



INVESTOR ROADSHOW

# The Middle East

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**HSBC**   
The world's local bank

## Forward-looking statements

This presentation and subsequent discussion may contain certain forward-looking statements with respect to the financial condition, results of operations and business of the Group. These forward-looking statements represent the Group's expectations or beliefs concerning future events and involve known and unknown risks and uncertainty that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Additional detailed information concerning important factors that could cause actual results to differ materially is available in our Annual Report.

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HSBC in the Middle East

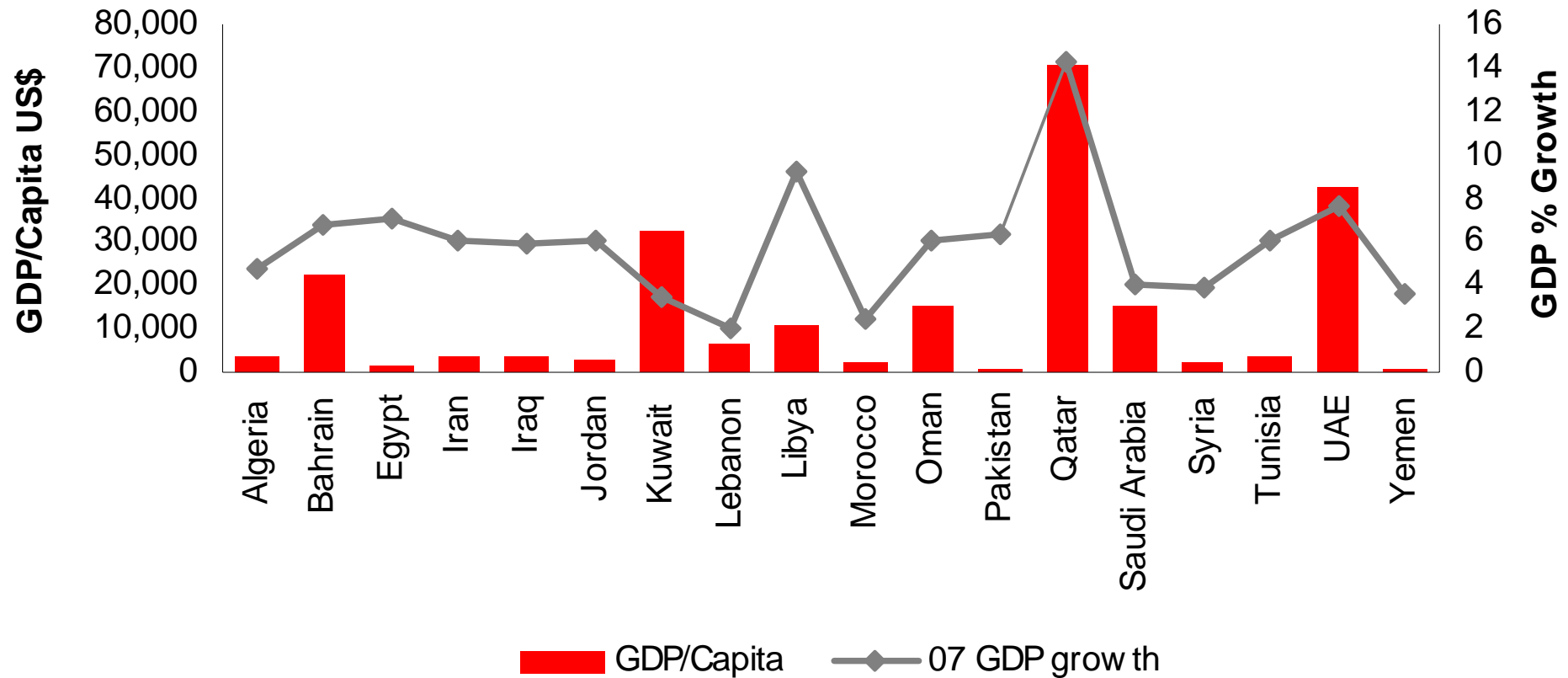
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# Middle East: Overview

## Middle East: Growth in emerging market economies



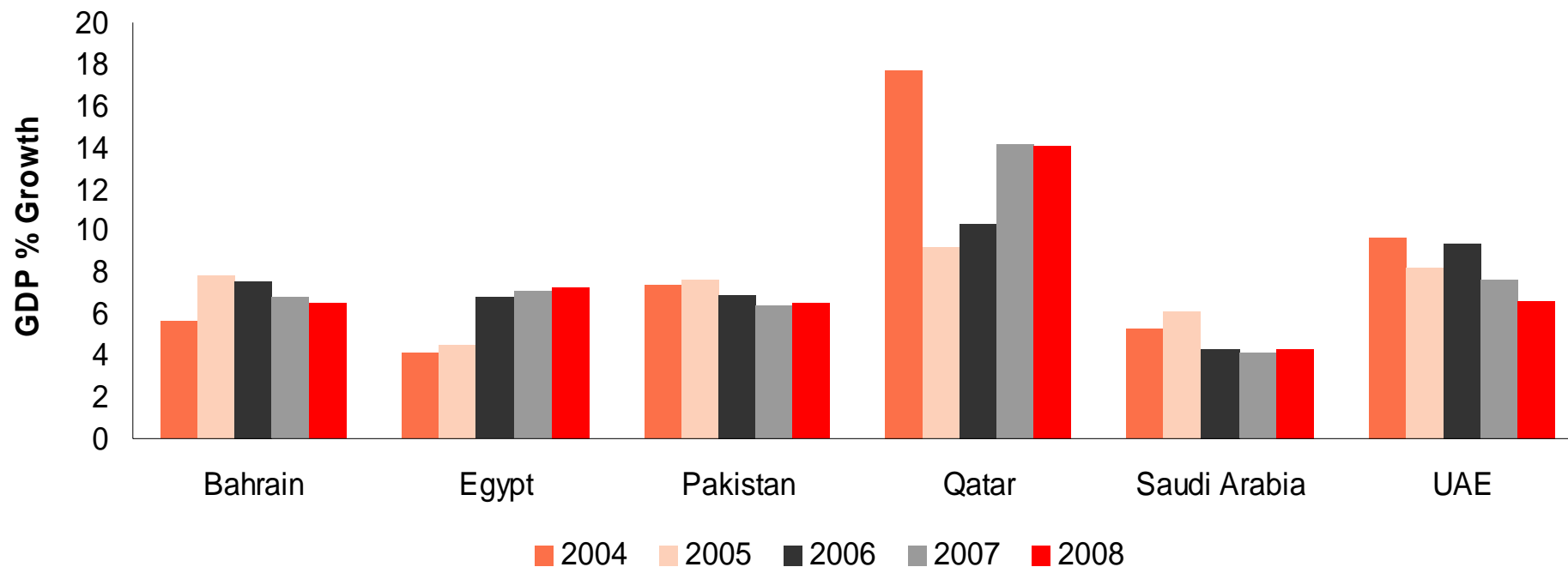
(1) Percentage change of real Gross Domestic Product in 2007 versus 2006

Source: IMF October 2007 report

## Economic Conditions in 2008

### GDP:

- GDP growth remains strong across HSBC's core Middle East emerging markets, compared to Economic Intelligence Unit (EIU) projected 3% global growth for 2008



