



# HSBC Bank Brasil S.A. - Banco Múltiplo

**Evaluation Report of the  
shareholders' equity  
determined by the  
accounting books on  
July 31 2016**



KPMG Auditores Independentes

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## **Evaluation of the shareholders' equity determined by the accounting books**

To

Shareholders and Administrators

HSBC Bank Brasil S.A. - Banco Múltiplo

Curitiba - PR

### **Information about the audit firm**

KPMG Auditores Independentes, a company established in the city of Osasco, in Avenida Dyonyisia Alves Barreto, No. 500, 10th floor, enrolled with the National Register of Legal Entities of the Ministry of Finance (CNPJ) under No. 57.755.217/0022-53, registered in the Regional Accounting Council of São Paulo State under No. 2SP028567/O-1 F SP, with its Social Contract constitution registered at the 2nd Registry of Deeds and Documents for Legal Entities of São Paulo/SP, on June 24, 1987, and subsequent amendments registered at the 2nd Registry of Deeds and Documents for Legal Entities of São Paulo / SP, being the last one, dated May 16, 2016, recorded on microfilm under No. 145.740 on July 6, 2016, represented by its undersigned partner, Mr. André Dala Pola, Brazilian, married, accountant, bearer of Identity Card No. 27689129-6 SSP/SP, enrolled with the CPF under No. 261954908-65 and in the Regional Accounting Council of São Paulo State under No. 1SP214007/O-2, resident and domiciled in São Paulo/SP with office at the same address of the represented, appointed expert by HSBC Bank Brasil S.A. - Banco Múltiplo ("Institution") to undertake an assessment of the shareholders' equity on July 31, 2016 in accordance with accounting practices adopted in Brazil applicable to institutions authorized to operate by the Central Bank of Brazil, presents below the result of their work.

### **Evaluation object**

The evaluation of the shareholders' equity at July 31, 2016, of HSBC Bank Brasil S.A. - Banco Múltiplo, headquartered in Travessa Oliveira Bello, 34 - 4th Floor - Centro - Curitiba - SP, CEP: 80020-030, CNPJ No. 01701.201/0001-89, NIRE 41300015341, is aimed at the partial spin off of the shareholders' equity of HSBC Bank Brasil S.A. - Banco Múltiplo with the conduction of the spin off portions to Banco Bradesco S.A., headquartered in the Cidade de Deus, 4th Floor - Red building, Vila Yara - Osasco - SP, CEP: 060290-900, CNPJ No. 60.746.948 / 0001-12, NIRE 35300027795, Bradesco Leasing S.A. - Arrendamento Mercantil, headquartered in the Cidade de Deus, Silver building, 2nd floor, Vila Yara - Osasco - SP, CEP: 06029-900, CNPJ No. 47509120/0001-82, NIRE 35300151381 and Banco Bradesco Cartões SA, headquartered in the Cidade de Deus, Silver building, 2nd floor, Vila Yara - Osasco - SP, CEP: 06029-900, CNPJ on 59438325/0001-01, NIRE 35300120990, and aims to promote corporate reorganization with the following objectives: (i) segregate, redirect and consolidate assets and liabilities of HSBC Bank Brasil S.A. - Banco Múltiplo to Banco Bradesco S.A., Banco Bradesco Cartões S.A. and Bradesco Leasing S.A. - Arrendamento Mercantil; (ii) promote synergy with the ongoing business and operations, with optimization and rationalization of operating and



administrative costs; and (iii) maintain the continuity of HSBC Bank Brasil S.A. - Banco Múltiplo to proceed its activities for operational efficiency reasons.

### **Management's responsibility over the financial statements**

The Institution's Management is responsible for the bookkeeping of accounting books and preparation of financial statements in accordance with accounting practices adopted in Brazil applicable to institutions authorized to operate by the Central Bank of Brazil, as well as the relevant internal control as management determines is necessary to enable preparation of these accounting information free of material misstatement, regardless of fraud or error. The summary of significant accounting policies adopted by the Institution are described in Note No. 2 of the evaluation report.

