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Fixed Income Research

GCC Bonds and Sukuk Market Survey 2016 Highlights

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Notes before Reading This Report:

- * **GCC:** Gulf Cooperation Council
- * **GCC Aggregate Bonds and Sukuk market** includes:
 - * **GCC Central Banks Local Issuances (CBLIs):** Treasury bills, Notes and Bonds issued by GCC central banks, mostly to regulate the levels of domestic liquidity.
 - * **GCC Sovereign Issuances:** Bonds and Sukuk issued by GCC governments in local or foreign currencies for financing purposes.
 - * **GCC Corporate Bonds:** Bonds and Sukuk issued by GCC corporate entities including Financial Institutions (FIs) and Government Related Entities (GREs).
- * The **GCC Bonds and Sukuk market** includes GCC Sovereign Issuances and GCC Corporate Issuances and does not include CBLIs.
- * A number of resources were utilized in the drafting of this report; notable sources are Bloomberg, Zawya, GCC central banks' websites, rating agencies' reports and Offering Memorandums.
- * Every effort has been made to include and quote the majority of data that is accessible to Markaz.
- * All currencies were converted into US dollars for easy comparison.

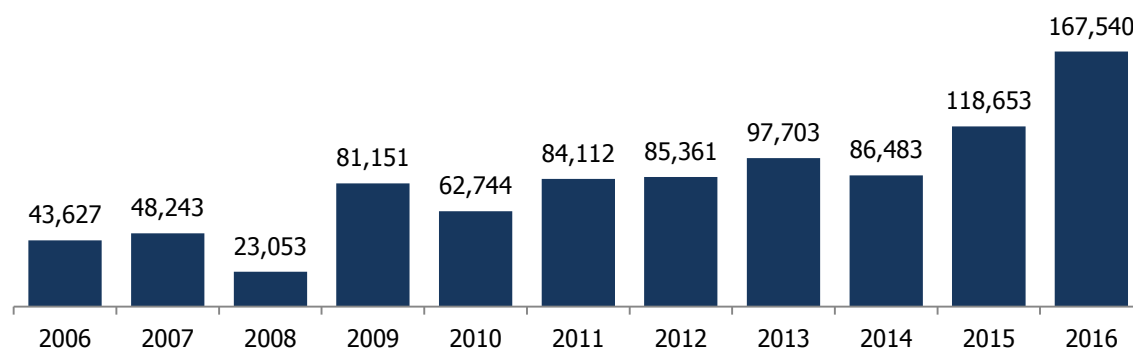
GCC Aggregate Bonds and Sukuk Market 2016

GCC Aggregate Bonds and Sukuk Market includes GCC Central Banks Local Issuances, GCC Sovereign and Corporate Issuances. Please refer to detailed definition at the beginning of report.

The Aggregate GCC Bonds and Sukuk market remained strong in 2016 while witnessing a substantial increase in activities, stemming mainly from an urgent need to plug the GCC countries budget deficits due to persistently low oil prices. The strong credit quality and low government debt enabled GCC governments to raise debt in the international market.

A total of USD167.54 billion was raised in the primary market, an increase of 41.20% in comparison to USD118.6 billion raised in 2015. Sovereign issuances by GCC countries totaled USD65.82 billion as compared to USD37.95 billion in 2015. Saudi Arabia led the sovereign issuances by issuing USD17.5 billion in Eurobonds and USD25.8 billion (SAR97 billion) in domestic currency bonds, followed by Qatar (USD9 billion), UAE (USD6.4 billion), Oman (USD4.5 billion) and Bahrain (USD2.6 billion). Overall, the GCC Sovereign and Corporate issuances grew by 57.22% while the Central Bank Local Issuances ("CBLI") increased by 21.69% as compared to 2015.

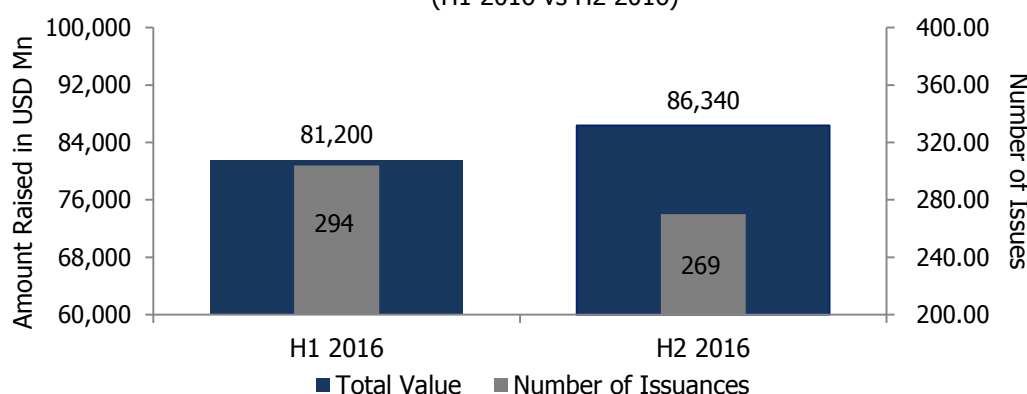
GCC Aggregate Bonds and Sukuk Market
New Issuance Trend
USD Mn



Source: Bloomberg, Zawya, Central bank websites, Markaz Analysis

A total of USD81.200 billion was raised during the first half of the year (H1 2016) through 294 issuances while USD86.340 billion was raised during the second half (H2 2016) by 269 issuances.

GCC Aggregate Bonds and Sukuk Market
(H1 2016 vs H2 2016)



Source: Bloomberg, Zawya, Central bank websites, Markaz Analysis

GCC Central Banks Local Issuances 2016¹

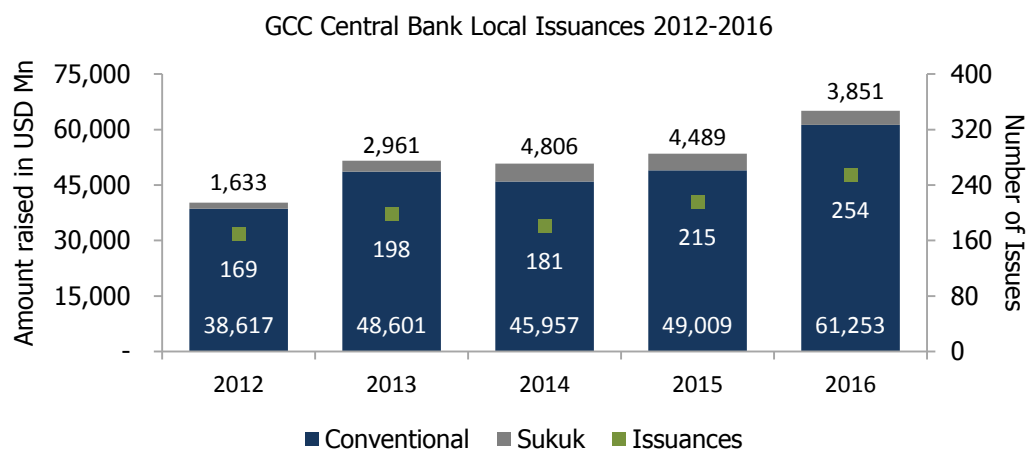
GCC Central Banks Local Issuances ("CBLIs") include Treasury bills, notes, bonds and sukuk denominated in local currencies and issued, by GCC central banks, primarily to regulate the level of domestic liquidity. The only publically and regularly available information of such issuances is from the Central Bank of Bahrain, the Central Bank of Kuwait, the Central Bank of Oman, and the Central Bank of Qatar.

