



# HSBC Brazil update

## Presentation to Investors

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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 the Group. These forward-looking statements represent the Group'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 Report and Accounts 2011 and Interim Management Statement issued on 08 May 2012. 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 2011. Information regarding HSBC Latin America and certain HSBC Brazil financials as extracted from the HSBC Holdings plc Annual Report 2011 and from HSBC Bank Brasil S.A. - Banco Múltiplo Annual Report and Consolidated IFRS Financial Statements 2011.**



# Agenda

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## 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

- Brazil was the **4<sup>th</sup> largest contributor** to Group PBT in 2011
- The performance has improved with **strong revenue generation** and **stringent cost management**

### 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** and **social mobility**
- Important **emphasis on wealth and global connectivity**

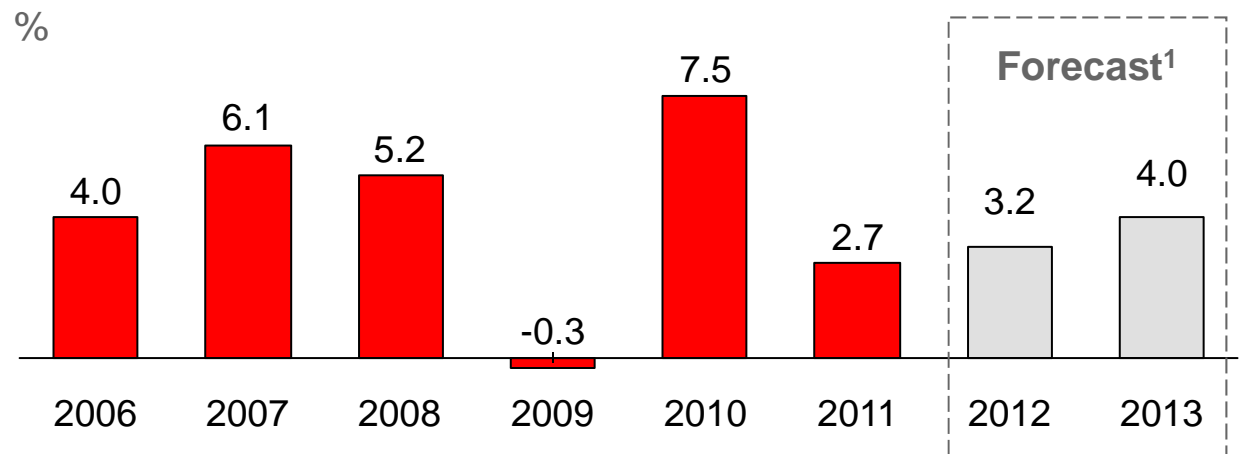
## Economic overview



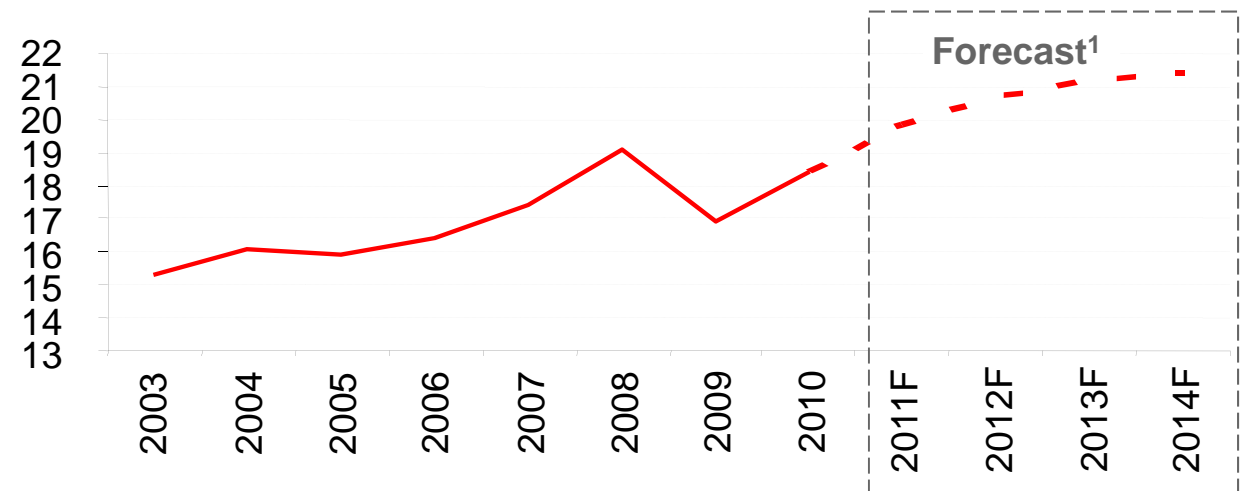
## Despite Brazilian economic slowdown in 2011 a rebound in economic growth is expected in 2012, supported by investment in infrastructure

- Brazilian economy is the largest in Latin America (2011 GDP USD 2.5tn) and is ranked among the 10 world's largest economies
- Looking forward, policy easing and credit cycle will help leverage growth in future years
  - Low investment/GDP (especially infrastructure) generating bottlenecks
  - Significant opportunities related to ~USD 500bn infrastructure investment by 2015
  - Low savings ratio and short tenor of liabilities are challenges for investment

### Brazilian GDP growth



### Investment rate forecast (FBKF/GDP)



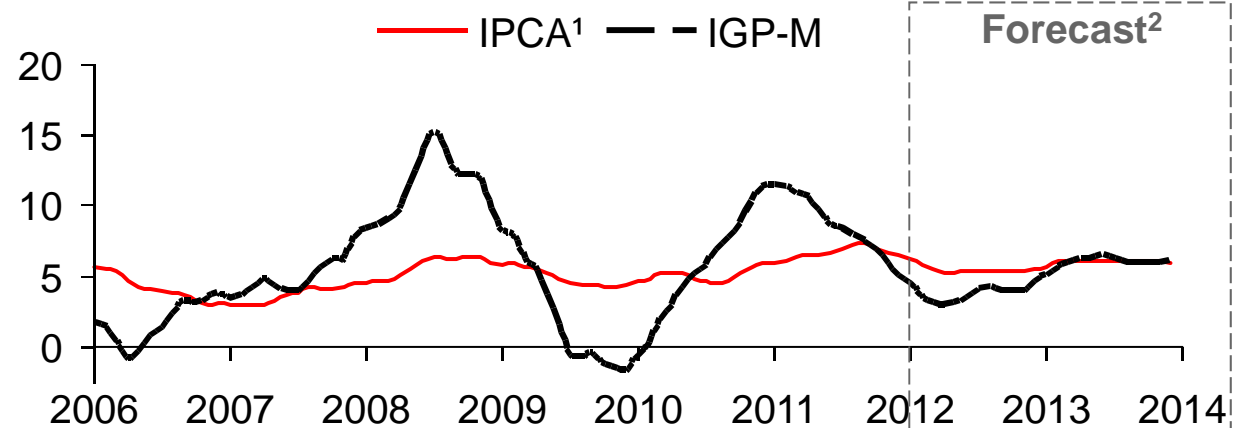
<sup>1</sup> Estimated by HSBC Brazil

Source: IBGE (Brazilian Institute of Geography and Economy) and Brazilian Central Bank

