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HSBC Bank Brazil 2011 interim results

Presentation to Capital Group

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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 HSBC Brazil financial conglomerate and HSBC Latin America. These forward-looking statements represent the HSBC Brazil financial conglomerate and HSBC Latin America'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 2011 and in HSBC Brazil financial conglomerate statements for first half of 2011. Past performance cannot be relied on as a guide to future performance.

This presentation contains information presented in local GAAP basis extracted from HSBC Brazil financial conglomerate statements for first half of 2011. Information regarding HSBC Latin America and certain HSBC Brazil financials are presented on an IFRS basis, extracted from the HSBC Holdings plc Interim Report 2011.

Agenda

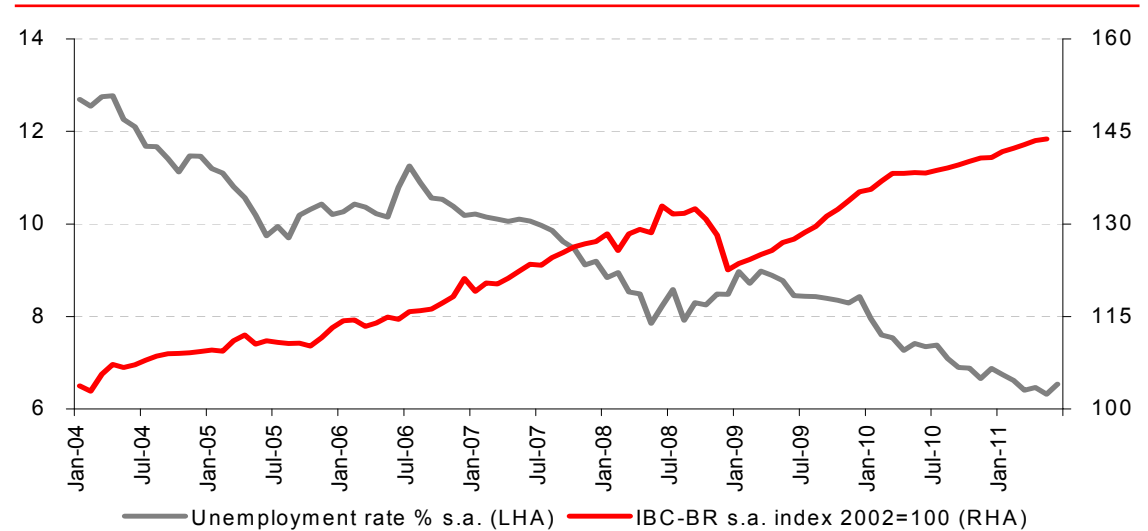
- Economic overview
- Industry issues
- HSBC position
- Strategy
- Performance
- Outlook
- Conclusion

Economic overview

Robust growth, but high inflation

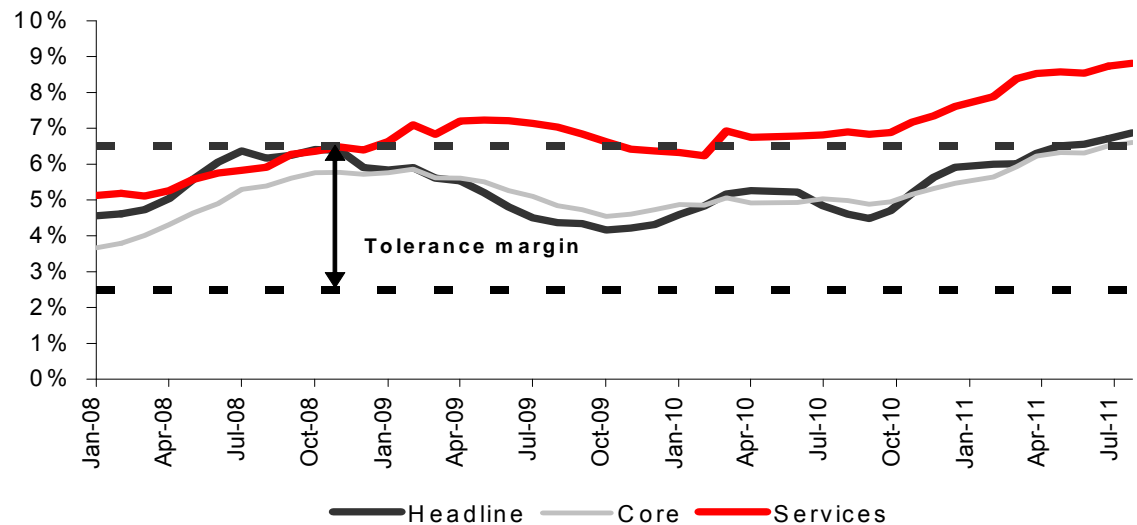
- Economic activity and labor market are still strong
- Inflation above the Brazilian Central Bank target, with very gradual convergence
- Monetary policy is less orthodox, with more quantitative measures (reserve requirements, credit control), instead of interest rate hikes
- There is limited room for sustainable fiscal adjustment
- Current account deficit deterioration slowed as terms of trade improved. Capital inflows remain strong
- External scenario may be a game changer. A pronounced global slow down may give room for:
 - A fall in commodity prices
 - More marked slow down in the domestic economy
 - Consequently reduce inflationary risks, ultimately giving room for a rate cut

