August 2014

KAMCO Investment Research

GCC Economic Report

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WORLD: Global recovery continues to be slow and uneven, with Eurozone being a drag

US led the world into the recession, and is leading it out of it as well. A harsh winter in Q1 2014 will lower growth, but Fed policy actions and recovery of fundamentals will ensure that the US recovery, albeit slow, continues.

The weakness in the Eurozone, however, continues to be a drag.

Structural issues are causing sub-par growth in emerging markets, as China battles a weak financial system, while MENA recovers from the Arab Spring.

GLOBAL GDP GROWTH (%)

	2008	2009	2010	2011	2012	2013	2014E	2015E	2016E
World	2.7	-0.4	5.2	3.9	3.2	3.0	3.6	3.9	4.0
Advanced Economies	0.1	-3.4	3.0	1.7	1.4	1.3	2.2	2.3	2.4
Euro Area	0.4	-4.4	2.0	1.6	-0.7	-0.5	1.2	1.5	1.5
Emerging and Developing Asia	7.3	7.7	9.7	7.9	6.7	6.5	6.7	6.8	6.7
MENA	5.1	3.0	5.5	3.9	4.1	2.2	3.2	4.5	4.7
Sub-Saharan Africa	5.7	2.6	5.6	5.5	4.9	4.9	5.4	5.5	5.8

Source: IMF, World Economic Outlook, April 2014

WORLD: Unemployment & Inflation control emerge as the biggest post-crisis challenges

High unemployment (>12%) in the Eurozone poses a question mark over sustenance of a jobless economic recovery, and job growth in MENA continues to be plagued by structural challenges.

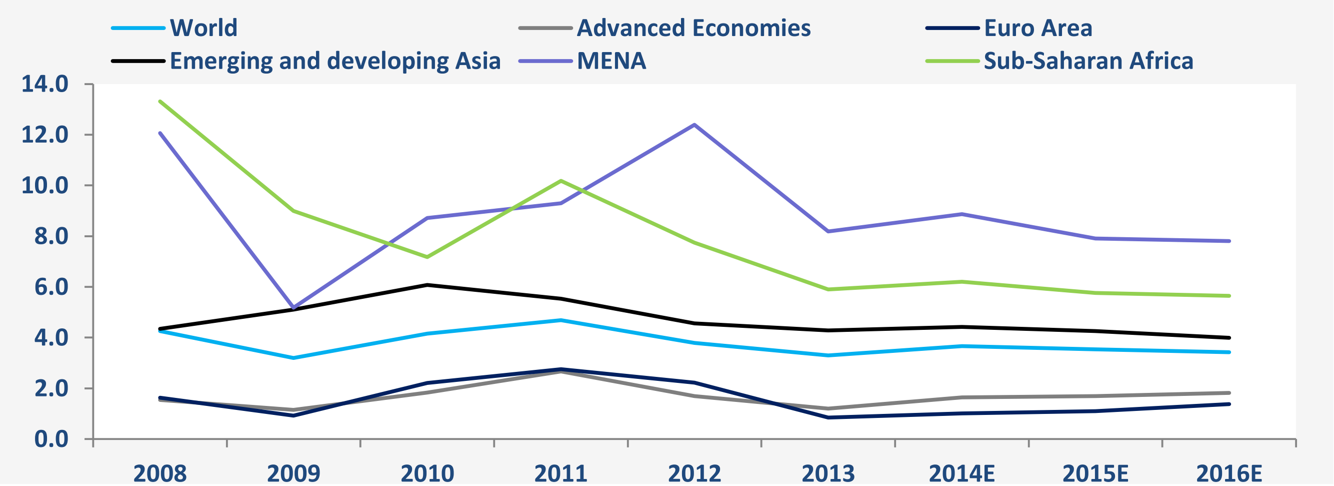
Post-crisis inflation trends point to a tale of two worlds. While emerging economies are fighting price rise, deflation has emerged as a source of risk in the developed world. (Inflation in Eurozone & the US is expected to end well under the 2% target in 2014).

UNEMPLOYMENT RATE (%)

	2008	2009	2010	2011	2012	2013E	2014E	2015E	2016E
World	5.6	6.2	6.0	5.9	5.9	6.0	6.0	6.0	6.0
Advanced Economies	5.8	8.1	8.3	8.0	8.0	7.9	7.5	7.3	7.1
Euro Area	7.7	9.7	10.2	10.2	11.4	12.1	11.9	11.6	11.1
BRICS	9.0	9.7	9.4	9.1	8.8	8.7	8.9	8.9	8.9
MENA	10.5	10.7	11.2	11.1	11.1	11.2	11.1	11.1	11.1
Sub-Saharan Africa	7.5	7.6	7.6	7.6	7.5	7.5	7.5	7.4	7.4

Source: ILO, OECD and IMF

INFLATION (%)



Source: IMF

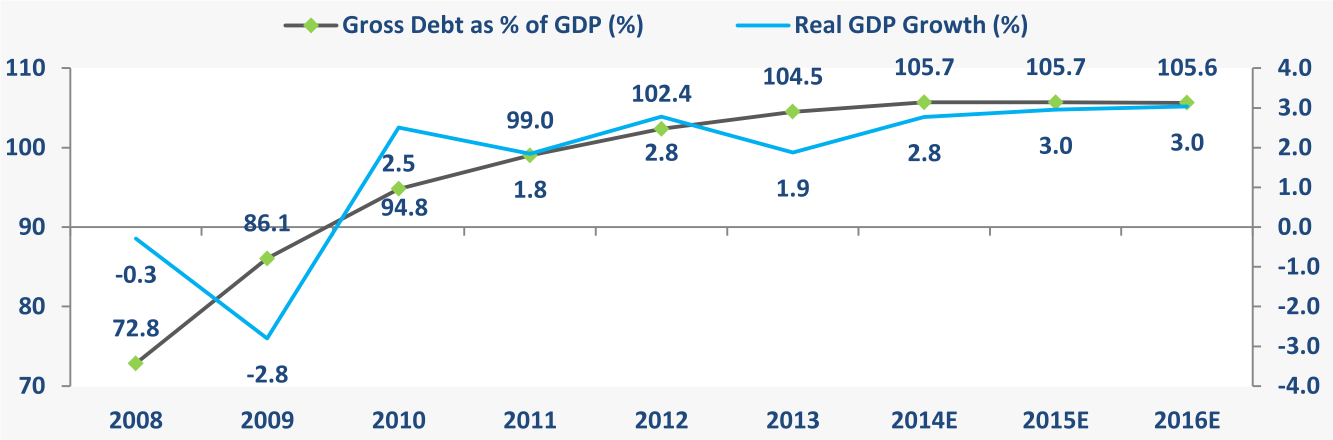
US: Recovery persists amid stimulus reduction by the Fed

US is leading the global economic recovery but a harsh winter, coupled with stagnant wages and high poverty levels (15%+), led to a weak Q1 and has prompted the IMF to keep its 2014 growth forecast at 2.8%.

Fed's bond purchases have been reduced to USD 35 Bn from July 2014, the fifth USD 10 Bn cut since December, and is indicative of the confidence in the US recovery.

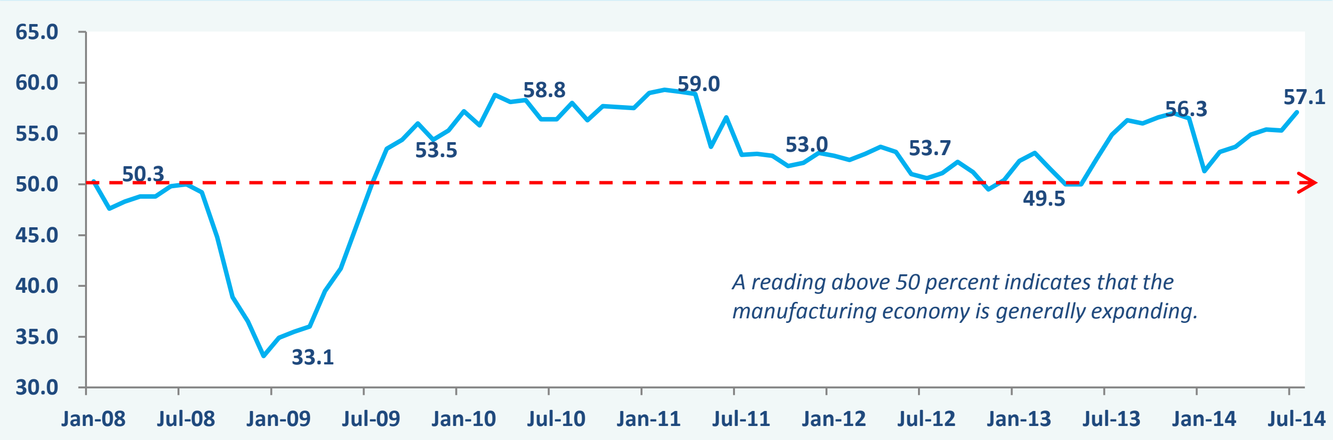
PMI continues to remain out of the red (>50) and has been expanding slowly in recent months as domestic demand improves.

US REAL GDP GROWTH AND GROSS DEBT



Source: IMF

US MANUFACTURING PMI



Source: ISM

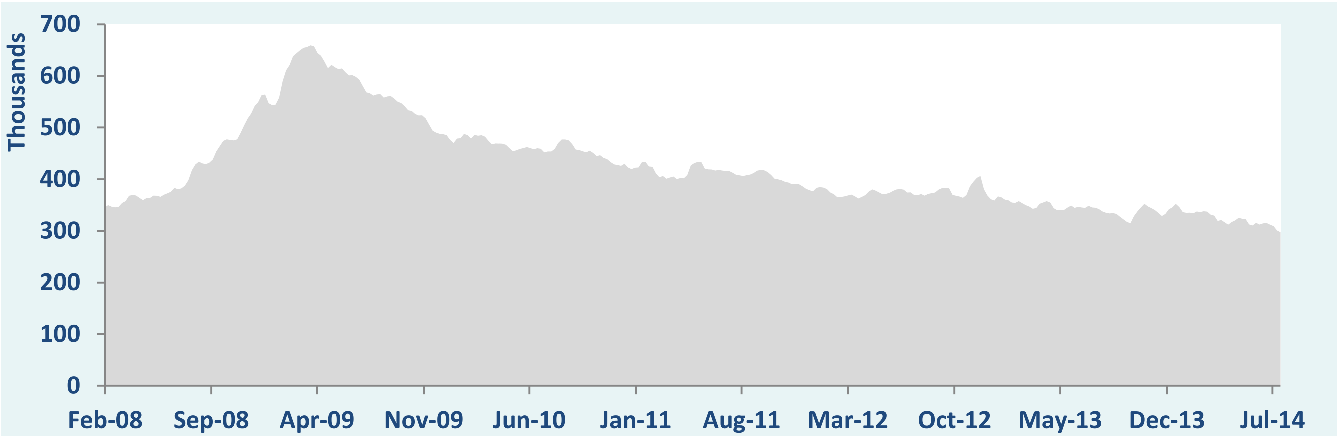
US: Unemployment is declining, but is above pre-crisis levels. Deflation is a concern.

Unemployment claims have reduced from their 2009 peak, and stood at 297,250 in the week ending July 26, 2014, down from 342,000 an year ago.

June 2014 marked the fifth consecutive month of 200,000+ job additions; however, unemployment stands at >6%, well above the ~4-5% pre-crisis levels, as joblessness among teenagers remains high.

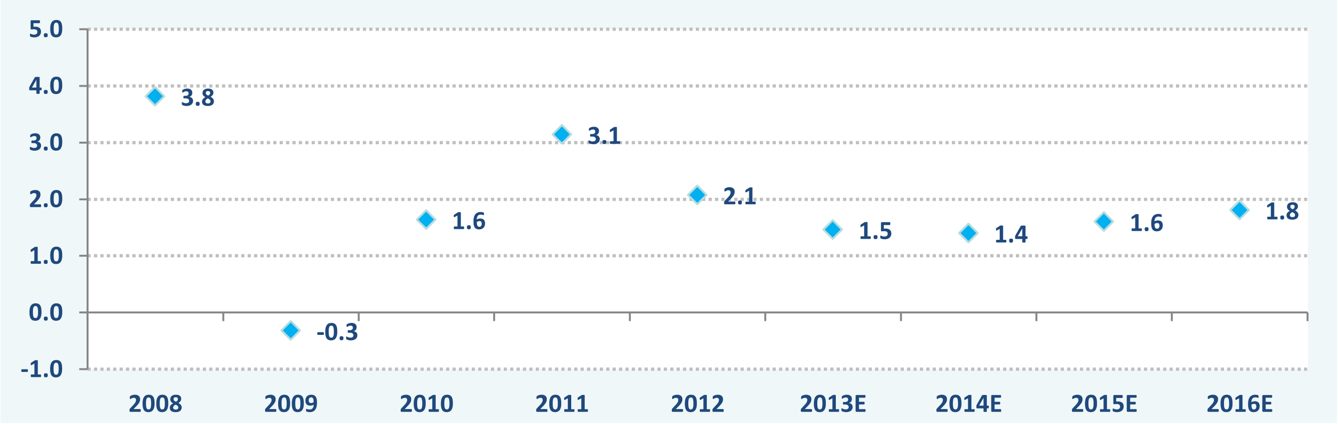
Inflation is below the Fed's 2% target and continues to be a concern.

US WEEKLY UNEMPLOYMENT CLAIMS



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

US INFLATION (%)



Source: IMF

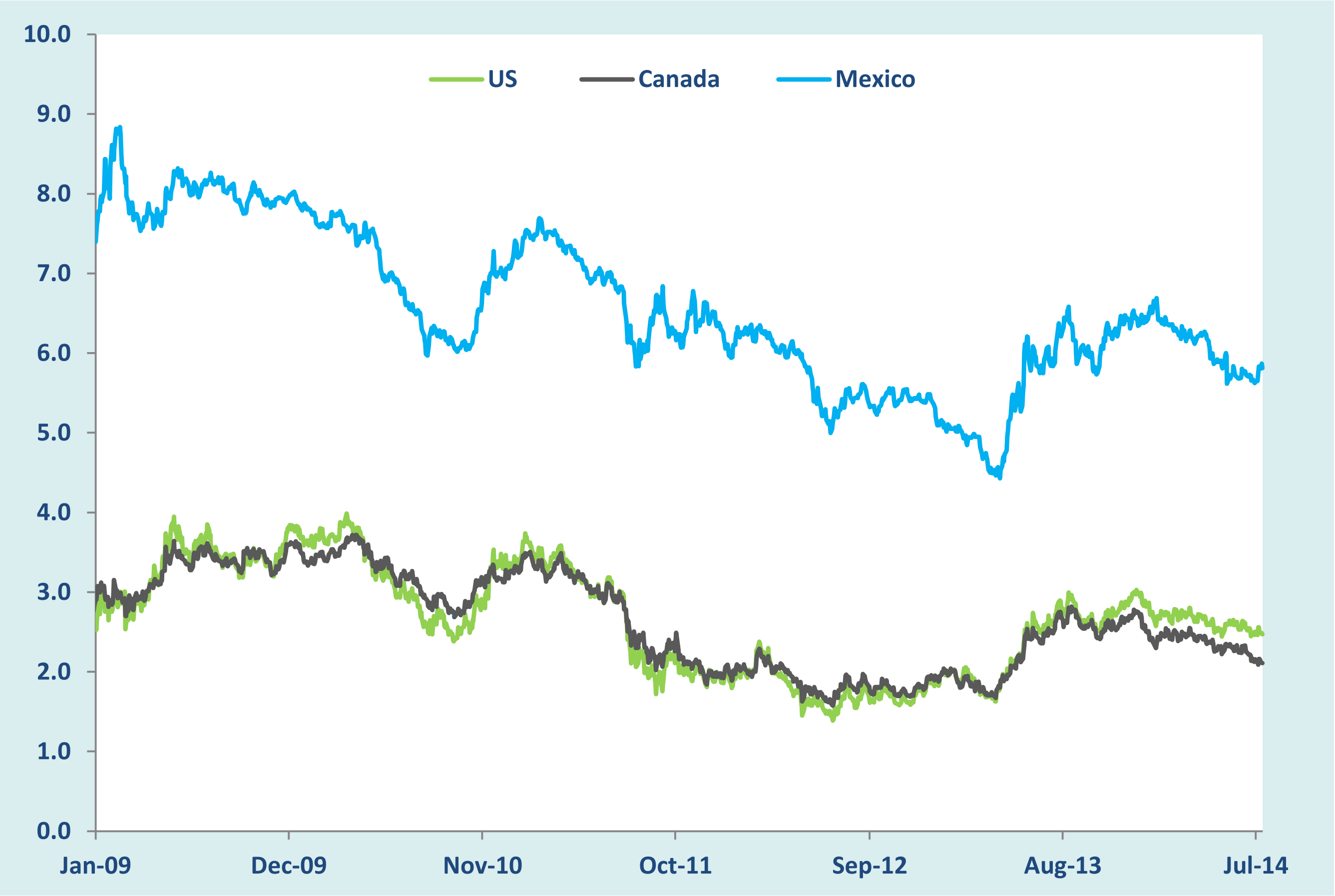
US: Bond yields are rising as the Fed stands by its commitment of maintaining low rates

Bond yields have moved north in the past 12 months as interest rates have remained low despite signs of an economic recovery, most notably the resumption of job growth.

Early signs of a rise in inflation in 2014 have sparked investor concerns about a rise in interest rates; however, the Fed has reiterated its commitment to maintain near zero interest rates till unemployment and inflation stabilize.

A hike in rates may take place sooner than mid-2015, once stimulus reduction is complete.

NORTH AMERICA 10-YEAR BOND YIELD (%)



Source: Bloomberg

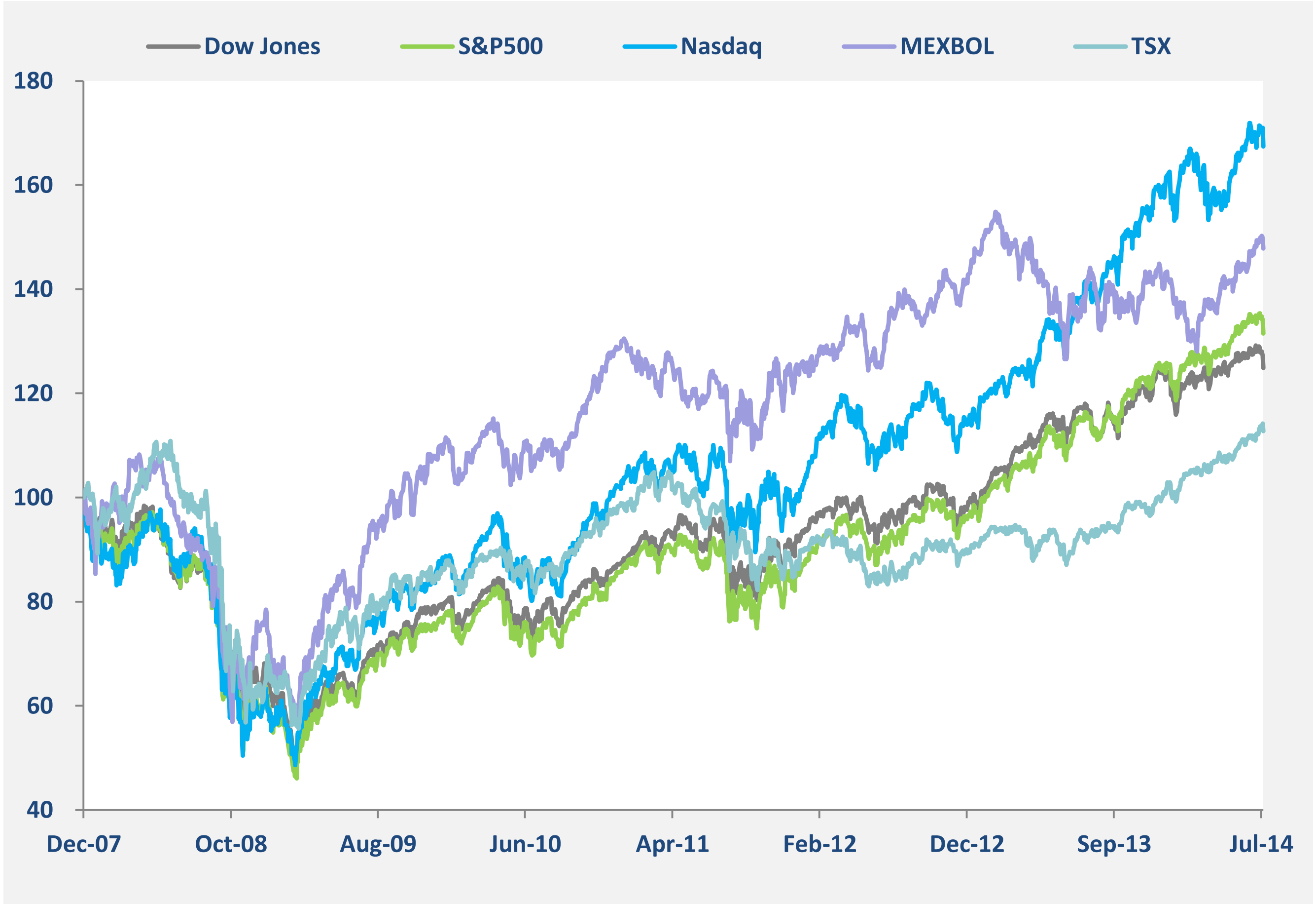
US: Investors regaining risk appetite as fundamentals recover

Equity markets are trading at historic highs due to a combination of strong fundamentals (job growth, strong deal flow, rising PMI, better-than-expected corporate earnings), and reduced uncertainty around the Fed's stimulus reduction policy.

Investors seem to be regaining their risk appetite, as fundamentals have triumphed sentiments in the form of geo-political uncertainty in Ukraine and Iraq.

Inflation and a volatile housing market pose headwinds.

NORTH AMERICA EQUITY MARKETS PERFORMANCE



Source: Bloomberg

EUROPE: Likely to emerge out of a double dip recession in 2014…

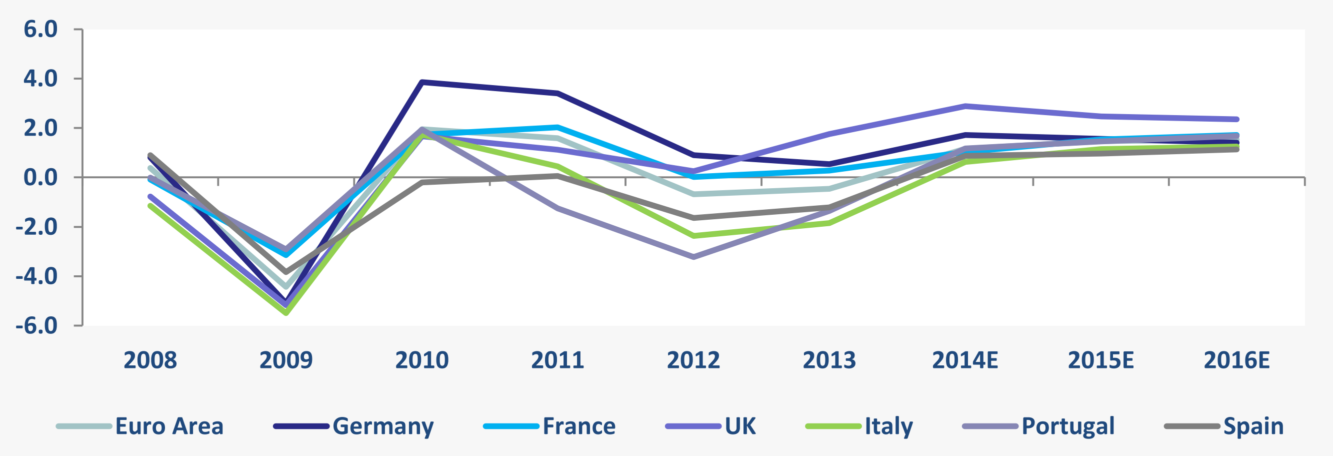
Bond buying measures by ECB will help the Eurozone emerge out of a double dip recession in 2014, after lack of political consensus over the debt crisis had put the future of the EURO under threat in 2012.

The Eurozone economy started gaining traction in 1H 2014, and is likely to grow by 1.2% in 2014, after contracting for two consecutive years.

Germany and UK lead the recovery, and a British exit (BREXIT) will have a negative impact.

EUROPE GDP GROWTH (%)

	2008	2009	2010	2011	2012	2013E	2014E	2015E	2016E
Euro Area	0.4	-4.4	2.0	1.6	-0.7	-0.5	1.2	1.5	1.5
Germany	0.8	-5.1	3.9	3.4	0.9	0.5	1.7	1.6	1.4
France	-0.1	-3.1	1.7	2.0	0.0	0.3	1.0	1.5	1.7
UK	-0.8	-5.2	1.7	1.1	0.3	1.8	2.9	2.5	2.4
Greece	-0.2	-3.1	-4.9	-7.1	-7.0	-3.9	0.6	2.9	3.7
Ireland	-2.2	-6.4	-1.1	2.2	0.2	-0.3	1.7	2.5	2.5
Italy	-1.2	-5.5	1.7	0.5	-2.4	-1.9	0.6	1.1	1.3
Portugal	0.0	-2.9	1.9	-1.3	-3.2	-1.4	1.2	1.5	1.7
Spain	0.9	-3.8	-0.2	0.1	-1.6	-1.2	0.9	1.0	1.1



Source: IMF

EUROPE: …but rising unemployment and high debt levels pose headwinds

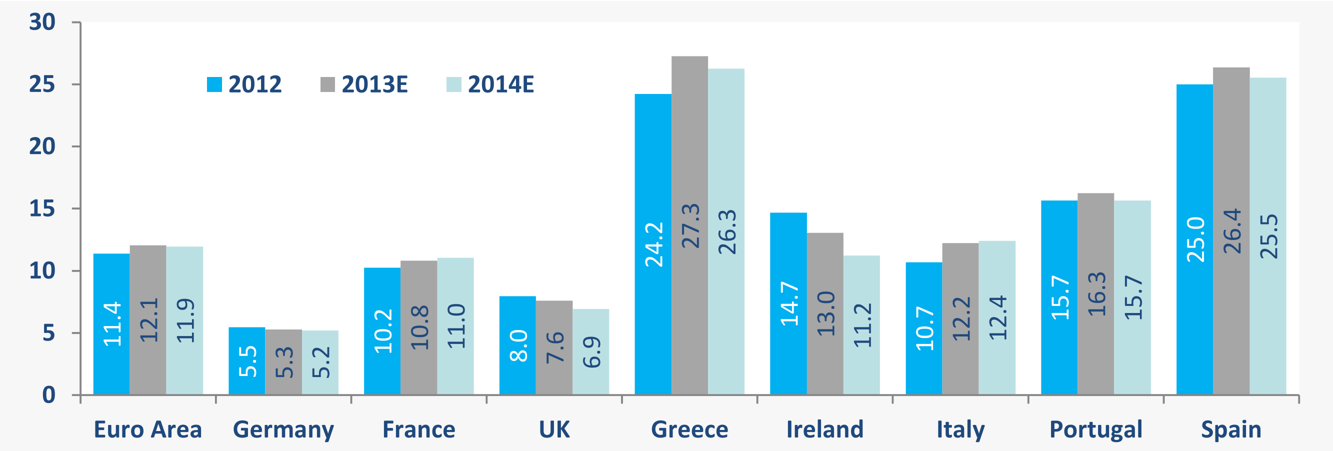
Rising unemployment (>12%) puts a question mark over the sustenance of a jobless economic recovery in Europe.

Youth unemployment levels are alarmingly high (28%) with UK, Germany, Austria & Iceland being the only nations to have single digit youth unemployment.

The debt crisis is far from over, as debt levels continue to remain high.

EU Banking Union's first step – stress tests of 128 European banks – will be critical as these banks (including those in Germany) have amassed high amount of debt since 2008.

EUROPE UNEMPLOYMENT (%)



Source: IMF

GOVERNMENT GROSS DEBT (% OF GDP)

	2010	2011	2012	2013	2014E	2015E	2016E
Germany	82.5	80.0	81.0	78.1	74.6	70.8	67.0
France	82.4	85.8	90.2	93.9	95.8	96.1	95.3
UK	78.5	84.0	89.0	90.0	92.0	93.0	92.5
Greece	148.3	170.3	157.2	173.8	174.7	171.3	162.5
Ireland	91.2	104.1	117.4	122.8	123.7	122.7	119.6
Italy	119.3	120.7	127.0	132.5	134.5	133.1	130.5
Portugal	94.0	108.2	124.1	128.8	126.7	124.8	122.6
Spain	61.7	70.5	85.9	93.9	98.8	102.0	103.7

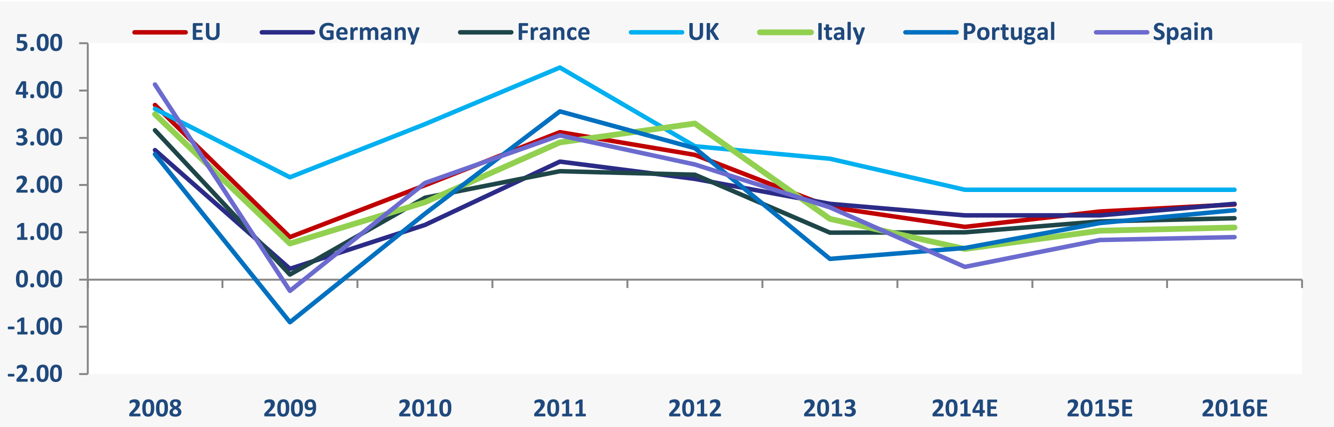
Source: IMF

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

Inflation stands at 1.1%, much below the ECB target of 2%. Continued deflationary pressure could undo the efforts to control the debt crisis, and is emerging as a chief concern for European investors.

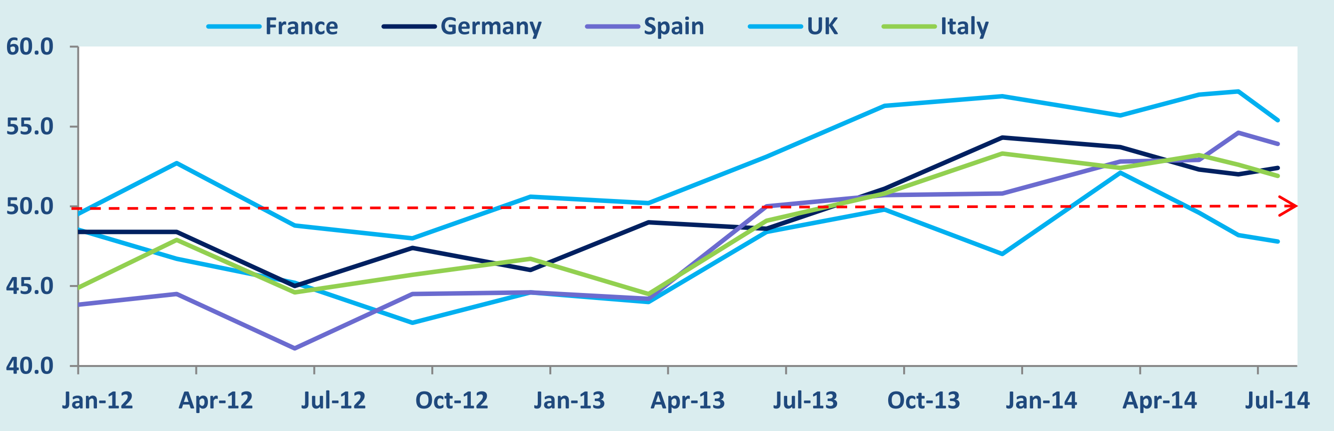
Weak domestic demand and falling prices means that manufacturing recovery continues to be painful and volatile. Eurozone PMI declined from 52.5 in June to 52.2 in July, its lowest reading in eight months, as France fell back into contraction mode.

EUROPE INFLATION (%)



Source: IMF

EUROPE MANUFACTURING PMI



Source: Markit, Bloomberg

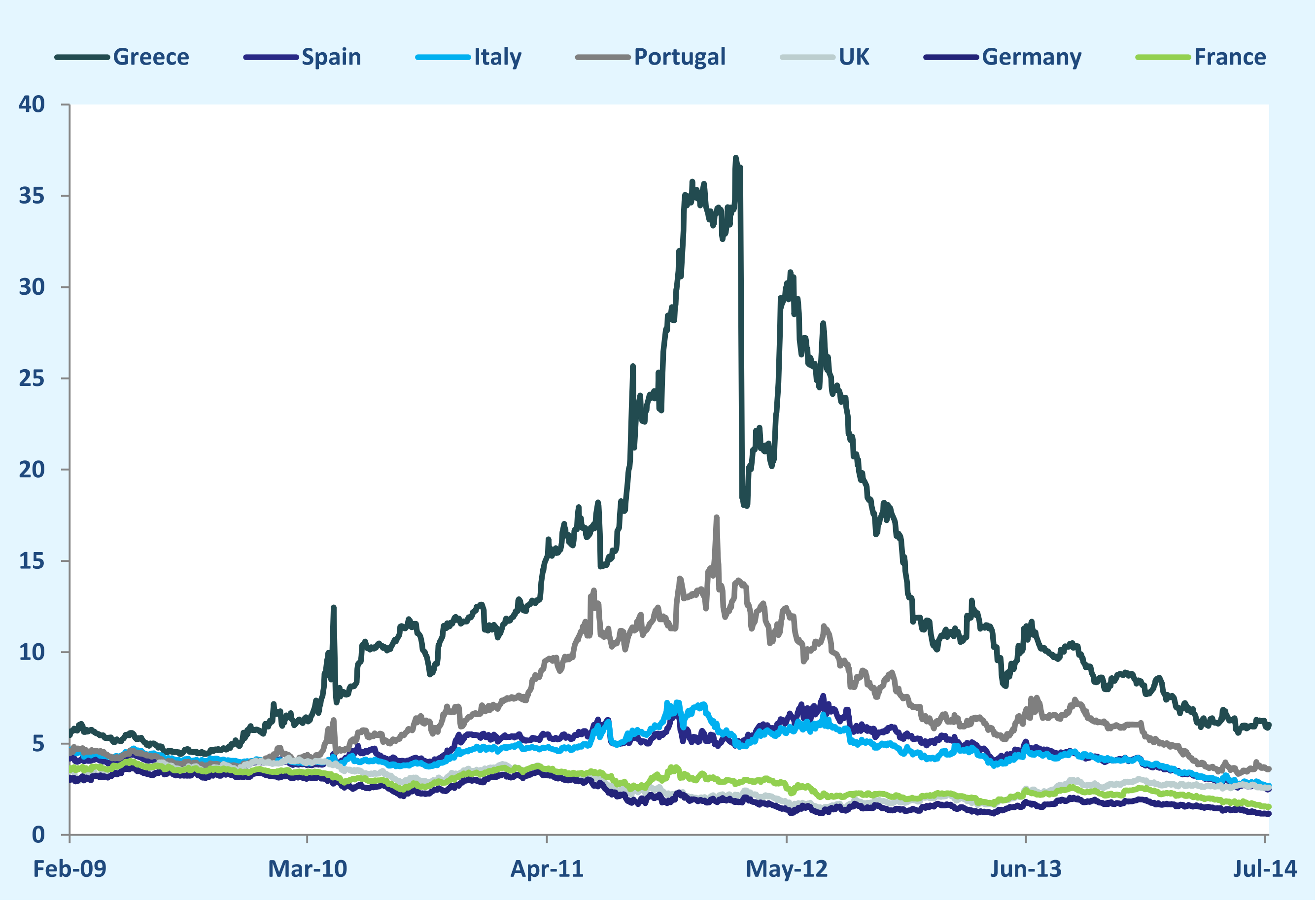
EUROPE: Bond spreads have narrowed as ECB announced rate cuts to boost liquidity

In June 2014, the ECB cut the main refinancing rate to 0.15% and also moved the deposit rate below zero (-0.10%) for the first time.

The bank will also offer targeted liquidity to banks to encourage lending, and will purchase asset-backed securities.

ECB's moves have allayed investor concerns around deflation, and have resulted in narrower bond spreads, with Spanish and German yield being at their closest since 2010.

EUROPE 10-YEAR BOND YIELD (%)



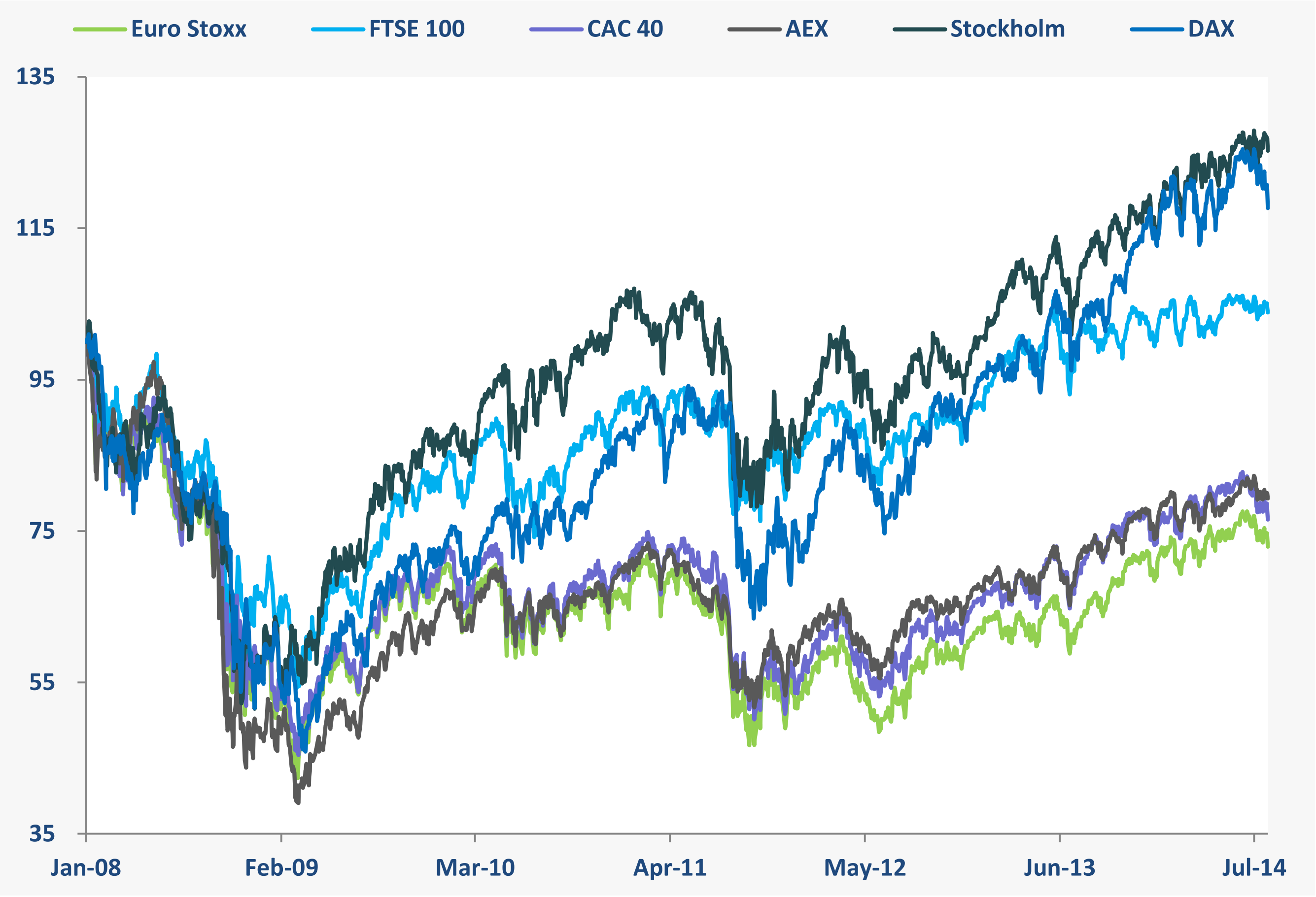
Source: Bloomberg

EUROPE: US recovery and ECB's policy actions are driving European equity markets

European stock markets are trading at multi-year highs, but the rally may not be sustainable as growth is currently driven by positive news from across the Atlantic, as fundamentals within the Eurozone continue to remain weak.

Policy actions by the ECB are further helping recovery, even as equities remain immune to sentiment arising from the rise of right winged parties in the EU (which was already factored in by the markets).

EUROPE EQUITY MARKETS PERFORMANCE



Source: Bloomberg

EMERGING MARKETS: Slow recovery based on global cues. Structural issues still exist.

EMs will grow by 5.1% in 2014, after uncertainty over Fed's stimulus reduction, and structural issues (corruption and a weak financial system in China, policy paralysis in India) led to capital outflows and sub-par growth (4.7%) in 2013.

Acceleration of investment in China and election of a stable and pro-growth govt. in India will lead the slow EM recovery, but structural issues still exist.

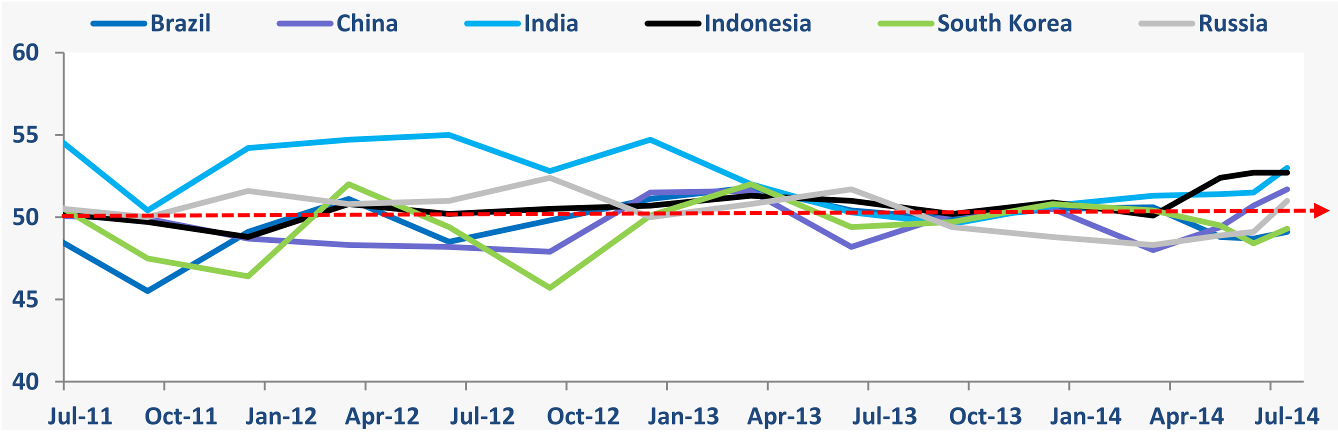
Indonesia continues to grow amid rising capital inflows, and the Q1 2014 slowdown due to the mineral-ore ban will not dent long-term fundamentals.

KEY EMERGING ECONOMIES GDP GROWTH (%)

	2008	2009	2010	2011	2012	2013E	2014E	2015E	2016E
Brazil	5.2	-0.3	7.5	2.7	1.0	2.3	1.8	2.7	3.0
China	9.6	9.2	10.4	9.3	7.7	7.7	7.5	7.3	7.0
India	3.9	8.5	10.3	6.6	4.7	4.4	5.4	6.4	6.5
Indonesia	6.0	4.6	6.2	6.5	6.3	5.8	5.4	5.8	6.0
South Korea	2.3	0.3	6.3	3.7	2.0	2.8	3.7	3.8	3.8
Russia	5.2	-7.8	4.5	4.3	3.4	1.3	1.3	2.3	2.5

Source: IMF

KEY EMERGING ECONOMIES MANUFACTURING PMI



Source: Markit

SUB-SAHARAN AFRICA: Global monetary conditions and EM recovery hold the key

The region's output expanded by 4.9% in 2013 and is expected to grow by 5.5% in 2014, driven largely by FDI inflow and investments in mining, infrastructure, and energy production.

Headwinds exist as any further tightening of monetary policies by the western world will negatively impact these inflows.

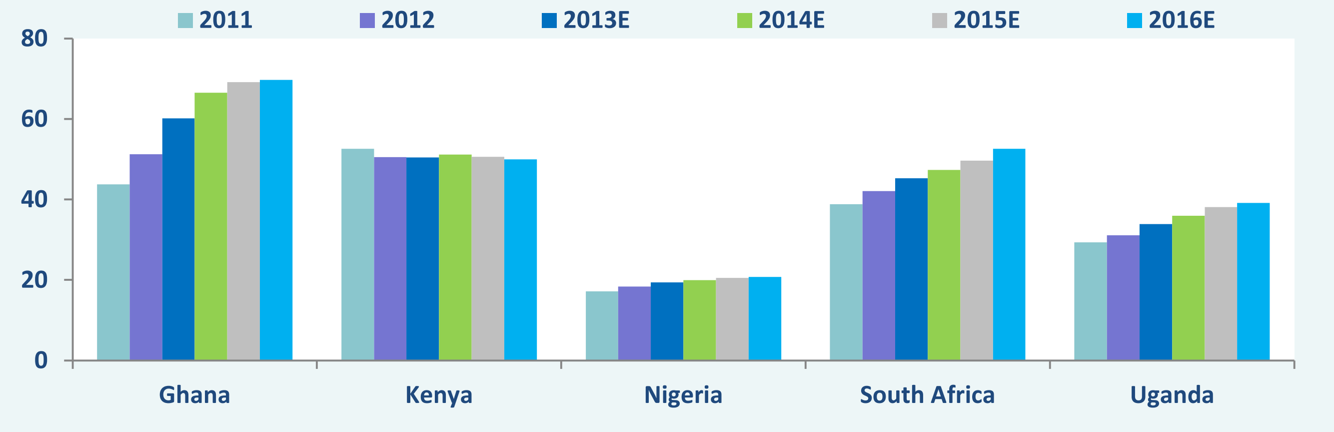
Also, muted growth in emerging markets could hamper export demand and commodity prices, and lower the overall growth.

