



Media Release

RAM Ratings affirms AAA ratings of HSBC Malaysia and HSBC Amanah

RAM Ratings has affirmed the AAA/Stable/P1 financial institution ratings of HSBC Bank Malaysia Berhad (HSBC Malaysia or the Bank) and HSBC Amanah Malaysia Berhad (HSBC Amanah).

The affirmation of HSBC Malaysia's ratings is premised on its solid domestic franchise, robust capital buffers and superior funding capabilities. Potential downside risk from fresh headwinds in the macroeconomic environment is expected to be manageable. The ratings also consider our expectation of ready financial support from the Bank's ultimate parent, HSBC Holdings plc. Operating in one of the key markets in Asia, the Bank plays an integral role in supporting HSBC Holdings' strategy and channelling cross-border businesses within the Group.

HSBC Malaysia's impaired loan classification is more stringent than industry norms. Excluding these differences, the Bank's adjusted gross impaired loan (GIL) ratio stood at an estimated 2.8% as at end-March 2023 (end-December 2021: 2.7%). The above-industry GIL ratio is primarily influenced by loan base contraction over the past five years and large impairments related to a corporate borrower group. Following the net reversal of impairment charges last year, the Bank's credit cost ratio came in at an annualised 62 bps in 1Q FY Dec 2023 owing to harsher macroeconomic indicators assumed in its provisioning model. The ratio is envisaged to improve to pre-pandemic levels in the coming quarters.

Overall, HSBC Malaysia's earnings profile is satisfactory, with its strength in non-interest income (representing 40% of gross income in FY Dec 2022) partly tempered by its historically high cost-to-income ratio of above 50%. HSBC Malaysia's net interest margin (NIM) has somewhat bucked the industry trend, growing further to 2.6% in 1Q FY Dec 2023 (FY Dec 2021: 1.9%; FY Dec 2022: 2.2%). Besides a large share of current and savings account deposits (61% of customer deposits as at end-March 2023), stronger tailwinds from asset repricing given the Bank's short-dated securities portfolio also bolstered NIM. We expect margins to moderate in the next few quarters but the impact on profitability will be partly balanced by reduced impairment charges.

HSBC Amanah's ratings are equated to those of HSBC Malaysia, considering its strategic importance to the latter. The issue rating of HSBC Amanah has also been affirmed (Table 1).

Table 1: Ratings of HSBC Malaysia and HSBC Amanah

| | Ratings |
|---|-----------------------------|
| HSBC Bank Malaysia Financial Institution Ratings | AAA/Stable/P1 |
| HSBC Amanah Malaysia i. Financial Institution Ratings ii. RM3 billion Multi-Currency Sukuk Programme (2012/2032) | AAA/Stable/P1 AAA/Stable |

Note: The AA₁ rating of HSBC Malaysia's RM500 million Tier-2 Subordinated Bonds (2007/2027) has been withdrawn following the full redemption of the debt issuance upon maturity.

Analytical contacts

Amy Lo
(603) 3385 2509
amy@ram.com.my

Sophia Lee
(603) 3385 2619
sophia@ram.com.my

Date of release: 7 September 2023

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