

The following is the text of an announcement made today by HSBC Bank Malta p.l.c., a 70.03 per cent indirectly held subsidiary of HSBC Holdings plc.

23 February 2015

HSBC BANK MALTA P.L.C. 2014 ANNUAL RESULTS

- Profit before tax of €52m for the year ended 31 December 2014 decreased by €38m, or 42%, compared with the prior year.
- Common equity tier 1 ratio increased to 10.6% at 31 December 2014 from 9.4% at 31 December 2013. The overall capital adequacy ratio was 13% as at 31 December 2014 and remained in line with 31 December 2013.
- Cost efficiency ratio was 57%, against 50% in 2013.
- Return on equity for the year ended 31 December 2014 was 7.7%, compared with 13.9% in 2013.
- The advance to deposit liquidity ratio improved from 73% to 67%.
- Gross new loans of €710m increased by €113m or 19% on prior year. Net loans and advances to customers were €3,273m and remained in line with 2013.
- Customer deposits increased by 8% to €4,867m at 31 December 2014.

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Commentary

HSBC Bank Malta p.l.c. (the ‘bank’) delivered a profit before tax of €52m for the year ended 31 December 2014. This was a decline €38m or 42% on the prior year.

Net operating profits before loan impairment provisions and excluding significant notable items (available-for-sale investment sales, ECB Comprehensive Assessment costs and lower insurance technical provision releases) were 12% down on the prior year.

The key contributors to the decline in profitability were a €19m increase in loan impairment charges resulting principally from lower valuations on legacy commercial properties, a €14m decrease in income associated with the challenging operating environment and lower non-recurring revenue items, and a €5m rise in costs primarily due to regulatory fees and additional compliance investment.

All three main business lines, Retail Banking and Wealth Management, Commercial Banking and Global Banking and Markets, were profitable during the year under review.

Net interest income reduced by 4% to €120m compared with €125m in 2013. The fall in interest income was mainly impacted by: the impact of a tightening in interest margin earned on the loan portfolio; lower average lending balances associated with muted loan growth and higher loan repayments; and a decline in interest earned on investments as the proceeds of higher yielding maturing bonds were reinvested at lower rates. This was partially mitigated by a fall in the cost of funds as customers moved to shorter-dated deposits and deposit rates declined.

Net fee and commission income of €28m was broadly in line with 2013. The fee and commission income performance was generally positive but the overall result was impacted by the winding down of the fund administration and custody businesses in early 2014.

HSBC Life Assurance (Malta) Limited reported a profit before tax of €9m compared with €13m in 2013. While new insurance business was 10% higher than the prior year, the result in 2014 was negatively impacted by downward yield curve movements and lower technical reserve releases.

A net gain of €2m was reported as a result of a repositioning of the investment portfolio compared to €4m in 2013.

Operating expenses of €98m were €5m or 6% higher compared with the previous year. 2014 expenses were impacted by additional compliance and regulatory costs of €5m associated with the build-up of the Compliance function, the ECB Comprehensive Assessment, higher regulatory fees and an increase of €1m in early voluntary retirement costs. Excluding these incremental costs, expenses were held flat to 2013 despite annual increase in staff salaries and the impact of inflation. Continued investment to improve technology was funded by savings from simplification and re-engineering of processes.

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The cost efficiency ratio, that compares operating expenses to net operating income, was 57% compared with 50% in 2013.

Loan impairment charges were €23m compared with €3m in 2013. In the current challenging environment the Board adopted a cautious approach to existing legacy non-performing commercial loans. This was particularly the case where lower valuations were received during the year. Overall, however, asset quality remains good with a high percentage of tangible security held against the bank's loan portfolio.

Gross new lending to customers increased by 19% to €710m. However, net loans and advances to customers of €3,273m were in line with 2013. In the current low interest rate environment there has been a heightened tendency for customers, both commercial and retail, to use excess funds to repay loans early. The mortgage book, the bank's largest lending portfolio, continued to show positive net growth.

Deposits were up to €4,867m, an increase of 8% from 31 December 2013 despite continued competitive pressures.

The bank's available-for-sale investment portfolio remains well diversified and conservatively positioned. All investments are rated BBB+ or better.

