HSBC

News Release

3 August, 2020

HSBC Malta performance impacted by challenging market conditions

2020 Interim Results – Highlights

The economic impact of the Covid-19 pandemic has been the main driver of the change in our financial performance in the first half of 2020. The resultant increase in expected credit losses, contributed to a material fall in reported profit before tax compared with the same period last year, in addition to the market turmoil that has impacted our Insurance business.

Financial performance (vs 1H19)

- Profit before tax down €19.1m to €1.8m due to higher expected credit losses and lower revenue reflecting the impact of the Covid-19 outbreak.
- Revenue down 16% largely driven by revaluation losses within the Life Insurance subsidiary ('HSBC Life Assurance (Malta) Limited') as a result of adverse market movements (equity and interest rates). Excluding the insurance subsidiary, revenue declined by 1%.
- Expected credit losses increased by €9.7m to €8.7m due to the impact of Covid-19. In 2019 we benefited from a number of releases in the first half of the year.
- Costs are 5% below same period in 2019 reflecting strong progress on the strategy announced in 2019.
- During the first six months, lending increased by €32m (1%) and deposits grew by €168m (3%).
- Profit attributable to shareholders of €1.2m for the six months ended 30 June 2020, resulted in earnings per share of 0.3 cents compared with 3.8 cents in the same period in 2019.
- Common equity Tier 1 capital ratio of 16.6% as at 30 June 2020, up from 16.4% at the end of 2019 well above regulatory requirements.
- Return on equity of 0.5% for the six months ended 30 June 2020, compared with 5.8% for the same period in 2019.
- In line with the European Central Bank recommendation that Eurozone banks should not make dividend payments at this time, regardless of capital strength, no interim dividend is being declared.

Financial performance: Commentary

Profit before tax for the six months ended 30 June 2020 was €1.8m, down €19.1m from the same period in 2019. The reductions reflect the impact of the Covid-19 outbreak specifically:

- The Life Insurance subsidiary reported a loss of €8.9m, €11.3m below the profit reported in the first half of 2019. The loss was predominately driven by revaluation losses as a result of adverse market movements (equity and interest rates) and lower trading activities as a result of Covid-19.

- Expected credit losses ('ECL') increased by €9.7m to €8.7m.

Net interest income ('NII') was largely stable at €53.5m compared with €53.6m in the same period in 2019 driven by the effects of interest rate cuts made in September 2019 (EUR) and March 2020 (USD & GBP), together with a further decline in the average yield on the investment book which offset the increase in NII as a result of the growth in the retail lending book and lower interest paid on customer deposits.

Non-interest income (fees and commissions and trading income) reduced by €0.7m with strong fee performance within commercial banking as a result of new fees, offset by a reduction in fee income largely driven by a drop in activity due to Covid-19 across cards, payments, insurance and credit facilities.

Operating expenses reduced by 5% to €51.1m compared with €53.6m in the same period in 2019. This reduction reflects the implementation of the bank's strategy announced in 2019 and continued focus on cost efficiency.

At the current time, the bank has seen some but not material increases in specific credit losses in retail and commercial. This reflects the benefit of support measures introduced by government, policy guidance from regulators and the bank's conservative risk culture. However, ECL increased by €9.7m to €8.7m for the 6 months ended June 2020 compared to the same period in 2019 as we incorporated the probability weighted outcome of different forward economic scenarios at portfolio level which takes into consideration the expected impact of Covid-19. In 2019, we benefited from a number of releases in the first half of the year, whilst in 2020 we also benefited from a release due to change in methodology and a number of recoveries but these were more than offset by the Covid-19 impact.