(2) Source: IMF October 2007 Report

# Growth in financial services has outstripped GDP growth

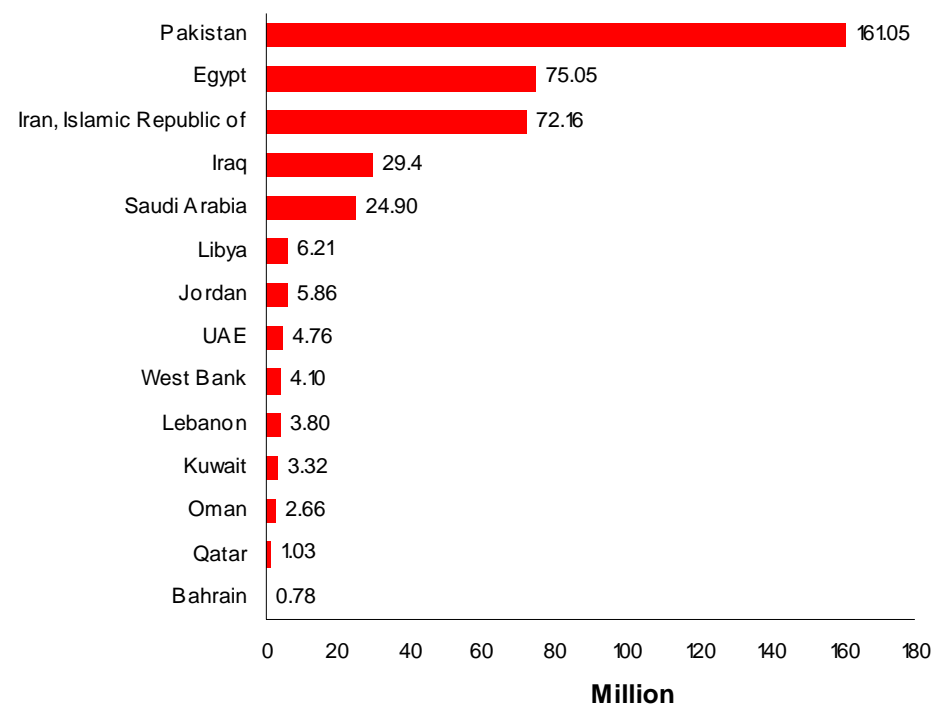
## A Population

- Total population throughout HBME + SABB + HBEG region in 2008 estimated at 395 million
- Middle East Demographics mean youths under 24 now make up 50-65 per cent of the population

## And Under banked..

- According to World Bank report, avg of only 36% of households have access to financial services
- Demographic gift in Pakistan & Egypt provide a platform for organic and sustainable growth

## Population 2008



\* IMF World Economic Outlook 2007

# Economic Conditions and Population at a glance

## **Inflation:<sup>(1)</sup>**

- Inflation has reached record levels in 2007 across the Middle East with Qatar and UAE exceeding 13%
- Account surpluses and increased government spending are contributing to rising inflation across the region
- Forecasts predict that trend would ease during 2008 but would still remain well above history

## **Interest rates:**

- Lower interest rates in the region and higher personal disposable income have led to an expansion in consumption, which is contributing to the growing strength of domestic demand

## **Population:**

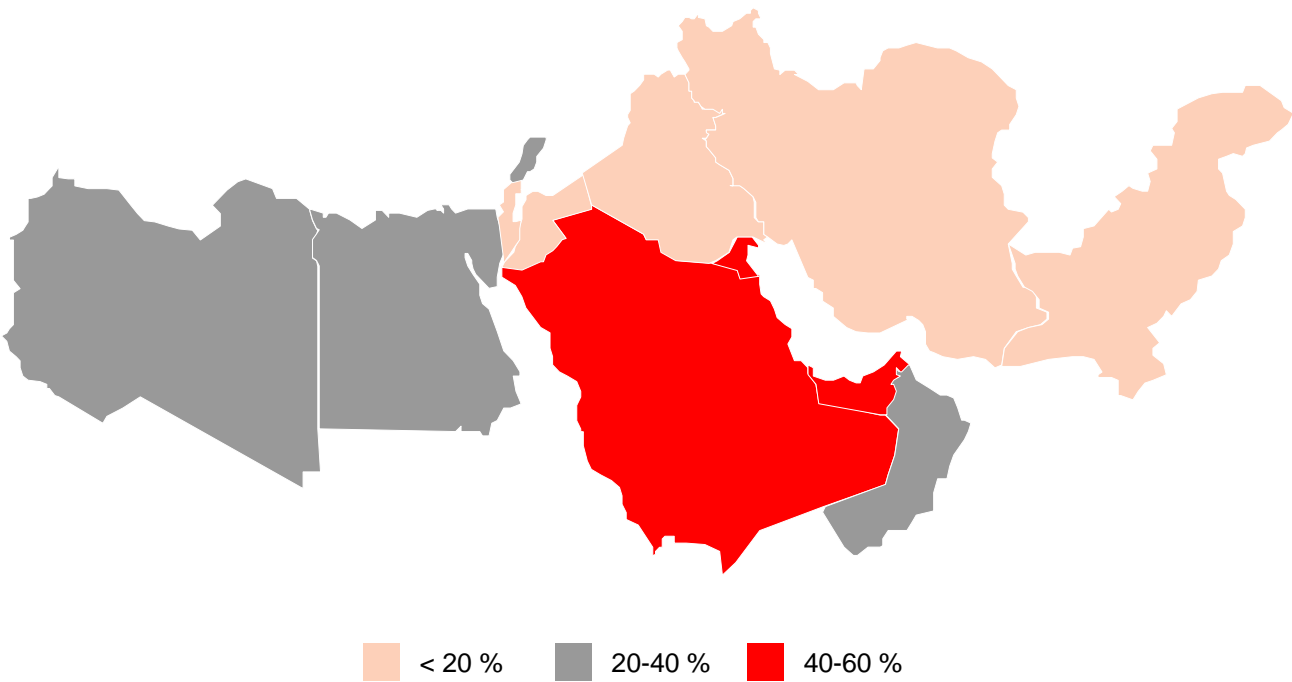
- Vast geographical area spanning two continents
- Diverse economies and demographics, from Egypt and Pakistan with a combined population of more than 200 million and average GDP per capita US\$1,300/-, to Qatar with approximately 1 million and GDP per capita exceeding US\$70,000
- Access to financial services remains low – the population with access to financial services in the region averages 36% (ranging from 60% in Saudi Arabia and the GCC countries to only 15% in Iraq and the West Bank)

(1) Source: EIU reports & IMF



# Percentage of households with an account (deposits or loans) in any financial institution (banks, credit unions, microfinance)

- MENA current low financial services penetration provides HSBC with potential for future growth



Country	Per cent with access
Egypt	40
Iran	31
Iraq	17
Jordan	37
Libya	27
Oman	33
Pakistan	12
Saudi Arabia avg. GCC	62
Syria	17
Tunis	42
West Bank & Gaza	14

Source: Finance for All? Policies and Pitfalls in Expanding Access. Policy Research Report. The World Bank. November 07

