BLOMINVEST BANK S.A.L.

December 2014

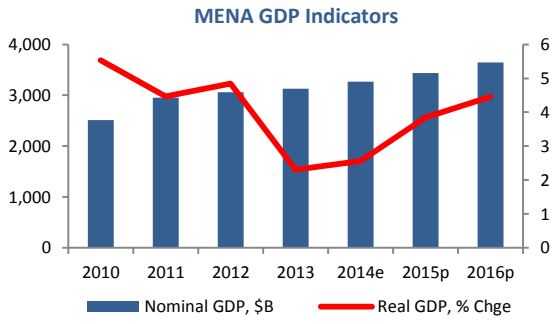
MENA Review and Quarterly Outlook

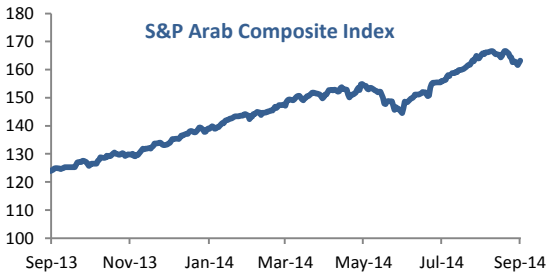
BLOMINVEST Views on Regional Economic and Financial Developments for Q3 2014

View of the Quarter

The Middle East witnessed a moderate third quarter in 2014 torn between an international decline of oil prices and heightening regional security uprisings. As oil production flooded the international market triggering prices downwards, **Saudi Arabia**, with its low production costs, remained able to bear the declining prices and preserve its market share. Besides its ability to manipulate oil output and prices and its robust private sector performance, the kingdom maintained its humanitarian assistance to Syria, Iraq, and Lebanon that were mainly suffering the continuous upheavals. Amid the international oil crisis, several oil-exporting countries preserved their diversification strategies away from oil in favor of tourism, infrastructure, and construction projects. **Qatar** spent billions of dollars on construction projects to host the 2022 World Cup, in spite of the continuous controversy on the country hosting the tournament due to alleged corruption and weather concerns given the high temperatures that reign in the country during the summer season. As for the **United Arab Emirates**, gargantuan projects continued to be the Emirates' approach to escape their oil dependency in Q3 2014 with particular attention to tourism. Emirati projects stretched to the **Egyptian** territory with Arabtec's housing project in 13 locations across the country, of which Cairo, Luxor and Alexandria. Nonetheless, the African republic saw a prosperous third quarter following Al-Sisi's structural economic reforms and relative political stability. Crossing the waters of red sea from Egypt to **Jordan**, the Hashemite Kingdom focused on fighting regional turbulences and concentrated on domestic reforms to accelerate economic growth. Moving to the ailing **Syria**, the continuous internal conflict preserved its momentum, worsening the economic conditions of the country amid deteriorating security circumstances. Finally, the presidential vacuum kept overshadowing **Lebanon** that witnessed a volatile third quarter marked by attacks against the Lebanese army in Arsal. This was aggravated by the spillovers and costs of the Syrian refugees on Lebanon that kept on fighting to regain investors and tourists' confidence to enhance its vulnerable economic outlook.

HEADLINES





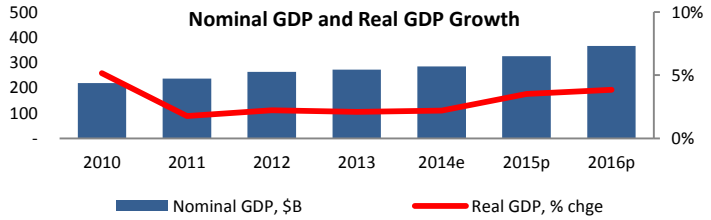
Marwan Mikhael *Head of Research*
Mirna Chami *Research Analyst*
Riwa Daou *Research Assistant*
Lana Saadeh *Research Assistant*
David Achdjian *Junior Economist*

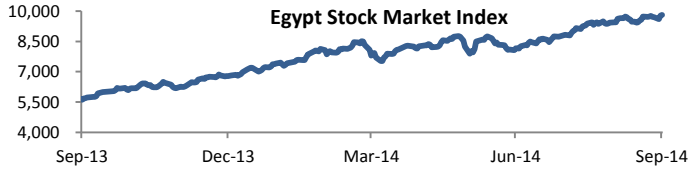
BLOMINVEST BANK

Egypt Macro and Equity Market

Harvesting the Fruits of its Economic Reforms and Political Stability

Key Macroeconomic and Equity Market Indicator





Egypt's progress kept painting the third quarter of 2014 amid improving security conditions, numerous reforms and national attention. The land of Pharaohs regained its standing as turbine of the region providing relief aid to Sudan's flood victims and training Libyan forces in their fight against anti-government militant groups. However, fears over water security overshadowed the scene as the "Grand Ethiopian Renaissance dam" project that is expected to be finalized in 3 years could threaten Egypt's share of Nile water. Though, an agreement was signed in September between Egypt, Ethiopia and their neighbor Sudan to form a committee of national water experts to debate the impact of the Ethiopian dam project.

Back to the security front, and besides the Muslim brotherhood, terrorist activity of Ansar Bayt al-Maqdis, ISIS affiliates in Egypt, rose by the end of the third quarter. Yet, the country took strong action to defeat terrorism as revealed in Sinai where Egyptian forces arrested and killed several jihadists.

Economic growth was stimulated in the last quarter of the financial year (FY) 2013/2014 by the accelerating activity of manufacturing and real estate hand in hand with the construction sector. Officials estimated real Gross Domestic Product (GDP) growth at 2.2% during FY 2013/2014 compared to 2.1% in FY 2012/2013. On a quarterly basis, real GDP growth stood at 3.7% over the period April-June compared to the 2.5% and 1.4% registered in the previous 2 quarters. This reflects the progressive expansion of the economy amid a favorable environment and rising investment confidence. In this context, Egyptian authorities invited the International Monetary Fund to assess economic performance which will certainly boost the country's image and boost confidence.

