

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.

22 February 2016

HSBC BANK MALTA p.l.c. 2015 ANNUAL RESULTS - HIGHLIGHTS

- Reported profit before tax of €47m for the year ended 31 December 2015, a decrease of €5m, or 10%, compared with the prior year.
- Adjusted profit before tax, excluding the effect of the non-recurring item, was €61.5m, or 18% up on 2014.
- Common equity tier 1 ratio increased to 12.4% at 31 December 2015 from 10.6% at 31 December 2014. The total capital ratio was 14.2% at 31 December 2015, compared with 13.0% at 31 December 2014.
- Dividend payout ratio increased to 65% from 55% in 2014.
- Cost efficiency ratio adjusted for the non-recurring early voluntary retirement provision was 59% compared with 57% in 2014.
- Adjusted return on equity for the year ended 31 December 2015 was 8.8% compared with 7.7% in 2014.
- Net operating income before loan impairment charges of €176m was up 2% on 2014.
- The advances to deposits liquidity ratio further strengthened to 66%.
- Net loans and advances to customers were €3,285m and remained in line with 2014.
- Customer deposits increased by 1.5% to €4,950m at 31 December 2015.

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Commentary

HSBC Bank Malta p.l.c. (‘the bank’) reported a profit before tax of €46.8m for the year ended 31 December 2015. This represents a decline of €5.3m or 10% on the previous year. Reflecting strong underlying profitability and capital strength, the bank announced an increase in the dividend payout ratio from 55% to 65%.

This result was achieved in an environment characterised by unprecedented low levels of interest rates, deflationary pressures and slow growth in the eurozone and expanded regulatory demands.

On an adjusted basis, excluding the effect of non-recurring expenses for the early voluntary retirement provision, profit before tax was up €9m or 18% on the previous year.

	<u>2015</u>	<u>2014</u>
	€000	€000
Reported profit before tax	46,772	52,121
Provision for early voluntary retirement	<u>14,668</u>	-
Adjusted profit before tax	<u>61,440</u>	<u>52,121</u>

During the year the bank continued to build a sound regulatory capital base. Its common equity tier 1 capital increased to 12.4% from 10.6% at the end of 2014. At this level, the bank performed strongly against its regulatory capital requirements. This created a capacity for the bank to increase the dividend payout ratio to 65% of the profit after tax this year, up 10 percentage points from 55% in 2014. During the year, the bank set aside €1m to bring the General Banking risk provision stipulated by the Banking Rule 09 to a 100% of the requirement. Adjusted for this contribution, the effective dividend payout rate will be 62% compared to 45% in 2014.

Profit attributable to shareholders amounted to €29.5m resulting in earnings per share of 8.2 cents compared to 9.3 cents in 2014. The Board recommends a final gross dividend of 2.6 cent per share (1.7 cent per share net of tax). Together with the interim dividend paid in September 2015, the total gross dividend for the year will be 7.7 cent per share (5.0 cent per share net of tax), which represents a 20% increase compared to 2014 dividend adjusted for the bonus share issue in April 2015. The final dividend will be paid on 19 April 2016 to shareholders who are on the bank’s register of shareholders at 16 March 2016.

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 was up by 4% to €127m compared with €122.6m in 2014. The dynamics in the net interest income were largely impacted by the prevailing low interest rate environment: lending margins on both retail and commercial loan portfolios were under pressure, yields on the investment portfolio declined despite the growing portfolio balance as maturing higher yielding bonds could be replaced only at significantly lower rates. The drop in interest income was offset by the reduction in

the cost of funding as deposit rates continued declining and more customers moved to shorter-dated deposits.

Net fee income increased by 2% compared with 2014. The Group earned higher asset management fees in the insurance subsidiary. This was offset by a decrease in the commission income from custody, fund administration and stock brokerage as a result of the bank's strategy to scale down in these areas.

HSBC Life Assurance (Malta) Limited reported a profit before tax of €8.8m, which is in line with the profit reported in 2014.

A lower gain of €0.7m on the sale of financial investments was reported in 2015 compared to €1.7m in 2014, reflecting limited re-investment opportunities in the environment characterised by low interest rates.

Operating expenses of €118.8m were €20.2m or 20% higher compared with previous year. The early voluntary retirement programme launched at the end of the year under review, as part of the bank's efforts to improve productivity and cost effectiveness, was the main driver for the increase in 2015 costs.

Excluding this one-off investment that is expected to yield sustainable savings in future years, operating expenses were up 6% compared with 2014. Underlying expenses increased due to additional compliance and regulatory costs associated with further strengthening of the compliance function and new regulatory obligations - contribution to the Single Resolution Fund and new supervisory fees of the Single Supervisory Mechanism established in the end of 2014. Furthermore, the increased cost of outsourced services as a result of currency fluctuations and new services related to the transferred insurance portfolio affected 2015 costs.

