

HSBC Bank Malta p.l.c. Half-Yearly Results for 2009

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 2009. These condensed interim financial statements are being published in terms of Chapters 8 and 9 of the Listing Rules issued by the Listing Authority and in terms of the Prevention of Financial Markets Abuse Act, 2005.

Review of Performance

- Profit before tax of €34.8 million for the six months ended 30 June 2009 – down €11.8 million, or 25.3 per cent, compared with €46.6 million for the same period in 2008.
- Profit attributable to shareholders down 25.2 per cent, or €7.6 million, to €22.5 million, compared with €30.1 million over the comparable period in 2008.

Income Statements for the period 1 January 2009 to 30 June 2009

| | Group | | Bank | |
|--|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| | 6 mths to 30/06/09 €000 | 6 mths to 30/06/08 €000 | 6 mths to 30/06/09 €000 | 6 mths to 30/06/08 €000 |
| Interest receivable and similar income | | | | |
| – on loans and advances, balances with Central Bank of Malta, Treasury Bills and other instruments | 78,720 | 111,617 | 78,719 | 111,615 |
| – on debt and other fixed income instruments | 6,994 | 11,116 | 6,622 | 11,116 |
| Interest payable | (37,552) | (61,930) | (38,100) | (63,175) |
| Net interest income | 48,162 | 60,803 | 47,241 | 59,556 |
| Fees and commissions receivable | 16,124 | 16,855 | 14,906 | 13,384 |
| Fees and commissions payable | (911) | (1,347) | (750) | (929) |
| Net fee and commission income | 15,213 | 15,508 | 14,156 | 12,455 |
| Dividend income | 43 | 69 | 9,658 | 427 |
| Trading profits | 3,644 | 3,744 | 3,644 | 3,744 |
| Net income from insurance financial instruments designated at fair value through profit or loss | 6,391 | (14,397) | – | – |
| Net gains on sale of available-for-sale financial assets | 453 | 1,048 | 453 | 986 |
| Net earned insurance premiums | 26,478 | 32,621 | – | – |
| Net other operating income | (4,957) | 18,808 | 355 | 165 |
| Total operating income | 95,427 | 118,204 | 75,507 | 77,333 |
| Net insurance claims incurred and movement in policyholders' liabilities | (20,561) | (29,217) | – | – |
| Net operating income | 74,866 | 88,987 | 75,507 | 77,333 |
| Employee compensation and benefits | (23,821) | (24,466) | (22,340) | (23,200) |
| General and administrative expenses | (13,392) | (14,028) | (12,797) | (13,170) |
| Depreciation | (3,172) | (2,907) | (3,160) | (2,890) |
| Amortisation | (588) | (622) | (534) | (467) |
| Net operating income before impairment and provisions | 33,893 | 46,964 | 36,676 | 37,606 |
| Net impairment | 883 | (583) | 883 | (583) |
| Net provisions for liabilities and other charges | (11) | 169 | (10) | 182 |
| Profit before tax | 34,765 | 46,550 | 37,549 | 37,205 |
| Tax expense | (12,291) | (16,494) | (11,587) | (13,223) |
| Profit for the period | 22,474 | 30,056 | 25,962 | 23,982 |
| Profit attributable to shareholders of the bank | 22,474 | 30,056 | 25,962 | 23,982 |
| Earnings per share | 7.7c | 10.3c | 8.9c | 8.2c |

Statements of Comprehensive Income for the period 1 January 2009 to 30 June 2009

| | Group | | Bank | |
|--|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| | 6 mths to 30/06/09 €000 | 6 mths to 30/06/08 €000 | 6 mths to 30/06/09 €000 | 6 mths to 30/06/08 €000 |
| Profit attributable to shareholders of the bank | 22,474 | 30,056 | 25,962 | 23,982 |
| Other comprehensive income | | | | |
| Available-for-sale investments: | | | | |
| – change in fair value | 3,827 | (7,714) | 3,463 | (7,621) |
| – change in fair value transferred to profit or loss | (453) | (1,081) | (453) | (986) |
| – income taxes | (1,181) | 3,078 | (1,054) | 3,012 |
| Other comprehensive income for the period, net of tax | 2,193 | (5,717) | 1,956 | (5,595) |
| Total comprehensive income for the period, net of tax | 24,667 | 24,339 | 27,918 | 18,387 |