Investments projects marked Q3 2013 with Egypt's government planning to develop its refining and petrochemicals sectors amid a $14.5B investment plan over the next 5 years. The Emirati Arabtec also started its $40B housing project in Egypt that will build affordable homes for Egyptians on the land provided by the country's armed forces free of charge.

Similarly, the 145-year-old waterway remained one of the top concerns of Egypt's President that announced, in the beginning of August, expansion plans of the Suez Canal by adding a new channel worth $4B, part of the $8.4B upgrade project. The latter was financed through investments certificates only bought by Egyptian citizens denominated in Egyptian pounds, maturing in 5 years and

bearing an interest rate of 12%. By mid-September, the whole cost of the upgrade project was raised in eight days only. However, 2 ships crashed at the northern end of the canal by the end of September delaying shipping activity for a short period. However, revenues amounted for $5.37B during FY 2013/2014 compared to $5.03B in the same year.

Annual inflation reached 11.1% in September 2014 compared to 10.2% in the previous year and 8.2% in June 2014. This was partly related to the uptick in the prices of food items ahead of Eid el-Adha.

Many reasons were behind the progress of tourism activity between June and September 2014. The improvement of the security situation, the proliferation of cultural and scientific activities as well as lifting travel bans by several countries boosted the sector's performance. Tourists' number sprouted in the 3rd quarter of 2014 by 70% y-o-y to $2.77M compared to the same period last year. Yet, the overall incomers during the first nine months stood at 7.20M, still below the 7.55M reached in 2013.

Hotels also revealed signs of improvement in Q3 2014 despite the heightening operational costs due to the newly imposed taxes. Hotel occupancy rates in the capital Cairo edged up by 6 percentage points (p.p) to 32% during the first three quarters of 2014 with the average room rates rising 5.6% y-o-y to $88. On a positive note, and after suffering a 7.4% yearly loss in room yields by June 2014, Cairo hotels saw their room yields surging 27.3% y-o-y to $28 by the end of September 2014.

Externally, Egypt's balance of payments reflected the improving standing of the country on the external front as it rise from $237M in FY 2012/2013 to $1.48B by the end of FY 2013/2014. The net inflow of Foreign Direct Investments (FDI) also edged up from $3.8B to $4.1B over the same period on higher net inflow from the oil sector despite the 6.7% y-o-y drop in net Greenfield investments to $2.2B. Conversely, trade deficit widened 9.8% y-o-y to $33.70B on decreasing exports (-3.2% y-o-y) and rising imports (+3.7% y-o-y). on the brighter side, Egyptians working abroad highly boosted remittances to the country that surged by 14.3% y-o-y to $5.40B over the same time frame.

On the fiscal front, the overall revenues added 16.8% y-o-y to $65.09B during FY 2013/2014, while total fiscal expenses followed at a slower pace of 10.2% to $98.54B. In this context, fiscal deficit (including net acquisition of financial assets) stood at $35.46B compared to $34.58B in FY 2012/2013.

The Monetary Policy Committee (MPC) decided to maintain levels of interest rates after increasing key interest rates in June in an attempt to curb inflation for the first time since March 2013. Net foreign reserves slumped by 9.8% y-o-y to $16.87B by the end of September 2014. Customers' confidence in the banking sector boosted total deposits (including government deposits) by 21.5% y-o-y in August 2014 to $207.09B, as well as total lending that inched up by 6.9% y-o-y to $81.82B.

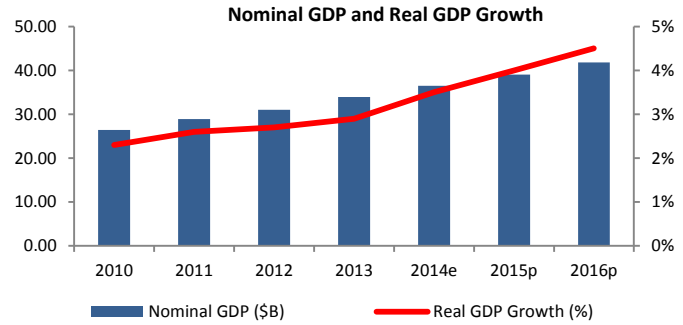
Trading on Egypt's stock market kept improving during the third quarter with the index surging 74.6% y-o-y during the first nine months of 2014 to close at 9,811.40 points. The average daily volume traded reached 155.56M shares worth $94.40M in Q3 2014, up from 108.18M shares worth $56.14M recorded a year earlier. Market capitalization stood at $73.31B up from $56.35B in September 2013 with the number of transactions increasing by a yearly 23.8% in Q3 2014 to 1.47M.

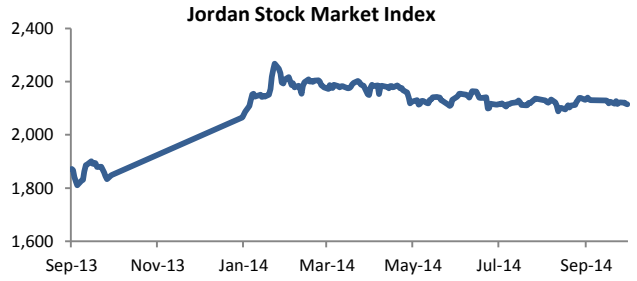
BLOMINVEST BANK

Jordan Macro and Equity Market

Perseverance to Improve in the Face of Adversity Paying Off for Jordan

Key Macroeconomic and Equity Market Indicators





The Jordanian Kingdom demonstrated its ability to respond to problems faced in the previous quarter, such as the influx of Syrian and Iraqi refugees and security concerns in the region. Amendments to the renewable energy law were endorsed by the government in response to the energy crisis by deleting taxes on renewable energy items. The Jordanian government is aiming to increase contribution of renewable energy to the energy mix from the current 3% to 40% by 2020. Also, cooperation with Bahrain attempted to better control security issues in the region via joint training of the security forces of both nations. In addition, a 3-year agreement with the German Development Bank aimed to reduce the water crisis. One negative development was the banning of livestock from Romania, historically the second largest exporter of meat to Jordan, due to the outspread of blue-tongue disease in Romania. Also worth noting is the estimated decrease in numbers of Iraqi refugees in Jordan by the UNHCR, with the number expected to decline 5.82% year-on-year (y-o-y) to 23,290 by December 2014, while Syrian refugees are expected to increase by 12.40% y-o-y to 1,410,520.

