

2 August 2021

HSBC Malta - satisfactory financial performance in the first half of the year

2021 Interim Results – Highlights

Satisfactory financial performance in the first half of the year reflecting favourable market movements which impacted the life insurance subsidiary and lower expected credit losses ('ECL') booked in relation to the bank's lending portfolio. The underlying business performance continues to be adversely impacted by lower and negative interest rates and reduced demand for corporate borrowing, credit card utilisation and personal loans arising from customer behaviour directly influenced by the Covid-19 pandemic. Operating expenses increased marginally, principally due to increased regulatory fees as a result of higher customer deposits held at year end 2020.

Financial performance (vs 1H20)

- Profit before tax increased by €15.6m to €17.5m due to positive performance reported by the life insurance subsidiary and lower ECL booked in relation to the bank's lending portfolio.
- Revenue increased by 16% driven by favourable market movements (equity and interest rates) positively impacting the life insurance subsidiary results. Excluding the insurance subsidiary, revenue decreased by 5% as a result of lower interest rates and subdued demand for corporate borrowing, credit cards and personal loans.
- ECL decreased by €6.8m to €1.9m. Higher ECL were booked in 2020 in view of the negative outlook prevailing at the time as a result of the Covid-19 outbreak.
- Cost Efficiency Ratio ('CER') improved to 72.9% compared to 83.0% in the same period last year.
- Costs are €1.1m higher than the same period in 2020. While the bank is still benefitting from the cost strategy announced in 2019, and ongoing cost management initiatives, additional regulatory fees were incurred due to higher deposits as at year end.
- During the first six months, lending decreased marginally by €8.9m (0.3%) and deposits grew by €56.6m (1%).
- Profit attributable to shareholders of €11.4m for the six months ended 30 June 2021 resulted in earnings per share of 3.2 cents compared with 0.3 cents in the same period in 2020.
- Common equity tier 1 capital ratio of 17.2% at 30 June 2021, down from 18.0% at the end of 2020 well above regulatory requirements.
- Return on equity of 4.7% for the six months ended 30 June 2021, compared with 0.5% for the same period in 2020.
- As the European Central Bank continues to recommend extreme prudence with regard to dividend distributions and since uncertainty still prevails in the marketplace, no interim dividend is being proposed. Restrictions imposed on capital distribution will end after 30 September 2021 when the ECB's current recommendation is due to expire.

Financial performance

Profit before tax for the six months ended 30 June 2021 was €17.5m, an increase of €15.6m from the same period in 2020. Higher profits reflect a positive performance by the life insurance subsidiary in view of favourable market movements and lower ECL booked in relation to the bank's lending portfolio.

Net interest income ('NII') decreased by €4.1m to €49.4m compared with €53.5m in the same period in 2020. The decrease in NII is mainly driven by lower interest rates and negative rates on excess liquidity. NII is also adversely impacted by the subdued demand for corporate borrowing, credit cards and personal loans in view of the Covid-19 pandemic. As a result, lower interest paid on deposits was offset by lower rates on debt securities, customer lending and bank placements.

Non-interest income (fees and commissions and trading income) increased by €0.9m with the increase mainly attributable to the commercial business. New money approvals for commercial customers increased over same period last year. This contributed to higher arrangement and commitment fees.

Operating expenses increased by €1.1m to €52.2m compared with €51.1m in the same period in 2020. While the bank continues to realise cost savings from the cost strategy announced in 2019 and ongoing proactive cost management measures, there was an increase in regulatory fees linked to higher customer deposits held at the prior year end.

ECL decreased by €6.8m to €1.9m compared with €8.7m in the same period in 2020. In 2020, higher ECL were booked to reflect the prevailing negative outlook and uncertainty of the Covid-19 pandemic. While ECL booked in 2020 were not released in view of the continued uncertainty in the market, increases in 2021 were limited to customers experiencing further deterioration.

HSBC Life Assurance (Malta) Limited reported a profit of €4.2m compared to a loss reported in the same period last year of €8.9m. The positive variance of €13.1m was mainly attributable to an improvement in the yield curve and financial markets which impacted revenue by €10.7m.

The effective tax rate is 35% in line with 2020. This translated into an interim tax expense of €6.1m.

Financial position and capital

Net loans and advances to customers amounted to €3,256m, a marginal decrease of €9m when compared to 31 December 2020. The bank saw marginal decreases in both commercial and retail banking driven by subdued demand for corporate facilities, credit cards and personal loans in view of the Covid-19 pandemic. While we saw an increase in new money approvals for commercial customers, utilisation remained low. The bank continued to experience growth in personal mortgages.

The bank's investment portfolio decreased by €22m to €856m. The portfolio was composed of highly rated securities and continued to be conservatively positioned with the lowest investment grade of A-.

Customer accounts were €5,330m as at 30 June 2021, €57m or 1% higher than at 31 December 2020 driven by increases in both retail and commercial banking deposits. The bank has a robust advances-to-deposits ratio of 61% and its liquidity ratios were well in excess of regulatory requirements.

The bank's common equity tier 1 capital was 17.2% at 30 June 2021, compared to 18.0% at the end of 2020 and well above regulatory requirements. The total capital ratio decreased to 19.8% compared to 20.7% at 31 December 2020.

In July 2021, the ECB announced that the current restrictions on payment of dividends will be lifted after 30 September 2021. Given the current restrictions on payment of dividend as well as the continued uncertainty in the market no dividend is being proposed.

Simon Vaughan Johnson, Director and Chief Executive Officer of HSBC Malta, said "The performance in the first half of 2021 reflected the favourable market impact on the life insurance manufacturing business as well as the continued unfavourable impact of further declining interest rates. We also saw ECL stabilise following the increased ECL booked in 2020 as a result of the negative forward economic outlook prevailing at the time.

In May 2021, we inaugurated the new flagship branch at 80 Mill Street, Qormi. The investment in our new branch enables HSBC to provide a new way of banking in Malta that embodies our drive to deliver a suite of world-class banking services to our customers. We aim to offer an enhanced customer experience that is underpinned by convenience and flexibility, serving our customers until 7:00pm during the week.

In June 2021, we announced two voluntary redundancy schemes. We aim to create a leaner working model that is externally-focused and performance-led, building and investing in a bank that is fit for the future and which is centred around customers.

We continue to support our community through the HSBC Malta Foundation. The Foundation continues to support local charities such as Malta Hospice Movement and Malta Community Chest Fund. The Foundation continues to be very active in the sustainability space. In collaboration with the Malta Chamber of Commerce, we have launched a sustainability project, 'Establishing Malta's Framework for a Net Zero Carbon Building'. This project will be targeting the country's building and construction sector with the goal of raising standards in energy efficiency and conservation. Furthermore, the Foundation continues to promote Future Skills through projects such as the Human Capital Research Project and Prince's Trust International Achieve Programme.

During the first half of the year, we continued to provide stability and continuity of service to our customers in a highly uncertain environment. We have invested in new customer journeys with the aim of improving customer experience and successfully launched two-factor authentication via HSBC Malta's existing mobile banking App, thereby providing customers with ease of execution. We will continue to be focused on the future and on successfully executing our Safe Growth strategy. We are confident that, despite the challenging external environment, there are many opportunities ahead for a bank with HSBC's competitive strengths and we remain focused on delivering these services to the Maltese market, as we strive to open up a world of opportunity."

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