A total of USD65.104 billion was raised through CBLIs during the year through 254 issuances, a growth of 21.69% from USD53.498 billion raised during previous year through 215 issuances.

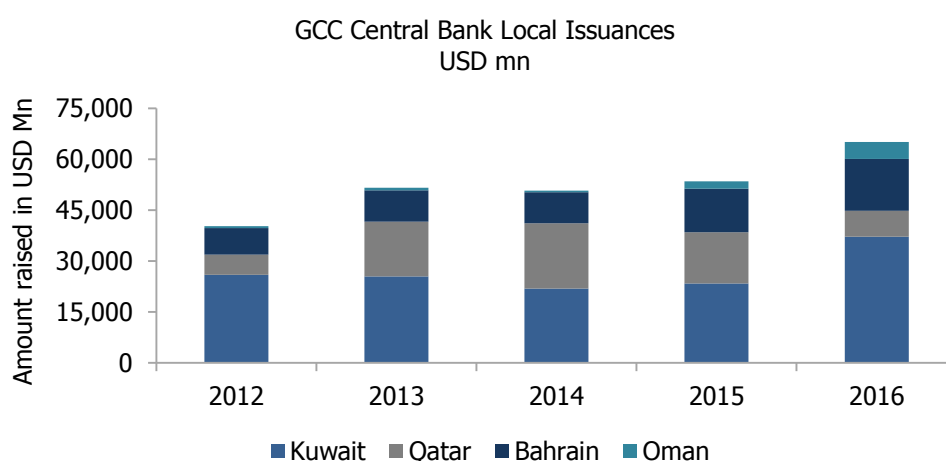
During 2016, CBK was the leading issuer among GCC Central Banks with 65 issues raising USD37.134 billion, an increase of 59.1% from USD23.347 billion raised in 2015. Similarly, growth in such issuances were recorded for Central Bank of Bahrain (raising USD15.223 billion, growing by 18.5%) and Central Bank of Oman (raising USD5.065 billion, growing by 132.7%). On the other hand, CBLI issuances for Central bank of Qatar in 2016 posted a reduction of 49.2% as compared to 2015 while dropping to the 3rd highest issuer after CBK and CBB.

Conventional issuances continued to dominate CBLI issuances while the contribution of sukuks declined from 8.39% in 2015 to 5.92% in 2016.

¹The data published by Central Bank of Kuwait, has started to included data from Tawarruq operations along with other central bank issuances starting April 2016. Tawarruq is an instrument of monetary policy used to regulate policy used to regulate liquidity with Islamic banks.



Source: Central Bank Websites, Markaz Analysis



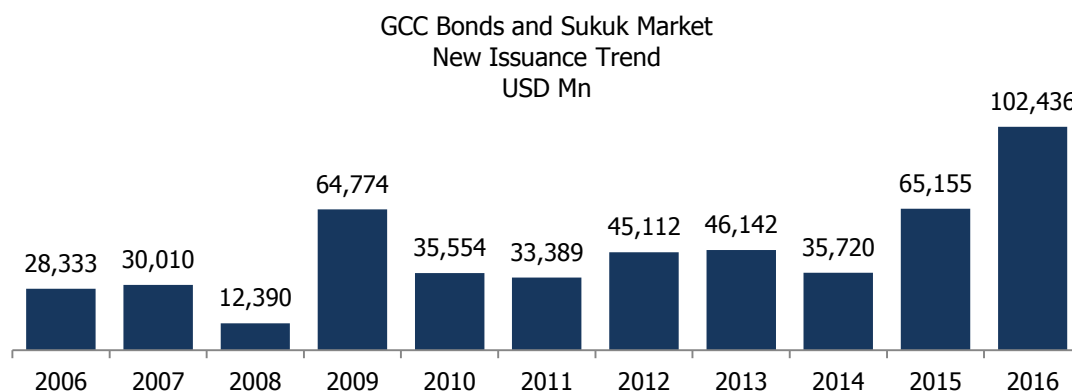
Source: Central Bank Websites, Markaz Analysis

GCC Bonds and Sukuk Market - 2016

The GCC Bonds and Sukuk market includes GCC Sovereign and Corporate Issuances and does not include CBLIs.

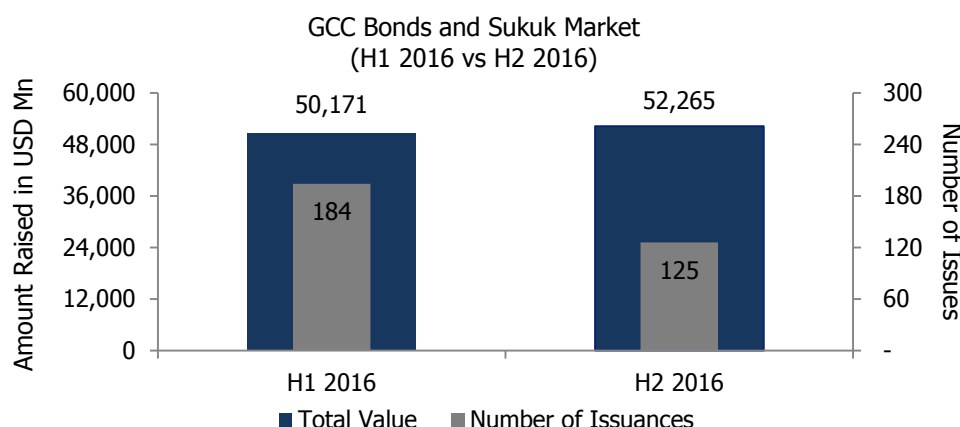
GCC Bonds and Sukuk market has continued to be significantly active over the past two years, driven by sovereign issues as GCC governments resort to debt markets for financing in an effort to plug budget deficits resulting from declines in oil revenues. The total value of new issuances in the GCC Bonds and Sukuk market during 2016 reached USD102.436 billion, representing a substantial increase of 57.22% from USD65.155 billion raised in 2015.

