*per cent.*)	65.5	73.4	65.5	74.0	66.2	77.3	68.1	78.2	68.6	77.6
Denominated in Euro (*per cent.*)	10.1	8.3	9.5	9.2	7.2	6.6	7.6	7.4	7.9	7.1
Denominated in GCC currencies (*per cent.*)	11.8	8.4	11.5	7.8	13.1	7.8	12.2	8.6	12.2	9.6

Note:
(1) Excluding Bahrain.
Source: CBB

Islamic Banks

See "*Recent Developments – Monetary and Financial System – Islamic Banks*" for recent developments since 13 October 2016.

Bahrain is increasingly involved in the rapidly expanding Islamic banking business and hosts the industry's global oversight body, the Accounting and Auditing Organisation for Islamic Institutions, as well as the Islamic Rating Agency and the International Islamic Financial Market. The Islamic banking sector was created in Bahrain in 1978 with the establishment of the Bahrain Islamic Bank and expanded in the 1980s with the issue of four banking licences to Islamic banks. Eight further banking licences were issued to Islamic banks in the 1990s.

The number of Islamic banking licences has remained relatively stable for the past five years and as at 30 June 2016, there were a total of 25 Islamic banking licenses, of which six were held by retail banks, 19 were held by wholesale banks.

The aggregate total assets of Islamic banks comprised of unrestricted investments has been relatively stable since 2013, increasing from U.S.$23,298.8 million. in 2013, to U.S.$25,342.5 million in 2015, with restricted investment accounts (which are off balance sheet items) of U.S.$1,884.5 million. As at 30 June 2016, the aggregate total assets of Islamic banks comprised of unrestricted investments stood at U.S.$25,486.2 million, and restricted investment accounts (which are off balance sheet items) amounted to U.S.$1,911.3 million.

With restricted investment accounts, the account holder may impose certain restrictions as to when and how such holder's 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.

As at 31 December 2012, 2013, 2014, 2015 Islamic Banks' assets accounted for 13.7 per cent., 12.1 per cent., 13.2 per cent., and 13.3 per cent. of total banking sector assets. As at 30 June 2016 Islamic Banks' assets accounted for 13.2 per cent. of total banking sector assets.

Non-Performing Loans

See "*Recent Developments – Monetary and Financial System – Non-Performing Loans*" for recent developments since 13 October 2016.

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

	Non-Performing Loans Ratio as at								
	Jun-12	**Dec-12**	**Jun-13**	**Dec-13**	**Jun-14**	**Dec-14**	**Jun-15**	**Dec-15**	**Jun-16**
					(%)				
Conventional Retail Banks	3.7	4.2	4.3	4.1	3.7	3.7	3.5	3.9	4.8
Conventional Wholesale Banks ..	7.5	8.1	8.3	6.9	6.3	5.9	5.8	5.2	5.2
Islamic Retail Banks	16.5	15.0	13.4	12.1	14.1	12.5	11.3	12.0	12.7
Islamic Wholesale Banks	5.7	6.2	5.4	5.2	4.9	4.6	4.1	4.6	3.0
Total Banking Sector	6.9	7.2	7.1	6.2	5.9	5.6	5.2	5.3	5.5

Source: CBB

Between 2014 and 2015, NPLs of Conventional Retail Banks increased by 0.2 per cent., from 3.7 per cent. as at 31 December 2014 to 3.9 per cent. as at 31 December 2015; NPLs of Conventional Wholesale Banks decreased by 0.6 per cent., from 5.9 per cent. to 5.2 per cent. during the same periods. Non-performing facilities of Islamic Retail Banks decreased by 0.5 per cent., from 12.5 per cent. as at 31 December 2014 to 12.0 per cent. as at 31 December 2015; NPLs of Islamic Wholesale Banks remained unchanged at 4.6 per cent. during the same period.

As at June 2016, NPLs of Conventional Retail Banks increased to 4.8 per cent.; NPLs of Conventional Wholesale Banks increased to 5.2 per cent.; NPLs of Islamic Retail Banks increased to 12.7 per cent. and NPLs of Islamic Wholesale Banks decreased to 3.0 per cent. since December 2015. The NPLs for the entire banking sector stood at 5.5 per cent. as at June 2016, compared to 5.3 per cent. as at December 2015.

Although Islamic Banks significantly reduced their NPL ratios over the past four years, their NPL ratios still remain the highest amongst other banking segments due to the nature of their financings which involve a higher real estate exposure. The CBB continues to work with banks in the sector to decrease their real estate exposure and NPL figures accordingly.

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

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

Conventional Banks and non-Bank Financial Institutions

The retail and wholesale banking supervision directorates are responsible for the offsite supervision of all conventional banks and financing companies. The financial institutions supervision directorate is responsible for all non-Islamic non-bank financial institutions (including money changers and money and foreign exchange brokers).

The banking supervision directorates deal with the prudential supervision of banks and require the published accounts of all banks, whether locally incorporated or branches of foreign banks, to comply with International Financial Reporting Standards. Locally incorporated banks and branches of foreign banks operating under a commercial bank licence in Bahrain are required to publish their financial statements on a quarterly basis and semi-annual basis, respectively. The year-end financial statements of all banks must be audited by external auditors, and the interim financial statements must be reviewed by the external auditors. In addition, all banks operating in Bahrain are required to submit prudential information 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 implemented the new standards for capital and liquidity requirement proposed by the Basel Committee on Banking Supervision ("**Basel III**") in Bahrain starting from 1 January 2015. Local banks or banking groups are required to maintain a minimum capital adequacy ratio of 12.5 per cent. (on a consolidated basis) and eight per cent. (on a stand alone basis) which exceeds the minimum ratio requirements set by Basel III. All Bahraini banks are currently following the standardised approach to Credit Risk under Pillar One of Basel III. The basic indicator and standardised approaches are permitted for operational risk, while the standardised and internal model approaches are permitted for market risk. As part of Basel III implementation, new more extensive Pillar Three Disclosure requirements came into effect for all locally incorporated banks' financial statements dated 30 June 2015 onward. Additionally, the CBB will require all locally incorporated banks to also report *pro forma* Basel III ratios on leverage and liquidity on a quarterly basis.

The CBB has established a deposit protection scheme (the "**Scheme**") for compensating eligible depositors (any natural person holding an eligible account with a conventional bank or an Islamic bank in Bahrain) when conventional retail and Islamic banks licensed by the CBB are unable, or are likely to be unable, to satisfy claims against them. A new pre-funded Scheme was established by the CBB at the beginning of 2011 to replace the old post-funded Scheme. The new Scheme creates two funds (one conventional, one Islamic) which will be used to compensate eligible depositors in the event that their bank defaults.

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

The Scheme applies to eligible deposits held with the Bahrain offices of CBB licensees, whether in Bahrain dinars or other currencies, held by persons who are either residents or non-residents of Bahrain. In the event of default, such deposits are protected up to a maximum of BD20,000 (U.S.$53,191.5).

Islamic Banking

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

Due to the different way in which Islamic banking operates and the specific risks inherent in the system, the CBB has developed a regulatory framework separate from that for the conventional banking system for Islamic banks. This was first implemented in March 2002 with the introduction of the Prudential Information and Regulatory Framework for Islamic banks ("**PIRI**") by the Islamic financial institutions directorate. The objective of PIRI is to provide an Islamic banking regulatory framework which is based on the Basel III 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 nonconsolidated basis) and to take a capital charge equal to 50 per cent. of investment accounts as a measure of security. Islamic banks, like conventional banks, must also submit prudential returns on a quarterly basis. The Basel III capital adequacy requirements are also applicable to Islamic banking institutions. The deposit protection scheme described above also applies in respect of deposits held with Islamic banks licensed with the CBB.

Insurance

See "*Recent Developments – Monetary and Financial System – Insurance*" for recent developments since 13 October 2016.

In light of substantial infrastructure investments anticipated in the GCC over the next decade, opportunities for growth of the insurance industry are considered to be significant. This growth in regional infrastructure spending is expected to result in an increase in insurance activity, resulting in a growth in gross premiums of the insurance industry in the region. As an economy with a relatively strong insurance sector, the Government believes it is well-placed in terms of market position, regulatory quality and structure to handle and capitalise on this anticipated demand for insurance services, both domestically and regionally.

A significant number of insurance companies and organisations have a presence in Bahrain. The table set out below sets out the number of insurance companies and gross premiums of the insurance market for the dates indicated.

	As at 31 December				As at 30 June
	2012	**2013**	**2014**	**2015**	**2016**
Insurance companies and organisations registered in Bahrain..	161	159	149	151	152
Gross premiums of the insurance market (U.S.$ millions)[(1)]...	635.8	687.2	720.1	N/A	N/A

	As at 31 December				As at 30 June
	2012	2013	2014	2015	2016
Gross premiums of the insurance market (percentage change year on year)........................	9.3	8.1	4.7	N/A	N/A

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

Since 2002, the responsibility for the regulation of the insurance sector rests with the insurance directorate of the CBB. The insurance directorate conducts its offsite supervision in a manner broadly equivalent to the banking and financial institutions supervision directorates, although insurance firms are now obliged to report to the CBB on a quarterly basis. All legal, regulatory and supervisory insurance frameworks follow the essential criteria of the International Association of Insurance Supervisors core principles and methodology.

As part of the efforts towards enhancement and improvement of the regulatory framework, the CBB introduced its revised and enhanced Operational and Solvency framework for the Takaful and Retakaful industry in 2014 after undergoing deliberations and consultations with the industry and all the stakeholders. The Takaful and Retakaful industry has shown a nominal growth in gross contributions in 2015 from the previous year.

