

HSBC Bank Malta p.l.c.

Half-Yearly Results for 2005

Review of Performance

The published figures, which have been prepared in accordance with International Financial Reporting Standards for interim financial statements (IAS 34 'Interim Financial Reporting'), have been extracted from HSBC Bank Malta p.l.c.'s unaudited group management accounts for the six months ended 30 June 2005. The half-yearly results are being published in terms of Chapters 8 and 9 of the Listing Rules of the Listing Authority – Malta Financial Services Authority. These figures have been drawn up according to the accounting policies used in the preparation of the annual audited accounts, except for a change in the basis of accounting for investments in subsidiary companies, which were previously measured to fair value with revaluation adjustments recognised through revaluation reserves. In order to align its policies with those of its ultimate parent company, HSBC Holdings plc, HSBC Bank Malta p.l.c. now measures its investment in subsidiary companies at cost.

The published figures also take into account revisions arising from the IAS Improvements project, as well as the adoption of the new series of International Financial Reporting Standards ('IFRS'). The revised standards that had a significant effect on the group's financial statements include IAS 10 'Events after the Balance Sheet Date' and IAS 27 'Consolidated and Separate Financial Statements', and together with the newly adopted IFRS 2 'Share-based Payment', these standards have been applied retrospectively. Comparative figures have therefore been restated accordingly. The group adopted IFRS 4 'Insurance Contracts' from 1 January 2005.

Under IAS 10 as revised, dividends declared after the balance sheet date are no longer recognised in reserves at the balance sheet date.

IAS 27 now requires that all subsidiaries be consolidated on a line-by-line basis. Accordingly, the revenues, costs and third party assets of HSBC Life Assurance (Malta) Limited are no longer being reported in aggregate on single lines within 'other operating income' and 'other assets'.

IFRS 2 requires entities to recognise share-based payments, in respect of awards granted after 7 November 2002, at fair value at the date of the grant, which is to be amortised over the vesting period.

IFRS 4 requires certain insurance products with insignificant insurance risk to be accounted for under IAS 39 'Financial Instruments: Recognition and Measurement'.

HSBC Bank Malta p.l.c. and its subsidiaries recorded a profit before tax of Lm18.5 million for the six months ended 30 June 2005. The tax charge for the period amounted to Lm6.4 million. Operating profit before net loan impairment releases is recorded at Lm17.5 million and represents an increase of 14.3 per cent over the Lm15.3 million earned during the same period in 2004. Earnings per share for the first six months ended 30 June 2005 decreased to 16.6 cents compared to 18.0 cents for the first six months of 2004. Comparative data have been adjusted for the April 2005 two-for-one share split.

- Profit attributable to shareholders of Lm12.1 million, a decrease of 8.1 per cent over the Lm13.2 million earned during the same period in 2004 which was influenced by a much higher level of impairment releases.
- Net interest income up by 11.9 per cent over prior year to Lm21.3 million.
- Non-interest income increased by 8.7 per cent, contributing Lm12.1 million to net operating income.
- Administrative expenses increased by 8.7 per cent, mainly due to higher performance-based compensation for all staff. The cost:income ratio improved from 49.1 per cent to 47.5 per cent.

- The net release in impairment provisions totalled Lm1.0 million. New specific allowances of Lm0.5 million were raised and bad debt write-offs of Lm2.4 million were effected. An overall improvement in the credit quality of the lending book reduced non-performing loans from Lm82.3 million to Lm70.7 million. This contributed towards the release of Lm3.3 million in specific allowances and Lm0.6 million in collective allowances.
- Customer deposits amounted to Lm1,331.5 million at 30 June 2005 compared with Lm1,295.8 million at 31 December 2004. Collective investment schemes managed by the group grew by Lm28.7 million, whilst life assurance assets grew by Lm9.5 million during the period.
- Loans and advances to customers were Lm1,026.7 million at 30 June 2005 – up Lm50.4 million or 5.2 per cent over 31 December 2004.
- Total assets amounted to Lm1.63 billion at 30 June 2005 compared with Lm1.60 billion at 31 December 2004.

Shaun Wallis, Director and Chief Executive Officer of HSBC Bank Malta p.l.c., said: "Our results for the first six months confirm the business momentum we have been building, with solid growth in all three customer groups. Our focus is on maximising existing business relationships through a clear understanding of clients' needs.

"In our personal financial services business, we have concentrated on providing excellent customer service supported by strong sales management. Commercial banking is similarly focussed on quality customer service and making 'business more personal'. Both customer groups have recorded significant increases in all areas as a result. Our treasury and capital markets division has also reported healthy growth supported by higher volumes of foreign exchange earnings and the sale of securities.