SUB-SAHARAN AFRICA (GDP GROWTH %)

	2008	2009	2010	2011	2012	2013E	2014E	2015E	2016E
Ghana	8.4	4.0	8.0	15.0	7.9	5.5	4.8	5.4	8.1
Kenya	1.5	2.7	5.8	4.4	4.6	5.6	6.3	6.3	6.4
Nigeria	6.0	7.0	8.0	7.4	6.6	6.3	7.1	7.0	6.9
South Africa	3.6	-1.5	3.1	3.6	2.5	1.9	2.3	2.7	3.2
Uganda	10.4	4.1	6.2	6.2	2.8	6.0	6.4	6.8	7.1

Source: IMF

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



Source: IMF

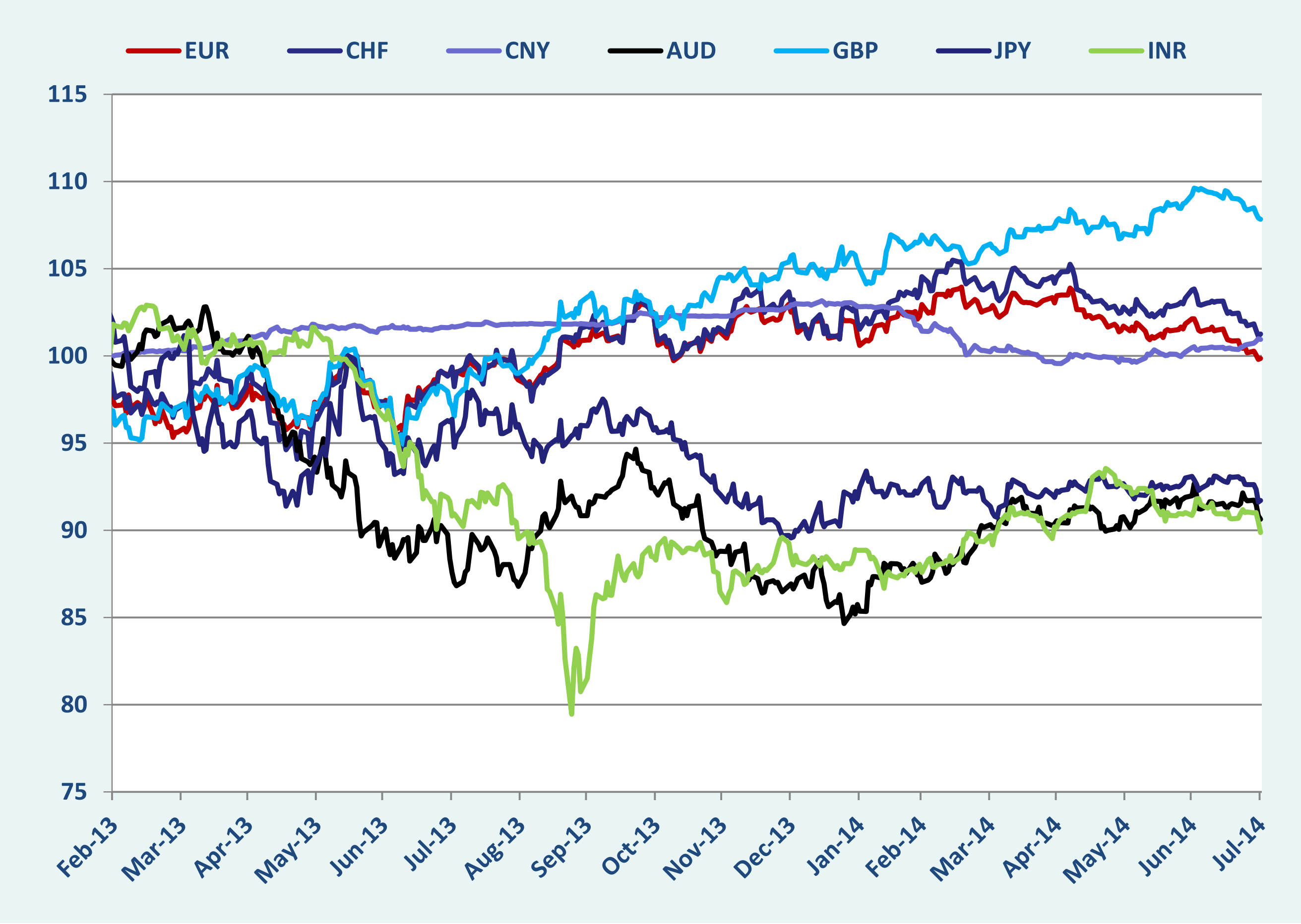
CURRENCIES: US recovery & stimulus unwinding, EU weakness, and geo-political developments in emerging markets are guiding capital flow

USD is strengthening on the back of an economic recovery in the US, even as the EURO declines due to sluggish growth, interest rate differentials and an expected deceleration of flows into Europe.

CNY's intentional decline against the USD continues as the Central Bank looks to control hot money inflow into China.

The recent change of political guard in India is expected to stem capital outflows and the INR's slide.

KEY CURRENCIES VS. US DOLLAR (USD)



Source: Bloomberg

WORLD ECONOMIC OUTLOOK

Global economic recovery will strengthen in 2014-15, but will remain slow and uneven

Global economic recovery is likely to strengthen in 2014, with GDP growth expected to rise from 3% in 2013 to 3.6% in 2014, and to 3.9% in 2015. The key driver of the economic recovery will be the resumption of growth in advanced economies – these economies have recovered from the 2008-09 crisis are expected to grow by 2.2% in 2014, up from 1.3% in 2013.

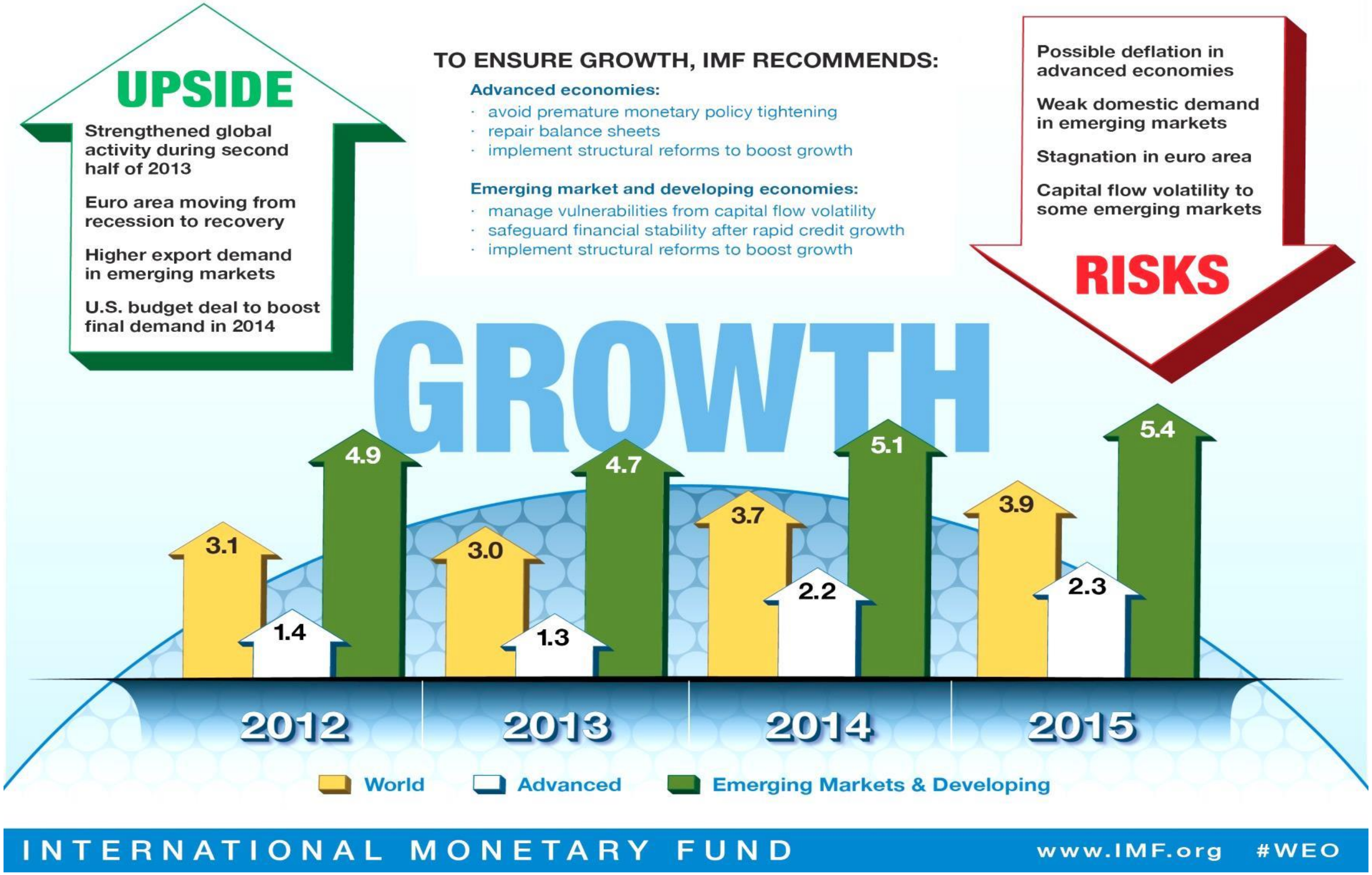
Recovery in advanced economies will be led by the US, where output is expected to expand by 2% in 2014, despite a harsh winter in Q1. Fed's accommodative monetary policy, and growth in all leading economic indicators including employment, housing starts, and manufacturing PMI, are leading recovery of the US economy. The strength of the recovery is also reflected in its sustenance despite reduction of the monthly bond purchase by the Fed, which has been slashed by USD 10 Bn each five times since Dec-13, and currently stands at USD 35 bn.

Europe will emerge out of contraction mode, but will remain fragile. Thanks to sustained efforts from the ECB and positive sentiment emanating from the US, the European economy will grow by 1.2% in 2014, emerging out of 2 consecutive years of negative growth. However, the European economy remains fragile as weakness persists in high debt nations like Greece, Ireland, Italy, Spain and Portugal; and high unemployment (pan Europe) and a volatile manufacturing sector challenge the progress made on the economic front.

Deflation poses headwinds to recovery in the US and Europe. Advanced economies (especially Europe) are facing deflationary pressures as lower output since the recession has led to low inflation. Inflation in the US and Europe is expected to remain well below the 2% aim of the Fed and the ECB. Deflation in these economies could result in an increase in debt levels, and could reduce the pace of economic recovery.

Structural issues mean that growth in emerging markets will be sub-par, though higher than the growth in advanced economies. Growth in emerging economies will rise from 4.7% in 2013 to 5% in 2014, and 5.2% in 2015. However, this growth will largely be driven by improving demand from the recovering western economies, as domestic issues (corruption, political instability, geo-political turbulence) in various emerging economies lead to overall sub-par growth. China's output is expected to expand by 7.5%, while the election of pro-reform government in India might lead to higher growth than expected (5.4%). Growth in the MENA region will rise from 2.4% in 2013 to 3.2% in 2014, but will remain below its historical average of ~4%.

WORLD: IMF Economic Outlook – Snapshot



SECTION 2| MENA Economic Trends

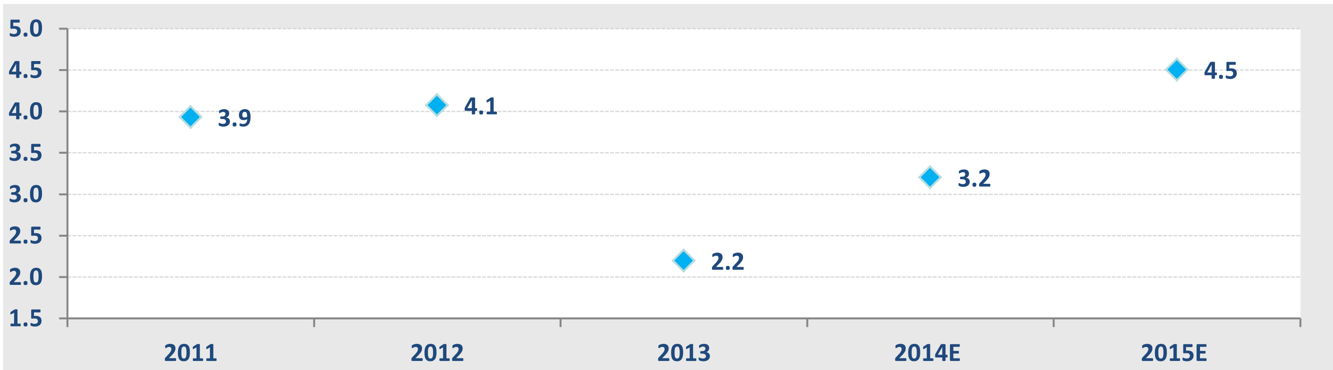
MENA: Geopolitical turbulence & softening oil markets led to moderated growth in 2013

Growth in the MENA region declined to 2.2% in 2013, as oil exporting countries like Libya, Iran, and Syria faced increased geo-political turbulence, along with transition economies like Egypt and Jordan.

GCC region also witnessed reduced growth as global oil demand remained weak, and production from non-OPEC nations increased.

Growth in 2014 is expected to reach 3.2% (driven by the growing non-oil sector), but would still remain below its average of 4% growth achieved in the last four decades.

MENA REAL GDP GROWTH (%)



Source: IMF

	2011	2012	2013	2014E	2015E
Real GDP Growth (%)					
MENA	3.9	4.1	2.2	3.2	4.5
MENA Oil Exporters	4.6	4.7	2.0	3.4	4.6
MENA Oil Importers	1.7	2.0	2.7	2.7	4.2
GCC	7.7	5.6	4.1	4.2	4.4
Non-GCC Oil Importers	0.7	2.6	2.4	4.2	4.4
Oil GDP Growth (%)					
MENA Oil Exporters	4.9	-1.8	-2.0	0.4	2.8
GCC	10.4	5.5	0.9	0.4	0.6
Non-GCC Oil Exporters	-0.4	-9.0	-5.0	0.3	5.2
Non-Oil GDP Growth (%)					
MENA Oil Exporters	4.4	4.3	3.9	4.6	5.0
GCC	6.5	5.6	5.4	5.7	5.8
Non-GCC Oil Exporters	2.3	3.0	2.3	3.3	4.1

Source: IMF

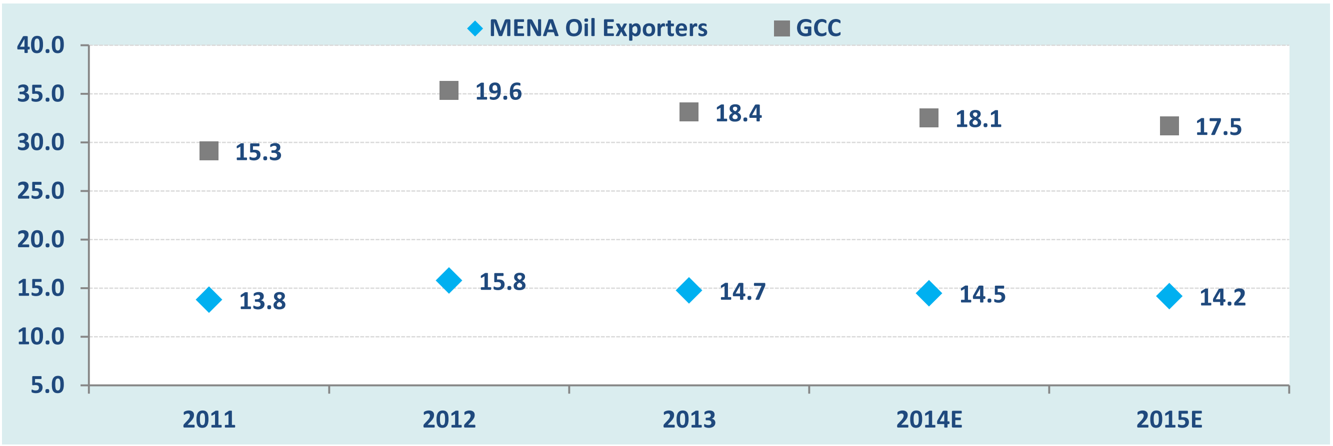
MENA: Non-oil revenue needs to grow much faster to offset stagnancy in the oil sector

Despite economic diversification efforts, non-oil revenues as a % of GDP came down from 19.6% in 2012 to 18.4% in 2013 in the GCC region, and from 15.8% to 14.7% in MENA oil exporting nations.

The decline is attributable to project delays, inadequate financing, lack of tax incentives, a weak private sector, high levels of unemployment (11.2% in 2013), and geo-political instability in the MENA region.

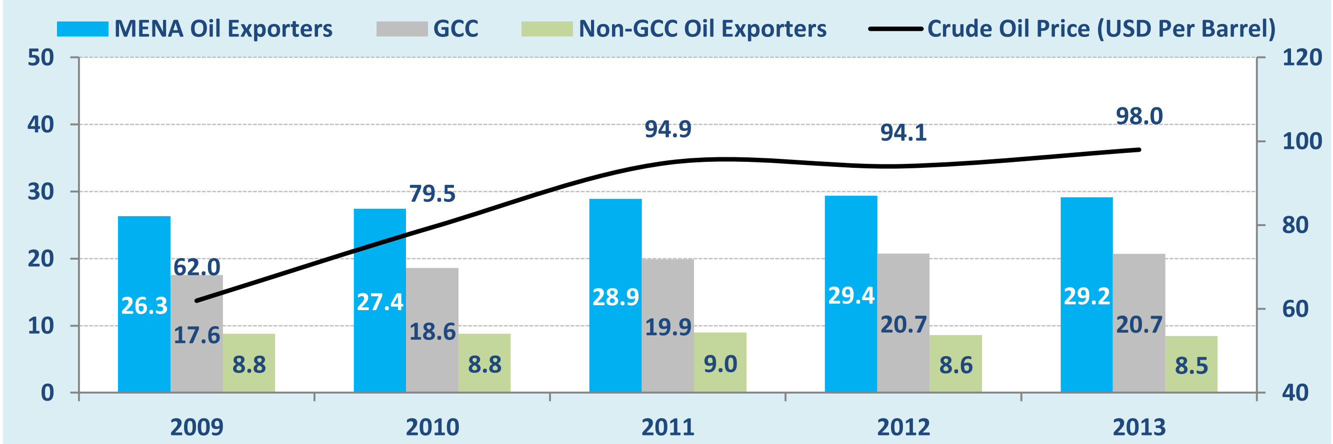
MENA would need to address these structural issues to ensure that diversification efforts are successful, and are able to offset the stagnancy in the growth of the oil sector.

NON-OIL REVENUE (% OF GDP)



Source: IMF

OIL PRODUCTION & CRUDE OIL PRICES (MN BBL/D, USD PER BARREL)



Source: EIA, KAMCO Research . Crude Oil Prices = Annual Average WTI Crude Oil Spot Prices

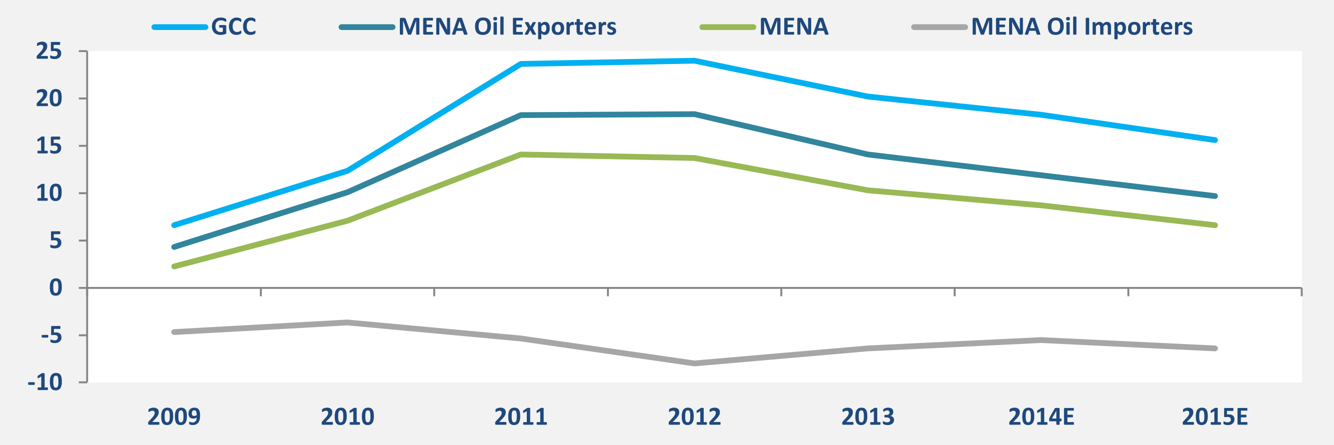
MENA: Fiscal pressures are high and might lead to a deficit in 2014

Overall current account balance came down from 13.7% of the GDP in 2012 to 10.3% in 2013, while fiscal balance came down from 3.2% to 0.3%.

Current account will narrow to 8.7% in 2014, as imports rise to meet the demands of a growing population and slowly recovering MENA economies.

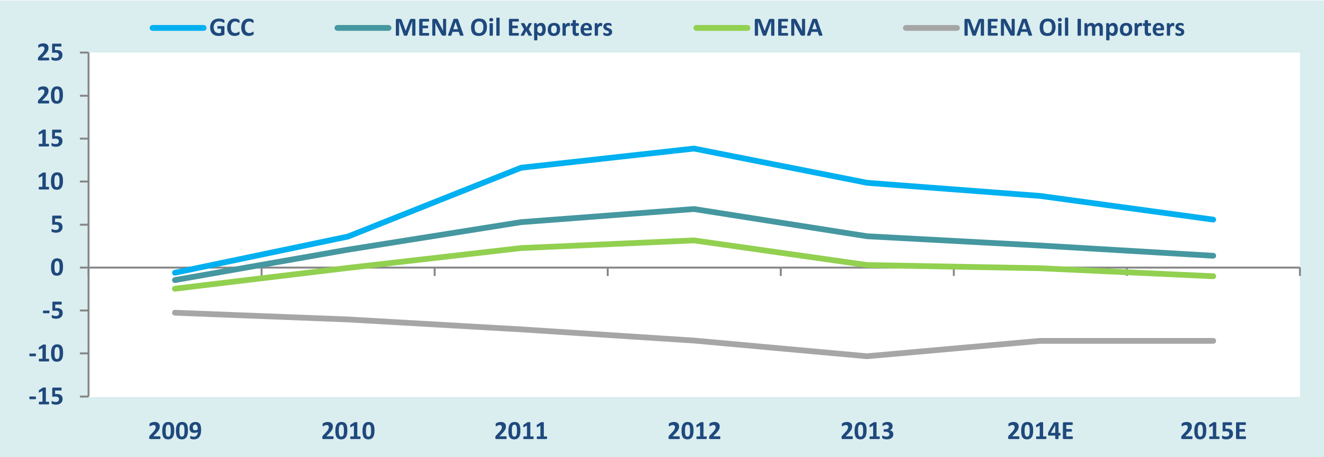
Fiscal balance is likely to turn negative (-0.1%) in 2014 as expenses rise (infrastructure investment to boost the non-oil sector, expat payments), while oil revenues stagnate due to peak in production levels and weak global demand.

CURRENT ACCOUNT BALANCE (% OF GDP)



Source: IMF

FISCAL BALANCE (% OF GDP)



Source: IMF

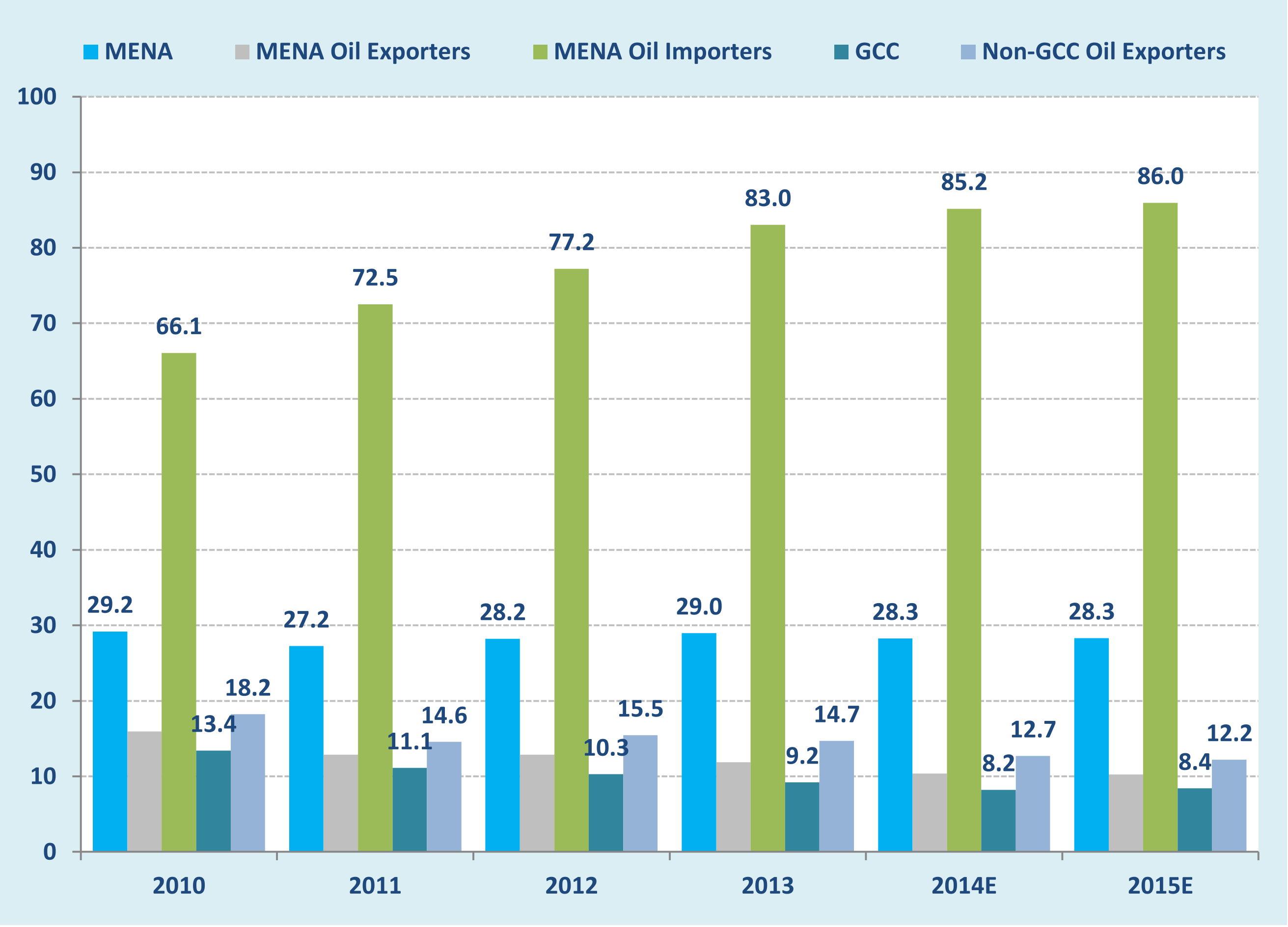
MENA: Debt levels are rising in oil importing nations, led by Egypt, Morocco and Lebanon

Overall debt levels in MENA increased from 28.2% of GDP in 2012 to 29.0% in 2013, while levels in GCC declined from 10.3% to 9.2% in the same time frame.

Debt levels among oil importing nations have gone up from 77.2% in 2012 to 83% in 2013, and are expected to cross the 86% mark in 2015. This rise is due to elevated debt levels in Egypt, Morocco and Lebanon, which are expected to issue majority (66%, USD 44 Bn) of government debt in the region in 2014, as per S&P.

Commercial borrowing in the MENA region is expected to increase from USD 44 Bn in 2013 to USD 56 Bn in 2014.

GOVERNMENT GROSS DEBT (% OF GDP)



Source: IMF

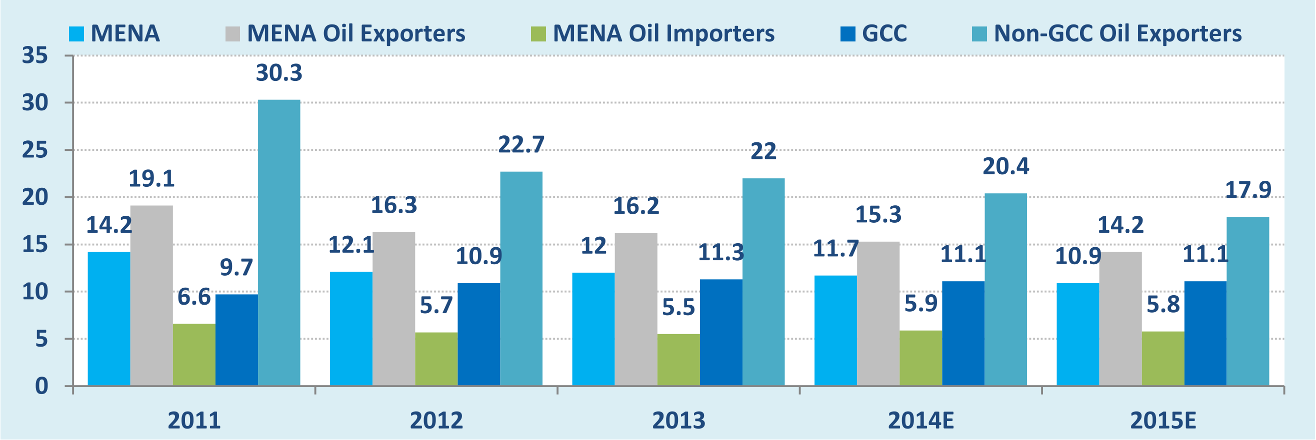
MENA: International reserves are stable. Inflation continues to be high.

International reserves in the MENA region remained stable at ~12 months of import in 2013, and are expected to remain at the same level in 2014 as well.

Reserves are expected to continue tapering in non-GCC oil exporting nations (from 30 months in 2012 to 17 months in 2016) as imports rise amid declining or stagnant oil revenues.

Inflation continues to remain high (11.5%) as geo-political turbulence in oil importing nations like Egypt drove-up energy prices. On the other hand, political stability has ensured that inflation in GCC nations remained stable (~3%) despite a recovering housing market.

GROSS INTERNATIONAL RESERVES (MONTHS OF IMPORTS)



Source: EIU

INFLATION (ANNUAL CHANGE %)

	2010	2011	2012	2013	2014E	2015E
MENA	6.6	9.4	10.9	11.5	8.8	8.6
MENA Oil Exporters	6.1	9.8	11.8	12.2	8.7	8.6
MENA Oil Importers	7.9	8.2	8.2	9.4	8.9	8.4
GCC	2.6	3.1	2.4	2.9	3.0	3.2

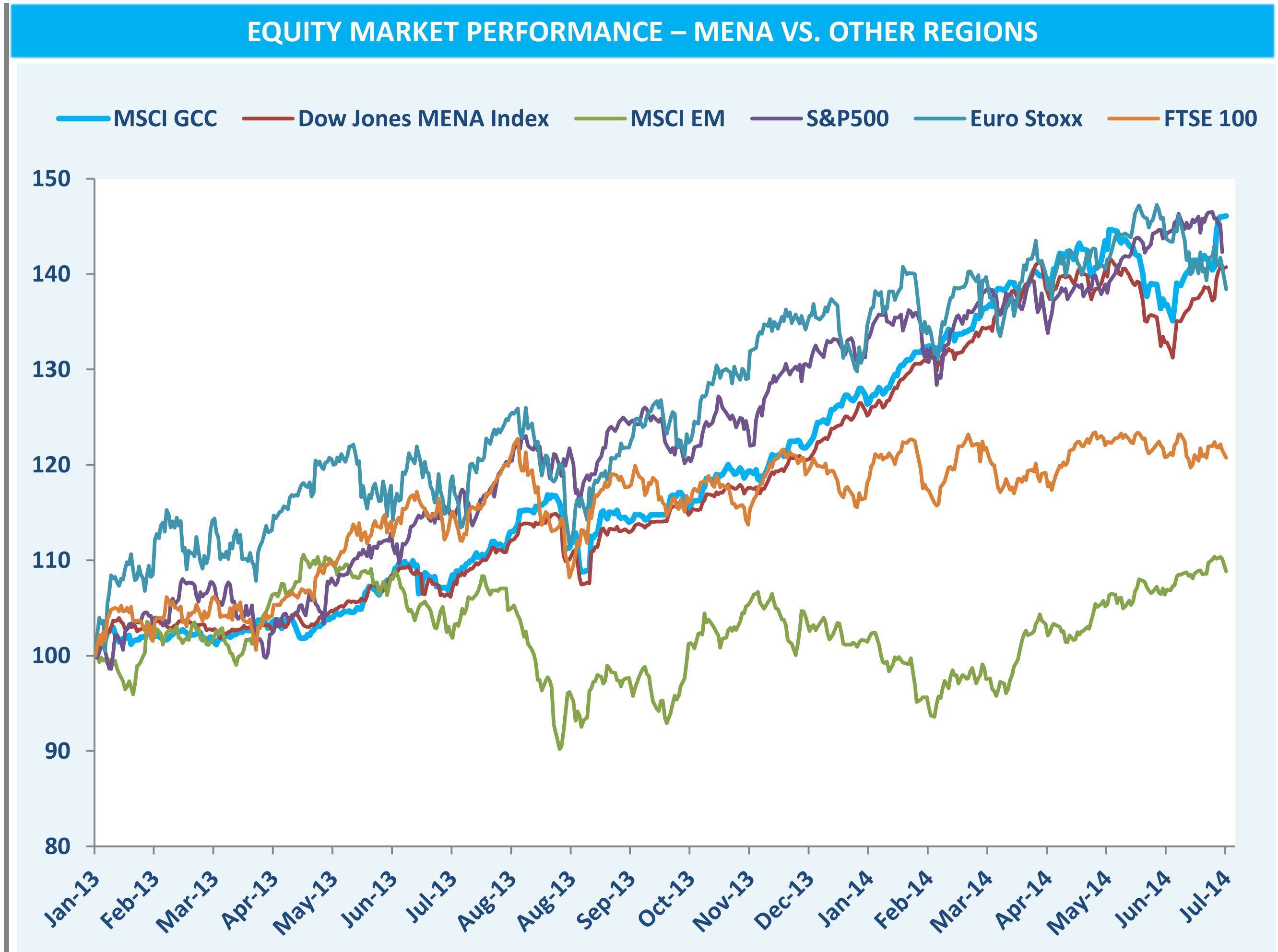
Source: IMF

MENA: Led by the GCC, MENA has out-performed global equity markets since 2013…

The Dow Jones MENA index was up 20% in 2013, and rose by another 8% through June 2014 end, thus outperforming global indices including the fast recovering S&P 500, and also the MSCI EM index, which went down 5.0% in 2013 and was up only 4.8% through June end.

The rise was led by robust performance of GCC equity markets, which were buoyed by economic recovery and increasing non-oil growth. The MSCI GCC index was up 25.6% in 2013.

The recent softening of the markets in GCC and MENA is due to profit booking by investors, and resurfacing of concerns around the overheating of the UAE real estate market.



Source: KAMCO Research, Bloomberg

MENA: …while the bond market is dominated by North African nations

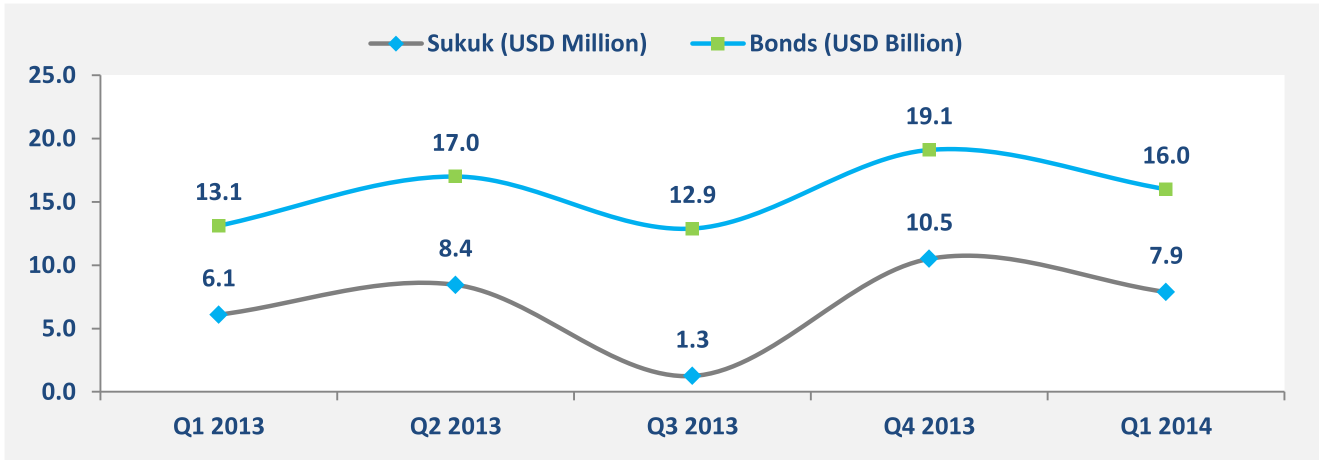
Conventional bond issuance went up from USD 13.1 Bn in Q1 2013 to USD 16 Bn in Q1 2014, an increase of 22%.

In the same time period, Sukuk issuance has grown by 29% from USD 6.1 Mn to USD 7.9 Mn.

North African nations, led by Egypt with USD 7 Bn, dominated the bond market in Q1 2014 and accounted for 46% of the total bond volume in the quarter.

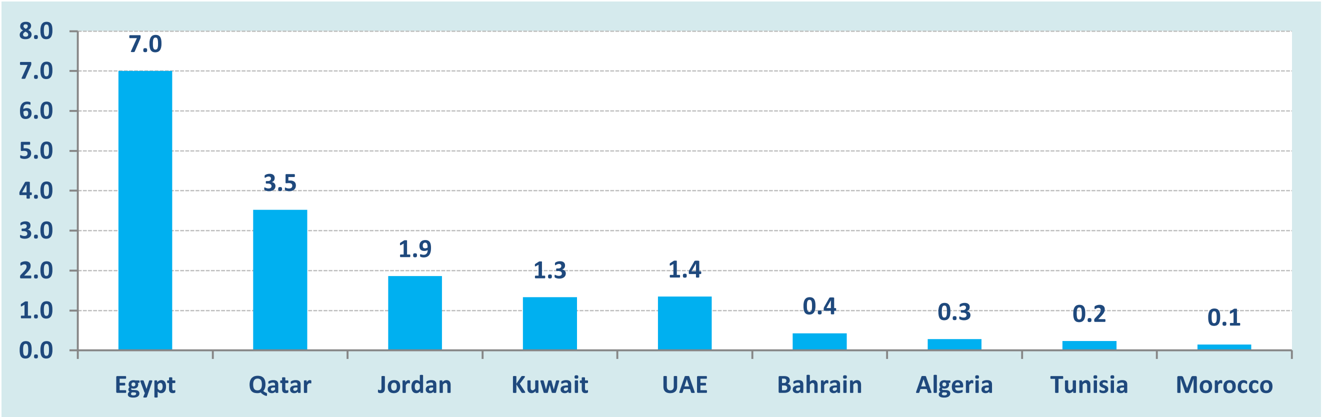
Sovereign issuance while (87.5%) topped corporate issuance (12.5%), 88% of the bonds were sold in domestic markets.

MENA SUKUK & BOND ISSUANCE



Source: Zawya

BOND BREAKDOWN BY COUNTRY (Q1 2014, USD Bn)



Source: Zawya

MENA ECONOMIC OUTLOOK

Non-oil sector will result in accelerated growth, but structural challenges remain

GDP growth in the MENA region will rise from 2.4% in 2013 to 3.2% in 2014. Growth in 2013 was tepid due to weak global oil demand and increased geopolitical turbulence in Libya, Iran, and Syria, and transition economies like Egypt and Jordan. With the global economy recovering, oil demand is likely to improve, thus benefitting oil exporting nations whose growth will go up from 2% in 2013 to 3.4% in 2014. Geopolitical situation was relatively stable in H1 2014, but the recent Iraq crisis has marked the return of political instability, and poses headwinds to economic growth in the region.

GCC nations will continue to lead overall growth. Economic output in the GCC region is expected to expand by 4.2% in 2014, higher than the 3.4% growth in MENA oil exporting nations. The superior growth is a result of political stability, normalizing oil production and demand, and better progress made by GCC nations towards diversifying their economies and reducing reliance on oil revenues.

Non-oil sector will outpace oil growth as diversification efforts increase. Non-oil sector in oil exporting nations is expected to grow by 4.5% in 2014, as compared to the 1.8% growth in the oil sector. The increased non-oil growth is being driven by accelerated economic diversification efforts, with a strong focus on infrastructure development. Construction and retail trade will lead the non-oil growth, supported by high levels of public infrastructure spending and strong private sector credit in the GCC, and by post-conflict reconstruction in the non-GCC countries.

Fiscal pressure will intensify as infrastructure spend rises, while project execution remains weak and structural issues persist. Rising infrastructure spending to boost non-oil revenues, coupled with plateauing oil exports, reduced the fiscal balance to 0.3% of the GDP in 2013. Increased spending will put pressure on the fiscal position, with the IMF forecasting a 0.1% deficit in 2014. MENA nations need to ensure that project delays are minimized in order to optimize the high spend. Structural issues of unemployment, a weak private sector, geopolitical turbulence, and rising inflation will pose headwinds to non-oil growth.

Dependence on oil revenues and vulnerability to lower oil prices will remain high. Even though the non-oil sector is expanding, MENA nations remain dependent on oil revenues and are highly vulnerable to lower oil prices. High levels of debt means that Bahrain, along with Algeria and Iran, is likely to widen its fiscal deficit. Libya, Iraq & Oman are also vulnerable, and will face increased fiscal pressure once the geo-political situation stabilizes and oil prices normalize. Other GCC nations have relatively higher resistance to oil price shocks, but not by much as their fiscal balances are also narrowing.

SECTION 3 | GCC Economic Trends

GCC: Non-oil sector is taking over as the growth driver, as oil sector growth flattens

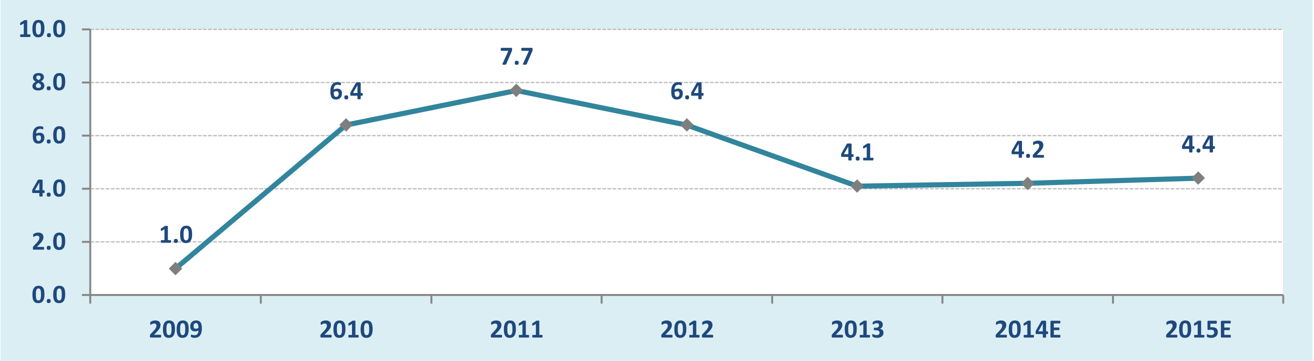
GDP growth came down from 6.4% in 2012 to 4.1% in 2013, as weak oil demand and increasing production from non-OPEC nations led to flattened oil production.

Non-oil sector, however, continued its robust performance and grew by 5.4%, as GCC nations continue with their diversification efforts.

Non-oil growth will accelerate as infrastructure spending rises in the run-up to Dubai 2020 Expo and Qatar 2022 World Cup, and real estate and tourism sectors in the UAE strengthen.

Expansion of the non-oil sector is emerging as the key driver, and will help overall GDP growth reach 4.2% in 2014.

GCC GDP GROWTH (%)



Source: IMF

GCC ECONOMIC SNAPSHOT

	2009	2010	2011	2012	2013	2014E	2015E
Real GDP Growth (%)	1.0	6.4	7.7	6.4	4.1	4.2	4.4
Oil GDP Growth (%)	-6.1	4.4	10.2	5.4	0.9	0.4	0.6
Non-Oil GDP Growth (%)	3.9	6.3	6.6	5.2	5.4	5.7	5.8
Oil Production (mn b/d)	14.6	14.6	16.3	17.2	17.2	17.2	17.2
Gas Production (mn b/d)	5.2	6.5	7.3	7.7	8.0	8.1	8.4
Current Account Balance (% of GDP)	6.6	12.4	23.6	24	20.2	18.3	15.6
Fiscal Balance (% of GDP)	-0.6	3.6	11.6	13.8	9.9	8.3	5.6

Sources: IMF, EIU, EIA, National Statistical Organisations

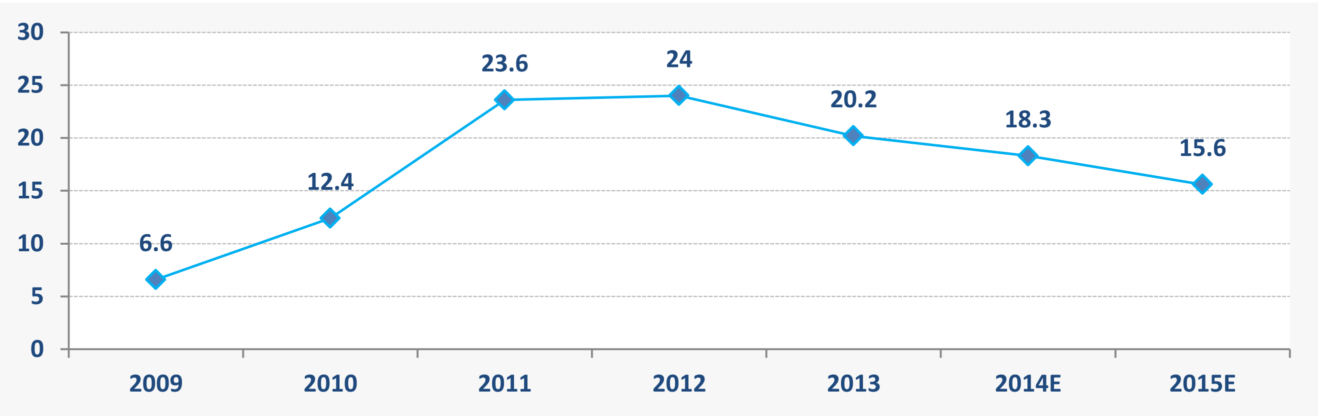
GCC: Fiscal balance is narrowing as infrastructure spend rises to drive non-oil growth

Oil exports have plateaued, while imports are on the upswing as consumption rises with economic recovery and diversification, leading to a decline in the current account balance from 24% in 2012 to 20.2% in 2013.

Fiscal balance is narrowing (9.9% in 2013), as fiscal policies remain expansionary, with large amounts being spent on infrastructure development. KSA's 2014 spend is pegged at an all-time high of USD 250 Bn.

