HSBC

News Release

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HSBC Malta: announces highest interim dividend in 7 years, driven by strong performance

The financial performance in the first half of the year reflected the value of the bank's large and diversified customer base, rising interest rates, strong risk management and credit quality of the loan book, improved performance of the insurance subsidiary and cost discipline, while still investing in the future of the business.

In view of the strong performance in H1 2023, the directors are recommending an interim gross cash dividend of 6.0 cents per share. The proposed interim gross dividend for 2023 is higher than the full year gross dividend of 5.6 cents paid for 2022. This represents the highest interim dividend paid by HSBC Bank Malta in seven years.

On 1 January 2023, HSBC Malta adopted IFRS 17 'Insurance Contracts'. As required by the standard, the bank applied the requirements retrospectively with comparative data previously published under IFRS 4 'Insurance Contracts' restated from the 1 January 2022 transition date.

Financial Performance

*(vs same period in 2022 re*stated for IFRS 17 'Insurance Contracts')

- Profit before tax increased by 238% or €41.8m to €59.3m, mainly driven by higher income on the placement of excess liquidity, lower credit recovery in view of a significant recovery reported in H1 2022, better performance reported by the insurance subsidiary and lower reported costs.
- Revenue increased by €43.5m or 69% driven by rising interest rates reflecting increased value from our large and diversified customer base and greater customer transaction volumes.
- A release of €2.6m was reported on expected credit losses ('ECL') in view of better economic projections and curing of non-performing loans on which moratoria measures were extended during the Covid period.
- Costs are €7.5m lower than the same period in 2022. This decrease was largely driven by higher regulatory fees booked in H1 2022 as a result of a change in the legislation regulating cash contributions towards the Depositor Compensation Scheme and an insurance refund received in 2023. Nevertheless, we continue to invest in the future of the business.
- During the first six months, loans to customers and deposits were largely at the same levels reported as at 31 December 2022.
- Profit attributable to shareholders of €38.5m for the six months ended 30 June 2023 resulted in earnings per share of 10.7 cents which compared favourably with 3.2 cents in the same period in 2022.
- Recommended an interim gross dividend of 6.0 cents per share.
- Return on equity of 16.2% for the six months ended 30 June 2023 compared favourably with 5.1% for the same period in 2022.
- Cost efficiency ratio ('CER') improved to 46.6% from 90.9% in the same period last year.
- The bank maintained a strong liquidity and capital position as at 30 June 2023.

Financial Performance

Profit before tax for the six months ended 30 June 2023 was €59.3m, an increase of €41.8m from the same period in 2022, following IFRS 17 restatements. Higher profits reflect the value of the bank's large and diversified customer base, higher interest rates, better performance by the insurance subsidiary and lower costs. These positive variances were partially offset by lower credit recoveries due to a significant recovery on a commercial non-performing loan reported in H1 2022.

Net interest income ('NII') increased by €43.4m to €89.7m compared with €46.2m in the same period in 2022. The increase in NII reported by the global businesses was due to interest rate rises. The European Central Bank increased the interest rate on their overnight deposit facility from -0.5% on 26 July 2022 rising to 3.5% as from 21 June 2023 and therefore the bank's surplus liquidity position was no longer being placed at negative rates.

Non-funds income (fees and commissions and trading income) decreased by €2.3m. This was largely 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. On an underlying basis the bank sustained good progress in the generation of fee as well as foreign exchange income by utilising its customer service transactional capability.

Operating expenses decreased by €7.5m to €49.5m, compared with €57.1m in the same period in 2022. This was mainly due to higher regulatory fees reported in H1 2022 as a change in the Depositor Compensation Scheme legislation was enacted requiring banks to anticipate the cash contributions payable in 2023 and 2024. In 2023, we also received a refund from insurance in relation to operational losses reported in prior years. On an underlying basis, expenses remained relatively flat as cost saving initiatives and cost discipline mitigated increased investment and inflation.

During the six months, we reported a release of expected credit losses ('ECL') of €2.6m, compared to a release of €11.8m reported in the same period last year. The release in 2023 considered more favourable economic projections while 2022 projections reflected economic uncertainty mainly due to the Russia - Ukraine war and inflationary pressures. In 2023 we also experienced the curing of non-performing loans on which moratoria measures were extended during the Covid period to help customers navigate through such difficult times. In H1 2022, the bank had reported a significant recovery on a commercial non-performing loan which was largely provided for in prior years.

The effective tax rate was 35% in H1 2023 compared to 34% in 2022. This translated into an interim tax expense of €20.8m.

HSBC Life Assurance (Malta) Ltd reported a profit of €1.6m compared to a loss of €3.2m reported in the same period last year, as restated in accordance with IFRS 17. In H1 2023, we have seen lower volatility in the market compared to the same period last year. The volatility in market prices negatively impacted the insurance subsidiary results in 2022.

Financial Position and Capital

Net loans and advances to customers amounted to €3,147m, a marginal decrease of €28m or 0.9% when compared to 31 December 2022. The bank continued to improve asset quality by reducing non-performing loans by 10%. It also retained a prudent credit policy to ensure long term sustainability of its service proposition while also delivering value for its shareholders.

The bank's investment portfolio increased by €97m to €1,101m and was composed of highly rated securities and continued to be conservatively positioned with the lowest investment grade of A-.

Customer accounts were €5,930m as at 30 June 2023, a marginal decrease of €41m or 0.7% compared to 31 December 2022. The bank had 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 17.8% as at 30 June 2023, compared to 18.5% at the end of 2022. The total capital ratio decreased to 20.6% compared to 21.3% at 31 December 2022. The deterioration in the capital ratios was driven by the build-up of the capital requirements for non-performing loans. The regulations require us to build-up capital reserves for long outstanding non-performing exposures over the years. It is to be noted that the June 2023 ratios exclude the unverified profits for the period under review. 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 its shareholders. The Board has thus recommended an interim gross dividend of 6.0 cents per share which amounts to an interim gross dividend of €21.6m. The interim dividend will be paid on 15 September 2023 to shareholders who are on the bank's register of shareholders on 14 August 2023.

Geoffrey Fichte, the new Chief Executive Officer of HSBC Malta, said:

"The turnaround strategy of HSBC Malta is off to a strong start with first half results showing higher profits before tax as a result of an increase in revenue, improved credit quality and effective cost management. This positive performance was achieved thanks to the support of our customers and colleagues, while we continue to invest in our business to meet the dynamic and evolving needs of customers.

By generating greater value for shareholders, we are recommending an interim gross dividend of 6.0 cents per share which is higher than the full dividend paid in 2022 and represents our highest interim dividend in seven years.

We are confident in the local economy, and continue to focus on growing our business, while investing in the future. Our main priority is improving customer services through better digital channels for customers while not losing the personalised service of our team. We leverage on our global strength being the leading international banking brand in Malta.

Our major investment in a new headquarters for Malta is now over 60% complete, representing a €30m investment. We are excited to move into this state-of-the-art green building in the near future. The HSBC Hub is purposely built for the long-term success of our customers and colleagues. Other major investments in the future of our business include upgrading and replacing 100% of our ATM fleet, green loans, digital and future skills training.

Sustainability represents the biggest transformation in the banking sector. We are already taking action to reduce our carbon footprint but recognise that our biggest impact comes from working with customers to help them transition to a net zero economy and become more sustainable through our green loan offers.

I would like to take this opportunity to thank our customers and colleagues for their support. HSBC is positive on Malta and we have identified many opportunities to grow our business here."

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