"The Board has recommended an ordinary interim dividend of 19.1 cents gross per share and additionally a special dividend of 27.4 cents gross per share, giving a total interim dividend of 46.5 cents gross per share. This will be payable to shareholders who are on the company's register of shareholders as at 29 July 2005. The ordinary interim dividend payment of Lm9.1 million has been set at 75 per cent of year-to-date earnings. The special dividend payment of Lm13.0 million is earmarked out of retained reserves built up from earnings over the last six years and is surplus to local regulatory capital requirements, internal capital plans and normal global banking practice.

"We would like to thank our customers for their support during the first six months of this year and to thank our staff for their continued high level of commitment to customer service.

"We remain optimistic about the economic activity in Malta for the remainder of the year and our business prospects."

Income Statement for the period 1 January 2005 to 30 June 2005

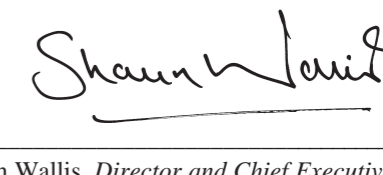
	Group		Bank	
	6 mths to 30/6/05	6 mths to 30/6/04	6 mths to 30/6/05	6 mths to 30/6/04
	Lm000	Lm000	Lm000	Lm000
Interest receivable and similar income				
– on loans and advances and balances with Central Bank of Malta	29,430	27,764	27,877	26,004
– on debt and other fixed income instruments	5,536	5,081	6,232	5,785
Interest payable	(13,671)	(13,812)	(13,808)	(13,952)
Net interest income	21,295	19,033	20,301	17,837
Fees and commissions receivable	5,587	5,239	4,427	4,306
Fees and commissions payable	(359)	(327)	(287)	(279)
Dividend income	38	42	338	2,042
Trading profits	3,598	2,968	3,607	2,974
Net income from insurance financial instruments designated at fair value	3,860	2,581	–	–
Net gains on disposal of non-trading financial instruments	1,221	1,749	1,267	1,018
Net earned insurance premiums	8,305	7,067	–	–
Other operating income	677	664	2	56
Total operating income	44,222	39,016	29,655	27,954
Net insurance claims incurred and movement in policyholder liabilities	(10,857)	(8,883)	–	–
Net operating income	33,365	30,133	29,655	27,954
Administrative expenses	(14,410)	(13,255)	(13,711)	(12,610)
Depreciation	(1,423)	(1,388)	(1,367)	(1,345)
Net amortisation of goodwill	–	(145)	–	(103)
Operating profit	17,532	15,345	14,577	13,896
Net loan impairment (charges)/releases	954	4,468	939	4,467
Profit on ordinary activities before tax	18,486	19,813	15,516	18,363
Tax on profit on ordinary activities	(6,396)	(6,662)	(5,297)	(6,452)
Profit for the financial period attributable to shareholders	12,090	13,151	10,219	11,911
Earnings per share	16.6c	18.0c	14.0c	16.3c

Balance Sheet at 30 June 2005

	Group		Bank	
	30/6/05	31/12/04	30/6/05	31/12/04
	Lm000	Lm000	Lm000	Lm000
Assets				
Balances with Central Bank of Malta, treasury bills and cash	87,116	106,806	87,114	106,781
Cheques in course of collection	5,324	4,458	5,324	4,458
Financial assets at fair value through profit or loss	88,158	77,359	6,103	4,826
Investments	234,167	238,446	264,065	268,226
Loans and advances to banks	126,785	131,283	160,859	172,363
Loans and advances to customers	1,026,740	976,296	941,501	884,868
Shares in subsidiary companies	–	–	19,850	19,850
Intangible assets	9,457	8,782	754	964
Tangible fixed assets	30,018	30,993	29,667	30,620
Other assets	5,961	6,302	5,009	5,381
Prepayments and accrued income	13,722	16,486	13,164	15,716
Total assets	1,627,448	1,597,211	1,533,410	1,514,053
Liabilities				
Financial liabilities at fair value through profit or loss	5,901	9,917	5,901	9,917
Amounts owed to banks	43,231	48,336	43,231	48,336
Amounts owed to customers	1,331,472	1,295,758	1,334,224	1,296,687
Debt securities in issue	12	12	–	–
Deferred taxation	3,521	2,251	1,252	561
Other liabilities	85,951	71,443	15,641	11,379
Accruals and deferred income	15,756	15,101	15,598	14,818
Provisions for liabilities and other charges	2,255	26	2,065	26
Subordinated liabilities	–	19,914	–	20,000
	1,488,099	1,462,758	1,417,912	1,401,724
Shareholders' funds				
Called up share capital	9,120	9,120	9,120	9,120
Revaluation reserves	10,616	11,086	10,567	11,092
Other reserves	4,242	4,242	4,242	4,242
Profit and loss account	115,371	110,005	91,569	87,875
	139,349	134,453	115,498	112,329
Total liabilities	1,627,448	1,597,211	1,533,410	1,514,053
Memorandum items				
Contingent liabilities	41,179	46,806	41,589	47,226
Commitments	343,960	320,159	352,903	328,104

