May 18, 2015

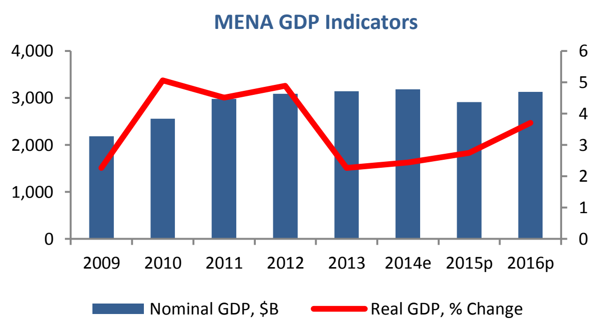
MENA Review and Quarterly Outlook

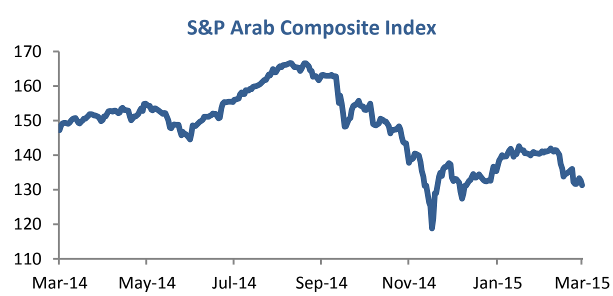
BLOMINVEST Views on Regional Economic and Financial Developments for Q1 2015

View of the Quarter

At the onset of 2015, movements in international oil prices remained at the center of the economic developments in gulf countries while politics and the security situation took center stage in macroeconomic developments in Syria, Jordan and Egypt. Oil production in **Saudi Arabia** reached around a 12-years peak in March contributing to the bearish trend in oil prices. However, the Kingdom will remain able to finance the fiscal deficit that will arise in 2015. Economic developments in **Qatar** displayed offsetting performances, as the state countered headwinds powered by cheaper oil with increased activity in the non-oil sector maintaining the country's financial health. The bearish trend of international oil prices negatively impacted the **UAE**'s trade and fiscal balances in Q1 2015. Their ongoing diversification strategy as a buffer away from this vital commodity has never been as important as it is in today's climate. Death tolls in **Syria** continued to rise while officials attempt to ease fiscal pressures, reduce inflation and crack down on tax evasion. Despite hopeful economic indicators for **Jordan**'s economy in January, economic performance across several fronts took a turn for the worst as Jordan found itself to be more actively involved in regional politics by contributing to airstrikes against both the Islamic State and Yemen. In spite of security concerns emerging after the turmoil in Yemen, economic recovery continued in **Egypt** during the first quarter of 2015 with authorities eager to attract foreign investments and boost tourism activity. **Lebanon** benefitted from political and economic circumstances, as improved security within the borders and cheaper oil lifted the local economy. In details, Lebanon posted a recovery of its tourism sector, however its real estate sector remained depressed. The fiscal deficit continued to narrow but economic growth projections are still at 2% for 2015.

HEADLINES





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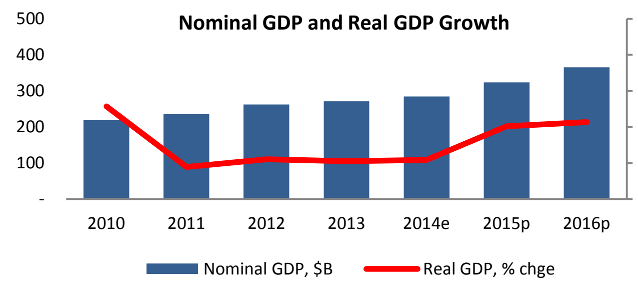
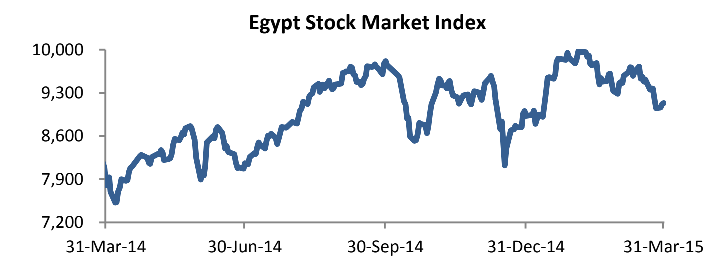
Egypt Macro and Equity Market

The Robust Economic Recovery Remained Intact to Regional Political Developments

Key Macroeconomic and Equity Market Indicator





The series of terrorist attacks quickened in Q1 2015 with Egypt almost facing 331 incidents compared to 353 for the entirety of 2014. The emerging developments in Yemen and the military intervention of Egypt were additional reasons for skepticism about the country's progress.

However, the land of Pharaohs was determined to maintain its recovery and succeeded to welcome 2015 with a sequence of expansionary projects. Starting with the economic summit that took place in Sharm el Sheikh between the 13th and 15th of March, Egypt secured around $36.2B in deals, of which $12.0B were investment pledges from GCC countries. Another project worth $45B was introduced during the conference: "New Cairo", a new capital for Egypt to be built not far from Cairo during the coming 5 to 7 years.

Aiming at job creation and attracting foreign investments, the economic summit targeted by 2030 a 7% economic growth, a 50% public debt to Gross Domestic Product (GDP), a 5% budget deficit to GDP and a contained inflation between 3% and 5%. Looking at facts, real GDP has risen at a rate of 5.6% during the first half of the FY 2014/15, following a 6.8% growth between July and September and a 4.3% progress during the second quarter of FY 2014/15. In the same context, the IMF raised its projection for Egypt's economic growth to 4.0% in FY 2014/15 and 4.4% in FY 2015/16. When it comes to prices, annual inflation reached 11.51% in March 2015 compared to 10.56% in the previous month and 9.82% in March 2014.

