

GCC Market Update



Market Commentary

S&P downgraded Saudi Arabia

In the latest release dated 30th September, S&P downgraded Saudi Arabia's foreign currency sovereign credit rating to 'A+' from 'AA-'. S&P highlights the dramatic plunge in oil prices over the past 18 months has caused a "pronounced negative swing" in Saudi Arabia's financial position, which prompted the downgrade. S&P states that Saudi's fiscal position has gone down drastically from a healthy budget surplus of 7% of GDP in 2013 to an estimated deficit of 16% this year. It estimates unless the oil prices rebound meaningfully, Saudi Arabia will suffer a similar deficit each of the next three years. S&P's outlook on OPEC leader remains negative, leaving the option for the credit rating firms to downgrade it further if the government fails to rein in deficits or runs low on cash. (Source: S&P)

IMF: Saudi to run out on cash in 5 years due to lower oil prices

The IMF has warned most countries in the region (especially Saudi Arabia, Bahrain and Oman) will run out of cash in the next five years or less if oil continues to stay ~ USD50/bbl. IMF estimates that low oil prices will wipe out ~USD360bn from the region this year alone. However Kuwait, Qatar and the United Arab Emirates have levels of financial assets that could support their spending for ~20 years. The decline in the price of crude, which accounts for about 80% of KSA's revenues, is prompting the government to delay projects and sell bonds for the first time since 2007. The kingdom's net foreign assets fell for a seventh month to USD646.9bn in September. The Kingdom has raised ~USD14.7bn from debt issuances this year and the IMF expects the debt-to-GDP ratio to widen to 17% by next year. (Source: CNN Money)

Bahrain's investment grade status shaky

According to the latest report from Bank of America Merrill Lynch (BAML), the increasingly fragile fiscal position of Bahrain amid the significantly low oil prices is likely to prompt a downgrade in its investment grade credit to 'junk'. According to the report, Bahrain's fiscal deficit is likely to stand at 14.2% of GDP in 2015, and 12.2% of GDP in 2016. Fitch Ratings is set to review Bahrain's sovereign ratings on 4th December and Standard & Poor's on 11th December. All three rating agencies including Moody's, S&P and Fitch rate Bahrain at BBB-. Fitch recently revised its outlook on Bahrain to stable, however Moody's and S&P have maintained a negative outlook. (Source: Zawya)

Bahrain seeks arranger for sovereign bond

Bahrain is in talks with banks for issuing an international bond this year, in order to bridge the budget deficit gap created by lower oil prices. It is expected to raise ~ USD2bn with tranches of 10 year and duration of 30 years. (Source: Zawya)

IMF: Oil prices pose no systemic threat to GCC

According to the latest regional economic outlook by IMF, Banking and Financial services industry in the Middle East region are not facing any major systemic vulnerabilities due to the declining oil prices. But the sustained fall in oil prices resulting in a contraction in public spending could result in vulnerabilities impacting asset growth, profitability and asset quality across the sector in the region. (Source: Zawya)

Repo and Interbank Rates

| Country | Repo Rate | 3M Inter Bank Rates | |
|--------------|-----------|---------------------|----------|
| | | 31/12/14 | 01/10/15 |
| Saudi Arabia | 2.00% | 0.86% | 0.99% |
| UAE | 1.00% | 0.68% | 0.84% |
| Qatar | 4.50% | 1.06% | 1.38% |
| Kuwait | 0.75% | 1.06% | 1.31% |
| Oman | 1.00% | NA | NA |
| Bahrain | 2.25% | 0.65% | 0.90% |

Bank Deposits

| Country | Total Deposits (USD bn) | Reporting Date |
|--------------|-------------------------|----------------|
| Saudi Arabia | 432.87 | Aug-15 |
| UAE | 391.10 | Sept-15 |
| Qatar | 171.47 | Aug-15 |
| Kuwait | 126.50 | Aug-15 |
| Oman | 47.23 | Aug-15 |
| Bahrain | 41.62 | June-15 |

Recent Bond and Sukuk Issuances

| Issuer | Coupon/Profit rate | Volume (USD mn) | Currency | Subscription date | Tenor (Years) | Over Subscription |
|--------------------------|----------------------|-----------------|----------|-------------------|---------------|-------------------|
| QIB Sukuk | 2.75% | 750 | USD | October-15 | 5 | 2.3x |
| Oman Sovereign Sukuk | 3.50% | 649 | OMR | October-15 | 5 | 1.7x |
| Arab National Bank Sukuk | 6 month SIBOR+140bps | 533 | SAR | October-15 | 10 | NA |
| APICORP Sukuk | 2.38% | 500 | USD | October-15 | 5 | 1.7x |
| MAF Sukuk | 4.50% | 500 | USD | October-15 | 10 | NA |

Source: GCC Central Banks, Kuwait Financial Centre, Zawya, Gulf base, Reuters, Trading Economics, Arabian Business, Fitch, Emirates 247, Bloomberg, Peninsula Qatar, Muscat Daily, Times of Oman, Arabian Business, Arab Times, CNN Money, S&P, the National, World Bank, Business Week, ameinfo

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Albaraka Turk picked arrangers for capital-boosting sukuk

Turkish Islamic bank, Albaraka Turk, has picked seven arrangers for a potential dollar-denominated sukuk in order to enhance its supplementary or Tier 2 capital. According to sources, the lender is expected to raise ~USD250mn by the end of this year. Barwa Bank, Dubai Islamic Bank, Emirates NBD, Nomura, Noor Bank, Standard Chartered and Qinvest have been chosen to arrange the deal. *(Source: Reuters)*

