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Marmore Bulletin

Featured Interview / Legal & Regulatory

Hossam Abdullah, Legal Counsel & Managing Partner of Al-Hossam Legal - Adlouni & Partners

Qatar Banking Sector – On a strong growth phase

A discussion based on Marmore's sector research

Iranian Nuclear Deal: Geopolitical and Macroeconomic Implications

A discussion based on Marmore's sector research

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Foreword

Welcome to Q3 2015 edition of The Marmore Bulletin.

A major development in the just past quarter was the agreement reached on the Iranian nuclear programme. The deal could have wide ranging ramifications if it leads to the removal of the current multilateral sanctions on Iran. For instance, it would be interesting to watch how a potential surge of oil from Iran would be accommodated into the international markets, as it can further add to the price volatility. Staying with the issue of oil price volatility, the Featured Interview with Mr Hossam Abdullah (Legal Counsel & Managing Partner of Al-Hossam Legal - Adlouni & Partners) discusses the theme of economic diversification and wide ranging reforms in an environment of low oil prices.

The Quarterly Market Review section studies the twin impact of an oil supply glut and an economic slowdown in China on the stock markets. Fall in Chinese equities had a global impact, and the Middle East markets were no exception to this trend. Meanwhile, the Research Highlights section provides snippets on the underlying fundamentals of the Qatari banking sector, illustrating why the sector looks in very healthy condition. The Qatari banking sector overall accounted for 126% of the country's nominal GDP in 2014.

Qatar's banking sector roundup is followed up by a deeper analysis on the Iranian nuclear deal, with respect to the potential geopolitical and macroeconomic implications for the GCC. The analysis flows from a recent Marmore report on the subject. From the Middle East, the attention turns to America, as an analysis is conducted on the scenario of how the famed Berkshire Hathaway would evolve when Mr Warren Buffet is no longer at the helm.

Rounding off the report is an analysis of the Black Monday of August 24, 2015, the day on which China's Shanghai market index lost 8.5%, sending the markets worldwide into a tailspin. Special emphasis is laid on what it would mean for the GCC economies and for the wider oil markets. The issue closes with several updated Mena statistical indicators across a range of areas, from GDP to the ease of doing business.

As ever, we are eager to hear your views and suggestions on this quarter's edition. If you would like to know more about any of the topics covered, please feel free to get in touch with us. We wish that this bulletin serves your market knowledge requirements well.

Featured Interview

Interview with Hossam Abdullah, Legal Counsel & Managing Partner of Al-Hossam Legal - Adlouni & Partners

1. With the low oil price environment and GCC governments looking to diversify away from oil revenues, which regulations in your view need to be prioritized?

While there are wide-ranges of economic diversification reform options for GCC governments that can be implemented to increase non-oil resources, we note that a streamlined legal and regulatory reform in a number of areas is inevitable for any economic reform to succeed regardless of the preferred economic reform option.

The key element in any economic reform, in our view, is to provide a more role for the private sector to play and immigrate from public sector economy. Legal and regulatory framework toward a private-sector-based economy is of six folds, which are listed below in order of priority:

(1) Ease and enhancement of doing business (by both the private sector, or in collaboration with the state) require review of the corporate, commercial and industrial laws to ease and enhance doing business. Ease of doing business is meant to encourage all entrepreneurs, including local SMEs and not necessarily, major local and foreign investors. This requires a reform in a number of the following laws:
  - (i) Facilitation of start-ups conditions, capital, and licensing procedures, cost and time;
  - (ii) Liberalization of restrictions on foreign capital inflows;
  - (iii) Clear competition policies and rules, including investor and consumer rights to reduce barriers to trade, and a review of whether government procurement procedures ensure an adequate range of companies bidding for a government contracts;
  - (iv) A reform to a modern companies laws;
  - (v) Financial market legal infrastructure that supports extending affordable bank loans, loan guarantees, and collaterals;
  - (vi) Creditors' friendly bankruptcy and liquidation laws;
  - (vii) Improve free zones regulations;
  - (viii) Improve credit information and transparency in financial markets;
  - (ix) Improve quality of disclosures and information transparency in securities markets;
  - (x) Laws geared toward the support of SMEs; and
  - (xi) Reducing controls and restrictions on private sector investment, common treatment of all investors, liberalization of restrictive domestic trade and competition practices, local or foreign, and guaranteed rights to establish a well-functioning competitive market system.

(2) Specific Laws opening for national interest projects such as specific industries or services depending on each GCC state's resources and competition advantage (e.g., industrial

projects, physical infrastructure, logistics, free zones, shipping, airlines, trade, financial sector, petrochemicals, mining, health, education, heavy industry, technology etc). Laws and regulations for investment in such national interest projects should provide for a clear package of incentives.

(3) Privatization of certain service and functions from state owned facilities to private business. Privatization of state enterprises and services would generally lead to market confidence and reduce state cost of service. This would require detailed laws and regulations for each service or function to be privatized such as stock exchanges, power utilities, ports management, free zones, telecommunication, post etc. Such laws should be designed to attract international investors and operator while maintaining national interest and certain sovereign rights such as price control and consumer protection.

(4) Improve labour environment and national employment in private sector. Labour market reforms is a key to prevent unemployment pressures and aim to establish a long-term plan to develop the necessary skills of the labour force, enhance education and training while redirecting government expenditures toward building human capital. The reform the labour market should be phased to eliminate the de facto policy of guaranteed public job and bridging the remuneration gap between the public and private sectors for national workers. Sponsorship system must move from local employers to a national authority which board is composed from both government and private sector.

(5) Introduce a smart subsidization and state support regime. GCC governments have made land, energy and infrastructure available at low cost as a way to support local manufacturers but this came at a long-term cost for the GCC economies. Subsidization rules need to be revisited and progressively elevated to gradually reduce public expenditures.

(6) Improve tax administration and adopt a modern tax system. The IMF advised many of the GCC government to introduce a 10% corporate tax on all local and foreign companies and recommended to eliminate all other taxes. For example, Kuwait currently imposes a 15% flat tax that is applicable only to foreign companies doing business in Kuwait as well as on the portion in the capital in local companies that is owned by non-GCC corporate bodies. The IMF recommends that Kuwait reduce the tax rate from 15% to 10% while abolishing all other taxes (such as the 1% Zakat tax payable by all local joint stock companies and the 2.5% Kuwaiti Manpower Support tax payable by companies listed on Kuwait Stock Exchange) and fees (such as the 1% payable by local companies to the Kuwait Foundation for the Advancement of Sciences). While we see merits in abolishing the Zakat tax and may be the Kuwaiti Manpower Support tax, we strongly believe that abolishing the contribution payable to the Kuwait Foundation for the Advancement of Sciences will deprive the Kuwaiti economy from a contribution that is directed to support researches, science and society which is inevitable for any reform to succeed which require greater spending on research and development.

The IMF also suggested introducing a 5% value-added tax leaving to each GCC state to decide when such VAT would be applied and on what goods and commodities.

Private Sector Role in economic reform policy-making

It is important to note that he private sector should be provided with sufficient change to play an important and proactive role in economic governance on a national level. Lessons from Turkey and South Korea is that private sector and family-based groups have managed a powerful business association that led to complex policy-making role with government. Such policy- making in the GCC states should be based on regulations rather than distribution of wealth.

2. What exactly should domestic and foreign investors or entities look out for in terms of trying to understand the intricacies of doing business in the GCC economies?

