

## Asia Pacific: Banks

# HSBC/STAN exposures to UAE, amid Dubai World standstill request

### Backdrop

Many investors have asked about HSBC/STAN exposure to Dubai World (a leading government-linked property developer/holding company) and its affiliates, amidst Nov 26 press reports of Dubai World's request for a creditor standstill agreement on its c.US\$59bn debts (source: Bloomberg).

Both HSBC and STAN have declined to comment on individual firm exposures. However, press reports (Bloomberg, FT), past descriptions by both banks of their UAE wholesale banking businesses, and HSBC's/STAN's status as the largest and second largest foreign banks in the UAE would all suggest some level of exposure to Dubai World and other similar entities.

### Context on likely HSBC, STAN exposures

HSBC had US\$15.9bn of loans/advances to the UAE as at end-June 2009. More specifically, HSBC had US\$3.475bn of real estate and mortgage loan exposure to the UAE as of the same period, representing 25.9% and 2.7% of our 2010E net profit and shareholders' equity projections for the group.

STAN had US\$12.3bn of cross-border loan exposure to the UAE as at end-June 2009 (and US\$7.8bn of locally-booked loans to the UAE as at YE08). More specifically, STAN had US\$1.674bn of real estate and mortgage loan exposure to the Middle East/South Asia region as of the same date. We estimate c.60% of this exposure, or US\$1.0bn, was to the UAE, representing 22.4% and 3.4% of our 2010E NPAT and shareholders' equity projections for STAN.

### More clarity needed; first stab at worse-case loss estimates

**Immediate questions include:** how much actual exposure do HSBC, STAN have to Dubai World and other potentially similar situations, and what level of ultimate write-downs may need to be taken, what impact to EPS, BVPS? **Key swing factors:** level of continued support from other parts of the UAE, mode of loan restructuring undertaken by major creditors, degree of knock-on impacts to other UAE corporates, other emerging markets.

Our first stab at potential worst-case loss estimates suggest a manageable impact: assuming a 50% NPL ratio/50% loss given default on commercial real estate loans, and a 20% NPL ratio/50% loss given default on mortgage loans, we estimate the potential credit losses to HSBC and STAN at US\$611mn and US\$177mn – or 4.6% and 3.9% of 2010E NPAT, 0.5% and 0.6% of 2010E equity.

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### ANALYTICS

Note we have opted to use 2010E as opposed to 2009E projections on two premises: that 2010 is a more normalized year versus 2009, and that clarity on exposure/needed haircuts is unlikely until 2010.

See Exhibit 2 for a ranking of foreign banks in the UAE by loans and by deposits, as sourced from the Emirates Banks Association. Note that HSBC and STAN are the largest and second largest, by a considerable margin.

	HSBC	STAN
<b>UAE exposures (no breakout avail for Dubai)</b>		
a Total loans and advances, end June 09	15,906	
Total loans and advances, YE08	17,537	
Total loans and advances, end June 08	16,416	
Memo: customer deposits, end June 09	19,284	
<b>UAE cross-border exposures (no breakout avail for Dubai)</b>		
b End June 09		12,357
YE08		10,535
End June 08		10,949
2010E net profit	13,398	4,489
2010E shareholders equity	128,167	29,121
UAE exposure as % of 2010E NPAT	119%	275%
UAE exposure as % of 2010E equity	12%	42%

### On UAE commercial real estate exposures

STAN had US\$680mn of commercial real estate loans and US\$994mn of mortgage loans to Middle East/South Asia at end-Jun 09; we estimate c.60% of this combined exposure (or US\$1,004mn) to the UAE, or 22.4% of 2010E NPAT and 3.4% of 2010E equity

HSBC had US\$1,755mn of commercial real estate and US\$1,720mn of mortgage loan exposure to the UAE as at end-Jun 09; this US\$3,475bn combined exposure equates to 25.9% of 2010E NPAT and 2.7% of 2010E equity.

