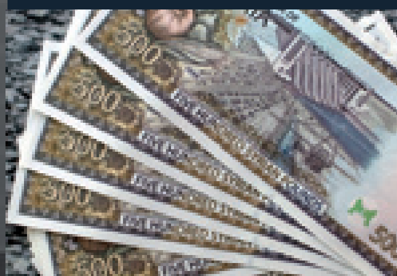
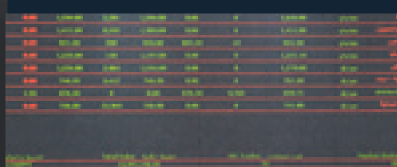
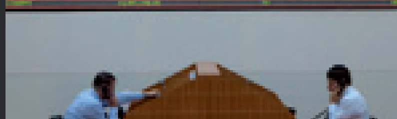
Capital Markets

Trading resumes in Damascus after a long hiatus
Liquidity set to increase as the market develops
Monitoring services help in tracking performance
Share analyses for some of the promising players







Trading hours have been extended since the exchange reopened

Open for business

The Damascus Securities Exchange is up and running

The Syrian Commission on Financial Markets and Securities has built a robust framework to guide the exchange through its early period of trading.

After several delays, share trading finally resumed in Syria on March 10, 2009 at the Damascus Securities Exchange's (DSE) temporary headquarters in Barza. The opening of a bourse in the capital is in line with the broad programme of economic reforms enacted since President Bashar Al Assad took office in 2000. These have included the opening of the banking and insurance sectors to private institutions, and the lifting of foreign exchange restrictions. While of less immediate value than these other reforms (given the time needed for a bourse to establish itself), the opening of the DSE is one of the most significant gestures made in the government's efforts to open the economy to private enterprise and foreign investment. "The DSE was set up as an independent body. It is not under the sole auspices of the business community, as their goal is purely to maximise profit. Nor is it set up as a public sector department, as this would make it too bureaucratic," Ratib Shallah, the chairman of the DSE, told OBG.

SLOW, BUT STEADY: The government's approach to the establishment of the DSE has been cautious, and Syria is very unusual in that the regulator was created before the market. Law No. 22 of 2005, which established the Syrian Commission on Financial Markets and Securities (SCFMS) arrived a year before Law No. 55, the legal basis for establishing the DSE. The SCFMS has since been dedicated to building a robust framework to guide the DSE through its early period of trading. Yisr Barnieh, a senior economist with the Arab Monetary Fund, the body which helped set up the necessary framework for securities trading in Syria, told OBG: "Syrian financial market standards are now more advanced than most other countries in the region." He added that the bourse meets International Accounting Standards, and that the only remaining area requiring a regulatory framework is investment and mutual funds, which according to DSE sources will be covered by an internal by-law by the end of 2010.

RESTRICTIONS: In practical terms, the early regulatory environment for the DSE has been avowedly conservative. A 2% cap on daily share price movements has been put in place, while same-day selling is prohibited. Trading takes place on Mondays, Tuesdays and Thursdays, from 10.30am until 1.00pm. There is an absolute ban on short-selling, as part of a marked strategy to discourage speculation. Regulators describe such restrictions as being a necessity to gradually ease the market into full-time operation, and to avoid a rush of hot money from foreign investors.

This firm regulatory hand has combined with a number of other factors to stifle liquidity in the market, as both the SCFMS and the DSE are aware. Early trading highs were between $600,000 and $1m per session, but as Anas Jawish, the operations and listings manager for the DSE, described, volume remains relatively low. "Part of the problem is the lack of an investment culture in Syria. Investors often don't know why they are buying or selling. An investor will sell once and then leave the market," he told OBG. Figures support this picture: of over 37,000 registered investors in the 12 listed companies on the exchange, only around 5000 are depository. Of these, only around 1200 have engaged in any trading. Sofian Haikal, the director of brokerage firm Cham Capital, told OBG: "The lack of liquidity is directly related to legislative barriers. A number of changes will help, such as raising the number of trading days and removing all the barriers for listing new companies from several sectors."

The decline in other regional bourses may have spooked those who did have experience in stock trading, making them reluctant to invest in equities given the current market conditions. "Another issue is the delays in opening the market – this led to a lot of shares being traded beforehand on the black market. If they were traded at a higher price, investors would hold them until they recovered," Barnieh told OBG, adding that the lack of liquidity was natural given the timescales. "The market is new, and any new market experiences a slow uptake. Beirut, by comparison, experienced much lower volumes when it restarted trading. Also, many of

MARKET WATCH

Just like with any other bourse, a host of market reporting services are beginning to cover the Damascus Securities Exchange (DSE), enabling investors to gauge both how their own portfolios are performing as well as the general health of the exchange as a whole.

First to arrive was Bank Audi's DSE index, which was launched a week after the bourse opened in March 2009. In fact comprising three separate indices, Bank Audi's offering allows investors to track not only the trading price of listed shares, but also the market capitalisation of listed companies and the volume of shares traded. The three indices are, respectively, the Audi Index, or AIP; the Audi Index Market Capitalisation, AIMC; and the Audi Index Trading Volume, AITV. Each is updated at the end of a day of trading, and is all-share, in the sense that every listed company is included in the index's value.

Next to arrive was the DSE online ticker chart, which was launched in July 2009. The service provides live updates to the price changes in individual stocks, as well as market comparison functions from previous trading sessions. The service, which is currently still in the beta stage of release, is thus far only available in Arabic.

Both these services represent some of the market expertise that is already present in Syria, despite the relative novelty of the DSE. The majority of institutions currently listed on the exchange are private banks, whose parent companies are either Lebanese, Saudi or Jordanian – all economies with extensive experience of operating their own stock markets. Such experience, particularly in the field of market observation and tracking, will provide investors with a degree of professionalism that other markets can sometimes take years to acquire. Bassel Hamwi, the deputy chairman and general manager of Bank Audi, said the purpose of the Audi indices is to provide "total transparency and clarity, so that we may monitor economic performance and available investment opportunities".

