



Tuesday 22 November 2011

HSBC Brazil 2011 update

Presentation to Investors

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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, 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

- Key messages
- Economic overview and HSBC position
- Financial performance
- Strategic directions and actions
- Outlook and conclusion

Key messages

Positioning

- HSBC Brazil is **well positioned** to become Brazil's leading international bank
- **Demographics** and **increasing household income** are positive drivers for the next two decades, contributing to HSBC's **wealth-driven strategy**

Performance

- HSBC Brazil is improving performance with **strong revenue generation** and **stringent cost management**
- **Capital allocation discipline** is resulting in **better risk-return** trade-off

Strategy

- Strong growth potential defines Brazil as a **strategic market** for HSBC Group
- HSBC Brazil is fully aligned with Group strategy, aiming to contribute with **sustainable long-term earnings**

Outlook

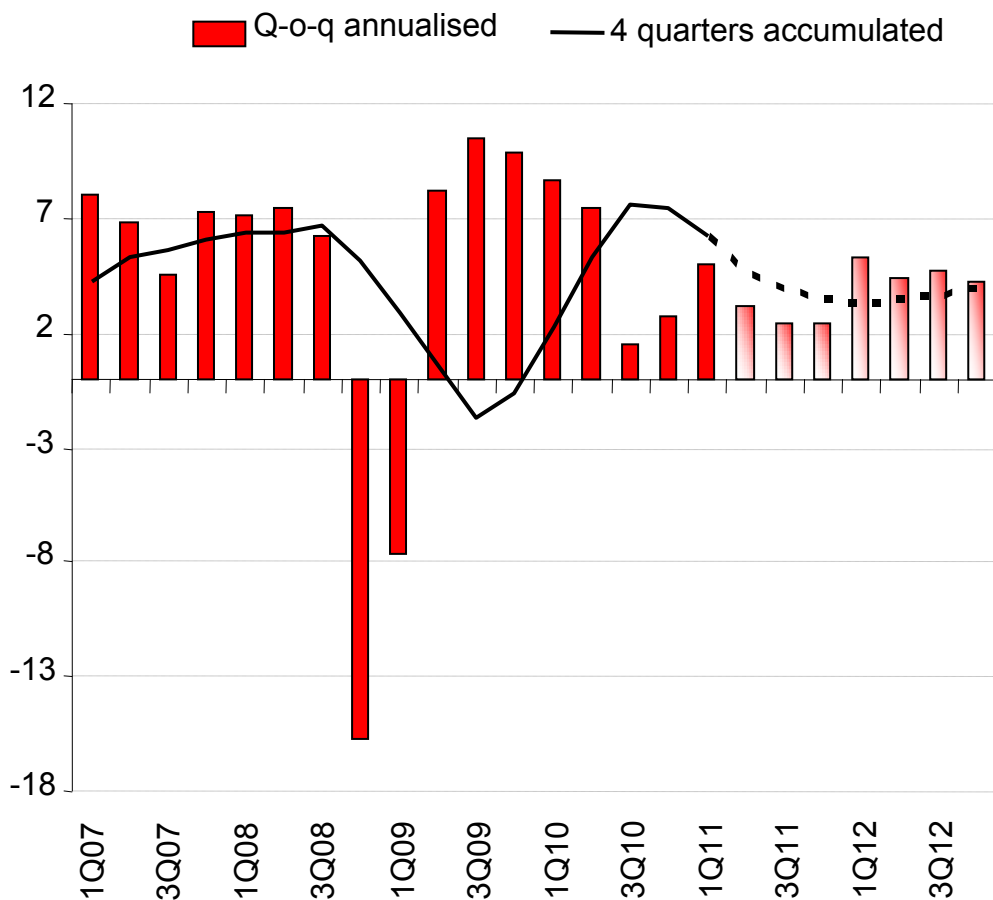
- HSBC will continue to **explore new business opportunities** leveraged by Brazil's **GDP growth**
- HSBC Brazil will increase **revenue generation** in each of its strategically important businesses
- Important **emphasis on wealth and global connectivity**

Economic overview and HSBC position

Growth slowed in 2Q11, decelerating more in 2H11, while fiscal policy is expected to ease at the margin

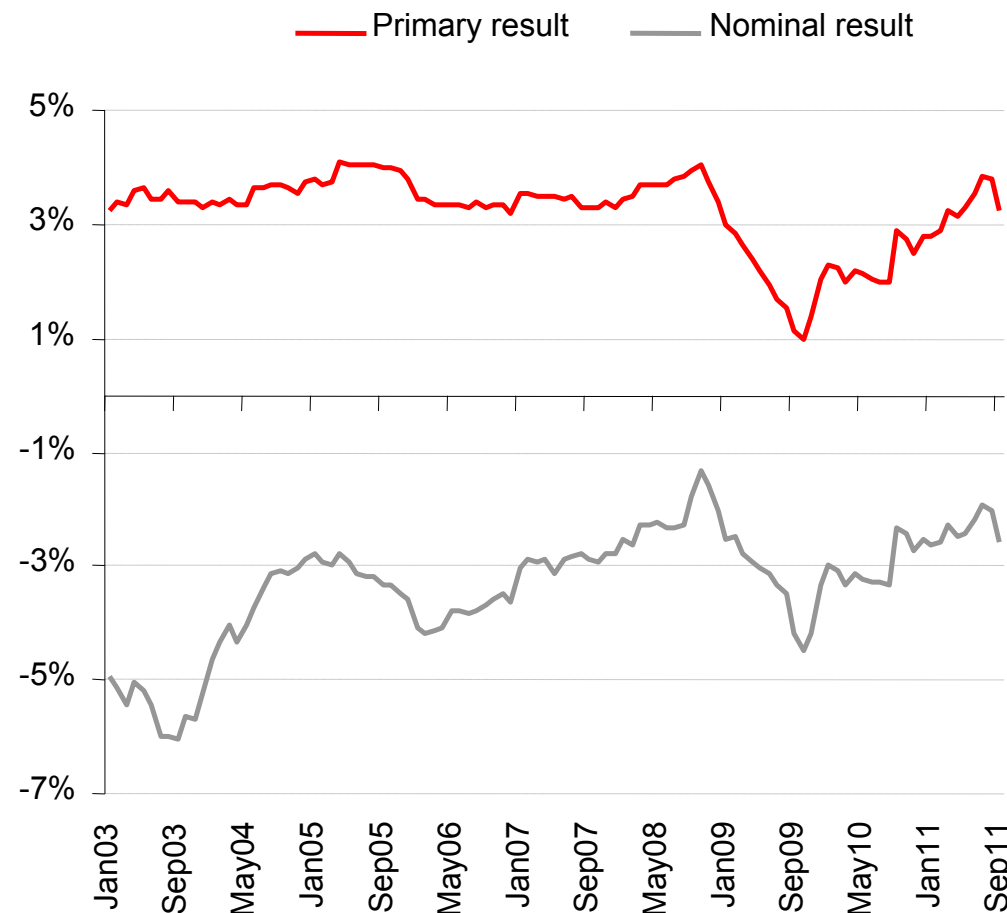


Brazil GDP



Source: IBGE (Brazilian Institute of Geography and Economy)

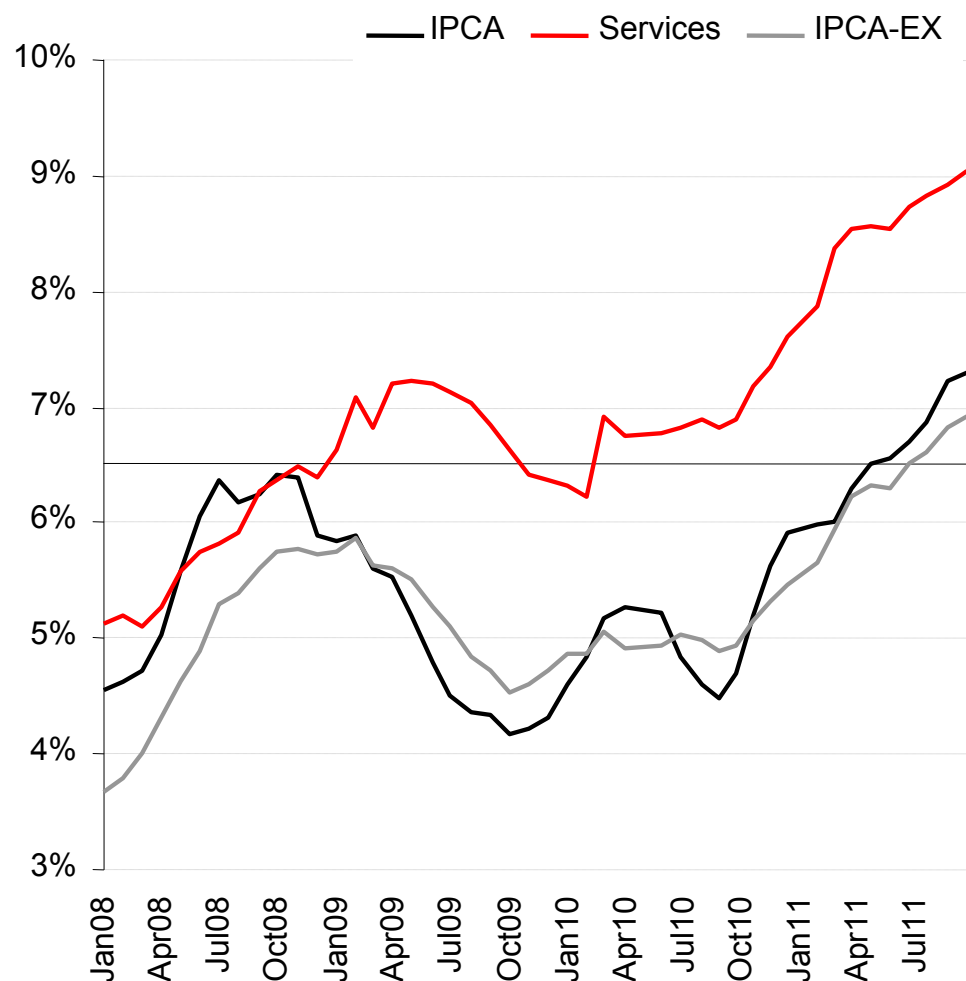
Fiscal result as % of GDP



Source: Brazilian Central Bank

Inflation to reduce gradually in the short term, but should increase again by mid 2012, influenced by tight labor market

