HSBC Holdings plc

Connectivity: Our Competitive Edge

HSBC
The world's local bank

Presentation by Simon Cooper

www.hsbc.com

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.

Well positioned for superior returns

Macro position and outlook are positive…

A region that can provide superior returns…

Credit issues in resolution through decisive action…

Strong regional management team…

Clear focus…

HSBC Presence in the Middle East

HSBC

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Largest international bank network in the region

History stretches back over 65 years

HSBC business landscape in MENA

Over 250 branches and offices

Lebanon (HBME)
Founded in 1946
– 6 branches

Jordan (HBME)
Founded in 1949
– 5 branches

Iraq (DESIB) 70 per cent
Representation through
Dar Es Salaam Investment
Bank since 2005
– 16 branches

Bahrain (HBME)
Founded in 1944
– 4 branches

Palestine (HBME)
Founded in 1998
– 1 branch

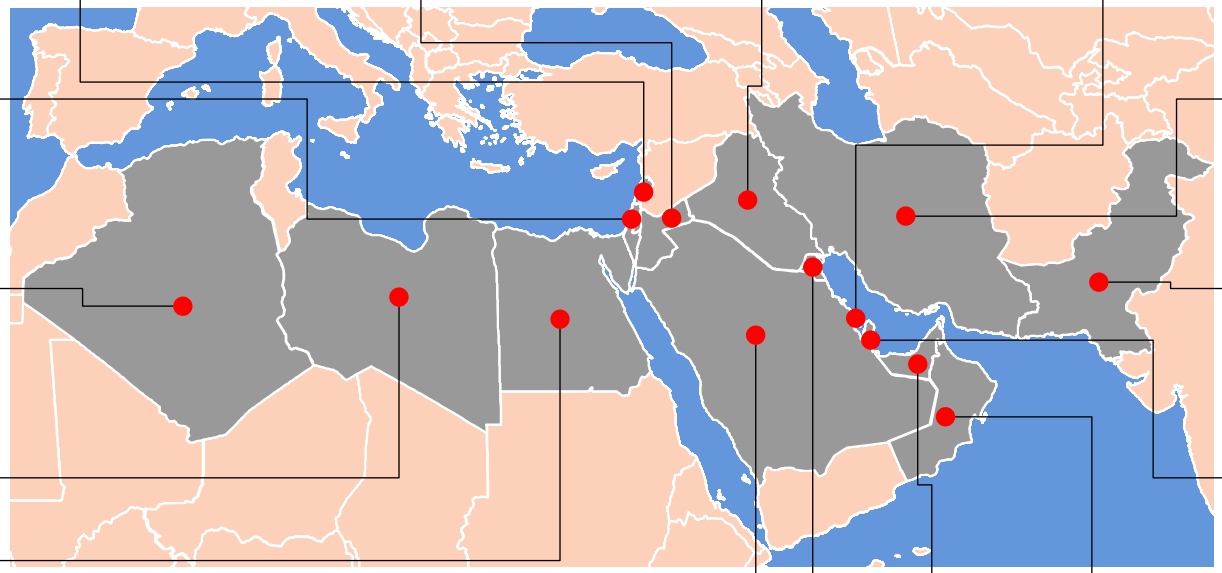
Iran (HBME)
Representative office
re-opened in 1999

Algeria (HBME)
Founded 2007. Operations
transferred from HSBC France
in 2009
– 1 branch

Pakistan (HBME)
Founded in 1994, operations
transferred from HSBC Asia
– 12 branches

Libya (HBME)
Active since 1972;
representative office in Tripoli
in 2007

Qatar (HBME)
Founded in 1954
– 5 branches



Egypt (HBEG)
Egyptian British Bank founded
in 1982. Rebranded to HSBC
Bank Egypt in 2001
– 89 branches

KSA (SABB) 40 per cent
The Saudi British Bank founded
in 1978 – 96 branches
HSBC Saudi Arabia Ltd [IBSA]
est. 2004;
SABB Takaful 2006

