



Market	Ticker	Value	% Δ YTD	% Δ MTD	Avg Volume (millions) - 30 days	P/E	P/B
UAE ADX	ADSMI	2,631	10.1	(1.8)	268.9	8.0	1.3
UAE DFM	DFMGI	1,784	9.1	(5.0)	691.6	5.3	0.8
Saudi Arabia Tadawul	SASEIDX	5,596	16.5	(5.0)	299.8	13.7	1.9
Qatar DSM	DSM	6,492	(5.7)	(7.0)	20.1	9.7	2.0
Bahrain BSE	BHSEASI	1,582	(12.3)	(2.5)	6.9	5.3	1.1
Kuwait KSM	KWSEIDX	8,080	3.8	(0.9)	771.9	NM	1.3
Oman OSE	MSM30	5,612	3.1	2.0	28.1	8.7	1.8

Tough month for the GCC markets as recovery loses steam. Regional loan growth stalls, as banks continue to be wary of new credit origination. Continued concerns on real estate exposure, seasonal expectations of increased defaults, and limited transparency on exposure to stressed regional conglomerates weighing on bank stocks.

UAE BANKING SECTOR – Stocks swoon on default expectations, Central bank talks up support

- **Proposing federal guarantee for corporate bonds** – on the heels of a bank deposit guarantee the Central bank governor has raised the possibility of extending the guarantee to various funding instruments issued by the banks – bonds, term notes and commercial paper. The hope is to alleviate the liquidity concerns expressed by the banks, however we are doubtful about the impact on kick starting loan growth as the banks are reticent to extend loans into a fundamentally deteriorating economic environment. Meanwhile, the *Government of Dubai will inject AED3.5 bn* cash into ENBD to shore up its Tier 1 capital ratio to 11%.
- **Emirates Development Bank has been approved with capital of AED 10 billion** – Half of the capital to be fronted by the government but the source of the remaining funds and the future of Amlak and Tamweel (originally proposed to be merged under this umbrella organization together with Emirates Industrial Bank and Real estate Bank) is unknown. Considering the asset-liability gap for the companies, it is unclear how this new structure will a) resolve the Amlak/Tamweel funding issue and b) kick start the mortgage market in the UAE where asset prices are still trying to find a bottom. The UAE government is buying the 49% of Emirates Industrial Bank that it does not already own from NBAD, ADCB and Mashreq Bank.
- **Overall loan growth slow but personal loans show some sign of recovery** – Loans for the first 5 months of the year rose by 1% while personal loans shrunk by 8.3 % over the same time period. Personal loans showing some signs of recovery growing by AED 5.9 billion in May 09, a monthly gain of 2.9%. However, market comments by various banks are expecting increasing defaults from this segment. Increasing delinquencies on credit card debt could contribute 0.2% to the NPL ratio for the banking sector. The high margins in the personal segment are probably too hard to resist while corporate loan books are strained and may feel more stress going into the summer as the full level of real estate related defaults begins to hit the books.

SAUDI BANKING SECTOR – SAMA stepping up but banks reticent to lend

- **Regulators take steps as cumulative bank profits flat compared to last year** - The local banks continue to drain liquidity from the private sector in Saudi Arabia with combined foreign assets rising by 17% since the end of 2008. Meanwhile, net foreign assets at SAMA continue to fall as the central bank repatriates funds to support local projects and counter weak loan growth from the banks. In addition, SAMA continues to encourage bank lending by reducing reverse repo rate yet again to 0.25% - a steep drop from 2.5% in Oct '08. The Capital Markets Authority (CMA) has also approved *a market for debt securities* to help diversify funding sources.
- **Loan growth negative since the end of 2008** - The recent tightening of lending by the 12 local banks and weakened consumer demand has resulted in outstanding loans dropping by 1.3% since the end of 2008. Coupled with deposits rising by 6.6% since the end of the year this has alleviated loans/deposit ratio at the end of May to 80%.
- **Family conglomerates weighing on banking sector across the region** – Disclosures on the size and scope of exposures to the two troubled Saudi conglomerates – Al Gosabi and Saad group are trickling in from banks across the region. However, much of the potential exposure is unaccounted for, and a lack of disclosures is causing investor concern. In addition, as a derivative effect the health of large regional family conglomerates that were previously considered stable are now being called into question.

QATAR BANKING SECTOR – Strong support from the top not translating to stock performance

- **Qatari government buys real estate portfolios of 9 local banks at net book value** – Although this reduces the risk profile of the banks, and increases liquidity – this has not translated into strong stock performance yet. Q2 results will show the impact of divesting the real estate portfolios of the banks to the Qatari government - QAR 15bn (\$4.1 bn) of real estate credit exposure will be purchased at net book value. Payment will probably take the form of part cash/part long term bond – similar to the equity purchase by the government. This 're-funding' may kick start future loan growth but this time the banks will be a lot more risk averse.