With still only 12 listed companies as of early 2010, it is too early for more sophisticated monitoring products to be offered for the DSE at present. However, with two markets on the exchange, including the growth market for smaller companies looking to list, the presence of all-share tracking will be a boost for the eventual arrival of investment and mutual funds, the regulatory framework for which is due to be passed soon. In addition, as initial conservative trading restrictions are gradually lifted, the all-share index will of course prove to be another useful bellwether for the Syrian economy as a whole.

The stringency of the current regulatory environment is expected to ease as more firms list

the companies listed are new, so there simply aren't that many shares available to be traded."

On this point, the DSE is trying hard to get some of Syria's older joint stock companies to list on the exchange, but as Mohamed Al Jleilati, the CEO of the DSE, explained, this is harder than it appears.

"This is proving a major sticking point for the exchange," Al Jleilati told OBG. "These old companies are working under local accounting and auditing standards, and in order to list on the DSE, their procedures need to be totally modernised."

GRADUALLY EASING: The plan is to ease the DSE's regulatory environment as more firms list and the volume of trading naturally increases. The 2% trading cap is expected to be steadily raised, while trading days went from two to three by late 2009 and are expected to jump to five by the end of 2010. Market watchers have already observed a gradual improvement in the liquidity situation since March 2009.

The Ministry of Finance hopes to attract more family firms to list through generous tax incentives: a 14% rate for listed companies (previous rates for private companies have been as high as 65%) and a 1% rate on recalculated back tax – essentially an amnesty on companies that revaluate their assets.

Firms cannot evaluate intangible assets such as goodwill, brand equity and intellectual property until a two-year period has passed from the date they re-evaluate their tangible assets. Al Jleilati described the new regime as offering an overall "net gain" – encouraging firms to properly report their earnings and improve standards of accountancy. "We need to transform family companies into institutions. Institutions can live longer and specialise in certain areas by, for example, having special departments for innovation," Mohamad Al Imady, the chairman of the SCFMS, told OBG.

In some respects, the steady regulatory approach has already paid off for the DSE. Despite the poor outlook regionally for initial public offerings, the bourse managed to register five new listings during its opening

The DSE is covered by various market reporting services, enabling investors to monitor both the performance of their own portfolios and the general health of the exchange.

months: Agricultural Engineering Company for Investments, Syrian International Islamic Bank, Al Ahlia Company for Vegetable Oils, United Insurance Company and Byblos Bank Syria. These joined the seven companies already listed – Banque Bemo Saudi Fransi, Bank Syria and Overseas, International Bank for Trade and Finance, Bank Audi Syria, United Group for Publishing Advertising and Marketing, Arab Bank Syria and Al Ahlia for Transport. Two further firms, Syria Arab for Tourist Facilities and Arope Insurance, have also received initial approval for listing. The initial public offering of Al Baraka Bank Syria, which was concluded in early November 2004, was oversubscribed by more than four times. The Bahrain-based Al Baraka Banking Group sold 3.5m shares with a total value of $35m. In the short term future listings are expected to include MTN and Syriatel, which are both awaiting a new telecoms law expected to come into force in 2010, as well as a further three insurance companies: Al Aqeelah, Syrian Kuwaiti Insurance Company and National Insurance Company.

SPECIFICS: The DSE is split into three markets: the main market and two growth markets for smaller companies. Requirements differ: for the main market, a firm must have registered 5% profit over two years and been in operation for at least three years. It must also have minimum capital of S£300m ($6.6m), 300 investors and 20% of shares free. For the growth markets, a company can cover losses of up to 10% on shareholders' equity over two years, but it must have been operational for at least one year. Minimum capital issue is S£100m ($2.2m), with 100 investors and 10% free shares (this is also the minimum requirement for a joint stock company to trade on the over-the-counter market). So far, of the 12 listed companies, seven are registered on the main market and five on the growth markets. Total market capitalisation for the DSE, including all three markets, was around $1.38bn as of January 21, 2010. Foreign ownership of shares is possible if the holding is maintained through a custodian licenced by the SCFMS. While there is no general legal limit on the percentage of foreign ownership allowed – 100% ownership is allowed for investment in certain sectors under the Investment Law No. 8 of 2007 – for banks (and other financial institutions) the current maximum is 60%. Joint listing is possible provided an agreement is reached between the SCFMS and the foreign commission, and the company is listed on the main market.

Trading at the DSE is through continuous auction and order-driven. Currently, eight brokerage and financial services firms are cleared to operate at the DSE – IFA Financial Services Company, Bemo Saudi Fransi Finance, Al Aula Financial Investments, Pioneers for Financial Investments-Syria, Cham Capital, Global One for Financial Investments, Syria & Overseas for Financial Services and Sanabel for Financial Investments. Many more companies have received preliminary licensing to act as brokers or other financial intermediaries, and up to 25 firms are expected to offer brokerage services by 2013. The exchange currently runs on software provided by Market Evaluations, following sanctions problems with previous contenders OMX and Euronext.

The DSE is hoping to prove attractive to family firms

OUTLOOK: The coming two to three years will be busy for the DSE. On the regulatory front, the SCFMS is switching from its initial building stage to a focus on oversight and supervision. There is also the potential for some unification of the varying regulatory bodies, which currently cover the financial sector, in a bid to ease the regulatory burden on businesses. One visible development will be the exchange moving to larger premises in Yafour, to be shared with the SCFMS. A proposal has also been issued to move the exchange to a real-time gross settlement system, enabling delivery versus payment and thus significantly reducing payment risks. According to the bourse's forecasts, 35 companies are expected to be listed by the end of 2011, with 50 to 60 by 2013. Bourse officials also make two predictions for an increase in volume by the end of 2010 – a conservative outlook of $2m-$7m on average per session, and a best-case scenario of $15m-$25m. The success of these predictions will rely largely on the DSE's ability to attract Syria's large number of family firms, as well as existing older joint stock companies, to list on the exchange. Once additional building blocks such as treasury bills and investment/mutual fund regulations have been enacted, the DSE will be confident of drawing in a much greater share of Syrian capital.

The DSE is split into three markets. Of the 12 listed companies, seven are registered on the main market and five on the two growth markets. Total market capitalisation for the DSE stood at around $1.38bn as of January 2010.

