MENA FIXED INCOME MARKETS

A DEFENSIVE LANDSCAPE OFFERING DIVERSIFICATION OPPORTUNITIES AMID A GLOBAL HUNT FOR YIELD

- **MENA credits faring well in a challenging global market environment…**
  MENA bond markets were definitely not shielded from global headlines and Euro Area-driven volatility, but managed to take advantage of the current low rate environment and post a relatively healthy performance since the beginning of 2012. The Audi-compiled Z-spread based MENA bond index actually contracted by 32% year-to-date, outperforming broader emerging markets. The latter reported a contraction of 29% for EM sovereigns and quasi-sovereigns, and of 21% for EM corporates including banks over the same period.

- **… on lower correlation with global markets and strong domestic investor support**
  MENA credits are more defensive than others in periods of global market stress, which reflects their capacity to weather global macro/fiscal headwinds relatively better. They offer a diversification opportunity for global investors chasing yield and shying away from Euro Area-related market noise. MENA bonds display in general relatively lower correlation with broader emerging market indices than other regions at the level of both cash and CDS markets. This is complemented by the fact that local accounts remain strong anchors of bond markets and act as buffers in times of market stress.

- **Spate of MENA issuances contrasting with stagnant global primary market growth YTD**
  New issuances picked up some pace this year, along with a rally on secondary markets amidst a relative easing of regional tensions. MENA bond sales crossed the US$ 50 billion mark, rising by 41% from the year ago period and contrasting with stagnating international primary bond market activity.

- **Sovereigns continuing to lead primary market activity**
  New issuances this year can be attributed to stepped-up issuance on behalf of the region's oil exporters and fiscally challenged countries taking advantage of ultra-low yields to lock into longer-term financing at historically cheap rates and diversify their funding sources. This falls within the context of sovereigns' remarkable infrastructure spending spree and supports their diversification drives of the past few years, while following smooth redemption and/or bond refinancing on behalf of indebted Dubai corporates and State-linked entities. Sovereign issuances accounted for around 57% of total new MENA bonds year-to-date, with their value increasing by a yearly 44%.

- **Fairly moderate YTD volatility despite strong activity and global headwinds**
  Enhanced primary and secondary market performances, coupled with sporadic bouts of global credit tensions, favored a slight increase in average MENA bond volatility to a fairly moderate 11.6% year-to-date (circa 10.5% during the year ago period). Volatility has proved to be somewhat declining upon going down the curve, with short-end bonds recording 13.7%, against 9.7% for belly debt papers and 10.6% for long-end ones. Bond markets are dominated by locals who tend to be geared towards more volatile front-ended bonds while back-ended ones tend to be rather purchased by buy-and-hold investors.

- **High grade GRIs offer value the most in a defensive positioning mode**
  With MENA credits outperforming broader emerging markets so far this year and the current global environment suggesting cautiousness, investors generally tend to seek exposure to safer names that might still offer value despite the recent rally. Among the four groups of issuers, GRIs appear to offer value the most, with an overwhelming majority of names trading wide to their respective global sector peers with close duration/ratings. Practically half the financial institutions still offer value today, while only a couple of sovereigns and one corporate issuer offer value relative to selected peers.

- **Defensiveness of MENA credits a driving factor for further activity growth**
  Within ongoing regional macro resilience and search for high yield, market players are set to be increasingly looking to capture excess yield by going down both the region's duration and credit curves. Although the positioning of international investors in the region has surged over the past months, they are still relatively light on regional credits while locals continue to provide good demand. The region yet continues to offer value relative to similarly rated peers. More importantly, the defensive nature of MENA credits amid market stress should represent the driving factor for an increased involvement in the region's credit space.

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MARKET TRENDS

A tough global market backdrop amid lingering fiscal uncertainties…

Financial markets across the globe have had a challenging year 2012 so far. The Euro area debt woes continue to provoke bouts of volatility/uncertainties across global capital markets every now and then, with the gloomy macro/fiscal backdrop acting as major headwinds for European debt papers, especially in the sovereign and financial space, and corollarily impacting global investor sentiment and risk appetite. With fiscal austerity still on the cards at least in the near term and banks deleveraging and cutting back on European sovereign exposure, Euro-Area economic prospects appear quite weak. While European leaders agree to the pressing need of finding remedies to the continent's lingering indebtedness issues, those solutions actually require long-term structural reforms and a good deal of political consensus.

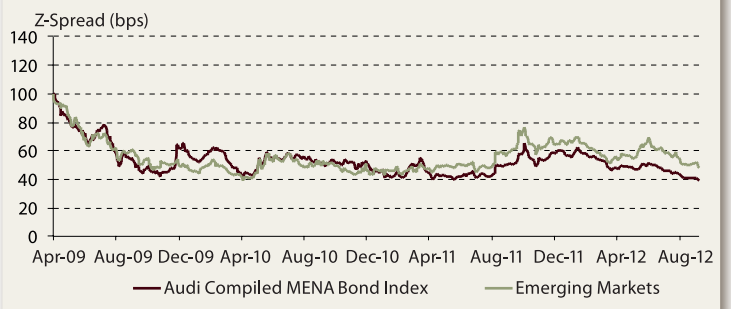
At the same time, the US recovery is proving particularly slow with the US Fed downgrading anew its near term forecasts and announcing a new round of stimulus measures dubbed QE3, at a time when the much talked about fiscal cliff is likely to hinder further growth prospects. This, coupled with a cooling down Chinese economic activity from buoyant performances in the past couple of years, has provided further incentives for uncertainty across global bond markets.

Within this still challenging macroeconomic backdrop, the markets remain pretty much in a wait-and-see mode with defensive positioning prevailing. Still, MENA bond markets have somehow managed to take advantage of the current environment and the US Fed's extended accommodative stance with rates kept at ultra-low record levels at least through 2015. The latter translated into continuously low US Treasuries rates favoring MENA credit market issuances and performances at large.

… to which MENA credits demonstrated relative resilience

It is true that Middle East and North Africa bond markets were definitely not shielded from global headlines and Euro Area-driven volatility, but they managed to post a relatively healthy performance since the beginning of the current year. The Audi-compiled Z-spread based MENA bond index, including the wide majority of the most liquid bond issuers in the MENA region today, actually contracted by 32% between end-December 2011 and the closing date of this report (September 10, 2012), outperforming broader emerging markets. The latter reported a contraction of 29% for EM sovereigns and quasi-sovereigns, and of 21% for EM corporates including banks over the same period. The reasons behind this year's positive performances of regional credits are four-fold:

Z-SPREAD BASED MENA BOND INDEX V/S INTL BENCHMARKS



Sources: Bloomberg, JP Morgan, Bank Audi's Group Research Department

MENA 5-YEAR CDS SPREADS V/S GLOBAL PEERS

Sources: Bloomberg, Bank Audi's Group Research Department

First, MENA credits display in general relatively lower correlation with broader emerging market indices than other regions. At the level of the cash markets, the results of a simple regression analysis covering the markets as of the start of this year and since the region's markets started to expand noticeably (April 2009) shows a moderate to strong coefficient of correlation with the broad EM averages for sovereigns/ quasi-sovereigns and corporates (including banks) as per JP Morgan compiled EMBIG sub-indices, yet clearly less so than other EM sub-regions.

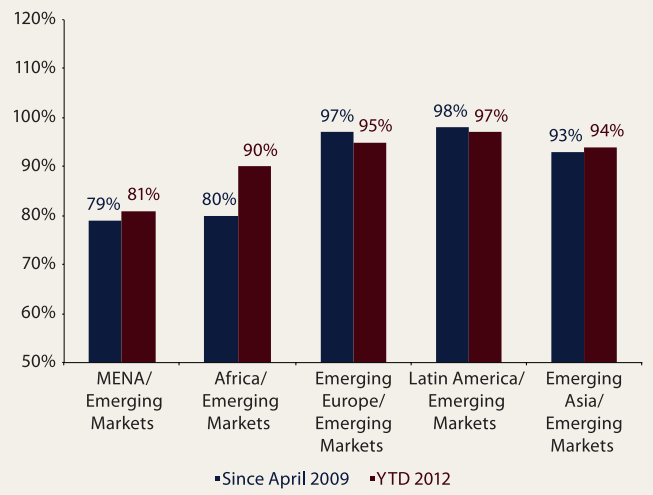
So far in 2012, the Middle East and North Africa region's credits showed moderate to strong correlation with emerging market sovereign/quasi-sovereign peers (coefficient of correlation standing at 81%), in line with the average since April 2009 and which stood at 79%. Other emerging market regions display very strong correlations to the broader EM average both year-to-date and since April 2009. For instance, the Africa/EM correlation reached 90% year-to-date and 80% since April 2009, and the Emerging Europe/ EM, Latin America/EM, and Emerging Asia/EM correlations stood in the 93%-98% range over both covered periods.

In parallel, the region's credits display a somewhat similar correlation to emerging market corporate peers (including financials) than to sovereigns/quasi-sovereigns, i.e. a moderate to strong one, though likewise clearly less so when comparing to other emerging market sub-regions. For instance, the correlation of MENA credits to EM peers stood at 74% year-to-date, declining from 85% over the April 2009-September 10, 2012 period, against higher benchmarks in the 88%-97% range for Emerging Asia and Emerging Europe corporates, 82%-92% for African corporates, and 79%-99% for Latin America corporates.

