HSBC Holdings plc

United Arab Emirates (UAE)

HSBC
The world's local bank

Presentation by Marcus Hurry

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Forward-looking statements

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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
- Regulatory environment and UAE banking sector
- Performance and strategy
- Summary

Country overview and economic outlook

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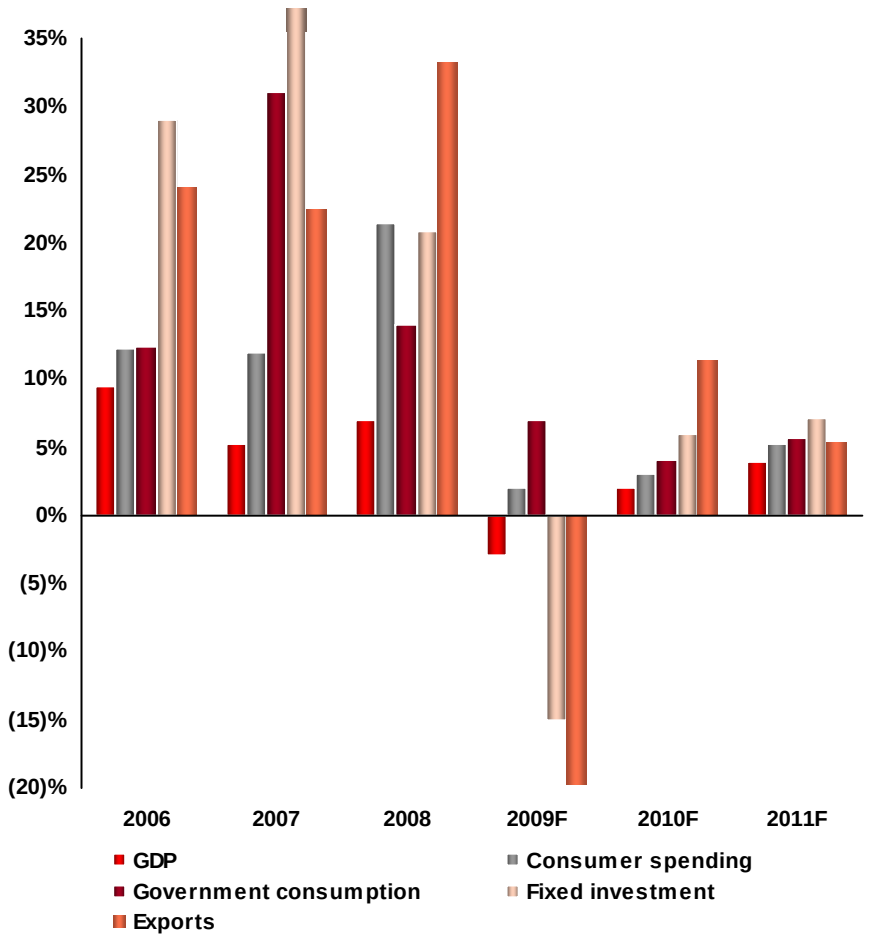
Country overview

64 years business in the UAE

Y-o-y growth rate of key economic indicators[1]



Population: 6.5m[2]

Population growth: 8.6%[3]

GDP growth: 7.3%[3]

Rising private consumption and investment

Gross GDP (PPP)[2]: USD248.9 billion

GDP per capita (USD): 46,875

Merchandise exports[1]: USD213.9 billion

FDI inflows (% of GDP): 5.8[3]

Merchandise imports[1]: USD178 billion

UAE is the third largest re-export centre in the world[4]

Notes:
(1) HSBC Global Research
(2) Economist Intelligence Unit 2010
(3) Economist Intelligence Unit 2010, historical averages for 2005-2009
(4) - after Singapore and Hong Kong. Source: SWIFT + GMG traffic for H1 2010