The adjusted cost efficiency ratio, that compares normalised operating expenses to net operating income, was at 59% compared with 57% in 2014.

Loan impairment charges were €10.8m compared to €22.5m in 2014. In line with last year, the Board maintained a cautious approach to provisioning for non-performing loans. In particular, in 2015 a decision was taken to set aside impairment provision for retail exposures which have been non-performing for a certain number of years. These exposures are well covered by collateral. The Board felt that it would be prudent to provide for these loans due to the long legal process to repossess collateral. The level of loan impairment charges was also affected by the technical change in the accounting methodology for suspended interest in 2015. Instead of reversing the accrued interest related to newly downgraded facilities from the income statement, the bank started recognising additional impairment charges. While the effect of the old and the new methodology on the profit is the same, the new approach results in a higher level of interest income but also higher impairment charges.

Despite the total drawdowns of nearly €550m during 2015, net loans and advances to customers at €3,285m were 0.5% up on 2014. The higher pace of early repayments observed in the last two years in both the commercial and retail loan books continued in 2015. Supported by government incentives for first time buyers, the mortgage book, the bank's largest lending portfolio, continued to perform well resulting in a net growth of over €60m in 2015. This, however, was offset by the reduction in corporate

lending where repayments were higher as a result of the persistent low interest rate environment.

Asset quality improved during 2015 with non-performing exposures at 8% of gross loans compared to 8.9% in 2014. The percentage of tangible security held against the bank's loan portfolio remains high.

Customer accounts continued to grow in the year under review and reached €4,950m, an increase of 1.7% from 31 December 2014. Notably, deposits from retail customers, the most stable funding base, demonstrated robust growth and increased by 6.5%. During 2015, liquidity position of the bank remained solid with an advances-to-deposits ratio of 66.4%.

The financial investments portfolio increased 4.3% year on year. The bank maintains this portfolio of highly rated instruments well diversified and conservatively positioned.

Andrew Beane, Chief Executive Officer at HSBC Bank Malta p.l.c., said: "In 2015 the operating environment for eurozone banks remained difficult with record low interest rates and higher operating costs, principally driven by new regulation. HSBC Malta's underlying profitability was strong and our signature capital strength and conservative risk appetite enabled the bank to perform well in the European Central Bank's regulatory assessments.

Since I became Chief Executive in November my focus has been on reviewing the bank's strategy and re-focusing the business to restore growth. We have taken decisive action to reduce costs, resolved a long-running union dispute and made a number of key leadership appointments. And our strong balance sheet has enabled the bank, with the support of our regulator, to increase the dividend pay-out ratio from 55% to 65% so that a greater share of profits is returned to our owners.

While the global economy shows some signs of increased stress, the local outlook remains more favourable and HSBC is open for business. As CEO I am committed to ensure that HSBC facilitates growth in Malta's economy and creates value for our 10,000 local shareholders while continuing to operate to the highest regulatory standards. We will achieve this by investing in our team of banking professionals in order to raise customer service standards, by using HSBC's unique international network to connect Malta's economy to the global financial system and by sustaining strict cost discipline. Despite the challenges our industry faces, HSBC Malta is in a strong position to navigate these and I am confident about the future."

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Income Statements for the year ended 31 December 2015

	<i>Group</i>		<i>Bank</i>	
	2015	2014	2015	2014
	€000	€000	€000	€000
Interest and similar income				
- on loans and advances, balances				
with Central Bank of Malta and Treasury Bills	134,294	138,634	134,601	138,724
- on debt and other fixed income instruments	16,273	17,155	15,921	16,646
Interest expense	(23,531)	(33,227)	(23,634)	(33,351)
Net interest income	127,036	122,562	126,888	122,019
Fee and commission income	29,072	28,405	23,423	25,583
Fee and commission expense	(2,509)	(2,354)	(1,801)	(1,688)
Net fee and commission income	26,563	26,051	21,622	23,895
Net trading income	8,390	8,785	8,390	8,785
Net income from financial instruments designated at fair value attributable to insurance operations	31,999	48,642	-	-
Net gains on sale of available-for-sale financial investments	682	1,719	683	1,719
Dividend income	-	-	1,231	20,462
Net insurance premium income	55,243	57,729	-	-
Movement in present value of in-force long-term insurance business	(3,017)	(11,486)	-	-
Net other operating income	549	1,584	502	1,689
Total operating income	247,445	255,586	159,316	178,569
Net insurance claims, benefits paid and movement in liabilities to policyholders	(71,090)	(82,326)	-	-
Net operating income before loan impairment charges	176,355	173,260	159,316	178,569
Loan impairment charges	(10,826)	(22,545)	(10,826)	(22,545)
Net operating income	165,529	150,715	148,490	156,024
Employee compensation and benefits	(68,485)	(51,744)	(65,267)	(49,123)
General and administrative expenses	(43,554)	(40,298)	(39,115)	(37,293)
Depreciation of property, plant and equipment	(3,575)	(3,460)	(3,567)	(3,449)
Amortisation of intangible assets	(3,143)	(3,092)	(3,089)	(3,036)
Profit before tax	46,772	52,121	37,452	63,123
Tax expense	(17,292)	(18,504)	(13,991)	(22,741)
Profit for the year	29,480	33,617	23,461	40,382
Earnings per share	8.2c	9.3c		

