



COMPANY ANNOUNCEMENT

21 February 2017

HSBC BANK MALTA p.l.c. 2016 ANNUAL RESULTS - HIGHLIGHTS

- Reported profit before tax of €62.2m for the year ended 31 December 2016, an increase of €15.4m, or 33%, compared with prior year.
- Adjusted profit before tax, which excludes the effect of non-recurring items as explained later in the 'Commentary', was €59.4m, 3% down on 2015 but in line with management expectations.
- Gross dividend for the year was €26.1m, up 45% compared with the prior year.
- Common equity tier 1 ratio increased to 13.0% at 31 December 2016 from 12.3% at 31 December 2015. The total capital ratio was 14.0% at 31 December 2016, compared with 14.2% at 31 December 2015.
- Cost efficiency ratio adjusted for the non-recurring items was 60%, compared with 59% in 2015.
- Adjusted return on equity for the year ended 31 December 2016 was 8.3% compared with 8.8% in 2015.
- Earnings per share of 11.2 cent compared with 8.5 cent in 2015.
- The advances to deposits liquidity ratio remained stable at 66%.
- Net loans and advances to customers were €3,320m, up 1% compared with 2015.
- Customer deposits increased by 1% to €5,001m at 31 December 2016.

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Dr George Brancalone LL.D.
Company Secretary
21 February 2017

HSBC Bank Malta p.l.c.

Company Secretary, Head Office, 116, Archbishop Street, Valletta VLT1444
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*Registered in Malta number C3177. Registered Office: 116, Archbishop Street, Valletta VLT 1444, Malta
HSBC Bank Malta plc is regulated and licensed to conduct investment services business by the Malta Financial Services Authority.
Listed on and is a Member of the Malta Stock Exchange.*

Commentary

HSBC Bank Malta p.l.c. ('the bank') reported a profit before tax of €62.2m for the year ended 31 December 2016. This represents an increase of €15.4m or 33% on the previous year.

The reported profit before tax incorporates two 'non-recurring' items which are excluded from the adjusted results as it is considered internally as a better reflection of management's performance.

The first item relates to 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.

The second item represents a provision of €8m set aside in relation to a legacy operational and regulatory failure in the bank's now-closed brokerage business. This sum reflects the estimated cost of ensuring that customers affected by this specific issue are not disadvantaged in line with HSBC's commitment to the highest standards of conduct and fairness.

The bank has self-identified and self-reported the issue to the regulator, Malta Financial Services Authority. This issue relates to 'execution only' trades dealt in by customers purchasing complex instruments without the bank undertaking an appropriateness test required by MiFID. The bank will contact affected customers directly once final details of the resolution approach are agreed with the Malta Financial Services Authority at which point the final costs will be confirmed.

	2016	2015
	€000	€000
Reported profit before tax	62,221	46,772
Adjusting items:		
Exclude the gain on VISA transaction	(10,787)	-
Add the provision for brokerage remediation costs	8,000	-
Add the provision for early voluntary retirement	-	14,668
Adjusted profit before tax	59,434	61,440

Profit attributable to shareholders amounted to €40.2m resulting in earnings per share of 11.2 cents compared with 8.5 cents in 2015. The Board recommends a final gross dividend of 4.1 cent per share (2.7 cent per share net of tax). Together with the interim dividend paid in September 2016, the total gross dividend for the year will be 11.2 cent per share (7.3 cent per share net of tax), which represents a 45% increase compared to the 2015 dividend. The final dividend will be paid on 20 April 2017 to shareholders who are on the bank's register of shareholders at 14 March 2017.

All three main business lines, Retail Banking and Wealth Management, Commercial Banking and Global Banking and Markets, continued to be profitable during 2016.

