



11 May 2011

# Latin America

## Investor Day

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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 our Annual Report and Accounts 2010. Past performance cannot be relied on as a guide to future performance.**

**This presentation contains non-GAAP financial information. Reconciliation of non-GAAP financial information to the most directly comparable measures under GAAP are provided in the 'Reconciliation of reported and underlying profit before tax' supplement available at [www.hsbc.com](http://www.hsbc.com).**

# Key trends for Latin America<sup>1</sup>



## Overview

- Market relevance
  - 540m people (8% of world population)
  - 17 countries
  - 2 languages
- GDP of Latin America is equivalent to c.80% of mainland China's GDP
- Strong economic recovery from the crisis
- 5 investment grade countries: Brazil, Chile, Mexico, Peru and Panama

## Long-term trends

### Economic growth

### Growth supported by strong demographics and social mobility:

- Forecast increase of 48million in economically active population by 2020
- In Brazil and Mexico only, ABC classes are forecast to have increased 35million by 2014

### Trade

- Over 80% of trade is done with global partners outside the region
- Mainland China and Asia are growing in importance as trade partners in addition to US

### Financial services penetration

- Strong growth potential following historical 2 two-digit CAGRs in credit and deposits (2006-2010)
- Most relevant markets in the region still show low penetration rates

Key trends for Latin America

# Strong historical growth in banking with sizeable future potential



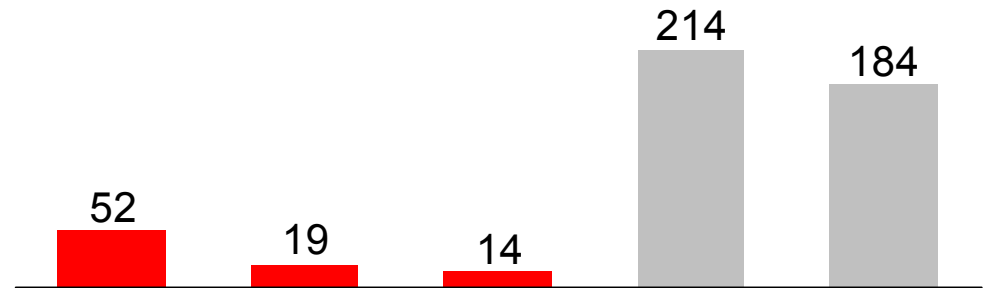
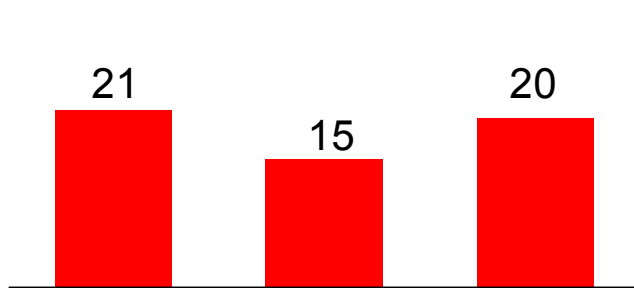
## Strong historical numbers...

CAGR 2006-10

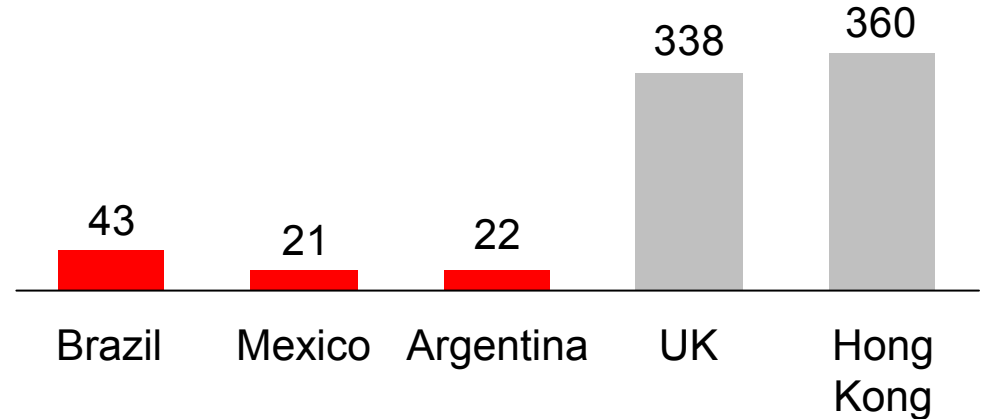
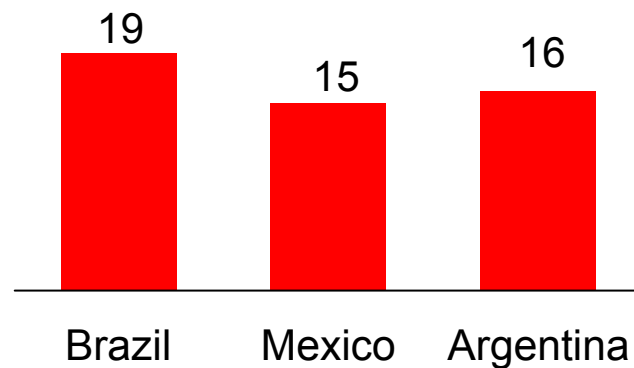
## ... and significant potential for further growth

