

HSBC Bank Malta p.l.c. Half-Yearly Results for 2016

The condensed interim financial statements have been extracted from HSBC Bank Malta p.l.c.'s (the 'bank') and its subsidiary undertakings (collectively referred to as the 'group') unaudited management accounts for the six month period ended 30 June 2016. These condensed interim financial statements are being published in accordance with Chapter 5 of the Listing Rules issued by the Listing Authority and the Prevention of Financial Markets Abuse Act, 2005.

Review of Performance

- Reported profit before tax of €41.3m for the six months ended 30 June 2016. The reported performance was €5m or 13.8% higher than for the same period last year.
- Adjusted profit before tax of €30.5m, which excludes the effect of the significant non-recurring item (explained under 'Financial Performance' in the Commentary by the CEO), down 15.9% compared with the same period in 2015, primarily due to adverse impact of negative interest rates, lower non-interest income due to risk management actions and temporary effect of higher regulatory costs.

- Profit attributable to shareholders of €26.9m for the six months ended 30 June 2016 resulting in earnings per share of 7.5 cents compared with 6.6 cents in the same period in 2015.
- Common equity tier 1 capital ratio of 12.5% as at 30 June 2016, up from 12.3% at the end of 2015.
- Recommended gross interim dividend of 7.1 cents per share (4.6 cents per share net of tax), 40% higher than the 2015 interim dividend.
- Cost efficiency ratio adjusted for the non-recurring significant item of 59.6% for the six months ended 30 June 2016, compared with 55.6% for the same period in 2015. The ratio was impacted by lower adjusted revenue, whereas the underlying costs remained flat reflecting solid cost discipline.
- Return on equity adjusted for the non-recurring significant item of 8.5% for the six months ended 30 June 2016, compared with 10.5% for the same period in 2015.
- Total assets of €7,284m at 30 June 2016, up €48m compared with 31 December 2015.
- Customer accounts of €5,002m at 30 June 2016, up €52m compared with 31 December 2015.

Income Statements for the period ended 30 June 2016

	Group		Bank	
	6 mths to 30/06/16	6 mths to 30/06/15	6 mths to 30/06/16	6 mths to 30/06/15
	€000	€000	€000	€000
Interest and similar income				
– on loans and advances, balances with				
Central Bank of Malta and Treasury Bills	64,383	64,713	64,507	64,888
– on debt and other fixed income instruments	7,764	8,058	7,666	7,866
Interest expense	(8,276)	(12,739)	(8,312)	(12,775)
Net interest income	63,871	60,032	63,861	59,979
Fee and commission income	14,185	16,217	11,854	13,436
Fee and commission expense	(960)	(1,190)	(627)	(855)
Net fee and commission income	13,225	15,027	11,227	12,581
Net trading income	3,922	4,895	3,922	4,895
Net income from financial instruments designated at fair value attributable to insurance operations	68,206	17,131	–	–
Net gains on sale of available-for-sale financial investments	10,787	383	10,787	383
Net insurance premiums income	28,373	28,952	–	–
Movement in present value of in-force long-term insurance business	(1,035)	2,262	–	–
Net other operating income	952	555	925	522
Total operating income	188,301	129,237	90,722	78,360
Net insurance claims, benefits paid and movement in liabilities to policyholders	(91,273)	(39,392)	–	–
Net operating income before loan impairment charges	97,028	89,845	90,722	78,360
Loan impairment charges	(3,915)	(3,566)	(3,915)	(3,566)
Net operating income	93,113	86,279	86,807	74,794
Employee compensation and benefits	(25,141)	(25,348)	(23,743)	(23,941)
General and administrative expenses	(23,319)	(21,248)	(21,243)	(18,892)
Depreciation of property, plant and equipment	(1,762)	(1,808)	(1,760)	(1,803)
Amortisation of intangible assets	(1,577)	(1,566)	(1,550)	(1,538)
Profit before tax	41,314	36,309	38,511	28,620
Tax expense	(14,460)	(12,384)	(13,479)	(9,692)
Profit for the period	26,854	23,925	25,032	18,928
Earnings per share	7.5c	6.6c		

