

# HSBC Bank Malta p.l.c. Preliminary Profit Statement for the year ended 31 December 2006

The preliminary profit statement is published pursuant to Listing Rule 9.39 of the MFSA Listing Authority and Article 4 (2) (b) of the Prevention of Financial Markets Abuse (Disclosure and Notification) Regulations, 2005. Figures have been extracted from HSBC Bank Malta p.l.c.'s Annual Report and Accounts which have been audited by KPMG.

These financial statements have been prepared and presented in accordance with the provisions of the Banking Act, 1994 and the Companies Act, 1995 which requires adherence to International Financial Reporting Standards.

## Review of Performance

During the year ended 31 December 2006, HSBC Bank Malta p.l.c. and its subsidiaries generated a profit before tax on ordinary activities of Lm41.4 million, an increase of Lm4.7 million, or 12.8 per cent compared with 2005.

Profit attributable to shareholders was Lm26.8 million, an increase of Lm2.8 million, or 11.4 per cent, over prior year figures.

Earnings per share increased to 9.2 cents from a 2005 figure of 8.2 cents, with the pre-tax return on average shareholders' funds increasing to 32.1 per cent from 27.6 per cent in 2005.

Net interest income grew by 5.4 per cent over the prior year and contributed Lm47.0 million to total operating income driven by growth in lending volumes of 10 per cent. Principal areas of growth in the lending portfolios were in the higher yielding personal and non-public sector customer segments and with a reduction in lower yielding public sector debt. This was partly offset by a higher interest rate environment for new customer deposits which pushed up interest payable costs.

Non-interest income levels grew by 18.8 per cent, contributing Lm28.6 million to total operating income. Net fees and commissions grew by 14.7 per cent as transactional activity on credit card payments and debit card EPOS machine usage grew substantially; funds under management, stockbroking sales and life assurance business also grew significantly.

Against a background of stronger income flows, operating expenses were Lm34.3 million, an increase of Lm2.3 million over prior year figures. Employee compensation grew by 5.5 per cent, driven largely by performance-related pay benefits due to the higher sales and profits of the bank. Whilst general expenses increased by Lm1.0 million, there were significant investments in infrastructure and branch network, which substantially improved automation and operational efficiencies. This has enabled the bank to absorb larger volumes of business and positioned it for future growth.

As a result, the group's cost to income ratio improved to 45.5 per cent from 46.7 per cent in 2005.

Total assets increased by Lm231.4 million to Lm1,887.3 million.

Loans and advances to customers increased by Lm110.0 million, supported by growth in both the personal and commercial sectors. New product lines were introduced with a diversification in mortgage product choice as well as new financing proposals for the SME and larger corporate markets. Credit quality remained sound.

Advances to deposits ratio increased to 76.3 per cent from a prior year end level of 74.3 per cent.

Amounts owed to customers increased by Lm108.2 million to Lm1,475.5 million driven by competitive pricing and the investment in automated bank channels which strengthened the growth in deposit volumes and contributed to significantly higher transaction activity.

The capital solvency ratio was at 10.9 per cent.

Shaun Wallis, Director and Chief Executive Officer of HSBC Bank Malta p.l.c. said: "2006 has been a record year for HSBC Bank Malta p.l.c. with record sales volumes across all product groups, record customer service satisfaction levels and strong staff engagement levels, all contributing to improved financial results.

"We achieved this by having a clear customer focus, by investing in our staff and upgrading our systems. We have also benefited from being able to leverage the HSBC brand.

"With good customer relationships, strong recurrent business streams, excellent resources and the backing of the HSBC Group, we are confident we will continue to grow our business successfully and in a sustainable manner and remain Malta's leading provider of financial services."

The Board is recommending to the Annual General Meeting to be held on 19 April 2007 a final ordinary dividend of 5.3 cents gross per share and a special dividend of 5.3 cents gross per share, giving a total final dividend of 10.6 cents gross per share scheduled to be paid on 21 April 2007. The total final dividend will be payable to shareholders on the bank's register as at 2 March 2007. This, together with the interim dividend of 5.3 cents gross, produces a total dividend for the year of 15.9 cents gross.

