

# Investor Presentation

## HSBC Mexico

November 2018



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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 HSBC Holdings plc's Annual Report and Accounts 2017, HSBC Holdings plc's Interim Report 2018, HSBC Holdings plc's 3Q 2018 Earnings Release, 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 at 30 October 2018.

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# Agenda

1 HSBC Group

2 HSBC in Mexico

3 Mexico financial results

4 Key indicators vs total system

5 Characteristics of the offer

6 Appendix

# 1. HSBC Group



# Strategic differentiators enable a strategy focused on growth, improving returns, and enhancing customer and employee experience

## Strategic differentiators

- 1 Leading international bank**
  - >50% of Group client revenue connected to the network
  - No 1 global transaction bank, gaining market share
  
- 2 Unparalleled access to high growth markets**
  - Access to high growth developing markets in Asia, Middle East and Latin America
  - Investment aligned to high growth markets to deliver shareholder value
  
- 3 Signature balance sheet strength**
  - Strong capital, funding and liquidity position with diversified business model
  - Conservative approach to credit risk and liquidity management
  - Low earnings volatility
  - Strong capital position and intrinsic capital generation

## Strategic priorities

- 1 Accelerate growth from our Asian franchise**

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- 2 Complete establishment of UK ring-fenced bank, increase mortgage market share, grow commercial customer base, and improve customer service**

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- 3 Gain market share and deliver growth from our international network**

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- 4 Turn around our US business**

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- 5 Improve capital efficiency; redeploy capital into higher return businesses**

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- 6 Create capacity for increasing investments in growth and technology through efficiency gains**

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- 7 Enhance customer centricity and customer service through investments in technology**

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- 8 Simplify the organisation and invest in future skills**

## Financial targets

**RoTE<sup>1</sup>** ▪ >11% by 2020

**Costs** ▪ Positive jaws (adjusted, on an annual basis)

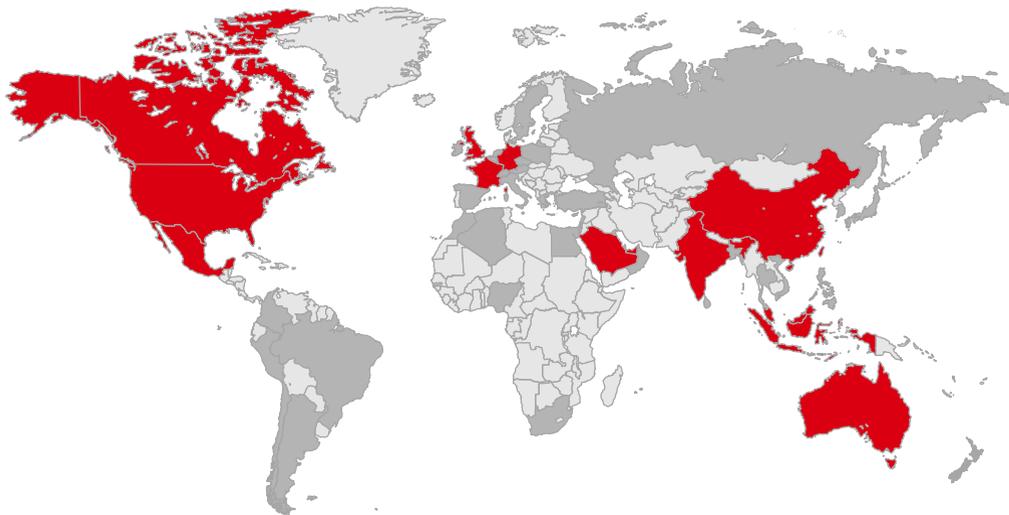
**Capital and dividend** ▪ Sustain dividends through long-term earnings capacity of the businesses  
 ▪ Share buy-backs subject to regulatory approval

1. A targeted reported RoTE of 11% is broadly equivalent to a reported return on equity of 10%; assumes a Group CET1 ratio greater than 14%. Return on tangible equity ('RoTE') is calculated as reported profit attributable to ordinary shareholders less changes in goodwill and present value of in-force long term insurance business divided by average tangible shareholders' equity.

# HSBC is a leading international bank

## Our global footprint

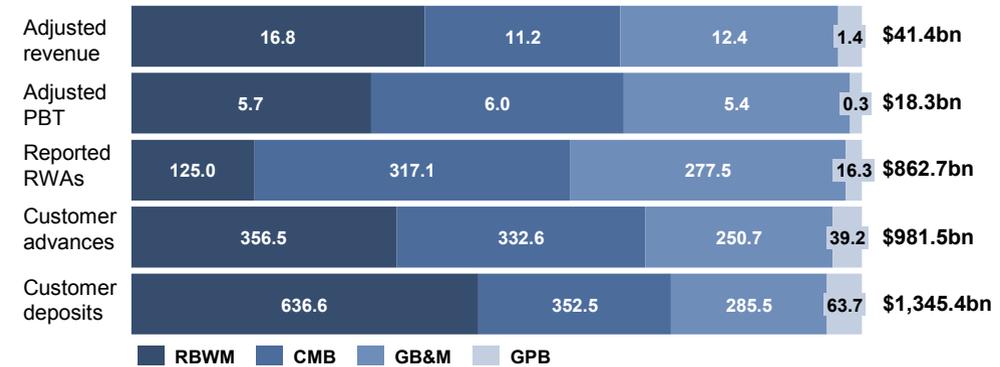
- Markets at scale and markets as leading international bank
- Markets to connect the network



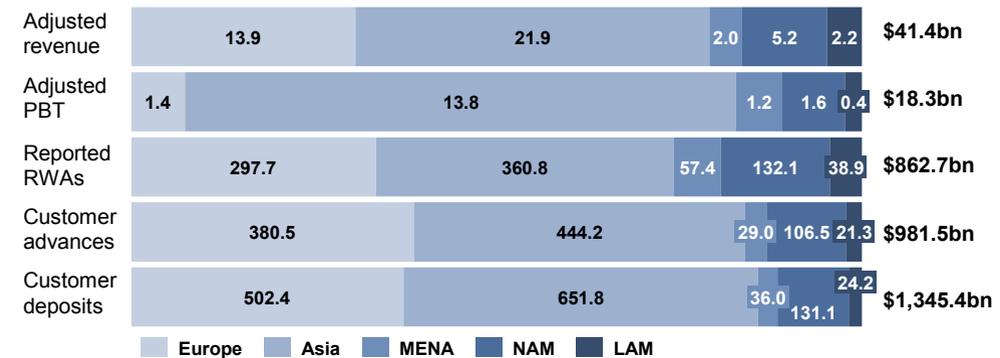
<h1 style="margin: 0;">66</h1> <p style="margin: 0;">Markets</p>	<h1 style="margin: 0;">90</h1> <p style="margin: 0;">%</p> <p style="margin: 0;">Of global GDP, trade and capital flows covered by our footprint</p>	<h1 style="margin: 0;">&gt; 50</h1> <p style="margin: 0;">%</p> <p style="margin: 0;">Of Group client revenue connected to the network</p>	<h1 style="margin: 0;">4</h1> <p style="margin: 0;">Inter-connected global businesses share balance sheets and liquidity in addition to strong commercial links</p>
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## Diversified global businesses and regions<sup>1</sup>

9M18: by global business, \$bn



9M18: by geographical region, \$bn



1. Metrics relate to 9M18 and are on an adjusted basis unless otherwise stated, totals provided are for the Group and include Corporate Centre.

