



Market	Ticker	Value	% Δ YTD	% Δ MTD	Avg Volume (millions) - 30 days	P/E	P/B
UAE ADX	ADSMI	2,679	12.1	6.1	187.6	7.8	1.3
UAE DFM	DFMGI	1,878	14.8	17.0	412.0	4.9	0.9
Saudi Arabia Tadawul	SASEIDX	5,893	22.7	4.8	286.2	14.5	2.0
Qatar DSM	DSM	6,981	1.4	24.6	19.3	10.2	2.2
Bahrain BSE	BHSEASI	1,622	(10.1)	1.6	3.4	6.0	1.2
Kuwait KSM	KWSEIDX	8,150	4.7	7.8	752.9	36.0	1.3
Oman OSE	MSM30	5,500	1.1	7.2	27.6	8.1	1.7

Positive sentiment, trading volumes and stock performance return to the region - on the back of a boost in oil prices (+29% in May) and continued government support. UAE drops out of GCC monetary union agreement and reiterates dollar peg – no impact expected on sovereign ratings from this pullout. Increasing defaults expected in mortgage and personal loan space as the summer heats up.

QATAR BANKING SECTOR – LEADING FROM THE TOP

- **Bank stocks regain some strength but still underperformed the general index** – On the back of strong Q1 results and continued support from the Qatari government, the bank stocks in our coverage universe rose by 20.5% in the month. This compares to a 24.6% recovery in the DSM general index which comes on the back of a 14.7% gain in the previous month. The government continues to take steps to build confidence in the banks via equity investments, purchase of DSM listed equity portfolios and the recent offer to purchase their real estate portfolios.
- **Qatari government offers to buy real estate portfolios from 9 local banks** – In a recently announced program QAR 15bn (\$4.1 bn) of real estate investments will be purchased at net book value by end of June. Details of payment terms are unavailable at this time but may take the form of the equity purchase offer which was part cash and part long term bond, with an effective 5 year call option on the divested equities. After the recent correction seen in local real estate market, the government has to balance the availability of funds in the local market with the need to show support for the local banking sector. Qatar issued a \$3 billion government bond in April (5 and 10 year) mostly to foreign investors to fund its continued support for the banking sector in the country. This is encouraging local companies to also launch programs to tap the international capital markets and take advantage of narrowing spreads and rising demand for highly rated, government backed emerging market debt.

SAUDI BANKING SECTOR – STEADYING THE BOAT

- **SAMA April 09 data showed cumulative bank profits were flat, money supply rose, net foreign assets dropped and inflation slowed to a 19-month low of 5.2%** - Cumulative profitability of SAR 11.3bn in the first four months of the year was flat compared to the same period last year. Money supply grew on the back of a healthy rise in demand deposits but interbank liabilities rose to an all time high of SAR 43bn, reflecting a reliance on local funds instead of foreign borrowing. Net foreign assets at the SAMA dropped to SAR 1.49bn, a drop of 8.7% since year end 2008.
- **Government spending increasing as deal flow slows on the corporate side** – The government doubled its capital spending on development projects to SAR 40.6bn in 1Q09 vs. a year ago. In addition, with the recent tightening of lending by the 12 local banks and weakened consumer demand, loan growth since the end of 2008 has been -1%. Meanwhile, customer deposits grew 6% since the end of 2008 to help alleviate the loans/deposit ratio to 79%.

UAE BANKING SECTOR – STOCK PERFORMANCE UP

- **Strong monthly stock performance** – The 5 banks in our coverage universe rose by an average of 12.5% over the month of May on the back of strong volumes. While the DFM moved up by 17.0%, the ADX rose as well but by a smaller 6.1%. Through April, loan growth continues to be flat in 2009, with personal loans easing by 11% since the end of 2008. Personal loans now represent 20% of the loan book of the local banks compared to 25% of all loans in Saudi Arabia and 24% in Qatar.
- **Easing liquidity but credit availability tight** - Flat loan growth in the first four months of the year, with a small 4% growth in deposits is encouraging in light of the recent market turmoil. Loans/deposit ratio has dropped to 104% from 108% at the end of 2008. In line with slowing growth, banks are taking the opportunity to streamline operations, focus on risk management and put their shop in order. ENBD is in the market to boost its tier I capital by the end of June, while NBAD has separated its Islamic banking unit into a separate entity.