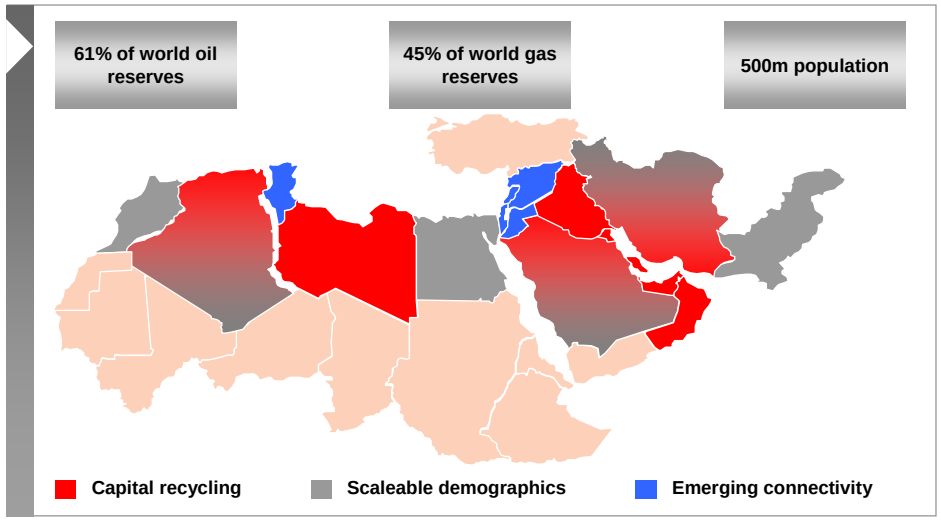
Kuwait (HBME)
Founded in 1942
Re-entered (following
de-nationalisation) in 2005
– 1 branch

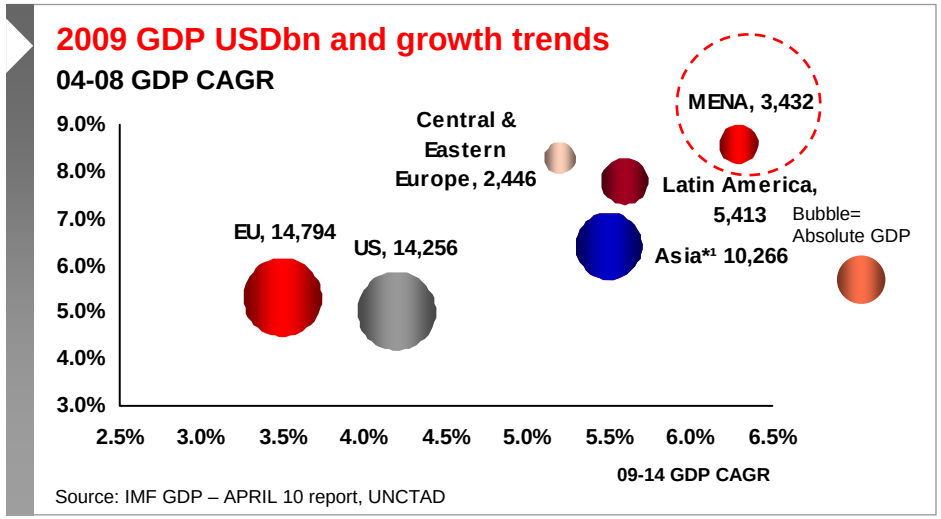
UAE (HBME)
Founded in 1946
– 8 branches

Oman (HBME)
Founded in 1948
– 5 branches

Long-term economic growth potential

Infrastructure development, surplus oil and gas revenues, populous domestic demand





Source: IMF GDP – APRIL 10 report, UNCTAD

Middle East region fundamental to Group emerging markets-led strategy

Wider Middle East region offers lucrative opportunities

HSBC wins by providing connectivity and expertise

Notes:
Sources: HSBC Global Research
(1) ASIA–excluding India and China. Note: China 2008 GDP of USD7,916 billion (04-08 GDP CAGR of 14%, 09-14 GDP CAGR of 11%), whereas India had a GDP of USD3,288 billion (04-08 CAGR 12%, 09-14 CAGR 9%)
(2) MENA includes Pakistan

