HSBC Holdings plc

The Saudi British Bank

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The world's local bank

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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 Interim Report. Past performance cannot be relied on as a guide to future performance.**

All financial information used in this presentation is reported in accordance with the IFRS and extracted from the SABB 2010 Interim Report, unless indicated otherwise.

Agenda

- Macro overview
- Banking sector
- Performance
- Strategy
- Summary

Macro overview

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Country overview

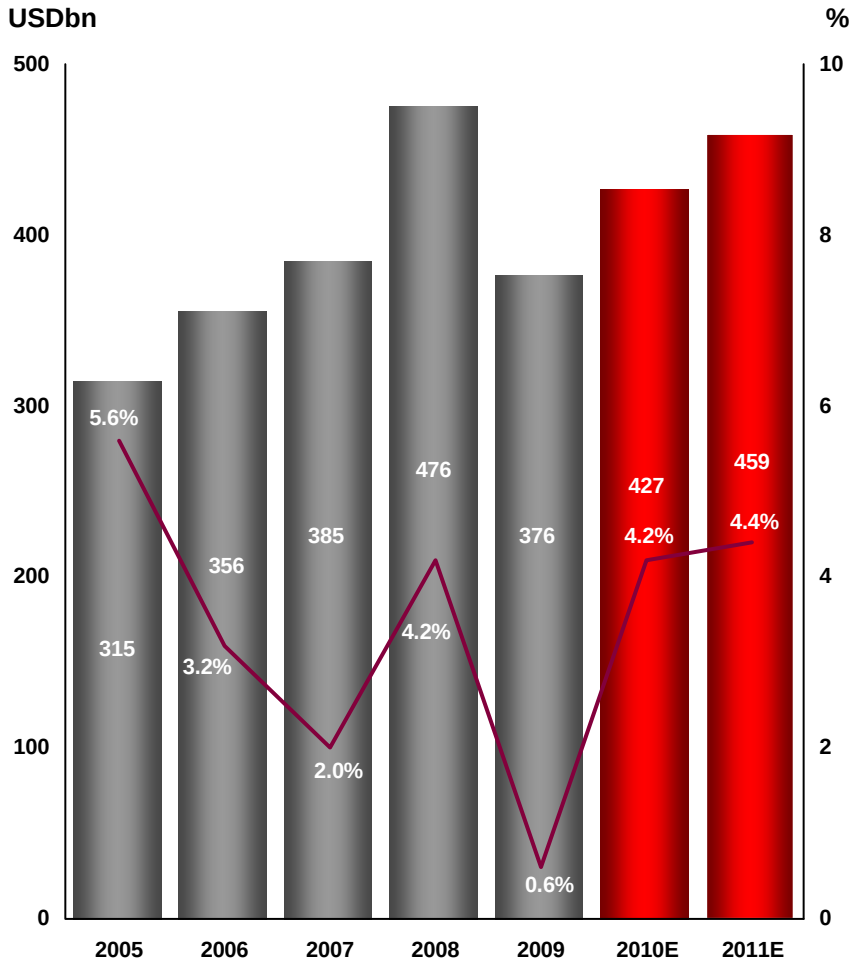
Cautious optimism

Population	25.4 million
GDP growth	3.1 per cent (2005-09)
Total exports	USD173.2 billion
Total imports	USD96.4 billion
Current account balance	+USD20.5 billion
Inflation	5.5 per cent

