

# HSBC Mexico 1H20

September 2020





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Information in this document was prepared on [September 11, 2020].

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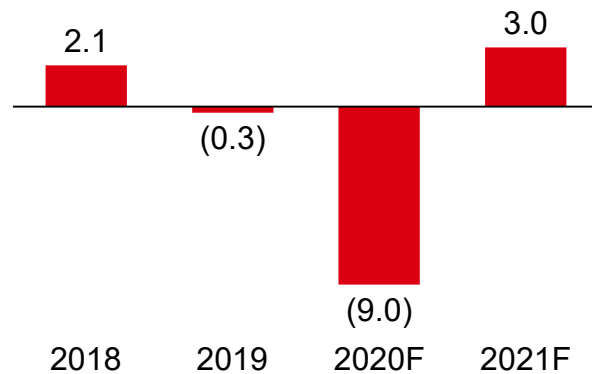
# 1. HSBC in Mexico



# Despite the shock from Covid-19, the Mexican economy is forecast to recover gradually in 2021 within a stable macroeconomic environment

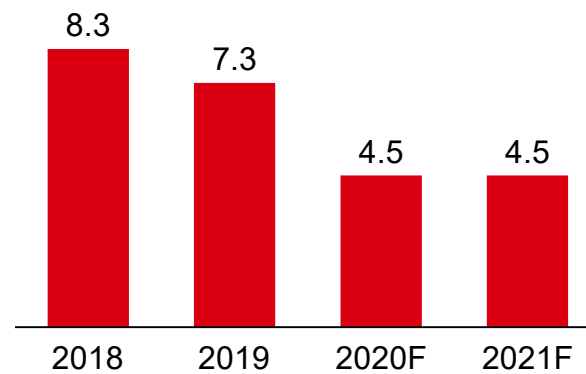
## GDP growth<sup>1</sup>

% y-o-y



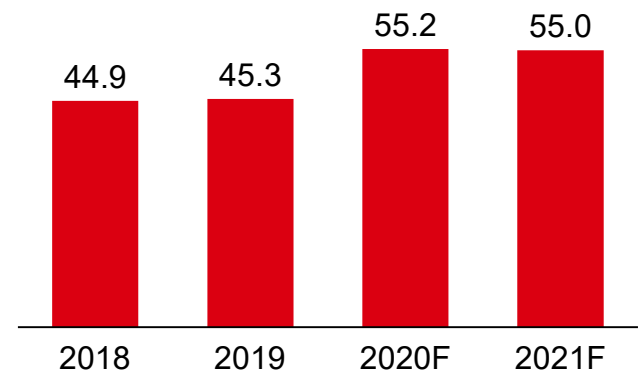
## Central Bank policy rate<sup>1</sup>

% End of period



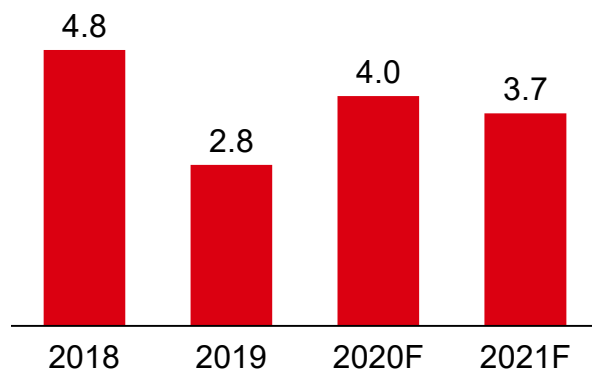
## Gross public sector debt<sup>1</sup>

% GDP<sup>1</sup>



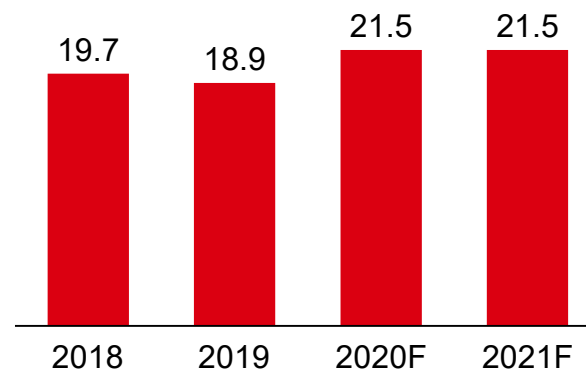
## Inflation<sup>1</sup>

% End of period



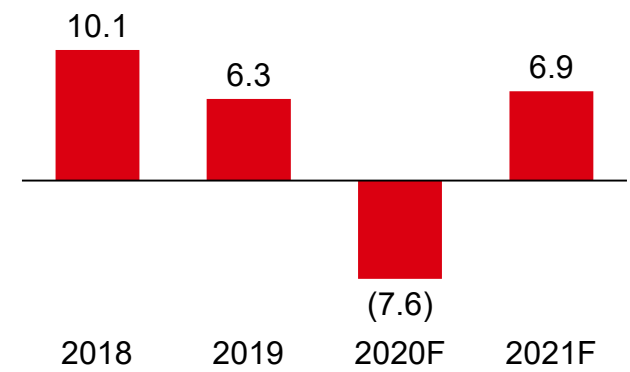
## Foreign exchange<sup>1</sup>

MXN / USD end-year



## Exports growth<sup>1</sup>

% y-o-y

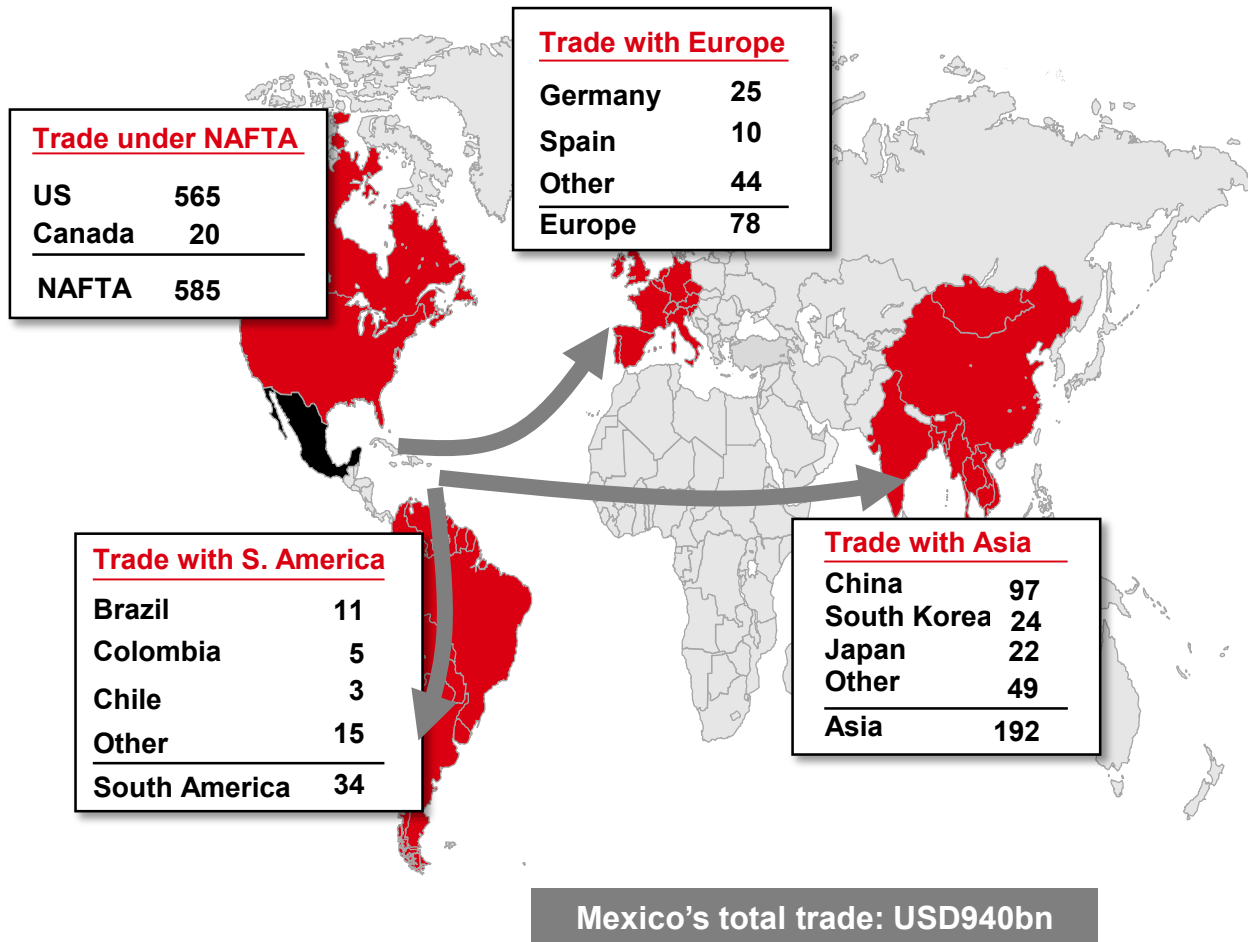


1. Source: HSBC Global Research from Mexico Economics: Unhealthy Outlook, 12 May 2020, internal estimations

