

March 2018

HSBC Mexico update

Nuno A. Matos CEO HSBC Mexico



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This presentation contains non-GAAP financial information. The primary non-GAAP financial measure we use is 'adjusted performance' which is computed by adjusting reported results for the period-on-period effects of foreign currency translation differences and significant items which distort period-on-period comparisons. Significant items are those items which management and investors would ordinarily identify and consider separately when assessing performance in order to better understand the underlying trends in the business. Reconciliations between non-GAAP financial measurements and the most directly comparable measures under GAAP are provided in the 2017 Annual Report and Accounts, HSBC Group Interim Report, the Reconciliations of Non-GAAP Financial Measures document and HSBC Mexico press release which are available at www.hsbc.com.

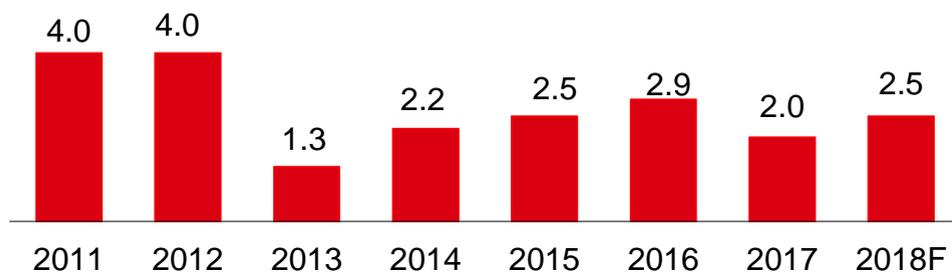
Information in this Document was prepared as of 23 March 2018.

1. Mexico's economic outlook

Macroeconomic highlights – key fundamentals

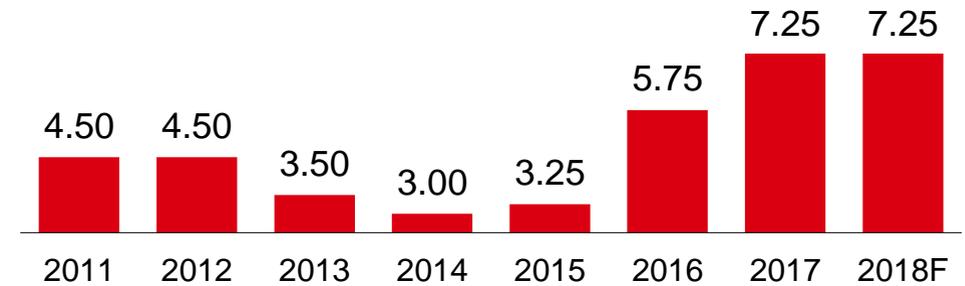
GDP growth

% y-o-y



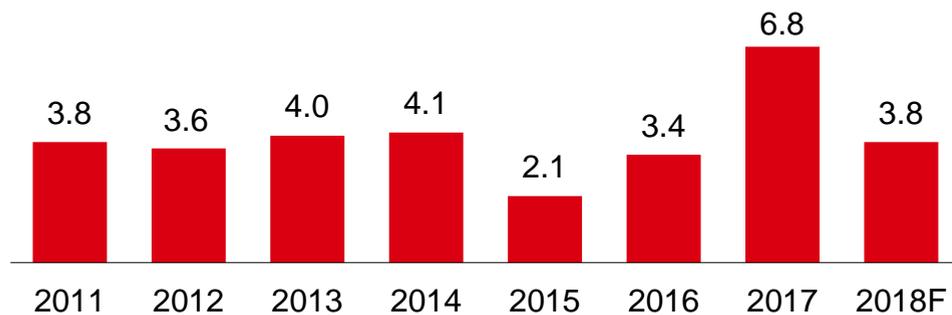
Central Bank policy rate

% End of period



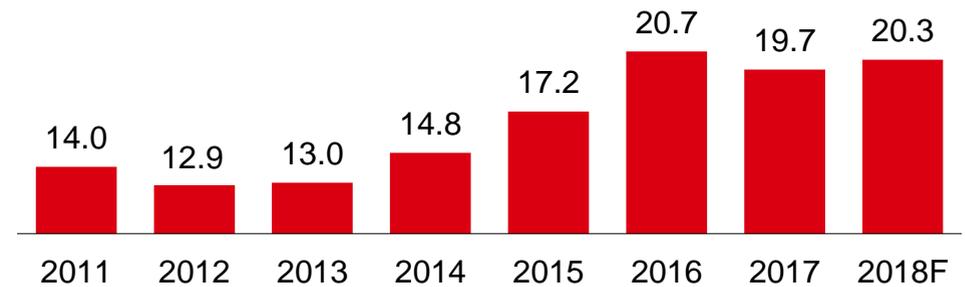
Inflation

% End of period



Foreign exchange

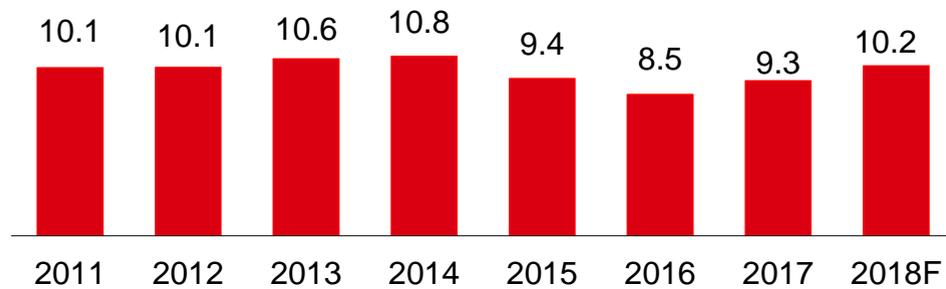
MXN / USD end-year



Macroeconomic highlights – financial depth and trade openness

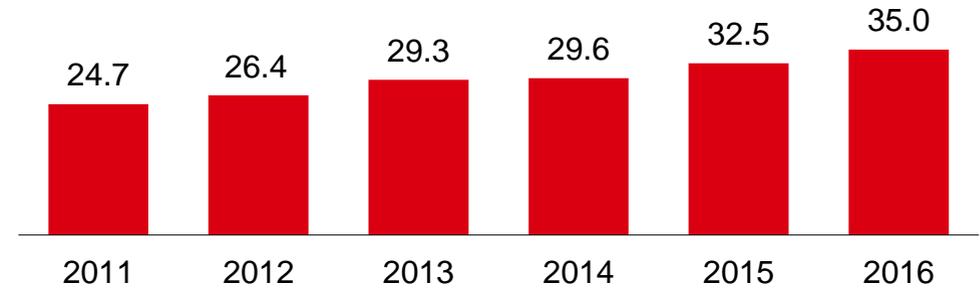
GDP per capita

USDk¹



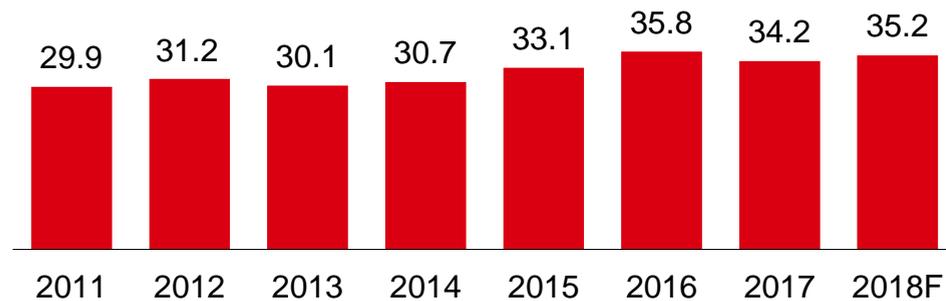
Domestic credit to private sector

As % of GDP²



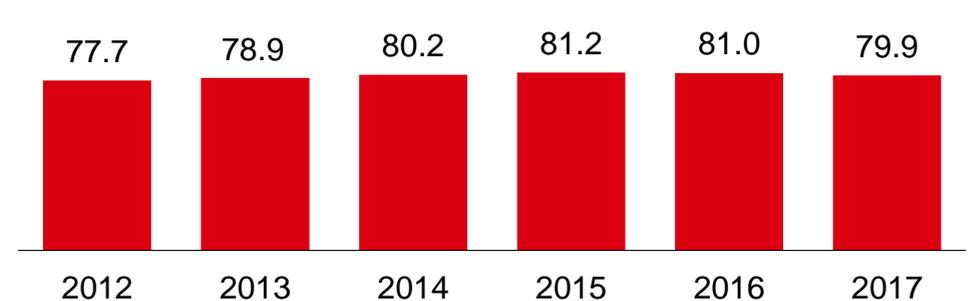
Total exports

As % of GDP^{1,3}



Exports to USA

As % of total exports³



1. Source: HSBC Global Research, Latin America Economics 1Q18. Between 2014-2015, MXN depreciated 17.5% while GDP per capita fell 13%

