

HSBC Brazil

## Interim results and strategy at a glance

**HSBC**   
The world's local bank

November 2010



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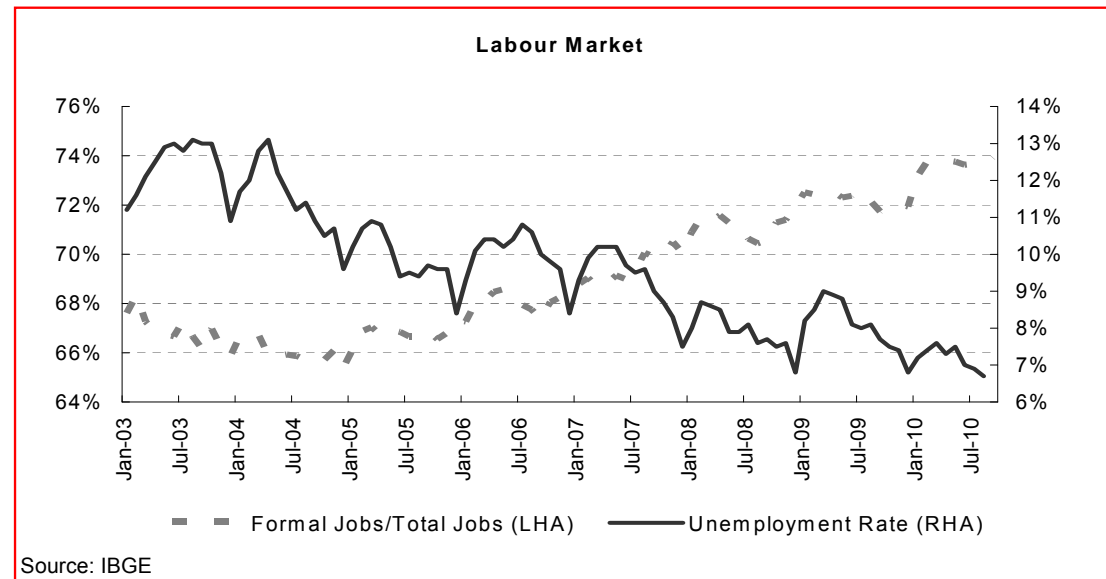
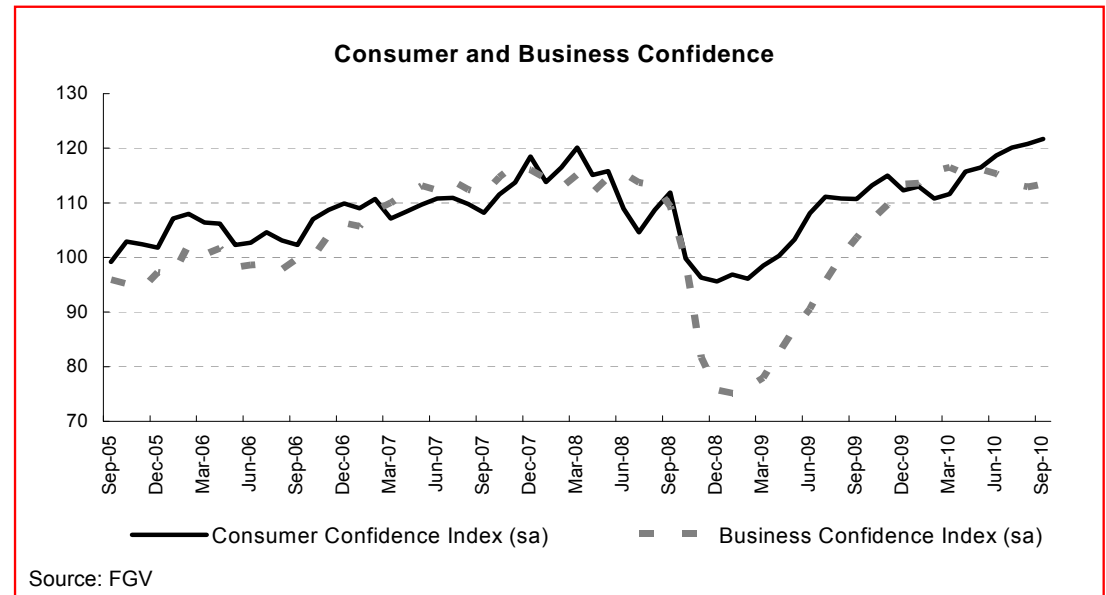
## Forward looking statement

This presentation and subsequent discussion may contain certain forward-looking statements with respect to the financial condition, results of operations and businesses of HSBC Brazil (HBBR). These forward-looking statements represent HBBR'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 Annual and Interim Report and Accounts.

# Economic environment

# Strong growth momentum

- ▶ Both consumer and business confidence at their peak
- ▶ Credit expanding at 1.5x nominal GDP, supported by low delinquency on the retail side
- ▶ Strong labour market, very supportive for consumption
  - ▶ Real wage growth at +2.3% y-o-y, in average, since 2006
  - ▶ Systematic reduction of unemployment rate and a growing number of formal jobs
- ▶ Growth stabilizing above potential GDP growth