While the oil prices persist at lower levels, initially financial reserves and sovereign funds along with deposits in the local banking system were tapped to finance deficits as can be noted by an increase in CBLI issuances. These short term measures limited the ability of local banks to extend credit to the private sector and created a liquidity crunch in the system impacting the economy negatively and thereby increasing the attractiveness of a sustainable solution through international debt markets. The number of issuances increased from 205 in 2015 to 309 issuances in 2016, exhibiting a growth of 50.73% while average size of the new issuances also increased from USD318 million in 2015 to USD332 million in 2016.



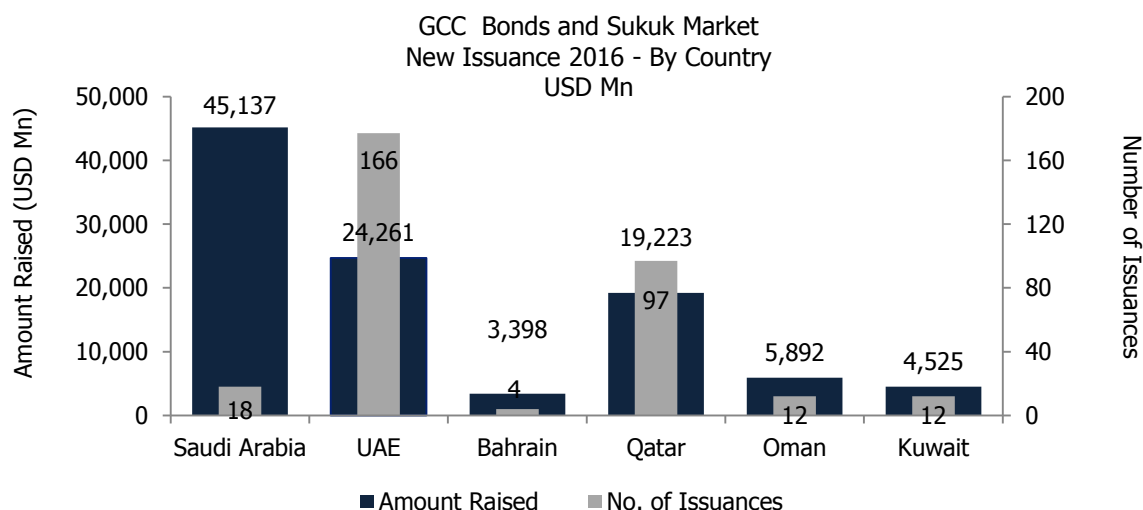
Source: Bloomberg, Zawya, Markaz Analysis

Issuances remained fairly distributed throughout the year as a total of USD52.265 billion was raised in H2 2016, a mere 4.17% higher than USD50.171 billion raised in H1 2016. On a quarterly basis, Q2 2016 witnessed the highest issuances in total value with USD44.344 billion being raised, comprising of 43.29% of total value for 2016.



Breakdown by Country

Saudi Arabia was the leading GCC issuer in 2016, raising USD45.137 billion through 18 issues and representing 44.06% of the total value raised by the GCC issuers during the year. In terms of the frequency of issuances, UAE maintained its position as the dominant issuer with 166 issuances during 2016.



Source: Bloomberg, Zawya, Markaz Analysis

Saudi Arabian issuances were dominated by sovereign issues in foreign and domestic markets which represented 96.05% of the total value or USD 43.35 billion.

The UAE based issuers raised USD24.261 billion during 2016, representing 23.68% of the total market. Unlike Saudi Arabia, UAE issuances were skewed towards corporates as USD17.89 billion were raised through such issues, contributing 72.75% towards the UAE bonds and Sukuk market.

Qatari entities raised USD19.222 billion from 97 issues making up 18.77% of the overall market. The sovereign issues by the government raised USD9 billion and was the main contributor towards the overall issuance.

Omani issues raised USD5.892 billion through 12 issues and represented for 5.75% of the total value of issuances. The value was primarily driven through sovereign issues which made up for 67.88% of the total amount issued by Oman.

Kuwait entities represented 4.4% of the total issuances, raising USD4.525 billion through 12 corporate issuances. A single issuance by Equate Petrochemicals accounted for more than half of the size as the company raised USDD2.25 billion through two tranches of 5yrs and 10yrs bearing a coupon on 3% and 4.25% respectively.

Bahraini entities represented 3.31% of the total issuances, raising USD3.39 billion through 4 issues.

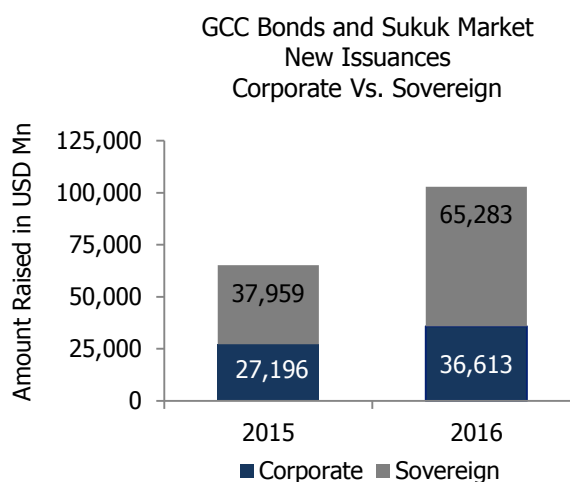
Sovereign Vs. Corporate

With an urgent need to fund the current and forecasted deficits, sovereign debt markets were sought after as a viable solution second year in a row by the GCC governments in addition to drawing from sovereign reserves. As a result, the sovereign issues dominated the GCC bonds and Sukuk market as their share increased to 64.3% in 2016 as compared to 58.26% in 2015. The total value raised by sovereign issues increased by 73.4% as USD65.823 billion was raised through 25 Sovereign issuances over the year as compared to USD37.96 billion in 2015.

While the share of corporate entities dropped, the total value raised by corporate entities increased by 34.62% from USD27.196 billion in 2015 to USD36.613 billion in 2016.

