

Market	Ticker	Value	% Δ YTD	% Δ MTD	Avg Volume (millions) - 30 days	P/E	P/B
UAE ADX	ADSMI	2,801	17.2	6.4	181.4	8.8	1.3
UAE DFM	DFMGI	1,818	11.1	1.9	514.9	5.7	0.8
Saudi Arabia Tadawul	SASEIDX	5,778	20.3	3.2	194.9	14.9	2.0
Qatar DSM	DSM	6,708	(2.6)	3.3	11.3	9.5	2.0
Bahrain BSE	BHSEASI	1,502	(16.7)	(5.0)	5.6	5.1	1.1
Kuwait KSM	KWSEIDX	7,680	(1.3)	(5.0)	445.8	NM	1.3
Oman OSE	MSM30	5,846	7.4	4.2	20.0	10.5	1.9

### UAE BANKING SECTOR – ADCB, EMIRATES, FGB, NBAD, UNB

- **2Q09 results – Net Profit (-27.8% yoy, -9.5% qoq) – Although on average revenues grew by 12% qoq, this did not translate to bottom line performance due to continued increase in provisioning levels.** While the loan book for the 5 UAE banks we cover grew by 3.1% qoq it was outpaced by deposit growth of 6.0% qoq. Also, sector wide loan and deposit growth over the quarter was 1.4% and 0.6% respectively. We believe the above two facts indicate a) continued risk aversion and b) market share capture by the banks in our coverage – specifically FGB, NBAD and ADCB. The sharpest rise on both loans and deposit came at NBAD primarily due to government entity related linked lending. Interest income stayed flattish qoq, but revenues got a big boost from the unfunded business. Primary areas of strength there were the investment gains – reversing the trend seen over the last 3 quarters. The banks also displayed strong cost controls with flat operating expenses resulting in a 6 quarter low efficiency ratio of 28.1%
- **Asset quality deteriorating while provisions increasing to build up reserves – Average NPL ratio at the end of 2Q09 was 1.2% for the banks in our coverage universe, a rise from 1.0% at the end of 2008.** The range of increase was wide with NPL's at NBAD rising by 0.11% and by 0.51% at UNB. The big impact on the bottom line were the provisions which equaled 2.4bn in Q2 bringing the ytd total to 3.7bn, compared to full year provisions in 2008 of AED 4.6bn (loan loss coverage ratio averaged 144.3%) With an expected increase in NPLs' coming in the second half of the year, we expect the average 5 bank NPL ratio to rise to 1.8% by end of 2009. By our estimates - keeping the current loan book flat, NPL ratio at our assumed rate of 1.8%, and a coverage ratio of 125%, we believe the five banks in our coverage will have to take another AED 3.0bn in provisions in the second half of 2009.

### SAUDI BANKING SECTOR – ARNB, RIYAD, RJHI, SABB, SAMBA

- **2Q09 results – Net Profit (-1.2% yoy, +9.3% qoq) – While revenues are ticking up slowly thanks to stabilization in the investment portfolio, loan book growth has come to a standstill.** While deposits rose by 2.3% qoq, most of the increased fund flow was deposited in foreign assets. Meanwhile, the averages hide the fact that provisioning at Rajhi and SABB have risen tremendously qoq, while the three remaining banks Riyadh, Arab National and Samba have chosen to take minimal provisions. Most of the positive performance in net income is due to the low levels of provisioning at these 3 institutions. Surprisingly, costs continue to rise, +9.3% qoq with the cost efficiency ratio remaining close to the 20% mark. The banks (barring SAMBA) disclosed a strong recovery in the non-funded business primarily due to recovery in the investment portfolios. Saudi banks have the largest portion of their assets in the investment books, averaging 20.9% vs. 16.0% in Qatar and 7.6% in the UAE.
- **Saad and Al Gosaibi group issues casting a cloud on all banking activity in the country -** None of the Saudi banks have disclosed detailed exposures to the two groups and this is causing a vacuum of information and loans to the private sector have all but dried up while local banks assess the situation. In the latest news, Maan Al Sanea of Saad group is being sued in a New York court by the Al Gosaibi group (linked by marriage) for outright fraud in the amount of \$10 billion. SAMA froze Saad group assets in May 2009. This has been followed most recently by a Cayman Island court freezing foreign assets of the Saad group. The court order impacts 42 subsidiary companies, and their foreign equity stakes (including the HSBC stake held by Saad). Also, the Bahrain central bank has seized control of the TIDC and Awal banks, each controlled by the respective Saudi groups at hand.