On the economic front, the International Monetary Fund (IMF) anticipated growth rate to reach 3.5% in 2014, up from 2.9% in 2013. Inflation was contained to 3.2% between Jan-June 2014 from 6.5% in H1 2013. The inflation rate by September declined to 3.11%.

Jordan's tourism industry continued to boost in spite of regional difficulties. Tourism revenues displayed a 9.68% y-o-y increase to $3.40B. The main driver behind this leap in revenues was the increased influx of tourists to the Kingdom during Pope Francis's visit, which attracted large numbers of tourists, however with the same occupancy rate of last year, as revealed by Ernst and Young's occupancy rate that stagnated at 61.00% in the first nine months of 2014, similarly to the same period in 2013.

On the external front, trade deficit widened by 3.82% y-o-y by August 2014 to $7.57B compared to $7.23B in the same period of 2013. August statistics were reflective of this widening, with total imports growing 13.07% to $1.01B, more than offsetting the 8.58% growth in exports to $311.39M. This jump can be attributed to the continued interruption of gas imports from Egypt, which forced the Jordanian government in to switching to fuel oil and diesel, imported primarily from Russia, the UAE, and India to satisfy the country's energy needs. These figures explain the 3.97% y-o-y drop in the export/import ratio to 30.93% for August 2014, and a 2.07% y-o-y increase by August 2014 to 31.56%.

Jordan continued to experience difficulties in meeting IMF requirements. The fiscal deficit jumped by 14.56% y-o-y to $650.46M by July 2014, up from $522.06M during the same period in 2013. This broadening of the fiscal deficit resulted in the Kingdom's net outstanding debt to increase to $28.68B from $26.92B, equivalent to 79.6% of GDP. However, Jordan's ability to withstand the high level of security threats due to surrounding conflicts has boosted the Kingdom's S&P rating from negative to stable, and has convinced the IMF to allocate $125.4M for immediate release on November 10th, 2014 after the completion of the IMF's fifth review of its Stand-By Arrangement. Subject to approval by the executive board, this would bring the total current reimbursements to $1.38B, with the total agreed upon amount equaling $2B.

One of the key drivers of Jordan's improved rating is its banking sector, which kept on posting positive indicators revealing its steadiness and immunity to the regional uprisings. Money supply M2 rose by 6.59% y-o-y to $41.08B by September 2014, which reveals an increasing level of liquidity in the market. As for credit facilities, they showed an annualized 3.09% y-o-y improvement to $27.05B. Additionally, total deposits increased to $41.90B in September 2014, up from $38.86B for the same period in 2013. In details, deposits in Jordanian Dinar (JD) rose by 11.19% y-o-y to amount for $32.89B, while those in Foreign Currencies (FC) decreased in September by a yearly 3.01% to $9.00B. The faster growth rate of deposits in local currency indicates an optimistic sentiment amongst depositors in favor of the JD as the Kingdom is showing robust efforts to outpace local and regional challenges.

In an encouraging step toward economic growth and job creation, the Central Bank of Jordan cut, by the end of June, interest rates on key monetary policy instruments. The interest rate on overnight deposit window facility and the rate on weekly repurchase agreements were reduced by 50 basis points to 2.75% and 4.0%, respectively. The CBJ's decision hopes to encourage investments by providing credit at lower cost.

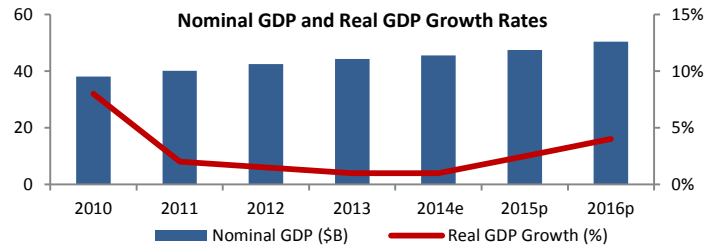
The Amman Stock Exchange (ASE) bounced back from a rough end to 2013, and has displayed noticeable stability in uncertain global economic times. The ASE, as of September 30th, 2014, posted a year-to-date increase of 2.89%, and a massive 14.29% increase compared to the same period last year, when the ASE suffered from increased security threats posed by the Islamic State and the suffering of their local trade as a result of regional instability. 372.43M shares traded for a total traded value for Q3 2014 of $548.33M, representing a 33.35% increase from the same period in 2013. The market cap for the third quarter of 2013 stood at $25.70B.

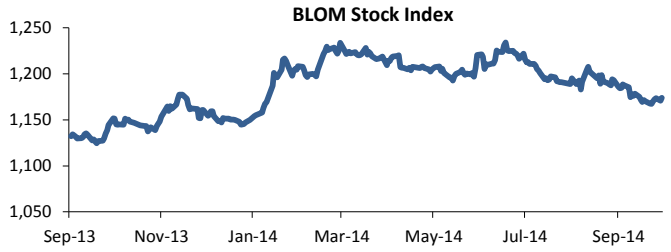
BLOMINVEST BANK S.A.L

Lebanon Macro and Equity Market

Political and Security Developments Exacerbate the Lebanese Economy

Key Macroeconomic and Equity Market Indicators





Lebanon sunk in a situation of presidential vacuum, the "master key" whose absence has been impeding other constitutional processes. The Parliamentary election has been postponed for the second time in less than two years, while the salary scale plan has not been approved yet.

On the security front, Lebanon bid the second quarter (Q2) farewell and greeted the third quarter (Q3) with three explosions that took place end of June. This was followed by clashes between the Lebanese army and rebels in Arsal, where the militants were able to take at least 30 soldiers and police captive during their retreat, keeping the security situation shaky in the region.