Unemployment Rate and Labor Market



Source: Brazilian Central Bank, IBGE and HSBC

CPI Inflation- %



Source: IBGE

Industry issues

Brazilian market overview

Inflation expected to be above government target and policy rate to remain unchanged

- **Inflation** may converge down from September onwards and will average 5.3% in 2012
- Brazilian central bank expected to leave **policy rate unchanged at 12.5%**
- Quantitative tightening measures **reduce the need for interest rate hikes**

There is no relevant risk of a Brazilian credit bubble in the short term

- Credit leverage and internal disposable income have grown. **Yet, economy is still at low leverage standards**, as are households
- **Housing credit has room to increase** over the long term – currently 4.1% of GDP
- **Domestic interest rates** combined with improved credit mix **will sustain credit quality**

Brazil has very diverse trading relations

- **Trade volume growing 8% p.y.**, reaching ~USD384bn in 2010
- **China is the largest** destination for Brazilian exports (~85% commodities) and a **growing source of FDI**
- As long as the outlook for **China remains positive**, sustaining commodity prices, a strong BRL is expected

HSBC position

Leading bank in a highly attractive market

History and development of HSBC Bank Brazil

1997 HSBC Group establishes a new subsidiary in Brazil, Banco HSBC Bamerindus (today HSBC Bank Brazil)

1999 The Group acquires Republic New York Corporation and Safra Republic Holdings. HSBC Bank Brazil assumes Republic's operations in Brazil, mainly private banking and asset management

2000 The Group acquires CCF. HSBC Bank Brazil merges CCF's operations, mainly treasury, private banking, asset management, and investment banking

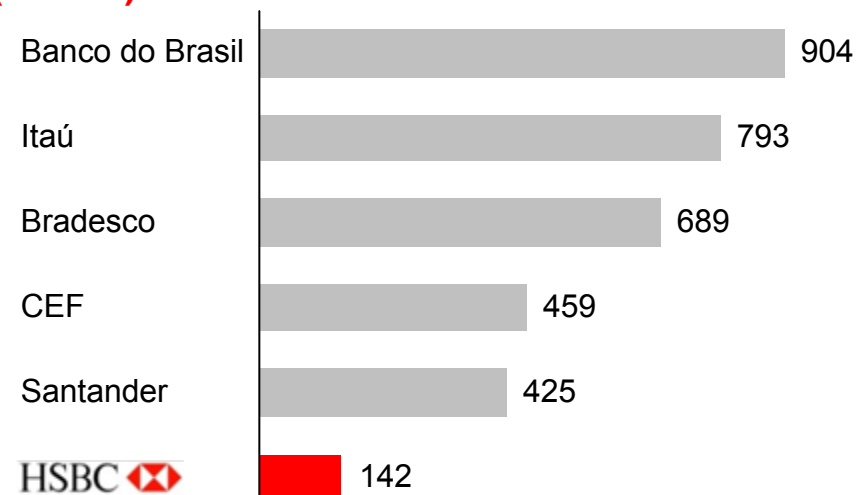
2003 The Group acquires Lloyds TSB's Brazilian assets, including Losango Promoções de Vendas Ltda., a major consumer finance institution

