September 2015

KAMCO Investment Research

GCC Economic Report

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SECTION 1 | World Economic Trends

WORLD: Welcome to the "new normal"

Unprecedented events since the fourth quarter of last year triggered by the plunge in oil prices created havoc for global oil exporters, particularly for MENA economies.

The United States, which was in a nascent stage of becoming a net exporter of oil from shale formations, got a severe setback as it increasingly became unprofitable to extract oil at higher costs.

Moreover, the rebalancing of a behemoth, in the form of China, sent ripples across the globe with fear that world growth is expected to contract primarily as a result of a slowdown in emerging markets.

GLOBAL REAL GDP GROWTH (%)

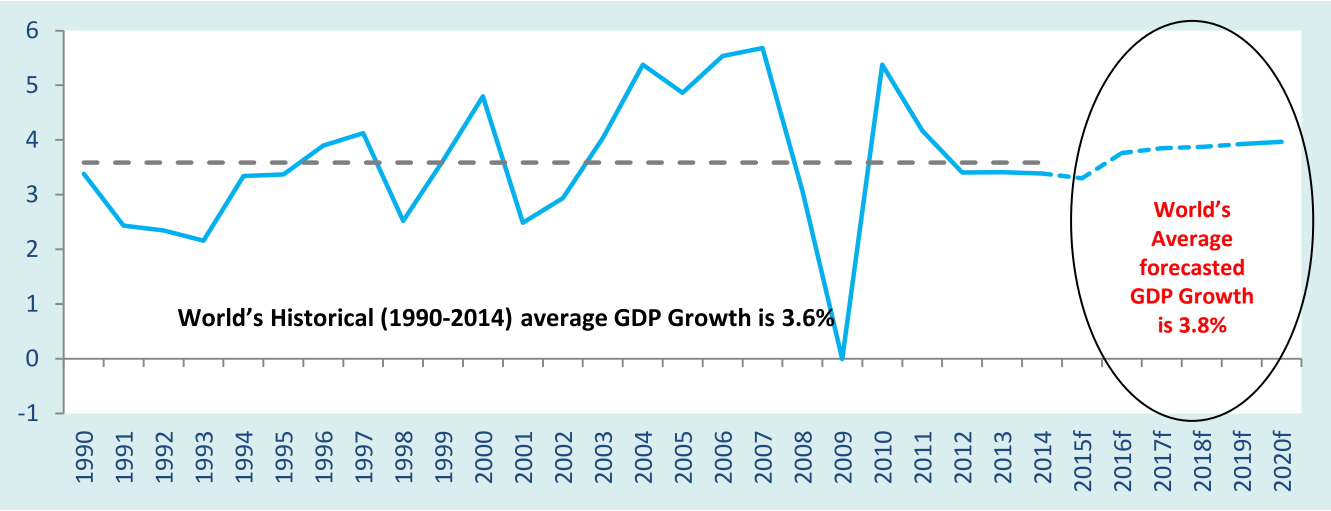
	2012	2013	2014	2015E	2016E	2017E	2018E	2019E
World	3.4	3.4	3.4	3.3	3.8	3.8	3.9	3.9
Advanced Economies	1.2	1.4	1.8	2.1	2.4	2.2	2.1	2.0
Euro Area	-0.8	-0.5	0.9	1.5	1.7	1.6	1.6	1.6
Emerging and Developing Asia	6.8	7.0	6.8	6.6	6.4	6.3	6.4	6.6
MENA	4.9	2.3	2.4	2.7	3.7	4.4	3.9	4.1
Sub-Saharan Africa	4.2	5.2	5.0	4.5	5.1	5.3	5.3	5.2

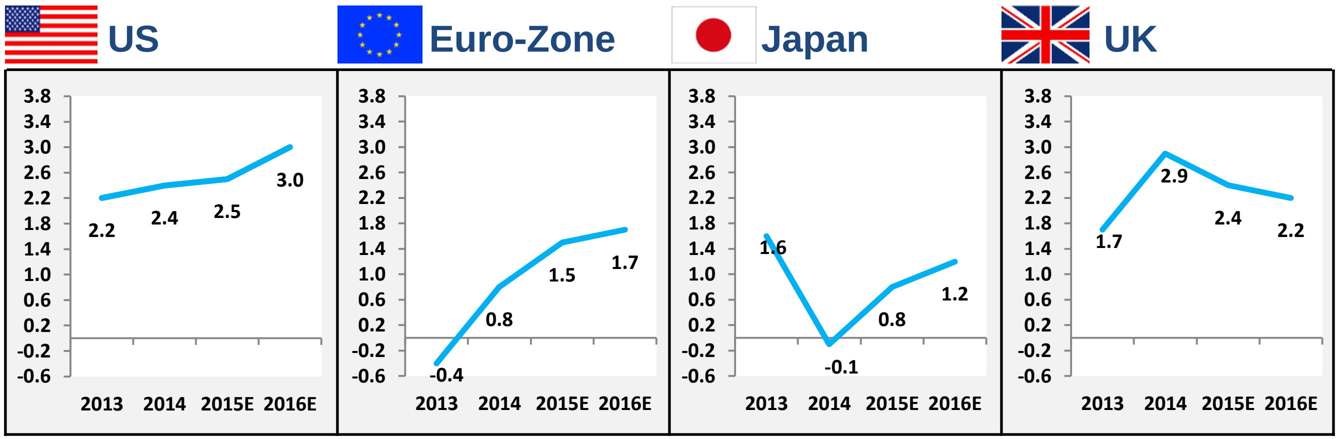
Source: IMF-World Economic Outlook April-2015 and July-2015 Update

WORLD: Gradual improvement in Advanced economies

The 3.3% global growth in 2015 is expected to be driven by a gradual pickup in advanced economies and a marginal slowdown in emerging market and developing economies.

Underlying drivers for a gradual acceleration in economic activity in advanced economies—easy financial conditions, more neutral fiscal policy in the Euro area, lower fuel prices, and improving confidence and labor market conditions—remain intact.





Source: IMF-World Economic Outlook April-2015 and July-2015 Update, KAMCO Research

WORLD: Majority of the revisions are on the downside

The July-15 update to IMF's World Economic Outlook primarily reflected downward revisions on the back of deteriorating macro economic conditions globally.

The only upgrade was made for Russia which is now expected to decline at a slightly slower pace in 2015.

Growth projections for US were lowered by 0.6 percentage points for 2015 primarily due to a weak first quarter.

IMF World Economic Outlook Update- July 2015	Actuals (%)		Projections (%)		Chg from Apr-15	
	2013	2014	2015	2016	2015	2016
World Output	3.4	3.4	3.3	3.8	-0.2	0.0
US	2.2	2.4	2.5	3.0	-0.6	-0.1
Euro Area	-0.4	0.8	1.5	1.7	0.0	0.1
Japan	1.6	-0.1	0.8	1.2	-0.2	0.0
EM and Developing Economies	5.0	4.6	4.2	4.7	-0.1	0.0
Russia	1.3	0.6	-3.4	0.2	0.4	1.3
China	7.7	7.4	6.8	6.3	0.0	0.0
India	6.9	7.3	7.5	7.5	0.0	0.0
MENAP	2.4	2.7	2.6	3.8	-0.3	0.0
Saudi Arabia	2.7	3.5	2.8	2.4	-0.2	-0.3

Source: IMF-World Economic Outlook - July-2015 Update

WORLD: Deflation concerns remain in Eurozone even as the economy recovers

Jobless rates continue to decline in the Eurozone as the July-15 rate dipped below the 11% mark for the first time since February 2012, according to Eurostat data, raising hopes that economic recovery is in sight.

Meanwhile, inflation in the Eurozone has also been on a steady downward path since the past 3 years, dipping below the 0% mark, or deflation, in December-14.

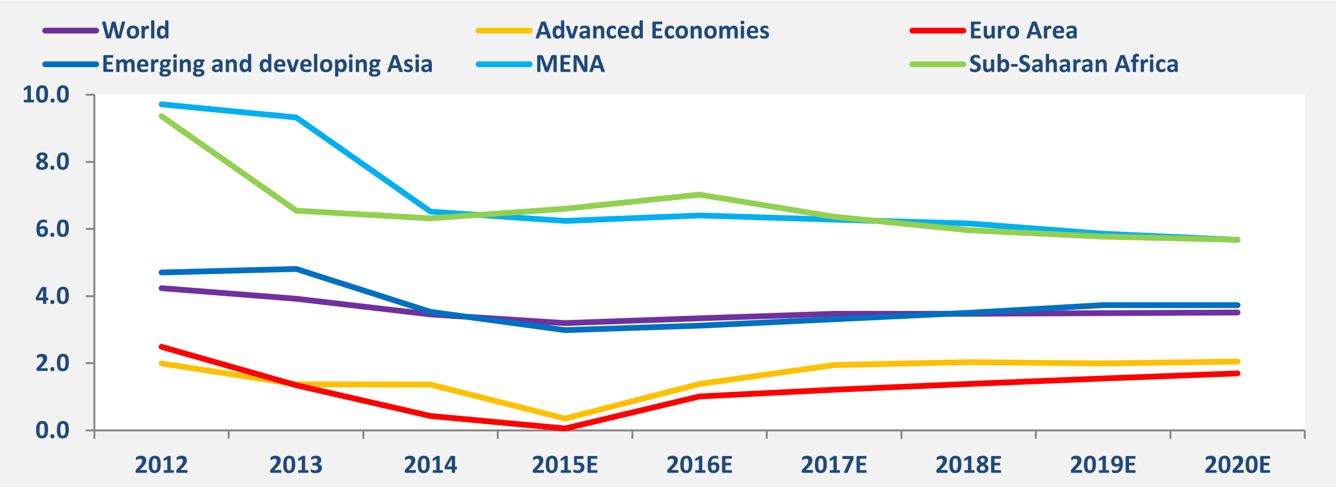
Labor market in the US is improving, however, inflation continues to remain below the 2% mark.

UNEMPLOYMENT RATE (%)

	2012	2013	2014	2015E	2016E	2017E	2018E	2019E
World	5.6	6.0	5.9	5.9	5.9	5.9	5.9	5.9
Advanced Economies	8.0	7.9	7.3	6.9	6.6	6.4	6.2	6.1
Euro Area	11.3	12.0	11.6	11.1	10.6	10.2	9.8	9.5
Emerging and Dev. Asia	8.8	8.7	8.9	8.9	8.9	-	-	-
MENA	11.7	11.6	11.7	11.7	11.6	11.6	11.5	11.5
Sub-Saharan Africa	7.9	7.7	7.7	7.7	7.7	7.7	7.7	7.6

Source: ILO and IMF

INFLATION (%)



Source: IMF , KAMCO Research

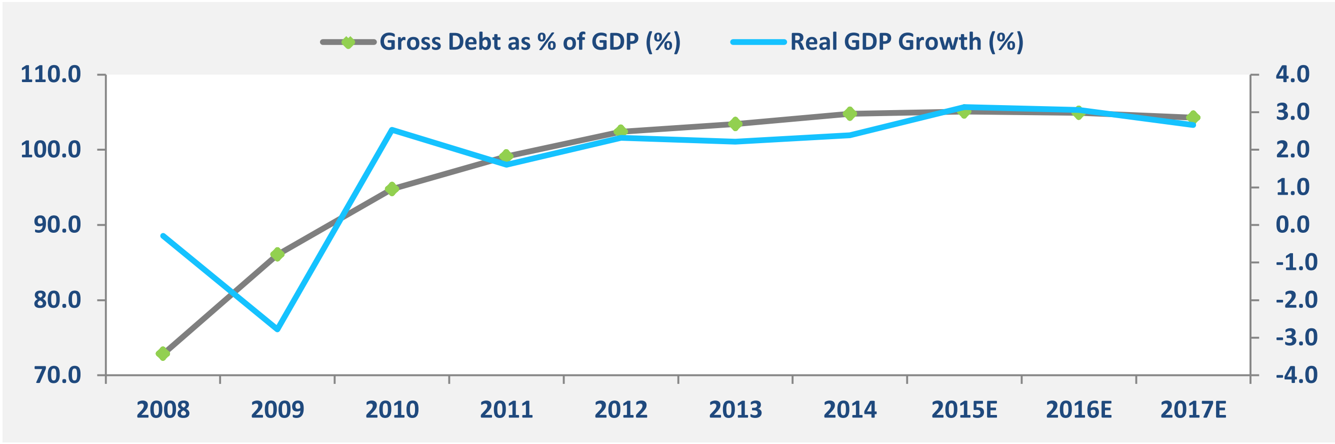
US: A weak first quarter sets warning bells

During Q1-15, an unexpected decline in output in the US due to one-off factors like severe winter weather and a decline in capex in the oil sector led to a decline in growth forecast for advanced economies and global output 2015.

Nevertheless, a number of positive underlying factors that include lower oil prices and strengthening real estate market continue to drive expectations of sustainable growth, mostly in 2016 and beyond.

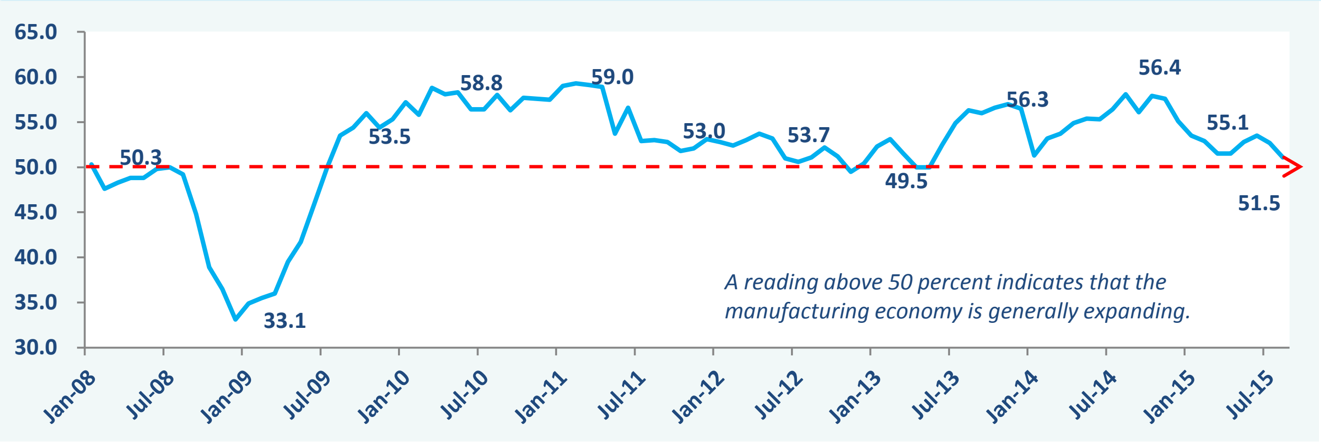
US gross debt continues to be at alarming levels and in light of the low interest rate regime, the risk is enormous.

US REAL GDP GROWTH AND GROSS DEBT



Source: IMF

US MANUFACTURING PMI



Source: ISM, KAMCO Research

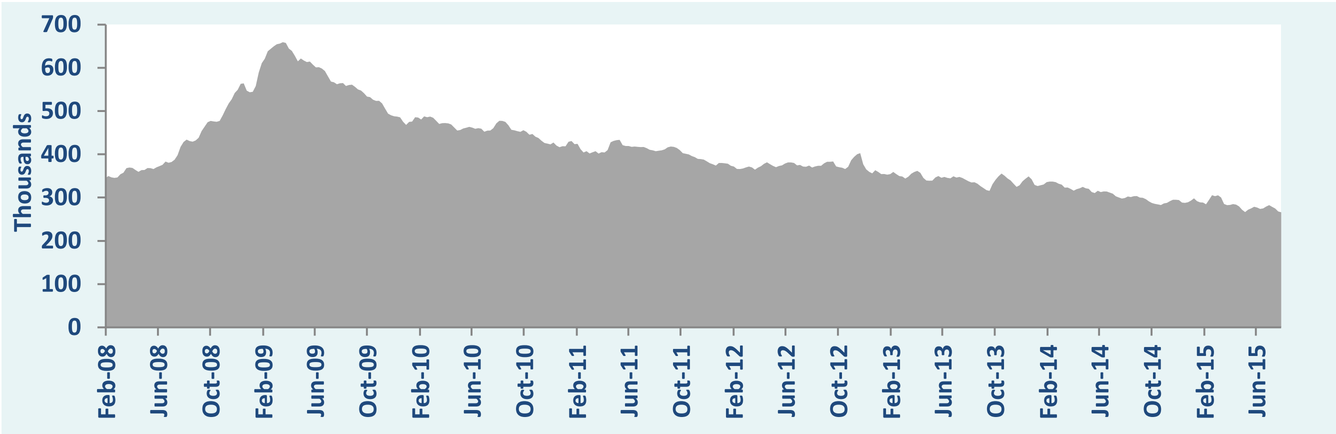
US: Fed in a conundrum on whether and when to increase rates

The US Fed is facing an unexpected situation in the form of declining unemployment rates coupled with disinflationary pressure with consecutive decline in inflation rates.

Volatile food and energy prices sent inflation levels to 0.2% in July-15.

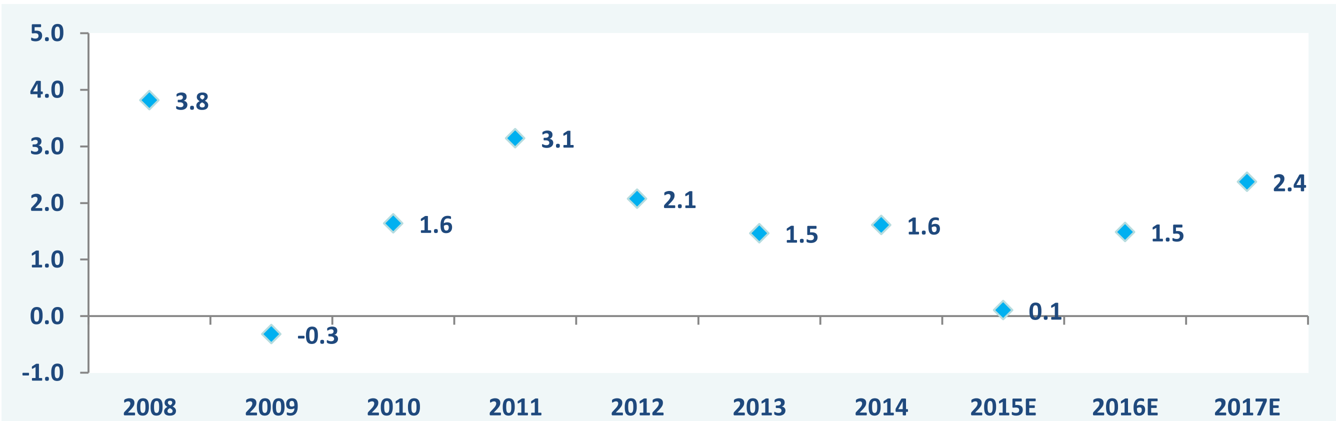
Moreover, with oil prices expected to remain low without a significant recovery in sight, inflation rates in the US is expected to remain below target levels.

US WEEKLY UNEMPLOYMENT CLAIMS



Source: U.S. Department of Labor; Seasonally Adjusted 4 Week Moving Average

US INFLATION (%)



Source: IMF

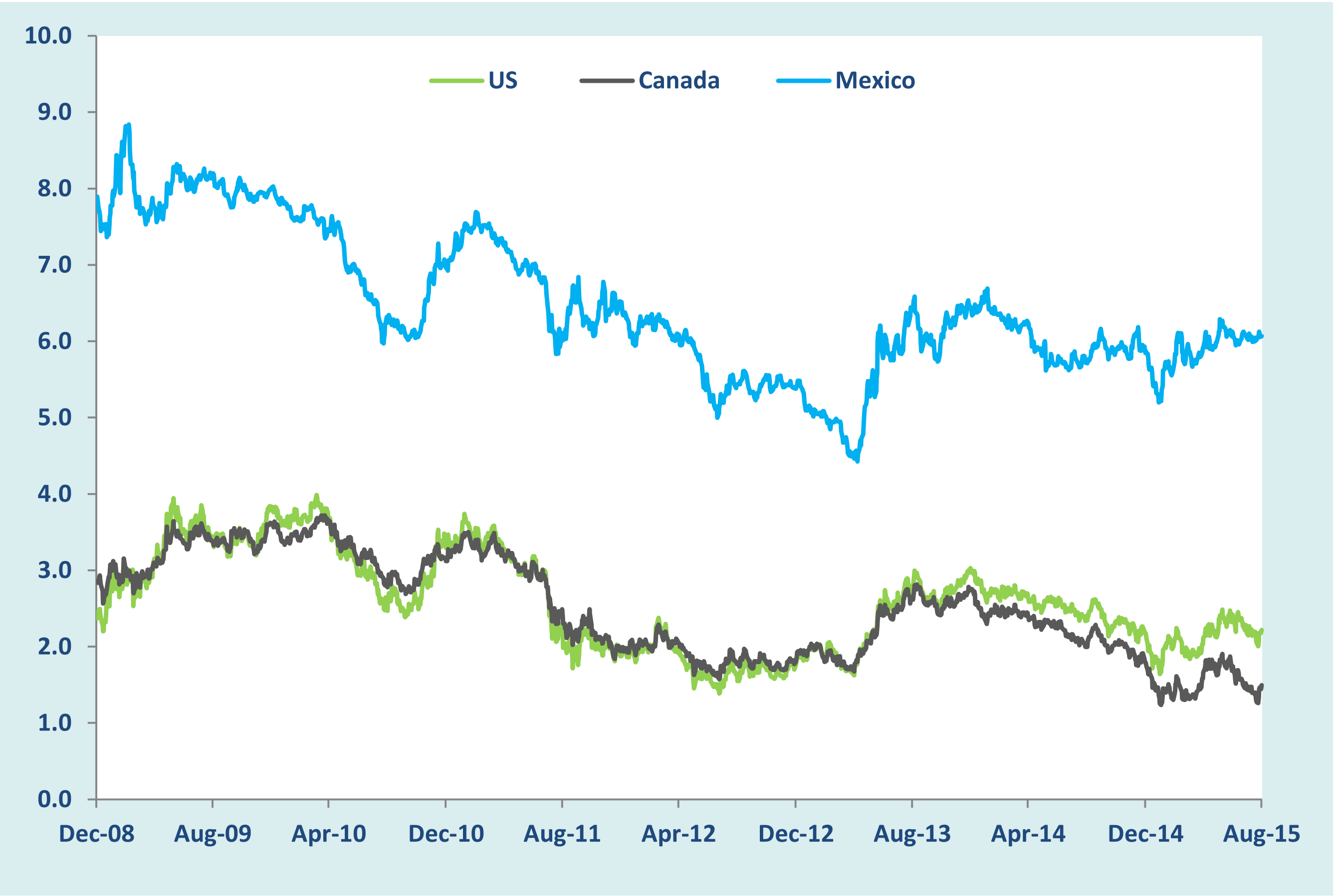
US: Fragile world growth keeps bonds yields intact

The buying activity in long term treasury bonds remain resilient as global growth expectations come under severe pressure, although past buyers like China take a backseat.

Bond yields in the US remain higher compared with comparable government bonds in Germany and Japan.

The most recent treasury yield data shows that with the increase in corporate debt sales in the US, demand for government debt has declined leading to higher yields on these instruments.

NORTH AMERICA 10-YEAR BOND YIELD (%)



Source: Bloomberg, KAMCO Research

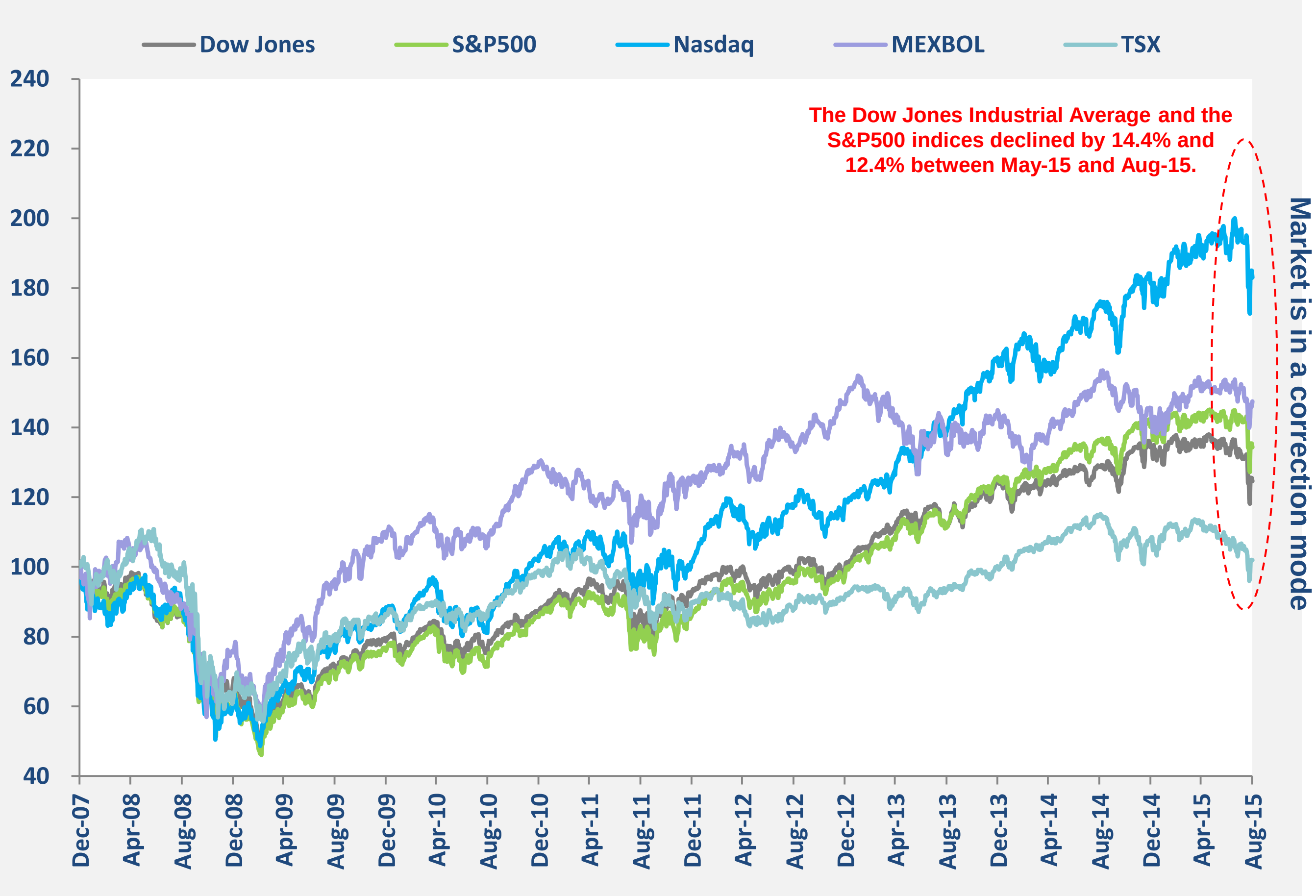
US: The run-up cycle appears to have entered a correction phase

The 6-year upward trend in the US equity markets since the financial crisis has stabilized since mid last year.

The current year run-up came to a halt as fear over China's economic slowdown rocked equity markets around the world. This resulted in a huge sell off as investor confidence got the biggest jolt since 2002.

Investors pulled out a record USD 29.2 Bn from equity funds in the week ending 26-August-15 as a result of the Yuan devaluation and fear over global growth rates.

NORTH AMERICA EQUITY MARKETS PERFORMANCE



Source: Bloomberg, KAMCO Research

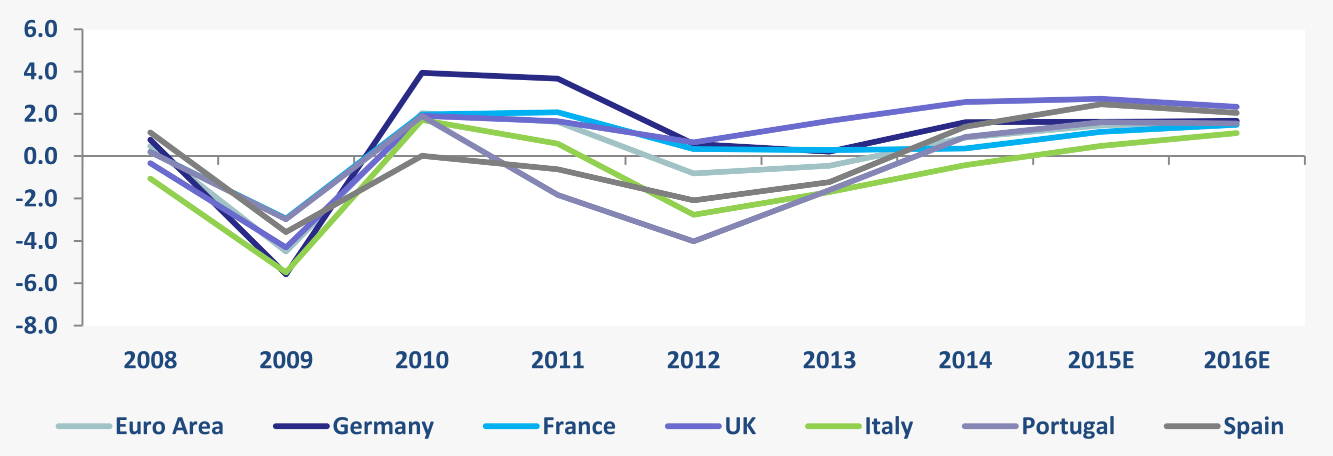
EUROPE: Economic recovery in doubt

In what appeared to be a revival of economic activity in the Euro area at the start of 2015 with buoyant stock markets and declining unemployment rates came under serious doubts after the Greek situation and poor performance by France and Italy.

Government authorities in Europe are concerned about inflation that continues to remain low as the quantitative easing programme launched at the start of the year failed to have achieved the desired result.

EUROZONE GDP GROWTH (%)

	2008	2009	2010	2011	2012	2013	2014	2015E	2016E
Euro Area	0.5	-4.5	2.0	1.6	-0.8	-0.5	0.9	1.5	1.7
Germany	0.8	-5.6	3.9	3.7	0.6	0.2	1.6	1.6	1.7
France	0.2	-2.9	2.0	2.1	0.3	0.3	0.4	1.2	1.5
UK	-0.3	-4.3	1.9	1.6	0.7	1.7	2.6	2.7	2.3
Greece	-0.4	-4.4	-5.4	-8.9	-6.6	-3.9	0.8	2.5	3.7
Ireland	-2.6	-6.4	-0.3	2.8	-0.3	0.2	4.8	3.9	3.3
Italy	-1.1	-5.5	1.7	0.6	-2.8	-1.7	-0.4	0.5	1.1
Portugal	0.2	-3.0	1.9	-1.8	-4.0	-1.6	0.9	1.6	1.5
Spain	1.1	-3.6	0.0	-0.6	-2.1	-1.2	1.4	2.5	2.0



Source: IMF, KAMCO Research

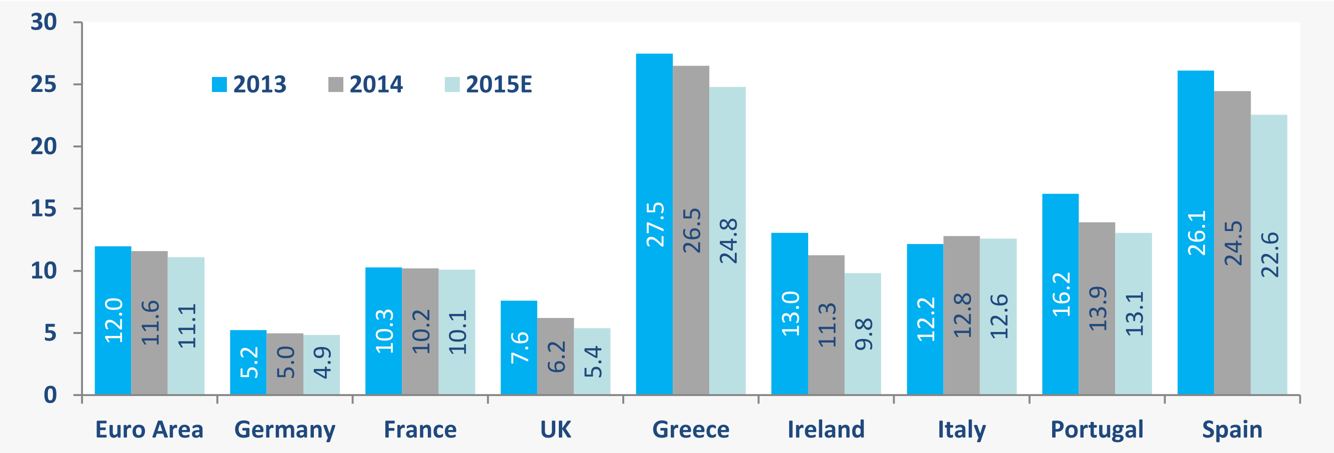
EUROPE: High debt levels coupled with structural weakness

Downside risks to Europe's growth story increase as debt levels continue to remain high along with structural weaknesses that will weigh on a possible economic recovery.

According to Eurostat, the aggregate Eurozone government debt had risen to 92.9% of GDP at end-1Q15, one of the highest levels witnessed since the currency was introduced.

Five economies in the group (Germany, Italy, the UK, France and Spain) each continue to hold debt in excess of EUR 1 Trillion.

EUROZONE UNEMPLOYMENT (%)



GOVERNMENT GROSS DEBT (% OF GDP)

	2011	2012	2013	2014	2015E	2016E	2017E
Germany	77.6	79.0	76.9	73.1	69.5	66.6	64.1
France	85.0	89.2	92.4	95.1	97.0	98.1	97.9
UK	81.8	85.8	87.3	89.5	91.1	91.7	90.7
Greece	171.0	156.5	174.9	177.2	172.7	162.4	151.8
Ireland	111.1	121.7	123.3	109.5	107.7	104.9	101.5
Italy	116.4	123.2	128.6	132.1	133.8	132.9	131.1
Portugal	111.1	125.8	129.7	130.2	126.3	124.3	122.7
Spain	69.2	84.4	92.1	97.7	99.4	100.1	100.2

Source: IMF

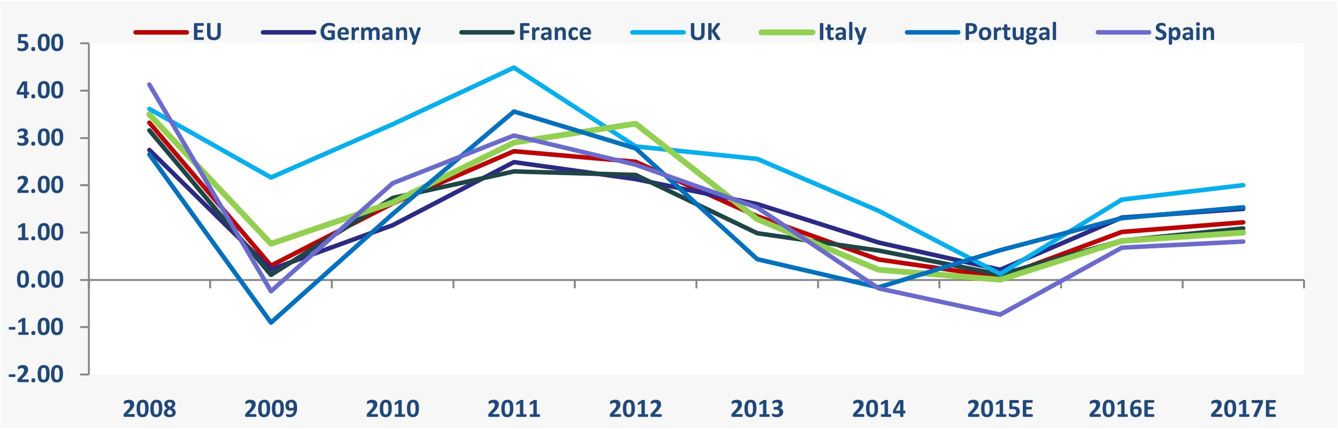
EUROPE: Deflation a growing investor concern. Manufacturing recovery slow & painful.

The European Central Bank slashed 2015 growth expectations (from 1.5% to 1.4%) and inflation target (from 0.3% to 0.1%) citing lower demand from emerging markets clearly indicating a slowdown in China.

The Bank has also hinted that it could extend its quantitative easing programme if needed, stating that inflation could turn negative in the near term.

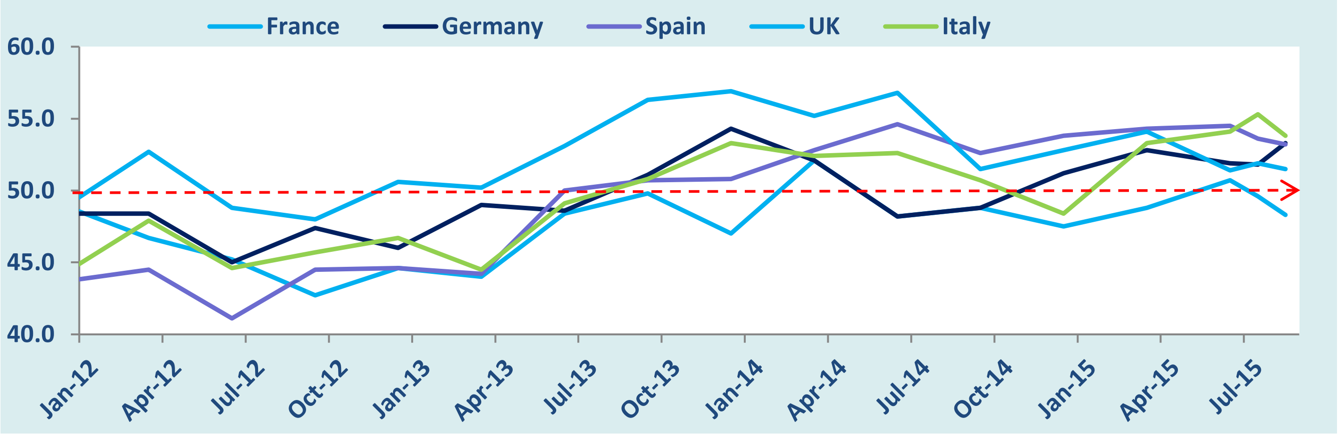
In terms of manufacturing activity, the continent continued to stay above the contraction mark but a slowdown in France remained a drag.

EUROZONE INFLATION (%)



Source: IMF

EUROZONE MANUFACTURING PMI



Source: Markit, Bloomberg, KAMCO Research

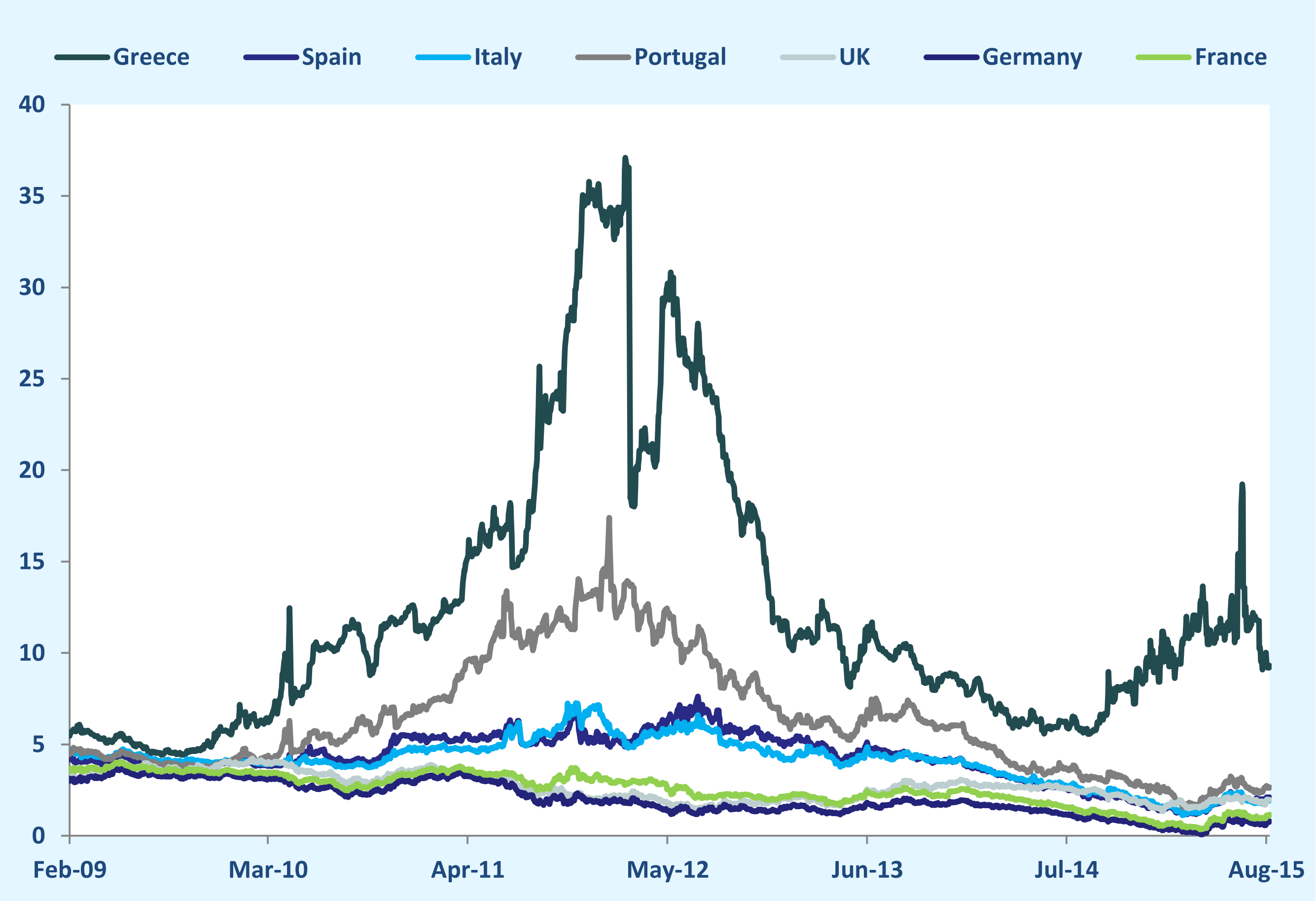
EUROPE: QE and inflation outlook affects bond yields

Oil slump continues to remain the key factor in putting downward pressure on inflation figures in Europe.

A subdued growth forecast for the near term by the ECB affected bond yields in the Euro zone that had started recovering since the start of the year.

Bond yields in Greece, which continues to remain the highest in the region, has fallen after the announcement of election in the country.

EUROZONE 10-YEAR BOND YIELD (%)



Source: Bloomberg, KAMCO Research

EUROPE: Fundamentals and economic recovery take a backseat

European stock markets were no exception and faced severe sell off as a result of the devaluation of the Chinese Yuan.

The move spooked markets across the globe. Stocks of companies with exposure to the Chinese market fell as the value of their investments declined with the fall in Yuan.

Further pressure surfaced due to the uncertainty surrounding the US interest rate hike decision which, if and when it happens, would have a negative impact on European markets.

EUROZONE EQUITY MARKETS PERFORMANCE

Source: Bloomberg, KAMCO Research

EMERGING MARKETS: A shift in focus away from China to other Emerging Markets

Downward revisions to the Chinese economy's growth estimates have affected sentiments towards Asia's sustainable growth. The worlds largest consumer market saw a notable slowdown in economic growth thereby placing doubts on global growth rates.

Nevertheless, there are exceptions, as seen in the case of India that is expected to grow at above the 7% mark providing a much needed support to global growth.

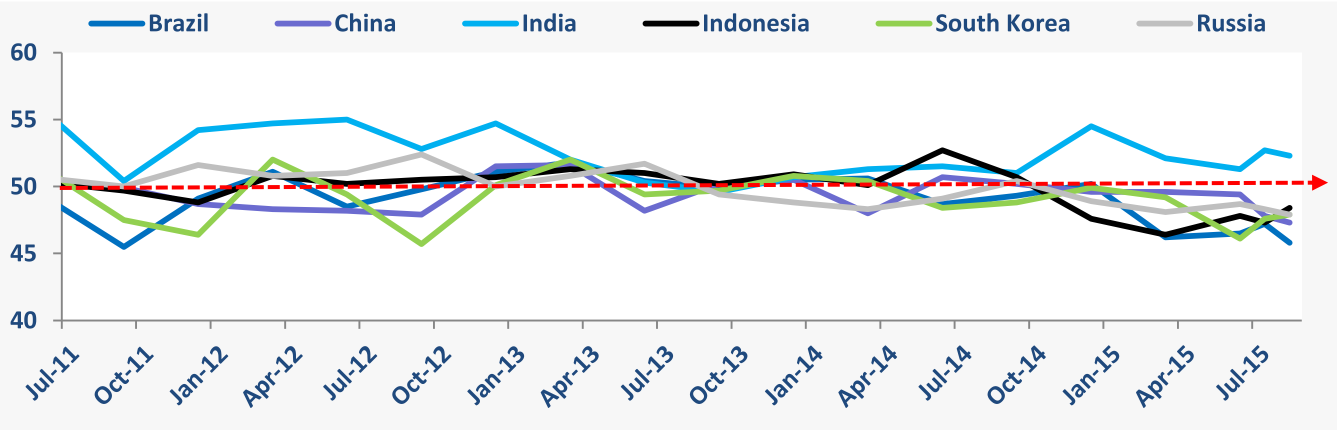
Brazil, continues to face political and economic as reflected in Real's devaluation triggering a downgrade to junk category by S&P.

