HSBC

News Release

23 February 2021

Fundamentals remain strong despite Covid-19 challenges for HSBC Malta

Financial performance

- Reported profit before tax of €10.4m, a decrease of €20.3m or 66% compared to prior year. The Covid-19 outbreak had a material impact on our performance in particular on the expected credit losses and other credit impairment charges ('ECL') of €25.6m and on the insurance subsidiary results.
- Fundamentals remain strong with revenues broadly flat year on year.
- Significant improvement in the cost base as a result of rigorous cost management and sustainable savings from the restructuring programme announced in 2019.
- Recommended gross final dividend of 1.16 cents per share (0.75 cents per share net of tax).
- Reported cost efficiency ratio of 73.0% compared with 80.2% for 2019.
- Reported profit attributable to shareholders of €7.6m for the year ended 31 December 2020 resulting in earnings per share of 2.1 cents compared with 5.6 cents in the same period in 2019.
- Strong capital base with a common equity tier 1 ('CET1') ratio of 18.0%, up from 16.4% at the end of 2019. Total capital ratio was 20.7% compared to 19.0% at 31 December 2019.
- Return on equity of 1.6% compared with 4.3% for 2019.
- Net loans and advances to customers were €3,265m, up €7.2m compared with 31 December 2019.
- Customer deposits increased by 6% to €5,273m at 31 December 2020.
- Strong Liquidity Position with advances to deposits ratio at 62%.

Strategy execution

- Effective execution of the 2019 restructuring programme contributed to a 7% reduction in costs versus prior year.
- Design and launch of Safe Growth strategy.
- Rigorous focus on credit quality with €9.3m reduction (-16% versus prior year) in wholesale non-performing loans ('NPL'). Retail NPL increased by 34% due to extended moratoria measures.
- Supported our customers during the pandemic through payment moratoria and short-term credit facilities, as well as the development of a lending product aligned with the Malta Development Bank Covid-19 Guarantee Scheme.
- Enabled 90% our staff to work from home while our Corporate Real Estate team ensured that evolving Health Authority Guidelines were and remain respected in all our offices and branches.
- Launched digital enhancements such as online on boarding for retail customers and the launch of Virtual Assistant for commercial customers and Live Chat for HSBCnet users to support the ongoing delivery of fair outcomes for our customers.
- Updated our footprint reflecting further accelerated trends in our customer behaviour with over 90% of basic retail transactions carried out digitally.
- Strengthened our capital ratios while continuing to build up capital reserves for non-performing loan requirements in line with prudential regulations.
- Proposed dividend of €2.7m based on 2019 and 2020 reported profits. This is in line with the recommendation of the European Central Bank.

HSBC Bank Malta p.l.c. informs the general public that the Annual Report and Accounts for the year ending 31 December 2020 can be viewed on the Bank's website – https://www.about.hsbc.com.mt/investor-relations

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

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Financial performance

Reported profit before tax for the year ended 31 December 2020 was €10.4m. This represents a decrease of €20.3m or 66% compared to prior year. While there were no notable items in 2020, adjusted profit before tax for 2019 excluded the impact of a restructuring provision of €16.0m and a provision release relating to brokerage remediation of €1.4m. Adjusted profit before tax of €10.4m decreased by €34.9m, or 77% versus 2019.

Reported profit attributable to shareholders was €7.6m resulting in earnings per share of 2.1 cents compared with 5.6 cents in the same period in 2019.

Net interest income decreased by 4% to €105.9m compared with the prior year. Lower interest paid on customer deposits as a result of repricing exercises and changes in deposit composition towards the short term was offset by lower average yields on debt securities and money market placements as well as lower overdraft and credit card balances arising from the current economic environment. Despite the European Central Bank deposit rate declining further, the bank limited the losses incurred on placement of excess liquidity as a result of effective liquidity management.

Net fee income decreased by €1.8m compared to 2019 driven by a reduction in activity due to Covid-19 across cards, payments, insurance and credit facilities.

Net trading income increased by €1.3m mainly due to higher fair value gains on Visa shares.
Operating costs for the year amounted to €97.4m compared to €120.7m reported in 2019. 2019 operating expenses included a restructuring provision of €16.0m. Excluding the restructuring provision, we delivered cost reductions of €7.3m or 7% while absorbing inflationary costs and Covid-19 related expenses. The improvement in the cost base was a result of rigorous cost management and sustainable savings from the restructuring programme announced in 2019.

Expected credit losses and other credit impairment charges ('ECL') for the year ended 31 December 2020 were €25.6m, an increase of €25.2m compared with 2019. The increase in ECL was driven by expected rather than incurred losses. This reflects the benefit of support measures introduced by the government, policy guidance from regulators and the bank's conservative risk culture. During the year, a number of corporate names were deemed to have suffered a significant increase in credit risk as they operate in industries heavily impacted by the Covid-19 pandemic. We also considered the possibility of future defaults linked to extended moratoria measures.

The effective tax rate was 27.5%. This translated into a tax expense of €2.9m, €7.7m lower than the €10.5m expense for 2019.