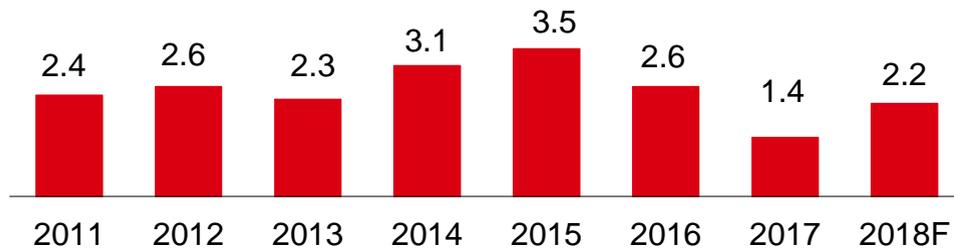
2. Source: Worldbank FY as of Dec 17

3. Trademap.org FY as of Dec 17

Macroeconomic highlights - public sector

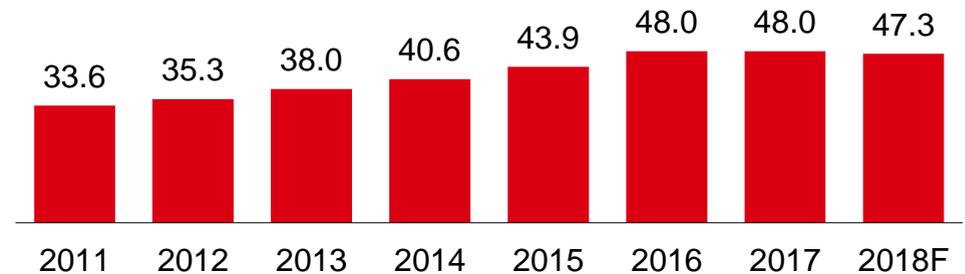
Central Government budget deficit

% GDP¹



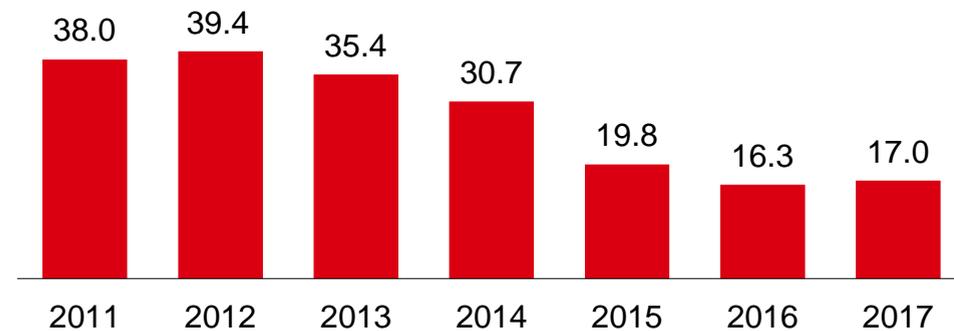
Gross public sector debt

% GDP²



Oil revenues

% of total government revenues³



1. Source: HSBC Global Research, Mexico in 2018, 24 Jan 18.

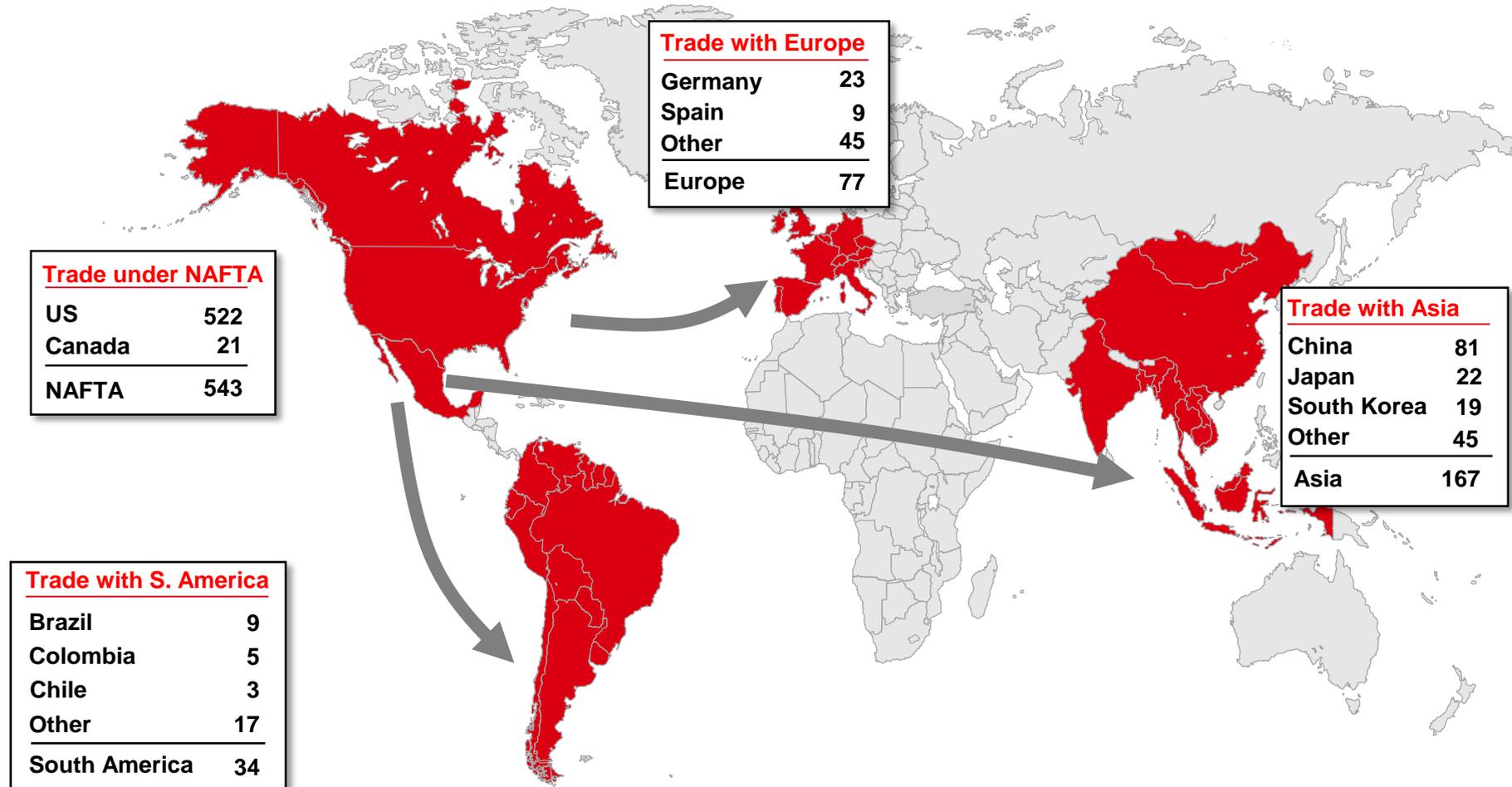
2. Source: HSBC Global Research, Global Economic quarterly 1Q18