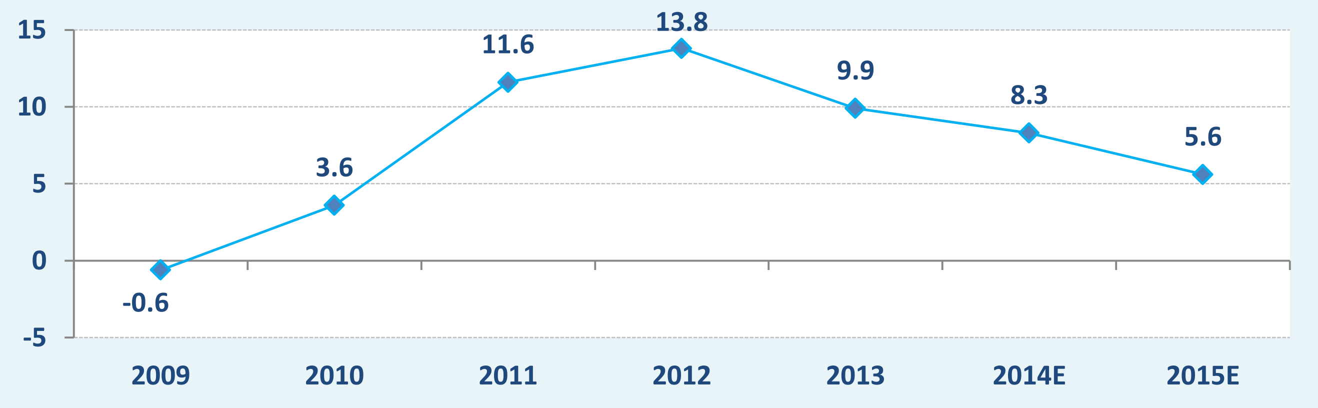
Increased spending, coupled with pressure on oil revenues and increasing foreign transfers to a fast growing expat population, will lead to narrowing of the fiscal surplus through 2015.

CURRENT ACCOUNT BALANCE (% OF GDP)



Source: IMF

FISCAL BALANCE (% OF GDP)



Source: IMF

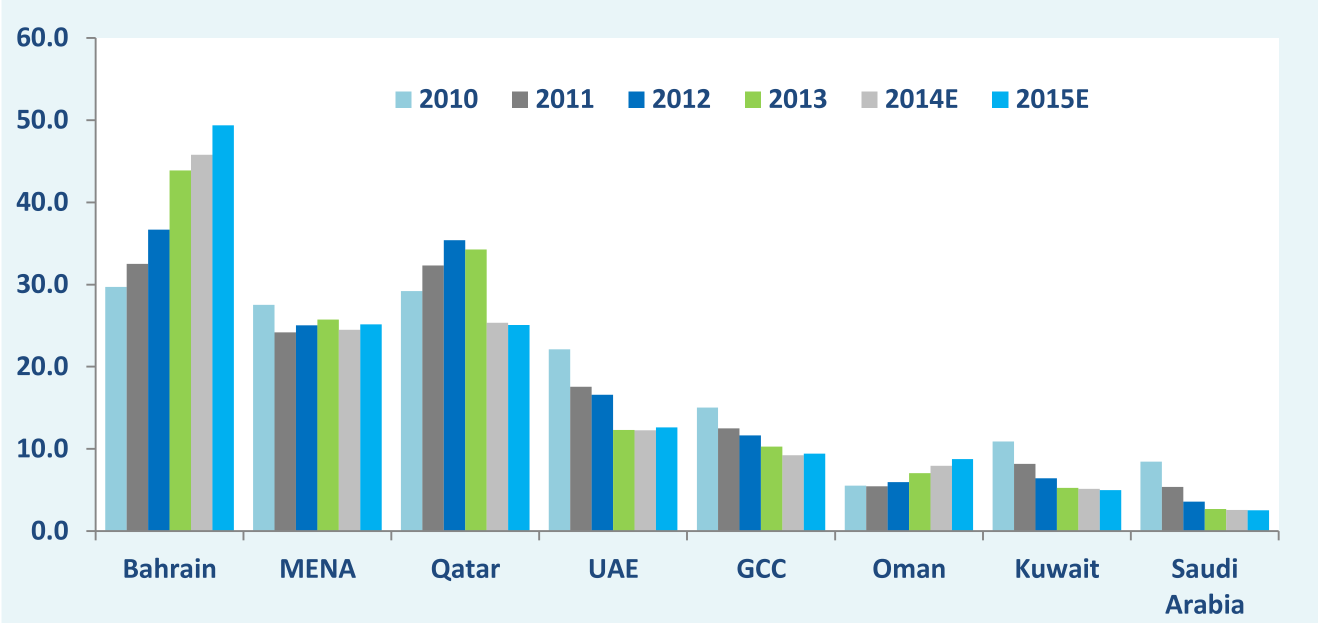
GCC: Elevated oil prices mean that debt levels are low and reserves are stable

Debt levels are low and declining, thanks to rising oil prices. Overall debt levels have come down from 15% in 2010 to 10.3% in 2013, as oil prices remain elevated.

Bahrain (44%) and Qatar (26%) are the exceptions, and Bahrain's debt levels are likely to rise further as its infrastructure spend rises while revenue remains flat.

Official reserves have remained stable around the 11 month mark, and went up from 10.9 months of imports in 2012 to 11.3 months of imports in 2013.

GROSS PUBLIC DEBT (% OF GDP)



Source: IMF

GCC OFFICIAL RESERVES (MONTHS OF IMPORTS)

2010	2011	2012	2013E	2014E	2015E	2016E	2017E	2018E
10.9	9.7	10.9	11.3	11.1	11.1	11.0	11.0	10.8

Source: EIU

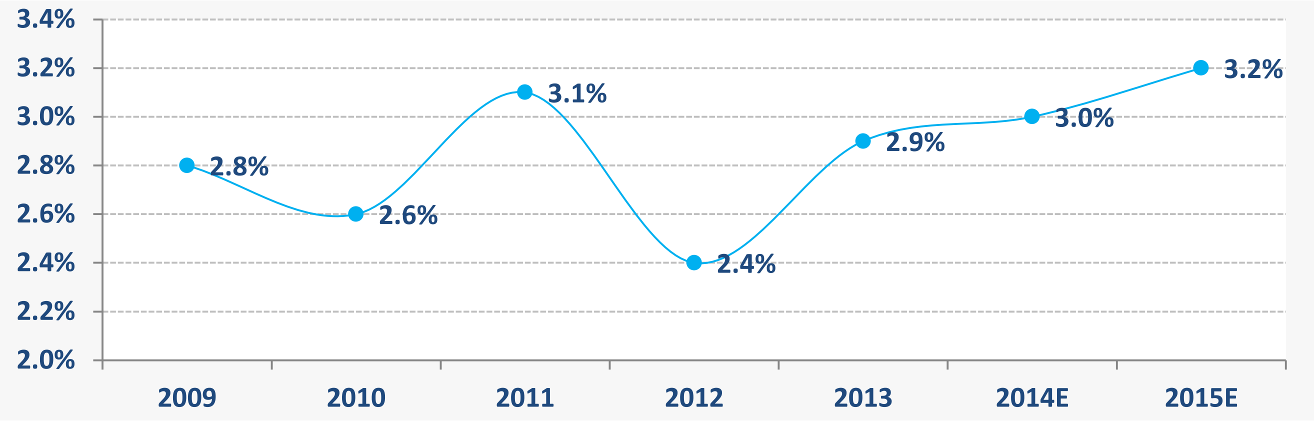
GCC: Inflation has remained under control despite rising liquidity levels

Inflation has remained under 3% despite increased liquidity levels, as housing and food prices have remained low.

Money supply went up from USD 1.05 trillion in Q1 2013 to USD 1.19 trillion in Q1 2014, as central banks maintained low interest rates, leading to elevated private lending and consumption levels.

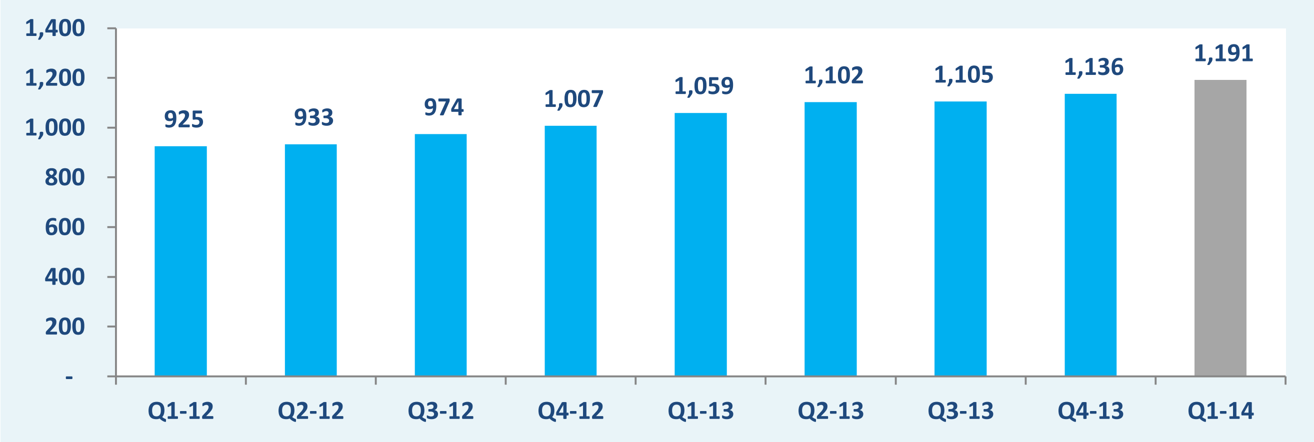
However, with credit to the real estate sector recovering, housing prices (especially in the UAE & Qatar) will likely create upward inflationary pressure in 2014 and 2015, and concerns around overheating can already be felt in the recent easing of UAE's equity markets.

GCC ANNUAL INFLATION (%)



Source: IMF

GCC GROSS MONEY SUPPLY (USD Bn)



Source: Central Banks, KAMCO Research

GCC: FDI inflows are waning as investors remain wary of dependence on oil, project delays, and geo-political turbulence in the MENA region

Ranking for most GCC nations on the Ease of Doing Business and Global Competitiveness indicators are high, but declined in 2013.

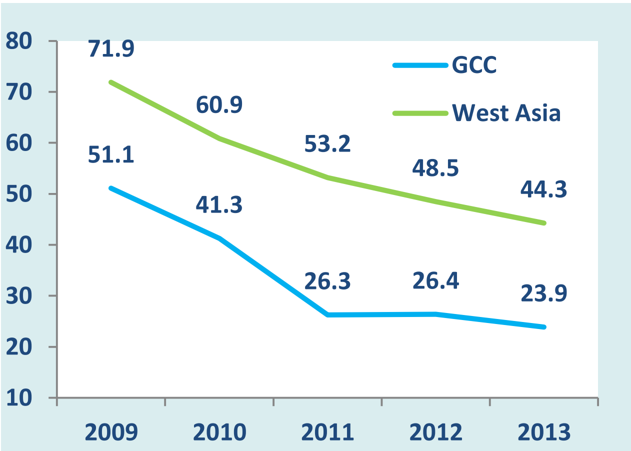
FDI inflows followed suit, and are in a state of secular decline (from USD 51.1 Bn in 2009 to USD 23.9 Bn in 2013), as investors remain wary of dependence on oil, projects delays, and geo-political turbulence.

On the other hand, UAE improved its ranking on both indicators and has seen its FDI inflows rise from USD 4 Bn in 2009 to USD 10.4 Bn in 2013, as foreign investors pose faith in UAE's vibrant non-oil sector economy.

Country	Ease of Doing Business Rank		Global Competitiveness Rank	
	2012	2013	2012	2013
Saudi Arabia	22	26	18	20
Kuwait	101	104	37	36
UAE	26	23	24	19
Qatar	45	48	11	13
Oman	44	47	32	33
Bahrain	47	46	35	43

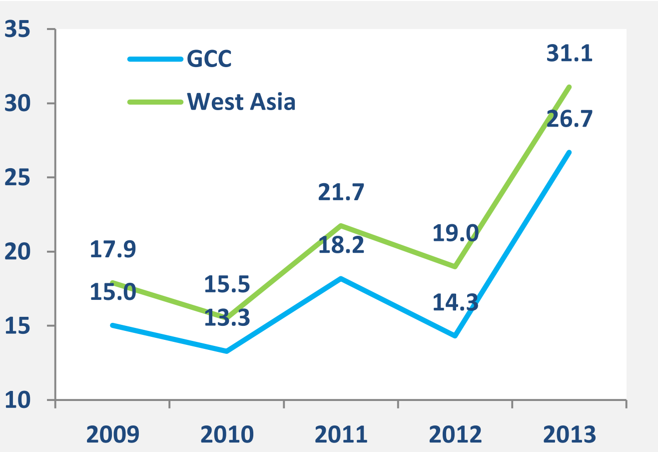
Source: World Bank

FDI Inflow (USD Bn)



Source: UNCTAD 2014 World Investment Report

FDI outflow (USD Bn)



Source: UNCTAD 2014 World Investment Report

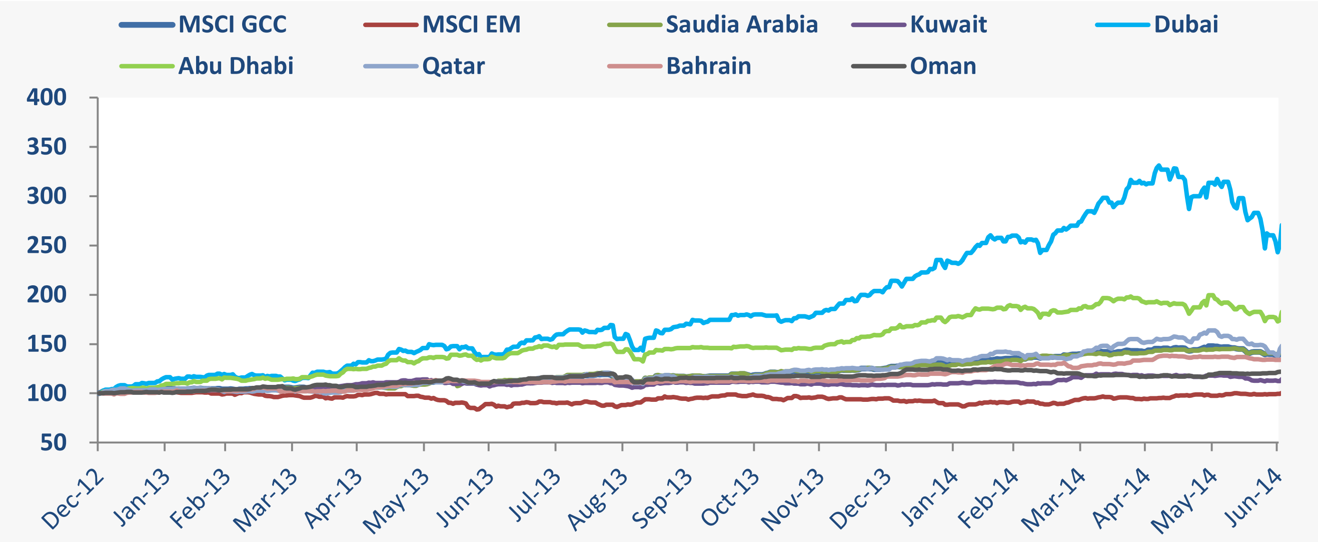
GCC: Equity markets are easing off, after a bull run in 2013 led by the UAE bourses

GCC equity markets had a bull run in 2013, led by UAE's DFM & ADX indices, which were up 107% and 63% y/y.

Other GCC indices also went up in 2013 and outperformed the emerging markets index, on the back of recovery from the financial crisis, further buoyed by the inclusion of UAE and Qatar in MSCI's emerging market index.

H1 2014 has also witnessed robust performance, but markets seem to be easing-off in May & June with a cyclical correction setting-in and profit booking by investors, and also due to concerns of overheating in UAE's real estate sector.

EQUITY MARKETS PERFORMANCE



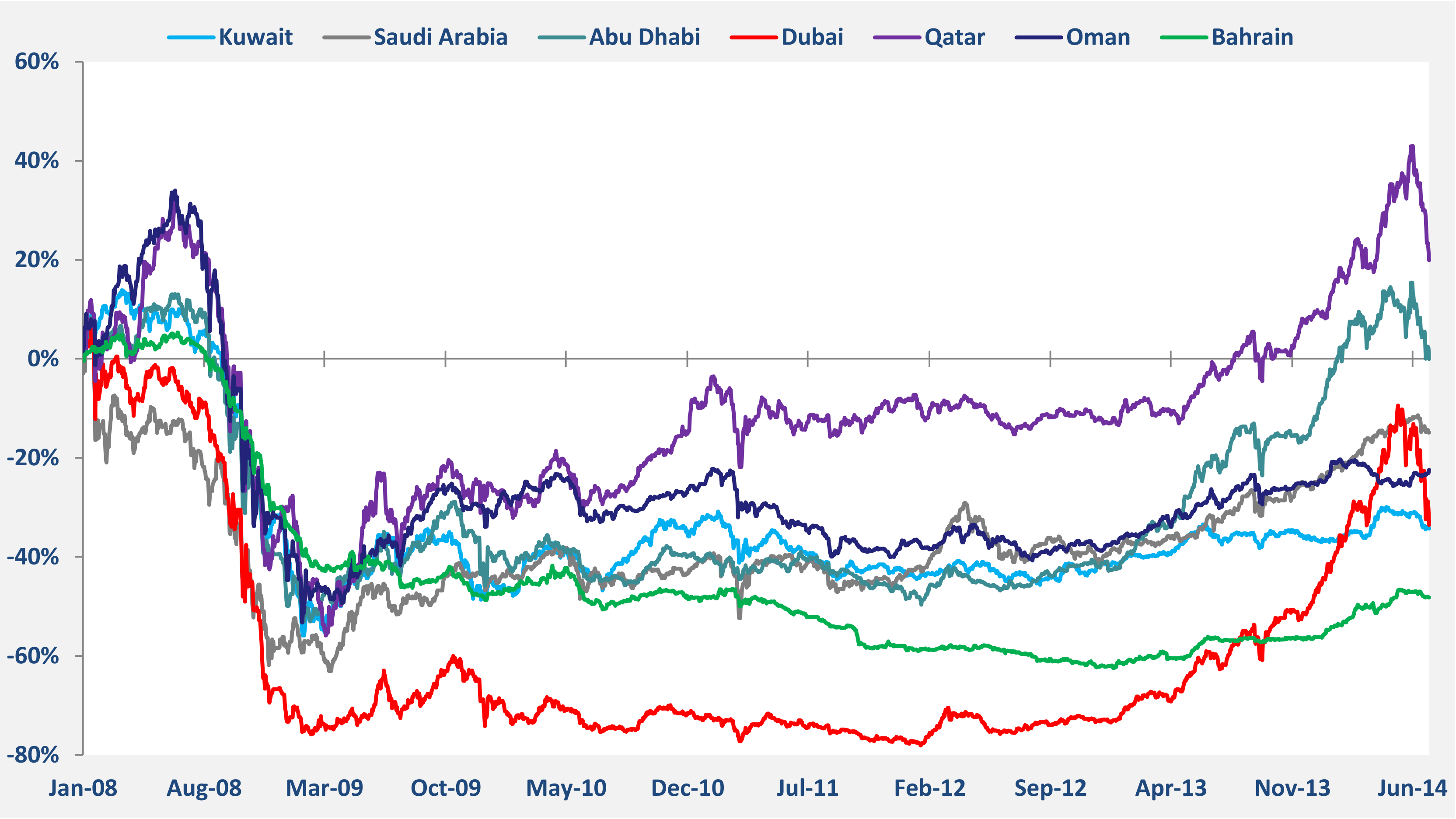
EQUITY MARKET INDICES (Y-O-Y % CHANGE)

	2009	2010	2011	2012	2013	1H-2014
Saudi Arabia	32.3%	7.7%	-4.2%	6.3%	25.5%	11.5%
Dubai	13.6%	-9.6%	-17.0%	19.9%	107.7%	17.0%
Abu Dhabi	20.2%	-0.9%	-11.7%	9.5%	63.1%	6.1%
Qatar	4.9%	24.8%	1.1%	-4.8%	24.2%	10.7%
Oman	27.4%	6.1%	-15.7%	1.2%	18.6%	2.5%
Kuwait	-15.0%	-0.7%	-16.4%	2.1%	27.2%	-7.7%
Bahrain	-20.4%	-1.8%	-20.1%	-6.8%	17.2%	14.3%
MSCI EM	78.7%	15.8%	-20.2%	15.4%	-5.0%	4.8%
MSCI GCC	14.6%	16.4%	-10.0%	4.0%	25.6%	9.9%

Source: KAMCO Research, Bloomberg

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

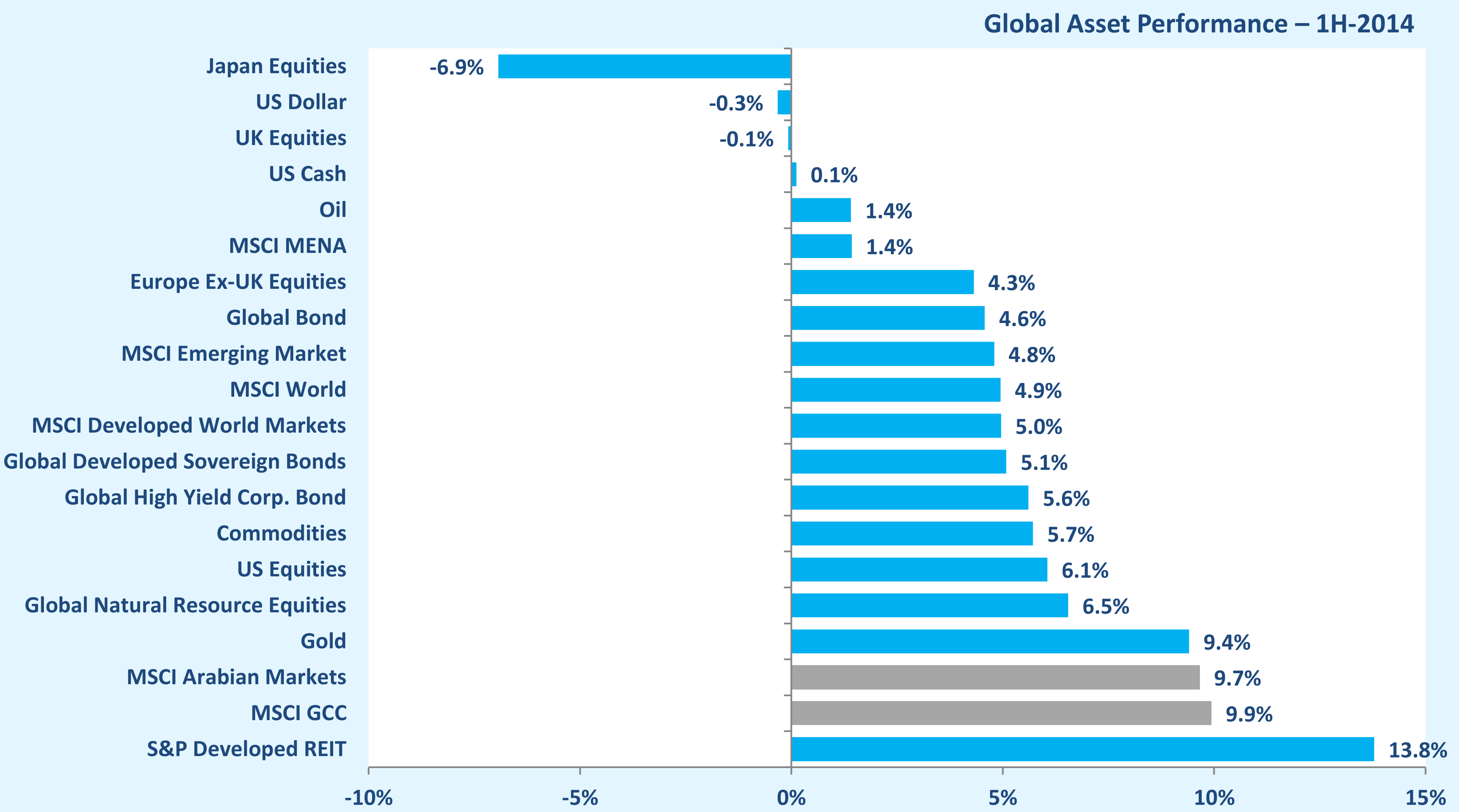
GCC EQUITY MARKETS PERFORMANCE



Source: KAMCO Research, Bloomberg

GCC: GCC Markets vs. International and Regional Markets Performance (1H-2014)

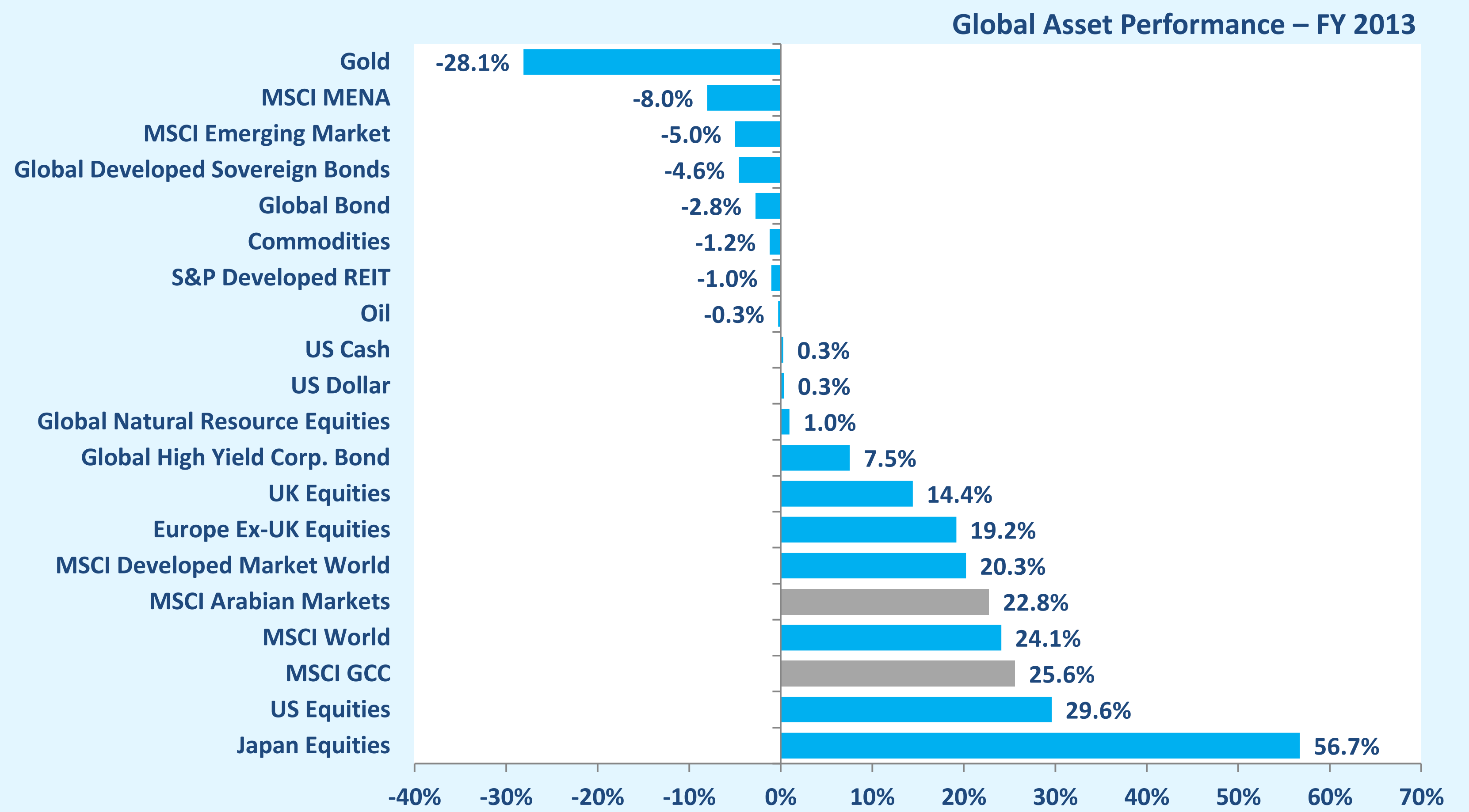
INTERNATIONAL AND REGIONAL MARKETS PERFORMANCE



Source: KAMCO Research, Bloomberg

GCC: GCC Markets vs. International and Regional Markets Performance (FY-2013)

INTERNATIONAL AND REGIONAL MARKETS PERFORMANCE



Source: KAMCO Research, Bloomberg

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

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

Correlation	MSCI World Equities	MSCI EM Equities	Commodities	Developed REITS	Oil	MSCI GCC Equities	Gold	Global Bond	USD Index
MSCI World Equities	1.000	0.873	0.678	0.853	0.576	0.703	0.147	0.204	-0.760
MSCI EM Equities	0.873	1.000	0.644	0.744	0.588	0.663	0.268	0.265	-0.719
Commodities	0.678	0.644	1.000	0.448	0.930	0.518	0.420	0.104	-0.711
Developed REITS	0.853	0.744	0.448	1.000	0.329	0.614	0.127	0.404	-0.589
Oil	0.576	0.588	0.930	0.329	1.000	0.476	0.406	0.071	-0.628
MSCI GCC Equities	0.703	0.663	0.518	0.614	0.476	1.000	-0.030	0.124	-0.490
Gold	0.147	0.268	0.420	0.127	0.406	-0.030	1.000	0.380	-0.353
Global Bond	0.204	0.265	0.104	0.404	0.071	0.124	0.380	1.000	-0.435
USD Index	-0.760	-0.719	-0.711	-0.589	-0.628	-0.490	-0.353	-0.435	1.000

Source: KAMCO Research, Bloomberg

GCC ECONOMIC OUTLOOK

Fiscal pressures will intensify as economic diversification efforts gather pace

Non-oil sector expansion will drive overall GDP growth. GDP growth in the GCC is expected to be 4.2% in 2014, up marginally from 4.1% in 2013. However, sustained economic diversification by GCC nations will ensure that non-oil GDP grows by 5.7% (fifth consecutive years of 5%+ growth), as compared with a meagre 0.4% growth in the oil sector due to plateauing oil production in GCC countries, and increasing production from non-OPEC nations.

Economic recovery will fuel consumption, and infrastructure development will accelerate as economic diversification remains a focus. Economic recovery (up from 1% in 2009 to 4.2% in 2014) will ensure that consumption levels will remain high and drive the retail and services sectors. On the other hand, infrastructure development will accelerate as GCC nations maintain their focus on economic diversification, and will be further boosted in the run up to Dubai 2020 Expo and Qatar 2022 World Cup. Recovery of the real estate market in the UAE will help tourism and trade sectors grow faster.

However, fiscal position will be weakened as growth in expenditure outpaces revenue growth. Fiscal stance remains expansionary in nature to drive non-oil growth and reduce dependence on oil revenues. However, with growth in oil revenues flattening amid rising non-oil spend, fiscal balance is expected to go down from 9.9% of GDP in 2013 to 8.3% in 2014; on the other hand, current account balance will decline from 20.2% of GDP to 18.3% in the same time as imports rise on the back of overall economic recovery.

Increasing vulnerability to lower oil prices is eroding shock absorption ability. Vulnerability to lower oil prices is increasing as spending levels continue to rise amid flattening oil revenues. Saudi Arabia's vulnerability is highest, and as per IMF, the KSA could run a fiscal deficit in 2015 if it were to scale back output by 7%. The ongoing Iraq crisis has ensured that oil prices remain above the USD 100 per barrel mark, but normalization of output in MENA nations could hamper the already delicate fiscal position of GCC nations.

Inflation will remain stable around the 3% mark despite increasing money supply. GCC Central Banks continue to maintain low interest rates, thereby increasing money supply. However, despite increased liquidity levels, inflation is likely to remain stable around the 3% mark as global food prices and housing prices in the GCC remain under control.

GCC Region – Key Risk Factors

- Prolonged political uncertainties and domestic unrest could delay the implementation of infrastructure development plans. The delay may also result into cost escalation of these projects as seen in some markets thereby putting additional pressure on state budgets.
- Oil and gas remains the backbone of all the GCC economies. Any significant decline in oil prices would have a direct impact on GDP and revenues of the GCC countries, thus hampering or delaying capital expenditure in key sectors. Further, the increase in non-conventional oil production in the United States and relatively weak global oil demand are putting downward pressure on prices.
- Further, GCC economies continue to be driven by the energy sector. Although there are efforts to diversify and grow the non-oil sector, fiscal challenges remain as these sectors need additional capital and the efforts to improve fiscal sustainability.
- Although stabilizing, the debt turmoil in Euro Area remains a key risk for the MENA countries given the importance of Europe as a major trade partner.
- Generating jobs in the private sectors for the rapidly growing young population remains a challenge.
- The growing population in the GCC region has put a pressure on all kinds of resources including food, utilities (water and electricity) and real estate. Although high demand may not necessarily have a negative repercussion, it may hamper growth for vital sectors.

SECTION 4| Saudi Arabia

SAUDI ARABIA: Growth moderates as oil market softens. Iraq crisis will help in short-term.

Growth slowed to 3.8% in 2013 as KSA's oil production and prices fell due to increased output from Iran & Libya, and weak demand from the US, EU and emerging markets.

Ongoing crisis in Iraq will help growth as oil production and prices are likely to remain high above USD 100 /barrel.

But weak global demand and increasing output from non-OPEC nations like the US means that oil revenues – which account for >85% of Saudi govt. revenues – are likely to remain under pressure through 2016.

Source: IMF

	2011	2012	2013	2014E	2015E
Nominal GDP (USD Bn)	669.5	734.0	745.3	772.6	790.9
Real GDP Growth (%)	3.9	4.4	3.8	4.4	4.2
Oil Sector	12.4	5.8	-0.7	0.9	1.4
Non-Oil Public Sector	7.9	5.3	3.0	3.0	3.0
Non-Oil Private Sector	7.7	5.9	5.4	6.0	5.7
Contribution to GDP (%)					
Oil Sector	19.2	19.2	18.3	-	-
Non-Oil Sector	80.8	80.8	81.7	-	-
Oil Production (mn b/d)	9.3	9.8	9.7	9.5	9.7

Source: IMF, EIU, EIA, National Statistical Organisations, SAMA

KAMCO كامكو

SAUDI ARABIA: Non-oil sector continues to expand and lead growth, but at a slower pace…

PMI remains in expansion mode, but is below the 2011 high as prices have come under pressure in 2014 due to weak foreign demand.

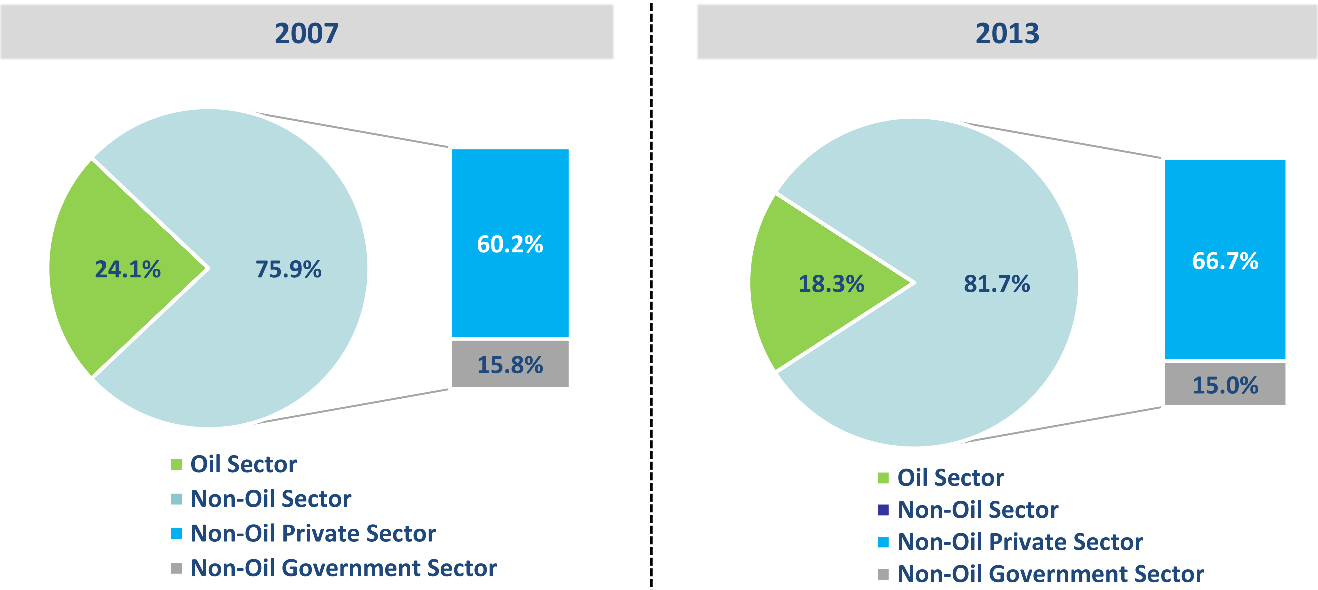
Non-oil sector continues to outpace the growth of the oil sector, and increased its contribution to the GDP 81.7% in 2013, as part of KSA's economic diversification plan.

Non-oil growth reduced in 2013 due to weak demand from China, and a crackdown on 500,000+ illegal workers, which impacted the critical construction sector.

SAUDI ARABIA – MANUFACTURING PMI

Source: Markit

CHANGE IN GDP COMPOSITION



Source: Ministry of Economy and Planning

SAUDI ARABIA: …and remains dependent on government support for funding

Manufacturing and construction sectors will continue to lead non-oil growth, with infrastructure spending slated to go up by 25% in 2014.

These sectors are dependent on oil sector expansion and welfare funding by the govt. to build schools, hospitals, and transport. With oil revenues expected to decline, welfare funding will come under pressure, and so will non-oil growth.

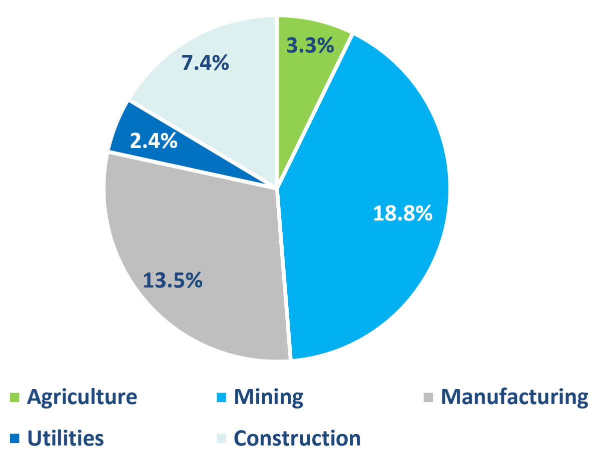
Services sector like finance, and trade & hotels have lower dependence on the govt. and will drive non-oil growth from 2014 to 2016.

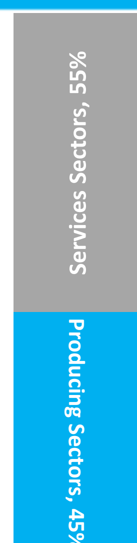
GDP GROWTH IN KEY SECTORS (%)

	2012	2013
Producing Sectors		
Agriculture	1.3	0.7
Mining	5.8	-0.9
Manufacturing	4.8	4.3
Utilities	7.3	1.3
Services Sectors		
Trade, Hotels	6.3	5.4
Transport	6.4	6.6
Finance	6.0	7.1
Social & Personal Services	8.1	6.0
Government	4.2	4.1

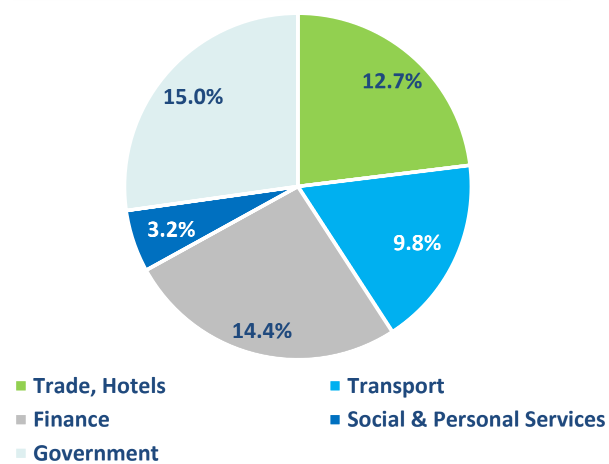
CONTRIBUTION TO 2013 GDP (%)

PRODUCING SECTORS





SERVICES SECTORS



Source: Ministry of Economy and Planning

KAMCO كامكو

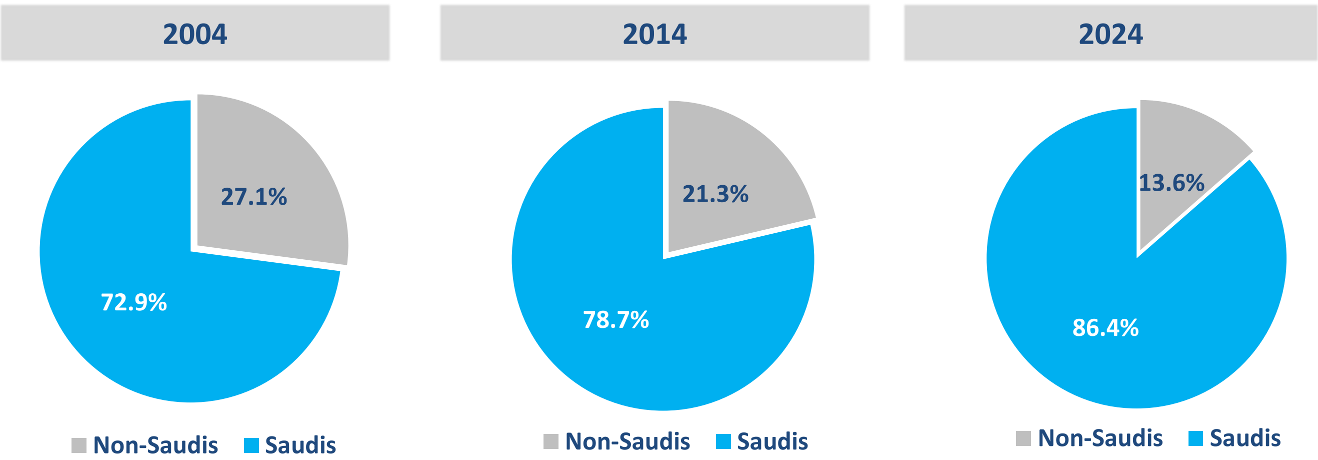
SAUDI ARABIA: Recently approved USD 21 Bn education plan will address skill gap issues, and help improve labor participation and employment rates

In May 2014, KSA approved a five year USD 21 Bn plan to build 1,500 nurseries, train ~25,000 teachers and establish educational centers to modernize its education system.

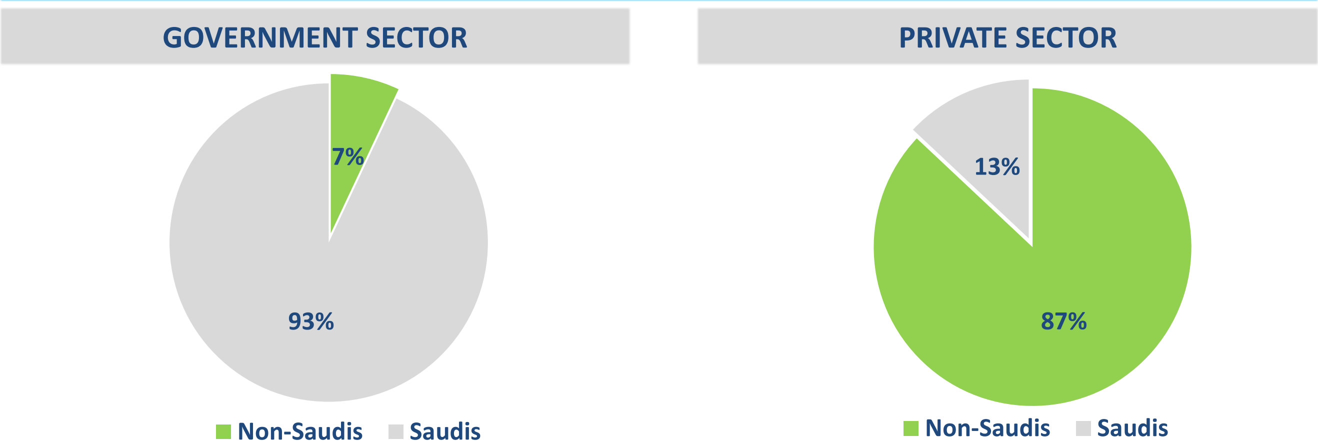
This plan, along with the ongoing Saudization initiative, will address the skill gap among Saudi nationals, help lower unemployment (expected to be 3% overall, and 5.5% among Saudis in 2014), and reduce dependence on expatriates in the private sector.

But these are long-term measures so skill gap and unemployment, especially among women, will continue to exist in the short term.

POPULATION COMPOSITION (%)



LABOR FORCE COMPOSITION (%)



Source: Ministry of Economy and Planning

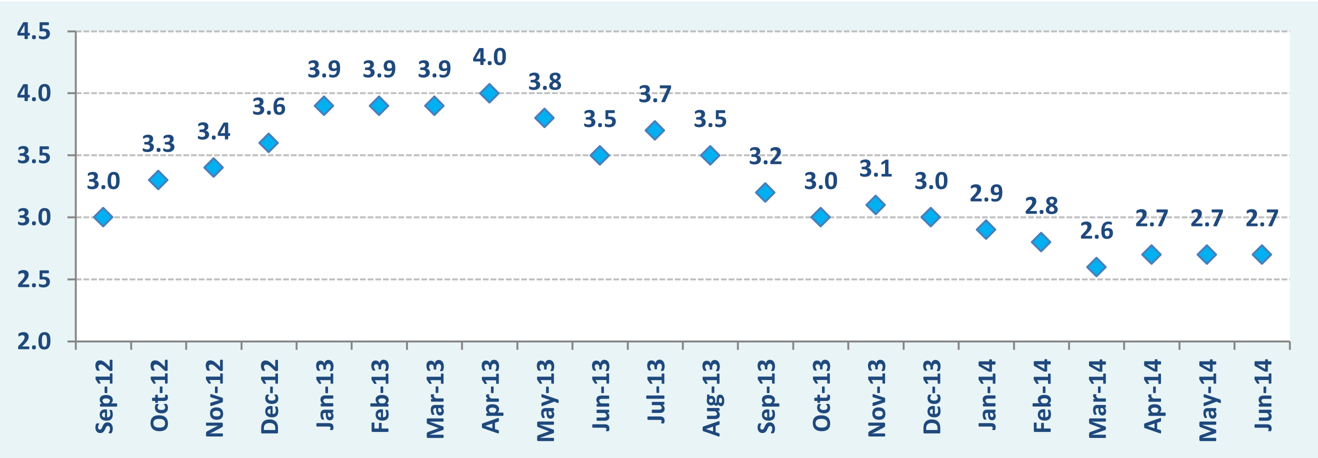
SAUDI ARABIA: Decline in food prices has eased inflationary pressure

Inflation had shot-up from 2.9% in 2012 to 3.5% in 2013, as food and housing rental prices went up by 5.7% and 3.4%, respectively.