## Income Statement for the year 1 January 2006 to 31 December 2006

	Group		Bank	
	2006 Lm000	2005 Lm000	2006 Lm000	2005 Lm000
Interest receivable and similar income				
– on loans and advances, balances with Central Bank of Malta and Treasury Bills	72,103	60,994	71,285	58,048
– on debt and other fixed income instruments	8,772	10,890	9,209	12,196
Interest payable	(33,913)	(27,327)	(34,378)	(27,648)
<b>Net interest income</b>	<b>46,962</b>	<b>44,557</b>	<b>46,116</b>	<b>42,596</b>
Fees and commissions receivable	13,848	11,866	10,831	9,342
Fees and commissions payable	(1,175)	(814)	(987)	(686)
<b>Net fee and commission income</b>	<b>12,673</b>	<b>11,052</b>	<b>9,844</b>	<b>8,656</b>
Dividend income	113	142	2,169	22,604
Trading profits	7,335	7,206	7,335	7,215
Net income from insurance financial instruments designated at fair value through profit or loss	4,768	11,169	–	–
Net gains on sale of financial investments	2,719	1,204	2,719	1,266
Net earned insurance premium	16,536	16,236	–	–
Other operating income	2,308	723	715	24
<b>Total operating income</b>	<b>93,414</b>	<b>92,289</b>	<b>68,898</b>	<b>82,361</b>
Net insurance claims incurred and movement in policyholders' liabilities	(17,846)	(23,661)	–	–
<b>Net operating income</b>	<b>75,568</b>	<b>68,628</b>	<b>68,898</b>	<b>82,361</b>
Employee compensation and benefits	(21,249)	(20,132)	(20,357)	(19,203)
General and administrative expenses	(10,036)	(9,075)	(9,543)	(8,527)
Depreciation	(2,406)	(2,197)	(2,388)	(2,157)
Amortisation of intangible assets	(547)	(635)	(464)	(556)
Other operating charges	(109)	(26)	(9)	(6)
<b>Net operating income before impairment reversals and provisions</b>	<b>41,221</b>	<b>36,563</b>	<b>36,137</b>	<b>51,912</b>
Net impairment reversals (Provisions)/reversals of provisions for liabilities and other charges	181	142	141	121
<b>Profit before tax</b>	<b>41,395</b>	<b>36,706</b>	<b>36,271</b>	<b>52,034</b>
Tax expense	(14,572)	(12,642)	(12,366)	(17,854)
<b>Profit for the year</b>	<b>26,823</b>	<b>24,064</b>	<b>23,905</b>	<b>34,180</b>
<b>Profit attributable to shareholders of the bank</b>	<b>26,810</b>	<b>24,057</b>	<b>23,905</b>	<b>34,180</b>
<b>Profit attributable to minority interest</b>	<b>13</b>	<b>7</b>	<b>–</b>	<b>–</b>
<b>Earnings per share</b>	<b>9.2c</b>	<b>8.2c</b>	<b>8.2c</b>	<b>11.7c</b>

## Balance Sheet at 31 December 2006

	Group		Bank	
	2006 Lm000	2005 Lm000	2006 Lm000	2005 Lm000
<b>Assets</b>				
Balances with Central Bank of Malta, Treasury Bills and cash	130,569	77,121	130,569	77,118
Cheques in course of collection	10,535	9,727	10,535	9,727
Financial assets held for trading	10,396	3,907	10,399	3,907
Financial assets designated at fair value through profit or loss	112,476	93,131	–	–
Financial investments	168,138	224,500	168,123	254,468
Loans and advances to banks	256,060	162,882	256,042	202,332
Loans and advances to customers	1,126,126	1,016,084	1,126,126	937,813
Shares in subsidiary companies	–	–	9,682	20,350
Intangible assets	10,899	9,433	794	829
Property, plant and equipment	28,612	29,746	28,632	29,755
Investment property	3,417	961	2,456	–
Assets held for sale	3,978	4,918	4,042	5,864
Current tax recoverable	806	1,895	780	1,607
Other assets	10,713	8,701	2,984	2,699
Prepayments and accrued income	14,589	12,868	13,630	12,945
<b>Total assets</b>	<b>1,887,314</b>	<b>1,655,874</b>	<b>1,765,518</b>	<b>1,559,414</b>
<b>Liabilities</b>				
Financial liabilities held for trading	10,643	4,050	10,693	4,050
Amounts owed to banks	126,328	22,667	126,328	22,667
Amounts owed to customers	1,475,450	1,367,214	1,487,906	1,381,683
Debt securities in issue	–	12	–	–
Deferred tax liabilities	4,606	3,843	–	349
Liabilities to customers under investment contracts	9,153	8,297	–	–
Liabilities under insurance contracts issued	102,770	86,275	–	–
Other liabilities	13,816	16,755	13,003	16,192
Accruals and deferred income	18,147	15,035	17,936	14,942
Provisions for liabilities and other charges	32	25	32	25
<b>Total liabilities</b>	<b>1,760,945</b>	<b>1,524,173</b>	<b>1,655,898</b>	<b>1,439,908</b>
<b>Equity</b>				
Called up share capital	36,480	9,120	36,480	9,120
Revaluation reserves	10,629	13,105	10,629	13,041
Other reserve	242	4,242	227	4,242
Retained earnings	79,018	104,906	62,284	93,103
Equity attributable to shareholders	126,369	131,373	109,620	119,506
Minority interest	–	328	–	–
<b>Total equity</b>	<b>126,369</b>	<b>131,701</b>	<b>109,620</b>	<b>119,506</b>
<b>Total liabilities and equity</b>	<b>1,887,314</b>	<b>1,655,874</b>	<b>1,765,518</b>	<b>1,559,414</b>
<b>Memorandum items</b>				
Contingent liabilities	59,578	51,513	59,588	51,523
Commitments	456,899	401,216	456,899	412,044

