

# HSBC Bank Malta p.l.c. Half-Yearly Results for 2010

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 2010. 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 €42.2 million for the six months ended 30 June 2010 – an increase of 21.4 per cent, or €7.4 million, compared with €34.8 million for the same period in 2009.
- Profit attributable to shareholders increased by 21.8 per cent, or €4.9 million, to €27.4 million, compared with €22.5 million in the comparable period in 2009.

## Income Statements for the period 1 January 2010 to 30 June 2010

	Group		Bank	
	6 mths to 30/06/10	6 mths to 30/06/09	6 mths to 30/06/10	6 mths to 30/06/09
	€000	€000	€000	€000
Interest receivable and similar income				
– on loans and advances, balances with				
Central Bank of Malta and Treasury Bills	75,360	78,720	75,362	78,719
– on debt and other fixed income instruments	8,292	6,994	6,437	6,622
Interest payable	(22,883)	(37,552)	(23,226)	(38,100)
<b>Net interest income</b>	<b>60,769</b>	<b>48,162</b>	<b>58,573</b>	<b>47,241</b>
Fees and commissions receivable	18,122	16,124	15,931	14,906
Fees and commissions payable	(1,209)	(911)	(1,075)	(750)
<b>Net fee and commission income</b>	<b>16,913</b>	<b>15,213</b>	<b>14,856</b>	<b>14,156</b>
Dividend income	–	43	538	9,658
Trading profits	2,877	3,644	2,877	3,644
Net income from insurance financial instruments				
designated at fair value through profit or loss	10,866	6,391	–	–
Net gains on sale of available-for-sale				
financial assets	–	453	–	453
Net earned insurance premiums	28,693	26,478	–	–
Net other operating income	5,841	(4,957)	550	355
<b>Total operating income</b>	<b>125,959</b>	<b>95,427</b>	<b>77,394</b>	<b>75,507</b>
Net insurance claims incurred and				
movement in policyholders' liabilities	(41,548)	(20,561)	–	–
<b>Net operating income</b>	<b>84,411</b>	<b>74,866</b>	<b>77,394</b>	<b>75,507</b>
Employee compensation and benefits	(24,042)	(23,821)	(22,893)	(22,340)
General and administrative expenses	(13,257)	(13,392)	(12,415)	(12,797)
Depreciation	(3,009)	(3,172)	(2,998)	(3,160)
Amortisation	(527)	(588)	(483)	(534)
<b>Net operating income before</b>	<b>43,576</b>	<b>33,893</b>	<b>38,605</b>	<b>36,676</b>
<b>impairment charges and provisions</b>				
Net impairment	(1,408)	883	(1,408)	883
Net provisions for liabilities and other charges	29	(11)	8	(10)
<b>Profit before tax</b>	<b>42,197</b>	<b>34,765</b>	<b>37,205</b>	<b>37,549</b>
Tax expense	(14,818)	(12,291)	(13,073)	(11,587)
<b>Profit for the period</b>	<b>27,379</b>	<b>22,474</b>	<b>24,132</b>	<b>25,962</b>
<b>Profit attributable to shareholders</b>	<b>27,379</b>	<b>22,474</b>	<b>24,132</b>	<b>25,962</b>
Earnings per share	9.4c	7.7c	8.3c	8.9c

## Statements of Comprehensive Income for the period 1 January 2010 to 30 June 2010

	Group		Bank	
	6 mths to 30/06/10	6 mths to 30/06/09	6 mths to 30/06/10	6 mths to 30/06/09
	€000	€000	€000	€000
<b>Profit attributable to shareholders</b>	<b>27,379</b>	<b>22,474</b>	<b>24,132</b>	<b>25,962</b>
<b>Other comprehensive income</b>				
Available-for-sale investments:				
– change in fair value	6,758	3,827	5,737	3,463
– change in fair value transferred to				
profit or loss	–	(453)	–	(453)
– income taxes	(2,365)	(1,181)	(2,008)	(1,054)
<b>Other comprehensive income for the</b>	<b>4,393</b>	<b>2,193</b>	<b>3,729</b>	<b>1,956</b>
<b>period, net of tax</b>				
<b>Total comprehensive income for the</b>	<b>31,772</b>	<b>24,667</b>	<b>27,861</b>	<b>27,918</b>
<b>period, net of tax</b>				

