

Market	Ticker	Value	% Δ YTD	% Δ MTD	Avg Volume (millions) -		P/E	P/B
					30 days			
UAE ADX	ADSMI	2,897	21.2	3.4	136.6		9.1	1.2
UAE DFM	DFMGI	1,914	17.0	5.3	313.6		6.3	0.9
Saudi Arabia Tadawul	SASEIDX	5,663	17.8	(2.1)	114.1		14.8	1.9
Qatar DSM	DSM	7,117	3.4	6.1	9.0		10.6	2.0
Bahrain BSE	BHSEASI	1,517	(15.9)	1.0	1.8		6.3	1.1
Kuwait KSM	KWSEIDX	7,914	1.7	3.1	351.7		NM	1.3
Oman OSE	MSM30	6,345	16.6	8.5	18.1		10.6	2.0

## UAE BANKING SECTOR

- UAE Central Bank numbers through July 2009 show slow loan growth (+1.3%) and placid deposit growth (+4.5%).** We believe this continues to be reflective of strong risk aversion, continued funding stress and the loss of a sizeable loan rotation sector – real estate and construction. While the personal loans sector (representing 20.7% of all loans in the country) has shrunk by AED 17.6bn in the first half of the year, it is showing some signs of growth with personal loans growing by 1.75% in July. The funding gap (loans-deposits) has now dropped to AED 42.9bn, down from a high of AED 85.4bn at the end of Sep 08. Significantly, while loan loss reserves were flat in July (on a m-o-m basis), the composition of specific vs. general provisions has shifted considerably. Total provisions have grown from AED 25bn at the end of 2008 to AED 33.6bn at the end of July. Specific provisions are at an all time high of AED 25.3mm, which represents 75.2% of the total reserves.
- Central Bank focused on easing liquidity** – The month of August saw the Central bank take three significant steps to ease the funding issues faced by local banks and spur lending into the general economy. 1) Taking a more active role in EIBOR setting mechanism in the country. EIBOR has eased off the highs seen last year but is still significantly above LIBOR and SAEIBOR (3 month comparatives – 2.14%, 0.34% and 0.65%). The announcement of the new EIBOR regime and its potential implementation in mid-September has been enough to drop it by 29 bps. 2) the central bank has extended its repo term to 30 days from 7 days while keeping the interest rate of 1.0% at the same and 3) dropping the rate on liquidity support funds from 2.5% to 1.5%. We believe these steps will help funds flow in the interbank market and also allow for active participation of the Central bank as the lender of last resort. However, a dropping EIBOR has the potential to reduce bank profits as the loan books would need to be adjusted for the lower EIBOR rate, so the individual banks could potentially use a different base rate (internally calculated prime rate) to benchmark their loan book. Other moves may have to be implemented to reduce the cost of funding for the local banks which in turn can pass the savings to end users and spur spending in the economy.

## SAUDI BANKING SECTOR

- SAMA released July monthly statistics - Theme continues with loan growth dead in water (flat m-o-m, -0.78% ytd), deposits rising (+1.0% m-o-m, +9.4% ytd).** Meanwhile, Saudi foreign assets shrinking as funds repatriated to support infrastructure and development projects. Short term clarity limited with Saad and Gosaibi issues, but longer term fundamentals still in place - \$70 oil, large < 30 year population and secular growth will in the long term support growth in mortgages and increased spending in the economy. The IMF is now forecasting non-oil GDP to grow by 3.3% in 2009 supported by the government's expansionary fiscal stance.
- Lawsuits in both directions continue, clarity still missing** - Saad and Al Gosaibi exposures for global banks has been estimated at US\$20bn, with US\$5bn with Saudi banks alone. Also, regulators in Bahrain have appointed two British law firms to be the administrators of Awal bank and TIBC, both based in Bahrain and majority owned by the Saad and Gosaibi groups, respectively. The administrators will identify creditor claims and manage the distribution of remaining assets of the banks.

## QATAR BANKING SECTOR

- The Qatari banks we follow have had the best performance in August, rising by an average of 7.0%** - The aggressive efforts taken by the government are finally bearing fruit as investors view these names as having significantly reduced risk, strong government support and potential for future growth. While UAE banks face the burden of increased defaults in real estate and personal loans and growth in the Saudi banks is impacted by name lending concerns, the Qatari banks to a certain extent have been freed from these burdens. Qatari banks have underperformed other regional banks ytd.
- Central Bank numbers for July 09** show a drop in Credit facilities (-0.24% m-o-m, -3.85% ytd) and the mix has changed with the public sector credit facilities growing at the expense of the private sector. Deposits continue to rise (+3.96% m-o-m, +8.58% ytd) easing the liquidity concerns in the country with loans/deposits improving to 101% from 114% at the end of 2008