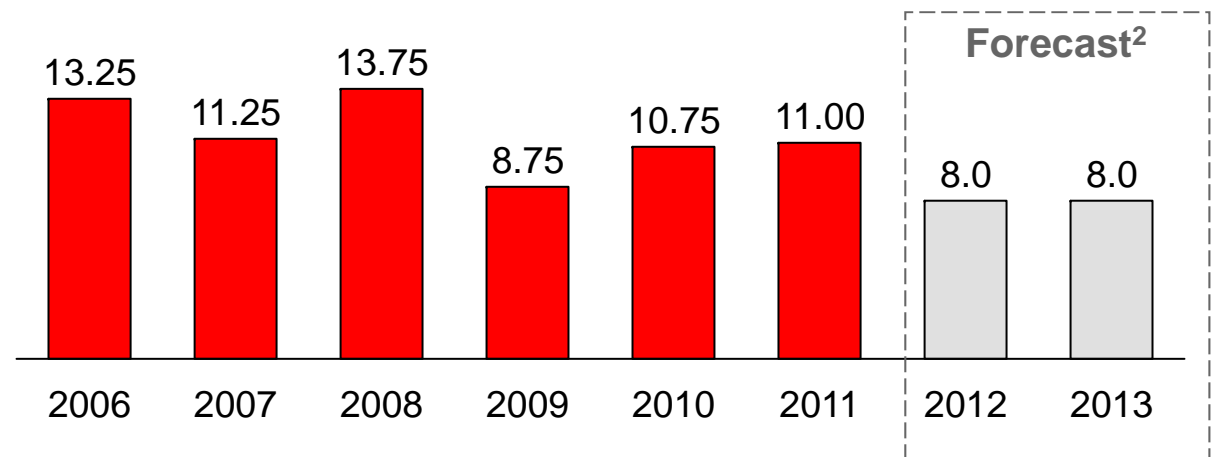
## Inflation only partially tamed and lower interest rate levels are expected throughout 2012

- Although short-term outlook is positive, service sector inflation remains a source of concern
- Even with slightly higher unemployment, wage inflation will continue to put pressure on service prices
- IPCA inflation to fall to 5.3% in 2012, but to return to just under 6% in 2013
- Selic policy rate expected to be 8.0% at year-end, and to remain at that level through the end of 2013

### Inflation



### SELIC interest rate (end of period)

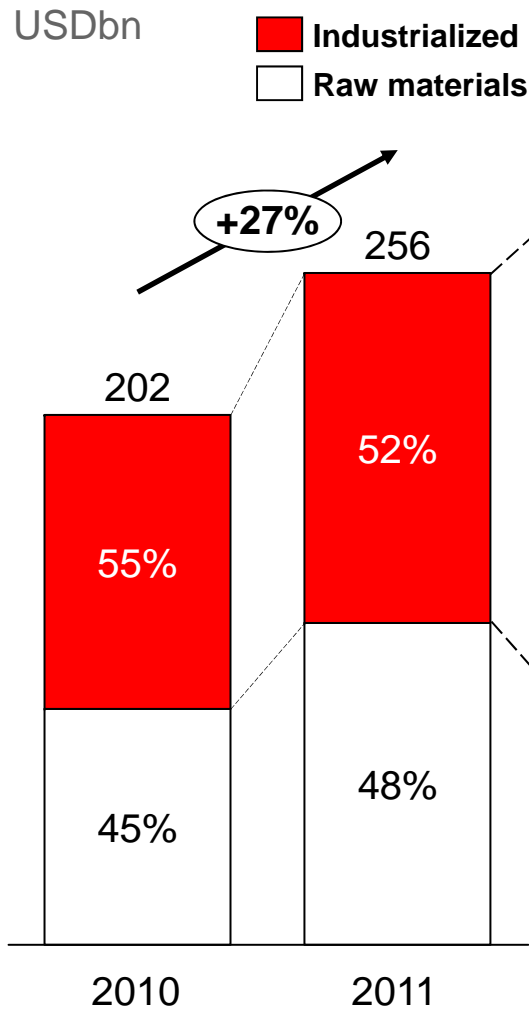


1 Extended National Consumer Price Index  
2 Estimated by HSBC Brazil  
Source: IBGE

# The Brazilian economy is much more than just commodities

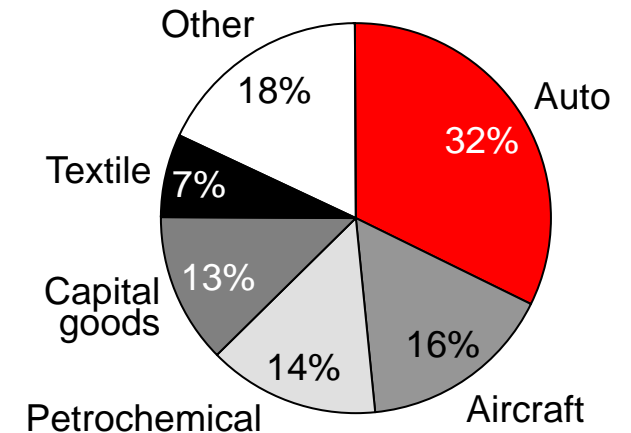
- **Industrialized products** represent **more than half** of Brazilian total exports (~USD 134bn in 2011)
- Driven by Chinese demand, **raw materials** were the fastest growing component of exports from 2010 to 2011, but still account for **less than half of total exports**
- Brazil's **diverse industries** include automobiles, petrochemicals, machinery and equipment, computers and electronics, aircrafts, textiles, consumer durables