Domestic and foreign investors usually rely on advices from auditing firms and law firms on how to set-up business, set-up corporate entities and obtain a business license. Such advices are mainly based on existing and written laws and regulations. However, most of the intricacies of doing business in the GCC economies occur as a result of a gap between the existing laws and regulations from one side and the applicable procedures on the other side. Competition and lack of cooperation between governmental administrations lead to fragmentation of any regulatory framework causes implementation intricacies and sometimes contradictions with the spirit or provisions of the law itself to the detriment of investors and of effectiveness of applicable procedures. Many GCC states have established a one-stop window shop to reduce such intricacies. KDIPA (Kuwait Direct Investment Promotion Authority) in Kuwait is a successful example for a one-stop window shop. In GCC states which does not implement a one-stop window shop, investors, local or foreigners, should emphasise the need for a specific advice on the how laws and regulations are implemented in real life to understand the procedures and timing and their implications on the proposed business.

3. What is general trajectory in which the labour laws in the region are evolving? What likely impact will they have on businesses?

The labour markets of the GCC countries are highly segmented with nationals predominantly working in the public sector and migrant workers making up the vast majority of the private sector. Labour migration in all GCC states is regulated through the "sponsorship" system so called "kafala" which is structurally and functionally similar in all GCC states. Migrant workers can enter the country and work only if they have a national sponsor or employer who takes legal and economic responsibility for such workers. The sponsorship system entails few restrictive measures on migrant workers which vary from a GCC state to another (e.g., permission from the current employer to transfer to a new employer, a need for exist permit to travel, banned to form or to join workers' organisations, they could also easily be arrested and deported by a police administrative decision).

There exist a range of international conventions and other instruments on the rights of migrant workers which guarantee some basic rights of migrant workers (e.g. the UN Convention on the Protection of the Rights of all Migrant Workers and Members of their Families).

GCC states are now more open to establish national authorities that takeover the sponsorship role from employer with less restrictive measures. In general, labour laws in the GCC states and labour courts tends to be pro labour rather than employers.

4. Most of the GCC equity markets are witnessing weak volumes and lower liquidity. What can be done from a regulatory perspective to improve the current scenario?

There is a need for more market products (such as bonds, sukuk, fund units, more effective role for market players, and more efficient disclosure rules.

5. What is the current state of arbitration laws in the GCC? Which economies are better placed with such laws and what more needs to be done to encourage foreign investments?

All GCC states are members to the New York Convention on Recognition and Enforcement of Foreign Arbitral Awards (1958). GCC states are up to date to this effect. However, foreign investors usually keen to invest in a jurisdiction that is also a member of the ICSID (the International Centre for Settlement of Investment Disputes).

6. The pace of implementation of large projects in Kuwait has been often criticized as sluggish. Can the legal framework under the New PPP Law help combat the issue better? If so, how?

The new PPP Law (Law No. 116/2014) and its Executive Regulations (Decree No. 78/2015) replace Law No. 7/2008 and its Executive Regulations (Decree No. 256/2008). The new PPP Law strengthens and enables the institutional framework for PPPs in Kuwait and broadens the benefits of PPP projects. It defines the mandate of the Higher Committee for PPP Projects, establishes the Kuwait Authority for Partnership Projects (KAPP) and defines its mandate and responsibilities. Kuwait has been implementing a strategic Development Plan to improve infrastructure in many sectors to enhance economic growth away from the oil sector, and provide for a central role for the private sector.

The Development Plan seeks to boost aggregate investment, pledging to spend upwards of KD 32 billion between 2015 and 2019. Earlier this year, authorities approved the second five-year development plan. Projects are planned in a number of sectors, including oil, transport, infrastructure, power and water. Implementation of the Development Plan is well underway, though there has been some delay. The pace of implementation of the plan's projects is critical to Kuwait's current medium term economic outlook, which expects nonoil economic growth to average around 4% in 2015 and 2016 and to accelerate beyond that towards 5-6%.

At the core of Kuwait's Development Plan is an effort to involve private investors. This is being done through a PPP program that currently includes projects valued at KD 10 billion, mainly in power, water, wastewater treatment, housing and transportation. Once implemented, these projects could conservatively add KD 1 billion per year to capital spending, hence boosting, by themselves, real GDP growth by almost 2%.

While projects have taken some time to take-off, an amendment to the legal and institutional framework in 2014 has reinvigorated the initiative once-again. Amendments ironed out some issues that prevented projects from taking off sooner and should lead to better regulation of the PPP initiatives. Among other things, the changes replaced the Partnerships Technical Bureau (PTB) with the Kuwait Authority for Partnership Projects (KAPP). The new body has greater independence and executive powers and should manage PPP initiatives more effectively. There are a number of advantages to using PPPs in Kuwait's development initiative. Among them is that PPPs can help reduce the financial burden on the state and limit growth in government spending and the public sector. They can also introduce economic efficiencies and facilitate the adoption of new technologies and know-how, especially when projects attract foreign investors. In Kuwait, PPPs will also help develop the private sector, generate private sector jobs, and deepen financial markets. One of the main advantages of the PPP framework is that it attracts private funding for projects that would otherwise have been financed with government resources, thus reducing the fiscal burden on the state. In Kuwait's case, the Development Plan requires around a third of the capital spending to come from the private sector.

For Kuwait, one of the core advantages of the PPP initiatives is that they help diversify the economy and generate private jobs by developing the domestic private sector. Indeed, most PPP projects are in areas where private initiative has been limited due to government restrictions. Now, for the first time, the private sector is being encouraged to invest in power & water, new cities and a metro.

Also, with PPPs requiring the private sector to take on more risk and a larger role in the operation of the new facilities, these schemes increase the capacity and technological know-how of the sector.

There are a number of other advantages to the PPP structure, including shifting risk to the private sector and reducing overall project cost. A project usually carries a number of risks, including the risk of faulty design, poor implementation, cost overruns, and completion delays. In a PPP scheme, the private sector takes on these risks and is better able to control them and to allocate those risks efficiently.

PPP schemes can also help reduce project implementation and life-cycle costs. Studies have shown that public-private partnership projects can introduce cost savings through the use of innovation in design and construction. But cost savings can extend past implementation, with the private investor having an incentive to control the overall cost of the project over its life-cycle including the cost of maintenance and operation.

Kuwait's PPP program can also benefit domestic financial markets and increase ordinary Kuwaitis' stake in the country's development. The program includes measures such as requiring 50% of PPP ventures to be offered to Kuwaiti nationals in a public offering. This will help deepen financial system, including both bond and equity markets, and increase Kuwaiti citizens' stake in the success of the development plan.

The Development Plan's focus on public-private partnerships is expected to serve Kuwait well in the coming years, with the initiative helping to boost private sector growth, increase job creation and limit the burden on the public sector. The latter has become more crucial now that oil prices have tumbled and that deficits are a reality. The projects are likely to improve economic efficiency and to introduce new technologies, especially with the involvement of international companies as strategic partners.

7. Could you please provide a brief introduction about your organization, and its activities?

Al-Hossam Legal - Adlouni & Partners (legal counsels & attorneys) is corporate, banking and finance law firm in Kuwait which gather more than 26 years of extensive legal experience in the corporate, banking and finance sectors, and capital markets, with emphasis on structuring transactions and handling conventional and Islamic finance transactions, debt and equity, capital markets, investment funds, and mergers and acquisitions. Partners at the law firm also has an in-depth knowledge of Shari`ah principles and worked on leading Islamic and conventional transactions not only in Kuwait but also the Gulf Cooperation Council region, Europe and the U.S.A.

