HSBC Bank Malta p.l.c. Preliminary Statement of Annual Results for the year ended 31 December 2017

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 Holdings plc, the parent company of the HSBC Group, is headquartered in London. The Group serves customers worldwide from around 3,900 offices in 67 countries and territories in Europe, Asia, North and Latin America, and the Middle East and North Africa. With assets of US$2,522bn at 31 December 2017, HSBC is one of the world's largest banking and financial services organisations.

Review of Performance

- Reported profit before tax of €49.8m for the year ended 31 December 2017, a decrease of €12.4m, or 19.9%, compared with prior year.
- Adjusted profit before tax, which excludes the effect of notable items was €55.6m, 9.5% down on 2016.
- Net dividend for 2017 was €40.2m, up 54.0% compared with prior year. It includes a special dividend of €20m to be distributed from surplus retained earnings.
- Common equity tier 1 ratio increased to 13.9% at 31 December 2017 from 13.2% at 31 December 2016. The total capital ratio was 14.4% at 31 December 2017, compared with 14.2% at 31 December 2016.
- Adjusted cost efficiency ratio was 66.2%, compared with 58.7% in 2016.
- Adjusted return on equity for the year ended 31 December 2017 was 7.6% compared with 8.3% in 2016.
- Earnings per share of 8.6 cent compared with 11.2 cent in 2016.
- The advances to deposits liquidity ratio remained stable at 65.6%.
- Net loans and advances to customers were €3,129m, down 5.8% compared with 2016.
- Customer deposits decreased by 4.7% to €4,766m at 31 December 2017.

Income Statements for the year ended 31 December 2017

	Group		*Bank*	
	2017	2016	**2017**	2016
	€000	€000	**€000**	€000
Interest and similar income				
– on loans and advances, balances with Central Bank of Malta and Treasury Bills	**120,309**	127,561	**120,310**	127,678
– on debt and other fixed income instruments	**12,541**	14,501	**12,378**	14,303
Interest expense	**(12,190)**	(15,635)	**(12,190)**	(15,673)
Net interest income	**120,660**	126,427	**120,498**	126,308
Fee income	**25,061**	25,703	**20,039**	21,030
Fee expense	**(2,326)**	(1,951)	**(1,361)**	(1,376)
Net fee income	**22,735**	23,752	**18,678**	19,654
Net trading income	**5,273**	7,276	**5,273**	7,276
Net income from financial instruments designated at fair value attributable to insurance operations	**15,480**	23,564	**–**	–
Net gains on sale of available-for-sale financial investments	**–**	10,787	**–**	10,787
Dividend income	**–**	–	**–**	10,567
Net insurance premium income	**73,502**	53,378	**–**	–
Movement in present value of in-force long-term insurance business	**(1,675)**	(1,689)	**–**	–
Net other operating income	**(723)**	1,384	**(681)**	1,336
Total operating income	**235,252**	244,879	**143,768**	175,928
Net insurance claims, benefits paid and movement in liabilities to policyholders	**(74,363)**	(63,337)	**–**	–
Net operating income before loan impairment charges and provisions	**160,889**	181,542	**143,768**	175,928
Net reversal of loan impairment charges/(Net loan impairment charges)	**1,168**	(9,030)	**1,168**	(9,030)
Movement in provision for brokerage remediation costs	**1,800**	(8,000)	**1,800**	(8,000)
Net operating income	**163,857**	164,512	**146,736**	158,898
Employee compensation and benefits	**(56,192)**	(52,652)	**(53,510)**	(49,953)
General and administrative expenses	**(52,278)**	(42,905)	**(46,856)**	(38,437)
Depreciation of property, plant and equipment	**(3,632)**	(3,545)	**(3,630)**	(3,541)
Amortisation and impairment of intangible assets	**(1,932)**	(3,189)	**(1,861)**	(3,133)
Profit before tax	**49,823**	62,221	**40,879**	63,834
Tax expense	**(18,968)**	(22,008)	**(15,894)**	(21,141)
Profit for the year	**30,855**	40,213	**24,985**	42,693
Earnings per share	**8.6c**	11.2c		