### **Scope of work and responsibility of the independent auditor**

Our responsibility is to express a conclusion over the book value of shareholders' equity of HSBC Bank Brasil S.A. - Banco Múltiplo on July 31, 2016, based on the work conducted in accordance with the Technical Notice CTA 20, approved by the Federal Accounting Council, which provides the application of audit inspection procedures in the balance sheet. Thus, we made the examination of the institution's balance sheet in accordance with Brazilian and international auditing standards, which require that we comply with ethical requirements by the auditor and that the audit be planned and performed in order to obtain reasonable assurance that shareholders' equity established for the development of our valuation report is free of relevant distortion.

An audit involves performing procedures to obtain audit evidence about the amounts accounted. The procedures selected depend on the auditor's judgment, including the assessment of risks of material misstatement in shareholders' equity, regardless of fraud or error. In this risk assessment, the auditor considers relevant internal controls to the preparation of the institution's balance sheet in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal controls of the Institution. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management. We believe that the audit evidence obtained is sufficient and appropriate to provide a basis for our conclusion.

### **Conclusion**

Based on the work performed, we conclude that the amount of R\$ 7,713,126,737.21 (seven billion, seven hundred and thirteen million, one hundred and twenty-six thousand, seven hundred and thirty-seven and twenty one cents), according to the balance sheet at 31 July 2016 registered on the accounting books and summarized in the Appendix it presents, in all relevant aspects, the shareholders' equity value of HSBC Bank Brasil S.A. - Banco Múltiplo, evaluated in accordance with accounting practices adopted in Brazil applicable to institutions authorized to operate by Brazilian Central Bank.

Osasco, September 2, 2016

KPMG Auditores Independentes

CRC 2SP028567/O-1 F-SP

*Original report in Portuguese signed by*

André Dala Pola

Contador CRC 1SP214007/O-2



**HSBC Bank Brasil S.A. - Banco Múltiplo**  
*Evaluation Report of the shareholders' equity  
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## Appendix/Appendices



**Bradesco**

HSBC BANK BRASIL S.A.— BANCO MÚLTIPLO  
INDIVIDUAL FINANCIAL STATEMENTS  
July 31, 2016

## Individual Balance Sheet Positon on July 31 – In Reais

Assets	Account balances as of July 31, 2016 (Before the spin- off)	Spun off portion into Banco Bradesco S.A	Spin off portion into Banco Bradesco Cartões S.A.	Spin off portion into Bradesco Leasing S.A. Arrendamento Mercantil	Account balances as of July 31, 2016 (After the spin- off)
<b>Current and Long-Term Assets</b>	<b>139.688.972.491,43</b>	<b>125.781.263.054,70</b>	<b>3.029.964.971,13</b>	<b>825.745.927,25</b>	<b>10.051.998.538,35</b>
Cash and Due From Banks	2.261.159.567,98	2.253.050.837,83	8.108.730,15	-	-
Interbank Investments	22.670.094.708,05	15.607.017.849,05	-	-	7.063.076.859,00
Securities and Derivative Financial Instruments	29.770.815.376,42	29.770.815.376,42	-	-	-
Interbank Accounts	16.854.429.734,88	16.854.429.734,88	-	-	-
Interdepartmental Accounts	1.700.192,75	1.700.192,75	-	-	-
Loans	42.553.959.847,04	41.166.686.727,59	545.443.140,99	-	841.829.978,46
Allowance for Loan Losses	(4.153.355.769,08)	(3.691.012.877,38)	(202.366.058,05)	-	(259.976.833,65)
Leasing	728.293.026,63	-	-	728.293.026,63	-
Other Receivables	28.846.457.276,10	23.667.097.762,93	2.678.779.158,04	97.338.076,18	2.403.242.278,95
Other Assets	155.418.530,66	151.477.450,63	-	114.824,44	3.826.255,59
<b>Permanent assets</b>	<b>5.160.311.493,60</b>	<b>5.160.311.493,60</b>	<b>-</b>	<b>-</b>	<b>-</b>
Investments	3.589.239.078,36	3.589.239.078,36	-	-	-
Leased Assets	1.099.254.316,67	1.099.254.316,67	-	-	-
Premises and Equipment	471.818.098,57	471.818.098,57	-	-	-
<b>Total Assets</b>	<b>144.849.283.985,03</b>	<b>130.941.574.548,30</b>	<b>3.029.964.971,13</b>	<b>825.745.927,25</b>	<b>10.051.998.538,35</b>

