HSBC Holdings plc

# HSBC Bank Egypt (S.A.E.)

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## Presentation by Mounir El Zahid

# 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.**

This presentation contains non-GAAP financial information. Reconciliation of non-GAAP financial information to the most directly comparable measures under GAAP can be found in HSBC's 2010 Interim Report in the Operating and Financial Review.

# Agenda

- Country overview and economic outlook
- Egypt banking sector
- Presence and performance
- Business
- Strategy and key priorities

# Country overview and economic outlook

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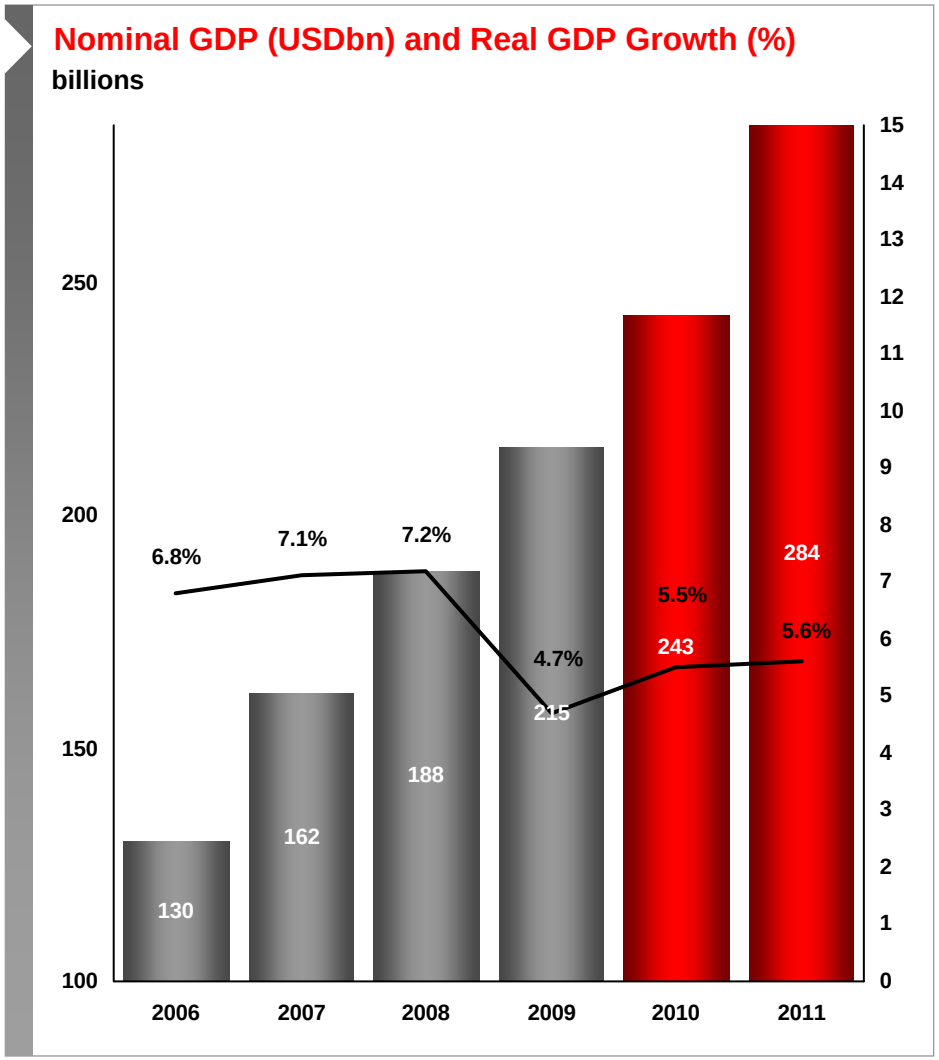
# Country overview