Net interest income was down by 0.5% to €126.4m compared with 2015. The trend of low interest rates persisted in 2016 and continued to have an adverse impact on lending margins in retail and commercial loan portfolios. Yields on the investment book continued to decline as reinvestment rates were considerably lower and attractive reinvestment options remained limited. Furthermore, in March 2016, the ECB lowered its deposit rate to record negative 40 basis points and the bank effectively had to pay interest for placing its excess liquidity on nostro accounts and in money market deals which traditionally earned interest. The reduction in interest expense on deposits partially mitigated the drop in the interest income due to further decline in deposit rates and the continued shift of liability balances towards shorter dates.

Non-interest income decreased by 11% compared with 2015. This was largely a result of risk management actions taken during the year including the demise of stockbroking business and exit of clients outside the bank's risk appetite. 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. At the same time, the bank recorded higher proceeds from the sale of repossessed properties.

HSBC Life Assurance (Malta) Limited reported a profit before tax of €7.3m, a decline of 17% compared to 2015. While the new protection business generation was up year on year, the net revenue decreased due to lower premiums on the existing insurance policies, adverse impact of yield curve movement and lower management fees on the run-off portfolio of investment policies.

Operating expenses were €110.3m, €9m or 7.7% lower compared with previous year. The provision for the early voluntary retirement programme of €14.7m launched at the end of 2015 was the main driver for higher 2015 costs. At the same time, operating expenses of 2016 included the non-recurring costs of the provision for brokerage remediation of €8m.

On an adjusted basis, excluding the above-mentioned non-recurring items, operating expenses were down 2% compared with 2015. The implementation of the early voluntary retirement programme during the year had a positive impact on staff costs which were 2% lower than the 2015 level despite further investment in risk and compliance and the annual pay increase agreed under the newly signed collective agreement. Administrative expenses were well controlled and decreased by 1.5% as a result of cost management actions and the favourable effect of currency fluctuations on the cost of outsourced services.

The adjusted cost efficiency ratio, that compares normalised operating expenses to normalised net operating income, was 60%, compared with 59% in 2015.

Loan impairment charges were down 17% compared with 2015. The decrease was largely attributable to better collection of defaulted retail exposures. The bank continued to exercise a cautious approach to provisioning for non-performing loans.

Net loans and advances to customers rose by 1% and stood at €3,320m. The growth was primarily observed in mortgages – this product continued to experience an increased level of demand as the government extended the incentives for first time

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buyers. The bank continued to monitor the developments in the real estate market closely and to maintain prudent lending practices. In the persisting low interest rate environment, early prepayments in both retail and corporate loan books remained at a high level creating a pressure on the margin and offsetting the effect of the record gross new lending.

Asset quality further improved in 2016 with non-performing exposures at 6.4% of gross loans and advances to customers compared to 7% in 2015. This was achieved through proactive engagement with defaulted borrowers which led to higher recoveries.

Customer accounts increased by 1% to €5,001m in 2016. Deposits from retail customers, the most stable funding, increased by 2% as the bank focused on expanding its primary-banked customer base. The bank sustained a robust liquidity position with the advances-to-deposits ratio remaining at 66% when compared with 2015.

The available-for-sale financial investments portfolio decreased by 13% year on year. The bank maintains its investment portfolio as a high-quality liquidity buffer and invests only in highly rated securities of sovereign and supranational issuers. Record low and often negative yields of many European sovereign bonds coupled with the limited availability of local government bonds made it extremely difficult for the bank to replenish its investment portfolio.

The bank's capital position remained solid. Common equity tier 1 capital increased to 13.0% from 12.4% at the end of 2015. At December 2016, the bank was compliant with its end-point regulatory capital requirements. This enabled the bank to maintain its dividend payout ratio at 65% of the profit after tax, one of the highest in the industry. During the year, the bank adhered to the revised Banking Rule 09 which imposes higher allocations for past due exposures. Taking into consideration the reduction in non-performing exposures referred to earlier, the bank was not required to set aside an additional General Banking risk provision.