- Earnings per share for the six months ended 30 June 2010 were 9.4 euro cent, compared with 7.7 euro cent for the same period in 2009.
- Total assets of €5,606.8 million at 30 June 2010, an increase of €489.0 million, or 9.6 per cent, compared with 31 December 2009.
- Loans and advances to customers were €3,204.3 million at 30 June 2010, a decrease of €22.1 million, or 0.7 per cent, compared with 31 December 2009.
- Customer deposits were €4,146.0 million at 30 June 2010, an increase of €59.4 million, or 1.5 per cent, compared with 31 December 2009.
- Return on equity for the six months ended 30 June 2010 was 16.9 per cent, compared with 15.6 per cent for the first half of 2009.

## Statements of Financial Position at 30 June 2010

	Group		Bank	
	30/06/10	31/12/09	30/06/10	31/12/09
	€000	€000	€000	€000
<b>Assets</b>				
Balances with Central Bank of Malta,				
Treasury Bills and cash	545,542	172,671	545,541	172,670
Cheques in course of collection	12,051	10,764	12,051	10,764
Financial assets held for trading	20,132	11,746	20,831	11,964
Financial assets designated at fair value				
through profit or loss	270,938	248,553	–	–
Financial investments	694,355	478,975	594,855	380,275
Loans and advances to banks	625,394	747,657	625,389	747,582
Loans and advances to customers	3,204,337	3,226,477	3,204,337	3,226,477
Shares in subsidiary companies	–	–	35,707	35,707
Intangible assets	65,511	60,691	1,323	1,741
Property and equipment	64,774	65,397	64,858	65,470
Investment property	14,587	14,588	11,664	11,665
Assets held for sale	9,870	10,604	9,870	10,604
Current tax recoverable	6,174	6,164	4,543	4,516
Deferred tax assets	7,709	9,053	7,402	8,766
Other assets	26,591	20,712	9,764	7,931
Prepayments and accrued income	38,855	33,748	34,577	30,006
<b>Total assets</b>	<b>5,606,820</b>	<b>5,117,800</b>	<b>5,182,712</b>	<b>4,726,138</b>
<b>Liabilities</b>				
Financial liabilities held for trading	18,241	11,044	18,241	11,046
Amounts owed to banks	515,432	168,771	515,385	168,771
Amounts owed to customers	4,146,044	4,086,669	4,211,632	4,146,295
Provision for current tax	8,973	207	8,512	–
Deferred tax liabilities	20,507	18,851	–	–
Liabilities to customers under				
investment contracts	17,022	16,853	–	–
Liabilities under insurance contracts issued	382,271	351,513	–	–
Other liabilities	51,470	35,479	46,927	32,221
Accruals and deferred income	35,039	33,422	34,350	33,068
Provisions for liabilities and other charges	548	577	506	514
Subordinated liabilities	87,854	87,827	87,854	87,827
<b>Total liabilities</b>	<b>5,283,401</b>	<b>4,811,213</b>	<b>4,923,407</b>	<b>4,479,742</b>
<b>Equity</b>				
Share capital	87,552	87,552	87,552	87,552
Revaluation reserve	30,218	25,825	28,759	25,030
Retained earnings	205,649	193,210	142,994	133,814
<b>Total equity</b>	<b>323,419</b>	<b>306,587</b>	<b>259,305</b>	<b>246,396</b>
<b>Total liabilities and equity</b>	<b>5,606,820</b>	<b>5,117,800</b>	<b>5,182,712</b>	<b>4,726,138</b>
<b>Memorandum items</b>				
Contingent liabilities	122,727	119,449	122,750	119,472
Commitments	906,789	923,900	906,789	923,900

The financial statements were approved by the Board of Directors on 30 July 2010 and signed on its behalf by:



Albert Mizzi, Chairman



Alan Richards, Chief Executive Officer

## Statements of Changes in Equity for the period 1 January 2010 to 30 June 2010

	Share capital		Revaluation reserve		Retained earnings		Total equity	
	€000	€000	€000	€000	€000	€000	€000	€000
<b>Group</b>								
At 1 January 2010	87,552	25,825	193,210					306,587
Profit for the period	-	-	27,379					27,379
<b>Other comprehensive income</b>								
Available-for-sale investments:								
- change in fair value, net of tax	-	4,393	-					4,393
<b>Total other comprehensive income</b>	-	4,393	-					4,393
<b>Total comprehensive income for the period</b>	-	4,393	27,379					31,772
<b>Transactions with owners, recorded directly in equity</b>								
Share-based payments	-	-	236					236
Dividends	-	-	(15,176)					(15,176)
<b>Total contributions by and distributions to owners</b>	-	-	(14,940)					(14,940)
<b>At 30 June 2010</b>	<b>87,552</b>	<b>30,218</b>	<b>205,649</b>					<b>323,419</b>
At 1 January 2009	87,552	15,149	179,776					282,477
Profit for the period	-	-	22,474					22,474
<b>Other comprehensive income</b>								
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)
<b>Total other comprehensive income</b>	-	2,193	-					2,193
<b>Total comprehensive income for the period</b>	-	2,193	22,474					24,667
<b>Transactions with owners, recorded directly in equity</b>								
Share-based payments	-	-	112					112
Dividends	-	-	(18,211)					(18,211)
<b>Total contributions by and distributions to owners</b>	-	-	(18,099)					(18,099)
<b>At 30 June 2009</b>	<b>87,552</b>	<b>17,342</b>	<b>184,151</b>					<b>289,045</b>
<b>Bank</b>								
At 1 January 2010	87,552	25,030	133,814					246,396
Profit for the period	-	-	24,132					24,132
<b>Other comprehensive income</b>								
Available-for-sale investments:								
- change in fair value, net of tax	-	3,729	-					3,729
<b>Total other comprehensive income</b>	-	3,729	-					3,729
<b>Total comprehensive income for the period</b>	-	3,729	24,132					27,861
<b>Transactions with owners, recorded directly in equity</b>								
Share-based payments	-	-	224					224
Dividends	-	-	(15,176)					(15,176)
<b>Total contributions by and distributions to owners</b>	-	-	(14,952)					(14,952)
<b>At 30 June 2010</b>	<b>87,552</b>	<b>28,759</b>	<b>142,994</b>					<b>259,305</b>
At 1 January 2009	87,552	15,314	121,606					224,472
Profit for the period	-	-	25,962					25,962
<b>Other comprehensive income</b>								
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)
<b>Total other comprehensive income</b>	-	1,956	-					1,956
<b>Total comprehensive income for the period</b>	-	1,956	25,962					27,918
<b>Transactions with owners, recorded directly in equity</b>								
Share-based payments	-	-	137					137
Dividends	-	-	(18,211)					(18,211)
<b>Total contributions by and distributions to owners</b>	-	-	(18,074)					(18,074)
<b>At 30 June 2009</b>	<b>87,552</b>	<b>17,270</b>	<b>129,494</b>					<b>234,316</b>

