



# The HSBC Optimised Middle East Index Series

## Summary

Middle Eastern exposure across asset classes is increasingly being sought by investors because these countries are experiencing some of the highest economic growth rates globally. This growth to a great extent is driven by large trade surpluses, domestic investments as well as increasing trade.

With a history of almost fifty years in the region, HSBC is uniquely positioned to offer its global clients products and services focused on Middle Eastern countries. The importance of transparency and liquidity in investment products cannot be overstated. The HSBC Optimised Middle East Index Series has been designed to capture the performance of the biggest companies from the countries located in the greater Middle East region, which are available for foreign investors and which can be hedged.

## The Middle East – A Haven for Investors

Looking at Emerging Markets (EM) sell-offs since 1997, Gulf Cooperation Council (GCC) markets have almost always strongly outperformed during EM setbacks, perhaps due to the local

governments exercising a stabilising role during periods of market turbulence, plus greater local institutional involvement.<sup>1</sup> Often limited access to foreign investors as well as limits on foreign investments by residents makes the local market less sensitive to global trends. Middle East region is experiencing significantly higher growth compared with developed countries and average world growth rates.

The economies of the Middle East are in a process of transformation. Middle Eastern GDP as a whole has increased by 270 % since 1980, and by just under 120 % in the five-year period from 2003 to 2008.<sup>2</sup>

The Middle East is well positioned for further growth. Sustained high energy prices have allowed the energy exporting countries to build hefty foreign exchange reserves. In addition these countries are able to tap into less expensive labour from countries such as India and Pakistan. Foreign, skilled manpower has been used in the construction and service industries. Using the revenues from trade, the Middle East countries are investing in their own markets and increasingly in other economies in the region and beyond.

**Table 1: Market/region performance**

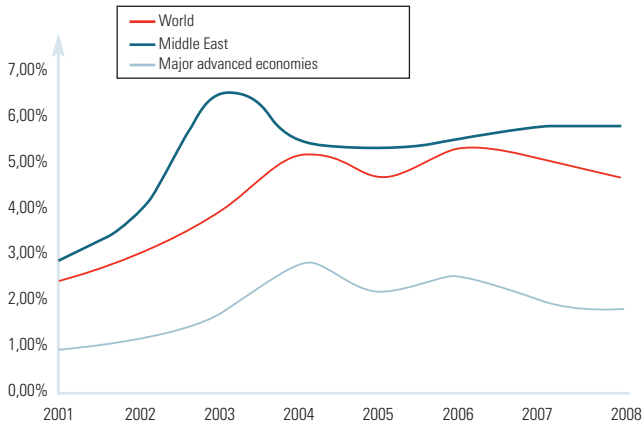
HSBC Optimised Index	Benchmark Index	HSBC Optimised Index Annualised Return	HSBC Optimised Index Annualised Volatility	Benchmark Index Annualised Return	Benchmark Index Annualised Volatility
HSBC Optimised Abu Dhabi Total Return Index	ADX General Index (USD Equivalent)	-1.18%	22.08%	4.00%	17.72%
HSBC Optimised BOQ Total Return Index	N/A	6.50%	15.77%	N/A	N/A
HSBC Optimised Dubai Total Return Index	DFM General Index (USD Equivalent)	-5.60	29.25	-9.34%	24.74%
HSBC Optimised Egypt Total Return Index	CASE 30 Index (USD Equivalent)	16.90%	19.20%	18.16%	20.03%
HSBC Optimised Jordan Total Return Index	Amman SE General Index (USD Equivalent)	10.61%	21.43%	4.40%	16.66%
HSBC Optimised Kuwait Total Return Index	Kuwait Stock Exchange Price Index (USD Equivalent)	19.47%	14.38%	15.65%	11.38%
HSBC Optimised GCC+ Egypt Total Return Index	N/A	9.26%	13.38%	N/A	N/A
HSBC Optimised GCC+ Egypt+Jordan Total Return Index	N/A	10.46%	12.59%	N/A	N/A

Note: Calculated for the period 11/10/06 to 09/05/08, Source: Calculated by HSBC using data from Bloomberg

<sup>1</sup> HSBC: GCC equity strategy: Arabian tigers, 13 August 2007, John Lomax, Simon Williams, Dafydd Lewis

<sup>2</sup> Values calculated by HSBC Global Markets using data from the International Monetary Fund, World Economic Outlook Database, October 2007