At the level of the CDS markets, results of the regression analysis on the average five-year Middle East sovereign CDS spreads, the average five-year EM CDS spreads and the average five-year iTraxx Europe Sovx spreads both this year and since the intensification of the European debt crisis and the start of the Arab Spring events (i.e. as of the year 2011) likewise shows that the region's CDS spreads correlation with EM peers has decreased this year to 65% from 72% in the broader January 2011-September 10, 2012 period, while at the same time the entire EM universe correlation with SovX Europe CDS spreads declined markedly from 82% to a quite moderate 45% this year alone.

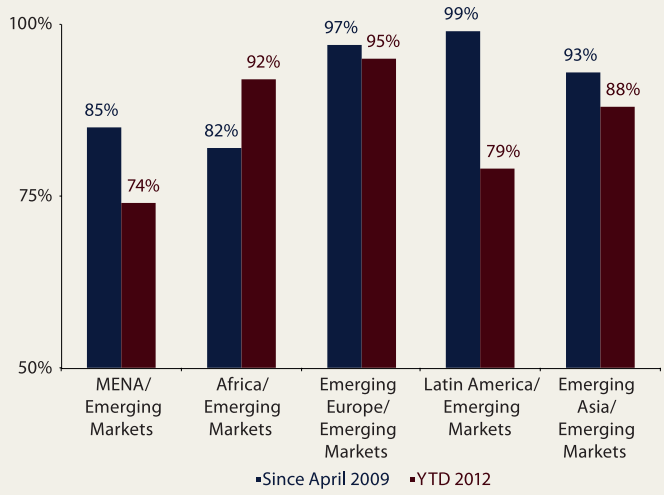
In this sense, MENA credits are, broadly speaking, more defensive than others in periods of global market stress, and this reflects their capacity to fare better in the face of global macro/fiscal headwinds such as those stemming from the Euro Area as of last year. MENA credits offer a diversification opportunity for global investors chasing yield and simultaneously shying away from Euro Area-related market noise, especially that the region's bond markets have grown quite noticeably in size over the past few years, and especially year-to-date, albeit from a comparatively low base. MENA bonds have increasingly been perceived as safer haven names in which real money and leveraged accounts can invest excess liquidity within uncertain global conditions.

CORRELATION OF MENA CREDITS/EM SOVEREIGNS



Sources: Bloomberg, JP Morgan, Bank Audi's Group Research Department

CORRELATION OF MENA CREDITS/EM CORPORATES



Sources: Bloomberg, JP Morgan, Bank Audi's Group Research Department

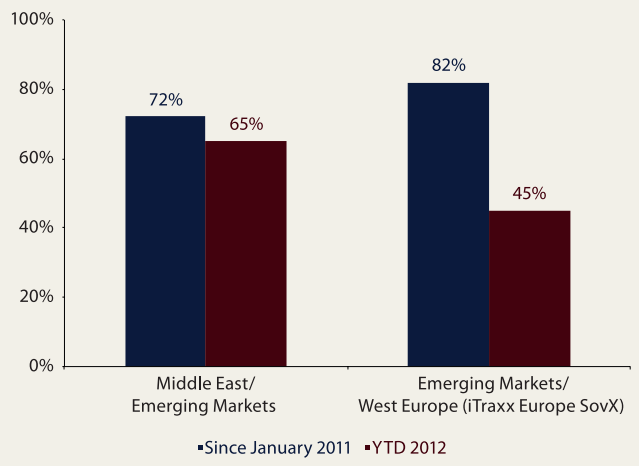
Second, and this could at least partly explain the relative resilience of MENA credits to broader market performances, local accounts remain strong anchors of MENA bond markets and act as buffers in times of market stress. As a matter of fact, with oil prices still at comparatively high levels, local liquidity remains strong, with GCC banks seeing a non-negligible increase in their deposit base over the past couple of years. With lending volume growth somewhat lagging behind in the aftermath of the global and Dubai credit crises outburst and, to a certain extent, the Arab Spring events in some parts of the region, excess liquidity has been partly channeled to domestic fixed income markets.

This year, the various issuances on behalf of MENA sovereigns, GRIs, and financial institutions over a five-year horizon enticed further locals who have been traditionally more active at the shorter end of credit curves, and thus contributed to steepening those credit curves over the past few months. In contrast, international accounts are keener to hold belly and longer ended bonds from the region, chasing slightly higher yields in difficult times and possibly attracted by the increased curves steepness. The latter had actually been accentuated by lighter positions on behalf of global investors in the aftermath of Arab Spring related developments and politico-security concerns, and amidst European debt turmoil, in the last few months of 2011 and the earlier part of 2012.

Third, high grade names are usually the defensive ones in times of global market stress, and tend to outperform higher yielding bonds. Yet, notable exceptions to this rule of thumb this year were Dubai credits. In fact, the Emirate's risk perception has improved in recent months, helped by progress on Dubai Inc. debt restructuring, a relative stabilization of domestic realty markets, relatively healthy economic performances, and more particularly, the smooth redemption/refinancing of corporates' 2012 maturities, all of which have eased investor concerns and improved overall sentiment towards Dubai bond markets. The re-pricing of risk was also felt on the CDS markets, with the five-year Dubai CDS spreads tightening by 160 bps year-to-date, bringing down the spread differential with its solid neighbor Abu Dhabi to 180 bps currently (317 bps at the start of the year).

On a similar note, Egyptian credits (mainly sovereigns and financials) reported price gains with the new President taking office and resuming talks with the IMF and international institutions and peer governments on possible aid for the country to shore up its falling FX reserves and give a boost to its fiscal outlook. Egypt's five-year CDS spreads reported the biggest regional contraction year-to-date (-207 bps), though sporadic events and lingering uncertainties had affected both domestic cash and CDS markets earlier in the year.

COMPARATIVE 5-YEAR CDS SPREADS CORRELATION



Sources: Bloomberg, JP Morgan, Bank Audi's Group Research Department

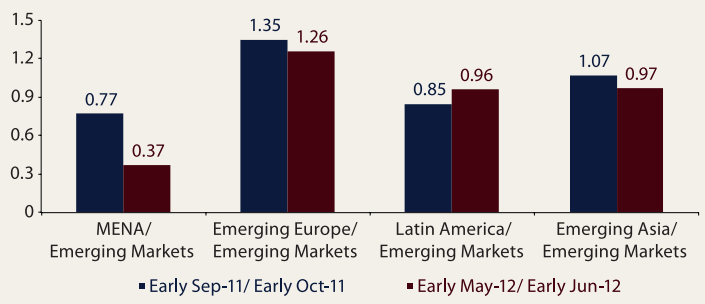
Fourth, with the region's issuers increasingly tapping the Sukuk market, whether locally or in Asia, demand has flocked in from GCC and Asian markets benefiting from strong liquidity. While this year's Sukuk issuances were largely in the financial space (in terms of number of issuances), strong demand for Islamic debt instruments usually comes from buy-and-hold investors which, coupled with relatively low supply, helps support cash prices better than conventional debt papers.

Last but not least, the fairly good degree of resilience can be spotted when comparing the sensitivity of MENA credit spreads to those of international benchmarks. This could be captured by measuring the variation of our spread-based MENA bond index to the variation of a spread-based benchmark index during periods of market jitters, which we labeled as the "market jitters" MENA credits beta. We define periods of market jitters as successive trading days (during one calendar month or more) witnessing market sell-offs (rise/volatility in z-spreads) and/or notable widening of CDS spreads, and subsequently identified strong European debt crisis related headwinds in the early September 2011-early October 2011 period and early May 2012-early June 2012 period, as times of market jitters.

When comparing MENA credits to the EM sovereign/quasi-sovereign group, the average of market jitters betas stood at 0.77 during the 2011 jitters period and an even lower 0.37 during this year's jitters period, well below the 1.00 threshold and proving comparatively weaker than other regions, showing that MENA credits are relatively less sensitive to European related headwinds than emerging market peers. Emerging Europe credits showed the highest sensitivity to neighboring European peers, with betas around 1.3 during the covered periods, against about 0.9-1.0 for Latin America peers and 1.0-1.1 for Emerging Asia peers.

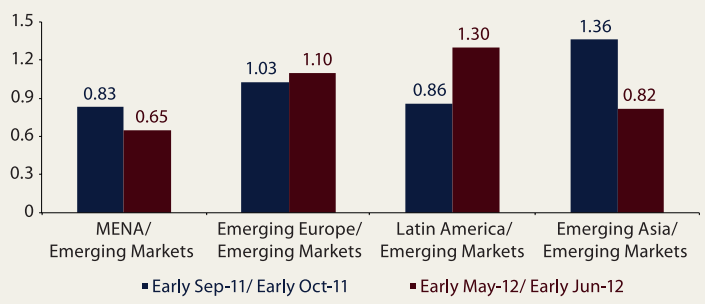
When comparing MENA credits to the EM corporates group, the average of market jitters betas stood at 0.83 in the 2011 identified timeframe and an even lower 0.65 in this year's identified period. This compared to higher betas of 1.03 and 1.10 respectively for Emerging Europe corporates, 0.86 and 1.30 for Latin America corporates, and 1.36 and 0.82 for Emerging Asia corporates, respectively.

