



# Investor Presentation

## HSBC Middle East & North Africa Region

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HSBC 



## Forward-looking statements

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# Agenda

- **Middle East & North Africa Macroeconomic Overview** **Section 1**
- **HSBC Position & Strategic Direction** **Section 2**
- **Financial Performance & Outlook** **Section 3**
- **Summary** **Section 4**



## Key Messages

Ongoing significant headwinds across the Middle East & North Africa as socio-economic unrest and geopolitical tensions continue

MENA fundamentals and mid- to long-term outlook remain attractive with vast reserves, increasing South-South flows and growth still ahead of that of developed markets

Opportunity: fast growing youth demographic, significant infrastructure investment, rapid accumulation of private wealth and international & regional capital recycling

Increasing efficiency through portfolio rationalisation and investment, with effective capital deployment and sustainable cost savings

HSBC well capitalised, and strategically positioned to capture the opportunity in MENA

# Middle East & North Africa - Regional Overview



# Middle East & North Africa macroeconomic overview

2008-2011: global economic slowdown and unprecedented socio-political change in MENA

## Strengths

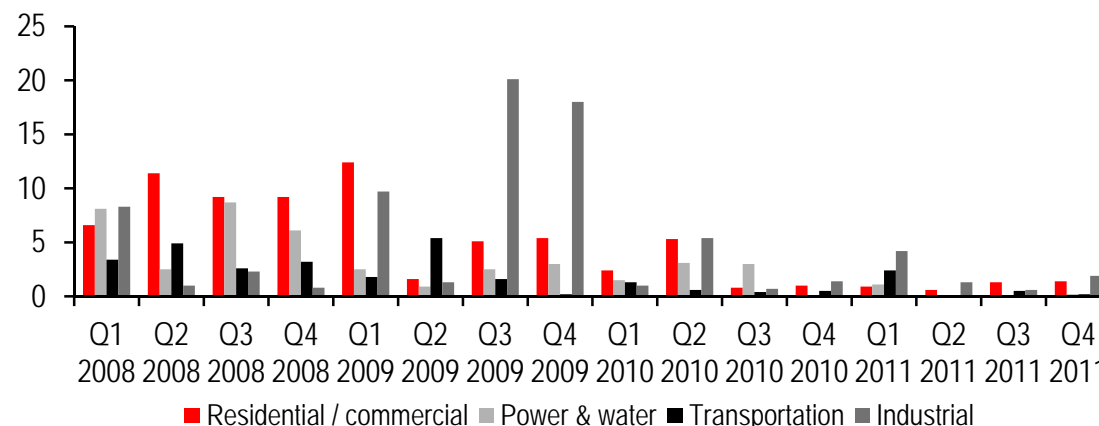
- Regional economic performance relatively robust by global standards:
  - home to large commodity suppliers
  - not as debt burdened as Western economies
  - wealthy region with increasing demand driven infrastructure spend and investment
- GCC today better placed than in 2008:
  - public finances more stable
  - fewer fiscal vulnerabilities
  - asset prices not as over-inflated as before
  - expect oil/gas producers to steer well clear of another crisis

## Challenges

- Slowdown in global economic recovery and sentiment weakening further with concerns on potential sovereign default in developed markets
- Post-revolution economies hit by reduced investment activity and oil prices
- Regional geopolitical risk levels intensify, undermining return to stability
- Security and capability constraints weigh on delivery of capital spending pledges

## GCC<sup>1</sup> projects total

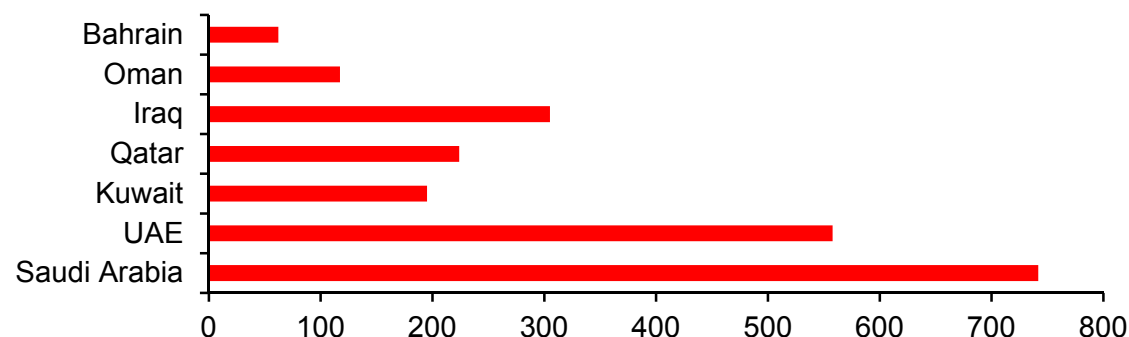
(USD bn)