Liquidity

The impact of the global financial crisis on the Bahraini financial system has been relatively modest so the Government and the CBB have not considered it necessary to resort to some of the exceptional measures adopted elsewhere in the world such as unlimited deposit or interbank guarantees or asset purchases by the state. Nonetheless, the CBB did introduce three measures to improve market liquidity: interest rate cuts, opening of a new foreign exchange swap facility and the acceptance of a wider range of collateral. These adjustments helped to ensure that short-term financial assistance was available to banks at reasonable rates against a wider range of collateral and allowed banks to obtain Bahraini dinar in return for U.S. dollars as required. The CBB enhanced its monitoring of bank liquidity during the financial crisis, requiring all locally-incorporated banks to report their liquidity positions on a daily basis and to report their risk exposures on a weekly basis.

The CBB is currently considering new liquidity requirements for banks and has issued two consecutive consultation papers on liquidity risk management within Bahrain. The CBB conducted a comparison between the requirements of the consultation paper and the requirements of managing liquidity risk under Basel III. Currently the CBB receives *pro forma* Basel III ratios on liquidity on a quarterly basis. As part of its implementation strategy of Basel III, the CBB is assessing the readiness of banks in Bahrain in complying with the new liquidity requirements.

Money laundering

In 2001, Bahrain passed its first anti-money laundering law (Legislative Decree No. (4) of 2001) which, among other things, established a Financial Investigations Unit ("**FIU**") within the Ministry of the Interior. Under this law, banks and financial institutions in Bahrain are obliged to submit a Suspicious Transaction Report ("**STR**") in respect of any banking activity which they regard as suspicious through an on-line reporting system.

Bahrain views the fight against the anti-money laundering ("**AML**") and combating the financing of terrorism ("**CFT**") as a key priority. Bahrain is part of the Financial Action Task Force (the "**FATF**"), an anti-money laundering and anti-terror financing association which also includes the 29 OECD countries, through the full membership of the GCC to the FATF, as is committed to implementation of all international standards in this area. Bahrain is also the founding member of the regional MENAFATF and hosts its secretariat.

MENAFATF has 18 member states and holds its annual plenaries in Bahrain. In accordance with the 16th plenary decision, Bahrain was moved from regular follow-up reporting (1-year reporting) to a biennial update process. As per the fourth follow-up report submitted by Bahrain to MENAFATF at the 16th plenary meeting in 2012, it was agreed that Bahrain achieved a largely compliant status with respect to the FATF recommendations.

The CBB has continued its efforts with a particular emphasis on upgrading Bahrain's regulatory AML/CFT framework through the AML/CFT policy committee (the "**AML/CFT Policy Committee**"); a national committee chaired by the CBB and comprised of nine members from relevant government authorities. The

AML/CFT Policy Committee is responsible for formulating AML/CFT policies, procedures and coordinating with relevant internal bodies to ensure that the regulatory framework is in compliance with the latest FATF recommendations. 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. In 2013, Legislative Law No. (25) was passed to reflect the new FATF recommendations introduced in 2012.

Capital Markets

See "*Recent Developments – Monetary and Financial System – Capital Markets*" for recent developments since 13 October 2016.

The Bahrain Bourse (formerly known as the Bahrain Stock Exchange) commenced operations in June 1987; and in late 2010 by the Royal Decree No. (60) of 2010 was converted into a shareholding company and renamed The Bahrain Bourse (BHB).

As at 30 June 2016, a total of 45 companies were listed on the Bahrain Bourse with a total market capitalisation of U.S.$17.7 billion. In addition, currently five overseas firms are also listed on the exchange as a result of cross-listing arrangements with other exchanges. Bonds (both corporate and government) and mutual funds are also listed on the exchange.

The Bahrain All Share Index closed at the end of 2015 at 1,215.9 points. The value of shares traded in 2015 reached to U.S.$292.5 million while the volume of shares traded reached 515.6 million. A number of transactions were concentrated in the commercial banks sector which represented 62.3 per cent. of the total value of shares traded and 75.7 per cent. of the total volume of shares traded in 2015. Bahraini investors accounted for 66.6 per cent. of the total value of traded shares, while the non-Bahraini investors accounted for 33.4 per cent. in 2015.

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

	Year ended 31 December				**As at**
	2012	**2013**	**2014**	**2015**	**June 2016**
Bahraini companies listed on the Bahrain Bourse..	47	47	47	46	45
Total market capitalisation (U.S.$ billion)[(1)].......	15.6	18.5	22.1	19.1	17.7
Bahrain All Share Index close	1,065.6	1,248.9	1,426.6	1,215.9	1,118.4
Volume of shares traded (millions of shares)......	627.7	1,867.8	1,127.4	515.6	227.3
Value of shares traded (U.S.$ million)[(1)]	293.2	600.7	716.3	292.5	122.0
Bahrain All Share index (points)	1,065.6	1,248.9	1,426.6	1,215.9	1,118.4
Number of listed Bahraini companies[(2)].............	42	41	42	42	42

Notes:
(1) Using the fixed conversion rate of BD0.376 = U.S.$1.00.
(2) Excludes companies listed on the Bahrain Bourse under cross-listing arrangements and closed companies.
Source: Bahrain Bourse

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

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

PUBLIC FINANCE

Bahrain's budget deficit has grown in recent years due to a counter-cyclical policy of ensuring continued diversification of investment and public support during a period of low oil prices. However, Bahrain is increasingly focused on ensuring prudent fiscal management through reducing expenditure levels, fiscal diversification and fiscal consolidation.

The Government's policy includes further developing non-oil streams of revenue and involves the introduction of new fees and charges across a number of sectors. To date, the Government has approved and implemented increases to primary healthcare charges, fees for licences and services provided by the Civil Aviation Authority, visa fees, postal and traffic violation fees, as well as recovering Government services costs through capital contributions. See "*Public Finance – Fiscal Policy*" for more information on Bahrain's fiscal policy.

The 2015/2016 Government budget was approved in July 2015 following a delay as a result of discussions regarding a reduction in public expenditure to address the budget deficit. Decree No (14) for 2015, dated 13 July 2015, authorised total state revenue and expenditure for the fiscal years 2015 and 2016. In the 2015/2016 budget, total revenue is budgeted at U.S.$5,793 million for 2016, total expenditure is budgeted at U.S.$9,794 million for 2016, and the budget deficit is budgeted at U.S.$4,003 million for 2016. The 2015/2016 budget is based on an average oil price of U.S.$60 per barrel.

The 2015/2016 budget focuses on many of the same themes as the 2013/2014 budget, such as the stimulation of economic growth through assistance from the GCC Development Fund, control over the level of Government expenditure, stimulation of growth in key economic sectors, prioritisation of Government projects relating to housing and investment, development of a policy for the management of Government subsidies, a focus on improving the Government's administrative and financial discipline, creation of job opportunities and maintenance of a low level of unemployment, focus on vocational training, addressing educational needs to meet market demand, and maximisation of optimal use of natural and financial resources.

Government budget

Bahrain prepares budgets on a biennial basis, taking into account the key priority areas of Vision 2030 during each budgeting process. For more information on this economic strategy, see "*Overview of The Kingdom of Bahrain – Vision 2030*". The budget is built around a two-year cycle, but separate budgets are prepared for each calendar year. The financial year commences on 1 January and ends on 31 December. The 2017/2018 budget is expected to be submitted to the National Assembly for scrutiny by the end of October 2016.

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

Two holding companies, Mumtalakat and nogaholding, were established by Royal Decree in June 2006 and August 2007, respectively. Mumtalakat is an independent holding company for the Government's non-oil and gas assets, while nogaholding is a holding company for the Government's oil and gas assets. Prior to the establishment of these two holding companies, the Government received income from the assets they now hold directly.

Bahrain's budget is presented on a cash basis.

Budget revenues and expenditures

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

	2012 Actual	2013 Actual	2014 Actual	2015 Budget	2015 Actual	2016 Budget
			(U.S.$ millions)			
Revenues	8,070	7,829	8,217	5,578	5,431	5,791
Oil and gas	7,036	6,915	7,081	4,523	4,241	4,675
Taxation and fees	579	595	540	513	597	518
Other non-oil	455	318	596	541	593	598
Expenditure	8,673	8,920	9,427	10,070	9,467	9,794

	2012 Actual	2013 Actual	2014 Actual	2015 Budget	2015 Actual	2016 Budget
			(U.S.$ millions)			
Recurrent expenditure	6,712	7,652	8,235	8,395	8,287	8,557
Projects expenditure Armed & development	1,960	1,268	1,192	1,676	1,180	1,237
Surplus/(deficit)	(602)	(1,091)	(1,210)	(4,493)	(4,035)	(4,003)
Transfer to reserve for sovereign and strategic projects & roll over	736	720	492	-	157	-

Source: Ministry of Finance

2011/2012. The 2011/2012 budget, prepared by the Government, was approved by the Cabinet and the National Assembly in May 2011 and signed by His Majesty the King on 1 June 2011. It was revised by the Government and approved by His Majesty the King on 20 September 2011. The revised 2011/2012 budget assumed average nominal GDP growth to be 5.7 per cent. in 2012 as well as an oil price of U.S.$80 per barrel. In 2012, a revised deficit of U.S.$3,532 million was budgeted based on an estimated oil price of U.S.$80 per barrel, while taking into account the decrease in production at the Abu Saafa oil field (which subsequently returned to normal production levels in 2013). In 2012, the actual deficit was U.S.$602 million, with the average price of oil being U.S.$110 per barrel.

