

## Special Comment

# Moody's Global Credit Research

1 December 2009

## Dubai Inc: Assessing the Fallout

Moody's Assessment of Regional & International Implications of the Dubai World Restructuring

*This Special Comment is based on the prepared remarks presented by Moody's analysts during two teleconferences for investors held on 1 December 2009. In addition, this report also includes graphs to illustrate points made during the calls as well as comments provided separately by Moody's analysts not present during the teleconferences.*

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## Overview of Dubai World Restructuring

### What Has Happened?

Last Wednesday (25 November 2009), the government of Dubai announced that it was restructuring the liabilities of Dubai World and requesting a standstill on the financings of Dubai World and its troubled real estate subsidiary, Nakheel. Both the announcement itself and its timing took markets by surprise and has thrown credit markets into turmoil.

Although concerns about Dubai's rising debt burden had been well publicized, and we ourselves had repeatedly argued that the government's decisions on Nakheel will constitute the litmus test for ratings in Dubai, the premises of our assumptions have shifted. Our ratings were first downgraded – some by several notches – earlier last month when the government disclosed greater conditionality of support in its most recent bond prospectus, including the requirement for government-related issuers (GRIs) to demonstrate sustainable business plans and realistic prospects of fulfilling their payment obligations. The government had until then regularly expressed its support for its strategic enterprises.



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This is exacerbated by the fact that – until recently – the Dubai government has been providing general assurances of support throughout the year, and only recently made use of much-improved sentiment by issuing a well-received sovereign bond.

As we do not rate Dubai World or Nakheel, we do not have preferential insight into the group. We therefore need to make some fairly crude assumptions on the basis of publicly available information. We do, however, rate DP World and Jebel Ali Free Zone, which are both subsidiaries of Dubai World.

Unfortunately, the nature of Wednesday's announcement leaves much room for interpretation. We know that DP World – arguably the crown jewel of the group – has been excluded from the restructuring. The same applies to Jebel Ali Free Zone. Both entities have approximately USD10 billion in debt, which will not be subject to the standstill. Indeed, businesses such as DP World, Jebel Ali Free Zone and possibly DryDocks and Dubai Multi Commodity Centre are likely to represent the bulk of performing assets within the group.

The ca. USD5.5 billion situated directly at Dubai World and the USD8 billion of debt at Nakheel (as at year-end 2008) are therefore likely to be part of the restructuring. Furthermore, in our view, all entities whose debt is not supported by long-term viable cash flows are likely to be affected. This could, in our opinion, also include the likes of property company Limitless, which has known debt of USD2.2 billion.

We are therefore currently assuming a total debt restructuring amount of approximately USD 25 billion, which has since been confirmed by Dubai World at USD26 billion. This compares against what we believe to be total government and government-related debt in Dubai of around USD100 billion, and also – which is often ignored – a substantial asset base, though little in liquid form.

### Why Has it Happened?

The reason why the government has gone down this road can only be speculated on at this stage. Ultimately, the government has demonstrated a willingness to potentially dismantle what was one of Dubai's largest government conglomerates – possibly in reflection of the greater severity of the situation at Dubai World; possibly also in response to a greater determination by Abu Dhabi to take a more selective stance towards the entities it is willing to bail out in Dubai. We would be astonished if a decision as significant as this one had been made without the prior knowledge of Abu Dhabi. A collaborative decision would thus represent a clear attempt by Abu Dhabi to limit its own contingent liabilities.

Whilst Abu Dhabi continues to provide new funding to Dubai, it also demonstrates that it was not willing to provide blank cheques to all of Dubai's struggling entities. The question of viability therefore becomes crucial to the decision-making process. Whilst we have seen numerous companies obtain financial support throughout 2009, all of these were arguably viable businesses. The same could not be said of Nakheel, nor indeed for many of the other speculative undertakings grouped under the Dubai World umbrella.