Source: MEED

## Increasing infrastructure investment spend

(USD bn)



■ MENA projects planned or underway FY 2011

Source: MEED

Source: HSBC Global Research

1) GCC – Gulf Cooperation Council: UAE, Saudi Arabia, Oman, Qatar, Kuwait and Bahrain

# Middle East & North Africa fundamentals

## Key longer-term trends and outlook remain attractive

**270m  
population<sup>1</sup>**

**45% of world  
gas reserves<sup>1</sup>**

**58% of world  
oil reserves<sup>1</sup>**

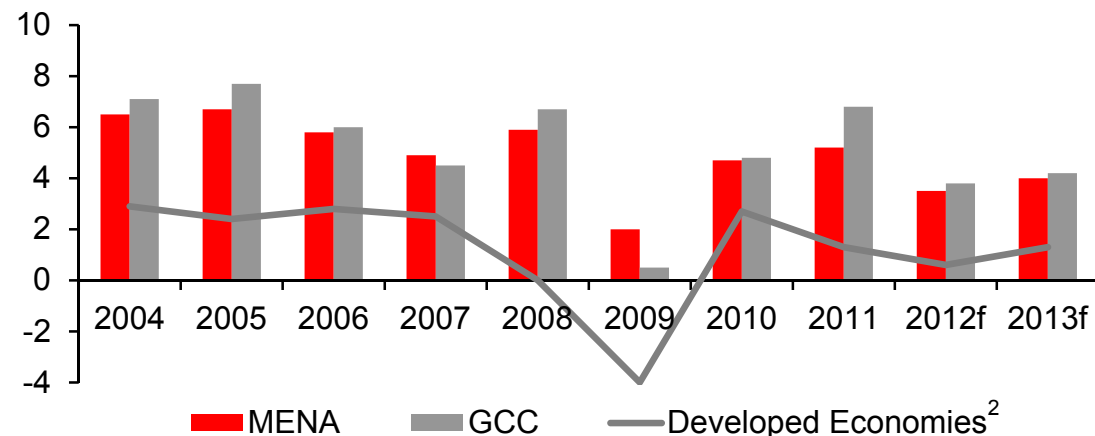
- ✓ Long-term opportunities remain with strong underlying fundamentals of geography, oil, gas and demographics
- ✓ A region of faster growing economies in line with emerging market strategy
- ✓ Historic growth trends proven, underpinned by increasing economic strength
- ✓ IMF forecasts 2011 and 2012: continuation of robust regional growth despite impact of 'Arab Spring'

Notes:

- 1) Population excludes Iran and Pakistan. 270m = (3.9% of global 7bn). Source: IMF
- 2) Developed Economies includes US, Canada, EU Monetary Union, UK, Australia, NZ, Japan
- 3) Asia does not include China or India

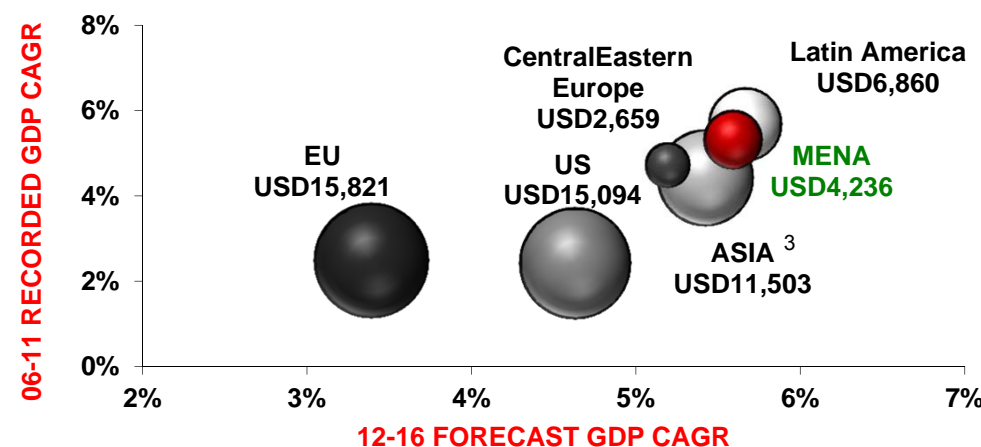
### 2004-2011 YoY GDP growth trends

GDP Actual (USD bn) (Source: IMF World Economic Report Jan 2012; HSBC Global Research)