Economic outlook

Positive prospects

GDP and GDP growth



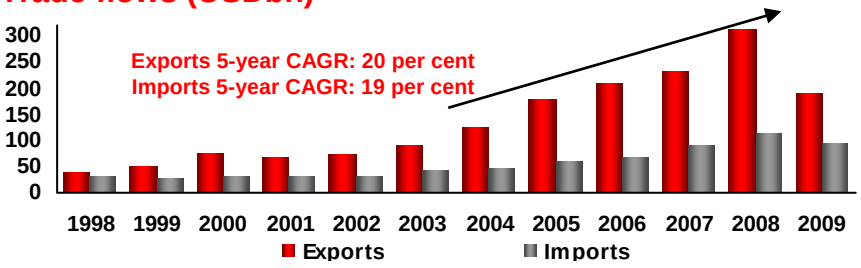
Highlights

- Member of G20
- Saudi Arabia accounts for 50 per cent of the GCC's GDP
- One of the top 10 most attractive countries in the world for FDI in 2009 with inflows of over USD30 billion
- Conservative monetary policy and strong fundamentals
- Oil remains the nation's dominant asset, providing 30 per cent of GDP and has helped the government to build up substantial reserves (currently over USD400 billion)
- Saudi Arabia is well placed to face the challenge of sustaining growth amid the downturn, and the government is using spending to maintain momentum
- The Kingdom will spend around USD400 billion (2010-14) for various infrastructure and welfare projects, an increase of 67 per cent over the previous plan
- However, credit to the corporate private sector has been restricted
- Challenge of unemployment and job creation in a young and aspiring population
- Low public debt at just 15 per cent of GDP and still falling

Connectivity

Significant trade and net FDI flows

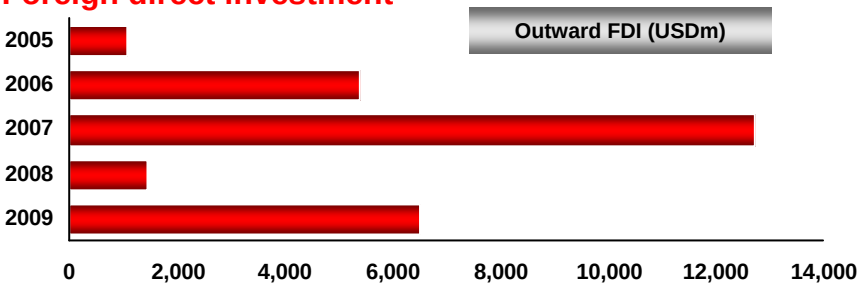
Trade flows (USDbn)

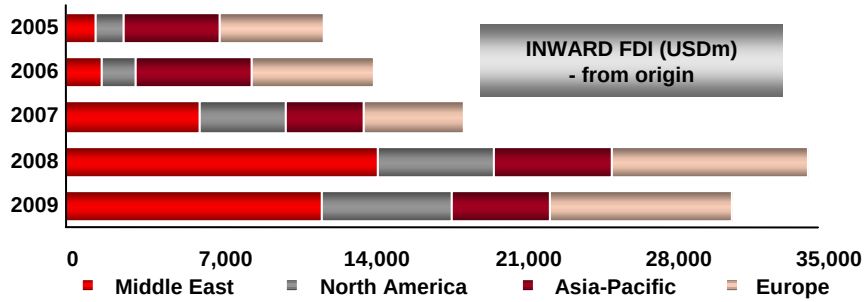


Top export partners

- Japan
- USA
- China
- South Korea
- India

Foreign direct investment





Top import partners

- USA
- China
- Germany
- Japan
- South Korea

- **Saudi Arabia is highly connected to the international markets as its economy is predominantly driven by trade**
- **There is significant FDI flow within the Middle East region, hence there are huge intraregional opportunities that can be tapped by HSBC and SABB**

Banking sector

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Banking sector

Competitive, but small number of banks

Opportunities	Challenges
Well capitalised and well regulated	Seven banks account for 87 per cent of loan market and 91 per cent of customer deposits
Only 3 million people are using credit facilities in Saudi Arabia; total population is c26 million people	Large concentration of corporate borrowers on the asset side of banks' balance sheets
High mortgage lending potential: value of mortgages only 1.3 per cent of GDP	Regulated retail lending market constrains retail loan growth potential
Banks are core intermediaries as domestic capital markets are in the development phase	Low interest rates negatively impact returns on liquidity – the case of 2009 and 2010
Strong capital ratios can sustain asset growth of 17 per cent (HSBC Research estimate)	Credit growth sluggish in 2009 and 2010