## 2. HSBC in Mexico



# Mexico – a priority market for the Group

In its June 2018 strategy update, HSBC segmented each local market into one of three segments

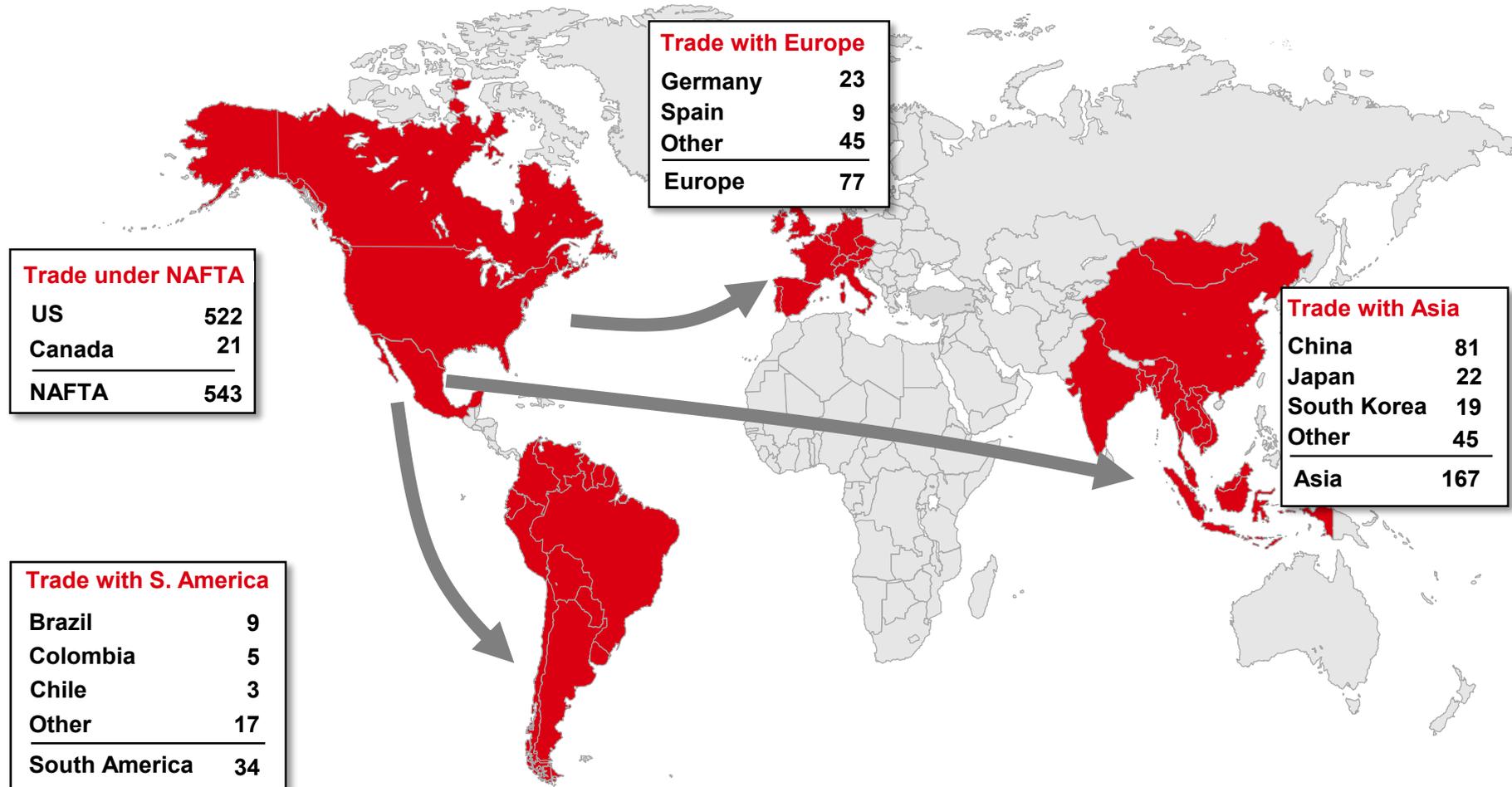
	Aspiration	Characteristics	Markets	% of adj. revenue FY17
<b>Markets at scale</b>	“HSBC is considered one of the leading domestic banks”	<ul style="list-style-type: none"> <li>▪ Top 5 bank, at least 3-5% market share</li> <li>▪ At least USD1bn revenue</li> <li>▪ Universal bank</li> <li>▪ Full participation across customer segments</li> </ul>	<ul style="list-style-type: none"> <li>▪ Hong Kong</li> <li>▪ UK</li> <li>▪ Mexico</li> <li>▪ PRD</li> <li>▪ Singapore</li> <li>▪ Malaysia</li> <li>▪ UAE</li> <li>▪ Saudi Arabia<sup>1</sup></li> </ul>	<b>c.60%</b>
<b>Markets as leading international bank</b>	“HSBC is the leading international bank in the country”	<ul style="list-style-type: none"> <li>▪ Leading international bank</li> <li>▪ At least USD0.5bn revenue</li> <li>▪ Wholesale bank or Universal bank with very focused retail offering (where strategic)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Australia</li> <li>▪ Canada</li> <li>▪ China</li> <li>▪ France</li> <li>▪ Germany</li> <li>▪ India</li> <li>▪ Indonesia</li> <li>▪ US</li> </ul>	<b>c.25%</b>
<b>Markets to connect the network</b>	“HSBC is in the country to connect foreign and local customers to our network”	<ul style="list-style-type: none"> <li>▪ Targeted offering for international customers</li> <li>▪ Wholesale-focused</li> <li>▪ Branch or rep office where possible</li> </ul>	<ul style="list-style-type: none"> <li>▪ Network markets to connect trade and capital flows (e.g. Japan, Spain, Brazil)</li> <li>▪ Supporting subsidiaries of global customers</li> </ul>	<b>c.15%</b>

1. Engagement in Saudi Arabia primarily through investment in Saudi British Bank (SABB); held as an Associate of HSBC

# Mexico – Connected with key regions

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

2017 value of trade (exports and imports), USDbn



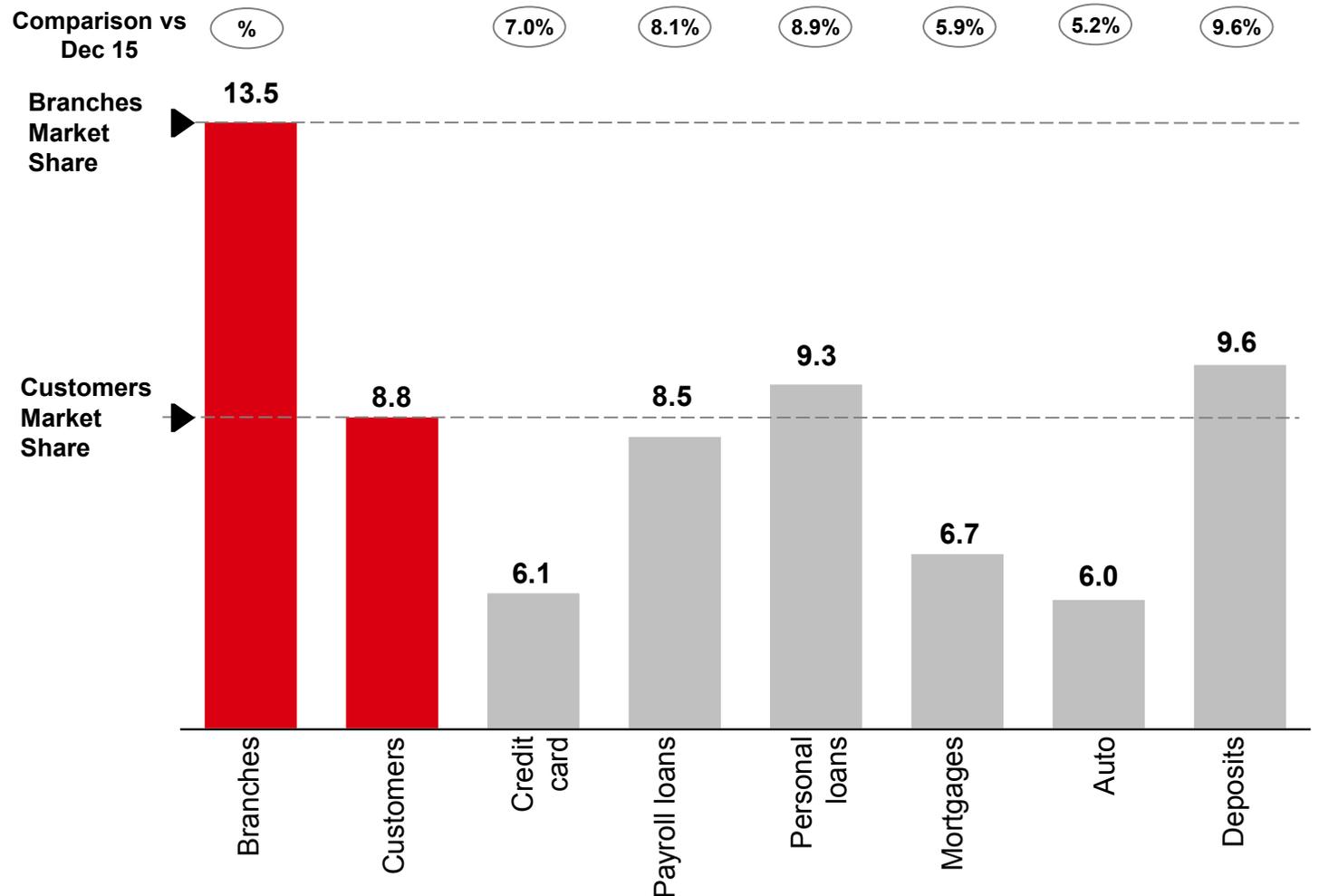
1. Source: Trademap.org FY 2017 figures

# Strategic opportunity for HSBC in Mexico

Significant opportunity to leverage our existing infrastructure

In retail banking, our market share of customers and product range provides a significant opportunity to further increase our customer base and product penetration