% of GDP, 2010

Credit<sup>1</sup>



Deposits<sup>2</sup>



<sup>1</sup> Domestic credit to private sector

<sup>2</sup> Customer deposits

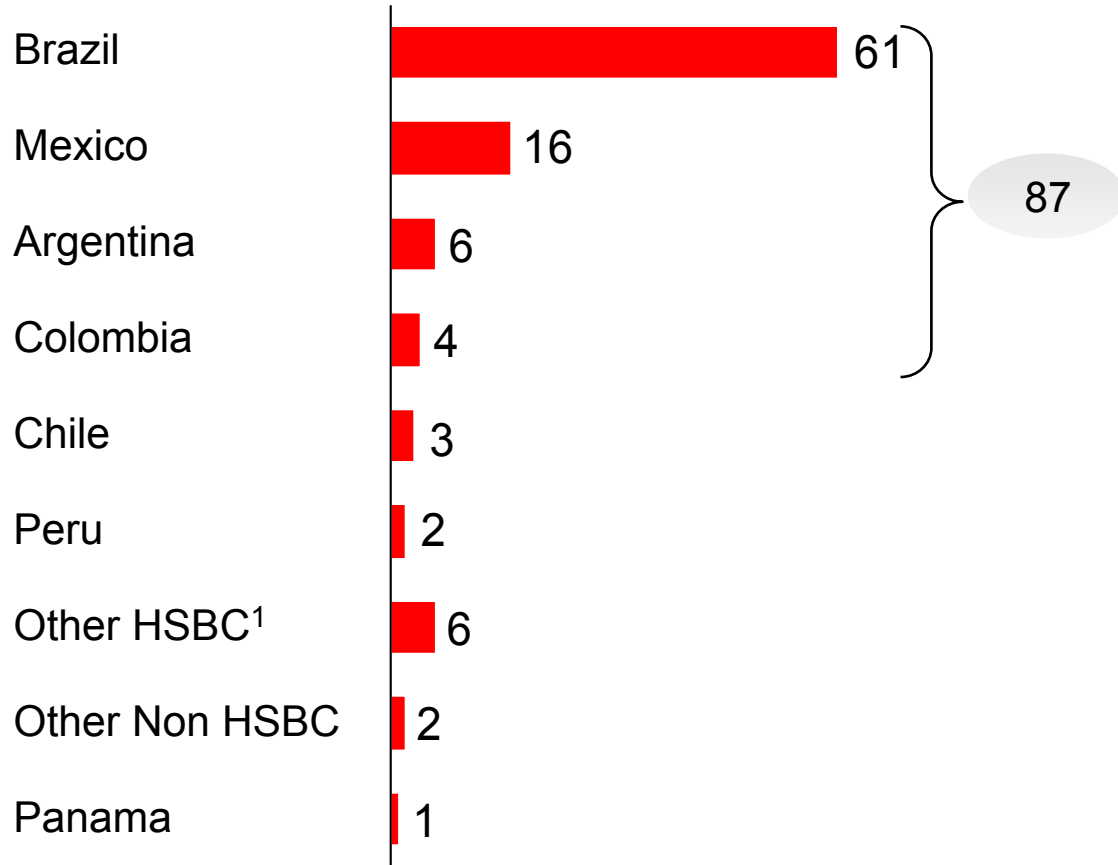
Source: Local Superintendencies and Central Banks, BMI, IMF, HSBC estimates.

