HSBC

News Release

01 August 2022

HSBC Malta: achieved satisfactory financial performance in the first half of the year

Satisfactory financial performance achieved in the first half of the year which reflects a significant recovery on a non-performing loan and favourable market conditions positively impacting the performance of the insurance subsidiary. Strong growth was reported in net fee income and net trading income, while net interest income continued to be adversely impacted by tightened margins and negative interest rates on surplus liquidity. Total operating expenses increased mainly as a result of a change in legislation impacting the cash contribution payable to the Depositor Compensation Scheme and higher amortisation and depreciation linked to the bank's investment in software and property development. The bank's capital was negatively impacted by adverse price movements on financial instruments classified as hold-to-collect-and-sell.

Financial Performance

(vs same period in 2021)

- Profit before tax increased by €6.0m to €23.5m, mainly as a result of a significant recovery on a non-performing loan partially offset by an increase in regulatory fees paid and provisioned as a result of the change in legislation regulating the Depositor Compensation Scheme.
- Revenue decreased by 3% due to lower net interest income as margins continued tightening and excess liquidity was placed at negative rates. The negative variances were partially offset by higher net fee and trading income.
- A release of €11.8m was reported on Expected Credit Losses ('ECL') resulting in a positive variance of €13.7m compared to the first half of 2021 ('H1 2021'). This release is mainly attributable to a recovery on a non-performing loan which was largely provided for in prior years.
- Costs were €5.3m higher than the same period in 2021. This increase was largely driven by higher regulatory fees as a result of a change in the legislation regulating cash contributions towards the Depositor Compensation Scheme.
- During the first six months, deposits grew by €360.7m (6%) and loans to customers decreased marginally by €4.4m (0.1%).
- Profit attributable to shareholders of €15.5m for the six months ended 30 June 2022 resulted in earnings per share of 4.3 cents which compared favourably with 3.2 cents in the same period in 2021.
- Common equity tier 1 capital ratio of 16.3% as at 30 June 2022 was down from 18.4% at the end of 2021, though remained above regulatory requirements. The deterioration in the capital ratio was driven by adverse movements on financial instruments classified as hold-to-collect-and-sell, as a result of the increase in term market yield curves in the first six months. No interim dividend is being recommended in view of prevailing economic uncertainty.
- Return on equity of 6.5% for the six months ended 30 June 2022 compared favourably with 4.7% for the same period in 2021.
- Cost Efficency Ratio ('CER') increased to 83.1% compared to 72.9% in the same period last year mainly as a result of higher regulatory fees. Excluding the higher Depositor Compensation Scheme charge and provision driven by the change in legislation, CER amounted to 75.9%.

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HSBC Bank Malta p.l.c.

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

Financial Performance

Profit before tax for the six months ended 30 June 2022 was €23.5m, an increase of €6.0m from the same period in 2021. Higher profits reflect a significant recovery on a non-performing loan partially offset by an increase in regulatory fees as a result of the change in legislation regulating the Depositor Compensation Scheme.

Non-funds income (fees and commissions and trading income) increased by €1.9m. Increased fees and commissions were mainly a result of higher credit card usage, account fees and growth in transaction banking revenues within the Commercial Banking business, including good progress made on foreign exchange income resulting in higher trading income. The growth in income from transaction banking is in line with the bank's 'safe growth' strategy.

Net interest income ('NII') decreased by €3.2m to €46.2m compared with €49.4m in the same period in 2021. The decrease in NII was mainly driven by lower interest rates as margins continued tightening and some of the excess liquidity is being placed at negative rates. Customer deposits as at 30 June 2022 increased by €652m compared to the same period last year.

Operating expenses increased by €5.3m to €57.4m, compared with €52.2m in the same period in 2021. This was mainly due to higher regulatory fees as a change in the Depositor Compensation Scheme legislation was enacted in the first half of 2022 ('H1 2022') requiring banks to anticipate the cash contributions payable in 2023 and 2024. There was also an increase in the depreciation of tangible assets and amortisation of intangible assets arising from investments made by the bank in property and software developments.