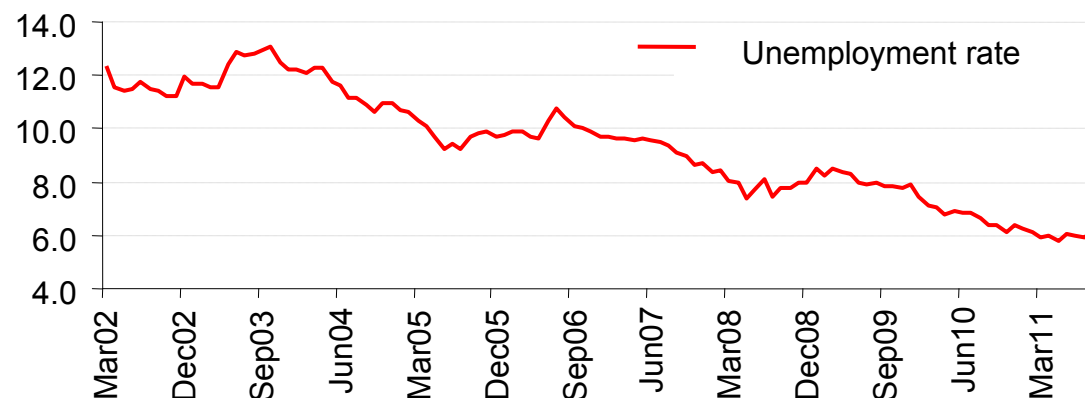
IPCA¹ (% 12 months)



1 Extended National Consumer Price Index

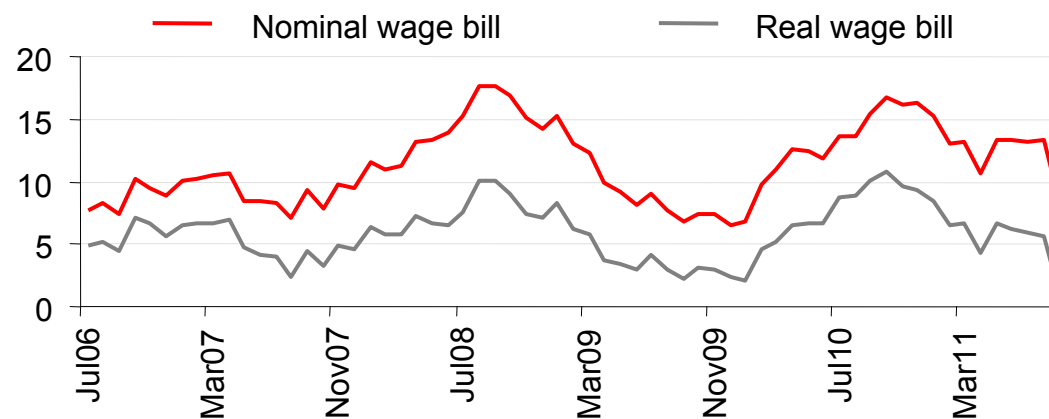
Source: IBGE and HSBC Brazil

Unemployment rate (s.a.)



Source: IBGE and HSBC

Wage bill growth (% y-o-y)



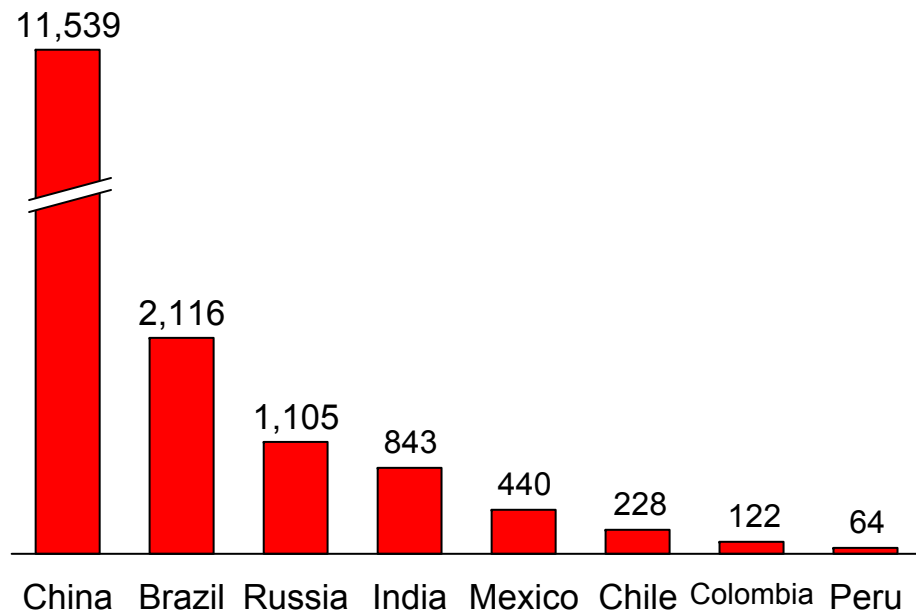
Source: IBGE and HSBC Brazil

Brazilian banking market is large, highly profitable and well capitalised



Total Banking system assets

USD bn, 2010

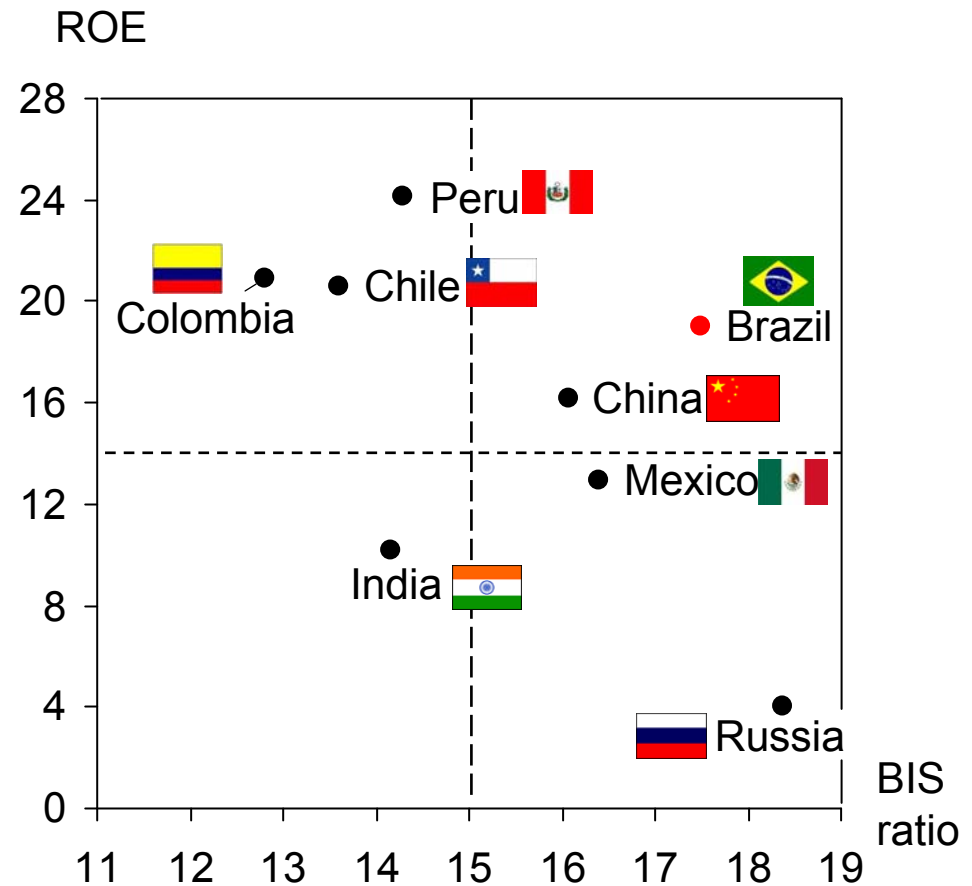


Growth '10 vs '07



ROE vs. BIS ratio

%, 2010



1 BIS - Indication of solvency, gives the ratio between the risk-bearing capital and the risk-weighted assets
 Source: Central Banks, Felaban (Latin American federation of banks), IMF

