December 2016

KAMCO Investment Research

GCC Economic Report

KAMCO

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WORLD: The worst is behind us

World economic growth is expected to bottom in 2016 and then grow gradually for the next five years.

This growth is expected to be driven by Emerging Markets, MENA and Sub Saharan Africa, whereas the slowdown in advanced economies, and especially the Euro Area, is expected to normalize, after a bounce in 2015.

That said, growth going forward is expected to remain subdued as the impact from unexpected events like the Brexit, the slowdown in China, US growth post elections results, oil price and political uncertainty all introduce downside risks to future growth.

GLOBAL REAL GDP GROWTH (%)

	2013	2014	2015	2016E	2017E	2018E	2019E	2020E
World	3.3	3.4	3.2	3.1	3.4	3.6	3.7	3.7
Advanced Economies	1.2	1.9	2.1	1.6	1.8	1.8	1.8	1.7
Euro Area	-0.3	1.1	2.0	1.7	1.5	1.6	1.5	1.5
Emerging and Developing Asia	5.0	4.6	4.0	4.2	4.6	4.8	5.0	5.1
MENA	2.2	2.6	2.1	3.2	3.2	3.4	3.6	3.7
Sub-Saharan Africa	5.2	5.1	3.4	1.4	2.9	3.6	4.2	4.3

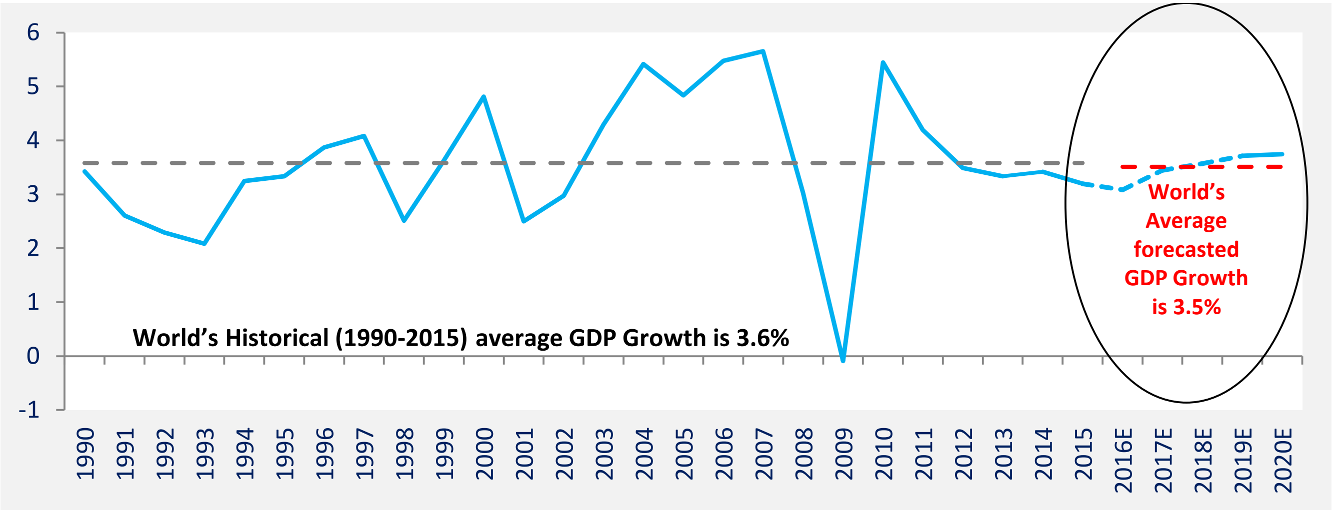
Source: IMF-World Economic Outlook October-2016

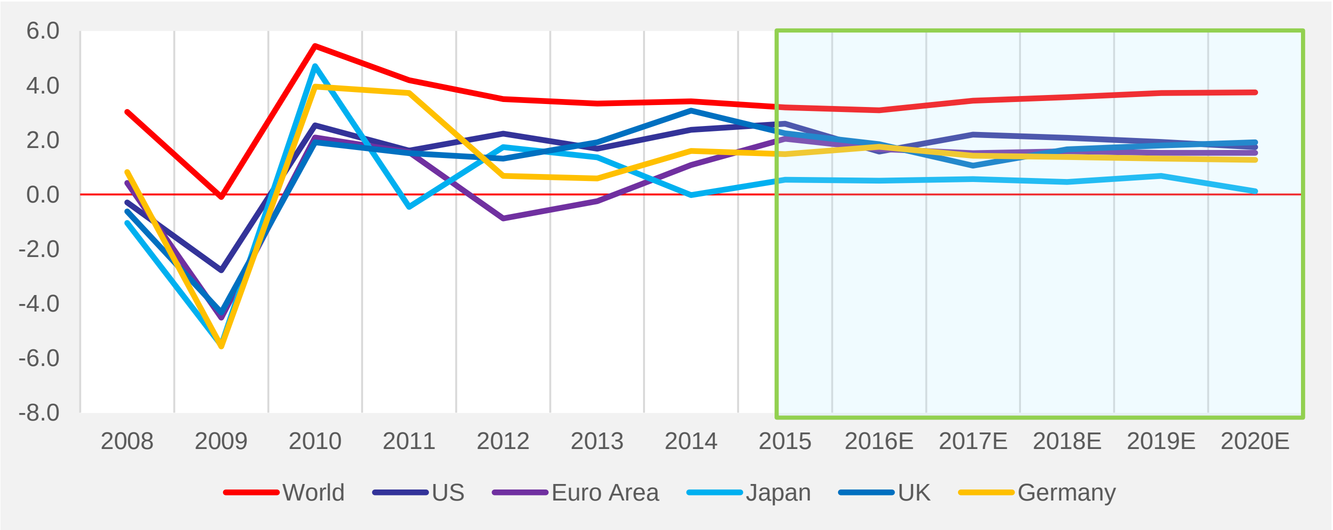
WORLD: A US-led growth expected in Advanced economies

Growth expectations have been lowered several times by the IMF over uncertainties as well as slow turnaround times for markets such as Europe.

Moreover, commodity slowdown continued for more than five years, but has now stabilized.

Growth in advanced economies would be led primarily by the US, whereas other major economies are expected to either decline or remain flat vs. 2016. Post the results of US elections, a number of new uncertainties have surfaced





Source: IMF-World Economic Outlook October-16, KAMCO Research

WORLD: World growth rates to remain subdued

After slashing growth forecasts for four consecutive updates, the IMF kept global growth unchanged in its latest outlook.

However, growth drivers were altered by lowering growth in advanced economies and increasing that of Emerging and Developing Economies.

Weak economic activity and low investment were the main cause for the slowdown in 2015 that resulted in a decline in global trade activity for the first time since the financial crisis.

IMF World Economic Outlook Update- Oct 2016	Actuals (%)		Projections (%)		Chg from Jul-16	
	2014	2015	2016	2017	2016	2017
World Output	3.4	3.2	3.1	3.4	0.0	0.0
US	2.4	2.6	1.6	2.2	-0.6	-0.3
Euro Area	1.1	2.0	1.7	1.5	0.1	0.1
Japan	0.0	0.5	0.5	0.6	0.2	0.5
EM and Developing Economies	4.6	4.0	4.2	4.6	0.1	0.0
Russia	0.7	-3.7	-0.8	1.1	0.4	0.1
China	7.3	6.9	6.6	6.2	0.0	0.0
India	7.2	7.6	7.6	7.6	0.2	0.2
MENA	2.6	2.1	3.2	3.2	-0.1	0.1
Saudi Arabia	3.6	3.5	1.2	2.0	0.0	0.0

Source: IMF-World Economic Outlook - October-2016

WORLD: Inflation growth in Euro Area to trigger policy response

Higher unemployment rates are expected in in 2016, particularly in Asia, Africa, Latin America and the Middle East primarily due to the slowdown since 2015 owing to the fall in price of oil and the overall commodities basket globally.

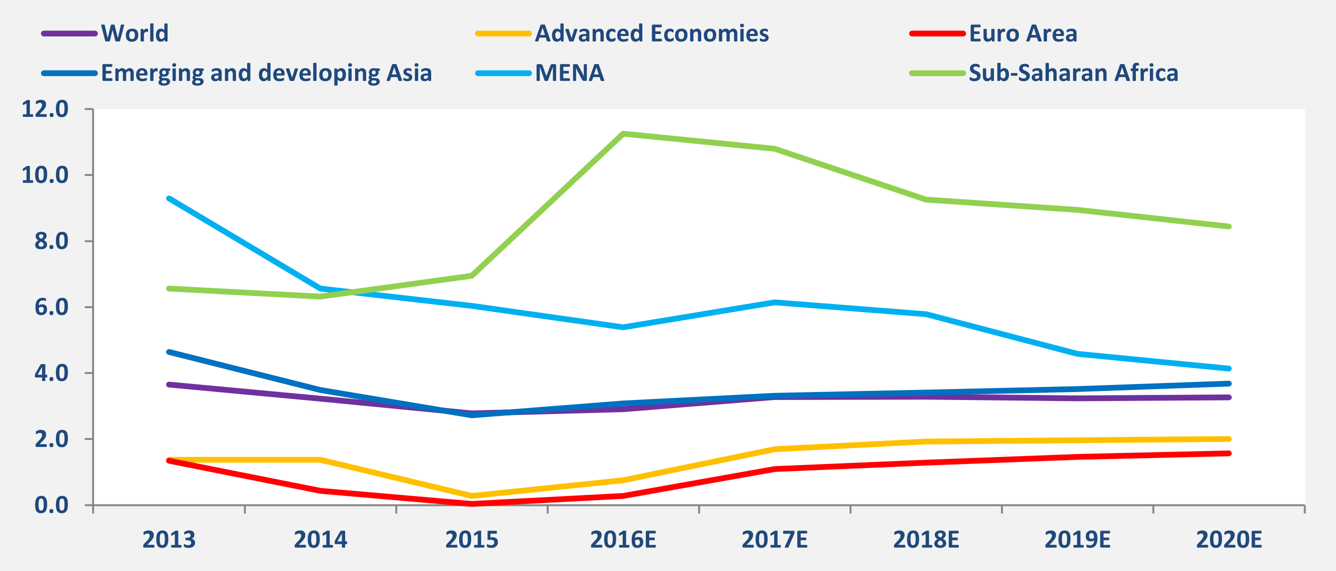
Meanwhile, inflation in the Euro Area, that has been declining since the past three years, is expected to increase in 2017 to above 1% and gradually improve going forward. This will give policymakers the much needed trigger to make new policies and scale back existing ones.

UNEMPLOYMENT RATE (%)

	2013	2014	2015	2016E	2017E	2018E	2019E	2020E
World	6.0	5.8	5.8	5.8	5.7	5.7	5.7	5.7
Advanced Economies	7.9	7.3	6.7	6.2	6.1	6.0	5.9	5.9
Euro Area	12.0	11.6	10.9	10.0	9.7	9.3	9.0	8.7

Source: ILO and IMF

INFLATION (%)



Source: IMF , KAMCO Research

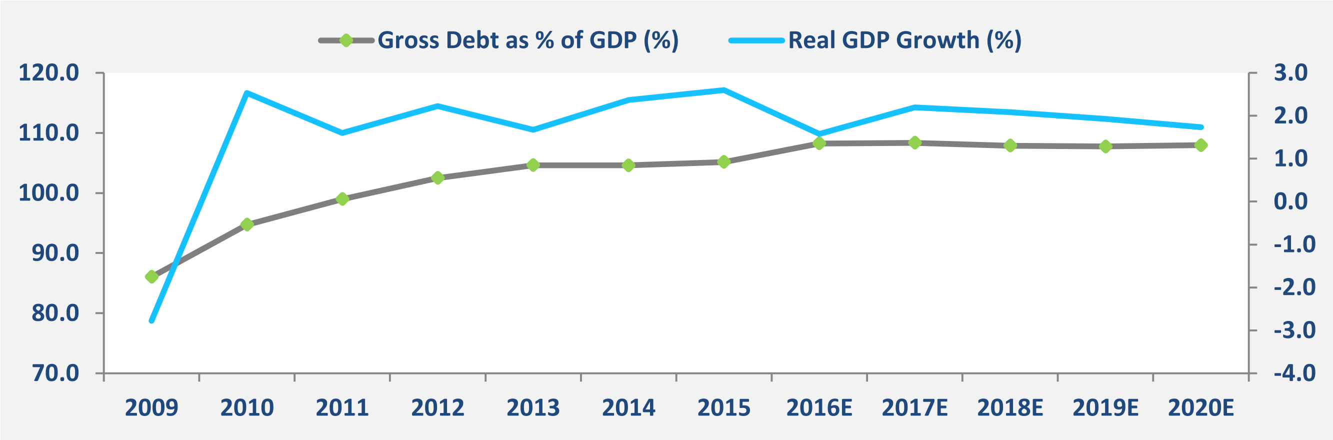
US: A weak second quarter slashes growth prospects for the year

Expectations of a stronger growth in the US did not fructify due to the slower-than-expected 2Q-16.

Although, positive indicators like a decline in unemployment rates indicating a firm labor market, expanding payrolls and consumption growth provide adequate support to economic growth, investment in non-residential sector continues to remain weak.

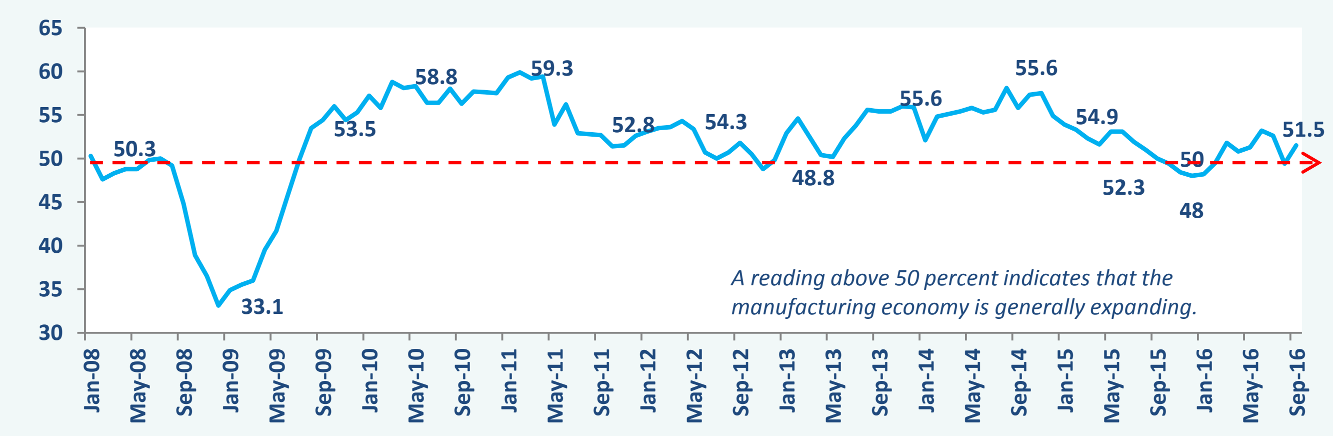
Moreover, a decline in energy sector capex has affected the already weak fixed business investment.

US REAL GDP GROWTH AND GROSS DEBT



Source: IMF

US MANUFACTURING PMI



Source: ISM, KAMCO Research

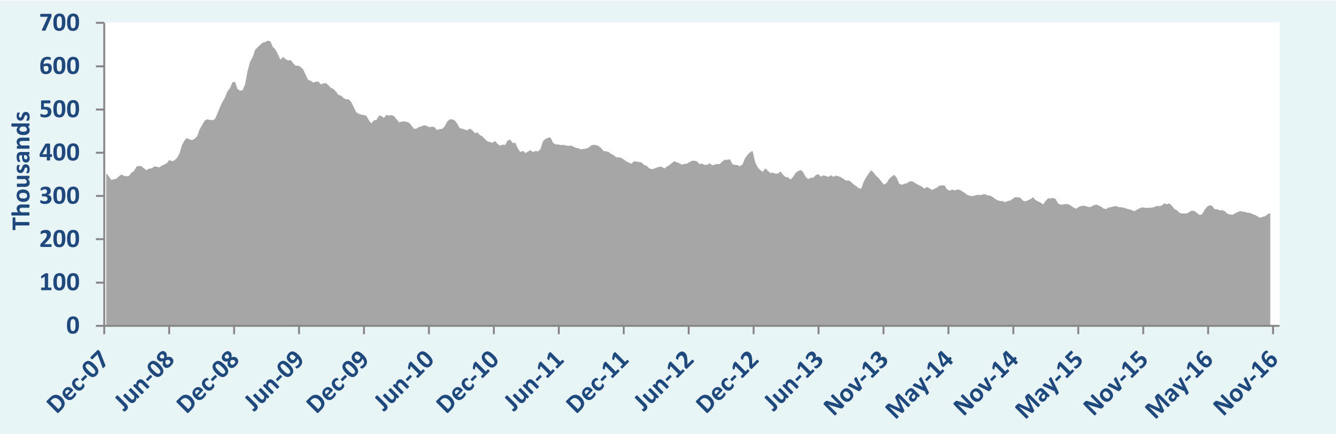
US: Stronger indicators for a rate hike in December-16

With US at a 13-year high and encouraging jobs and inflation data, the US Fed is more likely to raise rates "soon" this year.

Moreover, bond yields have firmed and stock markets have reached new highs as markets anticipate the new President's policies regarding tax cuts and higher infrastructure and defense spending.

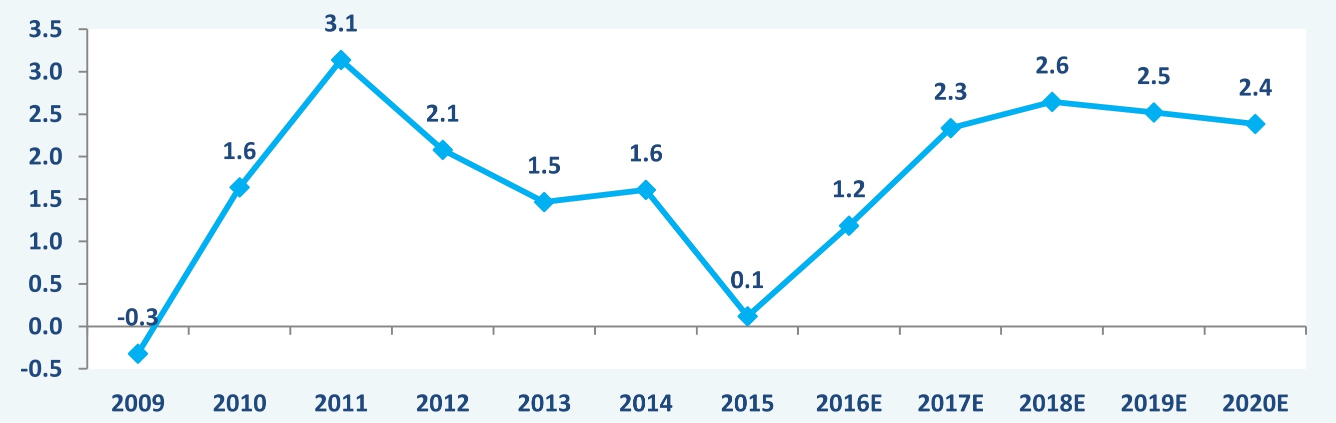
These policy initiatives are expected to result in faster inflation and stronger economic growth.

US WEEKLY UNEMPLOYMENT CLAIMS



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

US INFLATION (%)



Source: IMF

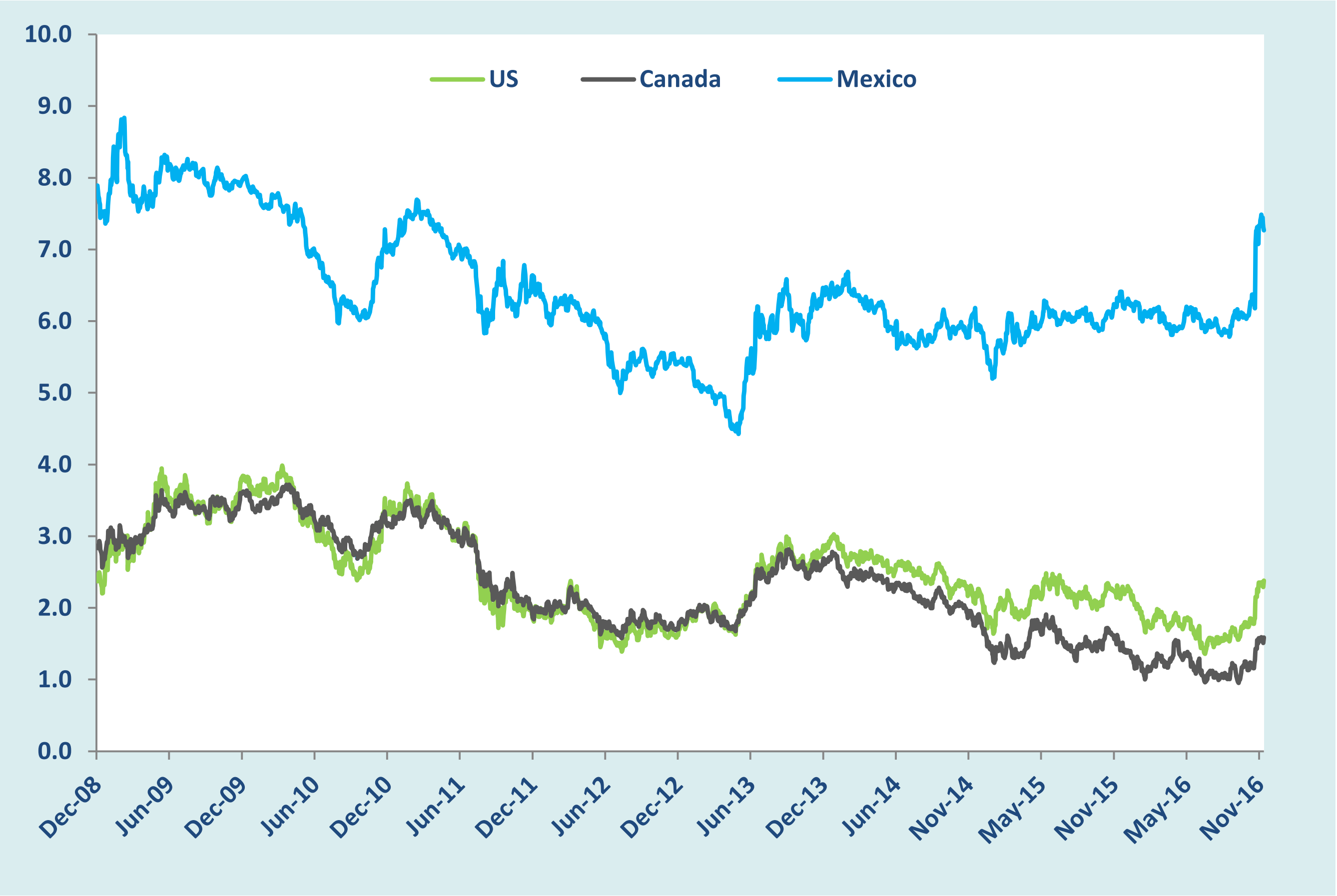
US: Expect higher yields in the near term on expectations of higher spending

US 10-year treasury yields witnessed the strongest two-week rise in almost 15 years and reached the highest level in almost a year on hopes of a rate hike in December-16.

The selling could continue as yields reached 2.3% recently driving yields even higher later this year.

In addition, consumer spending also remains strong, thereby boosting short term yields. The 2-year treasury yield was at a 10-month high on higher retail sales.

NORTH AMERICA 10-YEAR BOND YIELD (%)



Source: Bloomberg, KAMCO Research

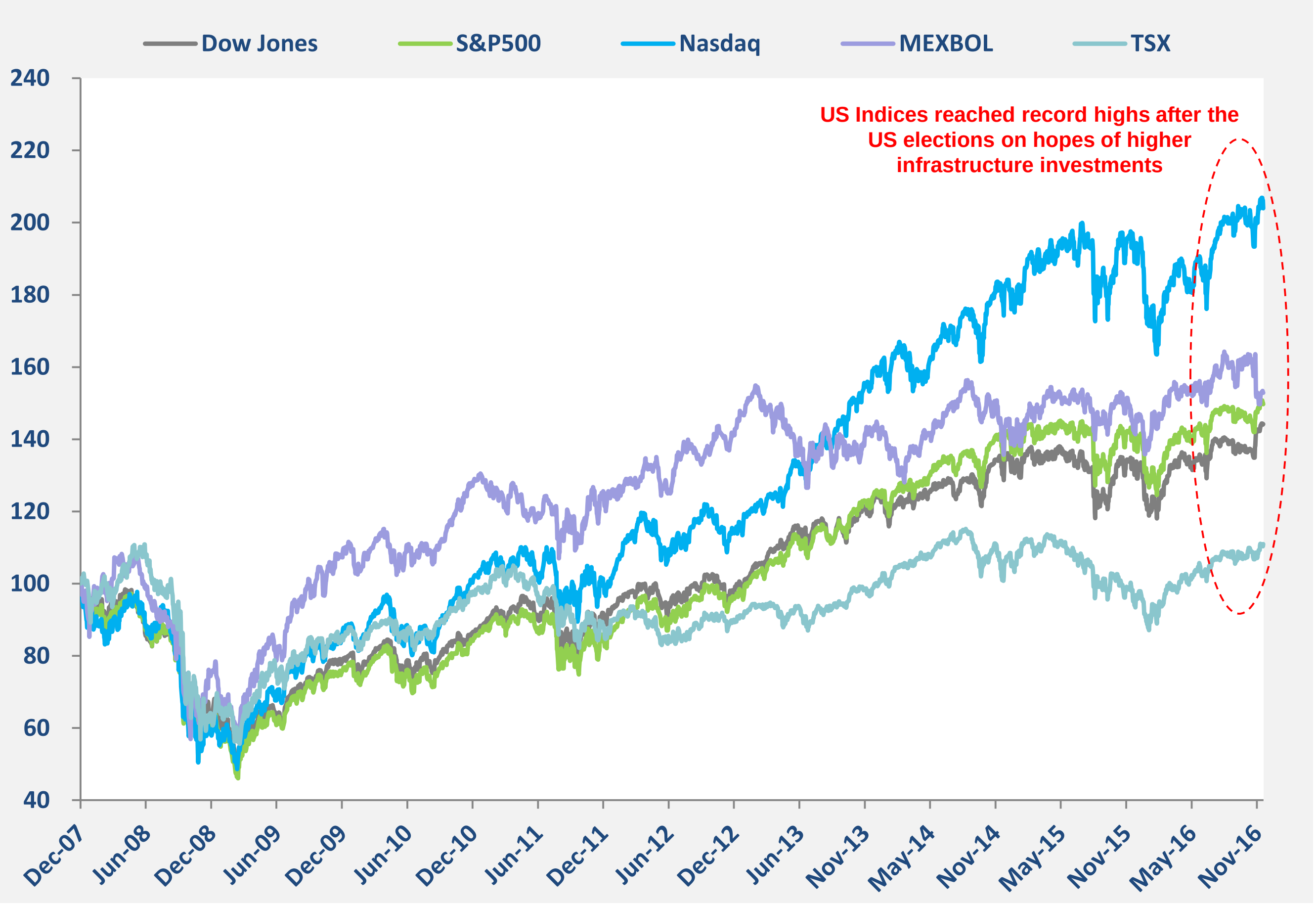
US: Rebalancing exposure in capital markets

US equity indices are at an all time high due to the rebalancing in the capital market as investors sell bonds and take positions in equities.

Investors have also been pulling off funds from most other asset class across the globe including international equities and placing them in US equities and ETFs.

There has been a steady rise in fund flow into U.S.-listed ETFs whereas international equity ETFs, U.S. fixed-income ETFs, international fixed-income ETFs and commodity ETFs all had outflows recently.

NORTH AMERICA EQUITY MARKETS PERFORMANCE



Source: Bloomberg, KAMCO Research

EUROPE: Macroeconomic policies are yielding results

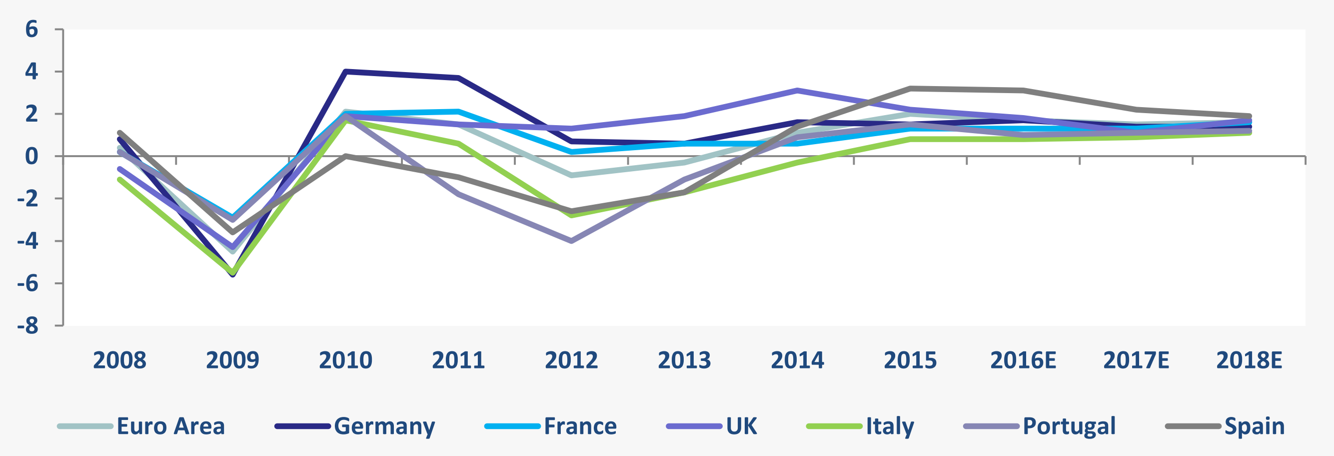
After consistent efforts from the ECB and regional governments, economic growth in the European continent is seen improving.

Employment growth, strong real wage and buoyant consumption along with accommodative macroeconomic policies have pushed growth higher.

Nevertheless, the UK referendum regarding Brexit is expected to have a negative impact on regional growth, trade cooperation within the group, especially in the UK, further giving rise to uncertainties.

EUROZONE GDP GROWTH (%)

	2008	2009	2010	2011	2012	2013	2014	2015	2016E	2017E	2018E
Euro Area	0.4	-4.5	2.1	1.5	-0.9	-0.3	1.1	2.0	1.7	1.5	1.6
Germany	0.8	-5.6	4.0	3.7	0.7	0.6	1.6	1.5	1.7	1.4	1.4
France	0.2	-2.9	2.0	2.1	0.2	0.6	0.6	1.3	1.3	1.3	1.6
UK	-0.6	-4.3	1.9	1.5	1.3	1.9	3.1	2.2	1.8	1.1	1.7
Greece	-0.3	-4.3	-5.5	-9.1	-7.3	-3.2	0.7	-0.2	0.1	2.8	3.1
Ireland	-4.4	-4.6	2.0	0.0	-1.1	1.1	8.5	26.3	4.9	3.2	3.1
Italy	-1.1	-5.5	1.7	0.6	-2.8	-1.7	-0.3	0.8	0.8	0.9	1.1
Portugal	0.2	-3.0	1.9	-1.8	-4.0	-1.1	0.9	1.5	1.0	1.1	1.2
Spain	1.1	-3.6	0.0	-1.0	-2.6	-1.7	1.4	3.2	3.1	2.2	1.9



Source: IMF, KAMCO Research

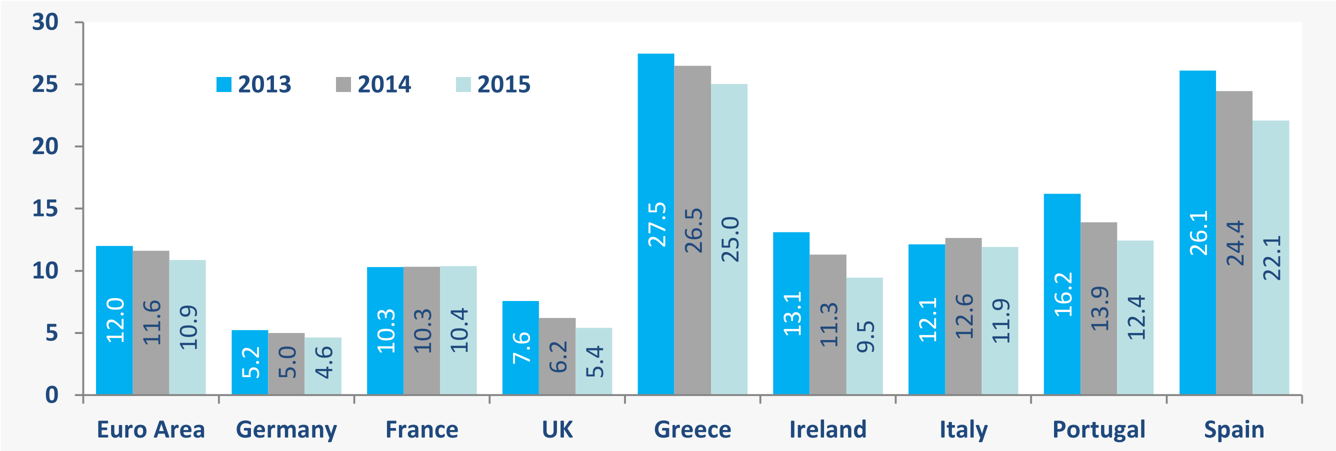
EUROPE: Rising employment and wage growth

Unemployment rates in advanced economies are well below their peak unemployment rates which is also evident from the narrowing of the output gap. Nevertheless, output gap continues to remain in the negative territory for a majority of the European economies.

Easy monetary policy is expected to continue to provide a push to economic growth in the Euro Area.

High debt, impaired banking balance sheet and Brexit impact on trade will pose hurdles in future economic recovery.

EUROZONE UNEMPLOYMENT (%)



GOVERNMENT GROSS DEBT (% OF GDP)

	2012	2013	2014	2015	2016E	2017E	2018E
Germany	79.5	77.1	74.5	71.0	68.2	65.9	63.6
France	89.6	92.4	95.3	96.1	97.2	97.8	97.9
UK	84.8	86.0	87.9	89.0	89.0	88.8	88.6
Greece	159.6	177.7	180.1	176.9	183.4	184.7	184.7
Ireland	119.5	119.5	105.2	78.7	74.6	72.6	69.7
Italy	123.3	129.0	132.5	132.7	133.2	133.4	132.0
Portugal	126.2	129.0	130.2	129.0	128.4	128.2	127.7
Spain	85.4	93.7	99.3	99.3	100.1	100.2	100.0

Source: Reuters Economic Indicator Poll Oct-16, IMF, KAMCO Research

EUROPE: Gradual but slow recovery in inflation, further postponing policy actions

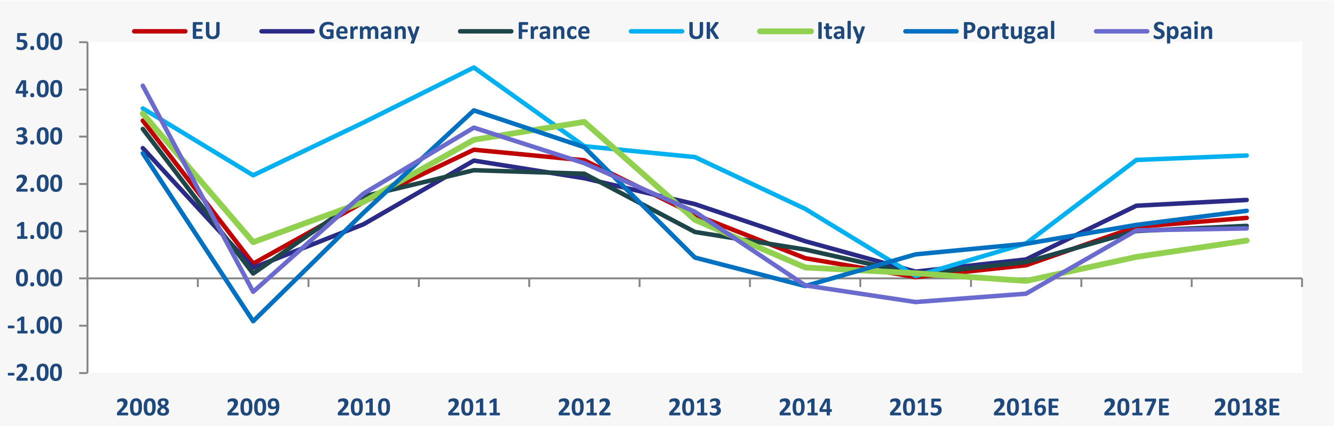
Consumer prices in the Euro Area is gaining pace, however, the improvement is slower than planned. Overall inflation is expected to remain below the ECB's projection till 2021.

Inflation in the UK is expected to rise owing to the depreciation of the GBP.

Business and consumer sentiments took a hit following Brexit, which could result in additional stimulus by the ECB.

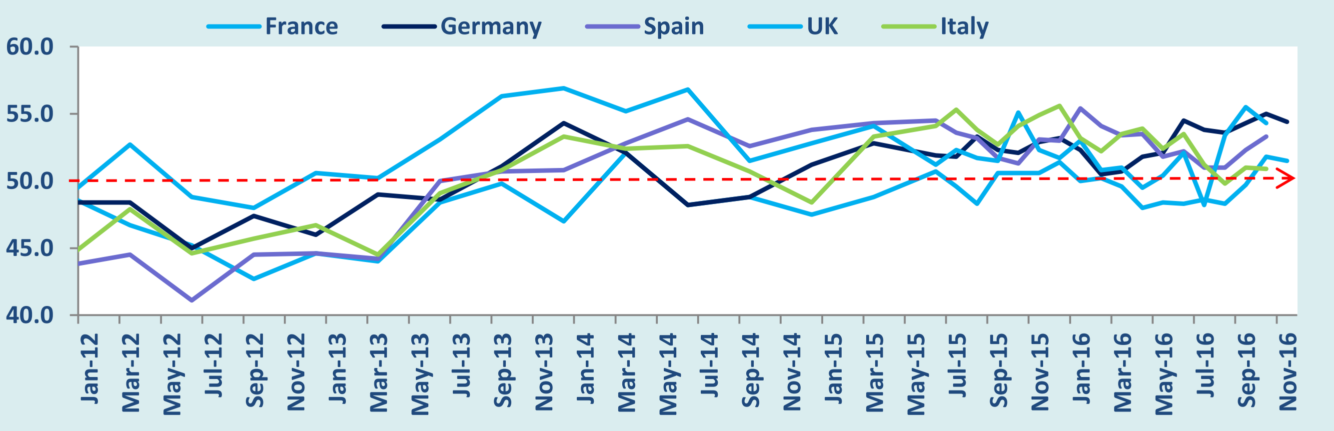
Supportive domestic and monetary policies remain as a support for near term growth with greater uncertainties as we move ahead.

EUROZONE INFLATION (%)



Source: IMF, Reuters Economic Indicator Poll Oct-16

EUROZONE MANUFACTURING PMI



Source: Markit, Bloomberg, KAMCO Research

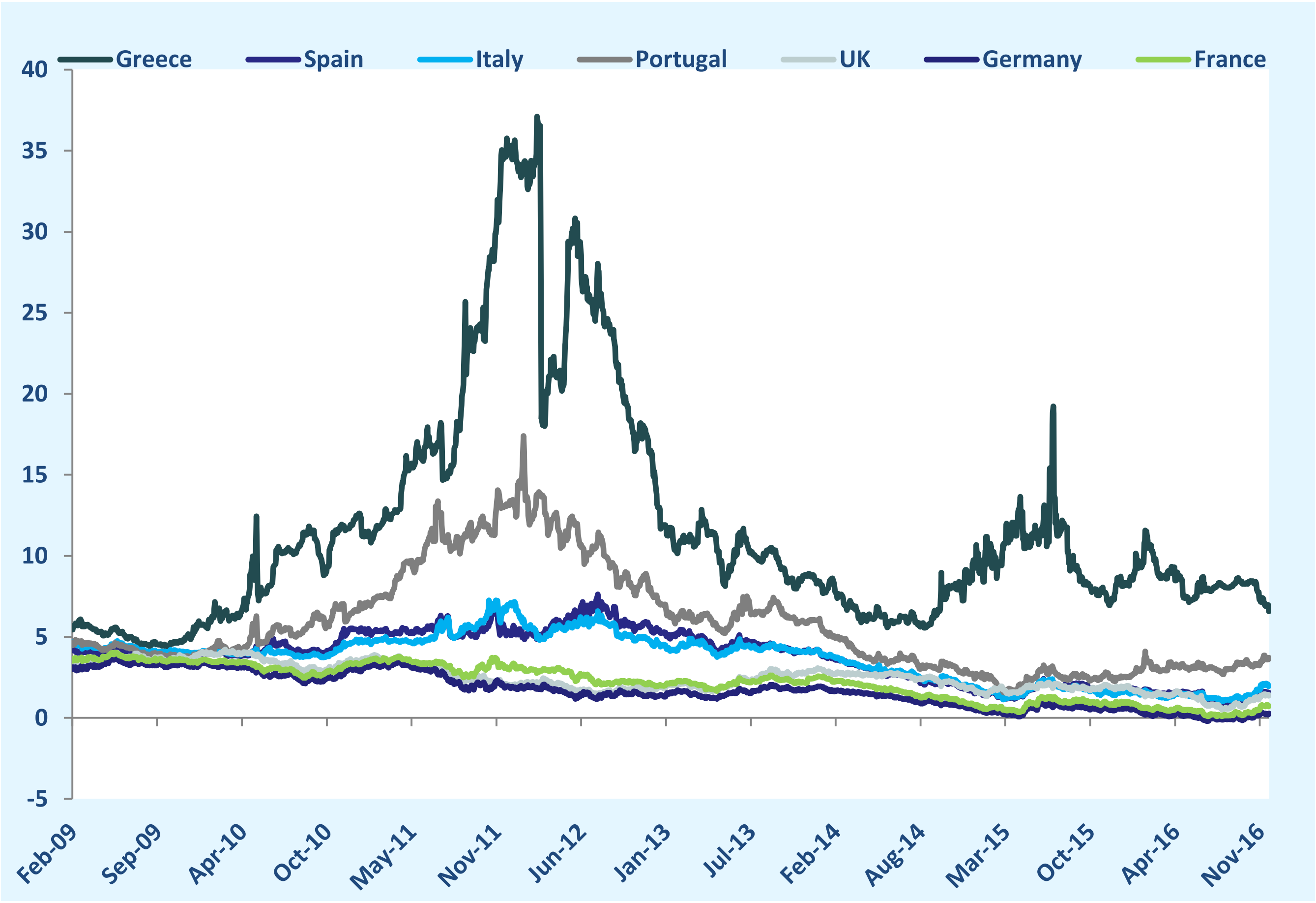
EUROPE: QE and inflation outlook affects bond yields

NPLs continue to remain a looming issue for some European banks. This is especially the case in Italy, Spain and Portugal, whereas yields on German bonds are strengthening along with their US counterparts after the US elections.

Corporate bonds saw plenty of news issuances in 2016 on the back of new M&A deals until the US elections, that put a break on new issues.

The volatility in bond prices kept corporates away from the market.

EUROZONE 10-YEAR BOND YIELD (%)



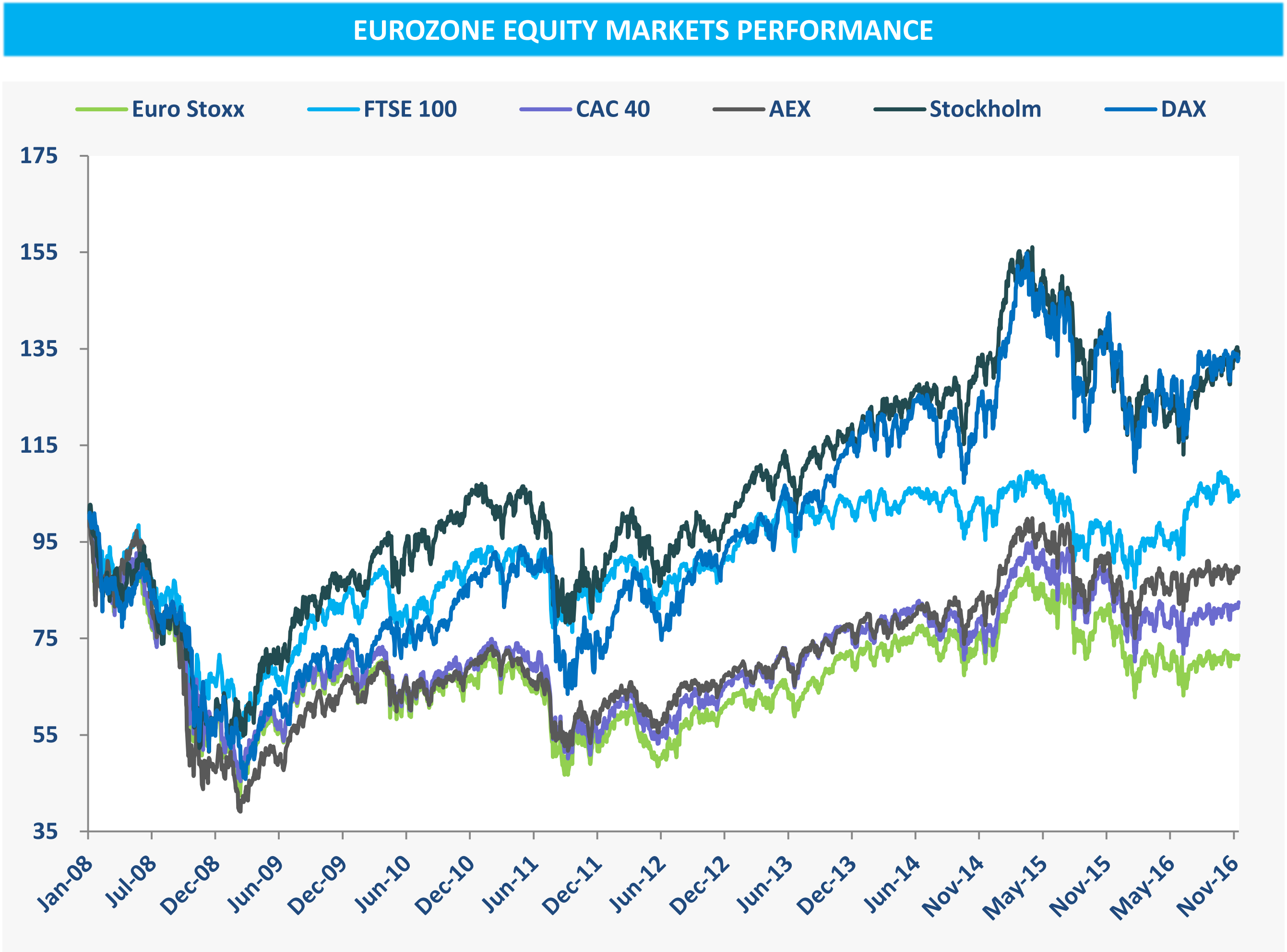
Source: Bloomberg, KAMCO Research

EUROPE: Recovery post Brexit surprises many

European stock markets have outperformed post Brexit against bleak expectations at the time of the referendum.

Strong retail sales in the UK announced recently, coupled with strengthening GBP since late October-16 lent support to the stock market.

German equities got support from consumer confidence and higher domestic consumption; however, external sector resulted into weak GDP data for Q3-16. The steepening yield curve also supported equity markets.



Source: Bloomberg, KAMCO Research

EMERGING MARKETS: Fiscal push vs. fundamental growth drivers

Talks over a hard landing in China has waned thanks to supportive domestic and monetary policies that have helped to keep domestic demand high. However, the country faces continued risk from the real estate market, exchange rate, informal banking system and significant corporate debt.

On the other hand, India is expected to post stronger growth going forward led by resilient domestic demand.