Sovereign issuances by Saudi Arabia raised SAR97 billion (USD25.854 billion) through Government developments bonds issued quarterly in the domestic currency and USD 17.5 billion raised through US dollar sovereign bonds issued in October 2016. This was also the largest debt issue recorded by an emerging economy. Government of Qatar issued sovereign bonds amounting to a total of USD9 billion having maturities of 5 years, 10 years and 30 years and bearing a coupon rate of 2.38%, 3.25% and 4.63 respectively. Government of Abu Dhabi arranged sovereign bonds totaling to USD5 billion with maturities of 5 years and 10 years and bearing a coupon of 2.125% and 3.125% respectively. This was followed by Kingdom of Bahrain raising USD2.60 billion through a 12yr and a 7yr bond with a coupon of 7.00% and 5.624% respectively. Oman government issued three sovereign bonds over the year, a 10 year USD2.5 billion bond priced at 4.75% a 5 year USD1.5 billion bond bearing a coupon of 3.63% and a 6 year USD500 million sukuk bearing a 3.5% coupon.

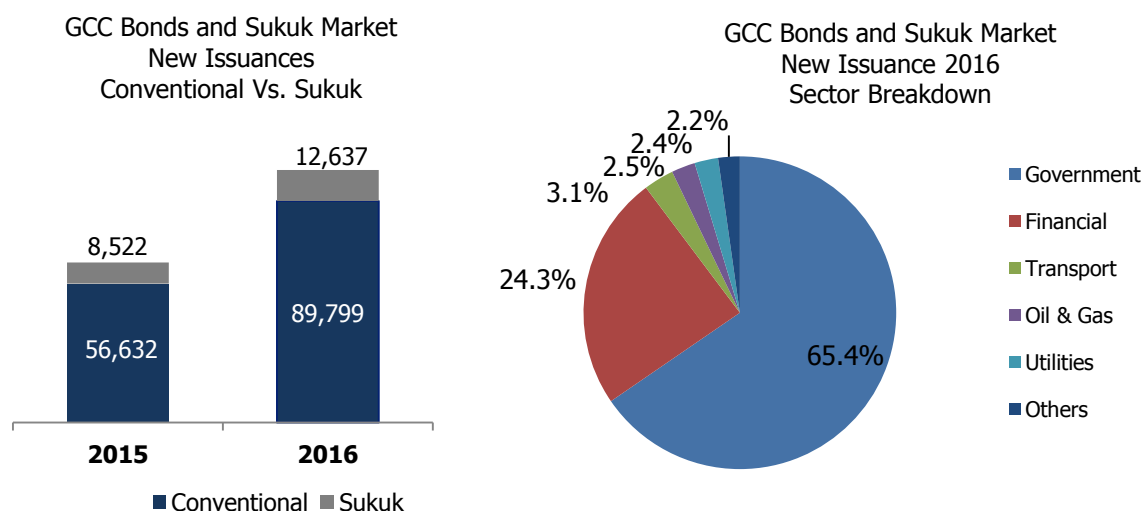
The largest issuance by a corporate borrower, was a 5yr sukuk issued by Etihad Airways raising USD1.5 billion and bearing a coupon of 3.86% followed by DP World, raising USD1.2 billion through a 7yr Sukuk and bearing a coupon of 3.908%. Kuwait based, Equate petrochemicals raised USD2.25 billion over two bonds maturing in 5 years and 10 years.



Source: Bloomberg, Zawya, Markaz Analysis

Conventional Vs. Sukuk

Conventional issuances continued to dominate the mix as it raised USD89.799 billion (higher by 58.56% vs. 2015) representing 87.66% of the total issuances while Sukuk's raised USD12.637 billion (higher by 48.28% vs. 2015) constituting the remaining 12.31%. The largest conventional issue being the sovereign bond by Saudi Arabian government for USD6.5 billion whereas the largest Sukuk was issued by UAE based Etihad Airways for USD1.5 billion.



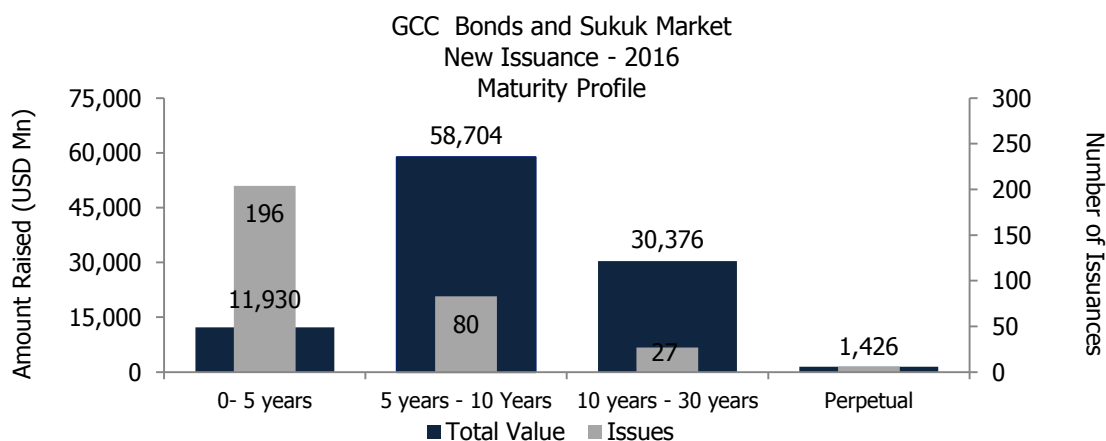
Source: Bloomberg, Zawya, Markaz Analysis
*Other sectors include Real Estate, Communications, Consumers and Industrial

Breakdown by Sector

In terms of the sector breakdown, Government sector dominated with 65.4% of the total new issuance value, raising USD67.023 billion with 27 issues in 2016 as compared to USD37.958 billion issued in 2015. The Financial sector led the primary market in terms of the number of issuances, with 259 issues raising USD24.910 billion in 2016 as compared to USD22.87 billion in 2015. A total of USD10.503 billion was raised by issuers in other sectors through 23 issues.