Chart 1: GDP Growth



Sources: International Monetary Fund, World Economic Outlook Database, October 2007

**Key Growth Drivers:**

- ▶ Tourism
- ▶ Infrastructure Spending
- ▶ Population Increase

**Major Growth Sectors:**

- ▶ Banks
- ▶ Real Estate
- ▶ Telecoms

**HSBC Optimised Middle East Index Series**

The HSBC Global Markets business area ("HSBC GM") has created the Optimised Middle East Indices from the countries shown in Table 1. The largest and most liquid, tradable securities have been picked to capture the most important companies in each Index. HSBC GM has come up with a unique methodology which is rules based, which rebalances the constituents in each index following changes in the market capitalisation and liquidity of stocks as well as replacing those stocks which no longer meet the investment criteria. Historical back tests show that the HSBC Optimised Middle East Index Series shows good performance compared to the benchmark country indices, while offering greater liquidity and being investable for foreign investors.<sup>3</sup>

The HSBC Optimised Middle East Indices (the "Indices") are modified market capitalisation weighted indices comprising constituent numbers as specified in Table 2. HSBC GM has established the methodology for selecting the stocks within the Index, as well as the weighting assigned to each. The maximum weighting for each stock is 10 % in all indices, except the HSBC Optimised GCC+Egypt+Jordan Index, where the maximum weight is 5 %. The index has been optimised for option strategies.

The detailed criteria that stocks must meet for inclusion as well as any results of actions affecting the Index will be published on the HSBC Global Banking and Markets website for indices, [www.hsbcinvestorsolutions.com](http://www.hsbcinvestorsolutions.com).

The Index is calculated independently by HSBC Research's Quantitative Techniques (QT) business in Edinburgh. QT is a division of HSBC and an independent Calculation Agent which provides data and calculates indices for parts of HSBC Group, including to the Global Research Department and to organisations outside of HSBC. HSBC Global Markets reviews its indices policies and coverage before each review date. Whilst, it is not envisaged that the Rules will change, any modification to the Rules will be published by QT on Bloomberg ({HSIP <GO>}), with 3-month notice period prior to the proposed change. This review process is internal to HSBC GM.

Please consult the Index Rules for the HSBC Optimised Middle East Index Series for further details.

**Initial Index Composition and Historical Theoretical Performance**

The initial weight of each region has been fixed following extensive analysis. Each index series Creation Date is 30 May 2008.

Table 2: Index Composition (by Market/Region)

Market/Region	Minimum Index Constituents	Maximum Index Constituents
Abu Dhabi	10	15
Bahrain, Oman, Qatar	10	15
Dubai	10	15
Kuwait	10	15
Egypt	15	20
Jordan	10	15
GCC+Egypt	30	40
GCC+Egypt+Jordan	30	40

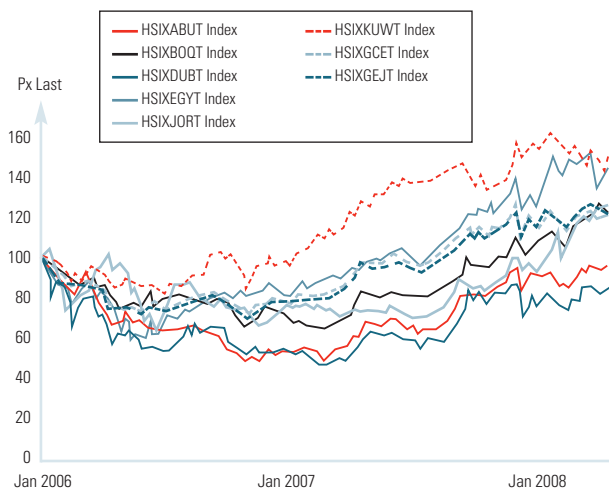
Index Values are available from 31 January 2006 when the Index Value is set at 100. The HSBC Optimised Middle East Index Series is not intended to track the country benchmark indices; local shares are subject to Foreign Ownership Limits and lack of access to stocks. As a result of these, several significant stocks, e.g. Emirate Integrated Telecom and Industries Qatar, have had to be excluded from the HSBC Optimised Middle East Index Series.