UAE economy

Diversity and opportunity

Macroeconomic outlook

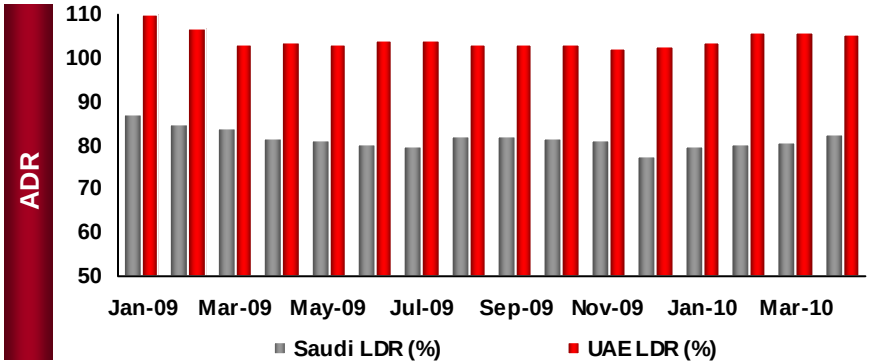
Cautiously optimistic for 2011

- **Economy contracted by c. three per cent in 2009 after an extended period of high growth**
- **Credit market is subdued; access to both domestic and international funding remains constrained**
- **Local banking sector remains highly leveraged, loan-to-deposit over 100 per cent, resulting in elevated deposit rates**
- **Consumption and investment spending are muted in both the public and private sectors**

From 2010:

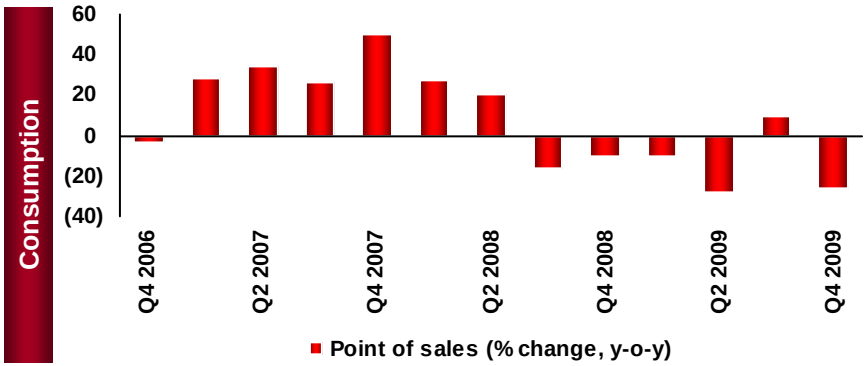
- **Dubai World's debt restructure approved in September 2010**
- **UAE economy is recovering and positioned for long-term sustainable growth**
- **Oil wealth continues to provide stability**
- **Export-oriented oil and non-oil goods and services are building momentum**