Company	Ticker	Recommendation	Current Price (LC)	Target Price (LC)	Potential Upside	% Δ YTD	% Δ MTD	Avg Volume (000's) - 30 days	Market Cap (LC billion)	Market Cap (\$ billion)	Assets (LC billion)	Assets (\$ billion)	'08					'09E															
													P/E	P/B	NIM	ROE	Div. Yield	P/E	P/B	NIM	ROE	Div. Yield											
<b>UAE</b>																																	
Abu Dhabi Commercial Bank	ADCB UH	Market Perform	1.95	2.2	12.8%	9.6	4.3	1,483	9.4	2.6	147.7	40.2	7.5	0.6	2.1	9.0	5.6	6.4	0.6	2.0	8.9	5.7											
Emirates NBD	EMIRATES UH	Market Perform	3.74	4.0	5.9%	34.9	15.1	531	20.8	5.7	282.4	76.9	5.6	0.7	2.5	19.1	6.6	5.6	0.7	2.4	17.4	5.3											
First Gulf Bank	FGB UH	Market Perform	16.65	11.6	-30.3%	82.0	0.6	296	22.9	6.2	107.5	29.3	7.3	1.4	3.1	22.5	4.3	8.2	1.2	2.9	15.1	2.6											
National Bank of Abu Dhabi	NBAD UH	Outperform	13.60	11.6	-14.7%	67.2	(1.8)	302	29.6	8.1	164.7	44.8	9.8	1.9	2.6	23.6	3.7	10.3	1.8	2.5	18.9	2.8											
Union National Bank	UNB UH	Market Perform	3.42	4.0	17.0%	69.5	(8.3)	264	7.1	1.9	65.2	17.8	5.4	0.9	2.9	15.4	4.5	6.2	0.9	2.5	15.4	2.6											
Dubai Islamic Bank	DIB UH	NC	2.57	NC	NC	62.6	1.6	7,593	9.3	2.5	85.0	23.2	5.4	1.0	2.7	17.9	9.5	7.7	1.0	2.7	13.6	10.1											
Abu Dhabi Islamic Bank	ADIB UH	NC	2.88	NC	NC	10.8	(1.0)	563	5.7	1.6	51.2	14.1	6.7	1.0	4.5	15.4	7.7	6.6	1.4	4.9	13.0	7.8											
						40.6	4.1						6.8	1.1	2.9	17.6	6.0	7.3	1.1	2.8	14.6	5.3											
<b>SAUDI ARABIA</b>																																	
Arab National Bank	ARNB AB	Outperform	43.00	50.3	17.0%	37.8	(4.4)	101	28.0	7.5	121.3	32.3	11.2	2.1	3.5	22.1	2.8	8.5	1.8	3.3	25.3	2.9											
Rajhi Bank	RJHI AB	Outperform	67.00	80.4	20.0%	19.6	0.8	1,688	100.5	26.8	164.9	44.0	15.4	4.2	6.7	27.9	4.5	12.6	3.6	6.3	31.1	4.1											
SAMBA	SAMBA AB	Market perform	43.00	55.2	28.4%	(16.1)	(5.3)	129	38.7	10.3	178.9	47.7	9.2	2.1	3.5	24.5	3.9	8.3	1.8	2.9	23.3	4.8											
Saudi British Bank	SABB AB	Outperform	43.00	69.1	60.7%	(0.5)	(5.9)	52	32.3	8.6	131.7	35.1	11.4	2.3	3.3	27.6	5.6	10.3	1.9	3.0	25.7	2.5											
Riyad Bank	RIBL AB	Market perform	23.15	27.5	18.8%	9.2	(4.3)	347	34.7	9.3	159.7	42.6	13.8	1.5	3.4	14.4	6.7	12.1	1.5	3.2	12.1	7.8											
						15.1	(2.5)						12.2	2.4	4.1	23.3	4.7	10.4	2.1	3.8	23.5	4.4											
<b>QATAR</b>																																	
Qatar National Bank	QNBK QD	NC	150.20	NC	NC	9.7	16.9	66	45.2	12.4	152.0	41.8	11.4	2.8	2.4	24.0	5.4	11.0	2.5	2.5	21.5	4.1											
Doha Bank	DHIBK QD	NC	42.40	NC	NC	1.0	1.4	228	7.7	2.1	39.0	10.7	8.0	1.9	3.3	22.2	12.0	6.8	1.5	3.4	21.2	8.2											
Commercial Bank of Qatar	CBQK QD	NC	73.00	NC	NC	(17.3)	6.4	375	15.8	4.3	61.3	16.8	9.5	1.9	2.8	21.0	7.9	10.4	1.5	2.9	14.3	6.7											
Qatar Islamic Bank	QIBK QD	NC	90.50	NC	NC	9.3	11.5	294	18.7	5.1	33.5	9.2	10.7	2.2	9.9	27.9	1.5	10.5	2.5	9.9	18.2	9.7											
Qatar International Islamic Bank	QIIK QD	NC	43.00	NC	NC	(26.6)	5.1	106	5.7	1.6	12.8	3.5	10.8	1.9	8.2	19.5	9.4	13.8	1.9	8.2	19.5	9.3											
Masraf Al Rayan	MARK QD	NC	12.10	NC	NC	10.0	0.8	1,702	9.1	2.5	16.8	4.6	9.9	1.6	10.4	16.9	4.6	9.8	1.9	6.9	21.5	7.1											
						(2.3)	7.0						9.8	1.9	6.9	21.5	7.1	10.4	1.9	6.1	18.3	8.5											
<b>KUWAIT</b>																																	
National Bank of Kuwait	NBK KK	NC	1260.00	NC	NC	17.5	3.3	3,558	3.7	13.3	12.0	42.7	14.5	2.3	3.8	15.7	3.8	14.5	2.3	3.8	16.2	3.8											
Commercial Bank of Kuwait	CBK KK	NC	1000.00	NC	NC	(15.3)	-	846	1.3	4.5	4.3	15.3	12.4	2.6	3.1	19.7	3.4	13.9	2.5	3.1	17.9	3.4											
Burgan Bank	BURG KK	NC	355.00	NC	NC	(44.2)	(1.4)	1,049	0.4	1.3	3.9	13.9	143.0	1.1	2.5	11.4	-	9.9	1.0	2.5	13.5	-											
						(14.0)	0.6						56.6	2.0	3.1	15.6	2.4	12.7	1.9	3.1	15.8	2.4											

\* current prices as of Aug 31, 2009

LC = local currency

NC = not covered

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