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										
UAE																																
Abu Dhabi Commercial Bank	ADCB UH	Market Perform	1.6	2.2	36.6%	(9.6)	(4.7)	4,379	7.7	2.1	147.7	40.2	7.3	0.6	2.1	9.0	5.6	6.2	0.5	2.0	8.9	7.2										
Emirates NBD	EMIRATES UH	Market Perform	3.5	4.0	12.8%	26.6	2.6	620	19.5	5.3	282.4	76.9	6.2	0.8	2.5	19.1	6.6	6.1	0.8	2.4	17.4	4.9										
First Gulf Bank	FGB UH	Market Perform	13.0	11.6	-10.8%	42.1	9.7	682	17.9	4.9	107.5	29.3	6.3	1.2	3.1	22.5	4.3	7.1	1.0	2.9	15.1	4.2										
National Bank of Abu Dhabi	NBAD UH	Outperform	9.8	11.6	18.4%	20.4	4.1	420	21.3	5.8	164.7	44.8	7.2	1.4	2.6	23.6	3.7	7.6	1.3	2.5	18.9	3.8										
Union National Bank	UNB UH	Market Perform	3.6	4.0	11.1%	78.4	7.8	732	7.4	2.0	65.2	17.8	5.9	1.0	2.9	19.9	4.5	4.4	0.6	2.5	15.4	2.4										
Dubai Islamic Bank	DIB UH	NC	2.4	NC	NC	49.3	(7.1)	18,173	8.5	2.3	85.0	23.2	5.2	1.0	2.7	17.9	9.5	7.2	0.9	2.7	13.2	9.3										
Abu Dhabi Islamic Bank	ADIB UH	NC	2.8	NC	NC	6.9	(14.7)	1,864	5.5	1.5	51.2	14.1	6.4	1.0	4.5	15.4	7.7	6.4	1.3	4.5	13.2	7.7										
													6.4	1.0	2.9	18.2	6.0	6.4	0.9	2.8	14.6	5.6										
SAUDILABIA																																
Arab National Bank	ARNB AB	Outperform	38.9	50.3	29.3%	24.7	(10.8)	155	25.3	6.7	121.3	32.3	10.9	2.1	3.6	24.2	4.0	8.2	1.8	3.5	27.2	3.4										
Rajhi Bank	RJHI AB	Outperform	62.8	80.4	28.1%	12.1	(8.1)	2,070	94.1	25.1	164.9	44.0	15.5	4.2	6.7	27.9	4.4	12.7	3.6	6.3	31.1	4.1										
SAMBA	SAMBA AB	Market perform	41.8	55.2	32.1%	(18.4)	(15.2)	383	37.6	10.0	178.9	47.7	9.6	2.2	3.5	24.5	3.8	8.6	1.8	2.9	23.3	4.6										
Saudi British Bank	SABB AB	Outperform	45.7	69.1	51.2%	5.8	(9.5)	139	34.3	9.1	131.7	35.1	12.7	2.6	3.3	27.6	5.8	11.0	2.0	3.0	25.7	2.6										
Riyad Bank	RIBL AB	Market perform	24.6	27.5	12.0%	15.8	3.4	926	36.8	9.8	159.7	42.6	13.6	1.5	3.4	14.4	6.7	12.0	1.5	3.2	12.1	7.8										
													12.5	2.5	4.1	23.7	4.9	10.5	2.2	3.8	23.9	4.5										
QATAR																																
Qatar National Bank	QNBK QD	NC	120	NC	NC	(12.4)	0.9	138	36.1	9.9	152.0	41.8	9.6	2.4	2.4	24.0	6.4	8.8	2.0	2.3	22.4	4.3										
Doha Bank	DHBK QD	NC	37	NC	NC	(11.9)	(6.8)	426	6.7	1.8	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	63.2	NC	NC	(28.4)	(16.8)	615	13.7	3.8	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	72.5	NC	NC	(12.4)	(7.5)	471	15.0	4.1	33.5	9.2	8.6	2.0	9.9	27.9	1.5	9.3	2.0	9.9	20.8	11.9										
Qatar International Islamic Bank	QIIK QD	NC	41.2	NC	NC	(29.7)	(10.4)	308	5.5	1.5	12.8	3.5	10.4	1.9	8.2	19.5	9.4	10.5	1.9	8.2	19.5	9.7										
Masraf Al Rayan	MARK QD	NC	12.5	NC	NC	13.6	1.6	5,351	9.4	2.6	16.8	4.6	10.3	1.7	10.4	16.9	4.6	11.2	1.5	10.4	14.9	8.3										
													9.1	1.8	6.2	21.9	7.3	8.9	1.6	6.1	19.1	8.3										

* current prices as of June 30, 2009
LC = local currency
NC = not covered

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