

May 2018

## HSBC Mexico update 1Q18

Martin Peusner CFO 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](http://www.hsbc.com).

Information in this Document was prepared as of 25 May 2018.

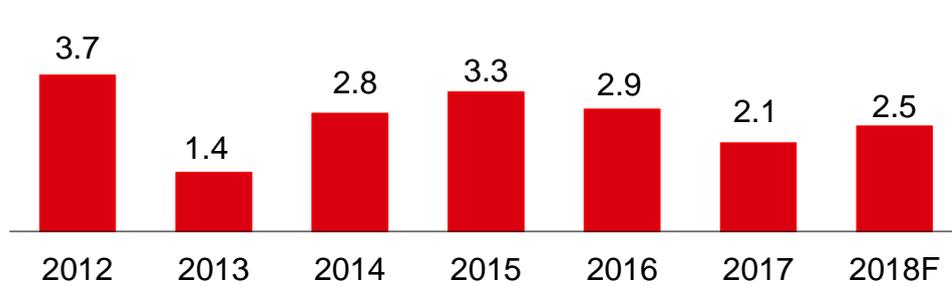
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# 1. Mexico's economic outlook

# Macroeconomic highlights – key fundamentals

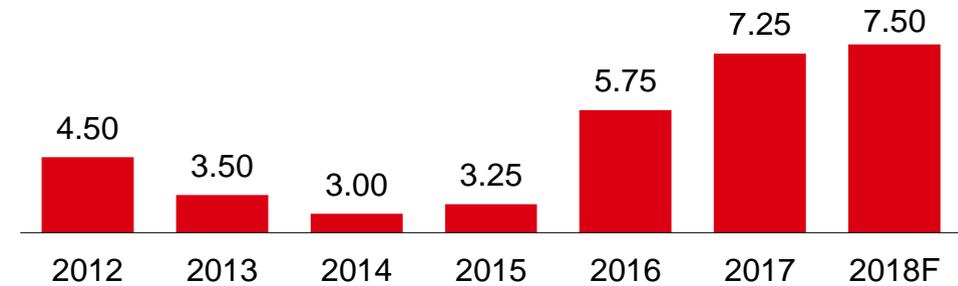
## GDP growth

% y-o-y



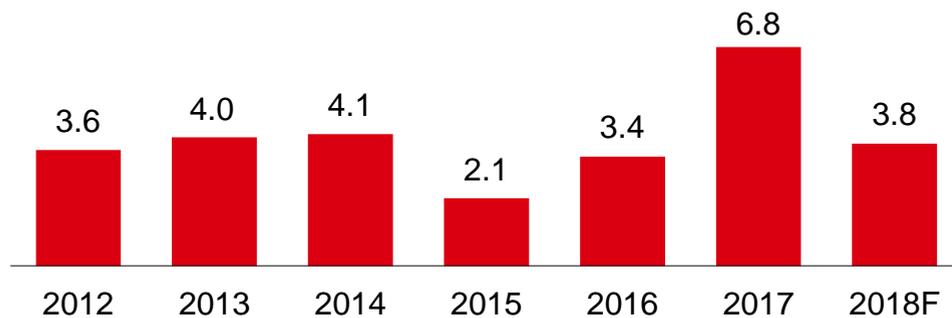
## Central Bank policy rate

% End of period



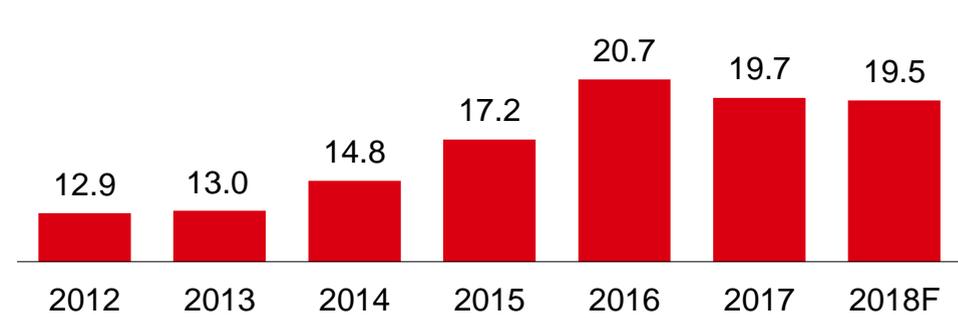
## Inflation

% End of period



## Foreign exchange

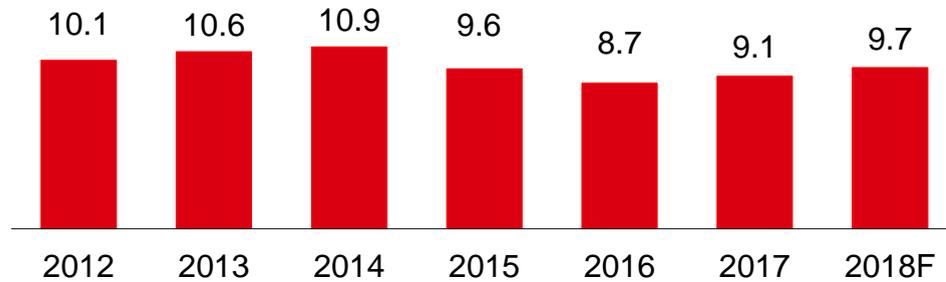
MXN / USD end-year



# Macroeconomic highlights – financial depth and trade openness

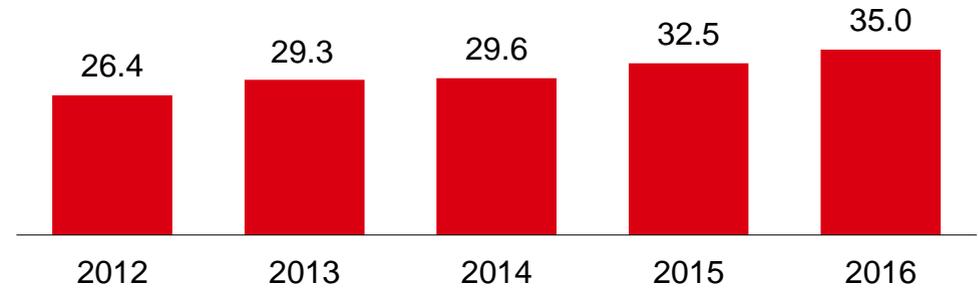
## GDP per capita

USDk<sup>1</sup>



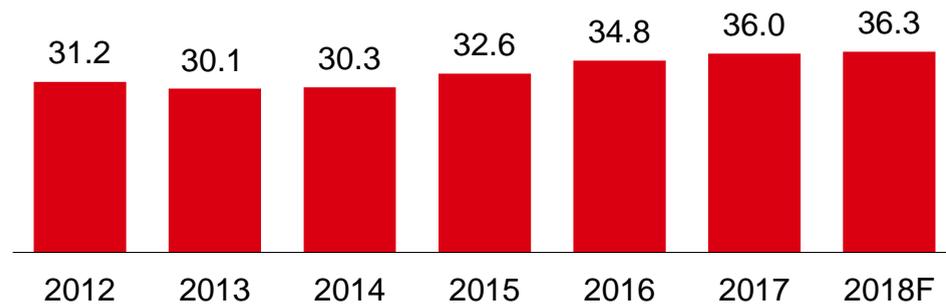
## Domestic credit to private sector

As % of GDP<sup>2</sup>



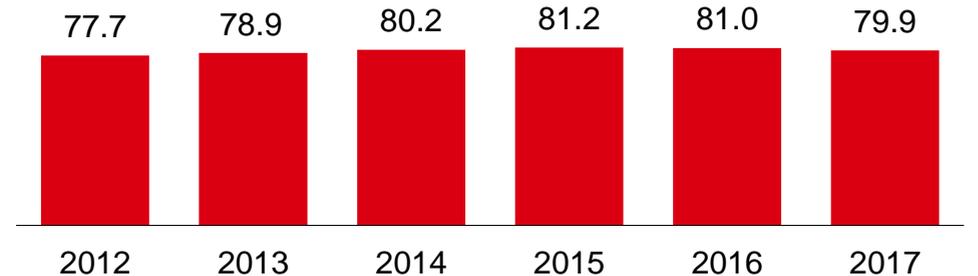
## Total exports

As % of GDP<sup>1</sup>



## Exports to USA

As % of total exports<sup>3</sup>



1. Source: HSBC Global Research, Latin America Economics 2Q18. Between 2014-2015, MXN depreciated 17.5% while GDP per capita fell 13%