Integrated Business Model

MENA's economic dynamics play to HSBC's core strengths: connectivity, regional presence and global reach

Theme

Exploit MENA fundamentals and long-term opportunities

Hydrocarbon-driven wealth accumulation and budget surplus

Increasing trade and FDI connectivity: globally and intra-region

Attractive demographic dynamics: young and growing

Business implications

GBM

Strengthen coverage of regional capital recyclers, especially with emerging Latin America, Asian and intra-regional partners

Private Banking

Focus on ultra-HNW wealth recyclers via global platform and build domestic onshore capabilities to efficiently cater to the emerging affluent classes

CMB

Lead corporate cross-border financial services, penetrating trade and FDI MENA flows; link with GBM's deal-led services to complement transaction banking strength

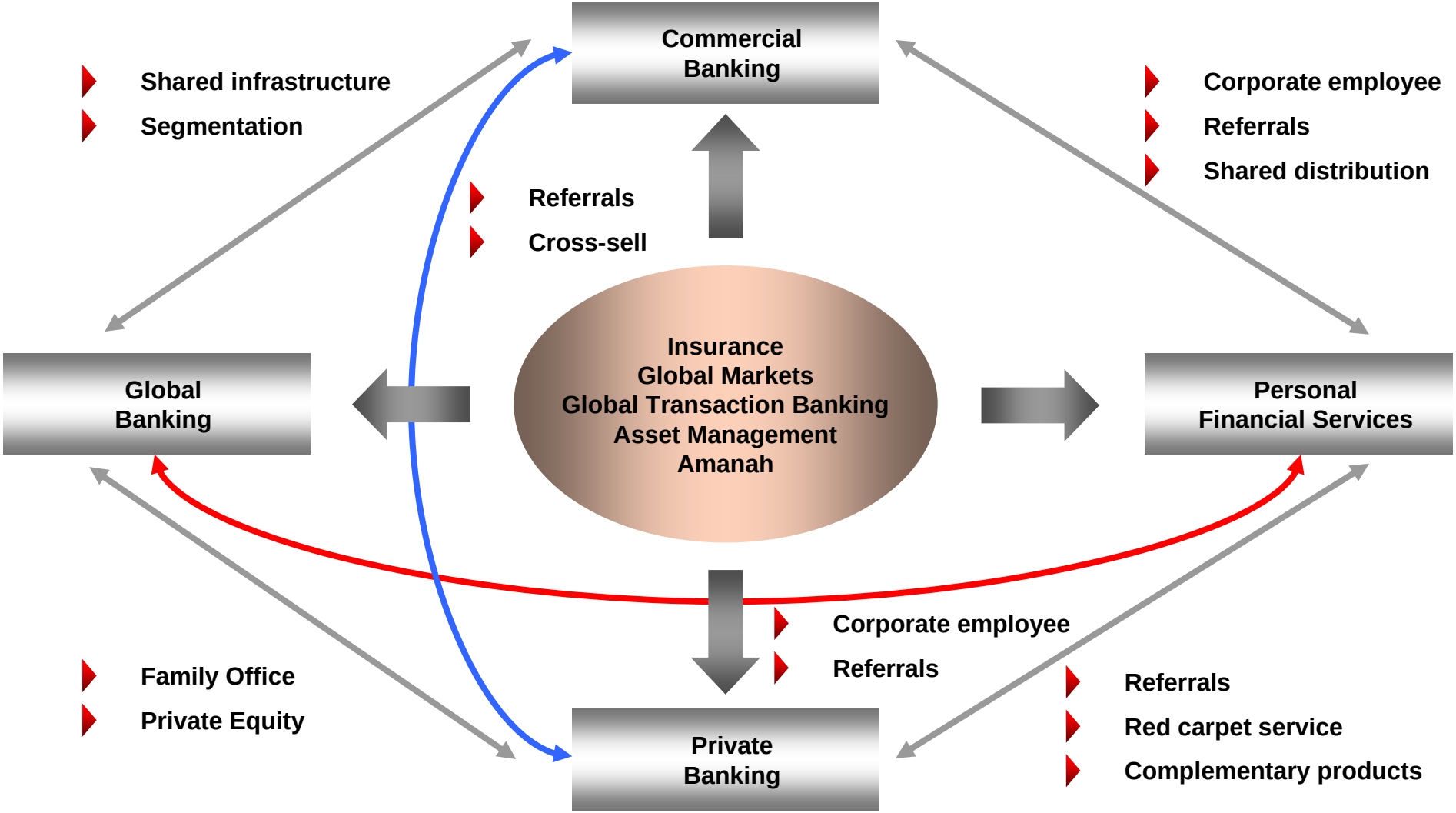
PFS

Expand premium business, restructured local wealth propositions including insurance; target advance and feeder segments; review distribution channels

AMANAH

