



# HSBC Latin America

## Barclays investor roadshow Sao Paulo

Victor Jimenez  
Chief Financial Officer, HSBC Latin America

6 November 2012

HSBC 

# Forward-looking statements



This presentation and subsequent discussion may contain certain forward-looking statements with respect to the financial condition, results of operations and business of the Group. These forward-looking statements represent the Group's expectations or beliefs concerning future events and involve known and unknown risks and uncertainty that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Additional detailed information concerning important factors that could cause actual results to differ materially is available in HSBC Holdings plc Interim Report 2012 and Interim Management Statement issued on 05 November 2012. Past performance cannot be relied on as a guide to future performance.

- 1 World economic outlook**
- 2 The Latin America region**
- 3 Importance of the region to HSBC**
- 4 Strategic direction**
- 5 Business performance and progress in the region**
- 6 Closing remarks**

# 1. World economic outlook

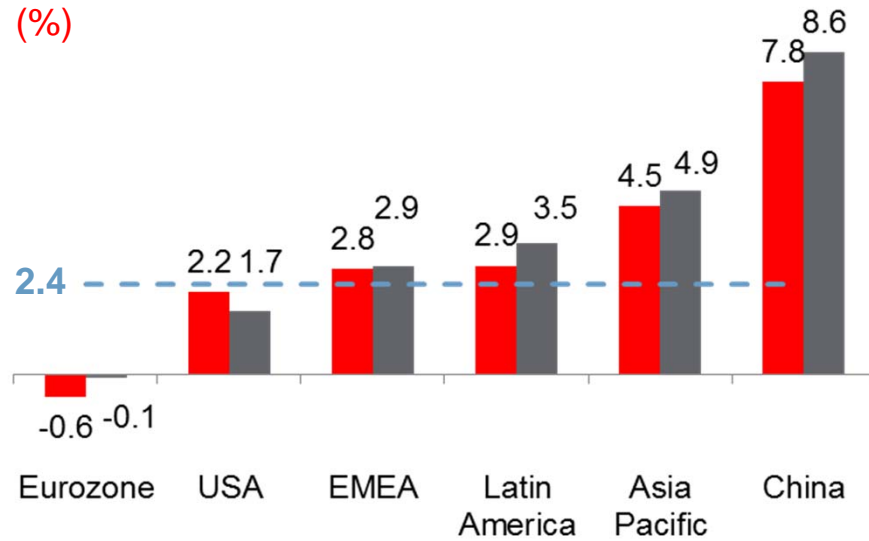
# Economic indicators

## Improved Latin American fundamentals beyond world average



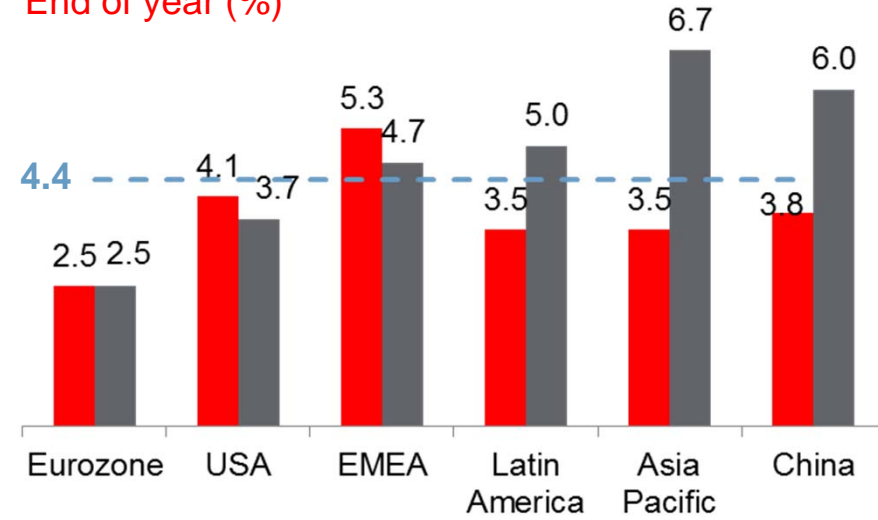
### GDP growth

(%)



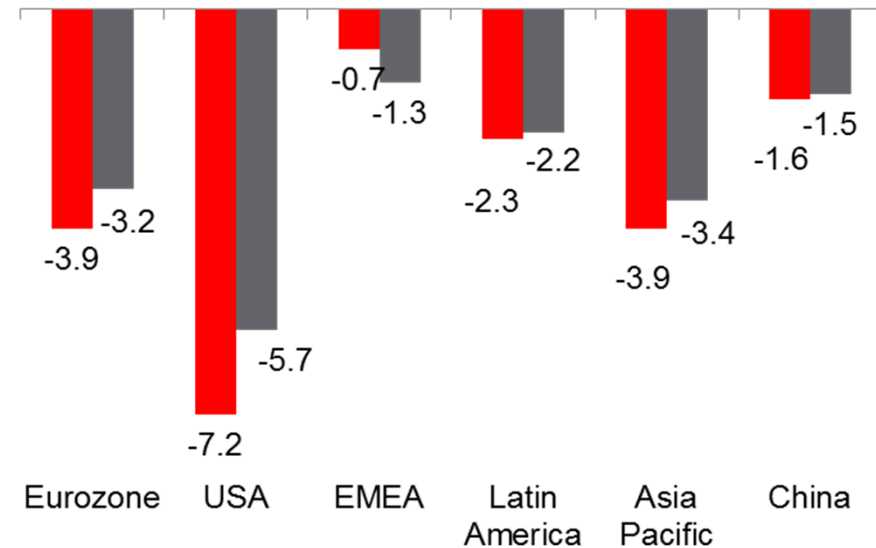
### Export growth

End of year (%)



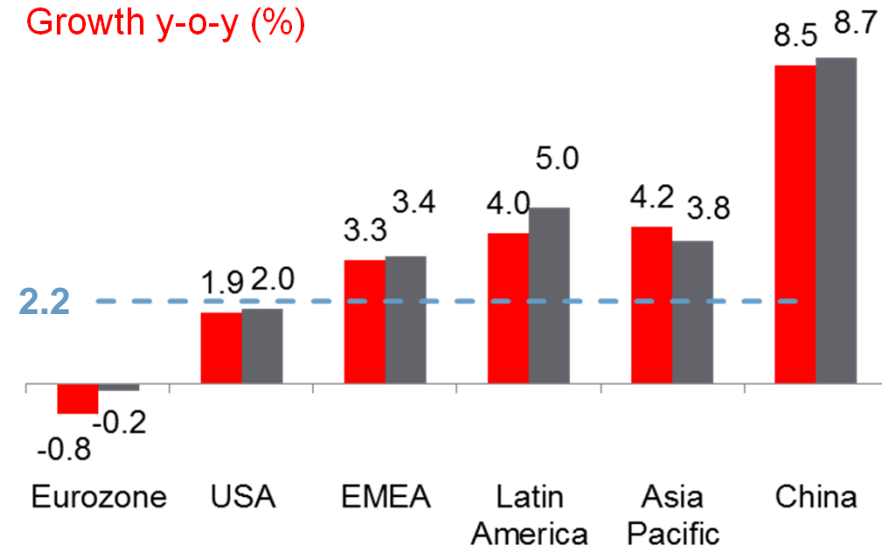
### Fiscal budget balance

(% of GDP)