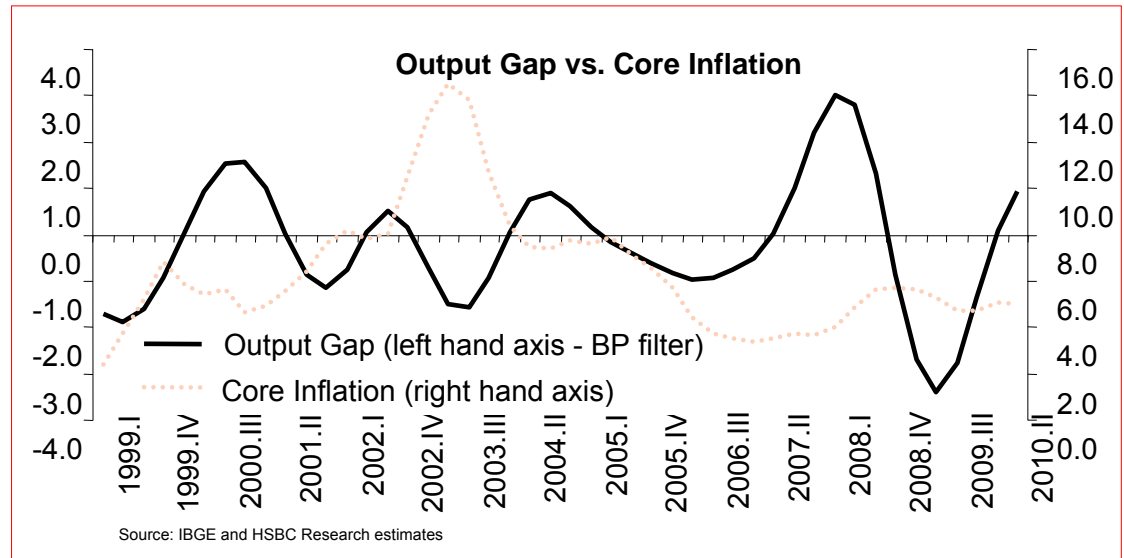


# Growth above capacity is pressuring inflation and the current account deficit

- ▶ **Current account deficit to reach 3.4% of GDP in 2011, and close to 4% in 2012**
- ▶ **Capital inflows may finance current account deficit, unless excessive capital controls increase the perception of risk too much**
- ▶ **Despite capital controls, currency will remain strong in 2011**
- ▶ **Strong domestic demand and positive output gap should drive inflation higher**
- ▶ **Brazilian Central Bank may tolerate longer convergence to target, but should not accommodate higher inflation in the long-term; we expect resumption of hikes in 2011**

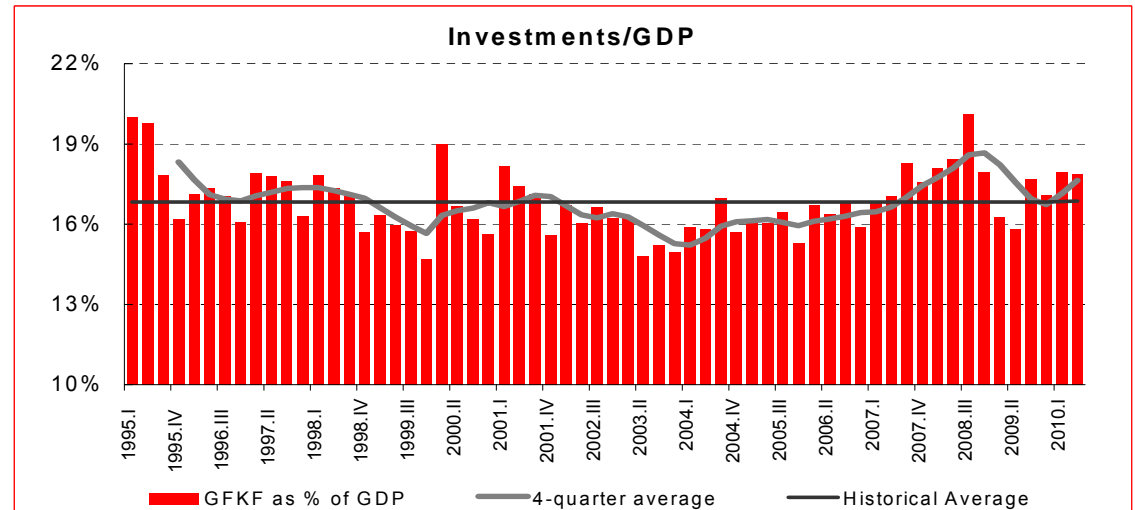
USDbn	2005	2006	2007	2008	2009	2010E	2011E
<b>Uses of Funds</b>	<b>-18.8</b>	<b>-30.5</b>	<b>-36.6</b>	<b>-50.6</b>	<b>-54.4</b>	<b>-81.1</b>	<b>-111.2</b>
<b>Current Account</b>	<b>14.0</b>	<b>13.6</b>	<b>1.6</b>	<b>-28.2</b>	<b>-24.3</b>	<b>-49.9</b>	<b>-81.0</b>
Trade Balance	44.7	46.5	40.0	24.8	25.3	15.7	-6.2
Services and Income	-34.3	-37.1	-42.5	-57.3	-52.9	-68.7	-77.8
Unrequited Transfers	3.6	4.3	4.0	4.2	3.3	3.0	3.0
<b>Amortization</b>	<b>-32.8</b>	<b>-44.1</b>	<b>-38.2</b>	<b>-22.4</b>	<b>-30.1</b>	<b>-31.2</b>	<b>-30.1</b>
<b>Sources of Funds</b>	<b>23.2</b>	<b>61.1</b>	<b>124.1</b>	<b>53.5</b>	<b>101.1</b>	<b>114.1</b>	<b>128.2</b>
Capital Account	0.7	0.9	0.8	1.1	1.1	1.1	1.2
FDI	15.1	18.8	34.6	45.1	25.9	28.0	45.0
Portfolio Investment	7.1	18.8	46.7	7.7	47.1	45.0	30.0
Debt Issuance	28.5	43.9	36.0	31.6	35.8	50.0	60.0
Brazilian Assets Abroad	-8.8	-36.1	-25.2	-23.5	-15.8	-40.0	-40.0
Loans to the Central Bank (IMF Financing)	-23.3	0.0	0.0	0.0	0.0	0.0	0.0
Short Term Capital	3.8	15.1	31.3	-8.4	6.9	30.0	32.0
<b>Balance</b>	<b>4.3</b>	<b>30.6</b>	<b>87.5</b>	<b>3.0</b>	<b>46.7</b>	<b>33.0</b>	<b>17.0</b>
Δ in International Reserves (-) = increase	-4.3	-30.6	-87.5	-3.0	-46.7	-33.0	-17.0