## Effects of US slowdown and Currency Peg

**Unlike other Emerging Markets, currency weakness does not help the Gulf:**

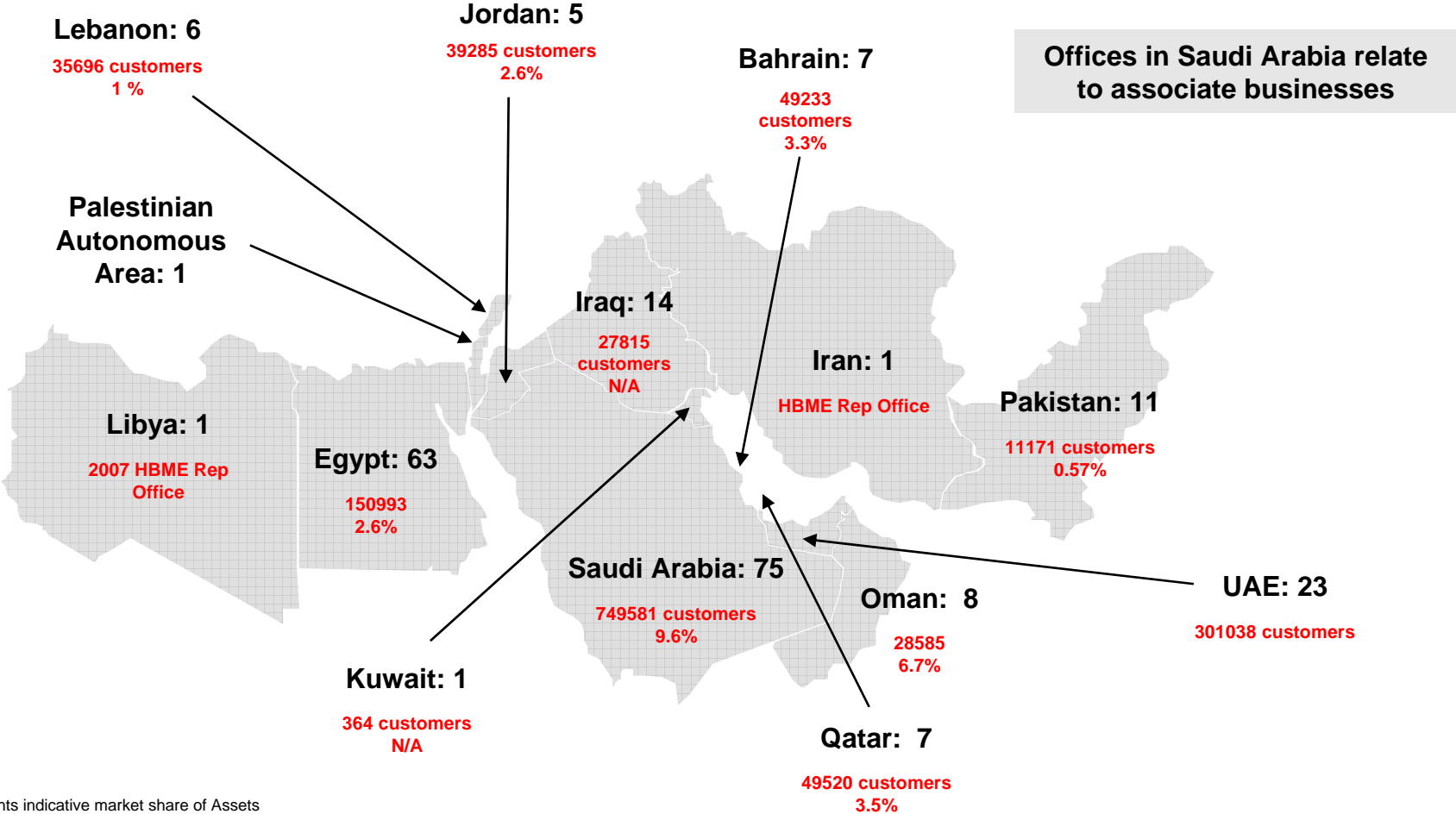
- Exports are dominated by dollar-denominated energy commodities
- GCC currencies have weakened by c15% in NEER terms since 2003
- Imports bear the full brunt of currency weakness
- Wage demands are directly linked to currency strength

## Middle East response to US slowdown

- Declining local interest rates in response to US cut in Fed Rates, leading to increased demand for alternative investment opportunities across capital markets and real estate projects
- Mixed feelings on the peg of GCC currencies to US dollar (with the exception of Kuwait) – a further delay anticipated on the GCC single currency union
- Low Interest rates and declining value of personal disposable income generates demand for alternative investment mechanisms

# HSBC in the Middle East

# HSBC has over 200 branches and offices throughout 14 countries in MENA



Percentage presents indicative market share of Assets



## Middle East is an important contributor to Group earnings

- Middle East contributed 5% of HSBC Group PBT in 2007. 4th in importance after Hong Kong, UK and China
- UAE is in the top 10, and Saudi Arabia and Egypt are in the top 20 countries in terms of geographic profit contribution

### Full Year 2007

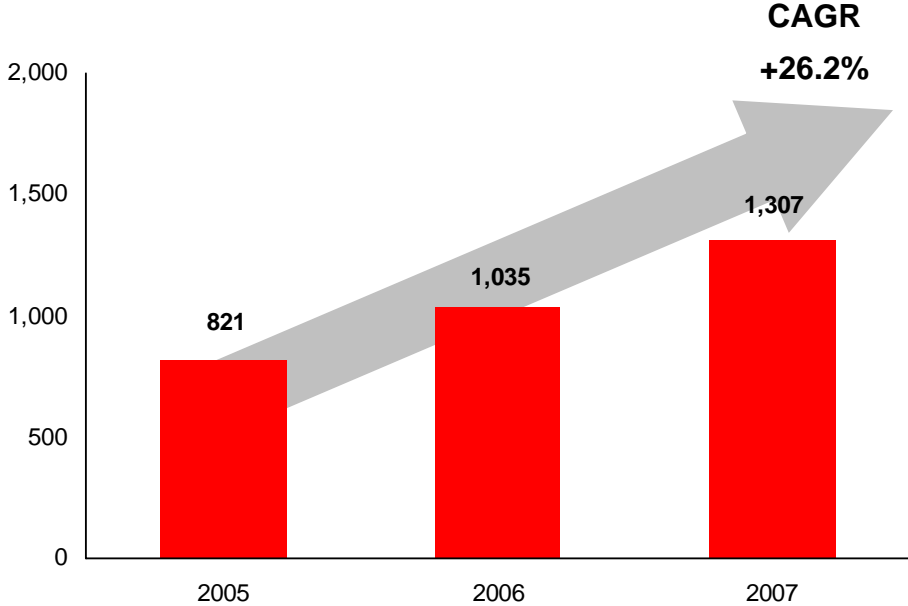
Rank	Country	PBT	% total
1	Hong Kong	7,339	30.3%
2	United Kingdom	5,792	23.9%
3	China	2,361	9.8%
4	France	1,033	4.3%
5	Canada	983	4.1%
6	Mexico	980	4.0%
7	Brazil	879	3.6%
8	United Arab Emirates	617	2.5%
9	Singapore	550	2.3%
10	India	529	2.2%
11	Switzerland	475	2.0%
12	Turkey	336	1.4%
13	Malaysia	330	1.4%
14	Germany	295	1.2%
15	Saudi Arabia	237	1.0%
16	Argentina	201	0.8%
17	Bermuda	173	0.7%
18	Malta	157	0.6%
19	Egypt	153	0.6%
20	Australia	124	0.5%
	Other	668	2.8%
	<b>Total PBT US\$m</b>	<b>24,212</b>	<b>100.0%</b>

Figures in US\$ m under IFRS

Source: HSBC Holdings plc. Annual Report & Accounts

# Middle East – profit before tax rose to US\$1.3bn in 2007

## Middle East, profit before tax



Strong profit growth in 2007, 26% higher than 2006

Figures in US\$ m under IFRS  
Source: HSBC Holdings plc. Annual Report & Accounts