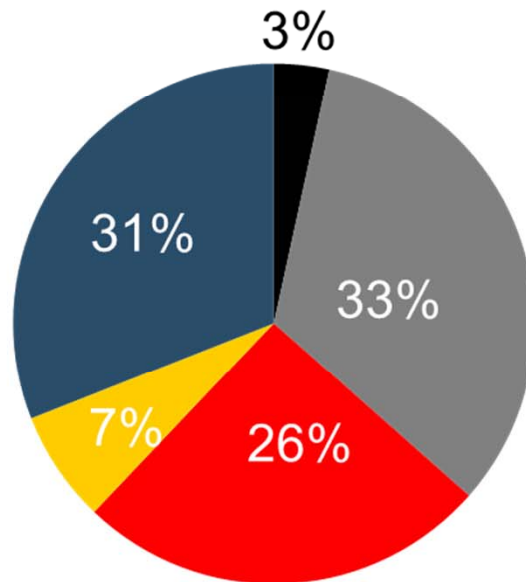
### Consumer spending (domestic demand)

Growth y-o-y (%)

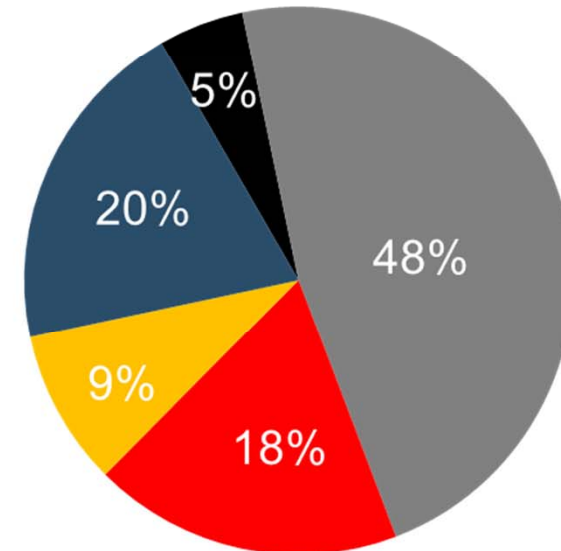


# World economy size GDP

2010<sup>1</sup>



2050<sup>1</sup>



■ Africa & Oceania   ■ Asia   ■ Europe   ■ Latin America   ■ North America

2010: USDbn 40,160

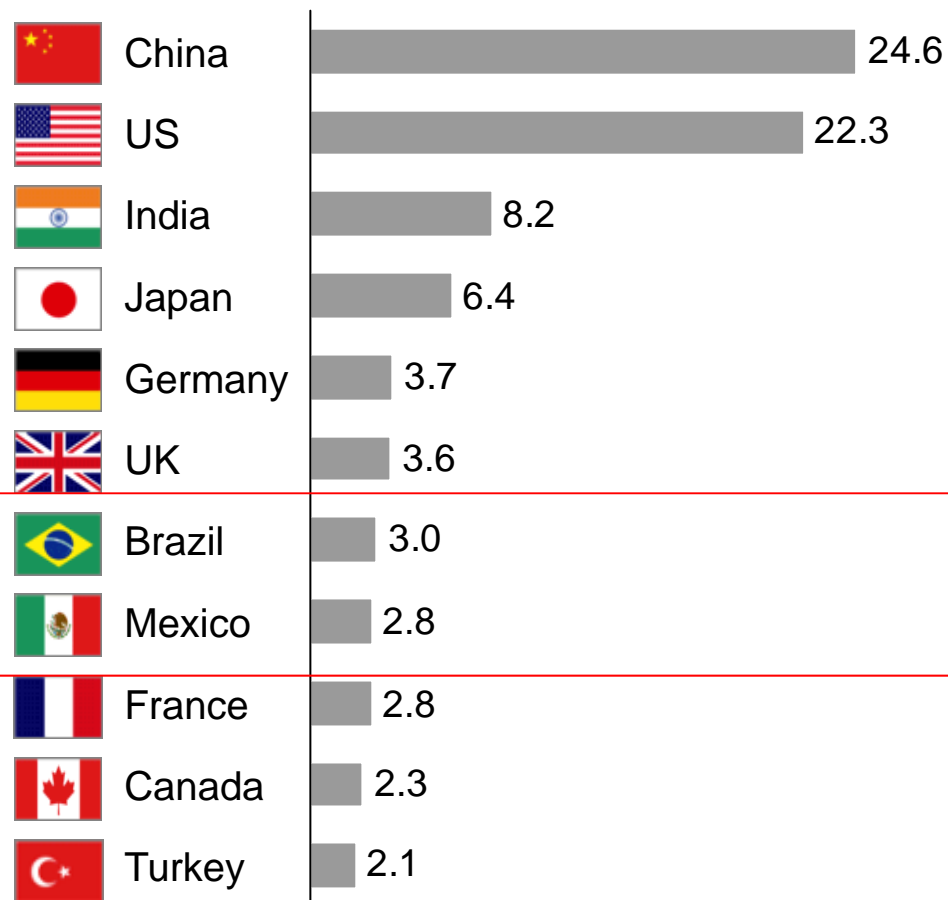
2050: USDbn 122,722

Economic growth in Asia and Latin America will rebalance the world economy

# Importance of Latin America in the future

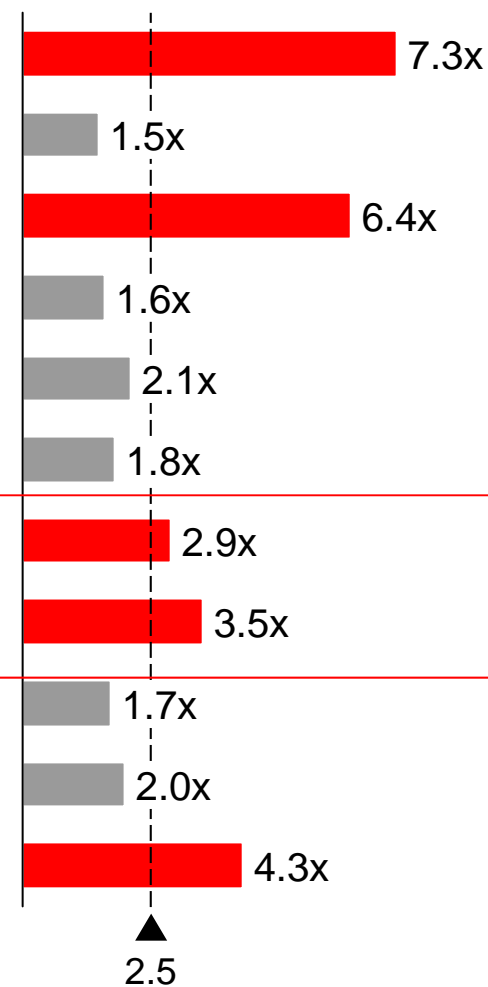
## Top economies by 2050

GDP (USDtn)