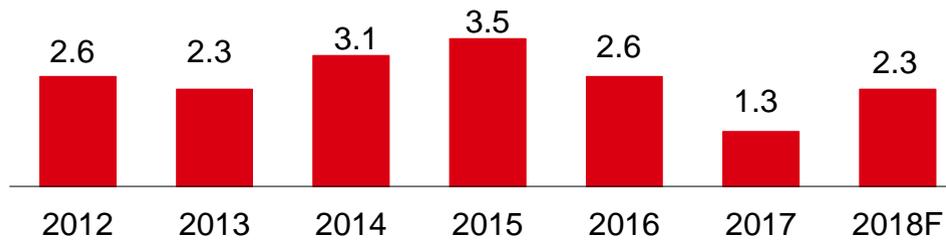
2. Source: Worldbank FY as of Dec 16

3. Trademap.org FY as of Dec 17

## Macroeconomic highlights - public sector

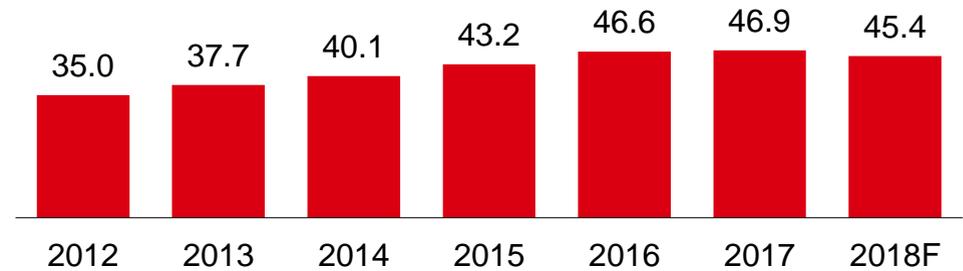
### Central Government budget deficit

% GDP<sup>1</sup>



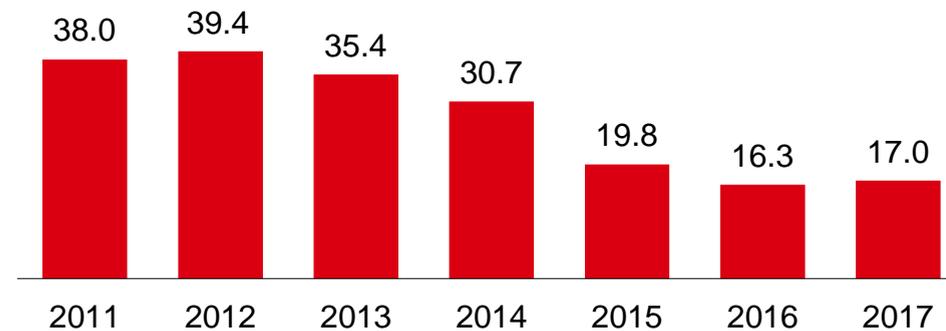
### Gross public sector debt

% GDP<sup>1</sup>



### Oil revenues

% of total government revenues<sup>2</sup>

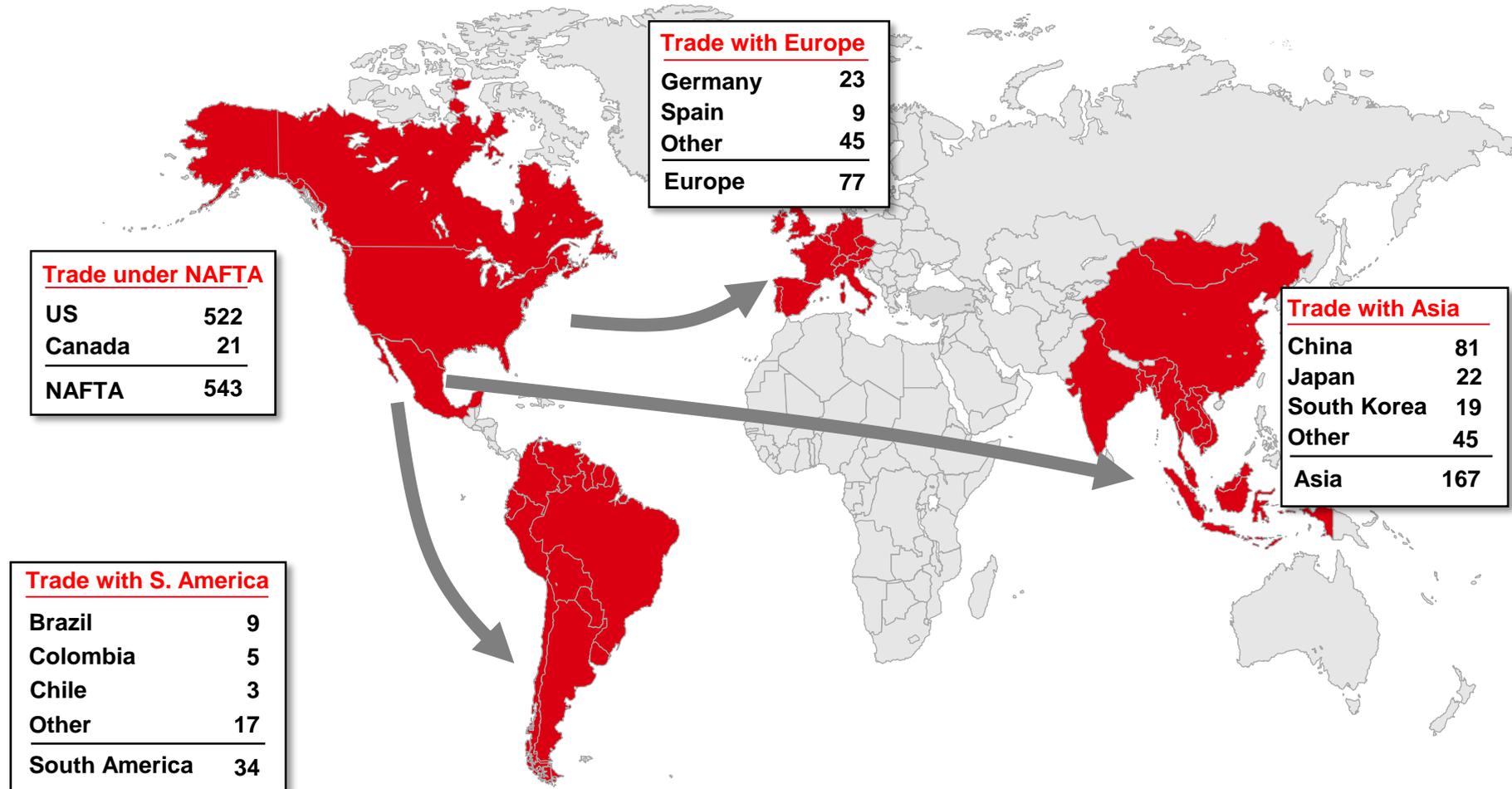


1. Source: HSBC Global Research, Latin America Economics 2Q18.  
2. Source: Ministry of Finance (SHCP) with FY figures as of Dec 2017

# Trade: Mexico connected to key regions

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