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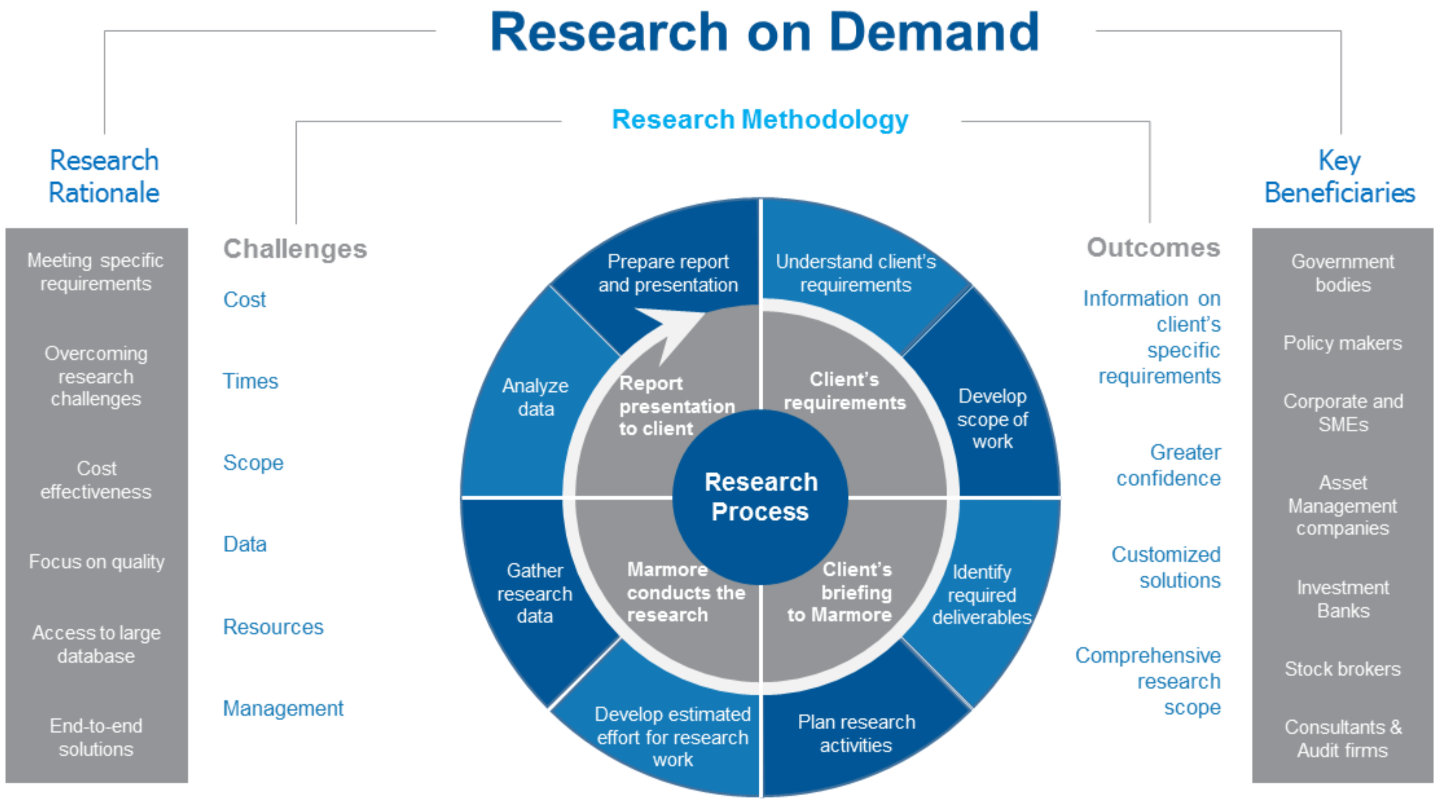
We conduct customized research based on specific requirements of our clients



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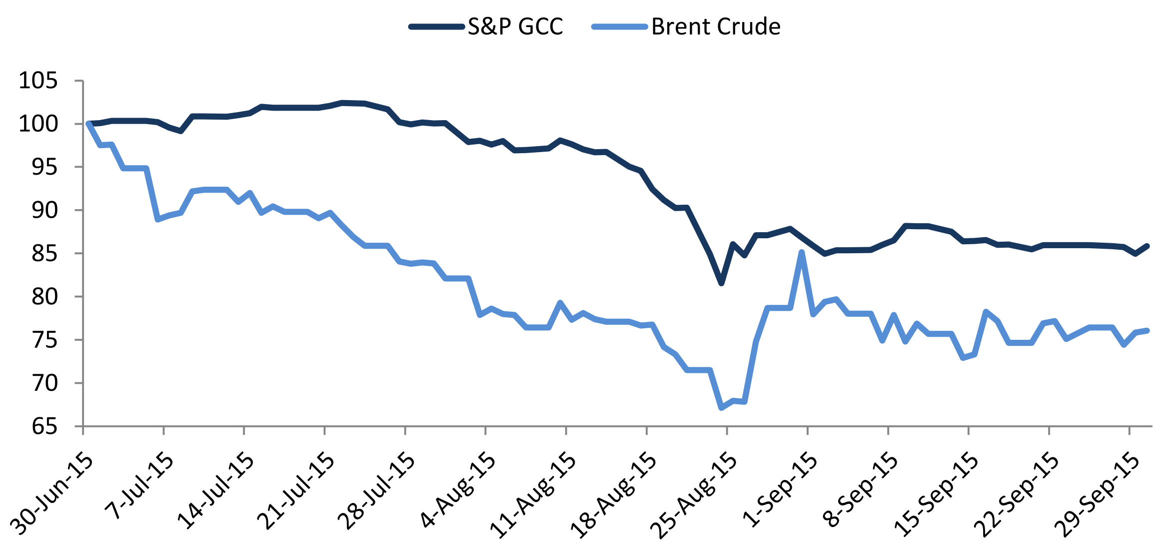
Quarterly Market Review: Oil supply glut and Chinese woes pulls down markets

MENA markets had a negative third quarter, as fears of economic slowdown in China affected global markets, with prices of major commodities taking a hammering. Saudi Arabia (-18.5%), Dubai (-12.1%) and Egypt (-12%) were the worst performers in Q3 2015, whereas Jordan (-2.1%) and Abu Dhabi (-4.7%) were relatively better. The rest of the GCC and major MENA markets fell in between, with quarterly returns ranging from -4.8% to -9.9%. Kuwait price and weighted index returned -7.7% and -7.5%, respectively.

Brent Crude and S&P GCC Q3 2015, rebased



Source: Reuters

Crude oil slipped 18% in July weighed by unexpectedly slow Chinese factory growth in July and the record output from OPEC. Growth at China's big manufacturing companies unexpectedly stalled in the month, as demand from home and abroad weakened, an official survey showed, reinforcing views that the economy needs more stimulus as it faces fresh risks from a stock market slump. Iran has been aggressive with its production following talks of sanctions being lifted, and expects to raise the oil output by 500,000 barrels per day. No significant shift in OPEC policy, caused crude oil to fall in September, declining by 11%, closing the quarter at USD 48.37 per barrel, down 24%. US oil inventories rose by 4.6mn barrels in the last week of September, according to the American Petroleum Institute, and OPEC continued to pump more than its 30mn barrel quota, widening the supply glut. US drillers have cut the rigs in operation three straight weeks in September as cheap oil is causing them to hold up production plans. Offsetting decline in shale output, the global oversupply, augmented by Iranian production, and sustained weaker demand, especially from China, has put the brakes on any price recovery.