HSBC has relevant presence in selected segments in Brazil



Positioning (1H11)

Strong balance sheet¹

- 6th largest bank in Brazil by customer assets² (BRL 55bn) and customer deposits (BRL 75bn)
- Total assets of BRL 142bn
- Total capital ratio at 12.9%

Resilient and diversified business franchise

- PBT local GAAP³ BRL 862m and ROE of 15.9%
- Source of PBT⁴: GBM 36%, CMB 43%, RBWM 20%, GPB 1%
- 1st player in international DCM (12.7% share)⁵
- 2nd player in Off-shore mutual funds (USD 8.5bn in AUM) and 5th player in mutual funds to retail high income clients (USD 7.3bn in AUM)
- 3rd player in Forex products (12.7% share)

Network

- Presence in all Brazilian states
- 867 branches (97 Premier Centres)
- 5.3k ATMs

¹ Local GAAP basis

² Credit portfolio

³ PBT is derived by 'Income before income and social contribution taxes and profit sharing' less 'profit sharing'

⁴ Reported PBT on IFRS basis excluding other Global Businesses

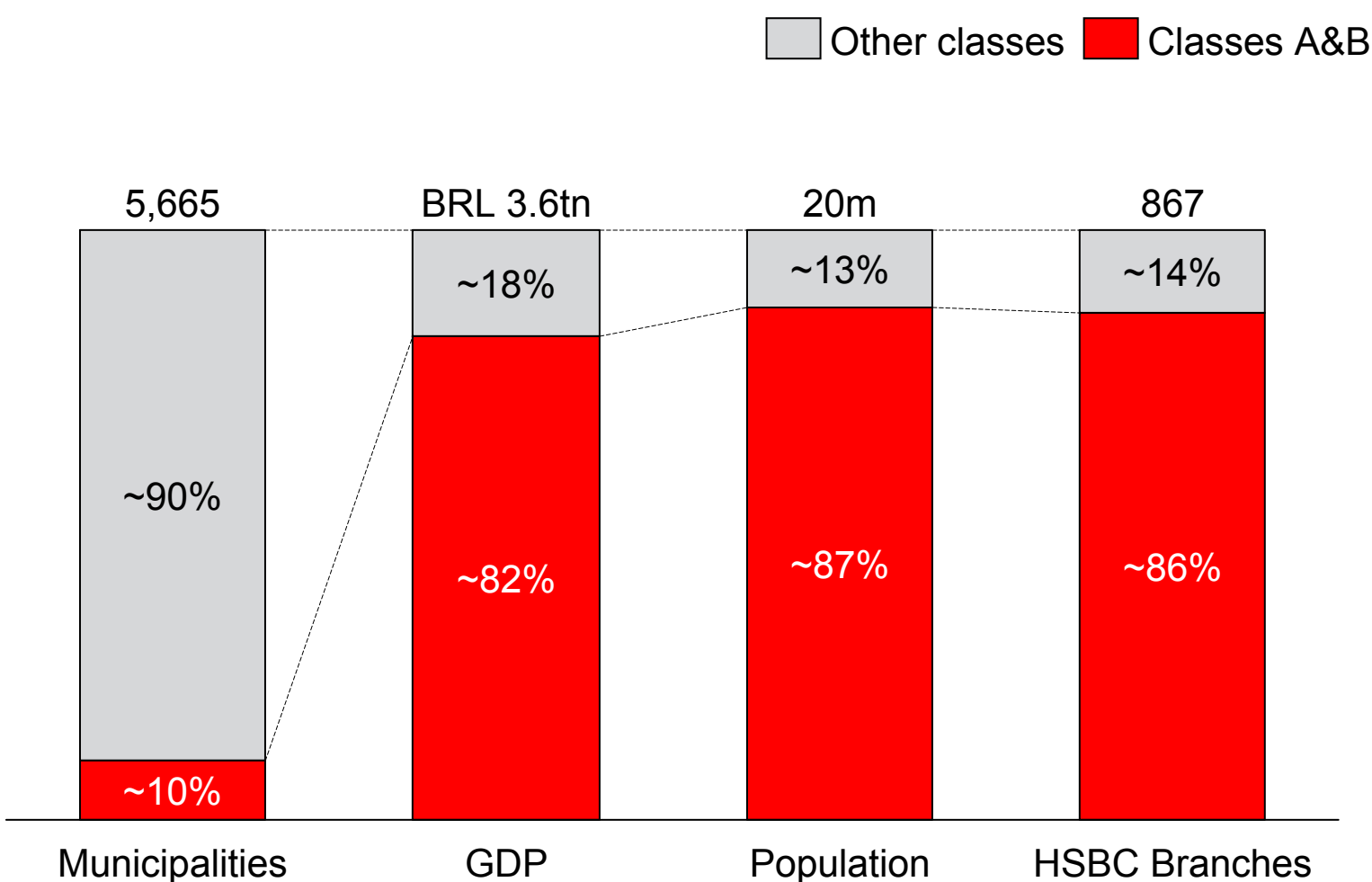
⁵ As of Sep11, last 12 months

Source: HSBC Holdings plc Interim Report 2011, HSBC Brazil financial conglomerate statements for 1H11, 2H10 and 1H10 and ANBIMA (Brazilian Financial and Capital Markets Association)

HSBC's network is particularly strong in the 10% top Brazilian municipalities, which represents 90% of all affluent clients



10% of biggest municipalities by class concentration



- 87% of the A & B segments are concentrated in 10% of Brazilian municipalities (~560)
- HSBC Brazil is well positioned to capture mass affluent clients, as it is present in 86% of these municipalities

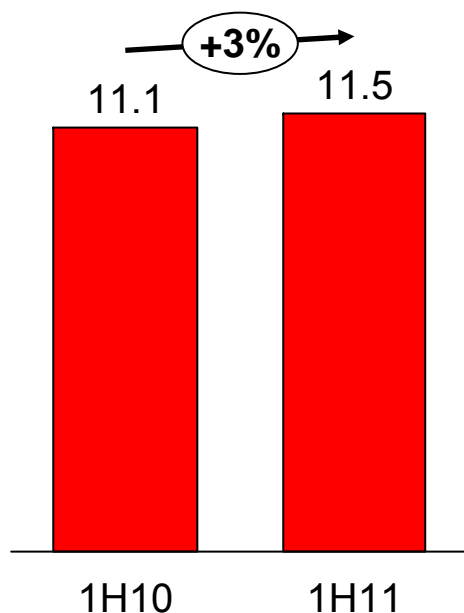
Financial performance

HSBC Brazil is the 4th largest contributor to Group earnings



HSBC Group PBT

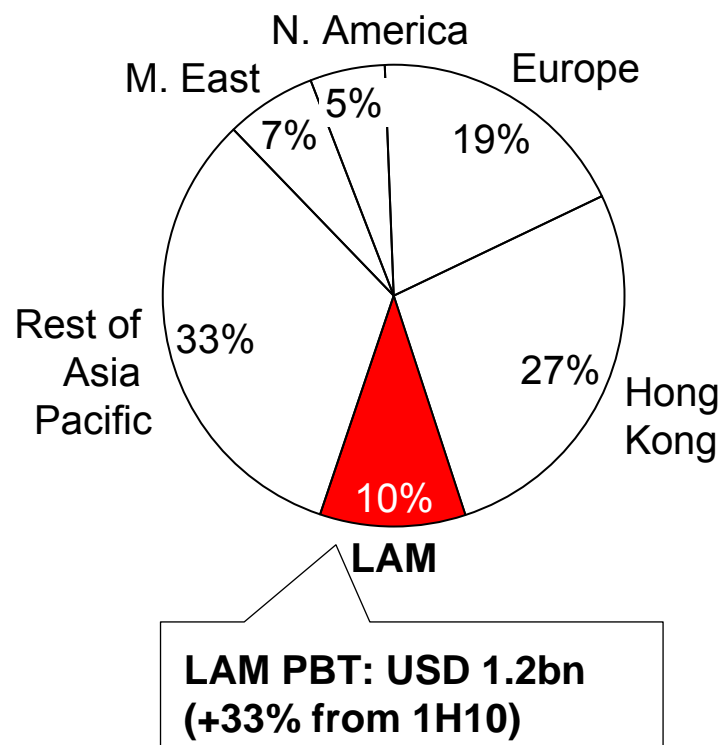
USD bn, IFRS basis



ROE¹ 10.4% 12.3%

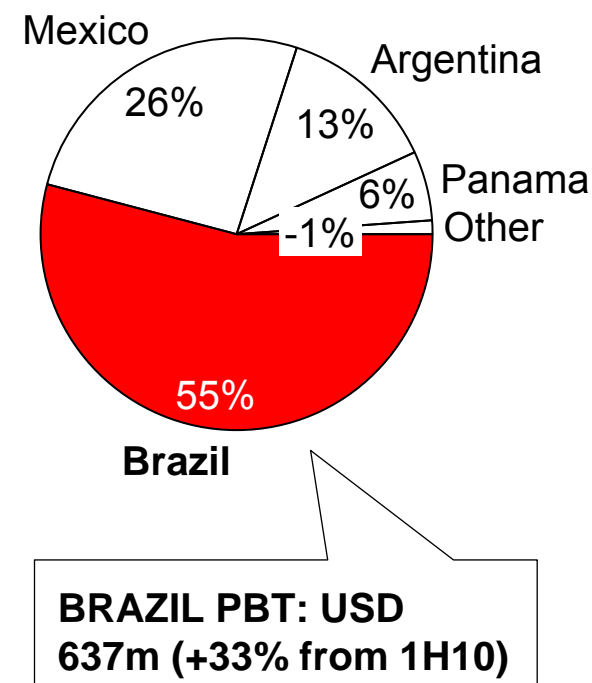
Group PBT Breakdown (1H11)

