

*The following is the text of an advertisement which is to be published in the press in Malta on 21 February 2009 by HSBC Bank Malta p.l.c., a 70.03 per cent indirectly held subsidiary of HSBC Holdings plc.*

20 February 2009

## **HSBC BANK MALTA p.l.c. 2008 RESULTS - HIGHLIGHTS**

### **Review of Performance**

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- Profit before tax of €6.1 million for the year ended 31 December 2008 – down €18.6 million, or 16.2 per cent, compared with €14.6 million in 2007.
- Profit attributable to shareholders down 17.3 per cent, or €3.2 million, to €3.1 million, compared with €6.3 million in 2007.
- Earnings per share of €0.216, down 17.2 per cent compared to €0.261 for 2007.
- Loans and advances to customers of €3,112.2 million at 31 December 2008 – up €289.9 million, or 10.3 per cent, compared with 31 December 2007.
- Core customer deposits of €3,407.5 million at 31 December 2008 – up €33.7 million, or 1.0 per cent, compared with 31 December 2007.
- Total assets of €5,296.1 million, up €401.0 million, or 8.2 per cent, compared with 31 December 2007.
- Return on equity of 22.3 per cent for the year ended 31 December 2008, compared with 27.6 per cent in 2007.
- Capital adequacy ratio, on a Basel II basis, of 11.0 per cent compared with 10.3 per cent in 2007.

## Commentary

HSBC Bank Malta and its subsidiaries delivered a profit before tax in 2008 of €6.1 million. While this represents a decline of 16.2 per cent compared to 2007, it was a solid result achieved after taking into account the introduction of the euro and the volatility of world financial markets. Overall, profitability was still strong with a return on equity of 22.3 per cent.

Net interest income of €23.0 million in 2008 was down 2.5 per cent, from €26.2 million in 2007. Increases in loans and advances generated steady growth in interest receivable. This was off-set by the increase in interest payable on retail deposits, and margin pressure from a combination of increased competition and the lowering of base rates by the ECB in the last quarter of 2008.

Net fees and commission income of €1.8 million in 2008, compared to €1.0 million in 2007, was achieved despite reduced levels of business activity during the first quarter of 2008 following Malta's adoption of the euro on 1 January 2008 and the general elections. Adopting the euro also affected foreign exchange dealing income which, at €7.9 million, was significantly lower than the €6.7 million earned in the previous year.

Strong organic growth in sales of regular premium term life and investment products, and flat costs contributed to the life insurance business generating a profit before tax of €6.4 million in 2008, up 25.0 per cent on 2007.

The loss of €9.4 million in net income from insurance financial instruments designated at fair value was offset by a corresponding increase in other operating income, a reduction in net insurance claims incurred and movement in policyholders' liabilities.

During the year, gains from property disposals and a revaluation gain on investment property generated €3.5 million in other operating income.

Operating expenses of €90.4 million in 2008 were €6.7 million, or 8.1 per cent, higher compared to the previous year, with a cost efficiency ratio of 48.0 per cent compared to 42.1 per cent in 2007. Employee compensation and benefits increased by €5.6 million in 2008 primarily due to an exceptional charge to support a voluntary early retirement scheme. General and administrative expense growth of €1.0 million was driven primarily by non-recurring costs related to the euro conversion and information technology investment, as well as utility and communications expenditure. Stripping out the costs incurred by the euro conversion and voluntary retirement scheme, operating expenses remained flat year-on-year.

The net impairment charge of €1.9 million was six basis points of loans and advances to customers. The year-on-year increase was mainly due to the non-recurrence of the high levels of recoveries experienced during 2007.

Loans and advances to customers increased by €289.9 million in 2008 to €3,112.2 million, from €2,822.3 million in 2007, with growth across both the personal and commercial sectors. The quality of the overall loan book remains good with non-performing loans at the 2008 year end representing 2.3 per cent of gross loans, an improvement from 2.7 per cent at the end of 2007.

Short-term liquid money market placements in the form of loans and advances to banks increased by €441.3 million to €1,072.3 million as more new funds and maturing liquidity were placed with HSBC as a result of increasing market risks.