- Earnings per share for the six months ended 30 June 2009 at 7.7 euro cent, compared to 10.3 euro cent for the same period in 2008.
- Loans and advances to customers of €3,180.6 million at 30 June 2009, up €68.3 million, or 2.2 per cent, compared with 31 December 2008.
- Customer deposits of €4,009.3 million at 30 June 2009, down €7.3 million, or 0.2 per cent, compared with 31 December 2008.
- Total assets of €5,013.1 million at 30 June 2009, down €283.0 million, or 5.3 per cent, compared with 31 December 2008.
- Return on equity of 15.6 per cent for the six months ended 30 June 2009, compared to 22.0 per cent in the first half of 2008.

Statements of Financial Position at 30 June 2009

| | Group | | Bank | |
|--|------------------|------------------|------------------|------------------|
| | 30/06/09 €000 | 31/12/08 €000 | 30/06/09 €000 | 31/12/08 €000 |
| Assets | | | | |
| Balances with Central Bank of Malta, | | | | |
| Treasury Bills and cash | 194,943 | 130,682 | 194,942 | 130,681 |
| Cheques in course of collection | 14,503 | 9,308 | 14,503 | 9,308 |
| Financial assets held for trading | 11,629 | 11,823 | 12,034 | 12,057 |
| Financial assets designated at fair value through profit or loss | 243,733 | 279,714 | – | – |
| Financial investments | 434,587 | 429,912 | 390,312 | 412,016 |
| Loans and advances to banks | 703,485 | 1,072,306 | 703,473 | 1,072,269 |
| Loans and advances to customers | 3,180,563 | 3,112,240 | 3,180,564 | 3,112,240 |
| Shares in subsidiary companies | – | – | 35,707 | 35,707 |
| Intangible assets | 58,630 | 64,256 | 1,619 | 1,797 |
| Property and equipment | 68,229 | 70,684 | 68,292 | 70,731 |
| Investment property | 14,050 | 14,050 | 11,647 | 11,647 |
| Assets held for sale | 10,419 | 9,168 | 10,568 | 9,317 |
| Current tax recoverable | 2,837 | 2,966 | 1,807 | 2,164 |
| Deferred tax assets | 12,069 | 15,916 | 11,804 | 15,726 |
| Other assets | 27,558 | 25,824 | 8,524 | 8,425 |
| Prepayments and accrued income | 35,875 | 47,239 | 32,964 | 44,598 |
| Total assets | 5,013,110 | 5,296,088 | 4,678,760 | 4,948,683 |
| Liabilities | | | | |
| Financial liabilities held for trading | 11,250 | 11,381 | 11,636 | 12,375 |
| Amounts owed to banks | 147,599 | 462,185 | 147,599 | 462,185 |
| Amounts owed to customers | 4,009,340 | 4,016,632 | 4,102,877 | 4,073,875 |
| Provision for current tax | 727 | 688 | – | – |
| Deferred tax liabilities | 19,658 | 17,600 | – | – |
| Liabilities to customers under investment contracts | 15,323 | 15,122 | – | – |
| Liabilities under insurance contracts issued | 323,986 | 311,250 | – | – |
| Other liabilities | 64,230 | 36,734 | 50,582 | 33,883 |
| Accruals and deferred income | 43,826 | 53,930 | 43,660 | 53,839 |
| Provisions for liabilities and other charges | 323 | 312 | 287 | 277 |
| Subordinated liabilities | 87,803 | 87,777 | 87,803 | 87,777 |
| Total liabilities | 4,724,065 | 5,013,611 | 4,444,444 | 4,724,211 |
| Equity | | | | |
| Share capital | 87,552 | 87,552 | 87,552 | 87,552 |
| Revaluation reserve | 17,342 | 15,149 | 17,270 | 15,314 |
| Retained earnings | 184,151 | 179,776 | 129,494 | 121,606 |
| Total equity | 289,045 | 282,477 | 234,316 | 224,472 |
| Total liabilities and equity | 5,013,110 | 5,296,088 | 4,678,760 | 4,948,683 |
| Memorandum items | | | | |
| Contingent liabilities | 139,262 | 129,925 | 139,285 | 129,948 |
| Commitments | 1,039,615 | 1,110,572 | 1,039,615 | 1,110,572 |