## Brazilian exports evolution



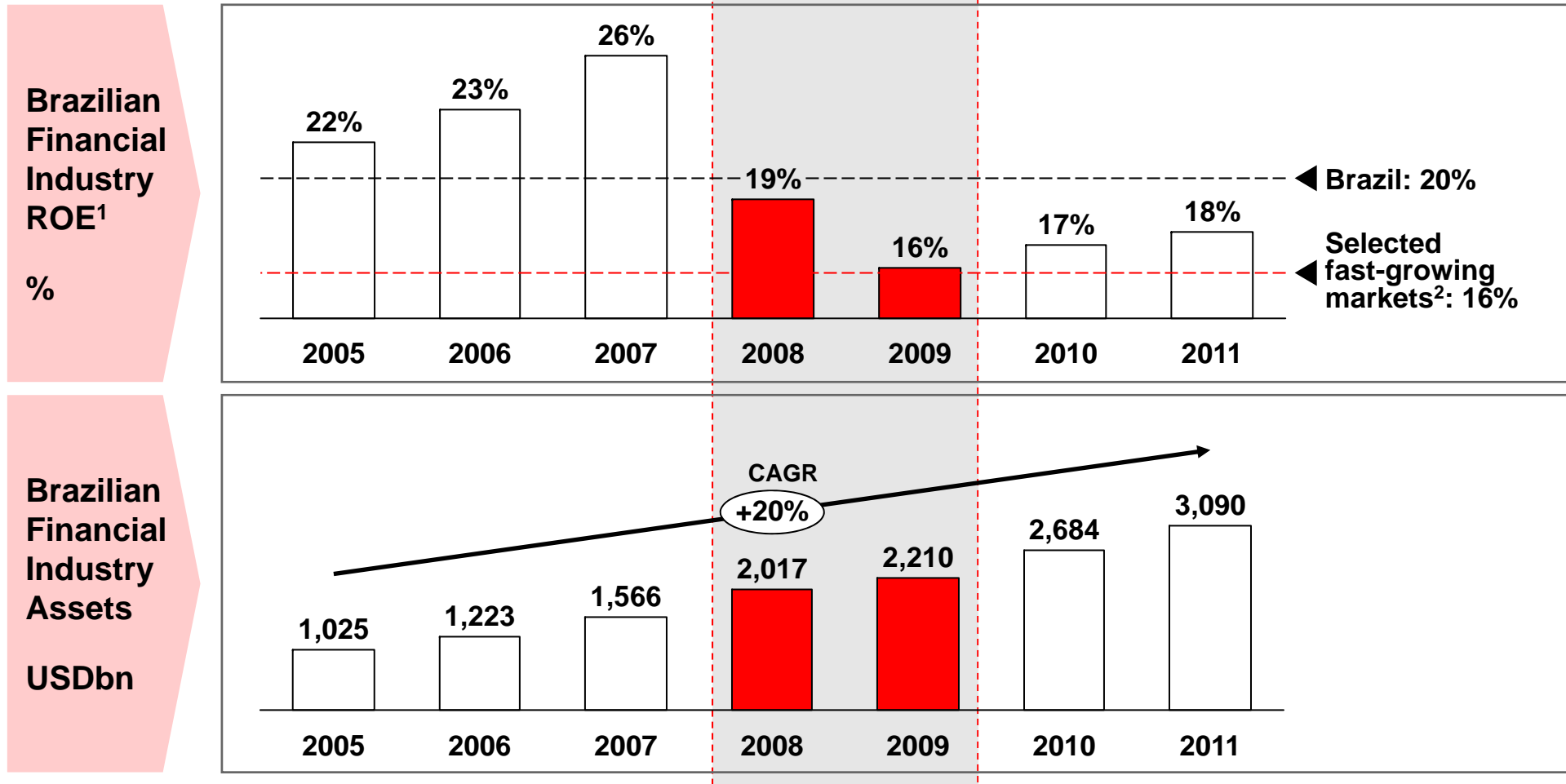
## Industrialized exports breakdown

%, 100% = USD 134bn





# Brazil has a strong and profitable financial system, resilient even during crisis periods



1 Brazilian Financial Industry average – Local GAAP

2 Average financial system ROE of selected fast-growing markets (China, India, Turkey, Mexico and Argentina) from 2005 to 2010

Conversion rate: 1USD = BRL 1.6339

Source: International Monetary Fund (selected fast-growing markets) and Brazilian Central Bank

# Positioning



HSBC 

## Positioning

# HSBC has relevant presence in selected segments in Brazil

As at December 2011

## Strong balance sheet

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- 6<sup>th</sup> largest bank<sup>3</sup> by customer lending balances (BRL 59bn) and customer deposits (BRL 79bn)
- Total assets of BRL 131bn
- Total capital ratio at 13.7%

## Network

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- Presence in all Brazilian states
- 867 branches (97 Premier Centres)
- 390 banking service points
- 5,284 ATMs
- 22,078 employees



## Resilient business franchise

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- PBT of BRL 1,913m
- ROE: 16.2% (underlying ROE: 17.6%)
- CER: 60.7% (underlying CER: 56.7%)
- Source of PBT: 45% GBM<sup>1</sup>, 49% CMB<sup>1</sup>, 17% RBWM<sup>1</sup>, -11% Others<sup>2</sup>
- 1<sup>st</sup> place in international Debt Capital Markets<sup>4</sup>
- 2<sup>nd</sup> place in off-shore mutual funds<sup>4</sup>
- 5<sup>th</sup> place in mutual funds to retail high income clients<sup>4</sup>
- 4<sup>th</sup> place in Forex products<sup>3</sup>

<sup>1</sup> GBM - Global Banking and Markets, CMB - Commercial Banking, RBWM - Retail Banking and Wealth Management

<sup>2</sup> It includes Private Banking and restructuring costs not allocated to any global business

<sup>3</sup> Brazilian Central Bank

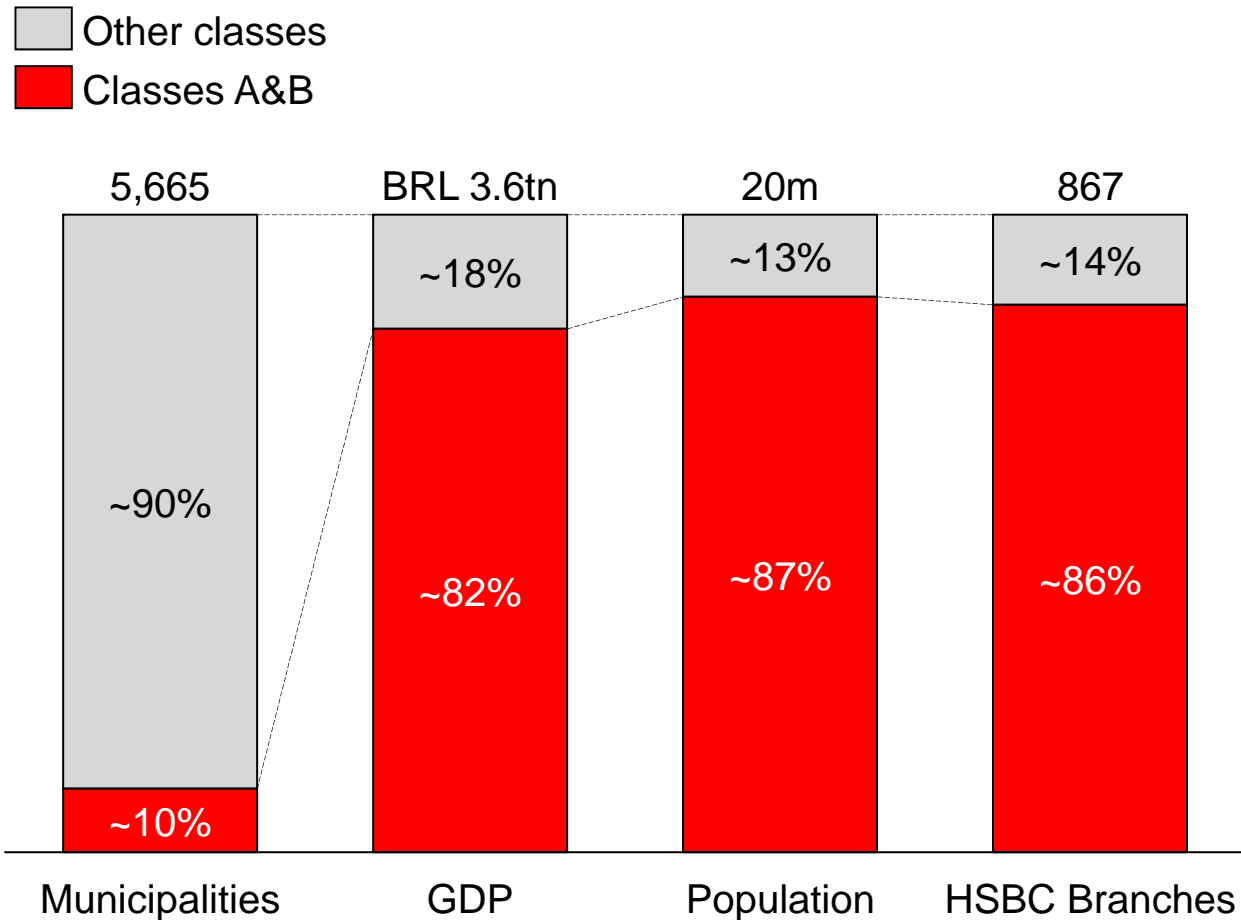
<sup>4</sup> ANBIMA (Brazilian Financial and Capital Markets Association)