Cross-business opportunities

Internal alignment allows us to capitalise on market opportunities



Middle East Performance

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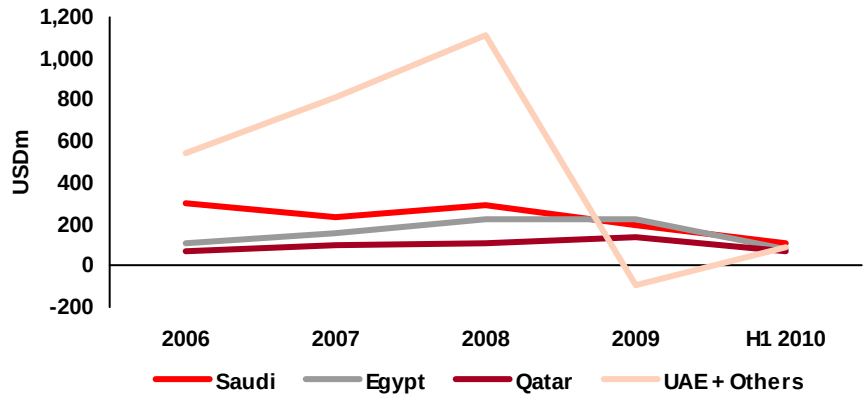
Resilient profits, focused growth

Return to profitability, loan impairment charges significantly reduced

Underlying[1] profit before tax USDm	H1 2009	H2 2009	H1 2010
Net operating income[2]	1,369	1,223	1,235
Loan impairment charges	(391)	(943)	(438)
Net operating income	978	280	797
Operating expenses	(482)	(518)	(519)
Associates and joint ventures	147	49	115
Profit/(Loss) before tax	**643**	**(189)**	**393**
Loans and advances to customers (net)[3, 4]	**25,097**	**22,844**	**23,394**
Customer accounts [4]	**34,281**	**32,529**	**32,977**
Asset: Deposit ratio [4]	**73.2%**	**70.2%**	**70.9%**

PBT Middle East



Profit of USD393 million

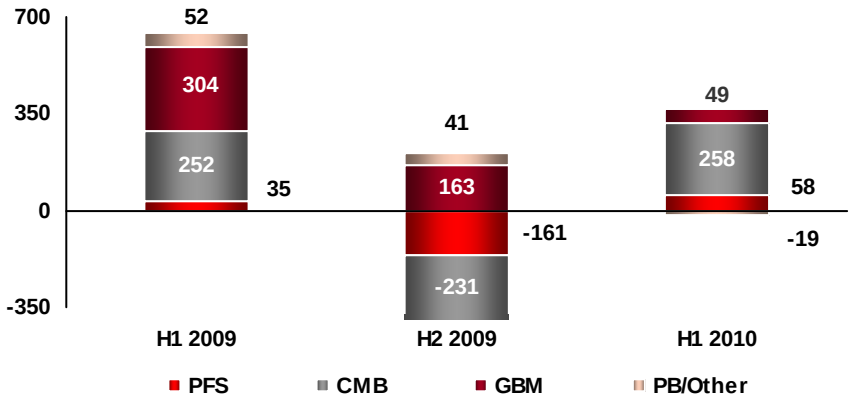
- **Revenue marginally up on H2 2009**
- **Resumption of underlying asset growth**
- **Further progress in AD ratio, an HSBC core strength**
- **Cost growth restrained**