2014 has seen a reversal in the trend, with inflation down from the peak of 4.0% in April 2013 to 2.7% in June 2014.

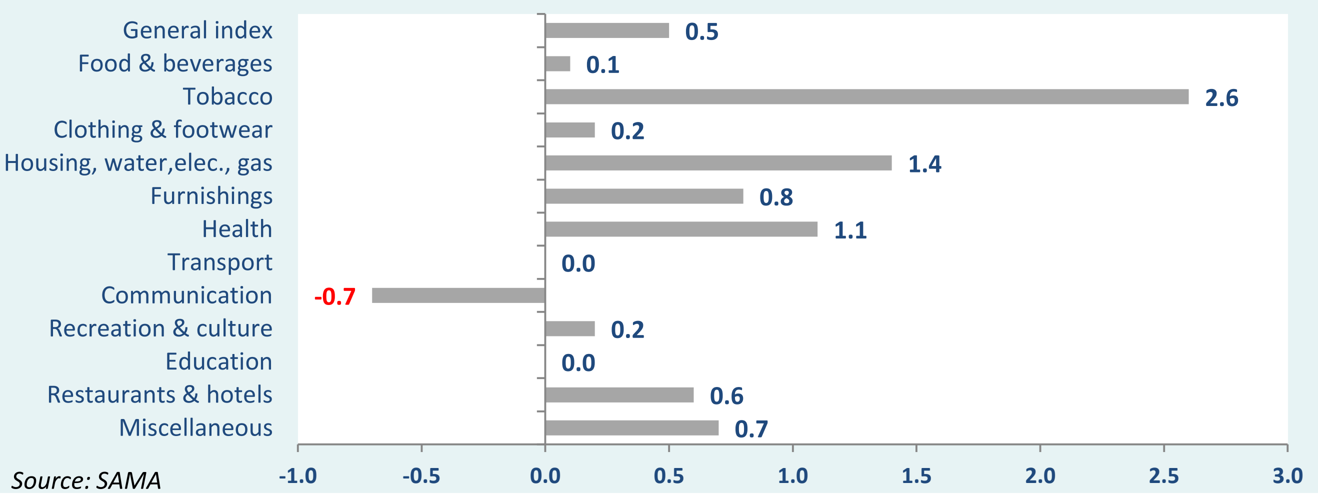
With food (0.1%) and housing prices (1.4%) easing and the US Dollar strengthening, overall inflation in the Kingdom is likely to remain under control in 2014.

ANNUAL INFLATION (%)



Source: SAMA

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



Source: SAMA

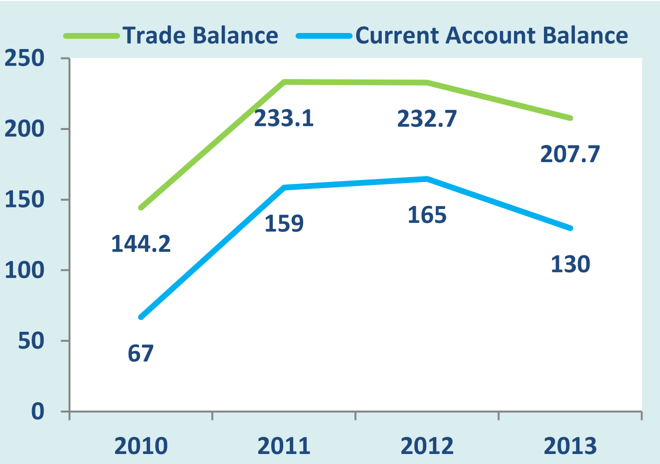
SAUDI ARABIA: Fiscal surplus is narrowing as infrastructure spend rises…

Weak oil demand led to a decline in oil exports in 2013. The import bill is also declining due to falling inflation in the US and Europe, but the fall in import value is unlikely to offset the drop in oil revenues, and current account balance will fall below USD 100 Bn by 2016, as per IMF.

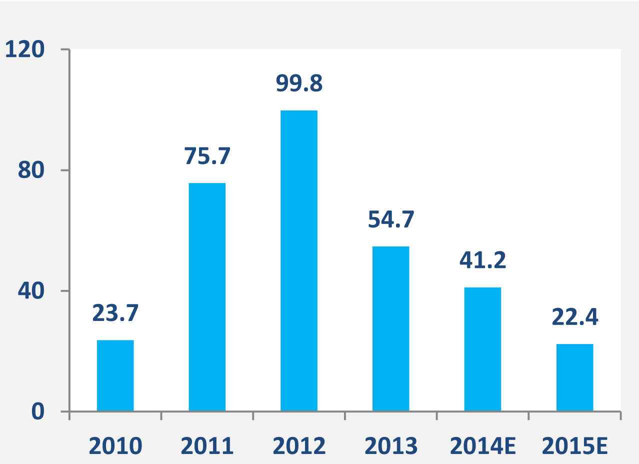
Proposed expenditure for 2014 is at an all-time high (USD 250 Bn), led by infrastructure spend and rising salaries, and will put pressure on the fiscal balance.

Any potential fiscal deficit can be funded through the vast foreign reserves (>USD 725 Bn), which will help avoid the need to raise debt at elevated rates.

TRADE & A/C BALANCE (USD BN)



FISCAL BALANCE (USD BN)



Source: SAMA

	2010	2011	2012	2013	2014E	2015E
Trade Balance (USD Bn)	**144.2**	**233.1**	**232.7**	**207.7**	-	-
Exports	251.2	364.6	388.3	375.8	-	-
Imports	106.8	131.6	155.6	168.1	-	-
Current Account Balance (USD Bn)	**67.0**	**158.5**	**164.7**	**129.8**	-	-
Government Revenue (USD Bn)	**200.3**	**298.0**	**332.7**	**303.7**	**292.1**	**286.3**
Oil Revenue	181.0	275.8	305.3	275.5	263.1	256.1
Non-Oil Revenue	19.3	22.2	27.4	28.2	29.0	30.2
Government Expenditure (USD Bn)	**176.6**	**222.3**	**232.9**	**249.0**	**250.9**	**263.9**
Fiscal Balance (USD Bn)	**23.7**	**75.7**	**99.8**	**54.7**	**41.2**	**22.4**

Source: SAMA

SAUDI ARABIA: …along with continued focus on education, healthcare and social welfare

Education accounts for 36% of the budgeted spend and is the biggest focus area, with USD 56 Bn to be spent on 465 new schools, ~1,500 existing schools, 8 new colleges, and funds to increase female colleges in many universities.

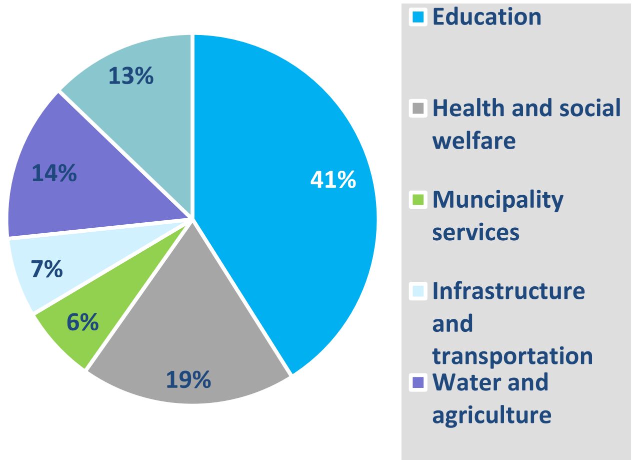
Healthcare's USD 29 Bn budget will be invested towards developing 11 new hospitals, 11 medical centers, and two medical complexes.

Noteworthy is the 33% rise in allocation to credit institutions that finance industrial projects and further support KSA's social development agenda.

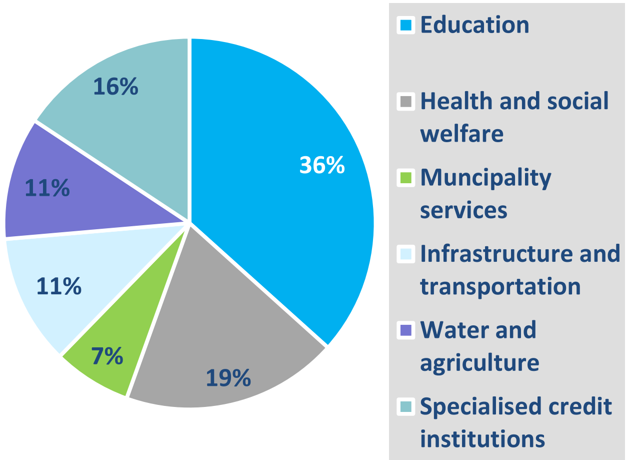
BUDGET APPROPRIATIONS (USD Bn)

	2011	2012	2013	2014E
Education	40.0	45.0	54.4	56.0
Health and Social Welfare	18.3	23.1	26.7	28.8
Municipality Services	6.5	7.8	9.6	10.4
Infrastructure and Transportation	6.7	9.4	17.3	17.3
Water and Agriculture	13.5	15.3	15.2	16.3
Specialised Credit Institutions	12.5	23	18.2	24.0

2011 BUDGET ALLOCATION (%)



2014 BUDGET ALLOCATION (%)



Source: Ministry of Economy and Planning

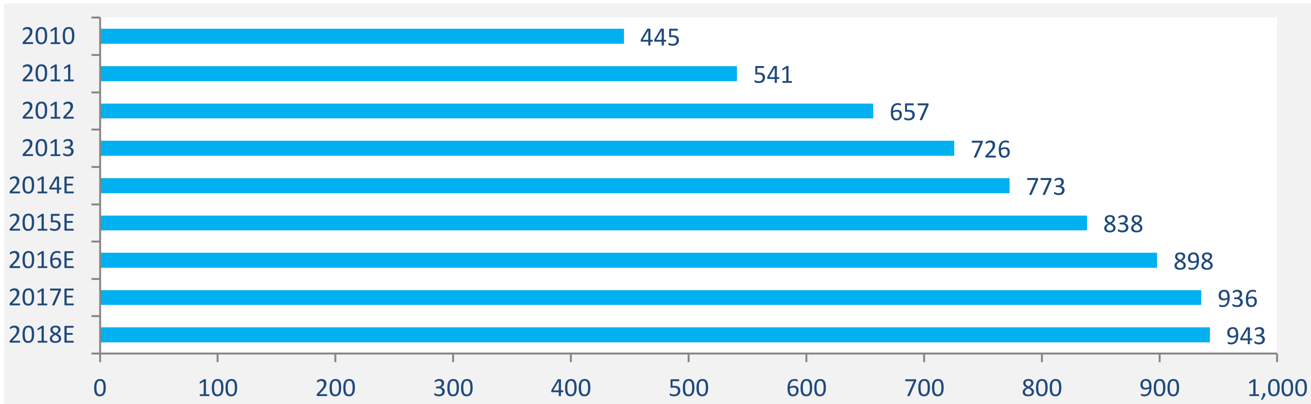
SAUDI ARABIA: Establishment of a SWF could change the flow of Saudi money in glob'l markets

The Shura Council is discussing the formation of a sovereign wealth fund that would manage part of KSA's foreign reserves worth ~USD 730 Bn.

These reserves have historically been invested in conservative assets like govt. bonds and bank accounts, but a Qatar & Abu Dhabi-style fund will expose these reserves to high-risk high-return assets like real estate and foreign equities.

FDI inflows continued their secular decline as investors increased investments in other GCC nations and also due to overall political instability in the region.

FOREIGN EXCHANGE RESERVES (USD Bn)



Source: EIU

FDI INFLOW (USD Bn)

Source: UNCTAD 2014 World Investment Report

FDI OUTFLOW (USD Bn)

Source: UNCTAD 2014 World Investment Report

SAUDI ARABIA: Increasing money supply is fueling private sector lending

The combination of an expansionary fiscal policy and lowering inflation has resulted elevated money supply levels in the KSA market, with overall money supply up 13% y/y at USD 432 Bn at the end of Q1 2014.

Private sector lending continues to make robust gains, and was up 13% y/y in Q1 2014.

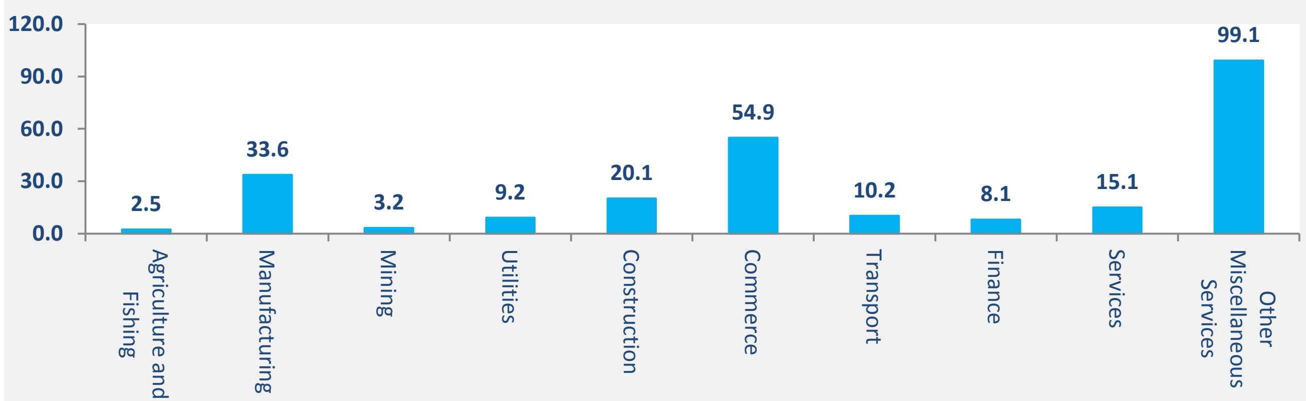
Lending has been strong in the manufacturing, construction and commerce sectors, and is in-line with diversification efforts of the KSA govt. to create infrastructure and diversify the economy.

MONEY SUPPLY & PRIVATE SECTOR LENDING (USD Bn)

	Q1-12	Q2-12	Q3-12	Q4-12	Q1-13	Q2-13	Q3-13	Q4-13	Q1-14
Gross Money Supply	**338.7**	**342.9**	**349.3**	**371.6**	**380.5**	**390.9**	**396**	**411.9**	**432.1**
Currency Outside Banks	32.7	33.5	34.7	35.5	36.1	37.0	37.1	38.2	39.1
Demand Deposits	180.6	182.9	184.7	201	214.8	219.4	220.2	228.6	244
Time & Savings Deposit	81.8	82.4	78.3	86.5	83.2	85.1	86.8	92	92.8
Other Quasi-Monetary Deposits	43.6	44.1	51.5	48.6	46.4	49.3	51.9	53.2	56.2
Private Sector Lending	**239.6**	**248.8**	**257.4**	**266.4**	**275.8**	**288.5**	**294.8**	**299.6**	**311.0**

Source: SAMA

PRIVATE SECTOR LENDING BY INDUSTRY (2013, USD Bn)



Source: SAMA

SAUDI ARABIA: Improved liquidity levels are driving TASI & corporate earnings growth

Elevated oil prices and rising liquidity levels have driven TASI's growth, which has been up each month since September 2013,and crossed 9,900 in June 2014, levels last seen before the onset of the 2008 crisis.

Saudi allowed qualified foreign investors to invest directly in the stock market during the first half of 2015.

Corporate earnings were up 3.5% in 2013, led by steady growth in the heavyweight banking (3.9%) and petrochemical (2.7%) sectors.

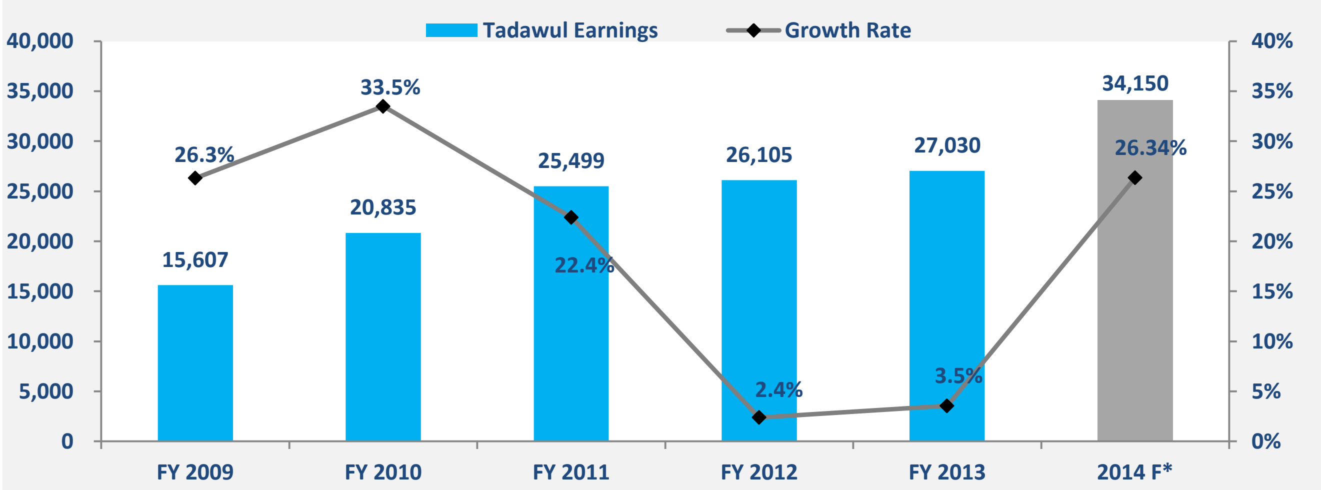
With improving economic fundamentals, corporate profits and earnings can be expected to rise further in 2014.

TADAWUL ALL-SHARE INDEX

	2009	2010	2011	2012	2013	1H-2014 (30-Jun-14)
Index Value	6121.8	6620.8	6417.7	6801.2	8535.6	9513.0
Y/Y Change	27.5%	8.2%	-3.1%	6.0%	25.5%	11.5%
Market Cap (USD Bn)	318.8	353.3	338.8	373.3	467.3	518.6
Value Traded (USD Bn)	337.0	202.4	293.0	514.2	364.4	299.5

Source: KAMCO Research

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



2014 forecast is based on Bloomberg consensus

SAUDI ARABIA: Tadawul Historical Performance

SAUDI STOCK EXCHANGE (TADAWUL)

1H 2014

Tadawul All Share Index Performance

1H-14 Return	**11.45%**
1H-14 Volatility	**7.50%**

1H-14 trading Indicators

Volume ***(Mln Shares)***	**37,949**
Value ***(Mln USD)***	**298,088**
Deals ***('000)***	**18,508**

FY 2013

Tadawul All Share Index Performance

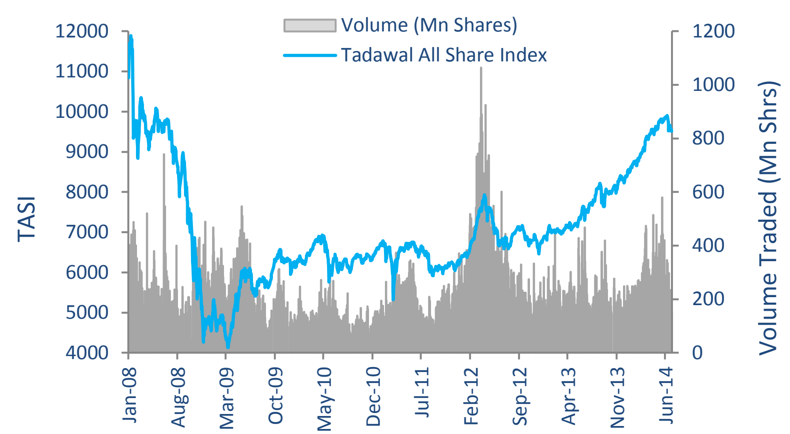
Yearly Return	**25.50%**
Yearly Volatility	**10.77%**

Yearly trading Indicators

Volume ***(Mln Shares)***	**52,184**
Value ***(Mln USD)***	**365,061**
Deals ***('000)***	**28,968**

1H-2014 indicates data as of 30-June-2014

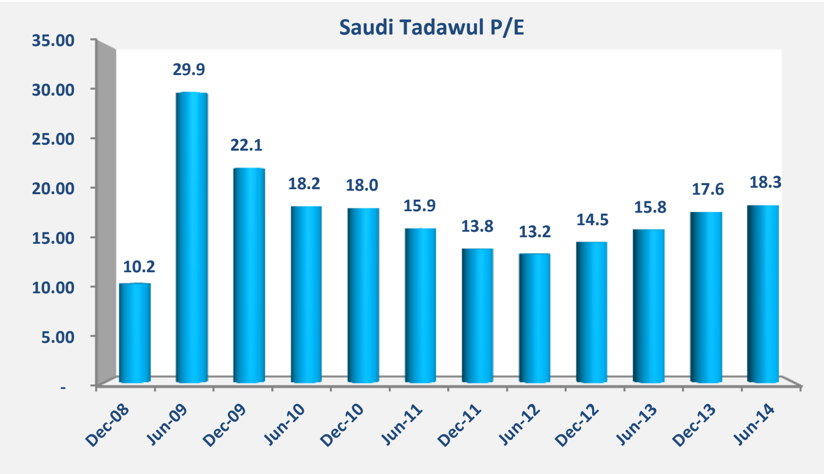
Tadawul All Share Index Relative to Volume Since 2008

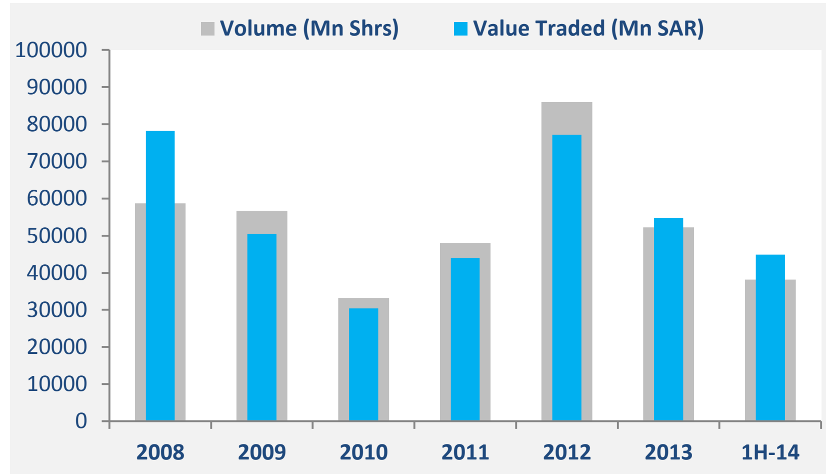


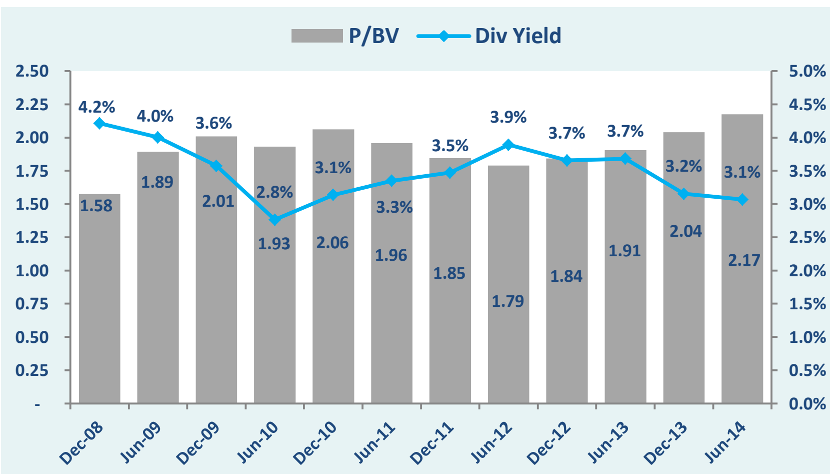
The Tadawul stock exchange remained the largest bourse in the region accounting for more than 73% or USD 365 Mn in value traded during 2013 and was one of the most active markets in terms of new listings with five new IPOs during the year. In addition, the TASI index was the third best performer in the GCC with annual returns of 25.5% despite a significant decline in average daily volumes. During 2014, Tadawul continued on the positive trajectory with 1H gains of 11.5% coupled with significantly higher average daily traded value. The exchange has already seen four new listings since the beginning of the year.

SAUDI ARABIA: Valuation Multiples & Trading Indicators

TADAWUL MARKET - VALUATION MULTIPLES & TRADING INDICATORS







Source: KAMCO Research and Tadawul

Valuation Multiples & Trading Indicators

P/E multiples for the Tadawul bottomed during 2012 and has seen an improving trend. The market is currently trading at a P/E of 18.3x on the back of higher earnings reported for the first quarter of 2014 coupled with positive investor sentiments and healthy corporate outlook. The P/BV multiple also inched up to 2.17x during June 2014. As a result of higher valuations, yields declined to 3.15% at the end of 2013 and further to 3.07% in Jun-13. Investors willingness to pay higher multiples also reflected in average value per share traded that increased during 2013 and 1H-14.

SAUDI ARABIA ECONOMIC OUTLOOK

Moderate growth led by the non-oil sector, while fiscal policy remains expansive

KSA's GDP growth will rebound to 4.4% in 2014, after having dropped to 3.8% in 2013. The growth will be led by the non-oil private sector, which is expected to expand by 6% in 2014 on the back of KSA's economic diversification efforts. Oil sector, which contracted by 0.7% in 2013 due to weak oil demand and increasing production from non-OPEC nations, will grow by 0.9% in 2014 as global economic recovery helps oil demand and oil prices remain elevated due to the ongoing Iraq crisis.

Saudi Arabia regulator announced plans to open the Saudi stock market to foreign investors during the first half of 2015 allowing qualified foreign investors with an AUM of USD 5 Bn and a track record of 5 years in Financial Services Sector to invest directly in Tadawul Market . Trading by qualified foreign investors is expected to provide a liquidity boost to companies listed on the exchange. The move also comes as a big step towards inclusion directly to the MSCI EM Index with MSCI contemplating to add the market earliest by 2017 depending on compliance issues.

Positive outlook for the non-oil sector will be boosted by increased infrastructure spend and growth in private sector credit, and will benefit manufacturing, trade, transportation, and services sectors. KSA's fiscal stance remains expansionary, with expenditure in 2014 pegged at an all-time high of ~USD 250 Bn. Most of these funds will be directed towards infrastructure and non-oil sector development. These funds, coupled with rising private sector lending (it was up by 13% in Q1 2014) will continue to drive the growth of manufacturing, trade, transportation, and services sectors, which were the fastest growing sectors in 2013.

Social sector expenses will be curbed, but will remain high in absolute terms. KSA is expected to spend USD 84 Bn on education, healthcare and social welfare in 2014 to build new schools, universities, and hospitals. Budget allocation to these sectors will come down from 60% in 2011 to 55% in 2014, but it is still high in absolute terms as social development remains a priority for the KSA government.

Fiscal position will remain delicate as de-coupling from oil revenues is far from complete. Fiscal balance will reduce from USD 54.7 Bn in 2013 to USD 41.2 Bn in 2014, and is likely to be halved to USD 21.2 Bn in 2015. The narrowing of the fiscal balance is due to a combination of weakening oil exports and rising non-oil sector expenditure, and is indicative of the exchequer's continued dependence on oil revenues. In fact, as per IMF, the kingdom could run a fiscal deficit in 2015 if its oil output is reduced by 7%.

SECTION 5| Kuwait

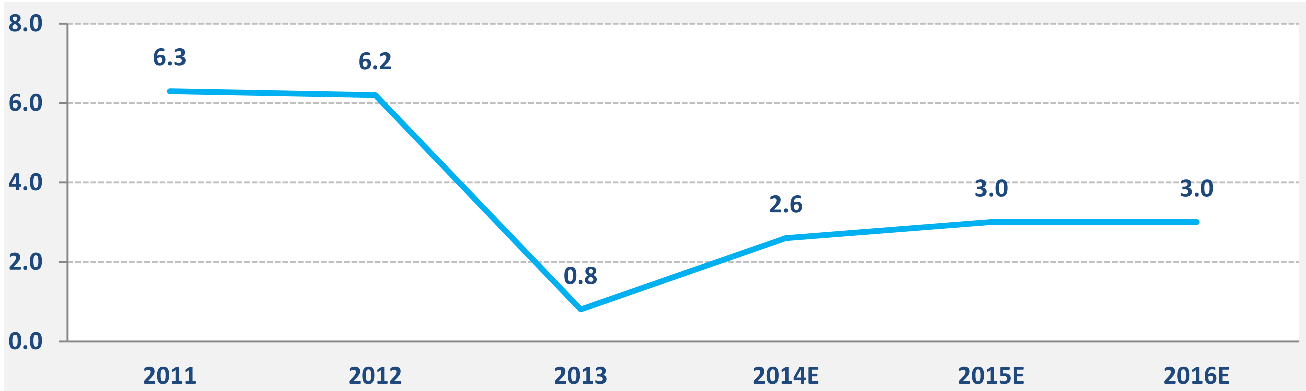
KUWAIT: GDP growth will remain muted as oil production flattens

Kuwait's GDP growth had come down from 6.2% in 2012 to 0.8% in 2013 owing to increasing oil production from MENA and non-OPEC nations.

Oil prices have recovered in 2014, and production & prices may rise further due to the ongoing Iraq crisis, but long-term growth outlook remains weak as global demand remains subdued.

With oil growth moderating, overall GDP growth will be driven by the 4.5% rise in non-oil revenues, which will help expand the overall economic output by a modest 2.6% in 2014.

KUWAIT REAL GDP GROWTH (%)



Source: IMF

	2011	2012	2013	2014E	2015E
Nominal GDP (USD Bn)	**160.7**	**184.5**	**185.3**	**185.3**	**186.4**
Real GDP Growth (%)	**6.3**	**6.2**	**0.8**	**2.6**	**3.0**
Oil Sector	14.2	11.2	-2.0	0.0	0.2
Non-Oil Sector	0.9	2.2	3.0	4.5	4.9
Contribution to GDP (%)					
Oil Sector	60.7	62.6	58.0	56.0	-
Non-Oil Sector	39.3	37.4	42.0	44.0	-
Oil Production (mn b/d)	**2.5**	**2.7**	**2.8**	**2.8**	**2.9**

Source: IMF, EIU, EIA, National Statistical Organisations, CBK

KAMCO

KUWAIT: Non-oil growth is being driven by rising consumption levels…

Non-oil GDP is expected to grow by 4.5% in 2014, benefitting from a buoyant consumer sector, and rising private and public consumption, expected to go up by 5.0% and 5.1%, respectively in 2014, and accelerate even further in 2015 & 2016.

Increasing expenditure for developing educational centers, hospitals, and infrastructure will see the contribution of the non-oil sector rise from 39.3% in 2011 to 44.0% in 2014.

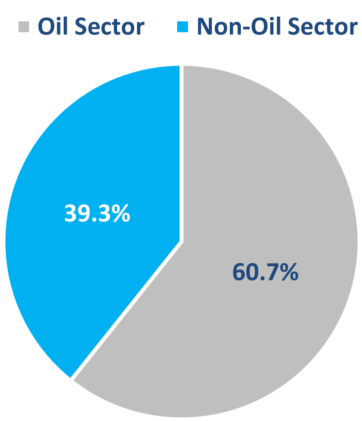
GDP GROWTH BY EXPENDITURE TYPE (%)

	2010	2011	2012	2013E	2014E	2015E	2016E	2017E
Private Consumption	-11.1	4.2	6.6	4.1	5.0	5.6	5.7	5.5
Public Consumption	0.0	7.3	15.0	4.3	5.1	6.9	7.1	6.8
Gross Capital Formation	19.8	3.4	3.2	3.8	4.7	6.9	7.5	7.8
Exports	-0.5	13.4	7.3	2.0	1.7	2.0	2.0	2.0
Imports	6.3	5.2	4.8	3.0	4.6	4.9	5.5	5.1

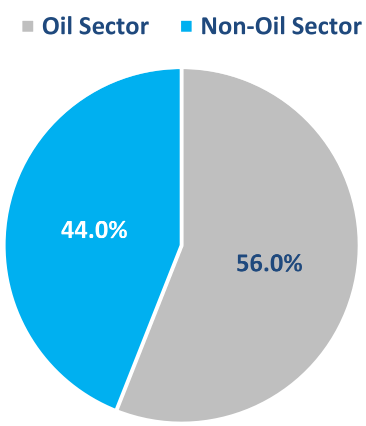
Source: Kuwait Statistical Organisation

CHANGE IN GDP COMPOSITION

2011



2014E



Source: Kuwait Statistical Organisation

KUWAIT: …however, project delays and political deadlock has weakened capital spending and resulted in sub-par growth in critical non-oil sectors

Project delays and political issues resulted in lower-than-planned capital spending under the USD 113 Bn 2010-14 Kuwait Development Plan, which included funds for airport expansion, Al Zour water & power plant, and other infrastructure development projects.

With only USD 3 Bn being spent on capital expenditure in 2013-14 vs. the budgeted USD 8 Bn, growth in critical non-oil sectors has been sub-par.

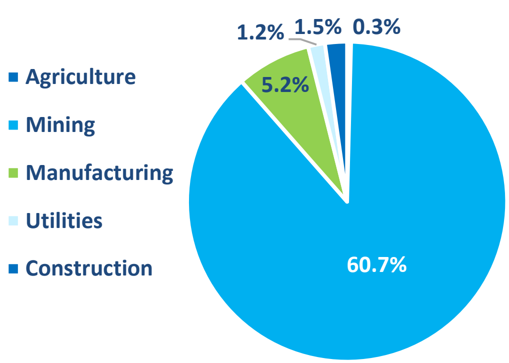
However, with more stability, the upcoming Phase II of the development plan will likely see better project execution and growth.

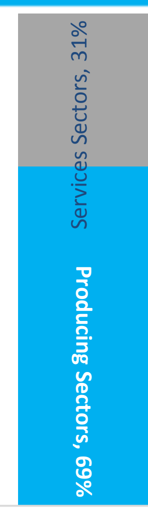
GDP GROWTH IN KEY SECTORS (%)

	2011	2012
Producing Sectors		
Agriculture	71.1	6.2
Mining	46.0	19.4
Manufacturing	16.9	21.9
Utilities	19.5	2.0
Construction	5.8	4.9
Services Sectors		
Trade, Hotels	3.9	5.3
Transport	-4.0	4.9
Finance	1.3	6.4
Social & Personal Services	15.9	13.9

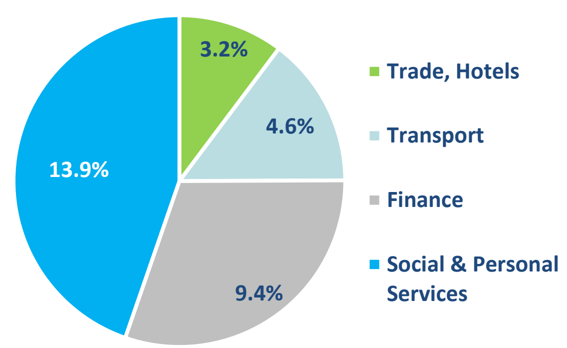
CONTRIBUTION TO 2012 GDP (%)

PRODUCING SECTORS





SERVICES SECTORS



Source: Kuwait Statistical Organisation

KUWAIT: Unemployment is structural as skill gaps continue to exist

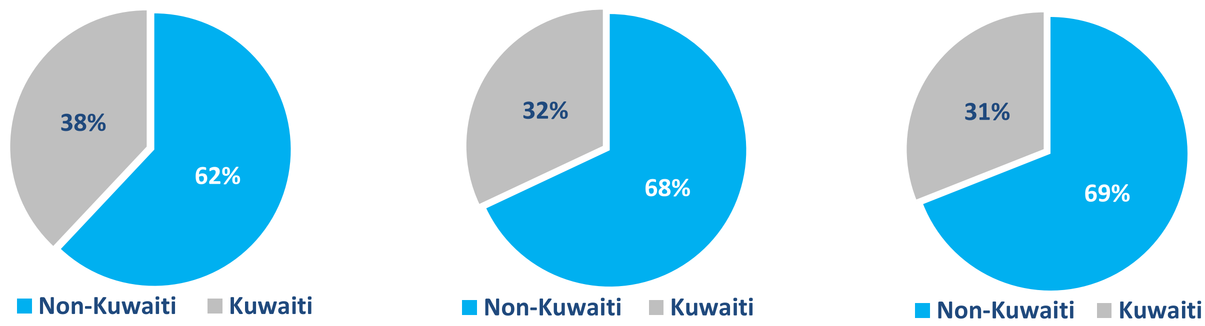
Kuwait's 3.4 Mn strong population is expected to grow to 4 Mn by the end of the decade. Expats currently constitute ~2/3rd of the population, but this is expected to decrease due to Kuwaitization.

Labor participation remains low with Kuwaiti nationals preferring government jobs, adding to the exchequer's burden and posing a threat to the future of the private sector, which is expat dependent.

The demographic situation of Kuwait will dictate the government to address skill-gaps and to create an attractive private sector.

POPULATION COMPOSITION (%)

2000	2010	2013



Source: UN, Ministry of Economy and Planning

COMPOSITION OF LABOR FORCE (%)

GOVERNMENT SECTOR	PRIVATE SECTOR

Source: Kuwait Statistical Organisation

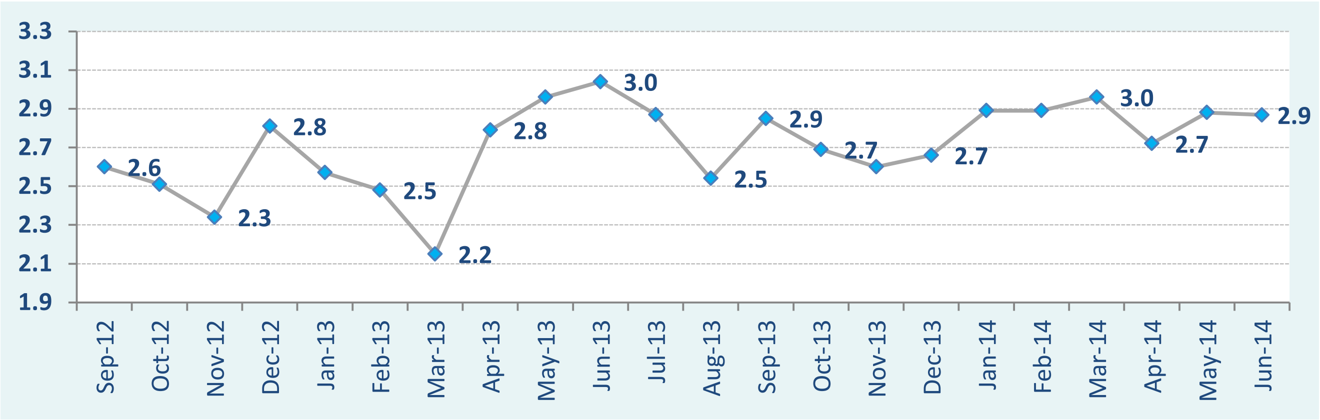
KUWAIT: Inflation is expected to rise in H2 2014, but remain under control overall

With international food prices easing, Kuwaiti inflation has been declining since 2012.

The trend has continued this year as well, with inflation remaining stable in the 2.7-3.0% range and ending June at 2.9%.

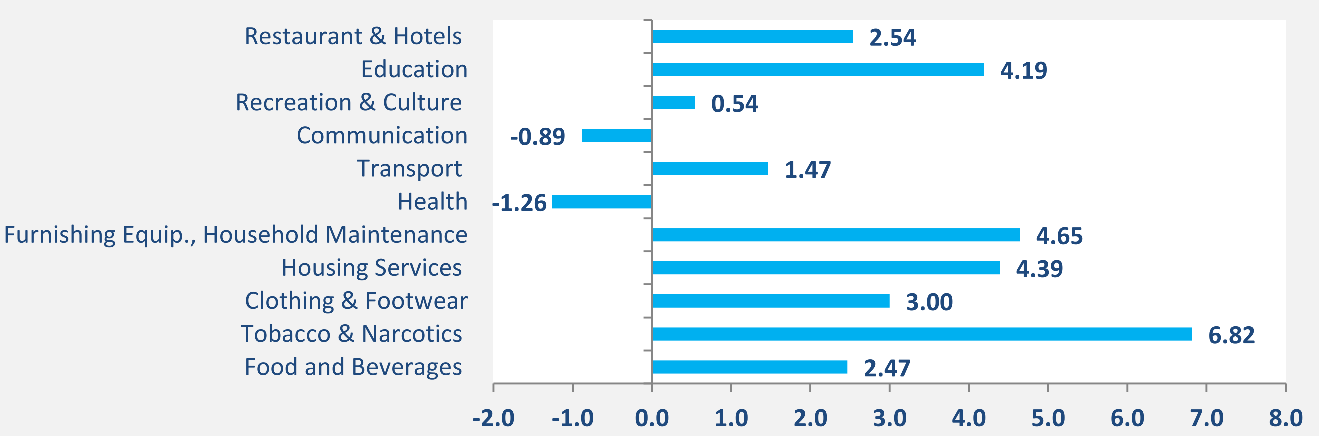
However, a rise in public expenditure (and wages), correction of international food prices, and an expected uptick in housing rent in H2 2014 will mean that annual inflation will end up between 3-3.5% in 2014 (IMF's forecast is 3.4%).

ANNUAL INFLATION AT END OF EACH MONTH (%)



Source: Kuwait Central Statistical Bureau

ANNUAL CHANGE IN CONSUMER PRICES BY EXPENDITURE CATEGORY (JUN 2014 VS. JUN 2013)



Source: Kuwait Central Statistical Bureau

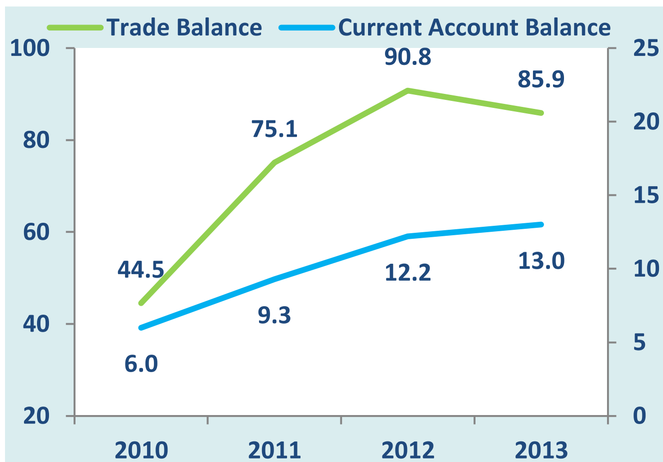
KUWAIT: Fiscal position is healthy but dependent on oil revenues

Current account balance declined in 2013 as oil exports slowed by 2.6%. With oil markets expected to soften, trade- and current account- balance is likely to decline through 2016, though remain healthy.

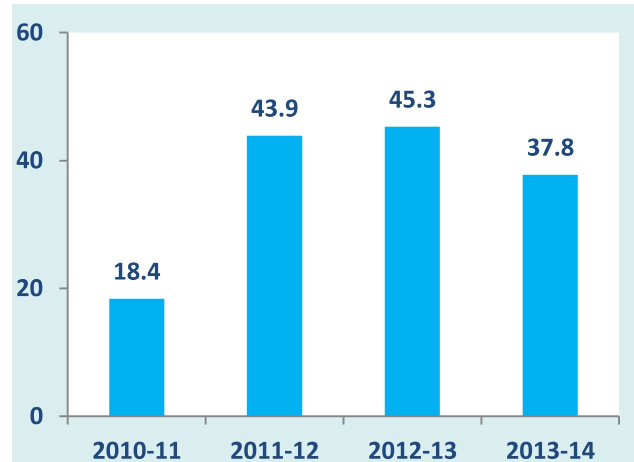
Expenditure was up 12.2% in 2013-14, but most of it was directed towards public sector wages and subsidies, which need to be curbed. On the other hand, CAPEX growth was muted as project delays continued, a situation that needs to be controlled in 2014-15.

Oil revenues will ensure fiscal balance remains in the surplus (USD 34.8 Bn in 2013-14), but a decline can be expected due to downward pressure on oil exports.

TRADE & C/A BALANCE (USD BN)



FISCAL BALANCE (USD BN)



Source: Central Bank of Kuwait

	2010	2011	2012	2013
Trade Balance (USD Bn)	**44.5**	**75.1**	**90.8**	**85.9**
Exports	67.5	99.6	117.8	115.4
Imports	23.0	24.6	27.0	29.5
Current Account Balance (USD Bn)	**6.0**	**9.3**	**12.2**	**13.0**
Government Revenue (USD Bn)	**75**	**105.5**	**114**	**111.9**
Oil Revenue	69.6	99.7	106.7	104.9
Non-Oil Revenue	5.4	5.8	7.3	7.0
Government Expenditure (USD Bn)	**56.6**	**61.6**	**68.7**	**74.1**
Fiscal Balance (USD Bn)	**18.4**	**43.9**	**45.3**	**37.8**

Source: Central Bank of Kuwait

KUWAIT: Infrastructure and social sectors dominate public expenditure

Expenditure growth will be slower as the draft 2014-15 budget pegs the total expected expenditure at KD 21.8 Bn (up 3% y/y vs. the 7% in 2013-14).

Public spending is being driven by Kuwait Vision 2035, with majority of expenditure being directed towards infrastructure development (water, utilities, etc.) or towards social sectors like education and healthcare.

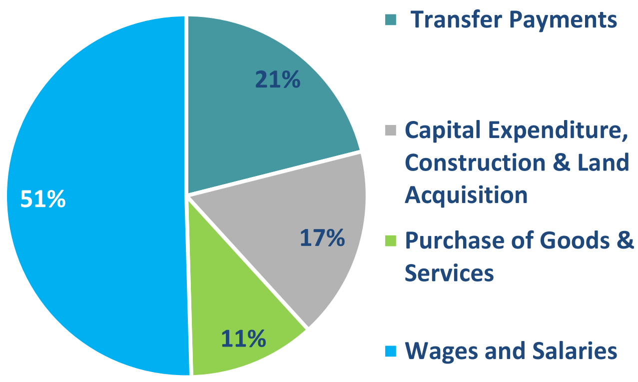
An expanding non-Kuwaiti population has resulted in increasing transfer payments. On the other hand, spend on wages and salaries declined from 51% in 2010-11 to 45% in 2013-14, but remained high in absolute terms at USD 18.3 Bn.

CLASSIFICATION OF FISCAL EXPENDITURE (USD Bn)

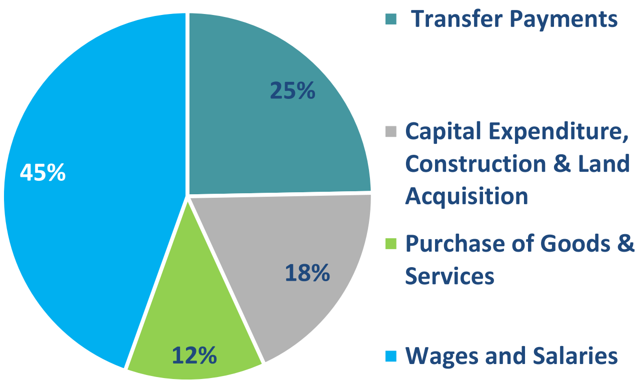
	2010-11	2011-12	2012-13	2013-14
Transfer Payments	11.9	14.9	17.3	18.3
Capital Expenditure, Construction & Land Acquisition	9.7	10.0	13.0	13.7
Purchase of Goods & Services	6.4	6.5	6.5	9.1
Wages and Salaries	28.5	30.2	32.2	33

Source: Central Bank of Kuwait

2010-11 BUDGET ALLOCATION (%)



2013-14 BUDGET ALLOCATION (%)



Source: Central Bank of Kuwait

KUWAIT: FDI outflows are increasing as the Kuwaiti govt. steps-up foreign investments

With oil exports softening, growth in foreign reserves is likely to slow down in 2014. Overall, however, reserves will remain at a healthy USD 35.3 Bn at year end.