Maturity Structure

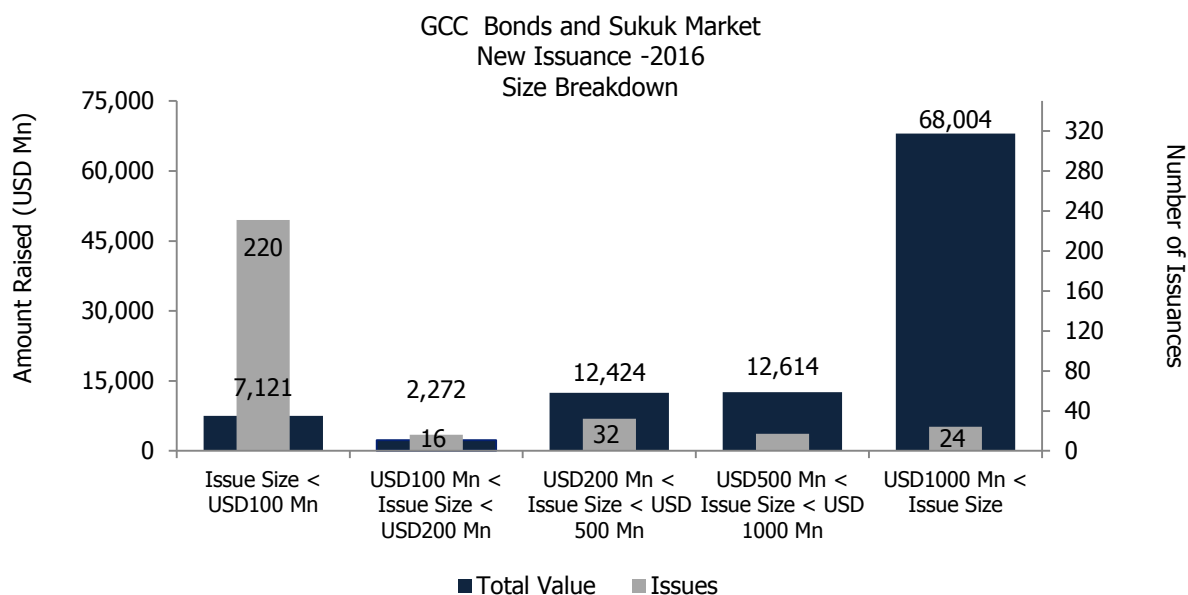
A maturity duration of five to ten years continued to dominate the issuances as the tenor represented 57.3% of the total value, raising USD58.704 billion through 80 issuances. The maturity tenor of 10 years and above gained considerable traction in 2016 as several sovereign issuances were made for a maturity of 10 years and 30 years. This resulted in USD31.802 billion (30.925% of the total value) being raised through 33 issues with tenor of greater than 10 years, including 6 perpetual issues raising USD1.426 billion. For a tenor of less than 5 years USD11.930 billion was raised through 196 issues during 2016.



Source: Bloomberg, Zawya, Markaz Analysis

Size

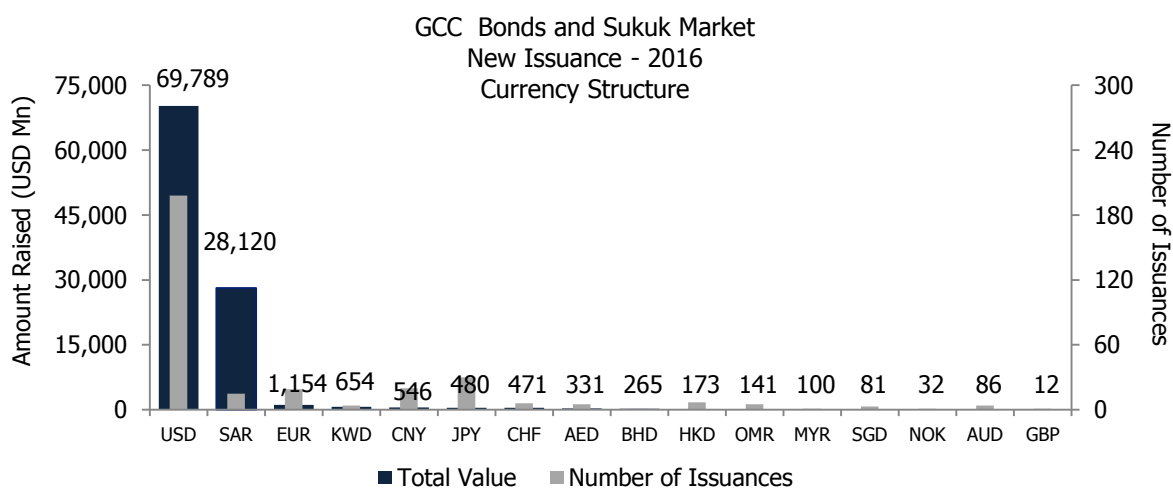
During 2016, the new issuances ranged in size from USD2.4 million to USD6.5 billion. Issuances with principal amounts greater than or equal to USD1.0 billion raised the largest amount of USD68.004 billion, representing 66.39% of the total value.



Source: Bloomberg, Zawya, Markaz Analysis

Currency Structure

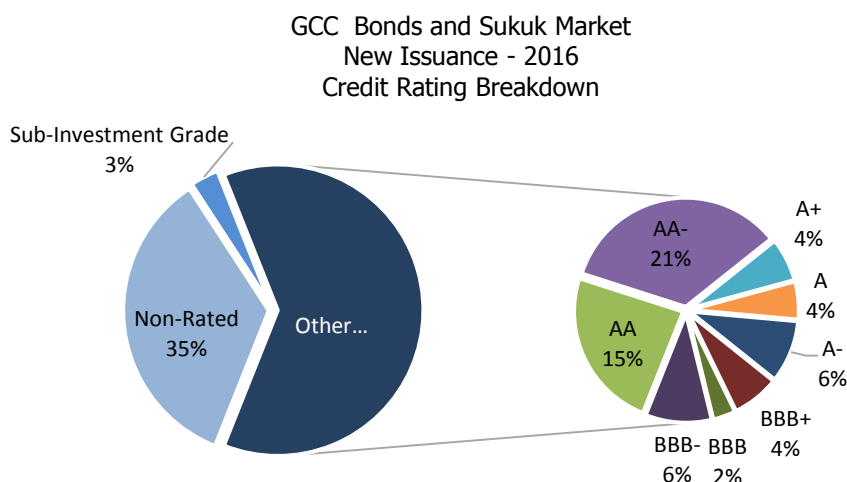
US Dollar denominated issuances surpassed Saudi riyal to lead the GCC Bonds and Sukuk market, raising USD69.789 billion (68.13% of the total amount raised) by 187 issuances as USD39.969 billion were raised solely through sovereign issues by UAE, Qatar, Oman, Bahrain and Saudi Arabia. Saudi riyal denominated issuances which were the highest in 2015, followed next, raising USD28.120 billion (27.45% of the total amount raised) through 15 issuances.