KEY EMERGING ECONOMIES REAL GDP GROWTH (%)

	2008	2009	2010	2011	2012	2013	2014	2015E	2016E
Brazil	5.0	-0.2	7.6	3.9	1.8	2.7	0.1	-1.0	1.0
China	9.6	9.2	10.4	9.3	7.8	7.8	7.4	6.8	6.3
India	3.9	8.5	10.3	6.6	5.1	6.9	7.2	7.5	7.5
Indonesia	7.4	4.7	6.4	6.2	6.0	5.6	5.0	5.2	5.5
South Korea	2.8	0.7	6.5	3.7	2.3	3.0	3.3	3.3	3.5
Russia	5.2	-7.8	4.5	4.3	3.4	1.3	0.6	-3.8	-1.1

Source: IMF

KEY EMERGING ECONOMIES MANUFACTURING PMI



Source: Markit, Bloomberg, KAMCO Research

SUB-SAHARAN AFRICA: Oil triggered slowdown but growth to remain relatively resilient

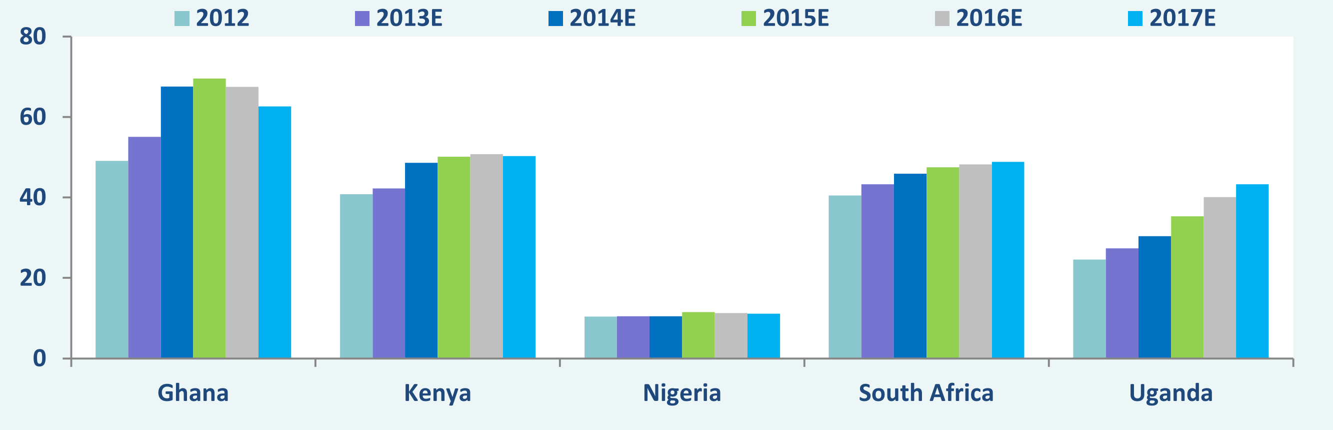
Growth in the Sub-Saharan Africa region is expected to remain strong as compared to other regions, however, the slowdown in 2015 reflects the impact of the Ebola scare, affecting mining investments and agricultural activity.

Oil exporting countries in this region (Nigeria being the biggest) saw fiscal adjustments in order to deal with new realities. Growth in oil exporters in this region is expected to be affected to the tune of 2.5 percentage points and this would be a major drag on overall regional growth.

SUB-SAHARAN AFRICA (GDP GROWTH %)

	2008	2009	2010	2011	2012	2013E	2014E	2015E	2016E
Ghana	9.3	5.8	7.9	14.0	8.0	7.3	4.2	3.5	6.4
Kenya	0.2	3.3	8.4	6.1	4.5	5.7	5.3	6.9	7.2
Nigeria	8.0	9.0	10.0	4.9	4.3	5.4	6.3	4.8	5.0
South Africa	3.2	-1.5	3.0	3.2	2.2	2.2	1.5	2.0	2.1
Uganda	10.4	8.1	7.7	6.8	2.6	3.9	4.9	5.4	5.6

SUB-SAHARAN AFRICA - GOVERNMENT GROSS DEBT (% OF GDP)



Source: IMF

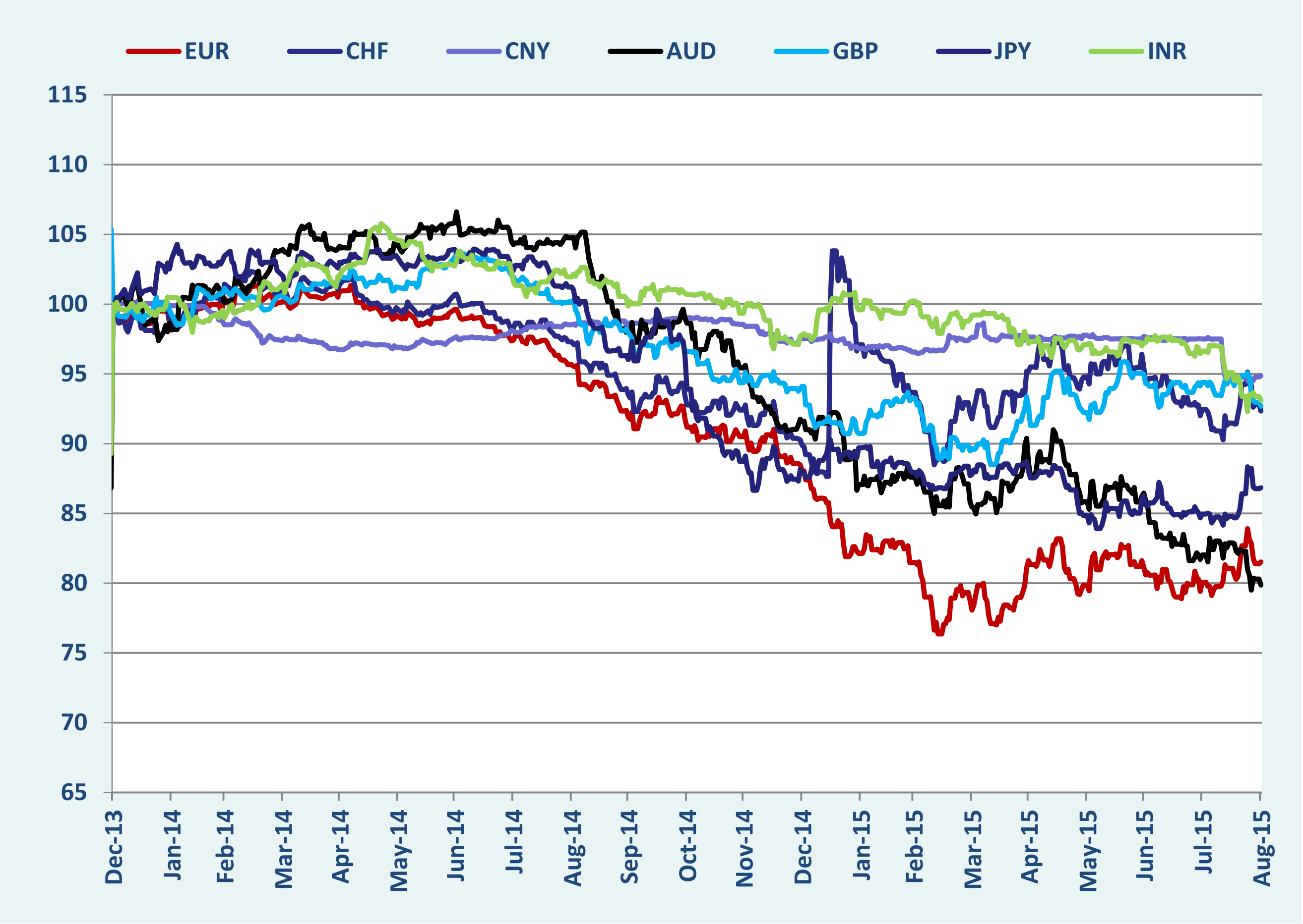
CURRENCIES: Flight to safety – Greenback strengthens

Emerging market currencies declined to their lowest levels in several years reacting to the devaluation of Chinese Yuan.

Currencies of competing markets , including the Indian Rupee, Korean Won, Malaysian Ringgit and the Thai Baht, saw a swift depreciation against the USD as the greenback maintained its reserve currency status as compared to the Euro.

A fragile recovery in emerging markets is expected to further boost the USD as safe haven currency.

KEY CURRENCIES VS. US DOLLAR (USD)



Source: Bloomberg, KAMCO Research

WORLD ECONOMIC OUTLOOK

World economy sees redistribution of growth

Global economic growth witnessed a redistribution among component economies due to events that unfolded during the second half of 2015. The unexpected slowdown in China's growth story came as a major blow to the global growth forecasts which were subsequently lowered. World GDP growth of 3.3% in 2015 (3.5% as per previous forecast) is expected to be driven by a swift recovery in advanced economies (US and Europe) partially offset by a slowdown in emerging markets and developing economies (primarily China). Nevertheless, exceptions remain within developing economies as seen in upbeat growth expectations for India.

Lower oil prices came as a windfall gain for a majority of economies across the globe. Fuel cost savings is expected to result in additional investments in developing economies like India in addition to higher disposable income that would give an immediate push to consumer focused sectors. Moreover, factors such as easy financial conditions, more neutral fiscal policy in the Euro area and improving confidence and labor market conditions are expected to drive growth in advanced economies. In Europe, the underlying real economy continues to grow reflecting consumer confidence despite the weakening Euro, deflation, and financial pressures affecting smaller economies like Greece and Hungary.

Inflation continues to remain a concern in developed and advanced economies in North America and Europe with headline numbers reaching historical lows over the past one year. Price levels went below 0% indicating a deflationary scenario thereby hampering government efforts to wind up fiscal easing measures. The hike in interest rates in the US, which was widely expected during the second half of the year, is likely to be postponed even further whereas Europe has already indicated further quantitative easing measures over the next three years as growth continues to remain fragile.

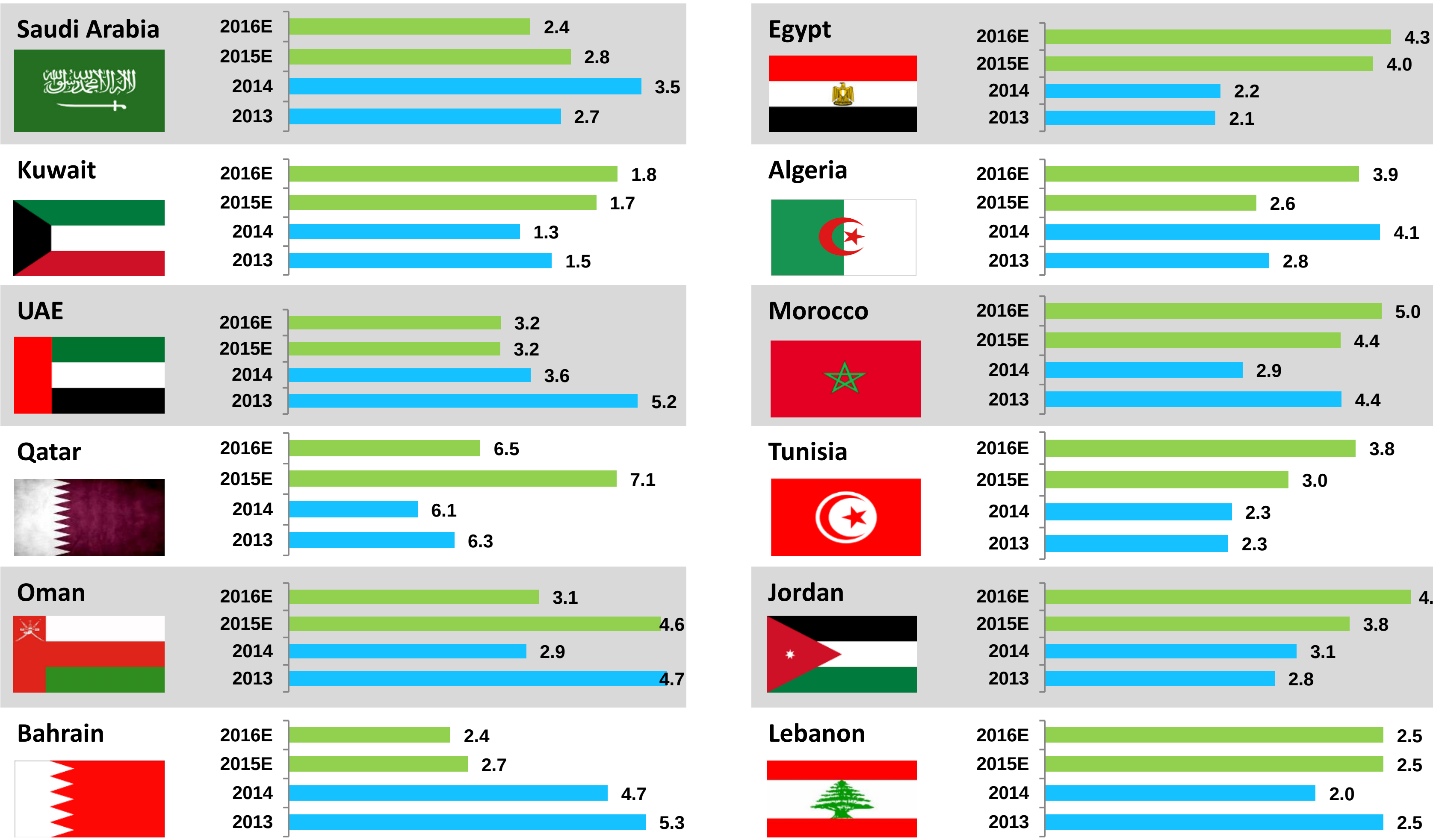
Commodity prices have touched historical lows recently. This coupled with structural bottlenecks and geopolitical factors in Latin America, Ukraine, Russia, the Middle East, or parts of Africa is expected to affect growth in these economies. Furthermore, a steep decline in emerging market currencies has resulted in additional fiscal pressure with funding risk for USD debtors. The Euro continues to depreciate against the USD, especially after the Swiss franc's peg against the Euro was abolished in early 2015.

WORLD: IMF Economic Outlook - Oil prices to remain in focus

Source: IMF

SECTION 2| MENA Economic Trends

MENA Real GDP Growth: MENA economies are expected to utilize the accumulated financial buffers to manage slowdown in the near term while gradually adjusting their spending plans.



Source: IMF

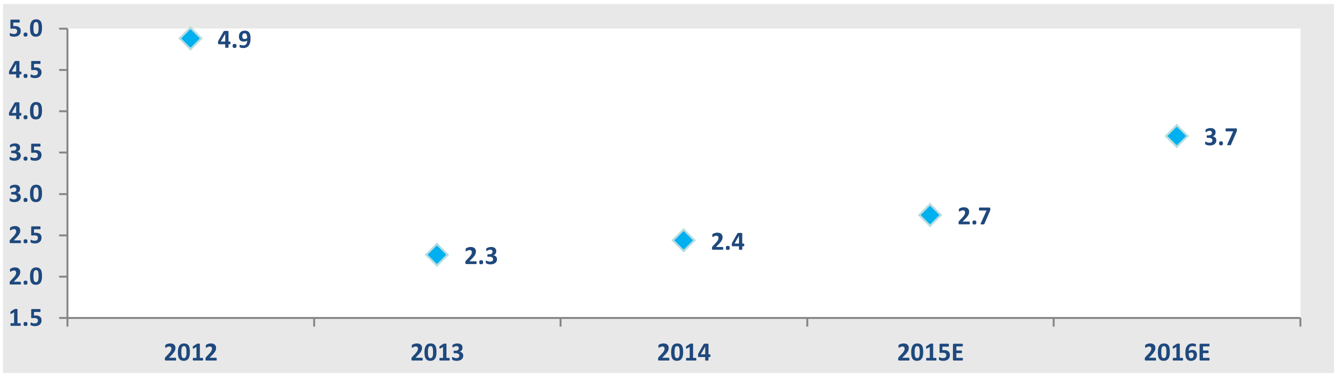
MENA: Moderating growth expectations

Despite the sharp fall in oil prices over the past year, MENA region is expected to witness higher growth rates primarily on a low base since 2013.

Growth is expected to moderate in oil exporting countries as they continue to grapple with the impact of oil price fall along with policy initiatives in the form of reduced subsidies and seriousness in imposing corporate tax.

Oil importers are benefiting from low oil prices resulting in improved fiscal conditions and lower risk to external vulnerabilities.

MENA REAL GDP GROWTH (%)



	2012	2013	2014	2015E	2016E
Real GDP Growth (%)					
MENA	4.9	2.3	2.4	2.7	3.7
MENA Oil Exporters	5.7	2.1	2.4	2.4	3.5
MENA Oil Importers	1.9	2.7	2.5	3.9	4.3
GCC	5.4	3.6	3.6	3.4	3.2
Non-GCC Oil Importers	2.9	3.1	3.0	4.0	4.4
Oil GDP Growth (%)					
MENA Oil Exporters	0.2	-2.5	1.6	0.5	2.8
GCC	5.4	0.5	0.8	0.9	1.0
Non-GCC Oil Exporters	-5.5	-6.0	2.6	0.0	5.0
Non-Oil GDP Growth (%)					
MENA Oil Exporters	5.9	5.2	3.3	2.8	3.6
GCC	5.2	6.5	5.7	5.2	4.6
Non-GCC Oil Exporters	6.6	3.6	0.5	0.0	2.5

Source: IMF

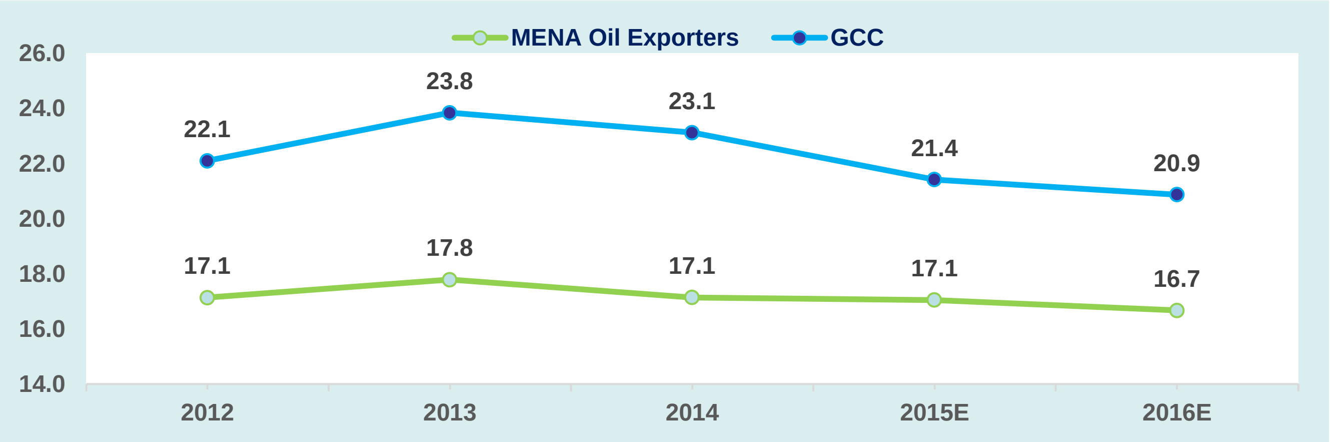
MENA: Need to drive the non-oil economy

Non-oil revenues in the GCC as a percentage of GDP peaked in 2013 and is expected to see consistent declines over the next few years as per IMF, whereas for MENA oil exporters the percentage is expected to remain flat in 2015 with a marginal decline in 2016.

MENA economies have seen minimal change in the revenue composition despite a number of diversification efforts.

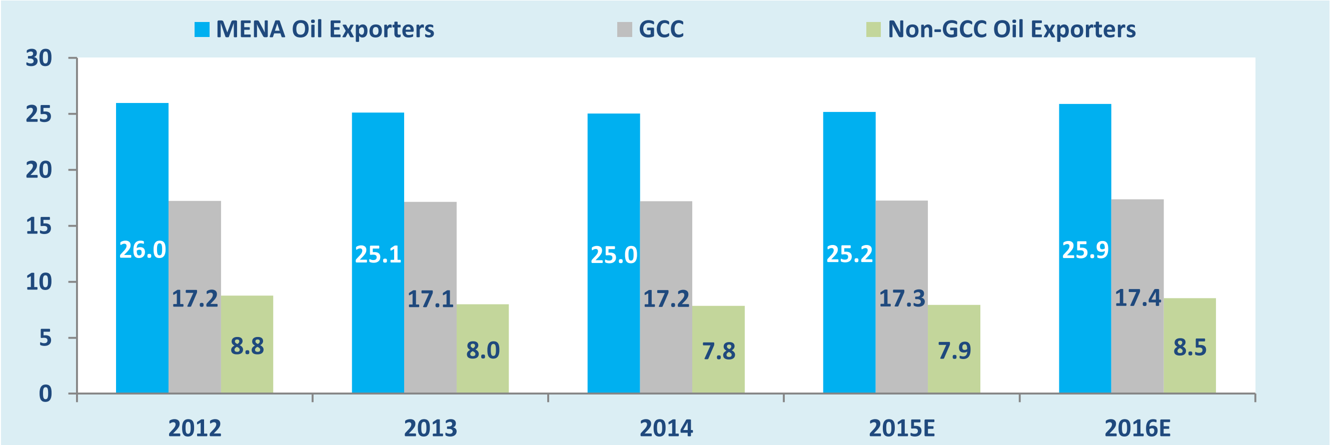
Low oil prices presents an opportunity to the oil exporters in the MENA region to implement policies that would have otherwise appeared as far stretched in order to give a boost to the non-oil sector.

NON-OIL REVENUE (% OF GDP)



Source: IMF

OIL PRODUCTION (MN BBL/D)

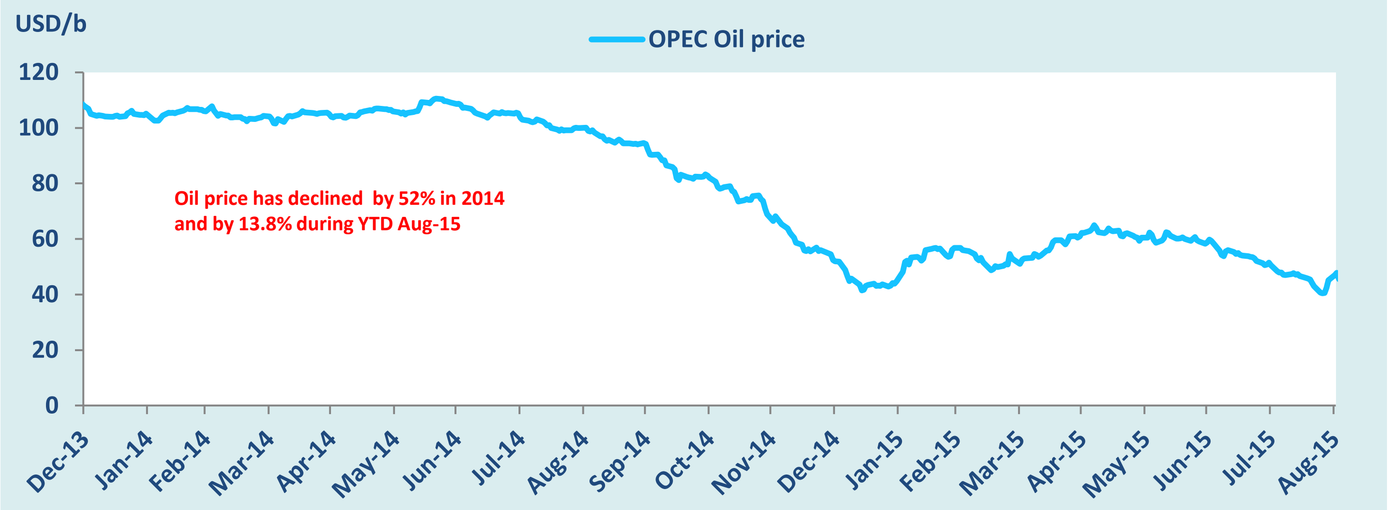


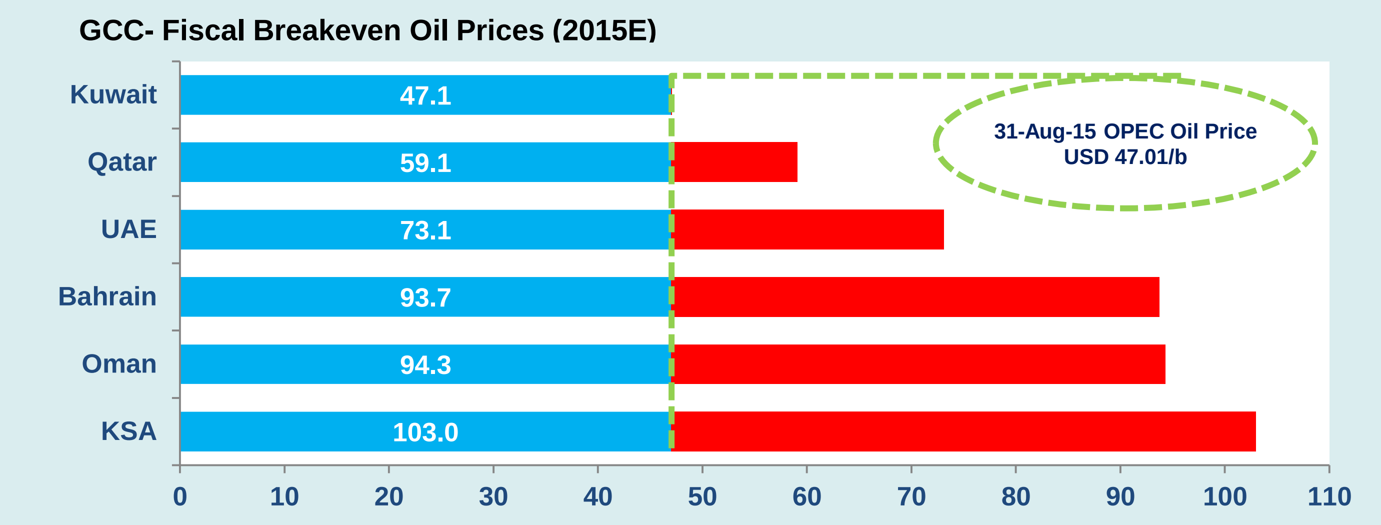
Source: OPEC

Oil Prices: Uncertainty continues resulting in policy indecision

Oil prices started sliding from September-14 and fell more than 50% by the end of the year due to continued oversupply concerns. Reports from international agencies pointed out to significant inventory build in the US. Moreover, higher oil production in the US made it a net oil exporter for a while. This further added to concerns regarding high oil prices.

OPEC oil prices fell a six-year low price of USD 40.5/b on 25-August-15 due to concerns regarding health of the Chinese economy and its impact on global growth rates.





Source: IMF Regional Economic Outlook – May-15, KAMCO Research

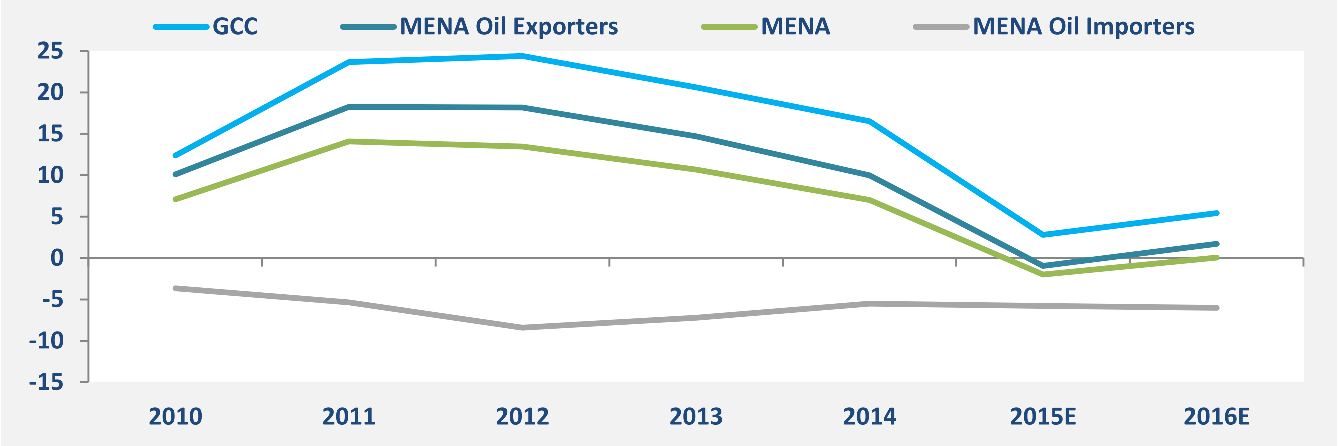
MENA: Deficit in sight for most of the MENA economies

The plunge in oil prices is expected to push a majority of the oil exporting economies in the region into deficits, albeit for a short while.

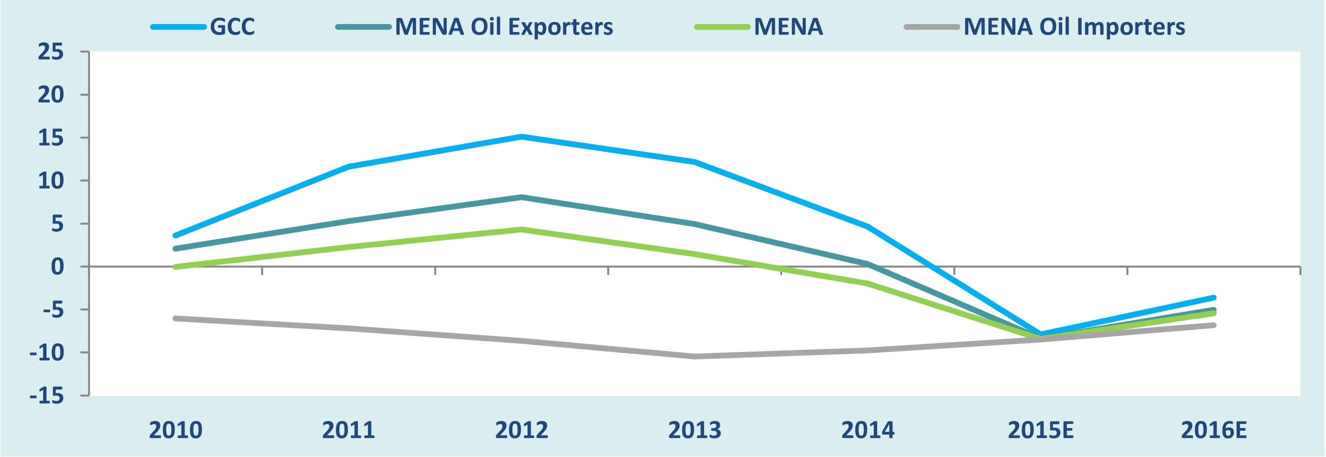
The expected fall in oil export earnings in 2015 is USD 287 Bn (21% of GDP) in the GCC and USD 90 Bn (11% of GDP) in the non-GCC countries. Moreover, MENA oil exporters are expected to post a current account deficit of USD 22 Bn (1% of GDP) in 2015.

Nevertheless, fiscal consolidation and a slight expected improvement in oil prices would result in current account surpluses in 2016.

CURRENT ACCOUNT BALANCE (% OF GDP)



FISCAL BALANCE (% OF GDP)



Source: IMF

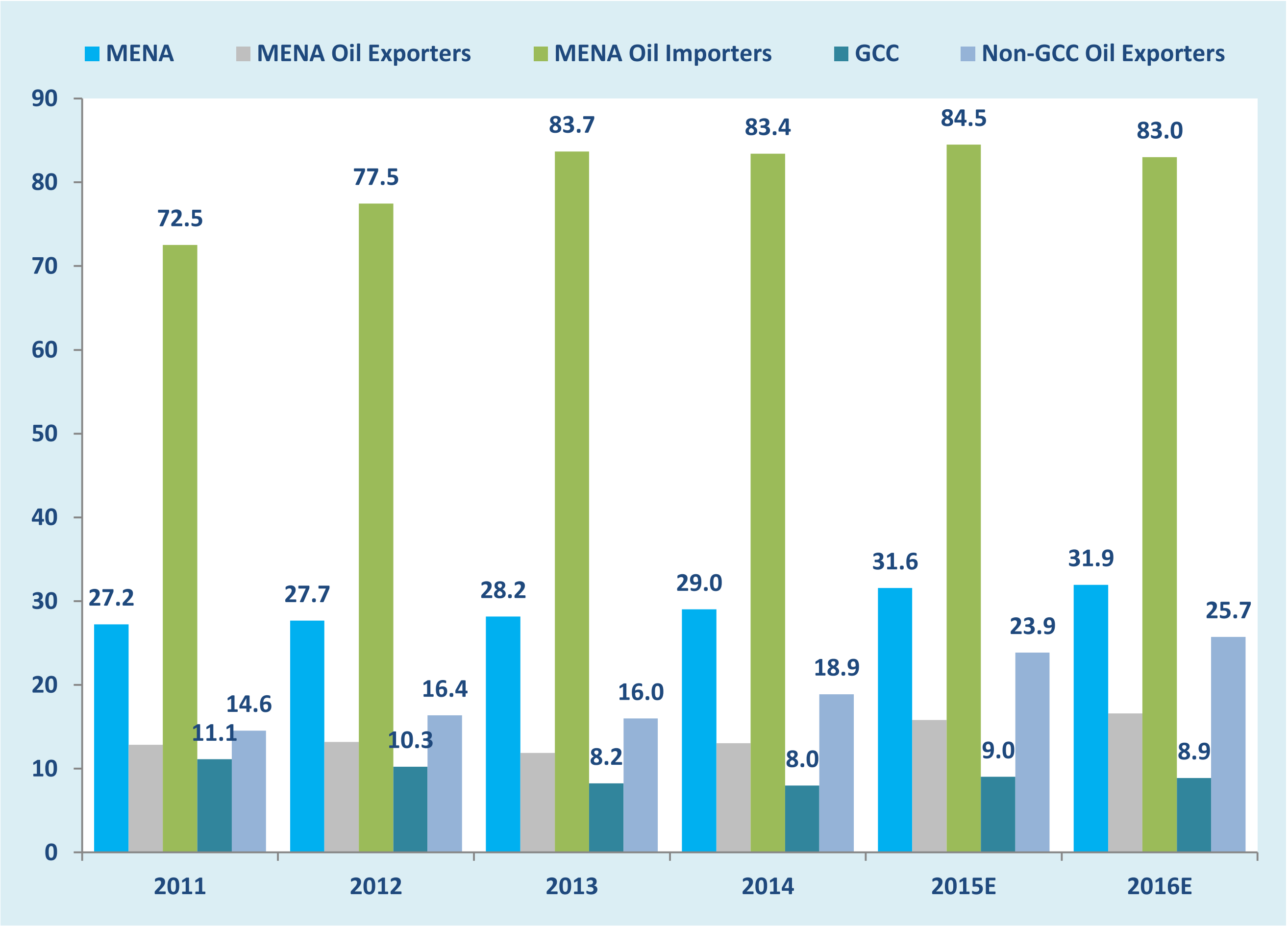
MENA: Difficult conditions for non-GCC oil exporters

Debt as a percentage of GDP is expected to return to 2013 levels in the GCC in the near term primarily on the back of a number of debt issuances announced by Saudi Arabia to meet its targets.

The overall debt levels in MENA saw a slight increase in 2014 (from 28.2% of GDP in 2013 to 29.0% in 2014) while it declined slightly for MENA oil importers on the back of oil expense savings being utilized to strengthen buffers and reduce public debt.

Non-GCC oil exporters are expected to be the worst hit economies due to lower buffers. Reforms in these countries would be funded by additional debt issuances.

GOVERNMENT GROSS DEBT (% OF GDP)



Source: IMF

MENA: Oil exporters feel the heat

Official reserves of MENA oil exporters is expected to decline to just below the USD 1.2 Trillion mark in 2015 as the oil savings are utilized to fund infrastructure projects across the region. That said, these economies continue to remain stable in terms of import cover on the back of past surpluses.

Inflation has declined significantly in the MENA region from double digit levels at the end of 2013 to mid-single digits across economies. In the GCC, inflation continues to be at one of the lowest levels and within the government's control although it has risen across some specific product categories.

GROSS OFFICIAL RESERVES (USD Bn)

	2012	2013	2014	2015E	2016E
MENA oil exporters	1,247.0	1,372.4	1,358.3	1,198.1	1,111.8
MENA oil importers	85.3	92.0	100.5	106.9	115.5
MENA	1,332.3	1,464.4	1,458.8	1,305.0	1,227.3
GCC	774.2	878.9	897.7	825.0	788.2
Non-GCC oil exporters	472.8	493.4	460.7	373.1	323.5
Arab World	1,227.9	1,346.8	1,331.5	1,174.6	1,094.7

INFLATION (ANNUAL CHANGE %)

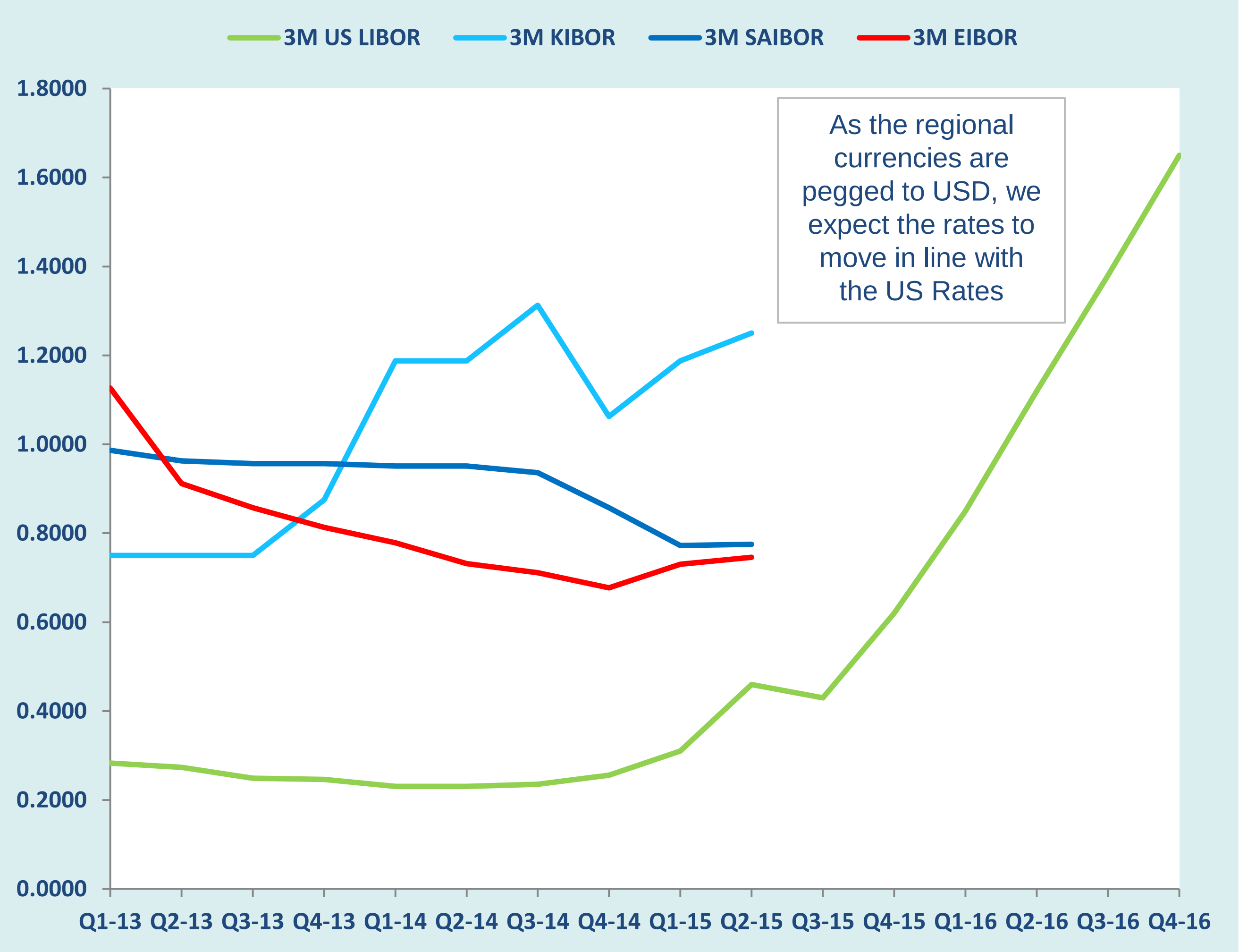
	2011	2012	2013	2014E	2015E	2016E
MENA	9.4	10.0	10.3	6.7	6.3	6.5
MENA Oil Exporters	9.8	10.4	10.4	5.8	5.8	6.1
MENA Oil Importers	8.2	8.6	10.1	10.0	8.2	7.7
GCC	3.1	2.4	2.8	2.6	2.1	2.5

Source: IMF

MENA: Interest rates

Long term MENA interest rates are expected to move northwards in line with the movement in interest rates in the US.

Moreover, any hike in the interest rate in the US would lead to tightening of financial conditions in the Gulf resulting in higher cost of project financing.



Source: Bloomberg, KAMCO Research

MENA: CDS volatility has declined significantly since the second half of 2014.

Source: Bloomberg

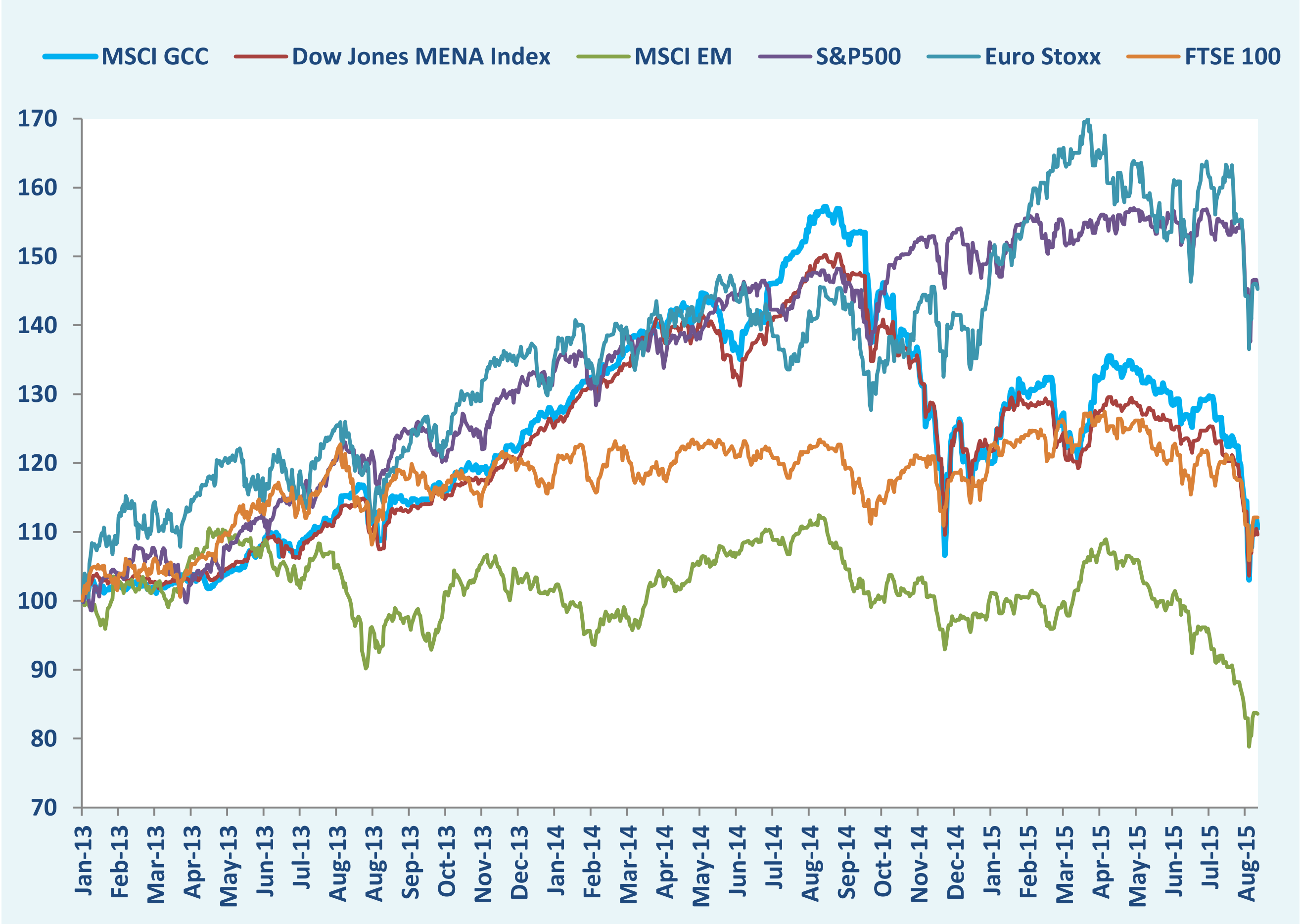
MENA: The rise and fall of MENA equities

In 2013, MENA equity markets were one of the best performing markets globally with some even more than doubling in terms of year-on-year returns as seen in Dubai.

The year 2014 started at the same pace where it ended in 2013. However, the oil price decline in September-14 completely wiped off all the gains made during the year. The MSCI GCC index peaked in September-14 with a YTD-14 gain of almost 28% but thereafter went on a downward rout to close the year with a decline of 2%.

The rout continued in 2015 as seen the 8% and 14% decline in MSCI GCC and MSCI EM indices, respectively as at the end of August-15.

EQUITY MARKET PERFORMANCE – MENA VS. OTHER REGIONS



Source: KAMCO Research, Bloomberg

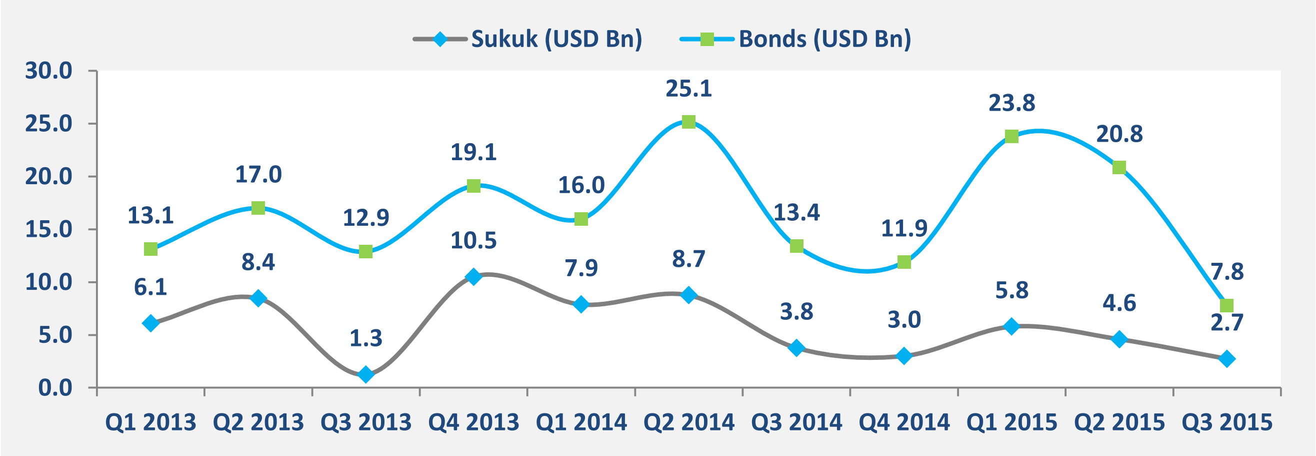
MENA: Higher MENA fixed instrument issuances to fund infrastructure spending

Conventional bond issuances in the MENA region increased by 76.4% during the 1H-15 to USD 44.6 Bn as compared to 2H-14, whereas growth over 1H-14 stood at 8.4%.