Financial services and brokerage companies

Status	Company	No.
Commenced	IFA for Financial Services	1
Commenced	Bemo Saudi Fransi Finance	2
Commenced	First Investment Group	3
Commenced	Pioneers for Financial Investments Syria	4
Commenced	Cham Capital	5
Commenced	Alula International Financial Investment	6
Member in the market and CSD	The Arab Falcon for Securities	7
Member in the market and CSD	Islamic Company for Brokerage and Financial Services	8
Member in the market	Syria and Overseas Financial Services	9
Final licence	Global Investment House	10

SOURCE: Damascus Securities Exchange

Deposits held by the Central Bank currently receive no interest

Steps toward a modern market

Establishing the infrastructure for bonds

The development of a government bond market is a high priority. Syria has already experimented with government debt, with two trial issues of treasury bills released in late 2008.

The return of exchange-based trading to Damascus after a gap of half a century has significantly widened the opportunities for corporate finance. However, for the Syrian financial system to diversify further, one thing is lacking: a government debt market. Without it, Syria's financial institutions lack a benchmark by which to price other types of financial products, the most notable of which are corporate bonds.

ESTABLISHING THE INFRASTRUCTURE: As with other areas of financial reform, the development of a government bond market is currently a high priority on the state's agenda. Syria has already experimented with government debt, with two trial issues of treasury bills (T-bills) being released in late 2008, and the Central Bank is currently working with a number of international organisations to complete the necessary infrastructure to issue bonds. Notably, the bank met with a joint International Monetary Fund/Arab Monetary Fund (AMF) technical assistance mission in late 2009. Yisr Barnieh, a senior economist with the AMF who helped Syria to set up its Securities Commission, is clear about the need for such a market. "Without government debt, there can be no benchmark for corporate debt, no mortgage securities, no securitisation. Some companies already want to issue their own debt, but without a government benchmark, how can we price it?"

The absence of a yield curve is arguably the biggest remaining barrier to releasing liquidity at the corporate level within the economy. Despite the emergence of the Damascus Securities Exchange (DSE), large investors still lack channels for their capital. One figure inside the exchange described the majority of investment there as "parked" – most shareholders are, for one reason or another, not trading. For foreign investors, there is the added difficulty that the majority of institutions listed so far are private banks, with a 60% limit on foreign ownership, while 49% of their ownership is accounted for by their parent firms in Jordan, Lebanon or Saudi Arabia.

CASH FOR INVESTMENT: Corporate bonds would be a convenient way of circumventing this bottleneck, and freeing up cash for investment. Indeed, the legal and institutional framework for developing such a market is already largely in place. Anas Jawish, the operations and listings manager at the DSE, told OBG, "We have the capacity to host a corporate bond market, and we've tested the software. Under the current rules we can list any vehicle the government wants us to, which includes corporate bonds."

Given the young nature of much of Syria's financial sector, which remains less than a decade old, it is likely that much of the initial market will be over the counter. However, a major determining factor in the success of such offerings either way will be the institutional development of the financial organisations involved. According to Barnieh, Syria's private banks currently focus on the consumer market ahead of corporate finance. "There is very little at the corporate level. The answer might be new specialised institutions that focus on corporate finance services, or perhaps increasing capital levels in banks might incentivise banks to do more at corporate level."

The first of those incentives will be the T-bills. As it stands, bank deposits held by the Central Bank receive no interest – a factor which some in the banking sector told OBG is discouraging them from investing more of their foreign currency holdings in Syria. With the availability of bonds, this may change, giving the government a valuable source of capital to invest in the sort of big-ticket infrastructure developments needed, while better integrating private banks into the superstructure of the broader economy. On its own, a bond market is no magic bullet for increasing liquidity and access to capital in the Syrian economy. Other institutions – notably credit ratings agencies – will also be required. However, alongside private banks, insurance companies and most recently the DSE, it represents another major step towards a more modern Syrian financial sector.

Mohamad Al Jleilati

Piece of the market

OBG talks to Mohamad Al Jleilati, CEO, Damascus Securities Exchange (DSE)

To what degree did the global slowdown affect the launch of the DSE in March 2009?

AL JLEILATI: One would assume that launching the exchange during the crisis was unfortunate timing, as people all over the world and in Syria were developing increasingly negative impressions of stock exchanges. However, the global crisis has made us realise the importance of not rushing into things, and we see this event as a positive in that we can actually market the fact that we are doing things responsibly and properly from day one. Many Arab investors who had their money tied up in badly performing exchanges in Europe and the Gulf are pulling out their funds and looking to place them elsewhere. And the DSE, because of its strong performance thus far and its strict regulations, offers an excellent opportunity for diversification.

We are doing everything in our power to limit speculation and minimise the gap between the real and financial economy. We will ensure full disclosure and strict codes of conduct, and also have regulations in place that will not allow the emergence of short-selling, toxic assets or flight of capital. There will be no "hot money" in the DSE. We are also focusing heavily on awareness and education for local retail investors, using lectures and opinion leaders to instil in them the importance of investing responsibly and understanding that investing in the DSE is not about short-term gains.

How can local companies be encouraged to list?

AL JLEILATI: Looking at the companies that have listed so far, many are newly established banks and insurance companies that are subsidiaries of international financial service institutions, so they already comply with international accountancy standards, are used to a culture of auditing and have no disclosure issues.

The challenge is in listing the older established Syrian companies that have for many years been working under local accounting and auditing standards, which are virtually non-existent and a real sore point for the country. From the outset, we identified and classified around 65 publicly held companies who could meet the eligible criteria in terms of revenues and capital for listing on the exchange. Of these 65, some 20 are newly established companies that have been operational for less than five years in the market. These are naturally the ones most suited for immediate listing, as they do not have to overhaul a legacy of poor disclosure and poor reporting systems. Nine of these 20 have listed so far, and we have hopes for the other 11 to list by the end of 2009. Looking more long-term, the government is providing many incentives for privately held family companies to transform and go public. For example, if they restructure their ownership to where more than 51% is held by multiple shareholders, they will get taxed at a rate of 14% compared to previous rates, which often reached as high as 65%.