FDI inflows in 2013 were ~2x of their 2010 levels, but declined overall as political turbulence in MENA made investors wary of investing in West Asia.

FDI outflows have been rising as the govt. increased foreign investment, including the £1.7 Bn purchase of office buildings in London in Dec. 2013, in partnership with GIC.

FOREIGN EXCHANGE RESERVES (USD Bn)

Source: EIU

FDI INFLOW (USD Bn)

Source: UNCTAD 2014 World Investment Report

FDI OUTFLOW (USD Bn)

Source: UNCTAD 2014 World Investment Report

KUWAIT: Money supply and lending are edging up as the Central Bank maintains discount rate at 2%

Money supply was up 8.8% y/y at the end of Q1 2014, as the Central Bank maintained the discount rate at 2%.

Private sector lending went up by 7.4% y/y to reach USD 112.2 Bn at the end of Q1 2014. Credit in the personal facilities sector has benefited from the growth in the retail sector and rise in consumption levels.

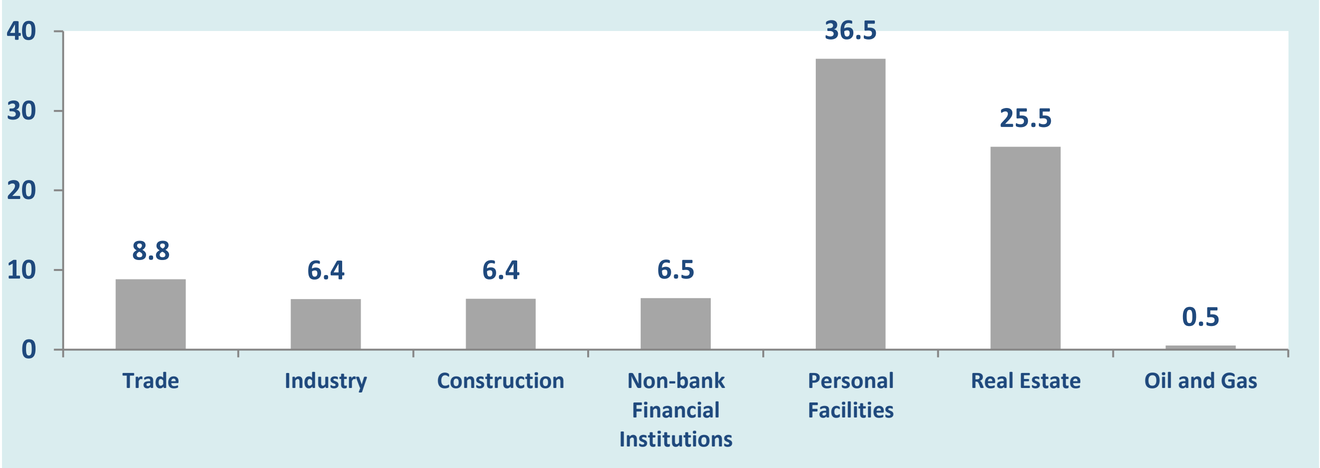
Real estate and construction credit will likely gather pace in the coming years as the economy stabilizes and the govt. implements its plan to build 174,000 new houses to cater to the housing shortage in the country.

MONEY SUPPLY & PRIVATE SECTOR LENDING (USD Bn)

	Q1-12	Q2-12	Q3-12	Q4-12	Q1-13	Q2-13	Q3-13	Q4-13	Q1-14
Gross Money Supply	**101.2**	**101.6**	**102.1**	**105.8**	**109.9**	**113.1**	**111.9**	**116.3**	**119.6**
M1	23.9	25.3	24.5	27.9	28.0	29.9	29.6	31.8	33.5
Quasi	77.2	76.4	77.6	77.9	82.0	83.2	82.3	84.5	86.1
Private Sector Lending	**101.3**	**102.7**	**103.2**	**102.7**	**104.4**	**106.8**	**108.3**	**110.2**	**112.2**

Source: Central Bank of Kuwait

PRIVATE SECTOR LENDING BY INDUSTRY (2013, USD Bn)



Source: Central Bank of Kuwait

KUWAIT: Corporate earnings growth could not result in higher trading value in 2014

Despite the revival in earnings and affirmation of the Aa2 rating by Moody's, trading activity has been muted due to moderate economic growth, and lack of market catalysts.

Corporate earnings have recovered from the 2008 crisis, and stood at USD 5.7 Bn in 2013, up 13% from USD 5 Bn in 2012.

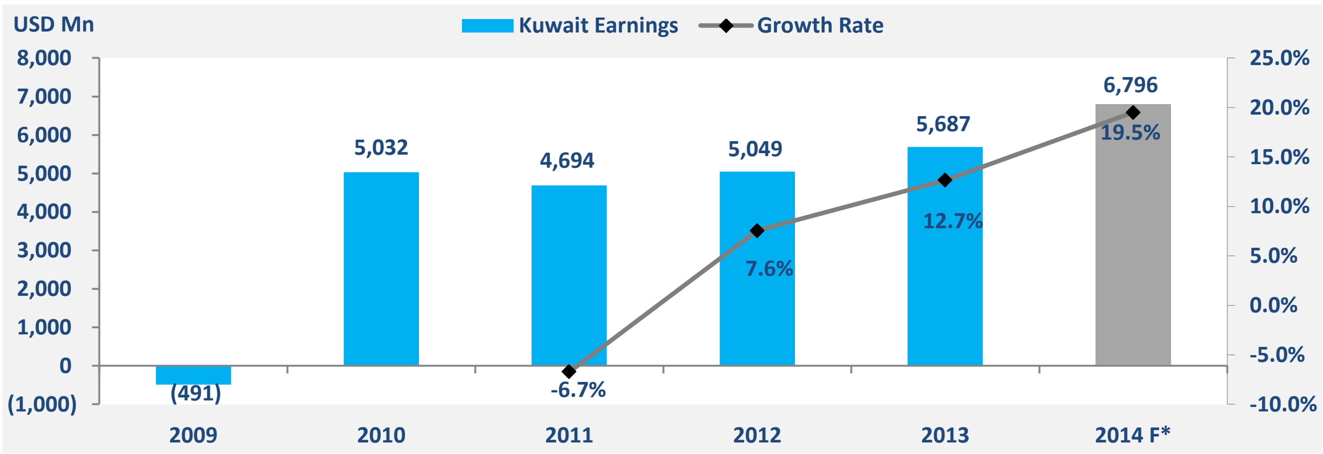
Improved lending boosted the earnings in the real estate sector, while financial services firms registered growth as they continued their recovery from the crisis.

KUWAIT STOCK EXCHANGE (KSE)

	2009	2010	2011	2012	2013	1H-2014 30-Jun-14
Index Value	385.8	484.2	405.6	417.7	452.9	469.8
Y/Y Change	-5.2%	25.5%	-16.2%	3.0%	8.4%	3.7%
Market Cap (USD Bn)	105.4	128.4	107.2	102.8	108.8	109.6
Value Traded (USD Bn)	77.1	44.2	21.4	25.5	39.5	11.9

Source: KAMCO Research

KUWAIT – CORPORATE EARNINGS (USD Mn, % GROWTH)



2014 forecast is based on Bloomberg consensus

KUWAIT : KSE Historical Performance

KUWAIT STOCK EXCHANGE (KSE)

1H 2014

KSE Weighted Index Performance

1H-14 Return	**3.73%**
1H-14 Volatility	**7.91%**

1H-14 trading Indicators

Volume ***(Mln Shares)***	**28,313**
Value ***(Mln USD)***	**11,962**
Deals ***('000)***	**608**

FY 2013

KSE Weighted Index Performance

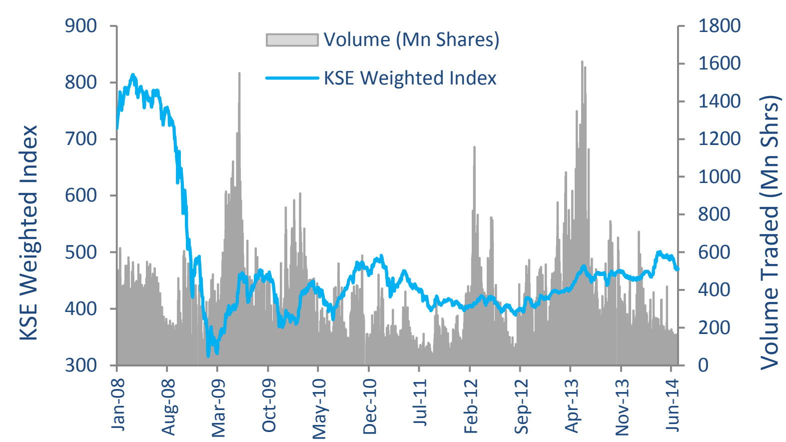
Yearly Return	**8.43%**
Yearly Volatility	**7.10%**

Yearly trading Indicators

Volume ***(Mln Shares)***	**127,035**
Value ***(Mln USD)***	**39,606**
Deals ***('000)***	**2,192**

1H-2014 indicates data as of 30-June-2014

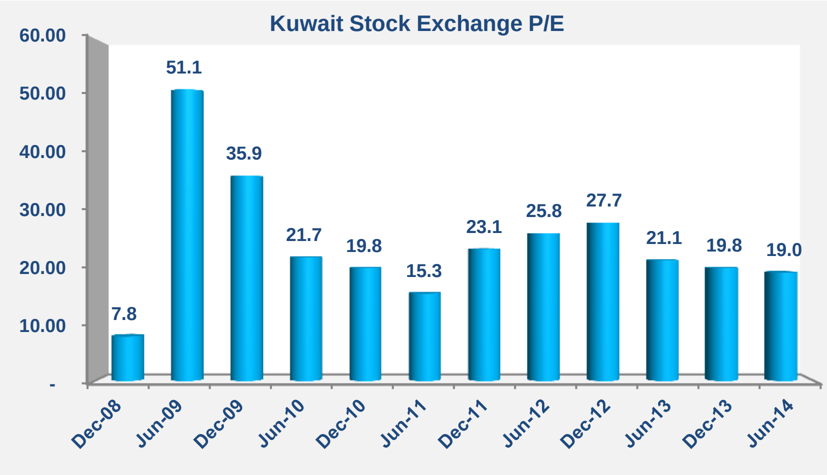
KSE Weighted Index Relative to Volume Since 2008

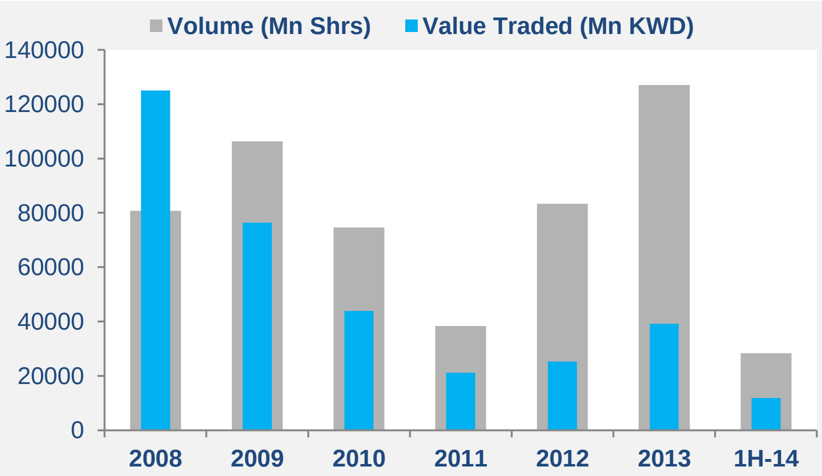


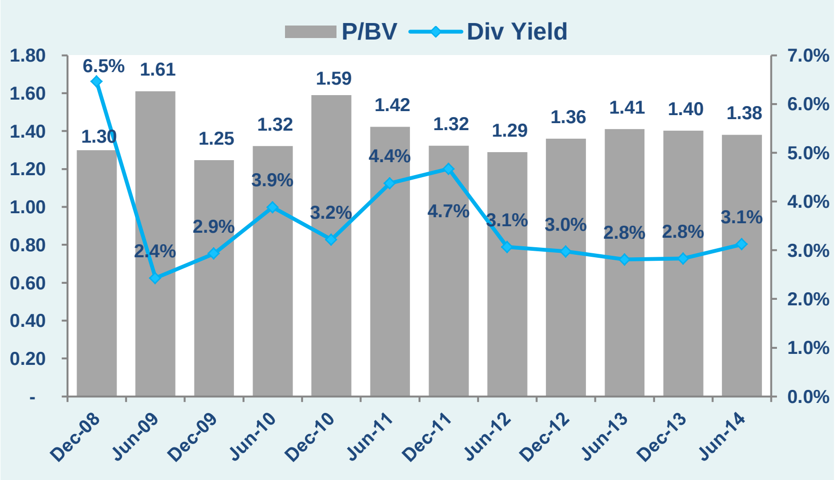
KSE saw significant y-o-y improvement during 2013 with higher investor participation resulting in a jump in average daily value and volumes. However, the KSE weighted index saw modest full year returns as compared to other GCC markets. The year 2014 started on a positive note, fuelled by higher 2013 earnings and outlook; however, performance during the second quarter remained subdued marred by geopolitical unrests, internal political changes as well as lack of clarity over development plans. This resulted in lower investor participation in the market as value and volume traded halved over 2013 averages.

KUWAIT : Valuation Multiples & Trading Indicators

KUWAIT SE - VALUATION MULTIPLES & TRADING INDICATORS







Source: KAMCO Research

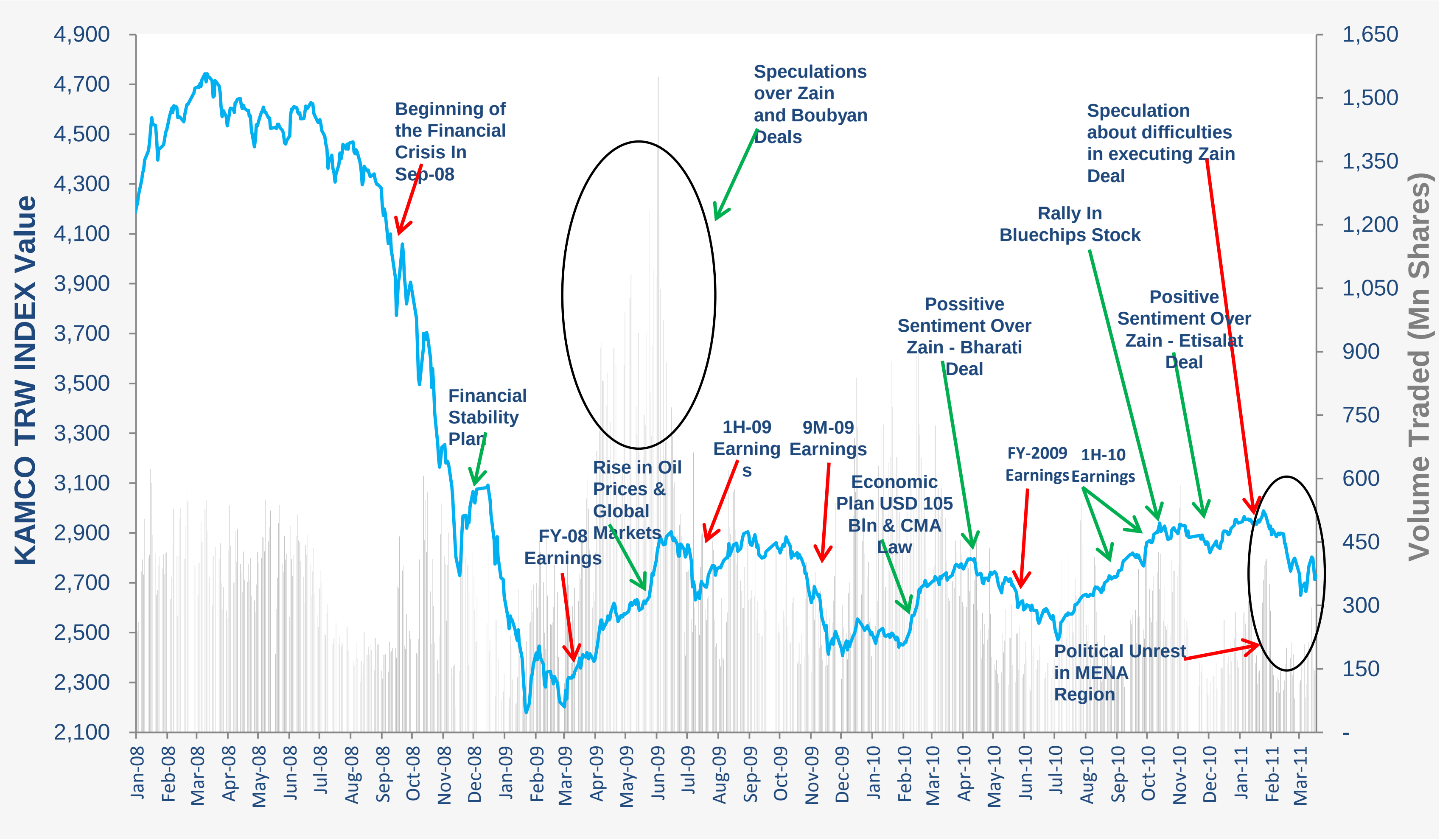
Valuation Multiples & Trading Indicators

Valuation multiples for the KSE has been on an improving trend after spiking up during the financial crisis in 2009. The P/E multiple rose to as high as 51.1x during the crisis due to a sudden fall in earnings.

In terms of liquidity, total value traded has declined over the years, only to show moderate improvement since 2012. On the other hand, volumes improved significantly led by trades in small-cap stocks. This resulted in a significant decline in average value per trade.

KUWAIT : Post-crisis 2008 To March-2011 KAMCOTRW Index Relative To Volume

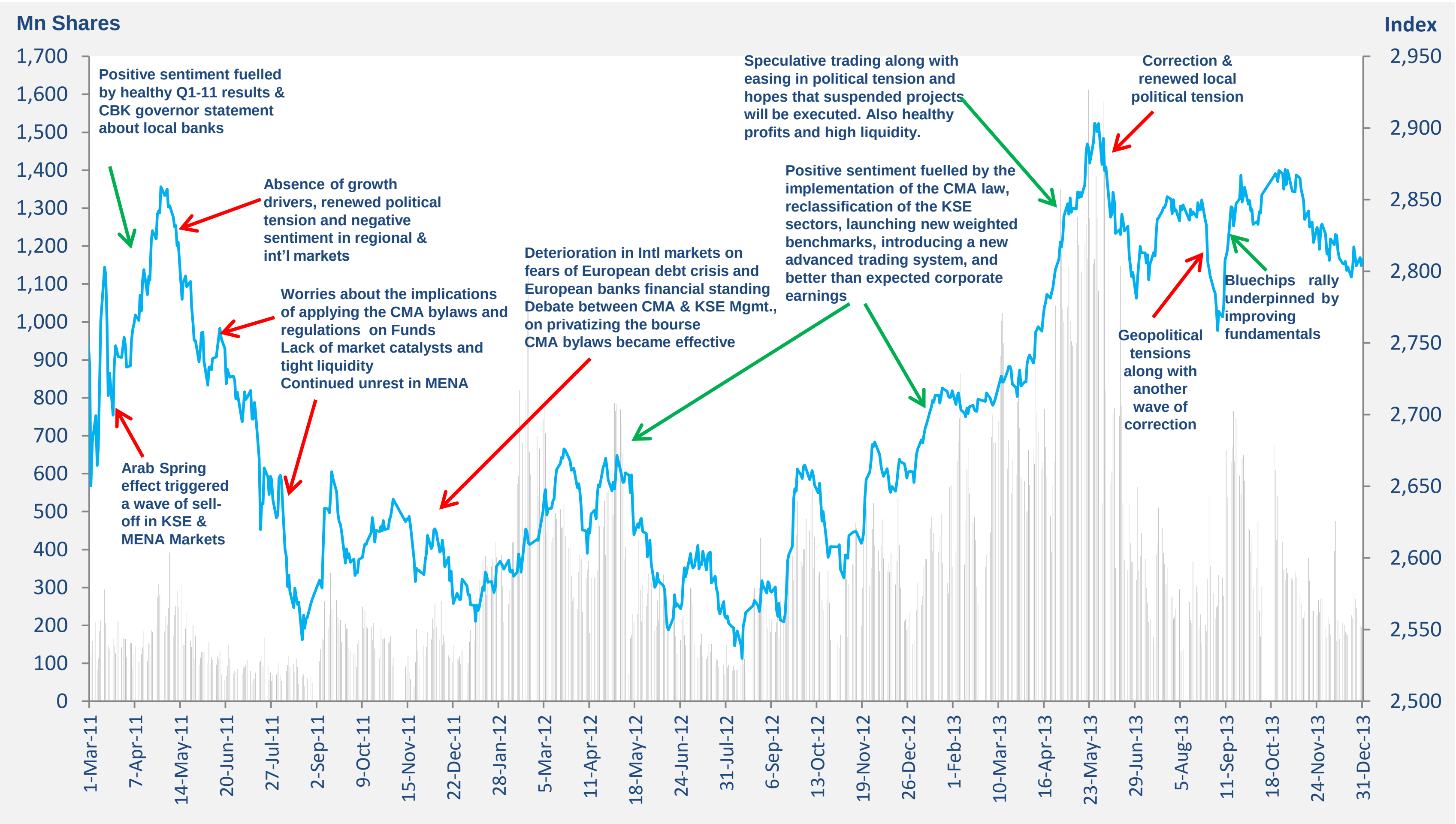
POST-CRISIS 2008 TO MARCH-2011 KAMCOTRW INDEX RELATIVE TO VOLUME



Source: KAMCO Research

KUWAIT : March-2011 to Dec-2013 KAMCOTRW Index Relative to Volume

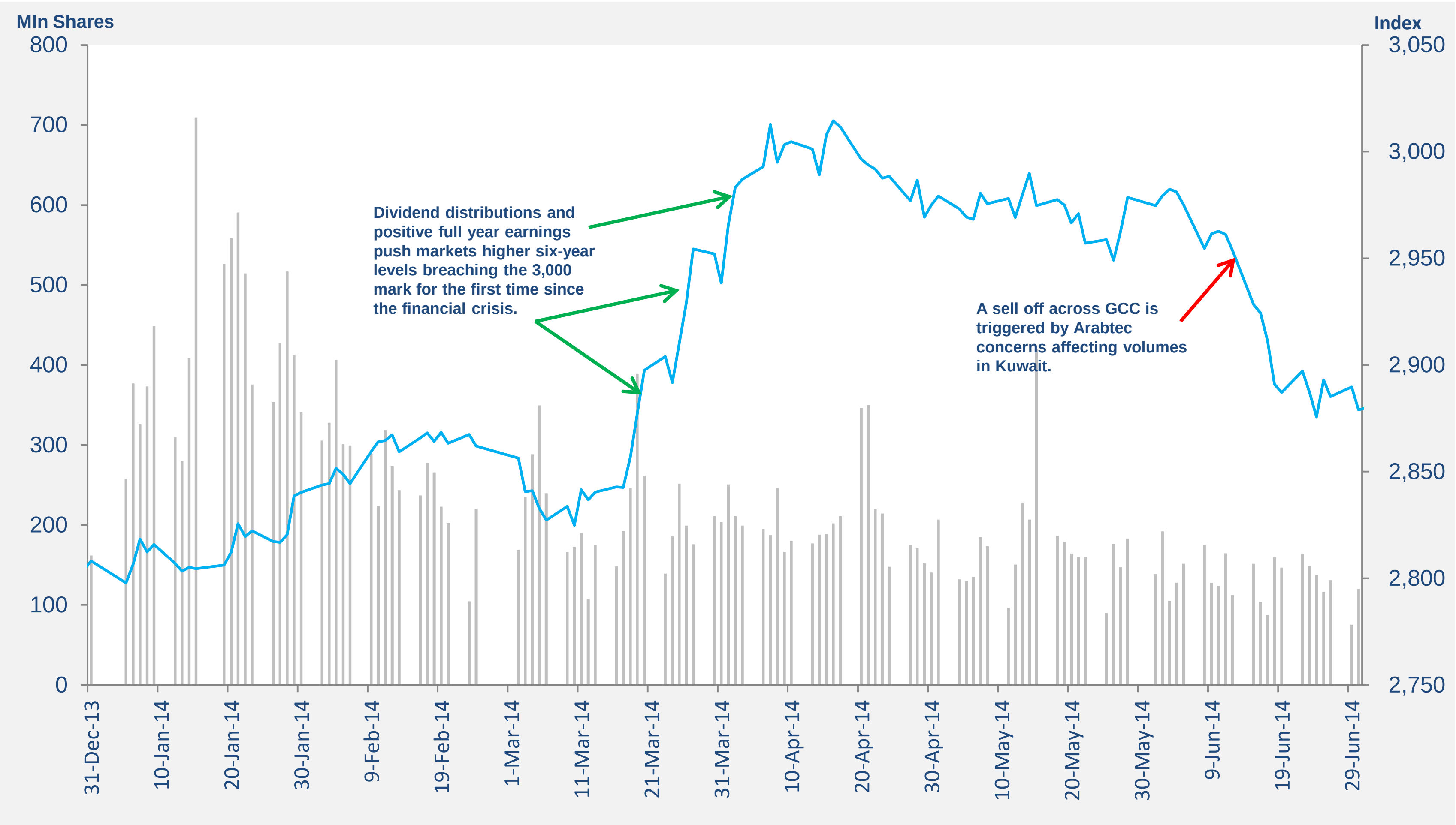
MARCH-2011 TO DEC-2013 KAMCOTRW INDEX RELATIVE TO VOLUME



Source: KAMCO Research

KUWAIT : 1H-2014 KAMCOTRW Index Relative to Volume

1H-2014 KAMCOTRW INDEX RELATIVE TO VOLUME



Source: KAMCO Research

KUWAIT ECONOMIC OUTLOOK

Growth will recover, but remain sluggish, as dependence on oil revenues remains high

GDP growth will recover from 0.8% in 2013 to 2.6% in 2014, on the back of normalizing global oil demand and accelerated growth in Kuwait's non-oil sector. Weak oil demand and increasing production from non-OPEC nations had resulted in a contraction (-2%) of the nation's oil sector in 2013. However, with global oil demand recovering and oil prices remaining high, oil sector will remain flat or grow marginally in 2014. This, coupled with a projected 4.5% growth in the non-oil sector, will help the overall economic output expand by 2.6% this year. Even though the growth will be higher than 2013, it will remain below the 2011 and 2012 levels of 6.3% and 6.2%, respectively.

Poor project execution and political issues pose headwinds to non-oil growth. Non-oil growth has been sub-par so far as project delays and political instability have meant that a large part of the USD 113 Bn earmarked for infrastructure projects under the Kuwait Development Plan remains unspent. While rising consumption levels will boost non-oil growth, the projected 4.5% growth may be challenged if project delays continue in 2014 as well.

Fiscal surplus will be maintained, but dependence on oil revenues will remain high. Fiscal position will remain healthy with a surplus of USD 37.8 Bn in 2013-14. But the strong fiscal position is more a result of elevated oil prices and under-spending on infrastructure development, as opposed to a fundamentally strong and well-diversified economy. Short-term fiscal position will remain stable, but continued dependence on oil revenues can lead to reduced long-term growth potential.

Inflation will edge up in H2-14 as money supply and housing prices increase, but will remain manageable in the 3-3.5% range. At USD 19 Bn, money supply in Q1-14 is up 18% versus its Q1-12 levels, and has resulted in increased lending to the real estate and construction sectors. Economic recovery, coupled with improving credit conditions (low interest rates and rising private sector lending), will likely drive housing process higher in H2-14, leading to upward inflationary pressure. However, inflation will still remain manageable in the 3-3.5% range.

S&P affirmed its "AA/A-1+" long- and short-term foreign and local currency sovereign credit ratings on Kuwait with "a stable outlook." Kuwait has a rich oil and gas endowment, which has made it wealthy and enabled it to build strong external and fiscal balance sheet positions. Kuwait accumulated these through large oil and gas resources and by managing its wealth in what we (S&P) consider to be a prudent manner.

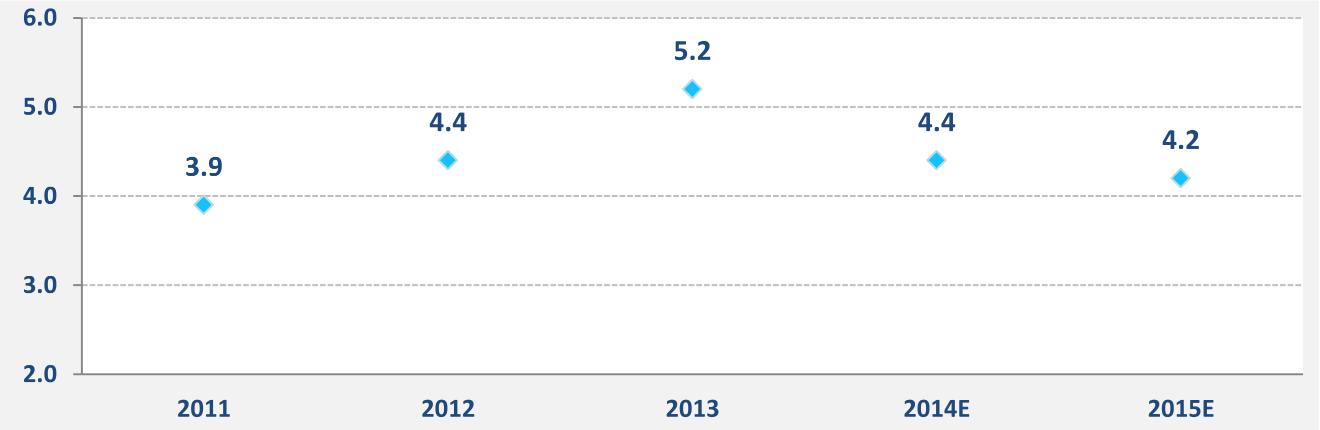
SECTION 6| **UAE**

UAE: Successful economic diversification is sustaining the growth momentum…

Recovery of the real estate sector and a booming tourism industry are stimulating the growth of a well diversified UAE economy, which is expected to expand by 4.4% in 2014.

While the projected slowdown in the oil sector will hamper growth, increased investment spending towards the build-up to World Expo 2020 Dubai will counter the weakness emanating from the oil sector, and ensure that UAE's growth momentum is maintained in 2014 as well.

UAE REAL GDP GROWTH (%)



Source: IMF

	2011	2012	2013	2014E	2015E
Nominal GDP (USD Bn)	**348.6**	**383.8**	**396.2**	**412.4**	**430.0**
Real GDP Growth (%)	**3.9**	**4.4**	**5.2**	**4.4**	**4.2**
Oil Sector	6.6	6.3	4.4	3.1	2.9
Non-Oil Sector	2.6	3.5	4.9	5.0	4.8
Contribution to GDP (%)					
Oil Sector	32	33	-	-	-
Non-Oil Sector	68	67	-	-	-
Oil Production (mn b/d)	**2.6**	**2.6**	**2.7**	**2.8**	**2.9**

Source: IMF, EIU, EIA, National Statistical Organisations

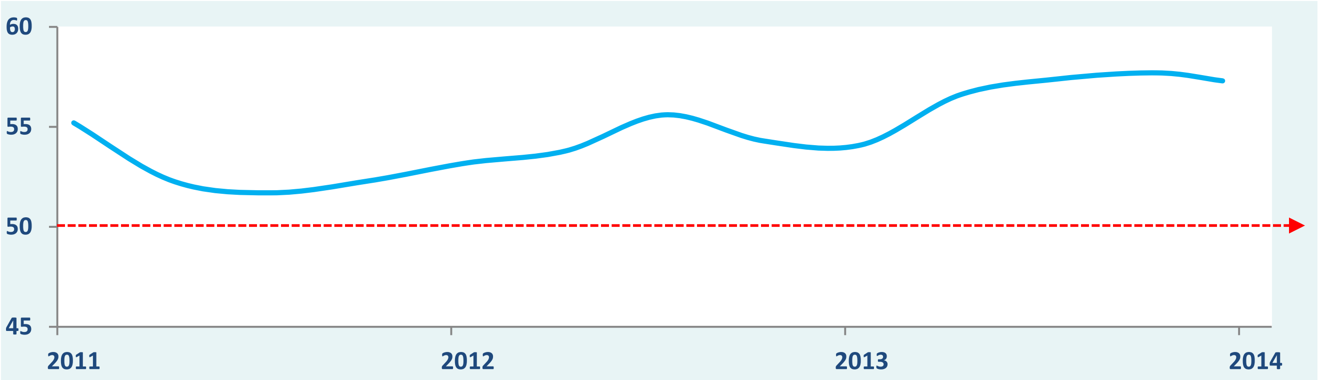
UAE: …as the non-oil sector outpaces the oil sector, and drives the overall economy

Growth in the non-oil sector (5.4%) outpaced the oil sector growth (4.0%) in 2013, and will continue to do so in 2014 as well.

Non-oil economic activity strengthened in H1 2014 with the Purchasing Managers Index (PMI) reaching a high of 57.7 in March 2014, confirming sustained recovery of the manufacturing, tourism, trade and construction sectors from the 2008 crisis.

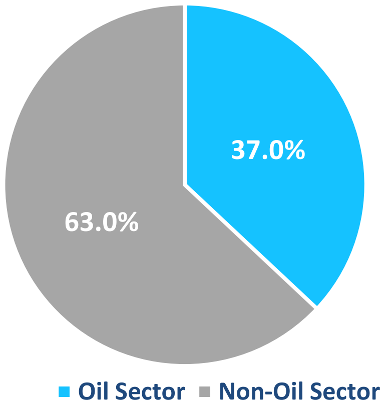
Oil production is expected to stay flat this year; however, the recent crisis in Iraq and supply disruptions in Libya might result in an upside to oil growth forecasts for 2014.

UAE - MANUFACTURING PMI

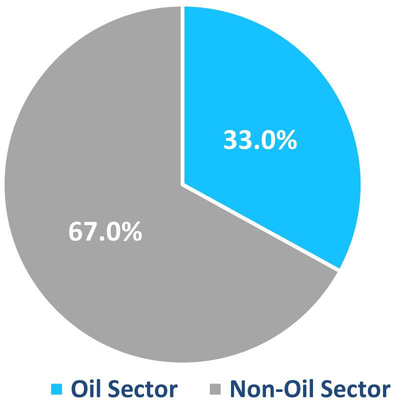


Source: Markit

2005- CHANGE IN GDP COMPOSITION



2012 CHANGE IN GDP COMPOSITION



Source: UAE Statistical Organisation

UAE: Expo 2020 will boost trade activity and economic diversification efforts…

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

Dubai's foreign trade stood at Dh1.39 trillion (~30% of its GDP) in 2013, and is forecasted to rise to Dh4 trillion as a result of the expo.

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

REAL GDP GROWTH BY TYPE OF EXPENDITURE (%)

	2010	2011	2012	2013	2014E	2015E
Private Consumption	-0.1	-0.3	9.4	5.9	5.0	5.2
Public Consumption	2.3	2.5	3.6	4.8	4.5	4.7
Gross Capital Formation	0.1	4.6	12.5	5.6	5.0	5.2
Exports	2.5	19.7	10.0	6.6	6.3	7.3
Imports	2.1	18.8	16.6	8.0	7.0	7.8

Source: IMF, UAE Statistical Organisation

UAE: …and drive growth of the real estate, construction, and tourism sectors

Real estate market has recovered from the crisis, with projects worth USD 313 Bn currently under construction across the infrastructure, residential and non-residential sectors, as per BMI's Q2 2014 report.

Dubai is also expected to invest USD 6.8 Bn in specialty infrastructure projects, including the Dubai Water Canal, Al Habtoor City, Deira Islands, and the Aladdin City.

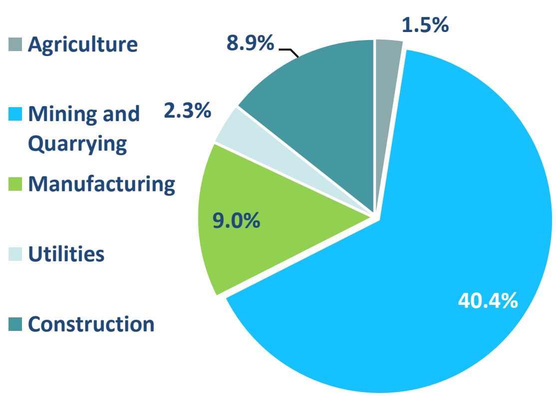
These projects will help grow the tourism sector (along with real estate and construction), though financing them may pose a challenge.

GDP GROWTH IN KEY SECTORS (%)

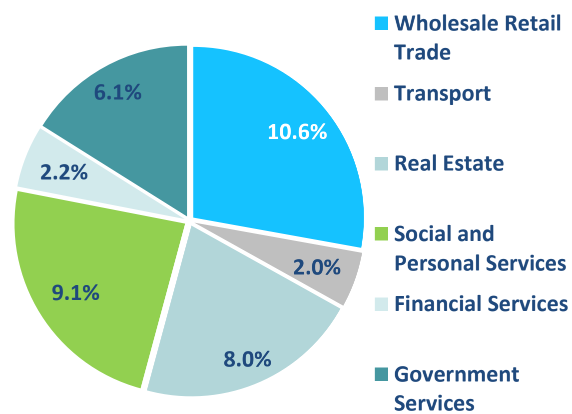
		2010	2011
Producing Sectors	Agriculture	-1.8	0.3
	Mining and Quarrying	1.0	6.7
	Manufacturing	6.9	3
	Utilities	-11.4	5.9
	Construction	2.4	3.2
Services Sectors	Wholesale, Retail Trade	3.4	1.4
	Transport	-3.3	4
	Real Estate	10	0.7
	Social & Personal Services	1.7	6.4
	Financial Services	6.5	2.8
	Government Services	2.6	3

CONTRIBUTION TO 2011 GDP (%)

PRODUCING SECTORS



SERVICES SECTORS



Source: UAE Central Bank

UAE: Strengthening the private sector is essential to reduce unemployment

The UAE has a well diversified economy as compared to its GCC peers; however, its employment situation mirrors that of other GCC countries.

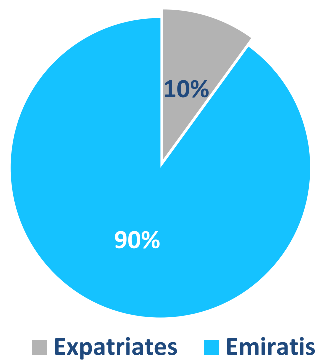
Emiratis prefer government jobs, while the private sector consists mainly of expats (largely low-paying jobs in the construction sector).

Expo 2020 is expected to generate 277,000 new jobs, but once again most of them will be in the construction sector.

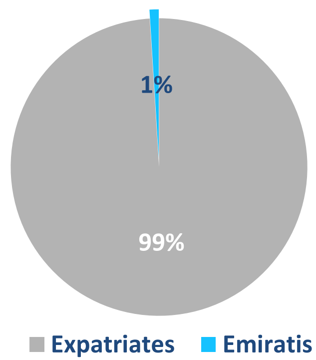
Unemployment among Emiratis was high at ~21% in 2011, and will continue to persist unless UAE creates an attractive private sector.

COMPOSITION OF LABOR FORCE (%)

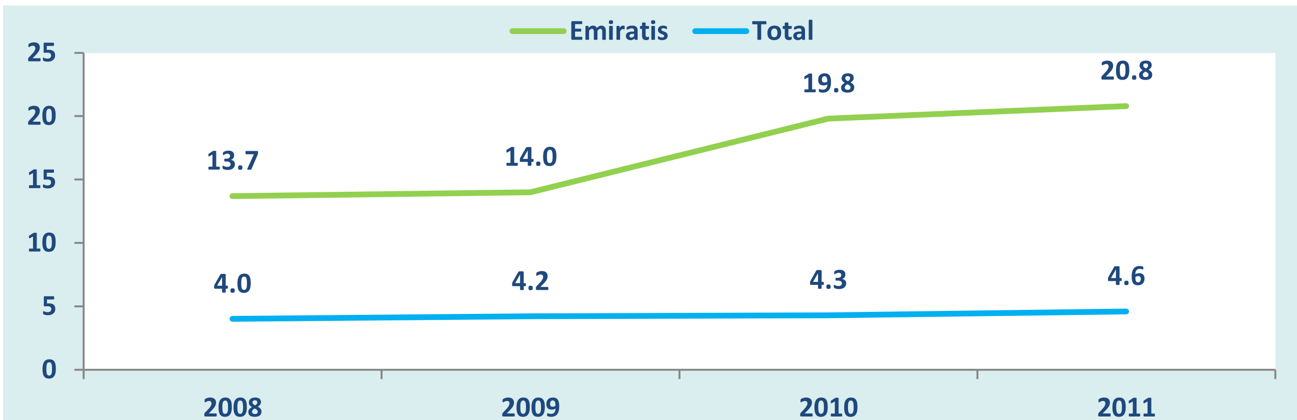
GOVERNMENT SECTOR



PRIVATE SECTOR



UNEMPLOYMENT RATE (%)



Source: UAE Statistical Organisation

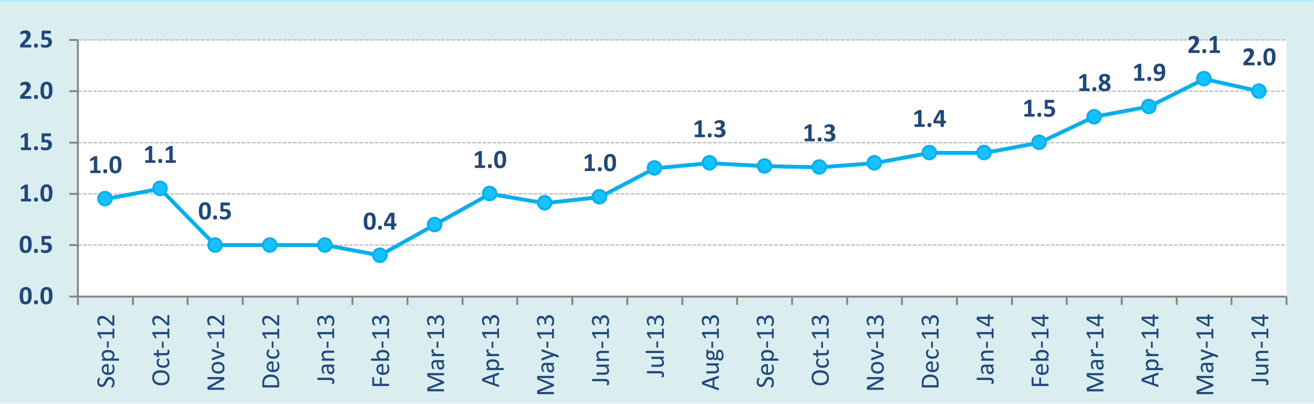
UAE: Inflation is edging-up as the real estate market recovers and housing rents rise

Inflation reached a five-year high of 2.1% in May 2014.

The rise is being driven by housing costs that constitute 39% of the index and were up by 2.6% in May. A separate research by Cluttons showed that residential prices rose by 3% in Q1 2014.

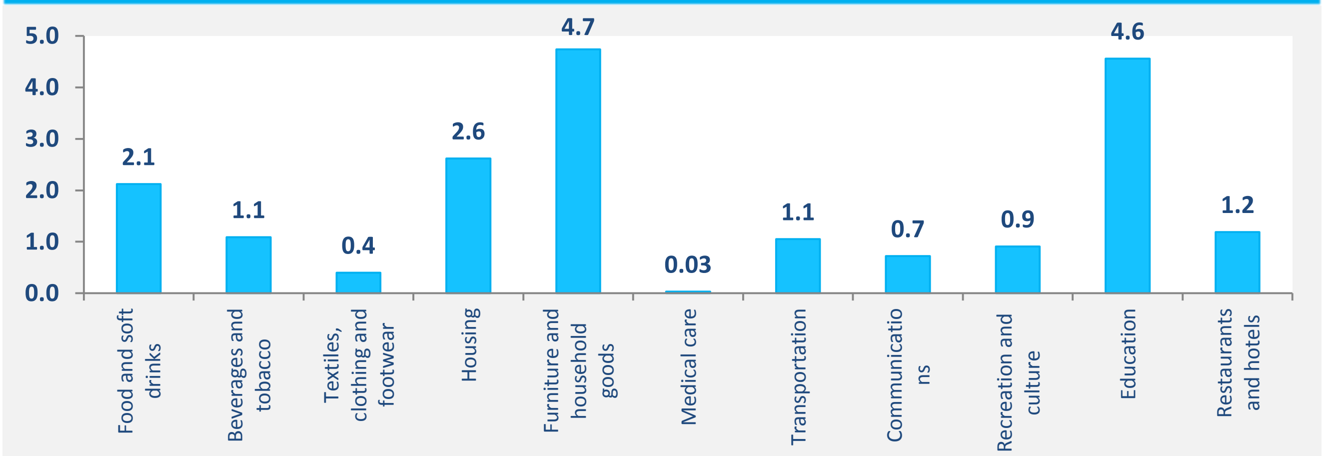
Increasing housing prices, coupled with rising food costs (another major constituent), will ensure that overall inflation in 2014 will likely be in the range of 2-2.5%, higher than previous estimates of 1.5-2%.

ANNUAL INFLATION (%)



Source: National Bureau Of Statistics, UAE

CHANGE IN CONSUMER PRICES BY EXPENDITURE CATEGORY (MAY 2014 VS. MAY 2013)



Source: National Bureau Of Statistics, UAE

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

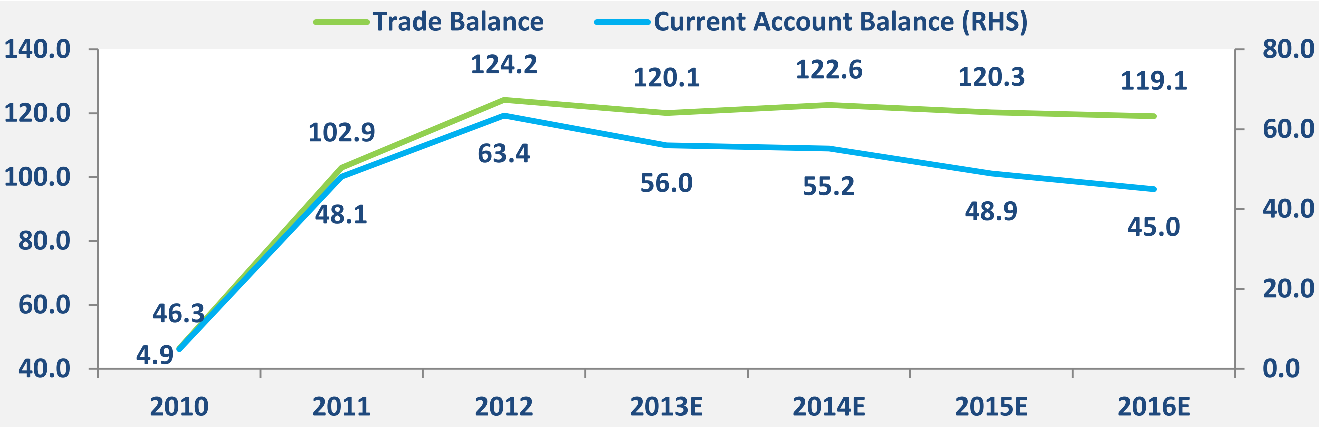
Non-oil exports are projected to increase 56%, from USD 96.3 Bn in 2012 to USD 150.5 Bn in 2016, on the back of healthy demand from Asia, UAE's main destination for goods trade.