Amidst, global and regional mixed economic outlooks, the World Bank estimated Lebanon's economic growth to reach 1.5% in 2014 and 2% in 2015. Central bank governor Riad Salameh states that part of this rise is due to the persistence of the confidence factor, which is an essential component in the preservation of stability and growth. Moreover, the BLOM Purchasing Managers' Index decreased to an average of 47.0 points in Q3, compared to an average of 48.5 points in Q2, still below the 50 expansion-contraction frontier.

Year-on-year inflation was restrained at 2.6% on increasing "Clothing and Footwear" component partly offsetting the declining "Communication" sub-index. The former jumped by 16% as the cabinet formation in mid-February boosted consumer spending, while the latter dropped 23.9% after the Telecom Minister reduced tariffs on telecoms in June.

In the real estate sector, transactions dropped by 2.64% compared to Q2, to reach 17,792 in Q3. Foreigners' share increased from 1.50% in Q2 to 1.57% in Q3, which reveals a slight improvement in their confidence in Lebanon.

Looking at the construction sector, construction area authorized by permits shrank by 18.35% q-o-q to 3.18M in Q3, with an 8.73% decrease in the number of permits to 4,046. Construction was concentrated in Mount Lebanon taking a share of 43.08% of total permits.

On the other hand, tourism witnessed, in Q3 2014, an improvement of 21.72% q-o-q to 433,307 tourists, due to the 36.17% and 10.25% increase in European and Arab Visitors to 155,670 and 130,624. Airport passengers increased by 26.0% to reach 1.66M in Q3. However, most hotels in Lebanon this summer season experienced a drop in their occupancy rates and a steep fall in their revenues, due to the deteriorating political and security situation in the country, especially following June's explosion at Duroy Hotel in Raouche. The occupancy rate dropped 10 percentage points to reach 51%, on average, during Q3 2014 where revenue per available room declined by 14.72% to $85, while Average Room Rate added 2.67% to $166.33.

Therefore Association of Hotel Owners has called on the government to exempt tourists coming through Rafik Hariri International Airport from taxes and fees. It also urged the government to subsidize tickets for tourist delegations coming from Jordan, Iran and Syria in a bid to improve the tourism sector.

With regards to the country's external position, Lebanon recorded a deficit of $301.8M on its balance of payments during the first 9 months of 2014, compared to a higher deficit of $676.4M in the same period of 2013. This deficit could be attributed to the $13.22B trade deficit by September 2014 that broadened by 3.7% y-o-y. Imports decreased by 1.12% to $15.73B and exports declined by 20.43% to $2.51B. Exports are expected to rise as Lebanon aims to capitalize on Russia's decision to ban imports of food items from Europe and the U.S., and started exporting agricultural produce to Russia beginning of September.

In addition, to help industrialists increase their exports, the Finance Ministry will soon implement a law passed by Parliament to slash taxes on industrial exports by 50 percent. Another measure that will also go into effect soon is a government subsidy on the interest on operating capital loans of industrialists.

Shifting to the fiscal sector, gross public debt jumped by 8.9% y-o-y to reach $65.86B, by August of 2014, although fiscal deficit narrowed by 16.9% y-o-y to $1.58B by end of H1, with a primary surplus surging from $16.48M to $579.65M. The improvement in fiscal deficit came as a result of a 7.9% y-o-y increase in total revenues, coupled with a 0.9% increase in total expenditures. Concerning the salary scale, most lawmakers agreed to reduce its total cost from $1.4B to $1.3B, however, it has not been approved yet.

The monetary front, which remained resilient amidst the political, security and economic shocks that Lebanon has been facing, was the only driver of the economy in the first three quarters of the year. BDL's total assets increased 3.27% q-o-q to $85.43B end of September. Similarly, commercial banks' total assets surged up by 7.59% y-o-y, to reach $171.34B. The Central Bank's foreign currency reserves, excluding gold, are at an all-time high of $38.42B by Q3.

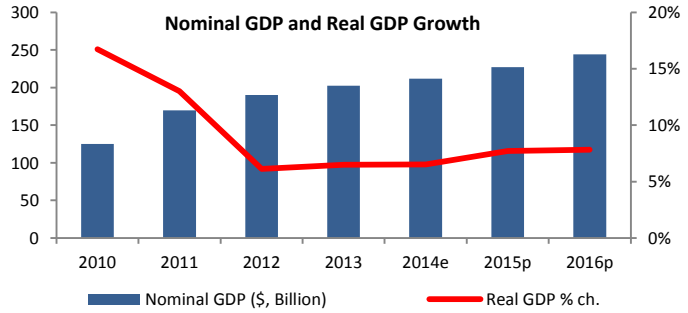
On the Beirut Stock Exchange (BSE), the external and internal security developments took their toll on the BSE. The BLOM Stock Index (BSI) lost 3.91% quarterly, to 1,174.13 points end of September, 2014. However, trade occurred at a higher average volume of 740,344 shares worth $4.67M compared to that of the previous quarter of 142,946 shares worth $1.36M. Market capitalization shrank from $9.79B to $9.71B. Noting that at the end of Q3, Audi listed 50M new common shares in order to increase its capital.

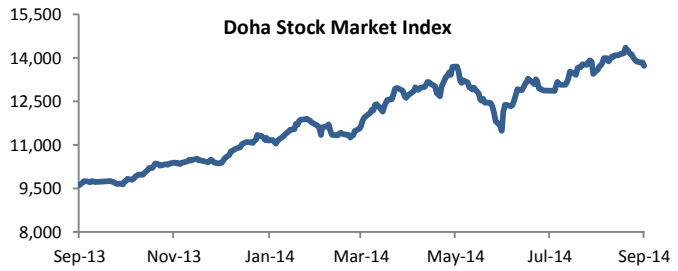
BLOMINVEST BANK

Qatar Macro and Equity Market

Qatar and FIFA Team-up to Boost Growth to Best in GCC States

Key Macroeconomic and Equity Market Indicators





The shock decision to award the hosting rights of the FIFA 2022 World Cup Tournament to the Gulf country triggered a massive construction boom. As it spends billions of dollars on construction, Qatar's economic growth is expected to keep outperforming the other five GCC states. Moreover, Qatar ranked the 2nd most attractive market in the world for investment in infrastructure (according to EC Harris and ARCADIS), where the value of new infrastructure projects awarded in Qatar is expected to hit $26.2B by end of 2014.