2013/2014. The 2013/2014 budget, prepared by the Government, was approved by the Cabinet and the National Assembly in June 2013 and signed by His Majesty the King in July 2013. It was revised by the Government and approved by His Majesty the King on 20 September 2013. The key item of the revised budget is that revenue was estimated to be U.S.$7,423 million in 2013, of which U.S.$6,401 million was expected to have been comprised of oil and gas revenues (assuming an oil price of U.S.$90 per barrel). The 2013/2014 budget assumed average nominal GDP growth to be 8.3 per cent. and 3.6 per cent. in 2013 and 2014, respectively, as well as an oil price of U.S.$90 per barrel (compared to an actual average oil price of U.S.$103 per barrel in 2013).

In 2013, an actual deficit of U.S.$1,091 million was recorded (compared to a budgeted deficit of U.S.$2,216 million) with recurrent expenditure reaching U.S.$7,652 million (compared to budgeted recurrent expenditure of U.S.$8,119 million) and project expenditure reaching U.S.$1,268 million (compared to budgeted project expenditure of U.S.$1,520 million).

In 2014, an actual deficit of U.S.$1,210 million was recorded (compared to a budgeted deficit of U.S.$2,432 million) with recurrent expenditure reaching U.S.$8,235 million (compared to budgeted recurrent expenditure of U.S.$8,385million) and project expenditure reaching U.S.$1,192 million (compared to budgeted project expenditure of U.S.$2,196 million).

2015/2016. In 2015, an actual deficit of U.S.$4,035 million was recorded (compared to a budgeted deficit of U.S.$4,493 million) with recurrent expenditure reaching U.S.$8,287 million (compared to budgeted recurrent expenditure of U.S.$8,395 million) and project expenditure reaching U.S.$1,180 million (compared to budgeted project expenditure of U.S.$1,676 million).

In the 2015/2016 budget, the budget deficit was budgeted at U.S.$4,003 million for 2016, recurrent expenditure was budgeted at U.S.$8,557 million in 2016, and project expenditure was budgeted at U.S.$1,237 million in 2016. The 2015/2016 budget was based on an average oil price of U.S.$60 per barrel, compared to the actual average oil price of U.S.$52.4 per barrel in 2015 and U.S.$44.0 per barrel in 2016. (See "*Public Finance – Fiscal Policy*").

Non-budget expenditures

See "*Recent Developments – Public Finance – Non-budget expenditures*" for recent developments since 13 October 2016.

In March 2011, the Foreign Ministers of the GCC announced the establishment of the GCC Development Fund which will be provided as a grant and will be distributed between Bahrain and Oman, with Bahrain receiving U.S.$7.5 billion to be distributed over a ten-year period. See "*Risk Factors – Bahrain's economy is dependent on economic and other conditions of Saudi Arabia in particular, as well as the GCC countries*". GCC Development Fund proceeds are expected to be utilised towards the achievement of Vision 2030's developmental goals. For more information on this economic strategy, see "*Overview of The Kingdom of Bahrain – Vision 2030*".

The Government has identified specific priority projects to be financed through the GCC Development Fund, in the following sectors:

Sector	Saudi Arabia	Kuwait	UAE	Total
		(U.S.$ millions)		
Housing	350	996	747	2,093
Roads & Sewerage	386	470	210	1,066
Electricity & Water	297	940	50	1,287
Airport	-	-	1,000	1,000
Health	58	-	150	208
Education	85	-	-	85
Social	-	62	-	62
Industry	-	32	-	32
Others	-	-	344	344
To be allocated in Phase 3	1,324	-	-	1,324
TOTAL	2,500	2,500	2,500	7,500

Source: Office of the First Deputy Prime Minister

The Government of Bahrain is coordinating with the Saudi Fund (representing the Government of the Kingdom of Saudi Arabia), Kuwait Fund (representing the Government of Kuwait), and Abu Dhabi Fund (representing the Government of the United Arab Emirates) for finalising the planned projects.

As at the end of 2015 and 2016, U.S.$5,935 million and U.S.$6,176 million, respectively, was allocated to projects from the GCC Development Fund. These projects are in various stages (tendering, award, implementation) of progress. As at the end of 2015 and 2016, U.S.$183 million and U.S.$734 million, respectively, was paid from the GCC Development Fund.

The GCC Development Fund will be in addition to the Government project budget allocations.

The following table sets out the allocated, awarded and paid amounts in relation to projects to be funded from the GCC Development Fund for the periods indicated:

	2013	2014	2015	2016	As of 12 February 2017
		(U.S.$ millions)			
Allocated	n/a	n/a	5,935	6,176	6,176
Awarded	9	702	1,607	3,124	3,345
Paid	n/a	n/a	183	734	751

Source: Office of the First Deputy Prime Minister

Fiscal Policy

See "*Recent Developments – Public Finance – Fiscal Policy*" for recent developments since 13 October 2016.

Bahrain's budget deficit has grown in recent years due to a counter-cyclical policy of ensuring continued diversification of investment and public support during a period of low oil prices. However, Bahrain is increasingly focused on ensuring prudent fiscal management and sustainability through reducing expenditure levels, fiscal diversification and fiscal consolidation.

The main objectives of Bahrain's general budget for the years 2017-2020 are:

- implementation of the Government action plan 2015-2018;
- developing economic initiatives by focusing on certain key sectors with high growth potential;
- implementing fiscal consolidation measures in connection with:
    - developing new non-oil revenue streams;

- recovering costs on existing Government fees and services;
- reducing Government expenditures; and
- redirecting Government subsidies to target lower-income segments of the population.

Although oil continues to play an important role in Bahrain's economy, the Government continues to focus on (i) reducing subsidies and (ii) further increasing non-oil revenues through various initiatives. Developing non-oil streams of revenue has involved the introduction of new fees and charges across a number of sectors. To date, the Government has approved and implemented increases on special commodities, sand extraction, hotel services, electricity and water, as well as the recovery of government services costs through other revenue initiatives and capital contributions. In addition, the following initiatives that were approved and implemented in 2015 and 2016 are estimated to have a financial impact of U.S.$267 million per annum from 2016 onwards:

- implemented 100 per cent. fees on special commodities (estimated revenue of U.S.$191.5 million);
- imposed a price on sand extraction equivalent to U.S.$1.3 per cubic meter (estimated revenue of U.S.$23.9 million);
- increased hotel services fees from 5 per cent. to 10 per cent. (estimated revenue of U.S.$21.3 million);
- increased fixed fees for both electricity and water, from U.S.$1.1 to U.S.$5.3 per account on a monthly basis (estimated revenue of U.S.$16 million);
- amending public health fees for companies (estimated revenue of U.S.$5.3 million);
- imposing fees on material laboratory services and research, development and consultancy services (estimated revenue of U.S.$3.5 million);
- new licensing fees on sand-mining and reclamation (estimated revenue of U.S.$2.7 million);
- increased meteorological fees, and new fees and charges based on cost recovery projects (estimated revenue of U.S.$1.6 million); and
- recovery of costs in relation to the main services provided by the National Health Regulatory Authority (estimated revenue of U.S.$1.3 million).

In addition to these initiatives listed above, on 8 February 2016 the Government announced an increase in the import duty on alcohol from 125 per cent. to 225 per cent., and on tobacco from 100 per cent. to 200 per cent.

The Government has been pro-active in realigning public subsidies so that they target those most in need of them. Working in conjunction with the World Bank, the Government has identified the best options to redirect food subsidies by introducing a means-tested monthly financial transfer, saving up to U.S.$50 million per annum. The Government has committed to raising the gas price by U.S.$0.25 per year, starting from 2015 through 2021 until it reaches U.S.$4.0 per MMBtu, which is projected to realise a saving of almost U.S.$1 billion over six years. In addition, re-categorisations of utilities' subsidies are expected to generate savings of over U.S.$1,679.8 million. Increases in fuel prices are expected to save up to U.S.$178 million per year.

The following changes to Government subsidies were approved by the Government in 2015 and 2016, and are estimated by the Government to result in savings of U.S.$488.6 million per annum in 2016, and are expected to increase to savings of U.S.$1,679.8 million from 2021 onwards, following completion of gradual reduction in subsidies by 2021 as set out below.

Subsidy	**Progress**	**Implementation Date**	**Estimated Revenue/Savings per annum from 2016 onwards**
Food subsidies	Cancelling the meat subsidy and cancelling the provision of monthly financial allowance to over 181,000 Bahraini families.	October 2015	Estimated savings of U.S.$50.5 million.
Food			Estimated savings of

subsidies - Total			U.S.$50.5 million.
Oil & Gas	Increasing gas prices from U.S.$2.25 to U.S.$2.50, with an increase of U.S.$0.25 every year until 2021.	April 2015	Estimated revenue in 2016 of U.S.$125.0 million, increasing to U.S.$930.9 million by 2021.
	Amending marine petrol station prices	March 2015	Estimated savings of U.S.$2.7 million.
	Gradual increase in diesel prices	January 2016	Estimated savings in 2016 of U.S.$18.6 million, increasing to U.S.$74.5 million by 2019.
	Gradual increase in kerosene prices	January 2016	Estimated savings in 2016 of U.S.$10.6 million, increasing to U.S.$16.0 million by 2019.
	Increase to Mumtaz fuel prices, from U.S.$0.27 to U.S.$0.43	January 2016	Estimated savings of U.S.$106.4 million.
	Increase to Jayyed fuel prices, from U.S.$0.21 to U.S.$0.33	January 2016	Estimated savings of U.S.$42.6 million.
Oil & Gas - Total			Estimated revenue in 2016 of U.S.$305.9 million, increasing to U.S.$1,172.9 million by 2021.
Electricity & Water	Removing the electricity subsidy for all consumers with the exception of nationals with one account	March 2016	Estimated savings in 2016 of U.S.$84.8 million, increasing to U.S.$308.0 million by 2019.
	Removing the water subsidy for all consumers with the exception of nationals with one account.		Estimated savings in 2016 of U.S.$47.3 million, increasing to U.S.$148.4 million by 2019.
Electricity & Water - Total			Estimated savings in 2016 of U.S.$132.2 million, increasing to U.S.$456.4 million by 2019.
Total Financial Impact			Estimated revenue in 2016 of U.S.$488.6 million, increasing to U.S.$1,679.8 million by 2021.