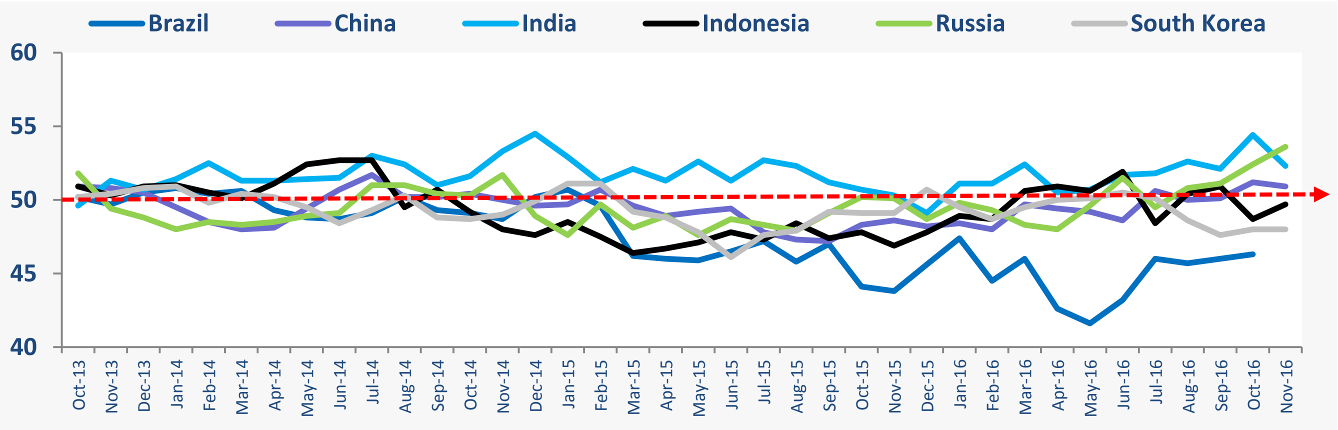
Brazil is also seeing signs of an economic revival from the recession, however, fiscal discipline would be key to long term growth.

KEY EMERGING ECONOMIES REAL GDP GROWTH (%)

	2008	2009	2010	2011	2012	2013	2014	2015	2016E	2017E	2018E
Brazil	5.1	-0.1	7.5	3.9	1.9	3.0	0.1	-3.8	-3.3	0.5	1.5
China	9.6	9.2	10.6	9.5	7.9	7.8	7.3	6.9	6.6	6.2	6.0
India	3.9	8.5	10.3	6.6	5.6	6.6	7.2	7.6	7.6	7.6	7.7
Indonesia	7.4	4.7	6.4	6.2	6.0	5.6	5.0	4.8	4.9	5.3	5.5
South Korea	2.8	0.7	6.5	3.7	2.3	2.9	3.3	2.6	2.7	3.0	3.1
Russia	5.2	-7.8	4.5	4.0	3.5	1.3	0.7	-3.7	-0.8	1.1	1.2

Source: IMF

KEY EMERGING ECONOMIES MANUFACTURING PMI



Source: Markit, Bloomberg, KAMCO Research

SUB-SAHARAN AFRICA: Commodity exporters face accelerated slowdown

Largely split into two broad parts i.e. commodity-based countries and non-commodity based countries, the latter has seen windfall gains from lower oil, improved business environment, and infrastructure investment.

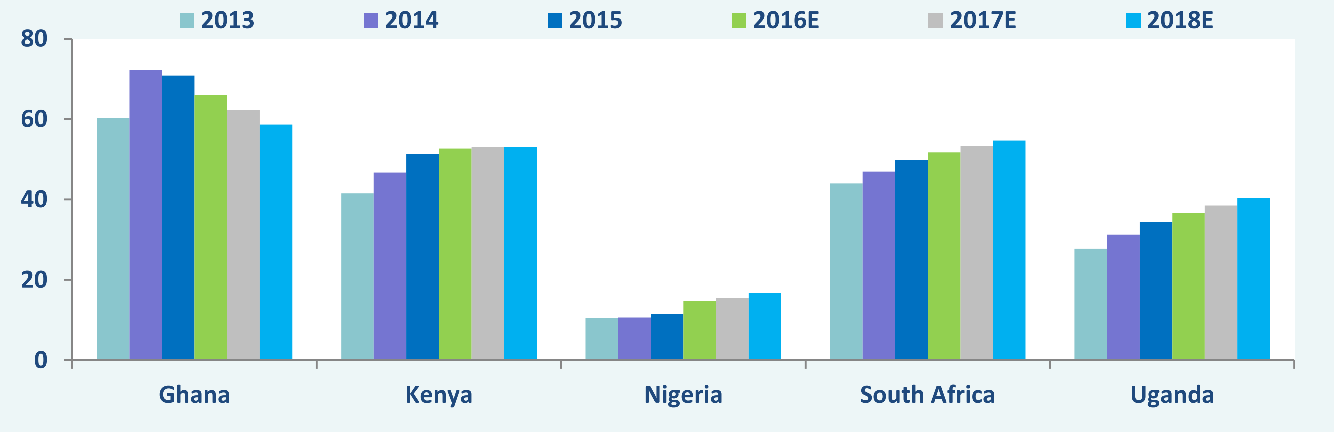
Nevertheless, despite being resource rich, growth for the overall region fell to 22-year low level due to the decline in commodity prices and global growth slowdown.

Appropriate policies and timely implementation is the key for economic revival in the region.

SUB-SAHARAN AFRICA (GDP GROWTH %)

	2008	2009	2010	2011	2012	2013	2014	2015	2016E	2017E	2018E
Ghana	9.1	4.8	7.9	14.0	9.3	7.3	4.0	3.9	3.3	7.4	8.4
Kenya	0.2	3.3	8.4	6.1	4.6	5.7	5.3	5.6	6.0	6.1	6.5
Nigeria	7.2	8.4	11.3	4.9	4.3	5.4	6.3	2.7	-1.7	0.6	1.6
South Africa	3.2	-1.5	3.0	3.3	2.2	2.3	1.6	1.3	0.1	0.8	1.6
Uganda	10.4	8.1	7.7	6.8	2.6	4.0	4.9	4.8	4.9	5.5	5.9

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



Source: IMF

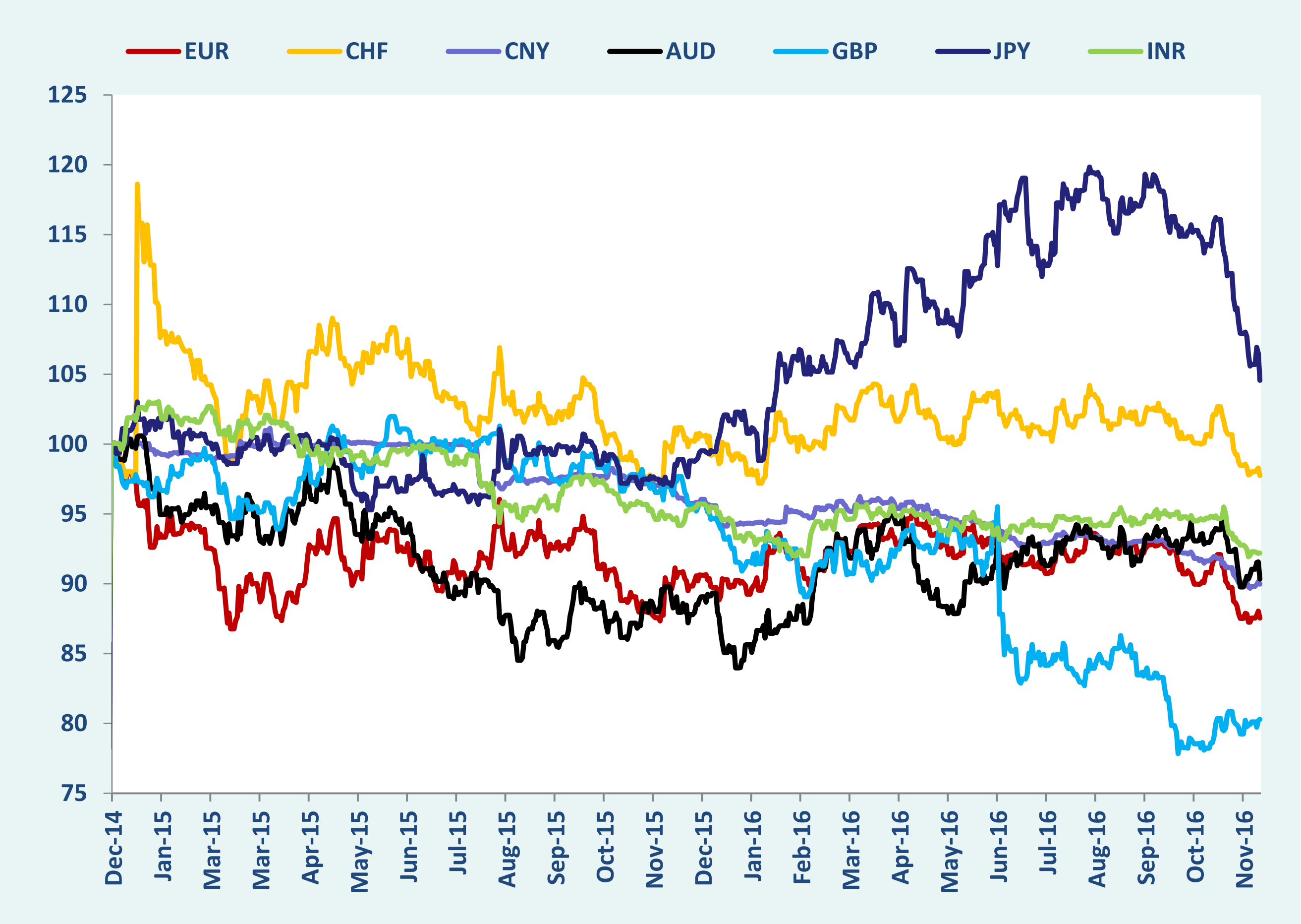
CURRENCIES: USD reaches 14-year high level

A belief that the economic policies of the new US President elect including tax cuts and higher fiscal spending would push consumer prices upwards propelled USD to a 14-year high level against a basket of currencies during November-16.

As a response, Asian and some Emerging market central banks were back in the currency market to defend the decline in their currencies.

Malaysian Ringgit, Indonesian Rupiah, Indian Rupee, Mexican Peso, all reached levels not seen in several months.

KEY CURRENCIES VS. US DOLLAR (USD)



Source: Bloomberg, KAMCO Research

WORLD ECONOMIC OUTLOOK

Restructuring and more inward looking policies in the near term

A number of unexpected events occurred during 2016 that would shape the near term outlook in ways that are most uncertain. The UK referendum that led to Brexit has thrown the European growth story, which was although expected to be modest, out of picture and analysts are now expecting the possible impact on both the UK followed by other members of the European Union. Economic growth in the region was already lagging behind for several years now that resulted in the extended quantitative easing programs from the ECB. Although, inflation is expected to have a positive trend in the near term, as highlighted by the IMF, the growth is at a much gradual pace than previously expected.

In addition, a greater amount of uncertainty prevails with respect to the elections that are expected to be held in the several countries in Europe starting with Austria (December-16) followed by constitutional referendum in Italy, and general/presidential elections in Spain, Netherlands, France and finally Germany in Sep/Oct-17. A number of policies would be drafted leading to the elections and a result as unexpected as the US elections and the Brexit, would further push the reform process in a turmoil.

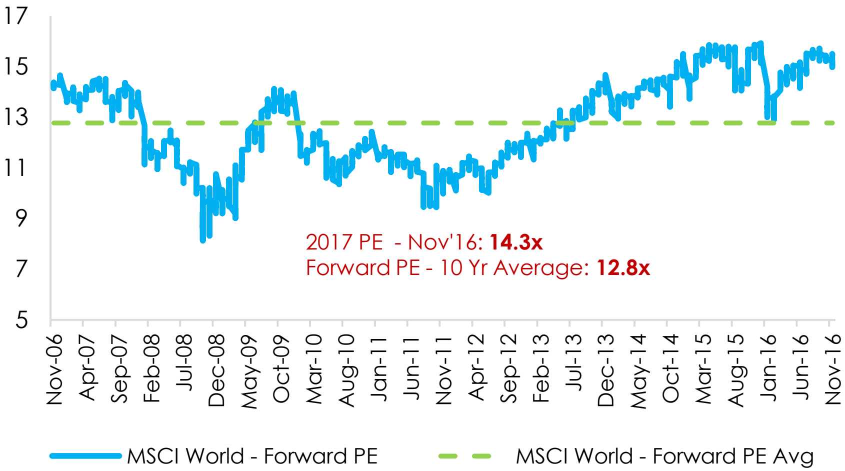
In the US, the most important event in the near term would be the probable rate hikes expected in 2017 after a near certain rate hike later this year. From the initial reaction to the election results on stock markets and bond yields, economic growth in the US is expected to get a boost from policies related to tax, subsidies and infrastructure investment. However, some of the harsher decisions are yet to be announced, which would likely hit specific industries, including the healthcare and the energy/oil and gas sectors.

On the brighter side, commodity prices that had hit historical lows over the past four years have started stabilizing. Oil prices have firmed especially reacting to efforts relating to production curbs whereas other commodities have bottomed as well. Optimism is also high post the OPEC negotiations on an oil output cut. After several failed attempts talks reached a positive end when oil producers agreed on a higher output cut than what was decided in September-16. In addition, global trade activity, which was negative in 2015 due to weak economic activity and low investment, is expected to grow by 2.3% and 3.8%, respectively, in 2016 and 2017. That said, KAMCO research believes that the growing inward looking policies due to rising income inequalities and varying growth being reflected from the UK to the US and a similar stance being echoed in Europe, would be counter-productive and could result in slower economic growth once implemented. On the other hand, empirical data suggests that openness by countries results in better reform implementation, faster emergence from crisis and higher growth.

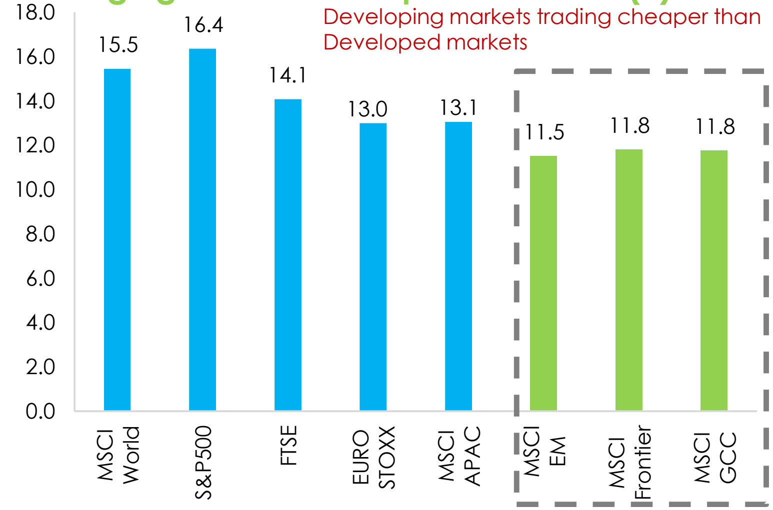
EQUITY OUTLOOK - GLOBAL

Emerging markets & dividend yields to remain dominant themes in 2017

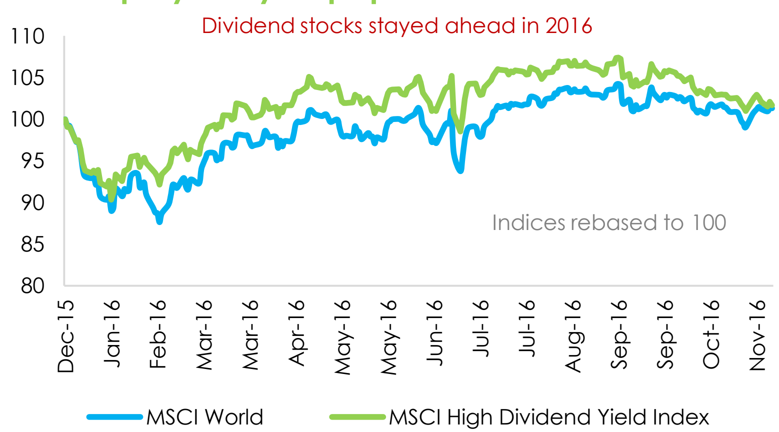
Global equity market trading at a forward premium



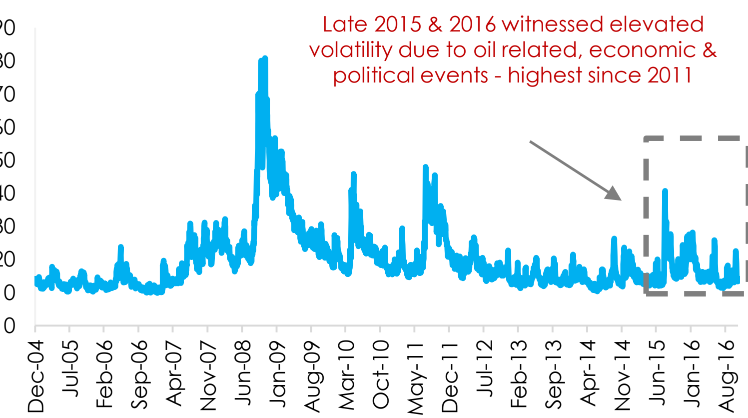
Emerging markets cheaper on 2017 PE(x) basis



Dividend plays stayed popular in 2016

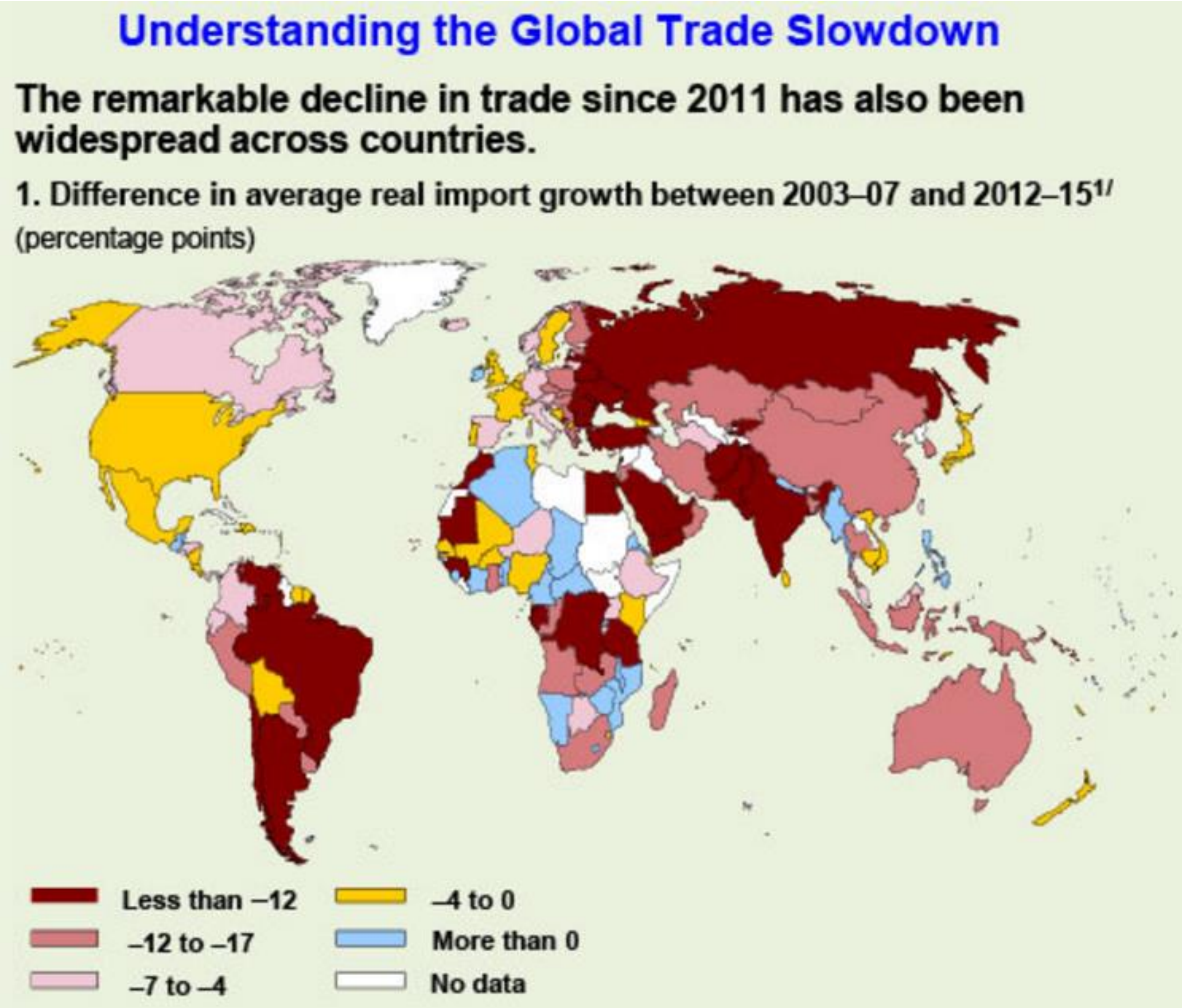


Volatility (VIX) witnessed was highest since 2011



Source: KAMCO Research, Bloomberg

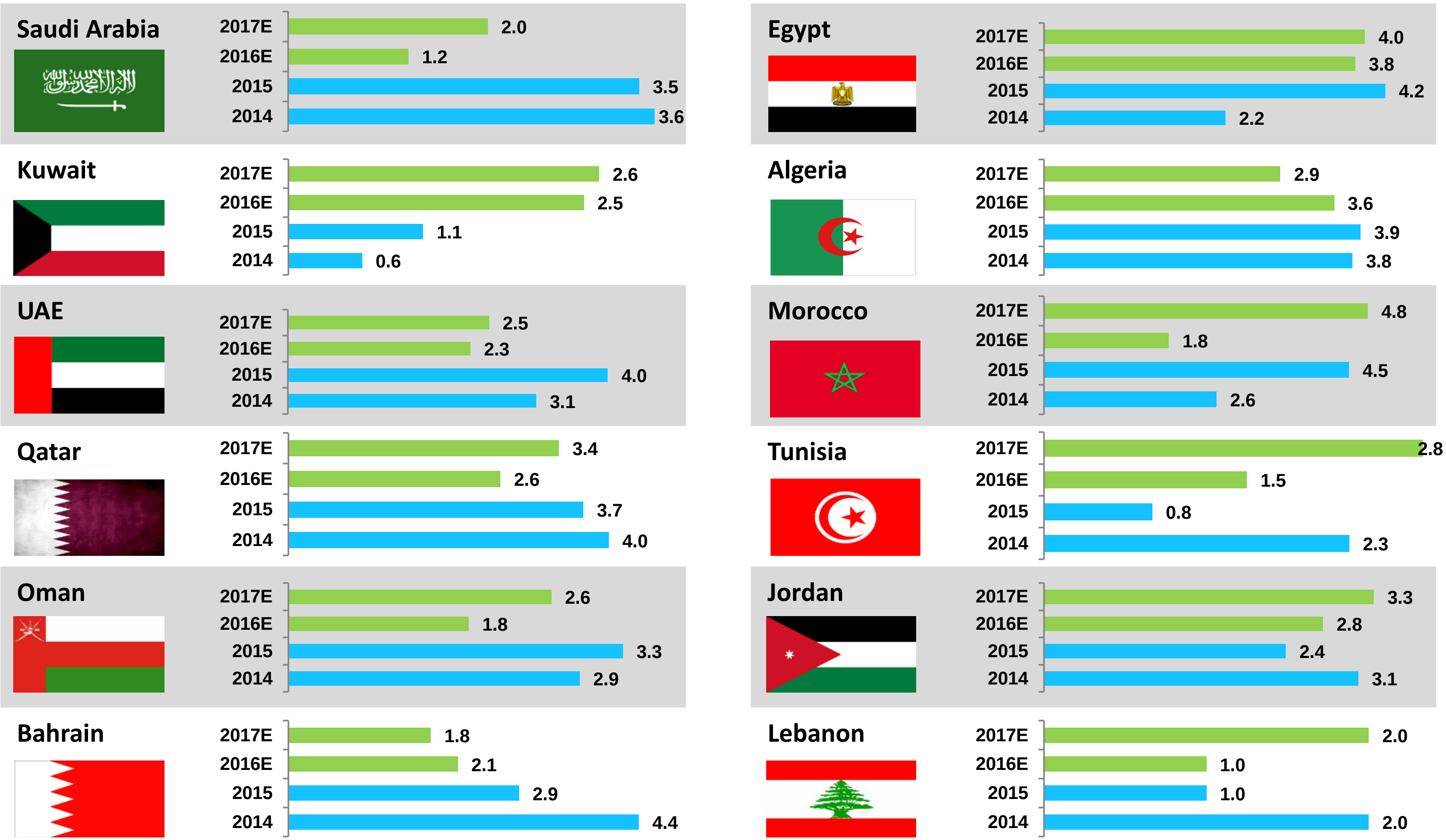
WORLD: IMF Economic Outlook - Oil prices to remain in focus



Source: IMF

SECTION 2| MENA Economic Trends

MENA Real GDP Growth: Growth rates to bottom in 2016. Future growth to be led by low base due to oil price decline and policy initiatives of the government.



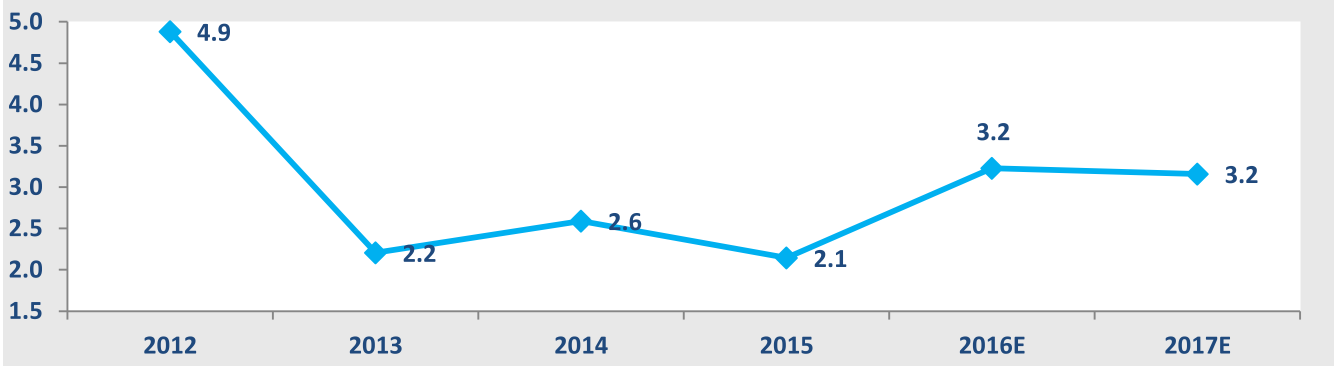
Source: IMF, WEO – Oct'16

MENA: Flat growth this year and the next with opposite forces – Oil vs. non-Oil

Growth in oil exporting countries in the MENA region is expected to remain muted for the near term whereas, those in the non-oil group is expected to outpace previous year expectations.

On one hand oil exporters are realigning their finances to move to a more stable economy by diversifying, and on the other the windfall gain that the oil importers got are using it invest in producing sectors to stabilize the economic.

MENA REAL GDP GROWTH (%)



	2012	2013	2014	2015	2016E	2017E
Real GDP Growth (%)						
MENA	4.9	2.2	2.6	2.1	3.2	3.2
MENA Oil Exporters	5.7	2.0	2.7	1.6	3.3	2.9
MENA Oil Importers	1.9	3.2	2.9	3.8	3.6	4.2
GCC	5.4	3.1	3.3	3.4	1.7	2.3
Non-GCC Oil Importers	2.9	0.7	2.0	-0.4	5.0	3.7
Oil GDP Growth (%)						
MENA Oil Exporters	0.2	-2.2	2.2	3.3	7.7	7.6
GCC	5.4	-0.1	0.9	3.1	1.8	1.4
Non-GCC Oil Exporters	-5.5	-4.6	3.6	3.6	14.7	14.9
Non-Oil GDP Growth (%)						
MENA Oil Exporters	5.9	5.2	4.0	0.6	1.4	3.1
GCC	5.2	6.3	5.4	3.8	1.8	3.1
Non-GCC Oil Exporters	6.6	3.8	2.4	-3.5	1.0	3.0

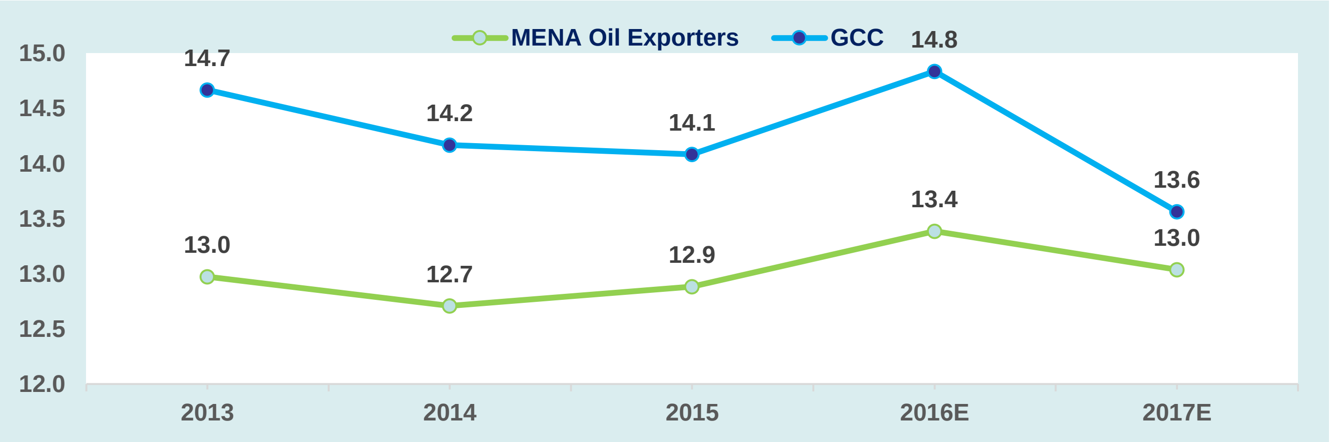
Source: IMF

MENA: Diversification is all the more urgent now

GCC non-oil revenues as a % of GDP in 2016 is expected to exceed the 2013 level. This is encouraging largely due to the imposition of additional charges and fees related to government services.

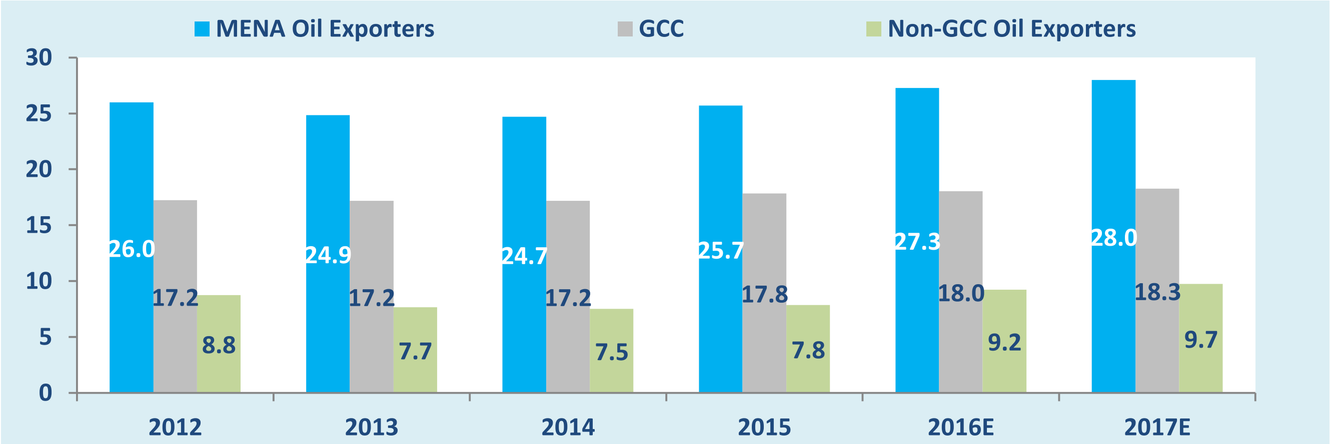
Nevertheless, oil production continues unabated in the GCC and by other MENA oil exporting countries. Higher production is important for them especially after the decline in oil prices in order to maintain market share and more so to generate revenues to support fiscal spending plans.

NON-OIL REVENUE (% OF GDP)



Source: IMF

OIL PRODUCTION (MN BBL/D)

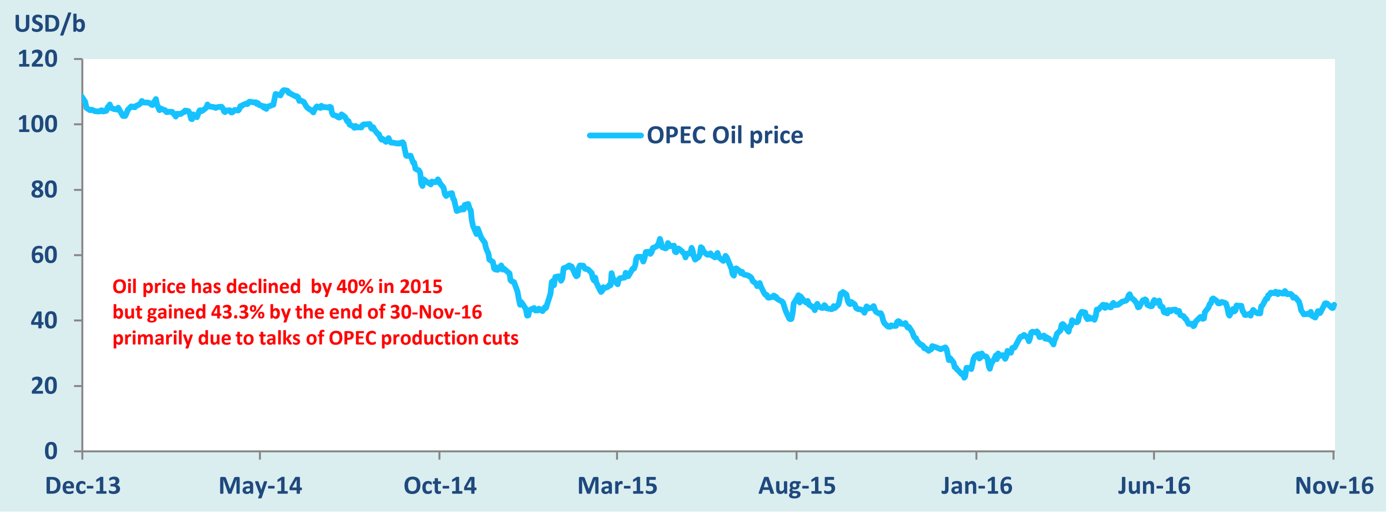


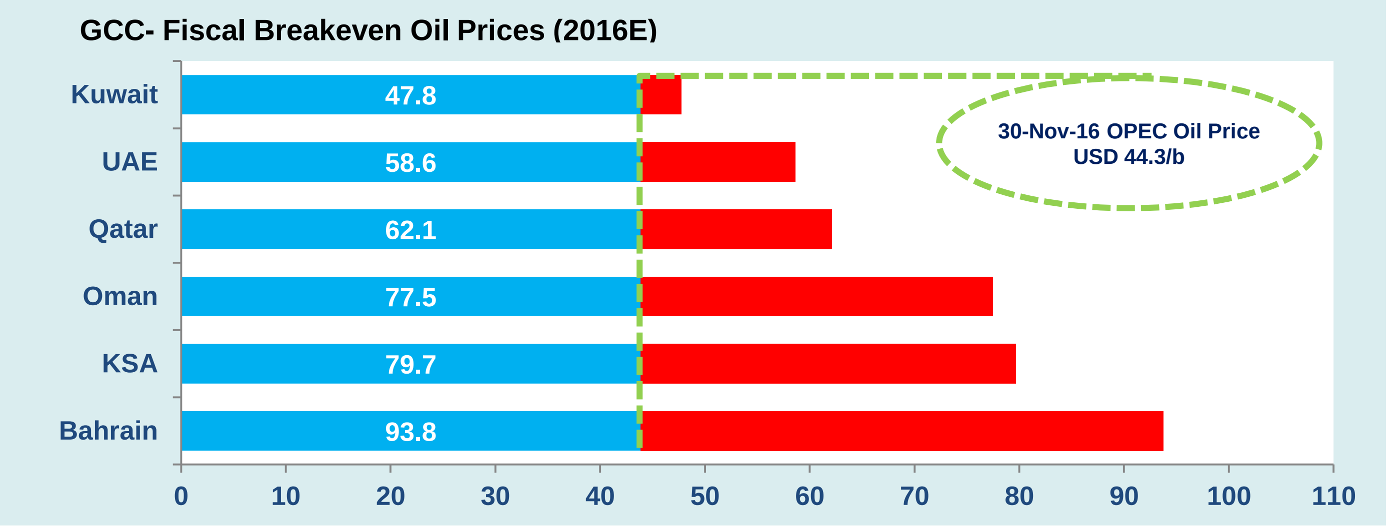
Source: IMF, OPEC

Oil Prices: Extreme volatility in oil prices makes prediction difficult

After seeing steep declines for the past two years (52% in 2014 and 40% in 2015, prices increased during 2016 by 43.3% by the end of Nov-16 primarily due to the low base effect & production cut hopes. Optimism is high post the OPEC negotiations on an oil output cut as a higher output cut is expected than decided in September-16.

On the fiscal front, Kuwait has the lowest 2016 fiscal break-even price which is also a result of prioritizing key investments and delaying others. On the other hand, Saudi Arabia's breakeven price is the second-highest in the GCC due to the ongoing spending plans.





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

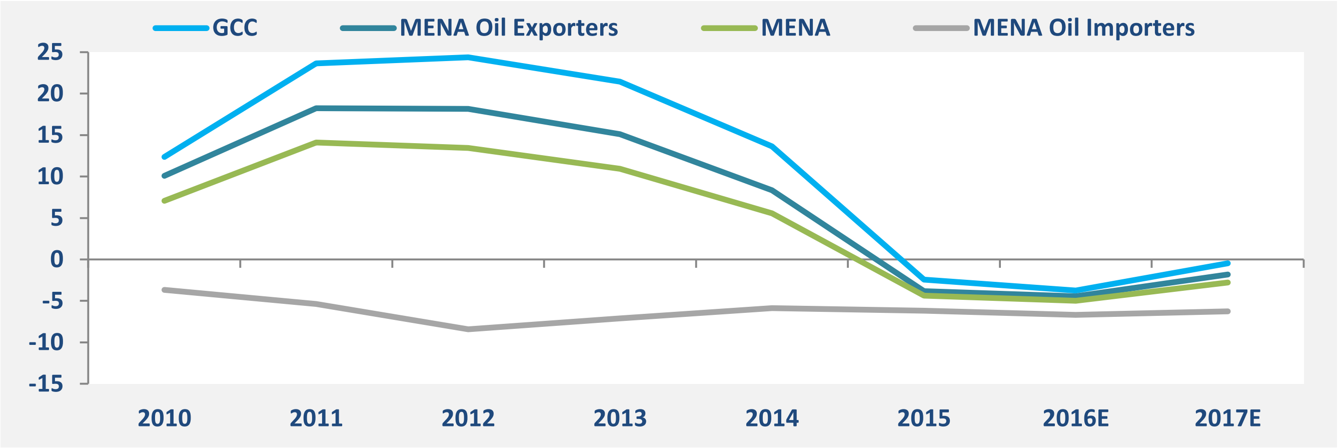
MENA: Need for tough measures to manage impending deficits

The plunge in oil prices is expected to push a majority of the oil exporting economies in the region into deficits in the near term.

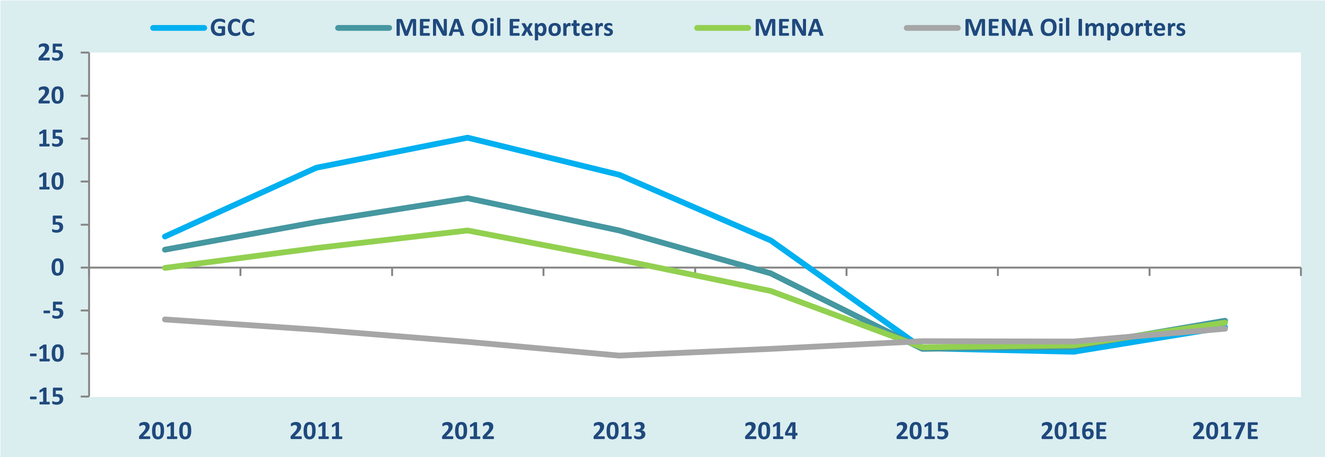
Although this is not necessarily a warning sign, immediate steps to redirect the economy in productive sectors and priority investments would be needed.

Fiscal consolidation would be of paramount importance for the GCC, as deficits would need to be stemmed over the medium term, without impeding growth initiatives, also to support exchange rate pegs.

CURRENT ACCOUNT BALANCE (% OF GDP)



FISCAL BALANCE (% OF GDP)



Source: IMF

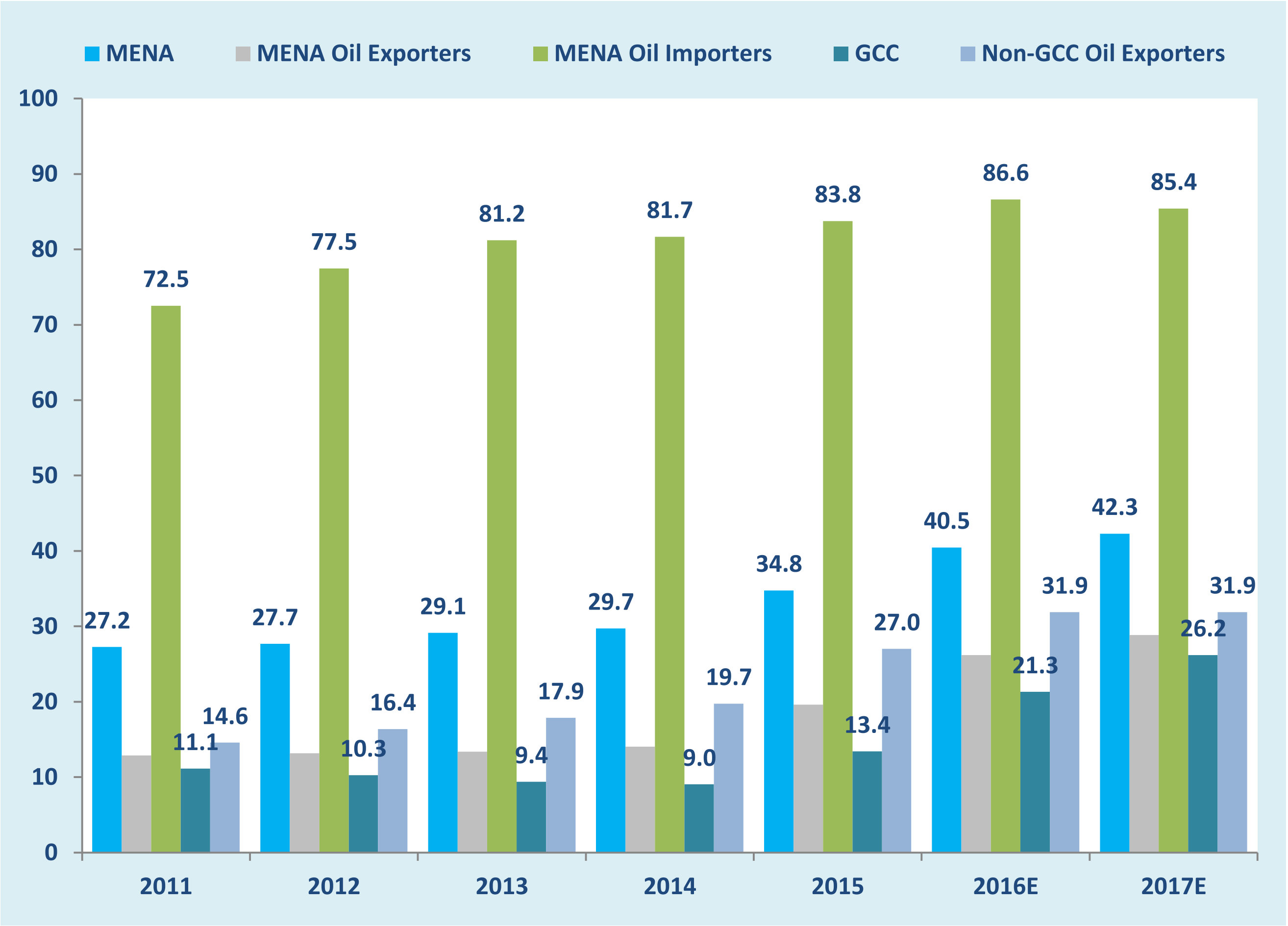
MENA: Oil savings gives oil importers extra fiscal space

Oil importers have a greater room and flexibility to spend on key sectors like infrastructure, health and education. The large debt service cost continues to limit these efforts but the overall trend remains positive as seen in the decline in gross debt to GDP ratio.

The rest of the country group, which comprises oil exporters, is set to see government gross debt rise as these countries make efforts to continue spending with the fall in oil revenues.

For most of the GCC countries, fiscal buffers accumulated during periods of oil price boom provides a big buffer to support spending.

GOVERNMENT GROSS DEBT (% OF GDP)



Source: IMF

MENA: Reserves decline but remain sizable

Official reserves of MENA oil exporters is expected to decline to USD 1.1 Trillion in 2016 with an additional decline of USD 44 Bn in 2017 as the countries tap it to spend on key projects.

Import cover also continues to decline with gross reserves with Bahrain recording the smallest cover of 2.4 months for 2016 and Saudi Arabia at the other end of the scale with the highest cover of 28.7 months which is highest in the GCC and in the MENA region.

Inflation, although peaked in 2015, remains within the ideal range in the GCC, whereas for the MENA region, it remains high.

