HSBC

News Release

22 February 2022

HSBC Malta: Improved financial performance despite the persistent Covid-19 pandemic

Financial Performance

- Reported profit before tax of €26.9m for the year ended 31 December 2021, an increase of €16.4m or 157%.
- Adjusted profit before tax of €29.7m for the year ended 31 December 2021, which excludes the impact of a one-off restructuring provision of €2.8m, an increase of €19.2m, or 184%, compared with prior year.
- Improved profitability driven by a small release of expected credit losses compared to significant charges booked in 2020, as a result of the Covid-19 pandemic.
- Insurance subsidiary revenues positively impacted by favourable market movements. However, performance was negatively impacted by higher actuarial losses of €3.4m.
- Decrease in net interest income driven by the negative interest rate environment and excess liquidity.
- Increase in the cost base as a result of a restructuring provision, tighter regulatory monitoring, transformation expenses, increased regulatory fees and continued investment in digitalised solutions.
- Recommended gross final dividend of 3.42 cents per share (2.22 cents per share net of tax).
- Reported profit after tax attributable to shareholders of €17.8m for the year ended 31 December 2021, resulting in earnings per share of 4.9 cents, compared with 2.1 cents in the same period in 2020.
- Strong capital base with a common equity tier 1 ratio of 18.4% and total capital ratio of 21.1%, up from 18.0% and 20.7% respectively at 31 December 2020.
- Adjusted return on equity of 4.0% compared with 1.6% for 2020.
- Net loans and advances to customers decreased marginally by €67.9m compared to 31 December 2020.
- Customer deposits increased by 7% to €5,621m at 31 December 2021.
- Strong liquidity position with advances to deposits ratio at 57%.

Strategy Execution

- Opened our flagship branch at 80 Mill Street, Qormi offering customers unrivalled opening hours.
- Maintained prudent lending policy on both secured and unsecured lending given continued market uncertainty.
- Committed to executing our Safe Growth Strategy focused on three strategic pillars: Growth, our Customers and our People.
- Increased customer protection through the introduction of two factor authentication within the HSBC mobile banking app.
- Launched the Climate Action Network initiative aimed at driving sustainable projects through our people.
- Introduction of new products such as the Employee Pension Plan and the HSBC Responsible Investment Fund Range, enhancing the range of products offered to customers.
- Formal approval of a multi-million euro capital investment project to transform the Operations Centre in Qormi.
- Strengthened our capital ratios while continuing to build up capital reserves.

This news release is issued by
HSBC Bank Malta p.l.c.

Registered Office:
116 Archbishop Street, Valletta VLT1444
Web: www.hsbc.com.mt

Financial Performance

Reported profit before tax for the year ended 31 December 2021 was €26.9m. This represents an increase of €16.4m or 157% compared to prior year. Adjusted profit before tax of €29.7m increased by €19.2m, or 184% versus 2020. The adjusted profit before tax for 2021 excludes the impact of a restructuring provision of €2.8m.

Reported profit attributable to shareholders was €17.8m resulting in earnings per share of 4.9 cents compared with 2.1 cents in the same period in 2020.

Net interest income decreased by 8% to €97.8m compared to prior year. The decrease was mainly driven by lower average yields on debt securities, tighter margins and placement of surplus liquidity at negative rates. This was partially offset by lower interest paid on customer deposits and changes in deposit composition towards short-term placements.

Net fee income increased by €3.1m compared to 2020, driven by increased activity across cards, payments and credit facilities, as well as new fees introduced during the year to partially offset the increased cost of providing our services and products to customers.

Net trading income decreased by €3.0m, mainly due to fair value gains on equity investments reported in 2020. These equity investments were fully disposed of in 2020.

During the year, we reported a release of expected credit losses (ECL) of €1.0m, compared to a charge reported in 2020 of €25.6m. In 2020, higher ECL were booked to reflect the prevailing negative outlook and uncertainty arising from the Covid-19 pandemic. The net release in 2021 mainly reflected the performance of specific customers rather than an improvement in the economic outlook. In 2021, our Commercial Banking business reported a net release of €1.6m in view of the fact that recoveries on non-performing loans and improved performance for a number of corporate names outweighed charges linked to credit deterioration of other customers. Wealth and Personal Banking incurred a net charge of €0.6m as charges relating to extended moratoria measures exceeded reported recoveries.

Operating costs for the year amounted to €105.4m, compared to €97.4m reported in 2020. 2021 operating expenses include a restructuring provision of €2.8m. Excluding the restructuring provision, expenses increased by €5.2m or 5% compared to prior year. While we continued to achieve sustainable savings from the transformation programmes announced in 2019 and 2021, non-staff costs increased by €9.5m. The increase in non-staff costs was driven by compliance costs due to increased monitoring, transformation expenses, regulatory fees, fraud losses, as well as higher investment in digitalisation.

The effective tax rate was 34%. This translated into a tax expense of €9.1m, €6.3m higher than the €2.9m expense for 2020. While the increase in tax expense arose mainly as a result of increased profits, in 2020, the bank also benefitted from a tax exemption on a particular transaction.