Source: HSBC Brazil Annual Report and Consolidated IFRS Statements 2011

**Positioning**

**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**
- **HSBC Brazil is well positioned to capture mass affluent clients, as it is present in 86% of these municipalities**

**Positioning**

**Improved customer satisfaction, positioning ourselves as a leading premium bank...**



<sup>1</sup> Client's willingness to recommend  
<sup>2</sup> Monthly income  
Source: PIF research ("Painel da Industria Financeira") – Fractal Institute

Positioning

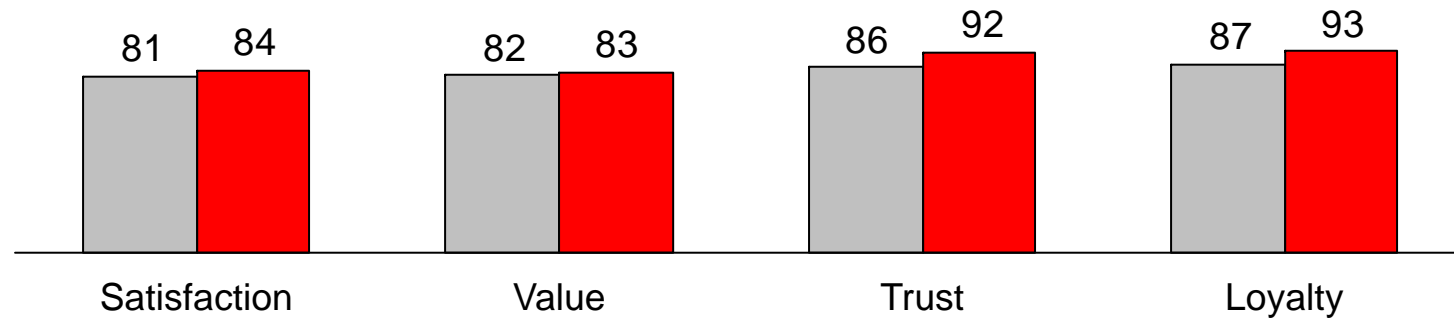
... and outperforming competitors in customer experience for Commercial Bank segments

Competitors (avg) HSBC

Medium and Large Corporates

Client engagement

Scores from 1 to 100

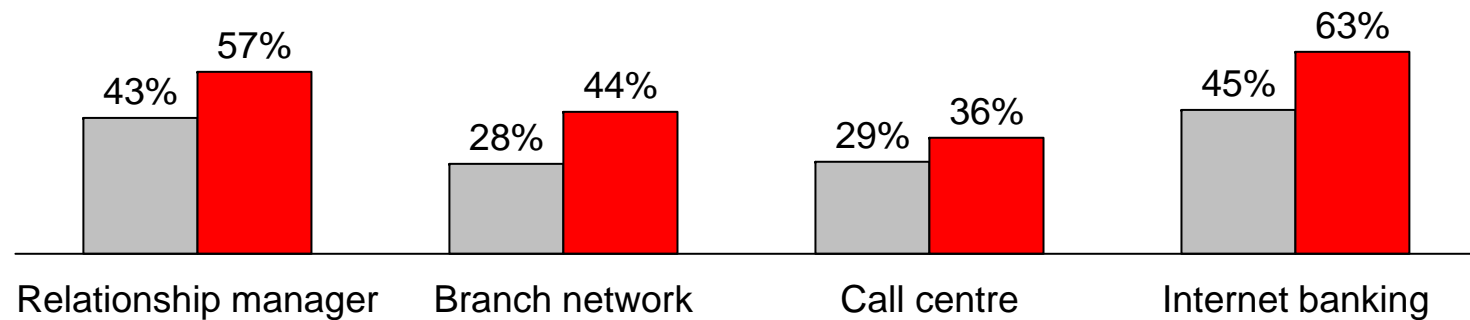


Source: Price Waterhouse Coopers, "Client Engagement Programme" research (Sep-2011); selected dimensions