Tourism activity maintained its momentum targeting 12M tourists by 2015. Thus, the overall number of tourists in January 2015 stood at 678,000, up from 642,000 in the same month last year. Worth mentioning that 72.3% of tourists were Europeans partly due to the lift of some European countries their flights halts to Egypt. The number of nights spent also rose over the same period by 10.0% to 6.84M, tightening the average number of nights per tourist to 9.2 in January 2015, compared to 10.9 in the previous year. In the same context, the latest data regarding tourism revenues revealed a progress from $1.88B in H1 of FY 2013/14 to settle at $4.01B in H1 of FY 2014/15.

The occupancy rate of hotels located in Cairo edged up from 30% in Q1 2014 to reach 46% this year. Similarly, the average room rate added 35.4% y-o-y to settle at $103, while room yields more than doubled to reach $48 by March 2015, up from the $23 recorded in the same period last year.

The external position of Egypt failed to follow the improving tourism activity as the country had to repay its external obligations. This was reflected in the Balance of Payments (BoP) performance that went from an overall surplus of $2.00B in H1 of FY 2013/14 to settle at a $1.02B deficit in H1 of FY 2014/15. The deficit was mainly due to the deteriorating current account balance that revealed a broadening deficit of $4.30B in H1 FY 2014/15, up from $866.0M recorded a year earlier. The latter was the result of higher merchandises imports versus lower exports of goods.

Following several economic reforms in 2014 attracting international investments became the country's pursued goal. In H1 of FY 2014/15, net Foreign Direct Investments (FDI) increased to $2.7B, up from $2.1B during the same period last year. However, FDIs are expected to surge by the end of 2015 especially after the new investment law and the series of agreements signed at the Economic Development Conference that took place in Sharm El Sheikh.

When it comes to the country's fiscal position, and despite Egypt's ongoing reforms, fiscal deficit (including net acquisition of financial assets) reached $17.31B in H1 of FY 2014/15 compared to $12.39B deficit recorded a year earlier. In details, the overall revenues dropped 4.1% y-o-y to $25.25B over the mentioned period, while total fiscal expenses edged up by 12.1% y-o-y to $42.86B. In order to finance its budget deficit, Egypt is eyeing a $2B Eurobonds issuance before June this year. Regarding the nation's debt, it stood at $252.34B by the end of December 2014 compared to $216.56B in December 2013.

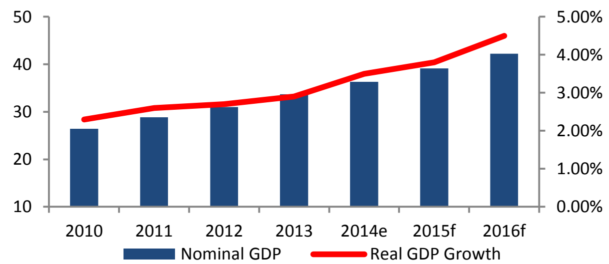
The negative BoP led net foreign reserves to decline while ECB's key interest rates were cut by 50 basis points during the Monetary Policy Committee's (MPC) meeting in January 2015. Accordingly, net foreign reserves stood at $15.29B at the end of March 2015 down from the $17.41B by March 2014. However, total lending activity and total deposits (including government deposits) jumped by respective levels of 17.0% and 20.3% y-o-y to $84.12B and $208.76B. Additionally, the MPC decided to keep levels of interest rates unchanged by the end of February 2015. In this context, the Central Bank of Egypt's (CBE) key interest rates remained steady at 8.75% for the overnight deposit rate, 9.75% for the overnight lending rate, and 9.25% for the discount rate and the CBE's main operation rate.

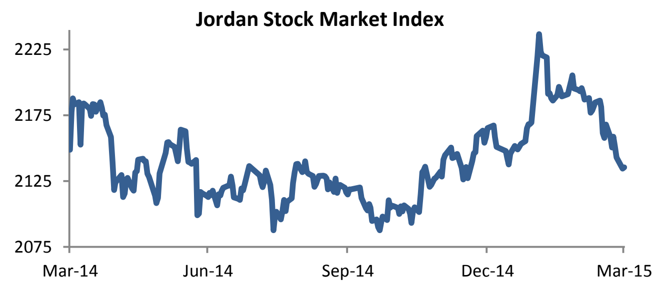
Dissimilar performance characterized the Egyptian stock exchange in the first quarter of 2015. It seems that the security turbulences that came across during the quarter and the newly imposed taxes on distributed dividends and capital gains had an impact on smaller and less liquid companies while large companies witnessed performance over the same period. In fact, the EGX30, the Egyptian bourse's benchmark index, added 2.3% y-td in Q1 2015 while the EGX70 and the EGX100 slipped by 8.5% and 4.2% since year start. Hence, market capitalization stood at $63.75B, down from $69.32B in December 2014 with the number of transactions slumping by a yearly 25.1% to 1.30M. Similarly, the average daily volume traded reached 125.06M shares worth $73.32M in Q1 2015, down from 195.52M shares worth $96.83M recorded in Q4 2014.

Jordan Macro and Equity Market

Mixed Results in Early 2015, but Cause for Optimism Exists

Key Macroeconomic and Equity Market Indicators





Pressure on the Hashemite Kingdom of Jordan continued to ease with the decreasing number of Syrian refugees. The UNHCR had previously estimated the number to increase over 2015 from 811,070 to above the 1M-mark, only for the total number to currently stand at 628,427 as it became more difficult for Syrians to cross the border in to Jordan. Despite this alleviation of duty, Jordan has only received 8% of the required $1.19B in aid needed to help the refugees, resulting in the opening of discussions with the U.S on an aid package. The Kingdom is also attempting to begin work on an $18B crude oil pipeline between Basra and Aqaba in coordination with the Iraqi government. The Kingdom's economic performance was also hindered by the execution of the military pilot Kassabeh on February 3 and the Kingdom's consequent participation in air raids against the Islamic State.