Liabilities	Account balances as of July 31, 2016 (Before the spin- off)	Spin off portion into Banco Bradesco S.A	Spin off portion into Banco Bradesco Cartões S.A.	Spin off portion into Bradesco Leasing S.A. Arrendamento Mercantil	Account balances as of July 31, 2016 (After the spin- off)
<b>Current and Long-Term Liabilities</b>	<b>137.136.157.247,82</b>	<b>130.928.916.708,24</b>	<b>3.012.087.119,87</b>	<b>803.478.635,96</b>	<b>2.391.674.783,75</b>
Deposits	63.897.751.575,51	61.180.795.960,97	426.515.136,00	779.896.662,16	1.510.543.816,38
Securities Sold under Agreements to Repurchase	4.142.092.514,32	4.142.092.514,32	-	-	-
Interbank Accounts	524.288.466,91	524.288.466,91	-	-	-
Funds from Issuance of Securities	39.757.151.704,26	39.757.151.704,26	-	-	-
Interdepartmental Accounts	779.882.335,62	757.586.890,82	22.295.444,80	-	-
Borrowings and Onlendings	3.889.883.101,22	3.889.055.453,76	-	827.647,46	-
Derivative Financial Instruments	2.731.088.632,23	2.731.088.632,23	-	-	-
Other Liabilities	21.414.018.917,75	17.946.857.084,97	2.563.276.539,07	22.754.326,34	881.130.967,37
<b>Shareholders' Equity</b>	<b>7.713.126.737,21</b>	<b>12.657.840,06</b>	<b>17.877.851,26</b>	<b>22.267.291,29</b>	<b>7.660.323.754,60</b>
Capital	10.299.759.603,73	116.338.780,15	17.877.851,26	22.267.291,29	10.143.275.681,03
Reserves	32.165.228,91	-	-	-	32.165.228,91
Profit/(Loss) Reserves	(2.515.117.155,34)	-	-	-	(2.515.117.155,34)
Asset valuation adjustments (*)	(103.680.940,09)	(103.680.940,09)	-	-	-
<b>Total Liabilities</b>	<b>144.849.283.985,03</b>	<b>130.941.574.548,30</b>	<b>3.029.964.971,13</b>	<b>825.745.927,25</b>	<b>10.051.998.538,35</b>

**1) OPERATIONS**

HSBC Bank Brasil S.A. - Banco Múltiplo ("HSBC"), is a universal bank and member of financial conglomerate of Bradesco Group that, through its commercial, foreign exchange, consumer financing and housing loan portfolios, carries out all the types of banking activities for which it has authorization from Brazilian Central Bank (BACEN). The bank is involved in a number of other activities, either directly or indirectly, through its subsidiaries, like insurance, pension plans, capitalization bonds, brokerage, securities distribution, funds, investment portfolios and consortium management.

On July 8, 2016, Administrative Council for Economic Defense (CADE) has approved the sale of HSBC Group operations in Brazil to Banco Bradesco S.A.. The decision concluded the regulatory approvals process to this transaction, after Brazilian Central Bank (BACEN) and Insurance Superintendence (SUSEP) authorizations. HSBC integrated HSBC Group in Brazil until June 30, 2016. Since July 1, 2016, after the effective control transference, it has become part of Bradesco Organization, operating by the new controller guidelines, including the recognition of accounting harmonization effects in accordance with the guidelines which are used by Bradesco Conglomerate enterprises.