GROSS OFFICIAL RESERVES (USD Bn)

	2012	2013	2014	2015	2016E	2017E
MENA oil exporters	85.3	1,392.1	1,349.0	1,200.7	1,112.3	1,068.2
MENA oil importers	1,332.3	92.0	100.4	105.5	104.9	111.7
MENA	1,247.0	1,484.1	1,449.4	1,306.1	1,217.2	1,179.9
GCC	774.2	882.4	903.1	794.3	730.1	697.0
Non-GCC oil exporters	472.8	509.8	446.0	406.3	382.2	371.2
Arab World	1,227.9	1,365.9	1,338.1	1,173.4	1,061.2	1,001.1

INFLATION (ANNUAL CHANGE %)

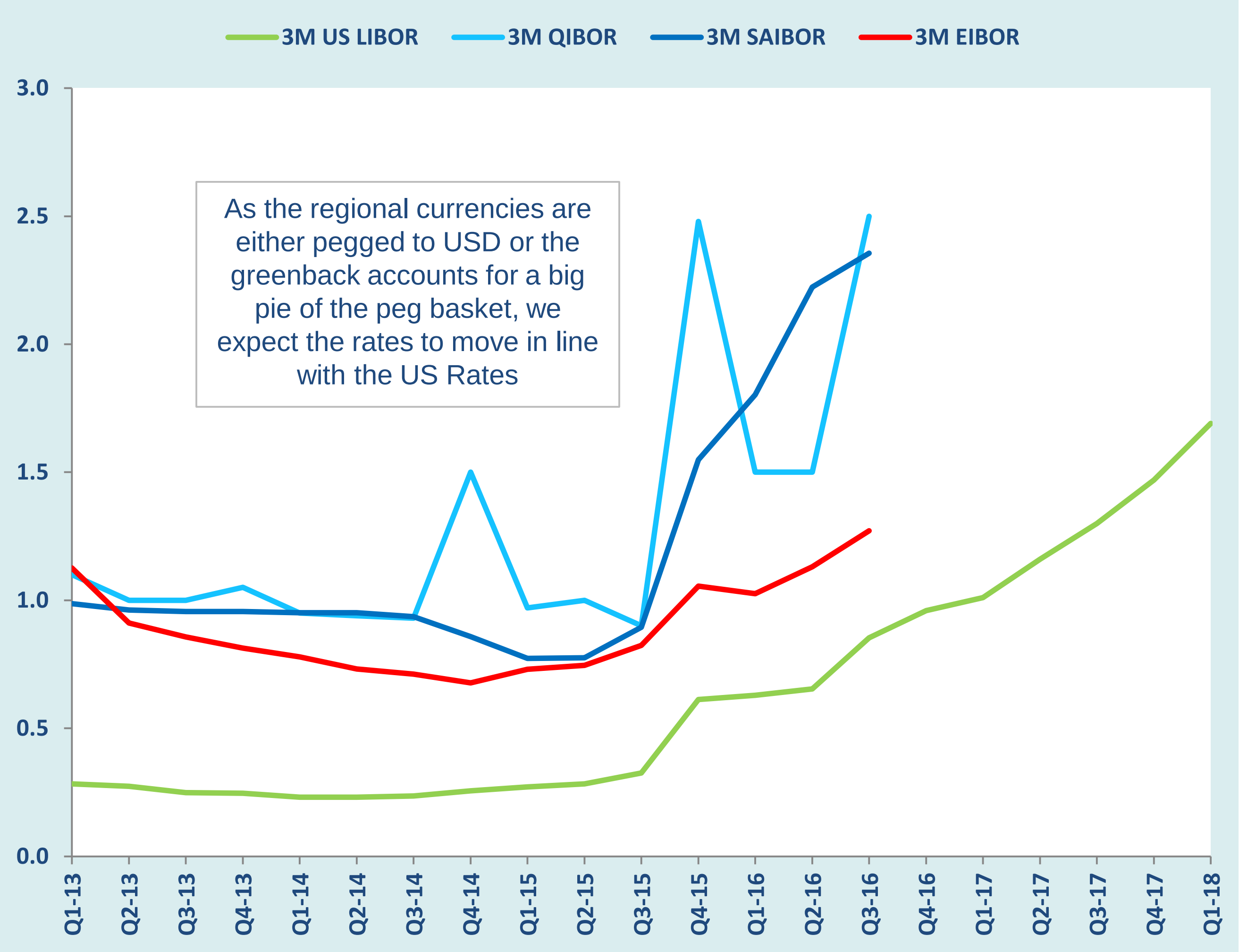
	2012	2013	2014	2015	2016E	2017E
MENA	j	10.3	6.8	6.1	6.0	6.2
MENA Oil Exporters	10.4	10.4	5.8	5.5	4.7	4.2
MENA Oil Importers	8.6	10.1	9.9	8.0	9.9	12.3
GCC	2.4	2.8	2.6	2.5	3.6	2.6

Source: IMF

MENA: Pressure on currency pegs, but it remains manageable

The expected rate hike in the US is expected to have an equal impact on MENA interest rates, as seen during the previous rate hike decision.

That said, banks have been facing liquidity pressure, especially in the UAE, that has resulted in pressure on lending rates. This is, however, not the case in Saudi Arabia, with the banks maintaining adequate ratios further supported by several new policy initiatives implemented by the regulators.



Source: Bloomberg, KAMCO Research

MENA: Near term CDS bottomed in 2014 and peaked at the start of 2016

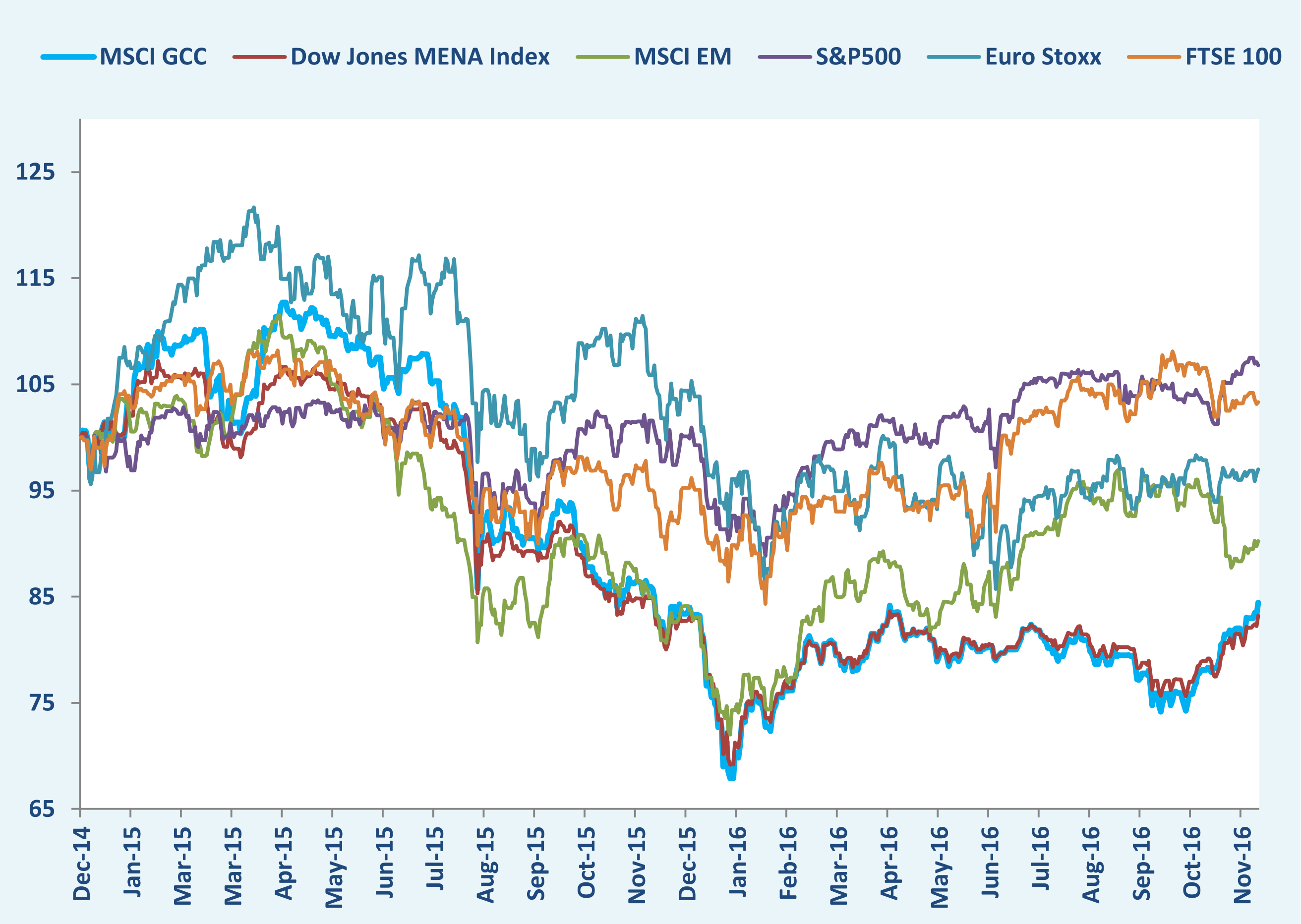
Source: Bloomberg

MENA: Most markets recover from the lows of 2016

MENA indices currently trade around their 2015 levels despite a volatile 2016, which involved several global events such as Brexit, US elections and oil price negotiations before the agreement on the oil-output cut. Global markets have also recovered broadly through this volatile period.

GCC indices in 2016 YTD trends saw equity markets in Dubai and Oman leading the way with positive returns YTD. Saudi Arabia recovered considerably in Nov-16, jumping by 16.4% for the month, due to the agreement on the cut of the oil output.

EQUITY MARKET PERFORMANCE – MENA VS. OTHER REGIONS



Source: KAMCO Research, Bloomberg

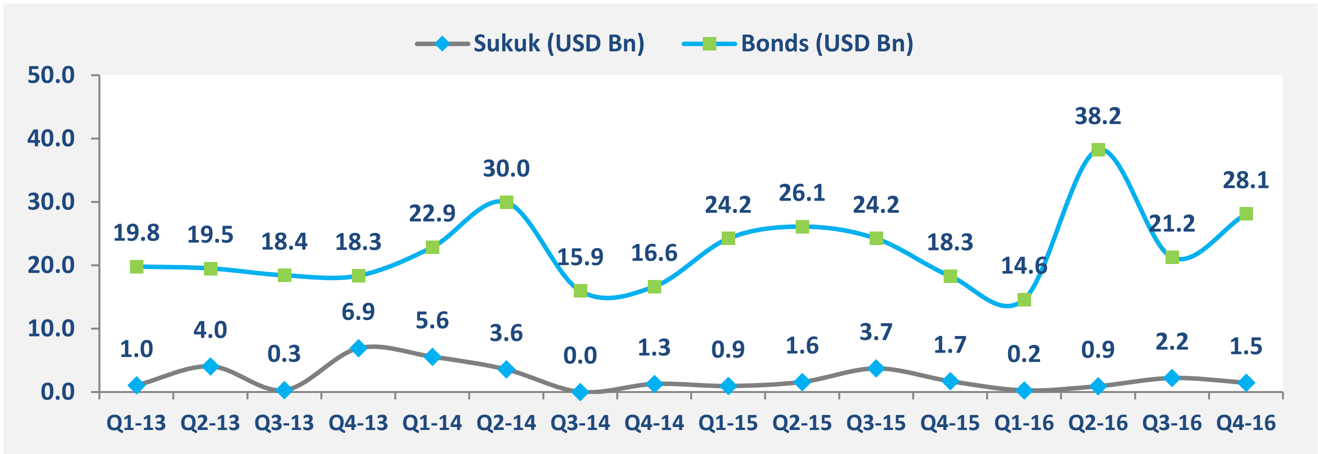
MENA: Higher MENA fixed instrument issuances to fund infrastructure spending

As expected, MENA countries, especially the oil exporters, are trying to plug the budget shortfall by either issuing more debt to domestic or international investors, or liquidating some of their offshore assets.

Conventional bond issuances in the MENA region increased by 10%% during YTD-2016, to USD 102.0 Bn as compared to USD 92.8 Bn in 2015. The growth in 2015 was slightly lower at 8.7% over the previous year.

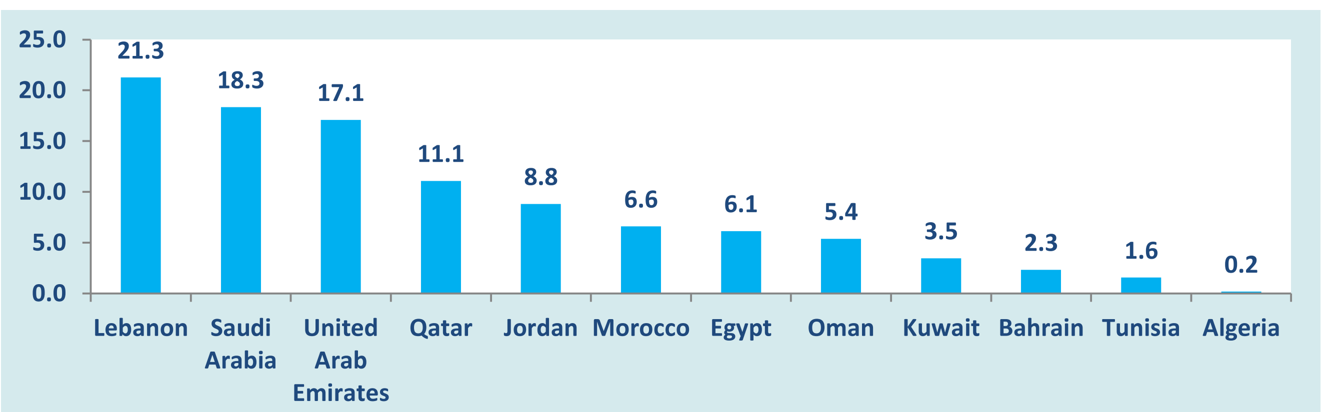
Sukuk issuance slightly declined during 2016, as the market continues to account for a small portion of total fixed income issuances in the region.

MENA SUKUK & BOND ISSUANCE



Source: Reuters, KAMCO Research

BREAKDOWN BY COUNTRY (YTD-2016, USD Bn)



Source: Reuters, KAMCO Research

MENA ECONOMIC OUTLOOK

Focus on employment creation and diversification

One of the fastest drivers of the global emerging markets, growth in the MENA region took a significant hit when oil prices crashed 50% in 2014 and by more than a third in 2015. This affected investment plans of economies and resulted in a sort of 'transfer of wealth' from oil exporters to oil importers. Oil exporters had to rethink their investment plans and prioritize projects based on their long term benefits, whereas oil importers got an favorable opportunity to restructure their spending plans.

Oil prices continue to remain at depressed levels although it has gone up close to 57% from the close of 2015 by the end of November-16. We believe that the MENA economies would continue to hold a cautious stance in their spending plans as oil continues to remain extremely volatile. A number of factors continue to influence oil prices, in addition to political unrest in some pockets of the region.

That said, the growth story of a majority of the MENA economies remains intact as GDP growth is expected to bottom in 2015 at 2.1%, and is expected to increase to 3.2% in 2016 and 2017. The decline in oil prices shows the volatility it can cause on state finances, especially in the case of oil exporters. This has once again put the focus on diversification activities to spur growth in non-oil sectors. Although the 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 paramount this time.

Unemployment remains a concern in oil importing countries that would be the first priority for the regulators, as oil savings gives them the fiscal space to spend in social sectors and job creation and create long term opportunities. Moreover, external trade continues to remain at depressed levels especially due to the slow recovery in the Euro Area as well as the slowdown in China.

The need to focus on reforms related to increasing state revenues from sustainable sectors and reduce state subsidies would be crucial in an environment which continues to remain politically charged. Focus on core sectors like banking, construction and real estate would necessitate new policy initiatives, tax and subsidy reforms and possibly new exchange rate policy. Egypt is the classic example for this as the country free floated its currency recently thereby instilling confidence in international investors that tough decisions, if required, needs to be taken.

SECTION 3 | GCC Economic Trends

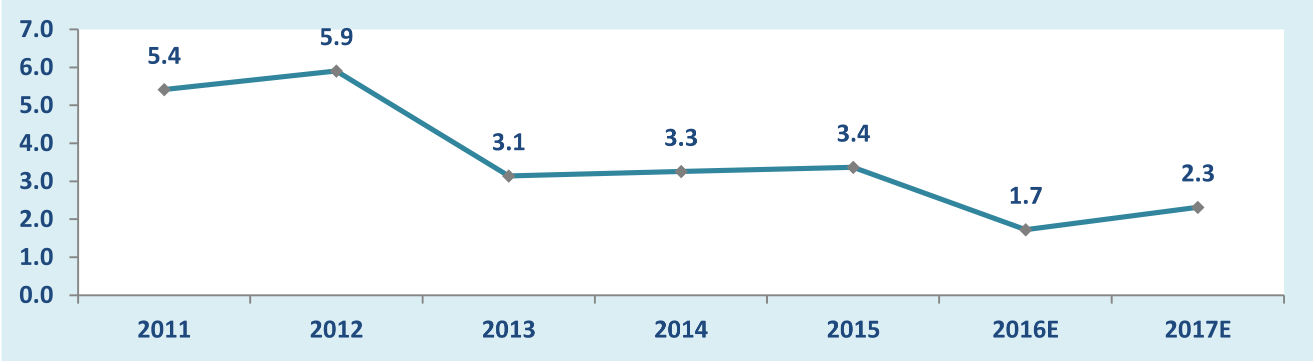
GCC: Slow economic growth despite higher output

GCC GDP growth is expected to bottom in 2016 as the effects of oil price decline would be at its peak on state budgets and revenues.

Revenues, both oil and non-oil are expected to increase going forward due to higher oil output as well as a dedicated focus on developing non oil sector.

That said, any improvement in oil prices from the current level will have a direct impact on budget balance as a majority of the countries in the GCC have estimated their budgets on a low oil price scenario.

GCC REAL GDP GROWTH (%)



Source: IMF

GCC ECONOMIC SNAPSHOT

	2010	2011	2012	2013	2014	2015	2016E	2017E
Real GDP Growth (%)	6.4	7.7	5.4	3.1	3.3	3.4	1.7	2.3
Oil GDP Growth (%)	4.4	10.2	5.4	-0.1	0.9	3.1	1.8	1.4
Non-Oil GDP Growth (%)	6.3	6.6	5.2	6.3	5.4	3.8	1.8	3.1
Oil Production (mn b/d)	14.6	16.3	17.2	17.2	17.2	17.8	18.0	18.3
Gas Production (mn b/d)	6.51	7.31	8.1	8.4	8.5	8.5	8.7	9.0
Current Account Balance (% of GDP)	12.4	23.6	24.4	21.4	13.6	-2.4	-3.7	-0.5
Fiscal Balance (% of GDP)	3.6	11.6	15.1	10.8	3.1	-9.4	-9.8	-6.9

Sources: IMF

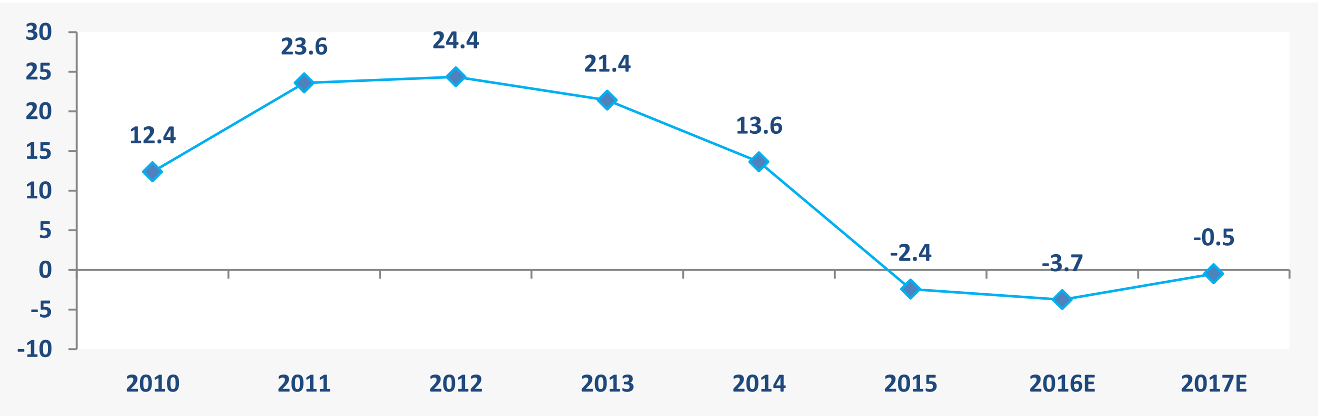
GCC: Current account and fiscal balance to see some improvement in the near term

The partial recovery in oil prices resulted in slightly higher current account balance to GDP ratio for 2016 as compared to previous expectations. Saudi Arabia would be the highest contributor to the deficit contributing about 83% in 2016 with a current deficit of 6.6% of GDP for the year.

Within individual countries, KSA, Oman, Qatar and Bahrain are expected to report a current account deficit in 2016

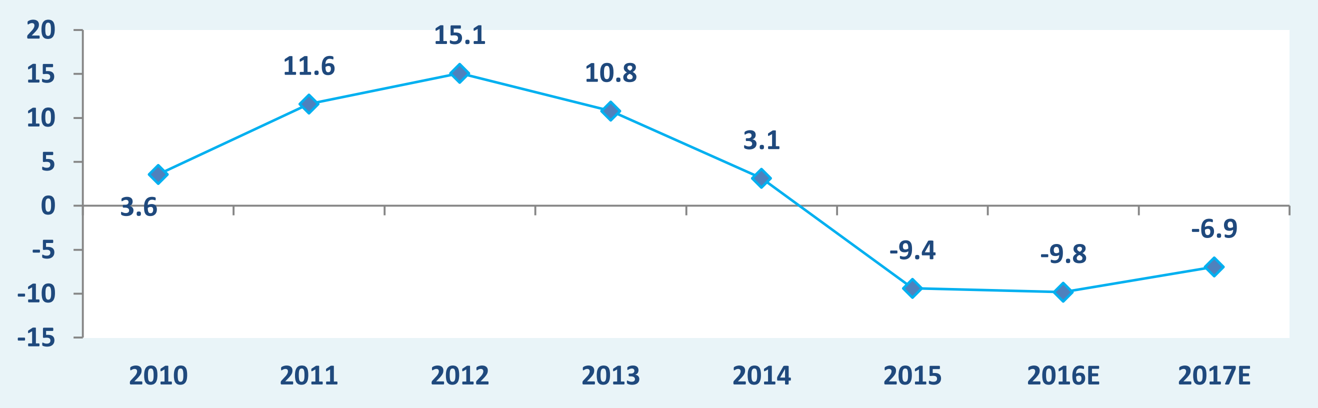
On the other hand, fiscal deficit is also expected to peak in 2016 at -9.8% of GDP with the biggest contribution from Saudi Arabia.

CURRENT ACCOUNT BALANCE (% OF GDP)



Source: IMF

FISCAL BALANCE (% OF GDP)



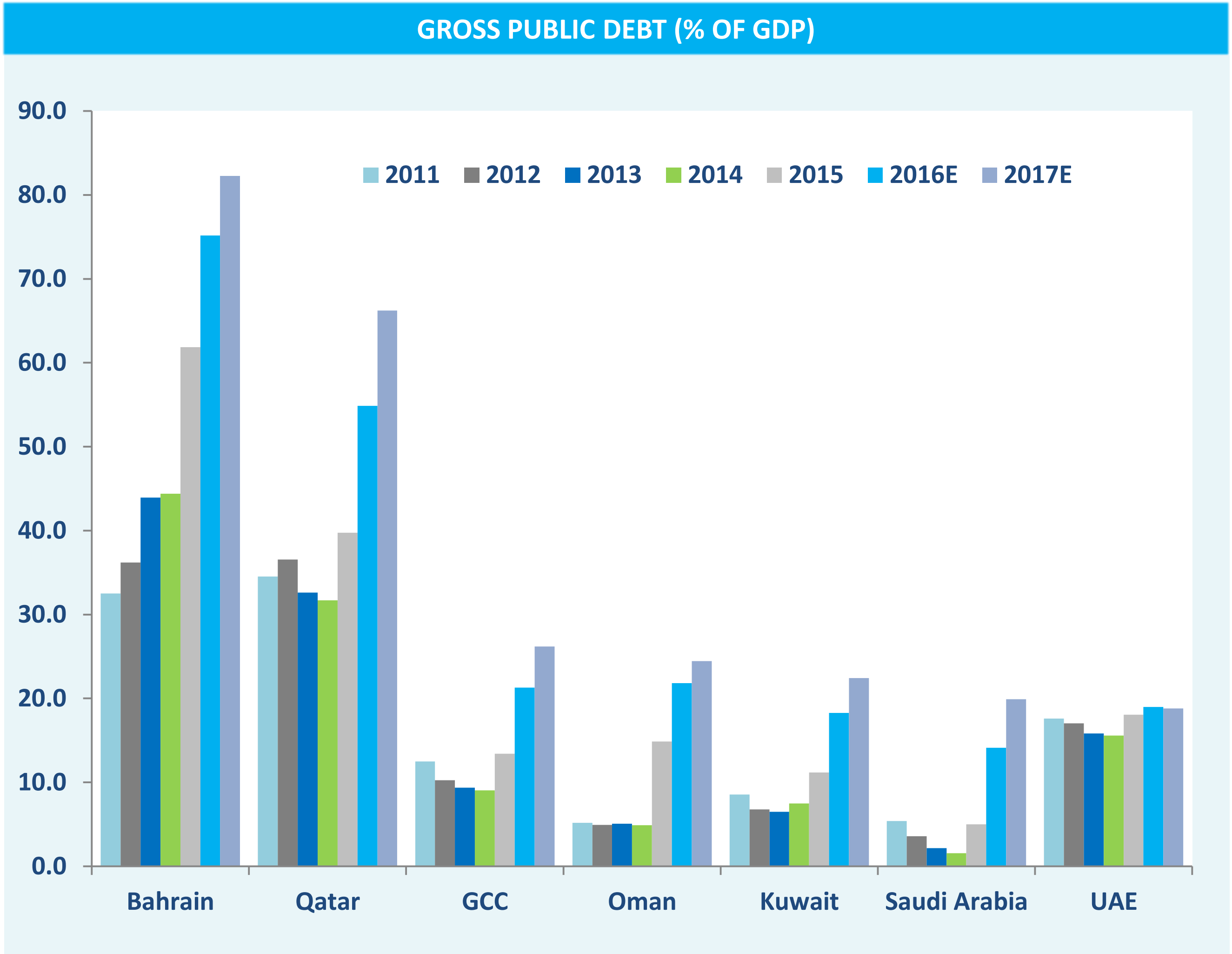
Source: IMF

GCC: Debt to increase to a level closer to international standards

Debt levels in the GCC, especially for Saudi Arabia, Qatar and Kuwait continue to remain at marginal levels as compared to international standards.

However, in order to fund expected future deficits, even these countries are increasingly tapping the debt market with a number of issuances currently in the pipeline.

Credit quality of GCC countries remains relatively robust in most cases with buffers in the form of sovereign wealth funds and foreign assets. This helps in reducing the overall cost of issuing debt.



Source: IMF

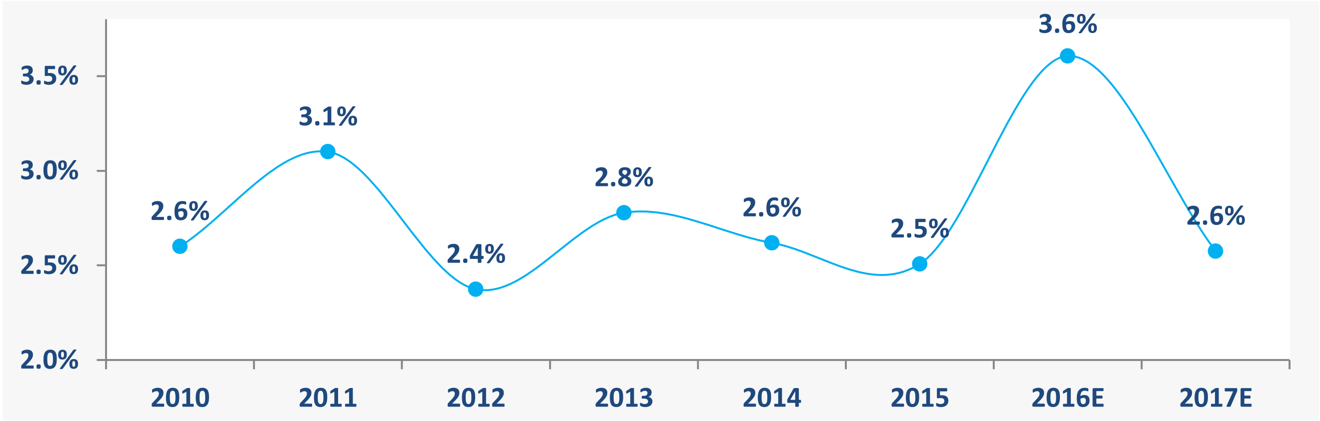
GCC: Inflation is well under control

Inflation remains well within the ideal range for the whole of GCC countries. Although prices are expected to increase higher than historical norms in 2016 by 3.6%, it is expected to decline to 2.6% in 2017.

Moreover, since most of the currencies in the GCC are either pegged to the USD or the greenback forms a significant portion of the peg basket, rising USD rates in 2016 has put a virtual cap on inflation numbers.

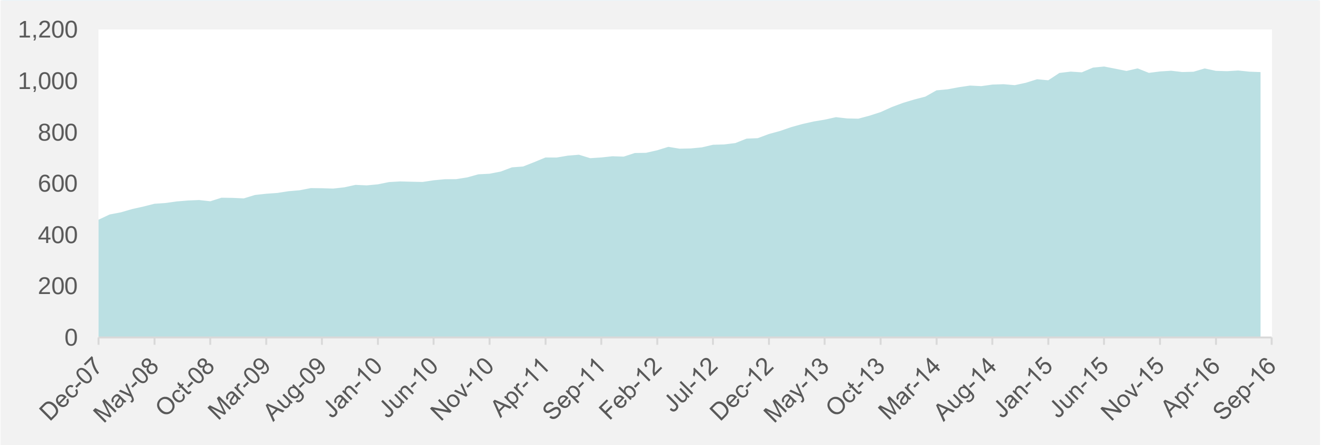
Private lending in the GCC remains high as banks continue to roll out credit facilities with limited and country-specific impact on their liquidity.

GCC ANNUAL INFLATION (%)



Source: IMF

GCC (ex Bahrain) MONEY SUPPLY – M2 (USD Bn)



Source: Central Banks, Bloomberg, Factset, KAMCO Research

GCC: FDI trends downward for the whole of West Asia region

FDI flows to the GCC has declined consistently over the past five years with a CAGR of -15.3%. This is primarily because of rerouting of international funds to other, more lucrative, emerging markets in Asia as well as the resurgence of the US as a favorable investment destination in 2015.

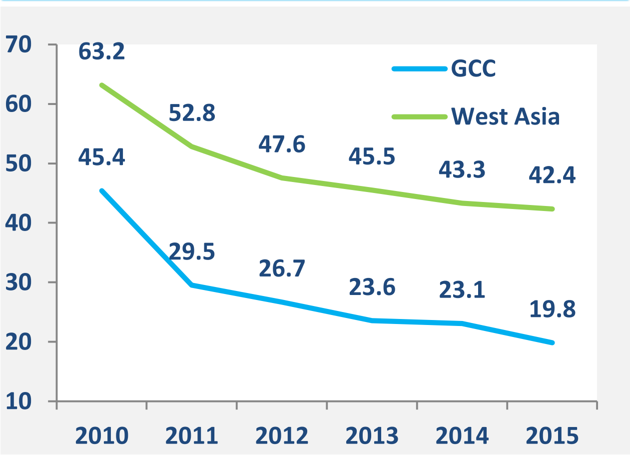
Except for the UAE, none of the countries in the GCC recorded an increase in FDI since 2011.

UAE also had the best score in terms of Doing Business Index as well as on the competitiveness ranking followed by Qatar.

Country	Doing Business Rank		Global Competitiveness Rank	
	2016	2017	2015-16	2016-17
UAE	34	26	17	16
Bahrain	66	63	39	48
Oman	69	66	62	66
Qatar	74	83	14	18
Saudi Arabia	96	94	25	29
Kuwait	98	102	34	38

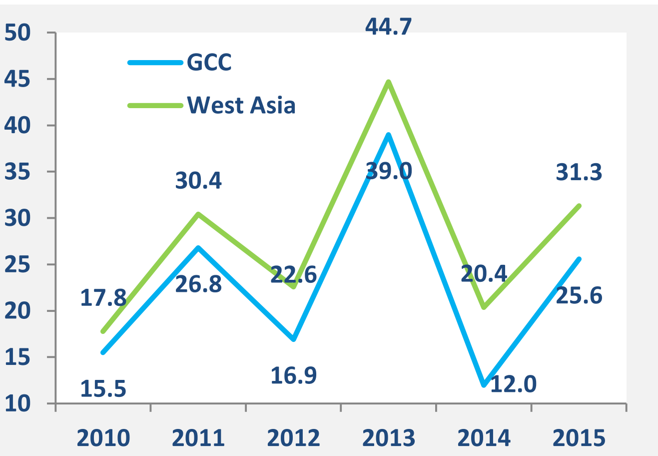
Source: IMF

FDI Inflow (USD Bn)



Source: UNCTAD 2016 World Investment Report

FDI outflow (USD Bn)



Source: UNCTAD 2016 World Investment Report

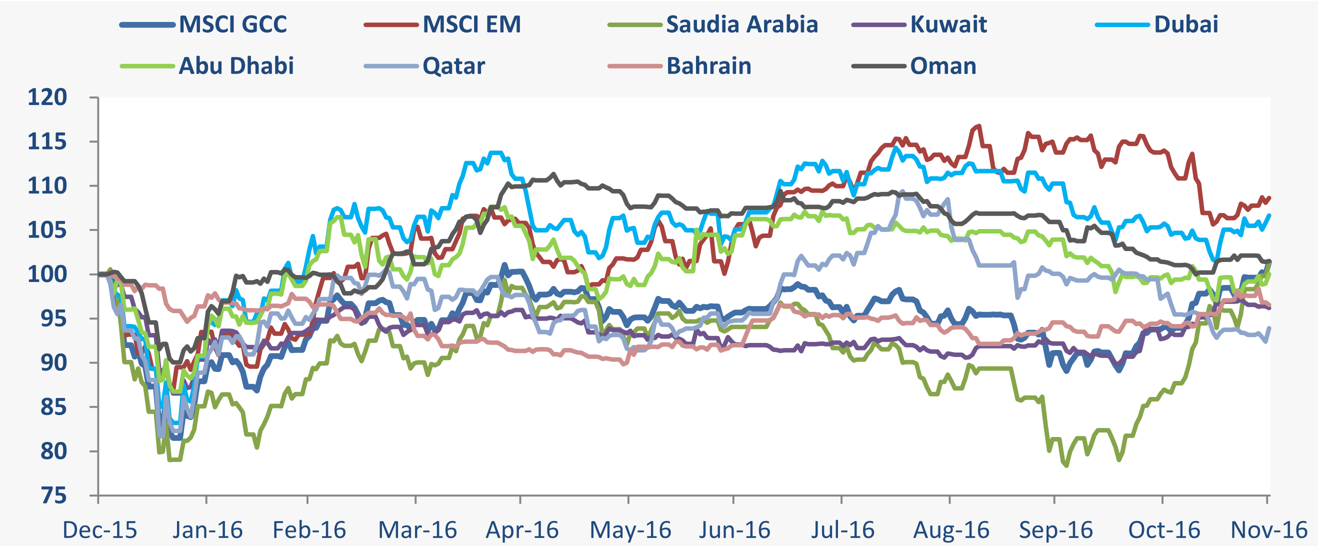
GCC: Equity market sentiments driven by oil

Oil price continues to drive sentiment in equity markets across the GCC, as it has a direct implication on state finances and investment plans.

After being in the red for 2015, some equity markets were in the green zone in 2016 on the back of resilient corporate earnings.

Moreover, investment in core sectors like real estate and construction, supported by ample liquidity in most banks in the GCC has also supported markets so far this year.

EQUITY MARKETS PERFORMANCE



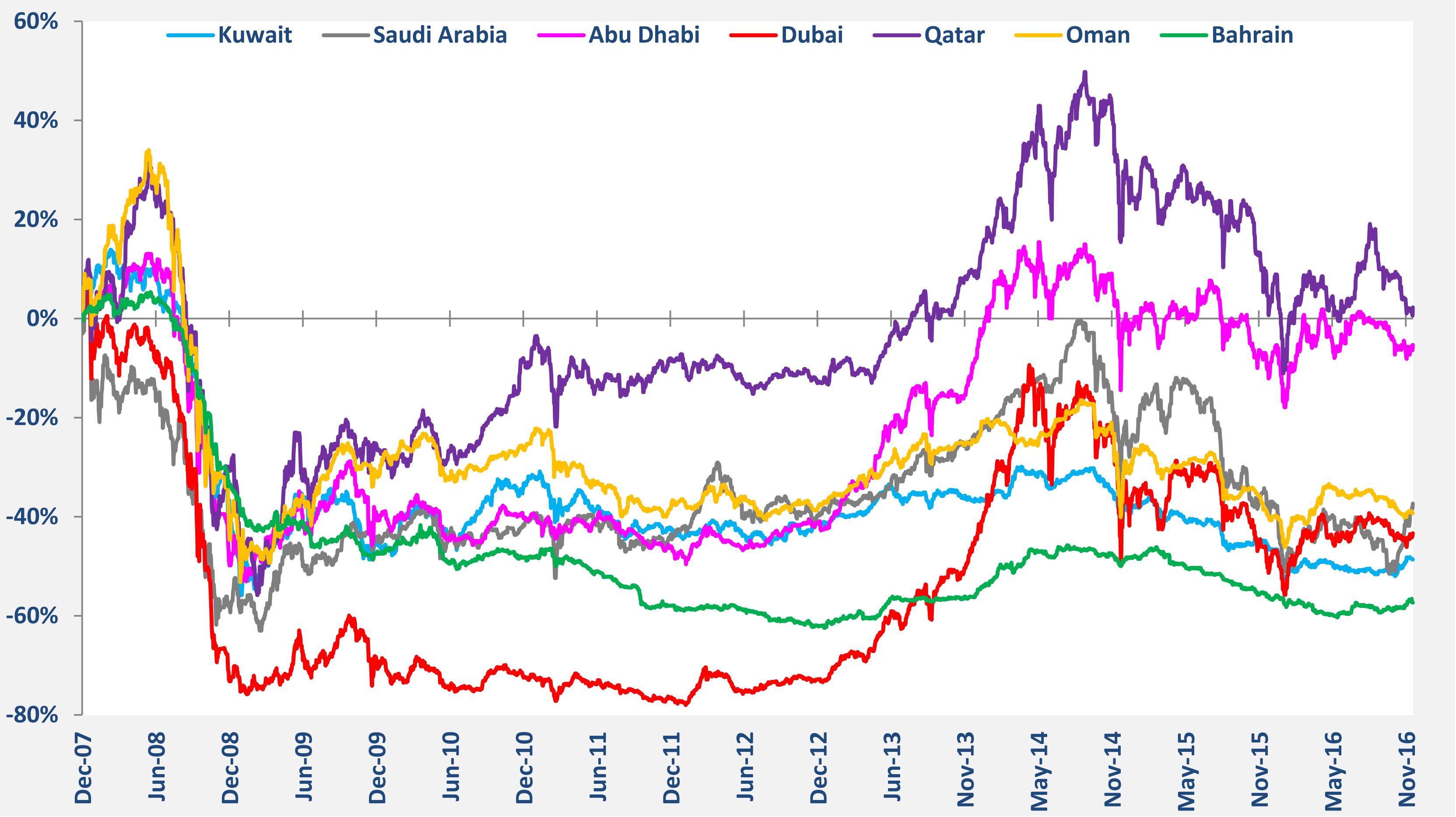
EQUITY MARKET INDICES (Y-O-Y % CHANGE)

	2009	2010	2011	2012	2013	2014	2015	YTD Nov-16
Saudi Arabia	32.3%	7.7%	-4.2%	6.3%	25.5%	-2.4%	-17.1%	1.3%
Dubai	13.6%	-9.6%	-17.0%	19.9%	107.7%	12.0%	-16.5%	6.7%
Abu Dhabi	20.2%	-0.9%	-11.7%	9.5%	63.1%	5.6%	-4.9%	0.0%
Qatar	4.9%	24.8%	1.1%	-4.8%	24.2%	18.4%	-15.1%	-6.1%
Oman	27.4%	6.1%	-15.7%	1.2%	18.6%	-7.2%	-14.8%	1.5%
Kuwait	-15.0%	-0.7%	-16.4%	2.1%	27.2%	-3.1%	-13.0%	-3.8%
Bahrain	-20.4%	-1.8%	-20.1%	-6.8%	17.2%	14.2%	-14.8%	-3.4%
MSCI EM	78.7%	15.8%	-20.2%	15.4%	-5.0%	-4.6%	-17.0%	68.7%
MSCI GCC	14.6%	16.4%	-10.0%	4.0%	25.6%	-2.2%	-16.7%	6.3%

Source: KAMCO Research

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

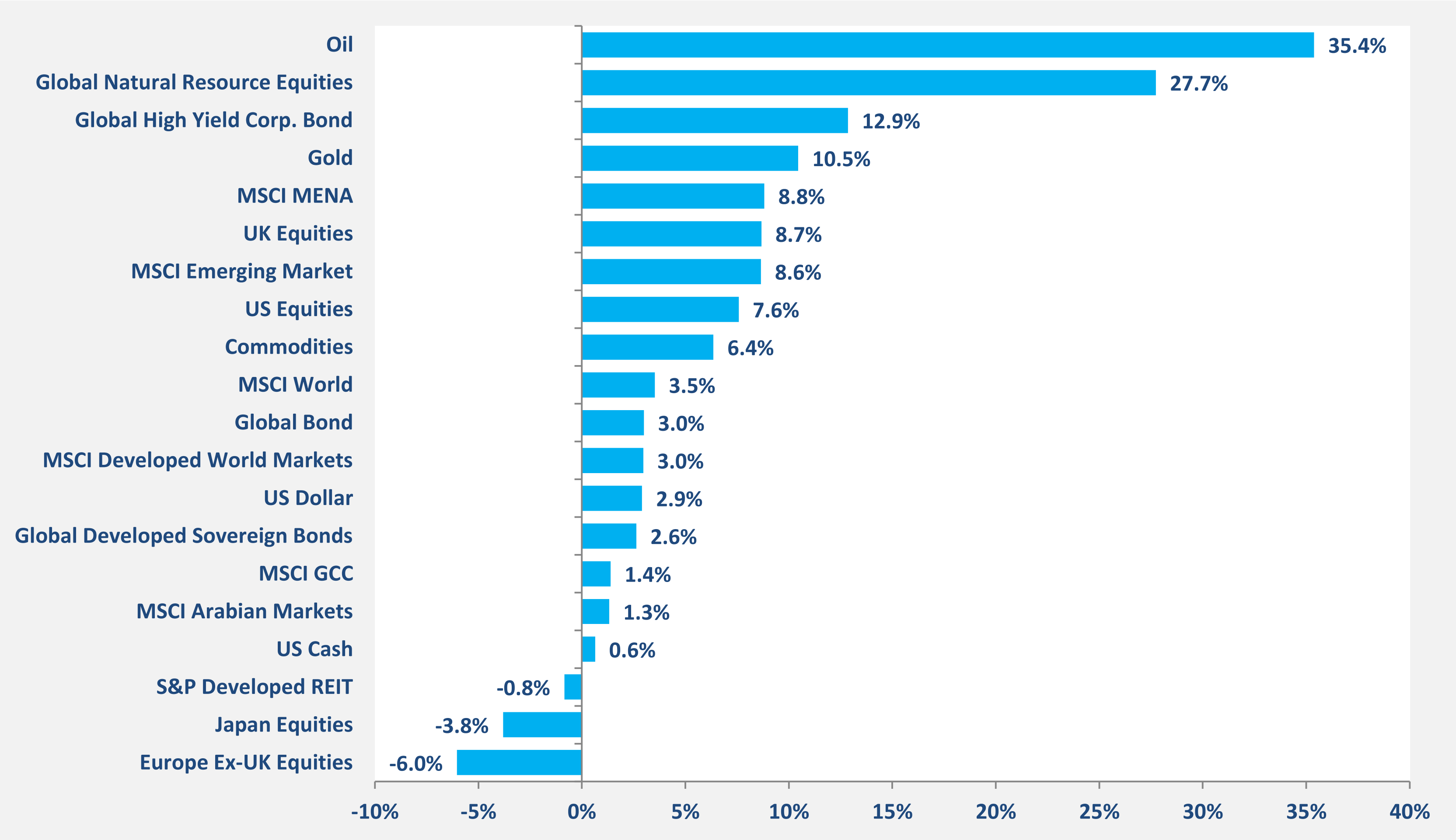
GCC EQUITY MARKETS PERFORMANCE



Source: KAMCO Research

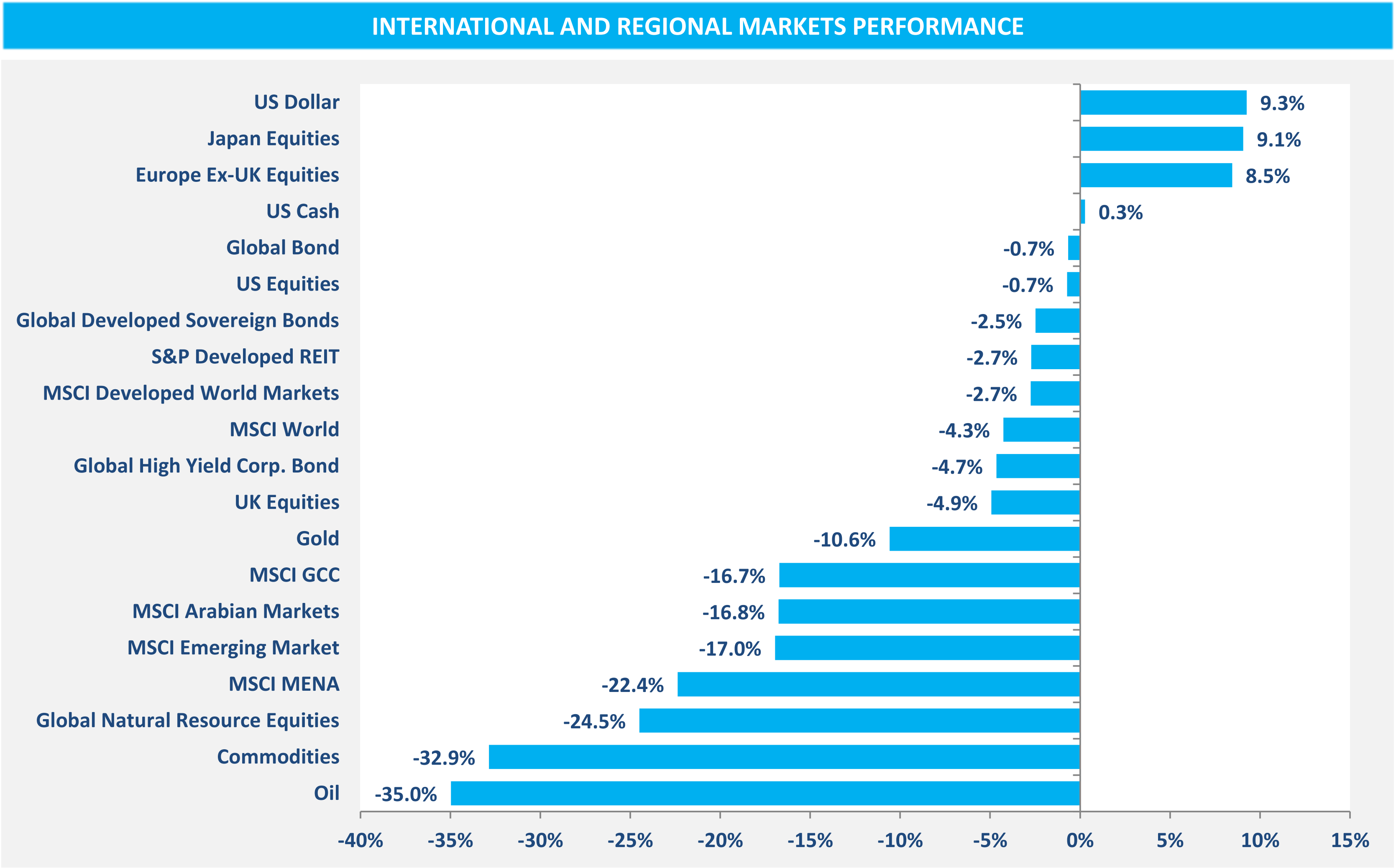
GCC: GCC Markets vs. International and Regional Markets Performance (YTD Nov-2016)

INTERNATIONAL AND REGIONAL MARKETS PERFORMANCE



Source: KAMCO Research, Bloomberg

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



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	0.837	0.586	0.765	0.474	0.486	0.079	0.044	-0.633
MSCI EM Equities	0.837	1.000	0.595	0.714	0.498	0.499	0.248	0.192	-0.622
Commodities	0.586	0.595	1.000	0.311	0.935	0.481	0.305	0.030	-0.632
Developed REITS	0.765	0.714	0.311	1.000	0.164	0.276	0.202	0.406	-0.500
Oil	0.474	0.498	0.935	0.164	1.000	0.497	0.261	0.013	-0.525
MSCI GCC Equities	0.486	0.499	0.481	0.276	0.497	1.000	-0.028	0.017	-0.318
Gold	0.079	0.248	0.305	0.202	0.261	-0.028	1.000	0.466	-0.310
Global Bond	0.044	0.192	0.030	0.406	0.013	0.017	0.466	1.000	-0.372
USD Index	-0.633	-0.622	-0.632	-0.500	-0.525	-0.318	-0.310	-0.372	1.000

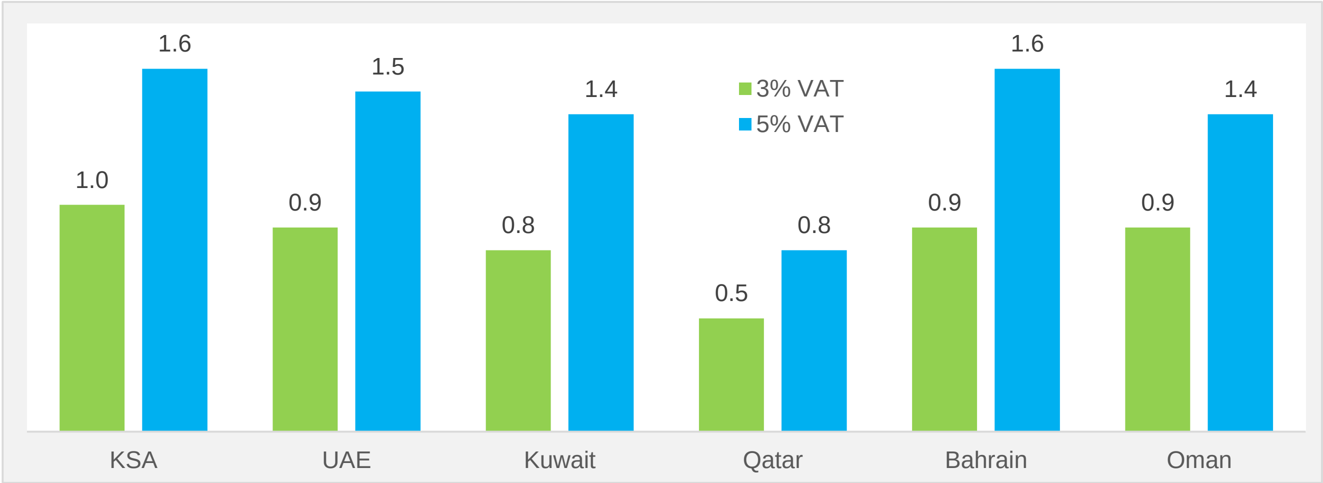
Source: KAMCO Research, Bloomberg

GCC: VAT Implementation and its impact

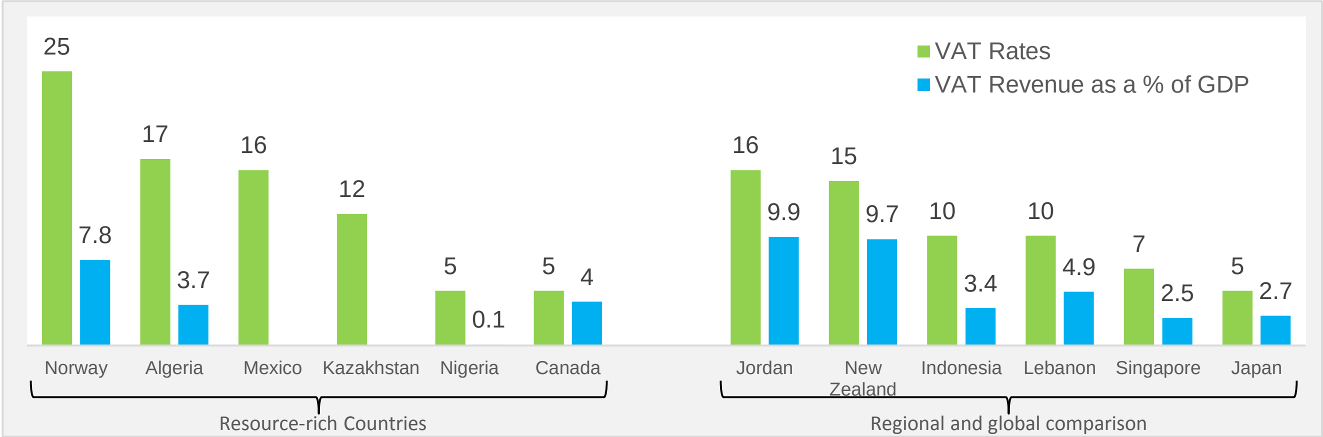
GCC governments have finalized and are all geared to implement VAT starting from 2018. The framework is being worked out and it is likely that there will be a 12 to 14-month lead time for businesses to become VAT compliant from the date of announcement of the introduction of GCC VAT.