Business Banking

Client satisfaction

% of clients which scored a grade of 9 or 10



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

## Recent performance



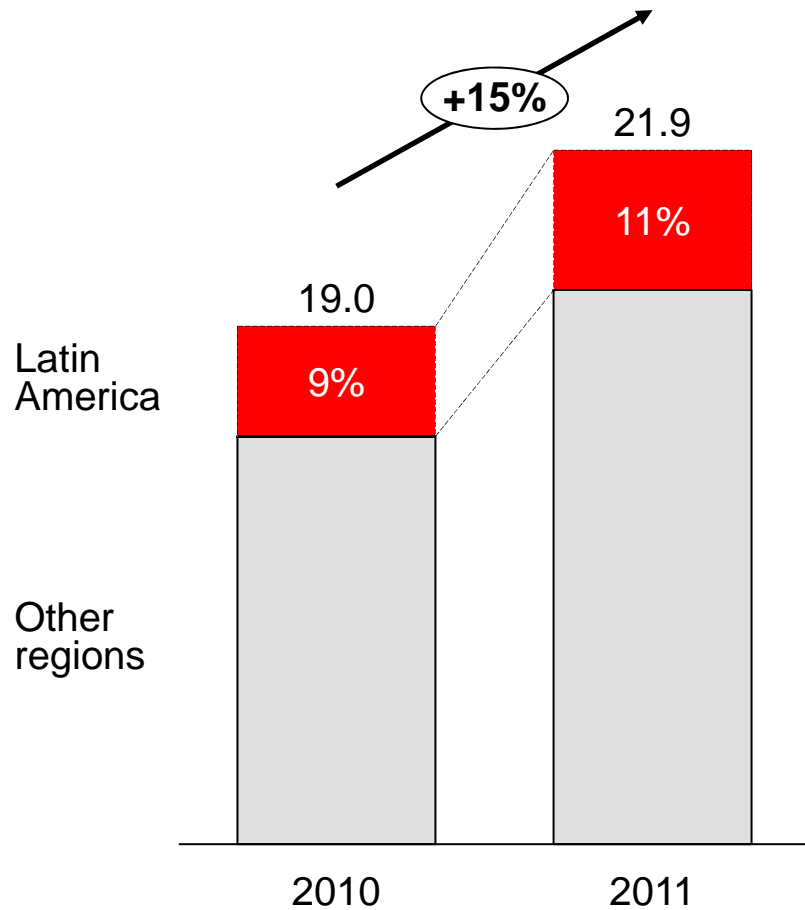
HSBC 

Recent performance

# Brazil was the 4<sup>th</sup> largest contributor to Group PBT in 2011

## 2011 HSBC Group PBT (full year)

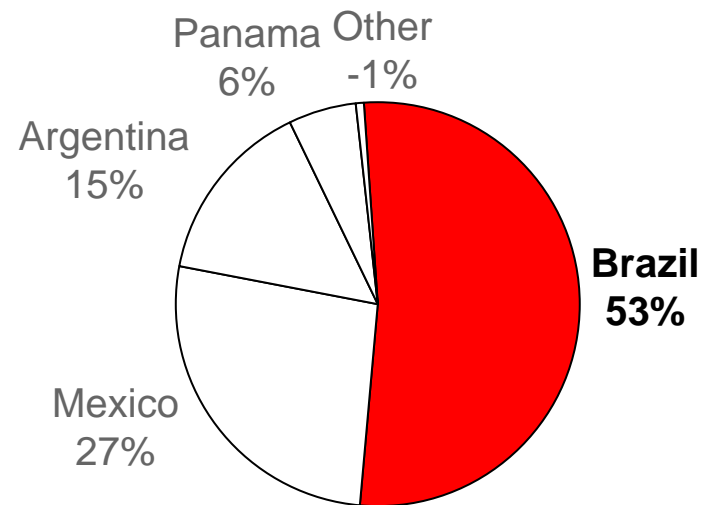
USDbn



## 2011 PBT ranking

Position	Country	PBT (USDm)
1	Hong Kong	5,823
2	Mainland China	3,681
3	United Kingdom	3,521
<b>4</b>	<b>Brazil</b>	<b>1,230</b>
5	Canada	965

## Latin America 2011 PBT breakdown





## HSBC Brazil – 2011 financial highlights

Summary financial highlights (BRLm)	2010	2011	Better/(worse) 2011 vs 2010
Reported profit before tax	1,773	1,913	8%
Reported profit after tax	1,261	1,345	7%
Underlying profit after tax	1,261	1,453	15%
Total assets	121,372	130,927	8%

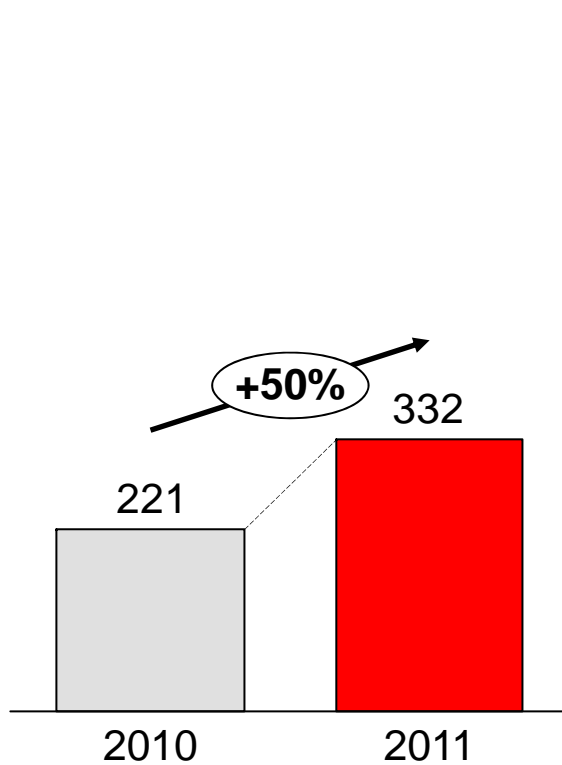
Financial targets (%)	2010	2011	Better/(worse) 2011 vs 2010
Reported return on equity	16.9	16.2	-0.7 p.p.
Underlying return on equity	16.9	17.6	+0.7 p.p.
Reported cost efficiency ratio	63.4	60.7	-2.7 p.p.
Underlying cost efficiency ratio	60.3	56.7	-3.6 p.p.
Total capital ratio	13.0	13.7	+0.7 p.p.

Recent performance

# Main segments presented strong profit growth, contributing to a more balanced business

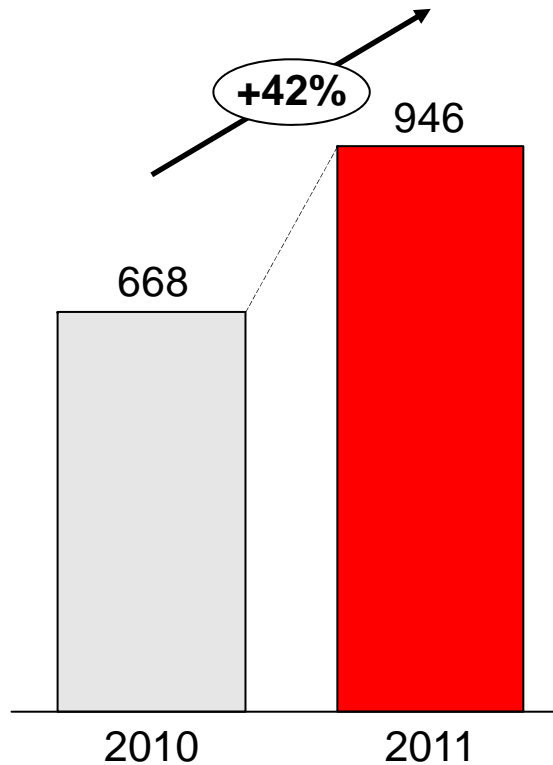
## Profit before tax – Retail Banking and Wealth Management

BRLm



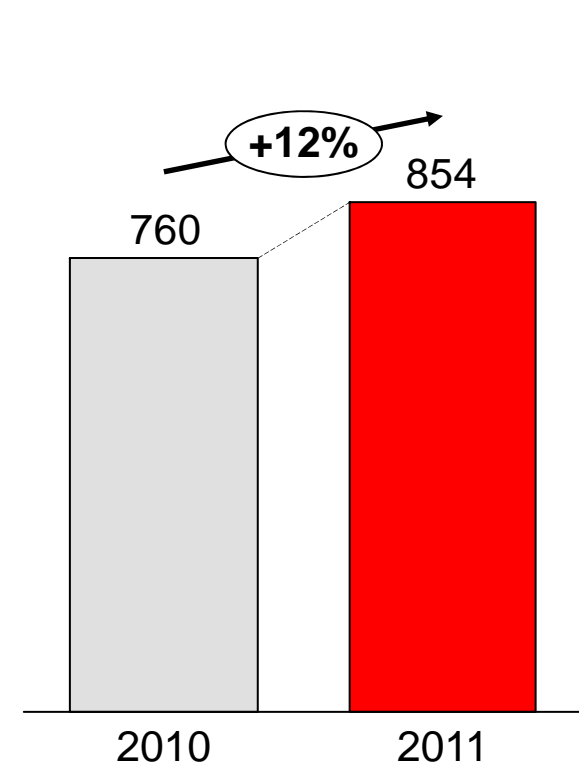
## Profit before tax – Commercial Banking