Source Ministry of Finance

Efficiency savings are also being introduced to streamline the size and cost of the Government. The number of ministries has been reduced from 18 to 16 while a number of Government entities have been merged. Several ministerial working committees have been established to reduce bureaucracy costs of running government departments and organisations, as well as investing in sophisticated information technology to achieve increased productivity.

The total value of the savings from the recent developments to public finance described above are expected by the Government to yield an annual saving of nearly U.S.$1.1 billion per year (3 per cent. of GDP), which is expected to assist in alleviating the fiscal challenges presented by the decrease in oil prices. Further fiscal consolidation measures are currently being discussed with the Government. See *"Risk Factors – Bahrain's sovereign credit rating is subject to revision and downgrade"* and *"Recent Developments – Rating"* for recent developments on Bahrain's credit rating since 13 October 2016.

In order to control growth of current public spending, the Government has launched the design and implementation of a fiscal sustainability framework and strategy. This process includes the design of a medium-term fiscal strategy and funding plan, a fiscal reform plan and implementation plan and the creation of a fiscal reform unit in charge of implementing the fiscal reform plan and overseeing and monitoring the implementation of fiscal reforms. The Government has also established six ministerial teams which seek to revise and reduce the recurrent expenditures in the following areas:

- Government buildings maintenance contracts and expenditures, headed by the Minister of Works, Municipalities & Urban Planning;
- Travel and transportation expenditures, headed by the Minister of Transportation and Telecommunications;
- Rental contracts for buildings occupied by government entities, headed by Minister of Industry, Commerce & Tourism;
- Printing, advertising and stationary expenditures, headed by Minister of Information and Shura & Representatives Council Affairs;
- IT, telecommunications and electronic systems contracts and expenditures, headed by the E-Government Authority Chief Executive; and
- Medical and drugs supplies expenditures, headed by the Undersecretary of the Ministry of Health.

Revenue

See "*Recent Developments – Public Finance – Revenue*" for recent developments since 13 October 2016.

Total revenues for the years ended 31 December 2012, 2013, 2014 and 2015 and budgeted revenues for 2016 are set forth below:

	2012	2013	2014	2015	2016
	Actual	Actual	Actual	Actual	Budget
		(U.S.$ millions)			
Oil and gas	7,036	6,915	7,081	4,241	4,675
Taxation and fees	579.2	595	540	597	518
Government goods and services	120	140	143	199	188
Government investment and properties	40	47	219	222	245
Grants	150	-	75	75	75
Fines, penalties and misc	143	131	157	96	89
Sale of capital assets	2	1	2	2	1
Total:	**8,070**	**7,829**	**8,217**	**5,431**	**5,791**

Source: Ministry of Finance

The principal source of revenue for the last four years has been, and is expected to be in 2016, the oil and gas industry, which is highly dependent on world oil prices. In 2012, 2013, 2014 and 2015 revenues from the oil industry represented 87.2 per cent., 88.3 per cent., 86.2 per cent. and 78.1 per cent., respectively, of total revenue.

In 2012, 2013, 2014 and 2015, taxation and fees revenue represented 7.2 per cent., 7.6 per cent., 6.6 per cent. and 11.0 per cent., respectively, of total revenue.

Other significant sources of revenue include custom duty, primary health care services fees, visa fees, residence permits, car licences, company registration fees and fees for employment permits.

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

Revenue from Government investments and properties principally comprise dividends earned on the Government's shareholdings, as well as grants (being amounts paid annually to Bahrain by other GCC

countries). The Government's major domestic shareholdings as at 30 June 2016 were its 100 per cent. shareholding in each of its holding companies, Mumtalakat and nogaholding. A full description of Government equity holdings in various local and foreign companies is set forth below.

Mumtalakat

See "*Recent Developments – Public Finance – Mumtalakat*" for recent developments since 13 October 2016.

Mumtalakat is the investment arm of Bahrain, and was established in June 2006 by Royal Decree as an independent holding company for the Government's key commercial assets.

Mumtalakat manages its portfolio of companies with the objective of enhancing their performance and returns. Furthermore, it actively seeks to invest in commercially sound and sustainable opportunities locally, regionally and internationally. Mumtalakat has shareholdings in strategic commercial assets of Bahrain, which are significant contributors to the Bahraini economy and support - directly and indirectly - many other businesses in the country and the region.

Mumtalakat's portfolio of companies includes a wide variety of commercial entities across a broad range of industry sectors, including industrial manufacturing, financial services, telecommunications, real estate, aviation, tourism, and food production. Companies such as Alba, Gulf Air, Batelco, and National Bank of Bahrain ("**NBB**"), represent some of the largest and most established businesses in Bahrain, with multiple decades of operating history and a track record of leadership and innovation within their industries. Mumtalakat was created to align and implement the execution of the Government's initiatives to improve governance and transparency, pursue value-enhancing opportunities, and help achieve operational excellence for its key state-owned commercial assets. The company is wholly-owned by the Government.

As at 30 June 2016, Mumtalakat has minority and majority shareholdings in more than 45 commercial enterprises and held investments in third party managed funds.

The following companies are subsidiaries of Mumtalakat as at 30 June 2016:

Company	**Equity holding (per cent.)**
Aluminium Bahrain B.S.C. (Alba)	69.38%
Atbahrain B.S.C (c)	100.0%
Bahrain Flour Mills Company B.S.C.	65.7%
Bahrain International Circuit Company S.P.C.	100.0%
Bahrain Real Estate Investment Company (Edamah) B.S.C (c)	100.0%
General Poultry Company B.S.C (c)	100.0%
Gulf Air Holding B.S.C (c)[1]	100.0%
Gulf Technics Co. B.S.C (c)	100.0%
Southern Tourism Company B.S.C (c)	100.0%
Southern Area Development Company B.S.C (c)	55.9%

(1) Gulf Air Holding B.S.C(c) owns 100 per cent. stakes in Gulf Air B.S.C(c), Bahrain Airport Company S.P.C, and Gulf Aviation Academy B.S.C(c))

Source: Mumtalakat

The following are other companies in which Mumtalakat holds equity as at 30 June 2016:

ASMAK B.S.C.	Arab Shipbuilding and Repair Yard Company
Bahrain Livestock Company B.S.C (c)	Bahrain International Golf Course Company B.S.C (c)
Bahrain Telecommunications Company B.S.C.	Dar Al-Mal Al-Islami Trust
Durrat Khaleej Al- Bahrain B.S.C (c)	Gulf International Bank B.S.C
Gulf Aluminium Rolling Mill Company B.S.C (c)	Gulf Investment Corporation G.S.C
Hawar Holding Company	Oasis Capital B.S.C (c)
Hawar Aviation Company B.S.C (c)	The Arab Investment Company S.A.A
McLaren Group Limited	United Arab Shipping Company (S.A.G)
McLaren Automotive Limited	GEMS MENASA Holding Limited
National Bank of Bahrain B.S.C.	Arcapita Group Holding Limited

Al Jazeera Tourism Company B.S.C (c)	Arcapita Investment Management B.S.C (c)
Arab Company for Drug Industries and Medical Appliances	PRO Unlimited Global Solutions, Inc.
Arab Maritime Petroleum Transport Company	Cranemere Group Limited
Arab Petroleum Investment Corporation	Nobel Learning Communities, Inc.
Arab Petroleum Services Company	Laurel Springs School
Arab Satellite Communications Organisation	Gulf Cryo Holding Company KSCC
Al Sahel Resort B.S.C.(c)	Professional Logistics Technologies
Asturiana de Aleaciones S.A (Aleustur)	Gulf Hotels Group
Desert Ridge	Lenta Limited

Source: Mumtalakat

Mumtalakat achieved a consolidated net income of U.S.$76.4 million for the year ended 31 December 2015 compared to a consolidated net income of U.S.$243.7 million for the year ended 31 December 2014. The reduction in net profit in 2015 is primarily due to impairment losses recognised on goodwill. Mumtalakat’s profit was driven by an increase in its profit share from associates, write back of payables and improved operational performance of Gulf Air, a principal subsidiary of Mumtalakat.

Mumtalakat is chaired by H.E. Shaikh Khalid bin Abdulla Al Khalifa, Deputy Prime Minister and is led by CEO Mahmood H. Al Kooheji. Mr. Al Kooheji played an instrumental role in the establishment of Mumtalakat and acted as deputy CEO of Mumtalakat since its inception, and became CEO in 2012. Mr. Al Kooheji is actively involved in the management of Mumtalakat's portfolio and sits on several boards including Mumtalakat, Durrat Khaleej Al Bahrain Company, the Arab Petroleum Investment Corporation ("**APICORP**"), Bahrain Real Estate Investment Co. (Edamah), Arcapita Group, Governors of the Royal College of Surgeons in Ireland and Bahrain, McLaren Automotive Limited and McLaren Group Limited.

Mr. Al Kooheji served as the chairman of the board of directors of Alba from 2008 to 2014. As the Chairman, he led the company's restructuring in 2009 and the listing of 10 per cent. of its shares on both the London and Bahrain stock exchanges in 2010.