Due to the conclusion of sale process and new controller shareholder entry, according to priorly cited, the corporations listed in the table below, direct and indirect subsidiaries or associated companies of HSBC Bank, have changed its name:

Currently Company Name (under approval):	Prior Company Name:
Kirton Administradora de Consórcio Ltda.	HSBC (Brasil) Administradora de Consórcio Ltda.
Kirton Corretora de Títulos e Valores Mobiliários S.A.	HSBC Corretora de Títulos e Valores Mobiliários S.A.
Kirton Gestão de Recursos Ltda.	HSBC Gestão de Recursos Ltda.
Kirton Capitalização S.A.	HSBC Empresa de Capitalização (Brasil) S.A.
Kirton Vida e Previdência S.A.	HSBC Vida e Previdência (Brasil) S.A.
Kirton Seguros S.A.	HSBC Seguros (Brasil) S.A.
Kirton Administração de Serviços para Fundo de Pensão (Brasil) Ltda.	HSBC Administração de Serviços para Fundo de Pensão (Brasil) Ltda.
Kirton Corretora de Seguros S.A.	HSBC Corretora de Seguros (Brasil) S.A.
Kirton Participações e Investimentos Ltda.	Kirton Participações e Investimentos Ltda.
Kirton Assistência Previdenciária	HSBC Assistência Previdenciária
Scopus Desenvolvimento de Sistemas Ltda.	HSBC Software Development (Brasil) - Prestação de Serv. Tecn Ltda.
Instituto Kirton Solidariedade	Instituto HSBC Solidariedade

**2) PRESENTATION OF THE INDIVIDUAL BALANCE SHEET POSITION**

HSBC balance sheet was prepared using accounting practices in compliance with Laws No. 4595/64 (Brazilian Financial System Law) and No. 6.404/76 (Brazilian Corporate Law), including amendments introduced by Laws No 11.638/07 and No 11.941/09, as they relate to the accounting of operations, complemented by the rules and instructions of the National Monetary Council (CMN), the Brazilian Central Bank (Bacen) and Brazilian Security and Exchange Commission (CVM), where applicable.

The balance sheet includes estimates and assumptions, such as: the calculation of estimated loan losses; fair value estimates of certain financial instruments; civil, tax and labor provision; impairment losses of securities classified as available-for-sale and held-to-maturity securities and non-financial assets; the calculation of technical provisions for insurance, pension plans and capitalization bonds; and the determination of the useful life of specific assets. Actual results may differ from those based on estimates and assumptions.

July 31, 2016 balance sheet position was prepared according to the direction board specific purposes related to the “HSBC Bank Brasil S.A. - Banco Múltiplo”’s net amount partial spin off, regarding the parts spined off to Banco Bradesco S.A., Banco Bradesco Cartões S.A. and Bradesco Leasing S.A. - Arrendamento Mercantil. Thereby, according to the flow established by Bacen’s Circular No 3.017, we are not presenting comparative balance sheet position.

In Partners-Shareholdres Meeting and Extraordinary General Assembly held on July 31, 2016, was approved HSBC’s capital increase, due to the partial spin-off of Kirton Serviços e Participações Ltda.

HSBC balance sheet was approved by the Board of Directors on September 2, 2016.

### **3) SIGNIFICANT ACCOUNTING PRATICES**

#### **a) Functional and presentation currencies**

The balance sheet are presented in Brazilian reais, which is HSBC’s functional currency.

#### **b) Income and expense recognition**

Income and expenses are recognized on an accrual basis, which states that it shall be included in the period to which they occur, always simultaneously when correlated, regardless of when the amounts are received or paid.

Fixed rate contracts are recorded at their redemption value, whereas income or expense relating to future periods being recorded as a deduction from the corresponding asset or liability. Finance income and costs are recognized on a daily-based criteria and calculated using the compounding method, except when related to discounted notes or foreign transactions, which are calculated using the straight-line method.

Floating rate and foreign-currency-indexed contracts are adjusted for interest and foreign exchange rates applicable at the end of the reporting period.

#### **c) Interbank investments**

Unrestricted repurchase and reverse repurchase agreements are stated at their fair value. All other interbank investments are stated at cost, plus income earned up to the end of the reporting period, net of any devaluation allowance, when applicable.

#### **d) Securities - Classification**

- Trading securities - securities acquired for the purpose of being actively and frequently traded. They are recorded at cost, plus earned income and adjusted to its fair value with movements recognized in the Income Statement for the period.
- Available-for-sale securities - securities that are not specifically intended for trading purposes or to be held to maturity. They are recorded at cost, plus earned income, which is recorded in the profit or loss of the regarding period and adjusted to its fair value with movements recognized in equity, net of tax, which will be recycled to Income Statement only when effectively realized; and
- Held-to-maturity securities - securities for which there is positive intent and financial capacity to hold to maturity. They are recorded at cost, plus earned income recognized in the Income Statement of the regarding period.