BRLm



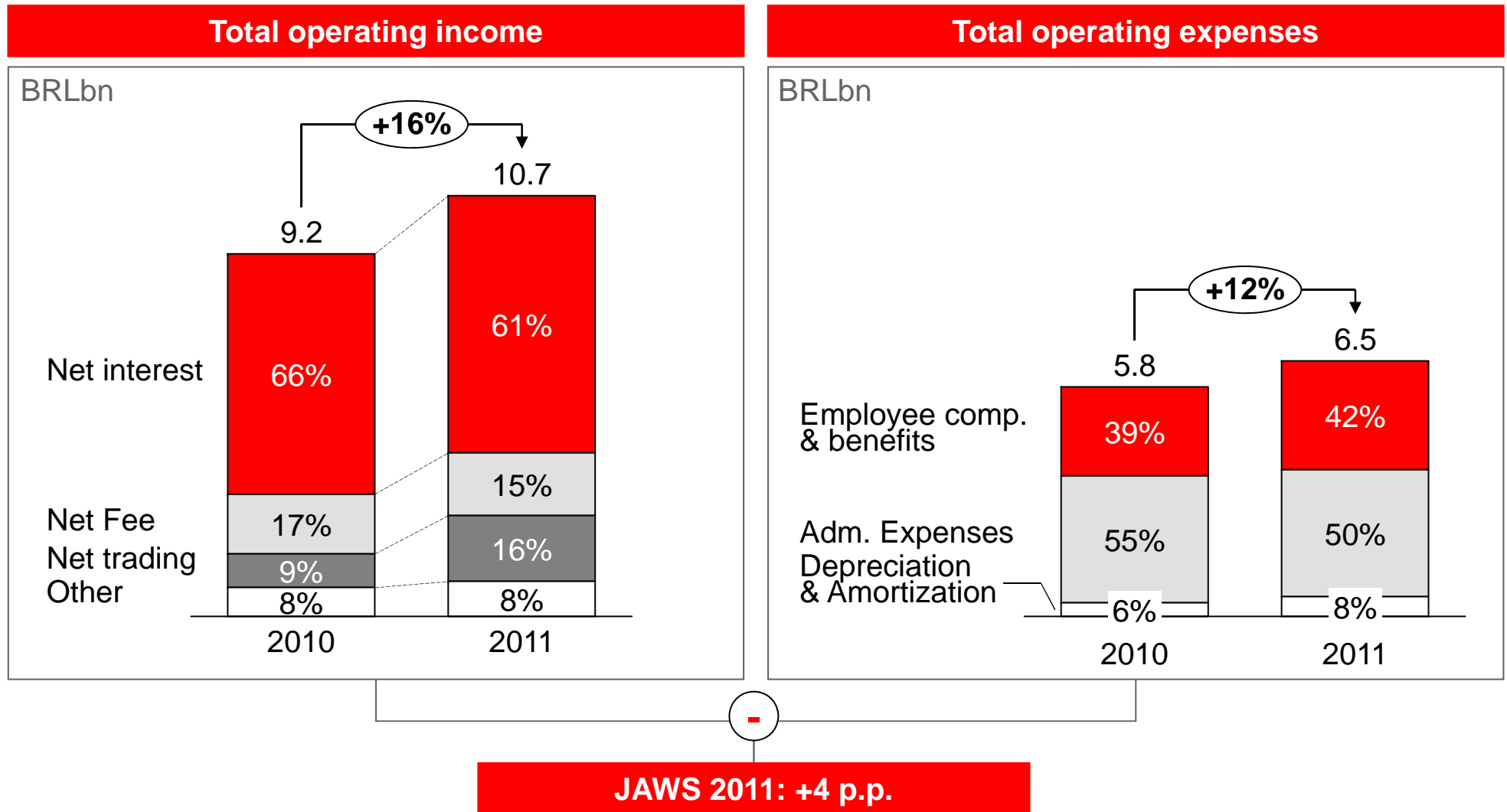
## Profit before tax – Global Banking and Markets

BRLm



Recent performance

# HSBC Brazil is improving performance with strong revenue growth and stringent cost management

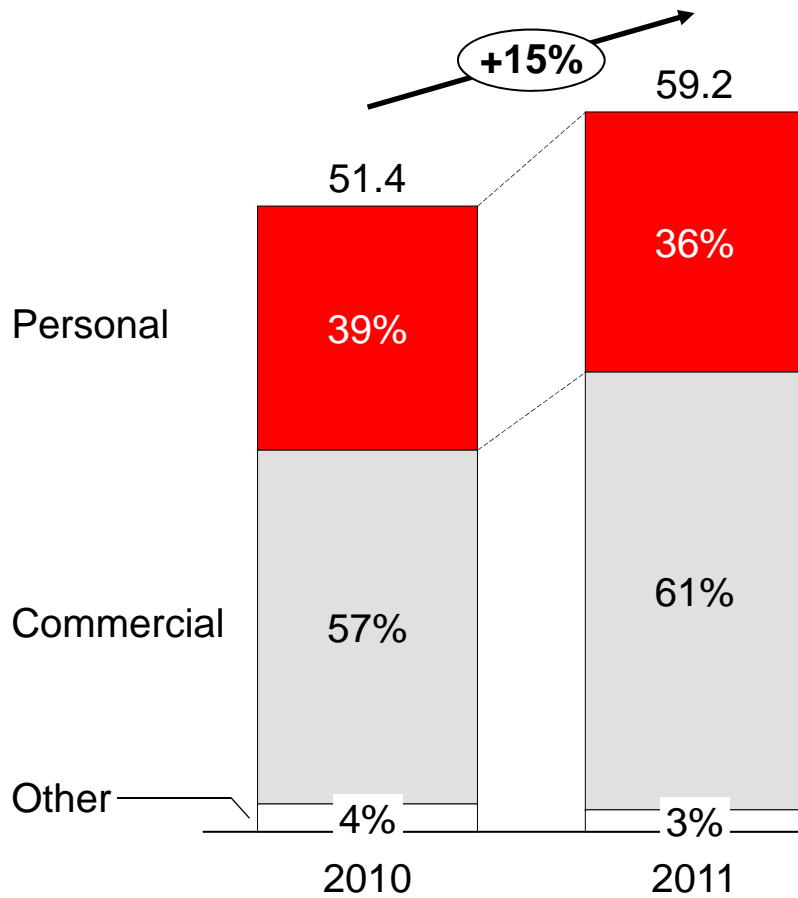


Jaws: income growth minus expense growth  
 Source: HSBC Brazil Annual Report and Consolidated IFRS Statements 2011