# Mexico is one of the most open economies in the world with important trade corridors

## Mexico in key trade corridors<sup>1</sup>

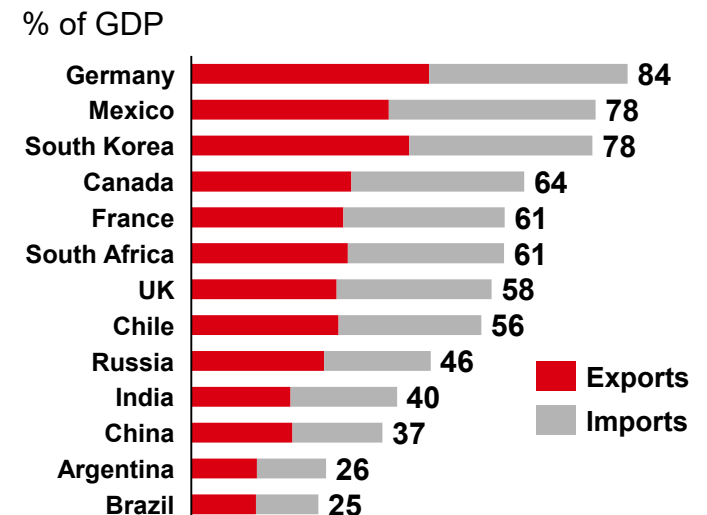
2019 value of trade (exports and imports), USDbn



## Mexico's trade agreements<sup>2</sup>

- USMCA was ratified and came into effect in June 2020
- Trade agreements in three continents, and positioned as a gateway to **60% of world's GDP**
- Network of **13 Free Trade Agreements (FTAs)** with 45 countries
- 32 Reciprocal Investment promotion and Protection Agreements (RIPPAs)
- 9 Trade agreements

## Degree of openness (exports + imports) Highly open economy<sup>3</sup>



1. Source: Trademap.org.

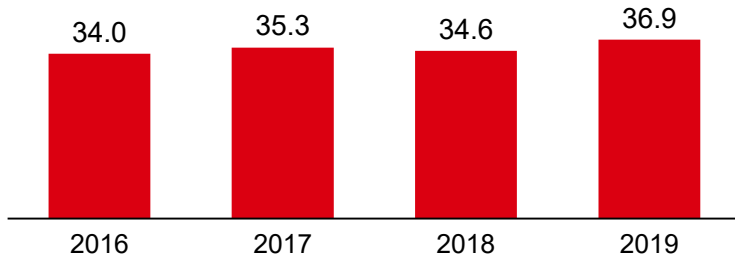
2. Source: promexico.gob.mx

3. Source: Trademap.org. Selected relevant world economies including Mexico's key trade partners and comparative Latin American countries. 2019 Data.

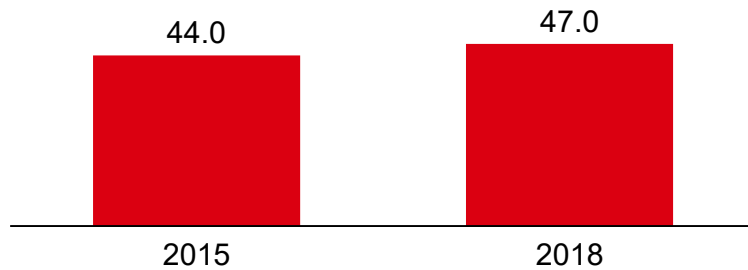
# Mexico presents numerous investment opportunities for banking and trade finance