Alba

Alba is one of Mumtalakat's key portfolio companies and a significant economic contributor to Bahrain. In November 2010, Mumtalakat conducted an offering of a portion of its ordinary shares in Alba (the "**Alba Offering**"). The Alba Offering enabled Mumtalakat, as selling shareholder, to sell ordinary shares ("**Alba Ordinary Shares**") that it owned in Alba, representing 10.0 per cent. of Alba's total issued, fully paid and outstanding share capital. The Alba Ordinary Shares are listed on the Bahrain Bourse and global depositary receipts representing such Alba Ordinary Shares are listed on the London Stock Exchange. As a consequence of the Alba Offering, Mumtalakat holds a 69.38 per cent. equity shareholding in Alba. SABIC continues to hold a 20.62 per cent. equity shareholding in Alba.

A feasibility study, which Alba commenced in December 2012, to assess the commercial viability of expanding its production capacity by supplementing its five existing potlines with an additional potline ("**Line 6**") was completed in the first half of 2014. Potline Line 6 is expected to begin production in early 2019 and is expected to add approximately 540,000 tonnes to Alba's existing capacity of 936,000 tonnes of aluminium per year. The preliminary capital expenditure estimate for constructing potline Line 6, replacing and expanding the power capacity of the existing power plant facilities, is expected to be approximately U.S.$3 billion which Alba will finance without Government assistance.

Gulf Air

Since January 2012, Mumtalakat and the Government have been working closely with Gulf Air and its strategic advisers to review and reformulate Gulf Air's strategy in light of changed circumstances by focusing on cost reduction and rationalisation of business operations. A five-year business plan detailing the restructuring of Gulf Air's operations, along with a detailed assessment of the Government funding required to achieve the restructuring, was considered, analysed and presented to the Government and to a parliamentary sub-committee. The five-year plan received final approval pursuant to Royal Decree No. (54) of 2012 and the Government began transferring funds to the airline to support its restructuring. The amount of Government funding provided to Gulf Air (totalling U.S.$1,117 million as at 31 December 2015) has decreased and will continue to decrease over the next few years. Gulf Air received U.S.$492 million in 2012, U.S.$253 million in 2013, U.S.$199

million in 2014 and U.S.$173 million in 2015 and is expected to receive a further U.S.$146 million in 2016 from the Government. The decrease in funding is due to the positive impact the restructuring has had on Gulf Air. Gulf Air recorded a net income of U.S.$176.6 million during 2015. See "*Risk Factors – Risk Factors relating to the Issuer – Restructuring of Gulf Air*".

In November 2012, a new board of directors and an executive restructuring committee were appointed at Gulf Air to manage the implementation of its restructuring. The restructuring plan involved rationalisation of the airline's route network, a reduction in its fleet by retiring/returning surplus aircraft, and improving its in-flight product offering. Gulf Air has stopped operations to some destinations in Europe, the Indian Subcontinent and the Far East which were highly unprofitable. Gulf Air currently operates a fleet of 28 aircraft comprising 22 narrow-bodied aircraft and six wide-bodied aircraft.

On 21 January 2016, Gulf Air ordered 29 Airbus A320 aircrafts (including 17 A321neo and 12 A320neo aircrafts) for U.S.$3.4 billion, in line with its goals to modernise its fleet to more fuel efficient aircrafts. The aircrafts are expected to be delivered starting in 2018.

The Oil & Gas Holding Company B.S.C. (c) ("*nogaholding*")

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

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

Portfolio companies have a track record of paying annual dividends to nogaholding. In 2012, nogaholding received dividends totalling U.S.$253.6 million, and paid a dividend of U.S.$150 million to the Ministry of Finance. In 2013, nogaholding received dividends totalling U.S.$178.3 million, and did not pay any dividends to the Ministry of Finance in view of the additional future equity requirements of nogaholding as a result of planned operating company development projects and other planned investments, including in the Bapco Modernisation Programme and the pipeline between Saudi Arabia and Bahrain. In 2014, nogaholding received a U.S.$146 million aggregate dividend and paid a dividend of U.S.$150.0 million to the Government. In 2015, although dividends were declared, nogaholding did not receive a cash dividend from its subsidiaries, however, it paid a dividend of U.S.$150 million to the Government. Due to falling oil prices and equity requirements for the Bahrain Gas Project (CGP-III), nogaholding did not receive any dividends from Banagas and Banagas Expansion Company in 2015. Given the medium to long term nature of the ongoing as well as prospective projects, and the need to fund their respective equity requirements, it is possible that nogaholding may not pay any dividends to the Government in 2016 and future years.

None of nogaholding's portfolio companies have any outstanding debt, other than Bapco, which borrowed approximately U.S.$1 billion in 2004 to finance various projects,. The outstanding principal amount in respect of the Bapco loan, as of 31 December 2015, which matures in October 2016, was approximately U.S.$68 million. As of 30 June 2016, nogaholding has outstanding debt of U.S.$52.5 million in respect of financing for the company's share of the Bahrain Lube Base Oil Company.

In March 2016, nogaholding obtained a multi-bank Murabaha Financing Facility of U.S.$750 million from a group of 10 international, regional and local banks. The proceeds from the facility are proposed to be utilised to fund the construction of the oil pipeline between Saudi Arabia and Bahrain, and other projects. nogaholding's portfolio companies are currently involved in a number of major projects. Banagas is undertaking a significant expansion project (Bahrain Gas Plant Project – CGP III) to further increase gas processing capacity within Bahrain for the production of marketable natural gas liquids. Also, nogaholding has entered into a joint venture for development of a LNG import terminal project for the Kingdom of Bahrain. The project will comprise offshore receiving and regasification facility, gas pipeline and onshore gas receiving facility.

NOGA has further plans to increase access to gas in order to meet increased gas requirements resulting from the possible expansion of GPIC, Alba, and the Bahrain oil refinery.

nogaholding's portfolio companies are currently involved in a number of major projects. In particular, NOGA has entered into a joint venture between nogaholding, Occidental and Mubadala, to form the Tatweer Petroleum joint venture as described above in "*Economy of the Kingdom of Bahrain -Mining – Oil*".

With respect to gas, Tatweer Petroleum has the responsibility of expanding Bahrain's production to 22.5 billion standard cubic feet per day by 2023, which is expected to satisfy the current and projected future electricity and water demand for Khuff gas. In addition, NOGA has further plans to increase access to gas in order to meet increased gas requirements resulting from the possible expansion of GPIC, Alba, and the Bahrain oil refinery.

Offshore and deep drilling projects are ongoing, but alternate plans such as importing gas from overseas, implementing energy conservation measures, and purchasing electricity from the GCC grid are also either underway or being developed.

As part of its strategy to grow and diversify its portfolio, nogaholding purchased a 35 per cent. shareholding in Skaugen in 2010. Skaugen's business is the transportation of petrochemical gases (ethylene and butadiene) mainly from Saudi Arabia to the Far East.

On 1 July 2016, nogaholding increased its equity holding in Tatweer Petroleum to 100 per cent. Under the terms of the acquisition, nogaholding's liability in relation to exit costs is capped at $150 million.

The table below sets out companies in which nogaholding holds equity as at 31 December 2012, 2013, 2014, 2015 and 30 June 2016:

	As at 31 December				**As at 30**
	2012	**2013**	**2014**	**2015**	**June 2016**
	(Equity holding (per cent.))				
Company					
Bapco	100	100	100	100	100
Banagas	75	75	75	75	75
Banagas Expansion Company	100	100	100	100	100
Bahrain Aviation Fuel Co	60	60	60	60	60
GPIC	33	33	33	33	33
Bahrain Lube Base Oil Company	55	55	55	55	55
Tatweer Petroleum	51	51	51	51	100[(1)]
Skaugen Gulf Petchem Carriers BSC (c)	35	35	35	35	35
Bahrain LNG W.L.L.	-	-	-	-	30
BAC Jet Fuel Company	-	-	-	-	50

Note:
(1) nogaholding acquired 100 per cent. equity in Tatweer Petroleum on 1 July 2016.

Source: nogaholding

Recurrent Expenditure

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

	2012	**2013**	**2014**	**2015**	**2016**
	Actual	**Actual**	**Actual**	**Actual**	**Budget**
			(U.S.$ millions)		
Manpower	3,202	3,459	3,668	3,802	3,775
Services	489	561	593	634	432
Consumables	293	349	393	349	318
Assets	82	82	97	81	78
Maintenance	162	177	184	160	149
Transfers	1,547	1,848	1,940	1,778	2,193
Grants, subsidies and payment[(1)]	938	1,177	1,360	1,484	1,611
Total	**6,712**	**7,652**	**8,235**	**8,287**	**8,557**

Note:

(1) Payments on interest constitute the major part of recurrent expenditure under the heading "*Grants, subsidies and payment of interest*". Payments on interest constituted 42.7 per cent. of grants, subsidies and payments of interest expenditure in 2012, 43.5 per cent. in 2013, 44.5 per cent. in 2014 and 48.3 per cent. in 2015.

Source: Ministry of Finance

Recurrent expenditure on manpower (principally comprising wages and pension contributions) is the most significant part of Government recurrent expenditure. In 2012, 2013, 2014 and 2015 manpower expenditure comprised 47.7 per cent., 45.2 per cent., 44.5 per cent. and 45.9 per cent., respectively, of total recurrent expenditure. The principal employers within the Government sector in Bahrain are the Ministries of Interior, Education, Health and Defence, which between them accounted for 80.2 per cent. in 2012, 80.0 per cent. in 2013, 80.0 per cent. in 2014 and 80.5 per cent. in 2015 of total employers.

Services expenditure covers, inter alia, rent, expenditure on utilities such as electricity, water, telephones, postage, insurance, communication, travel, and the staging of conferences and exhibitions. Consumables include fuel, medical supplies, general supplies and materials, and printing and stationery. The major consumers of services are the Ministries of Health, Education, Defence, and Interior, which between them accounted for 60.5 per cent. in 2012, 64.3 per cent. in 2013, 64.3 per cent. in 2014 and 60.2 per cent. in 2015 of total consumers of services.