Source: BC and HSBC Research estimates

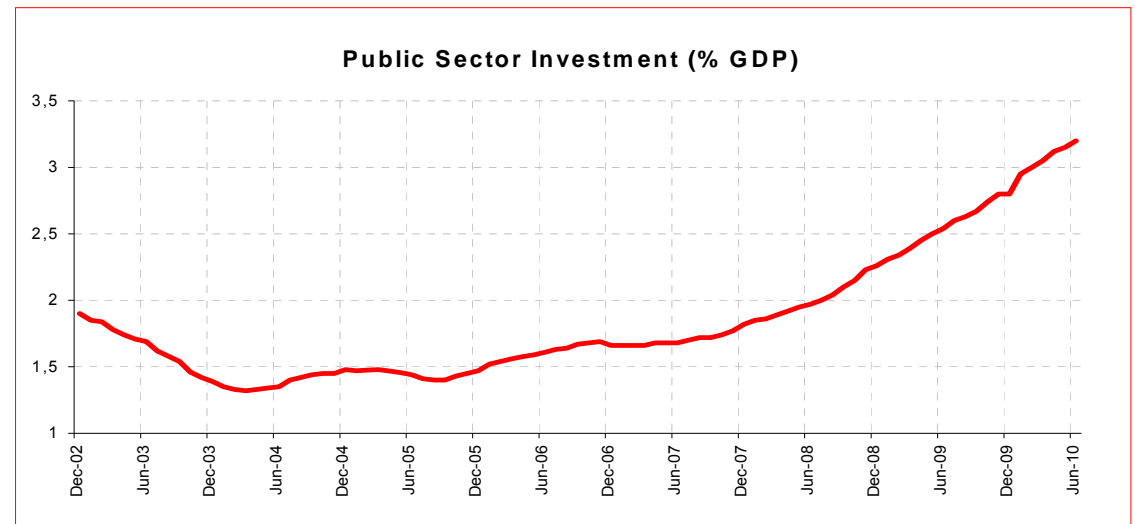


# Balancing fiscal objectives with infrastructure needs

- ▶ Revenue windfall in 2010 was directed to higher entitlement spending
- ▶ The new administration may tighten fiscal policy in 2011
- ▶ Infrastructure spending projected for the next few years (2.5% to 3.0% of GDP additional investment per year) may worsen fiscal accounts from 2012
- ▶ Relying more on the private sector to finance this effort is key to avoid a more serious fiscal problem



Source: IBGE



Source: SIAFI and MPOG

# Strategy

# HSBC Group – Presence in Latin America

## In the World

- ▶ PBT 1H10: USD 11.1 billion<sup>1</sup>
- ▶ 8k offices in 87 countries
- ▶ 302k employees
- ▶ 100 million clients
- ▶ One of the largest global banks in the World



## In Latin America

- ▶ PBT 1H10: USD 883m<sup>1</sup> (8% of Group's PBT)
- ▶ Presence in 15 countries
- ▶ More than 3,000 branches

## In Brazil

- ▶ PBT 1H10: USD 478m<sup>1</sup> (54% of Latin America's PBT)
- ▶ 6<sup>th</sup> largest bank (Total Assets)<sup>2</sup>
- ▶ More than 800 branches / 23k employees





## Brazil is an important contributor to Group earnings

▶ Brazil contributed 4% of HSBC Group PBT in 1H10

Rank	Country	PBT 1H10	% Total
1	Hong Kong	2,877	26
2	United Kingdom	2,089	19
3	China	1,281	12
4	France	734	7
5	Canada	502	5
<b>6</b>	<b>Brazil</b>	<b>478</b>	<b>4</b>
7	India	340	3
8	Singapore	264	2
9	Mexico	224	2
10	South Korea	213	2
11	Malaysia	201	2
12	Germany	177	2
13	Switzerland	161	1
14	Turkey	140	1
15	Australia	136	1
16	Argentina	133	1
17	United Arab Emirates	126	1
18	Saudi Arabia	107	1
19	Indonesia	102	1
20	Taiwan	86	1
	USA	-74	-1
	Other	807	7
<b>Total PBT USD m</b>		<b>11,104</b>	<b>100</b>

Figures in USD m under IFRS  
Source: HSBC Holdings plc Interim Report

# HSBC Group in Brazil – Brief History

## HSBC Brazil Historic Facts

**26 March 1997** HSBC Group establishes a new subsidiary in Brazil, Banco HSBC Bamerindus S.A. (today HSBC Bank Brasil S.A). The head office of the new subsidiary is in Curitiba-PR, in Southern Brazil

**December 1999** The Group acquires Republic New York Corporation (now part of HSBC Bank USA, N.A.) and its sister company Safra Republic Holdings (Luxembourg) S.A. HSBC Bank Brasil takes over Republic's operations in Brazil, mainly private banking and asset management