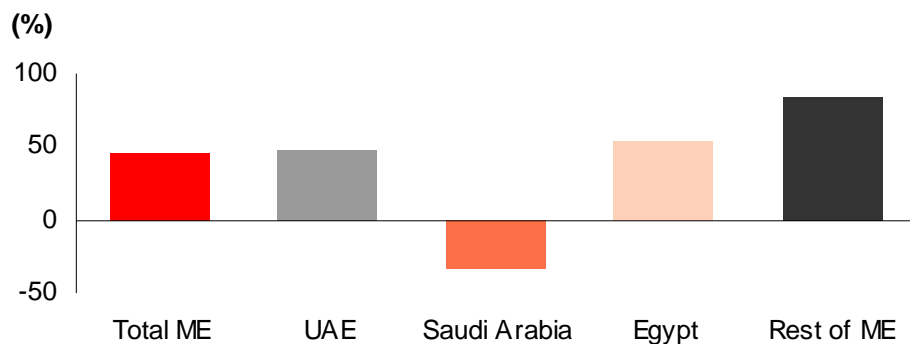
## Middle East summary of results

US\$m	Full Year Periods		
	2006	2007	% Change vs. 2006
<b>Net operating income before loan impairment charges</b>	1,350	<b>1,911</b>	42%
Loan impairment charges	(39)	<b>(55)</b>	41%
<b>Net operating Income</b>	1,311	<b>1,856</b>	42%
<b>Total operating expenses</b>	(563)	<b>(801)</b>	42%
Share of profit in associates	287	<b>252</b>	-12%
<b>Profit before Tax</b>	1,035	<b>1,307</b>	26%
Share of HSBC's profit before tax	4.7%	<b>5.4%</b>	70 bps
Cost efficiency ratio	41.7%	<b>41.9%</b>	20 bps

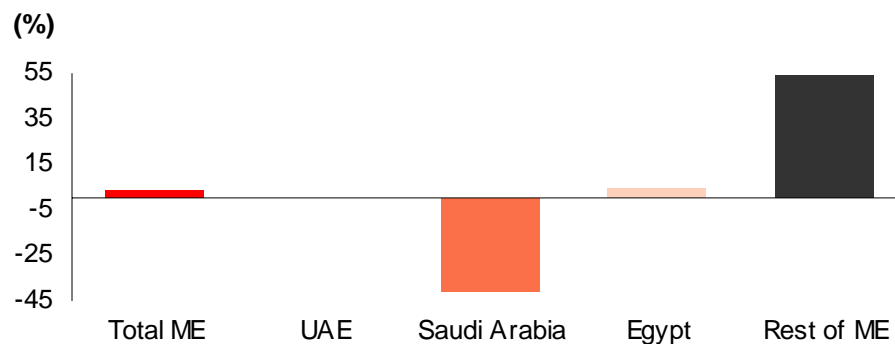
Figures in US\$ m under IFRS  
Source: Management Accounts

