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HSBC Brazil 2011 update

Presentation to Investors

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Forward-looking statements

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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, HSBC Holdings plc Interim Management Statement issued on 9 November 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 and the HSBC Holdings plc Interim Management Statement issued on 9 November 2011.

Agenda

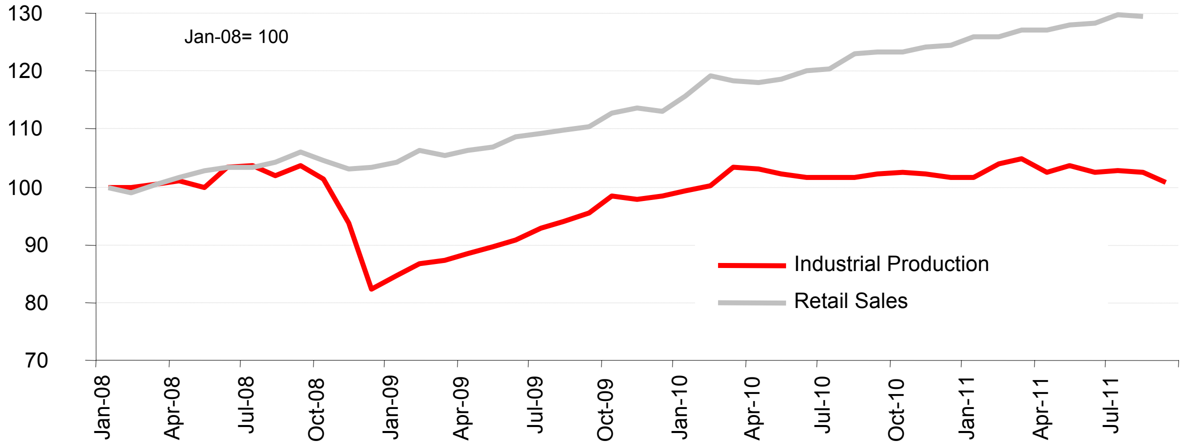
- Economic overview
- Industry issues
- HSBC position
- Strategy
- Performance
- Outlook
- Conclusion

Economic overview

Resilience of domestic demand despite slowing economy

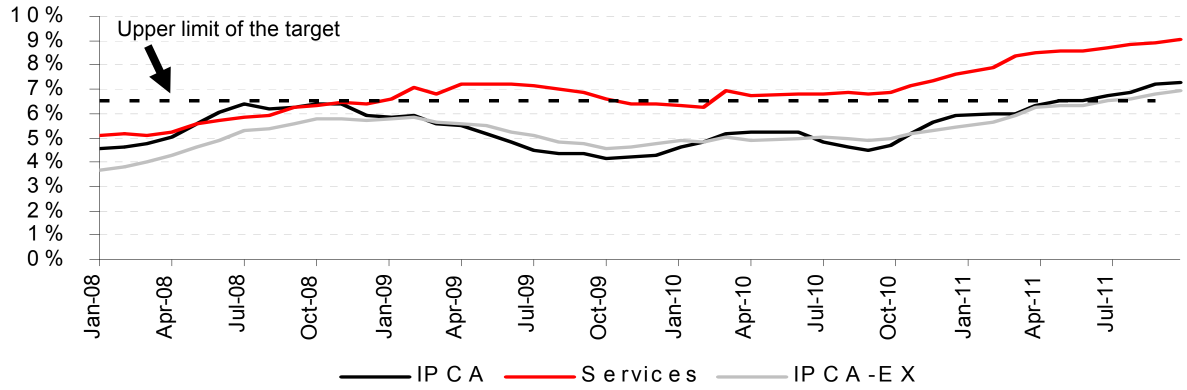
- Overall, the economy appears to be losing momentum
- Weakness in manufacturing reflects the erosion of competitiveness in the sector, reflecting BRL strength and rising labor costs
- There is growing divergence between weakness in the industrial sector and resilience in consumer demand and in the services sector
- Since services account for 2/3 of GDP, overall domestic demand remains robust
- Inflation is still under pressure, especially from service prices
- The Central Bank cut interest rates citing concern about the international scenario
- BRL commodity prices could retreat in the short term, that will depend on weaker growth (especially China) *vs*. global liquidity conditions
- Lower inflation from now on will help ease pressure on wages but we don't see convergence with the midpoint of the target