MARKET JITTERS BETAS (MENA CREDITS V/S EM SOVEREIGNS)



Sources: Bloomberg, JP Morgan, Bank Audi's Group Research Department

MARKET JITTERS BETAS (MENA CREDITS V/S EM CORPORATES)



Sources: Bloomberg, JP Morgan, Bank Audi's Group Research Department

MARKET ISSUANCES

MENA issuances at new highs on record low yields

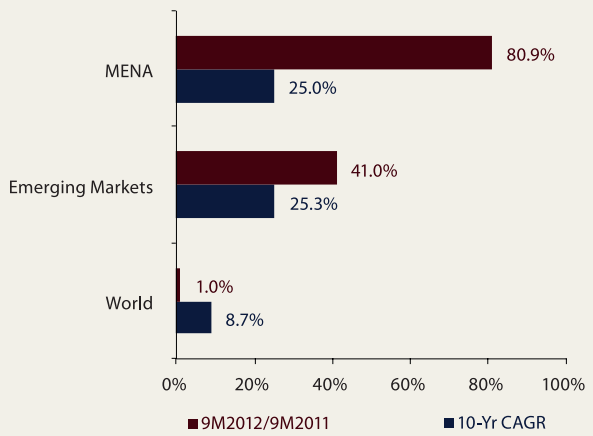
After a somehow rocky start to the year 2011 amidst unprecedented waves of protests across some of the MENA countries, and fears of spillovers to the rest of the region, MENA primary bond markets remained more or less quiet throughout most of the first half of the year 2011. And with the heightening of debt related uncertainties in peripheral Europe countries, accompanied by concerns about the sustainability of the Euro Zone as a whole and the ability of European governments to help heavily indebted countries amidst weakening global economic prospects, global credit markets renewed with volatility towards the third quarter of 2011. Primary bond markets in the region somewhat revived in the fourth quarter with some issuers choosing to come to the market despite widened spreads and lingering geopolitical tensions. But new issuances gained pace significantly this year, along with a rally on the secondary markets amidst a relative easing of regional tensions.

So far in 2012, the MENA region has seen a spate of bond sales, practically doubling in number as compared to the year ago period, and crossing the US$ 30 billion mark, as per Bloomberg data aggregating issuances with underwriters on a cross-regional scale (and therefore excluding for instance some domestic sovereign bond sales). This represents an 81% increase from the first nine months of last year, and is practically equivalent to 2x bond issuances growth across emerging markets over the first nine months of 2012, at a time when international bond markets witnessed a relative stagnation in issuances (+1.0% year-on-year).

Year-to-date bond issuances from the region almost equaled the total of the full-year 2011, and outpaced global bond issuances in terms of growth over the past decade. As a matter of fact, MENA region's bond issuances grew by an average of 25% over the first three quarter period of the past decade, albeit from a comparatively weak base. This is pretty much in line with broad emerging market bond issuances which progressed at a similar CAGR of 25% over the same period, yet outpaces by far total international bond issuances which grew by a CAGR of 9% over the past ten years.

As such, the share of MENA bond issuances out of the world's total practically doubled compared to the year ago period, moving from 0.6% in the first three quarters of last year to a new high of 1.0% this year. It is worth mentioning that this share was quasi-insignificant ten years ago at 0.25%. More specifically, the share of new MENA bonds out of all new emerging market bonds jumped to 3.6% this year, against 2.8% in the same period of 2011, likewise underlining the gradually growing size of the region's bond markets and increasing visibility on the global fixed income chessboard.

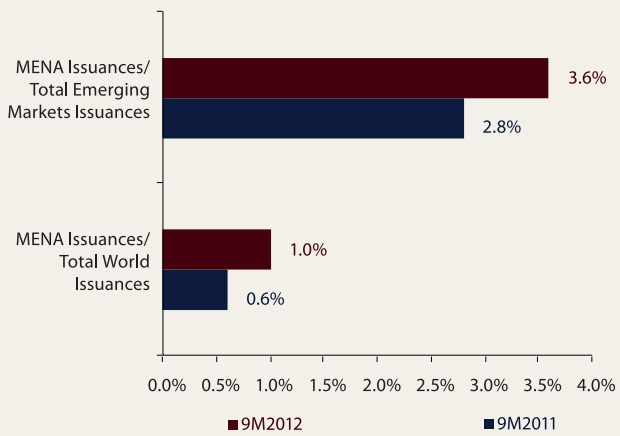
COMPARATIVE BOND ISSUANCES GROWTH*



* Data aggregating issuances with underwriters on a cross-regional scale

Sources: Bloomberg, Bank Audi's Group Research Department

SHARE OF MENA BOND ISSUANCES*



* Data aggregating issuances with underwriters on a cross-regional scale

Sources: Bloomberg, Bank Audi's Group Research Department

This year's strong figures can be attributed to stepped-up issuance on behalf of the region's oil exporters, particularly Qatar, Saudi Arabia and the UAE, while the Egyptian government mostly sold local currency denominated debt to fund its widening fiscal deficit. When summing up all the issuances out of the region (including domestic bond sales), we notice that this year has so far seen a high of US$ 51 billion in bond sales, rising by 41% from last year's similar period.

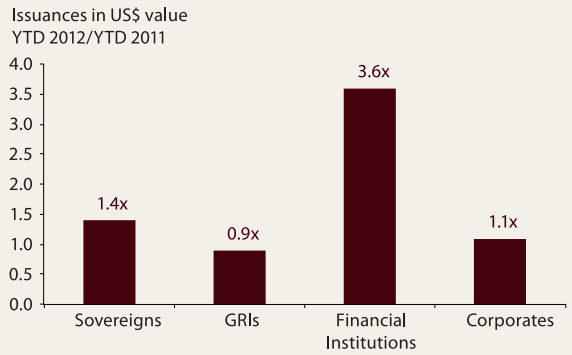
Governments and private sector borrowers across those GCC countries are taking advantage of ultra-low yields to lock into longer-term financing at historically cheap rates and, at the same time, diversify their funding sources. This actually falls within the context of sovereigns' remarkable spending spree on infrastructure, especially at the level of transportation (including hydrocarbons pipelines), and supports their diversification drives of the past few years.

New issuances have been favored as the once-problematic Dubai debt space saw the smooth redemption and/or refinancing of existing bonds on behalf of indebted corporates and State-linked entities. DHCOG settled a US$ 500 million bond that matured in February. JAFZ paid in full a US$ 2.0 billion Sukuk five months ahead of maturity in November 2012. DP World used its cash resources to repay a US$ 3 billion credit facility maturing in October 2012, six months ahead of schedule. DIFCI repaid on time a US$ 1.3 billion Islamic bond after securing a US$ 1.0 billion syndicated facility. This sent positive signals to the investor community and paved the way for a rally in secondary markets while leading to a year-to-date decline in the average Middle East sovereign CDS spreads by 77 bps to 255 bps as of the closing date of this report. This compares to a much higher global average sovereign CDS spread of 407 bps across 71 markets as per Bloomberg compiled figures.

Even though GCC sovereigns have strong fiscal and external accounts and excess liquidity, they come to the market to set a pricing benchmark for domestic government related issuers (GRIs) and corporates, and/or could borrow themselves at cheaper rates and extend funds to closely linked companies (GRIs) in the form of cash injection or loans. So far this year, sovereign issuances accounted for around 57% of total new bonds out of the MENA region, with their value increasing by almost 44% relative to the year ago period. Among the most consistent issuances in value terms, the State of Qatar placed a dual-tranche Sukuk (five and ten-year bonds) on international markets this July and totaling US$ 4 billion. The governments of Egypt and Morocco also tapped the markets several times this year, albeit through the issuance of domestic currency debt papers within the context of downward pressures on their fiscal accounts. Lebanon also proceeded with a handful of bond issuances this year, mainly in order to roll-over existing maturities.

Government-related issuers, also known as quasi-sovereigns, are tapping the market to diversify their funding sources away from traditional bank loans or shareholder loans/cash injections. Issuances seen so far this year fall within the context of infrastructure spending in the GCC. More particularly, Saudi Arabia's General Authority of Civil Aviation issued in January a ten-year domestic currency Sukuk for a total of US$

MENA BOND ISSUANCES GROWTH BY GROUP



Sources: Bloomberg, Bank Audi's Group Research Department

4 billion, the proceeds of which are aimed for a Jeddah airport, in a deal that could encourage other GRIs or corporates to come forward. Saudi Electricity Company sold a dual-tranche Sukuk in April for a total of US$ 1.75 billion in what was the largest international debt capital markets issuance from the Kingdom, seeking to support its expenditure requirements, broaden its investor base and enhance its funding mix while accessing longer-tenor financing.