## One of the CIVETS[1]




**Population: 81m**

**Population growth: 2.4%[2]**

**GDP growth: 5.5%e**

**Increased private consumption and investment**

**Nominal GDP: USD215 billion[2]**

**GDP per capita (USD): 2,680**

**Merchandise exports: USD47 billion[3]**

**FDI inflows USD49 billion (2006-2009)**

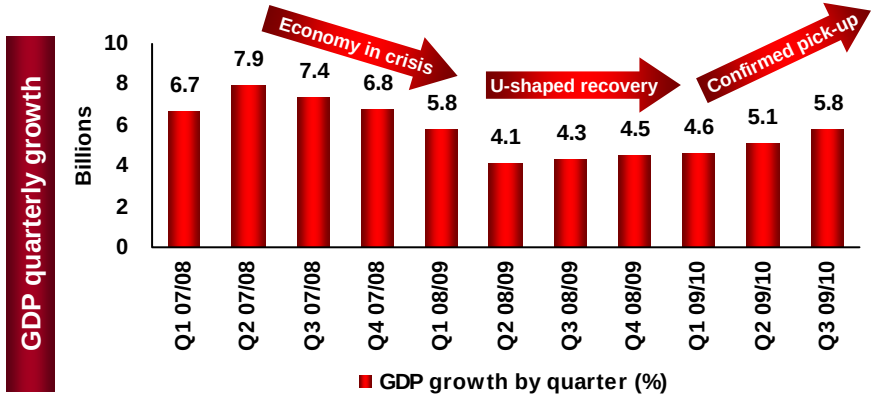
**Merchandise imports: USD39.9 billion[3]**

**One of the fastest growing emerging markets**

Notes:
(1) CIVETS - Columbia, Indonesia, Vietnam, Egypt, Turkey and South Africa
(2) HSBC Global Research
(3) World Bank databank

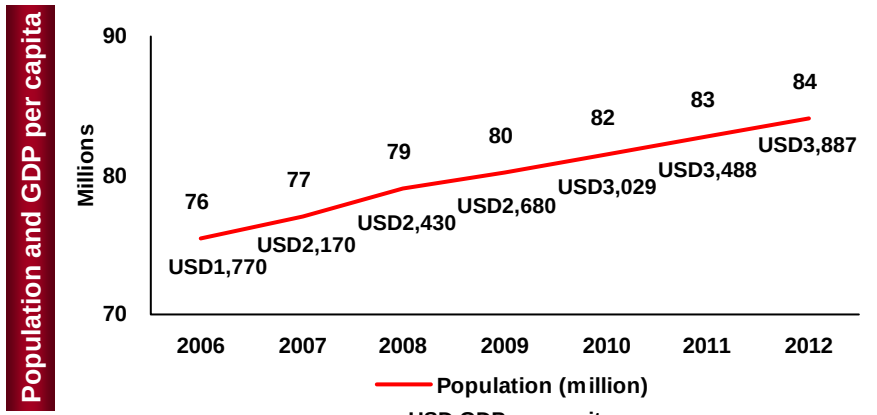
# Egypt fundamentals remain strong

## GDP trend consistent with economic cycle




Source: Egypt/Ministry of Planning

## Consistent population growth

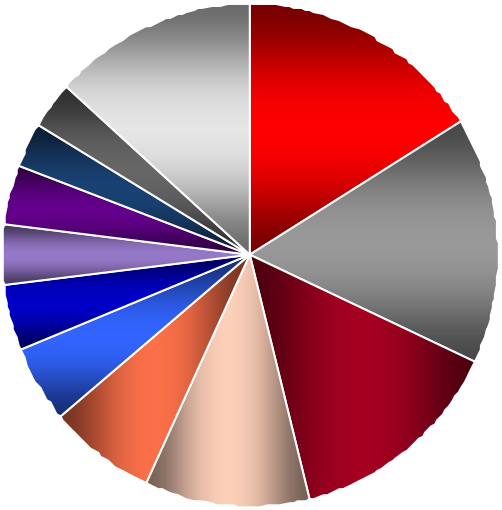



Source: Central Bank of Egypt

- Egypt is one of the fastest growing emerging markets, relatively unscathed by financial crisis
- Economy demonstrated clear recovery in GDP growth rate of 5.8 per cent by Q3 2010 versus 4.3 per cent Q3 2009
- GDP growth between Q2 2008 to Q1 2010 held steady, recording a strong upturn in H1 2009 and 2010
- On current growth rate, Egypt can achieve its pre-global economic crisis levels by January 2011
- CBE international reserves increased to USD35 billion in H1 2010
- External debt stood at USD32.3 billion in H1 2010
- Under-penetrated bankable market set to grow [only c.12 per cent of Egyptian population currently banked]