Andrew Beane, Chief Executive Officer at HSBC Bank Malta p.l.c., said: “The bank made significant progress in 2016 through implementation of our strategic plan, achieving a level of profitability on an adjusted basis that was in line with our expectations. In particular, strong progress was demonstrated on cost management which we signalled as a priority to shareholders in our 2015 results announcement and has enabled us to offset some of the challenges posed by the unprecedented level of interest rates and increased regulatory costs. The legacy charge relating to our now closed brokerage business is disappointing and dates back to an operational failure that took place some ten years ago. However, I believe that HSBC's approach to self-identify, self-report and remediate this issue demonstrates to our customers that HSBC is committed to the highest standards of conduct by doing what is right for our customers at all times.

The local economy continues to perform well and the outlook remains favourable, although it is important that there is continued focus on diversification to avoid an undue level of concentration in certain sectors. However, banking is experiencing a more challenging environment driven by negative interest rates, increased regulatory expectations for higher levels of capital adequacy and for compliance with the highest global standards of financial crime risk management and the need to concurrently

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fund investment into new digital technology. In the context of these challenges I believe HSBC is uniquely well positioned; we continue to exceed our end-point capital adequacy requirements; we have made transformational investments in financial crime risk management and we are well on the path to bring new digital innovation to Malta; indeed we were particularly pleased to be recognised by The Banker Magazine as Malta's best bank for 2016.

In the coming year, while we have a number of priorities including the re-launch of our small business services, embedding our market-leading financial crime compliance standards is our overarching focus. While we expect this to continue to impact profitability in the short term, it represents an investment in the future of the bank by enabling us to operate a business that is strong, safe and secure for customers, for employees and for shareholders for the long-term. I would like to thank my colleagues for their outstanding commitment to HSBC in 2016 and our customers and shareholders for their continued trust.”

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Income Statements for the year ended 31 December 2016

	<i>Group</i>		<i>Bank</i>	
	2016	2015	2016	2015
	€000	€000	€000	€000
Interest and similar income				
- on loans and advances, balances				
with Central Bank of Malta and Treasury Bills	127,561	134,294	127,678	134,601
- on debt and other fixed income instruments	14,501	16,273	14,303	15,921
Interest expense	(15,635)	(23,531)	(15,673)	(23,634)
Net interest income	126,427	127,036	126,308	126,888
Fee income	25,703	29,072	21,030	23,423
Fee expense	(1,951)	(2,509)	(1,376)	(1,801)
Net fee income	23,752	26,563	19,654	21,622
Net trading income	7,276	8,390	7,276	8,390
Net income from financial instruments designated at fair value attributable to insurance operations	23,564	31,999	-	-
Net gains on sale of available-for-sale financial investments	10,787	682	10,787	683
Dividend income	-	-	10,567	1,231
Net insurance premium income	53,378	55,243	-	-
Movement in present value of in-force long-term insurance business	(1,689)	(3,017)	-	-
Net other operating income	1,384	549	1,336	502
Total operating income	244,879	247,445	175,928	159,316
Net insurance claims, benefits paid and movement in liabilities to policyholders	(63,337)	(71,090)	-	-
Net operating income before loan impairment charges and provisions	181,542	176,355	175,928	159,316
Loan impairment charges	(9,030)	(10,826)	(9,030)	(10,826)
Provision for brokerage remediation costs	(8,000)	-	(8,000)	-
Net operating income	164,512	165,529	158,898	148,490
Employee compensation and benefits	(52,652)	(68,485)	(49,953)	(65,267)
General and administrative expenses	(42,905)	(43,554)	(38,437)	(39,115)
Depreciation of property, plant and equipment	(3,545)	(3,575)	(3,541)	(3,567)
Amortisation and impairment of intangible assets	(3,189)	(3,143)	(3,133)	(3,089)
Profit before tax	62,221	46,772	63,834	37,452
Tax expense	(22,008)	(17,292)	(21,141)	(13,991)
Profit for the year	40,213	29,480	42,693	23,461
Earnings per share	11.2c	8.5c		