On the economic front, the International Monetary Fund (IMF) concluded its sixth review under its 2-year standby arrangement with Jordan, resulting in the allowance of the distribution of $200M in aid. Also, the IMF expected growth rates to hover near the 4% mark in the near future (3.8% in 2015 and 4.5% in 2016), and forecasted inflation to stand at 1.2% during the year due to lower commodity prices as consumer prices dropped only 0.2% during January 2015.

Jordan's tourism sector experienced a poor start in 2015, as the Kingdom failed to build on an improved industry in the previous year. The reduced performance is linked to the increased contribution of the Kingdom to airstrikes against the Islamic State following the execution of a Jordanian military pilot. Consequently, travel receipts for January 2015 displayed a 6.0% y-o-y downtick to $345.88M. In addition, tourist arrivals for the first two months of 2015 stood below the 1M mark, at roughly 997,300 tourists, representing an 8.02% annual decline. Furthermore, Ernst & Young's hotel occupancy report displayed a 12 percentage-point (pp) y-o-y drop in Amman's occupancy rate to 46%, while the average room yield also decreased over the same period by 20.1% to $73 per room.

On the external front, Jordan's trade deficit narrowed by 16.90% y-o-y by end-February 2015 to $1.84B. This contraction was due to the decrease in the Kingdom's imports outpacing that of the exports. Despite the Egyptian gas supply cuts, imports during the first 2 months of 2015 managed to slump by 15.52% to $2.98B. This was mainly due to the global plummet in oil prices that offset the Kingdom's needs for greater imports of energy from Russia, UAE and India. In parallel, total exports by February 2015 suffered a slighter dip of 13.18% in value to $1.14B on the back of reduced export of minerals and chemical fertilizers, in addition to crude and phosphates by 45.35% and 17.49%, respectively.

Jordan continued to improve on its fiscal performance and remain in line with its IMF obligations. Jordan's S&P rating remained stable, and allowed for the successful completion of the IMF's sixth review of the $2B standby arrangement. Consequently, the fiscal deficit, including foreign grants, narrowed 18.25% y-o-y to $1.27B. In parallel, Jordan's net public debt attained 80.9% of GDP as a result of an 8.42% annual growth to $29.23B, as outstanding domestic (49.5% of GDP) and external debt (31.4% of GDP) up-ticked by $1.13B and $1.14B, respectively. Meanwhile, the Kingdom's general budget displayed a slight primary deficit of $54.21M by November 2014, which excludes interest payments amounting to $1,216.62M, a marked improvement on the $617.73M deficit of the previous year.

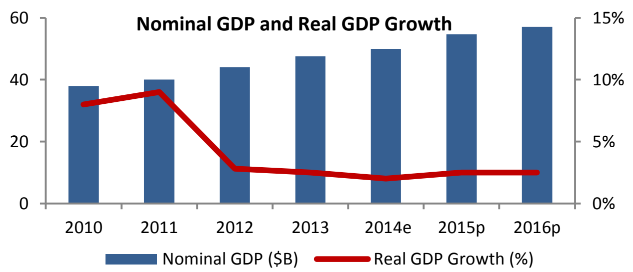
Jordan's banking sector continued to post improved performances in 2015 despite local and regional struggles. Specifically, money supply M2 augmented 6.93% y-o-y to stand at $41.91B by January 2015. Similarly, total credit facilities rose 1.63% annually to $27.25B over the same period. This increase is explained by facilities denominated in local currency improving 5.01% y-o-y to $24.47B by January, with facilities denominated in foreign currency declining by 20.94% y-o-y to $2.78B. Moreover, total deposits at licensed banks were boosted by 9.81% y-o-y to $43.49B at end-January. In details, deposits denominated in local currency gained an annual 13.82% to $34.62B, while deposits in foreign currencies contrastingly decreased by 3.46% y-o-y to $8.88B. It is also worth mentioning that 79.07% of total deposits were made by the resident private sector, down from 80.26% at the same time last year. On the 3rd of February, 2015, the Central Bank of Jordan drove down two main monetary policy tools in a bid to boost economic activity across all economic sectors and improve banking liquidity, as the overnight deposit window rate and the weekly repurchase agreements rate dropped from 2.75% and 4.00% in January 2015 to respective levels of 1.75% and 2.75%.

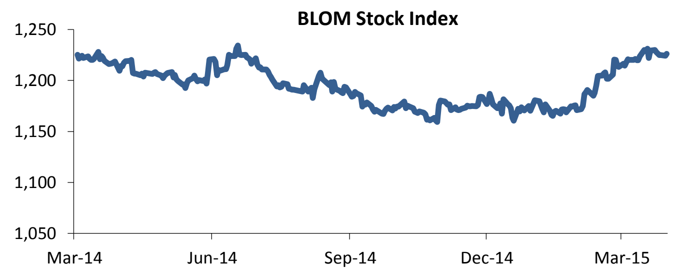
The Amman Stock Exchange (ASE) posted a mixed beginning to 2015, with Q1 performance split into two trends. Between January 1st and February 3rd, the Jordanian bourse posted a 3.30% increase on the back of improved IMF expectations for inflation and growth. However, the positive performance that depicted the first month was overshadowed by Kassabeh's execution. Accordingly, the ASE experienced a slump in performance resulting in an overall y-t-d decline of 1.39% to 2,135.43 points. In detail, 464.18M shares were traded during the first three months of 2015 for a combined worth of $732.08M, compared to 473.50M shares worth $786.51M during the first three months of 2014. In parallel, total market capitalization at the end of Q1 2015 stood at $24.23B while total transactions added up to 61,193, posting respective downticks of 11.41% and 4.05% y-o-y.

Lebanon Macro and Equity Market

Lebanon Started 2015 Posting a Shy Progress

Key Macroeconomic and Equity Market Indicators





Despite talks between the different political parties, Lebanon continued to witness a protracted political impasse with a presidential vacuum for almost a year, a 5-month period lacking legislative sessions, and failure of successive governments to approve even one budget for the past 10 years.