# Egypt - Fiscal stimulus and reform

## Nominal GDP breakdown 2008-09



- Oil and gas (16%)
- Industry (16%)
- Agriculture (14%)
- Wholesale and retail (11%)
- Construction (7%)
- Tourism (5%)
- Financial services (4%)
- Suez Canal (4%)
- Workers remittances (3.7%)
- Transportation (3%)
- ICT (3%)
- Other services (13.3%)

Source: Central Bank of Egypt

- **Egypt ranked among the top 10 global reformers for the fourth time in the past seven years*. A programme of regulatory calibration has continued through:**
  - **The Central Bank and Monetary Policy reform**
  - **A new Financial Supervisory Authority to replace old Capital Market Authority, now oversees insurance, mortgage, leasing, and the Egyptian stock exchange**
  - **Establishment of the Nilex - a dedicated stock exchange for small- and medium-sized enterprises**
  - **Innovative financing instruments in Debt Capital Markets to accommodate government and quasi-government issuances**
- **Additional LE10 billion stimulus package announced November 2009 for infrastructure projects, supplements existing commitments of LE15 billion (October 2008), LE8 billion (June 2009)**
- **Diversified sources of GDP growth: manufacturing, construction, trade, agriculture, oil and gas combined**

*** World Bank's *Doing Business 2010***

# Recent economic policies and development

- **Public-private partnership (PPP) strategy and institutional framework launched in 2006**
- **By FY 2009, private sector completed 22 projects worth USD16.6 billion through PPP, in the development of infrastructure and public services throughout the country**
- **Egyptian government has recently identified 47 potential PPP projects (worth USD25 billion) to: construct schools, highways, water and wastewater treatment plants, and maintenance projects**
- **Actively engaged in the PPP programme, participating in projects worth over USD3.9 billion over the past two years**
- **Awarded four advisory roles in wastewater treatment plants in New Cairo, Sixth October City, Abu Rawash and with the Ministry of Transport for the Light Rail project, as well as two Independent Power Plants (IPP) projects**

# Egyptian banking sector

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# Egyptian banking sector

## Geared for growth

- **Substantive overhaul from 2004 to regulatory framework formed a healthier banking sector, enabled to support growth**
- **Clear monetary policy helped by stronger Egyptian pound and growing GDP and surplus in current account encouraged FDI to bank acquisitions and larger capitalisation**
- **Non-performing loans issue effectively addressed/resolved through measures taken by the CBE to restructure public sector banks, agreed cash settlements and larger capital base requirements**
- **Sector asset-deposit ratio of 53 per cent has maintained strong liquidity and encouraged credit growth**
- **Industry consolidation has:**
  - **Reduced the number of banks to 39 (from 62 in 2004), restructured and privatised some state-owned banks**
  - **Created stronger institutions (National Societe Generale Bank, Credit Agricole Bank)**
  - **Brought new market entrants: Intesa Sanpaolo, Blom, Piraeus, Ahly United, Bank Audi, National Bank of Kuwait**
  - **Intensified competition (stronger pressure on margins and higher customer expectations)**
  - **Driven economic growth in major sectors (hydrocarbons, telecoms, real estate and property)**
  - **The CBE is not issuing any more banking licenses**
  - **While CBE minimum capital requirement set at EGP500m, some banks grew their net worth above EGP 5bn to fuel growth**

# Presence and Performance

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# HSBC Egypt fact sheet H1 2010

27 years business in Egypt

## Overview

- **89 branches and units in 13 cities**
- **250+ ATMs**
- **2,100+ staff**
- **Capital** — **USD265 million**
- **Total equity** — **USD448 million**
- **Total assets** — **USD7,416 million**
- **Net profit** — **USD73 million**