**HSBC Mexico retail market share as of 30 June 2018 (%)<sup>1</sup>**



1. Source: CNBV, calculated considering 6 largest banks representing 75% of total financial system.

# HSBC in Mexico

## HSBC in Mexico

- ◆ Competitive **top-5 universal bank** with scale<sup>1</sup>
- ◆ **Leading trade and cash management bank**<sup>2</sup>
- ◆ Important retail player<sup>3</sup>
- ◆ **4.7 millions active clients**, distributed in retail banking and wholesale

### National coverage

- ◆ Presence in all **32 states** of Mexico
- ◆ Our branch and ATM network reflects the country's **GDP distribution**, centred on the **most important economic centres**, Mexico City, Monterrey and Guadalajara

### Extensive branch and ATM network<sup>4</sup>

- ◆ **973 branches** (13.5% market share, 5th)
- ◆ **5,532 ATMs** (13.3% market share, 5th)
- ◆ Approximately 16,000 FTEs

## Our global businesses



### Retail Banking and Wealth Management

- ◆ Full range of banking products and services high net worth, mass affluent and emerging affluent customers
- ◆ Wealth advisory & investment services



### Commercial Banking

- ◆ Full range of products and related solutions for small and medium-sized business to publicly-listed companies



### Global Banking and Markets

- ◆ Provides tailored financial solutions to major government, corporate and institutional customers worldwide

## HSBC Mexico Strategy



Fully leverage retail scale to consolidate Mexico as HSBC's 3rd retail home market and gain a 10% market share

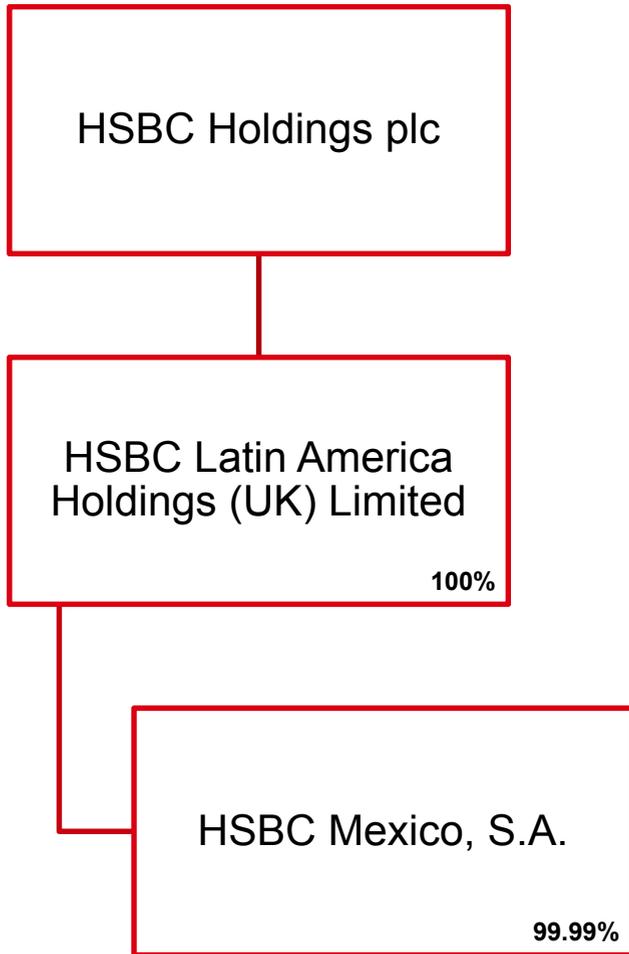


Become the leading wholesale bank for international clients

1. Source: National Commission of Banking and Securities as of June 18  
2. Source: Dealogic FY17 figures as of Dec 17  
3. Source: Conduesf FY17 figures as of Dec 17  
4. Source: National Commission of Banking and Securities. Market share based on 6 major banks in Mexico as of June 18

# Our Mexican business is strategically important to Group

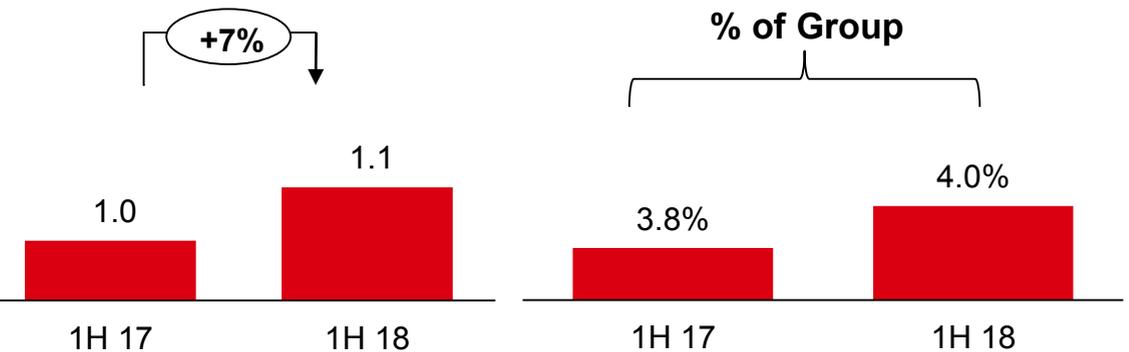
## Ownership chart



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

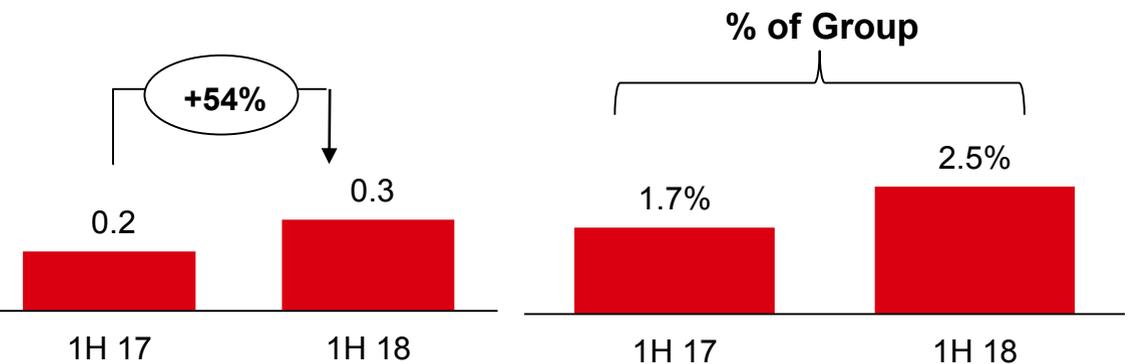
### Adjusted revenue

USDbn



### Reported PBT

USDbn



1. Source: HSBC Holdings plc Interim Report 2018. Adjusted and Reported figures under IFRS

HSBC Mexico's progress is recognised worldwide

**Latin America's best bank  
transformation 2018: HSBC Mexico  
Euromoney Awards for Excellence 2018**

The logo for the Euromoney Awards for Excellence 2018. It features the word "EUROMONEY" in large, bold, white, sans-serif capital letters with a black outline. Below it, the words "AWARDS FOR EXCELLENCE" are written in a smaller, black, sans-serif font. At the bottom, the year "2018" is displayed in a large, bold, black, sans-serif font. The entire text is centered within a circular graphic composed of numerous small grey dots arranged in concentric, slightly irregular rings, creating a textured, circular effect.