S&P: Asset growth of Gulf Islamic Banks to moderate

The asset growth of Islamic banks in the GCC has been outperforming conventional peers. Currently, Islamic banks have a market share of about 25% of the total banking sector assets in the region. Although, Islamic banking assets will continue to grow ahead of conventional banking sector assets, the growth rate is expected to moderate. The tightening liquidity situation in the GCC banking sector is expected to squeeze asset growth. On the liability side, funding is becoming tighter as growth in customer deposits too lost momentum in the first half of this year. The re-emergence of sovereign issues are having crowding out effect on private sector lending. *(Source: S&P)*

Dubai's MAF raised USD500mn through sukuk

Dubai-based retail and leisure developer Majid Al Futtaim raised USD500mn through a 10-year dollar denominated sukuk at a profit rate of 4.5%. The proceeds from the issue are said to be utilized for general corporate purpose. *(Source: Zawya)*

Metito secured USD65mn loan from Dubai Islamic Bank

Metito, the United Arab Emirates-based water and wastewater project developer, secured a AED240mn loan (USD65mn) from Dubai Islamic Bank. The 10-year agreement was Metito's first Islamic finance deal. *(Source: Zawya)*

UAE's Mashreq closed USD500mn Islamic facility for Ezdan Holding

Mashreq Al Islami, the Islamic banking arm of Mashreq, one of the leading financial institutions in the UAE has successfully closed a 5-year USD500mn senior secured syndicated facility for Ezdan Holding Group Company Q.S.C., the largest private sector real estate developer in Qatar. The transaction attracted an overwhelming response from the market resulting in an oversubscription of more than 2.5x. Mashreq Al Islami, acted as Mandated Lead Arranger, Sole Book Runner and Facility Agent for the facility. Other banks that participated in the financing included Abu Dhabi Islamic bank, Ahli United Bank, Emirates NBD, Gulf International Bank, HSBC Bank Middle East as Mandated Lead Arrangers, Sharjah Islamic bank, Warba Bank as Lead Arrangers and QIB as asset custodian. *(Source: Zawya)*

Dubai's Sunrise properties raised USD140mn in Islamic loan deal

Sunrise Properties has secured a AED515mn (USD140mn) Islamic loan for the development of a luxury hotel project. Emirates NBD, joined by Doha Bank, are providing the money to finance the Emerald Palace Kempinski Hotel project on Dubai's Palm Jumeirha group of islands. The tenure and margin on the loan have not been disclosed. *(Source: Reuters)*

UAE Islamic bank assets up 9.8% at end of 2Q2015

As stated by UAE's Central Bank Governor, Islamic banking assets in the United Arab Emirates have increased to AED445bn as at end 2Q2015, up by 9.8% since the start of the year. UAE ranked second worldwide, after Malaysia, on the Global Islamic Economy Indicator. *(Source: Zawya)*

Sources: Emirates Global Aluminium seeks USD5bn loan to refinance debt

State-owned Emirates Global Aluminium (EGA) is in talks with banks to raise USD5bn loan, to refinance debts taken for the Emal projects. Company is looking to consolidate its existing debts into a single loan, thereby reducing the overall cost of borrowing. Although EGA has not confirmed the news, sources believe EGA's clubbed loan will have a tenor of ~12 to 14 years and be issued by the end of 1Q2016. *(Source: Reuters)*

Oil weakness clouds outlook on global corporate bonds

In the year ending 31st August, the value of corporate bonds and sukuk issued fell 58% to about USD7bn, compared to the previous 12-month period. The decline in issuances has been due to the slow down in government spending, on which many of these corporates depend. Limited government budgets amid the declining oil revenues has prompted delays and cancellation in some infrastructure projects. A weakening global economy is also making potential issuers increasingly cautious about investment at home and abroad. *(Source: The national)*

UAE's Union National Bank successfully issued upsized USD750mn 3-year loan

Abu Dhabi-based Union National Bank (UNB), the emirates fifth largest bank by asset, successfully issued a three-year loan worth USD750mn which was upsized from USD500mn after attracting strong demand from lenders. The deal was arranged by Commerzbank, First Gulf Bank, HSBC, National Bank of Abu Dhabi and Standard Chartered. *(Source: Reuters)*

World Bank revised down the forecast on oil prices

In the latest commodity update, the World Bank lowered 2015 forecast for crude oil prices for the rest of the year from USD57/bbl in its July report to USD52/bbl. The revised forecast reflects a further slowdown in the global economy, high oil inventories, and the expectation Iran's oil exports will increase after the lifting of sanctions in 1H16. *(Source: World Bank report)*

Bonds not adequately reflecting the growing risk in MENA

There is a growing belief in the market that the corporate bonds in the Middle East are not adequately pricing the effects of declining oil prices on the region's finances. The average premium investors require to hold bonds from MENA stood at 159 bps as on 23rd October as per JPMorgan indices. That compares with 165bps on US investment-grade debt according to the Bloomberg US Corporate Bond Index. The pricing discrepancy that has left GCC spreads narrower than in the US since August reflects how Middle Eastern banks and institutions have favoured a buy-and-hold strategy to lock in higher returns amid the volatile market environment. *(Source: BusinessWeek)*

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Bank lending in UAE saw slowest pace of growth in September

Bank lending growth in the UAE slowed to 7% on an annual basis during September, from 8.6% at the end of August, marking the slowest pace since February 2014. According to Central Bank's data, the money supply has fallen by 0.2% y-o-y by the end of September, after recording a contraction of 1.2% during August. (Source: ameinfo)

Saudi's APICORP made a debut in the sukuk market

Saudi Arabia's Arab Petroleum Investments Corporation (APICORP) has placed a 5-year sukuk worth USD500mn as a part of its USD3bn programme, at a profit rate of 2.38%. The deal attracted orders worth USD832mm, representing an oversubscription of 1.7x. The proceeds from the issue would be utilized for refinancing existing debt and general corporate purposes. (Source: Zawya)