## Social / economic environment

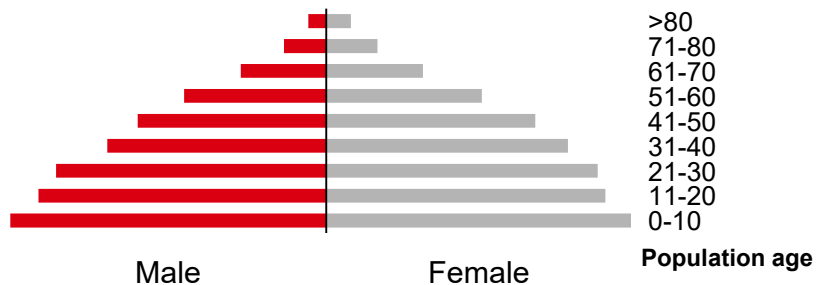
### Domestic credit to private sector (% of GDP)<sup>1</sup>



### Banking accounts (% of population between 18-70 years)<sup>2</sup>



### Demographic distribution 2019<sup>3</sup>



## Main sectors in Mexico

Tech, Auto, Media and Telecom, Healthcare, Industrials, Chemicals Professional Services



Metals & Mining, Oil & Gas, Power & Utilities, Construction



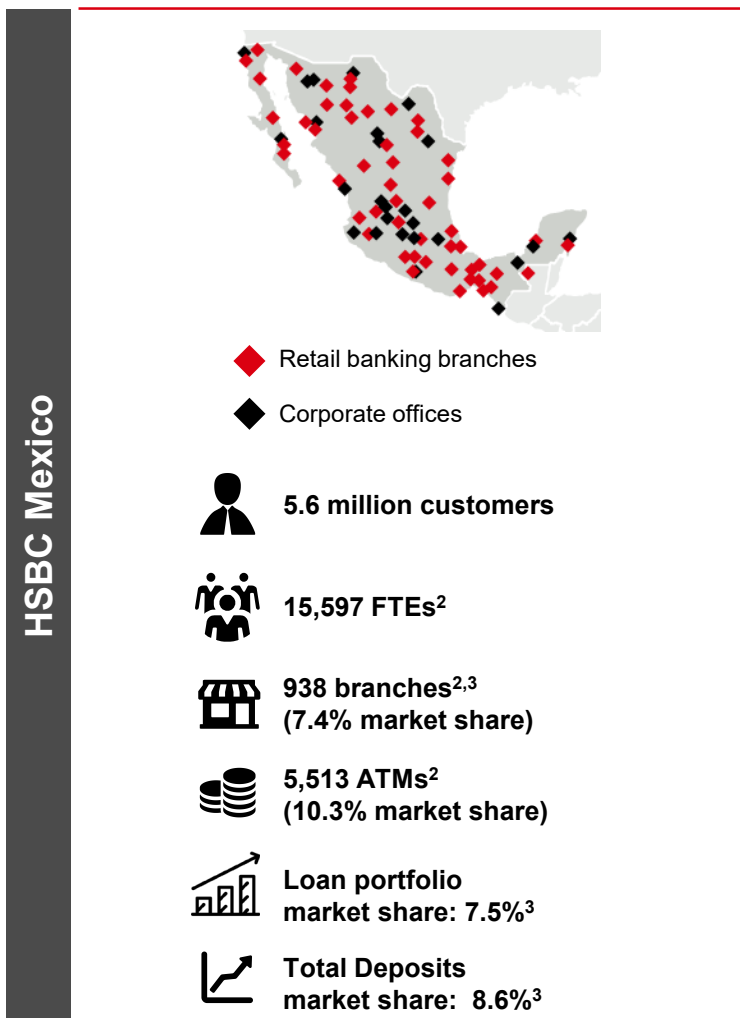
Public sector infrastructure



1. Source: World Bank  
 2. Source: CNBV  
 3. Source: Conapo (National population commission). Demographic bonus considers Mexico having a large population of young people.

# HSBC Mexico is a systemic bank in the country, ranked within the top 5 major banks<sup>1</sup> with a universal banking offer

## Key Figures as of June 2020



## Business segments and products



Our Wealth and Personal Banking customers have access to a full range of services to manage their day-to-day finances and save for the future.

- Payroll
- Global Asset Management
- Lending: Auto, mortgage, credit cards, payroll and personal loans
- Insurance
- Wealth Management



Our Commercial Banking team connects customers to opportunities in Mexico and abroad. We provide end-to-end, host-to-host Cash Management solutions for some of the biggest businesses in Mexico.

- GLCM: Connectivity (platforms), liquidity, payables, receivables and collections
- GTRF: Trade (Letters of Credit), Guarantees (SBLCs), Supply Chain Finance, Factoring, Commodity Structured Trade Finance



Global Banking supports both local and multinational customers whether they are exploring opportunities in new markets or need investment banking services.

- Credit & Lending
- Infrastructure and Real Estate
- Debt and Equity Capital Financing
- Advisory: Mergers & Acquisitions
- Asset-backed finance
- Sub-custody services

1. Source: CNBV, ranking based in total assets as of June 2020.  
 2. Source: HSBC Mexico 2Q20 press release. Figures under Mexico GAAP  
 3. Source: CNBV. Market share vs total banking system

# HSBC in Mexico

## Ownership chart

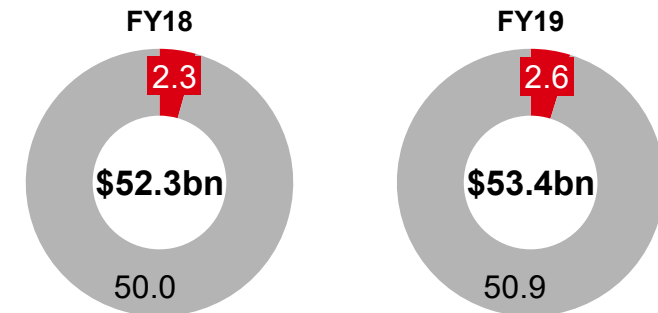


## HSBC Mexico performance<sup>1</sup>

### Reported revenue

USDbn

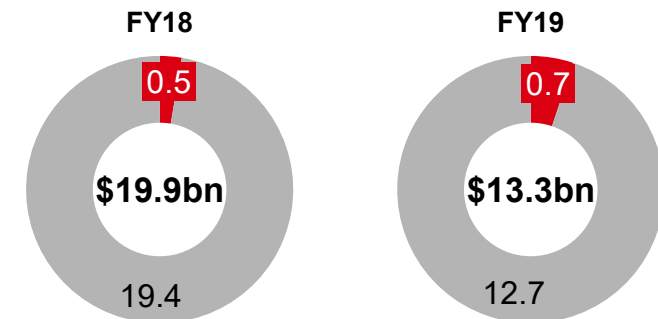
■ HSBC Mexico  
■ Rest of Group



### Reported profit before tax<sup>2</sup>

USDbn

■ HSBC Mexico  
■ Rest of Group



During 1H20, under IFRS, HSBC Mexico (geographic basis) reported a loss before tax of USD80m. The difference between Mexico GAAP and IFRS is primarily driven by the treatment of LICs compared with ECL. On an IFRS basis, 1H20 performance results in a negative contribution to Group PBT

1. Source: HSBC Holdings plc Annual Report and Accounts 2019. Reported figures under IFRS. Includes intra-group transactions.