## Income per capita in 2050

Multiple over 2010 income



## **2. The Latin America region**

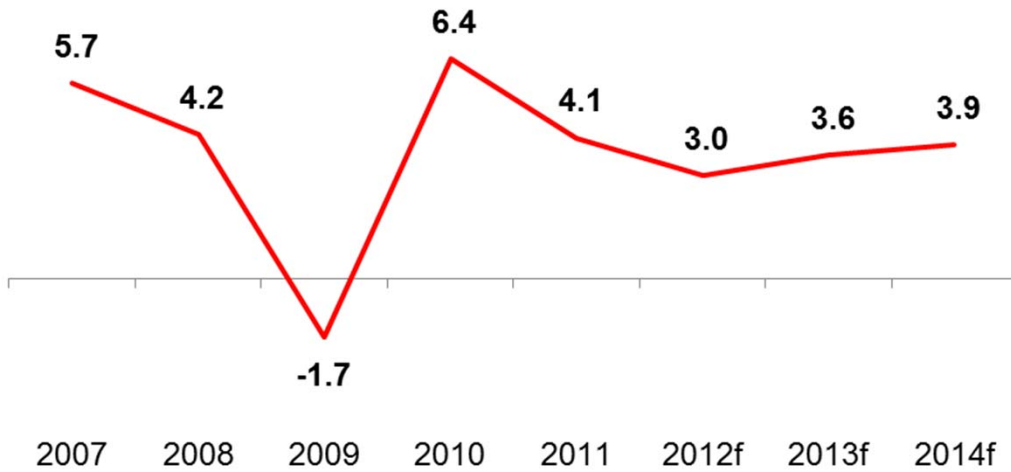


# Latin America Macroeconomics

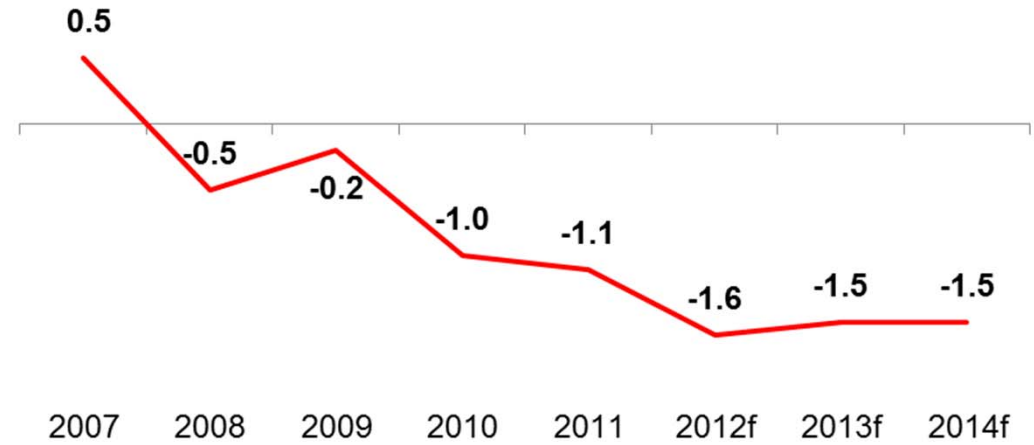
## Economic recovery and positive perspectives



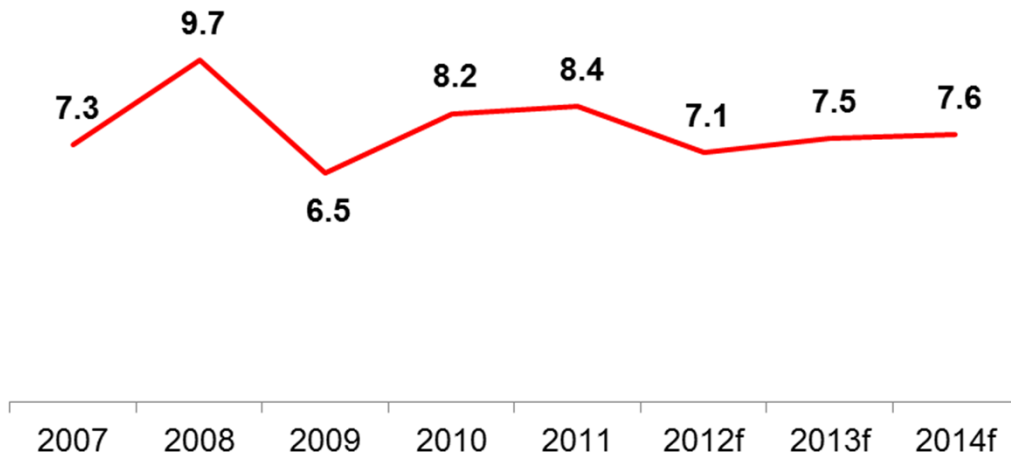
### GDP (%)



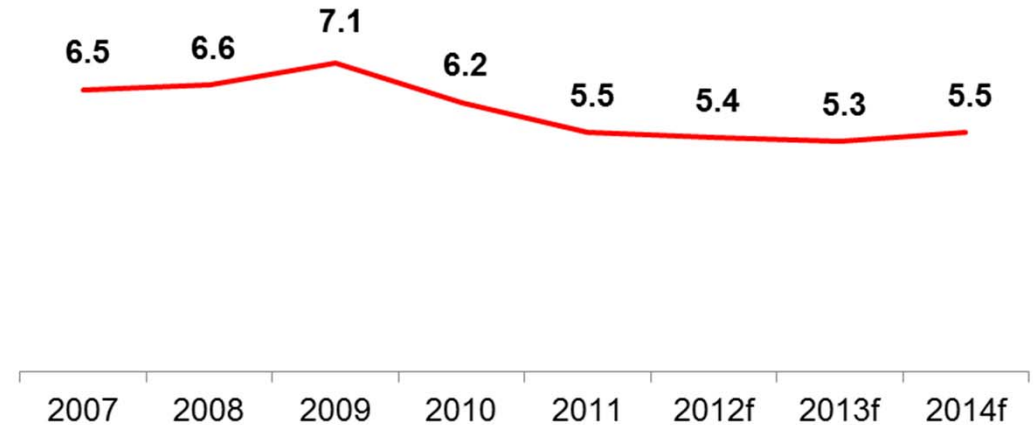
### Current account balance (% GDP)



### CPI (%)



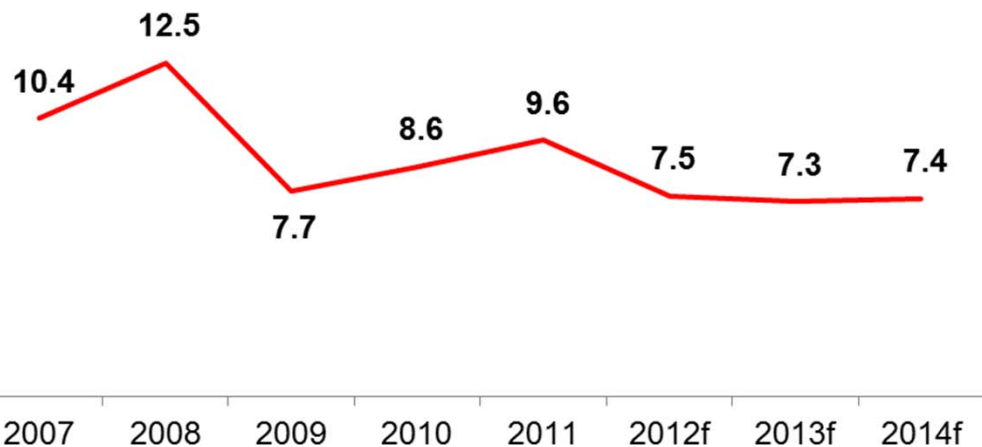
### Unemployment rate (%)