HSBC Life Assurance (Malta) Limited reported a loss of €8.9m, €11.3m below the profit reported in the first half of 2019. The insurance company's performance was driven by revaluation losses as a result of adverse market movements (equity and interest rates), actuarial adjustments and lower trading activities as a result of Covid-19. Net income from assets and liabilities of insurance, measured at fair value through profit or loss, reduced by €65m to a €30m loss due to adverse equity market performance in the first six months of 2020, resulting in revaluation losses on equity and unit trust assets supporting insurance and investment contracts. This adverse movement was materially compensated by a corresponding positive movement of €62m in net insurance claims and benefits paid and movement in liabilities to policyholders, reflecting the extent to which the policyholders participate in the investment performance of the associated assets portfolio.

The effective tax rate is 35% in line with 2019. This translated into a tax expense of €0.6m.

Financial position and capital

Net loans and advances to customers stood at €3,290m, €32m or 1% higher than at 31 December 2019 with strong growth across the Commercial Banking lending book and stable Retail lending book where growth in Retail lending balances over the first two months of 2020 was offset by declines post-March due to Covid-19.

The bank's investment portfolio decreased by €9m to €935m and was composed of highly rated securities and continued to be conservatively positioned with the lowest investment grade of A-.

Customer accounts were €5,145m as at 30 June 2020, €168m or 3% higher than at 31 December 2019 driven by Retail deposits which offset a marginal decline in Commercial

Banking deposits. The bank has a robust advances-to-deposits ratio of 64% and its liquidity ratios were well in excess of regulatory requirements.

The bank's common equity Tier 1 capital was 16.6% as at 30 June 2020, compared to 16.4% at the end of 2019 and well above regulatory requirements. Total capital ratio increased to 19.3% compared to 19.0% at 31 December 2019.

In line with the European Central Bank recommendation that Eurozone banks should not make dividend payments at this time, regardless of capital strength, no interim dividend is being declared.

Simon Vaughan Johnson, Director and Chief Executive Officer of HSBC Malta, said:

"The first six months of 2020 have been both challenging and transformative. Due to the Covid-19 pandemic, the economy slowed significantly and some sectors drew to a near standstill. This meant two things for the bank. First that the financial performance of the bank inevitably suffered in line with the rest of the economy. But second, that the real measure of our performance became our success in supporting our customers, colleagues and communities during the crisis, and in laying the groundwork for the recovery to come and the future safe growth of our franchise in Malta.

In difficult times, the bank's job has always been to support our communities, provide stability and help rebuild economic growth. I am proud of the way our people have delivered this purpose as the Covid-19 pandemic has unfolded.

Our approach has hinged on three things: securing a continuous service for all who rely on us; providing a financial bridge for our personal and business customers beyond the crisis and ensuring that the bank is in a strong position to help our customers thrive once restrictions begin to ease.

We maintained a high level of business continuity and we now have over 80% of colleagues enabled to work from the safety of their home if needed. We maintained a branch network presence throughout the Covid-19 period. We also maintained strong capital and liquidity positions.

The bank launched a series of proactive customer focused initiatives at the outset of the Covid-19 pandemic, including capital repayment holidays, fee free temporary short-term working capital facilities and trade finance support. In May, the bank also confirmed its participation in the Malta Development Bank Covid-19 Guarantee Scheme.

Throughout all of this, the well-being of our people and our customers has been our paramount concern. We have taken all steps necessary to enable our front-line colleagues to perform their jobs safely and effectively. For all our colleagues, we have maintained a regular flow of communication and listened closely to their needs, providing the support and flexibility to help them manage their lives during the pandemic.

This has been one of the most demanding periods that I can remember for all of our people and our valued customers. Many have had to juggle personal and professional priorities, while adapting to new and unfamiliar ways of working. I have been humbled by the dedication and commitment that my colleagues have shown in incredibly tough circumstances, and thank them sincerely for all they have done – and are doing – for our customers, communities and each other.

We are focused on the future and on successfully executing our Safe Growth strategy. We will strive to achieve revenue growth as and when market conditions improve, whilst maintaining a strong risk management culture, with zero appetite for financial crime risk."

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