Notes:
(1) 'Underlying' adjusts for the movement in exchange rates and excludes the impairment of USD47 million on the reclassification of HSBC's investment in BACB as 'held for sale'
(2) Before loan impairment charges
(3) Net of impairment allowances
(4) On a reported basis

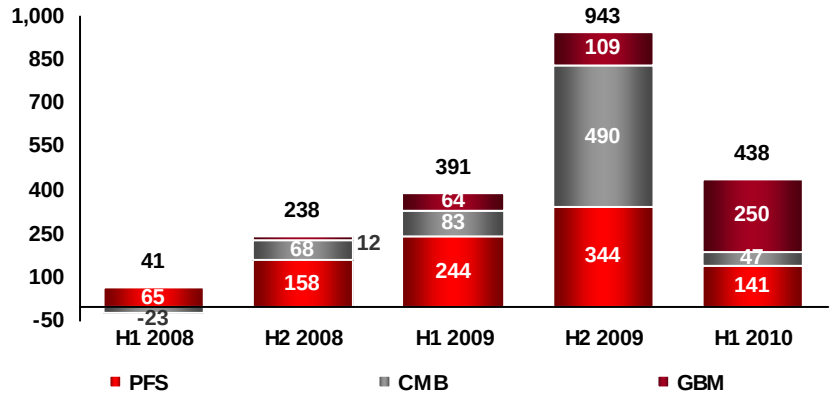
Diversified profit streams

Balanced profit across main geographies

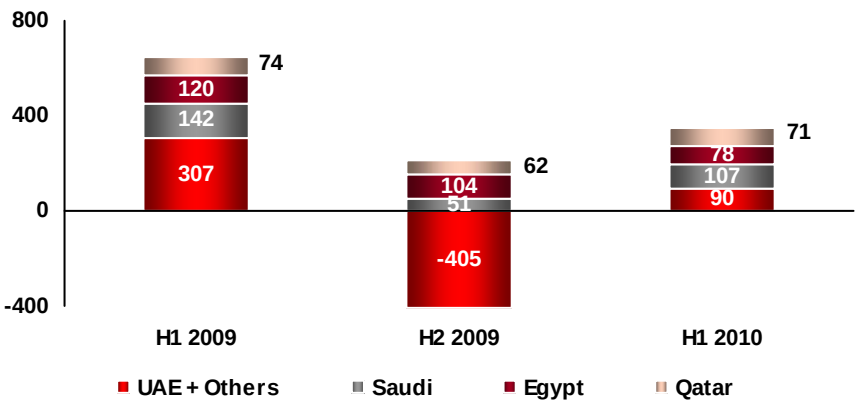
PBT by customer group, USDm



LIC trends USDm



PBT by geography, USDm



Highlights

- A return to profit after exceptional loan impairment charges in H2 2009
- Loan impairment charges down from peak
- Profits from a mix of geographic and customer groups dampen individual shocks

Management Actions

Proactive strategy preceding the impact of recent events

Action/Outcome

- **Further strengthened management team**
- **Managed asset growth, with de-risking in non-core segments**
- **Rebalancing the business across the region by geography**
- **Credit issues under control, ensuring future growth is sustainable**