## Segmental Information

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		Intersegment		Group Total	
	6 mths to 30/06/10	6 mths to 30/06/09	6 mths to 30/06/10	6 mths to 30/06/09	6 mths to 30/06/10	6 mths to 30/06/09	6 mths to 30/06/10	6 mths to 30/06/09	6 mths to 30/06/10	6 mths to 30/06/09
	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
<b>Group</b>										
<b>Net interest income</b>										
- external	25,915	8,532	28,486	30,852	6,368	8,778	-	-	60,769	48,162
- inter-segment	7,307	15,830	(5,323)	(7,769)	(1,984)	(8,061)	-	-	-	-
	33,222	24,362	23,163	23,083	4,384	717	-	-	60,769	48,162
<b>Net non-interest income</b>										
- external	11,921	13,917	7,806	7,710	3,915	5,077	-	-	23,642	26,704
- inter-segment	57	88	-	-	68	(88)	(125)	-	-	-
	11,978	14,005	7,806	7,710	3,983	4,989	(125)	-	23,642	26,704
External employee compensation and benefits	(17,230)	(15,907)	(5,649)	(6,683)	(1,163)	(1,231)	-	-	(24,042)	(23,821)
<b>General and administrative expenses</b>										
- external	(9,373)	(9,604)	(2,861)	(2,834)	(1,023)	(954)	-	-	(13,257)	(13,392)
- inter-segment	(125)	-	-	-	-	-	125	-	-	-
	(9,498)	(9,604)	(2,861)	(2,834)	(1,023)	(954)	125	-	(13,257)	(13,392)
External depreciation	(2,210)	(2,256)	(791)	(907)	(8)	(9)	-	-	(3,009)	(3,172)
External amortisation	(370)	(392)	(126)	(165)	(31)	(31)	-	-	(527)	(588)
External net impairment	(1,124)	(967)	(284)	1,850	-	-	-	-	(1,408)	883
External net provisions for liabilities and other charges	8	-	-	(10)	21	(1)	-	-	29	(11)
<b>Profit before tax</b>	<b>14,776</b>	<b>9,241</b>	<b>21,258</b>	<b>22,044</b>	<b>6,163</b>	<b>3,480</b>	<b>-</b>	<b>-</b>	<b>42,197</b>	<b>34,765</b>
	30/06/10	31/12/09	30/06/10	31/12/09	30/06/10	31/12/09	30/06/10	31/12/09	30/06/10	31/12/09
	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
<b>Assets</b>										
Segment total assets	2,185,197	2,129,646	1,639,941	1,682,729	1,781,682	1,305,425	-	-	5,606,820	5,117,800
Average total assets	2,157,421	2,051,891	1,661,335	1,675,252	1,543,554	1,479,801	-	-	5,362,310	5,206,944
<b>Total equity</b>	<b>147,500</b>	<b>113,280</b>	<b>137,861</b>	<b>159,636</b>	<b>38,058</b>	<b>33,671</b>	<b>-</b>	<b>-</b>	<b>323,419</b>	<b>306,587</b>

## Statements of Cash Flows for the period 1 January 2010 to 30 June 2010

	Group		Bank	
	6 mths to 30/06/10 €000	6 mths to 30/06/09 €000	6 mths to 30/06/10 €000	6 mths to 30/06/09 €000
<b>Cash flows (used in)/from operating activities</b>				
Interest, commission and premium receipts	124,544	137,090	92,153	108,441
Interest, commission and claims payments	(31,330)	(52,702)	(22,767)	(44,130)
Payments to employees and suppliers	(40,869)	(42,641)	(35,561)	(40,487)
Operating profit before changes in operating assets/liabilities	52,345	41,747	33,825	23,824
(Increase)/decrease in operating assets:				
Trading instruments	(16,297)	19,572	-	150
Reserve deposit with Central Bank of Malta	(8,390)	4,066	(8,390)	4,066
Loans and advances to customers and banks	(1,202)	176,032	(1,266)	176,031
Treasury Bills	(362,745)	(58,958)	(362,745)	(76,342)
Other receivables	(19,074)	(5,040)	(2,887)	(5,744)
Increase/(decrease) in operating liabilities:				
Customer accounts and amounts owed to banks	55,146	(25,575)	60,501	9,940
Other payables	28,086	26,401	14,620	17,149
Net cash (used in)/from operating activities before tax	(272,131)	178,245	(266,342)	149,074
Tax paid	(5,421)	(7,372)	(5,171)	(6,840)
Net cash (used in)/from operating activities	(277,552)	170,873	(271,513)	142,234
<b>Cash flows (used in)/from investing activities</b>				
Dividends received	21	29	349	8,028
Interest received from financial investments	7,487	8,930	5,590	8,801
Proceeds from sale and maturity of financial investments	35,693	119,970	35,693	117,479
Proceeds on sale of property and equipment and intangible assets	390	-	349	-
Purchase of financial investments	(243,473)	(118,721)	(243,569)	(90,459)
Purchase of property and equipment, investment property and intangible assets	(2,804)	(1,084)	(2,773)	(1,077)
Net cash (used in)/from investing activities	(202,686)	9,124	(204,361)	42,772
<b>Cash flows used in financing activities</b>				
Dividends paid	(15,176)	(18,211)	(15,176)	(18,211)
Cash used in financing activities	(15,176)	(18,211)	(15,176)	(18,211)
<b>(Decrease)/increase in cash and cash equivalents</b>	<b>(495,414)</b>	<b>161,786</b>	<b>(491,050)</b>	<b>166,795</b>
Effect of exchange rate changes on cash and cash equivalents	65,816	17,467	65,816	17,467
Net (decrease)/increase in cash and cash equivalents	(561,230)	144,319	(556,866)	149,328
Cash and cash equivalents at beginning of period	495,414	161,786	491,050	166,795
Cash and cash equivalents at end of period	548,815	304,595	544,447	299,572
<b>Cash and cash equivalents at end of period</b>	<b>53,401</b>	<b>466,381</b>	<b>53,397</b>	<b>466,367</b>

### 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 (EU 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 2009.