2. FY19 HSBC Group reported profit before tax includes a \$7.3bn goodwill impairment charge.

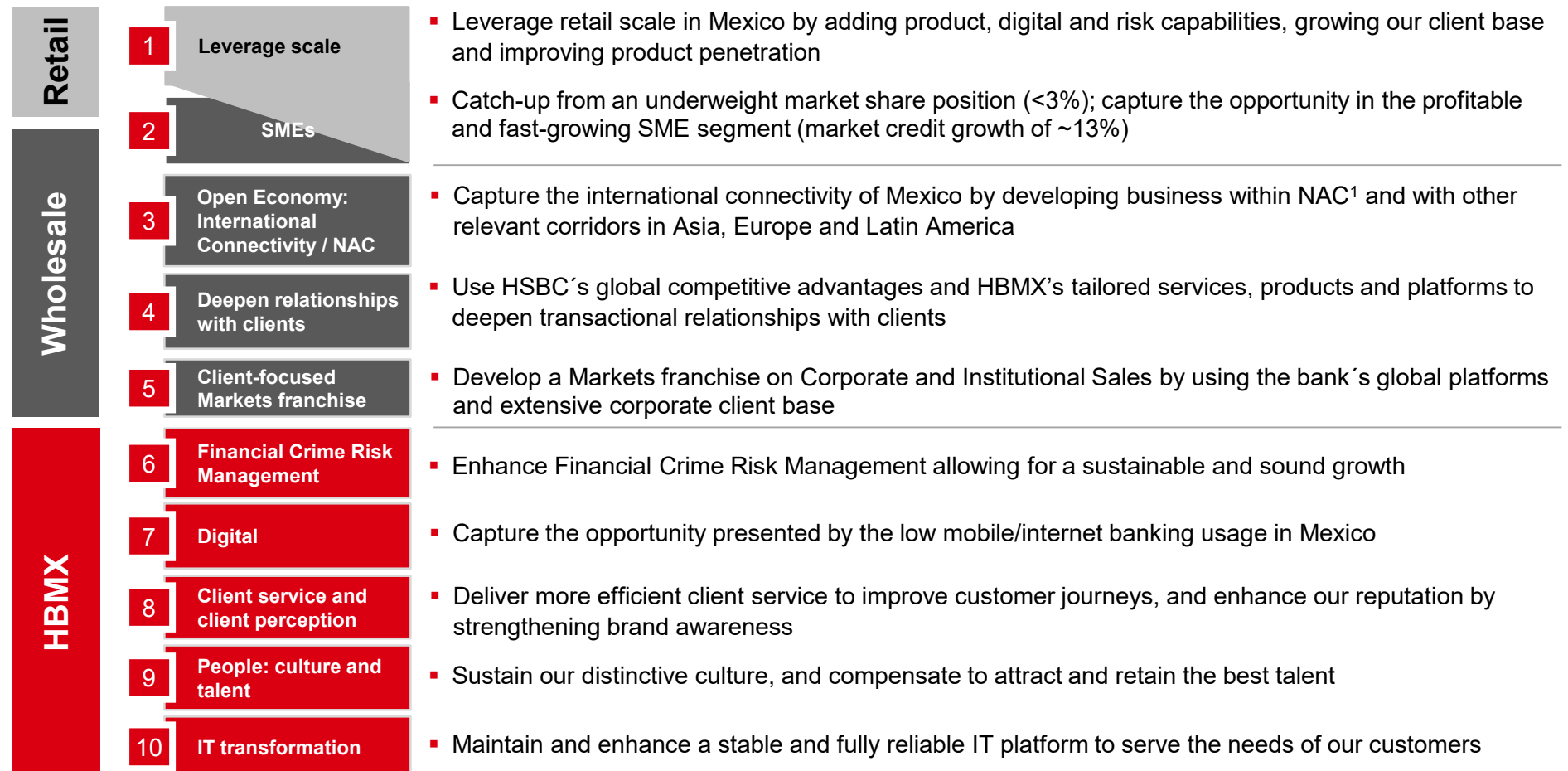


# Strategy remains in place

Two main strategic pillars...

- i. Seek to leverage our retail scale to reach at least 10% market share (to match our branch market share)**
- ii. Aim to become the leading wholesale bank in Mexico for international and local customers with transaction banking needs.**

...and ten strategic initiatives:



1. North America Corridor, comprising Mexico, Canada and the USA

## Covid-19: Support measures for customers

### Retail

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- Relief plans and liquidity benefits include repayments without interest from three to six months, or payment holidays of up to six months for certain customers
- Branch network and ATMs frequently sanitized and properly signaled to promote social distance and to mitigate contagion
- Strong marketing campaign to promote alternative digital channels

### Wholesale

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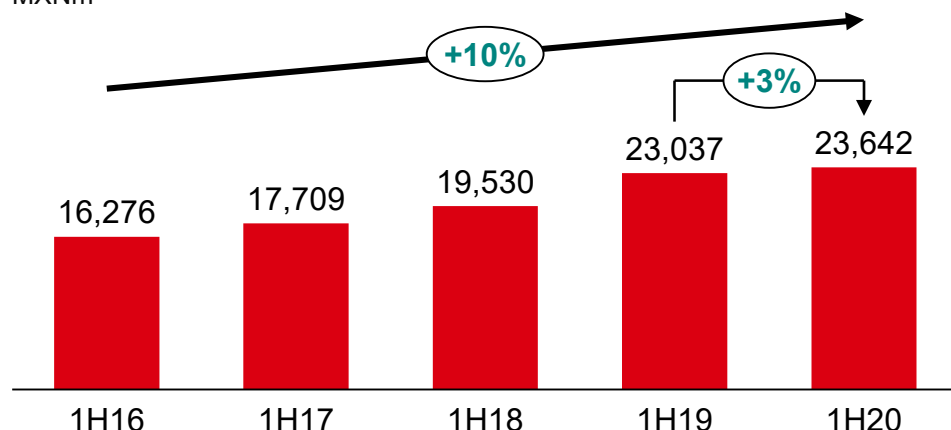
- Covid-19 relief credit program mainly for SME customers
- Process simplification for new to bank customers, periodic credit reviews, frequent risk monitoring and close contact to understand their needs and challenges
- Ongoing detailed tracking in highly sensitive industries to proactively identify risks and propose mitigating actions for corporate customers