Source: Bloomberg, Zawya, Markaz Analysis

Credit Rating

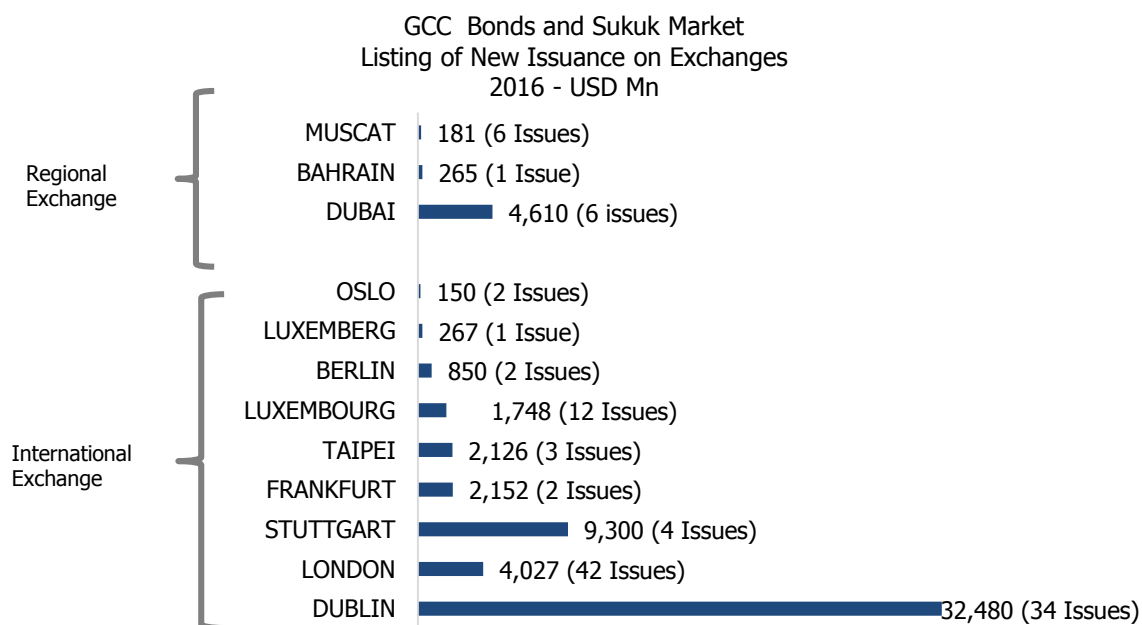
A total of 53.1% or 164 issuances out of the total GCC bond and Sukuk market issuances were rated by either one or more of the following Rating Agencies: Standard & Poor's, Moody's, Fitch, and/or Capital Intelligence as compared to 35.12% in 2015. Of those rated, 153 issues had investment grade ratings while 6 issues had sub-investment grade ratings.



Source²: Bloomberg, Zawya, Markaz Analysis

Listing

During the year, 37.9% of the total issuances or 117 GCC Bonds and Sukuk issuances, with an aggregate value of USD58.157 billion were listed on exchanges. Listing on international exchanges accounted for 91.3% of the listed issues as 104 issuances totaling to USD53.10 billion were listed on international exchanges. The regional exchanges recorded listing of a mere 13 bonds and Sukuk in 2016 with a total value of USD5.056 billion. Dublin continues to be the most sought after Exchange for listing as it recorded 55.84% of the total value issuances listed on exchanges in 2016.



Source: Bloomberg, Zawya, Markaz Analysis

² For Chart Presentation S&P ratings have been used. If an entity is rated by other agencies and not S&P, the highest rating is considered and then corresponded to the S&P equivalent rating in the chart.

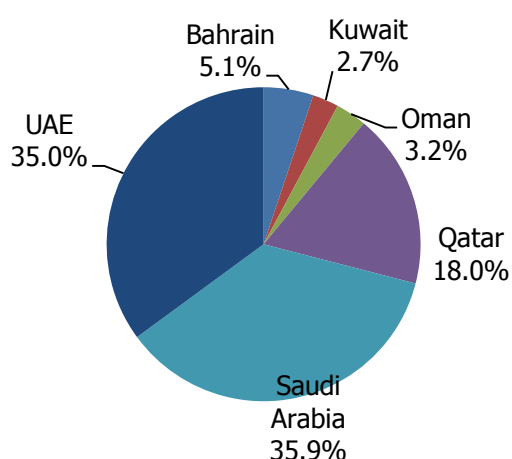
GCC Bonds and Sukuk Market - Amount Outstanding (as of 31 December 2016)

As of 31 December 2016, the total amount outstanding in the GCC Bonds and Sukuk market was USD352.080 billion.

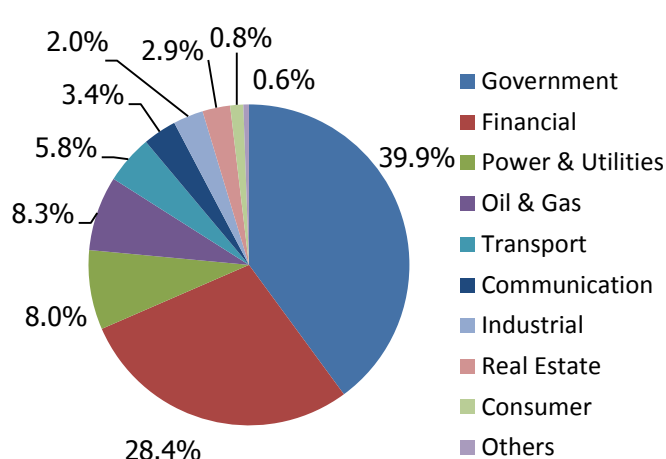
According to geographical distribution of outstanding bonds and sukuk, Saudi Arabia surpassed UAE and represented the largest share with USD126.541 billion or 35.94% of the total amount outstanding followed by UAE, representing 35.0% of the total amount outstanding or USD123.227 billion.

Government issuances replaced financial sector issuances to represent the largest share of total amount outstanding at 39.9% with and outstanding amount of USD140.714 billion. Financial institutions declined in share from 31.91% as of 31 December 2015 to 28.4% as of 31 December 2016 with USD99.952 billion in total outstanding value.

GCC Bonds and Sukuk Market Outstanding
Geographic Breakdown
As of 31 December 2016

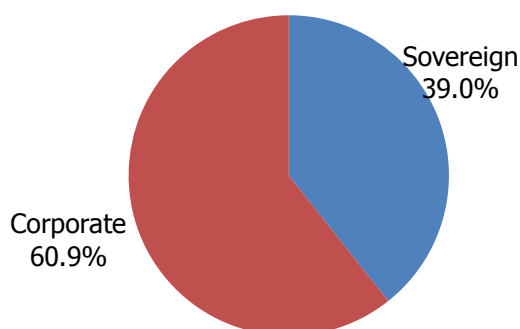


GCC Bonds and Sukuk Market Outstanding
Geographic Breakdown
As of 31 December 2016

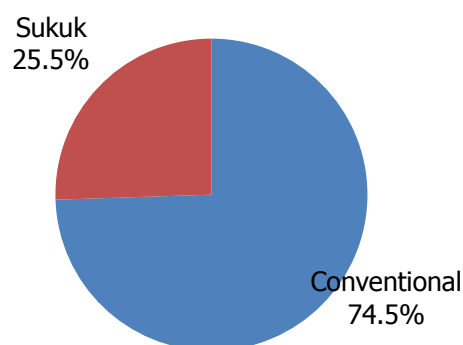


Corporate issuances constituted 60.97% of the total amount outstanding with USD214.67 billion while Sovereign issuances represented 39.02%. Conventional issues accounted for 74.45% of the total outstanding amount, totaling USD262.153 billion whereas sukuk represented 25.541% of the total.