2004 The bank acquires Credimatone and Valeu Companhia Securitizadora de Créditos Financeiros

HSBC Brazil financial conglomerate at June 2011

Total assets	BRL142bn
Total shareholders' equity	BRL8bn
PBT local GAAP ¹	BRL862m
Return on average equity	15.9%
Offices & branches	867
Local presence	All states

Largest banks in Brazil - total assets at June 2011 (BRLbn)



¹PBT is derived by 'Income before income and social contribution taxes and profit sharing' less 'profit sharing'
Source: HSBC Brazil and peers' financial conglomerate statements for 1H11 (local GAAP basis)

Brazil is an important contributor to Group earnings

- Brazil is increasing its contribution to HSBC Group:
 - In 1H11, HSBC Brazil contributed 55% of Latin America's PBT (+1% vs 1H10 contribution)
 - Brazil represented 6% of HSBC Group PBT in 1H11 (vs 4% in 1H10)
 - Brazil delivered 15.9%¹ ROE in 1H11, positively contributing to HSBC Group ROE (12.3%)
- Importance of HSBC Brazil to HSBC Group is expected to increase further as HSBC strengthens its leadership as an international bank in Brazil by serving corporations and individuals in alignment with Group strategy

Rank	Country	PBT ² 1H11 USDm	% Total
1	Hong Kong	3,081	27
2	China	1,771	15
3	United Kingdom	1,124	10
4	Brazil	637	6
5	Canada	520	5
6	India	451	4
7	France	445	4
8	Singapore	327	3
9	Mexico	303	3
10	United Arab Emirates	265	2
11	Malaysia	251	2
12	Germany	209	2
13	Saudi Arabia	183	2
14	Argentina	154	1
15	South Korea	144	1
	Other	1,609	13
Total		11,474	

¹ Local GAAP basis

² IFRS basis

Source: HSBC Holdings plc Interim Report 2011, except for ROE of Brazil that is extracted from HSBC Brazil financial conglomerate statements for 1H11 (local GAAP basis)

Strategy

Why should investors own HSBC?

Distinctive position aligned with key trends

Network of countries relevant for **international connectivity**



Access and exposure to **high growth markets** and businesses



Strong balance sheet generating **resilient stream of earnings**



Clear strategy and execution focus

Strategy drives investment priorities and **capital allocation**



Action plan addressing **growth and cost efficiency** across geographies and businesses



Experienced management team accountable for delivery



Group strategy in Latin America

- Becoming the leading international bank serving key growth segments and markets

Latin America

- Positioned to capture social mobility and wealth creation opportunity
- Organic growth in Brazil, Mexico and Argentina
- Review opportunities to reallocate capital from less strategic and underperforming businesses
- Leverage CMB and GBM competitive strength across the region



- No Brazilian bank has HSBC's international presence

Commercial Banking (CMB)

- HSBC Empresas: Increase small business banking market share through our distribution and service excellence
- MME/LLC: Explore the economic sectors of best potential for return and growth

Global Banking & Markets (GBM)

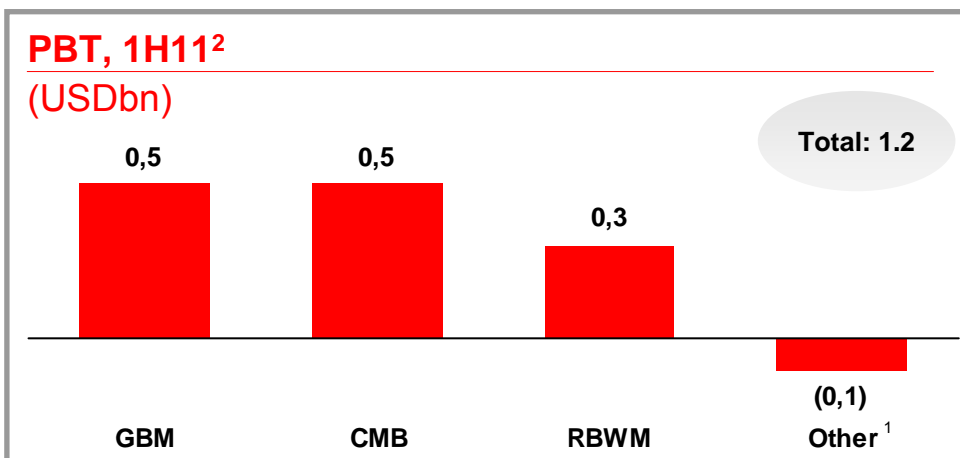
- Become the bank of choice for internationally-oriented clients
- Local products distributed globally
- Global products distributed locally