Yet, the security situation remains stable, in spite of rising regional squabbles. This has led to a modest improvement in some sectors of the economy.

Hence, the International Monetary Fund (IMF) expected economic growth rate to increase from 2% in 2014 to 2.50% in 2015. However, the BLOM Purchasing Managers' Index remained below the 50 mark, at an average of 49.0 points in the first quarter (Q1) of 2015, compared to a higher average of 49.2 points in the last quarter (Q4) of 2014.

Lebanon went through a deflation in Q1 as consumer prices declined by 3.38% y-o-y, after Brent crude oil price reached a 5Y minimum end of January. The average Consumer Price Index stood at 97.55 points, mainly due to the 11.46% and 17.52% declines in its 2 major sub-indices "water, electricity, gas & other fuels" and "transportation", respectively.

As for the once-thriving sector in Lebanon, real estate witnessed an 18.23% drop in to 12,948 transactions in Q1, reflecting widespread pessimism over activity amid uncertain political environment. However, foreigners showed more confidence in Lebanon, where their share of total transactions increased from 1.48% to 2.37%, in 2015.

Similarly, construction was worse off, with the number of permits declining 26.78% y-o-y to 1,966 by February. An overall economic slowdown has stimulated developers to shy away from retail and commercial projects to residential projects. Demand for apartments has shifted to small- and medium-size outside the capital. Demand for luxury apartments in Beirut has almost come to a halt, as Arab investors have been hesitant to buy properties in Lebanon.

However, tourism, one of the main drivers of the Lebanese economy, saw a yearly improvement of 23.12% in Q1 2015 to 282,256 tourists. The stable security environment along with the good outcome of the winter sports season and lower ticket fares lured many tourists to visit Lebanon. For instance, Middle East Airlines reduced its fuel surcharge on tickets by 50% to reflect the recent drop in oil prices. Moreover, several Arab airlines increased the number of flights to Lebanon in response to the surge in passenger demand.

Consequently, hotel occupancy improved, with the average rate adding 14 percentage points to 53% by March. Average room rate and average room yield gained 8% and 46.5% to $172 and $92, respectively.

Lebanon recorded a deficit of $432.8M on its balance of payments in the first 2 months of 2015, compared to a surplus of $162.4M during the same period in 2014. However, trade deficit narrowed 30.03% y-o-y to $2.17B, by February 2015. Imports displayed a 26.18% decline to $2.66B, while exports dropped by 2.09% to $486.38M.

Shifting to the fiscal sector, gross public debt climbed 6.48% y-o-y to reach $69.21B by February 2015. In contrast, fiscal deficit narrowed 27.19% yearly to $3.07B in the 2014, with a primary surplus of $1.31B compared to a primary deficit of $239.68M, during 2013. This progress came as a result of a 15.48% increase in total revenues outpacing the 2.28% uptick in total expenditures. The rise in revenues was driven by a strong recovery in revenues from telecom (40.72%), although a big chunk is a one off transaction, while the main increase in expenditures came as a result of the 10.51% increase in interest payments to $4.19B. Worth mentioning that Public Works and Transportation Minister, Ghazi Zeaiter, announced the launching of an express transport project linking Beirut to Jounieh, after the approval of the Cabinet. The cost of the project of $250M would be funded by the World Bank. On another note, Lebanon sold $2.2B worth of sovereign Eurobonds, enclosing 10Y Eurobonds yielding 6.20%, and 15Y Eurobonds yielding 6.65%.

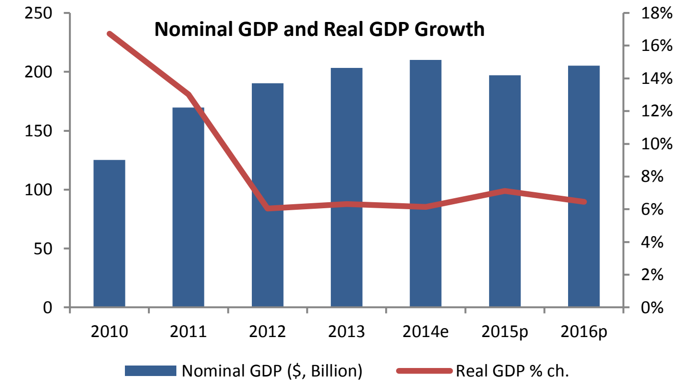
The monetary front remained sturdy and continued to lift the economy, as BDL's total assets increased 3.67% q-o-q, to stand at $88.84B by the end of Q1 2015. Likewise, its foreign currency reserves inched up 1.62% during the same period to $38.48B. Total assets of commercial banks posted a 0.49% increase since year start, to $176.66B by February.

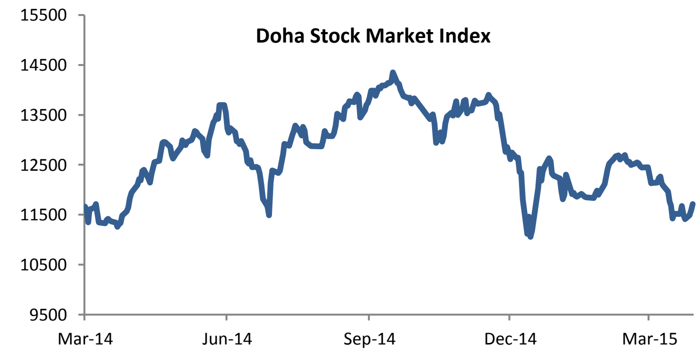
The stabilized political and security environment in Q1, led investors to regain their confidence in the Lebanese Bourse. The BLOM Stock Index (BSI) inched up 4.77% since last quarter, to 1,226.04 points end of March, 2015. Trade occurred at a higher average volume of 262,596 shares worth $2.01M, compared to 295,446 shares worth $2M, the previous quarter. Market capitalization widened by $544.22M to $10.32B, following the listing of 3M Bank of Beirut preferred shares class "J" on the BSE in February. Moreover, the CMA will authorize the launching of an electronic market for digital trading. This electronic exchange will be run from the BSE if the government privatizes the bourse. If not, the online bourse will be independent and owned by the private sector.