2017 value of trade (exports and imports), USDbn



1. Source: Trademap.org FY 2017 figures

## Trade: NAFTA opportunities

### HSBC advantages

- HSBC is a leading international bank in Mexico and US-Mexico and US-Canada are amongst top trade corridors in the world and will be 1<sup>st</sup> and 2<sup>nd</sup> 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

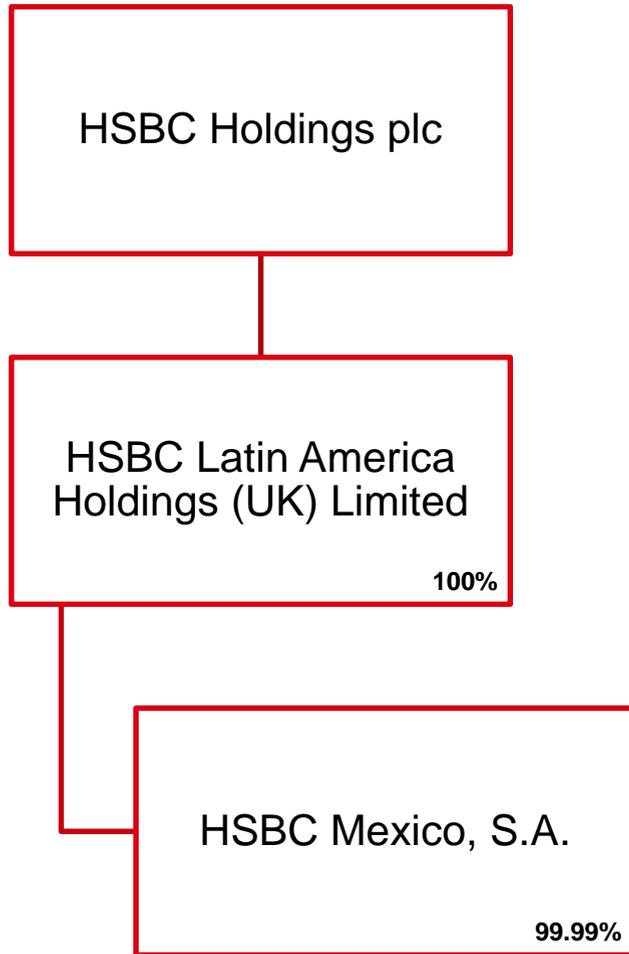
- Explore and measure opportunities in Multis and ISB subsidiaries, both intra-NAFTA and from outside in
- Increased connectivity and communication across the Region and the Group
- Enhanced products and marketing tools; onboarding times on process of being reduced