Saudi's Arab National Bank raised SAR2bn through sukuk issuance

Saudi Arabia's Arab National Bank, Kingdom's seventh largest lender by asset, raised SAR2bn of 10 year sukuk through a private placement. The sukuk carries a margin of 140 bps over six month SIBOR and remains callable after five years. The proceeds will be used to enhance bank's capital and expand its Islamic banking activities. (Source: Reuters)

Qatar Islamic Bank raised USD750mm through sukuk

Qatar Islamic Bank (QIB), the Gulf country's biggest Shariah-compliant lender, raised USD750mn through a 5-year dollar denominated sukuk at a profit rate of 2.75%. The issue attracted orders worth USD1.75bn, representing an oversubscription of 2.3x. The deal was arranged by Barwa Bank, Citi, HSBC, Noor Bank, QInvest and Standard Chartered Bank. The proceeds from the issue would be utilized to repay upcoming debt maturities. (Source: Zawya)

QNB: Qatar's current surplus expected to shrink to 6.2% of GDP in 2015

According to the latest data from QNB, the current account surplus in 2Q2015 narrowed down to USD4.7bn (11.1% of GDP) due to lower hydrocarbon exports, whereas the capital and financial account recorded a deficit of USD2.4bn. With the sustenance of lower oil prices and exports, the current account surplus for the rest of 2015 is estimated to contract to 6.2% of GDP. (Source: Reuters)

Qatar's UDC signed USD203mn loan

Qatar's United Development Company has raised USD203mn through a financing deal with Qatar National Bank and Commercial Bank of Qatar. The proceeds from the issue would be utilized to fund Medina Central project. (Source: Reuters)

Oman's bank foreign assets fall for the first time since 2012

As per the data from Central Bank, credit growth at conventional banks in Oman accelerated to 10.6% y-o-y in August from 9.2% in July. M2 money supply growth slowed to 10%, its lowest rate since December 2013. The central bank's foreign assets including gold fell 4.8% y-o-y, the first year-on-year drop since December 2012, to USD17.2bn. Low oil prices have hit Oman's oil revenues and balance of payments. (Source: Reuters)

Oman's debut sukuk attracted strong investor demand

Oman expanded its first issue of sovereign Islamic bond, selling 25% more than what was originally planned due to strong demand. The upsized OMR250mn five-year sukuk issued at a profit rate of 3.5% got oversubscribed by more than 1.7x. (Source: Reuters)



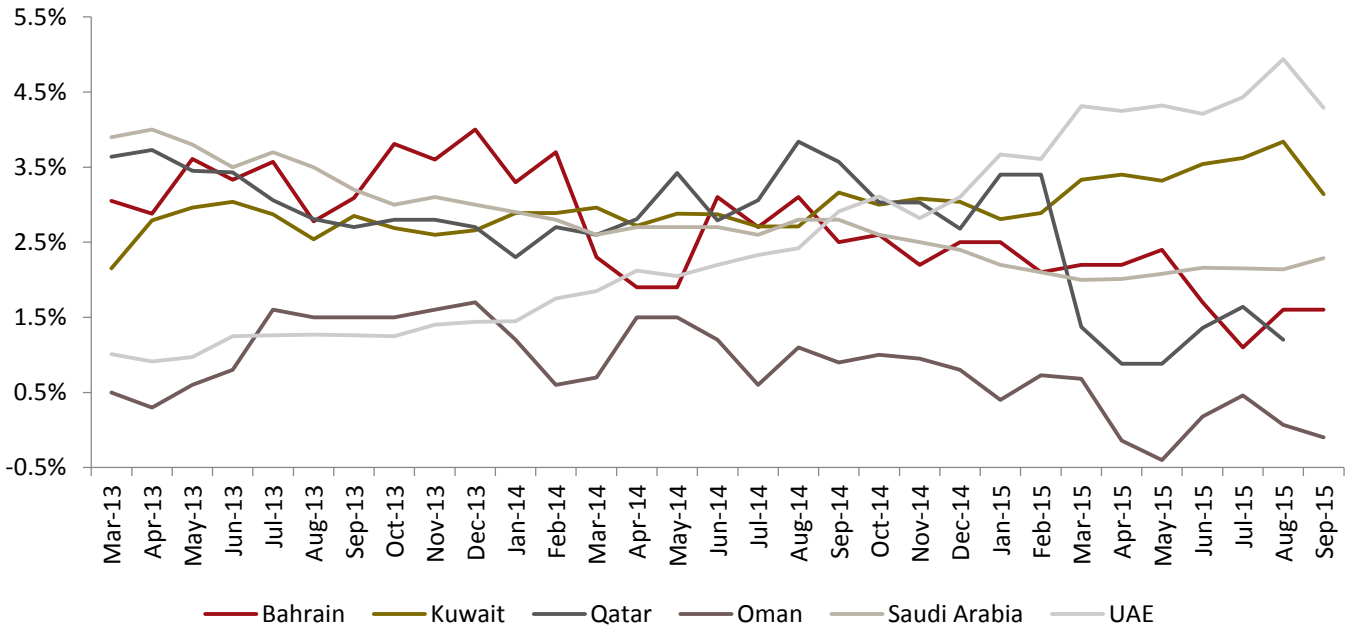
Source: GCC Central Banks, Kuwait Financial Centre, Zawya, Gulf base, Reuters, Trading Economics, Arabian Business, Fitch, Emirates 247, Bloomberg, Peninsula Qatar, Muscat Daily, Times of Oman, Arabian Business, Arab Times, CNN Money, S&P, the National, World Bank, Business Week, ameinfo