Easing of western sanctions on Iran will help UAE re-exports, while a strong domestic demand will see imports rise by ~10% each year from 2014 to 2016.

Decline in oil exports might be arrested as oil prices recover.

Overall, current account will remain healthy and in surplus (>10% of the GDP).

TRADE & CURRENT ACCOUNT BALANCE (USD Bn)



Source: UAE Central Bank, IMF

	2010	2011	2012	2013E	2014E	2015E	2016E
Trade Balance (USD Bn)	**46.3**	**102.9**	**124.2**	**120.1**	**122.6**	**120.3**	**119.1**
Oil & Gas Exports	74.7	111.6	118.1	115.5	116.0	112.8	110.6
Non-Oil Exports	51.0	70.9	96.3	108.9	120.3	134.2	150.5
Re-Exports	86.2	116.7	132.6	142.5	156.3	172.6	191.6
Imports	165.6	196.3	222.8	246.8	270.0	299.3	333.6
Net Services, Income, Transfers (USD Bn)	**41.4**	**54.8**	**60.8**	**64.1**	**67.4**	**71.4**	**74.1**
Current Account Balance (USD Bn)	**4.9**	**48.1**	**63.4**	**56.0**	**55.2**	**48.9**	**45.0**

Source: UAE Central Bank, IMF

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

FDI inflows have recovered from their decline following the 2008 crisis, and reached USD 10.5 Bn in 2013, the highest among GCC nations.

The recovery is indicative of investor confidence in UAE's sustained non-oil growth (especially in the real estate and tourism markets), a growing SME base, and low levels of bureaucracy.

Dubai won the Expo 2020 bid in November 2013, and this is likely to drive-up FDI levels further in 2014 and the coming years.

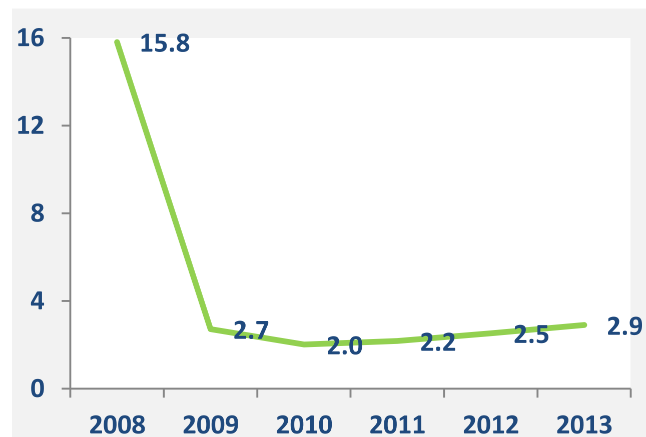
FOREIGN RESERVES (USD Bn)

Source: EIU

FDI INFLOW (USD Bn)

Source: UNCTAD 2014 World Investment Report

FDI OUTFLOW (USD Bn)



Source: UNCTAD 2014 World Investment Report

UAE: Money supply and lending have grown due to low interest rate & economic recovery

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

As a result, money supply has risen from USD 280 Bn in Q2 2012 to USD 348 Bn in Q1 2014, while private sector lending went up from USD 227 Bn in Q2 2012 to USD 243 Bn at the end of Q1-2014.

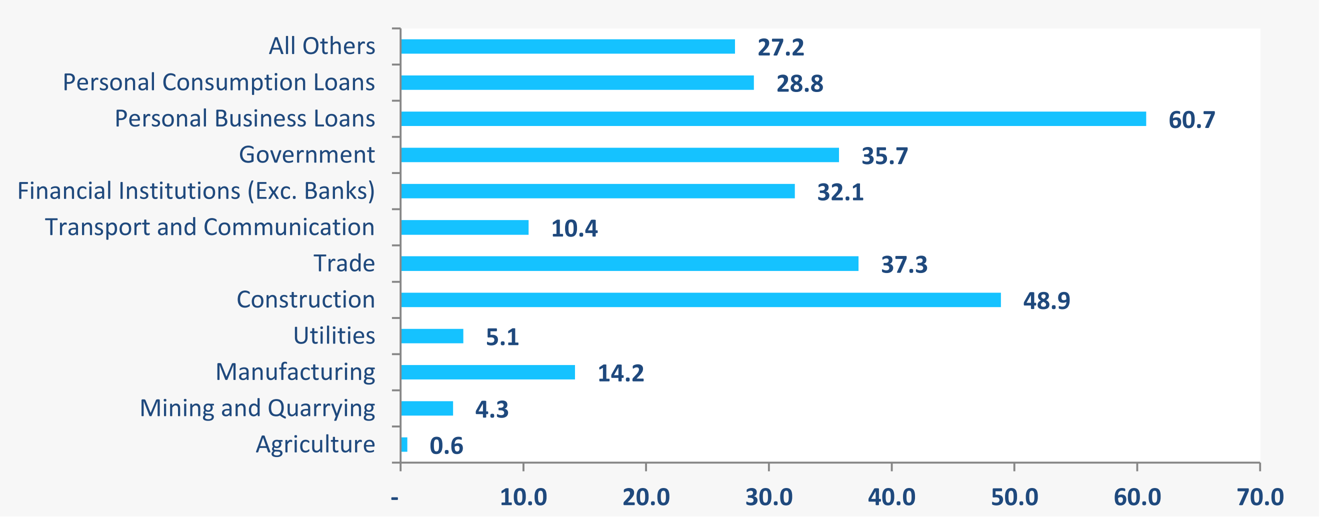
Construction lending went up from USD 35.3 Bn in 2012 to USD 49.3 Bn in 2013, a y-o-y rise of 40%. However, the Central Bank has introduced caps to avoid overheating, including capping home loans to 60-80%, while capping lending for pre-construction properties at 50%.

MONEY SUPPLY & PRIVATE SECTOR LENDING (USD Bn)

	Q2-12	Q3-12	Q4-12	Q1-13	Q2-13	Q3-13	Q4-13	Q1-14
Gross Money Supply	280	290.7	294.8	314.3	321.9	326.5	332.1	348.6
M1	77.4	78.9	81.4	89.1	94.4	96.5	103.3	112.2
Quasi Deposits	147.8	151.3	153.3	160	158.7	163.5	184.3	194.0
Govt. Deposits	54.8	60.6	60.1	65.2	68.8	66.6	44.4	42.5
Private Sector Lending	226.6	225.3	226.6	232	234.3	238	236.2	242.8

Source: UAE Central Bank

PRIVATE SECTOR LENDING (Q1-2014, USD Bn)



Source: UAE Central Bank

UAE: DFM has started to ease after a bull run in 2013, as overheating concerns resurface

Buoyed by the recovery of Dubai's real estate market, DFM went up by 108% in 2013.

However, the index came down the most in the past 10 months on June 24, as issues at Arabtec Holding Co., the UAE's' largest-listed builder, triggered a selloff in the market.

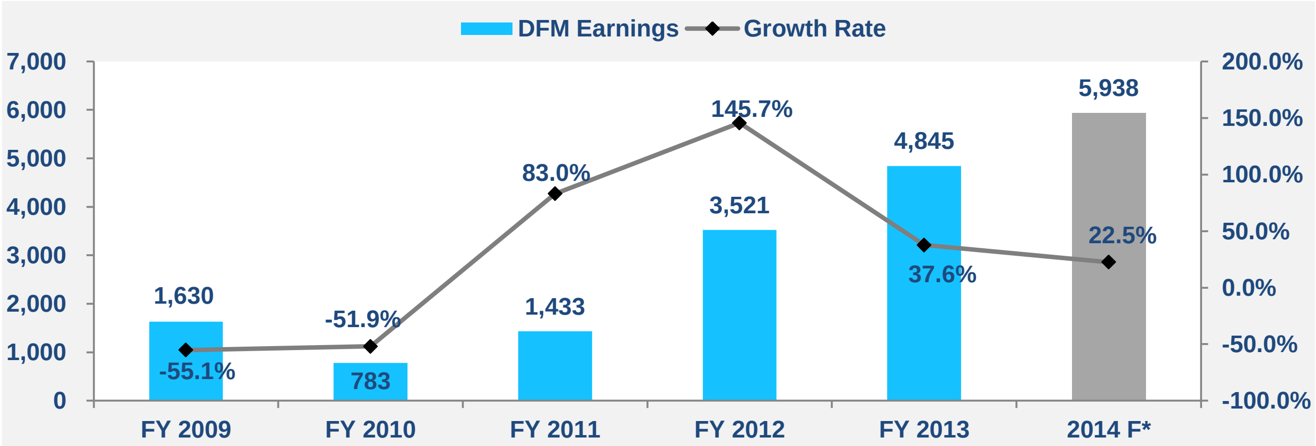
Overall earnings went up by 38% y/y in 2013, led by the real estate sector where earnings went up >80%, followed by the banking sector which recorded a 30% rise in earnings.

DUBAI FINANCIAL MARKET INDEX (DFM)

	2009	2010	2011	2012	2013	1H-2014 30-Jun-14
Index Value	1,803.6	1,630.5	1,353.4	1,622.5	3,369.8	3,942.8
Y/Y Change	10.2%	-9.6%	-17.0%	19.9%	107.7%	17.0%
Market Cap (USD Bn)	56.7	52.4	47.3	47.6	72.7	82.1
Value Traded (USD Bn)	47.2	19.0	8.7	13.2	43.5	64.5

Source: KAMCO Research

DUBAI – CORPORATE EARNINGS (USD Mn, % GROWTH)



2014 forecast is based on Bloomberg consensus

KAMCO كامكو

UAE: DFM – Historical Performance

DUBAI FINANCIAL MARKET (DFM)

1H 2014

DFM General Index Performance

1H-14 Return	**17.00%**
1H-14 Volatility	**32.11%**

1H-14 trading Indicators

Volume ***(Mln Shares)***	**100,316**
Value ***(Mln USD)***	**64,540**
Deals ***('000)***	**1,382**

FY 2013

DFM General Index Performance

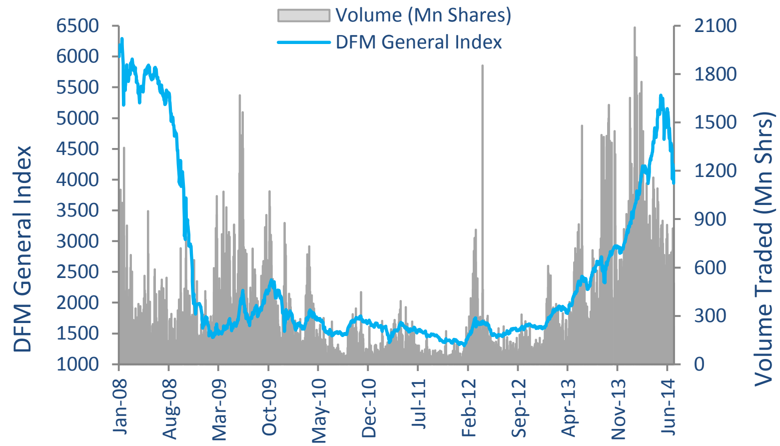
Yearly Return	**107.69%**
Yearly Volatility	**21.69%**

Yearly trading Indicators

Volume ***(Mln Shares)***	**127,180**
Value ***(Mln USD)***	**43,488**
Deals ***('000)***	**1,338**

1H-2014 indicates data as of 30-June-2014

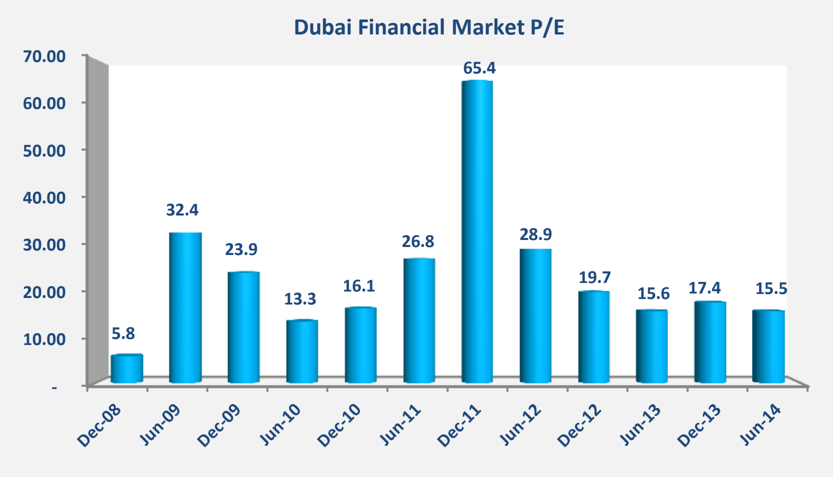
DFM General Index Relative to Volume Since 2008

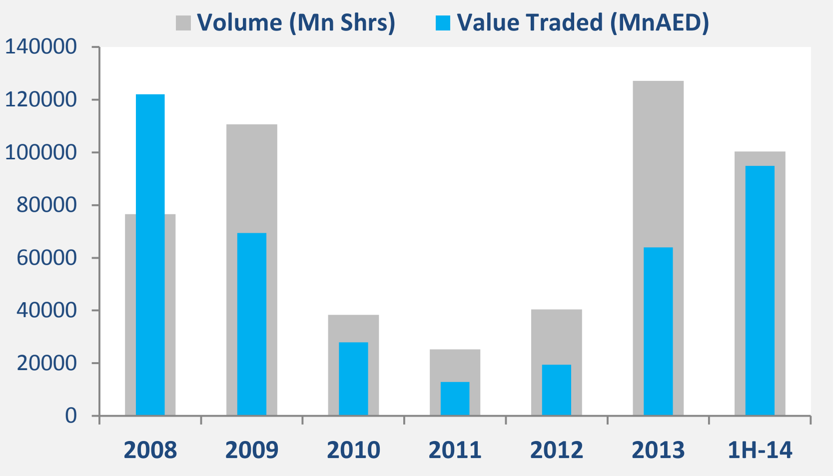


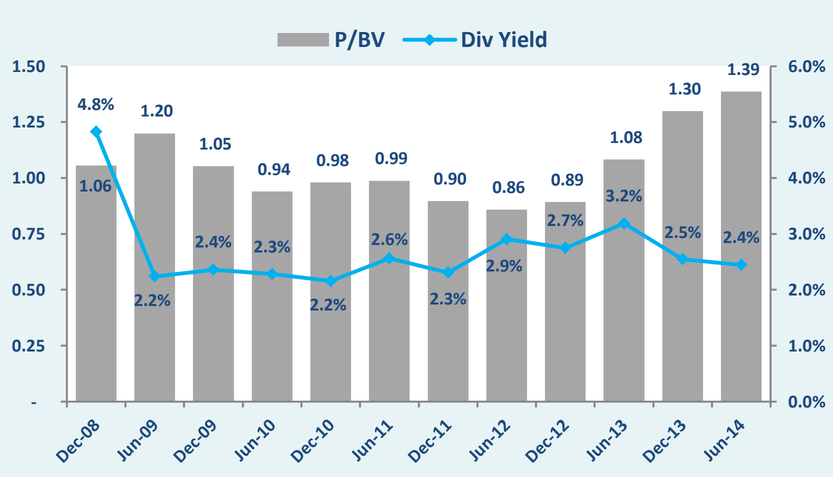
DFM has been the best performing market in the world since 2013 with gains of 107.7% in 2013 followed by another 51.4% till the first week of June 2014. The market saw heavy correction led by concerns over Arabtec resulting in significant decline in 1H-14 performance of 17% by the end of the first half of 2014. Nevertheless, the MSCI upgrade and the rights to host the World Expo in 2020 has resulted in higher liquidity. In addition, economic indicators for the wider UAE region also improved powered by government spending on infrastructure and a rebound in trade and tourism. This has also encouraged banks to resume lending after cutting back sharply in the wake of the previous crash.

UAE: DFM - Valuation Multiples & Trading Indicators

DFM - VALUATION MULTIPLES & TRADING INDICATORS







Source: KAMCO Research

Valuation Multiples & Trading Indicators

Dubai remained the fastest growing equity market in the region with full year value traded second only to Tadawul. However, the market trades at a cheaper P/E of 15.51x as compared to KSE and Tadawul. The transformation of Dubai from a regional market to a global trade hub helped to create robust investor sentiments as well as attracted international investments. Market liquidity also got a boost with the upgrade from MSCI that led to additional flow of passive funds tracking the Emerging markets.

UAE: Corporate earnings in Abu Dhabi remained at USD 9 Bn in 2013

In-line with the rise in DFM, ADX went up by 63% in 2013.

Corporate earnings in Abu Dhabi were up to USD 9 Bn in 2013, after having fallen to USD 4.1 Bn during the financial crisis.

Financial services, insurance and banking firms led the earnings, as large banks and insurance firms experienced robust growth in income.

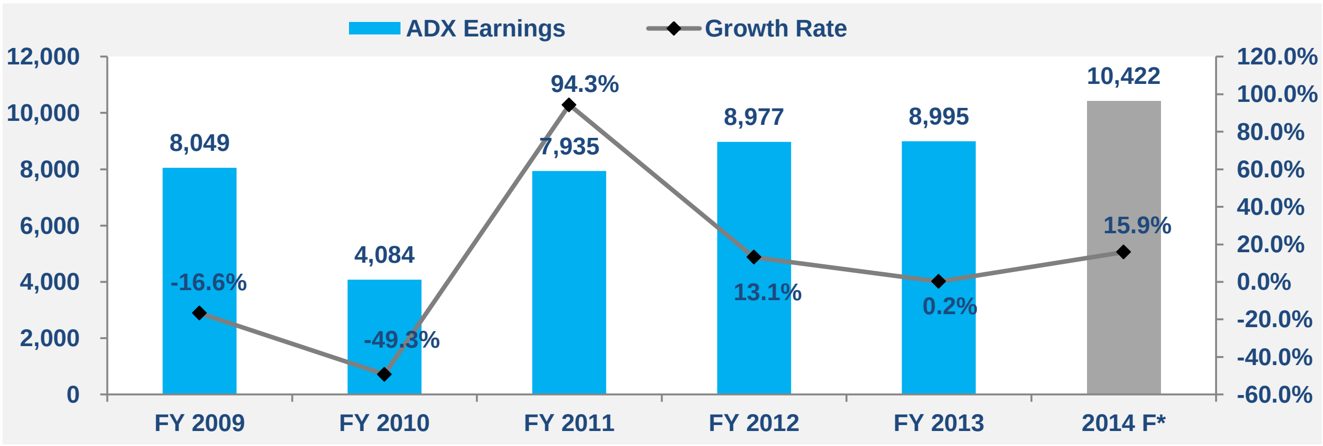
Real estate recovery is a theme in Abu Dhabi as well, with the real estate sector witnessing a 22.5% jump in corporate earnings in 2013.

ABU DHABI SECURITIES EXCHANGE (ADX)

	2009	2010	2011	2012	2013	1H-2014 30-Jun-14
Index Value	2,743.6	2,719.9	2,402.3	2,630.9	4,290.3	4,551.0
Y/Y Change	14.8%	-0.9%	-11.7%	9.5%	63.1%	6.1%
Market Cap (USD Bn)	81.4	78.4	70.7	79.0	122.3	128.3
Value Traded (USD Bn)	19.1	9.1	6.7	6.0	23.0	28.7

Source: KAMCO Research

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



2014 forecast is based on Bloomberg consensus

UAE: ADX – Historical Performance

ABU DHABI SECURITIES EXCHANGE (ADX)

1H 2014

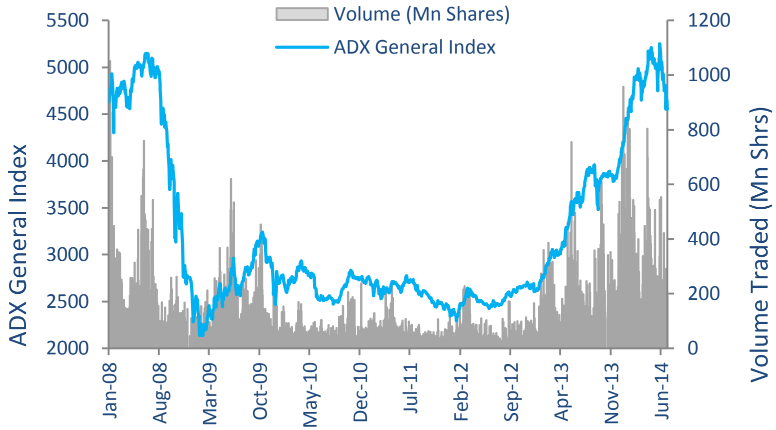
Abu Dhabi Index Performance

1H-14 Return	**6.08%**
1H-14 Volatility	**19.24%**

1H-14 trading Indicators

Volume ***(Mln Shares)***	**40,670**
Value ***(Mln USD)***	**28,678**
Deals ***('000)***	**549**

Abu Dhabi Index Relative to Volume Since 2008



FY 2013

Abu Dhabi Index Performance

Yearly Return	**63.08%**
Yearly Volatility	**13.55%**

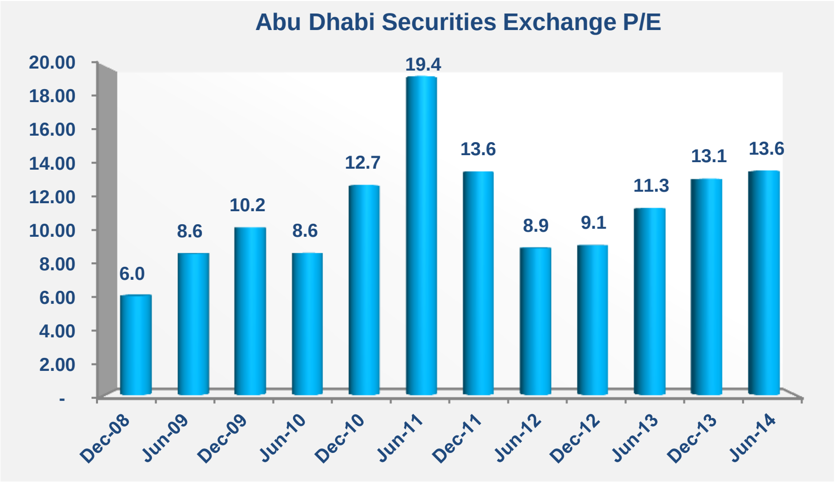
Yearly trading Indicators

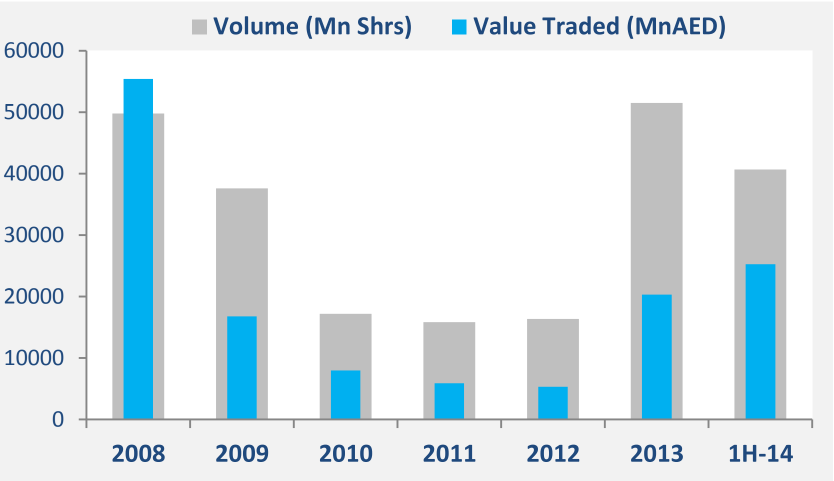
Volume ***(Mln Shares)***	**51,492**
Value ***(Mln USD)***	**23,010**
Deals ***('000)***	**556**

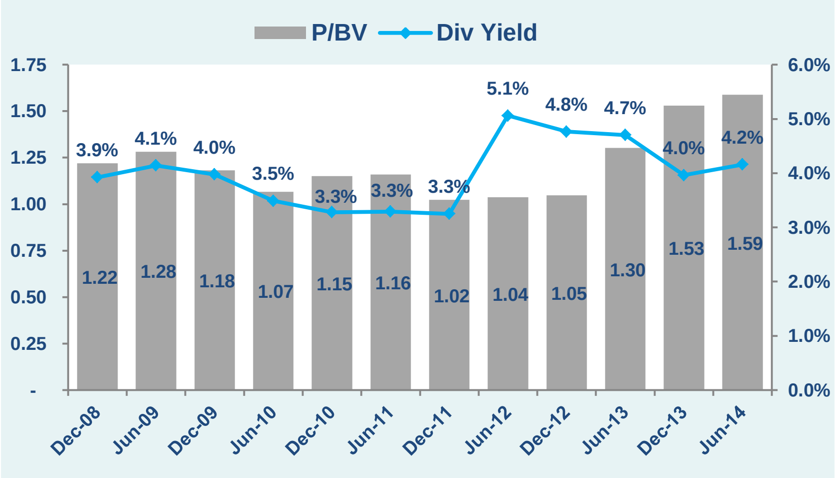
During 2013, ADX saw second highest returns of 63.1% in the GCC on the back of several positive developments in the market. The economy remained resilient to regional issues and marched ahead with significant regulatory developments in order to keep a check on key growth sectors that included the real estate, banking and financial services sectors. The exchange also benefited from the MSCI upgrade which led to higher flow of foreign capital. The effect of the upgrade was felt more in 2014 when four stocks from ADX were included in the MSCI Emerging Markets index.

UAE: ADX - Valuation Multiples & Trading Indicators

ADX- VALUATION MULTIPLES & TRADING INDICATORS







Source: KAMCO Research

Valuation Multiples & Trading Indicators

As a contrast to Dubai, Abu Dhabi trades at a much cheaper P/E multiple of 13.63x as of June 2014. This is despite reporting healthy growth in market capitalization during 2013 as well as in 2014. However, in terms of P/BV which stood at 1.59x, ADX trades at a premium as compared to Dubai. ADX also saw significant improvement in volumes during 2013 that more than doubled as compared to 2012. This higher liquidity that continued in 2014 came primarily on the back of the MSCI upgrade announcement.

UAE ECONOMIC OUTLOOK

Robust non-oil growth and a recovering real estate market will sustain growth momentum

A buoyant non-oil sector will lead to 4.4% GDP growth in 2014. A well diversified economy has helped UAE outpace the growth of most of its GCC peers in the past few years, and 2014 will be no different. Non-oil sector grew by 5.4% in 2013, and is expected to expand faster in 2014, led by rising growth in the real estate, construction, and tourism sectors. As a result, despite an expected flattening in oil production, UAE's overall economy is expected to grow by 4.4% in 2014, &4.2% in 2015.

Expo 2020 will further boost economic diversification and infrastructure development efforts. Economic diversification, especially in Dubai, will be boosted as UAE steps up investment in social and physical infrastructure in the run to Expo 2020. real estate and construction sectors will the biggest beneficiaries of the multi-Bn dollar specialty projects being launched, while trade activity is expected to triple between 2013 and 2020, from Dh 1.39 trillion to Dh 4 trillion.

Growth in the real estate and construction sectors will persist, but so will concerns around overheating. Real estate and construction sectors have recovered from the 2008 crisis, and are leading the non-oil growth. Their growth will be stimulated by projects worth USD 313 bn that are currently under construction across the infrastructure, residential and non-residential sectors. Real estate recovery also led the surge in equity markets (DFM & ADX) in 2013; however, June 2014 has marked the easing of equity markets as investors concerns around overheating of the real estate market are back.

Increasing money supply and rising private sector credit will intensify inflationary pressures, and may prompt further policy tightening measures by the central bank. With the central bank maintaining its 1% interest rate, money supply will continue to rise. However, real estate recovery is being accompanied by rising housing prices, which have pushed inflation to 2.1% in May 2014, up from 0.9% an year ago. With economic recovery strengthening, housing prices are likely to create upward inflationary pressure, and overall inflation might touch 2.5% in 2014. This, coupled with increasing private sector lending (especially to the construction sector), might prompt the central bank to tighten the currently accommodative monetary policy, including introducing more home loan caps in-line with the ones already introduced.

A vibrant non-oil sector will continue attracting FDI inflows. Thanks to its lower dependence on oil revenues, UAE has managed to buck the trend of declining FDI inflows to GCC. Increased infrastructure investment, growing tourism, and Expo 2020 is likely to boost foreign investor confidence further, and help FDI inflows rise above USD 10.5 bn level achieved in 2013.

SECTION 7| Qatar

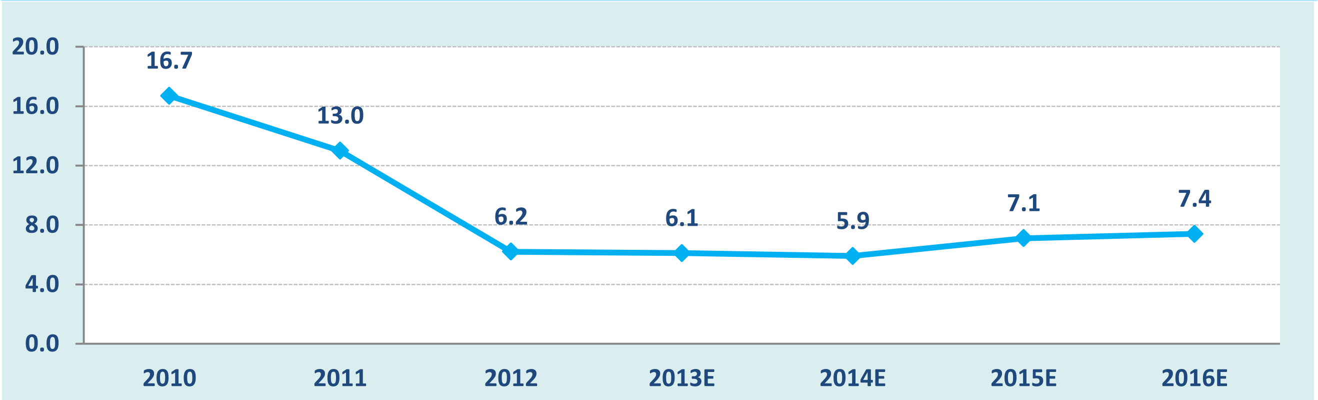
QATAR: GDP growth to flatten as hydrocarbon production plateaus

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

However, growth came down to 6.2% in 2012 and 6.1% in 2013, as the moratorium on further development in the North Field led to plateaued gas production levels and revenues, while oil exports slowed down due to weak global demand and rising non-OPEC production.

With the moratorium expected to be in place till 2015, GDP growth will remain in the 6-7% range in 2014-15.

QATAR REAL GDP GROWTH (%)



Source: IMF

	2010	2011	2012	2013	2014E	2015E
Nominal GDP (USD Bn)	**125.1**	**171.5**	**192.4**	**202.6**	**213.8**	**225.2**
Real GDP Growth (%)	**16.7**	**13.0**	**6.2**	**6.1**	**5.9**	**7.1**
Hydrocarbon Sector	28.8	15.7	1.7	1.2	-1.1	0.9
Non-Hydrocarbon Sector	8.6	10.8	10.0	9.9	9.4	11.0
Contribution to GDP (%)						
Hydrocarbon Sector	0.5	0.6	0.6	-	-	-
Non-Hydrocarbon Sector	0.5	0.4	0.4	-	-	-
Oil Production (mn b/d)	**0.8**	**0.7**	**0.7**	**0.7**	**0.7**	**0.7**
Gas Production (bcf)	**2.7**	**3.3**	**3.5**	**3.6**	**3.6**	**3.7**

Source: IMF, EIU, EIA, National Statistical Organisations

QATAR: Infrastructure development is picking up, leading to elevated CAPEX and imports in the build-up to World Cup 2022

Qatar plans to spend more than USD 200 Bn on infrastructure development over the next decade for development of a new airport, a new seaport and a rail and metro system, among others.

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

Imports and consumption levels will remain robust as consumer sentiment remains positive, and will help diversify the economy.

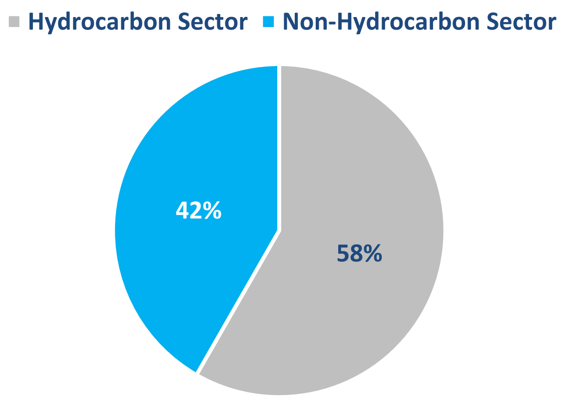
GDP GROWTH BY EXPENDITURE TYPE (%)

	2010	2011	2012	2013E	2014E	2015E	2016E	2017E
Private Consumption	11.9	6.2	7.6	7.4	7.4	7.3	7.2	7.1
Public Consumption	12.3	10.1	4.0	3.0	8.6	6.6	6.4	6.4
Gross Capital Formation	0.2	14.0	10.0	9.0	9.2	9.4	9.0	8.5
Exports	27.3	24.0	3.0	2.5	4.0	4.0	4.0	4.0
Imports	1.7	29.3	9.0	6.0	5.0	8.0	8.0	7.9

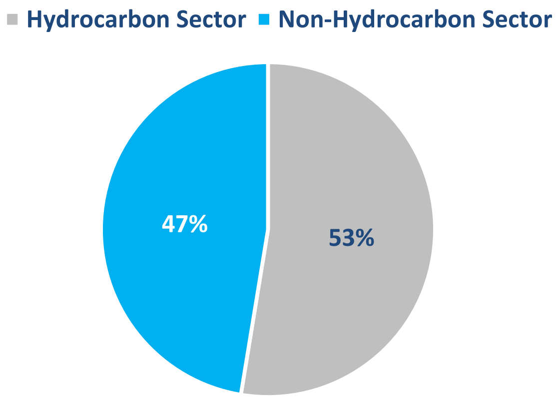
Source: IMF, Qatar Statistical Agency

CHANGE IN GDP COMPOSITION

2005



2010



Source: Qatar Government Online

QATAR: Construction, Trade & Services sectors are boosting non-hydrocarbon growth

Non-hydrocarbon sectors continue to grow at a fast pace, led by the construction sector, which recorded 13.6% growth in 2013.

Increasing infrastructure development (metro, seaport, airport development) resulted in ~10% growth in the transport and communications sectors, while rising consumption levels led to 12.8% growth in the trade sector in 2013.

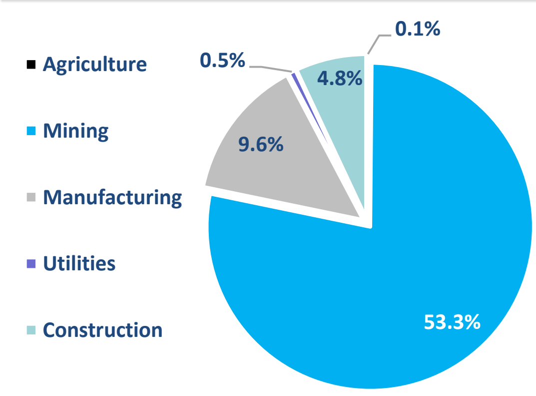
Services sectors are enjoying the benefits of economic diversification, with government- and financial- services growing by 15.1% and 14.3%, respectively.

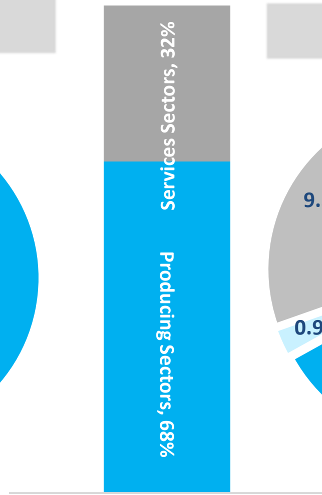
GDP GROWTH IN KEY SECTORS (%)

		2012	2013
Producing Sectors	Agriculture and Fishing	8.6	8.4
	Mining and Quarrying	6.1	2.2
	Manufacturing	23.8	2.6
	Electricity and Water	43.9	12.5
	Construction	10.1	15.1
Services Sectors	Trade, Restaurants & Hotels	9.8	16.4
	Transport and Communications	11.8	10.2
	Finance	14.0	18.2
	Social Services	15.2	10.5
	Government Services	29.9	16.2
	Domestic Services	15.4	17.2

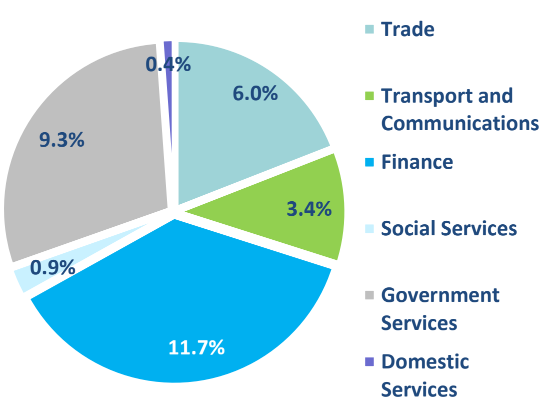
CONTRIBUTION TO 2013 GDP (%)

PRODUCING SECTORS





SERVICES SECTORS



Source: Qatar Statistical Agency

QATAR: Unemployment is low. Expat workforce rising with infrastructure investment.

Economically active population (~1.5 Mn) constitutes about 71% of the Qatar's total population of 2.1 Mn.

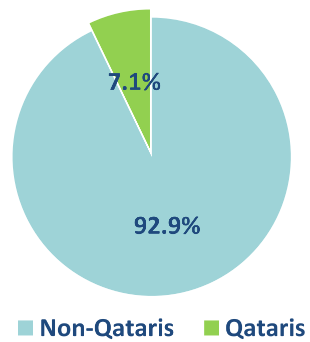
Execution of large-scale infrastructure projects is driving growth of the expat population, especially in the labor intensive construction sector.

Sustained growth in various services sectors is also leading to an influx of expats in trade, tourism, and financial services sectors, among others.

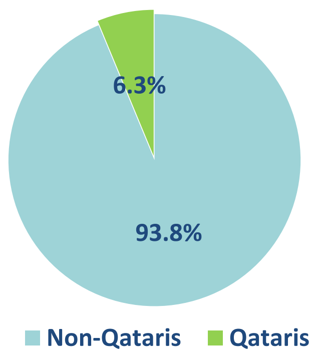
Unemployment in Qatar (0.5% in 2012) is much lower than its GCC peers; however, private sector is dominated by expats here as well.

ECONOMICALLY ACTIVE POPULATION (%)

2012



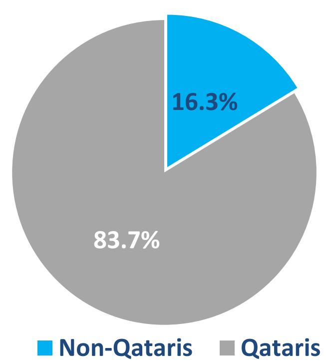
2013



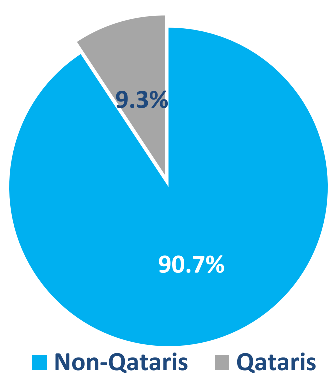
Source: Qatar Statistical Agency

COMPOSITION OF LABOR FORCE (%)

GOVERNMENT SECTOR



PRIVATE SECTOR



Source: Qatar Statistical Agency

QATAR: Rising housing and fuel prices are creating upward inflationary pressure

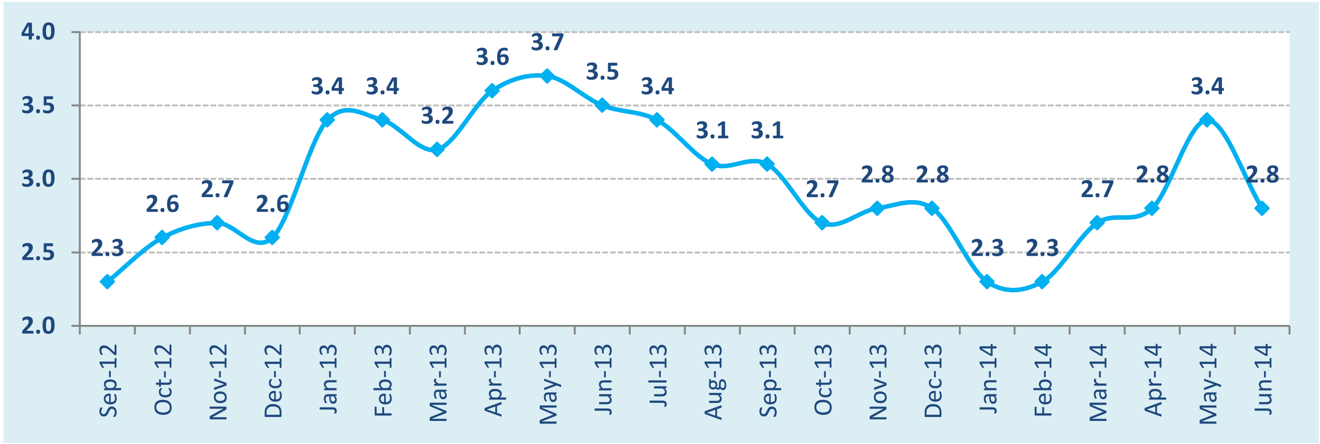
Qatar inflation reached 2.8% in June 2014, as compared to 3.4% in May 2014.

High inflation rates is being fueled by rising housing rental, fuel and energy prices, which constitute nearly a third of the CPI index, and were up by 7.4% in June. The upward inflationary pressure will sustain as the expected influx of expats in the infrastructure sector will keep housing rentals elevated.

Transport and communications prices, which constitute 20.5% of the index, were also up 1.4%.

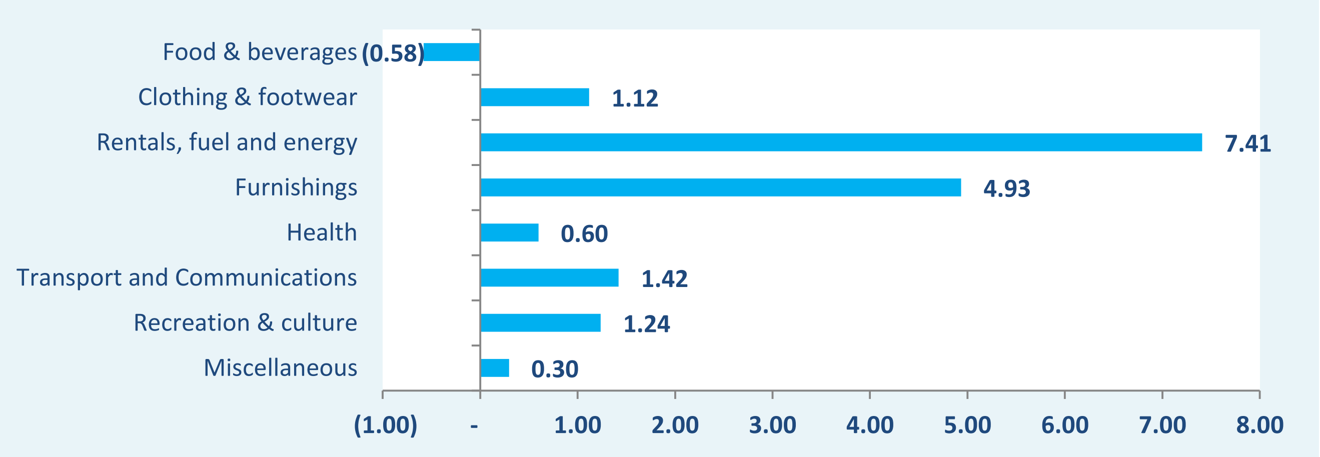
Overall inflation is expected to end between 3.5-4% in 2014.

ANNUAL INFLATION (%)



Source: Qatar Statistical Agency

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



Source: Qatar Statistical Agency

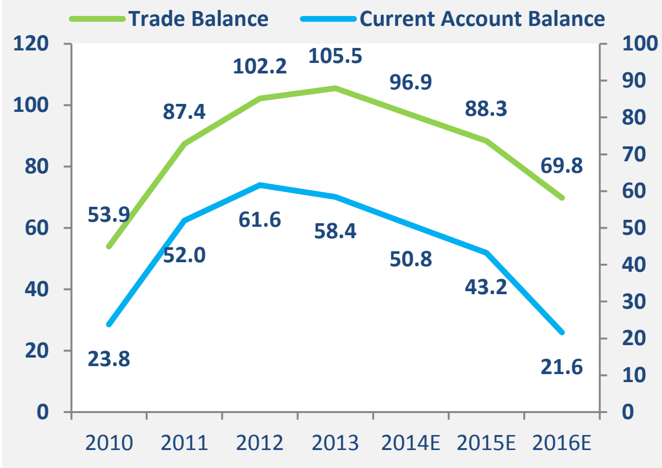
QATAR: Fiscal surplus will be narrowed as infrastructure investment rises

Trade balance went up by 3% in 2013, but will decline in the coming years as gas exports plateau and oil exports remain vulnerable to volatility in crude oil prices.

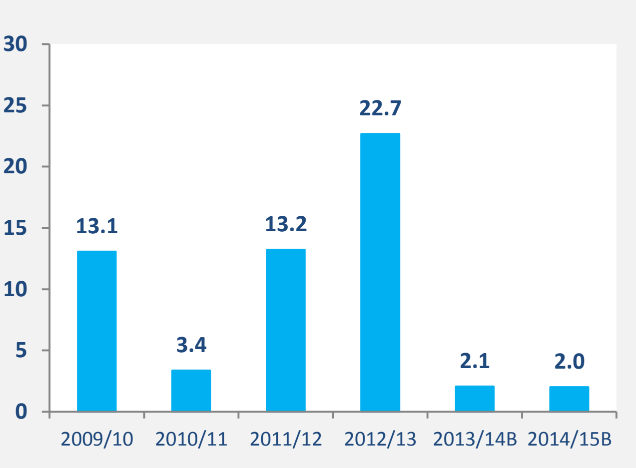
Fiscal surplus increased to USD 22.7 Bn in 2013, as growth in oil and gas revenues compensated for the 18% rise in current expenditure.