The bank's liquidity position is strong with an advances-to-deposit ratio of 67% compared with 73% at 31 December 2013.

During 2014, the bank continued to increase its tier 1 capital ratio to 10.6% on a CRDIV basis, up from 9.9% (Basel 2.5 basis previously reported: 9.4%).

In December 2013, the Malta Financial Services Authority's ('MFSA') revised Banking Rule 09 (BR09), with the ultimate aim of increasing the level of bank reserves. BR09 obliges all banks in Malta to hold a Reserve for General Banking Risk, calculated as a percentage of non-performing loans net of individual impairment provisions. This reserve is required to be funded from planned dividends. Under the three year transitory rules, the bank has set aside €7m in 2013-2014 (85% of the currently estimated reserve). The remaining 15% will be set aside in 2015.

During 2014, the bank participated in the European Central Bank ('ECB') Comprehensive Assessment that included an Asset Quality Review ('AQR') and a stress test. These were undertaken by ECB in cooperation with MFSA. The AQR was carried out first, followed by the stress test. For the AQR the minimum capital benchmark was set at 8% common equity tier 1 capital ('CET1'). The stress test was based on the adjusted capital base post-AQR at 31 December 2013 and the stress test benchmark was set at a CET1 of 5.5%. The bank successfully passed the Comprehensive Assessment and its capital ratios were well in excess of the ECB required thresholds.

Mark Watkinson, Director and Chief Executive Officer at HSBC Bank Malta p.l.c., said: “2014 was a year of material challenges on a number of fronts. Operating conditions and a changing regulatory environment have each had their own significant impact. Nevertheless the underlying performance of the key business lines has shown resilience and I am confident that the prudent approach that we have taken will serve us well. HSBC has an excellent franchise in Malta and the hard work and dedication of the bank’s team during the past year needs to be recognised. Despite the difficult operating conditions, we continue to invest in the bank and to build a long-term sustainable business that will serve the best interest of our customers, our staff, our shareholders and the community in which we work.”

The Board is recommending for the approval of the Annual General Meeting a final gross dividend of 2.6 cents per share (1.7 cents net of tax). This will be paid on 24 April 2015 to shareholders who are on the bank’s register of shareholders at 23 March 2015. The Board is also recommending a bonus issue of one share for every nine shares held by shareholders on the bank’s share register at the close of business on 29 April 2015 and shares will be available for trading on 30 April 2015. As a result of the bonus issue, reserves of €11m will be capitalised and share capital will increase from €97m to €108m.

Statements of Profit or Loss for the year 1 January 2014 to 31 December 2014

	<i>Group</i>		<i>Bank</i>	
	2014	2013	2014	2013
	€000	€000	€000	€000
Interest and similar income				
- on loans and advances, balances with Central Bank of Malta, Treasury Bills and other instruments	136,234	143,314	136,324	143,306
- on debt and other fixed income instruments	17,155	18,792	16,646	18,069
Interest expense	(33,227)	(37,395)	(33,351)	(37,503)
Net interest income	120,162	124,711	119,619	123,872
Fee and commission income	30,805	31,332	27,983	28,339
Fee and commission expense	(2,353)	(1,795)	(1,688)	(1,596)
Net fee and commission income	28,451	29,537	26,295	26,743
Dividend income	-	-	20,462	12,308
Trading profits	8,785	9,523	8,785	9,523
Net income from insurance financial instruments designated at fair value	48,642	25,528	-	-
Net gains on sale of available-for-sale financial investments	1,719	4,295	1,719	4,352
Net earned insurance premiums	60,031	66,073	-	-
Movement in present value of in-force long-term insurance business	(11,486)	(3,130)	-	-
Net other operating income	1,584	1,676	1,689	969
Total operating income	257,888	258,213	178,569	177,767
Net insurance claims incurred and movement in policyholders' liabilities	(84,628)	(71,201)	-	-
Net operating income	173,260	187,012	178,569	177,767
Employee compensation and benefits	(51,744)	(48,539)	(49,123)	(45,335)
General and administrative expenses	(40,175)	(38,483)	(37,170)	(35,829)
Depreciation	(3,460)	(3,449)	(3,449)	(3,440)
Amortisation	(3,092)	(2,844)	(3,036)	(2,824)
Net operating income before impairment charges and provisions	74,789	93,697	85,791	90,339
Net impairment on financial assets	(22,545)	(3,272)	(22,545)	(3,272)
Net provisions for liabilities and other charges	(123)	52	(123)	52
Profit before tax	52,121	90,477	63,123	87,119
Tax expense	(18,504)	(31,760)	(22,741)	(30,704)
Profit for the year	33,617	58,717	40,382	56,415
Profit attributable to shareholders	33,617	58,717	40,382	56,415
Earnings per share	10.4c	18.1c	12.5c	17.4c