**EUROMONEY**  
AWARDS FOR EXCELLENCE  
**2018**

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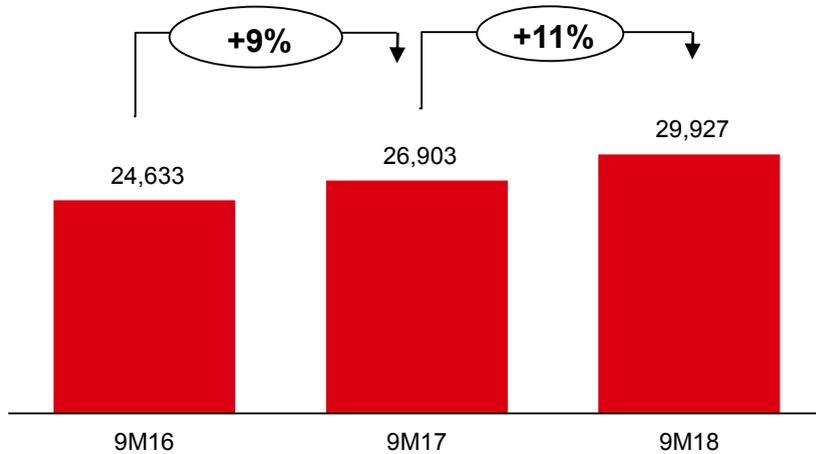
## 3. Mexico Financial Results

# HSBC Mexico – Income statement

Sep 18 YTD PBT 68% higher than Sep 17 YTD

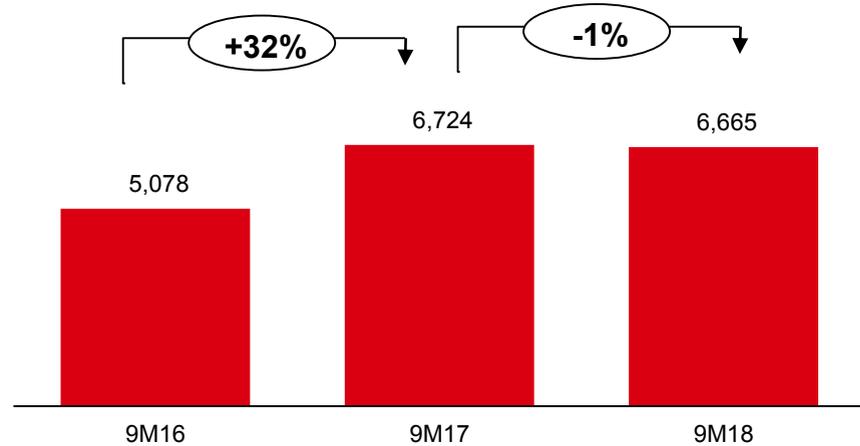
## Revenue<sup>1,2</sup>

MXNm



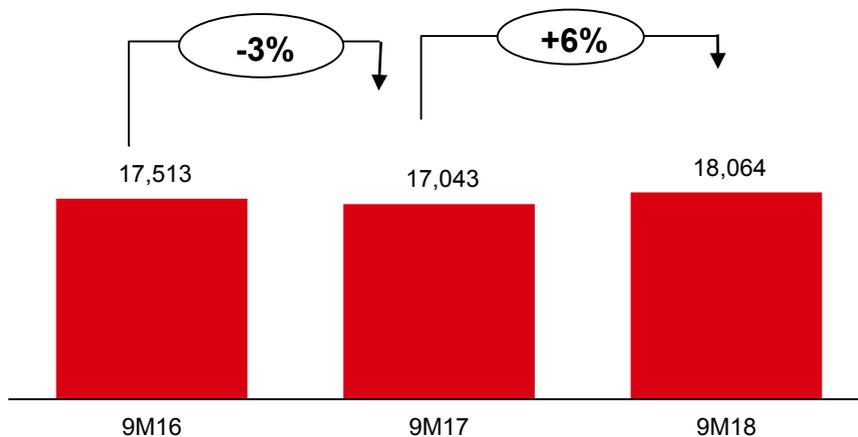
## Loan impairment charges (LICs)<sup>2</sup>

MXNm



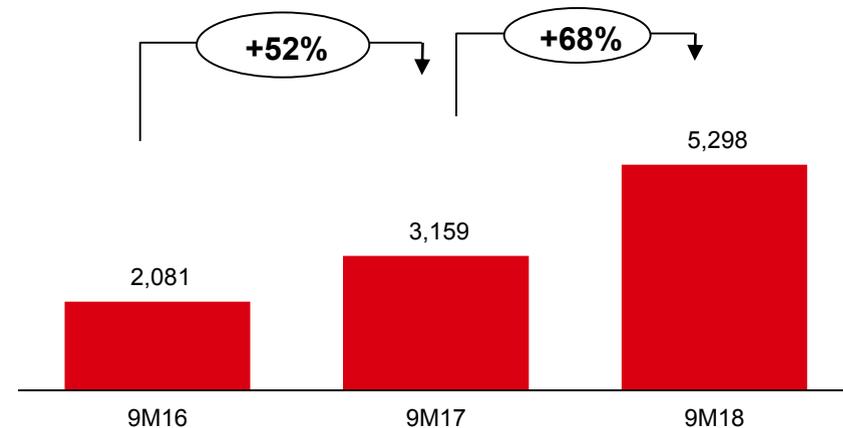
## Operating expenses

MXNm



## Profit before tax

MXNm



1. Revenue includes (Net interest income, Net fees, Trading income and Other operating income)

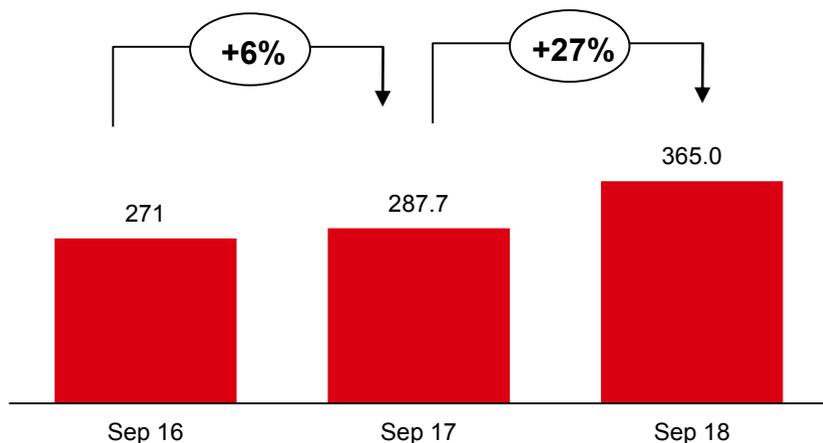
2. CNBV published a change in the regulation related to the registration of recoveries of loan impairment charges from other operating income to loan impairment charges account in the P&L. The bank decided to early adopt the change of the rule starting 1 Jan 2018. In 2017 and 2016, for comparison purposes, MXN915m and MXN672 were reclassified from other operating income to loan impairment charges.

# HSBC Mexico – Loans and asset quality

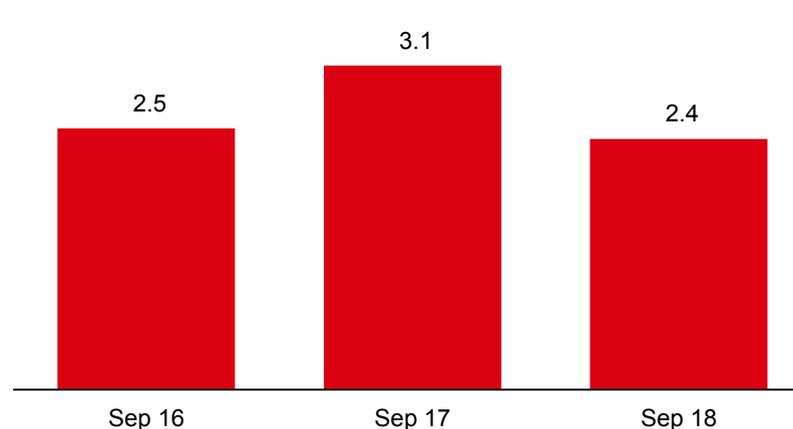
Robust credit quality, reflecting HSBC's conservative approach to risk management