At this point, we still do not know whether the debt standstill will lead to a gradual winding-up of the company, including potential fire-sales of assets; or whether different restructuring options are being considered, including a possible timely repayment of the Sukuk. Given the highly strategic nature of some of the group's assets, including the port operator, we would be surprised if we saw such businesses being sold cheaply into international hands. However, given the newsflow since last Wednesday, we believe it can now be safely assumed that the government will stick to its decision of sharing the burden of this process with Dubai World's creditors.

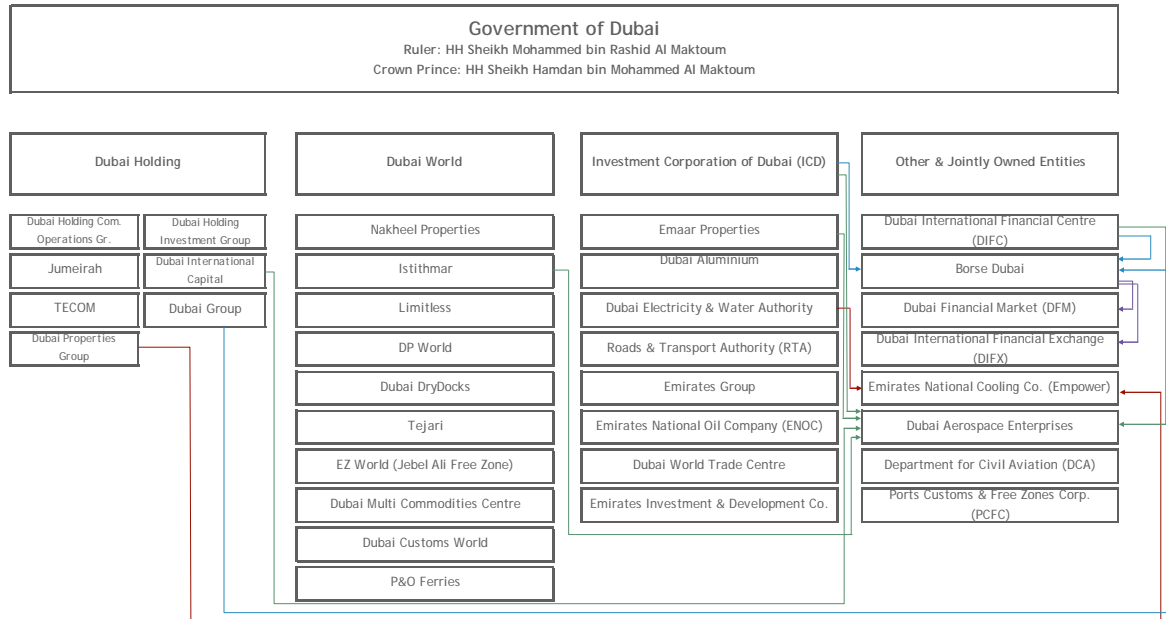
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## Rating Implications

## Corporates: A Paradigm Shift

The most visible consequence of this paradigm shift has been the ratings downgrade of all six GRIs in Dubai,<sup>1</sup> two of which have remained investment-grade, while the remainder have been lowered to non-investment grade. All ratings are now either at or fairly close to their stand-alone credit profiles, reflecting substantially reduced government support assumptions in our final ratings.



While much remains to be confirmed and clarified, the government's willingness to restructure an entity as visible and high-profile as Dubai World and to allow a potential default substantially changes long-held market assumptions regarding implicit government support of local credits.

Businesses that continue to demonstrate solid business models, such as DP World and DEWA, remain investment grade and are likely to be those that will be able to attract funding, once the dust settles.

Other, weaker and more speculative undertakings that rely more heavily on the materialization of future cash flows have fallen to non-investment grade. It is therefore fair to assume that – with some few exceptions – Dubai's corporate landscape is now effectively a high-yield market.

Incidentally, all the six Dubai GRIs that are rated by Moody's only have moderate debt maturities over the coming 12 months and are therefore far less exposed to a renewed potential liquidity squeeze for Dubai corporates.