### 2011 GDP Actual USDbn

YoY GDP CAGR % (Source: IMF World Economic Report April 2012)



Bubble diameter= 2010 recorded GDP



# Demand for infrastructure development

Fast growing population, young demographics and increasing household income

## Strengths

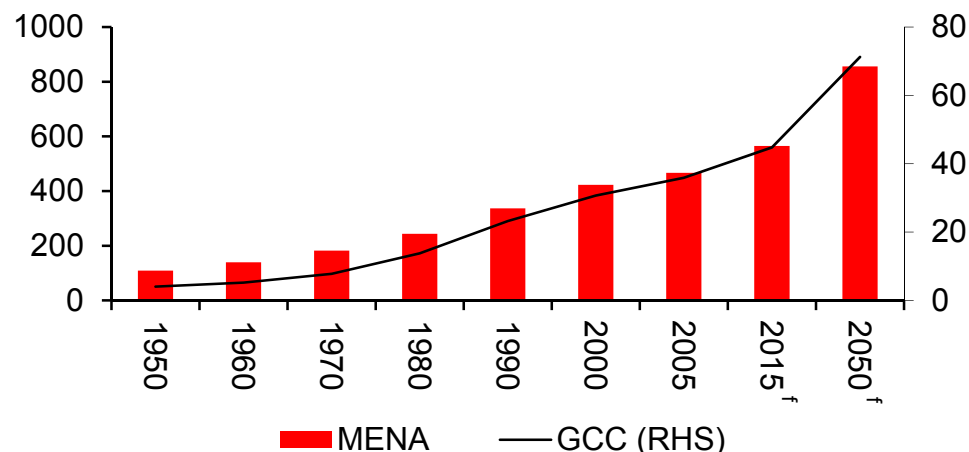
- Wealthy economies deploying rising sovereign wealth through economic stimulus and infrastructure build programmes
- Low debt to GDP levels and large reserves in commodity producing countries
- Ongoing commitment to demand driven development programmes
- Well placed geographically to leverage fast-growing emerging market demand

## Challenges

- Need for infrastructure and education to support growing population and unemployment
- Aggregate demand for jobs outstripping availability in short to medium term
- Revolutions initially cost rather than create jobs, adding to unemployment challenge
- Arab spring countries need for support during economic transformation from regional donors or through international mechanisms

## Population size (millions)

Source: IMF, Global Research



## MENA fundamentals vs other markets

FY 2011 (Source: IMF, Global Research)

	Developed Economies	MENA	Emerging Markets
GDP Growth %	1.3	6.6	6.8
Government Budget (% of GDP)	-5.1	5	0.2*
Investment (% of GDP)	18.8	26.6	31.8
Government Gross Debt (% of GDP)	104	13	39
Current Account Balance (% of GDP)	-0.2	13.2	1.9