%, IFRS basis



LAM PBT Breakdown (1H11)

%, IFRS basis



BRAZIL ROE² 1H11: 15.9%

¹ Return on average ordinary shareholders' equity

² Local GAAP basis

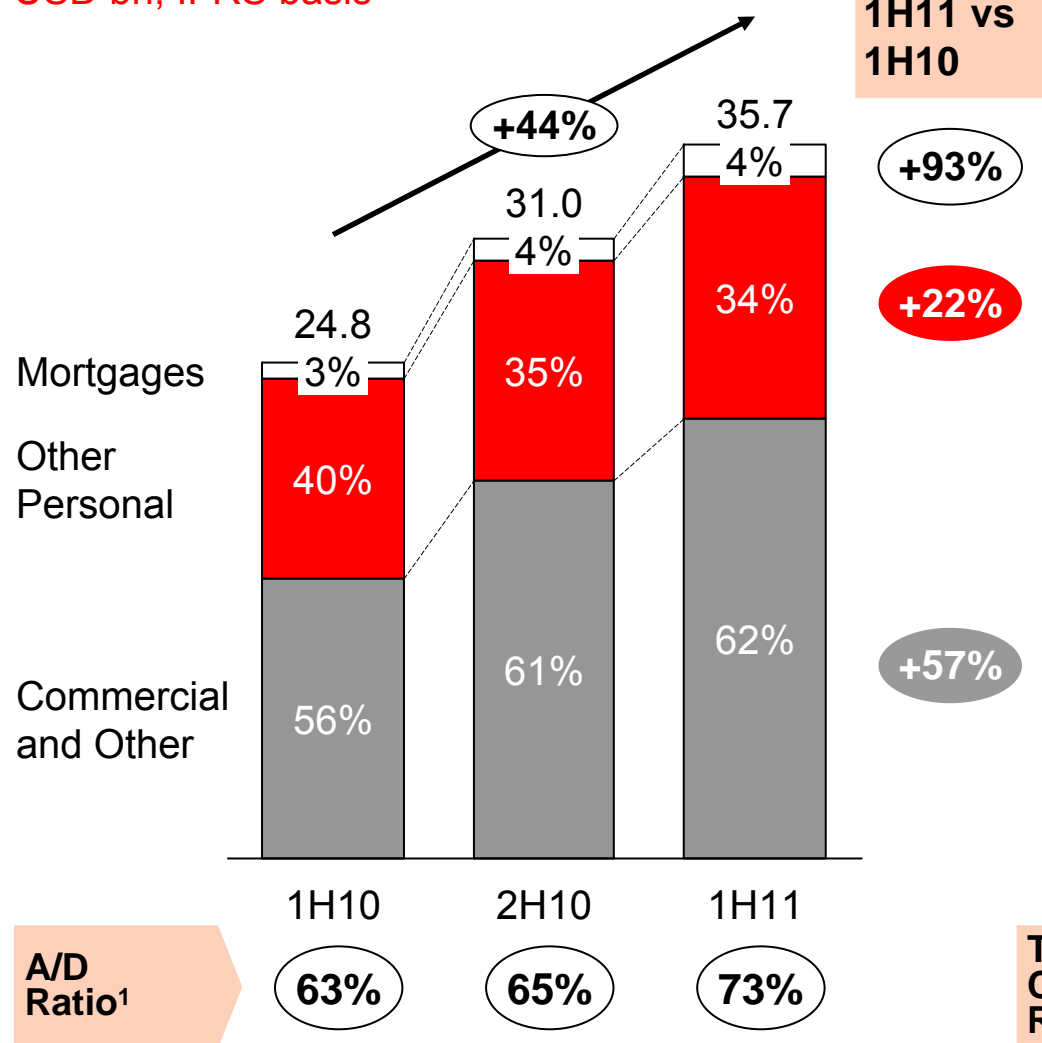
Source: HSBC Holdings plc Interim Report 2011, except for ROE of Brazil that is extracted from HSBC Brazil financial conglomerate statements for 1H11 (local GAAP basis)

A better balanced portfolio positively contributing for profit growth in all HSBC Brazil global business



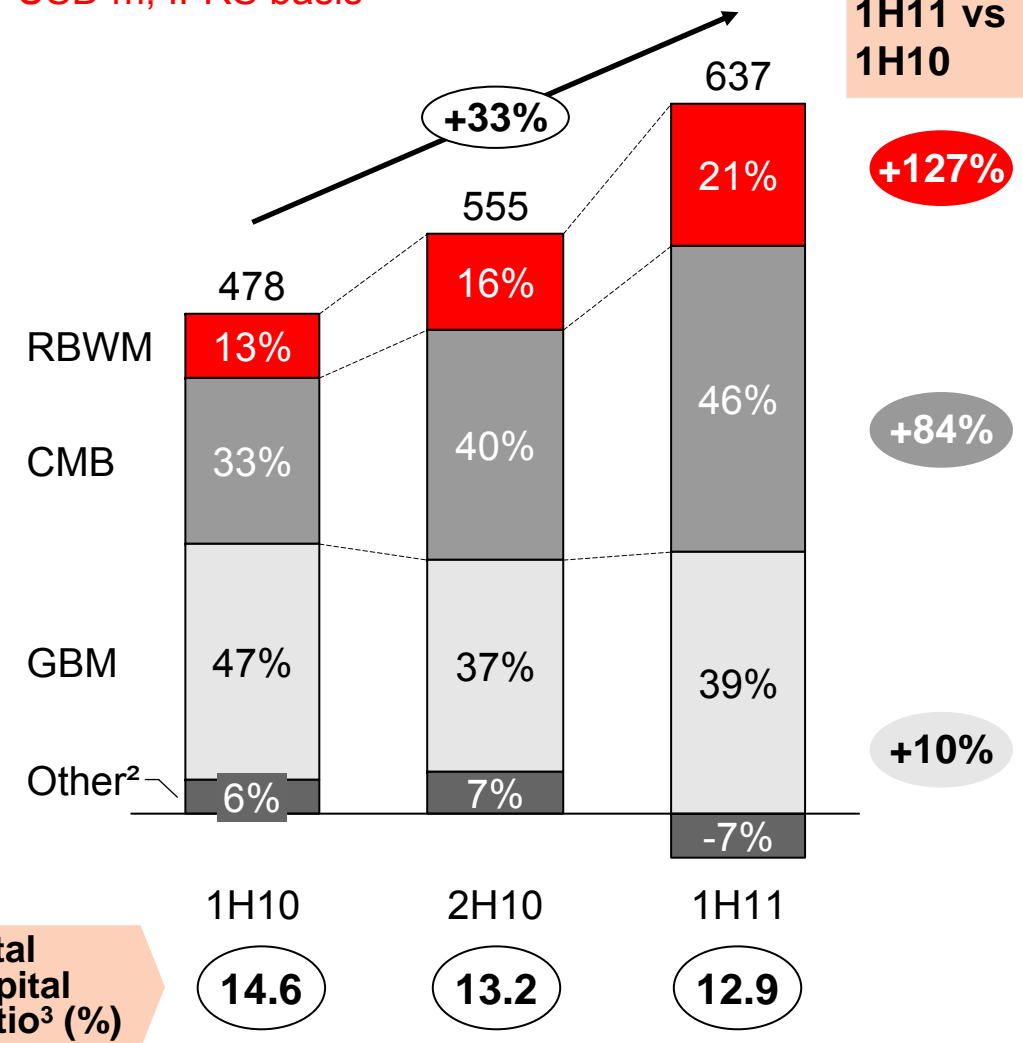
HSBC Brazil – gross loans and advances to customers

USD bn, IFRS basis



HSBC Brazil - PBT breakdown

USD m, IFRS basis



1 Local GAAP basis, calculated as (Customer Loans / Customer Deposits) 2 Includes restructuring costs 3 Local GAAP
 Source: HSBC Holdings plc Interim Results 2011 and HSBC Brazil financial conglomerate statements 1H11 (local GAAP basis)

HSBC Brazil successfully managing risk – credit quality and delinquency better than private peers