Securities classified as trading and available-for-sale, as well as derivative financial instruments, are recognized in the consolidated statement of financial position at their fair value. Fair value is generally based on quoted market prices or quotations for assets or liabilities with similar characteristics. If market prices are not available, fair values are based on traders’ quotations, pricing



models, discounted cash flows or similar techniques to determine the fair value and may require judgment or significant estimates by Management.

**e) Derivative financial instruments (assets and liabilities)**

Derivative instruments are classified based on Management's intention at the date of purchase for which the underlying instrument was acquired, taking into consideration its use for possible hedging purposes.

Operations that include derivative financial instruments are designed to meet the Bank's own needs in order to manage overall exposure, as well as to meet customer requests to manage their positions. The gains or losses are recorded in profit or loss or shareholders' equity accounts.

Derivative financial instruments that are used to mitigate risk deriving from exposure to variations in the fair value of financial assets and liabilities are designated as hedges when they meet the criteria for hedge accounting and are classified according to their nature:

- Market risk hedge: the gains and losses, realized or not, of the financial instruments classified in this category as well as the financial assets and liabilities that are the object of the hedge, are recorded in the Income Statement; and
- Cash flow hedge: the effective portion of valuation or devaluation of the financial instruments classified in this category is recorded, net of taxes, in a specific account in shareholders' equity. The ineffective portion of the hedge is recognized directly in the Income Statement.

**f) Loans and leasing, advances on foreign exchange contracts, other receivables with credit characteristics and allowance for loan losses**

Loans and leasing, advances on foreign exchange contracts and other receivables with credit characteristics are classified by risk level, based on: (i) the parameters established by CMN Resolution No. 2.682/99, which requires risk ratings to have nine levels, from "AA" (minimum risk) to "H" (maximum risk); and (ii) Management's assessment of the risk level. This assessment, which is carried out regularly, considers current economic conditions and past experience with loan losses, as well as specific and general risks relating to operations, debtors and guarantors. Moreover, the day past-due criteria, as per CMN Resolution No. 2.682/99, are also considered in the rating of customer risk, as follows:

Past-due period (1)	Customer rating
• from 15 to 30 days	B
• from 31 to 60 days	C
• from 61 to 90 days	D
• from 91 to 120 days	E
• from 121 to 150 days	F
• from 151 to 180 days	G
• more than 180 days	H

(1) For transactions with terms of more than 36 months, past-due periods are doubled, as permitted by CMN Resolution No. 2.682/99.

Interest and inflation adjustments on past-due transactions are only recognized in the Income Statement up to the 59th day that they are past due. As from the 60th day, they are recognized in off-balance sheet accounts and are only recognized in the Income Statement when received.

H-rated past-due transactions remain at this level for six months, after which they are written-off against the existing allowance and controlled in off-balance-sheet accounts for at least five years.

Renegotiated transactions are held at least at the same rating as on the date of the renegotiation. Renegotiations already written-off against the allowance and that were recorded in off-balance-sheet

accounts, are rated as level "H" and any possible gains derived from their renegotiation are recognized only when they are effectively received. When there is a significant repayment on the operation or when new material facts justify a change in the level of risk, the operation may be reclassified to a lower risk category.

The estimated allowance for loan losses is calculated to sufficiently cover probable losses, considering CMN and Brazilian Central Bank standards and instructions, together with Management's assessment of the credit risk. Based on controlling shareholder Bradesco S.A accounting criteria, uniform principles were applied to drag credit operations between credit portfolios, as well as an additional provision was recognized, exceeding the amounts required by Brazilian Central Bank, considering provisioning percentages per rating tiers above the minimum established by CMN Resolution No. 2.682/99.

Provisions for guarantees, including those related to coverage of foreign investees, when applicable, are classified in Current Liabilities, as Other Obligations.