Statements of Comprehensive Income for the year ended 31 December 2017

	Group		*Bank*	
	2017	2016	**2017**	2016
	€000	€000	**€000**	€000
Profit for the year	**30,855**	40,213	**24,985**	42,693
Other comprehensive income				
Items that will be reclassified subsequently to profit or loss when specified conditions are met:				
Available-for-sale investments:				
– fair value losses	**(7,290)**	(585)	**(7,139)**	(432)
– fair value gains reclassified to profit or loss on disposal	**–**	(10,787)	**–**	(10,787)
– income taxes	**2,551**	3,980	**2,499**	3,926
	(4,739)	(7,392)	**(4,640)**	(7,293)
Items that will not be reclassified subsequently to profit or loss:				
Properties:				
– surplus arising on revaluation	**–**	2,554	**–**	2,554
– income taxes on revaluation surplus	**–**	(255)	**–**	(255)
	–	2,299	**–**	2,299
Other comprehensive income for the year, net of tax	**(4,739)**	(5,093)	**(4,640)**	(4,994)
Total comprehensive income for the year	**26,116**	35,120	**20,345**	37,699

Statements of Financial Position at 31 December 2017

	Group		*Bank*	
	2017	2016	**2017**	2016
	€000	€000	**€000**	€000
Assets				
Balances with Central Bank of Malta, Treasury Bills and cash	**164,059**	122,418	**164,059**	122,418
Items in course of collection from other banks	**18,158**	16,796	**18,158**	16,796
Financial assets designated at fair value attributable to insurance operations	**727,270**	1,383,606	**–**	–
Held-for-trading derivatives	**5,175**	11,440	**5,175**	11,335
Loans and advances to banks	**1,059,308**	1,077,859	**1,045,699**	996,091
Loans and advances to customers	**3,128,833**	3,320,332	**3,128,833**	3,320,363
Available-for-sale financial investments	**926,096**	1,053,200	**924,881**	1,048,549
Prepayments and accrued income	**24,236**	31,178	**20,199**	20,373
Current tax assets	**13,911**	12,963	**13,440**	7,235
Reinsurance assets	**85,887**	85,228	**–**	–
Assets attributable to disposal group held for sale	**473,797**	–	**–**	–
Other non-current assets held for sale	**7,411**	9,750	**7,411**	9,750
Investments in subsidiaries	**–**	–	**30,859**	30,859
Investment property	**10,600**	13,026	**7,500**	10,180
Property, plant and equipment	**56,308**	59,147	**56,415**	59,252
Intangible assets	**64,062**	67,773	**4,575**	5,424
Deferred tax assets	**16,488**	22,163	**16,488**	22,163
Other assets	**16,384**	19,085	**15,686**	16,610
Total assets	**6,797,983**	7,305,964	**5,459,378**	5,697,398
Liabilities				
Deposits by banks	**54,703**	10,770	**54,703**	10,770
Customer accounts	**4,765,995**	5,000,836	**4,850,931**	5,060,845
Held-for-trading derivatives	**5,228**	12,600	**5,228**	11,731
Accruals and deferred income	**17,838**	17,171	**15,303**	14,864
Current tax liabilities	**–**	177	**–**	–
Liabilities under investment contracts	**203,136**	930,937	**–**	–
Liabilities under insurance contracts	**658,792**	645,561	**–**	–
Provisions for liabilities and other charges	**20,099**	17,631	**19,410**	17,231
Deferred tax liabilities	**26,295**	34,586	**5,578**	5,262
Subordinated liabilities	**29,277**	87,418	**30,000**	88,172
Liabilities attributable to disposal group held for sale	**473,797**	–	**–**	–
Other liabilities	**63,785**	74,753	**58,088**	68,129
Total liabilities	**6,318,945**	6,832,440	**5,039,241**	5,277,004
Equity				
Called up share capital	**108,092**	108,092	**108,092**	108,092
Revaluation reserve	**36,430**	41,333	**36,420**	41,224
Retained earnings	**334,516**	324,099	**275,625**	271,078
Total equity	**479,038**	473,524	**420,137**	420,394
Total liabilities and equity	**6,797,983**	7,305,964	**5,459,378**	5,697,398
Memorandum items				
Contingent liabilities	**122,959**	118,469	**122,961**	118,469
Commitments	**1,215,457**	1,225,232	**1,215,501**	1,253,263

The financial statements were approved and authorised for issue by the Board of Directors on 20 February 2018 and signed on its behalf by:

Sonny Portelli, *Chairman*

Andrew Beane, *Chief Executive Officer*

Statements of Cash Flows for the year ended 31 December 2017

	Group		*Bank*	
	2017	2016	**2017**	2016
	€000	€000	**€000**	€000
Cash flows from operating activities				
Interest, fees and premium receipts	**234,213**	229,786	**149,039**	166,605
Interest, fees and claims payments	**(296,742)**	(198,728)	**(14,745)**	(19,459)
Payments to employees and suppliers	**(106,740)**	(105,839)	**(99,585)**	(98,624)
Cash flows (used in)/from operating activities before changes in operating assets/liabilities	**(169,269)**	(74,781)	**34,709**	48,522
(Increase)/decrease in operating assets:				
Financial assets designated at fair value	**189,207**	2,309	**–**	–
Reserve deposit with Central Bank of Malta	**290**	(62)	**290**	(62)
Loans and advances to customers and banks	**60,397**	(94,257)	**60,428**	(86,087)
Treasury Bills	**(18,214)**	44,999	**(18,214)**	44,999
Other receivables	**8,997**	592	**4,570**	1,381
Increase/(decrease) in operating liabilities:				
Customer accounts and deposits by banks	**(172,436)**	78,026	**(146,746)**	58,706
Other payables	**(43,580)**	79,132	**3,282**	(2,599)
Net cash (used in)/from operating activities before tax	**(144,608)**	35,958	**(61,681)**	64,860
Tax paid	**(12,086)**	(19,853)	**(13,609)**	(20,839)
Net cash (used in)/from operating activities	**(156,694)**	16,105	**(75,290)**	44,021
Cash flows from investing activities				
Dividends received	**–**	–	**20**	10,567
Interest received from financial investments	**32,305**	33,435	**21,704**	24,838
Purchase of financial investments	**(139,115)**	(100,609)	**(139,115)**	(99,647)
Proceeds on sale and maturity of financial investments	**231,950**	227,414	**228,515**	225,518
Purchase of property, plant and equipment, investment property and intangible assets	**(2,999)**	(990)	**(2,219)**	(969)
Proceeds on sale of property, plant and equipment and intangible assets	**–**	2,639	**–**	709
Proceeds on redemption of shares in subsidiary companies	**–**	–	**–**	3,682
Net cash flows from investing activities	**122,141**	161,889	**108,905**	164,698
Cash flows from financing activities				
Dividends paid	**(20,610)**	(22,717)	**(20,610)**	(22,717)
Repayment of subordinated liabilities	**(58,158)**	–	**(58,172)**	–
Net cash used in financing activities	**(78,768)**	(22,717)	**(78,782)**	(22,717)
Net (decrease)/increase in cash and cash equivalents	**(113,321)**	155,277	**(45,167)**	186,002
Cash and cash equivalents at beginning of year	**949,504**	793,723	**867,736**	681,230
Effect of exchange rate changes on cash and cash equivalents	**12,466**	504	**12,466**	504
Cash and cash equivalents at end of year	**848,649**	949,504	**839,035**	867,736

Statements of Changes in Equity for the year ended 31 December 2017

	Share capital €000	*Revaluation reserve* €000	*Retained earnings* €000	*Total equity* €000
Group				
At 1 January 2017	108,092	41,333	324,099	473,524
Profit for the year	–	–	30,855	30,855
Other comprehensive income				
Available-for-sale investments:				
– fair value losses, net of tax	–	(4,739)	–	(4,739)
Properties:				
– transfer to retained earnings upon realisation through disposal, net of tax	–	(164)	164	–
Total other comprehensive income	–	(4,903)	164	(4,739)
Total comprehensive income for the year	–	(4,903)	31,019	26,116
Transactions with owners, recognised directly in equity				
Contributions by and distributions to owners:				
– share-based payments	–	–	8	8
– dividends	–	–	(20,610)	(20,610)
Total contributions by and distributions to owners	–	–	(20,602)	(20,602)
At 31 December 2017	108,092	36,430	334,516	479,038
At 1 January 2016	108,092	46,476	306,548	461,116
Profit for the year	–	–	40,213	40,213
Other comprehensive income				
Available-for-sale investments:				
– fair value losses, net of tax	–	(380)	–	(380)
– fair value gains reclassified to profit or loss on disposal, net of tax	–	(7,012)	–	(7,012)
Properties:				
– surplus arising on revaluation, net of tax	–	2,299	–	2,299
– transfer to retained earnings upon realisation through disposal, net of tax	–	(50)	50	–
Total other comprehensive income	–	(5,143)	50	(5,093)
Total comprehensive income for the year	–	(5,143)	40,263	35,120
Transactions with owners, recognised directly in equity				
Contributions by and distributions to owners:				
– share-based payments	–	–	5	5
– dividends	–	–	(22,717)	(22,717)
Total contributions by and distributions to owners	–	–	(22,712)	(22,712)
At 31 December 2016	108,092	41,333	324,099	473,524
Bank				
At 1 January 2017	108,092	41,224	271,078	420,394
Profit for the year	–	–	24,985	24,985
Other comprehensive income				
Available-for-sale investments:				
– fair value losses, net of tax	–	(4,640)	–	(4,640)
Properties:				
– transfer to retained earnings upon realisation through disposal, net of tax	–	(164)	164	–
Total other comprehensive income	–	(4,804)	164	(4,640)
Total comprehensive income for the year	–	(4,804)	25,149	20,345
Transactions with owners, recognised directly in equity				
Contributions by and distributions to owners:				
– share-based payments	–	–	8	8
– dividends	–	–	(20,610)	(20,610)
Total contributions by and distributions to owners	–	–	(20,602)	(20,602)
At 31 December 2017	108,092	36,420	275,625	420,137
At 1 January 2016	108,092	46,268	251,047	405,407
Profit for the year	–	–	42,693	42,693
Other comprehensive income				
Available-for-sale investments:				
– fair value losses, net of tax	–	(281)	–	(281)
– fair value gains reclassified to profit or loss on disposal, net of tax	–	(7,012)	–	(7,012)
Properties:				
– surplus arising on revaluation, net of tax	–	2,299	–	2,299
– transfer to retained earnings upon realisation through disposal, net of tax	–	(50)	50	–
Total other comprehensive income	–	(5,044)	50	(4,994)
Total comprehensive income for the year	–	(5,044)	42,743	37,699
Transactions with owners, recognised directly in equity				
Contributions by and distributions to owners:				
– share-based payments	–	–	5	5
– dividends	–	–	(22,717)	(22,717)
Total contributions by and distributions to owners	–	–	(22,712)	(22,712)
At 31 December 2016	108,092	41,224	271,078	420,394