Retail Banking and Wealth Management (RBWM)

- Premier/ Advance: Build the best Premium Bank through service excellence and global reach
- Mass Retail: Generate scale for RBWM exploring upward mobility and optimizing use of direct channels
- Global Private Bank: Top 3 financial institution exploring global capabilities and local cross-sell

Performance

	1H10	2H10	1H11
Profit / (loss) before tax (USDbn)	0.9	0.9	1.2
Cost efficiency ratio (%)	63.9	67.4	65.3
Return on risk-weighted assets (%) ¹	2.1	2.0	2.2



- Increased volumes in Brazil RBWM and CMB
- Lower LICs, mainly in RBWM
- Cost growth from wage inflation and restructuring
- Restructuring of regional head office in Mexico and support functions

Notes:

1 Profit before tax basis

2 Other includes GPB and Other Customer Groups

Source: HSBC Holdings plc Interim Results 2011

Summary of reported results – HSBC Brazil (IFRS basis)

Profit before tax USDm	1H10	1H11	Better / (worse) 1H11 vs 1H10
Retail Banking and Wealth Management	60	136	+127%
Commercial Banking	160	294	+84%
Global Banking and Markets	227	250	+10%
Global Private Banking	2	7	+250%
Other	29	(50)	-272%
HSBC Brazil	478	637	+33%

Financial highlights – HSBC Brazil (local GAAP basis)

	1H10	2H10	1H11	1H11 vs 1H10 Better/ (worse)	
Reported PBT (BRLm)	593	688	862	+45%	<ul style="list-style-type: none"> Record pre-tax profits High return on equity Strong performance coming from all major businesses
ROE (%)	12.1	14.7	15.9	+3.8%	
Total capital ratio (%)	14.6	13.2	12.9	(1.7%)	
Total assets (BRLbn)	113.8	122.1	142.1	+25%	
Credit portfolio (BRLbn)	43.1	49.6	54.7	+27%	
Non-performing loans ratio(>90 days past due)	6.2%	4.5%	4.5%	+1.7%	

Outlook

Brazil is a sizeable and growing market, and projected to be the 7th largest economy by 2050

- **8th largest economy** globally (USD 2.0 trillion GDP), to **become the 7th by 2050**
- Continued GDP growth since 2006 (~4.5%) fueled by consumption and credit expansion. Growth to **remain at ~4.5%**
- Higher investment to sustain excess demand and mounting **inflation** (6.0% instead of 4.5%), **leading Central Bank to maintain a tight monetary policy** with a blended approach: rates + quantitative measures
- Brazilian growth to be rebalanced in order to **overcome bottlenecks created by low investment/ GDP**

Social mobility impacting around 40m individuals over the next 4 years

- **Demographics and increasing household income** are positive drivers for the next two decades
- **Middle Class is growing** as poverty is reducing
- **Per capita GDP** is expected to **more than double by 2030**, reaching USD 22,000 (PPP basis)

Conclusion

Final remarks

- Brazil's GDP growth is creating banking opportunities for each business segment
- High employment rates should be beneficial for the current level of loan impairment charges and customer growth
- Within RBWM, Premier and Advance propositions will benefit from strong upward social mobility
- For CMB, there remains strong growth within all segments and can additionally be a feeder for RBWM customers. Launched Latam Desk in Shanghai in 2010 with excellent results
- Global footprint creating new business opportunities for GBM's Brazilian headquartered corporations. CMB relationships providing base for future GBM business

Contacts and further information



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