### **Leasing operations**

The leasing portfolio is classified in the balance sheet as financial leases, considering the present value of the receivables' future cash flows, segregated in current and long-term agreements, depending on the transaction's term. This portfolio consists of contracts under the terms of Portaria No 140/84, issued by the Ministry of Finance, which clauses comprise: a) not-cancelling agreement; b) purchase option; and c) float update or fixed update and are recorded in the balance sheet which is reported to Brazilian Central Bank in accordance with the rules established by it, as follows:

#### **I- Leasing Receivables**

The leasing receivables reflect the total amount the receivable consideration, monetarily restated according to contractual established indexes and criteria.

#### **II- Unearned leasing income and guaranteed residual value (GRV)**

Recorded at contract value against Unearned Income from Leasing and Residual Value to Balance, both presented according to the agreed conditions. The GRV received in advance is recorded in Other Liabilities - Creditors for Residual Value of Anticipation to the end of contract. The present value adjustment of the consideration and GRV receivable from financial leases are recognized as excess / insufficient depreciation in property leasing, aiming to harmonize accounting practices. In transactions where there is a payment delay equal or higher than sixty days, the income accrual shall occur upon receipt of contractual installments, on a cash flow basis, based on Resolution 2.682/99 of the National Monetary Council (CMN).

#### **III- Property lease**

It is recorded at cost, net of accumulated depreciation. Depreciation is calculated using the straight-line method, with the 30% reduction benefit in the normal life of the asset, provided by current legislation. The main annual depreciation rates used that were considered as basis for this reduction are: vehicles and others, 20%; fixtures and furniture, 10%; equipment, 10%; and other goods, 10% and 20%.

#### **IV- Lease losses**

Losses incurred from the sale of leased assets are deferred and amortized over the remaining useful life of assets, as presented in Lease Property Note.

#### **V- Excess (shortfall) of depreciation**

The accounting records of leasing operations are kept under legal requirements that are specific for this type of operation. The adopted and summarized procedures presented in items "II" to "IV" above differ from the accounting practices established by Brazilian Corporate Law,

especially regarding to the accrual basis in the booking of income and expenses related to leasing contracts. Therefore, according to Brazilian Central Bank's Circular No. 1.429/89, the present value of the outstanding consideration was calculated using each contract internal return rate, recognizing a leasing income or expense against depreciation excess/shortfall, respectively, recorded in Permanent Assets, in order to adapt the lease transactions to the accrual basis.

#### **g) Income tax and social contribution (assets and liabilities)**

Deferred tax assets, calculated on income tax losses, social contribution losses and temporary differences, are recorded in "Other Receivables - Sundry" and the deferred tax liabilities on tax differences in leasing depreciation (applicable only for income tax), fair value adjustments on securities, restatement of judicial deposits, among others, are recorded in "Other Liabilities - Tax and Social Security", in which for the additional depreciation only the income tax rate is applied.

Deferred tax assets on temporary differences are realized when the difference between the accounting treatment and the income tax treatment reverses. Deferred tax assets on income tax and social contribution losses are realizable when taxable income is generated, up to the 30% limit of the taxable profit for the period. Deferred tax assets are recorded based on current expectations of realization considering technical studies and analyses carried out by Management.

The provision for income tax is calculated at 15% of taxable income plus a 10% surcharge. The social contribution on the profit was calculated until August 2015, considering the rate of 15%. For the period between September 2015 and December 2018, the rate was changed to 20%, according to Law No. 13.169/15. The rate will revert to 15% in January 2019.

Due to the amendment of the rate, the entity recognized, in September 2015, an incremental amount to the deferred tax of social contribution, considering the annual expectations of realization and their respective rates in force in each period, according to the technical study produced.

Provisions were recorded for other income tax and social contribution in accordance with specific applicable legislation.

The changes in income, costs and expenses recognition criteria considered to calculate the net profit of the period, introduced by Law No 11.638/07 and subsequent amendments were, for tax purposes, covered by the new tax legislation brought by Law No 12.973/14.

#### **h) Prepaid expenses**

Prepaid expenses consist of funds already disbursed for future benefits or services, which are recognized in the profit or loss on an accrual basis.

Incurred costs related to assets that will generate revenue in subsequent periods are recorded in the Income Statement according to the terms and the amounts of expected benefits and directly written-off in the Income Statement when the corresponding assets or rights are no longer part of the entity's assets or when future benefits are no longer expected.