Commentary by Andrew Beane, Chief Executive Officer, HSBC Bank Malta p.l.c.

HSBC Bank Malta p.l.c. ('the bank') reported a profit before tax of €49.8m for the year ended 31 December 2017. This represents a decrease of €12.4m or 19.9% on the previous year.

The reported profit before tax incorporates three notable items which are excluded from the adjusted results as this is considered a better reflection of management's performance.

In 2016, the bank recognised the gain on disposal of the bank's membership interest in Visa Europe amounting to €10.8m and raised a provision totalling €8m in relation to a remediation of the legacy operational failure in the bank's brokerage business. During 2017, the remediation programme was largely completed and it was assessed that a partial reversal of the conservatively estimated provision was warranted. In this regard, a reversal of €1.8m was effected in 2017.

During the year, the bank re-examined its approach to the provision for the collective agreement clauses related to future employee benefits. A longer-term view was assumed in the application of the current clauses which resulted in an additional charge of €7.6m in 2017 as compared with the charge of €2m in 2016. While the movements in this provision will periodically occur depending on the changes in the composition of the bank's employee base, the provision adjustment in 2017 was not related to the business performance of the year.

	2017 **€000**	2016 €000
Reported profit before tax	**49,823**	62,221
Notable items:		
Gain on VISA transaction	–	(10,787)
Movement in the brokerage remediation provision	**(1,800)**	8,000
Costs of the provision for collective agreement benefits	**7,600**	2,000
Adjusted profit before tax	**55,623**	61,434

Profit attributable to shareholders amounted to €30.9m resulting in earnings per share of 8.6 cent compared with 11.2 cent in 2016. The Board recommended maintaining a current dividend payout ratio of 65% of net profit. The Board also made a decision to return part of retained earnings to the shareholders and recommended an extraordinary dividend of €20m in addition to the regular dividend paid out of the net profit for the year. The final gross dividend will be 12.4 cent per share (8.1 cent per share net of tax). Together with the interim dividend paid in September 2017, the total gross dividend for 2017 will be 17.1 cent per share (11.1 cent per share net of tax) or €61.6m (€40.2m net of tax) representing a 54.0% increase on the dividends paid for 2016. The final dividend will be paid on 19 April 2018 to shareholders who are on the bank's register of shareholders at 13 March 2018.

The year under review was characterised by broadly stable but persistently low interest rates and increasing excess liquidity in the market while attractive investment opportunities remained limited. In this environment, a record number of debt issuances by corporate entities was registered on the Malta Stock Exchange fuelled by investors' demand for higher yield.

Net interest income of the bank decreased by 4.6% to €120.7m compared with the prior year principally due to the reduction in the corporate loan book and in the bonds portfolio. While lending margins remained largely unchanged, the average yield of the investment book declined further due to continuing amortisation of higher yielding bonds. Retail banking performed well and increased its interest income by 2.9%. The European Central Bank negative deposit rate remained unchanged during 2017 resulting in additional interest expense on the bank's excess liquidity. The reduction in interest expense due to the maturity of the bank's subordinated debt in February 2017 partially mitigated the decline in interest income.