The condensed interim financial statements were approved by the Board of Directors on 31 July 2009 and signed on its behalf by:



Albert Mizzi, Chairman



Alan Richards, Chief Executive Officer

Statements of Changes in Equity for the period 1 January 2009 to 30 June 2009

| | Share capital | Revaluation reserve | Retained earnings | Total equity |
|--|----------------------|----------------------|-----------------------|-----------------------|
| | €000 | €000 | €000 | €000 |
| Group | | | | |
| At 1 January 2009 | <u>87,552</u> | <u>15,149</u> | <u>179,776</u> | <u>282,477</u> |
| Profit for the period | - | - | 22,474 | 22,474 |
| Other comprehensive income | | | | |
| Available-for-sale investments: | | | | |
| - change in fair value, net of tax | - | 2,487 | - | 2,487 |
| - change in fair value transferred to profit or loss, net of tax | - | (294) | - | (294) |
| Total other comprehensive income | - | 2,193 | - | 2,193 |
| Total comprehensive income for the period | - | 2,193 | 22,474 | 24,667 |
| Transactions with owners, recorded directly in equity | | | | |
| Share-based payments | - | - | 112 | 112 |
| Dividends | - | - | (18,211) | (18,211) |
| At 30 June 2009 | <u>87,552</u> | <u>17,342</u> | <u>184,151</u> | <u>289,045</u> |
| At 1 January 2008 | 84,976 | 24,614 | 166,702 | 276,292 |
| Profit for the period | - | - | 30,056 | 30,056 |
| Other comprehensive income | | | | |
| Available-for-sale investments: | | | | |
| - change in fair value, net of tax | - | (5,014) | - | (5,014) |
| - change in fair value transferred to profit or loss, net of tax | - | (703) | - | (703) |
| Release of revaluation reserve on disposal of properties, net of tax | - | (2,002) | 2,002 | - |
| Total other comprehensive income | - | (7,719) | 2,002 | (5,717) |
| Total comprehensive income for the period | - | (7,719) | 32,058 | 24,339 |
| Transactions with owners, recorded directly in equity | | | | |
| Increase in paid-up value | 2,576 | - | (2,576) | - |
| Share-based payments | - | - | 331 | 331 |
| Dividends | - | - | (28,075) | (28,075) |
| At 30 June 2008 | <u>87,552</u> | <u>16,895</u> | <u>168,440</u> | <u>272,887</u> |
| | Share capital | Revaluation reserve | Retained earnings | Total equity |
| | €000 | €000 | €000 | €000 |
| Bank | | | | |
| At 1 January 2009 | <u>87,552</u> | <u>15,314</u> | <u>121,606</u> | <u>224,472</u> |
| Profit for the period | - | - | 25,962 | 25,962 |
| Other comprehensive income | | | | |
| Available-for-sale investments: | | | | |
| - change in fair value, net of tax | - | 2,250 | - | 2,250 |
| - change in fair value transferred to profit or loss, net of tax | - | (294) | - | (294) |
| Total other comprehensive income | - | 1,956 | - | 1,956 |
| Total comprehensive income for the period | - | 1,956 | 25,962 | 27,918 |
| Transactions with owners, recorded directly in equity | | | | |
| Share-based payments | - | - | 137 | 137 |
| Dividends | - | - | (18,211) | (18,211) |
| At 30 June 2009 | <u>87,552</u> | <u>17,270</u> | <u>129,494</u> | <u>234,316</u> |
| At 1 January 2008 | 84,976 | 24,764 | 122,317 | 232,057 |
| Profit for the period | - | - | 23,982 | 23,982 |
| Other comprehensive income | | | | |
| Available-for-sale investments: | | | | |
| - change in fair value, net of tax | - | (4,954) | - | (4,954) |
| - change in fair value transferred to profit or loss, net of tax | - | (641) | - | (641) |
| Release of revaluation reserve on disposal of properties, net of tax | - | (2,002) | 2,002 | - |
| Total other comprehensive income | - | (7,597) | 2,002 | (5,595) |
| Total comprehensive income for the period | - | (7,597) | 25,984 | 18,387 |
| Transactions with owners, recorded directly in equity | | | | |
| Increase in paid-up value | 2,576 | - | (2,576) | - |
| Share-based payments | - | - | 291 | 291 |
| Dividends | - | - | (28,075) | (28,075) |
| At 30 June 2008 | <u>87,552</u> | <u>17,167</u> | <u>117,941</u> | <u>222,660</u> |

