Press Release

31 July 2017

HSBC Bank Malta reports resilient profitability in H1 2017 – retains 65% dividend payout ratio

- Reported profit before tax of €25.9m for the six months ended 30 June 2017. The reported performance was €15.4m or 37% lower when compared with the same period last year.

- On an adjusted basis (as explained under “Financial performance” on page 4), profit before tax was down 15% compared with the same period in 2016 due to the continuing adverse impact of negative interest rates, lower non-interest income as a result of risk management actions and higher compliance costs.

- Profit attributable to shareholders of €16.9m for the six months ended 30 June 2017 resulting in earnings per share of 4.7 cents compared with 7.5 cents in the same period in 2016.

- Common equity tier 1 capital ratio of 13.9% as at 30 June 2017, up from 13.2% at the end of 2016.

- Recommended gross interim dividend of 4.7 cents per share (3.0 cents per share net of tax).

- Cost efficiency ratio of 63% for the six months ended 30 June 2017, compared with a ratio adjusted for the significant items of 60% for the same period in 2016. The ratio was primarily impacted by lower revenue.

- Adjusted return on equity of 7.1% for the six months ended 30 June 2017, compared with 8.5% for the same period in 2016.

- Total assets of €7,068m at 30 June 2017, down €238m compared with 31 December 2016 due to lower loans and advances to banks and customers.

- Customer accounts of €4,870m at 30 June 2017, down €131m compared with 31 December 2016.

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HSBC Bank Malta p.l.c. reported a profit before tax of €25.9m for the six months ended 30 June 2017 compared with €41.3m for the same period in 2016. This represents a decrease of €15.4m or 37% on the previous period.

The reported results for the first six months of 2016 included the gain on disposal of €10.8m arising on the sale of our membership interest in Visa Europe. This was a significant event and therefore the income related to this transaction is excluded from the adjusted results to analyse the underlying business performance.

	H1 2017	H1 2016
	€000	€000
Reported profit before tax	**25,925**	41,314
Net gain on sale of investment in Visa Europe	**-**	(10,787)
Adjusted profit before tax	**25,925**	30,527

The performance during the first six months of 2017 was adversely impacted by persistent low interest rates, risk management actions and increased compliance costs but was in line with the management's expectations.

Profit attributable to shareholders amounted to €16.9m resulting in earnings per share of 4.7 cents compared with 7.5 cents in the first half of 2016. The Board proposes to maintain the current dividend pay-out ratio of 65% and recommends an interim gross dividend of 4.7 cents per share (3.0 cents per share net of tax). The interim dividend will be paid on 11 September 2017 to shareholders who are on the bank's register as at 10 August 2017.

All three main business lines, Retail Banking and Wealth Management, Commercial Banking and Global Markets, continued to be profitable during the six month period under review.

Andrew Beane, Director and Chief Executive Officer of HSBC Malta, commented on the business performance and strategy execution: "Performance during the first half of the year was in line with management expectations. After adjusting for the gain from the sale of our interest in Visa Europe, profits were lower due to the ongoing impact of negative interest rates and the bank's prioritisation of compliance actions."

"The bank made further notable progress with the implementation of our strategy, particularly with regards to our commitment to run HSBC to the highest global standards of financial crime compliance. While these actions can reduce profitability in the short term, they are fundamental to protect long-term value for shareholders and to fulfil HSBC's obligation to protect the integrity of the financial system, and its connections to international markets, on which the country's economy depends," he said.

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"I am acutely conscious that achieving our high standards of compliance can, in the short term, cause some inconvenience to customers, particularly where we require updated and additional information from them. However I believe that being part of an institution with HSBC's high standards will increasingly give our customers confidence about the protection that our standards offer to them as users of the financial system. And for business customers, ensuring full compliance with the requirements of the international financial system will become a consideration of growing strategic importance for Boards and Management Teams to support and protect their own growth."