\* EMEA as EM Budget not currently available



# HSBC Position and Strategic Direction



# Largest international bank in the region with over 50 years of history

Rationalised portfolio, positioning across faster growing markets

HSBC network in the MENA region: over 220 branches and offices in 14 countries\*

	Locations	Branches	Non-Branch retail units	Est. / Changed
<b>Priority Growth markets</b>	<ul style="list-style-type: none"> <li>UAE <sup>1</sup></li> <li>Saudi Arabia <sup>4</sup></li> <li>Egypt <sup>3</sup></li> </ul>	<ul style="list-style-type: none"> <li>8</li> <li>80</li> <li>81</li> </ul>	15 + 2 <sup>1</sup> - 19 + 16 <sup>3</sup>	1946, 2012 1978 1982
<b>Network markets</b>	<ul style="list-style-type: none"> <li>Algeria <sup>1</sup></li> <li>Bahrain <sup>1</sup></li> <li>Kuwait <sup>1</sup></li> <li>Jordan <sup>1</sup></li> <li>Qatar <sup>1</sup></li> <li>Oman <sup>1</sup></li> <li>Lebanon <sup>1</sup></li> </ul>	<ul style="list-style-type: none"> <li>2</li> <li>4</li> <li>1</li> <li>4</li> <li>3</li> <li>91 <sup>5</sup></li> <li>3</li> </ul>	- 1 - - - 3 -	2007 1944 1942 1949 1954 1948, 2012 1946
<b>Small markets</b>	<ul style="list-style-type: none"> <li>Palestine <sup>1</sup></li> <li>Libya <sup>1</sup></li> <li>Iraq <sup>2</sup></li> </ul>	<ul style="list-style-type: none"> <li>1</li> <li>Rep office</li> <li>9</li> </ul>	- - -	1998 2007 2005
<b>Under review</b>	<ul style="list-style-type: none"> <li>Pakistan <sup>1</sup></li> </ul>	<ul style="list-style-type: none"> <li>13 <sup>5</sup></li> </ul>	-	1994

Notes: \* As at 31 March 2012; HSBC Holdings Annual Report & Accounts country analysis

1) HBME – HSBC Bank Middle East Ltd. Kuwait retains one branch for CMB and GB&M business, Retail closed in October 2011. Additional 2 units are standalone MEFCO offices

2) DESIB (HSBC ownership 70%) – Representation through Dar Es Salaam Investment Bank

3) HBEG (HSBC ownership 94%) – Egyptian British Bank founded in 1982. Rebranded to HSBC Bank Egypt in 2001. Additional 16 units are Corporate implants and ForEx kiosks

4) SABB (HSBC ownership 40%) – Saudi British Bank. HSBC Saudi Arabia Ltd (IBSA) est. 2004 (HSBC ownership 49%)

5) HSBC Oman SAOG newly merged entity, listed on the OSE (HSBC ownership 51% through HBME)

# HSBC MENA report card

Increasing efficiency through portfolio rationalisation and sustainable cost savings

## May Investor Day messages<sup>1</sup>

### Execution elements:

### Examples of initiatives:

#### Portfolio Rationalisation

- Exit underperforming businesses
- Reshape regional network to maintain scale

#### Consistent Business Models

- Ongoing operational transformation programme
- Enhancement in service delivery and client coverage
- 'Hub & Spoke', centralising and offshore initiatives

#### Re-structured Functions

- De-layering management levels, workforce optimisation
- Rationalisation of RBWM and GPB in the region

#### Re-engineered processes

- Ongoing re-engineering of systems and procedures
- Costs control through improved efficiency
- Improved controls, operations and infrastructure

#### Streamlined IT

- Consolidated systems, aligned to group standard
- Re-engineering and centralising ITO<sup>4</sup>, SWD<sup>4</sup>
- Streamlining, data centres and systems demise

## Progress to date

### Key actions 2011-1Q12:

- Exited from
  - Kuwait retail banking
  - UAE retail brokerage services
  - UAE onshore Private Banking<sup>2</sup>
  - Principal Investments Business<sup>3</sup>
- Disposed of select branches in
  - Iraq, Jordan, Lebanon, Qatar, Bahrain
- Restructured & rationalised
  - De-layered across region (c.300 FTE)
  - RBWM transformation (c.200 FTE)
- Consolidated
  - Investment in Saudi Arabia (IBSA)
- Optimised/Standardised
  - Premises across the region (ongoing)
  - Global Resource, centres of excellence
- Enhanced controls
  - Improved collections systems, supporting portfolio recovery
  - Reduced operational losses and fraud

Notes:

1) May 2011 Investor Strategy Day

2) MENA onshore Private Bank converted to a representative office for GPB, with domestic PB reconfigured to the Global hub in Geneva and administration centres offshored

3) Exited only part of the Principle Investments Business

4) ITO - IT Operations; SWD - Software Delivery

# HSBC MENA investment for growth

## 5 Filters based assessment of opportunities across the region

### May Investor Day messages<sup>1</sup>

Building connectivity and scale in key markets in the region alongside improved cost efficiency and capital deployment

#### Key objectives:

#### Examples of initiatives:

#### Key actions 2011-1Q12:

##### Capital Deployment

- Investment and M&A in faster growing markets
- Consolidating existing positions of competitive advantage
- Driving development in markets where we have scale