In these challenging times, the available-for-sale investments portfolio was marked down by €0.7 million during the year. HSBC Malta believes that the credit quality of these assets remains strong and that this deficit will reverse over the long-term. The mark-down was charged to revaluation reserves, net of tax.

The capital adequacy ratio, on a Basel II basis, remained strong at 11.0 per cent. In September 2008, the bank issued a €30.0 million, 5.9 per cent, subordinated bond to further strengthen its funding base and to support future business growth.

Alan Richards, director and chief executive officer of HSBC Bank Malta, said: “It will be a particularly challenging year in 2009 as many parts of the world head into a recession which will leave its mark on Malta. Profitability will be under pressure as the economy slows, margins contract further in a low interest rate environment and impairments are likely to increase as the credit cycle continues to weaken.

“Whilst some of the challenges we face may be unprecedented, we are in good shape. I am confident that with our track record, the backing of the HSBC Group, our enduring commitment to liquidity, strong capital and a conservative approach to risk management, we are well positioned to build on our strengths and support our customers to drive future growth.

“The financial result for 2008 is a testimony to the hard work and professionalism of our staff during these trying times.”

The Board is declaring a final gross dividend of €0.096 per share (€0.062 net of tax). This will be paid on 20 April 2009 to shareholders who are on the bank’s register of shareholders at 4 March 2009. This, together with the gross interim ordinary dividend of €0.119 per share, results in a total gross dividend for the year of €0.215.

**Income statements for the year 1 January 2008 to 31 December 2008**

	<i>Group</i>		<i>Bank</i>	
	<b>2008</b>	2007	<b>2008</b>	2007
	<b>€000</b>	€000	<b>€000</b>	€000
Interest receivable and similar income				
– on loans and advances, balances with Central Bank of Malta, Treasury Bills and other instruments	<b>224,031</b>	217,587	<b>223,907</b>	217,671
– on debt and other fixed income instruments	<b>21,479</b>	19,993	<b>21,376</b>	19,993
Interest payable	<b>(122,466)</b>	(111,342)	<b>(124,623)</b>	(113,107)
<b>Net interest income</b>	<b>123,044</b>	126,238	<b>120,660</b>	124,557
Fees and commissions receivable	<b>34,332</b>	33,289	<b>28,498</b>	26,972
Fees and commissions payable	<b>(2,567)</b>	(2,294)	<b>(1,955)</b>	(1,808)
<b>Net fee and commission income</b>	<b>31,765</b>	30,995	<b>26,543</b>	25,164
Dividend income	<b>69</b>	328	<b>1,504</b>	9,655
Trading profits	<b>7,802</b>	16,785	<b>7,802</b>	16,785
Net income from insurance financial instruments designated at fair value through profit or loss	<b>(29,407)</b>	35	-	-
Net gains on sale of available-for-sale financial assets	<b>2,787</b>	3,538	<b>2,725</b>	3,538
Net earned insurance premiums	<b>58,032</b>	73,249	-	-
Other operating income	<b>31,779</b>	15,844	<b>3,749</b>	4,279
<b>Total operating income</b>	<b>225,871</b>	267,012	<b>162,983</b>	183,978
Net insurance claims incurred and movement in policyholders' liabilities	<b>(37,570)</b>	(68,321)	-	-
<b>Net operating income</b>	<b>188,301</b>	198,691	<b>162,983</b>	183,978
Employee compensation and benefits	<b>(55,477)</b>	(49,840)	<b>(52,991)</b>	(47,533)
General and administrative expenses	<b>(27,743)</b>	(26,732)	<b>(26,168)</b>	(24,927)
Depreciation	<b>(5,951)</b>	(6,026)	<b>(5,920)</b>	(5,991)
Amortisation of intangible assets	<b>(1,238)</b>	(1,044)	<b>(1,011)</b>	(780)
Other operating charges	-	(30)	-	(30)
<b>Net operating income before impairment charges and provisions</b>	<b>97,892</b>	115,019	<b>76,893</b>	104,717
Net impairment	<b>(1,907)</b>	(42)	<b>(1,907)</b>	(42)
Reversals/(provisions) for liabilities and other charges	<b>102</b>	(340)	<b>103</b>	(305)
<b>Profit before tax</b>	<b>96,087</b>	114,637	<b>75,089</b>	104,370
Tax expense	<b>(32,972)</b>	(38,322)	<b>(25,706)</b>	(33,458)
<b>Profit attributable to shareholders of the bank</b>	<b>63,115</b>	76,315	<b>49,383</b>	70,912
<b>Earnings per share</b>	<b>21.6c</b>	26.1c	<b>16.9c</b>	24.3c