**July 2000** The Group acquires CCF (now HSBC France), one of France's largest banks. HSBC Bank Brasil takes over CCF's operations in Brazil, mainly treasury, private banking, asset management, and investment banking

**October 2003** The Group acquires Lloyds TSB's Brazilian assets, including Losango Promoções De Vendas Ltda., a major consumer credit institution

**Palacio Avenida ,Curitiba**

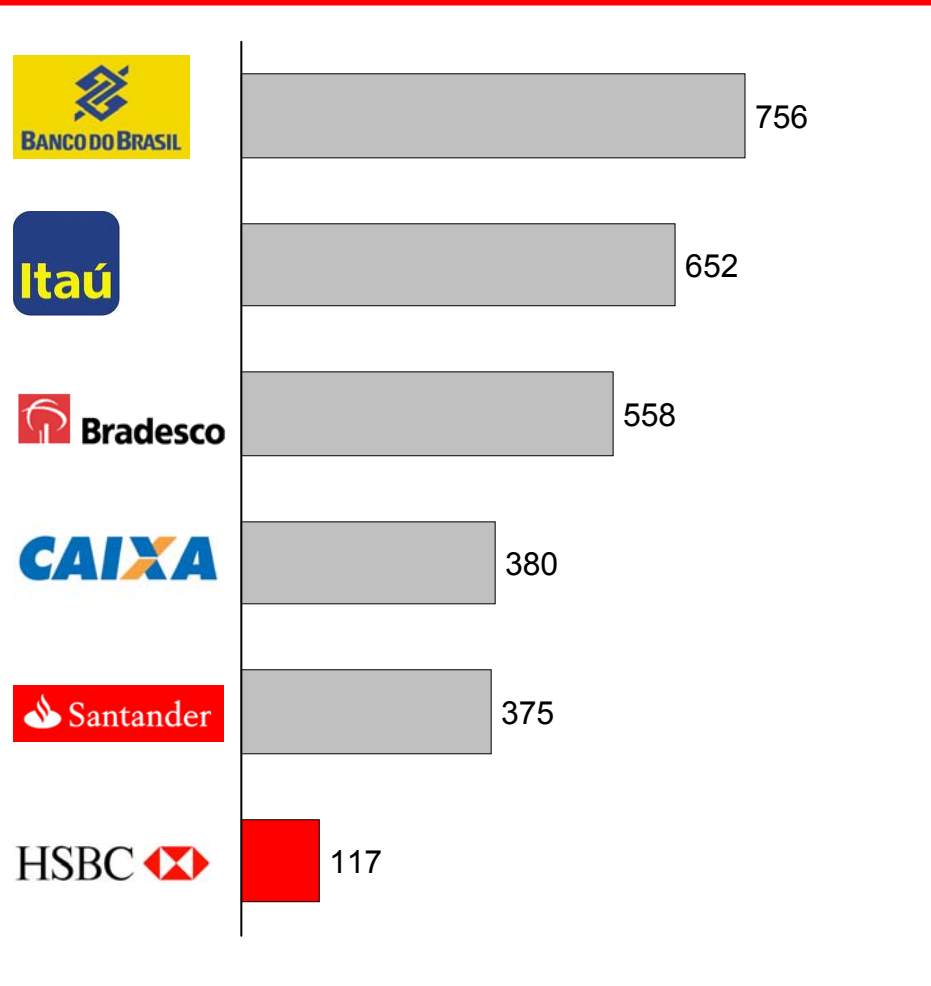


**HSBC Tower, São Paulo**

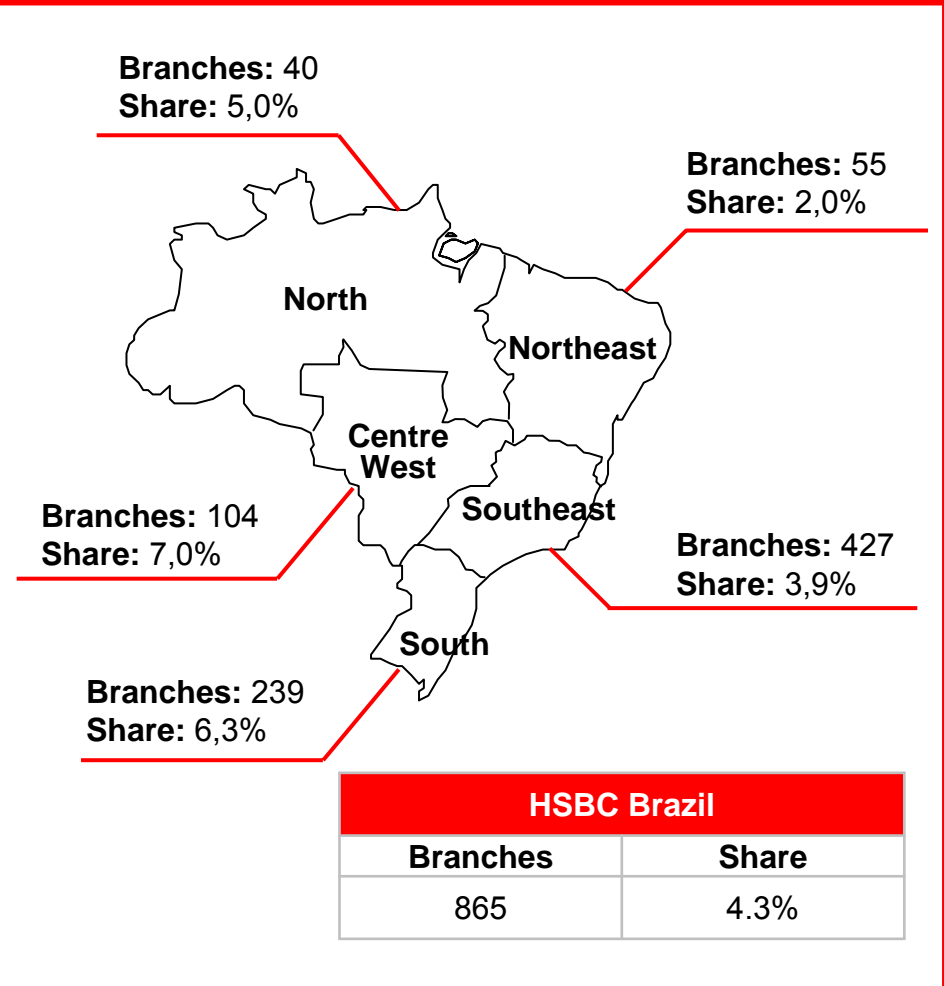


# HSBC Group in Brazil – Market Positioning

**Ranking of Banks in Brazil by Total Assets**  
June-2010, BRL bn

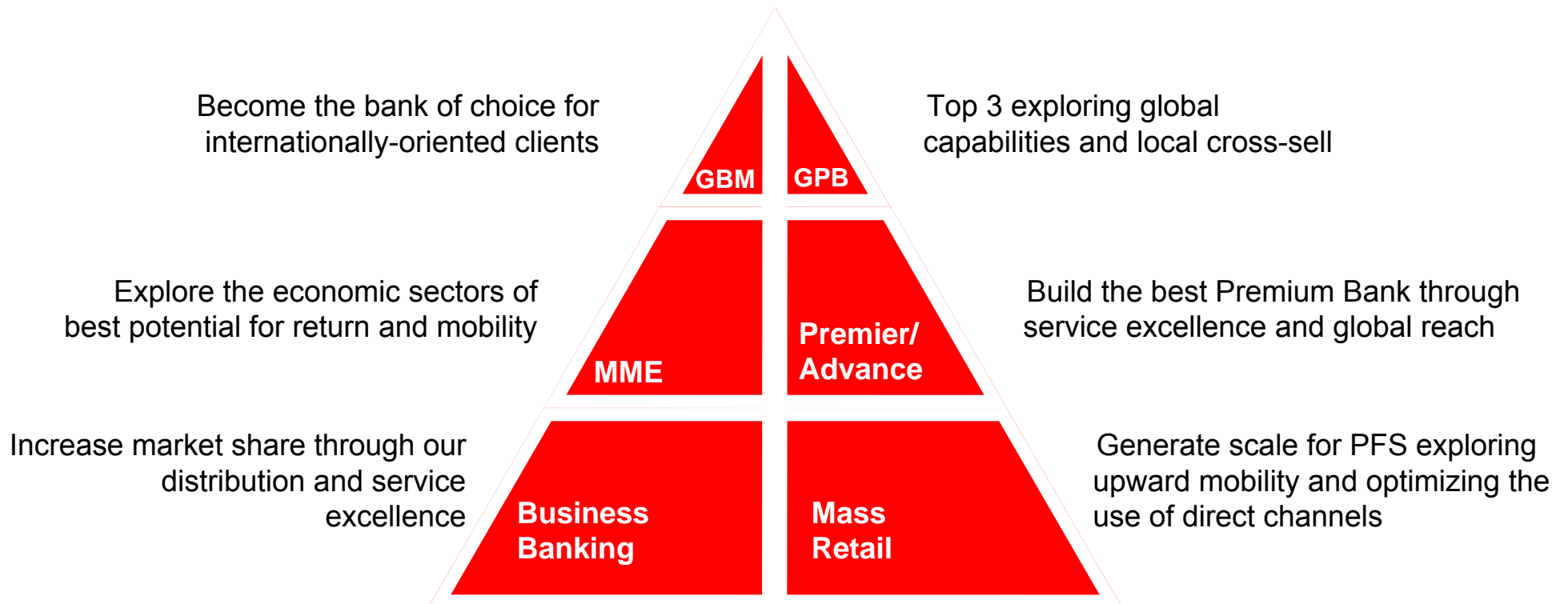


**Branches Distribution and Market Share**  
June-2010



Source: Brazilian Central Bank, Financial Statements

# HSBC Group in Brazil – Strategy by Segment



# Financials – Interim Results

## Summary of reported results – IFRS basis

<b>Profit before tax</b>	<b>Half-year to June 30 2010</b>	<b>Half-year to June 30 2009</b>	<b>Variation</b>
<b>USD m</b>			
Personal Financial Services	34	(165)	120.6%
Commercial Banking	160	107	49.5%
Global Banking and Markets	253	267	(5.2%)
Private Banking	2	2	-
Other	29	3	866.7%
<b>HSBC Brazil</b>	<b>478</b>	<b>214</b>	<b>123.4%</b>

*Source: HSBC Holdings plc Interim Report*

## Summary of reported results – Local GAAP basis

BRL m	Half-year to June 30 2010	Half-year to June 30 2009	Variation
Profit before tax <sup>1</sup>	593	329	80.2%
Profit after tax	424	249	70.3%

<sup>1</sup> PBT is derived by 'Income before income and social contribution taxes and profit sharing' less 'profit sharing'.  
Source: HSBC Brasil Financial Statements (financial entities only)

## Capital and performance ratios – Local GAAP basis

	30 June 2010	30 June 2009
Annualised return on average equity (ROE)	12.1%	8.7%
Loan impairment charges to loan portfolio	5.7%	6.8%
Total capital ratio	14.6%	13.5%