- Merger with Oman Int' Bank
- Acquisition of Lloyds UAE onshore
- Re-opened rep office in Libya
- Potential divestment of Pakistan

##### Growth

- Ongoing selective reviews of priority markets
- Expansion where sustainable to position the business for growth and in support of capital generation
- Focused revenue strategies to meet RoRWA targets

- Enhanced focus on key markets
- Dedicated sales teams
- Increased GBM & CMB collaboration

##### Cost Efficiency

- Deployment of standard operating models across MENA
- Hub & Spoke, centralisation, process re-engineering
- Delaying, rationalisation, offshoring regional skill bases

- Ongoing improvement in cost efficiency, YoY and QoQ
- De-layering: 575 FTEs released / vacancies demised

Note:

1) 11 May 2011 and 17 May 2012 Investor Strategy Day

# Financial Performance & Outlook



# Financial performance 2011 & 1Q12

## Resilient revenues and improved costs despite headwinds

	<u>Key Metrics</u>	<u>Group, FY11</u>	<u>MENA, FY11</u>	<u>MENA, 1Q12</u>
<b>Capital &amp; Liquidity</b>	Core Tier 1 Ratio (%)	10.1		
	ADR (%)	75.0	71.0	
<b>Returns</b>	PBT (USDbn)	21.9	1.5	0.3
	RoRWA (%)	1.9	2.6	2.3
<b>Efficiency</b>	CER (%)	57.5	44.5	43.4
	JAWS (%)	(4.3) <sup>2</sup>	0.7 <sup>2</sup>	3.8 <sup>3</sup>
	Sustainable saves (USDm)	c.900	c.30	c.15

Notes:

1) Reported basis - HSBC Holdings Financial Reporting FY 2011 and 1Q 2012

2) JAWS FY11 vs FY10

3) JAWS 4Q11 vs 1Q12



# Retail Banking & Wealth Management

Streamlined market leading propositions and advisory-led advantage

## RBWM Strategy Day commitments

- I** Dynamic portfolio management focussing investment in key growth markets where we can achieve scale and returns
- II** Deploy global connectivity and solutions through consistent, integrated platforms
- III** Maintain position as a leading provider of premium banking in the Priority Markets
- IV** Focus on standardised propositions and service led relationships to build revenue
- V** Build sustainable asset book of cards, loans and mortgages, where profitable
- VI** Position to capture rising entrepreneurial & personal wealth flow

## Key achievements FY 2011 and 1Q12

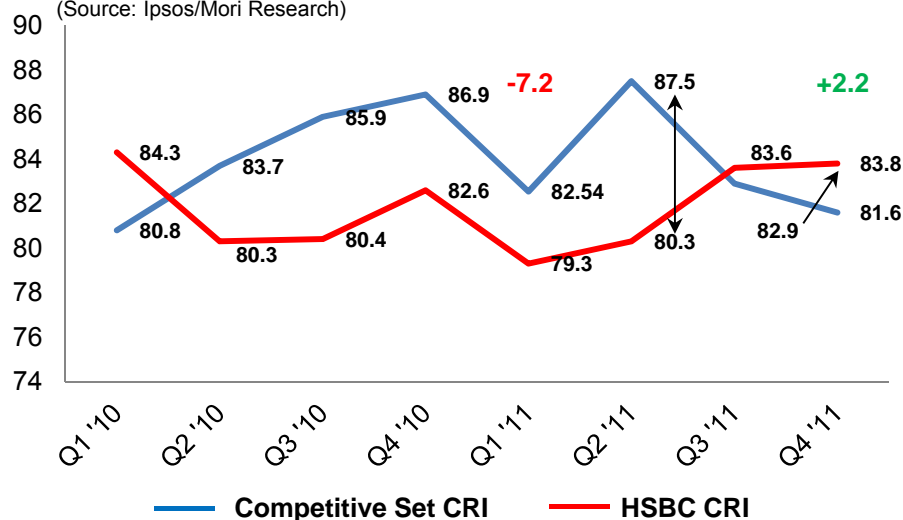
- Strong revenue growth and positive JAWs 1Q12
- Lower cost base and more efficient sales models
- Significant improvement in delinquencies due to higher quality lending
- Successful transformation, and migration to Hub & Spoke structure
- Streamlined team profiles; enhanced collaboration across Global Businesses