Cash Flow Statements for the period 1 January 2009 to 30 June 2009

| | Group | | Bank | |
|---|--------------------|--------------------|--------------------|--------------------|
| | 6 mths to 30/06/09 | 6 mths to 30/06/08 | 6 mths to 30/06/09 | 6 mths to 30/06/08 |
| | €000 | €000 | €000 | €000 |
| Cash flows from operating activities | | | | |
| Interest, commission and premium receipts | 137,090 | 158,388 | 108,441 | 121,328 |
| Interest, commission and claims payments | (52,702) | (61,727) | (44,130) | (55,233) |
| Payments to employees and suppliers | (42,641) | (41,720) | (40,487) | (39,354) |
| Operating profit before changes in operating assets/liabilities | 41,747 | 54,941 | 23,824 | 26,741 |
| Decrease/(increase) in operating assets: | | | | |
| Trading instruments | 19,572 | (22,287) | 150 | (19) |
| Reserve deposit with Central Bank of Malta | 4,066 | 63,891 | 4,066 | 63,891 |
| Loans and advances to customers and banks | 176,032 | (365,607) | 176,031 | (365,633) |
| Treasury Bills | (58,958) | 5,236 | (76,342) | 5,236 |
| Other receivables | (5,040) | (7,398) | (5,744) | (6,675) |
| Increase/(decrease) in operating liabilities: | | | | |
| Customer accounts and amounts owed to banks | (25,575) | (45,183) | 9,940 | (39,407) |
| Other payables | 26,401 | 1,545 | 17,149 | 3,186 |
| Net cash from/(used in) operating activities before tax | 178,245 | (314,862) | 149,074 | (312,680) |
| Tax paid | (7,372) | (9,998) | (6,840) | (10,057) |
| Net cash from/(used in) operating activities | 170,873 | (324,860) | 142,234 | (322,737) |
| Cash flows from investing activities | | | | |
| Dividends received | 29 | 55 | 8,028 | 282 |
| Interest received from financial investments | 8,930 | 11,424 | 8,801 | 11,424 |
| Proceeds from sale and maturity of financial investments | 119,970 | 26,118 | 117,479 | 23,726 |
| Proceeds on sale of property and equipment and intangible assets | - | 4,291 | - | 4,285 |
| Purchase of financial investments | (118,721) | (33,123) | (90,459) | (33,115) |
| Purchase of property and equipment, investment property and intangible assets | (1,084) | (3,126) | (1,077) | (3,111) |
| Net cash from investing activities | 9,124 | 5,639 | 42,772 | 3,491 |
| Cash flows from financing activities | | | | |
| Dividends paid | (18,211) | (28,075) | (18,211) | (28,075) |
| Net cash used in financing activities | (18,211) | (28,075) | (18,211) | (28,075) |
| Increase/(decrease) in cash and cash equivalents | 161,786 | (347,296) | 166,795 | (347,321) |
| Effect of exchange rate changes on cash and cash equivalents | 17,467 | (23,295) | 17,467 | (23,295) |
| Net increase/(decrease) in cash and cash equivalents | 144,319 | (324,001) | 149,328 | (324,026) |
| Cash and cash equivalents at beginning of period | 304,595 | 604,205 | 299,572 | 604,122 |
| Cash and cash equivalents at end of period | 466,381 | 256,909 | 466,367 | 256,801 |