During the second quarter (Q2) of 2014, real GDP grew by 5.7% year-on-year (y-o-y) buttressed by double digit rise experienced in electricity, construction, trading, hospitality and financial sectors. This upsurge is targeted to accommodate the 11.3% hike in the country's population. The IMF projects economic growth in Qatar to reach 6.53% by end of 2014.

Qatar is trying to place greater emphasis on the non-hydrocarbon sector for diversification, where the real Gross Value Added (GVA) of the non-oil sector rose by 11.3% in the second quarter of the year. Owing to the major infrastructure projects in the country, construction activity saw a 14.52% y-o-y expansion in Q2. In contrast, GVA of the oil and gas sector declined by 2.2% y-o-y due to a retreating crude oil production and some major maintenance shutdowns in Natural Gas Liquids and Liquefied Natural Gases plants.

In the run-up to the World Cup and the growth in the non-oil sector, demand for labor has skyrocketed driving the unemployment rate in the third quarter (Q3) of 2014, to 0.2%. 99.85% of Qatari migrants were employed compared to 98.31% employment rate among Qatari nationals.

Inflation kept its uphill movement, primarily due to the upsurge of residential buildings' rents. Inflation reached 3.6% y-o-y, where the "Rent, Fuel, and Energy" component of the CPI jumped by 8.1% annually. "Food, beverages and tobacco" saw a 0.9% uptick. This trend is expected to continue as the combination of rapid population growth and higher GDP per capita are leading to a strong demand for housing, pushing up real estate prices.

On the suppliers' side, the Producer Price Index (PPI), measuring the average selling prices producers receive for their output, decreased by 2.9% y-o-y in August mainly due to lower prices of crude petroleum and natural gas. Due to the decline in global demand for oil, the price of the Qatari Land Crude Oil (QLCO) and that of the Qatari Marine Crude Oil (QMCO) shed from $110.65/barrel and $108.85/barrel in June to $97.0/barrel and $95.0/barrel end of September. The "Electricity & Water" component of the PPI also dropped by 3.2% due to the 5.9% price fall of electricity and 1.5% rise in the price of Water.

On the external front, Qatar's trade balance, during Q3 2014, shrank by 7.63% y-o-y to $24.99B, due to lower exports and higher imports. Apparently, the lower oil price pushed down the value of hydrocarbon exports, the largest component of total exports, leading to a 4.22% y-o-y decline in exports to $32.52B during July-September 2014. On the other hand, imports increased by 9.14% y-o-y to $7.54B, where motor cars and other passenger vehicles were the top imported commodities, rising by a yearly 6.37%.

For the fiscal year (FY) 2014/2015, Qatar will spend $62B, 3.5% higher than the previous budget. The increase, which is directed for the implementation of various developmental projects, is expected to accelerate economic activity. Moreover, Qatar plans to implement significant capital investment of about 15% of GDP over the next 5 years as part of its national development strategy. To support its gargantuan public spending, Qatari government is slowly shifting from bank loans to debt market. Government bank borrowing plummeted from 1.25x of government bonds in 2009, to 0.6x in the first half of 2014.

Looking at the monetary sector, total assets at commercial banks rose by 8.0% since year start to $271.80B. Total credit added 3.72% q-o-q to 174.82B, where total credit of the private sector grew by 6.07%, outweighing the 0.11% decline in total public credit. Total deposits showed a 0.47% quarterly uptick to $163.24B, due to the 4.41% rise in public deposits, while private deposits shed 2.70%.

In an attempt to improve the liquidity profile of the banking system and asset quality, the Qatar Central Bank (QCB) specified that the commercial banks' loans-to-deposit ratio should not exceed 100% by 2015. Loans-to-deposits ratio stood at 107% end of September, higher than its level end of Q2 at 104%. Moreover, the strong current account surplus led international reserves to record its all-time high at $43.8B by September 2014, revealing an 11.5% y-o-y surge.

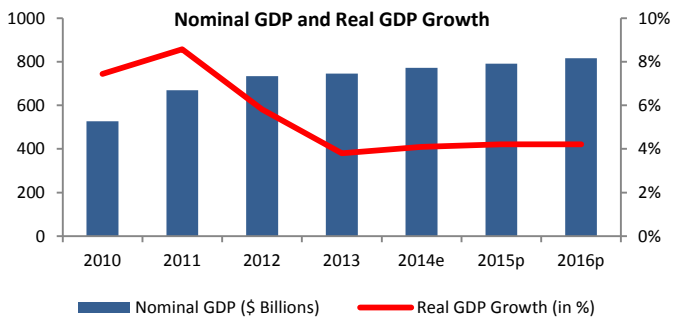
The Doha Stock Market Index (DSMI) climbed by 19.49% q-o-q to 13,728.31 points, end of September 2014. Trade during the third quarter occurred at a volume of 1.02B shares worth $12.25B, compared to a higher volume of 1.69B shares worth $19.08B during Q2. By end of September, Standard & Poor's Dow Jones upgraded the Qatari market from frontier to emerging market status. This would open the door to additional investments by global funds into the Qatari stock market.

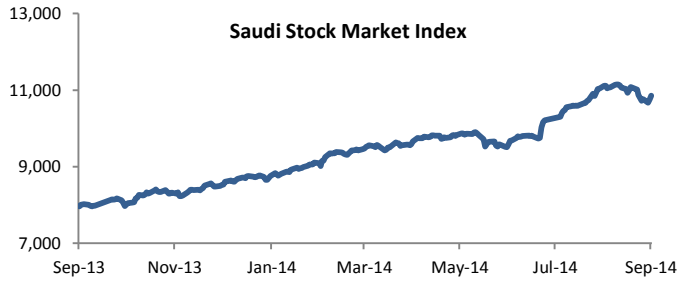
BLOMINVEST BANK S.A.L

Saudi Arabia Macro and Equity Market

Facing the Challenge of Lower Oil Prices

Key Macroeconomic and Equity Market Indicators





Amidst a still turbulent Middle Eastern scene, the United Nations blacklisted four Saudi and Kuwaiti nationals for financing Islamists in Syria and Iraq. As a response the two countries announced they would abide by the UN resolution aimed at halting any financial support to extremist groups. Moreover, the Kingdom donated $100M to the UN Counter-Terrorism Center. The Kingdom's aid during the third quarter of 2014 also targeted the Palestinian people with $140.7M, the Iraqi people with a humanitarian assistance of $500M and the Lebanese Army with a $1B donation.