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Statements of Profit or Loss and Other Comprehensive Income for the year 1 January 2014 to 31 December 2014

	<i>Group</i>		<i>Bank</i>	
	2014	2013	2014	2013
	€000	€000	€000	€000
Profit for the year	33,617	58,717	40,382	56,415
Other comprehensive income				
Items that may be reclassified to Profit or Loss:				
Available-for-sale investments:				
- fair value gains	13,656	305	13,810	655
- fair value gains transferred to profit or loss on disposal	(1,719)	(4,295)	(1,719)	(4,352)
- income taxes	(4,178)	1,396	(4,232)	1,294
	7,759	(2,594)	7,859	(2,403)
Items that will not be reclassified to Profit or Loss:				
Properties:				
- revaluation	(28)	84	(28)	84
- income taxes	3	(20)	3	(20)
	(25)	64	(25)	64
Other comprehensive income for the year, net of tax	7,734	(2,530)	7,834	(2,339)
Total comprehensive income	41,351	56,187	48,216	54,076

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Statements of Financial Position at 31 December 2014

	<i>Group</i>		<i>Bank</i>	
	2014	2013	2014	2013
	€000	€000	€000	€000
Assets				
Balances with Central Bank of Malta,				
Treasury Bills and cash	118,033	151,458	118,033	151,457
Cheques in course of collection	10,990	9,703	10,990	9,703
Derivatives	13,170	12,666	13,098	12,666
Financial assets designated at fair value	1,421,580	477,345	-	-
Financial investments	1,153,884	918,292	1,137,697	897,794
Loans and advances to banks	875,095	564,790	796,257	564,675
Loans and advances to customers	3,273,381	3,300,982	3,284,881	3,300,982
Shares in subsidiary companies	-	-	34,541	35,707
Intangible assets	73,971	86,618	8,989	10,093
Property, plant and equipment	59,481	61,491	59,573	61,575
Investment property	16,326	14,529	11,667	11,660
Non-current assets held for sale	9,297	11,783	9,297	11,783
Current tax assets	8,833	7,939	3,258	2,720
Deferred tax assets	13,612	12,522	13,602	12,504
Other assets	106,604	52,735	8,946	9,432
Prepayments and accrued income	44,730	38,677	35,898	33,673
Total assets	7,198,987	5,721,530	5,546,727	5,126,424
Liabilities				
Derivatives	13,870	12,929	13,419	12,929
Deposits by banks	59,848	41,794	59,848	41,794
Customer accounts	4,867,124	4,517,862	4,931,485	4,554,104
Current tax liabilities	172	16	-	-
Deferred tax liabilities	28,244	25,195	-	-
Liabilities under investment contracts	1,020,594	16,763	-	-
Liabilities under insurance contracts	602,712	524,999	-	-
Other liabilities	44,103	38,274	30,138	30,707
Accruals and deferred income	27,514	30,230	26,070	29,419
Provisions for liabilities and other charges	2,417	3,211	2,417	3,149
Subordinated liabilities	87,284	87,273	88,093	88,040
Total liabilities	6,753,882	5,298,546	5,151,470	4,760,142
Equity				
Called up share capital	97,281	87,552	97,281	87,552
Revaluation reserve	42,510	35,107	42,139	34,636
Retained earnings	305,314	300,325	255,837	244,094
Total equity	445,105	422,984	395,257	366,282
Total liabilities and equity	7,198,987	5,721,530	5,546,727	5,126,424
Memorandum items				
Contingent liabilities	133,448	111,852	135,151	113,555
Commitments	1,291,225	1,269,222	1,295,275	1,273,196