## Balance sheets at 31 December 2008

	<i>Group</i>		<i>Bank</i>	
	<b>2008</b>	2007	<b>2008</b>	2007
	<b>€000</b>	€000	<b>€000</b>	€000
<b>Assets</b>				
Balances with Central Bank of Malta,				
Treasury Bills and cash	<b>130,682</b>	472,136	<b>130,681</b>	472,136
Cheques in course of collection	<b>9,308</b>	3,103	<b>9,308</b>	3,103
Financial assets held for trading	<b>11,823</b>	15,980	<b>12,057</b>	15,980
Financial assets designated at fair value				
through profit or loss	<b>279,714</b>	275,695	-	-
Financial investments	<b>429,912</b>	456,525	<b>412,016</b>	452,008
Loans and advances to banks	<b>1,072,306</b>	631,018	<b>1,072,269</b>	630,936
Loans and advances to customers	<b>3,112,240</b>	2,822,315	<b>3,112,240</b>	2,822,315
Shares in subsidiary companies	-	-	<b>35,707</b>	29,541
Intangible assets	<b>64,256</b>	36,110	<b>1,797</b>	1,363
Property and equipment	<b>70,684</b>	77,820	<b>70,731</b>	77,857
Investment property	<b>14,050</b>	12,885	<b>11,647</b>	10,482
Assets held for sale	<b>9,168</b>	11,922	<b>9,317</b>	12,071
Current tax recoverable	<b>2,966</b>	2,596	<b>2,164</b>	1,887
Deferred tax assets	<b>15,916</b>	11,553	<b>15,726</b>	11,548
Other assets	<b>25,824</b>	25,855	<b>8,425</b>	8,938
Prepayments and accrued income	<b>47,239</b>	39,576	<b>44,598</b>	36,571
<b>Total assets</b>	<b>5,296,088</b>	4,895,089	<b>4,948,683</b>	4,586,736
<b>Liabilities</b>				
Financial liabilities held for trading	<b>11,381</b>	15,043	<b>12,375</b>	15,239
Amounts owed to banks	<b>462,185</b>	87,142	<b>462,185</b>	87,142
Amounts owed to customers	<b>4,016,632</b>	4,039,492	<b>4,073,875</b>	4,107,994
Provision for current tax	<b>688</b>	11,043	-	4,294
Deferred tax liabilities	<b>17,600</b>	12,361	-	-
Liabilities to customers under investment contracts	<b>15,122</b>	18,947	-	-
Liabilities under insurance contracts issued	<b>311,250</b>	290,943	-	-
Other liabilities	<b>36,734</b>	32,303	<b>33,883</b>	29,294
Accruals and deferred income	<b>53,930</b>	53,147	<b>53,839</b>	52,374
Provisions for liabilities and other charges	<b>312</b>	414	<b>277</b>	380
Subordinated liabilities	<b>87,777</b>	57,962	<b>87,777</b>	57,962
<b>Total liabilities</b>	<b>5,013,611</b>	4,618,797	<b>4,724,211</b>	4,354,679
<b>Equity</b>				
Called up share capital	<b>87,552</b>	84,976	<b>87,552</b>	84,976
Revaluation and other reserves	<b>15,149</b>	24,614	<b>15,314</b>	24,764
Retained earnings	<b>179,776</b>	166,702	<b>121,606</b>	122,317
<b>Total equity</b>	<b>282,477</b>	276,292	<b>224,472</b>	232,057
<b>Total liabilities and equity</b>	<b>5,296,088</b>	4,895,089	<b>4,948,683</b>	4,586,736
<b>Memorandum items</b>				
Contingent liabilities	<b>129,925</b>	129,972	<b>129,948</b>	129,995
Commitments	<b>1,110,572</b>	1,148,034	<b>1,110,572</b>	1,148,034

The financial statements were approved by the Board of Directors on 20 February 2009 and signed on its behalf by:

Albert Mizzi, *Chairman*

Alan Richards, *Chief Executive Officer*

## Statements of changes in equity for the year 1 January 2008 to 31 December 2008

<i>Group</i>	<i>Called up share capital</i>	<i>Revaluation and other reserves</i>	<i>Retained earnings</i>	<i>Total equity</i>
	<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>
At 1 January 2008	<b>84,976</b>	<b>24,614</b>	<b>166,702</b>	<b>276,292</b>
Release of net gains on available-for-sale assets transferred to the income statement on disposal	-	(876)	-	(876)
Net fair value adjustments on financial investments	-	(6,263)	-	(6,263)
Release of revaluation reserve on disposal of properties	-	(2,326)	2,326	-
Income and expenses recognised directly in equity	-	(9,465)	2,326	(7,139)
Increase in paid-up value	2,576	-	(2,576)	-
Profit for the year	-	-	63,115	63,115
Share-based payments	-	-	858	858
Dividends	-	-	(50,649)	(50,649)
<b>At 31 December 2008</b>	<b>87,552</b>	<b>15,149</b>	<b>179,776</b>	<b>282,477</b>
At 1 January 2007 as previously stated	84,976	25,323	184,062	294,361
Impact of adoption of IFRIC 11	-	(575)	189	(386)
At 1 January 2007 as restated	84,976	24,748	184,251	293,975
Release of net gains on available-for-sale assets transferred to the income statement on disposal	-	(1,808)	(491)	(2,299)
Net fair value adjustments on financial investments	-	(6,940)	-	(6,940)
Net surplus on revaluation of freehold and long leasehold properties	-	8,614	-	8,614
Income and expenses recognised directly in equity	-	(134)	(491)	(625)
Profit for the year	-	-	76,315	76,315
Share-based payments	-	-	304	304
Dividends	-	-	(93,677)	(93,677)
At 31 December 2007 as restated	84,976	24,614	166,702	276,292

## Statements of changes in equity for the year 1 January 2008 to 31 December 2008

	<i>Called up share capital</i>	<i>Revaluation and other reserves</i>	<i>Retained earnings</i>	<i>Total equity</i>
<i>Bank</i>	<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>
At 1 January 2008	<b>84,976</b>	<b>24,764</b>	<b>122,317</b>	<b>232,057</b>
Release of net gains on available-for-sale assets transferred to the income statement on disposal	-	<b>(836)</b>	-	<b>(836)</b>
Net fair value adjustments on financial investments	-	<b>(6,288)</b>	-	<b>(6,288)</b>
Release of revaluation reserve on disposal of properties	-	<b>(2,326)</b>	<b>2,326</b>	-
Income and expenses recognised directly in equity	-	<b>(9,450)</b>	<b>2,326</b>	<b>(7,124)</b>
Increase in paid-up value	<b>2,576</b>	-	<b>(2,576)</b>	-
Profit for the year	-	-	<b>49,383</b>	<b>49,383</b>
Share-based payments	-	-	<b>805</b>	<b>805</b>
Dividends	-	-	<b>(50,649)</b>	<b>(50,649)</b>
<b>At 31 December 2008</b>	<b>87,552</b>	<b>15,314</b>	<b>121,606</b>	<b>224,472</b>
At 1 January 2007 as previously stated	84,976	25,288	145,083	255,347
Impact of adoption of IFRIC 11	-	(540)	179	(361)
At 1 January 2007 as restated	84,976	24,748	145,262	254,986
Release of net gains on available-for-sale assets transferred to the income statement on disposal	-	(1,808)	(491)	(2,299)
Net fair value adjustments on financial investments	-	(6,790)	-	(6,790)
Net surplus on revaluation of freehold and long leasehold properties	-	8,614	-	8,614
Income and expenses recognised directly in equity	-	16	(491)	(475)
Profit for the year	-	-	70,912	70,912
Share-based payments	-	-	311	311
Dividends	-	-	(93,677)	(93,677)
At 31 December 2007 as restated	84,976	24,764	122,317	232,057