A higher VAT would be a deterrent to spur local businesses and entrepreneurs, however, the VAT rates globally and in some MENA countries shows that there is a wide range that could help the countries generate VAT revenues of as much as 10% of the GDP.

Expected VAT Revenue as a % of GDP



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



Source: IMF, EY, KAMCO Research

GCC ECONOMIC OUTLOOK

Growth rates set to moderate in the near term

Although economic growth rates and fiscal balance of oil exporters declined to never-seen-before levels, we believe this oil price decline had some inherent long term benefits especially for the GCC regions.

- It gave them the opportunity to divest in non-oil sectors
- Despite the fall in oil prices, governments continue to pursue alternative energy schemes due to its long term benefits. Also because a major portion of the oil is consumed domestically, 30% in case of Saudi Arabia.
- Subsidy reduction is now possible and being implemented at a much faster rate which would have otherwise been discarded keeping in mind appeasement.
- Workforce is made to be more productive.
- Wages and salaries are more realistic.
- Projects are being implemented and monitored to avoid delays.
- Taxes are being implemented on the regional level in addition to some of the projects e.g. railways.
- The construction activity in Dubai and Qatar may be event driven (Expo 2020 and Fifa World Cup 2022, respectively) however, for the overall region it is believed that by the time the work due to be completed for these events is completed, Saudi Arabia would have restructured its economy and be ready to start moving with projects again.

Oil sector growth in the GCC is set to decline due to the fall in oil price however, all off the countries in the region have plans to expand their respective oil outputs. However, the looming production cut agreement will have an impact on efforts on this front. We believe that the impact of production cuts on oil revenues would be minimal and is expected to be more than offset by the oil price gains as a result of this decision.

GCC Region – Key Risk Factors

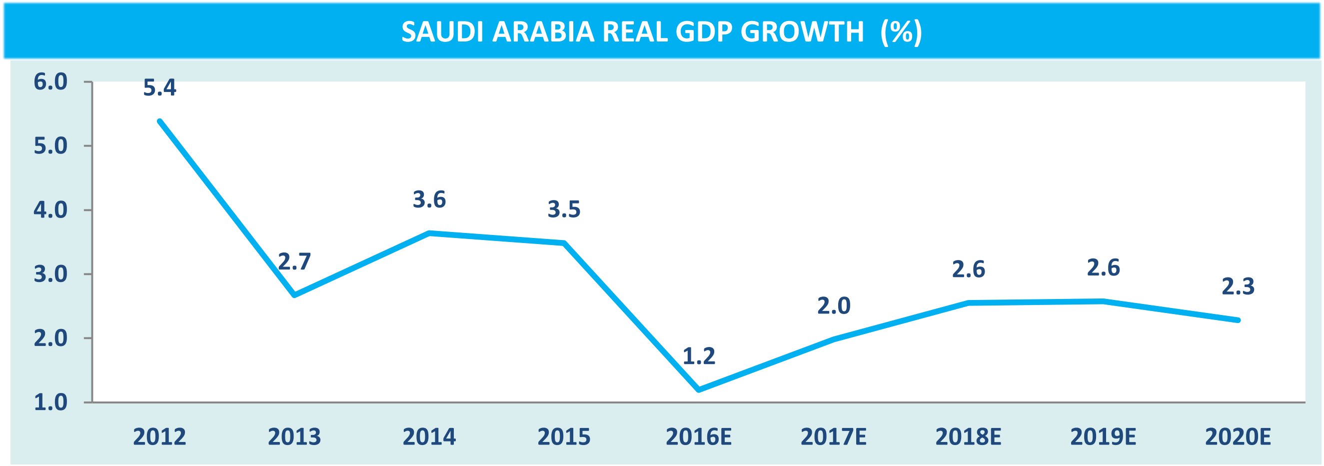
- The decline in state spending on some of the non-essential projects could result in some loss of long term gains. In addition, it can also have an impact on project activity resulting in delayed delivery and could affect employment.
- Risk of rising geopolitical tensions in the GCC with the ongoing regional conflicts in the MENA region is market disrupting and affecting investor sentiment, although that may not necessarily affect activity in the GCC.
- Risk of refinancing remains low as 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. The ratings cuts announced recently does affect the countries' cost of debt, however, we take comfort from the buffers in the form of sovereign wealth fund and foreign assets.
- A slowdown in China is affecting global growth rates along with delayed recovery in Europe. World growth rates was the lowest since the financial crisis and is expected to gradually recover in the near term.
- Generating jobs in the private sectors for the rapidly growing young population remains a challenge and governments in the GCC are making serious efforts to provide employment to locals in the private sector and aiming to push their productivity in existing government employment.
- The growing population in the GCC region has put 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: Gradual recovery in sight

Real GDP growth declined to the lowest level since the financial crisis during 2016 on the back of declining oil prices that affected investment spending in the Kingdom. Saudi Arabia's effort to offset the decline in oil revenues by increasing output only had a minimal impact on growth rates. The efforts are also aimed at maintaining the Kingdom's oil market share.

The contribution of oil to GDP remained around 43% over the past three years. This contribution is expected to increase slightly in 2016 and 2017 and then decline as the non-oil investments take shape.



Source: IMF

	2012	2013	2014	2015	2016E	2017E	2018E	2019E	2020E
Nominal GDP (USD Bn)	734.0	744.3	753.8	646.0	637.8	689.0	740.2	777.8	816.6
Real GDP Growth (%)	5.4	2.7	3.6	3.5	1.2	2.0	2.6	2.6	2.3
Oil Sector	5.1	-1.6	2.1	4.0	2.3	1.1	1.5	1.5	1.5
Non-Oil Public Sector	5.3	5.1	3.7	2.5	-	-	-	-	-
Non-Oil Private Sector	5.5	7.0	5.4	3.4	-	-	-	-	-
Contribution to GDP (%)									
Oil Sector	45.4%	43.5%	42.8%	43.0%	44.0%	43.8%	43.4%	42.8%	42.2%
Non-Oil Sector	54.6%	56.5%	57.2%	57.0%	56.0%	56.2%	56.6%	57.2%	57.8%
Oil Production (mn b/d)	9.8	9.6	9.7	10.2	10.3	10.4	-	-	-

Source: IMF, SAMA, OPEC, Oxford Analytics, Factset

SAUDI ARABIA: Vision 2030 sets the tone for the medium and long term

Saudi Arabia's 'Vision 2030' highlighted some of the key areas to strengthen the economy and drive the Kingdom away from 'oil addiction' that led to uneven growth and disruption in several sectors over the past few years.

The plan highlighted an aim to turn the Kingdom into a 'global investment powerhouse' by diversifying revenues sources followed by a plan to transform the Kingdom into a global logistical hub exploiting its strategic location as the physical center of the world.

Saudi Arabia Vision 2030 Goals - Current vs. Targeted

Saudi Arabia Vision 2030 Goals	Current	Target by 2030
PIF assets	SAR 600 Bn	SAR 7 Trillion
FDI (% of GDP)	3.8%	5.7%
Lower the rate of unemployment	11.6%	7.0%
Private sector contribution to GDP	40.0%	65.0%
Share of non-oil exports in non-oil GDP	16.0%	50.0%
Non-oil government revenue	SAR 163 Bn	SAR 1 Trillion
SME contribution to GDP	20.0%	35.0%
Localization of oil and gas sectors	40.0%	75.0%
Military Spending within Saudi Arabia (% of total spending)	2.0%	50.0%
Umrah visitors per year	8 Mn	30 Mn
Household spending on cultural and entertainment activities	2.9%	6.0%
Increase the average life expectancy	74 years	80 years
Women's participation in the workforce	22.0%	30.0%
Household savings (% of total household income)	6.0%	10.0%
Non-profit sector's contribution to GDP	< 1.0%	5.0%

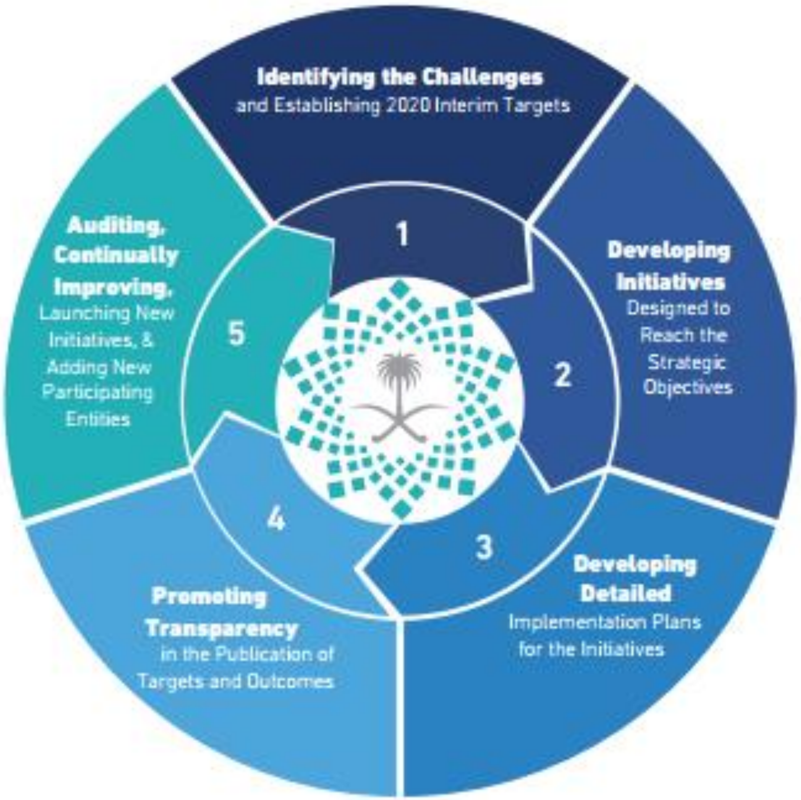
Global Rankings	Current Rank	Target Rank by 2030
Size of the economy	19	15
Social Capital Index	26	10
Global Competitiveness Index	25	Among the top 10
Logistics Performance Index	49	25
Government Effectiveness Index	80	20
E-Government Survey Index	36	Among the top 5

Source: SPA, KAMCO Research

SAUDI ARABIA: Establishing 2020 interim targets was first goal

The National Transformation Program 2020 outlined strategic objectives, key performance targets and benchmarks of the different Government bodies and links them to Saudi Vision 2030.

***Key Goals:** The National Transformation Program 2020's initiatives should result in the creation of more than 450,000 jobs in the non-Government sector and the localization of more than SAR 270 Bn of content, each by 2020, and the private sector will fund 40% of the cost of the National Transformation Program 2020's initiatives.*



Operating Model of the National Transformation Program

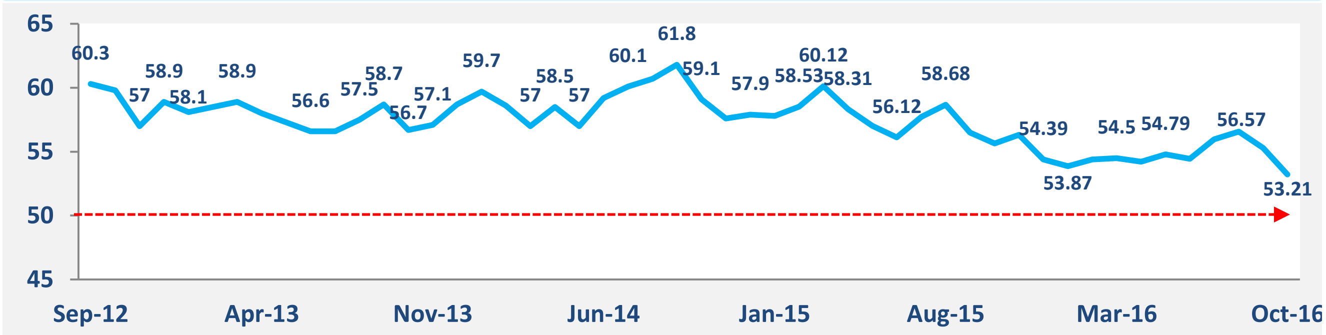
Source: Vision 2030 – Kingdom of Saudi Arabia, KAMCO Research

SAUDI ARABIA: Manufacturing at slowest pace in three years

Non-oil private sector slowed down to levels not seen in over three years due to the public sector wage cuts announced during September-16. Nevertheless, the indicator remains above 50, which implies positive growth in private sector manufacturing.

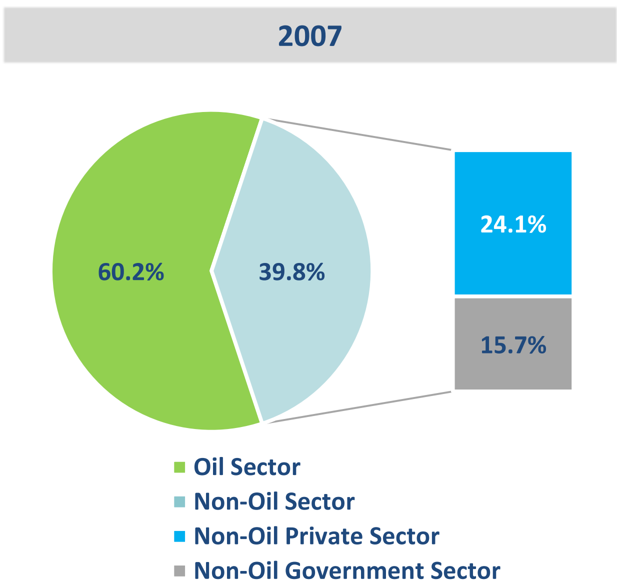
Output and new orders grew at the slowest pace since the inception of the indicator. However, the low cost pressure could reduce overall manufacturing cost, as seen in the construction sector, and could boost output in the near term.

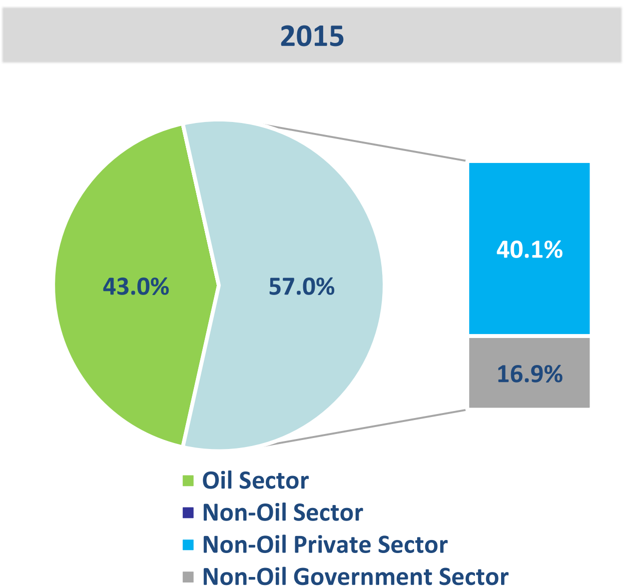
SAUDI ARABIA – MANUFACTURING PMI



Source: Factset, KAMCO Research

CHANGE IN GDP COMPOSITION





Source: Ministry of Economy and Planning

SAUDI ARABIA: Long term mining prospects are strong

Growth in a majority of the sectors of the GDP declined during 2015. However, mining saw the highest growth during the year as the Kingdom aims to be expand the sector.

According to the latest statement, the Kingdom aims to increase the mining sector's contribution by three times by 2030 and generate annual mining revenue of USD 64 Bn.

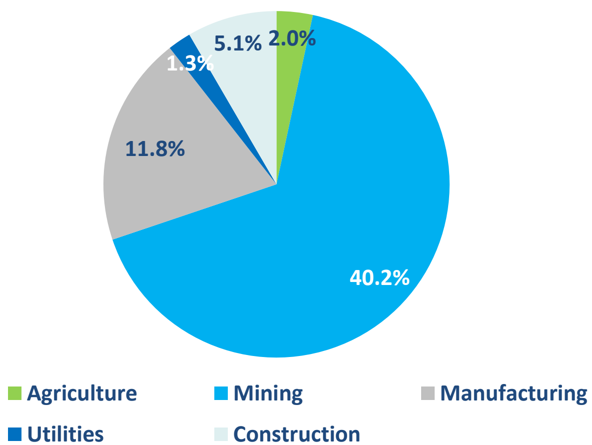
In the services sector, transport, trade and hotels continue to grow although the growth rate declined during 2015. The country has taken steps to increase tourism revenues recently that should reflect in numbers.

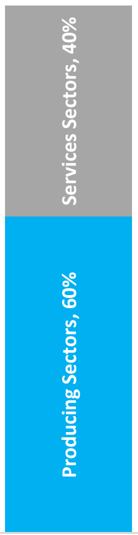
GDP GROWTH IN KEY SECTORS (%)

	2011	2012	2013	2014	2015
Producing Sectors					
Agriculture	2.2%	1.3%	1.9%	1.8%	1.1%
Mining	13.2%	5.1%	-1.4%	0.9%	3.2%
Manufacturing	8.9%	4.1%	3.4%	9.5%	5.8%
Utilities	5.5%	5.9%	1.6%	4.8%	5.3%
Construction	9.9%	4.8%	7.8%	6.7%	5.6%
Services Sectors					
Trade, Hotels	7.9%	6.0%	6.6%	6.0%	3.0%
Transport	13.8%	4.9%	6.4%	6.2%	4.0%
Finance	1.8%	7.5%	9.2%	3.3%	2.9%
Social & Personal Services	6.4%	5.9%	6.5%	5.7%	2.7%
Government	7.9%	5.3%	4.9%	3.3%	2.3%

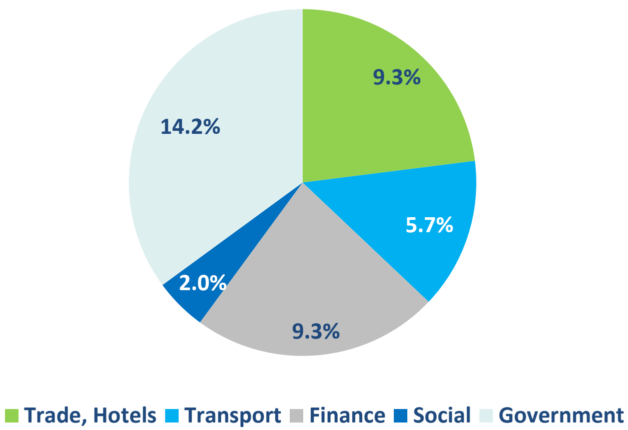
CONTRIBUTION TO 2015 GDP (%)

PRODUCING SECTORS





SERVICES SECTORS



Source: Ministry of Economy and Planning

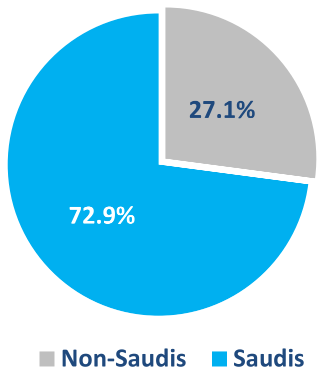
SAUDI ARABIA: Hiring of Saudi nationals in private sector takes center stage

Increasing employment opportunities for locals continues to remain the top most priority for the government. Efforts such as reserving specific sector jobs for locals and establishing higher requirements for Saudization hampers productivity but helps in the long run.

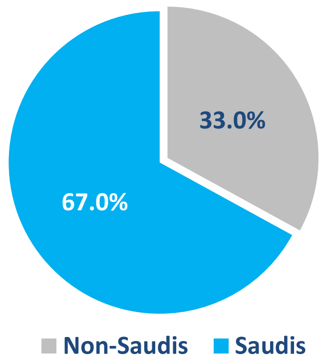
A recent report also pointed towards an 83% drop in Saudization in public sector in 2016 as compared to 2015. This could imply a higher employment in the private sector.

POPULATION COMPOSITION (%)

2004

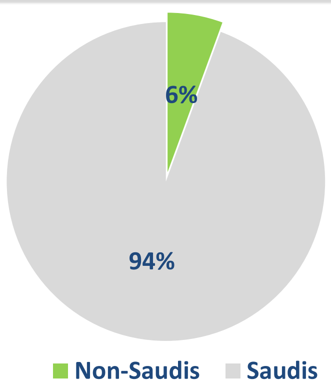


2015

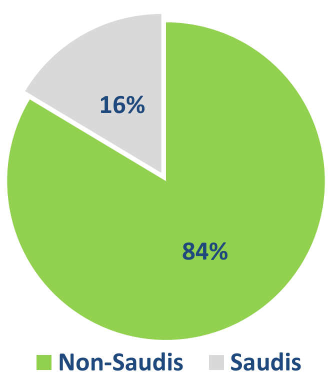


LABOR FORCE COMPOSITION (%)

GOVERNMENT SECTOR



PRIVATE SECTOR



Source: Ministry of Economy and Planning

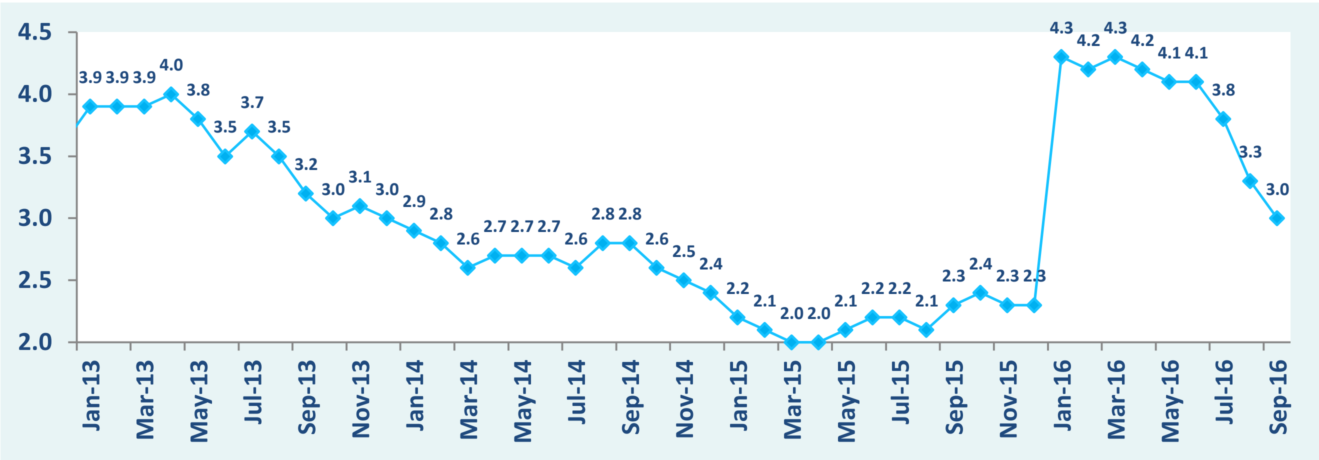
SAUDI ARABIA: Utility and transport prices closer to regional levels

Saudi Arabia's inflation remains range bound after the sudden spurt at the start of the year. This increase was primarily due to the increase in fuel prices and that of utility services.

According to the latest report, cost of transportation increased by 8.6% for Q3-16, whereas prices of housing and utilities surged 7.0% as a result of utility fee hike in December-16.

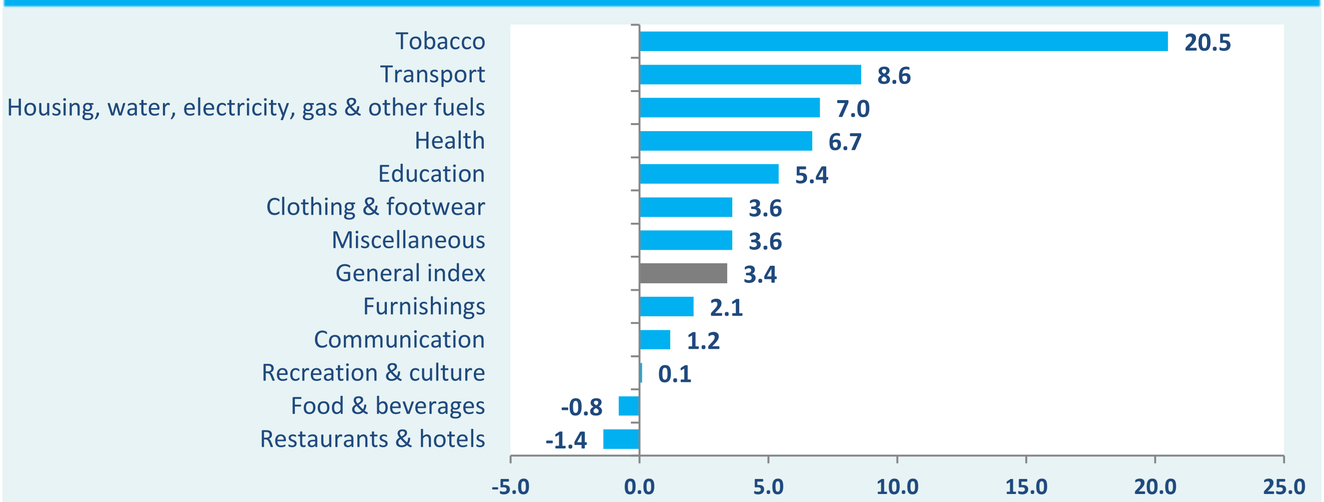
Tobacco continues to top the chart of changes also as a result of new taxes and levies.

ANNUAL INFLATION (%)



Source: SAMA

PRICE CHANGES BY MAIN GROUPS (%, Q3-16 vs. Q3-15)



Source: SAMA, KAMCO Research

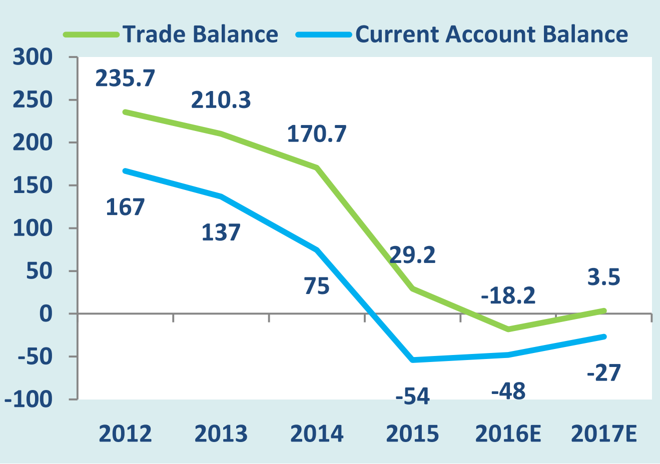
SAUDI ARABIA: Declining deficits in the near term

The Kingdom reported close to a USD 100 Bn in fiscal deficits during 2015 primarily due to the decline in oil revenues.

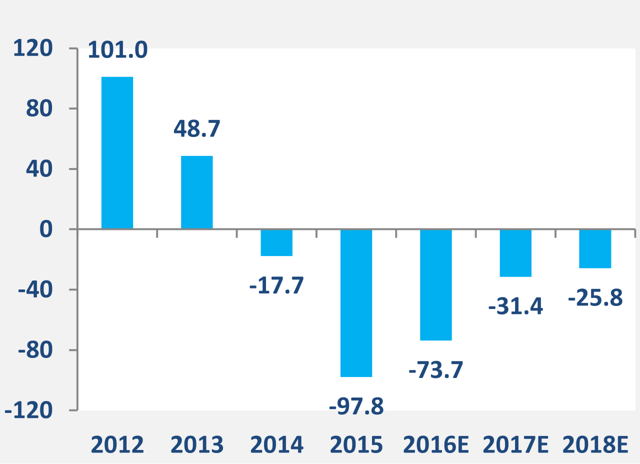
Although deficits are expected to continue in the near term, it is expected to decline gradually on the back of higher revenues (higher oil output), marginal increase in oil price and selective spending on infrastructure.

Meanwhile, trade balance is expected to be negative during 2016 at USD 18 Bn but is expected to turn positive in 2017, albeit marginally.

TRADE & CURRENT ACCOUNT BAL. (USD Bn)



FISCAL BALANCE (USD Bn)



Source: SAMA

	2011	2012	2013	2014	2015	2016E	2017E	2018E
Trade Balance (USD Bn)	**236.0**	**236**	**210**	**171**	**29**	**-18**	**3**	**-**
Oil Exports	321.6	341.7	325.9	288.1	154.8	-	-	-
Non-oil Exports	47.7	51.6	54.7	58.6	51.3	-	-	-
Imports	-133.2	-157.5	-170.3	-176.0	-176.9	-	-	-
Current Account Bal. (USD Bn)	**160.5**	**166.8**	**137.1**	**74.7**	**-54.1**	**-48.2**	**-26.8**	**-28.47**
Government Revenue (USD Bn)	301.8	336.8	312.2	282.0	166.3	159.4	190.6	203.0
Oil Revenue	279.3	309.1	279.5	246.6	120.5	-	-	-
Non-Oil Revenue	22.5	27.7	32.8	35.4	45.8	-	-	-
Govt. Expenditure (USD Bn)	223.2	235.8	263.5	299.7	264.1	233.1	222.1	228.8
Fiscal Balance (USD Bn)	78.6	101.0	48.7	-17.7	-97.8	-73.7	-31.4	-25.8

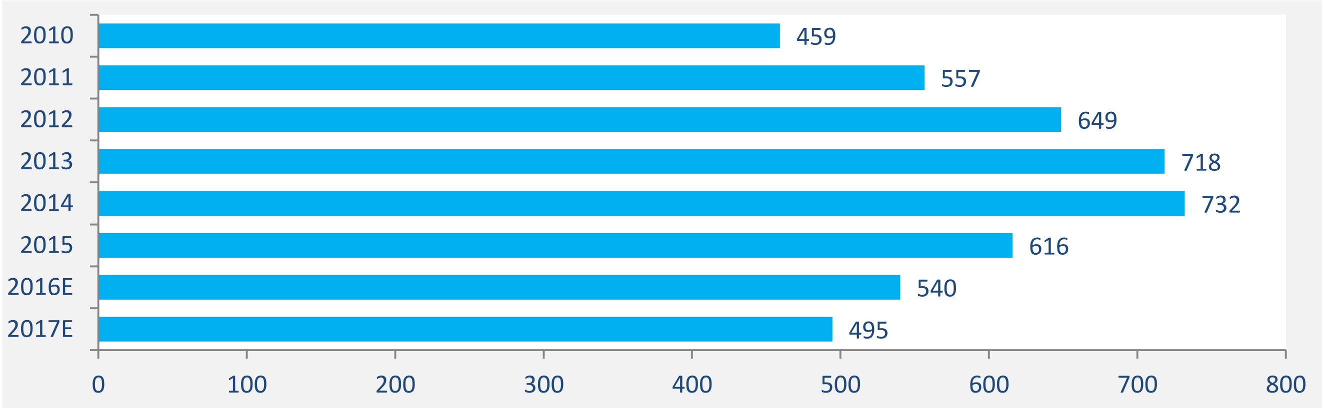
Source: SAMA, Factset, Oxford Economics, KAMCO Research

SAUDI ARABIA: An extremely comfortable external position

Despite drawdowns to cover for the decline in oil revenues, Saudi Arabia's foreign reserves remains at a comfortable level of USD 555 Bn as of September-16, a 10% decline as compared to reserves at the end of last year.

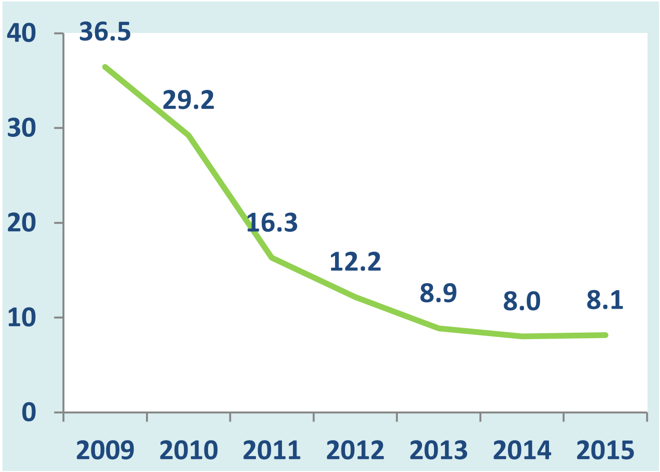
With the budget deficits expected in the near term, reserves are expected to decline further to about USD 495 Bn by 2017; however, the decline is expected to reduce as the budget deficits are covered with either new debt issuance or partly on the back of higher revenues.

FOREIGN EXCHANGE RESERVES (USD Bn)



Source: IMF

FDI INFLOW (USD Bn)



Source: UNCTAD 2016 World Investment Report

FDI OUTFLOW (USD Bn)

Source: UNCTAD 2016 World Investment Report

SAUDI ARABIA: A number of new measures to boost banking

Private lending remains strong in Saudi Arabia after SAMA adopted a number of policy measures specifically targeting the banking sector and helping the banks to maintain sufficient liquidity.

This was also quoted in a Fitch report which said that despite the fall in oil revenues, liquidity ratios of Saudi Banks remains well above the required levels.

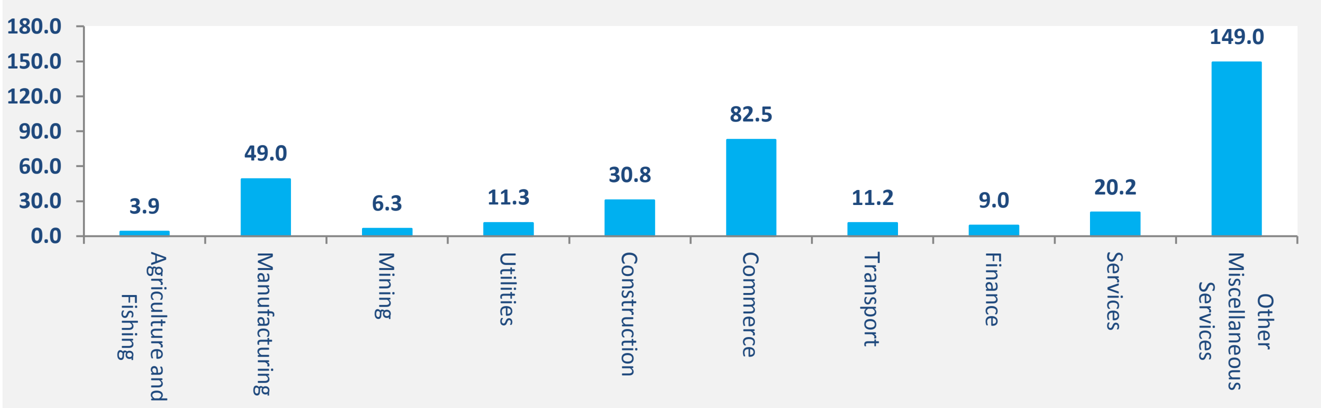
SAIBOR that surged to a 7-year high level this year was brought down through the introduction of 7-, 28- and 90-day repurchase agreements in addition to a monthly issue of domestic bonds in October-16.

MONEY SUPPLY & PRIVATE SECTOR LENDING (USD Bn)

	Q1-14	Q2-14	Q3-14	Q4-14	Q1-15	Q2-15	Q3-15	Q4-15	Q1-16	Q2-16	Q3-16
Gross Money Supply	**437.6**	**444.7**	**454.7**	**466.9**	**482.0**	**491.4**	**493.6**	**479.0**	**480.2**	**478.9**	**474.1**
Currency Outside Banks	39.6	40.9	42.7	41.5	45.0	47.0	47.3	45.7	45.7	49.1	46.8
Demand Deposits	247.1	253.5	254.0	267.1	283.8	292.4	287.4	263.6	266.1	260.2	254.5
Time & Savings Deposit	94.0	97.3	108.4	107.7	103.9	100.7	109.8	117.3	111.4	119.8	128.3
Other Quasi-Monetary Deposits	56.9	53.0	49.6	50.7	49.4	51.3	49.1	52.4	57.0	49.8	44.5
Private Sector Lending	**315.0**	**328.1**	**338.0**	**339.2**	**347.6**	**359.4**	**362.0**	**370.4**	**382.5**	**388.5**	**387.5**

Source: SAMA

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



Source: SAMA

SAUDI ARABIA: Remarkable recovery on oil deal

The rout in Saudi's equity market continued until Sep-16 with TASI recording the worst performance for the year in the GCC. However, optimism for the next two months, Oct-16 and Nov-16, pushed YTD-16 returns in the green zone at +1.3%, after a 16.4% gain during the month of November-16.

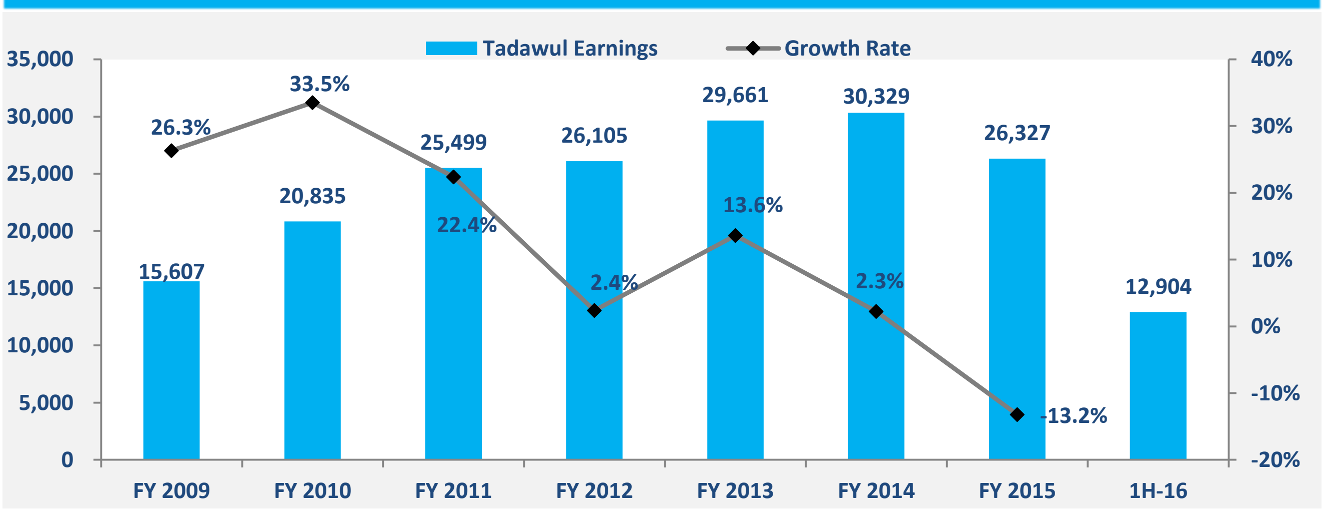
Corporate earnings has witnessed a decline for the first time in 2015 after several years of positive growth. The fall in the earnings of Petrochemical companies was one of the key reason coupled with weak earnings in other sectors.

TADAWUL ALL-SHARE INDEX

	2009	2010	2011	2012	2013	2014	2015	YTD Nov-16
Index Value	6,121.8	6,620.8	6,417.7	6,801.2	8,535.6	8,333.3	6,911.8	7,000.2
Y/Y Change	27.5%	8.2%	-3.1%	6.0%	25.5%	-2.4%	-17.1%	1.3%
Market Cap (USD Bn)	318.8	353.3	338.8	373.3	467.3	483.8	421.5	436.6
Value Traded (USD Bn)	337.0	202.4	293.0	514.2	364.4	572.8	442.3	277.4

Source: KAMCO Research

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



Source: Saudi Stock Exchange, Reuters, KAMCO Research

SAUDI ARABIA: Tadawul Historical Performance

SAUDI STOCK EXCHANGE (TADAWUL)

YTD Nov-16

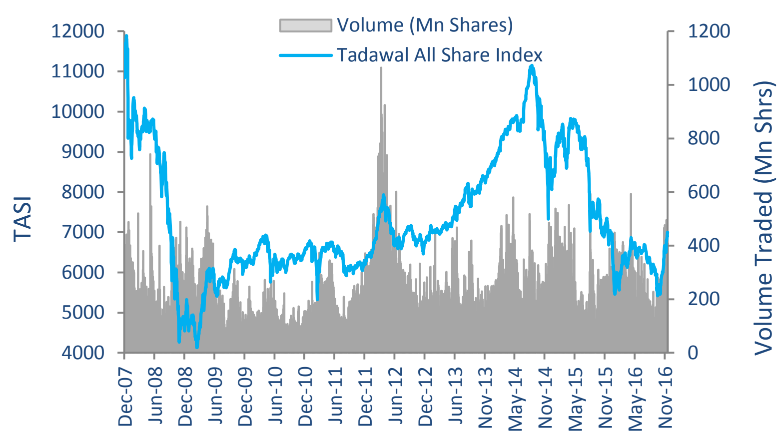
Tadawul All Share Index Performance

YTD Nov-16 Return	**1.3%**
YTD Nov-16 Volatility	**28.5%**

YTD Nov-16 Trading Indicators

Volume ***(Mn Shares)***	**66,743**
Value ***(USD Mn)***	**277.4**
Deals ***('000)***	**24,570**

Tadawul All Share Index Relative to Volume Since 2008



The Tadawul stock exchange remained the largest bourse in the region accounting for 79.7% or USD 277.4 Bn in value traded during the first eleven months of 2016. However, total value traded has witnessed a steep decline over the past two years (23% in 2015 to USD 442.7 Bn). In terms of new listings, Saudi Arabia continues to lead with 5 new listings during the year (including the recently listed REIT). The trend in the oil prices continue to influence Saudi exchange, however, we expect a break from the normal, once state finances start stabilizing.

FY 2015

Tadawul All Share Index Performance

Yearly Return	**-17.1%**
Yearly Volatility	**20.4%**

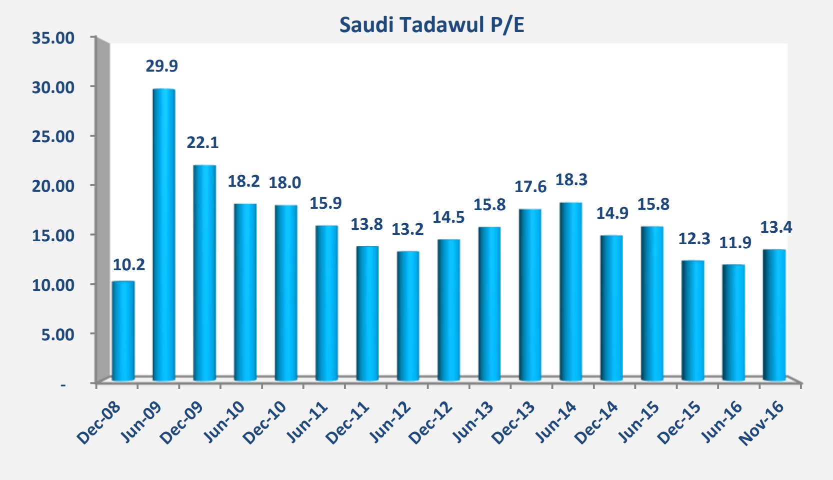
Yearly trading Indicators

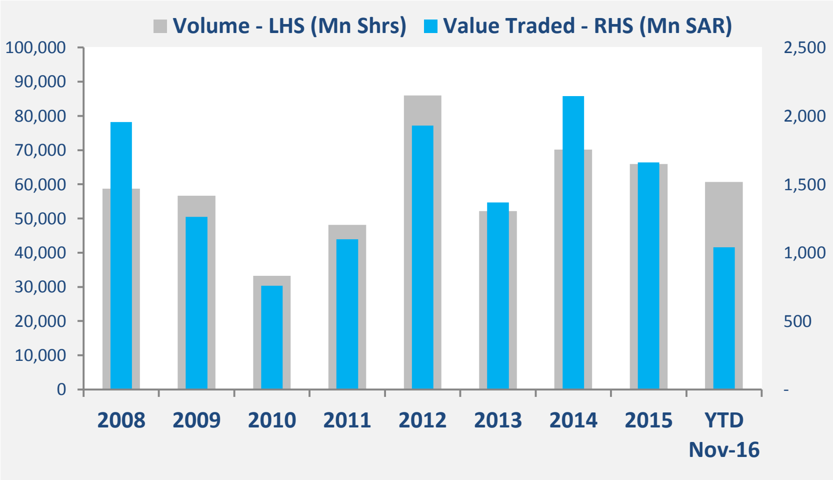
Volume ***(Mn Shares)***	**65,903**
Value ***(USD Mn)***	**442.68**
Deals ***('000)***	**30,298**

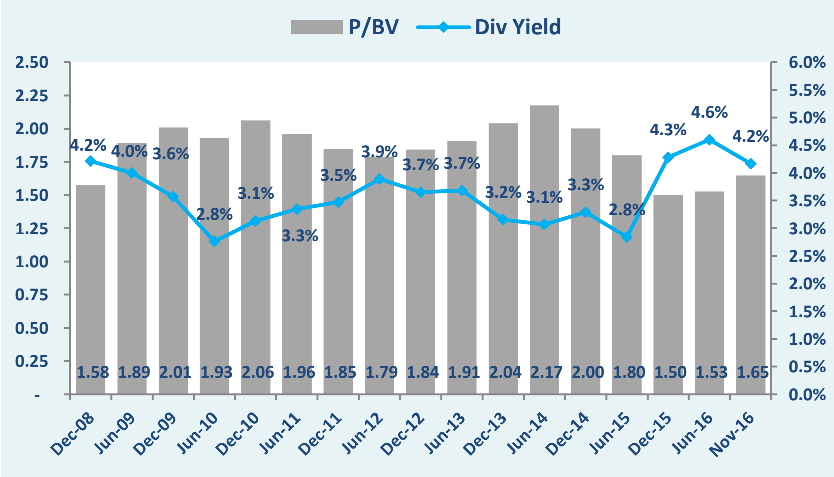
Source: Saudi Stock Exchange, KAMCO Research

SAUDI ARABIA: Valuation Multiples & Trading Indicators

TADAWUL MARKET - VALUATION MULTIPLES & TRADING INDICATORS







Valuation Multiples & Trading Indicators

Valuation multiples for the exchange remains relatively cheap as compared to other leading global exchanges. This comes both as a result of the decline in market cap due to the stock exchange rout, and a relatively smaller fall in corporate earnings. P/E and P/BV multiples for the Tadawul remains at slightly above the levels seen during the financial crisis, and same was the case with dividend yields of 4.2%. We believe that the multiples should trend up in the near term as earnings see a marginal decline coupled with improving investor sentiments that pushed up the market.