Qatar Macro and Equity Market

Qatar Stays Afloat in Ocean of Cheap Oil

Key Macroeconomic and Equity Market Indicator





The resolution of an 18-month long dispute between Egypt and Qatar, which was brokered by Saudi Arabia, did not last very long as an Egyptian official accused Qatar of financing terrorism, a list that has included both the Islamic State in Syria and Iraq, and Hamas in Palestine.

In parallel, FIFA confirmed the date for World Cup 2020 to take place between November and December, where the final game would be on the 18th of December.

The undergone projects in preparation for the FIFA World Cup 2020 resulted in a 6.7% year-on-year (y-o-y) growth in Qatar's real GDP, in the last quarter (Q4) of 2014. Qatar plans on making at least 80% of all development projects related to the event to be sustainable and available for use after 2020.

Real Gross Value Added (GVA) of the non-oil sector, with a 62.84% share of GDP, posted a 10.3% yearly growth in Q4 enhanced by double-digit upsurges witnessed in electricity, construction, trade, hotels, transport & communication, and domestic services. Major infrastructure and construction projects, which are mainly expected to be finalized before the FIFA World Cup 2020, led to a 17.7% y-o-y development in construction activity. Similarly, the GVA of the oil and gas sector grew by only 1.3% y-o-y as the halt on further gas explorations on the North Field is being implemented.

Inflation was contained at 1.4% y-o-y in March 2015, mainly affected by 4.1% and 6.1% price rises in "Housing , Water, Electricity & Gas" (21.89% weight) and "Transport" (14.59%). It is worth noting that the CPI was calculated using new weights and with 2013 as a base year.

On the suppliers' side, the Producer Price Index (PPI), measuring the average selling prices domestic producers receive for their output, plunged by 41.4% y-o-y in January, primarily due to the sharp decline in prices of crude oil and natural gas during 2014. The price of the Qatari Land Crude Oil (QLCO) and that of the Qatari Marine Crude Oil (QMCO) shed from $76.2/barrel and $74.4/barrel end of November 2014, to $56.1/barrel and $53.5/barrel end of February 2015. Therefore, the "Mining" group, which represents 77% of the PPI plummeted 44.3%. The PPI subcomponents of "Manufacturing" activity and "Electricity and water" activity also showed yearly drops of 31.7% and 1.7%, respectively.

Looking at the country's external position, Qatar's trade balance plunged by 47.87% y-o-y to $9.92B by end February 2015, arising from lower exports and higher imports. Declining oil prices drove down the largest component of total exports, hydrocarbons, by 44.84%, causing a 36.36% y-o-y plummet in exports to $15.05B by February 2015. On the other hand, imports increased by 10.93% y-o-y to $5.12B, where motor cars and other passenger vehicles were the top imported commodities, rising by a yearly 20.86%.

On the fiscal front, Qatar's budget surplus is expected to narrow from 10.8% of GDP in 2014 to 8% in 2015. Revenue growth is projected to drop from 46.9% of GDP to 40% in 2015, due to the impact of lower energy prices on hydrocarbon revenues (representing 55% of total state revenues). However, receipts from corporate income tax collection and transfers from state-owned companies are expected to partly offset the decline in hydrocarbon revenues. Expenditure is expected to stand at 32% of GDP, mirroring a forecasted 45.8% increase in capital spending.

Looking at the monetary sector, total assets at commercial banks dipped 1.29% since 2014 to $267.78B, by February 2015. Public sector credit dropped 5.71% since year start to $59.46B by February, while that of the private sector edged up 1.55% to $96.78B. Total deposits showed a marginal 0.16% growth to $162.55B, due to the 0.95% and 1.07% decreases in public deposits and resident private sector deposits that partly offset the 13.74% growth in non-resident deposits.

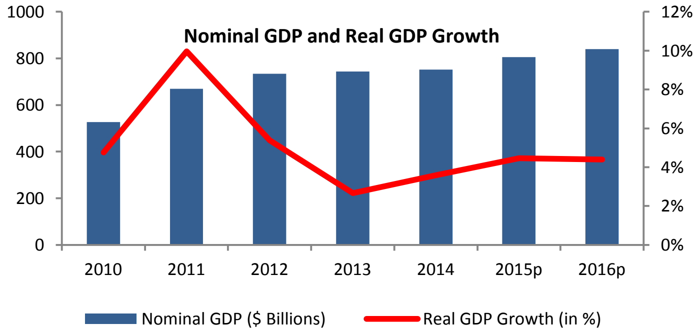
Falling oil prices continued to impact investor's sentiment, where the Doha Stock Market Index (DSMI) inched up slightly by 1.30% q-o-q to 12,445.30 points end of March 2015. Trade during the first quarter of 2015 occurred at a lower volume of 716.28M shares worth $8.30B compared to 880.56M shares worth $12.45B during Q4, 2014.

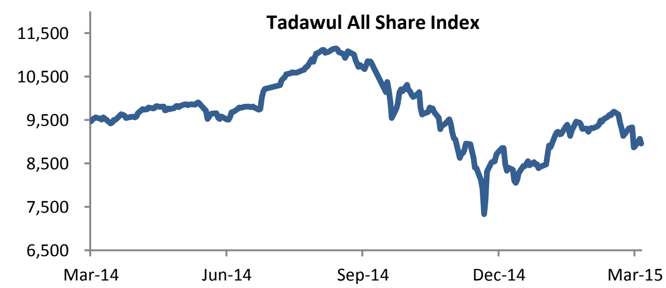
BLOMINVEST BANK

Saudi Arabia Macro and Equity Market

Economy Ready for Low Oil Prices

Key Macroeconomic and Equity Market Indicators





On the 25th of March 2015, the Kingdom of Saudi Arabia led, along with nine other Arab States, the Operation "Decisive Storm" in Yemen. The Kingdom's military intervention is intended to support the toppled President Abd Rabbu Mansour Hadi against the coalition of the Iranian-backed Houthis and the ex-President Ali Abdullah Saleh. After the "coup-d'état", President Hadi has been forced out of Yemen by Houthi rebels and has taken refuge in Saudi Arabia.