## 2. HSBC in Mexico



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

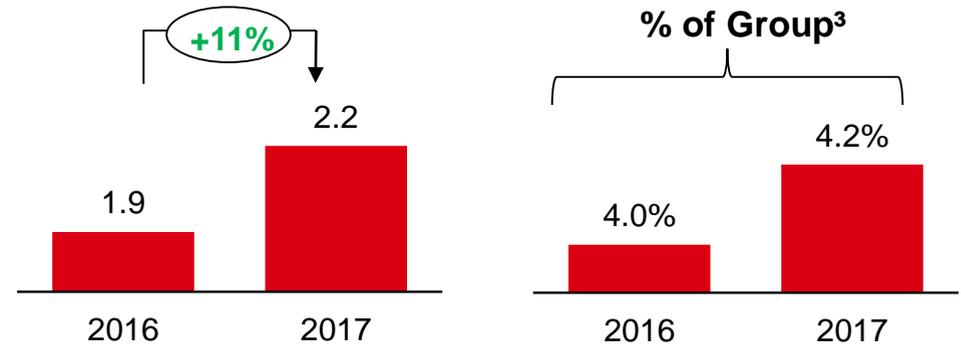
## Ownership chart



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

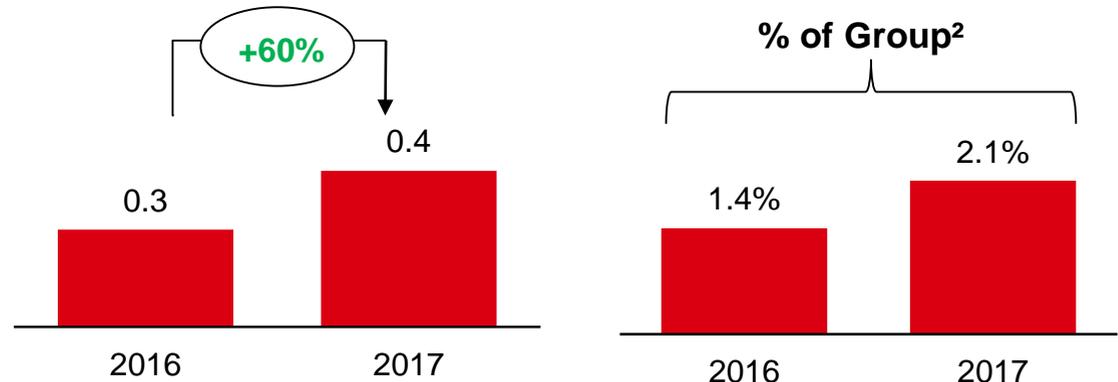
### Adjusted revenue

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><b>Nuno A. Matos</b> CEO</p>	<p>Joined HSBC in March 2015. Appointed CEO of HSBC Mexico in December 2015. Experience: Worked for Santander between 1994 and 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><b>Estanislao de la Torre</b> 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><b>Guillermo Colquhoun</b> 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><b>Martin Peusner</b> 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><b>Juan Parma</b> Head of 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><b>Juan Marotta</b> Head of 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><b>Jose Iragorri</b> Head of 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><b>Herbert Perez</b> Head of GM</p>	<p>Joined HSBC and appointed Head of GM in August 2015. Experience: Senior management positions mostly in global banks, sales and 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 scale<sup>1</sup>
- Leading trade and cash management bank<sup>2</sup>
- Important retail player with high customer satisfaction<sup>3</sup>

## 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 network<sup>4</sup>

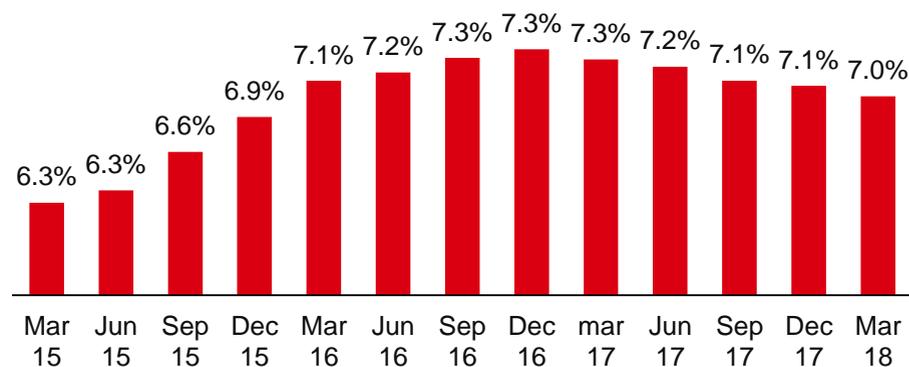
- 971 branches (13.4% market share, 5<sup>th</sup>)
- 5,532 ATMs (13.3% market share, 5<sup>th</sup>)
- Approximately 16,000 FTEs