Segment Analysis

On 1 January 2009, the group adopted IFRS 8, which replaced IAS 14 'Operating Segments'. The group's segments are organised into three business lines: Personal Financial Services, Commercial Banking and Global Banking and Markets. The business lines reflect the way the CEO, as chief operating decision-maker, reviews financial information in order to make decisions about allocating resources and assessing performance.

| | Personal Financial Services | | Commercial Banking | | Global Banking and Markets | | Total | |
|----------------------|-----------------------------|--------------------|--------------------|--------------------|----------------------------|--------------------|--------------------|--------------------|
| | 6 mths to 30/06/09 | 6 mths to 30/06/08 | 6 mths to 30/06/09 | 6 mths to 30/06/08 | 6 mths to 30/06/09 | 6 mths to 30/06/08 | 6 mths to 30/06/09 | 6 mths to 30/06/08 |
| | €000 | €000 | €000 | €000 | €000 | €000 | €000 | €000 |
| Group | | | | | | | | |
| Net operating income | 38,367 | 46,155 | 30,793 | 32,692 | 5,706 | 10,140 | 74,866 | 88,987 |
| Profit before tax | 9,241 | 17,053 | 22,044 | 21,591 | 3,480 | 7,906 | 34,765 | 46,550 |
| Total assets | 2,018,985 | 1,974,137 | 1,696,000 | 1,667,774 | 1,298,125 | 1,654,177 | 5,013,110 | 5,296,088 |

Basis of Preparation

The condensed interim financial statements have been prepared in accordance with accounting standards adopted for use in the EU for interim financial statements (adopted IAS 34, Interim Financial Reporting). They do not include all of the information required for full annual financial statements, and should be read in conjunction with the financial statements for the year ended 31 December 2008.

Except as described below, 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 2008:

- As from 1 January 2009, IAS 14, Segment Reporting was superseded by IFRS 8, Operating Segments. The new standard requires the determination and presentation of operating segments based on the information that is internally provided to management. In this respect, the group's determination and reporting of its operating segments was based on the information provided to the CEO, who is the group's chief operating decision-maker and therefore the coming into force of IFRS 8 does not result in substantive changes, other than changes to the format.

Comparative segment information has been represented in conformity with the transitional requirements of IFRS 8. Since the change in accounting policy only impacts presentation and disclosure aspects, there is no impact on earnings per share.

An operating segment is a component of the group that engages in business activities from which it earns revenue and incurs expenses, including revenues and expenses that relate to transactions with any of the group's other components. An operating segment's operating results are reviewed regularly by the CEO to make decisions about resources to be allocated to the segment and assess its performance.

- The group applies revised IAS 1, Presentation of Financial Statements ('IAS 1'), which became effective as of 1 January 2009. The revised standard aims to improve users' ability to analyse and compare information given in financial statements. The adoption of the revised standard has no effect on the results reported in the interim financial statements. It does however result in certain presentation changes in the primary statements including:
 - i. the presentation of all items of income and expenditure in two financial statements, the 'Income Statements' and 'Statements of Comprehensive Income'; and
 - ii. the adoption of revised titles for the financial statements.

As required by the adopted IAS 34, Interim Financial Reporting, 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.

The 'Statements of Comprehensive Income' reports all changes in equity arising from transactions with non-owners. This comprises all items of income and expense that are not recognised in profit or loss as required or permitted by the adopted accounting standards and includes gains and losses on remeasuring available-for-sale financial assets and changes in revaluation surplus and the related tax effect.

Related party transactions with other members of the HSBC Group were at a similar level to the comparable period.

Commentary by Alan Richards, Director and Chief Executive Officer, HSBC Bank Malta:

HSBC Bank Malta and its subsidiaries delivered a profit before tax for the six months ended 30 June 2009 of €34.8 million. Although a decline of 25.3 per cent compared to the same period in 2008, this is a resilient performance in light of current market conditions, which is in line with our expectations. Profitability was impacted by the combination of reduced revenues as the economy slows; significant margin compression in the lower interest rate environment; and downward pressure on profitability of insurance and investment-related business which is impacted by the volatility in equity and bond markets.