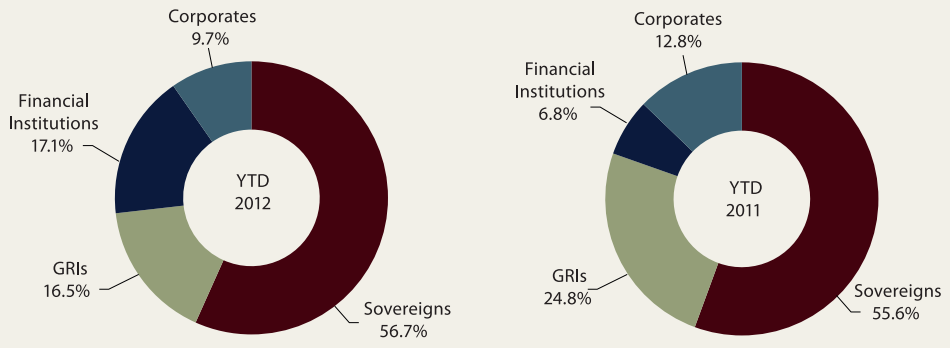
Qatar Petroleum tapped the Japanese market through the issuance of a US$ 1.1 billion ten-year Samurai bond in August, aiming to lure demand among Asian investors chasing higher returns and amidst plans to build petrochemical plants worth almost US$ 12 billion. Qatar, the world's largest liquefied natural gas exporter to international markets, is speeding up infrastructure projects ahead of the 2022 Soccer World Cup. Also, Abu-Dhabi Mubadala affiliated Dolphin Energy tapped markets to take advantage of lower yields and issued bonds worth a total of US$ 1.3 billion. All in all, MENA GRI issuances accounted for 16% of total new MENA bonds so far in 2012, with a share declining from a year ago bearing in mind large issuers of last year such as IPIC, Mubadala and SABIC have not yet tapped debt markets this year.

Financials issued remarkably more bonds than they did last year in the same period, and the total value of bonds rose by more than three folds year-on-year to account for 17% of total MENA bond issuances in 2012. Banks are seeking to diversify their funding sources, especially within the context of European banks' retrenchment from the region in the midst of clouded European fiscal prospects and ensuing deleveraging on behalf of large global banks. Qatari, Saudi, and mostly UAE banks have been the largest and most frequent issuers in the financials space year-to-date, through increasing Sukuk issuances and by tapping cash rich Asian markets. Sukuks are usually strongly demanded and tend to fare better in the face of market volatility as Sukuk bids typically come from buy-and-hold investors less inclined to liquidate their positions at the first unrest/tensions signal. So far in 2012, Sukuk issuances rose by 27% on a yearly basis and accounted for 36% of total year-to-date bond issuances from the MENA region.

Last but not least, corporate issuances slightly increased so far in 2012 relative to the year ago period, accounting for about 10% of total new MENA bonds, notably with Dubai corporates coming to the market in order to raise liquidity and/or roll-over nearing maturities.

What remains to be said is that those issuances were met by relatively healthy investor appetite. In particular, local bids supported MENA bond markets this year, especially as the region's banks have seen an increase in deposits and are looking to invest their excess liquidity usually in shorter-end debt papers. Foreigners are more active at the belly and back-end of debt curves, notably at the level of sovereigns and GRIs.

MENA BOND ISSUANCES VALUE BY GROUP



Sources: Bloomberg, Bank Audi's Group Research Department

MARKET VOLATILITY

Fairly moderate year-to-date volatility levels

Within the context of relatively improved economic conditions across GCC countries, still high oil prices favoring liquidity and interest rates kept at ultra low levels globally, and amidst the retrenchment of European banks from the region, primary and secondary bond markets in the region benefited from a rise in activity along with a contraction in spreads. This happened at a time when sporadic bouts of volatility stemming from Euro area debt woes hit global markets, and lead to a slight increase in the average MENA bond volatility. The latter, measured as the ratio of z-spreads' standard deviation to their mean, reached 11.6% since the beginning of 2012, slightly rising from circa 10.5% during the corresponding period of 2011. Such volatility levels remain fairly moderate in absolute terms, though somewhat higher than the broad emerging markets benchmarks.

The region's sovereign and State-linked bonds have witnessed more fluctuations on a spread basis than emerging markets. As a matter of fact, volatility ratios of the former entities within the MENA region averaged 11.8% while that of the latter recorded 9.3% since the beginning of 2012 as per JP Morgan's EMBIG (including sovereigns and quasi-sovereigns). It is worth noting that MENA sovereigns and quasi-sovereign bond volatility proved for instance slightly higher than that of Emerging Asia peers (10.8%), yet somewhat lower than Africa peers (12.9%), and Emerging Europe peers (13.4%) which were more directly affected by spillover fears from the EU crisis.

Within the MENA sovereign bonds group, volatility was at 11.1% with the highly traded Abu Dhabi papers, including front-ended Abu Dhabi'14 (low spreads), reports the highest average volatility of 22.8%. They were followed by Dubai papers (14.1%) which were outperformers in the region due to positive economic headlines as well as the Emirate's ongoing safe haven status relative to some of its troubled MENA peers. This is even more compounded by the progress achieved on the Dubai World restructuring front and the successful redemption of maturities of Dubai corporates so far this year which sent positive signals to the investor community. On the other hand, Moroccan bonds posted the lowest volatility of 4.7%, which could be somewhat attributed to the fact that sovereign issuances witnessed relatively contained fluctuations as the country has been able to avoid an uprising comparable to that seen in its neighboring North African countries, and also bearing in mind that trading volumes are lower than those of Gulf peers.

Quasi-sovereign bonds reported a volatility ratio of 12.8% year-to-date. Investment grade bonds issued by entities specialized in oil, gas and chemicals had the most significant variations on a relative basis within the context of fluctuations in oil prices amidst lingering geopolitical tensions in the Persian Gulf region. Indeed, Sabic and Taqa bonds volatility reached 14.6% for each. Apart from relatively volatile back-end RasGas bonds, those at the very front-end of the curve reported a 20.3% volatility ratio. In parallel, Euro-denominated IPIC debt papers (the 2016s and the 2021s) reported higher volatility than other outstanding papers (27.3% and

MENA YTD COEFFICIENT OF VOLATILITY (BY GROUP)

Group	Standard Deviation	Average Z-spd	Coefficient of Variation
Sovereigns	35.3	319.8	11.1%
GRIs	33.1	258.2	12.8%
Financial Institutions	21.9	230.1	9.5%
Corporates	73.7	567.0	13.0%
MENA Average	**34.5**	**298.2**	**11.6%**

Sources: Bloomberg, Bank Audi's Group Research Department

17.3% respectively), within the context of increased Euro area uncertainties. Also, more liquid and front-ended bonds maturing in 2014, such as corresponding Mubadala, TDIC and Qtel papers, also explain the slightly higher average for this group.

The volatility of MENA corporates and financial bonds, which posted a moderate average of 11.1%, also exceeded that of comparable bonds within the emerging world geography. The latter, measured by JP Morgan's CEMBI Broad index (including banks), reached 6.6% so far this year, yet with the Emerging Europe sub-region standing out with a volatility ratio of 12.4% over the same period.

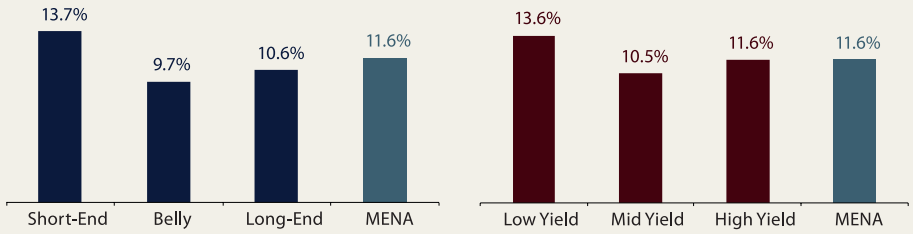
Amongst corporates, which reported a volatility of 13.0% (the highest among the four groups of issuers), Waha, a bond explicitly guaranteed by the sovereign and mostly held by foreigners which tend to be the first to exit the market during disturbances, had the highest volatility within its group of 22.0%. It was followed by some high beta names such as Dar Al Arkan (20.8%) which had some negative headlines revolving around repayment uncertainties as the company got nearer to maturity date (the bond got redeemed on time thereafter), Dubai Holding with 15.9% and Emaar with 12.2%, both of which benefited from positive company specific factors and improving domestic macro headlines.

Financial institutions posted the lowest volatility among the four groups with 9.5%, with a number of Sukuk issuances and less liquid names favoring lower single-digit volatility measures year-to-date. This was somehow tempered by more liquid Abu Dhabi and Qatari financials with front-ended maturities (ADCB 14s, NBAD 14s and CBQ 14s).

Finally, volatility has proved to be somewhat declining upon going down the curve, with short-end bonds recording a volatility of 13.7%, higher than that of belly debt papers (9.7%) and long-end ones (10.6%). This trend could most likely be attributable to the fact that bond markets are dominated by locals who tend to be more geared towards front-ended bonds (lower spreads as they are nearer to maturity, and thus higher volatility de facto) while longer-ended ones tend to be more purchased by buy-and-hold investors. Within this latter category, some investors tend to hold on more to their debt papers during times of market jitters, though it is true that some international accounts do lighten their positions amidst negative signals.

Similarly, lower yielding papers tend to report a volatility higher than that of the higher yielding ones (13.6%, against 10.5% for mid-yield bonds and 11.6% for high-yielding papers) as they are more frequently traded within the context of a risk averse environment and especially that such a category tends to consist more of short-ended bonds than longer-ended ones.

COMPARATIVE COEFFICIENTS OF VOLATILITY



Sources: Bloomberg, Bank Audi's Group Research Department

RELATIVE VALUE

High grade GRIs offer value the most in an overall defensive positioning mode

With MENA credits outperforming broader emerging markets so far this year and the current global environment suggesting cautiousness, investors generally tend to seek exposure to safer names that might still offer value despite the past few months' rally.

Within the region, we established some sector benchmarking for selected issues of all four groups of issuers (sovereigns, GRIs, financial institutions, and corporates), with one maturity selected per issuer (either a five-year paper, or a sufficiently liquid one, or even one with underlying sovereign bonds) in order to determine which papers offer relative value, and which ones appear rather expensive relative to peers.