### Initiatives:

- Service enhancements including customer service improvement plans, Mobile Banking, new Financial Planning Tools
- Multiple campaigns: developed once, deployed across regional markets
- 10 year strategic partnership with Zurich Life International
- Inorganic Growth – Oman merger and Lloyds UAE acquisition

## Customer recommendation index 2011

(Source: Ipsos/Mori Research)



## Targets 2012-2013

- **Business growth through existing and developed relationships**
  - Focused Sales Activity Management
- **Accelerate Wealth growth as a priority**
  - Build a Wealth Oriented Premium Customer based Business
- **Customer Value Management**
  - Redefining Customer experience as a market differentiator
- **Regional portfolio management under the five filters**
- **Maintain a risk managed, sustainable growth strategy**
  - Continued cost management through business transformation
  - Positioning to anticipate regulatory change or restrictions



# Commercial Banking

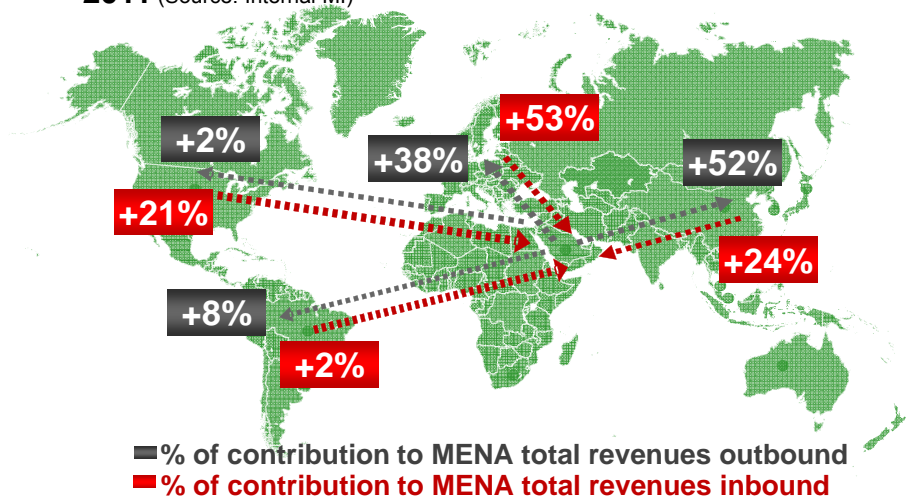
## Driving trade revenues and cross business connectivity

### CMB Strategy Day commitments

- I Leverage global connectivity through Group HSBC network
- II Position as leading international trade & business bank capturing MENA trade & FDI flows
- III Develop innovative solutions for evolving client requirements
- IV Enhance established relationships with the top regional and international companies
- V Target growth in revenue from internationally oriented business banking customers
- VI Drive sales of GBM products to the CMB customer base

### Connectivity: facilitating outbound & inbound flows

2011 (Source: Internal MI)



Notes:

- 1) Four countries include: UAE, Saudi Arabia, Egypt and Qatar, with Algeria close behind
- 2) MoU – Memorandum of Understanding

### Key achievements FY 2011 and 1Q12

- Positive revenue recovery and improving LIC trends
- Increasing cross border revenues and network referrals
- Successful business re-engineering, aligned with target operating model
- Increased trade revenues, with four countries in top 20 for trade globally<sup>1</sup>

#### Initiatives:

- Strategic focus on Top 50 customers in the Region to drive CMB/GB&M collaboration; Deposit campaign launched in UAE
- Launch of RMB accounts & services in UAE to facilitate trade with China
- Innovative solutions: roll-out of Receivable Finance platform and Clientsphere across the region
- Strategic MOU's<sup>2</sup> with UAE Free Trade Zones; Launched 3<sup>rd</sup> SME Fund

### Targets 2012-2013

- **Strengthen our position as the leading international trade and business bank**
  - Continue to drive revenues through international connectivity
  - Capture growth in International Small Medium Enterprises (SMEs)
- **Global aim of doubling trade and receivable finance revenues**
- **Continue collaboration with GBM, GPB / RBWM to drive referrals**
- **Payments & cash management (PCM) to drive funding through liability growth**
- **Drive and maintain efficiency gains while maintaining active risk management**

