

GLOBAL BANKING AND MARKETS

Panel Discussion

Perú - International Gold Symposium May 18, 2010

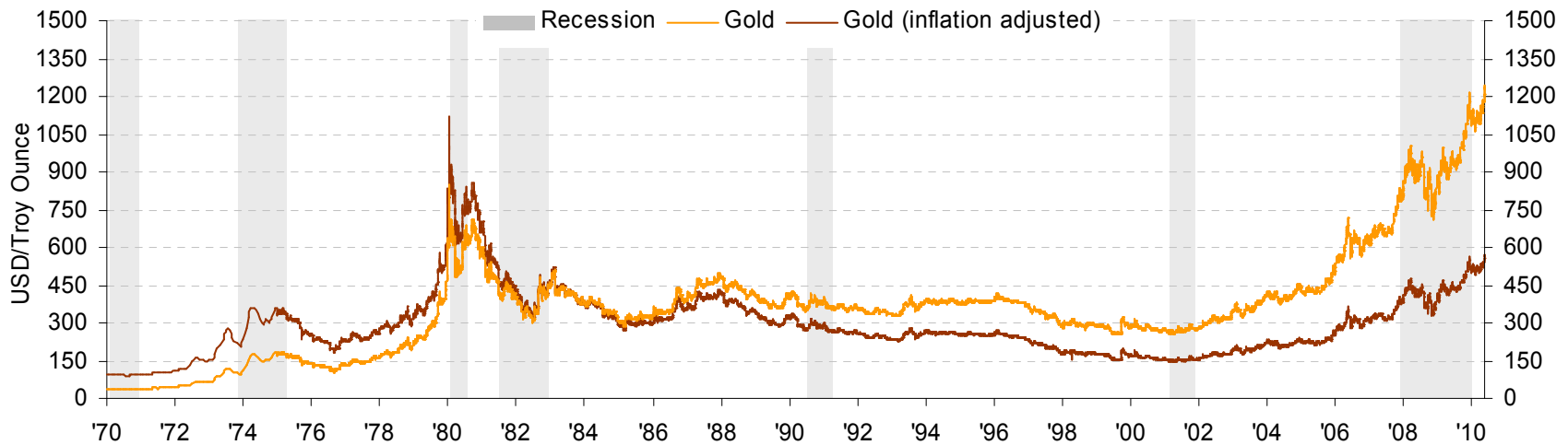


Introduction

- HSBC is delighted to participate in the Peru International Gold Symposium
- This presentation has been put together to complement the discussion: it won't cover everything in 15 minutes!
- The purpose of today's session is to:
 - Provide a summary of financing considerations for precious metals businesses
 - Have a Q&A discussion among the participants
- HSBC is one of the largest and best capitalized banks in the world, with expertise in precious metals, mining and project financing
- We are committed to Peru and Latin America
- We seek to continue to build our presence in Peru and look forward to developing close, long term relationships