## Key businesses

### Contribution to HSBC Mexico results as of 2017 FY

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

### Retail lending market share trend, %<sup>4</sup>

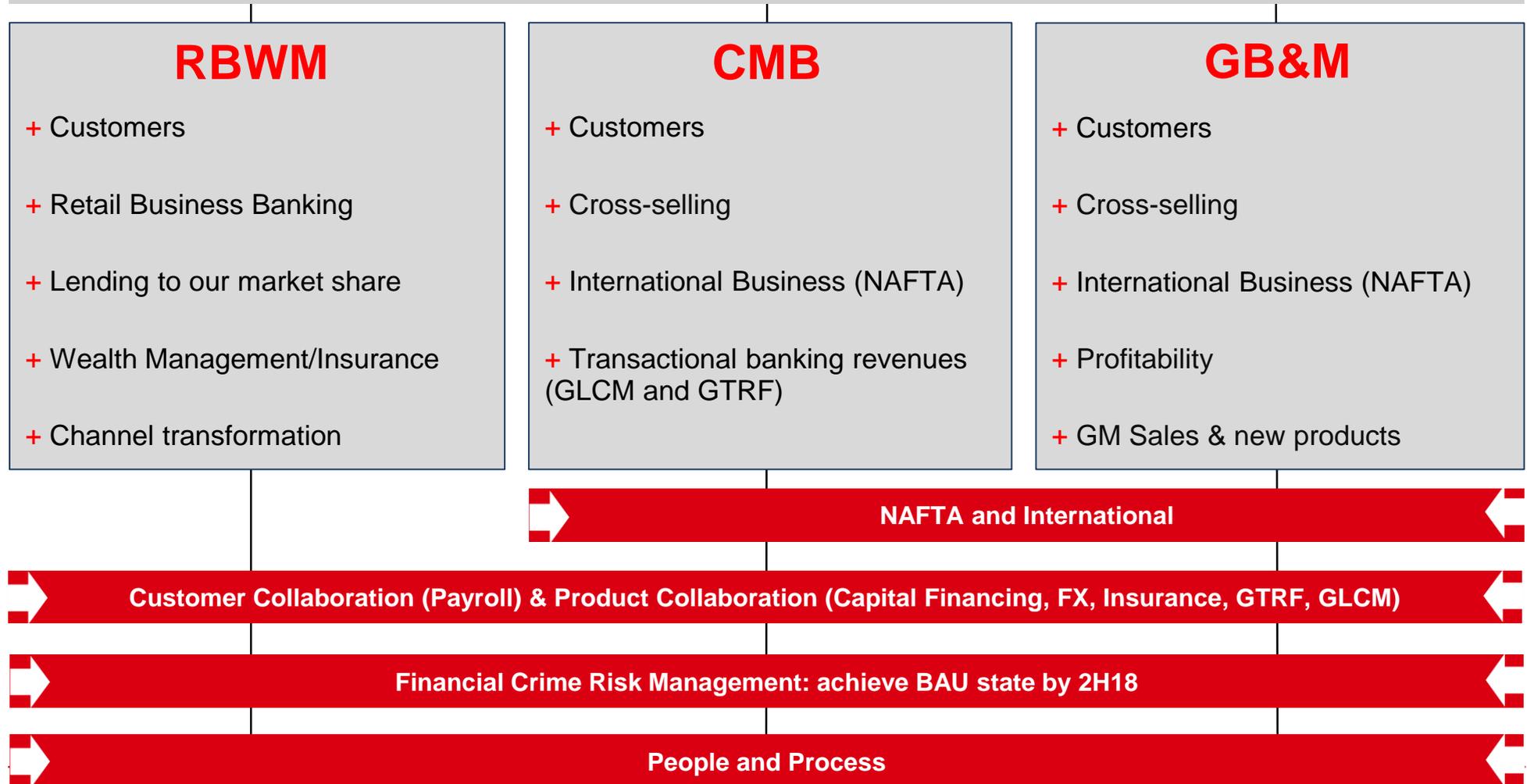


1. Source: National Commission of Banking and Securities as of Mar 18  
 2. Source: Dealogic FY as of Dec 17  
 3. Source: Condusef FY as of Dec 17  
 4. Source: National Commission of Banking and Securities. Market share based on 6 major banks in Mexico as of Mar 18

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 in Mexico with international needs



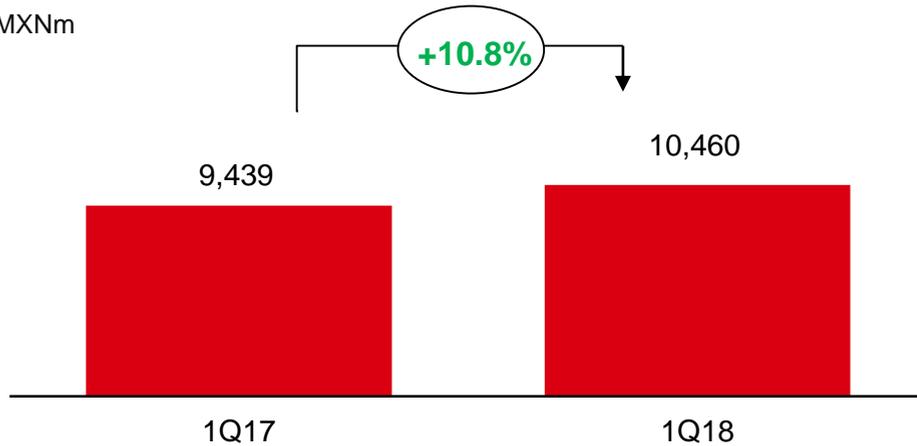
# 3. HSBC Mexico financial performance



# Reported financial performance 1Q18 – Mexico GAAP

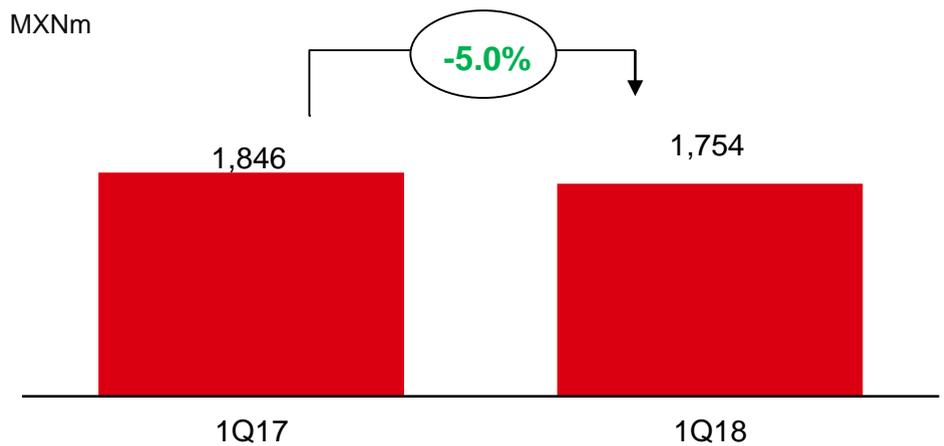
## Revenue<sup>1</sup>

MXNm



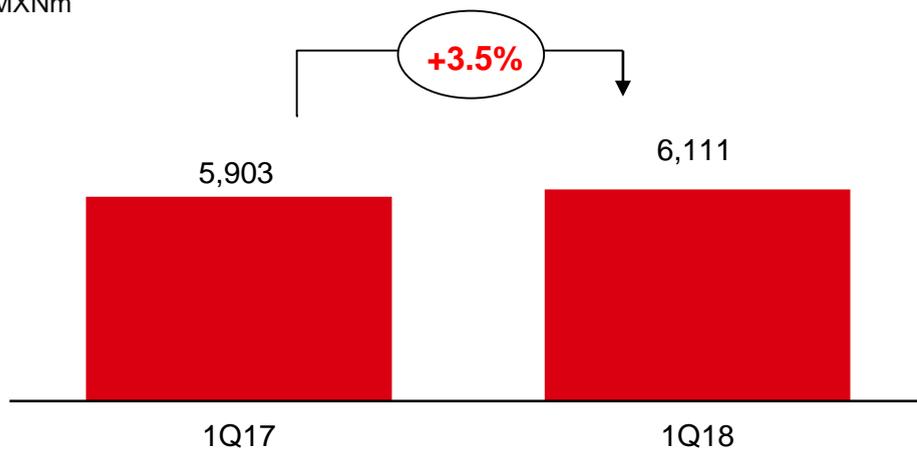
## Loan impairment charges and other credit risk provisions