*Source: HSBC Brasil Financial Statements (financial entities only)*



# Reported results compared to competitors – Local GAAP basis

## Profit After Tax (Local GAAP)

BRLm

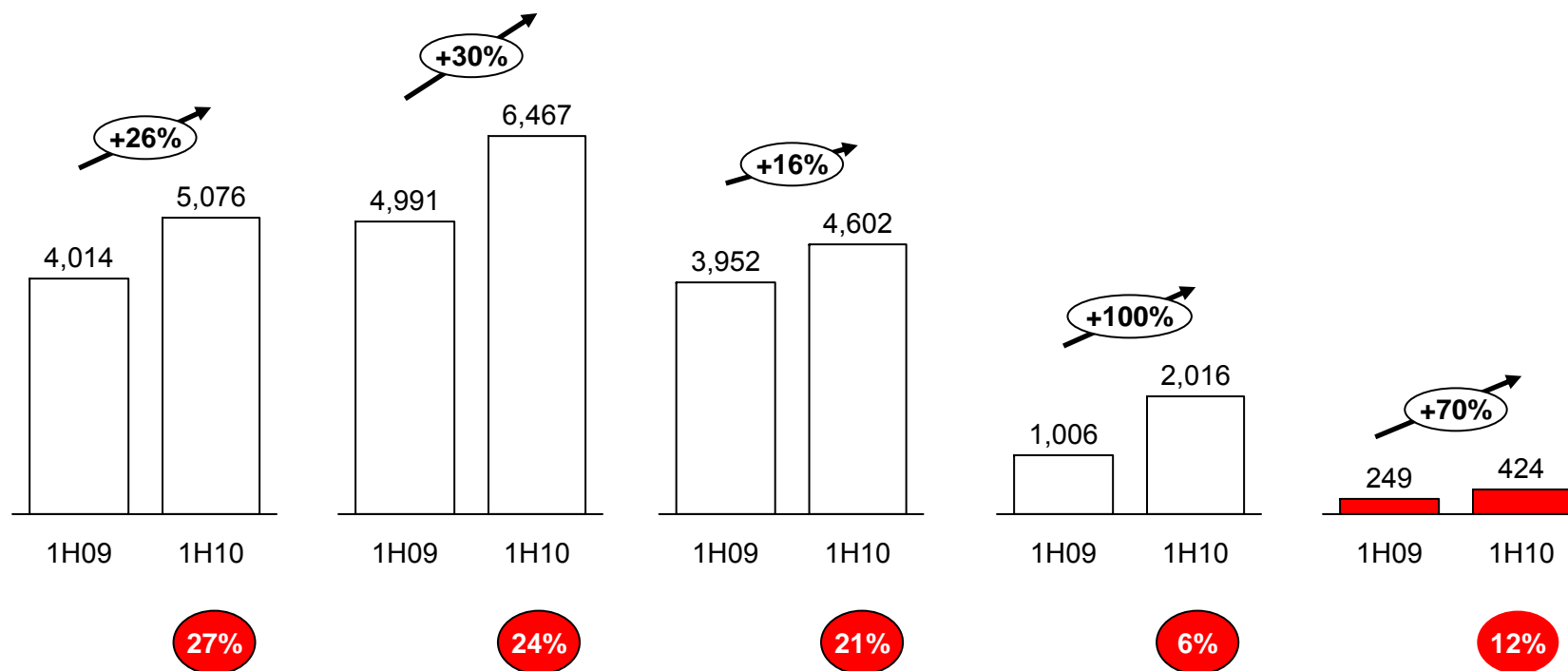
**BANCO DO BRASIL**

**ITAU<sup>2</sup>**

**BRADESCO<sup>2</sup>**

**SANTANDER**

**HSBC** 



**ROE<sup>1</sup>**  
%

1 Defined as Profit After Tax 1H10 annualized divided by average shareholders' equity between 31 December 2009 and 30 June 2010