## Financial ratios

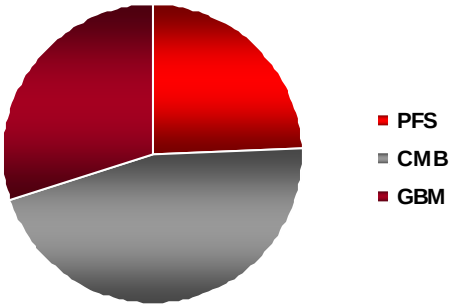
| | H1 2010 (%) | H1 2009 (%) |
|---|---|---|
| Return on capital (ROC) | 54 | 85 |
| Return on equity (ROE) | 34 | 56 |
| Return on assets (ROA) | 2 | 4 |
| Return on risk assets (RORA) | 4 | 7 |
| Net interest income/operating income | 60 | 63 |
| Non-funds income/operating income | 21 | 15 |
| Trading profits/operating income | 12 | 14 |
| Overheads/operating income | 30 | 25 |
| Advances to deposits | 40 | 43 |
| Capital adequacy | 14 | 14 |

## Growth ratios

| | H1 2010 |
|---|---|
| **Balance sheet** | 17% |
| **Advances portfolio** | 10% |
| **Deposits base** | 20% |
| **Net profit *** | -36% |

* Due to loan impairment charges in respect of a significant cross-border counterparty

## H1 2010 net profit by business line

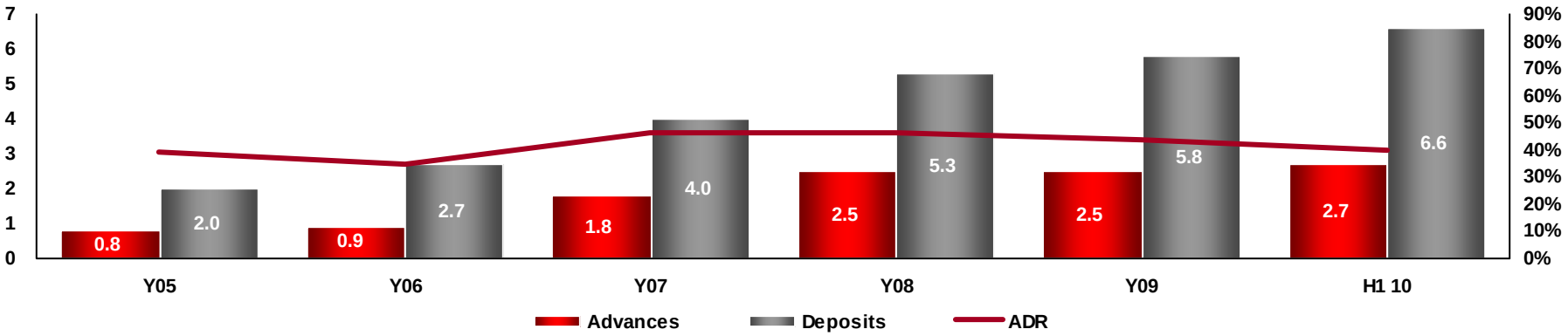



Note: Information presented above is on an Egyptian GAAP basis

# Trend indicators

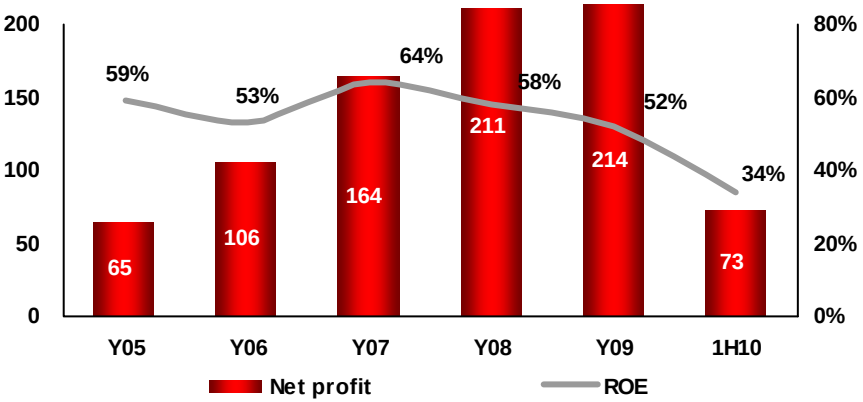
## ADR trend

USDbn




## Profitability

USDm




- **Stable ADR through the years**
- **Resilient ROE**
- **HSBC Egypt profitability generated robust growth in 2005-08, slowing in 2009 in the global economic downturn**