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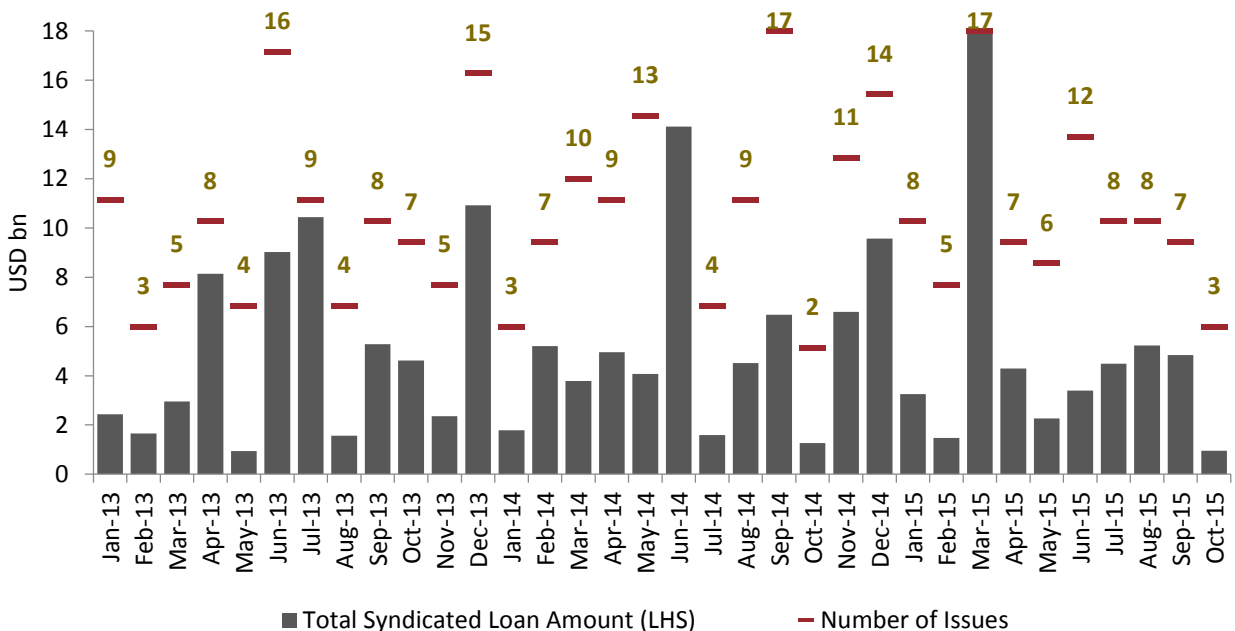


Inflation Trend

UAE's inflation eased to 4.29% y-o-y in August 2015, down from 4.94% in the earlier month primarily driven by the cost of transportation, which fell 4.4% in September led by the recent withdrawal of fuel subsidies by the government.