3. Source: Ministry of Finance (SHCP) with FY figures as of Dec 2017

Trade: Mexico connected to key regions

Mexico in key trade corridors¹

2017 value of trade (exports and imports), USDbn



1. Source: Trademap.org FY 2017 figures

Trade: NAFTA opportunities

HSBC advantages

- HSBC is the leading international bank and US-Mexico and US-Canada are amongst top trade corridors in the world and will be 1st and 2nd largest commodity corridors by 2020
- HSBC has significant presence in all three countries

Opportunities for HSBC

- International Trade (NAFTA countries with the world), as expressed by Global Trade and Receivables Finance proposition
- Intra-NAFTA trade opportunities
- Regional cash management mandates
- Coverage in one country of subsidiaries of companies headquartered in another country, as expressed by CMB International Subsidiary Banking and GB Multinationals teams
- Sector approach namely Commodities, Auto, Agriculture and Food, Industrial Machinery

Current approach and results

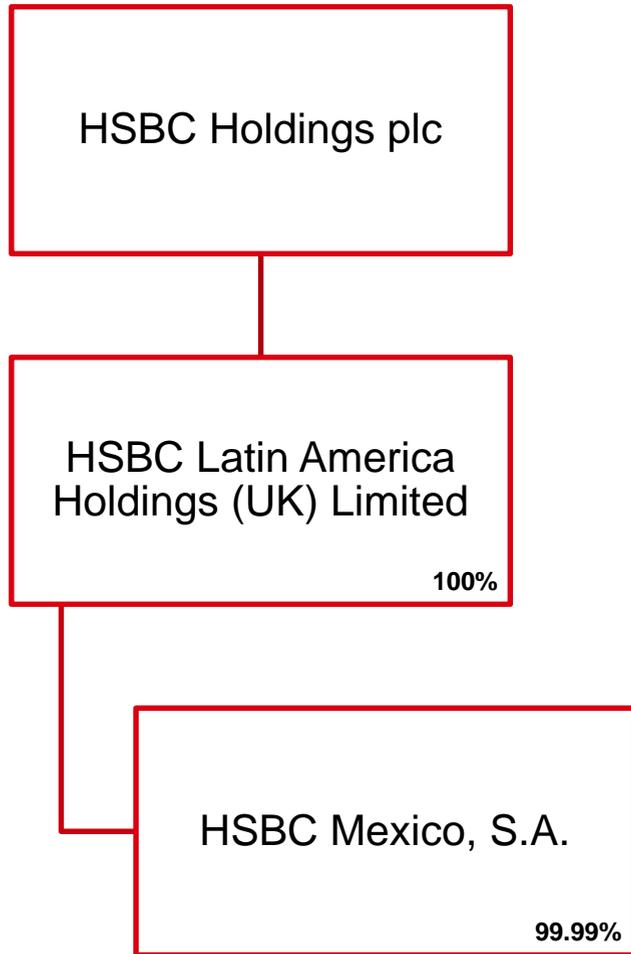
- Explore and measure opportunities in Multis and ISB subsidiaries, both intra-NAFTA and from outside in
- Increased connectivity and communication across the Region and the Group
- Enhanced products and marketing tools; onboarding times on process of being reduced

2. HSBC in Mexico



Our Mexican business is strategically important to Group with significant potential to improve

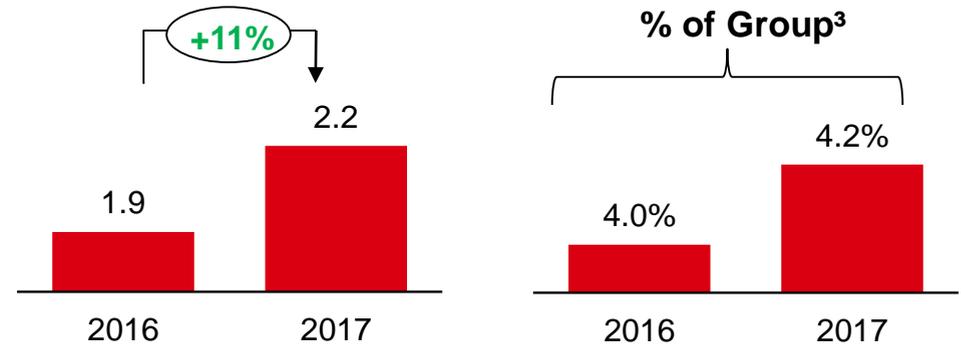
Ownership chart



HSBC Mexico performance¹

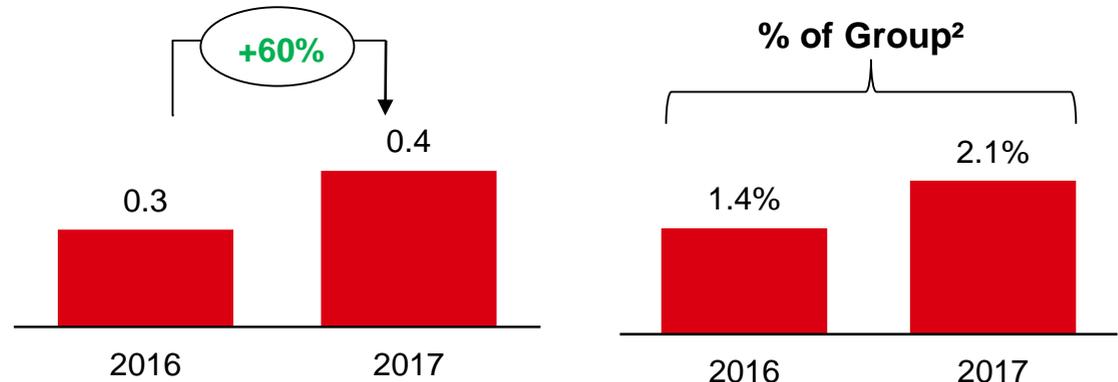
Adjusted revenue

USDbn



Adjusted PBT

USDbn



1. Source: HSBC Holdings plc Annual Report and Accounts 2017 and 2016. Adjusted figures under IFRS.
 2. Adjusted PBT HSBC Mexico compared with Adjusted PBT HSBC Holdings
 3. Adjusted Revenue HSBC Mexico compared with Adjusted PBT HSBC Holdings

Key executives bios

<p>Nuno A. Matos CEO</p>	<p>Joined HSBC in March 2015. Appointed CEO of HSBC Mexico in December 2015. Experience: Worked for Santander since 1994 to 2015 in a variety of retail banking, investment banking and functional leadership roles across Europe, the US and Latin America. Also worked at Banco de Portugal.</p>
<p>Estanislao de la Torre COO</p>	<p>Joined HSBC and appointed COO in August 2016. Experience: Worked for Santander since 1998 to 2016 in different leadership operational roles in Mexico. Also worked at Grupo Bursatil Mexicano as Chief Administration and Financial Officer.</p>
<p>Guillermo Colquhoun CRO</p>	<p>Joined HSBC in 2005. Appointed CRO in March 2018. Experience: Former Head of Internal Audit of HSBC Mexico. Senior management positions in Mexico, Brazil and Argentina, with an extensive experience of more than 20 years in the financial services industry.</p>
<p>Martin Peusner CFO</p>	<p>Joined HSBC in 2007. Appointed CFO in November 2016. Experience: Former CFO of HSBC Argentina and HSBC Brazil. Also worked in Citibank in several roles and as CFO for Citibank Colombia.</p>
<p>Juan Parma Head RBWM</p>	<p>Joined HSBC in 1997. Appointed Head of RBWM Latin America in January 2016. Experience: Several leadership roles within retail banking and commercial banking in Argentina, Brazil and Panama.</p>
<p>Juan Marotta Head CMB</p>	<p>Joined HSBC in 1998. Appointed Head of CMB Latin America in January 2014. Experience: Several leadership roles within retail banking and commercial banking in Argentina and Mexico</p>
<p>Jose Iragorri Head GB</p>	<p>Joined HSBC in 2010. Appointed Head of GB in July 2016. Experience: Managing Director of Global Banking in HSBC with experience in corporate customers.</p>
<p>Herbert Perez Head GM</p>	<p>Joined HSBC and appointed Head of GM in August 2015. Experience: Senior management positions mostly in global banks, sales & trading in Mexico and NY. Worked at several financial institutions such as Structura Capital Management, Vector Brokerage House, Bank of America, ING and Citibank.</p>

