HSBC

News Release

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HSBC Bank Malta sustains dividend, shifts focus to growth

Lower H1 profitability reflects impact of risk management actions and negative interest rates

Strategy Execution

- Transformation to achieve highest global standards of financial crime compliance now largely complete, protecting the business and customers for the long-term.
- De-risking actions reduced first half profitability in addition to the ongoing impact of negative interest rates.
- HSBC Malta has commenced transition to a new phase focused on growth and value creation. Bank is targeting to grow revenue faster than costs and increase return on equity over time.
- Commercial Banking new business pipeline has significant momentum and capacity for revenue development within existing risk appetite.
- Retail Banking and Wealth Management business volumes continue to increase supported by increased sales capacity and new digital innovations.
- Strong capital position enabled 65% dividend payout to be sustained.

Financial Performance

- Reported profit before tax of €16.2m for the six months ended 30 June 2018, a decrease of €9.8m or 38% compared with the same period last year due to continuing impact of negative interest rates and the impact of risk management actions taken during 2017.
- Profit attributable to shareholders of €14.3m for the six months ended 30 June 2018 resulting in earnings per share of 4.0 cents compared with 4.7 cents in the same period in 2017.
- Common equity tier 1 capital ratio of 14.0% as at 30 June 2018, up from 13.9% at the end of 2017.
- Recommended gross interim dividend of 4.0 cents per share (2.6 cents per share net of tax).
- Cost efficiency ratio of 74% for the six months ended 30 June 2018, compared with a ratio of 63% for the same period in 2017.
- Return on equity of 6.1% for the six months ended 30 June 2018, compared with 7.1% for the same period in 2017.
- Net loans and advances to customers were €3,141m, up €12m compared with 31 December 2017.
- Customer deposits of €4,832m at 30 June 2018, up €66m compared with 31 December 2017.
- The advances to deposits liquidity ratio was marginally lower at 65%.

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This news release is issued by
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The profit before tax for the six months ended 30 June 2018 of HSBC Bank Malta p.l.c. amounted to €16.2m, a decrease of €9.8m or 38% compared with the same period last year. The performance during the first six months of 2018 mainly reflected the continuing impact of low interest rates and prioritisation of risk management actions during 2017.

Profit attributable to shareholders amounted to €14.3m resulting in earnings per share of 4.0 cents compared with 4.7 cents in the first half of 2017. The Board proposes to maintain the current dividend pay-out ratio of 65% and recommends an interim gross dividend of 4.0 cents per share (2.6 cents per share net of tax). The interim dividend will be paid on 18 September 2018 to shareholders who are on the bank's register as at 17 August 2018.

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, said: "Our profitability in the first half of 2018 was lower than the prior year reflecting four main factors: (1) The impact of essential de-risking actions taken during 2017. (2) The ongoing effect of negative interest rates. (3) Loan impairments arising where the sale of assets pledged as security by corporate borrowers in default for many years have been delayed by lengthy judicial processes which make the recovery of liabilities a very protracted exercise. (4) From investment in regulatory and risk programmes such as GDPR and customer due diligence."

He added: "HSBC is proud of the progress we have made to achieve the highest level of financial crime compliance standards within our bank which can give confidence to our customers as they use HSBC's services. It is essential that the financial system as a whole is able to demonstrate full and effective compliance with European Union standards.

Looking to the future, the substantive elements of HSBC's business model transformation are now complete which is enabling the bank to move into a new strategic phase characterised by a return to growth and value creation. Over time, and without increasing our risk appetite, HSBC Malta will focus on growing revenue faster than costs in order to increase our return on tangible equity and, subject to our ongoing capital management processes, sustain our signature dividend."

HSBC Malta's CEO continued: "The early signs of this new phase are encouraging with significant increases in our commercial banking business pipeline which has led to a stabilisation of loans and advances which we expect to steadily increase over time. We are also seeing increased volumes in parts of our retail banking and wealth management business as we re-allocate capacity into sales and service activity, including insurance sales. HSBC's plans to deliver market leading customer service standards enabled by new digital innovations are a particular opportunity and represent a key focus for us in the second half of 2018 and beyond.

I would like to thank our shareholders and customers for their ongoing confidence and trust, and my colleagues for their outstanding contribution as we complete this chapter for HSBC Malta and move into a new phase."

Net interest income decreased to €54.1m or 10% compared with €60.3m in the same period in 2017 predominately due to a further decline in the average yield on the investment book due to continuing amortisation of higher yielding bonds as well as contraction of the commercial bank loan book relative to the prior year position.

Non-interest income (fees and commissions and trading income) remained broadly in line with the same period in 2017. Following the completion of the risk management actions taken by the bank in 2017, the strategic direction taken in the first half of the year started reaping positive results, in particular increased commissions as a result of higher volume of credit facilities granted and higher income generated from guarantees and derivative transactions.

Operating expenses increased to €54.9m or 5% compared with €52.2m in the same period in 2017. This increase reflects continued investment in regulatory programmes, financial crime compliance and business growth. The bank continues to exercise rigorous cost control and to implement initiatives at cost base streamlining through digitalisation, outsourcing and processes optimisation.

During the period under review, the bank concluded the remediation process for the MiFID (Markets in Financial Instruments Directive) complex instruments issue disclosed in the 2016 year-end results. The bank's guidance on the costs of this programme remains unchanged.

On 1 January 2018, the bank adopted IFRS 9 'Financial Instruments'. Adoption of this new standard reduced net assets by €8.0m, net of deferred tax of €4.3m. The bank was not required to restate comparative periods. Accordingly, all adjustments resulting from the transition apply by adjusting the opening balance sheet as at 1 January 2018.

Since adoption, the bank registered a change in expected credit losses under IFRS 9 of €3.4m, €0.9m lower than the loan impairment charges under IAS 39 of €4.3m reported in the same period in 2017 with one specific impairment relating to a long-dated case subject to legal proceedings representing the majority of the 2018 charge. The bank continues to maintain a conservative provisioning approach. Overall asset quality remained satisfactory and total non-performing loans further declined from €168m to €155m during the first six months of 2018.

The effective tax rate is 11%. This translated into a tax expense of €1.8m, €7.2m lower than €9.1m in the same period in 2017. During the period under review, the bank benefitted from a different tax treatment applied on a specific transaction.

HSBC Life Assurance (Malta) Limited reported a profit before tax of €1.8m compared to €4.4m in the same period of 2017. The decline was driven by positive market movements in 2017 which were not repeated in the first half of 2018. In addition, the insurance subsidiary registered a reduction in premium income, as a result of lower new single premium policies written when compared to prior year.

Financial position and capital

Net loans and advances to customers stood at €3,141m, €12m higher than at 31 December 2017. Following completion of the strategic repositioning of HSBC's Commercial Banking business, corporate lending stabilised in the first half of 2018.

The bank's available-for-sale investment portfolio remained broadly in line with the amount reported at 31 December 2017 and composed of highly rated securities and is conservatively positioned with the lowest investment grade of A-.

Customer deposits were €4,832m as at 30 June 2018, €66m or 1% higher than at 31 December 2017. The increase was primarily attributable to increased deposits in all segments of customers of the Commercial Banking business.

The bank's liquidity position remained broadly unchanged with the conservative advances-to-deposits ratio standing at 65%.

The bank's common equity tier 1 capital was 14.0% as at 30 June 2018, up from 13.9% at the end of 2017. Total capital ratio decreased to 14.1% compared to 14.4% at 31 December 2017 but still above the fully-loaded regulatory requirements.