Syndicated Finance Flows

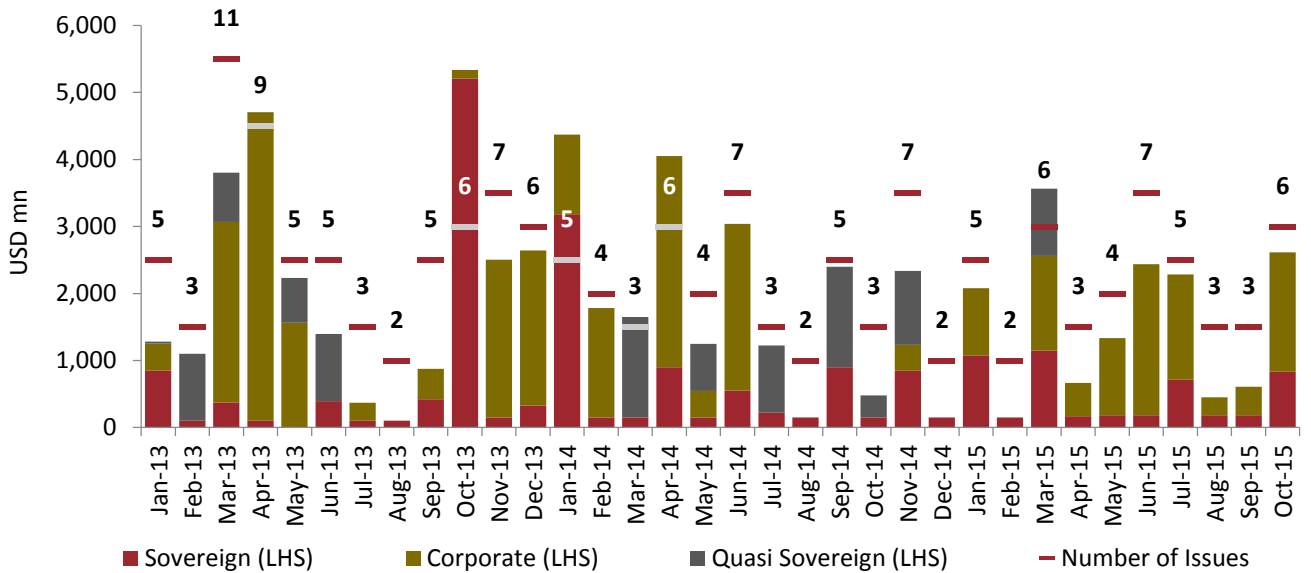


Source: Bloomberg, Thomson banker

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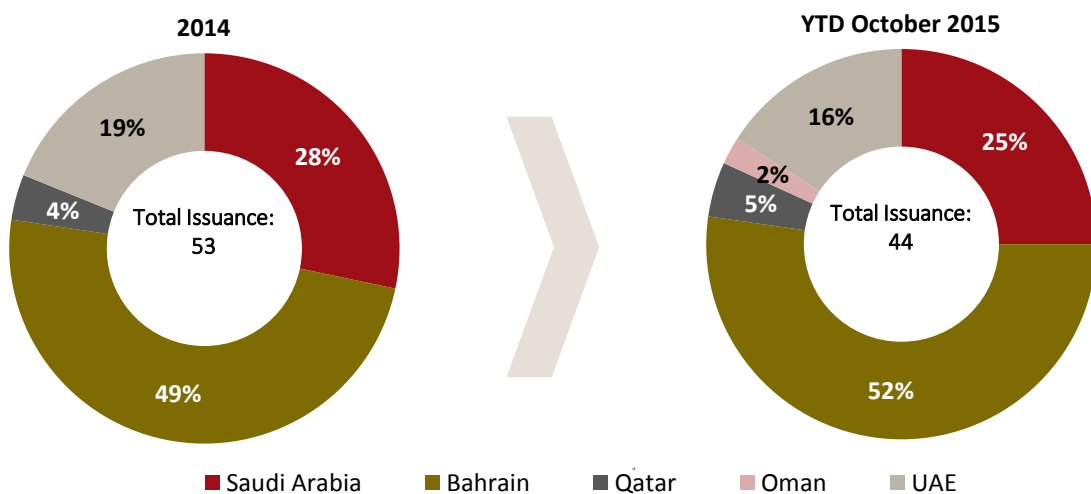


Sukuk Issuance by Value, Number, and Type



- Sukuk issuances in October 2015 stood at USD2.6bn, increasing from USD0.5mn registered in the earlier year during the same period. For YTD October 2015 sukuk issuance by value declined 22% y-o-y to USD16.2bn, mainly driven by a sharp decline in sovereign issuances (-21% y-o-y, worth USD4.8bn) and quasi-sovereign (-82% y-o-y, USD1.0bn), however partially offset by the increase in corporate issuances (13% y-o-y, USD10.4bn). Corporates comprised 64% of the total issuance value for YTD October 2015, followed by sovereign at 30% and quasi-sovereign issuances at 6%.

Sukuk Issuance by Country – Number of Issuances

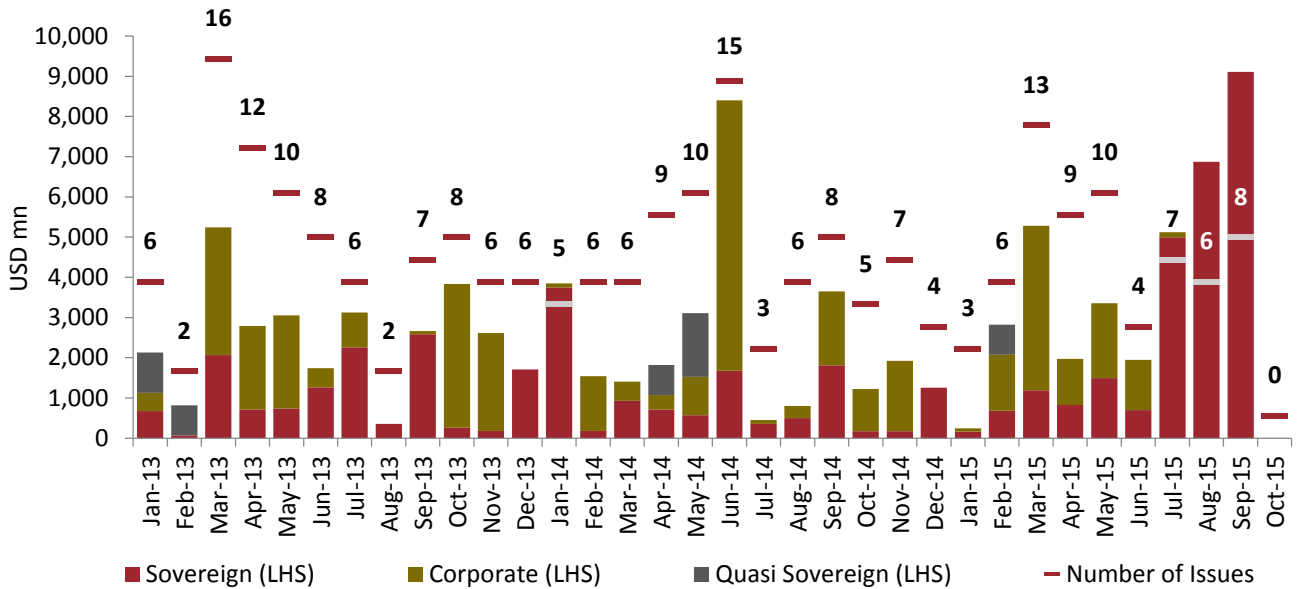


- Bahrain was the largest issuer of sukuk by number of issuances (23) in GCC for YTD October 2015, followed by Saudi Arabia (11), UAE (7), Qatar (2) and Oman (1)
- Saudi Arabia accounted for the largest share of sukuk issued by value among GCC countries, with eleven issuances totaling USD5.9bn for YTD October 2015, followed by UAE (seven issuances; worth USD5.2bn), Bahrain (twenty-three issuances; worth USD3.2bn), Qatar (two issuances; worth USD1.3bn) and Oman made a debut in the sukuk market with issuance worth USD650mn.

