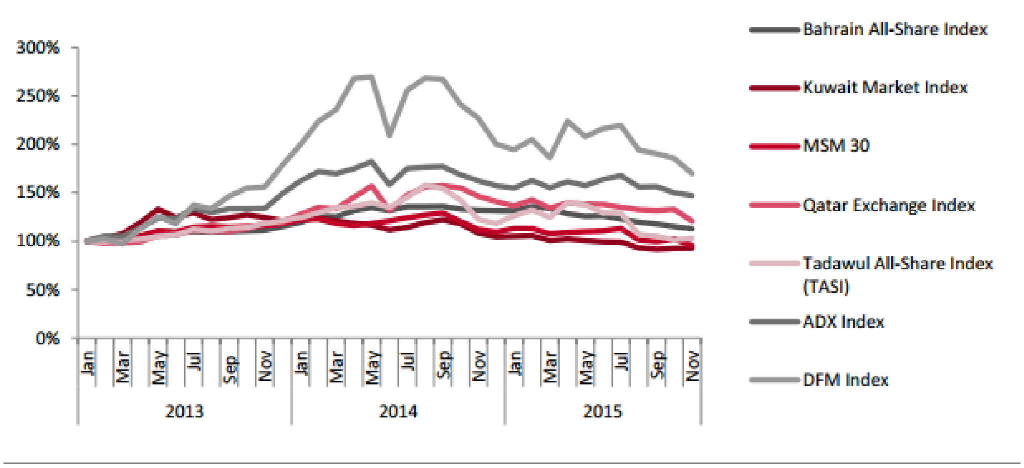
<u>Stock markets remain under pressure</u> - *Region stock markets have been hit by depressed oil prices*

The decline in oil prices has kept the Gulf Coorporation Council equity markets under consistent downward pressure and left all regional benchmark indices in the red year to date. Prices have generally tracked oil price dynamics. Bahrain's deficit for this year and next year could rise by up to two thirds to BD5 billion ($13.2 billion), as the oil-rich kingdom continues to suffer the impact of falling oil prices. Iran, which was OPEC's second-biggest producer before U.S. and EU sanctions intensified in 2012, is trying to regain lost market share however officials from the national oil company have stated there is no intention to pressure prices with an export increase.

GCC equity market indices (January 2013 = 100)



Source: Regional stock exchanges

The Bahrain All Share Index closed at 1,215.89 by the end of 2015. Market capitalization contracted marginally at the end of December by 1.1% MoM to a total of BHD7.2bn. The value of shares traded declined by 43% to reach 6.7mn. Most of the trading took place in the Commercial Banks Sector which captured around 76% of total value of shares traded on Bahrain bourse.

In line with regional trends, the Bahrain All-Share index saw a 14.8% decline in 2015 with contraction posted in most of the sector indices. As of end of year 2015, the Investment and Industrial Sectors Indices saw the biggest YTD drop by 27%, respectively. The Commercial banks and Insurance sectors both saw a decline of around 10%. The only sector to perform positively was Hotels and Tourism which saw a 3% increase YTD in December.

Non-oil growth drivers remain firm

Largely in line with the trends seen in recent years, Bahrain's non-oil sector is forecast to see comparatively strong growth for 2016. The sector rose 3.3 percent in the third quarter of 2015 but is forecast to grow by 4.2 percent in the first three quarters of 2016, according to the latest Bahrain Economic Quarterly (BEQ) issued by the Economic Development Board (EDB). Growth is expected to remain around 3.5 percent in 2016 and 2017 underpinned by manufacturing, construction, tourism and social and personal services.

Throughout 2015 growth in the non-oil economy was broad-based. The Hotels and Restaurants sector picked up momentum significantly this year and expanded by 8.4%, making it the fastest growing sector in Q3. Reflecting the strong and sustained momentum of the sector, its annual growth rate over the first three quarters of this year taken together was a robust 8%. The second fastest growing sector in Q3 was the Social and Personal Services sector (primarily private education and private health care) which expanded by 6.3% year-on-year. Manufacturing, Construction, and Transportation & Communications posted robust growth in spite of a slight deceleration in Q3. They expanded by an annual 3.3%, 4.9%, and 5.8%, respectively. Financial services grew by 2.1%, much in line with Q2.