Source: Saudi Stock Exchange, KAMCO Research

SAUDI ARABIA ECONOMIC OUTLOOK

Near term pain but an opportunity in the long run

The current decline in oil revenues has affected state finances and forced the Kingdom to curb spending on non-essential projects that can be delayed, and prioritize projects that are key for stabilizing the current situation. The drafting of the Saudi Vision 2030 was the first step towards the long term diversification of the economy and making it less dependent on oil revenues with a sustainable stream of non-oil avenues. The vision lays down concrete plans to diversify the economy.

In the near term, Saudi Arabia has the ability to raise additional funds in the debt market as seen recently. Moreover, although declining, the government has more than half a trillion USD of reserves as cushion. Key sectors/indicators to look for in Saudi Arabia are mentioned below:

- The Kingdom is a demand based economy with inherent strong consumption from a big middle class population. This makes investing in the non-oil sector an agenda for long term success.
- Shortage of housing makes the construction sector buoyant. Moreover, the slump in demand recently due to the decline in oil prices have made cost of construction input cheaper by almost 15%
- Bond sales have been initiated that received good reception from global investors. This will encourage corporates to tap this untapped market.
- Equity markets are being opened up and being made more accessible for foreign investors.
- Construction sector, that we believe was overpriced, is now more realistic after the fall in project awards. Cost of construction inputs have declined.
- Salaries and wages now follow a strict performance based system.
- Resilient banking sector that did withstand the ongoing crunch in deposits.
- Nevertheless, the kingdom needs to raise USD 389 Bn to finance its spending plans over the next five years. We believe this is doable by way of private sector participation, a more accessible debt market as well as positive investor optimism.
- Saudi Arabia is the third biggest spender on defense globally. The ambitious plan to half of military budget by 2030 will help develop the sector.

SECTION 5| Kuwait

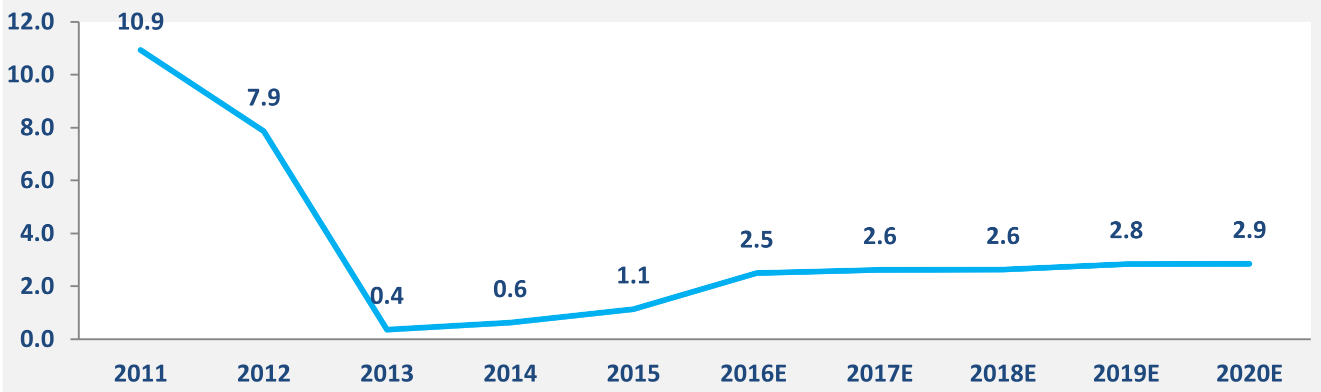
KUWAIT: Focus on economic reform and diversification

Kuwait, with its vast oil reserves, is in a better position relative to its regional peers. However, with the decline in oil prices, the country plans to focus on wide ranging economic reforms and diversification.

PPP is one of the key models that the government is looking at in order to ease the burden on public finances.

Moreover, Kuwait plans to increase oil production to 4 mb/d by 2020. This along with the existing investment in infrastructure should help in stabilizing fiscal pressure in the near term.

KUWAIT REAL GDP GROWTH (%)



Source: IMF

	2012	2013	2014	2015	2016E	2017E
Nominal GDP (USD Bn)	**174.1**	**174.2**	**162.7**	**114.1**	**110.5**	**124.9**
Real GDP Growth (%)	**7.9**	**0.4**	**0.6**	**1.1**	**2.5**	**2.6**
Oil Sector	10.3	-1.8	-2.1	-0.5	2.0	2.0
Non-Oil Sector	0.6	4.0	5.0	3.5	3.2	3.5
Contribution to GDP (%)						
Oil Sector	56.3%	54.8%	53.1%	52.4%	52.6%	52.3%
Non-Oil Sector	43.7%	45.2%	46.9%	47.6%	47.4%	47.7%
Oil Production (mn b/d)	2.5	2.5	2.6	2.7	2.9	3.2

Source: IMF, Factset, Oxford Economics, KAMCO Research

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

Kuwait has one of the highest contribution from oil to its GDP at 52.4% in 2015 as oil revenues account for more than 90% of state revenues.

More importantly, this contribution is expected to remain flat for the next two years, raising a sense of concern in terms of diversification as the sector would continue to receive significant investment.

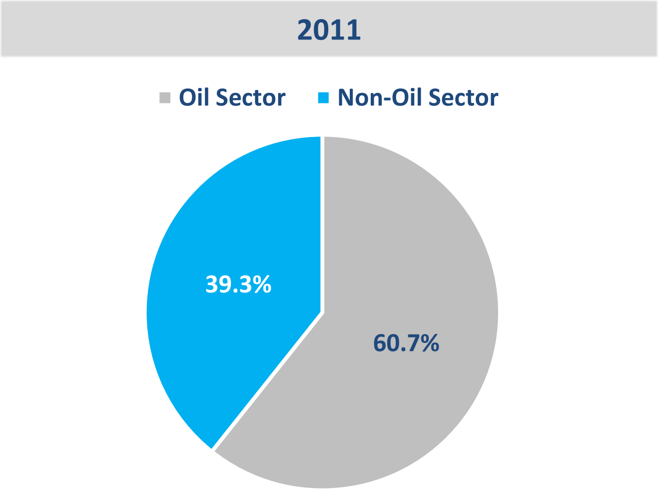
Nevertheless, we take comfort from the fact that the budget is based on an oil price of USD 35/b, making the deficit, most likely, smaller than expectation.

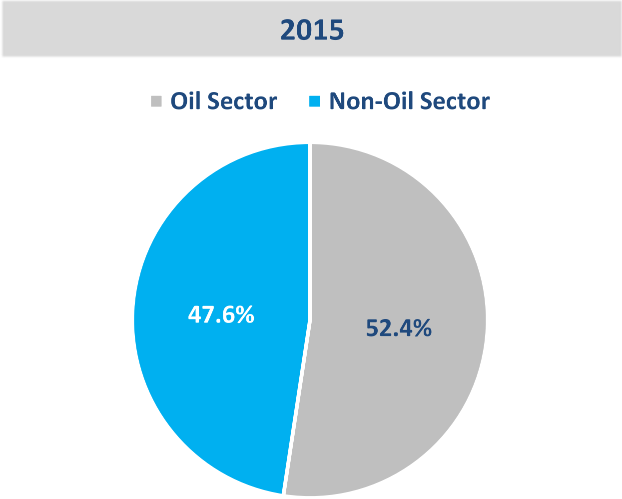
GDP GROWTH BY EXPENDITURE TYPE (%)

	2010	2011	2012	2013	2014	2015	2016E	2017E	2018E	2019E	2020E
Private Consumption	-11.1%	2.8%	8.3%	4.9%	2.8%	-0.8%	1.7%	1.9%	3.2%	2.4%	2.3%
Public Consumption	0.0%	7.5%	13.6%	6.6%	8.8%	3.1%	-2.3%	-1.0%	3.8%	3.0%	2.3%
Gross Capital Formation	19.8%	3.4%	3.2%	8.9%	4.5%	13%	4.2%	3.0%	3.8%	3.2%	3.0%
Exports	-0.5%	14.3%	7.7%	-4.0%	-3.1%	3.0%	3.2%	4.3%	3.0%	3.2%	4.2%
Imports	6.3%	5.2%	14.0%	-0.1%	7.7%	6.0%	3.3%	3.8%	5.8%	5.3%	5.0%

Source: Kuwait Central Statistical Bureau, IMF, Factset, Oxford Economics

CHANGE IN GDP COMPOSITION





Source: Kuwait Central Statistical Bureau

KUWAIT: Services gaining traction

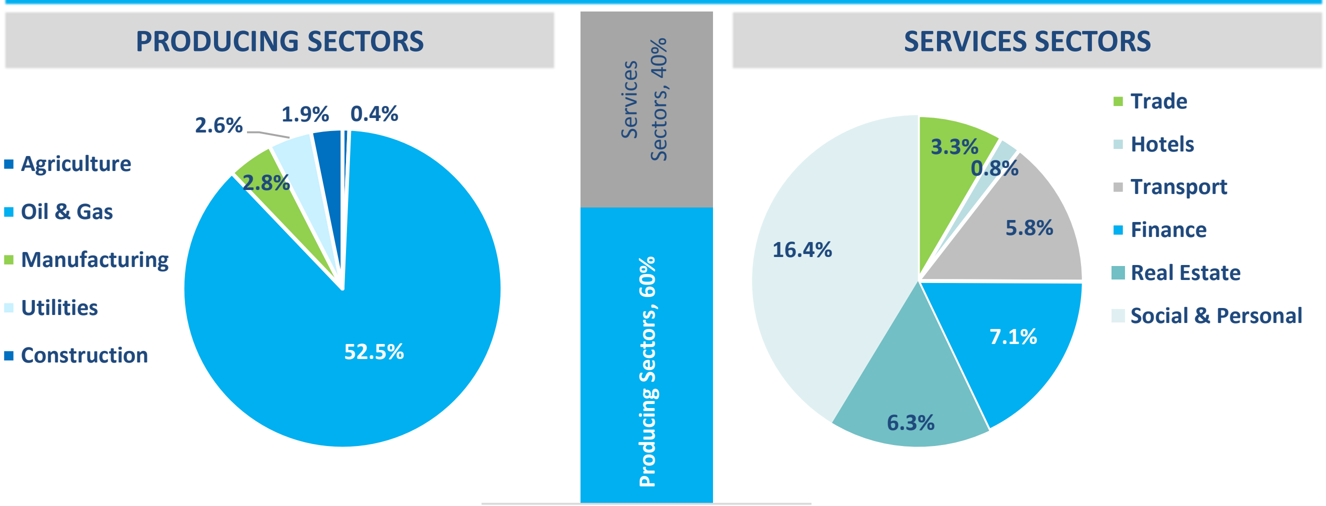
One of the best features of Kuwait's GDP components is the increasing y-o-y growth in some of the key non-oil sectors.

In the producing sectors group, although minimal, agriculture and construction sectors have grown at a much faster pace as compared to overall GDP. On the other hand, services like hotels and financial services have seen higher growth as well.

GDP GROWTH IN KEY SECTORS (%)

	2013	2014	2015
Producing Sectors			
Agriculture	0.8%	7.5%	4.2%
Oil and oil products	-1.8%	-2.1%	-1.7%
Manufacturing	-1.3%	-10.7%	0.4%
Utilities	11.5%	67.2%	-9.8%
Construction	2.0%	0.5%	8.4%
Services Sectors			
Trade	4.0%	6.1%	2.3%
Hotels	8.3%	5.6%	9.5%
Transport	2.7%	2.5%	1.1%
Finance	1.7%	5.4%	3.4%
Real Estate	0.0%	-2.6%	-1.4%
Social & Personal Services	8.6%	4.6%	2.4%

CONTRIBUTION TO 2015 GDP (%)



Source: Kuwait Central Statistical Bureau, KAMCO Research

KUWAIT: A more expat dependent economy

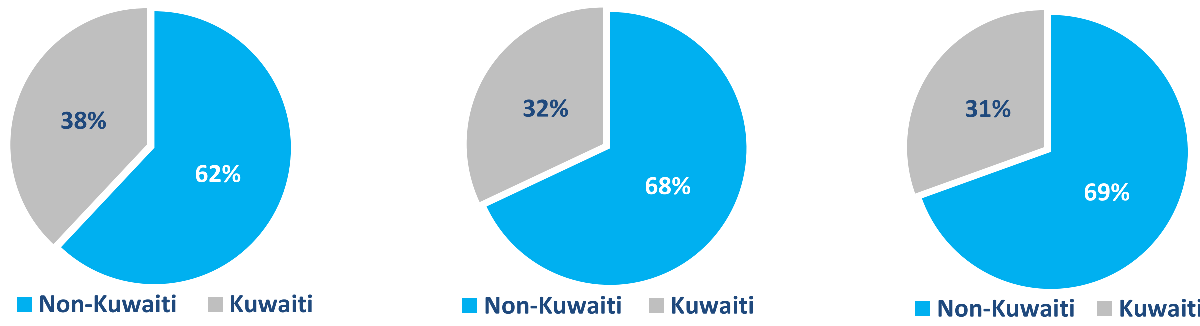
The proportion of non-Kuwaiti population in Kuwait has increased over the years and currently stands at 69% of the total population.

Employment of Kuwaiti labor force continues to be primarily in the government sector which employed 70% Kuwaitis.

The government with its longstanding commitment of providing employment to youth and to increase Kuwaiti workforce in the private sector, conducts various programs to train the youth. However, with the low oil price environment, private sector growth also remains stunted thereby limiting participation of Kuwaitis significantly.

POPULATION COMPOSITION (%)

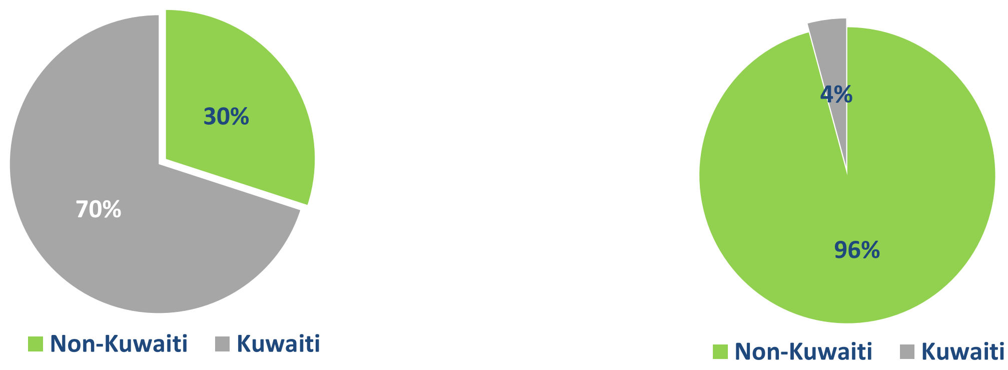
2000 | 2010 | June-2016



Source: UN, Ministry of Economy and Planning

COMPOSITION OF LABOR FORCE (%)

GOVERNMENT SECTOR | PRIVATE SECTOR



Source: Kuwait Central Statistical Bureau, Public Authority for Civil Information

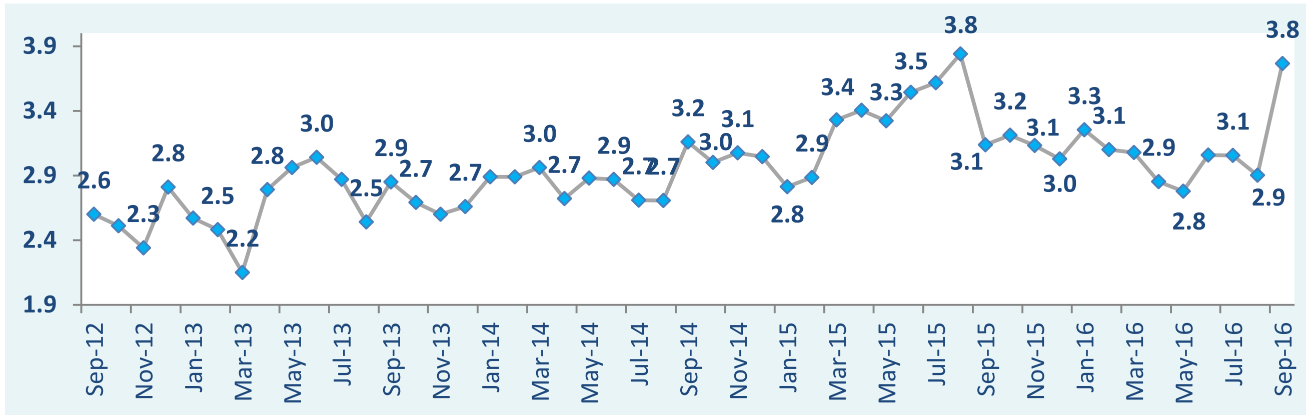
KUWAIT: Price increase remains range bound but relatively higher

Inflation in Kuwait remains range-bound around the 3% annual price increase range. However, the spike in price seen recently that pushed inflation to 3.8% was primarily due to the hike in oil prices implemented in September-16.

By expenditure, the transport inflation reflected the fuel price hike, whereas food expenditure saw minimal increase of 0.8% due to a generally low price environment globally.

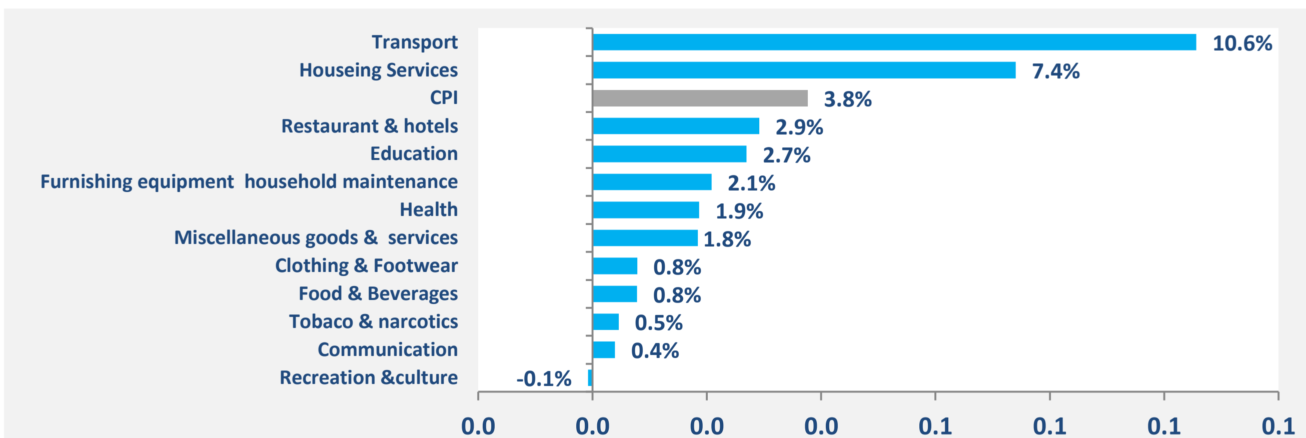
Real estate continues to report increasing prices with strong demand especially in the residential real estate segment.

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)



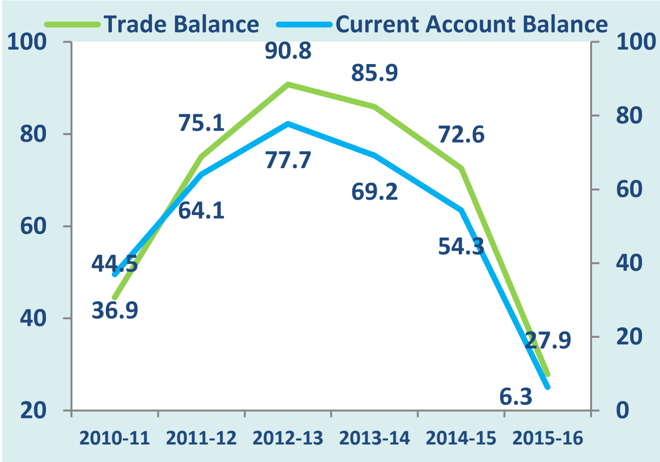
Source: Kuwait Central Statistical Bureau

KUWAIT: Revenue shortfall results in record deficit

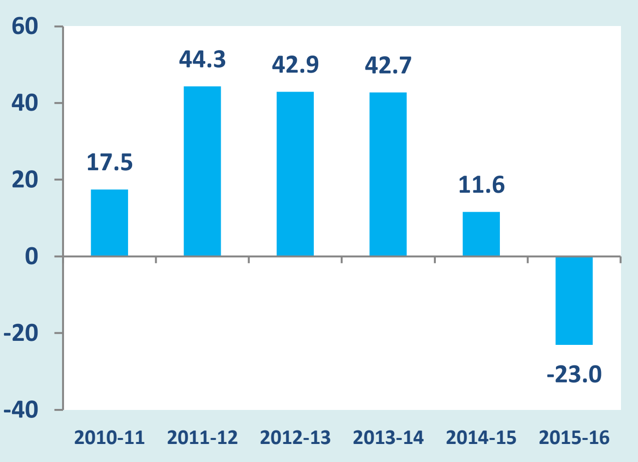
After sixteen consecutive years of surpluses, Kuwait recorded a budget deficit of USD 23 Bn during the fiscal year 2015-16. Both oil and non-oil revenues dropped by around 50% whereas expenditure dropped merely by USD 7.4 Bn.

The deficit expected for the current fiscal year (2016-17) is slightly higher at close to USD 30 Bn. The government is planning to reduce this gap by introducing several measures, first of which was the increase in fuel prices.

TRADE & C/A BALANCE (USD Bn)



FISCAL BALANCE (USD Bn)



Source: Central Bank of Kuwait

	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Trade Balance (USD Bn)	**44.5**	**75.1**	**90.8**	**85.9**	**72.6**	**27.9**
Exports	67.5	99.6	117.8	115.4	104.0	55.1
Imports	23.0	24.6	27.0	29.5	31.5	27.2
Current Account Balance (USD Bn)	**36.9**	**64.1**	**77.7**	**69.2**	**54.3**	**6.3**
Government Revenue (USD Bn)	**71.2**	**100.1**	**105.9**	**105.3**	**82.5**	**40.4**
Oil Revenue	66.0	94.6	99.2	97.0	74.5	35.6
Non-Oil Revenue	5.1	5.5	6.7	8.3	8.0	4.8
Government Expenditure (USD Bn)	**53.7**	**55.8**	**63.0**	**62.6**	**70.9**	**63.5**
Fiscal Balance (USD Bn)	**17.5**	**44.3**	**42.9**	**42.7**	**11.6**	**-23.0**

Source: Central Bank of Kuwait

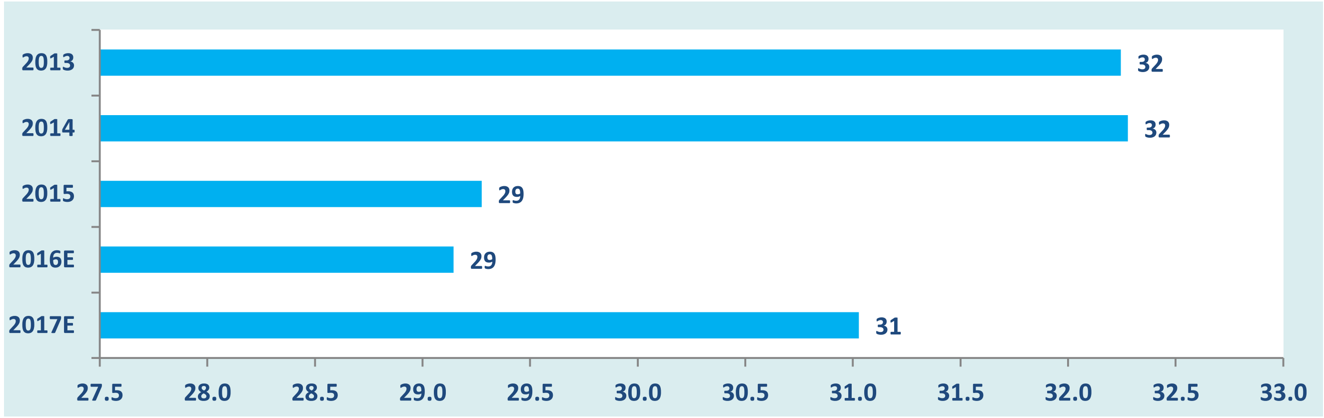
KUWAIT: Reserves at comfortable position

Kuwait's official foreign exchange reserves declined slightly by USD 3 Bn to USD 29 Bn in 2015.

Moreover, Kuwait Investment Authority's assets are currently expected to be around USD 600 Bn, one of the highest buffers in the GCC. This also provides significant support to the country's credit ratings.

Meanwhile, Kuwait has planned to raise additional debt in the near term to finance its spending plans.

FOREIGN EXCHANGE RESERVES (USD Bn)



Source: IMF

FDI INFLOW (USD Bn)

Source: UNCTAD 2016 World Investment Report

KUWAIT: Lending continues unabated

Kuwait's credit growth has reached record levels on the back of continued lending by banks that remain adequately funded.

The fact that the government continues to support investments has resulted in the strong banking indicators. Nevertheless, personal facilities continues to account for the lion's share of the total credit facilities.

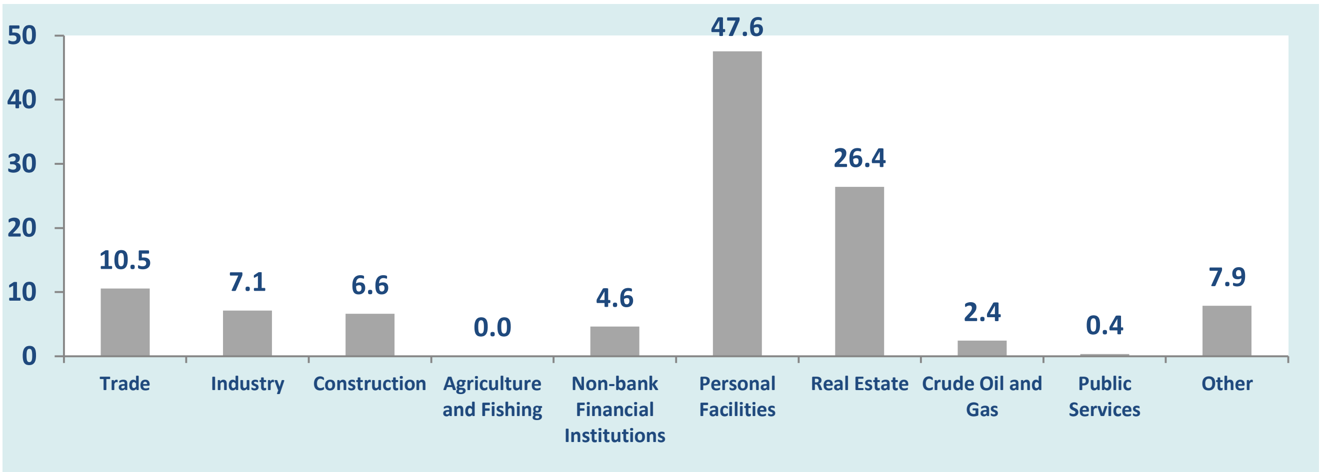
Money supply also increased year-on-year during Q2-16 on the back of higher quasi deposits whereas M1 remains flat at USD 32.7 Bn

MONEY SUPPLY & PRIVATE SECTOR LENDING (USD Bn)

	Q1-14	Q2-14	Q3-14	Q4-14	Q1-15	Q2-15	Q3-15	Q4-15	Q1-16	Q2-16
Gross Money Supply	**119.6**	**121.8**	**116.2**	**117.0**	**118.2**	**118.2**	**114.2**	**114.3**	**120.6**	**120.2**
M1	33.5	35.4	33.5	33.1	32.4	32.7	30.3	31.1	32.0	32.7
Quasi	86.1	86.4	82.7	83.9	85.8	85.5	83.9	83.2	88.6	87.6
Private Sector Lending	**112.2**	**107.2**	**107.6**	**105.8**	**105.0**	**105.1**	**107.3**	**110.3**	**111.5**	**113.6**

Source: Central Bank of Kuwait

PRIVATE SECTOR LENDING BY INDUSTRY (Q2-16, USD Bn)



Source: Central Bank of Kuwait

KUWAIT: Resilient corporate earnings

Corporate earnings continue to remain resilient in Kuwait led primarily by the banking sector.

After increasing 1.4% in 2015, we believe full year earnings for 2016 to remain either flat or increase marginally.

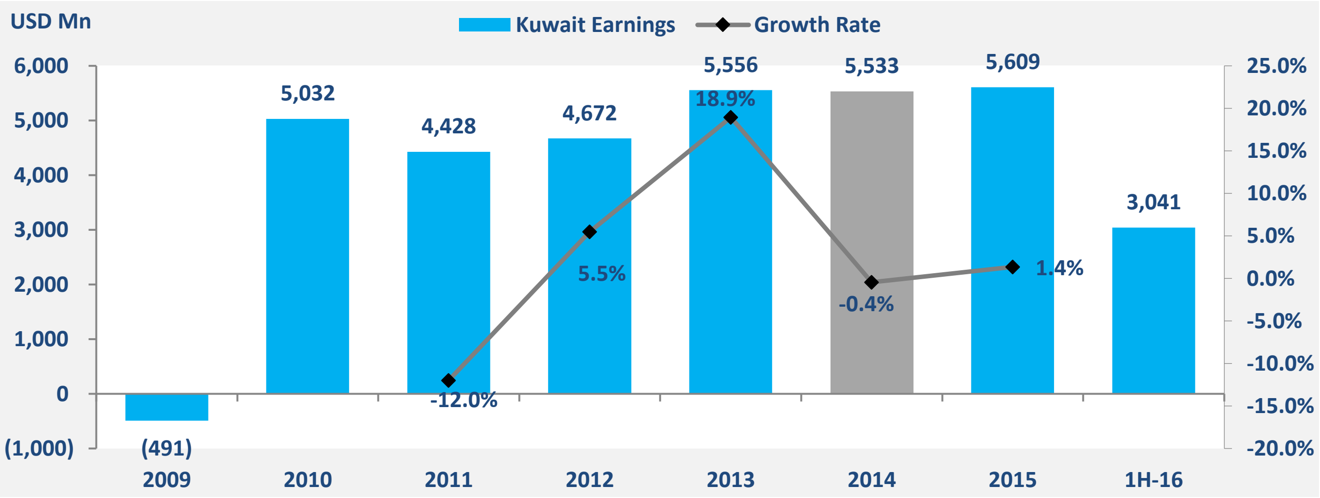
That said, the decline in the Weighted Index for the third consecutive year indicates weak investor sentiments due to low oil prices and regional instability to some extent.

KUWAIT STOCK EXCHANGE (KSE)

	2009	2010	2011	2012	2013	2014	2015	YTD Nov-16
Index Value	385.8	484.2	405.6	417.7	452.9	438.9	381.7	367.1
Y/Y Change	-5.2%	25.5%	-16.2%	3.0%	8.4%	-3.1%	-13.0%	-3.8%
Market Cap (USD Bn)	105.4	128.4	107.2	102.8	108.8	101.4	86.6	84.0
Value Traded (USD Bn)	77.1	44.2	21.4	25.5	39.5	21.4	13.1	8.4

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 Nov-16

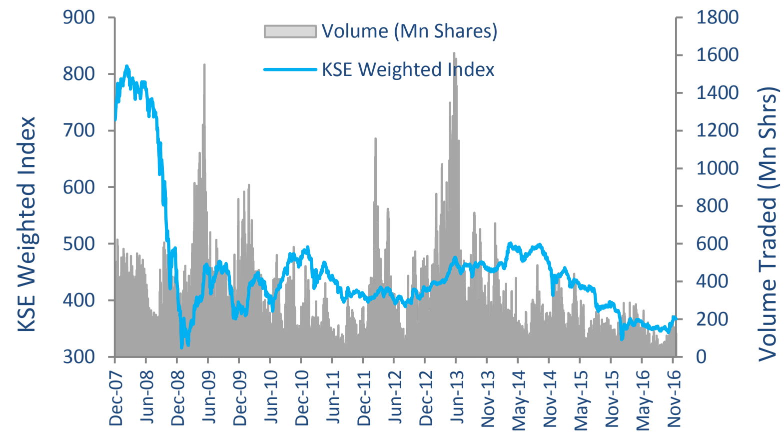
KSE Weighted Index Performance

YTD Nov-16 Return	-3.8%
YTD Nov-16 Volatility	5.2%

YTD Nov-16 trading Indicators

Volume *(Mn Shares)*	29,065
Value *(USD Mn)*	8,412
Deals *('000)*	635

KSE Weighted Index Relative to Volume Since 2008



FY 2015

KSE Weighted Index Performance

Yearly Return	-13.0%
Yearly Volatility	5.7%

Yearly trading Indicators

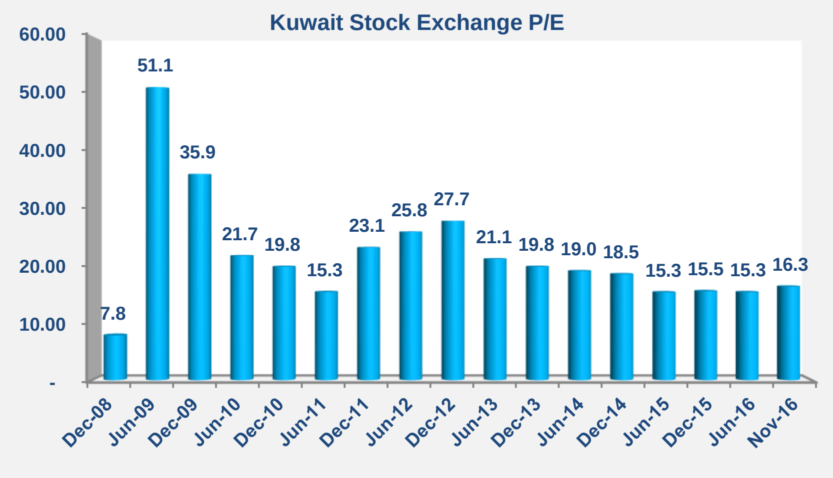
Volume *(Mn Shares)*	41,541
Value *(USD Mn)*	13,113
Deals *('000)*	962

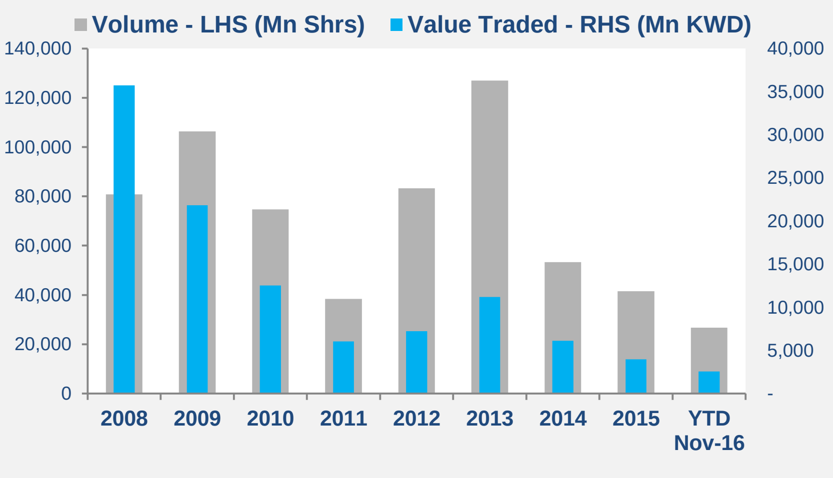
KSE declined by 13.0% during 2015, one of the highest declines in the GCC. The decline primarily reflected weak oil price trends and low liquidity. Negative investor sentiments continued during 2016 with the weighted index down by 3.8% for the first eleven months of the year. Total trading activity has declined considerably from the previous year as seen in the USD 8.4 Bn in value traded during the first eleven months of the year as compared to USD 13.1 Bn for 2015. The exchange also witnessed at least four delistings during 2015 and six so far in 2016, mainly of illiquid small-cap stocks.

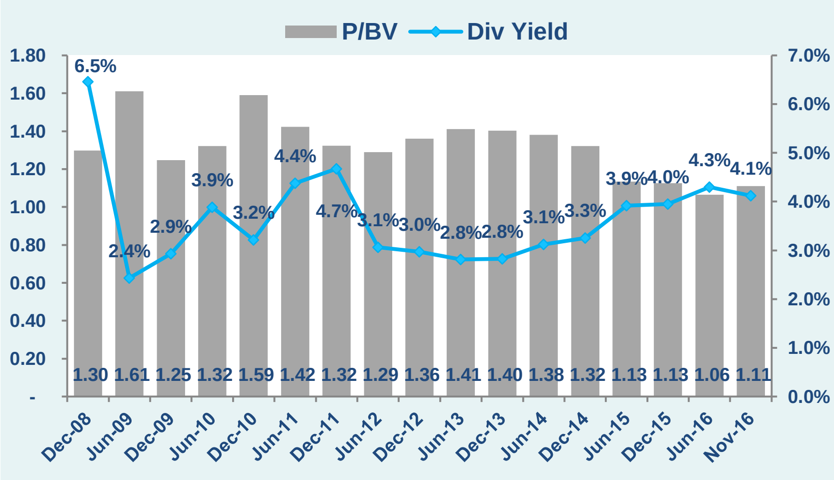
Source: Kuwait Stock Exchange, KAMCO Research

KUWAIT : Valuation Multiples & Trading Indicators

KUWAIT SE - VALUATION MULTIPLES & TRADING INDICATORS







Valuation Multiples & Trading Indicators

Despite resilient earnings for the past year and in 2016, Kuwait's earnings multiples are one of the highest in the GCC. The country's P/E ratio has although declined consistently over the years, it continues to be one of the highest in the GCC at 16.3x, whereas P/BV was recorded at close to 1.11x at the end of November-16. In terms of dividend yields, Kuwait stood at 4.1%, a slightly lower level as compared to Saudi Arabia. Overall liquidity in the market remained at depressed levels for majority of 2016, however, it has seen some significant jump over the past one month.

Source: Kuwait Stock Exchange, KAMCO Research

KUWAIT ECONOMIC OUTLOOK

Fiscal constraints and sluggish growth in the near term

The decline in oil price and the investment trend so far shows that the country has a pro-investment stance. This could result in fiscal deficits for the next two fiscal years, only to become positive from the third year, as oil prices stabilize further supported by the expected but marginal contribution from non-oil sectors. Meanwhile, the current account balance is expected to fluctuate in line with the trend in oil prices. The easing of fiscal constraints sooner than expected would only result from a higher-than-expected rise in oil price, which still remains to be monitored over the medium term post talks on production cuts by OPEC members. However, firming oil price would help the country to implement some of the stalled projects and count drive accelerated economic activity.

Moreover, the use of PPP as an alternative means of financing projects, and to ease the burden on public finances is being promoted by the government. However, constraints remain due to the country's limited experience with working with PPP projects. This coupled with minimal relative progress on improving business confidence as seen in the Competitiveness ranking and the Doing Business score, attracting private foreign investment in PPP projects would be a difficult task. The government is also planning to issue bonds to finance budget deficits and with the good reception that the Saudi Arabian bond received. Kuwait is also expected to issue USD 10 Bn worth of bonds early in 2017.

GDP growth is expected to remain subdued in the near term below the 4% mark. The oil sector would continue to receive a big portion of government investment as seen from the construction of the USD 16 Bn refinery at Al Zour and the USD 12 Bn Clean Fuels Project. The government is also seeking international expertise to develop its ageing oil fields towards the north of the country, in order to further increase oil output. The country aims to boost oil output to 4 mb/d by 2020, and has an additional 300 tb/d added to its capacity by early next year.

A number of fiscal reforms are also in the pipeline that are likely to be implemented sooner-than-expected due to the urgent need to support state revenues. The country recently raised fuel prices in a historical move and almost doubled prices of certain grade of oil. Moreover, electricity and water subsidies, that are some of the highest in the world, are also set to be slashed, although initially it will be implemented only on expatriates and businesses. Other revenue raising efforts include the privatization of state oil assets and the implementation of corporation tax of 10% coupled with a value added tax starting from 2018.

SECTION 6| UAE

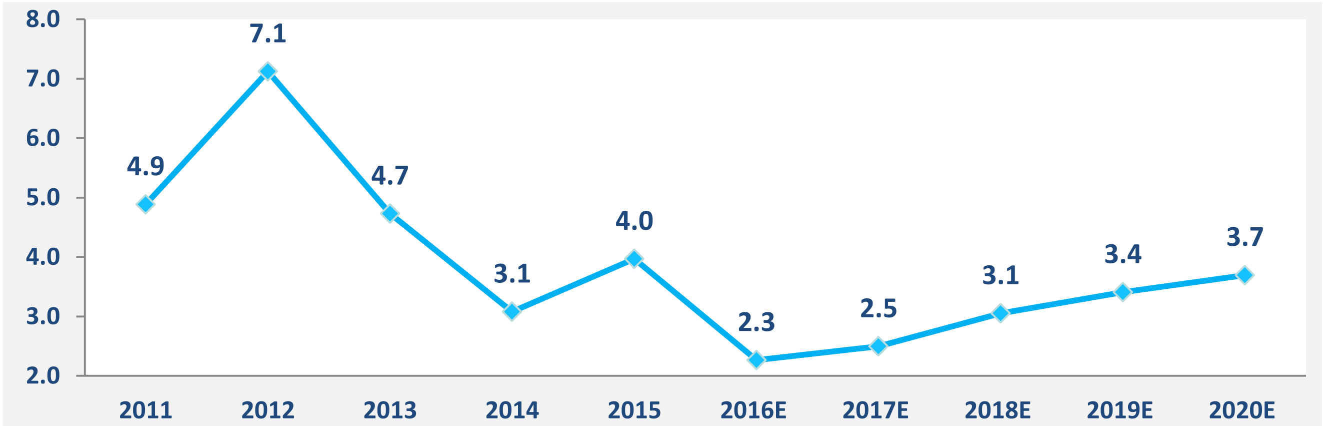
UAE: Results of diversifications are imminent and visible

UAE's pro-diversification efforts are yielding results as seen in the country's 4% growth during 2015 as compared to low single digit growth in most of the other GCC economies.

Dubai remains the engine of growth for the UAE with most of the investment projects, both public and private, coming in this region.

Decline in oil prices would partially impact future growth, the contribution of non-oil sector is expected to further expand to 71% by 2020 as compared to 68.8% in 2015.

UAE REAL GDP GROWTH (%)



Source: IMF

	2012	2013	2014	2015	2016E	2017E	2018E	2019E	2020E
Nominal GDP (USD Bn)	373.4	388.6	402.0	370.3	375.0	407.6	434.8	463.4	496.9
Real GDP Growth (%)	7.1	4.7	3.1	4.0	2.3	2.5	3.1	3.4	3.7
Oil Sector	7.6%	2.9%	0.8%	5.0%	1.0%	1.5%	2.5%	2.0%	1.0%
Non-Oil Sector	6.4%	5.6%	4.1%	3.2%	2.9%	3.2%	3.7%	4.3%	4.3%
Contribution to GDP (%)									
Oil Sector	32.1%	31.5%	30.8%	31.2%	30.8%	30.4%	30.2%	29.7%	29.0%
Non-Oil Sector	67.9%	68.5%	69.2%	68.8%	69.2%	69.6%	69.8%	70.3%	71.0%
Oil Production (mn b/d)	2.6	2.3	2.3	2.5	2.7	2.8	2.8	2.9	2.9

Source: KAMCO, IMF, UAE Central Banks, Factset, Oxford Economics

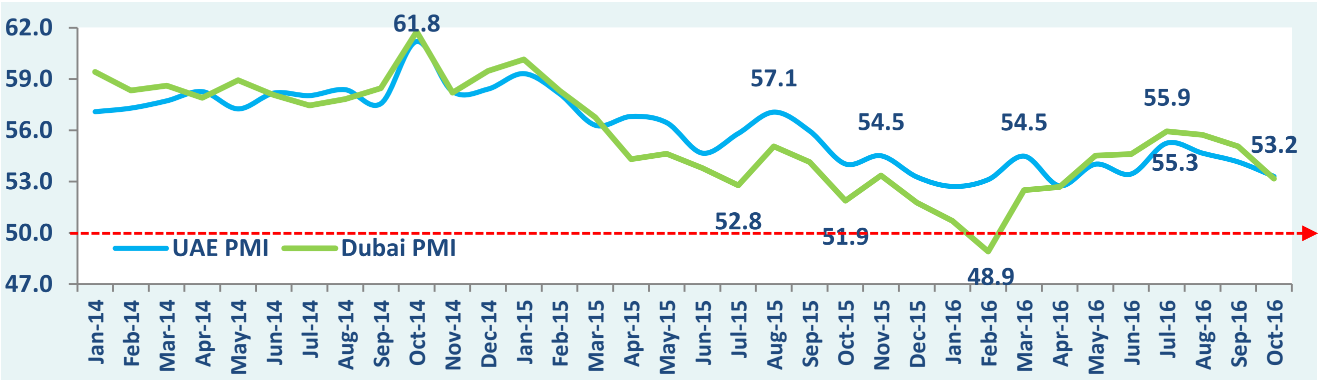
UAE: Private sector activity remains range bound but above the stagnation mark

Private sector activity in the UAE slowed down for the third consecutive month to reach 53.2 points in October-16 after peaking at 55.3 points in July-16.

According to the latest index, new employment stagnated in the country that affected economic optimism and sentiment to the lowest in six months with export orders declining for the fourth consecutive month.

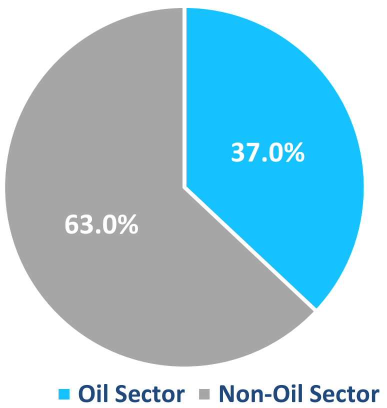
However, output continued to expand although at a declining pace.

UAE - MANUFACTURING PMI

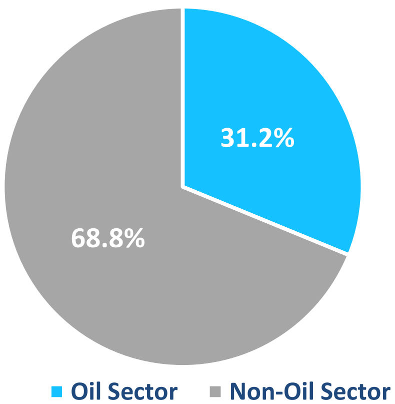


Source: Markit, Factset

2005- CHANGE IN GDP COMPOSITION



2015 CHANGE IN GDP COMPOSITION



Source: National Bureau of Statistics, UAE

UAE: A faster pace of exports in the near term

Expanding non-oil exports has been one of the prime agendas of the government in order to stabilize economic growth and diversify into long term sustainable sectors.