What impact will the exchange have on the local financial sector as a whole?

AL JLEILATI: Over time, companies will begin to prepare themselves for and adopt international reporting and disclosure standards. This will also raise overall corporate transparency for the country and the economy as a whole will become more formalised. Syria's ambition of a social market economy will not succeed without publicly listed companies.

The exchange and new company laws will also increase tax compliance, as in the past – because of excessively high rates – most companies cheated on their taxes. All limited liability companies will be forced to recalculate their past incomes, but with the government granting immunity on all reporting discrepancies by imposing a flat back tax of 1%. This should result in a gain of tax revenue for the government as even though the tax rate is lower, the tax base widens because in the past most companies avoided paying taxes.

There will also be more liquidity because more borrowing will be done locally. In the past, as companies did not want to reveal their earnings locally for fear of heavy taxes, they went abroad to borrow money.

Omar Al Ghraoui

Strengthening the family business

Omar Al Ghraoui, COO, Bemo Saudi Fransi Finance, on restructuring and finding the right corporate structure for the future

The Damascus Securities Exchange (DSE) opened its doors on March 10, 2009 with six listed securities. Nine months later, the number of securities listed was 12, all of which had a market capitalisation higher than the one they had pre-listing, which begs the question: why aren't more companies listing?

The number of joint-stock companies is small, and the market's greatest hope lies in family businesses. The government and the regulatory bodies have taken the initial steps to ensure this potential is realised. They lowered the tax implications resulting from asset revaluation; lowered tax rates for joint-stock companies; set up the DSE; established a parallel market to encourage smaller and newly established firms to list; allowed financial intermediaries to operate and manage the process of taking companies public; and now they are trying to educate the common investor and family businesses on the benefits of going public and having a more transparent and trustworthy securities market.

On the other hand, certain laws and regulations are still unclear or even preventive of this transition process. For example, Company Law No. 3 of 2008, which requires firms to offer a minimum of 45% of the company's capital to the public if they want to change their corporate structure to joint-stock. This is too high a percentage for family owned companies to give up. Also, while the revaluation tax break introduced via Legislative Decree No. 61 of 2007 was a positive step, the procedures for the valuation of intangible assets (brand names, trademarks, etc.) is still unclear.

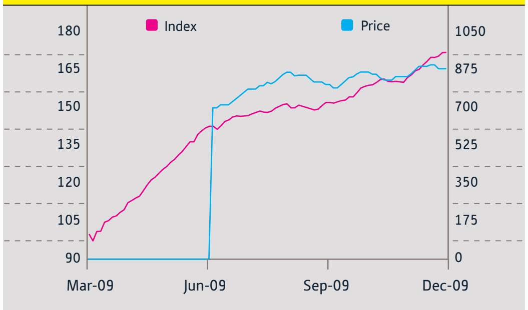
Moreover, the extent to which popular valuation methods like discounted cash flow or price multiples can be used is vague. These methods value companies based on their prospects and future potential, unlike asset-based valuations. Mostly, however, family businesses today have varying confidence levels and attitudes to the amnesty provided by Decree 61 and most are waiting for a success story.

There are many considerations when a company wants to go public on the Syrian market. Among the pros are: potentially easier access to capital; better financing terms from banks, suppliers and other creditors; lower tax rates (14% if more than 50% is offered to the public); more exposure, publicity, transparency and trustworthiness, likely resulting in increased sales; separation of management from ownership; business continuity in case of owner's death or exit; lower cost of capital with the possibility of corporate bond issues; easier procedures for setting up joint ventures and obtaining foreign trading partners; availability of exit strategy; and observable market value of the company. Among the cons are: a potentially long and costly process; owners can face strong management resistance; the family is no longer in full control; a significant time commitment is required from the management; disclosure requirements are hard to meet; some firms do not like to be under public scrutiny; and important insider information may be accessible to competitors.

As Syria's reforms continue, the country is opening up to global trade, foreign investments and international financial markets. Family firms are already facing fierce competition – be it on the local or global scale – and if the time comes and they lack the right corporate structure or financial flexibility to deal with such competition, their businesses will suffer, if not end. Most families are taking a wait-and-see approach as they do not want to be the first ones to make the switch. That is a very risk-averse and prudent judgment, but they are missing out on the opportunity to be an industry pioneer, by using the added capital to expand the business, and by moving to more transparent disclosure standards. The potential of securing a strategic partner, with valuable expertise or a brand name of its own along with access to international capital, is potentially too great to pass up. While going public may not be right for all companies, it could prove advantageous to others. The economy is now solid, the system is there, the demand for new initial public offerings is there, and once family businesses realise how much stronger they will be as public corporations, they too will be there.

Share analysis & data provided by Bemo Saudi Fransi Finance

UIC price & index relative performance



UIC market ratios (S£) BVMT code: UIC

PERFORMANCE	Data as of Dec 31, 2009		
Price	883		
6M high	901		
6M low	701.5		
Market cap	1.5bn		
MARKET RATIOS			
	1M	3M	YTD*
Avg daily price	880.27	849.89	826.52
Avg daily vol	311.25	286.11	350.33

*Listed on July 2, 2009

United Insurance Company

Insurance

THE COMPANY: United Insurance Company (UIC) was established in 2006 with capital of S£850m (approximately $17m at the time). Shortly after the Syrian government first allowed private insurance companies to operate, UIC received its licence on June 4, 2006 to become the country's first private insurer since the industry was nationalised in the late 1960s.

The company provides a variety of insurance products including marine, car, property, personal accident, contractors, medical, fire and life insurance. The main founders are the Kuwait-based Al Mal Investment Company (an investment firm with more than $750m in assets under management), the Lebanon-based United Commercial Insurance (in the insurance business since 1934), as well as prominent Syrian businessmen Abdulrahman Al Attar and Nizar Al Asaad.

UIC is considered one of the major players in the private insurance industry, with premiums of S£298m ($6.53m), a 16.7% market share (9.6% of the total insurance market). UIC's net revenue distribution is dominated by three lines, with car (42.6%), marine (28.7%) and fire (13.4%) being the main income generators. UIC managed to turn a profit in its first year of operations (2006) and has seen improvements every year since. During the six months ending June 30, 2009 UIC posted net earnings of S£47.6m ($1.04m) on net revenues of S£147.1m ($3.22m).