Statements of Comprehensive Income for the period ended 30 June 2016

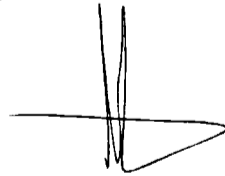
	Group		Bank	
	6 mths to 30/06/16	6 mths to 30/06/15	6 mths to 30/06/16	6 mths to 30/06/15
	€000	€000	€000	€000
Profit for the period	26,854	23,925	25,032	18,928
Other comprehensive income				
Items that may be reclassified subsequently to profit or loss when specified conditions are met:				
Available-for-sale investments:				
– fair value gains/(losses)	2,650	(5,357)	2,719	(5,225)
– fair value gains reclassified to profit or loss on disposal	(10,787)	(383)	(10,787)	(383)
– income taxes	2,845	2,009	2,821	1,963
	(5,292)	(3,731)	(5,247)	(3,645)
Items that will not be reclassified subsequently to Profit or Loss:				
Properties:				
– income taxes determined on the basis applicable to disposals	–	1,529	–	1,529
	–	1,529	–	1,529
Other comprehensive income for the period, net of tax	(5,292)	(2,202)	(5,247)	(2,116)
Total comprehensive income for the period	21,562	21,723	19,785	16,812

Statements of Financial Position at 30 June 2016

	Group		Bank	
	30/06/16	31/12/15	30/06/16	31/12/15
	€000	€000	€000	€000
Assets				
Balances with Central Bank of Malta,				
Treasury Bills and cash	127,699	187,563	127,699	187,563
Items in course of collection from other banks	9,976	12,559	9,976	12,559
Financial assets designated at fair value attributable to insurance operations	1,330,839	1,372,484	–	–
Held for trading derivatives	13,163	11,492	12,969	10,897
Loans and advances to banks	981,307	841,411	881,623	728,918
Loans and advances to customers	3,306,937	3,284,615	3,315,137	3,292,815
Available-for-sale financial investments	1,189,186	1,203,638	1,184,430	1,198,792
Prepayments and accrued income	31,152	40,863	22,748	31,305
Current tax assets	6,171	11,792	–	2,356
Reinsurance assets	95,762	83,088	–	–
Non-current assets held for sale	10,796	11,347	10,796	11,347
Investment in subsidiaries	–	–	34,541	34,541
Investment property	15,475	15,458	10,892	10,876
Property, plant and equipment	57,628	58,559	57,730	58,659
Intangible assets	67,607	69,653	6,579	7,610
Deferred tax assets	21,079	18,343	21,027	18,291
Other assets	19,652	13,959	14,785	8,124
Total assets	7,284,429	7,236,824	5,710,932	5,614,653
Liabilities				
Deposits by banks	27,533	14,286	27,533	14,286
Customer accounts	5,001,972	4,950,257	5,085,729	5,028,318
Held for trading derivatives	13,610	11,732	13,459	11,630
Accruals and deferred income	21,503	30,073	18,941	23,898
Current tax liabilities	8,894	3,508	8,484	–
Liabilities under investment contracts	906,751	987,008	–	–
Liabilities under insurance contracts	657,111	616,657	–	–
Provisions for liabilities and other charges	13,430	17,133	13,320	16,609
Deferred tax liabilities	28,612	27,950	–	–
Subordinated liabilities	87,399	87,363	88,172	88,146
Other liabilities	41,008	29,741	36,185	26,359
Total liabilities	6,807,823	6,775,708	5,291,823	5,209,246
Equity				
Called up share capital	108,092	108,092	108,092	108,092
Revaluation reserve	41,184	46,476	41,021	46,268
Retained earnings	327,330	306,548	269,996	251,047
Total equity	476,606	461,116	419,109	405,407
Total liabilities and equity	7,284,429	7,236,824	5,710,932	5,614,653
Memorandum items				
Contingent liabilities	127,752	133,771	127,752	133,771
Commitments	1,345,698	1,292,605	1,345,782	1,292,802

The financial statements were approved and authorised for issue by the Board of Directors on 3 August 2016 and signed on its behalf by:


Sonny Portelli, Chairman


Andrew Beane, Chief Executive Officer

Statements of Changes in Equity for the period 1 January 2016 to 30 June 2016

	Share capital	Revaluation reserve	Retained earnings	Total equity
	€000	€000	€000	€000
<i>Group</i>				
At 1 January 2016	108,092	46,476	306,548	461,116
Profit for the period	–	–	26,854	26,854
Other comprehensive income				
Available-for-sale investments:				
– fair value gains, net of tax	–	1,720	–	1,720
– fair value gains reclassified to profit or loss on disposal, net of tax	–	(7,012)	–	(7,012)
Total other comprehensive income	–	(5,292)	–	(5,292)
Total comprehensive income for the period	–	(5,292)	26,854	21,562
Transactions with owner, recognised directly in equity				
Contributions by and distributions to owners:				
– share-based payments	–	–	17	17
– dividends	–	–	(6,089)	(6,089)
Total contributions and distributions to owners	–	–	(6,072)	(6,072)
At 30 June 2016	108,092	41,184	327,330	476,606
At 1 January 2015	97,281	42,510	305,314	445,105
Profit for the period	–	–	23,925	23,925
Other comprehensive income				
Available-for-sale investments:				
– fair value gains, net of tax	–	(3,482)	–	(3,482)
– fair value gains reclassified to profit or loss on disposal, net of tax	–	(249)	–	(249)
Properties:				
– effect of changes in tax rate	–	1,529	–	1,529
Total other comprehensive income	–	(2,202)	–	(2,202)
Total comprehensive income for the period	–	(2,202)	23,925	21,723
Transactions with owner, recognised directly in equity				
Contributions by and distributions to owners:				
– share-based payments	–	–	6	6
– dividends	–	–	(5,511)	(5,511)
– bonus issue	10,811	–	(10,811)	–
Total contributions and distributions to owners	10,811	–	(16,316)	(5,505)
At 30 June 2015	108,092	40,308	312,923	461,323
<i>Bank</i>				
At 1 January 2016	108,092	46,268	251,047	405,407
Profit for the period	–	–	25,032	25,032
Other comprehensive income				
Available-for-sale investments:				
– fair value gains, net of tax	–	1,765	–	1,765
– fair value gains reclassified to profit or loss on disposal, net of tax	–	(7,012)	–	(7,012)
Total other comprehensive income	–	(5,247)	–	(5,247)
Total comprehensive income for the period	–	(5,247)	25,032	19,785
Transactions with owner, recognised directly in equity				
Contributions by and distributions to owners:				
– share-based payments	–	–	6	6
– dividends	–	–	(6,089)	(6,089)
Total contributions and distributions to owners	–	–	(6,083)	(6,083)
At 30 June 2016	108,092	41,021	269,996	419,109
At 1 January 2015	97,281	42,139	255,837	395,257
Profit for the period	–	–	18,928	18,928
Other comprehensive income				
Available-for-sale investments:				
– fair value gains, net of tax	–	(3,396)	–	(3,396)
– fair value gains reclassified to profit or loss on disposal, net of tax	–	(249)	–	(249)
Properties:				
– effect of changes in tax rate	–	1,529	–	1,529
Total other comprehensive income	–	(2,116)	–	(2,116)
Total comprehensive income for the period	–	(2,116)	18,928	16,812
Transactions with owner, recognised directly in equity				
Contributions by and distributions to owners:				
– share-based payments	–	–	6	6
– dividends	–	–	(5,511)	(5,511)
– bonus issue	10,811	–	(10,811)	–
Total contributions and distributions to owners	10,811	–	(16,316)	(5,505)
At 30 June 2015	108,092	40,023	258,449	406,564

Statements of Cash Flows for the period 1 January 2016 to 30 June 2016

	Group		Bank	
	6 mths to 30/06/16	6 mths to 30/06/15	6 mths to 30/06/16	6 mths to 30/06/15
	€000	€000	€000	€000
Cash flows from operating activities				
Interest, commission and premium receipts	124,722	118,158	89,651	84,300
Interest, commission and claims payments	(87,407)	(73,781)	(9,821)	(13,989)
Payments to employees and suppliers	(51,542)	(45,890)	(50,077)	(42,747)
Cash flows (used in)/from operating activities before changes in operating assets/liabilities	(14,227)	(1,513)	29,753	27,564
Decrease/(increase) in operating assets:				
Financial assets designated at fair value	96,294	(32,173)	–	–
Reserve deposit with Central Bank of Malta	(1,183)	(1,729)	(1,183)	(1,729)
Loans and advances to customers and banks	(45,253)	37,755	(43,752)	37,928
Treasury Bills	35,999	(10,745)	35,999	(10,745)
Other receivables	(13,581)	(4,565)	(1,876)	(6,471)
Increase/(decrease) in operating liabilities:				
Customer accounts and deposits by banks	53,692	320,330	66,587	330,542
Other payables	(61,015)	137,491	(5,354)	8,148
Net cash from operating activities before tax	50,726	444,851	80,174	385,237
Tax recovered/(paid)	6,590	(4,563)	3,402	(3,621)
Net cash from operating activities	57,316	440,288	83,576	381,616
Cash flows from investing activities				
Interest received from financial investments	26,701	27,726	12,126	12,087
Purchase of other available-for-sale financial investments	(79,078)	(191,555)	(79,078)	(191,583)
Proceeds from sale and maturity of financial investments	78,906	181,453	78,906	181,453
Purchase of property, plant and equipment and intangible assets	(2,495)	(2,423)	(1,373)	(2,284)
Proceeds on sale of property, plant and equipment and intangible assets	1	341	1	340
Net cash flows from investing activities	24,035	15,542	10,582	13
Cash flows from financing activities				
Dividends paid	(6,089)	(5,511)	(6,089)	(5,511)
Net increase in cash and cash equivalents	75,262	450,319	88,069	376,118
Cash and cash equivalents at beginning of period	793,668	827,685	681,175	748,847
Effect of exchange rate changes on cash and cash equivalents	5,856	(40,864)	5,856	(40,864)
Cash and cash equivalents at end of period	874,786	1,237,140	775,100	1,084,101

