

HSBC Holdings plc and HSBC Bank Middle East Ltd

May 2011



# Presentation to Fixed Income Investors

## **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 the Group's and [subsidiaries'] Annual Report and Accounts 2010. 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 are provided in the 'Reconciliation of reported and underlying profit before tax' supplement available at [www.hsbc.com](http://www.hsbc.com).**

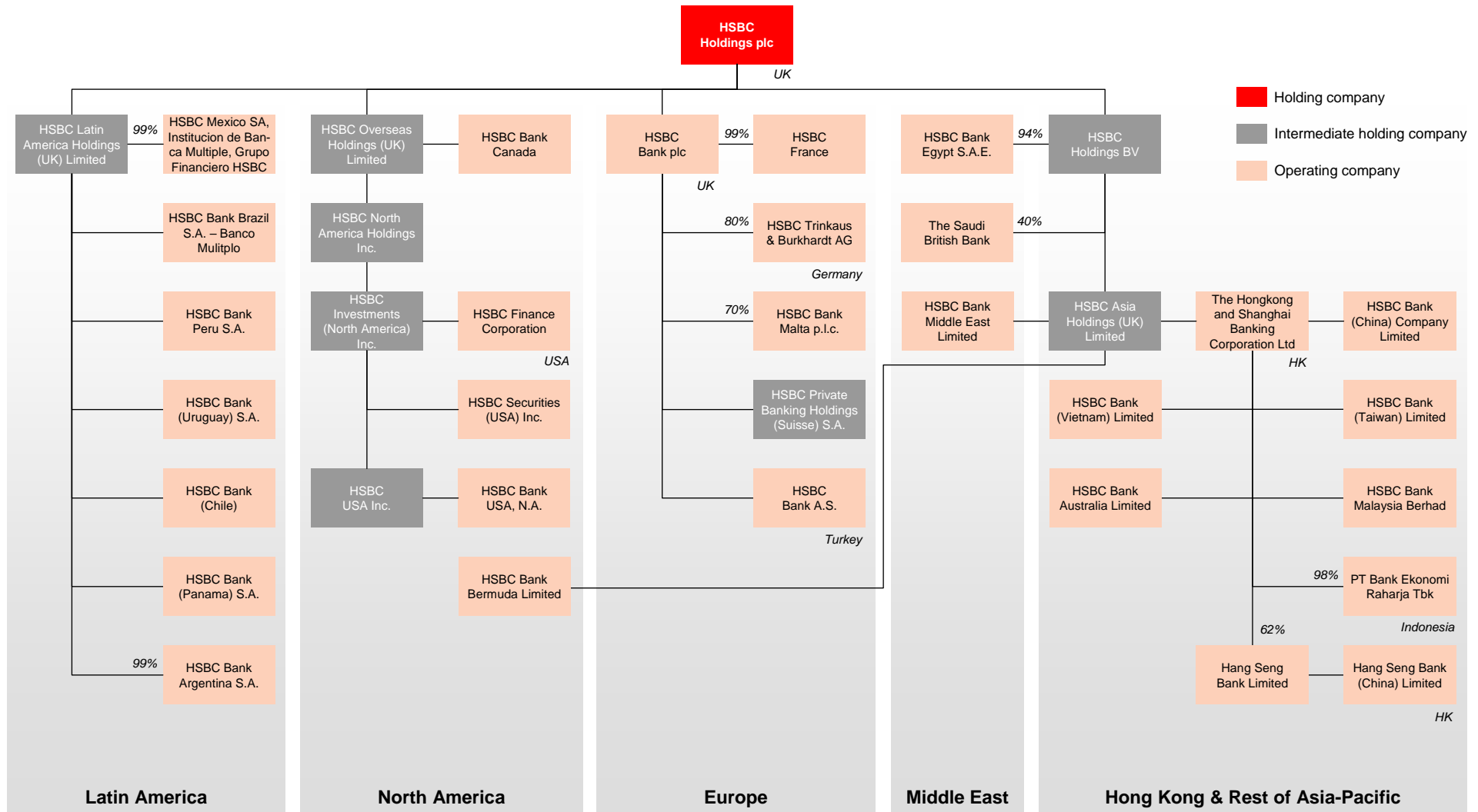
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HSBC Group



# Simplified structure chart



**Notes:**

- (1) All entities wholly owned unless shown otherwise (part ownership rounded down to nearest percent)
- (2) At 31 December 2010

# Strategy summary

## HSBC's distinctive position

Network of countries relevant for international connectivity

Access and exposure to high growth markets and businesses

Strong balance sheet generating resilient stream of earnings

## Clear strategy and execution focus

Strategy drives investment priorities and capital allocation

Action plan addressing growth and cost efficiency across geographies and businesses

Experienced management team accountable for delivery

# Strategy implementation

Key elements	Actions (examples)	In 12 months progress on <sup>1</sup> ...
<b>Capital Deployment</b>	<ul style="list-style-type: none"><li>▪ “Five filters” drive disposals and closures of non-strategic and/or underperforming positions/businesses</li><li>▪ Turnaround of strategically relevant businesses</li></ul>	<ul style="list-style-type: none"><li>▪ Transactions announced and executed</li><li>▪ Tangible progress in turnaround actions (e.g., US)</li></ul>
<b>Cost efficiency</b>	<ul style="list-style-type: none"><li>▪ Target USD2.5-3.5bn in sustainable cost saves in 3 years, achieving our 48-52% CER target by 2013</li><li>▪ Simplify and delayer the organisation</li></ul>	<ul style="list-style-type: none"><li>▪ Material savings identified and being delivered across the 4 main programmes</li></ul>
<b>Growth</b>	<ul style="list-style-type: none"><li>▪ Revenue growth in fast growing markets</li><li>▪ Capture wealth opportunity (USD4bn in additional revenues)</li><li>▪ Leverage intra-group connectivity between CMB and GBM (USD1bn of additional revenues)</li></ul>	<ul style="list-style-type: none"><li>▪ Income growth particularly in Asia and Latin America</li><li>▪ Wealth and GBM/CMB connectivity</li></ul>