## Loan Portfolio

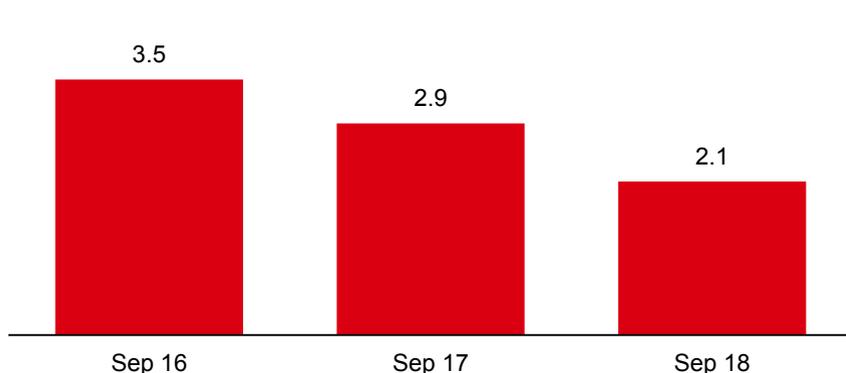
MXNbn



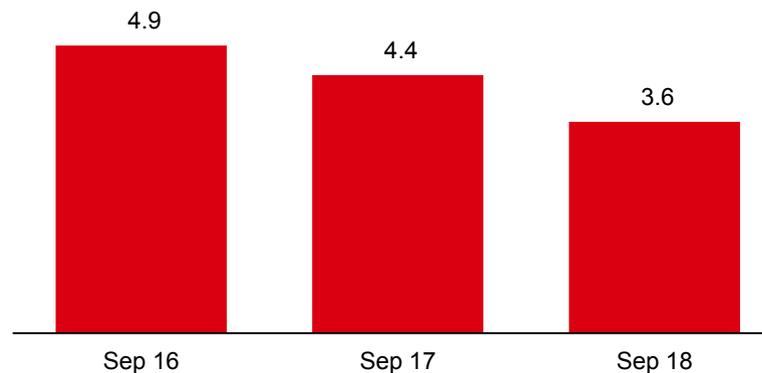
## LICs<sup>1</sup> / Loans %



## Non performing loan ratio <sup>2</sup> %



## LLR<sup>3</sup> / Loans %

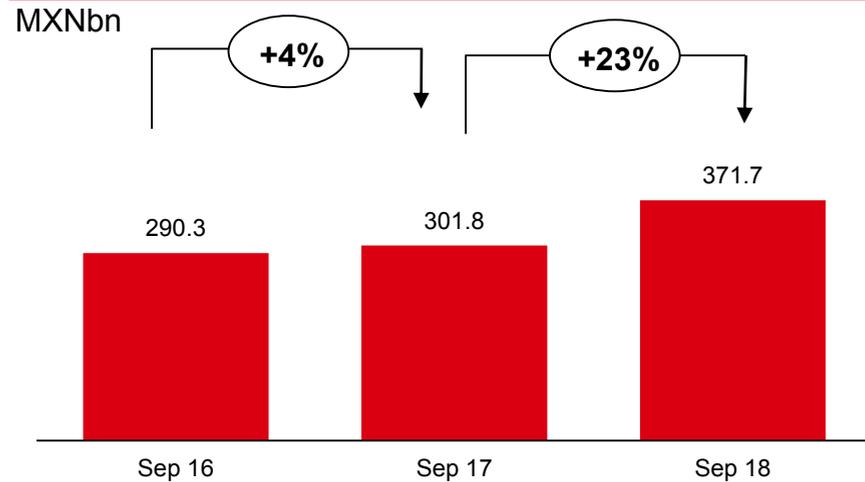


1. Annualised YTD LICs as a % of net lending.
2. Non-performing loans as a % of net lending
3. LLR = allowance for loan losses as a % of net lending