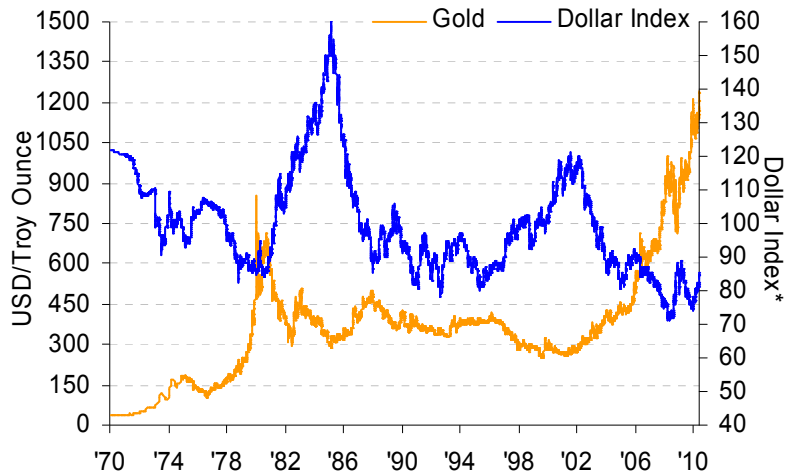
Gold Historical Performance

Performance of Gold Through Past Recessions*



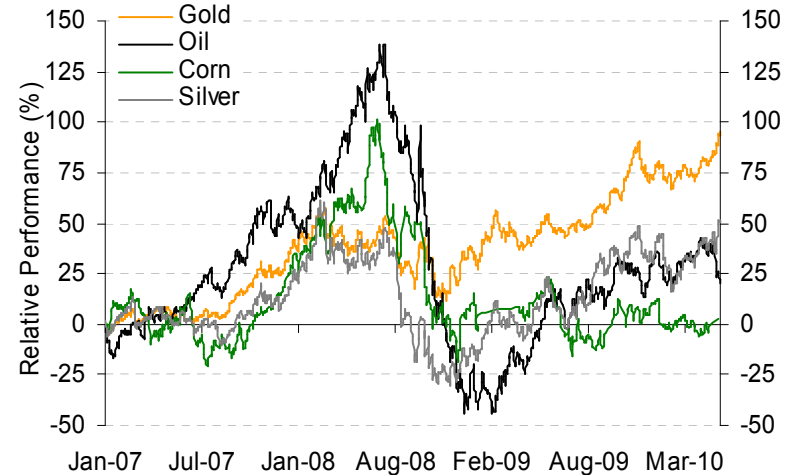
*Assumes last recession ended in Nov 2009

Gold vs. U.S. Dollar Index*



*U.S. Dollar Index indicates the general int'l value of the USD

Commodity Relative Performance



Source: HSBC, Bloomberg

Commodity Price Volatility: Opportunity & Risks

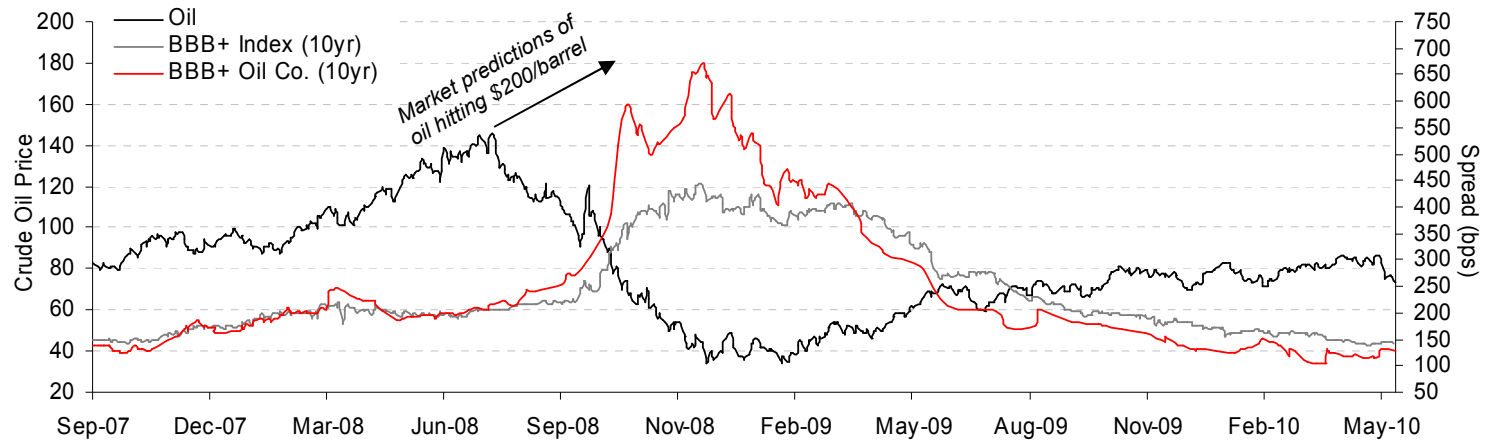
The credit and financial crisis of the past few years has had a direct impact on commodity price volatility

Credit spreads have proven to be highly correlated to the varying strength/weakness in the respective commodities of related credits