# Customer loans growth was led by commercial sector

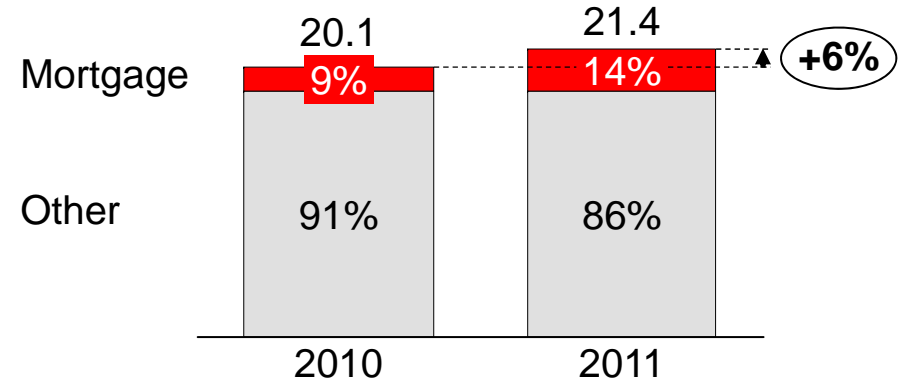
## Gross loans and advances to customer

BRLbn



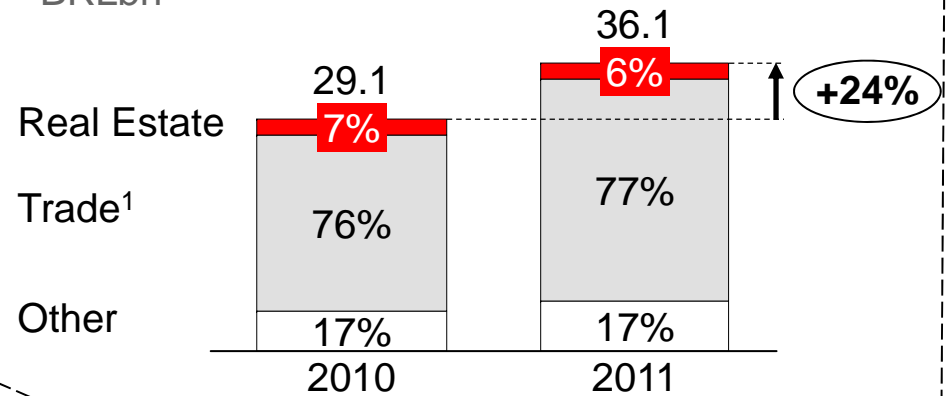
## Personal loans breakdown

BRLbn



## Commercial loans breakdown

BRLbn



<sup>1</sup> It includes commercial, industrial and international trade  
Source: HSBC Brazil Annual Report and Consolidated IFRS Statements 2011

## Strategic direction and actions



## HSBC Brazil is fully aligned with regional strategy

### Brazil

*Become the leading international bank serving key growth segments and markets*

#### Retail Banking and Wealth Management - Positioned to capture social mobility and wealth creation

- Focus on affluent customers
- Grow in Wealth Management
- Mass customers as feeder to capture social mobility and wealth creation opportunity

#### Commercial Banking - The leading commercial bank for international businesses

- Grow in small and medium enterprises
- Leverage opportunities in Corporate, particularly for international customers
- Capture business from international flows (e.g., Trade, FDI)

#### Global Banking and Markets - Connecting Latin America and the world

- Connect corporate customers throughout Latin America and main global centres
- Increase cross-sell with CMB

#### Increase capital and cost efficiency

- Increase efficiencies through portfolio rationalization and sustainable cost savings

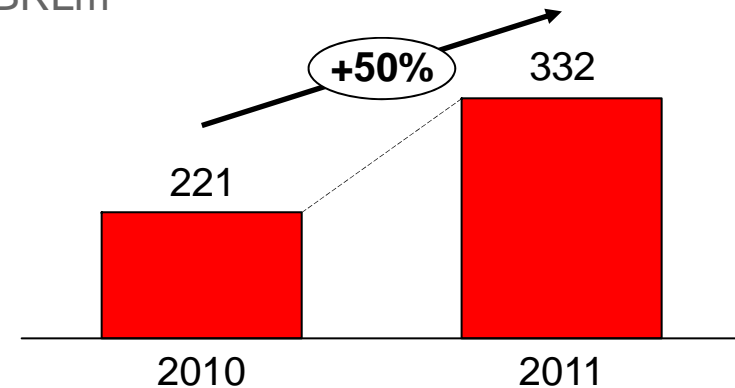
## Retail Banking and Wealth Management – Offers world class banking and wealth management solutions

### 2011 business highlights

- **+ 800 new relationship managers** to support sales increase and improve customer service
- Increased **efficiency & productivity**
- **+160% in retail funds**
- **+26% loans and advances to customers** (excl. payroll & auto finance dealers which have been discontinued)
- Focus on **products** that generate **strong relationships and high returns** (e.g. credit cards, insurance, investment products, mortgage)

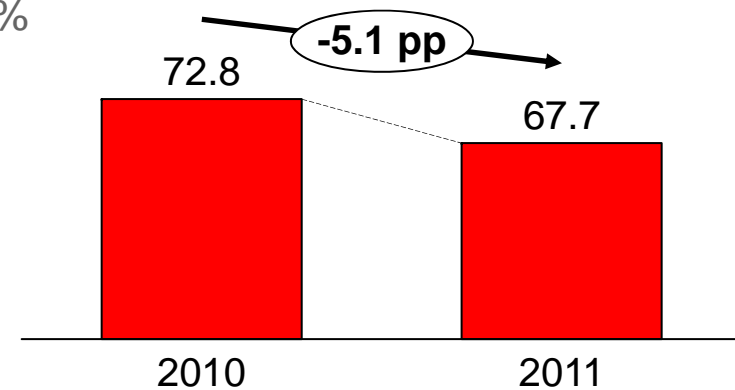
### Profit before tax

BRLm



### Cost efficiency ratio

%



## Commercial Banking – Become a leading commercial bank for international business

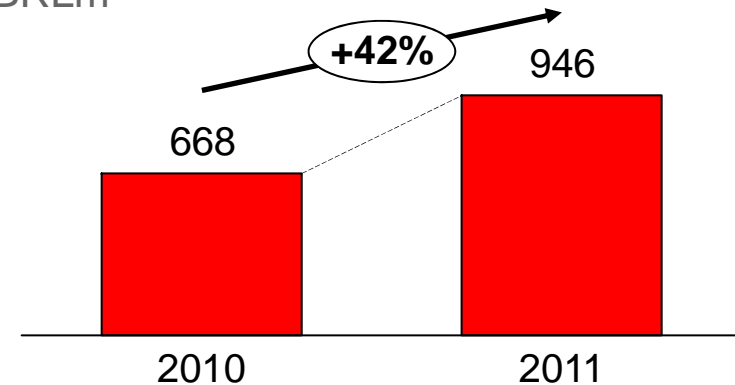
### 2011 business highlights

- ~48k new Business Banking clients
- 21k client referrals to Premier
- Increased product penetration in the customer base
- +22% loans and advances to customers
- +39% in trade operations (volume)
- HSBC was recognised<sup>1</sup> as 'Financial Institution of the year' for having contributed most to the growth and development of the Brazil-China trade corridor

<sup>1</sup> According to Brazil-China Chamber of Commerce (2011)  
Source: HSBC Brazil Annual Report and Consolidated IFRS Statements 2011

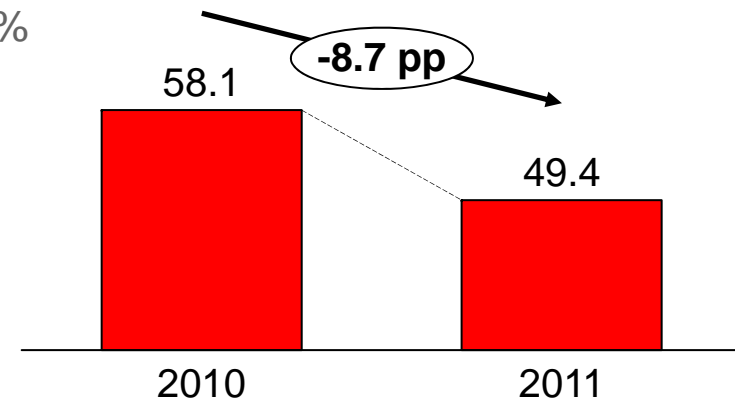
### Profit before tax

BRLm



### Cost efficiency ratio

%





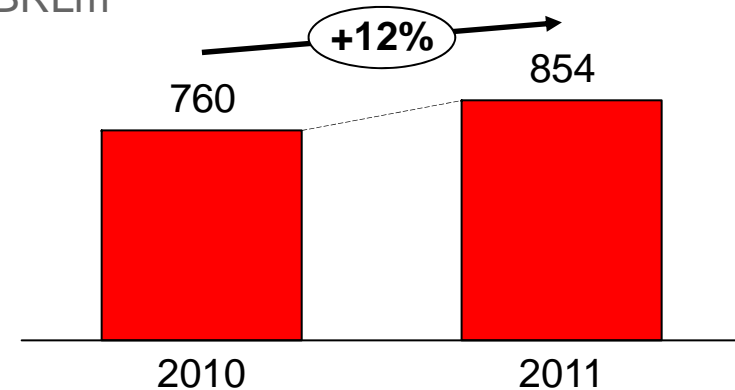
## Global Banking & Markets – Leverage Global Presence and be the Bank of Choice for Brazilian Corporates