UAE loan-to-deposit ratio is still high



Source: SAMA, UAE CB

Prolonged slowdown in demand



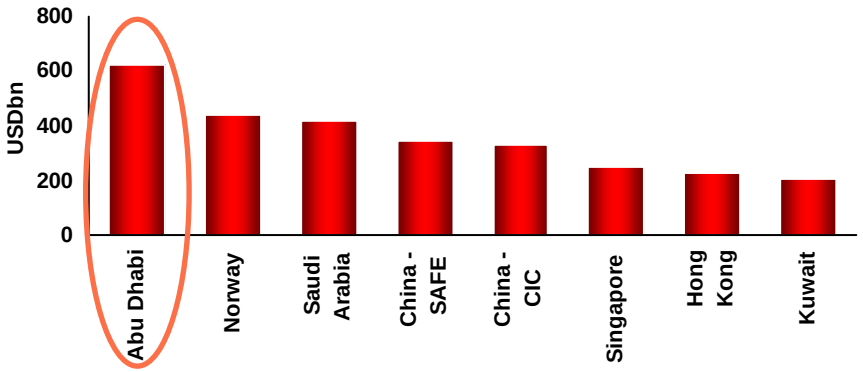
Source: UAE CB

Notes:
Source: HSBC Research team

Underlying fundamentals remain positive

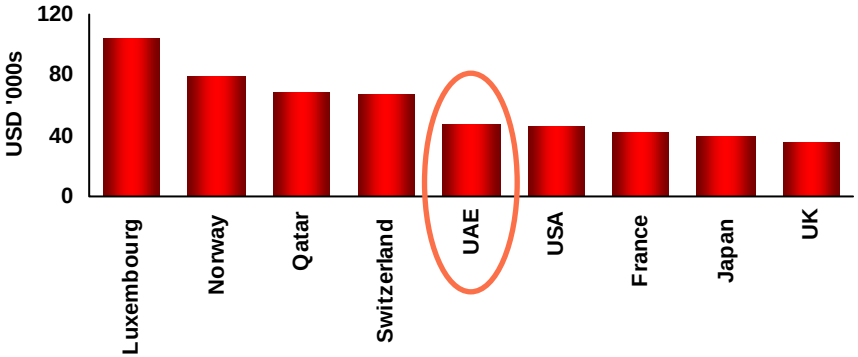
- Local political stability
- Abu Dhabi owns the world's largest sovereign wealth fund, ADIA USD600bn
- Globally ranked 33rd in GDP, and 8th in GDP per capita, and 2nd largest GDP within the Middle East region
- Dubai continues to be the gateway for Middle East trade
- UAE ranked 3rd in the world for quality of infrastructure[1], the most advanced in the region with large-capacity airports and ports
- Abu Dhabi is pursuing a long-term development programme

The world's largest sovereign wealth fund (June 2010)



Source: Sovereign Wealth Fund Institute

One of the world's highest GDPs per capita (2009)



Source: IMF World Economic Outlook Database

Notes:
(1) World Economic Forum

Trade Confidence Index

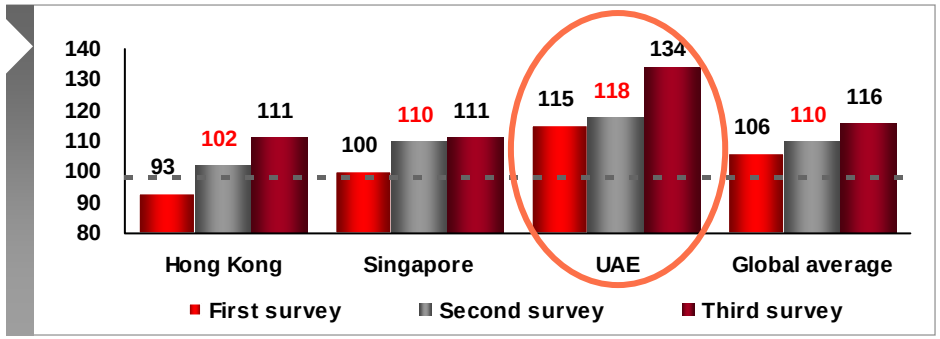
Confidence in UAE is rising and HSBC is out-performing

HSBC Trade Confidence Index H1 2010[1]

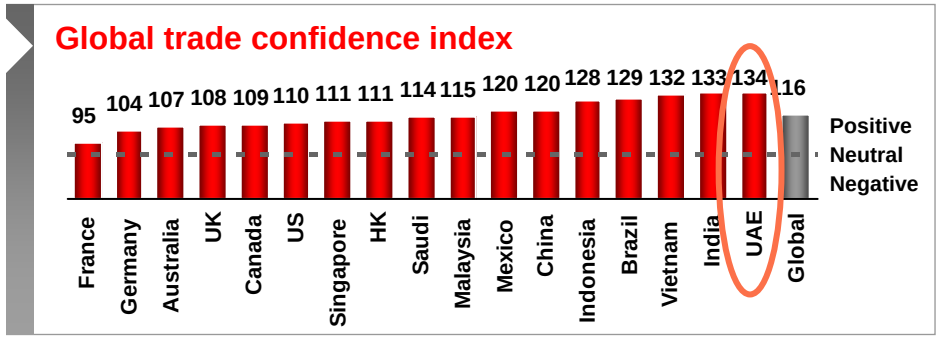
UAE is the third-largest re-export centre in the world behind Singapore and Hong Kong

UAE traders are substantially more confident about business prospects

Confidence has risen faster in UAE in H1 2010



Trade growth rates H1 2009-H1 2010	UAE[2]	HSBC[3]
Imports	3%	22%
Exports	21%	38%



Notes:
(1) Research conducted by TNS covers 5,120 traders across 40 cities in 17 countries. First survey conducted in April/May 2009; second survey in August/September 2009; third survey in February/March 2010.
(2) Source: Gulf Research Center 2010.
(3) HSBC growth rates are for internal Trade business growth for the period H1 2009-H1 2010