# Middle East Key Indicators 2007 versus 2006 as reported

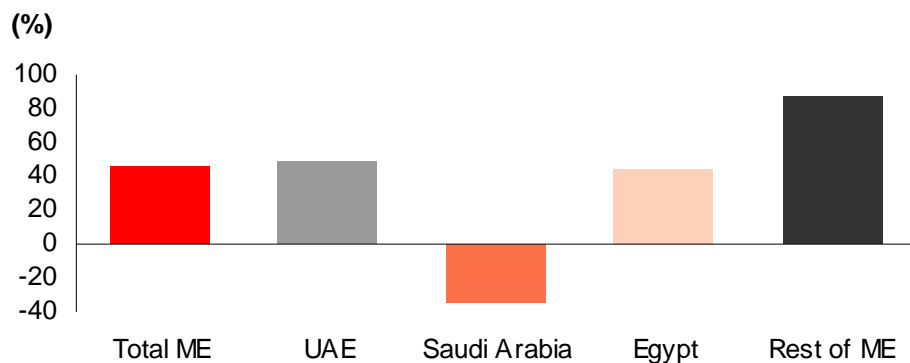
## Revenue growth



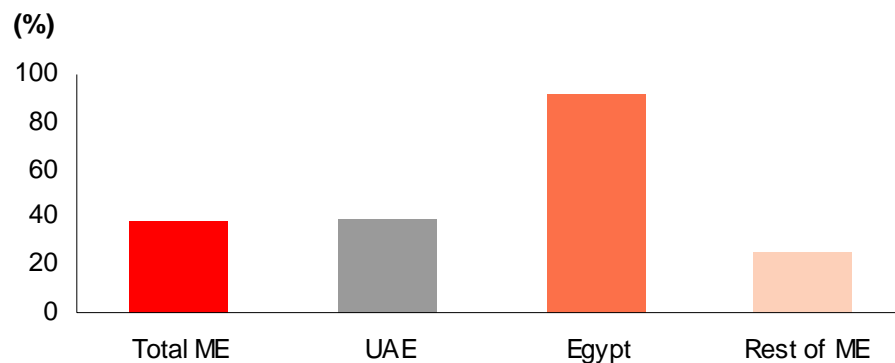
## Jaws



## Risk adjusted Revenue growth



## Total Net Loan Portfolio growth

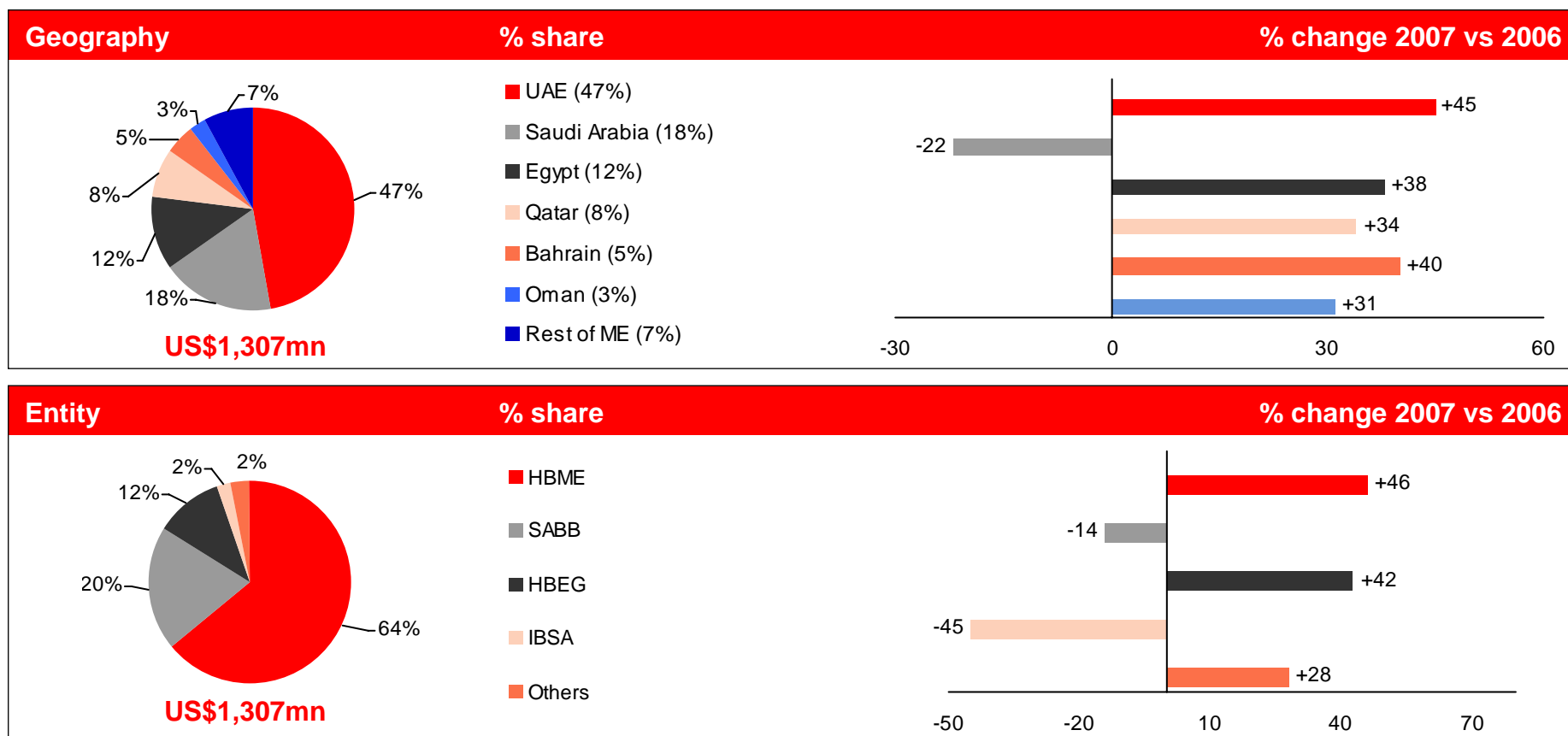


Figures in US\$ m under IFRS  
Source: Management Accounts



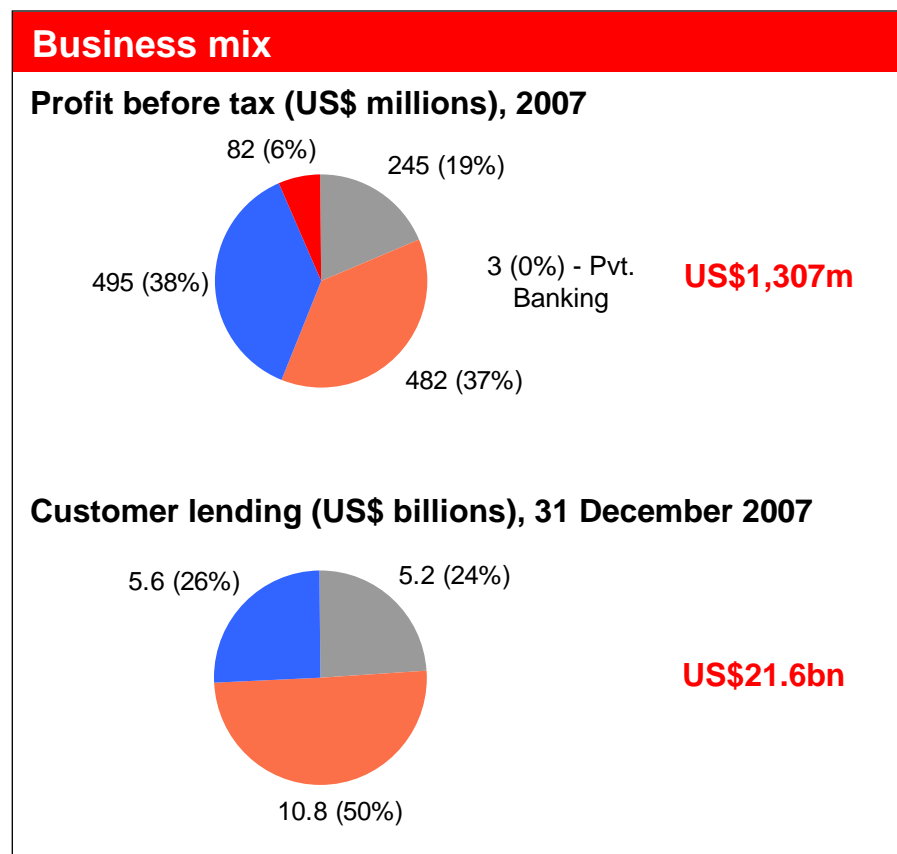
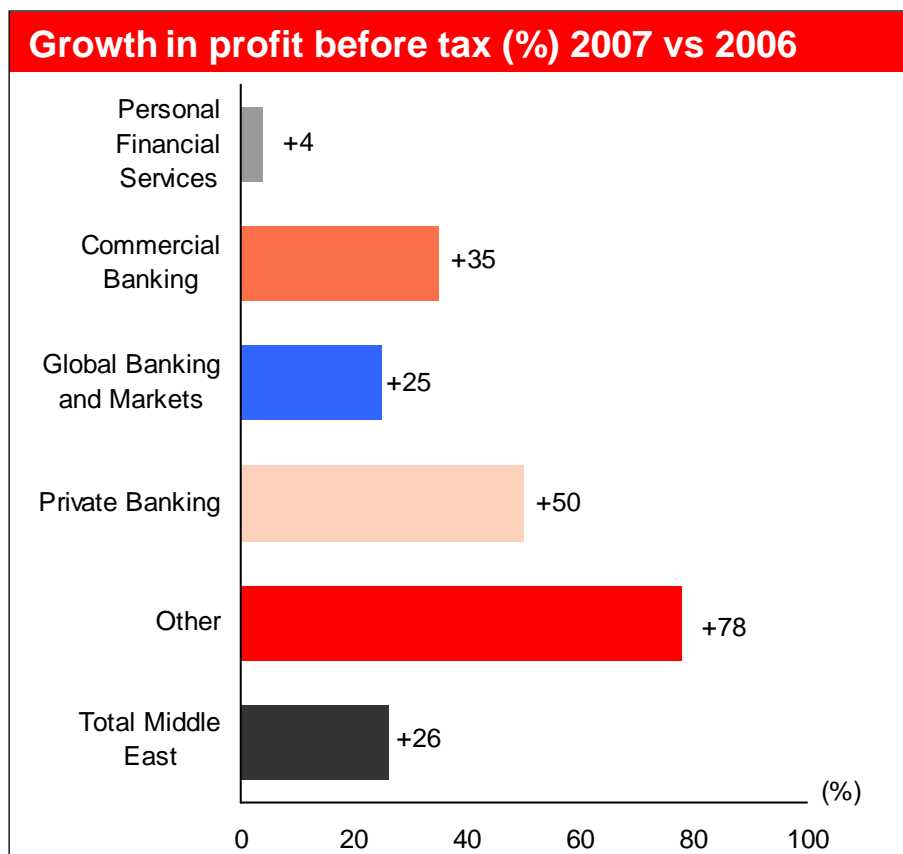
# Middle East – Results by geography and entity

## Profit before tax



Figures in US\$ m under IFRS  
Source: Management Accounts

## Middle East – Results by customer group



Figures in US\$ m under IFRS  
Source: Management Accounts

## Middle East – Personal Financial Services

### Growth hampered by lower Saudi stock market earnings

(US\$m)	2007	chg
Profit before tax	245	+4%
Customer loans (US\$bn)	5.2	+54%
Customer deposits (US\$bn)	11.1	+44%

- Strong increase in operating profit, mitigated by lower revenue due to continued effects in 2007 of the Saudi stock market correction in 2006
- Strong balance sheet growth continued across core asset & liability lines
- Promotions were instrumental in increasing credit card accounts (+30% to 1.2m) and balances (+62%)
- Similarly mortgages balances doubled
- eSaver garnered 10K accounts and US\$0.5bn of balances
- Fee income rose significantly from credit cards, insurance, wealth management and other fee streams
- Loan losses remained low in a benign credit environment
- Expense growth represented investment and platform build-out, including card platform and relaunch of Global Premier

Figures in US\$ m under IFRS  
Source: Management Accounts

## Middle East – Commercial Banking

### The leading international business bank

(US\$m)	2007	chg
Profit before tax	482	+35%
Customer loans (US\$bn)	10.8	+41%
Customer deposits (US\$bn)	9.6	+44%

- Profit before tax growth of 35%, underpinned by strong economic growth and the success of new International Banking Centres and dedicated Business Banking Centres
- New business banking units introduced in Bahrain, Jordan, Lebanon, Oman and Qatar, contributing to a 30% increase in customers
- In the UAE, additional RM's in the BBU helped to drive a 30% increase in revenues
- Trade Services and Payments & Cash Management revenues grew strongly
- Strong cross sales of investment banking products including *sukuk* deals
- Trading income rose on due to customer demand for fx and interest rate hedging products
- Voted Best bank for Trade Finance, and Best Bank for Payments & Cash Management in the region