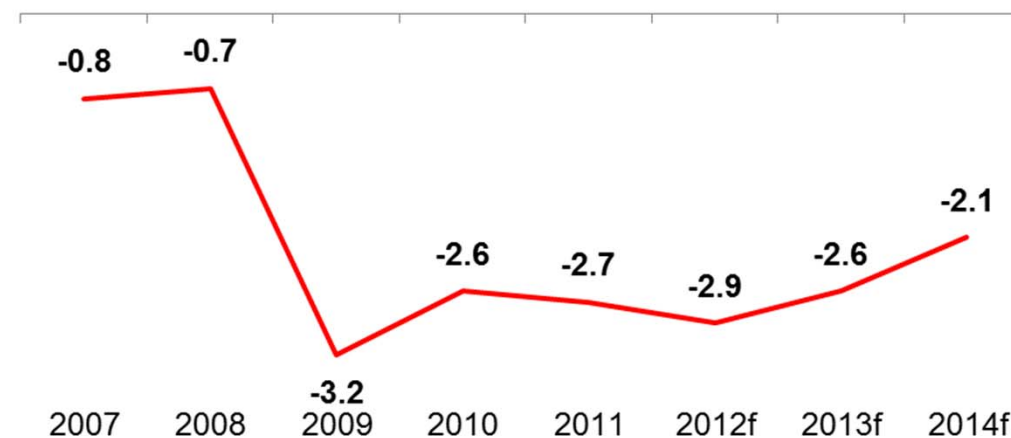
# Latin America Macroeconomics

## Sound government and monetary policies

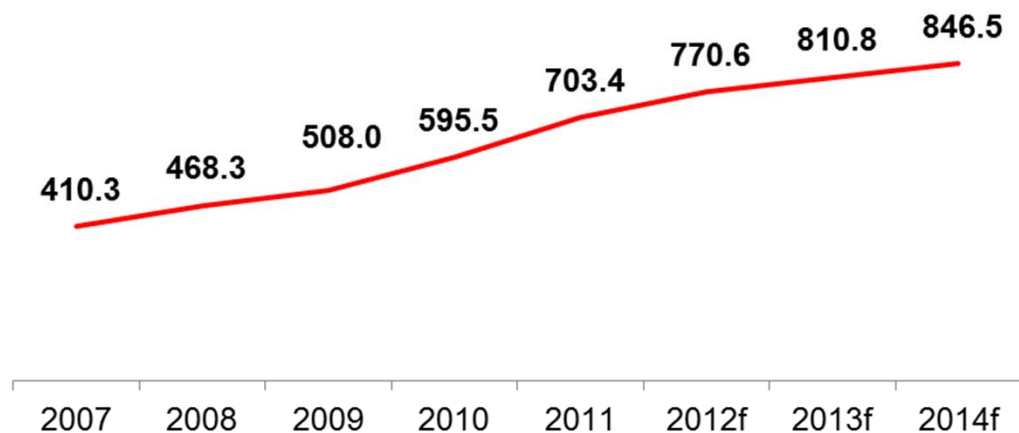
### Monetary policy rates (%)



### Fiscal balance (% GDP)

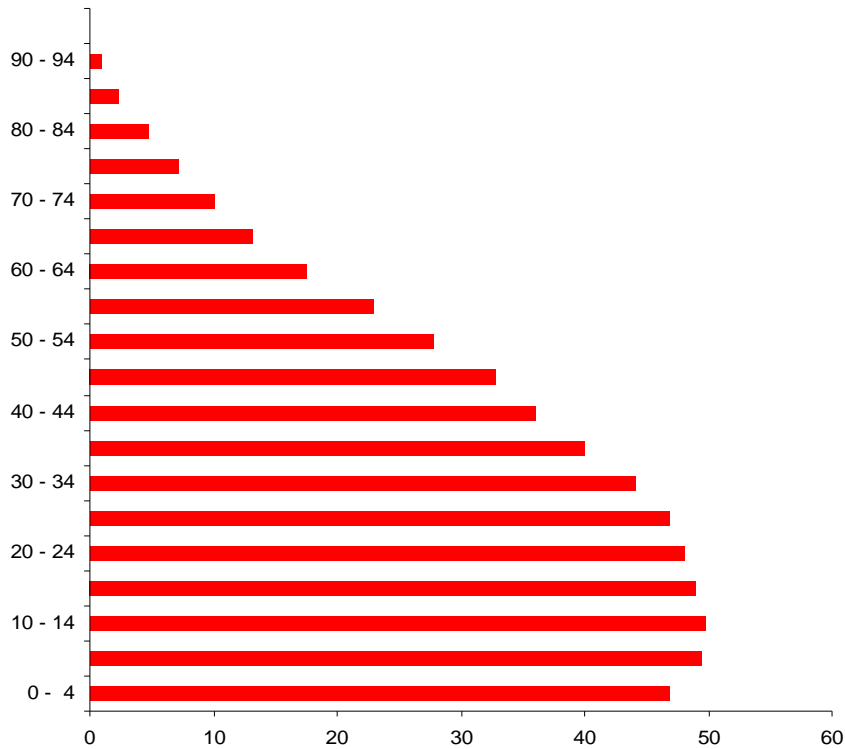


### International reserves (USDbn)

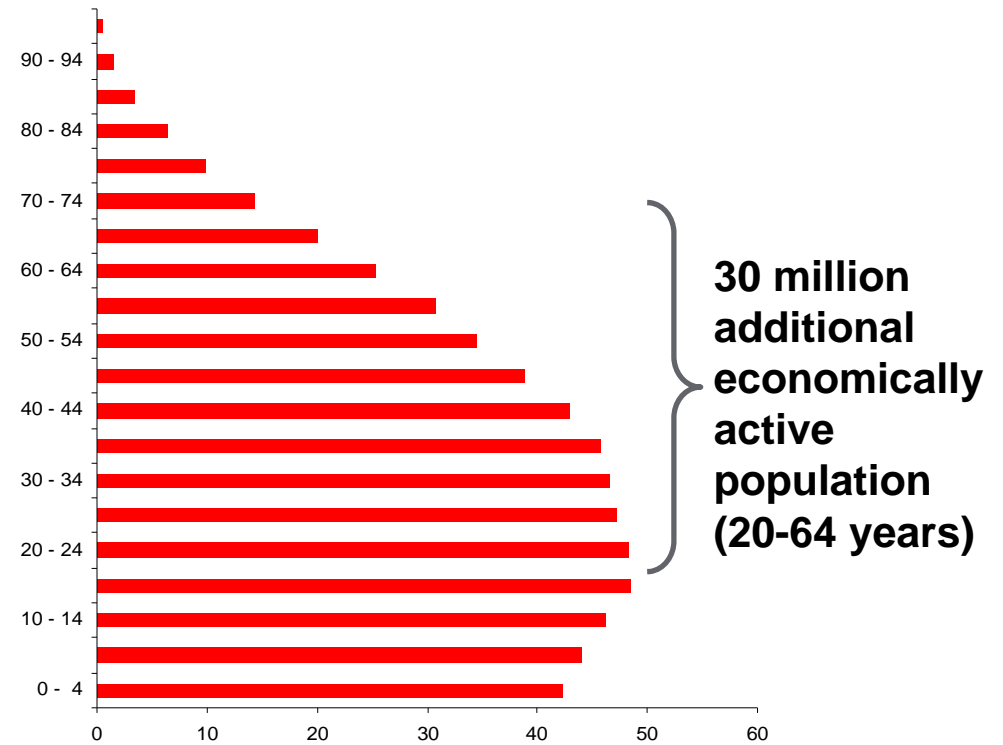


# Latin America Demography

550 million people in 2010...