Net operating income

Net operating income includes net income from Life insurance business analysed as follows:

	Group	
	6 mths to 30/06/16	6 mths to 30/06/15
	€000	€000
Net interest income	98	192
Net fee and commission income	1,225	1,536
Net income from insurance financial instruments designated at fair value	68,206	17,131
Net earned insurance premiums	28,373	28,952
Net other operating (expense)/income	(983)	2,316
	96,919	50,127
Net insurance claims incurred and movement in policyholders' liabilities	(91,273)	(39,392)
	5,646	10,735

Net impairment

	Group/Bank	
	6 mths to 30/06/16	6 mths to 30/06/15
	€000	€000
Write-downs		
Loans and advances to customers		
– specific allowances	(6,016)	(8,892)
– collective allowances	(1,390)	(1,778)
– bad debts written off	(1,756)	(7,038)
	(9,162)	(17,708)
Other assets		
– individual allowances	43	–
Reversals of write-downs		
Loans and advances to customers		
– specific allowances	3,046	10,575
– collective allowances	1,507	3,100
– bad debts written off	651	467
	5,204	14,142
	(3,915)	(3,566)

Segmental analysis

a) Class of business

The local group provides a comprehensive range of banking and related financial services to its customers. The products and services offered to customers are organised by global business.

– Retail Banking and Wealth Management ('RBWM') offers a broad range of products and services to meet the personal banking and wealth management needs of individual customers. Typically, customer offerings include personal banking products (current and savings accounts, mortgages and personal loans, credit cards, debit cards and local and international payment services) and wealth management services (insurance and investment products, global asset management services and financial planning services).

– Commercial Banking ('CMB') offers a broad range of products and services to serve the needs of our commercial customers, including small and medium sized enterprises, mid-market enterprises and corporates. These include credit and lending and international trade and receivables finance. CMB also offers its customers access to products and services offered by other global businesses, for example Global Banking & Markets ('GB&M').

– GB&M provides tailored financial solutions to corporate and institutional clients. The client-focused business line delivers a full range of banking capabilities including assistance with managing risk via interest rate derivatives, the provision of foreign exchange spot and derivative products, and payment services.

The local group's internal reporting to the Board of Directors and Senior Management is analysed according to these business lines. For each of the businesses, the Senior Management, in particular the Chief Executive Officer, as chief operating decision-maker, reviews internal management reports in order to make decisions about allocating resources and assessing performance.

The Board considers that global businesses represent the most appropriate information for the users of the financial statements to best evaluate the nature and financial effects of the business activities in which the local group engages, and the economic environments in which it operates. As a result, the local group's operating segments are considered to be the global businesses.

	<i>Retail Banking and Wealth Management</i>		<i>Commercial Banking</i>		<i>Global Banking and Markets</i>		<i>Group Total</i>	
	6 mths to 30/06/16	6 mths to 30/06/15	6 mths to 30/06/16	6 mths to 30/06/15	6 mths to 30/06/16	6 mths to 30/06/15	6 mths to 30/06/16	6 mths to 30/06/15
	€000	€000	€000	€000	€000	€000	€000	€000
<i>Group</i>								
Net interest income	32,390	29,082	24,431	21,972	7,050	8,978	63,871	60,032
Net non-interest income	20,865	19,206	10,103	7,247	2,189	3,360	33,157	29,813
External employee compensation and benefits	(17,483)	(17,627)	(6,409)	(6,462)	(1,249)	(1,259)	(25,141)	(25,348)
General and administrative expenses	(16,394)	(14,938)	(5,999)	(5,467)	(926)	(843)	(23,319)	(21,248)
External depreciation	(1,152)	(1,182)	(534)	(548)	(76)	(78)	(1,762)	(1,808)
External amortisation	(1,054)	(1,047)	(476)	(473)	(47)	(46)	(1,577)	(1,566)
External net impairment	(187)	(943)	(3,810)	(2,575)	82	(48)	(3,915)	(3,566)
Profit before tax	16,985	12,551	17,306	13,694	7,023	10,064	41,314	36,309
	<i>Retail Banking and Wealth Management</i>		<i>Commercial Banking</i>		<i>Global Banking and Markets</i>		<i>Group Total</i>	
	30/06/16	31/12/15	30/06/16	31/12/15	30/06/16	31/12/15	30/06/16	31/12/15
	€000	€000	€000	€000	€000	€000	€000	€000
Assets								
Total assets	3,716,103	3,691,818	1,449,436	1,439,963	2,118,890	2,105,043	7,284,429	7,236,824
Total equity	225,393	218,068	170,667	165,120	80,546	77,928	476,606	461,116

Fair values of financial assets and liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following table sets out the fair values of financial assets and liabilities as at the reporting date.