### QATAR BANKING SECTOR – QNB, CBQ, DOHA

- **2Q09 results – Net Profit (-7.7% yoy, -12.5% qoq) – The Qatari banks seem to be suffering the most from the weakness in the regional business environment.** While interest income rose on strong margins, non-interest income has dropped by an adjusted 7.2% yoy, primarily dragged down by a slowdown at CBQ. The Qatari banks are also the most aggressive at booking provisions with total provisions at the 3 banks rising to QAR 375mm from QAR 188mm in Q1. QNB has been a standout both operationally and also from a deposit generating capacity perspective.
- **Aggressive government intervention not translating to performance -** Government purchase of equity stakes in the local banks, exchanging DSM list equity holding for government paper plus cash with a buy back option, and the government once offering to purchase the real estate related exposure of the banks (investments and loan book) has reduced the risk profile of the local banks, however the markets have not responded to these maneuvers. The local banking stocks have underperformed their Saudi and UAE peers both MTD and YTD.

Company	Ticker	Recommendation	Current Price (L.C)	Target Price (L.C)	Potential Upside	% Δ YTD	% Δ MTD	Avg Volume (000's) - 30 days	Market Cap (L.C billion)	Market Cap (\$ billion)	Assets (L.C 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	1.9	2.2	17.6%	5.1	16.1	1,182	9.0	2.4	147.7	40.2	7.4	0.6	2.1	9.0	5.6	6.2	0.5	2.0	8.9	5.9											
Emirates NBD	EMIRATES UH	Market Perform	3.3	4.0	21.8%	17.2	(7.4)	317	18.1	4.9	282.4	76.9	5.0	0.6	2.5	19.1	6.6	5.0	0.6	2.4	17.4	6.1											
First Gulf Bank	FGB UH	Market Perform	16.6	11.6	-29.9%	80.9	27.3	487	22.8	6.2	107.5	29.3	7.2	1.4	3.1	22.5	4.3	8.1	1.2	2.9	15.1	2.6											
National Bank of Abu Dhabi	NBAD UH	Outperform	13.9	11.6	-16.2%	70.2	41.3	283	30.1	8.2	164.7	44.8	8.7	1.7	2.6	23.6	3.7	9.1	1.6	2.5	18.9	3.1											
Union National Bank	UNB UH	Market Perform	3.7	4.0	7.2%	84.8	3.6	359	7.7	2.1	65.2	17.8	5.4	0.9	2.9	19.9	4.5	6.2	0.9	2.5	15.4	2.6											
Dubai Islamic Bank	DIB UH	NC	2.53	NC	NC	60.0	7.2	6,681	9.2	2.5	85.0	23.2	5.3	1.0	2.7	17.9	9.5	7.7	1.0	2.7	13.2	9.3											
Abu Dhabi Islamic Bank	ADIB UH	NC	2.91	NC	NC	11.9	4.7	545	5.7	1.6	51.2	14.1	6.8	1.0	4.5	15.4	7.7	6.7	1.4	4.9	13.2	7.7											
						47.2	13.3						6.5	1.0	2.9	18.2	6.0	7.0	1.0	2.8	14.6	5.3											
<b>SAUDI ARABIA</b>																																	
Arab National Bank	ARNB AB	Outperform	45.0	50.3	11.8%	44.2	15.7	115	29.3	7.8	121.3	32.3	11.7	2.1	3.5	22.1	2.7	8.9	1.8	3.3	25.3	2.8											
Rajhi Bank	RJHI AB	Outperform	66.5	80.4	20.9%	18.8	6.0	1,660	99.8	26.6	164.9	44.0	15.4	4.2	6.7	27.9	4.5	12.5	3.6	6.3	31.1	4.1											
SAMBA	SAMBA AB	Market perform	45.4	55.2	21.6%	(11.4)	8.6	248	40.9	10.9	178.9	47.7	9.2	2.1	3.5	24.5	3.9	8.3	1.8	2.9	23.3	4.7											
Saudi British Bank	SABB AB	Outperform	45.7	69.1	51.2%	5.8	-	66	34.3	9.1	131.7	35.1	12.0	2.4	3.3	27.6	5.4	10.3	1.9	3.0	25.7	2.4											
Riyad Bank	RIBL AB	Market perform	24.2	27.5	13.6%	14.2	(1.4)	457	36.3	9.7	159.7	42.6	13.8	1.5	3.4	14.4	6.7	12.1	1.5	3.2	12.1	7.8											
						19.8	7.0						12.4	2.5	4.1	23.3	4.6	10.4	2.1	3.8	23.5	4.4											
<b>QATAR</b>																																	
Qatar National Bank	QNBK QD	NC	128.5	NC	NC	(6.2)	7.1	72	38.7	10.6	152.0	41.8	9.6	2.4	2.4	24.0	6.4	8.7	2.0	2.3	22.8	4.3											
Doha Bank	DHBK QD	NC	41.8	NC	NC	(0.5)	13.0	227	7.6	2.1	39.0	10.7	7.1	1.4	3.5	22.2	14.0	7.0	1.2	3.2	17.1	7.8											
Commercial Bank of Qatar	CBQK QD	NC	68.6	NC	NC	(22.3)	8.5	434	14.9	4.1	61.3	16.8	8.4	1.7	2.8	21.0	7.9	6.5	1.3	2.8	19.8	7.8											
Qatar Islamic Bank	QIBK QD	NC	81.20	NC	NC	(1.9)	12.0	327	16.8	4.6	33.5	9.2	9.6	2.2	9.9	27.9	1.5	8.3	2.2	9.9	23.2	9.7											
Qatar International Islamic Bank	QIIB QD	NC	40.90	NC	NC	(30.2)	(0.7)	129	5.4	1.5	12.8	3.5	10.3	1.9	8.2	19.5	9.4	13.1	1.8	8.2	19.5	9.8											
Masraf Al Rayan	MARK QD	NC	12.00	NC	NC	9.1	(4.0)	3,672	9.0	2.5	16.8	4.6	9.8	1.6	10.4	16.9	4.6	9.1	1.7	7.0	21.5	7.5											
						(8.7)	6.0						9.1	1.7	7.0	21.5	7.5	8.7	1.6	6.0	19.9	8.8											
<b>KUWAIT</b>																																	
National Bank of Kuwait	NBK KK	NC	1220.0	NC	NC	13.7	(4.7)	3,522	3.6	12.9	12.0	42.7	14.1	2.3	3.8	15.8	3.8	13.7	2.1	3.8	16.0	3.8											
Commercial Bank of Kuwait	CBK KK	NC	1000.0	NC	NC	(15.3)	(2.0)	1,070	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	360.0	NC	NC	(43.4)	(16.3)	2,556	0.4	1.3	3.9	13.9	15.4	1.3	2.5	11.4	-	8.2	1.0	2.5	13.5	-											
						(15.0)	(7.6)						13.9	2.0	3.1	15.6	2.4	11.9	1.9	3.1	15.8	2.4											