## 2. HSBC Mexico financial performance

# Reported financial performance 1H20 – Mexico GAAP

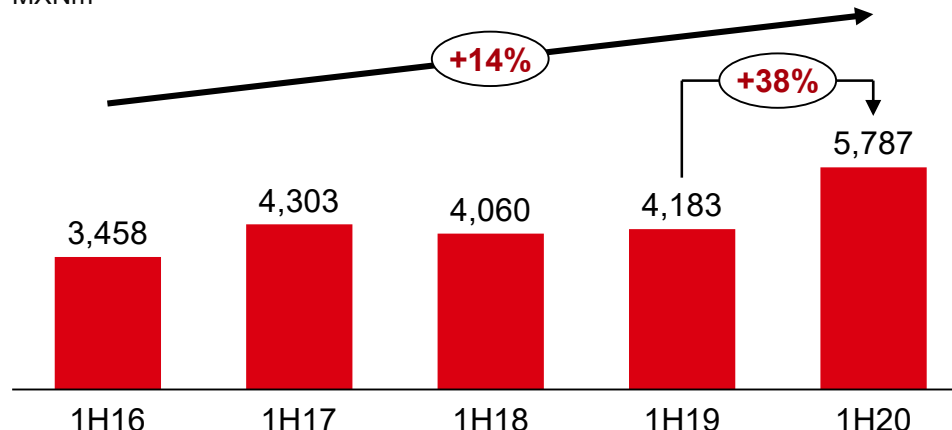
## Revenue<sup>1,2,3</sup>

MXNm



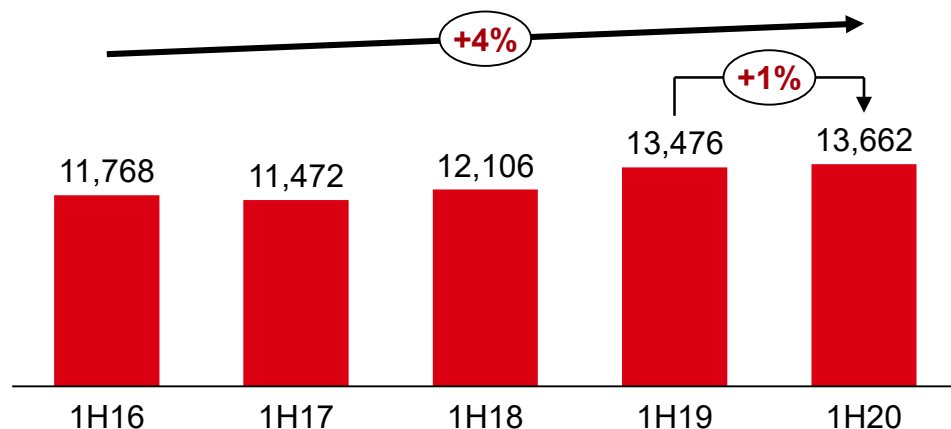
## Loan impairment charges and other credit risk provisions<sup>2</sup>

MXNm



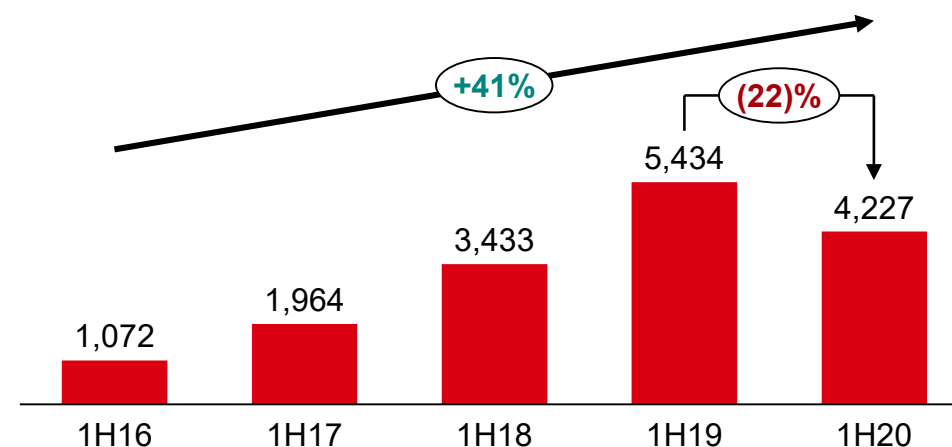
## Operating expenses

MXNm



## Profit before tax<sup>3</sup>

MXNm



Source: HSBC Mexico 2Q20 press release. Figures under Mexico GAAP.

1. Revenue refers to Total Operating Income and participation in subsidiaries, excluding Loan impairment charges.

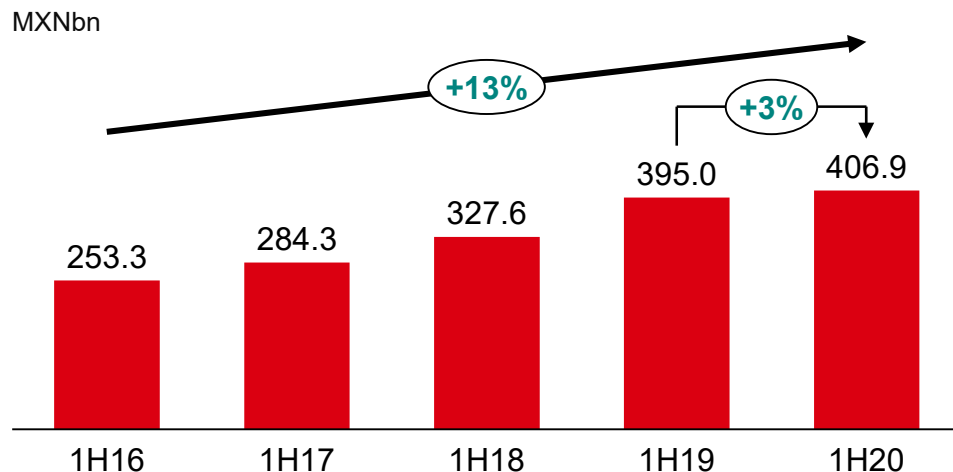
2. 1H16 reported income includes the reversal of previous year excess loan impairment reserves. 1H17 reported income was MXN 18,332m, which included the reversal of previous years reserves in Other income, For comparison purposes, MXN 623m was reclassified to loan impairment charges. From March 2018 onwards, following a change in regulation, the reversal of previous years excess reserves is reported in loan impairment charges.