Total bond issuances during July-15 and August-15 stood at USD 7.8 Bn resulting in YTD-15 issuance of USD 52.4 Bn as compared USD 66.4 Bn issued during full year 2014.

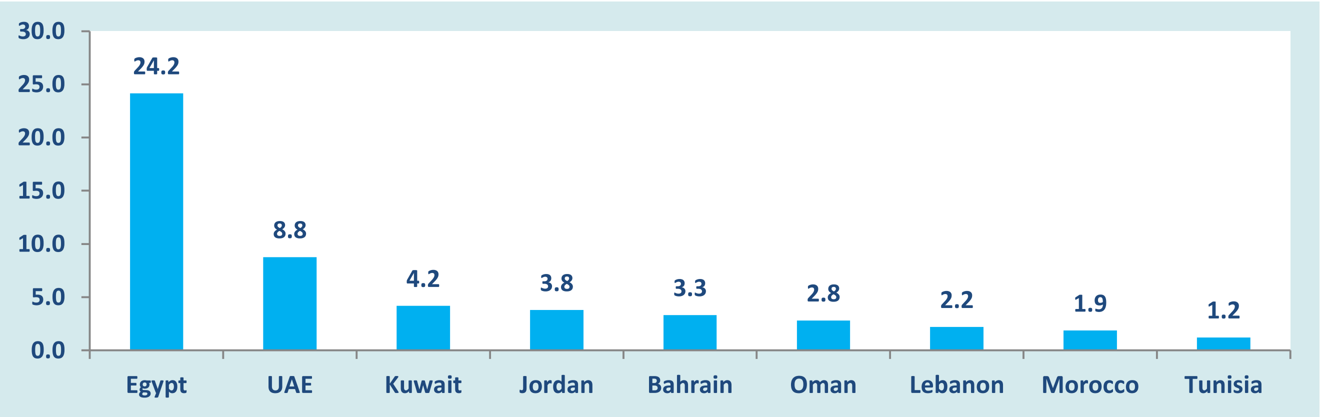
In terms of sukuk issuances, KSA topped the chart with YTD-15 issuances totaling USD 4.9 Bn or 37% of total MENA sukuk issuances in 2015.

MENA SUKUK & BOND ISSUANCE



Source: Zawya, KAMCO Research

BOND BREAKDOWN BY COUNTRY (YTD-2015, USD Bn)



Source: Zawya, KAMCO Research

MENA ECONOMIC OUTLOOK

The time of splurging on infrastructure projects is over

The growth story of MENA economies remains intact with GDP growth expected to rise from 2.4% in 2014 to 2.7% in 2015. However, the engine of growth has slowed down and is now stretched due to the dramatic fall in oil prices. The significant decline in oil revenues has forced governments to rethink their spending and investment plans and focus only on essential projects and activities and delay or scrap the non essential ones. Moreover, political stability has improved significantly as compared to the last year enabling the government to take decisions swiftly.

Moreover, the decline has once again put the focus on concentrating on diversification activities to spur growth in non-oil sectors. Although government has been on the right track by spending heavily on improving living standards, creating job opportunities for the youth, improving the legal and financial system to make fund raising a smooth process, the need is all the more urgent this time.

GDP growth of MENA oil exporters is expected to remain flat in 2015 at 2.4% and rise to 3.5% in 2016. Meanwhile, non-oil GDP growth in oil exporting nations is expected to decline to 2.8% in 2015 as compared to 3.3% in 2014 and then bounce back to 3.6% in 2016. Despite the large oil revenue losses, most of the countries in the region are expected to use accumulated surpluses and tap the fixed income market to support spending plans while at the same time slowing their fiscal spending.

For MENA oil importers, growth is expected to improve in 2015 from 2.5% in 2014 to 3.9% on the back of improved domestic confidence, relatively stable political climate, and accommodative fiscal and monetary policies. The savings on account on oil price decline is expected to result in improved fiscal/quasi-fiscal positions and external vulnerabilities instead of an accelerated growth rates. The improved financial condition should help these countries to undertake subsidy reforms and structural changes that would have otherwise been difficult to achieve.

The GCC region is projected to record the strongest growth in the MENA region, led by spending in Qatar, UAE and Saudi Arabia. Infrastructure spending is on the rise with construction sector being the main driver. Projects worth USD 2.8 Trillion is in pipeline with a majority of them in Saudi Arabia. Furthermore, a number of MENA economies will hold elections in the next one year (Egypt, Iran, Libya, Morocco). A stable government should provide the much needed direction.

SECTION 3| GCC Economic Trends

GCC: Past investments renders resilience to GCC

After flat y-o-y growth in real GDP in 2014, the GCC region is expected to see a marginal decline in GDP growth that is now expected to be 3.4% in 2015 and further decline to 3.2% in 2016.

Oil, which was the primary driver of growth, became the sole reason for the expected decline in GDP growth as oil still dominates revenue generation in the region whereas non-oil diversification is still at a nascent stage of implementation.

Nevertheless, the GCC continues to remain the key driver of growth in the MENA region and the growth rate in GCC outpaces that in the rest of the MENA economies.

GCC REAL GDP GROWTH (%)

Source: IMF

GCC ECONOMIC SNAPSHOT

	2010	2011	2012	2013	2014	2015E	2016E
Real GDP Growth (%)	6.4	7.7	5.4	3.6	3.6	3.4	3.2
Oil GDP Growth (%)	4.4	10.2	5.4	0.5	0.8	0.9	1.0
Non-Oil GDP Growth (%)	6.3	6.6	5.2	6.5	5.7	5.2	4.6
Oil Production (mn b/d)	14.6	16.3	17.2	17.1	17.2	17.3	17.4
Gas Production (mn b/d)	6.51	7.31	8.1	8.5	8.7	8.9	9.1
Current Account Balance (% of GDP)	12.4	23.6	24.4	20.6	16.5	2.8	5.4
Fiscal Balance (% of GDP)	3.6	11.6	15.1	12.1	4.6	-7.9	-3.6

Sources: IMF

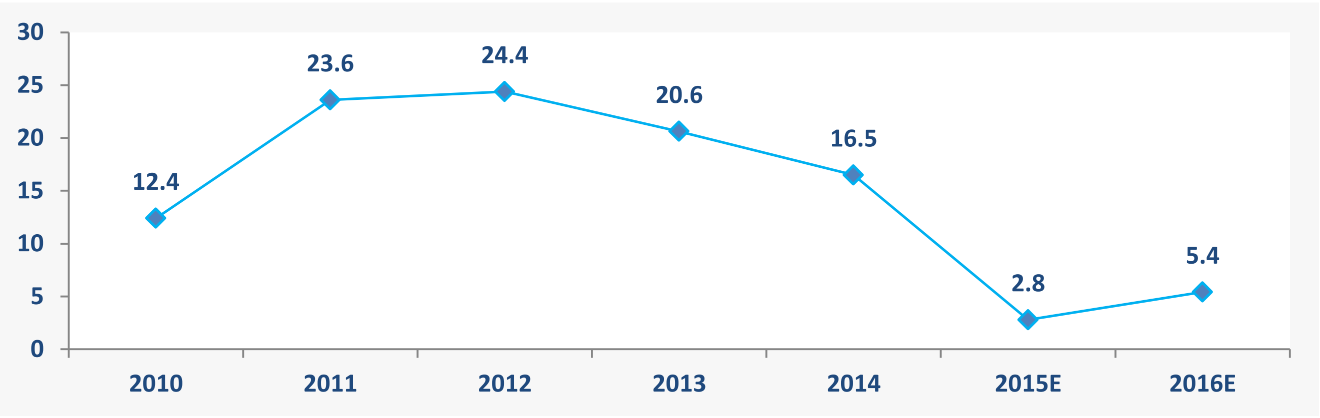
GCC: Selective infrastructure investments funded by past buffers

The decline in the value of exports is expected to significantly lower the current account balance in the GCC which is expected to decline from USD 271.8 Bn in 2014, or 16.5% of GDP to merely USD 40.2 Bn or 2.8% of GDP in 2015. Subsequent improvement in oil price is expected to double the current account balance in 2016 to USD 84.2 Bn or 5.4% of GDP.

Within individual countries, KSA, Oman and Bahrain are expected to report a current account deficit in 2015.

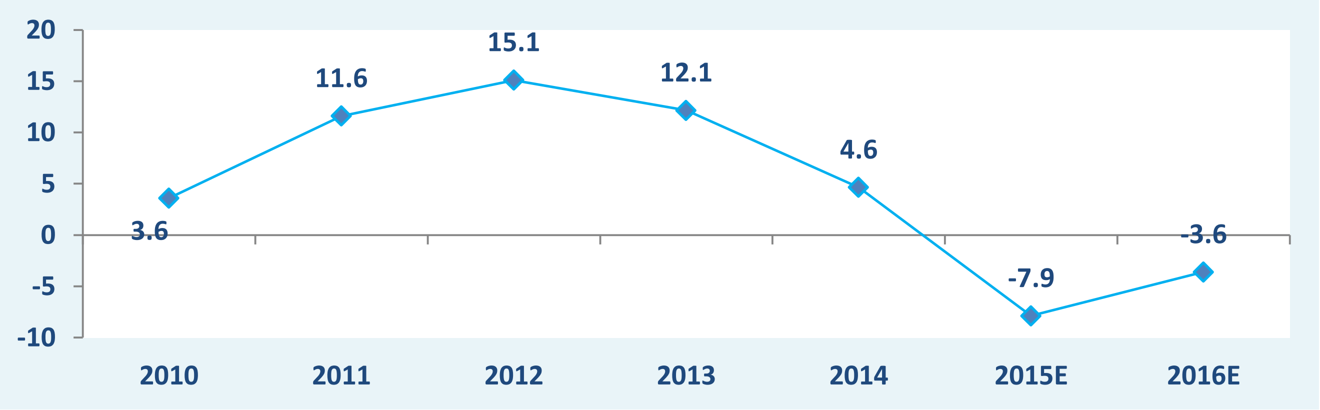
Fiscal balance is expected to turn negative in 2015 only to rise marginally in 2016.

CURRENT ACCOUNT BALANCE (% OF GDP)



Source: IMF

FISCAL BALANCE (% OF GDP)



Source: IMF

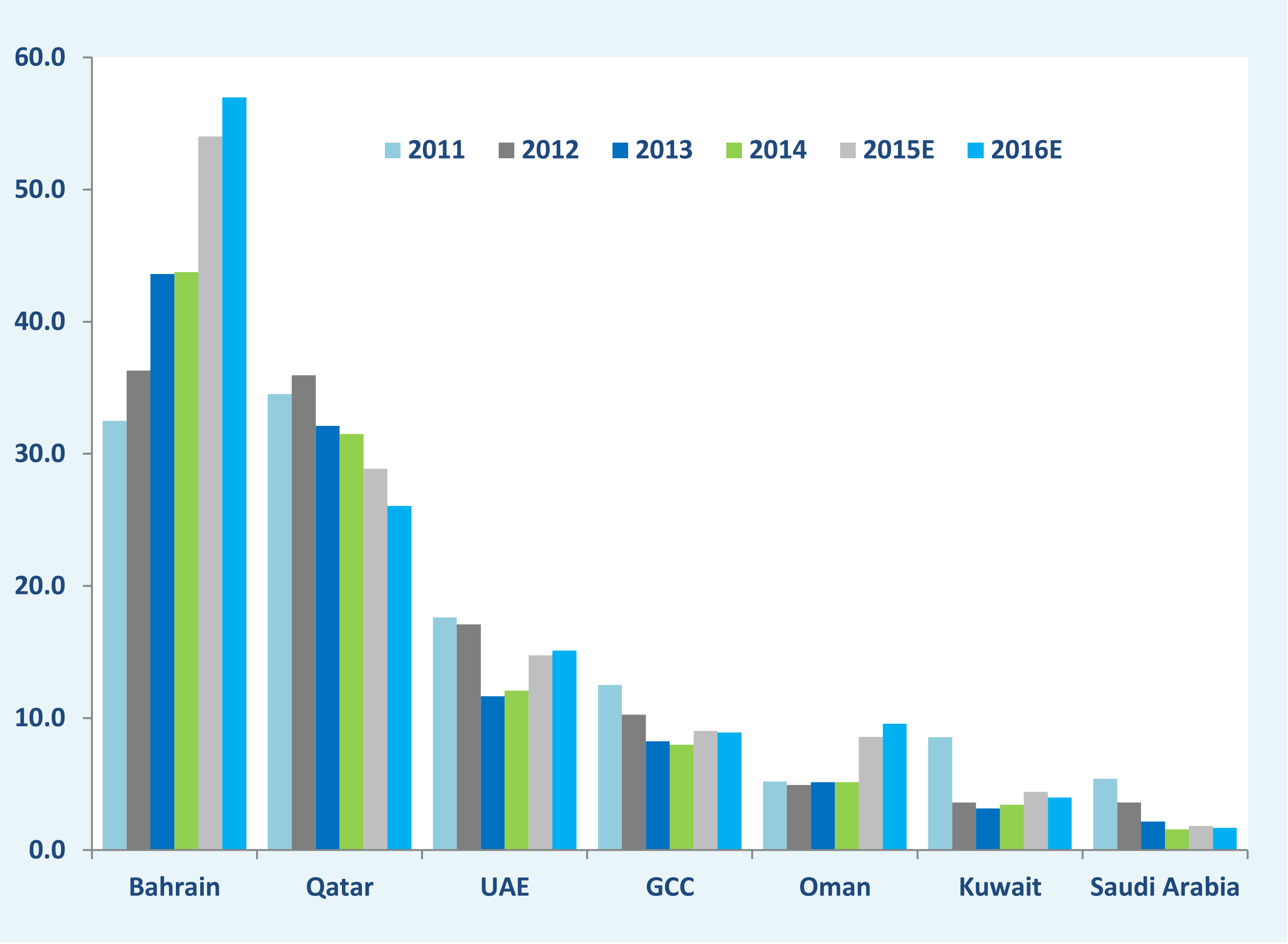
GCC: Expect reserve drawdowns in 2015 and 2016

Debt levels are not expected to rise significantly in the GCC, especially in the bigger economies.

Saudi Arabia is expected to report only a marginal rise in debt levels, recorded at 1.8% of GDP in 2015 as compared to 1.6% in 2014, which is still significantly low as compared to historical levels as well as versus other GCC and global economies.

Bahrain continues to record the highest debt level at 54.0% of GDP whereas Qatar, with its infrastructure spending plans, comes in second at 28.9% of GDP.

GROSS PUBLIC DEBT (% OF GDP)



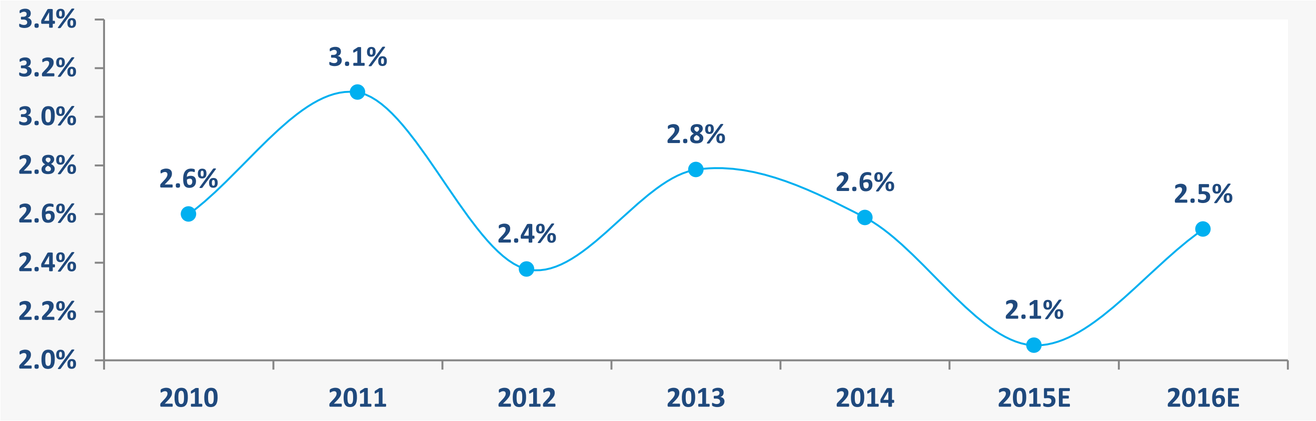
Source: IMF

GCC: Inflation at ideal levels

Inflation has remained under 3% despite increased liquidity levels, as housing and food prices have remained low. Moreover, since most of the currencies in the GCC are pegged to the USD, rising USD rates in 2015 has put a virtual cap on inflation numbers. In addition, since fuel prices are managed by the government, inflation is not expected to see a steep decline with the decline in oil prices.

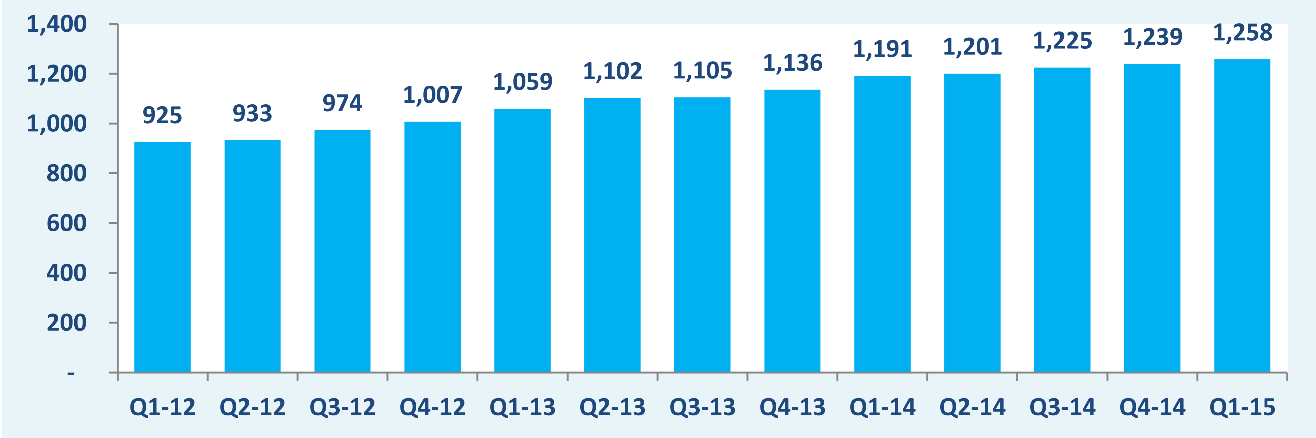
Money supply went up from USD 1.26 Trillion in Q4 2014 to USD 1.31 Trillion in Q2 2015, as central banks maintained low interest rates, leading to elevated private lending and consumption levels.

GCC ANNUAL INFLATION (%)



Source: IMF

GCC GROSS MONEY SUPPLY (USD Bn)



Source: Central Banks, KAMCO Research

GCC: Declining FDI levels to raise alarms

Except for UAE and Bahrain, none of the GCC economies managed to improve their score on the Doing Business Index resulting in a sharp fall in ranks. UAE's rank improved to 22 on the back of efforts undertaken by the government.

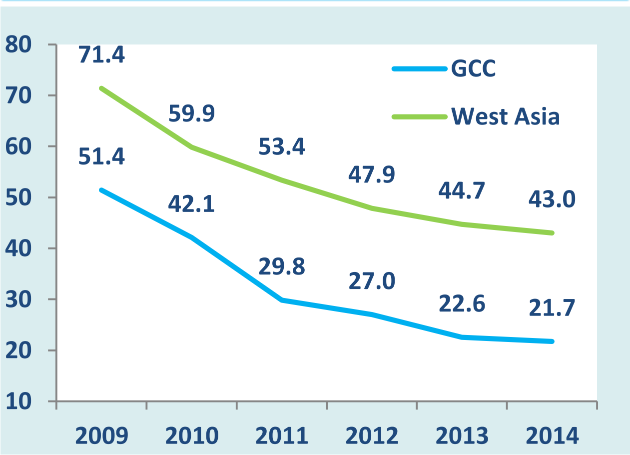
A similar trend was seen in the Global Competitiveness Index with UAE at the forefront ranking 12th globally followed by Qatar and Saudi Arabia.

FDI inflows weakened in 2014 and are in a state of secular decline (from USD 22.6 Bn in 2013 to USD 21.7 Bn in 2014), despite a number of initiatives to open up the market to foreign investors.

Country	Doing Business Rank		Global Competitiveness Rank	
	2014	2015	2013-14	2014-15
Saudi Arabia	44	49	20	24
Kuwait	79	86	36	40
UAE	25	22	19	12
Qatar	45	50	13	16
Oman	60	66	33	46
Bahrain	53	53	43	44

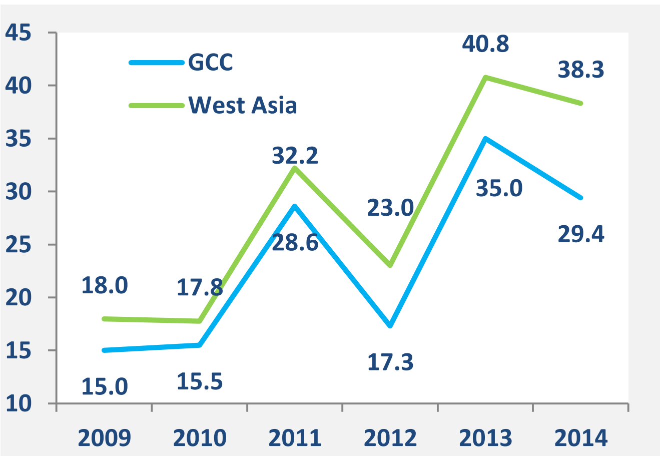
Source: IMF

FDI Inflow (USD Bn)



Source: UNCTAD 2015 World Investment Report

FDI outflow (USD Bn)



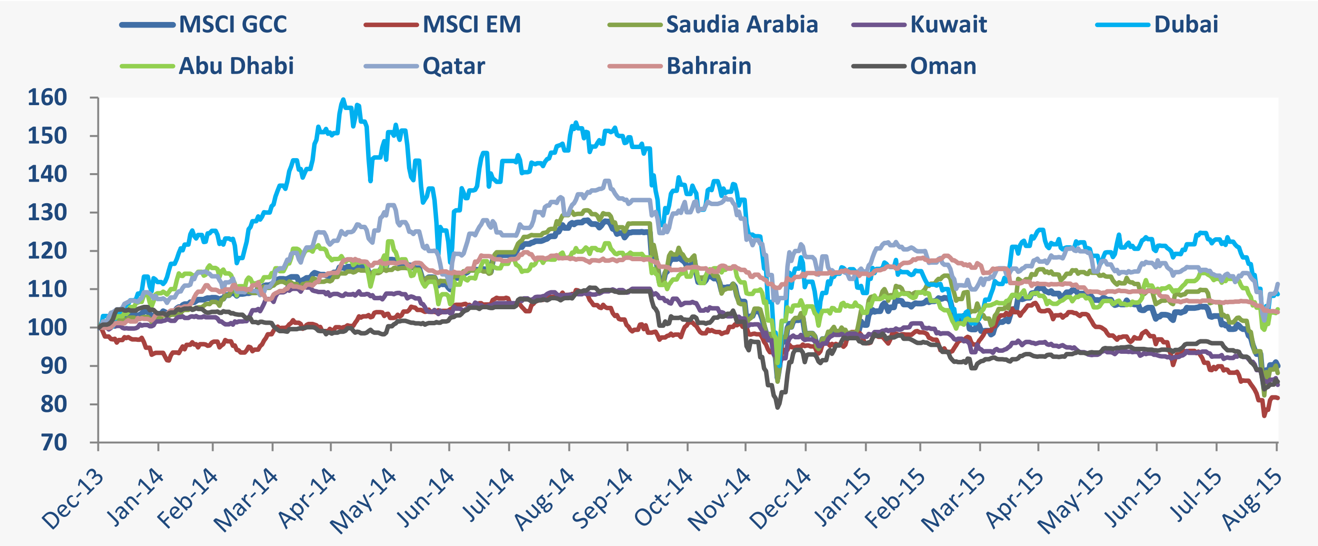
Source: UNCTAD 2015 World Investment Report

GCC: The entire spectrum is in red this year

Multiple setbacks in 2015 on the global as well as regional front has rendered the equity markets in the red zone. The slide in the benchmark indices started with the oil rout in September 2014 that continued in 2015. However, there was a temporary recovery during mid-2015 as oil prices recorded a bit of stability.

A second blow to equity markets came when China devalued Yuan in August-15 triggering a global stock market rout with record weekly declines in most of the markets. Currently, all of the GCC indices remain in the red with Kuwait reporting the steepest fall in YTD-15.

EQUITY MARKETS PERFORMANCE



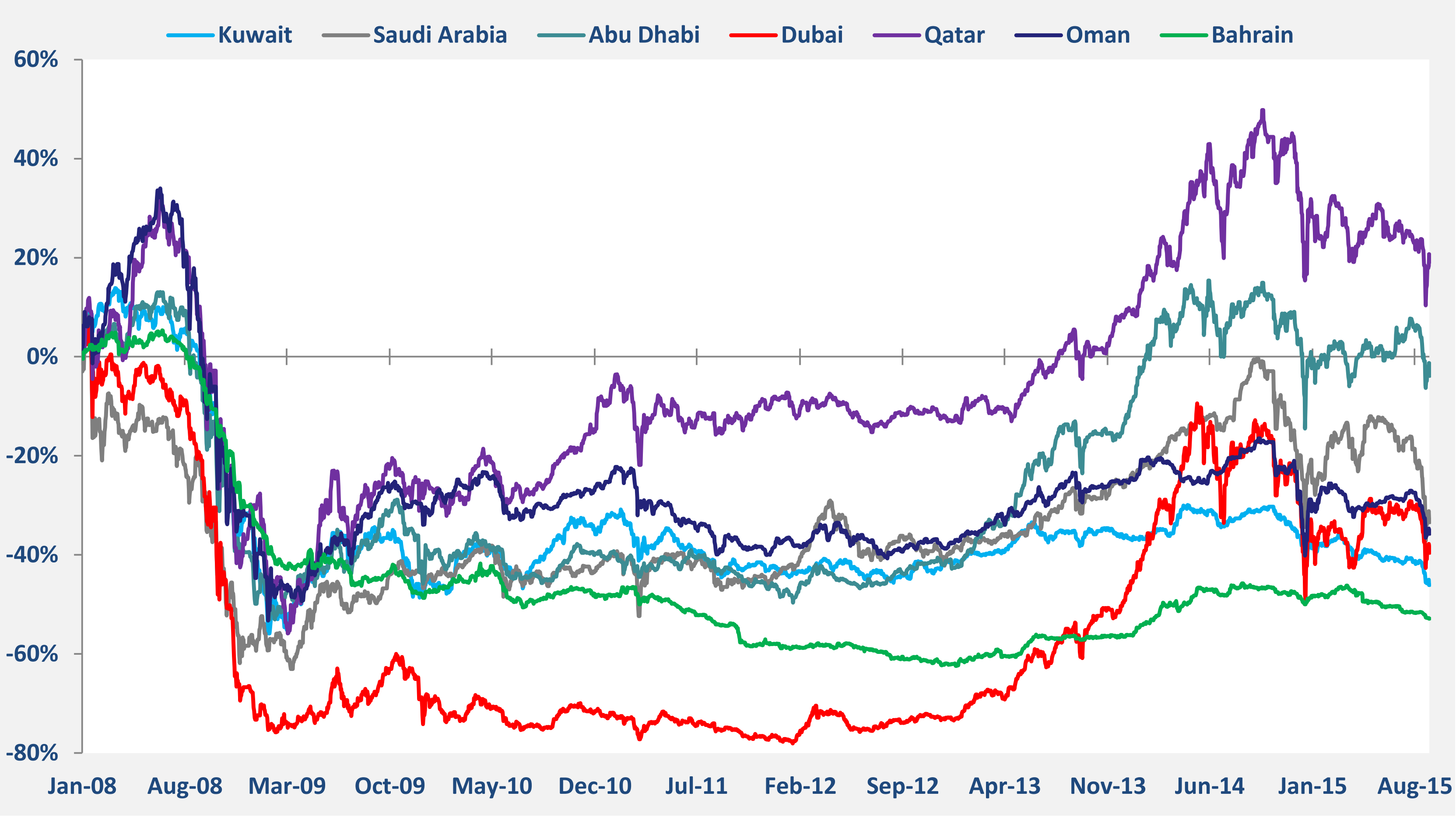
EQUITY MARKET INDICES (Y-O-Y % CHANGE)

	2009	2010	2011	2012	2013	2014	YTD Aug-15
Saudi Arabia	32.3%	7.7%	-4.2%	6.3%	25.5%	-2.4%	-9.7%
Dubai	13.6%	-9.6%	-17.0%	19.9%	107.7%	12.0%	-3.0%
Abu Dhabi	20.2%	-0.9%	-11.7%	9.5%	63.1%	5.6%	-0.8%
Qatar	4.9%	24.8%	1.1%	-4.8%	24.2%	18.4%	-5.9%
Oman	27.4%	6.1%	-15.7%	1.2%	18.6%	-7.2%	-7.4%
Kuwait	-15.0%	-0.7%	-16.4%	2.1%	27.2%	-3.1%	-12.2%
Bahrain	-20.4%	-1.8%	-20.1%	-6.8%	17.2%	14.2%	-8.9%
MSCI EM	78.7%	15.8%	-20.2%	15.4%	-5.0%	-4.6%	-14.8%
MSCI GCC	14.6%	16.4%	-10.0%	4.0%	25.6%	-2.2%	-7.2%

Source: KAMCO Research, Bloomberg

GCC: GCC Comparative Market Performance – Rebased to 31-Dec-2007

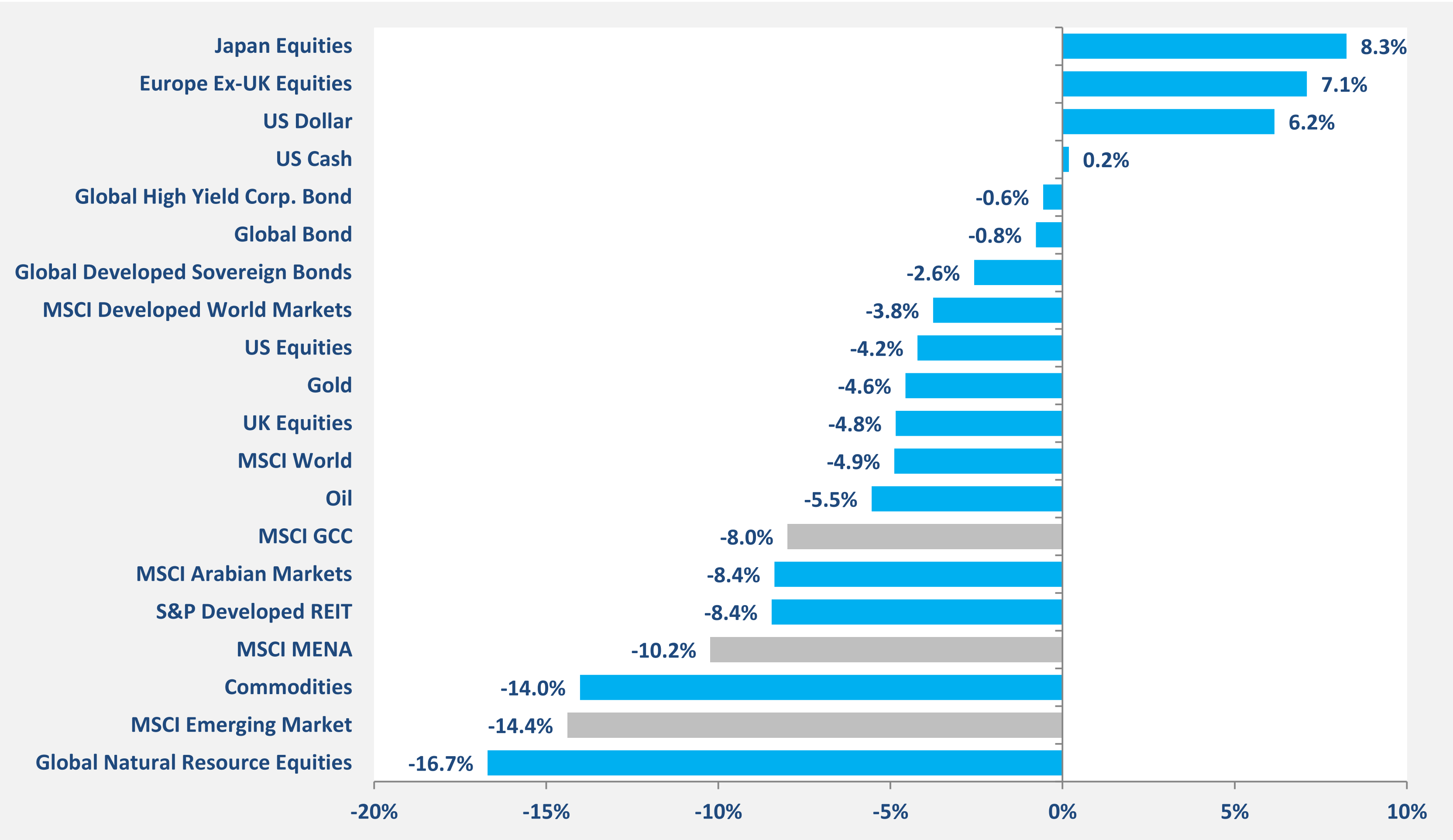
GCC EQUITY MARKETS PERFORMANCE



Source: KAMCO Research, Bloomberg

GCC: GCC Markets vs. International and Regional Markets Performance (YTD Aug-2015)

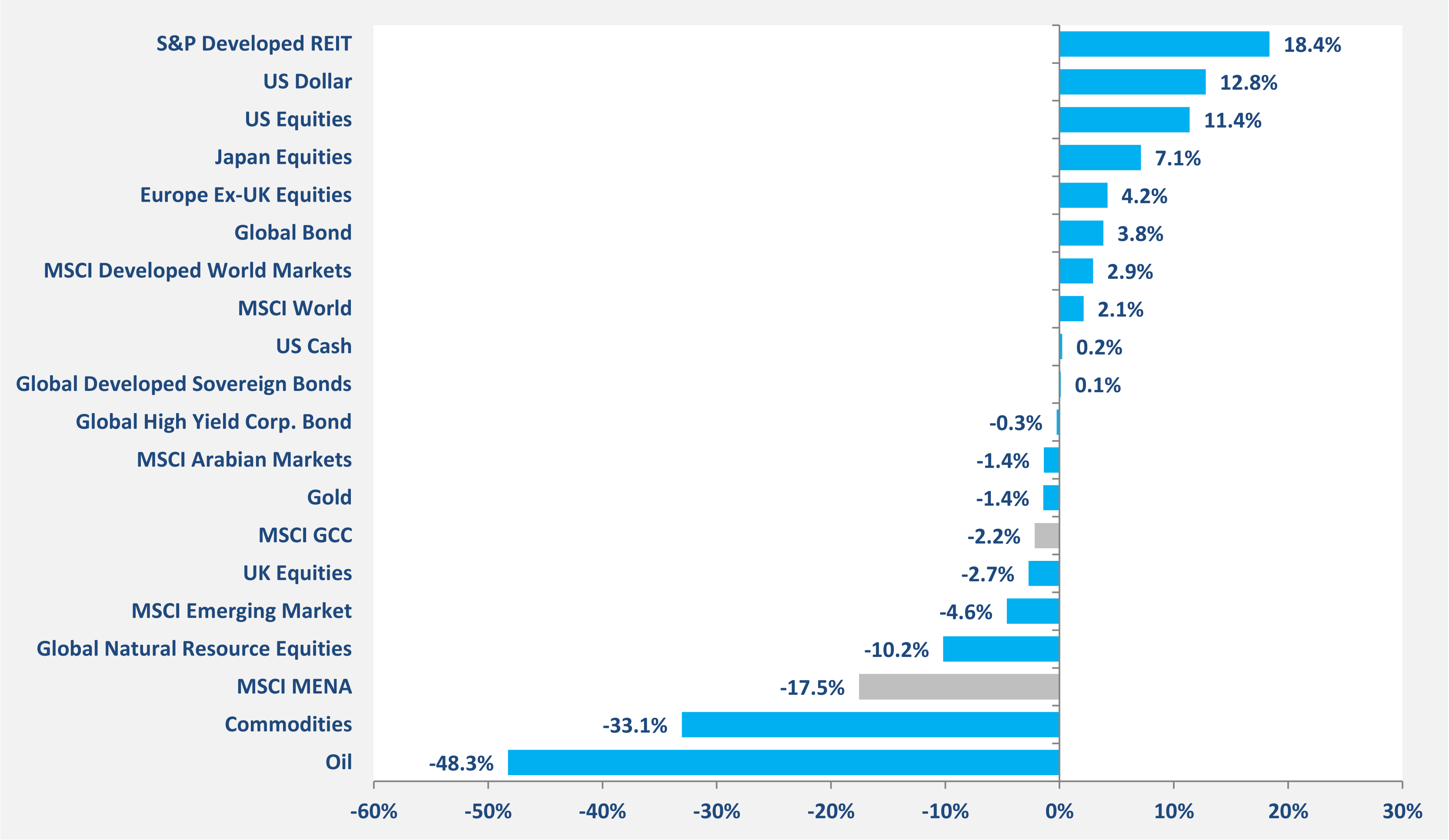
INTERNATIONAL AND REGIONAL MARKETS PERFORMANCE



Source: KAMCO Research, Bloomberg

GCC: GCC Markets vs. International and Regional Markets Performance (FY-2014)

INTERNATIONAL AND REGIONAL MARKETS PERFORMANCE



Source: KAMCO Research, Bloomberg

GCC: GCC & Global Asset Classes Monthly Correlation Matrix Since 1-Jan-2009

GLOBAL ASSET CLASSES MONTHLY CORRELATION MATRIX SINCE 1-JAN-2009

Correlation	MSCI World Equities	MSCI EM Equities	Commodities	Developed REITS	Oil	MSCI GCC Equities	Gold	Global Bond	USD Index
MSCI World Equities	1.000	0.853	0.600	0.815	0.491	0.624	0.118	0.213	-0.688
MSCI EM Equities	0.853	1.000	0.629	0.706	0.557	0.630	0.266	0.291	-0.674
Commodities	0.600	0.629	1.000	0.311	0.939	0.504	0.370	0.100	-0.718
Developed REITS	0.815	0.706	0.311	1.000	0.181	0.490	0.137	0.447	-0.477
Oil	0.491	0.557	0.939	0.181	1.000	0.502	0.327	0.062	-0.628
MSCI GCC Equities	0.624	0.630	0.504	0.490	0.502	1.000	-0.039	0.133	-0.400
Gold	0.118	0.266	0.370	0.137	0.327	-0.039	1.000	0.401	-0.326
Global Bond	0.213	0.291	0.100	0.447	0.062	0.133	0.401	1.000	-0.397
USD Index	-0.688	-0.674	-0.718	-0.477	-0.628	-0.400	-0.326	-0.397	1.000

Source: KAMCO Research, Bloomberg

GCC ECONOMIC OUTLOOK

Growth rates set to moderate in the near term

Oil sector growth in the GCC is set to decline due to the fall in oil price. This will have a fair share of impact on the non-oil sector. GDP growth in the GCC is pegged at 3.4% in 2015 as compared to 3.6% in 2014. Oil GDP growth is set to decline to less than 1% for the third consecutive year in the GCC in 2015 only to improve marginally to 1% in 2016. On the other hand, non-oil GDP is expected to rise at a slightly slower pace of 5.2% as compared to 5.7% in 2014. This will be the sixth consecutive year of 5%+ growth in non-oil GDP.

Lower oil prices has forced the GCC economies to reconsider their heavy spending plans that runs for multiple decades in the future. Infrastructure investment would be selective, only in strategic projects, and some of the non-essential planned investments are expected to be either delayed or completely shelved off. Saudi Arabia and Abu Dhabi have already committed to scaling back some of their investments in the near term. On the positive side, the investment boom seen over the past three years would be instrumental in driving economic growth in periods of distressed growth, which is also reflected in the robust growth expectations for the non-oil sector.

Fiscal position is weakening as growth in expenditure outpaces revenue growth. Moreover, the higher spending commitments in periods of high oil prices have pushed fiscal breakeven oil prices to new heights thereby creating additional fiscal challenges for the government and making them all the more vulnerable to oil price shocks. The fiscal breakeven oil price for Saudi Arabia is expected to be the highest in the GCC at USD 103/b for 2015. It is almost impossible for oil to reach this level as forecasted by analysts and agencies globally. Oman and Bahrain are also expected to see elevated fiscal breakeven oil prices, whereas Kuwait is reported to have the lowest fiscal breakeven price. Nevertheless, the budget surpluses generated over the past few years have strengthened state coffers with enough foreign currency reserves to continue spending at the same pace for the next two to three years.

In terms of oil production, the GCC is expected to face challenges in maintaining its oil market share and would be pressed to cut production in order to support other producers and oil prices. Moreover, with the lifting of sanctions on Iran, the oil glut is expected to worsen in the medium term offset by only marginal rise in demand for transportation fuel in North America and Europe.

GCC Region – Key Risk Factors

- Risks have increased on the downside primarily due to expectations of a low oil price environment. A further deterioration in oil prices or a prolonged weakness could result in huge spending cuts for the GCC economies, which will hamper economic growth rates.
- Risk of rising geopolitical tensions in the GCC with the ongoing conflicts in Yemen could result in domestic unrest that could delay the implementation of infrastructure development plans.
- Risk of refinancing remains low as the GCC economies continue to maintain strong credit ratings. Interest rates in the region continues to remain low and the bond/fixed income market still remains largely untapped as compared to global averages. However, the recently lowered outlook for Saudi Arabia by Fitch has riang warning bells for the region.
- A slowdown in China has the potential to impact global growth rates. If world growth rates decline oil demand would be severely affected.
- Generating jobs in the private sectors for the rapidly growing young population remains a challenge.
- The growing population in the GCC region has put a pressure on all kinds of resources including food, utilities (water and electricity) and real estate. Although high demand may not necessarily have a negative repercussion, it may hamper growth for vital sectors.

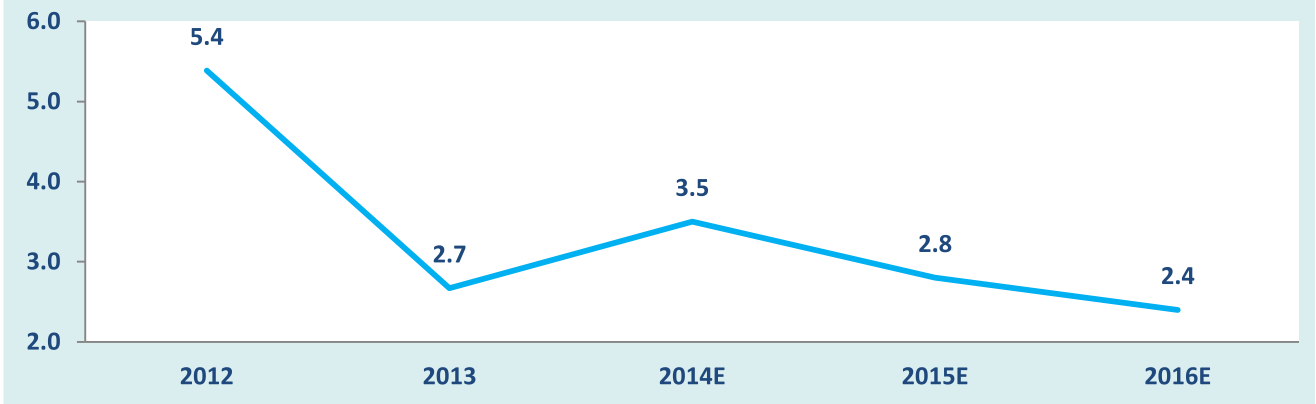
SECTION 4| **Saudi Arabia**

SAUDI ARABIA: Oil impact threatens future growth and spending

Real GDP growth accelerated to 3.5% in 2014 as compared to 2.7% in 2013 on the back of record high oil production and a robust private sector (+5.6%). Growth in public sector was also recorded at 3.7%.

The rout in oil prices has had a phenomenal impact on Saudi Arabia's finances. GDP growth is expected to slow down to 2.8% in 2015 and further lower to 2.4% in 2016. Both non-oil private sector and public sectors are expected to feel the impact of oil-led spending. The contribution of oil sector to GDP declined in 2014 and we expect it to further decline in 2015.

SAUDI ARABIA REAL GDP GROWTH (%)



Source: IMF

	2012	2013	2014	2015E	2016E	2017E	2018E	2019E
Nominal GDP (USD Bn)	734.0	744.3	752.5	649.0	705.7	-	-	-
Real GDP Growth (%)	5.4	2.7	3.5	2.8	2.4	2.9	3.1	3.1
Oil Sector	5.1	-1.6	1.5	2.4	1.2	1.3	1.4	1.4
Non-Oil Public Sector	5.3	5.1	3.7	2.4	2.2	2.7	2.6	2.6
Non-Oil Private Sector	5.5	7.0	5.6	3.4	3.8	4.7	5.0	5.0
Contribution to GDP (%)								
Oil Sector	19.2	19.2	18.3	-	-	-	-	-
Non-Oil Sector	80.8	80.8	81.7	-	-	-	-	-
Oil Production (mn b/d)	9.76	9.64	9.71	9.9	10	10.1	10.2	10.3

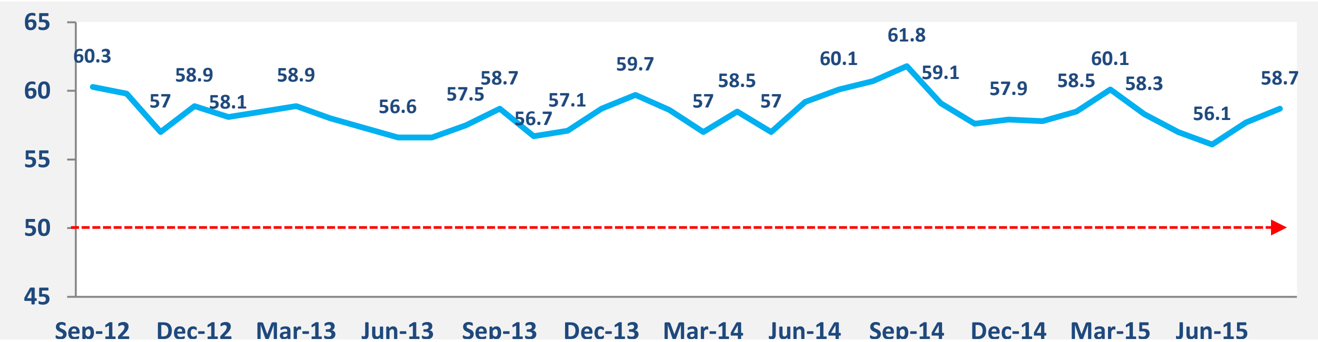
Source: IMF, SAMA, OPEC

SAUDI ARABIA: Manufacturing continues to rise after a temporary blip

Saudi Arabia's PMI dropped to a six-year low level in June-15 as the economy loses growth momentum in the non-oil sector. The index dropped to 56.1 points as compared to 57.0 in May-15. However, relative to other growth markets in the world, Saudi Arabia continues to show record high manufacturing activity growth.