\* current prices as of July 31, 2009

LC = local currency

NC = not covered

UAE Banks - ADCB, EMIRATES, FGB, NBAD, UNB					
(AED Millions)	2Q08	1Q09	2Q09	yoy	qoq
Net Interest Income	3,806	4,989	5,018	31.8%	0.6%
Non-Interest Income	3,139	1,883	2,670	-14.9%	41.8%
Total Income	6,946	6,871	7,688	10.7%	11.9%
Non-Interest Expense	(2,039)	(2,162)	(2,162)	6.0%	0.0%
Provisions	(673)	(1,266)	(2,404)	257.4%	89.9%
Net Profit	4,307	3,436	3,109	-27.8%	-9.5%
Investments	63,018	58,973	58,479	-7.2%	-0.8%
Net Loans	497,892	573,382	590,890	18.7%	3.1%
Total Assets	738,355	768,754	807,058	9.3%	5.0%
Customer Deposit	418,338	471,280	499,649	19.4%	6.0%
Loans/Deposits	119%	122%	118%		
Efficiency Ratio	-29.4%	-31.5%	-28.1%		

SAUDI Banks - ARNB, RAJHI, RIYAD, SABB, SAMBA					
(SAR Millions)	2Q08	1Q09	2Q09	yoy	qoq
Net Interest Income	5,997	6,499	6,580	9.7%	1.3%
Non-Interest Income	2,553	2,132	2,260	-11.5%	6.0%
Total Income	8,550	8,630	8,840	3.4%	2.4%
Non-Interest Expense	(2,519)	(2,607)	(2,589)	2.8%	-0.7%
Provisions	(539)	(1,130)	(897)	66.5%	-20.6%
Net Income for Shareholders	5,420	4,899	5,354	-1.2%	9.3%
Investments	157,095	142,543	146,464	-6.8%	2.8%
Net Loans and Advances	451,347	485,515	487,182	7.9%	0.3%
Total Assets	714,296	742,740	751,967	5.3%	1.2%
Customer Deposits	497,220	547,658	560,470	12.7%	2.3%
Loans/Deposits	91%	89%	87%		
Efficiency Ratio	-29.5%	-30.2%	-29.3%		

Qatar Banks - QNB, CBQ, Doha					
(QAR Millions)	2Q08	1Q09	2Q09	yoy	qoq
Net Interest Income	1,256	1,550	1,694	34.9%	9.3%
Non-Interest Income	1,149	1,124	890	-22.5%	-20.8%
Total Income	2,405	2,674	2,585	7.5%	-3.3%
Non-Interest Expense	(586)	(598)	(582)	-0.6%	-2.6%
Provisions & Impairments	(73)	(188)	(375)	414.6%	99.0%
Net Profit	1,849	1,950	1,707	-7.7%	-12.5%
Net Loans	137,518	140,679	138,563	0.8%	-1.5%
Investments	24,686	26,538	37,267	51.0%	40.4%
Total Assets	243,231	246,300	249,970	2.8%	1.5%
Customer Deposit	152,464	144,370	156,260	2.5%	8.2%
Loans/Deposits	90%	97%	89%		
Efficiency Ratio	-24.4%	-22.3%	-22.5%		

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