HSBC Mexico is a key player in the Mexican financial system with room to grow

HSBC Mexico position

- Competitive top-5 universal bank with scale¹
- Leading trade and cash management bank²
- Important retail player with high customer satisfaction³

National coverage

- Presence in all 32 states of Mexico
- Our branch and ATM network is well distributed accordingly to GDP distribution within the country and its cities which are its most important economic centres: Mexico City, Monterrey and Guadalajara

Extensive branch and ATM network⁴

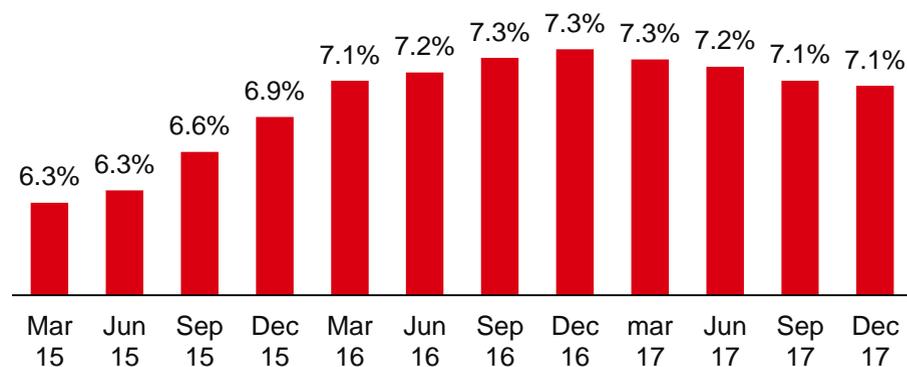
- 971 branches (13.4% market share, 5th)
- 5,532 ATMs (13.3% market share, 5th)
- Approximately 16,000 FTEs

Key businesses

Contribution to HSBC Mexico results as of 2017 FY

	RBWM	CMB	GB&M	Corporate Centre ⁸	Total
Loans ⁵	33%	30%	37%	-	100%
Revenues ^{6,7}	67%	16%	13%	4%	100%
PBT ⁷	36%	27%	40%	-3%	100%

Retail lending market share trend, %⁴

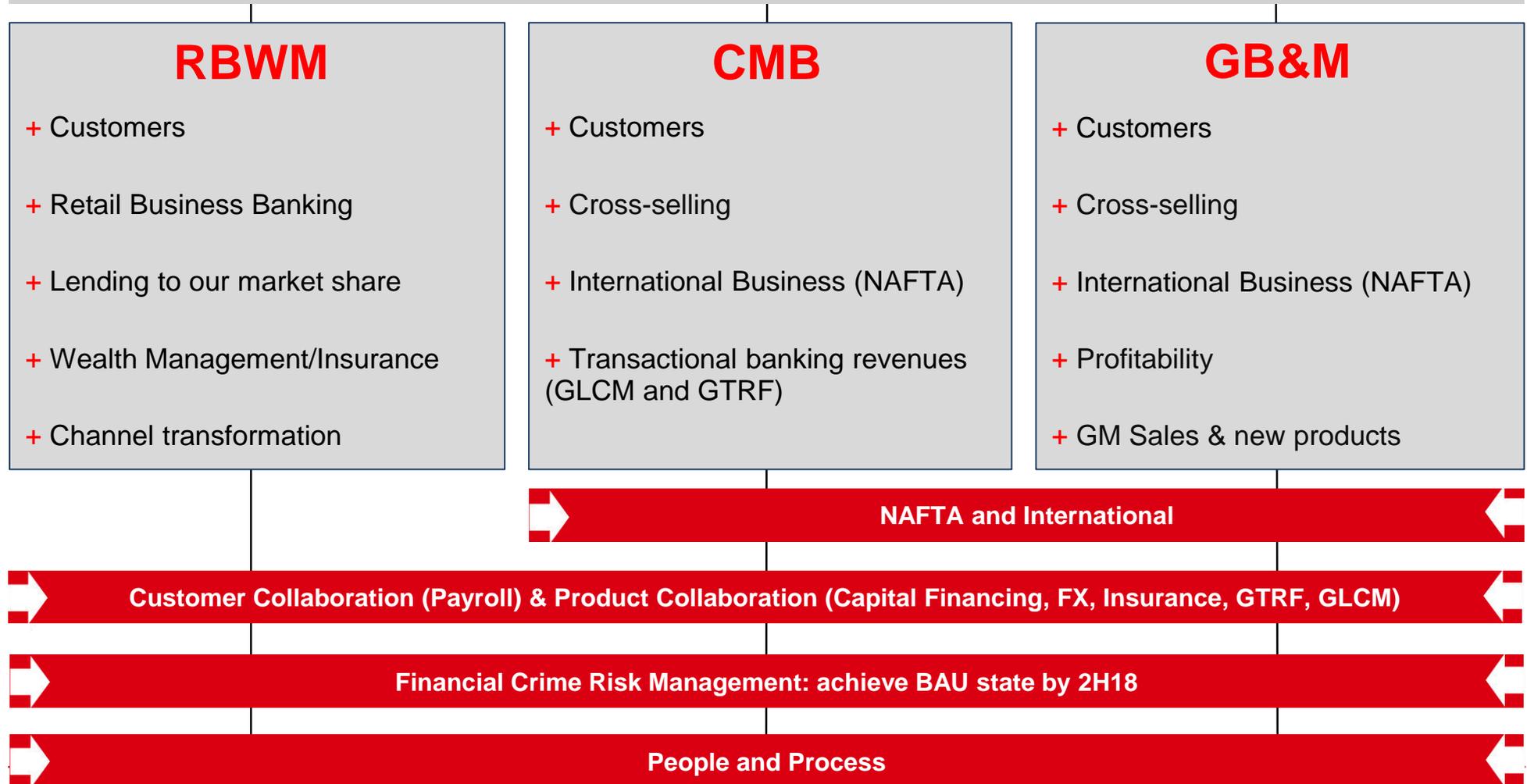


1. Source: National Commission of Banking and Securities FY as of Dec 17
 2. Source: Dealogic FY as of Dec 17
 3. Source: Condusef FY as of Dec 17
 4. Source: National Commission of Banking and Securities. Market share based on 6 major banks in Mexico FY as of Dec 17

5. Source: 4Q17 HSBC Mexico Local press release
 6. Revenues refers to Adjusted Revenue - Total Operating Income excluding Loan impairment charges
 7. Contribution based on HSBC Holdings plc Annual Report and Accounts 2017
 8. Corporate Centre includes the HSBC Mexico Treasury (Balance Sheet Management) and costs and revenues arising from technology solution services provided to other entities of the group

2018-2020 strategy

- Consolidate as the third RBWM Market for HSBC
- Become the leading Wholesale bank for international customers and customers with international needs