Regulatory environment and UAE banking sector

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Regulatory environment

Reactive regulatory environment becoming more dynamic

History of regulatory decisions

- 1985 restriction on approving more than eight branches for foreign banks
- 2008 UAE government announced guarantee of deposits in all banks in the UAE
- 2008 Central Bank and Ministry of Finance injected fresh liquidity of USD32.7bn into banks in the UAE
- 2008-09 Central Bank became more vigilant and introduced new measures for risk management
- 2009 Capital adequacy ratio increased from 10 per cent to 12 per cent
- 2010 UAE Central Bank improving communication with financial services industry

The 'world's local bank' in action in the UAE

- HSBC regarded by the UAE Central Bank as long-standing partner
- HSBC UAE branches were reduced in 1985 from 28 to 8. In recent years, 15 customer service units (CSUs) were opened; current approval requirements for additional CSUs are subject to meeting Emiratisation targets
- HSBC UAE has achieved 40 per cent Emiratisation, one of the highest percentages among all banks. In 2009, HSBC CEO awarded best Emiratisation CEO for the year

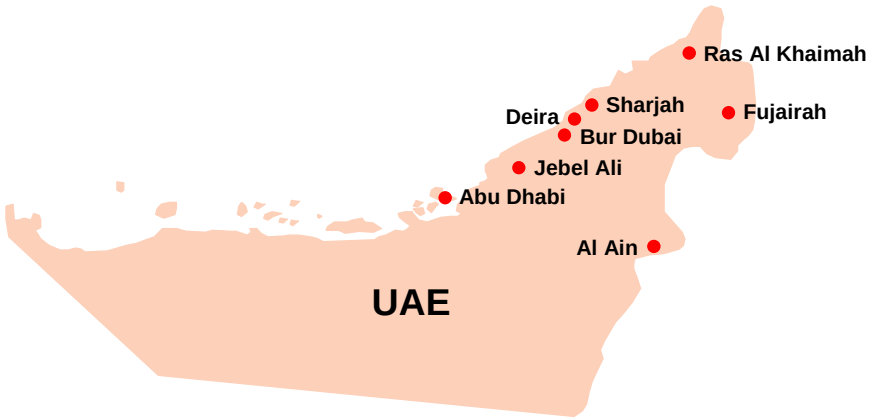
Source: Gulf Research Center 2010

UAE banking sector

HSBC, first bank established in UAE and the leading international bank

UAE was founded in 1971, Central Bank established in 1973

8	Branches
12	Personal Customer Service Centres
3	Business Customer Service Centres
216	ATMs and self-service terminals



HSBC UAE	Banking sector in the UAE
First bank established in the UAE and the leading international bank with strong regional and global network	High level of competition with 51 banks
Largest footprint compared to all foreign banks and the 12th compared to all banks in the UAE	Growing trend of consolidation among local banks
Market leader in credit card spend and ranked fourth in the number of cards issued	Banks restarted lending in 2010, focused on cards, retail mortgage and business finance
Market leader in trade finance, with market share of 16.3 per cent exports and 18.6 per cent imports[1]	Tight liquidity position among banks due to withdrawal of foreign institutional and retail speculative investment

Notes:
(1) Source: SWIFT + GMG traffic for H1 2010

Performance and Strategy

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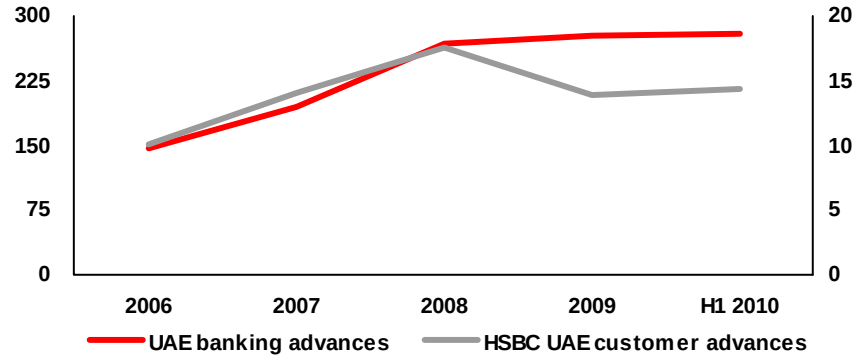
Performance