600 million people in 2020...



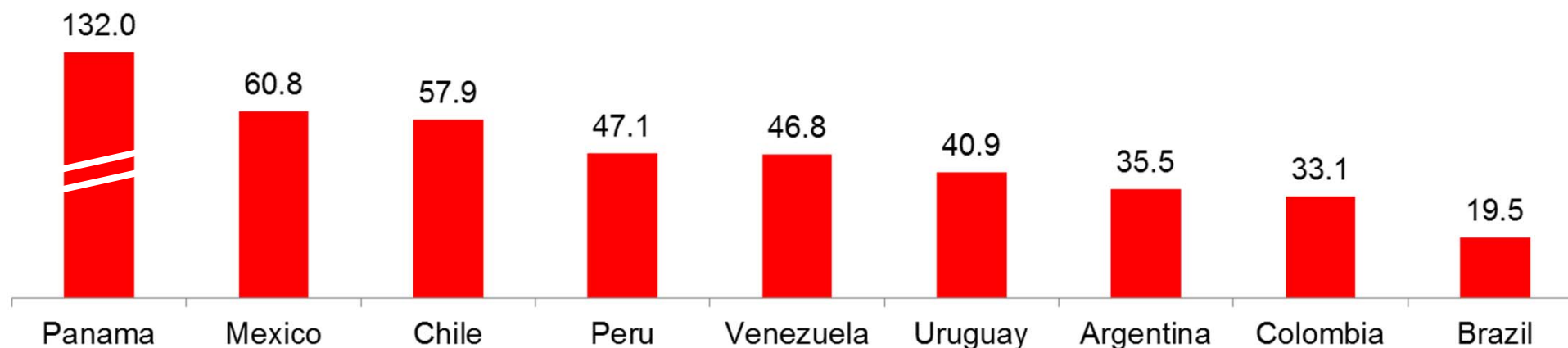
**Demographic bonus: increase in the levels of economically active population**  
**Upward mobility: poverty reduction, growth of middle and upper classes**

## Latin America

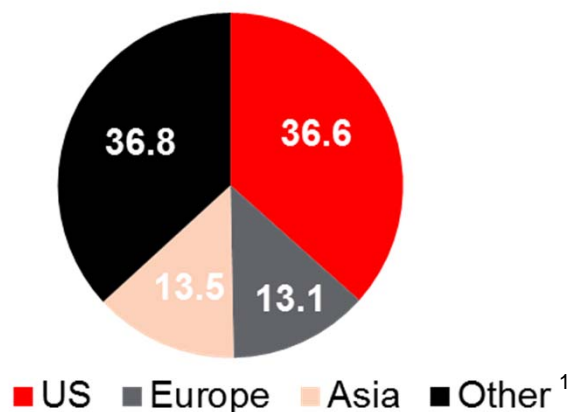
The region has increased its openness to trade and is well diversified



Total trade (% GDP)



Exports by region 2011 (%)

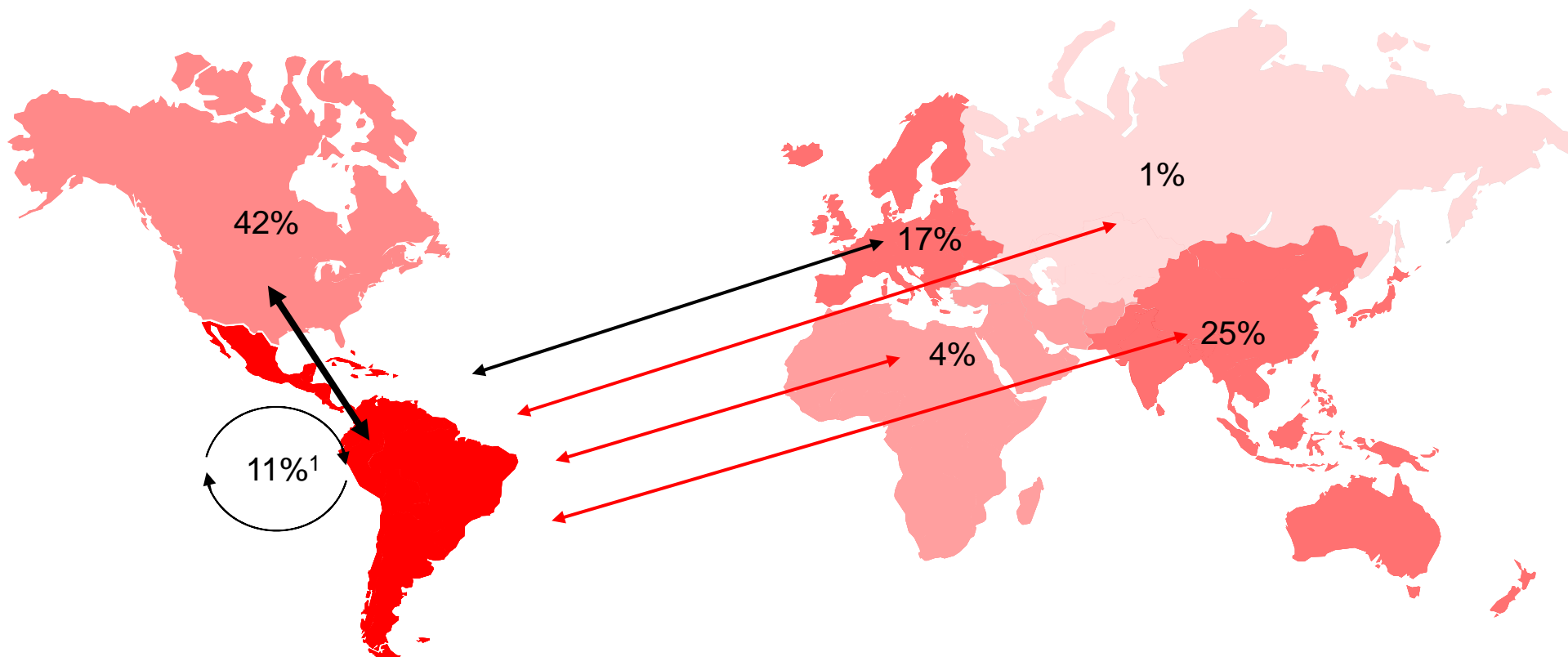


	US	Europe	Asia	Other
Argentina	5.5	17.0	14.7	62.8
Brazil	10.1	20.7	21.6	47.6
Chile	11.3	18.2	26.5	44.1
Colombia	42.4	17.1	5.4	35.1
Mexico	78.7	5.9	4.1	11.3
Panama	15.2	12.7	10.1	62.0
Peru	15.3	20.7	20.7	43.3
Uruguay	3.0	18.8	16.1	62.0
Venezuela	39.9	5.0	16.6	38.5
<b>LatAm</b>	<b>36.6</b>	<b>13.1</b>	<b>13.5</b>	<b>36.8</b>

# Latin America

## Connectivity fast growing

- Trade between Latin America and other regions was USD1.6 trillion<sup>1</sup> in 2011 (5% of world trade)
- Latin America trade will grow from USD1.6 to USD3.0 trillion by 2020 (7.0% CAGR)



- Latin America includes some of the fastest growing cross regional trade corridors (e.g. China to Brazil, 37% CAGR and Latin America to Asia, 20% CAGR)

<sup>1</sup> Intra-regional using exports only.