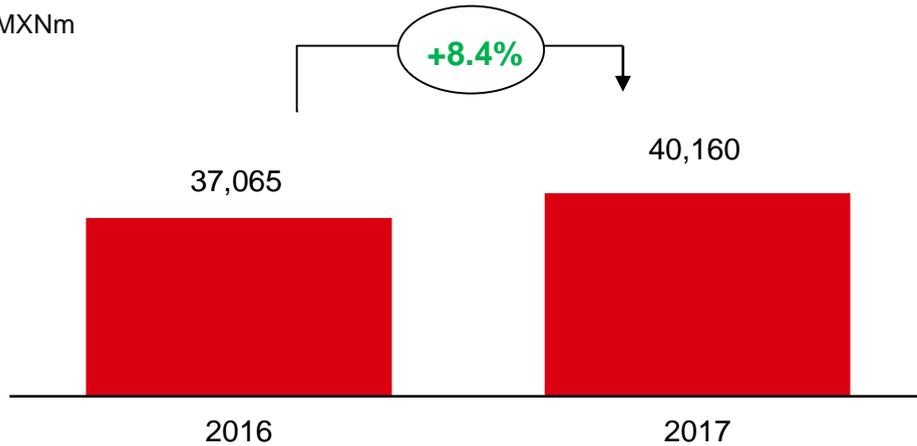


3. HSBC Mexico financial performance

Reported financial performance 2017 – Mexico GAAP

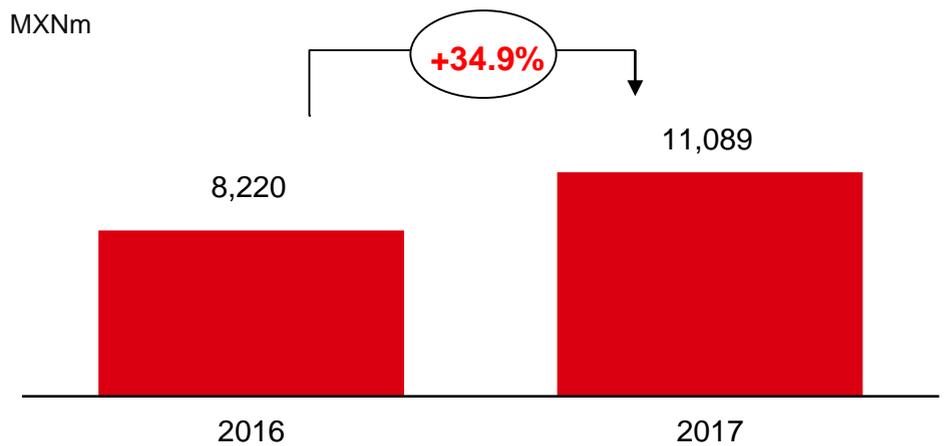
Revenue¹

MXNm



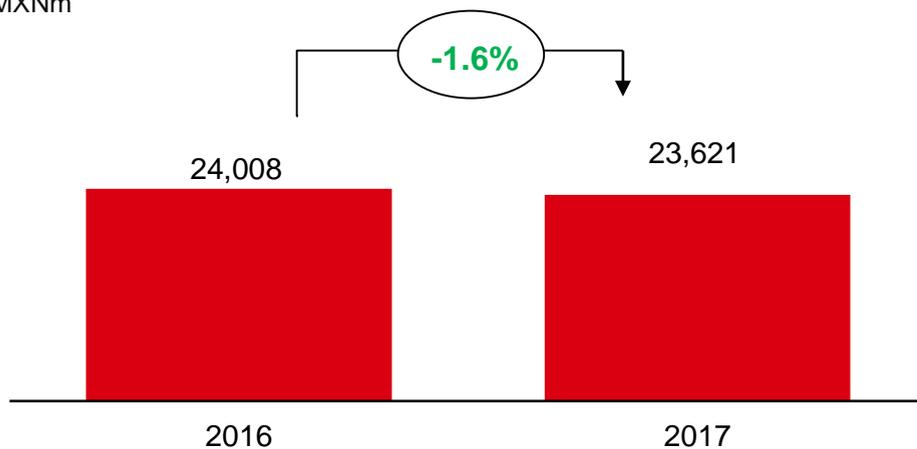
Loan impairment charges and other credit risk provisions

MXNm



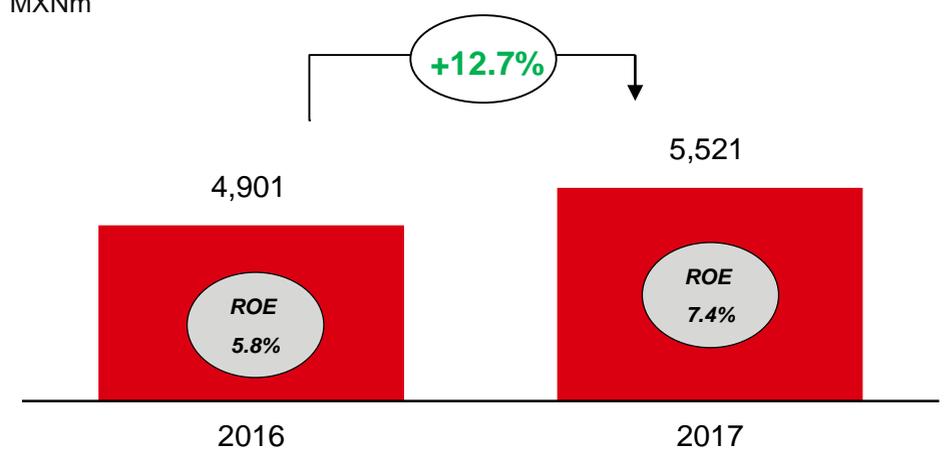
Operating expenses

MXNm



Profit before tax

MXNm

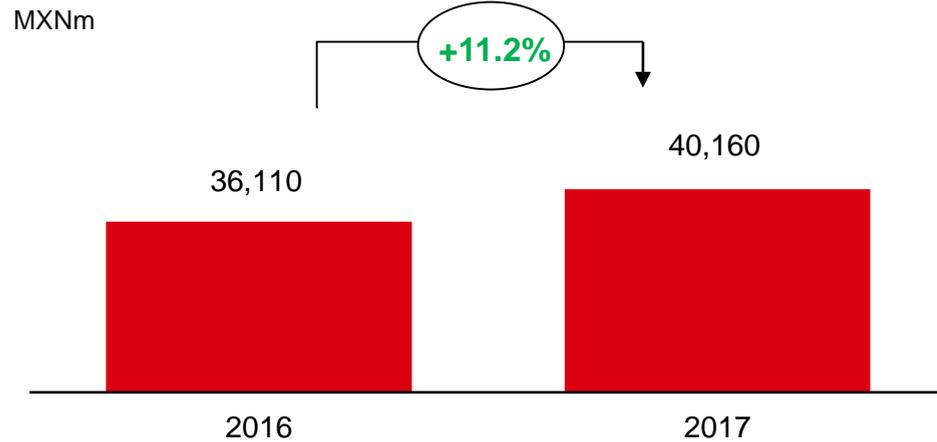


Source: HSBC Mexico 4Q17 press release. Figures under local GAAP

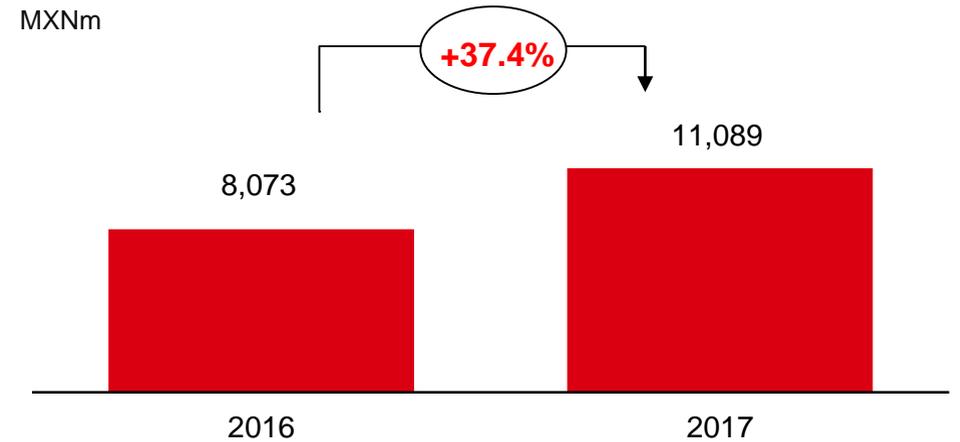
1. Revenue refers to Total Operating Income excluding Loan impairment charges