As for key industry ratios, UIC's expense ratio is 39.5%, while its claims ratio is at 27.7%. The combined ratio of 67.2% means that UIC's insurance underwriting unit is able to turn a solid 32.8% of revenues into profit. Net insurance revenues represent only 66.6% of UIC's total revenues, with the remainder coming mostly from interest paid on bank deposits.

Return on equity for the period was a 10.1%, a small improvement over the 9.1% returned in 2008. Furthermore, on June 2, 2009 UIC became the first insurance company to be listed on the Damascus Securities Exchange. The stock has appreciated 25.9% since then to close at S£883 ($19.34) on December 31, 2009.

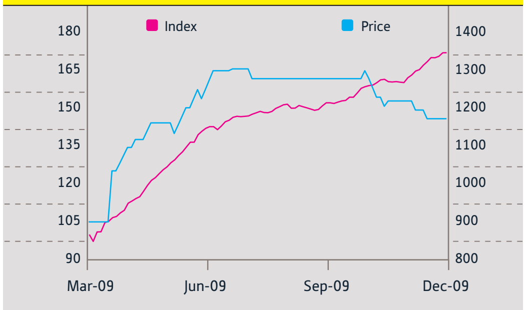
DEVELOPMENT STRATEGY: UIC is looking to further diversify its revenues and reduce its risk exposure by focusing on its smaller product lines, especially with life insurance representing less than 5% of net revenue. While UIC's income is more diversified than most competitors, car and marine policies still represent about two-thirds of insurance income, not a very balanced distribution for a company with 10 product lines. UIC is looking to expand its network of five branches in order to target untapped markets, in addition to investing in the training of its sales agents to improve their product knowledge and sales skills.

The main challenge is Syria's low GDP per capita, which is not allowing people to spend significant amounts on premiums, as most still consider insurance to be a luxury rather than a necessity, especially life insurance. In addition, the lack of awareness among Syria's population when it comes to insurance products and their benefits has made people reluctant to purchase policies. Furthermore, as is already apparent in the car and health insurance markets, the intense competition (13 companies as of September 2009) has led to price wars, damaging profit margins across the entire industry.

Another concern at present is the lack of safe, high-yielding instruments, such as treasury bills. This has caused excess liquidity levels for UIC, with significant portions of the money collected from premiums not generating solid returns. Moreover, if the growth of Islamic banks is any indication, the penetration of *takaful* (Islamic insurance) companies is likely to affect the growth of the traditional insurance market, as Syrian consumers have clearly demonstrated a thirst for sharia-compliant products and services. Nonetheless, since the private insurance industry is still young and the untapped market is large, UIC's growth is unlikely to be impacted in the short to medium term, especially considering the solid potential of underdeveloped services, such as corporate insurance for large industrial plants and investment projects.

Share analysis & data provided by Bemo Saudi Fransi Finance

AHT price & index relative performance



AHT market ratios (S£) BVMT code: AHT

PERFORMANCE	Data as of Dec. 31, 2009		
Price	1173		
10M high	1304.82		
10M low	900		
Market cap	469.2m		
MARKET RATIOS			
	1M	3M	YTD*
Avg daily price	1190.5	1238.14	1205.84
Avg daily vol	130.83	195.19	121.14

*Listed on March 10, 2009

Al Ahliah Transport Company

Transportation

THE COMPANY: One of the first private transportation companies in Syria, Al Ahliah Transport (AHT) was established in 1992 in the city of Hama with capital of S£100m (increased to S£200m in 1994). The company's main services are bus transportation for passengers (71% of total revenues), money transfers, and messenger and courier services.

The company began with 12 buses, a tally that has since increased to around 80. AHT's buses service 12 of the largest cities in the country, transporting more than 2.5m passengers per year. Hama's location provides AHT with a base halfway between Syria's largest two cities, Damascus and Aleppo, not to mention that Hama's natural environment and tourist attractions make it a popular destination in itself.

AHT has recently built a centralised all-purpose warehouse to improve its mail and delivery services, as well as a garage for bus maintenance. AHT also operates a rest stop with a cafeteria in the Hama terminal, in addition to owning a small equity stake (1.67%) in the publicly traded edible oil manufacturer Al Ahliah Vegetable Oil Company, purchased at a cost of S£25m ($548,000). For the six months ending June 30, 2009 AHT posted a net profit of S£18.24m ($399,000), an increase of 26.7% on the first six months of 2008. The improvement was largely due to a 22% increase in sales to S£247.98m ($5.43m), combined with tight cost control as operating margins improved from 8.2% to 8.6%.

Since its transportation vehicles represent 75% of the company's assets and are its main source of revenue, asset turnover and return on assets are very useful indicators of efficiency and performance, respectively. Asset turnover ($ sales/$ assets) increased from 0.46 to 0.6, while return on assets increased from 6.6% to a very respectable 8.8%.

The firm's return on equity improved from 9.8% to 12.4%, while AHT's share price appreciated by slightly more than 30% since it was listed in March 2009 to close at S£1173 ($25.69) on December 31, 2009.

DEVELOPMENT STRATEGY: AHT has invested in a very advanced tracking system which will allow the company and its customers to keep track of the location of every item that AHT delivers. This new system will allow for better process control and more cost efficiencies. The investment shows that AHT is making the necessary changes to make the company more competitive given today's higher standards.

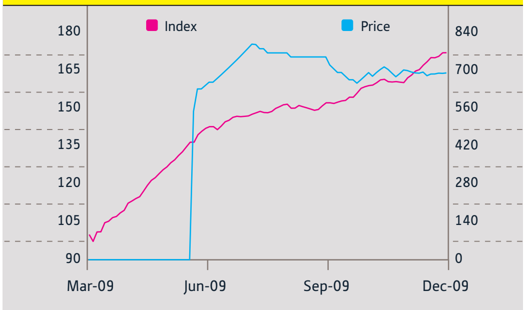
The future sales outlook appears to be bright for the company, receiving a small boost from the tourism industry. The number of tourists visiting Syria grew 15% in 2008 and is expected to grow an additional 9-11% in 2009. Air travellers are still somewhat restricted to Damascus International Airport and as such will need transportation to get to their final destination should it not be Damascus.