Mr Beane added: "Looking forward, HSBC is making good progress to enhance our customer propositions for both business and personal customers. A number of notable announcements of new and enhanced HSBC services will be made in the second half of this year. These build on the good progress made within our insurance company, which is already benefiting from recent improvements to our product range."

"HSBC's capital and liquidity position remains extremely robust in line with our conservative risk culture which enabled us to continue to distribute dividends to our shareholders, sustaining a 65% payout ratio," he said.

"I am grateful to our customers, our hard working and dedicated employees and our shareholders for their support during this period of change," said HSBC Malta's CEO.

Net interest income decreased to €60.3m or 6% compared with €63.9m in the same period in 2016. The persisting low interest rate environment continued to impact the bank's performance – the yields on all interest earning assets continued to decline resulting in a lower interest income which was partly offset by lower funding costs. In addition, a number of corporates attracted funding through bond issuance in the local market which had an adverse effect on the bank's interest income. As the ECB deposit rate remained unchanged at negative 40 basis points, which is not recharged to customers, the bank continued to absorb the cost of the excess liquidity.

Non-interest income (fees and commissions and trading income) was down 15.3% compared with the same period in 2016 as a result of the risk management actions taken by the bank to align its portfolio with the established risk appetite and high compliance standards.

Operating expenses of €52.2m remained broadly in line with the prior period. The bank continued to see the results of the early voluntary retirement programme implemented in 2016 as staff costs further decreased by 5% despite the annual pay increase. At the same time, continuous investment in regulatory and financial crime compliance offset the positive impact of savings in employee costs. The bank continues to exercise a rigorous cost control and to implement streamlining initiatives.

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Following further discussion with the Malta Financial Services Authority, the bank intends to commence shortly the remediation process for the MiFID complex instruments issue disclosed in the 2016 year-end results. The bank's guidance on the costs of this programme remains unchanged. The expected costs are fully covered by a provision raised in the 2016 accounts.

Net impairment charges of €4.3m were slightly higher than in the first half of 2016. The bank maintains a conservative provisioning approach and raised impairments in relation to a number of long-outstanding mortgage exposures. At the same time, the bank holds adequate collateral against these exposures and expects to have recoveries in future. Overall asset quality remained satisfactory and total non-performing loans further declined from €216m to €191m during the first six months of 2017.

HSBC Life Assurance (Malta) Limited reported a profit before tax of €4.4m compared with €2m in the first half of 2016. The insurance subsidiary registered a growth in premium income, largely as a result of new single premium policies written. The company profit also benefited from a net positive impact of movement in the markets.

Financial position and capital

The total assets of the Group decreased to €7,068m as at 30 June 2017. This was attributable to the reduction in the loans and advances to customers and the decrease in interbank placements.

Net loans and advances to customers stood at €3,222m, €98m or 3% lower than at 31 December 2016. The decline was in the corporate loan book driven primarily by early repayments by several clients who secured alternative funding through bond issuance. At the same time, the mortgage book continued to demonstrate healthy growth. Lending margins remained under pressure due to sustained competition and low interest rates.

The bank's available-for-sale investment portfolio increased by 5% to €1,105m. It is composed of highly rated securities and is conservatively positioned with the lowest investment grade of A-.

Customer accounts were €4,870m as at 30 June 2017, €131m or 2.6% lower than at 31 December 2016. The decrease was primarily attributable to the withdrawal of a limited number of large corporate deposits which were temporarily placed with the bank. Core funding in the form of retail deposits increased further by €75m during the first six months of 2017.

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The bank's liquidity position remained broadly unchanged with the conservative advances-to-deposits ratio standing at 66%.

The bank's common equity tier 1 capital strengthened further and reached 13.9% from 13.2% at 31 December 2016 driven principally by lower risk-weighted assets. CET1 capital ratio continues to be well above the transitional and fully-loaded regulatory requirements. On 1 February 2017, one of the two subordinated bonds that the bank had in issue, forming part of the tier 2 capital matured and was not replaced. Notwithstanding, total capital ratio also increased to 14.3% compared to 14.2% at 31 December 2016.

Approved and issued by
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