### Potential credit loss analysis

Commercial real estate exposures	1,755	408
Assumed NPL ratio on commercial real estate loans	50%	50%
Assumed loss given default	50%	50%
<b>Potential credit loss on CRE</b>	<b>439</b>	<b>102</b>
Mortgage loan exposures	1,720	596
Assumed NPL ratio on mortgage loans	20%	25%
Assumed loss given default	50%	50%
<b>Potential credit loss on mortgage loans</b>	<b>172</b>	<b>75</b>
<b>Total potential credit losses</b>	<b>611</b>	<b>177</b>
As % of 2010E net profit	4.6%	3.9%
As % of 2010E equity	0.5%	0.6%

Source: Company data, Goldman Sachs Research estimates.

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**Exhibit 1: HSBC and STAN: estimates of overall and commercial real estate exposure in the UAE and potential credit losses: in a worst-case scenario, we expect a manageable impact at less than 1% of equity, less than 5% of net profits**  
In US\$m

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<b>As % of 2010E equity</b>	<b>0.5%</b>	<b>0.6%</b>

Source: Company data, Goldman Sachs Research estimates.

**Exhibit 2: HSBC and STAN are the largest foreign banks in the UAE, by a wide margin**

In US\$m (converted from UAE dirham at 3.673: US\$1)

	Loans, YE08	Deposits, YE08	L/D
HSBC Bank Middle East	17,031	21,499	79.2%
Standard Chartered Bank	7,771	8,159	95.3%
Barclays Bank	3,577	1,334	268.1%
ABN AMRO	2,242	2,163	103.7%
Arab Bank	2,086	2,780	75.0%
Citibank	1,922	2,614	73.5%
Bank of Baroda	1,780	1,814	98.1%
Bank Saderat Iran	1,736	1,635	106.2%
BNP Paribas	1,688	1,485	113.7%
Lloyds TSB Bank	1,572	1,838	85.5%
Habib Bank	1,432	2,227	64.3%
United Bank	837	877	95.4%
Arab African Intl Bank	688	215	320.3%
Alahli Bank of Kuwait	633	1,030	61.5%
Bank Mellat Iran	591	736	80.3%

Note:

UAE exp as % of total loans	YE08
HSBC	1.8%
STAN	4.5%

UAE exp as % of 1H09 equity	YE08
HSBC	14.7%
STAN	33.3%

UAE exp as % of 2010E NPAT	YE08
HSBC	127.1%
STAN	173.1%

Source: Emirates Banks Association.

**Companies mentioned in this note:**

HSBC (0005.HK, share price HK\$95.90 as at 25 Nov, Buy)

Standard Chartered (2888.HK, share price HK\$213.40 as at 25 Nov, Buy)

Key risks to our price targets: earnings setbacks, US/Europe/Asia macro double-dip, asset quality setbacks including in the UAE.

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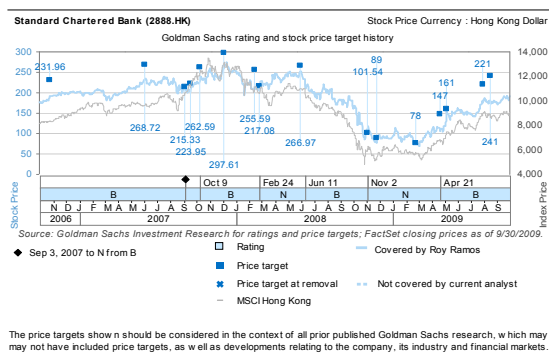
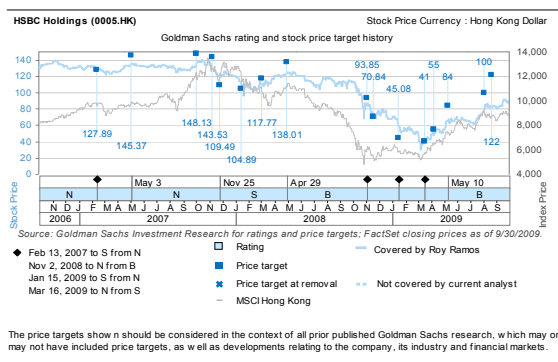
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