Information presented above is on an Egyptian GAAP basis

# HSBC Egypt vs peer competitors

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# Market share H1 2010

## Held strong position through organic growth, rather than through acquisition

| | Advances portfolio | Deposits base | Net worth[2] | |
|---|---|---|---|---|
| **Market, USDbn** | **81.5** | **159.1** | **100%** | **13.2** |
| **Largest public banks (H1 2009)** | 28.1% | 42.6% | 23.2% | 3.1 |
| National Bank of Egypt (NBE) | 16.2% | 24.2% | 10.4% | 1.4 |
| Banque Misr (BM) | 10.0% | 14.5% | 9.1% | 1.2 |
| Banque du Caire (BDC) | 1.9% | 3.9% | 3.7% | 0.5 |
| **Private sector peer banks (H1 2009)** | | | | |
| HSBC Bank Egypt (HSBC Egypt) | 3.3% | 4.2% | 3.4% | 0.5 |
| Commercial International (CIB) | 6.9% | 6.6% | 8.5% | 1.1 |
| Arab African International (AAIB) | 5.1% | 3.5% | 1.5% | 0.2 |
| National Societe Generale (NSGB) | 6.1% | 4.9% | 7.1% | 0.9 |
| Credit Agricole (CA) | 2.2% | 2.1% | 1.9% | 0.2 |
| Barclays (BCLYS) | 1.3% | 1.5% | 1.6% | 0.2 |
| Alexandria (ALEX) | 3.8% | 2.8% | 2.5% | 0.3 |

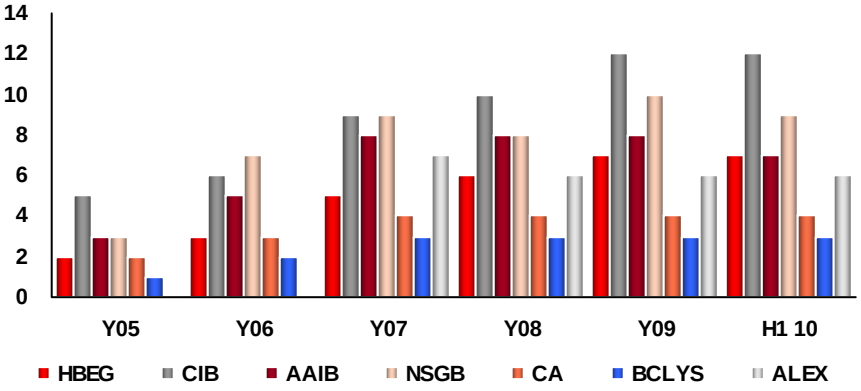
Source: Central Bank of Egypt
Information presented above is on an Egyptian GAAP basis; Net worth = Capital + Reserves for all banks in Egypt as reported to Central Bank of Egypt