The SABB HSBC Saudi Arabia PMI averaged 58.8 points in the first quarter of 2015 (Q1 2015) higher than the average 58.4 points recorded in Q1 2014. The PMI readings have recorded strong results in terms of output growth and new business while low oil prices seemed to have lowered the burden of input costs.

Inflation remained contained on account of slower food inflation. Inflation continued its gradual decline in 2015, consistently falling from 2.2% in January to 2.1% in February and 2% in March.

Rental inflation, another major component of overall inflation, also slowed down from a 3.9% y-o-y growth in January to a y-o-y growth of 3.2% in March. However, rental inflation should remain monitored as long as the Kingdom suffers from a housing shortage.

The city of Jazan is a vivid example of the still unresolved housing shortage where experts believe rents have almost doubled from an annual 14,000 SAR ($3,733) to 26,000 SAR ($6,933). Located in the southwest corner of the Kingdom, Jazan is home to a large population and to major projects such as the Jazan Economic City and Saudi Aramco's 400,000 barrels per day refinery.

On the external front, both non-oil exports and imports dropped in the first two months of 2015. According to the Central Department of Statistics, non-oil exports fell by 15% from $9.32B up to February 2014 to $7.96B up to February 2015. Imports also declined by 2% from $26.06B up to February 2014 to $25.64B up to February 2015.

Of the top three imported products, metal products recorded a 12% drop to $2.85B. Meanwhile, the top three exported items Rubber Products, Products of the Chemical and allied industries as well as transport equipment and parts all registered declines of 16% to $2.6B, 30% to $2.19B and 3% to $879M, respectively.

As the Kingdom already stated in the last OPEC meeting, it has not assumed the role of "swing producer" in order to drive oil prices back up. In fact, according to OPEC, the Kingdom consistently increased its production in 2015, from 9.64 million barrels per day (mbpd) in January to 9.66 mbpd in February to 10.01 mbpd in March.

Low oil prices not only affected imports and exports but are also why the Kingdom might record in 2015 its first fiscal deficit in four years. The fiscal deficit is expected at $38.67B as revenues are expected to drop by 16.4% and expenditures are forecasted to grow by a marginal 0.6%. With ample foreign reserves held by the Central Bank (SAMA), standing at $714.29B in February 2015, the government can easily cover this deficit. Interestingly enough, foreign reserves recorded their first year on year decline in February since 2010, on account of a drop in foreign currency and deposits abroad. However, the option of borrowing on international markets is very much on the table as it will prevent tapping into the country's own reserves and especially since the Kingdom is endowed with one of the lowest debt-to-GDP ratios in the world of around 2.6%. The expected dent in the budget did not however prevent the new King from granting government workers a two-month salary bonus in January.

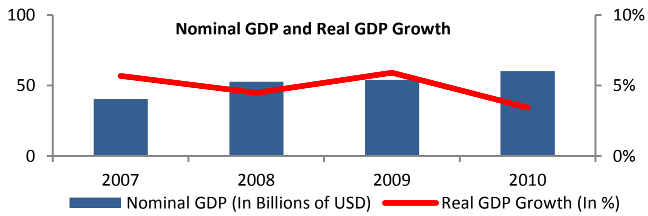
Moreover, the Kingdom's banking sector remains robust and liquid. The assets of commercial banks stood at $578.47B in February, an 11% y-o-y growth. Bank lending to the private sector totaled $340.75B in February, also an 11% yearly growth. Bank deposits also grew by a yearly 11% and amounted to $426.47B in February.

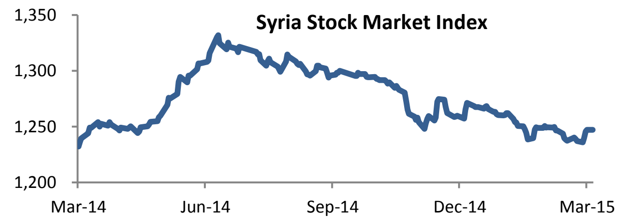
The Tadawul All Share Index (TASI) ended the first quarter at a level of 8,778.89 points, down by 7.33% from the same period last year. However, the index maintained a positive year-to-date performance of 5.35%. Market capitalization also decreased by a yearly 1.37% to reach $506.33B in Q1. The value of traded shares amounted to $152.32B while their number totaled 21.91 billion. The Capital Markets Authority has decided to cancel the listing of the Saudi Integrated Telecom Company, effective 12/03/2015. Four insurance companies were the top performers in Q1 2015: Wataniya, ACE, Allianz SF and ATC along with one real estate development company: Makkah. As for the bottom performers, they were Walaa Insurance, Eastern Agriculture, Nama Chemicals, AXA Cooperative and AICC.

Syria Macro and Equity Market

Endeavors to Help the Economy Survive the War

Macroeconomic and Equity Market Indicators





The 2015 kick-off was a sour one for the Syrian regime as it lost control over two regions just a few days apart: Bosra-el Cham and Idlib. The region of Bosra el Cham, a region in the province of Deraa characterized by its ancient timbre and strategic status, has been taken by Syrian rebels on the 25th of March 2015. The regime also lost the region of Idlib to Al-Nusra Front, Ahrar al Cham and Soukour al Cham on the 28th of March. Idlib is to the north of Latakia, the Alaouite stronghold of President Bashar al Assad. As clashes between the regime and opposition groups rage on, the humanitarian crisis climbs to new highs. According to the Syrian Observatory for Human Rights, after four years of war, the death toll now exceeds 200,000. In March, the third International Humanitarian Pledging Conference for Syria took place in Kuwait, gathering $3.8B in aid to war-ridden Syria.