Fall in Chinese equities had a global impact, and the Middle East markets were no exception to this trend. The sell-off in Chinese equities combined with the fall in oil prices were the reason behind the muted performance of the stock markets in the region. The positive performance of the banking stocks were influenced by the positive results in the quarterly numbers. Tadawul index was the second worst performing in the world in August, after the Athens index, following the slump in oil price, which accounts for nearly 90% of the country's revenue. Unclear fiscal policy, continuing fall in oil prices, and outlook downgrade by Fitch ratings from "stable" to "negative" contributed to the negative sentiment among investors. The Egyptian market suffered from the global headwinds, and was also affected by local company-specific issues.

The overall MENA market's traded volume and value traded decreased by -45% and -36%, over the 3rd quarter, as the month of Ramadan, and uncertainty due to fall in oil prices and Chinese sell-off kept investors at bay. Dubai's value traded was the most affected reducing by 59% followed by Qatar (-48%), Kuwait (-35%) and Saudi Arabia (-34%). In terms of valuation, P/E of Morocco (17x), Jordan (14.2x) and Kuwait (14.2x) markets were the highest among the MENA markets while the markets of Bahrain (8.7x), Oman (9.8x) and Dubai (10x) were the lowest. Morocco (2.1x), Saudi Arabia (1.8x), and Qatar (1.7x) continue to remain overvalued in terms of P/B, while Bahrain (0.9x), Kuwait (1.1x), and Jordan (1.3x) remain undervalued.

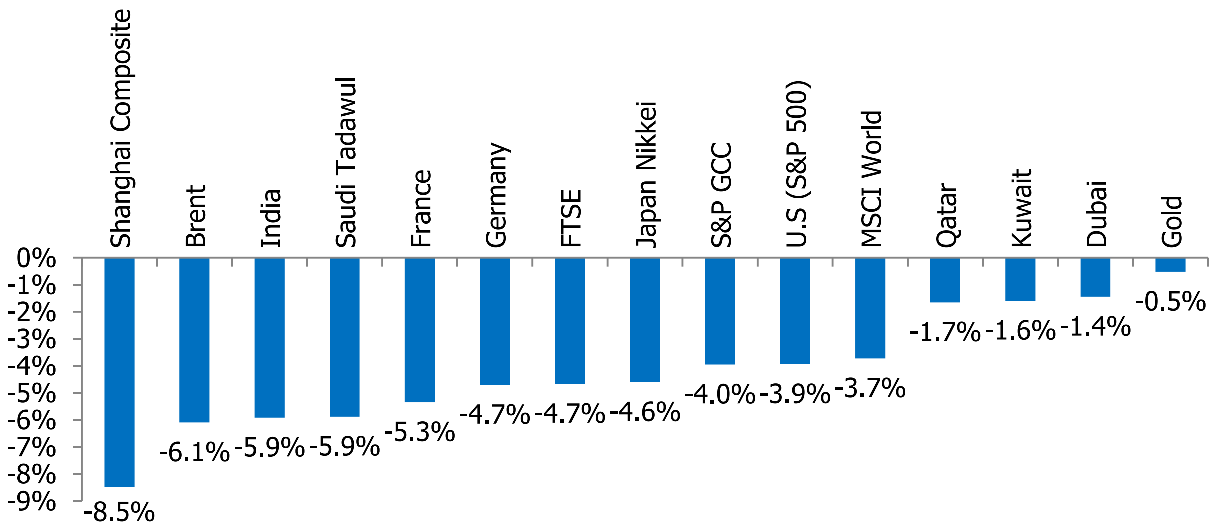
Shares of Emirates Telecom (UAE) had the highest return among the blue chip stocks gaining 5.2% during the 3rd quarter of 2015, after it opened up its shares to foreign and institutional buyers in September. Emirates Telecom was followed by Ezdan Holdings (3.9%), after MSCI indicated that it would raise the weightings for the stock in the Emerging Markets index by the end of August, while the rest of the blue chips had a negative quarter. The lowest returns for the quarter was achieved by NBAD (-18%) followed by Kingdom Holdings (-17.8%), SABIC (-17.6%), Kuwait Food (-15.6%) and Industries Qatar (-2.4%). The drop in global oil prices this quarter weighed heavily on the GCC stock markets. Kuwait Food Co. (Americana) released its Q2 results in August, and the company declared a slump in profit of 46% due to slower sales during the Muslim month of fasting and higher operating costs.

SABIC, GCC's largest company in terms of market capitalization witnessed a 4.5% decline in Q2 net profit, due to lower average prices for products sold, while the accounting scandal affecting Mobily led to restatement of earnings, and a significant Q2 loss of USD 240mn. BUPA Arabia witnessed a near tripling of profits in Q2 due to growth in core business activities leading to higher net subscribed premiums. Earnings for Boubyan Bank in the second quarter increased 26%, driven largely by growth in asset base and customer deposits, while National Bank of Kuwait, the country's largest lender, reported a 9.9% increase in second quarter net profit on the back of faster project implementation. Emirates NBD, the 3rd largest bank in UAE in terms of market capitalization continued its run of positive earnings growth by registering a 26% increase in the second quarter of 2015, due to increases in both net interest income and non-interest income. Qatar Islamic Bank earnings grew by 27% in the second quarter of 2015, driven by continued growth in the core financing and investing activities. Security situation in Iraq and currency depreciation in Indonesia, Algeria and Tunisia continued to impact Ooredoo, whose earnings declined by 39% in Q2 2015.

Global equities have sold off on growing concerns that a slowdown in China will trigger a global recession. China has emerged as a significant driver of global economic growth, and accounts for almost half of the world growth and 15% of global economic output. Chinese economy is in transition, shifting from an export-led growth model to domestic consumption driven economy. Slowdown in Chinese economy seems to have had significant global repercussion, with markets across the world falling in response to Chinese equities sell-off. Attempts to manage the economic slowdown (Easing rates by PBOC, Yuvan devaluation etc.) have not borne fruit. The impact was mostly felt on EM and GCC, which export commodities to China. China consumes 57% of World's copper and imports two-thirds of world's Iron ore.

Shares in China had soared 155% in the 12 months leading up to June 2015, as individual investors borrowed heavily to invest into a bull market. But all of this came to a standstill, as the index hit a seven-year peak in June 2015, with signs of economic slowdown, decline in manufacturing activity, and an overvalued market. On the 24th Aug 2015, now dubbed "Black Monday", China's stock markets lost all their gains for the year, intensifying worries about the world's second-largest economy[1], leading to commodities such as crude oil and copper tumbling to multi-year lows.

Black Monday (August 24, 2015)



Source: Reuters

The recent decision by US and the Eurozone countries to lift the economic sanctions imposed on Iran few years ago has presented an interesting dynamic to oil prices. Oil prices which were on a decline over the past year and had started to recover till April 2015 continued its upward trajectory till June 2015. The momentum in the prices was affected by the faltering growth in the Chinese economy and the decline was further exacerbated by OPEC's decision to continue with its current level of production, and less than ideal global economic growth. The lifting of sanctions would result in Iran adding 500,000

[1] The Guardian

barrels a day within a week after sanctions end and by 1 million barrels a day within a month to the global production, according to the Iran oil ministry.

Kuwait's National Assembly's financial and economic affairs committee rejected proposals by the International Monetary Fund (IMF) to impose taxes and lift subsidies on public services in order to cut the state budget deficit. The country plans to sell dinar-denominated bonds this year to bridge the budget deficit, and may also sell dollar-denominated bonds, if needed.