# Peer performance

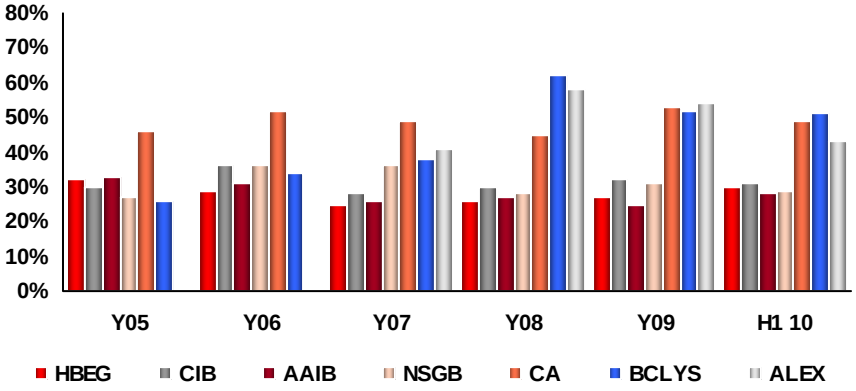
## …a strong ROE

### Total assets

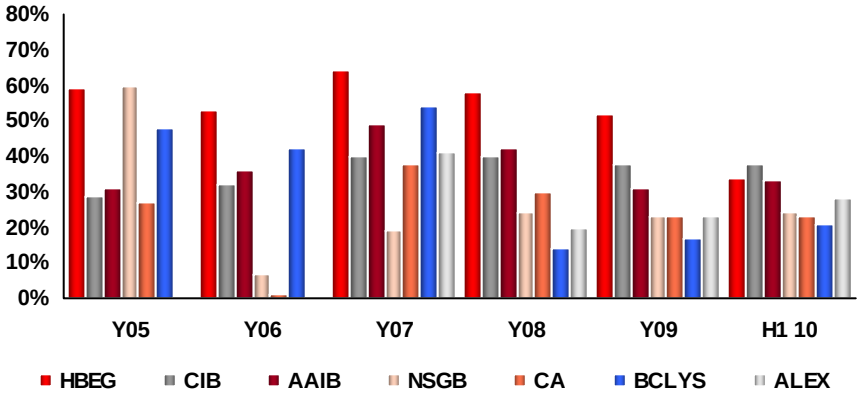
USDbn




### Cost efficiency ratio




### ROE




| Ranking AVG * | B/S footing (USDbn) | | Net profits (USDm) | | ROE | | Cost to income | |
|---|---|---|---|---|---|---|---|---|
| 1 | CIB | 9.0 | CIB | 214 | HSBC Egypt | 51% | AAIB | 28% |
| 2 | NSGB | 7.7 | HSBC Egypt | 139 | CIB | 37% | HSBC Egypt | 28% |
| 3 | AAIB | 6.5 | NSGB | 129 | AAIB | 36% | CIB | 31% |
| 4 | ALEX | 6.3 | AAIB | 106 | BCLYS | 27% | NSGB | 46% |
| 5 | HSBC Egypt | 5.0 | ALEX | 88 | ALEX | 27% | BCLYS | 48% |
| 6 | CA | 3.5 | CA | 59 | CA | 24% | ALEX | 48% |
| 7 | BCLYS | 2.5 | BCLYS | 47 | NSGB | 23% | CA | 48% |

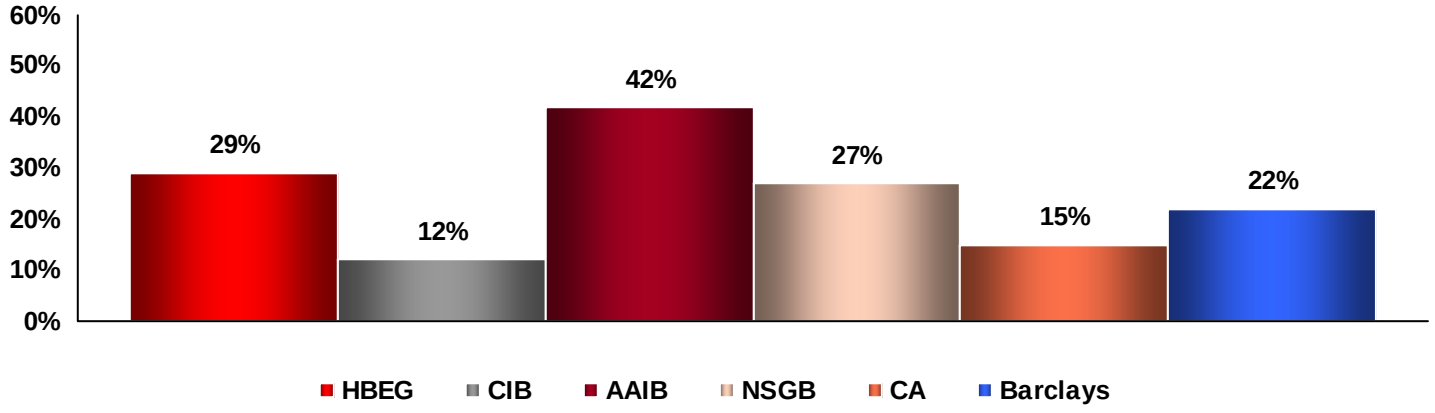
N.B. Prior to being acquired by Intesa Sanpaolo in Y06 ALEX bank was a public sector bank.
Source: Published Financial Statements of competitors
Note: Information presented above is on an Egyptian GAAP basis

* Ranking based on last 5 years average plus H1 2010 annualized results.