The financial statements were approved and authorised for issue by the Board of Directors on 23 February 2015 and signed on its behalf by:

Sonny Portelli *Chairman*

Mark Watkinson, *Chief Executive Officer*
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Statements of Changes in Equity for the year 1 January 2014 to 31 December 2014

	<i>Share capital</i>	<i>Revaluation reserve</i>	<i>Retained earnings</i>	<i>Total equity</i>
	€000	€000	€000	€000
<i>Group</i>				
At 1 January 2014	87,552	35,107	300,325	422,984
Profit for the year	-	-	33,617	33,617
Other comprehensive income				
Available-for-sale investments:				
- fair value gains, net of tax	-	8,877	-	8,877
- fair value gains transferred to profit or loss on disposal, net of tax	-	(1,118)	-	(1,118)
Properties:				
- Release of revaluation reserve on disposal, net of tax	-	(331)	331	-
- Revaluation of properties, net of tax	-	(25)	-	(25)
Total other comprehensive income	-	7,403	331	7,734
Total comprehensive income for the year	-	7,403	33,948	41,351
Transactions with owners, recognised directly in equity				
Contributions by and distributions to owners:				
- share-based payments	-	-	119	119
- dividends	-	-	(19,349)	(19,349)
- bonus issue	9,729	-	(9,729)	-
Total contributions by and distributions to owners	9,729	-	(28,959)	(19,230)
At 31 December 2014	97,281	42,510	305,314	445,105
At 1 January 2013	87,552	37,637	275,409	400,598
Profit for the year	-	-	58,717	58,717
Other comprehensive income				
Available-for-sale investments:				
- fair value gains, net of tax	-	198	-	198
- fair value gains transferred to profit or loss on disposal, net of tax	-	(2,792)	-	(2,792)
Properties:				
- Revaluation of properties, net of tax	-	64	-	64
Total other comprehensive income	-	(2,530)	-	(2,530)
Total comprehensive income for the year	-	(2,530)	58,717	56,187
Transactions with owners, recognised directly in equity				
Contributions by and distributions to owners:				
- share-based payments	-	-	155	155
- dividends	-	-	(33,956)	(33,956)
Total contributions by and distributions to owners	-	-	(33,801)	(33,801)
At 31 December 2013	87,552	35,107	300,325	422,984

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Statements of Changes in Equity for the year 1 January 2014 to 31 December 2014

<i>Bank</i>	<i>Share capital</i>	<i>Revaluation reserve</i>	<i>Retained earnings</i>	<i>Total equity</i>
	€000	€000	€000	€000
At 1 January 2014	87,552	34,636	244,094	366,282
Profit for the year		-	40,382	40,382
Other comprehensive income				
Available-for-sale investments:				
- fair value gains, net of tax	-	8,977	-	8,977
- fair value gains transferred to profit or loss on disposal, net of tax	-	(1,118)	-	(1,118)
Properties:				
- Release of revaluation reserve on disposal, net of tax	-	(331)	331	-
- revaluation of properties, net of tax	-	(25)	-	(25)
Total other comprehensive income	-	7,503	331	7,834
Total comprehensive income for the year	-	7,503	40,713	48,216
Transactions with owners, recognised directly in equity				
Contributions by and distributions to owners:				
- share-based payments	-	-	108	108
- dividends	-	-	(19,349)	(19,349)
- bonus issue	9,729	-	(9,729)	-
Total contributions by and distributions to owners	9,729	-	(28,970)	(19,241)
At 31 December 2014	97,281	42,139	255,837	395,257
At 1 January 2013	87,552	36,975	221,494	346,021
Profit for the year	-	-	56,415	56,415
Other comprehensive income				
Available-for-sale investments:				
- fair value gains, net of tax	-	426	-	426
- fair value gains transferred to profit or loss on disposal, net of tax	-	(2,829)	-	(2,829)
Properties:				
- revaluation of properties, net of tax	-	64	-	64
Total other comprehensive income	-	(2,339)	-	(2,339)
Total comprehensive income for the year	-	(2,339)	56,415	54,076
Transactions with owners, recognised directly in equity				
Contributions by and distributions to owners:				
- share-based payments	-	-	141	141
- dividends	-	-	(33,956)	(33,956)
Total contributions by and distributions to owners	-	-	(33,815)	(33,815)
At 31 December 2013	87,552	34,636	244,094	366,282