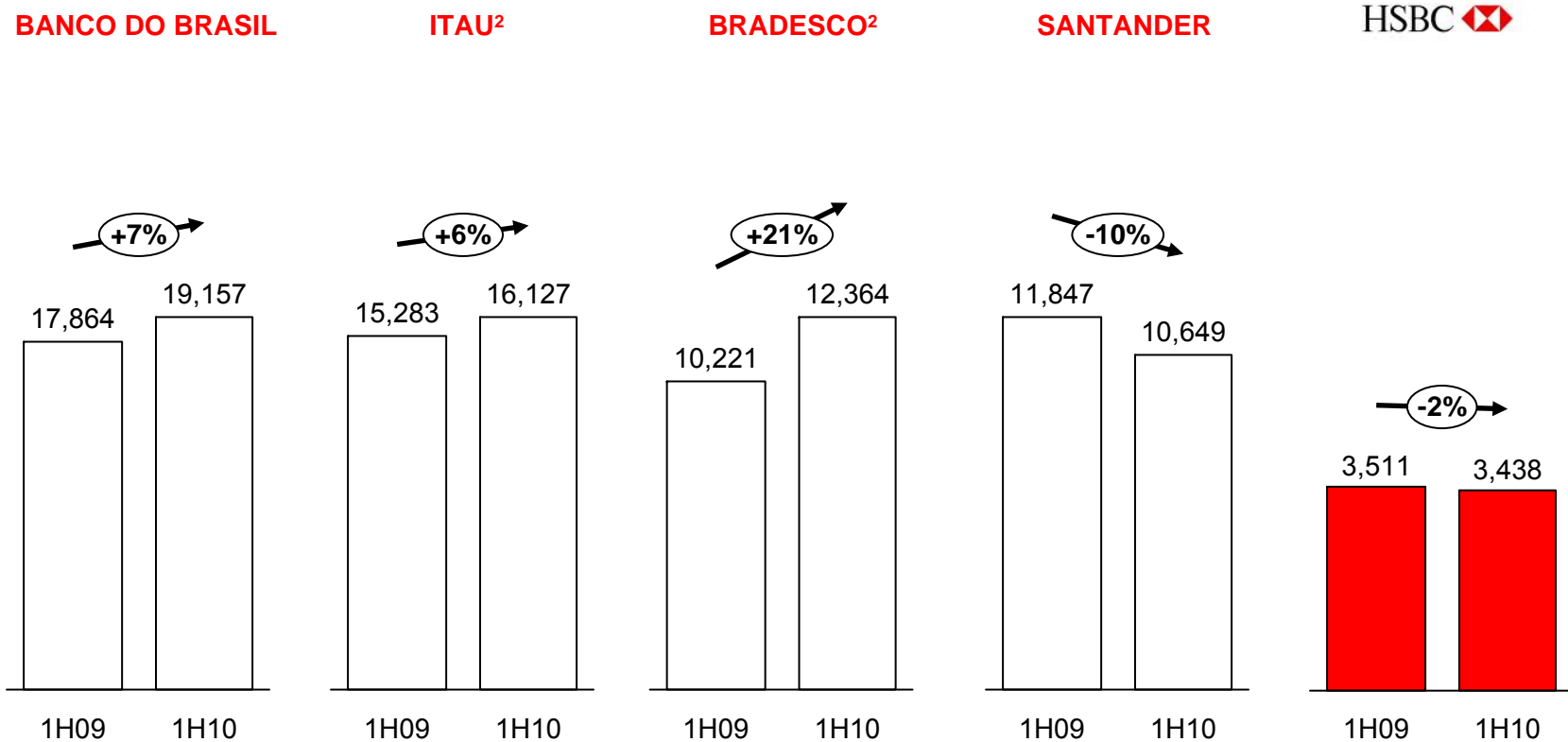
2 Published management accounts

SOURCE: Financial statements

# Reported costs compared to competitors – Local GAAP basis

## Total Operating Expenses<sup>1</sup> (Local GAAP)

BRLm



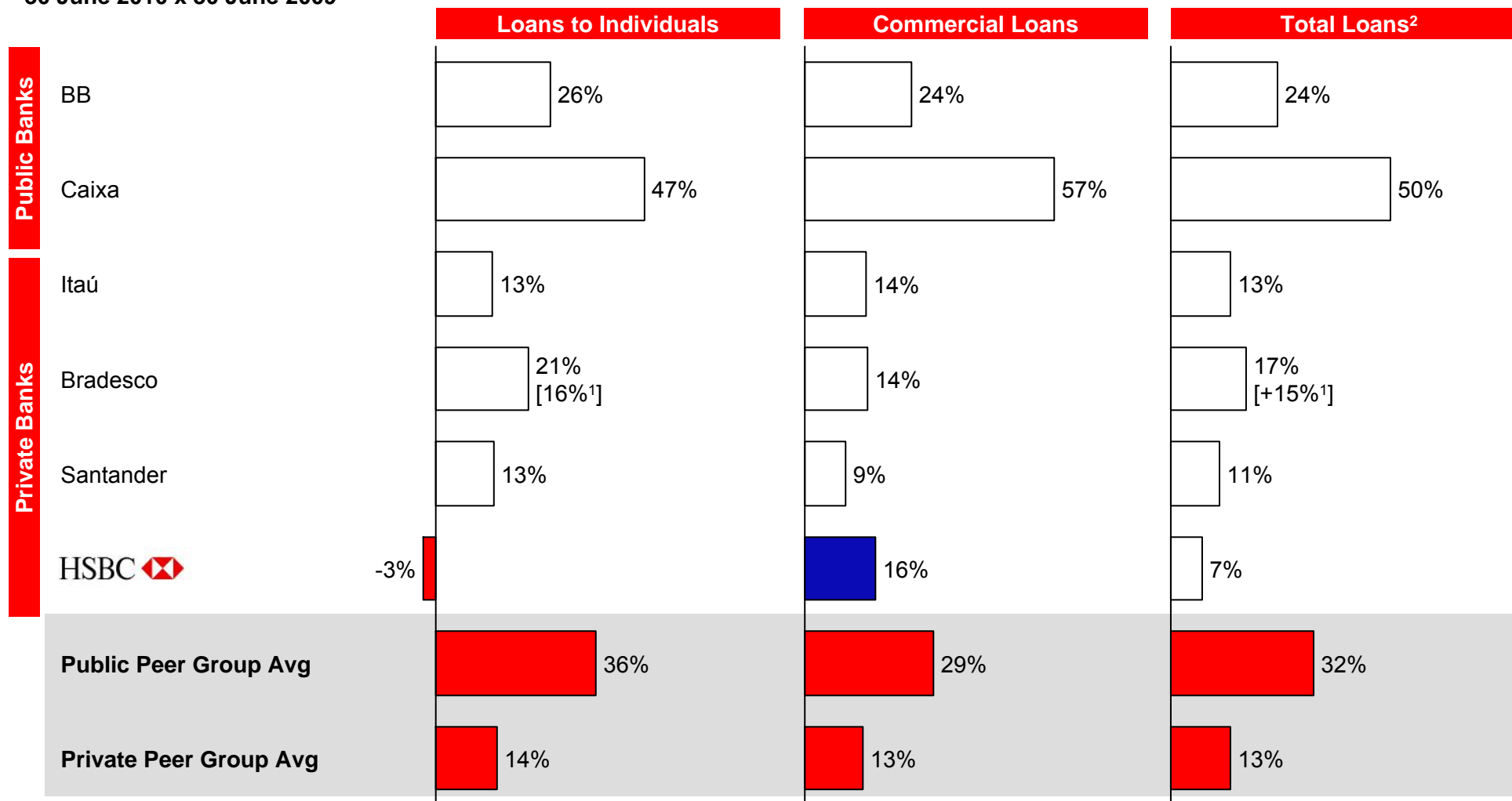
1 Defined as Personnel Expenses + Minority Interest + Administrative Expenses + Tax Expenses + Other Operating Expenses