Saudi stock market – foreign ownership

Liberalisation expected next year

- **The Capital Market Authority (CMA) regulates, oversees and develops the Saudi Arabia capital market**
- **Saudi Arabians, other GCC nationals and foreigners living in Saudi Arabia with resident visas are allowed to invest directly in shares**
- **Total Saudi market capitalisation as at end-2009 of USD319 billion with an average daily trading value in 2009 of USD1.3 billion**
- **Non-GCC foreign investors are allowed to invest through:**
  - **Swaps**
  - **Exchange traded funds (ETFs)**
  - **Mutual funds**
  - **Government bonds in the secondary market**

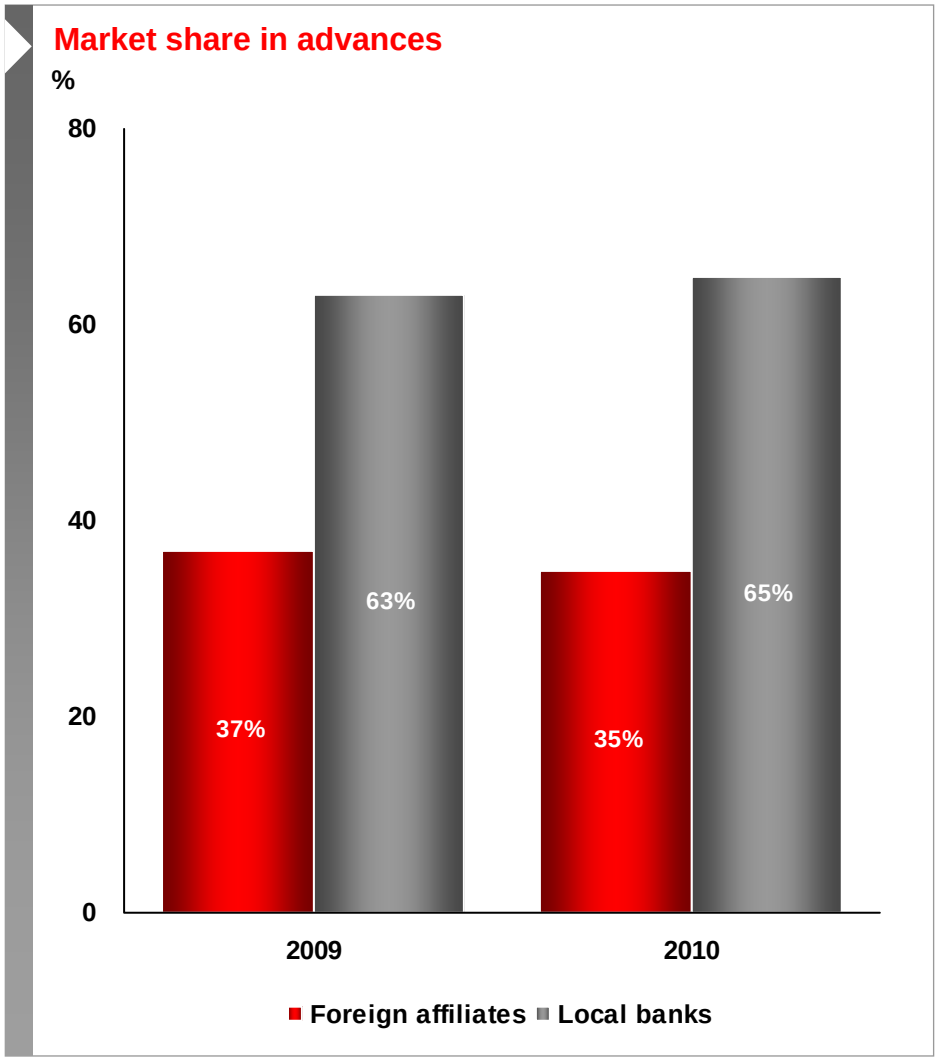
Competition