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Statements of Comprehensive Income for the year ended 31 December 2016

	<i>Group</i>		<i>Bank</i>	
	2016	2015	2016	2015
	€000	€000	€000	€000
Profit for the year	40,213	29,480	42,693	23,461
Other comprehensive income				
Items that will be reclassified subsequently to profit or loss when specific conditions are met:				
Available-for-sale investments:				
- fair value (losses)/gains	(585)	4,938	(432)	5,187
- fair value gains reclassified to profit or loss on disposal	(10,787)	(682)	(10,787)	(683)
- income taxes	3,980	(1,489)	3,926	(1,576)
	(7,392)	2,767	(7,293)	2,928
Items that will not be reclassified subsequently to profit or loss:				
Properties:				
- surplus arising on revaluation	2,554	-	2,554	-
- income taxes on revaluation surplus	(255)	-	(255)	-
- income taxes determined on the basis applicable to disposals	-	1,199	-	1,201
	2,299	1,199	2,299	1,201
Other comprehensive income for the year, net of tax	(5,093)	3,966	(4,994)	4,129
Total comprehensive income for the year	35,120	33,446	37,699	27,590

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Statements of Financial Position at 31 December 2016

	<i>Group</i>		<i>Bank</i>	
	2016	2015	2016	2015
	€000	€000	€000	€000
Assets				
Balances with Central Bank of Malta,				
Treasury Bills and cash	122,418	187,563	122,418	187,563
Items in the course of collection from other banks	16,796	12,559	16,796	12,559
Financial assets designated at fair value attributable to insurance operations	1,383,606	1,372,484	-	-
Held-for-trading derivatives	11,440	11,492	11,335	10,897
Loans and advances to banks	1,077,859	841,411	996,091	728,918
Loans and advances to customers	3,320,332	3,284,615	3,320,363	3,292,815
Available-for-sale financial investments	1,053,200	1,203,638	1,048,549	1,198,792
Prepayments and accrued income	31,178	40,863	20,373	31,305
Current tax assets	12,963	11,792	7,235	2,356
Reinsurance assets	85,228	83,088	-	-
Non-current assets held for sale	9,750	11,347	9,750	11,347
Investments in subsidiaries	-	-	30,859	34,541
Investment property	13,026	15,458	10,180	10,876
Property, plant and equipment	59,147	58,559	59,252	58,659
Intangible assets	65,765	69,653	5,424	7,610
Deferred tax assets	22,163	22,642	22,163	22,590
Other assets	21,093	13,959	16,610	8,124
Total assets	7,305,964	7,241,123	5,697,398	5,618,952
Liabilities				
Deposits by banks	10,770	14,286	10,770	14,286
Customer accounts	5,000,836	4,950,257	5,060,845	5,028,318
Held-for-trading derivatives	12,600	11,732	11,731	11,630
Accruals and deferred income	17,171	30,073	14,864	23,898
Current tax liabilities	177	3,508	-	-
Liabilities under investment contracts	930,937	987,008	-	-
Liabilities under insurance contracts	645,561	616,657	-	-
Provisions for liabilities and other charges	17,631	17,133	17,231	16,609
Deferred tax liabilities	34,586	32,249	5,262	4,299
Subordinated liabilities	87,418	87,363	88,172	88,146
Other liabilities	74,753	29,741	68,129	26,359
Total liabilities	6,832,440	6,780,007	5,277,004	5,213,545
Equity				
Called up share capital	108,092	108,092	108,092	108,092
Revaluation reserve	41,333	46,476	41,224	46,268
Retained earnings	324,099	306,548	271,078	251,047
Total equity	473,524	461,116	420,394	405,407
Total liabilities and equity	7,305,964	7,241,123	5,697,398	5,618,952
Memorandum items				
Contingent liabilities	118,469	133,771	118,469	133,771
Commitments	1,225,232	1,292,605	1,253,263	1,292,802