**Cash flow statements for the year 1 January 2008 to 31 December 2008**

	<i>Group</i>		<i>Bank</i>	
	<b>2008</b>	2007	<b>2008</b>	2007
	€000	€000	€000	€000
<b>Cash flows from operating activities</b>				
Interest, commission and premium receipts	<b>314,862</b>	337,419	<b>248,029</b>	256,212
Interest, commission and claims payments	<b>(145,954)</b>	(122,534)	<b>(125,827)</b>	(105,199)
Payments to employees and suppliers	<b>(79,468)</b>	(76,438)	<b>(75,013)</b>	(72,602)
Operating profit before changes in operating assets/liabilities	<b>89,440</b>	138,447	<b>47,189</b>	78,411
(Increase)/decrease in operating assets:				
Trading instruments	<b>(32,825)</b>	(15,549)	<b>33</b>	(1,349)
Reserve deposit with Central Bank of Malta	<b>61,306</b>	(815)	<b>61,306</b>	(815)
Loans and advances to customers and banks	<b>(471,985)</b>	(112,672)	<b>(471,985)</b>	(112,672)
Treasury Bills	<b>80,531</b>	(54,896)	<b>80,531</b>	(54,896)
Other receivables	<b>(4,867)</b>	18,388	<b>(4,876)</b>	18,730
Increase/(decrease) in operating liabilities:				
Customer accounts and amounts owed to banks	<b>2,379</b>	405,122	<b>(8,316)</b>	444,805
Other payables	<b>5,213</b>	(1,202)	<b>3,801</b>	(1,165)
Net cash (used in)/from operating activities before tax	<b>(270,808)</b>	376,823	<b>(292,317)</b>	371,049
Tax paid	<b>(38,876)</b>	(33,818)	<b>(30,498)</b>	(33,355)
Net cash (used in)/from operating activities	<b>(309,684)</b>	343,005	<b>(322,815)</b>	337,694
<b>Cash flows from investing activities</b>				
Dividends received	<b>49</b>	228	<b>982</b>	7,566
Interest received from financial investments	<b>23,884</b>	21,011	<b>23,825</b>	21,011
Proceeds from sale and maturity of financial investments	<b>88,551</b>	195,078	<b>86,156</b>	195,078
Proceeds on sale of property and equipment and intangible assets	<b>9,755</b>	61	<b>9,750</b>	61
Purchase of financial investments	<b>(83,733)</b>	(278,768)	<b>(67,953)</b>	(274,104)
Purchase of property and equipment, investment property and intangible assets	<b>(7,556)</b>	(9,981)	<b>(7,454)</b>	(9,723)
Purchase of shares in subsidiary companies	-	-	<b>(6,166)</b>	(6,988)
Net cash from/(used in) investing activities	<b>30,950</b>	(72,371)	<b>39,140</b>	(67,099)
<b>Cash flows from financing activities</b>				
Dividends paid	<b>(50,649)</b>	(93,677)	<b>(50,649)</b>	(93,677)
Issue of subordinated loan stock	<b>30,000</b>	58,234	<b>30,000</b>	58,234
Subordinated loan stock issue costs	<b>(226)</b>	(302)	<b>(226)</b>	(302)
Net cash used in financing activities	<b>(20,875)</b>	(35,745)	<b>(20,875)</b>	(35,745)
<b>(Decrease)/increase in cash and cash equivalents</b>	<b>(299,609)</b>	234,889	<b>(304,550)</b>	234,850
Effect of exchange rate changes on cash and cash equivalents	<b>(22,840)</b>	(27,258)	<b>(22,840)</b>	(27,258)
Net (decrease)/increase in cash and cash equivalents	<b>(276,769)</b>	262,147	<b>(281,710)</b>	262,108
Cash and cash equivalents at beginning of year	<b>604,204</b>	369,315	<b>604,122</b>	369,272
<b>Cash and cash equivalents at end of year</b>	<b>304,595</b>	604,204	<b>299,572</b>	604,122

**Basis of preparation**

*The preliminary profit statement is published pursuant to Listing Rule 9.35 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 International Accounting Standards as adopted by the EU (EU endorsed International Financial Reporting Standards) by virtue of Legal Notice 19 of 2009 of the Accountancy Profession Act : Accountancy Profession (Accounting and Auditing Standards) Regulations 2009.*

*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 9,500 properties in 85 countries and territories in Europe, the Asia-Pacific region, the Americas, the Middle East and Africa.*