# HSBC: Significant presence in relevant markets



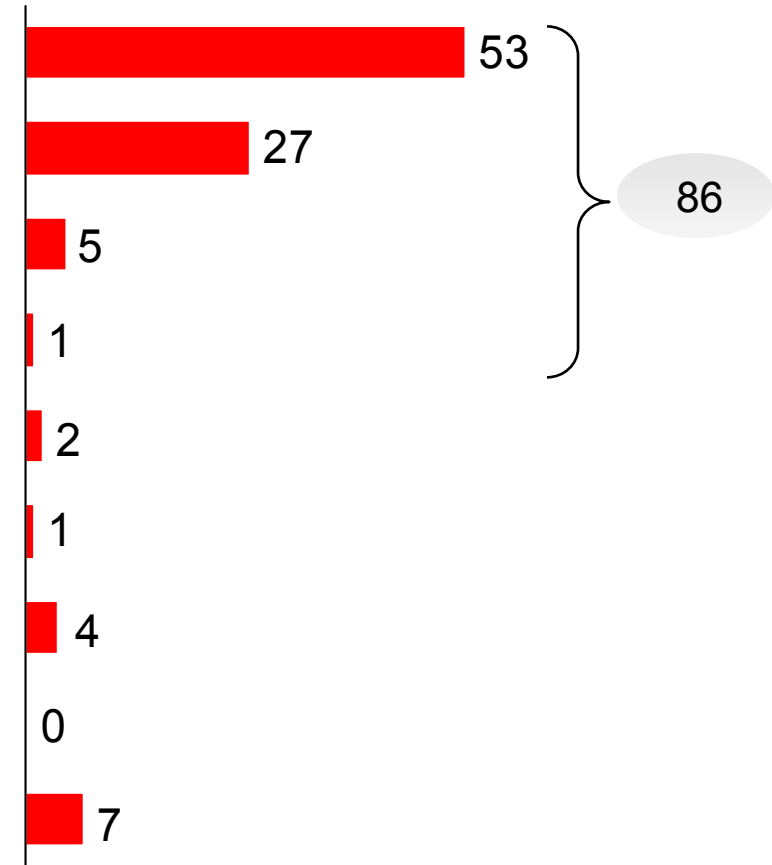
## Share of Latin America GDP Growth

%, 2010-2020



## Share of HSBC Latin America Assets

%, 2010



USD5.5 trillion forecast absolute nominal GDP growth

<sup>1</sup> Other HSBC: El Salvador, Costa Rica, Honduras, Uruguay, Paraguay, Venezuela (Rep Office), Guatemala (Rep Office) and Nicaragua (Rep Office)  
Source: Global Insights

# HSBC: Relevant footprint / scalable platform



Latin America <sup>1</sup>	
RBWM Customers	>16m
CMB Customers	>719k
Branches	>2.4k
RBWM Customers	
Brazil <sup>2</sup>	8.4m
Mexico	5.2m
Argentina	1.4m
Panama	0.4m
CMB Customers	
Brazil	407k
Mexico	177k
Argentina	76k
Panama	18k
Branches	
Brazil	865
Mexico	1,144
Argentina	118
Panama	67

<sup>1</sup> Figures as of Dec 2010

<sup>2</sup> Includes 3.8m from Losango and non-core segments

## Latin America vs. rest of the Group - Strong cost challenge

2010

- Relevant and scalable footprint in the region
- That implies a significant infrastructure and thus expense base of USD 6.4bn
- We have a significant cost efficiency challenge of 65.7%
- But also an opportunity for growth through leveraging our connectivity and presence