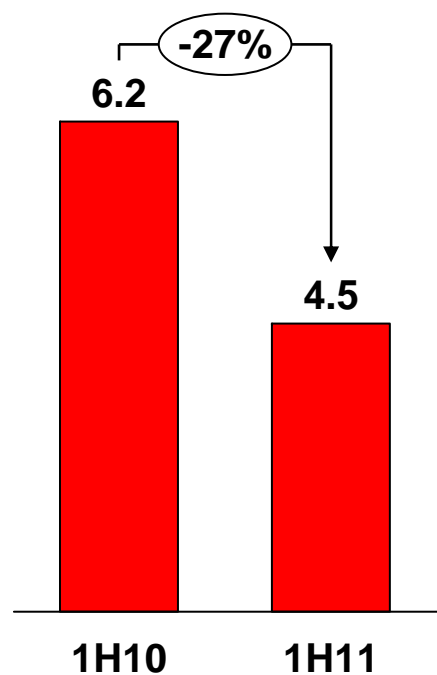


Our performance vs competitors'

HSBC Brazil

NPL Ratio (90d past due)¹

%



NPL Ratio¹

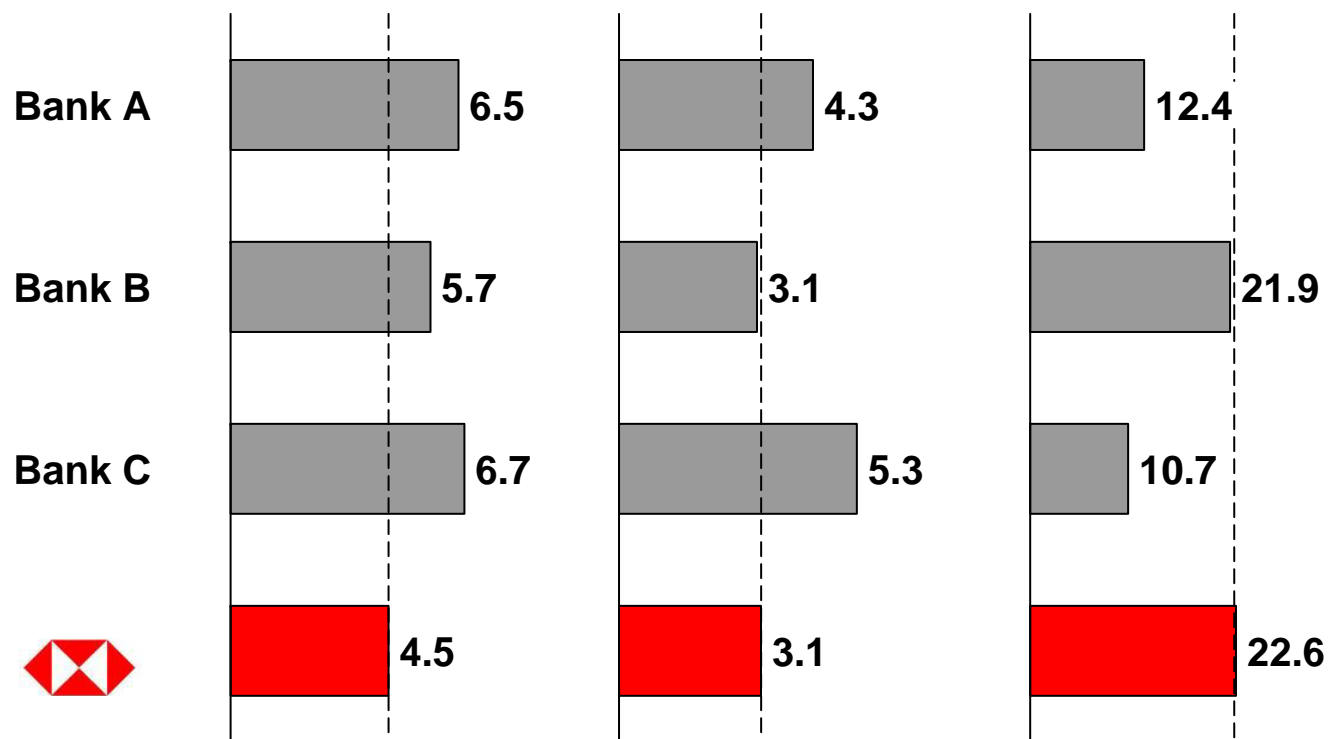
%, 1H11

LIC : Loans²

%, 1H11

RAR Growth³

%, 1H11 vs 1H10



¹ Based on proxy from E-H loans/total loans (Non-performing loans)

² Annualised (Loan impairment charges)

³ Risk Adjusted Revenue growth

Sources: HSBC Brazil financial conglomerate statements for 1H11 (local GAAP basis)

Strategic directions and actions

Strategic direction and actions overview

“To be the leading international bank in Brazil”

1 RBWM

- Build the best **Premium Bank** through service excellence and global reach
- Enhance **asset management** capabilities
- Mass retail to generate scale by exploring **upward mobility** and optimizing use of **direct channels**

2 CMB

- Increase **small business banking** market share through our distribution and service excellence
- Focus on **corporations with international needs** and high growth potential in most attractive markets

3 GBM

- Become the bank of choice for **internationally-oriented clients**
- Increase **share of wallet** in selected strategic clients
- Develop **structured finance**

4 GPB

- Become a Brazilian top 3 financial institution for private clients
- Explore **global capabilities** and **local cross-sell**

Increase capital and cost efficiency

Increase operational efficiencies through portfolio rationalisation and sustainable cost savings

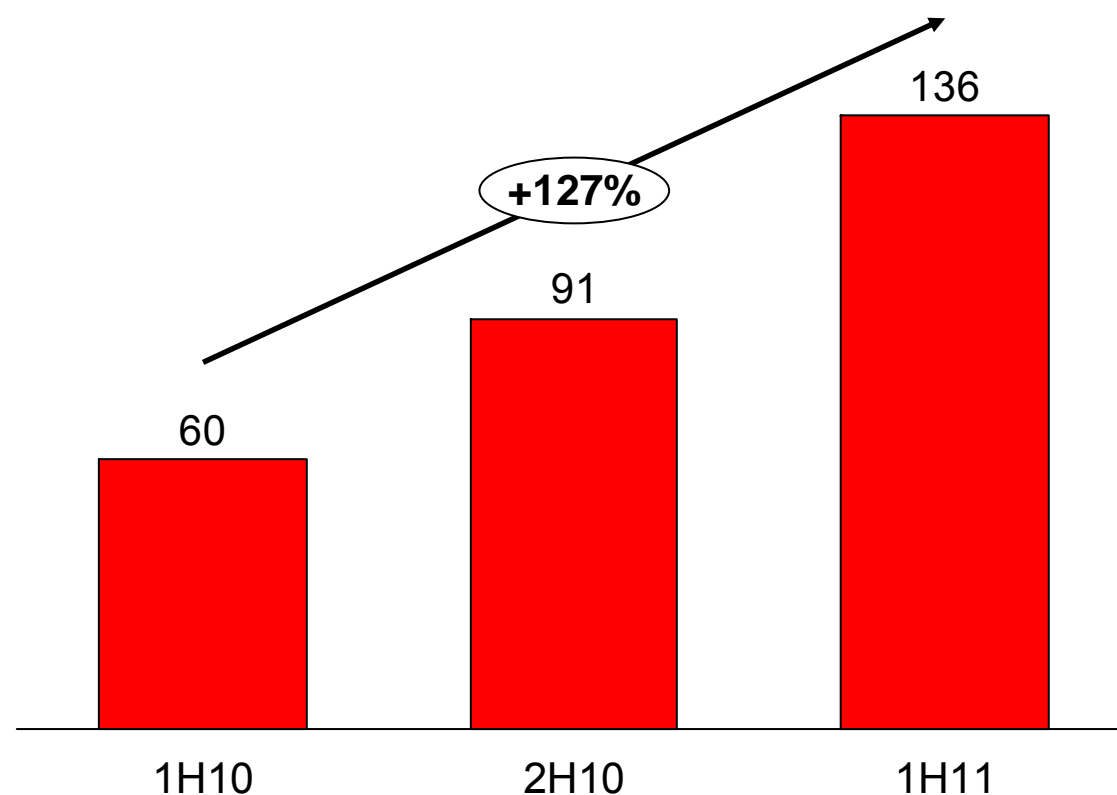
RBWM is moving away from consumer finance and towards relationship based credit, improving lending quality

RBWM key strategic initiatives

- Become a **leading player** in the **affluent market**
- Mass retail as a **feeder of new customers** for **Premier** and **Advance**
- 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**

RBWM profit before tax (HSBC Brazil)