The financial statements were approved and authorised for issue by the Board of Directors on 21 February 2017 and signed on its behalf by:

Sonny Portelli *Chairman*

Andrew Beane, *Chief Executive Officer*
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Statements of Changes in Equity for the year ended 31 December 2016

	<i>Share capital</i>	<i>Revaluation reserve</i>	<i>Retained earnings</i>	<i>Total equity</i>
	€000	€000	€000	€000
<i>Group</i>				
At 1 January 2016	108,092	46,476	306,548	461,116
Profit for the year	-	-	40,213	40,213
Other comprehensive income				
Available-for-sale investments:				
- fair value losses, net of tax	-	(380)	-	(380)
- fair value gains reclassified to profit or loss on disposal, net of tax	-	(7,012)	-	(7,012)
Properties:				
- surplus arising on revaluation, net of tax	-	2,299	-	2,299
- transfer to retained earnings upon realisation through disposal, net of tax	-	(50)	50	-
Total other comprehensive income	-	(5,143)	50	(5,093)
Total comprehensive income for the year	-	(5,143)	40,263	35,120
Transactions with owners, recognised directly in equity				
Contributions by and distributions to owners:				
- share-based payments	-	-	5	5
- dividends	-	-	(22,717)	(22,717)
Total contributions by and distributions to owners	-	-	(22,712)	(22,712)
At 31 December 2016	108,092	41,333	324,099	473,524
At 1 January 2015	97,281	42,510	305,314	445,105
Profit for the year	-	-	29,480	29,480
Other comprehensive income				
Available-for-sale investments:				
- fair value gains, net of tax	-	3,211	-	3,211
- fair value gains reclassified to profit or loss on disposal, net of tax	-	(444)	-	(444)
Properties:				
- deferred taxes on revaluation surplus determined on the basis applicable to disposals	-	1,199	-	1,199
Total other comprehensive income	-	3,966	-	3,966
Total comprehensive income for the year	-	3,966	29,480	33,446
Transactions with owners, recognised directly in equity				
Contributions by and distributions to owners:				
- share-based payments	-	-	20	20
- dividends	-	-	(17,455)	(17,455)
- bonus issue	10,811	-	(10,811)	-
Total contributions by and distributions to owners	10,811	-	(28,246)	(17,435)
At 31 December 2015	108,092	46,476	306,548	461,116

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Statements of Changes in Equity for the year ended 31 December 2016

<i>Bank</i>	<i>Share capital</i>	<i>Revaluation reserve</i>	<i>Retained earnings</i>	<i>Total equity</i>
	€000	€000	€000	€000
At 1 January 2016	108,092	46,268	251,047	405,407
Profit for the year	-	-	42,693	42,693
Other comprehensive income				
Available-for-sale investments:				
- fair value losses, net of tax	-	(281)	-	(281)
- fair value gains reclassified to profit or loss on disposal, net of tax	-	(7,012)	-	(7,012)
Properties:				
- surplus arising on revaluation, net of tax		2,299		2,299
- transfer to retained earnings upon realisation through disposal, net of tax	-	(50)	50	-
Total other comprehensive income	-	(5,044)	50	(4,994)
Total comprehensive income for the year	-	(5,044)	42,743	37,699
Transactions with owners, recognised directly in equity				
Contributions by and distributions to owners:				
- share-based payments	-	-	5	5
- dividends	-	-	(22,717)	(22,717)
Total contributions by and distributions to owners	-	-	(22,712)	(22,712)
At 31 December 2016	108,092	41,224	271,078	420,394
At 1 January 2015	97,281	42,139	255,837	395,257
Profit for the year	-	-	23,461	23,461
Other comprehensive income				
Available-for-sale investments:				
- fair value gains, net of tax	-	3,372	-	3,372
- fair value gains reclassified to profit or loss on disposal, net of tax	-	(444)	-	(444)
Properties:				
- deferred taxes on revaluation surplus determined on the basis applicable to disposals	-	1,201	-	1,201
Total other comprehensive income	-	4,129	-	4,129
Total comprehensive income for the year	-	4,129	23,461	27,590
Transactions with owners, recognised directly in equity				
Contributions by and distributions to owners:				
- share-based payments	-	-	15	15
- dividends	-	-	(17,455)	(17,455)
- bonus issue	10,811	-	(10,811)	-
Total contributions by and distributions to owners	10,811	-	(28,251)	(17,440)
At 31 December 2015	108,092	46,268	251,047	405,407