Saudi Arabia is witnessing weakening economic growth and strain on funding sources, as the country faces sharp decline in oil revenues resulting from sustained oil price decline. The Kingdom is cutting unnecessary expenses and delaying some projects to compensate for low oil prices, though projects that are important for the economy will go ahead. The Kingdom has withdrawn over USD 73bn from global asset managers to plug its budget deficit and to reduce exposure to global equities. The government is also accelerating its bond sales to help sustain spending, and it is expected that the Kingdom might also sell Islamic bonds, or sukuk, to finance specific projects.

Economic diversification of the UAE economy over the past several years has buffered the country against falling crude oil prices. The UAE has also exploring options about implementing corporate tax or valued added tax, based on IMF's recommendations.

The government of Qatar has stated that it will not scale back economic development projects or cut state subsidies for fuel and food in response to low oil and natural gas prices, because government finances remain strong.

MENA Market trends

Index	M.Cap (USD Bn)	Last close	2014 %	Q3 2015 %	YTD %	S&P correlation**	ADVT* (USD mn)	P/E TTM	P/B TTM	Div. Yield
Brent Crude	-	48	-48.3	-23.9	-15.6	0.288	-	-	-	-
S&P Pan Arab LargeMid Cap	119.3	151	1.8	-14.4	-7.7	0.144	N.A	11.01	1.41	5.14
Saudi Arabia	439.1	7404	-2.4	-18.5	-11.1	0.162	1326.79	13.45	1.75	4.19
Qatar	139.3	11465	18.4	-6.0	-6.7	0.106	64.81	11.62	1.75	4.45
Abu Dhabi	115.9	4503	5.6	-4.7	-0.6	0.116	59.17	10.84	1.47	4.79
Kuwait Price	94.8	5726	-13.4	-7.7	-12.4	0.075	33.03	15.09	1.22	4.36
Kuwait Wt.ed	94.8	388	-3.1	-7.5	-11.5	0.050	33.03	15.09	1.22	4.36
Dubai	85.2	3593	12.0	-12.1	-4.8	0.118	101.90	10.13	1.35	4.31
Egypt	66.4	653	23.5	-12.0	-21.7	0.059	43.75	12.57	1.74	2.62
Morocco	48.1	9114	5.6	-4.8	-5.3	-0.038	5.74	16.87	2.13	4.58
Jordan	22.1	4055	-2.3	-2.1	-4.3	0.005	14.07	14.24	1.28	4.74
Bahrain	19.4	1276	14.2	-6.7	-10.6	0.011	1.30	8.67	0.90	4.94
Oman	17.0	5788	-7.2	-9.9	-8.8	0.116	7.93	9.79	1.30	4.95

Source: Reuters, Zawya, * - Average Daily Value Traded for the quarter, ** - 3-year daily return correlation

Discussing What Is and What Can Be in the GCC Business Landscape

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- The Two Sides of Shale Oil

Markaz Research Highlights

Qatar Banking Sector – On a strong growth phase

Qatar has the world's highest hydrocarbon GDP per national and also the highest hydrocarbon reserves per national. Qatar's hydrocarbons reserves held in the North Field contains 59% of GCC gas reserves and 13% of global gas reserves.

Qataris enjoy the highest per capita income globally at around USD 100,000 in 2014[2]. Qatar also has the highest percentage of millionaire households in the world at 17.5% leading to significant demand for premium banking and bespoke investment solutions. Qatar economy grew at the fastest rate on a compounded annualized real growth (CAGR) basis during (2008-13) as a result of expansion in LNG production. Self-imposed moratorium on gas projects has now resulted in stagnant growth of hydrocarbon sector. However, the non-hydrocarbon sector is expected to grow in double digits, which is expected to accelerate real GDP growth to 7.5% in 2015 and 7.8% in 2016[3]. Such higher growth is underpinned by increased project spending on various infrastructural projects as envisioned in Qatar Vision 2030 document and in preparations for hosting FIFA 2022 World Cup.

Qatar banking sector overall accounts for 126% of the country's nominal GDP in 2014 and banks' credit to GDP stood at 87%. The post-crisis growth in loans, deposits, assets and revenues (2009-2014) has been significantly lower than pre-crisis growth (2003-2008), but the overall size of the sector has increased. Qatar banks witnessed a credit growth of 15.5% in 2014, Loan Loss Provisions (LLPs) decreased by 7% with total provisions amounting to USD 0.65bn and provisions as percentage of total loans stood at 0.35%.

Qatar Banking Sector, Key Metrics

Key Metrics	Pre-Crisis CAGR (2003-08)	Post Crisis CAGR (2009-14)	YoY 2014
Loan	52.5%	22.4%	15.6%
Deposits	41.1%	21.0%	14.0%
Assets	44.0%	19.6%	12.2%
Revenue	48.7%	16.2%	10.4%
Net Income	48.9%	14.3%	11.7%
Loan Loss Provisions (LLP)	92.3%	14.3%	-7.0%
LLP as a % of Loans	0.01%	0.41%	
Cost to Income Ratio	30.0%	26.8%	
Loan to Deposit Ratio	71.3%	85.0%	
RoA	3.90%	2.49%	
RoE	22.60%	16.84%	

Source: Reuters, Marmore Research

[2] US Department of State
[3] QNB Investor Presentation, 2014

Note: LLP as a percentage of Loans, Loans to deposit ratio, Cost to Income Ratio, RoE and RoA are average for the respective periods.

All banks under our analysis showed a positive growth in deposits during 2014 and Qatar National Bank occupies the top position in terms of loans, deposits and assets in 2014. The Qatar banking sector posted profits of USD 5.3bn in 2014, 11.7% higher than previous year. Qatar banks had a Return on Average Equity (RoAE) of 15.9% in 2014 and Return on Average Assets (RoAA) stood at 2.09%.

According to IMF estimates, lending in Qatar is expected to increase by 14.9% in 2015. Our estimates show that deposit growth will be around 13.4%. We estimate profits to grow by 12% in 2015 driven by growth in non-interest income and moderating loan loss provisions. Return metrics, such as, RoAE and RoAA is expected to marginally rise from 2014 figures.

Investments in infrastructural projects, foreign acquistions, strong public spendings and peprations for 2022 FIFA World Cup have been some of the growth drivers for the Qatar banking sector. Qatar banks are expected to benefit from funding infrastructure projects envisioned as part of Qatar National Vision (QNV 2030) and also those related to the FIFA World Cup.

Qatar Banks Key Metrics, 2014 (USD mn)

	Market Cap*	Total Assets	Total Equity	RoA %	RoE %	Loans	Deposits	Net Income
Qatar National Bank	38,548	133,578	15,650	2.4	20.4	93,434	104,088	2,871
Commercial Bank of Qatar	5,062	31,764	4,677	1.7	12.1	20,896	20,446	516
Qatar Islamic Bank	6,927	26,396	3,118	2.0	14.0	18,781	18,347	440
Masraf Al Rayan	9,881	21,998	15,650	2.8	18.5	16,773	18,437	550
Doha Bank	3,890	20,740	3,100	1.8	11.9	13,337	16,209	372
Al Khalijii	2,000	14,074	1,588	1.3	10.2	7,382	9,587	155
Qatar International Islamic Bank	3,340	10,546	1,474	2.3	15.7	7,968	8,233	227
Ahli Bank	2,397	8,619	1,146	2.1	15.5	5,852	6,815	165

Source: Reuters, Marmore Research

Source: Excerpts from our industry research report titled "Qatar Banking". To find out more details, please visit www.e-marmore.com

Iranian Nuclear Deal: Geopolitical and Macroeconomic Implications

On July 14, 2015, it was announced that the P5+1 -- the United States, the United Kingdom, France, China, Russia and Germany -- along with the European Union (EU), had achieved a long-term nuclear deal with Iran. According to the U.S., the deal will "[…] will verifiably prevent Iran from acquiring a nuclear weapon and ensure that Iran's nuclear program will be exclusively peaceful going forward."