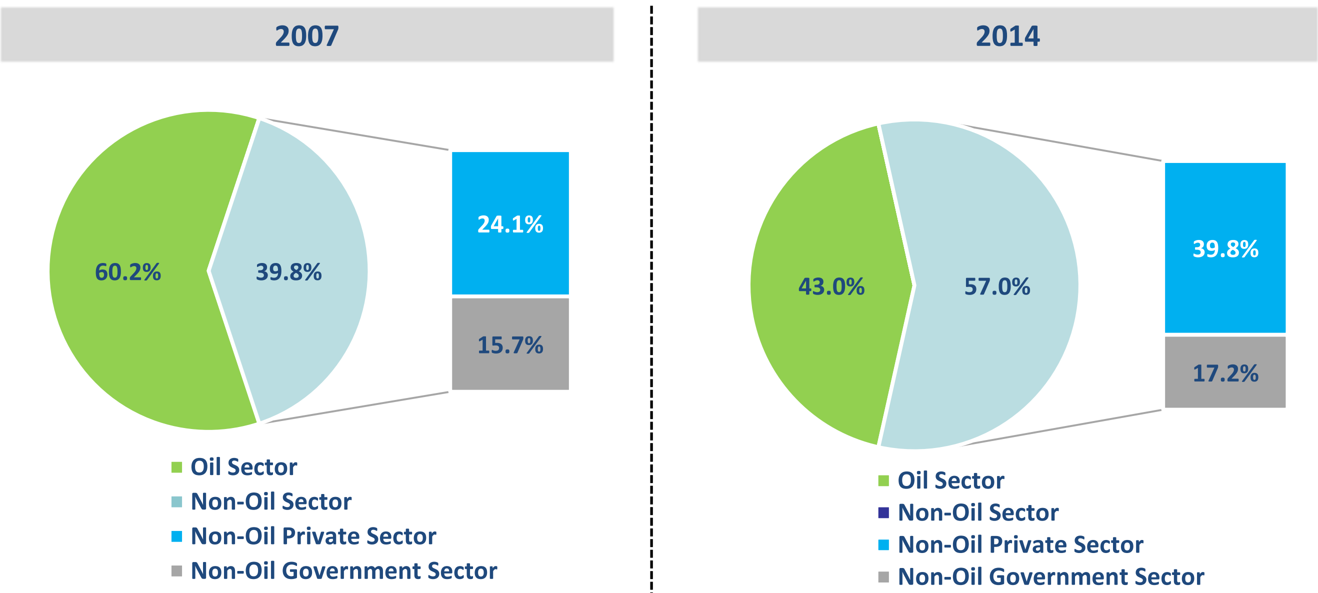
Manufacturing growth bounced back in July-15 (57.7) and August-15 (58.7) as non-oil private sector activity rose to a 5-month high level further supported by record high oil output that boosted manufacturing activity in related sectors.

SAUDI ARABIA – MANUFACTURING PMI



Source: Bloomberg

CHANGE IN GDP COMPOSITION



Source: Ministry of Economy and Planning

SAUDI ARABIA: Construction and manufacturing activity are key to non-oil growth

Construction and manufacturing sectors grew at record pace in 2014 that helped in offsetting the 1% growth in oil sector GDP. Utilities sector also grew at 6% but its contribution to overall GDP remains marginal. However, both construction and manufacturing activities are related to oil sector indicating that a prolonged weakness in oil market would have a cascading impact on other growth sectors.

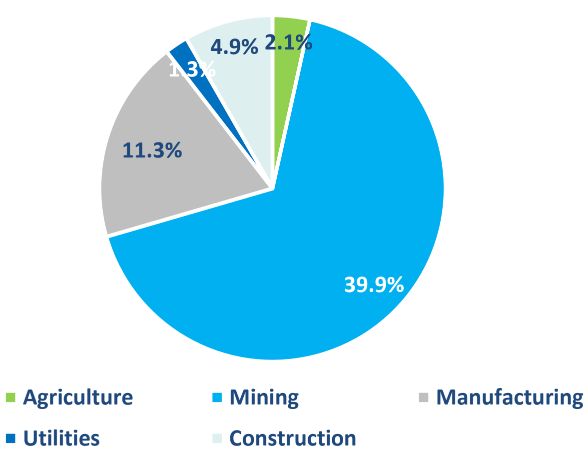
On the other hand, the services sector, that contributed 40% to GDP, grew at a significantly faster pace as compared to producing sectors.

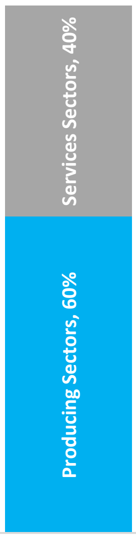
GDP GROWTH IN KEY SECTORS (%)

	2013	2014
Producing Sectors		
Agriculture	2%	2%
Mining	-1%	1%
Manufacturing	3%	8%
Utilities	2%	6%
Construction	8%	7%
Services Sectors		
Trade, Hotels	8%	7%
Transport	7%	6%
Finance	6%	6%
Social & Personal Services	9%	4%
Government	6%	6%

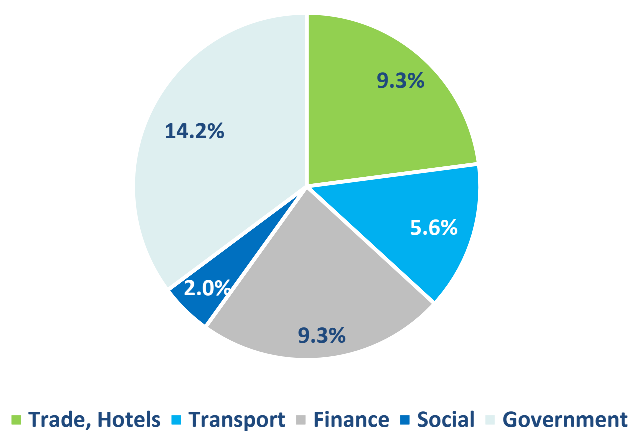
CONTRIBUTION TO 2014 GDP (%)

PRODUCING SECTORS





SERVICES SECTORS



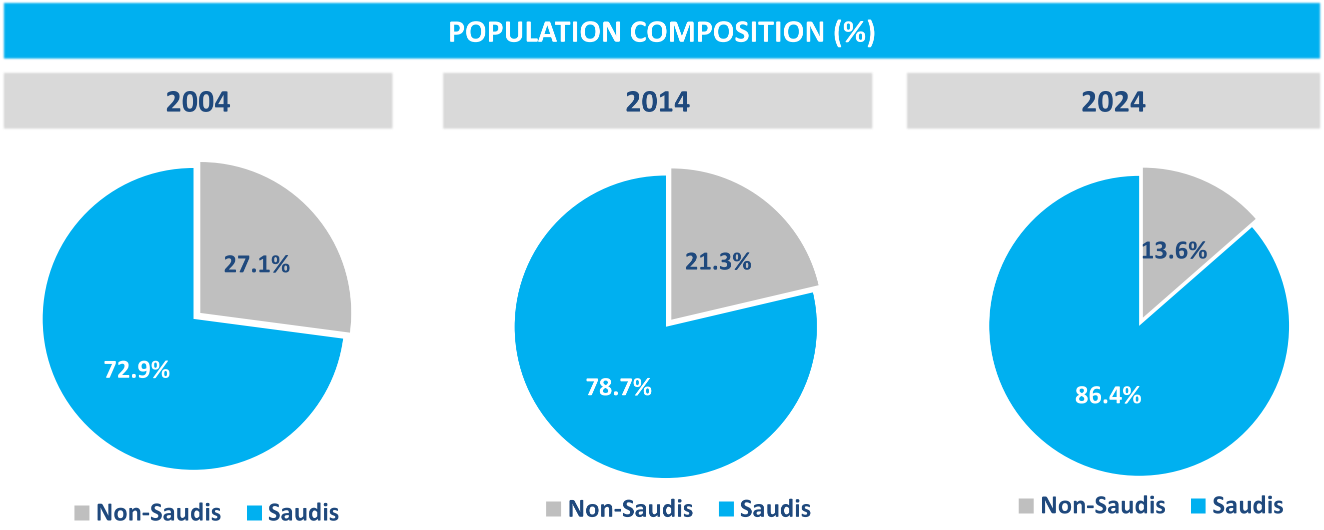
Source: Ministry of Economy and Planning

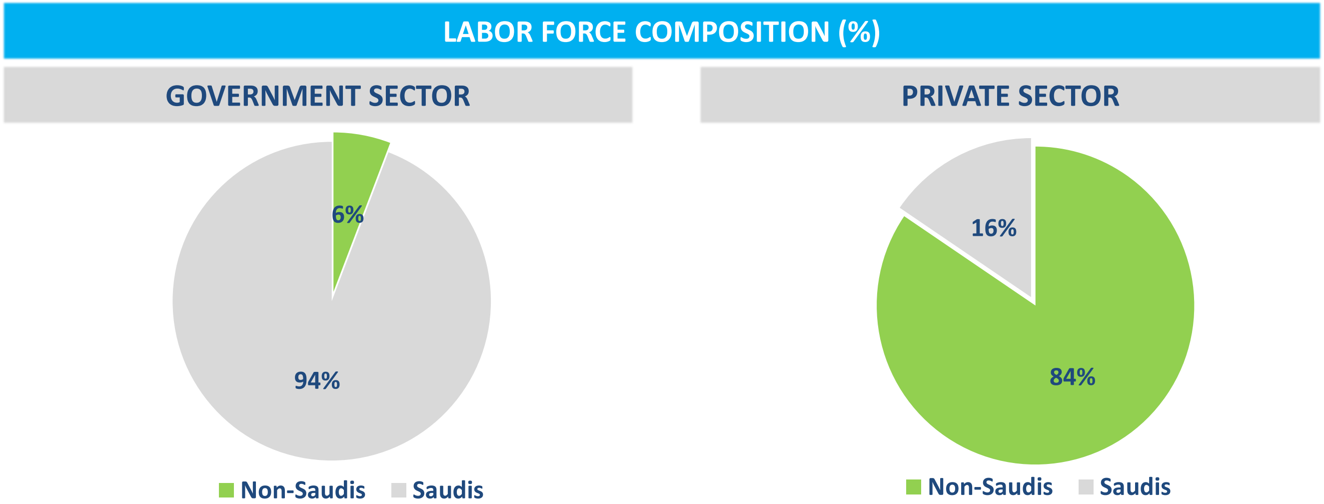
SAUDI ARABIA: Hiring of Saudi nationals in private sector takes center stage

Although Saudi Arabia has announced spending cuts and aims to focus on key projects, the Kingdom has emphasized the importance of developing human resources.

The country would continue to spend on projects related to sectors such as education, health and infrastructure in order to have the talent pool to build a robust private sector.

Moreover, authorities are continuing to develop their labor market strategy that has led to an increase in hiring of Saudi nationals in the private sector.





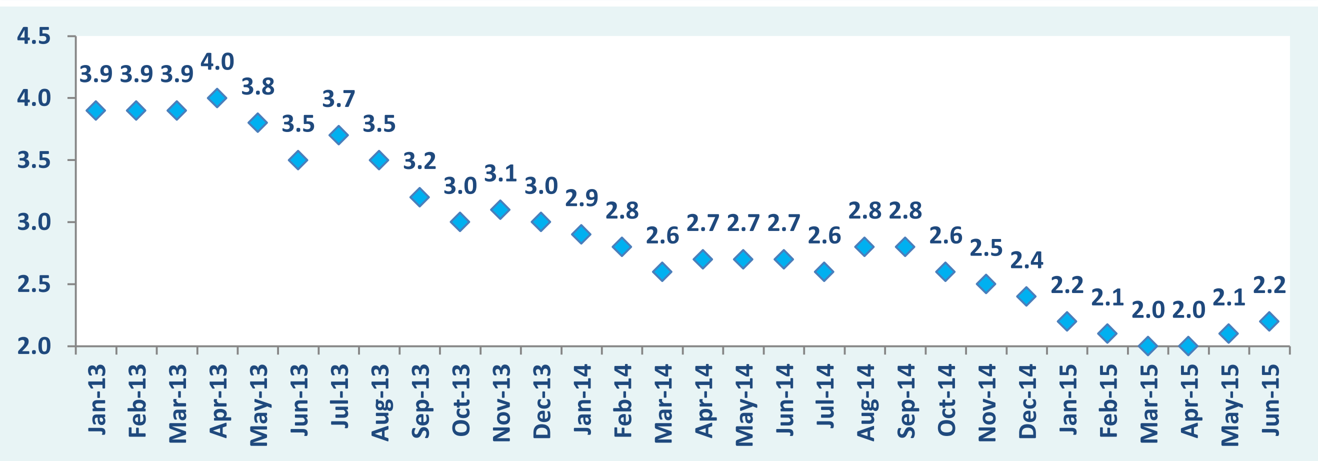
Source: Ministry of Economy and Planning

SAUDI ARABIA: Decline in food prices has eased inflationary pressure

Inflation has eased in the Kingdom and continues to remain range bound over the past 18 months. June-15 inflation was recorded at 2.2%, a slight increase from 2.1% and 2.0% recorded in May-15 and April-15, respectively.

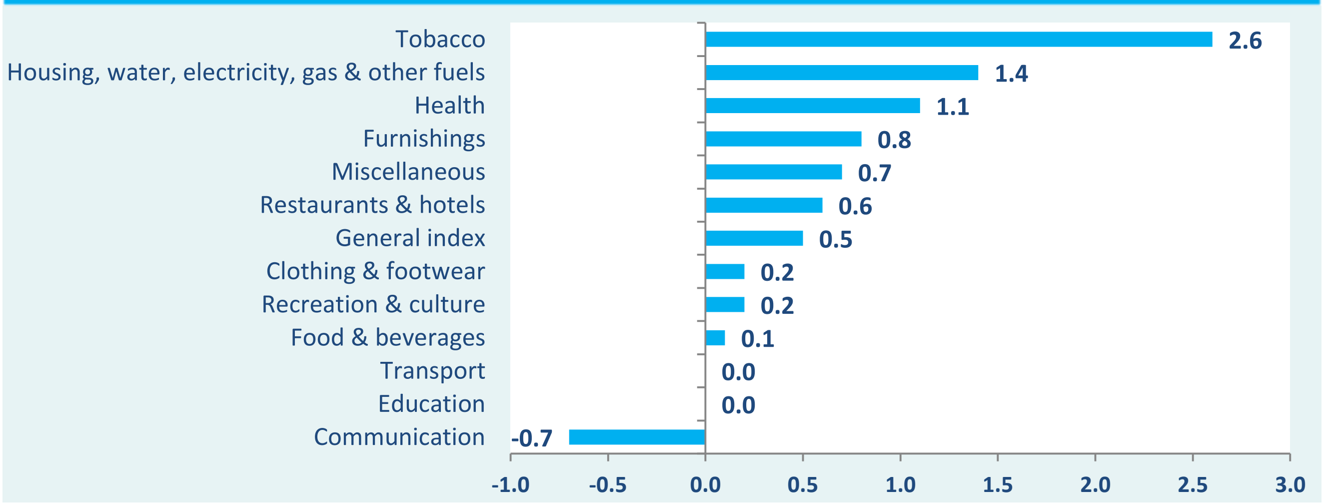
Prices of tobacco continues to increase at a relatively faster pace as compared to other components of the basket. On the other hand, global food price trend and the effective appreciation of the exchange rate has had a soothing effect on prices in general.

ANNUAL INFLATION (%)



Source: SAMA

INFLATION RATE OF COST OF LIVING INDEX BY MAIN GROUPS (%, Q1 2014/ Q4 2013)



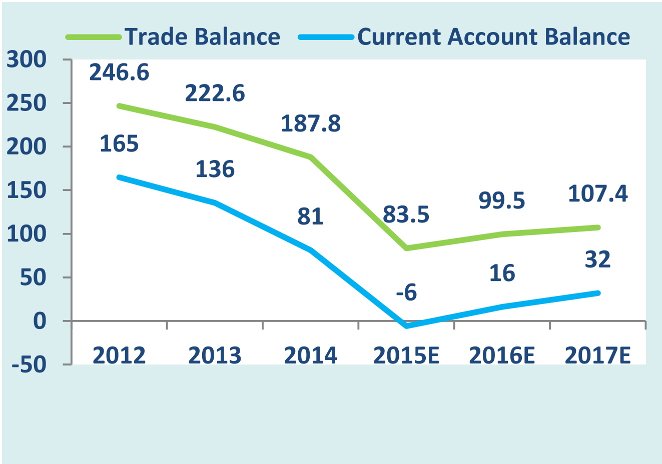
Source: SAMA, KAMCO Research

SAUDI ARABIA: Deficit in sight

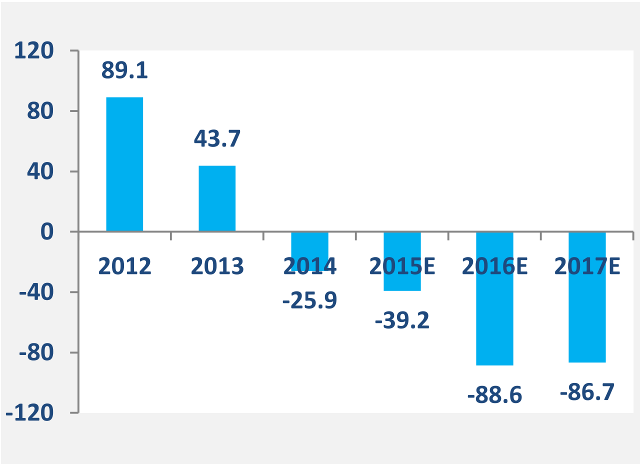
The steep decline in oil revenues is expected to plunge current account balance in deficits in 2015 led by a steep decline in trade account balance. Current account deficit is forecasted to be at USD 5.8 Bn in 2015 followed by a revival to a surplus of USD 16 Bn in 2016 and further to USD 32 Bn in 2017.

A more alarming picture is expected to be seen in fiscal balances that turned negative in 2014 at USD 25.9 Bn. Fiscal deficits are expected to increase in future years to USD 39.2 Bn in 2015 followed by USD 88.6 Bn in 2016.

TRADE & CURRENT ACCOUNT BAL. (USD Bn)



FISCAL BALANCE (USD Bn)



Source: SAMA

	2011	2012	2013	2014	2015E	2016E	2017E	2018E
Trade Balance (USD Bn)	**244.8**	**246.6**	**222.6**	**187.8**	**83.5**	**99.5**	**107.4**	**114.9**
Oil Exports	317.6	337.5	322	285.2	183.7	201	213.2	225.1
Non-oil Exports	47.1	50.9	53.9	58.1	52.6	56.1	61	66.2
Imports	-120.0	-141.8	-153.4	-155.5	-152.7	-157.7	-166.8	-176.3
Current Account Bal. (USD Bn)	**158.6**	**164.8**	**135.5**	**81.2**	**-5.8**	**16.3**	**32**	**47.5**
Government Revenue (USD Bn)	301.6	337.0	312.1	281.9	193.1	216.0	230.9	244.6
Oil Revenue	279.2	309.2	279.5	246.5	156.9	177.1	187.9	198.2
Non-Oil Revenue	22.4	27.8	32.7	35.4	36.2	38.9	42.9	46.4
Govt. Expenditure (USD Bn)	226.3	247.6	268.7	308.1	232.2	304.6	317.3	331.3
Fiscal Balance (USD Bn)	75.6	89.1	43.7	-25.9	-39.2	-88.6	-86.7	-86.4

Source: SAMA

SAUDI ARABIA: An extremely comfortable external position

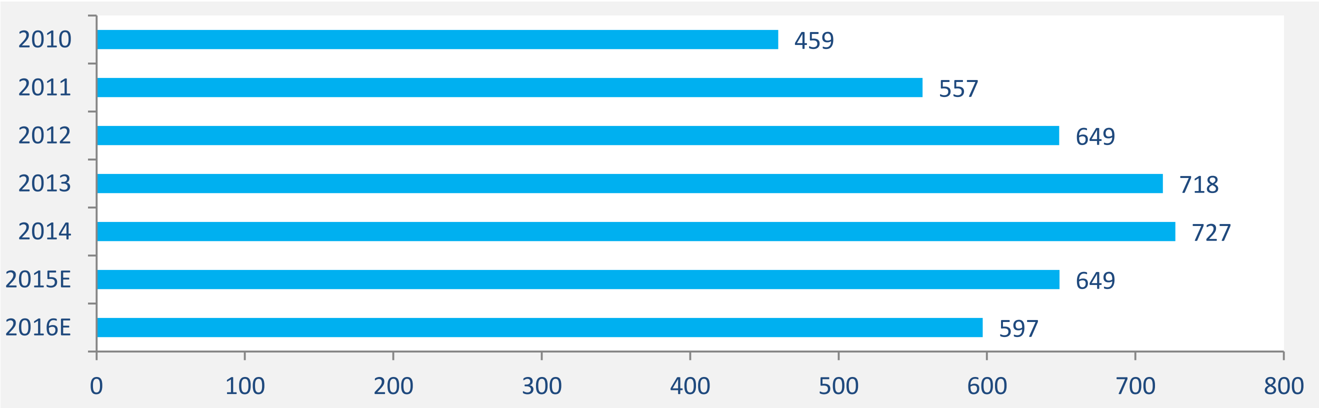
Saudi Arabia is in an extremely comfortable position when it comes to external vulnerabilities.

The Kingdom has foreign exchange reserves that are enough to cover almost 36 months of imports.

The Kingdom's external assets stood at an estimated 140% of GDP in mid-2014 and external liabilities at 36% of GDP.

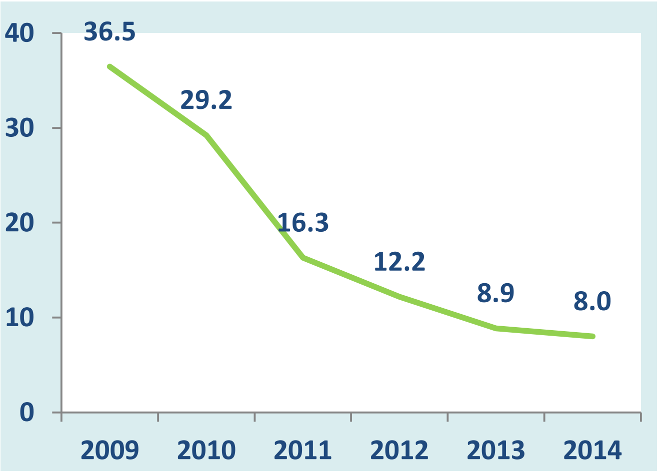
The financial account is dominated by direct investment inflows and trade credits and portfolio outflows. However, FDI inflows have declined considerable to USD 8 Bn in 2014 vs. USD 8.9 Bn in 2013.

FOREIGN EXCHANGE RESERVES (USD Bn)



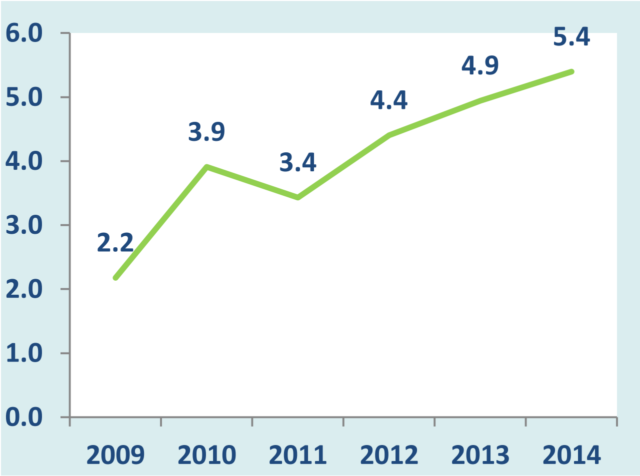
Source: IMF

FDI INFLOW (USD Bn)



Source: UNCTAD 2015 World Investment Report

FDI OUTFLOW (USD Bn)



Source: UNCTAD 2015 World Investment Report

SAUDI ARABIA: Increasing money supply is fueling private sector lending

Saudi Arabia's banking sector continues to remain robust given the positive growth in economic activity over the past several years. Banking profits have increased to record high levels with significant increase in lending activity and banking assets. Private sector lending has increased consistently over the past several years and stood at a record high level of USD 359 Bn in Q2-15.

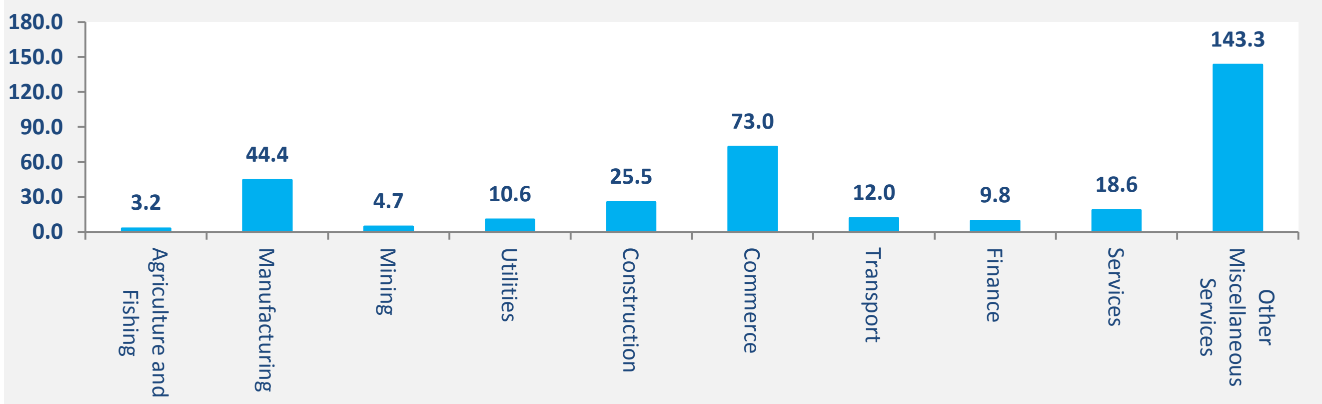
The combination of an expansionary fiscal policy and easing inflation levels has resulted in rising money supply levels in the Kingdom, with overall money supply up 11% y/y at USD 491.4 Bn in Q2-15.

MONEY SUPPLY & PRIVATE SECTOR LENDING (USD Bn)

	Q1-13	Q2-13	Q3-13	Q4-13	Q1-14	Q2-14	Q3-14	Q4-14	Q1-15	Q2-15
Gross Money Supply	**385.3**	**395.9**	**401.0**	**417.2**	**437.6**	**444.7**	**454.7**	**466.9**	**482.0**	**491.4**
Currency Outside Banks	36.5	37.5	37.6	38.7	39.6	40.9	42.7	41.5	45.0	47.0
Demand Deposits	217.5	222.2	223.0	231.5	247.1	253.5	254.0	267.1	283.8	292.4
Time & Savings Deposit	84.3	86.2	87.9	93.2	94.0	97.3	108.4	107.7	103.9	100.7
Other Quasi-Monetary Deposits	47.0	50.0	52.6	53.9	56.9	53.0	49.6	50.7	49.4	51.3
Private Sector Lending	**279.3**	**292.1**	**298.6**	**303.4**	**315.0**	**328.1**	**338.0**	**339.2**	**347.6**	**359.4**

Source: SAMA

PRIVATE SECTOR LENDING BY INDUSTRY (Q2-15 USD Bn)



Source: SAMA

SAUDI ARABIA: Worst weekly decline in August-15 led by China rout and oil price decline

After a robust 25.5% return in 2013, Saudi Arabia's equity benchmark index declined by 2.4% in 2014 as investor confidence was shaken after the oil price decline that commenced in Sept-15.

The index continued to decline in 2015 and had one of the worst weekly performance since the financial crisis led by global equity market weakness coupled with the ongoing volatility of oil prices.

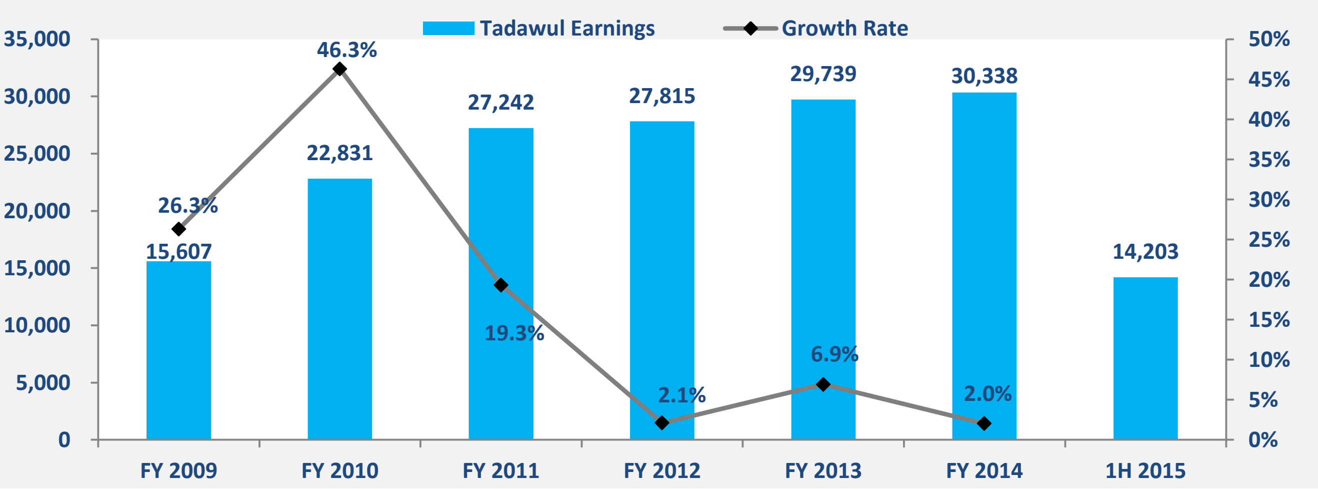
In a significant step, Saudi allowed qualified foreign investors to invest directly in the stock market during the first half of 2015 but the response was muted as investors remained on the sidelines.

TADAWUL ALL-SHARE INDEX

	2009	2010	2011	2012	2013	2014	YTD Aug-15
Index Value	6,121.8	6,620.8	6,417.7	6,801.2	8,535.6	8,333.3	7,522.5
Y/Y Change	27.5%	8.2%	-3.1%	6.0%	25.5%	-2.4%	-9.7%
Market Cap (USD Bn)	318.8	353.3	338.8	373.3	467.3	483.8	451.8
Value Traded (USD Bn)	337.0	202.4	293.0	514.2	364.4	572.8	320.3

Source: KAMCO Research

SAUDI ARABIA – CORPORATE EARNINGS (USD Mn, % GROWTH)



Source: Saudi Stock Exchange, Bloomberg, KAMCO Research

SAUDI ARABIA: Tadawul Historical Performance

SAUDI STOCK EXCHANGE (TADAWUL)

YTD Aug-15

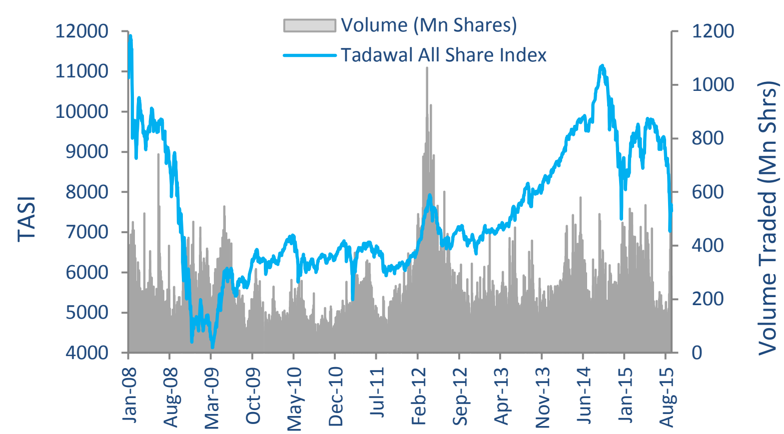
Tadawul All Share Index Performance

YTD Aug-15 Return	**-9.73%**
YTD Aug-15 Volatility	**21.90%**

YTD Aug-15 Trading Indicators

Volume ***(Mn Shares)***	**46,399**
Value ***(USD Mn)***	**320,231**
Deals ***('000)***	**21,009**

Tadawul All Share Index Relative to Volume Since 2008



FY 2014

Tadawul All Share Index Performance

Yearly Return	**-2.37%**
Yearly Volatility	**20.64%**

Yearly trading Indicators

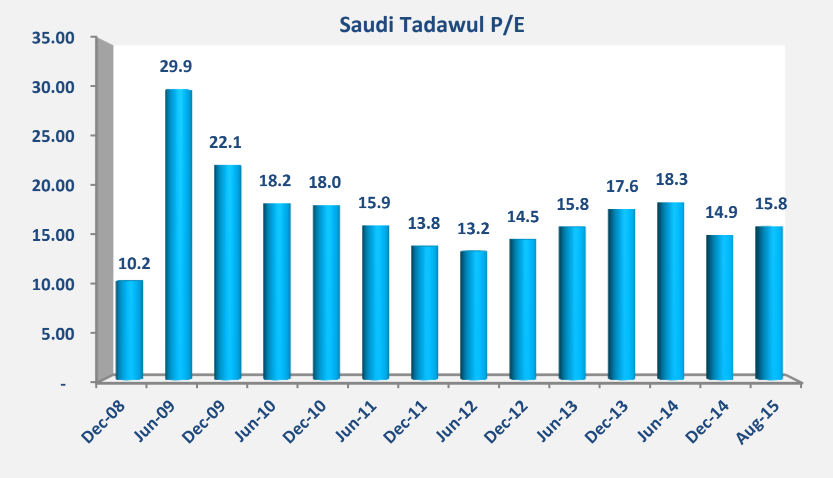
Volume ***(Mn Shares)***	**70,117**
Value ***(USD Mn)***	**572,783**
Deals ***('000)***	**35,766**

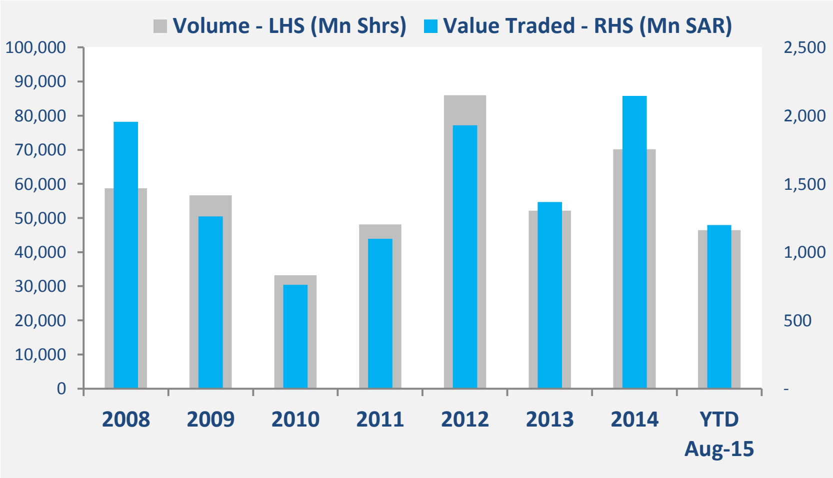
The Tadawul stock exchange remained the largest bourse in the region accounting for 71.8% or USD 572 Bn in value traded during 2014. The bourse was also one most active markets in terms of new listings with several new IPOs during the year. However, in terms of full year performance, the market was the third worst performer in the GCC after it declined by 2.4% led by concerns regarding the oil market. The YTD-15 performance has also remained muted as the weakness from the previous year continued in 2015. Value traded stood at USD 320 Bn by August-15.

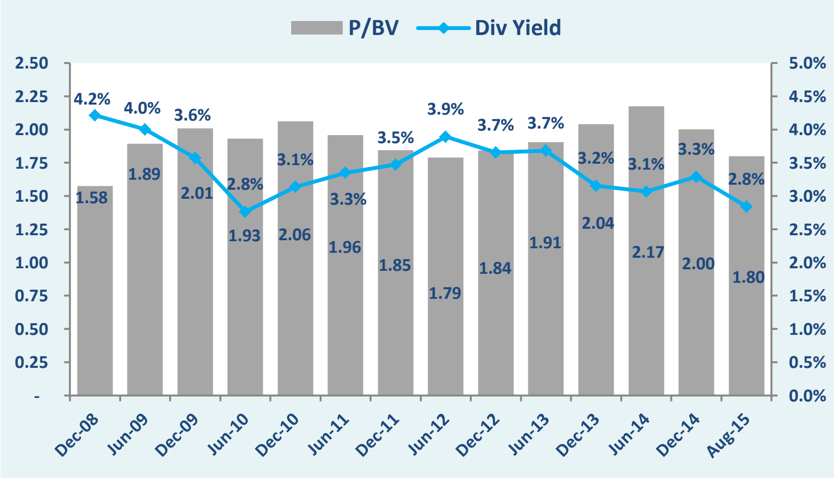
Source: Saudi Stock Exchange, KAMCO Research

SAUDI ARABIA: Valuation Multiples & Trading Indicators

TADAWUL MARKET - VALUATION MULTIPLES & TRADING INDICATORS







Valuation Multiples & Trading Indicators

P/E multiples for the Tadawul bottomed during 2012 and has seen an upward trend until mid-14 or just before the market collapsed in September-14. Market P/E multiple declined to 14.9x by the end of 2014 and was reported at 15.8x at the end of August-15. Investor sentiments continue to remain weak taking cues from the global equity and commodity markets. Nevertheless, corporate profitability continues to remain robust on the back of strong private sector growth. The P/BV multiple has also declined since the second quarter of 2014. P/BV was recorded at 2.0x at the end of the year and further declined to 1.8x by August-15.

Source: Saudi Stock Exchange, KAMCO Research

SAUDI ARABIA ECONOMIC OUTLOOK

An unavoidable slowdown in the near term

KSA's GDP growth is expected to decline to 2.8% in 2015, after a 3.8% increase in 2014, on the back of record high oil production and a robust private sector (+5.6%). Growth in public sector was also recorded at 3.7%. The rout in oil prices has had a phenomenal impact on Saudi Arabia's finances. Both non-oil private sector and public sectors are expected to feel the impact of oil-led spending. The contribution of oil sector to GDP declined in 2014 and we expect it to further decline in 2015.

The decision to open Saudi's stock market to foreigners received muted response as the market had plunged to record levels making investors to remain on the sidelines. Total trading activity during YTD Aug-15 has seen a decline as compared to corresponding period in 2014 and we expect full year numbers to be significantly below last year's levels. Nevertheless, IPO activity has been upbeat in Saudi Arabia with 4 IPOs reported since the start of 2015 and several others in the pipeline.

In terms of state spending on infrastructure, Saudi Arabia is set to slash spending on non-essential projects, prolong or delay existing projects and prioritize merely the essential projects. The kingdom is also set to issue more bonds to finance its developmental plans.

In order to defend its market position in the global oil market, Saudi Arabia raised its oil output to record high levels recently. We believe that their strategy has worked but it would result in a prolonged period of fiscal deficits which the Kingdom can easily finance given its robust reserves further coupled with its excellent investment grade rating. That said, Fitch ratings recently revised its outlook on Saudi Arabia to negative citing declining oil prices and increased spending tied to the accession of a new king. The rating agency said that higher spending and sharply lower revenues would widen government's spending to 14.4% of GDP in 2015. It also expects deficits in the mid-single digits in 2016 and 2017, warning that deficits would likely stay in the double digits without fiscal consolidation.

We expect overall manufacturing activity in Saudi Arabia to remain robust in the near term as the Kingdom continues to spend on essential projects. Moreover, the oil production is not expected to be lowered in the near term, which indicates that the related sectors would continue to benefit from higher output.

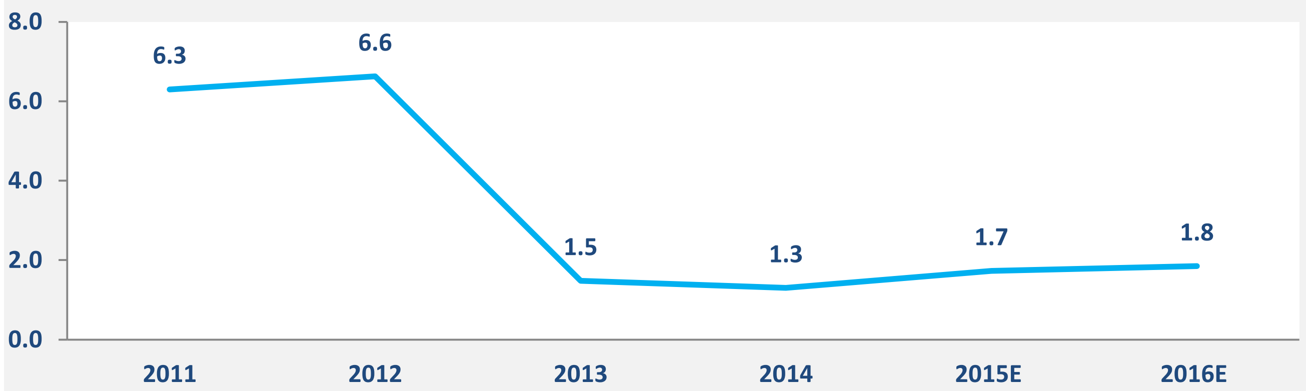
SECTION 5| Kuwait

KUWAIT: Slow growth to persist in the near term

Kuwait's GDP growth had come down from 6.6% in 2012 to 1.5% in 2013 and further down to 1.3% in 2014. Growth rates are expected to remain subdued in the near term owing to depressed oil prices, although economic activity has picked up in the country.

Oil sector GDP remained flat in 2014 and is expected to increase only marginally in 2015 and 2016. However, with the implementation of a number of projects, the share of non-oil sector has increased in 2014.

KUWAIT REAL GDP GROWTH (%)



Source: IMF

	2012	2013	2014	2015E	2016E
Nominal GDP (USD Bn)	**174.1**	**175.8**	**172.3**	**134.5**	**148.9**
Real GDP Growth (%)	**6.6**	**1.5**	**1.3**	**1.7**	**1.8**
Oil Sector	10.3	-0.8	0.0	0.3	0.2
Non-Oil Sector	0.6	5.6	3.5	4.0	4.5
Contribution to GDP (%)					
Oil Sector	62.6	58.0	55.1	-	-
Non-Oil Sector	37.4	42.0	44.9	-	-
Oil Production (mn b/d)	**3.0**	**2.9**	**2.9**	**2.9**	**2.9**

Source: IMF, OPEC

KUWAIT: Expansion of non-oil GDP is positive in the long run

GDP growth in 2014 was fuelled by higher public consumption that grew by 8.8% as compared to 6.6% in the previous year.

Growth in private consumption, on the other hand, slowed down to 2.8% in 2014 as compared to 4.9% in 2013.

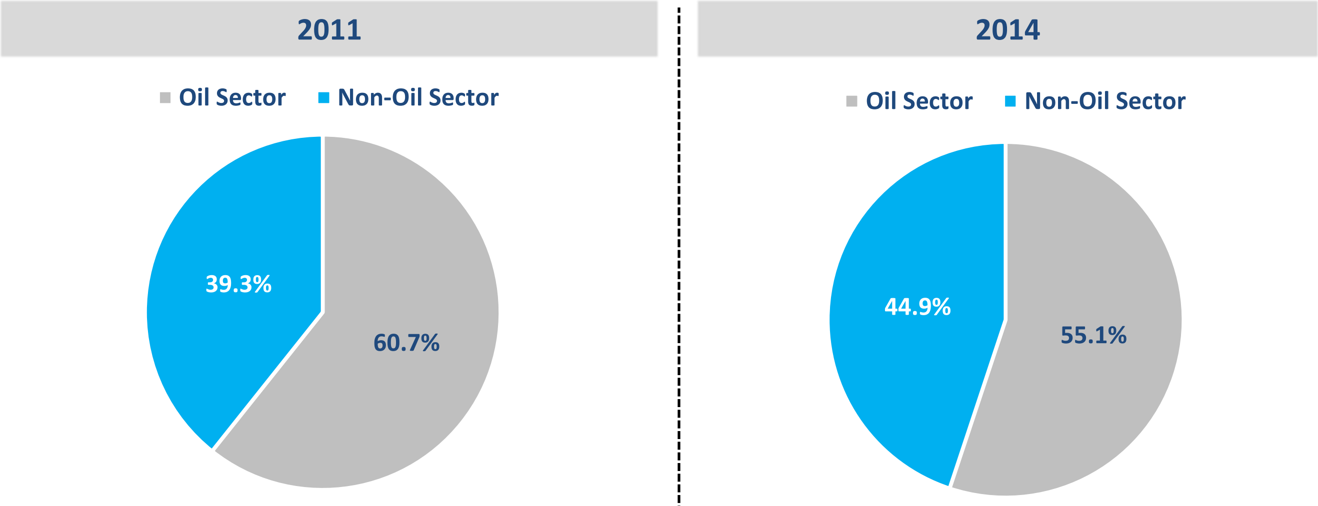
The decline in oil prices is expected to hit exports which declined by 4% in 2013 and 3.1% in 2014.