Divergence between domestic demand and industrial production



Source: Brazilian Central Bank, IBGE and HSBC

CPI Inflation- %



Source: IBGE

Industry issues

Brazilian market overview

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Inflation expected to be above government target and policy rate to be cut to 10.0%

- **Inflation** may decline from September onwards and should average 5.8% in 2012
- Brazilian central bank expected to cut **policy rate to 10.0% by March 2012**
- **Global scenario concerns will dictate the pace of reduction**

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 4.4% of GDP
- **Domestic interest rates** combined with improved credit mix **will sustain credit quality**
- Brazilian Financial System shows **adequate returns and capitalisation**, with banks' comfortable **BIS above minimum requirements**

Brazil has very diverse trading relations

- **Trade volume to grow 7.83% p.a., reaching ~USD 802bn in 2020** (from USD 384bn in 2010). Commodities represent ~60% of total exports
- **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

Source: Brazilian Central Bank, IBGE and HSBC

HSBC position

Leading bank in a highly attractive market

History and development of HSBC 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

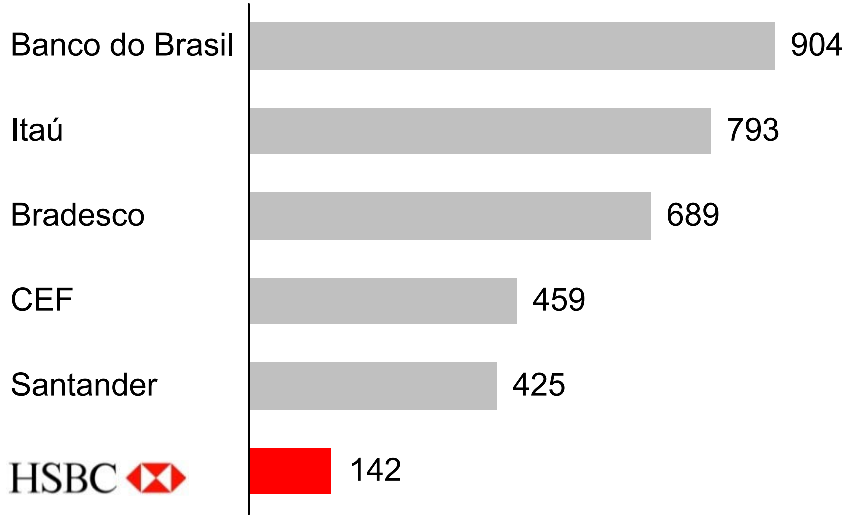
2004 The bank acquires Credimatone and Valeu Companhia Securitizadora de Créditos Financeiros

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 (all states)	867

Ratings[2]: Baa1 / BBB-

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'
2HSBC Bank Brazil rated by Moody's and Standard & Poor's respectively for senior unsecured debt
Source: HSBC Brazil and peers' financial conglomerate statements for 1H11 (local GAAP basis)

Brazil is an important contributor to Group earnings

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- 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

Group strategic levers

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

- HSBC present in the most strategic markets in 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

HSBC Brazil strategic positioning

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- A leading international financial services company in Brazil

