HSBC News Release

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HSBC profits increase as strategy gains momentum

Strategy Execution

- Successful risk management strategy has positioned the bank to manage the range of risks facing the financial system, supporting growth in profitability.
- Next phase growth actions gaining momentum with notable progress in retail banking delivering record new customer acquisition and home loan performance.
- Commercial Banking has stabilised following completion of risk management actions. Outlook remains more challenging than in retail. Quarter of a billion euro business fund launched to accelerate revenue development.
- Good progress on cost management in the first half of the year.
- Strong capital position with dividend payout ratio sustained at 30%.

Financial Performance

- Reported profit before tax of €20.9m for the six months ended 30 June 2019, an increase of €4.8m or 30% compared with the same period last year. 2019 results benefited from the non re-occurrence of a significant expected credit loss taken in 2018.
- Common equity tier 1 capital ratio of 16.2% as at 30 June 2019, up from 14.6% at the end of 2018 well above regulatory requirements.
- Recommended gross interim dividend of 1.7 cents per share (1.1 cents per share net of tax).
- Cost efficiency ratio improved to 73% for the six months ended 30 June 2019 from 74% for the same period in 2018.
- Return on equity of 5.8% for the six months ended 30 June 2019, compared with 6.1% for the same period in 2018.
- Net loans and advances to customers were €3,183m, up €73m compared with 31 December 2018.
- Customer deposits of €4,850m at 30 June 2019, down €38m compared with 31 December 2018.
- The advances to deposits liquidity ratio increased from 64% at 31 December 2018 to 66%.

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All three main business lines, Retail Banking and Wealth Management, Commercial Banking and Global Markets, continued to be profitable during the six-month period under review.

Andrew Beane, Director and Chief Executive Officer of HSBC Bank Malta p.l.c., said: “These are a good set of results as the bank emerges from implementation of its successful risk management strategy with increasing momentum. Strategically we are now focused on delivery of world-class customer service to support growth.

Progress in retail banking is ahead of expectations with significant market share gains achieved in new customer acquisition and home loans without increasing risk appetite. Retail Banking will also benefit from a number of digital innovations the bank will launch in the second half of the year.

Following completion of significant risk management actions, Commercial Banking has now stabilised and the performance of our Insurance company improved. Both of these divisions require further work to increase profitability and are a strategic focus for the Board. We have launched a quarter of a billion euro lending fund to signal to the market that our commercial division has returned to a growth focus.”

He added: “Progress on costs is encouraging and the bank is committed to further reduce its cost efficiency ratio over time. Additionally, HSBC’s signature credit discipline has delivered further reductions to the risk profile of our portfolio. While Malta’s economic performance and outlook remain positive, we are positioning the bank for the long-term economic cycle and remain cautious in growing exposure to higher risk sectors such as corporate real estate.

We welcome actions being taken by the local authorities to reform corporate insolvency practices and augur this be completed at pace. The bank’s capacity to better use its capital to support lending into the economy and, if appropriate, higher dividends will significantly increase once these reforms are concluded.”

Concluding, Andrew Beane said: “Finally, as is the case with all Domestic Systemically Important Banks in the Single Supervisory Mechanism, HSBC is in early stage discussions with the European Central Bank Single Resolution Board to understand the requirements that will apply for new Required Eligible Liabilities, commonly known as MREL. MREL is likely to further increase capital requirements for the sector and the bank intends to provide more detail with the 2019 annual results as these requirements become clearer.”

Financial performance: Commentary

Profit attributable to shareholders amounted to €13.6m resulting in earnings per share of 3.8 cents compared with 4.0 cents in the first half of 2018. The Board proposes to maintain the current dividend payout ratio of 30% and recommends an interim gross dividend of 1.7 cents per share (1.1 cents per share net of tax). The interim dividend will be paid on 18 September 2019 to shareholders who are on the bank’s register as at 16 August 2019.

Net interest income ('NII') decreased marginally to €53.6m compared with €54.1m in the same period in 2018 with contraction in the commercial bank loan book interest and further decline in the average yield on the investment book. The decline was largely offset by the growth in NII within the mortgage book and effective management of excess liquidity.

Non-interest income (fees and commissions and trading income) reduced by €0.6m which is largely driven by a reduction in fees due to the disposal of a specific insurance portfolio in December 2018 and a reduction in management fees within the Asset Management Company partly offset by strong performance in foreign exchange.

Operating expenses reduced by 2% to €53.6m compared with €54.9m in the same period in 2018. This reduction reflects the bank's continuous focus on cost control and the implementation of initiatives at cost base streamlining through outsourcing and processes optimisation.

Expected Credit Loss ('ECL') was a release of €1.0m versus a charge of €3.4m in 2018. 2019 results benefited from the non reoccurrence of the significant ECL seen in 2018. The bank continues to maintain a conservative provisioning approach. Overall asset quality remained satisfactory and total nonperforming loans further declined from €136m to €125m during the first six months of 2019.

The effective tax rate is 35%. This translated into a tax expense of €7.3m, €5.5m higher than the same period in 2018. During the first six months of 2018, the bank benefited from a specific tax treatment applied on a one-off transaction.

HSBC Life Assurance (Malta) Limited reported a profit before tax of €2.4m, 39% higher than the same period of 2018. The increase was partly driven by positive market movements in 2019 which were not seen in the first half of 2018. In addition, the insurance subsidiary registered a 2% increase in premium income, as a result of the growth in pensions post the launch of the new Employee Pension Plan to all HSBC Bank Malta employees in December 2018.

Financial position and capital

Net loans and advances to customers stood at €3,183m, €73m higher than at 31 December 2018 with strong growth across the RBWM mortgage portfolio and marginal growth in the commercial lending book.

The bank's financial investments portfolio increased by €53m to €958m and composed of highly rated securities and is conservatively positioned with the lowest investment grade of A-
.
Customer accounts were €4,850m as at 30 June 2019, €38m or 1% lower than at 31 December 2018 with increases in Retail deposits offset by reduction in Commercial Banking deposits. The bank maintained a healthy advances-to-deposits ratio of 66% and its liquidity ratios were well in excess of regulatory requirements.

The bank's common equity tier 1 capital was 16.2% as at 30 June 2019, up from 14.6% at the end of 2018 well above regulatory requirements. Total capital ratio increased to 18.8% compared to 17.0% at 31 December 2018.