

21 February 2023

HSBC Malta: Strong and improved financial performance driven by rising interest rates and non-performing loan recovery

Financial Performance

- Reported profit before tax of €57.3m for the year ended 31 December 2022, an increase of €30.4m or 113%.
- Adjusted profit before tax of €58.8m for the year ended 31 December 2022, which excludes the impact of a restructuring provision of €1.5m, an increase of €29.2m, or 98% compared with prior year.
- Improved profitability driven by rising interest rates, favourable market movements impacting positively insurance revenues, higher trading income, continued good progress on cost management and a significant recovery on a commercial non-performing loan.
- Recommended gross final dividend of 5.61 cent per share (3.64 cent per share net of tax).
- Adjusted cost efficiency ratio of 67% compared to 78% in 2021.
- Reported profit after tax attributable to shareholders of €37.6m for the year ended 31 December 2022, resulting in earnings per share of 10.4 cent, compared with 4.9 cent in the same period in 2021.
- Adjusted return on equity of 7.8% compared with 4.0% for 2021.
- Net loans and advances to customers decreased marginally by €21.6m compared to 31 December 2021.
- Customer deposits increased by 6% to €5,971m at 31 December 2022.
- Strong liquidity position with stable advances to deposits ratio at 53%.

Strategy Execution

- Remain committed to execution of the Safe Growth Strategy that is focused on three strategic pillars: Growth, Customers and People.
- Commenced work on the transformation of our offices in Qormi which is currently the largest real-estate project of its kind for HSBC in Europe.
- Transfer of the majority shareholding in the bank from HSBC Europe B.V. to HSBC Continental Europe on 30 November 2022.
- Maintained prudent lending policy on both secured and unsecured lending given continued market uncertainty.
- Maintained strong capital and liquidity ratios taking action to protect the bank against any further decreases in the market prices of financial instruments.
- Continued investment in digital service delivery with the launch of the new cards platform which provides customers with enhanced features, services and security. Also upgraded the card fraud management system, strengthening customer and bank protection. Continued upgrades to HSBCnet, the commercial banking electronic platform, and to the HSBC Mobile Banking Application for personal banking customers.
- Honoured as the winner of the National Corporate Voluntary Organisations Award organised by the Malta Council for the Voluntary Sector.
- Proud and committed founding member of the Malta ESG Alliance, launched in 2022, highlighting our ongoing commitment to de-carbonise our operations and promote the transition to a net-zero economy.

Financial Performance

The bank achieved strong growth in profit in 2022. The reported profit before tax for the year ended 31 December 2022 was €57.3m. This represents an increase of €30.4m or 113% compared to prior year. The adjusted profit before tax of €58.8m increased by €29.2m, or 98% versus 2021. The adjusted profit before tax excludes the impact of restructuring provisions of €1.5m.

Reported profit attributable to shareholders was €37.6m, resulting in earnings per share of 10.4 cent compared with 4.9 cent in the same period in 2021.

Net interest income increased by 11% to €108.2m compared to prior year as the bank benefitted from rising interest rates. The European Central Bank increased the interest rate on their overnight deposit facility from -0.5% on 26 July 2022 rising to 2% as from 21 December 2022 and therefore the bank's surplus liquidity position was no longer being placed at negative rates.

Net fee income decreased by €2.1m compared to 2021 to €22.1m. This was driven by the removal of the high balance fee in July 2022, which was a customer-driven decision taken by the bank in view of the rising interest rate environment. We also saw a decrease in the refund received on card scheme fees. On an underlying basis, the bank has sustained good progress in generating fee income.

Net trading income increased by €2.2m as we continue to strengthen and deepen our relationships with our corporate customers. As the leading international bank in the market, we have continued to offer a comprehensive range of transaction banking services, including foreign exchange and other hedging products.

Operating costs for the year reduced by 2% and amounted to €103.0m. Operating expenses include restructuring provisions of €1.5m in 2022 and €2.8m in 2021. Excluding the restructuring provisions, expenses decreased by €1.1m, or 1%, compared to prior year, demonstrating continuously effective cost management actions.

A number of factors contributed to the net decrease in adjusted costs of €1.1m. The most material contributors were lower long term employee benefit costs in view of the increase in interest rates, savings on our commercial real estate costs and lower regulatory fees. These cost savings were partially offset by higher amortisation of intangible assets since we continue to invest in digitalisation, higher recharges from Group entities in view of increased outsourced services and higher costs incurred by the insurance subsidiary for the implementation of new accounting requirements.

During the year, we reported a release of expected credit losses ('ECL') of €9.6m, compared to a release of €1.0m in 2021. In 2022, our Commercial Banking business reported a net release of €12.3m which was mainly attributable to a significant recovery on a commercial non-performing loan which was largely provided for in prior years. Wealth and Personal Banking incurred a net charge of €2.7m. Provisions relating to a deterioration in the forward economic outlook from heightened levels of uncertainty and inflationary pressures were partially offset by the release of Covid-19 provisions booked in prior years.

The effective tax rate was 34.4%. This translated into a tax expense of €19.7m, €10.6m higher than the €9.1m expense for 2021. The increase in tax expense resulted mainly from increased profits.