PBT of USD126m in H1 2010

PBT across business segments

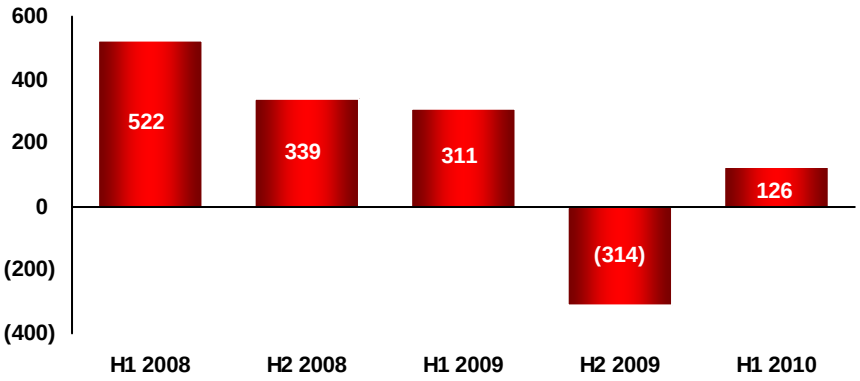
	H1 2009	H2 2009	H1 2010
Personal Financial Services	(14)	(163)	7
Commercial Banking	141	(277)	98
Global Banking and Markets	182	125	24
Private Banking	(1)	(1)	(2)
Other	3	2	(1)
Total	311	(314)	126

HSBC UAE customer advances; all UAE bank advances USDbn

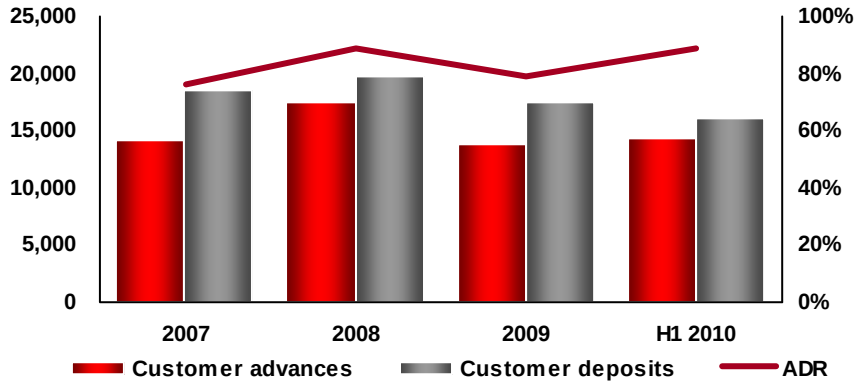


Note : Source UAE Central Bank MI

Profit before tax (PBT) USDm



Customer advances and deposits USDm



Sustainable business growth

New management team focusing on sustainable growth

- **New UAE leadership team in 2010**
- **Rebalanced investment of time and resource between Dubai and Abu Dhabi**
- **Focused on trade and working capital finance**
- **Redefined retail target market from mass to Premier and Advance**
- **Target mass affluent UAE national and Arab expatriates**
- **Measured growth in retail mortgage business**
- **Controlled appetite for commercial construction and real estate finance**

Integrated business model

Driving connectivity

A joined-up business
capturing new opportunities across all segments

Personal Financial Services	**Attract liabilities, target mass affluent segment and grow cards business**
Commercial Banking	**Launch Payment and Cash Management liability initiative, focus on international business and capture trade flows**
Global Banking and Markets	**Capture opportunities from project finance, family businesses and local corporate expansion strategies**
Private Banking	**Enhance offshore PB business and establish an onshore PB business offering family office services and wealth solutions**

Personal Financial Services

Redefined strategy focusing on the mass affluent segment and growing the card business

Clear value-based segmentation

- Focused business growth through acquiring new corporate relationships, while maintaining sustainable segment-focused risk policy
- Define specific Advance aspirant and 'feeder' segments
- Exploit opportunities for enhanced insurance and simple investment product sales