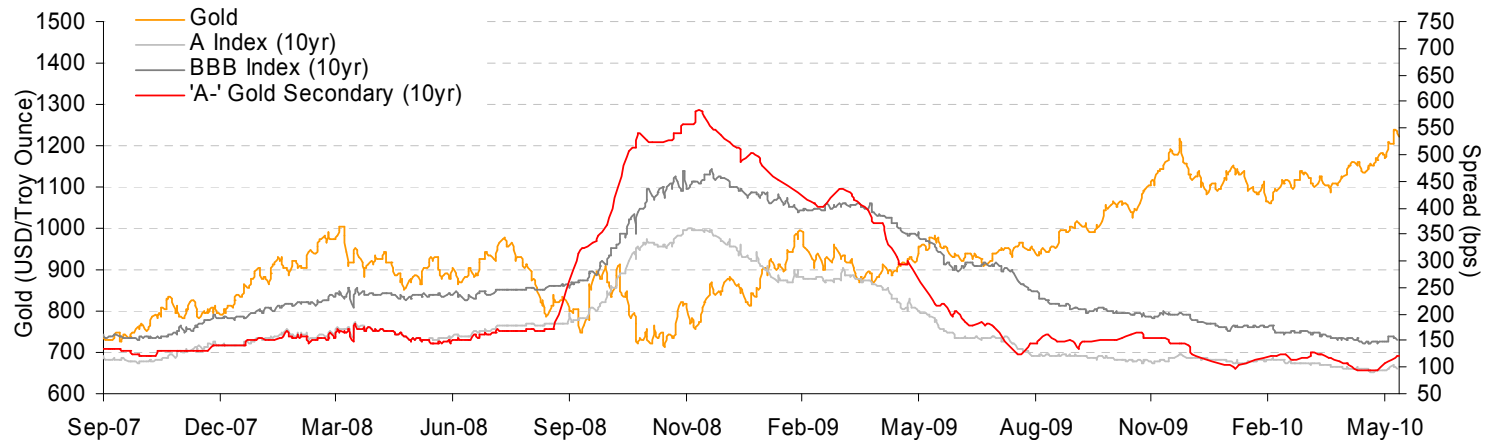
This was evidenced most recently in the energy sector where a sharp sell off in oil drove energy corporate spreads wider relative to their peers

With an uncertain economic outlook, the potential for future commodity price volatility remains an important consideration

Oil vs. 10yr Bond Credit Spreads



Gold vs. 10yr Bond Credit Spreads



Source: HSBC, Bloomberg

Access To Financing for Precious Metals – Initial Thoughts

Project Sponsors can explore multiple sources of financing that are potentially available today:

Hedging (gold or by-products)

Corporate Level Financing

Project Financing

International and Local Bank Markets

International and Local Bond Market

Equity Capital Markets

Multilateral Development Banks

Export Credit Agencies

Royalties or similar arrangements

- Spectrum of Appetite for Risk – multiple factors
- Not an exact science, varies by bank / investor, but from a financing perspective, the following are generally important:

Key Risk	Mitigation
Sponsor Risk	<ul style="list-style-type: none"> • Lenders seek a long term sponsor commitment through equity investment, other financial support, and supply of experienced personnel to the management team • Track record in the sector and country of the operation are important
Construction Risk	<ul style="list-style-type: none"> • Associated with projects under development or significant expansion programs • Support in the form of sponsor completion guarantee or LC • Conventional, proven technology should be used wherever possible • Warranties, letters of credit, performance bonds, and retainage
Reserve Risk	<ul style="list-style-type: none"> • Independent review of drill assays, resource estimates, and reserve calculation • 2P reserves should support a mine life at least equal to the financing period • Contingency headroom for unexpected deviations in ultimate ore grade
Price Risk	<ul style="list-style-type: none"> • Hedging expected production and / or by-product • Base case financial assumptions must use conservative prices, such as a long term historical average and “back-casting” prices across the commodity cycle • Financial Projections should be robust through a downside sensitivity analysis • Off-take agreements • Financial covenants requiring minimum DSCR, reserve tail, LLCR, and project life • Revenues should be paid into an offshore account controlled by lenders

Precious Metals Financing Considerations (cont'd)