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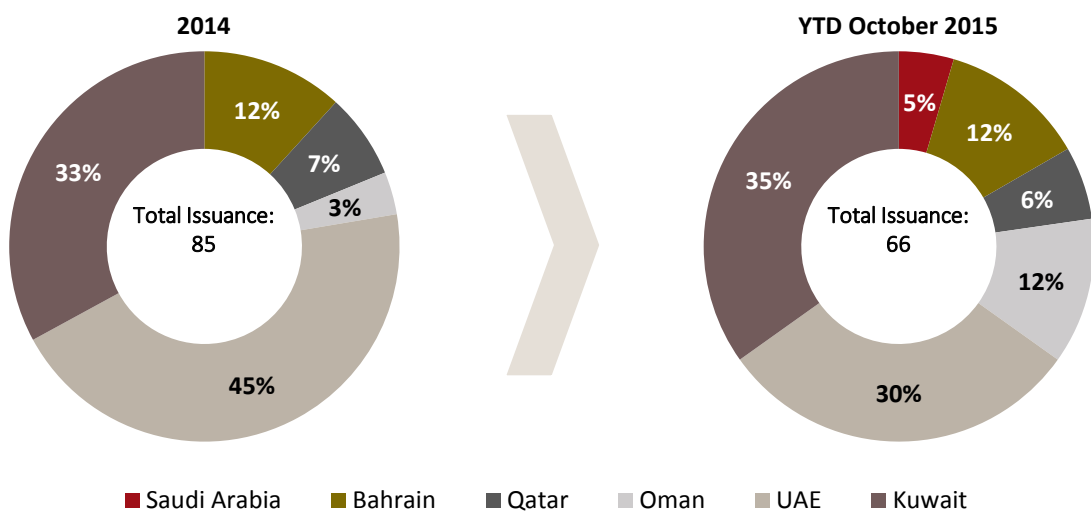


Bond Issuance by Value, Number, and Type



- There were no bond issuances registered in the month of October. For YTD October 2015 total bond issuances by value increased 38% y-o-y to USD36.7bn, primarily driven by the increase in sovereign issuances which stood at USD26bn compared to just USD10.6bn registered in the earlier year during the same period. Sovereign issuances accounted for 71% of the total issuance value for YTD October 2015, followed by corporate at 27% and quasi-sovereign at 2%.

Bond Issuance by Country – Number of Issuances



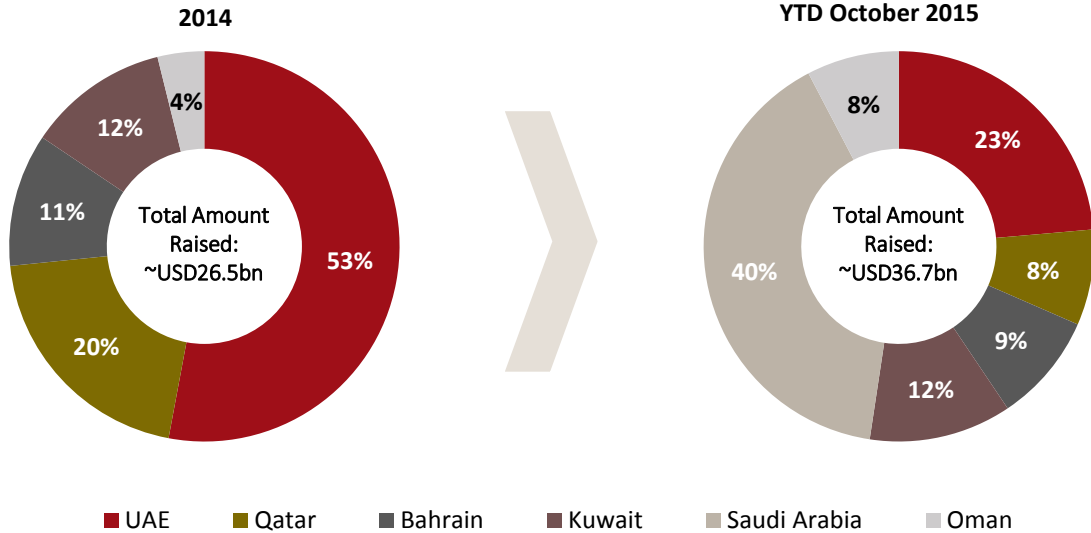
- Saudi Arabia accounted for the largest share of bond issuances by value (USD14.7bn) for YTD October 2015, followed by UAE (USD8.7bn), Kuwait (USD4.3bn) and others.
- In terms of number of issuances, Kuwait ranked first with 23 issuances in YTD October 2015

Source: Zawya

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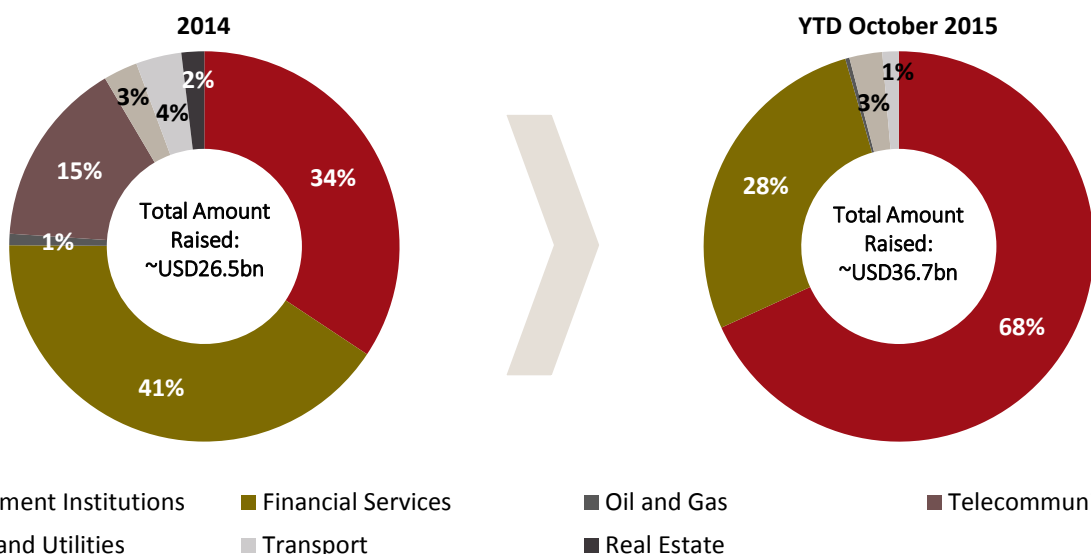


Outstanding Bonds by Country



- The outstanding value of GCC bonds stood at USD36.7bn for YTD October 2015, significantly higher than the previous year primarily due to the rise in sovereign issuances from Saudi Arabia.
- Saudi Arabia is leading the the GCC region in terms of value of issuances and Kuwait leads in terms of number.