Fair values are determined according to the following hierarchy:

- Level 1 – quoted market price:** financial instruments with quoted prices for identical instruments in active markets.
- Level 2 – valuation technique using observable inputs:** financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.
- Level 3 – valuation technique with significant unobservable inputs:** financial instruments valued using models where one or more significant inputs are unobservable.

The valuation techniques utilised in preparing these condensed interim financial statements are consistent with those applied in the preparation of financial statements for the year ended 31 December 2015. There were no transfers between levels of the fair value hierarchy during the period under review.

Fair values of financial assets and liabilities carried at fair value and basis of valuation:

	Valuation techniques			
	Level 1	Level 2	Level 3	With significant unobservable inputs
	€000	€000	€000	€000
Group				
At 30 June 2016				
Assets				
Treasury Bills	–	47,999	–	47,999
Held for trading derivatives	–	13,163	–	13,163
Financial assets designated at fair value attributable to insurance operations	1,209,148	120,249	1,442	1,330,839
Available-for-sale financial investments	1,188,436	3	747	1,189,186
Liabilities				
Held for trading derivatives	57	13,553	–	13,610
Liabilities under investment contracts	782,810	122,499	1,442	906,751
At 31 December 2015				
Assets				
Treasury Bills	–	103,998	–	103,998
Held for trading derivatives	–	11,492	–	11,492
Financial assets designated at fair value attributable to insurance operations	1,206,807	163,276	2,401	1,372,484
Available-for-sale financial investments	1,196,538	7,078	22	1,203,638
Liabilities				
Held for trading derivatives	–	11,732	–	11,732
Liabilities under investment contracts	819,918	164,689	2,401	987,008
Bank				
At 30 June 2016				
Assets				
Treasury Bills	–	47,999	–	47,999
Held for trading derivatives	–	12,969	–	12,969
Available-for-sale financial investments	1,183,683	–	747	1,184,430
Liabilities				
Held for trading derivatives	–	13,459	–	13,459
At 31 December 2015				
Assets				
Treasury Bills	–	103,998	–	103,998
Held for trading derivatives	–	10,897	–	10,897
Available-for-sale financial investments	1,191,695	7,075	22	1,198,792
Liabilities				
Held for trading derivatives	–	11,630	–	11,630

Level 3

a) Financial assets designated at fair value attributable to insurance operations

	€000
At 1 January 2016	2,401
Disposals during the period	(940)
Losses recognised in profit or loss	(19)
At 30 June 2016	1,442

The assets categorised within Level 3 comprise holding of units in collective investment schemes which were acquired by HSBC Life Assurance (Malta) Limited as part of the portfolio transfer of unit linked investment contracts from HSBC Life (Europe) Limited, effective on 30 November 2014. These holdings consist of shares in alternative funds which are unlisted and have illiquid price sources. In view of the absence of quoted market prices or observable inputs for modelling value, the fair value of the shares held is derived using the net asset value as sourced from the respective custodians, which is not supported by audited financial statements.

The units in collective investment schemes categorised as Level 3 are held to cover linked liabilities and accordingly, corresponding liabilities to customers under investment contracts are also categorised as Level 3. Investment risk attributable to these Level 3 assets is borne by the policyholder in view of the policyholder's decision to invest in such assets. Accordingly, the disclosure of key unobservable inputs to Level 3 financial instruments and the sensitivity of Level 3 fair value to reasonably possible alternatives in respect of significant unobservable assumptions was not deemed necessary and relevant.

b) Available-for-sale financial investments

These investments consist of shares in unlisted companies, which have illiquid price sources. In view of no quoted market or observable inputs for modelling their value, the fair value of the shares held is derived using the net asset value of the respective companies as reported in the latest available financial statements.

Any changes in the unobservable inputs of both classes of financial assets categorised in Level 3 are not considered to result in significantly higher or lower fair value measurement, given that the amounts invested are considered to be immaterial.

VISA valuation

As disclosed in the bank's Annual Report and Accounts of 2015, Visa Inc. had announced its proposed acquisition of Visa Europe Limited, subject to regulatory approval. HSBC Bank Malta p.l.c. was a Principal member and shareholder of Visa Europe Limited.

On 21 June 2016, this acquisition was completed, and the bank received a cash consideration and preferred stock in Visa Inc. convertible into ordinary shares. The bank has also been informed that a further cash payment will be made in 2019.