GDP GROWTH BY EXPENDITURE TYPE (%)

	2010	2011	2012	2013	2014
Private Consumption	-11.1	4.2	6.6	4.9	2.8
Public Consumption	0.0	7.3	15.0	6.6	8.8
Gross Capital Formation	19.8	3.4	3.2	8.9	2.1
Exports	-0.5	13.4	7.3	-4.0	-3.1
Imports	6.3	5.2	4.8	-0.1	7.7

Source: Kuwait Central Statistical Bureau

CHANGE IN GDP COMPOSITION



Source: Kuwait Central Statistical Bureau

KUWAIT: A slowdown in overall activity as consumer confidence slides

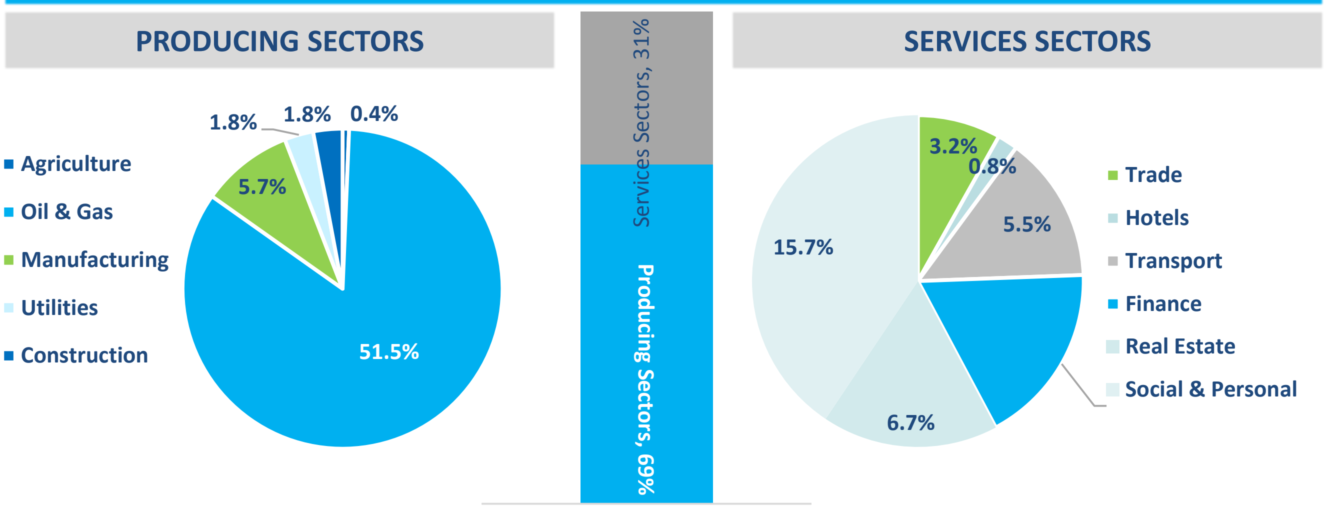
Kuwait recorded a budget deficit of 5.6% of GDP or KWD 1.6 Bn for fiscal year 2014-15 (after transfers to RFFG) led by the sharp decline in crude oil prices. This was the first actual deficit reported by the country since 1998-99. The country has projected an even higher deficit for fiscal year 2015-16 due to the same reason.

2014-15 total revenues stood at KWD 24.9 Bn as compared to KWD 31.8 Bn in the previous fiscal year, indicating a decline of more than 20%. Expenditures increased by 13.3% to KWD 21.4 Bn compared to around KWD 18.9 Bn in the last fiscal year.

GDP GROWTH IN KEY SECTORS (%)

	2013	2014
Producing Sectors		
Agriculture	0.8%	7.9%
Oil and oil products	-1.8%	-1.7%
Manufacturing	-1.3%	-7.4%
Utilities	11.5%	2.3%
Construction	2.0%	2.7%
Services Sectors		
Trade	4.0%	1.6%
Hotels	8.3%	6.3%
Transport	2.7%	-1.2%
Finance	1.7%	5.3%
Real Estate	0.0%	1.6%
Social & Personal Services	8.6%	2.0%

CONTRIBUTION TO 2014 GDP (%)



Source: Kuwait Central Statistical Bureau, KAMCO Research

KUWAIT: Marginal increase in unemployment rates

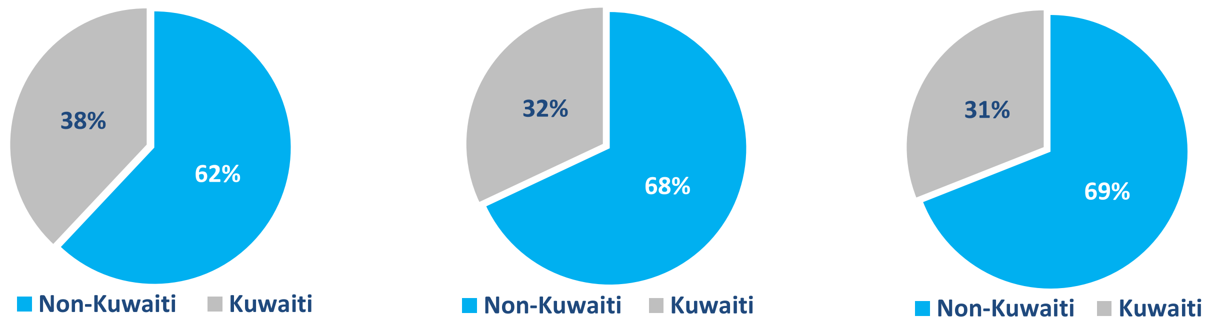
Unemployment rate in Kuwait is on the rise as indicated by labor force data. Unemployment reached 2.9% in 2014, compared with 2.5% in 2008 and with 1.8% in 2003.

20.1% of the workers in Kuwait worked for the government sector and 4.4% percent of them work in state-owned enterprises, compared to 59.6 percent who work in the private sector and 15.7 percent work in the household sector.

Labor force participation in Kuwait reached 72% in 2014, with the highest participation rate recorded for the age group 25-34, that reached 86.7%.

POPULATION COMPOSITION (%)

2000 | **2010** | **2014**



Source: UN, Ministry of Economy and Planning

COMPOSITION OF LABOR FORCE (%)

GOVERNMENT SECTOR | **PRIVATE SECTOR**

Source: Kuwait Central Statistical Bureau

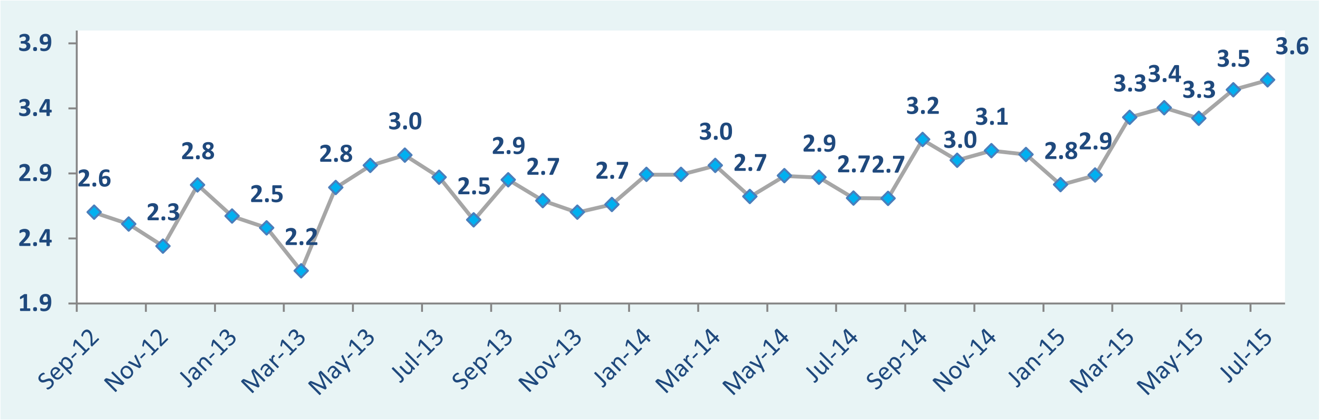
KUWAIT: One of the highest price levels in the GCC

Inflation rates, which remained range bound until March-15, saw a sudden spike from April-15 and has remained elevated according to the most recent data.

Inflation edged up to its highest level in July-15, recorded at 3.6% primarily on the back of higher data recorded for restaurants and hotels and housing services.

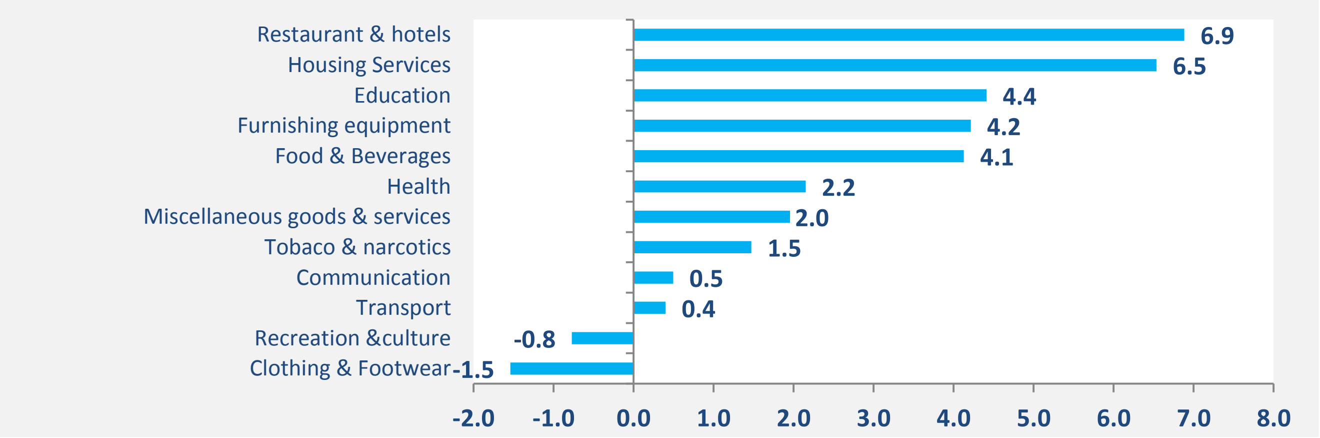
Nevertheless, easing food prices globally and a strong KWD could help contain or limit the price rise in Kuwait from current levels.

ANNUAL INFLATION AT END OF EACH MONTH (%)



Source: Kuwait Central Statistical Bureau

ANNUAL CHANGE IN CONSUMER PRICES BY EXPENDITURE CATEGORY (JUL 2015 VS. JUL 2014)



Source: Kuwait Central Statistical Bureau

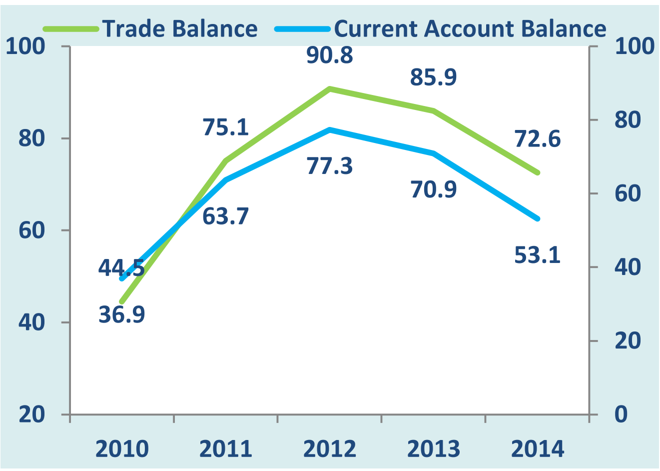
KUWAIT: Oil price decline to result in record deficits

Both current account balance and trade balance has been on a declining trajectory after the indicators peaked in 2012. Trade balance declined to USD 72.6 Bn in 2014 whereas current account balance dipped to USD 53.1 Bn.

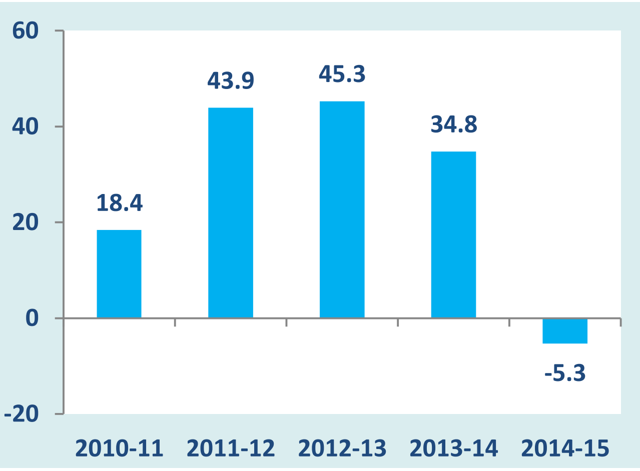
Kuwait reported a fiscal deficit of USD 5.3 Bn in 2014-15 as compared to a surplus of USD 34.8 Bn in 2013-14.

The approved budget for the current fiscal year (2015-16) indicates an even higher deficit of USD 27 Bn because of low oil prices. The Budget assumes an average oil price of USD 45/b.

TRADE & C/A BALANCE (USD Bn)



FISCAL BALANCE (USD Bn)



Source: Central Bank of Kuwait

	2010	2011	2012	2013	2014
Trade Balance (USD Bn)	**44.5**	**75.1**	**90.8**	**85.9**	**72.6**
Exports	67.5	99.6	117.8	115.4	104.0
Imports	23	24.6	27	29.5	31.5
Current Account Balance (USD Bn)	**36.9**	**63.7**	**77.3**	**70.9**	**53.1**
Government Revenue (USD Bn)	**75.0**	**105.5**	**114.0**	**111.9**	**66.5**
Oil Revenue	69.6	99.7	106.7	104.9	62.2
Non-Oil Revenue	5.4	5.8	7.3	7.0	4.3
Government Expenditure (USD Bn)	**56.6**	**61.6**	**68.7**	**77.1**	**71.8**
Fiscal Balance (USD Bn)	**18.4**	**43.9**	**45.3**	**34.8**	**-5.3**

Source: Central Bank of Kuwait

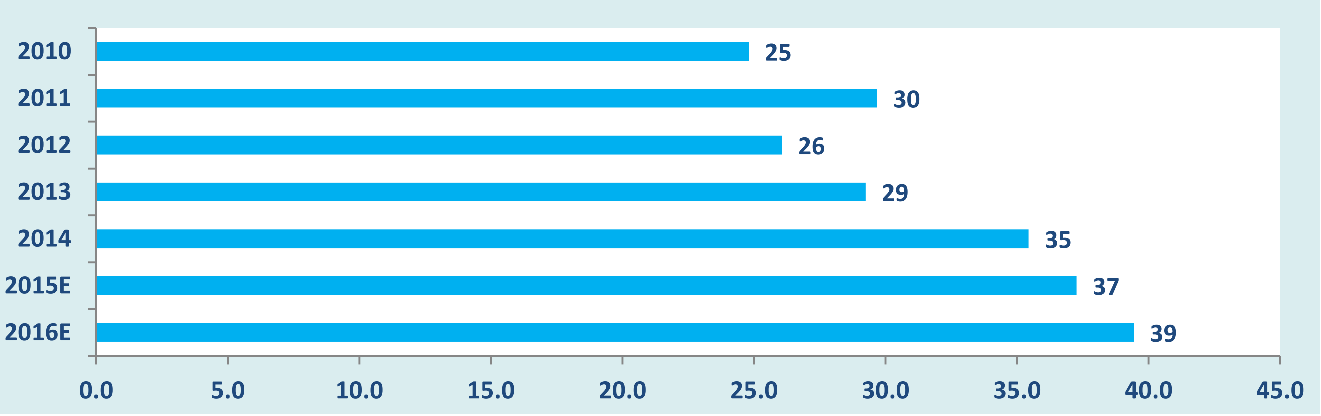
KUWAIT: Reserves at comfortable position

Kuwait's official foreign exchange reserves stood at USD 35 Bn at the end of 2014. Moreover, according to data from Institute of International Finance (IIF), Kuwait Investment Authorities' assets have increased to USD 592 Bn vs. USD 386.1 Bn last year.

FDI inflows has been on a continuous downward trajectory after it reached merely USD 0.5 Bn at the end of 2014.

On the other hand, FDI outflows dipped in 2014 to USD 13.1 Bn as compared to USD 16.6 Bn during 2013. Nevertheless, it continues to remain above historical average.

FOREIGN EXCHANGE RESERVES (USD Bn)

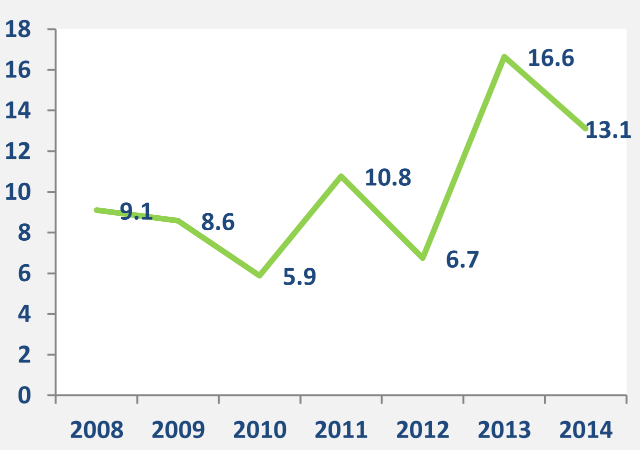


Source: IMF

FDI INFLOW (USD Bn)

Source: UNCTAD 2015 World Investment Report

FDI OUTFLOW (USD Bn)



Source: UNCTAD 2015 World Investment Report

KUWAIT: Public spending to drive banking sector growth

A stable and supportive operating environment in Kuwait resulted in the fastest pace of credit growth in over five years at the end of 2014 led by strong demand in consumer and real estate sectors.

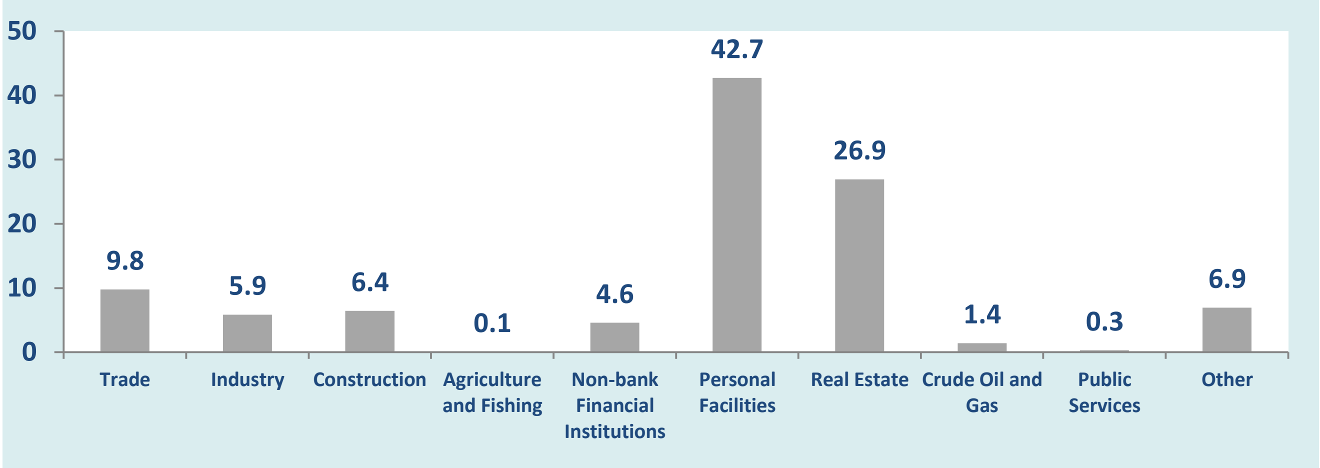
Private sector lending and money supply peaked in Q1-14 and has remained range bound. Lending was recorded at USD 112.2 Bn in Q1-14 and the Q1-15 figure stood at USD 105 Bn, a slight decline from the previous quarter. Personal facilities dominate the lending activity in the country.

MONEY SUPPLY & PRIVATE SECTOR LENDING (USD Bn)

	Q1-13	Q2-13	Q3-13	Q4-13	Q1-14	Q2-14	Q3-14	Q4-14	Q1-15
Gross Money Supply	**109.9**	**113.1**	**111.9**	**116.3**	**119.6**	**121.8**	**116.2**	**117.0**	**118.2**
M1	28.0	29.9	29.6	31.8	33.5	35.4	33.5	33.1	32.4
Quasi	82.0	83.2	82.3	84.5	86.1	86.4	82.7	83.9	85.8
Private Sector Lending	**104.4**	**106.8**	**108.3**	**110.2**	**112.2**	**107.2**	**107.6**	**105.9**	**105.0**

Source: Central Bank of Kuwait

PRIVATE SECTOR LENDING BY INDUSTRY (Q1-15, USD Bn)



Source: Central Bank of Kuwait

KUWAIT: A slowdown in the growth rates of corporate earnings

After recording a decline in 2014, KSE indices continued to decline in 2015. The YTD Aug-15 return stood at one of the highest levels in the GCC recorded at negative 12.2%.

Overall trading activity has also declined considerably with the lowest monthly trading activity recorded during July-15. Cumulative value traded during YTD Aug-15 stood at USD 9.4 Bn as compared to full year 2014 figure of USD 21.4 Bn.

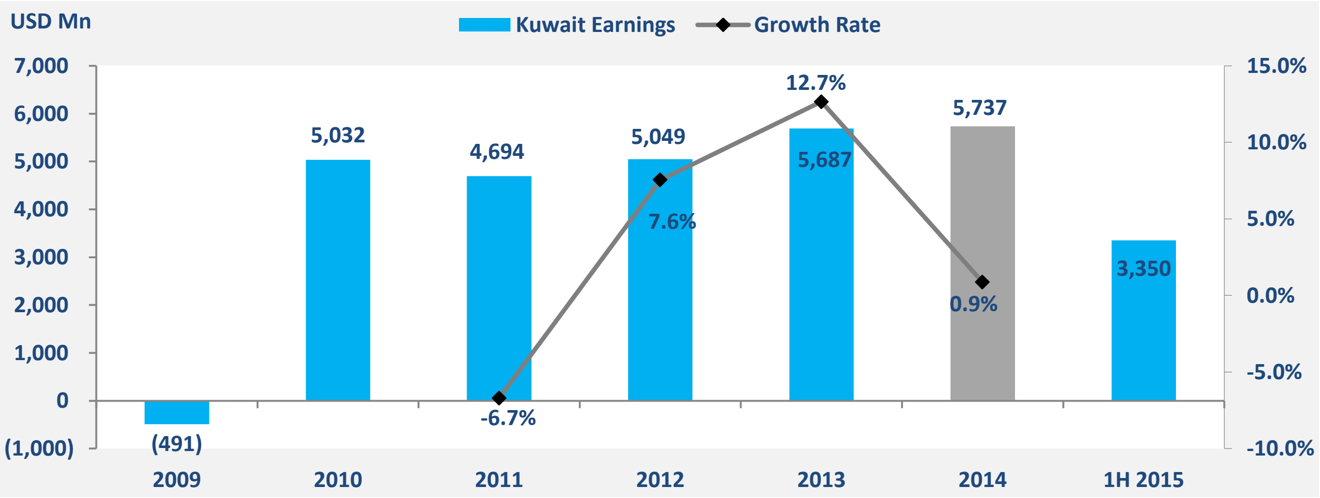
Nevertheless, corporate earnings growth continue to remain positive albeit at a declining pace.

KUWAIT STOCK EXCHANGE (KSE)

	2009	2010	2011	2012	2013	2014	YTD Aug-15
Index Value	385.8	484.2	405.6	417.7	452.9	438.9	385.3
Y/Y Change	-5.2%	25.5%	-16.2%	3.0%	8.4%	-3.1%	-12.2%
Market Cap (USD Bn)	105.4	128.4	107.2	102.8	108.8	101.4	87.7
Value Traded (USD Bn)	77.1	44.2	21.4	25.5	39.5	21.4	9.4

Source: Kuwait Stock Exchange, KAMCO Research

KUWAIT – CORPORATE EARNINGS (USD Mn, % GROWTH)



Source: Kuwait Stock Exchange, KAMCO Research

KUWAIT : KSE Historical Performance

KUWAIT STOCK EXCHANGE (KSE)

YTD Aug-15

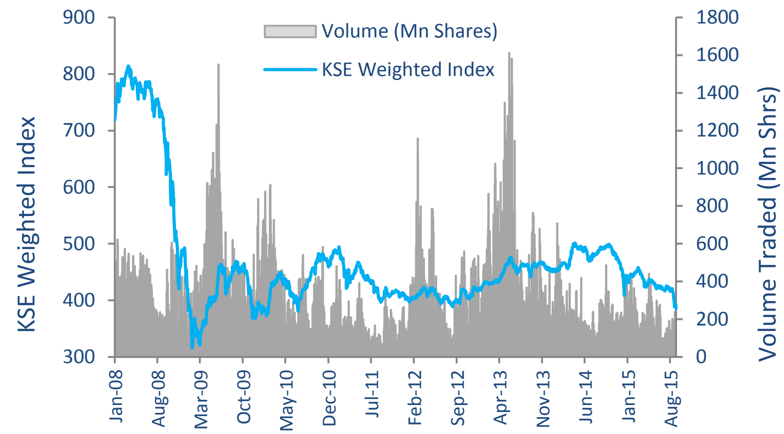
KSE Weighted Index Performance

YTD Aug-15 Return	**-12.20%**
YTD Aug-15 Volatility	**9.08%**

YTD Aug-15 trading Indicators

Volume ***(Mn Shares)***	**30,608**
Value ***(USD Mn)***	**9,363**
Deals ***('000)***	**668**

KSE Weighted Index Relative to Volume Since 2008



FY 2014

KSE Weighted Index Performance

Yearly Return	**-3.09%**
Yearly Volatility	**10.51%**

Yearly trading Indicators

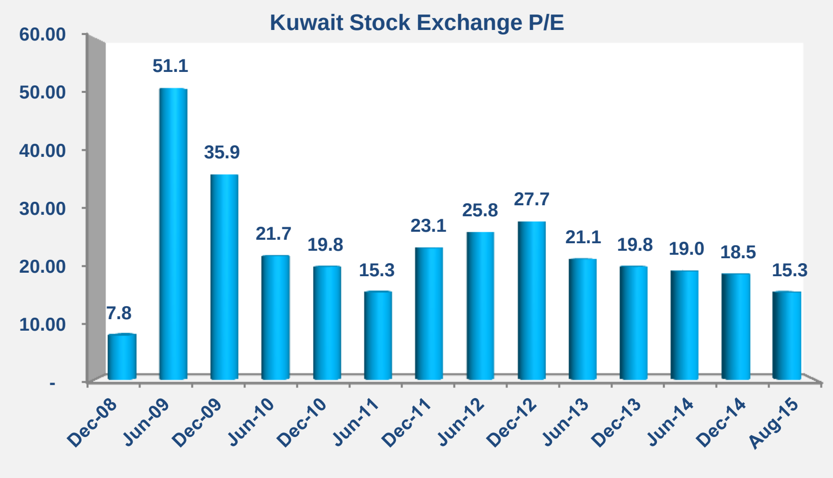
Volume ***(Mn Shares)***	**53,289**
Value ***(USD Mn)***	**21,410**
Deals ***('000)***	**1,198**

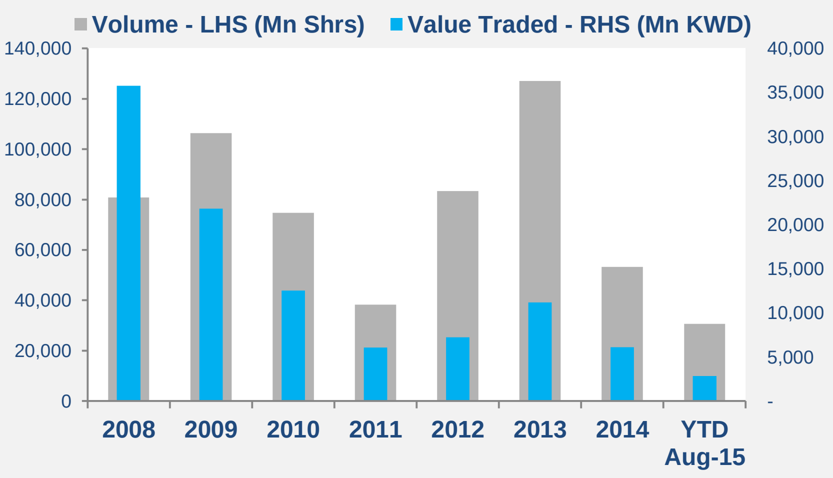
KSE declined by 3.1% during 2014, in line with the rest of the GCC markets. Market decline commenced from September-14 after oil prices started declining. Negative investor sentiments continued during 2015 with the weighted index down by 12.2% YTD Aug-15. Total trading activity has declined considerably from the previous year as seen in the USD 9.4 Bn in value traded during the first eight months of the year as compared to USD 21.4 Bn for full year 2014. The exchange listed one company in 2015, whereas at the same time there are also a number of delisting announcements.

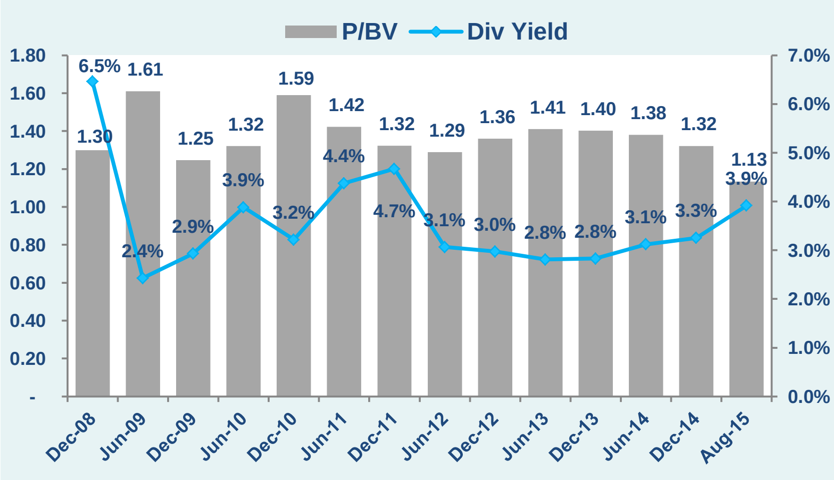
Source: Kuwait Stock Exchange, KAMCO Research

KUWAIT : Valuation Multiples & Trading Indicators

KUWAIT SE - VALUATION MULTIPLES & TRADING INDICATORS







Valuation Multiples & Trading Indicators

Marginal improvement in earnings during Q1-15 and H1-15 coupled with the rout in the benchmark index has resulted in a continuous declining trend in valuation multiples for the KSE. P/E multiples stood at 18.5x at the end of last year which further declined to 15.3x at the end of August-15.
The decline in overall market capitalization has also led to the increase in dividend yields although dividend announcements remain at almost the same levels as seen last year. P/BV multiple has also moved downward and was recorded at 1.13x at the end of August-15.

Source: Kuwait Stock Exchange, KAMCO Research

KUWAIT ECONOMIC OUTLOOK

Growth to remain sluggish, as dependence on oil revenue remains high

GDP growth is expected to remain subdued in the near term on the back a visible decline in economic activity coupled with the fall in oil revenues, although growth is expected to be at a marginally faster pace in 2015 and 2016 as compared to 1.3% growth recorded in 2014. Off late Kuwait has made significant progress in terms of tendering key infrastructure projects, for instance the Al-Zour North refinery project in addition to the award of a USD 4.3 Bn contract to a joint venture of Turkey's Limak and the local Kharafi National to build the new passenger terminal at Kuwait International airport (KIA). These projects and initiatives should help to drive the economy going forward. According to data from MEED, the accelerated pace of approvals has been surprising, keeping in mind historical trends. Moreover, the progress with the long-delayed schemes has improved sentiment over the country's infrastructure development plans, despite lower oil prices.

Furthermore, Kuwait has revived and reformed the erstwhile public-private partnership (PPP) body Partnership Technical Bureau to form the Kuwait Authority for Partnership Projects (KAPP). This new body has made significant progress in short time and is pushing ahead with the procurement process for the country's next two independent water and power projects (IWPPs) – Al-Zour North 2 and Al-Khiran 1. The fall in oil prices to has given renewed impetus to development via the PPP models ranging from transport to education and healthcare. With this in mind, the formation of KAPP is a move in the right direction.

In terms of fiscal performance, Kuwait is projected to report deficits over the next few years. The fiscal 2015-16 budget envisages a deficit of KWD 8.2 Bn (after transfers to RFFG) on the back of declining revenues. The budgets includes spending of KWD 19.17 Bn and revenues of KWD 12.2 Bn based on an oil price of USD 45/b. The government although didn't announce how it is going to finance the deficits, we take comfort from the robust external reserve position of Kuwait with a sovereign fund worth more than half a trillion USD.

With the number of initiatives being undertaken by the government, we expect corporate profitability growth to remain positive in 2015 (y-o-y increase of 7% during 1H-15). These initiatives would be positive for the banking sector as it will drive lending activity. A favorable operating environment would help in reviving the non-oil sector and help the economy to diversify into other areas.

SECTION 6| UAE

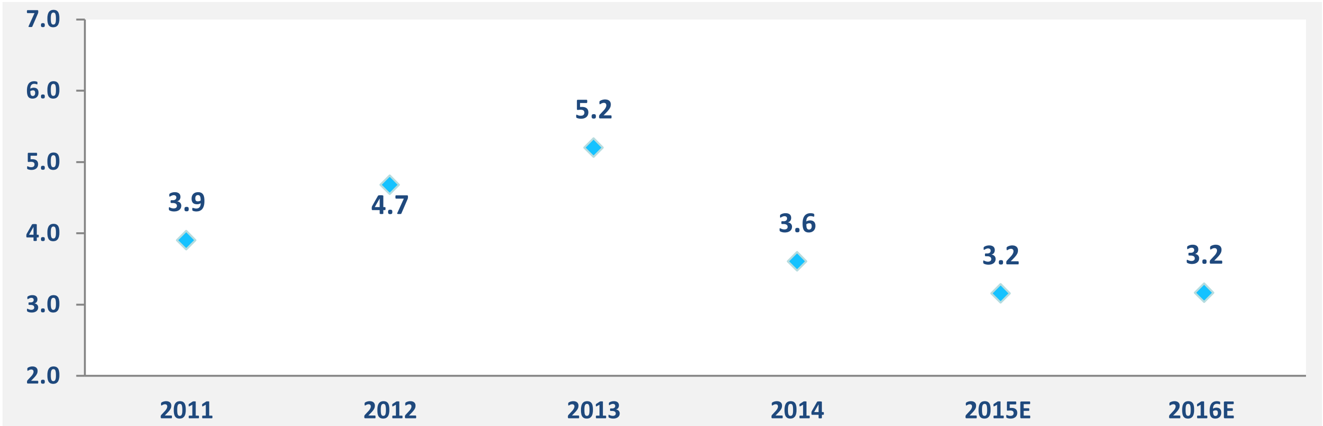
UAE: Successful economic diversification is aiding the growth momentum

Diversification efforts over the past years has paid off for the UAE with real GDP growth rates expected to grow at 3.2% in 2015 as compared to 3.6% in 2014, among the highest expected growth rate.

Real estate prices in the UAE is expected to remain under control with additional regulations in place to avoid a boom and bust scenario.

GDP growth would be driven primarily by the non-oil sector which comprised 68% of GDP in 2014.

UAE REAL GDP GROWTH (%)



Source: IMF

	2012	2013	2014	2015E	2016E
Nominal GDP (USD Bn)	372.3	402.3	401.6	363.7	392.1
Real GDP Growth (%)	4.7	5.2	3.6	3.2	3.2
Oil Sector	7.6	2.9	4.0	2.6	0.2
Non-Oil Sector	6.6	5.0	4.8	4.6	4.5
Contribution to GDP (%)					
Oil Sector	31.9	32.1	31.6	31.4	-
Non-Oil Sector	68.1	67.9	68.4	68.6	-
Oil Production (mn b/d)	**2.6**	**2.7**	**2.7**	**2.7**	**2.7**

Source: IMF, OPEC

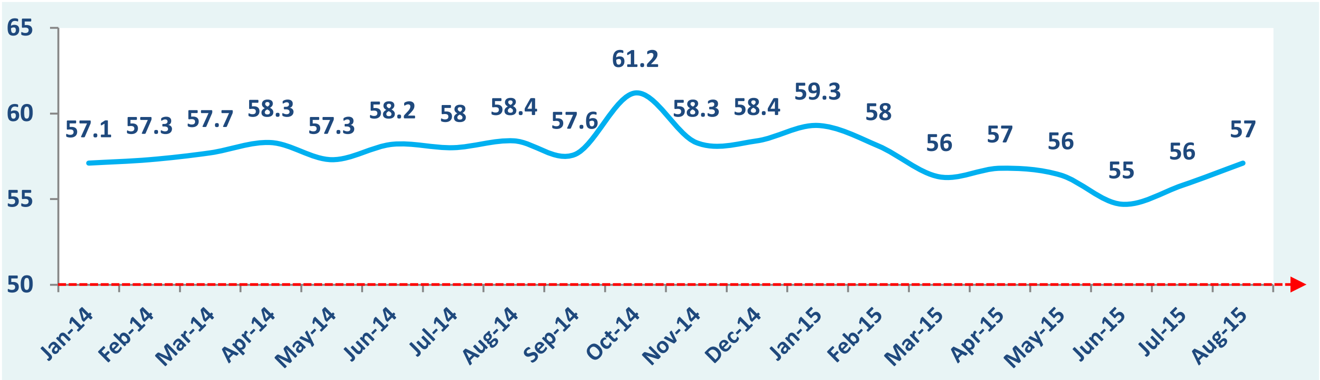
UAE: Manufacturing continues to grow after a blip

Growth in Aug-15 was underpinned by faster growth of new orders in addition to output expansion indicating a pickup in domestic demand.

PMI data for August showed business conditions improved at the strongest rate in six months, driven by sharper expansions in output and new orders.

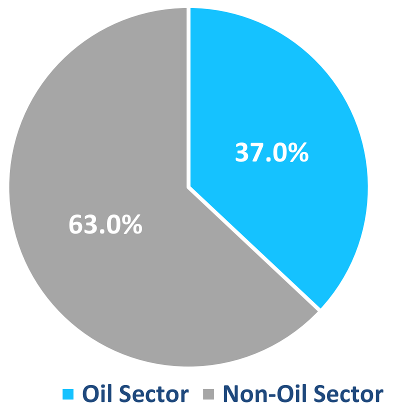
Moreover, with the expansion of non-oil sector to almost 69% of GDP, growth in private sector is expected to be much more sustainable.

UAE - MANUFACTURING PMI

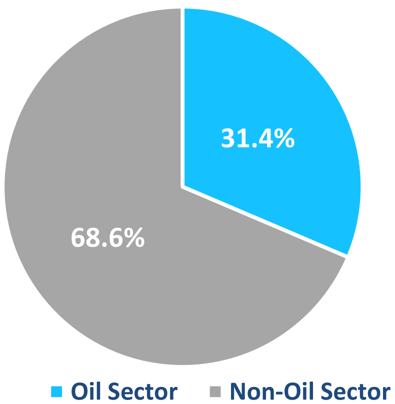


Source: Bloomberg

2005- CHANGE IN GDP COMPOSITION



2014 CHANGE IN GDP COMPOSITION



Source: National Bureau of Statistics, UAE

UAE: Exports growth has moderated

Trade has been a cornerstone of UAE's non-oil sector growth, and the combination of a growing economy and the build-up to the Expo 2020 can be expected to further boost trade activity.

Economic diversification will be further enhanced as Dubai develops innovation centers in addition to the required physical and social infrastructure.

UAE's exports increased at 8.2% in 2014 as compared to a growth of 4.5% in 2013.

REAL GDP GROWTH BY TYPE OF EXPENDITURE (%)

	2010	2011	2012	2013	2014
Private Consumption	12.2	1.8	-13.4	6.0	-0.3
Public Consumption	-9.5	2.5	1.2	1.4	3.7
Gross Capital Formation	-9.6	1.8	13.2	8.3	3.6
Exports	0.5	20.7	17.0	4.5	8.2
Imports	2.1	18.8	5.2	6.5	6.1

Source: IMF, National Bureau of Statistics, UAE

UAE: All round growth driven GDP

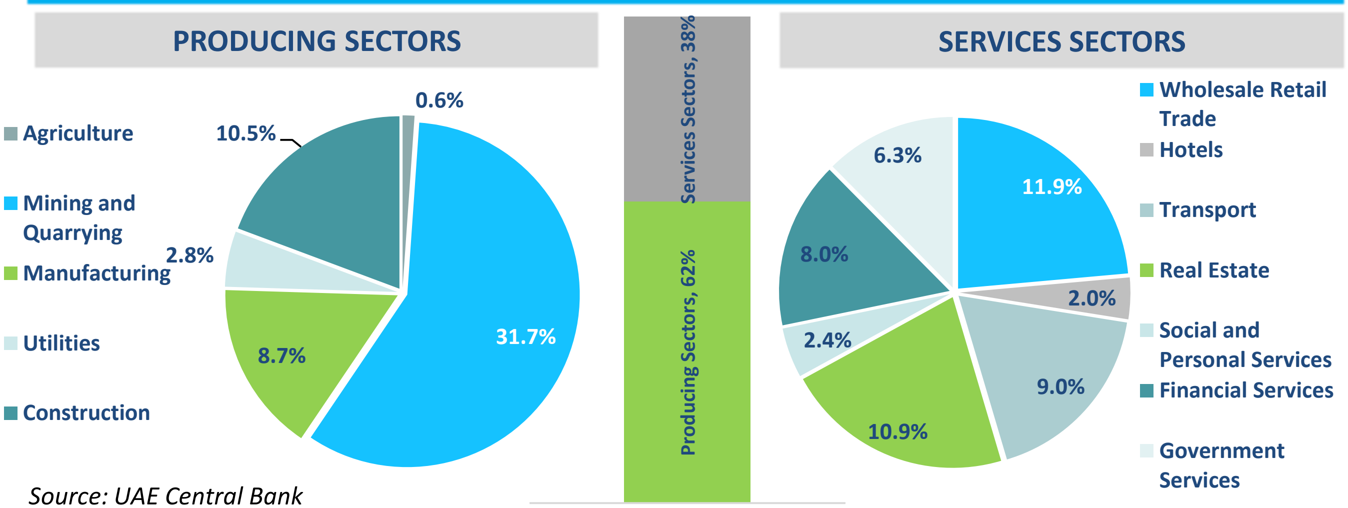
The 3.6% GDP growth rate in 2014 came as a result of a broad-based economic revival in the UAE. Within the producing sectors, the oil and gas (mining & quarrying) sector grew at a relatively slower pace whereas construction, utilities and manufacturing grew at a much higher pace.

In the services sector, financial services grew at double digit growth rate of 12.5%, although that was a steep fall from 19.5% in 2013. Producing sectors contributed 62% to real GDP in 2014 whereas the services sector contributed the remaining 38%.

GDP GROWTH IN KEY SECTORS (%)

		2013	2014
Producing Sectors	Agriculture	-0.3	0.3
	Mining and Quarrying	3.1	4.0
	Manufacturing	1.2	3.2
	Utilities	2.1	4.8
	Construction	3.4	7.3
Services Sectors	Wholesale, Retail Trade	4.9	5.6
	Hotel	8.9	5.6
	Transport	-1.1	8.6
	Real Estate	3.7	-4.1
	Social & Personal Services	4.6	0.2
	Financial Services	19.5	12.5
	Government Services	11.3	10.9

CONTRIBUTION TO 2014 GDP (%)



Source: UAE Central Bank

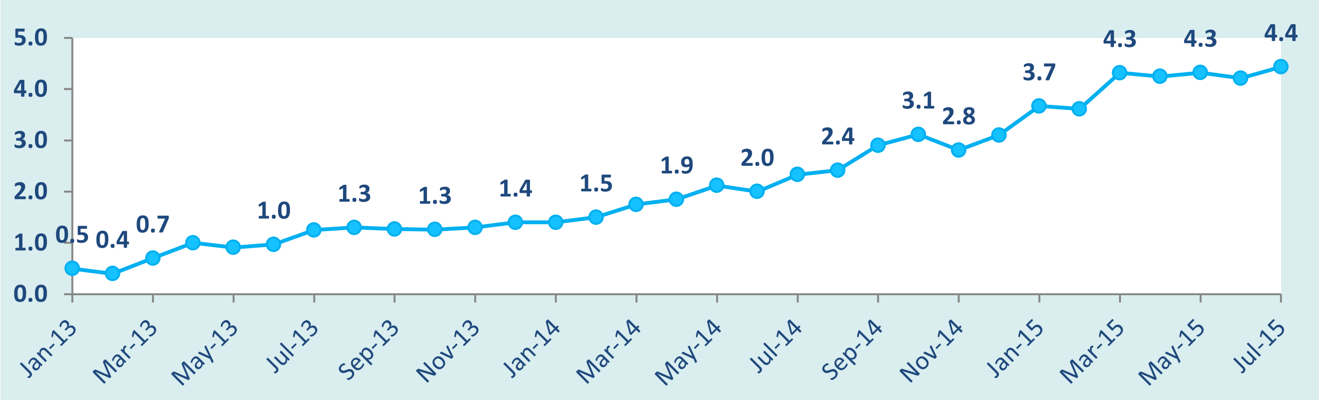
UAE: Continuous rise in inflation on the back of rising property prices

Inflation grew at its fastest pace since 2009 and reached a new high of 4.4% during July-15 on the back of rising utility and housing costs.

Property market, especially in Abu Dhabi continued to heat up whereas that in Dubai showed signs of slowing following a strong USD that has pushed up property prices for foreign buyers.