The burden of the war is not only materialized in displacements but also manifests in higher prices of basic commodities. Unable to sustain more subsidies, the Syrian government increased the price of one bread loaf from 25 SYP ($0.12) to 35 SYP ($0.17). In an attempt to soften the blow, the state news agency SANA reported that President Bashar al-Assad issued in January a decree granting a SYP 4,000 ($19.09) living compensation on monthly salaries for all state employees. A few days later, the Ministry of Labor granted SYP 4,000 compensation to non-state employees, an amount also exempt from deductions.

Fees on final consumption have been adjusted in accordance with the customs' fees that have been recently reduced. There were previously 13 categories of customs fees but have now been reduced to 5: 1%, 5%, 10%, 20% and 30%. Extremes such as 0%, 80% and 150% (the last two applied on clothing and passenger cars) have been eliminated. The aim of this modification is to deter importers from evading paying the customs fees, simplify the customs' system and reduce the impact of a depreciating Syrian pound. For products on which customs fees are 1%, 5%, 10%, 20% and 30%, the consumption fees are 0%, 1%, 2%, 3% and 5%, respectively.

A 20% consumption fee has been imposed on services offered in amusement centers and night clubs and a 5% consumption fee was also set on services in fast-food restaurants. Meanwhile, 3% and 2% consumption fees were enforced on cellular calls and landline calls, respectively. A 10% consumption fee was also enacted on the rental of touristic cars.

Customs' fees on cement have been reduced from SYP 1,400 ($6.68) to SYP 1,000 ($4.77) per ton and customs fees on mobile phones have been slashed from 15% to 5%. Customs' fees on cars with a capacity up to 1,600 cc have been reduced from 30% to 10%, and those on cars with a capacity between 1,600 cc and 3,000 cc have also been reduced from 40% to 20%. However, private tourist cars with a capacity of over 3,000 cc saw their customs' fees rise from 40% to 60%.

External trade has been negatively affected by the conflict but Syria continues to count on its allies to alleviate pressures. Officials have confirmed that the Iranian credit line has not been negatively impacted by the recent slump in oil prices. The main port of Tartous has seen tonnage drop from 1.4 million tons in the first quarter of 2014(Q1 2014) to 1.1 million tons in Q1 2015. 225,000 tons were exported and were mainly made up of phosphate, cars, containers and food products. 831,000 tons were imported and mainly consisted of steel, wood, corn, coal and sugar. Revenues at the Port amounted to SYP 925.3M and officials linked the subdued activity to bad weather conditions that led to the closure of the Port and to weak transit activity to Iraq. On a positive note, experts believe that Syria will not need to import wheat in 2015 due to heavy rainfalls boosting harvest.

The conflict has not only depleted government revenues but has paved the way for tax evasion. Tending to this matter, President Assad issued a decree in 2015 detailing how a supervision committee should be formed. Those who are in the bread production have been exempt from the income tax and from the tax applied on salaries and wages. Companies going public are exempt from the tax on the gains received upon listing their shares only if the subscription rate is no less than 50%. State-owned joint stock companies have also been exempted from the tax applied on their net profits.

Syria is not only struggling to save its trade activities but also to keep its businesses afloat. The Central Bank is now contemplating the idea of reviving operational loans, which have been halted since late 2012. The loans are expected to be short-term loans not exceeding one year with a value ranging between SYP 500,000 ($2,386) and SYP 10M ($47,724). These loans will be granted to industrial factories and priority will be given to those who export more than 60% of their production and to those whose labor costs make up 60% of their overall costs. The Central Bank has however run out of options to keep the Syrian pound afloat since the average quote of the Syrian Pound against the dollar depreciated from 184.20 in January to 201.22 in February and to 209.54 in March.

The weighted index of the Damascus Securities Exchange (DWX) settled at 1,242.29 points in March, a 2% monthly drop. The volume of traded shares increased from 351,000 to 689,000 and their value rose from SYP 43M in January to SYP 121M in March. In March, the best performers were Bank of Syria and Overseas (BSO), Syria International Islamic Bank (SIIB), Fransabank Syria and Al Baraka Bank Syria. The bottom performers were Qatar National Bank Syria (QNBS), Cham Bank, International for Trade and Finance (IBTF), Bank BEMO Saudi Fransi and Alahliah for Vegetable Oil (AVOC).

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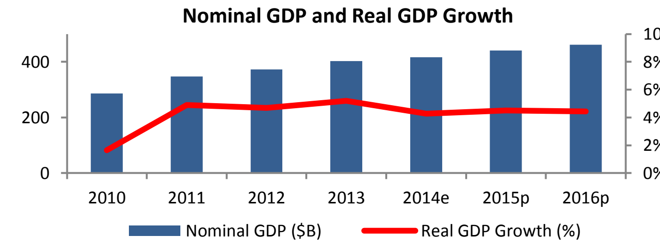
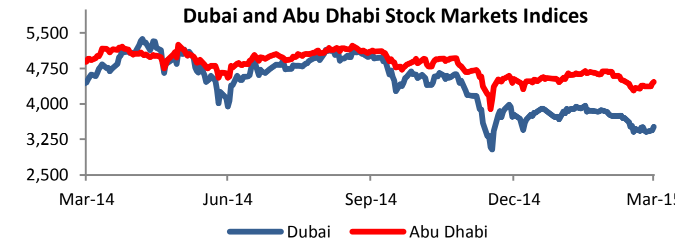
UAE Macro and Equity Market

Bearish Oil Prices Putting a Toll on UAE's Performance

Key Macroeconomic and Equity Market Indicators





Despite the decline in oil prices, the UAE are carrying on with their ongoing projects such as Mall of the World and Dubai World Expo 2020 and continue to be the magnet for multinational headquarters within the region. Furthermore, the Emirates are positioning themselves as the cultural hub in the area, embodied through prestigious museums in the pipeline including the Louvres (expected to be completed by the end of 2015) and the Guggenheim (expected to be completed in 2017), both in Abu Dhabi. These projects are setting the path for the Emirates' diversification strategy away from oil as the primary source of growth in response to the current tumultuous geopolitical atmosphere and fluctuating energy prices