The Electricity and Water Authority (which commenced independent accounting operations in January 2009 and was formerly known as the Ministry of Electricity and Water) accounted for approximately 10 per cent. of recurrent expenditure in 2015. The major users of consumables in 2012, 2013, 2014 and 2015 were the Ministries of Health, Defence, Interior, and Sheikh Mohamed bin Khalifa Specialist Heart Centre and the King Hamad Hospital and which between them accounted for 89.8 per cent., 91.0 per cent., 91.8 per cent. and 92.3 per cent. of total consumables in 2012, 2013, 2014 and 2015, respectively.

The principal transfers are to the local authorities in Bahrain, Bahrain University, the Electricity and Water Authority, and the Bahrain Polytechnic. Transfers to the Electricity and Water Authority amounted to 69.6 per cent. in 2012, 72.9 per cent. in 2013, 73.4 per cent. in 2014 and 82.8 per cent. in 2015.

In accordance with Vision 2030, the Government aims to reduce its dependence on oil revenues for funding recurrent expenditure. It aims to achieve this by generating additional sources of revenue and cutting inefficient spending. Subsidies for water, electricity, gasoline and food will be targeted to reduce costs. See "*Fiscal Policy*" above. 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:

	2012	**2013**	**2014**	**2015**	**2016**
	Actual	**Actual**	**Actual**	**Actual**	**Budget(1)**
		(U.S.$ millions)			
Infrastructure	905.6	669.4	571.8	618.1	717.8
Social services	229.3	136.7	194.7	149.7	245.7
Economic services	23.7	9.4	29.3	22.1	22.9
Administrative services	138.9	87.2	80.3	125.3	99.2
Others	662	365.1	316.2	264.9	308.0
Total	**1,960.1**	**1,267.8**	**1,192.3**	**1,180.1**	**1,393.6**

Note:
(1) Includes roll over from 2015 project expenditure in addition to the project expenditure agreed in the decree budget for 2016.

Source: Ministry of Finance

The projects expenditure is financed through the general budget. The actual projects expenditure for 2015 was U.S.$1,180.1 million.

Project expenditure with Government funds principally consist of housing projects, road improvements and maintenance and construction of new roads, the improvement and development of storm-water and waste-water

networks and , construction and healthcare projects. A number of projects are funded from the GCC Development Fund, including housing, road and other major infrastructure projects.

Housing: Since 2012, Bahrain has entered into a series of public private partnerships for the development of major housing projects. These projects include the construction and development of housing units including the Al Madina Al Shamaliya, the East Hidd and the Al Dur (Southern Governorate) housing projects. The estimated cost of these projects is approximately U.S.$2,336 million.

Roads and Transport: Since 2014, Bahrain has implemented a series of road projects aimed at developing Bahrain's main road network, focusing on projects complementing the traffic and connectivity requirements generated by new and future housing projects. Since 2014, various road projects have commenced relating to the improvement and upgrade of the Sh Khalifa bin Salman Highway, the Sh Jaber Al Ahmed Al Sabah Highway, the Muharraq ring road and the Jasra interchange. Further projects are being planned in relation to the Bahrain Northern Highway, Budaiya Highway, Sh Isa bin Salman Highway and Shaikh Zayed Highway.

Bahrain has also taken steps to improve transport and international connectivity. For example, the Bahrain Airport Company is developing a new passenger terminal building at Bahrain International Airport. The project is a part of the airport modernisation programme, a comprehensive development plan designed to improve the infrastructure and services at the airport to cater to future aviation needs. See "*Economy of the Kingdom of Bahrain – Principal Sectors of the Economy – Other Services – Transport and Construction*"

Water: Bahrain has taken steps to improve the quality of its water and sanitation. The Tubli Sewage Treatment Plant expansion project, which is expected to double the processing capacity of the plant to 400,000 cubic meters per day, is expected to complete by 2017 and is estimated to cost U.S.$229 million.

Healthcare: Additionally, Bahrain is in the process of expanding its healthcare industry with the aim of becoming a leading healthcare destination in the region through planned projects for the development of state of the art oncology and cardiac treatment centres. The planned projects include the launch of new specialised medical centres managed by world renowned experts using the latest treatments, medical techniques and technology available to enhance medical care in Bahrain and in the region as a whole. Improving the health sector is amongst the Government's top priorities and aligns with Bahrain's fiscal policy of economic diversification. See "*Public Finance – Fiscal Policy*" for more details on Bahrain's economic diversification plans.

The oncology treatment centre opened in May 2016. It includes 120 beds and provides both in and out patient facilities, palliative care bone marrow transplant and the latest radiotherapy treatments (including linear accelerator and, standard, sterotactic and proton beam). The total cost of the project is estimated at U.S.$54.0 million.

The cardiac treatment centre will consist of 148 beds situated in a new site in Awali, adjacent to the existing Awali Hospital. It will include imaging, CSSD and a chest pain clinic. The total cost of the project is estimated at U.S.$150 million and will be funded by the Abu Dhabi Fund and is expected to be completed in 2019.

INDEBTEDNESS

See "*Recent Developments – Indebtedness*" for recent developments since 13 October 2016.

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

The Bonds offered by this Prospectus are authorised under Legislative Decree No. (30) of 2015 (the "**2015 Decree**"). The 2015 Decree establishes Bahrain's debt ceiling in respect of certain borrowings at U.S.$26,595.7 million in principal amount outstanding at any time, of which U.S.$18,838.3 million was utilised and U.S.$7,757.4 million remained available as at 30 June 2016. Certain additional amounts have been authorised pursuant to separate decrees that do not apply towards the ceiling. See "*Indebtedness – External Government Debt*" and "*Indebtedness – Domestic Government Debt*".

As at 30 June 2016, Bahrain's total outstanding debt (comprising its total external debt and its total domestic debt, but excluding debt of the government related entities) amounted to U.S.$20,316.8 million, of which U.S.$11,077.1 million was denominated in Bahraini dinars and U.S.$9,239.7 million was denominated in foreign currencies.

During the last 11 years, the Issuer has paid all principal and interest payments in respect of its outstanding borrowings when they fell due and has not entered into any restructuring arrangements with its creditors to defer the repayment of its borrowings.

The principal strengths noted by the rating agencies are the Government's prudent fiscal policy (including its program with its fiscal consolidation plans), its general government net asset position, its monetary stability, well-developed financial system, structural reform targeting sustained economic diversification, strong regulatory oversight of its financial sector and well-educated workforce. See "*Risk Factors – Risk factors relating to the Issuer – Political considerations relating to Bahrain*" and "*Risk Factors – Bahrain's sovereign credit rating is subject to revision and downgrade*".

The following table sets out the Government's total outstanding borrowing (excluding debt of the government related entities) at each of the dates indicated:

	As at 31 December				As at 30 June
	2012	**2013**	**2014**	**2015**	**2016**
			(U.S.$ millions)		
Outstanding external debt(1)	5,035.6	6,428.5	6,811.9	8,208.2	9,239.7
Outstanding gross domestic debt(2)	6,097.1	7,867.9	8,011.6	11,019.0	11,077.1
Total outstanding Government debt	11,132.7	14,296.4	14,823.5	19,227.2	20,316.8

Note:
(1) For 2012 figures, this does not include U.S.$350 million in Islamic leasing securities which were sold in an international capital markets transaction, but of which 65 per cent. was subscribed for by domestic banks and included as "Domestic Government" Debt. This was repaid in March 2013. See "*Indebtedness – Domestic Government Debt*".
(2) Includes U.S.$350 million in Islamic leasing securities, which was fully paid on 13 March 2013
Source: Ministry of Finance

External Government Debt

See "*Recent Developments – Indebtedness - External Government Debt*" for recent developments since 13 October 2016.

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

	As at 31 December				As at 30 June
	2012	**2013**	**2014**	**2015**	**2016**
Outstanding external debt (U.S.$ millions) (1)	5,035.6	6,428.5	6,811.9	8,208.2	9,239.7
As a percentage of GDP	16.4	19.8	20.4	26.4	27.1(2)

Note:

(1) For 2012 figures, this does not include U.S.$350 million in Islamic leasing securities which were sold in an international capital markets transaction, but of which 65 per cent. was subscribed for by domestic banks and included as "Domestic Government" Debt. This was repaid in March 2013. See "*Indebtedness – Domestic Government Debt*".

(2) Based on 2016 expected GDP.

Source: Ministry of Finance

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

	As at 31 December				As at 30 June
	2012	2013	2014	2015	2016
			(U.S.$ millions)		
GCC Development Funds[1][2]	**785.6**	**678.5**	**561.9**	**458.2**	**454.7**
-Kuwait Fund for Arab Economic Development	148.5	131.0	111.2	93.7	88.2
-Arab Fund for Economic and Social Development	271.5	229.0	189.2	152.2	169.4
-The Saudi Fund for Development	11.3	9.0	6.6	4.2	3.1
-Abu Dhabi Fund for Development	30.7	20.5	10.2	0.0	0.0
-Qatar Fund for Development	70.0	70.0	70.0	70.0	70.0
-Islamic Development Bank	253.6	219.0	174.7	138.2	124.1
International Islamic Leasing Securities Issue No. 1[3]	**750.0**	**750.0**	**-**	-	-
International bonds Issue No. 1 (2010)	**1,250.0**	**1,250.0**	**1,250.0**	**1,250.0**	**1,250.0**
International Islamic Leasing Securities Issue No. 2	**750.0**	**750.0**	**750.0**	**750.0**	**750.0**
International bonds Issue No. 2 (2012)	**1,500.0**	**1,500.0**	**1,500.0**	**1,500.0**	**1,500.0**
International bonds Issue No. 3 (2013)	**-**	**1,500.0**	**1,500.0**	**1,500.0**	**1,500.0**
International bonds Issue No. 4 (2014)	**-**	**-**	**1,250.0**	**1,250.0**	**1,250.0**
International bonds Issue No. 5 (2015)				**700.0**	**700.0**
International bonds Issue No. 6 (2015)				**800.0**	**800.0**
International bonds Issue No. 7 (2016)					**275.0**
International bonds Issue No. 8 (2016)					**325.0**
International Islamic Leasing Securities Issue No. 3					**435.0**
Total outstanding external debt[4]	**5,035.6**	**6,428.5**	**6,811.9**	**8,208.2**	**9,239.7**

Notes:

(1) U.S.$454.7 million outstanding under long-term loans from regional development funds and institutions as at 30 June 2016 are not included in the calculation of Bahrain's current debt ceiling because they are covered under several decrees over the years for specific project-based borrowing from GCC funds and the Islamic Development Bank.