Key Risk	Mitigation
Collateral / documentation risk	<ul style="list-style-type: none"> • ISDA Master Agreement to govern hedge arrangements, particularly for 1 year + • Collateral packages will vary from unsecured to multi-faceted, depending on the other risk factors, but can include pledges of shares, permits and licenses, real property, buildings and equipment, bank accounts, off-take agreements, and more
Operating Risk	<ul style="list-style-type: none"> • Where is the asset positioned / expected to position along the industry cost curve? • Experienced operator with a good track record or a robust management agreement • Operating incentives should align the operator's interest with the sponsors' • The mine plan, process, engineering and management experience reviewed by an independent engineer • Strip ratios, recoveries, OpEx reviewed by a capable technical advisor • Sensitivity of the project to fuel costs and review of power purchase arrangements and the local electricity system's power generation and transmission facilities • An acceptable insurance package including business interruption insurance
Environmental Risk	<ul style="list-style-type: none"> • The Project will need to meet domestic and IFC/World Bank social and environmental standards • Key permits and expected permit approval • The government, community, lenders and NGOs will provide independent external oversight of the Project
Political Risk	<ul style="list-style-type: none"> • Peru is an investment grade country and has shown strong historic GDP growth • Although worldwide inventory reductions has led to a sharp fall, the worst appears to be over, with gains expected during 2010 • According to S&P, its GDP has grown higher than its peer group median in real terms over the past five years and will continue to do so • Peru's sound public finances (Peru is a net public creditor) and comfortable reserve cushion will support continued stimulus measures, despite moderate deterioration

Environmental Responsibility / Sustainable Development

- Situations financiers will tend to avoid:
 - Operations impacting UNESCO World Heritage Sites
 - Uranium for weapons, uncertified rough diamonds
 - Artisanal mining; credible allegations of human rights violations
 - Operations in tropical rainforests and other high conservation areas
 - Tailings disposal into river or shallow sea water, tailings storage that threatens human life or groundwater
 - No credible closure / remediation plan
- Expected Standards
 - International Cyanide Management Code
 - IFC / World Bank Standards and Health and Safety Guidelines
- Best practices
 - Extractive Industries Transparency Initiative
 - UN Global Compact
 - Voluntary Principles on Security and Human Rights
 - International Council on Mining & Metals, Dow Jones Sustainability Index

Conclusions for achieving a successful project financing in mining

- Premier industry sponsors with deep experience (technical skills and local knowledge)
- Well capitalized sponsors with “equity at stake” in the project
 - Amount of leverage will depend on both asset quality and market conditions
- High quality asset with proven and probable reserves and measured and indicated resources that are clearly identified
- Competitive cost structure (through the cycle)
 - Project should demonstrate capacity to mine the resources economically
- Reputation for compliance with applicable local regulations, laws, and Equator Principles
 - Project impacts should be identified, monitored and acceptable / mitigated appropriately
 - Environmental / social best practices may increase stakeholder engagement and financing appeal
- Completion guarantee to mitigate construction risk
- Strong credit metrics and satisfactory downside scenarios
 - Adequate coverage including Life of Mine, Life of Debt, Debt Service Coverage Ratios,
- Complete security package (assets, shares of the borrower, contracts/permits, accounts)
- Low country risk, attractive regulatory environment

Multiple sources of financing are available

- HSBC has very good working relationship at various levels with all the capital providers that could be considered

	ECA	Multilateral development banks	Commercial banks
Comments	<ul style="list-style-type: none"> • Risk level: same as Brazil, Colombia and Panama • Based on an European ECA providing 95% coverage, for a transaction with an average life of 5 years, an average facility may be priced at 230bps – 250bps over LIBOR • Diversification in funding sources • Insulation from market volatility 	<ul style="list-style-type: none"> • Highly solicited during the crisis • Strong appetite for Peruvian deals in the energy and infrastructure sector that provide important socio-economic benefits • Can also provide quasi-equity (C loans) and equity • IDB has good appetite based on its pipeline and forthcoming capitalization • Tenor can be 2-4 years longer than the B lenders • Pricing off the B loan • CAF, IFC and IADB have a framework for working together 	<ul style="list-style-type: none"> • Lending appetite from international bank is increasing but banks can also chose from multiple projects in Peru and in the region • Strong liquidity from some regional and local banks • Ancillary business and client relationship angle are key considerations • Club deals still favored • Local banks generally have low up front fees but much higher margins than international banks
Advantages	<ul style="list-style-type: none"> ▲ Attractive pricing ▲ Long tenors ▲ Significant appetite 	<ul style="list-style-type: none"> ▲ Lending appetite ▲ Longer tenor than commercial banks ▲ A/B structure with A lender as lender of record. No inter-creditor agreement ▲ Withholding tax benefits 	<ul style="list-style-type: none"> ▲ One stop shopping (advisory, lending, hedging solutions...) ▲ Margins coming in
Drawbacks	<ul style="list-style-type: none"> ▼ Long process 	<ul style="list-style-type: none"> ▼ Long process ▼ Stringent environmental requirements 	<ul style="list-style-type: none"> ▼ Intense due diligence process ▼ Withholding taxes (4.99%) for banks funding out of Peru