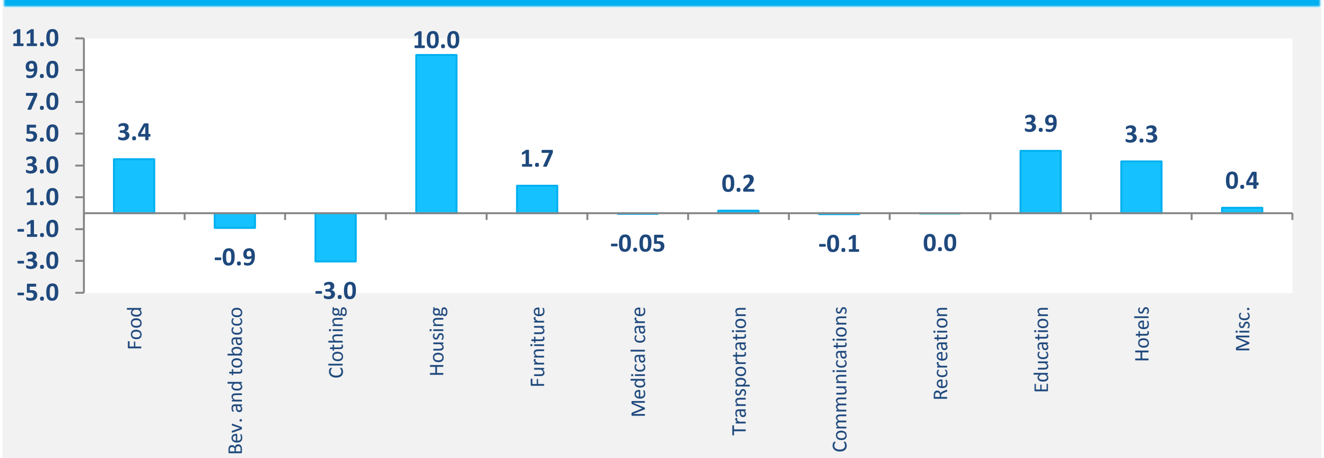
The month of Ramadan led to a spike in food prices although global food prices have declined.

ANNUAL INFLATION (%)



Source: National Bureau Of Statistics, UAE

CHANGE IN CONSUMER PRICES BY EXPENDITURE CATEGORY (July 2015 VS. July 2014)



Source: National Bureau Of Statistics, UAE

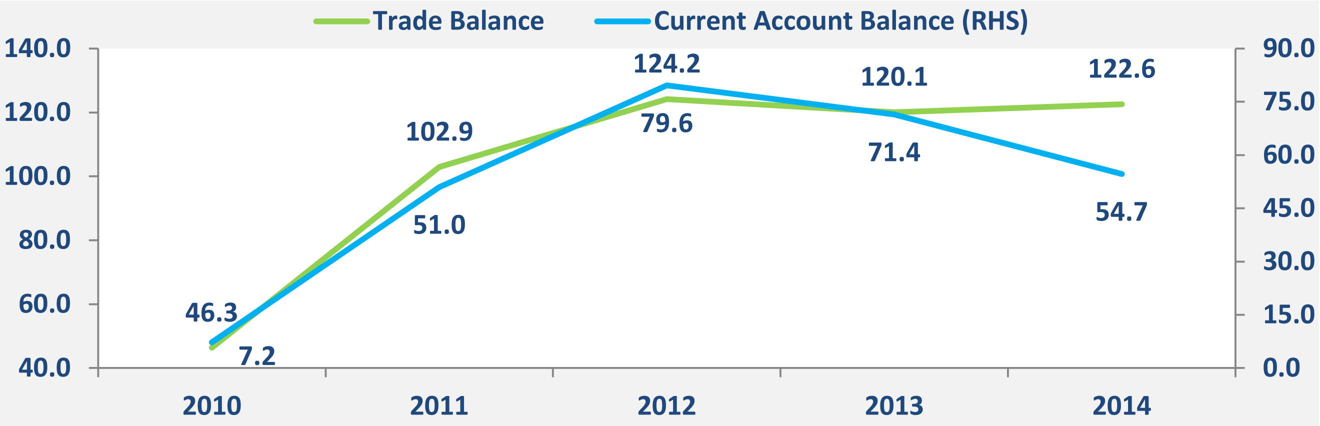
UAE: Non-oil exports will ensure that current account remains healthy and in surplus

Non-oil exports increased at 8% during 2014 and reached USD 112.5 Bn whereas oil and gas exports declined from a peak of USD 129.5 Bn in 2013 to USD 111.6 Bn in 2014.

Trade and current account balance remained in surplus in 2014 despite the fall in oil prices primarily due to the low contribution of oil in the economy.

Trade balance reached USD 122.6 Bn in 2014 whereas the current account balance declined for the second consecutive year to USD 54.7 Bn in 2014.

TRADE & CURRENT ACCOUNT BALANCE (USD Bn)



Source: UAE Central Bank, IMF

	2010	2011	2012	2013	2014
Trade Balance (USD Bn)	**46.3**	**102.9**	**124.2**	**120.1**	**122.6**
Oil & Gas Exports	74.7	111.6	126.5	129.5	111.6
Non-Oil Exports	51.0	70.9	100.1	104.2	112.5
Re-Exports	86.2	116.7	133.5	140.8	146.8
Imports	165.6	196.3	218.2	230.1	240.0
Net Services, Income, Transfers (USD Bn)	**41.4**	**54.8**	**62.1**	**72.9**	**76.3**
Current Account Balance (USD Bn)	**7.2**	**51.0**	**79.6**	**71.4**	**54.7**

Source: UAE Central Bank, IMF

UAE: Ascending FDI inflows are reflective of investor confidence in UAE's non-oil growth

Foreign reserves has seen consistent growth over the past five years reaching USD 70.9 Bn in 2014.

According to the latest data from UAE's central bank, foreign assets declined by 4.6% in July-15 to AED 277.6 Bn (USD 75.6 Bn).

The sustained high level of foreign reserves and consistent increase in FDI inflow is indicative of investor confidence in UAE's sustained non-oil growth (especially in the real estate and tourism sectors), a growing SME base, and low levels of bureaucracy.

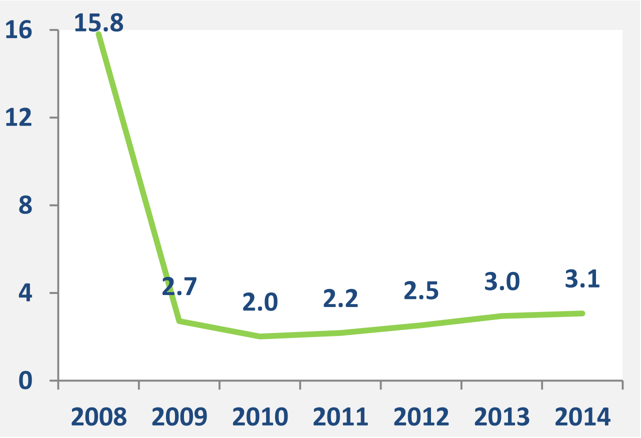
FOREIGN RESERVES (USD Bn)

Source: IMF

FDI INFLOW (USD Bn)

Source: UNCTAD 2015 World Investment Report

FDI OUTFLOW (USD Bn)



Source: UNCTAD 2015 World Investment Report

UAE: Personal facilities and construction sector drive banking growth

Central Bank's interest rate has remained at 1% since 2009 (down from 3.5% at 2008 start).

Money supply has risen consistently from USD 352 Bn in Q1 2014 to USD 371.7 Bn at the end of Q1-15.

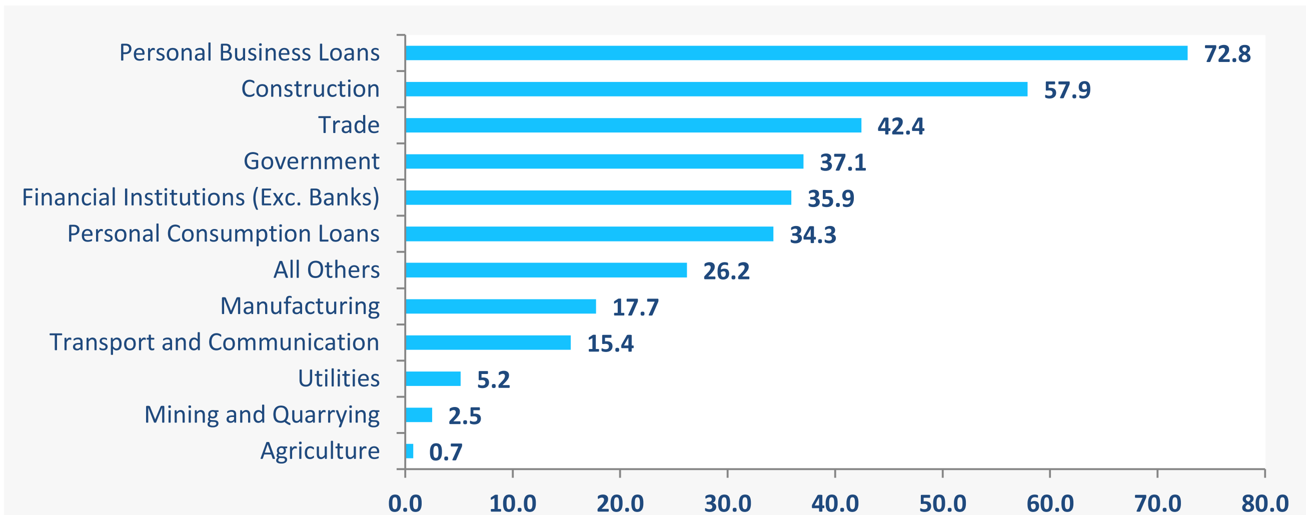
Meanwhile, private sector lending went up from USD 237.5 Bn in Q1 2014 to USD 261 Bn at the end of Q1-2015.

Personal business loans and construction sector led the growth in private sector lending in the UAE.

MONEY SUPPLY & PRIVATE SECTOR LENDING (USD Bn)

	Q1-13	Q2-13	Q3-13	Q4-13	Q1-14	Q2-14	Q3-14	Q4-14	Q1-15
Gross Money Supply	**314.3**	**321.9**	**326.5**	**332.1**	**352.1**	**365.5**	**369.9**	**367.2**	**371.7**
M1	89.1	94.4	96.5	103.3	115.5	121.9	121.1	123.1	124.5
Quasi Deposits	160	158.7	163.5	184.3	194.1	193.0	192.1	192.1	196.7
Govt. Deposits	65.2	68.8	66.6	44.4	42.5	50.6	56.7	52.0	50.5
Private Sector Lending	**232.0**	**234.3**	**238.0**	**229.4**	**237.5**	**248.9**	**262.0**	**256.1**	**261.0**

PRIVATE SECTOR LENDING (Q2-2015, USD Bn)



Source: UAE Central Bank

UAE: Resilience is tested amid declining investor confidence

Volatility remained significantly high in DFM led by movements in global oil and equity markets.

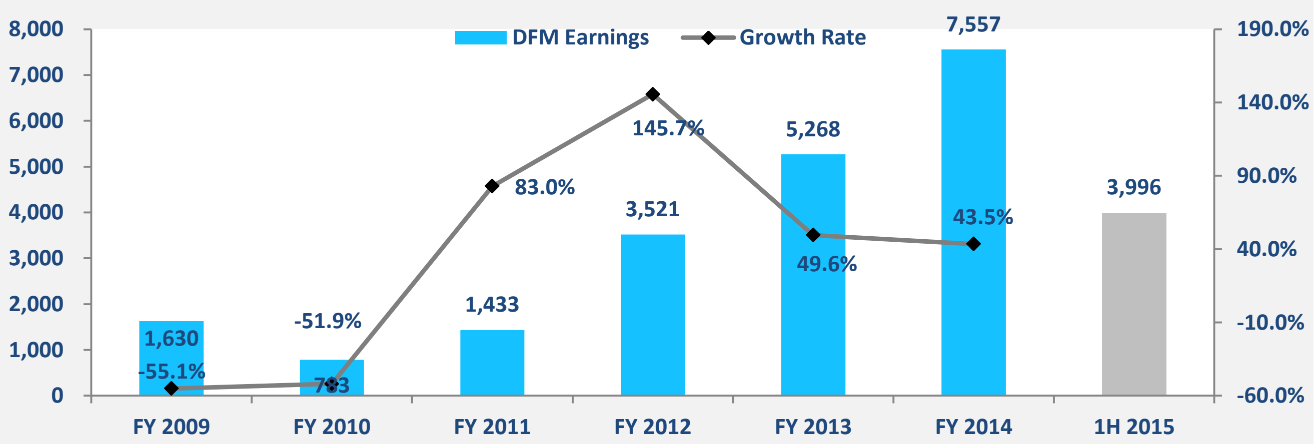
DFM General Index recorded a decline of 2.9% for YTD Aug-15 as compared to a growth of 12% for full year 2014.

Corporate earnings have increased at a solid rate in 2013 and 2014 (including one-off profits) and based on USD 4 Bn of profits recorded in 1H-15, full year 2015 profit is expected to maintain previous year levels.

DUBAI FINANCIAL MARKET INDEX (DFM)

	2009	2010	2011	2012	2013	2014	YTD Aug-15
Index Value	1,803.6	1,630.5	1,353.4	1,622.5	3,369.8	3,774.0	3,662.6
Y/Y Change	10.2%	-9.6%	-17.0%	19.9%	107.7%	12.0%	-2.95%
Market Cap (USD Bn)	56.7	52.4	47.3	47.6	72.7	91.2	94.0
Value Traded (USD Bn)	47.2	19.0	8.7	13.2	43.5	102.9	34.2

DUBAI – CORPORATE EARNINGS (USD Mn, % GROWTH)



Source: DFM, KAMCO Research

UAE: DFM – Historical Performance

DUBAI FINANCIAL MARKET (DFM)

YTD Aug-15

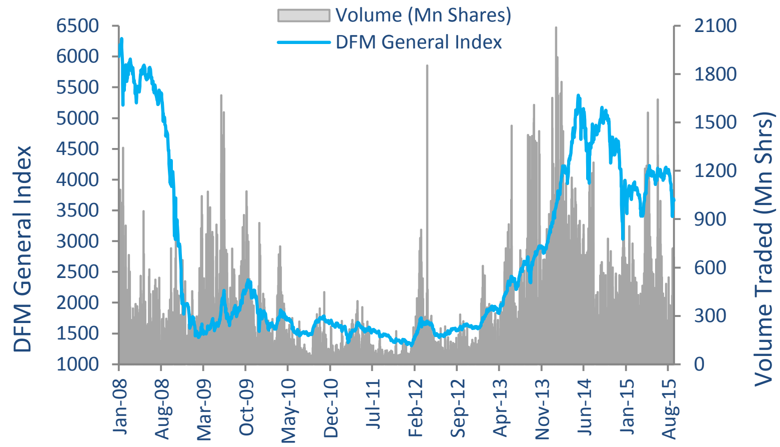
DFM General Index Performance

YTD Aug-15 Return	**-2.95%**
YTD Aug-15 Volatility	**33.47%**

YTD Aug-15 trading Indicators

Volume ***(Mn Shares)***	**79,315**
Value ***(USD Mn)***	**34,195**
Deals ***('000)***	**1,228**

DFM General Index Relative to Volume Since 2008



FY 2014

DFM General Index Performance

Yearly Return	**11.99%**
Yearly Volatility	**38.23%**

Yearly trading Indicators

Volume ***(Mn Shares)***	**160,533**
Value ***(USD Mn)***	**102,885**
Deals ***('000)***	**2,413**

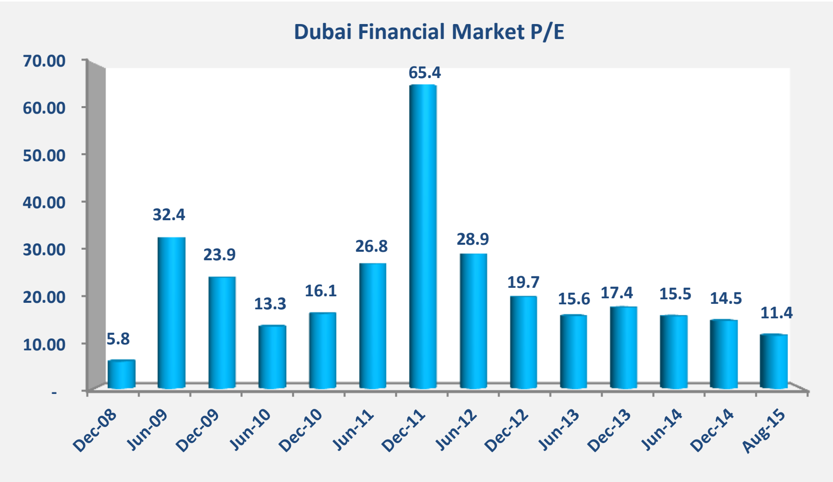
From being the best performing market globally in 2013 DFM recorded marginal return of 12% in 2014 followed by a YTD-15 decline of 2.9%. The sell off triggered by the oil price decline since September-15 continued in 2015 although the index recovered during mid-2015.

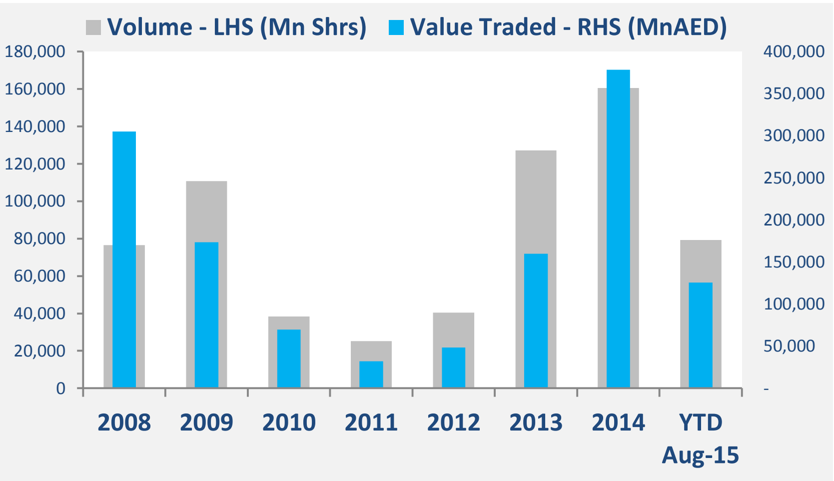
Trading activity on the exchange has seen a steep dip from 2014 levels. Total volume traded on the exchange has declined to 79 Bn shares by August-15 as compared to full year volume of 160 Bn in 2014. Total value traded also declined at a similar pace and stood at a third of the total value traded in 2014.

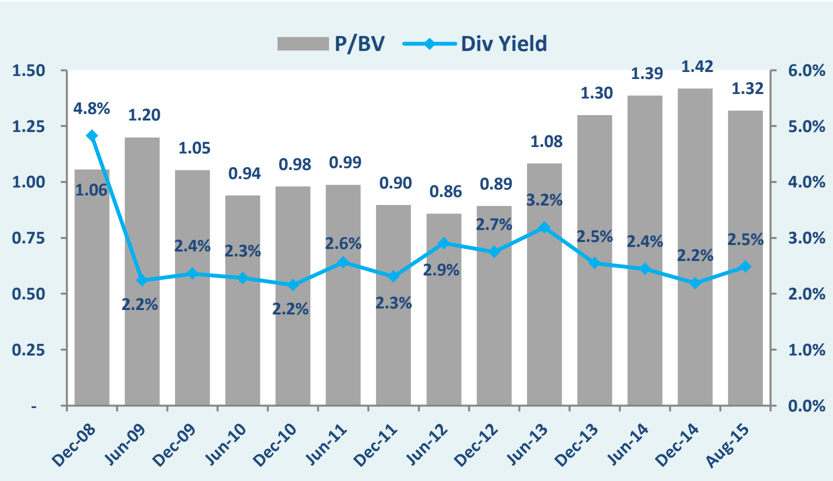
Source: DFM, KAMCO Research

UAE: DFM - Valuation Multiples & Trading Indicators

DFM - VALUATION MULTIPLES & TRADING INDICATORS







Valuation Multiples & Trading Indicators

The decline in market capitalization across the board has made valuation multiples pretty attractive. The market P/E multiple has declined from 15.6x in June last year to 14.5x by the end of 2014 as the market slid. The current P/E multiple was recorded at 11.4x. Market liquidity last year got a boost with the upgrade from MSCI that led to additional flow of passive funds tracking the Emerging markets that resulted in higher value traded. However, foreign investors remained on the sidelines as markets continued to decline in 2015 with minimal participation.

Source: DFM, KAMCO Research

UAE: Solid earnings growth in 2014

Unlike DFM, the performance and movement in ADX index was much more stable and resilient. The index declined merely by 1% as compared to much higher rates of declines recorded by other GCC markets during YTD Aug-15.

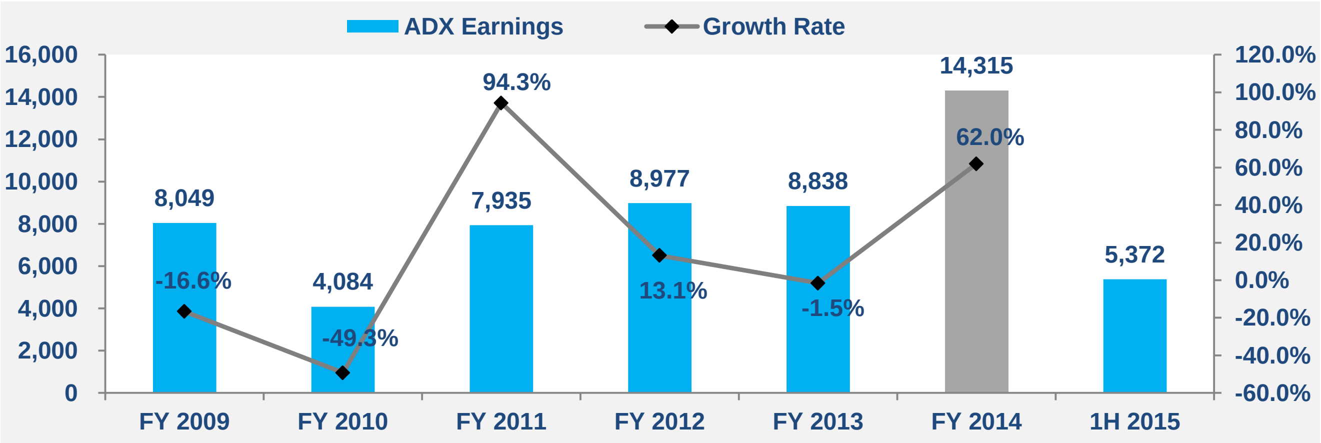
The impact of the oil price rout was minimal on Abu Dhabi markets.

Corporate profitability was recorded at USD 5.4 Bn for 1H-15, a decline of 5.6% as compared to 1H-14.

ABU DHABI SECURITIES EXCHANGE (ADX)

	2009	2010	2011	2012	2013	2014	YTD Aug-15
Index Value	2,743.6	2,719.9	2,402.3	2,630.9	4,290.3	4,528.9	4,493.9
Y/Y Change	14.8%	-0.9%	-11.7%	9.5%	63.1%	5.6%	-0.8%
Market Cap (USD Bn)	81.4	78.4	70.7	79.0	122.3	126.3	119.2
Value Traded (USD Bn)	19.1	9.1	6.7	6.0	23.0	39.5	10.5

ABU DHABI – CORPORATE EARNINGS (USD Mn, % GROWTH)



Source: ADX, KAMCO Research

UAE: ADX – Historical Performance

ABU DHABI SECURITIES EXCHANGE (ADX)

YTD Aug-15

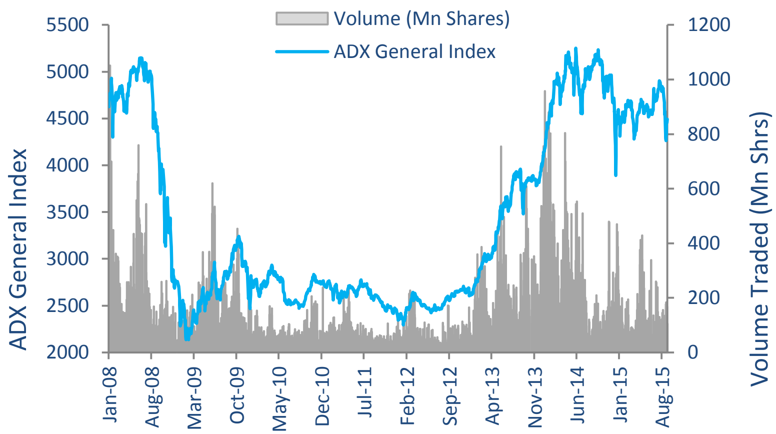
Abu Dhabi Index Performance

YTD Aug-15 Return	-0.77%
YTD Aug-15 Volatility	19.60%

YTD Aug-15 trading Indicators

Volume *(Mn Shares)*	18,615
Value *(USD Mn)*	10,490
Deals *('000)*	312

Abu Dhabi Index Relative to Volume Since 2008



FY 2014

Abu Dhabi Index Performance

Yearly Return	5.56%
Yearly Volatility	22.19%

Yearly trading Indicators

Volume *(Mn Shares)*	58,441
Value *(USD Mn)*	39,533
Deals *('000)*	863

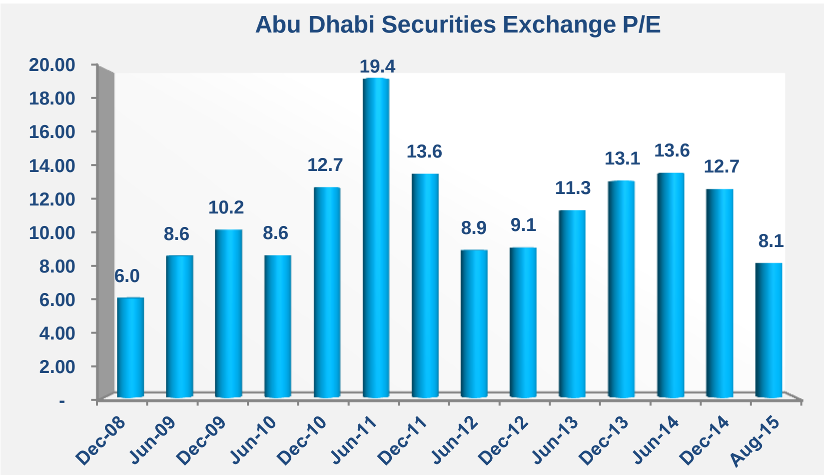
Abu Dhabi's economy continues to remain resilient to regional issues as it strives to strengthen regulatory framework. In a recent update, the exchange is said to be considering introducing option trading along with Dubai Mercantile Exchange.

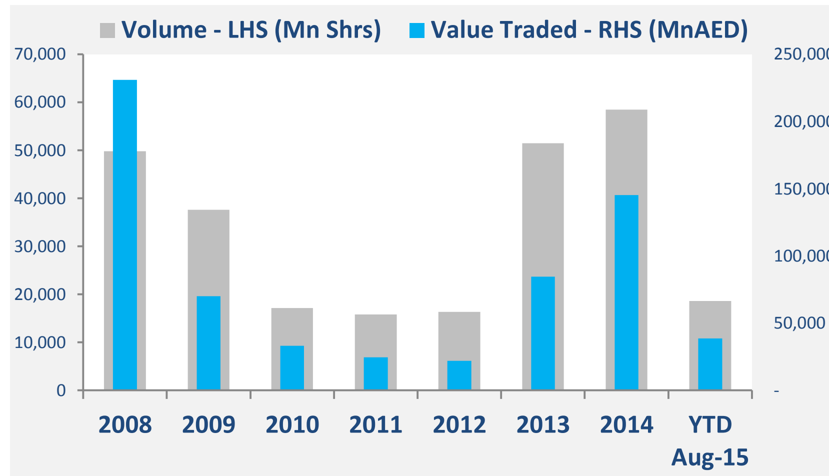
Volatility has declined considerably on the Abu Dhabi Exchange as compared to levels seen in 2014. However, despite the relative investor confidence, trading activity on the exchange reflected the mood in other GCC markets with steep decline in volume and value of shares traded during YTD Aug-15.

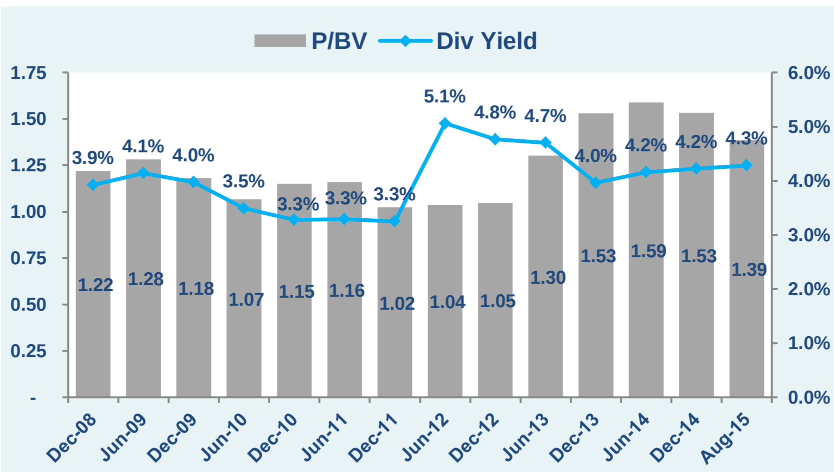
Source: ADX, KAMCO Research

UAE: ADX - Valuation Multiples & Trading Indicators

ADX- VALUATION MULTIPLES & TRADING INDICATORS







Valuation Multiples & Trading Indicators

The Abu Dhabi market seems extremely lucrative currently with single digit P/E multiples recorded at 8.1x at the end of August-15 as compared to 12.7x at the end of 2014. However, investors have taken a cautious stance and are investing in fundamentally strong stocks.

P/BV has also trended downward, recorded at 1.4x at the end of August-15 whereas dividend yield has improved marginally to 4.3%. Trading activity has declined significantly and value traded during the first eight months of the year stood at little over a quarter of level seen in 2014.

Source: ADX, KAMCO Research

UAE ECONOMIC OUTLOOK

Resilient growth amid declining oil prices

Investments made in diversifying UAE's economy seems to be paying off with GDP expected to grow despite a steep decline in oil prices. The economy continues on the path of gradual fiscal consolidation with a number of initiatives announced recently. One of the key steps taken recently that could have long term repercussion was the removal of fuel subsidies in the UAE followed by a hike in utility costs in Abu Dhabi. Further, based on IMF's recommendation, the UAE has expressed its seriousness and is exploring options about implementing corporate tax or valued added tax.

According to the IMF, petroleum subsidies in the UAE amount to USD 7 Bn a year and are part of a package of energy subsidies that total USD 29 Bn, or 6.6% of GDP, including support for natural gas and electricity. The removal of subsidy starting August-15 and making fuel costs dependent on market prices came at the right time when a possible backlash from citizens is minimal owing to marginal difference between the current low market prices and the subsidized costs.

Similarly, UAE is working on a plan to introduce value-added tax and corporate tax, with draft laws scheduled to be presented during the third quarter of this year. The step is also seen as positive for the UAE's credit rating. Other positive developments in the UAE approved recently included the approval of new insolvency and bankruptcy laws. This would help to boost investor confidence in the UAE market.

On regulations relating to financial markets, ADX is mulling the introduction of futures and option contracts with the Dubai Mercantile Exchange (DME) for specific Abu Dhabi stocks as well as market index futures. Derivative trading introduction is a major development for equity markets in the UAE where lack of listed equity derivatives was hampering investments as hedging risk became difficult.

UAE is in a favorable spot relative to the rest of the GCC markets. Manufacturing activity remains strong, inflation is under control, interest rates remain low and a large diversified economy with proper regulations are some of the key factors that could spur investment activity. Stock markets in the UAE are essentially flat YTD and slight improvement in market conditions could result in significant flow of funds into the stock market.

SECTION 7| Qatar

QATAR: An exception to other GCC markets

Qatar's economy experienced double-digit growth till 2011 on the back of fast growing gas production and exports, leading to doubling of the nominal GDP between 2009 and 2013.

However, growth came down to 6.0% in 2012 and 6.3% in 2013, as the moratorium on further development in the North Field led to plateaued gas production levels and revenues, while oil exports slowed down due to weak global demand and rising non-OPEC production.

GDP is expected to accelerate to 7.1% in 2015 falling slightly to 6.5% in 2016 on the back of double digit growth in non-hydrocarbon sector .

QATAR REAL GDP GROWTH (%)

Source: IMF

	2012	2013	2014	2015E	2016E
Nominal GDP (USD Bn)	**190.3**	**203.2**	**210.0**	**197.0**	**205.3**
Real GDP Growth (%)	**6.0**	**6.3**	**6.1**	**7.1**	**6.5**
Hydrocarbon Sector	1.3	0.2	-1.7	1.2	0.9
Non-Hydrocarbon Sector	10.0	11.0	11.6	10.7	9.5
Contribution to GDP (%)					
Hydrocarbon Sector	58%	55%	52%	-	-
Non-Hydrocarbon Sector	42%	45%	48%	-	-
Oil Production (mn b/d)	**0.7**	**0.7**	**0.7**	**0.7**	**0.6**
Gas Production (bcf)	**3.9**	**4.0**	**4.0**	**4.1**	**4.2**

Source: IMF, OPEC

QATAR: Infrastructure investments to boost growth in the near term

Qatar plans to spend more than USD 200 Bn on infrastructure development as part of its 2030 developmental plan for development of a new airport, a new seaport and a rail and metro system, among others.

Of the USD 200 Bn, more than USD 140 Bn will be spent over the next five years as the nation prepares for hosting the FIFA 2022 World Cup, thus boosting capital expenditure levels.

In light of the falling fuel prices, Qatar has no plans to cancel major development projects or cut state fuel and food subsidies.

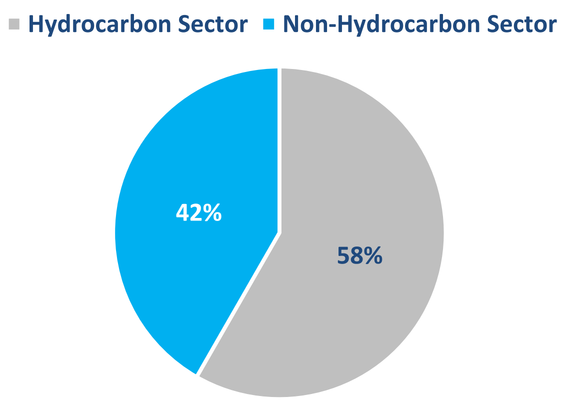
GDP GROWTH BY EXPENDITURE TYPE (%)

	2010	2011	2012	2013	2014
Private Consumption	11.9	6.2	7.6	7.4	11.3
Public Consumption	12.3	10.1	4.0	3.0	9.1
Gross Capital Formation	0.2	14.0	10.0	9.0	17.9
Exports	27.3	24.0	3.0	2.5	-1.8
Imports	1.7	29.3	9.0	6.0	8.6

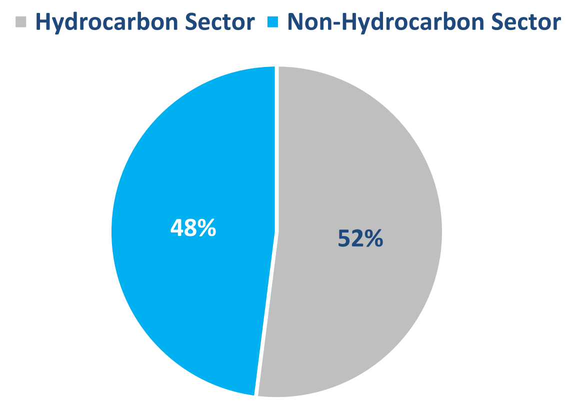
Source: IMF, Ministry of Development, Planning & Statistics, Qatar

CHANGE IN GDP COMPOSITION

2005



2014



Source: Ministry of Development, Planning & Statistics, Qatar

QATAR: Double digit growth rates in a number of sectors

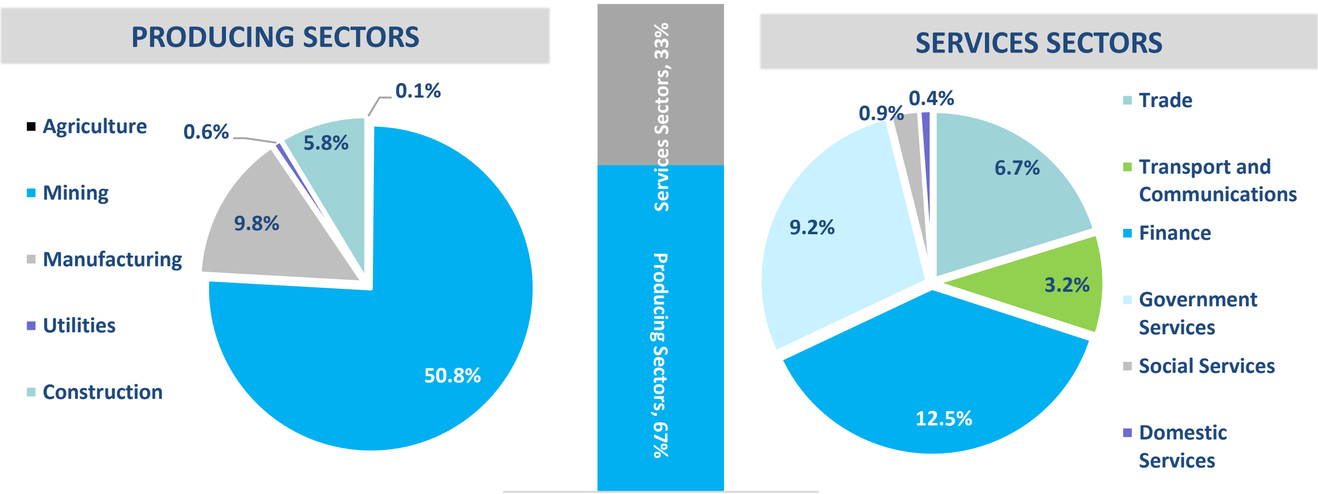
Non-hydrocarbon sectors continue to grow at a fast pace, led by the construction sector, which recorded 18.1% growth in 2014, a slightly lower pace as compared to 19% in 2013. The utilities along with agriculture and fishing sectors also recorded strong growth rates.

In the services sector, trade, finance and transportation sectors recorded double digit growth rates in 2014. Nevertheless, the share of services sector remains a third of total GDP as seen in 2014.

GDP GROWTH IN KEY SECTORS (%)

		2013	2014
Producing Sectors	Agriculture and Fishing	5.9	8.2
	Mining and Quarrying	0.2	-1.5
	Manufacturing	5.6	4.1
	Electricity and Water	6.4	10.6
	Construction	19	18.1
Services Sectors	Trade, Restaurants & Hotels	13.3	14.3
	Transport and Communications	0.5	11.9
	Finance	12.8	12.3
	Social Services	8.8	8.1
	Government Services	15.1	7.3
	Domestic Services	10.3	9.2

CONTRIBUTION TO 2014 GDP (%)



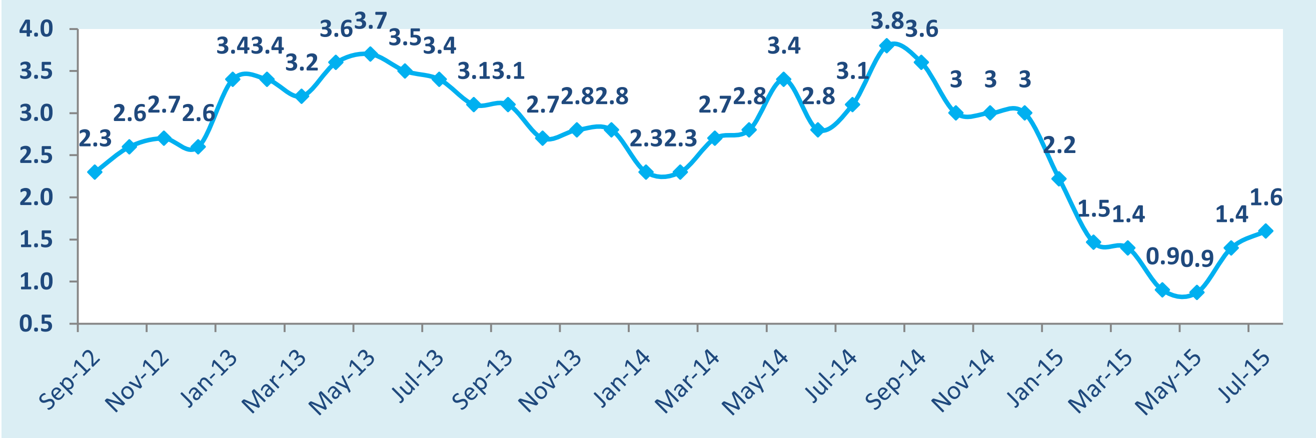
Source: Ministry of Development, Planning & Statistics, Qatar

QATAR: Falling rents and food prices drive down inflation

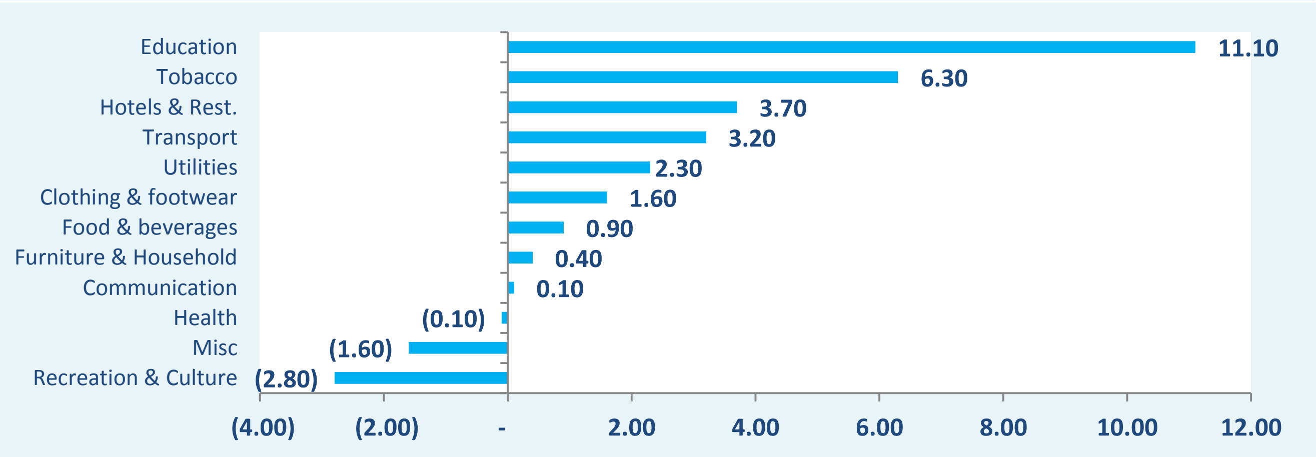
Inflation levels in Qatar was recorded at significantly low levels during April -15 and May-15 as rents continue to fall as compared to previous year in addition to falling food prices internationally. Inflation increased only marginally to 1.6% in July-15.

Housing inflation was down due to additional supply of housing units for the low to middle income category which primarily includes expatriates. Moreover, transportation inflation also declined significantly as compared to previous year.

ANNUAL INFLATION (%)



INFLATION RATE OF COST OF LIVING INDEX BY MAIN GROUPS (%, JUNE 2014/ JUNE 2013)



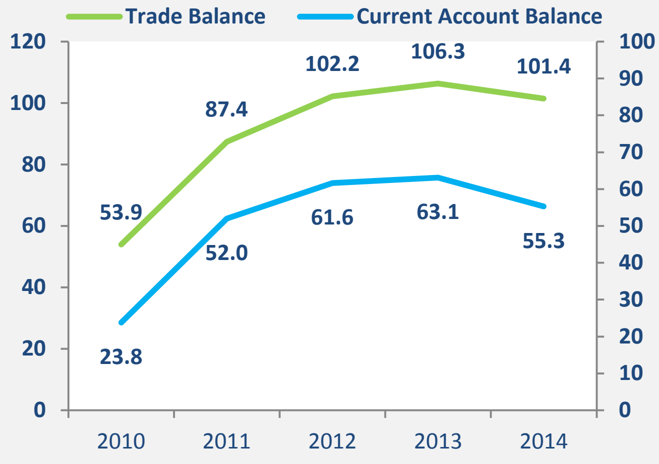
Source: Ministry of Development, Planning & Statistics, Qatar, KAMCO Research

QATAR: Robust fiscal conditions but oil price decline puts a dent in the growth story

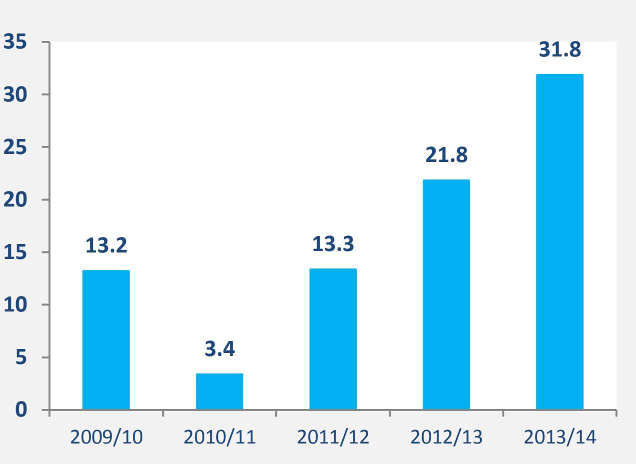
Trade balance declined from USD 106.3 Bn in 2013 to 101.4 Bn in 2014 as gas exports remained flat but oil prices declined. Consequently, current account balance declined to USD 55.3 Bn as compared to 63.1 Bn in 2013.

Fiscal surplus increased to USD 31.8 Bn in 2014; however, Qatar reported its first fiscal deficit in 16 years during Q1-15 recorded at USD 5 Bn due to the decline in oil prices.