The financial statements were approved by the Board of Directors on 22 July 2005 and signed on its behalf by:


Albert Mizzi, Chairman


Shaun Wallis, Director and Chief Executive Officer

Statement of Changes in Equity for the period 1 January 2005 to 30 June 2005

	Group				
	Share capital	Revaluation reserves	Other reserves	Profit and loss account	Total
	Lm000	Lm000	Lm000	Lm000	Lm000
At 1 January 2004	9,120	10,978	4,242	106,822	131,162
Net fair value adjustments on investments not recognised in the profit and loss account	-	453	-	-	453
Release of previously recorded net gains on available-for-sale assets transferred to the income statement on disposal	-	(1,556)	-	-	(1,556)
Profit attributable to shareholders	-	-	-	13,151	13,151
Dividends	-	-	-	(5,833)	(5,833)
At 30 June 2004	9,120	9,875	4,242	114,140	137,377
At 31 December 2004 as previously stated	9,120	11,086	4,242	110,125	134,573
Net effect of change arising from retrospective application of IFRS 2	-	-	-	(120)	(120)
At 31 December 2004 as restated	9,120	11,086	4,242	110,005	134,453
At 1 January 2005	9,120	11,086	4,242	110,005	134,453
Impact of adoption of IFRS 4	-	-	-	(199)	(199)
At 1 January 2005 as restated	9,120	11,086	4,242	109,806	134,254
Net fair value adjustments on investments not recognised in the profit and loss account	-	257	-	-	257
Transfer between reserves on disposal of property	-	52	-	(52)	-
Release of previously recorded net gains on available-for-sale assets transferred to the income statement on disposal	-	(779)	-	-	(779)
Profit attributable to shareholders	-	-	-	12,090	12,090
Dividends	-	-	-	(6,473)	(6,473)
At 30 June 2005	9,120	10,616	4,242	115,371	139,349

	Bank				
	Share capital	Revaluation reserves	Other reserves	Profit and loss account	Total
	Lm000	Lm000	Lm000	Lm000	Lm000
At 31 December 2003 as previously stated	9,120	32,069	4,242	85,626	131,057
Effect of change in accounting policy for valuation of investment in subsidiary companies	-	(21,752)	-	-	(21,752)
At 31 December 2003 as restated	9,120	10,317	4,242	85,626	109,305
At 1 January 2004 as restated	9,120	10,317	4,242	85,626	109,305
Net fair value adjustments on investments not recognised in the profit and loss account	-	447	-	-	447
Release of previously recorded net gains on available-for-sale assets transferred to the income statement on disposal	-	(862)	-	-	(862)
Profit attributable to shareholders	-	-	-	11,911	11,911
Dividends	-	-	-	(5,833)	(5,833)
At 30 June 2004 as restated	9,120	9,902	4,242	91,704	114,968
At 31 December 2004 as previously stated	9,120	33,265	4,242	87,995	134,622
Effect of change in accounting policy for valuation of investment in subsidiary companies	-	(22,173)	-	-	(22,173)
Net effect of change arising from retrospective application of IFRS 2	-	-	-	(120)	(120)
At 31 December 2004 as restated	9,120	11,092	4,242	87,875	112,329
At 1 January 2005	9,120	11,092	4,242	87,875	112,329
Net fair value adjustments on investments not recognised in the profit and loss account	-	248	-	-	248
Transfer between reserves on disposal of property	-	52	-	(52)	-
Release of previously recorded net gains on available-for-sale assets transferred to the income statement on disposal	-	(825)	-	-	(825)
Profit attributable to shareholders	-	-	-	10,219	10,219
Dividends	-	-	-	(6,473)	(6,473)
At 30 June 2005	9,120	10,567	4,242	91,569	115,498