Multiple sources of financing are available (cont'd)

- The capital markets should also be considered, and demand in the local Peruvian market is strong

	Peruvian capital market	International capital market
Comments	<ul style="list-style-type: none"> • Main actors in the local capital markets are the pension funds ('AFPs'), the insurance companies and the mutual funds • Bond investors are keen to diversify away from government bond issues • Can invest in Soles and USD, fixed or floating and achieving long maturities • Suited for take out solutions 	<ul style="list-style-type: none"> • Private or public bonds are available • Suited for take out solutions
Advantages	<ul style="list-style-type: none"> ▲ Favorable market conditions ▲ Attractive pricing ▲ Long tenors ▲ Equity IRR enhancement ▲ Kallpa is already an issuer 	<ul style="list-style-type: none"> ▲ Long tenors ▲ Equity IRR enhancement
Drawbacks	<ul style="list-style-type: none"> ▼ Market conditions can be volatile ▼ Local ratings requirement ▼ Generally adverse to construction risk unless it can be mitigated ▼ Large issues (> \$300m) may need to issued in several tranches 	<ul style="list-style-type: none"> ▼ Market conditions can be volatile ▼ Ratings requirement ▼ No project finance bonds from Peruvian issuers

HSBC – Commitment to Peru

- HSBC began operations in Peru in October 2006 as a greenfield investment.
- It is an important part of the Group Strategy in Latin America.
- It now has:
 - Over 900 employees
 - 23 branches
 - Net Worth: USD146m
 - Assets: USD892m
 - Deposits: USD742m
- Strong credit ratings
 - Moody's: A
 - Fitch: A –
- Expanding local presence
 - 18 branches in Lima
 - 2 branches in Arequipa
 - 1 branch in Piura, Chiclayo and Trujillo
- Full suite of retail, commercial and corporate banking services (presence in PFS, Business Banking, MME, LLC, GB and Corporate Finance).

HSBC – Commitment to Peru

- HSBC Global Banking and Trade
 - Working capital
 - Import/Export Finance
 - Draft discount
 - Performance Bonds and SBLCs
 - Leasing/leaseback
- Treasury services
 - FX Spot, Forwards and NDFs carried out onshore at HSBC Peru
 - Swaps, Options and Structured Derivatives transacted through dedicated HSBC US team.
 - Cashier's cheques, voucher cheques
 - Payments and collections
 - Payroll services
 - HSBC*net*
- Retail products
 - Current accounts
 - Savings accounts
 - Time Deposits

HSBC Precious Metals Offering

HSBC has a continuous
150 year history in
Precious Metals

Memberships:

Gold Fixing

Silver Fixing

Platinum & Palladium Fixings

The London Bullion Market
Association

The London Platinum &
Palladium Market Association
(Chair)

CME (COMEX) Division Member

LME Category 2 Member

DGCX (Dubai) Member

SGE (Shanghai) –
First Foreign Bank Member

- Business dates to the founding of Samuel Montagu in 1853.
- Founding member of Silver Fixing in 1897 and Gold Fixing in 1919.
 - Only OTC Market Maker that is member of all four Fixings.
- HSBC considered the market leader in precious metals globally.
 - Consistently Ranked Top Metals Dealer.
- HSBC Bank USA N.A. is the main Metals dealing arm of the Group.
- Experts in every aspect of the business
 - Trading
 - ETF's
 - Banking
 - Clearing
 - Physical
 - Custody
 - Options
 - Research
- 24-hour global coverage across all products.