2 Published management accounts

SOURCE: Financial statements

# Growth of loans among peers – Local GAAP basis

30 June 2010 x 30 June 2009



<sup>1</sup> Excluding IBI. If also excluded Bradesco's portfolio acquisition from Jun-09 to Jun-10 (BRL 4.8bn), Individuals growth would have been +9% and total loans, +12%;

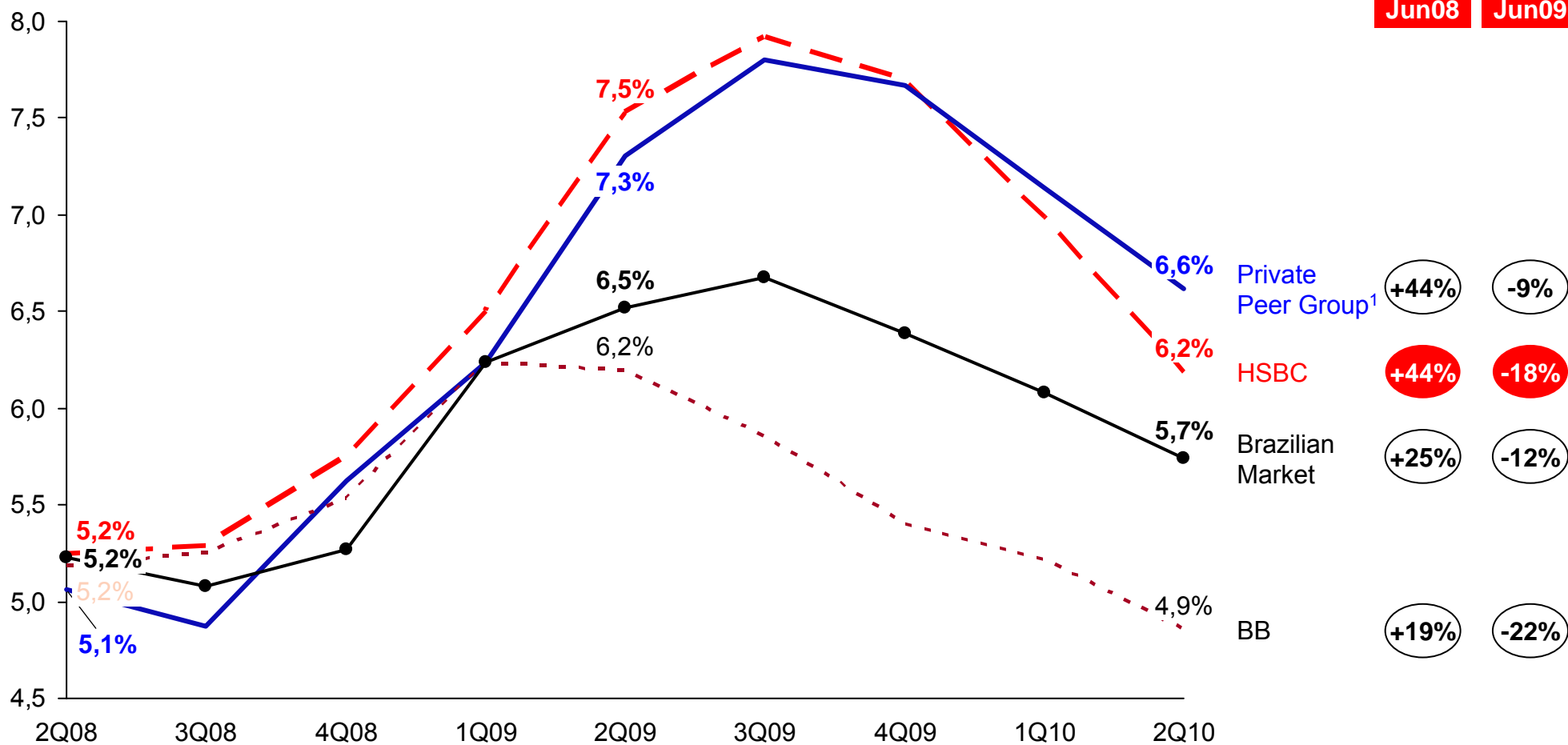
<sup>2</sup> Excluding other loans (rural, interbank and government).

Source: Brazilian Central Bank ('IFT' report)

# Delinquency decline among peers – Local GAAP basis

## Non-Performing Loans Ratio (90 days past due)

Local GAAP Accounting, %



<sup>1</sup> Considering Itaú, Bradesco, Santander and HSBC  
 SOURCE: Financial Statements; Brazilian Central Bank

## Final remarks

- ▶ **The country growth will create opportunities for all businesses, but mainly for retail segments**
- ▶ **High employment rates should be beneficial for the current level of loan impairment charges**
- ▶ **The Premier and Advance propositions should benefit from upward social mobility**
- ▶ **CMB opportunity: to be a feeder for PFS customers and to become a key partner for trade and global financial services**
- ▶ **Global footprint should create new business opportunities for GBM**