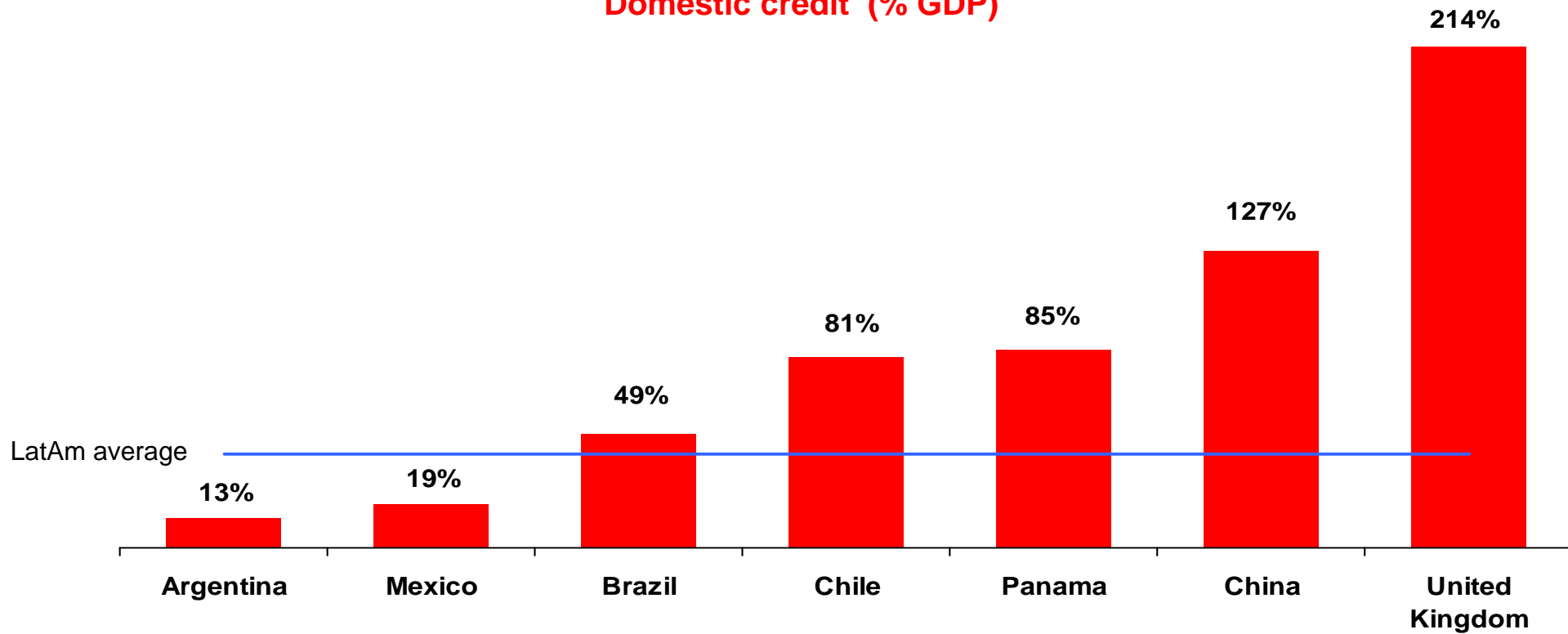
Source: International Trade Centre. Figures considering merchandise trade and continental LatAm.

# Latin America

## Credit penetration opportunity



Domestic credit (% GDP)



**Low financial domestic credit / GDP penetration, but improving following economic growth and stable environment**

- The current Latin American political outlook for 2012 and 2013 is one of continuity, due to the general positive economic environment
- All presidential and local elections in the region took place under a peaceful environment, without any social consequence
- Public safety has been an active matter on the political and electoral agenda of most of the countries throughout the region
- Consolidation of independent and solid institutional entities (Central Banks, electoral institutes)

### Latin America elections

#### **Brazil**

Year: 2010

President elected: Dilma Rousseff

#### **Mexico**

Year: 2012

President elected: Enrique Peña Nieto

#### **Argentina**

Year: 2011 (re-elected)

President elected: Cristina Fernandez

#### **Panama**

Year: 2009

President elected: Ricardo Martinelli

#### **Chile**

Year: 2010

President elected: Sebastian Piñera

#### **Colombia**

Year: 2010

President elected: Juan Manuel Santos

### **3. Importance of the region to HSBC**



## Brazil and Mexico are strategically important countries for HSBC



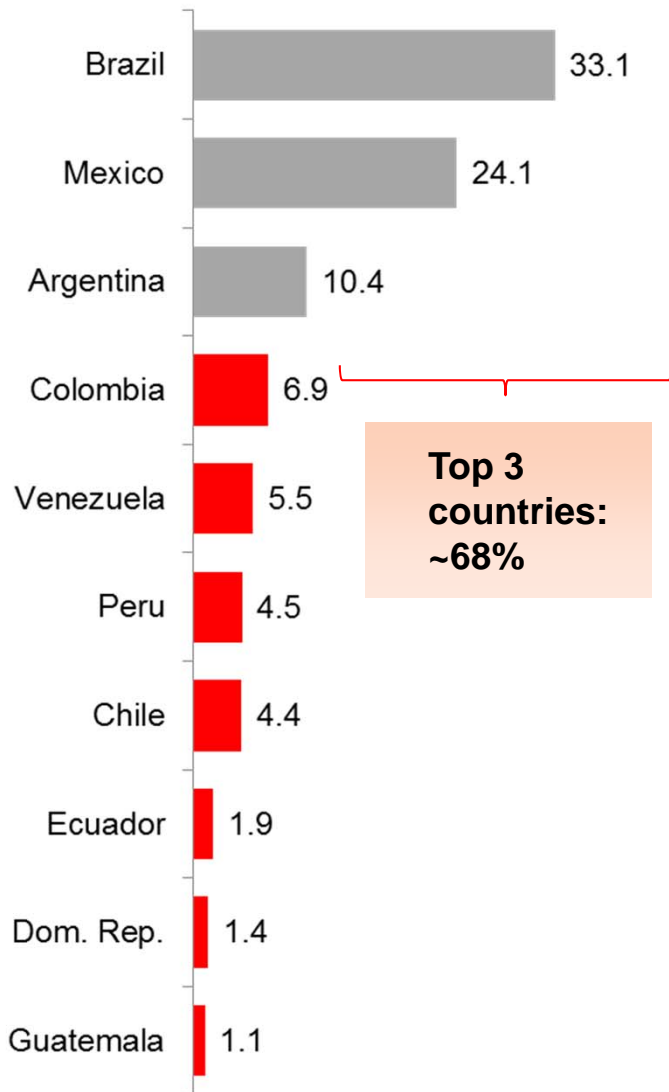
- Brazil, Mexico and Argentina have been included in HSBC's Strategy as "Priority Growth Markets"
- Brazil and Mexico are the 4<sup>th</sup> and 7<sup>th</sup> largest PBT contributors to the Group in 1H12
- The Brazilian and Mexican Retail Banking and Wealth Management footprints are amongst the largest in the Group...
  - 2nd and 3rd largest branch networks
  - Large ATM network (more than 6,000 in Mexico and more than 5,000 in Brazil)<sup>1</sup>

