

COMPANY ANNOUNCEMENT

The following is a Company Announcement issued by HSBC Bank Malta p.l.c. pursuant to the Listing Rules issued by the Listing Authority.

Quote:

During a meeting held on 22 February 2022, the Board of Directors of HSBC Bank Malta p.l.c. approved the attached Annual Report and Accounts as at 31 December 2021.

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.

HSBC Bank Malta p.l.c. informs the general public that the Annual Report and Accounts for the year ending 31 December 2021 can be viewed on the Bank's website – <https://www.about.hsbc.com.mt/investor-relations>.

This Company Announcement is issued by
HSBC Bank Malta p.l.c.
Company Secretary Tel: (+356) 2380 2404

*Registered in Malta number C3177
Registered office: 116, Archbishop, Valletta VLT 1444, Malta
HSBC Bank Malta p.l.c. authorised by the Malta Financial Services Authority
to provide investment services under the Investment Services Act 1994.
HSBC Bank Malta p.l.c. is enrolled as a tied insurance intermediary for HSBC Life
Assurance (Malta) Ltd under the Insurance Distribution Act (Cap. 487 of the
Laws of Malta)*

Directors' Report

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.”

Unquote



Dr George Brancalone LL.D.

Company Secretary



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22 February 2022

DIRECTORS' DECLARATION ON ESEF ANNUAL REPORT AND ACCOUNTS 2021

We, John Bonello and Simon Vaughan Johnson, in our capacity as Directors of HSBC Bank Malta p.l.c. (Company registration number: C3177), hereby **certify**:

- i. That the Annual Report and Accounts 2021 ("ARA") for the year ended 31 December 2021 has been approved by the Board of Directors of the Company and is hereby being made available to the public.
- ii. That the ARA has been prepared in terms of the applicable rules and regulations, including the Commission Delegated Regulation on the European Single Electronic Format ("ESEF")¹ and the Capital Markets Rules².
- iii. That the Audit Report on the ESEF ARA is an exact copy of the original signed by the auditor and that no alterations have been made to the audited elements of the ARA including the annual financial statements.
- iv. That the ARA shall serve as the official document for the purposes of the Capital Markets Rules and the Companies Act (Chapter 386 of the Laws of Malta).

John Bonello
Chairman

Simon Vaughan Johnson
Director / Chief Executive Officer

¹ Commission Delegated Regulation 2019/815 on the European Single Electronic Format, as may be further amended from time to time.

² Capital Markets Rules as issued by the Malta Financial Services Authority (MFSA).