The Kingdom's real GDP growth slowed from 4.70% in the first quarter of 2014 (Q1 2014) to 3.78% in the second quarter of 2014 (Q2 2014). Both the oil and non-oil sectors grew at a gentler pace going from 5.8% and 4.35% in Q1 2014 to 2.51% and 4.17% in Q2 2014. The private sector was the only sector witnessing acceleration in its growth from 4.43% in the first three months of the year to 4.72% in the following three months of the year.

Recent Purchasing Managers Index (PMI) readings reiterate the robustness of the private sector. The SABB HSBC Saudi Arabia Purchasing Managers Index (PMI) increased from 60.7 in August to 61.8 in September, its fourth successive upturn and the highest reading since June 2011. Strong demand especially for construction boosted new work and output while employers increased their staffing levels at the highest levels in around two years.

In spite of the ongoing shortage of affordable housing, inflation remained contained during Q2 2014. The Consumer Price Index (CPI) recorded year-on-year increases of 2.6% in June and 2.8% in July, August and September. Inflation remains at bay from last year's highs such as the 3.7% recorded in July 2013.

According to Jones Lang La Salle's real estate report, the shortage of housing led to an increase in sales and rental prices for the residential and retail sectors in Q3 2014.

In the residential sector, the rent index for apartments rose by 6% y-o-y while the sales index grew by 11%. For villas, it's the rental index that increased the most, rising by 12% y-o-y while the sales index edged up by 4%. Despite the 13,000 units which were completed in the first six months of the year, the total supply of 957,000 units falls short from meeting the Saudis' demand. The Jones Lang La Salle report forecasts a supply of 6,000 units in the last quarter of 2014.

In the retail market, average retail rents per square meter have increased across the board on a quarter-to-quarter basis. Retail rents have ranged between $722.67/sqm and $754.67/sqm according to the report. In 2014, the two important completed projects were Al Nakheel Mall and the Olaya Towers Retail space while the retail segments of the King Abdullah Financial District KAFC and ITCC, the first IT park of the kingdom, were delayed and pushed into 2015.

Aside from the housing shortage, yet another challenge presents itself, but this time in one of the economy's main pillars: Oil. The rising US oil production has flooded the market, pushing oil prices downwards to around four years low. With low production costs, Saudi Arabia is able to bear with lower prices and preserve its market share. It remains to be seen whether it will agree to once again assume its role of "swing producer" by curbing output to shore up prices.

Although lower oil prices mean lower export revenues, the Kingdom's external position is nonetheless robust. Made up of 74% investments in foreign securities and 24% of foreign currency and deposits abroad, SAMA's reserve assets recorded an ample $744.91B in Q3 2014. However, the accumulation of foreign reserves has slowed over 2014 posting respective year-on-year growths of 9% in Q1, 7% in Q2 and 6% in Q3.

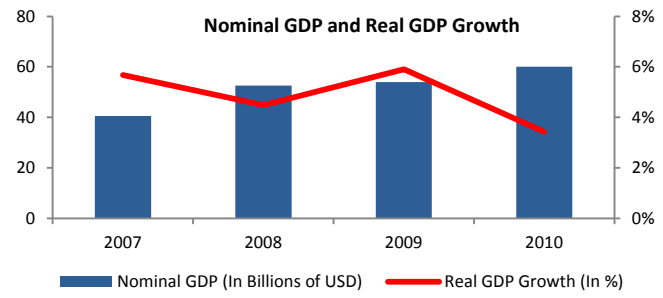
The Tadawul Stock Exchange Index (TASI) recorded a 14.1% y-o-y growth in Q3 2014 and reached 10,854.8 points. The volume of traded shares reached 15.6B, the value of traded shares amounted to $142.03B and the total market cap totaled $590.13B. The value of investment funds stood at $32.4B in Q3 2014, a 17.6% y-o-y increase. The Saudi Arabian cabinet has licensed the Public Investment Fund to start companies in the Kingdom and abroad, on its own or with the partnership of the private and public sectors. The Capital Markets authority has also announced in July that it will allow direct foreign investment on Tadawul in early 2015. For now foreigners can only invest on Tadawul through swap arrangements: after the direct investment news broke, the number of swap arrangements increased from 173 in H1 2013 to 182 in H1 2014.

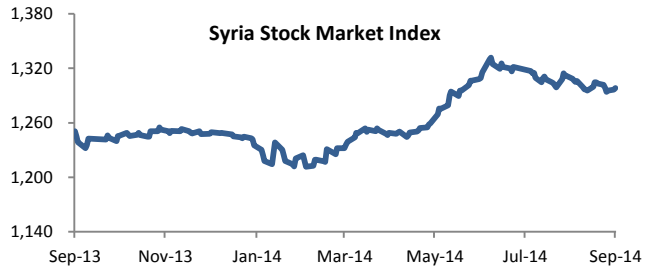
BLOMINVEST BANK

Syria Macro and Equity Market

Falling under the Strains of War

Macroeconomic and Equity Market Indicators





One month after the UN dubbed the doings of the self-proclaimed Islamic State (IS) as "mass atrocities" and on the eve of 9/11, US President Barack Obama announced air strikes against IS in Syria and in Iraq. Five other Arab countries have signed on to be the US's allies in counter-terrorism: Bahrain, Qatar, Saudi Arabia, Jordan and the United Arab Emirates. In August, the US Federal Aviation forbids any American airline to fly to Syria. All these developments come to cement the fact that the Syrian crisis is worsening. According to the UNHCR, the number of registered Syrian refugees now exceeds 3 million.