For each names chosen, we narrowed peers according to the following criteria:

(a) Peers operating more or less in the same sector/sub-sector. For papers explicitly guaranteed by governments such as Abu Dhabi's Waha Aerospace and Qatar's Qatari Diar, peers consist of sovereigns as bondholders are practically exposed to sovereign risk;

(b) Peers having approximately similar maturities. For MENA bonds with fewer such peers, we extended the selection to +/- two years, and for sinking papers, we based our selection on duration instead of maturity, or chose sinking peers as well if possible;

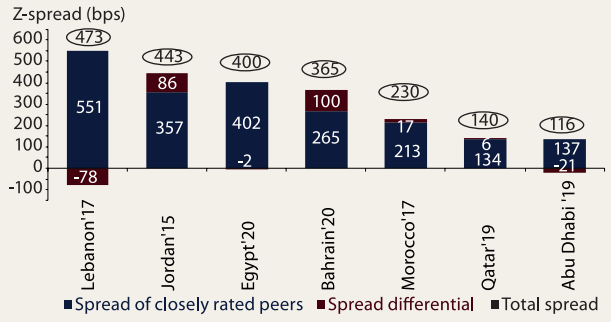
(c) Peers consisting of closely rated names. The ratings selection extended to a couple of notches above and below the issuer itself whenever necessary (for issues rated by Moody's, S&P and Fitch);

(d) Those peers selected are not from the Middle East and North Africa, but global peers mostly from other emerging markets. The only exception notable is for Sukuks (in particular, those issued by financial institutions from the region). In the latter case, the only peers available with US Dollar denominated debt papers appear to be those from the region itself;

(e) The few MENA names not appearing in our charts hereunder are those without sufficient actual peers or those that are not rated. Hence, the average z-spread of peers would not represent an effective benchmark for relative value purposes.

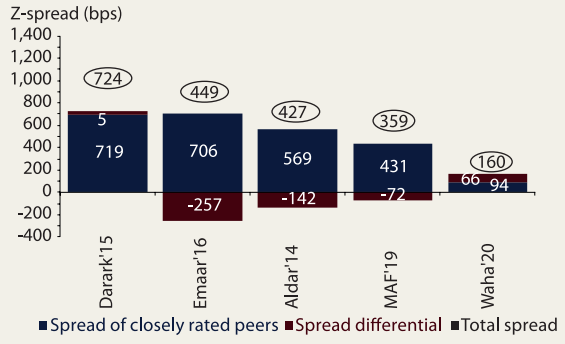
Among the four groups of issuers from the Middle East and North Africa region, government related issuers appear to offer value the most, with an overwhelming majority of names trading wide to their respective peers. Practically half the financial institutions still offer value today, while only a couple of sovereigns and one corporate offer value relative to selected peers.

SELECTED SOVEREIGN SPREADS V/S CLOSELY RATED PEERS



Sources: Bloomberg, Bank Audi's Group Research Department

SELECTED CORPORATES SPREADS V/S CLOSELY RATED PEERS



Sources: Bloomberg, Bank Audi's Group Research Department

Within the sovereigns space, only Bahrain'20 and Jordan'15 seem to offer value relative to their sovereign peers, trading 100 bps and 86 bps wide to the latter, respectively. With regards to the former, while net foreign and fiscal positions remain adequate, some politico-security uncertainties persist despite this year's improving environment relative to last year's accrued tensions and which translated into a contraction in CDS spreads since the beginning of the year (-110 bps, the third largest contraction in the region after Egypt and Dubai). With regards to the latter, the sole sovereign issuance so far has been mostly subscribed to by domestic banks and thus remains less liquid than others, while fiscal accounts are likely to continue weighing on this sub-investment grade bond.

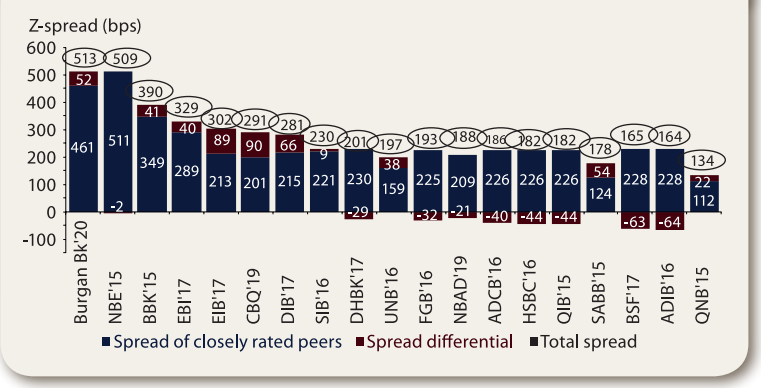
Within the corporates space, only Waha'20 (amortizing) trades notably wide to peers, offering a positive 66 bps spread differential. Waha'20 happens to be only explicitly non-sovereign guaranteed bond by the government of Abu Dhabi. In this sense, Waha bondholders are practically exposed to Abu Dhabi sovereign risk. Trading 44 bps wide to non-sinking Abu Dhabi'19, Waha'20 represents a good proxy to Abu Dhabi sovereign exposure. The Abu Dhabi government enjoys one of the highest creditworthiness around the world, underpinned by very low indebtedness ratios (estimated in the 5%-6% of GDP range), a persistently large stock of hydrocarbons reserves, a wide pool of foreign assets, and a great deal of domestic political stability.

Within the financial institutions space, the papers offering value the most relative to peers are CBQ'19, EIB'17 and DIB'17. They trade 90 bps, 89 bps and 66 bps wide to their peers, respectively. Commercial Bank of Qatar (CBQ), which offers value the most in its category, remains one of the most solid names in the financial institutions space. Over and above its 17% share in CBQ, which is currently the largest private sector bank in Qatar, the healthy government of Qatar has proven ready and willing to extend support to the banking sector should the need arise. CBQ boasts persistently strong financial metrics across the board, namely solid capitalization (capital adequacy ratio of 17.7% at end-June 2012), strong asset quality ratios (NPLs/Total loans at a mere 0.82%, and specific loan coverage ratio at 138%), healthy profitability (ROAA at 2.8% and ROAE at 14.5% during 1H2012) and high efficiency ratios (cost-to-income at a low 29.7%) in addition to healthy margins (NIM at 3.1%).

Emirates Islamic Bank'17 (EIB'17) and Dubai Islamic Bank'17 (DIB'17) are both investment grade Sukuks issued earlier this year out of the Emirate of Dubai. On the one hand, Emirates Islamic Bank is majority owned by a government vehicle (Investment Corporation of Dubai) through Emirates NBD and boasts adequate capitalization, but has been incurring net losses since the year 2011, and reported increasing impairment allowances which could help explain comparatively higher premiums. On the other hand, Dubai Islamic Bank is one of the largest Islamic banks in the world, and boasts a large franchise throughout the Emirates. This, coupled with partial government ownership through the Investment Corporation of Dubai as well, leads to a notable systemic importance. Yet, the rapidly deteriorating asset quality metrics in the aftermath of the Dubai real estate downturn (low double-digit NPLs/Total loans ratio and decreasing loan loss coverage at end-2011) might help explain higher spreads relative to peers.

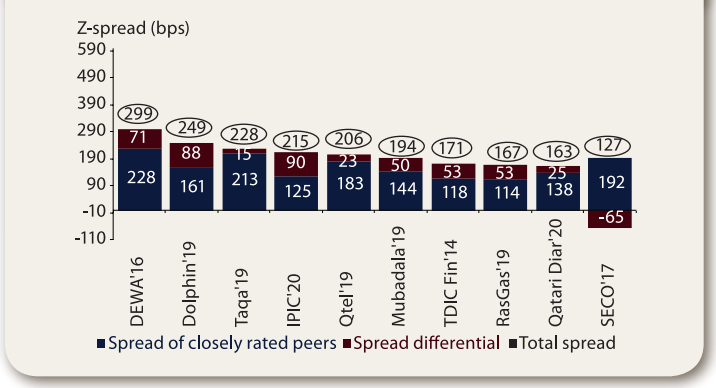
Within the GRIs space, a handful of Abu Dhabi and Qatari names offer value relative to their peers, and investors seeking sovereign exposure might find value in those names. In particular, Abu Dhabi's "crown

SELECTED FIs SPREADS V/S CLOSELY RATED PEERS



Sources: Bloomberg, Bank Audi's Group Research Department

SELECTED GRIS SPREADS V/S CLOSELY RATED PEERS



Sources: Bloomberg, Bank Audi's Group Research Department

jewels", namely IPIC'20, Mubadala'19, and TDIC Finance'14 spreads continue to suggest relative value in the domestic space (i.e. relative to underlying sovereigns) and in the global sector universe.

IPIC'20 offers an interesting pick-up over underlying sovereign bonds at current spreads, especially given the strong government support since it is hard to differentiate between IPIC and the Abu Dhabi government in terms of credit risk. The Department of Finance said it backs IPIC "fully" and "unconditionally", and that it benefits from strong fiscal position and reserves allowing it to meet its commitments to IPIC from its own resources. This mitigates to a notable extent the company's significant leverage (net debt 2.2x higher than IPIC's equity base as at end-2011) and rather tight liquidity profile (cash covering barely half of the short-term debt). IPIC'20 currently trades 99 bps wide to Abu Dhabi'19. Hence, a switch out of Abu Dhabi'19 and into IPIC'20 would allow a notable pick-up in spreads with investors extending duration by 1.1 year only. Interestingly enough, IPIC'20 now trades pretty much in line with longer-dated IPIC'22. IPIC'20 also offers compelling value from a global sector perspective, trading around 90 bps wide to their peer universe.