Within a week after the announcement was made with respect to a historic nuclear deal on the Iranian nuclear programme, the Iranian oil minister said that "we expect the members of OPEC to pave the ground for (an) increase of Iran's oil production that will reach global markets when sanctions are lifted," If Iranian nuclear compliance to the deal succeeds in bringing about the concomitant removal of sanctions, then Tehran could gain access to about $150 billion in frozen assets, allowing the country to increase oil to 4 million barrels/day by 2017, according to Moody's. For several countries of the GCC, this means depressed oil prices into the foreseeable future.

Iran Nuclear Deal Implications

Geopolitical Implications	Macroeconomic Implications
Regional insecurities may rise in terms of fears that Iran may use the cover of the deal to progress towards becoming a clandestine nuclear threshold power	Following the deal, easing of sanctions would restore Iran's access to global financial system and enable it to resume trading
Fears may also grow that if sanctions are removed, Tehran may use the accompanying enhanced economic clout to further promote its political objectives across a wide arc of the Middle Eastern region	Significant ramp up in hydrocarbon production, to pre-sanction levels could be expected followed by growth in oil exports. Iran with vast energy resources would seek to infuse capital to revive its energy sector
Iran's regional influence will increase as major world powers like Russia and China would attempt to develop greater ties with Tehran due to energy collaboration and investment opportunities	On the other hand, failure to reach agreement coupled with persisting low oil prices could push the Iranian economy into the throes of a recession characterized by higher unemployment
An open nuclear arms race could get sparked in the Middle Eastern region	If sustained restrictions continue on Iranian oil exports and international financial transactions, Iran's external and fiscal accounts will continue to decline over the medium term
Iran could over time be absorbed into a potential Eastern bloc, comprising China and Russia, in a modern replication of the earlier Cold War between the West and the erstwhile Soviet sphere	Iran borders many populous countries across the Central Asian region, the Caucasus area, etc. These populous neighbouring countries around Iran could provide it with a market of about 350 million people to tap into. Thus, if sanctions are lifted, Iran could immediately launch a campaign to further its exports in the surrounding region

Source: Marmore Analysis

For those Gulf countries that do not enjoy the luxury of significant fiscal buffers, depressed oil prices over the long term will mean weakened national balance sheets. Tehran's ~$100 billion stock market will also receive increased attention, which means international hot money will try to derive benefits from a hitherto closed, but fundamentally attractive, market. However, GCC countries like the Oman and the UAE have trading links with Iran, which could get further bolstered if Iran gets increasingly integrated into the international financial mainstream. For Kuwait, removal of sanctions on Iran could mean access to import Iranian gas, as the country's natural gas requirements grow.

The Iranian nuclear narrative has seen several twists and turns over the past several years. Iran has been under sanctions in one form or the other for over three decades now. An Iranian nuclear deal has significant geopolitical as well as investment implications, along with the fact that there are anticipations of removal of sanctions in a phased manner.

Key Elements of the July 2015 Nuclear Deal

Key provisions of the deal
Iran will have to reduce by two-thirds the number of centrifuges that it currently has installed (from 19,000 to 6,000). Of the 6,000, only 5,060 will be permitted to enrich uranium over the next 10 years at a facility at Natanz. Among the remaining centrifuges, a few hundred will be permitted to operate at an underground plant located at Fordow, which will, however, not be allowed to enrich uranium.
Iran will cap its enrichment at Natanz at 3.67% of the isotope U-235, which is far below weapons grade. The cap is initially envisaged for a period of 15 years and Tehran has to reduce its stockpile of 10,000-12,000 kilograms of low-enriched uranium by 98%, i.e., to 300 kilograms. It is notable that the amount is only a quarter of what would be needed for a single nuclear weapon if the uranium were subject to further refinements in order to achieve weapons grade.
A heavy-water reactor that is under construction at Arak will have to be so modified that it can only produce a tiny amount of plutonium, which is another potential fuel for weapons. Moreover, Iran will not construct a facility to reprocess the spent fuel, which will, instead, be exported.
The International Atomic Energy Agency (IAEA) will have to be given access to sites in Iran where military-related nuclear activity is believed to have transpired. One of the sites includes Parchin, which has elicited much concern in the past. The IAEA will be part of a rigorous monitoring and verification programme.
The power of the Arak heavy-water research reactor will have to be limited to 20 Megawatt Thermal (MWt).
The IAEA will monitor the Iranian uranium supply chain for 25 years, and the centrifuge production chain for 20 years.
A "snapback" plan would be in place that would restore sanctions in 65 days if Iran is found to be in violation of the deal.
For some observers, it is worrying that the deal not only helps Tehran achieve sanctions relief in the short term, but will also release about $150 billion in frozen accounts, a shot in the arm for the embattled Iranian economy.

Source: Various

Source: Excerpts from our economic research report titled "Geopolitical and Macroeconomic Implications of the Iranian Nuclear Deal for GCC". To find out more details, please visit www.e-marmore.com

Berkshire Hathaway – What to expect after Warren Buffet?

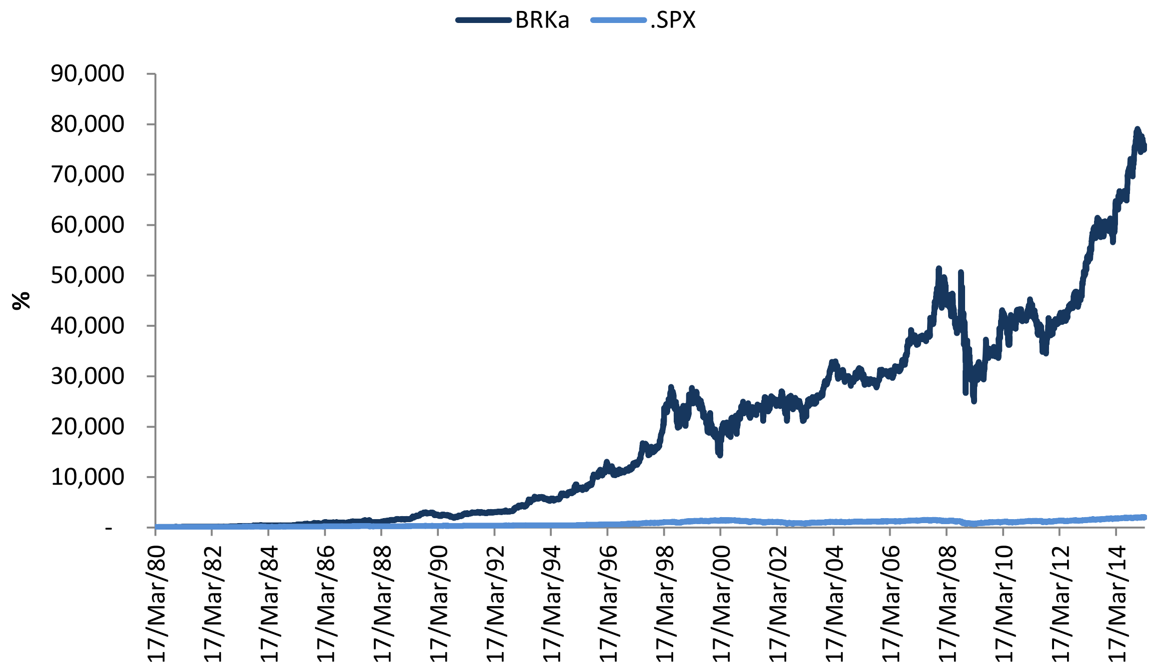
The company derives its investment philosophy from its chairman, president and CEO Warren Buffet, who has enumerated the following guidelines:

- Invest in companies you understand.
- Buy a great company at a good price rather than buy a good company at a great price.
- Holding period should be forever.
- Be a partner - do not micro manage your investments.