As for the National Coalition, it believes that the Syrian rebels are not getting enough arms from their supporters. The new president of the coalition, Hadi al-Bahra, who is close to Saudi Arabia and which was appointed as Ahmad Jabra's successor in July promised to find a political solution to the Syrian conflict.

The raging Syrian scene has put a lot of pressure on the government and has made it harder to maintain subsidies of basic commodities. This is why the price of basic foods such as sugar, rice and bread has been lifted in July. The price of sugar and rice were increased from 25 SYP/kg ($0.16) to 50 SYP/kg ($0.32) and the price of bread was lifted by more than 67%. On the unregulated markets, the price of commodities such as sugar and rice can go up to 600 SYP ($3.89).

With the progressive removal of subsidies and with a wrecked industrial sector, living conditions for individuals and operating conditions for companies are becoming increasingly difficult. The industrial sector was hit hard by the war: Investment spending reached SYP 123M ($0.80M) in the first half of 2014 (H1 2014) compared to a planned SYP 1.6B ($0.01B). In fact, the realization of any kind of investment has become problematic after the public debt fund has stopped handing out loans. Thousands of companies went out of service while those who are still operational are having a hard-time surviving. In H1 2014, total sales amounted to SYP 38.4B ($0.25B) compared to a planned SYP 242B ($1.57B) and therefore stocks have increased from SYP 14.5B ($0.09B) at the beginning of the year to SYP 51.3B ($0.33B) in H1 2014. Imports of industrial companies were also lower than expected in H1 2014 standing at SYP 5.8B ($0.04B) compared to an expected SYP 48.6B ($0.32B).

The tough operating conditions have left many areas underserved, especially that the quality and availability of services varies from one region to the other. Saccal Holding, a Lebanese manufacturer of generators and power solutions, has identified a growing demand for generators in Syria due to the damages inflicted by the war on electricity infrastructure and has therefore opened a warehouse in Syria.

The Syrian conflict has generated several operating barriers for companies in the industrial sector. Due to the sanctions imposed on Syria and due to disruptions to trade routes, spare parts are difficult to acquire and obsolete machines cannot be replaced since foreign experts are not available.

The flow of goods in and out of the country has been greatly affected by the conflict. The Syrian government announced in July that it's planning on getting yet another line of financing from its key ally Iran in order to finance imports. Most of the imports made by the General Foreign Trade Organization are made up of rice, sugar, flour and medicine and have inevitably increased due to their nature as basic commodity goods, from SYP 22B ($0.14B) in 2011 to SYP 30B ($0.19B) in H1 2014. In contrast, the sales of the General Foreign Trade Organization have drastically declined from SYP 23.5B ($0.15B) in 2011 to a mere SYP 5B ($0.03B) in H1 2014. Meanwhile, public sector imports financed by the Commercial Bank of Syria totaled SYP 66B ($0.43B) in the first five months of 2014, in line with the government's strategy of providing public institutions with basic commodities.

As the conflict intensifies, the provision of basic commodities while keeping subsidies becomes more of a challenge. However, according to news agency SANA, it is estimated that social subsidies have been increased by SYP 368.5 billion ($2.31B) to 983.5B SYP ($6.16B) in the 2015 budget. Around SYP 338 billion ($2.12B) will be allocated to subsidize oil derivatives, SYP 413 billion ($2.59) for electric power and SYP 195 billion ($1.22B) for flour, sugar and rice and other allocations.

The weak foreign trade activity puts pressure on the already depleted foreign reserve assets of the Central Bank and renders open-market operations harder to execute. The Syrian pound's official peg against the dollar stands testimony to that going from 149.25 SYP for the dollar at the end of July to 153.35 SYP at the end of August and to 159.7 SYP at the end of September 2014. The value of the Syrian pound was at its lowest in almost four years in September registering 160 SYP for the dollar.

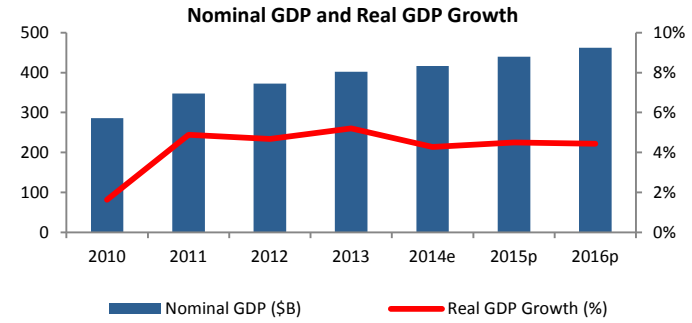
The Damascus Securities Exchange weighted index reached 1,298.29 points at the end of September, 1% lower than its value at the end of August. 412,000 shares, worth SYP 52M ($0.33M) were traded in September compared to 3,000,000 shares, worth SYP 295M ($1.85M) in the previous month. The only gainer of the month was Bank of Syria and Overseas with a monthly gain of 1.33%. However, Syria International Islamic Bank was the biggest loser with a drop of 4.62%, followed by a decline of 4.13% for ChamBank, 2.68% for Qatar National Bank Syria, 1.94% for Al-Ahlia Transport Company and 1.83% for Al-Ahlia Vegetable Oil Company.

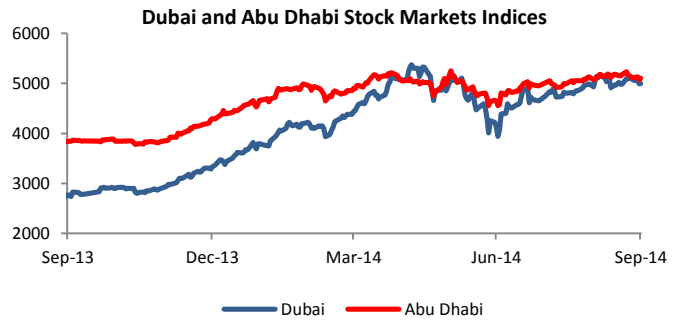
BLOMINVEST BANK

UAE Macro and Equity Market

Continued Focus on Strategic Investments amid Robust Economic Performance

Key Macroeconomic and Equity Market Indicators





Surviving the regional tensions kept distinguishing the United Arab Emirates (UAE) that focused during the third quarter on boosting tourism, social welfare and financial activity. The UAE also plans to install 7 new power plants by 2020 targeting the increase of the existing capacity by one third. In addition, Etihad Rail which is funded by UAE's federal government will launch the second phase of its $11B national rail network that covers 628 km.