In the case of the remuneration paid for the origination of credit operations or leasing to the banking correspondents related to credit operations originated during 2015 and 2016, HSBC decided to recognize part of the total amount of compensation, pursuant to the provisions of Brazilian Central Bank Circular No. 3.738/14.

#### **i) Investments**

Investments in unconsolidated and jointly controlled companies, where the bank has significant influence over the investee or holds at least 20% of the voting rights, are accounted for using the equity method.

## Accounting practices

Investments in foreign operations are also recorded as Investments, accounted for applying equity method.

Tax incentives and other investments are stated at cost, net of allowance for losses/impairment, when applicable.

The controlled entities composition, investees and foreign operations, such as other investments, are presented as follows:

Entities	Participation
Kirton Corretora de Títulos e Valores Mobiliários S.A	99,97%
Banco Losango S.A - Banco Múltiplo	99,99%
Kirton Seguros S.A	98,08%
Kirton Administradora de Consórcio Ltda.	99,99%
Credival - Participações, Administração e Assessoria Ltda.	99,99%
Kirton Administração de Serviços para Fundo de Pensão Ltda.	99,99%
Kirton Gestão de Recursos Ltda.	99,99%
HSBC Agência Grand Cayman (investimento no exterior)	99,99%

### j) Premises and equipment

Premises and equipment comprise tangible assets used by the Bank in its activities, including those resulting from transactions that transfer risks, benefits and control of the assets to the Bank.

Premises and equipment are stated at acquisition cost, net of accumulated depreciation, calculated by the straight-line method based on the assets' estimated economic useful life, using the following rates: real estate - 4% per annum; installations, furniture, equipment for use, security systems and communications - 10% per annum; transport systems - 20% per annum; and data-processing systems - 20% to 40% per annum, and adjusted for impairment, when applicable.

### k) Intangible assets

Comprises the right over intangible assets used by the Bank in its activities:

- Future profitability/acquired client portfolio and acquisition of right to provide banking services: recorded and amortized over the period in which the asset will directly and indirectly contribute to future cash flows and adjusted for impairment, where applicable; and
- Software: recorded at cost less amortization calculated on a straight-line basis over the estimated useful life (20% p.a.), from the date it is available for use and adjusted for impairment, where applicable. Internal software development costs are recognized as an intangible asset when it is possible to assure the intent and ability to complete and use the software, as well as to reliably measure directly attributable costs to the intangible asset. These costs are amortized during the software's estimated useful life, considering the expected future economic benefits.

### l) Impairment

Financial and non-financial assets are tested for impairment to evaluate if there is any evidence that a shortfall may have occurred in the asset value.

Impairment evidence may comprise the non-payment or payment delay by the debtor, possible bankruptcy process or the significant or extended decline in the asset value.

An impairment loss of a financial or non-financial asset is recognized in profit or loss of the period if the book value of an asset or cash-generating unit exceeds its recoverable value.

### m) Open market deposits and funding

Open market deposits and funding are accounted for the total amount of the liabilities and comprises, when applicable, the charges up to the balance sheet date, recognized on a daily-based accrual.

**n) Provisions, contingent assets and liabilities and legal obligations - tax and social security**

Provisions, contingent assets and liabilities, and legal obligations, as defined below, are recognized, measured and disclosed in accordance with the criteria set out in CPC 25, approved by CMN Resolution No. 3.823/09 and CVM Resolution No. 594/09:

- **Contingent Assets:** these are not recognized in the financial statements, except to the extent that there are real guarantees or favorable judicial decisions, to which no further appeals are applicable, and confirmation of the capacity of the counterparty to pay or the ability of the bank to realize the asset via compensation against another liability upon which the gain is considered practically certain;
- **Provisions: Civil:** these are recorded taking into consideration the opinion of legal counsel, the nature of the lawsuits, similarity with previous lawsuits, complexity and positioning of the courts, whenever the loss is deemed probable, it requires a probable outflow of funds to settle the obligation and when the amount can be reliably measured; Labor claims provisions are recognized taking into consideration the average of past outflows, the existence or not of judicial deposits as well as the salary category, applied over the outstanding lawsuits in the balance sheet date.
- **Contingent Liabilities:** according to CPC 25, the term "contingent" is used for liabilities that are not recognized because their existence will only be confirmed by the occurrence of one or more uncertain future events beyond Management's control. Contingent liabilities do not meet the criteria for recognition because they are considered as possible losses, should only be disclosed in the notes when relevant. Obligations deemed remote are not recorded as a provision nor disclosed; and
- **Legal Obligations - Provision for Tax Risks:** results from judicial proceedings, which contest the applicability of tax laws on the grounds of legality or constitutionality, which, regardless of the assessment of the probability of success, are fully provided for in the financial statements.