Optimise product offerings

- Enhance corporate employee packages
- Enhancing premium cards proposition, improved Airmiles programme and upgrading Gold cards into Advance Platinum cards

Increase penetration in the mass affluent UAE national and Arab population

- Create a comprehensive proposition for both local and expatriate mass affluent Arab customers
- Capture Islamic banking opportunity through Amanah
- Employ dedicated Arabic-speaking RMs for Premier target market

- HSBC UAE has a 13 per cent share[1] of total UAE mass affluent customer segment
- Growth opportunity identified within the UAE national and Arab expatriate segments
- Strong growth in Premier customer numbers; over 40,000 Premier customers in UAE

Notes:
(1) PFS Market Share Study – UAE July 2009. Agency TNS UAE

Personal Financial Services

Managing risk in different market conditions

Develop a wealth-driven premium-based business

- **Create central teams to manage transactional and service-related issues (Premier Direct and virtual PRMs)**
- **Hire and up skill Premier Relationship Managers**

Robust risk management

- **Revised lending policy focusing on top tier segment Premier and Advance customers**
- **Asset growth to be focused on mortgages and cards for Premier and Advance customers where the risk profile is stronger**

Business transformation

- **One HSBC for retail banking launched in September 2010; enhance customer experience and strengthen connectivity with the Group**
- **Increase merchant alliances and launch loyalty programme**

Private Banking

Building onshore business following establishment of offshore capabilities

Market intelligence

- **In the ME, the total HNWI population in 2009 rose 7.1 per cent to 400,000, returning to 2007 levels, and their combined wealth increased by 5.1 per cent to USD1.5 trillion**
- **The HNWI population in the UAE estimated at 54,500**
- **HSBC Global Private Banking is ranked second among international private banks globally (*Euromoney* 2010)**
- **HSBC MENA Private Banking was ranked first by *Euromoney* 2010**

Objectives

- **An onshore Private Bank strategy to grow market share**
- **Develop new product propositions, leveraging global and regional capabilities**

Propositions and key initiatives

- **Expand domestic HNWI proposition in the UAE by focusing on product offering, key hiring and system investment**
- **Develop Family Office Service proposition**
- **Partner with Global Banking and Markets to improve penetration of the UHNWI/quasi-institutional segment (private placements, corporate finance solutions, family governance, family office advisory, hedge funds, private equity**
- **Improve the referral programme across all customer groups**

Source: Merrill Lynch World Wealth Capgemini Report 2010

Commercial Banking

Capture international trade flows

Be the leading international bank

Renewed focus on international business with dedicated relationship teams for China, India, Saudi Arabia and Europe to capitalise on increasing international trade flows

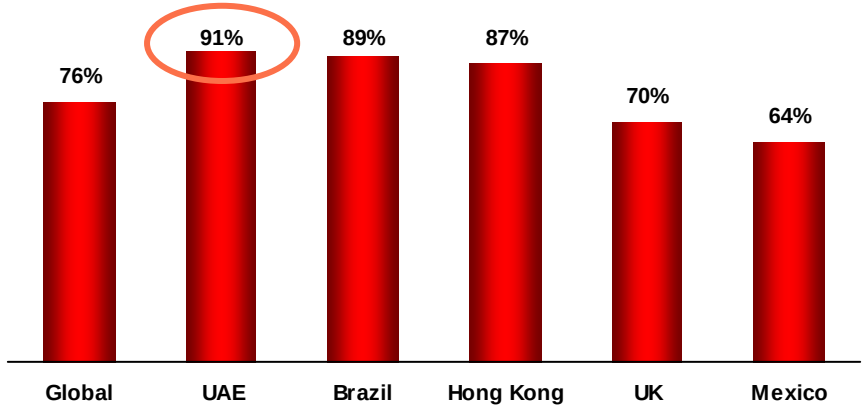
Leverage international business initiatives, overseas delegations, job swaps, twinning, cross-border client planning