Broad Product and Service Offering

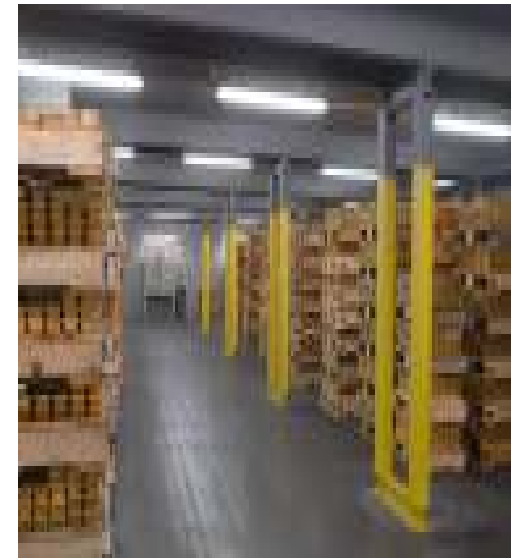
HSBC supports global
wholesale market and the
local markets

Largest Metals Custodian
in the World

Largest Bullion Clearer
in the World

Largest Commercial
Vault in the World

- Guaranteed Pricing
- Multiple Avenues for Hedging
 - Deep Customer and Internal Order Book
 - Dealer to Dealer OTC Market
 - Futures Market
 - Options Liquidity
- Market Intelligence
 - Supply / Demand Info. and Analysis
 - Consumer Demand
 - Dedicated Metals Analyst
 - Product Sales
 - Physical Demand
 - Private Banking
 - Official Sales
 - Options Trends
- Confidentiality

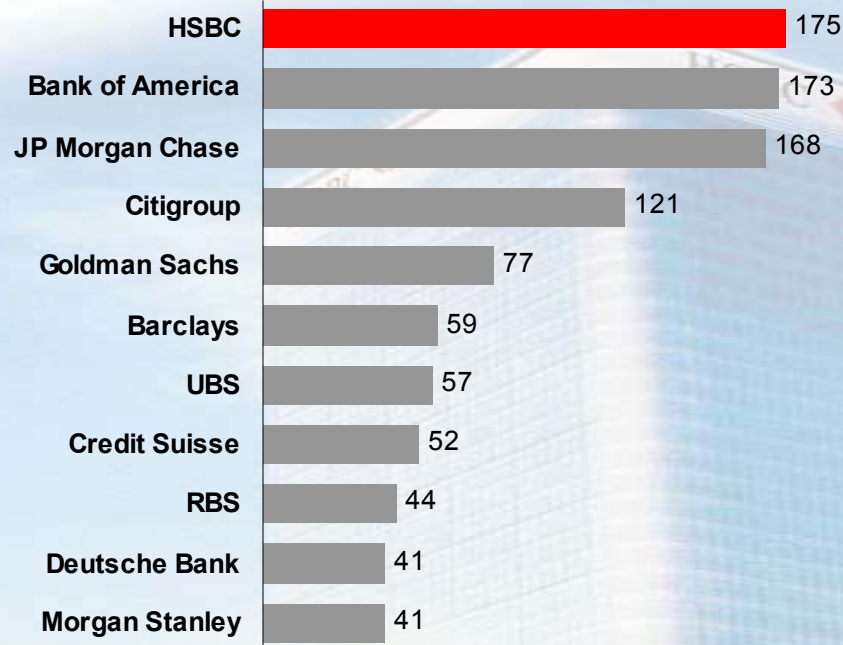


HSBC is a Leading Global Financial Services Institution

Market Capitalization (US\$ Billions) *

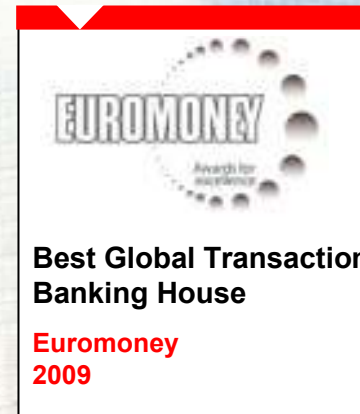
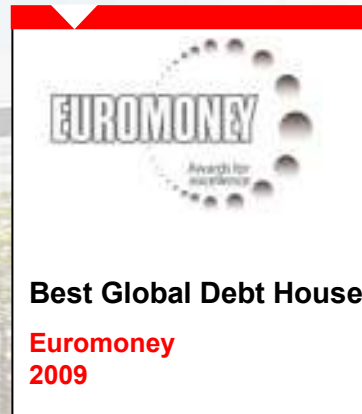
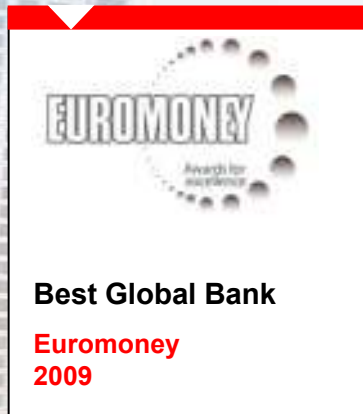
- As one of the largest global banks in the world, HSBC provides clients with:

- Stability
- Broad geographic and product diversity
- Significant capital
- The ability to continue to invest in the systems, technologies, and human capital necessary to provide clients with best-in-class products and services



Our Key Achievements















- **Global Bank of the Year**
Euromoney 2009
- **Global Bank of the Year**
The Banker 2005, 2004, 2003, 2002, 2001
- **Best Global Debt House**
Euromoney 2009
- **Best Debt House – Asia, Middle East, LatAm, Mexico, Hong Kong, Turkey**
Euromoney 2009
- **Best Global Transaction Banking House**
Euromoney 2009
- **Best Emerging Markets Bank – Global**
Euromoney 2008
- **Best Cash Management House in Asia**
Euromoney 2008
- **Best Bank for FX for Corporates**
FX Week 2008, 2007, 2006
- **Best Bank for Emerging EMEA Currencies**
FX Week 2008, 2007, 2006, 2005
- **Best FX Bank – Asia Pacific**
FX Week 2008, 2007, 2005
- **Most innovative in Interest Rate Derivatives**
The Banker 2007







* Market capitalization as of 10May10

Global Mining Sector – Advisory, Lending, Bonds and Equity

Mining

 <p>US\$488m</p> <p>Financial Advisor to Randgold Resources on successful acquisition of Moto Goldmines</p> <p>UK / Canada / DRC Advisor</p>	 <p>US\$250 million</p> <p>9.000% Senior Secured Notes due 2014</p> <p>US Joint Bookrunner</p>	 <p>US\$267m</p> <p>Financial Advisor to Polyus Gold on its Partial Offer for 50.1% of KazakhGold</p> <p>Russia / Kazakhstan / UK Advisor</p>	 <p>US\$247m</p> <p>Follow-on equity offering supports the acquisition of a 75% gold production interest at Teck's Andacollo mine</p> <p>US / Canada Sole Global Coordinator and Joint Bookrunner</p>	 <p>US\$925m</p> <p>Sole Financial Advisor to Usiminas on its acquisition of the J. Mendes iron ore mining companies</p> <p>Brazil Advisor</p>	 <p>US\$40m</p> <p>Financial Advisor to Kinross on its sale of Julietta gold mine in Russia</p> <p>Russia / Canada Advisor</p>	 <p>EUR 750m</p> <p>First Ever Brazilian Corporate Euro-denominated bond issue</p> <p>Brazil / EU Joint Bookrunner</p>
 <p>US\$185m</p> <p>Financial advisor and Rule 3 advisor to Monterrico Metals on the offer from Zijin Mining-led consortium</p> <p>UK / Peru / China Advisor</p>	 <p>US\$700m</p> <p>Financial Advisor to Royal Gold on its acquisition of IRC, Sole Lead Arranger on related financing</p> <p>US / Canada Advisor & Lead Arranger</p>	 <p>US\$12.2bn</p> <p>Follow-on Equity Offering</p> <p>Brazil / US Joint Bookrunner</p>	 <p>EUR 750m</p> <p>7 year fixed rate bond issue</p> <p>UK / EU Joint Lead Manager and Bookrunner</p>	 <p>US\$315m</p> <p>Accelerated bookbuild with backstop (Rights issue sell down of a 5.3% stake in Gold Fields)</p> <p>US / South Africa Advisor and Bookrunner</p>	 <p>US\$100m</p> <p>Sole Financial Advisor to Yanzhou Coal on the acquisition of 98% equity interest in Shanxi Nenghua</p> <p>China Advisor</p>	 <p>US\$235m</p> <p>Financial Advisor to Polymetal on its acquisition of Varvarinskoye gold-copper mine</p> <p>Russia / Kazakhstan Advisor</p>