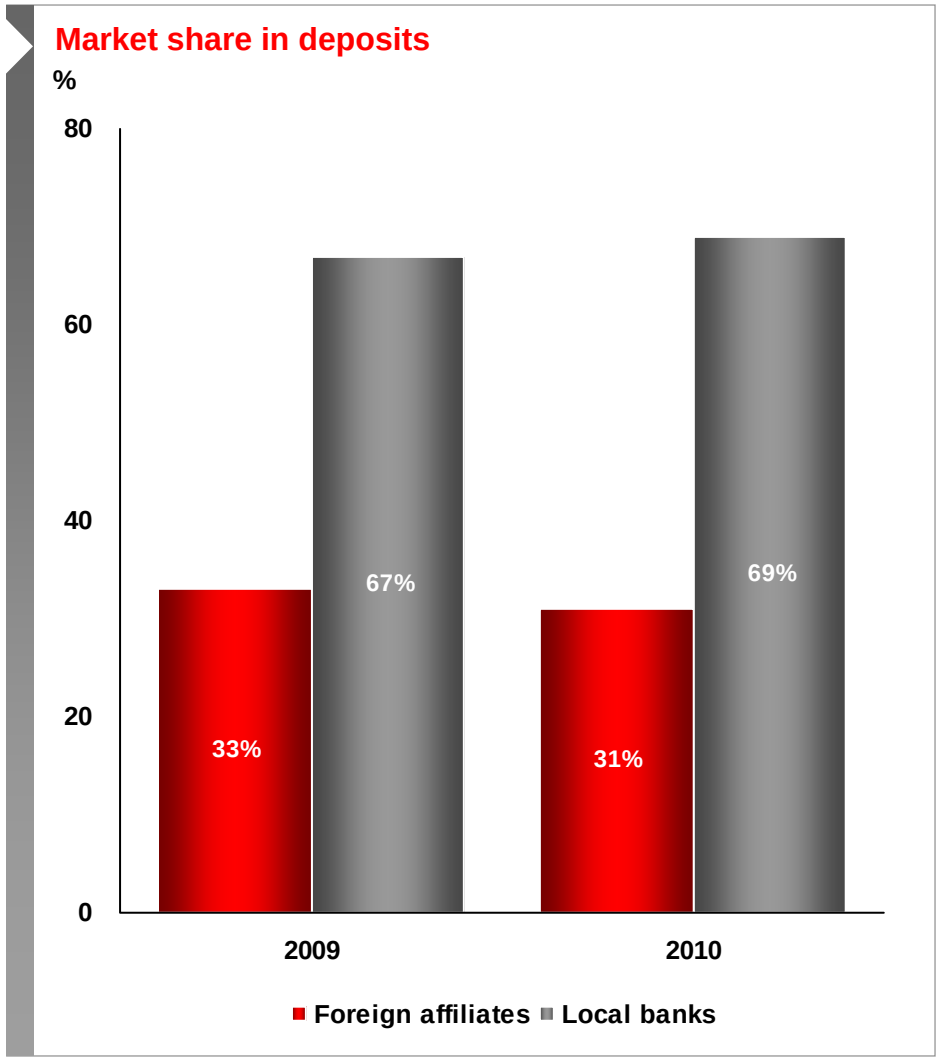
Foreign-affiliated banks vs local banks

Foreign-affiliated banks (including SABB)	Local banks
Brand strength due to the strong global affiliation	Local banks dominate retail banking market
Global footprint and experience in emerging markets	Includes highly profitable mainstream Islamic banks
Strong relationship management with multinationals	Focused on lending to public sector projects
Mainly corporate client focus	Real estate projects funded and supported by local banks
Benefit of technical cooperation agreements with parent banks	A more tailored product portfolio, mainly catering to local Saudi needs
More diverse product portfolios	