## Large scalable footprint in Latin America

2010



- Over 150 million transactions per month
- 80% through direct channels

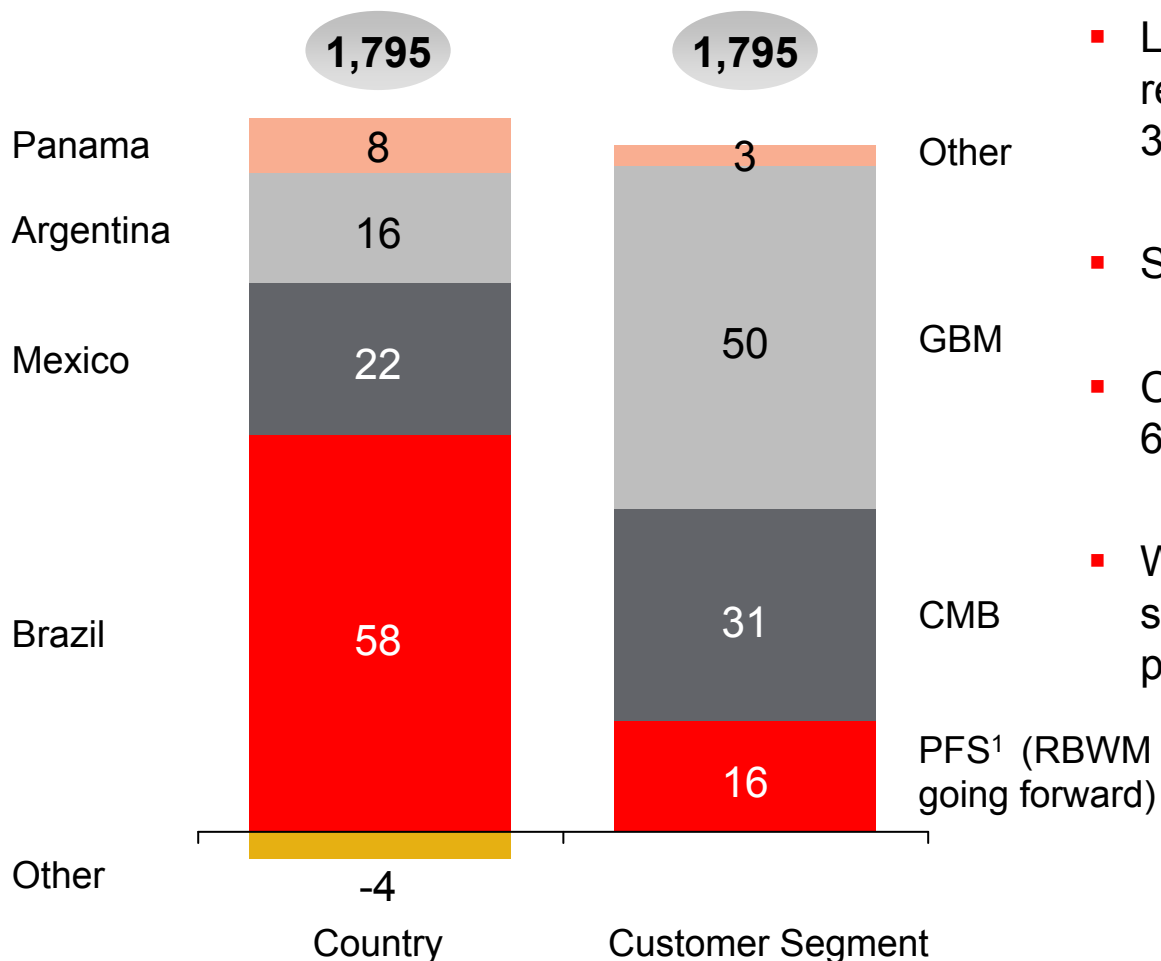
- HSBC presence
- No HSBC presence

# HSBC: 2010 Financials



## PBT composition

%, 2010 USDm



<sup>1</sup> Does not include AMG

## Financial indicators

2010

- Loan impairment charges / advances of 2.7% represents significant improvement versus previous 3 years
- Strong capital position
- Customer advances / Customer accounts ratio of 66% represents a strong liquidity position
- With 33% of the regional PBT, Insurance is a significant source of profits in low economic cycle periods

# Strategic direction and actions overview



## Latin America

*Become the leading international bank serving key growth segments and markets*

1

### **RBWM - Positioned to capture social mobility and wealth creation**

- Develop client centric strategy
- Invest in distribution channels
- Sub-segment affluent propositions

2

### **CMB - The leading commercial bank for international businesses**

- Develop unique offerings based on international network, e.g., RMB settlements
- Continue optimising centralised business platforms

3

### **GBM - Connecting Latin America and the world**

- Connect corporate customers throughout Latin America and main global centers
- Develop tailored financial solutions for high growth companies

4

### **Increase capital and cost efficiency**

- Increase operational effectiveness through portfolio rationalisation and sustainable cost savings



# 1 RBWM – Positioned to capture social mobility and wealth creation



## Key opportunities

- Demographics and upward social mobility
- Wealth Management proposition as key differentiator: “one-stop shop”
- Retail banking and lending: over 50% of profit pool
- Over USD17m of potential wealth insurance PBT for every 1% increase in penetration rate

## HSBC position

- Relevant and scalable presence in key markets to capture retail banking opportunities
- Integrated business model, with strong cross referrals among business lines
- Insurance: strong and well integrated bank assurance and voluntary pension proposition, focusing on internal distribution
- Close to 9% penetration rate for wealth insurance
- Strong Asset Management capabilities: USD55bn in AuMs

## Key actions

Move from a product oriented approach to a **client centric strategy**

**Leverage Business Intelligence**, providing seamless customer experience across different distribution channels

Leverage **Global Propositions** (Premier, Advance)