3. 1H19 figures includes MXN 1,296m of gain in sale of 50% of the joint venture booked in January 2019.

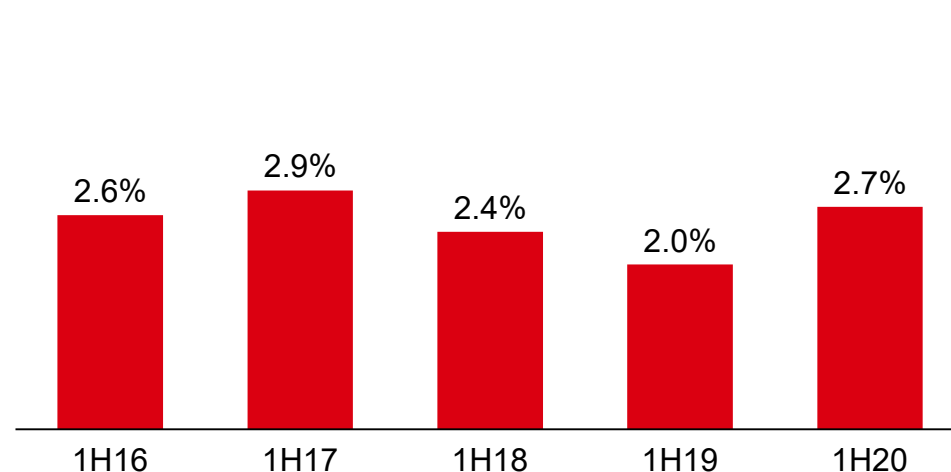


# Reported financial performance 1H20 – Mexico GAAP

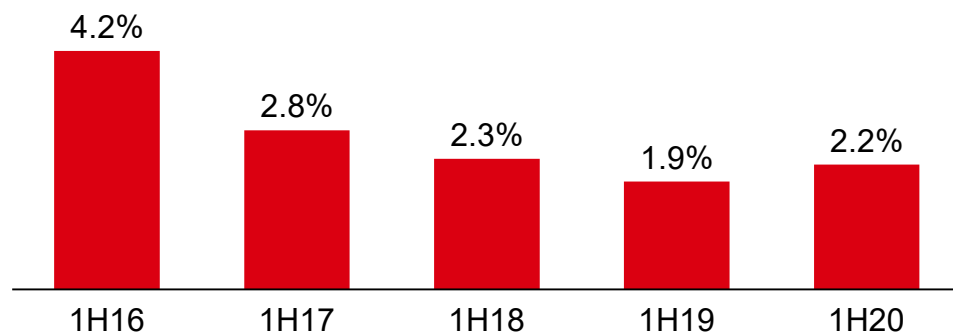
## Net loans advances to customers<sup>1</sup>



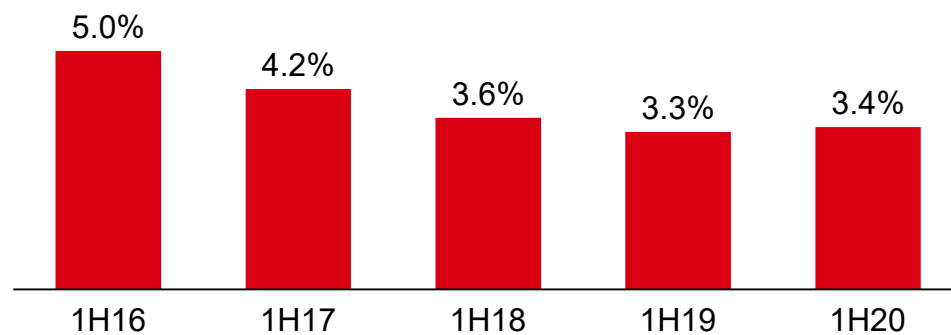
## LICs<sup>1,2</sup> / loans %



## Non performing loan ratio<sup>1, 3</sup> %



## LLR<sup>1, 4</sup> / loans %



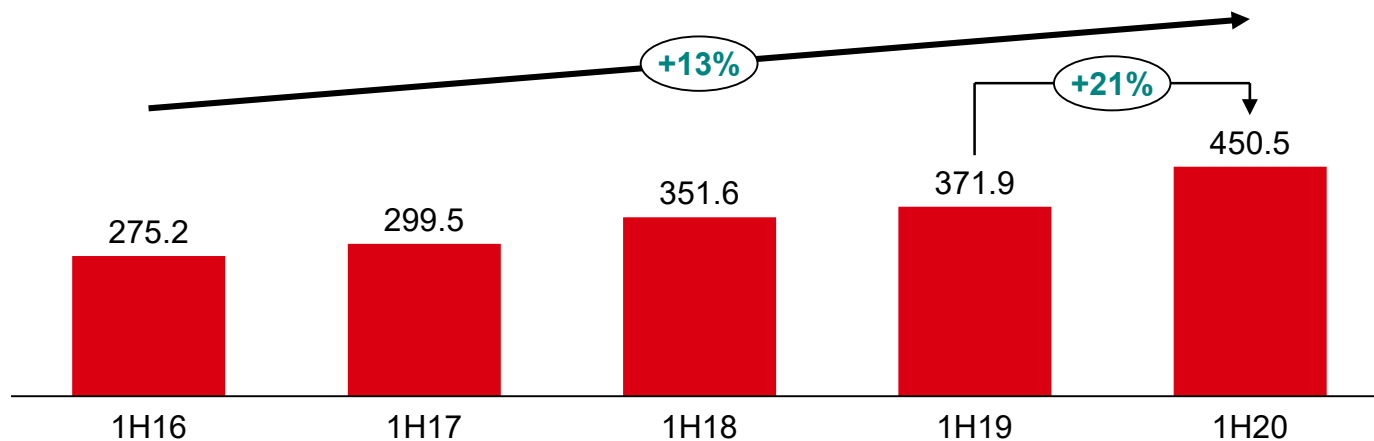
Source: HSBC Mexico 2Q20 press release. Figures under Mexico GAAP.