USD m, IFRS basis

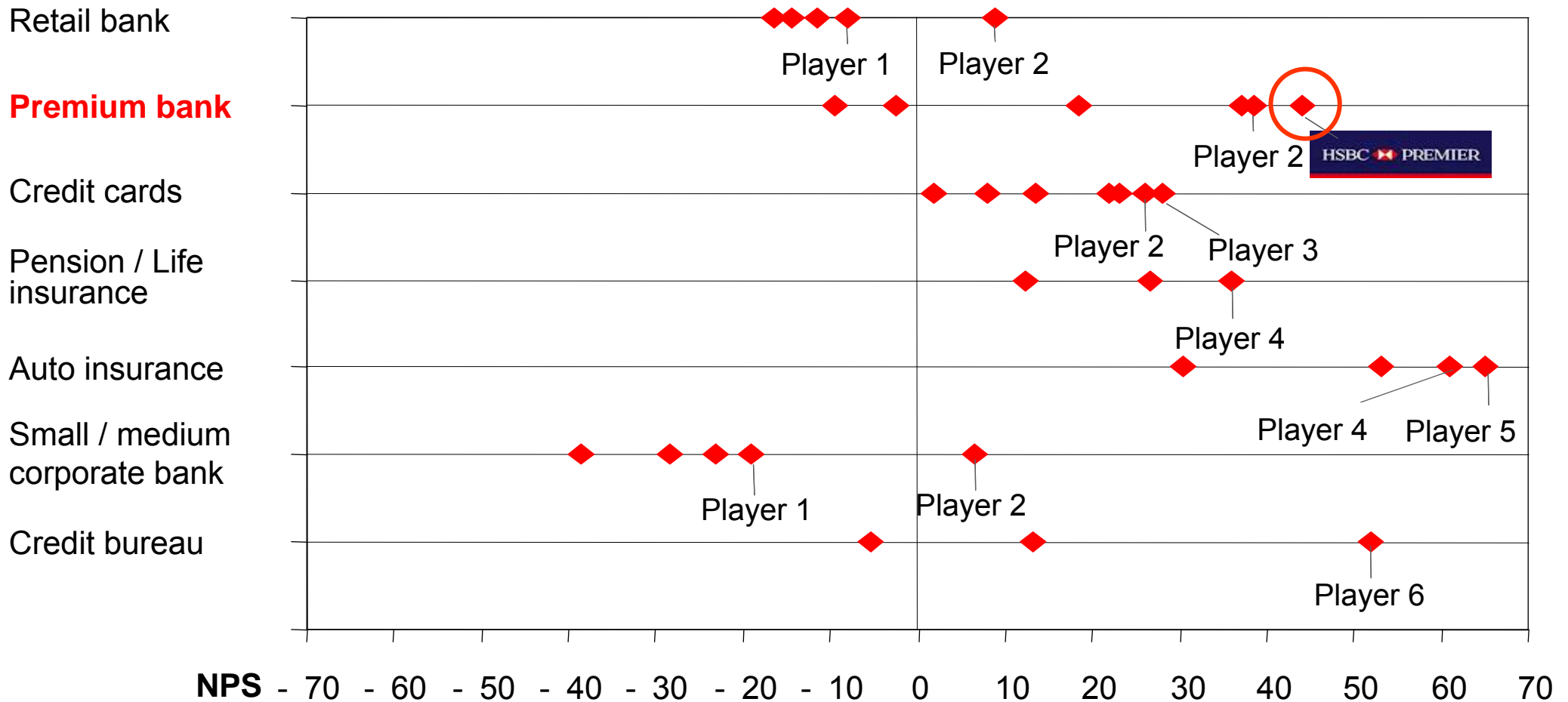


Source: HSBC Holdings plc Interim Results 2011

We improved customer satisfaction, positioning ourselves as the best premium bank...



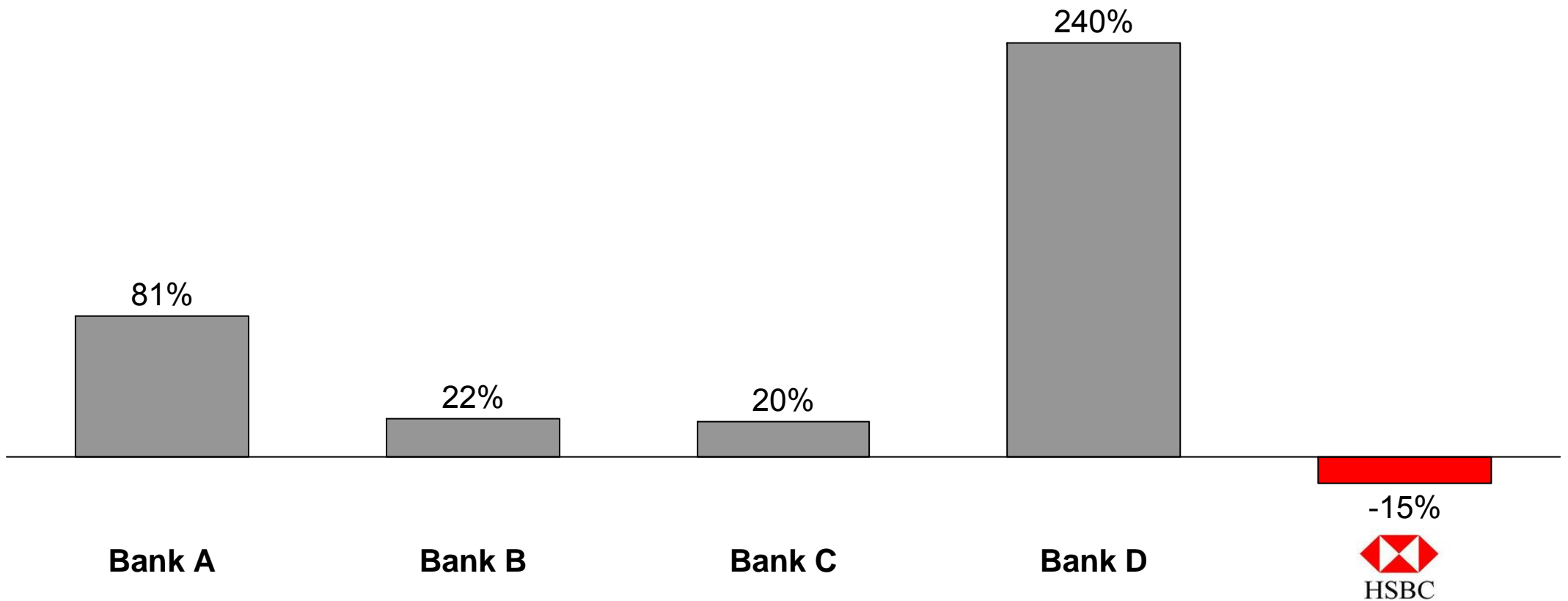
Net Promoter Score (NPS) by segment



... and we are the only privately-owned bank reducing the number of complaints

Variation in number of complaints

1H11 vs 1H10



Commercial Banking – A leading commercial bank for international business

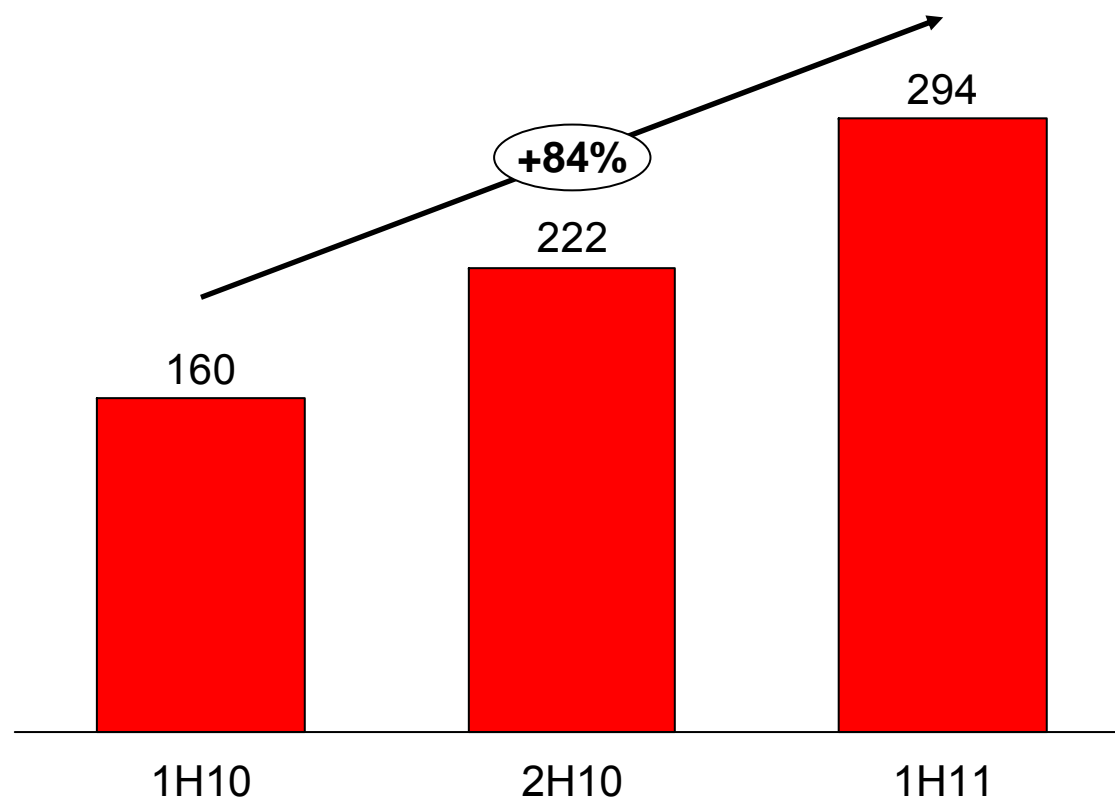


CMB key strategic initiatives

- Business Banking: focus on **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