The pre-tax value of the convertible preference shares together with the deferred cash payment, expected in 2019, has been estimated at €1,360,288.

c) Non-financial investments at fair value

The local group's land and buildings, within property, plant and equipment, comprised commercial branches, bank offices and other operational premises. Investment property comprises commercial property leased out as offices to third parties including the local group's intermediate parent. All the recurring property fair value measurements use significant unobservable inputs and are accordingly categorised within Level 3 of the fair valuation hierarchy.

	Group		Bank	
	30/06/16	30/06/15	30/06/16	30/06/15
	€000	€000	€000	€000
Assets				
Property	41,588	41,743	41,686	41,841
Investment property	15,475	15,458	10,892	10,876
	57,063	57,201	52,578	52,717

The local group's land and buildings within property, plant and equipment and investment property, are fair valued annually by an independent firm of property valuers having appropriate recognised professional qualifications and experience in the location and category of the property being valued. Fair values are determined on the basis of open market value taking cognisance of the specific location of the property, the size of the site together with its development potential, the availability of similar properties in the area and, whenever possible, having regard to recent market transactions for similar properties in the same location.

Valuations are carried out on a regular basis such that the carrying amount of property does not differ materially from that which would be determined using fair values at the end of the reporting period. The Directors have reviewed the carrying amounts of the properties as at 30 June 2016, on the basis of the valuations carried out by the independent property valuers. Adjustments to the carrying amounts of the local group's land and buildings within property, plant and equipment, and investment property, as at 30 June 2016 were not deemed necessary.

The valuation processes and techniques utilised in preparing these condensed interim financial statements were consistent with those applied in the preparation of financial statements for the year ended 31 December 2015.

Fair values of financial assets and liabilities not carried at fair value

Certain financial assets and liabilities are either carried at amortised cost or cost less impairment. The fair values of these financial assets and liabilities are not disclosed given that the carrying amount is a reasonable approximation of the fair value because these are either re-priced to current market rates frequently or are short-term in nature.

The following table sets out the carrying amounts and fair values of financial assets and liabilities not carried at fair value:

	Group		Bank	
	30/06/16	30/06/15	30/06/16	30/06/15
	€000	€000	€000	€000
Assets				
Balances with Central Bank of Malta and cash	79,700	83,565	79,700	83,565
Items in the course of collection from other banks	9,976	12,559	9,976	12,559
Loans and advance to banks	981,307	841,411	881,623	728,918
Loans and advance to customers	3,306,937	3,284,615	3,315,137	3,292,815
Accrued interest	28,940	37,852	20,332	28,475
Other assets	19,016	13,959	14,149	8,124
	4,425,876	4,273,961	4,320,917	4,154,456
Liabilities				
Deposits by banks	27,533	14,286	27,533	14,286
Customer accounts	5,001,972	4,950,257	5,085,729	5,028,318
Subordinated liabilities	87,399	87,363	88,172	88,146
Accrued interest	6,808	7,718	6,793	7,701
Other Liabilities	41,008	29,741	36,185	26,359
	5,164,720	5,089,365	5,244,412	5,164,810

Asset encumbrance

The disclosure on asset encumbrance is a requirement in terms of Banking Rule 07 transposing the provisions of the EBA Guidelines on Disclosure of Encumbered and Unencumbered Assets (EBA/GL/2014/03).

The objective of this disclosure is to facilitate an understanding of available and unrestricted assets that could be used to support potential future funding and collateral needs. An asset is defined as encumbered if it has been pledged as collateral against an existing liability, and as a result is no longer available to the group to secure funding, satisfy collateral needs or be sold to reduce the funding requirement.

The disclosure is not designed to identify assets which would be available to meet the claims of creditors or to predict assets that would be available to creditors in the event of a resolution or bankruptcy.

Encumbered and unencumbered assets

	Carrying amount of encumbered gross assets	Fair value of encumbered gross assets	Carrying amount of unencumbered gross assets	Fair value of unencumbered gross assets
	€000	€000	€000	€000
Group				
At 30 June 2016				
Equity instruments	–	–	1,386	1,386
Debt securities	95,667	95,667	1,092,769	1,092,769
Loans and advances to customers	32,647	32,647	3,357,242	3,357,242
Other assets	–	–	2,789,640	2,789,640
	128,314	128,314	7,241,037	7,241,037
At 31 December 2015				
Equity instruments	7,075	7,075	25	–
Debt securities	97,432	97,432	1,099,106	1,099,106
Loans and advances to customers	90,496	90,496	3,278,695	3,278,695
Other assets	–	–	2,748,571	2,748,571
	195,003	195,003	7,126,397	7,126,372
Bank				
At 30 June 2016				
Equity instruments	–	–	1,383	–
Debt securities	95,667	95,667	1,088,016	1,088,016
Loans and advances to customers	32,647	32,647	3,365,442	3,365,442
Other assets	–	–	1,212,591	1,212,591
	128,314	128,314	5,667,432	5,666,049
At 31 December 2015				
Equity instruments	7,075	7,075	22	–
Debt securities	97,432	97,432	1,094,263	1,094,263
Loans and advances to customers	90,496	90,496	3,286,895	3,286,895
Other assets	–	–	1,123,045	1,123,045
	195,003	195,003	5,504,225	5,504,203