Financial performance 2017¹ – excluding non-recurrent items

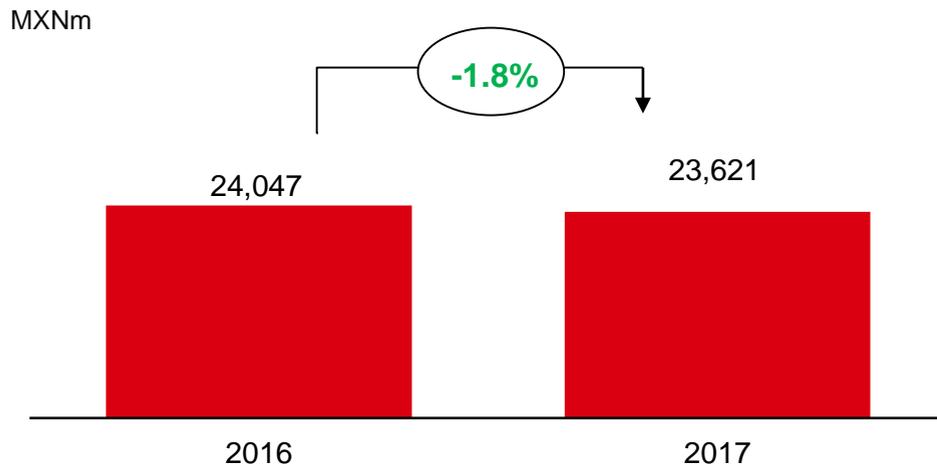
Revenue²



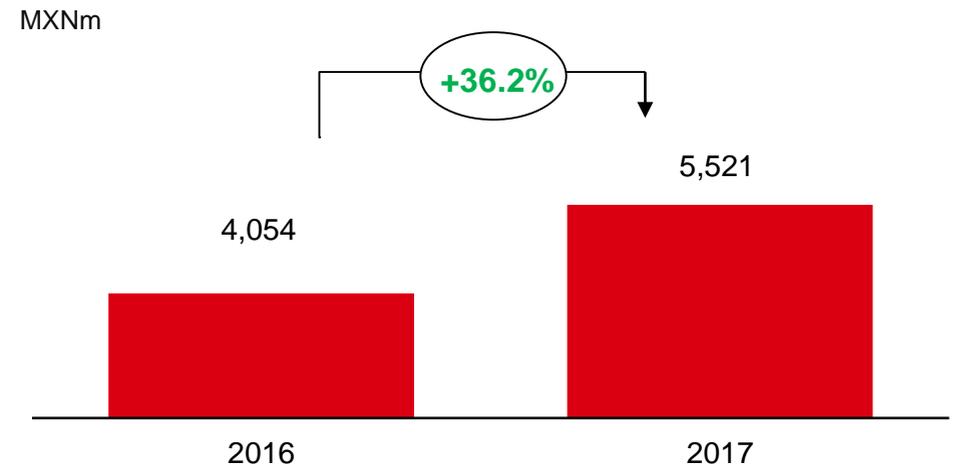
Loan impairment charges and other credit risk provisions



Operating expenses



Profit before tax



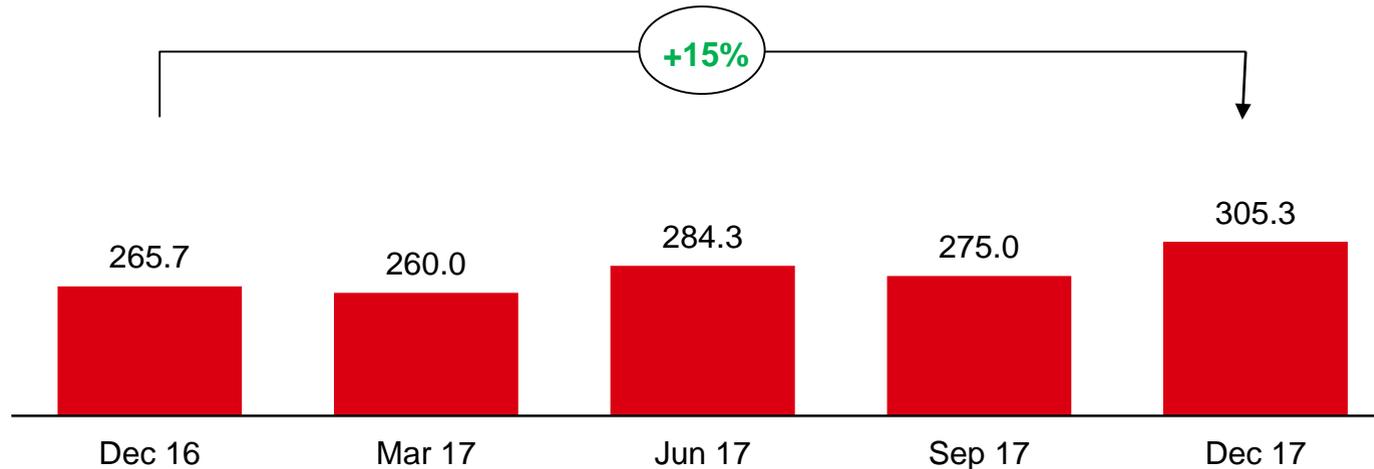
Source: HSBC Mexico 4Q17 press release. Figures under local GAAP

1. Non-recurrent items for the year end to 31 December 2016 include: net operating income adjustment of MXN994m related to the transition to Solvency II (new regulatory framework for insurance companies effective since 1 January 2016), partially offset by MXN147m of additional loan impairment charges in relation to the home builders portfolio.
2. Revenue refers to Total Operating Income excluding Loan impairment charges

Credit portfolio increasing vs prior year, whilst deposits being managed with a view to reach an effective A/D ratio