Figures in US\$ m under IFRS  
Source: Management Accounts

## Middle East – Global Banking and Markets

### Exceptionally strong performance

(US\$m)	2007	chg
Profit before tax	495	+25%
Customer loans (US\$bn)	5.6	+22%
Customer deposits (US\$bn)	8.3	+68%

- Record growth, with the region establishing itself as a major contributor to the Group and its “emerging markets” strategy, adding new skills, new clients and new business at a rapid rate
- Leading advisory role in Borse Dubai-Nasdaq-OMX transaction
- GCC market leader in regional sub-custody
- GCC market leader in Project Finance
- First commercial mortgage-backed security in the region
- First rated *sukuk* for a corporate in Qatar
- First international bank to gain a regulatory license to trade on UAE stock markets

Figures in US\$ m under IFRS  
Source: Management Accounts

## Middle East – Private Banking Building on Group relationships

- Profits booked in the region (US\$3m) were +50% on prior year – overall contribution to Group Private Banking is significantly stronger with the joined-up approach of servicing these customers globally
- Strong growth in Assets/Funds Under Management
- Restructured MENA team to facilitate strong advisory capability and powerful regional marketing
- Strong focus on wider Group capabilities to offer clients global wealth solutions
- Developed “troika” approach so that each client is fully served by a dedicated team comprising an RM, an investment advisor and a specialist wealth planner

## Opportunities in Middle East

- Unprecedented Economic growth where the Middle East has:
  - Foreign reserves of approximately US\$ 2 trillion
  - Some of the highest GDP per Capita countries in the world
  - 70% and 46% of the world's known oil and gas reserves
- Rise of Sovereign Wealth funds with excess of US\$ 2.3 trillion of capital for investment
- Government surpluses growing from 1.5% of GDP in 2003 to 14.5% in 2006 increasing spend and diversification across non oil sectors
  - Qatar: US\$ 7.5bn new Airport & US\$ 10bn Education city
  - Kuwait: US\$ 85bn City of Silk
  - Egypt: US\$ 9 bn investment in ports
- Ownership structures have begun to alter with increased contribution from the private sectors
- Demographic gifts and Growing bankable population among the mass affluent and High net worth customers
- Integrating HBME operations: regionally and globally

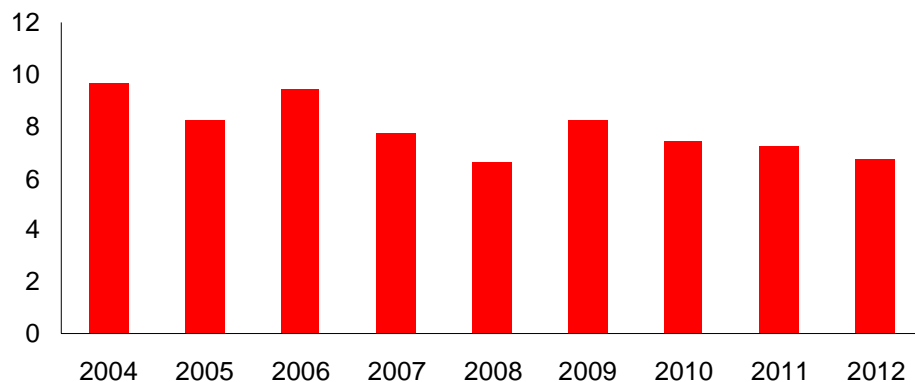
# The United Arab Emirates



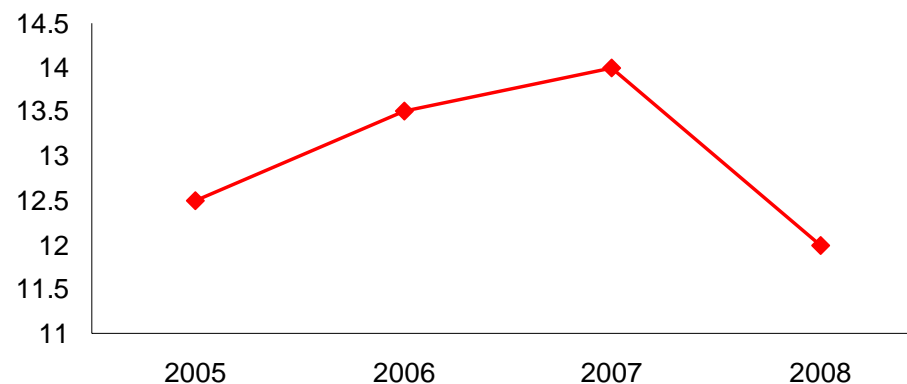
## United Arab Emirates (UAE): Overview

- One of the highest GDP per capita in the Middle East
- Inflation reached record levels in 2007
- Rapid economic growth with increased government spend on the development of infrastructure, education and real estate sectors
- Abu Dhabi SWF estimated at US\$ 875 bn (ADIA)

**GDP growth vs. prior year (%)**



**Consumer Headline Inflation (%)**



Source: GDP 2004-2008 – IMF world update October 2007  
UAE GDP forecast – UAE EIU country report

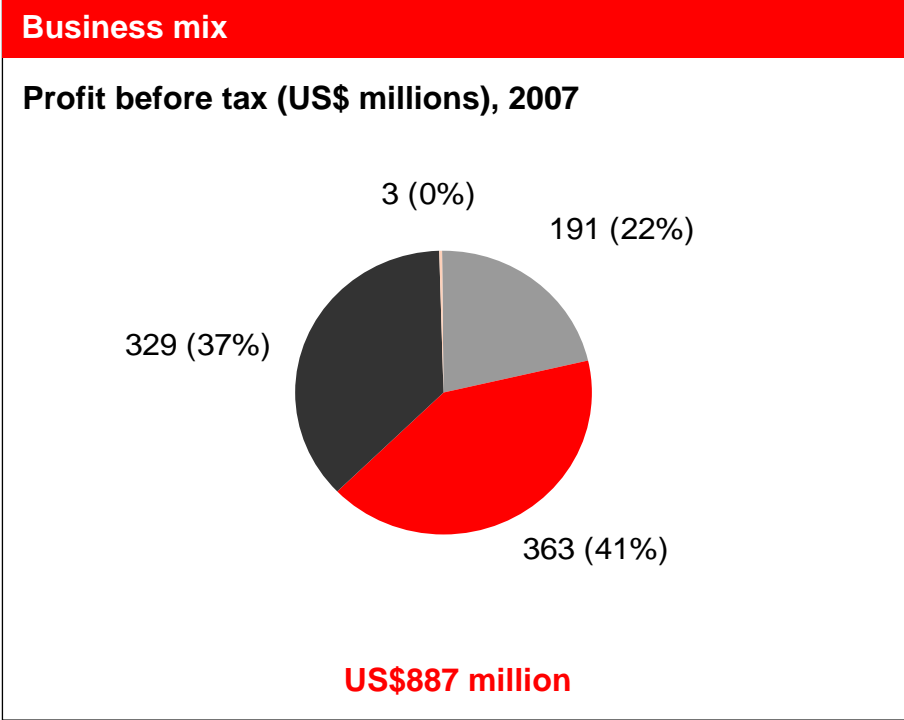
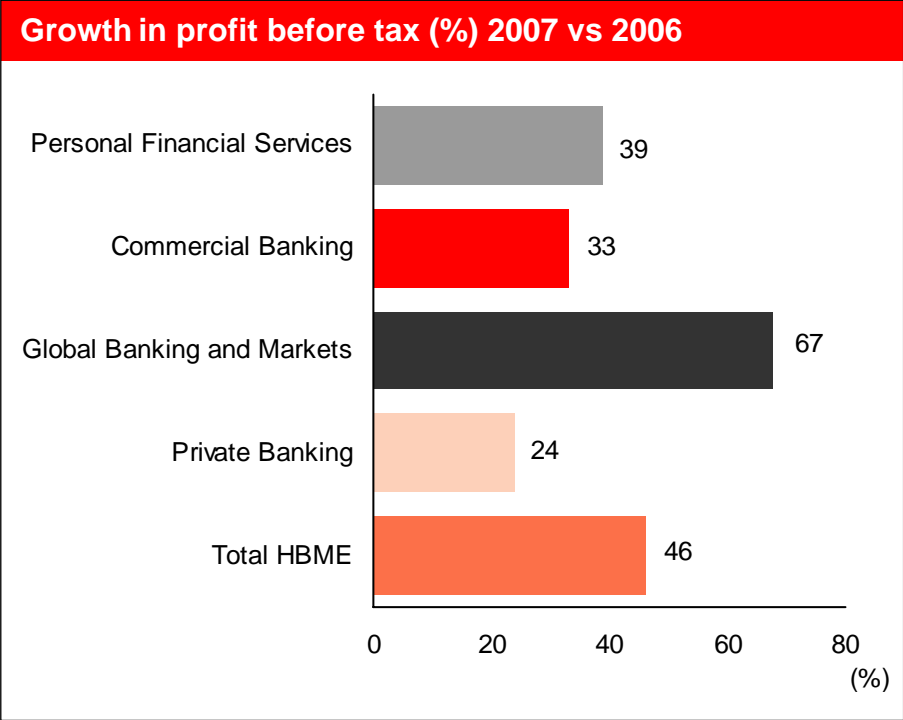
## HSBC Middle East results 'HBME' (excluding Egypt and associates)