The financial statements were approved by the Board of Directors on 16 February 2007 and signed on its behalf by:

Albert Mizzi, Chairman

Shaun Wallis, Chief Executive Officer

**Statement of Changes in Equity for the year 1 January 2006 to 31 December 2006**

	Attributable to shareholders of the bank						
	Called up share capital	Revaluation reserves	Other reserve	Retained earnings	Total	Minority interest	Total equity
	Lm000	Lm000	Lm000	Lm000	Lm000	Lm000	Lm000
<b>Group</b>							
At 1 January 2005	9,120	11,473	4,242	109,419	134,254	-	134,254
Release of net gains on available-for-sale assets transferred to the income statement on disposal	-	(783)	-	-	(783)	-	(783)
Net fair value adjustments on investments	-	757	-	-	757	-	757
Release of revaluation reserve on disposal of property	-	30	-	(45)	(15)	-	(15)
Movement in deferred tax on revaluation of property	-	1,628	-	-	1,628	-	1,628
Income and expenses recognised directly in equity	-	1,632	-	(45)	1,587	-	1,587
Share capital of subsidiary	-	-	-	-	-	321	321
Profit for the year	-	-	-	24,057	24,057	7	24,064
Dividends	-	-	-	(28,525)	(28,525)	-	(28,525)
At 31 December 2005	9,120	13,105	4,242	104,906	131,373	328	131,701
At 1 January 2006	9,120	13,105	4,242	104,906	131,373	328	131,701
Release of net gains on available-for-sale assets transferred to the income statement on disposal	-	(796)	-	(973)	(1,769)	-	(1,769)
Net fair value adjustments on investments	-	(1,668)	-	-	(1,668)	-	(1,668)
Release of revaluation reserve on disposal of property	-	(12)	-	18	6	-	6
Income and expenses recognised directly in equity	-	(2,476)	-	(955)	(3,431)	-	(3,431)
Share capital of subsidiary	-	-	-	-	-	91	91
Disposal of subsidiary company	-	-	-	-	-	(432)	(432)
Bonus share issue	27,360	-	(4,242)	(23,118)	-	-	-
Profit for the year	-	-	-	26,810	26,810	13	26,823
Share-based payments	-	-	242	493	735	-	735
Dividends	-	-	-	(29,118)	(29,118)	-	(29,118)
At 31 December 2006	36,480	10,629	242	79,018	126,369	-	126,369
			Called up share capital	Revaluation reserves	Other reserve	Retained earnings	Total equity
			Lm000	Lm000	Lm000	Lm000	Lm000
<b>Bank</b>							
At 1 January 2005			9,120	11,479	4,242	87,493	112,334
Release of net gains on available-for-sale assets transferred to the income statement on disposal			-	(823)	-	-	(823)
Net fair value adjustments on investments			-	727	-	-	727
Release of revaluation reserve on disposal of properties			-	30	-	(45)	(15)
Movement in deferred tax on revaluation of property			-	1,628	-	-	1,628
Income and expenses recognised directly in equity			-	1,562	-	(45)	1,517
Profit for the year			-	-	-	34,180	34,180
Dividends			-	-	-	(28,525)	(28,525)
At 31 December 2005			9,120	13,041	4,242	93,103	119,506
At 1 January 2006			9,120	13,041	4,242	93,103	119,506
Release of net gains on available-for-sale assets transferred to the income statement on disposal			-	(796)	-	(973)	(1,769)
Net fair value adjustments on investments			-	(1,604)	-	-	(1,604)
Release of revaluation reserve on disposal of properties			-	(12)	-	18	6
Income and expenses recognised directly in equity			-	(2,412)	-	(955)	(3,367)
Bonus share issue			27,360	-	(4,242)	(23,118)	-
Effect of amalgamation of subsidiary			-	-	-	(1,995)	(1,995)
Profit for the year			-	-	-	23,905	23,905
Share-based payments			-	-	227	462	689
Dividends			-	-	-	(29,118)	(29,118)
At 31 December 2006			36,480	10,629	227	62,284	109,620