The degree to which Dubai is able to fund its existing growth aspirations via its corporate sector going forward must now be considered to be in jeopardy. This in turn raises the question as to what Abu Dhabi's involvement will be in Dubai's future expansion. In our view, the co-ordination and approval of expansionary projects will, going forward, increasingly be decided in Abu Dhabi or at federal level. The prospect for some asset transfers from Dubai to Abu Dhabi is now high. At the same time, Abu Dhabi will need to be much more elaborate in publicly declaring its support for companies and projects in Dubai for investors to become comfortable.

Will there be contagion? The markets now seem to believe that this is largely a Dubai-specific issue, given that spreads in Abu Dhabi and Qatar have widened by a mere 50 basis points. We remain less assured. Abu Dhabi

<sup>1</sup> Please refer to Moody's rating action press release entitled "Moody's downgrades Dubai GRI ratings", published on 26 November 2009.

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will inevitably need to play a more prominent role in Dubai's finances and economic growth model. Furthermore, this precedent of potential default needs to be interpreted in a broader context, given the growing number of debt-laden GRIs without sovereign guarantees elsewhere in the Gulf.

Rated Debt			
Entity	Rating	Amount	% of Dubai Inc. Total Debt
DP World	Baa2	3,250	3.2%
Dubai Holding	Ba2	2,910	2.9%
DEWA	Baa2	871	0.9%
Jebel Ali Free Zone	Ba1	2,000	2.0%
DIFC Investments	Ba1	1,250	1.2%
<b>Total Rated Debt</b>		<b>10,281</b>	<b>10.2%</b>
Additional Debt from Publicly Rated Entities			
Entity	Rating	Amount	% of Dubai Inc. Total Debt
DP World	Baa2	4,764	4.7%
Dubai Holding	Ba2	1,490	1.5%
DEWA	Baa2	3,200	3.2%
Emaar Properties	Ba2	2,218	2.2%
DIFC Investments	Ba1	1,851	
<b>Total Additional Debt</b>		<b>13,523</b>	<b>13.4%</b>
<b>Total Debt of Publicly Rated Entities</b>		<b>23,804</b>	<b>23.7%</b>
Other known/estimated Debt of Unrated Companies			
Dubai World (Holdco only)		5,500	5.5%
Nakheel		7,956	7.9%
Drydocks World		2,200	2.2%
Ports & Freezone World		1,250	1.2%
Dubai Multi Commodities Centre		100	0.1%
Limitless		2,200	2.2%
Other (estimate)		5,000	5.0%
<i>Total Dubai World (incl. rated debt from DPW &amp; Jafza)</i>		<i>34,220</i>	<i>34.0%</i>
Borse Dubai		3,780	3.8%
Emirates Group		4,678	4.7%
Dubai Aerospace		800	0.8%
Department of Civil Aviation		1,000	1.0%
<b>Total known/estimated Debt of Unrated Companies</b>		<b>34,464</b>	<b>34.3%</b>
Known Government Debt			
Government Bond + Other Department of Finance Debt		4,334	4.3%
UAE Bond Programme		15,000	14.9%
Government Guaranteed Debt (DEWA)		2,000	2.0%
Investment Corporation of Dubai		6,000	6.0%
<b>Total Central Government Debt</b>		<b>27,334</b>	<b>27.2%</b>
<b>Total Reconcilable Debt</b>		<b>85,602</b>	<b>85.1%</b>
<b>Additional Debt Estimate</b>		<b>15,000</b>	<b>14.9%</b>
<b>Total Dubai Inc. Debt</b>		<b>100,602</b>	<b>100.0%</b>

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### Sovereigns: Local Consequences, But Will Focus Minds Globally

#### Consequences for Dubai

We do not currently have a published sovereign rating on Dubai, but we believe that the short-term impact of recent events could be quite severe for the city-state. Dubai World is one of the largest government-owned conglomerates in Dubai with tentacles that reach into almost every sector of the economy. It is therefore likely that exposure to Dubai World and its restructured entities among local banks and contractors is significant, that employment levels and confidence will suffer and that local banks will become even more reluctant to lend into the domestic economy. The Dubai government is rather small in relation to the size of the economy and has limited resources at its disposal. This constrains its ability to provide fiscal stimulus to offset shocks to the private sector. As Dubai's resilience has already been weakened by the effects of the global economic crisis, it is likely that the tentative economic recovery seen over the past six months will be reversed by recent events.