Playing to our Strengths

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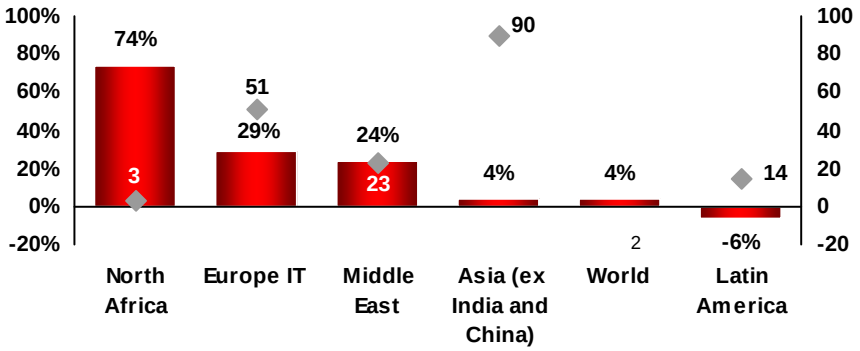
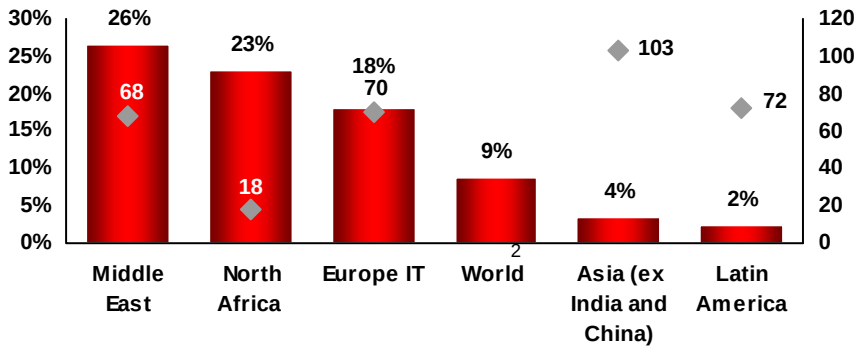
Capital recycling

Capital exporters diversifying investment portfolios globally; intra-regional FDI[1] flows showing strong traction

2004-2009 Emerging Markets CAGR FDI outflows[1]



2004-2009 Emerging Markets CAGR FDI inflows[1]



SWF est. AUMs 2009

SWF	Approx. size
ADIA (Abu Dhabi)	c.USD627bn
SAMA (KSA)	c.USD431bn
KIA (Kuwait)	c.USD203bn
LIA (Libya)	c.USD65bn
QIA (Qatar)	c.USD65bn

GBM to increase relationships with SWFs to capture capital flows

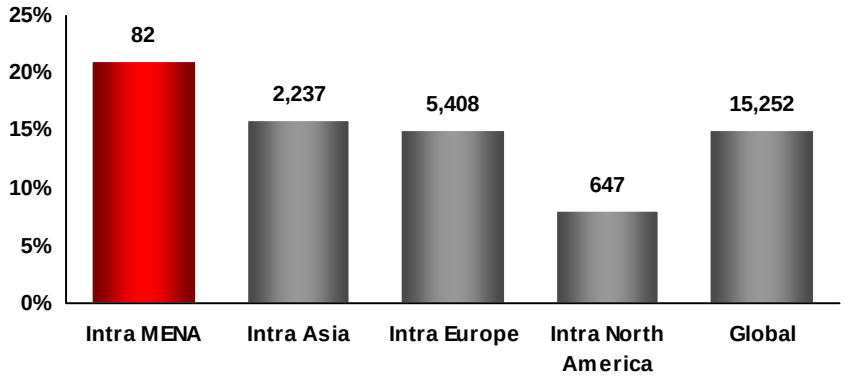
Global reach is a core advantage against growing competition

Notes:
Sources: World Investment Report – UNCTAD, FT FDi Intelligence; Note: Europe IT refers to Europe in Transition
(1) FDI – Foreign direct investment
(2) World outflows at USD1,101 billion and inflows at USD1,114 billion

FDI and infrastructure build driving Middle East trade flows

Intra-MENA trade connectivity growing rapidly; Asia increasing share of MENA trade

Intra-continental trade growth (5-8% CAGRs and 2008 USDbn absolutes)[1]



Trade flows with MENA (ranked by size: USD trillion)[2]