Note:  
(1) From 11 May 2011

# HSBC Amanah

## Shariah compliant solutions

HSBC Amanah is HSBC Group's International Shariah compliant proposition, offering a wide range of products and services across the entire spectrum of customer groups including Retail, Corporate and Institutional clients

<b>Retail</b> Financing, Wealth management, Insurance	<b>Corporate</b> Financing, Trade, PCM, Factoring	<b>Institutional</b> Syndicated Finance, DCM, FIG, Treasury
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- HSBC Amanah is the global Shariah compliant proposition of HSBC Group with total assets USD11.2bn<sup>1</sup>
- Global presence across Islamic Markets, positioned to capture cross-border and cross-business opportunities through all segments
- Capacity to customise product and service solutions tailored to client-specific goals and objectives
- Expertise in Islamic structures including Sukuk, Ijarah, Murabaha, Mudaraba, Takaful [Insurance]

### Shariah Compliant Finance Market

- Industry assets estimated at USD890bn<sup>2</sup> with a CAGR of 20% over the last 5 years
- 10 countries represent 83% of total Islamic assets <sup>3</sup>
- 7 of these countries are in MENA– Bahrain, Jordan, Kuwait, Pakistan, Qatar, UAE, KSA

**HSBC Amanah**  
Islamic Financial Solutions

(1) FT "The Banker", December 2010  
(2) World Market Monitor; McKinsey; Central banks; Bank Annual reports  
(3) HSBC Management Information, December 2010, including 40% share in SABB  
(4) [www.hsbcamanah.com/amanah/about-amanah/islamic-banking/shariah-supervision](http://www.hsbcamanah.com/amanah/about-amanah/islamic-banking/shariah-supervision)



# HSBC Amanah

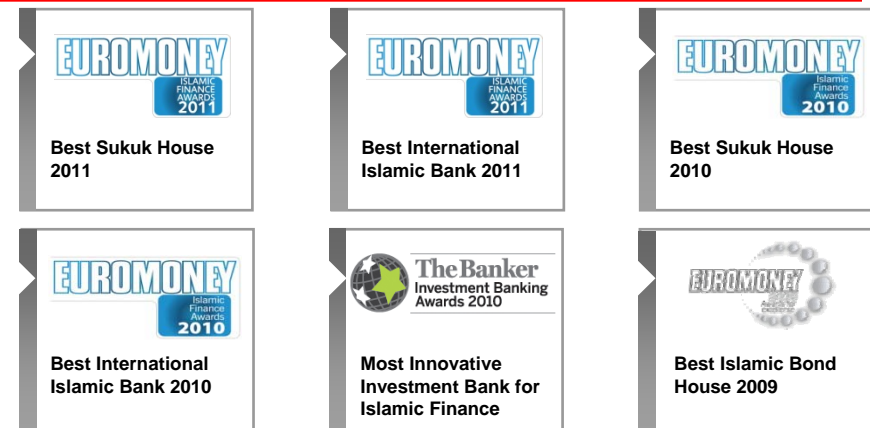
Guided and Supervised by a leading committee of independent Shariah Scholars

## Corporate Values

- HSBC Amanah strategic priority: Shariah compliance of its business operations
- Shariah commitment: In developing our products and services, we are committed to the highest Shariah standards in the Islamic banking industry.
- Annual Shariah Committee reviews ensure HSBC Amanah operations are Shariah compliant.
- HSBC Amanah Central Shariah Committee comprises of:
  - Dr. Mohammed Ali Elgari
  - Sheikh Nizam Yaquby
  - Dr. Muhammed Imran Usmani

## League Table Performance

- #1 in 2010 in International Sukuk market share<sup>1</sup>
- #1 in 2010 in GCC Sukuk market share with 34% representing >15% lead on nearest competitor<sup>1</sup>



(1) Source: Bloomberg December 2010

**HSBC Amanah**  
Islamic Financial Solutions

# HSBC Group Financial performance in 2010

# Financial overview

Reported results – strong recovery in profit

USDm	2009	2010	% Change
Income <sup>1</sup>	72,714	68,310	(6)
Loan impairment changes <sup>2</sup>	(26,488)	(14,039)	+47
Operating expenses	(34,395)	(37,688)	(10)
Associates and joint ventures	1,781	2,517	+41
Profit before tax, ex changes in FV of own debt due to credit spread	13,612	19,100	+40
Changes in FV of own debt due to credit spread	(6,533)	(63)	n/a
Profit before tax	7,079	19,037	+169
Profit after tax	6,694	14,191	+112

Notes:

(1) Excluding changes in Fair Value of own debt due to credit spread

(2) Loan impairment charges and other credit risk provisions

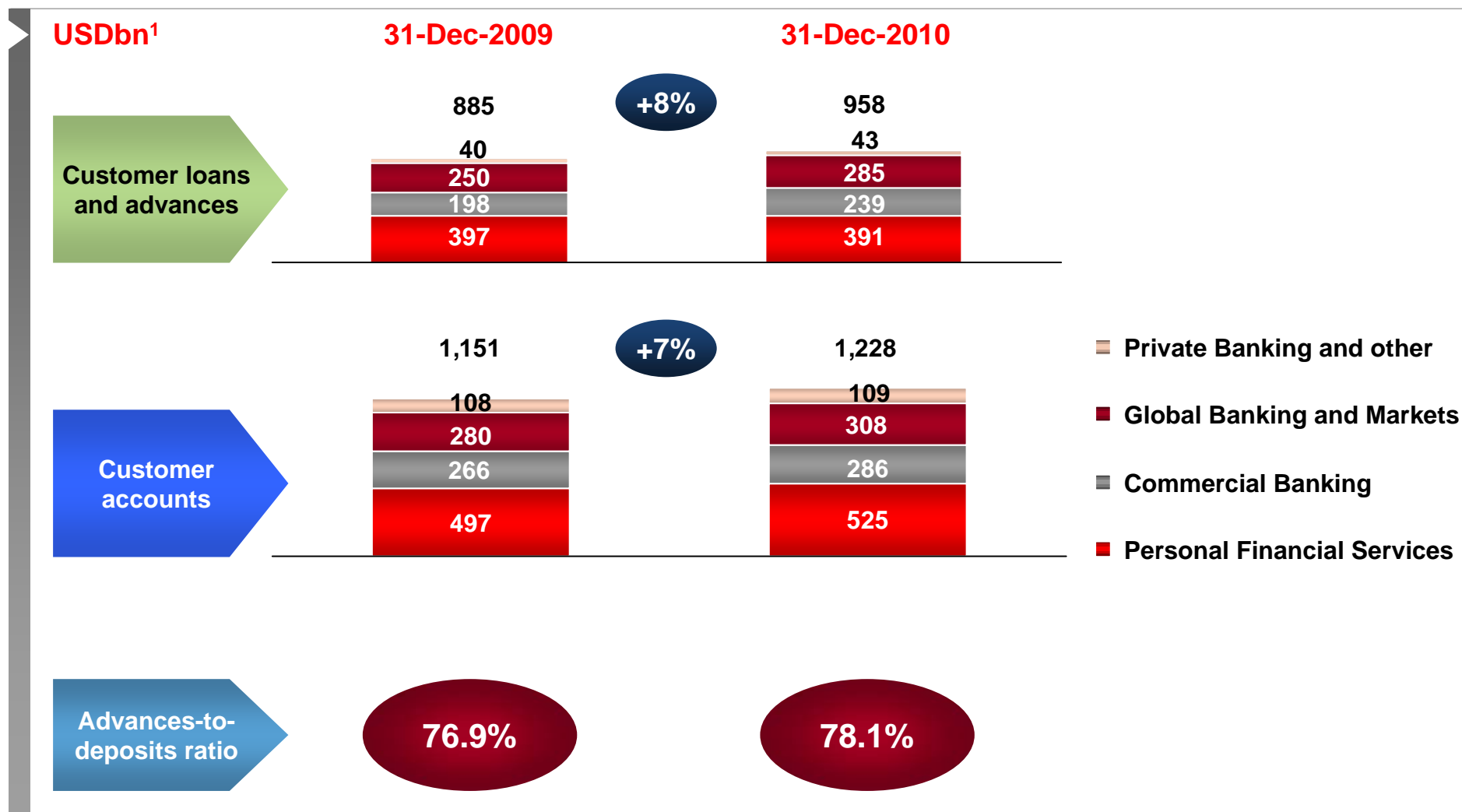
# All regions and businesses profitable

Profit before tax

USDm	Latin America	North America	Europe	Middle East	Hong Kong	Rest of Asia-Pacific	Total
Personal Financial Services	294	(2,149)	1,289	100	2,918	1,066	3,518
Commercial Banking	554	939	1,205	484	1,352	1,556	6,090
Global Banking Markets	897	1,582	2,726	317	1,430	2,584	9,536
Private Banking	10	111	640	(15)	227	81	1,054
Other	40	(29)	(1,558)	6	(235)	615	(1,161)
<b>Total</b>	<b>1,795</b>	<b>454</b>	<b>4,302</b>	<b>892</b>	<b>5,692</b>	<b>5,902</b>	<b>19,037</b>