The economy of the UAE continued to withstand the undesirable waves of violence and instabilities painting the neighboring countries due to its appropriate strategies and governmental management. As a matter of fact, the International Monetary Fund (IMF) estimated economic growth to stand at 4.3% by the end of 2014 compared to 5.2% in the previous year. The consistent growth was also mirrored in the performance of the non-oil producing private sector that saw an increase in new orders and new export orders. In this context, the UAE's Purchasing Managers' Index (PMI) improved to 57.6 in September 2014 compared to 56.6 a year ago which is above the expansion contraction frontier of 50. The average inflation rate, up to the 3rd quarter, in each of Dubai and Abu Dhabi touched the 3% mainly on rising housing and education prices.

Authorities maintained their efforts to boost tourism in the Emirates and focused in Q3 2014 on medical tourism, eyeing half a million medical tourists by 2020. In this context, the UAE modified, in August this year, its visa policy and announced a 3-month renewable visa for medical tourists and their companions. Another rule took effect at the beginning of August that aims to boost cruise tourists by providing them with multiple-entry visas for all the UAE ports in their itinerary for $55. In addition, airport passengers at Dubai International Airport (DIA) rose 6.2% y-o-y to 52.42M by the end of September this year. Al Maktoum International Airport, the 4-year-old airport, started a $32B expansion plan to become the world's largest and busiest airport by handling 120M passengers within 6-8 years.

Dubai remained the leading country in the Middle East in terms of occupancy rate. Even though the rate posted a slight dip of 2 percentage points (p.p), yet it remained the highest at 77% by September 2014. In Abu Dhabi, occupancy rate improved by 1 p.p going from 75% by September 2013 to 76% during the same period this year.

Externally, the Emirates are expected to post a trade surplus of $118.7B by the end of 2014 narrowing from the $122.4B recorded in 2013. The narrowing surplus will result from imports growing (+6.0%) at a faster pace than exports (+2.9%). The former will stand at $248.3B by the end of 2014, while the latter is expected to settle at $367.0B.

UAE's perseverant attempts to diversify its economy away from oil are starting to bare fruits. The Emirates' strategy was highlighted in the 5% yearly increase of non-hydrocarbon exports to $249.9 expected by the end of 2014 and the 1.4% yearly downtick realized in hydrocarbon exports, which almost constitute 32% of total exports.

Public finance in the UAE kept on revealing positive results, yet a slower pace. The consolidated fiscal balance is expected to narrow in 2014 by 11.1% y-o-y to stand at $37.07B if net loans and equity are excluded from expenditures. Consolidated revenues are estimated to slightly increase by 0.8% y-o-y to $138.61B or 32.3% of GDP, while the consolidated government expenditures (excluding net lending) will stand at 23.7% of 2014's GDP or $101.54B. Spending will remain at the heart of 2015's federal budget draft as half of it will be dedicated to social development and welfare. UAE's federal budget for 2015 totaled $13.4B, which is 8% higher than that of 2014.

On the monetary front, the UAE showed satisfactory yearly performance in the first nine months of 2014. M3 widened by 12.1% y-o-y to reach $362.93B by the end of September 2014. As for total bank assets, they edged up by 21.0% to settle at $624.05B compared to $515.95B by September 2014. Lending activity was also on the rise mainly boosted by investors' confidence and the overall positive sentiment reigning the country. In this context, total bank loans and advances were up by 27.1% to $373.11B. Similarly, total deposits increased by a yearly 11.4% to $381.92B.

Financial markets in Dubai and Abu Dhabi maintained the upward trend during the 3rd quarter of 2014. Dubai Index surged 83% y-o-y by the end of September 2014 to reach 5,043 points, while Abu Dhabi index edged up by 33% to 5,106 points.

While the average daily traded volume on the Dubai stock exchange narrowed by 23% y-o-y in Q3 2014 to 501.01M shares, the average traded value grew 62% over the same period to $337.22M compared to $208.44M in Q3 2013. The number of transactions edged up to 517,180 in Q3 2014, up from 395,756 in Q3 2013. As for market capitalization, it broadened by an annualized 66% to $94.26B by September 2014.

With respect to Abu Dhabi's Stock Exchange, and despite the positive yearly performance, the average daily volume traded tumbled to 112.37M shares worth $80.74M in Q3 2014 compared to 190.15M shares valued at $99.24M recorded a year earlier. Yet, the market capitalization widened by 23% y-o-y to $115.75B, with the number of transactions reaching 143,690 in Q3 2014, down from 204,025 in Q3 2013.

BLOMINVEST BANK s.a.l.

Research Department
Bab Idriss, Weygand Str.
POBOX 11-1540 Riad El Soloh
Beirut 1107 2080 Lebanon

Tel: +961 1 991 784
Fax:+961 1 983 241
research@blominvestbank.com

For your Queries:

Marwan Mikhael, Head of Research
marwan.mikhael@blominvestbank.com
+961 1 743 300 Ext: 1234

Mirna Chami, Research Analyst
mirna.chami@blominvestbank.com
+961 1 743 300 Ext: 1285

Riwa Daou, Research Assistant
riwa.daou@blominvestbank.com
+961 1 743 300 Ext: 1256

Lana Saadeh, Research Assistant
lana.saadeh@blominvestbank.com
+961 1 743 300 Ext: 1255

David Achdjian, Junior Economist
david.achdjian@blominvestbank.com
+961 1 743 300 Ext: 1255

IMPORTANT DISCLAIMER