# Global Banking & Markets

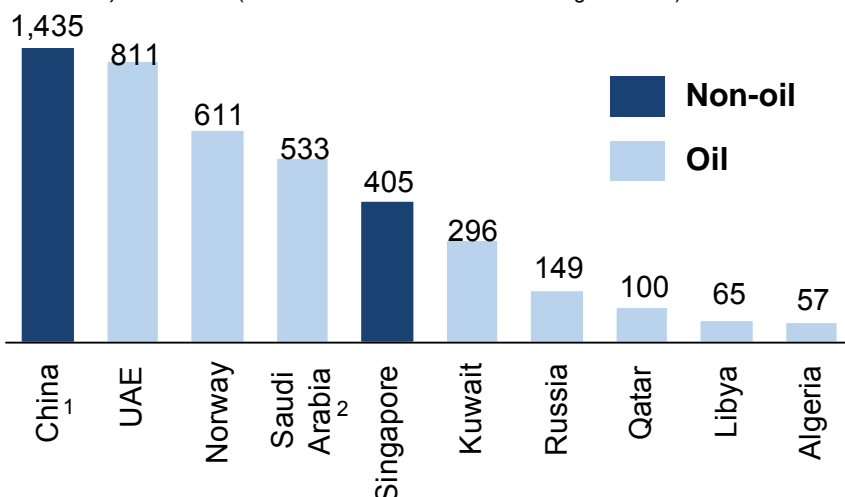
Maintaining and increasing regional lead through global platforms and collaboration

## GB&M Strategy Day commitments

- I** Leverage global reach: cross-border leadership and cross-customer group connectivity
- II** Focus on sustainable revenue markets, with active risk management
- III** Support multinational clients and SWF relationships as they invest in/outside the region
- IV** Further develop award winning regional product/service lead - conventional & Islamic
- V** Increase Private Bank position in the wealthiest markets through Global offshore platform

## Sovereign Wealth Funds

Assets, USDbn (Source: SWF Institute world ranking 1Q 2012)



Notes:

1) Includes all Chinese SWF's + Hong Kong

2) Saudi Arabian Monetary Authority (SAMA)

3) Bloomberg DCM, ECM League tables

4) FIG – Financial Institutions Group. GRE – Government Related Entity

## Key achievements FY 2011 and 1Q12

- Increased cross-sell contribution from sales of GBM products to CMB, RWBM, GPB customers
- Greater connectivity and South – South flows
- Continued No.1 league table position<sup>3</sup> in regional DCM issuance
- Established relationships with the top multinational and regional companies; new Family Office partnership

### Initiatives:

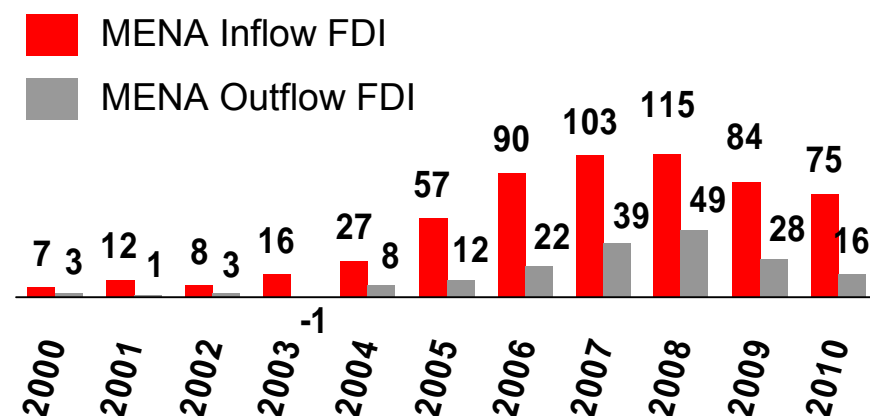
- Dedicated FIG<sup>4</sup> & SWF coverage, and strengthened client desks for mainland China, South Korea and India, in Saudi Arabia, UAE and Oman
- Innovative solutions: Structured Notes, Energy Solutions, bespoke Islamic Risk Management products and custody services