1. Figures as of June 2012

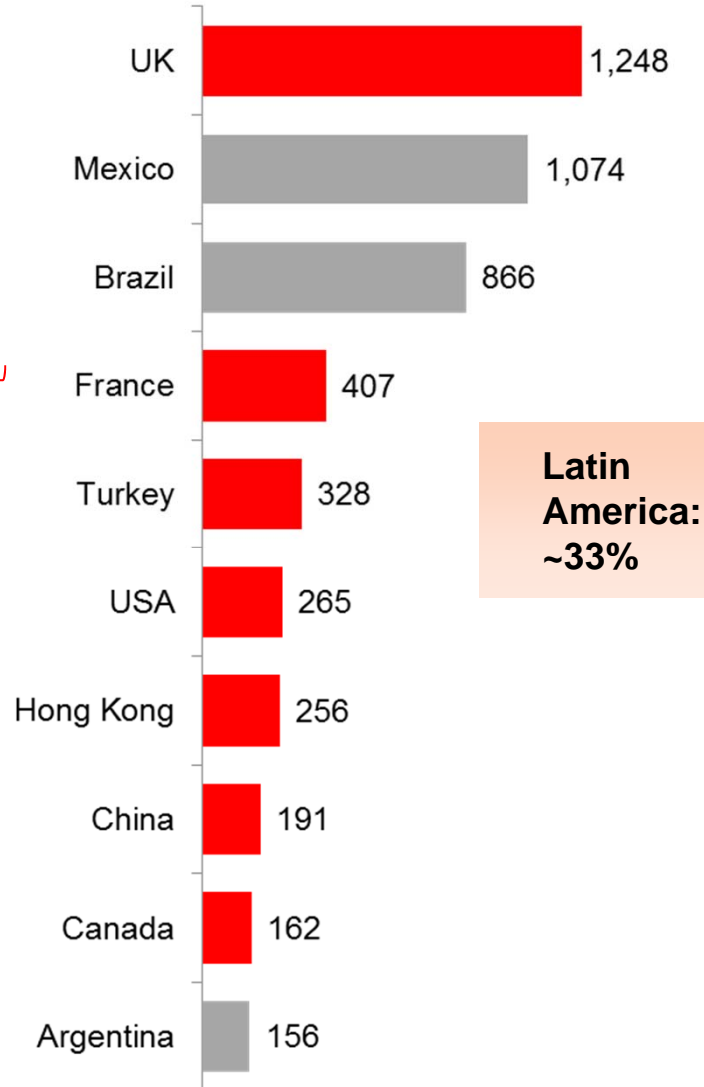
Source: HSBC Mexico and Brazil interim press releases

# Importance of Latin America to the Group

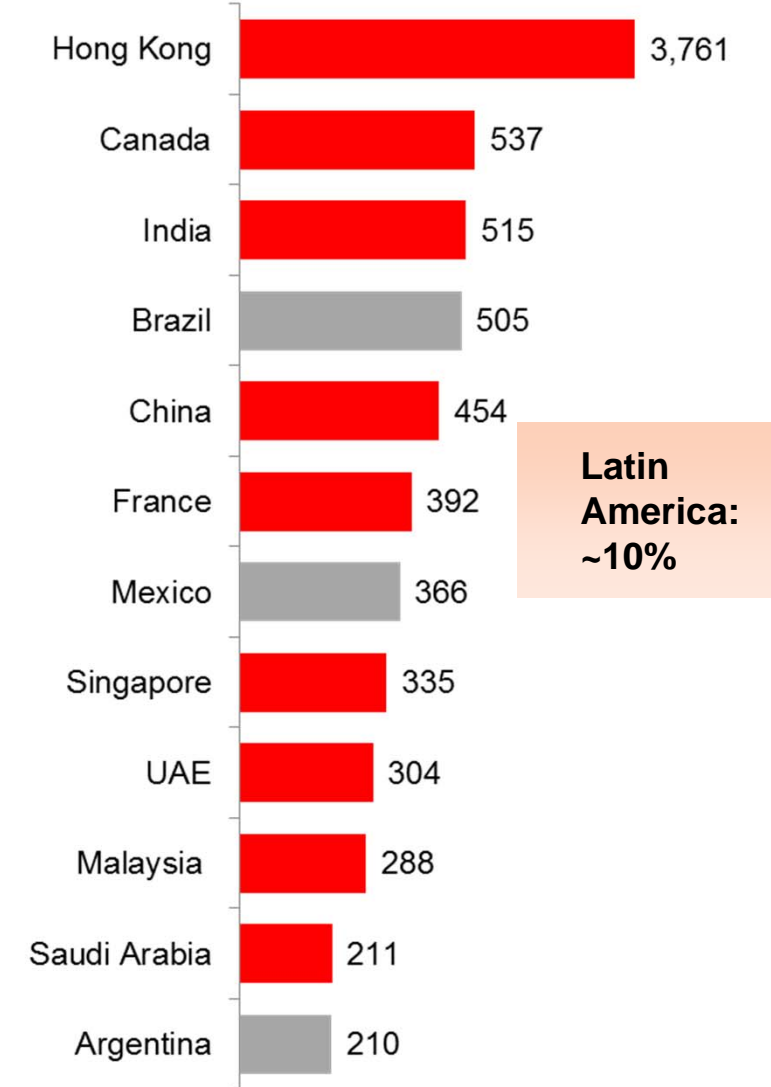
**Share of GDP 2012e (%)<sup>1</sup>**



**No. of offices per country<sup>2</sup>**



**Country profit contribution 1H12 USDm<sup>3</sup>**



Sources:

1. IMF, World Economic Outlook, April 2012

2. HSBC International Network

3. 2012 HSBC Holdings plc Interim report, Figures in USD million underlying basis

## 4. Strategic direction

# Group Strategy

## Key execution metrics



### Progress to date

#### Capital Deployment

##### *Five Filters*

- Disposals and closures of non-strategic / underperforming businesses
- Turnaround of strategically relevant businesses

- 6 transactions to dispose of or close businesses

#### Cost Efficiency

- Sustainable cost saves by 2013
- Simplify and delayer organisation
- Continue to invest in best-in-class Compliance and operational risk capabilities

- c. USD220m sustainable savings in 2011 and c. USD200m for 2012 YTD.
- Global functions re-engineering across the Region
- New organisational culture focused on the mitigation and management of risks

#### Growth

- Revenue growth in faster growing markets

- 3Q12 yoy revenue growth in Brazil and Argentina
- Higher yielding portfolio mix in RBWM
- Higher average lending balances in CMB