Over the medium term, Dubai's prospects depend on several factors: the extent of restructuring that takes place in Dubai Inc, potentially beyond that already announced; the degree to which capital markets access remains restricted for Dubai based entities; the ability and willingness of local banks to lend into the economy to compensate for reduced appetite among foreign creditors; and trends in the global economy. Over the past two years, Dubai's economy has displayed a strong correlation with global developments. Overall though, we believe that Dubai's recovery from recent events is likely to be drawn out and painful in the absence of substantial and sustained direct fiscal support from Abu Dhabi.

Over the longer term, a key challenge for Dubai will be the preservation of its status as the leading regional hub for trade, tourism, and finance. Currently, Dubai's infrastructure is superior to that of competing states in the region, largely because of its debt-financed investment boom over the past years. Given that Dubai has far fewer hydrocarbon resources than its neighbours and a narrow fiscal revenue base, it faces a structural disadvantage in terms of its ability to fund future public investment. If capital markets access for Dubai remains more restricted and more expensive than for its neighbours, it is likely that the "infrastructure gap" between Dubai and competing regional states with larger hydrocarbon resources will gradually close.

#### Consequences for the UAE and Abu Dhabi

The recently announced restructuring of Dubai World's liabilities is unlikely to threaten the Aa2 sovereign ratings for the government of Abu Dhabi and the federal government of the United Arab Emirates (UAE). Both of these ratings therefore continue to have a stable outlook.

The adverse impact of the Dubai World crisis on the non-hydrocarbon sectors of the domestic economy could potentially be severe, especially in Dubai. However, overall macro-economic stability is protected by the country's very strong net external creditor position that is bolstered by Abu Dhabi's accumulated oil wealth.

Significantly, the announced restructuring of Dubai World has shown that there is a limit to the willingness of the Abu Dhabi and federal governments to support indebted state-owned companies in other emirates. The Dubai World crisis has therefore effectively reduced the government's contingent liabilities by highlighting the limits of government support for indebted state-owned companies.

However, the Dubai World episode has underlined some of the institutional shortcomings that we have previously highlighted. In particular, we note the continued limited availability of information regarding the consolidated finances and debt burdens of state-owned enterprises in the country and the degree to which they could impact the banking system and public finances. Meanwhile, the opacity of decision-making at the highest levels of government reduces visibility on economic policy objectives.

The main factor underpinning the UAE's investment-grade sovereign rating is its robust external position. This is largely due to the ample stock of offshore financial assets held by the Abu Dhabi Investment Authority (ADIA), the state-owned entity responsible for investing the bulk of Abu Dhabi's oil-driven fiscal surpluses.

Also, the fiscal position of the UAE, and Abu Dhabi in particular, remains healthy. The UAE's consolidated fiscal surplus has averaged at around 20% of GDP over the past five years and is likely to post a small surplus

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in 2009 despite a sharp fall in oil export revenues and surging expenditure at the Abu Dhabi and federal levels. The fiscal firepower of Abu Dhabi, and by extension that of the federal government, is backed by the reserves of ADIA and other state-owned entities in Abu Dhabi, including the Abu Dhabi Investment Council and the state-owned oil company ADNOC.

So, overall, the country's strong consolidated external and fiscal positions will help it to weather the inevitable shock to the non-hydrocarbon sector.

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## Global Consequences: The First Casualty of Upcoming Government Exit Strategies?

It is hard to see why the events taking place in Dubai should trigger a global sovereign crisis: the scale of the problem is very small, quite idiosyncratic (this is public sector debt and not sovereign debt) and even within the country itself (the UAE) there are plenty of liquid foreign assets to absorb all the losses and more if so desired.

However, the absence of support for a public-owned company does strike a chord after the massive socialization of risks that has taken place over the past 18 months worldwide.