However, the recent decline in new export orders, also reflected in the PMI, has slowed down the growth momentum seen during the third quarter.

On the other hand, food is one of the key import items in the UAE which is expected to rise as the population and popularity of the country rises.

REAL GDP GROWTH BY TYPE OF EXPENDITURE (%)

	2010	2011	2012	2013	2014	2015	2016E	2017E	2018E	2019E	2020E
Private Consumption	10.5%	1.5%	-18.9%	-1.6%	25.3%	-12.0%	-	-	-	-	-
Public Consumption	0.9%	3.7%	4.1%	23.2%	5.8%	16.6%	-	-	-	-	-
Gross Capital Formation	-9.6%	1.8%	13.2%	11.5%	8.3%	10.6%	-	-	-	-	-
Exports	0.4%	20.7%	19.0%	5.1%	0.2%	3.4%	3.2%	4.9%	6.0%	7.0%	6.9%
Imports	2.1%	18.8%	5.2%	6.5%	12.3%	-1.2%	1.5%	4.0%	5.0%	6.0%	6.5%

Source: National Bureau of Statistics, UAE, Factset, Oxford Economics

UAE: Second consecutive year of all round growth

All the components of GDP has seen positive growth for the second consecutive year, with the only exception of Government Services, which we believe is a positive sign considering rising government services trend in other economies.

One of the key features of UAE's GDP is the sizable contribution from each of the individual sectors, despite mining and quarrying being the biggest pie.

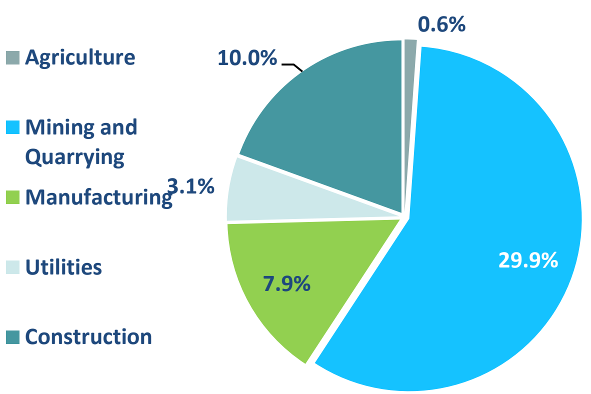
The Producing sectors and Services sectors are also almost equally weighted in terms of contribution, which makes services a big contributor

GDP GROWTH IN KEY SECTORS (%)

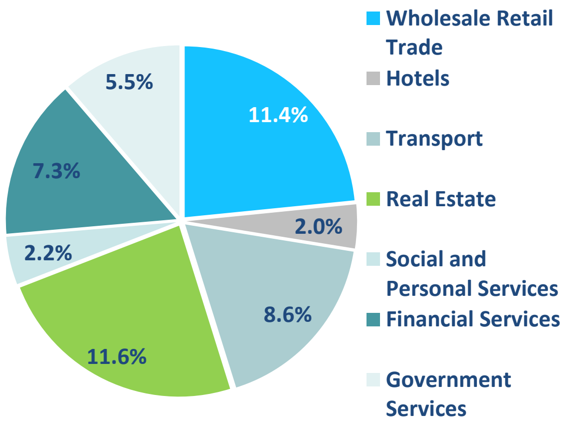
		2013	2014	2015
Producing Sectors	Agriculture	-0.5%	1.9%	3.2%
	Mining and Quarrying	3.0%	0.8%	5.0%
	Manufacturing	-5.7%	4.6%	3.2%
	Utilities	10.2%	9.4%	3.9%
	Construction	4.2%	5.8%	3.7%
Services Sectors	Wholesale, Retail Trade	8.3%	2.9%	2.7%
	Hotel	12.9%	7.4%	3.8%
	Transport	2.3%	3.2%	4.2%
	Real Estate	11.0%	2.9%	3.9%
	Social & Personal Services	2.1%	2.3%	4.1%
	Financial Services	13.3%	14.3%	3.0%
	Government Services	11.3%	5.2%	-0.2%

CONTRIBUTION TO 2015 GDP (%)

PRODUCING SECTORS



SERVICES SECTORS



Source: UAE Central Bank

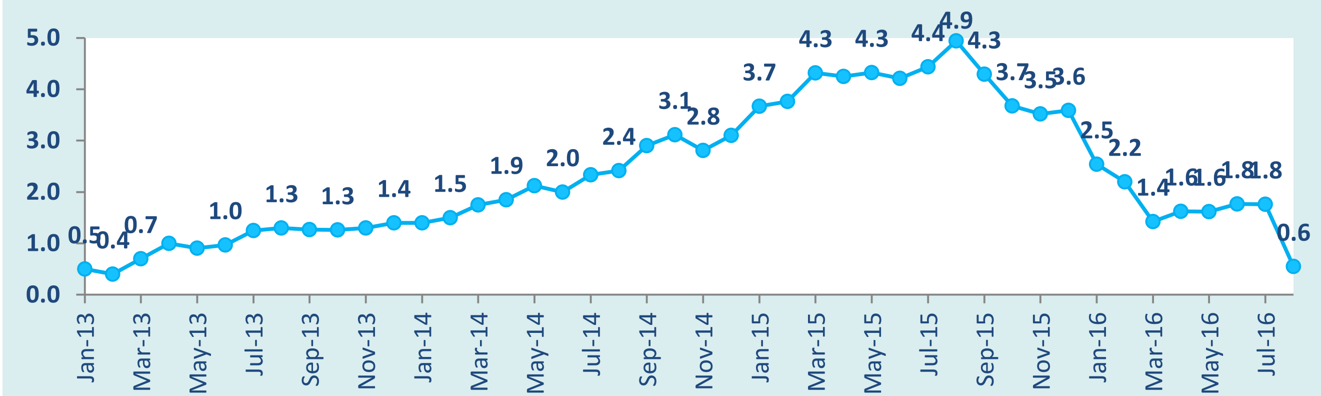
UAE: Declining inflation as prices of key components are lowered

Inflation has eased considerably over the past one year after it peaked at 4.9% annually during August-15.

The current annual inflation is the lowest since February-13 and comes primarily as a result of fall in transportation costs after the government lowered fuel costs.

Utility costs, which accounts for one of the highest share of consumer expenses, increased by 2.7% while education costs increased 3.8% primarily after Abu Dhabi allowed school fees to be raised.

ANNUAL INFLATION (%)



Source: National Bureau Of Statistics, UAE

CHANGE IN CONSUMER PRICES BY EXPENDITURE CATEGORY (August 2016 VS. August 2015)

Source: National Bureau Of Statistics, UAE

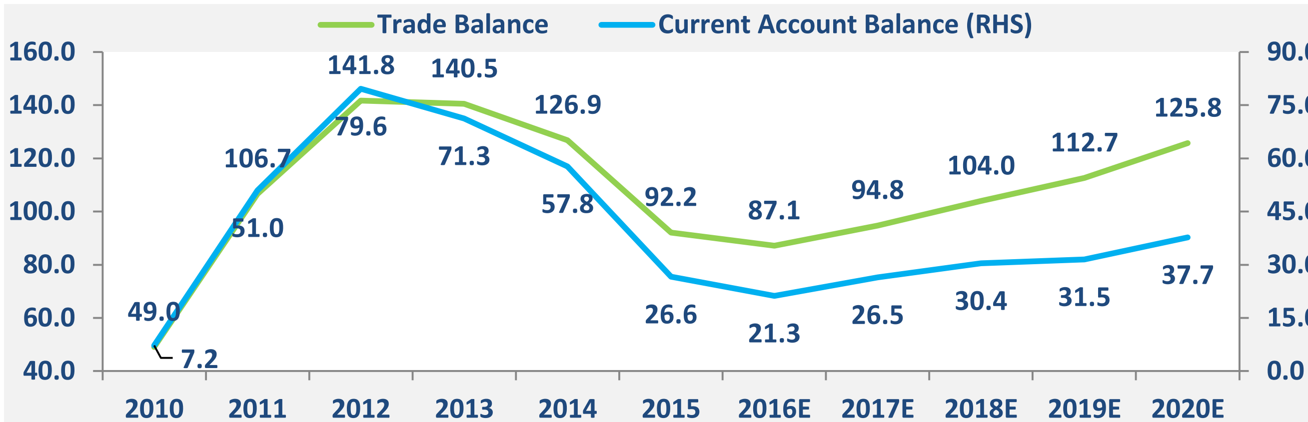
UAE: Rising trade surplus supports current account balance

Non-oil exports have increased consistently over the past five years at an average rate of 16% to reach USD 137.3 Bn in 2015. On the other hand, after increasing marginally in 2013, oil and gas exports have declined for three years in a row.

Trade and current account balance continues to remain in surplus and is expected to increase during the forecast period.

Trade balance reached USD 92.2 Bn in 2015 whereas the current account balance is expected to bottom in 2016 at USD 21.3 Bn and then grow gradually.

TRADE & CURRENT ACCOUNT BALANCE (USD Bn)



Source: UAE Central Bank, IMF

	2010	2011	2012	2013	2014	2015	2016E	2017E	2018E	2019E	2020E
Trade Balance (USD Bn)	**49.0**	**106.7**	**141.8**	**140.5**	**126.9**	**92.2**	**87.1**	**94.8**	**104.0**	**112.7**	**125.8**
Oil & Gas Exports	60.1	90.7	103.2	106.9	90.2	49.0	-	-	-	-	-
Non-Oil Exports	65.6	91.9	123.3	126.7	133.9	137.3	-	-	-	-	-
Re-Exports	88.0	119.6	133.5	137.8	143.5	147.1	-	-	-	-	-
Imports	-164.7	-195.6	-218.2	-231.0	-240.8	-241.4	-	-	-	-	-
Net Services, Income, Transfers (USD Bn)	-41.8	-55.7	-62.2	-69.3	-69.1	-65.5	-	-	-	-	-
Current Account Balance (USD Bn)	**7.2**	**51.0**	**79.6**	**71.3**	**57.8**	**26.6**	**21.3**	**26.5**	**30.4**	**31.5**	**37.7**

Source: FCSA-UAE, Oxford Economics, Factset

UAE: Top FDI destination in the GCC

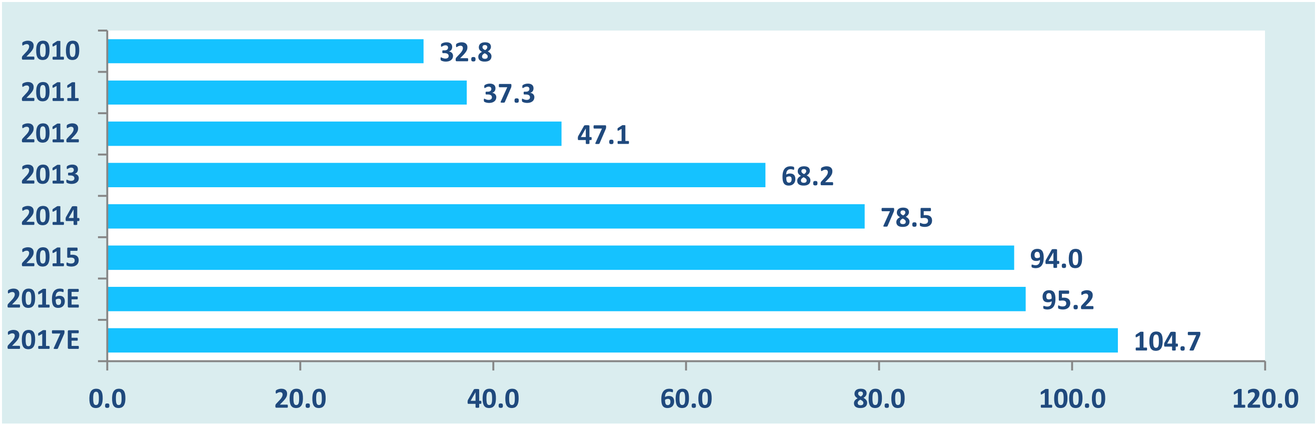
The numerous projects going on in the UAE in various sectors makes it the top investment destination for international investors

In terms of greenfield FDI projects, UAE continues to top the chart with a total value of USD 22.1 Bn.

UAE's foreign reserves have also grown consistently over the past years reaching USD 94 Bn in 2015.

The country's tapping of resources to support budget is expected to lead to the smallest growth in foreign reserves during 2016.

FOREIGN RESERVES (USD Bn)



Source: IMF

FDI INFLOW (USD Bn)

Source: UNCTAD 2016 World Investment Report

FDI OUTFLOW (USD Bn)

Source: UNCTAD 2016 World Investment Report

UAE: Credit facilities grow despite liquidity crunch

Banks facing liquidity crunch in the UAE due to the low oil prices continued to roll out higher credit facilities during Q3-16 as personal business loans and construction activity account for almost 50% of total private sector lending.

Overall money supply also edged up during Q3-16 due to higher quasi-deposits partially dented by declining more-liquid M1 as well as close to USD 5 Bn drop in government deposits.

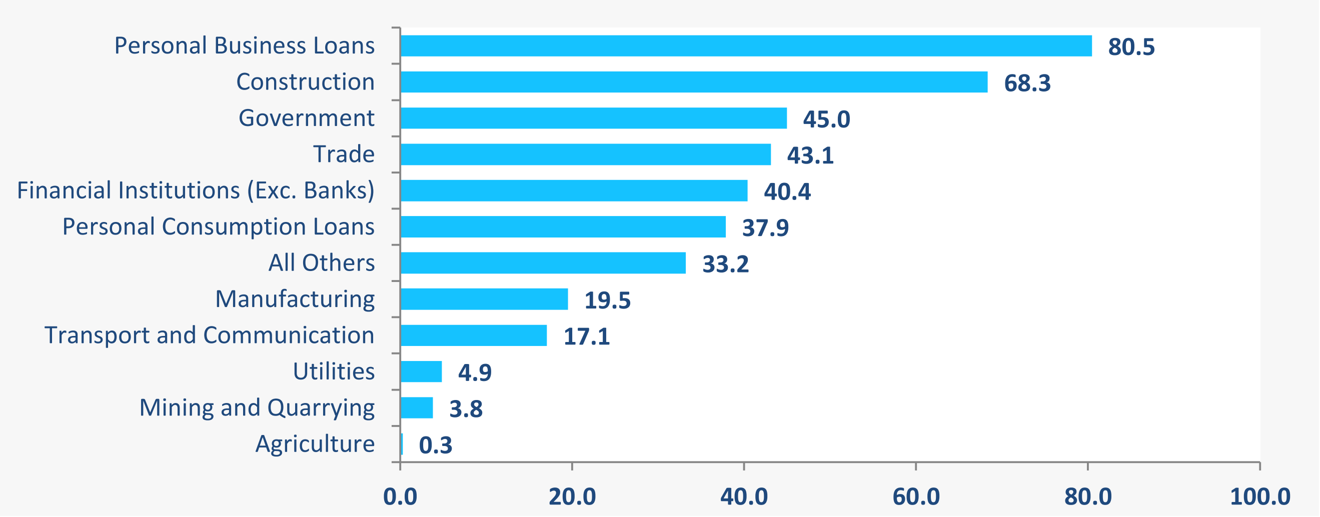
The Central bank of UAE expects loan growth of mid-to-high single digit during 2017.

MONEY SUPPLY & PRIVATE SECTOR LENDING (USD Bn)

	Q1-14	Q2-14	Q3-14	Q4-14	Q1-15	Q2-15	Q3-15	Q4-15	Q1-16	Q2-16	Q3-16
Gross Money Supply	**347.7**	**361.0**	**365.2**	**362.4**	**366.8**	**364.5**	**360.2**	**365.9**	**374.4**	**371.9**	**372.9**
M1	115.5	121.9	121.1	123.1	124.5	126.5	123.6	124.5	133.6	131.1	128.7
Quasi Deposits	190.2	189.0	187.8	187.8	192.3	193.5	192.0	198.9	198.4	190.6	198.3
Govt. Deposits	42.1	50.2	56.2	51.5	50.0	44.5	44.6	42.5	42.3	50.2	45.9
Private Sector Lending	**246.0**	**257.0**	**267.2**	**261.1**	**265.2**	**272.5**	**278.7**	**284.3**	**287.5**	**291.5**	**295.4**

Source: UAE Central Bank

PRIVATE SECTOR LENDING (Q3-2016, USD Bn)



Source: UAE Central Bank

UAE: DFM once again the best performing market in the GCC

Business optimism and economic resilience due to the large non-oil sector contribution pushed markets higher during 2016 after a year of decline during 2015.

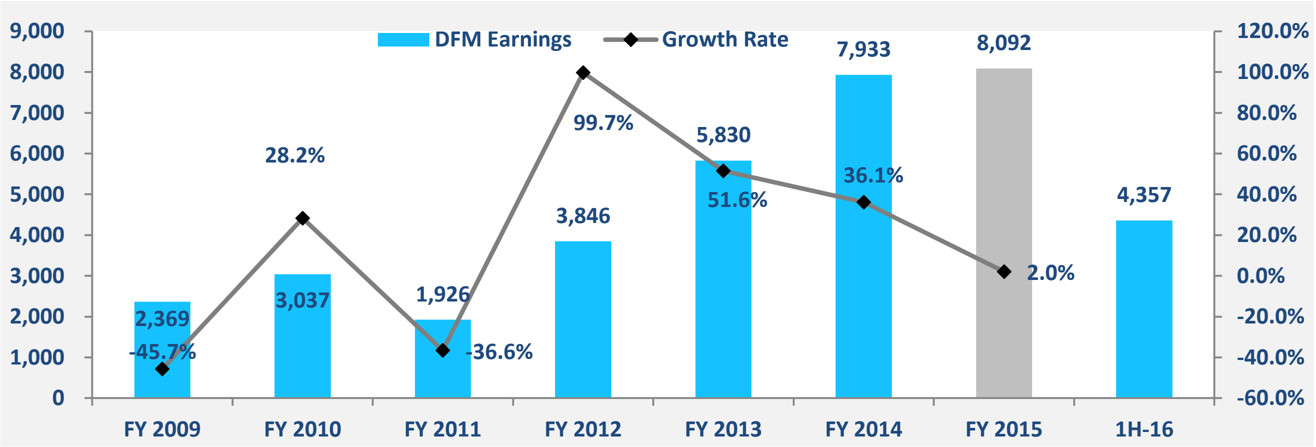
Nevertheless, trading activity declined significantly as trading during the first nine months of the year was merely USD 24.8 Bn as compared to full year trading of USD 41.2 Bn during 2015.

Corporate earnings also remain resilient although the pace of growth declined significantly during 2015.

DUBAI FINANCIAL MARKET INDEX (DFM)

	2009	2010	2011	2012	2013	2014	2015	YTD Nov-16
Index Value	1,803.6	1,630.5	1,353.4	1,622.5	3,369.8	3,774.0	3,151.0	3,360.9
Y/Y Change	10.2%	-9.6%	-17.0%	19.9%	107.7%	12.0%	-16.5%	6.7%
Market Cap (USD Bn)	56.7	52.4	47.3	47.6	72.7	91.2	82.0	86.1
Value Traded (USD Bn)	47.2	19.0	8.7	13.2	43.5	102.9	41.2	32.2

DUBAI – CORPORATE EARNINGS (USD Mn, % GROWTH)



Source: DFM, KAMCO Research

UAE: DFM – Historical Performance

DUBAI FINANCIAL MARKET (DFM)

YTD Nov-16

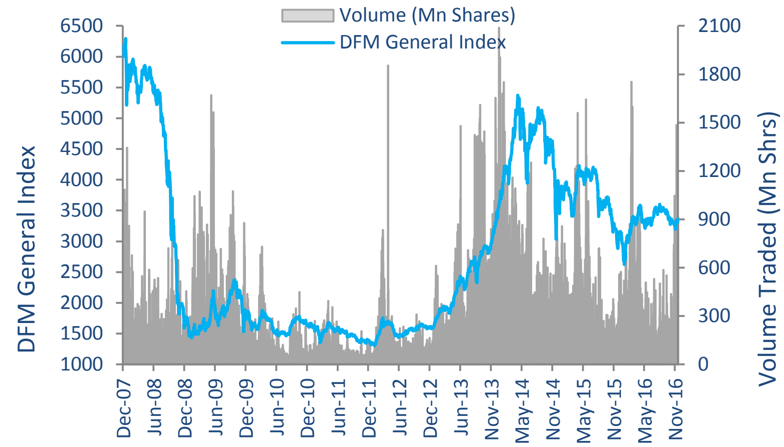
DFM General Index Performance

YTD Nov-16 Return	6.7%
YTD Nov-16 Volatility	13.5%

YTD Nov-16 trading Indicators

Volume *(Mn Shares)*	100,489
Value *(USD Mn)*	32,203
Deals *('000)*	1,183

DFM General Index Relative to Volume Since 2008



FY 2015

DFM General Index Performance

Yearly Return	-16.5%
Yearly Volatility	23.6%

Yearly trading Indicators

Volume *(Mn Shares)*	98,177
Value *(USD Mn)*	41,212
Deals *('000)*	1,567

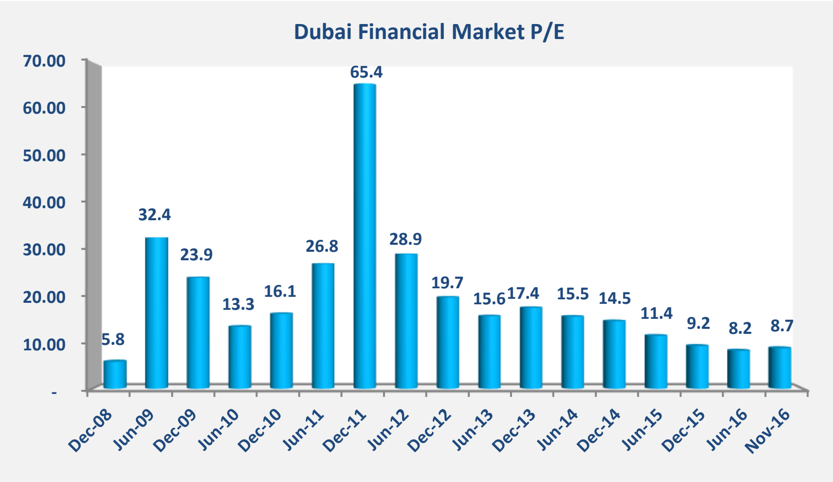
DFM was the best performing market in the GCC during the first eleven months of 2016 largely insulated from the decline in oil prices. Resilient corporate earnings and a vibrant economic activity led to positive investor sentiments.

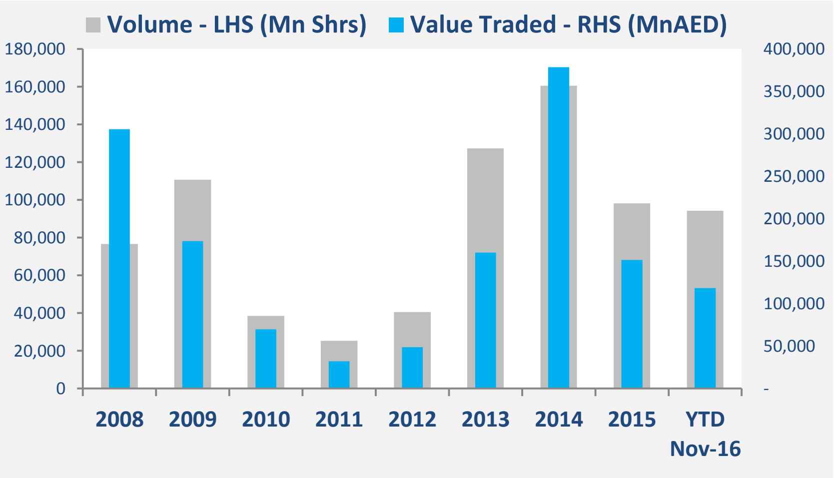
Dubai is also the only market to report higher trading activity on the exchange as compared to 2015 levels. Total volume traded on the exchange surged to 100.5 Bn shares by November-16 as compared to full year volume of 98 Bn in 2015. However, value traded declined during YTD-16 recorded at USD 32.2 Bn vs. USD 41.2 Bn in 2015.

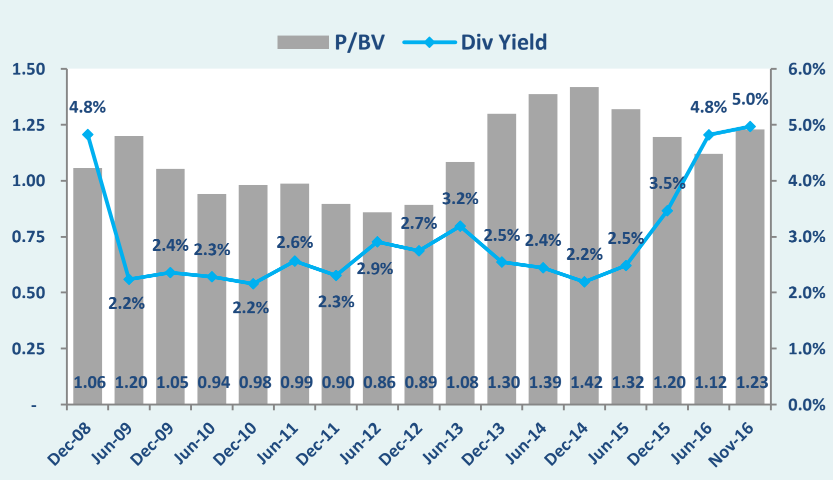
Source: DFM, KAMCO Research

UAE: DFM - Valuation Multiples & Trading Indicators

DFM - VALUATION MULTIPLES & TRADING INDICATORS







Valuation Multiples & Trading Indicators

Despite positive returns during the year, valuation multiples for the DFM remains extremely compelling with a P/E of 8.7x at the end of November-16. Price to Book Value of 1.23x also remains at a relatively low level, although it has increased consistently since mid-2015.

In terms of dividend yield, Dubai-listed companies are one of the strongest with a yield of around 5% at the end of November-16. Dividend yields during 2016 are also at one of the highest levels since the financial crisis.

Source: DFM, KAMCO Research

UAE: Resilient earnings push sentiment

ADX remained flat at the end of November-16, and one of the better performing indices in the GCC YTD on a relative basis

The performance was primarily on the back of positive returns in the telecom index followed by the real estate sector and the energy sector.

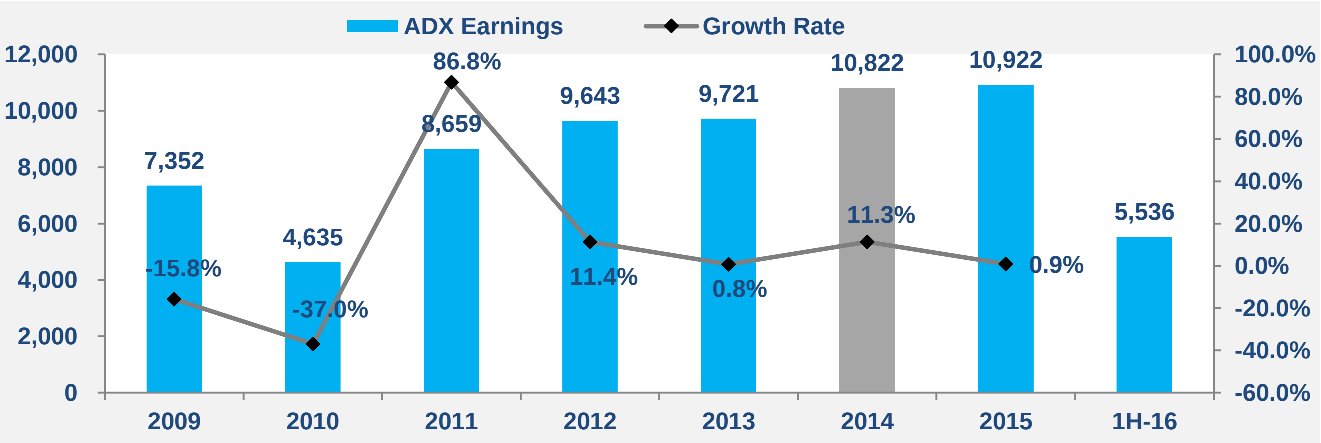
Banking index declined as liquidity crunch affected the stock market performance of large banks.

On the positive side, earnings maintained a marginally positive trend in 2015.

ABU DHABI SECURITIES EXCHANGE (ADX)

	2009	2010	2011	2012	2013	2014	2015	YTD Nov-16
Index Value	2,743.6	2,719.9	2,402.3	2,630.9	4,290.3	4,528.9	4,307.3	4,308.8
Y/Y Change	14.8%	-0.9%	-11.7%	9.5%	63.1%	5.6%	-4.9%	0.0%
Market Cap (USD Bn)	81.4	78.4	70.7	79.0	122.3	126.3	116.6	121.2
Value Traded (USD Bn)	19.1	9.1	6.7	6.0	23.0	39.5	15.9	11.8

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



Source: ADX, KAMCO Research

KAMCO

UAE: ADX – Historical Performance

ABU DHABI SECURITIES EXCHANGE (ADX)

YTD Nov-16

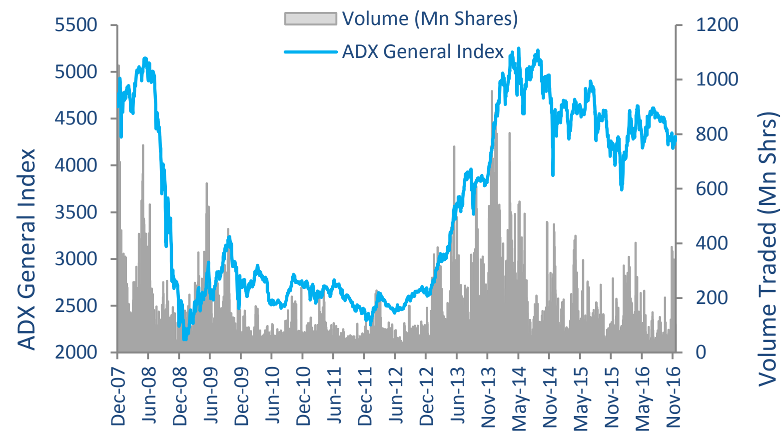
Abu Dhabi Index Performance

YTD Nov-16 Return	**0.0%**
YTD Nov-16 Volatility	**7.9%**

YTD Nov-16 trading Indicators

Volume *(Mn Shares)*	**25,393**
Value *(USD Mn)*	**11,805**
Deals *('000)*	**334**

Abu Dhabi Index Relative to Volume Since 2008



FY 2015

Abu Dhabi Index Performance

Yearly Return	**-4.9%**
Yearly Volatility	**10.8%**

Yearly trading Indicators

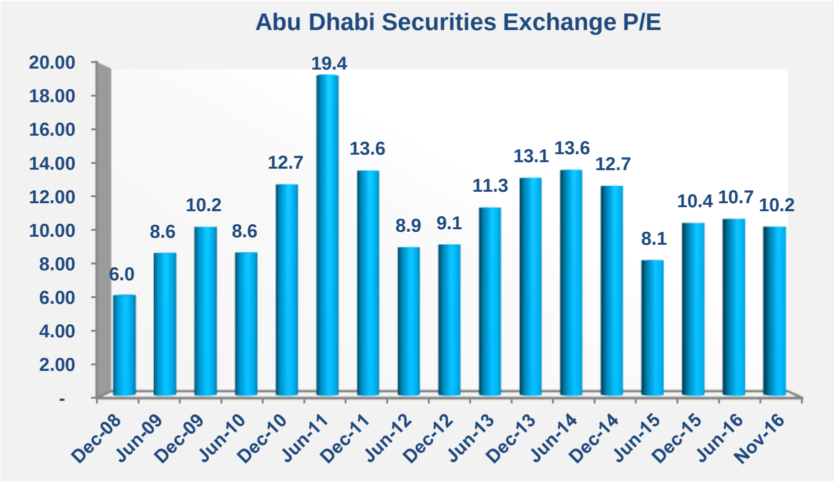
Volume *(Mn Shares)*	**25,445**
Value *(USD Mn)*	**15,892**
Deals *('000)*	**437**

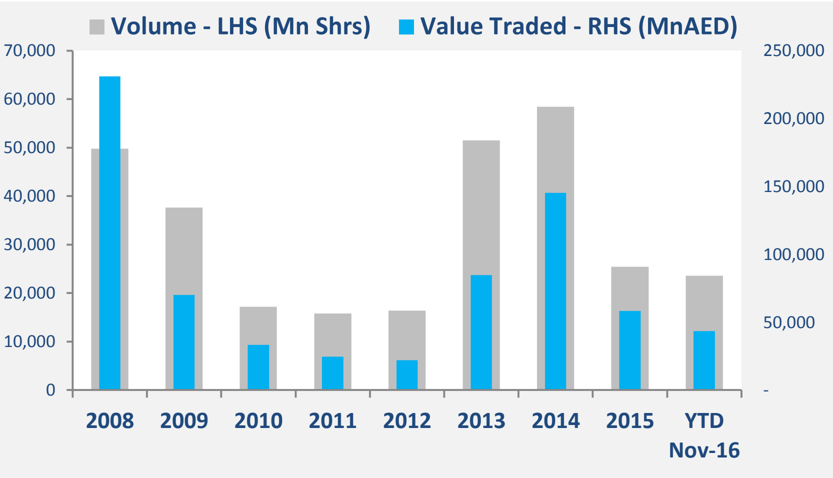
Volatility remained significantly low as compared to other markets in the GCC as well as versus 2015. Nevertheless, oil price had its fair share of impact on the market as the index was swayed by the movement in oil prices due to Abu Dhabi's higher dependence on oil. Sectoral earnings performance was also reflected in the market movements. Banks reported a steep decline in earnings that was reflected in the negative performance of the banking index (-7.3%). On the other hand, although oil earnings declined, stabilizing oil prices resulted in 7.6% gains in the energy index.

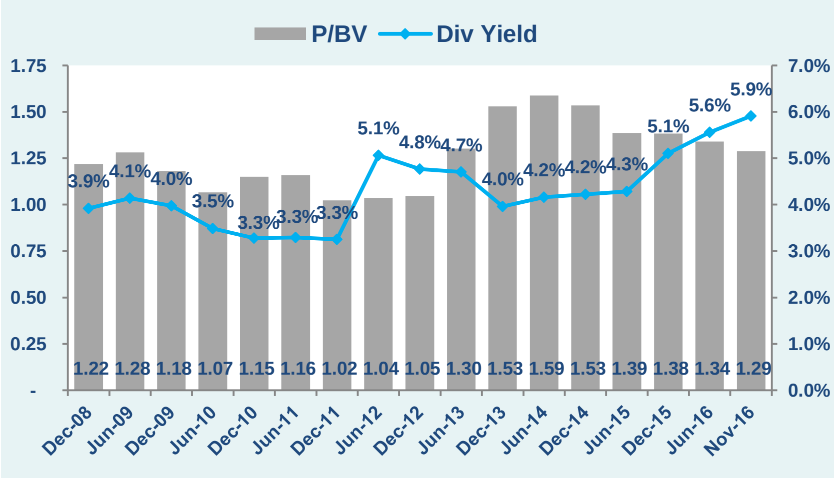
Source: ADX, KAMCO Research

UAE: ADX - Valuation Multiples & Trading Indicators

ADX- VALUATION MULTIPLES & TRADING INDICATORS







Valuation Multiples & Trading Indicators

ADX continues to trade at relatively cheap multiples as compared to other larger markets in the GCC and in the MENA region. Market P/E of 10.2x remains at one of the lowest levels since the start of the year, although P/E during 2Q-16 and 3Q-16 was even lower at less than 9.0x. The P/BV of 1.29x was also one of the lowest since 2013.

Trading activity has declined significantly during 2016 with both volume and value traded recording steep ytd declines. Value traded until Nov-16 stood at USD 11.8 Bn as compared to USD 15.9 Bn for full year 2015.

Source: ADX, KAMCO Research

UAE ECONOMIC OUTLOOK

A faster pace of recovery despite the impact of low oil prices

UAE is one of the fastest growing economies in the GCC region with minimal dependence on oil revenues (2% of GDP in the case of Dubai as compared to more than 40% in the case of Saudi Arabia, Kuwait). Although Abu Dhabi has a greater share of oil earnings in its finances, UAE capital is following a differentiated strategy of aggressive consolidation of government entities in energy, banking and education sectors in order to drive efficiencies and save costs in light of declining oil revenues. The recently announced plans to merge Abu Dhabi's two largest offshore oil producers into a single entity by early 2018 is one of the efforts in this direction. On the other hand, Dubai, due to its large non-oil business base, continues to spend on infrastructure as it prepares to host the World Expo in 2020. The UAE recorded the highest contract awards during the first nine months of 2016 at USD 30.7 Bn out of which Dubai comprised USD 21 Bn. Almost USD 17.6 Bn were transport and construction deals in Dubai. Moreover, tourism sector investments continue unabated with USD 2.6 Bn worth of new projects announced recently.

UAE is also one of the most active and leading GCC player in terms of drafting regulations and its implementation. One of the key fiscal measures to be implemented is the proposed introduction of 5% VAT in the UAE from 1st January 2018, the first in the region. AED 12 Bn is expected to be generated as income for the government from VAT which is expected to be reinvested in boosting the country's infrastructure. Furthermore, the introduction of the planned bankruptcy law that is expected to include international best practices would help to develop a sustainable banking system, attract foreign investment and encourage local entrepreneurship by boosting avenues to start SMEs.

Abu Dhabi continues to maintain its investment grade with S&P rating the UAE capital at AA, in line with Qatar and Kuwait. The country's sizable sovereign wealth fund acts as a significant buffer to support the economy. Moreover, Sharjah and Ras Al-Khaimah are also rated as investment grade with the ratings slightly below that of Abu Dhabi. A comfortable credit rating also helps the country attract foreign investments and also raise debt in the international market.

We reiterate that investments made in diversifying UAE's economy is paying off with GDP expected to grow despite a steep decline in oil prices. UAE's GDP growth is expected to surpass that of less diversified economies in the region backed with an expected 4% growth in non-oil GDP by 2020.

SECTION 7| Qatar

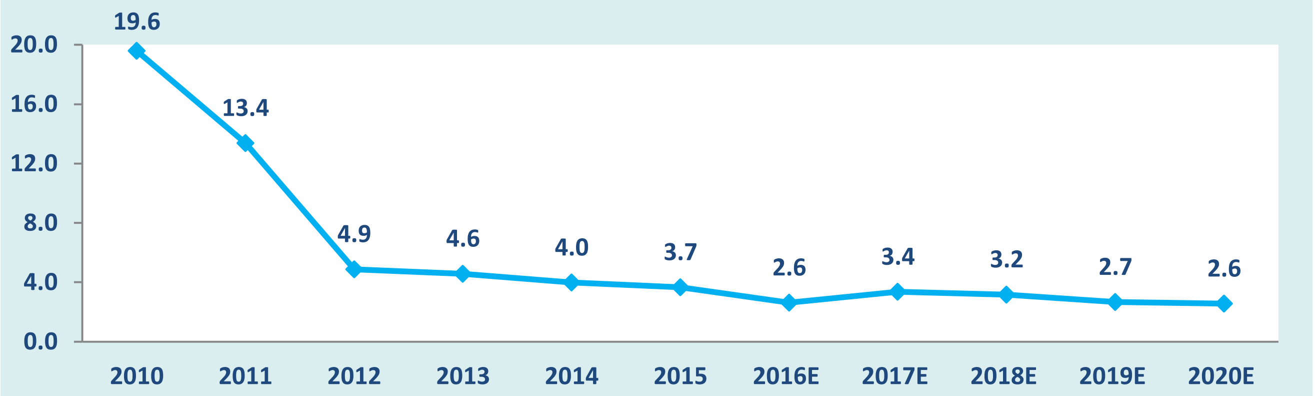
QATAR: Near term growth to peak in 2017 then normalize

The ongoing projects leading up to the Fifa World Cup to be held in Qatar in 2022 has spurred project activity in the country leading to higher growth rates in the recent years and higher employment

The developments are also aimed at diversifying the economy away from the dependence on oil and gas revenues.

Nevertheless, growth in the non-oil sector seems to be normalizing from double digit levels to mid single digit in the near term.

QATAR REAL GDP GROWTH (%)



Source: IMF

	2012	2013	2014	2015	2016E	2017E	2018E	2019E	2020E
Nominal GDP (USD Bn)	**190.3**	**201.9**	**210.1**	**166.9**	**156.6**	**170.8**	**189.1**	**203.1**	**215.7**
Real GDP Growth (%)	**4.9**	**4.6**	**4.0**	**3.7**	**2.6**	**3.4**	**3.2**	**2.7**	**2.6**
Hydrocarbon Sector	1.2%	0.1%	-1.5%	-0.1%	0.7%	0.8%	0.7%	0.7%	0.8%
Non-Hydrocarbon Sector	10.2%	10.6%	11.0%	7.7%	6.2%	6.5%	6.5%	6.6%	6.4%
Contribution to GDP (%)									
Hydrocarbon Sector	57%	55%	52%	50%	49%	47%	46%	44%	43%
Non-Hydrocarbon Sector	43%	45%	48%	50%	51%	53%	54%	56%	57%
Oil Production (mn b/d)	**0.8**	**0.7**	**0.7**	**0.7**	**0.7**	**0.7**	**0.7**	**0.7**	**0.7**
Gas Production (bcf)	**3.9**	**4.0**	**4.0**	**4.0**	**4.0**	**4.2**	**-**	**-**	**-**

Source: IMF, OPEC, Factset, Oxford Economics

QATAR: Gradual move towards the non-oil sector; but more needs to be done

Qatar is facing an overhaul in spending as seen in the decline in the growth rate of private consumption, public consumption as well as fixed capital investments.

The aim is to expand the private sector, and at the same time reduce subsidies and increase efficiency of government services.

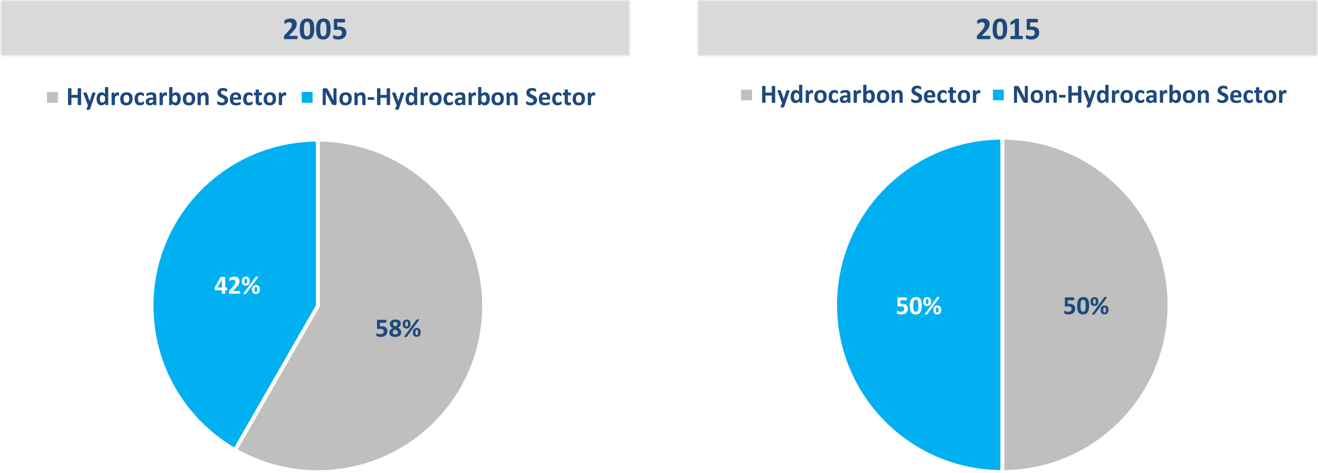
According to MEED, the government plans to spend QAR 91 Bn this year out of the total outstanding planned outlay of QAR 261 Bn, excluding the oil and gas sector.

GDP GROWTH BY EXPENDITURE TYPE (%)

	2012	2013	2014	2015	2016E	2017E	2018E	2019E	2020E
Private Consumption	10.6	8.8	8.0	7.9	-	-	-	-	-
Public Consumption	11.0	24.1	8.9	1.1	-	-	-	-	-
Gross Capital Formation	-1.9	6.4	11.3	1.3	-	-	-	-	-
Exports	11.1	1.3	0.4	-1.4	-26.6	2.2	3.1	3.6	3.0
Imports	21.5	8.7	6.4	-9.2	-18.4	-1.8	3.1	4.5	6.3

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

CHANGE IN GDP COMPOSITION



Source: Ministry of Development, Planning & Statistics, Qatar

QATAR: Non-oil sector continues to see positive growth

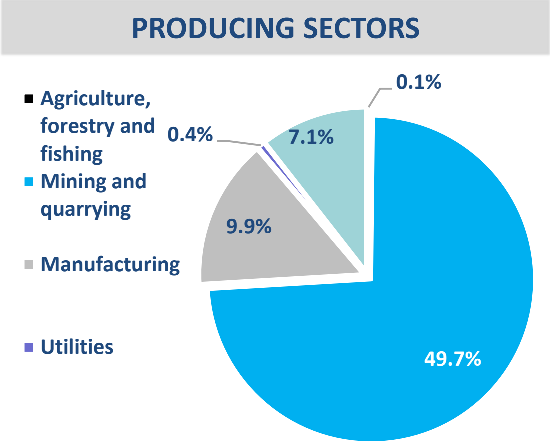
With the exception of oil & gas and professional activities, all of the other non-hydrocarbon sectors have seen growth during 2015, albeit slower than the growth in 2014.

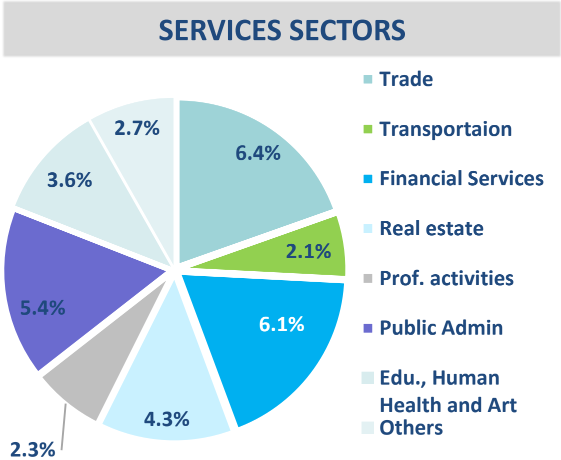
A further growth in the services sector, that accounted for 33% of total GDP would result in more sustainable future growth as well as an accelerated diversification of the economy. Within the services sectors, Trade, Financial Services and Public Administration are the key sectors which contribute

GDP GROWTH IN KEY SECTORS (%)

		2013	2014	2015
Producing Sectors	Agriculture, forestry and fishing	5.9%	25.0%	8.5%
	Mining and quarrying	0.1%	-0.6%	-0.5%
	Manufacturing	5.5%	4.2%	3.3%
	Utilities	11.9%	11.1%	7.0%
	Construction	21.2%	22.8%	17.8%
Services Sectors	Trade	14.8%	11.7%	8.6%
	Transportation	2.5%	7.6%	3.2%
	Financial Services	15.3%	13.0%	11.4%
	Real estate	5.5%	10.3%	9.0%
	Prof. activities	6.7%	5.5%	8.7%
	Public Admin	13.4%	8.2%	8.0%
	Edu., Human Health and Art	14.4%	9.9%	3.9%
	Others	8.3%	6.9%	5.1%

CONTRIBUTION TO 2014 GDP (%)





Source: Ministry of Development, Planning & Statistics, Qatar

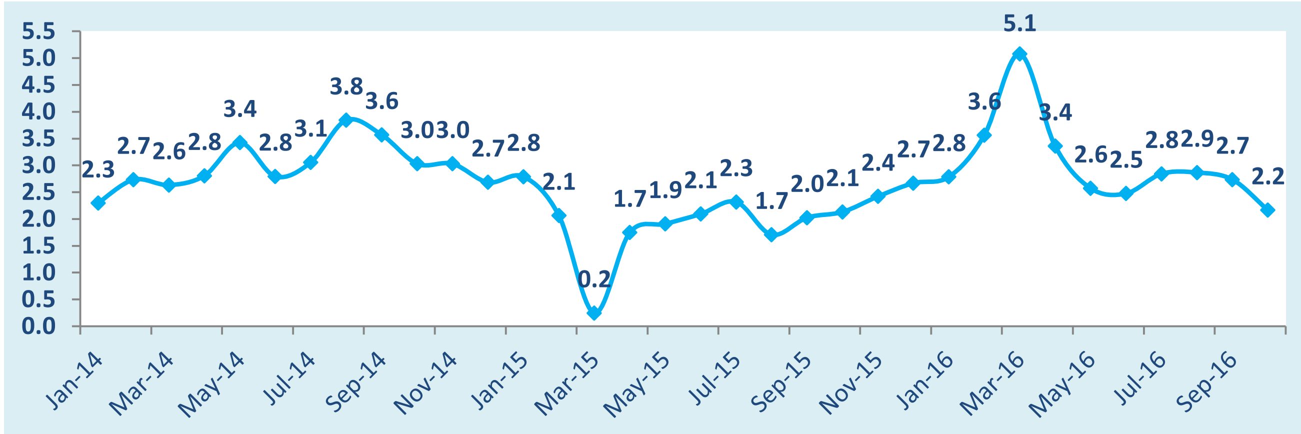
QATAR: Costs remain stable despite subsidy cuts

The 30-35% hike in petrol prices this January had minimal impact on overall inflation since May-16. However, subsidy bill got a big saving of around USD 3.7 Bn, according to Moody's, or 0.8% of GDP.