Become the bank of choice for internationally-oriented clients

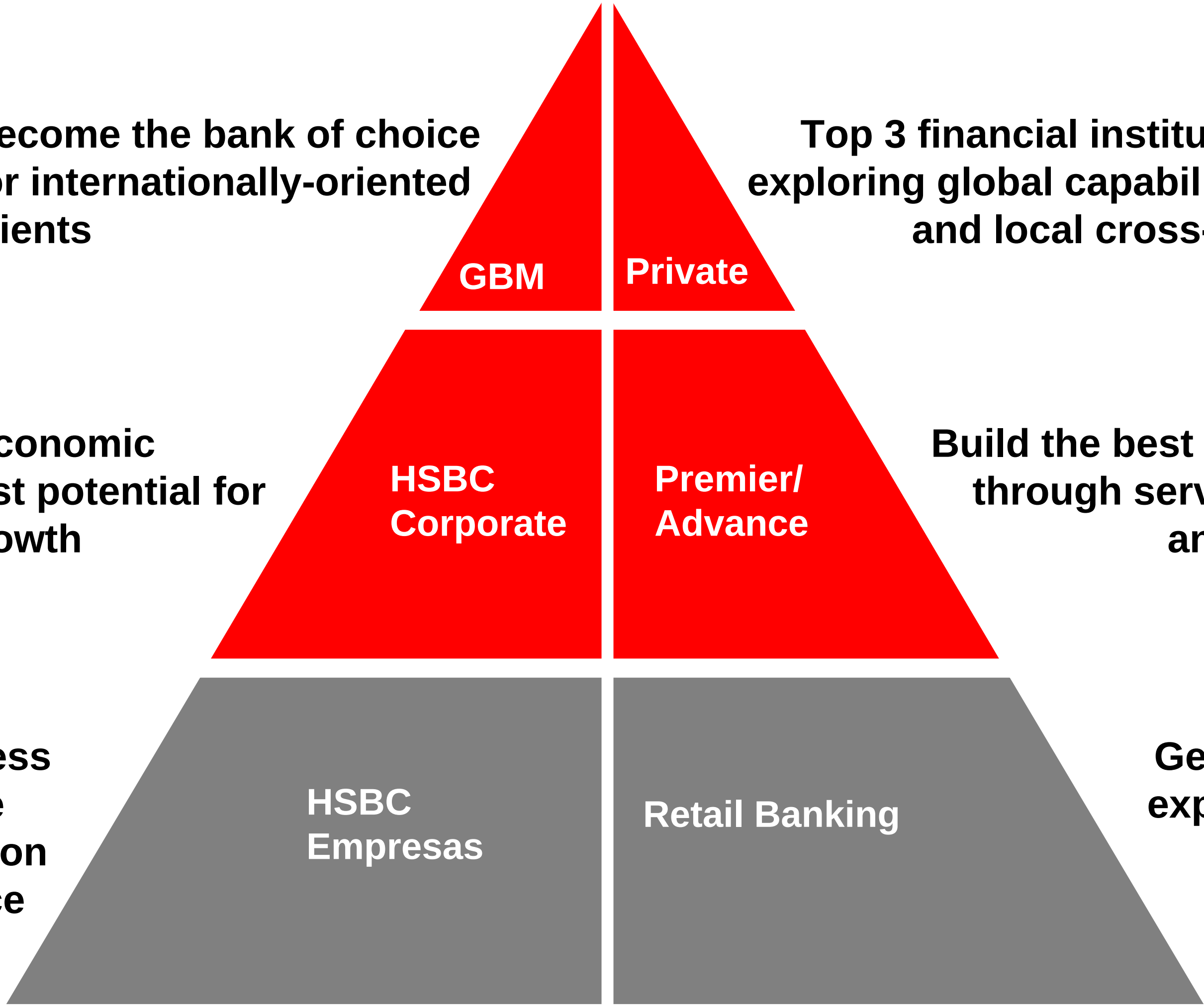
Top 3 financial institution exploring global capabilities and local cross-sell

Explore the economic sectors of best potential for return and growth

Build the best Premium Bank through service excellence and global reach

Increase small business banking market share through our distribution and service excellence

Generate scale for RBWM exploring upward mobility and optimizing use of direct channels



Strategy translating into stronger results

Commercial Banking (CMB)

- Business Banking : focus growth by hiring new RMs
- Middle Market Enterprise: focus on selected economic sectors
- Local Large Corporate: leverage international capabilities
- Invest in Flow Products, process and marketing for corporate clients
- Focus on trade flows with China

Global Banking and Markets (GBM)

- Leverage global presence, distribution and relationships
- Capture higher share of wallet within a selected customer base (Global Banking and CMB client base)
- Focus on top 100 names with increased credit appetite
- Invest in equities to support distribution

Strategy translating into stronger results (continued)

Global Private Banking (GPB)

- Top 3 financial institution exploring global capabilities and local cross-sell
- Improve acquisition and retention gaining market share in domestic business
- Develop holistic view of the clients working on both sides of their balance sheet

Retail Banking and Wealth Management (RBWM)

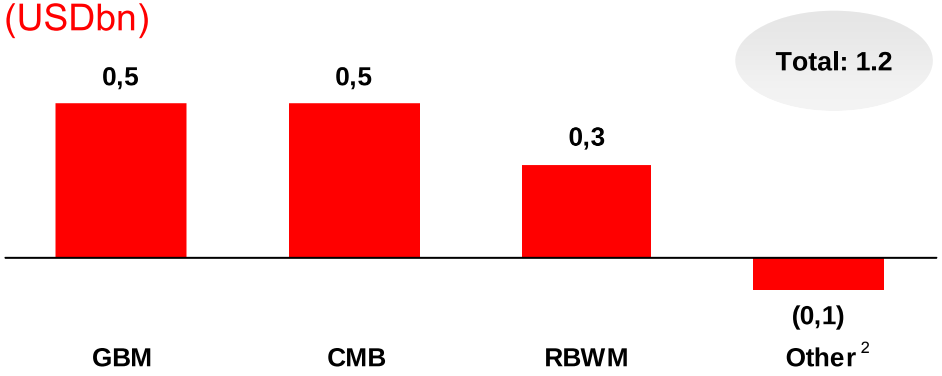
- Become a leading player in the affluent market
- Mass retail as a feeder of new customers for Premier and Advance
- Improve wealth management capabilities
- Asset Management to focus on high value added and performance fee contribution products
- Insurance to become a key cross sell product and add relationship profitability