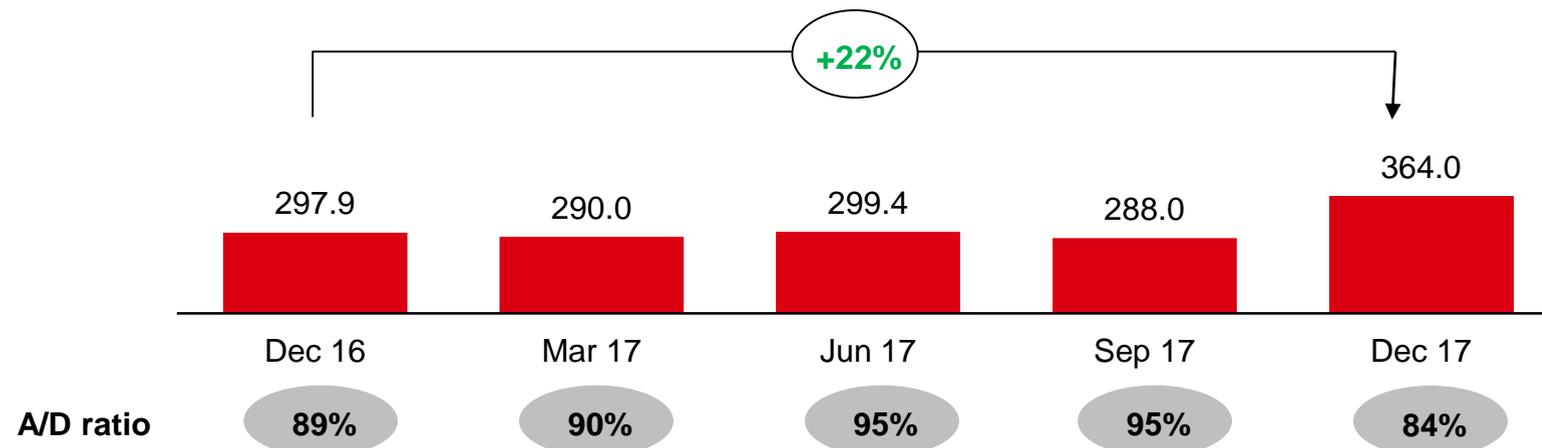
Loans and advances to customers, net

MXNbn



Demand and Time Deposits¹

MXNbn



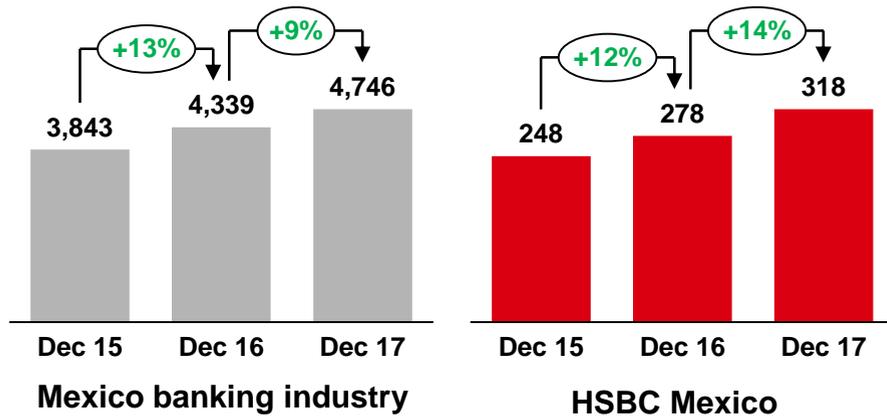
Source: HSBC Mexico 4Q17 press release. Reported figures under local GAAP. Time Deposits excludes money market deposits

1. Demand and Time Deposits disclosed in the Spanish version of the 4Q 2017 press release, and excludes money market deposits Mercado de dinero and Bank Bonds Outstanding Títulos de Crédito emitidos. This Spanish version is publicly available in HSBC Mexico website.

HSBC credit growth (gross loans), as at 31 Dec 2017

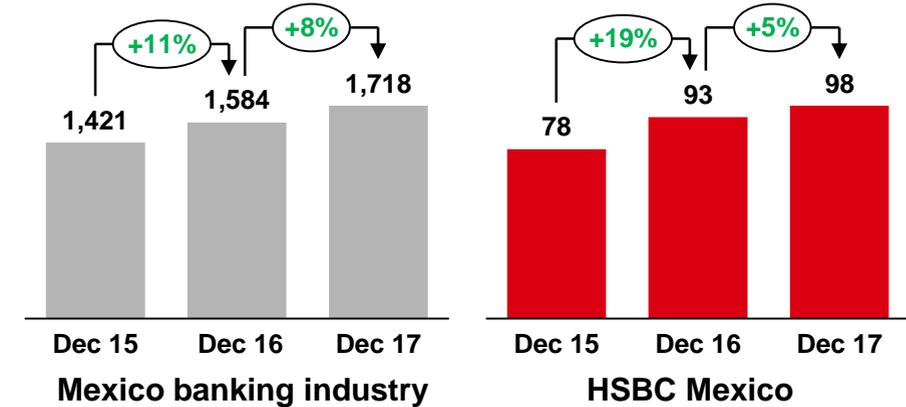
Total loans

MXNbn



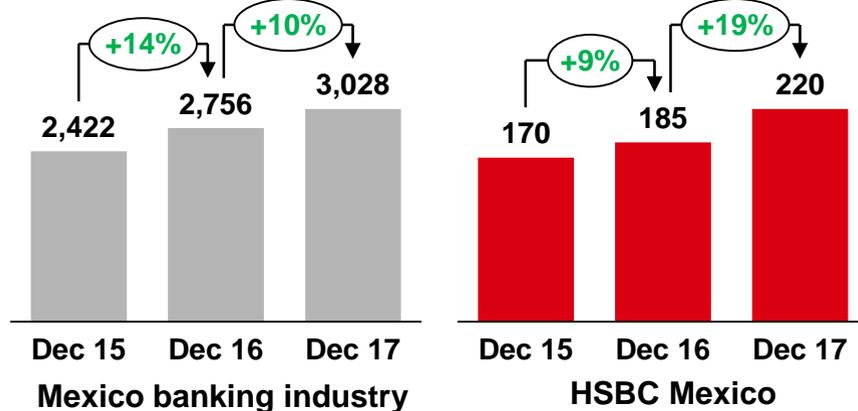
Retail loans

MXNbn



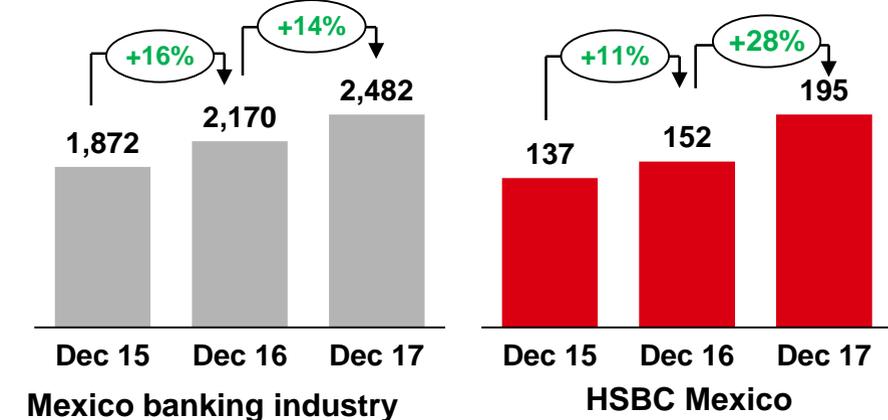
Wholesale loans

MXNbn



Wholesale loans (excl. Government)

MXNbn

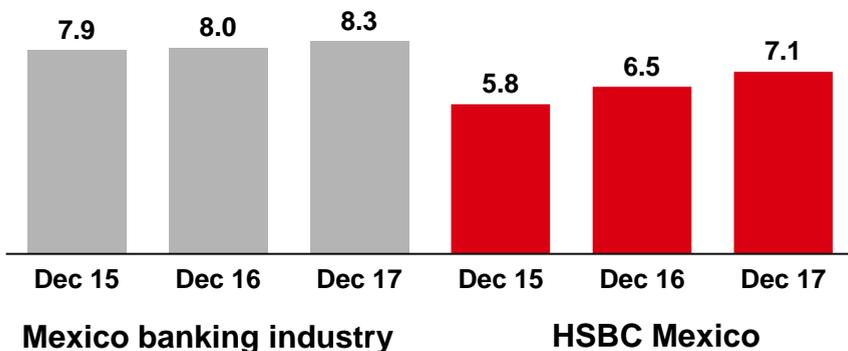


Source: CNBV, figures under local GAAP FY as of Dec 17

HSBC margins increased; closing the gap with the market

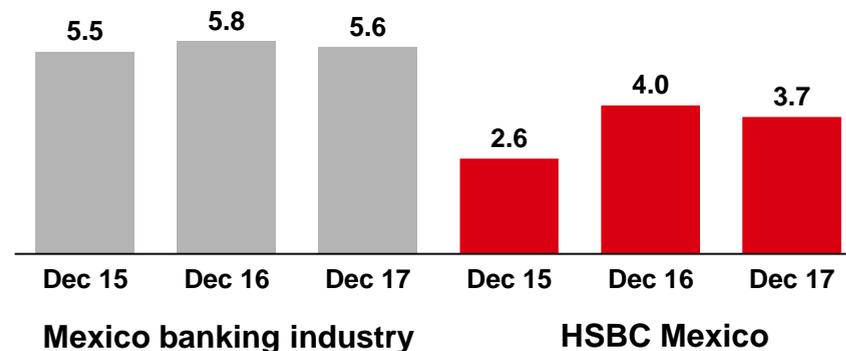
Lending rates (NIM)