# 2001– 2009 CAGR

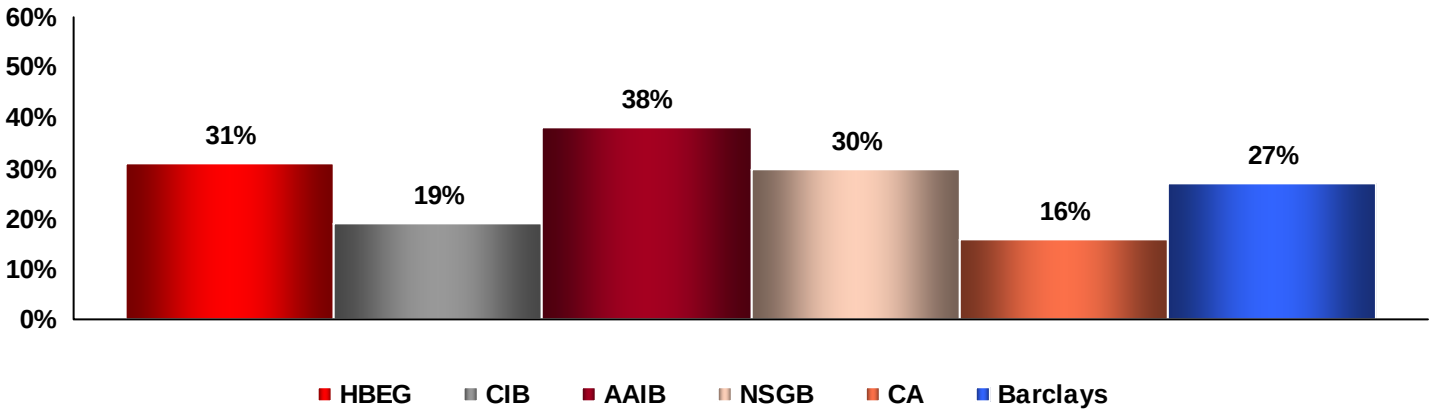
## Sustainable growth vs the competition

### CAGR 2001-2009 (Advances Portfolio)




| H1 2010 Growth | vs FY 2009 |
|---|---|
| HSBC Egypt | 10% |
| CIB | 17% |
| AAIB | 7% |
| NSGB | 7% |
| CA | 22% |
| Barclays | 3% |

### CAGR 2001-2009 (Deposits Base)




| H1 2010 Growth | vs FY 2009 |
|---|---|
| HSBC Egypt | 20% |
| CIB | 9% |
| AAIB | -3% |
| NSGB | 1% |
| CA | -4% |
| Barclays | -12% |

Source: Published Financial Statements of competitors
Note: Information presented above is on an Egyptian GAAP basis

# Strategy

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# Sustainable strengths and opportunities

## Macro and Industry Opportunities

- Sustainable level of GDP growth, strong macroeconomic fundamentals and FDI pre/post-global financial crisis
- A progressive regulatory environment and healthy banking industry
- Growing skilled and educated workforce demographics
- Under-penetrated bankable market set to grow
- Growth potential as loan-to-deposit ratio of Egyptian banks is only c. 53 per cent (June 2010)

## HSBC Strengths

- Successful track record and position in Egypt
- Brand and Group connectivity and network excellence
- Growing branch network with revenue yet to mature
- Strong PFS expertise
- State-of-the-art Business Banking
- Corporate Banking culture and skills
- Sound onshore asset portfolio quality
- Leading balance sheet ratios
- Highly qualified management and staff