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 2009.

As required by the EU 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.

Related party transactions with other members of the HSBC Group covering the period 1 January to 30 June 2010 have not materially affected the performance for the period under review.

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

HSBC Bank Malta p.l.c. delivered a strong performance in the six months ended 30 June 2010, reporting a profit before tax of €42.2 million. This represents an increase of 21.4 per cent or €7.4 million compared to same period in 2009, substantially driven by an improved level of revenues while keeping costs flat.

Net interest income increased by 26.2 per cent to €60.8 million, compared to €48.2 million in the first half of 2009, as a result of the re-pricing of loans during 2009 and unwinding of term deposits. However, liability margins remain under pressure given the low interest rate environment.

Net fees and commission income of €16.9 million for the six months ended 30 June 2010 increased by 11.2 per cent or €1.7 million compared to €15.2 million recorded in the first half of 2009. Strong growth was recorded in lending, card issuance and usage fees and from trust and retail brokerage trading activities.

Profits from life insurance business, weakened by recent market conditions, at €3.7 million for the first half of 2010 was 32.5 per cent lower than for the same period in 2009.

Operating expenses of €40.8 million for the six months ended 30 June 2010 were in line with those in the first half of 2009. The cost efficiency ratio improved to 48.4 per cent compared to 54.7 per cent for the same period in 2009. This was achieved through strict cost discipline.

In a challenging economic environment, net loan impairment charges of €1.4 million were reported for the six months ended 30 June 2010 compared to a release of €0.9 million in the comparable period in 2009. From an extremely low historic base the charge remains at the modest level of 9 basis points of the overall loan book.

Total assets grew by €489.0 million to €5,606.8 million at 30 June 2010 compared to €5,117.8 million at 31 December 2009. The main increases were reported in treasury bills and debt securities investments as part of the bank's liquidity management.

The credit quality of the available-for-sale investments portfolio remained satisfactory with an increase in fair value of €6.8 million during the current period compared to €3.8 million for the six months ended 30 June 2009. This increase in fair value is credited directly to the revaluation reserve, net of tax.

During the first half of 2010 net loans and advances to customers fell by €22.1 million as, in the current economic environment, borrowers looked to reduce debt levels. However where lending opportunities arose the bank continued to support its customers' financial needs while maintaining asset quality. Consumer lending showed resilience and good growth was registered in new mortgages. Demand for corporate lending was soft. The quality of the lending portfolio showed a marginal deterioration with non-performing loans representing 3.2 per cent of gross loans as at June 2010 compared to 2.9 per cent as at 31 December 2009. Liquidity and capital ratios remain strong and are well above regulatory requirements.

In a period of growing competitive pressures, characterised by a number of local government and corporate bond issues, deposit levels of €4.1 billion were maintained. The bank's liquidity position remains strong with an advances-to-deposits ratio of 77.3 per cent, compared with 79.0 per cent at 31 December 2009.

Alan Richards, Director and Chief Executive Officer of HSBC Bank Malta p.l.c., said: "We are encouraged by the bank's strong performance during the first half of 2010. After a period of negative GDP growth, the local economy is showing clear signs of stability and we anticipate continued growth in the foreseeable future. However, challenges within the international economy remain and the broader Eurozone recovery is at best fragile, as the recent sovereign bond crisis has highlighted. We have made good progress during these six months and we continue to emphasise our competitive advantage as an international bank. We remain well capitalised, liquid and very much open for business."

The Board is declaring an interim gross dividend of 7.9 euro cent per share (5.1 euro cent net of tax). This will be paid on 24 August 2010 to shareholders who are on the bank's register of shareholders as at 10 August 2010.

### 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 2010, 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 (EU 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 8,000 offices in 88 countries and territories in Europe, the Asia-Pacific region, the Americas, the Middle East and Africa.

**HSBC** 

The world's local bank