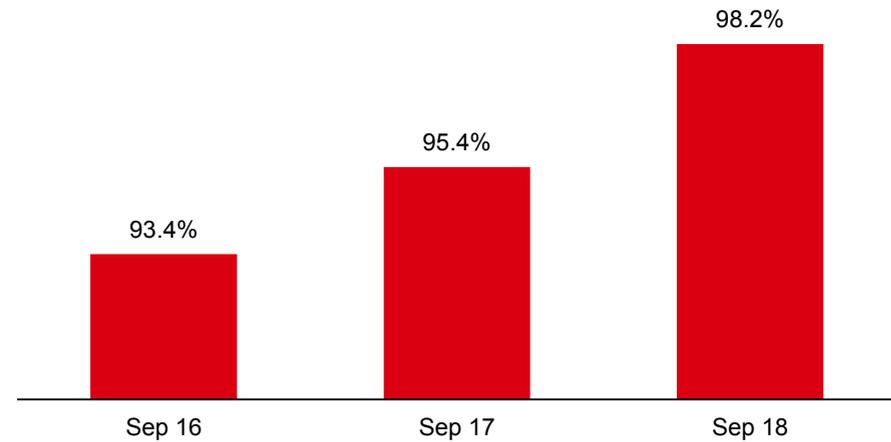
# HSBC Mexico – Funding and liquidity

Strong funding and liquidity position, well above regulatory minimum

## Deposits

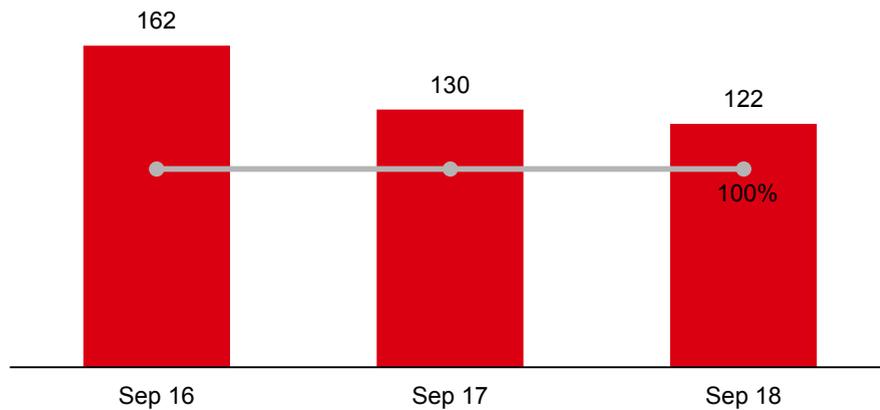


## Advances / deposits ratio (ADR) %

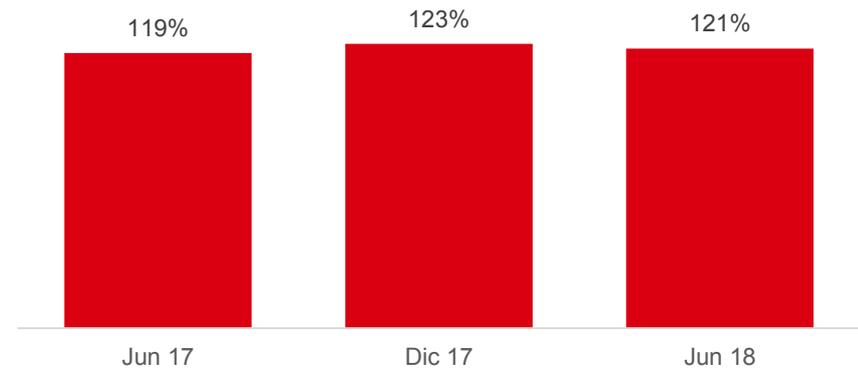


## Liquidity coverage ratio (LCR) %

LCR requirement = 100%



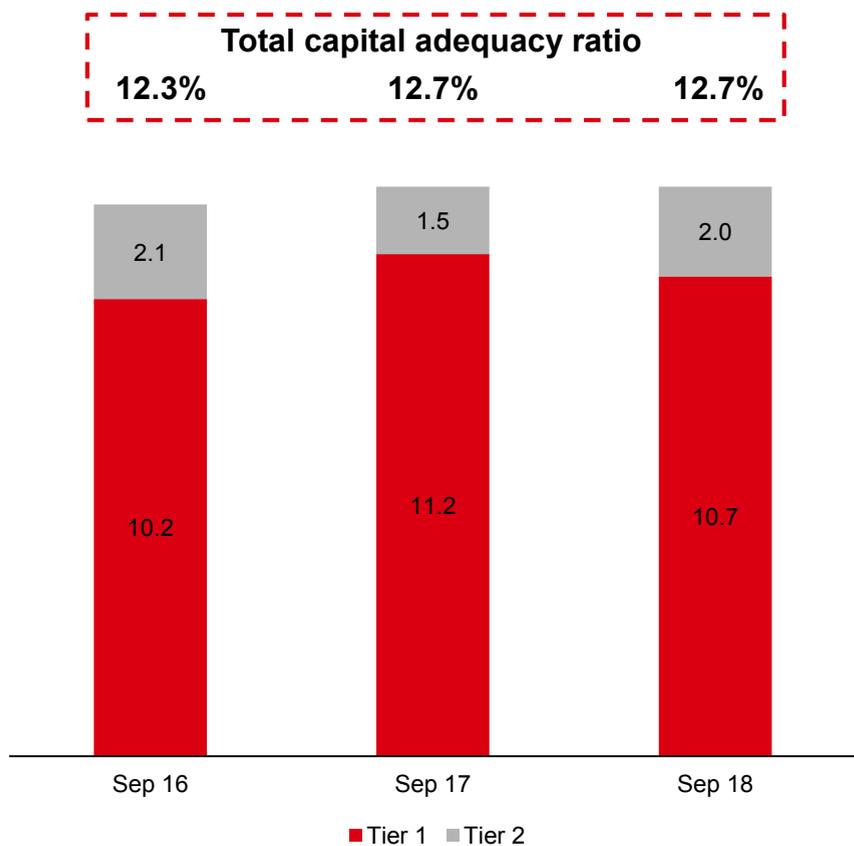
## Net stable funding ratio %



# HSBC Mexico – capital

Total capital adequacy ratio of 12.7%, 190bps above regulatory requirements

## Capitalisation %



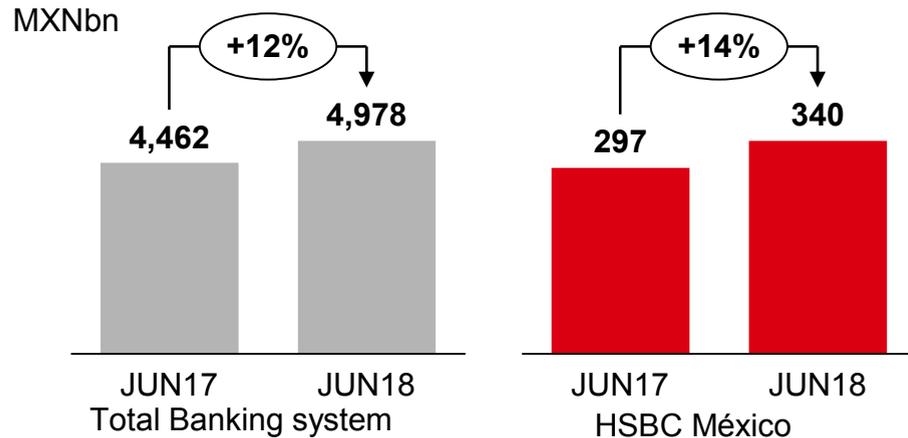
- At 30 September 2018, the bank’s total capital adequacy ratio was 12.7% and the tier 1 capital ratio was 10.7%
- The minimum capital ratios for HSBC Mexico under local rules as of September 2018 are:
  - CET1 Ratio: CET1 ≥ 7% + DSIB **7.30%**
  - Tier 1 Capital Ratio ≥ 8.5% + DSIB **8.80%**
  - Total Capital Ratio ≥ 10.5% + DSIB **10.80%**
    - DSIB 30 bps
- HSBC’s global strategy is to work with optimal levels of capital with a reasonable buffer above regulatory limits.