The European Central Bank intervention rate has fallen by 325 basis points, from 4.25 per cent since October 2008 to 1.0 per cent in June 2009 significantly impacting the bank's net margins. Net interest income declined by 20.8 per cent to €48.2 million, compared to €60.8 million in the previous period reflecting significant deposit spread compression in the current low interest rate environment.

Net fees and commission income of €15.2 million for the six months ended 30 June 2009 was broadly in line with the first half of 2008. Growth in lending, card issuance and usage fees and retail brokerage trading activities were offset by

declines in fees from remittances and subdued sentiment for retail investments. Life insurance business, weakened by current market conditions, generated a profit before tax of €5.5 million, down 13.6 per cent on the same period of the previous year.

Operating expenses of €41.0 million for the six months ended 30 June 2009 were €1.1 million, or 2.5 per cent, lower compared to €42.0 million in the previous period, with a cost efficiency ratio of 54.7 per cent compared to 47.2 per cent for the same period in 2008. Tight control on costs has been maintained and, as a result, costs should continue to trend downwards during the second half of this year.

The credit quality of the available-for-sale investments portfolio remains satisfactory with a modest fair value gain of €3.8 million recorded during the period compared to a mark down of €7.7 million for the six months ended 30 June 2008. This fair value movement was credited directly to the revaluation reserve, net of tax.

During the first six months of 2009 the bank grew its lending carefully, maintaining asset quality while supporting our customers' financial needs in the difficult economic environment. The quality of the lending portfolio showed little sign of deterioration whilst liquidity and capital ratios remained strong and are well above regulatory requirements.

Levels of deposits of €4.0 billion were maintained in a period characterised by a number of bond issues and growing competitive pressures. The bank has maintained a strong liquidity position with an advances to deposits ratio of 79.3 per cent.

Alan Richards, Director and Chief Executive Officer of HSBC Bank Malta p.l.c., said: "The first half of 2009 has been difficult and, as predicted, the bank's short-term financial performance has been affected. However HSBC Bank Malta remains in very good shape and we are actively working to support the local economy.

"We remain vigilant and continue to take a highly proactive approach to managing our balance sheet to remain liquid, well capitalised and positioned to support future growth. HSBC's commitment to strong capital and liquidity will stand the bank in good stead.

"Although the banking system in Malta remains stable, the outlook for the near term is challenging. It is apparent that mortgage lending and corporate activity in some sectors are slowing, impairments are likely to increase in the future as the credit cycle continues to turn and our investment markets activity will continue to experience volatility.

"Through this period of uncertainty and beyond we will continue to position HSBC Bank Malta for long-term growth. Our capital and balance sheet strength, and a commitment to strict cost control, will continue to underpin our performance. So whilst 2009 is difficult and challenging, I would stress that we are well positioned to support our customers.

"A word of thanks in particular goes to our staff whose commitment and dedication in challenging markets support these results."

The Board is declaring an interim gross dividend of 7.7 euro cent per share (5.0 euro cent net of tax). This will be paid on 27 August 2009 to shareholders who are on the bank's register of shareholders as at 12 August 2009.

Statement pursuant to Listing Rule 9.44k.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 as at 30 June 2009, financial performance and cash flows for the period then ended, in accordance with accounting standards adopted for use in the EU for interim financial statements (adopted IAS 34 'Interim Financial Reporting'); and
- the commentary includes a fair review of the information required in terms of Listing Rule 9.44k.2.



Alan Richards, Chief Executive Officer

HSBC Bank Malta p.l.c. is a member of the HSBC Group, whose ultimate parent company is HSBC Holdings plc. Headquartered in London, HSBC Holdings plc is one of the largest banking and financial services organisations in the world. The HSBC Group's international network comprises around 10,000 properties in 86 countries and territories in Europe, the Asia-Pacific region, the Americas, the Middle East and Africa.

HSBC 
The world's local bank