1. Figures are under local GAAP.
2. Annualised LICs as a % of gross loans and advances to customers.
3. Non-performing loans as a % of gross loans and advances to customers.
4. LLR = allowance for loan losses as a % of gross loans and advances to customers

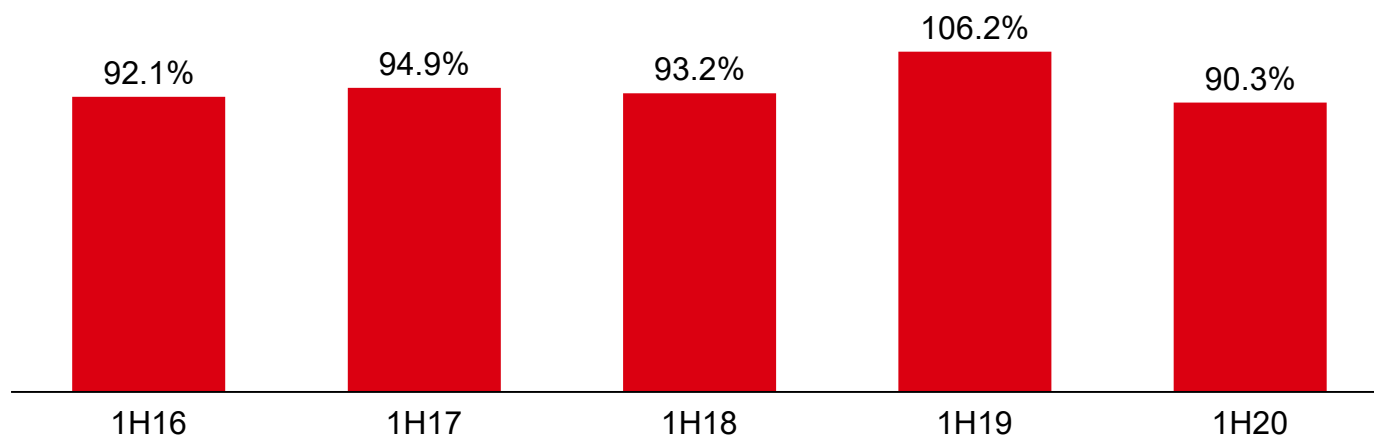
# Credit portfolio and deposits

## Deposits<sup>1</sup>

MXNbn



## Advances to deposits ratio (ADR) %<sup>2</sup>



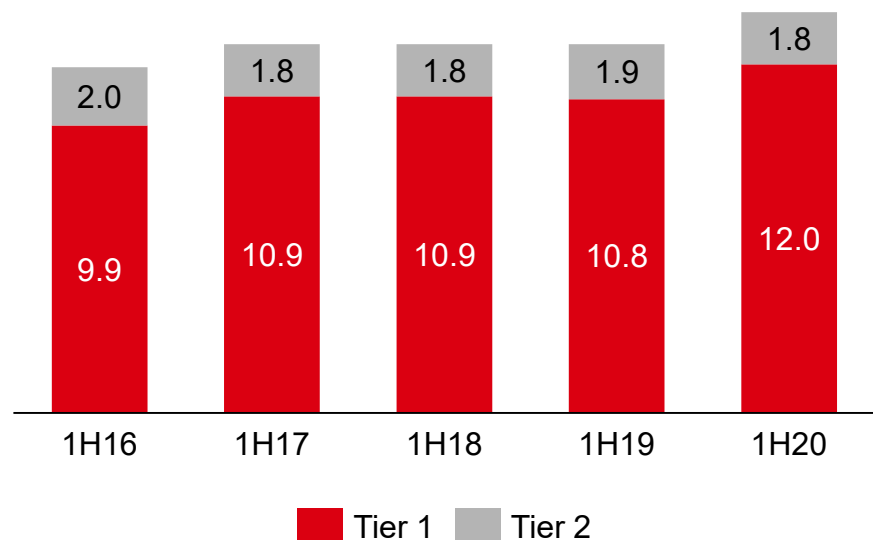
1. Source: HSBC Mexico 2Q20 press release. Reported figures under local GAAP. Time Deposits exclude money market deposits  
 2. Demand and Time Deposits disclosed in the Spanish version of the 2Q20 press release, and excludes money market deposits (Mercado de dinero, títulos de crédito emitidos and cuenta global de captación sin movimientos). This Spanish version is publicly available on the HSBC Mexico website at <https://www.about.hsbc.com.mx/es-mx/investor-relations>

# HSBC Mexico Bank – capital

Total capital adequacy ratio at 2Q20 was 13.8%, 270bps above regulatory requirements

## Capitalisation %<sup>1</sup>

Total capital adequacy ratio				
11.9%	12.7%	12.7%	12.7%	13.8%



- At 30 June 2020, the bank's total capital adequacy ratio was 13.8% and the tier 1 capital ratio was 11.2%
- The minimum capital ratios for HSBC México under local rules as of June 2020 are:
  - CET1 Ratio:  $\text{CET1} \geq 7\% + \text{DSIB}$  **7.60%**
  - Tier 1 Capital Ratio  $\geq 8.5\% + \text{DSIB}$  **9.10%**
  - Total Capital Ratio  $\geq 10.5\% + \text{DSIB}$  **11.10%**
  - DSIB 60 bps
- In April 2020, CNBV issued a press release allowing the banks to use up to 50% of their capital conservation buffer (2.5% of RWA's)

CET1: Common Equity Tier 1.

DSIB: Domestic Systemically Important Bank.