## Targets 2012-2013

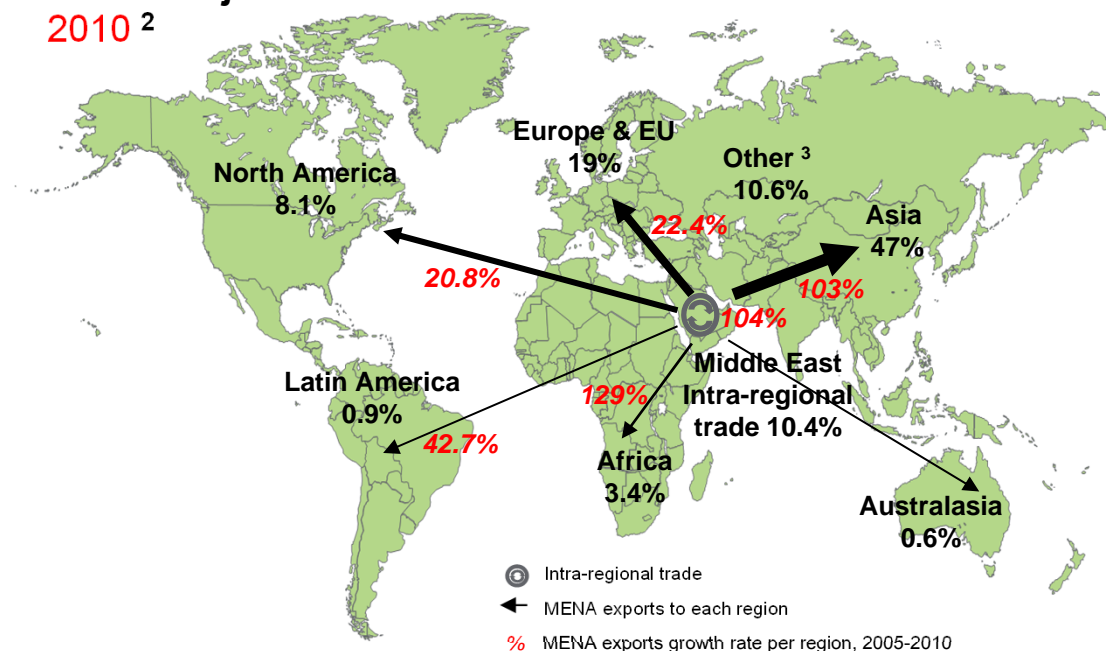
- **Continued Emerging Markets-Led, Financing-Focused strategy**
- **Delivering incremental revenues from collaboration with CMB**
- **Business growth through existing and developed relationships**
  - Top 3 international bank relationship position with key clients.
  - Support SWFs and GREs<sup>4</sup> with capital recycling
- **Maintain no. 1 league table status in DCM across both conventional and Islamic issuances**
- **Maintain a risk managed, sustainable growth strategy**
  - Diversified Balance Sheet, P&L and operating capability within the region
- **Strategic re-engineering to deliver sustainable cost savings**

# Growing 'East to East' and intra-MENA trade and FDI connectivity

**Faster Growing Markets FDI flows<sup>1</sup> 2000-2010**  
USDbn<sup>1</sup>



**MENA Major trade flows**  
2010<sup>2</sup>



**Trade flows with MENA - ranked by growth<sup>2</sup>**

USDbn	2000	2010	2011	CAGR
Intra-MENA	20	114	142	20%
Asia	110	445	624	17%
Africa (Sub-Saharan)	9	32	40	15%
North America	31	77	106	12%
Latin America	4	9	12	11%
European Union	72	159	181	9%

Notes:

1) Source: UNCTAD update 2011

2) Source: IMF Direction of Trade Statistics (DoTS) Database Update January 2012

3) 'Other' is remaining number after subtracting DoTS main regional groups from global trade total

# Summary

## Progress in transformation and implementation of our strategy

Delivering improved efficiency, control and distribution

Deploying integrated operating models and simplified, more efficient regional business

Capturing revenue opportunities in regional development, wealth flows & capital recycling activity

## Growth through investment in key markets

Focus on Priority Markets: Egypt, Saudi Arabia, UAE & Qatar and Growth Markets: Oman, Algeria

Developing sustainable business, and long-term relationships

## Building on competitive advantages, brand strength and presence

Recognised balance sheet strength and prudent management principles

Broad distribution network - aligning operations across businesses, the region & globally

Regional lead in GBM, CMB products /services, with enhanced and tailored range of solutions

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