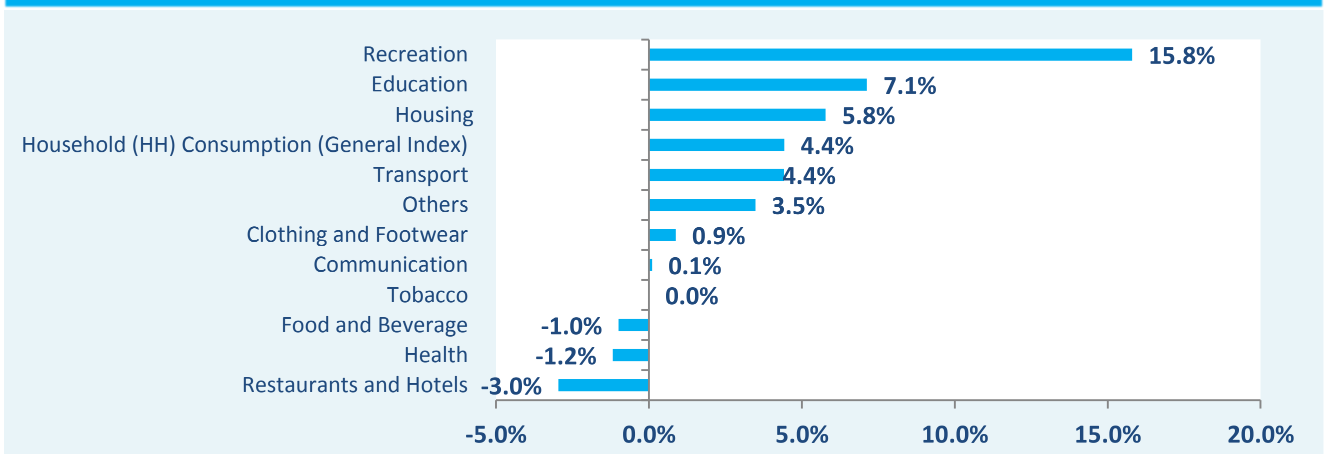
Inflation y-o-y has remained range bound over the past six months although electricity prices were raised for the first time in more than a decade during September-16.

In terms of components of inflation, recreation saw the biggest jump of 16% during October-16 followed by Education, whereas hospitality and food saw a mild decline.

ANNUAL INFLATION (%)



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

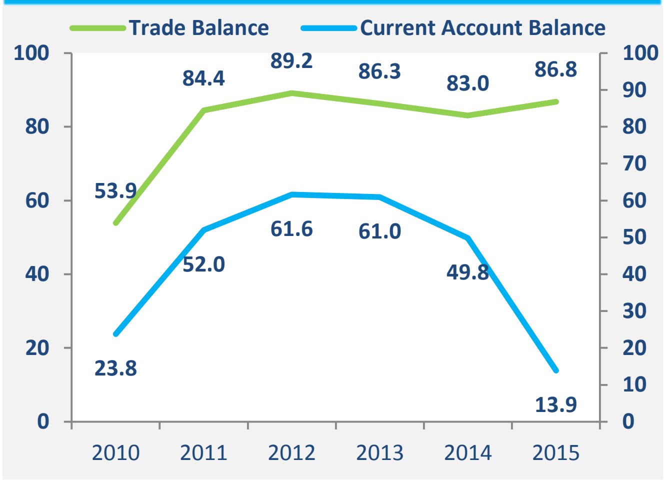


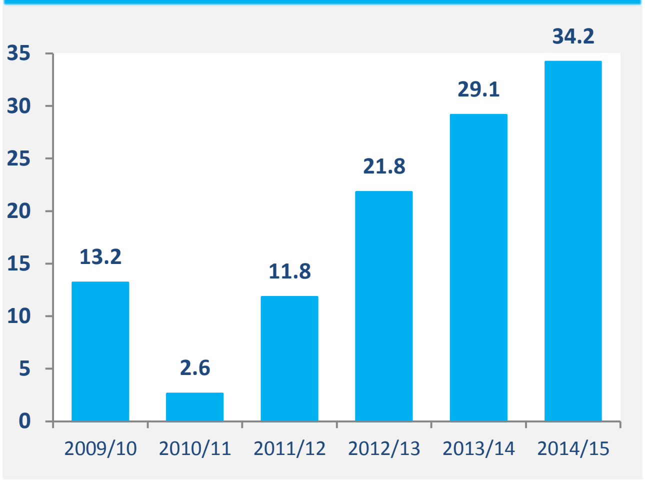
Source: Ministry of Development, Planning & Statistics, Qatar, KAMCO Research

QATAR: First expected fiscal deficit in 15 years

With the decline in oil prices, Qatar is looking at its first budget deficit for the next fiscal year estimated to be around USD 13 Bn that comes along with a slew of measures aimed at reduction of subsidies, project rationalization and spending cuts in general.

Nevertheless, trade balance improved during 2015 to USD 87 Bn as compared to USD 83 Bn during the previous fiscal year. On the other hand, the fiscal balance witnessed a surge on the back of higher investment revenue, other revenue coupled with a decline in current and development expenditure. The surplus was partially offset by decline in oil revenue.





	2010	2011	2012	2013	2014	2015
Trade Balance (USD Bn)	53.9	84.4	89.2	86.3	83.0	86.8
Current Account Balance (USD Bn)	23.8	52	61.6	61.0	49.8	13.9

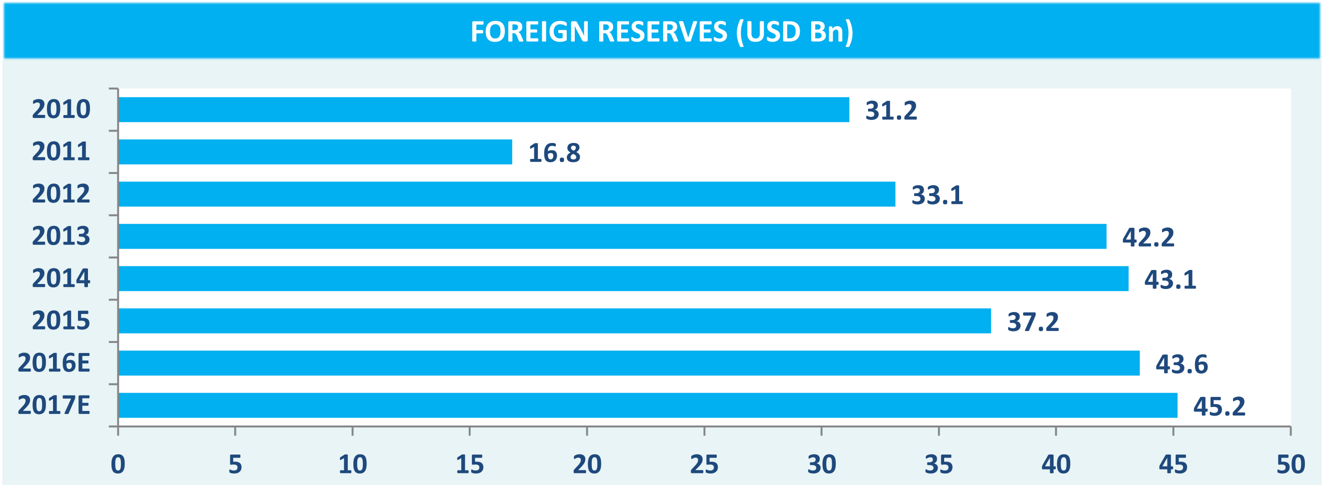
	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
Oil and Gas Revenue (USD Bn)	22.9	26.8	43.0	49.2	54.1	45.4
Investment Revenue (USD Bn)	14.9	10.0	7.1	11.6	27.2	31.0
Others Revenue (USD Bn)	9.0	6.4	11.5	18.0	13.6	16.9
Current Expenditure (USD Bn)	-22.8	-28.4	-35.4	-42.7	-46.5	-41.7
Development Expenditure (USD Bn)	-10.9	-12.1	-14.4	-14.3	-19.3	-17.3
Fiscal Balance (USD Bn)	**13.2**	**2.6**	**11.8**	**21.8**	**29.1**	**34.2**

Source: IMF, Qatar Central Bank

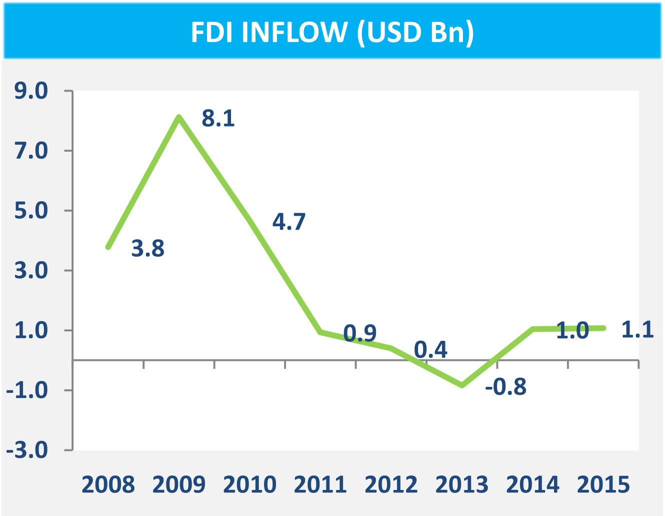
QATAR: Large external surpluses support foreign reserves

The accumulation of foreign reserves of close to USD 37 Bn at the end of 2015 was primarily a result of the large external surpluses that the QIA generated over the past 10 years.

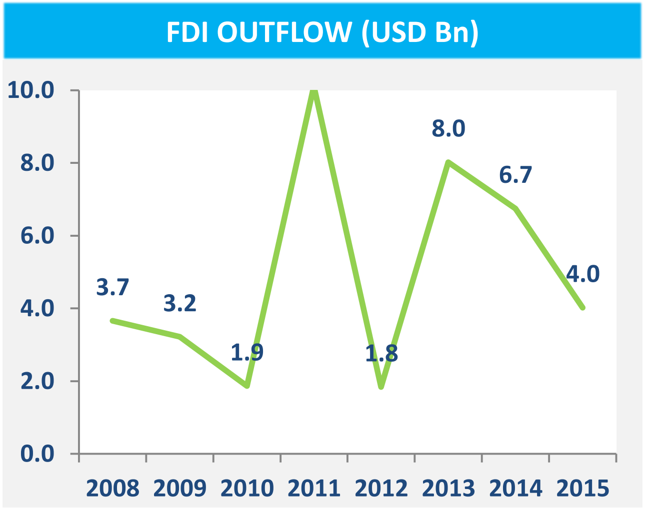
Although the external position continues to remain strong with more than a year of import cover according to some estimates, the steep drop from 2014 indicates the vulnerability to low oil prices. That said, a higher issuance of debt is an alternative that Qatar is increasingly tapping to support spending.



Source: IMF



Source: UNCTAD 2016 World Investment Report



Source: UNCTAD 2016 World Investment Report

QATAR: Liquidity shrinks but lending continues to grow

Qatari banks continue to enjoy comfortable coverage ratios despite facing some challenges on the liquidity front due to decline in deposits growth.

The loan-to-deposit ratio stood at 115% at the end of 2015, as banks are being selective in loan disbursals especially related to new activity.

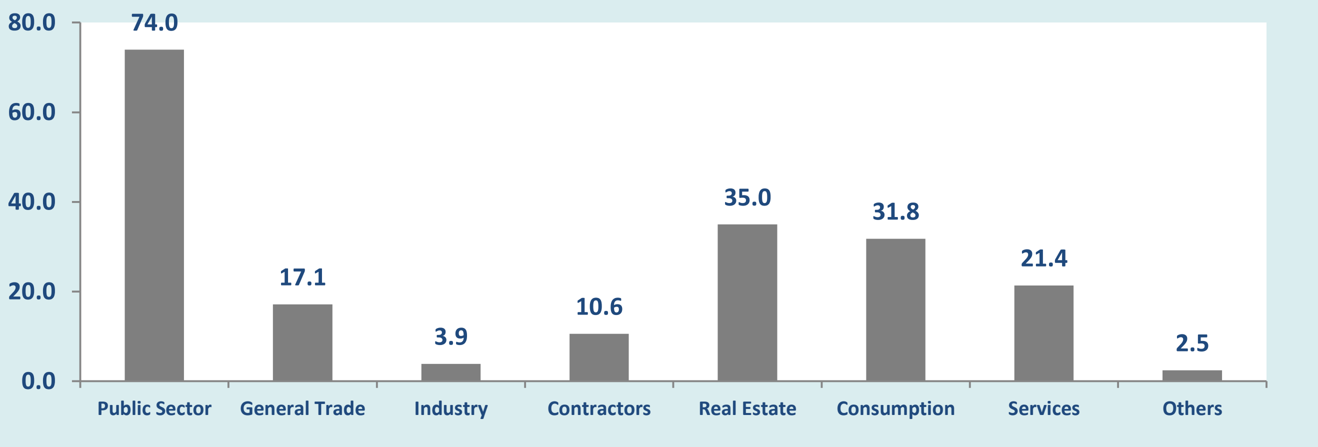
The issuance of treasury bills sucked some liquidity from banks that resulted in the QCB postponing three more issuances.

In terms of sector exposure, real estate continues to account for the lion's share at USD 35 Bn as of Q3-16.

MONEY SUPPLY & PRIVATE SECTOR LENDING (USD Bn)

	Q1-14	Q2-14	Q3-14	Q4-14	Q1-15	Q2-15	Q3-15	Q4-15	Q1-16	Q2-16	Q3-16
Gross Money Supply M2	**233.0**	**134.1**	**135.6**	**139.6**	**140.8**	**147.3**	**143.4**	**144.4**	**140.2**	**136.8**	**136.7**
M1	32.3	35.3	33.0	34.4	35.1	36.2	34.9	35.2	38.0	36.2	35.0
Time Deposits	59.0	59.1	57.2	61.9	63.5	66.9	67.2	67.2	65.8	64.3	68.0
Deposits in Foreign Currencies	41.4	39.7	45.4	43.3	42.2	44.2	41.3	42.1	36.4	36.3	33.7
Quasi Money	100.3	98.8	102.6	105.2	105.7	111.2	108.4	109.3	102.2	100.6	101.7
Private Sector Lending	**82.7**	**86.9**	**92.2**	**97.8**	**102.3**	**109.2**	**113.5**	**117.0**	**118.4**	**120.0**	**122.2**

TOTAL LENDING BY INDUSTRY (Q3-2016, USD Bn)



Source: Qatar Central Bank

QATAR: Banking earnings remain strong

Qatari banks have reported higher earnings for 9M-16 with a growth of 2.1%.

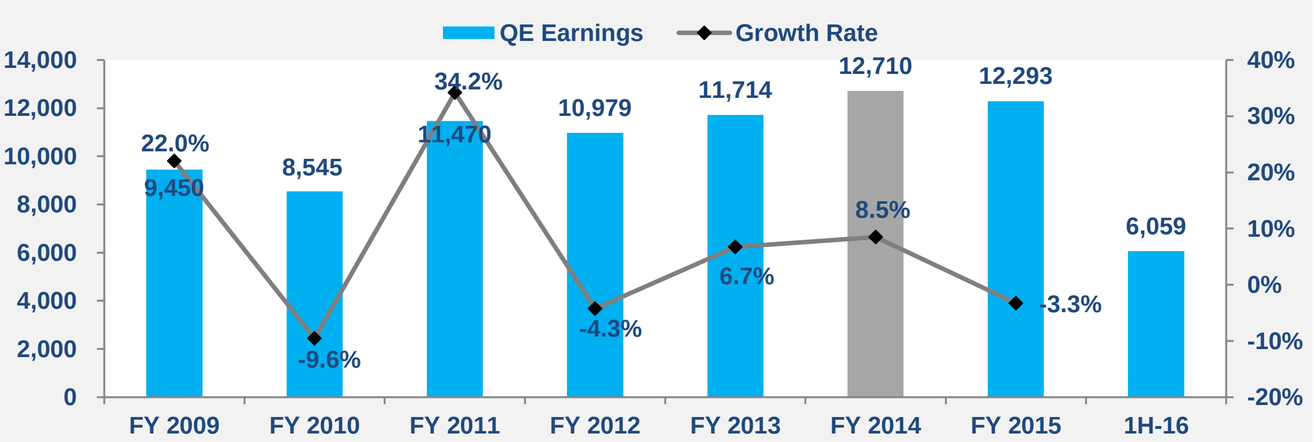
However, earnings for most of the other sectors declined, which resulted in a 10.8% decline in total earnings for 9M-16 for the exchange.

Real Estate and Industrial sectors saw steep decline in their bottom-line (40% and 22% respectively) which reflected the increasing pressure on these core sectors from the cutback in state spending.

Qatar Exchange Index (QE)

	2009	2010	2011	2012	2013	2014	2015	YTD Nov-16
Index Value	6,959.2	8,681.7	8,779.0	8,358.9	10,379.6	12,285.8	10,429.4	9,793.8
Y/Y Change	1.06%	24.75%	1.12%	-4.79%	24.17%	18.4%	-15.1%	-6.1%
Market Cap (USD Bn)	87.9	123.6	125.6	126.3	152.6	185.8	152.0	153.9
Value Traded (USD Bn)	25.2	18.5	22.9	19.2	20.6	54.7	25.7	16.0

Qatar – Corporate Earnings (USD Mn, % Growth)



Source: Qatar Exchange, KAMCO Research

QATAR: QE– Historical Performance

QATAR EXCHANGE (QE)

YTD Nov-16

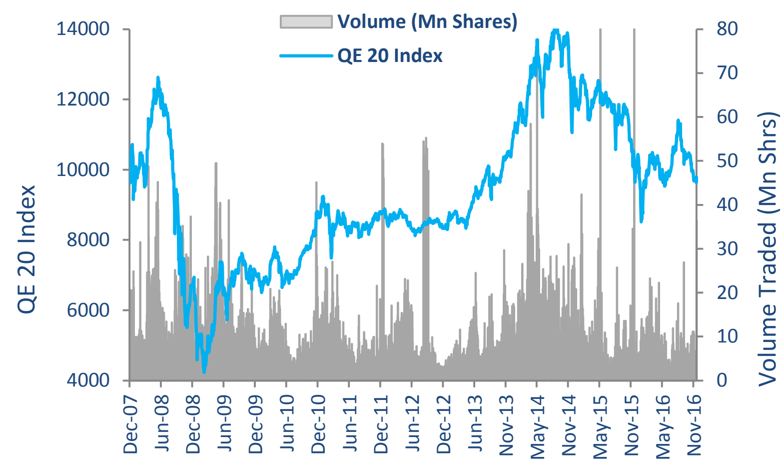
QE 20 Index Performance

YTD Nov-16 Return	**-6.1%**
YTD Nov-16 Volatility	**23.5%**

YTD Nov-16 trading Indicators

Volume ***(Mn Shares)***	**2,309**
Value ***(USD Mn)***	**15,969**
Deals ***('000)***	**927**

QE 20 INDEX RELATIVE TO VOLUME SINCE 2008



FY 2015

QE 20 Index Performance

Yearly Return	**-15.1%**
Yearly Volatility	**12.3%**

Yearly trading Indicators

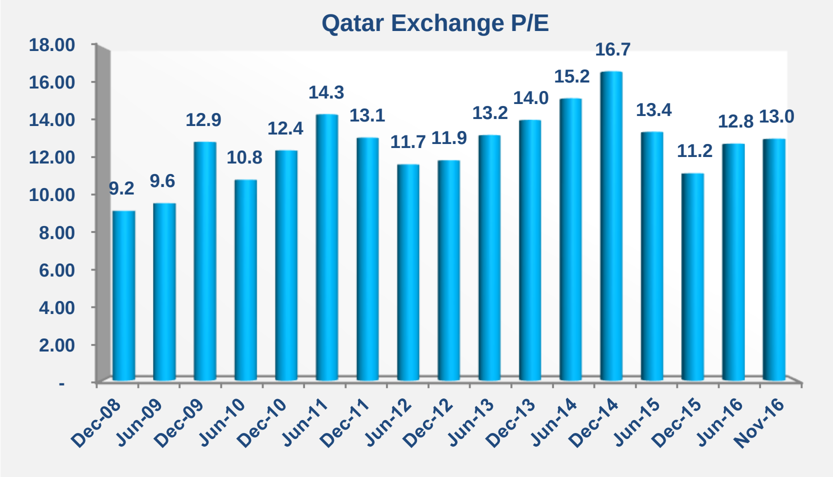
Volume ***(Mn Shares)***	**2,673**
Value ***(USD Mn)***	**25,722**
Deals ***('000)***	**1,191**

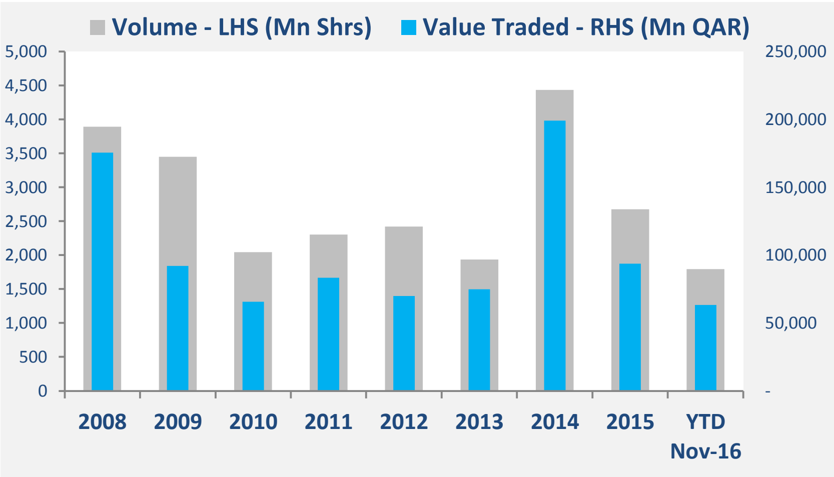
After falling to the lowest level in over three years to slightly above the 8,500 mark, the QE20 index has shown significant improvement for the remainder of the year. The index stayed above the psychologically important 10,000 points for most part of the year. Strong corporate earnings, especially in the banking sector, continue to support investor sentiment in Qatar that was further backed by state measures to curb deficits and expand the economy by investing in key sectors as it prepares for the World Cup 2022.

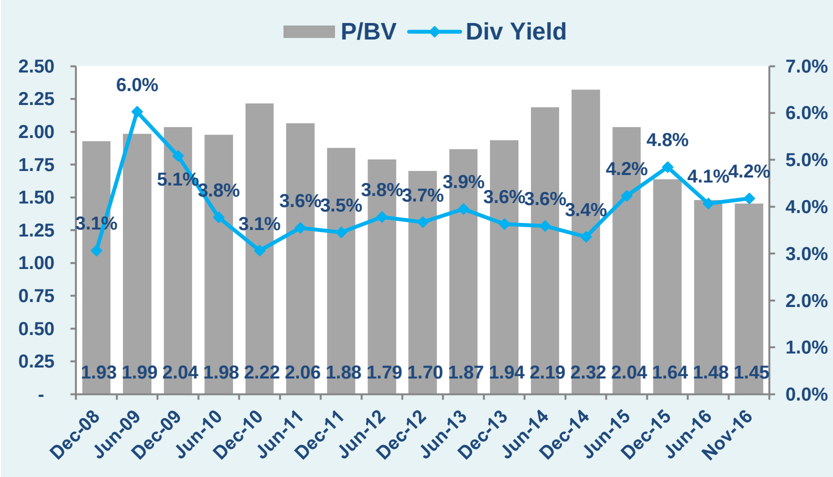
Source: Qatar Exchange, KAMCO Research

QATAR: QE- Valuation Multiples & Trading Indicators

QE- VALUATION MULTIPLES & TRADING INDICATORS







Valuation Multiples & Trading Indicators

Market liquidity declined significantly during 2016, in line with the rest of the GCC markets, as a result of an overall slowdown in investments activity in region. Moreover, the higher liquidity in 2015 also reflected the optimism related to the inclusion in the MSCI EM Index. Total value traded on the exchange declined to USD 16.0 Bn during the first eleven months of the year as compared to USD 25.7 Bn during 2015.

Valuation indicators remain attractive with a P/E of 13.0x whereas P/BV is at a premium to GCC peers at 1.45x.

Source: Qatar Exchange, KAMCO Research

QATAR ECONOMIC OUTLOOK

Not too many avenues left for project rationalization

The specific case of Qatar to cut down on its spending has two key aspects; on one hand it has to keep spending on infrastructure projects to prepare for the World Cup 2022 and on the other hand the country needs to prioritize key projects in light of the steep decline in oil & gas revenues. The dilemma is that any cut in latter would to some extent affect the preparation for the world cup, thereby making it a difficult choice between non-oil and oil related projects to be postponed or stalled.

As far as the number goes, the country has decided to focus on non-oil investments that we believe is the correct choice. According to MEED, the value of active schemes in the hydrocarbon sector has declined by 45% since 2014 from USD 50.3 Bn to almost USD 28 Bn at the end of March-16. During the same time, schemes in the non-hydrocarbon sector has increased more than 13% to USD 256 Bn from USD 226 Bn at the start of 2014, when oil prices were close to USD 100/b. This indicates that the sector is not a priority for the government and the focus going forward would be on the non-hydrocarbon sector.

One of the other key measures undertaken by the Qatari government is the preparation of a draft PPP law that is expected to be finalized by the end of 2016. As announced during August-16, the country is increasing looking at widening foreign direct investments in the infrastructure development of the country with public private partnership being a preferred model of procurement. A formal PPP law would not only guide the government on the process of tendering a PPP-based project, it would also give additional confidence to foreign investors and has the potential to boost long term foreign investment. A timely implementation of this law would be instrumental in also boosting investor confidence, corporate profitability and the overall economy activity.

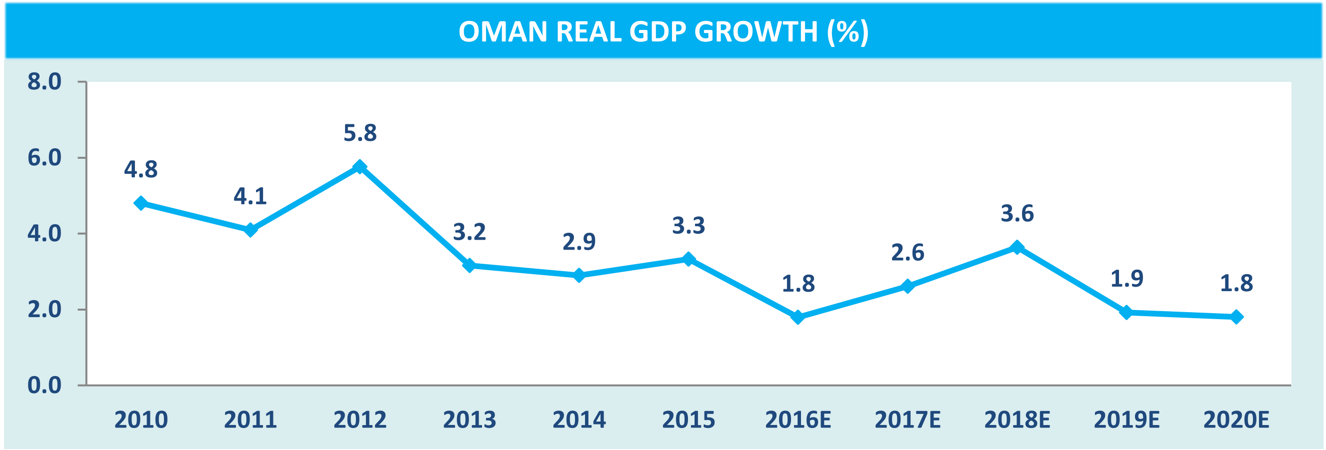
In relative terms, Qatar appears to be ahead of its regional peers in terms of project execution and regulatory reforms. The country boasts comfortable foreign reserves with an import cover of 8.1 months, according to the IMF, the second highest in the GCC. The country also has the second-lowest fiscal breakeven oil price of USD 62.1/b for the 2016 budget. In addition, Qatar is one of the first governments in the region to issue bonds in the international market, essential to form a yield curve for local bond issuance. The country recently issued bonds worth 10 Bn, one of the highest at the time, which also guided regional peers on the reception of such bonds in the local and regional markets.

SECTION 8| Oman

OMAN: Further hardships on the fiscal front

Oman is one of the worst affected oil exporters in the region due to the decline in oil prices. GDP growth in 2016 is expected to be 1.8%, second-lowest in the GCC, although the dependence on the oil revenues have declined at a decent pace over the past several years.

The government has made drastic changes to its spending plans for instance the shelving of the national railway plan in addition to slashing of current expenditure, public sector benefits and subsidy cuts. However, on the positive side, non-oil sector growth is expected to stay positive in the near term led by these measures.



Source: IMF

	2011	2012	2013	2014	2015	2016E	2017E	2018E	2019E	2020E
Nominal GDP (USD Bn)	**67.7**	**75.4**	**78.2**	**81.8**	**64.1**	**59.7**	**65.8**	**70.2**	**73.5**	**77.1**
Real GDP Growth (%)	**4.1**	**5.8**	**3.2**	**2.9**	**3.3**	**1.8**	**2.6**	**3.6**	**1.9**	**1.8**
Oil Sector	2.0	3.0	2.7	-1.0	4.2	3.1	0.5	-0.4	-0.7	-0.7
Non-Oil Sector	5.5	10.1	9.2	5.7	3.2	1.8	2.5	3.5	4.5	5.1
Contribution to GDP (%)										
Oil Sector	45.1	44.3	42.7	41.2	39.6	39.8	40.1	39.6	38.7	37.5
Non-Oil Sector	54.9	55.7	57.3	58.8	60.4	60.2	59.9	60.4	61.3	62.5
Oil Production (mn b/d)	0.89	0.92	0.95	0.94	0.98	1.01	1.01	1.00	0.98	0.95

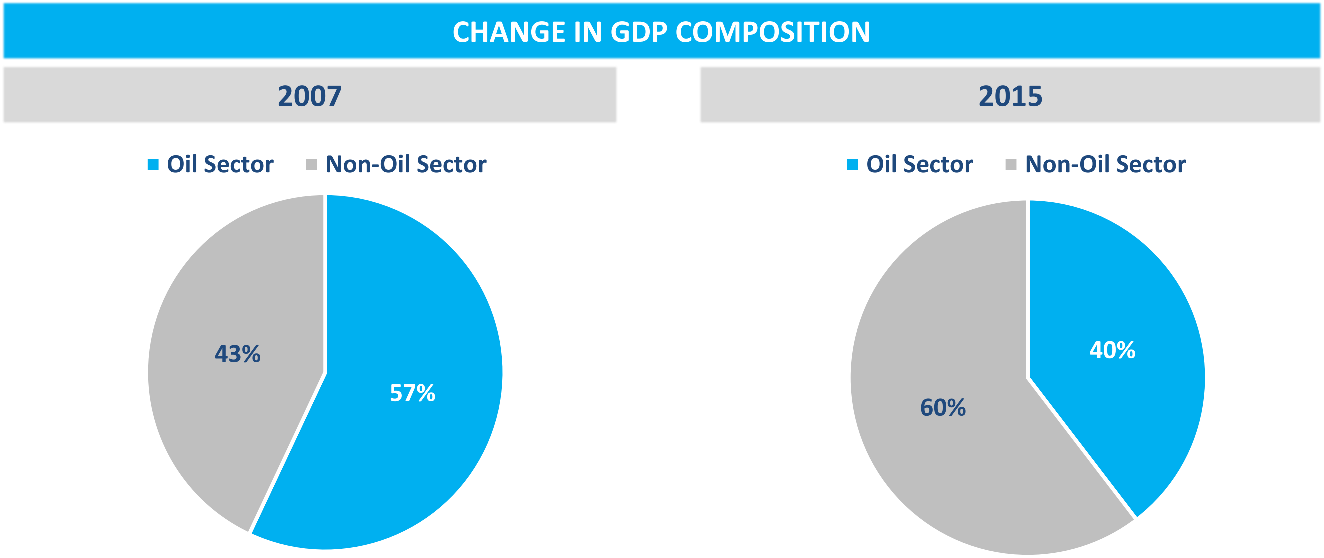
Source: IMF, OPEC

KAMCO كامكو

OMAN: Great progress in terms of diversification

The composition of Oman's GDP has changed considerably over the past few years. The non-oil sector now accounts for 60% of the GDP as compared to 43% during the pre-crisis period and 56% during 2014.

However, due to tightening of bank liquidity as a result of the fall in oil deposits, non-oil growth is expected to be hampered and cost of funding may rise as a result.



Source: National Centre for Statistics & Information

OMAN: Positive growth in all the components of GDP

All the components of the GDP recorded y-o-y growth during 2015 with mining and quarry sector recording the highest growth of 11.8%. The government is also in the process of formulating a new mining law to attract foreign investments in this untapped sector.

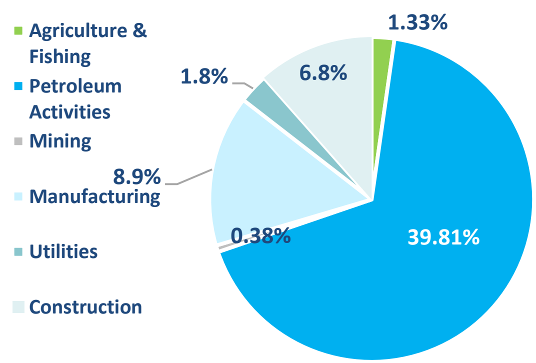
The pace of growth in the manufacturing sector remains strong at 6.5%, although the growth rate was much higher in 2014 at 13.1%.

GDP GROWTH IN KEY SECTORS (%)

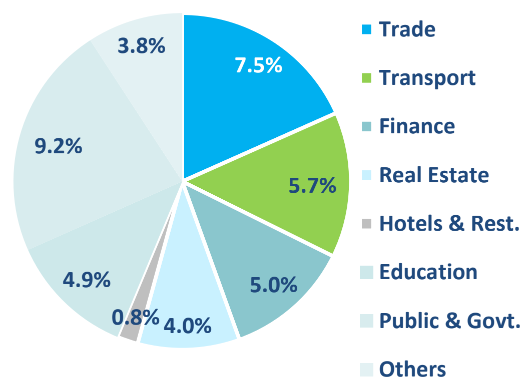
		2014	2015
Producing Sectors	Agriculture & Fishing	1.8%	4.3%
	Petroleum Activities	-1.0%	4.2%
	Mining	12.0%	11.8%
	Manufacturing	-3.0%	3.1%
	Utilities	13.1%	6.5%
	Construction	6.6%	10.4%
Services Sectors	Trade, Hotels	1.3%	1.2%
	Transport	9.4%	1.1%
	Finance	9.9%	5.2%
	Real Estate	2.4%	3.9%
	Hotels & Restaurant	6.6%	2.8%
	Education	18.7%	0.8%
	Public & Government	2.4%	0.8%
	Others	21.5%	1.7%

CONTRIBUTION TO 2013 GDP (%)

PRODUCING SECTORS



SERVICES SECTORS



Source: National Centre for Statistics & Information

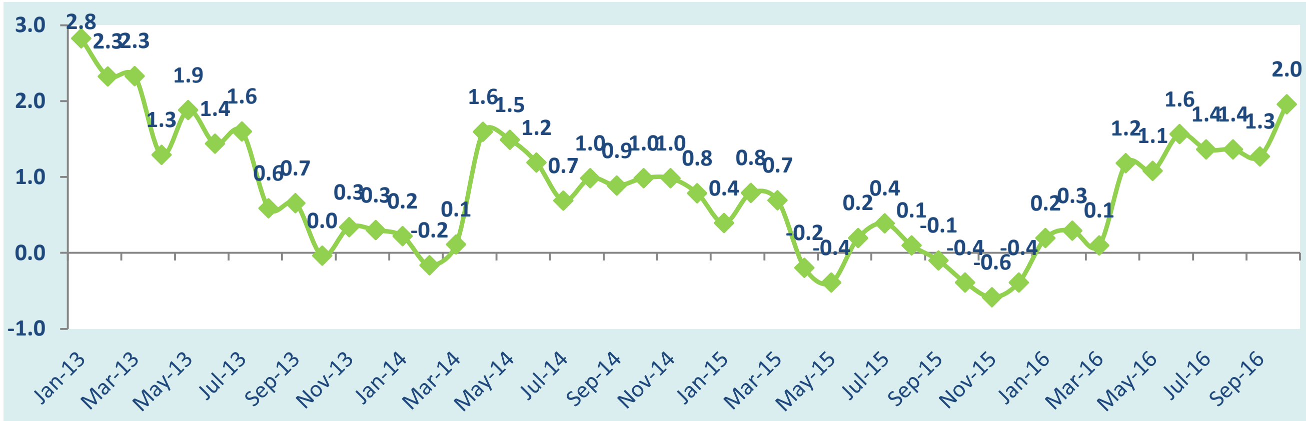
OMAN: Inflation has peaked but remains relatively low

After recording deflation towards the end of last year, yearly inflation in Oman has reached the highest level in more than 3.5 years to 2% in October-16.

The increase was primarily due to higher transport costs after the country raised petrol prices to reduce the pressure on state subsidies.

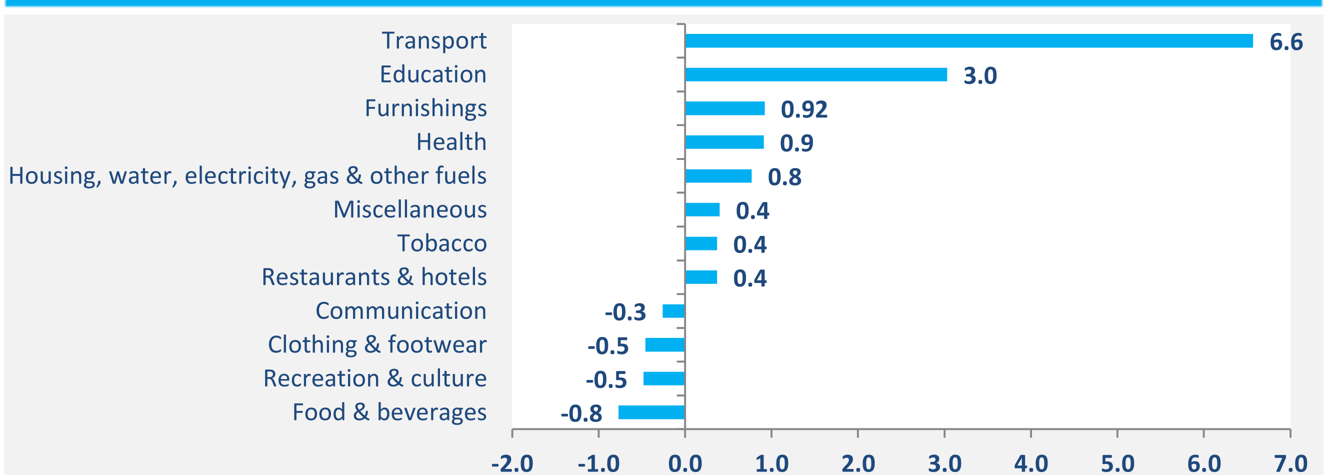
Cost of education also recorded a growth of 3% whereas food and beverage and recreation activities witnessed a marginal decline during the month.

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

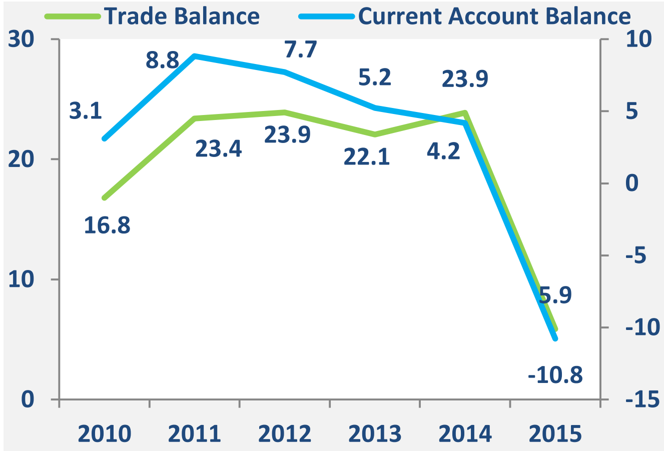
OMAN: Expect higher fiscal deficits in the future

From being positive for over five years, Oman's current account balance turned negative during 2015. Current account deficits were recorded at USD 10.8 Bn, as compared to a surplus of USD 4.2 Bn during 2014.

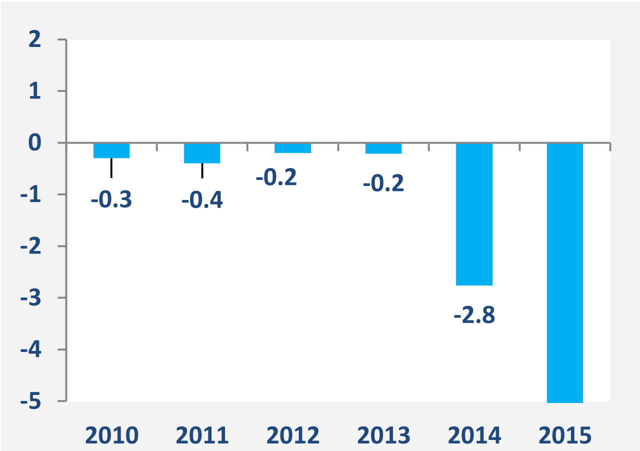
As a consequence, fiscal deficit has increased from USD 2.8 Bn in 2014 to USD 6.5 Bn in 2015.

Moreover, according to provisional numbers, Oman's budget deficit reached OMR 4.32 Bn (USD 11.4 Bn) during the first eight months of 2016.

TRADE & C/A BALANCE (USD Bn)



FISCAL BALANCE (USD Bn)



Source: Central Bank of Oman

	2010	2011	2012	2013	2014	2015
Trade Balance (USD Bn)	**16.8**	**23.4**	**23.9**	**22.1**	**23.9**	**5.9**
Current Account Balance (USD Bn)	**3.1**	**8.8**	**7.7**	**5.2**	**4.2**	**-10.8**
Oil Revenue (USD Bn)	16.6	23.3	30.3	31.0	30.9	23.8
Non-Oil Revenue (USD Bn)	3.9	4.3	4.7	5.1	5.8	6.3
Current Expenditure (USD Bn)	-12.5	-15.9	-22.8	-22.9	-24.9	-24.9
Capital Expenditure (USD Bn)	-6.8	-7.7	-7.5	-8.1	-9.3	-8.3
Subsidies (USD Bn)	1.5	4.4	4.9	-5.3	-5.1	-3.4
Fiscal Balance (USD Bn)	**-0.3**	**-0.4**	**-0.2**	**-0.2**	**-2.8**	**-6.5**

Source: Central Bank of Oman, IMF

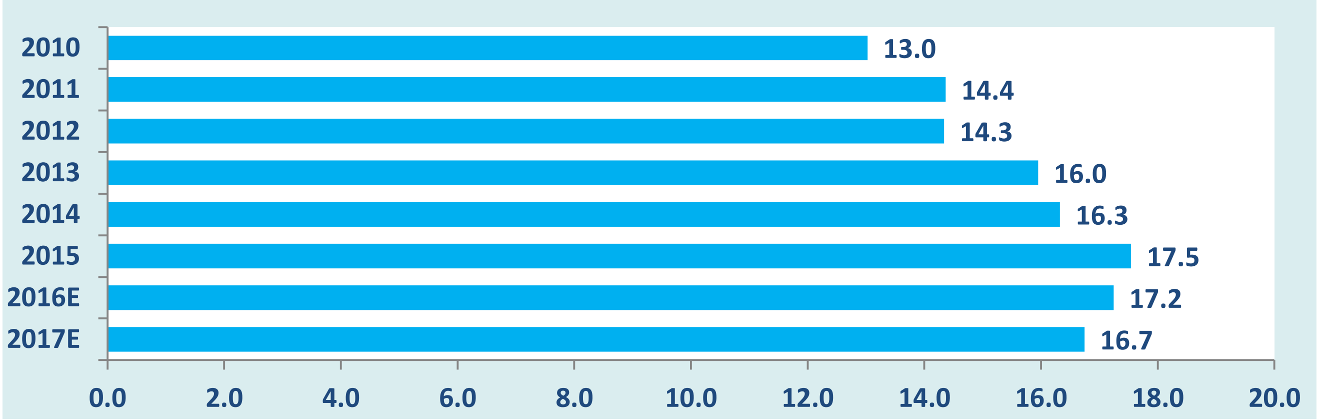
OMAN: Increasing dependence on external sector

Oman's central bank foreign reserve continues to stay at a comfortable position of USD 17.5 Bn at the end of 2015.

However, with the increased dependence on external debt to finance budgets, these buffers may not be sufficient in the near term if the country fails to increase revenue generation.

FDI inflow for Oman has remained largely constant indicating a need for better regulatory reforms to attract further investments.

FOREIGN RESERVES (USD Bn)

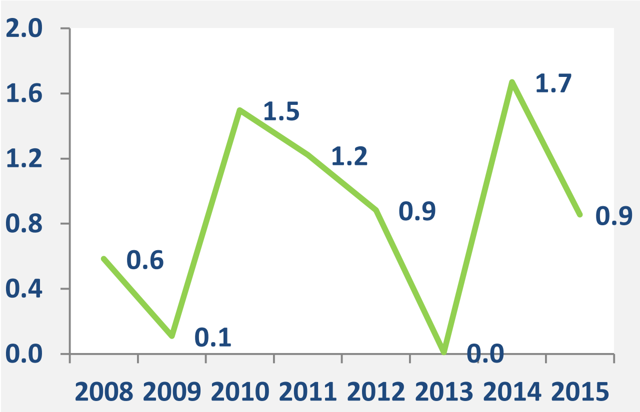


Source: IMF

FDI INFLOW (USD Bn)

Source: UNCTAD 2016 World Investment Report

FDI OUTFLOW (USD Bn)



Source: UNCTAD 2016 World Investment Report

OMAN: Bank lending stays strong due to low interest rates

Private sector lending has increased consistently over the past few years and stood at USD 44.5 Bn at the end of Q2-16.

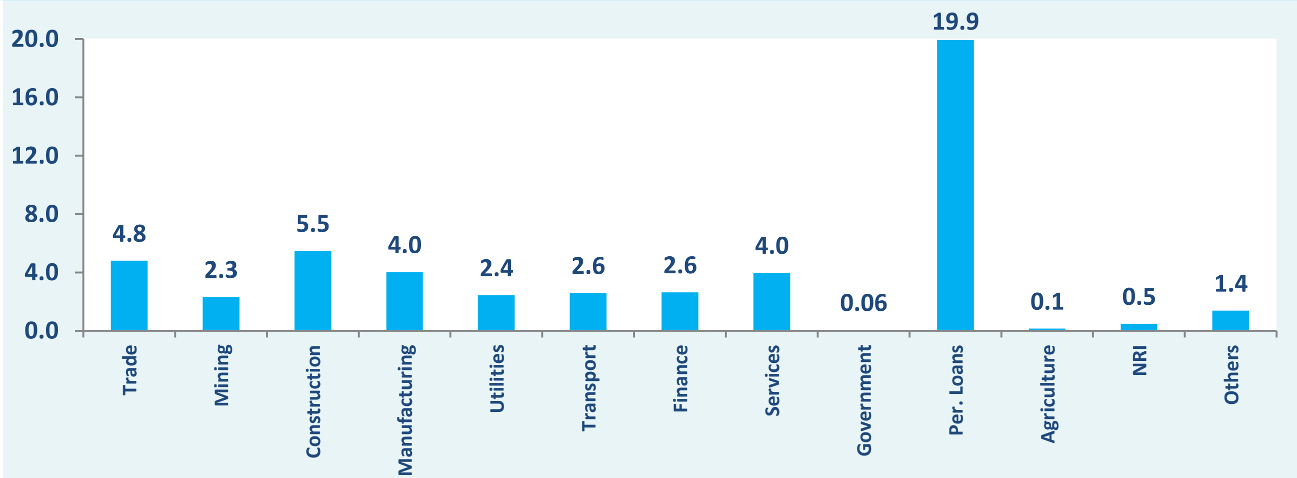
Personal facilities dominate total private sector lending accounting for close to USD 20 Bn in total loans. In fact, personal facilities remain the key driver of bank earnings as interest rate margins remain high on such loans.
Construction and Trade follow with USD 5.5 Bn and USD 4.8 Bn respectively.