Net non-interest income reduced by 9.6% compared with 2016. A lower level of credit activity and the ongoing review of the bank's risk appetite had an adverse impact on fees and commissions as well as trading income. Other net operating income was adversely impacted by lower valuation of investment property held by the bank.

HSBC Life Assurance (Malta) Limited reported a profit before tax of €7.3m, which was broadly in line with the prior year. In 2017, the volume of new 'with-profits' business increased resulting in a higher premium income. In November 2017, the company announced a partial sale of the unit-linked portfolio acquired in 2014 from another HSBC Group entity. As the transfer of this portfolio will be at the consideration of €1, no gain or loss will be registered as a result of this transaction.

Operating expenses were €112.2m, 1.8% higher compared with previous year. Two notable cost items described above had a negative impact on the level of expenses in 2016 and 2017. The bank accelerated the work in raising risk and compliance standards which resulted in higher administrative costs. At the same time, the bank continued to benefit from the early voluntary retirement programme implemented in 2016 and saw a decline in underlying staff costs by 3% absorbing the annual pay increase.

A net reversal of loan impairment charges amounting to €1.2m was recorded in 2017. The bank continued to improve the asset quality by managing down non-performing exposures by over 20% year on year notably in the corporate book. Non-performing loans as a percentage of total gross loans reduced further to 5.3% compared with 6.4% in 2016. This resulted in a number of reversals of corporate impairment provisions raised in the past. Furthermore, the bank has reviewed its conservative provisioning approach to certain legacy defaulted mortgage exposures as the observed rates of recovery picked up as a result of improved collection practices. In addition, the collateral securing the relative exposures was prudently assessed as adequate. This led to a net recovery on retail impairment provisions in 2017.

Net loans and advances to customers decreased by 5.8% and stood at €3,129m. The decline was registered in the corporate loan book as a result of lower business activity due to prioritisation of compliance agenda. Moreover, several corporate customers chose to replace bank funding with externally issued debt. The retail loan book grew by 4.9% compared with the prior year partially offsetting the reduction in corporate lending.

Customer deposits decreased by 4.7% to €4,766m in 2017 driven by the reduction in corporate deposits in line with the ongoing review of the risk appetite. Deposits from retail customers increased by 2.6% compared with prior year as the bank continued to expand its primary-banked customer base. The bank maintained a healthy advances to deposits ratio of 65.6% and its liquidity ratios were well in excess of regulatory requirements.

The available-for-sale financial investments portfolio decreased by 12.1% compared to 2016. The bank's risk appetite for investment quality remained unchanged – this portfolio is managed as a high-quality liquidity buffer and consists entirely of securities of sovereign and supranational issuers rated A- (S&P) or better. While the bank partially replaced maturing bonds during the year, attractive investment opportunities in an environment of record low interest rates in Europe were extremely limited.

The bank's capital ratios continued to improve as risk weighted assets decreased year on year. Common equity tier 1 capital increased to 13.9% from 13.2% and the total capital ratio was 14.4% up from 14.2% at the end of 2016. The bank remained fully compliant with its end-point regulatory capital requirements during 2017. Its strong capital position enables the bank to sustain its high dividend payout ratio at 65% of profit after tax and to pay extraordinary dividend out of retained earnings.

Andrew Beane, Chief Executive Officer at HSBC Bank Malta p.l.c., said: "In 2017 we largely completed changes to our business model in order to meet the highest global standards for compliance and risk management. While these actions reduced profitability during the year due to lower revenues and higher costs, they have materially strengthened the bank's risk profile and position it well for the future.

Our changed business model is creating value for our shareholders, notably by generating dividends. Indeed, given the strategic progress the bank has made, the Board was pleased to declare an exceptional dividend of €20m which reflects HSBC's capacity to generate more capital than is required by our risk profile.

Looking to the future, the outlook for the local economy remains favourable with strong GDP growth, low unemployment and inflation and government finances forecast to remain in surplus. Amidst this positive economic landscape, it is essential to ensure that growth remains broad based and sustainable and that risks are managed appropriately including an increasing level of long-term risk in the local bond market which has become a greater cause for concern.

In 2018, within our changed business model, HSBC will increase investment in customer service and innovation to support growth over the medium term while sustaining the bank's signature conservative credit discipline that supports strong performance through the full economic cycle.

I would like to thank my colleagues for their outstanding commitment to HSBC in 2017 and our customers and shareholders for their continued trust."

Approved and issued by HSBC Bank Malta p.l.c., 116, Archbishop Street, Valletta VLT1444