Competition

Local banks have two-thirds of the market share

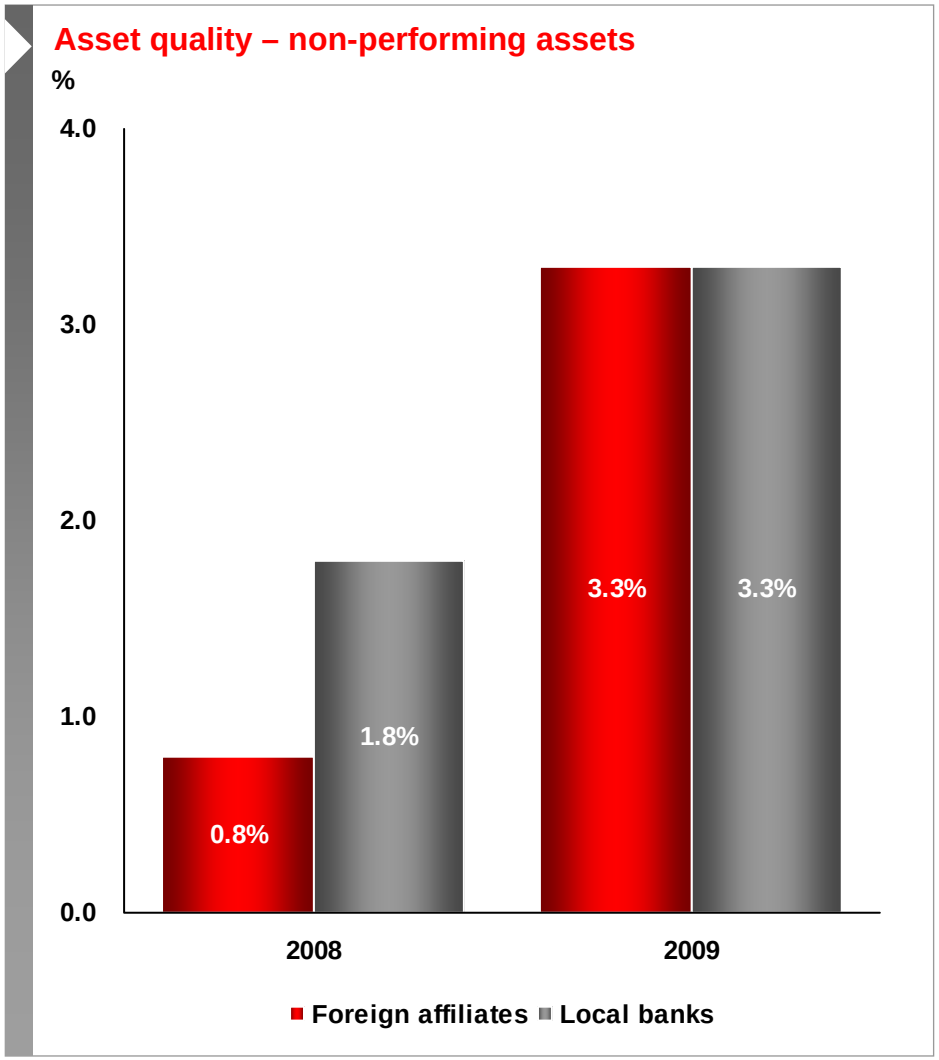


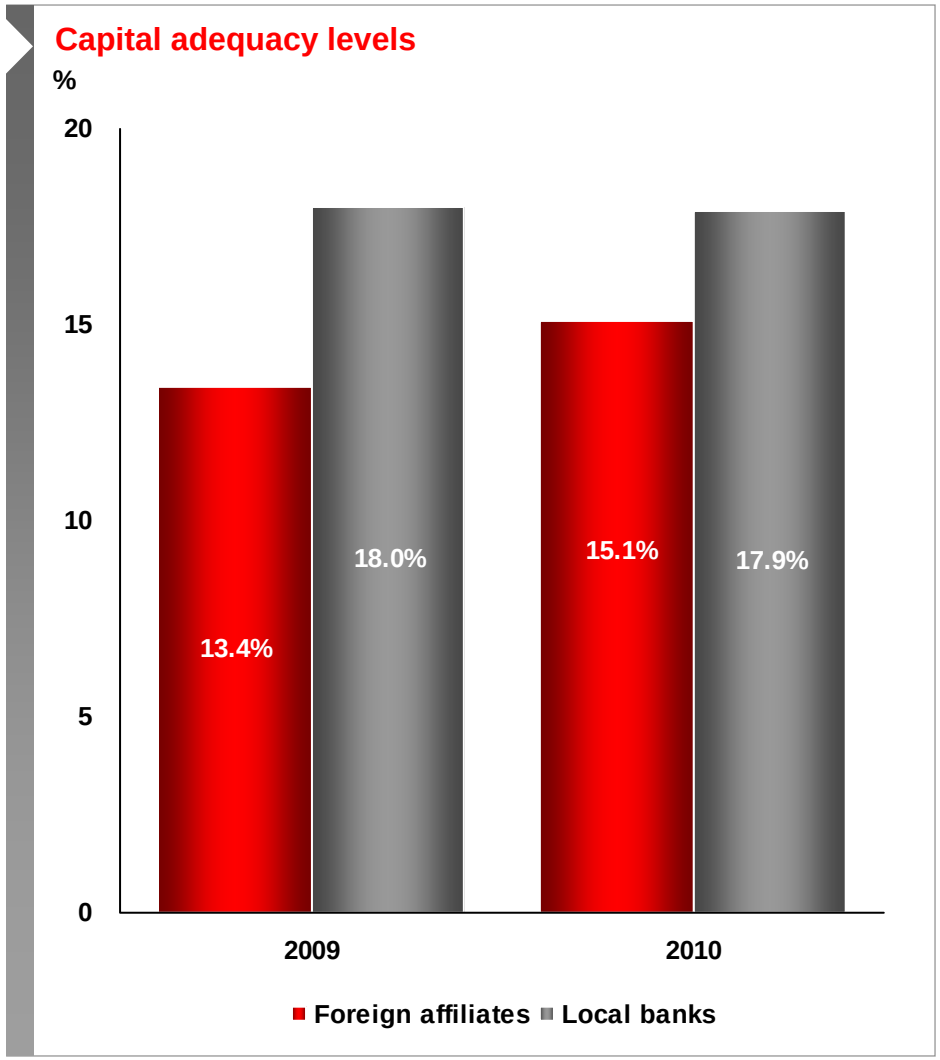


Source: Published peer bank financials

Competition