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	1.7	1.9	12.4%	(5.1)	5.6	2,442	8.1	2.2	147.7	40.2	6.6	0.5	2.1	9.0	5.6	5.6	0.5	2.0	8.9	7.2										
Emirates NBD	EMIRATES UH	Market Perform	3.4	3.5	2.3%	23.3	24.8	350	19.0	5.2	282.4	76.9	5.2	0.7	2.5	19.1	6.6	5.1	0.7	2.4	17.4	6.9										
First Gulf Bank	FGB UH	Market Perform	11.9	10.1	-14.8%	29.5	16.7	728	16.3	4.4	107.5	29.3	5.4	1.0	3.1	22.5	4.3	6.0	0.9	2.9	15.1	4.2										
National Bank of Abu Dhabi	NBAD UH	Outperform	9.4	10.3	9.5%	15.7	0.1	264	20.5	5.6	164.7	44.8	6.7	1.3	2.6	23.6	3.7	7.0	1.3	2.5	18.9	4.4										
Union National Bank	UNB UH	Market Perform	3.3	2.7	-19.2%	65.5	15.2	617	6.9	1.9	65.2	17.8	4.9	0.8	2.9	19.9	4.5	5.6	0.8	2.5	15.4	2.9										
													5.7	0.9	2.6	18.8	4.9	5.9	0.8	2.5	15.2	5.1										
SAUDI ARABIA																																
Arab National Bank	ARNB AB	Outperform	43.6	37.4	-14.2%	39.7	(6.4)	258	28.4	7.6	121.3	32.3	11.4	1.9	3.6	24.2	4.0	8.6	1.7	3.5	27.2	3.4										
Rajhi Bank	RJHI AB	Outperform	68.3	62.6	-8.3%	21.9	(3.9)	2,346	102.4	27.3	164.9	44.0	15.7	4.3	6.7	27.9	4.4	12.8	3.7	6.3	31.1	4.0										
SAMBA	SAMBA AB	Market perform	49.3	55.5	12.6%	(3.8)	(13.5)	454	44.4	11.8	178.9	47.7	10.0	2.3	3.3	24.5	4.1	9.0	1.9	3.1	23.3	5.0										
Saudi British Bank	SABB AB	Outperform	50.5	63.4	25.5%	16.9	(10.2)	170	37.9	10.1	131.7	35.1	13.0	2.6	3.3	27.6	5.8	11.2	2.1	3.0	25.7	2.6										
Riyadh Bank	RIBL AB	Market perform	23.8	23.0	-3.2%	12.0	(5.0)	1,557	35.6	9.5	159.7	42.6	13.5	1.5	3.4	14.4	6.7	11.9	1.4	3.2	12.1	7.8										
													12.7	2.5	4.1	23.7	5.0	10.7	2.1	3.8	23.9	4.6										
QATAR																																
Qatar National Bank	QNBK QD	NC	118.9	NC	NC	(13.2)	15.9	148	35.8	9.8	152.0	41.8	9.8	2.4	2.4	24.0	6.3	9.0	2.1	2.3	22.4	4.2										
Doha Bank	DHBK QD	NC	39.7	NC	NC	(5.5)	17.8	495	7.2	2.0	39.0	10.7	7.9	1.5	3.5	22.2	12.6	7.8	1.3	3.2	17.1	7.0										
Commercial Bank of Qatar	CBQK QD	NC	76.0	NC	NC	(13.9)	27.7	599	16.5	4.5	61.3	16.8	10.1	2.0	2.8	21.0	7.9	7.8	1.5	2.8	19.8	6.5										
													9.3	2.0	2.9	22.4	8.9	8.2	1.6	2.8	19.8	5.9										

* current prices as of May 31, 2009
LC = local currency
NC = not covered

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