The local group does not encumber any of the collateral received or any of its own debt securities issued.

As at 30 June 2016, the local group did not have any outstanding liabilities associated with encumbered assets and collateral received.

The bank undertakes the following types of encumbrance:

- Pledging of debt securities against the provision of credit lines by the Central Bank of Malta.
- Pledging of debt securities in favour of the Depositor Compensation Scheme.

Dividends

	Bank			
	6 mths to 30/06/16	6 mths to 30/06/15	6 mths to 30/06/16	6 mths to 30/06/15
	cent per share	cent per share	€000	€000
Gross of income tax				
% per 30 cent share				
– Prior year's final	2.6	2.6	9,585	8,431
– Proposed interim	7.1	5.1	25,617	18,375
	9.7	7.7	35,202	26,806
Net of income tax				
% per 30 cent share				
– Prior year's final	1.7	1.7	6,089	5,511
– Proposed interim	4.6	3.3	16,651	11,944
	6.3	5.0	22,740	17,455

Basis of Preparation

The condensed interim financial statements have been extracted from HSBC Bank Malta p.l.c.'s (the 'bank') and its subsidiary undertakings (collectively referred to as the 'group') unaudited management accounts for the six months period ended 30 June 2016. These condensed interim financial statements are being published in accordance with Chapter 5 of the Listing Rules issued by the Listing Authority and the Prevention of Financial Markets Abuse Act, 2005.

The condensed interim financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting, adopted by the EU. They do not include all the information required for a complete set of annual financial statements, and should be read in conjunction with the financial statements for the year ended 31 December 2015.

There were no new standards adopted during the period ended 30 June 2016. However, the group adopted interpretations and amendments to standards which had an insignificant effect on the interim consolidated financial statements.

The accounting policies applied in these condensed interim financial statements are the same as those applied by the group in its financial statements as at and for the year ended 31 December 2015.

As required by IAS 34, Interim Financial Reporting, adopted by the EU, these interim financial statements include comparative statements of financial position information at the previous financial year end and comparative income statements and statements of comprehensive income information for the comparable interim periods of the immediately preceding financial year.

Related party transactions with other members of the HSBC Group covering the period 1 January to 30 June 2016 did not materially affect the performance of the period under review and financial position at the end of the reporting date.

Certain comparative amounts have been reclassified to comply with the current period's presentation.

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

HSBC Bank Malta p.l.c. reported a profit before tax of €41.3m for the six months ended 30 June 2016 compared with €36.3m for the same period in 2015. This represents an increase of €5m or 13.8% on the previous period.

Included within the reported results is the gain on disposal of our membership interest in Visa Europe. During the first half of 2016 Visa Inc. completed the acquisition of Visa Europe. As a result of this transaction, the bank received upfront cash consideration and preference shares. The total amount of income recognised in the reported results in relation to this transaction is €10.8m. This is a significant non-recurring event and therefore the income related to this transaction is excluded from the adjusted results to show the underlying business performance.

	<u>H1 2016</u>	<u>H1 2015</u>
	€000	€000
Reported profit before tax	41,314	36,309
Net gain on sale of investment in Visa Europe	(10,787)	–
Adjusted profit before tax	30,527	36,309

Adjusted performance was in line with the management's forecasts.

Profit attributable to shareholders amounted to €26.9m resulting in earnings per share of 7.5 cents compared with 6.6 cents in the first half of 2015. Based on the higher dividend payout ratio of 65% approved earlier this year, the Board recommends an interim gross dividend of 7.1 cents per share (4.6 cents per share net of tax). This represents an increase of 40% compared with the interim dividends paid in 2015. The interim dividend will be paid on 9 September 2016 to shareholders who are on the bank's register as at 12 August 2016.

All three main business lines, Retail Banking and Wealth Management, Commercial Banking and Global Banking and Markets, continued to be profitable during the six month period under review.

Net interest income increased to €63.9m or 6.4% compared with €60m in the same period in 2015. The low interest rate environment continued to impact the bank's performance – the yields on all interest earning assets continued to decline resulting in a lower interest income which was offset by the positive volume effect in retail banking and decreasing funding costs.