	2009	CAGR 2000-2009
MENA- Asia	0.53	13.3%
MENA-Africa (Sub-Sahara)	0.02	10.2%
MENA-Europe	0.40	9.6%
MENA- North America	0.10	8.2%

HSBC's global footprint matches region's trading dynamics

CMB positioned to further improve market share of trade

Competitive challenges from international and domestic banks expanding coverage and propositions

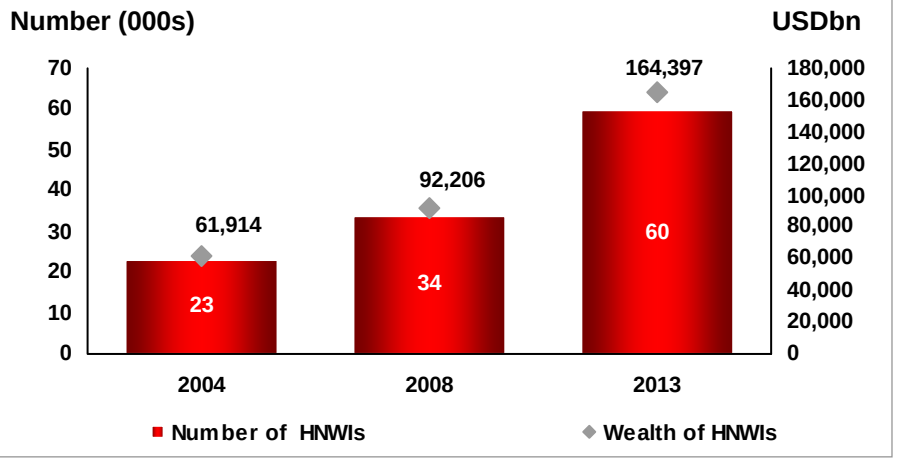
A growing market; HSBC well-placed

Sources:
(1) IMF DOT matrix (November 2009)
(2) HSBC Trade and Supply Chain Analysis based on International Trade Centre and Comtrade data

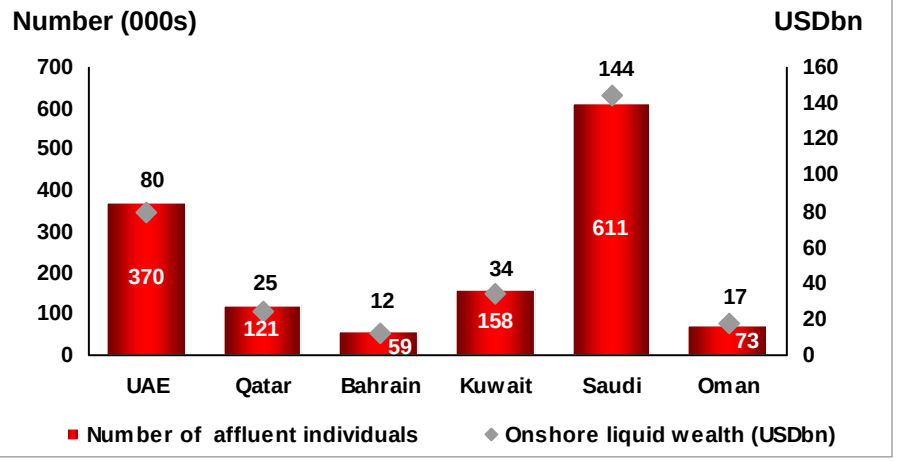
Wealth recycling

Significant pockets of ultra high net worth; 'people' connectivity dynamics

GCC HNWI[1] growth (Individuals and liquid assets)



2009 size of affluent market[2]



Local HNWI[1] investments projected to return back to domestic economies, focus on non-complex instruments

Growing indigenous local HNW/middle classes and affluent[2] diasporas seek to manage cross-border wealth

Regulators becoming more stringent; HSBC's strong compliance regime well-placed to compete against sub-optimal service providers

HSBC's regional footprint, connectivity and global reach help provide the most comprehensive solution