**Cash Flow Statement for the year 1 January 2006 to 31 December 2006**

	Group		Bank	
	2006	2005	2006	2005
	Lm000	Lm000	Lm000	Lm000
<b>Cash flows from operating activities</b>				
Interest and commission receipts	112,416	103,910	87,824	77,419
Interest and commission payments	(36,601)	(30,381)	(33,491)	(28,359)
Payments to employees and suppliers	(31,952)	(29,547)	(28,770)	(27,938)
Operating profit before changes in operating assets/liabilities	43,863	43,982	25,563	21,122
(Increase)/decrease in operating assets:				
Trading instruments	(19,451)	(11,329)	(724)	419
Reserve deposit with Central Bank of Malta	(6,618)	(1,823)	(6,618)	(1,823)
Loans and advances to customers and banks	(198,898)	(46,366)	(203,229)	(59,490)
Treasury Bills with contractual maturity of over three months	(12,089)	42,144	(12,089)	42,144
Other receivables	(1,035)	(5,475)	(1,070)	(5,511)
Increase/(decrease) in operating liabilities:				
Customer accounts and amounts owed to banks	198,053	44,564	196,360	50,963
Other payables	(2,397)	2,444	(2,674)	3,002
Net cash from/(used in) operating activities before tax	1,428	68,141	(4,481)	50,826
Tax paid	(10,976)	(9,784)	(10,840)	(8,953)
Net cash (used in)/from operating activities	(9,548)	58,357	(15,321)	41,873
<b>Cash flows from investing activities</b>				
Dividends received	74	93	1,874	14,798
Interest received from financial investments	11,333	11,799	11,752	13,149
Proceeds from sale and maturity of financial investments	88,891	57,205	118,877	57,061
Proceeds on sale of property, plant and equipment and intangible assets	80	264	80	255
Purchase of financial investments	(37,851)	(37,330)	(37,851)	(37,330)
Purchase of property, plant and equipment, investment property and intangible assets	(2,311)	(2,855)	(2,289)	(1,974)
Proceeds on sale of shares in subsidiary company	450	-	450	-
Purchase of shares in subsidiary companies	-	-	-	(1,500)
Net cash from investing activities	60,666	29,176	92,893	44,459
<b>Cash flows from financing activities</b>				
Dividends paid	(29,118)	(28,525)	(29,118)	(28,525)
Maturity of debt securities in issue	(12)	-	-	-
Maturity of subordinated loan stock	-	(19,914)	-	(20,000)
Issue of units to minority interest	91	321	-	-
Cash used in financing activities	(29,039)	(48,118)	(29,118)	(48,525)
Effect of amalgamation of subsidiary company on cash and cash equivalents	-	-	(65,840)	-
<b>Increase/(decrease) in cash and cash equivalents</b>	22,079	39,415	(17,386)	37,807
Effect of exchange rate changes on cash and cash equivalents	(7,014)	2,558	(7,014)	2,558
Net increase/(decrease) in cash and cash equivalents	29,093	36,857	(10,372)	35,249
Cash and cash equivalents at beginning of year	22,079	39,415	(17,386)	37,807
Cash and cash equivalents at end of year	136,468	97,053	175,915	138,108
<b>Cash and cash equivalents at end of year</b>	158,547	136,468	158,529	175,915

**Segmental information**
**a Class of business**

	Personal Financial Services		Commercial Banking		Corporate, Investment Banking and Markets		Total	
	2006	2005	2006	2005	2006	2005	2006	2005
	Lm000	Lm000	Lm000	Lm000	Lm000	Lm000	Lm000	Lm000
<b>Group</b>								
Profit before tax for the year ended 31 December								
Segment operating income	38,552	33,732	26,592	23,517	10,424	11,379	75,568	68,628
Segment impairment allowances	(144)	(507)	325	649	-	-	181	142
Common costs	-	-	-	-	-	-	(34,354)	(32,064)
Profit before tax							41,395	36,706
<b>Assets at 31 December</b>								
Segment total assets	679,457	582,512	651,948	610,844	555,909	462,518	1,887,314	1,655,874
Average total assets	630,984	526,728	631,396	631,983	509,214	466,209	1,771,594	1,624,920
<b>Total equity at 31 December</b>	37,191	38,261	77,605	79,806	11,573	13,634	126,369	131,701

**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. 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 over 9,500 offices in 81 countries and territories in Europe, the Asia-Pacific region, the Americas, the Middle East and Africa.

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The world's local bank