(2) Loans from the GCC development funds set forth in this table do not reflect grants deployed from the GCC Development Fund.

(3) U.S.$750.0 million outstanding under International Islamic Leasing Securities Issue No. 1 as at 31 March 2012 was authorised under Legislative Decree No.(23) of 2009 and is not included in the calculation of Bahrain's current general debt ceiling. This debt was subsequently repaid in June 2014.

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

Source: Ministry of Finance

Each of the loans from the GCC Development Fund set forth in the above table 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.

The following table sets out the total external debt maturing in each of the years stated:

	Amount of debt to be re-paid in each year ended 31 December *(U.S.$ millions)*	Total External Debt *(U.S.$ millions)*
As at 30 June 2016		**9,239.7**
As at 31 December 2016	26.6	9,213.1
As at 31 December 2017	61.2	9,151.9
As at 31 December 2018	808.5	8,343.4
As at 31 December 2019	486.7	7,856.7
As at 31 December 2020	1,295.2	6,561.5
As at 31 December 2021	1,013.3	5,548.2
As at 31 December 2022	1,537.2	4,011.0
As at 31 December 2023	1,545.2	2,465.8
As at 31 December 2024	24.0	2,441.8
As at 31 December 2025	13.3	2,428.5
As at 31 December 2026	1135.6	1,292.9
After 2026		**1,292.9**

Source: Ministry of Finance

The total outstanding external debt as at 30 June 2016 was U.S.$9,239.7 million. The majority of the Government's external debt as at 30 June 2016 was denominated in GCC currencies and in U.S. dollars. The current average maturity of the external debt is approximately 13 years.

Domestic Government Debt

See "*Recent Developments – Indebtedness - Domestic Government Debt*" for recent developments since 13 October 2016.

The table below shows a breakdown of Bahrain's domestic debt as at 31 December 2012, 2013, 2014, 2015 and as at 30 June 2016:

	As at 31 December				**As at 30 June**
	2012	**2013**	**2014**	**2015**	**2016**
			(U.S.$ millions)		
Treasury bills (three month)	930.9	1,196.0	1,196.8	1,861.7	1,861.7
Treasury bills (six month)	478.7	478.7	478.7	558.5	558.5
Treasury bills (12 months)	1,063.8	1,329.8	1,595.7	2,127.7	2,194.2
Al Salam Islamic securities (three month)	143.6	287.2	287.2	343.1	343.1
Islamic leasing securities(1)	1,733.0	1,648.9	1,542.6	2,835.1	2,303.2
Syndicated loans(3)	58.2	41.6	25.0	8.3	0.0
Development bonds(2)	1,688.9	2,885.7	2,885.6	3,284.6	3,816.5
Other loans	0.0	0.0	0.0	0.0	0.0
Gross domestic debt(4)	**6,097.1**	**7,867.9**	**8,011.6**	**11,019.0**	**11,077.1**
Held by SIO	407.9	550.5	484.8	690.7	566.8
Held by pension funds	102.1	78.7	4.8	130.7	104.5
Net domestic debt	**5,587.1**	**7,238.7**	**7,522.0**	**10,197.6**	**10,405.9**

Notes:

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

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

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

(4) Includes U.S.$350 million in Islamic leasing securities, which was fully paid on 13 March 2013.

Source: Ministry of Finance

Bahrain's gross domestic debt amounted to U.S.$6,097.1 million in 2012 (19.8 per cent. of Bahrain's 2012 GDP at current prices), U.S.$7,867.9 million in 2013 (24.2 per cent. of Bahrain's 2013 GDP at current prices), U.S.$8,011.6 million in 2014 (24.0 per cent. of Bahrain's 2014 GDP at current prices), and U.S.$11,019.0 million in 2015 (35.4 per cent. of Bahrain's 2015 GDP at current prices), U.S.$11,077.1 million as at 30 June 2016 (32.5 per cent. of Bahrain's 2016 expected GDP at current prices). 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.

The following table sets out the average interest rates payable in 2016 in relation to Bahrain's domestic debt:

Short-Term Domestic Debts:	**Average Interest Rate (%)**
Treasury bills (three month)	2.1
Treasury bills (six month)	2.2
Treasury bills (12 months)	2.8
Al Salam Islamic securities (three month)	2.1
Islamic leasing securities (six month)	2.3
Long-Term Domestic Debts:	
Development bonds	4.2
Islamic leasing securities	4.5

Source: Ministry of Finance

Bahrain's treasury bills have maturities of three, six and 12 months and its short-term Islamic securities have maturities of three and six months. These securities are issued by the CBB and are used as a tool to manage liquidity. Bahrain uses the proceeds of its Islamic leasing securities for funding projects.

A significant proportion of Bahrain's domestic debt is held by commercial banks, Bahrain's Social Insurance Organisation and by Government pension funds. As a result, Bahrain's net domestic debt amounted to U.S.$5,587.1 million as at 31 December 2012, U.S.$7,238.7 million as at 31 December 2013, U.S.$7,552.0 million as at 31 December 2014, U.S.$10,286.8 million as at 31 December 2015, and U.S.$10,450.0 million as at 30 June 2016.

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. The 2015 Decree establishes a ceiling for Bahrain's debt in the form of development bonds, treasury bills and financing instruments that are compliant with Islamic Shari'ah, and such ceiling is currently BD10,000 million (U.S.$26,595.7 million) in principal amount outstanding at any time (of which U.S.$18,838.3 million was utilised and U.S.$7,757.4 million remained available as at 30 June 2016).

Foreign Exchange Reserves

For the years 2012, 2013, 2014 and 2015 Bahrain's gross foreign reserves were U.S.$5,211.2 million, U.S.$5,353.6 million, U.S.$6,055.1 million and U.S.$3,393.9 million and were sufficient to finance 3.2, 3.0, 3.7 and 2.6 months of obligations in respect of imports of goods, respectively. As at 30 June 2016, Bahrain's gross foreign reserves were U.S.$2,777.1 million.

TAXATION

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

Kingdom of Bahrain

As at the date of this Prospectus, there are no taxes payable with respect to income, withholding or capital gains under existing Bahrain laws. Under current Bahrain laws, no Bondholder will be deemed to be resident, domiciled or carrying on any commercial activity in Bahrain or subject to any Bahrain tax as a result only of holding any of the Bonds.

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

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

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

United States Federal Income Taxation

The following discussion is a summary of certain U.S. federal income tax considerations relevant to the purchase, ownership and disposition of the Bonds. This discussion addresses only U.S. Holders (as defined below) who purchase Bonds in the original offering at the issue price (as defined below), hold the Bonds as capital assets and use the U.S. dollar as their functional currency. This summary is based on the U.S. Internal Revenue Code of 1986, as amended, final, temporary and proposed U.S. Treasury regulations, administrative and judicial interpretations, all of which are subject to change, possibly with retroactive effect. This discussion is not a complete description of all U.S. federal tax considerations relating to the Bonds and does not address state, local, foreign, or other tax laws. This summary does not address aspects of U.S. federal income taxation that may be applicable to U.S. Holders that are subject to special tax rules, such as U.S. expatriates, "dual resident" companies, banks, thrifts, financial institutions, insurance companies, real estate investment trusts, regulated investment companies, grantor trusts, individual retirement accounts and other tax-deferred accounts, tax-exempt organisations or investors, dealers or traders in securities, commodities or currencies, holders that will hold a Bond as part of a position in a "straddle" or as part of a "synthetic security" or as part of a "hedging", "conversion", "integrated" or constructive sale transaction for U.S. federal income tax purposes. Moreover, this summary does not address the U.S. federal estate tax, the 3.8 per cent. Medicare contribution tax applicable to net investment income of certain non-corporate U.S. Holders, and gift or alternative minimum tax consequences of the acquisition, ownership, retirement or other disposition of Bonds and does not address the U.S. federal income tax treatment of holders that do not acquire Bonds as part of the initial distribution at the initial issue price (defined below). Each prospective purchaser should consult its tax adviser with respect to the U.S. federal, state, local and foreign tax consequences of acquiring, holding, retiring or other disposition of Bonds.

For the purposes of this discussion, a "**U.S. Holder**" is a beneficial owner of the Bonds that is, for purposes of U.S. federal income taxation, (i) a citizen or individual resident of the United States, (ii) a corporation created or organised in or under the laws of the United States or its political subdivisions, (iii) a trust with respect to which

a court within the United States is able to exercise primary supervision over its administration, and one or more U.S. persons have the authority to control all of its substantial decisions or a trust with a valid election in effect to be treated as a U.S. person for U.S. federal income tax purposes, or (iv) an estate the income of which is subject to U.S. federal income taxation regardless of its source.

If a partnership acquires or holds the Bonds, the tax treatment of a partner generally will depend upon the status of the partner and the activities of the partnership.