## 4. Key indicators vs total system

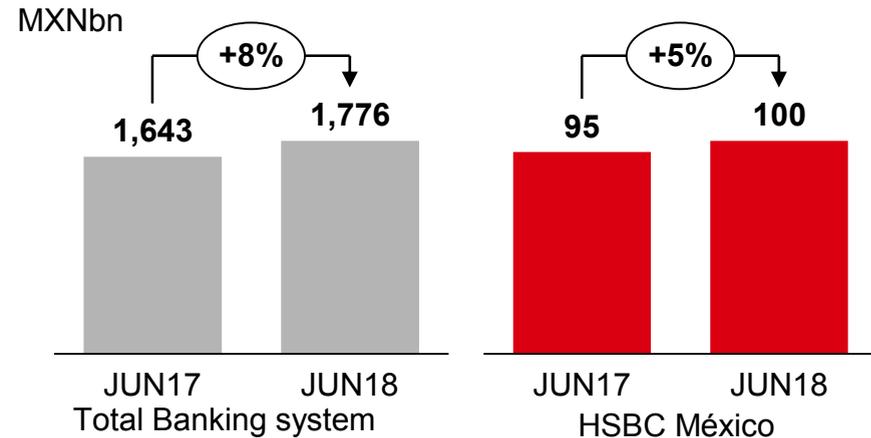
# HSBC Mexico vs Total System

HSBC growth

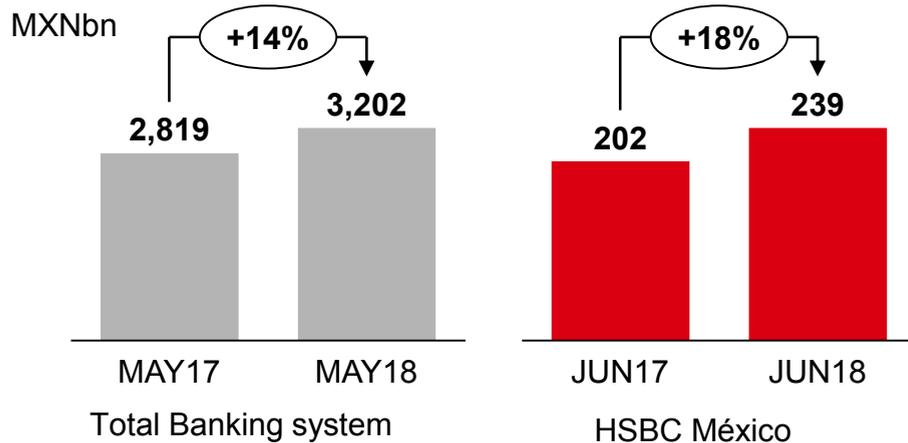
## Total loans



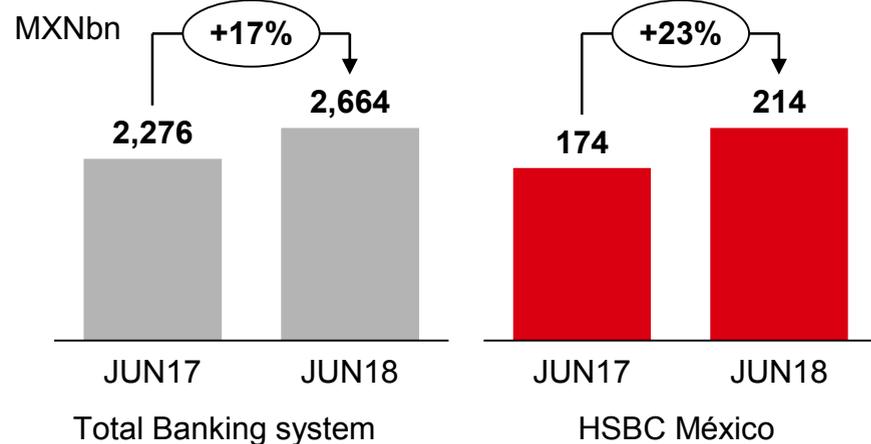
## Retail loans



## Wholesale loans

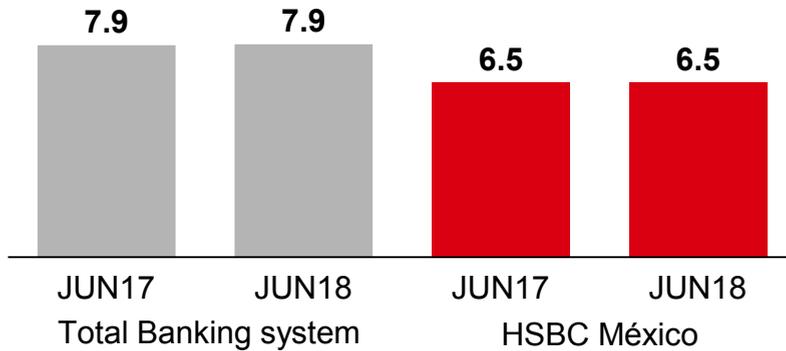


## Wholesale loans (excl. Government)

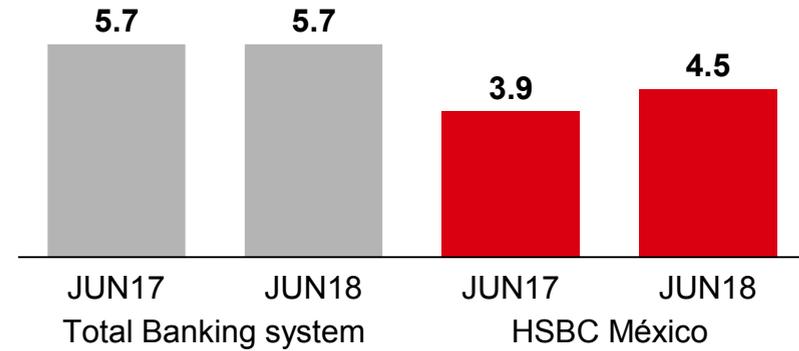


# HSBC Mexico vs Total System

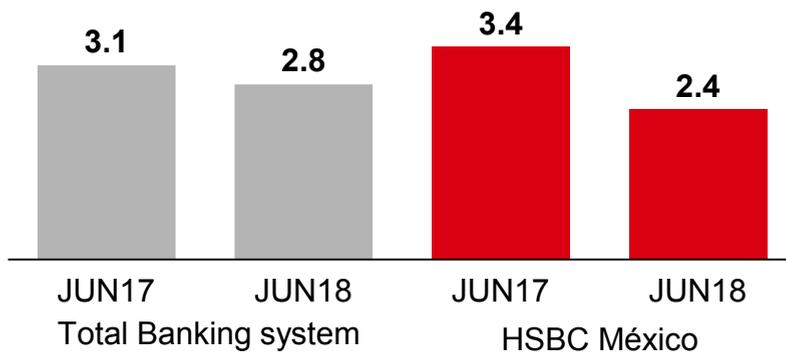
**Net interest margin %**



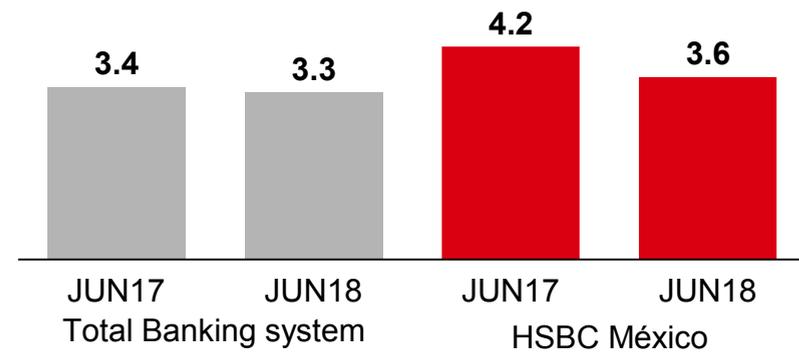
**Net interest margin (excluding LICs) %**



**Credit cost (Annualised LICs/Loans) %**



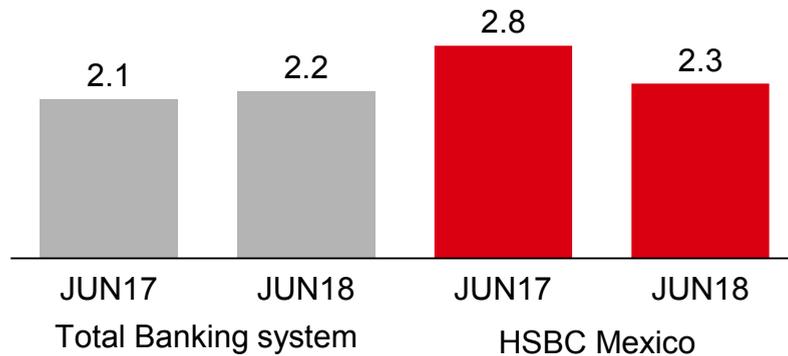
**LLR/Loans %**



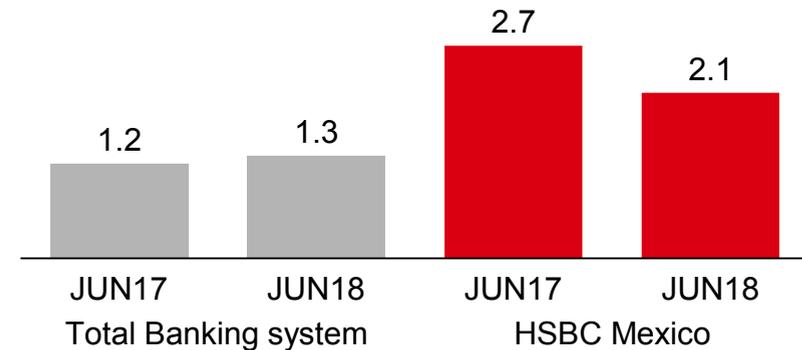
# HSBC Mexico vs Total System

Non Performing Loan ratios in retail products better than market

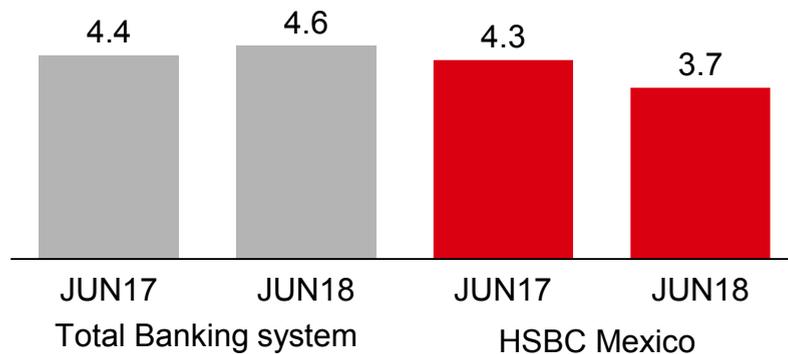
## Non Performing Loan ratio %



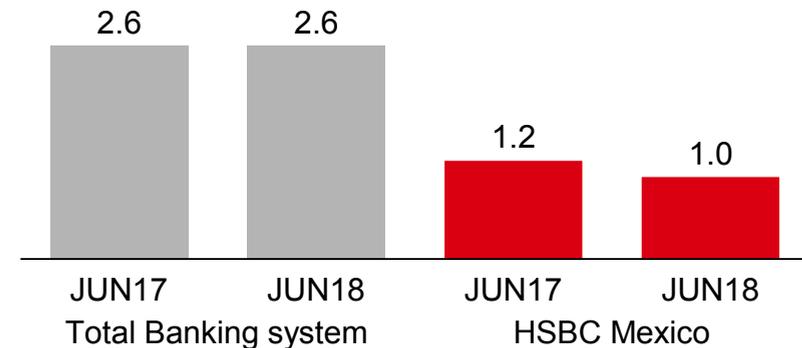
## Wholesale Non Performing Loan ratio %



## Retail Non Performing Loan ratio (excl. Mortgage) %



## Mortgage Non Performing Loan ratio %



## 5. Characteristics of the Offer

## Long Term Notes

Issuance of long term notes (Certificados Bursátiles bancarios) up to 10 billion pesos