Accelerate infrastructure and process reengineering programs

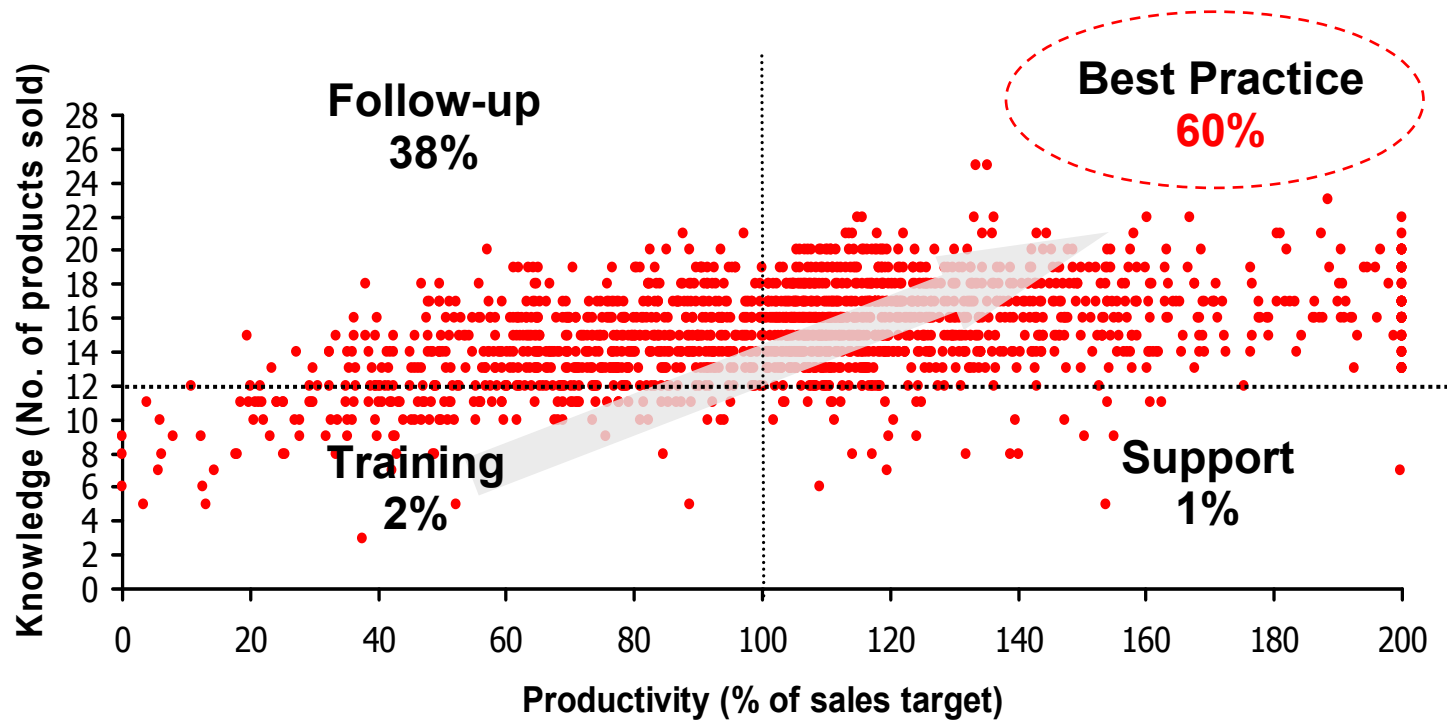
**Brazil and Mexico combined aspiration to generate a PBT of over USD1bn for RBWM**

# Examples: Increased sales productivity and consistency



## Sales monitoring and coaching process and incentive programme<sup>1</sup>

- Sales team performance progress: over 20% net revenues increase in Brazil
- In March 2010 37% of Relationship Managers reached Best Practice; in 2011 this improved to 60%



## 2 CMB – The leading commercial bank for international businesses



### Key opportunities

- Clear internationalisation trend amongst small and mid-size businesses
- Customers with international needs; double in-country and triple overall relationship revenues
- 90% of the companies are small businesses, generating a significant portion of country's employment and GDP

### HSBC position

- Top positions in Trade market share
  - Mexico #3 (19%)
  - Brazil #5 (7%)
  - Argentina #2 (14%)
- 21% of our customers are international
- Large CMB network and clientele in key markets
- Feeder of the RBWM proposition through payroll services

### Key Actions

Dedicated inter-regional desks in Asia, North America and in Latin America

Regional PCM team providing connectivity through HSBC Net in all countries and client management support