(%)



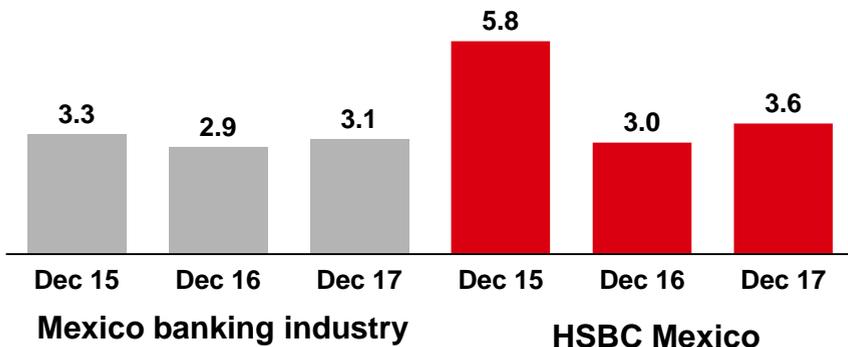
Lending rates (NIM adjusted by LICs)

(%)



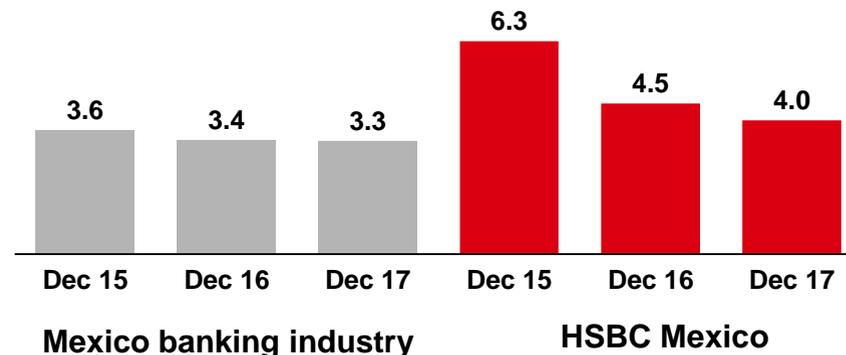
Credit Cost (LICs/loans)

(%)



Loan reserves / Total Portfolio

(%)

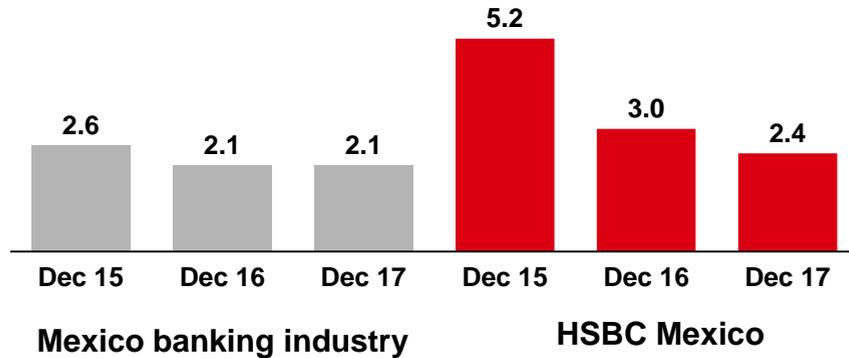


Source: CNBV, figures under local GAAP FY as of Dec 17

NPL ratio converging with the Market

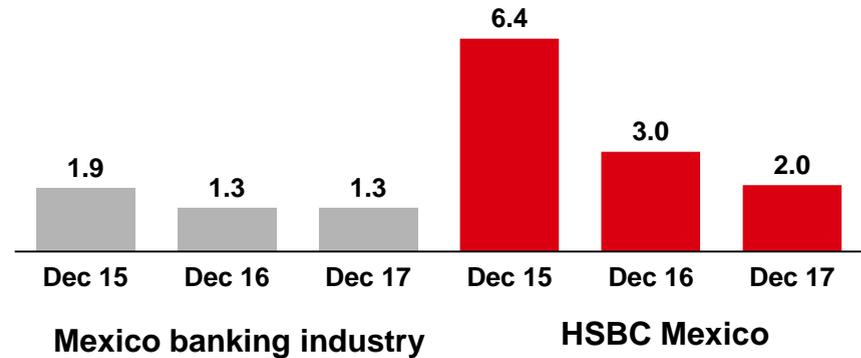
Total NPL ratio

(%)



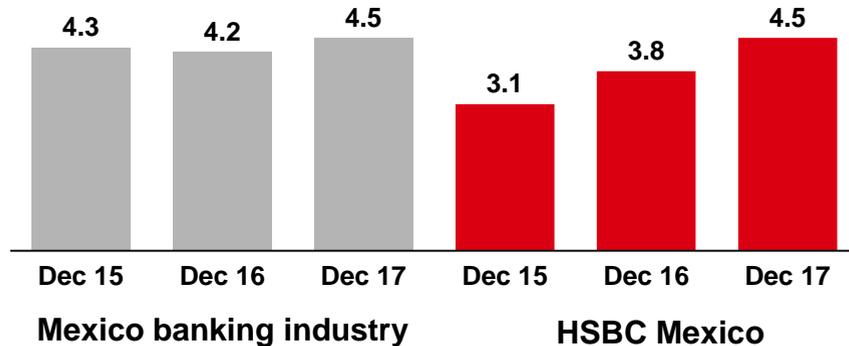
NPL ratio - Wholesale

(%)



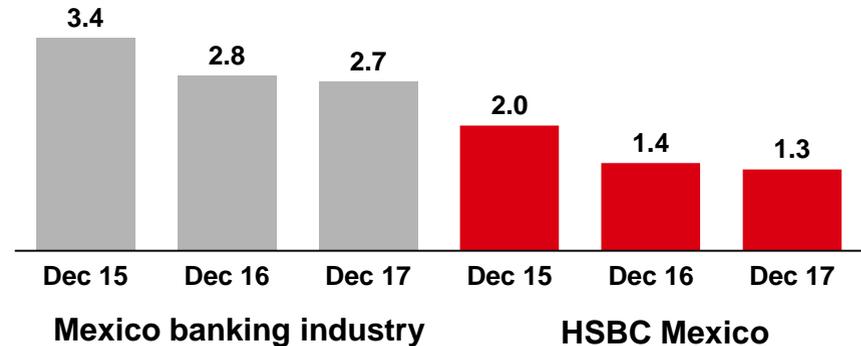
NPL ratio – Retail (excl. Mortgage)

(%)



NPL ratio – Mortgage

(%)



Source: CNBV, figures under local GAAP FY as of Dec 17

4. Final remarks

Final remarks

- Keep on the profitability and growth path
- Increase new to bank customer base in RBWM through CMB/GB payroll collaboration
- Increase share of wallet of existing customers across all businesses, and become a player commensurate with our retail scale
- Grow CMB/GB business (client base and product penetration) focusing on international subsidiaries and NAFTA
- Explore cross-business synergies as a strategic lever for revenue generation
- Continue to evolve the Financial Crime Risk Management framework and reach BAU state by the end of 2018