The "issue price" of a Bond will equal the initial offering price to the public (not including bond houses, brokers or similar persons or organisations acting in the capacity of underwriters, placement agents or wholesalers) at which a substantial amount of the Bonds is sold for money.

THE SUMMARY OF U.S. FEDERAL INCOME TAX CONSEQUENCES SET OUT BELOW IS FOR GENERAL INFORMATION ONLY. ALL PROSPECTIVE PURCHASERS SHOULD CONSULT THEIR TAX ADVISERS AS TO THE PARTICULAR TAX CONSEQUENCE TO THEM OF OWNING THE NEW BONDS, INCLUDING THE APPLICABILITY AND EFFECT OF STATE, LOCAL, FOREIGN AND OTHER TAX LAWS AND POSSIBLE CHANGES IN TAX LAW.

Interest

It is expected and this discussion assumes that either the issue price of the Bonds will equal the stated principal amount of the Bonds or the Bonds will be issued with no more than a de minimis amount of original issue discount ("**OID**"). Therefore, interest paid on a Bond will be included in a U.S. Holder's gross income as ordinary interest income at the time it is received or accrued in accordance with the U.S. Holder's usual method of tax accounting. Interest on the Bonds will be treated as foreign source income for U.S. federal income tax purposes, including U.S. foreign tax credit limitation purposes.

Disposition

A U.S. Holder will ordinarily recognise gain or loss on the sale, exchange, redemption or other disposition of a Bond in an amount equal to the difference between the amount realised (less any accrued but unpaid interest, which will be taxable as interest income to the extent not previously included in income) and the U.S. Holder's adjusted tax basis in the Bond. A U.S. Holder's adjusted tax basis in a Bond generally will be the amount the U.S. Holder paid for the Bond.

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

Fungible Issue

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

Information reporting and backup withholding

Payments of interest and proceeds from the sale, redemption or other disposition of a Bond by a U.S. Paying Agent that are made within the United States or through certain U.S.-related financial intermediaries may be reported to the U.S. Internal Revenue Service ("**IRS**") unless the holder establishes a basis for exemption. U.S. backup withholding tax may apply to amounts subject to reporting if the holder fails to provide an accurate taxpayer identification number or certification of exempt status or otherwise comply with the applicable withholding requirements. A U.S. Holder can claim a credit against U.S. federal income tax liability for amounts withheld under the backup withholding rules, and it can claim a refund of amounts in excess of its liability by timely providing required information to the IRS.

Certain U.S. Holders may be required to report to the IRS certain information with respect to their beneficial ownership of the Bonds not held through an account with certain financial institutions. Investors who fail to report required information could be subject to substantial penalties.

The proposed financial transactions tax ("FTT")

On 14 February 2013, the European Commission published a proposal (the "**Commission's Proposal**") for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "**participating Member States**"). However, Estonia has since stated that it will not participate.

The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in the Bonds (including secondary market transactions) in certain circumstances.

Under the Commission's Proposal the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Bonds where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However, the FTT proposal remains subject to negotiation between the participating Member States and the scope of any such tax is uncertain. The timing for implementation remains unclear. Additional EU Member States may decide to participate.

Prospective holders of the Bonds are advised to seek their own professional advice in relation to the FTT.

SUBSCRIPTION AND SALE

Each of Arab Banking Corporation B.S.C., BNP Paribas, Credit Suisse Securities (Europe) Limited, J.P. Morgan Securities plc and Standard Chartered Bank (the "**Joint Lead Managers**") and National Bank of Bahrain B.S.C. (the "**Co-Manager**" and together with the Joint Lead Managers, the "**Managers**"), pursuant to a Subscription Agreement between the Issuer and the Managers dated 27 February 2017 (the "**Subscription Agreement**"), severally agrees to subscribe for the New Bonds at the issue price of 102.792 per cent. of the principal amount of the New Bonds plus 136 days accrued interest of U.S.$26.4 per U.S.$1,000 principal amount of the New Bonds in respect of the period from, and including, 12 October 2016 to, but excluding, the New Issue Date. The Issuer will reimburse the Managers in respect of certain of their expenses incurred in connection with the issue of the New Bonds and the Issuer has agreed to indemnify the Managers against certain liabilities incurred in connection with the issue of the New Bonds. The Subscription Agreement may be terminated in certain circumstances set out therein prior to payment to the Issuer.

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

United States

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

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

In addition, until 40 days after the commencement of the offering of the New Bonds, an offer or sale of Bonds within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A, or another available exemption from registration under the Securities Act.

United Kingdom

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

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

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

United Arab Emirates (excluding the Dubai International Financial Centre)

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

Dubai International Financial Centre

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

(a) an "Exempt Offer" in accordance with the Markets Rules (MKT) module of the Dubai Financial Services Authority (the "**DFSA**"); and

(b) made only to persons who meet the Professional Client criteria set out in Rule 2.3.3 of the DFSA Conduct of Business Module of the DFSA Rulebook.

Kingdom of Bahrain

Each Manager has represented and agreed in the Subscription Agreement that it has not offered and will not offer any New Bonds to the public in Bahrain except in compliance with the provisions of Article 81 of the Central Bank of Bahrain and Financial Institutions Law promulgated by Legislative Decree No. (64) of 2006.

Kingdom of Saudi Arabia

Each Manager has represented and agreed in the Subscription Agreement that it has not offered and will not offer any New Bonds to any person in the Kingdom of Saudi Arabia.

Hong Kong

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

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

(b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue (in each case whether in Hong Kong or elsewhere), any advertisement, invitation or document relating to the New Bonds, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to the New Bonds which are or 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

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

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

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

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

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

(i) to an institutional investor under Section 274 of the Securities and Futures Act or to a relevant person defined in Section 275(2) of the Securities and Futures Act or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the Securities and Futures Act;

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

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

(iv) pursuant to Section 276(7) of the Securities and Futures Act or Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

General

Each Manager has represented and agreed in the Subscription Agreement that it will comply in all material respects with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers New Bonds or possesses or distributes this Prospectus and will obtain any consent, approval or permission required by it for the purchase offer, sale or delivery by it of the New Bonds under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and neither the Issuer nor any of the Managers shall have any responsibility therefor.

Neither the Issuer nor any of the Managers has represented that the New Bonds may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

TRANSFER RESTRICTIONS

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

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

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

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

   THIS BOND HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**") OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT ("**RULE 144A**") TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A (A "**QIB**"), THAT IS ACQUIRING THIS BOND FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QIB, (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, (3) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER, IF AVAILABLE, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 FOR RESALE OF THE BONDS.

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

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

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

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

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

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

GENERAL INFORMATION

Authorisation

(1) The creation and issue of the New Bonds have been duly authorised by the Legislative Decree No. (30) of 2015 on the Amendment of the Provisions of Legislative Decree No. (15) of 1977 on the issuance of development bonds.

Listing of Bonds

(2) It is expected that listing of the New Bonds on the Official List and admission of the New Bonds to trading on the Main Securities Market will be granted on or around 28 February 2017, subject only to the issue of the New Global Bond Certificates. The Existing Bonds were admitted to the Official List and to trading on the Main Securities Market on 12 October 2016.

The total expenses related to the admission to trading are €5,000.

Significant Change

(3) There has been no significant change in the tax and budgetary systems, gross public debt, foreign trade and balance of payments, foreign exchange reserves, financial position and resources and income and expenditure figures of the Issuer since 31 December 2015.

Litigation

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

Clearing Systems

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

New Regulation S Bonds
Common Code: 140576654
ISIN: XS1405766541

New Rule 144A Bonds
Common Code: 098266267
ISIN: US05674RAG92
CUSIP: 05674RAG9

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

Documents

(6) So long as the Bonds are listed on the Main Securities Market, physical copies of (i) this Prospectus, together with any supplement to this Prospectus or further Prospectus; and (ii) the Agency Agreement, may be inspected at the specified offices of the Paying and Transfer Agents as set forth on the back cover of this Prospectus. So long as the Bonds are listed on the Main Securities Market, the following documents will be available by electronic means on the internet site: www.mof.gov.bh (i) the consolidated final accounts of the Issuer for the years ended 31 December 2012, 2013, 2014 and 2015; and (ii) the latest budget for the current fiscal year, once approved. The consolidated final accounts of the Issuer for the years ended 31 December 2012, 2013, 2014 and 2015 have been audited by the

National Audit Office and were approved by the legislative assembly in accordance with Clause 113 of the Constitution.

The internet site www.mof.gov.bh does not form part of this Prospectus for the purpose of its approval or the listing of the Bonds.

Contact Details

(7) The telephone number of the Issuer is +973 17 575 666 or +973 17 575 670.

Managers Transacting with the Issuer

(8) All or some of the Managers and their affiliates have and/or may in the future engage in investment banking, commercial banking and other financial advisory and commercial dealings with the Issuer and its agencies and in relation to securities issued by the Issuer and its agencies. They have or may (i) engage in investment banking, trading or hedging activities, including in activities that may include prime brokerage business, financing transactions or entry into derivative transactions, (ii) act as underwriters in connection with offerings of securities issued by the Issuer and its agencies or (iii) act as financial advisers to the Issuer and its agencies. In the context of these transactions, certain of them have or may hold securities issued by the Issuer and its agencies. Where applicable, they have or will receive customary fees and commissions for these transactions.

ISSUER

The Kingdom of Bahrain
acting through the Ministry of Finance
P.O. Box 333
Manama
Kingdom of Bahrain

FISCAL AGENT AND PRINCIPAL PAYING AND TRANSFER AGENT

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Citigroup Centre
Canada Square
Canary Wharf
London E14 5LB
United Kingdom

REGISTRAR AND PAYING AND TRANSFER AGENT

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