## Strategy

- Position HSBC Egypt as the leading private sector bank, by broadening business scope and reach
- Leverage connectivity with HSBC Group
- Capture national development opportunities, by deploying corporate expertise through Global Banking and Markets and CMB
- Diversify offerings into SME and middle market customer segments: optimise mix and geographic spread of distribution channels
- Grow PFS profitability targeting Premier, Advance and Wealth Management; targeting an additional 25 branches in 2011

# Strategy in action

## Personal Financial Services

- **Grown the branch network by 44 per cent over the past three years from a network of 63 branches to 91 with increased presence in diversified locations such as the Delta region and Upper Egypt**
- **HSBC Egypt customer base 287,000 of which 12,300 Premier, 10,000 Advance. From 162,000; 5,700 and 8,700 respectively over the past three years, maintaining market lead in premier retail**
- **HSBC Egypt total credit card base: 110,000 cards (Visa and MasterCard), four per cent of the market**
- **Wealth management offerings in investment and bancassurance (only five other banks offer similar products)**
  - **Launched the Money Market Fund '*KolYoum*' in May 2009 reaching EGP2.5bn (c. USD450m) in June 2010**
  - **Grew income from the insurance products by 66 per cent in year 2009**
- **HSBC Bank Egypt awarded the Visa International Certificate for Operational Excellence**
- ***Global Finance* - World's Best Consumer Internet Bank award for 2009 for the third year in a row**

# Strategy in action

## CMB and Business Banking

- **Experienced and qualified corporate RM's manage more than 300 multinational and Global Banking clients, and 1,500 Egyptian corporate clients**
- **Introduced sector-focused Middle Market divisions to capture high growth mid-cap corporate segments**
- **Active trade finance with online service and growing market share from 5.3 per cent to 6.3 per cent (source: CBE) of total imports and exports business**
- **The SME market represents upwards of 60 per cent in GDP contribution and 85 per cent in job creation.[1] The IFC[2] estimates 200,000 SME companies in Egypt**
- **Business Banking (SME) now has over 10,000 customers (<3,000 in 2008), and aims to double this figure in three years**
- **Working with the regulator, developed new architecture for SME banking services and a framework for capacity building in non-bankable SMEs**
  - **Piloting joint training with Egyptian Banking Institute (CBE training arm) for entrepreneurs and SME owners to familiarise them with banking requirements**
  - **Introducing the first SME guide issued by the Egyptian Junior Businessmen Association**
  - **Introducing a dedicated Business Internet Banking for SMEs**
  - **Introducing YallaBusiness.com designed to provide information to SMEs on opening accounts or applying for credit**

Notes:
(1) Source: Egyptian IDSC: Business Information and Decision Support Centre
(2) International Finance Centre

# Global Banking and Markets

- **Strong corporate banking presence, well developed in ECM, DCM, Structured Finance and Project Finance**
- **Sector specialization in the corporate banking business with a strong customer base of multinationals and large Egyptian corporates capitalising on Global group network and the FDI inflows**
- **Captured 74 per cent market share of local Debt Capital Market (DCM) over the last five years = USD2.4 billion (of USD3.24 billion total market value). In 2010, HSBC successfully mandated as a joint lead manager and financial adviser for several of the bond issues in Egypt[1]**
- **Introduced a structured finance division responsible for syndicated loans, project and export finance transactions with deals mandated in 2010 worth over USD4 billion**
- **Actively engaged in innovative financing methods, reserve-based lending, pre-export financing in line with the government's focus on hydrocarbons, infrastructure and energy**
- **HSBC Egypt Markets – a primary dealer in government securities and lead provider for foreign institutions wanting access to local debt and equity markets**

Notes:
(1) Source: Central Bank of Egypt

# Summary

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# Summary

- **One of the CIVETS - one the fastest growing emerging markets**
- **Significant macro opportunities presented by established economy, growing demographics, and emergent financial industry**
- **HSBC Egypt has grown significantly and continues to perform well compared to peers**
- **Competitive expertise and customer base, as well as Group connectivity, supports growth in Global Banking and Markets and CMB**
- **Well positioned to lead the premium market, through developing Premier, Advance and Wealth Management**