Recent Peru lending and advisory experience

Project	Amounts	HSBC role
<p>Abengoa Transmission Norte</p> <p> 650 km greenfield transmission line to be constructed in Central and Northern Peru</p>	<p>Project: Undisclosed</p> <p>Debt: \$79m</p>	<p>Mandated Lead Arranger</p>
<p>Zapallal-Trujillo and Chilca-Caraveli transmission line (on-going)</p> <p> Transmission line to be constructed in Northern Peru</p>	<p>Project: >\$400m</p>	<p>Financial Advisor</p> <ul style="list-style-type: none"> • Debt and equity advisor • Mandated Lead Arranger (if Abengoa wins)
<p>DP World Callao</p> <p> Development of a container port in the southern zone of the Callao port, Peru</p>	<p>Project: undisclosed</p> <p>Debt: \$300m</p>	<p>Sole Financial Advisor and Mandated Lead Arranger</p> <ul style="list-style-type: none"> • Structured debt facility • Prepared financial model and information memorandum to facilitate selection of lenders • Ran the process to promote competition and optimize terms • Syndication performed during Q3 08 when market conditions were most difficult • Successful and oversubscribed financing
<p>DP World private initiative for Muelle Norte</p> <p> Redevelopment of the container port in the northern zone of the Callao port, Peru</p>	<p>Project: \$1,300m</p>	<p>Financial Advisor</p> <ul style="list-style-type: none"> • Follow on deal to DPW Callao financing • Ongoing advisory • Advising DP World in its \$1.3 billion private initiative to redevelop the container port in the northern zone of the Callao port
















Project Finance Awards – 2009

HSBC's recognition in 2009
across sectors and regions



Deals of the Year



 <p><i>"Most innovative in Infrastructure & Project Finance" at The Banker's Investment Banking Awards</i></p>	 <p>Odebrecht drill ships, Brazil <i>"Americas Deal of the Year" by PFI and "Latam Oil and Gas Deal of the Year" by PFM</i> Mandated Lead Arranger and Swap Provider</p>	 <p>Senoko, Singapore <i>"Asia Pacific Power Deal of the Year" by PFI</i> Financial Advisor</p>
 <p>Victoria Desalination, Australia <i>"Asia Pacific PPP Deal of the Year" by PFI and "Asia Pacific Water Deal of the Year" by PFM</i> Mandated Lead Arranger and Swap Provider</p>	 <p>Cairn Energy, India <i>"Asia Pacific Oil & Gas Deal of the Year" by PFI and "Indian Upstream Deal of the Year" by PFM</i> Mandated Lead Arranger</p>	 <p>M25, UK <i>"Europe PPP Deal of the Year" by PFI and PFM</i> Financial Advisor, Mandated Lead Arranger and Swap Provider</p>
 <p>Boreas, UK <i>"Europe Portfolio Deal of the Year" by PFI</i> Financial Advisor and Mandated Lead Arranger</p>	 <p>Acciona, Spain <i>"Europe Renewables Deal of the Year" by PFI</i> Mandated Lead Arranger, Swap Provider, Bookrunner and Coordination Bank</p>	 <p>Shuweihat S2, UAE <i>"MENA Gulf Power Deal of the Year" by PFI</i> Financial Advisor, Mandated Lead Arranger and Swap Provider</p>
 <p>Rabigh, Saudi Arabia <i>"MENA Middle Eastern Power Deal of the Year" by PFI and PFM</i> Mandated Lead Arranger</p>	 <p>PTP II, Panama <i>"Latam Refinancing of the Year" by PFM</i> Financial Advisor, Mandated Lead Arranger and Swap Provider</p>	 <p>Zorlu, Turkey <i>"European Onshore Wind Deal of the Year" by PFM</i> Financial Advisor, Mandated Lead Arranger and Swap Provider</p>
 <p>Dolphin Energy, UAE <i>"Middle East Oil & Gas Deal of the Year" by PFM</i> Mandated Lead Arranger</p>	 <p>Al Dur, Bahrain <i>"Middle East IWPP Deal of the Year" by PFM</i> Mandated Lead Arranger</p>	 <p><i>"Best Project Finance House in Asia" at the 2009 Euromoney Awards for Excellence</i></p>

Risk Magazine Energy & Commodity Rankings 2010

Clients vote HSBC their preferred Metals counterparty



Risk Magazine 2010



No.2 Gold - Spot
No.2 Gold - Forwards
No.2 Gold - Options



Risk Magazine 2010



No.1 Silver - Spot
No.1 Silver - Options
No.1 Silver - Forwards



Risk Magazine 2010



No.1 Platinum & Palladium
Spot
No.1 Platinum & Palladium
Options

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