YoY real growth of key sectors, 2014-2015

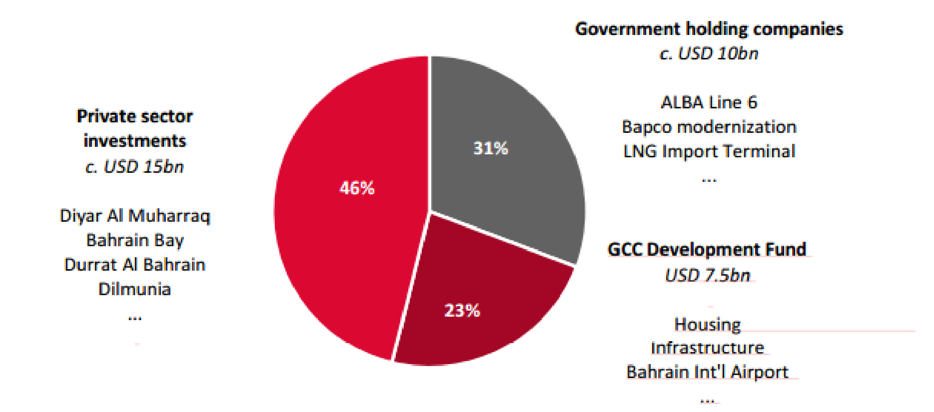
	2014					2015		
YoY growth	**Annual**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**
Crude Pet. & Nat. Gas	3.0%	4.1%	9.9%	4.7%	-5.9%	-5.6%	1.4%	-1.0%
Manufacturing	3.8%	0.4%	3.8%	3.5%	7.4%	5.9%	4.1%	3.3%
Construction	7.1%	1.2%	3.4%	12.1%	12.3%	7.7%	6.4%	4.9%
Trade	4.0%	3.9%	3.1%	4.4%	4.4%	2.7%	2.8%	0.2%
Hotel & Rest.	4.1%	1.1%	5.5%	2.7%	7.1%	9.4%	5.7%	8.4%
Trans. & Comm.	6.5%	5.3%	6.9%	4.4%	9.7%	6.9%	6.7%	5.8%
Social & Pers. Serv.	7.7%	7.4%	8.2%	6.7%	8.7%	7.6%	6.2%	6.3%
Real Est. & Bus. Act.	4.0%	3.7%	3.8%	3.9%	4.6%	3.8%	3.7%	1.7%
Finance	3.6%	2.2%	4.1%	3.8%	4.3%	1.6%	2.1%	2.1%
Government	4.5%	3.9%	4.9%	4.6%	4.4%	2.8%	2.8%	1.7%
Other	7.6%	4.7%	4.8%	10.7%	10.2%	11.6%	11.4%	4.3%
GDP	4.5%	3.2%	5.7%	5.1%	4.0%	2.8%	3.7%	2.4%

Source: Central Informatics Organisation

Project implementation underpins non-oil dynamics

Despite a slight slowdown recorded by the Construction and Real Estate & Business Activities sectors in Q3, a substantial pipeline of projects underpins near- to medium term growth in the Kingdom. The overall pipeline of projects in the Kingdom is estimated at USD72.3bn as of mid-December, representing a 17.2% YoY increase. The pipeline of strategically significant infrastructure projects undertaken by the GCC Development fund, government holding companies, and the private is currently estimated at some USD32bn.

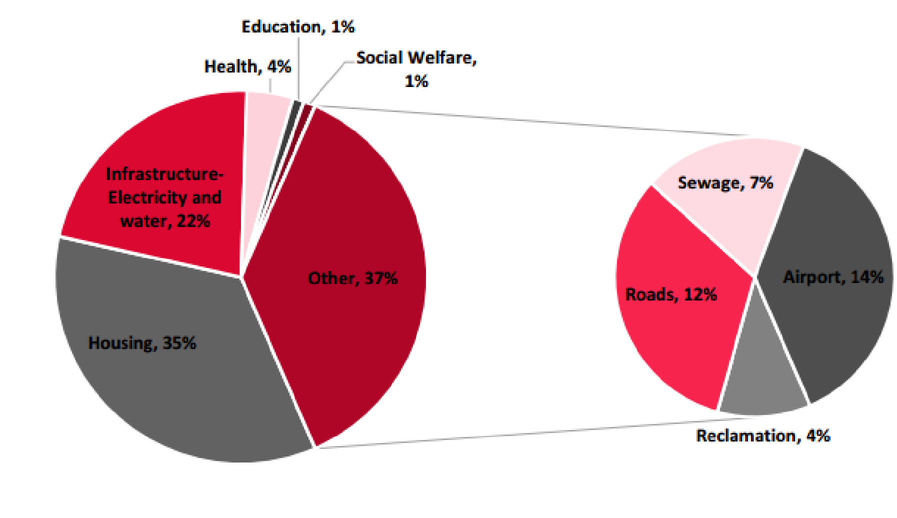
Composition of strategically significant key infrastructure projects by investor type



Source: Government sources, Economic Development Board estimates

The GCC Development Fund is being directed heavily towards housing and infrastructure projects. Of the approximately USD6bn worth of developments allocated, housing accounts for 35%, electricity and water projects for 22%, the airport expansion for 14%, and roads for 12%.