Trade & current account Balance (USD Bn)



FISCAL BALANCE (USD Bn)



	2010	2011	2012	2013	2014
Trade Balance (USD Bn)	53.9	87.4	102.2	106.3	101.4
Current Account Balance (USD Bn)	23.8	52.0	61.6	63.1	55.3

	2009/10	2010/11	2011/12	2012/13	2013/14
Oil and Gas Revenue (USD Bn)	22.9	26.8	43.0	49.2	54.1
Investment Revenue (USD Bn)	14.9	10.0	7.1	11.6	28.5
Others Revenue (USD Bn)	9.0	6.4	11.5	18.0	13.4
Current Expenditure (USD Bn)	-22.8	-27.6	-34.3	-42.7	-45.2
Development Expenditure (USD Bn)	-10.9	-12.3	-14.0	-14.3	-19.0
Fiscal Balance (USD Bn)	**13.2**	**3.4**	**13.3**	**21.8**	**31.8**

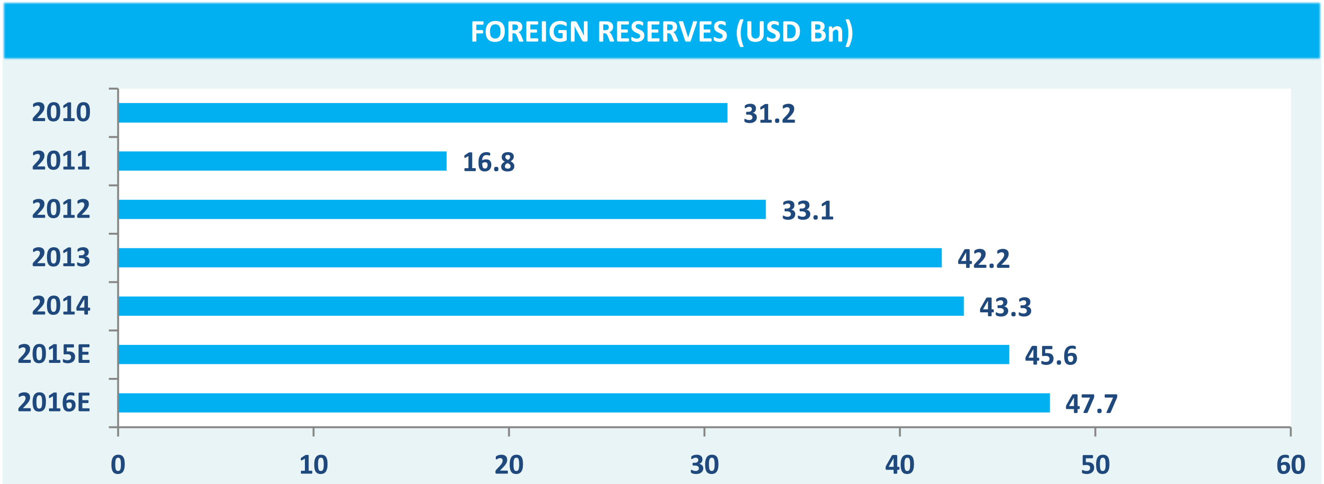
Source: IMF, Qatar Central Bank

QATAR: FDI outflows quadrupled in 2013 as surplus was used for foreign investments

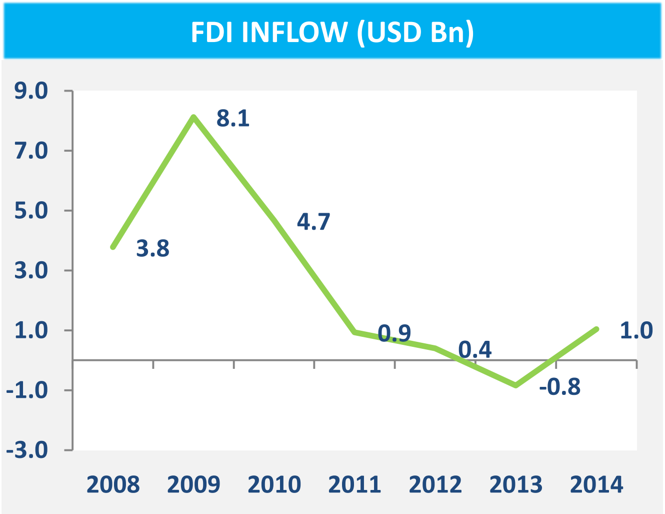
Qatar's international reserves have been consistently rising over the years and was recorded at USD 43.3 Bn at the end of 2014.

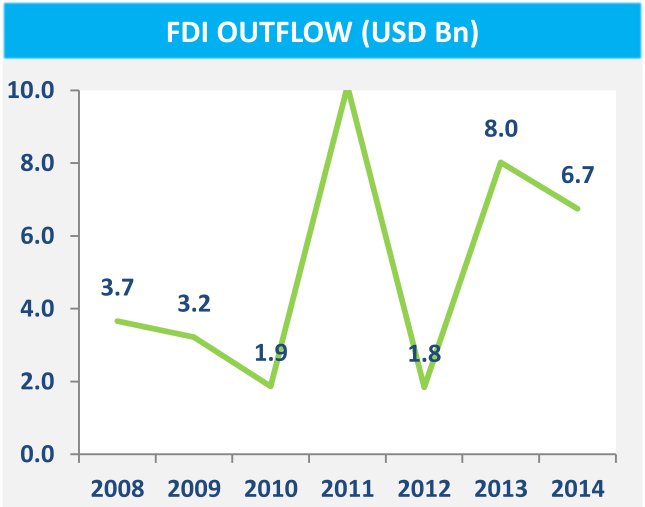
According to the most recent data, reserves increased to USD 43.8 Bn at the end of July-15 after it dipped during the first quarter due to declining oil and gas revenues.

The current level of reserves equate to 7.8 months of import cover for the country.



Source: IMF





Source: UNCTAD 2015 World Investment Report

Source: UNCTAD 2015 World Investment Report

QATAR: Money supply is rising as low interest rate is maintained

Qatar Central Bank has not increased the interest rate from 4.5%, after two cuts of 0.5% each in 2011.

Total money supply stood at USD 258.5 Bn at the end of Q2 2015 as compared to USD 233 Bn during Q2-14.

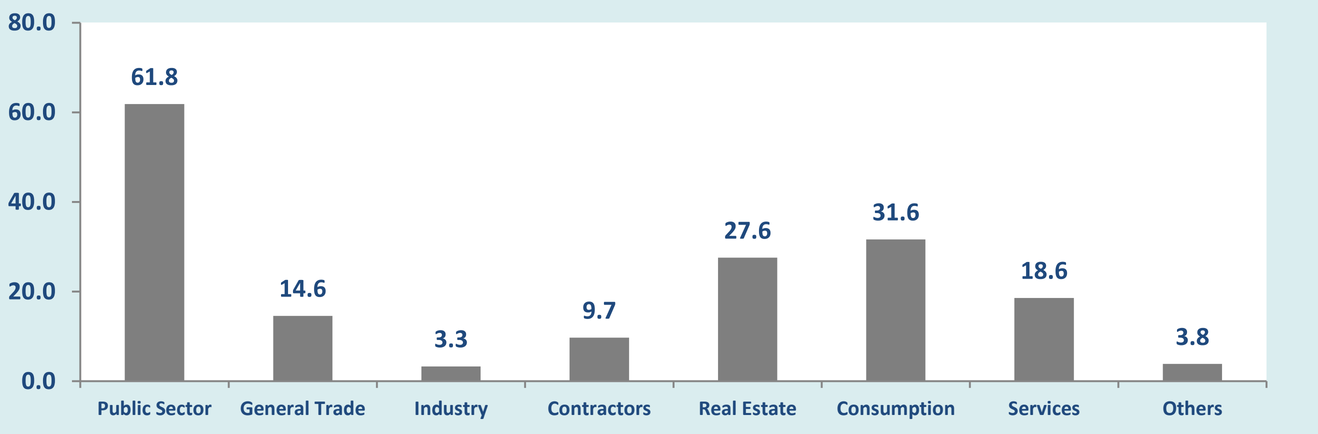
Private sector lending reached USD 109.2 Bn in Q2 2015 on the back of consistent increase in lending activities.

Infrastructure investments have led to increased lending to the public sector, which received USD 61.8 Bn in loans in Q2-15 a slight decline from previous year levels.

MONEY SUPPLY & PRIVATE SECTOR LENDING (USD Bn)

	Q1-13	Q2-13	Q3-13	Q4-13	Q1-14	Q2-14	Q3-14	Q4-14	Q1-15	Q2-15
Gross Money Supply	**201.7**	**223**	**217.3**	**221.1**	**233**	**232.9**	**238.3**	**244.8**	**246.5**	**258.5**
M1	27.3	30.4	30.3	29.1	32.3	35.3	33.0	34.4	35.1	36.2
Time Deposits	50.2	53.3	52.3	57.2	59	59.1	57.2	61.9	63.5	66.9
Deposits in Foreign Currencies	37	43	41.2	38.9	41.4	39.7	45.4	43.3	42.2	44.2
Quasi Money	87.2	96.3	93.5	96	100.3	98.8	102.6	105.2	105.7	111.2
Private Sector Lending	**74.4**	**74.5**	**78**	**80.5**	**82.7**	**86.9**	**92.2**	**97.8**	**102.3**	**109.2**

PRIVATE SECTOR LENDING BY INDUSTRY (Q2-2015, USD Bn)



Source: Qatar Central Bank

QATAR: Gradual increase in corporate profitbility

Qatar remained the best performing market in the GCC in 2014 with a yearly return of 18.4%. However, the market lost its momentum as it entered 2015 when negative impact of oil price decline affected all the markets in the GCC.

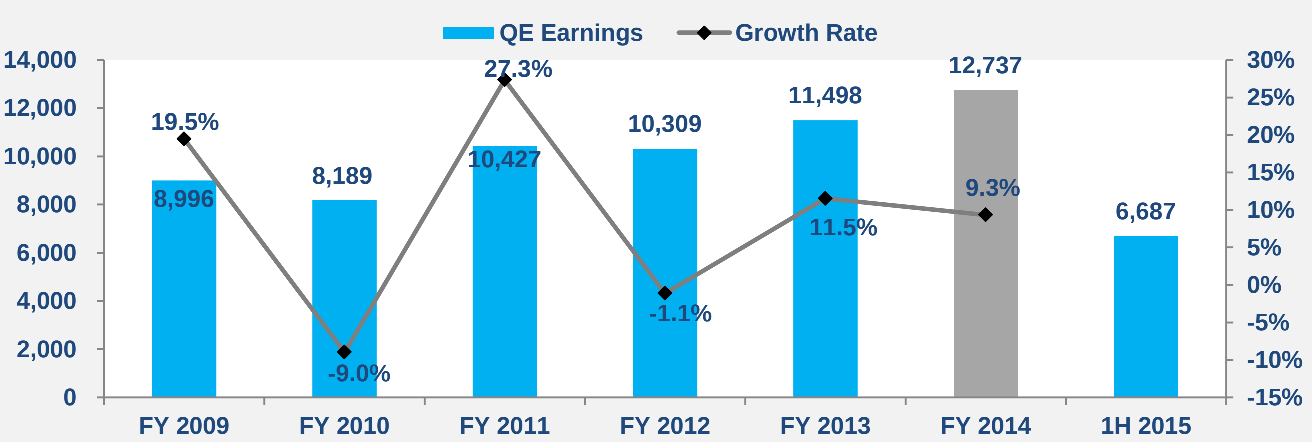
Intermittent issues like the allegation of a corruption scandal related to the rights to host Fifa World Cup in 2022 affected the market but the impact was only temporary.

Corporate earnings went up 9.3% y/y in 2014, primarily on the back of improvement in earnings for the banking sector.

Qatar Exchange Index (QE)

	2009	2010	2011	2012	2013	2014	YTD Aug-15
Index Value	6,959.2	8,681.7	8,779.0	8,358.9	10,379.6	12,285.8	11,563.6
Y/Y Change	1.06%	24.75%	1.12%	-4.79%	24.17%	18.4%	-5.9%
Market Cap (USD Bn)	87.9	123.6	125.6	126.3	152.6	185.8	166.8
Value Traded (USD Bn)	25.2	18.5	22.9	19.2	20.6	54.7	19.3

Qatar – Corporate Earnings (USD Mn, % Growth)



Source: Qatar Exchange, KAMCO Research

QATAR: QE– Historical Performance

QATAR EXCHANGE (QE)

YTD Aug-15

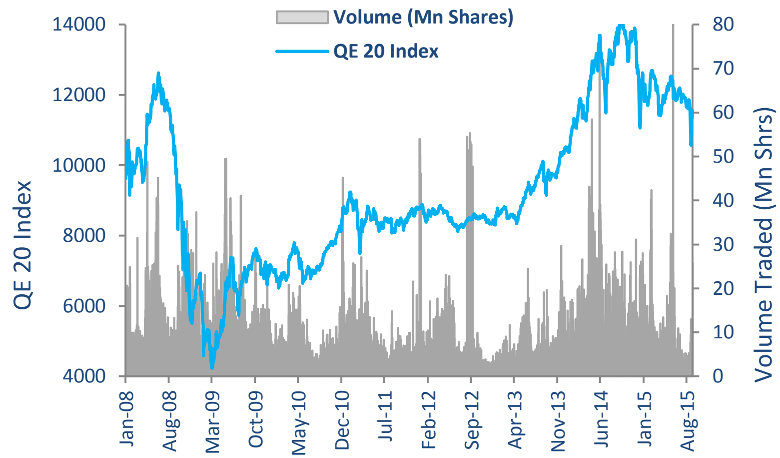
QE 20 Index Performance

YTD Aug-15 Return	-5.88%
YTD Aug-15 Volatility	17.15%

YTD Aug-15 trading Indicators

Volume *(Mn Shares)*	1,704
Value *(USD Mn)*	19,299
Deals *('000)*	868

QE 20 INDEX RELATIVE TO VOLUME SINCE 2008



FY 2014

QE 20 Index Performance

Yearly Return	18.36%
Yearly Volatility	17.15%

Yearly trading Indicators

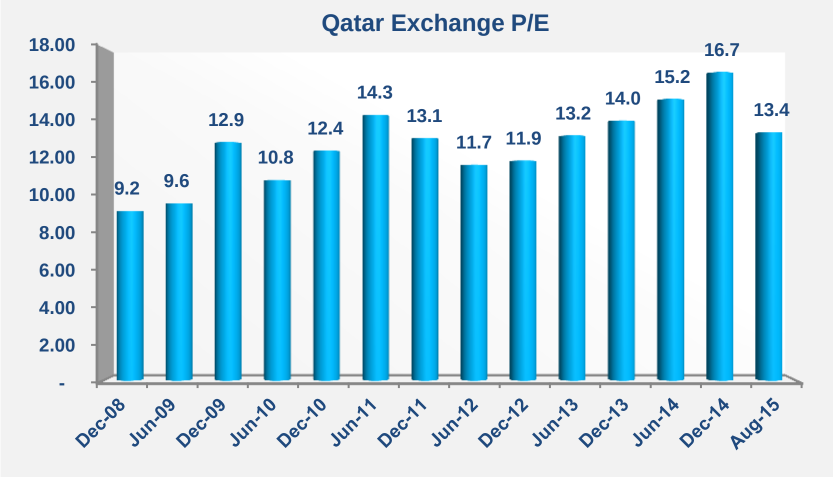
Volume *(Mn Shares)*	4,433
Value *(USD Mn)*	54,715
Deals *('000)*	2,059

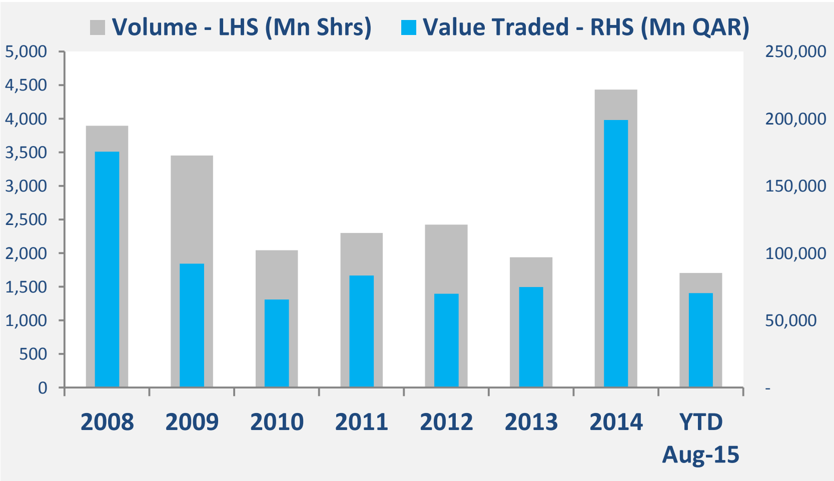
The historically high growth reported by the Qatari economy coupled with political stability as well as significant improvements in financial market regulations has offered pretty scalable investor confidence. As a result, the impact of oil price decline was not as severe on Qatar as seen in other markets. Nevertheless, the overall trading activity on the exchange declined as a result low investor participation in the market. Total volume and value traded has witnessed steep decline as compared to the previous year.

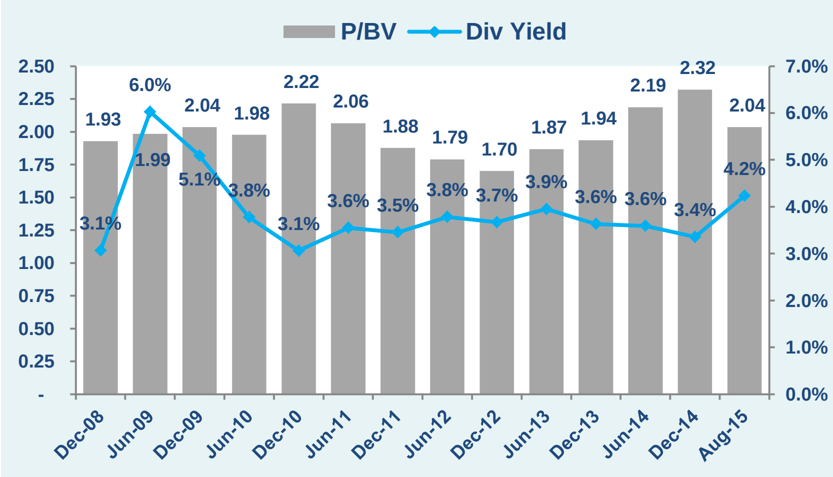
Source: Qatar Exchange, KAMCO Research

QATAR: QE- Valuation Multiples & Trading Indicators

QE- VALUATION MULTIPLES & TRADING INDICATORS







Valuation Multiples & Trading Indicators

The Qatari market has always traded at cheap P/E multiples as compared to the broader GCC market. However, after the MSCI upgrade, valuation multiples had been on an uptrend. P/E was recorded at 16.7x at the end of 2014 but due to overall weakness the multiple is down to 13.4x at the end of August-15. Meanwhile, P/BV continues to remain at a premium as compared to the rest of the GCC markets as was the case historically. P/BV continues to remain above 2.0x and recorded at 2.04x at the end of August-15.

Source: Qatar Exchange, KAMCO Research

QATAR ECONOMIC OUTLOOK

Increased infrastructure spending will drive non-hydrocarbon growth

Qatar expects a deficit in 2016 and has slashed its 2015 economic growth forecast to 7.1% percent from the previous forecast of 7.3%. Qatar has already reported a deficit for Q1-15 to the tune of USD 5 Bn on the back of lower oil and gas prices. Meanwhile, the real GDP growth rate in 2014 stood at 6.1 percent in 2014. The economic growth, which is still high as compared to the rest of the GCC markets, is expected to be driven by a robust non-hydrocarbon sector that would continue to record high growth rates until 2016 and 2017 after which it is expected to moderate.

Consumer price inflation is expected to moderate to an average 2% in 2015 as a result of a reduction in weights for the housing and utilities sectors whereas fiscal surplus is expected to narrow in 2015 to 1.4% of nominal GDP from 12.3 percent in 2014. The country is expected to scale down current government spending in the face of a new reality. The current account is expected to remain in surplus throughout 2017. The country has based its expectations on an average oil price of USD 56/b and 61.6/b for 2015 and 2016, respectively.

Qatari banking sector has recorded significant improvement on the back of infrastructure development activity as the country prepares to host the Fifa World Cup in 2022. Bank credit growth increased by 13.4% year on year during June-15 on the back of a 26% increase in lending to private sector. As a consequence of higher lending activity, bank assets have grown by 11% to USD 292 Bn or 138% of GDP. We expect the trend to continue until at least 2017 driven by sustained spending on developmental projects without any scaling back or cancellations as highlighted by the finance minister recently. World Cup 2022 preparations will sustain non-hydrocarbon growth momentum and will increase economic diversification.

In a positive development, FTSE Russel has upgraded the Qatar Exchange to Secondary Emerging Market status from Frontier market as part of its annual review. This comes as an added advantage for Qatar as it is working to further deepen its capital market system. The status upgrade is likely to enhance liquidity and turnover in the market that is pegged to be at USD 1 Bn in additional liquidity..

Meanwhile, the country's external reserves continues to remain extremely robust. Assets held by the Qatar Investment Authority stood at USD 334.1 Bn in 2015 as compared to 304.4 Bn in 2014, according to data from the Institute of International Finance (IIF).

SECTION 8| Oman

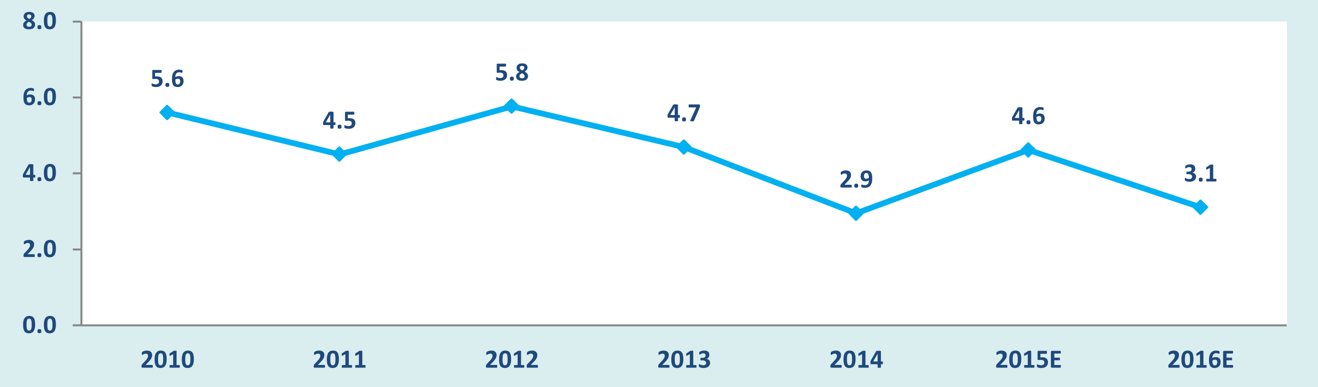
OMAN: GDP growth to fluctuate with oil production

Oman's real GDP growth rate declined to 2.9% in 2014 as compared to 4.7% in 2013. However, growth is expected to bounce back in 2015 to 4.6% followed by 3.1% in 2016.

According to the IMF, based on current spending levels, Oman will deplete its financial reserves by 2020, if it keeps government debt at 25% of GDP.

The decline in oil prices has severely affected investment plans by Oman. This will affect growth in non-oil sector.

OMAN REAL GDP GROWTH (%)



Source: IMF

	2010	2011	2012	2013	2014	2015E	2016E
Nominal GDP (USD Bn)	**58.8**	**70.0**	**75.4**	**77.0**	**77.8**	**62.9**	**68.8**
Real GDP Growth (%)	**5.6**	**4.5**	**5.8**	**4.7**	**2.9**	**4.6**	**3.1**
Oil Sector	4.5	2.1	4.1	3.0	-0.5	4.2	1.1
Non-Oil Sector	6.2	5.8	7.7	6.5	6.5	5.0	5.0
Contribution to GDP (%)							
Oil Sector	45	49	49	47	44	-	-
Non-Oil Sector	55	51	51	53	56	-	-
Oil Production (mn b/d)	**0.87**	**0.89**	**0.92**	**0.94**	**0.94**	**0.99**	**0.99**

Source: IMF, OPEC

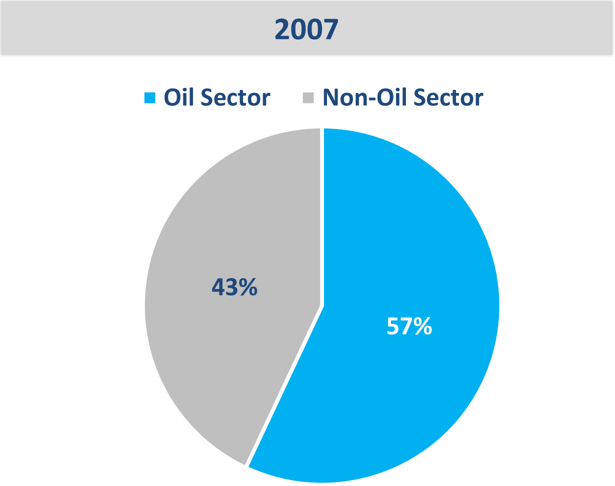
OMAN: All eyes on the non-oil sector

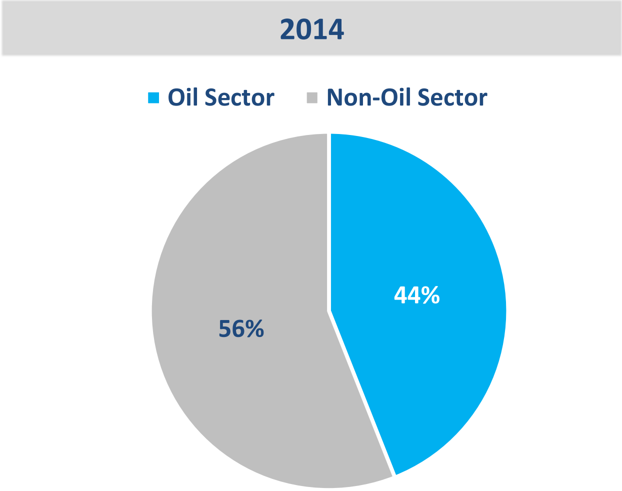
The composition of Oman's GDP has changed considerably over the past few years. The non-oil sector now accounts for 56% of the GDP as compared to 43% during the pre-crisis period.

According to the latest data released by NSCI, despite record oil output, Oman's half-year oil revenues fell 46.1%, or OMR 2.4 Bn, in 2015 to OMR 2.9 Bn, compared with the same period in 2014, whereas in the first quarter, the oil and gas GDP shrank 36.8% compared with the same period in 2014.

On the other hand, non-oil GDP rose by 4.1%.

CHANGE IN GDP COMPOSITION





Source: National Centre for Statistics & Information

OMAN: Steep decline in oil GDP

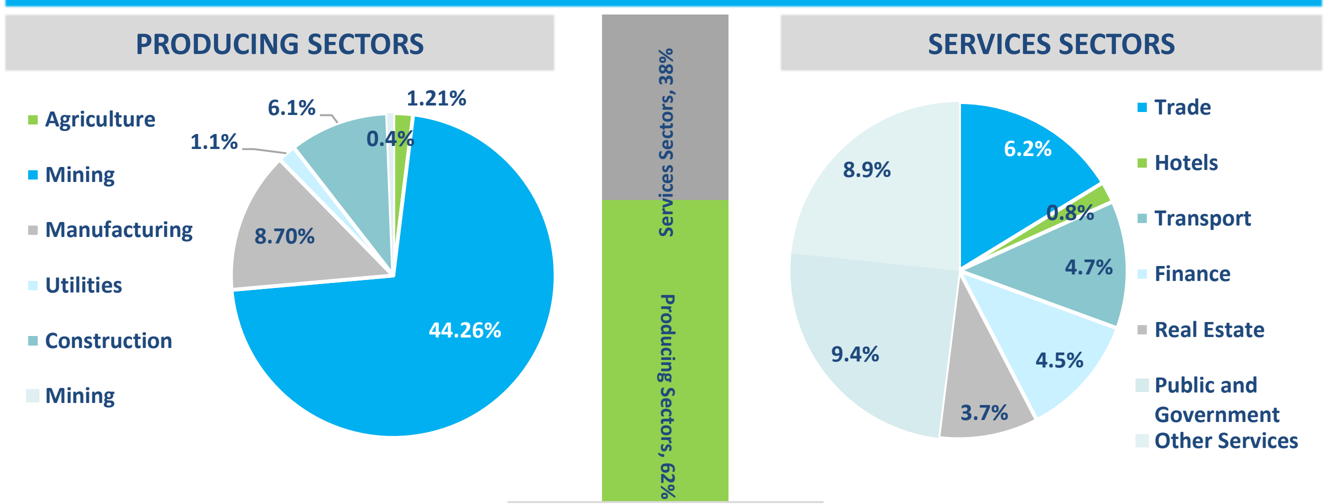
Petroleum activities declined significantly during 2014 falling for the second consecutive year by almost 2.4%. However, growth rate remains high in utilities, agriculture and construction sectors.

In the services sectors, public and government services grew by 14.4% in 2014 after an even higher growth of 15.9% in 2013. The rest of the services sectors also grew at a solid pace, with the exception of trade and hotels that grew at 2%.

GDP GROWTH IN KEY SECTORS (%)

		2013	2014
Producing Sectors	Agriculture	8.6	9.4
	Petroleum Activities	-0.9	-2.4
	Manufacturing	-0.6	0.4
	Utilities	8.7	8.6
	Construction	8.6	8.3
Services Sectors	Trade, Hotels	4.5	2
	Transport	7.0	7.2
	Finance	8.6	9.3
	Real Estate	5.7	6.5
	Public & Government	15.9	14.4

CONTRIBUTION TO 2013 GDP (%)



Source: National Centre for Statistics & Information

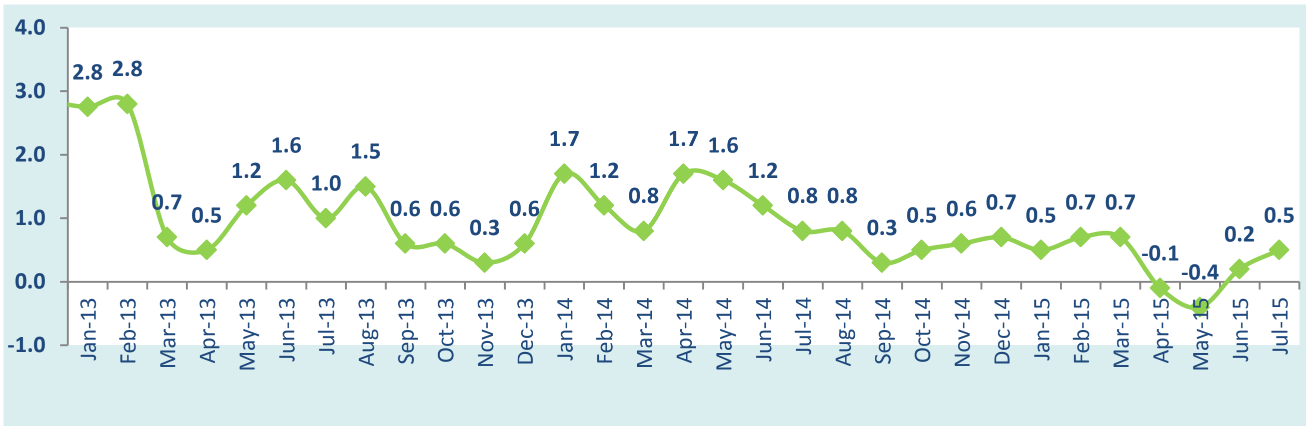
OMAN: Disinflationary pressure has risen recently

After recording negative inflation (or deflation) in April-15 and May-15, price levels rose in Oman in June-15 and July-15.

Oman recorded the lowest inflation level in the GCC in July-15, according to data from GCC Stat.

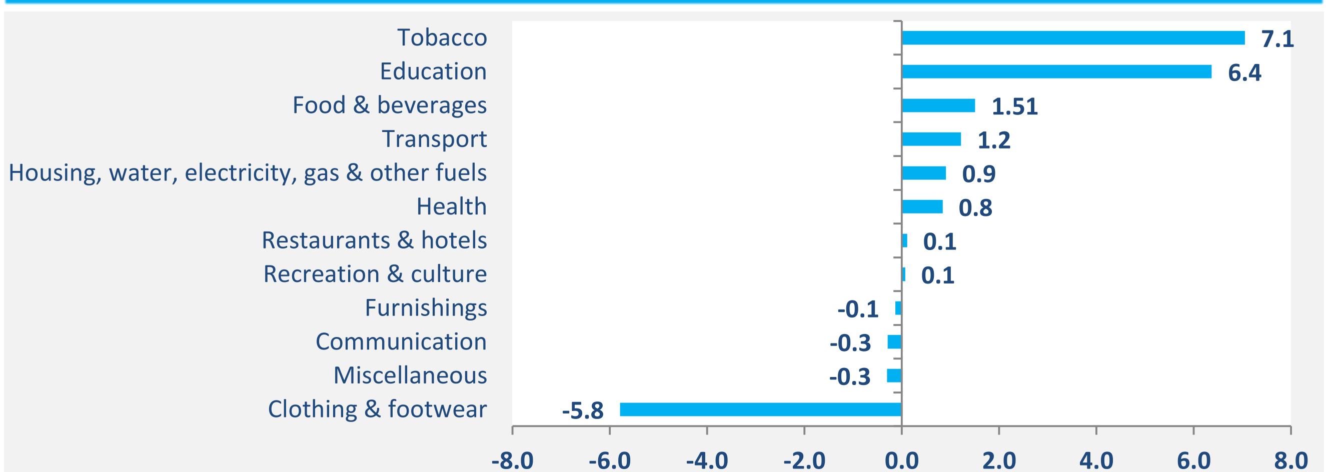
The highest level of inflation was recorded for tobacco followed by the Education sector. The rest of the sectors had only marginal increase in prices.

ANNUAL INFLATION (%)



Source: National Centre for Statistics & Information

INFLATION RATE OF COST OF LIVING INDEX BY MAIN GROUPS (%, 2013/2012)



Source: National Centre for Statistics & Information

OMAN: Expect higher fiscal deficits in 2016

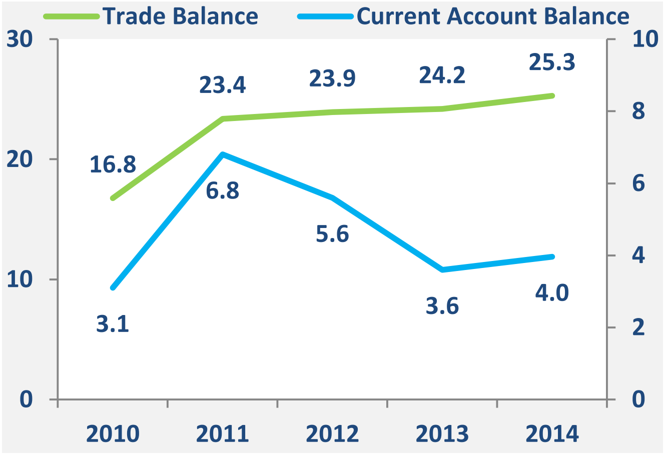
Although trade and current account balances continue to remain in the green, Oman's fiscal balance deteriorated to a higher deficit of USD 2.8 Bn as compared to USD 0.2 Bn in 2013.

According to data from NCSI, deficits reached USD 5 Bn at the end of June 2015, while non-oil GDP rose by 4.1 per cent.

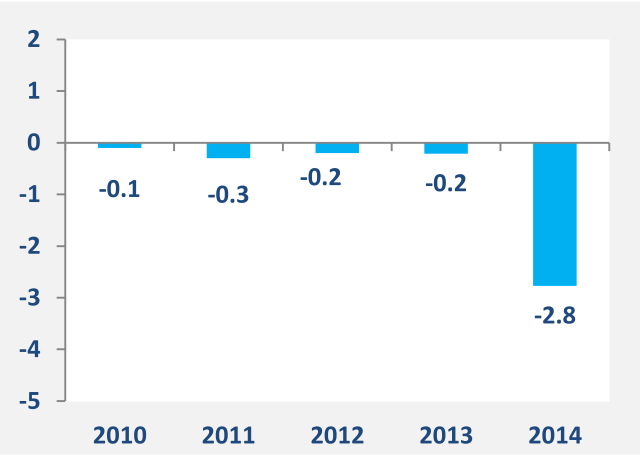
State investment spending declined by 6.8% over the first half of 2015 to OMR 1.3 Bn, compared with the same period in 2014.

Total public expenditure fell 6.7% over the period, despite an expansionary budget.

TRADE & C/A BALANCE (USD Bn)



FISCAL BALANCE (USD Bn)



Source: Central Bank of Oman

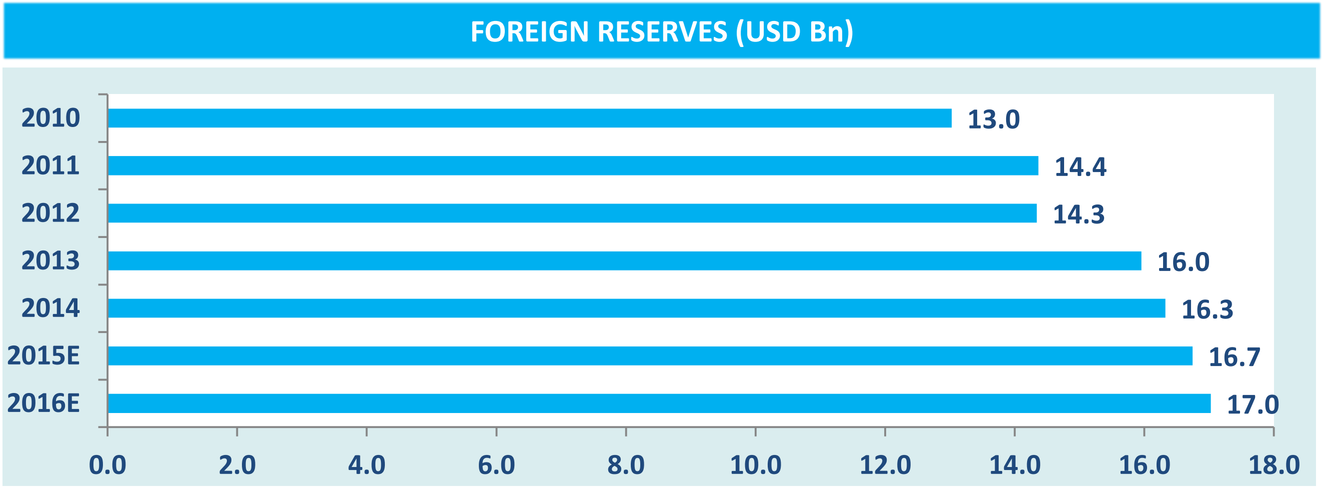
	2010	2011	2012	2013	2014
Trade Balance (USD Bn)	**16.8**	**23.4**	**23.9**	**24.2**	**25.3**
Current Account Balance (USD Bn)	**3.1**	**6.8**	**5.6**	**3.6**	**4.0**
Oil Revenue (USD Bn)	16.7	23.4	29.7	31.1	31.0
Non-Oil Revenue (USD Bn)	4.0	4.3	5.4	5.2	5.8
Current Expenditure (USD Bn)	12.5	15.9	22.9	23.0	25.0
Capital Expenditure (USD Bn)	6.8	7.7	7.5	8.1	9.3
Subsidies (USD Bn)	1.5	4.4	4.9	5.3	5.2
Fiscal Balance (USD Bn)	**-0.1**	**-0.3**	**-0.2**	**-0.2**	**-2.8**

Source: Central Bank of Oman, IMF

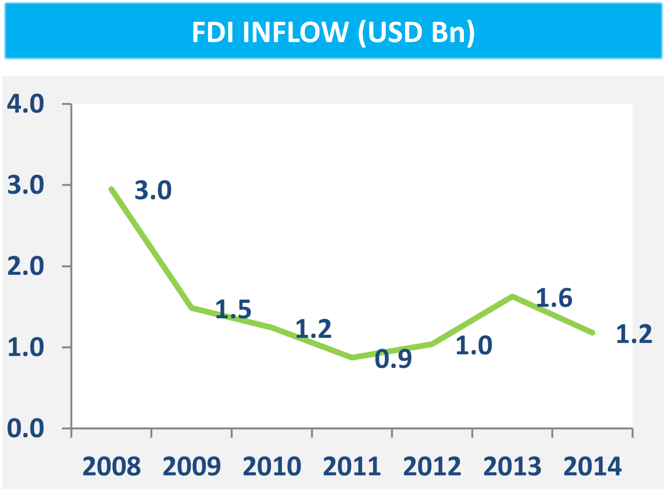
OMAN: FDI declines after two quarters of growth

As the trade- and current account-balance remained in surplus, Oman's foreign reserves increased to USD 16.3 Bn at the end of 2014.

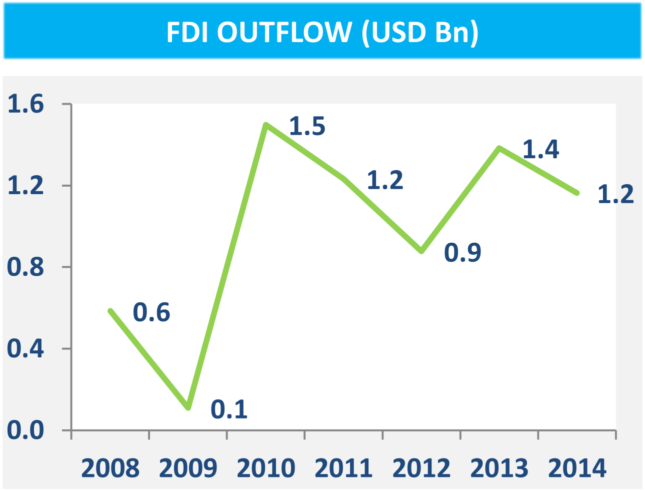
However, FDI inflows in the Sultanate declined to USD 1.2 Bn in 2014 as compared to USD 1.6 Bn in 2013.



Source: IMF



Source: UNCTAD 2015 World Investment Report



Source: UNCTAD 2015 World Investment Report

OMAN: Deteriorating fiscal conditions to affect bank lending

Private sector lending has increased consistently over the past ten quarters and stood at USD 40.6 Bn at the end of Q2-15. However, a deterioration in fiscal position of the government of Oman would result in higher risk for the banking sector, as highlighted by Fitch when it downgraded five Omani banks. In terms of sectoral distribution, personal loans continue to account for a lions share of private sector lending.

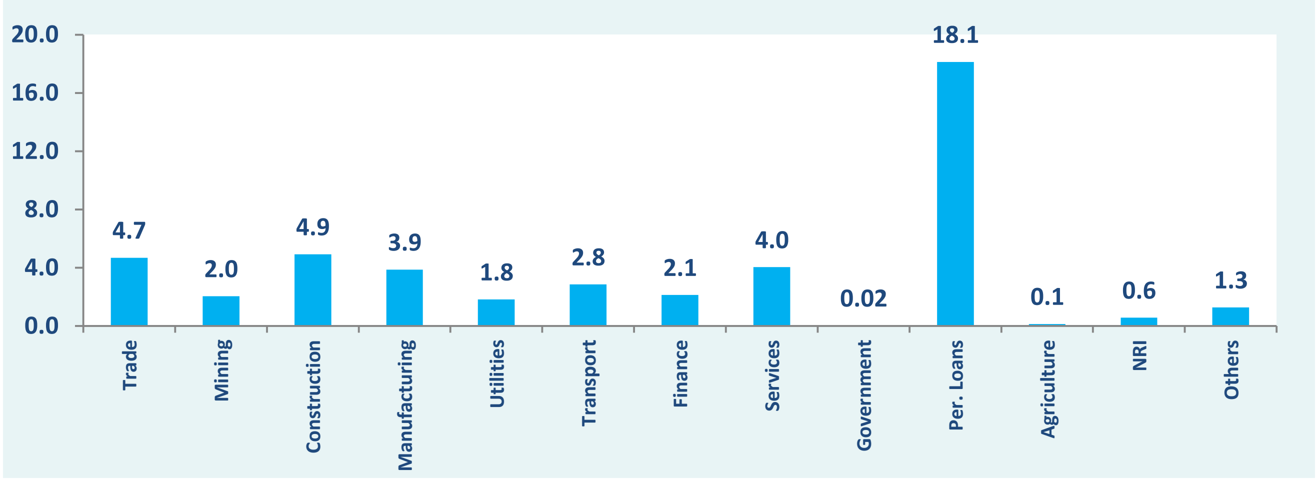
However, despite concerns, money supply stood at USD 38.4 Bn at the end of Q2-15 an increase from USD 34.6 Bn in Q2-14.

MONEY SUPPLY & PRIVATE SECTOR LENDING (USD Bn)

	Q1-13	Q2-13	Q3-13	Q4-13	Q1-14	Q2-14	Q3-14	Q4-14	Q1-15	Q2-15
Gross Money Supply	29	29.2	29.1	30.7	33.5	34.6	34.5	35.9	37.5	38.4
Domestic Quasi Deposits	17.1	17.4	17	18.1	21.4	22.1	22.8	23.3	23.8	24.4
Demand Deposits	7.0	6.8	7.1	7.5	9.3	9.5	8.5	9.4	10.6	10.8
Currency Outside Banks	2.5	2.5	2.6	2.7	2.9	3.0	3.2	3.1	3.2	3.3
Private Sector Lending	32.1	33.1	34.3	34.4	35.4	37.0	37.5	38.3	39.3	40.6

Source: Central Bank of Oman

PRIVATE SECTOR LENDING BY INDUSTRY (USD Bn) – Q2-15



Source: Central Bank of Oman

OMAN: Banking sector drives revenue growth

Uncertain fiscal position was also reflected in MSM's index performance that ended in the red in 2014 and continued to decline in 2015.

Corporate earnings stood at USD 2.1 bn in 2014, reflecting a decline of 5%. The first half 2015 earnings stood at USD 1.1 Bn led by growth in the financial services sector.

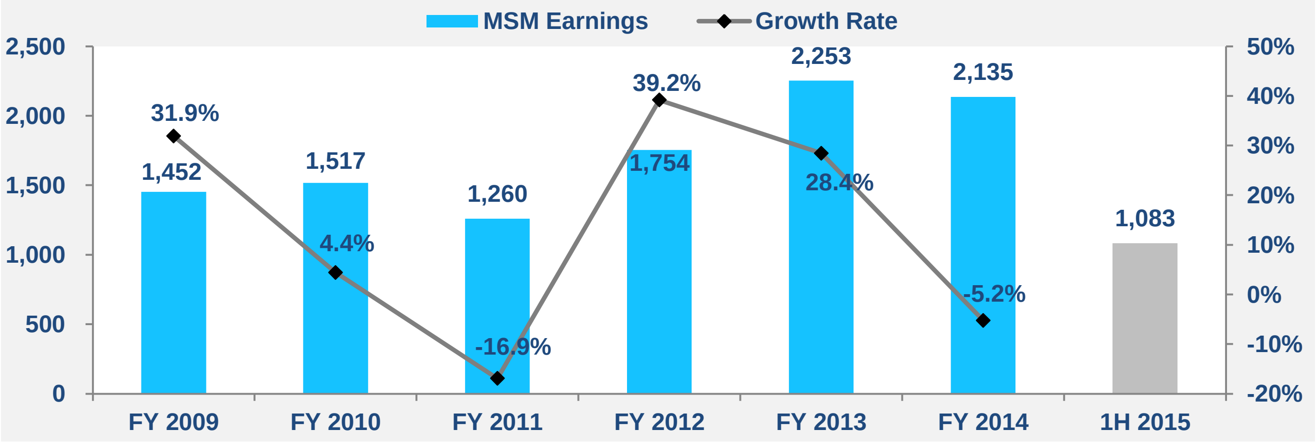
Utilizing PPPs for infrastructure development is a viable option for Oman. However, the decision to use private finance will ultimately depend on whether a strong bankable model can be created.