Regional Trade operations and booking unit in Panama to support smaller sites

First institution to settle in RMB in Mexico, Brazil and Argentina

**Brazil and Mexico combined aspiration to generate a PBT of over USD900m for CMB**

*Strategic direction and actions*

## Examples: Recognition and partner of choice for top Latin American issuers

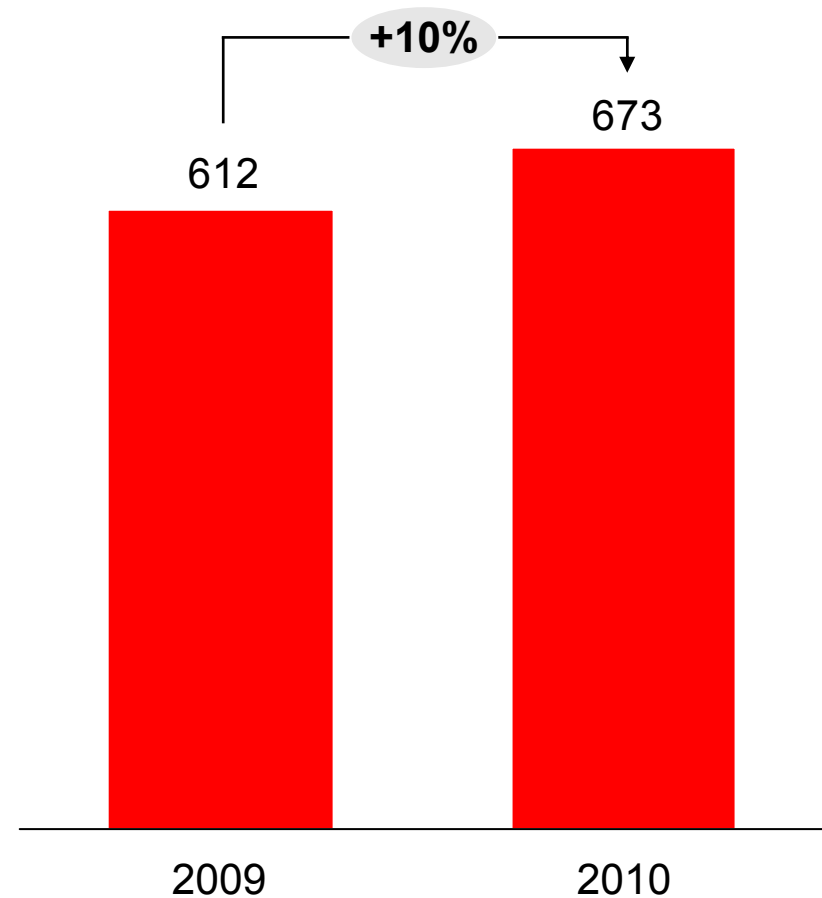


### Capabilities in place to lead in CMB

- CMB and GBM joint efforts:
  - Casa Saba (Mexico):
    - USD637m deal - Financing, Advisory and Capital Markets
  - Jaguar Energy (Guatemala):
    - Lead arranger of a USD350 million syndicated project finance loan
    - Awarded Latin Finance Best Project Finance Deal of 2010
- Euromoney #2 PCM Award in Latin America
- 1,245 new HSBCnet clients in 2010

### Business Banking in Latin America

HSBC active customers, thousands



## 3 GBM – Connecting Latin America and the world



### Key opportunities

- Supporting global customers in Latin America
- Increasingly local customers require international Trade services and Cash Management
- Asia: Latin America's fastest growing trading partner
- Faster Growing Markets companies acquiring Mature Markets assets

### HSBC position

- Strong brand position
- Unparalleled position in DCM ranking
- Unmatched connectivity with Asia, Europe and US
- Key sector coverage from US and Europe
- Alignment between GBM product offering and Commercial Banking distribution
- Local currency balance sheets and funding capability

### Key Actions

Cross-selling between segments, products and geographies

Focus on delivery of high-value added products to core GBM Clients

Leverage HSBC connectivity to develop lower volatility revenue streams

Complete build out of country desks in key South-South regions<sup>1</sup>

**Brazil and Mexico combined aspiration to generate a PBT of over USD1.1bn for GBM**

<sup>1</sup> Defined as Asia, Middle East, Africa, and Latin America

# Examples: Global banking and markets achievements



## Unique capabilities to connect our clients

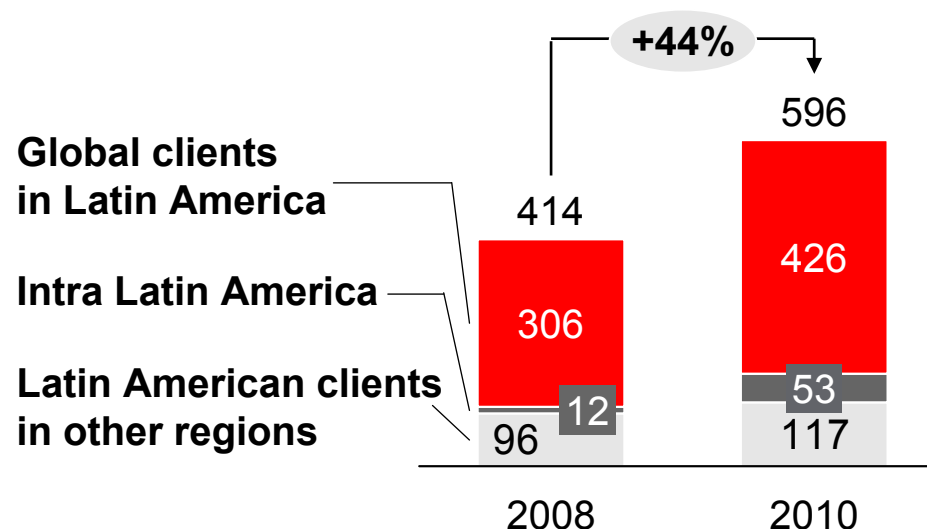
- 2010 - 2011 significant transactions:
  - **Camargo Correa** (BRA): Adviser in a USD1.7bn cross border transaction
  - **Arca Contal** (MEX): Sole adviser in a USD6.3bn transaction
  - **Cemex** (MEX): Joint Bookrunner of a USD715m Subordinated Convertible Notes
  - **Petrotemex** (MEX) Exclusive advisor, Joint Lead Arranger and Bookrunner of a USD600m syndication
- Advisory, ECM and PEF fees increased 48% in 2010 versus prior year, showing our focus in becoming strategic partners to clients in Latin America

## Top positions in Latin America league tables<sup>1</sup>

DCM, 2009		DCM, 2010	
Rank	USDbn	Rank	USDbn
2. HSBC	8.7	1. HSBC	12.1

## Connectivity contributing to revenues

GBM revenues from global interaction, USDm



<sup>1</sup> Source: Bloomberg, International and Domestic bonds excluding Venezuela

