30th March 2010

AL MAL CAPITAL

Market Update

Impact of restructuring proposal on local banks – *Not so Positive – Sell into recent strength*

- Locally listed banks have been trading up in the last month following market rumors of 'no haircut' and the restructuring proposals of Dubai World and Nakheel on the stand-stilled perimeter of $22bn. National banks have an estimated 45% of the stand-stilled amount totaling $10bn, including $1.4 bn in bonds and $8.6 bn in bilateral and syndicated loans).

	DW exposure * ($ bn)	Performance (since March 25th)	Performance (one week)	Performance (one month)
ADCB	1.9	11.5%	12.1%	29.9%
ENBD	2.7	3.0%	7.0%	25.5%
DIB	1.4	5.1%	7.7%	17.2%
FGB	0.8	2.0%	2.3%	6.2%

* Al Mal estimates

However, we believe there are many unknowns on the banks direct and indirect exposure to the rest of Dubai Inc, commercial terms of the proposed maturity extension and the accounting impact. In addition, the potential extension could impact banks liquidity position and volume growth in 2010. **We recommend clients sell into the strength seen in these names in the last month.**

- **Positive aspects of the proposal –**

	Action	What it means
1	Government to convert its claims in the two companies into equity	***positive***, government already owns 100% of the equity and this move effectively writes-off their claims and makes them subordinate to other creditors
2	Injection of $8bn in new funds into Nakheel and $1.5bn in Dubai World	**positive**, as trade creditors get paid 100% if owed < 500k, 40% cash if above with the remainder in tradable bonds, less likely to default on their bank loans with this cash flow
3	Nakheel Sukuks 2010 and 2011 to be paid in full	**positive,** as 80% of the bonds are held by national banks
4	No mention of haircuts	**positive** in the short term, as avoid large writedowns

- **Negatives/Unknown aspects of the proposal –**

	Action	What it means
1	Nakheel's bank creditors to be asked to restructure debt at commercial terms in 5 year or 8 year tranches but no amortization terms or interest rates disclosed yet	**negative**, as there may be upfront impairments for NPV shortfall on extended loan maturities even if interest rates hold up. Bank loans to Dubai World/Nakheel were probably always low margin considered quasi-Government
2	No mention of terms for Dubai World Bank creditors	**unknown**, but hope similar terms as Nakheel creditors. May be unlikely as Q&A alluded to different treatment based on holding company vs. operating company

- Other issues to be mindful of –
  1. Dubai Financial Support fund has committed to use up its funds (plus an additional $3.7bn from internal resources – asset sales and cost savings) to support DW and Nakheel. This leaves little room for error considering other Dubai Inc. debt may face renegotiations in the future. Dubai's GRE debt (net of bilateral loans and trade liabilities) is estimated by the IMF at $86bn.
  2. Local Real estate market still remains weakened with potential peak NPL's still to come, impacting banks willingness to lend in 2010.
  3. Wholesale funding will continue to be an issue without a government guarantee, impacting banks ability to lend in 2010.

Deepak Tolani
T+971 4 360 11 52
Deepak.tolani@almalcapital.com

Downtown Burj Dubai
Emaar Square
Building 4, Office 302
Sheikh Zayed Road
P. O. Box 119930, Dubai, UAE
T +971 4 360 1111
F +971 4 360 1122
www.almalcapital.com