On the economic level, the real Gross Domestic Product (GDP) growth was projected by the International Monetary Fund (IMF) to stand at 4.50% in 2015, relatively higher than the 4.28% recorded in 2014. Since 75% of the UAE government revenues came from the oil and gas sector in 2014, and with the 60% fall of Brent crude since June of last year, official sources expect a review of growth forecasts by the IMF to 3.5%. In the same context, the UAE's Purchasing Managers' Index (PMI), which illustrates the performance of the non-oil producing private sector, dropped from 57.7 in March 2014 to 56.3 in March 2015. This 18-month low is attributed to slower expansion and the lowest job growth since March 2012. Looking at average inflation for the two main Emirates by February 2015, the Consumer Price Index (CPI) in Abu Dhabi rose 4.31% whereas Dubai's CPI added 4.42% y-o-y in the first two months of the year due to rises in prices of "Housing, Water, Electricity, Gas and other Fuels", "Furnishing & Housing equipment" and "Beverages & Tobacco" in both emirates.

Dubai International airport, the number one airport in terms of passenger traffic, confirmed the $1.20B investment in new expansion of facilities, to boost customer experience for the 110 international airlines that operate there. The number of passengers rose by a yearly 6.60% from 12.08M passengers by February 2014, up to 12.87M recorded during the first 2 months of 2015. However, Dubai's' hotel occupancy rate decreased by 1 percentage point (p.p) y-o-y to 86% by February 2015. Worth mentioning, the average room rate (ARR) also went down from $326 by February 2014 to $309 by February 2015. Abu Dhabi's hotel occupancy rate wasn't far off, holding 2nd place at 80% with an (ARR) of $235 over the same period.

The negative outlook of the Emirates external position is mainly accredited to the substantial decline in international oil prices starting Mid-2014. In turn, UAE's current account balance (including services, income and transfers) is expected to narrow by a yearly 69.80% to $14.82B by the end of 2015. This could be mainly associated to the expected 28.72% annual tightening in the trade surplus to $81.34B in 2015. In specifics, and even though total imports are estimated to decline by 3.41% y-o-y to $242.88B, trade surplus will contract because of the 11.31% forecasted decrease in overall exports (hydrocarbons and non-hydrocarbons). The plunge in energy prices will be behind the 42.38% y-o-y fall in hydrocarbon exports to $63.15B in 2015 and is expected to outpace the estimated 2.00% annual increase in non-hydrocarbon exports to $261.07B.

Bearish oil prices impacted the UAE's fiscal performance. Consequently, the Institute of International Finance (IIF) forecasted that the consolidated fiscal primary balance (excluding net lending) will register a deficit of $15.90B (4.3% of GDP) in 2015, down from an estimated surplus of $27.42B (6.7% of GDP) in 2014. The consolidated revenues are expected to decrease by 30.24% y-o-y to $92.64B by the end of 2015. In details, hydrocarbon revenues will be slashed from $101.42B (76.37% of total revenues) to $59.04B (63.73% of total revenues). As for non-hydrocarbon returns, they are expected to increase from $31.38B to $33.60B over the same period. In retrospect, the UAE seems to be maintaining its ongoing diversification scheme away from oil. On the fiscal spending level, the consolidated government expenditures (excluding net lending) are expected to slightly rise 2.99% y-o-y to $108.53B in 2015.

Robust banking activity kept branding the Emirati sector as revealed by the substantial growth of total assets by 8.78% y-o-y to register $636.19B in February 2015. On the monetary front, M3 ascended by 1.02% since the start of the year, to touch $370.93B in the first 2 months of 2015. This increase came about from the 1.19% y-t-d increase in M2 and the 2.9% y-t-d upturn in government deposits in February 2015. Notably, lending activity saw an annual surge by 7.77% to reach $379.84B in February 2015. Likewise, total deposits (resident and non-resident) increased by 10.05% y-o-y to register $389.67B over the same period. In specifics, the yearly 8.67% progress to $345.30B in total resident deposits was outpaced by the 32.77% increase to $41.95B in total non-residential deposits in February 2015.

The drop in oil prices also took its toll on the trading activity of Dubai and Abu Dhabi's stock markets during Q1 2015 compared to Q4 2014. This was translated into the indices of both financial stock markets experiencing respective 6.88% and 1.35% y-t-d falls to 3,514.40 points and 4,467.93 points by end of March 2015. Accordingly, Abu Dhabi's market cap narrowed by an 0.59% y-t-d to $113.04B while that of Dubai remaining steady at $85.93B over the same period. Worth mentioning, in the first two weeks of December 2014 alone, $17.71B was wiped out of the Dubai stock market due to frantic investors wary about oil prices. For example, Emaar Properties (16.21% weight of Dubai's Bourse) stood amongst the biggest losers, in those two weeks, as its stock price tumbled from $2.89 to $1.61 but recovering to $1.80 by End-March. As for trading activity, Dubai's financial market average daily traded volume narrowed by 14.21% y-t-d to 382.25M shares in Q1 2015 at an average traded value of $165.29M (compared to an average daily traded volume of 445.54M shares worth $286.90M in Q4 2014). Similarly, the number of transactions retreated to 388,735, down from 499,670 registered in Q4 2014. Abu Dhabi experienced similar market dynamics as reflected by the poor performance of the real estate sector. As for Abu Dhabi, the average daily volume slumped by 44.32% y-t-d to 85.72M shares worth $58.35M in Q1 2015 compared to 153.95M stocks valued at $90.08M in Q4 2014. As for the number of transactions, it summed to 107,256 by End-March 2015, below the 161,217 transactions recorded in the end of last year.

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