However, the 2014-15 budget pegs the current expenditure at USD 60 Bn, and with massive (>USD 200 Bn) infrastructure investments planned in the run-up to World Cup 2022, fiscal surplus is likely to narrow in the next two years.

Trade & current account Balance (USD Bn)



FISCAL BALANCE (USD Bn)



	2010	2011	2012	2013	2014E	2015E	2016E
Trade Balance (USD Bn)	**53.9**	**87.4**	**102.2**	**105.5**	**96.9**	**88.3**	**69.8**
Current Account Balance (USD Bn)	**23.8**	**52**	**61.6**	**58.4**	**50.8**	**43.2**	**21.6**

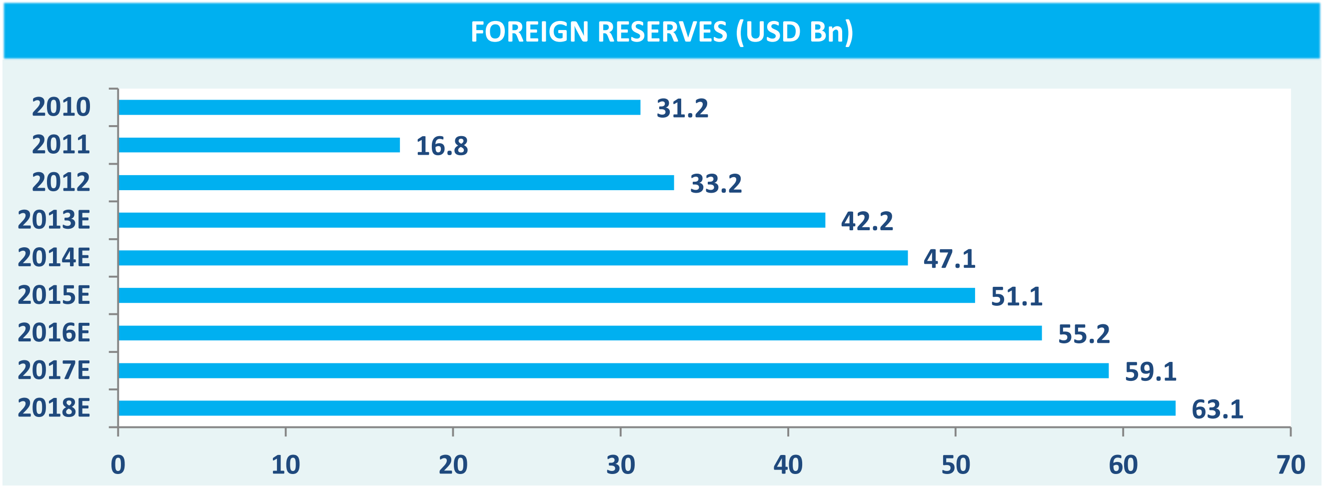
	2009/10	2010/11	2011/12	2012/13	2013/14B	2014/15B
Oil and Gas Revenue (USD Bn)	22.7	26.6	42.6	47.6	59.9	62.0
Investment Revenue (USD Bn)	14.8	9.9	7.1	11.5	-	-
Others Revenue (USD Bn)	8.9	6.3	11.4	17.7	-	-
Current Expenditure (USD Bn)	22.6	27.3	34.0	40.2	57.8	60.0
Development Expenditure (USD Bn)	10.8	12.1	13.9	14.0		
Fiscal Balance (USD Bn)	**13.1**	**3.4**	**13.2**	**22.7**	**2.1**	**2.0**

Source: IMF, Qatar Central Bank

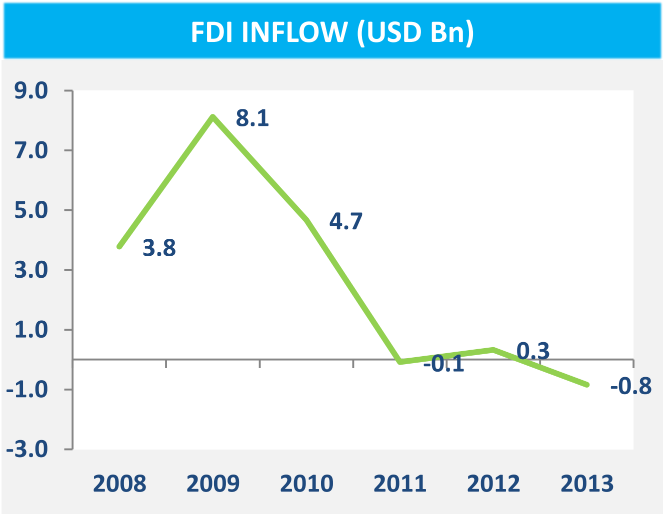
QATAR: FDI outflows quadrupled in 2013 as surplus was used for foreign investments

FDI outflows quadrupled from USD 1.8 Bn in 2012 to USD 8 Bn in 2013, as the govt. used its current account surplus for foreign investment.

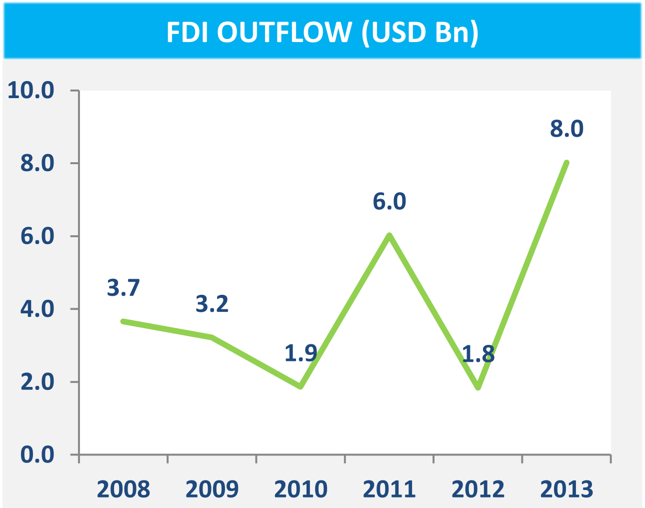
Outflows were led by USD1.97 Bn deal in which the Qatar National Bank acquired a 77% stake in Cairo-based National Société Générale Bank from Soc Gén (France).



Source: EIU



Source: UNCTAD 2014 World Investment Report



Source: UNCTAD 2014 World Investment Report

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

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

As a result, total money supply stood at USD 233 Bn at the end of Q1 2014, up 16% from Q1 2013 and 62% from USD 143 Bn in Q1 2012.

Private sector lending grew by 11.1% y/y and reached USD 82.7 Bn in Q1 2014, after having grown by an impressive 13.5% in 2013.

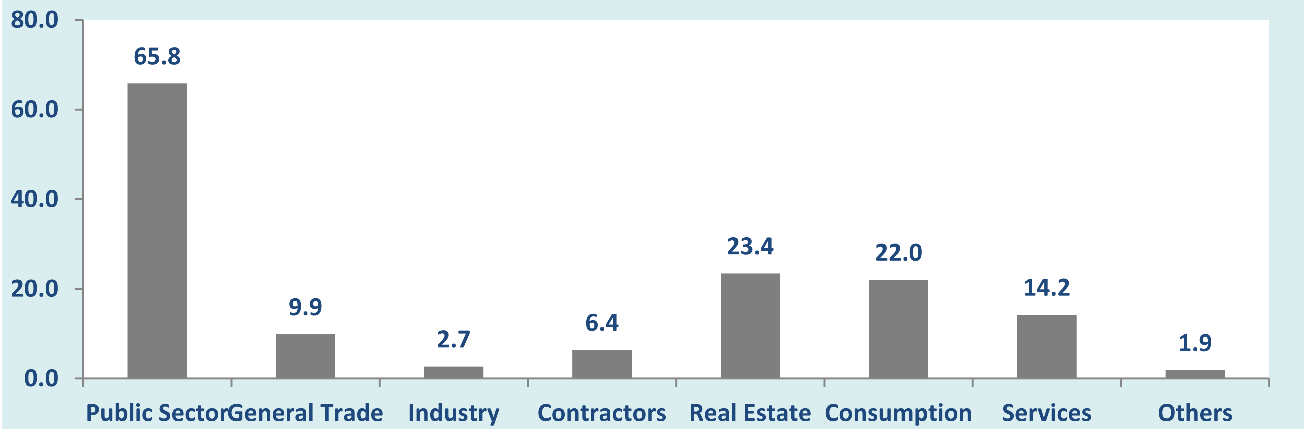
Infrastructure investments have led to increased lending to the public sector, which received USD 65.8 Bn in loans in 2013, up from USD 59.9 Bn a year ago.

MONEY SUPPLY & PRIVATE SECTOR LENDING (USD Bn)

	Q1-12	Q2-12	Q3-12	Q4-12	Q1-13	Q2-13	Q3-13	Q4-13	Q1-14
Gross Money Supply	**143.0**	**158.4**	**181.0**	**184.2**	**201.7**	**223.0**	**217.3**	**221.1**	**233.0**
M1	23.6	24.5	24.7	25.0	27.3	30.4	30.3	29.1	32.3
Time Deposits	45.6	50.2	49.1	49.6	50.2	53.3	52.3	57.2	59.0
Deposits in Foreign Currencies	14.1	16.8	29.0	30.0	37.0	43.0	41.2	38.9	41.4
Quasi Money	59.7	67.0	78.1	79.6	87.2	96.3	93.5	96.0	100.3
Private Sector Lending	**63.7**	**65.6**	**67.2**	**70.9**	**74.4**	**74.5**	**78.0**	**80.5**	**82.7**

Source: Qatar Central Bank

PRIVATE SECTOR LENDING BY INDUSTRY (2013, USD Bn)



Source: Qatar Central Bank

QATAR: Equity market is easing as excitement around MSCI upgrade diminishes amid corruption charges related to World Cup 2022 bid

The QE had been surging since mid-2012, and reached an all-time high of 13,696 at the start of June 2014, as Qatar's upgrade from 'frontier' to 'emerging' economy by MSCI raised hopes of elevated stock market inflows.

However, the excitement has started to wane as issues relating to World Cup 2022 bid dampened the investors interest.

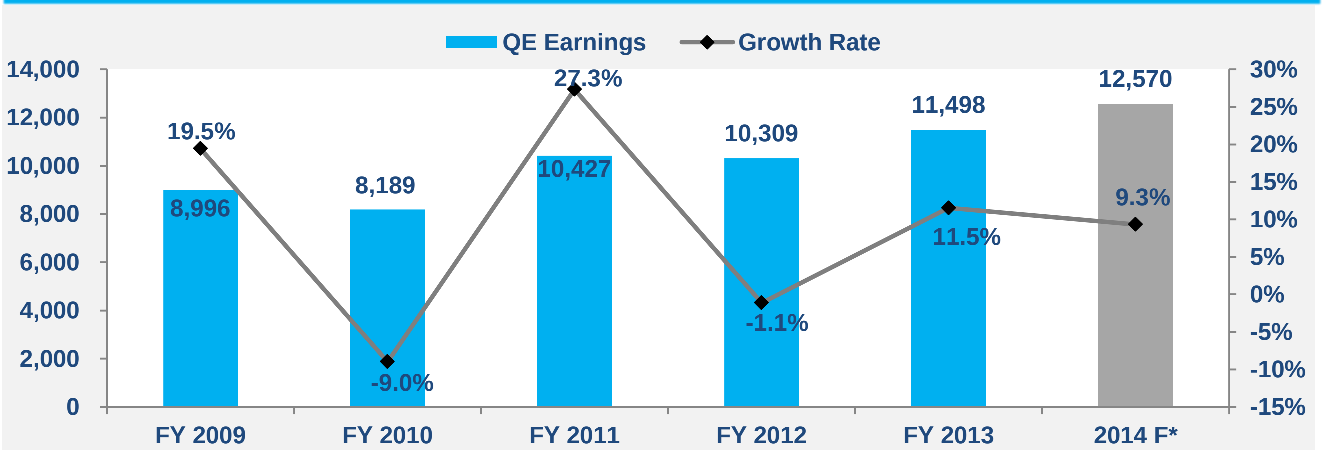
Corporate earnings went up 11.5% y/y in 2013, led by a 6.6% rise in earnings of the heavyweight banking and financial services sector.

Qatar Exchange Index (QE)

	2009	2010	2011	2012	2013	1H-2014 30-Jun-14
Index Value	6,959.2	8,681.7	8,779.0	8,358.9	10,379.6	11,488.9
Y/Y Change	1.06%	24.75%	1.12%	-4.79%	24.17%	10.69%
Market Cap (USD Bn)	87.9	123.6	125.6	126.3	152.6	173.7
Value Traded (USD Bn)	25.2	18.5	22.9	19.2	20.6	29.8

Source: KAMCO Research and Qatar Exchange

Qatar – Corporate Earnings (USD Mn, % Growth)



2014 forecast is based on Bloomberg consensus

QATAR: QE– Historical Performance

QATAR EXCHANGE (QE)

1H 2014

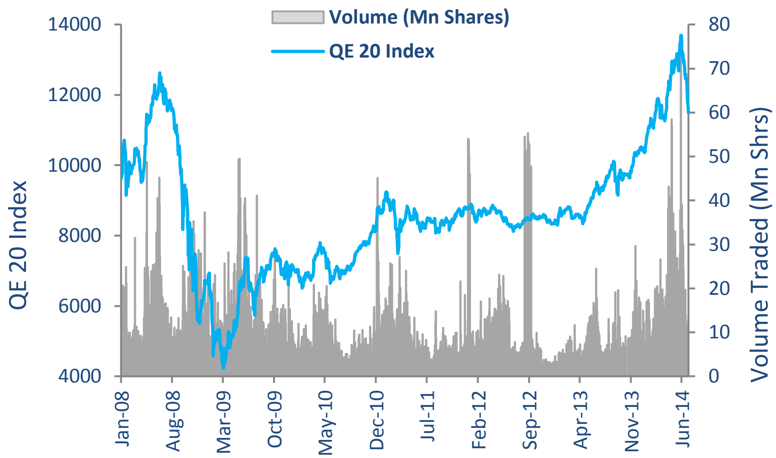
QE 20 Index Performance

1H-14 Return	10.69%
1H-14 Volatility	15.39%

1H-14 trading Indicators

Volume *(Mln Shares)*	2,539
Value *(Mln USD)*	29,779
Deals *('000)*	1,163

QE 20 INDEX RELATIVE TO VOLUME SINCE 2008



FY 2013

QE 20 Index Performance

Yearly Return	24.17%
Yearly Volatility	10.72%

Yearly trading Indicators

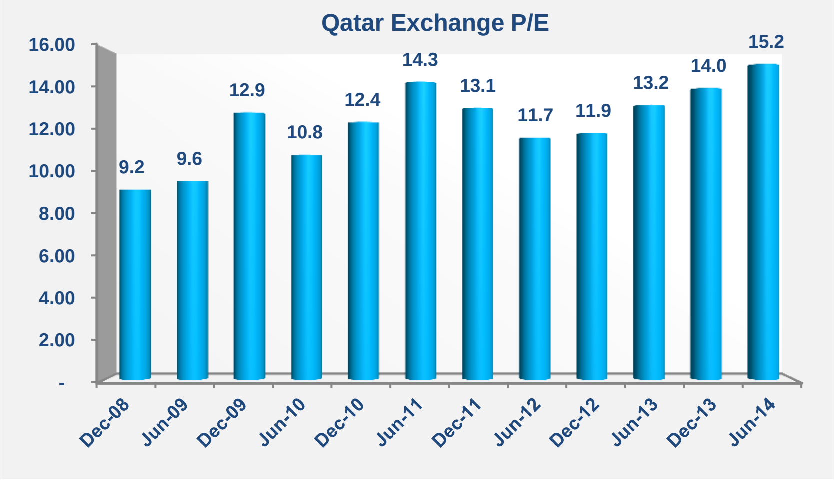
Volume *(Mln Shares)*	1,938
Value *(Mln USD)*	20,587
Deals *('000)*	962

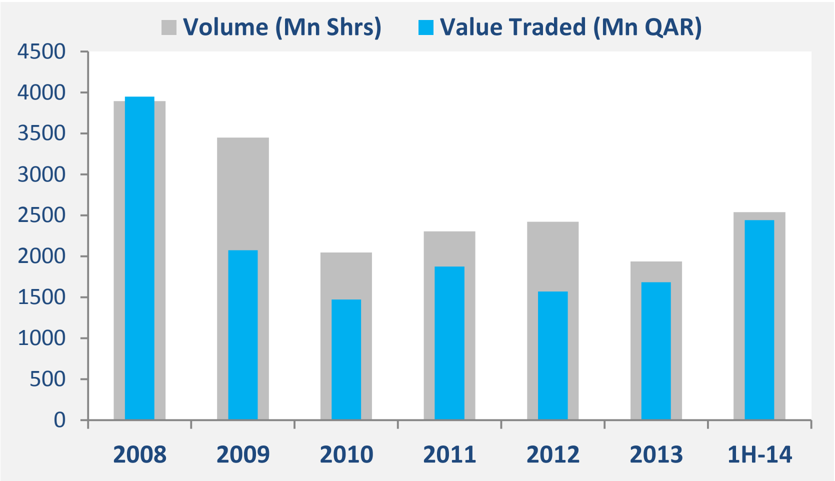
The historically high growth reported by the Qatari economy coupled with political stability as well as significant improvements in financial market regulations, infrastructure, and new investment products all culminated into Qatar being selected as the second GCC market for an upgrade to Emerging market status. The market got further boost after it won rights to host the Fifa World Cup in 2022. The additional flow of capital and positive local investor sentiments resulted into benchmark gains of 24.2% in 2013 and 10.69% in 2014.

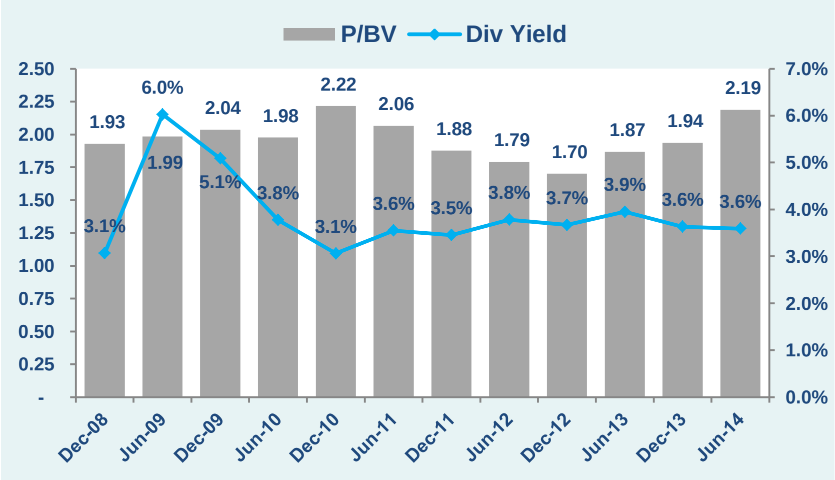
1H-2014 indicates data as of 30-June-2014

QATAR: QE- Valuation Multiples & Trading Indicators

QE- VALUATION MULTIPLES & TRADING INDICATORS







Valuation Multiples & Trading Indicators

The Qatari market has always traded at cheap P/E multiples as compared to the broader GCC market. However, after the MSCI upgrade, valuation multiples have been on an uptrend and currently stands at 15.20x.

The market also trades at a steep premium in terms of P/BV at 2.19x, which is the highest in the region. Moreover, the MSCI upgrade also affected volumes and liquidity, which have already surpassed previous year levels.

Source: KAMCO Research

QATAR ECONOMIC OUTLOOK

Increased infrastructure spending will drive non-hydrocarbon growth

Non-hydrocarbon sector will expand by 9.4% in 2014, resulting in overall GDP growth of 5.9%. The continuation of the moratorium on gas production in North Field might lead to contraction of the hydrocarbon economy; however, the planned USD 200 Bn spend on infrastructure development (new airport, seaport, metro, etc.) will see the non-hydrocarbon sector expand by 9.4% in 2014 and by 11% in 2015. High growth in the non-hydrocarbon sector will ensure that overall GDP growth remains in the ~6-7% range in 2014-15. Double digit GDP growth, seen prior to 2012, is unlikely to return unless Qatar decides to expand gas production in the North Field.

World Cup 2022 preparations will sustain non-hydrocarbon growth momentum and will increase economic diversification. Economic diversification will be boosted as Qatar is expected to spend USD 140 bn on infrastructure development over the next five years in the run-up to World Cup 2022. A diversifying and growing economy will result in robust 8% growth in imports in 2015 and 2016, while plateauing hydrocarbon production will lead to a meagre 4% growth in exports (much lower than the ~25% growth in 2010 & 2011).

Fiscal position will remain robust as surplus will maintained, albeit at a lower level as current expenditure rises. Trade balance (USD 105.5 bn) and fiscal surplus (USD 22.7 bn) expanded in 2013 as elevated oil prices compensated for the rising infrastructure spend. However, with planned current expenditure for 2014/15 at an all-time high of USD 60 bn, fiscal balance will be narrowed, but will still remain at healthy levels.

Expat population will rise further, especially in the construction sector, and will ensure that inflation remains in 3.5-4% range. Expat population has been rising as increasing economic activity is attracting expats, especially construction workers whose demand is going up as infrastructure development remains robust. Rising expat population will mean that housing demand and prices will continue to increase, and drive-up inflation, which is expected to be in the 3.5-4% range in 2014.

Growth in private sector lending will sustain the equity market momentum. QCB has maintained the 4.5% interest rate since 2011, which has resulted in 62% increase in money supply between Q1 2012 and Q1 2014, and a 30% increase in private sector lending in the same time period. Growth in lending, especially to the public sector implementing infrastructure projects, will continue is 2014 as well. Rising liquidity levels, a growing economy, and elevation to emerging market status by MSCI will continue to drive the growth in the equity market, which was up by 10.7% during the 1H-2014.

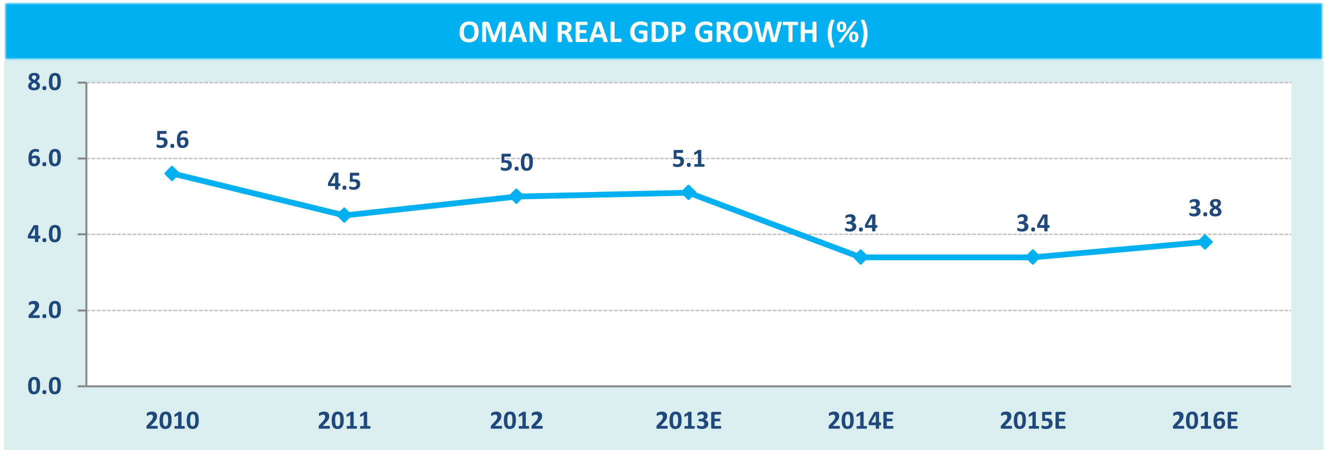
SECTION 8| Oman

OMAN: GDP growth to moderate with oil production

Oman's real GDP grew at 5.1% in 2013 and is projected to grow by 3.4% each in 2014 and 2015, respectively.

Overall economic growth remains coupled with oil sector growth, evident from the reduced GDP expansion as growth in oil production lowered from 6.1% in 2010 to 2.3% in 2013.

Most of Oman's easily recoverable reserves have been retrieved, and future growth in oil production will be driven by enhanced adoption of enhanced oil recovery (EOR) techniques, which will help Oman fully utilize its estimated reserves (>5bn barrels), and drive oil growth.



Source: IMF

	2010	2011	2012	2013	2014E
Nominal GDP (USD Bn)	**58.8**	**70.0**	**78.3**	**80.6**	**82.3**
Real GDP Growth (%)	**5.6**	**4.5**	**5**	**5.1**	**3.4**
Oil Sector	4.5	2.1	3.4	4.2	-0.7
Non-Oil Sector	6.2	5.8	5.8	5.5	5.4
Contribution to GDP (%)					
Oil Sector	45	49	49	-	-
Non-Oil Sector	55	51	51	-	-
Oil Production (mn b/d)	**0.86**	**0.88**	**0.92**	**0.95**	**0.94**

Source: IMF, EIU, EIA, National Statistical Organisations

KAMCO كامكو

OMAN: Infrastructure spend and imports rising, as growth in oil exports stagnate

Non-oil sector grew by 5.5% in 2013 and is expected to grow by 5.4% in 2014, in line with Oman's economic diversification plan (Vision 2020)

Non-oil contribution to the GDP will rise as Oman diversifies its economy, including its five year spending plan (2011-15) that includes allocation worth USD 78 bn for development of social & transport infrastructure.

USD 20 bn is earmarked for the transport sector, including the Oman National Railway.

A stable economy will lead to higher imports, and Oman's food imports are expected to rise from USD2.1 bn in 2010 to USD 4.8 bn in 2020.

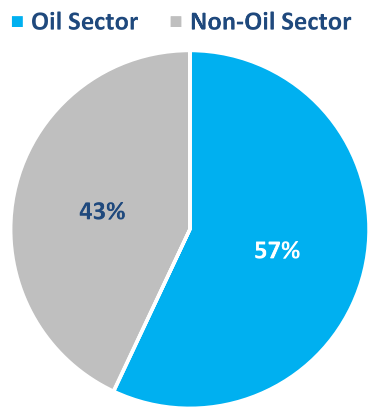
REAL GDP GROWTH BY TYPE OF EXPENDITURE (%)

	2010	2011	2012	2013E	2014E	2015E	2016E	2017E
Private Consumption	6.5	12.1	8.4	4.8	4.8	5.2	5.0	4.5
Public Consumption	13.6	15.2	21.3	3.4	4.2	4.0	4.0	3.8
Gross Capital Formation	-1.7	3.9	4.8	6.3	6.5	6.5	6.0	5.8
Exports	36.7	39.3	4.1	8.8	7.6	8.2	7.8	6.9
Imports	14.3	22.0	19.0	10.0	10.0	12.0	11.0	9.0

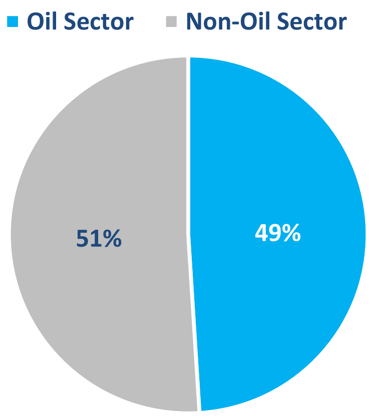
Source: IMF, Oman Statistical Organisation

CHANGE IN GDP COMPOSITION

2007



2012



Source: Oman Statistical Organisation

OMAN: Non-oil sectors growing fast as the economy continues to diversify

Increasing diversification is benefitting Oman's non-oil sectors. Construction sector grew by 8.6% in 2013, while the transport sector registered 7% growth in 2013, following its 9% growth in 2012.

Improved infrastructure is also lending growth momentum to services and tourism sectors, which grew by ~15% each in 2012.

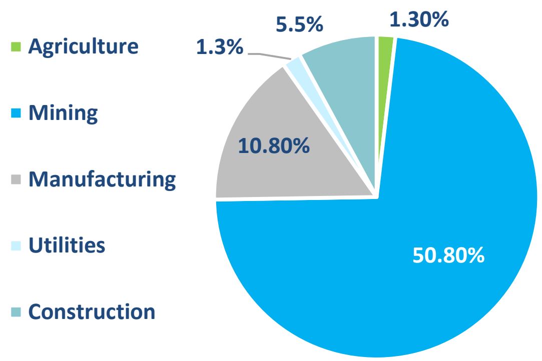
Overall, the planned social & transport infrastructure expenditure will ensure sustained growth in these non-oil sectors.

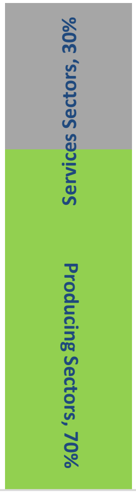
GDP GROWTH IN KEY SECTORS (%)

		2012	2013
Producing Sectors	Agriculture	9.0	8.6
	Mining	10.6	-0.9
	Manufacturing	4.8	-0.6
	Utilities	17.1	8.7
	Construction	4.7	8.6
Services Sectors	Trade, Hotels	15.6	4.5
	Transport	9.6	7.0
	Finance	10.5	8.6
	Real Estate	3.5	5.7
	Public & Government	25.6	15.9

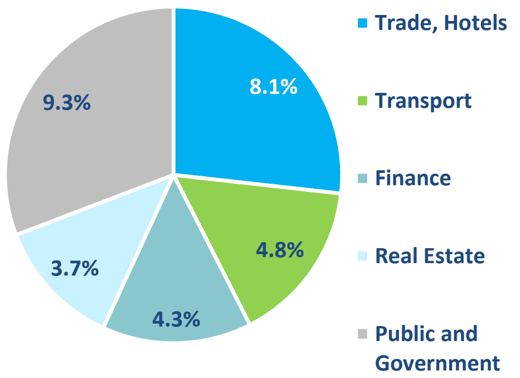
CONTRIBUTION TO 2013 GDP (%)

PRODUCING SECTORS





SERVICES SECTORS



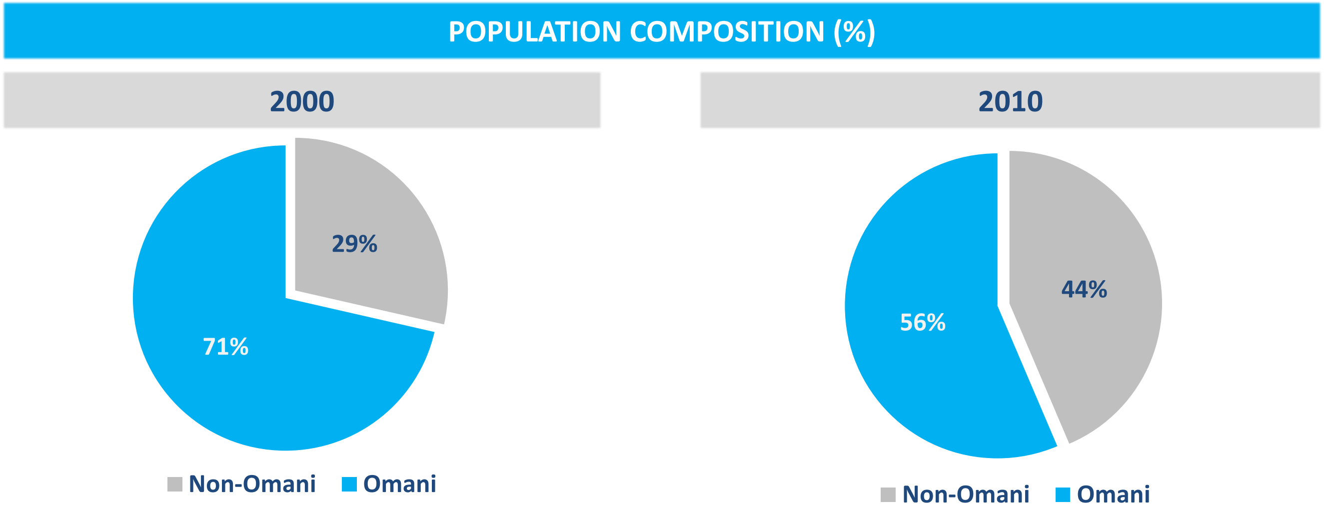
Source: Oman Statistical Organisation

OMAN: Oman's labor force remain expat dependent

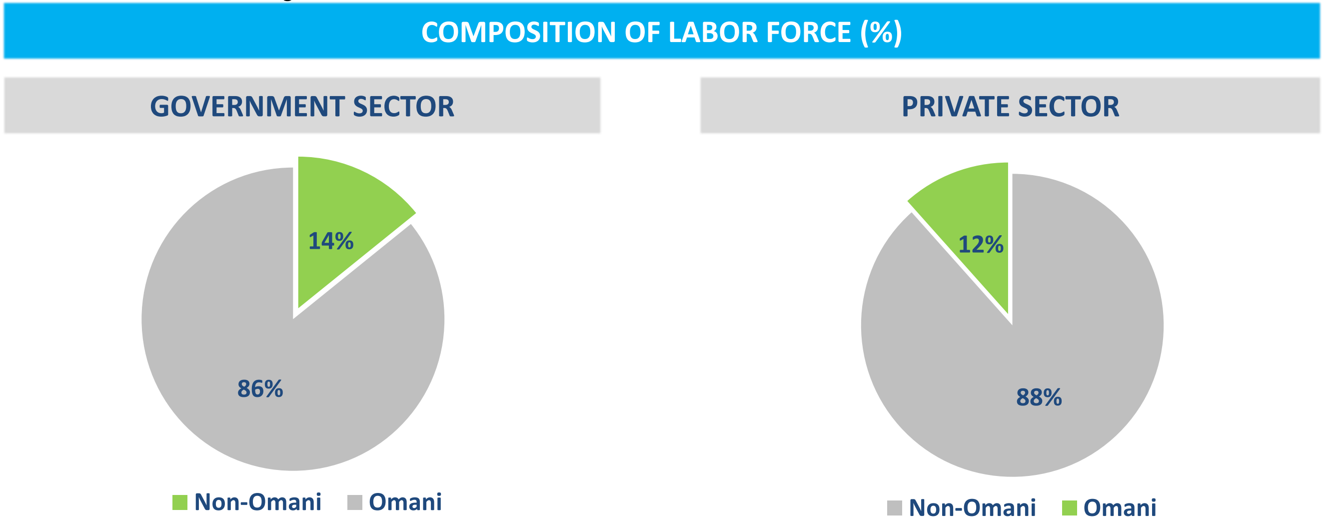
Oman's 3.9 Mn strong population constituted ~56% Omani's in 2013. Even though the % of Omanis has decreased from 71% in 2010, overall growth in Omani nationals have increased from 2 Mn in 2010 to 2.2 Mn in 2013, as part of Omanization efforts.

Labor force composition is skewed towards expats, that constitute more than 90% of the work force (mainly in the construction sector), as Omani's continue to prefer govt. jobs.

Education, skill-building, and creating an attractive private sector job market remain key challenges.



Source: Oman Statistical Organisation



Source: Oman Statistical Organisation

OMAN: Price control scrapped by govt. as inflation remains lowest among GCC nations

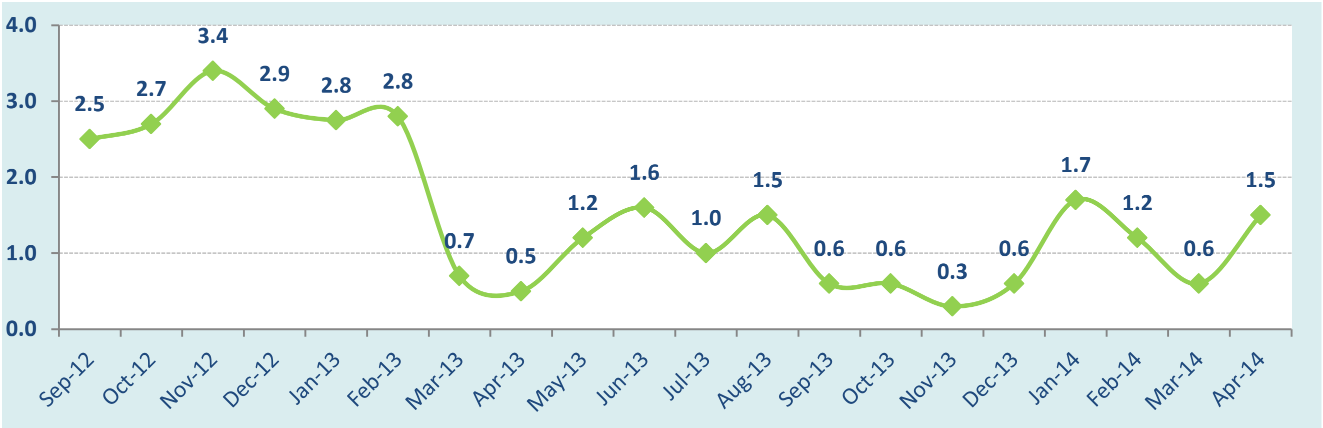
Inflation stood at 1.5% in April 2014, down considerably from the previous five year average of 3%.

Overall inflation has remained low as housing and food & beverage prices have been under control.

In June 2014, Oman scrapped price controls for all but 23 basic products.

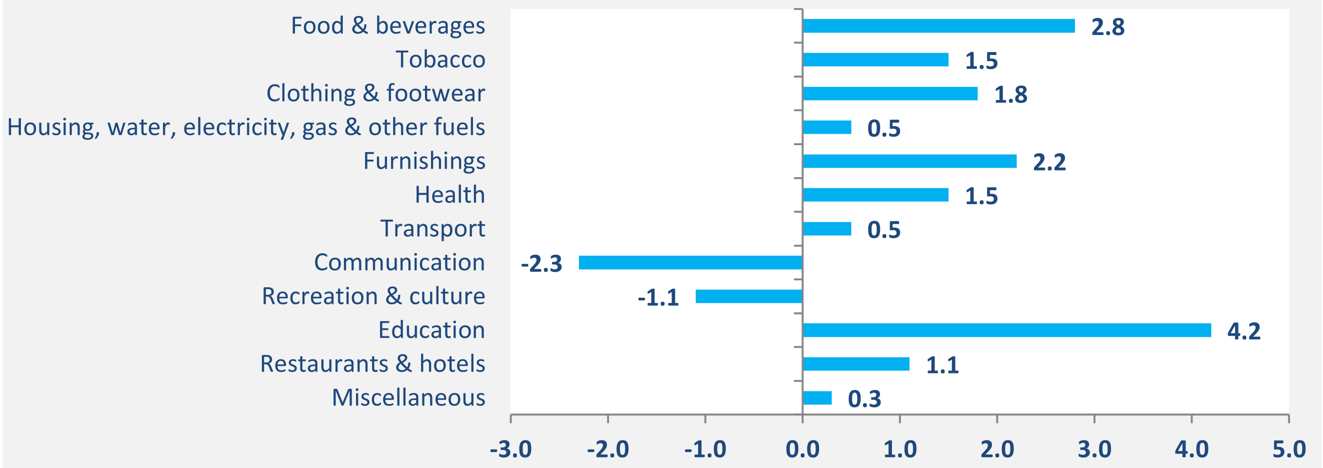
Despite introduction of market driven pricing, inflation is likely to remain under 3% in the foreseeable future as prices of essential items such as rice, tea & fish will still be controlled by the government.

ANNUAL INFLATION (%)



Source: Oman Statistical Organisation, Central Bank of Oman

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



Source: Oman Statistical Organisation

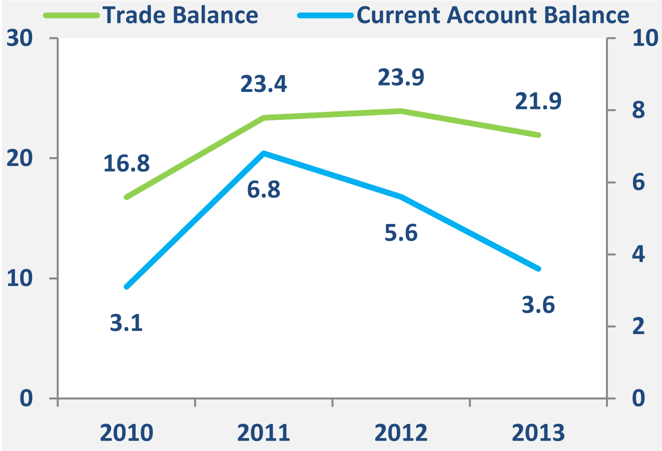
OMAN: Declining oil revenue growth and increasing infrastructure investment will put pressure on the fiscal surplus

Trade balance is in surplus as high volume of oil exports have compensated for the rise in imports.

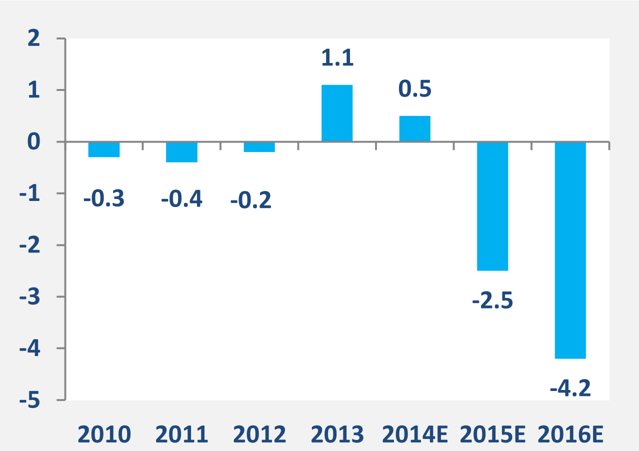
However, growing consumption levels will mean that imports growth will outpace oil-export growth, and trade- & current account- balance will narrow in the coming years.

Fiscal balance stood at USD 1.1 Bn, up from a deficit of USD 0.2 Bn in 2012, but with oil revenues expected to remain flat in the coming years and infrastructure expenditure >USD 50 Bn already planned, fiscal surplus will come under pressure.

TRADE & C/A BALANCE (USD BN)



FISCAL BALANCE (USD BN)



Source: Central Bank of Oman

	2010	2011	2012	2013
Trade Balance (USD Bn)	**16.8**	**23.4**	**23.9**	**21.9**
Current Account Balance (USD Bn)	**3.1**	**6.8**	**5.6**	**3.6**
Oil Revenue (USD Bn)	16.6	23.3	30.3	32.3
Non-Oil Revenue (USD Bn)	3.9	4.3	4.7	4.3
Current Expenditure (USD Bn)	12.5	15.9	22.8	23.9
Capital Expenditure (USD Bn)	6.8	7.7	7.5	7.3
Subsidies (USD Bn)	1.5	4.4	4.9	4.3
Fiscal Balance (USD Bn)	**-0.3**	**-0.4**	**-0.2**	**1.1**

Source: Central Bank of Oman, IMF

OMAN: FDI inflows rose by 56%, and foreign reserves stood at USD 16 Bn in 2013

As the trade- and current account-balance remained in surplus, Oman's foreign reserves went up by 11% in 2013 to reach USD 16 Bn, and are expected to rise by another ~9% to reach USD 17.4 Bn at the end of 2014.

FDI inflows in the Sultanate increased by 56% to USD 1.6 Bn in 2013, while outflows also rose to USD 1.4 Bn.

While FDI inflow into Oman is still below its 2009 levels of USD 2.95 Bn, the 56% rise comes in the backdrop of a 9% decline in FDI inflows into West Asia in 2013.

FOREIGN RESERVES (USD Bn)

Source: EIU

FDI INFLOW (USD Bn)

Source: UNCTAD 2014 World Investment Report

FDI OUTFLOW (USD Bn)

Source: UNCTAD 2014 World Investment Report

OMAN: Lending has picked-up since Q2 2013, as money supply remains stable

After a 8.5% rise in 2013, overall money supply went up 13% y/y from USD 29 Bn in Q1 2013 to USD 33 Bn in Q1 2014, driven by Central Bank's low interest rate (1%).

Steady growth in liquidity has had its spill-over effect on private sector lending, which has picked-up since Q2 2013 and increased by 9.3% y/y to reach USD 35.1 Bn in Q1 2014.

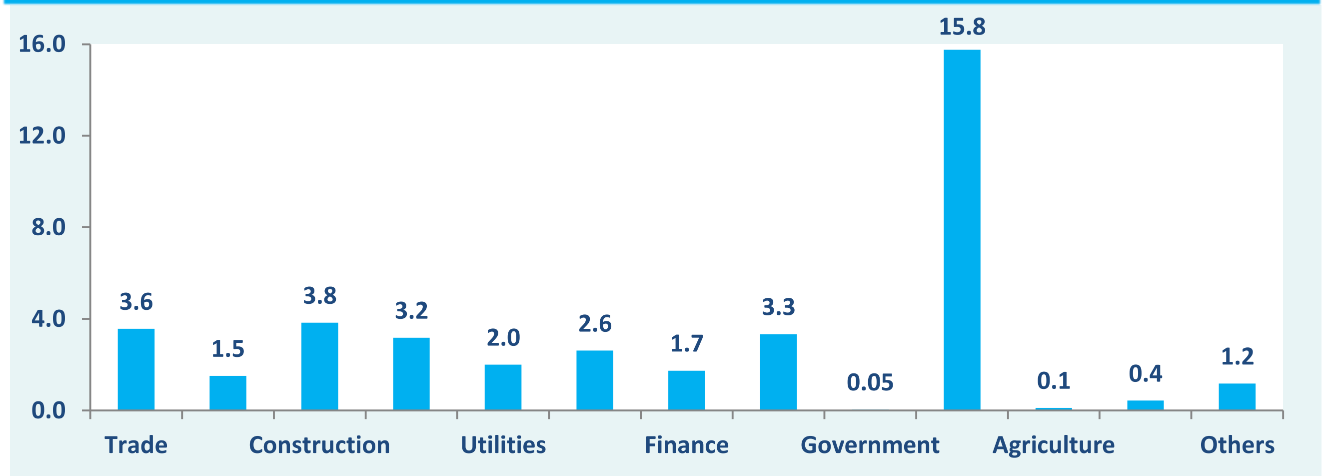
At USD 3.8 Bn, lending to the construction sector constituted 10% of the lending in 2013 and was up 10% annually, followed by trade (USD 3.57 Bn), services (USD 3.53 Bn), and manufacturing (USD 31.8 Bn).

MONEY SUPPLY & PRIVATE SECTOR LENDING (USD Bn)

	Q1-12	Q2-12	Q3-12	Q4-12	Q1-13	Q2-13	Q3-13	Q4-13	Q1-14
Gross Money Supply	**26.5**	**27.2**	**27.8**	**28.3**	**29.0**	**29.2**	**29.1**	**30.7**	**33.0**
Foreign Currency Quasi Deposits	2.1	2.2	2.3	2.1	2.4	2.5	2.4	2.3	2.5
Domestic Quasi Deposits	15.4	16.2	16.3	17.1	17.1	17.4	17.0	18.1	18.5
Demand Deposits	6.6	6.5	6.9	6.6	7.0	6.8	7.1	7.5	9.1
Currency Outside Banks	2.4	2.4	2.4	2.4	2.5	2.5	2.6	2.7	2.9
Private Sector Lending	**29.3**	**30.9**	**31.4**	**32.2**	**32.1**	**33.1**	**34.3**	**34.4**	**35.1**

Source: Central Bank of Oman

PRIVATE SECTOR LENDING BY INDUSTRY (USD Bn)



Source: Central Bank of Oman

OMAN: Earnings rose by 12.7%, led by the heavyweight banking sector

MSM 30 gained 18.6% in 2013; however, profit booking, and increasing international geopolitics tensions have led to muted growth in 2014.