The same can be said about the increasing number of Turkish tourists (Syria has recently signed a bilateral agreement with Turkey that waives any entry requirements for Turkish tourists) most likely arriving to Aleppo or Damascus, who would then need to use domestic transportation means (like AHT) to get to their final destination. Since buses are affordable, reasonably fast and comfortable, they will be the clear choice for most people.

One issue to look out for could be the recent measures to unsubsidise fuel. While prices are regulated in Syria, significant increases in the price of oil have led the government to increase fuel prices in the past (most recently by over 40%). Increases will make car and air travel more expensive, which could in turn lead to higher bus traffic. However, the negative aspect of a rise in oil prices is the operating cost increase, which will damage profit margins or force AHT to raise prices. In fact, over the last few years ticket prices have not increased proportionally with costs. Furthermore, new private airlines with plans to set up local routes could steal some of AHT's higer-income clients who use buses not for their affordability, but because they were the only option.

Share analysis & data provided by Bemo Saudi Fransi Finance

AVOC price & index relative performance



AVOC market ratios (S£) **BVMT code: AVOC**

PERFORMANCE	Data as of Dec. 31, 2009		
Price	691.86		
7M high	798.5		
7M low	550		
Market cap	2,075,580,000		
MARKET RATIOS			
	1M	3M	YTD*
Avg daily price	692.21	698.26	711.37
Avg daily vol	4098.83	6491.72	4349.06

*Listed on June 15, 2009

Al Ahliah Vegetable Oil Company

Agro-alimentary

THE COMPANY: Founded in Hama in 1995, Al Ahliah Vegetable Oil Company (AVOCO) is one of the largest edible oil producers in Syria. It was founded with capital of S£1.5bn (around $30m at the time) by the Arab Authority for Agricultural Investment and Development (AAAID), which has a 40% stake. The AAAID was established in 1976 to promote agricultural investment in the region, has capital of $376m and covers 20 countries. AVOCO's minority shareholders include the Hama Chamber of Commerce and Al Ahliah Transport Company, which hold 1.67% each. AVOCO produces vegetable oils and ghee at its production plant in Hama.

The plant's operations include the refining and processing of oil and seeds to produce final products, which are delivered under multiple brand names, the most popular ones being Al Fakher, Raghad, Lujain and Al Mazraa. In addition to its aforementioned main source of revenue (which accounts for 87.4%), AVOCO uses production remains and waste to produce other items including cotton linters, peeled cotton and sunflower seeds.

AVOCO posted a net loss of S£38.62m ($846,000) for the six months ended June 30, 2009, down from a profit of S£193.5m ($4.24m) in the same period the previous year, and total revenues have decreased 21.5% to S£738.7m ($16.18m). The main reason behind the losses is an increase in the cost of goods sold. Palm and sunflower oils represent a large proportion of AVOCO's production costs (60% of cost of goods sold), and their prices had increased significantly when AVOCO made its purchases. On the other hand, when oil prices started decreasing, AVOCO's sale prices had to decrease, damaging their sales figures. Gross margin is at 0.20%, down from a solid 24.37% in the same period the previous year. With such a small margin, it is very difficult to turn a profit after deducting other operating and non-operating costs. Return on equity for the period decreased from 23.6% to -4.9%. Moreover, since listing on the Damascus Securities Exchange on June 15, 2009, AVOC's stock price has appreciated 25.8% to close at S£691.9 ($15.15) on December 31, 2009. However, the share price has been in a downfall since reaching a high of S£798.5 ($17.49) on August 6, partly due to the firm's mid-year earnings release.

DEVELOPMENT STRATEGY: AVOCO's outlook is more likely dependent on the price of certain commodities than on the company's future plans. Most operating costs have been fairly stable over the last few years, with the only large variance affecting net results being the cost of goods sold.

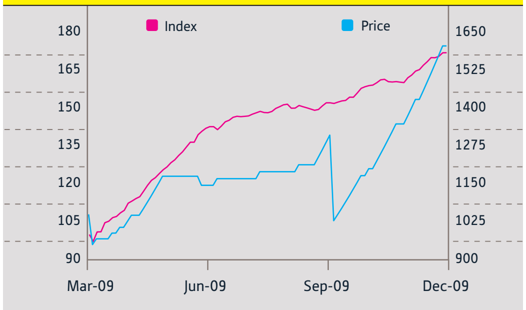
Commodity prices have decreased over the past few months, and as such AVOCO's gross margins for the final six months of 2009 are likely to be higher than the 0.20% it posted during the last term. Sunflower oil, for example, a commodity that AVOCO had to purchase for $2060 per tonne in August 2008, was selling at $1079 in August 2009. This shows that while commodity prices are decreasing (most likely improving AVOCO's future margins), the company is nonetheless exposed to tremendous commodity price risks, since the cost of inputs can double just as quickly as it can be cut in half.

Furthermore, the absence of advanced hedging practices and the lack of qualified commodity experts in Syria prevent AVOCO from proactively fighting commodity price risks. AVOCO is limited to trying to improve its stagnant sales level with better marketing and distribution practices, potentially penetrating neighbouring markets like Iraq or Turkey. So far, the company has purchased 10 new distribution trucks and opened a new sales location in Latakia.

One potential short-term concern for the company is its falling stock price, which had been protected by the local market's 2% limit on price movement until recently. New industry regulations that have already been enacted will remove this protection, most likely resulting in AVOCO's stock price taking a hit, at least until the next earnings season begins.