# Customer lending and funding

Funding strength supports customer lending growth

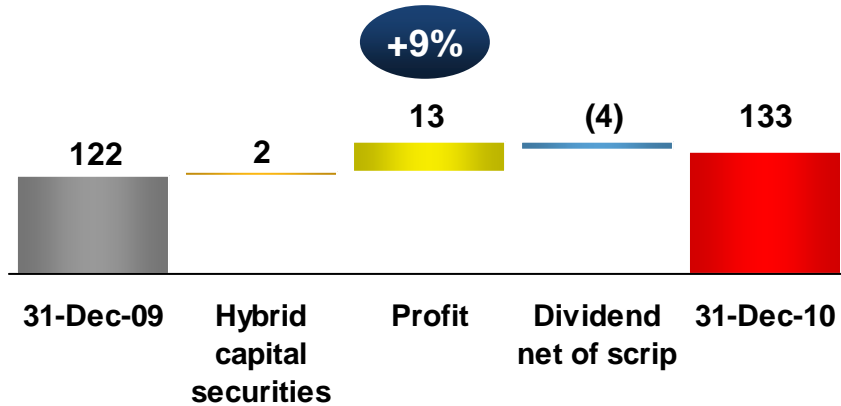


Note:  
(1) Underlying basis

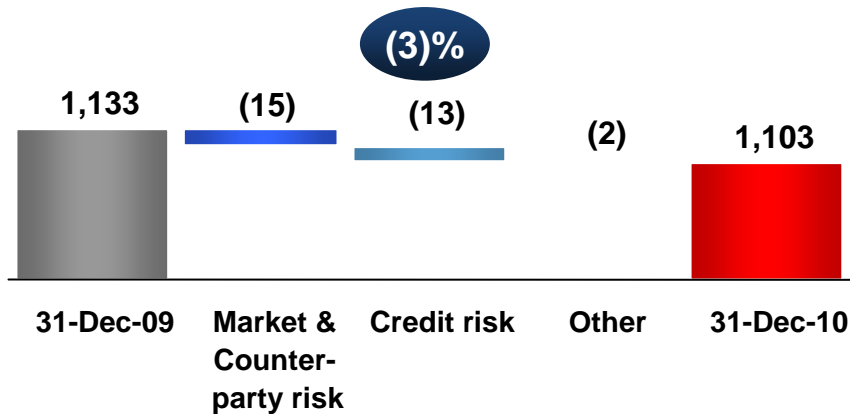
# Capital adequacy

Strengthened by capital generation and lower risk-weighted assets

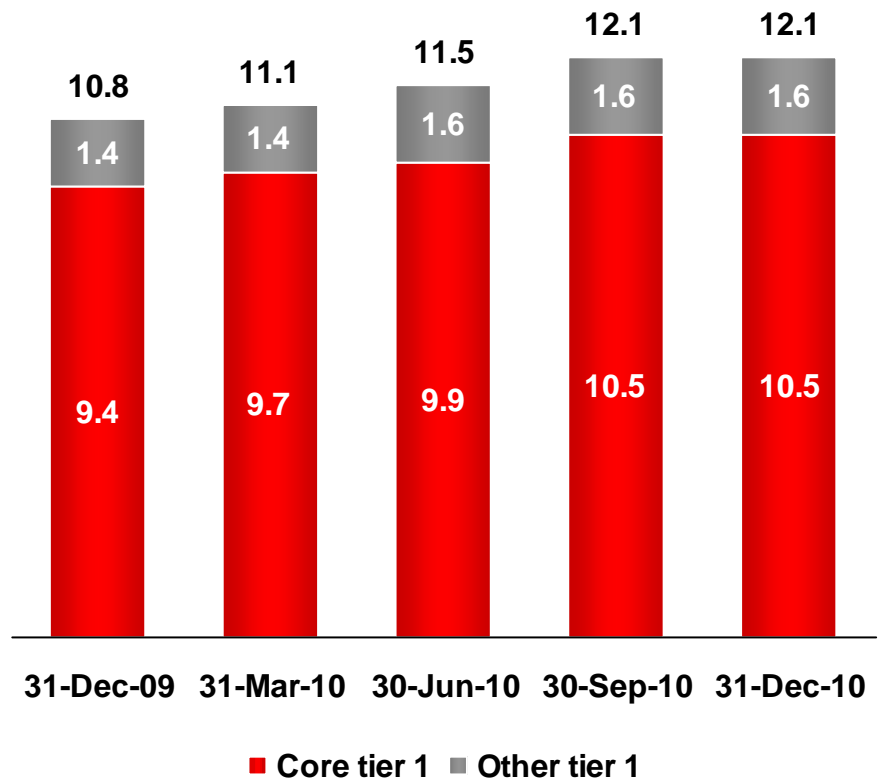
## Movement in tier 1 capital, USDbn



## Risk-weighted assets, USDbn



## Tier 1 ratio (%)



# Performance review

## Challenges and opportunities<sup>1</sup>

	2010	KPIs <sup>2</sup>
Return on total Shareholders' equity	9.5%	12% - 15%
Cost efficiency ratio	55.2%	48% - 52%
Advances-to-deposits ratio	78.1%	<90%

Notes:

- (1) Figures on a reported basis
- (2) Key Performance Indicators

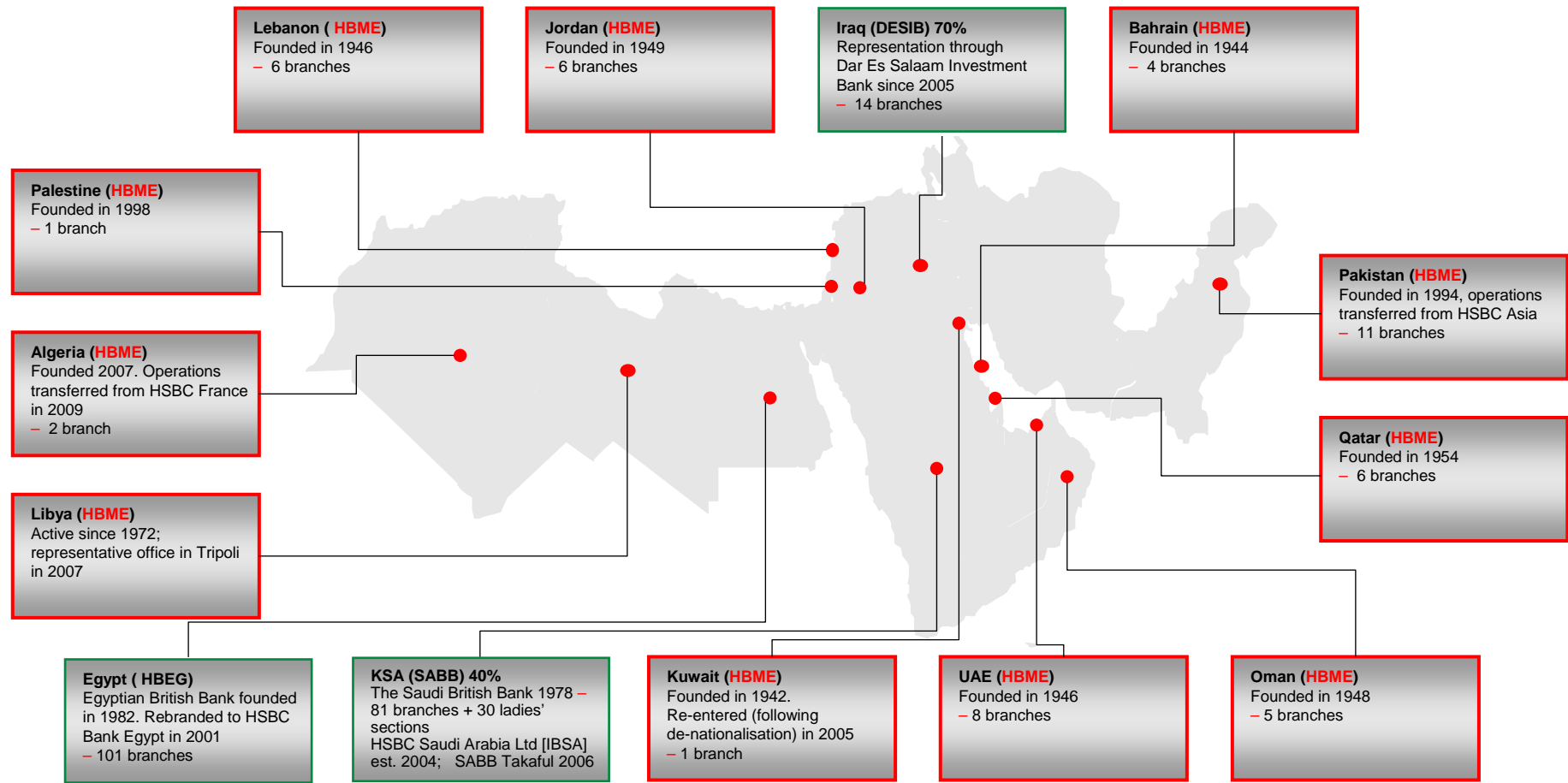
# HSBC in the Middle East



# Largest international bank network in the region

## History stretches back over 50 years

### HSBC business landscape in MENA: Over 250 branches and offices\*



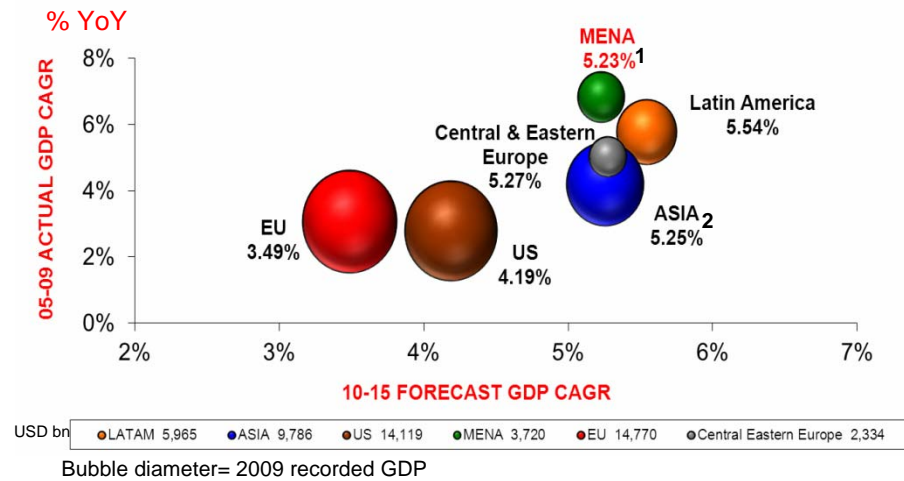
\* 31 December 2010

- (1) HBME = HSBC Bank Middle East Limited
- (2) HBEG = HSBC Egypt
- (3) DESIB = Dar EsSalaam Bank
- (4) SABB = Saudi British Bank

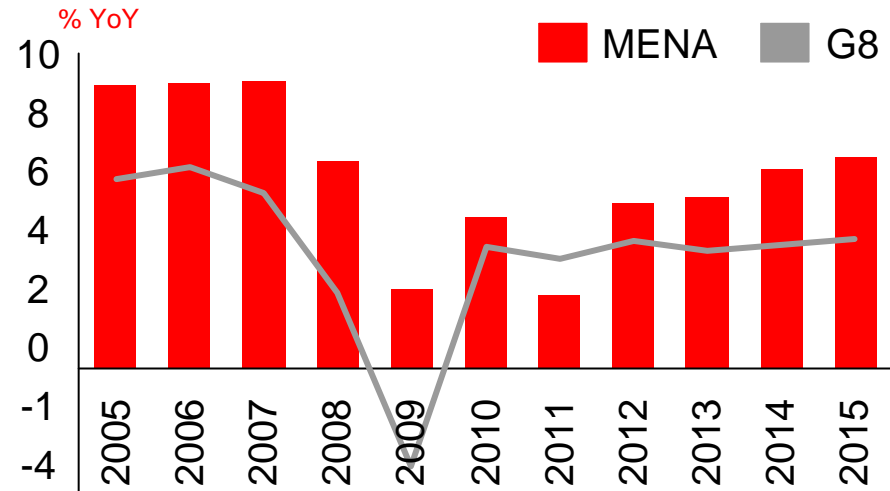
# Economic growth potential

Infrastructure development, hydrocarbon revenues, domestic demand

GDP Growth Trends, USD bn



GDP Growth, USD bn



61% of world oil reserves

45% of world gas reserves

500m population

- IMF forecasts 1Q11: continuation of robust regional growth despite impact in affected MENA countries
- Historic growth trends proven, underpinned by increasing economic strength
- Strong underlying fundamentals of geography, oil, gas and demographics remain for long term

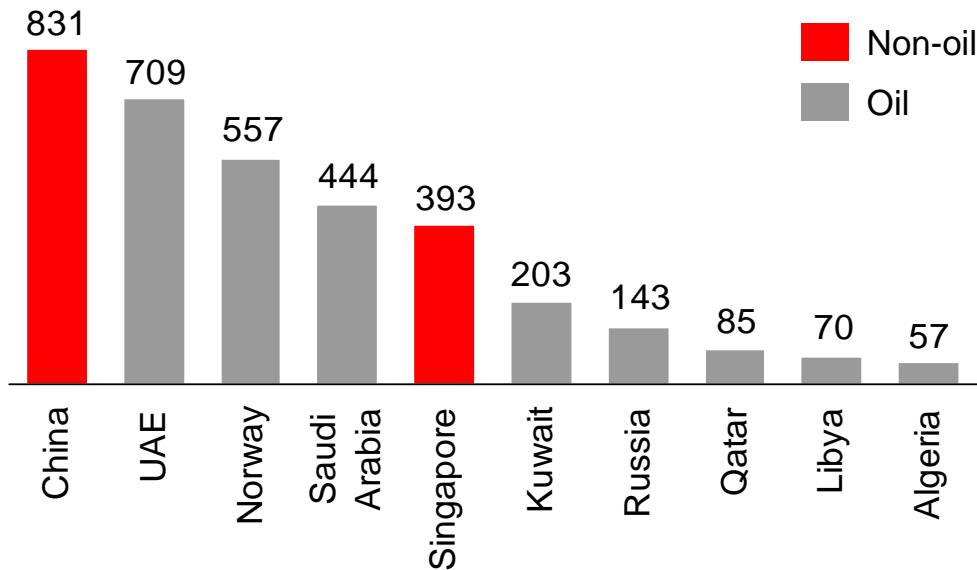
1 MENA includes Pakistan  
2 ASIA - excluding China and India  
Source: IMF April 2011 World Economic Report; HSBC Global Research Economists Report

