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## Summary:

# HSBC Bank Bermuda Ltd.

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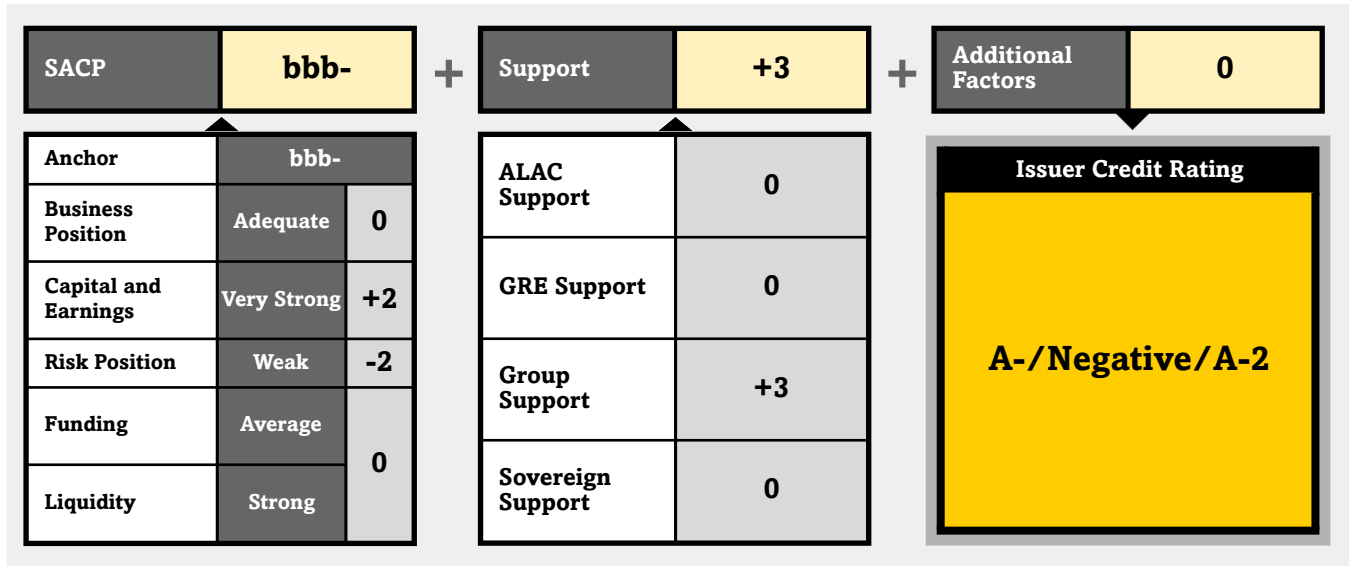
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Summary:

# HSBC Bank Bermuda Ltd.



## Major Rating Factors

Strengths:	Weaknesses:
<ul style="list-style-type: none"> <li>• Strategically important subsidiary of HSBC Holdings PLC</li> <li>• Leading competitive position in Bermuda</li> <li>• Very strong capital ratios</li> <li>• Ample and high-quality liquidity assets</li> </ul>	<ul style="list-style-type: none"> <li>• Very poor loan quality relative to peers, despite an improvement in 2015</li> <li>• Geographically concentrated loan portfolio, with large single-name exposures</li> <li>• Return on equity targets set by the parent company may imply pressure to meaningfully adjust its capital levels</li> </ul>

## Outlook: Negative

The negative outlook on HSBC Bank Bermuda Ltd. (HBBM) primarily reflects the possibility the bank may significantly reduce its capital levels, which more than offsets the likelihood of an improvement stemming from a potential upturn in Bermudian economic risk (see "Various Rating Actions Taken On Bermuda Banks On Potential Upside In Bermuda's Economy," June 30, 2016). We might lower the stand-alone credit profile (SACP), and therefore, the rating, within two years, if a capital decline were to drive the S&P Global Ratings risk-adjusted capital (RAC) ratio below 10% on a sustained basis. On the other hand, we could revise the outlook to stable, within two years, if we were to become convinced that any potential capital withdrawal, by the parent, will be fully offset by improving operating conditions in Bermuda.

## Rationale

The ratings on HBBM, the largest bank in Bermuda, primarily reflect the bank's strategic importance to its parent company, U.K.-incorporated bank holding company HSBC Holdings PLC, as well as its leading competitive position in Bermuda. Among other factors, our assessment incorporates HBBM's strong share of the Bermuda market and high proportion of fee income, partially offset by materially higher NPAs than peers', which we suspect may reflect weaker underwriting on some loans, in the past.

The bank's RAC ratio remains in our highest category (more than 15%). However, while we expect it to remain in the very strong range over the next 18 to 24 months, we believe that the return on equity (ROE) targets set by the parent company may imply pressure to meaningfully reduce its capital levels in order to meet these hurdles. Capital remains well above minimum regulatory requirements, but in several recent years, dividend payouts have exceeded net income. HBBM's loan performance improved in 2015, but remains very poor relative to peers' and its adjusted nonperforming assets (NPAs) to customer loans have ticked up since 2014 (20.6% in 2015 versus 18.8% in 2014). We view the bank's geographic concentration of its loans and operations negatively in our business risk assessment.

The long-term issuer credit rating also reflects our view of HBBM's strategic importance to its parent. The 'A-' long-term rating on HBBM is three notches above the 'bbb-' SACP on the bank.

## Related Criteria And Research

### Related Criteria

- Group Rating Methodology, Nov. 19, 2013
- Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Revised Market Risk Charges For Banks In Our Risk-Adjusted Capital Framework, June 22, 2012
- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Bank Capital Methodology And Assumptions, Dec. 6, 2010
- Methodology For Mapping Short- And Long-Term Issuer Credit Ratings For Banks, May 4, 2010
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009
- Commercial Paper I: Banks, March 23, 2004

### Related Research

- Banking Industry Country Risk Analysis: Bermuda, Aug. 8, 2016
- Various Rating Actions Taken On Bermuda Banks On Potential Upside In Bermuda's Economy, June 30, 2016

Anchor Matrix										
Industry Risk	Economic Risk									
	1	2	3	4	5	6	7	8	9	10
1	a	a	a-	bbb+	bbb+	bbb	-	-	-	-
2	a	a-	a-	bbb+	bbb	bbb	bbb-	-	-	-
<b>3</b>	a-	a-	bbb+	bbb+	bbb	<b>bbb-</b>	bbb-	bb+	-	-
4	bbb+	bbb+	bbb+	bbb	bbb	bbb-	bb+	bb	bb	-
5	bbb+	bbb	bbb	bbb	bbb-	bbb-	bb+	bb	bb-	b+
6	bbb	bbb	bbb-	bbb-	bbb-	bb+	bb	bb	bb-	b+
7	-	bbb-	bbb-	bb+	bb+	bb	bb	bb-	b+	b+
8	-	-	bb+	bb	bb	bb	bb-	bb-	b+	b
9	-	-	-	bb	bb-	bb-	b+	b+	b+	b
10	-	-	-	-	b+	b+	b+	b	b	b-

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