Outstanding Bonds by Industry



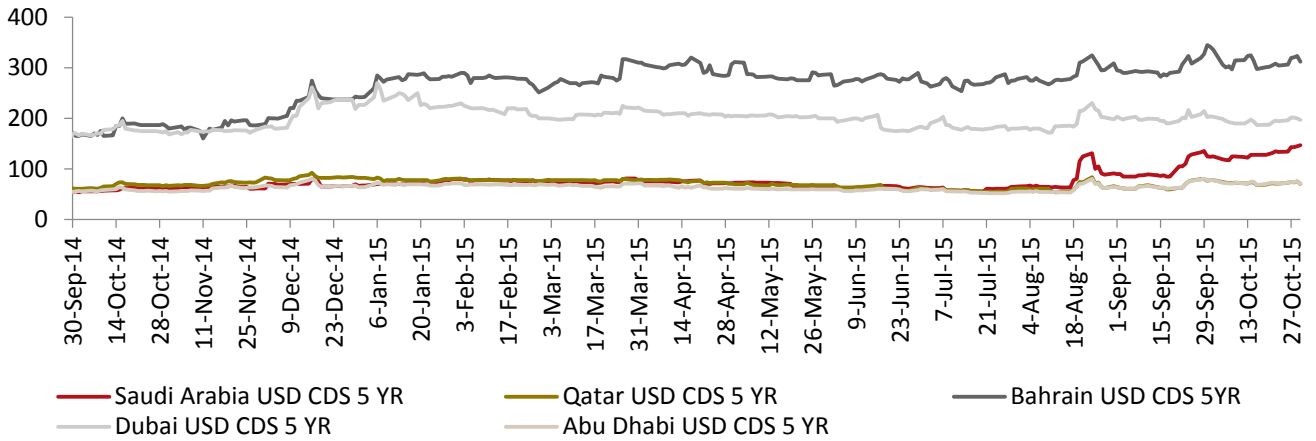
- Financial Services (USD10.1bn) and Government Institution (USD25.0bn) Sectors contributed 96% to the total bond outstanding of USD36.7bn for YTD October 2015. Outstanding value of bonds issued by government institutions stood at USD25.0bn for YTD October 2015 compared to USD6.3bn reported in the earlier year during the same period. The rise was primarily due to the increase in sovereign issuances from Saudi Arabia in order bridge the budget deficit gap caused by lower oil prices.

Source: Zawya

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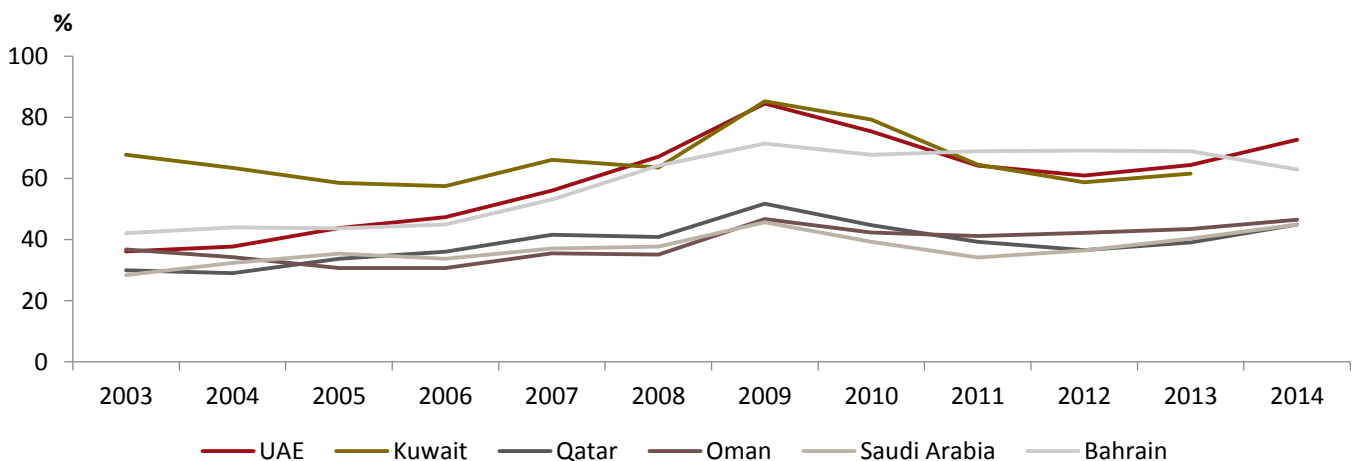
5-Year USD CDS Spread



5-Year CDS Watch (bps)

| Country | October 30, 2015 | December 31, 2014 | 52-Week | |
|--------------|------------------|-------------------|---------|--------|
| | | | High | Low |
| Saudi Arabia | 147.00 | 66.71 | 147.00 | 55.29 |
| Abu Dhabi | 70.50 | 63.54 | 80.63 | 51.91 |
| Dubai | 197.00 | 226.62 | 270.03 | 168.24 |
| Qatar | 70.50 | 82.18 | 92.50 | 53.60 |
| Bahrain | 312.00 | 241.74 | 345.00 | 160.03 |