MXNm



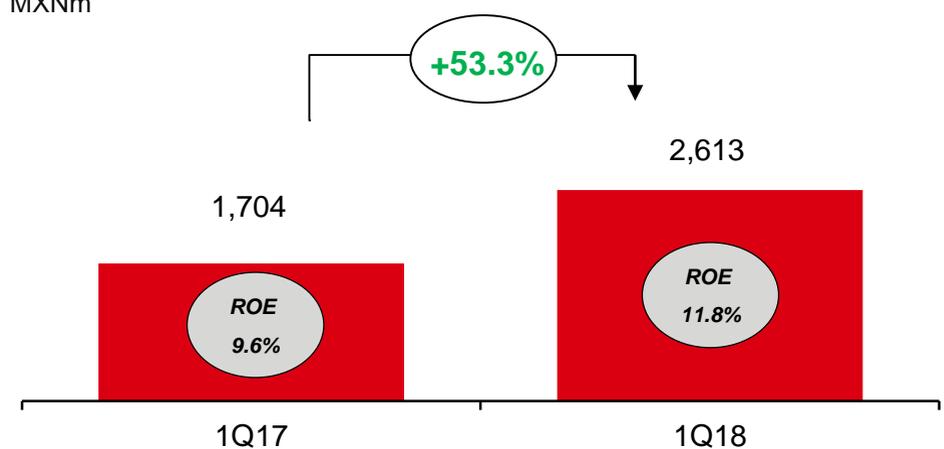
## Operating expenses

MXNm



## Profit before tax

MXNm



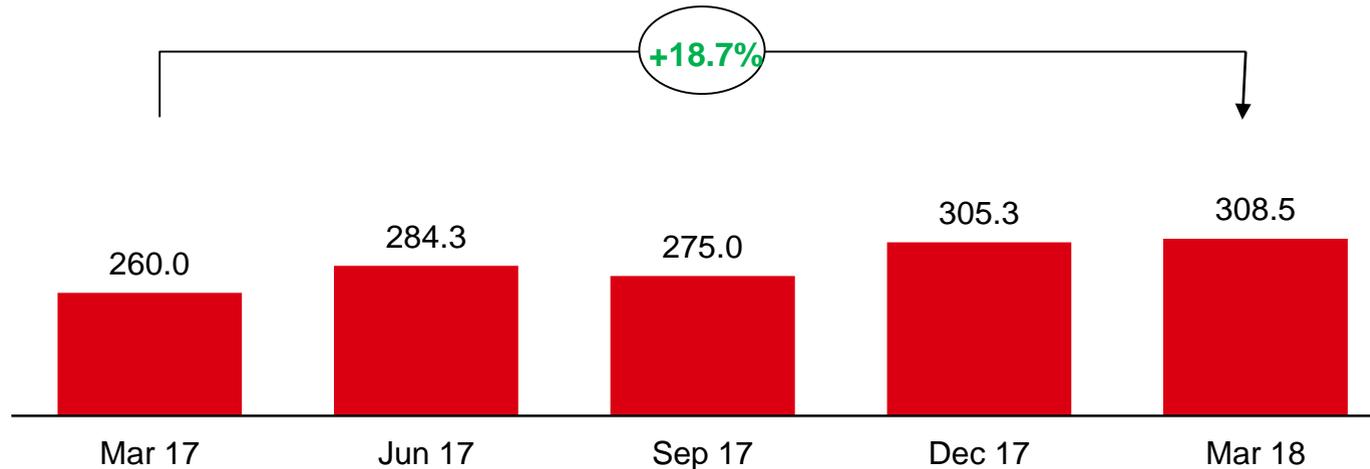
Source: HSBC Mexico 1Q18 press release. Figures under local GAAP

1. 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

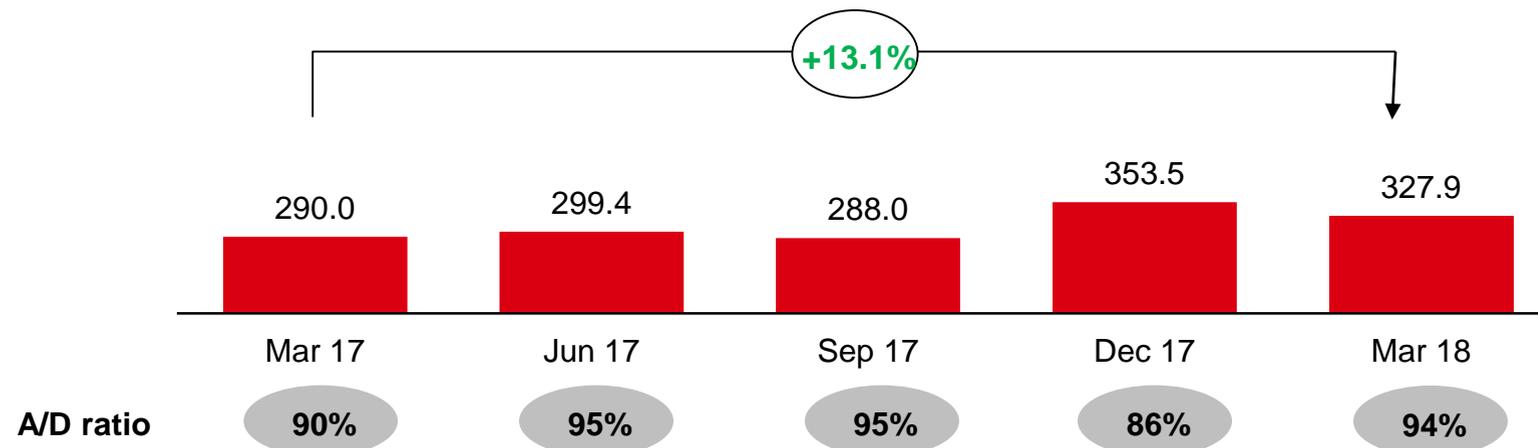
## Loans and advances to customers, net

MXNbn



## Demand and Time Deposits<sup>1</sup>

MXNbn

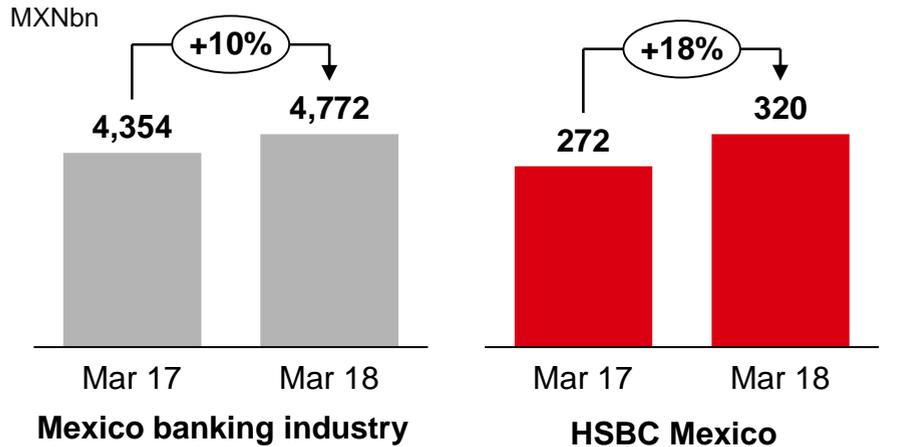


Source: HSBC Mexico 1Q18 press release. Reported figures under local GAAP. Time Deposits excludes money market deposits