Mubadala remains the principal driving force behind the Emirate of Abu Dhabi's diversification strategy, and is widely perceived as being indistinguishable from the government. Investors looking for exposure to prime Abu Dhabi risk could benefit from steadily higher spreads than those of sovereigns (the Mubadala'19/Abu Dhabi'19 differential stands at 78 bps). The issuer has also been persistently offering relatively higher value than closely rated credits around the world, trading 50 bps higher than the peer universe as of the closing date of this report. Over and above the strong and explicit government support, Mubadala retains adequate liquidity at hand, with US$ 3.7 billion in cash and cash equivalents as at end-June 2012 covering short-term debt dues by 2.2x. Still, large capex needs at growing subsidiaries continue to weigh on leverage, which could continue being constrained in the near term given the relatively weak cash flow generation as long as the company remains in its early stages of development. Mubadala's gearing ratio (net debt/net debt + equity) stood at 19.1% at end-June 2012 on account of a solid and growing equity base.

TDIC Finance'14 also offers relative value, as suggested by the positive spread differential with underlying sovereign papers and relative to the peer universe (53 bps). It is yet worth noting that the outstanding issues are both shorter-term debt, and that the company remains significantly leveraged given large funding needs in the early development stages (though financial accounts for 2011 and 2012 have not yet been published).

Among other GRIs offering value is Dolphin Energy, a key Mubadala subsidiary operating a pan-GCC gas project core to Abu Dhabi's economic diversification strategy. The company continues to benefit from healthy debt service coverage ratios, standing at 3.3x last year and projected to average around 3.6x throughout June 2018 by the company. Dolphin'19 (sinking) offers value even when compared to other non-sinking 2019s such as Abu Dhabi (+133 bps spread differential) and parent company Mubadala (+55 bps), which provides investors with an opportunity to add Abu Dhabi exposure at a relatively adequate risk level. The bonds offer an interesting pick-up over similar credits across the globe (+88 bps). Dolphin'19 trades wide to all Abu Dhabi peers, including those with a weaker standalone credit profile. It is interesting to note that the looming Hormuz strait closure concerns coupled with a complex project structure might to a certain extent contribute to wider spreads, though bonds are well-covenanted and an adequate debt servicing mechanism is in place.

Another gas player offering value is Qatar-based RasGas, with bonds maturing in 2019 posting a 53 bps differential in spread terms with its global peer universe. RasGas is widely perceived as a strong quasi-sovereign issuer, and takes advantage of a cost efficient structure to generate comfortable margins. Operating margins stood at 54.1% in this year's first half, and liquidity is adequate, with cash at hand covering around 2x short-term debt dues, while debt service coverage ratios remain largely comfortable to date, thus mitigating potential short-term operations disruptions. RasGas'19 trades 27 bps wide to underlying Qatari sovereigns.

Last but not least, Dubai-based utility DEWA is the sole provider of electricity and water in the Emirate. The company is owned by the government of Dubai, which supports it through subsidized feedstock arrangements and more recently tariff increases. DEWA retains a dominant market position in its field of activity, and achieved an improvement in financial metrics over the past year and a half following tariff hikes and retention of dividends or cash distribution in order to bolster cash generation and debt servicing capacity. While it is true that the Dubai debt space is not yet completely dissociated from debt overhang, DEWA'16 currently trades close to 50 bps wide to underlying sovereigns and offers a 71 bps upside to its peer universe.

MARKET OUTLOOK

Appealing defensive plays amidst growing challenges ahead

Looking ahead, fixed income issues from the MENA region are still expected to be abundant in the fourth quarter of the current year and in the year ahead within the context of a persistently low interest rate environment and considerable market financing needs. A total of US$ 15 billion of new issues is indeed today in the pipeline for the remainder of the year. A bit of migration from the bank loan side is actually expected which should help improve capital markets debt volumes. The majority of expected issues continue to be conventional bonds, even though there is growing interest in Islamic issues. So far this year, the number of transactions in the primary space has risen significantly relative to last year's corresponding period.

Regarding the regional fixed income market outlook, an assessment of macro trends first imposes itself. The cloudy politico-security conditions are actually having some contractionary effects on the region's real economy. The region's external growth drivers, such as inflows, FDIs and tourists have indeed been adversely impacted. Private financial flows are expected to drop by half in 2012 while net private direct investments are set to fall by 9% year-on-year. Such adverse spillovers are yet being partly compensated by favorable domestic growth drivers triggered by higher government social spending with corollary effects on private demand. Within this environment, the IMF forecasts MENA growth at 5.3% in 2012 and 3.6% in 2013, with the public sector representing a main driver for growth.

In the meantime, high oil prices, low interest rates, strong domestic demand and comparatively scarce supply mean that MENA bond markets remain buoyant. At the global level, the overall interest rate environment is set to remain low until at least 2015. The heightening of fiscal driven sovereign distress is dampening consumer and investor confidence and triggering volatility in global trade flows, taking a toll on the real economy. With government indebtedness exceeding GDP for the first time in the world's largest economies, concerns about fiscal sustainability are increasing. Global credit conditions are consequently tightening further, which is contributing to slowing down further world output growth. The global context will warrant an extended accommodative monetary stance, with monetary regulators maintaining rates at historically ultra low levels while continuing to provide large liquidity to the banking system to appease market tensions.

Within this environment, MENA bonds still look appealing on the overall. At the sovereign level, despite the year-to-date rally, there is still value at the longer end of the curve. The sovereign instruments continue to trade wider to a number of comparable sovereigns, especially that they are excluded from widely-tracked emerging markets benchmarks such as EMBI. Given their safe-haven status, spreads on some GCC sovereigns could still narrow further in the near term. But before long, spreads on Bahrain's and Dubai's bonds are set to widen again in line with emerging markets and in the same way they did in previous global crisis.

At the level of GRIs, the relatively strong financial standing of issuers provides a continuously attractive drive to market prices and spreads especially amidst persisting market jitters. On the overall, the sovereign support remains clear, in some places even explicit. The low beta names are still expected to perform well given where United States Treasuries are trading. The relative value analysis when compared to global peers shows that GRIs remain quite attractive in the global credit space.

At the level of financial institutions and corporates, overall fundamentals remain relatively sound among the issuers (more so for FIs than for corporates on the overall). Such issuers are likewise resilient in terms of their credit profile and general financial standing, though relatively less than the former group. In particular, risk profiles of financial issuers are underpinned by sound financial metrics, namely relatively low asset quality metrics, healthy capitalization levels, adequate liquidity ratios and strong efficiency and profitability figures. It is yet worth mentioning that unlike corporates, most of such issuers are showing positive relative value.

On the basis of ongoing regional macro resilience and within the context of the search for high yield among investors, market players are set to be increasingly looking to capture excess yield by going down both the region's duration curve and the region's credit curve. Although the positioning of international investors in the region has increased over the past months, they are still relatively light on regional credits while the locals continue to provide good demand. The region yet continues to offer value relative to similarly rated peers. More importantly, the defensive nature of regional credits amid market stress should represent the driving factor for an increased involvement in the region's credit space at large.