Net fee income was down 12% compared with the same period in 2015 primarily as a result of discontinuing trust and stockbroking activities. In addition, the bank saw a decrease in card fees as the new regulation which introduced the reductions in interchange fees came into effect from the end of 2015.

HSBC Life Assurance (Malta) Limited reported a profit before tax of €2m compared with €6.7m in the first half of 2015. This result was largely affected by the adverse market movements in yield curve.

Trading profits reduced by €1m compared to the first half of 2015 reflecting lower trading volumes and thinner foreign exchange margins.

Net other operating income increased by €0.4m compared to the first half of 2015 as a result of gains on sale of properties repossessed from non-performing customers.

Operating expenses of €51.8m were €1.8m, or 3.7%, higher than the first half of 2015 largely due to the recognition of the full year contributions to the Depositor Compensation Scheme and the Single Resolution Fund, whereas in the first six months of 2015 only half of the annual contribution was accrued. Excluding this temporary impact, operating expenses would have been flat on the previous year. Despite the annual pay rise of 2% in accordance with the newly signed Collective Agreement, staff costs started to decrease as a result of implementation of the early voluntary retirement programme announced at the end of last year.

Net impairment charges of €3.9m were €0.3m higher than in the first half of 2015. This increase is mainly attributable to the revised historic loss rates used in the collective impairment process. Overall asset quality remains satisfactory with a high percentage of tangible security held against the overall loan portfolio.

Financial position and capital

The total assets of the Group increased to €7,284m as at 30 June 2015. This was driven by the continuous inflow of customer deposits, which further increased by €52m in the first half of 2016.

Net loans and advances to customers stood at €3,307m, €22m higher than at 31 December 2015. This growth was primarily registered in mortgage balances with increasing demand of first-time buyers. The bank continued to experience the elevated level of early repayments as a result of the persistent low interest rate environment.

The bank's available-for-sale investment portfolio is composed of highly-rated paper and is conservatively positioned.

The bank's liquidity position remained broadly unchanged with the conservative advances-to-deposits ratio of 66%.

The bank further strengthened its common equity tier 1 capital which increased to 12.5% from 12.3% at 31 December 2015. CET1 capital ratio continues to be well above the regulatory requirements. Total capital ratio stood at 13.5% compared to 14.2% at 31 December 2015 as a result of regulatory amortisation of the subordinated debt maturing in the next two years.

Andrew Beane, Director and Chief Executive Officer of HSBC Malta, commented on the business performance and strategy execution: "Performance in the first half of 2016 was in line with expectations. While adjusted profitability continued to be impacted by negative interest rates and volatility in the earnings of the Insurance Company, we made good progress with the implementation of our new strategy that the Board approved in February. Important achievements included the signing of the Collective Agreement with our unions and the appointment of a new leadership team. Despite pay increases arising from union negotiations and further increases in regulatory related costs, the strong expense discipline we have established enabled us to keep adjusted costs flat to 2015 which was a good performance.

I hope that shareholders will welcome the 40% increase in dividends which demonstrates the investment case to own HSBC Malta shares. In line with our strategy to be 'the Bank of Choice' for customers we remain confident in our ability to increase underlying profitability over time without increasing risk appetite.

Looking forward, the operating environment will remain challenging and in particular the UK's decision to leave the European Union has created an increased level of uncertainty. The immediate impact has been a significant devaluation of sterling though the longer term implications, positive or negative, are not yet clear. HSBC remains confident in the Maltese economy and is committed to support our customers.

Finally, I would like to express sincere thanks to all my HSBC colleagues for their continuous hard work and dedication in supporting our customers and shareholders in the first half of the year."

Statement pursuant to Listing Rule 5.75.3 issued by the Listing Authority

I confirm that to the best of my knowledge:

- the condensed interim financial statements give a true and fair view of the financial position of the group and the bank as at 30 June 2016, as well as of their financial performance and cash flows for the period then ended, in accordance with IAS 34 Interim Financial Reporting, adopted by the EU; and
- the commentary includes a fair review of the information required under Listing Rule 5.81 to 5.84.



Andrew Beane, Chief Executive Officer

HSBC Bank Malta p.l.c. is a member of the HSBC Group, whose ultimate parent company is HSBC Holdings plc. HSBC Holdings plc, the parent company of the HSBC Group, is headquartered in London. The Group serves customers worldwide from around 4,400 offices in 71 countries and territories in Europe, Asia, North and Latin America, and the Middle East and North Africa. With assets of US\$2,608bn at 30 June 2016, HSBC is one of the world's largest banking and financial services organisations.