1. Source: CNBV for figures from June 2016 to June 2019. June 2020 figures according to HSBC Mexico 2Q20 press release.

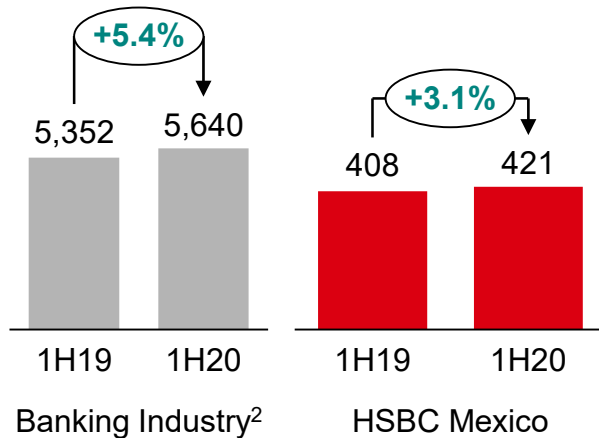
# 3. Peer bank review



# HSBC México vs Industry

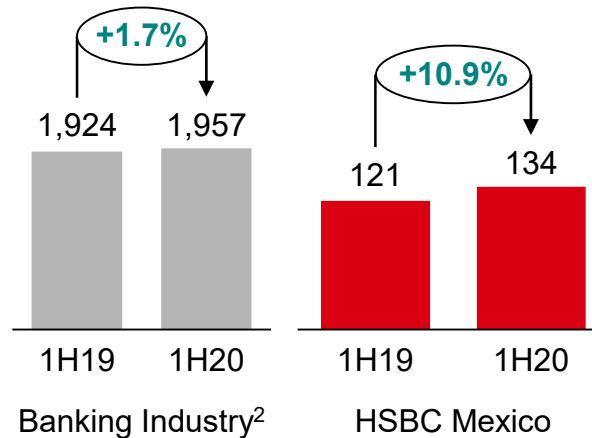
## Total gross loans<sup>1</sup>

MXNbn



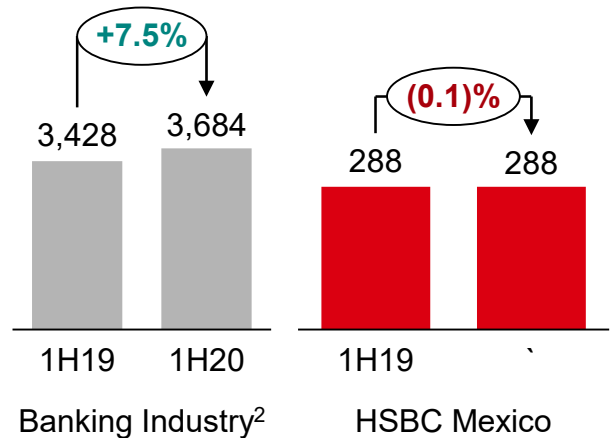
## Retail loans

MXNbn



## Wholesale loans

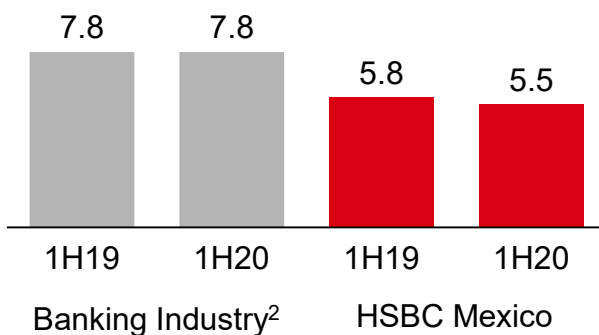
MXNbn



## Lending rates (NIM)

(3 months rolling average)

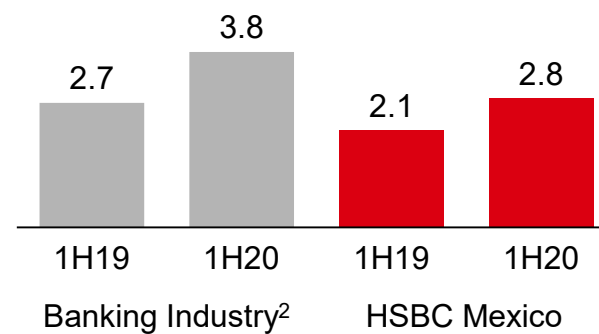
%



## Credit Cost

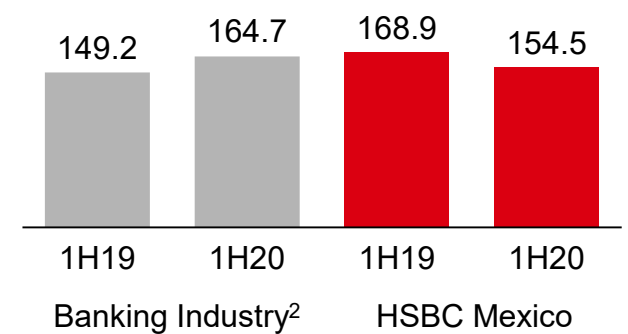
(Annualized LICs/avg. loans)

%



## Coverage index (loan reserves/NPL)

%

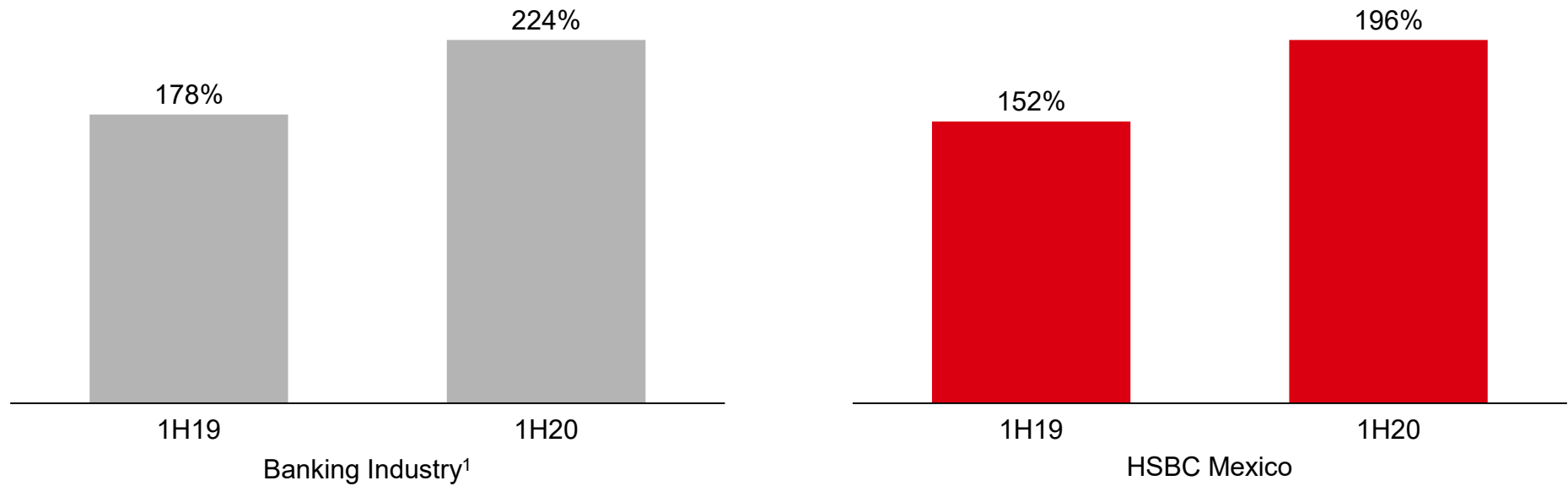


Source: CNBV, figures under local GAAP as of June 2020

1. Total loans may not cast due to rounding. Includes performing and non-performing loans

2. Banking industry comprises all banks in Mexico including HSBC Mexico.

## HSBC México vs Industry – Liquidity coverage ratio



Source: CNBV

1. Banking industry average for all banks in Mexico including HSBC Mexico