The index started recovering in June as S&P affirmed the sultanate's stable outlook (A/A-1), and the impressive performance of power sector IPOs (Al Batinah & Al Suwadi).

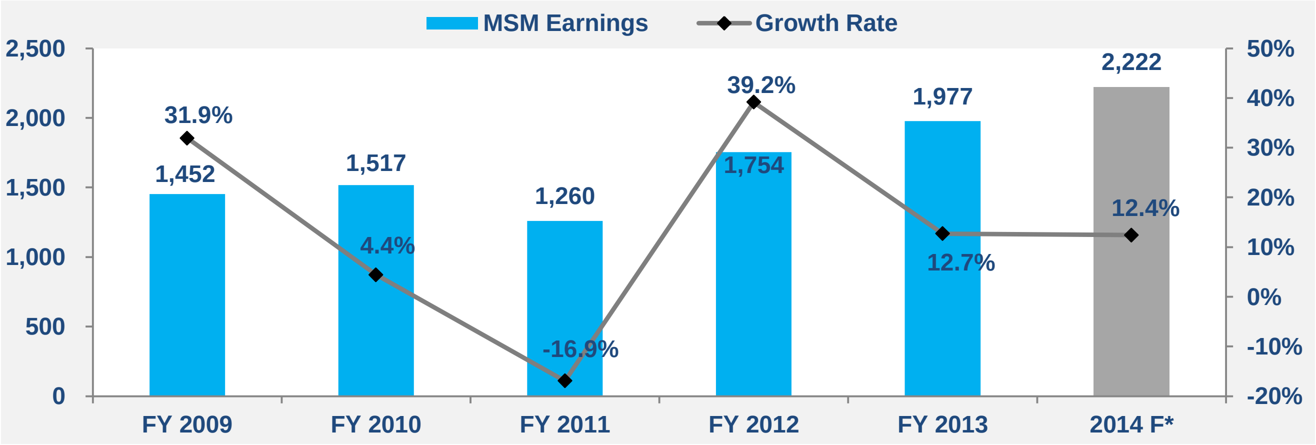
Corporate earnings stood at USD 2 bn in 2013, reflecting a 12.7% y/y increase. Earnings growth was led by the 21.7% rise in the heavyweight banking and investment sector, which constituted 52% of the total earnings.

MSM30 INDEX

	2009	2010	2011	2012	2013	1H-2014 30-Jun-14
Index Value	6,368.8	6,754.9	5,695.1	5,760.8	6,834.6	7,008.3
Y/Y Change	17.1%	6.1%	-15.7%	1.2%	18.6%	2.5%
Market Cap (USD Bn)	16.2	18.9	16.9	18.1	18.8	22.0
Value Traded (USD Bn)	5.7	3.2	2.5	2.4	5.2	2.9

Source: KAMCO Research

OMAN – CORPORATE EARNINGS (USD Mn, % GROWTH)



2014 forecast is based on Bloomberg consensus

OMAN: MSM– Historical Performance

MUSCAT SECURITIES MARKET (MSM)

1H 2014

MSM 30 Index Performance

1H-14 Return	2.54%
1H-14 Volatility	6.35%

1H-14 trading Indicators

Volume *(Mln Shares)*	2,963
Value *(Mln USD)*	2,902
Deals *('000)*	174

FY 2013

MSM 30 Index Performance

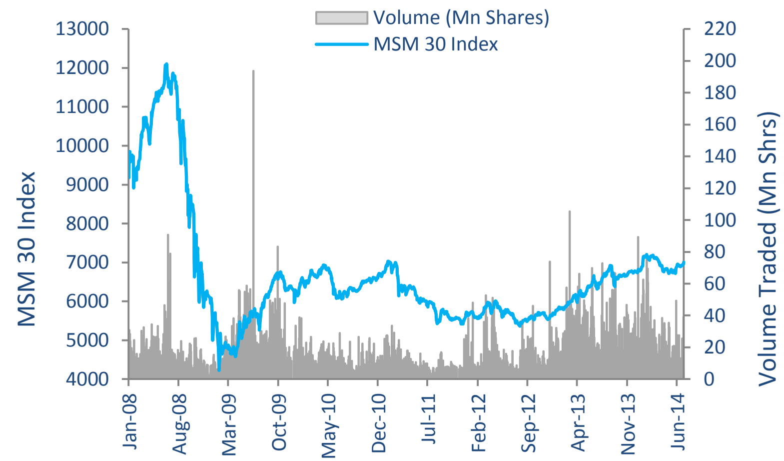
Yearly Return	18.64%
Yearly Volatility	8.40%

Yearly trading Indicators

Volume *(Mln Shares)*	7,028
Value *(Mln USD)*	5,283
Deals *('000)*	395

1H-2014 indicates data as of 30-June-2014

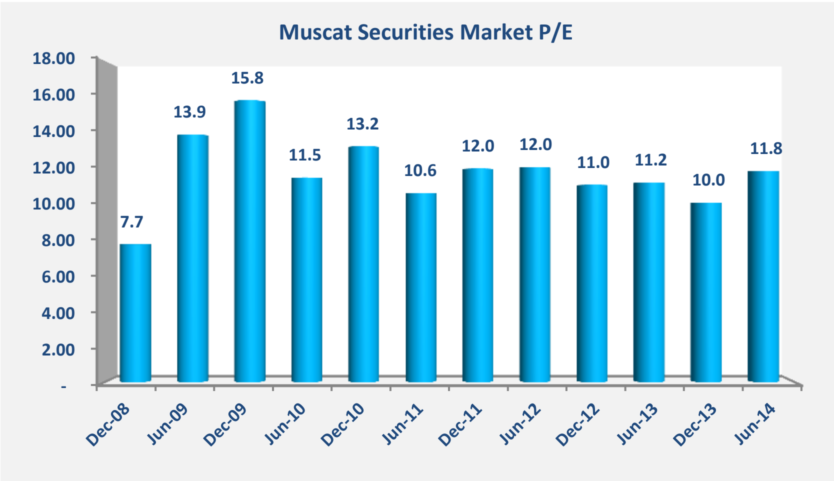
MSM 30 INDEX RELATIVE TO VOLUME SINCE 2008

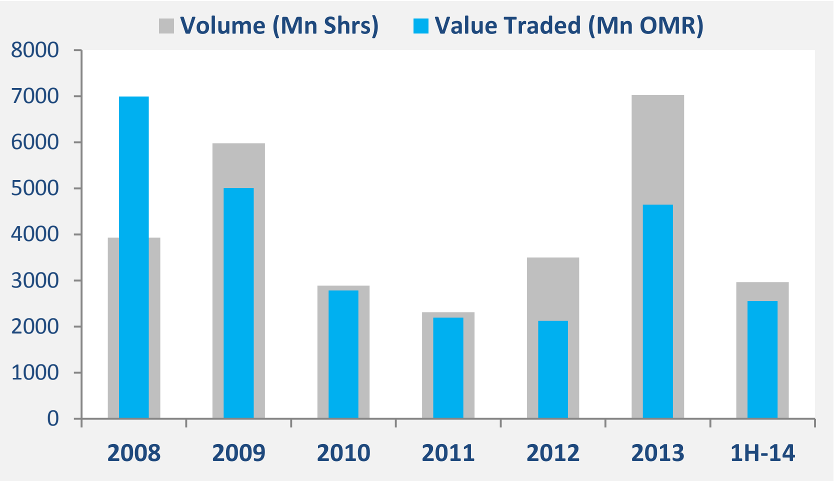


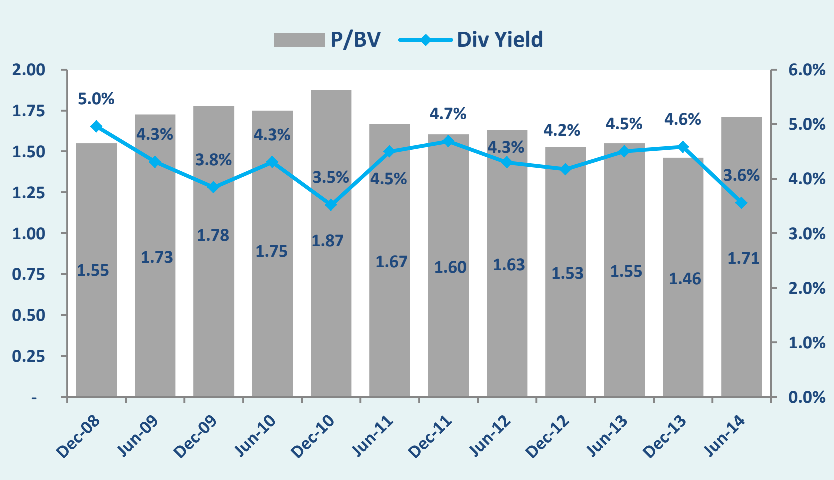
The MSM 30 Index increased by 18.6% during 2013 primarily on the back of improving fundamentals of listed companies. The market also saw higher investor participation with average volumes almost doubled during the year. However, during 2014, the market saw modest gains of 2.54% as investors targeted other regional markets that generated higher returns on their investments. The market also suffers from lack of strict regulations that could enforce timely disclosure of financials as well as a efficient trading mechanism.

OMAN: MSM- Valuation Multiples & Trading Indicators

MSM- VALUATION MULTIPLES & TRADING INDICATORS







Valuation Multiples & Trading Indicators

MSM trades at the cheapest P/E multiple of 11.83x as compared to other GCC countries. The P/E peaked after the financial crisis at 15.77x, in line with other GCC markets and since then it has seen a declining trend. In terms of P/BV, the market trades at 1.71x. MSM has seen declining volumes since the start of 2014 as investors eye other high growth markets in the GCC. As a consequence, average daily volumes have declined significantly as compared to 2013 averages.

Source: KAMCO Research

OMAN ECONOMIC OUTLOOK

Moderated economic growth led by the non-oil sector, as oil sector growth remains muted

Economic output will expand by 3.4% in 2014, driven by the 5.4% growth in the non-oil sector. Oman's GDP growth is likely to moderate from 5.1% in 2013 to 3.4% in 2014. The reduced pace of growth is attributable to contraction of the oil sector, which will witness negative growth of -0.7% in 2014, as Oman has used most of its easily recoverable oil reserves and future growth can only be driven by increased adoption of enhanced oil recovery techniques. The non-oil sector, on the other hand, will expand by 5.4% in 2014 as Oman spends USD 78 Bn on the development of social & transport infrastructure as part of its Vision 2020 aimed at economic diversification.

Construction, transport and services sectors will lead growth. Transport sector growth will be boosted by the allocation of USD 20 Bn to its development, including the Oman National Railway; while infrastructure development efforts will drive growth in the construction and real estate sectors. On the other hand, accelerating non-oil growth will boost consumption levels and drive growth in services sectors like tourism and also stimulate imports, which are expected to register double digit growth each year from 2014 to 2017.

Fiscal surplus will be depleted in 2014, and might turn into a deficit in 2015. A combination of increased capital expenditure, flattening oil revenues, and high level of subsidies have put pressure on Oman's fiscal balance in the past five years. Elevated oil prices helped the fiscal balance rebound from a deficit of USD 0.2 Bn in 2012 to a surplus of USD 1.1 Bn in 2013. However, rising import levels and a correction in oil prices will lead to narrowing of the fiscal surplus to USD 0.5 Bn in 2014, and a deficit of USD 2.5 Bn in 2015.

Inflation will remain under control, and lowest among all GCC nations. Moderate hike in housing and food prices have kept inflation under the 1.5% mark for a better part of the past 12 months, and this situation is likely to continue in H2 2014 as well. Scrapping of price control over select products by the govt. is indicative of low inflation levels that can be expected in the near future.

Money supply and private sector lending will remain stable. As in all GCC nations, Oman's Central Bank has also maintained low interest rate (1%), which has led to the gradual rise in money supply and private lending in the past 24 months. This growth is likely to continue in H2 2014 as well, with construction, manufacturing and services emerging as key beneficiaries of increased private sector lending.

SECTION 9| Bahrain

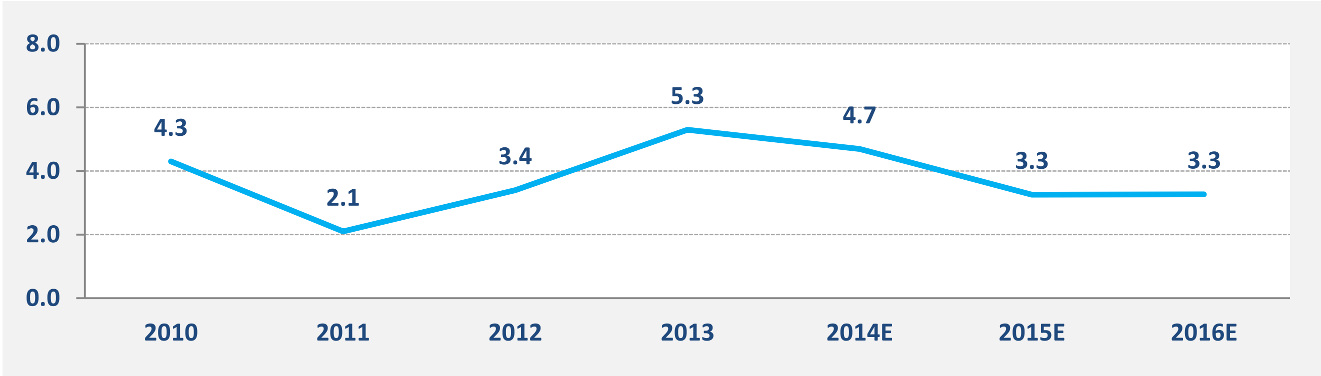
BAHRAIN: Normalization of oil output helped the GDP recover in 2013, but growth in 2014 will be driven by the non-oil sector

Bahrain's economy grew by 5.3% in 2013, up from 3.4% in 2012, with the oil-economy growing by an impressive 15.3%, much ahead of 3% growth in the non-oil sector.

The growth in the oil sector was led by normalization of output in the Abu Sa'afah oilfield in 2013, which had witnessed depressed production in 2012 due to maintenance issues.

However, with production being normalized in 2013, oil sector will remain flat in 2014, as compared a 4.4% growth in the non-oil sector, driven by increased spending on infrastructure projects.

BAHRAIN REAL GDP GROWTH (%)



Source: IMF, Bahrain Economic Development Board

	2010	2011	2012	2013	2014E
Nominal GDP (USD Bn)	**25.7**	**29.0**	**30.4**	**32.2**	**33.5**
Real GDP Growth (%)	**4.3**	**2.1**	**3.4**	**5.3**	**4.7**
Oil Sector	0.1	3.6	-8.5	15.3	0.1
Non-Oil Sector	5.5	1.7	6.6	3.0	4.4
Contribution to GDP (%)					
Oil Sector	21.1	21.4	19.0	21.3	-
Non-Oil Sector	78.9	78.6	81.0	78.7	-
Oil Production (mn b/d)	**0.18**	**0.19**	**0.17**	**0.20**	**0.20**

Source: IMF, EIU, EIA, National Statistical Organisations, Bahrain Economic Development Board

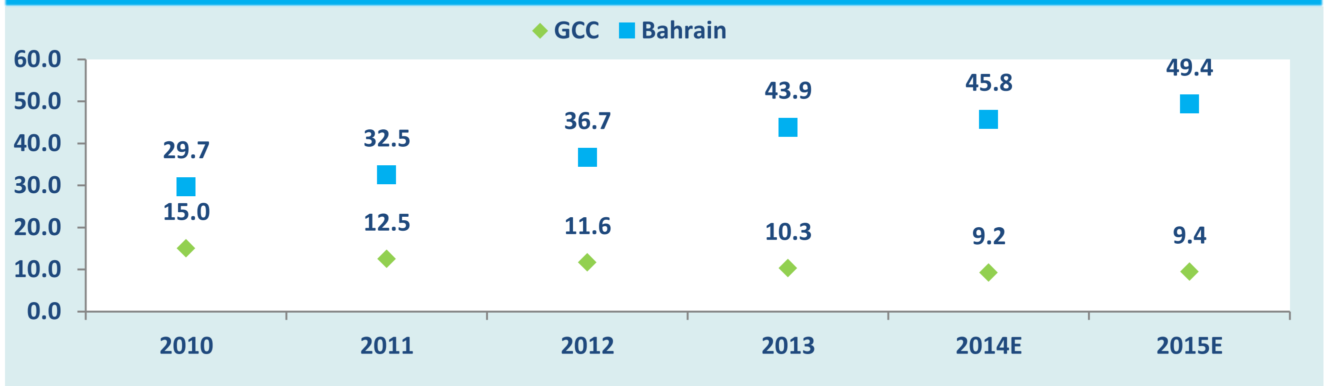
BAHRAIN: Debt level is high, leading to increased vulnerability to lower oil prices

Gross debt as % of GDP has gone up from 29.7% in 2010 to 43.9 in 2013. This is very high as compared to the GCC average of 10.3% and is expected to increase further, thus leading to increased vulnerability to oil prices and fiscal pressure.

Delay in budget approval and low infrastructure spend led to sub-par performance of the non-oil sector in 2013.

However increased spending on infrastructure projects (financed through Bahrain's internal budget and its USD 10 Bn allocation in the GCC Development Fund) will drive non-oil growth in 2014.

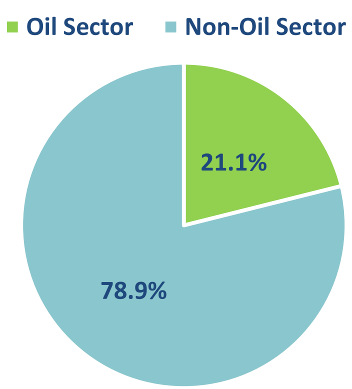
GROSS PUBLIC DEBT (% OF GDP)



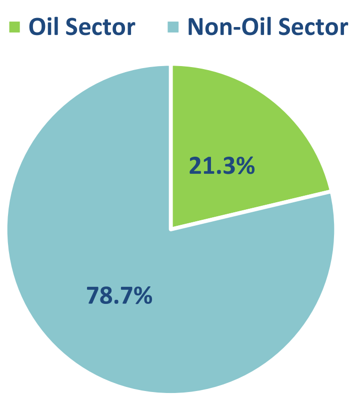
Source: IMF

CHANGE IN GDP COMPOSITION

2010



2013



Source: Bahrain Statistical Organisation

BAHRAIN: Reduced growth experienced by non-oil sectors in 2013 is likely to rebound as infrastructure development gathers pace 2014 onwards

Non-oil sectors experienced reduced growth in 2013 due to project delays and inadequate funding.

Growth in social and professional services halved from 12.7% in 2012 to 6.5% in 2013, followed by trade (4.5%), manufacturing (3.2%).

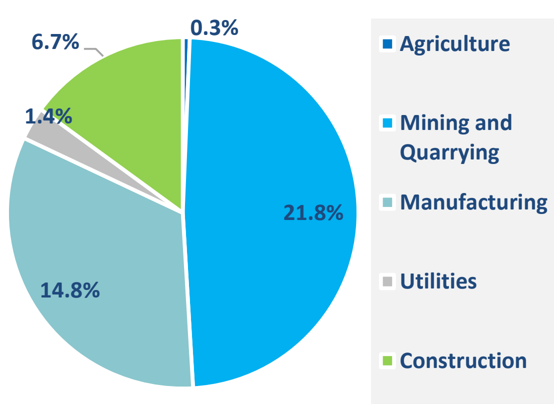
However, non-oil growth will rebound, as USD 3.4 Bn worth of projects in housing, utilities, & education are scheduled for completion by 2017, including 15,000 new housing units, two 400-kW transmission stations, modernization of the Bahrain Airport, and the Alba and Nuwaidrat interchange project.

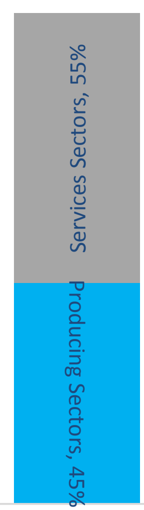
GDP GROWTH IN KEY SECTORS (%)

		2012	2013
Producing Sectors	Agriculture	2.3	1.3
	Mining and Quarrying	-8.1	14.8
	Manufacturing	4.7	3.2
	Utilities	6.1	1.8
	Construction	4.1	2.7
Services Sectors	Trade, Hotel	7.8	4.5
	Transport	4.3	2.5
	Social and Personal Services	12.7	6.5
	Real Estate	3.6	2.4
	Financial Services	4.0	2.3
	Government Services	12.1	2.1

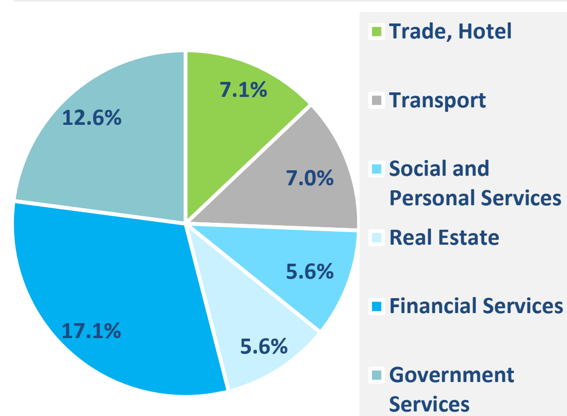
CONTRIBUTION TO 2013 GDP (%)

PRODUCING SECTORS





SERVICES SECTORS



Source: Bahrain Statistical Organisation

BAHRAIN: Unemployment has remained stable around the 4% mark

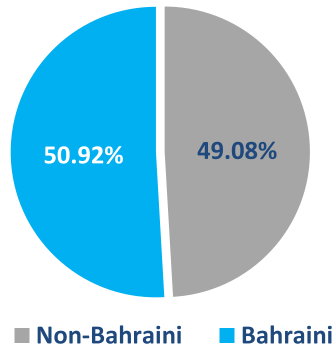
Bahrain's population stood at 1.32 Mn in 2013, up 32% from the 1.0 Mn in 2008.

Unemployment has remained between 3.5-4.5% since 2008, with most Bahraini's preferring govt. jobs, while the private sector is dominated by expats, which constitute ~49% of the total population.

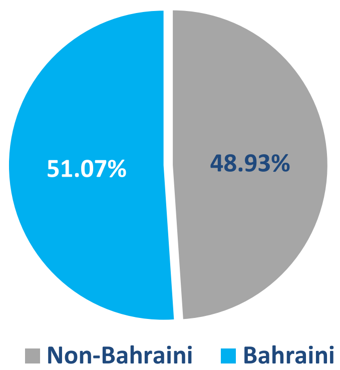
As per the Economic Development Board, Bahrain is in the process of launching a new BHD30 Mn National Employment Project, designed to employ 4,000 university graduates, 2,000 diploma holders, and 4,000 high school graduates.

POPULATION COMPOSITION (%)

2008



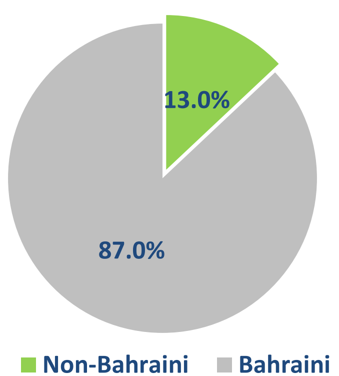
2011



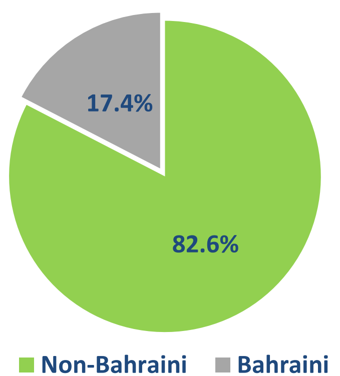
Source: Bahrain Statistical Organisation

COMPOSITION OF LABOR FORCE (%)

GOVERNMENT SECTOR



PRIVATE SECTOR



Source: Bahrain Statistical Organisation

BAHRAIN: Inflation is declining as housing and food prices remain under low

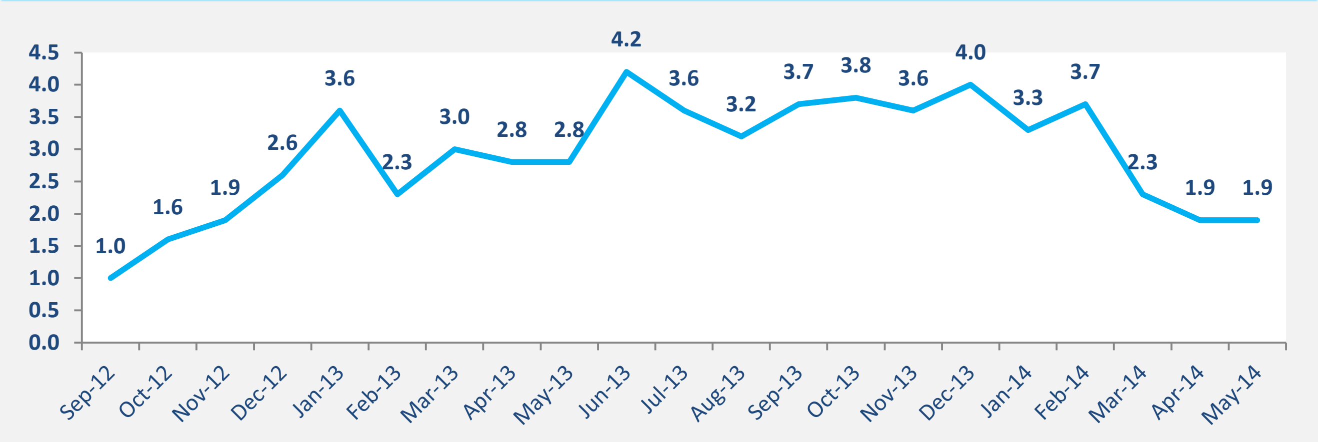
Inflation stood at 1.9% in May 2014, down from 4% in December 2013 and lower than the 3% average for 2013.

The key reason for low inflation is the low rise in housing and food prices.

Housing prices were up by 1.9% y/y in May 2014, while food and beverage prices increased by just 1.2% y/y in the same time period.

Healthcare and restaurant & hotel prices were up by 2.6%, while transport prices increased by 1.3% in May 2014.

ANNUAL INFLATION (%)



Source: Bahrain Statistical Organisation

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

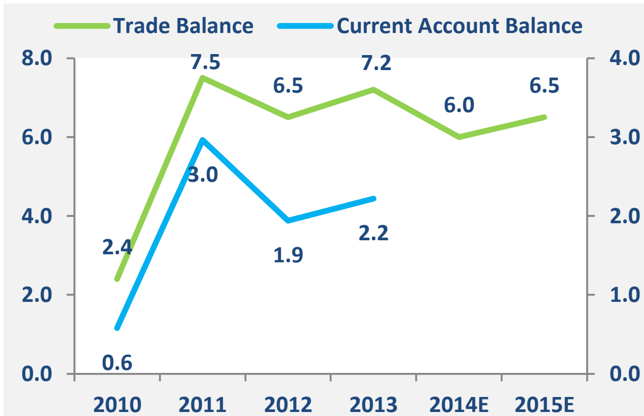
Source: Bahrain Statistical Organisation

BAHRAIN: Fiscal condition is weak and deficit is likely to widen in 2014

Trade- and current account- balance remain dependent on oil prices and exports, and the recovery of oil production in 2013 resulted in a rise in trade balance, which reached USD 7.2 Bn in 2013.

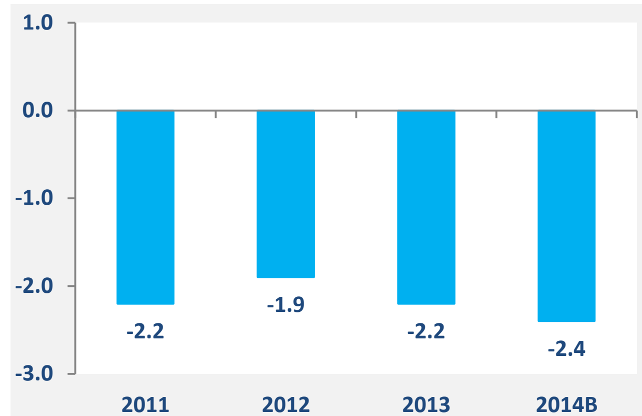
Fiscal balance has remained in the red since 2009 and with an expected USD 10 Bn+ of infrastructure investment, the deficit is likely to widen to USD 2.4 Bn in 2014.

TRADE & C/A BALANCE (USD BN)



Source: Bahrain Central Bank, EIU, IMF

FISCAL BALANCE (USD BN)



	2010	2011	2012	2013	2014E	2015E
Trade Balance (USD Bn)	2.4	7.5	6.5	7.2	6.0	6.5
Current Account Balance (USD Bn)	0.6	3.0	1.9	2.2	-	-

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

Source: Bahrain Central Bank, IMF

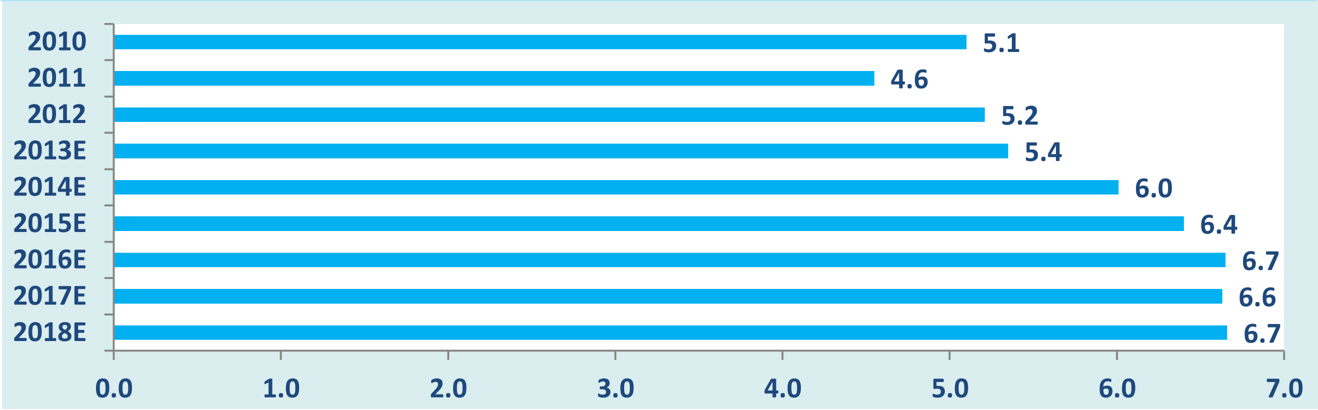
BAHRAIN: Foreign reserves and FDI inflows are rising steadily

Foreign reserves are estimated to have risen by 3.8% to USD 5.4 Bn in 2013, attributable largely to increasing oil exports.

FDI inflows have recovered from their post-recession decline, and went up by 11% to reach USD 1 Bn in 2013, even as overall flows into West Asia declined in the same year. As per the Economic Development Board, FDI inflows now account for 15.7% of fixed capital formation in the Kingdom.

FDI outflows have followed the same trajectory as inflows, and stood at USD 1.1 Bn in 2013, up 14% y/y.

FOREIGN RESERVES (USD Bn)



Source: EIU

FDI INFLOW (USD Bn)

Source: UNCTAD 2014 World Investment Report

FDI OUTFLOW (USD Bn)

Source: UNCTAD 2014 World Investment Report

BAHRAIN: Growth in money supply is muted, while private sector lending is stable

Total money supply stood at USD 24.9 Bn in Q1 2014, up 5.5% y/y; however, the rate of growth was slower than the 6.7% rise in money supply in an year earlier.

Lending remained flat in 2013, and stood at USD 11.5 Bn in Q1 2014, representing a 1.8% y/y decline from USD 11.7 Bn in Q1 2013.

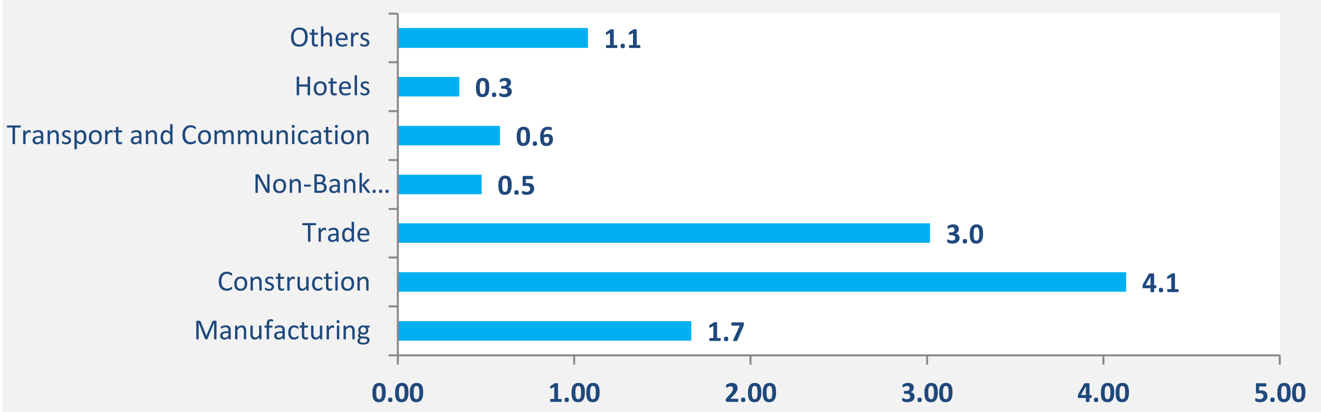
Construction sector was the largest recipient, followed by the trade sector, that has seen lending rise from USD 2.2 Bn in 2012 to USD 3 Bn in 2013.

MONEY SUPPLY & PRIVATE SECTOR LENDING (USD Bn)

	Q1-12	Q2-12	Q3-12	Q4-12	Q1-13	Q2-13	Q3-13	Q4-13	Q1-14
Gross Money Supply	**22.1**	**22.1**	**22.3**	**22.3**	**23.6**	**23.5**	**23.9**	**24.1**	**24.9**
Currency Outside Banks	1.1	1.1	1.1	1.1	1.2	1.2	1.2	1.2	1.3
Demand Deposits	5.9	6.1	6.2	5.8	6.3	6.3	6.3	6.2	6.7
Time and Savings Deposits	15.1	14.9	14.9	15.4	16.1	16.0	16.4	16.8	16.9
Private Sector Lending	**11.2**	**11.3**	**11.6**	**11.3**	**11.7**	**11.6**	**11.6**	**11.3**	**11.5**

Source: Bahrain Central Bank

PRIVATE SECTOR LENDING BY INDUSTRY (USD Bn)



Source: Bahrain Central Bank

BAHRAIN: Equity market is recovering, but remains below pre-recession levels

The Bahrain Index rose by 17% in 2013, after having declined for four consecutive years since 2009.

But the lack of a key economic growth drivers means that the index is still trading below its pre-recession high (2,902 in June 2008), and its movement is currently being influenced by pan-GCC events like inclusion of Qatar & UAE in the MSCI Emerging Markets index, or the USD 10 Bn to be infused into the Bahrain economy by the GCC countries.

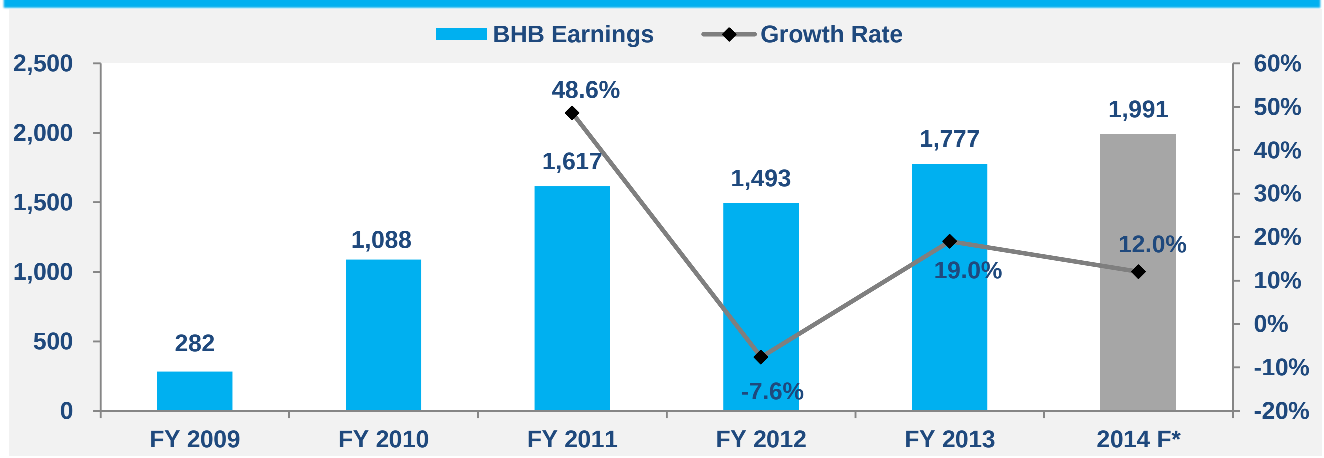
Corporate earnings went up by 19% in 2013, led by the commercial banking sector, which constituted 47% of the earnings and was up by 64.2% in 2013.

BAHRAIN ALL-SHARE INDEX

	2009	2010	2011	2012	2013	1H-2014 30-Jun-14
Index Value	1,458.2	1,432.3	1,143.7	1,065.6	1,248.9	1,427.6
Y/Y Change	-19.2%	-1.8%	-20.1%	-6.8%	17.2%	14.3%
Market Cap (USD Bn)	16.2	16.6	16.6	15.5	18.3	21.5
Value Traded (USD Bn)	0.5	0.3	0.3	0.3	0.6	0.5

Source: KAMCO Research

BAHRAIN – CORPORATE EARNINGS (USD Mn, % GROWTH)



2014 forecast is based on Bloomberg consensus

BAHRAIN: BHB – Historical Performance

BAHRAIN BOURSE (BHB)

1H 2014

Bahrain All Share Index Performance

1H-14 Return	14.31%
1H-14 Volatility	7.91%

1H-14 trading Indicators

Volume *(Mln Shares)*	923
Value *(Mln USD)*	539
Deals *('000)*	11

FY 2013

Bahrain All Share Index Performance

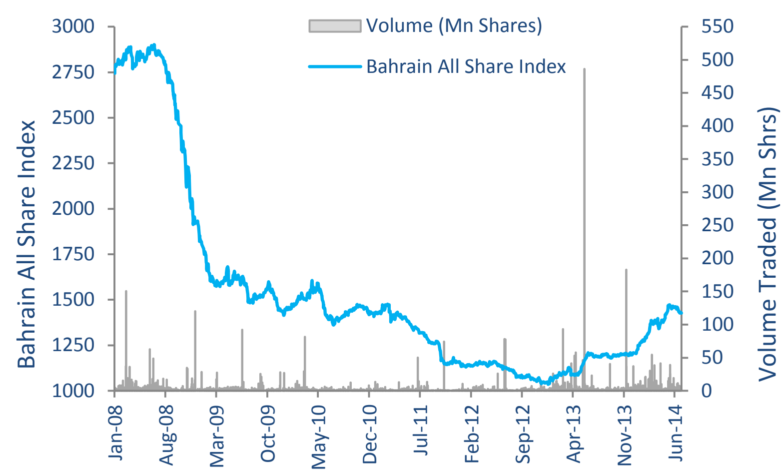
Yearly Return	17.20%
Yearly Volatility	6.83%

Yearly trading Indicators

Volume *(Mln Shares)*	1,813
Value *(Mln USD)*	567
Deals *('000)*	14

1H-2014 indicates data as of 30-June-2014

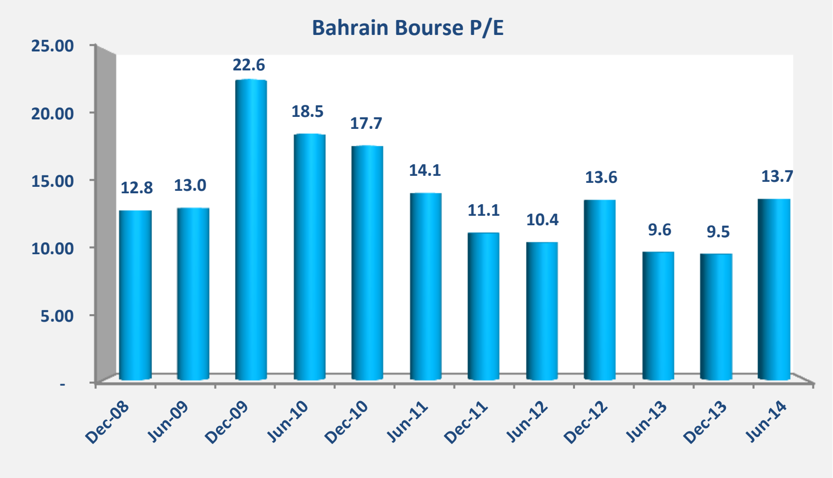
BAHRAIN INDEX RELATIVE TO VOLUME SINCE 2008

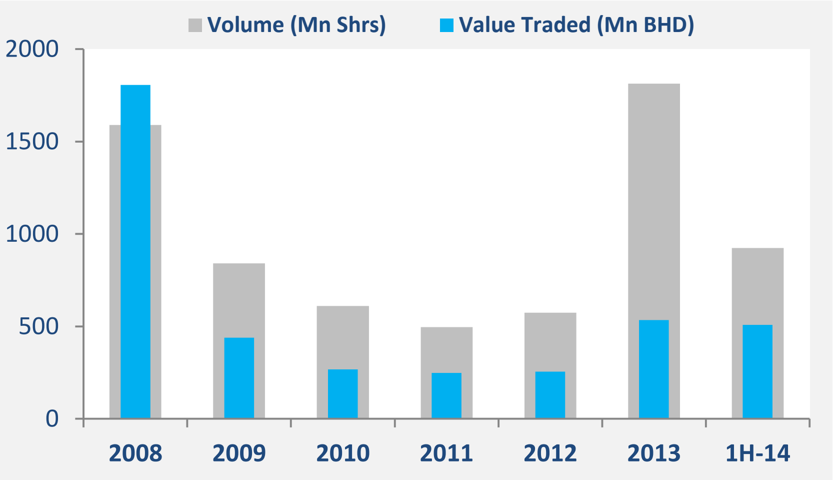


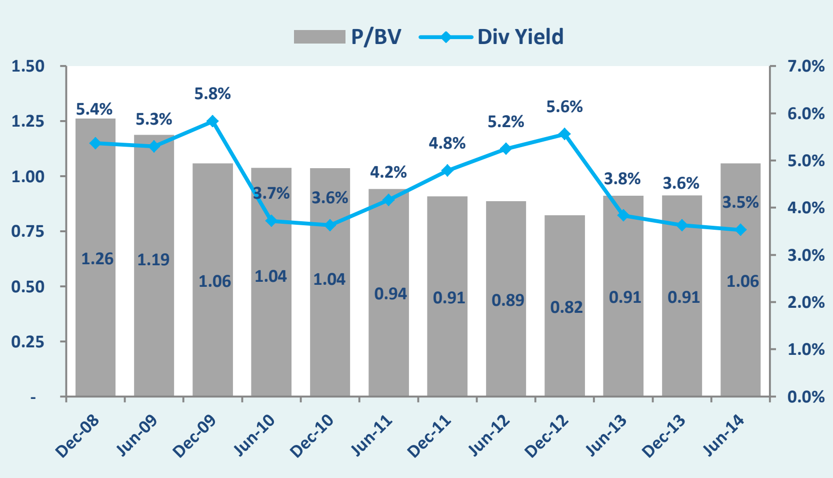
The Bahrain Bourse reported marginal investor activity during 2013 with minimal trades in a few large-cap stocks. Nevertheless, annual return on the benchmark index improved to 17.2% during 2013 on the back of improvement in fundamentals. Trades were mainly concentrated in the banking sector. The positive performance continued in 2014 with 1H returns of 14.31%. The regulators are making efforts to enhance the liquidity in the market with new set or rules that are expected to take effect from September 2014.

BAHRAIN: BHB- Valuation Multiples & Trading Indicators

BAHRAIN BOURSE -VALUATION MULTIPLES & TRADING INDICATORS







Source: KAMCO Research

Valuation Multiples & Trading Indicators

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

The market is currently trading at a P/E of 13.66x, which is the second lowest in the GCC. Investors prefer to trade only in commercial banks and financial services stocks as safe bets. In addition, Bahrain is the cheapest market in terms of P/BV multiple, which stood at 1.06x as of June-14.

BAHRAIN ECONOMIC OUTLOOK

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

Bahrain's GDP will expand by 4.7% in 2014, driven by the 4.4% growth in the non-oil sector. Growth in 2013 was driven by the normalization of output in the Abu Sa'afah oilfield which led to robust growth in oil sector. However, 2014 will see a change in trend, as increased infrastructure spending will push the non-oil economy to grow by 4.4% in 2014 while oil sector growth will remain flat (in line with oil production). As a result, the overall economic output will expand by 4.7% in 2014.

Increased infrastructure spend will drive growth in key non-oil sectors. Lack of funding and project execution bottlenecks led to sub-par growth in the non-oil sector in 2013. But with projects worth USD 3.4 Bn in housing, utilities, & education sectors to be completed by 2017, non-oil sectors like construction and real estate will experienced elevated growth in 2014. Further, modernization of the Bahrain airport and other similar projects will not only benefit infrastructure-related sectors, but also boost tourism and foreign trade in Bahrain.

Fiscal deficit will expand as debt level is high and revenues remain dependent on oil. Trade- and current account- balance have remained positive but volatile in the past few years as high debt levels have increased vulnerability to oil price fluctuation. Fiscal balance has remained negative since 2009 and stood at a deficit of USD 2.2 Bn in 2013. This deficit is likely to widen to USD 2.4 Bn in 2014, as oil revenues remain flat while expenditure spend continues to increase, led by the USD 10 Bn+ investment in infrastructure development.

Money supply will remain stable and inflation will reduce. Money supply has risen by ~12% in the past two years, while private sector ending has remained in the USD 11-11.5 Bn range in the same time frame, with construction and trade sectors emerging as the key beneficiaries. This trend is likely to continue in 2014 as well. Inflation on the other hand, has reduced from 4.2% in June 2013 to 1.9% in May 2014. With rise in housing and food prices expected to be low, overall inflation will remain contained in H2 2014.

Equity market will continue with its slow recovery. After declining from 2009 to 2012, the Bahrain All-Share Index has been recovering since 2013, and was up 14.3% during the 1H-2014. Growth in the banking and services sectors will continue to lead the recovery in the equity market. However, the pace of recovery will be muted as Bahrain currently lacks a key economic growth driver like Dubai's Expo 2020 or Qatar's World Cup 2022.

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