

Moody's forecasts bad loans will soar

Bad bank loans in Dubai are expected to peak at almost twice their current levels this year amid a series of corporate restructurings across the emirate. Non-performing loans among Dubai lenders could rise to as much as 11 to 14 per cent of total lending, according to a report from the credit ratings agency Moody's Investors Service. A big contributor to the increase in problem loans will be the upcoming US\$ 10 billion (Dh36.73bn) debt restructuring of Dubai Holding, the conglomerate owned by Sheikh Mohammed bin Rashid, Vice President of the UAE and Ruler of Dubai. The year so far has been marked by fewer debt restructurings than 2009 or last year, with Al Jaber Group the biggest company in the UAE to have entered restructuring talks with creditors. The amount of liabilities under restructuring at Dubai Group, an associate of Dubai Holding, was recently revealed as \$10bn, \$4bn more than previously disclosed. Saeed Al Hamiz, the senior executive director of banking supervision and examination at the Central Bank, said last month nonperforming loans carried by UAE banks increased from 6.25 per cent in December to 6.67 per cent of total loans at the end of April. However, some analysts said Moody's was playing it safe with its estimates. Compared with what banks such as Emirates NBD have told the market, Moody's estimates are "exactly in line", said Raj Madha, a financial analyst at Rasmala Investment Bank.

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Major restructurings in Dubai leave lenders exposed

Gregor Stuart Hunter

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of Dubai Holding, the conglomerate owned by Sheikh Mohammed bin Rashid, Vice President of the UAE and Ruler of Dubai.

"Problem loans at UAE banks increased to 8.3 per cent in 2010 from 4.9 per cent in 2009, including the exposure to Dubai World's \$25bn debt restructuring," according to the report.

"Dubai-based banks typically have high exposures to Dubai Government-related entities, and we consequently expect [non-performing loans] to peak in 2011 at around 6-8 per cent in Abu Dhabi and 11-14 per cent in Dubai."

Dubai banks' bad loans accounted for 8 per cent of their loan book at the end of last year, the report added.

Loans, continued on 2 →



Emirates NBD's bad loans report are in line with Moody's estimates. Pawan Singh / The National

Bad loans for Dubai banks to rise

Loans, continued from 1 →

Non-performing loans have been weighing heavily on the UAE's banking sector since the onset of the financial crisis, and have hit the banks' earnings ever since as they put money aside to cover their costs.

The report also warned that banks could expect to set aside more money to cover bad debts.

"Coverage ratios ... continued to fall from an average of around 98 per cent in 2008 to around 49 per cent in 2010, and thus further prudent provisioning is likely. If effected, this should continue to subdue profitability in the near-term," it said.

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associate of Dubai Holding, was recently revealed as \$10bn, \$4bn more than previously disclosed.

Total provisions by the UAE banking sector amounted to Dh60.4bn in May, a 23.7 per cent increase on the same month last year, according to the most recent data from the Central Bank.

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