Press Release

03 August 2016

HSBC Bank Malta reports increase in profits and dividends during H1 2016

- 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' on page 2), 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.

HSBC

Press Release

HSBC Bank Malta reports increase in profits and dividends during H1 2016

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 the bank's 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.

	H1 2016	H1 2015
	€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.

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."

He added: "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.

HSBC Bank Malta reports increase in profits and dividends during H1 2016

"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."

Mr Andrew Beane said: "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."

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.

Press Release

HSBC Bank Malta reports increase in profits and dividends during H1 2016

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 (CET1) 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.

Approved and issued by
HSBC Bank Malta p.l.c.

80 Mill Street
Qormi QRM 3101
Customer Service 2380 2380
www.hsbc.com.mt

HSBC