**Calculation of Historical Values**

The calculation of historical values was based on the following assumptions:

- ▶ The constituents for each index were determined on 30 May 2008.
- ▶ The calculation of the historical performance from 31 January 2006 is based on the eligible constituents as of the back test date. The price development adjusted for corporate actions gives the performance of each index.
- ▶ In the case that there do not exist historic values by 31 January 2006 for one of the constituents of an index it is assumed that the constituent enters the index from the day when historic values are available.
- ▶ The historic performance of all indices is calculated on the basic index value of 100 as by 31 January 2006.
- ▶ The historical performance calculation from 31 January 2006 of indices can be based on less than minimum constituents due to regulation constraints in the target market.
- ▶ Past / historical back performance is not always an indication of future success.

**HSBC Optimised Middle East Index Series – Historical Performance**

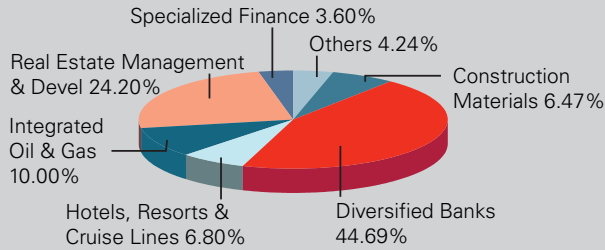


Sources: Bloomberg, backtesting by HSBC Quantitative Techniques.

### HSBC Optimised Abu Dhabi Index

Bloomberg Ticker: Price Return Index HSIXABUP  
 Total Return Index HSIXABUT

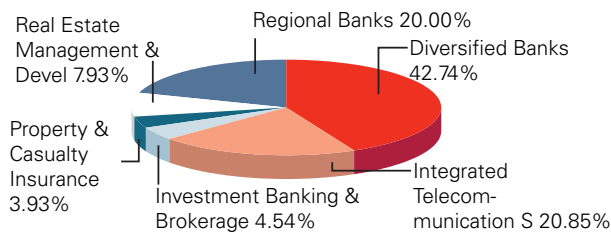
The value of the Abu Dhabi economy – currently at USD 105 billion – is expected to triple in value until 2025.<sup>4</sup> According to the Emirate's Department of Planning & Economy the targets of economic diversification will be achieved by a combination of large-scale projects, economic reform plans and government restructuring programmes. The dependence on oil as a share of GDP could fall to 50 % in 2015 and 40 % in 2025 from 59 % today.<sup>5</sup>



### HSBC Optimised BOQ Index

Bloomberg Ticker: Price Return Index HSIXBOQP  
 Total Return Index HSIXBOQT

Bahrain is the country within the GCC region that least depends on oil. The main growth drivers are the strong expansion in financial services, construction, and manufacturing. The government is advancing comprehensive reforms to further reduce the costs of doing business. A public services outsourcing and deregulation program as well as a constitutive labour reform process were initiated to aim at enhancing productivity and employment opportunities. Oman's share index was the top performer in the GCC region during 2007.<sup>7</sup> The Sultanate signed a free trade agreement with the US in 2006 and further agreements with Japan, China and the European Union are planned. The oil-share of GDP should be reduced to 9 % in 2020.<sup>8</sup> The non-oil sector is feeling the trickle down effect of a booming hydrocarbons economy.<sup>9</sup> Qatar's economy is set to continue its expansionary path, expecting real GDP growth of above 8 % in 2009 and beyond, on the back of a substantial increase in oil and gas revenues.<sup>10</sup> In Qatar, the fast-growing manufacturing sector is dominated by the production of products that use gas or oil as feedstock, such as plant condensates, diesel, naphtha and liquefied petroleum gas.<sup>11</sup>

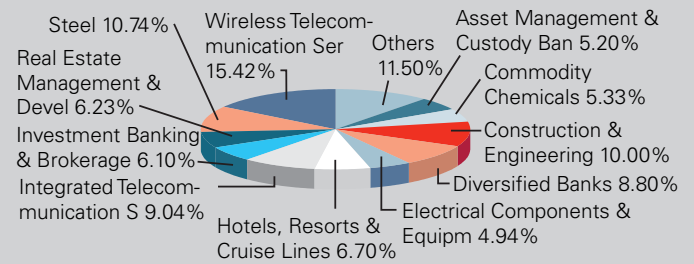


### HSBC Optimised Egypt Index

Bloomberg Ticker: Price Return Index HSIXABUP  
 Total Return Index HSIXABUT

Egypt's vigorous economic growth trend remains intact, which can be attributed to years of strong investment, regional inflows and structural reform efforts.<sup>12</sup> The IMF expects GDP growth to remain at 7 % for the year 2007/08.<sup>13</sup> What started as a growth spurt based on strong investment activity has turned into a fully fledged domestic demand story, with consumption also playing its part.<sup>14</sup> Consumer demand has been growing in response to declining unemployment (Egypt has created 2.5m new jobs since 2004), low real interest rates and increasing access to credit and remains the main driver of activity. A further important driver of the economy is