GCC Bonds and Sukuk Outstanding
Issue Type
As of 31 December 2016



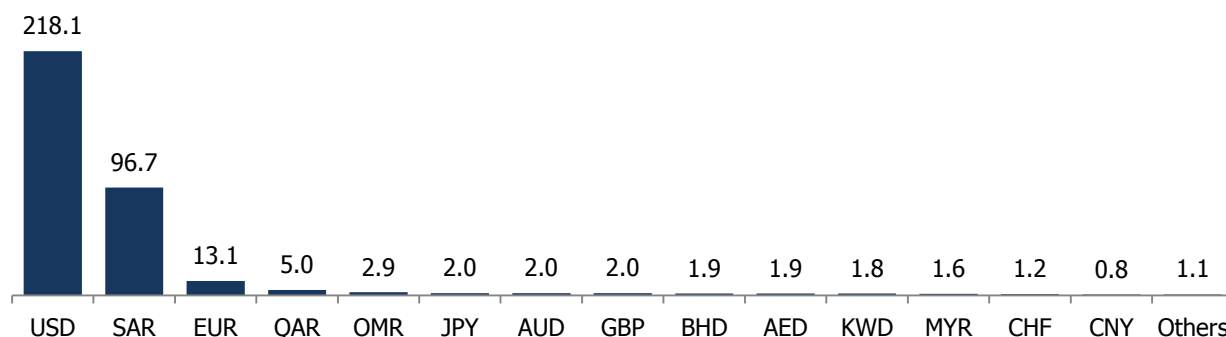
GCC Bonds and Sukuk Outstanding
Fixed Income Type
As of 31 December 2016



Source: Bloomberg, Zawya, Markaz Analysis

US Dollar denominated issuances comprised 61.94% of total amount outstanding with USD218.11 billion, followed by Saudi Riyal denominated issuances which represented 27.46% (USD96.68 billion).

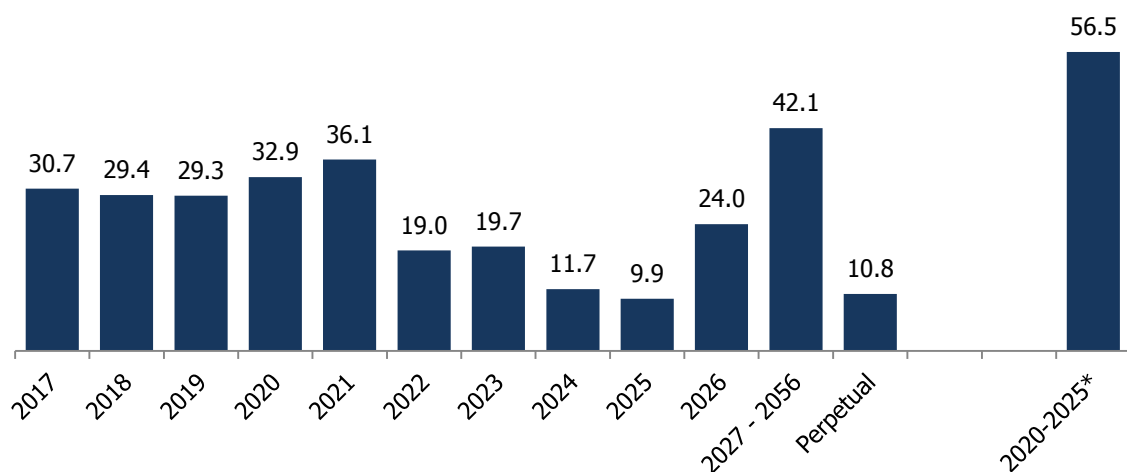
GCC Bonds and Sukuk Market
Outstanding Issuance
Currency Breakdown (USD Mn)
As of 31 December 2016



Note: Others include HKD, SGD, NZD, NOK, MXN, TRY
Source: Bloomberg, Zawya, Markaz Analysis

As of 31st of December 2016, bonds and Sukuk amounting to USD30.7 billion mature within a single year indicating a probable requirement for refinancing to that tune by the corporates and sovereigns in 2017. A total of 84.97% of the outstanding amount as of 31st December 2016, amounting to USD299.19 billion, are expected to mature during the 10 year period from 2017 to 2026.

GCC Bonds and Sukuk Market
Outstanding Issuance
Maturity Breakdown (USD Mn)
As of 31 December 2016

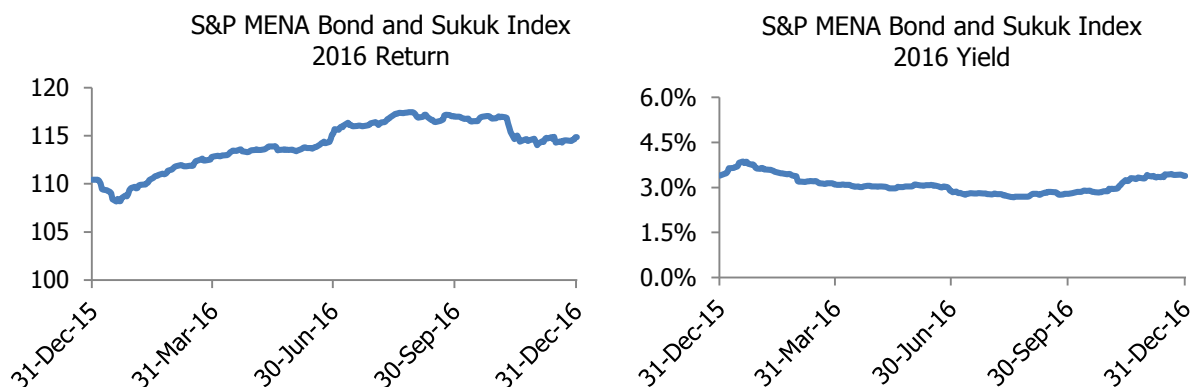


*The Tenor for Saudi Arabian bonds issued in domestic currency is not known and according to sources, is estimated to be 5 to 10 years.
Source: Bloomberg, Zawya, Markaz Analysis

Market Performance

S&P MENA Bonds and Sukuk Index posted a gain of 4.003% (1.554% in 2015 and 6.765% in 2014) with the total return on the Index increasing from 110.43 on 31st December 2015 to 114.85 on 31st December 2016. The performance remained subdued in anticipation of the rate hike from Federal Reserve and general uncertainty surrounding the markets in view of the global growth concerns. The index recorded the lowest value around the beginning of the year on 18th January 2016 when it achieved a value of 108.18. The highest value of 117.45 was recorded on 29th August 2016.