MONEY SUPPLY & PRIVATE SECTOR LENDING (USD Bn)

	Q1-14	Q2-14	Q3-14	Q4-14	Q1-15	Q2-15	Q3-15	Q4-15	Q1-16	Q2-16
Gross Money Supply	33.4	34.5	34.4	35.8	37.4	38.3	38.2	39.3	40.3	40.4
Domestic Quasi Deposits	21.3	22.1	22.8	23.3	23.7	24.3	24.6	25.4	26.2	26.5
Demand Deposits	9.2	9.5	8.5	9.4	10.5	10.8	10.3	10.3	10.7	10.4
Currency Outside Banks	2.9	3.0	3.2	3.1	3.2	3.3	3.3	3.6	3.4	3.6
Private Sector Lending	**35.3**	**36.9**	**37.4**	**38.2**	**39.2**	**40.5**	**41.3**	**42.1**	**43.6**	**44.5**

Source: Central Bank of Oman

PRIVATE SECTOR LENDING BY INDUSTRY (USD Bn) – Q2-16



Source: Central Bank of Oman

OMAN: Expect higher earnings in 2016

Corporate profitability dipped significantly during 2015 by almost 17% on the back of a steep decline in non-financial sectors whereas the banking sector posted healthy growth.

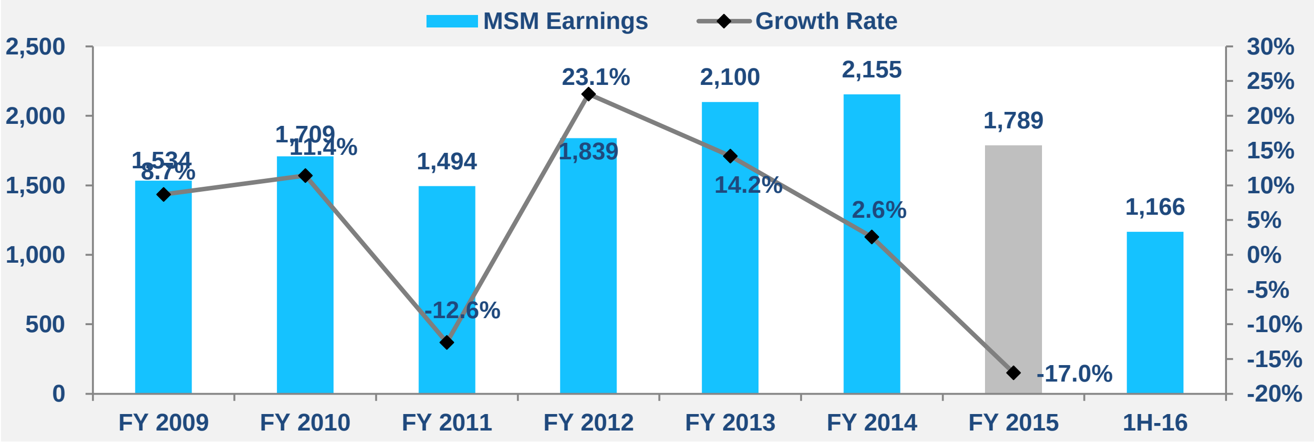
Total earnings for the current year is expected to be higher as compared to the previous year as seen in the healthy growth of 1H-16 and 9M-16 earnings. This was also reflected in the positive performance of the MSM30 index during the first nine months of the year.

MSM30 INDEX

	2009	2010	2011	2012	2013	2014	2015	YTD Nov-16
Index Value	6,368.8	6,754.9	5,695.1	5,760.8	6,834.6	6,343.2	5,406.2	5,487.7
Y/Y Change	17.1%	6.1%	-15.7%	1.2%	18.6%	-7.2%	-14.8%	1.5%
Market Cap (USD Bn)	16.2	18.9	16.9	18.1	18.8	20.1	18.0	20.6
Value Traded (USD Bn)	5.7	3.2	2.5	2.4	5.2	5.1	3.1	2.0

Source: KAMCO Research

OMAN – CORPORATE EARNINGS (USD Mn, % GROWTH)



Source: MSM, Bloomberg, KAMCO Research

OMAN: MSM– Historical Performance

MUSCAT SECURITIES MARKET (MSM)

YTD Nov-16

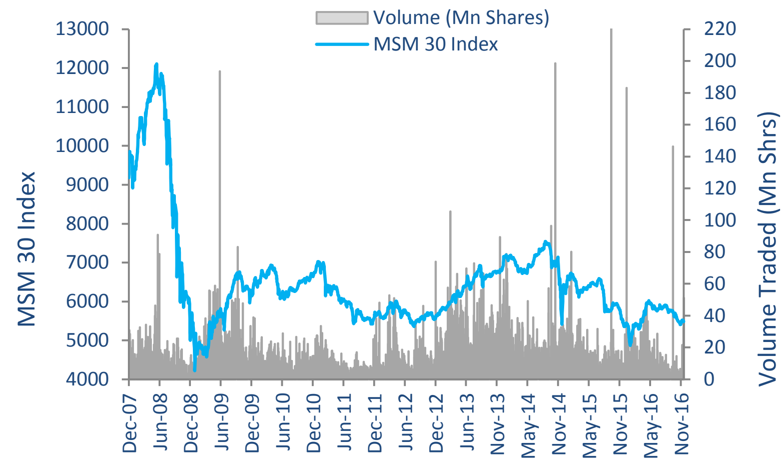
MSM 30 Index Performance

YTD Nov-16 Return	1.5%
YTD Nov-16 Volatility	3.1%

YTD Nov-16 trading Indicators

Volume *(Mn Shares)*	3,418
Value *(USD Mn)*	1,953
Deals *('000)*	151

MSM 30 INDEX RELATIVE TO VOLUME SINCE 2008



FY 2015

MSM 30 Index Performance

Yearly Return	-14.8%
Yearly Volatility	6.3%

Yearly trading Indicators

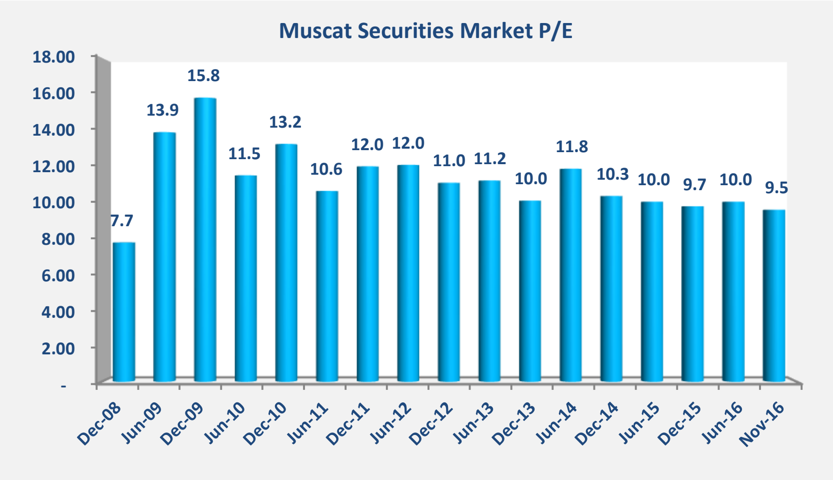
Volume *(Mn Shares)*	4,573
Value *(USD Mn)*	3,138
Deals *('000)*	187

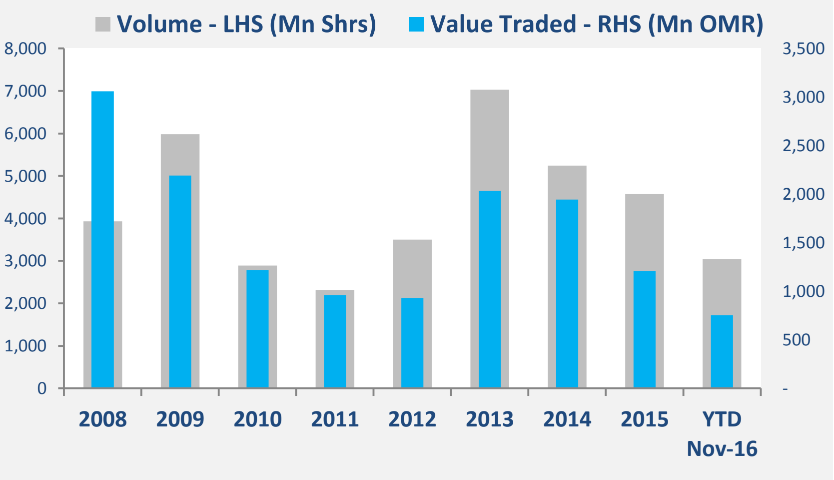
The MSM 30 Index declined by 14.8% during 2015 primarily due to negative investor sentiment as a result of the decline in oil prices. Investor participation also plunged, in line with other GCC markets. However, on the positive side, Oman witnessed two new listings on the exchange, one each in the banking and power sectors.
The YTD Nov-2016 performance of MSM has been positive with a return of 1.5% on the back of stabilizing oil prices. Nevertheless, market performance remains volatile with additional influence from govt. initiatives.

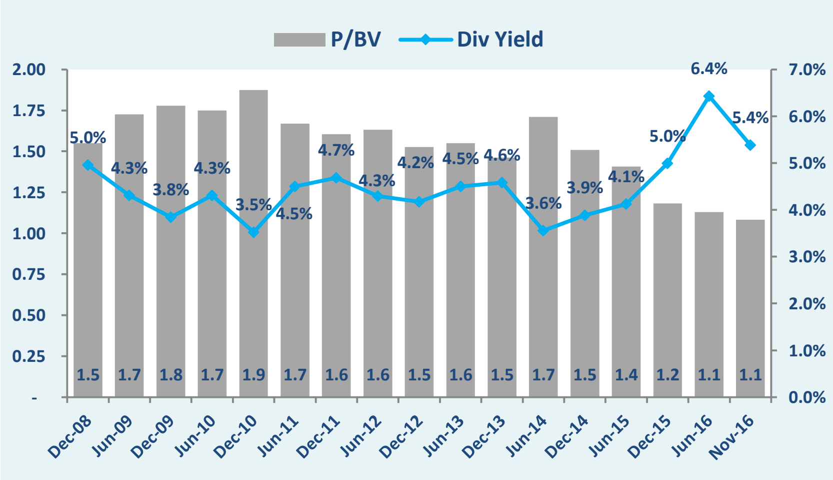
Source: MSM, KAMCO Research

OMAN: MSM- Valuation Multiples & Trading Indicators

MSM- VALUATION MULTIPLES & TRADING INDICATORS







Valuation Multiples & Trading Indicators

Valuation multiples for the MSM has declined to one of the lowest levels since the financial crisis. The market trades at an attractive P/E of 9.5x as we believe that the resilient corporate earnings, are expected to continue to grow in the near term led by focus on private sector. Meanwhile, in terms of dividend yields, the market trades at 5.4%, one of the highest in the GCC.

In terms of liquidity, total value traded on the exchange declined during 2016 to reach USD 2.0 Bn as compared to USD 3.1 Bn during 2015.

Source: MSM, KAMCO Research

OMAN ECONOMIC OUTLOOK

An even faster fiscal consolidation is required

Reforms and fiscal consolidation efforts were at their peak in Oman triggered by the steep fall in oil prices and the Sultanate's heavy reliance on oil revenues. The country has taken some of the most drastic steps to curb current spending and rationalize spending in infrastructure projects. In addition to targeting sensitive areas like the public sector wage bill by implementing a hiring freeze, slashing wages and benefits, the country has formed specialized institutions to foresee faster and efficient implementation of several key policy initiatives.

In terms of budgetary constraints, fiscal deficit is expected to have peaked in 2015 at 16.5% of the GDP and the Sultanate is expected to record smaller deficits of 13.5% and 10.3% of GDP for the next two years (2016 and 2017), according to the IMF. The breakeven oil price is also expected to be much lower for balancing 2016 budget at USD 77.5/b as compared to USD 99.3/b in 2015. That said, government spending continues to remain high and funding sources for the country are limited due to the limited size of its equity market and banking lending, which although continues to remain strong, is appropriate for relatively smaller projects.

Government debt issuance is one of the viable options to finance the infrastructure spending in addition to using private sector involvement in infrastructure development. The country's external debt has risen rapidly over the years and stood at 23% of GDP at the end 2015, significantly higher as compared to 10.6% for 2014. With the increase in external debt, this ratio is expected to reach close to 30% in 2016 and further rise to 32% for 2017. This could impact the country's sovereign ratings and increase the cost of debt.

Some of the other measures that the government has recently announced includes, preparation of a foreign investment law to attract investors, relaxed reserve requirements for banks, establishing a framework for using PPP for financing projects with, investment and labor law reforms and increasing fee for foreign work visas. **The government is also looking at private sector investment or an IPO of oil and petrochemicals subsidiaries**, including non-core subsidiaries of PDO as well as unbundling and eventual privatization of a number of state-owned companies, including electricity transmission and distribution, Oman Air and Oman Post.

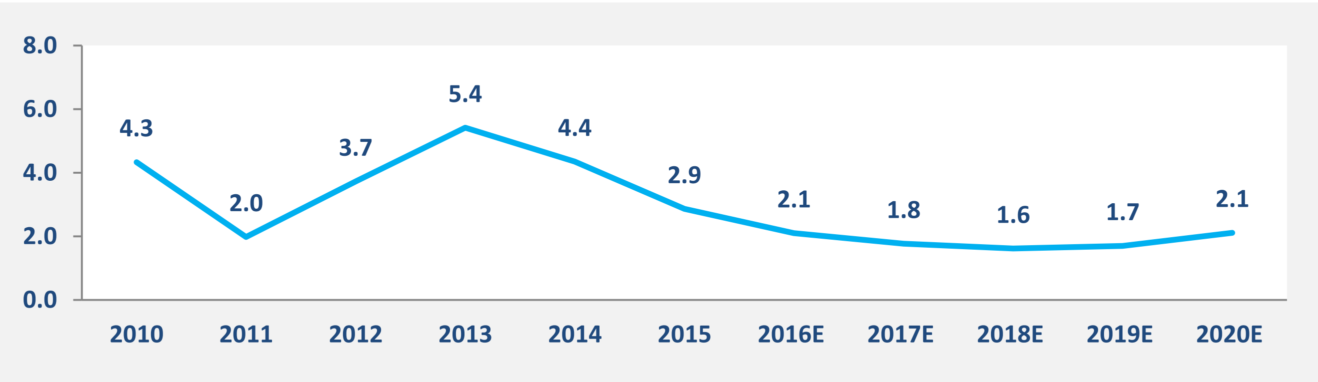
SECTION 9| Bahrain

BAHRAIN: Further need of diversification to boost trade and investment

Bahrain being one of the smallest exporters of oil, both in terms of GDP and size of the economy, is well placed to deal with the current decline in oil prices. That said, the country needs to shore up private sector activity to push non-oil sector growth to a level that would offset the limited impact of oil and still provide employment and higher economic growth.

The near term growth in the non-oil sector is expected to contract followed by a gradual improvement in the later years. On a positive note, its contribution is expected to improve to close to 83% in 2020 from 80% in 2015.

BAHRAIN REAL GDP GROWTH (%)



Source: IMF, Bahrain Economic Development Board

	2010	2011	2012	2013	2014	2015	2016E	2017E	2018E	2019E	2020E
Nominal GDP (USD Bn)	**25.7**	**28.8**	**30.7**	**32.5**	**33.4**	**31.1**	**31.8**	**33.9**	**35.7**	**37.3**	**39.0**
Real GDP Growth (%)	**4.3**	**2.0**	**3.7**	**5.4**	**4.4**	**2.9**	**2.1**	**1.8**	**1.6**	**1.7**	**2.1**
Oil Sector	0.1	3.6	-8.5	15.3	3.0	-0.1	3.0	-1.0	-1.0	-1.0	-1.0
Non-Oil Sector	5.5	1.6	7.1	3.1	4.7	3.6	2.9	2.3	3.8	4.1	4.0
Contribution to GDP (%)											
Oil Sector	21.1	21.4	18.9	20.7	20.4	19.8	19.9	19.3	18.6	17.8	17.1
Non-Oil Sector	78.9	78.6	81.1	79.3	79.6	80.2	80.1	80.7	81.4	82.2	82.9
Oil Production (mn b/d)	0.18	0.19	0.17	0.20	0.20	0.18	0.18	0.18	0.18	0.17	0.17

Source: IMF, OPEC

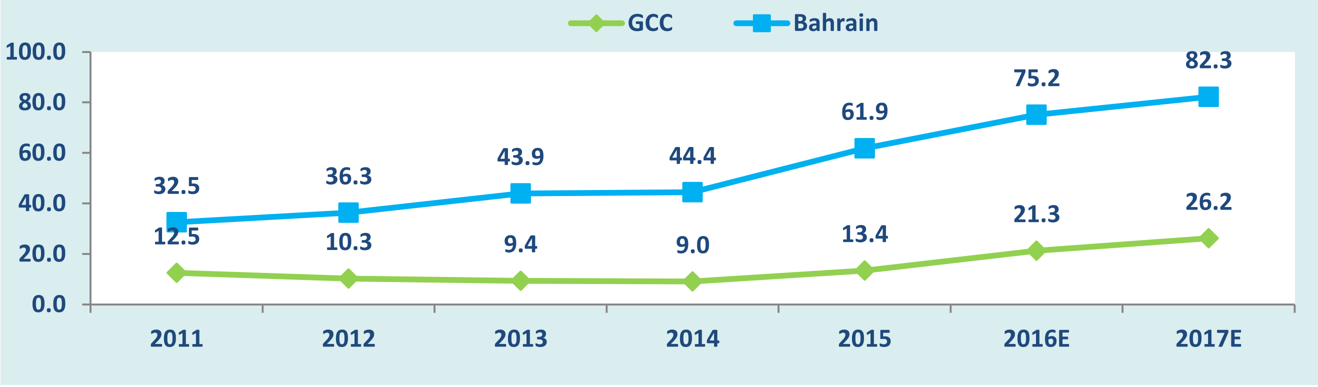
BAHRAIN: Expect higher debt issuances in the near term

Gross debt as % of GDP has gone up from 29.7% in 2010 to 62% in 2015 and continues to be the highest in the GCC. The government issued USD 3.0 Bn in debt during 2015 followed by USD 2.3 Bn in 2016 and most of proceeds were used to repay previous loan installments.

At the current pace, debt-to-GDP ratio is expected to reach 100% by 2019, according to Moody's, which is one of the reason for the sovereign rating downgrade in May-16.

However, according to Bahrain's EDB, the country is taking measures and improvement would be gradual.

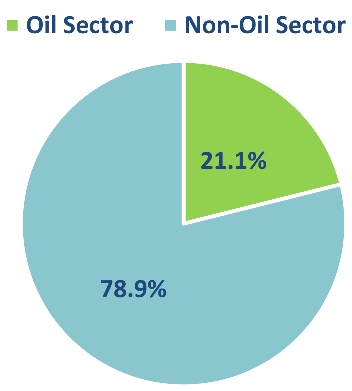
GROSS PUBLIC DEBT (% OF GDP)



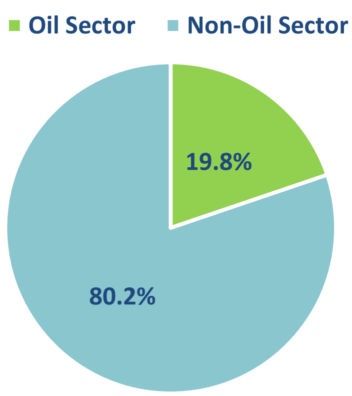
Source: IMF

CHANGE IN GDP COMPOSITION

2010



2015



Source: Bahrain Central Informatics Organization

BAHRAIN: Healthy all round sector contribution

Bahrain's GDP is well diversified in terms of sector contribution. No single sector accounts for more than 20% of the GDP with hydrocarbons being the largest at 19.7% of the GDP.

Growth in all the sectors was positive during 2015, with the only exception of Agriculture that declined 3.1%.

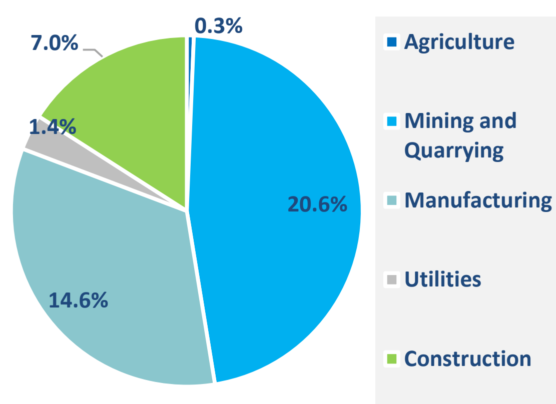
Construction sector has seen one of the fastest pace of growth over the years as there are a number of projects under execution and under planning.

GDP GROWTH IN KEY SECTORS (%)

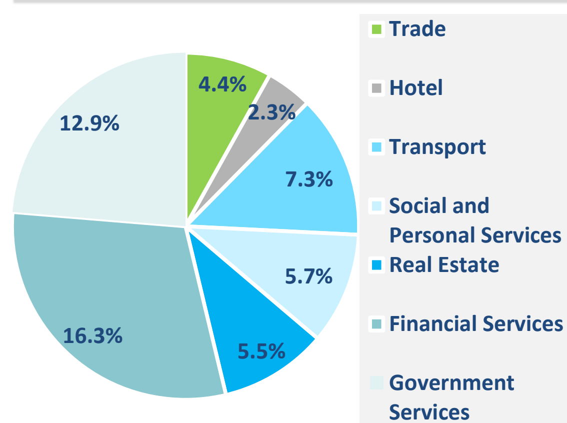
		2013	2014	2015
Producing Sectors	Agriculture	1.4	11.4	-3.1
	Mining and Quarrying	14.8	3.8	0.1
	Manufacturing	3.6	4.9	3.2
	Utilities	4.2	11.3	4.8
	Construction	4.2	6.5	5.9
Services Sectors	Trade	1.6	4.0	2.1
	Hotel	5.6	3.8	3.0
	Transport	3.2	6.0	6.8
	Social and Personal Services	6.6	7.4	3.5
	Real Estate	2.4	4.6	1.7
	Financial Services	2.0	3.0	2.3
	Government Services	2.7	4.8	3.0

CONTRIBUTION TO 2015 GDP (%)

PRODUCING SECTORS



SERVICES SECTORS



Source: Bahrain Central Informatics Organization

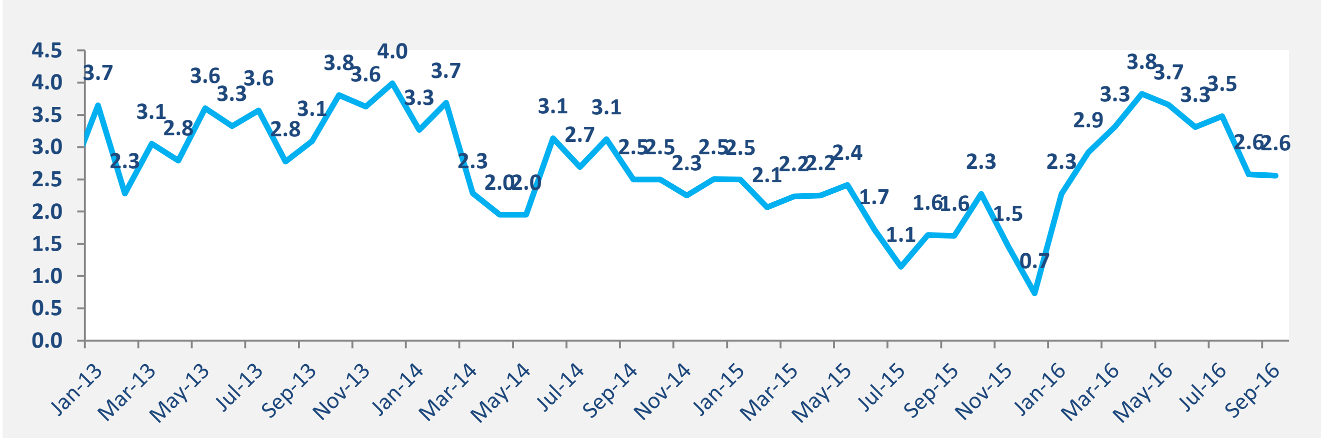
BAHRAIN: Rising inflation is a concern

Inflation in the Kingdom has grown consecutively during several months during mid-2016 owing higher housing costs.

Yearly inflation was the highest in April-16 since December-13 owing to higher housing and utility costs that account for close to a quarter of consumer expenses.

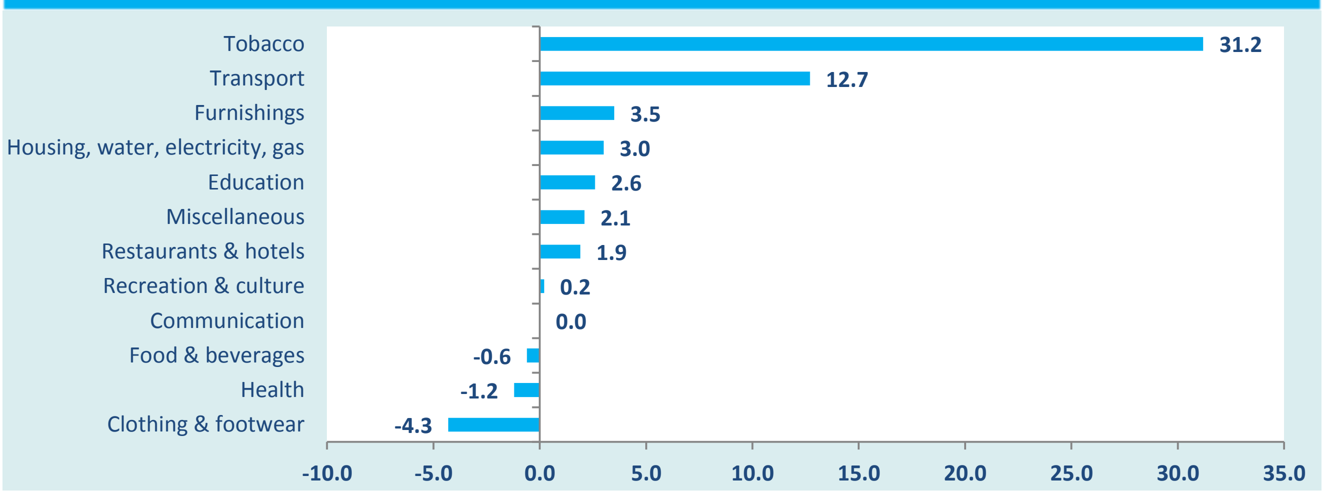
The increase in fuel prices in January-16 after almost 33 years led to an increase in transportation costs.

ANNUAL INFLATION (%)



Source: Bahrain Central Informatics Organization

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



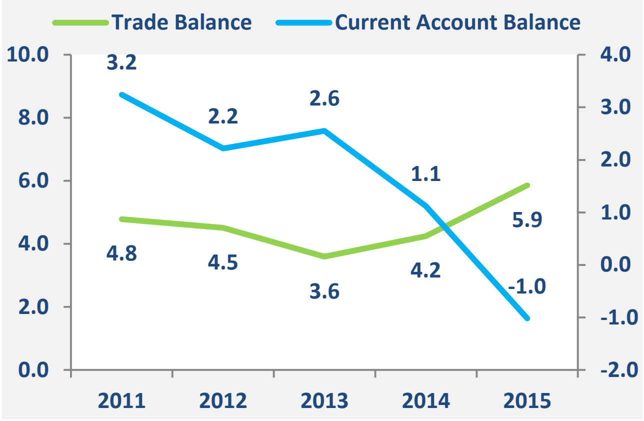
Source: Bahrain Central Informatics Organization

BAHRAIN: Deficit widens but trade balance improves

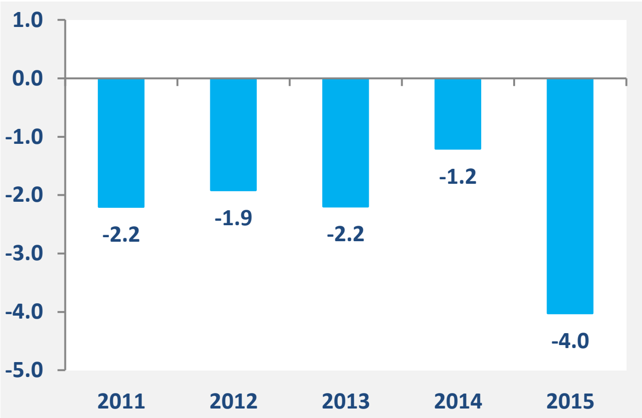
Bahrain's budget deficit has widened by close to 100% over the past four years to reach USD 4 Bn in 2015. The deficit increase was even steeper year on year in 2015 due to the decline in oil revenues coupled with marginal increase in recurrent expenditure whereas capital spending remained same as last year.

The size of the economy and the oil reserves it possess makes it imperative for Bahrain to have a robust non-oil sector.

TRADE & C/A BALANCE (USD Bn)



FISCAL BALANCE (USD Bn)



Source: Bahrain Central Bank,, IMF

	2011	2012	2013	2014	2015
Trade Balance (USD Bn)	4.8	4.5	3.6	4.2	5.9
Current Account Balance (USD Bn)	3.2	2.2	2.6	1.1	-1.0
	2011	**2012**	**2013**	**2014**	**2015**
Oil & Gas Revenue (USD Bn)	5.3	5.4	6.3	7.1	4.2
Other Revenue (USD Bn)	0.8	0.8	1.0	1.1	1.2
Recurrent Expenditure (USD Bn)	-6.6	-6.3	-8.0	-8.2	-8.3
Projects Expenditure (USD Bn)	-1.7	-1.8	-1.5	-1.2	-1.2
Fiscal Balance (USD Bn)	-2.2	-1.9	-2.2	-1.2	-4.0

Source: Bahrain Central Bank, Ministry of Finance

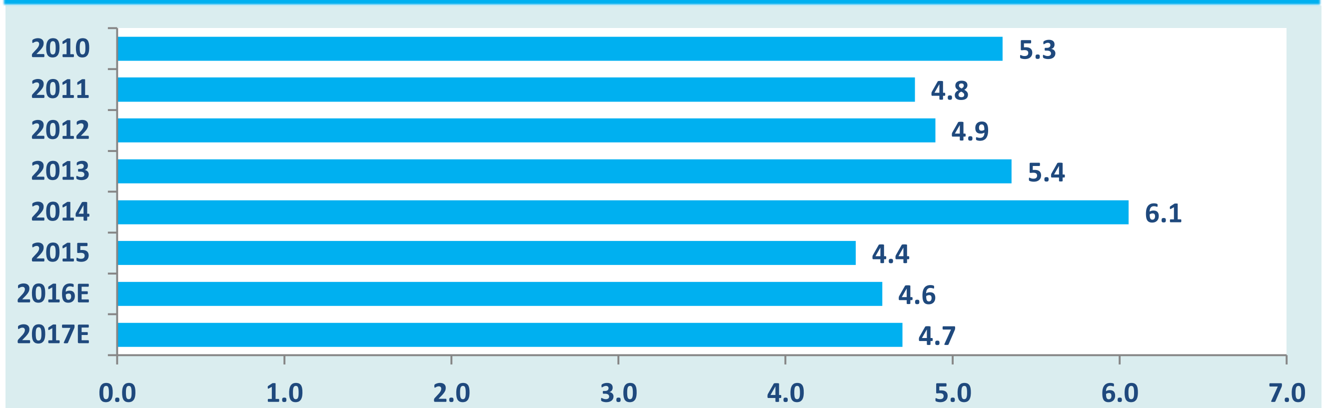
BAHRAIN: Reserves shrink to lowest level in six years

Foreign reserves have witnessed a steep decline in 2015 to reach USD 4.4 Bn. Moreover, according to a report that cited the country's sovereign bond prospectus as the source, reserves have halved since the end of last year. This has shrunk the country's import cover to less than 90 days.

According to the IMF, the country's import cover will shrink to 2.4 months in 2016 and further lower to 2.3 months in 2017.

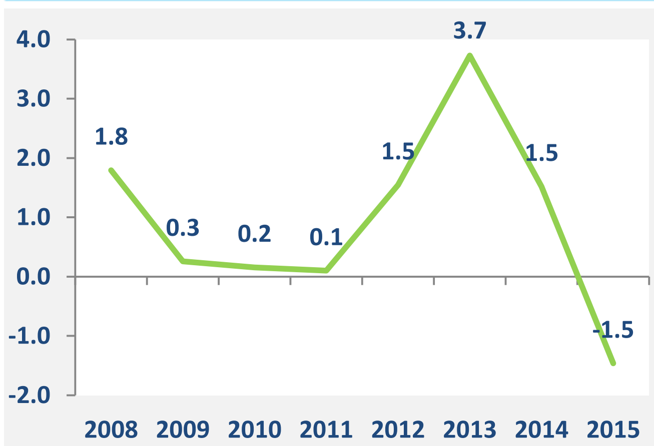
FDI inflow has also declined significantly as compared to previous year levels.

FOREIGN RESERVES (USD Bn)



Source: IMF

FDI INFLOW (USD Bn)



Source: UNCTAD 2016 World Investment Report

FDI OUTFLOW (USD Bn)

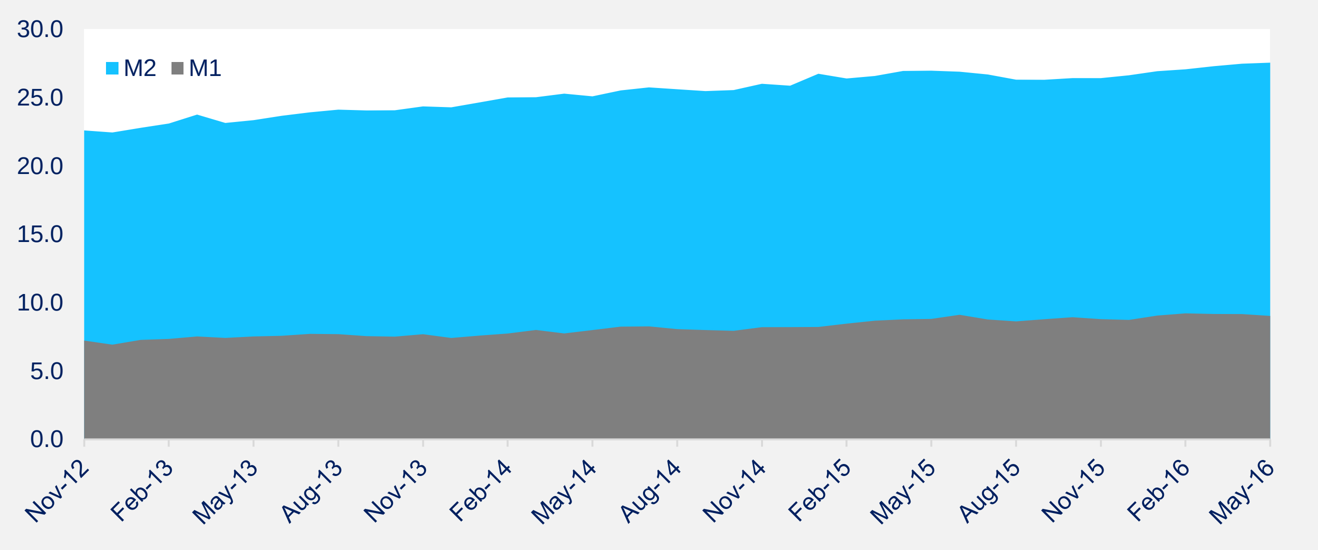
Source: UNCTAD 2016 World Investment Report

BAHRAIN: Money supply sees marginal growth

According to data from Bloomberg, Bahrain's broad money supply (M2) increased until March-16, although the growth was one of the smallest over the past seven months.

Moreover, the more liquid M1 declined during March-16 as compared to the previous month implying a decline in customer deposits.

MONEY SUPPLY (USD Bn)



Source: Bloomberg, KAMCO Research

BAHRAIN: Lowest trading activity in the region

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

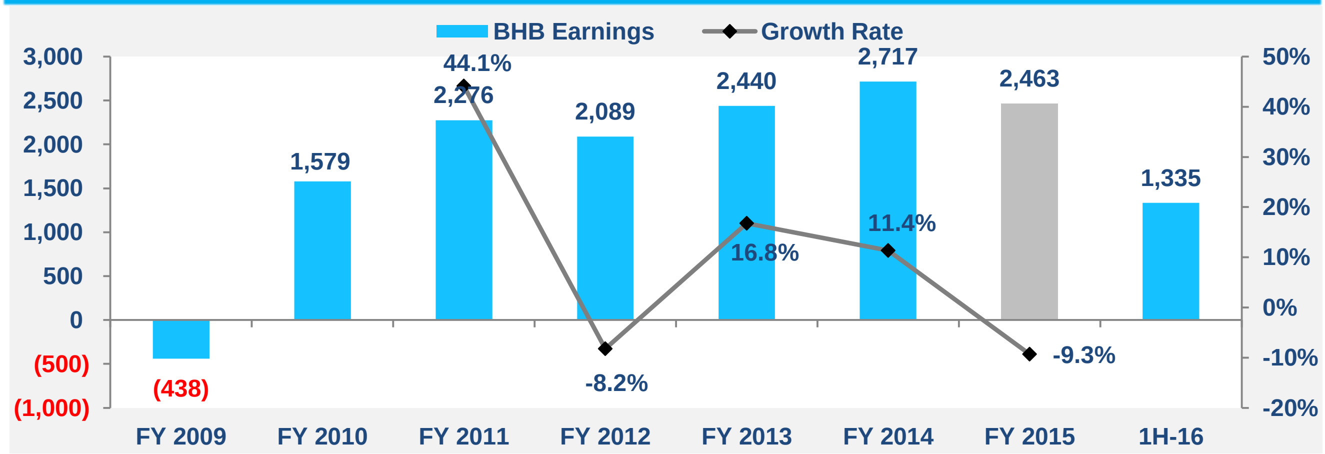
The benchmark index declined 15% last year and by 5.4% until September-16.

Corporate profitability also took a hit in 2015 and is expected to remain flat in 2016 taking cues from 9M-16 and 1H-16 results.

BAHRAIN ALL-SHARE INDEX

	2009	2010	2011	2012	2013	2014	2015	YTD Nov-16
Index Value	1,458.2	1,432.3	1,143.7	1,065.6	1,248.9	1,426.6	1,215.9	1,174.1
Y/Y Change	-19.2%	-1.8%	-20.1%	-6.8%	17.2%	14.2%	-14.8%	-3.4%
Market Cap (USD Bn)	16.2	16.6	16.6	15.5	18.3	21.5	19.1	18.4
Value Traded (USD Bn)	0.5	0.3	0.3	0.3	0.6	0.7	0.3	0.3

BAHRAIN – CORPORATE EARNINGS (USD Mn, % GROWTH)



Source: Bahrain Stock Exchange, KAMCO Research

BAHRAIN: BHB – Historical Performance

BAHRAIN BOURSE (BHB)

YTD Nov-16

Bahrain All Share Index Performance

YTD Nov-16 Return	-3.4%
YTD Nov-16 Volatility	4.6%

YTD Nov-16 trading Indicators

Volume *(Mn Shares)*	490
Value *(USD Mn)*	264
Deals *('000)*	9

FY 2015

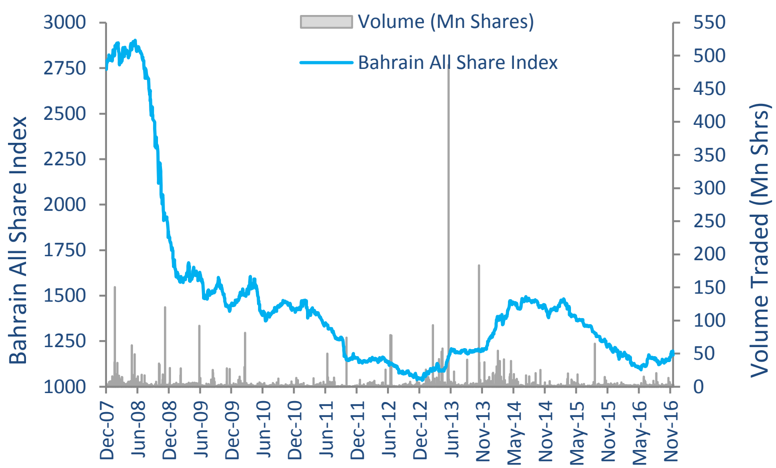
Bahrain All Share Index Performance

Yearly Return	-14.8%
Yearly Volatility	8.3%

Yearly trading Indicators

Volume *(Mn Shares)*	517
Value *(USD Mn)*	298
Deals *('000)*	11

BAHRAIN INDEX RELATIVE TO VOLUME SINCE 2008

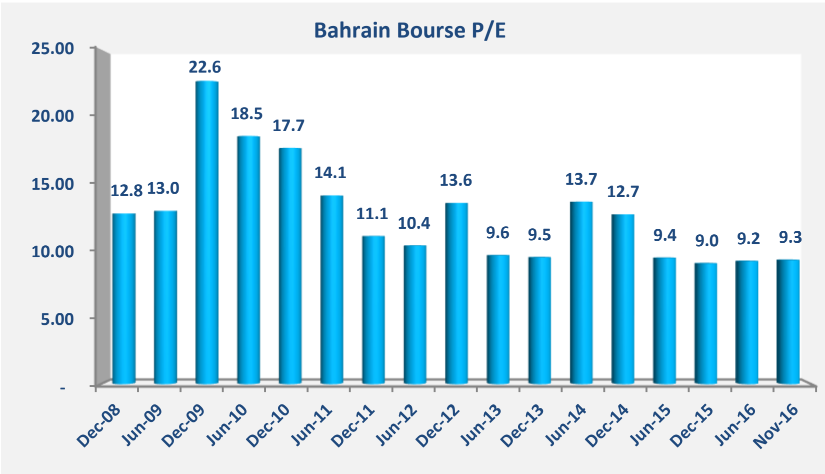


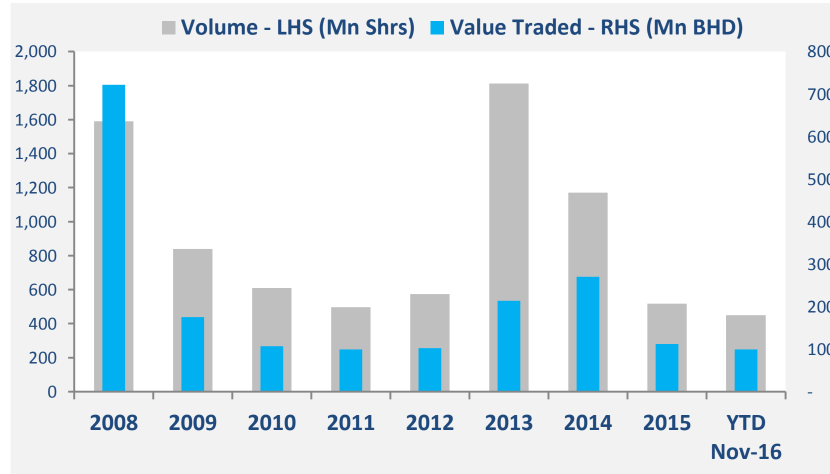
Investor activity continued to remain subdued during the year and we believe it will fall to the lowest level since the financial crisis by the end of 2016. Trading continues to be concentrated in a few large-cap stocks and specifically in the banking sector. Total value traded on the exchanged declined to USD 298 Mn during 2015, less than half of the trading activity during 2014. During the first eleven months of 2016, value traded stood at USD 264 Mn whereas volume of shares traded declined to 490 Mn shares from 517 Mn during full year 2015.

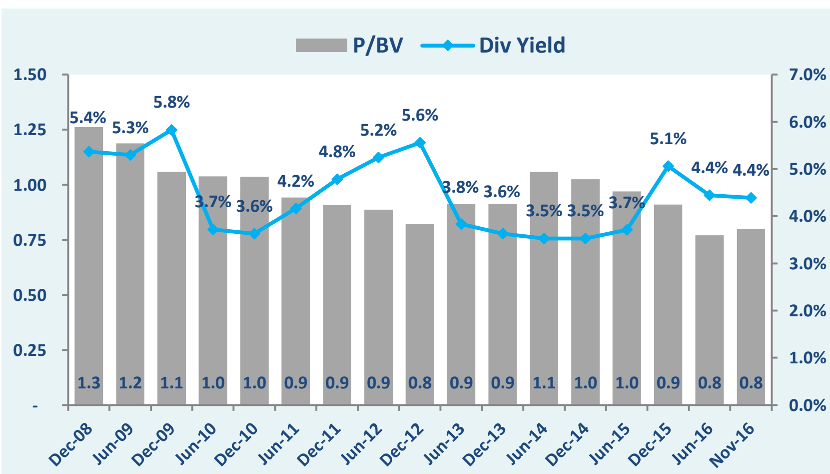
Source: Bahrain Stock Exchange, KAMCO Research

BAHRAIN: BHB- Valuation Multiples & Trading Indicators

BAHRAIN BOURSE -VALUATION MULTIPLES & TRADING INDICATORS







Valuation Multiples & Trading Indicators

Bahrain exchange saw the lowest volatility during the first eleven months of 2016 on the back of low trading activity. The benchmark index had declined by 3.4% until November-16 pushing valuation multiples at one of the lowest levels since the financial crisis. P/E multiple for the exchange stood at 9.3x at the end of November-16 with minimal fluctuations over the past 18 months. P/BV multiple also declined to 0.8x, also one of the lowest levels since the crisis. Dividend yield for the exchange stood at 4.4%, in line with regional average yields.

Source: Bahrain Stock Exchange, KAMCO Research

BAHRAIN ECONOMIC OUTLOOK

The need for further trade and investment is at its peak

Bahrain, the most heavily indebted country in the GCC in terms of debt-to-GDP ratio, has had a strong non-oil sector over the past several years with oil contributing below 25% of the GDP, one of the lowest in the region. However, a general slowdown in economic growth globally as well as in its neighborhood, on which Bahrain relies for a significant pie of its business, led to a slowdown in economic activity. Moreover, with the decline in oil earnings, the country faces a severe funding crisis over the next five years. Bahrain was one of the foremost in issuing debt to finance its budget deficits but the need to issue more debt to fund ongoing projects could push the debt-to-GDP ratio to more than 100% by 2019.

In terms of near term forecasts, the country needs an oil price of USD 93.8/b, the highest in the region, to balance its 2016 budget and a price of USD 92.3/b, also the highest in the region, to balance its 2017 budget. There are a number of ongoing projects in the non-hydrocarbon sector that could support the economy in the near-to-medium term. Furthermore, the project market has a strong private sector contribution with minimal funding from the government. The country's project pipeline stood at USD 32 Bn in the private sector for the next five years, which would not require government assistance. In addition USD 10 Bn worth of projects are being financed by the government. In order to finance these projects, the government is actively looking at the PPP model that would also bring international expertise as well as accelerate the process of project execution with minimal delays. The real estate sector is also being developed with the help of the private sector and funding from other regional governments with the Bahrain government taking the lead. In order to meet the housing shortage in the country, the Housing Minister is tasked with constructing 40,000 houses in 8-10 years. In addition to the PPP route, innovative ways are used to finance these houses which includes the Social Housing Finance Scheme providing further push to the sector.

Bahrain has always been at the forefront of financial regulatory reforms that has enabled it as a preferred location in the GCC, despite the low trading locally. Bahrain forms an easier window for the capital markets for firms operating in the region. In addition, further enhancements are expected in the exchange with the expected introduction of Bahrain Investment Market that will serve as an alternative to bank lending and private placement. It is planned to be a multi-currency market giving access to local and foreign firms. The exchange is also planning to introduce REITs to cater to investors interested in the real estate sector. In addition, during 2016, Bahrain signed a cooperation agreement with Egypt Exchange to make it easier for investors in the two countries to trade in each others stock market.

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