In a way, what is happening in Dubai may be the beginning of the "exit strategies" that have justifiably led to some anxiety among investors. After a period of unprecedented full blanket guarantees, we will be seeing the return to some "normality", either because government finances cannot afford other general bail-outs or because they think this is not a healthy use of taxpayer's money. The normalization process will be a bumpy ride – a main theme for 2010.

Therefore, there are many reasons to look at large government debt in the advanced world in particular, irrespective of what happens in Dubai.

Additional global implications may well be that this episode is unlikely to convince emerging market economies to have fewer foreign exchange buffers – and this will complicate the winding-down of global imbalances.

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## Financial Institutions: Potentially Sizeable Local Impact; Discernible But Not Material Global Impact

The events of last week raise three important questions, which I will address successively:

- First, does the announced debt restructuring of the Dubai World entities represent a material exposure that could move the Bank Financial Strength Ratings (or BFSRs) of any exposed bank? Remember that BFSRs measure the intrinsic creditworthiness of a bank, before we incorporate our government systemic support assumptions.
- As a related matter, the second question is: does the decision of the Dubai government not to support Dubai World change our systemic support assumptions for banks of the region?
- And finally, can the knock-on effects of the Dubai World debt restructuring cause credit quality to change?

Let me tell you a few facts about Dubai and UAE banks more generally: Moody's rates 15 UAE financial institutions including Islamic banks. The standalone ratings - Financial Strength Ratings (BFSR) - assigned to the banks range from D to C, while the deposit and debt ratings range from Baa2 to Aa3. The final ratings of

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the large UAE banks benefit from 2-5 notches of uplift as a result of strong systemic support that we impute from the Federal government.

The ratings of the three largest Dubai-based banks have been on review for possible downgrade for some time, while the ratings of two Abu Dhabi based banks have negative outlooks. Based on our preliminary analysis, these ratings and outlooks will not change for the time being. Let me tell you why:

Regarding the direct impact of last week's events, we have no evidence suggesting that net direct exposures are sufficiently material to move ratings. UAE banks' ratings already reflect our assessment that these banks have large exposure concentrations, and our scenario analysis already assumes a severe level of losses. The individual banks' exposures to Dubai World are well within those loss assumptions.

UAE Banks rated by Moody's hold 15%-20% of the total estimated USD60bn (59) direct exposure to Dubai World entities and we are currently assuming loss levels of 15% and 30% under our scenario analysis. By the way, the amount to be restructured is now said to be around USD26bn.

Our assessment is that exposed banks are well cushioned to absorb these losses: even the most exposed banks are well capitalized - Tier 1 capital ratios range from 12% to 16%; there also exist mechanisms that would force conversion into Tier 1 capital of Tier 2 instruments currently held by the government, and lastly, it is our expectation that the UAE authorities will continue to provide support to the banks in terms of liquidity, funding and capitalization.

Regarding the question of government support:

The proposed restructuring of Dubai World and Nakheel is a clear sign that the Dubai government is not prepared to support all the corporations that it sponsors and, as my colleague from the sovereign side has indicated, we remain alert to the risk of other such restructuring announcements and their repercussions.

Our assessment of banks' supported ratings is based on the belief that banks are special; banks are central to a nation's payment system and are critical to the economic growth and sustainability of the Emirates. That being said, we have no reason to believe that the Central bank of the UAE would not support their banks. In fact, we have evidence of the opposite.

By way of illustration, over the past 15 months, the central bank of the UAE has injected liquidity into the banking system, it opened a special repo window to facilitate the monetization of banks' assets and it also explicitly guaranteed bank deposits. In addition, last Sunday, following the Dubai world event, the Central Bank announced additional and pre-emptive liquidity support measures.

Regarding the third question, about the potential repercussions on other companies and on the economy of the region more generally: The broader potential implications and severity of consequences of the Dubai World debt restructuring remain speculative. However, it is important to remain vigilant about the risks associated to this scenario.

In the event of further escalation in the number of Dubai corporations that might default, and in the event of a further degradation of investor confidence in the companies and the economy of the region, more banks would be exposed in a more profound way than we are seeing today.

As I said earlier, Dubai banks tend to have large exposure concentrations, and they would be particularly impacted by multiple defaults, higher unemployment and lower investment in the region. Under such circumstances, ratings could obviously fall.