Asset quality took a hit, capitalisation robust





Source: Published peer bank financials

Performance

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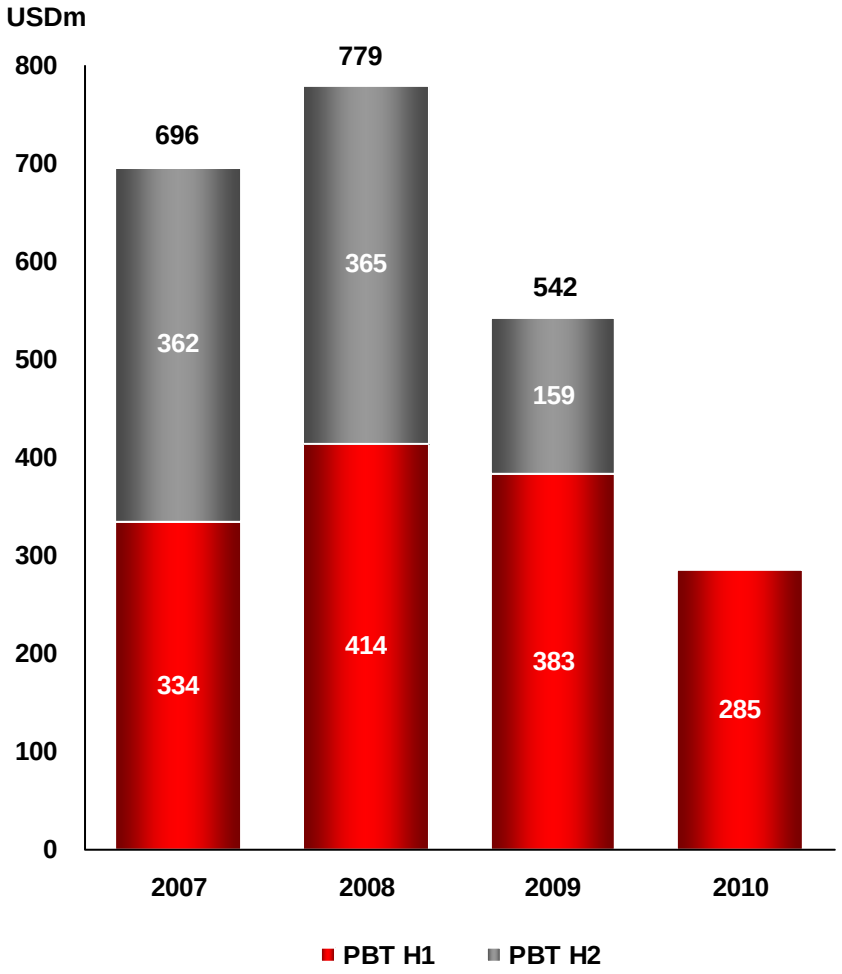
Performance