APPENDIX A: YEAR-TO-DATE SPREAD PERFORMANCES BY GROUP

SOVEREIGN BONDS 2012 YEAR-TO-DATE VOLATILITY*

Issuer	Standard Daviation	Average Z-Spread	Coefficient of Variation
Jordan'15 (3.875%)	49.4	419.3	11.8%
Lebanon'14 (7.375%)	49.9	323.1	15.4%
Lebanon'14 (9.0%)	52.4	320.6	16.3%
Lebanon'15 (5.875%)	39.2	357.4	11.0%
Lebanon'15 (8.5%)	41.9	362.3	11.6%
Lebanon'16 (4.75%)	37.0	385.6	9.6%
Lebanon'16 (11.625%)	46.7	383.7	12.2%
Lebanon'16 (8.5%)	43.4	377.3	11.5%
Lebanon'17 (9.0%)	44.6	390.7	11.4%
Lebanon'17 (5.0%)	31.7	412.1	7.7%
Lebanon'18 (5.15%)	34.1	387.9	8.8%
Lebanon'18 (5.35%) EUR	37.5	371.3	10.1%
Lebanon'19 (6.0%)	38.1	398.7	9.6%
Lebanon'19 (5.45%)	37.1	396.0	9.4%
Lebanon'20 (6.375%)	49.4	409.4	12.1%
Lebanon'21 (8.25%)	49.4	409.4	12.1%
Lebanon'22 (6.10%)	38.3	407.2	9.4%
Lebanon'24 (7.0%)	39.0	418.0	9.3%
Lebanon'26 (6.6%)	37.6	424.3	8.9%
Lebanon Average	41.5	385.3	10.8%
Egypt'20 (5.75%)	56.0	504.7	11.1%
Egypt'40 (6.875%)	37.5	569.3	6.6%
Egypt Average	46.8	537.0	8.7%
Morocco'17 (5.375%) EUR	9.8	246.9	4.0%
Morocco'20 (4.5%) EUR	17.8	347.9	5.1%
Morocco Average	13.8	297.4	4.7%
Abu Dhabi'14 (5.50%)	18.1	48.6	37.2%
Abu Dhabi'19 (6.75%)	26.8	148.0	18.1%
Abu Dhabi Average	22.4	98.3	22.8%
Dubai'14 (6.396%)	73.5	341.8	21.5%
Dubai'15 (6.70%)	64.8	370.9	17.5%
Dubai'17 (4.9%)	38.4	309.0	12.4%
Dubai'20 (7.75%)	43.0	446.3	9.6%
Dubai'21 (5.591%)	56.3	359.1	15.7%
Dubai'22 (6.45%)	37.8	401.6	9.4%
Dubai Average	52.3	371.4	14.1%
Qatar'14 (5.15%)	14.8	95.0	15.6%
Qatar'15 (4.0%)	15.5	126.5	12.3%
Qatar'17 (3.125%)	19.7	141.6	13.9%
Qatar'18 (2.099%)	6.8	109.1	6.3%
Qatar'19 (6.55%)	28.5	171.6	16.6%
Qatar'20 (5.25%)	28.3	178.7	15.8%
Qatar'22 (4.5%)	28.5	177.8	16.0%
Qatar'23 (3.241%)	11.9	126.1	9.4%
Qatar'30 (9.75%)	31.6	235.3	13.5%
Qatar'40 (6.40%)	28.7	238.9	12.0%
Qatar'42 (5.75%)	32.0	233.8	13.7%
Qatar Average	22.4	166.8	13.4%
CBBIS'14 (6.247%)	24.4	217.4	11.2%
CBBIS'18 (6.273%)	31.8	357.4	8.9%
Bahrain'20 (5.50%)	27.7	413.1	6.7%
Bahrain'22 (6.125%)	19.2	439.4	4.4%
Bahrain Average	25.8	356.8	7.2%
Group Average	**35.3**	**319.8**	**11.1%**

** US Dollar denominated bonds, unless otherwise indicated*

Sources: Bloomberg, Bank Audi's Group Research Department

GOVERNMENT RELATED ISSUER BONDS 2012 YEAR-TO-DATE VOLATILITY*

Issuer	Standard Daviation	Average Z-Spread	Coefficient of Variation
Emirates Airlines'16 (5.125%)	31.8	357.5	8.9%
Jafz'19 (7.00%)	28.0	472.1	5.9%
Mumtalakat'15 (5.00%)	38.8	395.0	9.8%
Dolphin'19 (5.888%)	22.6	288.7	7.8%
Dolphin'21 (5.5%)	29.4	261.8	11.2%
Dolphin Average	26.0	275.3	9.5%
SABIC'15 (3.00%)	22.2	151.9	14.6%
SECO'17 (2.665%)	14.3	136.8	10.4%
SECO'22 (4.211%)	27.4	188.7	14.5%
SECO Average	20.8	162.7	12.8%
Qatari Diar'15 (3.50%)	15.2	135.2	11.3%
Qatari Diar'20 (5.00%)	24.7	196.6	12.6%
Qatari Diar Average	20.0	165.9	12.0%
Qtel'14 (6.50%)	33.9	136.0	24.9%
Qtel'16 (3.375%)	20.3	181.8	11.2%
Qtel'19 (7.875%)	27.4	246.3	11.1%
Qtel'21 (4.75%)	29.4	231.3	12.7%
Qtel'25 (5.00%)	25.8	240.5	10.8%
Qtel Average	27.4	207.2	13.2%
Ras Gas'14 (5.5%)	30.9	152.7	20.3%
Ras Gas'16 (5.832%)	14.9	291.8	5.1%
Ras Gas'19 (6.75%)	23.3	214.3	10.9%
Ras Gas'20 (5.298%)	17.7	237.3	7.5%
Ras Gas Average	21.7	224.0	9.7%
Taqa'14 (4.75%)	29.9	179.8	16.7%
Taqa'16 (5.875%)	27.7	222.4	12.5%
Taqa'17 (6.165%)	37.1	241.9	15.4%
Taqa'17 (4.125%)	39.0	225.4	17.3%
Taqa'18 (7.25%)	37.7	268.0	14.1%
Taqa'19 (6.25%)	31.9	273.0	11.7%
Taqa'21 (5.875%)	42.9	288.8	14.8%
Taqa'36 (6.5%)	50.2	334.8	15.0%
Taqa Average	37.1	254.3	14.6%
TDIC Finance'14 (6.50%)	30.9	196.6	15.7%
TDIC Sukuk'14 (4.949%)	31.6	177.0	17.8%
TDIC Average	31.3	186.8	16.7%
Mubadala'14 (5.75%)	29.2	120.9	24.1%
Mubadala'16 (3.75%)	21.4	183.9	11.6%
Mubadala'19 (7.625%)	41.8	230.3	18.1%
Mubadala'21 (5.50%)	32.4	254.1	12.8%
Mubadala Average	31.2	197.3	15.8%
IPIC'15 (3.125%)	32.9	170.3	19.3%
IPIC'16 (4.875%) EUR	45.6	167.1	27.3%
IPIC'17 (3.75%)	29.4	216.5	13.6%
IPIC'20 (5.00%)	26.5	269.6	9.8%
IPIC'21(5.875%) EUR	52.7	304.7	17.3%
IPIC'22 (5.50%)	37.4	293.6	12.7%
IPIC'26 (6.875%) GBP	51.3	337.7	15.2%
IPIC'41 (6.875%)	56.8	356.2	15.9%
IPIC Average	41.6	264.5	15.7%
DEWA'15 (8.50%)	57.6	386.5	14.9%
DEWA'16 (6.375%)	54.3	358.9	15.1%
DEWA'20 (7.375%)	39.8	455.7	8.7%
DEWA Average	50.5	400.3	12.6%
DP World'17 (6.25%)	42.6	379.8	11.2%
DP World'37 (6.85%)	34.3	466.7	7.3%
DP World Average	38.4	423.2	9.1%
Group Average	**33.1**	**258.2**	**12.8%**

** US Dollar denominated bonds, unless otherwise indicated*

Sources: Bloomberg, Bank Audi's Group Research Department

FINANCIAL INSTITUTIONS BONDS 2012 YEAR-TO-DATE VOLATILITY*

Issuer	Standard Daviation	Average Z-Spread	Coefficient of Variation
Doha Bank'17 (3.5%)	19.2	232.3	8.3%
EBI'17 (4.625%)	16.7	344.4	4.8%
DIB'17 (4.752%)	29.5	301.3	9.8%
UNB'16 (3.875%)	23.0	239.6	9.6%
SIB'16 (4.715%)	23.3	257.3	9.1%
HSBC'15 (3.0%)	16.5	187.5	8.8%
HSBC'16 (3.575%)	14.7	206.3	7.1%
HSBC Average	15.6	196.9	7.9%
ISDB'14 (3.172%)	13.9	71.2	19.6%
ISDB'15 (1.775%)	10.5	78.5	13.3%
ISDB'16 (2.35%)	17.0	83.5	20.3%
ISDB'17 (1.357%)	8.7	55.8	15.6%
ISDB Average	12.5	72.2	17.3%
BBK'15 (4.5%)	58.9	417.2	14.1%
SABB'15 (3.0%)	11.3	179.1	6.3%
QIB'15 (3.856%)	15.0	202.9	7.4%
Burgan Bank'20 (7.785%)	22.6	491.5	4.6%
NBE'15 (5.25%)	37.7	576.8	6.5%
EIB'17 (4.718%)	20.3	320.2	6.3%
EIB'18 (4.147%)	11.7	301.3	3.9%
EIB Average	16.0	310.7	5.1%
BSF'15 (4.25%)	24.8	188.0	13.2%
BSF'17 (2.947%)	12.7	167.3	7.6%
BSF Average	18.8	177.6	10.6%
QNB'15 (3.125%)	26.4	189.5	14.0%
QNB'17 (3.375%)	19.6	194.8	10.1%
QNB Average	23.0	192.2	12.0%
ADIB'15 (3.745%)	30.4	221.8	13.7%
ADIB'16 (3.78%)	23.4	229.8	10.2%
ADIB Average	26.9	225.8	11.9%
NBAD'14 (4.5%)	32.2	162.8	19.8%
NBAD'15 (4.25%)	25.2	173.8	14.5%
NBAD'17 (3.25%)	19.8	191.1	10.4%
NBAD'19 (3.00%)	7.5	175.4	4.3%
NBAD Average	21.2	175.8	12.0%
ADCB'14 (4.75%)	32.6	183.0	17.8%
ADCB'16 (4.071%)	27.1	230.5	11.7%
ADCB Average	29.9	206.7	14.4%
CBQ'14 (5.0%)	29.1	198.3	14.7%
CBQ'17 (3.375%)	13.9	212.3	6.6%
CBQ'19 (7.5%)	18.7	307.5	6.1%
CBQ Average	20.6	239.3	8.6%
FGB'16 (3.797%)	25.2	235.8	10.7%
FGB'17 (4.046%)	26.4	246.6	10.7%
FGB Average	25.8	241.2	10.7%
Group Average	**21.9**	**230.1**	**9.5%**