# 4 Increase capital and cost efficiency



## Key levers

## Example of initiatives

## Cost saving USDm

Key levers	Example of initiatives	Cost saving USDm	
Cost efficiency	<b>Portfolio rationalisation</b>	<ul style="list-style-type: none"> <li>Exit underperforming/non-strategic businesses (e.g., Pension Business in Mexico and Costa Rica)</li> <li>Rationalise portfolios (e.g., Auto Finance and Payroll Loans in Brazil)</li> </ul>	180-200
	<b>Re-engineer functions</b>	<ul style="list-style-type: none"> <li>Rightsizing regional and country support structures</li> </ul>	160 -190
	<b>Re-engineer processes</b>	<ul style="list-style-type: none"> <li>Infrastructure optimisation and processes review</li> </ul>	80 - 100
	<b>Implement consistent Business Models</b>	<ul style="list-style-type: none"> <li>Consolidating branch network</li> </ul>	20 - 40

## Savings to fund

- Hiring of RMs to boost sales in Brazil and Mexico, move back office staff to front
- Branch network expansion in Argentina and consolidation in Mexico
- Expenses increase from inflationary pressures (union-agreements)

*Key take-aways*

## Latin America



### Competitive Advantages

Significant player in relevant markets

Strongly connected business internationally and regionally

Business platform integrated across business lines

Scalable operational platform to support efficiency and growth

### Strategic Actions

Focus of organic growth in relevant markets

Rationalise businesses portfolio

Cost reduction initiatives to improve cost efficiency

Service clients with international needs

**Target RoRWA**

**2.6%-3.3%**



# Basis of preparation (1/2)



<b>Actuals</b>	Actual numbers presented are on a reported basis and include the effect of movements in the fair value of HSBC's own debt related to credit spreads
<b>AMG</b>	The Global Asset Management business formed part of GBM in 2010, but has been included in RBWM for the RoRWA targets. Comparative data will be presented to reflect this reclassification in the Interim Report 2011
<b>Asia</b>	Data for 'Asia' comprises the sum of reported figures for the Hong Kong and Rest of Asia-Pacific geographical regions without the elimination of inter-segment items
<b>Composition of the Group</b>	No changes to the composition of the Group have been assumed other than those described in this presentation
<b>Financial targets</b>	Financial targets are prepared on the basis of the Group's accounting policies as set out in the Annual Report and Accounts 2010, and on the basis of tax rates and laws enacted or substantively enacted as at 31 December 2010. The potential effects on HSBC's operations and performance of the Dodd-Frank Act in the US, the deliberations of the UK Independent Commission on Banking, and a range of evolving regulatory changes which may or may not affect HSBC have not been included in the targets
<b>Other</b>	The main items reported under 'Other' are certain property activities, the estimated impact of the UK bank levy, unallocated investment activities, centrally held investment companies, gains arising from the dilution of interests in associates, movements in the fair value of own debt designated at fair value (the remainder of the Group's gain on own debt is included in GBM) and HSBC's holding company and financing operations. The results also include net interest earned on free capital held centrally, operating costs incurred by the head office operations in providing stewardship and central management services to HSBC, and costs incurred by the Group Service Centres and Shared Service Organisations and associated recoveries

## Basis of preparation (2/2)

<b>RoE</b>	Return on equity ('RoE') is profit attributable to ordinary shareholders of the parent company divided by average ordinary shareholders' equity
<b>RoRWA</b>	The metric, return on risk weighted assets ('RoRWA'), is the profit before tax divided by average RWAs. The RWAs have been calculated using FSA rules for the 2010 metrics. The regional and customer group targets are adjusted for Basel 3 rules specific to the GBM business. In all cases, RWAs or financial metrics based on RWAs for geographical segments or customer groups are on a third party basis and exclude intra-HSBC exposures
<b>RoRWA target for Europe</b>	The Europe RoRWA target includes the Group's head office costs, intra-HSBC recharges and the total estimated impact of the UK bank levy
<b>RoRWA target for 'Other'</b>	No RoRWA target has been set for the 'Other' customer group as it is not considered to be a meaningful measure in terms of performance assessment and resource allocation
<b>RWAs for the mainland China associates</b>	RWAs for the mainland China associates have been reallocated from the 'Other' customer group to RBWM, CMB and GBM to align better with the basis for the allocation of their profits. This represents a reclassification from the basis used in HSBC's 2010 Pillar 3 Disclosures. Comparative customer group RWAs will be presented on the new basis in the Interim Report 2011