Let me conclude with a few words on foreign banks.

We are still awaiting feedback from individual international banks regarding their net exposures. However, based on our preliminary assessment, we expect no material loss at any of the international banks exposed to Dubai World.

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Similar to the UAE-based banks, while the Dubai World debt restructuring adds incremental risks to all affected banks' credit profiles, it is not, in and of itself, expected to cause ratings to move.

For the time being, the only consequence that we expect to result from this event is a change in investors' perception of the risks associated to Dubai and the UAE, and a re-pricing of risks and opportunities.

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## Islamic Finance: A Test of Resilience

### Sukuk in Distress<sup>2</sup>

In many ways, this has been an extraordinary crisis, but it is the first for the embryonic sukuk industry. The youth of the market has meant that such funding instruments are untested as various sectors of regional economies contract or even collapse. All across the GCC, over-leveraged corporates are stretched with some very notable defaults and now perhaps one of the most significant in the region – Nakheel/Dubai World.

Restructurings are common occurrences in mature markets, but the immature and opaque nature of the local legal and creditor environment as well as that lack of precedent give little comfort to investors spread across the world.

In addition to these issues (which affect conventional as well as Islamic issuers) is the complexity of funding instruments that comply with the ethical investment principles of Islam, more commonly known as sukuk. These instruments seek to comply with prohibitions on interest (seen as usurious) and are meant to give investors a share of a tangible cash-generating asset. Ideally, they should be secured instruments with the risk of non-payment linked more to the asset performance and not leveraged borrowers (leverage is also discouraged).

However, the desire for Middle Eastern corporate credit exposure (from global investors) and unsecured debt (from local issuers) has created sukuk instruments that, in substance, attempt to be identical to conventional bonds. The form, however, is highly complex, generating some confusion that is perhaps exploitable by distressed and conflicted issuers. For example, the lack of standardization means that default interest may not be contractually payable, or it could lead to non-payment of such 'challengeable' interest on some sukuk issuances.

'Profit' is commonly paid on sukuk instruments and is typically analogous to a fixed-income coupon, with non-payment a hard default. However, the whole presentation of the structure is one where investors are meant to receive a share of the profits and not interest on debts – two very different obligations. It could be argued that, because an issuer is not generating profits, it should not have to pay sukuk investors – indeed, a distressed borrower has every incentive to explore all options. In most cases, however, the obligation is clear and unambiguous. With the exception of Saudi Arabia, the obligations are subject to civil code jurisdictions where Shari'ah may be incorporated as a source of law, but is not the governing law applicable to commercial transactions – and ultimately enforcement under local law is required.

Given the sheer scale and complexity of Dubai World, this event will be an important test of investors' rights. If indeed some sukuk are not found to be equivalent to conventional bonds in a default or restructuring, it will have a significant effect on the shape of the sukuk market to come

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<sup>2</sup> Please refer to Moody's Special Comment entitled "The Future of Sukuk: Substance over Form", May 2009.

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### UAE Islamic Banks in the Spotlight

Moody's rates four Islamic financial institutions in the UAE, with different business and risk profiles, including three banks (Abu Dhabi Islamic Bank, Dubai Bank and Dubai Islamic Bank) as well as a mortgage finance company (Tamweel). As such, their respective exposure to direct and indirect risks pertaining to the recent events in Dubai also varies materially, commensurate with the potential rating impacts.

Islamic banks are no exception, as they carry sukuk in their investment books and have funded as well as unfunded credit exposures to either Nakheel and /or Dubai World. Therefore, Islamic banks will directly suffer from the economic provision and impairment charges attached to such exposures, irrespective of any accounting treatment.

In addition to the direct credit-related charges that Islamic financial institutions will likely suffer over the short to medium term, ratings could be driven downward by indirect consequences. On the one hand, the overall quality of credit exposures on Dubai-related companies will have to be reassessed, if not repriced, and confidence as well as liquidity may fade away, reigniting recent years' fears of vanishing liquidity, including on the interbank market. On the other hand, support from Dubai-based shareholders, once assumed high, may be viewed as having weakened across the board for all institutions, corporates and banks alike, Islamic or not.

