

To: Jeffrey Epstein[jeepproject@yahoo.com]
From: Sultan Bin Sulayem
Sent: Sun 11/29/2009 5:07:04 PM
BBC NEWS

Dubai banks given extra liquidity

The central bank of the United Arab Emirates (UAE) has said it is setting up a facility to provide banks with extra liquidity.

The news comes days after the state-owned Dubai World said it would ask for an extension on repaying its debts, sending world stock markets tumbling.

The liquidity will be available to all UAE banks as well as foreign banks operating in the UAE. Meanwhile, Abu Dhabi says it will "pick and choose" how to assist Dubai.

"We will look at Dubai's commitments and approach them on a case-by-case basis," an Abu Dhabi government official said on Saturday.

"It does not mean that Abu Dhabi will underwrite all of their debts," he added.

The announcement from the central bank came the day before markets in the Middle East reopen after the Eid holiday.

"[The] central bank has issued a notice to UAE banks and branches of foreign banks operating in the UAE, making available to them a special additional liquidity facility linked to their current accounts at the central bank," it said in a statement.

The bank added that the banking system in the UAE was more sound and liquid than a year ago.

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Banks will be able to use a special facility tied to their current accounts that can be accessed at a cost of 50 basis points above the three-month local benchmark interest rate, the Abu Dhabi-based regulator said in an e-mailed statement today. There are 100 basis points in a percentage point.

"This is very a reassuring move by the central bank to limit the risk of any run on Dubai-based banks," said **John Sfakianakis**, chief economist at Banque Saudi Fransi in Riyadh. It will alleviate any "liquidity concerns by foreign banks about the banking system, mostly those based in Dubai."

Dubai World, a state-owned holding company struggling with \$59 billion of debt and other liabilities, said Nov. 25 it would seek a standstill agreement with creditors and an extension of loan maturities until at least May 30, 2010. The news led to a slump in financial markets around the world and raised prospects of rising loan losses for U.A.E. and foreign banks.

The benchmark three-month Emirates interbank offered rate was at 1.919 percent on Nov. 25, the last working day before a religious holiday, according to Bloomberg data. The U.A.E. has 24 local banks and 28 units of foreign lenders operating in the country, including those of Citigroup Inc., HSBC Holdings Plc and Standard Chartered Plc.

Loan losses

U.A.E. banks are already facing rising loan losses stemming from the global recession as the economy slowed and two Saudi Arabian business groups defaulted on at least \$15.7 billion of loans. Provisions for bad loans at U.A.E. banks rose to 2.76 percent of the total as of the end of October from 1.92 percent a year ago, according to central bank data.

The U.A.E.'s banking system is "more sound and liquid than a year ago" and local banks' sale of medium-term notes and commercial paper in foreign markets has declined by 25 percent over the period, the central bank said. Foreign interbank deposits make up only 5 percent of the total, the central bank said in the statement.

Dubai World, which owns property developer Nakheel PJSC, the builder of palm-tree shaped islands off the emirate's coast, has \$40 billion of debt, two bankers familiar with the company said Oct. 21, declining to be identified because the information is private. Some \$18 billion of Dubai World's debt is with companies such as port operator DP World Ltd. that have sufficient cashflow to service their loans, the bankers said. The remaining \$22 billion is of greater concern, they said.

The U.A.E.'s banking industry is already the biggest among the six Gulf Arab states including Saudi Arabia, Kuwait and Qatar, with 1.54 trillion dirhams (\$418 billion) in assets, central bank data shows.

To contact the reporter on this story: Arif Sharif in Dubai atasharif2@bloomberg.com.

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