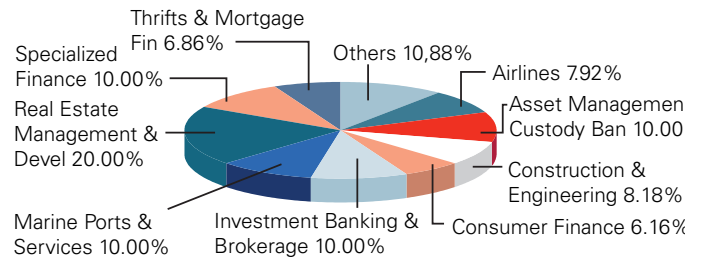
foreign direct investment (FDI), which has been encouraged due to a rationalisation of the tax code and a reduction of duties of around 75 %. Further governmental structural reforms have been set in place to encourage entrepreneurs in various sectors.<sup>15</sup>



### HSBC Optimised Dubai Index

Bloomberg Ticker: Price Return Index HSIXDUBP  
 Total Return Index HSIXDUBT

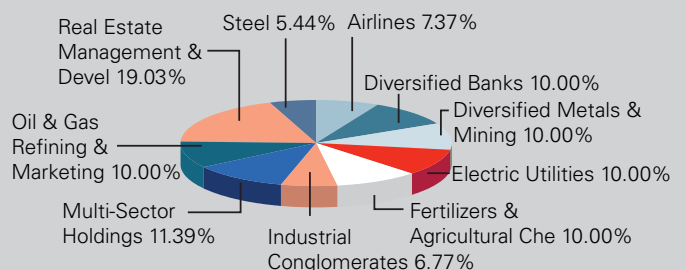
Dubai is one of the fastest growing commercial cities in the world. Due to its modern infrastructure, central location and a population of 1.4 million, it is rapidly emerging as the business centre of the region. Over the last 20 years, population and employment have grown three times at an average annual rate of 6 % which translates to at least 120,000 a year. So far, Dubai's growth has been supported by world class infrastructure. With dwindling oil reserves and a voracious demand for natural gas to support its massive infrastructure development schemes, Dubai's investment plans and emphasis in the coming years continues to be on the further development of the Emirate as a hub for tourism, trade and commerce. Owing to the establishment of the Dubai International Financial Center (DIFC), Dubai is vying to be the leading financial capital of the Middle East Region.<sup>16</sup>



### HSBC Optimised Jordan Index

Bloomberg Ticker: Price Return Index HSIXJORP  
 Total Return Index HSIXJORT

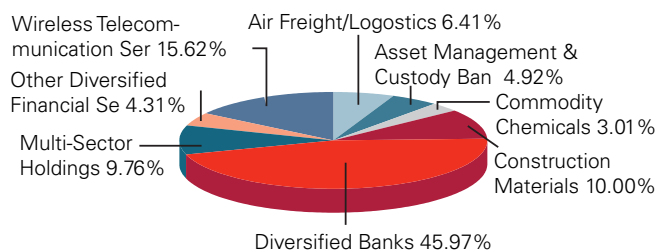
Unlike most of its neighbours, Jordan does not sit on vast oil and gas riches and therefore suffers rather than benefits from current prices.<sup>17</sup> Despite the challenging environment the economy has performed well. In 2007, output grew by 6 % and the unemployment rate declined further. Foreign direct investment (FDI) inflows remained strong and international reserves increased substantially.<sup>18</sup> The financial sector was a strong performer in 2007<sup>19</sup> and the main banks currently are reporting record profits. Thus, Jordan's Housing Bank for Trade and Finance (THBK), the country's second largest listed bank, announced a 23 % in net profits for the first quarter of 2008.<sup>20</sup> Jordan-based Arab Bank Group announced a rise of net profits by 24.4 %.<sup>21</sup>