Share analysis & data provided by Bemo Saudi Fransi Finance

BBSF price & index relative performance



BBSF market ratios (S£) **BVMT code: BBSF**

PERFORMANCE	Data as of Dec. 31, 2009		
Price	1607		
10M high	1607		
10M low	950		
Market cap	10,445,500,000		
MARKET RATIOS			
	1M	3M	YTD*
Avg daily price	1481.92	1299.17	1194.58
Avg daily vol	433.08	651.81	534.09

*Listed on March 10, 2009

Banque Bemo Saudi Fransi

Banking

THE COMPANY: Banque Bemo Saudi Fransi (BBSF) was the first private bank to begin operations in Syria in January 2004 after the government liberalised the industry to private investment. Syria is a cash-oriented society that relied only on state-owned banks for its minimal banking needs until BBSF and other private banks opened their doors.

BBSF's product offerings are tailored for corporate, commercial and retail clients. Over the years, the bank's suite of products has grown from basic to complex and now encompasses most of the products offered abroad. BBSF enjoys the largest branch network in the country consisting of 30 locations, solid quality standards (it holds the ISO 9001 international certification), and a seasoned management team. Its two principal founders are the Lebanese Bank, Banque Européene pour le Moyen Orient SAL (BEMO, a specialised commercial bank catering to high-net-worth corporations and individuals) and Banque Saudi Fransi, which is one of the largest banks in the Middle East-North Africa region and an affiliate of the French Bank, Calyon.

BBSF has grown significantly since it began operations and remains Syria's leading private bank in terms of assets (25.9% market share), customer deposits (28.3% share), loans (22.6% share) and profitability. Despite the recent global financial crisis and BBSF's exposure, the bank still managed to improve its financial results in the second half of 2008.

Building on its strong performance in 2008, BBSF continued to perform exceptionally well in the first six months of 2009. Customer deposits increased 9.2% to reach S£85.4bn ($1.87bn), while net interest and commissions revenue, a strong indicator of a bank's performance, increased 22.1% to S£1.27bn ($27.8m). Operating income was further improved by 34.6% to S£1.4bn ($30.7m), while the bank's attempt to increase cost efficiency led to a 58.8% improvement in earnings before tax to reach S£741.6m ($16.24m). Return on equity increased from 16% to 23.8% relative to the previous six months. Moreover, BBSF's stock, the first to be listed on the Damascus Securities Exchange, has appreciated by 69.2% since market opening in March 2009 to close at S£1607 ($35.19) on December 31, 2009.

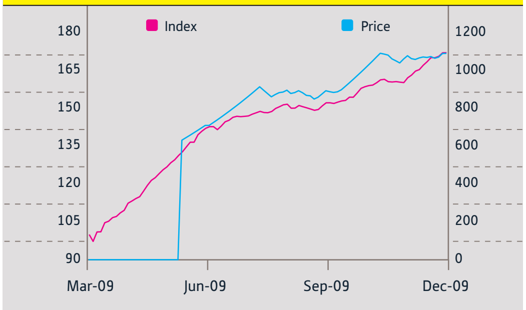
DEVELOPMENT STRATEGY: During the last general assembly, two new capital increases were approved in order to improve the bank's capital adequacy ratio and to continue financing its aggressive expansion plans. The distribution of free shares and the rights issue, with the latter still awaiting final approval by the Syrian Commission on Financial Markets and Securities, will add $25m to the bank's existing capital of $50m. BBSF continues to nurture its coverage of Syria by adding new branches in untapped areas while expanding the scope and depth of its product portfolio to suit the needs of its new clients. While corporate banking remains the bank's cornerstone, in 2008 BBSF began to make inroads into retail banking to capitalise on the promising growth of this area and the high demand for new retail products from the Syrian market, and is likely to build upon this success in the years to come.

On a different note, the government is widely expected to begin issuing treasury bills and bonds in the near future, providing BBSF with new investment options. These will reduce the amount of excess funds being invested in low-yield securities. Furthermore, the imminent introduction of modified mortgage and leasing laws will allow the company to improve its lending capabilities.

BBSF's current loan-to-deposit ratio, at a healthy 32%, has plenty of room to grow as a result of these and other new regulations opening up the industry to more innovative banking facilities. In 2008 BBSF and a number of partners established a financial services company, Bemo Saudi Fransi Finance. The subsidiary provides brokerage and investment banking services, diversifying BBSF's sources of revenue and solidifying its status as the market pioneer.

Share analysis & data provided by Bemo Saudi Fransi Finance

SIIB price & index relative performance



SIIB market ratios (S£) BVMT code: SIIB

PERFORMANCE	Data as of Dec. 31, 2009		
Price	1091.73		
9M high	1092.32		
9M low	632.5		
Market cap	10,917,300,000		
MARKET RATIOS			
	1M	3M	YTD*
Avg daily price	1072.59	1003.72	909.34
Avg daily vol	12,320.25	18,216.25	11,928.23

*Listed on April 16, 2009

Syria International Islamic Bank

Banking

THE COMPANY: Syria International Islamic Bank (SIIB) began operations in September 2007 with a capital of S£5bn (approximately $100m at the time). Its main founder is the Qatari International Islamic Bank, which has been in operation for nearly 20 years and has a 30% equity stake and market capitalisation of around $1.7bn. A smaller portion of the shares are owned by Qatari nationals and companies (19%) with the remaining 51% offered to the public in March 2007. The IPO was a huge success, with a subscription rate of 336% and about 15,000 registered shareholders, making it the largest IPO in Syrian history. SIIB is one of two Islamic banks operating in Syria and the only one listed on the Damascus Securities Exchange (listed in June 2009).

The bank, which currently operates 10 branches, offers a wide range of sharia-compliant products and services, the main principle of which is not dealing with banking interest. Sharia-compliant services, such as *murabaha*, *mudaraba* and *musharaka* take the place of retail loans, interest-paying deposit accounts and corporate loans.

SIIB has been quite fast and creative in launching new services like furniture and home appliance financing, as well as integrating full e-banking capabilities. SIIB's financial results for the first half of 2009 are a significant improvement over the last six months of 2008. Investment deposits (the ones used to generate revenues) rose a very promising 38.3% to S£30.8bn ($675m), while the Islamic funding/deposits ratio is at a solid 45.4%, one of the highest in the banking industry (traditional and Islamic). Income from Islamic funding activities increased by some 103.5% to S£317.6m ($6.96m) while net revenue from fees and commissions posted a 54% increase to S£80.9m ($1.8m). Operating revenue rose 261% to S£475.9m ($10.4m) and return on equity for the period was a solid 7.5%, a tremendous achievement considering SIIB is only in its second year of operation and had posted a net loss in the first half of 2008. Furthermore, SIIB's stock, as well as being one of the most liquid in the market, increased by 72.7% for the period June-December 2009.