MSM30 INDEX

	2009	2010	2011	2012	2013	2014	YTD Aug-15
Index Value	6,368.8	6,754.9	5,695.1	5,760.8	6,834.6	6,343.2	5,871.6
Y/Y Change	17.1%	6.1%	-15.7%	1.2%	18.6%	-7.2%	-7.4%
Market Cap (USD Bn)	16.2	18.9	16.9	18.1	18.8	20.1	19.8
Value Traded (USD Bn)	5.7	3.2	2.5	2.4	5.2	5.1	1.9

Source: KAMCO Research

OMAN – CORPORATE EARNINGS (USD Mn, % GROWTH)



Source: MSM, Bloomberg, KAMCO Research

OMAN: MSM– Historical Performance

MUSCAT SECURITIES MARKET (MSM)

YTD Aug-15

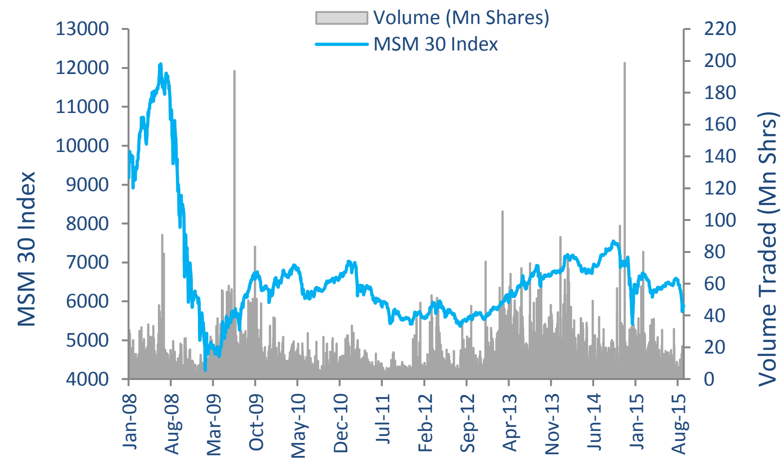
MSM 30 Index Performance

YTD Aug-15 Return	-7.44%
YTD Aug-15 Volatility	13.95%

YTD Aug-15 trading Indicators

Volume *(Mn Shares)*	2,520
Value *(USD Mn)*	1,886
Deals *('000)*	139

MSM 30 INDEX RELATIVE TO VOLUME SINCE 2008



FY 2014

MSM 30 Index Performance

Yearly Return	-7.19%
Yearly Volatility	15.99%

Yearly trading Indicators

Volume *(Mn Shares)*	5,242
Value *(USD Mn)*	5,054
Deals *('000)*	292

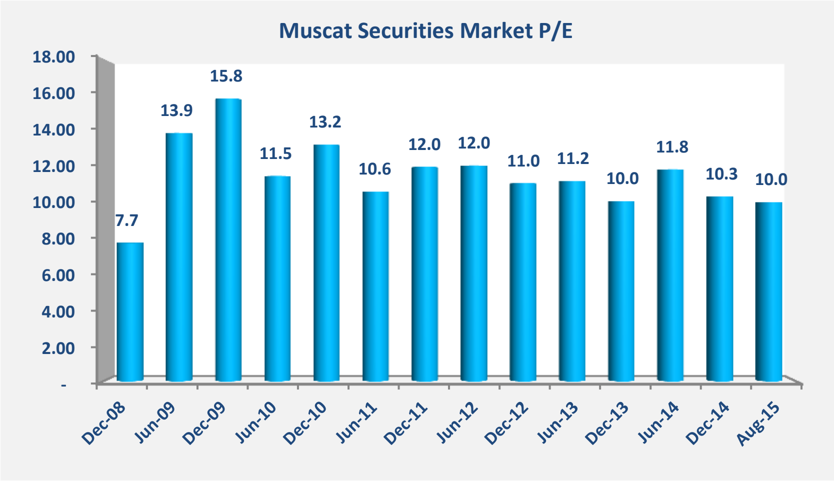
The MSM 30 Index declined by 7.2% during 2014 primarily due to negative investor sentiments as a result of the decline in oil prices. Investor participation in the market also declined 2014, in line with other GCC markets.

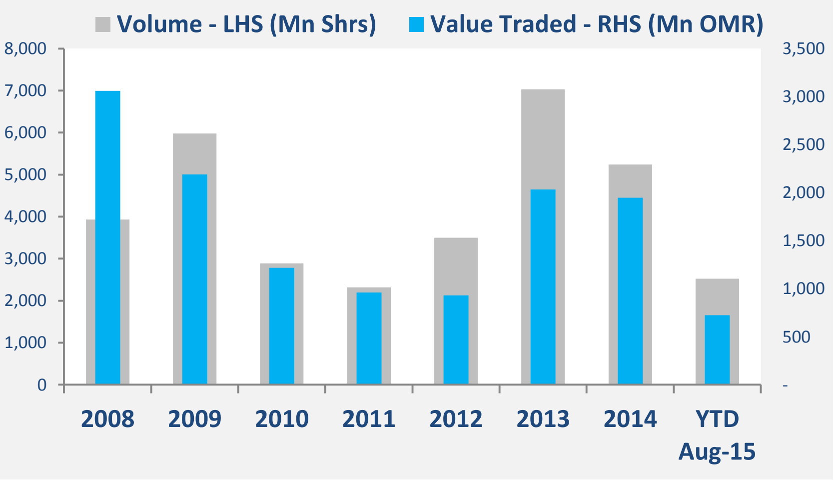
Markets continued to decline in 2015 coupled with a sharp fall in trading activity. Total volume of shares traded during the first eight months of the year declined to 2.5 Bn shares as compared to a full year volume of 5.2 Bn in 2014.

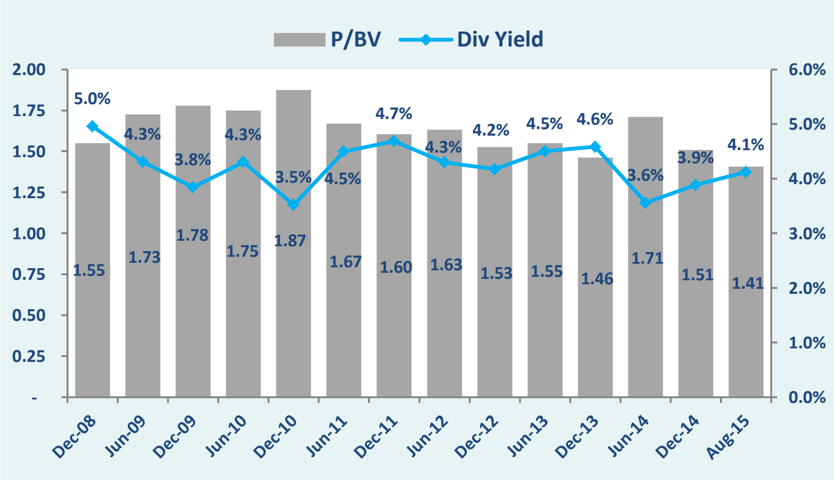
Source: MSM, KAMCO Research

OMAN: MSM- Valuation Multiples & Trading Indicators

MSM- VALUATION MULTIPLES & TRADING INDICATORS







Valuation Multiples & Trading Indicators

Historically, MSM has traded at one of the lowest P/E multiples which usually stood in the range of 10-12x. P/E declined to 10x at the end of August-15 led by the decline in market capitalization.

In terms of P/BV, the market traded at 1.41x at the end of August-15 as compared to 1.5x at the end of 2014. Dividend yield has risen consistently and currently stands at 4.1%, in line with the rest of the GCC markets. Total value traded on the exchange has fallen significantly in YTD Aug-15 and stood at USD 1.9 Bn.

Source: MSM, KAMCO Research

OMAN ECONOMIC OUTLOOK

Spending cuts are required at different levels

Oman is one of the GCC countries under the most budgetary pressure. Economic output expanded by 2.9% in 2014, driven by the 6.5% growth in the non-oil sector. Oman's GDP growth is likely to moderate starting from 2016 when it is expected to reach 3.1%. The reduced pace of growth is attributable to contraction of the oil sector, that witnessed negative growth of -0.5% in 2014. Oman has used most of its easily recoverable oil reserves and future growth can only be driven by increased adoption of enhanced oil recovery techniques that would lead to higher exploration costs.

Construction, transport and services sectors will lead growth. Oman continues to invest in essential projects as seen in the recently announced USD 3 Bn investment in the wastewater network. In addition, several big ticket projects are underway, including OMR 404 Mn of projects in Seeb and OMR 122 Mn in Bausher. Oman is also preparing to tender award the contract for the first phase of its national railway project.

In a significant development that could elevate concerns regarding funding risk, the CEO of state-owned Oman Oil Refineries and Petroleum Industries Company (Orpic) said that there are plans to privatize the refiner in an initial public offering later in the decade. Orpic estimates that its operations represented about 6% of Oman's total GDP in 2014, and booked EBITDA of USD 215 Mn in the first half of 2015.

In terms of fiscal balance, Oman's breakeven oil price stood at USD 94/b as compared to a budgeted price of USD 75/b. Given the current oil price of below USD 50/b, Oman could witness significant deficits over the next few years the would affect investor sentiments and could lead to spending cuts. The government is also likely to priorities its project spending. Less strategic projects could be rescheduled, or even quietly put on hold. However, in line with other economies, this move would not affect vital projects, especially those in the power and water or transport sectors, or privately-financed schemes.

Oman has begun tapping the bond market in order to finance its investment plans along with drawdowns from its reserves. The central bank has issued OMR 500 Mn of sovereign bonds on the domestic market in 2015 as against a plan of OMR 600 Mn. The most recent issuance, OMR 300 Mn in early August-15, was oversubscribed by 20.1%. Oman could increase its bond issuance programme in response to the higher than expected deficit.

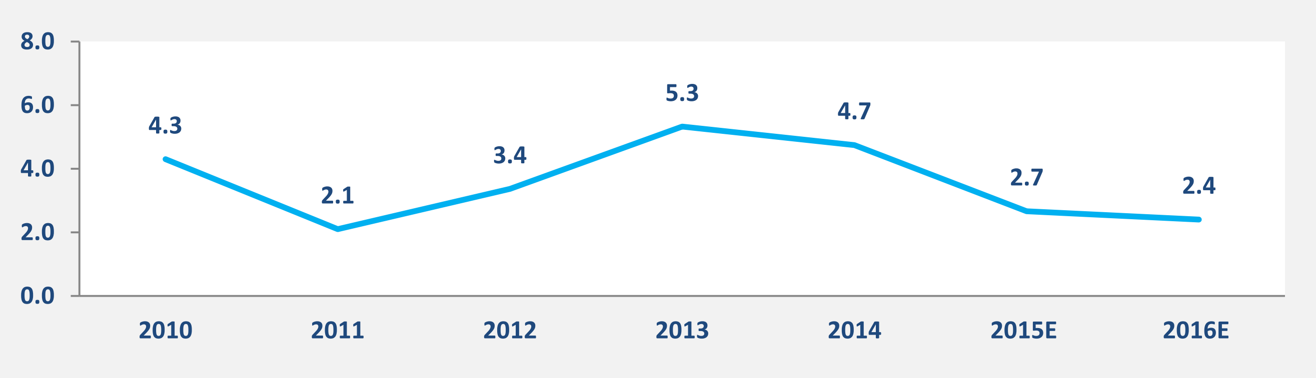
SECTION 9| Bahrain

BAHRAIN: Slowdown expected in non-oil sector

Bahrain's economy grew by 4.7% in 2014, a decline from 5.3% in 2013. Oil sector growth, which stood at 15.3% in 2013, moderated to 3% in 2014 with growth expected to turn negative in 2015 at -0.6%.

Bahrain's non-oil growth beat expectations in the first quarter of 2015. The non-oil economy grew by 5% with a strong performance from a number of sectors in addition to construction. The social and personal services sector grew by 8.3% year-on-year, overtaking the hotels and restaurants sector as the fastest-growing sector.

BAHRAIN REAL GDP GROWTH (%)



Source: IMF, Bahrain Economic Development Board

	2010	2011	2012	2013	2014	2015E	2016E
Nominal GDP (USD Bn)	**25.7**	**29.0**	**30.7**	**32.8**	**33.9**	**31.3**	**33.3**
Real GDP Growth (%)	**4.3**	**2.1**	**3.4**	**5.3**	**4.7**	**2.7**	**2.4**
Oil Sector	0.1	3.6	-8.5	15.3	3.0	-0.6	0.0
Non-Oil Sector	5.5	1.7	6.6	3.0	5.2	3.5	3.0
Contribution to GDP (%)							
Oil Sector	21.1	21.4	19.0	20.7	20.4	-	-
Non-Oil Sector	78.9	78.6	81.0	79.3	79.6	-	-
Oil Production (mn b/d)	**0.18**	**0.19**	**0.17**	**0.20**	**0.20**	**0.20**	**0.20**

Source: IMF, OPEC

BAHRAIN: Debt level is high, leading to increased vulnerability to lower oil prices

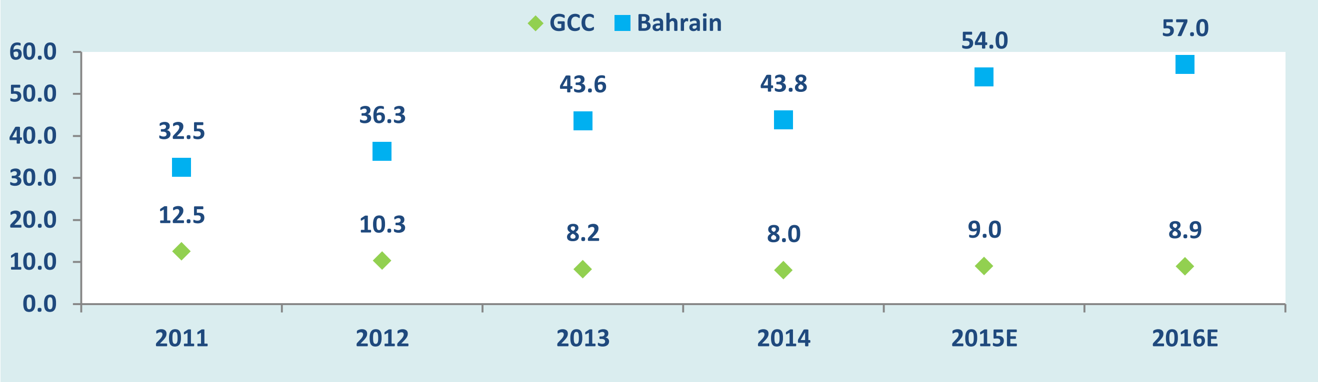
Gross debt as % of GDP has gone up from 29.7% in 2010 to 43.8% in 2014 and continues to be the highest in the GCC.

Moreover, Bahrain may have to issue additional debt if it is unable to finance its infrastructure spending from its reserves.

Consequently, Debt as a percentage of GDP is expected to increase to 54% in 2015 and further to 57% in 2016.

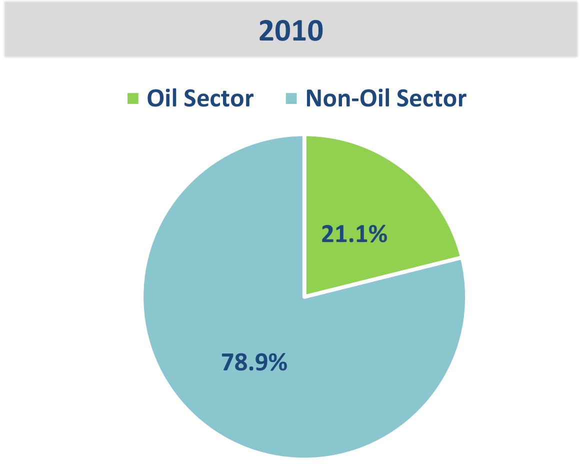
In terms of sector split, oil sector continues to account for a fifth of total GDP .

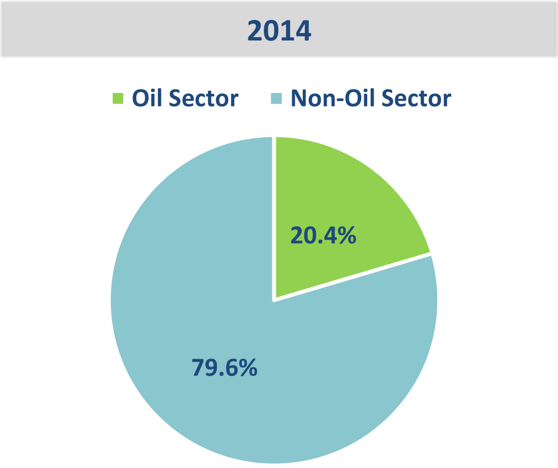
GROSS PUBLIC DEBT (% OF GDP)



Source: IMF

CHANGE IN GDP COMPOSITION





Source: Bahrain Central Informatics Organization

BAHRAIN: Services sector decline in almost all areas

The fall in oil prices affected the growth rates in oil sector that went down from 15.3% in 2013 to merely 3.0% in 2014. However, other major producing sectors like construction have grown in 2014 at a faster pace offsetting some decline in oil GDP.

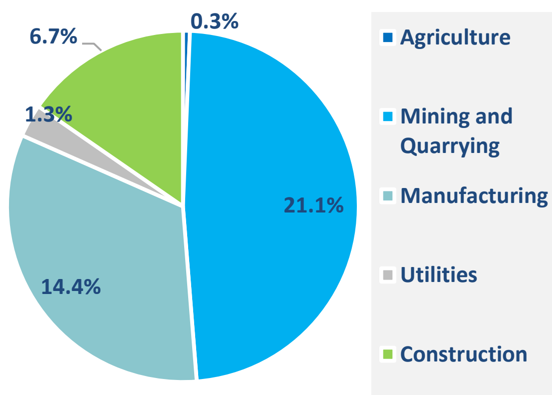
On the services front, Trade, Hotel, Transport, Social services and Real Estate continued to report a decline offset by slightly faster pace of growth in Financial and Government services.

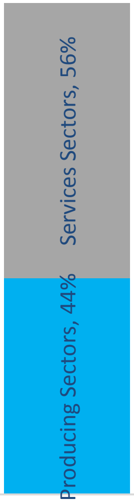
GDP GROWTH IN KEY SECTORS (%)

		2013	2014
Producing Sectors	Agriculture	1.6	4.2
	Mining and Quarrying	14.8	3.8
	Manufacturing	3.6	3.8
	Utilities	4.2	4.2
	Construction	2.7	7.1
Services Sectors	Trade	-1.6	-4.0
	Hotel	-5.6	-4.1
	Transport	-3.2	-6.5
	Social and Personal Services	-6.6	-7.7
	Real Estate	-2.4	-4.0
	Financial Services	2.3	3.6
	Government Services	2.9	4.5

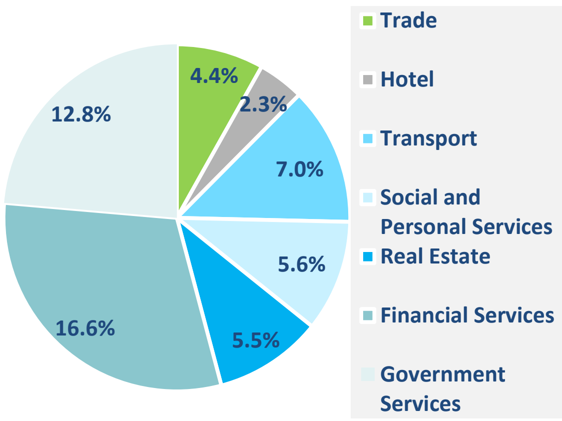
CONTRIBUTION TO 2013 GDP (%)

PRODUCING SECTORS





SERVICES SECTORS



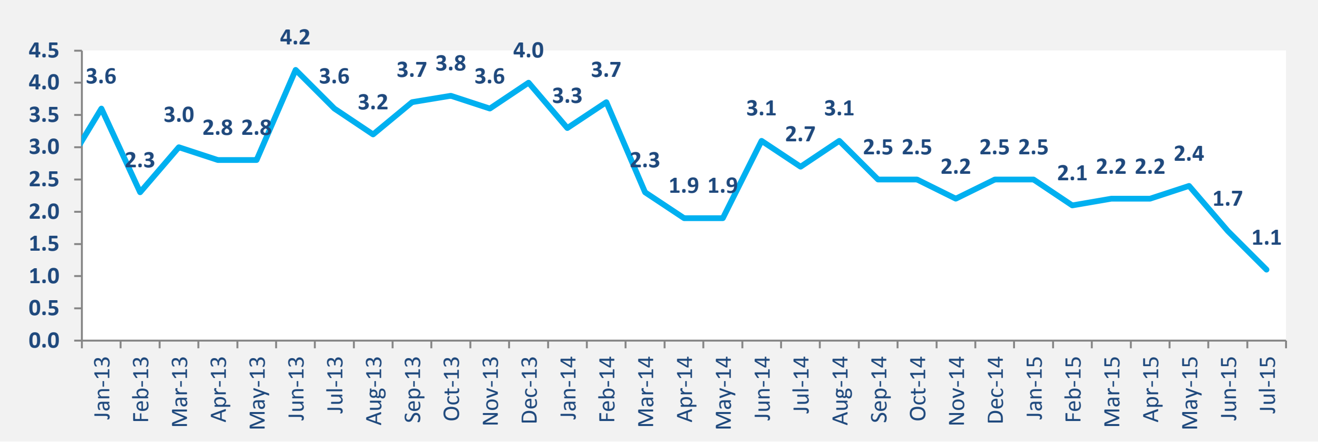
Source: Bahrain Central Informatics Organization

BAHRAIN: Food prices have a favorable impact on overall inflation

As seen in other GCC markets, a decline in food prices globally led to favourable impact on the overall inflation figure.

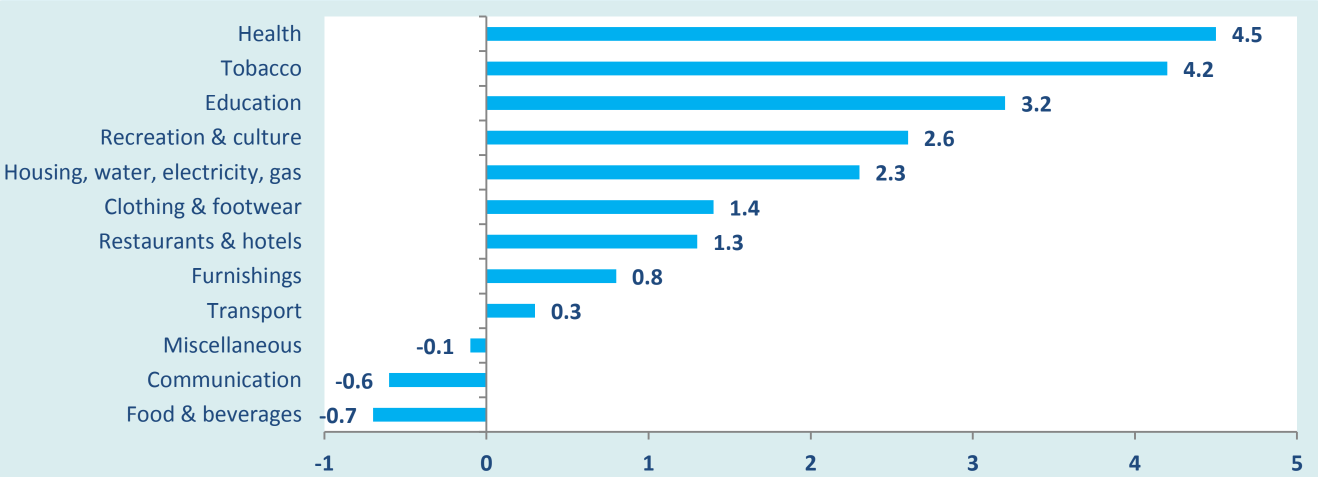
Inflation reached one of the lowest points in recent history to 1.1% in July-15 as compared to July-14. In terms of contribution to inflation, health and tobacco costs saw the highest rate of increase, partially offset by the decline in the cost of food and communication.

ANNUAL INFLATION (%)



Source: Bahrain Central Informatics Organization

INFLATION RATE OF COST OF LIVING INDEX BY MAIN GROUPS (%, MAY 2014/ MAY 2013)



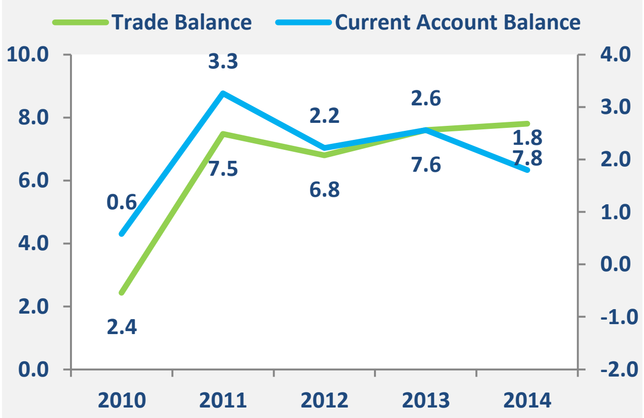
Source: Bahrain Central Informatics Organization

BAHRAIN: Fiscal condition is weak and deficit is likely to widen in 2015

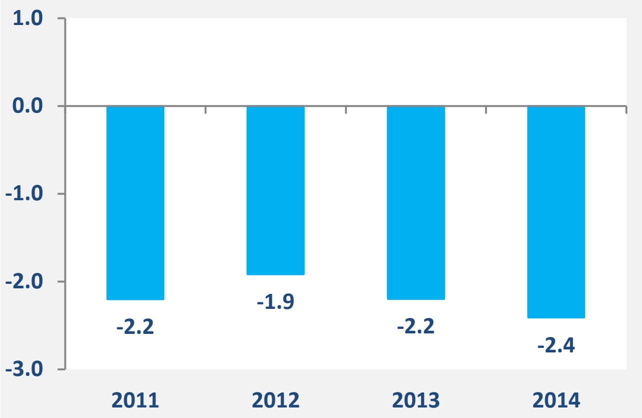
Trade- and current account- balance remain dependent on oil prices and exports. The decline in oil price in 2014-2015 has led to a steep decline in current account balance although trade account continues to report decent growth.

Fiscal balance is expected to continue in deficit in the near term with Bahrain's EDB expecting a deficit of 4% of GDP in 2015 followed by 1.5% in 2016.

TRADE & C/A BALANCE (USD Bn)



FISCAL BALANCE (USD Bn)



Source: Bahrain Central Bank,, IMF

	2010	2011	2012	2013	2014
Trade Balance (USD Bn)	2.4	7.8	6.8	7.6	7.8
Current Account Balance (USD Bn)	**0.6**	**3.3**	**2.2**	**2.6**	**1.1**

	2011	2012	2013	2014
Oil & Gas Revenue (USD Bn)	5.3	5.4	6.3	6.3
Other Revenue (USD Bn)	0.8	0.8	1.0	1.0
Recurrent Expenditure (USD Bn)	6.6	6.3	8.0	8.3
Projects Expenditure (USD Bn)	1.7	1.8	1.5	1.5
Fiscal Balance (USD Bn)	**-2.2**	**-1.9**	**-2.2**	**-2.4**

Source: Bahrain Central Bank, IMF

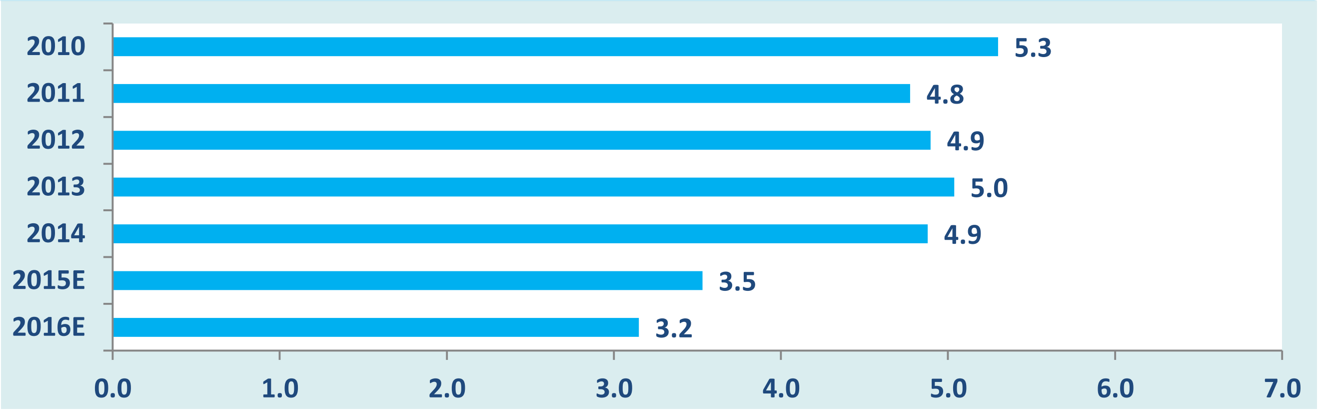
BAHRAIN: Foreign reserves and FDI inflows are rising steadily

Foreign reserves have remained range bound over the past four years, attributable largely to stable oil exports. However, a decline in oil earnings is expected to put a significant dent on foreign reserves.

FDI inflows have recovered from their post-recession decline, and went up to reach USD 1 Bn in 2014.

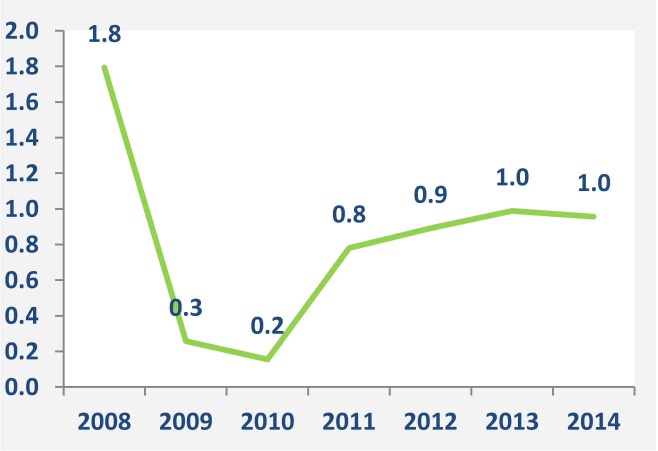
FDI outflows have followed the same trajectory as inflows until 2013 but declined to a net negative figure of USD 0.1 Bn in 2014.

FOREIGN RESERVES (USD Bn)



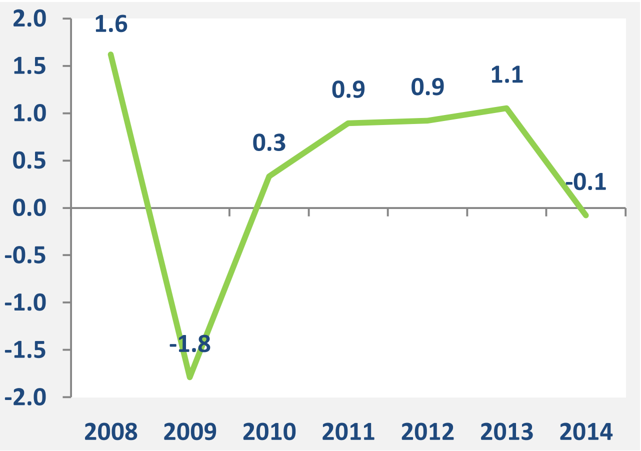
Source: IMF

FDI INFLOW (USD Bn)



Source: UNCTAD 2015 World Investment Report

FDI OUTFLOW (USD Bn)



Source: UNCTAD 2015 World Investment Report

BAHRAIN: Marginal growth in money supply but lending has declined

Total money supply stood at USD 27.1 Bn in Q2 2015; however, the rate of growth was slower than seen previously.

Private sector lending declined in Q2-15 and stood at USD 11.3 Bn.

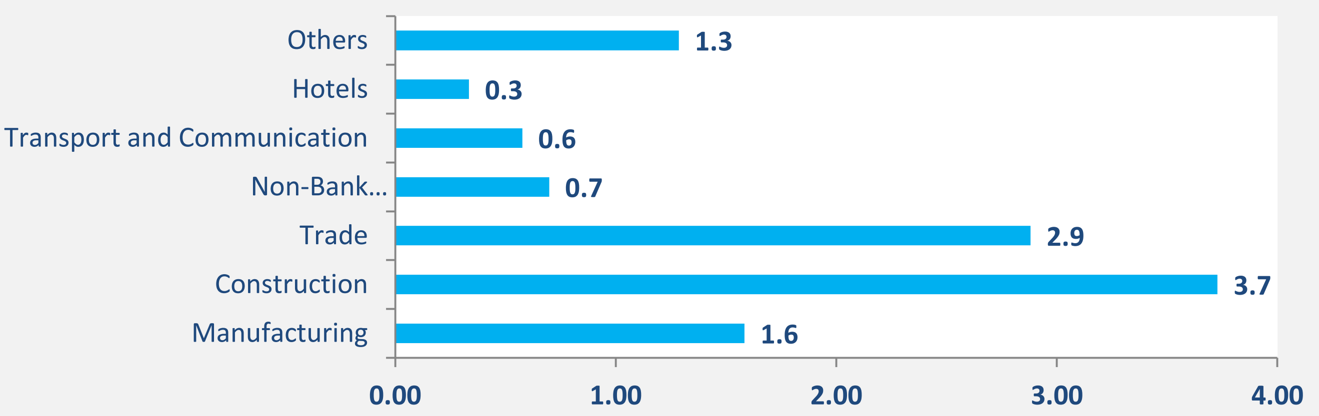
Construction sector continues to remain the largest recipient of lending, followed by the trade sector.

MONEY SUPPLY & PRIVATE SECTOR LENDING (USD Bn)

	Q1-13	Q2-13	Q3-13	Q4-13	Q1-14	Q2-14	Q3-14	Q4-14	Q1-15	Q2-15
Gross Money Supply	**23.6**	**23.5**	**23.9**	**24.1**	**25.0**	**25.7**	**25.7**	**26.0**	**26.8**	**27.1**
Currency Outside Banks	1.2	1.2	1.2	1.2	1.3	1.3	1.3	1.3	1.4	1.4
Demand Deposits	6.3	6.3	6.3	6.2	6.6	7.0	6.7	6.9	7.4	7.7
Time and Savings Deposits	16.1	16	16.4	16.8	17.1	17.4	17.6	17.8	18.0	17.9
Private Sector Lending	**11.7**	**11.6**	**11.6**	**11.3**	**11.5**	**12.6**	**15.0**	**13.4**	**12.5**	**11.3**

Source: Bahrain Central Bank

PRIVATE SECTOR LENDING BY INDUSTRY (USD Bn) – Q2-15



Source: Bahrain Central Bank

BAHRAIN: Minimal activity in the stock exchange

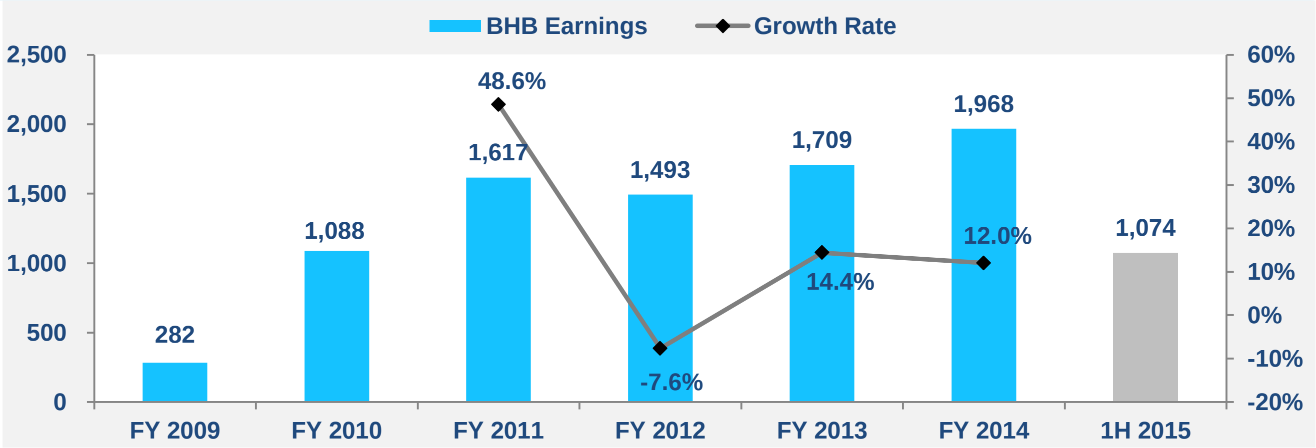
Overall stock exchange activity on the Bahrain stock market has declined significantly. Trading in shares are limited only to large cap stocks and banks.

Nevertheless, corporate profitability continues to rise as seen in the 12% growth in profits for 2014.

BAHRAIN ALL-SHARE INDEX

	2009	2010	2011	2012	2013	2014	YTD Aug-15
Index Value	1,458.2	1,432.3	1,143.7	1,065.6	1,248.9	1,426.6	1,299.2
Y/Y Change	-19.2%	-1.8%	-20.1%	-6.8%	17.2%	14.2%	-8.9%
Market Cap (USD Bn)	16.2	16.6	16.6	15.5	18.3	21.5	20.2
Value Traded (USD Bn)	0.5	0.3	0.3	0.3	0.6	0.7	0.2

BAHRAIN – CORPORATE EARNINGS (USD Mn, % GROWTH)



Source: Bahrain Stock Exchange, KAMCO Research

BAHRAIN: BHB – Historical Performance

BAHRAIN BOURSE (BHB)

YTD Aug-15

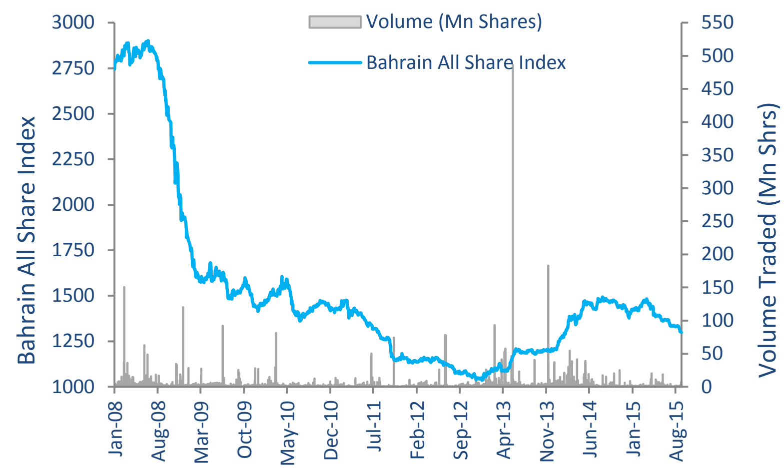
Bahrain All Share Index Performance

YTD Aug-15 Return	**-8.93%**
YTD Aug-15 Volatility	**7.06%**

YTD Aug-15 trading Indicators

Volume ***(Mn Shares)***	**299**
Value ***(USD Mn)***	**175**
Deals ***('000)***	**8**

BAHRAIN INDEX RELATIVE TO VOLUME SINCE 2008



FY 2014

Bahrain All Share Index Performance

Yearly Return	**14.23%**
Yearly Volatility	**7.48%**

Yearly trading Indicators

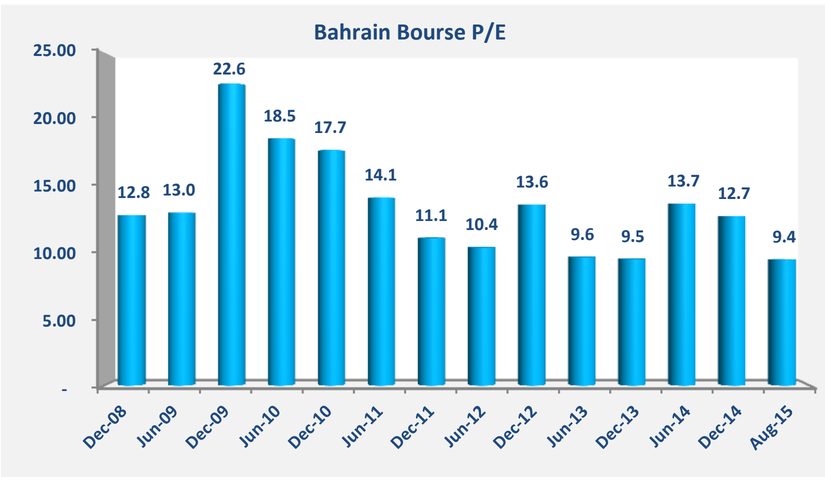
Volume ***(Mn Shares)***	**1,171**
Value ***(USD Mn)***	**716**
Deals ***('000)***	**16**

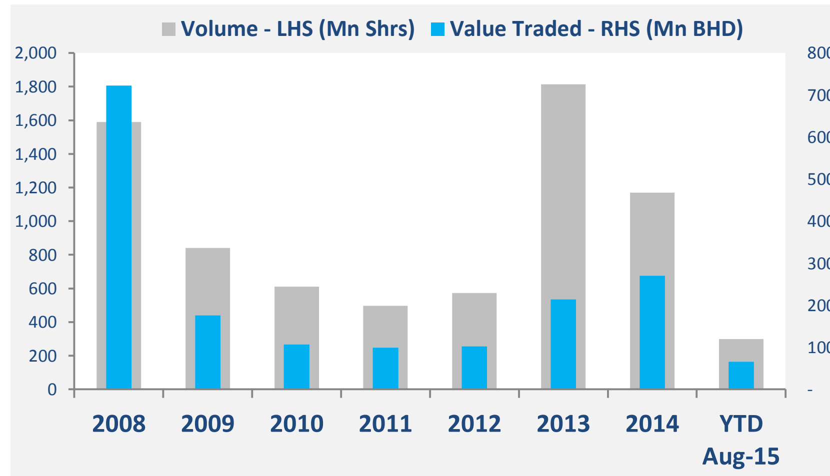
The Bahrain Bourse reported marginal investor activity during 2014 with minimal trades in a few large-cap stocks. Nevertheless, annual return on the benchmark index declined to 14.2% during 2014 from 17.2% in 2013. However, Bahrain remained the second best performing market in the GCC.
Trades were mainly concentrated in the banking sector. The positive momentum could not be sustained in 2015 as seen in the negative YTD-15 return of 8.9%.

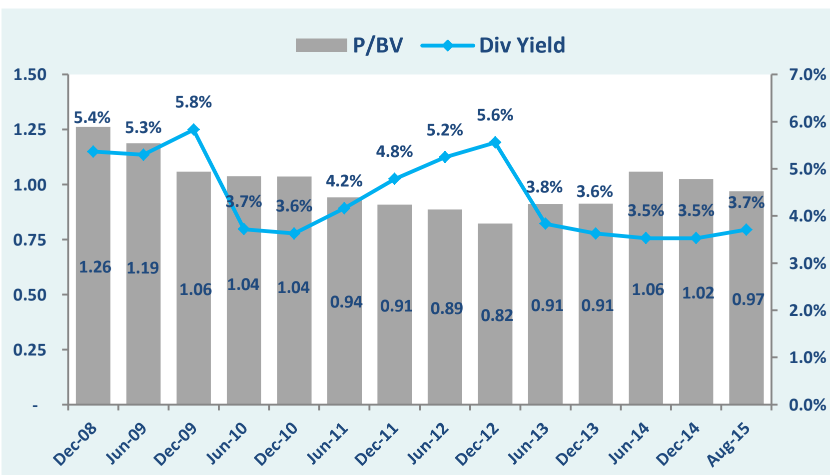
Source: Bahrain Stock Exchange, KAMCO Research

BAHRAIN: BHB- Valuation Multiples & Trading Indicators

BAHRAIN BOURSE -VALUATION MULTIPLES & TRADING INDICATORS







Valuation Multiples & Trading Indicators

Bahraini Bourse continues to report minimal volumes and trades. The market has failed to recover to pre-crisis levels despite several initiatives by the market regulator to revive volumes.

The market is currently trading at a P/E of 9.4x, which is one of the lowest in the GCC. Investors prefer to trade only in commercial banks and financial services stocks as safe bets. In addition, Bahrain is the cheapest market in terms of P/BV multiple, which stood at 0.97x as of August-15.

Source: Bahrain Stock Exchange, KAMCO Research

BAHRAIN ECONOMIC OUTLOOK

Non-oil sector will take over as the growth driver from the oil sector

According to IMF, Bahrain's GDP is expected to grow at 2.7% in 2015, driven solely on the back of 3.5% growth in the non-oil sector whereas the 0.6% expected decline in oil sector would partially offset the overall growth.

According to a recent data released by Bahrain's Economic Development Board (EDB), the Kingdom's non oil economy grew at 5% during Q1-15 on the back of strong performance in a number of sectors. The social and personal services sector, which primarily includes private sector healthcare and education activities, grew by 8.3% year-on-year during Q1-15, overtaking the hotels and restaurants sector as the fastest-growing sector. The manufacturing sector also saw 5.9% year-on-year growth. The transport and communications sector saw the second highest quarterly growth rate of 7.3% year-on-year. The report also highlighted overall real GDP growth of 2.9% on an annual basis and strong labour market activity, with employment increasing by 5% compared with the same period in 2014.

According to the report, the Kingdom is expected to spend USD 22 Bn on new projects over the coming years that would drive growth in the construction sector. These projects are aimed at boosting public and private sector participation across the manufacturing, energy, healthcare and education sectors. It also includes a commitment to build 25,000 housing units the next four years. The report also highlighted that the construction sector grew at 7.5% during the first quarter of 2015 as the kingdom continues to develop new infrastructure projects.

Equity market is expected to continue with its slow recovery on the back of a strong banking and financial services sector. Nevertheless, trading activity on the exchange is expected to remain low, as seen over the past few years as we see no catalyst that would drive higher investor participation.

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