Berkshire share owners' manual further elaborates 15 principles, of which the investment related principles stress upon measuring long term economic goals on a per share growth in intrinsic value, purchasing diversified businesses that generates cash in order to take advantage of business opportunities during market slumps, and bidding the company's directors to invest a sizeable portion of their net worth in the company to emphasize on long term partnerships. This ensures that the agents are also the principles, and the management would work towards improving the company's net worth. Warren Buffet has tied 98% of his net worth to Berkshire Hathaway.

Warren Buffet has been heavily influenced by Benjamin Graham the father of value investment. In the 1950s Warren Buffet worked with Benjamin Graham (after graduating from Columbia University where Graham used to teach security analysis). Although he learned value investing from Benjamin Graham Warren believed that a company should not only be measured by going through annual reports and focusing solely on numbers and ratios. The biggest catalyst and deterrent is the management and due to that several companies which passes the value test fails in the management test regardless of the sector. Since Berkshire has no sector bias its investments includes; Retail, media and petrochemicals among others. Over the years the Oracle of Omaha shared his investment ideology extensively be it through his annual correspondence with his investors through his letters to the shareholders as a part of Berkshire's Annual report or during his annual AGM meeting where tens of thousands attend the event. Since 1980 Berkshire's stock grew at a staggering 75,295% or a 20% CAGR while the S&P 500 grew by 1,958% (9% CAGR) during the same period. Berkshire's investments succeeded due to Warren's stock picking philosophy which was shaped by Benjamin Graham the father of modern value investments.

Berkshire vs. S&P 500, 1980-Present (rebased)



Source: Reuters

Although Berkshire Hathway has a string of investments in flagship companies such as, American Express, Wells Fargo, GEICO and Coco Cola, the growth of the company over the past 50 years has been based on the trust reposed by the investment community in its chairman. Berkshire Hathway, post Warren Buffet, could move on either one of the following trajectories:

- The company is dismantled into smaller manageable divisions
- Warren's succession plan is implemented, and is a success
- Warren's succession plan is implemented, and is a failure

There is a good possibility that the investment philosophy would change after Warren Buffet hands over the reins of the company. Berkshire's ability to continue growing at 20% CAGR becomes more difficult due to its sheer size, and the company may be systematically sold off and gains distributed among investors, although such a scenario is unlikely due to tax liabilities. In 2010, Warren Buffet announced that the company has a clear succession plan, when it is time for him to leave Berkshire and he will be succeeded by a CEO (not publicly named) and 3-4 managers each managing a significant portion of the company. Recent succession stories have been a mixed bag. When Steve Jobs passed away Tim Cook was able to steer Apple in the right direction, while many of Bill Gates's successors at Microsoft have been struggling to re-create the aura that it had enjoyed. But a direct comparison to Berkshire Hathway is difficult, as it is an investment conglomerate with several business units, unlike Apple which is a company focused on technology, with clearly defined products. Warren Buffet stated that his goal in Berkshire is "to maximize Berkshire's average annual rate of gain in intrinsic value on a per-share basis" measuring on a per-share basis seems more relevant to Warren Buffet then measuring the size of his company. That said a KPI on the success or failure of BH post Warren Buffet could be measuring the gain/decline of BH per share intrinsic value. In 1911, the US government dismantled Standard Oil into 90 independent companies, after a Supreme Court ruling, which led to the birth of modern day giants Chevron and Exxon, companies that were originally part of Standard Oil. Succession plans for Berkshire Hathaway has been in place almost for the past 5 years, but it remains to be seen whether Berkshire will dismantle to enhance investor wealth, after Warren Buffet exits.

Warren Buffet's Mantra

When it comes to analysing a company, Warren Buffet tends to answer the following questions:

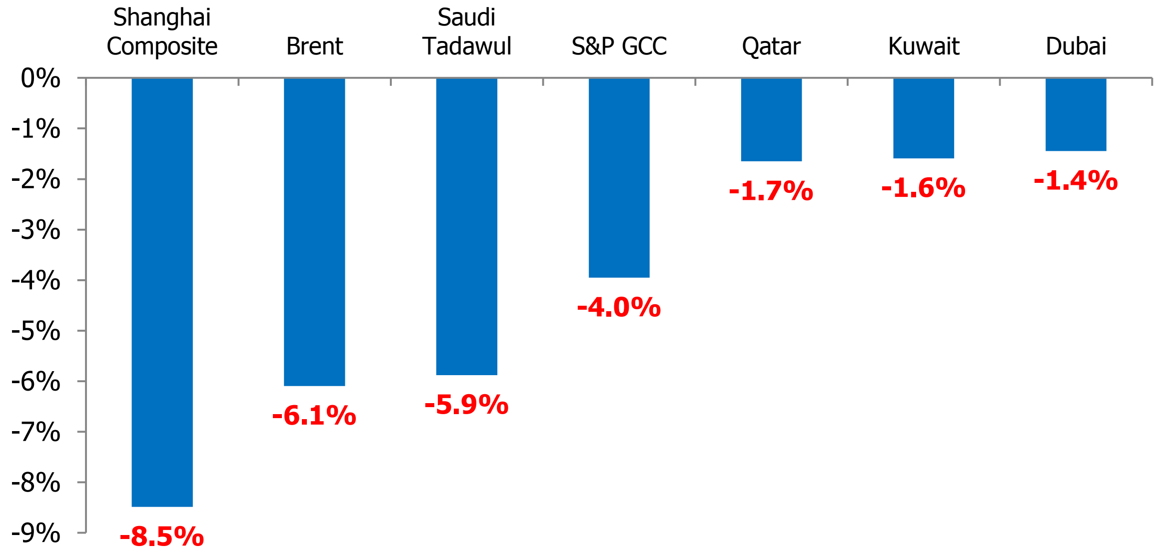
1) Did the Company add value consistently to its shareholders?
2) How high are the profit margins and are they increasing?
3) Is the company leveraged? What percentage of profits are attributed to debt (financial engineering)
4) How long has the company been public? (new IPO issues rarely attracts investments from Warren Buffet)
5) How big is the company's economic moat? (Warren believes that the higher the competitive advantage the more valuable the company becomes)
6) Is the company undervalued, fairly priced or overvalued?

Source: Excerpts from our capital market research report titled "Berkshire Hathaway". To find out more details, please visit www.e-marmore.com

Chinese Crisis - Implications for GCC Economies & Oil

On August 24, 2015 now dubbed as 'Black Monday' Shanghai market index lost 8.5% of its market capitalization which sent the markets worldwide into a tailspin. The ensuing volatility in global markets was exacerbated by fears of rapid economic slowdown in China - the largest economy in the world (PPP terms), which stoked fears of impending global recession and led to a massive sell-off.

Black Monday (August 24, 2015)



Source: Reuters

China, which now accounts for almost 15% of global economic growth, was perceived as an important global growth driver. Economists opined Chinese growth to lend support to world economy. Chinese influence on world economy steadily rose in the past two decades. Through its various trade links it has firmly established as a country with significant systemic influence on the world economy.

However, the recent episode of uncertainty over the economic trajectory of China due to lack of relevant indicators - to gauge the state of economy in a timely manner, has fuelled wide spread speculation regarding its health. Given the larger role it plays in the global scheme of things, the impact was felt on oil markets and the GCC equity markets (see above figure).

