

21 February 2024

HSBC Malta achieved record results in 2023, declares one of the highest dividends in the last 10 years and accelerates investment plan

2023 Results - Highlights

In 2023, the bank delivered strong revenue growth across all three global businesses, supported by increasing net interest income, which enabled it to deliver its best return on equity in more than a decade. As well as improving financial performance, the bank's strategy is increasing shareholder returns.

The bank is pleased that it can reward its shareholders for their loyalty with one of the highest dividends per share in the last 10 years. The directors are recommending a dividend pay-out ratio of 40% on the reported profits for the year ended 31 December 2023. The final gross dividend will be 9.0 cents per share (5.85 cents per share net of tax) which brings the total dividend for 2023 to 15.0 cents (9.75 cents net of tax).

Financial Performance (vs 2022 restated for IFRS 17 'Insurance Contracts')

- Reported profit before tax of €133.9m for the year ended 31 December 2023, an increase of €78.3m or 141%.
- Increased profits driven by increasing net interest income and higher profits from the insurance subsidiary. We continued experiencing improvement in the credit quality of our loan portfolio resulting in releases of expected credit losses. Operating costs increased mainly driven by investment in people and technology.
- Recommended a final gross dividend of 9.0 cents per share (5.85 cents per share net of tax) which brings the total dividend for 2023 to 15.0 cents (9.75 cents net of tax).
- Cost efficiency ratio of 44% compared to 68% in 2022.
- Reported profit after tax attributable to shareholders of €86.8m for the year ended 31 December 2023, resulting in earnings per share of 24.1 cents, compared with 10.0 cents in the same period in 2022.
- Return on equity of 17.1% compared with 7.7% for 2022.
- Net loans and advances to customers decreased by €91.3m to €3,084m compared to 31 December 2022 while customer deposits increased by 3% to €6,142m at 31 December 2023.
- Strong capital and liquidity ratios well above minimum regulatory requirements.

Financial Performance

We delivered strong revenue growth across all three global businesses, supported by increasing net interest income, which enabled us to deliver our best return on equity in more than a decade. As well as improving financial performance, our strategy is increasing shareholder returns. The reported profit before tax for the year ended 31 December 2023 was €133.9m. This represents an increase of €78.3m or 141% compared to prior year.

Reported profit attributable to shareholders was €86.8m, resulting in earnings per share of 24.1 cents compared with 10.0 cents in the same period in 2022.

Net interest income increased by 81% to €195.8m compared to prior year due to the higher interest rate environment. The increase in net interest income is largely driven by higher interest on placement of excess liquidity.

Net fee income decreased by €2.2m compared to 2022 to €19.5m. 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 have seen good growth in transaction banking and higher volumes of international payments.

Net trading income was in line with 2022 income at €7.6m as we continue to strengthen and deepen our relationships with our corporate and retail customers. As the leading international bank in the market, we have continued to offer a comprehensive range of award-winning transaction banking services, including foreign exchange and other hedging products.

Operating costs for the year increased by 3% and amounted to €102.4m. The increase in expenses is mainly attributable to an increase in staff costs of €3.7m as we continue to invest in our people, being our main asset. This was partially offset by an insurance refund received in 2023 and costs savings on our real estate portfolio.

During the year, we reported a release of expected credit losses (ECL) of €4.6m, compared to a release of €9.6m in 2022. 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. The release in 2023 is across retail and commercial banking driven by an improvement in the credit quality of our customers as well as improved forward economic outlook.

The effective tax rate was 35.2%. This translated into a tax expense of €47.1m, €27.7m higher than the expense for 2022. The increase in tax expense resulted mainly from increased profits.

HSBC Life Assurance (Malta) Ltd reported a profit before tax of €6.2m compared to a profit of €3.9m in 2022. On 1 January 2023, HSBC adopted IFRS 17 'Insurance Contracts'. As required by the standard, we applied the requirements retrospectively with comparative data previously published under IFRS 4 'Insurance Contracts' restated from the 1 January 2022 transition date. The positive variance in profitability of €2.3m is mainly attributable to a positive variance on the mark to market gains of the insurance asset portfolio.

Financial Position and Capital

Net loans and advances to customers decreased by €91.3m to €3,084m. The bank retained a prudent credit policy to ensure long term sustainability of its service proposition while also delivering value for its shareholders. It also continued to improve asset quality by reducing commercial non-performing loans by 14% and retail non-performing loans by 20%.