However, from one Islamic lender to another, the magnitude of the direct write-downs and indirect knock-on effects will differ.

Abu Dhabi Islamic Bank (ADIB - A2/Prime-1; stable) has a very small investment portfolio, and, relatively speaking, a negligible exposure to restructured sukuk and/or stocks of troubled firms. As far as its credit portfolio is concerned, its business model has been skewed towards increasing retail lending and dominating Abu Dhabi borrowers in the corporate banking book. Therefore, we expect all ADIB's ratings to remain stable in the short to medium term.

Dubai Bank (DB – A3/Prime-2; stable) has been surprisingly underexposed to both borrowers, preferring to do business with retail customers and related parties close to its shareholding companies (within the Dubai Holding universe). However, as the overall economic environment, sentiment and liquidity profile of Dubai-based companies is expected to deteriorate, a bank still highly concentrated on the Emirate's leading borrowers is likely to see its ratings come under pressure.

The same applies for Dubai Islamic Bank (DIB – A1/Prime-1; RUR Negative), whose ratings have already been placed under review in the wake of several fraud issues, large defaults, sizeable concentration risks and heavy exposures to the depressed property sector. Among UAE-based Islamic financial institutions, DIB is also the most heavily exposed to both Nakheel and Dubai World. This further confirms the current pressure on its ratings.

Finally, Tamweel (Baa1/Prime 2; RUR Uncertain) – just like ADIB and DB – carries a very small investment portfolio compared to the size of its balance sheet, and no direct exposure on Dubai World or Nakheel. In addition, Tamweel is not in the business of corporate lending, but is a monoline engaged in mortgage financing. While its ratings were downgraded in 2009 and remain on review with direction uncertain, the direct link between Tamweel's credit profile and recent events is lax.

However, like DIB and DB, Tamweel is mainly a Dubai-based institution, and as such is expected to suffer from two negative spillover effects: one the one hand, we incorporate some support from the Dubai government in the six-notch rating uplift that is encapsulated in Tamweel's ratings, which could well be revisited; on the other hand, there is a close correlation between the overall economic climate and the dynamics of the property sector in any market, especially in Dubai. This would suggest that another wave of stress in the Emirate's real estate sector will likely contribute to weakening Tamweel's business opportunities, franchise value and recovery prospects.

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### Concluding Remarks

1. The Dubai World episode is a very significant local event that affects the premises that underlie our assumptions regarding public support for corporate GRIs. While we do not rate Dubai World or Nakheel, we have adjusted our support assumptions based on the uncertain nature of policy formulation in Dubai and the difficulty in interpreting the local authorities' pronouncements.
2. These developments and Moody's subsequent downgrades have shifted a good part of Dubai's activities into high-yield territory, and will likely affect Dubai's financing conditions and overall strategy for an extended period.
3. Given our expectations that financing conditions will remain durably hostile for Dubai Inc, a question will be whether asset disposals overseas can realistically help mitigate financing difficulties. Should such a route be taken, we will closely monitor the repercussions in the countries and sectors where such asset sales take place, and also whether these would weaken the otherwise robust Dubai GRIs that would be stripped of their assets.
4. The direct impact for banks locally and regionally, while significant, should be mitigated by the large-scale support provided by the federal authorities; the impact for international banks meanwhile is discernible but not material.
5. The rating of the United Arab Emirates, which is underpinned by Abu Dhabi's considerable balance sheet strength, is not threatened. Indeed, the "selective support" strategy, while clearly fraught with operational difficulties, somewhat protects Abu Dhabi's finances.
6. The Dubai World default, which is essentially an effort to ring-fence government finances, cannot realistically present a contagion risk for other sovereign states globally. However, the Dubai World episode acts, on the one hand, as a reminder that some governments have stretched their balance sheets beyond comfortable levels during the crisis – and, on the other, also presages that 2010 is likely to see more bouts of volatility as governments start implementing exit strategies from their protective policies.

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