

The following is the text of an announcement issued locally in Malta on 24 February 2012 by HSBC Bank Malta p.l.c., a 70.03% indirectly held subsidiary of HSBC Holdings plc.

24 Feb 2012

HSBC BANK MALTA 2011 ANNUAL RESULTS

Review of Performance

- Profit before tax of €88m for the year ended 31 December 2011 - an increase of €5m, or 6%, compared with €83m in 2010.
- Profit attributable to shareholders of €58m for the year ended 31 December 2011 - up €4m, or 7%, compared with €54m in 2010, resulting in earnings per share of 19.7 cent, up 7%.
- Total assets of €5,825m at 31 December 2011, up €174m, or 3%, compared with 31 December 2010.
- Loans and advances to customers were €3,344m at 31 December 2011, an increase of €54m, or 2%, compared with 31 December 2010.
- Customer accounts were €4,403m at 31 December 2011, a decrease of €60m, or 1%, compared with 31 December 2010.
- Return on equity for the year ended 31 December 2011 was 15.7%, compared with 16.1% in 2010.
- Cost efficiency ratio for the year ended 31 December 2011 was 50.4%, compared with 49.7% in 2010.
- Capital adequacy ratio of 11.6% at 31 December 2011, compared with 10.2% at 31 December 2010.

Commentary

Against a backdrop in which eurozone debt concerns continued to dominate European market sentiments, HSBC Bank Malta p.l.c. delivered a solid performance in 2011. Reported profit before tax of €88m increased by 6%, or €5m, over the comparable period in 2010.

On a like-for-like basis, excluding non-recurring items, profits were in line with the prior year's performance.

The three main business lines, Retail Banking and Wealth Management, Commercial Banking and Global Banking and Markets all contributed positively to the bank's overall performance.

HSBC Bank Malta 2011 Annual Results

During the year the bank continued to execute against its key transformation programme with a view to building long-term sustainability. In this light, and reflecting changing customer behaviour patterns, an announcement was made in relation to a branch optimisation programme and the launch of a staff voluntary retirement scheme. In addition the bank disposed of its card acquiring business in line with HSBC Group global strategy for this business. The cost of the voluntary retirement scheme (€11m) was broadly offset by the proceeds from the sale of the card acquiring business.

The bank continued to invest in expanding its business and transforming its operations. A new banking computer system was introduced at a cost of €10m during the year and the roll-out of upgraded branches and ATMs at a cost of €11m continues.

Net interest income improved by 5% to €129m compared with €123m in 2010. The increase reflected growth in mortgage lending and improved balance sheet management.

Net fee and commission income of €34m in 2011 was marginally down on the prior year. Growth in account services fees were offset by a decline in stockbroking fees largely due to the slow-down in local capital markets bond issuance activity.

HSBC Life Insurance (Malta) Ltd generated a profit before tax of €11m compared to €13m in 2010. Underlying new business performance generation, particularly with respect to life insurance protection, was encouraging. The business benefitted from a non-recurring gain of €7m as a result of a refinement in the methodology used to calculate the present value of in-force long-term insurance business. This benefit was eroded during the year as the yields on euro swaps continued to fall and the market value of investment holdings reduced.

In view of significantly heightened stress in the eurozone debt markets, the bank reduced its exposure to higher risk eurozone countries through selling holdings in the available-for-sale bond portfolio at a net loss of €2m.

Net other operating income increased significantly, from €5m in 2010 to €24m in 2011. The increase was driven by the sale of the card acquiring business and the non-recurring gain in the life insurance subsidiary relating to a methodology change.

Operating expenses of €98m were €11m or 12% higher compared to the previous year with a cost efficiency ratio of 50.4% compared to 49.7% in 2010. Costs increased principally due to the staff voluntary retirement scheme provision of €11m and due to higher costs relating to utilities, regulatory fees and compliance costs.

At a consolidated level, net impairments rose from €5m to €8m in 2011. This was principally due to a €4m impairment taken on Greek government bonds held by the life insurance subsidiary in the available-for-sale bond portfolio. The life insurance subsidiary's remaining exposure to Greek debt is modest and stands at a net book value of less than €2m.

Other than the exposures noted above and investments in Maltese government debt, the group has no exposure to southern European government debt.

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The group's available-for-sale portfolio remains well diversified and conservative.

At a bank level, while there was a marginal deterioration in non-performing loans from 4% to 5%, in general asset quality remains good and loan impairments declined to €4m (11 basis points of the overall loan book) compared with €5m in 2010.

Net loans and advances to customers increased by €54m to €3,344m. Mortgage market share remained stable. Gross new lending to customers amounted to €656m which reflects the bank's continued support to the local economy.

Liabilities rose by €142m during the year and stood at €5,458m at the year end. The increase in liabilities reflected a rise in placements with the bank offsetting a small fall in customer deposits.

The bank's liquidity position remains strong with advances to deposits ratio of 76%, compared with 74% at 31 December 2010.

The bank strengthened its capital ratio by 140 basis points to 11.6%. This exceeds the 8.0% minimum regulatory requirement. The bank intends to maintain a conservative approach to capital and will continue to build capital where appropriate.

Mark Watkinson, Director and Chief Executive Officer of HSBC Bank Malta, said: "We have delivered another good set of results that saw pre-tax profit increase by 6% with a return on equity of 15.7%. The bank's capital and liquidity positions remain strong and we have a firm grip on both our risks and costs. We will continue to focus on improving productivity and cost effectiveness to ensure long-term business sustainability. The bank's strategy is clear and we continue to emphasise our competitive advantage as an international bank and as an important part of HSBC, one of the world's largest and strongest banking groups.

"The outlook for 2012 looks very challenging. While the Maltese economy has performed relatively well over the last 12 months the continuing uncertainty in the eurozone will likely act to slow the domestic economy.

"That said HSBC Bank Malta remains confident in its abilities to rise to the challenges of the next 12 months. I would like to take this opportunity to thank our staff, directors and shareholders for their commitment, hard work and support in 2011."

The Board is declaring a final gross dividend of 7.2 cent per share (4.7 cent net of tax). This will be paid on 27 April 2012 to shareholders who are on the bank's register of shareholders at 19 March 2012.

Media enquiries to Franco Aloisio on +356 2380 3250.

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