CMB profit before tax (HSBC Brazil)

USD m, IFRS basis



Source: HSBC Holdings plc Interim Results 2011

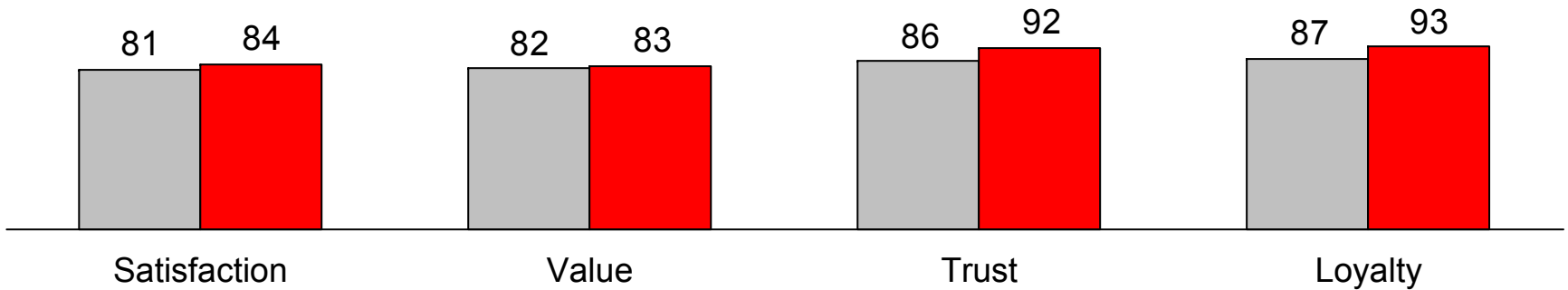
HSBC is outperforming competitors in customer experience for CMB segments

Competitors (avg)  HSBC 

HSBC Corporate

Corporate client engagement

Mean score (from 1 to 100)

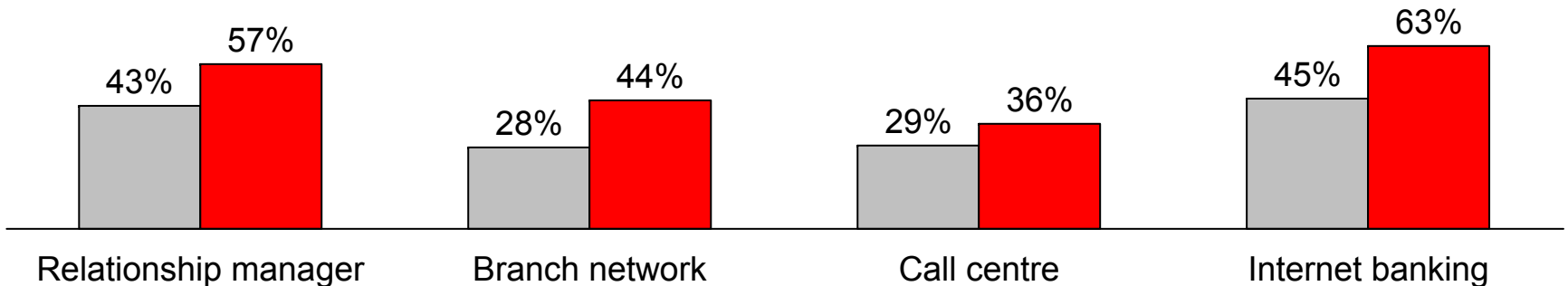


Source: Price Waterhouse & Coopers, "Client Engagement Programme" research (Sep-2011); selected dimensions

HSBC Empresas

Business Banking client satisfaction

% of clients which scored a grade of 9 or 10



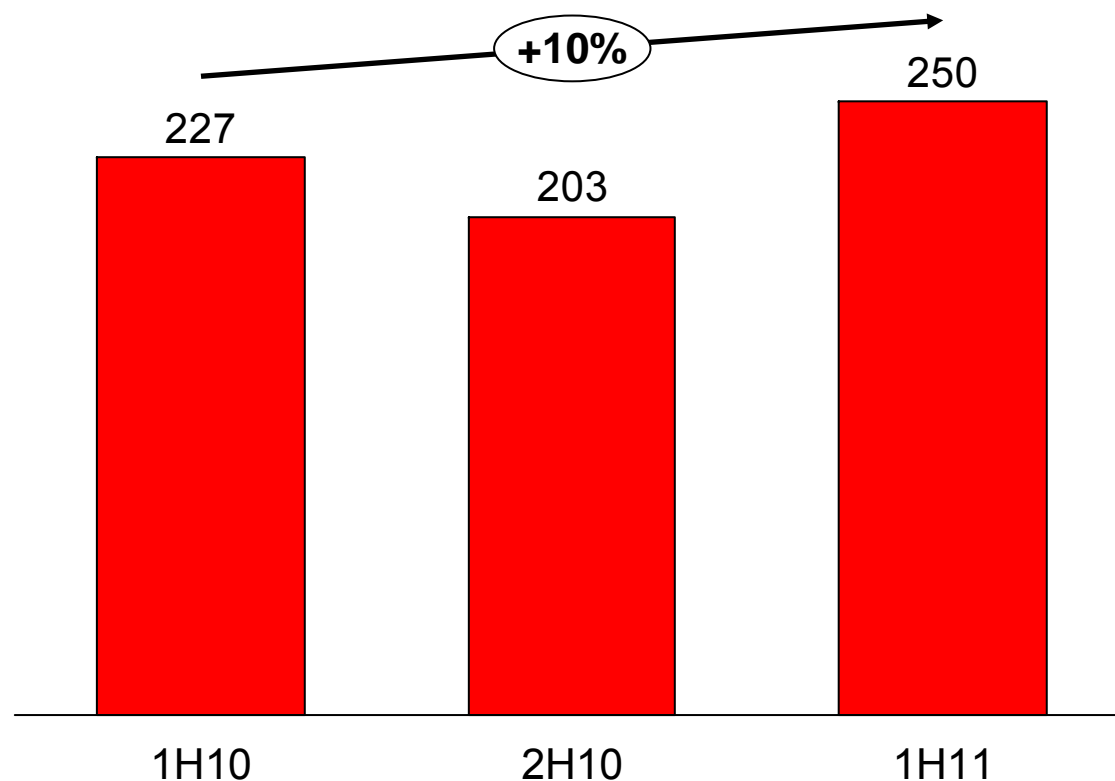
Source: Ipsos institute, "Key Drivers research" (Aug-2011); selected dimensions

GBM key strategic initiatives

- Leverage **global presence**, distribution and relationships
- Capture higher **share of wallet** within a **selected customer base** (Global Banking and CMB client base)
- Invest in **equities** to support distribution

GBM profit before tax (HSBC Brazil)

USD m, IFRS basis



Source: HSBC Holdings plc Interim Results 2011

HSBC is ranked as one of the best places to work in Brazil



HSBC 

HSBC Bank Brasil S/A

HSBC 

HSBC **G**lobal **T**echnology



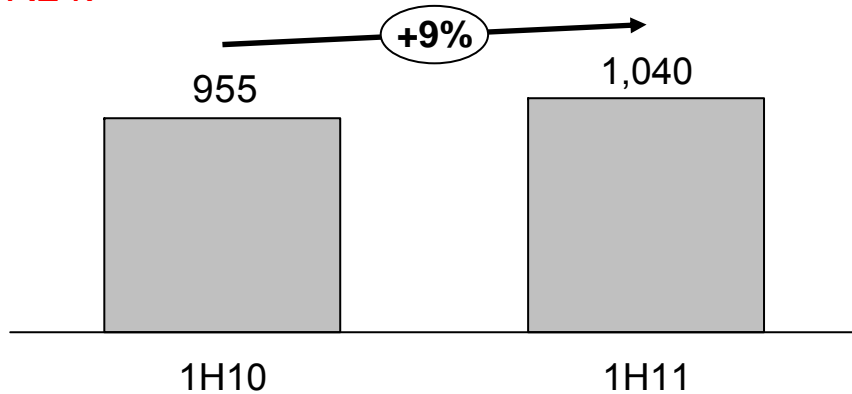
Outlook and conclusions

HSBC Brazil is increasing efficiency with strict cost management and maximisation of current footprint