### 2007 Results – IFRS Basis

US\$m	2006	2007	2007 vs 2006
Net operating income before loan impairment charges	1,104	<b>1,589</b>	43.9%
Loan impairment charges	(43)	<b>(54)</b>	25.6%
Total operating expenses	(466)	<b>(663)</b>	42.3%
Profit in associates and joint ventures	12	<b>16</b>	33.3%
Profit before tax	607	<b>887</b>	46.1%

Figures in US\$ m under IFRS  
Source: HBME Annual Accounts

# HBME – Profit before tax by customer segment 2007

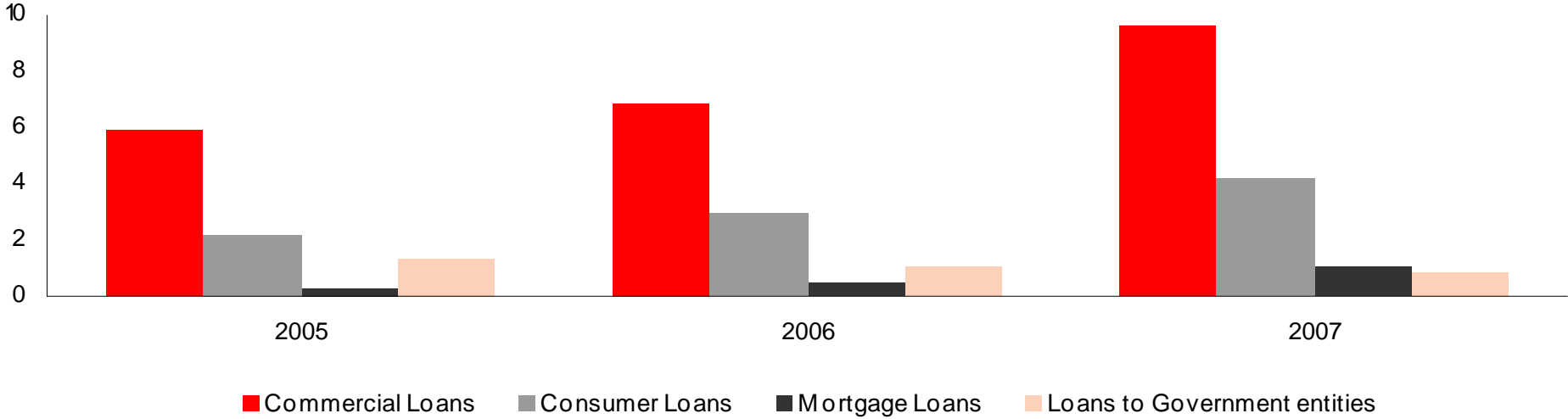


Figures in US\$ m under IFRS  
Source: HBME Annual Accounts

# HBME – Loans portfolio

- Total Performing loans portfolio increased 64% from 2005 to 2007 with a CAGR of 28%
- Mortgages and consumer loans have grown strongly – increasing from 21% to 28% of the total portfolio between 2007-2008

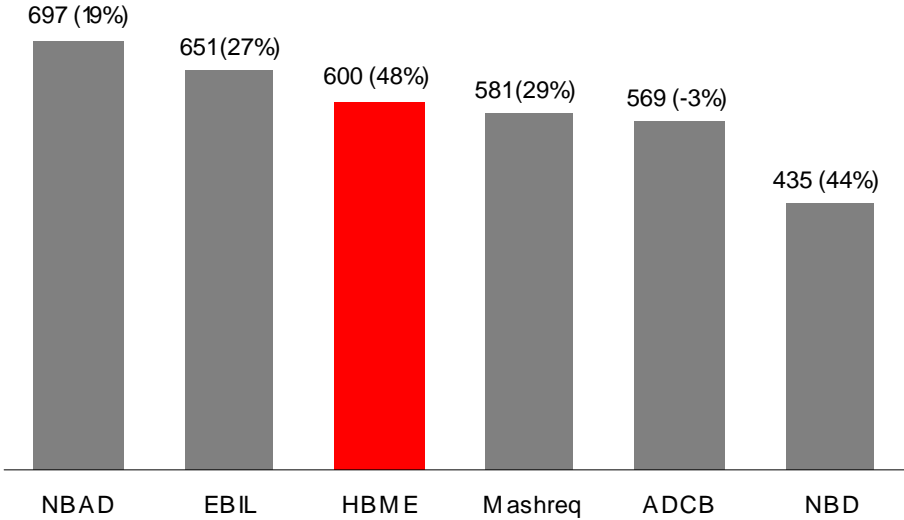
Customer loan portfolio trend 2005-07



Figures in US\$ m under IFRS  
 Source: HBME Annual Accounts & Management Accounts