Allocation of GCC Development Fund investments by sector (projects allocated to date)



Source: Government sources

In the energy sector, the National Oil and Gas Authority (NOGA) and NOGAholding, the government holding company for hydrocarbons assets, signed an agreement in early December for a liquefied natural gas (LNG) import and re-gasification terminal. The project includes a floating storage unit, and offshore LNG jetty, as well as an onshore gas receiving facility. The project will be carried out by a joint venture of NOGAholding (30%), Teekay LNG (US, 30%), Samsung C&T (Korea, 20%) and Gulf Investment Corporation (Kuwait, 20%). The project is expected to cost around BHD250mn and is aimed at increasing flexibility in terms of available energy sources and enhancing the security of supply to meet Bahrain's natural gas needs. The project will be owned and operated under a 20- year agreement commencing 15 July 2018.

The retail sector continues to produce a steady stream of investments with the following developments in the pipeline:

- Diyar Al Muharraq with Chinamex Middle East Investment & Trade Company opened the Dragon City mall at the end of December. With its nearly 800 shops, the facility is expected to provide retail space for approximately 500 Chinese and 90 Bahraini companies

- Dadabhai Group's MD Holding Company's Galleria mall is expected to open by the beginning of 2016
- First Bahrain recently announced the launch of construction of the Al Mercado mall in Janabiya with the expected completion date some time in 2016

Work is progressing on several private sector real estate developments. Diyar al Muharraq has entered into a joint venture with Abu Dhabi's Eagle Hills to build a development called Marassi al Bahrain in the north of the island. Naseej, one of Bahrain's leading real estate development companies, announced an agreement with Ithmaar Development Company to acquire land in Dilmunia to develop its latest project "Canal View," which is valued at BHD24mn.

Investcorp buys stake in Saudi supermarket group Bindawood Holding

Bahraini alternative investment manager, Investcorp, has acquired a minority stake in Saudi Arabia's Bindawood Holding, which controls supermarket chains Bindawood and Danube. It is estimated that the deal will be one of Investcorp's largest ever investment in the Middle East.

This investment comes as part of the investment manager's new strategy to more than double its assets under management in the next seven years.

Bindawood and Danube manage and operate around 40 supermarkets and hypermarkets Saudi, with Bindawood focusing on mid-market customers and Danube targeting the upper market. Investcorp's investment will allow the company to pursue an ambitious expansion plan which involves opening more than 30 new stores.

It is Investcorp's sixth investment in Saudi Arabia, providing evidence of investor appetite for Saudi Arabian retail names.

Bahrain bourse to trade T-bills as state debt swells

The Bahrain Bourse reported last week it would list and trade Treasury bills issued by the government, which is trying to broaden the investor base for its debt as sliding oil prices put state finances under pressure.

The government has projected a budget deficit of about 1.51 billion dinars ($4.0 billion) this year, roughly flat from last year but up from a planned 914 million dinars in 2014. To cover its deficits, Bahrain is issuing an increasing amount of debt. Outstanding T-bills rose to 1.60 billion dinars at the end of last June from 1.23 billion dinars at the end of 2014.

At the same time, banking sector liquidity is tightening because of smaller inflows of new oil revenue. The three-month Bahrain interbank offered rate has jumped to 1.63 percent from around 1.0 percent a year ago. As a result the government has been seeking non-bank buyers of its debt. In January last year, it began allowing Bahraini and non-Bahraini investors, both individuals and institutions, to buy government bonds.

Bahrain's Batelco says receives non-binding bids for Jordan unit, Umniah

Bahrain Telecommunications Co (Batelco) has received non-binding offers to buy its Jordanian unit Umniah last week. Back in October, Batelco stated it was assessing options for Umniah. The parent subsequently launched a sales process for the subsidiary in its bourse records.

Batelco is in the process of evaluating non-binding offers for Umniah of which it own 96 percent. Umniah made a net profit of 5.25 million dinars ($13.93 million) in the first three quarters of 2015, about 11 percent of the group's total profit for the period.

Bahrain Commercial Facilities signs $125 mln loan

Bahrain Commercial Facilities Company, a consumer finance and insurance provider, has raised a $125 million loan to refinance existing debt and for general business purposes, a bourse statement from one of the arrangers stated last week.

According to the statement from Bank ABC, it along with Ahli United Bank and Gulf International Bank arranged the transaction, with Arab Bank and National Bank of Bahrain also participating.