# Acronyms and definitions



<b>A/D ratio</b>	Ratio of customer advances to customer deposits	<b>ETF</b>	Exchange traded funds	<b>NYSE</b>	New York Stock Exchange
<b>Advance</b>	HSBC Advance, a global banking proposition for the mass-affluent segment of customers	<b>EU</b>	European Union	<b>OCC</b>	Office of the Comptroller of Currency
<b>AFS</b>	Available for sale	<b>FCA</b>	UK Financial Conduct Authority	<b>OTC</b>	Over the counter
<b>AMG</b>	Global Asset Management	<b>FDI</b>	Foreign direct investment	<b>PBT</b>	Profit before tax
<b>APS</b>	Asset Protection Scheme	<b>FIG</b>	Financial Institutions Group	<b>PCM</b>	Payment and Cash Management, a division of Global Banking and Markets
<b>ASEAN</b>	The Association of South East Asian Nations	<b>FPC</b>	UK Financial Policy Committee	<b>PFS</b>	Personal Financial Services
<b>ASP</b>	Asia-Pacific	<b>FRB</b>	Federal Reserve Board	<b>PPI</b>	Payment protection insurance
<b>AUM</b>	Assets under management	<b>FSA</b>	Financial Services Authority	<b>PRA</b>	UK Prudential Regulation Authority
<b>BoCom</b>	Bank of Communications Co., Limited, mainland China's fourth largest bank by market capitalisation	<b>FSB</b>	Financial Stability Board	<b>Premier</b>	HSBC's premium global banking service
<b>bps</b>	Basis points (a basis point is 1/100 of a percentage point)	<b>FVOD</b>	Fair value of own debt related to credit spreads	<b>RBWM</b>	Retail Banking and Wealth Management global business, which comprises the existing Personal Financial Services customer group and Global Asset Management
<b>BSM</b>	Balance Sheet Management, a division of Global Banking and Markets	<b>FX</b>	Foreign exchange		
<b>CAGR</b>	Compound annual growth rate	<b>GBM</b>	Global Banking and Markets global business	<b>RMs</b>	Relationship managers
<b>CER</b>	The cost efficiency ratio is total operating expenses divided by net operating income before loan impairment charges and other credit risk provisions	<b>GDP</b>	Gross Domestic Product	<b>RMB</b>	Renminbi
<b>CHF</b>	Swiss franc	<b>GPB</b>	Global Private Banking global business	<b>ROE</b>	Return on equity
<b>CMB</b>	Commercial Banking customer group	<b>GTB</b>	Global Transaction Banking	<b>RoRWA</b>	Pre-tax return on risk weighted assets
<b>CML</b>	Consumer and Mortgage Lending	<b>HK</b>	Hong Kong Special Administrative Region of the People's Republic of China	<b>RWAs</b>	Risk weighted assets
<b>CoEs</b>	Centres of excellence	<b>HNWI</b>	High net worth individuals	<b>SIFIs</b>	Systemically Important Financial Institutions
<b>Core Tier 1 capital</b>	The highest quality form of regulatory capital that comprises total shareholders' equity and related non-controlling interests, less goodwill and intangible assets and certain other regulatory adjustments	<b>HSS</b>	HSBC Securities Services	<b>SMEs</b>	Small and medium-sized enterprises
	Capital Requirements Directive	<b>ICB</b>	Independent Commission on Banking	<b>STP</b>	Straight through processing
<b>CRD</b>	Capital Requirements Directive	<b>IPO</b>	Initial public offering	<b>TARP</b>	Troubled Asset Relief Program
<b>CRM</b>	Customer relationship management	<b>IT</b>	Information technology	<b>Tier 2 capital</b>	A component of regulatory capital, comprising qualifying subordinated loan capital, related non-controlling interests, allowable collective impairment allowances and unrealised gains arising on the fair valuation of equity instruments held as available-for-sale. Tier 2 capital also includes reserves arising from the revaluation of properties
<b>CVA</b>	Credit valuation adjustment	<b>KYC</b>	Know your customer		
<b>DCM</b>	Debt capital markets	<b>LC</b>	Letters of credit	<b>UHNW</b>	Ultra high net worth individuals
<b>DTA</b>	Deferred tax asset	<b>LIC</b>	Loan impairment charges	<b>UK</b>	United Kingdom
<b>EBA</b>	European Banking Authority	<b>M&amp;A</b>	Mergers and acquisitions	<b>US</b>	United States of America
<b>ECA</b>	Export credit agency	<b>Mainland China</b>	People's Republic of China excluding Hong Kong	<b>VaR</b>	Value at risk: a measure of the loss that could occur on risk positions as a result of adverse movements in market risk factors (e.g. rates, prices, volatilities) over a specified time horizon and to a given level of confidence
<b>EM</b>	Emerging markets	<b>MENA</b>	Middle East and North Africa		
<b>EMEA</b>	Europe, Middle East and Africa	<b>MLA</b>	Mandated lead arranger	<b>YoY</b>	Year on year
<b>ESMA</b>	European Securities and Markets Authority	<b>MMEs</b>	Mid-market enterprises		
		<b>NAFTA</b>	North American Free Trade Agreement		
		<b>NNM</b>	Net new money		