Cash Flow Statement for the period 1 January 2005 to 30 June 2005

	Group		Bank	
	6 mths to 30/6/05	6 mths to 30/6/04	6 mths to 30/6/05	6 mths to 30/6/04
	Lm000	Lm000	Lm000	Lm000
Cash flows from operating activities				
Interest, commission and premium receipts	50,554	41,826	38,015	31,331
Interest, commission and claim payments	(13,989)	(15,256)	(12,913)	(15,148)
Payments to employees and suppliers	(15,829)	(13,924)	(14,902)	(13,696)
Operating profit before changes in operating assets/liabilities	20,736	12,646	10,200	2,487
(Increase)/decrease in operating assets:				
Trading instruments	809	(181)	809	(181)
Reserve deposits with Central Bank of Malta	73	(964)	73	(968)
Loans and advances to banks	(6,513)	2,128	(6,515)	3,405
Loans and advances to customers	(49,491)	(23,540)	(55,695)	(32,999)
Treasury bills with contractual maturity of over three months	29,907	(9,551)	29,907	(7,952)
Cheques in course of collection	(866)	(321)	(866)	(321)
Other receivables	(1,031)	1,380	(938)	1,827
Increase/(decrease) in operating liabilities:				
Amounts owed to banks	(22,367)	5,769	(22,367)	5,768
Amounts owed to customers	25,118	31,568	26,941	33,239
Other payables	4,578	423	4,262	(933)
Net cash from/(used in) operating activities before income tax	953	19,357	(14,189)	3,372
Tax paid	(1,100)	(1,298)	(933)	(1,072)
Net cash (used in)/from operating activities	(147)	18,059	(15,122)	2,300
Cash flows from investing activities				
Dividends received	25	28	325	1,328
Income received from financial instruments designated at fair value through profit or loss	695	269	-	-
Interest received from available-for-sale debt and other fixed income instruments	3,351	2,625	3,351	2,625
Interest received from held-to-maturity debt and other fixed income instruments	2,759	3,344	4,116	4,703
Proceeds on disposal of financial instruments designated at fair value through profit or loss	7,463	1,341	-	-
Proceeds on disposal of available-for-sale instruments	11,401	10,640	11,299	5,126
Proceeds on maturity of held-to-maturity debt and other fixed income instruments	25,293	35,630	25,293	35,630
Proceeds on disposal of tangible fixed assets	439	17	431	17
Purchase of financial instruments designated at fair value through profit or loss	(14,388)	(13,047)	-	-
Purchase of available-for-sale instruments	(27,961)	-	(27,961)	-
Purchase of held-to-maturity debt and other fixed income instruments	-	(51,298)	-	(51,298)
Purchase of tangible fixed assets	(591)	(381)	(584)	(364)
Purchase of intangible assets	(344)	(48)	(52)	(43)
Net cash flows from/(used in) investing activities	8,142	(10,880)	16,218	(2,276)
Cash flows from financing activities				
Dividends paid	(6,473)	(5,833)	(6,473)	(5,833)
Maturity of subordinated loan stock	(19,914)	-	(20,000)	-
Cash used in financing activities	(26,387)	(5,833)	(26,473)	(5,833)
(Decrease)/increase in cash and cash equivalents	(18,392)	1,346	(25,377)	(5,809)
Effect of exchange rate changes on cash and cash equivalents	2,588	758	2,538	541
Net (decrease)/increase in cash and cash equivalents	(20,980)	588	(27,915)	(6,350)
	(18,392)	1,346	(25,377)	(5,809)
Cash and cash equivalents at beginning of period	97,051	108,019	138,108	165,217
Cash and cash equivalents at end of period	78,659	109,365	112,731	159,408

Segmental Information

a Class of business	Personal financial services		Commercial banking		Corporate, investment banking and markets		Group total	
	6 mths to 30/6/05	6 mths to 30/6/04	6 mths to 30/6/05	6 mths to 30/6/04	6 mths to 30/6/05	6 mths to 30/6/04	6 mths to 30/6/05	6 mths to 30/6/04
	Lm000	Lm000	Lm000	Lm000	Lm000	Lm000	Lm000	Lm000
Profit before tax								
Segment operating income	16,048	15,063	11,204	10,435	6,113	4,635	33,365	30,133
Segment impairment allowances	(174)	(97)	1,128	4,565	-	-	954	4,468
Common costs	-	-	-	-	-	-	(15,833)	(14,788)
Profit on ordinary activities before tax							18,486	19,813
	30/6/05	30/6/04	30/6/05	30/6/04	30/6/05	30/6/04	30/6/05	30/6/04
	Lm000	Lm000	Lm000	Lm000	Lm000	Lm000	Lm000	Lm000
Assets								
Segment total assets	523,987	443,742	658,005	634,696	445,456	510,717	1,627,448	1,589,155
Average total assets	500,335	428,644	654,596	639,365	457,678	496,061	1,612,609	1,564,070
Net assets	39,961	34,726	87,235	84,292	12,153	18,359	139,349	137,377

b Geographical segments

The group's activities are carried out within Malta. There are no identifiable geographical segments or other material concentrations.

HSBC Bank Malta p.l.c., a member of the HSBC Group, has more than 1,400 staff and 60 offices.

With over 9,800 offices in 77 countries and territories and over 110 million customers worldwide at 31 December 2004, the HSBC Group is one of the world's largest banking and financial services organisations. For more information about HSBC Bank Malta p.l.c. and its products and services, visit our website at www.hsbc.com.mt.

HSBC 
The world's local bank