# Capital and wealth recycling

## Diversifying investment portfolios globally

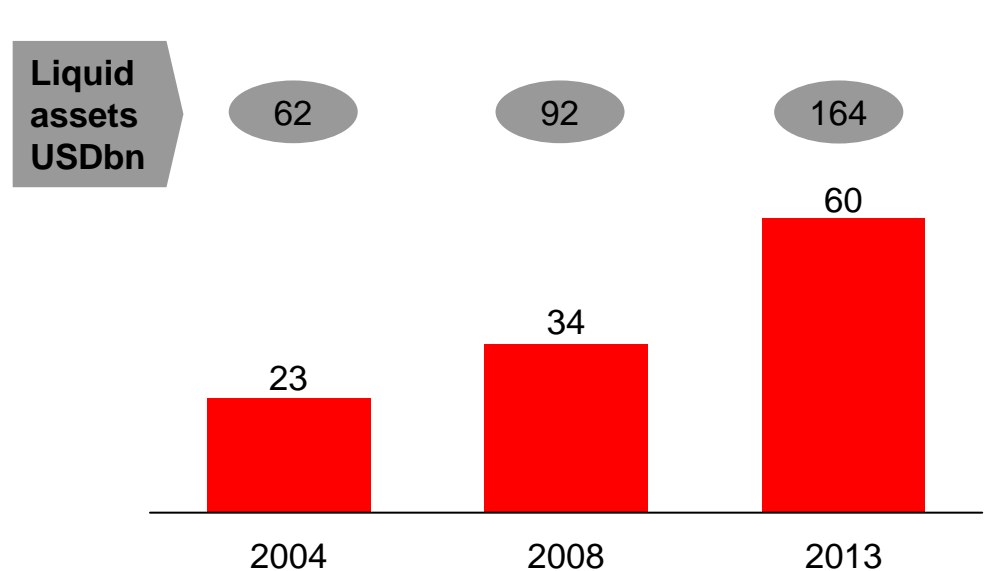
### Sovereign Wealth Funds

Assets, USDbn<sup>1</sup>



### GCC<sup>2</sup> HNWI<sup>3</sup> growth

Individuals, thousands



- Six out of world's Top 10 largest Sovereign Wealth Funds are in the Middle East
- International and regional capital recycling opportunity in addition to local and regional infrastructure investment
- Rapid accumulation of private wealth and growing mass affluent segment; demand for developed and emerging market solutions

<sup>1</sup> World Ranking April 2011. Sovereign Wealth Fund Institute

<sup>2</sup> GCC – Gulf Cooperation Council: United Arab Emirates, Saudi Arabia, Oman, Qatar, Kuwait and Bahrain.

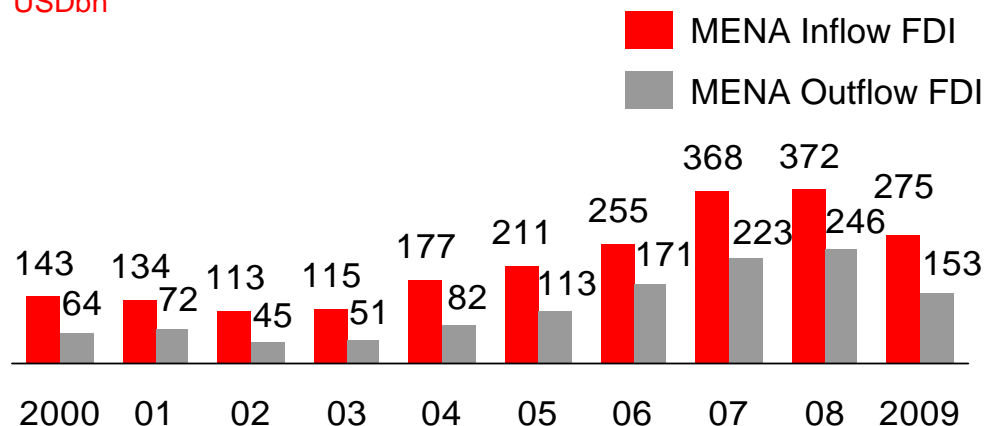
<sup>3</sup> Definition: Data Monitor: HNWI – High Net Worth Individual

Sources: Sovereign Wealth Fund Institute; World Investment Report – UNCTAD, FDI Intelligence

# Growing east to east and intra-MENA trade and FDI<sup>1</sup> connectivity

## 2004-2009 Emerging Markets CAGR FDI outflows<sup>2</sup>

USDbn



## Global connectivity shifting East

- Significant intra MENA infrastructure spend and growth in FDI flows continue
- East to East migration as Asia replaces EU as principle trade partner
- Fast growing intra MENA trade, playing to HSBC regional network strength

## Trade flows with MENA - ranked by growth<sup>3</sup>

USDbn	2000	2010	CAGR
Intra-MENA	38	195	17.6%
Asia	204	1,016	17.4%
Africa (Sub-Saharan)	16	47	11.5%
Europe	310	895	11.2%
North America	50	135	10.4%

Note:

1 FDI – Foreign direct investment

2 Source: IMF GDP – UNCTAD 2010. World outflows at USD1,101bn and inflows at USD1,114bn

3 Source: IMF Direction of Trade Statistics Database YTD Oct 2010

# HSBC Bank Middle East Limited Financial performance in 2010

# Financial overview

Reported results – Improvement in profit from de-risking loan portfolio

US\$m	2009	2010	% Change
Income	2,215	1,996	(9.9)
Loan impairment charges <sup>1</sup>	(1,273)	(534)	+58
Operating expenses	(873)	(912)	(4.5)
Income from associates	4	9	+125
HBME Profit before tax <sup>2</sup>	73	559	+665
Total Middle East Region PBT <sup>3</sup>	455	892	+96

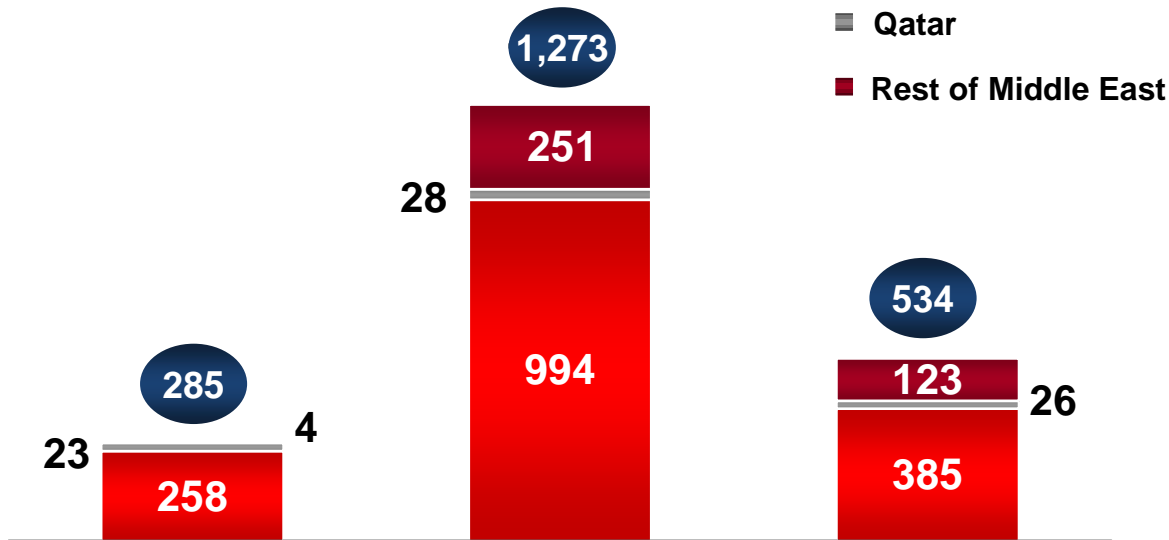
Notes:

- (1) Loan impairment charges and other credit risk provisions
- (2) Source: HSBC Bank Middle East Ltd Annual Report & Accounts
- (3) Source: HSBC Holdings Plc Annual Report & Accounts

# Loan impairment charges declining

Improving trend in all businesses

Loan impairment charges US\$m  
By Region



2008

2009

2010

1.33%

7.32%

9.74%

Impaired loans as % of gross loans & advances

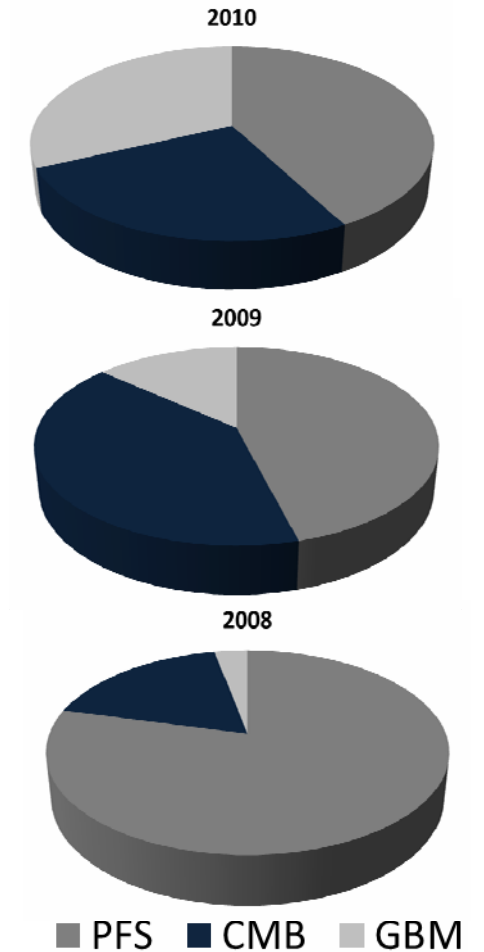
1.16%

6.06%

6.65%

Total impairment allowances % of gross loans & advances

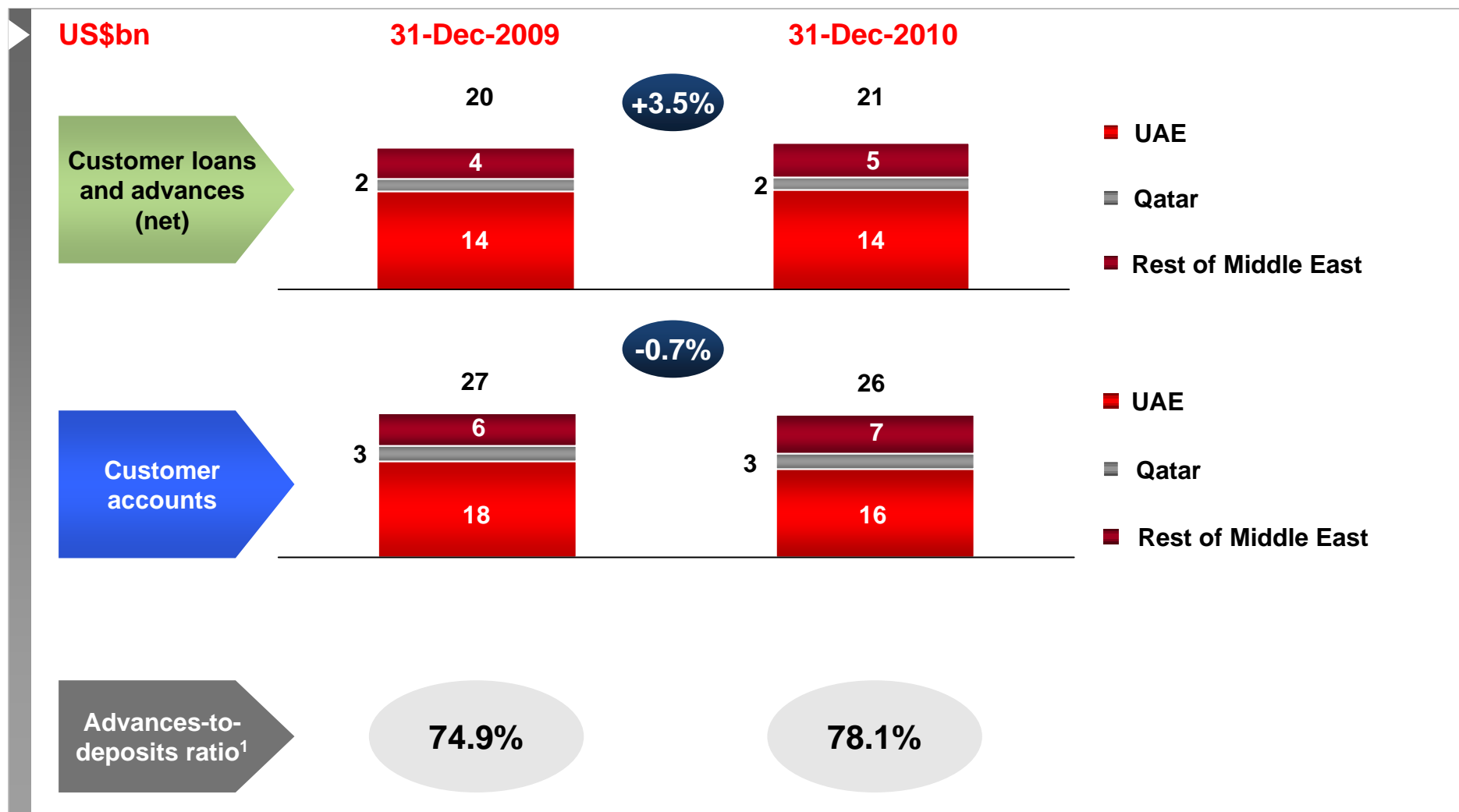
Loan impairment charges  
By Customer segment<sup>1</sup>