** US Dollar denominated bonds, unless otherwise indicated*

Sources: Bloomberg, Bank Audi's Group Research Department

CORPORATE BONDS 2012 YEAR-TO-DATE VOLATILITY*

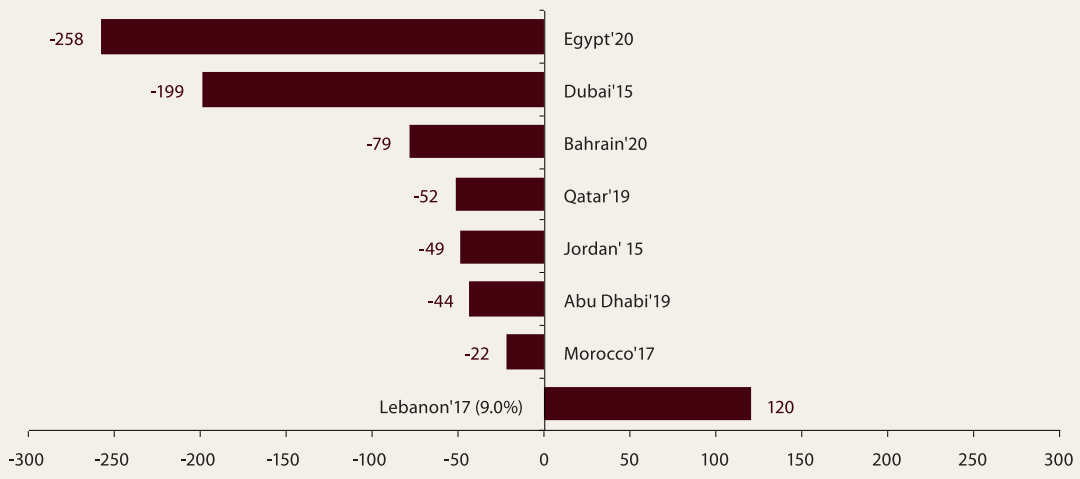
Issuer	Standard Daviation	Average Z-Spread	Coefficient of Variation
Aldar'14 (10.75%)	38.8	503.9	7.7%
Dar Al Arkan'15 (10.75%)	198.8	957.7	20.8%
Waha'20 (3.925%)	36.0	163.7	22.0%
Majid Al Futtaim'17 (5.85%)	38.6	366.4	10.5%
Majid Al Futtaim'19 (5.25%)	18.1	377.8	4.8%
Majid Al Futtaim Average	28.3	372.1	7.6%
Emaar'15 (7.5%)	97.2	559.0	17.4%
Emaar'16 (8.5%)	77.9	551.3	14.1%
Emaar'19 (6.4%)	16.0	450.9	3.5%
Emaar Average	63.7	520.4	12.2%
Kipco'16 (8.875%)	42.5	480.5	8.9%
Kipco'20 (9.375%)	35.7	599.5	6.0%
Kipco Average	39.1	540.0	7.2%
Dubai Holding'14 (4.75%) EUR	159.0	869.7	18.3%
Dubai Holding'17 (6.0%) GBP	125.8	924.0	13.6%
Dubai Holding Average	142.4	896.8	15.9%
Group Average	**73.7**	**567.0**	**13.0%**

** US Dollar denominated bonds, unless otherwise indicated*

Sources: Bloomberg, Bank Audi's Group Research Department

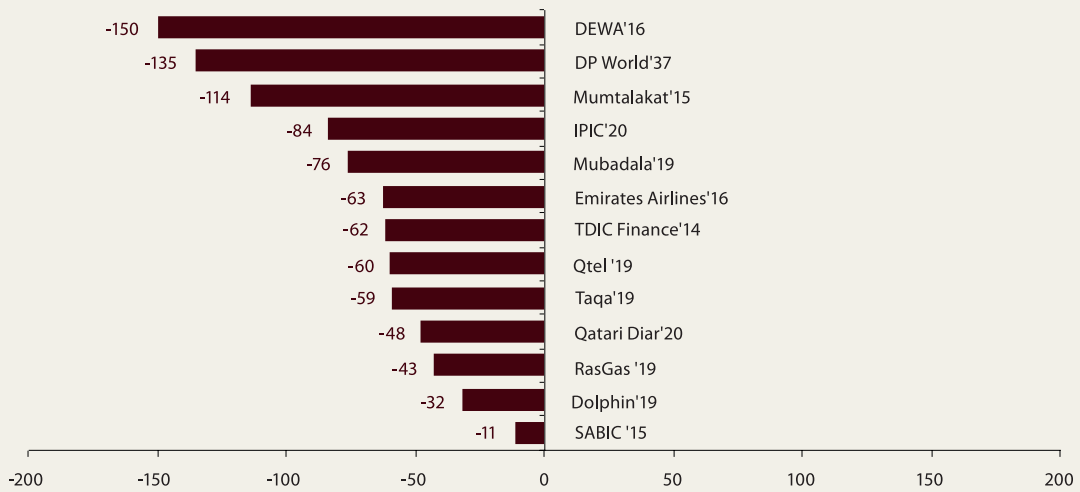
APPENDIX B: YEAR-TO-DATE VOLATILITY BY GROUP

SELECTED SOVEREIGNS YEAR-TO-DATE Z-SPREAD VARIATION (BPS)



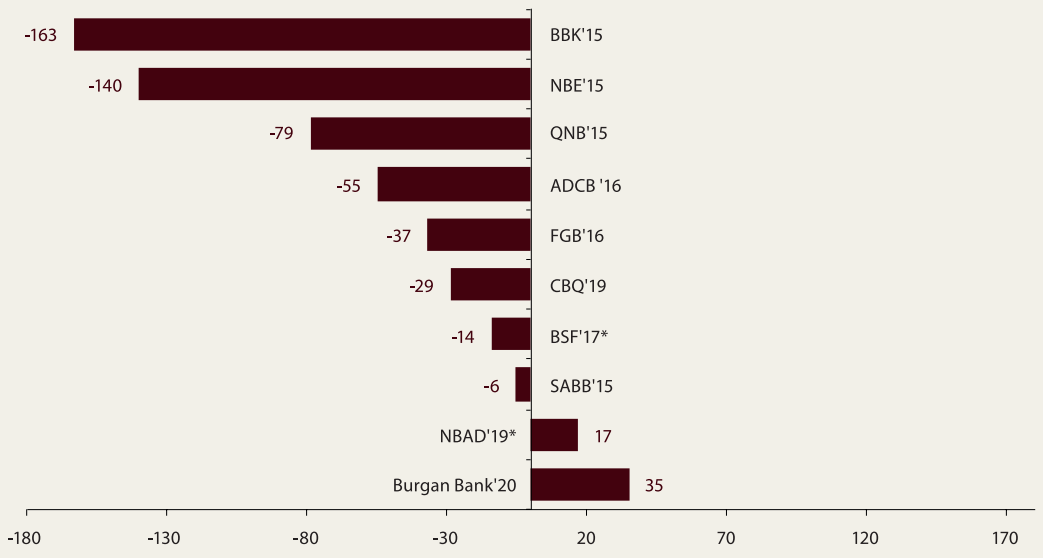
Sources: Bloomberg, Bank Audi's Group Research Department

SELECTED GRIs YEAR-TO-DATE Z-SPREAD VARIATION (BPS)



Sources: Bloomberg, Bank Audi's Group Research Department

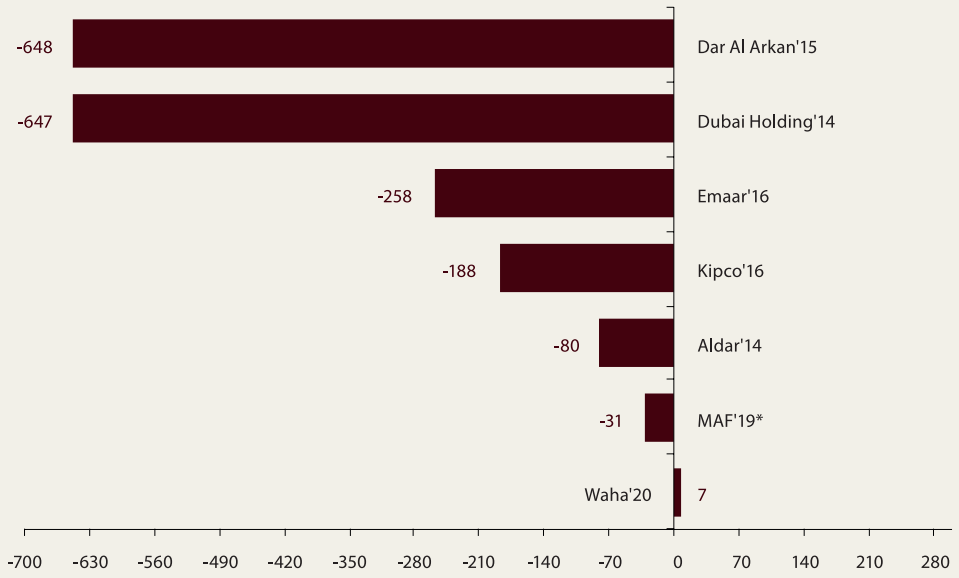
SELECTED FINANCIAL INSTITUTIONS YEAR-TO-DATE Z-SPREAD VARIATION (BPS)



* variation since issuance in 2012

Sources: Bloomberg, Bank Audi's Group Research Department

SELECTED CORPORATES YEAR-TO-DATE Z-SPREAD VARIATION (BPS)



* variation since issuance in 2012

Sources: Bloomberg, Bank Audi's Group Research Department

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