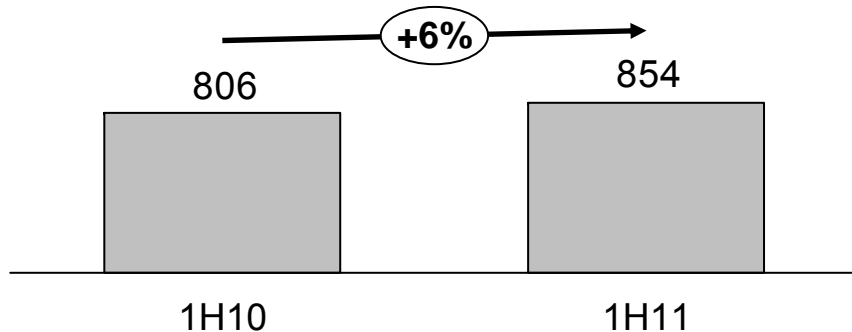
Net operating income¹ per 1000 clients²

BRL k



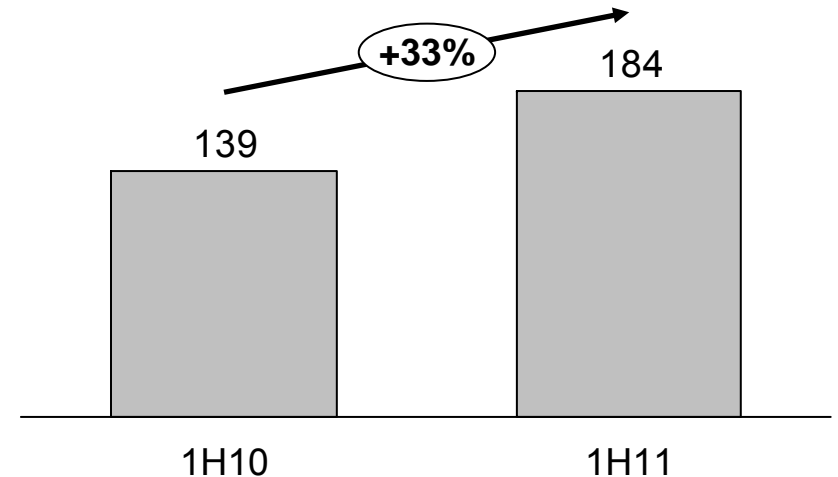
Total operating expenses¹ per 1000 clients²

BRL k



Profit before tax¹ per 1000 clients²

BRL k



Clients² per branch

4.9k

5.4k

Clients² per employee

180

188

1 Local GAAP basis
 2 Brazilian Central Bank criteria
 Source: HSBC Brazil financial conglomerate statements for 1H11 (local GAAP basis) and Brazilian Central Bank

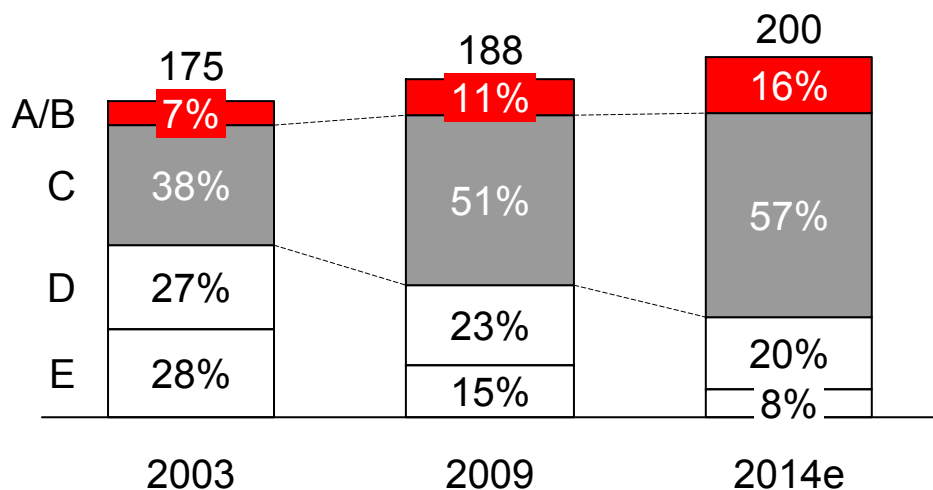
Demographics are favorable to our retail banking position and supports our strategic intent to explore the affluent segment



Demographics and increasing household income are positive drivers for the next 2 decades...

- Majority of the population will be at the age of buying **real estate** and investing in **pension plans**
- If current trend holds, 29m people will enter middle class, while 13m will exit poverty by 2014
- Per capita GDP** is expected to **more than double** by 2030, reaching USD 22,000 in PPP

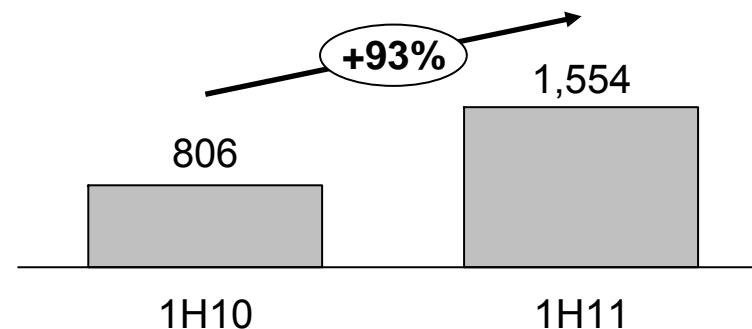
Population by class (# million)



Source: Finance ministry

...and HSBC Brazil is taking advantage of these new demands for financial services

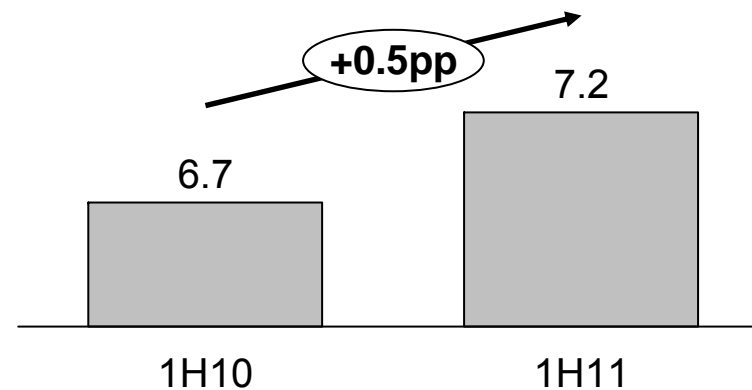
Mortgage portfolio (USD m)



Source: HSBC Holdings plc Interim Results 2011

Mutual funds to wealth clients¹

Market share (%)



Source: ANBMIA

HSBC Brazil is positioned to capture future growth in finance trade flows



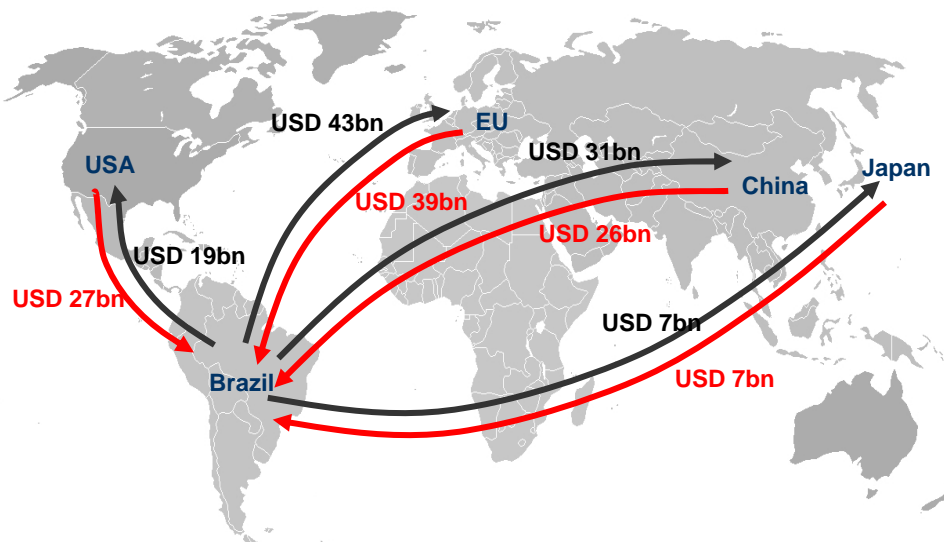
China's growing relationship with Brazil represents a strong business opportunity...

- Trade volume to grow ~8% p.y., reaching ~USD 802bn in 2020 (from USD 384bn in 2010)
- China is the **largest destination for Brazilian exports** and a growing source of FDI
- In 2010, chinese **direct investments in Brazil** reached aprox. USD 12bn (55% in the energy sector)

... and HSBC is well positioned for this trend through the Asia Desk initiative in Shanghai

- Supports **Brazilian subsidiaries trading with Asia**
- Opened desk in 2010
- The result of this initiative has been a **37% increase on market share** into this trade corridor

2010 Trade balance



Asia desk offices



Outlook and conclusions

- HSBC will continue to explore new business opportunities leveraged by Brazil's **GDP growth**
 - Attend **internationally-oriented clients** exploring global reach
 - Leverage share with **Corporate** and individuals **high income** segments
 - Explore **upward mobility** and **small business** growth
 - Increase **operational efficiency and return**
- HSBC's performance is building on strong competitive advantages
 - Better efficiency, from strong **revenue expansion** and **cost control**
 - **Improved credit quality** outperforming market's
 - **Capital allocation discipline** resulting in **better risk-return** trade-off
 - Strengthening in **strategic portfolios**, such as mortgage and investments
- Performance edges are enabling a **growing contribution** to HSBC Group's results and returns

Contacts and further information



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