DEVELOPMENT STRATEGY: SIIB has performed exceptionally well over the last two years and is moving quickly to further improve its 84% share of Islamic banking deposits (9.1% of total market). The bank is rapidly expanding its branch network and making significant investment in the training and qualifications of its employees, with the aim of improving their knowledge of Islamic banking products.

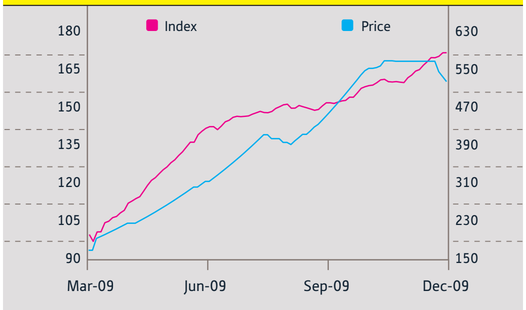
SIIB has already managed to collect a very large amount in deposits in the relatively short time that it has been in operation, and the availability of adequate investment options is therefore crucial to the bank's profitability. The introduction of regulations allowing lease-to-buy agreements will give the company a significant boost and, with other expected improvements to the regulatory framework on the way, the future looks bright.

Furthermore, SIIB is looking to diversify its sources of revenue and act on the demand for sharia-compliant products in other sectors of the financial industry. In 2008 it contributed to the establishment of a financial services company, Syrian Islamic Brokerage (51% stake), as well as an insurance company, Syrian Islamic Company for Takaful Insurance (5% stake), the latter of which recently commenced operations. In the long run, SIIB may overtake many traditional banks in terms of profitability, since its growth rate is much higher than the industry average. The high capital (at least $100m) required to establish an Islamic bank is a strong barrier to entry that will protect SIIB from intense competition.

On the other hand, SIIB's large capital base allows it to invest in large-scale, long-term projects. The country's strong demand for Islamic banking services will ensure that even with the upcoming entry of new Islamic banks, SIIB is not likely to be substantially impacted as the market remains underserved.

Share analysis & data provided by Bemo Saudi Fransi Finance

UG price & index relative performance



UG market ratios (S£) BVMT code: UG

PERFORMANCE	Data as of Dec. 31, 2009		
Price	527		
10M high	571		
10M low	170		
Market cap	1.58bn		
MARKET RATIOS			
	1M	3M	YTD*
Avg daily price	561.88	529.73	393.48
Avg daily vol	170.83	259.81	290.77

*Listed on March 10th 2009

United Group

Publishing/Advertising

THE COMPANY: United Group (UG) is involved in publishing, advertising and marketing. The company has expanded its operations and product portfolio over the last few years by capitalising on the success of its main unit, the outdoor advertising service Concord Media, which accounts for 44% of total revenue.

The company was co-founded by prominent Syrian businessmen Majd Suleiman and Bashar Kiwan. They also sit on the board of Kuwaiti firm AlWaseet International, and have set up a partnership between the two firms whereby UG distributes a variety of AlWaseet International's line-up of magazines and papers, the most popular of which is *Al Waseela*, the weekly classifieds with a circulation of more than 700,000. The success of several of UG's publications like the *Yellow Pages*, the monthly lifestyle magazine *Layalina* and more recently the first Syrian private daily newspaper, *Baladna,* have made UG one of the leading companies in the industry. Recent market studies have shown that *Baladna* surpassed the government paper *Tishreen* to become the country's highest-circulating daily. The revenues of S£59.4m ($1.3m) generated by the paper, compared to zero during the same period in 2008, helped UG post strong revenue figures in the first half of 2009, as *Baladna* now accounts for 13.1% of UG's total revenues. Besides its strong regional network, UG enjoys the advantages of having its own printing facility and distribution company.

That said, UG posted mixed results during the first six months of 2009 compared to the same period in 2008. While total revenues increased by 48.4% to S£454.8m ($9.96m), net profits decreased by 30.2% to S£43.1m ($0.94m). Although gross revenues increased 22%, net operating revenues decreased 32.9% to S£51.8m ($1.1m), indicating that high operating costs were to blame, more specifically an increase in salary expenses of 73.4% to S£97.96m ($2.2m). The company's rapid expansion likely resulted in the hiring of additional employees, contributing to this increase. UG's stock price was listed at the low price of S£170 ($3.72) in March 2009. The affordable price tag placed on the stock led to high levels of demand for it even though the shareholder base is relatively small. This strong demand resulted in an appreciation of 210% in the nine months since then, making it the top performer in the local stock exchange for the period March-December 2009.

DEVELOPMENT STRATEGY: While UG appears to be in control of two of the strongest media segments in the country (print and billboards), Syria's media platform is undergoing significant change. Five years ago there were only thousands of internet users, and the state-owned television channel was alone in the market. Today there is high-speed internet service and more than a million users, while the first privately owned television channels have started broadcasting.

Firms that are looking to advertise have more options now, and not all of them are included in UG's portfolio. Television and internet provide companies with the ability to reach mass or targeted audiences and make use of videos and music in advertisements, two aspects not present in the print or billboard mediums. This will prove to be a challenge for UG, as the majority of its revenues are sensitive to advertisement sales.

Furthermore, the Arab Advertising Agency is currently contemplating the restructuring of outdoor billboards according to standards set in Law No. 26 of 2006, with improved safety as the goal. This could reduce UG's outdoor advertising space.

However, UG has demonstrated the ability to spot opportunities. *Layalina* was very successful in other Arab countries when UG began publishing local versions and the same can be said about its decision to take the lead in publishing *Baladna*. It would therefore be no surprise if UG was to be the first firm to identify the next opportunity in the industry. Furthermore, UG's status as a listed joint stock company, an advantage that its competitors do not have, will help in facing the upcoming challenges, bringing benefits such as lower tax rates and easier access to capital.