Ensure international revenues grow faster than domestic revenues

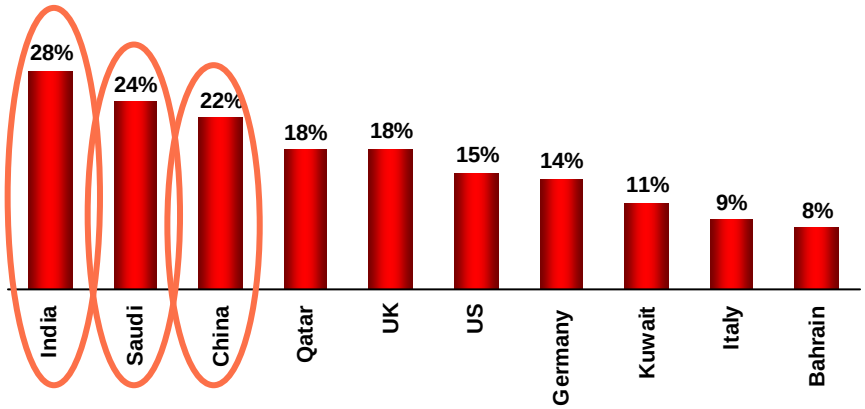
Trade campaign launched to drive facility utilisation offering corporate rewards

Knowledge-building trips organised to HSBC Group offices

% of companies conducting international business



Top international locations for UAE International Corporates



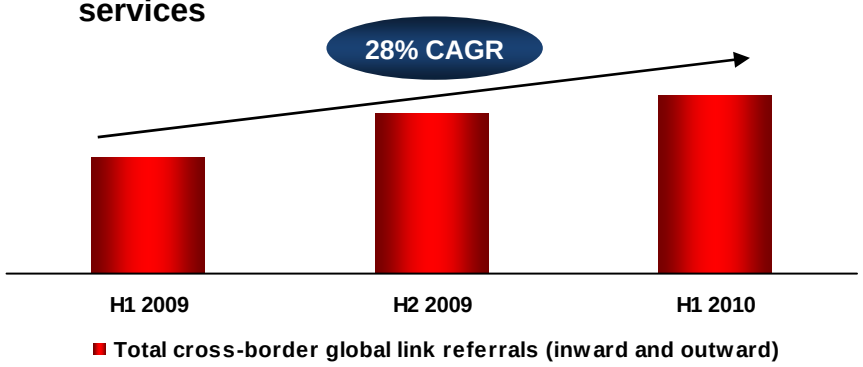
Source: Survey on internationalisation of business conducted in April and May 2010 by TNS

Commercial Banking

Successful launch of USD100m SME fund

Be the best bank for business

- SME fund of USD100m in partnership with the UAE government has been successful, and we are exploring similar opportunities
- Build strategic relationships with embassies, business groups, select free zones
- Launched a unique Corporate Payments and Cash Management (PCM) campaign to significantly enhance and augment our liabilities proposition
- Focus on aligning our Factoring business to increase market share and sustain our position as the best international bank offering factoring services



Improve segmentation framework to drive revenue growth

- Continue to provide world-class service to our customers, fine-tuned to support our business and corporate propositions
- Increase wallet share and be within the top three preferred banks for our top tier customers
- Increase cross-selling opportunities globally and within UAE customer groups

Global Banking and Markets in the UAE

Growing opportunity in infrastructure, sovereign wealth funds and corporate expansions

- **UAE acts as the hub in the Global Banking and Markets 'hub and spoke' model of management**
- **UAE is the largest base for Global Banking and Markets in the region measured by assets, revenues and profits**
- **Expected growth in UAE to come from enhanced focus on:**
  - **Abu Dhabi including enhanced coverage resource and a new dealing room**
  - **Focus on project finance and Export Credit Agency (ECA); generate opportunities in advisory and finance across the UAE as local governments build infrastructure and grow airline and airport capacity**
  - **Penetration of large companies including family groups to access growing share of advisory and restructuring opportunities**

Summary

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Key opportunities and priorities

Maintain position as the leading international bank

- **UAE resilient economy and strong fundamentals**
- **HSBC UAE to operate within changing market dynamics, applying resilient sustainable business strategies and the strongest business governance at all times**
- **Drive performance on the back of an integrated business model, with cross-business referrals capturing opportunities across all business segments**
- **Leverage history, brand, international connectivity and trade services market share in particular**
- **Capture opportunities and increase market share in all areas where greatest long-term sustainable potential exists**