

Research Update

# Banco HSBC S.A. Assigned 'brAAA/brA-1+' Ratings; Outlook Stable

April 27, 2022

*This English version is provided on request and reflects the translation of the original article published only in Portuguese by S&P Global Ratings on March 22, 2022. In case of any discrepancy between this English version and the original in Portuguese, the Portuguese version shall apply.*

## Overview

- Banco HSBC S.A. (Banco HSBC) has its revenues concentrated in operations aimed at supporting the parent company's business, as well as loans to large corporations.
- We assess Banco HSBC as a highly strategic subsidiary for the HSBC group. Accordingly, we believe that the HSBC group would provide financial support to the Brazilian subsidiary in almost all scenarios, except in the event of a default by Brazil.
- We assigned our 'brAAA' long-term and a 'brA-1+' short-term national scale issuer credit ratings on Banco HSBC.
- The stable outlook reflects our expectation that the ratings on the bank will follow the trend of the sovereign rating in the next 12 months. We also believe that Banco HSBC Brasil will continue to be a highly strategic subsidiary for HSBC group.

## Rating Action

On March 22, 2022, S&P Global Ratings assigned its 'brAAA' long-term and 'brA-1+' short-term national scale issuer credit ratings to Banco HSBC S.A. (Banco HSBC). The outlook is stable.

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## Rationale

*Our rating is based on Banco HSBC's high strategic importance to the HSBC group.* We believe that the HSBC group would provide financial support to the Brazilian subsidiary in almost all scenarios, except in the event of a default of Brazil. We also believe that Banco HSBC benefits from the group's strong expertise in treasury, corporate credit, debt capital markets, and risk management activities, in addition to its solid brand recognition.

*Banco HSBC's business is focused on supporting its parent's operations and lending to large corporations.* We consider that Banco HSBC's businesses are fairly concentrated and that its local credit portfolio is relatively small and concentrated, accounting for a small share of the banking system's assets. As of June 2021, the bank's loan portfolio was R\$1.5 billion, while its total assets amounted to R\$16.6 billion, largely made up of foreign exchange contracts and derivatives. The bank's local business is primarily focused on foreign exchange, derivatives, and corporate lending. Despite maintaining a conservative local strategy, we believe that the bank's concentration in a small number of business lines can make its local revenue cash generation volatile during different economic cycles.

*Our capital and earnings assessment of Banco HSBC reflects our projected RAC for the bank of between 5.5%–6.5%, in line with its peers.* To assess banks' capitalization level, we apply our risk-adjusted capital framework (RACF) globally, regardless of regional regulations or the bank's internal risk measures. Our projections consider that Banco HSBC will continue to expand its loan book at a faster rate than the growth of its equity. As a result, we expect the institution's RAC to decline from around 8.0% in 2020 to 5.5%–6.5% between 2022 and 2023. In turn, its Basel III regulatory capital ratio was 18% in June 2021.

S&P Global Ratings' RAC compares its definition of total adjusted capital (TAC) against its risk-weighted assets (RWA), reflecting a risk metric that is more comparable globally than the regulatory indices. The main difference between our methodology and local regulation is that we apply charges to government bond exposures based on country ratings, which is punitive for banks operating in Brazil, which generally have high exposure to these bonds.

Our base-case scenario considers the following assumptions:

- Brazil's GDP growing 0.8% in 2022 and 2.0% in 2023;
- Loan portfolio growth of 190% in 2022 and 50% in 2023;
- Net interest margins (NIMs) of around 3%;
- Return on equity of 5% to 8% per year in the next two years;
- No dividend payments, in line with the group's history; and
- No capital injections.

*Good credit quality indicators due to obligor's profile.* With a large volume of foreign exchange and derivatives operations, Banco HSBC is still subject to the risks inherent to market volatility and the complexity of some products. In addition, the institution has rapidly grown its loan book and operations, which can bring additional risks. However, these risks are partly mitigated by strong controls coming from its parent and the high capacity of its local team. Banco HSBC is also exposed to risks inherent to the high concentration of customers in its loan portfolio. Due to Banco HSBC's strategy of operating with large companies, we expect its portfolio to remain concentrated. On the other hand, this should also continue to support good asset quality indicators. In recent years, the percentage of nonperforming loans in Banco HSBC's loan book has

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been zero. We think that its conservative profile and tight credit policy are positively reflected in these indicators, and should continue to support asset quality better than the average for the financial system.

*Funding represented by wholesale sources and comfortable liquidity.* Banco HSBC's funding base is mainly composed of time deposits issued to the institution's corporate clients. In addition, the bank also uses financial bills and take loans to finance its local activities. While we consider this funding base to be appropriate for its asset profile, the focus on wholesale funding sources undermines the stability of the funding base, in our view. Banco HSBC also has historically comfortable and sufficient liquidity levels to cover short-term obligations and maintain its operations. In June 2021, the institution's broad liquid assets were equivalent to R\$5.5 billion, representing 2.4x the volume of short-term wholesale funding on the same date.

### Outlook

The stable outlook reflects our expectation that the ratings on the bank will reflect those on Brazil in the next 12 months. We also believe that Banco HSBC will continue to be a highly strategic subsidiary for its parent company.

### Downside scenario

We could lower our ratings on Banco HSBC if we take a similar action on the sovereign rating or if we change our assessment of its strategic importance to the parent by more than one category, although we believe the latter scenario is highly unlikely.

### Upside scenario

Banco HSBC is already rated at the highest level on the Brazilian national scale.

## RATINGS SCORE SNAPSHOT

### BANCO HSBC S.A.

Issuer Credit Rating	
National Scale	brAAA/Stable/brA-1+
Anchor	-
Business Position	Constrained
Capital and Earnings	Moderate
Posição de risco	Moderate
Funding and Liquidity	Moderate and Adequate
Support	Yes
GRE* Support	-
Group Support	Highly Strategic Subsidiary
Sovereign Support	-
Additional Factors	-

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

## Related Criteria and Research

### Criteria

- Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- Financial Institutions Rating Methodology, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Methodology For National And Regional Scale Credit Ratings, June 25, 2018
- Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov 20, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

## Rating 'brAAA/brA-1+' Assigned To Banco HSBC S.A.; Outlook Is Stable

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