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Statements of Comprehensive Income for the year ended 31 December 2015

	<i>Group</i>		<i>Bank</i>	
	2015	2014	2015	2014
	€000	€000	€000	€000
Profit for the year	29,480	33,617	23,461	40,382
Other comprehensive income				
Items that will be reclassified subsequently to profit or loss when specific conditions are met:				
Available-for-sale investments:				
- fair value gains	4,938	13,656	5,187	13,810
- fair value gains reclassified to profit or loss on disposal	(682)	(1,719)	(683)	(1,719)
- income taxes	(1,489)	(4,178)	(1,576)	(4,232)
	2,767	7,759	2,928	7,859
Items that will not be reclassified subsequently to profit or loss:				
Properties:				
- revaluation	-	(28)	-	(28)
- income taxes determined on the basis applicable to disposals	1,199	3	1,201	3
	1,199	(25)	1,201	(25)
Other comprehensive income for the year, net of tax	3,966	7,734	4,129	7,834
Total comprehensive income for the year	33,446	41,351	27,590	48,216

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Statements of Financial Position at 31 December 2015

	<i>Group</i>		<i>Bank</i>	
	2015	2014	2015	2014
	€000	€000	€000	€000
Assets				
Balances with Central Bank of Malta,				
Treasury Bills and cash	187,563	118,033	187,563	118,033
Items in the course of collection from other banks	12,559	10,990	12,559	10,990
Financial assets designated at fair value attributable to insurance operations	1,372,484	1,421,580	-	-
Held-for-trading derivatives	11,492	13,170	10,897	13,098
Loans and advances to banks	841,411	875,095	728,918	796,257
Loans and advances to customers	3,284,615	3,273,381	3,292,815	3,284,881
Available-for-sale financial investments	1,203,638	1,153,884	1,198,792	1,137,697
Prepayments and accrued income	40,863	44,730	31,305	35,898
Current tax assets	11,792	8,833	2,356	3,258
Reinsurance assets	83,088	85,337	-	-
Non-current assets held for sale	11,347	9,297	11,347	9,297
Investments in subsidiaries	-	-	34,541	34,541
Investment property	15,458	16,326	10,876	11,667
Property, plant and equipment	58,559	59,481	58,659	59,573
Intangible assets	69,653	73,971	7,610	8,989
Deferred tax assets	18,343	13,612	18,291	13,602
Other assets	13,959	21,267	8,124	8,946
Total assets	7,236,824	7,198,987	5,614,653	5,546,727
Liabilities				
Deposits by banks	14,286	59,848	14,286	59,848
Customer accounts	4,950,257	4,867,124	5,028,318	4,931,485
Held-for-trading derivatives	11,732	13,870	11,630	13,419
Accruals and deferred income	30,073	27,514	23,898	26,070
Current tax liabilities	3,508	172	-	-
Liabilities under investment contracts	987,008	1,030,928	-	-
Liabilities under insurance contracts	616,657	592,378	-	-
Provisions for liabilities and other charges	17,133	2,417	16,609	2,417
Deferred tax liabilities	27,950	28,244	-	-
Subordinated liabilities	87,363	87,284	88,146	88,093
Other liabilities	29,741	44,103	26,359	30,138
Total liabilities	6,775,708	6,753,882	5,209,246	5,151,470
Equity				
Called up share capital	108,092	97,281	108,092	97,281
Revaluation reserve	46,476	42,510	46,268	42,139
Retained earnings	306,548	305,314	251,047	255,837
Total equity	461,116	445,105	405,407	395,257
Total liabilities and equity	7,236,824	7,198,987	5,614,653	5,546,727
Memorandum items				
Contingent liabilities	133,771	133,448	133,771	135,151
Commitments	1,292,605	1,291,225	1,292,802	1,295,275

The financial statements were approved and authorised for issue by the Board of Directors on 22 February 2016 and signed on its behalf by:

Sonny Portelli *Chairman*

Andrew Beane, *Chief Executive Officer*
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Statements of Changes in Equity for the year ended 31 December 2015