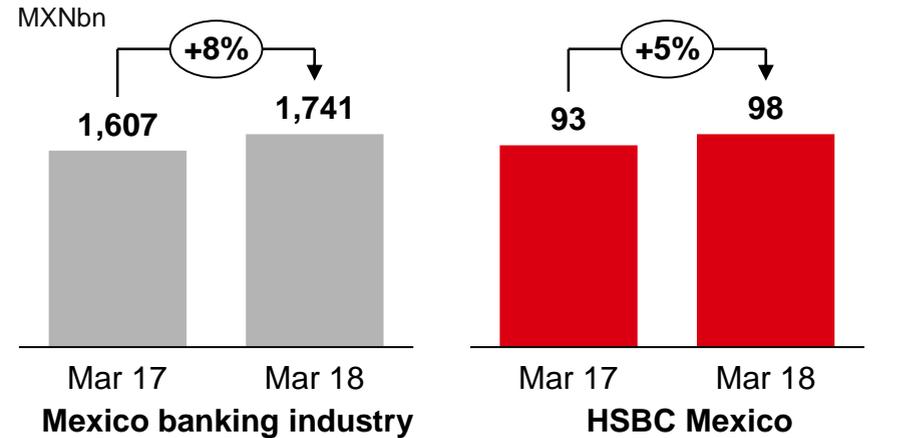
1. Demand and Time Deposits disclosed in the Spanish version of the 1Q 2018 press release, and excludes money market deposits *Mercado de dinero* and Bank Bonds Outstanding *Títulos de Crédito emitidos*. This Spanish version is publicly available in HSBC Mexico website.

# HSBC credit growth (gross loans) as at 31 Mar 2018

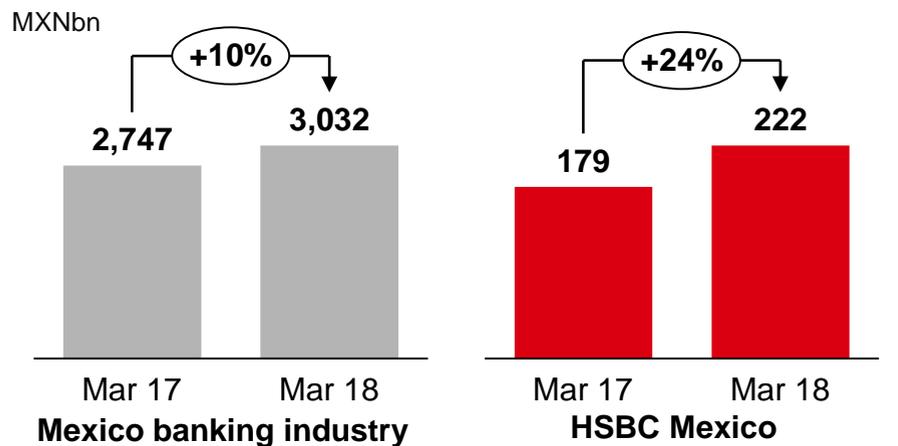
## Total loans



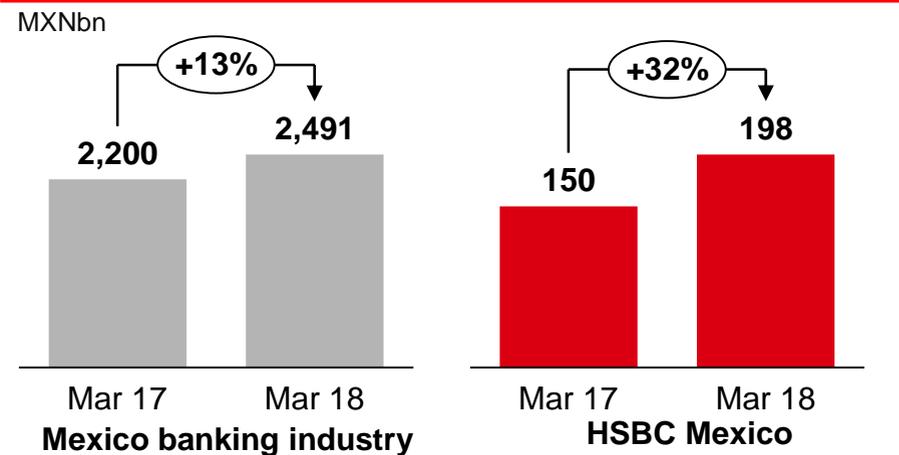
## Retail loans



## Wholesale loans



## Wholesale loans (excl. Government)

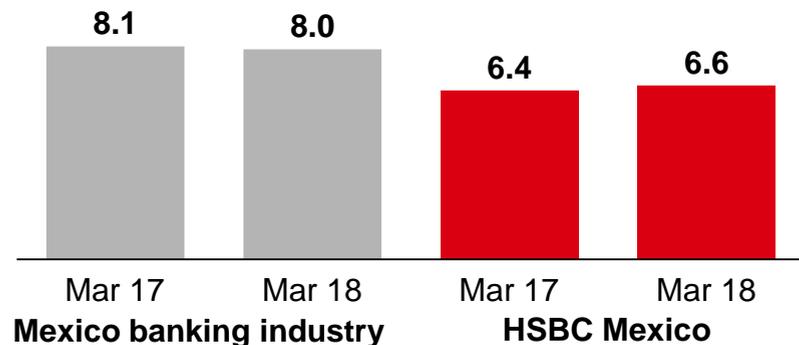


Source: CNBV, figures under local GAAP for quarter ended Mar 18

# HSBC margins increased; closing the gap with the market

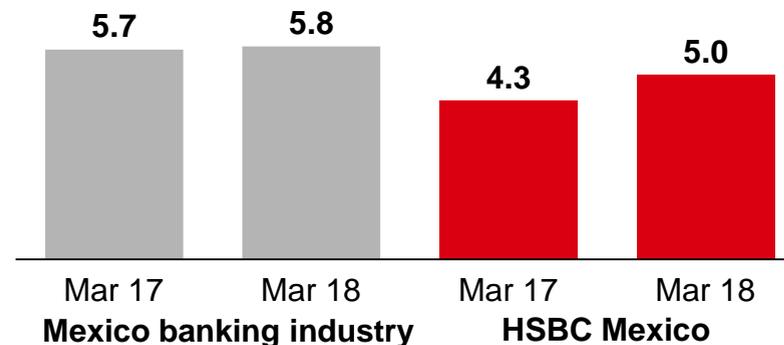
Lending rates (NIM)