Credit to GDP Gap

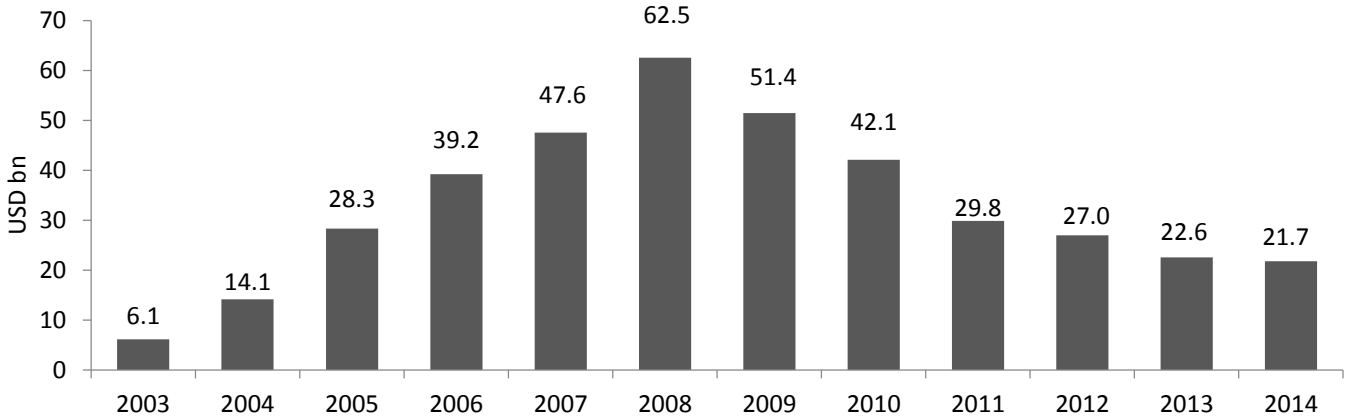


Source: Bloomberg

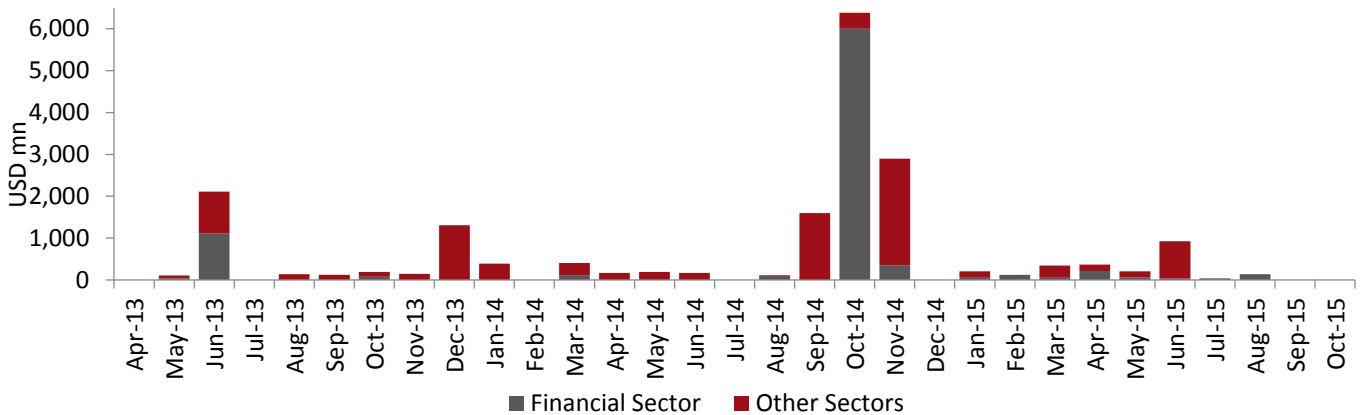
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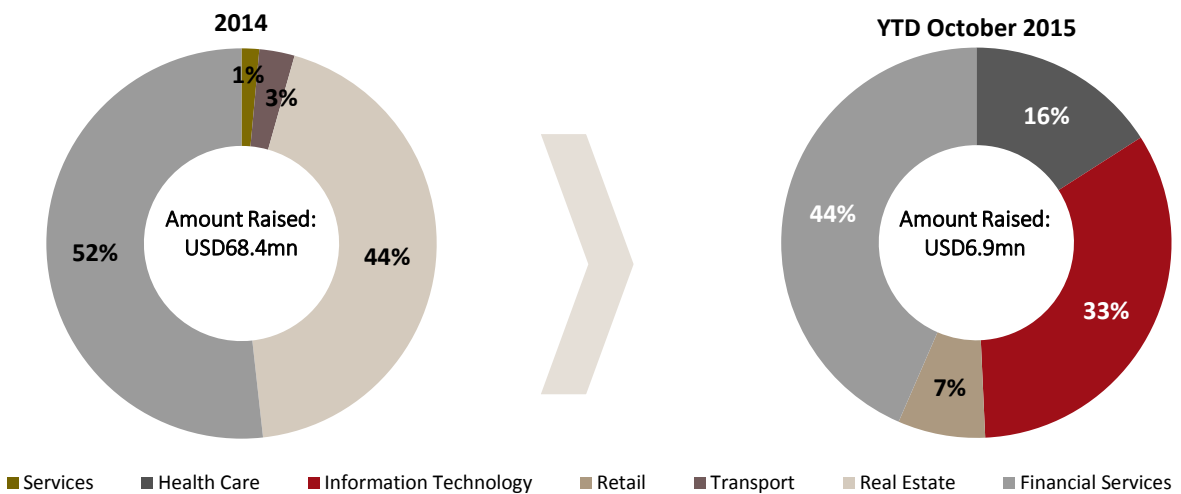
FDI Inflow into the GCC Region



IPO and FPO Activity in the GCC Region



Private Equity Investments in the GCC Region (by Sector)



Source: Thomson One, Zawya, UNCTAD

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