HSBC Life Assurance (Malta) Ltd reported a profit before tax of €4.8m compared to a loss of €3.0m in 2021. The positive variance in profitability of €7.8m is mainly attributable to rising interest rates and lower actuarial losses, partially offset by higher expenses arising from increased costs associated with the implementation of new accounting requirements.

Financial Position and Capital

Net loans and advances to customers decreased marginally by €21.6m to €3,175m. Commercial balances decreased by 1.9%, while retail balances decreased by 0.2%. The

bank continued to improve asset quality by reducing commercial non-performing loans by 22%. Retail non-performing loans decreased by 34% mainly driven by mortgage upgrades on which moratoria were extended during Covid-19. We saw an increase in new loans and other facilities approved to commercial banking customers, which were up by over 30% on prior year. We expect drawdown of these facilities in 2023.

Customer deposits grew by 6% to €5,971m driven by both retail and commercial deposits. The bank maintained a healthy advances to deposits ratio of 53% and its liquidity ratios remained well in excess of regulatory requirements.

The financial investments portfolio increased by 19% to €1,005m. The increase was driven by higher liquidity as a result of the growth in customer deposits. During the year, the fair value of the hold-to-collect-and-sell investments was impacted by adverse price movements, as a result of the increase in term market yield curves, impacting negatively revaluation reserves by €23.2m. The bank took action to address the negative impact by entering into fair value hedges to mitigate against further decreases in market prices, as well as establishing a hold-to-collect portfolio. The risk appetite for investment quality remained unchanged. The portfolio consists entirely of securities of sovereign and supranational issuers rated A- (S&P) or better.

The bank's common equity tier 1 capital was 18.5% at 31 December 2022, compared to 18.4% at the end of 2021. The total capital ratio increased to 21.3% compared to 21.1% at 31 December 2021. The improvement in the capital ratios was driven by increased profits, partially offset by adverse price movements on financial instruments. The bank maintained a strong capital base and is fully compliant with the regulatory capital requirements.

The bank is determined to maintain a strong capital base, at the same time recognising the importance of dividends to our shareholders. In view of the adverse price movements on financial instruments experienced this year, expected changes in capital regulations and the uncertain economic outlook, the Board has recommended a dividend pay-out ratio of 35% on reported profits after tax amounting to €13.1m which is the highest dividend paid in the last four years. The final dividend will be paid on 25 April 2023 to shareholders who are on the bank's register of shareholders on 21 March 2023, subject to approval at the Annual General Meeting scheduled for 20 April 2023.

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

"HSBC's financial performance in 2022 exceeded expectations and was driven by rising interest rates, a significant credit recovery, increase in trading income and rigorous cost management actions. In 2022, the positive interest rate environment made an accretive contribution to our profitability, after many years of operating in a negative interest rate environment. We also reported increased revenue generated by our insurance subsidiary due to favourable market conditions, together with increased foreign exchange income.

"We are making good progress on the transformation of our offices at 80 Mill Street, Qormi which is currently the largest real-estate project of its kind for HSBC in Europe. This important capital investment in Malta will create a modern, fit-for-purpose business environment for all who work in or visit the campus and will facilitate a number of carbon net-zero initiatives that are fully aligned to our published targets.

"We continued to launch new products for our customers as well as delivering on the digitalisation journey. In Q1 2022, we launched the new cards platform which provides customers with enhanced features, services and security. The card fraud management system has also been upgraded, enabling us to better protect our customers and the bank. During the year, we rolled out enhancements on both HSBCnet and the Mobile Banking Application. In January 2023, HSBC Life launched the HSBC Key FIVE Critical Illness Cover plan which is a market-leading and standalone critical illness insurance policy which is designed to support policyholders in the event of being diagnosed with any of the five most common critical illnesses.

"We are a founding member of the Malta ESG Alliance, highlighting our ongoing commitment to decarbonise our operations and promote the transition in Malta to a net-zero economy. The bank has made significant progress on a study, being carried out in collaboration with the Malta Chamber of Commerce, to make our campus at 80 Mill Street, Qormi a net-zero

building and to use the experience and learnings to establish a blueprint for transitioning commercial buildings across Malta into more sustainable environments.

“In December, the Malta Council for the Voluntary Sector held the National Volunteer Awards for 2022. These awards are under the patronage of H.E. the President of Malta, Dr. George Vella, and they recognise the work of people and entities who are making a positive contribution to society and who are an inspiration to others. During the event, HSBC Bank Malta was honoured as winner of the National Corporate Voluntary Organisations Award reflecting the outstanding work my colleagues do to support the community we serve beyond banking.

“While the interest rate outlook is now more positive, the outlook for 2023 remains uncertain in view of heightened levels of inflationary pressures and continued geopolitical tensions. HSBC remains strategically focused on growing our business in Malta through the Safe Growth program which is delivering tangible benefits to our customers, shareholders and the wider community. As the leading international bank in Malta, HSBC remains fully committed to pursuing the digitalisation journey and to offering local and global products and services to our customers, supporting them to realise opportunities to grow both locally and internationally.”

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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

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