ECL decreased by €13.7m resulting in a release of €11.8m compared to a charge of €1.9m in the same period in 2021. This release was mainly attributable to a significant recovery on a commercial non-performing loan which was largely provided for in prior years. No other significant releases were booked in H1 2022, primarily reflecting heightened levels of economic uncertainty and increasing inflationary pressures, in part due to the broader impact of the Russia-Ukraine war.

HSBC Life Assurance (Malta) Ltd reported a profit of €2.7m compared to €4.2m in the same period last year. While the insurance subsidiary benefited from the direct impact of the increased interest rate expectations, reflected in the revision of the yield curve and movements on the financial securities' prices, lower income was earned on fees and shareholders' bonuses calculated by reference to lower equity and bond prices. The decrease in fees and shareholders' bonuses was higher than the net income increase on the yield curve and the financial securities' prices, when compared to the same period last year.

The effective tax rate was 34% in line with 2021. This translated into an interim tax expense of €8.0m.

Financial Position and Capital

Net loans and advances to customers amounted to €3,192m, a marginal decrease of €4m when compared to 31 December 2021. While this marginal decrease was experienced in the Commercial Banking lending business, the bank continued to improve the asset quality by reducing non-performing loans in both Commercial Banking and Wealth and Personal Banking. The Commercial Banking business also generated a significant increase in corporate new money applications whereby volumes during H1 2022 represent 75% of the volumes reported in 2021, however utilisations remain low.

The bank's investment portfolio decreased by €29m to €816m and was composed of highly rated securities and continued to be conservatively positioned with the lowest investment grade of A-. In H1 2022, the bank established a hold-to-collect portfolio, which is carried at amortised cost and thus is not sensitive to market movements.

Customer accounts were €5,982m as at 30 June 2022, €361m or 6% higher than at 31 December 2021, driven by increases in both Retail and Commercial Banking deposits. The bank has a satisfactory advances-to-deposits ratio of 53%, and its liquidity ratios were well in excess of regulatory requirements.

The bank’s common equity tier 1 capital was 16.3% as at 30 June 2022, compared to 18.4% at the end of 2021. The total capital ratio decreased to 19.0% compared to 21.1% at 31 December 2021. The deterioration in the capital ratios was driven by adverse movements on financial instruments classified as hold-to-collect-and-sell, as a result of the increase in term market yield curves, impacting negatively revaluation reserves by €20.6m. While the capital ratios are still well above regulatory requirements, no interim dividend is being recommended in view of prevailing economic uncertainty.

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

“The performance in the first half of 2022 reflected a significant recovery of a commercial loan which was partially offset by increased regulatory fees as a result of a change in the legislation. It is pleasing to see that we have achieved good growth in net fee and trading income, as a result of higher transaction banking and trading activities, successfully leveraging HSBC’s strength as the leading international bank in Malta. While we have started to see improvements in interest rates, net interest income continued to be impacted by tighter margins, negative interest rates and higher surplus liquidity.

Economic uncertainty remains as Malta, like many other countries, emerges from the Covid-19 pandemic, government support measures unwind and inflationary pressures prevail as a result of the Russia-Ukraine war. In June 2022, HSBC Bank Malta and The Malta Chamber held a joint webinar on ‘The Global Economic Outlook 2022’, focusing on how uncertainty and increasing commodity prices are affecting the prospects for the global economy.

HSBC Malta recognises the importance of actively promoting and implementing environmental and climate initiatives within the community. We aim to be net zero by 2030 and to support our customers on this very important and transformational journey. HSBC Malta is a proud and committed founding member of the Malta ESG Alliance that was launched last month.

Malta was taken off the Financial Action Task Force “grey list” in June 2022. This decision, along with a positive trajectory in interest rates and a strong and focused safe growth plan, gives us confidence for the future.”

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