HSBC Life Assurance (Malta) Ltd reported a loss before tax of €3.0m compared to a loss of €9.1m reported in 2020. The positive variance in profitability of €6.1m is mainly attributable to better market conditions, whereby fears of rising inflation led to increased interest rates that positively impacted revenues by €7.7m. Growth was also achieved due to higher new business versus prior year of €0.5m and lower expenses incurred of €1.2m, mainly in relation to the implementation of IFRS17. However, performance was negatively impacted by higher actuarial losses of €3.3m, mainly driven by the prediction of future negative experience for a legacy product.

Financial Position and Capital

Net loans and advances to customers decreased marginally by €67.9m to €3,197m. The decrease mainly related to the corporate portfolio due to unforeseen repayments. Despite the fact that the bank continues to monitor the asset quality of non-performing loans (NPL), we saw an annual net increase in NPL of €36.9m. The increase in wholesale NPL is mainly driven by the downgrade of a small number of corporate customers engaged in industries impacted by the Covid-19 pandemic, while the increase in retail NPL is primarily a result of individuals requesting a moratoria extension.

Customer deposits grew by 7% to €5,621m, driven by both retail and commercial deposits. The bank maintained a healthy advances to deposits ratio of 57% and its liquidity ratios remained well in excess of regulatory requirements.

The financial investments portfolio decreased by 4% to €846m. The decrease relates to the investment of maturing debt securities in balances held with the Central Bank of Malta. The risk appetite for investment quality remained unchanged. The portfolio is managed as a high-quality liquidity buffer and consists entirely of securities of sovereign and supranational issuers rated A- (S&P) or better.

The bank's capital ratios continued to improve with common equity tier 1 ratio increasing from 18.0% to 18.4% and the total capital ratio improving from 20.7% to 21.1%. The bank maintained a strong capital base and is fully compliant with the regulatory capital requirements.

The bank continued in its effort to manage down risk weighted assets across 2021, driven by placements of excess liquidity with the Central Bank of Malta and improved collateral recognition. Whilst we continue to strengthen our capital base, we recognise the importance of dividends to our shareholders. The Board has thus recommended a dividend pay-out of 45% on reported profits after tax. The final dividend will be paid on 21 April 2022 to shareholders who are on the bank's register of shareholders at 14 March 2022 subject to approval by the Annual General Meeting scheduled for 13 April 2022.

Simon Vaughan Johnson, Chief Executive Officer at HSBC Bank Malta p.l.c., said:

"HSBC's financial performance in 2021 improved but continued to be impacted by the persistent Covid-19 pandemic and negative market factors, including the sustained negative interest rate environment, pressures on margins and grey-listing, together with the continued uncertainty and impact that these factors have on market confidence in the short term.

"We have invested in a number of initiatives during the year to enhance customer experience, including the opening of our largest branch at 80 Mill Street, Qormi, with extended weekday opening hours, providing our customers additional flexibility and convenience. We have also launched the Universal Banker relationship manager concept in Malta, whereby through investment in relationship manager training, customers can obtain multiple banking solutions through one point of contact.

"We continued to invest in digital solutions. We successfully launched two factor authentication on the HSBC mobile app, providing customers with a seamless approval process which provides additional protection from online payment fraud. We continued to invest in our commercial banking platform, HSBCNet.

"During 2021, we have had another demanding year as Covid-19 persisted. We continued to adapt our ways of working and our people have done a great job in maintaining business continuity throughout the year. We have capitalised on our employee platforms and tools so that our employees continue driving their personal development and improving their skills and abilities. We achieved this through various forms of virtual-led programs and with the introduction of a new learning platform assisted by artificial intelligence, using intuitive tools to provide bite-sized learning for all.

"The outlook for 2022 will depend to a large extent on the evolution of the pandemic and remains challenging as the Covid-19 pandemic continues to impact economic growth and market confidence, both locally and globally.

"HSBC remains a strong bank that continues to be strategically focused on growing our business in Malta. We continue to maintain high standards through applying our core values and doing the right thing by bringing the best that HSBC has to offer to the Malta market. We remain firmly committed to this ethos as we continue to pivot the business towards Safe Growth in the years ahead."

END

HSBC Bank Malta p.l.c.

HSBC Bank Malta p.l.c. is a member of the HSBC Group, whose ultimate parent company is HSBC Holdings plc. HSBC Malta provides a comprehensive range of financial services which are all designed to meet the expanding requirements of its large client base of personal and corporate customers. These include Wealth and Personal Banking, Commercial Banking and Global Markets. Registered in Malta number C3177. Registered Office: 116, Archbishop Street, Valletta VLT 1444, Malta. HSBC Bank Malta p.l.c. is regulated and licensed to carry out the business of banking and investment services in terms of the Banking Act (Cap. 371 of the Laws of Malta) and the Investment Services Act (Cap. 370 of the Laws of Malta) by the Malta Financial Services Authority.

HSBC Group

HSBC Holdings plc, the parent company of the HSBC Group, is headquartered in London. HSBC serves customers worldwide from offices in 64 countries and territories in our geographical regions: Europe, Asia, North America, Latin America, and Middle East and North Africa. With assets of US$2,976bn at 30 June 2021, HSBC is one of the world's largest banking and financial services organisations.