Performance

Latin America

	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

PBT, 1H11
(USDbn)



- 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

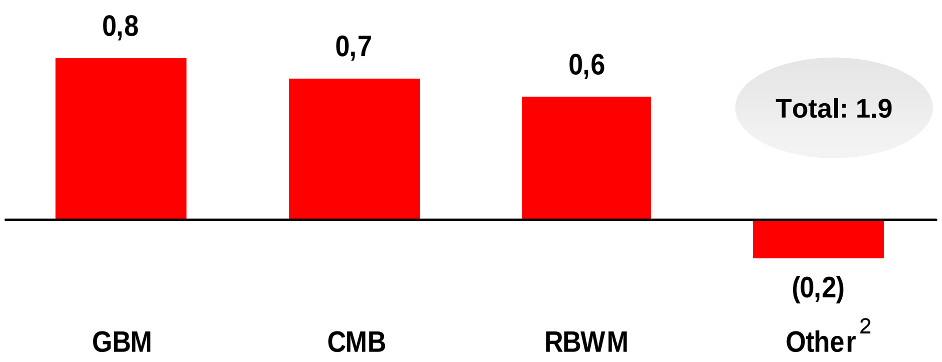
Notes:
1 Profit before tax basis
2 Other includes GPB (PBT of USD 10m) and Other Global Businesses

Source: HSBC Holdings plc Interim Results 2011

Latin America

	Nine months ended		Quarter ended		
	30 Sep 2010	30 Sep 2011	30 Sep 2010	30 Jun 2011	30 Sep 2011
Profit / (loss) before tax (USDbn)	1.4	1.9	0.5	0.6	0.8
Cost efficiency ratio (%)	64.8	62.9	66.5	64.6	58.4
Return on risk-weighted assets (%)[1]	2.1	2.5	2.1	2.3	2.9

PBT, nine months ended 30 Sep 2011
(USDbn)



- Revenue growth due to higher lending volumes in Brazil RBWM and CMB, and in Mexico CMB
- Cost increase for 3Q11 YTD compared with 3Q10 YTD:
  - business growth support in Brazil, driven by volume and additional front office staff
  - restructuring initiatives and inflationary pressure
- Cost decrease for 3Q11 compared with the previous quarter reflecting, in part, strategic cost saving initiatives

Notes:
1 Pre-tax return on average risk-weighted assets (annualised)
2 Other includes GPB (PBT of USD 14m) and Other Global Businesses

Source: HSBC Holdings plc Interim Management Statement issued on 9 November 2011

Summary of reported results – HSBC Brazil (IFRS basis)

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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%**

Source: HSBC Holdings plc Interim Results 2011

Financial highlights – HSBC Brazil (local GAAP basis)

	1H10	2H10	1H11	1H11 vs 1H10 Better/ (worse)
Reported PBT (BRLm)	593	688	862	+45%
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%

- Record pre-tax profit. HBBR is consistently improving earnings generation (PBT +45% vs +14% avg. for Brazilian peers, y-o-y basis)
- High return on equity
- Strong credit portfolio performance. Increased volumes in Brazil RBWM and CMB, reporting higher growth in loans and advances to customers than local peers (HBBR +27%, Brazilian peers +19% avg., y-o-y basis)
- HBBR reported lower LIC, mainly in RBWM, while peers expanded (HBBR -3%, Brazilian peers +9% avg., y-o-y basis)

Source: HSBC Brazil and peers' financial conglomerate statements for 1H11, 2H10 and 1H10 (all local GAAP basis)

Outlook

Outlook

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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 ~4.4%**
- Higher investment to sustain excess demand and mounting **inflation** (6.0% instead of 4.5%)
- 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)

Source: Brazilian Central Bank, IBGE and HSBC

Conclusion

Final remarks

- Brazil's GDP growth is creating new banking opportunities for each Global Business
- 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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