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Statements of Cash Flows for the year 1 January 2014 to 31 December 2014

	<i>Group</i>		<i>Bank</i>	
	2014	2013	2014	2013
	€000	€000	€000	€000
Cash flows from operating activities				
Interest, commission and premium receipts	241,480	256,793	172,609	182,462
Interest, commission and claims payments	(87,678)	(89,324)	(37,839)	(42,640)
Payments to employees and suppliers	(89,873)	(86,291)	(85,113)	(83,616)
Operating profit before changes in operating assets/liabilities	63,929	81,178	49,657	56,206
(Increase)/decrease in operating assets:				
Financial assets designated at fair value	14,835	171	-	-
Reserve deposit with Central Bank of Malta	(3,358)	1,242	(3,358)	1,242
Loans and advances to customers and banks	1,262	42,900	3,870	42,900
Treasury Bills	44,227	(46,845)	44,227	(46,845)
Other receivables	(40,824)	(8,861)	(576)	(3,085)
Increase/(decrease) in operating liabilities:				
Customer accounts and deposits by banks	315,261	6,906	343,507	22,674
Other payables	35,343	7,330	(3,583)	6,455
Net cash from operating activities before tax	430,675	84,021	433,744	79,547
Tax paid	(21,529)	(32,682)	(20,875)	(26,446)
Net cash from operating activities	409,146	51,339	412,869	53,101
Cash flows from investing activities				
Dividends received	-	21	14,370	8,000
Interest received from financial investments	39,435	30,255	23,792	26,719
Purchase of financial investments	(413,566)	(277,694)	(413,566)	(275,655)
Proceeds from sale and maturity of financial investments	217,133	334,396	212,926	328,537
Purchase of property, plant and equipment, investment property and intangible assets	(5,264)	(12,087)	(3,546)	(12,000)
Proceeds on sale of property, plant and equipment, intangible assets and liquidation of shares in subsidiary company	81	476	56	476
Net cash flows (used in)/from investing activities	(162,181)	75,367	(165,968)	76,077
Cash flows from financing activities				
Dividends paid	(19,349)	(33,956)	(19,349)	(33,956)
Cash used in financing activities	(19,349)	(33,956)	(19,349)	(33,956)
Increase in cash and cash equivalents	227,616	92,750	227,552	95,222
Effect of exchange rate changes on cash and cash equivalents				
	(31,354)	(33,029)	(31,354)	(33,029)
Net increase in cash and cash equivalents	258,970	125,779	258,906	128,251
Cash and cash equivalents at beginning of year	227,616	92,750	227,552	95,222
	521,411	428,661	521,295	426,073
	749,027	521,411	748,847	521,295
Cash balance on portfolio transfer by subsidiary company	78,658	-	-	-
Cash and cash equivalents at end of year	827,685	521,411	748,847	521,295

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Basis of preparation

The preliminary statement of annual results is published pursuant to Listing Rule 5.54 of the MFSA Listing Authority and Article 4 (2) (b) of the Prevention of Financial Markets Abuse (Disclosure and Notification) Regulations, 2005. Figures have been extracted from HSBC Bank Malta p.l.c.'s Annual Report and Accounts which have been audited by KPMG.

These financial statements have been prepared and presented in accordance with International Financial Reporting Standards as adopted by the EU.

HSBC Bank Malta p.l.c. is a member of the HSBC Group, whose ultimate parent company is HSBC Holdings plc. which is headquartered in London. The Group serves customers worldwide from over 6,100 offices in 73 countries and territories in Europe, the Asia-Pacific region, North and Latin America, and the Middle East and North Africa. With assets of US\$2,634bn at 31 December 2014, HSBC Group is one of the world's largest banking and financial services organisations.

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