	<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 2015	97,281	42,510	305,314	445,105
Profit for the year	-	-	29,480	29,480
Other comprehensive income				
Available-for-sale investments:				
- fair value gains, net of tax	-	3,211	-	3,211
- fair value gains reclassified to profit or loss on disposal, net of tax	-	(444)	-	(444)
Properties:				
- deferred taxes on reduction determined on the basis applicable to disposals	-	1,199	-	1,199
Total other comprehensive income	-	3,966	-	3,966
Total comprehensive income for the year	-	3,966	29,480	33,446
Transactions with owners, recognised directly in equity				
Contributions by and distributions to owners:				
- share-based payments	-	-	20	20
- dividends	-	-	(17,455)	(17,455)
- bonus issue	10,811	-	(10,811)	-
Total contributions by and distributions to owners	10,811	-	(28,246)	(17,435)
At 31 December 2015	108,092	46,476	306,548	461,116
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 reclassified to profit or loss on disposal, net of tax	-	(1,118)	-	(1,118)
Properties:				
- transfer 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

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Statements of Changes in Equity for the year ended 31 December 2015

<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 2015	97,281	42,139	255,837	395,257
Profit for the year	-	-	23,461	23,461
Other comprehensive income				
Available-for-sale investments:				
- fair value gains, net of tax	-	3,372	-	3,372
- fair value gains reclassified to profit or loss on disposal, net of tax	-	(444)	-	(444)
Properties:				
- deferred taxes on reduction determined on the basis applicable to disposals	-	1,201	-	1,201
Total other comprehensive income	-	4,129	-	4,129
Total comprehensive income for the year	-	4,129	23,461	27,590
Transactions with owners, recognised directly in equity				
Contributions by and distributions to owners:				
- share-based payments	-	-	15	15
- dividends	-	-	(17,455)	(17,455)
- bonus issue	10,811	-	(10,811)	-
Total contributions by and distributions to owners	10,811	-	(28,251)	(17,440)
At 31 December 2015	108,092	46,268	251,047	405,407
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 reclassified to profit or loss on disposal, net of tax	-	(1,118)	-	(1,118)
Properties:				
- transfer 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

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Statements of Cash Flows for the year ended 31 December 2015

	<i>Group</i>		<i>Bank</i>	
	2015	2014	2015	2014
	€000	€000	€000	€000
Cash flows from operating activities				
Interest, commission and premium receipts	243,524	241,480	171,969	172,609
Interest, commission and claims payments	(173,162)	(87,678)	(28,489)	(37,839)
Payments to employees and suppliers	(94,182)	(89,873)	(85,778)	(85,113)
Cash flows (used in)/from operating activities before changes in operating assets/liabilities (Increase)/decrease in operating assets:	(23,820)	63,929	57,702	49,657
Financial assets designated at fair value	108,101	14,835	-	-
Reserve deposit with Central Bank of Malta	(1,594)	(3,206)	(1,594)	(3,206)
Loans and advances to customers and banks	(85,834)	1,262	(82,779)	3,870
Treasury Bills	(51,000)	44,227	(51,000)	44,227
Other receivables	6,625	(40,824)	(1,109)	(576)
Increase/(decrease) in operating liabilities:				
Customer accounts and deposits by banks	40,730	354,261	55,303	382,507
Other payables	(24,699)	35,343	(5,468)	(3,583)
Net cash (used in)/from operating activities before tax	(31,491)	469,827	(28,945)	472,596
Tax paid	(22,196)	(21,529)	(18,179)	(20,875)
Net cash (used in)/from operating activities	(53,687)	448,298	(47,124)	452,021
Cash flows from investing activities				
Dividends received	-	-	-	14,370
Interest received from financial investments	54,037	39,435	25,223	23,792
Purchase of other available-for-sale financial investments	(301,583)	(413,566)	(301,614)	(413,566)
Proceeds on sale and maturity of financial investments	312,413	217,133	300,985	212,926
Purchase of property, plant and equipment, investment property and intangible assets	(4,640)	(5,264)	(4,585)	(3,546)
Proceeds on sale of property, plant and equipment and intangible assets	3	81	2	56
Net cash flows (used in)/from investing activities	60,230	(162,181)	20,011	(165,968)
Cash flows from financing activities				
Dividends paid	(17,455)	(19,349)	(17,455)	(19,349)
Net (decrease)/increase in cash and cash equivalents	(10,912)	266,768	(44,568)	266,704
Cash and cash equivalents at beginning of year	827,685	521,411	748,847	521,295
Effect of exchange rate changes on cash and cash equivalents	(23,104)	(39,152)	(23,104)	(39,152)
	793,669	749,027	681,175	748,847
Cash balance on portfolio transfer by subsidiary company	-	78,658	-	-
Cash and cash equivalents at end of year	793,669	827,685	681,175	748,847

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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 PwC.

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 around 6,000 offices in 71 countries and territories in Europe, Asia, North and Latin America, and the Middle East and North Africa. With assets of US\$2,410bn at 31 December 2015, HSBC is one of the world's largest banking and financial services organisations.

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