Profit before tax (PBT) of USD285 million at H1 2010

PBT (USDm)



Business mix, H1 2010

	USDm
Personal Financial Services (including Private Banking)	(36)
Corporate Banking	189
Treasury	113
Other	19
Profit before tax	**285**
HSBC share: 40 per cent	**114**

Resilient performance during downturn

Notes: Financial results shown for SABB are the 100 per cent view (not HSBC 40 per cent share)
Source: SABB published Financials H1 2010

Strategy

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Presence

SABB, a true joint venture in KSA – providing flexible solutions through a broad range of integrated services

- **One of the largest foreign-affiliated bank networks – 96 outlets in all major cities**
  - **80 Amanah branches**
  - **16 conventional branches**
  - **Leader in multinational business in the MENA region**
  - **Reasonably conservative bank with conservative risk appetite**
  - **Medium-term strategy will be updated in 2011**
  - **Recent research reports suggest analyst view is more upside rather than downside**

- **Over 750,000 bank customers with 520 ATM facilities**
- **Over 150,000 customers using SABBnet**
- **17 ladies' branches and lounges**
- **Over 3,450 staff**
- **Major stakeholdings**
  - **SABB Takaful: SABB 32.5 per cent; HSBC 32.5 per cent; public 35 per cent owned**
  - **HSBC Saudi Arabia Limited: SABB 40 per cent; HSBC 60 per cent owned**

Strategy

Grow organically and maximise strategic partnerships and investments

Personal Financial Services	**Focus on Premier and Advance segments** **Expand Wealth Management business** **Increase efficiency and range of cards portfolio** **Increase market share of mortgage business**
Commercial Banking	**Expand and deepen SME/MMK[1] customer base** **Leverage HSBC Group association for cross-border business** **Increased focus on ancillary business**
Global Banking and Markets	**Deepen global relationships with existing Saudi global corporates** **Seize the current KSA market opportunity to robustly grow SABB's multinational and institutional banking businesses** **Develop market-making capabilities in local SAR market covering derivatives** **Maintain a leading position as a provider of conventional and Islamic treasury products and solutions**
Private Banking	**Focus on maximising actively managed assets with an annuity revenue stream**

Note:
(1) MMK – Middle Market

Strategic partnerships

Optimising potential for extended reach and scope

	SABB Takaful	HSBC Saudi Arabia Limited
Strategy	• Providing a range of Shariah-compliant family/general insurance products • To leverage SABB distribution channels to deliver Takaful solutions alongside banking solutions seamlessly • To enable all SABB clients to have access to Takaful solutions via internet, call centre and branches • Access to global Takaful expertise to develop local solutions	• Targeted strategic approach focusing on key investment banking clients as well as capturing opportunistic mandates • Focus extended to large CMB clients • Regional wealth management
Delivering on strategy	• The first company to be re-licensed in August 2010 for a further period of three years • Takaful products and expertise embedded within SABB, alongside the banking products • Growing penetration of products per customer across the SABB client base via the maturing 'Bank-Takaful' model	• Created a Group capital financing position and established a list of strategic customers • Widened the coverage through SABB and launched innovative structures (targeted sukuks) • Developing a region-wide wealth management proposition

Summary

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Summary

Well positioned for sustainable growth

- **Strong fundamentals: demographics, trade, largest oil and significant gas reserves**
- **An emerging powerhouse: Government committed to extensive infrastructure projects; large investment surplus, domestic stimulus, inward capital flows**
- **Prudent and regulated banking environment; credit issues not systemic**
- **SABB well positioned as full-service bank, leveraging connectivity with HSBC Group network**
- **Invest for the long term**