**o) Accounting estimates and judgments**

The accounting estimates were based in objective and subjective factors, founded in Management's judgment in order to determine the amounts to be registered in financial statements. Relevant items that are related to these estimates include allowance for doubtful accounts, deferred income tax assets, impairment of intangible assets, provision for contingencies, derivatives and securities mark to market and assets and liabilities related to employee benefits. The settlement of transactions that consider these estimates may result in different amounts due to process' inherent judgment. HSBC reviews its estimates and premises at least half-yearly.

**p) Employee benefits**

The bank provides post-employment benefits such as life insurance and health insurance. These plans include Defined Contribution Plans and Defined Benefit Plans.

Payments to Defined Contribution Plans are recognized as expense on an accrual basis in accordance with the continuity of service of employees.

The Defined Benefit Plans cost and the present value of the obligations are calculated on the balance sheet date, using the Projected Unit Credit method. The net recognition in income mainly includes the service costs and net interest over the Defined Benefit liability and is presented in operating expenses. The service costs include current service costs, past service costs and gains or losses on settlement.

The past service cost that is recognized immediately as income is the change in present value of obligations of Defined Benefits for employee service in prior periods, subsequent from an adjustment of the plan (the input or output, or changes in a Benefit Defined Plan). A settlement is a transaction that eliminates all future obligations, legal and not formalized, of a share or all of the benefits of a Defined Benefit Plan that is not a payment to or on behalf of employees, which occurs within the Plan's terms and is included in actuarial assumptions.

Restatements on net liabilities of Defined Benefit, which include actuarial gains and losses, return over plan assets (excluding interest) and the effect of the ceiling of assets (if any, excluding interest) are recognized immediately in Equity.

Actuarial gains and losses include experience adjustments (effects of differences between planned and occurred actuarial assumptions) as well as the effects of changes in actuarial assumptions, recorded in Equity.

Defined Benefit liabilities represent the present value of obligations net of the fair value of plan's assets. The net surplus of Defined Benefit is limited to the non-recognition of the present value of available refunds and reductions in future contributions to the plan.

The obligations costs arising from health insurance are accounted for in the same way as the pension plans of Defined Benefit.

**q) Share-based payment**

HSBC has share-based payment program settled in cash and the share-based payment settled in shares as compensation for services provided by employees.

The cost of share-based payment arrangements settled in shares with employees is measured by reference to the fair value of the equity instruments at the date of the grant, and an expense is recognized on straight-line basis over the vesting period, with a corresponding credit in Equity.

For cash-settled share-based payments, the acquired services and assumed liabilities are measured at the liability fair value, and recognized as the employees render service. Until the settlement date, the fair value of the liability is restated, with changes in fair value recognized in profit or loss.

The fair value of premiums settled in cash at the end of each period is calculated based on the market value of HSBC Holdings shares, converted into Brazilian reais.

A cancellation that occurs during the vesting period is considered as an acceleration of the acquisition, being recognized immediately to the amount that would otherwise have been recognized for services rendered during the grant period.

When HSBC Holdings enter in share-based payment arrangements that involves subsidiaries' employees, the difference between the cost of share-based payment agreement and the fair value of equity instruments expected to be issued to satisfy this agreement is recognized in Equity, with a correspondent adjustment to Investments in Subsidiaries over the grant period.

**r) Other assets and liabilities**

Assets are stated at their realizable amounts, including, when applicable, related income and inflation and exchange variations (on a daily basis accrual), less provision for losses, when deemed appropriate. Liabilities include known or measurable amounts, including related charges and inflation and exchange variations (on a daily basis accrual).