Note:  
(1) Internal Financial Data

# Customer lending and funding

Loans and advances fully funded by deposits



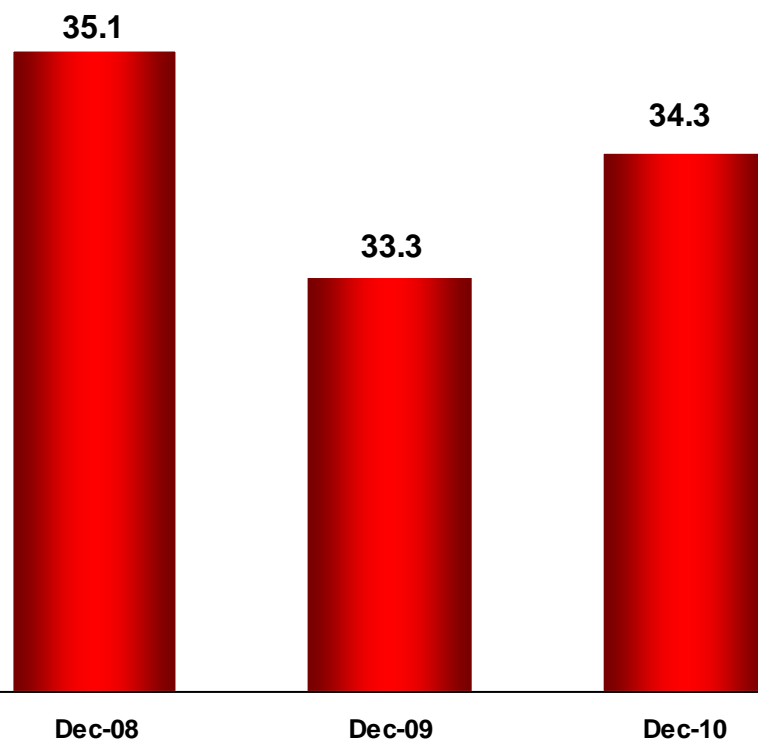
Note:  
 (1) Simple ADR: Customer loans & advances as a % of Customer accounts



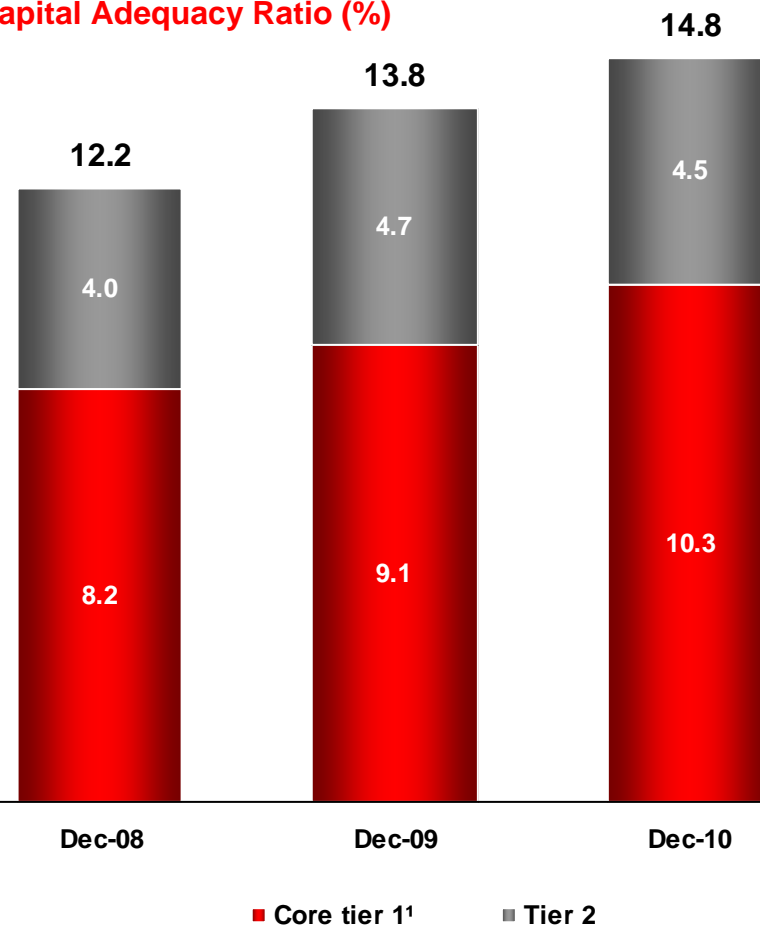
# Capital strength

Strong capital ratio

HSBC Bank Middle East Limited  
Risk-weighted assets (US\$bn)



HSBC Bank Middle East Limited  
Capital Adequacy Ratio (%)



Notes:

(1) Core tier 1 capital represents tier 1 capital excluding preferred shares and non-controlling interest in subsidiary and trust, as per JFSC requirements

# Conclusion & Structure overview

# HSBC in the Middle East

Well positioned for sustainable growth

## Competitive Advantages

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Compelling macro outlook: demographics, oil, gas, trade

Long term case for superior returns remain

HSBC Network to connect MENA and the rest of the world

Cross-border leadership in trade, capital and wealth flows

## Strategic Actions

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Clear focus on Egypt, Saudi Arabia, UAE and Qatar

Operational transformation; efficiency, control, distribution, connectivity

Connect customers across geographies & customer groups

Focus on wealth accumulation in mass affluent & HNW markets

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