The Index yield decreased from 3.40% on 31st December 2015 to 3.38% on 31st December 2016. The minimum yield of 2.67% was achieved on 18th August 2016 while the Index recorded the maximum yield of 3.87% on 18th January 2016.



Source: S&P Mena Bond & Sukuk Index, Bloomberg, Markaz Analysis

Credit Default Swaps³

During 2016, 5Y CDS for all GCC sovereign debts narrowed, representing a reduced risk of default. Saudi Arabia's 5Y CDS decreased by 28.75% to 111.000 basis points. Bahrain's 5Y CDS decreased by 21.12% to 288.390 basis points. Qatar's 5Y CDS narrowed by 19.00% to reach 75.000 basis points. Abu Dhabi's 5Y CDS reduced by 35.19% to reach 60.00 basis points while Dubai's 5Y CDS narrowed by 42.65% to 134.00 basis points.

GCC 5-Year Sovereign Credit Default Swaps Spread

	Opening CDS	Closing CDS	Percent Change During 2016
	Basis Points	Basis Points	
Saudi Arabia	155.795	111.000	-28.75%
Bahrain	365.620	288.390	-21.12%
Abu Dhabi	92.585	60.000	-35.19%
Qatar	92.590	75.000	-19.00%
Dubai	233.660	134.000	-42.65%

Source: Bloomberg, Markaz Analysis

³ Credit Default Swaps ("CDS") for Kuwait and Oman were not priced during 2016.

Key GCC Sovereign and Corporate Bonds and Sukuk Issuances – 2016

Type	Issuer/Guarantor	Security Description	Country	Subscription Date	Tenor (Years)	Maturity Date	Issue Size (US\$ mn)	Coupon / Profit Rate	Sector	Rating S&P/M/F
Conventional	Kingdom of Saudi Arabia	KSA 4 1/2 10/26/46	Saudi Arabia	26-Oct-16	30	26-Oct-46	6,500	4.50	Government	-/A1/AA-
Conventional	Kingdom of Saudi Arabia	KSA 3 1/4 10/26/26	Saudi Arabia	26-Oct-16	10	26-Oct-26	5,500	3.25	Government	-/A1/AA-
Conventional	Kingdom of Saudi Arabia	KSA 2 3/8 10/26/21	Saudi Arabia	26-Oct-16	5	26-Oct-21	5,500	2.38	Government	-/A1/AA-
Conventional	Government of Qatar	QATAR 3 1/4 06/02/26	Qatar	2-Jun-16	10	2-Jun-26	3,500	3.25	Government	AA/Aa2/AA
Conventional	Government of Qatar	QATAR 2 3/8 06/02/21	Qatar	2-Jun-16	5	2-Jun-21	3,500	2.38	Government	AA/Aa2/AA
Conventional	Abu Dhabi Government	ADGB 2 1/8 05/03/21	UAE	3-May-16	5	3-May-21	2,500	2.13	Government	AA-/AA
Conventional	Abu Dhabi Government	ADGB 3 1/8 05/03/26	UAE	3-May-16	10	3-May-26	2,500	3.13	Government	AA-/AA
Conventional	Sultanate of Oman	OMAN 4 3/4 06/15/26	Oman	15-Jun-16	10	15-Jun-26	2,500	4.75	Government	BBB-/Baa1/-
Conventional	Government of Qatar	QATAR 4 5/8 06/02/46	Qatar	2-Jun-16	30	2-Jun-46	2,000	4.63	Government	AA/Aa2/AA
Conventional	Bahrain Government	BHRAIN 7 10/12/28	Bahrain	12-Oct-16	12	12-Oct-28	1,600	7.00	Government	BB-/BB+
Conventional	Sultanate of Oman	OMAN 3 5/8 06/15/21	Oman	15-Jun-16	5	15-Jun-21	1,500	3.63	Government	BBB-/Baa1/-
Sukuk	Etihad Airways	UNITYL 3.86 11/30/21	UAE	30-Nov-16	5	30-Nov-21	1,500	3.86	Transport	-/-/A
Conventional	Equate Petrochemical	EQPTRC 4 1/4 11/03/26	Kuwait	3-Nov-16	10	3-Nov-26	1,250	4.25	Materials	BBB+/Baa2/-
Sukuk	DP World	DPWDU 3.908 05/31/23	UAE	31-May-16	7	31-May-23	1,200	3.91	Transport	-/Baa2/BBB
Conventional	Qatar National Bank	QNBK 0 05/20/18	Qatar	20-May-16	2	20-May-18	1,100	2.45	Financial	-/Aa3/AA-
Sukuk	Emirate of Dubai	EIBUH 3.542 05/31/21	UAE	31-May-16	5	31-May-21	1,000	3.54	Financial	-/-/A+
Conventional	Abu Dhabi National Energy Co	TAQAUH 4 3/8 06/22/26	UAE	22-Jun-16	10	22-Jun-26	1,000	4.38	Utilities	A-/A3/-
Conventional	Qatar National Bank	QNBK 2 1/8 09/07/21	Qatar	7-Sep-16	5	7-Sep-21	1,000	2.13	Financial	A+/Aa3/AA-
Sukuk	Kingdom of Bahrain	BHRAIN 5.624 02/12/24	Bahrain	12-Oct-16	7	12-Feb-24	1,000	5.62	Government	BB-/BB+
Conventional	Equate Petrochemical	EQPTRC 3 03/03/22	Kuwait	3-Nov-16	5	3-Mar-22	1,000	3.00	Materials	BBB+/Baa2/-
Conventional	Commercial bank of Qatar	COMQAT 3 1/4 06/13/21	Qatar	13-Jun-16	5	13-Jun-21	750	3.25	Financial	BBB+/A2/-
Conventional	Abu Dhabi National Energy Co	TAQAUH 3 5/8 06/22/21	UAE	22-Jun-16	5	22-Jun-21	750	3.63	Utilities	A-/A3/-
Sukuk	Emaar Properties	EMAAR 3.635 09/15/26	UAE	15-Sep-16	10	15-Sep-26	750	3.64	Real Estate	BBB-/Baa3/-
Conventional	International Petroleum Investment Co.	INTPET 3.386 12/19/21	UAE	19-Dec-16	5	19-Dec-21	700	3.39	Government	AA-/A-
Conventional	National Bank of Abu Dhabi	NBADUH 0 10/21/46	UAE	21-Oct-16	30	21-Oct-46	696	0.00	Financial	AA-/Aa3/AA-

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