(%)



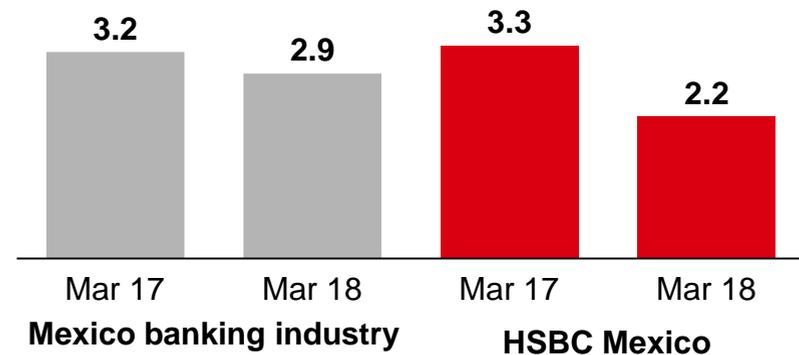
Lending rates (NIM adjusted by LICs)

(%)



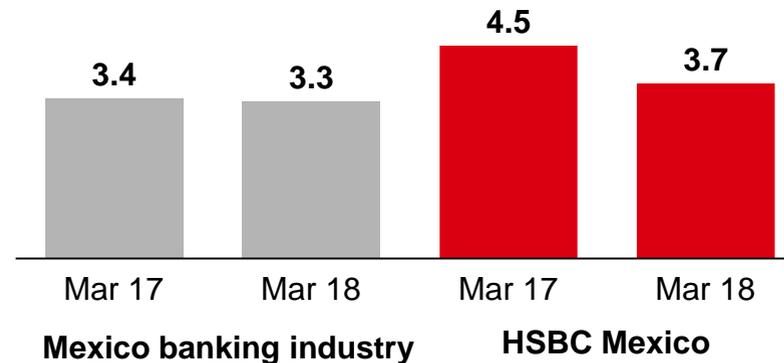
Credit Cost (LICs/loans)

(%)



Loan reserves / Total Portfolio

(%)

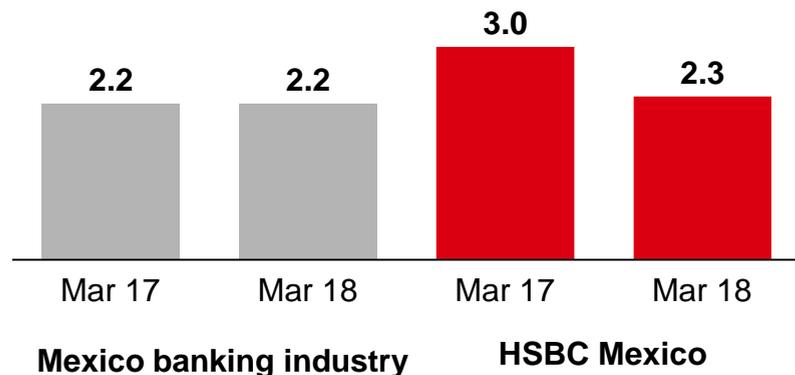


Source: CNBV, figures under local GAAP for quarter ended Mar 18

## Non performing loan (NPL) ratio converging with the market

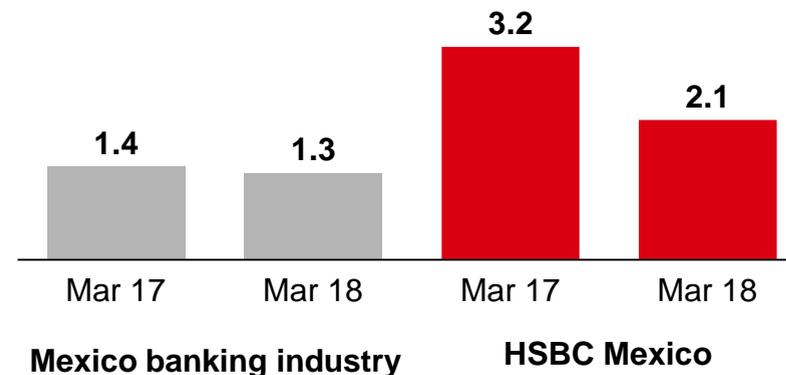
Total NPL ratio

(%)



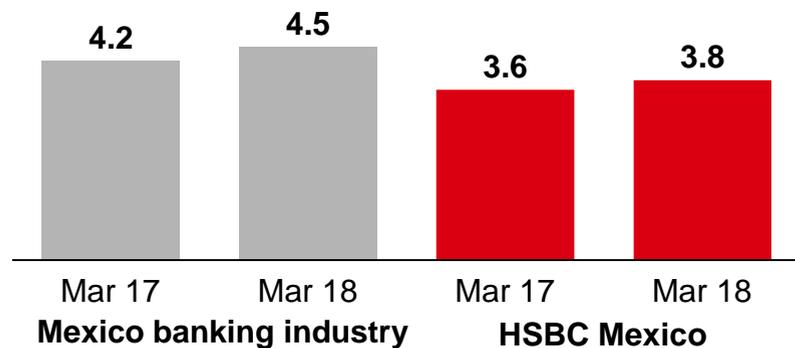
NPL ratio - Wholesale

(%)



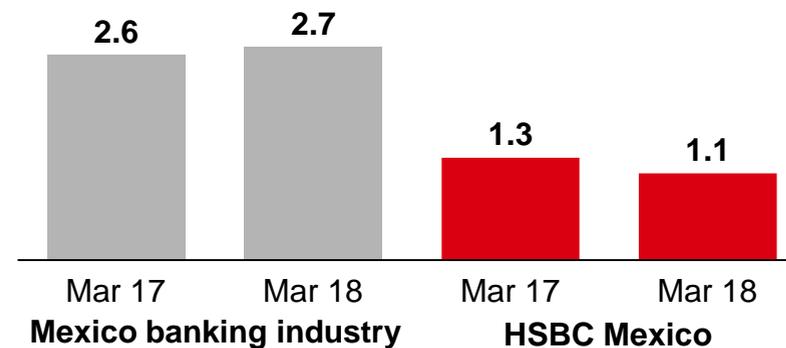
NPL ratio – Retail (excl. Mortgage)

(%)



NPL ratio – Mortgage

(%)



# 4. Final remarks

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## 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