Customer deposits grew by 3% to €6,142m driven by an increase in commercial deposits. The bank maintained a healthy advance to deposit ratio of 50.2% and its liquidity ratios remained well in excess of regulatory requirements.

The financial investments portfolio increased by 31% to €1,316m. In 2023, we increased the size and duration of our structural hedges to reduce the sensitivity of banking net interest income to interest rate movement and stabilise future earnings. We also see a number of opportunities from our existing strategy to continue to grow revenue.

The bank's common equity tier 1 capital was 20.6% at 31 December 2023, compared to 18.5% at the end of 2022. The total capital ratio increased to 23.5% compared to 21.3% at 31 December 2022. The improvement in the capital ratios was driven by increased profits and higher revaluation reserves on our Hold-to-Collect investment portfolio partially offset by higher capital deductions for non-performing loans as we continue to gradually implement the capital requirements. 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 strong results, the Board has recommended a dividend pay-out ratio of 40% on reported profits. The final gross dividend will be 9.0 cents per share (5.85 cents per share net of tax) which brings the total dividend for 2023 to 15.0 cents (9.75 cents net of tax). This is the highest annual dividend paid in the last decade. The final dividend will be paid on 25 April 2024 to shareholders who are on the bank's register of shareholders on 19 March 2024, subject to approval at the Annual General Meeting scheduled for 18 April 2024.

Geoffrey Fichte, Chief Executive Officer at HSBC Bank Malta p.l.c., said:

“Our record profit performance in 2023 reflected the inherent strength of our business and balance sheet. We benefitted from increasing net interest income and strengthened business relationships with our customers.

“Our lines of business, Commercial Banking, Wealth and Personal Banking and Global Markets, continue to grow from their respective areas of strength and are looking to grow by supporting customers and maximising sustainable finance opportunities, leveraging our international advantage, maintaining proactive cost management and a robust risk management culture. We continue to adhere to the highest standards which are synonymous with the HSBC brand, and which continue to be a source of strength and competitive advantage, as we work diligently to support growth in Malta’s economy by facilitating new business and cross-border trade.

“We are proud that in 2023, during the Interim financial results in August, the dividend pay-out was higher than the full dividend paid in 2022. Our share price was the top performer in the Malta Stock Exchange in 2023, increasing by over 80%. Today we announced the highest annual dividend paid in the last decade.

“Our people are the cornerstone of the bank so we will continue to empower our employees to reach their full potential to deliver customer service excellence and be the best versions of themselves by investing in opportunities for colleagues to develop skills, learn new capabilities and adapt to the future, whilst reducing complexity and bureaucracy.

“It is to their collective credit that in 2023 HSBC Bank Malta was the recipient of renowned awards like Banker of the Year from the Financial Times (December 2023), Market Leader and Best Service from Euromoney Cash Management Survey (November 2023) and Market Leader and Best Service Provider from Euromoney Trade Finance Survey (March 2023).

“In January 2024, we signed a new collective agreement with the Malta Union of Bank Employees (MUBE) for the period 2024 - 2026. The agreement was signed in Malta, and then validated at HSBC Continental Europe’s HQ in Paris by its CEO, Andrew Wild, with representatives of MUBE present. This ambitious and ground-breaking agreement is characterised by significant enhancements to employee pay, benefits and retirement pension plans.

“The work of the HSBC Malta Foundation is profoundly impactful for all the beneficiaries in our community. In Malta, the bank fulfils the Group’s Corporate Sustainability strategy primarily through the HSBC Malta Foundation. The three pillars of the HSBC Malta Foundation, aim to improve the quality of life and education for children, especially those disadvantaged, to promote and work towards a more sustainable environment and to preserve Malta’s rich and unique historical heritage.

“It was a proud moment to inaugurate our new headquarters ‘HSBC Hub’ in Qormi. We are investing over €30m to transform this complex into a state-of-the-art office for colleagues and customers, with ample parking, latest technologies and flexible meeting spaces. We will also be replacing and upgrading our ATM fleet.

“HSBC Bank Malta remains an active participant in the local economy and we are committed to continue offering the best service both to our customers and to the community we serve.”

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 Holdings plc

HSBC Holdings plc, the parent company of HSBC, is headquartered in London. HSBC serves customers worldwide from offices in 62 countries and territories. With assets of \$3trillion at 31 December 2023, HSBC is one of the world's largest banking and financial services organisations.