Impact on GCC Economies

Perceived slowdown of China could stoke fears of recession. It has been 7 years since the outbreak of global financial crisis and the policy makers, who have relied on monetary tools, have no options to fall back on in the event of another economic crisis.

In such an environment of economic uncertainty and prevailing lower oil price environment, GCC governments could reassess their expenditure programs. Subsidies could be curtailed and taxes could be proposed to garner additional revenue.

As the GCC currencies are pegged to dollar, yuan devaluation could make investments into GCC a bit expensive. This could have an effect on tourism as well. Chinese were among the top spenders in Dubai Shopping Festival.

China is the second largest importer globally after the U.S. To gauge the direct impact on GCC countries, we analysed the trade linkages with GCC countries.

Trade between China and GCC member nations

Country	Exports to China (as % of total exports)	Imports from China (as % of total imports)
Oman	36.0%	5.4%
Saudi Arabia	19.0%	15.0%
Kuwait	12.0%	12.0%
Qatar	6.4%	7.4%
UAE	5.9%	17.0%
Bahrain	2.8%	16.0%

Source: MIT Economics Observatory; Data as of latest available

China accounts for c.30% of Australian exports while c.18% of total exports of Japan and Brazil head to China. U.S exports to China amounts to c.10% of total U.S exports.

Among GCC countries, Oman is most vulnerable as its exports to China account for almost 36% of its entire exports. Exports from Saudi Arabia & Kuwait have sizeable exposures to China at 19% and 12% respectively.

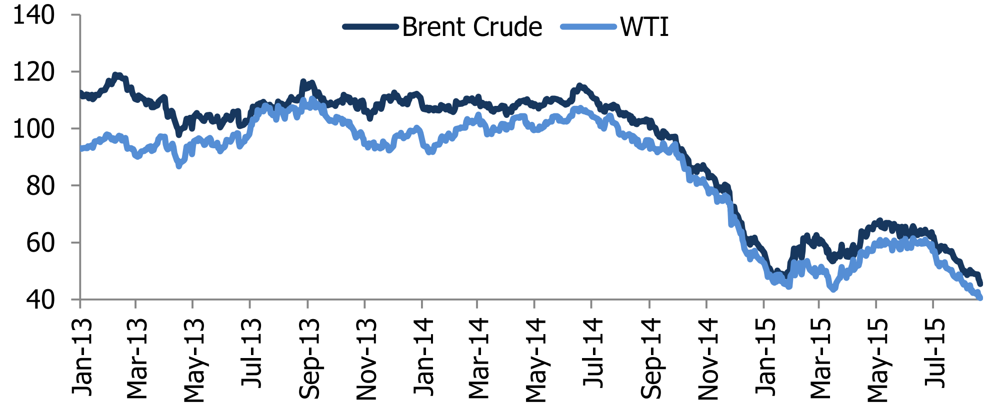
Slowdown in China would affect their trade level in the form of reduced exports and by reducing commodity prices due to fall in demand.

Impact on Oil Markets

China now accounts for 11% of global oil consumption and is expected to be the largest consumer in the world by 2030s. Trade relations with China, particularly oil, were provided priority as demand from Europe waned for economic reasons and as shale revolution altered the energy landscape in U.S.

Oil plays a crucial role in industrial and manufacturing sector to keep the factories humming. Visible slowdown in the pace of industrial activity in China is bound to add negative sentiments in an already bearish oil market.

Brent & WTI Oil Prices (USD/bbl)



Source: Reuters

Source: Excerpts from our economic research report titled "Is China Stalling?". To find out more details, please visit www.e-marmore.com

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MENA Data at a Glance

S. No.	Particulars	Saudi Arabia	Kuwait	UAE	Qatar	Oman	Bahrain	Egypt	Jordan	Morocco
1	Nominal GDP (USD bn) (2015f)	656	136	368	182	67	32	344	37	98
2	Real GDP Growth (%) (2015f)	3.0	1.7	3.6	6.8	4.5	3.4	4.5	3.8	4.7
3	Share of Hydrocarbon GDP (as % of total Nominal GDP) (2015f)	30.2%	46.9%	23.2%	35.1%	34.0%	16.5%	na	na	na
4	Hydrocarbon Revenues (as % of total Governmental Revenues) (2015f)	80.1%	64.2%	64.4%	50.4%	76.0%	74.9%	na	na	na
5	Fiscal Surplus as a % of GDP (2015f)	-14.5%	8.8%	-3.6%	1.4%	-13.1%	-11.1%	-10.2%	-3.2%	-3.7%
6	Fiscal Breakeven Oil Price (2015f) USD/bbl	103.0	47.1	73.1	59.1	94.3	93.7	na	na	na
7	Crude Oil Price (End Q2 2015) USD/bbl	48.37	48.37	48.37	48.37	48.37	48.37	48.37	48.37	48.37
8	Crude Oil Reserves (End Q3 2015) billion barrels	268.29	104.00	97.80	25.24	5.15	0.12	4.40	0.00	0.00
9	Current Account as a % of GDP (2015f)	-2.6%	15.2%	3.6%	3.6%	-3.7%	-1.2%	-2.5%	-4.1%	-2.4%
10	Inflation (%) (2015f), CPI average	2.2%	2.6%	3.3%	2.4%	1.3%	1.7%	8.6%	1.2%	0.9%
11	Population (2015f) in million	31.41	4.18	9.92	2.39	4.29	1.37	86.82	7.11	33.49
12	Unemployment Rate (%) (2015f)	10.0%	na	na	na	na	na	13.4%	12.6%	9.9%

S. No.	Particulars	Saudi Arabia	Kuwait	UAE	Qatar	Oman	Bahrain	Egypt	Jordan	Morocco
13	Market Cap (Q2 2015) (USD bn)	438	89	228	137	17	19	58	22	48
14	Stock Market Performance (YTD - Q2 2015)	-18.5%	KWSEW (-7.5%); Price IDX (-7.7%)	Dubai (-12.1%); Abu Dhabi (-4.7%)	-6.0%	-9.9%	-6.7%	-12.0%	-2.1%	-4.8%
15	P/E (Q2 2015)	13.44	14.27	11.16	11.47	9.74	8.68	10.71	14.24	16.85
16	Liquidity (YTD-Q3 2015) (USD mn)	324,483	9,515	43,128	19,304	1,950	214	10,309	2,484	1,438
17	Stock Market Turnover Ratio (YTD-Q2 2015)	74.0%	10.7%	18.9%	14.0%	11.6%	1.1%	17.7%	11.2%	3.0%
18	Ease of Doing Business Rank (Global - 2014-2015)	49	86	22	50	66	53	112	117	71
19	Starting a Business Rank (Global - 2014-2015)	109	150	58	103	123	131	73	86	54
20	Global Competitiveness Index (GCI) Rank (2014-2015)	24	40	12	16	46	44	119	64	72
21	GCI Infrastructure Rank (2014-2015)	30	61	3	24	33	31	100	71	55
22	GCI Health & Primary Education Rank (2014-2015)	50	82	38	28	54	40	97	47	76
23	GCI Higher Education & Training Rank (2014-2015)	57	81	6	38	79	55	111	48	104
24	GCI Innovation Rank (2014-2015)	33	111	24	14	64	60	124	41	90
25	Corruption Perceptions Index (2014, Rankings)	55	67	25	26	64	55	94	55	80

Source: IIF, IMF, Zawya, Reuters, EIA, World Bank, World Economic Forum, Transparency International