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Statements of Cash Flows for the year ended 31 December 2016

	<i>Group</i>		<i>Bank</i>	
	2016	2015	2016	2015
	€000	€000	€000	€000
Cash flows from operating activities				
Interest, fees and premium receipts	229,786	243,524	166,605	171,969
Interest, fees and claims payments	(198,728)	(173,162)	(19,459)	(28,489)
Payments to employees and suppliers	(105,839)	(90,812)	(98,624)	(85,804)
Cash flows (used in)/from operating activities before changes in operating assets/liabilities (Increase)/decrease in operating assets:	(74,781)	(20,450)	48,522	57,676
Financial assets designated at fair value	2,309	107,715	-	-
Reserve deposit with Central Bank of Malta	(62)	(1,594)	(62)	(1,594)
Loans and advances to customers and banks	(94,257)	(85,835)	(86,087)	(82,779)
Treasury Bills	44,999	(51,000)	44,999	(51,000)
Other receivables	592	6,680	1,381	(1,054)
Increase/(decrease) in operating liabilities:				
Customer accounts and deposits by banks	67,378	40,730	48,058	55,303
Other payables	79,132	(24,699)	(2,599)	(5,468)
Net cash from/(used in) operating activities before tax	25,310	(28,453)	54,212	(28,916)
Tax paid	(19,853)	(25,566)	(20,839)	(18,153)
Net cash from/(used in) operating activities	5,457	(54,019)	33,373	(47,069)
Cash flows from investing activities				
Dividends received	-	-	10,567	-
Interest received from financial investments	33,435	54,037	24,838	25,223
Purchase of financial investments	(100,609)	(312,346)	(99,647)	(301,614)
Proceeds on sale and maturity of financial investments	227,414	323,562	225,518	300,985
Purchase of property, plant and equipment, investment property and intangible assets	(990)	(4,640)	(969)	(4,585)
Proceeds on sale of property, plant and equipment and intangible assets	2,638	3	709	2
Proceeds on redemption of shares in subsidiary company	-	-	3,682	-
Net cash flows from investing activities	161,888	60,616	164,698	20,011
Cash flows from financing activities				
Dividends paid	(22,716)	(17,455)	(22,717)	(17,455)
Net increase/(decrease) in cash and cash equivalents				
	144,629	(10,858)	175,354	(44,513)
Cash and cash equivalents at beginning of year	793,723	827,685	681,230	748,847
Effect of exchange rate changes on cash and cash equivalents	504	(23,104)	504	(23,104)
Cash and cash equivalents at end of year	938,856	793,723	857,088	681,230

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Basis of preparation

The preliminary statement of annual results is published pursuant to Listing Rule 5.54 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 PwC.

These financial statements have been prepared and presented in accordance with International Financial Reporting Standards as adopted by the EU.

HSBC Holdings plc, the parent company of the HSBC Group, is headquartered in London. The Group serves customers worldwide from around 4,000 offices in 70 countries and territories in Europe, Asia, North and Latin America, and the Middle East and North Africa. With assets of US\$2,375bn at 31 December 2016, HSBC is one of the world's largest banking and financial services organisations.

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