Notes:
Sources: Wealth Data Monitor 2009, World Bank Migration Report 2008
(1) HNWI – High Net Worth Individual – definition : owning in excess of USD1 million in liquid assets
(2) Affluent individuals definition: owning in excess of 50,000 in onshore liquid assets

Our Strategy

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Regional markets

Prioritising our opportunity

1. HIGH INCOME /SCALE

- Strongest growth
- All customer businesses, cross-business
- Inter- and intra-regional

2. OIL MARKETS

- Capital recycling
- Domestic wealth spill over

3. SERVICE MARKETS

- Complement global and intra-regional connectivity
- Brand promise

4. NEW MARKETS

- Currently have nascent presence or deem market to be viable
- Longer term opportunities

5. OTHER

- Limited in current climate

CMB

Full service	Focused service	Limited service
KSA	Oman	Lebanon
UAE	Bahrain	Pakistan
Egypt	Jordan	Palestine
Qatar		Iraq
Kuwait		Algeria

GBM

Global priority	Regional priority	Local priority
KSA	Oman	Lebanon
UAE	Bahrain	Pakistan
Egypt	Jordan	Palestine
Qatar	Kuwait	Iraq
		Algeria

Personal Customer Strategies

Matches market potential

Private Banking

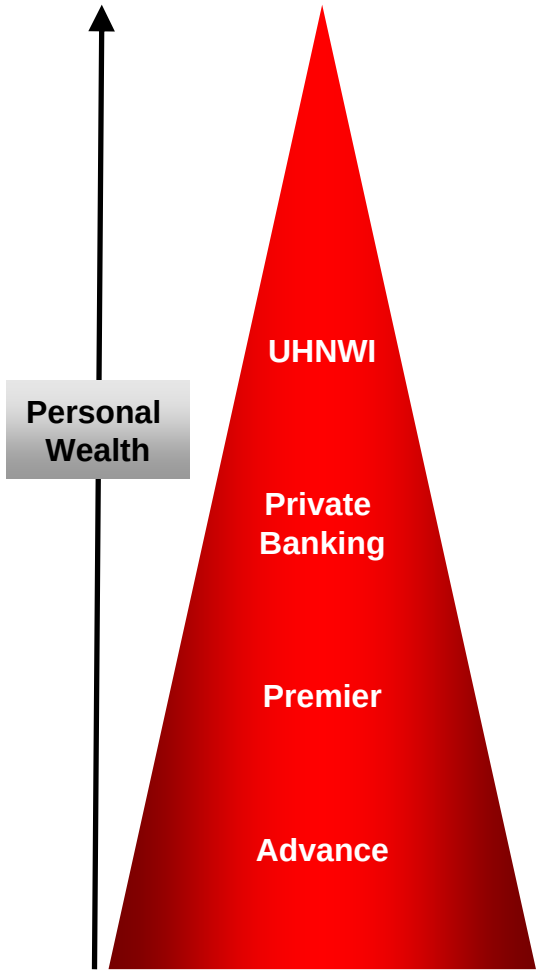
Strategic action

- Expand domestic proposition in UAE and KSA
- Integrate Family Office clients with PFS and GBM
- UHNWI/Quasi-Institutional clients with GBM
- Enhance on-the-ground representation in key countries
- Comprehensive referral programme across all customer groups
- Enhanced Amanah penetration

PFS

Strategic action

- Development of a leading wealth strategy to capture Premier/UHNW across the Gulf and wider Middle East network
- Drive new to bank Premier and Advance customers
- Develop wealth management and insurance propositions – for conventional and Amanah
- Refocus asset growth to better quality
- Establish 'joint business' frameworks with other customer groups, redefine target segments; revise distribution network
- Improved penetration of direct banking



Summary

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Well positioned for superior returns

- **Macro position and outlook are positive: demographics, trade, oil and gas**
- **This is a region that can provide superior returns to developed markets, over the long term**
- **Credit issues in resolution through decisive action; indicators suggest worst is behind us**
- **Strong regional management team, to fully exploit the opportunity**
- **Clear focus on Egypt, Qatar, Saudi Arabia and UAE**