# HBME versus competitors in the UAE

**HBME UAE vs. Competition  
Profit Before Tax – 2007**

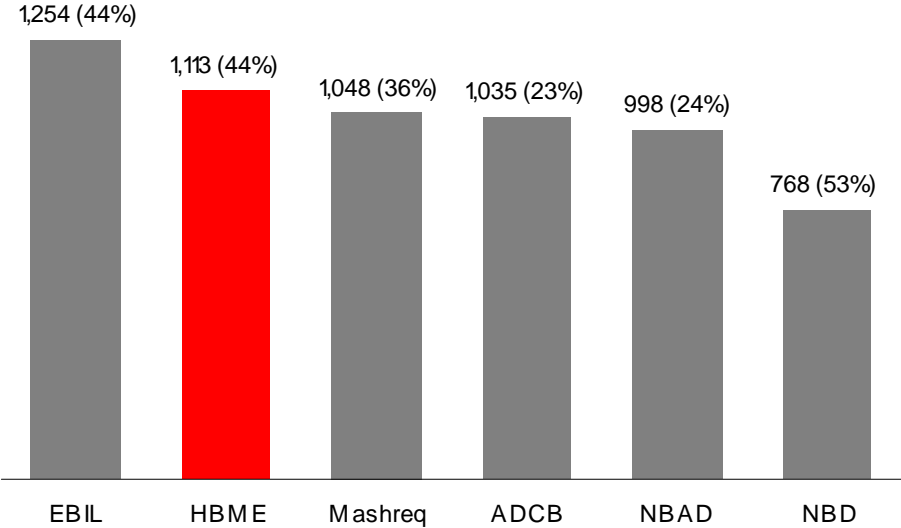


- HBME UAE ranked no.1 in terms of percentage growth in 2007 PBT

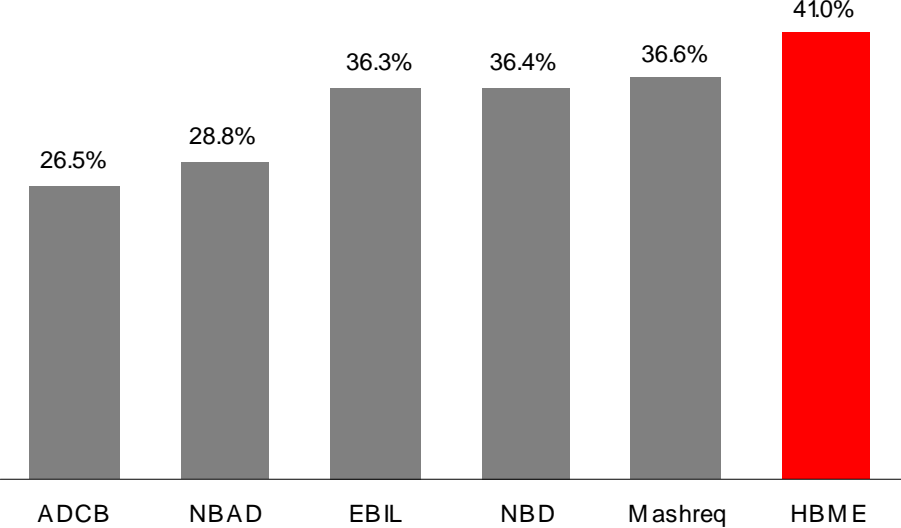
Figures in US\$ m under IFRS  
Source: Published Financial Statements and press releases

# HBME versus competitors in the UAE

**HBME UAE vs. Competition  
Operating Income – 2007**



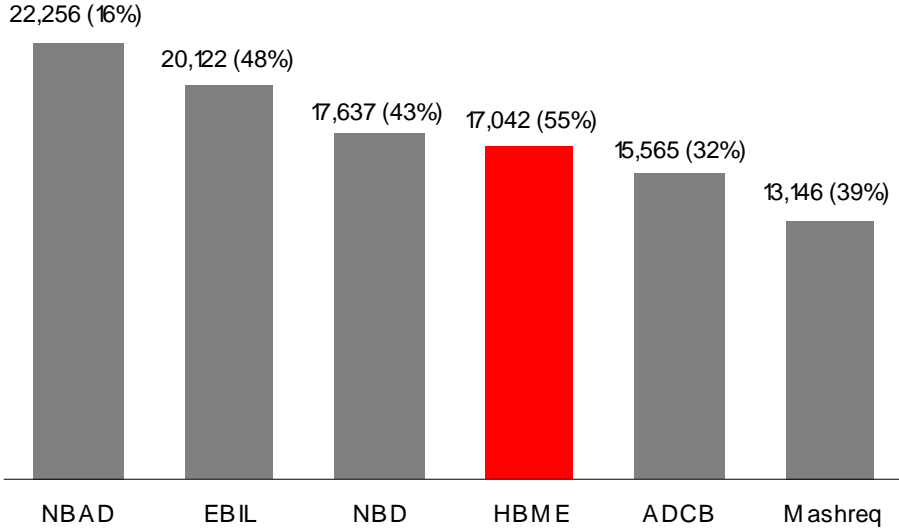
**HBME UAE vs. Competition  
Cost Efficiency Ratio – 2007**



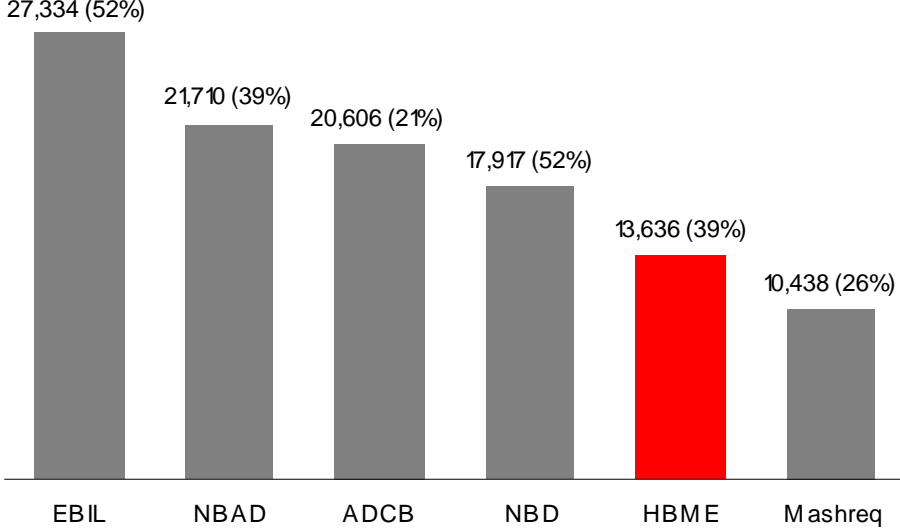
Figures in US\$ m under IFRS  
Source: Published Financial Statements and press releases

# HBME versus competitors in the UAE

**HBME UAE vs. Competition  
Customer deposits – December 2007**



**HBME UAE vs. Competition  
Customer advances – December 2007**



Figures in US\$ m under IFRS  
Source: Published Financial Statements and press releases

## HBME: Key points

- HBME has an **unrivalled historical presence** exceeding 100 years across the region and a strong brand perception
- **Sovereign Wealth Funds** and GCC oil surpluses pouring into North African and Asian Investments
- UAE, Qatar and Bahrain all competing to become **regional financial Hubs** through the establishment of strong financial entities – DIFC, QFC. Association with leading financial institutions such as **HSBC provide international support and recognition**
- Focus on continued **strong relationships with Governments, Key Trading Families and the Next Generation**
- **Rapid economic growth** provides a platform of opportunities across all customer and product groups
- Key competitive advantage with our **Joined-up approach**, able to support the growing corporate expansions meeting their regional and global aspirations
- We are leveraging on our economies of scale, adopting the **Group's state of art technology** and standardising our operating platforms across the region, to provide a consistent customer experience and deliver on the brand's promise (**the World's local bank**)
- Focusing on quality rather than quantity to **maximise the value of our customers** and return on our investments
- Growing demand for **credit facilities and mortgage financing**
- We are growing our insurance business and are leveraging the launch of HSBC Premier to build out in the **mass affluent market**
- There is continued potential for **middle commercial market growth**, with success exceeding expectations with the launch of our regional SME proposition



## HBME\*: Strong potential for growth

### **Distribution**

- 40 branches & offices across the region despite existing local restrictions on branch numbers in some countries
- 383 ATMs and self service machines
- More than 6,000 FTE
- Direct proposition

### **Strong and growing customer base**

- 0.5 million customers with PFS accounting for more than 95% of existing customer base
- More than 27,000 small business customers
- 0.75 million Cards In Force – doubled in 2 years

### **A multi-line financial services group**

- A fully integrated and joined up banking proposition catering to corporate, personal, investment and private banking customers regionally and globally
- Expanding scope of services to cover all market segments with HBME's Sharia compliant product offerings, Insurance services and unrivalled CNC business platform

\* Includes Pakistan

Thank you