### 2011 business highlights

- Prominent position in the **FX spot and derivatives** rankings
- Growth in **operations and services to global customers** based in Brazil
- **New mandates in Investment Banking** by prospecting selected Commercial Banking customers
- Increasing **customised products for clients**
- **Relevant performance in local debt operations**, specially for Commercial Banking customers

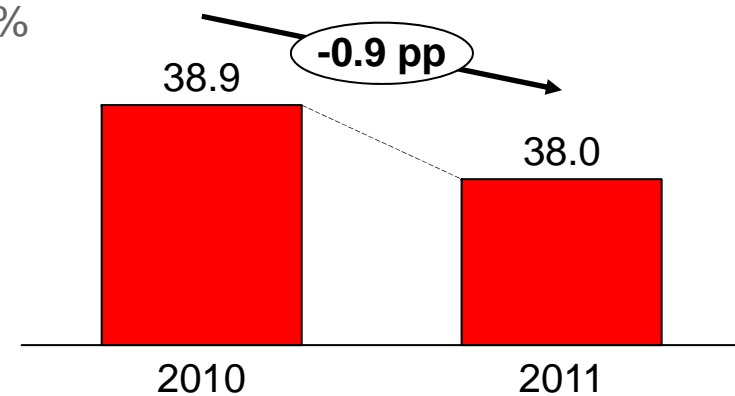
### Profit before tax

BRLm



### Cost efficiency ratio

%



## Outlook and conclusions



## Outlook

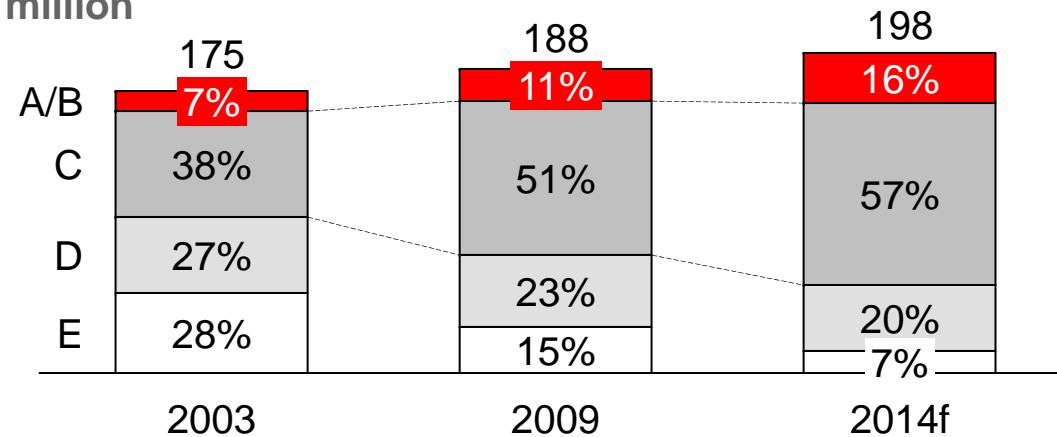
Demographics are favourable to our retail banking and support our strategic intent to explore the affluent segment

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

- Majority of the population will be at the age to buy **real estate** and invest in **pension plans**
- By 2030, 126m Brazilians should be in the 20-60 age range
- If current trend holds, 29m people will enter middle class and 13m will exit poverty by 2014
- **Per capita GDP** is expected to **more than double** by 2030, reaching USD 22,000 in purchasing power parity

### Population by class

#, million



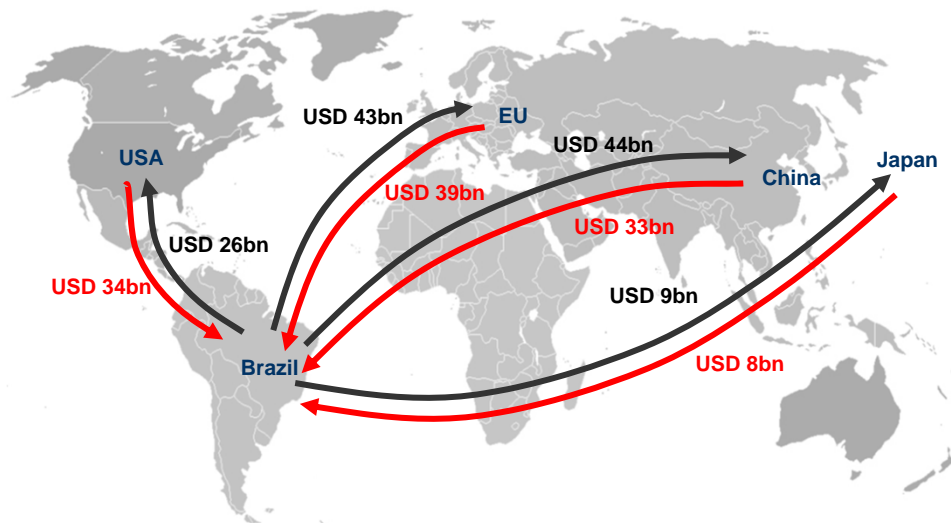
### Brazilian age Pyramid expected by 2030



## Outlook

Growth in Brazil-China relationship represents a strong business opportunity and HSBC is positioned to capture trade flows finance

### 2011 trade balance



- Trade volume to grow ~9% p.a., reaching ~USD 900bn in 2020 (USD 482bn in 2011)
- China is the **largest destination for Brazilian exports** and a growing source of FDI
- In 2011, Chinese **direct investments in Brazil** reached ~USD 10bn

### Asia desk offices



- Supports **Brazilian subsidiaries trading with Asia**
- Opened desk in Hong Kong (2010)
- Focus on **international revenues** (Trade and FX, China – Brazil corridor)

## Conclusions

- HSBC will continue to explore new business opportunities leveraged by Brazil's **GDP growth**
  - Serve **internationally-oriented clients** exploring global reach
  - Leverage share of **Corporate** and individual **high income** segments
  - Explore **upward mobility** and **small business** growth
  - Increase **operational efficiency and return**
- HSBC's performance is building on strong competitive advantages
  - Improved efficiency from strong **revenue expansion** and **cost control**
  - Strengthening of **strategic portfolios** such as mortgage and investments
- Performance advantages are enabling a **growing contribution** to HSBC Group's results and returns



## Contacts and further information

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