## HSBC Optimised Kuwait Index

Bloomberg Ticker: Price Return Index HSIXKUWP  
Total Return Index HSIXKUWT

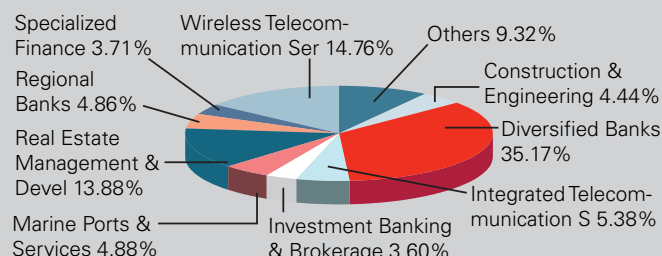
The Kuwait Stock Index is up about 20 % in local currency terms for the year to date and is the second best performer in the Gulf after Oman.<sup>22</sup> The government is taking steps to increase diversification within the economy and encourage private enterprise in order to decrease dependence from oil exports. Parliament recently passed several economic reform laws, such as regulating build-operate-transfer contracts, privatising Kuwait Airways Corporation and passing bills to cut tax on foreign companies. The reduction of the foreign corporation tax has the scope to strongly increase the foreign direct investment (FDI) into Kuwait.<sup>23</sup> This should be positive for the Kuwaiti market by buoying general economic activity.<sup>24</sup>



## HSBC Optimised GCC+Egypt Index

Bloomberg Ticker: Price Return Index HSIXGCEP  
Total Return Index HSIXGCET

The Gulf Cooperation Council (GCC) is a union of the Gulf States of Kuwait, Bahrain, Saudi Arabia, Qatar, the United Arab Emirates and Oman, formed in 1981 in Abu Dhabi with the purpose of political, economic and social cooperation. A monetary union is also planned for the future. Today the GCC comprises some of the fastest growing economies in the world.<sup>25</sup>



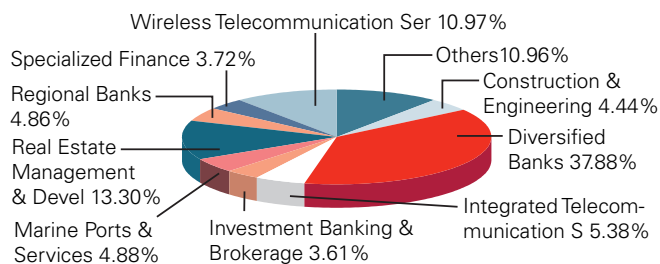
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## HSBC Optimised GCC+Egypt + Jordan Index

Bloomberg Ticker: Price Return Index HSIXGEJP  
Total Return Index HSIXGEJT



### About HSBC Optimised Indices

HSBC Optimised Indices have been promoted by HSBC GM, aiming to provide liquid, transparent and tradeable reference underlying indices for creating structured products with pay-offs linked to the specific index. These indices have been optimised to take into account the unique characteristics of each underlying theme or strategy and the availability of the universe of companies which best captures this.

HSBC combines its expertise in indices with its knowledge both of local markets and investment products in its provision of HSBC Optimised Indices.

### About HSBC Indices

HSBC, through the HSBC Global Research department, started publishing indices in 1993 with the launch of the HSBC (formerly James Capel) Smaller European Companies Indices. HSBC has remained focused on smaller companies indices, emerging markets indices, and custom indices. Today HSBC calculates a total of 5,471 indices covering 69 countries and territories worldwide.

The HSBC Indices are maintained and distributed by HSBC Quantitative Techniques (QT). QT is part of HSBC's Global Research business, which in turn is part of HSBC's Global Banking and Markets division. QT provides advisory services, indices and data products to customers on a commercial basis. QT is both structurally and physically separated from other parts of HSBC and hence provides an independent service to users of the HSBC Indices and its other customers. Investors should be aware that the HSBC Optimised Middle East Index Series is constituted by HSBC GM and is not an independent research index operated by the Global Research Department.

The HSBC Global Markets Indices are a distinct series of indices from the range offered by HSBC Global Research, of which the Calculation is a part. HSBC Global Research operates as a separate business within HSBC from HSBC Global Markets.

### Contacts

For general information about the HSBC Optimised Middle East Index Series and other HSBC Global Markets Indices please contact your local HSBC GM representative or contact HSBC Global Markets Third Party Structured Products Development on +44 (0)20 7992 6002, email structured.investments@hsbcib.com.

For more information concerning these Ground Rules and the calculation of the HSBC Global Markets Indices please contact the calculation agent, QT, on + 44 8455 847360 or email qt-inquiries@hsbcib.com.