HSBC Life Assurance (Malta) Limited reported a loss before tax of €9.1m compared to a profit before tax of €3.1m reported in 2019. The adverse variance of €12.2m is mainly attributable to a drop in the financial markets and further deterioration of the yield curve negatively impacting revenues by €3m; actuarial losses of €8.4m as modelled parameters such as lapses and interest rates were worse than those estimated in 2019; and lower new business of €1m.

Financial position and capital

Net loans and advances to customers increased by €7.2m to €3,265m with retail balances up 1% and commercial balances 1% lower than December 2019. The bank continued to improve the asset quality by reducing commercial NPL by 16% versus prior year. Retail NPL increased by 34% due to extended moratoria measures.

Customer deposits grew by 6% to €5,273m driven by retail deposits with commercial balances broadly flat. The bank maintained a healthy advances to deposits ratio of 62% and its liquidity ratios remained well in excess of regulatory requirements.

The financial investments portfolio decreased by 7% to €877m. The decrease relates to the investment of maturing debt securities in treasury bills. 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 CET1 increasing from 16.4% to 18.0% and the total capital ratio improving from 19.0% to 20.7%. The bank continued to have 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 (‘RWAs’) across 2020, driven by placements of excess liquidity and more efficient collateral management.

Given our strong capital base and recognising the importance of dividends to our shareholders, the Board recommended a dividend pay-out ratio of 15% on the cumulated 2019 and 2020 reported profits for entities in scope of the Capital Requirements Regulation and after deducting any dividend paid in relation to the same period. This proposal is in line with the recommendation of the European Central Bank. The final gross dividend will be 1.16 cents per share (0.75 cents per share net of tax). The final dividend will be paid on 26 April 2021 to shareholders who are on the bank’s register of shareholders at 23 March 2021.

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

““HSBC’s financial performance in 2020 was materially impacted by the Covid-19 outbreak. The increase in ECL reflected the impact of Covid-19 on the forward economic outlook. Losses incurred by the insurance subsidiary arose from adverse market movements. Both these impacts overshadowed the strong progress made on cost reduction as a result of rigorous cost management sustained throughout the year. Despite the impact of Covid-19, the bank’s fundamentals remain strong and underlying performance was resilient.

“Covid-19 posed significant challenges for our personal and commercial customers. Our immediate priority has been to provide proactive support and flexibility to our customers from the outset of the pandemic. We have partnered with customers through payment moratoria, restructuring payments, short-term credit facilities and access to cash. We are providing facilities to support our commercial banking customers through both Malta Development Bank backed schemes and HSBC relief initiatives, as well as helping businesses to navigate the current environment.

“2020 was a uniquely challenging year in which unprecedented events and an uncertain environment meant that we had to adapt quickly to new ways of working and deploy innovative practices to meet and exceed our customers’ expectations. We developed and released a number of digital enhancements to support the ongoing delivery of fair outcomes for our customers. These included the launch of an online on boarding journey for retail customers and the launch of Virtual Assistant for commercial customers and Live Chat for HSBCnet users, to ensure that our customers continued to receive products and services securely, safely and conveniently.

“In 2020 we have continued to focus on our digital banking services since launching our mobile banking app for personal customers towards the end of 2019. The trend in customer behaviour has shown that digital transactions have more than doubled since this launch. This investment will be complemented shortly by the opening of a new and modern branch which will offer our personal banking customers a one stop shop for advice on all major life events. Branch banking and our ATM network will remain a critical part of our service offering to customers.

‘We are embarking on the execution of our Safe Growth strategy, focusing on three key pillars: growth, our customers and our people. We will strive to be an externally-focused, performance-led organisation and we remain committed to long-term measures of performance and risk management with zero appetite for financial crime risk. We will accelerate growth from our core businesses and we will be leveraging our international advantage. We will build and invest in a bank that is fit for the future and which puts the customer at the centre of what we do.

“We remain dedicated across the entity to operate in a sustainable, climate-aware fashion, aligning our activities to the Group’s ambition to be net zero in operations and supply chain by 2030, and in financed emissions by 2050, in line with the goals of the Paris Agreement on climate. Looking ahead to 2021, we seek to embed our Climate Strategy, actively supporting the Maltese economy to achieve the Paris Agreement goal of net zero by 2050.

“Throughout the year, the well-being of our people and the safety of our customers has been our paramount concern. From the outset of the pandemic, we have taken steps to enable our front-line colleagues to do their jobs safely and effectively. The Covid-19 outbreak has taught us that many roles can be undertaken effectively outside the traditional workplace, accelerating our focus on enabling greater flexibility in how our people will work in the future. We will continue to invest in opportunities for our people, helping colleagues to develop skills, learn new capabilities and adapt to the future. I would like to express my sincere thanks and gratitude to my colleagues for their dedication and hard work in 2020.

“HSBC remains a strong bank in spite of the Covid-19 crisis and continues to maintain high standards through applying our core values and doing the right thing. We remain firmly committed to this ethos as we pivot the business towards Safe Growth in the years ahead.”

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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.

HSBC Group
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