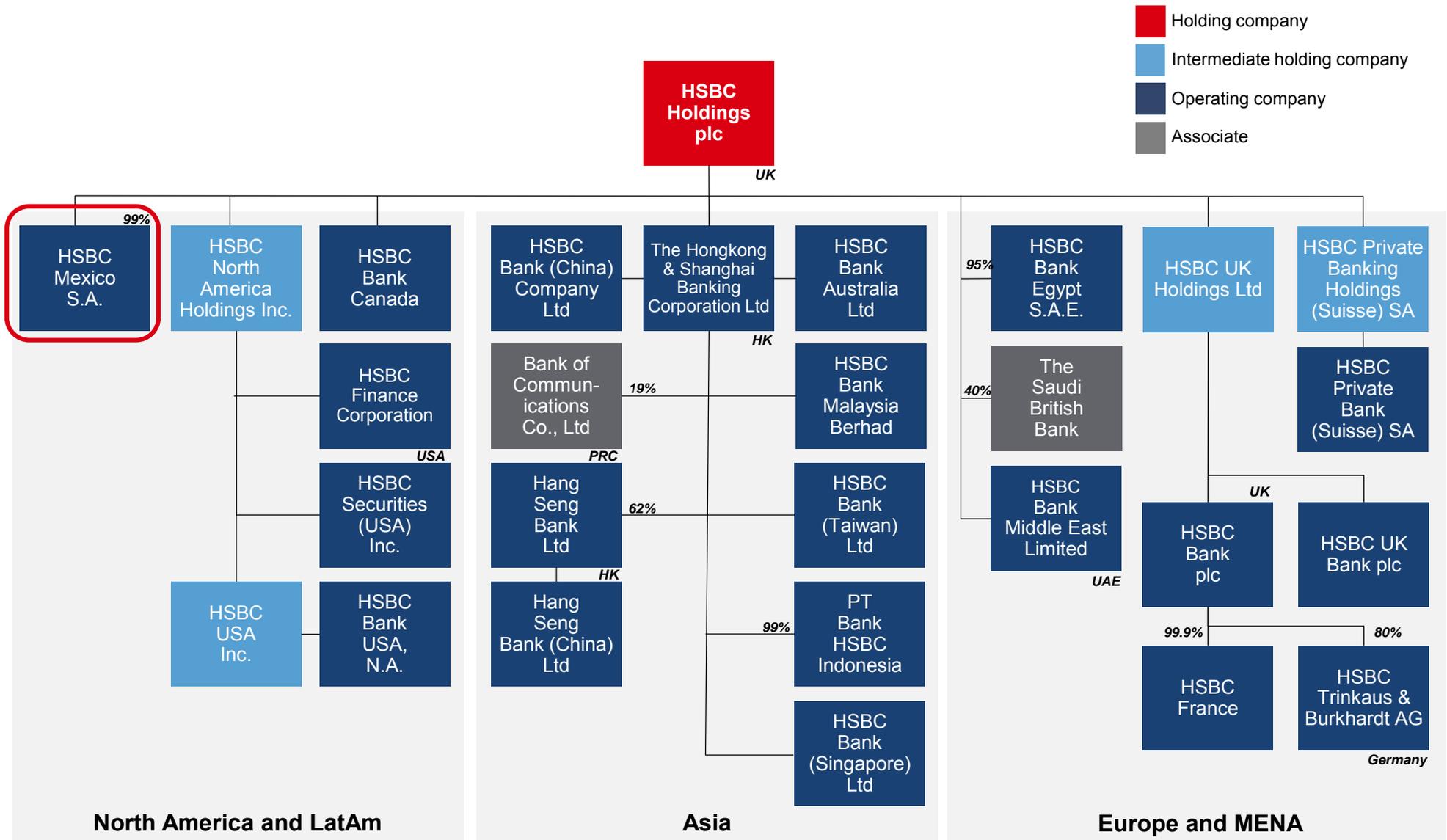
<b>Issuer</b>	HSBC México, S.A., Institución de Banca Múltiple, Grupo Financiero HSBC		
<b>Type of Security</b>	Certificados Bursátiles Bancarios de largo plazo (Long Term Notes)		
<b>Local Ratings</b>	AAA(mex)vra by Fitch Ratings and Aa1.mx' by Moody's		
<b>Issuance Amount</b>	Up to MXN 10,000'000,000.00 (ten billion pesos) or its equivalent in USD with communicating tranches		
<b>Objective Issuance Amount</b>	MXN 7,000,000,000.00 (seven billion pesos) or its equivalent in USD with communicating tranches		
<b>Ticker</b>	<b>HSBC 18D</b>	<b>HSBC 18</b>	<b>HSBC 17-2 (Reopening)</b>
<b>Currency</b>	USD	MXN	MXN
<b>Type of interest rate</b>	Floating Rate Note	Floating Rate Note	Fixed Rate Note
<b>Tenor</b>	1,080 Days (Approximately 3 years)	1,092 Days (Approximately 3 years)	3,223 Days (Approximately 9 years)
<b>Reference rate</b>	LIBOR 90 days	TIEE 28 Days	Mbono 2027
<b>Frequency of Interest payment</b>	Every 90 Days	Every 28 Days	Every 182 Days
<b>Book building date</b>	[November 21, 2018]	[November 21,2018]	[November 21,2018]
<b>Issuance date</b>	[November 23, 2018]	[November 23, 2018]	[November 23, 2018]
<b>Maturity date</b>	[November 7, 2021]	[November 19, 2021]	[September 20, 2027]
<b>Amortization</b>	Bullet		
<b>Guarantee</b>	Unsecured		
<b>Bookrunner</b>			

# 6. Appendix

## Current credit ratings for key entities

Long term senior ratings	Fitch		Moody's		S&P	
	Rating	Outlook	Rating	Outlook	Rating	Outlook
<b>HSBC Holdings plc</b>	AA-	Stable	A2	Stable	A	Stable
<b>HSBC Mexico</b>	AAA	Stable	Aa1	Positive	mxAAA	Stable

# Simplified structure chart - principal entities<sup>1</sup> as at 1 October 2018



<sup>1</sup> Showing entities in Priority markets, wholly-owned unless shown otherwise. Excludes other Associates, Insurance companies and Special Purpose Entities.

## Main launches

### Retail (RBWM<sup>1</sup>)

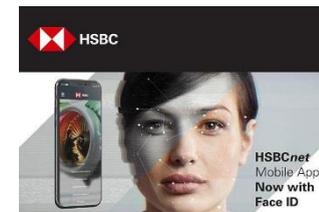
- HSBC Fusion - 2017
- Samsung Pay – January 2018
- 2Now Credit Card – February 2018
- HSBC Stilo – July 2018
- HSBC Zero – September 2018



# HSBC ZERO

### Wholesale (CMB<sup>2</sup> / Global Banking and Markets )

- GLCM<sup>3</sup>: HSBC net Mobile: Touch ID y Face ID
- GTRF<sup>3</sup>: New product launch for GTRF in Mexico  
Pre Export Finance and new Supply Chain Solution



1. RBWM: Retail Banking and Wealth Management  
2. CMB: Commercial Banking (Banca Empresarial),  
3. GLCM: Global Liquidity and Cash Management; GTRF: Global Trade and Receivable Finance

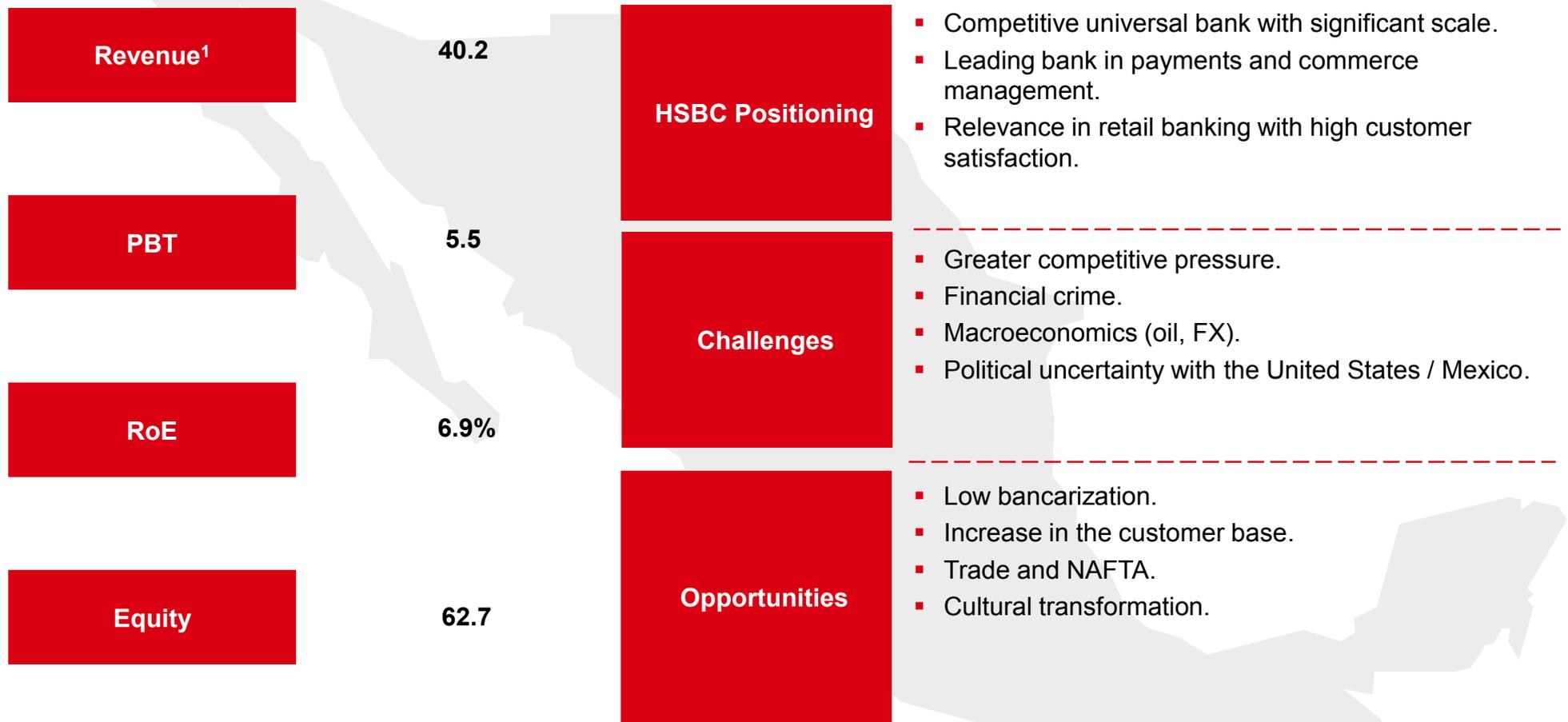
# Turnaround

On financial results and strengthening of financial crime risk management capabilities

## 2017 Performance

### HSBC Grupo Financiero for the year ending 2017

Figures in MXN bn under local GAAP



1. Revenue includes (Net interest income, Net fees, Trading income and Other operating income)  
 Source: Audited financial statements December 2017, HSBC Grupo Financiero