# Group Strategy

Committed to delivering on our financial targets



Capital

Profitability

Efficiency

Common equity tier 1  
ratio of  
9.5 – 10.5%

ROE target of  
12 – 15%

CER target of  
48 – 52%

## Five Filters

### Reduced fragmentation in Latin America



#### Footprint simplification

Costa Rica	Full exit
El Salvador	Full exit
Honduras	Full exit
Chile	Exit RBWM; become network market to support CMB, GBM
Colombia	Onshore exit; move to rep office model
Peru	Onshore exit; move to rep office model*
Uruguay	Onshore exit; move to rep office model
Paraguay	Full exit

#### Disposal of non-core businesses

Argentina	Disposal of general insurance
Mexico	Disposal of pensions funds management (Afore); general insurance

#### Priority Markets

- *Argentina*
- *Brazil*
- *Mexico*

\* Planned

# Latin America Footprint



**June 2012: More than 2,400 branches throughout 15 countries**

**June 2012: Approximately 2,100 branches throughout 4 countries**

## Presence in:

- Mexico
- Guatemala
- El Salvador
- Honduras
- Nicaragua
- Costa Rica
- Panama
- Colombia
- Peru
- Venezuela
- Brazil
- Paraguay
- Uruguay
- Chile
- Argentina

## Main presence in:

- Mexico
- Panama
- Brazil
- Argentina



## Impact:

- Reduced RWA's and FTE's
- No general insurance businesses
- Capital availability
- Reduced impact in PBT and Branch network

### Retail Banking and Wealth Management

- Move from a product oriented approach to a client centric strategy
- Invest in distribution channels
- Leverage Global Propositions (Premier, advance)
- Strong cross referrals among business lines

### Commercial Banking

- Develop unique offerings based on international network, e.g., RMB settlements
- Capture growth opportunities in Corporate and Business Banking segments, particularly in international customers
- Drive collaboration revenues with all other Global Businesses
- Continue optimising centralised business platforms: Dedicated inter-regional desks

### Global Banking and Markets

- Connect corporate customers throughout Latin America and main global centres
- Develop tailored financial solutions for high growth companies
- Cross-selling between segments, products and geographies



# Latin America

## Country initiatives



### Brazil

**Wealth Management:** Grow premium client base and revenues

Continue driving profitable growth in **GBM and CMB**

**Leverage on China/Brazil trade corridor:** Capture financial trade flows with China

### Argentina

**Build scale:** CRM<sup>1</sup>, Premier segment differentiation

**Drive to be lead international businesses:**

Trade, Agribusiness, Payments and Cash Management and Latin America referrals

### Mexico

**Cards and consumer credit:** new sales, targeted campaigns and early activation

**Commercial Banking - Capture Business Banking opportunity**

### Panama

Gain market share in target businesses, leveraging strong country growth

Drive growth in mass affluent (Premier, Advance)

Capture growth in Trade and Infrastructure projects

Further develop Regional Booking Unit and Trade capabilities

## **5. Business performance and progress in the region**

## Latin America

HSBC is a key player in the Latin American region



Figures as of 30 June 2012

	LatAm (USDm)	Share of total Group
Total Assets	138,968	5%
Loans and advances to customers (net)	52,960	5%
Customer accounts	69,594	5%
Profit before tax	1,145	9%
RoRWA	2.2%	vs 2.1% (Group)
Period-end staff numbers	51,667	19%
Branches	+2,400	33%

- **Mexico: 5<sup>th</sup> largest bank<sup>1</sup>**
- **Brazil: 5<sup>th</sup> largest private bank<sup>2</sup>**
- **Argentina: 7<sup>th</sup> largest bank<sup>3</sup>**
- **Panama: 2<sup>nd</sup> largest private bank<sup>4</sup>**

Figures in USD million under IFRS

Source: 2012 and 2011 Interim Management Statement HSBC Holding plc

1. CNBV (Comision Nacional Bancaria y de Valores)
2. BCB (Banco Central do Brasil)
3. ABA (Asociación de Bancos de la Argentina)
4. Superintendencia de Bancos de Panamá

# Latin America

Significant growth in the region since 2010



	Nine months ended		Half-year to			CAGR Jun10-12 (%)
	30 Sep 2012	30 Sep 2011	30 Jun 2012	30 Jun 2011	30 Jun 2010	
<b>(USDm)</b>						
Net operating income before loan impairment charges and other credit risk provisions	8,260	8,708	5,565	5,683	4,715	8.6
Loan impairment charges and other credit risk provisions	(1,645)	(1,314)	(1,136)	(820)	(820)	17.7
<b>Net operating income</b>	<b>6,615</b>	<b>7,394</b>	<b>4,429</b>	<b>4,863</b>	<b>3,895</b>	<b>6.6</b>
Total operating expenses	(4,818)	(5,479)	(3,285)	(3,712)	(3,013)	4.4
<b>Operating profit</b>	<b>1,797</b>	<b>1,915</b>	<b>1,144</b>	<b>1,151</b>	<b>882</b>	<b>13.9</b>
Income from associates	1	-	1	-	1	0
<b>Profit before tax</b>	<b>1,798</b>	<b>1,915</b>	<b>1,145</b>	<b>1,151</b>	<b>883</b>	<b>13.9</b>
	%	%	%	%	%	<b>Var</b>
Cost efficiency ratio	58.3	62.9	59.0	65.3	63.9	<b>-490 bps</b>
Pre-tax return on average risk-weighted assets (annualised)	2.4	2.5	2.2	2.2	2.1	

# Latin America

## Improved financial ratios



	Nine months ended		Half-year to				
	30 Sep 2012	30 Sep 2011	30 Jun 2012	31 Dec 2011	30 Jun 2011	31 Dec 2010	30 Jun 2010
RoRWA	2.4%	2.5%	2.2%	2.2%	2.2%	2.0%	2.1%
Cost efficiency ratio	58.3%	62.9%	59.0%	61.4%	65.3%	67.4%	63.9%
JAWS	6.9%	3.5%	3.7%	6.1%	3.5%	-5.8%	-1.2%

# Latin America

## Profit/(loss) before tax by global business



(USDm)	Nine months ended		Half-year to			CAGR Jun10-12 (%)
	30 Sep 2012	30 Sep 2011	30 Jun 2012	30 Jun 2011	30 Jun 2010	
Retail Banking and Wealth Management	379	590	214	336	168	12.9
Commercial Banking	593	713	381	475	236	27.1
Global Banking and Markets	947	840	649	543	434	22.3
Global Private Banking	15	14	10	10	4	58.1
Other	(136)	(242)	(109)	(213)	41	NA
<b>Profit before tax</b>	<b>1,798</b>	<b>1,915</b>	<b>1,145</b>	<b>1,151</b>	<b>883</b>	<b>13.9</b>

## 6. Closing remarks

## In summary...



- Latin America's macroeconomic fundamentals have recovered, putting it as a key region with a future positive economic outlook
- The region presents sound fiscal and monetary policies, resulting in economic stability
- Latin American banking system is under control, well capitalised and showing adequate liquidity levels
- Latin America is a region with potential demand growth, both in domestic and foreign demand
- HSBC strategy and actions are focused in taking advantage of the positive trends throughout the region

***Latin America presents optimal conditions, placing it as an important growth opportunity for HSBC***